



International
Labour
Organization

GLOBAL
JOBS
PACT

Supporting Strategies to Recover from the Crisis in South Eastern Europe

COUNTRY ASSESSMENT REPORT

The Former Yugoslav Republic of MACEDONIA

Nikica MOJSOSKA-BLAZEVSKI



Supporting Strategies to Recover from the Crisis in South Eastern Europe

Country Assessment Report: The former Yugoslav Republic of Macedonia

Nikica Mojsoska-Blazevski

**Decent Work Technical Support Team and
Country Office for Central and Eastern Europe**

Copyright © International Labour Organization 2011

First published (2011)

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to the ILO Publications (Rights and Permissions), International Labour Office, CH-1211 Geneva 22, Switzerland, or by email: pubdroit@ilo.org. The International Labour Office welcomes such applications.

Libraries, institutions and other users registered in the United Kingdom with the Copyright Licensing Agency, 90 Tottenham Court Road, London W1T 4LP [Fax: (+44) (0)20 7631 5500; email: cla@cla.co.uk], in the United States with the Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923 [Fax: (+1) (978) 750 4470; email: info@copyright.com] or in other countries with associated Reproduction Rights Organizations, may make photocopies in accordance with the licences issued to them for this purpose.

Mojsoska-Blazevski, Nikica

Supporting strategies to recover from the crisis in South Eastern Europe : country assessment: the former Yugoslav Republic of Macedonia / Nikica Mojsoska-Blazevski ; International Labour Organization, Decent Work Technical Support Team and Country Office for Central and Eastern Europe. – Budapest: ILO, 2011

1 v.

ISBN: 9789221253860; 9789221253877 (web pdf)

International Labour Organization; ILO DWT and Country Office for Central and Eastern Europe

employment policy / social dialogue / unemployment benefit / wage policy / labour policy / economic recession / economic recovery / Macedonia, former Yugoslav Republic

13.01.3

Also available in Macedonian: Стратегии за поддршка на заздравувањето од кризата во Југоисточна Европа : Процена на земјата : поранешна Југословенска Република Македонија, ISBN: 9789228253863; 9789228253870 (web pdf), Budapest: ILO, 2011

ILO Cataloguing in Publication Data

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers. The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them. Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. Catalogues or lists of new publications are available free of charge from the above address, or by email: pubvente@ilo.org

Visit our website: www.ilo.org/publns

Table of Contents

List of Boxes, Figures and Tables	5
Acronyms	7
Foreword.....	9
Introduction.....	11
1. Macroeconomic Developments	13
1.1 Developments During the Transition Period.....	13
1.2 Pre-crisis Macroeconomic Developments.....	15
1.3 Developments in the Monetary System and Aggregates.....	20
1.4 Fiscal Policy During the Crisis	21
2. Employment Policies and the Labour Market	25
2.1 Labour Force Participation Rate	25
2.2 Trends in Employment	27
2.3 Trends in Unemployment.....	32
2.4 Wage Developments	35
2.5 Quality and Productivity of Work	37
2.6 Human Capital Formation.....	38
3. Policy Responses to Counteract the Impact of the Economic Crisis	41
3.1 General Stimulus Measures Introduced in Response to the Crisis	41
3.2 Social Dialogue and Wage Policies	43
3.3 Active Labour Market Policies (ALMPs).....	46
3.4 Social Policy Response: Income Support to the Unemployed.....	47
3.5 Unemployment Benefits.....	49
4. Roadmap: Policy Priorities for Job Recovery	51
References	55
Annexes	57
Annex 1 Views of Social Partners	57
Annex 2 Active Labour Market Programmes Planned for 2011	59

List of Boxes, Figures and Tables

Box 1	Revision of GDP data (2003–2007)	16
Box 2	Policy options and global responses to the recession.....	41
Box 3	The four anti-crises packages of the former Yugoslav Republic of Macedonia	42
Figure 1	GDP, Industrial and agriculture real growth rates (the former Yugoslav Republic of Macedonia, 1989–2004)	14
Figure 2	Quarterly real GDP growth rate, the former Yugoslav Republic of Macedonia (2006–2010)	15
Figure 3	Annual real growth rates of value added, total and by sector, the former Yugoslav Republic of Macedonia (2005–2010).....	17
Figure 4	Real GDP growth rates in SEE countries, (2008–2010)	18
Figure 5	Current account deficits in SEE countries (in % of GDP), 2008–2010	19
Figure 6	Trends in FDI and remittances, the former Yugoslav Republic of Macedonia (2005–2010)	20
Figure 7	Fiscal balance and government debt, the former Yugoslav Republic of Macedonia (2005–2010)	22
Figure 8	Quarterly labour force participation rates, by sex (2006Q1–2010Q4).....	26
Figure 9	Labour force participation rates by education level (age 15–74).....	27
Figure 10	Employment trends, by sex and age-group, (2006Q1–2010Q4).....	28
Figure 11	Informal employment by sex, the former Yugoslav Republic of Macedonia (2007–2009)	32
Figure 12	Registered unemployment and new employment contracts, the former Yugoslav Republic of Macedonia (2005–2010).....	34
Figure 13	Inflows and outflows into/from unemployment (I.2006–XII.2010)	34
Figure 14	Real gross and net wage growth, the former Yugoslav Republic of Macedonia (2005–2010)	35
Figure 15	Growth rates of GDP, employment and productivity (2005–2010)	37
Figure 16	Early school leavers, the former Yugoslav Republic of Macedonia (2006–2009).....	39
Figure 17	Expenditures on social assistance in the former Yugoslav Republic of Macedonia (2006–2010)	48

Table 1	Average annual rates of growth GDP and industry, the former Yugoslav Republic of Macedonia and neighbouring countries(1989–2004).....	14
Table 2	Sources of GDP growth, the former Yugoslav Republic of Macedonia (2001–2007)	15
Table 3	Structure of employment, the former Yugoslav Republic of Macedonia (15–74)	30
Table 4	Key unemployment indicators, the former Yugoslav Republic of Macedonia (2005–2010)	33
Table 5	Nominal net wage, selected economic sectors, (% average net wage)	36
Table 6	Progression between different levels of education, by sex (2006–2009).....	39
Table 7	Percentage of individuals 30–34 years old with tertiary education (2006–2009)	40
Table 8	ALMPs, funds and beneficiaries, the former Yugoslav Republic of Macedonia (2008–2011)	46

Acronyms

ALMP(s)	Active labour market policies
ESC	Economic and Social Council
FDI	Foreign direct investments
FX	Foreign exchange
LTU	Long-term unemployed
MKD	Macedonian denar
NBRM	National Bank of the Republic of Macedonia
OP	Operational Plan
PCL	Precautionary Credit Line
PISA	Programme for International Student Assessment
SDR	Special Drawing Rights
SEE	South Eastern European countries
SLI	State Labour Inspectorate

Foreword

The slowdown of world output triggered by the financial crisis of 2008, spilled over to the economies of South Eastern Europe through a number of transmission channels. Export growth decelerated sharply as a result of the recession in Western Europe and a decrease in domestic aggregate demand. Lending flows and foreign direct investment weakened and detrimentally affected those countries with large external deficits. A fall in remittances affected Gross Domestic Product (GDP) growth in countries where these played an important role in household consumption patterns. Many countries experienced rapid output declines, job losses, worsening conditions of work and mounting poverty rates. In some instances, pre-existing economic and fiscal vulnerabilities limited the policy space for large-scale anti-crisis packages. In short, the economic crisis threatened to endanger the gains in human development, stability and economic progress recorded by countries in the region over the last ten years.

At the International Labour Conference of June 2009, representatives of governments and employers' and workers' organizations adopted the *Global Jobs Pact* as a global policy instrument which places employment and social protection at the centre of crisis response. It is based on the ILO's Decent Work Agenda and the commitments made by the ILO constituents in the 2008 *Declaration on Social Justice for Fair Globalization*. The *Global Jobs Pact* addresses the social and economic impacts of the international economic crisis and proposes a portfolio of policies aimed at stimulating job creation, extending social protection, respecting international labour standards and promoting social dialogue for countries to adapt according to their national circumstances.

Against this backdrop, the Decent Work Technical Support Team and Country Office for Central and Eastern Europe (DWT-CO) of the ILO researched the impact of the crisis and the policy responses introduced by three countries in South Eastern Europe, namely Croatia, the Former Yugoslav Republic (FYR) of Macedonia and Serbia. It is anticipated that the resulting reports will serve as an input for constituents to understand better the country-specific challenges brought about by the crisis, assist in the development of strategies to stimulate labour demand, expand social protection, and strengthen social dialogue and rights at work.

The country scan of the former Yugoslav Republic of Macedonia was prepared by Ms Nikica Mojsoska-Blazevski, Associate Professor, School of Business Administration at the University American College of Skopje. This work was undertaken as part of the DWT-CO technical assistance package *Supporting strategies to recover from the crisis in South Eastern Europe* coordinated by Ms Natalia Popova,

Employment Specialist of the DWT-CO. It examines the country situation and policy responses using the Global Jobs Pact as an integrated framework for analysis.

The paper was presented during a cross country peer review workshop held in Zagreb on 21 April 2011. The meeting offered a platform for the ILO constituents of Croatia, the former Yugoslav Republic of Macedonia and Serbia to share knowledge on emerging challenges and policy responses with representatives of the government, and employers' and workers' organizations of the Republic of Slovenia. We trust that this document will be a useful contribution to policy dialogue in the countries of South Eastern Europe.

Mark Levin

Director

*Decent Work Technical Support Team and
Country Office for Central and Eastern Europe*

Introduction

The global economic crisis of 2008-09 caused sharp declines in incomes and employment, soaring deficits, mounting public debt and widespread uncertainty around the world. Governments, depending on their degree of fiscal flexibility, reacted to the deep fall in aggregate demand with expansionary fiscal policies – increased spending and/or reduced taxation to counter the cycle. After some eighty years, fiscal multipliers were “re-invented”. Many countries also undertook specific measures in the areas of employment policy, wages and income support to minimize the effect of falling demand on living standards and poverty. In some countries, however, lax management of public finances during periods of expansion and unsustainable growth models based on large capital inflows, put a major constraint on policy flexibility.

As a small and open economy, the former Yugoslav Republic of Macedonia was affected by the global economic crisis mainly through the decline of exports and Foreign Direct Investments (FDI) inflows. However, an expected fall in remittances did not materialize. Compared to other countries of Central and South Eastern Europe (SEE) the negative impact of the crisis on national output was limited. The slide in Gross Domestic Product (GDP) was most notable in 2009 with a year-on negative growth of 0.9 per cent. To date, the labour market appears largely unaffected by the slowdown. The country’s relatively good performance can be attributed to structural reforms implemented during the pre-crisis period. These achieved low levels of fiscal deficit and debt.

The government responded to the crisis with an expansionary fiscal strategy and a tight monetary policy to protect the nominal exchange rate. No specific labour market intervention was undertaken. Enterprises benefited from the labour tax reform that was planned prior to the crisis, and which limited employment losses during the fall of output. The government managed to extend spending on social assistance, but this failed to prevent a rise in poverty. The role of automatic stabilizers in the economy remains quite modest. Reform of social assistance and the introduction of a minimum subsistence level of income may correct this shortcoming. Social dialogue as a crisis response mechanism was unfortunately undermined by disputes as to the representativeness of the social partners.

The main risks faced by the country in the short to medium term is uncertainty surrounding the recovery prospects of its main trading partners, especially Greece, as well as instability in international financial markets. In addition, there is still a risk of labour market deterioration, given the time lag response of employment to output contraction. A deterioration of the already unfavourable labour market situation would undermine the fiscal position of the country and endanger the progress made in the period leading up to the crisis.

1. Macroeconomic Developments

1.1 Developments During the Transition Period

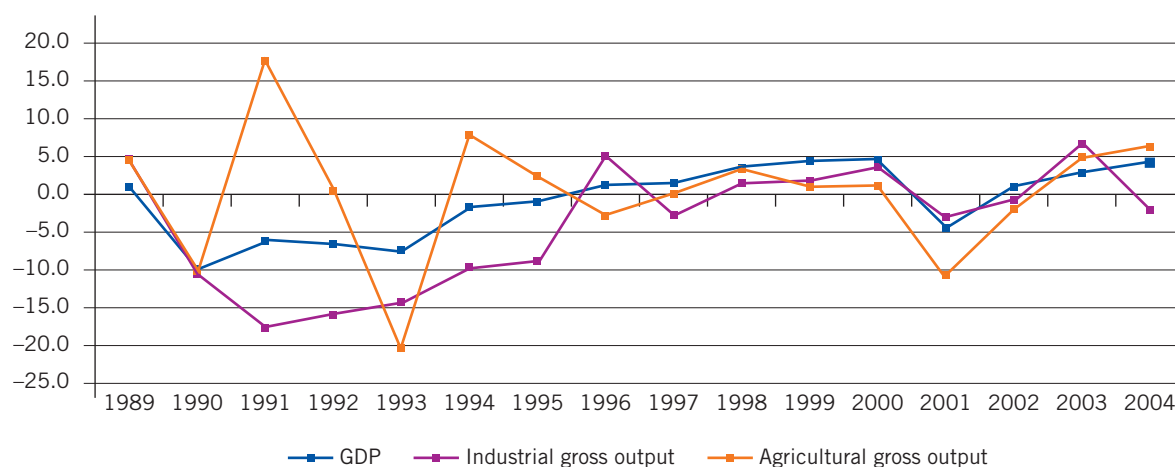
The former Yugoslav Republic of Macedonia started restructuring both the economic and political systems in the early 1990s. Several external and internal shocks hampered those complex processes – the trade embargo imposed by Greece in 1993, the sanctions imposed by the United Nations against Serbia in 1995 (the main trading partner at the time), the internal conflict of 2001, as well as domestic economic shocks, including the privatization process.

At the onset of the transition to a market economy, the country was the least developed republic within the ex-Yugoslavia, with the highest unemployment rate amongst all socialist countries (about 20 per cent in 1990). In particular, the worker self-management system practised in ex-Yugoslavia allowed for open unemployment, which was not the case in other socialist countries that had large levels of underemployment.¹

The initial transition years were characterized by declining production and employment. Initially, the lowering of Gross Domestic Product (GDP) was mainly driven by a large decline in industrial output. This decline was however arrested later on (Figure 1). Conversely, agricultural output fluctuated more widely. The country was able to reach the pre-transition level of GDP only in 2006.

1 The ex-Yugoslavia had a less centralized system of worker self-management where enterprises were socially-owned and managed by workers' councils. In other countries of Central and Eastern Europe the unemployment rate in 1990 was very low. For example in Bulgaria, Hungary, Czech Republic and Estonia it was about 1 per cent. European Bank for Reconstruction and Development, *Economic research and data*, Paris, 2011, available at <http://www.ebrd.com/pages/research.shtml>.

Figure 1
GDP, Industrial and agriculture real growth rates
(the former Yugoslav Republic of Macedonia, 1989–2004)



Source: European Bank for Reconstruction and Development (EBRD), *Economic research and data*, Paris, 2011, available at <http://www.ebrd.com/pages/research.shtml>

Compared to other countries in transition, the former Yugoslav Republic of Macedonia experienced a relatively low average annual decline of GDP (0.9 per cent in the period 1989–2004), but a large decline in industrial production (4 per cent annually). However, fluctuations in both GDP and industrial production were modest overall (lower standard deviations).

