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THE UNEMPLOYMENT IN THE REPUBLIC OF MACEDONIA

Abstract

One of the tenets of sustainable economic development paradigm is reduction of unemployment, which leads to reduction of social inequality and poverty. Having this in mind, the main subject of this paper is an analysis of the unemployment in the Republic of Macedonia. Particularly the current as well as the possible economic policy measures for addressing this problem.

This paper consists of five (5) parts, that are:

- I. Introduction;
- II. Type and rate of unemployment in the Republic of Macedonia;
- III. Structural characteristics of the labour market in the Republic of Macedonia;
- IV. Policies for reducing the unemployment in the Republic of Macedonia; and
- V. Conclusion.

In the first part: "Introduction", we define and explain the subject of our research. In the second part: "Type and rate of unemployment in the Republic of Macedonia", we presents the rate of unemployment in Macedonia. In the third part: "Structural characteristics of the labour market in the Republic of Macedonia", we analyze in detail the structural features of Macedonian labour market. In the fourth part of this paper "Policies for reducing the unemployment in the Republic of Macedonia", we explain the necessary policies for decreasing the unemployment in the Republic of Macedonia. Finally, the fifth part of this paper is the "Conclusion", in which we are giving our basic conclusions that arise from our paper.

Key words: unemployment, structural features, policies, measures, reforms.

I. Introduction

Unemployment is a very serious macroeconomic problem for the Republic of Macedonia. The sluggish pace of economic growth of Macedonian economy during the past 25 years – the period of the transition of the country from the economic system of self-management towards modern market economy – narrowed the economic potential for decreasing the unemployment and poverty¹. At the same time, the huge unemployment and its harmful social implications (increased poverty, inequality and social exclusion), had negative impact upon the citizens' living standard. The unemployment in Macedonia directly influenced the decline of the so-called middle class of citizens, which was the major social class in the society. This was especially apparent in the last ten years. The majority of Macedonian citizens today have huge problems for persisting with their salaries, whereas a small part – the political and business elite – are rich even by European standards. The first group are marginalized, frustrated by their position in the society and have lost the confidence that current economic reforms can alter the situation. The inability of the

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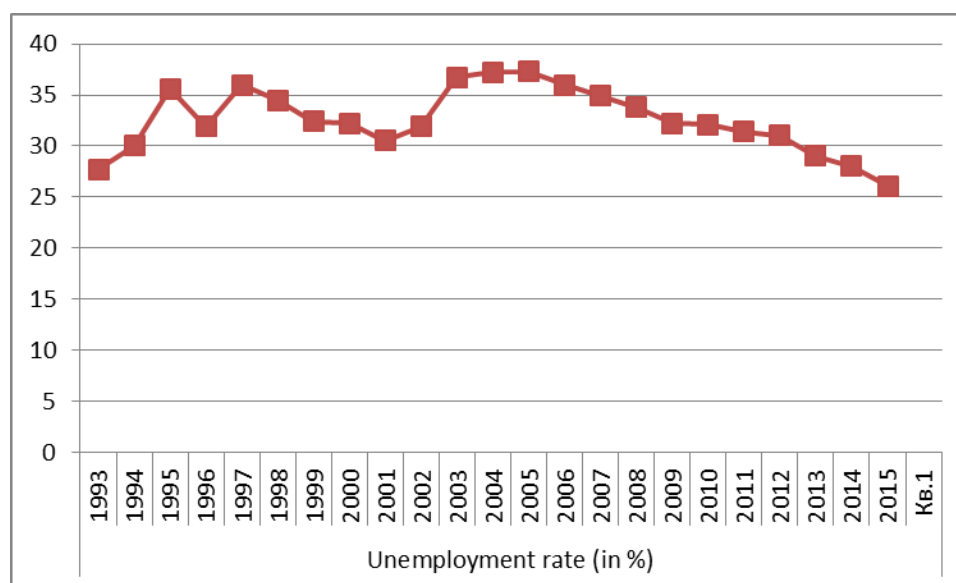
¹ State Statistical Office of the Republic of Macedonia, „Sustainable Development 2013", Skopje, 2013, p.66.

