

**Euro-Balkan Institute  
Republic of Macedonia**

**Project:  
EU ENLARGEMENT AND ITS IMPACT ON THE SOCIAL POLICY AND LABOUR  
MARKETS OF ACCESSION AND NON-ACCESSION COUNTRIES**

**(Country report for REPUBLIC OF MACEDONIA)**

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### **Introductory remarks**

After the breakdown of Former Yugoslavia, Republic of Macedonia had entered into a problematic phase of transition toward market economy and democracy. Political efforts for implementation of democracy were more successful than efforts for achievement of economic stability and growth. Indicators in the Table 1 show serious problems in functioning of the Macedonian economy since 1993, although the problems existed before, but due to economic and political reasons they became worse in the last decade. Political instability in the Balkan region causes high level of political and economic risk that had affected Macedonian economy very badly. Seriousness of the situation in the South-east European countries (so called Western Balkans) got a lot of European Union's attention which have resulted in tailor-made Process for Stabilization and Association (SAP) of R.Macedonia, Croatia, Serbia and Montenegro, Bosnia and Herzegovina and Albania, in regards to EU accession. All these countries are focused to EU accession, but they'll have to achieve stable political environment in the region first, with parallel work on fulfillment on EU requirements underlined as compulsory for all accession countries.

Implementation of SAP includes signing of Stabilization and Association Agreements by all countries with EU, that regulate the main issues regarding the EU accession. R.Macedonia was first country that signed Stabilization and Association Agreement, in April 2001, and so far Croatia has done the same. The other countries from the group are still in the process of negotiations, and SAP doesn't give the expected results so far. Anyhow, changes in the last decade and Macedonian efforts for accession to the EU had resulted in changes in all economic spheres, as well in labour market and social policy, which are subject of interest for this project.

**Table 1 Basic macroeconomic indicators**  
**Annual data for the Republic of Macedonia**

		1993	1994	1995	1996	1997	1998	1999	2000	2001
Real GDP	%	-9.1	-1.8	-1.2	0.8	1.5	3.4	4.3	4.6*	-4.1*
Inflation (average)	%	362	128	15.7	2.3	2.6	-0.1	-0.7	5.8	5.5
Inflation (end of period)				8.8	-0.7	2.7	-2.4	2.4	6.1	3.7
Implicit deflator	%	442.1	151.9	17.1	2.9	3.4	1.4	2.7	8.2*	4.2*
Budget balance (central budget and funds)	% GDP	-13.4	-2.9	-1.2	-0.5	-0.4	-1.7	0.0	2.5*	-5.7*
Exchange rate (average)	DEN/1 USD	23.6	43.2	38.0	40.0	49.8	54.5	56.9	65.9	68.1
Exchange rate (end of period)	DEN/1 USD	44.6	40.6	38.0	41.4	55.4	51.8	60.3	65.3	69.2
Export (C.I.F.)	USD bill.	1.06	1.08	1.20	1.15	1.20	1.31	1.19	1.32*	1.16*
Import (F.O.B.)	USD bill.	1.01	1.27	1.42	1.46	1.59	1.91	1.78	2.08*	1.68*
Trade balance	USD bill.	0.05	-0.19	-0.22	-0.31	-0.39	-0.60	-0.59	-0.76	-0.52
Current account balance	USD bill.	0.02	-0.16	-0.22	-0.28	-0.27	-0.31	-0.11	-0.11*	-0.35*
As % of GDP	%	0.8	-4.7	-4.9	-6.3	-7.2	-8.7	-3.0	-3.1*	-10.1*
Foreign exchange reserves	USD bill.	0.12	0.16	0.27	0.27	0.28	0.33	0.48	0.71	0.79
Import coverage (reserves/import)	months	1.4	1.6	2.3	2.2	1.9	2.1	3.2	4.1	4.9
External debt <sup>1)</sup>	USD bill.	1.14	1.26	1.44	1.17	1.13	1.44	1.49	1.49*	1.44*
As % of GDP	%	45.5	37.2	32.3	26.5	30.3	40.1	40.6	41.5*	41.5*

<sup>1)</sup> Since 1998, according to the new methodology suggested by the World Bank, total foreign debt comprises short, medium and long term credits.

