RegionalCooperationCouncil

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LABOUR MARKETS
IN THE WESTERN BALKANS

2019
and
2020

good.
better.
regional.

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** This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.*

EXECUTIVE SUMMARY

This Study analyses the situation in each of the six Western Balkan economies' labour markets in 2019 and during the COVID-19 pandemic in 2020. It considers the factors that affect the region's labour markets, the measures undertaken by governments to mitigate the effects of the COVID-19 pandemic, and how these have affected labour market outcomes. It includes an analysis of the structure of the labour force, including employment and unemployment in general and that of particular groups, including youth, low-skilled workers, and women as well as the long-term unemployed and the informal economy. Additionally, factors related to economic and sectoral development that have affected job losses and opportunities for job creation are considered.

Labour markets in the Western Balkans in 2019

In 2019, as for the last two decades, the labour market of the Western Balkans as a whole was characterised by low activity and employment rates, as well as by high unemployment rates, particularly among vulnerable population such as women and youth, and high levels of informality. However, the main labour market indicators show quite different characteristics and trends for each economy. For example, in two economies the working age population fallen substantially over the last decade (Bosnia and Herzegovina and Serbia) while in two economies the working age population increased, also by substantial amounts (Albania and Kosovo*). In Montenegro and North Macedonia, the working age population has changed little.[1]

Economies of the Western Balkans have recently experienced positive trends in some of their labour market indicators, and in 2019 economic prospects were promising with relatively high growth rates in most economies, while unemployment rates were on a declining trend. Employment in the region increased to such an extent that it generated labour shortages and wage pressures. This occurred particularly in sectors such as ICT in Serbia and in the construction sector in Albania, Bosnia and Herzegovina and Kosovo*, manufacturing and transport in Serbia and North Macedonia, and tourism in Montenegro.

The Western Balkans economies have different profiles of informality. Men are more likely to be involved in informal employment in Kosovo*, Montenegro and North Macedonia, while women are more likely to be informally employed in Serbia; there is hardly any gender difference in Albania. Workers with primary or lower education and those employed in agriculture are more exposed to informal employment. Unpaid family workers comprise a significant share of informal employment in most Western Balkans economies. Workers in the informal economy are less likely to be reached by the mitigation and job retention measures that have been adopted in response to the COVID-19 pandemic.

1 Between 2012 and 2018 the working age populations changed as follows: Albania: +2.9%; Bosnia and Herzegovina: -6.6%; Kosovo: +10.5%; Montenegro: -0.2%; North Macedonia: +0.8%; Serbia: -5.0%; Western Balkans: -1.9% (source: WiiW/World Bank Jobs Gateway for Southeastern Europe online data).*

Labour market in the Western Balkans in 2020

The Western Balkan region experienced a sharp V-shaped recession in 2020, with a deeper trough than was experienced by the EU economies but also a stronger bounce-back in the summer of 2020. With the relaxation of restrictive measures, the pandemic entered a second wave in the winter of 2020 and a third wave in early Spring 2021. Lack of ability to provide vaccinations for the populations has meant that each time restrictive measures are lifted a new surge of the virus appears.

Labour markets have been severely affected by the COVID-19 crisis, due to the simultaneous reduction of both aggregate demand and aggregate supply, and due to the lockdown and other confinement measures implemented by governments. All six economies initially introduced tough lockdown measures, fearing the collapse of their weak health systems. The stringent measures disrupted the transmission of the virus and kept infections to a low level but had negative economic effects. The impact of the COVID-19 pandemic on labour markets has followed the trends in infections and the subsequent mitigation measures introduced by governments. In response to the first wave of the pandemic in March 2020 the strict lockdowns caused significant reductions in economic activity and increases in unemployment, reduced working hours and reduced payments to workers. In all economies the number of newly registered unemployed increased in March and April 2020. The summer period was characterised by an easing of restrictions and a temporary improvement of economic and labour market trends. The situation worsened in winter 2020, when infection trends began to worsen again.

Due to the success of the job retention measures, after the initial increase in unemployment in March and April 2020 the situation stabilized and for the year as a whole unemployment did not change much compared to 2019 with the exception of Montenegro, which was badly affected by the collapse of its tourism industry. Overall, the average employment rate in the region fell by 1.4 percentage points and the average unemployment rate increased by 0.8 percentage points. Labour markets adjusted to the economic shocks triggered by COVID-19 through underemployment and remote working, rather than through unemployment. These adjustment processes helped keep workers in their current jobs and therefore helped avoid a substantial rise in unemployment. However, the downside of these mechanisms is that they may cause a substantial reduction in total pay for workers. Consequently, the in-work poverty that was already high across the region is likely to increase further. Low-educated and low-skilled workers and youth are at particularly high risk, usually being the first to receive lower wages and work fewer hours because of their bargaining power and due to the inability of the weak trade unions in the region to protect them. Moreover, they are over-represented in sectors that have been most affected by the pandemic (such as tourism and the hospitality sector, wholesale and retail trade, transport and storage). Young people are particularly vulnerable to the pandemic and may suffer long-term scarring effects both from losing their jobs and income and from the reduced access to educational opportunities due to the closure of schools and universities. Disruptions to education and training systems may worsen the already unfavourable labour market prospects of youth.

Conclusions and recommendations

Governments of the Western Balkans ought to address both the consequences of the COVID-19 pandemic as well as the persistent vulnerabilities of the labour market to future economic downturns. Short-term measures should continue to provide financial support to workers affected by the responses of businesses to the crisis, including lay-offs and reduced wages. These measures ought to especially target vulnerable individuals such as youth, low skilled workers and returning migrants as well as workers in the informal economy. Short-term support measures should continue to be provided to businesses to enable them to preserve their activity, save jobs and restore livelihoods until a full vaccination roll-out has been achieved.

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LIST OF ACRONYMS

ALMP	Active labour market policies
BiH	Bosnia and Herzegovina
COVID-19	Corona virus disease 2019
ECFIN	European Commission's Directorate General for Economic and Financial Affairs
EU	European Union
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
LFP	Labour force participation
LFS	Labour Force Survey
ICT	Information and Communication Technology
ILO	International Labour Organization
IOM	International Organization for Migration
IMF	International Monetary Fund
MSME	Micro, small and medium sized enterprises
PES	Public Employment Service
RCC	Regional Cooperation Council
SME	Small and medium sized enterprises
UNCTAD	United Nations Conference on Trade and Development
WDI	World Development Indicators

1. INTRODUCTION

The COVID-19 pandemic and its global impact has had major impacts on our lives and on the functioning of economies. While people's health is a major concern, the economic consequences are also high up on the policy agenda. In particular, the impact of reduced economic activity on employment is a major worry of governments, which have sought the best trade-off between protecting human lives and reducing the negative consequences of restrictive measures on the economy. Travel bans, quarantines and other constraints on mobility have damaged entire economies and have had negative impacts on labour markets. In a globalised world, supply chains have been disrupted, businesses have been closed, and the demand for products has decreased. Many workers could not get to work or have worked from home, in many cases working fewer hours or being paid less. Furthermore, the reduction of economic activity has reduced demand and has led to lay-offs of many workers, particularly vulnerable workers, such as youth, those with temporary contracts, and informal workers. The available studies on the economic and employment impact of the crisis suggest that the effects are asymmetric, with the most vulnerable segments of the workforce being hardest hit (Fana et al., 2020).

