

Economic and Labour Market Impacts of the Global Economic and Financial Crisis on the Countries of the Western Balkans and Moldova

V. William Nero
March 2010

Introduction

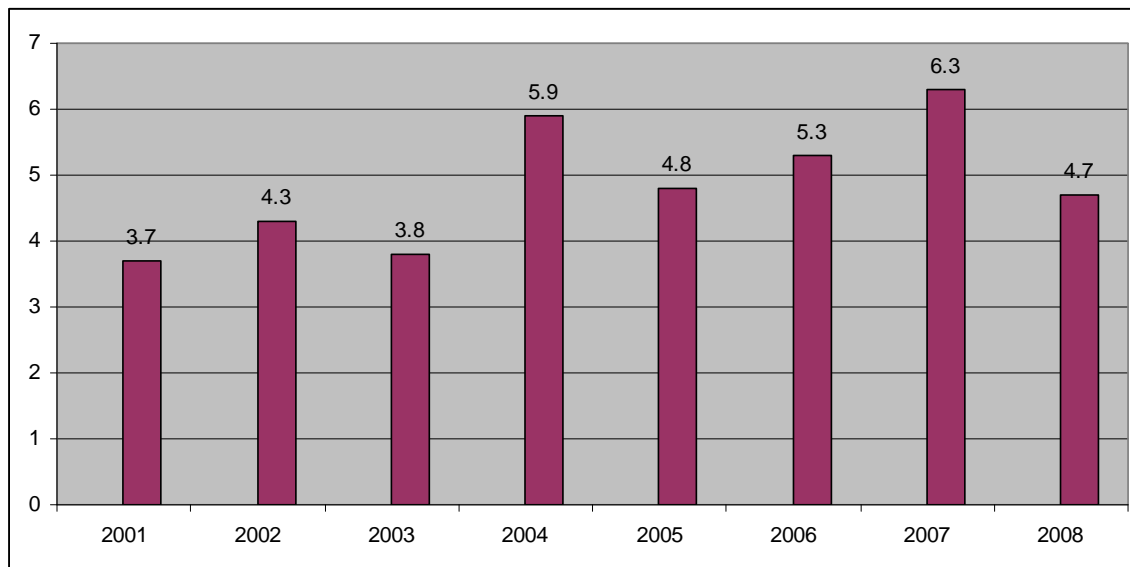
This report examines how employment and labour market conditions in the non-EU Western Balkan countries of Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Montenegro, and Serbia, as well as Moldova, has been affected by the global economic and financial crisis. The years of moderate but sustained economic growth that have characterized the Western Balkans and Moldova in the beginning of the 21st century have brought development gains in reducing poverty and furthering social stability. Anchoring much of the economic and labour reforms contributing to these developments for the Western Balkan countries has been the prospect of membership in the European Union, with all countries in the region currently signatories of Stabilisation and Association Agreements (SAA) with the EU. Despite this economic recovery and burgeoning political aspirations however, employment gains for most countries in the region over the past several years have failed to show uniformly similar patterns of improvement, with differing labour market results across countries. Now in the context of the present crisis, what fragile gains that have been made are threatened as the economic downturn presents further strains on labour markets and living standards.

In examining the employment situation in the region during the crisis, this report will begin with an overview of macroeconomic conditions among the selected countries leading up to the crisis before an analysis of its impact on their economies. Following this, the key labour market trends in the region will be detailed during the same period, along with a discussion on how the crisis has affected regional employment conditions. It will conclude with a look at the measures enacted thus far and under consideration from national governments in order to combat the downturns in economic, labour market and employment conditions.

Macroeconomic Background

The shock of transition from central planning to market economies following the end of the Cold War had repercussions for the Western Balkan countries as it did elsewhere in Central and Eastern Europe, with conditions in the Balkans worsened due to periods of war and conflict in the 1990s. The following decade however saw improving growth rates and some measures of stability by 2008 on the eve of the economic crisis. These strong growth rates must be put in the context of the recovery from the low base that existed in the 1990s, as economic restructuring took place throughout transition economies. The nature and recovery of economic performance has not been uniform, and certain countries, particularly Croatia and Macedonia, have accelerated further in the process of EU membership through gaining designation as candidate countries.

Figure 1: Western Balkans GDP Growth Rate*



*Source: UNECE Statistical Division Database, compiled from national and international (CIS, EUROSTAT, IMF, OECD) official sources; Prices and PPPs of 2005

The Western Balkans region as a whole averaged respectable annual GDP growth rates for most of the 2000s, reaching as high as 6.3 per cent in 2007. Albania led the region, averaging nearly six per cent annual growth during the period. Moldova's economic performance was even higher, with real GDP growth rates from 2001 through 2005 ranging from six to over seven per cent per year. Much of the growth in the region has been driven by expansion in service sectors, as well as increases in domestic demand fuelled by strong credit growth. Despite the improved economic performance displayed in this second decade of transition compared to the first, large differences remain regarding per capita incomes in the region. Moldova trails considerably behind all of the Balkan states, despite nearly doubling GDP per capita in PPP (purchasing power parity) terms from US\$1,598 in 2001 to US\$2,989 in 2008. Croatia substantially exhibits the region's highest GDP per capita throughout the entirety of the decade, reaching US\$19,204 by 2008. Albania, as well as Bosnia and Herzegovina trail considerably behind, with Montenegro and Serbia achieving rates approximately in between.

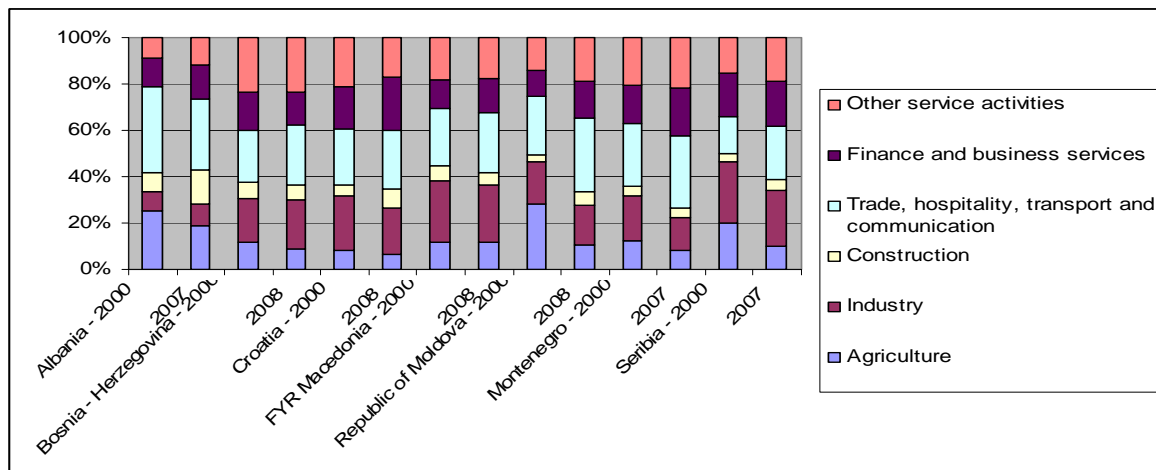
Table 1. GDP per capita at current prices and PPPs in USD

Country	2001	2004	2008
Albania	4020	4953	7991
Bosnia and Herzegovina	4111	5035	7546
Croatia	11574	14332	19204
Macedonia, Former Yugoslav Republic of	5782	6837	9973
Moldova, Republic of	1598	2121	2989
Montenegro	5740	7071	13155
Serbia	5971	7616	11147

Source: UNECE Statistical Division Database

The changing sectoral composition of growth in the region shares many commonalities with adjustments across Central and Eastern European and Central Asian states, that being the shrinking of the industrial sector and agricultural sector at the expense of a growing services sector. In contrast to other transition economies however, the declines in industry registered by countries of the Western Balkans have not been as precipitous, owing largely to a lessened decline in manufacturing. Albania and Bosnia and Herzegovina challenge the trend of falling industry slightly in the graph below, with value added from industry in 2007 and 2008 recording slightly higher than in 2000. Among service sector activities, tourism has grown in importance for several economies in the region, notably in Croatia and Montenegro. The per cent share of gross value added of agriculture in GDP also declined for the majority of Western Balkan countries and Moldova from 2000 to 2007, apart from Macedonia where it fluctuated yet remained at 11.7 per cent. In some countries, the reduced share of GDP from agriculture over the period was quite large, such as in Moldova where it fell from 28.3 per cent to 10.6 per cent. Agriculture remains most important in Albania, while also being to a lesser extent a significant factor in Macedonia as well. The changing sector mix across the Western Balkans and Moldova will have significance further when examining trends in the role that certain sectors play in the numbers and qualities of jobs provided.