\* Estimate on preliminary data.

Source: National (State) Statistical Office, Ministry of Finance of the Republic of Macedonia and the National Bank of the Republic of Macedonia.

## 1. Labour market and employment/unemployment

The changes within the total population, working-age population and active population (labour force) in the Republic of Macedonia in the last two decades were with a varying volume and intensity. The changes were under the influence of demographic factors (the natural and migratory movement of the population), as well as of socio-economic factors (table 2). The huge disproportion in the movements of the working-age and the active contingent, whose sizes often mutually correspond, are signaling a decrease in the demographic frame of the labour force supply, and decrease of the growth of the active population. Those changes could be explained with the loss of the part of the labour force induced by intensive migratory movements towards abroad, an increase in the number of retired persons because of different reasons, primarily their premature exclusion from the labour contingent during the transition process, as well as by the changes in the professional occupations of part of the active persons (primarily from the agrarian into non-agrarian professions).

**Table 2 Demographic structure of the Republic of Macedonia**

	Census data		Labour Force Survey		
	1981	1994	1996	2000	2002
Total population	1 808 217	1 945 932	-	-	-
Working-age population*	1 127,005	1,247,481	1,436,602	1,534,256	1,566,954
Active population	750,416	779,097	789,081	811,557	824,824
Of them:					
At work in an occupation	675,417	579,453	537,591	549,846	561,341
Bankruptcy workers	-	12,955	-	-	-
Not at work in occupation	74,999	186,689	251,489	261,711	263,483
Non-active population**	1,057,801	1,141,875	647,521	722,699	742,129

\* Administrative data - persons at the age of 15 up to 59 for women and 64 for men.

Labour Force Survey - all the persons between 15 and 80 years of age.

\*\* Labour Force Survey data are for the population over 15 years of age.

Source: National (State) Statistical Office of the Republic of Macedonia.

Concerning the issues of the employment, the Republic of Macedonia is singled out compared to other countries in the South East Europe by its very high unemployment rate in the last several decades. The Republic of Macedonia entered the transition period with more than 150 thousand unemployed persons and with equal number of over employed persons because of the administrative, but unproductive employment done in the previous period.

In the pre-transition period, the employment in the Republic of Macedonia did have a tendency of continued growth. The largest number of the employed persons was registered in 1989 (about 516,500 persons), and then a tendency of its continued decrease begun (Table 3). Under the influence of the problems immanent to the transition processes, as well as other limiting factors (the economic crisis, the refugee crises, the warlike situations), the employment in the formal sector in the second part of the nineties was encountering an accelerated decrease. Based on the situation in 2002, it contributes to the decrease of the number of registered employed persons to less than 300 thousand. The administrative data provided by the National Statistical Office do not represent the overall comprehension of the employed persons in the country. For example, according to the Payment Office, the number of persons earning salaries in 2001 amounted 420 thousand.

**Table 3 Number of employed persons in the Republic of Macedonia**

Data sources	1981	1989	1990	1994	1996	1998	2000	2002
Administrative	453,378	516,500	507,324	395,686	339,824	310,213	313,558	280,989*
LF Survey	-	-	-	-	537,591	539,762	549,846	561,341

\* I - IX

Source: National (State) Statistical Office of the Republic of Macedonia

In the same time, the informal sector was spreading more intensively, together with the number of employed persons in this sector. The expansion of the "Grey" economy of

unseen proportion served as a "security valve" in calming the social tensions. In those circumstances no less dramatic was the problem of realistic deduction of those values in the formal and in the informal sector. Several attempts to assess the size of the informal sector were made. The results of this research were characterized by very large deviations in the approximated number of employed persons.