Table 1
Average annual rates of growth GDP and industry, the former Yugoslav Republic of Macedonia and neighbouring countries (1989–2004)

Output	Serbia and Montenegro	FYR Macedonia	Bulgaria	Croatia	Czech Republic	Estonia	Albania
GDP	-2.6	-0.9	-3.0	-2.1	1.0	1.9	2.9
<i>Standard deviation</i>	<i>12.8</i>	<i>4.7</i>	<i>6.7</i>	<i>8.0</i>	<i>4.0</i>	<i>8.4</i>	<i>11.2</i>
Industry output	-4.9	-4.0	-3.2	-1.9	0.3	9.9	-1.5
<i>Standard deviation</i>	<i>15.2</i>	<i>7.9</i>	<i>10.2</i>	<i>9.3</i>	<i>7.6</i>	<i>7.0</i>	<i>23.0</i>

Source: Author's calculations on data of the European Bank for Reconstruction and Development (EBRD), *Economic research and data*, op.cit

1.2 Pre-crisis Macroeconomic Developments

In the period 2003–2007, economic growth in the former Yugoslav Republic of Macedonia was mainly driven by private consumption and exports (Table 2).² Investment growth also contributed significantly, increasing at an average of 21 per cent of GDP per year.³

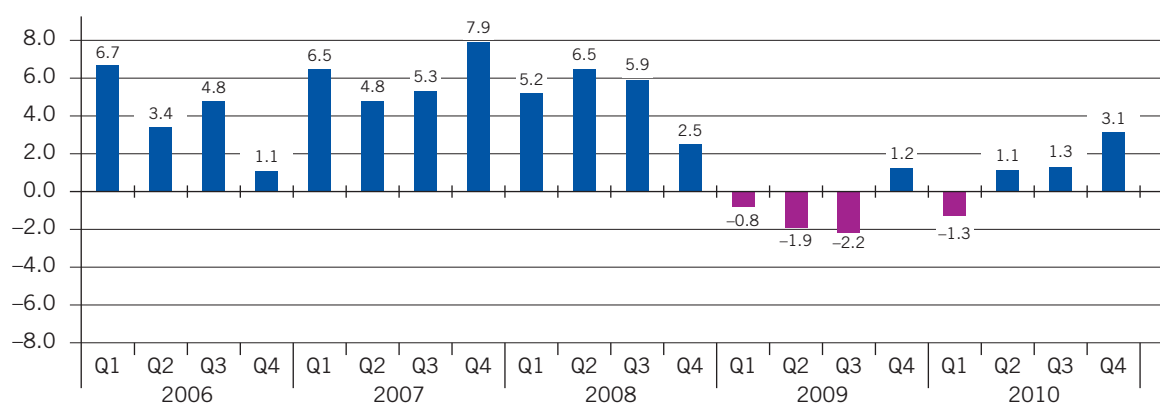
Table 2
Sources of GDP growth (2003–2007)

	2003	2004	2005	2006	2007
Private consumption (% GDP)*	73.7	76.4	77.6	79.1	82.0
Gross fixed capital formation (% GDP)*	20.0	21.9	20.8	21.9	24.2
Exports (% GDP)	37.9	41.1	45.5	48.1	53.4
Imports (% GDP)	54.8	61.9	62.8	66.8	72.3

Source: Data for private consumption and capital formation are from EU Directorate of Economic and Financial Affairs, *EU candidate and pre-accession countries. Economic Quarterly*, various years. Import and export data are from the World Bank, *Economic indicators*, (<http://data.worldbank.org/indicator>).

Figure 2 shows quarterly GDP growth rates in the period 2006–2010. The country had its highest annual growth rates in 2007 and 2008 (6.1 and 5 per cent, respectively). This positive trend was interrupted in the fourth quarter of 2008 when growth slowed, and then turned negative for the following three consecutive quarters. The cumulative GDP drop was 6.2 per cent.

Figure 2
Quarterly real GDP growth rate, the former Yugoslav Republic of Macedonia (2006–2010)



Source: Author's calculations on the data of the State Statistical Office.

2 European Commission, Directorate-General for Economic and Financial Affairs, *The pre-accession economies in the global crisis: from exogenous to endogenous growth?*, Occasional Paper No 62, Brussels, 2010.

3 European Union, Directorate of Economic and Financial Affairs, *EU candidate and pre-accession countries. Economic Quarterly*, various years, (http://ec.europa.eu/economy_finance/db_indicators/cpaceq/index_en.htm).

Output disaggregated by economic sectors, shows that industry (including construction) recorded the highest variation in the period 2005-2010. This is mainly attributable to the large fluctuations recorded in construction.

Box 1

Revision of GDP data (2003–2007)

The State Statistical Office made several revisions of GDP data for harmonization with international standards purposes. The latest revision, made in 2010 for the data of the period 2003-2007, reports the following figures⁴:

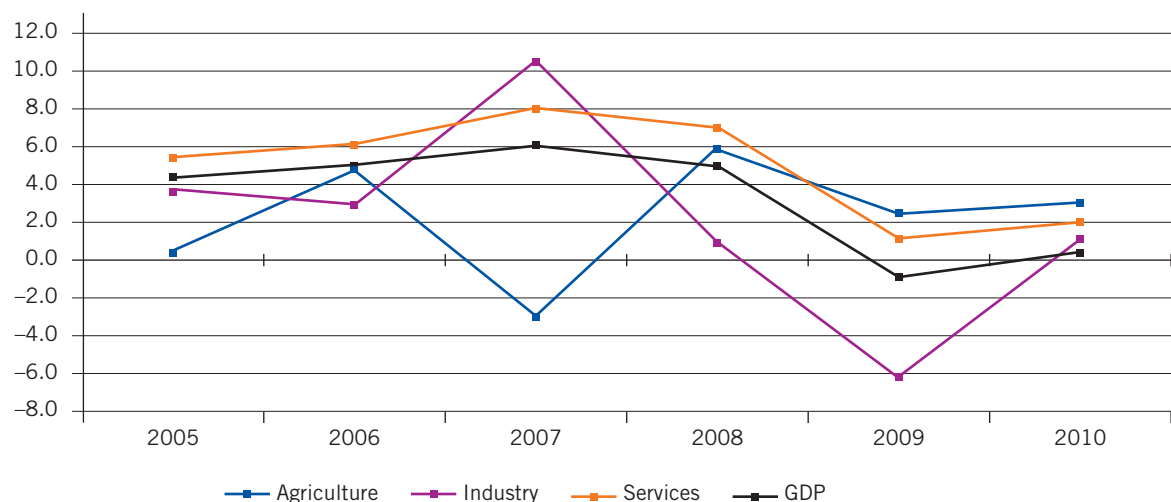
	2003	2004	2005	2006	2007
GDP in current prices (old)	251,486	265,257	286,619	310,915	354,322
GDP in current prices (revised)	258,369	272,462	295,052	320,059	364,989
Change, in %	2.7	2.7	2.9	2.9	3.0
Real growth rates (old)	—	4.1	4.1	4.0	5.9
Real growth rates (revised)	—	4.6	4.4	5.0	6.1

Source: State Statistical Office. Nominal figures are expressed in millions MKD.

The main feature of the transition period is the shift in value added from industry towards services, with resources increasingly allocated to non-tradable sectors at the expense of manufacturing. The value added of manufacturing, in percentage of GDP, decreased from 35.6 per cent in 1990 to 17.3 per cent in 2004, while services increased their share from 47 per cent to 57.6 per cent. In the same period, agriculture increased its percentage of value added from 8.5 per cent to 13.3 per cent. In the period 2005–2010, services grew at an average rate of 5 per cent per year, whereas agriculture and industry increased by just above 3 per cent. At the end of 2010, the service sector was about 30 per cent higher than in 2005, whereas the value added of agriculture and industry grew by 13 per cent.

4 Revised quarterly GDP data for 2005–2007 are not available and the old quarterly distribution of GDP is used for the purposes of this paper.

Figure 3
Annual real growth rates of value added, total and by sector, the former Yugoslav Republic of Macedonia (2005–2010)



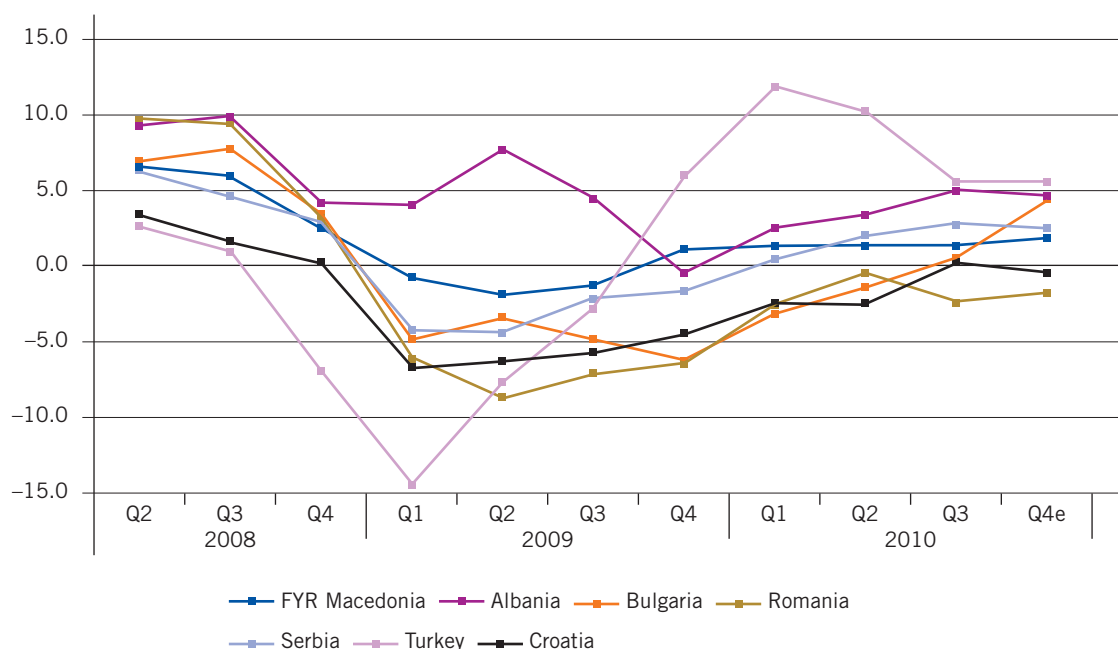
Source: Author's calculation based on the data of the State Statistical Office.

As in most South Eastern European (SEE) countries, domestic growth in the former Yugoslav Republic of Macedonia in the two years before the crisis was driven by increased exports (mainly due to favourable terms of trade) and improved domestic demand fuelled by foreign direct investments (FDI) inflows, remittances and credit expansion.⁵ This put considerable pressure on the current account deficit. However, the intensive path of structural reforms in the period 2006–08, featuring prudent monetary policy as well as the government's conservative fiscal position, helped the country weather the negative external developments with minimum impact on the domestic economy. As a positive trend in terms of long term growth, the share of gross investments in GDP increased from 20.8 per cent in 2005 to 26.8 per cent in 2008, with a slight decline in 2010 (24.8 per cent). This is the result of changes in the taxation system, increased inflow of FDIs and intensified credit activity.

Figure 4 below compares real GDP trends in the former Yugoslav Republic of Macedonia and SEE countries in the period between the second quarter of 2008 and the fourth quarter of 2010. Apparently, Albania is the country that suffered least from the global crisis, with a rather delayed effect (in the fourth quarter of 2009) and negative GDP growth rate in only one quarter. Moreover, both Albania and the former Yugoslav Republic of Macedonia are characterized by the lowest fluctuations of GDP during this period, with standard deviation of 3. Conversely, Turkey and Bulgaria experienced large variability (8.2 and 5 standard deviation, respectively).

5 The SEE group includes: Albania, Bulgaria, Bosnia and Herzegovina, Croatia, FYR of Macedonia, Kosovo (under UN Security Council Resolution No. 1244), Montenegro, Romania, Serbia and Turkey. For an analysis of macroeconomic trends in SEE, see Bartlett, W. and Monastiriotis, V. (eds) *South Eastern Europe after the Crises: a New dawn or back to business as usual?*, London, London School of Economics, Research on South Eastern Europe, 2010.

Figure 4
Real GDP growth rates in SEE countries, (2008–2010)



Source: European Bank for Reconstruction and Development (EBRD), *Economic research and data*, op.cit. The figures for the fourth quarter of 2010 are estimates.

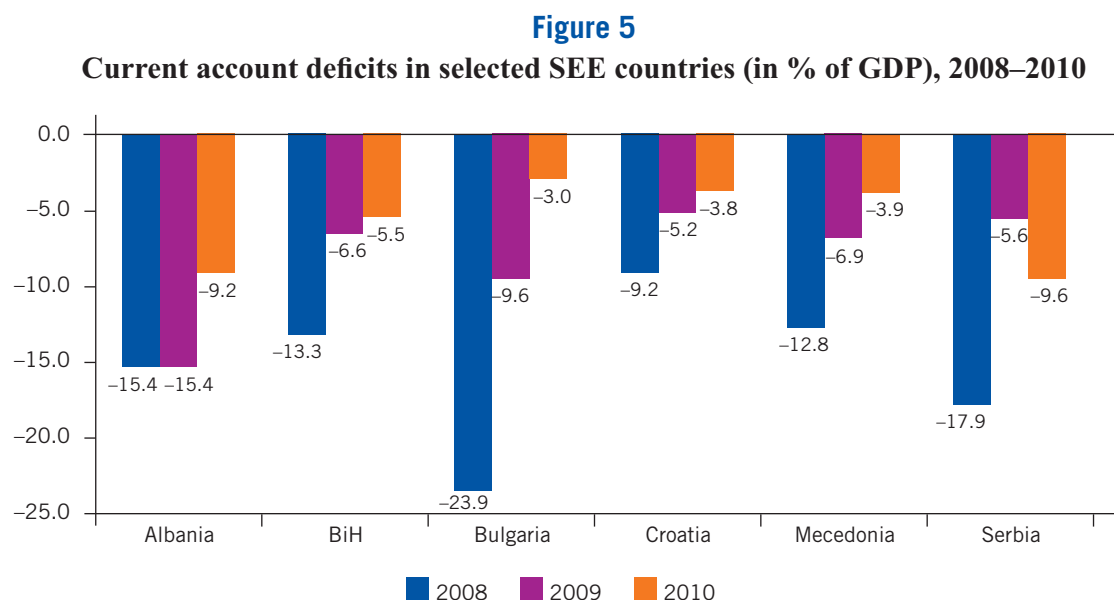
Although the economy was not affected by the financial crisis, due to its underdeveloped financial system, the impact of the world recession was transmitted to the country through a number of channels. First, lower global demand, falling world metal prices (since metal exports comprise 40 per cent of total exports of the country) and weakened private transfers (including remittances) worsened the current account deficit. Second, the financial crisis and tighter international credit markets negatively affected FDI inflows, which in 2007 and 2008 had increased considerably, and partly financed the current account deficit.⁶

As a small, open economy, the country is highly dependent on exports, one of the major sources of foreign currency inflow.⁷ This is important due to the *de facto* fixed exchange rate regime, with a nominal exchange rate pegged to the Euro and the accumulation of foreign currency reserves. The first spill-over effects of the crisis materialized through a sharp fall in export demand that started in the fourth quarter of 2008. In the first two quarters of 2009 exports declined by more than 30 per cent. Imports, since the economy is highly import-dependent, also started to dwindle from the fourth quarter of 2008, but proportionally less than exports. As a consequence, the trade deficit widened.

6 The attraction of FDIs through the improvement of the investment climate and an international marketing campaign was one of the main government priorities. European Bank for Reconstruction and Development (EBRD), *Transition Report: Recovery and reform*, European Bank for Reconstruction and Development, London UK, 2010.

7 Trade openness, measured by the ratio of exports plus imports f reached 110 per cent of GDP. See the data of National Bank of the Republic of Macedonia, *Annual Report 2008*, National Bank of the Republic of Macedonia, Skopje, 2008.

In 2008 the current account deficit increased to 12.8 per cent of GDP, still below the deficit recorded in some SEE countries (Figure 5). In 2010 the current account deficit amounted to 3.9 per cent of GDP.



Source: European Bank for Reconstruction and Development (EBRD), *Economic research and data*, op.cit.; State Statistical Office of the former Yugoslav Republic of Macedonia.

Inflow of FDIs increased in the period 2006–08 (Figure 6), with the highest peak recorded in 2007 (8.7 per cent of GDP). Still, the economy has a poor record of attracting FDIs compared to other countries in the region. For instance, while the pre-crisis FDI level in the former Yugoslav Republic of Macedonia was about US\$290 per capita, Bulgaria and Croatia attracted US\$1,210 and US\$1,050 per capita, respectively.⁸ Tight capital markets led to a reduction in FDI inflows (€172 million in 2010).

