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- COVID-19 and the World of Work
Rapid Assessment of the Employment Impacts and Policy Responses

NORTH MACEDONIA



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Covid-19 and the World of Work

NORTH MACEDONIA

Rapid Assessment of the Employment Impacts and Policy Responses

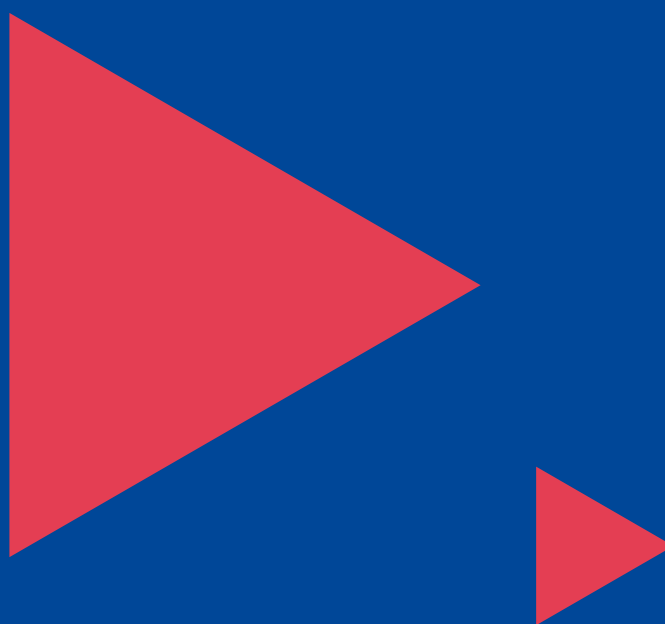
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Contents

▶ Key Messages	6
▶ 1. Preliminary considerations and methodology	10
▶ 2. Socio-economic situation before the health crisis	14
▶ 3. Transmission mechanisms	20
3.1 Direct effects due to containment measures	21
3.2 Indirect effects due to regional and global interdependence	25
▶ 4. Transmission to the labour market	28
4.1. Beyond unemployment: workers and enterprises at risk	30
4.1.1 Mapping labour vulnerabilities at sectoral level	30
4.1.2 Work and enterprises at risk	31
4.2 Mitigating vulnerabilities: the role of labour market institutions	33

► 5. Policy responses and gaps	36
5.1. Overview of the policy response: four key pillars based on international labour standards	37
5.2. Winners and losers during the current phase of the crisis	42
5.3. Options for a more inclusive policy response	46
► Annexes	49
Annex 1 Mapping the labour vulnerabilities of selected sectors	51
Annex 2 Impact of the crisis on enterprises	53
Annex 3 COVID-19: Containment, closure and health measures adopted	54
Annex 4 Policy packages already adopted	56
Annex 5 Practical guidance on changes required in labour legislation to mitigate the impacts of Covid-19	60
About this report	64
Acknowledgements	64

▶ Key Messages



The decline in working hours during quarter 2 is equivalent to the loss of 85,550 full-time jobs. The Covid-19 crisis hit North Macedonia after a year of exceptional job growth, with almost 40,000 jobs added to the economy (bringing total employment to almost 800,000). According to the ILO “nowcasting” model, which tracks declines in working hours resulting from both lay-offs and other temporary reductions in working time, working hours in the Western Balkans declined by an estimated 11.6 per cent during quarter 2. While the ILO has not yet released country-level estimates, application of this ratio would imply that North Macedonia stands to lose approximately 85,550 full-time equivalent jobs (assuming a 40-hour working week) during this quarter.¹

Certain jobs are curtailed only temporarily, while others will be lost permanently. According to the enterprise survey conducted by the employers’ organizations, in collaboration with the ILO and the EBRD, the pandemic has severely affected 82 per cent of enterprises. The majority (43 per cent) reported a reduction in revenues by 50 per cent or more and 11 per cent closed down their company temporarily. Micro companies are hardest hit by the crisis, with 50 per cent reporting that their revenues have halved and 19 per cent that they have closed their businesses. Around 50 per cent of the respondents indicated that their company could not survive until the third quarter without significant changes in the situation. Less than half (47 per cent) of the surveyed companies have access to financial support to help their business recover. Large companies have shown more resilience: even though 48 per cent of them reported a decline in revenues by over 50 per cent, 78 per cent indicated that they would be able to access own-funding or external financial support during the coming months.

The repercussions and lingering effects of the Covid-19 crisis on jobs and enterprises in specific sectors also depend on their relative vulnerability to shocks. The Rapid Assessment maps aggregate labour vulnerabilities in 39 sectors of the economy, representing around 92 per cent of the workforce. When gender- and age-related vulnerabilities are taken into consideration, 49 per cent and 59 per cent of total employment falls within medium-high and high-vulnerability sectors, respectively. Nearly 62 per cent of all employers and non-employer enterprises in North Macedonia are in hard-hit sectors. Many of these sectors include varying degrees of informality and the policy space for responding to the needs of such enterprises is currently limited, or non-existent.

Nine sectors that have been strongly impacted by the crisis also display elevated labour vulnerabilities: 40,000 jobs are at immediate risk. The sectoral analysis shows that food and beverages services, retail, transport, warehousing, personal services, food manufacturing, construction and related specialised activities, and services to buildings combine high labour vulnerabilities and a high impact of the Covid-19 crisis. There are over 26,000 own-account workers and over 50,000 micro-enterprises in these nine sectors. Over 33,000 workers have a fixed-term contract and another 33,000 are informal workers (around 26 per cent of total informal employment in the country). Without adequate measures to support these workers and enterprises, the employment rate in North Macedonia could fall immediately by around 5 percentage points.

The main employment retention measures put in place by the Government were timely, but the intensity of the support may be too low to achieve the desired impacts. Although the employment retention measures appear generous in the most densely populated segments of the wage distribution, they fall significantly in intensity over the four months of the programme. The share of subsidies in the total formal wage bill—a useful measure of cross-country comparison—is only between 4 and 6 per cent. Furthermore, the binary eligibility criterion of a 30 per cent revenue loss during April is not responsive to the fact that, as highlighted in the enterprise survey, the intensity of impact may vary significantly over time and among different firms and sectors. The design of the measure with regard to the firms and workers supported is progressive (stronger for low-wage workers and for labour intensive industries

¹ As noted in the nowcasting methodological notes for the ILO Monitor: Covid-19 and the World of Work, this estimated loss in working hours should translate into a significantly less severe employment reduction, as firms and individuals adjust by simultaneously reducing working hours, cutting jobs and withdrawing from work.

that, overall, are affected more heavily) and carries negligible deadweight. However, its complexity may lead to the exclusion of or low uptake among firms with low administrative capacities, such as the badly affected micro and small enterprises.

Unemployment benefit is not functioning as an automatic stabilizer and the rules governing eligibility may need to be relaxed temporarily. Unemployment benefit is the only systemic compensation instrument for those who have lost income from work but remain ineligible for the guaranteed minimum income (GMI). The dualization of the labour market, however, has diminished its protective role (see Section 4.2). Most workers losing their jobs during this crisis belong to the second-tier (atypical employment contracts) and/or third-tier (informal) segments of the labour market, with little or no access to unemployment benefits. Almost 40 per cent of the over 180,000 atypical workers in North Macedonia are in informal employment.

Decision-makers have to be careful not to exacerbate a dynamic of “winners and losers” emerging from the current crisis. In the survey, a common plea among enterprises was that criteria for the allocation of government resources across programmes and to final beneficiaries should be fair and transparent. Furthermore, some population groups are highly vulnerable, but less visible. Their ability to earn will have been reduced and they will have diminished options to find a good job in the post-lockdown pre-vaccine phase. Among such groups are: formerly non-poor informal workers without basic security who have lost any possibility to earn, but do not meet asset or other criteria for the GMI; GMI beneficiaries who used to augment their income through occasional work; long-term unemployed; seasonal workers, casual, and temporary workers; internal and especially external migrants. Sections 4.1 and 5.2 give consideration to the specific impacts of the crisis on women and young people.

Eleven policy recommendations emerged from the analysis to be further evaluated and adjusted through social dialogue. Based on the data and analysis presented in this Rapid Assessment, the ILO/EBRD Task Force has elaborated 11 policy options (Section 5.3 of the report) that policy-makers in North Macedonia may consider implementing immediately during the reactivation phase and, should it happen, during a potential resurgence of Covid-19. It would be appropriate for tripartite partners to review and discuss the legal, economic and financial aspects of these policy proposals. Some trade-offs will have to be considered, while building on common ground for the protection of workers and enterprises.

Options for expanding worker and family protection measures:

1. Introduction of temporary unemployment assistance, paid monthly at a flat rate for a maximum of six months.
2. Introduction of an intermediate category of eligible firms for the job retention measures (between 10 and 30 per cent turnover loss) to smoothen the sudden leap from complete ineligibility to complete eligibility and significantly broaden the share of protected employees in total employment.
3. Extension of the job retention programme's eligibility period to include the second half of March and until the end of June.
4. Further extension of the GMI eligibility rules by temporarily removing the remaining means-testing conditions except for rental property, while retaining the income test.
5. Introduction of a lump-sum utility cost / energy subsidy for those who can prove that their household income has been reduced by more than 50 per cent due to the crisis.

Options for active employment measures:

6. Promotion of in-work intergenerational solidarity, through job sharing schemes, job rotation, extensive trainee schemes and apprenticeship programmes, building on the existing Youth Guarantee but vastly expanding it.
7. Investment in the digital economy, as part of an intergenerational solidarity strategy, a proactive industrial strategy and a strategy for improved service provision to citizens and enterprises.

Options to support enterprises:

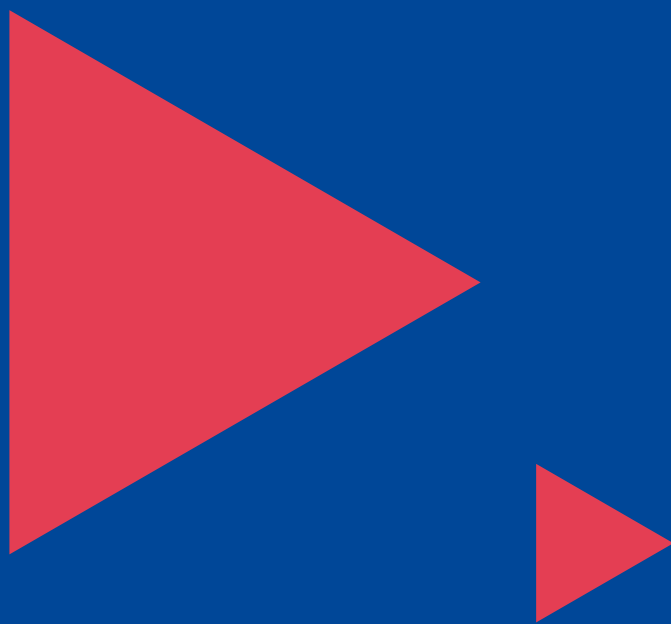
8. Strengthen and diversify the package of measures according to specific needs and based on dialogue with relevant stakeholders. For instance, facilitate micro-enterprises' access to (subsidized) liquidity loans: they have been hardest hit (measured by the decline in their revenues), but are also least likely to have their own funds to overcome the period of reduced activity. Specific measures may be introduced, where considered appropriate, for large exporters. In the enterprise survey, companies asked for VAT deferrals for six months, particularly for companies not able to access other government support programmes.
9. Accelerate the return to normalcy in terms of the services and administrative functions that institutions need to provide to support business. This may require investments in digital solutions to facilitate efficiency and quick turnaround time that would not impose additional burdens on enterprises.

Options for better legal protection of some categories of vulnerable workers. Detailed practical guidance is provided in Annex 5:

10. Extension of certain forms of protection to workers with fixed-term and part-time contracts, as well as other particularly vulnerable workers.
11. Prevention of the misuse of termination of employment by agreement.

▶ 01

▶ Preliminary considerations and methodology



It all began as a health crisis, far from Europe and North Macedonia. The spread of Covid-19 quickly engendered a global economic crisis, however, with falling oil prices and crashing stock markets. The caretaker government of North Macedonia, appointed in early January 2020 to lead the country toward fair and democratic elections in the following April, found itself confronting unprecedented events unfolding in the country, in the region, and globally. Given the Government's limited powers and in the absence of a Parliament, the President overcame the deadlock by proclaiming a state of emergency on 18 March, when 41 people turned out to be infected with the disease. The President subsequently extended the state of emergency, while the Government introduced additional restrictions and convened several advisory groups to support analysis and decision-making at this crucial time. Among others, the Prime Minister occasionally convened an economic council, with the participation of representatives from the major chambers of commerce, academics and a few large companies (including foreign investors). Similarly, the Minister of Finance established an ad-hoc council of experts to advise on fiscal, but also broad economic measures related to the Covid-19 crisis.

In line with this mobilization, the Economic and Social Council (ESC), a permanent tripartite body facilitating social dialogue and socio-economic stability, tasked its Standing Committee on employment and labour market policies to work with the International Labour Organization (ILO) to enable an adequate response to the crisis. In March 2020, an ILO regional Task Team on Covid-19 and the World of Work, comprising ILO experts and national and regional advisors, extended its operations to North Macedonia, thanks to the EU-funded project "Strengthening Social Dialogue". In April, the European Bank for Reconstruction and Development (EBRD) joined the Task Team. The objective set by the ESC is to facilitate dialogue among government, social partners and other relevant stakeholders on coherent policy responses to support workers, families and enterprises. Policy dialogue should stem from evidence on the immediate employment impacts and the most significant transmission mechanisms of the Covid-19 pandemic in North Macedonia.

The Rapid Assessment conducted by the Task Team looks at the situation of vulnerable workers and at-risk enterprises in multiple sectors. It strives to generate evidence and options for better structuring dialogue and negotiations around plausible policy measures. With regard to the latter, three main considerations are relevant:

1. general policy packages need to be calibrated depending on the available fiscal space and the existing policy framework;
2. policy packages already adopted have some gaps – either in the design or in the implementation— from the perspective of protecting the most vulnerable, such as non-standard workers², own-account workers, and micro-enterprises;
3. policy measures are instrumental only if tailored and properly timed to the phase of the Covid-19 crisis in which the economy is primarily placed.

² North Macedonia's labour legislation does not define the terms "non-standard forms of employment" or "non-standard workers". However, the following forms can be found in the current labour legislation: temporary employment (fixed-term employment contracts and seasonal work); part-time and on-call work (part-time employment contracts, additional work, multiple part-time employment contracts); multi-party employment relationship (temporary agency employment contracts); work provided outside of an employment relationship (civil contracts for the performance of work outside the scope of the employer's business activity, such as "special contracts"). Additionally, Macedonian labour legislation regulates home-working employment contracts, employment contracts with domestic workers and employment contracts with managerial persons (managerial contracts). For more, see: Kalamatiev, Ristovski, *Atypical Employment Relationships: The position in the Republic of North Macedonia*, Restatement of Labour Law in Europe (Vol. II), Hart Publishing, 2019, pp. 277–311.

With respect to the need for the Government and its social partners to sync policies better, the chain of events that was triggered by the health crisis and has had an economic impact is presented in Figure 1.

Figure 1.1 – Covid-19 and the World of Work: timing policies to the appropriate phase

Lockdown	Reactivation	Recovery
■ near complete and mandatory ■ timing and gradual removal subject to debate balancing health, political and economic interests ■ high-contact and non-essential labour heavily constrained ■ consumer demand for durables and non-essential goods and services plummeted, fuelled by uncertainty ■ loss of working hours as key metrics in the short run	■ workers trickle back into workplaces ■ slowed down by safety and health considerations for workers and clients ■ negotiations on safe return to work ■ ruptured productive supply chains need mending ■ in the medium term, liquidity shortages also undermine viable businesses ■ unemployment, underemployment and job losses as useful metrics in the medium term	■ made difficult by (still) low aggregate demand ■ fiscal limitations circumscribe government room to manoeuvre ■ registered employment; GDP per person employed; and mortality rate of enterprises as helpful metrics in this phase

Source: Task Force elaboration based on several sources.³

The stringency of the lockdown in North Macedonia was high: the Government enacted several measures to facilitate remaining at home and social distancing (see Annex 3), including a general requirement for workplace closures, applying to all sectors except some essential activities. From a labour market perspective, informality and the incidence of rural work may have mitigated the lockdown's stringency.⁴ Some authors (Parisotto, mimeo, 2020) divide the lockdown/reactivation phases into four contiguous diagnostic steps, in which policy priorities are closely interconnected. North Macedonia started to lift the lockdown gradually in early May.

For the purposes of this report, reactivation is defined as the period occurring post lock-down and before the wide availability of a vaccine (in the absence of a miraculous disappearance of the virus). There seems to be a consensus that the virus will continue to be around as a threat and obstacle to normalcy even if it may temporarily be less acute in the country or region. Covid-19 is a threat as long as it exists somewhere and there is a risk of resurgence during the fourth quarter of 2020. During the reactivation phase, it is helpful to distinguish between high-contact and low-contact occupations, because reactivation will clearly be constrained by health and safety concerns in high-contact types of business. Supply chain disruptions and demand shocks will play a more important role in low-contact sectors.

Social dialogue underpins the process of identifying an adequate policy mix across these different phases. This requires the active participation of representative employers' and workers' organizations, along with other experts, including sectoral associations.

³ For an analysis of the stringency of the lockdown, please see: Hale, Thomas, Sam Webster, Anna Petherick, Toby Phillips, and Beatriz Kira (2020). Oxford COVID-19 Government Response Tracker, Blavatnik School of Government. Data use policy: Creative Commons Attribution CC BY standard. Available at: <https://covidtracker.bsg.ox.ac.uk/> The situation varied through the weeks of the lockdown. For two weeks in April, lockdowns were from 4 pm to 5 am the next day; the longest curfew took place over 84 consecutive hours during a long weekend.

⁴ ILO Monitor: COVID-19 and the world of work (7 April 2020), Second edition, Updated estimates and analysis). In North Macedonia, rural employment is 47.4 per cent of total employment. One in four rural jobs is informal (26.8 per cent, compared with 8.1 per cent in urban areas). Informality affects men more than women (18.5 and 13.7 per cent, respectively), except in rural areas, where women are slightly more affected (27.8 per cent). Informal workers will receive particular attention in this report, as the majority of them may face compounded vulnerabilities and tend to be further away from health services and social protection. Source: LFS, 2018.