In the new situation, the solution was sought in the surveys that were carried out starting in 1996. The Labour Force Survey data, which encompasses the informal sector and economically active population in the agriculture, show that between 1996-2002, the number of employed persons amounted between 537 and 561 thousand. In 2002, about 133 thousand active peasants have been included in the number of employed persons, of which 65 thousand were non-paid family workers.

**Table 4 Number of unemployed persons and unemployment rates in the R. Macedonia**

Data sources	1981	1989	1990	1994	1996	1998	2000	2002
<b>Unemployed persons</b>								
Administrative	126,645	150,400	156,323	189,906	235,135	275,232	366,211	374,113*
LF Survey	-	-	-	-	251,489	284,064	261,711	263,483
<b>Unemployment rates</b>								
Administrative	22.5	22.5	23.6	32.0	40.9	47.0	53.9	57.1
LF Survey	-	-	-	-	31.9	34.5	32.2	31.9

\* As of September

Source: Employment Office and National (State) Statistical Office of the Republic of Macedonia.

The data of the mentioned sources show significant differences in the number of employed persons, which imposes the question of credibility of those sources. It is necessary to underline that the Labour Force Survey is providing the information on the demographic and socio-economic characteristics of the employed persons, which reflect the quality of the disposable labour force. As for the qualitative marks of the unemployment, a special attention deserves its structure based on the *degree of education*. The share of the nonqualified and semi-qualified, as well as of the persons with lower education degree is constantly prevailing (50.0 per cent in 1989 and 52.8 per cent in 2002).

The unemployment duration shows unfavorable movements that are manifested in high absolute and relative increase of the number of persons that are unemployed for a longer time. So, based on the registered unemployment in 1997, the share of the persons that are seeking job for less than a year is only 6.0 per cent; of the persons that are unemployed between one and three years - 27.8 per cent, and over three years - two third of total unemployed persons (66.2 per cent). The share of the persons that are seeking job longer than eight years is terrifying and is amounting 27.7 per cent. The Labour Force Survey also confirms the longevity of the unemployment<sup>1</sup>. The causes for the long-lasting unemployment

<sup>1</sup> Based on those data, in 2001 the share of the persons seeking job up to one year is 13.1 per cent, and over three years 64.8 per cent.

and its terrifying volume should be primarily sought in the insufficient economic development, the stagnating and even contracting economic growth, the discontinued development trends significantly emphasized by the period of transition from one into another socio-economic system. Besides, the employment problem is under the influence of other limiting factors, such as the foreign debt, the problems of structural transformation and structural harmonization, the stabilization etc.

Long-lasting unemployment represents a huge loss for the nation, not only as a flux of the human capital, but also as a loss of most vital part of the population, on whose generic forces, today and in the future, the development of the country should be based. The example of the Republic of Macedonia is confirming, "the enormous loss of the human resources is a sign of large inefficiency of the economic system and is provoking a deep crisis in the social sphere" (OECD, 1994, p. 9.). The unemployment is one of the basic causes of the large poverty increase. According to the latest data, about 25 percent of the total population in the country are poor.

In spite of all these facts, up until now, there was no an employment-oriented strategy in the Republic of Macedonia, funded on a coordinated and integrated approach that the factors in the institutional and macroeconomic framework include both employment and labour-market policy interventions. Macedonia also does not have consistent *employment policy* as a cross-sectoral policy that includes all policy fields, affecting directly or indirectly the employment of labour as a factor of production. Only partial and short-term employment-related measures were used, but only in some policy fields.

Concerning the *sectoral policy spheres*, there is no regional, industrial and agricultural policy. Within the regulative and macroeconomic spheres of the economic policy there were some employment and labour market-related measures in the financial policy (taxes, contributions, subsidies), in the monetary policy (in maintaining monetary stability) and in the wage policy (use of the minimum wage as an instrument of social policy). The experience in reducing the employment contributions for new employments that was applied during 1998 can be underlined as a positive one. It did have positive effects on the employment, because quiet large number of unemployed persons was employed. As a prerequisite for the economic development of the country, activities were undertaken in the field of foreign-trade policy. So, several free trade agreements were signed, and R. Macedonia became a member of the World Trade Organization in October 2002.