Remittances generally remained constant during the recession, with an increase in nominal terms in 2009 (Figure 6). In relative terms, however, remittances declined slightly (from 2.8 per cent of GDP in 2005 to 2.6 per cent in 2010).

⁸ European Bank for Reconstruction and Development (EBRD), *Economic research and data*, op.cit.

Figure 6**Trends in FDI and remittances, the former Yugoslav Republic of Macedonia (2005–2010)**

Source: National Bank of the Republic of Macedonia, available at <http://www.nbrm.mk/default-en.asp>

1.3 Developments in the Monetary System and Aggregates

The deposit base grew steadily in the period 2005–07 to reach 29 per cent in 2007. Such growth slowed considerably in 2008 – especially for deposits in national currency (MKD) – when firms and households started to convert their savings in foreign currency due to the uncertainty surrounding the stability of the nominal exchange rate. The share of foreign currency deposits in total deposits increased from 53 per cent in 2007 to 65 per cent in 2009.

Credit expanded rapidly in the period 2005–08. The annual rates of credit growth peaked in 2007 and 2008 at 42.2 per cent and 37.3 per cent, respectively. This coincided with a period of expansion of the deposit base of banks.⁹ In addition, the loans-to-GDP ratio, taken as an indicator of the level of financial intermediation in the economy, was also increasing steadily (from 25 per cent in 2005 to 42 per cent in 2008). Increased lending to households fuelled private consumption and this put pressure on inflation, which was already rising due to increasing energy and commodity prices. Consequently, in June 2008 the monetary policy authority imposed a compulsory deposit with the National Bank (NBRM) on banks with excessive credit growth.

9 Deposits in FYR Macedonia are the main source of funds for loans. This partly preserved the banking system from the global financial crises.

In 2009 annual credit growth fell to 3.5 per cent and intensified moderately to 7.1 per cent in 2010. One of the major reasons for this decline in outstanding loans was the reduction of banks' deposit base, diminished sources of external financing due to the recession in the euro-zone, and increased risk of borrower default.¹⁰ Regarding the latter, the quality of credit portfolio (measured by the share of non-performing loans to total loans) deteriorated to about 9 per cent in 2009 and 2010, from less than 7 per cent in 2008. Private entities also refrained from taking loans due to the deterioration of balance sheets, negative labour market developments and increased uncertainty.

The key policy rate, that is, the interest rate on Lombard loans, has generally followed a downward trend.¹¹ In the second half of 2008 and in April 2009, however, the key policy rate was increased due to mounting inflationary pressures. The rate thereafter reduced whenever the pressures in the foreign exchange market declined.

With increasing depreciation pressures on the nominal exchange rate, the National Bank intervened, selling foreign currency in the fourth quarter of 2008 and in first half of 2009 (€ 500 million). In the second half of 2009 and in 2010, the situation in the foreign exchange market started to improve due to a moderate recovery of exports and better net inflow of private transfers. Overall, the national bank intervened with sale of foreign currency amounting to 2.3 per cent of GDP in 2009 and 1.4 per cent of GDP in 2010. As a result, the stock of foreign exchange reserves declined from 5 month coverage of imports to 3.2 months. This created additional fears about a possible depreciation of the nominal exchange rate. Monetary easing started in the last quarter of 2009 with interest rates declining by 50 per cent.

1.4 Fiscal Policy During the Crisis

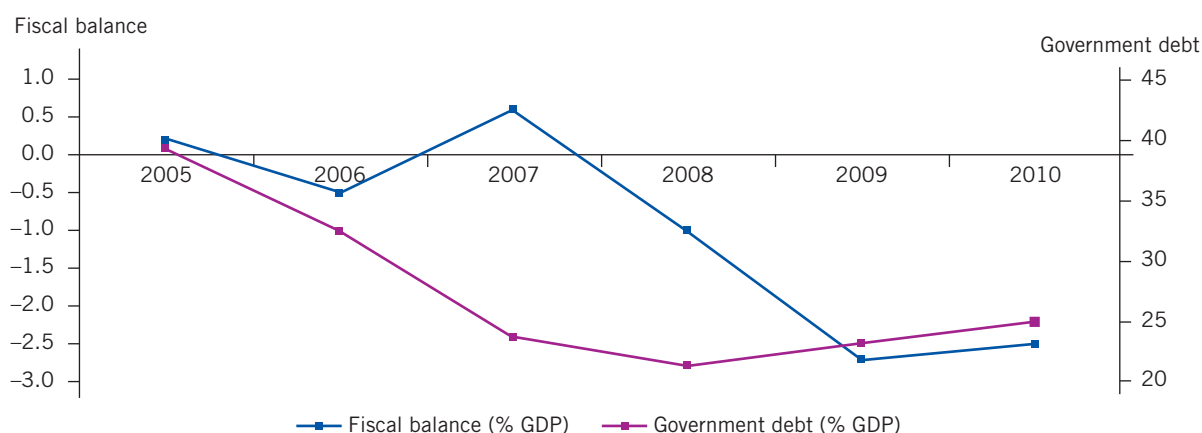
The former Yugoslav Republic of Macedonia maintained a prudent fiscal policy with small deficits (but also surpluses) in the period 2005–08. The rather conservative fiscal stance in the previous period allowed an expansionary fiscal strategy, while still preserving prudence. Similarly, the level of general government debt remained, (at 25 per cent of GDP in 2010), relatively low.

The government initially responded to the crisis through more expansionary (i.e. counter-cyclical) fiscal policies, to mitigate the downturn in the business cycle, while maintaining a prudent monetary policy. This comprised increased spending, mainly on capital expenditures (which increased by 14 per cent compared to 2008) and reduced taxation. The effect was an increase in the budget deficit from 0.9 in 2008 (and a surplus in 2007) to 2.7 per cent in 2009. This represents the best performance among the SEE countries.¹²

10 National Bank of the Republic of Macedonia, 2010, available at <http://www.nbrm.mk/default-en.asp>.

11 The Lombard rate is the interest rate applied by central banks on short-term loans collateralized by securities.

12 A feature of the fiscal policy of FYR Macedonia is the low effectiveness in implementing planned capital expenditures, so that actual deficits are usually lower than planned.

Figure 7**Fiscal balance and government debt, the former Yugoslav Republic of Macedonia (2005–2010)**

Source: The former Yugoslav Republic of Macedonia, Ministry of Finance, 2010

In 2009, a fall in economic activity resulted in lower than planned revenues. The government rebalanced the budget twice by reducing revenues and expenditures to remain within the planned deficit level. Cuts in spending were mainly in expenditure categories with high import content to ease the effect on the trade balance. Indeed, some argue that fiscal policy in the country might not be very effective in smoothing aggregate demand, due to the high marginal propensity to import. Such propensity represents a leakage of demand (and income) from the national economy. Hence, a widening budget deficit through increased government spending might not counteract the declining business cycle, if it is not targeted to domestic production.

Major reforms in the taxation system were undertaken in the period before and during the crisis. In 2007 the government introduced a flat tax system with proportional tax rates for personal (PIT) and corporate income (CIT). Tax rates were reduced from the previous 15, 18 and 24 per cent for the PIT to 10 per cent in 2008, and from 15 per cent in 2007 to 10 per cent in 2008 for the CIT.

Moreover, as part of the first anti-crisis package, the government: i) exempted from taxation, as of January 2009, retained earnings and invested profits of enterprises, ii) reduced custom tariffs on raw materials, and iii) decreased taxes for farmers.

The changes in the tax system, the introduction of an integrated collection system for social contributions, together with an increased effectiveness of the Public Revenue Office, led to improved tax collection and a widening of the tax base.

The government introduced in 2009 a reform of the gross wage system that included the gradual reduction of non-wage labour costs (from 32 per cent in 2008 to 27.9 per cent in 2009 and 22 per cent in 2011).¹³ Although the reform was not originally related to the crisis, it freed some space for

¹³ The details of the reform are provided in section 3.2. of this paper.

enterprises by counter-acting reduced profits, through decreased labour costs. Despite reduced tax rates, the reform was revenue positive, is that the integrated tax collection system widened the tax base. There is also anecdotal evidence that the reform may have played a role in reducing informal employment.¹⁴

Automatic stabilizers in the country appear to be largely ineffective due to: i) the predominance of indirect taxes, which are pro-cyclical, ii) low level and coverage of unemployment benefits, and iii) low level of social assistance and its inability to react swiftly to changes in incomes. The unemployment benefit and social assistance systems are analysed in detail in section 3 of this paper.

14 Prior to the introduction of this reform, there were some policy notes prepared by the World Bank on the possible effects of the reform on employment, mainly drawing from the experience of other countries. However, the likely impact on the informal economy was not analyzed. In addition, there has been no evaluation of the impact of the reform, so it is not known whether the positive effects can be attributed to the reform, or to other factors. See Mojsoska-Blazevski, N. and Petreski, M., “Detaxication: Labour-cost effect on Employment in Macedonia”, 2011 (forthcoming).

2. Employment Policies and the Labour Market

Notwithstanding the poor employment performance of the country, the 2009 drop in economic activity appears to have had little impact on the labour market.¹⁵ However, as labour markets tend to adjust to output fall with a certain time lag, there may still be cause for concern.

2.1 Labour Force Participation Rate

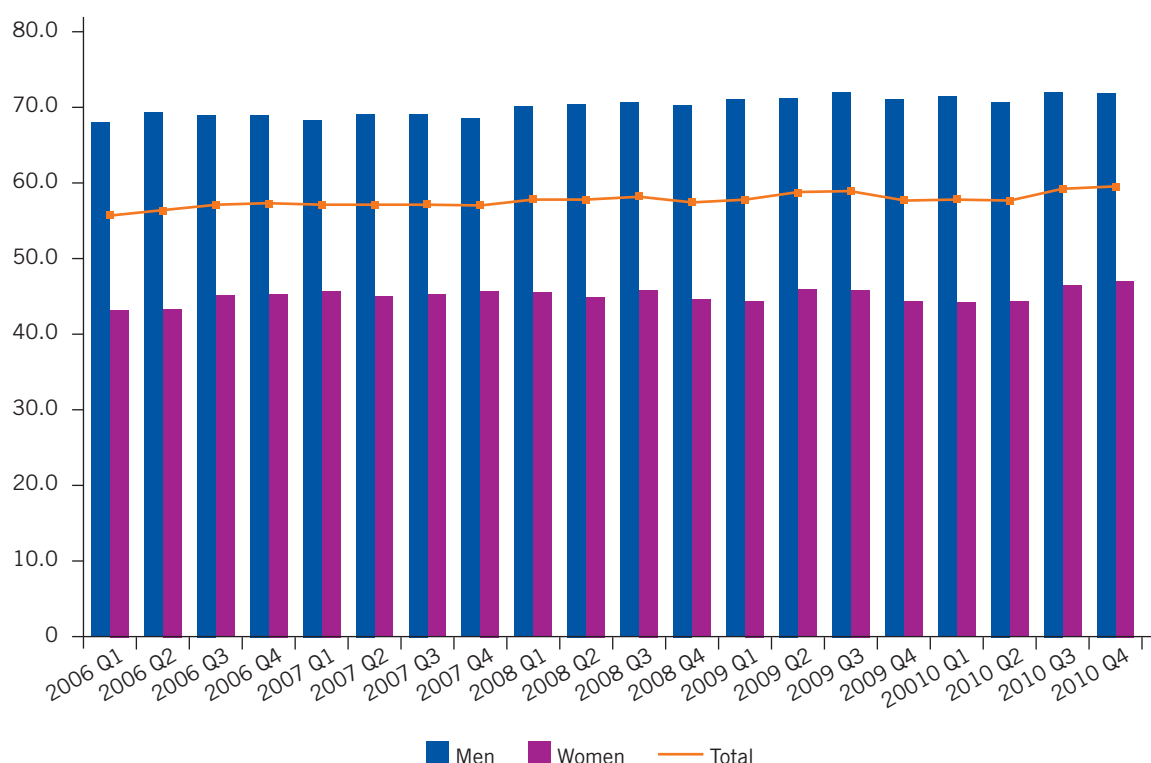
In the period 2005–2010, labour force participation rates have been fairly stable at around 65 per cent, with no visible effects of the downturn (Figure 8). Activity rates in the country are low by international standards. This is mainly due to: i) the very low number of employed that is only partially compensated by a high incidence of unemployment, ii) the effect of sizeable net inflows of remittances from abroad, which may increase the reservation wage of recipient households/individuals, and iii) low participation of women and young people in the labour force.

Women's activity rates in the workforce are low, and especially so for women of Albanian and Roma origin. This is due to the traditional role assigned to women in these communities. According to the Labour Force Survey of 2000 (the last survey that published data by ethnic origin), the participation rates of Albanian and Roma women were 11 per cent and 36 per cent, respectively, compared to 51 per cent for women of the majority ethnic group. Inactivity is disproportionately spread among young, rural and unskilled women. The most important reason for women's inactivity is household responsibilities.¹⁶ In particular, 55 per cent of inactive women are housewives, with women with low educational attainment much more exposed to inactivity. In addition, remittances might have a greater impact on the participation of women compared to men, given that women are traditionally second-earners in households.

15 Data for the main labour market indicators is available until the fourth quarter of 2010. However, data on certain structures is available only until 2009 since it was published later in an annual publication available from EUROSTAT statistical database. Here, the most recent available data are presented, with notes when data for the end of 2010 are available.

16 Angel-Urdinola, D. F. and Macias, V., *FYR Macedonia Labour Market Profile 2004-2007*, World Bank Policy Note, World Bank, Washington D.C. 2008.

Figure 8
Quarterly labour force participation rates, by sex (2006Q1–2010Q4)



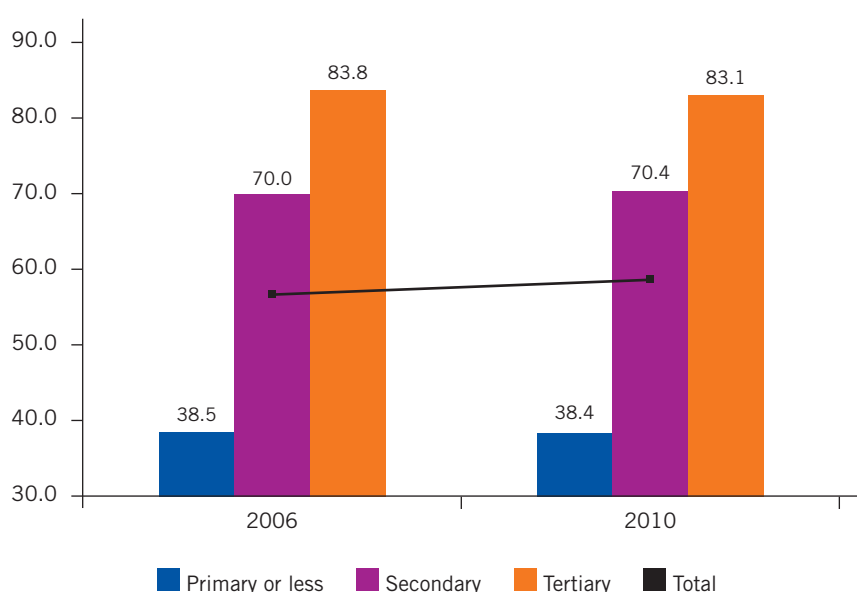
Source: Author's calculation based on data from the quarterly Labour Force Survey (2006–2010), available at EUROSTAT, http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database

In the last quarter of 2010, women's participation rate was 47 per cent, about 25 percentage points lower than men's, with a higher gender gap compared to the EU-27 (13.2 percentage points). The participation rate for men is 72 per cent and is comparable with other countries in the region and in the EU-27.

Young people (15–24) have low participation rates, roughly half the national average. Although the youth participation rate increased in the period 2005–07 (from 33 per cent to 36 per cent) it started to decline in 2009. In 2010 it amounted to 33.3 per cent.

The low participation of youth is due to: i) shrinking employment opportunities and the difficulty associated with the transition from school to work, ii) the unwillingness of employers to bear the costs of on-the-job training for inexperienced youth as the pool of experienced jobseekers is high, and iii) the skills mismatch between employer's needs and the skills produced by the education system. Lower rates of participation can also be explained by increasing enrolments in higher education, following a government policy of extending public education facilities and reducing the cost of higher education.