Macedonian labour market to absorb the unemployed youth, which is often highly educated, leads to “brain drain”. Hence, we think that there is a need for a thorough analysis of the features, policies, and the possible measures (reforms) to improve the situation.

II. Type and rate of unemployment in the Republic of Macedonia

The long-term trend of the rate of unemployment in Macedonia from 1993 to 2016, is presented on Figure 1 below.

Figure 1. Unemployment rate in Macedonia in % from 1993 to 2016



Source: Employment Agency of RM and own calculations

As the Figure 1 shows, the unemployment rate in Macedonia is consistently very high, in fact, on average, almost every third citizen in the country at working age is (formally) unemployed. The fact that the unemployment rate is consistently very high shows that the unemployment in Macedonia is primarily *structural*. Moreover, it also has *cyclic variations*. Yet, the cyclical variations do not emerge out of cycles of economic growth, but rather out of shifts in the economic policy.² Specifically, the period from the start of the transition in 1991 until 1998 was an episode of tight monetary policy, as well as of the first wave of privatization which has led to massive workers layoffs. The small decrease of the unemployment from 1998 until 2002 occurred in a period of relaxed monetary policy and creation of increased public debt, which produced short-term effect of business activities' expansion. It was also a period of security crisis in the country. Then in the period from 2002 to 2006, when the unemployment rate in Macedonia reached historic heights, was a phase of tight monetary policy (cutting budget expenditures and settling public debt), post-privatization ownership consolidation and companies' restructuring, again typified by workers layoffs. Finally, the second period of decreased rate of unemployment in Macedonia from 2007 until 2016 is an era of creation of so-called concealed unemployment through coerced employment in the public administration, and of efforts for engineered decrease of

² Todorova S, Uzunov V., Petrevska B., "Applied Economics", Cultura Skopje, 2015, p.364.

the unemployment rate through deleting unemployed persons from official records. This period is portrayed by two additional adjustments: (a) huge number of the unemployed from the first decade of the transition have reached retirement age – hence now the number of retired persons has expanded to historic heights – which lessens the unemployment burden, but does quite the opposite to the financial sustainability of the state pension insurance fund; and (b) vast number of the youth which have in this period matured to working age migrate abroad, which also lessens the unemployment burden. However, given that the unemployment rate remained extremely high throughout the entire period ascertains that the structural nature of the unemployment in Macedonia has not been resolved.

III. Structural characteristics of the labour market in the Republic of Macedonia

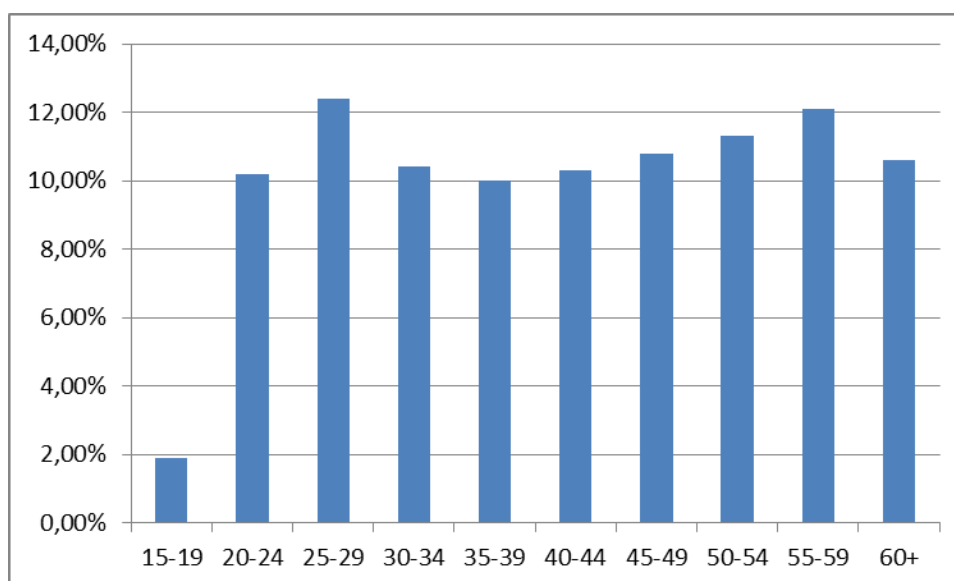
Age structure of unemployment (Table 1 and Figure 1). One quarter (24.5%) of the unemployed in Macedonia are very young, of age below 29. Additional 20,4% of them are of age from 29 up to 39. Hence, one half of the unemployed are young, which proves that Macedonian economy is not capable to create sufficient number of new jobs.