The methodology used by the Task Force includes multiple tools. In particular, the following approaches were applied:

- a. **Enterprise survey.** The Rapid Assessment builds on the results of the enterprise surveys that Macedonian employers' organizations conduct periodically, in partnership with the ILO and the EBRD. While having no pretensions of representing the full extent of Covid-19's impacts, the enterprise survey provides snapshots of how formal establishments in different sectors are faring throughout the different phases of the crisis and what urgent needs they voice.⁵ To avoid any "cross-contamination" of perceptions, this Rapid Assessment derives its findings only from the questionnaires that were answered with reference to the lockdown phase. The enterprise survey will be repeated during the reactivation phase.
- b. **Sectoral analysis.** Through a sectoral decomposition (2-digit) of Labour Force Survey (LFS) data, the sectoral analysis provides an overview of the sectors most at risk from the viewpoint of job quantity and quality. It also offers some data for the parametrization of policy options. The LFS also provides baseline microdata for nowcasting.
- c. **Administrative data.** Selected administrative data are collected from the public employment service, social welfare centres, tax authority and other institutions (together with relevant time series) to gauge real-time occurrences in the labour market. High-frequency economic and labour market data support the ILO's nowcasting model.
- d. **ILO nowcasting model.** This method uses data that are available almost in real time to predict aggregate hours worked, which are published with substantial delay. The resulting estimates are compared with the baseline (the latest pre-crisis quarter, namely, the fourth quarter of 2019, seasonally adjusted). The data in the nowcasting model include a variety of economic indicators, including the evolution of the labour market. The ILO nowcasting model produced Western Balkan aggregates for both quarter 1 and quarter 2. As enough high-frequency indicators become available, the ILO will produce a direct nowcast for each Western Balkan economy in the second quarter of 2020.

Importantly, times of turbulence tend to be marked by worse quality data. Because real-time data are lacking in most countries, particularly on labour market impacts, it is essential that the assessment take into account multiple indicators and qualitative insights on economic and employment effects. The overall principle guiding the approach is pragmatism. Today, there are so many things that policy-makers still do not know about Covid-19, how profoundly it has hit the country, and for how long it will reverberate through the economy. Thus, by pinning down some of the facts and evidence available at the time of writing, the Rapid Assessment strives to support the formulation of an adequate exit strategy from the current situation.

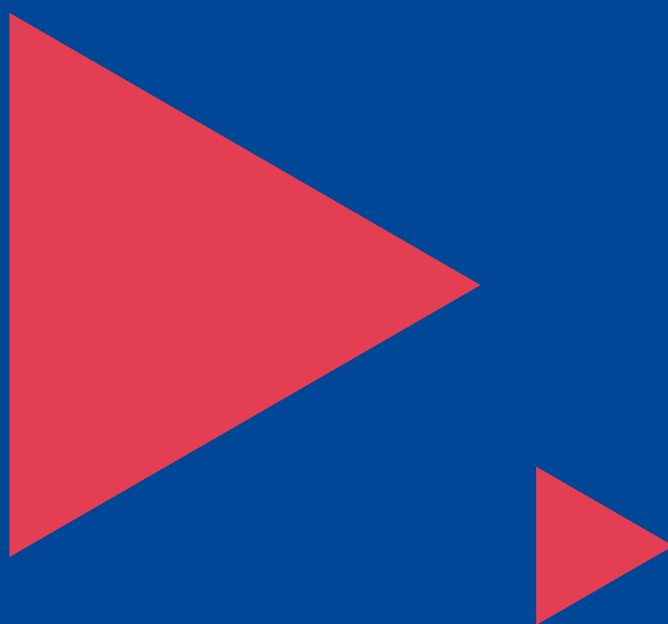
This Rapid Assessment was conducted primarily during April 2020, and released approximately 80 days after the first case was registered on 26 February. Infections stood at 1,494 at the beginning of May (39 per million/pop). Eighty-one people have lost their lives.⁶ During this period, the country was still under lockdown, with the large majority of workers experiencing workplace closure and dramatically reduced working hours. Subsequent iterations of the Rapid Assessment will provide additional updates and analytics as the country moves through the reactivation phase.

⁵ At the time of writing, 315 enterprises have responded to the survey, representing around 0.4 per cent of the total number of establishments in North Macedonia. Two-thirds of the respondents are based in Skopje. The majority (38 per cent) are micro enterprises with 1–9 employees. MSMEs account for 91 per cent of all responses. This is similar to the overall distribution of companies by size in the country. Still, large companies are over-represented in the sample as their share in the total number of establishments in 2018 was 0.3 per cent.

⁶ <https://koronavirus.gov.mk/vesti#stat>

► 02

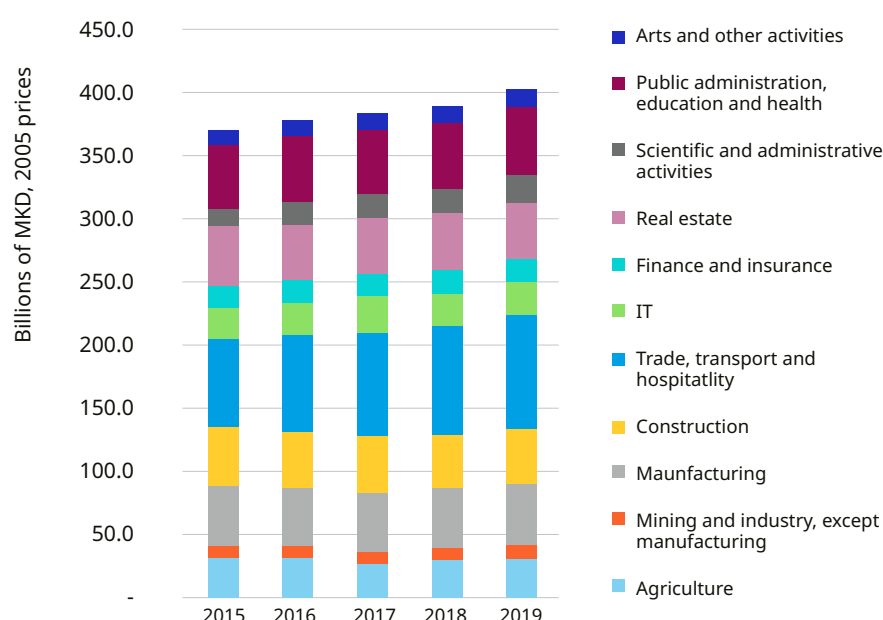
► Socio-economic situation before the health crisis



The Covid-19 pandemic hit North Macedonia during an economic upturn, real GDP having been growing constantly, albeit moderately, since 2013. In 2019, growth accelerated to 3.6 per cent, up from 2.7 per cent in 2018. The main contributors – wholesale and retail trade, construction and real estate services— together added 1.7 percentage points to growth. Agriculture and public services each contributed 0.3 percentage points, while the contribution of manufacturing was neutral, due to a slowdown in late 2019.⁷ Trade, transport and hospitality, the public sector, manufacturing and mining are the top sectors in terms of value added (Figure 2, plot a) and jobs (plot b). If the public administration is excluded, wages in these sectors remain below the national average (plot c). On the demand side, private consumption has been the main driver of growth in recent years and the trend was projected to continue. Although it has improved in recent years, the share of FDI in GDP is still lagging behind, having averaged 3.5 per cent over the past 10 years, compared with 5.8 per cent in Serbia and 8.8 per cent in Albania. This is due to occasional instabilities, as well as economic factors such as small market size and limited infrastructure. After a large increase of FDI in 2018 (604 million euros), net FDI inflows in 2019 declined to 291 million euros (€). Furthermore, recent research (Trajkovska and Petreski, 2018) finds that domestic companies benefit only marginally from FDI (less than 10 per cent of inputs are sourced locally). Foreign investors operate in industrial development zones and tend to benefit from considerable subsidies, while domestic value added is limited to the wages paid to workers, at similar rates as in the rest of the economy. On the other hand, the World Bank’s country diagnostic found that revenue total factor productivity of a Macedonian company increases by 7.9 per cent for exporters, by 4.5 per cent for firms using foreign technology and by 3.3 per cent for foreign owned firms (World Bank Group, 2018).

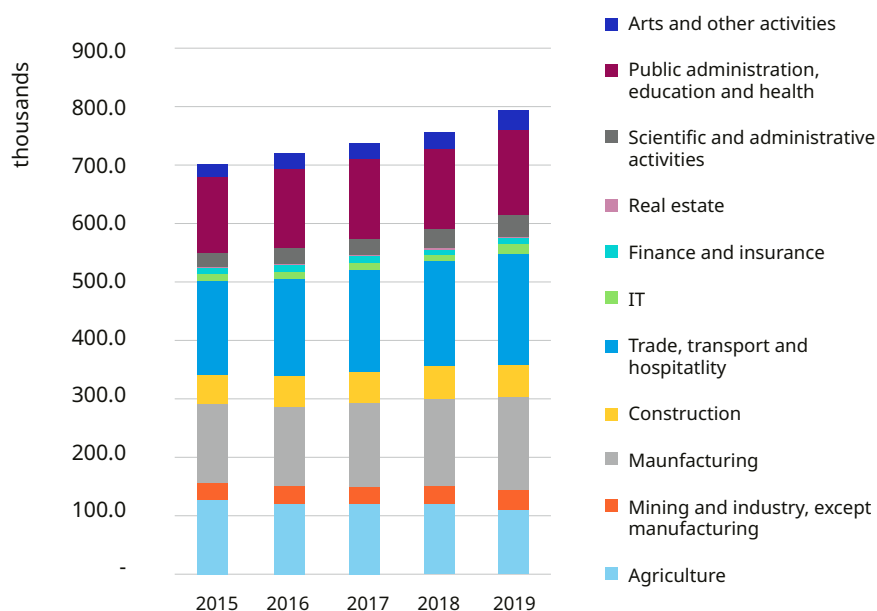
Figure 2.1 Sectoral composition of growth, employment and wages

a. Value added

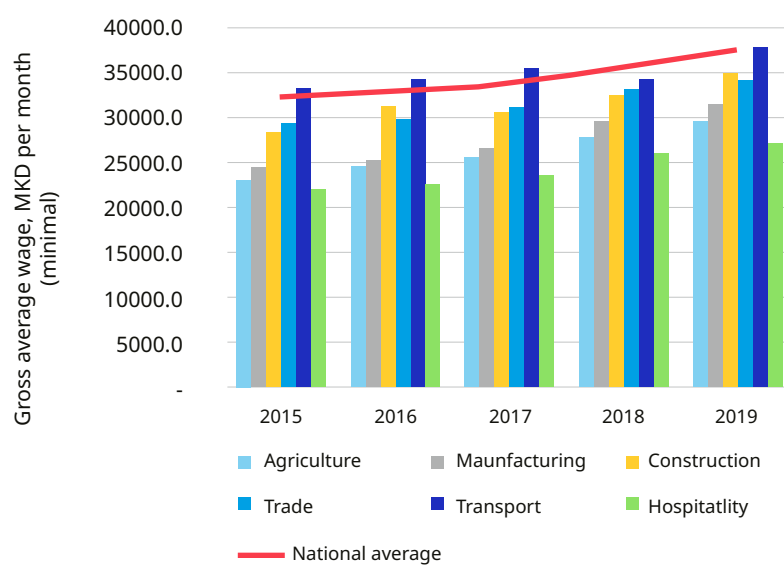


⁷ World Bank, Regular Economic Report (RER), April 2020.

b. Employment



c. Wages



According to the World Bank's Regular Economic Report (RER) for the Western Balkans (April 2020), in 2019 the current account deficit reached 2.8 per cent of GDP, compared with just 0.1 per cent in 2018. FDI-related exports, such as automobile parts, electrical machinery and buses, grew at double-digit rates, and exports of furniture, iron, and steel were solid, but traditional apparel exports declined. Net current transfers fell, driven by a fall in remittances (1.7 per cent of GDP) and EU grants. External debt was relatively stable at 74 per cent of GDP. The fiscal deficit reached 2.1 per cent of GDP in 2019, as spending increased more than revenues, while remaining on the path of fiscal consolidation.⁸ The increase in general government revenues of 0.7 percentage points of GDP was not enough to compensate for spending, which was up by 1.7 percentage points. The rise in revenues was underpinned by social contributions, while higher spending was driven by the Government's scaled up subsidies, higher spending for goods and services and clearance of local government arrears. In 2019, an increase in imports subtracted 2 percentage points from GDP growth and the trade deficit reached 14.3 per cent of GDP. Average inflation remained low in 2019: consumer prices rose by 0.8 year-on-year because of higher prices for food. It slowed down further to 0.6 per cent year-on-year by March 2020, as oil prices declined.

Since 2009, the structure of both exports and industry has been improving. Despite some positive developments, the World Bank's Systematic Diagnostics of the Country (2018) judged the economy's overall structural transformation to be slow. Structural bottlenecks in agriculture inhibit productivity and competitiveness. Higher-value added service sectors, such as IT, finance and insurance, have become more significant, but with limited job creation. A large part of the workforce remains "trapped" in low-productivity jobs in agriculture and textiles. As a result, overall labour productivity has not grown sufficiently fast to secure rising wages and improved living standards. The World Bank's RER indicated an increase of 4.1 per cent in the average gross wage during 2019. This is mainly because of the increases in both public sector wages and minimum wages,⁹ however, combined with the large share of workers receiving the minimum wage in labour-intensive sectors, such as textiles (34.7 per cent), market services (27.7 per cent), construction (23.1 per cent) and agriculture (20.2 per cent) (data for 2018 from Petreski and Mojsoska, 2019).¹⁰ Of the nearly 76,000 active enterprises in 2019 (5 per cent and 8.2 per cent increases compared with 2018 and 2015, respectively), micro enterprises (1–9 employees) represent almost 81 per cent. The majority of businesses (30.5 per cent) are registered in the trade sector, among which 21,699 are micro-businesses. Eleven per cent of enterprises are registered in manufacturing and nearly 7 per cent in construction; only 10 per cent of businesses operate in scientific and technical activities. The profitability of Macedonian companies remains generally low. According to National Bank of the Republic of North Macedonia data, the profitability ratios of foreign companies in technological zones are much higher than the average profitability of the business sector overall.¹¹

Over the past decade, labour market trends in North Macedonia have been positive, overall. In 2019, the economy added almost 40,000 jobs, bringing the overall employment rate for the working age population (15–64 years of age) to 54.7 per cent.¹² This marked a profound shift compared with the previous decade (2009–18), when 14,600 jobs were added each year, on average mainly in manufacturing, construction, hotels and restaurants, and public administration. Between 2018 and 2019, most new jobs were created in manufacturing, support services, arts and recreation, transport, and trade. Around 8,000 jobs were lost in agriculture. Nevertheless, employment and labour force participation rates (66.3 per cent) remain below those recorded in the EU27 (68.4 per cent and 73.4 per cent, respectively, in

⁸ The increase was overall 0.3 per cent of GDP. The 2019 deficit remains the second smallest after 2008.

⁹ For April, May, and June 2020, the minimum wage was frozen at 14,500 MKD, but had increased from 12,507 in November 2019.

¹⁰ Petreski, M. and Mojsoska, N. (2019) Assessing the economic impacts of the 2017 minimum wage increase in North Macedonia (Budapest, International Labour Organization). Tax administration data indicate that 90 per cent of the Macedonian population earn less than €495 per month.

¹¹ For instance, the return on assets (ROA) of the new production capacities in the technological and industrial development zones (TIDZ) in 2018 was 8.1 per cent compared with 4.2 per cent of the corporate sector overall (or 3.9 per cent for the corporate sector without the companies from technological zones). Similarly, return on equity (ROE) for the foreign companies was double that of the domestic business sector (15.2 per cent vs 7.5 per cent).

¹² Labour Force Survey (2019). Available at: <http://www.stat.gov.mk/PrikaziSoopstenie.aspx?rbtxt=98>

2019). Low participation rates are due mainly to women's low activity rates (54.8 per cent, compared with 77.3 per cent for men), of young people in the age group 15–24 years of age (32.2 per cent) due to school attendance; and of persons over 50 years of age (35.8 per cent compared with 38.6 per cent in the EU27). The labour market situation of young people (15–29) shows low labour force participation rates, especially among young women (41.7 per cent for young women in 2019 compared with 56.7 per cent for young men, although this gap has been decreasing over time). Starting in 2013 the situation for this age group has improved, with employment going up to 30 per cent (still low compared with the EU) and unemployment coming down to 38 per cent (45.5 per cent in 2013). The youth employment gains registered in the past ten years, however, were mainly driven by demographic factors (the population in this age group has decreased by over 13 per cent since 2008). Job gains were limited and benefited mainly young men in the age cohort 25–29. In the period 2008–18 the quality of youth employment improved slightly. The share of young people in wage employment increased from 75.3 to 85.4 per cent, while the proportion of young people engaged as contributing family members declined from 17.8 to 8.5 per cent. This brought a decline of 10 percentage points in young people's share of vulnerable employment (from 24.6 per cent in 2008 to 14.5 per cent in 2018).¹³ Among the general population, informal employment has been hovering at around 19 per cent for the past few years, with women slightly less affected. With an astonishingly large number of workers earning below the average (almost 75 per cent), Finance Think, a research institute,¹⁴ found that almost one in five workers receive part of their wage “in an envelope”, fuelling underdeclared work and tax avoidance.

A recent ILO review of the youth guarantee (ILO, 2019), found that the Macedonian economy seems increasingly geared towards creating blue-collar jobs, for which a decent secondary education should be sufficient. Workers with a secondary education are disproportionately represented among the unemployed, however, particularly in long-term unemployment (almost 80 per cent of total unemployment). These elements point to challenges in terms of the quality of general secondary and vocational education, and the presence of skills mismatches. Many employers have also noted the presence of labour shortages, that is, jobs for which qualified workers are available, but unwilling to take for other reasons (wage, unsocial working hours, stigma).

Growth and job creation, accompanied by an expansion of social protection, have contributed to declines in both extreme and relative poverty over the past decade.¹⁵ On average, between 2009 and 2015, incomes in the poorest decile grew by 6.4 per cent, more than twice the average (around 3 per cent). Nevertheless, working poverty is still high (8.8 per cent, SILC – Laeken indicators) and the At Risk Of Poverty or Social Exclusion (AROPE) composite indicator stood at 41.6 per cent in 2017. It is estimated that social assistance reduces poverty only by about 3 percentage points, compared with the 16 percentage points reduction generated by pensions, as allowances remain low and poorly targeted. The World Bank calculated that only 29 per cent of the poorest decile of households receive any type of social assistance. Similarly, other benefits have limited coverage: in 2020, just before the outbreak, only 2.8 per cent of the unemployed received unemployment benefits (4.4 per cent if the requirement of being actively looking for work is added).

