

UNEMPLOYMENT IN THE REPUBLIC OF MACEDONIA – SPECIFICS AND POSSIBLE SOLUTIONS -

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Abstract. *Unemployment in Macedonia is one of the gravest and most difficult economic, social and political problems, the main characteristics and possible solutions of which are presented in this paper. Overall, there are no 'quick fixes' for problems as severe as those being experienced in the Macedonian labour market. The major prerequisite for a sustained reform programme is that it should have broad support at the political level as well as in the wider population of the country.*

Key Words: *unemployment, labour market, Republic of Macedonia.*

INTRODUCTION

Since 1991, the Republic of Macedonia has been going through a difficult period of transition from a command to a market economy. This process has resulted in high unemployment rates and increasing levels of poverty. Despite significant progress in macro-economic stabilization and the process of privatization, which is almost complete, job creation has been limited while changes in the sectoral structure of employment and labor reallocation from less to more productive jobs have been modest. Foreign and local investments, with the exception of the textile and steel industries, have been low due to the high level of political instability in the country and in the Balkans in general.

Unemployment in Macedonia is one of the gravest and most difficult economic, social and political problems. It was present before the transition (almost 20 percent of the labor force was already registered as unemployed in the 1970s), while by 1991, as Macedonia embarked on independence and transition, and while open unemployment was virtually absent elsewhere in the region, about 24 percent of the labor force was registered as unemployed. Since then, the situation in the labor market has deteriorated. In the early 2000s, despite the fact that further enterprise restructuring is yet to come, unemployment

in Macedonia was among the highest in Central and Eastern Europe. Over the past few years it has become even more pronounced and complex. In addition to the limitations imposed by a lack of funds, the restructuring of ownership and production over the past decade has had a major effect on the unemployed, as has the poor private sector development, which has failed to develop sufficient powers to absorb workers.

The unemployment analyses in Macedonia suggest some obvious factors that contribute to the high unemployment rate: decline of the economic activity in some sectors combined with a lack of dynamism in the emergence of the new sectors, a low export-intensive economy, a low level of FDIs, large informal economy, inefficient labor market policies and rigid labor legislation and the weak law enforcement. The overall macroeconomic situation in the country in the last couple of years is presented in table 1.

Table 1. Basic macroeconomic indicators for Macedonia

Indicator	2002	2003	2004	2005
GDP growth rate	0.9	2.8	4.1	4.0
Inflation (CPI, average)	1.8	1.2	- 0.4	0.5
Exports (US\$ million)	1,112	1,359	1,673	2,040
Imports (US\$ million)	1,916	2,211	2,793	3,097
FDIs (US\$ million)	77.7	94.3	150.1	120.0

Source: Ministry of Finance

MAJOR CHARACTERISTICS OF UNEMPLOYMENT IN THE REPUBLIC OF MACEDONIA

The national labour market is characterized by extremely low employment and very high unemployment. The overall employment rate was only 37.9 % (2005) in comparison to 63.8 % in the European Union (EU). It is alarming that unemployment increased year by year from 32.4 % in 2002 to 37.3 % in 2005 (see table 2) in spite of some economic growth in these years. Unemployment in the country is now almost four times higher than the EU average. However, in the 1st half of 2006 the unemployment rate (LFS) decreased for the first time after several years of continuous deterioration. It is obvious that the perspective of EU accession opened to the country by the opinion of the European Commission published in summer 2005 and confirmed by the EU summit in December, 2005 contributed considerably to this positive trend.

The main challenges of the national unemployment/employment situation are:

- low job creation due to slow economic growth and insufficient investment;
- very large grey economy;
- regional disparity;
- social problems;
- extremely high youth unemployment;
- very high long-term unemployment and unemployment of vulnerable groups;
- gender inequalities; and
- mismatch between the educational system and the labour market needs and demands.

Table 2. Major characteristics of unemployment in the Republic of Macedonia

Indicator	2002	2003	2004	2005
Total unemployment rate	32.4	36.7	37.2	37.3
- men	31.7	37.0	36.7	36.5
- women	32.3	36.3	37.8	38.4
Long-term unemployed > 1 year (% of the total unemployment)	84.5	85.1	85.4	86.7
Total long-term unemployment rate	27.0	31.2	31.7	32.3
- men	26.5	31.6	31.4	31.7
- women	27.8	30.6	32.3	33.5
Youth unemployment rate				
- 15-19	60.2	66.6	72.8	63.5
- 20-24	57.8	65.5	62.5	62.4
Unemployment by level of education (% of the total unemployment)				
- no education	1.8	1.2	1.5	1.3
- primary	41.1	40.9	36.6	34
- secondary	49.7	49.9	54.2	56
- university	7.4	8.0	7.8	8.7

Source: Labour Force Survey (2002, 2003, 2004, 2005), State Statistical Office of the Republic of Macedonia

If one takes into account the *gender composition of unemployment*, data shows that women were more likely to be unemployed than men during the transition period. However, the gender gap has been decreasing over time and was even reversed in 2003, when male unemployment, at 37.0%, was marginally above the female rate of 36.3%. Nevertheless, in the subsequent years, this trend was back to the "usual" pattern of mainly predominant female unemployment.