Table 1. Unemployment in Macedonia by age, at March 31th 2016

Age in years	Number	%
15 – 19	2,218	1.9%
20 – 24	11,620	10.2%
25 – 29	14,136	12.4%
30 – 34	11,902	10.4%
35 - 39	11,390	10.0%
40 - 44	11,743	10.3%
45 - 49	12,362	10.8%
50 – 54	12,914	11.3%
55 – 59	13,831	12.1%
60 +	12,136	10.6%
Total	114,252	100%

Source: Employment Agency of RM and own calculations

Figure 1. Unemployment in Macedonia by age, at March 31th 2016



Source: Own calculations

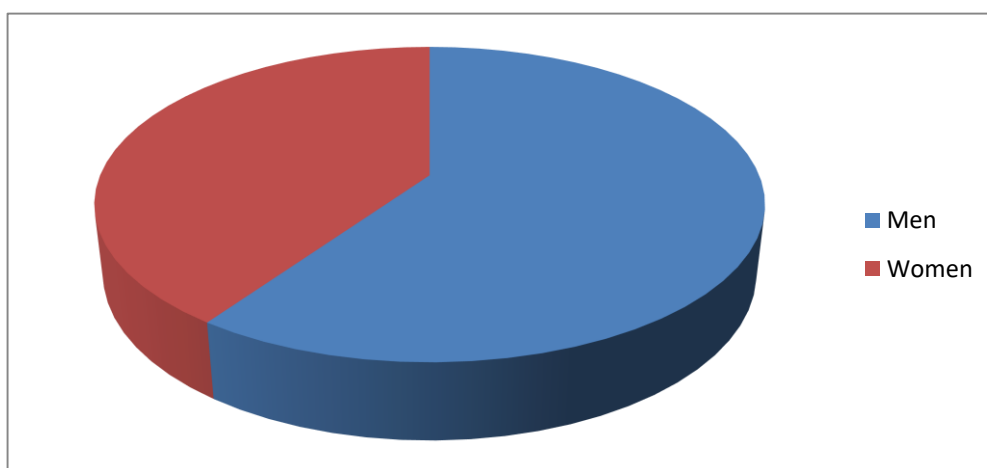
Gender structure of the unemployment (Table 2 and Figure 2). The share of unemployed male persons in Macedonia is significantly higher than share of females. This is due to the prevailing traditional features of a part of the population, due to which females often do not even consider regular (official) employment.