While poor targeting explains the limited impact of social assistance on poverty and income inequality, the limited coverage of unemployment benefit is due to a combination of factors. First, the composition of the jobseeker population in North Macedonia restricts the pool of eligible individuals, given the prevalence of long-term unemployment and a rising number of jobseekers entering the labour force without previous work experience. The latter could be attributed partly to the introduction of the youth guarantee in 2017 to tackle high or growing numbers of young people not in employment, education or

¹³ Vulnerable employment refers to the share of workers in total employment engaged in self-employment (no additional employees) and as contributing family workers. It is labelled “vulnerable employment” here because often these workers have no access to social security, are involved in the informal economy and more exposed to low-paid work and working poverty (source: ILO).

¹⁴ Quality of Life in Macedonia No. 1, “Envelope wages”: http://www.financethink.mk/wp-content/uploads/2017/10/QLife_No-1.pdf

¹⁵ Extreme poverty declined from 9.7 per cent in 2009 to 5.3 per cent in 2015. Relative poverty has remained at around 22 per cent in recent years.

training (NEET). While this policy ultimately strengthens labour-market participation, it has also increased the number of jobseekers without experience or benefit entitlements. Furthermore, anecdotal evidence points to the use of terminations “by mutual agreement”, even when the employer has de facto taken the decision unilaterally. This curtails the jobseeker’s ability to access unemployment benefits. Thus, while income inequality has been declining since 2010, it remains higher than in most peer countries, at 31.9 per cent (Gini coefficient, 2018). In parallel, the middle class grew from 48.7 per cent in 2009 to 55.7 per cent in 2017 (Petreski, 2020)¹⁶. Based on tax administration data, however, the Ministry of Finance revealed in 2017 that the top 1 per cent of earners command 14.4 per cent of total income. Petreski et al. (2019)¹⁷ have shown that such concentration is not driven by labour income, as the top 1 per cent of earners take only 4.3 per cent of the wage mass. This concentration of income motivated the introduction of a progressive and higher personal income tax in 2019, though it was subsequently suspended (Ministry of Finance, 2019).¹⁸

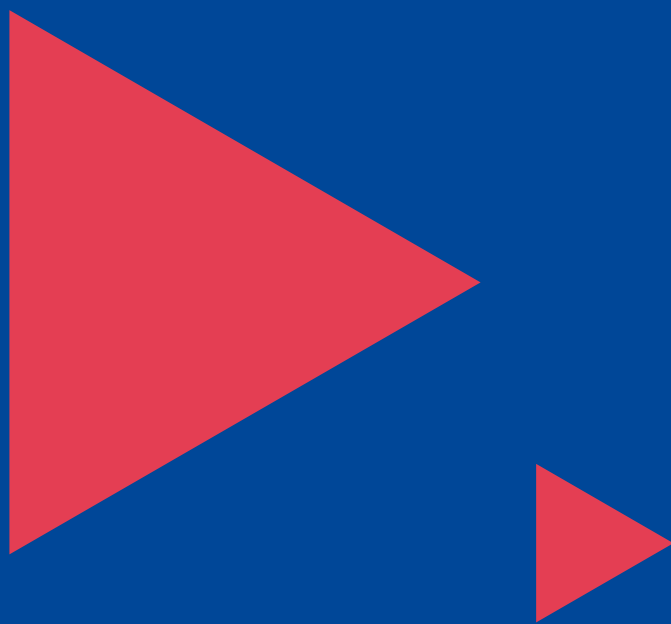
¹⁶ Marjan Petreski: “Beyond income inequality in North Macedonia: An overview”, Finance Think Policy Studies, Policy Study 27 (Economic Research and Policy Institute, 2020).

¹⁷ M. Petreski, N. Mojsoska-Blazevski and M. Ouchi, “The minimum wage as a wage equality policy: evidence from North Macedonia”, *Economic Annals* (2019).

¹⁸ https://finance.gov.mk/files/u3/Analiza_Danok_rev4_per cent20 per cent281 per cent29.pdf

▶ 03

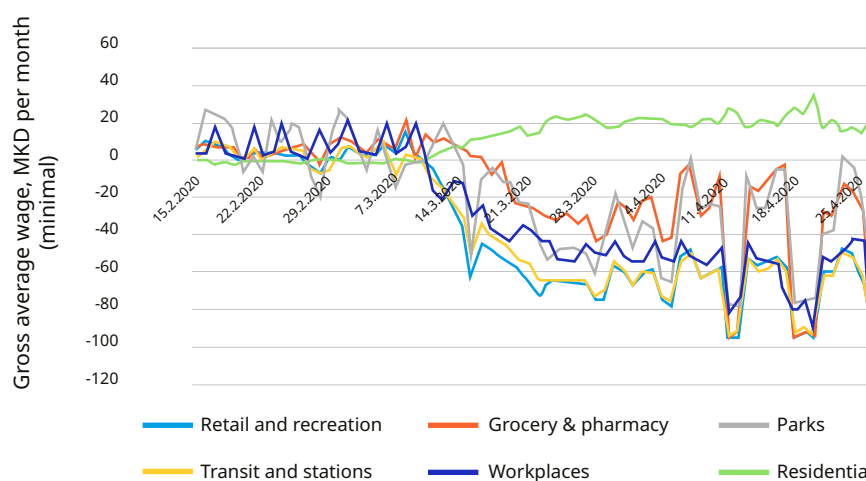
▶ Transmission mechanisms



3.1 Direct effects due to containment measures

The Covid-19 crisis marks a watershed moment for North Macedonia. While citizens had initiated some form of social distancing during the early days of the crisis, the proclamation of the state of emergency on 18 March ushered in a wider array of containment measures in order to slow the virus' spread, avoid an overload of the national health system and minimize catastrophic outcomes in terms of lives lost. The country elected to hospitalize only severe and medium cases, with outpatient treatment offered to milder cases. The country's 19,704 health workers were mobilized from mid-March through a full reorganization of the health care system and the rotation of teams. Lockdown, mandatory quarantine, travel restrictions, school closures and other containment measures have affected workers and enterprises. Many working parents, particularly women, have had to juggle working from home with an additional part-time role as educators for their younger children. A government decision allowed parents of children below the age of 10 to stay at home to care for them; however, employers received no financial compensation for the loss of working hours, while their employees tended to family responsibilities. Two major municipalities, Tetovo and Kumanovo, halted public transport completely. For many workers it became impossible to work, while for others their methods of work altered drastically. Companies had to adjust rapidly to the changed environment. Some managed to switch to e-commerce (online sales), while the enterprise survey shows that 15 per cent of the surveyed companies implemented teleworking. Moreover, every surveyed company made some changes in work organization. Non-essential, high-contact workplaces such as coffee shops, bars, clubs, theatres, cinemas, fitness centres, shopping malls, and casinos shut down in response to government instructions. Retailers could operate with one person per 20 square meters. Some restaurants changed their business model, focusing on online and telephone orders and providing delivery services or collection outside their premises; others shut down completely. Annex 3 offers more details on the containment, closure and health measures adopted since the beginning of the crisis. As this was unprecedented, it is difficult to gauge the impact of some of these restrictions. The 26 April Google Community Mobility Report¹⁹ for North Macedonia (Figure 3), for instance, highlights a fall of over 92 per cent in visits and time spent in places such as grocery markets, pharmacies, restaurants, cafes, shopping malls and movie theatres. The same could be observed for workplaces, where there was a reduction in overall activity of 71 per cent compared with the baseline.²⁰

Figure 3.1 Mobility trends during the lockdown



Source: Google COVID-19 Community Mobility Report (26 April 2020).

¹⁹ Google Mobility Reports show how visits and length of stay at different places change compared with a baseline. These changes are calculated using aggregated and anonymized data.

²⁰ The baseline is the median value, for the corresponding day of the week, during the five-week period 3 January–6 February 2020.

These interventions have severely affected many service sector activities, such as hospitality, tourism and transport. Manufacturing has experienced disruptions in production due to curfews and more stringent work regimes, as well as disruptions along supply chains, as well as sharp declines in demand for goods and stockpiling. The health crisis has sent multiple shock waves through the economy. Transmission mechanisms have varied significantly in terms of intensity and reaction time, depending on several factors. The simultaneity of the supply- and demand-side shocks makes this crisis extremely dangerous. Government restrictions and social safeguards at the workplace immediately contracted supply. Not only have people reduced their consumption of certain goods and services during confinement, but also incomes have been lost and non-essential consumption postponed, including in severely affected sectors, such as tourism and hospitality. For example, March data document a decline in retail trade by 4.6 per cent (year-on-year) and in retail sales of non-food products of 12.7 per cent, while the retail sales of food, beverages and tobacco grew by 3.5 per cent. Some pharmaceutical companies²¹ have attempted to keep up with the changing circumstances and started to produce disinfectants. In addition, some apparel and textile companies converted to the production of facemasks, protective clothes and similar goods, primarily for the health sector, but also for the general population. This complex situation implies that several enterprises may attempt a recovery at a time when reduced consumptions still damp aggregate demand and liquidity constraints compound the situation. During a crisis, the management of financial assets tends to become cautious, possibly leading to reduced access to finance. In 2019, North Macedonia displayed a deposit growth of 10.1 per cent year-on-year, for a loan-to-deposit ratio of 83.1 per cent. Thus, banks could still have room to lend more.²²

In April 2020, the IMF estimated²³ that the overall economic impact of Covid-19 on North Macedonia was in the magnitude of negative 4 per cent. The World Bank published updated GDP forecasts in April. The optimistic scenario foresees a decline in GDP of 1.4 per cent; the pessimistic one refers to a negative 3.2 per cent. On 13 May 2020, the EBRD²⁴ forecasted real GDP growth at negative 3.5 per cent in 2020, but showed moderate optimism for 2021, with 5.5 per cent GDP growth. Finance Think, a domestic research institute, also published a forecast in early April projecting an overall decline of 3.8 per cent, with the largest projected decline in quarter 2 (12.7 per cent). In late April, the Ministry of Finance and the National Bank published their own forecasts of -3.4 per cent and -3.5 per cent, respectively, for quarter 1. A double-digit fall in GDP is expected in the second quarter. According to the Ministry of Finance's data, in April 2020 budget revenues declined by 20 per cent compared with April 2019 (year-on-year), whereas tax revenues declined by 31 per cent (year-on-year). Budget revenues for the period January through April 2020 decreased by 4.9 per cent compared with the same period in 2019.

Sharp reductions in economic activity have reduced employment, in terms of both numbers of jobs and aggregate hours of work. Economic activity across whole sectors has been severely limited, leading to steep declines in revenue streams for many businesses. Certain jobs will be curtailed only temporarily, while others will be lost for good. The analytics in Section 4 provide some guidance on labour vulnerabilities in specific sectors and the enterprises at risk. The global estimates from the ILO's nowcasting model show that the crisis is shrinking economic activity and working time to an unprecedented extent. As of 1 May 2020, estimates for the Western Balkans indicate that working hours will decline in the current quarter (Q2) by around 11.6 per cent. For the purpose of illustration, applying this ratio to North Macedonia would imply a loss of 85,550 full-time jobs (assuming a 40-hour working week) and 71,292 full-time jobs (assuming a 48-hour working week). Many of these workers will face a loss of income and deeper poverty, even if substitute activities can be found (such as returning to agriculture in rural areas or engaging in some casual, platform work).

²¹ For instance, the largest domestic pharmaceutical company, Alkaloid.

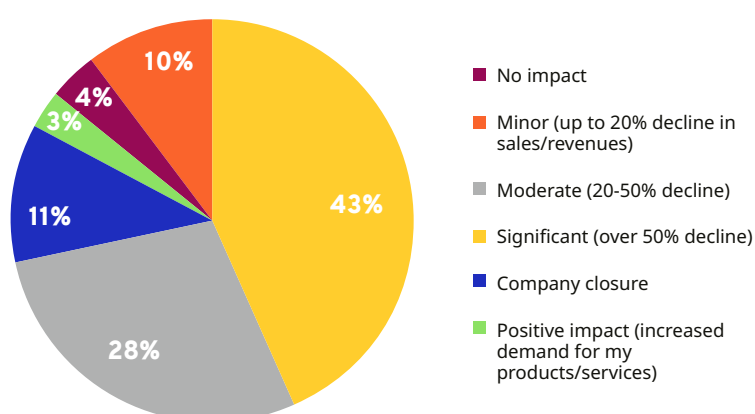
²² World Bank, Western Balkan Regular Economic Report No. 17, Spring 2020.

²³ <https://www.imf.org/external/pubs/ft/weo/2020/01/weodata/index.aspx>

²⁴ EBRD, Regional Economic Prospects in the EBRD Regions, May 2020 Update.

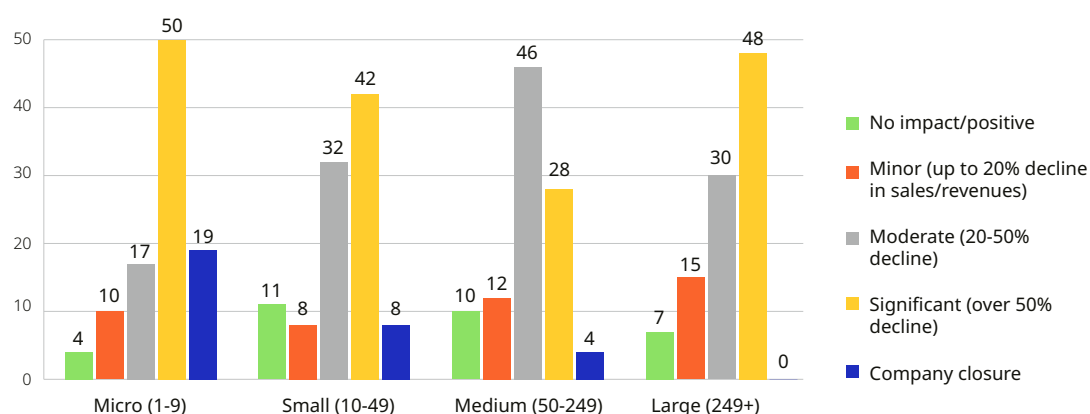
According to the enterprise survey conducted by Macedonian employers' organizations, the Covid-19 pandemic has severely affected 82 per cent of companies. Around 43 per cent estimated their revenue loss since the beginning of the crisis at 50 per cent or more (Figure 3.2). For 28 per cent of respondents, revenues had declined between 20 and 50 per cent, and around 11 per cent reported closing down their company temporarily. In the manufacturing sector (metal and non-metal products, chemicals, plastics, machinery), 82.4 per cent of companies reported a decline in revenues of over 20 per cent, which was also the case for 76.6 per cent of companies in construction, wholesale and retail. Around 57 per cent of companies in transport, accommodation and food, and 53 per cent of companies in professional, scientific and support activities, reported a revenue decline above 50 per cent. Almost one-third of enterprises across these sectors indicated that they had had to close down their business. Micro and small (up to 49 employees) companies are more vulnerable to the crisis, with around 27 per cent reporting full closure, while none of the large companies had closed. Two out of three micro-enterprises report revenue losses of 20 per cent or more. Interestingly, 3 per cent of the surveyed companies reported an increase in revenues, and for 10 per cent the revenue decline was very small.

Figure 3.2 Expected impacts of the Covid-19 crisis on revenues



Source: Enterprise Survey. Employers' organizations, ILO, EBRD (2020).

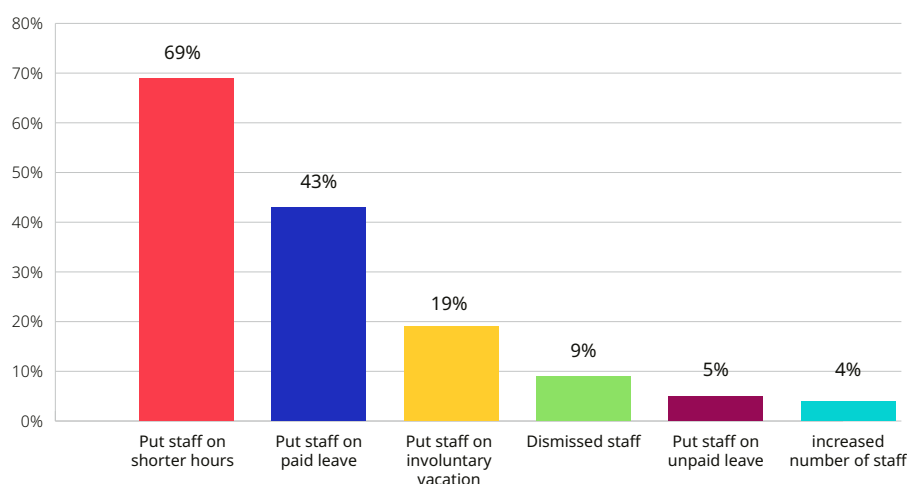
Figure 3.3 Companies reporting a significant decline of revenues, by size



Source: Enterprise Survey. Employers' organizations, ILO, EBRD (2020).

Most companies in North Macedonia have implemented measures to adjust to the curfews and other restrictions. Among respondents, more than two-thirds had reduced working hours, while 24 per cent had organized work in shifts, to enable workers to maintain health and safety measures, such as a prescribed two-metre's distance from one another. Around 28 per cent had changed access arrangements for customers and/or suppliers or implemented digital solutions, switching to online sales. Reductions in working hours also resulted from the Government's decision to let parents of children below 10 years of age stay at home (one parent in the family). The Government compelled certain categories of workers to make mandatory use of the remaining part of their annual holiday entitlement from the previous year by May and take two additional weeks of paid leave by the end of June.²⁵ Around 9 per cent of companies reported staff dismissals. Among them, the majority laid off up to 10 per cent of their staff. A share of 4 per cent of all respondents (11 per cent in the case of large companies) reported having dismissed more than 40 per cent of the workforce.²⁶ Given the structure of micro-companies as family or quasi-family businesses and the prevalence of own-account workers among them, it is not surprising that very few (7 per cent) reported staff dismissals despite experiencing substantial revenue losses. This applies mainly to the short term, of course, and they may have fewer options over time.

Figure 3.4 Company measures affecting the workforce



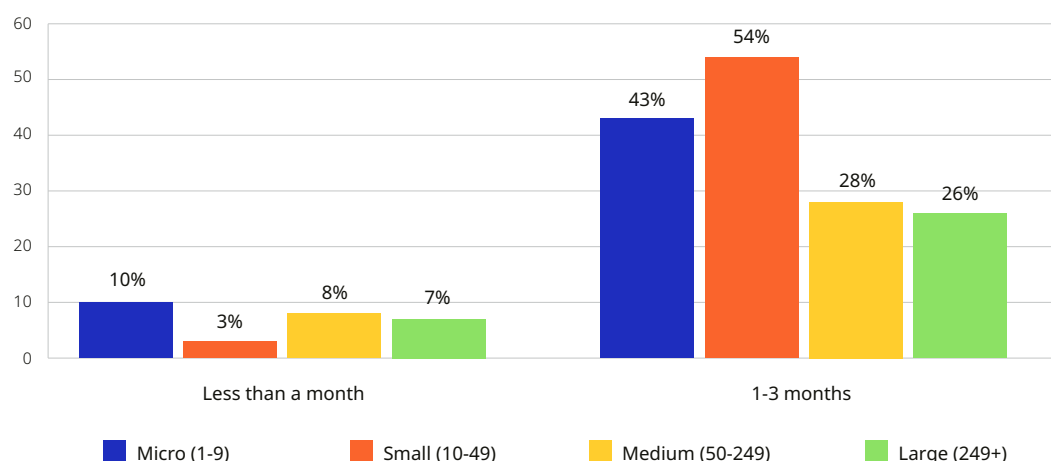
Source: Enterprise Survey. Employers' organizations, ILO, EBRD (2020).