The COVID-19 crisis has hit the Western Balkans too. Since early March, 2020, when the first cases were reported, the number of contagions and deaths has continuously increased. During the first wave of the pandemic, restrictive measures were implemented in most economies from mid-March, 2020 to halt the spread of the virus. These measures started to be lifted progressively in May, 2020. The trend in the number of COVID-19 cases was low and stable in the second half of August, 2020 and throughout September, 2020 but the situation worsened with an exponential increase in the number of cases in October, 2020. In response to the second wave, governments reintroduced restrictive measures, similar to those that had been implemented in the Spring, 2020.

At the outset of pandemic, the labour markets of the Western Balkans were characterised by high inactivity rates (ranging between 59.5% in Kosovo* and 39.6% in Albania in 2019) and unemployment rates (between 10.4% in Serbia and 25.7% in Kosovo* in 2019), as well as low employment rates with a significant share of temporary contracts in some economies and high levels of informal employment. This is far worse than the labour market indicators in the EU, where the employment rate was 73.1% in 2019 and the unemployment rate was just 8.3%. The employment rates in the Western Balkans were around three quarters of the average rate of the EU partly due to low labour force participation rates (activity rates) especially among the young population and women. Moreover, it is estimated that over a fifth of the employment in the region is informal. These economies are more vulnerable to the pandemic (Fana et al., 2020) and more likely to suffer severe employment impact of the restrictive measures. For that reason, it is important to conduct a comprehensive analysis of the impact of COVID-19 on the labour market in the Western Balkans after the second wave and a period of prolonged confinement, as some initial attempt to analyse the impact after the first months of the lockdown did not include the impact of the second wave. The analysis presented in this report takes into account specific features of the Western Balkans economies, including dependency on tourism and remittances, the role of FDI inflows, and the influence of labour market institutions. Moreover, it is important to assess the pre-pandemic vulnerabilities of the labour market in the Western Balkans. For instance, the potential for telework in some of the Western Balkan economies was rather low prior to the crisis. As a result, they were not only severely affected by the crisis, but also less prepared for the transition to telework during the crisis.

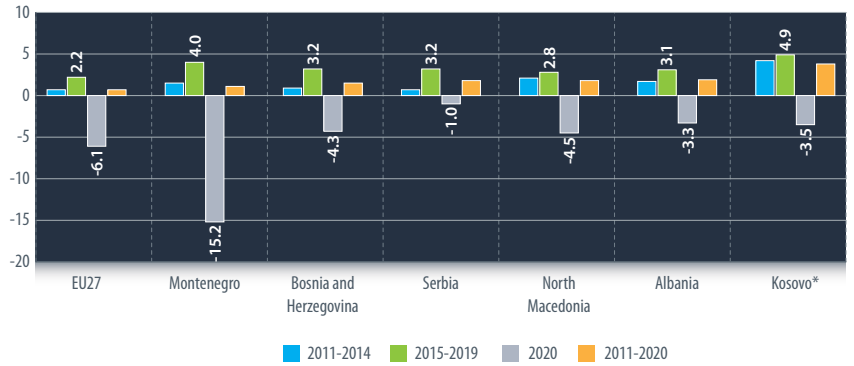
There is already substantial literature about the general effects of COVID-19 on labour markets, particularly assessing the effect on hours of work and job losses (e.g., Adams-Prassl et al., 2020; Béland et al. 2020; Coibion et al., 2020). According to the findings from these studies, the expected impact of the pandemic is a result of interplay of different factors, including the extent and duration of restrictive measures, the structure of an economy and the effect on specific sectors, the decrease in demand, the recovery measures implemented by governments, and the extent to which jobs can be performed from home. These factors are covered in the analytical part of this report.

The report is structured as follows. After the introduction, section 2 analyses the state of the labour market and its vulnerabilities to external shocks. Section 3 presents evidence of the impact of the pandemic on the labour market in the Western Balkans during 2020. Finally, section 4 concludes and offers recommendations of both short-term and medium-term policy responses that should be put in place to mitigate the negative effects of the pandemic, particularly among vulnerable groups on the labour markets of the region.

2. THE WB ECONOMIES AND LABOUR MARKETS

The COVID-19 pandemic has had a differential impact on economies globally, the extent of which has largely depended on each economy's degree of dependence on global value chains, the diversification of sectors, the dependence on sectors that are more vulnerable to lockdowns, and the extent to which restrictive measures were implemented. Before analysing the impact of the pandemic, this section presents information about the characteristics of the Western Balkan economies and labour markets in 2019. The information presented in this section includes macroeconomic indicators and labour market indicators and trends. It offers an insight into pre-pandemic vulnerabilities of the labour markets of Western Balkans economies to the COVID-19 pandemic.

Figure 1: Real GDP growth in Western Balkans and EU27 (annual average %)



Source: Eurostat [NAIDA_10_GDP] and World Bank Regular Economic Report Spring 2021. Note: economies are sorted by their overall growth performance 2011-2020

The economies of the Western Balkans experienced an acceleration of economic growth from 2015 to 2019 after recovering from the worst effects of the 2008 global economic crisis (see Figure 1). The average growth rate over this period was 3.5% per annum, compared to 2.2% in the EU27. By 2017 all WB economies equaled or exceeded the EU annual growth rate. In 2019 the average growth rate of the region reached 3.6%, with the maximum growth achieved in Montenegro at 5.0%. All of this led to an increase in the number of jobs in the region and rapidly falling unemployment rates.

All of this came to a sudden stop in 2020 with the onset of the COVID-19 pandemic. In 2020, the average real GDP growth rate for the Western Balkans was -5.3%. The fall in GDP was greatest in Montenegro which experienced a drop of 15.2% in its GDP due to the collapse of the tourism industry. The fall in GDP was least in Serbia, where it fell

by just 1.0% over the year. However, with the exception of Montenegro, the WB economies did not suffer as much as in the EU27 where GDP fell by 6.1% in 2020.

