

THE LABOR MARKET IN MACEDONIA AND THE REGION – SITUATIONS AND ANALYSIS

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Abstract

The recovery of the economy from the recession caused by the pandemic and the energy crisis brought new challenges, which necessitated the need for targeted fiscal support of the most energy-vulnerable households and companies in the entire Western Balkans. Rising consumer prices, fueled by energy and food prices, have caused a double-digit increase in the minimum wage and inflationary pressures since March 2022. There is a slow improvement in the labor market, but high unemployment requires policy intervention. The reduced growth projection for 2022 to 2.7 percent and the intensification of downside risks require a planned approach to return public finances to a sustainable path, acceleration of human capital development and reforms for competitiveness and the labor market.

Key words: *labor market, employees, employment*

JEL Classification: E24, J21

INTRODUCTION

The coronavirus pandemic (Covid-19) not only caused a health crisis, but also caused human behavior and critical habits, and thus caused changes in the economy. The crisis caused by Covid 19, in the world, but also in the countries in the region, most affected the tourism sector, as well as other sectors related to tourism, ie catering, handicrafts and transport, but also delayed investments in construction and other numerous investment projects in both the public and private sectors.¹ The rapid spread of the Covid 19 coronavirus has disrupted global economic trends. In general, the economic shock caused by the coronavirus affects through two channels: Decrease in the supply of goods and services due to disrupted supply chains and Decrease in demand for goods and services due to increased uncertainty, investment restraint and cautious behavior in consumers.² All the countries in the world faced huge consequences for their economies. Factories and shops were closed, and some sectors were particularly affected as a result of the closure of borders.³

North Macedonia's economic recovery is expected to lose some momentum in 2022, reflecting a deteriorating external environment, but also weaker domestic demand due to increasing domestic inflationary pressures, and more cautious investment in view of increased international uncertainty and possible supply chain interruptions. Real GDP growth is projected to slow down to 3.0% in 2022, but to accelerate slightly to 3.1% in 2023. Financing needs for continued implementation of anti-crisis measures, in particular to mitigate the impact of high energy prices on households and companies, are likely to entail sustained high fiscal deficit levels.⁴

¹ Anadolia Agency AA <https://www.aa.com.tr/mk>

² Finance Think, Policy Brief no. 39 <https://www.financethink.mk/wp-content/uploads/2020/11/PB39.pdf>

³ Serafimova, M., Stefanoska., B., 2021

⁴ North Macedonia Unemployment Rate - 2022 Data - 2023 Forecast - 1993-2021 Historical (tradingeconomics.com)

MATERIAL AND METHODS

The materials used in the research are the cited literature and web pages which are focused at labour market in North Macedonia and the region. As the condition of labour market, labour force, employment in the period of coronavirus pandemic (Covid-19) caused not only a health crisis, but also caused changes in the labour economy.

The conceptualization of the labour and workforce market

There is no universally accepted opinion regarding the use of one of the two phrases; however one has to mention the fact that the use of the term "market" does not mean that labour is behaving like another commodity or service. A simple definition of the labour market is given by Derek Bosworth, Peter Dawkins and Thorsten Stromback (1996) who state that the labour market is the place where supply and demand meet, working to determine the price and quantity of the work performed. Michel Didier (1997) defines the market as a means of communication through which sellers and buyers will inform each other about what they have, what they need and the prices that they ask or propose, before closing the transaction. This definition has great applicability on the labour market.

The labour market is the market in which the amount of services that correspond to tasks well established in the job description, are offered for a price or remuneration (Boeri, Van Ours, 2013), that is, to exist on the labour market it is necessary for the work be rewarded.

The labour market must be regulated. In the dictionary of labour law (1997), Beligrădeanu and Stefanescu (1997) define the labour market as "the confrontation between the supply and demand of labour in a given time frame and a geographic area that is usually completed through employment (with an individual employment contract). The worker (employee) means the person exerts his/her activity based on an employment contract in a public or private company or institution, receiving in exchange a payment.