As elsewhere, *young workers* (aged 15 to 24) in Macedonia are more likely to be unemployed relative to other age groups. Their unemployment rate is 1.7 times higher than the national average for 2005. The youth unemployment rates (for both age groups: 15-19 and 20-24) are extremely high, thus having direct and indirect negative consequences for the socio-economic development of the Republic of Macedonia, since young people are part of the labor force that can significantly contribute towards more dynamic economic development of the country with their knowledge and creative abilities. The deterioration in the youth job market seems to have contributed to particularly large increases in enrollment rates in higher education, since studying is the most acceptable alternative for the young people compared to the years they will have to wait for their first job. The other alternative which is currently in high progress is the "brain-drain" process of the young high qualified and educated persons, thus reducing the quality of the human capital in Macedonia.

Regarding the *education characteristics* of the unemployed, those with completed primary and secondary education are those who are the most severely hit by the unemployment in the Republic of Macedonia. On the other hand, the relatively lower unemployment figures for workers who have not completed primary education can be explained by the fact that they are less reluctant to accept low-qualified jobs, mainly in the agricultural sector. Overall, the increase in the unemployment rate between 2002 and 2005 hit individuals with primary and secondary education harder than those with higher education. Taking into account the global trend towards the knowledge-based economy

(although the pace of progress is assumed to be slower in transition economies), an increased need for higher qualifications and labour force that completed university education can be expected in the medium to long term. Moreover, what is significant in Macedonia is the structural incongruity between the qualitative characteristics of the unemployed and the demands of the labour market. There is a visible gap in information on occupations and the labour market, and the provision of career information, guidance and counseling is underdeveloped in both the employment and education sector. The limited guidance services of the Employment Service Agency are oriented more towards psychological expertise than labour market issues.

Another important feature of the labour market is the incidence of *long-term unemployment (LTU)*. Because of the depreciation of knowledge, skills and working experience, the longer that people are unemployed, the lower their chances of finding work are. Consequently, people in this category of unemployed are in a worse position because they are not only without a job but they are also continuously unsuccessful at finding one. Data clearly illustrate that LTU is a serious problem in Macedonia. Throughout transition, the LTU share in total unemployment has been over 80%, which is well above the CEEC average of 55% and the EU15 average of 40%. LTU is almost evenly distributed between women and men. What is really disconcerting here is the continual increase of the people who have been without a job for more than four years. This category is the most difficult in respect to tackling the problem.

DEVELOPING EFFECTIVE RESPONSES TO UNEMPLOYMENT

The experience of the European Union shows that the labour market is affected by a wide range of government actions – not only in employment policy, but also in education, social welfare, business regulation and taxation. One of the goals of both the EU and the member states in implementing the European Employment Strategy over recent years has therefore been to ensure that employment impacts are fully taken into account in the formulation of policy in these other fields. It is also particularly important that employment policies are consistent and coordinated with the economic policy priorities of the Governments.

Given the multidimensional nature of the challenges, a suitable approach should be pursued, including social assistance and active labor market policies; a delicate balance is necessary between the two. On the one hand, social assistance should be provided to people without employment opportunities in order to survive and meet the basic needs of their families avoiding marginalization. On the other, the provision of social welfare and social assistance should not encourage dependency and should not turn into an obstacle to seeking employment. Hence, the Government policies should be multidimensional and will definitely have to address the following areas of intervention and policy implementation:

1) Macroeconomic policies for growth and employment

In the future period, the macroeconomic policy will have to be focused on contributing to achieving the following main targets:

- achieving more dynamic economy growth (GDP growth of 6-8 %)
- employment increase and unemployment decrease
- increasing competitiveness

- increasing domestic and foreign investment
- low public consumption
- efficient public administration

2) Regional development

One of the most important Government objectives should be directed towards decreasing regional disparities and creating regional cohesion. The national and the local governments will have to establish coordination between the direct measures of the regional policy and the measures of the other policies, such as the industrial and the agricultural policy, aiming at decreasing regional disparity and creating regional cohesion, especially by improving employment on regional level and reducing employment/unemployment disparities among the regions. The development priorities of the balanced regional development should aim at: creating legal framework for balanced regional development, creating institutional preconditions for achieving balanced regional development, and development of regions with specific development needs and cross-border cooperation.

3) Social insurance and social protection

The pension and disability insurance system requires a full harmonisation of the national legislation with the EU legislation, thus, the following is needed:

- Continuing the pension reforms by introducing the third pillar of voluntary fully funded pension insurance, as part of the three pillars in the pension and disability insurance system,
- Harmonization of the basis for collecting the contributions for the three types of social insurance (pension and disability, health insurance and unemployment insurance), introducing a unique procedure for collecting the contributions for social insurance and personal taxes. Based on previous analysis, the Government will have to evaluate the possibilities for decreasing the social insurance contributions because they are huge financial burden on the employers and directly influence job creation.