Some economies such as North Macedonia and Serbia have become highly integrated into international value chains (Shimbov et al., 2019) and so their labour markets are vulnerable to disruption in the flows of international intra-industry trade and components supply within these value chains. However, since the multinational companies that have recently set up production facilities in the region tend to be mainly involved in outward processing, they have established few backward linkages to the domestic economies and thus the disruption of supply chains has not had widespread effects on the labour markets. In addition, WB economies are vulnerable to disruption of trade with the EU, which is by far the region's most important trading partner making the region vulnerable to a downturn in the EU economy. Two-thirds of the region's exports are with the EU, ranging between only 23% in Kosovo* and 80% in North Macedonia (Sanfey and Milatovic, 2019).

Economic forecasts for GDP growth in 2021 made by international institutions envisage a post-pandemic economic recovery; but since a further wave of the pandemic arrived in the region in March and April 2021, the forecasts are unlikely to be realised just yet. In Serbia for example, industrial production increased by only 1.8% in the first quarter of 2021 in relation to the 2020 average, and manufacturing was down by 3.2%.[2] Several manufacturing sectors suffered particularly badly, for example the manufacture of wearing apparel was down 14.2% and manufacturing of food products was down 7.3%. At the same time registered employment decreased by 0.2% in the first quarter of 2021, while among these number of entrepreneurs and their employees and self-employed persons decreased by 2.3%.[3]

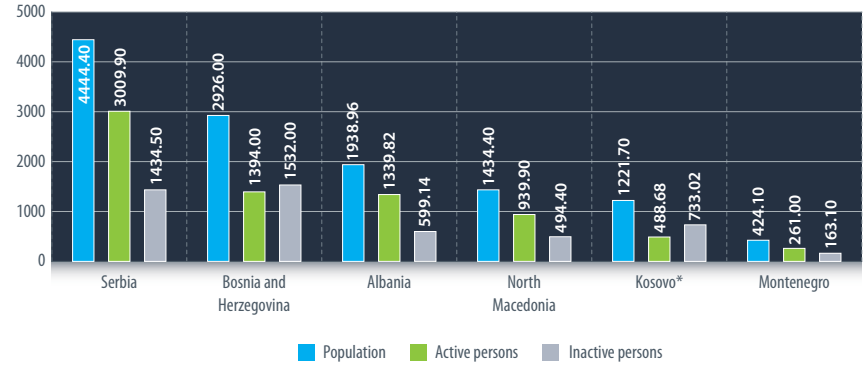
2.1 Labour markets in the Western Balkans

This section analyses the main features of the labour markets in the Western Balkan region. It covers the working age population and inactivity and activity rates, employment (including informal) and unemployment (including long-term and youth unemployment) as well as trends in wages. Data on the labour market in the EU-27 are also presented where appropriate for comparison.

2.1.1 Working age population and inactivity

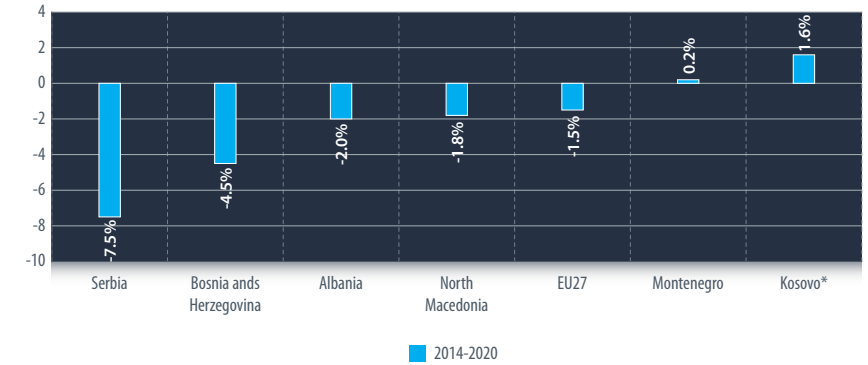
In the region as a whole the active population totals about eleven million, of whom about seven million are active in the labour market, while four million (about one third) are inactive (see Figure 2). In all economies, apart from Bosnia and Herzegovina and Kosovo*, the active population is greater than the inactive population. The inactivity rate varies from 32% in Albania to 60% in Kosovo*. It is substantially higher than in the EU, despite having been on a declining trend for several years with the sharpest drops occurring in Montenegro and Serbia. Inactivity among young people is high, and even higher for those with a low level of education. Women form a greater proportion of the inactive population than men, especially in Albania, Kosovo* and North Macedonia. In some economies of the region, female inactivity is twice as high as the male inactivity rate. The relatively high level of inactivity can be related to a reliance on remittances and the associated high reservation wage as well as to the widespread informal economy, both of which decrease employment incentives especially among women (UNDP, 2016; EC, 2016a; Petreski et al. 2017). Furthermore, high marginal tax rates on low-paid work and the relative absence of an out-of-work social assistance system also cause inactivity due to the disincentive effects for those seeking employment at low wages (Koettl and Weber, 2012). This suggests that measures to introduce in-work benefits for the poorer workers would be an appropriate measure to increase the low labour force participation rates in the region (Ranđelović et al., 2019).

Figure 2: Working age population: active and inactive persons, 2020 (thousands)



Source: Eurostat online data (Montenegro, North Macedonia and Serbia), INSTAT (Albania), BHAS (Bosnia and Herzegovina) and ASK (Kosovo). Note: data for Kosovo* are for 2020 Q3.*

Figure 3: Annual percentage change in 15-64 working age population, 2014-2020 (%)



Source: Eurostat (EU27, Montenegro, North Macedonia, Serbia), INSTAT (Albania), World Development Indicators & BHAS 2020 (Bosnia and Herzegovina), ASK 2020 Q3 (Kosovo).*

Some economies of the Western Balkans are facing declining trends in working age population, which is driven by both low fertility rates and high emigration rates from the region (see Figure 3). The greatest decrease has been in Serbia, where the working age population fell by 7.5% over the period from 2014-2020, while the working age population increased in Montenegro and Kosovo*. The working age population in the region as a whole has fallen