On the labour market, companies act like buyers on the one hand, but also as bidders about regarding to payment, working conditions, and individuals act as sellers, rendering available to employers their knowledge, skills and experience gained. The labour market operates on the principle of competition, the workers competing against each other in view of obtaining or retaining a position. On the other hand, employers compete to attract and maintain within the organizations, the employees that are efficient in the development of the activity and as a result make profit.

Authors like Steliana Pert (1990) or Nita Dobrotă (1997) consider that the labour market is the economic space in which equity holders trade freely, as buyers (the demand), and the owners of the human resource (the supply), as sellers, in which the price mechanism of the work, the real wage, the free competition between economic operators and other specific mechanisms, adjust the labour supply and demand. First and foremost, employees are not an abstract production factor, but human beings with families, desires and needs and only then, labour force (Samuelson, Nordhaus, 2001).

The labour market is one of the main components of the market economy along with the goods and capital market. From an economic perspective the labour market is one of the components of the production forces (Zamfir & Vlăsceanu, 1993).

The workforce was and is the "living" factor that gives meaning to the economic life and is the main component of production factors, by whose direct or indirect intervention, all economic activities become possible. In statistical terms, the workforce is represented by the employed population (those working and those actively seeking work) to which the unemployed are added (Schiller, 1983).

The result of the buying and selling act is represented by the workforce and not the work itself. Work is just a "consequence" of applying the workforce in production (Eatwel et.al., 1987) which is delivered by the worker and bought by the employer.

Among the arguments the authors advocating for the term of workforce market (Adumitrăcesei & Niculescu, 1995) we can state that the human factor, who owns the qualification, experience,

competence and capacity for working, is the one that constitutes the real object of the transaction and not the salary which is only a means of rewarding the work.

Another argument is that in order to obtain goods and services, employers use the workforce and not the work itself. This workforce is different from person to person, each having an efficiency, productivity and different costs. Moreover, the social protection is performed with respect to the workforce.

It is necessary to distinguish between the work and the individual, that is between what arises from the work process (goods and services) and the individual who possess the skills and knowledge they provide to produce those goods and services.

In specialised literature, the labour market is defined from two different points of view. The first is that the work is like any other good or service through which people sell their labour in exchange for wages while the second appreciates the work as a commodity different from the rest of the goods (goods / services) referring rather to the supply of labour available on the labour market (Hudson, 2000).

In order for the workforce to become a cargo the following conditions must be met (Popescu, 2002):

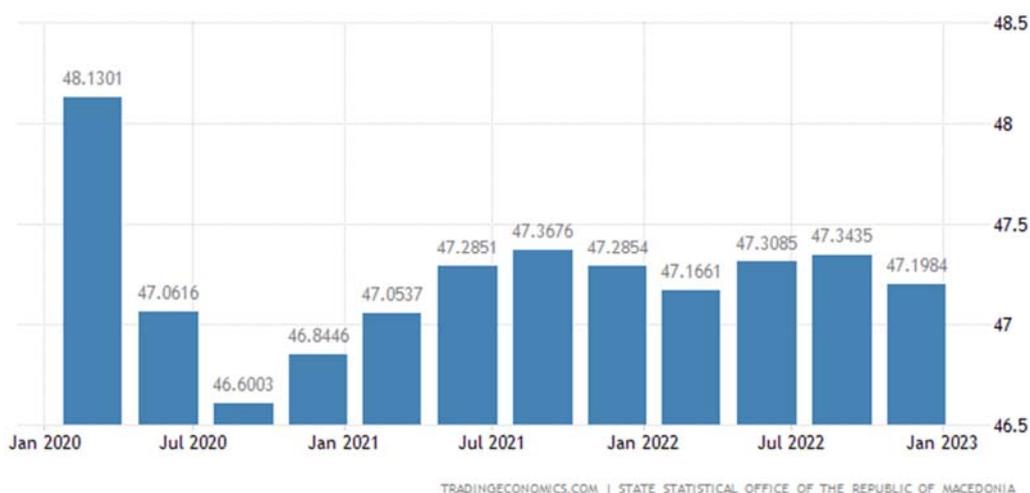
- a) the possibility to be changed with another commodity through and exchange contract;
- b) giving up the ownership;
- c) storing in time.