Figure 9
Labour force participation rates by education level (age 15–74)¹⁷



Source: Author's calculation based on data from the quarterly Labour Force Survey (2006–2010), available at EUROSTAT.

Employment participation is strongly related to educational attainment, as individuals with tertiary education are almost two and half times more active than those with primary education or less (Figure 9). There is a slight decline in the participation rate of individuals with tertiary education in 2010 compared to 2006. This is due to higher increases in the working-age population with tertiary education (by 29 per cent) compared to the increase in active individuals with the same level of education (by 27 per cent).

2.2 Trends in Employment

The employment rate of the former Yugoslav Republic of Macedonia in 2010 was 43.3 per cent. This rate is very low compared to the rates of the EU-27 (64.6 per cent in 2009), but also lower than those recorded in Bulgaria (62.6 per cent) and Croatia (56.6 per cent).

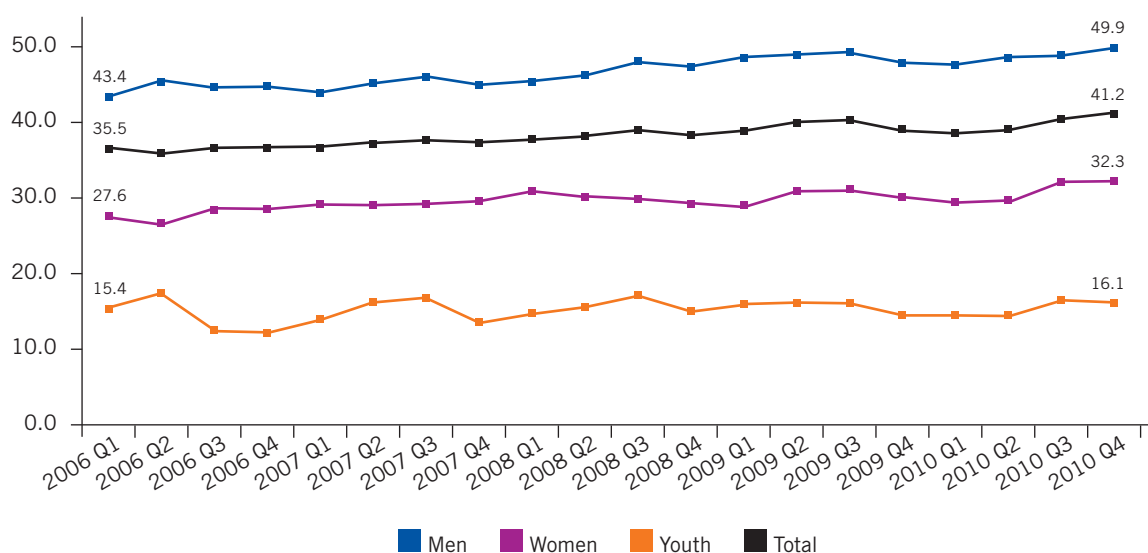
The Labour Force Survey (LFS) data shows that in the period 2005–2010, roughly 93,800 new jobs were created, that is 15 per cent of total employment. However, the job creation pace of the period 2005–09, totalling about 20,000 new jobs per year, decelerated considerably in 2010, with only 7,034 new jobs created. This means that the lower economic activity of 2009 had an effect on employment growth with a 12 month time lag. The better performance of the labour market in the former Yugoslavian Republic

17 There is no available data for the working-age population by educational level prior to 2006. This paper presents data on participation and some other indicators disaggregated by sex only for the period 2006–2010.

of Macedonia during the downturn, compared to neighbouring countries, may be due to a number of factors. The labour tax reform may have helped enterprises retain workers through lower labour costs, allowing them to delay laying off workers. Also, informal employment may have acted pro-cyclically, absorbing workers from the formal economy and thus maintaining employment levels.¹⁸ An improved performance of the inspection system may have contributed to the formalization of informal workers, previously unaccounted among the employed.

The employment rate of women is lower than men's by about 18 percentage points (Figure 10). This gender gap is larger than the EU-27 (slightly above 13 per cent in 2009). The difference in employment rates between the sexes decreases with educational attainment. University-educated women have only marginally lower employment rates compared to men, suggesting that educational attainment is a stronger determinant of employment probability than gender.

Figure 10
Employment trends, by sex and age-group, (2006Q1–2010Q4)



Source: Author's calculation based on data from the quarterly Labour Force Survey (2006–2010), available at EUROSTAT.

Youth have a very low employment rate (16.1 per cent in the last quarter of 2010) although their employment increased somewhat compared to 2006. Similar to the participation rate, the very low employment rate among youth in the country can be attributed to the delayed entry in the world of work due to difficulties in finding the first job and high inactivity rates due to school attendance.¹⁹

¹⁸ The LFS figures on informal employment for 2010 are not available.

¹⁹ Combining school and work is not common.

The overall employment rate (for the population aged 15–74) increases with education level: from 21.8 per cent for workers with primary education or less, to 45.5 per cent for workers with secondary education, to 64.9 per cent for tertiary educated individuals. Indeed, education is the main determinant of the transition from unemployment into employment. Individuals with secondary and tertiary education are more likely to shift from unemployment to employment (7 and 18 per cent, respectively).²⁰ Similarly, there are high returns to education both in terms of probability of being employed and wage rate, notwithstanding the relevance of the acquired education stream.²¹

In recent years, however, there has been a decline in the employment rate of workers with tertiary education (from 65.8 per cent in 2008 to 64.9 per cent in 2010), while the employment rates of workers with lower levels of education increased slightly. This can be explained by the change in the educational structure of the working-age and employed population biased towards tertiary education in the biennium 2009–10. In the period 2000–06 the number of individuals in the working-age population with tertiary education increased by 17.5 per cent and the number of employed with the same education level by 17.2 per cent. Hence, the share of tertiary educated individuals in the working-age population increased from 10.9 to 13.2 per cent and their share in total employment from 18.3 to 21.7 per cent. Such changes in the educational structure are a result of government policy to boost enrolment in higher education. This led to a sharp increase in enrolment and graduation levels (the number of graduated students tripled between 2000 and 2008). As the relative supply of workers with tertiary education increases, the relative price of labour falls, with lower returns in terms of wages and/or chances of finding work. In addition – and depending on the demand for workers with different education levels and occupational profiles – such a policy could lead to increased unemployment among highly educated workers.

Even though there are no (as yet) negative effects of the economic slowdown on employment trends, an analysis of the employment structure may offer insights to the overall performance of the labour market. For instance, an increase in temporary relative to permanent employment might reveal increased workers' vulnerability, even with stable or increasing employment. Table 3 below shows the structure of employment in the country by sector, economic status, ownership and type of contract. The figures reveal increased employment in the agricultural and service sectors, along with declining employment in industry. In the biennium 2009–10 this reflects the reduced industrial production brought about by the economic crisis and the fact that employment in agriculture and certain services acted as a buffer during the downturn.

20 Angel-Urdinola, D. F. and Macias, V., *FYR Macedonia Labour Market Profile 2004-2007*, World Bank Policy Note, World Bank, Washington D.C. 2008, op.cit.

21 Mojsoska, N., *The public employment, education and labour markets in Macedonia*, Nam Press Skopje, 2006.

Table 3
Structure of employment, the former Yugoslav Republic of Macedonia (15–74)

	2005	2006	2007	2008	2009	2010
Sector of employment						
Agriculture	19.5	20.1	18.3	19.7	18.5	19.3
Industry	32.3	32.6	31.3	31.3	29.7	28.9
Services	48.2	47.3	50.4	49.1	51.7	51.9
Status in employment						
Employee	71.9	70.8	72.3	71.8	72.0	71.5
Employer	5.7	5.9	5.5	4.9	5.2	5.4
Self-employed	12.0	12.4	12.1	12.9	12.7	13.1
Family worker	10.4	10.9	10.1	10.3	10.2	10.1
Ownership						
Private	62.3	66.1	69.0	71.4	73.7	73.7
Other	37.7	33.9	31.0	28.6	26.4	26.3
Type of contract*						
Part-time	—	6.3	6.4	5.6	5.3	5.5
Full-time	—	93.7	93.6	94.4	94.7	94.5
Type of contract*						
Permanent	—	91.5	90.8	89.4	88.8	88.0
Temporary	—	8.5	9.2	10.6	11.2	12.0

Source: Author's calculations based on data from Labour Force Survey.

Note: * Data are an average for the period Q1–Q3, 2010.

Another important factor is the number of own-account workers in total employment, since such form of work may offer a viable alternative in a low job-creation environment. However, if self-employment is just a survival strategy, then it generates vulnerability rather than opportunity. In 2010, self-employment accounted for 13.1 per cent of total employment, higher than Slovenia (11.6 per cent) and Estonia (7.9 per cent), but lower than Croatia (18 per cent), Poland (18.5 per cent) and Romania (19.5 per cent).²² A World Bank study found that self-employment in the country is mainly disguised wage-employment.²³ During periods of economic expansion, these low-productivity forms of employment decline, while in a downturn they serve as a buffer against open unemployment. The incidence of vulnerable employment is fairly stable, at 23 per cent.²⁴

22 Data for these countries can be downloaded at the EUROSTAT web page, <http://epp.eurostat.ec.eu.int>.

23 This excludes self-employed in agriculture. World Bank, *Poverty assessment paper for the Republic of Macedonia*, World Bank, Washington D. C., mimeo, 2007.

24 Vulnerable employment is the share of self-employment and unpaid family workers in total employment.

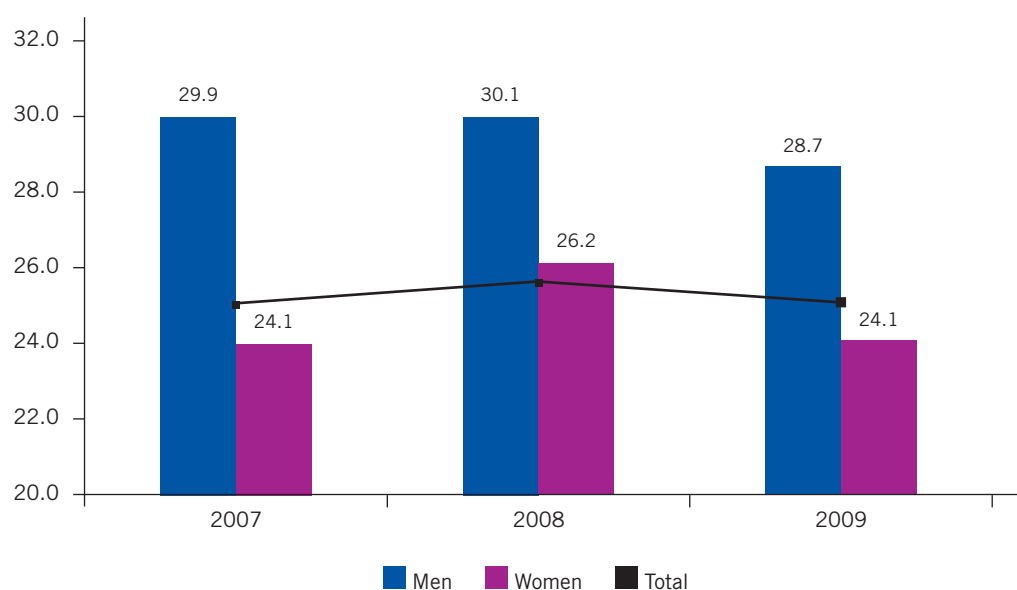
Variable working arrangements can bring flexibility in the labour market and increase choices for both workers and employers. But this can also arouse insecurity and vulnerability if workers do not accept such contracts voluntarily, or if flexible contracts are the only option to enter the labour market. There are no detailed figures on the use of flexible contracts in the country. The share of part-time employment in total employment declined in the period 2005-10; in 2010 it stood at 5.5 per cent (Table 3). This rate is rather low by EU-27 standards. Till mid 2008 there was a social contribution barrier that made part-time work relatively expensive for enterprises. The legislation was amended in 2009, but has had no significant effect yet. In 2005 about one third of part-time work was involuntary (36.1 per cent).²⁵ This is higher than the rate recorded in the new EU member states (31 per cent) and in the EU-15 countries (17.1 per cent). Of those employed part-time on a voluntary basis, only 7.1 per cent chose part-time jobs to combine family and work responsibilities. In 2010, approximately 7 per cent of total women's employment was part-time, compared to 4.5 per cent for men's. Young workers have the highest share of part-time (10.7 per cent in 2010), but on a declining trend compared to 2005 (12.4 per cent).

Temporary work increased from 8.5 per cent in 2005 to 12 per cent in 2010. This may point to an increased vulnerability, if those more exposed to this type of contracts are youth and/or women workers. Between 2005 and 2010, temporary employment among women increased by 46 per cent, reaching 13.3 per cent of total women's employment. Conversely, temporary employment among men increased to 9.9 per cent, e.g. an increase of 31 per cent. Temporary work is most widespread among young workers (25.6 per cent of them work on temporary contracts), but workers in the age group 50 to 64 experienced the largest increase (71 per cent in the period 2005–2010).

According to the latest figures available, informal employment accounted for 26.4 per cent of total employment in 2010. Women are less likely to work informally, as 24 per cent of women workers in 2009 were employed informally compared to 28.7 per cent of men (Figure 11).²⁶

25 World Bank, *Poverty assessment paper for the Republic of Macedonia*, World Bank, Washington D. C., mimeo, 2007

26 Data on informal employment are available only for the period 2007–2009.

Figure 11**Informal employment by sex, the former Yugoslav Republic of Macedonia (2007–2009)**

Source: State Statistical Office, 2010.

2.3 Trends in Unemployment

Unemployment in the former Yugoslav Republic of Macedonia was already high at the onset of the transition period (estimated at 20 per cent). The increasing trend in the unemployment rate was reversed in 2006 and in 2010 the unemployment rate stood at 32.3 per cent.

Table 4 below shows unemployment trends for the period 2005–10. Overall, the unemployment rate declined by 14.3 per cent, although the decline recorded in 2010 was very modest. Whereas the participation and employment rates of women are much lower than men's, the unemployment rates are almost equally shared between the sexes. This may reflect the willingness of women to take up low-paid, but secure public sector jobs, or jobs in newly created small firms, since traditionally they are second-income family earners.²⁷

Youth unemployment, at 53.6 per cent in 2010, is about 1.8 times the unemployment rate of the adult population. This means that more than half of active young individuals are unemployed. The youth unemployment rate, however, decreased by 14.5 per cent in the period 2005–10. This indicates that youth employment in the country is strongly influenced by the business cycle. Unemployment of prime age workers declined by 14.4 per cent in the same period, although it increased slightly in 2010 compared to 2009. The unemployment rate of older workers also increased slightly during 2010.

27 Munich, D., Svejnar, J. and Terrell, K., *Do markets favour women's human capital more than planners*, IZA Discussion Paper, No.1393, 2004.

Table 4**Key unemployment indicators, the former Yugoslav Republic of Macedonia (2005–2010)**

	2005	2006	2007	2008	2009	2010	Change 2005–2010
Total	37.7	36.3	35.2	34.0	32.4	32.3	–14.3
Sex							
Men	36.9	35.6	34.8	33.7	32.0	32.1	–13.0
Women	38.8	37.5	35.8	34.3	32.9	32.5	–16.2
Age groups							
15–24	62.7	59.9	57.8	56.4	55.1	53.6	–14.5
25–49	35.9	34.1	32.9	31.6	30.3	30.7	–14.4
50–64	27.9	28.3	28.5	28.0	25.9	26.0	–6.7
Education level (15–74)							
Primary or less	43.6	41.8	42.7	41.2	38.6	38.8	–10.9
Secondary	38.7	36.9	35.1	33.1	32.3	32.1	–17.0
Tertiary	20.4	21.2	20.5	21.4	21.3	21.8	6.5
Youth to adult unemployment rate	1.8	1.8	1.8	1.8	1.9	1.8	–1.2
Long term unemployment	86.7	84.0	84.9	84.9	81.6	82.9	–4.4

Source: Author's calculations based on data from Labour Force Survey, State Statistical Office.