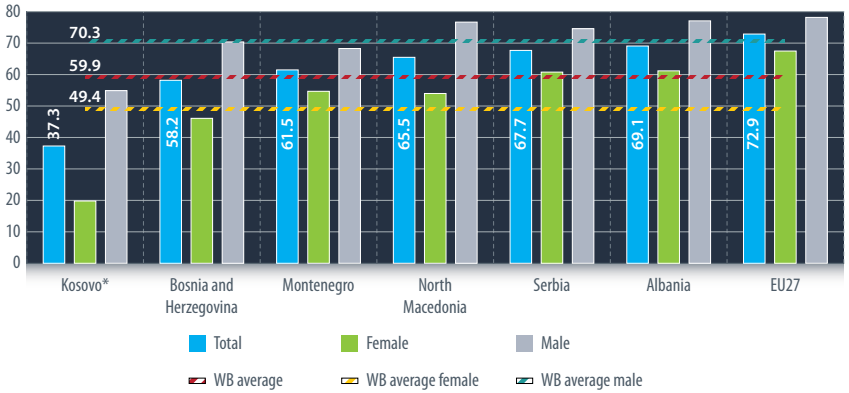
2 SORS (2021) "Industry Statistics", Statistical Release Number 108 – Year LXXI, 29.04.2021, Belgrade: Statistical Office of the Republic of Serbia.
3 SORS (2021) "Labour Market - Registered Employment", Statistical Release 28.04.2021, Belgrade: Statistical Office of the Republic of Serbia

at a rate more than double that in the EU27, although it should be noted that a falling working age population is a common phenomenon throughout Europe. In those economies where the working age population is declining, social protection systems are under pressure due to an increasing age dependency ratio.

2.1.2 Labour force participation rates: gender and education gaps

The average labour force participation rate in the Western Balkans was 59.9% in 2020, far below the EU27 average of 72.9%. There is marked variation across economies with the labour force participation rate in Albania approaching that in the EU27, while being only half the EU27 average in Kosovo* (see Figure 4). There is a large gender gap in labour force participation rates, with male participation rates at 70.3% (almost the same as the EU27 total) but with female labour force participation rates at just 49.4%. The latter vary from to 61.2% in Albania to just 19.8% in Kosovo*. The Western Balkan average gender gap of 20.9 percentage points in labour force participation rates is almost twice that in the EU27 (10.7%). Nevertheless, the situation is improving as labour force participation rates increased over the period 2010-2019 in all economies of the region except Bosnia and Herzegovina, due to the activation of women, youth and people with a low level of education.

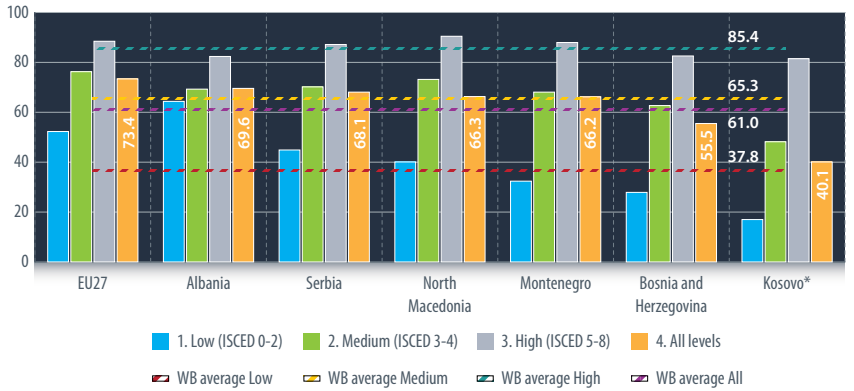
Labour force participation rates 15-64 age group by gender, 2020 (%)



Source: Eurostat (EU27), ESAP Platform (Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia) ; ASK (Kosovo average for Q1-Q3 2020).*

Education levels influence labour force participation rates. The labour force participation rate is increasing with the level of education (Figure 5) resulting in an education gap in terms of labour participation of 47.6 percentage points between those with a low level of education and those with a high level of education (compared to a gap of 36.2 in the EU27). Participation rates for people with a high level of education are close to, or even above, the rates in the EU-27, with the labour force participation rate for highly educated persons in North Macedonia at 90.5% in 2019 compared to 88.5% in the EU-27. In contrast, labour force participation rates are acutely low for those with only a low level of education (primary education or less). The worst situation for this group is in Bosnia and Herzegovina and Kosovo* with rates of 27.9% and 17.0% respectively.

Figure 5: Labour force participation rate by education level, 2019 (%)



Source: Eurostat online data 2019 (ME MK RS), INSTAT 2019 (AL), WiiW Jobs Gateway for Southeastern Europe 2019 Q2 (BA XK) (Labour force Survey data). Note: ISCED 0-2 indicates a primary education or less, and ISCED 5-8 indicates a tertiary level of education.

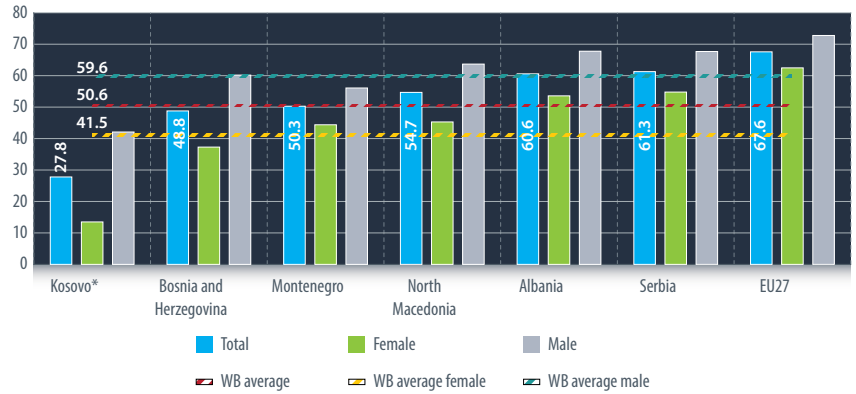
2.1.3 Employment rates: gender and education gaps

In 2019, the average employment rate in the Western Balkans grew to a historically high level, with 190,000 new jobs being created throughout the region, more than a third of them in Serbia. Employment growth was 6.7% year-on-year in Kosovo*, around 4% in Bosnia and Herzegovina, North Macedonia, and Serbia, and 3.1% in Albania. In contrast, in Montenegro it was rather low at 0.3%. The growth of employment came to a halt in 2020 due to the effects of the coronavirus pandemic and the policy responses to it.

The elasticity of employment growth with respect to changes in output over the period 2011-2019 differs across economies. The arc elasticity of employment is largest in Albania (arc elasticity 0.99, and point elasticity at 1.19) and North Macedonia (arc elasticity 1.07, point elasticity 0.93) (see details in Annex 2 below).[4] This approximately unit elasticity indicates that the labour markets in Albania and North Montenegro display a balanced and symmetric response to changes in economic activity and are highly flexible. The labour markets in Kosovo*, Montenegro and Serbia have employment elasticities in the range 0.71-0.89. This indicates that a 1% increase (decrease) in economic activity is associated with a 0.7%-0.9% increase (decrease) in employment. It is relatively high in relation to the experience of transition economies in the 1990s and early 2000s (Kapsos 2005), indicating more flexible labour market has been developed in the Western Balkans following a number of labour market reforms that have sought to provide greater flexibility and incentives for employers to take on new workers in response to increases in economic activity, such as happened in the 2010's. The exception is Bosnia and Herzegovina, where the employment elasticity is still rather low (arc elasticity 0.55, point elasticity 0.52). This is comparable to other transition economies such as Poland (Bartosik and Mycielski, 2017). It suggests that labour market reforms have been less successful there; a 1% increase (decrease) in economic activity is associated with only a 0.5% increase (decrease) in employment. This also reflects the extremely low ranking of Bosnia and Herzegovina in the index of labour market flexibility of the Global Competitiveness Report (see Oruc and Bartlett, 2018).