Given that the three conditions cannot be fulfilled simultaneously, we will not treat labour as a commodity. Although opinions are divided and because there are still many contradictions in using only one of the two definitions, it seems that the term labour market was often used when the human being was considered a factor of production, because the work was seen as another good. But labour is not a commodity as we have argued above, this is an activity performed by individual, and what is capitalised is the workforce.

RESULTS AND DISCUSSION

Employment in North Macedonia

After a moderate employment decline in 2020, the number of employees increased slightly in 2021, in particular in the second half of the year, benefitting from public employment support measures. However, brain drain continues to be an important issue. During the forecast period, employment growth is expected to accelerate, in particular in 2023, reflecting higher investment and government support to employers.⁵



Source: [Macedonia Indicators](https://tradingeconomics.com/macedonia/indicators)⁶

⁵ European Economic Forecast. Spring 2022 (europa.eu)

⁶ <https://tradingeconomics.com/macedonia/indicators>

The unemployment Rate in North Macedonia decreased further to 14.0 percent in the final three months of 2022, down from 14.3 percent in the previous period. It was the lowest jobless rate on record as the number of unemployed declined by 3.0 thousand to 112.2 thousand and the number of employed was also down by 3.0 thousand to 690.1 thousand. The employment rate edged down to 47.2 percent from 47.3 percent, while the activity rate fell to 54.9 percent from 55.2 percent.⁷

Related	Last	Previous	Unit	Reference
Unemployment Rate	14.00	14.30	percent	Dec 2022
Unemployed Persons	112227.00	115266.00		Dec 2022
Employed Persons	690053.00	693062.00		Dec 2022
Wages	51387.00	49397.00	MKD/Month	Dec 2022
Wages in Manufacturing	46114.00	42963.00	MKD/Month	Dec 2022
Employment Rate	47.20	47.34	percent	Dec 2022
Labor Force Participation Rate	54.87	55.22	percent	Dec 2022
Job Vacancies	10217.00	7873.00		Sep 2022

In Macedonia, the employment rate measures the number of people who have a job as a percentage of the working age population.

Actual	Previous	Highest	Lowest	Dates	Unit	Frequency	
47.20	47.34	48.13	31.20	2004 - 2022	percent	Quarterly	NSA

Source: [Macedonia Indicators](#)⁸

Employment in the Region

The region is characterized with constant high level of unemployment, low rate of creating jobs (Kovtun et al., 2014), presence of structural unemployment (Mojsoska-Blazevski, 2012) and generally insufficiently developed institutional framework of labor market (John P. Martin, 2014 in Serafimova, M. Bardarova, S. 2019 pp 4).

Labour market is strengthening and being one of the key factors behind the 2022 economic firming as well as acting as a limiting factor against counter-inflationary measures. Indeed, the unemployment rates returned to a multiple constant trend, with Croatia and Slovenia are at or even below the EU average, while the rest of the region hovered around double-digit levels. Labour demand gained a stronger footing along with strong economic performance, despite unfavorable demographics ie. the reduction in labor supply in many activities also continued to play an important role.

Looking at the details, although North Macedonia has boosted labor market robustness during the pandemic, the unemployment rate is still elevated to 14.4% in Q3 2022. The labour market in Bosnia and Herzegovina recorded two-digit LFS unemployment rate of 14.8% in Q3 2022,

