THE IMPACT OF HUMAN CAPITAL ON SUSTAINABLE GROWTH -
THE CASE OF REPUBLIC OF MACEDONIA -

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Abstract: The sustainable growth of a country is not only about better performance and continuous increased production of the outputs, but as well as about providing higher living standard for the whole country’s population. However, enabling sustainable growth of a country requires not only large financial investments, but as well as committed and continuous investments in the population’s human capital.

This paper aims to analyze the relationship and impact of the human capital on GDP real growth, population’s standard of living and inequality in the Republic of Macedonia. For that purpose five basic Human Capital Indicators are selected, analyzing its relationship and impact on depended variables, such as: Real GDP growth rate, Human Development Index as indicator for standard of living and GINI coefficient measuring population’s income inequality. Using the quarterly data for the time span 2008q1-2016q4, two models have been conducted: Granger causality test - in order to analyze the casual relationship among the Human Capital indicators and the respondent variables, as well as Impulse Response function method, to analyze the dynamic effects of the respondent variables.

The Granger causality test’s results have shown mutual causality between Quality of math and science education indicator and Real GDP growth and unidirectional impact of Quality of education system and Quality of research institution indicators on Real GDP growth. Furthermore, the mutual causality between three human capital indicators and Human Development Index have been identified, as well as unidirectional impact of Quality of math and science education indicator on HDI as a measure for standard of living. Analyzing the inequality it is confirmed that all selected human capital factors have impact on income inequality in Republic of Macedonia.

To make further projections and analyze sensitivity of respondent variables, the Impulse Response function method is used, showing different level of sensitivity of the real economic growth, standard of living and income inequality to one percent shock given to each of particular human capital indicators.

Key words: human capital indicators, economic growth, standard of living, inequality, Granger causality test, Impulse Response Function method.