The outlook remains bleak for the respondents. More than a third of enterprises (34 per cent) indicated that they could sustain the restrictions and lockdown for more than three months, while 3 per cent had already closed their business. Firm size plays a role in company resilience, of course, with approximately 50 per cent of micro and small companies indicating that they would not be able to survive for more than three months.

²⁵ This measure concerns chronically ill workers, workers who are parents of children below 10 years of age and pregnant workers.

²⁶ This information from the Enterprise Survey is consistent with the results obtained by Finance Think when polling 520 individuals during the first half of April 2020. Almost 11 per cent of respondents indicated that they had been made redundant. Available at: http://www.financethink.mk/wp-content/uploads/2020/04/QLife_No.3-EN-1.pdf.

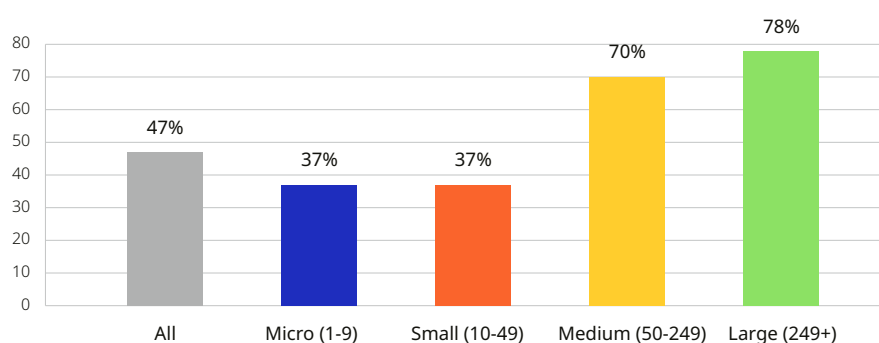
Figure 3.5 Resilience of companies, by size



Source: Enterprise Survey. Employers' organizations, ILO, EBRD (2020).

Own funding or access to external funding could help the recovery of 47 per cent of the companies surveyed. As expected, there is a large difference by size of company, with only a third of micro and small companies having access to external funding, in contrast to three-quarters in the case of medium-sized and large companies.

Figure 3.6 Companies with access to external funding, by size



Source: Enterprise Survey. Employers' organizations, ILO, EBRD (2020).

3.2 Indirect effects due to regional and global interdependence

North Macedonia has an open and integrated economy, both within the region and globally. At least five primary external transmission channels are relevant to gauging the impact of Covid-19 on workers and enterprises in North Macedonia. These transmission channels include: restrictions on travel and the decline in economic activity of main economic partners and countries receiving seasonal workers from North Macedonia; a fall in commodity prices; interruption of global value chains; lower demand for tourism services; and increased risk aversion and worsening of global financial conditions.

This section builds on available data and projections, as well as information from the enterprise survey and in-depth interviews with companies and experts. Once again, the timing of the crisis in other countries and North Macedonia's relative position in global supply chains add multiple layers to the analysis. In-depth interviews with companies showed that the crisis has hit different sectors or companies in different ways. While for some companies the problem has been a combination of demand and supply

shocks, for others it is either a demand or a supply shock. The supply shock came mainly from China (and was felt already in early March), whereas the demand shock is both domestic (reduced consumption of certain products/industries) and external, due to lower consumption in Western Europe. Moreover, for some industries/companies the crisis was felt immediately and is expected to diminish in the short to medium term. For others it will linger a bit longer and a new negative demand shock is expected to hit harder in the autumn. One example of the latter is the textile industry and its autumn/winter season, another the production of durable goods. Another case in point is the automobile parts cluster in North Macedonia. These companies first suffered a supply shock in early March as a result of the lack of raw materials from their Chinese suppliers. Then, they experienced large cuts in orders from their EU partners because of the severe decline in car sales in Western Europe. The EU27, North Macedonia's main trade partner (61.5 per cent of trade volume) has also been severely affected by the Covid-19 crisis. The economic outlook of North Macedonia's top five trade partners is projected (April 2020) to be negative in 2020, with some positive signs as regards 2021, particularly in Germany, which accounted for almost 50 per cent of total exports in 2019.

Table 3.1 Shares in trade and estimated GDP changes among the main trade partners

	Share in trade (%)	2020 (estimated)	2021 (estimated)
Germany	26.2	-7.0	5.2
UK	8.0	-6.5	4.0
Serbia	5.7	-3.0	7.5
Greece	5.1	-10.0	5.1
Bulgaria	4.8	-4.0	6.0

Source: IMF forecasts, April 2020.

Exporting companies in most cases had to reduce their activities due to declining demand in the partner countries, but also because of trade and transport bottlenecks that emerged at the beginning of the recession. Most of these companies continued production at a low level, some began stockpiling and some had to shut down for 5–6 weeks. Many enterprises slowly resumed production from 4 May, though at a minimum rate.

Table 3.2 Reduction in international trade in March 2020 (%)

	Annual change	Monthly change
Trade volume	-21.3	-16.1
Export	-26.0	-17.0
Import	-17.6	-15.5

Source: SSO – Foreign Trade (nominal values).

At the global level, activities aimed at attracting FDI have slowed down significantly. Some countries have turned to measures to support domestic production and companies, at times even in violation of WTO rules. Other countries have opted to focus on aftercare, making sure that foreign investors already present in the country expand their capacity and production as soon as the situation improves. In 2019, before the crisis, net FDI inflow to North Macedonia declined substantially, from over €600 million (in 2018) to €291 million. The Government has just issued an international call for potential investors, providing them with the special status of “strategic investor” with special benefits and much easier administrative procedures for commencing operations in the country.

As already noted, some sectors are more exposed than others. Hospitality, tourism and transport were the first sectors to experience lockdowns and major cuts in their revenues. The IT and pharmaceutical industries, by contrast, appear to be among the least impacted by the crisis. IT companies under the aegis of the Government's Economic Council did not ask for any specific support measures, for instance. Moreover, most of those companies would not be eligible to use the wage subsidies scheme as they pay higher wages (that is, over the limit set by the Government, a net monthly wage of 39,900 MKD). The demand for pharmaceutical products is still relatively high and the major pharmaceutical companies have changed the focus of their production in accordance with demand, shifting to disinfectants (even taking on new workers). The textile industry took a hit, with reduced orders and production, although some companies started to produce protective masks, leading to increased liquidity in the short term. The automobile industry cluster has been severely affected, but enterprises are generally ineligible for government support as their revenue loss in March remained below the required threshold of 30 per cent.²⁷ In order to assess the full impact, however, it would be important to consider the type of recovery that industries are likely to experience. In particular, it may be expected that the hospitality sector will experience V or in the worst case a U-shaped recovery, once the restrictions are lifted (which is announced on 11 May).²⁸ On the other hand, the automobile industry is most likely to have an L or W-shaped recovery by the end of 2020. While current government measures may help many companies to overcome the lockdown phase and preserve their workers, they are less focused on reactivation and recovery and especially on long-term growth.²⁹

Lastly, the containment measures introduced in some of the countries that receive seasonal workers from North Macedonia, such as Italy, of course deprived the relevant migrant workers of earnings. Broad estimates indicate that upward of 40,000 seasonal workers from North Macedonia are employed in Italy's agriculture sector, while many others work in Croatia, Greece and Montenegro in construction and tourism.

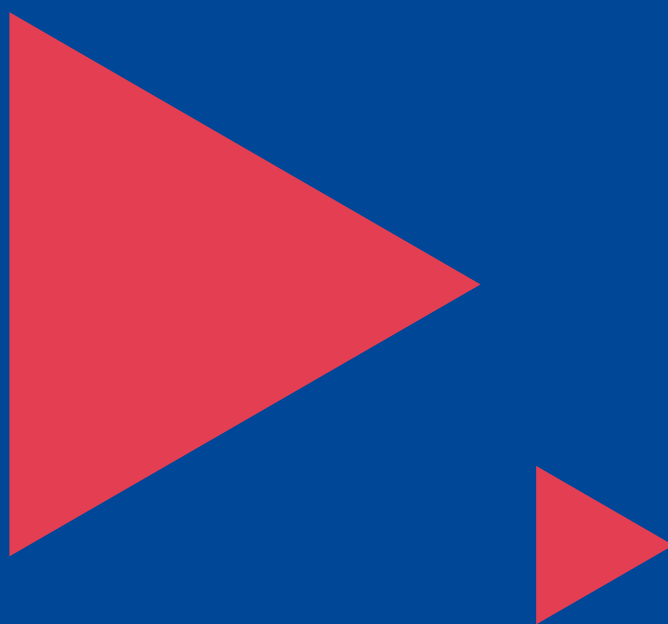
²⁷ These companies are relatively young and are still in an investment phase. In 2019, they invested and expected large increases in their revenues in 2020, so while they did not experience a fall in revenues above 30 per cent in March, they are significantly below their planned revenues. The disruption started already in mid-January, as imports from China stopped. Moreover, while the Government decided that the liquidity loans would be turned into grants even for profit-making companies (after some conditions are met), this does not apply to large companies. The Association of Technologically Advanced Foreign Investors has been very active in asking the Government to design specific measures for these companies, which are large exporters.

²⁸ Probably U-shaped, as there are special protocols in place for their operation, but it may also shift to W-shaped if we see another wave of Covid-19 in autumn.

²⁹ The Council of Foreign Investors and large companies are mainly arguing that they are not covered by the measures of the government and that their needs are different. They sent special request for measures to the Government on 30 April, 2020.

► 04

► Transmission to the labour market



The Covid-19 pandemic hit North Macedonia after a year of unprecedented job growth, in which almost 40,000 jobs were added to the economy. The ILO nowcasting model shows an employment contraction in the Western Balkan economies during the first quarter of 2020 estimated at a 1.5 per cent decline in working hours. This target variable reflects both layoffs and other temporary reductions in working hours. The estimated loss of working hours for quarter 2 is 11.6 per cent.

Unemployment is clearly not the best indicator of the immediate labour market impact of the crisis.³⁰ The ILO suggests considering the number of working hours lost every week due to the crisis and then transforming this information, for the purpose of illustration, into full-time equivalents (FTE). The short-term impacts are likely to be extremely bad, as many economic activities had to stop completely, while others operate at reduced capacity. Importantly, though, not all workers that stopped working in the early days of the crisis are unemployed. Some employers have opted to continue paying their workers, hoping that the worst of the crisis would be over soon. As noted in Section 3, in North Macedonia the employers' immediate response has tended to focus strongly on shorter working hours, paid annual leave and "urgency leave", in accordance with the general collective agreement.³¹

Table 4.1 Working hours and FTE jobs lost in the Western Balkans

Quarter	FTE jobs lost (40 hours)	FTE jobs lost (48 hours)	Percentage of hours lost
2020 - Q1	100 000	85 000	1.5
2020 - Q2	810 000	675 000	11.6

Source: ILO Nowcasting model.

On the assumption that the Western Balkans average is an appropriate approximation of the number of hours lost in North Macedonia, the estimated number of FTE jobs lost in quarter 2 is 85,500. However, this should not be considered to be the actual number of jobs lost, given how the crisis has impacted workers and enterprises in North Macedonia (as elaborated in Section 3) and the fact that employment retention measures were announced and undertaken relatively early during the lockdown. Unemployment, particularly registered unemployment, and other related indicators will play a more significant role in guiding policy decisions during the reactivation and recovery phases. Nevertheless, it is important to note that during the month of April, the Employment Service Agency (ESA) reported an increase in registered unemployment by 7,030 persons, and a threefold increase in unemployment benefit claimants, compared with March, reaching 3,380. This relatively low number could be partially explained by the generally limited coverage of unemployment benefit and the tendency to misuse termination of contract by mutual agreement (see Box 4.1).

³⁰ ILO Monitor: Covid-19 and the world of work. Second edition (14 April 2020).

³¹ For private sector employees, a special provision was introduced in 2016 (in the aftermath of the floods) contemplating extended paid leave due to natural disasters for longer than seven working days. As an alternative legal basis, the practice uses a provision from the Labour Relations Law, according to which employers shall be obligated to pay employees wage compensation for the days and hours they are prevented from working for justified cause. The general collective agreement for the public sector does not provide for "extended" paid leave (absence) from work for more than seven working days (on any grounds).

► **Box 4.1 Abuse of the termination of employment by agreement: the so-called “blank dismissal note”**

During the early weeks of the crisis, the institutions of North Macedonia observed a steep increase in the use of “termination of employment contract by agreement”. The termination of permanent employment contracts by agreement allows for more flexibility and entails lower costs than the other option available to employers, namely termination of employment for business reasons. The latter presupposes valid reasons related to the viability of the company, the assessment of the prospects of retaining the worker by the same or another employer before dismissal and, finally, respect for the dismissal notice period and severance payments, as provided by law. Before the Labour Relations Law explicitly prohibited it (amendments introduced in 2010 and 2013), the initial employment contract was made conditional on signing a note on termination of employment by agreement. Many workers, feeling that they had no negotiating power in this respect, agreed to sign the note so that they could land the job in the first place. The Law now requires a written agreement, signed on the day of termination of employment, with handwritten name and surname, date of termination and signature of the employee and the employer. However, during this crisis, many employers opted for this form of termination, eliciting workers’ “voluntary” consent on a promise of future employment, once “things get better”. Thus, workers lose their jobs and forsake any monetary compensation as provided for in the Law on Employment and Insurance in case of Unemployment, Article 67.

Source: ILO, 2020.

4.1. Beyond unemployment: workers and enterprises at risk

This section builds on the methodology used in the ILO global monitors on Covid-19 and the World of Work.³² Based on real-time economic and financial data, the impact of the crisis on economic output is assessed at the sectoral level. The results of the enterprise survey conducted by the employers’ organizations are used to calibrate this assessment. The next sections provide estimates of work and enterprises at risk, based on the identification of the sectors that are most vulnerable to severe declines in economic output.

4.1.1 Mapping labour vulnerabilities at sectoral level

The mapping of labour vulnerabilities at sectoral level takes into consideration 39 sections³³ of the economy, representing around 92 per cent of the workforce in North Macedonia. A number of factors are used to determine the relative vulnerability level of each sector in terms of exposure to negative shocks. These factors include the incidence of self-employment (with particular consideration given to own-account workers) and informal employment; the precariousness of contracts (with special consideration for temporary and part-time work); wage levels; and the presence of micro-enterprises (up to 10 employees). The estimation of a sector’s aggregate labour vulnerability is done with a five-point granularity: low; low-medium; medium; medium-high; high. Overall, thirteen sectors are considered medium-high or highly vulnerable to the shocks generated by the crisis, representing around 48 per

³² Available at: <https://www.ilo.org/global/topics/coronavirus/impacts-and-responses/lang--en/index.htm>

³³ This refers to a two-digit classification of economic activities within the NACE framework (NACE Rev. 2).

cent of total employment (Table 4.2). When gender and age are taken into consideration, medium-high and high-vulnerability sectors represent 49 per cent and 59 per cent of total employment, respectively.

Women, who account for 77 per cent of jobs in the health and care sector in North Macedonia, are in the frontline of the crisis, and are also overrepresented in the informal service sectors and in labour-intensive manufacturing (women represent 80 per cent of the workforce in textile and apparel manufacturing, for instance). When the gender dimension is taken into consideration, 41.6 per cent of employment immediately falls into high-vulnerability sectors,³⁴ more than three times the number of jobs considered highly vulnerable in the initial scenario.

Table 4.2 Exposure to shocks

	Total vulnerability		Gender-related vulnerability		Age-related vulnerability	
	# sectors	Share of employment (%)	# sectors	Share of employment (%)	# sectors	Share of employment (%)
Low vulnerability	4	13.5	2	8.3	4	13.5
Low-medium vulnerability	14	18.3	13	20.8	7	10.4
Medium vulnerability	8	11.9	9	13.5	7	9.0
Medium-high vulnerability	8	35.6	6	7.4	8	27.7
High vulnerability	5	12.2	9	41.6	13	31.0

Source: Author's calculations based on the LFS.

With regard to age-related vulnerabilities, this first edition of the Rapid Assessment looks only at the specific vulnerabilities of young people (15–29 years of age) in the labour market. It adjusts the analysis of sectoral vulnerabilities by taking into consideration the findings from previous global crises concerning factors that make youth employment pro-cyclical, including a higher SME share of employment (ILO, OECD, IMF). Further iterations of the report are to take into consideration also the heightened vulnerabilities of older workers during this health crisis.

Annex 1 provides the detailed mapping of the labour vulnerabilities of sectors at the two-digit level.

4.1.2 Work and enterprises at risk

A similar approach is taken in order to identify work and enterprises at risk in specific sectors. In addition to the sectoral distribution of economic units, the analysis also considers different types of enterprises (employers and non-employer enterprises,³⁵ or own-account workers), along with employment by size of economic units. Nearly 62 per cent of all employers and non-employer enterprises in North Macedonia are in hard-hit sectors. Many of these sectors are characterized by varying degrees of informality and the policy space for responding to the needs of such enterprises is currently limited, or non-existent.

Workplace closures have an immediate and severe impact on enterprises' current operations and leave them at high risk of insolvency. Even once containment measures are lifted, surviving enterprises will continue to face challenges. Multiple sources point to the fact that the recovery is likely to be uncertain and slow. For enterprises that are involved in global supply chains, disruptions to suppliers and consumers

³⁴ For the purpose of outlining sectoral vulnerability profiles, a sector is considered female-dominated if the share of women exceeds the median share of women in sectors economy-wide. This would provide more accurate results, as women face lower employment and higher unemployment and inactivity rates than men. The same logic applies when the analysis introduces age-related considerations.

³⁵ For the purpose of this note, the term "non-employer enterprises" refers to independent workers without employees. This consists of owner-operators of firms without employees and own-account workers in household market enterprises without employees, which are the official terms in the Resolution concerning statistics on work relationships, 20th International Conference of Labour Statisticians: https://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/meetingdocument/wcms_648693.pdf

in other countries will continue to suppress demand for their goods. Returning to business operations as usual is likely to require significant adjustments, with cost implications, including securing safe work environments. In the absence of effective policies, these new requirements are likely to impose a severe constraint on enterprises.