The unemployment rate varies from 11.7 per cent in the Southeast region of the country, to 58 per cent in the North-East, with standard deviation of 13.5. These regions also have the highest and lowest employment rates (62.3 per cent and 25 per cent, respectively)

As elsewhere, the probability of unemployment declines with educational attainment. Table 4 shows that individuals with primary education have a higher probability of being unemployed than those with secondary and tertiary education. However, in the period 2005–10, the unemployment rates for individuals with primary and secondary education declined by 7.8 and 16.7 per cent, respectively, while the unemployment rate of those with tertiary education increased by 4 per cent. This finding indicates that the increase in the supply of workers with tertiary education cannot be absorbed by the market, as its structure is dominated by low-skilled jobs in manufacturing (mainly metal and textile industry) and in low-productivity service sector jobs.

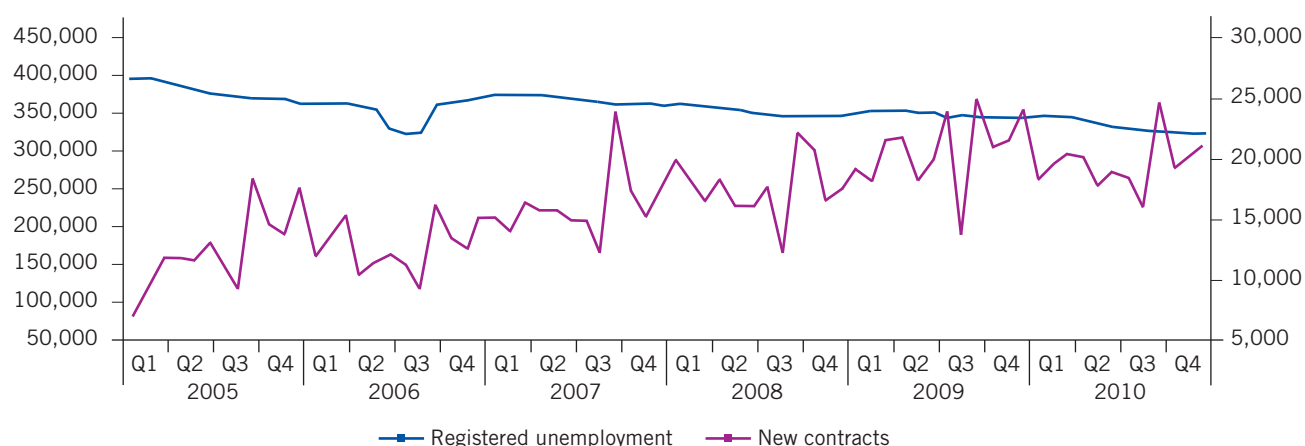
Another specific feature of the labour market in the country is the high incidence of long-term unemployment. More than 80 per cent of unemployment is long term, well over the average level recorded in the EU-27 (below 40 per cent). This points to a stagnating labour market, where virtually all the unemployed face difficulty in finding a job.²⁸

28 Mojsoska-Blazevski, N. and Petreski, M., “Detaxication: Labour-cost effect on Employment in Macedonia” op.cit.

Between 2005 and 2010, the number of persons registering as unemployed with the Employment Service Agency experienced a steady decline (Figure 12).

Figure 12

Registered unemployment and new employment contracts, the former Yugoslav Republic of Macedonia (2005–2010)

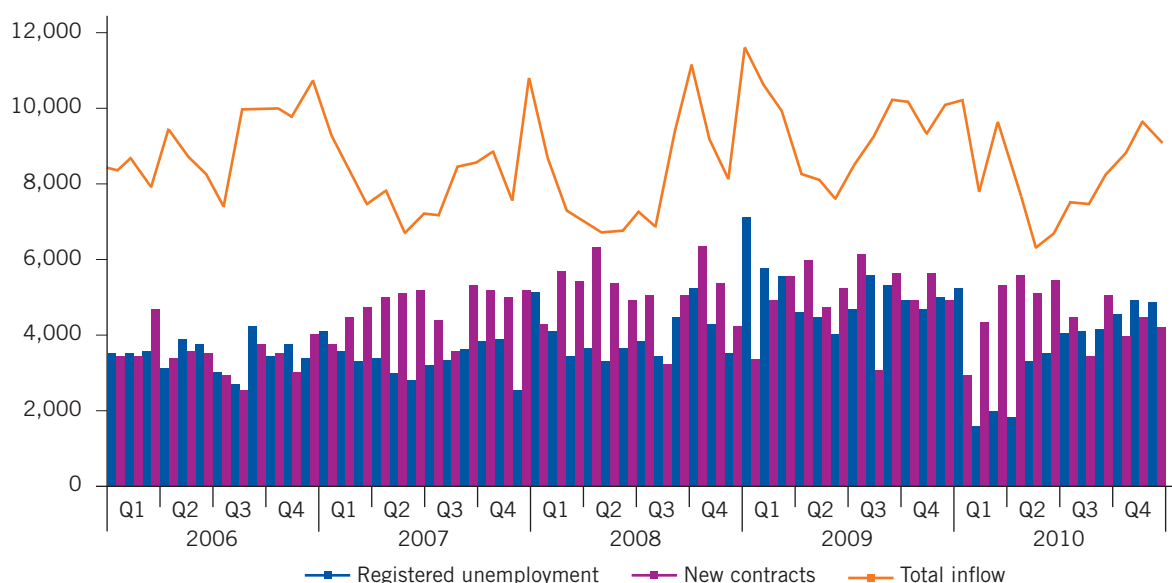


Source: Employment Service Agency (ESA), available at <http://www.avrm.gov.mk>.

Inflows into the unemployment register increased towards the end of 2008 and the beginning of 2009. Surprisingly, outflows into employment (only of workers registered with the employment service) were relatively high during the recession, leading to a net positive effect of new employment relative to job losses.

Figure 13

Inflows and outflows into/from unemployment, I.2006–XII.2010*



Source: Employment Service Agency. Detailed data on inflows and outflows from the register are not available prior to 2006.

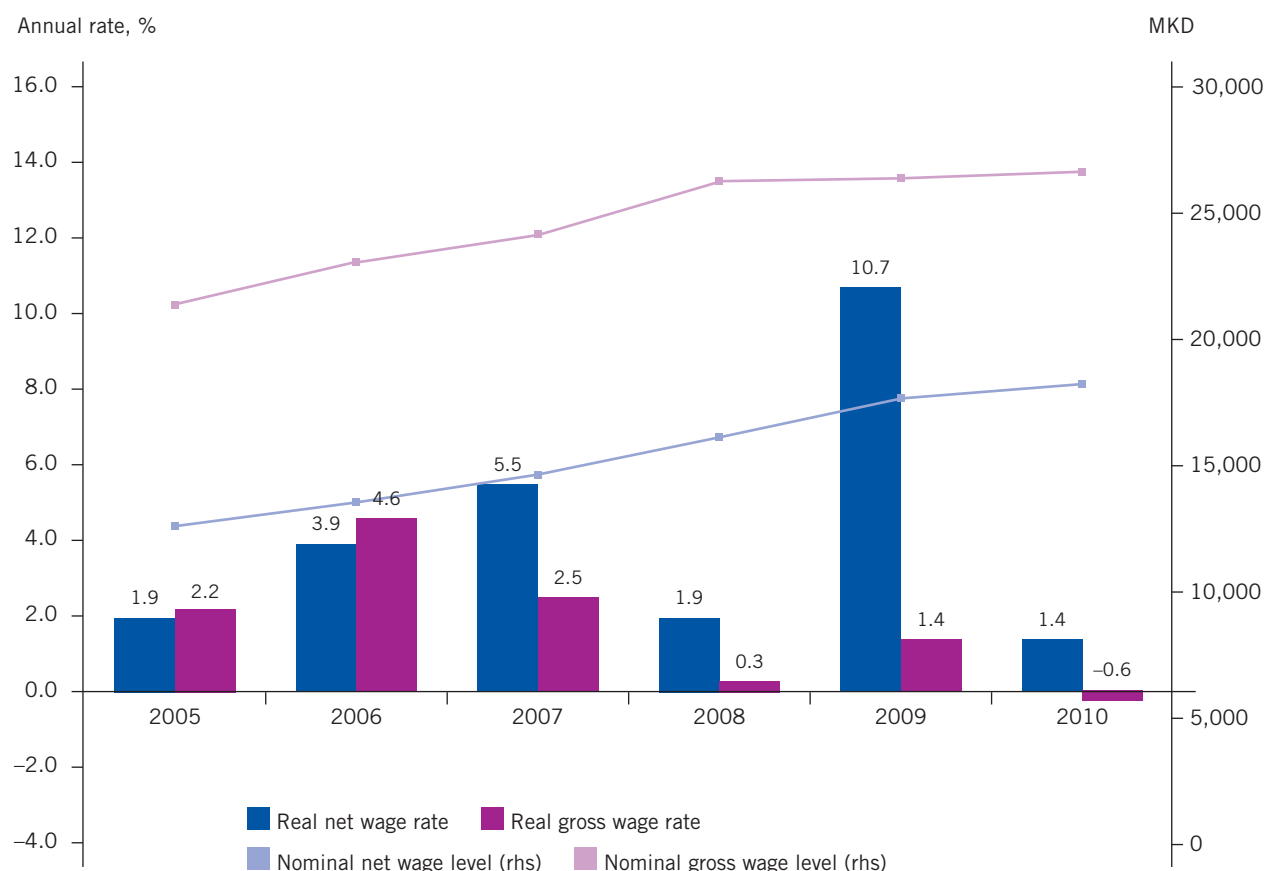
2.4 Wage Developments

Throughout the period 2005–2010, real net wage growth was positive, with an average annual growth rate of 4.2 per cent. The real gross wage increased at a different pace due to the labour tax reform (the introduction of flat personal income tax and the reduction of the tax rate; as well as the reforms of the gross wage that previously included also untaxed allowances). These reforms widened the disparity between the average net and gross wage. In 2010, the rates of social contributions were further reduced (as part of the announced three-year gradual reduction) with a negative real growth of the average gross wage as opposed to the slight increase of the average net wage (see Figure 14).

Throughout the period, real net wage growth was positive, the highest increase being registered in 2009. However, these figures should to be interpreted with caution, due to the structural break that occurred in 2009 and the volatility of the inflation rate.²⁹

Figure 14

Real gross and net wage growth, the former Yugoslav Republic of Macedonia (2005–2010)



Source: Authors' calculations based on State Statistical Office data.

²⁹ An adjustment of the monthly nominal growth rate of wages occurred in January, 2009, when the gross wage reforms started to remove the effect of the change in the wage definition (the incorporation of food and travel allowances into the wage).

The highest real wage growth was recorded in the public sector in 2009. This reflects a 10 per cent across-the-board increase in wages for public sector employees. This was the second consecutive increase after the government announced a three-year gradual increase in public sector wages (10 per cent per year).³⁰ Furthermore, the 2009 implementation of a new collective agreement for low-wage workers in the education sector also contributed to the increase. The average wage in agriculture started moving positively in 2009, reversing a three year decline. Still, in 2010 the average wage was lower than 2005. Wage growth in the services sector was positive, increasing by an estimated 12.6 per cent in 2009 and decreasing in 2010 (by approximately 1 per cent). Wage growth in the industrial sector adjusted relatively slowly to productivity.

Table 5 below shows a declining ratio of the sectoral to the average wage in certain industries (for example, fishing, hotels and restaurants, mining, financial intermediation, and manufacturing), and an increasing ratio mainly in the public sector. The average wage in the service sector is significantly above the national average, mainly due to the traditionally higher wage level in industries such as utilities, telecommunications and financial intermediation. In addition, from 2005 onwards, the average wage in public administration exceeded the national average by about 20 percentage points.

Table 5
Nominal net wage, selected economic sectors, (% average net wa

Sectors	2006	2008	2010	Change 2006-2010
Agriculture	76.9	74.1	72.1	-6.2
Fishing	95.5	58.8	57.9	-39.4
Mining	118.4	110.8	106.4	-10.1
Manufacturing	78.6	78.4	71.8	-8.7
Utilities	143.3	128.9	138.5	-3.3
Construction	73.3	73.7	74.3	1.4
Trade	98.6	91.9	91.3	-7.4
Hotels and restaurants	82.9	79.7	69.9	-15.7
Transport and communication	125.1	121.6	123.2	-1.5
Financial intermediation	196.6	190.4	177.4	-9.8
Real estate	101.4	99.9	96.8	-4.5
Public administration	118.6	120.4	120.9	1.9
Education	92	95.6	103	12.0
Health and social works	92.6	94.3	105.2	13.6
Other services	93.4	89.4	88	-5.8

Source: Authors' calculations based on State Statistical Office data.

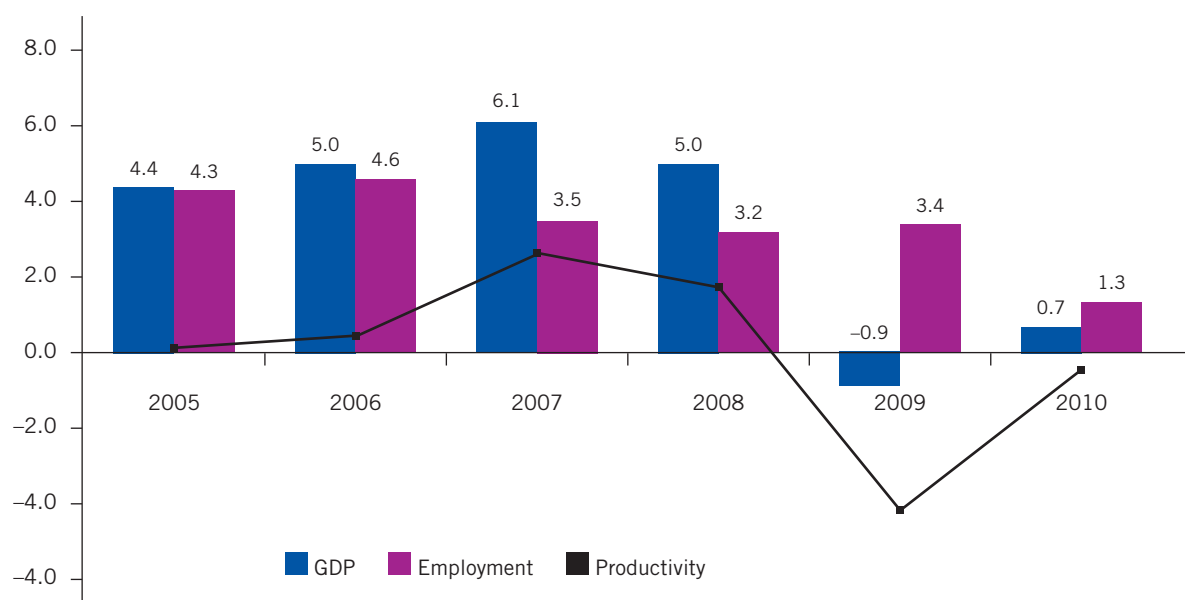
30 In 2009, the planned increase was not implemented due to weak government finances and the possible effect the increase could have on inflation.

Analysis of wage distribution by occupation reveals certain skill premiums. Almost 20 per cent of highly skilled employees (managers, technicians and professionals) receive wages above the national average compared to only 7.4 per cent of middle-skilled workers (clerks and service workers) and 5 per cent of the low skilled (machine operators and other manual workers). Another example of the country's labour market responding to relative skills scarcity and productivity comes by looking at the relative wages by sectors. Workers in the primary sector and in manufacturing (which are dominated by workers with lower education level) have comparatively lower wages, while workers in the energy sector and in financial intermediation have wages far above the national average.

2.5 Quality and Productivity of Work

In the period 2005–2010, GDP and employment grew at similar rates (3.4 per cent). Figure 15 below clearly shows that employment adjusts to changes in production with a certain time lag (three to four quarters). This leads to relatively large annual variations in productivity. The largest decline in productivity was recorded in 2009 (4.2 per cent) as employment did not adjust to falling output. Besides the usual pattern of employment lagging behind production, one of the possible explanations for such discrepancy may be the wage reform of 2009 which reduced labour costs.