Figure 2. Percentage share of value added to GDP (various sectors, 2000 and 2007/2008)*



*Source: UNECE Statistical Database, compiled from national and international official sources

Remittances have played an important role in helping to boost domestic consumption for several countries in the Western Balkans, contributing to rising economic growth rates. The World Bank has begun to examine extensively in recent years the effects of remittances across the world, with Eastern Europe and Central Asia coming particularly in to focus due to the important role that remittances play in these countries. Among countries in the Western Balkans, Bosnia and Herzegovina and Albania are the principle recipients of remittances, with growing levels in Macedonia as well. Moldova also receives a large amount of remittances, primarily from Russia, and has one of the highest

rates of remittances as a percentage of GDP in the world, at 34 per cent of GDP in 2008.¹ In Moldova and Albania in 2003, it was found that every fifth dollar spent in each country originated from remittances.² The multiplier effect of these flows has also been studied, showing that for every one US dollar of remittances, USD 4 in demand for goods and services is created.³ Remittances can provide a means for investment, though this is not generally been their use. For example in Moldova, rough 7 per cent is used towards investment; however in Macedonia this figure reaches 25 per cent.⁴ In a World Bank survey of returning migrants six Eastern European and Central Asia countries, including Bosnia and Herzegovina, Bulgaria, and Romania from the Balkans, 30 per cent of remittance income was reported spent on food and clothing. Savings registered slightly under 15 per cent, and business investment a mere 5 per cent.⁵

Prospects of entry in to the European Union through Stabilisation and Association Agreements have also been accompanied by increasing favourability of trade conditions with the EU. Since 2000, rising trade between the EU and the Western Balkans region has occurred, with Serbia and Bosnia-Herzegovina being the most recent to sign Interim Trade Agreements with the EU in 2008. From 2000 through 2007, the EU served as the most important trade partner for all Western Balkan countries in terms of percentage of total exports. Albania has led the way for most of this period, with the EU accounting for over 90 per cent of Albania export products throughout. The principal destination for the country's exports in 2008 was Italy, with more than 61 per cent headed there. Textiles and footwear are the most important among the country's exports, making up 43 per cent exports in 2008. In the same year, Italy also led among Montenegro's export markets, at 28.9 per cent, with the plurality (68.1 per cent) of the country's exports consisting of base metals and metal products. Low and medium skilled industries have composed the vast majority of exports from the region to the EU. The majority of the region's high skill goods, at 72 per cent, hailed from Croatia in 2003.⁶

Table 2. Government balances in percentage of GDP

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Albania	-7.6	-6.9	-6.1	-4.9	-5.1	-3.5	-3.3	-3.5	-5.7
Bosnia and Herzegovina	-4.7	2.2	-4.2	2.3	1.6	2.2	2.2	-0.1	-3.0
Croatia	-7.5	-6.8	-4.9	-4.8	-4.0	-3.5	-3.1	-2.5	-1.4
FYR Macedonia	2.5	-6.3	-5.7	-0.6	0.4	0.3	-0.5	0.6	-1.0
Moldova	-1.8	-0.3	-2.2	1.0	0.4	1.5	-0.3	-0.3	-1.0
Montenegro	-4.0	-2.0	-1.9	-3.1	-1.9	2.1	4.2	6.4	1.5
Serbia	-0.9	-6.3	-3.2	-1.1	0.9	1.0	-1.6	-1.9	-2.4

Source: European Bank for Reconstruction and Development

¹ World Bank, *Migration and Development Brief No.10*, 13 July 2009.

² *Migration and Remittances: Eastern Europe and the Former Soviet Union*. World Bank, 2006

³ Organization for Economic Co-operation and Development, *Black Sea and Central Asia: Promoting work and well-being*. OECD, Paris, 2008.

⁴ European Economy, *The Western Balkans in Transition*, Occasional Papers 46, May 2009. *Black Sea labour market reviews: Moldova Country Report*. European Training Foundation, 2009.

⁵ *Migration and Remittances: Eastern Europe and the Former Soviet Union*, 2006

⁶ *Labour Markets in the Western Balkans: Challenges for the Future*. European Training Foundation, 2007

Regional government balances for most of the previous decade have shown improvements in terms of shrinking budget deficits. By 2008 Albania had the largest budget deficit, at 5.7 per cent of GDP, however this was an improvement from the beginning of the decade when the deficit stood at 7.6 per cent of GDP. Montenegro ran a healthy surplus in 2007, at 6.4 per cent of GDP. The Western Balkan countries all experienced reductions in gross government debt from 2001 through 2006. Current account deficits have accumulated throughout the region in response to growing consumer demand, in large part on account of rising prospects for EU accession. As the Western Balkans increasingly became an attractive region for investment, firms took advantage of easier access to foreign capital, contributing to the increases witnessed in credit and consumption.⁷ Inflation in the region in the period shortly before the onset of the crisis in 2008 began to increase sharply, primarily on account of rising fuel and commodity prices.⁸

Table 3. General Government Gross Debt, as a percentage of GDP

Country	2001	2002	2003	2004	2005	2006	2007
Albania	67.6	65.3	61.7	56.6	57.4	55.5	53.0
Bosnia and Herzegovina	38.1	33.4	37.7	25.5	25.6	21.3	18.5
Croatia	40.1	40.0	40.9	43.2	43.7	40.8	37.8
FYR Macedonia	48.8	43.0	42.9	36.6	39.6	31.6	24.7
Montenegro	n/a	84.5	47.1	44.5	38.6	32.6	26.3
Serbia	n/a	80.6	64.3	53.3	50.3	36.2	29.4

Source: National sources, from *Western Balkans in Transition*

Table 4. Current Account Balances as percentage of GDP

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009**
Albania	-3.7	-3.1	-7.2	-5.0	-4.0	-6.1	-5.6	-9.1	-14.1	-11.5
Bosnia and Herzegovina	-6.9	-12.5	-17.8	-19.4	-16.3	-18.0	-8.4	-12.7	-14.7	-8.8
Croatia	-2.5	-3.2	-7.3	-5.4	-4.6	-5.7	-6.7	-7.6	-9.4	-6.1
Macedonia, Former Yugoslav Republic of	-1.9	-7.2	-9.4	-4.1	-8.4	-2.6	-0.9	-7.2	-13.1	-10.6
Moldova	-8.4	-2.5	-1.5	-6.6	-1.8	-8.3	-11.3	-17.0	-17.7	-11.8
Montenegro	n/a	n/a	n/a	-6.8	-7.2	-8.5	-24.1	-29.4	-29.6	-16.0
Serbia	-1.8	-2.5	-8.3	-7.2	-12.1	-8.7	-10.1	-15.6	-17.3	-9.1

Source: IMF World Economic Report Database, October 2009

*All figures in 2008 apart from Croatia, Moldova, and Serbia are IMF Estimates

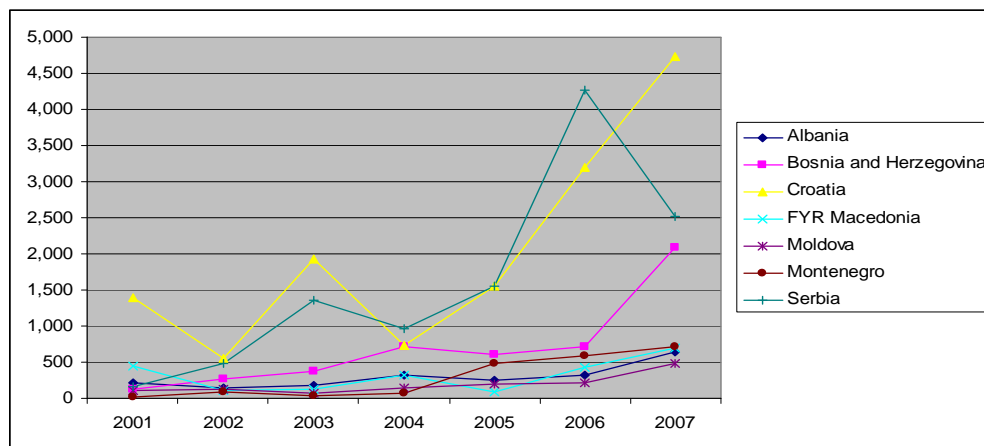
**IMF Estimates

⁷ Darvas, Zsolt, "The Impact of the Crisis on Budget Policy in Central and Eastern Europe," Bruegel Working Paper 2009/05, July 2009

⁸ Western Balkans in Transition, Op. Cit.

FDI flows to the region have not been of the same level as those sent to EU-12 countries and hydrocarbon exporting transition countries during the 2000s. Greenfield foreign investments in particular have been lacking in the Western Balkans, with instead much of the investment in the region having been linked to the growing amount of privatisations taking place within the countries, and amongst a limited number of sectors, primarily manufacturing and banking. Despite the limited level of FDI however, the growing possibility towards EU accession has contributed to the increased the attractiveness of the Western Balkans as an area for investment.⁹

Figure 3: Foreign direct investment, USD Millions



*Source: EBRD, IMF, central banks estimates.

The Crisis and its Impact on Regional Economies

The nature of the beginning global financial crisis in the United States and developed economies of Western Europe did not share similar characteristics with its appearance in the Western Balkans and Moldova. As developed economies faced systemic problems in their banking systems that then spilled over in to the real economy, the financial sectors in the Western Balkans and Moldova remained largely insulated due to a lessened degree of exposure. Banks and financial institutions in the region have not been as active in the international financial arena, and the countries' stock markets do not match the size of their counterparts in more developed countries. However, the crisis has not completely bypassed the region. The transmission effects, the speed, and the depth of the crisis took hold in various ways, owing in part to the heterogeneity of regional economic structures. Many of the crisis effects arrived through decreases in domestic demand and consumption, as a result of the tightening of available credit in the region, constricting the domestic demand which served as one of the principal factors in regional growth in recent years. Coupled with these shocks of tightened credit markets and decreased consumption, the Western Balkans and Moldova have been negatively impacted by downturns in many of the productive sectors of their real economies, through slumping trade and investment partners in Western Europe. This along with downturns in important

⁹ Western Balkans in Transition, Op. Cit.

commodities such as metals has negatively affected industrial production, and export performance has weakened considerably in several sectors. These factors have contributed considerably to the declines in GDP growth experienced by many countries in the region in 2009.

A key factor in determining the timing and strength of the crisis has shown to depend on the degree of integration a country has to markets in the EU, the significance of economic and financial relations with the EU within their economies, as well as similarity in the structures of the economies with Europe. Croatia, which of all countries in the region has one of the most similar profiles to the EU-12 economies, is where some of the first signs of economic difficulties were seen. Croatian third quarter 2008 year-on-year GDP growth registered at 1.6 per cent, was barely positive at 0.2 per cent for the fourth quarter, before sinking further and contracting through the first three quarters of 2009, by 6.7, 6.3, and 6.7 per cent, respectively. Serbian economic performance declined similarly. While GDP growth there for 2008 ended at a respectable 5.5 per cent, it was however marked by constantly decreasing quarterly GDP growth rates, beginning with 9.5 per cent in the first quarter of the year and ended with 0.4 per cent growth in the fourth quarter. January through September of 2009 witnessed a contraction of 3.6 per cent, with Serbia's Republican Statistical Office estimating that 2009 overall featured a GDP contraction of 2.3 per cent, suggesting some pick up in economic performance for the fourth quarter of the year. Real GDP growth rates in Montenegro contracted by 4 per cent in the first three quarters of 2009.