The enterprise survey helps to determine the relative impact of the shock on the 39 sectors defined in the previous section. Companies were asked, "How would you assess the overall impact of the Covid-19 pandemic on your sales/revenues so far?", on a scale of 1 (no impact) to 5 (full impact – full closure). Table 4.3 shows that a majority of two-digit sectors reported a medium-high impact (53.8 per cent). Interestingly, only the health sector reported a high impact. The size of the relative impact is calculated as the sector-specific average based on the enterprise survey; for the few sectors for which no company responded, the closest neighbour belonging to the same one-digit NACE (rev.2) group was used.

Table 4.3 Impact of the Covid-19 pandemic at sectoral level

		Risk					
		Low	Low-medium	Medium	Medium-high	High	Total
Vulnerability	Low	0	1	1	1	1	4
	Low-medium	0	2	6	6	0	14
	Medium	1	0	2	5	0	8
	Medium-high	2	0	1	5	0	8
	High	0	0	1	4	0	5
Total		3	3	11	21	1	39

Source: Authors' calculations.

Table 4.4 cross-tabulates exposure to and magnitude of the shock, at five degrees of granularity. The light-grey cells mark the sectors with medium-high and high vulnerabilities, which have been strongly impacted by Covid-19 (medium-high and high impact). The dark-grey cells highlight the area of greatest concern. There are 16 and 9 sectors, respectively, in these cells. These sectors employ 51.9 per cent and 29.8 per cent of workers in North Macedonia, respectively, which we consider to be the employment at risk and at high risk, respectively, of Covid-19. It is also to be noted that the table identifies only the health sector as being low vulnerable but highly impacted, while two sectors – waste collection, treatment and disposal, and forestry and logging – are highly vulnerable, but marginally impacted.

Table 4.4 Shock impact at employment, at sectoral level (%)

		Risk				
		Low	Low-medium	Medium	Medium-high	High
Vulnerability	Low	0.0	1.4	7.0	0.5	4.7
	Low-medium	0.0	1.7	4.6	12.0	0.0
	Medium	0.6	0.0	5.8	5.6	0.0
	Medium-high	1.5	0.0	15.0	19.1	0.0
	High	0.0	0.0	1.5	10.7	0.0

Source: Authors' calculations.

The nine sectors that are highly exposed to and impacted by Covid-19 are as follows:

1. food and beverage service activities;
2. retail trade, except for motor vehicles and motorcycles;
3. land transport and transport via pipelines;
4. warehousing and support activities for transportation;
5. other personal service activities;
6. manufacture of food products;
7. construction of buildings;
8. specialized construction activities;
9. services to buildings and landscape activities.

In these nine sectors, almost 27,000 individuals work on their own account and over 33,000 are informal workers; 50,000 workers work in micro-enterprises; over 33,000 have only a fixed-term contract and around 30,000 more have other atypical contracts. Hence, the cumulative number of workers at the highest risk of losing of their jobs and incomes is around 4 to 5 per cent of total employment in North Macedonia.

The greater impact of the crisis on workers and micro-enterprises already in vulnerable positions in the labour market risks exacerbating working poverty and existing inequalities.

The ILO's global estimates show that informal workers' monthly average labour income would fall by 27 per cent in upper-middle-income countries, 70 per cent in high-income countries and 74 per cent in lower-middle and low-income countries. With further increases in income inequality among workers, an even greater proportion of informal economy workers would be left behind. Assuming a situation without any alternative income sources, lost labour income would increase relative poverty for informal workers and their families by more than 21 percentage points in upper-middle-income countries, almost 54 points in high-income countries and 55 points among lower and low-income countries. The poverty rate of informal workers in North Macedonia is around 24 per cent.

The table in Annex 2 provides a cross-tabulation of the mapping of sectoral labour vulnerabilities and the assessment of the impact of the crisis at the two-digit level.

4.2 Mitigating vulnerabilities: the role of labour market institutions

Since the beginning of the crisis, governments and social partners in countries with strong labour market institutions have had three main avenues for protecting jobs and workers' incomes. A first line of intervention is employment retention schemes, aimed at preserving employment while enterprises wade through the crisis. Temporary income support schemes have also been used for workers who are not eligible for employment retention measures (self-employed and seasonal workers, workers in atypical forms of work). A second line of intervention is to expand support to workers who will lose their job due to the economic slowdown by temporarily relaxing eligibility criteria for unemployment benefit and job-seeker allowance. A third line of intervention is the expansion of social protection tools (social assistance, minimum guaranteed income) for persons and households that do not qualify for job retention measures and protection against unemployment schemes.

In line with some of the pathways illustrated above, the Government of North Macedonia has adopted a series of temporary measures to prevent and mitigate the negative economic and social consequence of the crisis (see Annex 4 for a list of the measures and Section 5 for a review of the impacts).

Based on a review of the measures and the current legal framework, there are some categories of workers whose legal position requires additional attention. These include: workers who face termination of employment by agreement (so-called blank dismissal notes issued by the employer); non-standard workers, with particular reference to workers employed on a temporary basis (fixed-term workers, seasonal workers and temporary agency workers) and part-time workers; the three categories of workers covered by the temporary measures introduced in early March 2020 (working parents of minors under the age of 10 who need care, pregnant women and chronically ill people); and workers on extended paid leave due to pregnancy, childbirth and parenting.

With regard to the misuse of the termination of employment by agreement during the crisis, some proposals are made in Section 5 on how to address the situation. Workers with temporary and fixed-term³⁶ employment contracts, and workers with part-time employment contracts³⁷ have only limited protection. The Law on Unemployment and Insurance in case of Unemployment is unclear with regard to the right to monetary compensation in case of unemployment for workers with fixed-term employment, seasonal work and temporary agency employment. The formal duration of fixed-term contracts is often shorter than the period of employment and contribution required to qualify for unemployment benefit. Moreover, employees with this type of contract face a higher risk of unlawful termination before the legal term. During the Covid-19 crisis, the misuse of fixed term contracts, including the illegal transformation of indefinite contracts into fixed-term ones, has increased.³⁸

Casual workers are the most vulnerable category of temporary workers, and fall outside the scope of labour law altogether. In their case, due to the very short nature of the employment relationship, income protection is difficult to enforce.

Among the first measures taken by the Government of North Macedonia in accordance with the **Conclusions, opinions and recommendations** set out in the Minutes of **10 March 2020**,³⁹ and then in accordance with the **Decision of the Government** of **12 March 2020**,⁴⁰ were those aimed at protecting one of the working parents of minors under the age of 10 who need care, pregnant women and chronically ill people. In this regard, the Government instructed employers in the public sector and recommended to private sector employers, **for employees who have a minor child up to 10 years of age for whom home care is necessary**, that one parent be released from work and work activities and that their absence during this period should be recorded as a justified absence by the employer, while **pregnant women and the chronically ill** should be released temporarily from work and work activities

³⁶ In North Macedonia a fixed-term employment contract can be concluded regardless of whether the “nature” of the work is temporary or permanent. The legislation does not limit the conclusion of these contracts to activities “outside” the predominant activity of the employer, does not provide for a percentage limit on the number of fixed-term workers as a proportion of total workers employed by the employer, nor does it determine notice periods or specify redundancies or severance pay at the termination of employment of this group of workers. The maximum duration is 5 years and the transformation from fixed-term to permanent contract is tied to the assumption of “performing the same tasks”. Taking into consideration the existing legal framework for insurance against unemployment, temporary, that is, fixed-term workers may face the following potential problems or limitations: inappropriate definition and coverage of the scope of beneficiaries of monetary compensation in the event of unemployment (that is, unemployment benefit); unfavourable conditions for acquiring eligibility for unemployment benefits (that is, the relatively long continuity of the duration of employment, namely, the length of insurance necessary for monetary compensation); the undetermined minimum base for calculation and payment of unemployment benefit and the rigid conditions that determine the duration of payment of this benefit.

³⁷ According to the existing regulatory framework, a part-time worker who before the termination of employment had a length of insurance coverage of 9 uninterrupted months or 12 months with an interruption in the past 18 months, and was registered at half of full-time working time, will not obtain unemployment benefits because their length of insurance is calculated on a “pro rata temporis” basis and will be 4.5 months, or 6 months, respectively.

³⁸ According to the information provided by the Ministry of Labour and Social Policy.

³⁹ See: Minutes of the Government of RNM, no.44–2147/1 of 10 March 2020.

⁴⁰ See: Decision of the Government of RNM, Official Gazette of RNM, No. 62 of 12 March 2020.

(that is, not go to work and remain in their homes). However, what remains arguable in practice is the question of the legal basis for their absence from work.

► **Box 4.2 A legal vacuum during the crisis: “absence from work”**

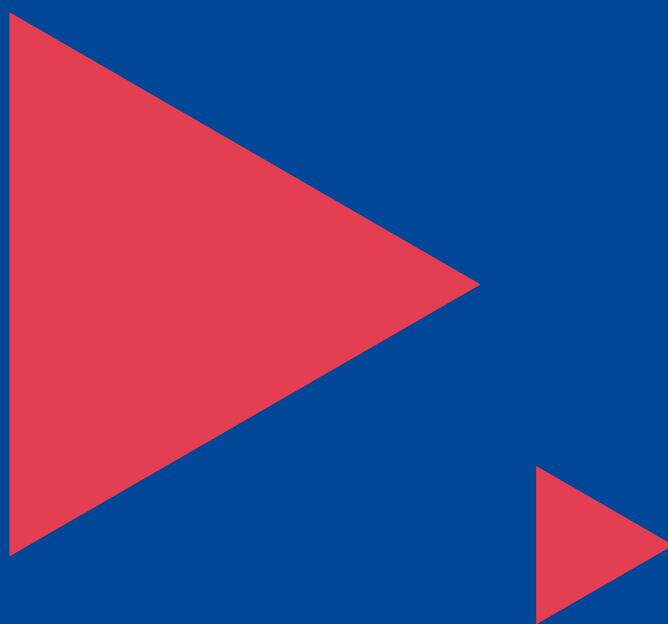
From the analysis of the legal framework, it seems that the legal basis for the “absence from work” of the three categories of workers covered by the temporary measures are not provided for in any law, including the Law on Labour Relations. For private sector employees, a special provision was introduced in 2016 (in the aftermath of the floods) contemplating an extended paid leave due to natural disasters for longer than seven working days. As an alternative legal basis, the practice uses a provision from the Labour Relations Law according to which the employer shall be obligated to pay the employee wage compensation for the days and hours the employee is prevented from working for justified cause. The purpose of paid absence due to natural disasters provided by general collective agreements for the private sector is intended to enable the employee to repair possible damage from natural disasters in their home. The purpose of the provision in the Labour Code is to ensure paid leave for the employee, but only in cases where there are justified reasons for absence provided and regulated by law. Regardless of the legal basis applied in practice, for the duration of the absence from work of employees covered by the temporary measures for protection from COVID-19, the costs of paying salary compensation in the amount of the average salary for the past 12 months falls entirely on employers for the entire duration. Some employers have raised concerns about these prolonged leaves and the related costs.

Source: ILO, 2020.

The Labour Code stipulates that, under force *majeure*, employers may decide to temporarily lay off workers at a minimum of 50 per cent of their salary. The Covid-19 pandemic has triggered such a situation for both employers who were ordered to lock down, and for their employees. Some employers opted to put their employees on “forced” leave of absence for the duration of the Covid-19 containment measures and were eligible for retention employment measures, as described above. A distinct category of furloughed employees includes parents of minors under the age of 10 and pregnant or chronically ill workers, who have been on extended paid leave “by decree”. The law does not provide for monetary compensation (wage allowance) if the worker is not eligible for a wage subsidy, nor does it distinguish between forms of paid leave (annual or sick leave). In order to claim paid sick leave, however, a worker has to provide a medical certificate or to test Covid-19 positive. It is therefore reasonable to assume that the vast majority of these workers had to take extended annual leave, which has been paid by the employer and was deducted from the 2020 annual leave.

► 05

► Policy responses and gaps



5.1. Overview of the policy response⁴¹: four key pillars based on international labour standards

On 10 May 2020, the Government of North Macedonia adopted several sets of policy measures to mitigate the impacts of Covid-19 on the economy and the world of work. A summary is included in Annex 4; policy measures are organized around four pillars based on international labour standards. The ILO uses this framework to structure dialogues on policy responses at the global level. Naturally, some policy measures cut across several pillars and are mutually reinforcing. Furthermore, as noted in Section 1, the relative effectiveness of some aspects of the policy packages depends on their coming to fruition during the right phase of the crisis.

Figure 5.1 – Covid-19 and the world of work: policy responses



Source: ILO, 2020.

In order to facilitate cross-country comparison, some ongoing research (Bruegel University, IMF) structures the discretionary fiscal response to Covid-19 into three categories: immediate fiscal impulse; deferrals; and other liquidity provisions and guarantees.⁴²

⁴¹ This review considers only adopted measures. Other measures under discussion will be added to the analysis when adopted.

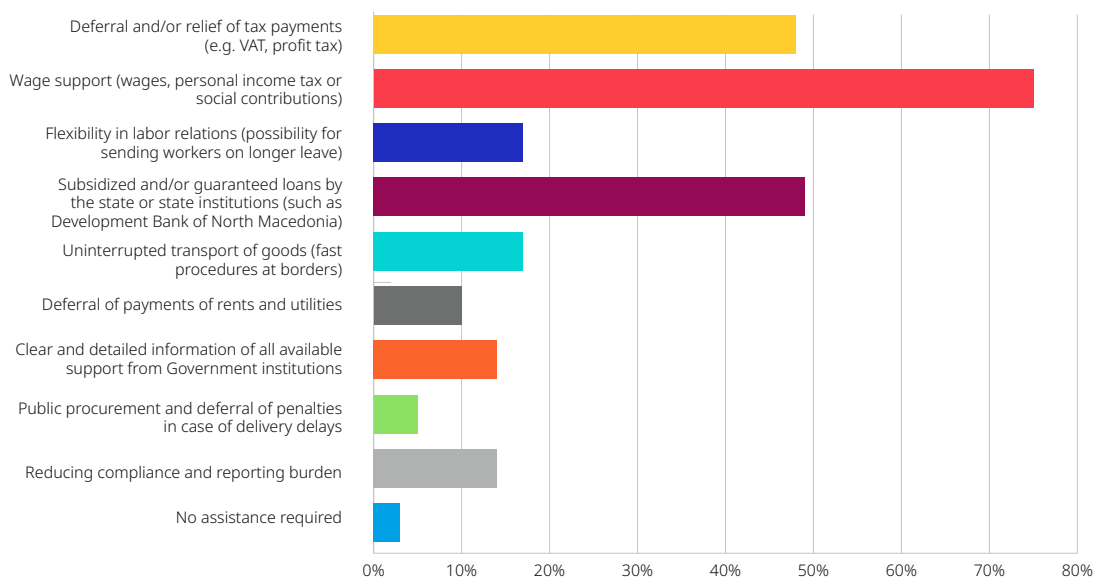
⁴² Immediate fiscal impulse: additional government spending (such as medical resources, keeping people employed, subsidising SMEs, public investment) and forgone revenues (such as the cancellation of certain taxes and social security contributions). Deferrals (in principle should be paid back later): payments, including taxes and social security contributions, servicing of loans, the payment of utility bills (even if the loans were granted by private banks and utilities are provided by private providers). Other liquidity provisions and guarantees: these measures include export guarantees, liquidity assistance, credit lines through national development banks. <https://www.bruegel.org/publications/datasets/covid-national-dataset/>

Table 5.1 Discretionary fiscal response (as of 15.05.2020)

	Total percentage of GDP (2019)	Immediate fiscal impulse (Million EUR)	Deferrals	Other liquidity/ guarantees
WB-6 North Macedonia	tba 5	tba 60	tba Limited information to date ⁴³	tba No information to date

Source: Authors' elaboration.

The key measure aimed at supporting enterprises comprises two schemes of subsidized or low-interest loans from the Macedonian Development Bank, as well the deferral of advances on the profit tax. Surveyed companies were asked to indicate the three most helpful forms of government support within the packages already approved. Around 48 per cent of companies noted the deferral and/or relief of tax payments; another 49 per cent pointed to the access to loans at favourable conditions. Access to subsidized loans is popular among micro and small companies (50 per cent of respondents). Both small and medium-sized enterprises consider tax relief extremely helpful in the current situation. A significant share (over 40 per cent) of medium-sized and large companies advocated the need for greater flexibility in labour relations.

Figure 5.2 Priority support requested by enterprises (three choices allowed)

Source: Enterprise Survey. Employers' organizations, ILO, EBRD (2020).

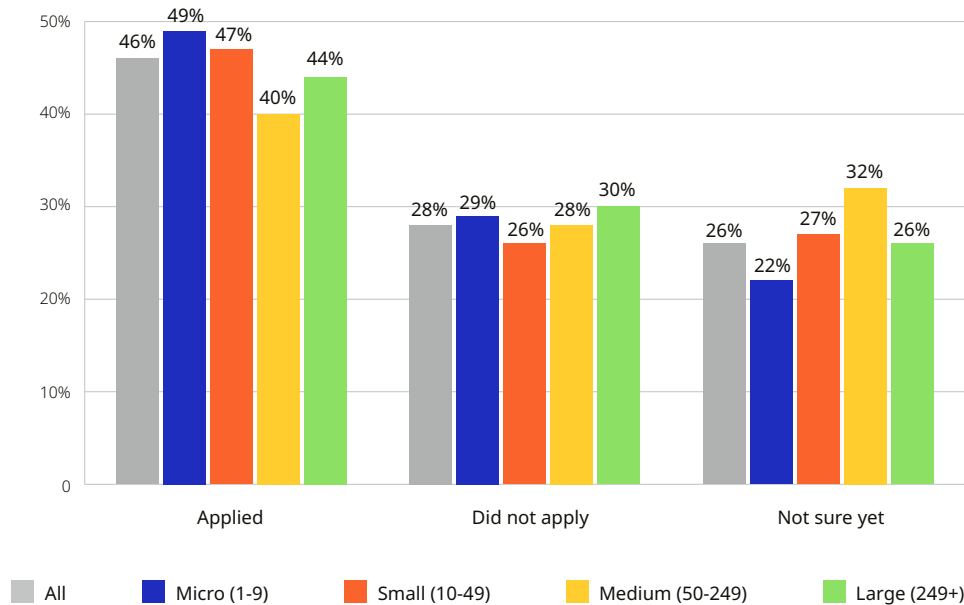
The surveyed companies also highlighted various circumstances that they would consider beneficial during the current phase. These include:

- ▶ clearer and less cumbersome criteria to apply for government support measures;
- ▶ reassurance that the process is based on equity and transparency in the allocation of resources;
- ▶ differentiation of the needs of companies based on size, particularly in the case of export-oriented large companies;
- ▶ reduction of parafiscal charges (including licences and permits of various kinds).