Table 2. Unemployment in Macedonia by gender, at March 31th 2016

	Number	%
Men	68,206	59.7
Women	46,046	40.3
Total	114,252	100%

Source: Employment Agency of RM and own calculations

Figure 2. Unemployment in Macedonia by gender, at March 31th 2016



Source: Own calculations

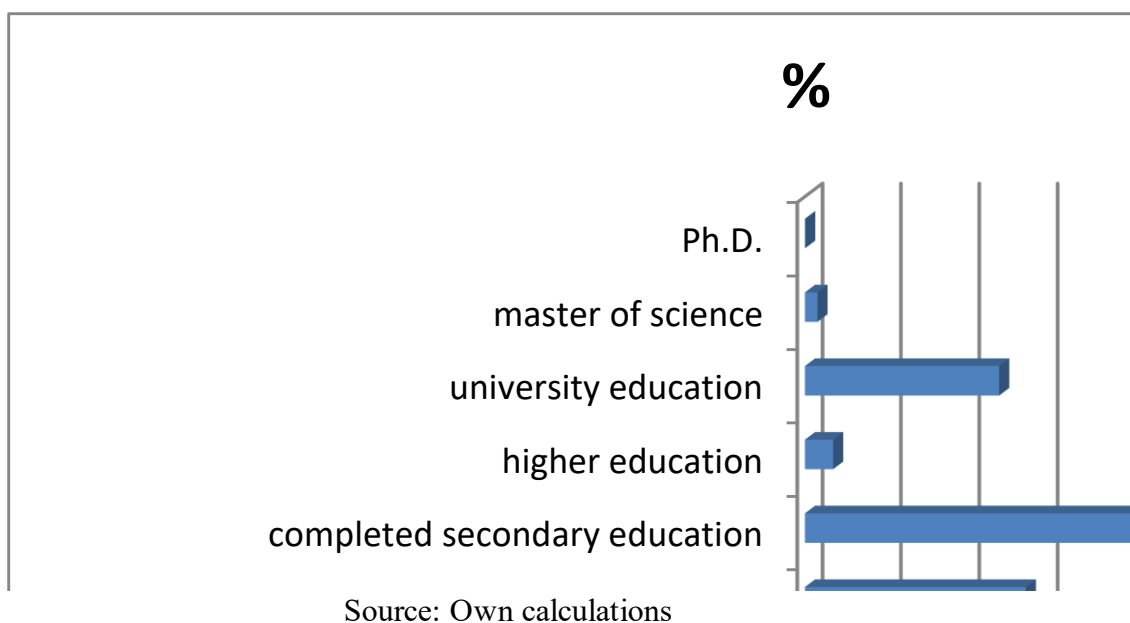
Educational structure of the unemployed (Table 3 and Figure 3). Unemployment in Macedonia is highly biased towards lower levels of education. The share of people without education and with only primary education in the total number of unemployed is 40,6%, while the share of those with incomplete and/or completed secondary education is almost 45%. In total almost 85% of the unemployed have low skills. It appears that people in the country with lower education are “destined” to unemployment, in contrary to those with higher education. On the other hand, low-skilled workers are far more included in the “gray sector” of the economy. And it is also true that, in recent years, the number of unemployed with university diplomas is also increasing. Today Macedonia has over 15,000 unemployed with university education and 1,000 unemployed persons with master or PhD degree. It serves as another verification that Macedonian economy is not capable to create sufficient number of new jobs

Table 3. Unemployment in Macedonia by levels of education, at March 31th 2016

Level of education (educational attainment)	Number	%
without education and with primary education	46,330	40.6
incomplete secondary education	16,132	14.1
completed secondary education	34,644	30.3
higher education	2,016	1.8
university education	14,135	12.4
master of science	964	0.8
Ph.D.	31	0.02
Total	114,252	100%

Source: Employment Agency of RM and own calculations

Figure 3. Unemployment in Macedonia by levels of education, at March 31th 2016



Structure of the unemployed by nationality (Table 4 and Figure 4). Majority of the unemployed in the Republic of Macedonia are Macedonians, followed by Albanians, Roma, Turks, etc. This structure matches the overall structure of the population by nationality, hence there is no special unemployment bias towards any particular nationality.

Table 4. Unemployment in Macedonia by nationality, at March 31th 2016

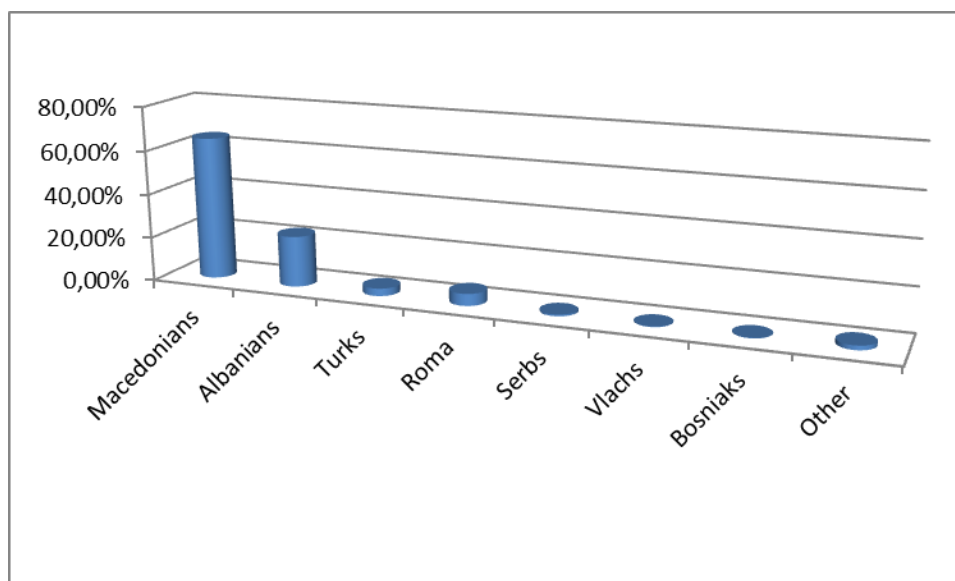
Nationality	Number	%
Macedonians	74,116	64.90%
Albanians	26,432	23.13%
Turks	3,911	3.42%
Roma	6,205	5.43%
Serbs	867	0.75%
Vlachs	254	0.22%
Bosniaks	244	0.21%
Other	2,223	1.94%
Total:	114,252	100%