Figure 15
Growth rates of GDP, employment and productivity (2005–2010)



Source: Author's calculations based on data from State Statistical Office.

Despite progress in productivity levels in the period 2006–08, the decreases of 2010 brought them back to the 2005 level. This general productivity pattern differs across production sectors, given the sectoral variations in production, as well as different adjustment paths of employment. After a significant climb

in 2007, productivity in industry declined in 2008 and 2009, due to slower adjustment of employment to GDP fluctuations. In 2010, industrial productivity rose by 2.7 per cent, as a result of employment reductions. Productivity in agriculture increased in 2009 and 2010, while it decreased in the service sector (7 per cent) in 2009.

2.6 Human Capital Formation

After a period of low public investment in education (3 per cent of GDP annually), spending increased as of 2006 to reach about 4.6 per cent in 2009. Increased spending reflects government policy priority to raise the education level of the population. Such policy was implemented by: i) prolonging the duration of basic education to nine years, ii) making secondary education compulsory, and iii) increasing subsidies to tertiary education. Girls have relatively poor achievements in basic education and lower probability to progress to secondary education, but those that do not leave school early tend to perform better than boys in secondary and tertiary education.

The country still has low net rates of pre-primary enrolment by international standards. It is estimated that in 2008/09 around 24 per cent of children were attending pre-school education, compared to 57 per cent in Central and Eastern Europe and Commonwealth of Independent States (CIS).³¹ Moreover, EUROSTAT data show that only 20 per cent of children aged 4 in the former Yugoslav Republic of Macedonia attend education institutions compared to an EU-27 average of 90 per cent. Low enrolment in pre-school may be explained by the relatively low labour market activity of women, the tradition that grandparents take care of their grandchildren, as well as the underdeveloped network of public childcare facilities.³²

In 2008–09 the net enrolment rate in basic education (ISCED 1 and 2) was 91 per cent, with no sex difference. However, this is lower than the average recorded in Central and Eastern Europe (about 97 per cent). Both sexes are equally represented in primary education, but girls have less opportunity to progress to secondary education (Table 6). Progression improved in the academic year 2008–09, as the result of the introduction of mandatory secondary education with substantial fines for violation.³³ The country has a relatively high proportion of population aged 18–24 with primary education only (23 per cent in 2006 and 16.2 per cent in 2009).

31 TransMONEE database of UNICEF, at <http://www.transmonee.org>.

32 There are kindergartens in only 33 of the 84 municipalities.

33 According to the Amendments to the Law on Secondary Education (Official Gazette No. 49/2007), parents have to pay a fine of approximately €1,000, if their children do not attend regular secondary education. This amount is about 3.5 times the average nominal net wage in 2010.

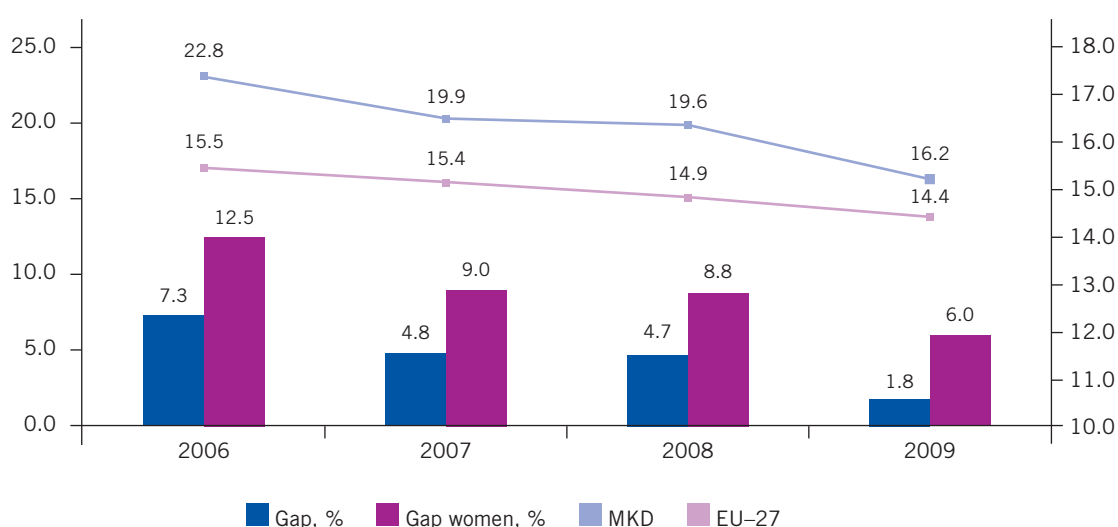
Table 6
Progression between different levels of education, by sex (2006–2009)

	2006/07		2007/08		2008/09	
	Female	Male	Female	Male	Female	Male
From basic to secondary	84	92	84	95	89	98
From secondary to tertiary	59	53	76	72	77	73

Source: State Statistical Office (2010).

The net enrolment rate in secondary education is 68.3 per cent, with female enrolment rates slightly lower than male's (66.5 per cent), but also on the increase.

Figure 16
Early school leavers, the former Yugoslav Republic of Macedonia (2006–2009)



Source: Author's calculations based on data from EUROSTAT.

In recent years there has been a rapidly growing demand for tertiary education, reflecting on the one hand higher returns to education, but on the other longer job search periods. Such demand was boosted by the supply of private providers and the expansion of state-funded university programmes. As decentralization of higher education was not formulated on a coherent cost-benefit analysis, there has been growing criticism that these initiatives are populist proposals aimed at reducing the pressures on the labour market. In addition, there are growing concerns about the quality of higher education, as well as its relevance for the current economic environment.

Analysis of the labour market shows that the structure of the working-age population and of workers generally is revealing increased numbers of tertiary-educated individuals. Enterprises, however, may not need more university-educated workers. This lack of need would reduce the returns of higher

education and reverse enrolment trends. Unfortunately, the country has not yet established a skills forecasting system – projections of occupations demanded in the medium to long-term – to inform the design of education and training policies. Career guidance in schools is not well developed, and this service is left to school psychologists. Career guidance is, therefore, mainly provided to students by the Employment Service Agency (ESA) and is tied to immediate decisions that must be made at school-leaving age.

The percentage of women enrolled in tertiary education increased, from 44.5 per cent in 2005-06 to 53 per cent in 2009–10. Young women are more likely to choose social sciences, humanities and arts, and remain under-represented in natural sciences and engineering.

Despite recent favourable trends, the country is still a poor performer in terms of educational attainment. In particular, the share of 30-34 years old individuals with completed tertiary education is much lower than that recorded in the EU-27 countries (Table 7) and well below the target set by Europe 2020 (40 per cent). The share of the population aged 25-64 participating in education and training is also lower than the EU-27 (3.3 per cent and 10 per cent, respectively).

Table 7
Percentage of individuals 30–34 years old with tertiary education (2006–2009)

	2006		2007		2008		2009	
	All	Women	All	Women	All	Women	All	Women
Bulgaria	25.3	32.8	26	33.2	27.1	34.5	27.9	35.6
Czech Republic	13.1	12.4	13.3	13.7	15.4	15.9	17.5	18.7
Slovenia	28.1	36	31	41.1	30.9	38.4	31.6	39.3
Croatia	16.7	19.1	16.7	21.1	18.5	21.4	20.5	23.6
FYR Macedonia	11.6	12.8	12.2	13.6	12.4	13.1	14.3	16.8
Turkey	11.9	9.5	12.3	10.3	13.0	11.2	14.7	12.9
EU-27	28.9	31.5	30	32.9	31.1	34.3	32.3	35.7

Source: EUROSTAT, Europe 2020 indicators.

3. Policy Responses to Counteract the Impact of the Economic Crisis

The relatively good performance of the economy, including the labour market, in the former Yugoslav Republic of Macedonia during the crisis can be attributed, *inter alia*, to the intensive reforms implemented by the government in the lead-up period.³⁴ These reforms focused on improving the business climate and included issues such as market entry and exit; customs administration and barriers to trade; labour market flexibility and labour taxation; reduction of the administrative burden for firms; streamlining of costs for doing business; regulatory guillotine and reform of the cadastre.

3.1 General Stimulus Measures Introduced in Response to the Crisis

The analysis that follows shows that the policies enacted by the former Yugoslav Republic of Macedonia are in line with international practice (Box 2), notwithstanding the tight monetary policy, due to the *de facto* fixed nominal exchange rate.

Box 2

Policy options and global responses to the recession

Countries around the world have responded to the recession with an array of policy interventions in different policy areas. Eight policy areas are relevant in low and middle-income countries: monetary and financial policy, fiscal policy, exchange rate/capital account, income and employment protection, social protection, employability, group-specific initiatives and sector-specific initiatives. The most popular area of intervention, globally, was fiscal policy through public investments in infrastructure (virtually all countries), followed by monetary policy (interest rate reductions and deposit guarantee schemes) implemented by 75 per cent of countries, support to small and medium-size enterprises (70 per cent), additional social expenditures and overall tax and expenditure adjustments (60 per cent).

Source: Islam, Iyanatul and Sher, Verick (eds), *From the Great Recession to labour market recovery: Issues, evidence and policy options*, International Labour Office, Geneva, 2011

34 Bartlett, W. and Monastiriotis, V. (eds) *South Eastern Europe after the Crises: a New dawn or back to business as usual?*, London, op.cit.

The main challenge for economic policies during the recent economic downturn was how to strike an appropriate balance between supporting economic growth and guarding against risks.³⁵ In the period 2008–10, government policies, and especially fiscal policies, were focused on supporting aggregate demand, whereas the monetary policy used its instruments to preserve the economy from pressures on the current account and exchange rate. There was much debate about the lack of coordination, with policies apparently having different goals. The fiscal stance and planned government deficits enacted in 2010 and 2011 were appropriate for supporting output and employment and did not threaten debt ratios. However, international financial institutions recommended that the country restore a balanced budget in the medium term in order to preserve debt sustainability and to free some space for future economic cycles.

Box 3

The four anti-crises packages of the former Yugoslav Republic of Macedonia

As a direct response to the slowdown in the country, the government launched four anti-crises packages.

The first package consisted of measures targeting: i) companies with liquidity problems (through a tax amnesty, payment of tax and social security debts in instalments and so on), and ii) enterprises in general, which were supported through reduced import tariffs and custom duties, reduced social contributions rates and changes in the profit tax system. In addition, taxation of farmers was reduced and simplified. The main goal of these measures was to support companies to overcome the period of depressed demand and to maintain the momentum of rising investments. This package came into effect in 2009 and was estimated to cost €330 million.

The second stimulus package consisted of a large 8-year infrastructure investment plan (estimated at €8 billion).

The third package comprises a revised budget with downwards adjusted revenues and expenditures (based on actual figures, as well as reduced GDP projections), credit support to companies and other measures (for example, easing of external trade).

- In March 2010, the Government announced a fourth stimulus package, with, among others, the following measures:
- a wage freeze in the public sector, despite the previously planned 3-year wage increases for public sector employees;
- an increase of wages in low wage jobs in the collective agreements of some public sector branches (e.g. the wage for the least complex job positions, which is then multiplied by complexity factors for other job positions);
- the establishment of a Fund for agricultural land, aimed at distributing land to eligible unemployed individuals (registered unemployed in rural areas).

The country managed throughout the crisis without the intervention of the IMF. In particular, when the three-year Stand-By Agreement expired in 2008, the authorities decided that the country could continue on its own. This decision was grounded in the relatively good growth performance, but also on the presumption that it would send a strong signal to international financial markets and potential investors about the healthy position of the country.

In early 2011 the country signed a two-year arrangement with the IMF, under the Precautionary Credit Line (PCL) for an amount equal to €475.6 million. Even if not used, this facility would reduce the risk of future imbalances.

35 International Monetary Fund (IMF), *FYR Macedonia: Article IV Consultation. Concluding Statement*, IMF, 2010 Available at <http://www.imf.org/external/np/ms/2010/111710.htm>.

Two measures implemented by the government had a direct impact on the labour market:

- 1) Reduced labour taxation through lower social contribution rates and higher personal income tax exemption, implemented as of January 2009. The original aim of this measure was to reduce labour costs and stimulate job creation, but during the crisis it helped firms cut production costs and maintain employment stability. The reform, designed in 2008, was announced later as part of the anti-crisis package.
- 2) Increased scope and funding for active labour market policies (ALMPs). Fund allocation doubled in 2009 compared to 2008. In May 2009 the government also allocated additional funds for public work schemes.

These two measures are analysed in the sections that follow.

3.2 Social Dialogue and Wage Policies

Improved wage outcomes, labour market performance and overall macroeconomic outcomes require implementation of key labour market and social policy measures. These policies include wage policy, collective bargaining, minimum wages, in-work benefits, and other income support measures.

Unfortunately, collective bargaining was ineffective during the recession due to disagreements about representativeness. This stymied one of the most important mechanisms for reaching all-party consensus in response to the crisis. The Economic and Social Council did not convene at all between May 2008 and September, 2011. Amendments to the Labour Code to redefine representativeness criteria – in line with the ILO recommendations on reducing the 33 per cent representation requirement for employers' and workers' organisations for collective bargaining at all levels- saw a new Agreement on the Establishment of the Economic and Social Council (ESC) signed on 15 August, 2010. The first session of the Council was held in September of the same year.

Although tripartite social dialogue at national level was not operational at the peak of the crisis, there were still improvements in bipartite dialogue. In particular, in the period from January, 2008 to February 2010, eleven branch-level collective agreements were signed in the private sector, ten collective agreements were concluded at employer level and national level collective agreements for the private and public sectors were re-negotiated. Moreover, the trade unions (Federation of Trade Unions of Macedonia, Confederation of Free Trade Unions of Macedonia and Union of Autonomous and Free Trade Unions) signed in February 2011 a Memorandum for joint action in organizing workers and negotiating social issues.

Annex 1 summarizes the social partners' views on the effectiveness of government policies in tackling the crisis and protecting vulnerable groups. In general, they consider that the government's response to the economic slowdown was inappropriate in terms of the magnitude and measures undertaken, and biased towards certain production sectors (mainly construction). Both employer organisations and trade unions feel that they were not sufficiently consulted by the government about the measures and policies undertaken.

During the crisis, dialogue between the government and the employers' organization on the economic outlook and available policy options intensified. Employers' views were taken into account in the design of the anti-crisis measures. However, experiences in other countries show that tripartite institutions – and not mere consultations – are most efficient in finding responses to the crisis and that centralized negotiations with comprehensive agendas work much better in protecting vulnerable groups than those with a narrow focus.³⁶

Only a handful of wage policy measures were implemented during the crisis. These comprised: i) the so-called gross wage reform, examined below, ii) a freeze of planned increases in public sector wages, and iii) an increase in low-wage jobs in the collective agreement of some public sector branches.

The gross-wage reforms, originally planned to reduce labour taxation including the regressivity of the tax wedge, comprised:

- The gradual reduction of social contribution rates (from 32 per cent in 2008 to 27.9 per cent in 2009 and 22 per cent in 2011). The actual reduction schedule was more modest, (27 per cent) in order to preserve the fiscal balance;
- The introduction of a gross wage system. Wages are to be negotiated on the gross level, and tax free allowances are integrated into the wage. Liability for the payment of personal income tax and social contributions is shifted from the employer to the worker;
- Integrated collection of the personal income tax and social insurance contributions by the Public Revenue Office.

No analysis on the impact of these reforms on employment has been undertaken yet, but the positive labour market performance in 2009 and 2010 may indicate that the reduced labour costs helped employers through this difficult period.³⁷ In addition to the effect on employment, the reform brought about an increase in net wage. There are also some indirect indicators (but no hard data) that the reform may have diminished the extent of the informal economy. Tax compliance improved: the number of individuals insured for the old age pension increased, as employers could no longer postpone or evade payments to the integrated collection system.³⁸ In addition, due to tighter controls, the incidence of wage arrears declined (from 7.5 per cent of workers in 2008 to 2.3 per cent in 2010).

36 ILO, *Protecting people, promoting jobs: A survey of employment and social protection policy responses to the global economic crisis*, ILO report to the G20 Leaders' Summit, Pittsburgh, 24–25 September 2009.