Table 5. GDP growth between 2007 and 2009 (per cent)*

Country	2007	2008	2009**	2010**
Albania	6.3	6.8	0.7	2.2
Bosnia-Herzegovina	6.8	5.5	-3.0	0.5
Croatia	5.5	2.4	-5.2	0.4
FYR Macedonia	5.9	4.9	-2.5	2.0
Rep. of Moldova	3.0	7.2	-9.0	0.0
Montenegro	10.7	7.5	-4.0	-2.0
Serbia	6.9	5.4	-4.0	2***

* Data for a given period are compared with the same period the previous year.

** Latest IMF projections, October 2009

*** From latest IMF review of Stand-By Agreement, February 23, 2010.

Source: IMF World Economic Outlook Database, October 2009.

Reduced degrees of integration in to Eurozone economies, such as in Albania and to a lesser extent Bosnia and Herzegovina, has allowed for greater levels of GDP expansion in these economies. Despite this, growth in 2009 has slowed throughout the progression of the year, when examining year-on-year quarterly GDP growth rates. The IMF believes that Albania will be one of the few countries in Europe to have incurred positive GDP growth in 2009, of roughly 2 per cent, however much of this growth will have occurred in the first half of the year. Albania enacted some fiscal stimulus measures to stoke demand, through higher public-sector wages and significant spending on infrastructure projects. In Bosnia and Herzegovina, year on year quarterly changes in industrial production have

been consistently negative, contracting by 10.9, 9.9, and 12.6 per cent each quarter. Owing to its much closer economic ties to Russia, where GDP contracted by 9 per cent in 2009, Moldova displayed the poorest economic performance among the countries in this report.

The trade channel is an important area in which the crisis has been felt in the region, as depressed markets among the region's trading partners including Italy, Germany, and other Eurozone destinations for regional exporters, have negatively affected their performance and contributed to drops in industrial production. In Serbia, the EU accounts for more than half (55 per cent) of its export income, and year-on-year industrial production through 2009 was consistently negative, though the scale of decline lessened by the end of the year. Manufacturing output in the country declined by 18.4 per cent, and was coupled with drops in construction of 16.4 per cent, for the first three quarters of 2009. Moldovan exports for the year sank 18.4 per cent from 2008 to 2009, with metals and metal products suffering most significantly, falling by 75 per cent. Metals and textiles form the principle exports of the Macedonian economy, and suffered considerably for most of 2009, contributing to the decline in industrial production, as industry year-on-year third quarter performance in Macedonia slumped to -13.4 per cent. Despite favourable economic performance relative to its neighbours and in other European countries, Albania also experienced year on year second quarter industrial production contraction of 5.8 per cent, due to lessened demand for the products of its clothing and footwear manufacturers, and contraction in its mining sector. Industrial production and employment can be adversely affected by developments in a few important plants. In Montenegro for example, much of the downturn in manufacturing and industry is a reflection of troubles undergone by the Podgorica Aluminium Plant (KAP), the country's principle industrial firm. Industrial performance in Montenegro has been perilously hit by the crisis, registering a fall of over 56 per cent in September 2009, compared with a drop of 2 per cent for the entirety of 2008.¹⁰ Exports to Italy, the leading destination for Montenegrin exports in 2008, dropped precipitously in 2009 by nearly 70 per cent. In total, exports decreased by 38.1 per cent in year-on-year terms.

The decrease in economic activity is perilously affecting government fiscal balances, as tax revenues fall in accordance. For the Western Balkans, this is of even greater concern due to the outsized presence of the informal economy in regional economic activity and its tendency to grow during times of crisis, thus initiating a further strain on the tax base through the lack of tax receipts. Croatian central government revenue from January through November 2009 was down 5.9 per cent year on year. Budget deficits in 2009 have increased for most countries. Total revenue in Moldova in 2009 was down even further, at 8.9 per cent lower than in 2008. At the same time, government spending for the year was up by 4.6 per cent, most notably due to greater social assistance spending, which increased by 15.1 per cent. Albanian authorities have revised estimates of the year's deficit from 4.2 per cent of GDP to 6.9 per cent, in recognition of decreased economic activity and infrastructure spending, making the budget deficit in Albania by the end of 2009 at its highest point in eight years. Serbia's budget deficit in 2009 is

¹⁰ EIU, Montenegro Country Profile, February 2010

estimated at 4.5 per cent of GDP and is also in part attributed to increases in spending, particularly in social transfers.

External financing, another element to the growth mix in recent years, has shrunk as investors display increasing risk-aversion towards emerging markets. The government of Serbia in its December 2008 memo on the affects of the crisis acknowledged the difficulty it expects in financing and covering its deficit in its balance of payments. The government duly sought and entered in to a Stand-By Arrangement with the IMF in January 2009 in order to address these concerns. Several privatisation projects envisioned in the region, including in mining in Serbia and telecommunications in Bosnia and Herzegovina, have been delayed as result of the increased difficulty in finding investors in the current climate.¹¹

Remittance income from migrant communities abroad has also been affected by downturns in the sending countries. The Bank of Albania reports that remittances receipts for the third quarter of 2009 were down 6 per cent compared to third quarter 2008, falling from €620 million to €581 million.¹² In Moldova, the decrease in remittance income contributed heavily to the GDP contraction of 9 per cent recorded for the year as it played an important factor in the country's decreased domestic consumption. The IMF estimates that consumption in Moldova contracted 7 per cent in 2009. Contraction experienced in the construction industry and declining service sector growth also played a role in the poor performance of the Moldovan economy. Though remittances contracted less globally than originally anticipated, the World Bank does not see remittance levels from 2008 being duplicated for years to come, and remittance growth to be essentially flat in 2010.¹³

Table 6. Consumer Prices – Average year-on-year percentage change, by quarter

	2007Q3	2007Q4	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2	2009Q3	2009Q4
Albania	3.6	3.6	3.7	4.2	3	2.5	1.8	2.1	2.1	2.9
Bosnia and Herzegovina	1	4	6.4	8.4	9.4	5.5	1.6	-1	-1.4	-0.7
Croatia	2.9	4.9	5.9	6.6	7.4	4.5	3.8	2.8	1.2	1.6
Macedonia, FYR	2.8	5.1	8.2	8.6	7.1	5.1	1	-0.4	-1	-1.7
Moldova	13.2	13.7	14.9	16.3	11.9	8.4	3.1	-0.9	-1.7	-0.6
Montenegro	5.2	7.4	8.9	10.8	9.4	7.1	5.9	4.4	2.9	..
Serbia	6.4	9.7	11.5	13.7	11.2	10.1	10.1	8.7	8	5.8

Source: UNECE Statistical Database

¹¹ Sanfey, Peter. "Southeastern Europe: lessons from the global economic crisis," EBRD Working Paper Number 113, February 2010

¹² *Press Statement External sector developments in the Albanian economy during the third quarter of 2009.* Bank of Albania

¹³ World Bank Migration and Development Brief, Number 11, 3 November 2009

The state of inflation may be considered one area that has improved in part due to the effects of the crisis, with inflation pressures easing following decreases in economic activity. This contrasts sharply with the rising inflation that the region was subject to in the years shortly preceding the crisis. For most of 2009, consumer prices displayed a declining trend across the region, though towards the end of the year and early 2010 inflation began to pick up slightly. The Economist Intelligence Unit, in referencing data from the Statistical Office of Montenegro, declared that inflation in the country in October of 1.7 per cent was at its lowest rate since authorities there began tracking CPI in January 2008.¹⁴

Trade in the region has displayed sharper declines in imports as opposed to exports, on the account of strains upon remittance and credit-fuelled domestic consumption, thus current account balances and trade balances are showing signs of shrinking. Both remittances and foreign direct investment, in differing proportions throughout countries in the Western Balkans, have been crucial in financing the trade deficits, and consequently the current account deficits displayed in the region. In Bosnia and Herzegovina, the trade deficit for 2009 decreased by nearly 29 per cent compared with in 2008. The reduction of the Croatian trade deficit shrank in similar fashion, registering at 30 per cent less for the year in comparison with the previous one.

¹⁴ EIU Montenegro Country Report, January 2010

Employment and Labour Markets in the Western Balkans and Moldova

Despite the trend of rising economic growth throughout the region since the turn of the century, labour markets have not delivered improvements to the same extent, with much of the Western Balkans suffering from the so-called phenomenon of ‘jobless growth’, as labour productivity and GDP gains accumulated without the subsequent gains in employment. Across the region employment rates have remained lower than their peers in both old and new EU member states, with women trailing further behind, and unemployment in the region is considerably high. The labour market situation of young persons is also dire across the region, with youth unemployment often twice the rate of their adult counterparts. The informal sector plays a significant role in the region as a provider of jobs, containing the subsequent lack of protections and flexibility of employment relations inherent to this sector. At the same time, formal sector employment relations have been marked by increasing flexibility as well.

Labour Force Participation, Employment and Unemployment Trends

Employment growth rates in the region in the first part of the decade were almost uniformly negative for Western Balkans states, apart from Croatia. The second half of the 2000s has seen stronger growth rates, albeit moderate, in employment, for most countries.