Source: Employment calculations

Agency of RM and own

Figure 4.
Macedonia by
31th 2016

Unemployment in
nationality, at March



Source: Own calculations

Structure of unemployment by the duration of the status (Table 5 and Figure 5). Unemployed persons in Republic of Macedonia retain that status for relatively long period of time. This shows that the unemployment is of structural character – as a mismatch between the qualifications structure of the supply and of the demand for labour – and it also portrays the social dimensions of the problem of unemployment in the country.

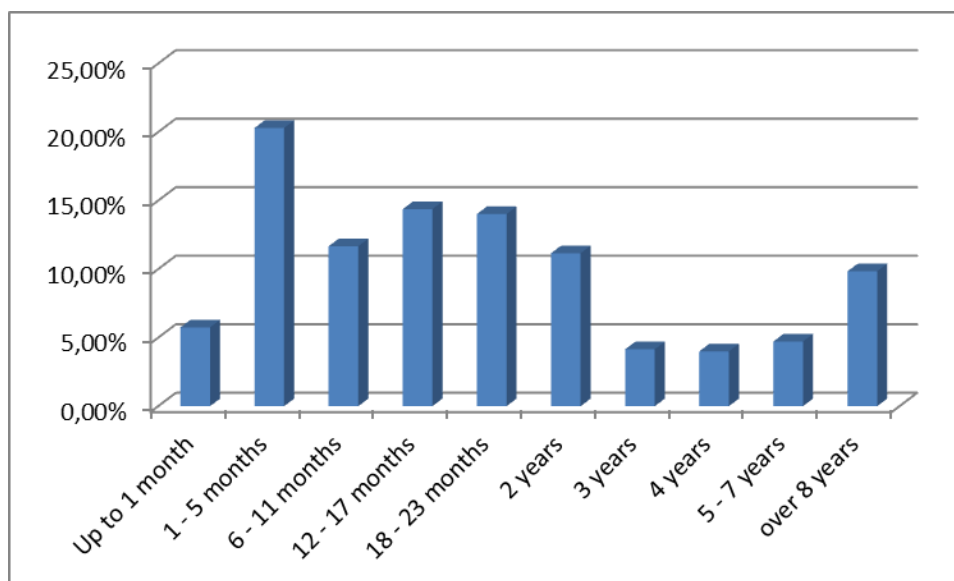
Table 5. Unemployment in Macedonia by duration of status, at March 31th 2016

Duration of unemployment status	Number	%
Up to 1 month	6,570	5.75%
1 - 5 months	23,186	20.3%
6 - 11 months	13,331	11.67%
12 - 17 months	16,431	14.38%
18 - 23 months	16,025	14.02%
2 years	12,755	11.16%
3 years	4,746	4.15%
4 years	4,561	4.00%
5 - 7 years	5,401	4.72%
over 8 years	11,246	9.84%
Total	114,252	100%