37 Mojsoska-Blazevski, N., Wage setting mechanism in the Former Republic of Macedonia: Is it an effective policy tool? Paper presented at the ILO Subregional Conference “*The impact of the financial and economic crisis: Wage fixing and policy responses*”, ILO (forthcoming), examines in detail the pre-reform labour taxation system and the initial effects of the reform on employment and wages.

38 See for a detailed analysis Mojsoska-Blazevski, N. and Petreski, M., “Detaxication: Labour-cost effect on Employment in Macedonia” (forthcoming), op.cit. Previously, social contributions were collected by the social insurance funds. Employers could, therefore, pay wage and personal income tax, and possibly evade some contribution as the databases of the Public Revenue Office and social insurance funds were not connected.

The reform, however, may have negative long-term consequences on workers' social benefit entitlements, including pensions, while the positive effect on employment and tax compliance may be short-lived.³⁹ The interaction of tax and benefit systems needs to be further explored, as some groups may still face high average effective rates of taxation, which discourage activation, or very high marginal effective rates, which are a disincentive to increase their labour supply.

There is no statutory nationwide minimum wage in the country. Instead, there is a statutory minimum floor for the payment of social contributions, which provide a safety net for workers (in terms of pensions) and ensure minimum contribution to the social funds. Such a system seems to help neither firms nor workers.⁴⁰ The law allows the establishment of minimum wages in the private sector through branch collective agreements, but only few branches have actioned this. Branches which have done so include the leather and textile sectors. Minimum wages in these two branches are set slightly below 50 per cent of the average net wage in their respective branch.

The minimum wage in the public sector is established through an agreement between the parties signing the branch collective agreement. Minimum wages in some public sector branches (primary and secondary education, culture and child protection) increased in July 2009. The establishment of a statutory minimum wage has been on the agenda of the Economic and Social Council several times in the past and is at the forefront of public debate. The social partners have different views on this matter. Trade unions support setting a statutory nationwide minimum wage, whereas employer organizations hold the view that minimum wages should be set by branch and/or employer-level collective agreements. There has been little progress on this issue to date.⁴¹

The State Labour Inspectorate (SLI) intensified its activities in the period 2006–10, with about 40,000 labour relations inspections conducted in 2008 and approximately 32,000 conducted in the biennium 2009–10.⁴² The figures show a decline of 78 per cent in the number of non-registered workers in 2009 compared to previous years. Such a drop is due in part to the intensified activity of the Labour Inspectorate, but also to the loss of jobs in the informal economy due to the crisis (as the informal economy reacts pro-cyclically). Sectors such as manufacturing industry, mining, trade, hotels and restaurants as well as agriculture are the sectors registering higher shares of non-registered workers. Employers' and workers' organisations share the view that penalties for employers are substantial and that recommendations on compliance should precede the imposition of penalties.

39 The experience of the tax system and pension reform introduced in the Czech Republic in 2008 points to a number of distortion effects. Hrdlicka, Z. et al., *Further Advancing Pro-growth Tax and Benefit Reform in the Czech Republic*, OECD Economics Department Working Papers, No. 758, OECD, Paris, 2010.

40 United Nations Development Program (UNDP), *Blue ribbon report for Macedonia*, UNDP Skopje, 2006.

41 The country is a signatory to the Minimum Wage Fixing Convention, 1970 (No. 131), initially as part of former Yugoslavia.

42 Data is extracted from the website of the State Labour Inspectorate, <http://www.dit.gov.mk/izvestai.php>.

3.3 Active Labour Market Policies (ALMPs)

Whereas sound macroeconomic policies, the business environment and labour market institutions are the main factors affecting labour supply and demand, active labour market policies (ALMPs) can affect the overall unemployment rate only marginally.⁴³ Still, they have a role in addressing labour market barriers, more so during a recession.

ALMPs in the former Yugoslav Republic of Macedonia were introduced in 2007 when the government started to prepare annual operational plans (OPs). Unfortunately, monitoring and evaluation methodologies are still in the piloting phase.⁴⁴

In 2008 and 2009 the funding and scope of ALMPs increased considerably. While spending in 2007 was about 0.1 per cent of GDP, it reached 0.2 per cent in 2008 and 2009 (Table 7). In both years, aside from the measures proposed in the OPs, business start-up incentives (self-employment with low-interest loans) were funded by the state budget. If this measure is computed, the number of beneficiaries would reach about 2,000 unemployed with an annual allocation of MKD 370 million in the biennium. In May 2009 the Government amended the OP by introducing public works schemes (co-funded by the central and local governments) targeting 5,000 beneficiaries (long-term unemployed workers, workers with low skills and persons aged 55+) at a cost of MKD 230 million (separately presented in Table 8). Although this measure does not, in general, improve the employability of participants, it does reduce the pressures on the labour market and ensure that unemployed stay in touch with the labour market.

Table 8

ALMPs, funds and beneficiaries, the former Yugoslav Republic of Macedonia (2008–2011)

	2008	2009	2010	2011	% change 2010–2011
Operational Plan					
Allocation (MKD Million)	294	825 (595+230)	527	499	–5.3
% of GDP	0.07	0.2	0.13	0.11*	
Total beneficiaries	6,565	12,162 (7,162+5,000)	6,947	7,265	4.5
% of unemployed	2.0	1.9	2.1	—	
Self-employment with loans					
Allocation (MKD Million)	387	360	360	109	–69.7
Total beneficiaries	2,000	2,000	2,000	800	–60

Source: Ministry of Labour and Social Policy.

Note: * Projected GDP for 2011. See Annex 2, for detailed presentation of OP for 2011

43 Lehman, H., *Macedonia's Accession to the EU and the labour market*, IZA Policy Paper, No. 14, 2010. Available at <http://ftp.iza.org/pp14.pdf>.

44 Monitoring and evaluation is being supported by international agencies (mainly the UNDP) and only for some programmes.

Although the government reacted promptly at the onset of the downturn, the ALMPs allocation in 2010 and 2011 declined. This was mainly due to the discontinuation of public works and a cutback of the self-employment programme. However the number of beneficiaries remained stable and even increased in 2011. It could be said that the government is trying to do “more with less”. However, the increased number of ALMP beneficiaries in 2011 is mainly the result of 2,000 unemployed trained in basic business skills at no additional cost for the employment service.⁴⁵

Target groups identified by the National Employment Strategy and the OPs are young workers (up to 27 years of age), individuals unemployed for more than 6 months (3 months for women), elderly workers (aged 55-64), orphans, women victims of violence and Roma population groups.⁴⁶ Some argue that countries in transition should not necessarily copy the experiences of OECD countries where the target groups are low skilled unemployed, older workers and long-term unemployed.⁴⁷ Given the large pool of unemployed and sluggish labour demand, vulnerable groups in transition economies cannot compete successfully for regular jobs even after programme participation, thus making active labour market programmes ineffective. Wage subsidies, start-up incentives and similar ALMPs might be more effective if targeted to youth and short-term unemployed.

Overall, although progress has been made in the design and implementation of ALMPs, it seems that the employment policy is pro-cyclical, with increased spending and scope of programmes in a boom, and reduction in a recession. On the other hand, ALMPs should be implemented on a larger scale at least until the macroeconomic policies and the investment climate combine to create more jobs.⁴⁸ In addition, there is scope for improved targeting, as well as further diversification, by, for example, decentralizing the design and implementation of programmes to local employment offices.

3.4 Social Policy Response: Income Support to the Unemployed

Social assistance actually increased in the country in 2008 and 2009. However, there has been a general decline in the number of social assistance beneficiaries, including beneficiaries of social financial assistance (SFA), the main social assistance programme in the country.⁴⁹ Figure 17 shows that expenditure on social protection reached 1.2 per cent of GDP in 2009.

In this regard, the former Yugoslav Republic of Macedonia, along with Albania, Montenegro and Serbia, did not have to “do more with less” during the recession, but reacted rather quickly by providing

45 The training is run by the staff of the Employment Agency in cooperation with the National Agency for Promotion of Entrepreneurship.

46 Annex 1 presents a detailed description of planned funds and participants of 2011 ALMPs.

47 Lehman, H., *Macedonia's Accession to the EU and the labour market*, IZA Policy Paper, No. 14, 2010, op.cit.

48 World Bank *Active labour market programs in FYR Macedonia*, World Bank, Washington D.C., 2008.

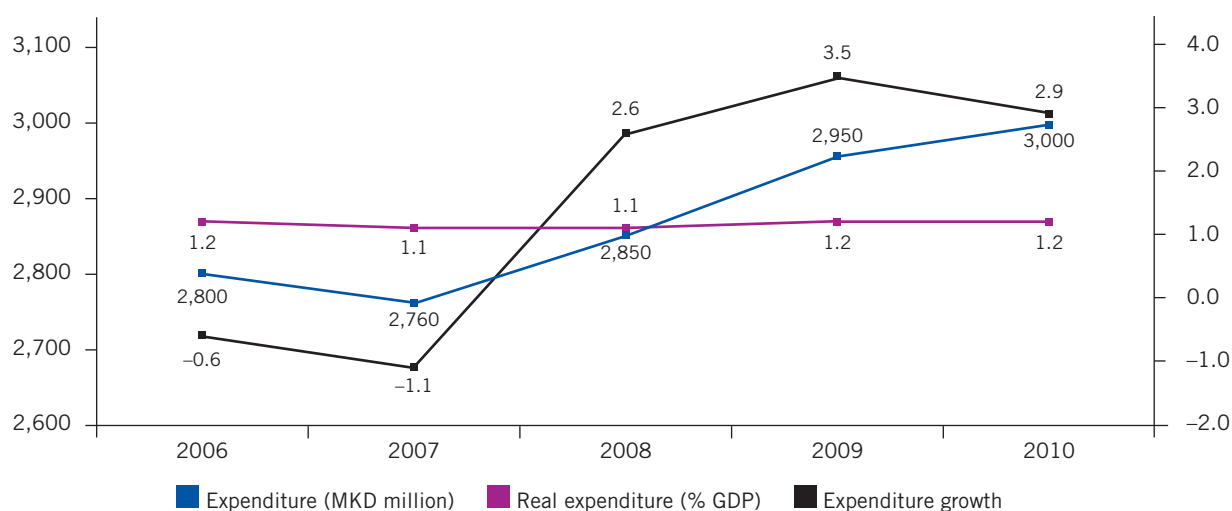
49 Social assistance (i.e. non-contributory benefits) in FYR Macedonia include eleven separate schemes, such as social financial assistance (the dominant one), assistance to children without parents, child allowance, financial assistance to mothers for the fourth born child and so on.

greater social protection for its citizens.⁵⁰ One of the first responses of the government to the weakening of the domestic economy was a one-off monthly cash transfer of MKD1,000 (about €16) to 1,600 households in the period from January-April, 2008.⁵¹

The effectiveness of social policy greatly depends on targeting. Social assistance benefits in the country are largely well targeted, with 43 per cent of benefits being distributed to those in the lowest income quintile.⁵² Among SEE countries, targeting is most accurate in Serbia, where more than half of the poorest quintile receive social assistance, and poorest in Bosnia and Herzegovina, with 25 per cent. In terms of protecting the poor, Serbia's country's assistance programme is very well placed for quick and effective response to a crisis.⁵³ Consequently, one might conclude that greater protection of vulnerable individuals and households is more a question of political priorities than one of effectiveness of social policy.

Figure 17

Expenditures on social assistance in the former Yugoslav Republic of Macedonia (2006–2010)



Source: Author's calculations based on the data of National Accounts.

Note: Real expenditure is nominal expenditure deflated by the annual consumer price index.

50 Bartlett, W. and Monastiriotis, V. (eds) *South Eastern Europe after the Crises: a New dawn or back to business as usual?* op.cit.

51 There were not specific eligibility criteria for this measure. Social assistance centres were asked to identify the most vulnerable individuals.

52 World Bank *Social safety net in FYR Macedonia*, World Bank, Washington D.C., 2010, op.cit.

53 Bartlett, W. and Monastiriotis, V. (eds) *South Eastern Europe after the Crises: a New dawn or back to business as usual?*, op.cit

The use of social assistance as an automatic stabilizer in the economy is constrained by the system's design, which is based mainly on entitlements, instead of a minimum subsistence income. In the latter type of systems, as incomes decline more individuals and households become eligible. In the former Yugoslav Republic of Macedonia, on the other hand, households have to prove that they have acquired the right to social assistance. This makes the system slow in protecting those groups that are most likely to experience the negative effects of downturns. In this regard, the government needs either to improve targeting or switch to a system of social protection based on a minimum subsistence level in order to respond quickly to downturns. Such a system can also allay in-work poverty.⁵⁴

Figures on poverty suggest that, despite increased spending on social assistance, the head count poverty index increased to 31.1 per cent in 2009 (after a reduction to 28.7 per cent in 2008), and the poverty gap widened to 10.1 per cent (from 9.7 in 2005). Reduced poverty and inequality in 2008 was the result of the higher (and probably more inclusive) economic growth achieved in the period 2006–2008.

Households with children under 7 years of age and those with more than four members are overrepresented among the poor. The figures also show that unemployment and educational attainment are important determinants of poverty. In particular, the poverty rate for households with unemployed members was 40.5 per cent in 2009, whereas it was 21 per cent for households with two or more employed persons. Similarly, poverty declines with the educational attainment of the head of the household, ranging between 54.2 per cent for households where the head is without education, to 11.7 per cent for households where the head has tertiary education.

3.5 Unemployment Benefits

Although registered unemployment in the former Yugoslav Republic of Macedonia is relatively high, only a few receive unemployment cash benefits (about 7.5 per cent of registered unemployed), mainly redundant workers. The coverage rate is quite low compared to EU countries, reflecting a labour market situation where: i) a high proportion of unemployed do not have any prior work experience (first time job-seekers); ii) there is a high share of long-term unemployed who exhausted the benefit; iii) many registered unemployed are actually inactive or informally employed, and do not have “official” work experience.

Although from 2009 the administration of health insurance provided to the unemployed was transferred from the ESA to the Health Insurance Fund, unemployed persons still have to register with the employment service to prove their unemployment status (this is expected to change in mid-2011).

The relatively low coverage of unemployment benefits is also due to the strict entitlement conditions that limit the benefits to people who have a sufficient work record (minimum 9 months continuous work or 12 months with breaks). Benefit duration ranges between 3 and 12 months, though maximum

54 ILO *Protecting people, promoting jobs: A survey of employment and social protection policy responses to the global economic crisis*, op.cit.

benefit duration was adjusted downwards from 18 months. Only a small proportion (10–15 per cent) of the entitled unemployed receive the “regular” unemployment benefit, while for most beneficiaries the scheme provides early retirement allowance. During the economic slowdown, the authorities did not make any change in the eligibility criteria and/or level of the benefit.⁵⁵

55 The replacement rate is initially 50 per cent to then decrease to 40 per cent.

4. Roadmap: Policy Priorities for Job Recovery

The former Yugoslav Republic of Macedonia was only marginally affected by the crisis through the decline of exports and foreign capital inflows. Compared to other countries in South Eastern Europe, the impact of the crisis on national output was limited, (0.9 per cent negative growth in output recorded in 2009). The country addressed the downturn with an expansionary fiscal stance and a tight monetary policy to protect the nominal exchange rate. The government significantly increased spending as of the end of 2008, turning the accumulated fiscal surplus into a deficit of one per cent. The deficit widened further in 2009 and 2010 to around 2.5 per cent. Revenue and spending targets in mid 2009 were adjusted by nearly 10 per cent, compared to the initial plan.

To date, the labour market appears only mildly affected by the slowdown. The figures of the LFS for the first quarter of 2011 show that, compared to 2010, employment continued to increase (by 0.8 percentage points) and unemployment to decrease (by 0.6 percentage points). Whereas the employment increases are in line with the trends recorded prior to the downturn, the pace of unemployment decreases has decelerated markedly since 2008. But the employment structure is shifting, with increasing levels of self-employment (which in the country is mostly disguised wage employment) and higher share of employment in agriculture and traditional services that are buffers against open unemployment.