⁴³ According to preliminary data from the banking sector, 50 per cent of companies asked for deferral of the loan servicing. The percentage increases to 70 per cent in the retail sector.

Of the surveyed companies, 46 per cent had applied for government support (49 per cent in the case of micro enterprises).

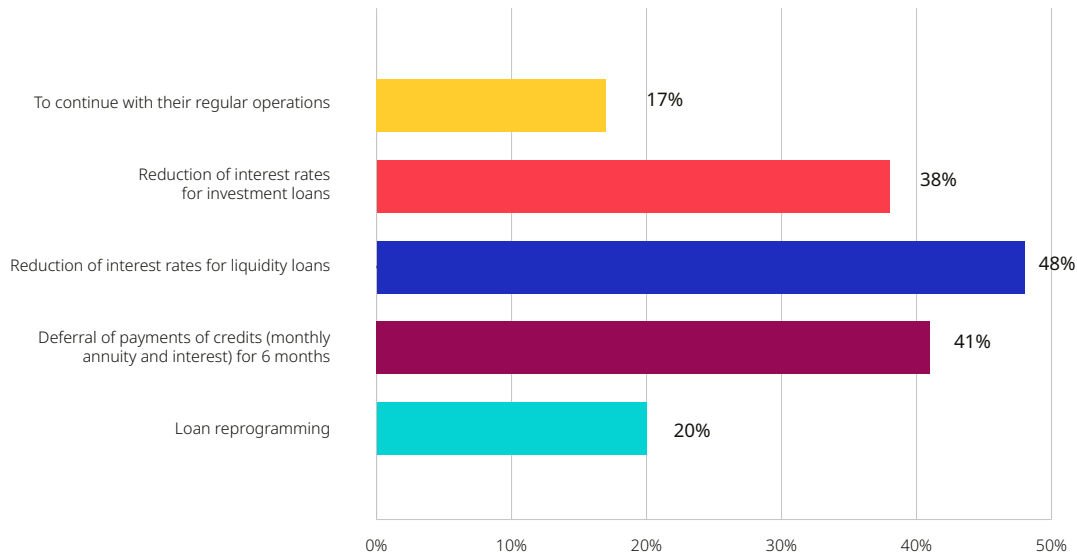
Figure 5.3 Companies applying for government support measures (share by size)



Source: Enterprise Survey. Employers' organizations, ILO, EBRD (2020).

About 48 per cent of respondents indicated that banks and other financial institutions could provide much valuable assistance by reducing interest rates on liquidity loans. Companies would also strongly welcome the deferral of credit repayments for a period of six months. While there is no pattern by company size, large companies (46 per cent of respondents) and small companies (41 per cent) stand out in suggesting a need for lower interest rates for investment loans.⁴⁴ This may signal their readiness and willingness to invest in future growth during these difficult times.

⁴⁴ Given the tendency amongst banks to increase interest rates to reflect the heightened risks associated with the crisis, ultimately this request implies the availability of large-scale government subsidies.

Figure 5.4 Type of support that enterprises would like to receive from banks and other financial institutions

Source: Enterprise Survey. Employers' organizations, ILO, EBRD (2020).

With regard to key measures aimed at protecting jobs, North Macedonia has implemented a set of employment retention measures, set out in two decrees (issued on 1 and 2 April), with subsequent amendments. The following two measures are by far the most consequential:

1. a wage subsidy covering the net minimum wage (14,500 MKD or 236 EUR) for the months of April and May for eligible firms and workers; and
2. a social insurance contribution subsidy, covering 50 per cent of actually paid social security contributions, up to a maximum amount of 5,752 MKD (or 94 EUR) for eligible firms and workers, for April, May and June. This amount corresponds to the maximum amount payable on a net wage of 39,900 MKD.

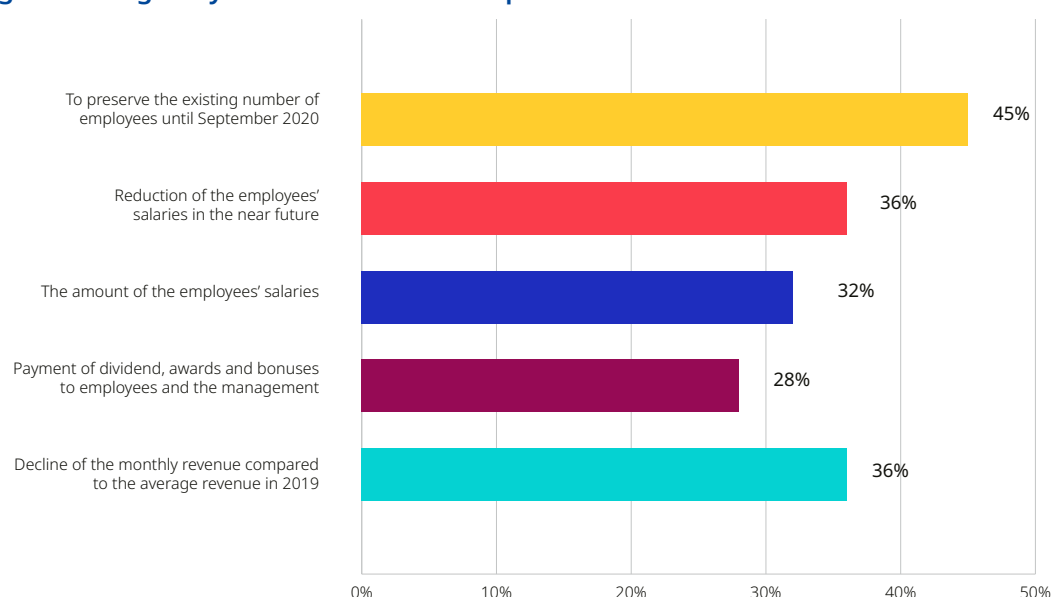
All firms are subject to a binary eligibility criterion: whether in April 2020 they suffered a reduction in turnover of 30 per cent or more compared with the average of the previous year. In parallel, in order to receive either subsidy, firms must retain their current level of employment until July and August 2020, respectively; that is, they must refrain from firing employees, the only acceptable way of reducing employment being retirement and termination of the contract by the employee, by mutual agreement, by court decision, or by permanent incapacity for work.

Firms in the three sectors considered to be the hardest hit high-contact sectors, namely transport, tourism and hospitality – which have been exposed to complete or near complete closure during the lockdown phase and unavoidably to lower turnover and revenues in the prolonged post-lockdown period – are eligible to receive both wage and social insurance contribution subsidies for eligible workers (because not all workers are eligible for wage subsidies), while firms in all other sectors have to choose between the wage subsidy for eligible workers and the social insurance contribution subsidy. Worker eligibility rules differ depending on the type of subsidy: all workers are eligible to receive the social insurance contribution subsidy, while only workers receiving net wages up to 39,900 MKD are eligible for a wage subsidy. Because the individual social insurance contribution subsidy amount is, at best, less than half the amount of the wage subsidy per worker, however, it is clear that whenever a worker is eligible for both subsidies, but their firm only for one, the firm would prefer the wage subsidy. For the firm it is rational to maximize the total subsidy amount. Thus, some firms employing mainly or exclusively high-wage labour ineligible for a wage subsidy might opt for the social insurance contribution subsidy for all their workers.

Although there is some legal ambiguity, it is understood that a firm cannot combine a wage subsidy for the eligible part of its workforce with the social insurance contribution subsidy for the remainder.

More than three-quarters of the surveyed enterprises reported that wage subsidies would be very beneficial to them, without much differentiation by size, as a form of government support (Figure 5.2). According to the Government's expectations, about 87 per cent of companies will be eligible to use the wage subsidy support in a form of payment of a minimum net wage per worker, which will cover approximately 250,000 employees. It seems that the Government is operating on the assumption of about 40,000 companies, which is much lower than the official data on the number of active companies, but probably excludes agriculture and public enterprises. In addition, the Government estimates that 53,000 workers (jobs) will be supported by the wage subsidy in the form of 50 per cent of the social contributions on workers' wages. In the enterprise survey, respondents offered their views on the relevant eligibility criteria. The majority (45 per cent) complained about the job retention requirement, which was set initially until September 2020; around 36 per cent of respondents lamented the obligation to not reduce wages, and the need to have a loss of revenues of at least 30 per cent compared with the average in 2019. Data by size of company show that 71 per cent of large companies and 56 per cent of medium-size enterprises were unsatisfied with the job retention criteria, with about one-third of micro and small companies considering it unacceptable.

Figure 5.5 Eligibility criteria that left enterprises dissatisfied



Source: Enterprise Survey. Employers' organizations, ILO, EBRD (2020)

As already indicated in Section 3, the lockdown-related supply-side shock immediately affected some workers, especially those outside the formal economy, as well as some vulnerable categories who were already out of work. In response, the Government introduced a set of measures aimed at protecting those who have lost their jobs and other sources of income, as well as their families. On two occasions (2 April and 24 April), the Government relaxed the eligibility rules for the main instrument providing a social protection floor, that is, the guaranteed minimum income.

According to these new rules established by the Decree of 24 April, the status of "materially deprived household" can be conferred already one month after combined household income did not exceed the guaranteed minimum income level—the pre-lockdown requirement was three months. Previously, eligibility criteria excluded any type of property. Currently, guaranteed minimum income applicants may still be eligible even if they own an apartment (which the household uses as primary residence), a car

more than five years old and a plot of land for construction not exceeding 500 square metres. In addition, workers who lost their job because of non-performance, left the job of their own accord or were shifted from the “active” to the “passive” register⁴⁵ of the Employment Service Agency, have become eligible to apply for the guaranteed minimum income.

On the other hand, eligibility rules for unemployment benefit did not change. Those who left their jobs of their own accord, or in mutual agreement with the employer, cannot apply for unemployment benefit. Nor were the rules broadened to include those with insurance contributions below the pre-Covid minimum.

The most recent data show a modest increase, in relative terms, in the number of applications for guaranteed minimum income until the beginning of May. However, the total number is negligible in absolute terms.⁴⁶ This to some degree reflects the highly restrictive low-income threshold for guaranteed minimum income eligibility – in practical terms, it requires that no household member has income from regular full-time work. However, it may also reflect a lack of information and communication efforts on the side of the Government, as well as the specific conditions of the health crisis, which distracted potential guaranteed minimum income applicants from early action during the period of severe lockdown. In any case, as long as the income threshold is set at the pre-crisis level, the expansion potential of the guaranteed minimum income will remain limited.

5.2 Winners and losers during the current phase of the crisis

The ILO/EBRD Task Force has carried out a preliminary analysis of the policy response in North Macedonia. It has considered: (i) the intensity of the impact of the measures, and (ii) the differentiation and distributional impacts of the policy package.

For ease of understanding, the somewhat complicated rules of the employment retention schemes are presented in Figure 5.6 below.

⁴⁵ The criteria for shifting clients from the active to the passive register include frequency of job search, motivation, job and programme refusal, and cash benefit receipt.

⁴⁶ In April 2020, the total number of applications for the guaranteed minimum income was 1072, compared to 455 in March and 654 in February. As of April, 26,933 households (72,160 individuals) received the GMI.

Figure 5.6. Generosity of employment retention schemes for individual workers along the wage distribution



Source: Authors' elaboration.

Figure 5.6 shows that, apart from the special case of the application of force majeure,⁴⁷ when the subsidy share in total labour costs is close to 100 per cent, the minimum wage subsidy covers over 80 per cent of labour costs of minimum wage workers in transport, tourism and hospitality, and almost 70 per cent of labour costs of minimum wage workers in other firms. At the level of the average wage, the corresponding subsidy shares in total labour costs drop to around 50 per cent in transport, tourism and hospitality, and 36 per cent in other firms. At the level of withdrawal of wage subsidy (39,900 MKD net), the corresponding subsidy shares drop to around 33.8 per cent and 24.6 per cent, respectively. Past the wage subsidy withdrawal point of 39,900 MKD net, presented in Figure 5.6 by a sudden deep dip in the subsidy share curve, the difference between transport, tourism and hospitality and other sectors disappears, and the subsidy share in total labour costs drops to single digits (9.4 per cent at 40,000 MKD net), continuing to diminish further as the subsidy amount remains the same, while the labour cost denominator continues to increase.

Individual subsidy shares, although appearing fairly generous along the most densely populated segments of the wage distribution (almost two-thirds of all workers are typically to be found between the minimum wage and average wage, and over 90 per cent within the eligibility zone for the minimum wage subsidy), still need to be understood as the upper bounds of (combined) subsidy generosity. First, these are subsidies for eligible workers. Typically, firms would have some workers above the minimum wage subsidy eligibility threshold; seemingly, they would not be able to claim the social insurance contribution

⁴⁷ The Labour Code stipulates that, under force majeure, employers may decide to temporarily lay off workers at a minimum of 50 per cent of their salary. In such cases, the subsidy of 14,500 MKD could be used to cover the entire wage cost (gross wage), which is below that level.

subsidy for these workers. Thus, it might happen that two firms have the same total labour costs per worker, but might get significantly different average subsidies per worker, depending on the internal wage distribution within each firm.

Furthermore, the subsidy share in total labour costs, presented in Figure 5.6, is calculated for one month. According to current rules, however, the subsidy is given for a total of two months, but the worker retention condition should be applied for four months (between March and July). In other words, from this four-month perspective, subsidy intensity falls by half compared with its monthly expression.

Another problematic feature of eligibility design arises from the binary nature of the reduction in the turnover requirement. Clearly, as highlighted in the enterprise survey, a large majority of firms will be negatively impacted, and the intensity of that impact is likely to vary over time among different firms and sectors. Completely excluding firms reporting a – still significant – loss of turnover (say of 20 or 25 per cent, or indeed any double digit loss) below the arbitrarily set 30 per cent threshold, means that the coverage of the measure and consequently its employment protection power are significantly diminished. Introducing an intermediate category of eligible firms (between, say, 10 and 30 per cent turnover loss), and offering them, for example, 50 per cent of the full subsidy, would somewhat smoothen the sudden leap from complete ineligibility to complete eligibility and significantly broaden the share of protected employees in total employment.

With regard to the macroeconomic share and reach of the worker retention measures, the ILO/EBRD Task Force estimated the total monthly cost of the worker retention subsidies within a range of €33 million to €44 million.⁴⁸ Because the total formal wage bill is around €385 million per month, this translates into a subsidy share in the total national formal wage bill of some 8 to 12 per cent. At the four-month level, this drops to 4 to 6 per cent.

Table 5.2 Subsidy share in the total formal wage bill

	Formal wage bill (month/million EUR)	Cost of the job retention package (est. month/million EUR)	Coverage of the private sector workforce (%)	Subsidy (%)	Subsidy (adjusted) (%)
WB-6 North Macedonia	tba 385	tba 33–44	tba 35	tba 8–12	tba 4–6

Source: Authors' own elaboration.

On the positive side, the employment retention measures are progressive overall with regard to firms and workers supported. They became so only after the introduction of the lump-sum minimum wage subsidy, which overshadowed and effectively almost replaced – except for transport, tourism and hospitality – the proportional social insurance contribution subsidy that was initially offered. The highest intensity of support is provided for firms and workers at low wage levels. There are several clear empirical and theoretical reasons why it should be that way. First, from both the enterprise survey and the labour vulnerability analysis (Sections 3 and 4, respectively) it follows that the low-wage firms are more frequently to be found in high-contact sectors, and that micro and small firms are more often worse affected, have lower wages and have higher shares of vulnerable categories of workers compared with larger firms. From comparative research it is also well known that low-wage occupations have fewer tasks that could be done from home or without direct interpersonal contacts. Furthermore, the room for manoeuvre in terms of the possibility of combining employment adjustment and wage adjustment to external shocks is much wider for high-wage than for low-wage firms, which are legally constrained to adjust wages by the minimum

⁴⁸ This estimation combines the results of the enterprise survey (self-assessment of firms regarding the impact of the crisis on turnover and overall economic position); the calibrated share of firms who satisfy the criteria of a revenue loss greater than 30 per cent per cohort of estimated impact; the estimation of a median number of employees at 6.6; and the shares of employment in transport, tourism and hospitality and in other firms.

wage regulation. And finally, from the strictly theoretical standpoint of efficiency, if maximizing the number of retained jobs with fixed resources is defined as the ultimate goal of employment retention measures, then the most efficient way to achieve that is through the lump-sum subsidy, because this maxim and has no weights.

Further on the upside, the deadweight effect of worker retention measures is most likely negligible to modest, especially if assessed within a broader macroeconomic context, where micro deadweight at least partially translates into a macroeconomically meaningful stimulus. Small deadweight has its flip-side in the relatively restrictive eligibility rules, however. The smaller the error of inclusion (subsidizing firms that would not be in any significant trouble without the subsidy), potentially the larger the error of exclusion (not giving the subsidy to firms that are in real trouble). In addition, the complexity of current rules might further reduce the uptake among firms with low administrative capacity, many of them micro and small.

It is important to note that the primary eligibility criteria for worker retention measures and for the key family protection measure, the guaranteed minimum income, are different in nature. While to become eligible for a lump sum subsidy per worker the firm only has to prove that it has had significant relative revenue losses, for guaranteed minimum income eligibility household income has to fall below an absolute threshold. Thus, families who have lost a significant portion of their income due to the crisis will not be compensated at all for their loss if their post-lockdown income, however significantly diminished, remains marginally above the guaranteed minimum income threshold.

The only systemic compensation instrument for those who have lost income from work, but remained ineligible for the guaranteed minimum income is unemployment benefit. In theory, it should work as a powerful automatic stabilizer, providing sufficient income support and smoothing consumption for working class and middle class households during job crises. The dualization of the labour market has greatly diminished its protective role, however (see Section 4.2). Most of those suffering job losses in the current crisis belong to the second-tier (atypical employment contracts) or third-tier (informal) segments of the labour market, with little or no access to unemployment benefits. Thus far, the rules governing eligibility for unemployment benefits have not changed, and it appears that the number of newly registered beneficiaries is growing unexpectedly slowly. In April 2020, for instance, 14,130 people (5,688 women) received unemployment benefit; this is only 553 more than in January 2020, and is largely driven by women over 40 years of age (80 per cent of new claims).

Besides the obvious losers (high-risk and poorly protected groups) in the lockdown phase, currently there are also less visible individuals and groups who will face increased difficulties making ends meet or pursuing a career path as the economy lingers in the post-lockdown pre-vaccine phase, which may last between one and two years from now. Probably the largest and most affected groups will be young people and women.