4 For the methodology of calculating the arc elasticity and point elasticity of employment with respect to output see Kapsos (2005) or Misra and Suresh (2014).

Figure 6: Employment rates, 15-64 age group by gender, 2020 (%)

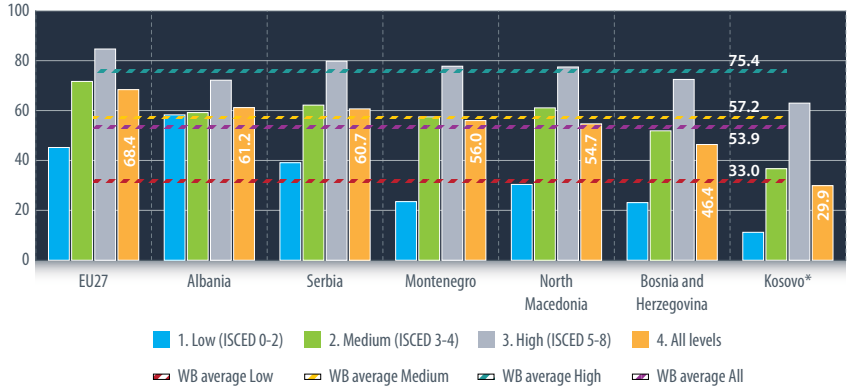


Source: Eurostat (EU27), ESAP Platform (Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia); ASK (Kosovo average for Q1-Q3 2020).*

Despite employment growth, employment rates in the Western Balkans are still well below the EU27 (see Figure 6). The average employment rate in the region was 50.6% in 2020, which was 17 percentage points below the average in the EU27. The highest employment rates are in Albania and Serbia, and the lowest in Bosnia and Herzegovina and Kosovo*. As with participation rates, there is a large gender gap in employment rates, with male employment rates everywhere above female rates. In Albania and Serbia, the male employment rate is equivalent to the overall employment rate in the EU27. The lowest male employment rate is in Kosovo* at 42.1%, more than 30 percentage points below the EU27 (72.8%). Female employment rates do not exceed 55% in any economy; the lowest female employment rate is found in Kosovo* at just 13.5%. The low female employment rates indicate an untapped potential for employment growth in the region. The overall gender gap in employment rates in the Western Balkans is 18.1 percentage points compared to 10.3 percentage points in the EU27.

Employment rates vary positively with the average education level (see Figure 7). The only exception is Albania where the employment rates for those with a low level of education are practically the same as for those with a medium level of education. Having a high level of education increases the probability of being in work. Even in Kosovo* the employment level of the highly educated is above the average employment rate for the region as a whole, at 63% compared to 54% for the region. In all other economies in the region, the employment rate for the highly educated exceeds the overall employment rate in the EU-27 (68.4%) and is everywhere above 70%. In contrast, the average employment rate of those with a low level of education is 33.0%; it is lowest in Kosovo* at just 11.2%. The average employment rate for those with a medium level of education is just above the average overall employment rate. The overall employment rate gap between those with a low level of education and those with a high level of education is similar in the Western Balkans (42.4 percentage points) to the EU27 (39.5 percentage points).

Figure 7: Employment rates,15-64 age group by education levels, 2019 (%)

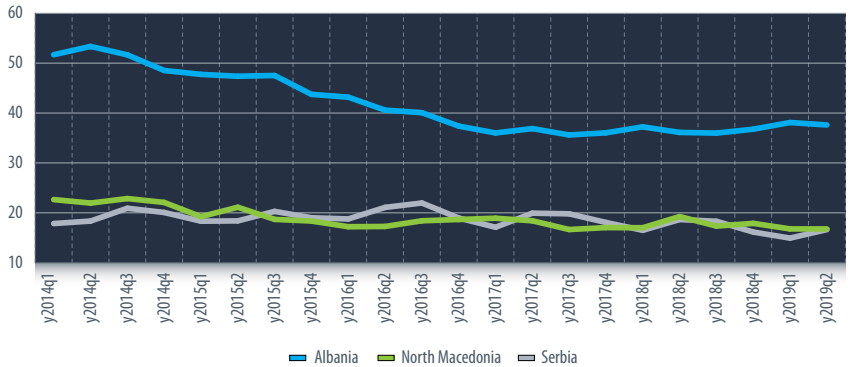


Source: Eurostat online data 2019 (ME MK RS), INSTAT 2019 (AL), WiiW Jobs Gateway for Southeastern Europe 2019 Q2 (BA XK) (Labour force Survey data)

2.1.4 Persistence of informal employment

The Western Balkans economies belong to the group of European economies with the highest share of informal employment. The informal employment rate for all the Western Balkans economies is in the range of 20-30%, with exception of Albania, where the informal employment rate is above 40%. Informal employment rates for Albania, North Macedonia and Serbia are presented in Figure 8. In other economies, labour force surveys do not contain appropriate questions to clearly identify informal employment based on the ILO definition (Krstić and Gashi, 2016). For these economies, vulnerable employment, comprising unpaid family members and self-employed without employees, can be used as a proxy.

Figure 8: Informal employment share in total employment, 2014-2019 quarterly, (%)



Source: SEE Jobs Gateway

Informality in the Western Balkans is relatively high both in terms of the share of total output and in the number of people employed. According to Figure 8 and other sources (e.g., Krstić and Gashi, 2016), the share of informal employment in total employment was 16% in North Macedonia and Serbia in 2019 and 37% in Albania. The structure of informally employed by status is different from the structure in the EU. Unpaid family employment accounts for a significant share of informal employment in most Western Balkan economies, while it is the least prevalent form of informal employment in the EU. Informal employment contracts are held by the most vulnerable groups, such as young people, women and the older age group.

Differences in the pattern of informality can be observed between the three economies for which data are available. Women are more likely to be informally employed in Albania and Serbia (Krstić and Gashi, 2016). The opposite is the case in Bosnia and Herzegovina and North Macedonia, where men account for nearly two thirds of informally employed persons; they are more likely to be informally employed due to the higher share of men engaged in agriculture. In Kosovo* and Montenegro men are also more likely to hold informal jobs, while in Albania there is no gender difference.