Table 7. Total Employment Growth Rates

	2002	2005	2008
Albania	0	0.1	..
Bosnia and Herzegovina	-3.2	0	4.1
Croatia	4.2	0.8	1.1
Macedonia, FYR	-6.3	4.3	3.2
Moldova	0.4	0.2	0.3
Montenegro	-0.7	-0.1	6.3
Serbia	..	-6.7	6.3

Source: UNECE Statistical Database

The lack of strong employment growth in the region is accompanied by what is already a low degree of labour force participation and low employment rates. Some of the lowest levels of employment are seen in Macedonia, where the employment rate of 35.8 per cent in 2002 stood less than a percentage point higher in 2007, at 36.2 per cent. Bosnia and Herzegovina, upon introducing the LFS in 2006, displays even lower employment rates in 2006 and 2007, at 29.7 per cent and rising to 31.2 per cent. Croatia, which has been the best performer in terms of employment rates in the region, nevertheless registered an employment rate in 2007 of only 44.2 per cent. The figures from Croatia and Macedonia are particularly disconcerting, as these countries have advanced the furthest towards EU integration yet their employment rates remain far below the European Employment Strategy’s stated goal of a 70 per cent employment rate.¹⁵

¹⁵ European Employment Strategy
<http://ec.europa.eu/social/main.jsp?catId=101&langId=en>

The changing economic composition of GDP growth that has characterized the region in recent years has had similar effects on the state of employment concerning the types of jobs held in the Western Balkans and Moldova. Deindustrialisation has been coupled with the subsequent loss of jobs in the industrial sector, whereas service sector employment has moderately risen at its expense. Business services have grown as a source of employment across the region. The share of employment in agriculture has taken a different path throughout in the Western Balkans, sometimes increasing in certain countries as opposed to the general trend of shrinking industry and agricultural employment that has characterized the majority of EU new member states.¹⁶ In Macedonia for example, employment in agriculture accounted for roughly 25 per cent of employment in 2001, constantly falling before reaching 16.8 per cent in 2005, at which point it rose to 19.5 per cent and 20.1 per cent of employment for the following two years. In Albania, agriculture remains most significant as a share of employment amongst states in the Western Balkans, although it also has seen agricultural employment fall from 70 per cent of employment in 2000 to 58 per cent in 2007. One reason that agriculture remains an outlet for employment is in its ability to absorb workers suffering from lost jobs in other sectors, particularly when formal sector job creation is insufficient.

Developments in Unemployment

Table 8. Unemployment Rates

	2000	2004	2007	2008
Albania*	16.8	14.4	13.5	13
Bosnia and Herzegovina**	39.7	43.1	29	23.4
Croatia	16.1	13.7	9.6	8.4
Macedonia, FYR	32.2	37.2	34.9	33.8
Moldova	8.5	8.1	5.1	4
Montenegro	..	27.7	19.4	16.8
Serbia	12.1	18.5	18.1	13.6

Source: UNECE, National Sources. LFS Data

*Registered Data

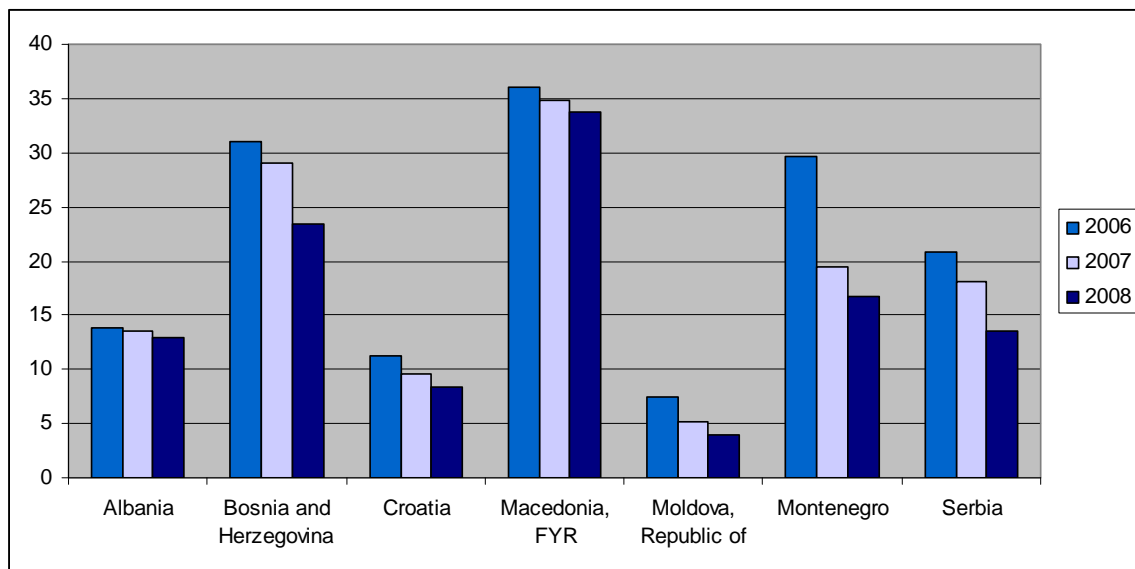
**Registered Data for 2000, 2004

Unemployment trends have displayed contrasting developments across the Western Balkans over the past decade, however in general the region is characterized by very high levels of unemployment. This state of affairs is particularly apparent in some countries more than others, most noticeably in Macedonia, where unemployment rates throughout the 2000s fluctuated between 30.2 per cent to as high as 37.3 per cent in 2005. In 2008 as the country approached the economic crisis, unemployment stood at a region-high 33.8 per cent. Bosnia and Herzegovina has also suffered from persistently high levels of unemployment. Labour force survey data was not introduced until 2006 however registration data unemployment rates consistently measured over 40 per cent and

¹⁶ Adjustment capacity of the labour markets of the Western Balkan countries, Volume 1. European Economy, Occasional Papers Series, Economics Paper 346. November 2008

increasing throughout the first half of the decade. Unemployment rates in Croatia have been among the lowest in the region, and falling considerably. Croatian unemployment fell by nearly half over the majority of the decade, moving from 16.1 per cent in 2000 to 8.5 per cent in 2008. This achievement was equalled in Moldova, which has also experienced comparatively low unemployment rates and falling from 8.5 per cent in 2000 to 4 per cent in 2008. Across all countries in the region, despite differing starting points, unemployment has decreased in the two years prior to the onset of the economic crisis, as seen in Figure 4.

Figure 4. Unemployment Rates, 2006-2008



Source: UNECE, LFS data. Albania registration data

Another important element with regards to unemployment rates in the region is the gap existing between registered unemployment rates and LFS unemployment. All countries in the region show considerably higher numbers of registered unemployed than revealed via labour force surveys. An example can be seen in Bosnia and Herzegovina, where LFS surveys introduced in 2007 extracted an unemployment rate of 29 per cent, compared with registered unemployment for the year of 42.9 per cent. Factors behind this phenomenon include the desire by many individuals to register for unemployment due to the disbursement of certain benefits that registration entails. This can include social benefits such as health insurance, to special provisions targeting specific groups, such as the increased registration of unemployment by demobilized soldiers in Bosnia and Herzegovina following a law enacted in 2006 providing them with certain social benefits.¹⁷ In Macedonia, many who register as unemployed do so in order to obtain health benefits, as opposed to actively seeking work.¹⁸ The requirement to register as unemployed in order to receive health insurance was recently removed in 2009 however

¹⁷ Adjustment Capacity of the Labour Markets of Western Balkan countries, Vol. II. European Economy, Occasional Papers Series, November 2008

¹⁸ ETF Country Analysis: The Former Yugoslav Republic of Macedonia. European Training Foundation, November 2009

the numbers of registered unemployed individuals by the end of the year only fell by 2000 individuals, compared with end of 2008 registered unemployment levels.¹⁹ The appeal of health benefits also lead many in Serbia to register as unemployed, thus including among the unemployment registries inactive people such as homemakers and other individuals not taking part in the labour market.²⁰ 2004 registered unemployment figures at 944,000 nearly doubled the results from the year's LFS. Such phenomena can suggest a large informal sector within the country.²¹

The regional dimension of unemployment is another characteristic across Western Balkan countries. For example in Macedonia, the capital region of Skopje displays lower levels of unemployment, with unemployment in rural areas often much higher, whereas in Montenegro, the capital Podgorica tends towards higher levels of unemployment along with other central and northern parts of the country, with the coast displaying smaller unemployment rates.

Long-term unemployment

Long-term unemployment, when defined as people unemployed for a period of 12 months or more, is a pervasive aspect of Western Balkans labour markets. Albania is particularly marked by this and displays a trend throughout the decade of rising numbers of long-term unemployed, beginning at 89.3 per cent of unemployed in 2000 and rising to 92 per cent of registered unemployed by 2007 falling under the heading of long-term unemployed.²² Bosnia and Herzegovina, with over 80 per cent of the unemployed counted among long-term unemployed also suffers disproportionately from this phenomenon, stretching for some individuals to extremely long periods of time out of work. For example in 2007, LFS results show that 27.3 per cent of the unemployed in Bosnia and Herzegovina were out of work for a staggering 120 months or more. The case of long-term unemployment also displays an increasing trend in Croatia, though not approaching the heights of its neighbours. Croatian long-term unemployed composed 53.4 per cent of the country's unemployed in 2000 and rose to 67.1 per cent by 2007. The high concentration of long-term unemployed is a major cause for concern in the region, owing to the detrimental effects to skills and motivation longer periods out of work can bring about.

Gender differences in the labour market

Male labour force participation and employment rates in the region are higher than for women, though again with significant heterogeneity across countries. Stark differences in labour force participation between males and females appear prominently in Bosnia and Herzegovina, where male labour force participation in 2007 is nearly double the participation rate for women, at 56.3 per cent versus 30.3 per cent. This is also reflected

¹⁹ ILO National Coordinator Office in Skopje, Macedonia, Monthly Report December 2009

²⁰ Labour Market Review of Serbia. European Training Foundation, September 2005

²¹ Employment Policy Review, Serbia, Prepared by the ILO and the Council of Europe in 2005 and 2006

²² <http://www.instat.gov.al/>

in employment rates, such that female employment rates in the country in the year registered a mere 20.7 per cent versus 42.3 per cent for males. Macedonia in 2007 also displays a gap of more than 20 percentage points in male and female labour force participation rates, with 66 per cent of males versus 42 per cent of females active. By contrast in Croatia the gap is smaller, with a male labour force participation rate of 61.3 per cent compared to a rate for females of 45.9 per cent in 2007.