The main risks for the former Yugoslav Republic of Macedonia in the short to medium-term stem from the uncertain economic prospects of its main trading partners, including the vulnerable Greek economy, as well as the volatility of international financial markets.⁵⁶ Negative events in EU economies could undermine the prospect of external financing. The economic and financial situation in Greece still poses a threat to the country's growth prospects, as Greece is a primary source of FDI and one of the largest trading partners. As living standards in Greece are likely to fall due to the implementation of the austerity programme, the income from cross-border trade, as well as from FDI is bound to decline.

The crisis exposed the risks of growth based on buoyant domestic consumption, fuelled by large inflows of foreign savings, mainly directed towards non-tradable sectors. Such strategy is vulnerable

56 Bartlett, W. and Monastiriotis, V. (eds) *South Eastern Europe after the Crises: a New dawn or back to business as usual*, op.cit; International Monetary Fund (IMF), *FYR Macedonia: Article IV Consultation*. op.cit.

to sudden turnarounds, especially when large capital inflows do not reflect real savings. To make recovery sustainable, growth should be based on enhanced domestic savings, investment and labour force participation to increase the contribution of labour to economic development. Employment growth – together with the reduction of absolute and relative poverty – should become an explicit and overarching objective of the country development strategy.

The response of labour market policies should be aimed at: i) supporting labour demand, ii) improving the match between demand and supply, iii) providing (greater) income support to job losers and low-income earners, and iv) targeting the most vulnerable groups.⁵⁷

Labour market institutions in the former Yugoslav Republic of Macedonia could be more effective. The analysis of the main macroeconomic developments in the country as well as the main policy responses introduced during the crisis point to a number of policy adjustments that would ensure a faster recovery. These are summarized below.

- The macroeconomic and financial policies undertaken prior to the crisis helped contain the impact of the downturn. Continued fiscal prudence will help strengthen public finances further and provide a buffer against future shocks. This will be critical to support employment, should the impact of output contraction be transmitted to the labour market with the expected time lag.
- The role of income support institutions in the former Yugoslav Republic of Macedonia could be improved. The role of social assistance benefits as automatic stabilizers, in particular, could be enhanced by shifting their design from an entitlement-based approach to a better targeted mechanism. Enabling the operation of social assistance as an automatic stabilizer would lessen the need for discretionary fiscal policy responses to the business cycle, as well as improve targeting and reduce poverty.
- Like social assistance, the unemployment benefit system maintains income levels after job loss, mitigates consumption levels and keeps people out of poverty. The unemployment benefit system, given its low coverage, does not represent an effective tool for income support. To make the unemployment benefits more responsive to economic downturns, the authorities may consider introducing mechanisms that allow temporary changes in eligibility criteria and/or replacement rates.
- As occurred in many other countries, the involvement of the social partners in the design of the anti-crisis packages in the former Yugoslav Republic of Macedonia was limited. The Economic and Social Council was not operational at the onset of the crisis and social dialogue reverted to bilateral negotiations between the government and the representatives of employers on the one hand, and between the government and trade unions on the other. Increasing the effectiveness of social dialogue institutions would produce results-oriented responses to the crisis, and also

57 Cazes, S., Heuer, C. And Verick, S.; “Labour market policies in times of crises”. In: Islam, Iyanatul and Sher, Verick (eds), *From the Great Recession to labour marker recovery: Issues, evidence and policy options*, International Labour Organization, 2011

address the long-term employment challenges the country is facing. In addition, current practices of bipartite negotiations leading to collective agreements at branch and enterprise level should be further encouraged.

- The reform of the education and training system needs to be accelerated to remedy the mismatch between the skills provided to workers by the education and training system and those demanded by enterprises. Such reforms require the review of available skills, the needs of enterprises and the operation of the education and training system, and foremost, a high level of coordination between the public sector and industry. Policy-makers should focus attention on all educational levels and target prevention of early school leaving. Early child development policies need to be introduced as an instrument to improve educational outcomes, especially for the most vulnerable groups.
- There remains a need to improve the range, scope and targeting of active labour market programmes aimed at improving the match between labour supply and demand. Initiatives such as job search assistance, labour market training, work experience schemes, employment subsidies and self-employment programmes must be considered. Although these programmes are less effective in an environment of low labour demand, they are nonetheless instrumental to help overcome structural unemployment.
- In the short term, programmes such as employment subsidies, targeted reductions of social security contributions, public work programmes and entrepreneurship development schemes would support job creation, especially for the groups most at a disadvantage in the labour market. In the medium term, and once labour demand recovers, more effort should be deployed in improving job search services that are universally recognized as the most cost-effective measures among ALMPs. Finally, rigorous monitoring and evaluation would provide evidence as to what works and for whom and help shape evidence-based active labour market policies.

References

- Alasina, A. F. and Ardagna S., *Large changes in fiscal policy: Taxes versus spending*, NBER Working Paper Series, No. 15438, 2009
- Angel-Urdinola, D. F. and Macias, V., *FYR Macedonia Labour Market Profile 2004-2007*, World Bank, Washington D.C. 2008
- Bartlett, W. and Monastiriotis, V. (eds) *South Eastern Europe after the Crises: a New dawn or back to business as usual?*, London School of Economics, 2010
- Brada, J., Macro-economic convergence, in (eds) UNDP, *Convergence to the European Union: Challenges and opportunities*. Ministry of Finance and UNDP, Skopje, 2009, [http://www.undp.org.mk/content/Publications/EU%20Convergence%20Study%20ENG\(2\).pdf](http://www.undp.org.mk/content/Publications/EU%20Convergence%20Study%20ENG(2).pdf).
- Cazes, S., Heuer, C. And Verick, S.; “Labour market policies in times of crises”. In: Islam, Iyanatul and Sher, Verick (eds), *From the Great Recession to labour marker recovery: Issues, evidence and policy options*, International Labour Organization, 2011
- Commander, S. and Kollo, J, *The changing demand for skills: Evidence from the transition*, IZA Discussion Paper, No. 1073, 2004
- European Bank for Reconstruction and Development (EBRD), *Transition Report: Transition in Crises*, European Bank for Reconstruction and Development, London UK, 2009
- *Transition Report: Recovery and reform*, European Bank for Reconstruction and Development, London UK, 2010.
- Economic research and data, Paris, 2011, <http://www.ebrd.com/pages/research.shtml>
- European Commission, Directorate-General for Economic and Financial Affairs, *The pre-accession economies in the global crisis: from exogenous to endogenous growth?*, Occasional Paper No 62, Brussels, 2010
- European Training Foundation (ETF), *Human resources development country analysis: Former Yugoslav Republic of Macedonia*, ETF Working Paper, 2008.
- Hrdlicka, Z. et al., *Further Advancing Pro-growth Tax and Benefit Reform in the Czech Republic*, OECD Economics Department Working Papers, No. 758, OECD, Paris, 2010
- International Labour Office (ILO), *Global wage report: Wage policies in times of crises*, ILO, Geneva, 2010

- Protecting people, promoting jobs: A survey of employment and social protection policy responses to the global economic crisis*, ILO report to the G20 Leaders' Summit, Pittsburgh, 24–25 September 2009
- International Monetary Fund (IMF), *FYR Macedonia: Article IV Consultation. Concluding Statement*, IMF, 2010, <http://www.imf.org/external/np/ms/2010/111710.htm>.
- Islam, I. and Verick, S., “The great recession of 2008-09: Causes, consequences and policy responses”, In: Islam, Iyanatul and Sher, Verick (eds), *From the Great Recession to labour market recovery: Issues, evidence and policy options*, International Labour Organization, 2011
- Lehmann, H. and Kluve, J., *Assessing active labour market programmes in transition economies*. 2008, <http://academic.research.microsoft.com/Paper/4816677>.
- *Macedonia's Accession to the EU EU and the labour market*, IZA Policy Paper, No. 14, 2010, <http://ftp.iza.org/pp14.pdf>.
- Ministry of Finance, *The pre-accession economic programme 2009–2011*, Ministry of Finance of Republic of Macedonia Skopje, 2009, http://www.finance.gov.mk/files/u9/PEP_Macedonia_2009–2011.pdf.
- Mojsoska, N., *The public employment, education and labour markets in Macedonia*, Nam Press Skopje, 2006
- Mojsoska-Blazevski, N., Wage setting mechanism in the Former Republic of Macedonia: Is it an effective policy tool? Paper presented at the ILO Subregional Conference “*The impact of the financial and economic crisis: Wage fixing and policy responses*”, ILO (forthcoming).
- Mojsoska-Blazevski, N. and Petreski, M., “Detaxication: Labour-cost effect on Employment in Macedonia” (forthcoming).
- Munich, D., Svejnar, J. and Terrell, K., *Do markets favour women's human capital more than planners*, IZA Discussion Paper, No.1393, 2004
- National Bank of the Republic of Macedonia, *Annual Report 2008*, National Bank of the Republic of Macedonia, Skopje, 2008.
- Annual Report 2009*, National Bank of the Republic of Macedonia, Skopje, 2009
- Rutkowski, J., *Minimum wage: A summary of effects*, World Bank, Washington D.C., 2008
- State Statistical Office, *Women and men in the Republic of Macedonia*, State Statistical Office, Skopje, 2010
- United Nations Development Programme (UNDP), *Blue ribbon report for Macedonia*, UNDP Skopje, 2006
- Convergence to the European Union: Challenges and opportunities*, Ministry of Finance and UNDP, Skopje, 2009
- World Bank, *Poverty assessment paper for the Republic of Macedonia*, World Bank, Washington D.C., mimeo, 2007
- Active labour market programs in FYR Macedonia*, World Bank, Washington D.C., 2008
- Social safety net in FYR Macedonia*, World Bank, Washington D.C., 2010

Annexes

Annex 1 – Views of Social Partners

Information from employers' organizations and trade unions was collected through structured interviews. The interview questions were developed based on the *Global Jobs Pact* and divided in two sections: i) government response to the recession and ii) possible policies and measures for supporting faster economic growth and promote employment. There were some differences in the questionnaires for employers' organizations and trade unions, depending on the most important and pressing issues for them. Questions were sent to the social partners prior to the interview. CERM had several proposals for policies and measures that would help enterprises overcome the difficult period. Some of them were general proposals concerning all industries, such as supporting domestic production through public procurement, improving the real estate cadastre, reducing corruption and trade barriers, whereas some were targeted towards specific sectors.

Organization of Employers of Macedonia

The government reacted to the crisis through a more expansionary fiscal policy, but it was neither timely nor very effective given that part of increased expenditures was used for imports. The stimulus was greatest for the construction industry, but it was also used for building administrative offices and buildings rather than invested in infrastructure projects. The support was biased towards companies with liquidity problems, whereas, aside from ALMPs, there were no additional measures to help companies retain their employees. In addition, reforms were not intensive in 2009 and some of the previously planned reforms were not implemented (for instance, the reduction of the social contributions' rate). Social dialogue was implemented through bilateral talks with employers and trade unions, but these meetings were mainly used by the government for promoting its measures rather than to listening to the proposals of the business community. There is considerable progress in the country in terms of the implementation of international labour standards, but in some cases these standards do not match the country's current level of development and have had a negative effect on the competitiveness of national enterprises. The State Labour Inspectorate has improved its operations, but the penalties for non-compliance are very high. There should be a system of advice before punishment, and the legal framework has to be equally applied over the whole territory.

According to the Organisation of Employers of Macedonia, fiscal policy should be more focused on stimulating domestic demand. Given that the markets are not fully developed yet, there is room for the intervention of the government, mainly in the form of a regulator.

Higher economic growth in the long run requires greater investment in infrastructure, as well as better prioritization of the policy objectives to be achieved. Once priorities are set, government measures and policies would be more easily enacted.

Confederation of Employers of Republic of Macedonia (CERM)

The Government response to the crisis was inappropriate in its scale and was biased towards certain industries, for instance the construction sector. Not all of the announced anti-crisis packages, and especially the infrastructure investment package, were enacted as planned. The employers also consider that the government failed to fully and in a timely manner inform them on the measures that were undertaken during the crisis.

Regarding the cooperation and coordination between the employer organizations and the government, the CERM holds the view that cooperation could have been more structured, with a greater use of existing employer organizations, rather than *ad hoc* consultations. According to CERM, inspection agencies were very active during the recession and very strict in enforcing the law, sanctioning high fines without any prior consultation or recommendation. In addition, the business regulatory environment is quite unstable with frequent changes that are sometimes not well communicated to enterprises.

Trade Unions

The author met all trade unions that are members of the Economic and Social Council in one single meeting. Hence, the opinions expressed here below are consolidated.

Trade unions, in general, are of the view that they were not adequately consulted in the formulation of the anti-crisis packages. Several proposals were presented to the Government on policies that should be implemented during the recession, but only one set of proposals received a response. The measures were structured around three pillars: i) economic growth, ii) fight against unemployment, and iii) strengthening of social dialogue and collective bargaining. Some of the proposed measures were implemented in the fourth policy package, while some of them were not (for instance, the proposal of targeted assistance to the textile industry, hard hit by the crisis). Trade unions were consulted for, and supported, the gross wage reform, but some of their recommendations were not taken into account. The request to fix a national minimum wage was not considered, but it will be proposed again as part of the trade unions' 2010-2015 work program.

Regarding active labour market programs (ALMPs), the trade unions are interested in an evaluation of the measures, which they will require through the Economic and Social Council. They are, however, consulted on ALMPs design, as the Operational Programme (OP) is discussed at the Economic and Social Council.

The trade unions support greater awareness building, but also sanctions in case of informal employment. In 2008 they were part of a large campaign for the reduction of informality (in partnership with the Ministry of Labour and Social Policy), but unfortunately the campaign stopped unexpectedly.

Annex 2 – Active Labour Market Programmes Planned for 2011

Type of programme	Planned beneficiaries	Allocation (in MKD mil)	Eligibility criteria	Key features
Self-employment programme	700	147.5	Young unemployed (up to 27 years), Roma, women unemployed more than 3 months, men unemployed more than 6 months, professional soldiers	Eligible unemployed would receive training (business plan, accounting, marketing) and direct support for equipment purchase
Formalization of non-registered businesses	250	47.00	All unemployed for more than 3 months, and registered unemployed	Those eligible would receive financial support for equipment and for registering the business
Employment subsidies for firms established through the start-up and formalisation programme	90	8.13	Registered unemployed	Employers would receive a lump sum of 92.000 MKD per each newly created job, up to 5 jobs
Programme to support mobility of workers	20	3.70	Registered unemployed accepting a job at least 60 km from the place of residence, except in the city of Skopje	Eligible workers would receive MKD 185.000 per year (focus would be on highly educated individuals, aged up to 34 years)
Training and re-qualification	4,906	39.5	Registered unemployed	
– vocational training and requalification	156	3.5		
– general training provided by Job Clubs	1,600	1.6		
– training for occupations and skills for which there is a labour market gap	170	10.0		While on training, workers would receive MKD 4.700 net per month (as a daily allowance)
– training for known employer (textile industry)	800	9.6	Young workers, up to 29 years of age	While on training, workers would receive MKD 4.000 net per month (as a daily allowance)
– advanced training for IT staff	180	14.8		
– training for business start-up	2000	0.0		
Employment subsidies	655	59.00	Vulnerable unemployed (orphans, young workers up to 27 years, single parents, elderly workers)	Employers receive MKD 15,000 per each newly employed person for 6 months
– subsidised employment for persons with disabilities	200	176.00		
Internship programme	300	4.50	Unemployed up to 27 years of age	Aimed at youth to gain work experience
Conduct a skill-need survey	40	0.20	Unemployed persons who would conduct a skill-need survey	
Women victims of family violence	70	10.50	Women victims of family violence registered as unemployed	The program includes: self-employment, training and pre-qualification and subsidized employment depending on eligibility and individual needs
Programme targeting Roma population groups	34	2.00	Registered unemployed individual of Roma origin	Increase employability through training
All programmes	7,265	499		
Self-employment programme	800	109		
Total	8,065	608		

International Labour Office (ILO)

DWT / CO-Budapest

Mozsar u. 14., H-1066 Budapest, Hungary

Tel: +36-1-301.49.00 ■ Fax: +36-1-353.36.83 ■ Email: budapest@ilo.org

Web: <http://www.ilo.org/budapest>