Source:
Agency of RM
calculations

Employment
and own

Figure 5. Unemployment in Macedonia by duration of status, at March 31th 2016



Source: Own calculations

IV. Policies for reducing the unemployment in the Republic of Macedonia

Unemployment in general, but especially of the scope typical for the Republic of Macedonia, is an economic and social problem which is very hard to overcome or mitigate. Policies for decreasing the unemployment, particularly as voiced in the regular parlance of Macedonian politicians, are and have always been of highest priority. In this context, the *National Employment Strategy* of the Republic of Macedonia envisages policy measures aimed at specific target groups of unemployed, such as: young people; long-term unemployed; and vulnerable groups (elderly, disabled, single mothers, orphans). Additionally, Macedonian government adopted a *National Programme for decent work* for the period 2014-2018³, which focuses on: increased scope of young people in programs for self-employment through grants, internships, subsidized employment, training for advanced IT skills, better integration of women in the labour market; effective social dialogue, and formalization of the informal economy.

Very recently and solely for the need to try to relax the current political crisis, Macedonian government also promoted a project entitled "*Macedonia employs*". It is said that the government expects 150,000 unemployed persons to be able to utilize the measures provided in this project. The measures provide exemption from compulsory social contributions and personal income tax for companies that will employ new workers.⁴

However, tangible results are missing. In this context, henceforth this paper lists and shortly describes the missing policies for reducing the unemployment in the Republic of Macedonia.

1. There is, off course, undisputed unanimity among economic theoreticians and practitioners that vibrant and robust economic growth and development which results with creation of new jobs is most useful for combating unemployment. We agree that the best and

³ Ministry of Labour and Social Policy of the Republic of Macedonia, "Operational plan for active programs and measures for Employment", : <http://www.avrm.gov.mk/operativen-plan.nspix>.

⁴ The Government of the Republic of Macedonia: <http://www.vlada.mk/>.

healthiest "formula" for reducing unemployment in the Republic of Macedonia is intensification of economic growth and development. However, as much as it is true, it is also a conventional statement which needs further clarifications.

2. Economic growth requires huge investment, both private and public. As for the private investment in the Republic of Macedonia, it is necessary to increase both domestic and foreign investment. Unfortunately this is not the case with the current government – which has actually been in office for the last nine years – which puts much stronger emphasis on attracting foreign direct investment and, at least implicitly, neglects domestic investors. More to that point, of all the efforts of Macedonian government to attract FDI, the effects on decreasing unemployment are modest, due to several reasons: (a) the amount of inward FDI in the country is not massive, since the country is not a very attractive investment destination, even in regional context; (b) rather small part of the inward FDI in Macedonia is in labour intensive industries; (c) because low labour costs are often the most important reason for attracting foreign investors in the country, the employees in the industrial capacities established in Macedonia by foreign investors have very small wages, even by domestic standards. This contributes to easing the unemployment to a certain extent, but not as much poverty and social inequality. On the other hand, domestic companies in the country are reluctant to invest heavily in new or expansion and modernization of existing companies due to the “political climate” in the country, which is not unstable or lacks security, but is rather not business friendly. This unfriendliness is not due to inadequate business regulation – as a matter of fact Macedonia is among the best performing countries by the WB Doing Business Reports – but rather due to the overwhelming influence and power of the government over the domestic business sector. Hence, apart from lifting its direct influence on the business sector, what the government has to do to increase domestic private investment in Macedonia is to put in place measures for facilitating technological modernization of businesses and for developing management skills, strategies, corporate governance and corporate culture. Measures are also needed for improving the business climate, strengthening rule of law, especially in the area of property rights, reducing the transaction costs for starting and running a business, reforming the judiciary, reducing corruption, and particularly progress in the European integration process.

As for the public investment in Macedonia, two issues with rather small impact upon unemployment are evident: (a) every year the government promotes ambitious plans for huge public investment, but those plans are not realized fully; (b) the government did spend heavily on erection of new monuments and government offices (or their facades), but certainly not as much – especially until very recently – on infrastructure and other productive means. In order to influence the creation of sustainable new jobs (which is different from overemployment in the public administration as it is typical for the current Macedonian government) this pattern has to be converted.