Employment rates for males and females have declined in Moldova for most of the first half of the previous decade however the country displays the smallest difference between male and female employment rates among the countries of this study. As male employment decreased more steeply than that of females, in some instances female employment outperformed that of males. Female employment measured 50.5 per cent versus 49.8 per cent males in 2004, and in 2005 the gap was larger, at 1.3 percentage points, before reversing in the following year and for the rest of the decade. The declining unemployment rate of females however is not necessarily a reflection improved labour market access for female workers, but more likely caused by women leaving the labour market or willing to take any job in order to have a source of income.²³ Employment rates of women in Macedonia have been increasing vis-à-vis male employment rates from 2001 through 2006, with education being shown to narrow the difference in employment rates.²⁴ Some of the reasons for the differences in male and female attachment to the labour market have been attributed to traditionally expected roles of women in societies.²⁵

The labour market situation of vulnerable groups

Low-skilled persons in the labour market

Looking at educational attainment in the labour force, large discrepancies are seen in the labour market performance of individuals when disaggregated by education levels. Generally speaking, higher-educated individuals in the labour market tend to perform much better with regards to higher employment rates and lower unemployment rates than workers with low to medium educational backgrounds. In Bosnia and Herzegovina, which has consistently had some of the highest rates of unemployment in the region throughout out the decade, in 2007 unemployment rates for individuals with tertiary education was only 10.6 per cent. This stands very favourably when compared next to the unemployment rate for individuals with at most a primary education or less. For this cohort, the unemployment rate in 2007 measured 31.2 per cent, nearly three times the level of tertiary-educated labour market participants. This inverse relationship that occurs between education and unemployment rates is seen throughout the region, though the relationship changes when examining those with the lowest levels of education. For example in Moldova, individuals with primary education or less consistently displayed unemployment levels under 2 per cent, according to Household LFS data from 2001

²³ Employment Policy Review, Republic of Moldova. Prepared by the ILO and the Council of Europe,

²⁴ ILO DW Country Report, FYR Macedonia

²⁵ Employment Policy Review, The Former Yugoslav Republic of Macedonia. Prepared by the ILO and the Council of Europe in 2006 and 2007

through 2005.²⁶ Despite the very low unemployment rates registered by this group, this is more a reflection of discouragement and low labour market attachment, and implies a large degree of informality in employment as well. A World Bank study on informality in the Serbian labour market from 2005 supports this observation, with the informality rate for individuals having less than a primary level of education reaching 51 per cent.²⁷

Youth and the Labour Market

Labour force participation amongst youth aged 15-24 in the region is very low, particularly when compared to the EU-27. Many of the trends described thus far pertaining to adult employment in the region are also witnessed in the youth cohorts, such as the increasing predominance of service sector jobs and the shift away from manufacturing, however there are also diverging trends apparent. In Albania and Macedonia for example, agriculture encompasses a significant proportion of youth employment. Another characteristic differing in the youth labour market situation is the greater preponderance of youth employed as informal workers than the percentage of adult workers in informal situations. Evidence of this can be seen in Serbia, where rates of informality among wage employees aged 15-24 in 2005 measured 52.1 per cent, compared with 25.9 per cent of those aged 25-54.²⁸

The Western Balkans have displayed some of the highest levels of youth unemployment in Europe, with several countries from the region reaching rates of more than 50 per cent of young persons aged 15-24 out of work. Macedonia has been witnessing a decline in youth unemployment, to 56.4 per cent in 2008 from a rate of 66 per cent in 2003. In 2007, the youth unemployment rate in Bosnia and Herzegovina reached 58.6 per cent, and for women was even higher at 62.3 per cent. The ratio of youth employment to adult employment has show little signs of decreasing, and is more than double for most countries in the region. In Croatia, however, the youth unemployment rate has decreased by more than half over the course of the decade, from 45.3 per cent in 2001 to 21.9 per cent by 2008. Nevertheless, it remained 3.2 times the unemployment rate for adult workers in that same year.

Table 9. Ratio of Youth Unemployment Rate to Adult Unemployment Rate in selected countries

	2006	2007
Bosnia and Herzegovina	2.3	2.3
Croatia	3.2	3.0
Macedonia, FYR	1.8	1.8
Moldova	2.8	3.7
Serbia	2.7	2.8

Source: ILO KILM Database

²⁶ Employment Policy Review, Moldova, prepared by the ILO and the Council of Europe in 2005 and 2006

²⁷ Adjustment capacity of labour markets of the Western Balkan countries, Volume 1, op. cit.

²⁸ Ibid

Informal Workers

The size and scope of the informal economy is an important characteristic of the labour markets of the Western Balkans and Moldova. Estimates with regards to what level of informal economy exists among countries in the region vary depending on methodologies used. However, its existence creates problems in terms of accurate measurements of labour force participation, as well as the nature of employment, as informal sector jobs generally provide fewer protections and benefits compared to those that fall under the domain of labour law and institutions. This makes most informal employment also of a highly flexible and precarious nature. From a health and safety perspective, informal employment also tends towards being more dangerous, without the subsequent occupational safe and health legislation protecting formal sector workers. For the state, large numbers of informal workers are detrimental to tax revenues and contributions to pensions are also negatively affected. Informal employment nevertheless remains an indispensable method for many in the region to make a living.

Despite the difficulty in measuring informal employment and the informal economy in general, some studies have shed light on the situation in countries across the region. A UNECE report from 2005 estimated that the informal economy accounted for 35-40 per cent for all Western Balkan countries between 2000 and 2004.²⁹ In Moldova, this figure soars to 49 per cent. These figures were achieved using the currency demand method. In terms of employment, Albania and Macedonia in particular are characterized by a high degree of informal employment. A World Bank study using LFS data from 2005 looked at informal employment in Macedonia, estimating that 32.9 per cent of total employment in the country is informal.³⁰ In Albania it is believed that 55 per cent of non-agricultural jobs are in the informal sector, and with percentages in agriculture believed to be even higher.³¹ High rates of informal employment in the agricultural sector are also reported in Moldova, where a 2007 survey reports that 73.6 of informal workers are in that sector. Informal sector workers in the country tend to be younger males of low educational background. Survey data from the World Bank in 2005 that included study on informal employment among wage earners in Serbia showed 55.2 per cent of informal sector workers to be males.³²

Migrant Workers

The Western Balkans has long been a region characterised by migration, for reasons imposed by economic and employment conditions however also emerging heavily during the years of conflicts in the 1990s. Refugee flows as a result of events during this period are estimated at over 600,000 migrants leaving for countries across Western Europe, including 345,000 alone going to Germany.³³ Earlier waves of immigration to the

²⁹ UNECE Economic Survey of Europe, 2005

³⁰ Mojsoska-Blazevski, Nikica. *Decent Work Country Report – FYR Macedonia*, ILO Regional Office for Europe and Central Asia, 2008

³¹ ILO DWCP Document, Albania, 2008-2010

³² Labour Market Assessment of Serbia, World Bank, 2006

³³ World Bank, Migration and Remittances: Eastern Europe and Central Asia

<http://siteresources.worldbank.org/INTECA/Resources/257896-1167856389505/migration-pop-slide4.htm>

countries of Western Europe were common as the booming economies of the 1960s required heavy supplementation of labour. As discussed earlier, migrant remittances have become increasingly important to the region, thus contributing to consumption and economic growth in the migrant-sending countries. Exporting a significant part of the labour force abroad also eases pressures on labour markets when jobs in the home country are not as abundant. As several neighbours of the non-EU Balkan countries have recently become EU members, undocumented migration to these countries is also a rising phenomenon.³⁴

As labour migration has become an increasingly important trend in the region, studies have emerged attempting to capture the dynamics of these migration patterns. In Macedonia, one of the regions important labour-exporting countries, the number of emigrants as percentage of the country's population in 2005 measured at 18.5 per cent, with Germany, Switzerland, and Austria leading as the three principle destinations.³⁵ Looking that educational background of migrants, approximately one in five was tertiary-educated. Roughly 20 per cent of Albanian emigrants also had completed tertiary education, implying a higher education level than the majority of the country's population. Emigrants also tended to be overwhelmingly male (at 75 per cent in 2005), and with Greece and Italy serving as the primary destination countries.³⁶

Moldova differs from its peers in the Western Balkans, in that the majority of its migrant workers are hosted by Russia, in line with other major labour-exporting nations from the CIS including Armenia, Kyrgyzstan, and Tajikistan. A survey of Moldovan migrants from 2004 showed that 10 per cent of the population at the time was working abroad, with 60 per cent of these workers hosted by Russia.³⁷

Changes in Employment Relations

The increasing flexibility of formal employment relations has been another notable feature of employment relations in the Western Balkans over the course of recent years. Employment protection legislation in the Western Balkans has generally shown an easing of strictness from the late 1990s to 2007, owing to reforms in labour legislation. It remains stricter for most countries in the region, compared with employment protection legislation rates for both old and new EU member states.

³⁴ *Migration and Remittances: Eastern European Central Asia*, World Bank, 2006

³⁵ World Bank, *Migration and Remittances Factbook*

³⁶ The Republic of Albania Migration Profile, International Organisation for Migration, October 2007

³⁷ ILO Country Employment Policy Report, Moldova

Table 10. EPL Index for the Western Balkans and Moldova

Country	EPL index	EPL summary index	Regular Contracts	Temporary Contracts	Collective Dismissals
	Late 1990s	2007*			
Albania	2.6	2.1	1.8	1.9	3.4
Bosnia and Herzegovina	3.2	2.6	2.0	3.3	2.6
Croatia	3.6	2.7	2.7	2.8	2.5
FYR Macedonia	2.8	3.1	2.1	3.8	3.8
Republic of Moldova	n.a.	2.5	4.5	1.3	0.4
Montenegro	2.9	2.2	2.6	1.9	3.6
Serbia	2.9	2.2	2.0	1.9	3.6
EU-10**	2.4	2.1	2.6	1.2	3.4
EU-15***	2.5	2.4	2.3	2.0	3.4

Sources: ILO calculations from *Delivering decent work in Europe and Central Asia*, Report of the Director-General, Volume 1, Part 2, prepared for the ILO Eighth European Regional Meeting, Lisbon, February 2009

* For EU-10 and EU-15 data corresponds to 2003

** Does not include Romania and Latvia

*** Does not include Luxembourg

Examining the various components of employment protection legislation shows a high degree of heterogeneity among the Western Balkan countries when looking at regular contracts, temporary contracts, collective dismissals, and EPL summary indices as a whole. For example in Serbia and Montenegro, where EPL summary indices are at 2.2 in 2007, thus on the whole more liberal than the EU-15, contrasts greatly with Croatia, at 2.7, or in Macedonia, where EPL remains most restrictive at 3.1. Regular contracts show the highest degree of flexibility by 2007 in Albania, with Serbia also having a lower EPL index for regular employment than in the EU member states. Legislation governing temporary contracts in the Balkan states is generally much more restrictive than in the EU, however Albania, Serbia, and Montenegro, exhibit greater flexibility in temporary contracts than the EU-15. Moldova also displays an index for temporary contracts which is nearly as flexible as the new member states.