Promotion policy for small and medium-size enterprises and social policy exist. During the transition period, in the circumstances of growing unemployment, social policy was focused on protecting the social peace in the country. Within the sphere of the education/training policy, our government has adopted a strategy for the period up until 2010. It is important to point out that serious reforms are already started in all levels of education. Also, several programs for training and retraining, as well as education of older persons are going on. But, the measures that were undertaken up until now in particular fields of the

employment policy, because of the uncoordinated approach could not give more significant results in relieving this very difficult problem<sup>2</sup>.

One of the "individual" ways of solving the problems related to unemployment and low standard of living is emigration from the country. R.Macedonia has strong tradition of migration, especially to USA, Australia, Germany, Switzerland, Italy, etc. Emigration flows were also very strong in the last decade, in spite of unfavorable conditions for migration. Visa regime is the biggest obstacle because Macedonian citizens have free pass without visa just to few countries in the world. Unemployed persons face big problems in getting visas even for the tourist purposes, but migration potential is really huge. Brain-drain is one of the biggest problems of the country, linked with loss of investments in human capital and creative work force, etc. Again, regarding migration, R.Macedonia doesn't have policy, which is essential for creation of preconditions for economic reforms. Awareness of the brain-drain exists, but without consistent policy and measures, situation could not be improved.

### **Social policy**

Labour market changes, especially high rate of unemployment had provoked changes in social system, in purpose of providing social security for the citizens. In that manner, R.Macedonia started to build new model of social protection in 1990's and the Law for Social Security had passed in 1997. According to the Law, there are several types of social assistance:

- Regular financial assistance that is aimed for the persons disabled for work, single parents and people over 65 without revenues.
- Financial assistance for disabled and handicapped persons' care.
- Single financial assistance for the people that suffered from some disaster, need medical treatment, etc
- Health protection according to different social policy criteria
- Housing according to different social policy criteria
- Social financial aid for the unemployed (that belong to the pool of active work population), people with insufficient incomes for householding, etc.

All of them are financed by the state (4.7% of the budget in 2002), and biggest "social" burden in the state budget are expenses for social financial aid. The number of beneficiaries of this aid constantly increases as shown in the table 5. The biggest number of the beneficiaries are unemployed (81%), on age between 30 and 40 (37%) or up to thirty (27%), and low skilled (60%)

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<sup>2</sup> For example, when there is no development policy, especially the industrial and agricultural policy, also when the output is diminishing, the expected positive influence of the concluded free trade agreements and the membership in the World Trade Organization will fail.

**Table 5 Number of beneficiaries of social financial aid**

Year	Number of households - Beneficiaries of social financial aid
1998	62.712
1999	68.087
2000	75.277
2001	77.309
2002	81.026

Overall situation on the labour market, expressed in high number of people that have lost their jobs, had cause need for finding a mechanism for alleviation of their situation. In 1997, Law for employment and insurance in case of unemployment had passed, that regulates right of employed and unemployed persons. According to the Law, people that lost their jobs have right to the regular financial aid in amount of 50% of the salary (average received in the last 12 months) in the first year and 40% second year on. Beneficiaries could use this aid for the period of 3 to 18 months, in accordance to the working experience. Beneficiaries over 55 and with more then 25 years of working experience, could use assistance till next employment or retirement. All the beneficiaries also have right on health protection and social & pension insurance. The number of beneficiaries have trend of increase, as shown in the table 6.

**Table 6 Number of beneficiaries of financial assistance for lost of job**

	2000	2001	2002
Number of beneficiaries of financial assistance	34.002	41.375	46.772
Total number of unemployed	366.211	360.340	374.113

Regarding the European Union regulation concerning the labour and social relations, of special interest for Macedonia is the document of Union on the basic social rights and also about twenty directives. The harmonization of our legislative with other directives of the Europe Union in this area is to take place yet.