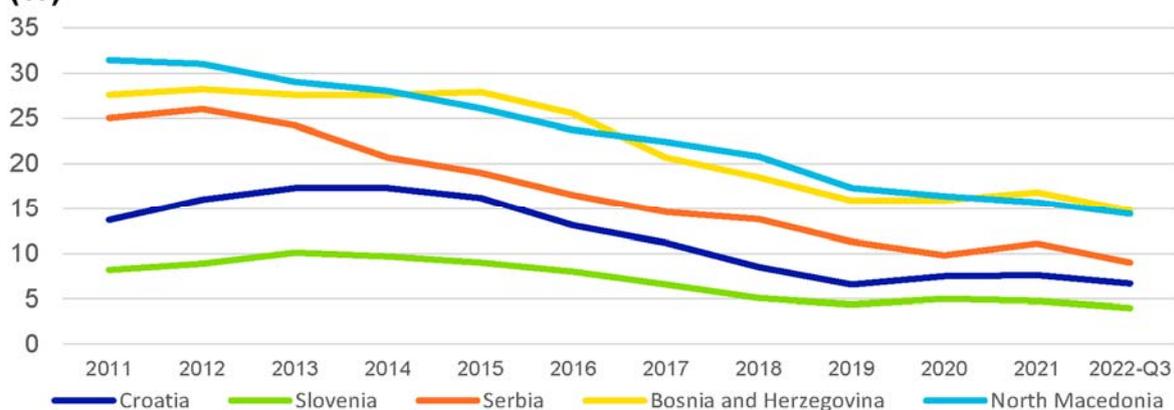
⁷ State Statistical Office of the Republic of North Macedonia

⁸ www.tradingeconomics.com

noting the highest gap compared with registered unemployment as informal economy still has a significant role. Serbia recorded unemployment rate of 9%, floating around its bottom hit in Q2. Croatia and Slovenia are at the best performers, with Croatia's rate at 6.7%, while Slovenia hit a record low at 4% in Q3 2022.

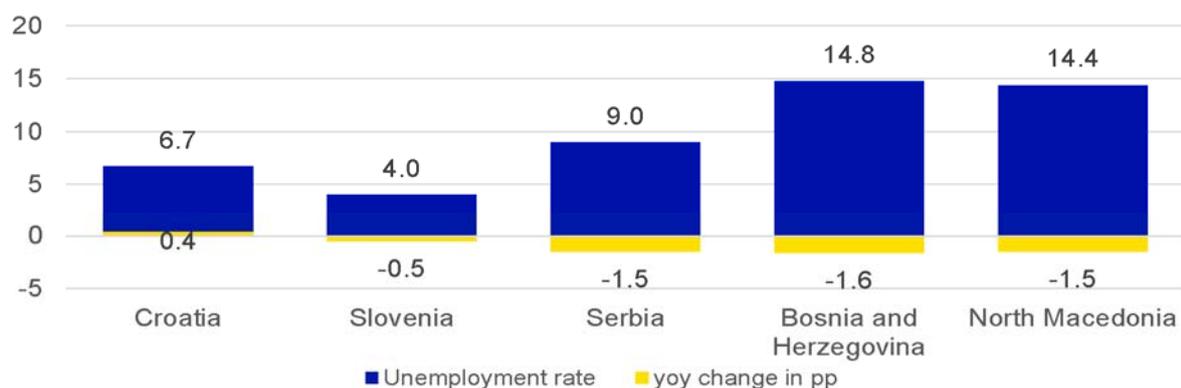
On labour supply, although Bosnia and Herzegovina and Serbia still struggle with high unemployment rates, there is a demand fraction filled with foreign workers (mostly coming from the region and third world countries), dominantly in the blue-collar zone. Scarcity in the labour market in Croatia and Slovenia, which led them to relax their rules for acquiring working permits. Migrations within the region are biased towards Slovenia and Croatia, as relatively higher wages attract jobseekers.⁹

Unemployment rates* sliding down in the recent decade (%)



Source: Eurostat and national statistical offices
 Rates according to Labour Force Surveys. The 15-74y age group was used, in case of North Macedonia 15-64y

Unemployment rates* and yoy changes (Q3 2022, %)



Source: Eurostat and national statistical offices
 Rates according to Labour Force Surveys. The 15-74y age group was used, in case of North Macedonia 15-64y

Unemployment rates* and yoy changes (Q3 2022, %) Source: Eurostat and national statistical offices Rates according to Labour Force Surveys. The 15-74y age group was used, in case of North Macedonia 15-64y.

⁹ <https://si.bloombergadria.com/data/files/BBG%20Labour%20market.pdf>

CONCLUDING REMARKS

As the economy gradually recovered from the recession caused by the pandemic, the energy crisis and the war in Ukraine brought new challenges. Support for Covid-19 should be replaced with targeted fiscal support for the most energy-vulnerable households and firms as public debt increases further.