The increasing flexibility of employment relations in the region can be seen by changes in the types of contracts offered to workers. Incidences of fixed-term, or temporary, contracts have been rising for several countries. 53.7 per cent of employment contracts in Macedonia in 2007 were either fixed-term or seasonal contracts.³⁸ In 1998 this figure was under 20 per cent. Fixed-term contracts also rose in usage in Croatia, where it has also been shown that their duration has steadily decreased to the point where that by 2006,

³⁸ ETF Country Report Macedonia, 2009

63.8 per cent of fixed-term contracts were issued for a duration of less than six months.³⁹ Part-time contracts have figured less prominently however in the region.

The role of labour market institutions

Public employment services (PES) are present in all Western Balkan countries and Moldova, and all of the countries' PES bodies apart from in Albania are members of the World Association of Public Employment Services. Between countries, there is a large range between numbers of staff per unemployed, with 2006 figures highest in Macedonia and Bosnia and Herzegovina, having ratios of 1:750 and 1:700, respectively. Montenegro displayed the lowest ratio at 1:113.⁴⁰

As discussed earlier, the administration of health insurance, child allowances, and other social benefits unrelated directly to job seeking has contributed to the greater numbers counted as registered unemployed versus the unemployment rates resulting from LFS results. These additional administrative measures placed on PES providers can be detrimental to their efficiency, pulling resources and efforts away from core attention to the needs of the unemployed. Public employment service providers in Bosnia and Herzegovina estimate that 30 to 40 per cent have registered in order to receive health insurance benefits, and with as many as 50 per cent of registered unemployed not actively seeking work.⁴¹ Similar figures are reported in other countries in the region, as in Macedonia, where a 2008 survey from the Employment Services Agency showed that 21 per cent of job seekers did so for health insurance.⁴² Moldova differs from this trend, where in fact fewer numbers are registered as unemployed compared to LFS results. Low unemployment benefits are cited, as well as the ineligibility of young job-seekers without experience from accessing unemployment benefits, as factors that dissuade the unemployed from registering with the country's National Employment Agency.⁴³

Active labour market policies have not featured prominently among the labour market policy mix of most countries in the Western Balkans. Passive labour market policies, through (unemployment and assistance benefits) form the primary proportion of labour market policies in the region.⁴⁴ The amounts spent on both active and passive labour market policies are considerably lower than in the EU for all countries in the region, as seen in the table below.

³⁹ ILO Background Paper on Croatia for 2009 European Regional Meeting

⁴⁰ ETF LM in Western Balkans, 2007

⁴¹ ILO Employment Policy Review, Bosnia and Herzegovina

⁴² ETF Country Report, Macedonia 2009

⁴³ ETF Country Analysis, Moldova, 2008

⁴⁴ Public Expenditure Policies in SE Europe, World Bank

Table 11. Labour market policy expenditure as a percentage of GDP, 2005-2006

	Active Measures	Passive Measures	Total
Albania	n.a.	0.10	n.a.
Bosnia and Herzegovina	n.a.	n.a.	n.a.
FBiH	0.27	0.38	0.98
Republika Srpska	n.a.	n.a.	n.a.
Croatia	0.06	0.32	n.a.
Macedonia	0.05	n.a.	n.a.
Montenegro		0.30	1.60
Serbia	0.10	0.80	0.90
EU-15	0.70	1.44	2.34

Source: Eurostat and national experts, from European Economy, *Adjustment capacity of labour markets of the Western Balkan countries*, November 2008. Total expenditures do not equal sum of active and passive measures due to extra expenditure on labour market policy services.

Croatia in recent years has taken steps to increase its commitment to ALMPs and this can partly be attributed to the role of the EU, where active labour market policy measures play a much larger role, though not uniformly across all member states.⁴⁵ ALMPs have begun to receive greater attention in Macedonia as well, with spending devoted to them increasing to 0.1 percent of GDP in 2007 and 0.2 per cent in 2008.⁴⁶

Labour Markets in Times of Crisis

The global economic and financial crisis has exacerbated what previously fragile gains in employment the Western Balkans and Moldova have experienced in recent years. With their economies feeling the effects of the crisis as described earlier, the employment situation has also deteriorated to certain extents throughout the region, however not uniformly for each country. Year on year unemployment figures from Serbia show an increase of nearly 2 per cent, surging from 14.7 per cent in October 2008 to 16.6 per cent one year later. Moldovan unemployment has also increased sharply during the crisis, with significant job losses seen in agriculture (40,700), industry (10,600), construction (5,700) and trade and transport (4,300) in 2009, though public-sector jobs for example in education have performed better with reductions fewer than 1,000.

In Croatia, where unemployment has been falling for the majority of the decade, the country in January 2010 passed the threshold of 300,000 registered unemployed persons, a level of unemployment not seen there in over four years.⁴⁷ The registered unemployment rate of 17.7 per cent as of January is 22 per cent higher year on year compared to January 2009, highlighting the depth of the crisis in the labour market. The

⁴⁵ Barkovic, Ivana. "From Employment to Employability: The role of active labour market policies in Croatia." *Interdisciplinary Management Research*, 2009, vol. 5

⁴⁶ ETF Country Analysis: The former Yugoslav Republic of Macedonia, November 2009

⁴⁷ Zoran Radosavljevic and Igor Ilic, "Croatia jobless at 4-year high, no light in sight," Reuters- Balkans.com Business News, 16 February 2010

Croatian Central Bureau of Statistics now reports that February unemployment has increased further, reaching 18.3 per cent.

Albanian unemployment rates have displayed little change during 2008 and 2009, remaining near 12.7 per cent. Macedonia, despite its still quite high level of unemployment, has seen its unemployment rate fall in the third quarter of 2009, to 31.7 per cent compared with 33 per cent for the third quarter of 2008. This trend took hold throughout the year, as quarterly unemployment rates in Macedonia decreased through each of the first three quarters of 2009. However fourth quarter unemployment figures now show a slight increase in the unemployment rate, rising to 32.4 per cent. This is 1.1 percentage points higher than in the fourth quarter of 2008.

The changes in structural composition of employment and unemployment are taking shape in various ways throughout the region. In general, the industries most affected by the economic crisis are seeing the effects through shrinking employment. Montenegrin employment in industry experienced a drop from 14.6 per cent of total employment in 2008 to 12.8 per cent in the first three quarters of 2009. Mining and quarrying employment was also negatively affected during the period, declining by 13.1 per cent. In Macedonia, employment in industry has been hit the hardest by the crisis, where it declined by 6.9 per cent in November 2009 in comparison with November 2008. The labour force participation rate however which stood at 57.3 per cent in the third quarter of 2009 fell to 56.1 per cent. The precipitous rise in unemployment experienced in Croatia has primarily been through the declines in employment in the construction and manufacturing sectors.

Within countries, regional differences often persist concerning unemployment developments during the crisis, with urban areas suffering more greatly. Fourth quarter LFS data from Moldova indicates that unemployment in urban areas measured at 7.5 per cent, compared to 4.5 per cent in rural regions.

Wages have shown mixed trends throughout the region in response to the crisis. Wages in Moldova increased throughout 2009 despite the recession, particularly among public sector employees. Macedonia also experienced real wage growth in November 2009 compared with a year earlier of 20.9 per cent. At the same time, the number of Macedonians in employment claiming failure to receive their monthly pay on time also decreased, to 2.8 per cent from 7.8 per cent for the previous year. Interpretations of wage growth however can be misleading, however, owing to the effects of job losses amongst low-wage workers, thus giving the impression of higher real or nominal wages yet real incomes of remaining workers failing to see an increase.

Montenegrin nominal wage growth has declined in most sectors throughout the country, with mining and quarrying being among the worst affected at -12.3 per cent in the third quarter of 2009. Real wages information from Serbia for January 2010 show a year on year decrease of 1.2 per cent.

Countries in the region under IMF programs are being required to introduce freezes on public-sector wages as part of the attached conditionality. Serbian authorities as well as those in Bosnia and Herzegovina are under increasing pressure to enact these measures in order to accomplish some degree of fiscal consolidation.

Among vulnerable groups in crisis-hit labour markets, young workers face even greater burdens towards stable employment than the general populace, with oftentimes a slower recovery. In Macedonia, the youth unemployment rate remains very high at 54.6 per cent for third quarter 2009; however this is a slight decline from the 56.4 per cent rate recorded in 2008. By contrast in Serbia, the employment rates among 20-24 year olds has decreased in 2009 compared to 2008 figures. Youth female employment rates fell by 2.2 percentage points, however male youth employment figures in Serbia decreased by over 8 percentage points. Serbian LFS data from October 2009 shows a decrease in the level of informal employment though, with year-on-year figures falling from 23 per cent to 20.6 per cent.⁴⁸

Government Responses during Economic and Employment Crisis

As befitting the differentiated nature of the crisis and its effects throughout the Western Balkans, policy makers have been faced with various choices in how best to respond within their countries. The capacities of labour market institutions are critical in this regard, as well as the political capacity and priorities with which to act. What cannot be ignored as well is that the various countries' crisis response is heavily influenced by the fiscal space available in which to act, alleviated by the level of external financing available from IFIs, donors, and other financiers. Of the countries in this study, currently Bosnia and Herzegovina, Moldova, and Serbia have sought loans from the IMF. Croatia in mid-January 2010 acquired a loan from the World Bank worth US\$297 million, with the country's finance minister stating that in addition to aiding in financing the budget, a portion of the funds will be devoted to assisting vulnerable groups.