Workers with primary or lower education and those employed in agriculture are more exposed to informal employment in Albania, Bosnia and Herzegovina, Montenegro and Serbia. The highest rate of informality among workers with lowest level of education is found in Bosnia and Herzegovina, where around 86% of workers with no education and 62% of those with primary education work informally (Krstić and Gashi, 2016). The lowest informality rate among workers with tertiary education is in Serbia and the highest is in Montenegro. In Kosovo*, most self-employed without employees and unpaid family workers possess secondary education. However, it is surprising that 10% of unpaid family workers are highly educated (Krstić and Gashi, 2016).

In all economies, informal employment is most prevalent in agriculture, since unpaid family workers, who are by definition informal, are mostly concentrated in this sector. In Albania and Serbia, informal workers account for about two thirds of all workers in agriculture. In Serbia, informal employment rates in industry and services are less than 10%. In Bosnia and Herzegovina and in Montenegro, informal employment in agriculture is higher than in Albania and Serbia, where informal employment rates in agriculture are 87% and 90% respectively. In Montenegro, informal workers dominate in households as employers (91%) and in construction (36%). In Bosnia and Herzegovina, construction has the largest share of informal workers (35%), after agriculture.

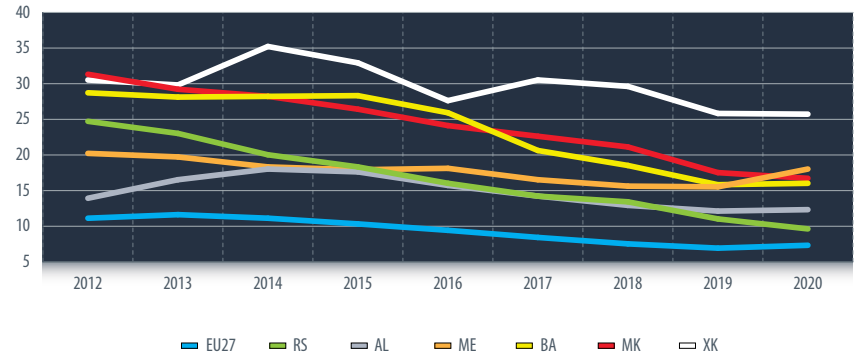
Krstić and Gashi (2016) found that the oldest and youngest workers are most likely to be informally employed in all economies for which data are available (Bosnia and Herzegovina, Montenegro, Serbia and North Macedonia). The next age group more exposed to informal employment are workers between 55-64 years old. Among the working age population (15-64 years old), the youth (15-24 years old) are most likely to be informally employed in all economies considered. It is also evident that most persons aged 65 years and above are informally employed. This suggests that those most likely to engage in informal employment are at the margin of the labour market, namely the youngest who have just entered it, and the oldest who are about to leave it. Youth informality rates range from 38.6% in North Macedonia to 30.8% in Serbia.

2.1.5 Unemployment rates

Unemployment rates were falling rapidly prior to the pandemic. The period of relatively rapid economic growth from 2015-2019 led to a decrease of unemployment rates to historic lows. By 2019 the average unemployment rate in the region had declined to 16.2%, although unemployment rates were still well above the EU27 average of 6.8%. The highest unemployment rate was recorded in Kosovo* at 25.7%, while the unemployment rate fell to a

low of 10.9% in 2019, approaching close to the EU27 average (having been 24.6% in 2012). The unemployment rate continued to decline in 2020 in North Macedonia and Serbia, although took a sharp upward turn in Montenegro due to the effects of the pandemic on the tourism industry in that economy.

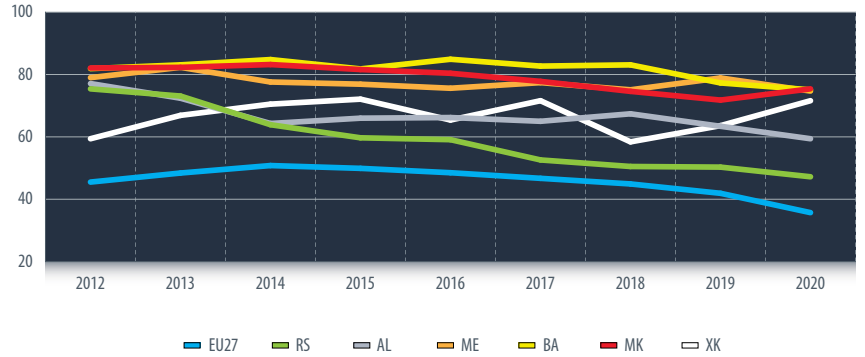
Figure 9: Unemployment rates 2012-2020, WB6 & EU27 (%)



Source: Eurostat (EU27, ME, MK, RS); WiiW/World Bank Jobs Gateway for Southeastern Europe (AL BA XK); except Kosovo Agency for Statistics (XK 2019), Institute of Statistics (AL 2019); Agency for Statistics of Bosnia and Herzegovina (BA 2017-2019); Montenegro Statistical Office (ME 2020).*

One of the distinctive characteristics of unemployment in the Western Balkans is a large share of long-term unemployment[5], especially in Bosnia and Herzegovina, Montenegro and North Macedonia (see Figure 10). Long-term unemployment was decreasing until 2019, a trend that continued into 2020 in Montenegro and Serbia due to increases in short-term unemployment in the former and the general downward trend in unemployment in the latter. The chronic problems of long-term unemployment need to be addressed through improved performance of public employment services (PES) and greater effectiveness of active labour market programmes.

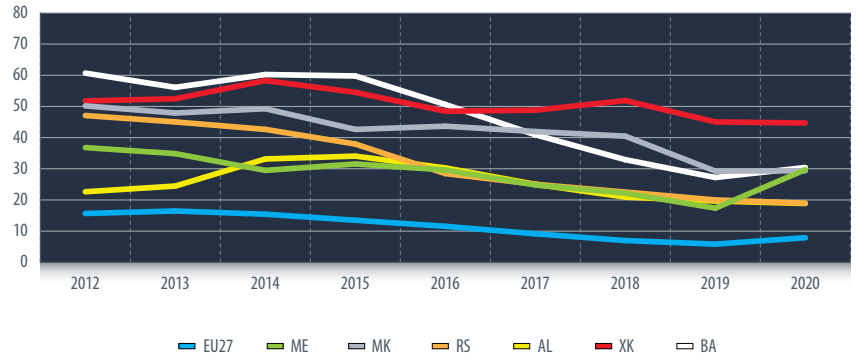
Figure 10: Long-term unemployment share of total unemployment, WB6 & EU27, 2012-2020 (%)



Source: Eurostat (EU27, ME, MK, RS); WiiW/World Bank Jobs Gateway for Southeastern Europe (AL BA XK); except Kosovo Agency for Statistics (XK 2019), Institute of Statistics (AL 2019); Agency for Statistics of Bosnia and Herzegovina (BA 2019); Montenegro Statistical Office (ME 2020).*

5 The long-term unemployment figures presented here are based on Eurostat's definition of unemployment for a duration of 12 months or more.