Young people are especially vulnerable during economic crises because they face multiple challenges: if employed, their jobs are typically protected only by weak, if any, employment contracts, while if they are unemployed, the number of decent jobs shrinks alongside increased competition, including from prime-age workers; if they are in education or training, they need to overcome disruptions and to preserve their motivation for learning. As noted in Section 2, the school-to-work transition is difficult in North Macedonia, even during favourable economic times, and it will be much more difficult for students graduating from secondary schools and universities during the coming summer and autumn months.

Women account for 77 per cent of jobs in the health and care sector in North Macedonia, and are thus in the frontline of the crisis. They are also overrepresented in the nine sectors (see Section 4.1.2 above) that are highly impacted and highly vulnerable, and particularly in the informal service sectors and in labour-intensive manufacturing sectors (women represent 80 per cent of the workforce in textile and apparel manufacturing, for instance). The preliminary indications from the slight increase in the number

of claims for unemployment benefit during April are that firms are shedding women employees first (90 per cent of the new claims compared with January).

Other highly vulnerable, but fringe and less visible groups of people with reduced capacity to earn and diminished options for finding a decent job in the post-lockdown pre-vaccine phase include, but are not limited to:

- ▶ formerly non-poor informal workers without basic security who have lost any possibility to earn but do not meet property or other criteria for the guaranteed minimum income;
- ▶ poor people who receive the guaranteed minimum income, but augment their income through occasional work—which now may also be lost;
- ▶ long-term unemployed who will face ever diminishing possibilities of finding a job as unemployment increases;
- ▶ seasonal workers, casual and temporary workers – internal and, especially, external migrants—will be unable, or will face great difficulties and increased costs, to move across borders and to earn money abroad.

5.3 Options for a more inclusive policy response

To protect and empower these diverse groups, which are exposed to elevated labour market risks, existing safety nets need to be expanded and innovative income protection schemes and proactive labour market measures need to be rapidly conceived and designed. The roles of the social partners and of the Economic and Social Council are critical during this phase, as trade-offs have to be negotiated on the basis of evidence, cost-benefit analysis of different options and fairness. As in other middle-income countries, fiscal space is limited, but it would be important to push its limits to the maximum relatively quickly in the following few months, otherwise a deep recession might set in, making recovery more difficult and perhaps costlier. The social partners and the Economic and Social Council will also play a crucial role in the reactivation phase in negotiating balanced sector-specific guidelines for a safe return to work.

Options for expansion of worker and family protection measures include the following:

- ▶ Introduction of temporary unemployment assistance, paid monthly as a flat rate for a maximum of six months. Eligibility would be significantly expanded or near universal, recognizing the greatly reduced job seeking opportunities available to the unemployed, and extended to those registered as unemployed but with a temporary job or who had a service contract during at least two weeks in the period October 2019 – March 2020, and potentially to all those who were actively seeking a job before March 2020.
- ▶ Introduction of an intermediate category of eligible firms for the job retention measures (between 10 and 30 per cent turnover loss), and offering them 50 per cent of the full subsidy to smoothen the sudden leap from complete ineligibility to complete eligibility and significantly broaden the share of protected employees in total employment.
- ▶ Extension of the eligible period of the job retention programme to include the second half of March and until the end of June.
- ▶ Further extension of the guaranteed minimum income eligibility rules by temporarily removing the remaining means-testing conditions, except for rental property, while retaining the income test.
- ▶ Introduction of a lump-sum utility cost / energy subsidy for those who can prove that their household income has been reduced by more than 50 per cent due to the crisis.

Options for active employment measures include:

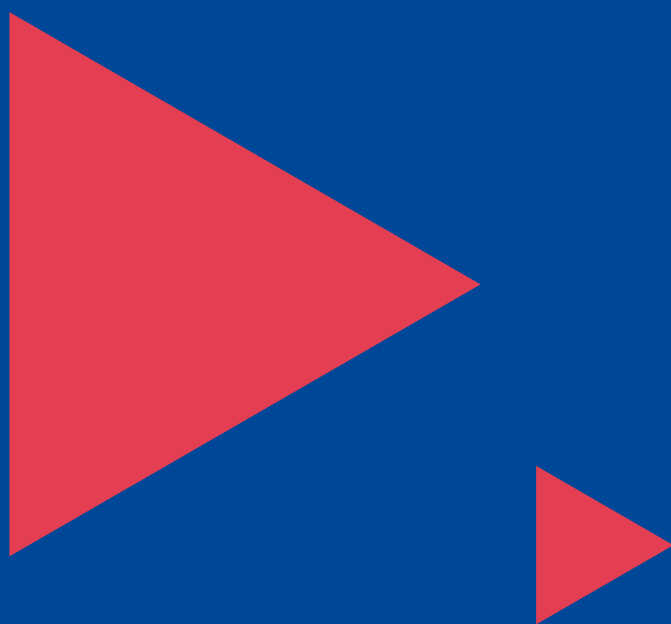
- ▶ Promotion of in-work intergenerational solidarity, through job sharing schemes, job rotation, extensive trainee schemes and apprenticeship programmes, building on the existing Youth Guarantee but vastly expanding it.
- ▶ Investment in the digital economy, as part of an intergenerational solidarity strategy, a proactive industrial strategy and a strategy aimed at enabling institutions to provide better services to citizens and enterprises. This would include subsidizing the creation of the platform connecting Macedonian freelancers and IT professionals with diaspora business community members, professionals and academics.

Options to support enterprises include:

- ▶ Strengthening and diversifying the package of measures in accordance with specific needs and based on dialogue with relevant stakeholders. For instance, it would be important to facilitate the access of micro-enterprises to (subsidized) liquidity loans: they have been hardest hit (measured by lost revenues), but are also least likely to have own funds to bridge the period of reduced activity. Specific measures may be introduced, where appropriate, for large exporters. In the enterprise survey, companies asked for VAT deferrals for six months, particularly for companies that are unable to access other government support programmes.
- ▶ Institutions should try to return to normalcy in terms of the services and administrative functions needed to support business. This may require investments in digital solutions to facilitate efficiency and quick turnaround times that do not impose additional burdens on enterprises.

Options to provide better legal protection of some categories of vulnerable workers particularly affected by the COVID-19 crisis (detailed practical guidance is provided in Annex 5) include:

- ▶ Extension of certain forms of protection to workers with fixed-term and part-time contracts, as well as other particularly vulnerable workers.
- ▶ Prevention of the misuse of termination of employment by agreement.





Annexes

Annex 1 - Mapping the labour vulnerabilities of selected sectors

Sector
Crop and animal production, hunting and related service activities
Retail trade, except for motor vehicles and motorcycles
Public administration and defence; compulsory social security
Education
Human health activities
Manufacture of wearing apparel
Construction of buildings
Land transport and transport via pipelines
Food and beverage service activities
Manufacture of food products
Manufacture of motor vehicles, trailers and semi-trailers
Specialized construction activities
Wholesale trade, except for motor vehicles and motorcycles
Wholesale and retail trade and repair of motor vehicles and motorcycles
Electricity, gas, steam and air conditioning supply
Legal and accounting activities
Manufacture of fabricated metal products, except machinery and equipment
Other personal service activities
Water collection, treatment and supply
Services to buildings and landscape activities
Manufacture of textiles
Manufacture of furniture
Waste collection, treatment and disposal activities; materials recovery
Manufacture of basic metals
Warehousing and support activities for transportation
Manufacture of rubber and plastic products
Postal and courier activities
Accommodation
Gambling and betting activities
Manufacture of other non-metallic mineral products
Social work activities without accommodation
Forestry and logging
Financial service activities, except insurance and pension funding
Security and investigation activities
Computer programming, consultancy and related activities
Civil engineering
Manufacture of electrical equipment
Architectural and engineering activities; technical testing and analysis
Manufacture of leather and related products

Source: Authors' calculations based on LFS 2018.

	Employed (number)	Share in employment	Total vulnerability	Women	Gender total vulnerability	Youth (15–29)	Youth- related total vulnerability
	113,700	15.0 %	4	43,633	5	12,711	4
	76,981	10.1 %	4	41,683	5	19,786	5
	52,900	7.0 %	1	13,281	1	7,979	1
	44,696	5.9 %	2	28,106	2	5,097	2
	35,439	4.7 %	1	27,158	2	4,549	1
	35,181	4.6 %	3	29,272	3	3,594	3
	29,420	3.9 %	4	3,258	4	3,907	4
	27,244	3.6 %	5	2,320	5	2,213	5
	25,208	3.3 %	5	7,701	5	9,652	5
	24,670	3.3 %	4	10,675	5	4,001	4
	23,964	3.2 %	2	13,792	2	6,180	3
	22,133	2.9 %	5	1,026	5	4,187	5
	20,244	2.7 %	3	5,644	3	3,580	5
	11,501	1.5 %	5	1,306	5	2,927	5
	10,324	1.4 %	1	1,725	1	542	1
	8,587	1.1 %	2	5,342	3	1,971	4
	8,531	1.1 %	3	650	3	1,977	5
	7,896	1.0 %	4	4,423	5	2,311	5
	7,528	1.0 %	2	769	2	435	2
	6,676	0.9 %	5	3,967	5	594	5
	6,458	0.9 %	2	3,860	3	1,967	4
	6,402	0.8 %	3	575	3	1,680	5
	6,308	0.8 %	4	347	4	1,187	5
	6,303	0.8 %	2	709	2	825	2
	6,095	0.8 %	4	1,383	4	637	4
	5,769	0.8 %	3	1,065	3	982	5
	5,732	0.8 %	2	1,487	2	1,664	4
	5,709	0.8 %	2	2,477	3	1,694	4
	5,601	0.7 %	3	2,683	3	1,665	5
	5,481	0.7 %	2	744	2	652	2
	5,459	0.7 %	2	4,775	2	187	2
	5,269	0.7 %	4	785	4	290	4
	5,189	0.7 %	2	3,265	2	1,023	3
	4,955	0.7 %	2	441	2	824	2
	4,652	0.6 %	3	1,613	4	1,954	5
	4,646	0.6 %	2	965	2	372	2
	4,491	0.6 %	2	1,073	2	896	4
	4,214	0.6 %	3	1,470	4	474	3
	4,125	0.5 %	1	2,958	2	282	1

Annex 2 – Impact of the crisis on enterprises

Crop and animal production, hunting and related service activities
Retail trade, except for motor vehicles and motorcycles
Public administration and defence; compulsory social security
Education
Human health activities
Manufacture of wearing apparel
Construction of buildings
Land transport and transport via pipelines
Food and beverage service activities
Manufacture of food products
Manufacture of motor vehicles, trailers and semi-trailers
Specialized construction activities
Wholesale trade, except for motor vehicles and motorcycles
Wholesale and retail trade and repair of motor vehicles and motorcycles
Electricity, gas, steam and air conditioning supply
Legal and accounting activities
Manufacture of fabricated metal products, except machinery and equipment
Other personal service activities
Water collection, treatment and supply
Services to buildings and landscape activities
Manufacture of textiles
Manufacture of furniture
Waste collection, treatment and disposal activities; materials recovery
Manufacture of basic metals
Warehousing and support activities for transportation
Manufacture of rubber and plastic products
Postal and courier activities
Accommodation
Gambling and betting activities
Manufacture of other non-metallic mineral products
Social work activities without accommodation
Forestry and logging
Financial service activities, except insurance and pension funding
Security and investigation activities
Computer programming, consultancy and related activities
Civil engineering
Manufacture of electrical equipment
Architectural and engineering activities; technical testing and analysis
Manufacture of leather and related products

	No of employees	Vulnerability	Risk	Employers	Own-account workers	Share of own-account workers in total employment	Share of employed in firms with 2-10 employees in total employment	Share of employed in firms with 10+ employees in total employment
	113,700	4	3	957	59,121	52.0 %	37.0 %	62.5 %
	76,981	4	4	8,873	8,076	10.5 %	28.0 %	70.7 %
	52,900	1	3	-	-	0.0 %	4.8 %	94.9 %
	44,696	2	4	70	236	0.5 %	2.2 %	97.6 %
	35,439	1	5	2,103	523	1.5 %	16.7 %	81.9 %
	35,181	3	4	429	867	2.5 %	1.7 %	98.3 %
	29,420	4	4	1,317	1,943	6.6 %	17.5 %	81.0 %
	27,244	5	4	2,260	3,027	11.1 %	12.3 %	86.9 %
	25,208	5	4	2,642	747	3.0 %	25.9 %	73.9 %
	24,670	4	4	956	1,732	7.0 %	13.7 %	85.8 %
	23,964	2	4	-	-	0.0 %	0.9 %	99.0 %
	22,133	5	4	2,235	6,066	27.4 %	21.0 %	77.6 %
	20,244	3	4	1,183	1,019	5.0 %	19.0 %	79.2 %
	11,501	5	3	1,237	2,787	24.2 %	21.1 %	78.4 %
	10,324	1	2	-	-	0.0 %	2.7 %	97.3 %
	8,587	2	3	1,233	1,490	17.4 %	28.9 %	68.9 %
	8,531	3	3	841	551	6.5 %	19.2 %	80.4 %
	7,896	4	4	785	3,393	43.0 %	23.1 %	74.0 %
	7,528	2	2	-	-	0.0 %	3.7 %	96.3 %
	6,676	5	4	163	1,096	16.4 %	5.4 %	88.9 %
	6,458	2	4	34	77	1.2 %	2.0 %	98.0 %
	6,402	3	4	1,137	800	12.5 %	11.9 %	88.1 %
	6,308	4	1	-	1,471	23.3 %	4.0 %	93.8 %
	6,303	2	4	-	49	0.8 %	6.0 %	94.0 %
	6,095	4	4	187	450	7.4 %	7.0 %	91.2 %
	5,769	3	4	515	179	3.1 %	14.8 %	84.6 %
	5,732	2	3	-	-	0.0 %	5.0 %	95.0 %
	5,709	2	4	152	-	0.0 %	5.4 %	93.8 %
	5,601	3	4	-	49	0.9 %	12.9 %	85.8 %
	5,481	2	4	242	245	4.5 %	9.4 %	90.6 %
	5,459	2	3	-	-	0.0 %	9.0 %	90.0 %
	5,269	4	1	-	1,158	22.0 %	0.9 %	99.1 %
	5,189	2	3	29	-	0.0 %	7.5 %	89.9 %
	4,955	2	4	-	-	0.0 %	4.0 %	96.0 %
	4,652	3	1	63	136	2.9 %	6.7 %	87.4 %
	4,646	2	4	8	103	2.2 %	3.6 %	96.4 %
	4,491	2	3	83	-	0.0 %	5.5 %	94.5 %
	4,214	3	4	313	89	2.1 %	15.1 %	84.9 %
	4,125	1	4	-	-	0.0 %	0.0 %	100.0 %

Annex 3 – COVID-19: Containment, closure and health measures adopted⁴⁹**Measures to contain movement**

- ▶ State of emergency declared on 18 March 2020 (extended on 16 April 2020 for 30 days, and on 15 May 2020 for an additional 15 days).

School and workplace closures

- ▶ Schools closed on 11 March 2020.
- ▶ Businesses, except for essential stores, closed. Places that sell food can operate through delivery or takeaway.⁵⁰
- ▶ Retail stores can only allow one person per 20 square metres.⁵¹

Restrictions on events and gatherings

- ▶ Use of masks mandatory.⁵²
- ▶ Ban on group gatherings larger than five people since mid-March. Since 8 April no gathering of more than two is allowed.
- ▶ All facilities where public gatherings can take place are closed.⁵³

Restrictions on movement within the country

- ▶ Stricter quarantine measures in municipalities close to borders (Debar and Centar Župa municipalities) since mid-March.
- ▶ Curfews during certain hours and weekends, targeting age groups differently (for example, elderly people of 67 years or above, children 18 or younger) since end of March.
- ▶ Public transport halted in selected parts of the country (Kumanovo) since end of March.
- ▶ No public transport anywhere in the country during certain hours.⁵⁴

Restrictions on international travel

- ▶ Land border crossings closed since mid-March.
- ▶ Air travel heavily restricted since mid-March.
- ▶ People leaving the country are not guaranteed assistance in returning.⁵⁵
- ▶ Mandatory 14-day state quarantine and additional 14-day self-isolation for anyone returning from abroad.

⁴⁹ Unless otherwise noted, all information provided in the table below comes from the "Situation reports on the novel Coronavirus COVID-19", various dates, last accessed on 4 May 2020, on the UN homepage for North Macedonia: <https://un.mk/reports/>

⁵⁰ <https://koronavirus.gov.mk/en/governments-measures>

⁵¹ Ibid.

⁵² Ibid.

⁵³ Ibid.

⁵⁴ Ibid.

⁵⁵ <https://un.mk/wp-content/uploads/2020/03/WHO-COVID-19-FlashUpdate-North-Macedonia-21.03.2020.pdf>, p. 1.

Measures to support health sector

Public information

- ▶ Communication campaign on spread of disease (Ministry of Health) since mid-March.
- ▶ Inter-ministerial steering committee and expert committees to provide technical advice on health response to COVID-19 in March.
- ▶ Designated call centre for questions related to COVID-19 since mid-March.⁵⁶
- ▶ Report on COVID-19 developments published every evening: <http://www.iph.mk/>

Collaboration with UN

- ▶ North Macedonia Country Preparedness and Response Plan (CPRP-Health) set-up in collaboration with WHO.
- ▶ North Macedonia part of **WHO Solidarity Study** for treatment of COVID-19.
 - In mid-April: Solidarity trial to test effects of four different medical treatments to fight COVID-19.
- ▶ The Government and WHO identified a financial gap of approximately USD 31 million over three months to support the health sector at the beginning of April.

Testing policy

- ▶ 14 COVID-19 testing points throughout the country.
- ▶ Selected clinics for COVID-19 patients. A children's hospital to take in younger COVID-19 patients.
- ▶ Check-list for classification of potential COVID-19 cases for general practitioners.
- ▶ Private health institutions to treat COVID-19 patients since end of March.
- ▶ Mobile COVID-19 testing teams to support testing mainly of elderly people and high-risk communities.
- ▶ The Ministry of Health plans mass screening of population groups once first wave of pandemic has passed. Mass screening started on 13 May 2020 among kindergarten staff.

Emergency investment in health care

- ▶ Universal health care coverage of COVID-19 treatment costs.⁵⁷
- ▶ Efforts made to increase laboratory testing capacities.
- ▶ Field hospital in Skopje to increase the COVID-19 response capacity since beginning of April.
- ▶ Procurement of 55 ventilators, 500,000 masks and 20,000 tests since end of March.⁵⁸
 - Decree passed to procure 200 additional ventilators at beginning of April.⁵⁹
- ▶ 34,000 masks distributed in Kumanovo (free of charge) in mid-April.
- ▶ All COVID-19 patients transferred from Kumanovo to a hospital in Skopje in mid-April.