In recognition of the crisis-driven fiscal constraints, several governments have announced budgetary measures with aims to reduce spending. Fiscal consolidation measures are required upon from the IMF for the aforementioned countries under Fund programmes, threatening discontent among disaffected groups subject to wage restraints.

Serbia's loan from the IMF began in January 2009 as a 15-month Stand-By Arrangement of US\$530 million, before being lengthened in duration in May by one year, as well as the value of available funding increasing to USD \$4.01 billion. Though concerns with regards to the budget deficit are among the primary concerns laid out in the conditions of the SBA, the IMF maintains that social protection spending will be excluded from budgetary cuts. The government has thus far eliminated 8,000 public-sector jobs however in recognition of IMF requirements, and has also drawn concern from the Fund with regards to wage increases described as a potential breach to the conditions of the

⁴⁸ Statistical Office of the Republic of Serbia, Press Release, December 30 2009
<http://webrzs.stat.gov.rs/axd/en/printe.php?SifraVesti=386&Link=>

agreement.⁴⁹ Concerning the job cuts, the levels achieved thus far may only be the beginning, as the government initially was expected to reduce the public sector workforce by a fifth of its 70,000 public sector jobs.⁵⁰

Bosnia and Herzegovina received an IMF Stand-By Agreement in July 2009 of US\$1.57 billion, to support the implementation of its recovery program. At present, the second tranche has been suspended due to the government's failure to comply with certain austerity measures, principally in terms of cutting back public sector wages and reducing benefits for war veterans. The failure to enact these measures has been a continuing thorn in the side of the government since October 2009 when the IMF first raised this issue, and may hinder certain spending actions as budgetary items are linked to disbursement of these funds.

Citing falling demand for exports, slumps in remittances and FDI, and decreases in domestic consumption, Moldova has recently come to agreement with the IMF for a loan of US \$574 million. Structural reforms to be included as parts of this arrangement include moves to make the economy more flexible. Fiscal sustainability is cited as a concern, thus the government will be required to reschedule expected wage increases, however out of concerns towards reducing poverty, the program "sets a floor on priority social spending. Moreover, social assistance spending will be increased by 36 percent in 2010 relative to 2009 to support vulnerable households."⁵¹ Moldova is also receiving significant funds from the World Bank, promising US\$20 million which will be used in support of job projects in rural areas.⁵² The US Millennium Challenge Corporation and the European Bank for Reconstruction and Development have also committed funds to Moldova in 2010.

The Albanian government has never officially recognized the crisis. With its most recent IMF agreement concluding in January 2009, the country has not sought further support as some of its neighbours have recently to combat the effects of the crisis. As noted earlier, Albania is one of the few Balkan countries to register positive growth in 2009 at the height of the downturn, thanks in part to its lessened ties to the Eurozone. However, the Economist Intelligence Unit estimates that the government may be seeking some form of external financing from international financial institutions in 2010.

Labour Market and Employment Measures

Public employment services have an important role to play assisting the increasing number of unemployed workers in their job search efforts. The Serbian government's outline of measures to mitigate the crisis put forth in December 2008 address this,

⁴⁹ Nenadovic, Aleksandra, "Serbia's Wage Increases Were in Breach of Agreement, IMF Says," Business Week, 5 February 2010

⁵⁰ BBC News, "Serbia 'cuts jobs for IMF loan'" 15 September 2009
<http://news.bbc.co.uk/2/hi/business/8254667.stm>

⁵¹ <http://www.imf.org/external/np/sec/pr/2010/pr1021.htm>

⁵² World Bank Press Release, "World Bank Approves US \$20 Million in Additional Financing for Moldova's Social Investment Fund II Project," 26 January 2010

highlighting the need for its employment bureau to commit greater focus on the areas of retraining and new job searches, as placed within goals for an overall expansion of PES capacities.⁵³ The Croatian PES is implementing a host of proposals, including working in tandem with private employment service providers in the country to offer extended services to jobseekers. The Croatian employment service is enacting the use of mobile teams, in order to more rapidly respond to the needs of job-seekers across the country. These teams will take on a variety of services, including providing mediation for employees facing dismissal, psychological support, and offering advice on skills training and entrepreneurship.

With youth workers being among the most vulnerable during times of labour market crisis, programs targeting this segment of the working population are vital. The Serbian government, with the technical support of the ILO, as well as some financial support from the government of Italy, has recognized this by initiating in September 2009 a Youth Employment Action Plan for 2009-2011. At roughly €27.8 million, this program includes amongst its five strategic objectives the stated aims towards “strengthening the youth labour market governance system; improving the employability of young people; fostering youth employment through private sector development; improving decent work prospects for youth; (and) promoting labour market inclusion through targeted measures.”⁵⁴ The program will benefit approximately 18 per cent of the Serbian youth population. The Serbian public employment services will also target its capacities towards youth who may be considered potential emigrants.⁵⁵

Montenegro’s PES has also committed to targeting vulnerable groups in response to the crisis there. In addition to young jobseekers, in Montenegro services will be intensified in the direction of older workers, the long-term unemployed, seasonal workers, laid-off workers, and workers with disabilities.⁵⁶ Croatia’s National Employment Promotion Plan for 2009-2010 also incorporates measures to raise labour market participation rates among lower-skilled middle-aged women, the elderly, and youth.

Employment Retention

Employment retention measures are crucial to avoid the pains associated with mass layoffs, yet also assure that employers are ready once economic activity picks up to meet increased demand by having a competent workforce on hand. In Croatia, the Act on Aid for Maintaining Employment was passed in August 2009, remaining in force until the end of 2010, with the aim of providing support to employers who reduce working time as a measure of preserving jobs. This act is also noteworthy for its tripartite framework, having stemmed from the initiative of Croatian employers and trade unions. Beneficiaries may only receive state aid through this program for up to six months, however the

⁵³ Serbian Government Crisis Report Document, December 2008

⁵⁴ Belgrade, 30th October 2009 (ILO News): “18 Percent of the Serbian youth population will benefit from the Youth Employment Policy and Action Plan of Serbia, 2009-2011” Republic of Serbia, Ministry of Economy and Development; International Labour Office, Press release,

⁵⁵ “Public Employment Services Responses to the Global Economic Crisis,” ILO Employment Skills Sector, November 2009

⁵⁶Ibid

government estimates that up to 250,000 jobs will be saved through this program. Provisions for hiring incentives and subsidies are also included among Serbian anti-crisis support towards businesses, as conditions for receiving eased access to credit. Within the government of Macedonia's measures providing credit to small and medium enterprises are requirements for businesses taking advantage of this support to retain their levels of staffing.

Infrastructure

Infrastructure projects are often among the favoured policies enacted as a method by which to provide employment as well as to support vulnerable sectors during crisis, such as construction, and to lay the groundwork towards improved tools for long-term growth. Macedonia intends to commit over USD10.3 billion to infrastructure projects over the next eight years to a variety of sectors, including road and transport infrastructure, renewable energy, as well as in education.⁵⁷ Serbia has signalled intentions to include public works programs among its policies to address unemployment, with the aim for these efforts to produce 10,000 jobs.⁵⁸ The Social Investment Fund Project II initiated by the World Bank in Moldova also stresses that the project "will be directed towards scaling-up the community development component, and most importantly, it will increase the labor-intensiveness of works, and deliver as much employment as possible in 2010 and 2011, when economic conditions are likely to be weak."⁵⁹

Enterprise Support

Businesses have faced considerable challenges operating in the current crisis. One area in which this has been most manifest is in the availability of credit. Several countries in the region have taken measures to help small and medium enterprises in this regard. As part of its anti-crisis actions, Macedonia is offering Euro 100 million to small and medium enterprises. Croatian measures to provide credit to struggling businesses have been announced in early 2010, though the details have not been fully elaborated upon.

Entrepreneurship incentives are being promoted in Montenegro, where public employment service is assisting in the granting of credit for individuals partaking in self-employment initiatives. Croatia, through the cooperation of its public employment service and other departments within the government, is also offering support to those seeking to start a business. Similar plans have been included in the list of active labour market policies for 2009 from Macedonia's Ministry of Labour and Social Policy. The Self Employment Program is targeted in particular towards youth, women, and the long-

⁵⁷ Trend News, "Macedonia announces 8 billion Euros investment program," 01 March 2009
<http://en.trend.az/news/world/wnews/1432954.html>

⁵⁸B92 from Večernje novosti, "Government to launce a public works program," 15 May 2009
http://www.b92.net/eng/news/business-article.php?yyyy=2009&mm=05&dd=15&nav_id=59178

⁵⁹ World Bank Press Release, "World Bank Approves US \$20 Million in Additional Financing for Moldova's Social Investment Fund II Project" January 26, 2010

term unemployed (more than one year), and contingent upon registration with the country's Employment Services Agency.⁶⁰

Income Support measures

Unemployment benefits have been one of the traditional methods of income support measures put forth by governments. Moldova has declared intentions in January 2010 to increase allocations in the budget for unemployment benefits by 40 per cent, year on year.

Training and skills

Training to decrease the skills imbalance that often persists between labour market requirements and labour market entrants is a priority of the Croatian National Employment Promotion Plan 2009-2010. Macedonia's ALMP measures also include training for registered unemployment to enhance skills in areas such as foreign languages and computer training. Other skills as designated to be lacking, from the results of a survey implemented in 2008, will also feature as part of the training programs. Montenegro also proposed in 2009 to spend part of €18 million for training employment programmes, with the rest allotted for entrepreneurship and self-employment promotion.