Figure 11: Youth unemployment, 15-24 age group, 2012-2020 (%)



Source: Eurostat (EU27, ME, MK, RS); WiiW/World Bank Jobs Gateway for Southeastern Europe (AL BA XK); except Kosovo Agency for Statistics (XK 2019), Institute of Statistics (AL 2019); Agency for Statistics of Bosnia and Herzegovina (BA 2019); Montenegro Statistical Office (ME 2020).*

The labour markets in the Western Balkans are also characterised by high rates of youth unemployment compared to the EU27 (see Figure 11). These reached historical lows before the COVID-19 pandemic when the trend reduction came to an end with a sharp upturn in Montenegro in 2020 and a flatlining in North Macedonia, while the downward trend has continued at a slower pace in Serbia. About one fifth of young people were not in employment, education or training (NEET) in 2019 (see RCC Youth Employment Study). Poor labour market prospects discourage many young people from participation in the labour force. Young people who in this situation for a long period of time are at a high risk of long-term labour market disadvantage through a "labour market scarring" effect, which can have severe long-term consequences (Mojsoska-Blazevski et al., 2017).

2.1.6 Migration

The Western Balkans is a region of high levels of out-migration. Migration includes temporary and permanent migration, migration of highly skilled people ('brain drain') and transit migration (King & Oruc, 2019). Since the global financial crisis on 2008-2009 there has been an outflow of economic migrants especially from Albania and Kosovo* pulled by the large wage differentials between the EU countries and the Western Balkans and pushed by poor economic and employment opportunities in their home economies. Migration has created a large diaspora in the more developed countries, which has enabled a reverse flow of remittance incomes to the region which has become an important source of income, poverty relief, and economic development (Topxhiu and Krasniqi, 2017).

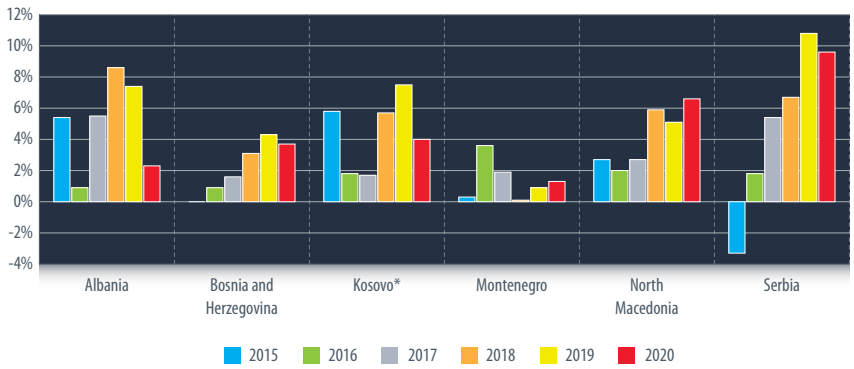
Albania has one of the largest populations of migrants living abroad relative to its population. Recent research has shown that more than half the population aged 18-40 has the intention to migrate, as a result of both pull and push factors (King and Gëdeshi, 2021). Over 30% of higher educated Albanians have left to find work abroad, creating. a substantial "brain drain". Bosnia and Herzegovina has also been a source of large-scale out-migration. Cohort approach analysis (based on LFS statistics) shows that emigration reduced the economy's population by around 400 000 persons (13%) in the period 2011–19 (Efendić, 2021). Recent emigration from Bosnia and Herzegovina has been

more prevalent among younger age groups, and about three fifths has involved medium-level vocational education and training (VET) graduates. A large number of migrants have also left Kosovo*; about 550,000 Kosovars live abroad (over 35% in Germany, 23% in Switzerland and others in Italy, Austria and Sweden). Net emigration flows are strongest among the 15–19, 20–24 and 25–29 age groups. The most important driver of this migration is the poor labour market situation of young people (Gashi, 2021). The EU is the main destination for Serbian migrants. The flow of temporary work-related emigration has been increasing to new Member States while emigration to old Member States has stagnated (Arandarenko, 2021). However, Germany has attracted more than 30% of the total new inflows to the EU. Most migrants from Serbia have either low level of education or a high tertiary education level. However, in recent years, outflows of medium-skilled migrants have increased relative to other skill levels. North Macedonia is another economy with high level of outward migration. Macedonian emigrants are often young, with a mixed skills composition. Migrants with a high level of education tend to live in countries such as USA, Canada and Australia, while migrants with a low por medium level of education tend to move to Western European countries, where most migrants from North Macedonia live (Petreski, 2021). Emigration has been skewed towards people with a low or medium level of education. Migration from North Macedonia does not create a brain-drain, although medical personnel have formed a significant number of migrants in recent years.

2.1.7 Improvements in real wages

During the 2010s, employment increased substantially throughout the region and in some industries and some localities economic growth generated labour shortages and wage pressures. Before the COVID-19 pandemic, labour shortages were evident in Serbia and North Macedonia in manufacturing and transport, and in Montenegro in tourism. The emerging skills gaps, and possibly also increases in the minimum wage, pushed up the average wage in some sectors. Increased minimum wages contributed to greater income equality especially when combined with other complementary policies (Kurta and Oruč, 2020; Petreski, et al., 2019). The trends over the period 2010-2019 are shown in Figure 12.

Figure 12: Growth in real average monthly gross wages over the period 2010-2020 (%)



Source: WiiW Jobs Gateway to 2019, individual economy Statistics Offices for 2020

Real gross wages have increased fairly steadily since 2010, with strong growth especially in Albania, Kosovo* and Serbia. Average wage growth over the six-year period was highest in Serbia and Albania at 5.2% and 5.0% respectively. The lowest wage growth was in Montenegro and Bosnia and Herzegovina at 1.3% and 2.3% respectively. Average wages in the region increased from €515 in 2012 to €658 in 2020, in the latter year ranging from €436 in Albania to €782 in Montenegro. Wage growth might have been even higher had it not been held back by competition on the labour market from informal sector workers and by extensive youth underemployment, both of which provide an elastic supply of labour to the market even in the face of local labour market shortages (Petreski et al., 2021). In addition, the labour markets in the region are characterised by a substantial public-private sector wage differentials which provide perverse incentives for the most skilled and talented worker to seek jobs in the public sector rather than the private sector, thus potentially undermining competitiveness (Vladisavljević, 2020). As with participation and employment rates, there is a gender pay gap in the region, which has been analysed most thoroughly in Serbia (Anić and Krstić, 2019).