56 <https://un.mk/wp-content/uploads/2020/03/WHO-COVID-19-FlashUpdate-North-Macedonia-21.03.2020.pdf>, p.1

57 <https://un.mk/wp-content/uploads/2020/03/WHO-COVID-19-FlashUpdate-North-Macedonia-21.03.2020.pdf>, p.1

58 <https://un.mk/wp-content/uploads/2020/03/WHO-COVID-19-FlashUpdate-North-Macedonia-21.03.2020.pdf>, p.1

59 <https://un.mk/wp-content/uploads/2020/03/WHO-COVID-19-FlashUpdate-North-Macedonia-21.03.2020.pdf>, p.1

Annex 4 – Policy packages already adopted

*As of 10 May 2020, the following sets of policy measures have been adopted in North Macedonia.*⁶⁰

Economic support packages to stimulate the economy⁶¹

Fiscal policies

- ▶ Reallocation of surpluses on public agencies' accounts to budget for COVID-19 response.
- ▶ Reallocation of EU funding for COVID-19 response.⁶²
- ▶ All elected and appointed officials receive minimum wage (= USD 260) in April and May 2020. However, the decision was overruled by the Constitutional Court.
- ▶ Chairpersons, management and supervisory boards of public institutions do not receive compensation fees during crisis.
- ▶ Employees in public sector do not receive holiday allowance for 2020.
- ▶ Temporary ban on new recruitment in public sector, except for necessary staff in health sector and other sectors important to fight the pandemic.
- ▶ State-owned enterprises to reduce expenditure by 15 per cent in 2020.
- ▶ Decrease of legal penalty interest rate by 50 per cent.
- ▶ Exemption from monthly income tax advance payments.

Monetary and macro-financial policies

- ▶ The National Bank of the Republic of North Macedonia decreased the reference rate for calculating the penalty interest rate to 1.75 per cent (= a 0.25 per cent decrease).
- ▶ Reduced mandatory reserves for new or reprogrammed loans to most affected companies.
- ▶ Regulatory easing in relation to liquidity assessments (credit risk management).
- ▶ Abolished fees for withdrawing and returning cash to the central vault.
- ▶ Faster and more straightforward procedures for changing loan agreement terms.
- ▶ Extension of time to classify a loan as NPL, from 90 to 150 days, by end-September.

Support for specific sectors, enterprises and employment retention

Support for specific sectors

- ▶ All custom fees for critical products abolished during COVID-19 pandemic.⁶³
- ▶ Freezing of prices of basic necessity products, such as
 - food: bread, salt, oil, milk and dairy products, eggs, flour, meat and pasta
 - medicines
 - disinfectants

⁶⁰ Unless otherwise noted in a footnote, the information provided in the following four boxes is from: <https://www.ilo.org/global/topics/coronavirus/country-responses/lang--en/index.htm#MK>, accessed on 04 May 2020

⁶¹ <https://koronavirus.gov.mk/en/governments-measures/economic-measures-of-the-government>

⁶² <https://un.mk/wp-content/uploads/2020/04/SITREP-UN-MK-04-COVID-19-02-April-2020.pdf>, p.1

⁶³ <https://un.mk/wp-content/uploads/2020/03/SITREP-UN-MK-1-COVID19-18-Mar-20.pdf>, p.1

at price level these products had on the day the WHO declared a pandemic outbreak (unless imported at higher prices).

- ▶ Export of wheat and flour is suspended for the duration of the state of emergency.
- ▶ Farmers exempted from movement restrictions to participate in harvest.⁶⁴
- ▶ Proposal to transfer USD 1.3 million to the Tourism Fund (to support the tourism sector).⁶⁵
- ▶ Tobacco growers received subsidies of ~ USD 32.5 million.⁶⁶
- ▶ Financial support to cabbage growers to stabilize market.⁶⁷

Support for enterprises and business continuity

- ▶ USD 13.7 million for loans to micro, small and medium enterprises with 0 per cent interest rate through the Development Bank.
- ▶ Ministry of Finance and Ministry of Information Society and Administration (MISA) are working on Fintech solutions to ease administrative processes for MSMEs.⁶⁸
- ▶ Employers who receive financial support will not have to repay this support, if they report a loss for 2020.
- ▶ For others, the return of the funds is limited to 50 per cent of pre-tax profit increased by taxable expenditure.
- ▶ USD 56.5 million for loans with low interest rates for protection of companies' liquidity.
- ▶ Bankruptcy proceedings forbidden during crisis and six months thereafter.
- ▶ Cancellation of advance VAT payments for three months (April–June) for the hardest hit companies.
- ▶ Cancellation of personal income and profit tax payments for three months for enterprises that report a loss of >40 per cent.⁶⁹

Employment retention measures

- ▶ Financial support for private sector to keep employees on payroll:
 - minimum wage of USD 260 per employee for April and May 2020, or
 - subsidizing 50 per cent of mandatory social contributions (April, May, and June).

This is conditional on retaining the same number of workers until July (for the minimum wage) and until August (for the social contributions); initially, the requirement was set for September, but was afterwards amended.

This rule does not apply to workers who received a net monthly salary higher than USD 715 in the past three months.

Companies that experience lost revenues below 30 per cent and those in which more than 10 per cent of the top paid workers on average earn more than €2,000 are not eligible for support (the latter not applicable for the subsidized social insurance contributions).

64 <https://un.mk/wp-content/uploads/2020/04/SITREP-UN-MK-04-COVID-19-02-April-2020.pdf>, p.2

65 <https://un.mk/wp-content/uploads/2020/03/SITREP-Final-2.pdf>, p.2

66 <https://un.mk/wp-content/uploads/2020/04/SITREP-UN-MK-07-COVID19-22-April-2020-compressed.pdf>, p.1

67 <https://un.mk/wp-content/uploads/2020/04/SITREP-UN-MK-08-COVID19-29-April-2020.pdf>, p.2

68 <https://un.mk/wp-content/uploads/2020/04/SITREP-UN-MK-08-COVID19-29-April-2020.pdf>, p.1

69 <https://un.mk/wp-content/uploads/2020/03/SITREP-Final-3.pdf>, p.2

Companies from the hardest hit sectors (transport, tourism and hospitality) which have a clear tax history and no tax debts can combine these two measures. Other companies must select the measure for which they will apply.

Worker protection measures

- ▶ **Law on Enforcement suspended or ceased until end of June 2020.**
Enforcement agents obliged to stop taking enforcement actions until then.

Unemployment benefits and social protection

- ▶ Unemployment benefit for people who lost their jobs due to COVID-19, amounting to 50 per cent of employee's average salary, and up to 80 per cent of average salary in the country. The eligibility rules and the duration of the benefit is same as in "normal" times.
- ▶ Quick access to social protection for those without work or who are involved in the informal economy for April and May 2020.
- ▶ They will receive an average of USD 125 per household.
- ▶ Deferral of rent payment for those who live in social housing.
- ▶ A minimum wage provided for athletes, sports workers and freelance artists.

Access to paid leave (paid by employers)

- ▶ Release from work obligations for:
 - one of the parents of children up to age of 10
 - people who are chronically ill
 - pregnant women
 - people with disabilities⁷⁰

Other measures

Social dialogue

- ▶ Second set of measures agreed upon with social partners during session of the Economic and Social Council held on 31 March 2020.
Social partners mutually stated that the main priority right now is the health and lives of workers and citizens, but that COVID-19 must not lead to a labour market crisis. Workers must not be forced to foot the bill for the measures and consequences of the pandemic.
- ▶ Both the Federation of Trade Unions of Macedonia (SSM), as well as the Organization of Employers of Macedonia (ORM) were satisfied with the discussions at the meeting on the second set of measures.
- ▶ Federation of Trade Unions of Macedonia reacted negatively to the amendment of the decrees for employment retention financial support, providing eligibility to subsidies even in case of dismissal of workers. The Government organized consultations with trade unions and further clarified the eligibility criteria to the satisfaction of both parties.

⁷⁰ <https://koronavirus.gov.mk/en/governments-measures>

Other measures and funding

- ▶ COVID-19 Solidarity Fund⁷¹ to collect donations to tackle the crisis.
- ▶ USD 192 million from IMF to tackle COVID-19 crisis and ensure macroeconomic stability.⁷²
- ▶ EUR 160 million from the EC under Macro Financial Assistance
- ▶ EUR 140 million from the World Bank to help the government deal with the negative effects of the coronavirus outbreak
- ▶ EUR 66 million from the EC in coronavirus relief funds
- ▶ Granted access to European Solidarity Fund to procure equipment from EU member states.⁷³

⁷¹ <https://un.mk/wp-content/uploads/2020/04/SITREP-UN-MK-04-COVID-19-02-April-2020.pdf>, p.2

⁷² <https://un.mk/wp-content/uploads/2020/04/SITREP-UN-MK-06-COVID19-15-April-2020.pdf>, p.1

⁷³ <https://www.covid19healthsystem.org/countries/northmacedonia/livinghit.aspx?Section=4.1> per cent20Healthper cent20financing&Type=Section

Annex 5 – Practical guidance on changes required in labour legislation to mitigate the impacts of Covid-19

A. Options to prevent the misuse of the termination of employment by agreement

Option 1	Termination of employment contract by agreement with participation of the employer in the employee's monetary compensation
Purpose	The purpose of this measure is to transfer part of the social burden for the compensation of employees to the employer, because the cost to the employer of cancelling the employment contract for business reasons would be higher; at the same time, this would fill the "legal gap" arising from the exemption of employment termination by agreement from the set of employment terminations eligible for monetary benefits due to unemployment at the expense of ESA.
Modalities	This measure could be implemented by introducing mandatory monetary compensation (severance pay) at the expense of the employer, which would be paid in case of employment termination by agreement. Payment of severance pay, as well as other claims arising from employment (for example, monetary compensation for unused part of annual leave, annual leave allowance, etc.), should be mandatory for validity of employment termination by agreement, while the written agreement in which the employee waives remuneration (severance) and other acquired but unpaid claims, would be considered null and void. There could be three modalities to estimate the amount of the proposed severance pay for workers facing termination of employment contract by mutual agreement, as suggested in Option 1. The severance pay could be a) equal to the amount the worker would be paid by the employer, if dismissed due to business reasons; b) equal to the amount the worker would be paid by the Employment Service Agency as unemployment benefit, if dismissed due to business reasons; c) a fixed amount calculated as a share of the minimum wage or of average net salary.
Applicable to	Measure 1.1 should be applicable to all employers in the private sector. However, depending on the estimates of the Government of RNM, and with a view to reducing the expenses of certain groups of employers who are hardest hit by the measures to prevent the spread of Coronavirus – COVID19, the following categories of employers could be excluded from measure 1.1 on mandatory monetary compensation of workers in case of termination of employment by agreement: ■ private sector employers who are directly affected by the measures to prevent the spread of Coronavirus - COVID 19, as a consequence of closure or a ban on work (such as sports facilities, gyms, children's commercial playgrounds, cafeterias, bars, clubs, casinos, sports betting shops, shops in malls) and/or, ■ private sector employers who are indirectly affected by the measures to prevent the spread of coronavirus - COVID 19, as a result of the ban on access for visitors (such as catering facilities and restaurants who prepare and sell food, etc.). The affected employees of the employers excluded from measure 1.1 on mandatory monetary compensation in case of termination of employment by agreement, who lost their job as a result of the employment termination by agreement, would be mandatorily covered by the proposed measure on extended monetary compensation in case of unemployment (See item 1.2.2. below) which is paid by the Employment Service Agency.

Option 2	More complex procedure for termination of employment by agreement and inclusion of workers whose employment is terminated by agreement under the legal scheme for payment of unemployment benefits by the Employment Service Agency
Purpose	The purpose of this measure is to dissuade employers from pursuing termination of employment by agreement due to its “advantages”, combined with a guaranteed income for the unemployed worker provided by the Employment Service Agency
Modalities	Implementation of this measure would include intervention in the legal regulation of the termination of employment by agreement (Labour Relations Law) and in the ways of termination of employment that are not eligible for unemployment benefits (Law on Employment and Insurance in Case of Unemployment). 1.2.1 Interventions in labour legislation (LRL, Article 69) Interventions in labour legislation (Labour Relations Law, Article 69) could consist of introducing additional complexity and formalization of the procedure for termination of employment by agreement, which would encompass three mandatory phases: a written offer by one contracting party (the employer) for termination of employment by agreement with a deadline of at least 5 working days (or a longer period) for acceptance or non-acceptance of the offer by the other contracting party (the employee); a written statement of acceptance or non-acceptance of the offer by the other contracting party (i.e. the employee) within the deadline provided in the offer, whereby silence, i.e. no reaction to the offer will not be considered tacit acceptance of the offer and written agreement to terminate the employment contract, signed on the day of termination of employment, with handwritten name and surname, date of termination and signature of the employee and the employer. An alternative to this procedure would be the mandatory introduction of a provision for a notice period in the written agreement, which would prolong the actual duration of the employment for another month, or would be subject to mandatory monetary compensation in a certain amount (average net salary of employee, minimum wage, etc.). These measures can be accompanied by the employer's obligation to promptly notify the competent labour inspectorate of any initiative to terminate the employment contract by agreement, regardless of whether the offer for such termination is submitted by the employee or the employer. 1.2.2. Interventions in the part on unemployment monetary compensation (Law on Employment and Insurance in Case of Unemployment, Article 67, paragraph 1, line 2) Interventions pertaining to unemployment benefit could consist in extending the terminations of employment eligible for this benefit, i.e. cancelation of the restrictions on the eligibility to exercise the right to monetary compensation in case of termination of employment by agreement (Law on Employment and Insurance in Case of Unemployment, Article 67, paragraph 1, item 2). Thus, termination of employment by agreement would enable the employee to acquire the right to monetary compensation which would be in proportion to the duration of their length of service insurance in accordance with the law.
Applicable to	Measure 1.2 on the more complex procedure for termination of employment by agreement and inclusion of the workers whose employment is terminated by agreement under the legal scheme for payment of unemployment benefits by the Employment Service Agency of North Macedonia, should be applicable to all employers in the private sector. Based on the Government's financial estimates, the amount of the monetary compensation in case of extension of the monetary compensation for insurance in case of unemployment to the employers whose employment was terminated by agreement, could be lower than the legally determined amount of the monetary compensation for employment termination on other grounds (for instance, in case of dismissal for business reasons). So, the unemployment benefit for these employees could be 40% of the base salary.

Option 3	Temporary suspension of termination of employment by agreement and / or temporary prohibition (moratorium) for cancellation of employment contracts of workers
Purpose	The purpose of the temporary suspension of the termination of the employment contract by agreement for the duration of the COVID-19 crisis is to prevent and protect against the uncontrolled abuse of this legal basis for termination of employment, which usually leaves workers without any income security. In particular, this would mean that any termination of an employment contract, regardless of the form and possible inclusion of severance pay or other monetary benefits for the employee, would be considered null and void. The temporary suspension of the termination of employment by agreement would also protect workers from the manipulative practice of transformation of their permanent employment contracts to fixed-term employment contracts, because the usual practice when making such changes is “deregistration” of employees from ESA (based on Article 69 – termination by agreement) and their reregistration on short fixed-term (for example, one month) contracts. In practice, it often happens that the workers are not aware that they have been excluded from the mandatory social insurance in ESA, i.e. that their employment has been terminated. In this regard, the Government may consider measures aimed at conditioning the valid termination of employment on any legal basis with mandatory submission of the decision/act on termination of employment to the Employment Service Agency of North Macedonia or the State Labour Inspectorate. Similarly, as in the case of “temporary suspension of termination of employment by agreement” the purpose of the temporary prohibition (freeze, moratorium) of termination of employment contract for the duration of COVID-19 crisis, is to prevent and protect workers from uncontrolled dismissal and enable solidary sharing of the economic and social consequences of the crisis. The temporary ban on dismissals can only cover dismissals due to business reasons, but it can also apply to all other reasons (personal reasons, fault, unsuccessful performance of probationary work). In comparative law, a temporary ban on the dismissal of workers was introduced, for example, in Italy (starting 23 February 2020), Spain (starting 28 March 2020). However, it is extremely important to introduce comprehensive and coherent measures to subsidize expenses (wages and/or social security contributions) as a counterbalance to possible measures for a temporary ban on dismissal of workers, for the employers who are fully or partially covered by the measures for compulsory closure of enterprises, as well as for employers who face reduced workload and reduced business activity. Of course, subsidies, i.e. state aid should not be called into question, even when the temporary ban on dismissals is not introduced.

B. Extension of certain forms of protection to workers with fixed-term and part-time contracts

Fixed-term contract workers	Amendment of the Law on Employment and Insurance against Unemployment (Article 66) in order to explicitly include temporary workers (fixed-term workers, seasonal workers and temporary agency workers) as eligible for unemployment benefit
Option 1	Unemployment benefit to be paid for two months, if the employee has paid insurance contributions for at least 6 months uninterrupted (including a period of interruption up to 30 days) or at least 9 months with interruption in the last 18 months or has length of insurance of 18 months to two years and a half;
Option 2	Unemployment benefit to be paid for the duration of COVID-19 containment measures, unless the existing provisions of the Law on Employment and Insurance against Unemployment are more favourable for the beneficiary.
Part-time workers	Equalize and calculate identically the length of insurance of part-time workers and of full-time workers for the purpose of acquiring the right to unemployment benefit.

C. Extension of certain forms of protection to parents of minors under 10, pregnant and chronically ill workers

Option 1	Legal amendment to provide for monetary compensation (salary allowance) for extended leave for the duration of force majeure, pandemic included.
Option 2	Legal amendment to provide for extension of paid sick leave (calculated on the basis of different terms and conditions compared with the payment of a regular paid sick leave) for the duration of force majeure, including COVID-19 containment measures.

About this report

The report “Covid-19 and the World of Work: Rapid Assessment of the Employment Impacts and Policy Responses” is part of a series of reports that the ILO and the EBRD are preparing to contribute to evidence-based policy dialogues in the Western Balkan economies in the aftermath of the COVID-19 pandemic.

This first edition for North Macedonia covers the unfolding of the crisis and its impacts on the labour market during the lockdown phase, as well as reflections on the measures proposed by the Government to attenuate the impact of the crisis. Policy recommendations can inform decisions by the Government and the social partners during the reactivation and recovery phases.

For more comprehensive thematic reviews of the impacts of Covid-19 on the world of work, please consult the relevant pages available at:

www.ilo.org and

www.ebrd.com

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