- Consumer price increases accelerated from late 2021, driven by energy and food prices, while a double-digit increase in the minimum wage will add to inflationary pressures from March 2022.
- The labor market is slowly improving, but high youth unemployment requires policy intervention.
- The short-term outlook worsened: the growth projection for 2022 was cut to 2.7 percent, while downside risks intensified. In the medium term, the outlook remains positive, subject to returning public finances to a sustainable path, accelerating human capital development, and green transition and competitiveness reforms.¹⁰

The National Employment Strategy 2021-2027 with the Employment Action Plan 2021-20232 includes a detailed analysis of the labor market in the Republic of North Macedonia. Although the Strategy identifies differences in the labor market in a regional context, it does not include a specific direct objective to reduce the uneven development of the labor market.¹¹

The National Employment Strategy 2021-2027 with the Employment Action Plan 2021-2023 defines three key goals that are interrelated:

- (1) General improvement of the quality of the results of learning levels;
- (2) strengthening the role of policies for the development of the economy and enterprises in creating decent jobs; and
- (3) strengthening the inclusiveness of labor market policies.

The action plan for employment 2021-2023 defines specific activities for achieving the projected results. As for the first objective, it defines measures for accelerating reforms in education and improving the educational infrastructure. Regarding the second objective, the measures are aimed at business entities increasing their efficiency and competitiveness, as well as reducing the informal economy. Finally, in order to strengthen the inclusiveness of the labor market, actions have been defined to reduce the restrictions on the labor market for vulnerable persons and strengthen institutional capacities at the central level in the creation and implementation of labor market policies.¹²

In 2023 we expect the employment in the region rising by around 1%, i.e., at a slower pace compared to 2022, given the growth perspectives (Slovenia and Croatia contracting, with the rest of the region recording some growth) and tight labour market. The inflow of foreign workforce is a must, which pops the issue of market attractiveness, especially in case of non-EU part of the region which has a wider space to improve working conditions. Nearshoring orientation of the dominant EU economies (also mirrored in FDIs inflows in the region) breaks the ground for stable and sustainable growth, conditional on the regions strategic preparedness to form (read import) and manage enough human capital. In general, the labour market in the region has been receiving mixed signals. As employee collectives are gaining advantage, the employers are trying to keep up with increasing overall costs, including labour costs. With FDIs being relatively ample during 2022 it seems that tight labour market is there to stay. The West is craving for workforce luring with high wages, better overall living conditions and widely open doors. In the mid- to long-term the demographics are expected to

¹⁰ North Macedonia Unemployment Rate - 2022 Data - 2023 Forecast - 1993-2021 Historical (tradingeconomics.com).

¹¹ (strategija_vrabortovanje_2021_mkd.pdf (mtsp.gov.mk)

¹²chromeextension://efaidnbmnnnibpcajpcglclefindmkaj/viewer.html?pdfurl=https%3A%2F%2Fwww.mtsp.gov.mk%2Fcontent%2Fpdf%2F2021%2Ftrud%2FNSV%25202021-2027%2520i%2520NPV2021-2023.pdf&clen=2190615&chunk=true

define the employment image. With the degree of emigration recorded in the region, especially within the young age groups, the workforce is expected to shrink further. In addition, the “upside down triangle” shape of the age pyramid suggests the number of people exiting the activity span is significantly higher in comparison to the volume of fresh labour force. In the following periods the unemployment rates will for sure tango with the economic dynamic, with demand leading the way. As cyclical sectors play a major role in the region, expected drop in foreign demand will enter some noise into the labour market on the short run. Considering unemployment rate in 2023, slight increase is expected in Slovenia and Croatia (mostly amid blooming tourist season in 2022 in part due to inflow of Ukrainians, which most possibly won't replay in such volume). As Serbia, Bosnia and Herzegovina and North Macedonia have broader subset of unemployed available, there is a gap for improvement and the unemployment rates are expected to decrease mildly in 2023.

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