3. Small and medium enterprises are very favorable for easing unemployment burden. In Macedonia the government pursues SMEs development policy, but the amount of money spent for that is far lesser than the amount spent on numerous issues of minor importance. Moreover, the government puts huge added burden on SMEs through its policy of heavy penalties and fines for collection of additional budget revenues (the budget deficit is bigger and bigger every year). Then again, in order to influence new employment, Macedonian government has recently devised a set of measures for reducing the costs of new employees in SMEs (social contributions for new employees are exempted for up to 5 years). But, in order to utilize the full potential of SMEs on decreasing unemployment the government has to strengthen the regional and local centers for support of entrepreneurship, expand the network of SME incubators, and support the functioning of the Euro-info centers. Among other matters this requires allocation of additional funds from the budget for support of SMEs.

4. Macedonia has huge potential for agricultural production, and engagement in agricultural activities has always been a mode for productive employment of excess labour force. However, in order to utilize fully this potential it is necessary to introduce policy measures for fostering regional development, especially of deprived and rural regions. Macedonian economy is also in desperate need of policies for creation of international (export) competitiveness of the domestic agricultural production. Until now in Macedonia there are very few – so as not to say there are no – food processing companies established by foreign investors which would establish long-term relations with domestic producers of various primary agricultural products. Those ties will add the necessary indemnity for the small domestic producers of primary agricultural products and thus make this activity prosperous for prospective job seekers. The country also has many natural resources which need to be utilized optimally.

5. Macedonia has a huge sector of “grey economy” (informal economic sector) which lessens the unemployment burden – hence in some analyses the unemployment rate is estimated as almost half of its officially registered size – but it has other adverse implications for the overall economy (lower tax revenues, inadequate distributions of social benefits, etc.). It is necessary to exert an objective “cleaning” of the number of unemployed engaged in the informal sector (especially unregistered farmers and providers of urban services), as well as those who are officially registered as unemployed solely for the use of social rights and benefits (right to health care, pension and disability insurance, remuneration etc.). As part of the measures for improving the capacity of the institutional set-up of the labour market it is necessary to modernize the operations of the Employment Agency of the Republic of Macedonia.

6. Last but perhaps the most important policy measure is to increase the investment in education in order to create human capital of higher quality. On average, although the wages are low by any international comparison, due to the even lower low labour productivity, Macedonia has expensive labour force. This area requires profound long-term reforms. First priority is the *quality* of regular education and training. Yet, nine years ago Macedonian government commenced a policy of increasing the quantity of apprentices, especially students in universities. Latter on the government started with the introduction of methods for increasing the quality of education, however they turned out to be methods of disciplining the teachers more than anything else. Next, big reforms are also needed in the vocational education, which can provide adequate skills and qualifications for the unemployed graduates. Finally, reforms are needed in the area of life-long learning, for which Macedonia has almost no regulatory and institutional set-up. Anyway, acting through the educational system is very productive in overcoming the structural nature of the unemployment, since highly skilled workforce is a major determinant of economic growth and living standards.

V. CONCLUSION

The employment policy of the Republic of Macedonia should be based on three pillars: (a) boost of investment; (b) rapid economic development; and (c) active labour market policies.

The employment policy should focus on the following⁵:

- improvement of the business climate and creation of competitiveness;
- increase of private and public investment;

⁵ - Employment Agency of the Republic of Macedonia, “Policies and measures for employment”, : <http://www.avrm.gov.mk/>

- Ministry of Labour and Social Policy of the Republic of Macedonia, “Operational plan for active programs and measures for Employment”, : <http://www.avrm.gov.mk/operativen-plan.nspix>

- preventive measures for financial relief in order to reduce the labour costs and social security contributions;
- improving the mechanisms of the labour market, such as wage setting, social security, creating the conditions for adjustment of working with the private life;
- improving the educational system and human resources according to the needs of the labour market;
- effective services in the labour market through further modernization and increasing the quantity and quality of services;
- providing greater security and flexibility of jobs;
- implementation of active labour market policies to strengthen the support for young, long-term unemployed, women, low-skill workers and other vulnerable groups;
- development of set of measures, including institutional, preventive and sanctions, to contribute to facilitating the transition from the informal to the formal sector; and
- development of efficient and functional social dialogue.

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