⁶⁰ Macedonia Ministry of Labour and Social Policy Operational Plan for the 2009 Active Employment Programs and Measures

ANNEX

GDP growth rates

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Albania	7.3	7.0	4.2	5.8	5.7	5.8	5.5	6.3	6.8	0.7
Bosnia and Herzegovina	5.2	3.6	5.0	3.5	6.3	3.9	6.9	6.8	5.5	-3.0
Croatia	3.0	3.8	5.4	5.0	4.3	4.2	4.7	5.5	2.4	-5.2
Macedonia, Former Yugoslav Republic of	4.5	-4.5	0.9	2.8	4.1	4.1	4.0	5.9	4.9	-2.5
Moldova	2.1	6.1	7.8	6.6	7.4	7.5	4.8	3.0	7.2	-9.0
Montenegro	n/a	1.1	1.9	2.5	4.4	4.2	8.6	10.7	7.5	-4.0
Serbia	5.3	5.6	3.9	2.4	8.3	5.6	5.2	6.9	5.4	-4.0

Source: IMF World Economic Outlook Database, October 2009

Inflation Rates, Annual Percentage Change

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Albania	0.0	3.1	5.2	2.3	2.9	2.4	2.4	2.9	3.4	1.7
Bosnia and Herzegovina	5.0	4.5	0.3	0.5	0.3	3.6	6.1	1.5	7.4	0.9
Croatia	4.6	3.8	1.7	1.8	2.0	3.3	3.2	2.9	6.1	2.8
Macedonia, Former Yugoslav Republic of	6.4	5.5	2.2	1.2	-0.4	0.5	3.2	2.3	8.3	-0.5
Moldova	31.3	9.8	5.3	11.7	12.5	11.9	12.7	12.4	12.7	1.4
Montenegro	n/a	23.7	19.7	7.5	3.1	3.4	2.1	3.5	9.0	3.4
Serbia	70.0	91.8	19.5	11.7	10.1	17.3	12.7	6.5	11.7	9.9

Source: IMF World Economic Outlook Database, October 2009

FDI Inflows (USD Millions)

Country	2001	2002	2003	2004	2005	2006	2007
Albania	207	135	178	324	258	315	647
Bosnia and Herzegovina	119	266	382	708	608	718	2,088
Croatia	1,398	552	1,927	732	1,551	3,194	4,736
Macedonia, Former Yugoslav Republic of	441	105	117	322	94	424	700
Moldova	102	132	71	146	199	223	481
Montenegro	10	84	44	63	482	585	717
Serbia	165	475	1,365	966	1,550	4,264	2,523

Source: European Bank for Reconstruction and Development

GDP Value Added by Sector of Economic Activity

	2000	2001	2002	2003	2004	2005	2006	2007
Albania								
Agriculture	25.5	23.6	23.4	23.5	22.3	20.6	19.4	18.9
Industry	7.8	7.3	6.9	8.7	10	10.6	11.1	9.3
Construction	8.3	10.4	12	13.7	13.9	13.8	14.3	14.6
Trade, hospitality, transport and communication	37.4	36.8	34.4	30.7	30.7	30.9	30.3	30.9
Finance and business services	12.2	12.2	13.2	13.1	12.3	12.7	13.6	14.3
Other services	8.9	9.7	10	10.2	10.9	11.4	11.2	11.9
Bosnia and Herzegovina								
Agriculture	11.6	11.4	10.9	1.5	10.5	10.3	10.2	9.7
Industry	19.2	19	17.9	19.2	19.3	19.3	19.2	20.4
Construction	6.9	6.2	5.6	5.2	4.9	5.1	5.1	5.9
Trade, hospitality, transport and communication	22.5	24.2	25.5	27	27.5	27.5	28.3	26.1
Finance and business services	16.2	15.6	15.6	15.7	15.1	15.9	14.9	15.3
Other services	23.7	23.6	24.4	23.2	22.6	22	22.4	22.6
Croatia								
Agriculture	8.4	8.4	8.2	6.8	7.2	6.5	6.3	6.1
Industry	23.4	22.8	21.9	21.4	21.8	20.9	20.6	20.4
Construction	4.9	5.4	5.5	6.6	7.1	7.4	7.7	7.7
Trade, hospitality, transport and communication	23.7	25.4	26.2	27.2	26.2	26.3	26.1	26.1
Finance and business services	18.3	18.7	19.3	20.2	20.2	21.5	22.3	22.9
Other services	21.2	19.3	18.9	17.9	17.4	17.4	17	16.8
Macedonia, Former Yugoslav Republic of								
Agriculture	11.7	11.5	12.1	13.1	12.9	12.5	12.2	10.6
Industry	26.3	25.5	23.7	24	22.2	22.5	22.8	24.9
Construction	6.6	5.9	5.9	6.2	6.3	6.4	6.5	6.8
Trade, hospitality, transport and communication	24.8	25.6	25.7	24.7	26.1	26.9	27.3	26.6
Finance and business services	12.5	13.2	13	12.9	13.8	12.8	13	13.8
Other services	18.2	18.4	19.6	19.1	18.6	18.8	18.1	17.3
Moldova, Republic of								
Agriculture	28.3	24.8	23.5	20.9	19.9	19.1	16.9	11.7
Industry	18.2	20.7	19.4	20.1	19.4	18.3	17.1	16.7
Construction	3	3.4	3.3	3.4	3.9	3.9	4.6	5.7
Trade, hospitality, transport and communication	25.3	25.7	24.5	25.7	26.5	27.6	28.4	30.5
Finance and business services	11.1	10.6	10.7	11.1	12.4	12.8	13.6	15.2
Other services	14.2	14.8	18.6	18.8	17.9	18.3	19.4	20.3
Montenegro								
Agriculture	12.4	11.9	12.2	11.6	10.9	10.4	10.1	8.5
Industry	19.1	20.7	20	19.2	18.8	17.1	16	13.6
Construction	4.3	3.9	4	3.4	3.5	3.6	4.3	4.2
Trade, hospitality, transport and communication	27.2	28.3	27.6	26.9	26.9	27.3	29	31.3
Finance and business services	16.3	15.6	16	16.9	17.3	16.7	17.7	20.5
Other services	20.7	19.6	20.1	22.1	22.6	24.8	22.8	21.8
Serbia								
Agriculture	20.2	20.1	15.3	13.5	14	12.2	11.3	10.2
Industry	26.4	24.7	24.3	23	24	23.6	24.4	23.7
Construction	3.6	3.2	3.5	4.3	4.8	4.6	4.8	5.1
Trade, hospitality, transport and communication	15.9	15.9	17.6	18.4	19	22.4	22.4	23
Finance and business services	18.6	19.3	19.9	19.6	18.9	18.9	19.4	19.2
Other services	15.3	16.9	19.4	21.3	19.2	18.3	17.7	18.8

Source: UNECE Statistical Database, compiled from national and international official sources

Labour Force Participation Rates

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Albania	61.3	61.1	60.9	60.6	60.4	60.2	59.9	59.7	59.4
Bosnia-Herzegovina	62.4	62.2	61.9	61.7	61.5	61.4	61.3	61.2	61.1
Croatia	53.6	53.0	52.3	52.5	53.7	53.5	52.9	53.2	53.1
Macedonia	53.0	53.7	53.3	53.6	51.5	52.9	54.0	54.5	54.3
Moldova	59.4	58.2	57.0	54.2	51.5	48.9	48.9	49.0	49.1
Serbia and Montenegro	50.5	50.3	49.8	49.1	47.2	45.9	45.8	47.5	47.4

ILO KILM Estimates

Employment Rates

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Albania	47.2	46.7	46.4	46.2	45.9	45.8	45.8	46.3	46.2
Bosnia-Herzegovina	41.3	41.0	41.0	40.7	40.6	40.5	40.2	41.5	41.5
Croatia	44.0	43.5	43.9	44.3	44.5	44.7	45.1	45.5	45.9
Macedonia	35.4	36.8	35.7	33.4	31.8	32.6	33.9	34.2	34.8
Moldova	51.0	50.2	49.0	46.8	45.0	45.4	45.5	44.6	44.7
Serbia and Montenegro	50.5	50.3	49.8	49.1	47.2	45.9	45.8	47.5	47.4

ILO KILM Estimates

Employment Annual Percentage Growth Rate

	2001	2002	2003	2004	2005	2006	2007
Albania	-13.9	0	0.7	0.6	0.1	0.3	0
Bosnia and Herzegovina	-0.9	-3.2	-1.7	0.2	0	0.3	6.2
Croatia	-5.4	4.2	0.6	1.7	0.8	-0.6	3.5
Macedonia, FYR	9	-6.3	-2.9	-4.1	4.3	4.6	3.5
Moldova	-1	0.4	-9.9	-3	0.2	-4.7	-0.8
Montenegro	0.2	-0.7	1.9	0.6	-0.1	5.2	3.7
Serbia	..	-3.5	-2.7	0.4	-6.7	-3.8	1.0

Source: UNECE Statistical Database

Unemployment Rate

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Albania	16.8	16.4	15.8	15	14.4	14.1	13.8	13.5	13
Bosnia and Herzegovina	39.7	40.3	40.9	42	43.1	44.7	31.1	29	23.4
Croatia	16.1	15.8	14.8	14.2	13.7	12.7	11.2	9.6	8.4
Macedonia, former Yugoslav Republic of	32.2	30.5	31.9	36.7	37.2	37.3	36	34.9	33.8
Moldova, Republic of	8.5	7.3	6.8	7.9	8.1	7.3	7.4	5.1	4
Montenegro	..	..	..	..	27.7	30.3	29.6	19.4	16.8
Serbia	12.1	12.2	13.3	14.6	18.5	20.8	20.9	18.1	13.6

Source: UNECE, LFS Data. Albania registered data, BiH registration data from 2000-2005

Youth Unemployment Rate

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Albania	..	..	26.8	..	..	..	..	20.13	..
Bosnia and Herzegovina	..	..	..	..	..	..	62.3	58.4	47.5
Croatia	43.1	41.7	34.4	35.8	33.8	32	28.8	24	21.90
Macedonia, FYR	59.9	56.1	58.4	65.7	64.8	62.6	59.8	57.7	56.4
Moldova	8.5	7.3	6.8	7.9	8.1	7.3	7.4	5	4.0
Montenegro	..	..	..	..	..	..	..	..	..
Serbia	50.2	46.4	45.3	44.8	48.1	47.7	47.8	43.7	35.2

Source: Eurostat, Moldovan Statistical Office