4) Dealing with youth unemployment

The high youth unemployment rate, age of 15 to 25 (**62.6 % according to LFS**) in 2005 is unfavorable indicator and the employment policy puts a priority on this specific group. In order to settle these situations, the Government should implement the following:

- Skill needs analysis and improving the educational and training system according to the labour market needs,
- Better matching between the education and training and the employers' needs for adequately qualified employees,
- Voluntary practice for students and pupils (over 15 years) on the labour market during their education, summer break, or as a part of the practice in the educational programme,
- Employment of the trainees; and
- Combating long-term youth unemployment (new start – training of all young unemployed before they reach 6 months of unemployment).

5) Preventing the long-term unemployment and encouraging the employment of long-term unemployed

In 2005, the share of long-term unemployed (unemployed longer than 1 year) was 32.3% of the total workforce. This condition imposes the question of long-term unemployed as an important Government's duty, which measures should be directed towards implementation of:

- Preventive and proactive approach (as few people as possible to become long-term unemployed),
- Active labour market measures and stimulating and supportive measures for this particular target group.

6) Improving Employment Service Agency capacity

Primary responsibility for the delivery of both active and passive labour market policy in Macedonia lies with the Employment Service Agency (ESA). The ESA is responsible for all aspects of employment service provision – registering the unemployed, paying unemployment benefits to those who are entitled, giving advice, guidance and counseling to jobseekers, and delivery of active labour market programmes. Hence, the ESA capacity should be improved by:

- Improving and developing the human resource capacities at ESA,
- Close and coordinated cooperation with employers for preparation of a labour market skill needs analysis in Macedonia,
- Ensuring implementation of effective active labour market measures for the unemployed persons (trainings, retraining, public works, work practice, and other measures according to the employers' needs). The active labour market measures can also contribute to the improvement of the competitiveness of the vulnerable groups on the labour market. This implies reallocation of more finances from passive into active measures;
- Improving the ESA IT system is a fundamental prerequisite to improve the ESA capacity and the effectiveness of its work.

7) Education and training

There is a considerable mismatch between the educational system and the skills needed on the labour market but, education and training are decisive for the longer term economic development of the country and especially for employment. The educational system is an important and comprising part of the employment policies. Therefore the Government should implement the following:

- To increase life-long learning and informal education
- To improve the quality of education at all levels;
- To upgrade the educational programmes at all educational levels;
- To increase the coverage and range of IT education and to provide full computerization in schools;
- To increase the competitiveness in education through opening private secondary schools and universities and their regional dispersion;
- To improve the possibilities for youth education in the rural areas;

- Full implementation and development of the VET system and establishing VET centres
- To increase the connection and cooperation among domestic universities and scientific institutions with relevant foreign institutions through participation in joint projects and other forms of professional training and specialization;
- Educational reforms which will contribute to a more efficient distribution of resources and improvement of the results of education.

8) Social dialogue

The strengthening of the social dialogue on the national and local level should be accomplished by:

- Tripartite social dialogue;
- Economic and social council;
- Bipartite social dialogue: special attention to improve the capacity of the social partners in bipartite social dialogue, especially collective bargaining on all three levels (national, branch and enterprise level);
- Establishing social dialogue on the local level;
- Social partners' participation in preparing and passing the legislation in the labour sphere and other projects and programmes in this sphere with a view of improving quality and productivity at work, safety and health at work, flexibility and job security.

CONCLUSION

One can note that it is fair enough to say that there are no "quick fixes" for problems as severe as those being experienced in the Macedonian labour market. The major prerequisite for a sustained reform programme is that it should have broad support at the political level as well as in the wider population of the country. This kind of broad support can be achieved only if there is an active and wide-ranging dialogue on the labour market and wider economic reform.

The labour market policy and measures for social protection should be consistent and complementary to each others, in order to motivate the unemployed population to seek job and employment actively; In addition, the labour market institutions should develop more active approaches for assistance to unemployed in the process of seeking employment. This should be done through improvement of the measures for employment promotion and through permanent evaluation of the efficiency of the labour market policies. Equal treatment and opportunities for women and minorities are particularly important. This should be achieved through regulations that take into account working abilities and family obligations.

Capacity and ability of the national labour market institutions should improve through improvement of the abilities of their staff through continuing education, decentralization of decision-making procedures, computerization of central and regional offices of the labour market institutions, development of appropriate databases and better organization of work; labour market institutions should closely cooperate with the government on the national, regional and local level and with government bodies on the level of sectors,

where possible. They should have permanent contact with enterprises, chamber of economy, trade unions, educational institutions and non-government organizations, in order to analyse the situation on the labour market appropriately and to formulate and implement adequate measures for employment promotion.

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NEZAPOSLENOST U REPUBLICI MAKEDONIJI - KARAKTERISTIKE I MOGUĆA REŠENJA -

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Nezaposlenost u Makedoniji je jedan od najtežih ekonomskih, socijalnih i političkih problema, čije karakteristike i moguća rešenja su prezentovana u ovom radu. Generalno, ne postoje "brza rešenja" za tako specifičan problem kakav je na tržištu radne snage u Makedoniji. Glavna polazna premisa za održivi program reforme je najšira podrška, kako na političkom, tako i na nivou sveukupne populacije.

Ključne reči: *nezaposlenost, tržište rada, Republika Makedonija.*