3. LABOUR MARKETS AND COVID-19 in 2020

The COVID-19 pandemic hit the economies of the Western Balkans in 2020 with great severity and has continued through successive waves of infection into early 2021.[6] After the 2020 summer tourist season and lifting of restrictive measures, the number of cases of virus infection grew in all economies (see Appendix 2). This led to a reintroduction of restrictive measures. However, these measures were less severe than during the first wave and by April 2021 the total cumulative number of confirmed cases had risen to over 900,000 throughout the region, and the number of deaths had reached 25,000, with 166 deaths per 100,000 population (see Table 1).

Table 1: The COVID-19 pandemic in the Western Balkans on 6 June 2021

	First confirmed case	Confirmed cases	Deaths	Case fatality rate	Deaths per 100,000 population
AL	08-Mar-20	132,374	2,451	1.90%	85.87
BA	05-Mar-20	204,304	9,374	4.60%	283.97
XK	13-Mar-20	107,058	2,249	2.10%	125.34
ME	17-Mar-20	99,791	1,591	1.60%	255.73
MK	26-Mar-20	155,407	5,448	3.50%	261.49
RS	06-Mar-20	713,562	6,909	1.00%	99.48
WB6	05-Mar-20	1,412,496	28,022	1.98%	--

Source: "Mortality Analyses". Johns Hopkins University, Coronavirus Resource Center

The ferocity of the pandemic continued well into the Winter and Spring of 2021 having been controlled during the first wave a year earlier by strict lock-down measures. In the two months between February and April 2021 the number of cases increased by over 400,000, or by 48%, and the number of deaths by 8,000 or by 50%. The case fatality rate remained high and was still 2.0% by June 2021. In Bosnia and Herzegovina, deaths per hundred thousand were third highest in the world, in North Macedonia sixth highest, and in Montenegro seventh highest.[7]

3.1. Macroeconomic impact of COVID-19 in 2020

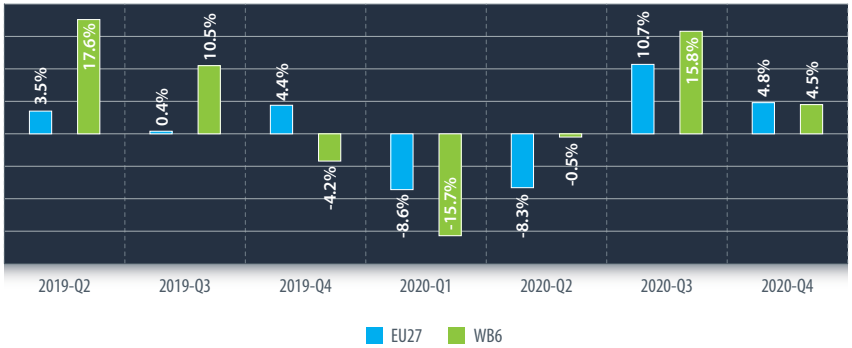
The impact of the pandemic is related to several factors including an economy's degree of dependence on global value chains, its sectoral diversification, its dependence on sectors more vulnerable to lockdowns, and the extent to which containment measures have been implemented. As the data in Figure 1 above suggest, the economic prospects of the Western Balkans before the pandemic were rather promising. Economic growth was strong, and

6 A recent survey shows that the pandemic has hit the region covered by the European Bank for Reconstruction and Development (EBRD), which includes the Western Balkans, harder than more developed European countries: See: https://www.ebrd.com/news/2020/pandemic-hits-ebrd-regions-harder-than-advanced-europe-survey.html

7 See John Hopkins University Covid tracker: https://coronavirus.jhu.edu/data/mortality

unemployment rates were on a declining trend. GDP per capita of the Western Balkan economies was converging to that of the EU-27, despite a large gap between them; the GDP per capita of the Western Balkans economies is only half the average in 11 EU member states of Eastern Europe, such as Poland or Hungary, while being even lower when compared to the EU-27. Moreover, the growth of GDP hides structural weaknesses, and further convergence with the EU will depend on implementing structural reforms in various domains.

Figure 13: Quarterly GDP growth in EU-27 and Western Balkans (WB6), in Euros (%)



Source: Eurostat online data [NAIDQ_10_GDP] authors' calculations.

The pandemic struck the economies of the Western Balkans in 2020 harder than in the EU-27 with a V-shaped recession that was more intense than in the EU-27 (see Figure 13). However, in 2020-Q4, GDP in the Western Balkans was 0.1% higher than a year earlier (in 2019 Q4), while GDP in the EU-27 fell by -2.8% over the same period. A large fall in GDP took place in Montenegro, where GDP in 2020 Q4 was 7.4% less than in the same quarter in 2019. A recovery took place in the summer period, causing a bounce back in activity in 2020 Q3 to a greater extent than in the EU-27. By the end of the year the renewed effects of the pandemic caused growth to slow down once again in 2020 Q4. Given the sharp rise in infections during the second wave of the pandemic, which hit the region in the first quarter of 2021 (see Appendix 3), it can be expected that a further decline of economic activity may have taken place in that period.

The main distinctive feature of the economic impact of the COVID-19 pandemic is that the current crisis stems from both the supply and demand sides of the economies simultaneously. The effect on the supply side is due to lockdowns which reduced the output of many industries, and the effect on the demand side is due to the loss of incomes of workers who were laid off or had their hours of work reduced (Pavlovic et al, 2020). All this has had a negative effect on household incomes, causing a decline in aggregate demand. Globalisation has created a strong interdependence between economies, so that a worsening situation in one economy easily spills over into other economies. In addition, the economies of the Western Balkans have a large share of micro, small and medium companies which are vulnerable to cash flow problems, supply chain disruptions, and shortages in labour due to restrictions on travel, curfews and stay-at-home rules (OECD, 2020). Small companies also have a greater vulnerability and lower resilience due to their more limited access to credits. It is likely that the extent of poverty will increase due to income losses associated with unemployment and reduced time working (Rigolini et al., 2020).

3.2. Measures adopted to fight the pandemic

In order to fight the pandemic and ease the pressure on their weak health services, policymakers in the Western Balkans introduced stringent measures. The wearing of facemasks was made mandatory in public or in closed space in all economies, while the number of people allowed to participate in gatherings was strictly limited. Restaurants, bars, cafes and other catering facilities operated with reduced working hours. In some economies, a curfew was introduced. In most economies, a combined in-person and remote learning model was introduced in schools. EU economies began to require a quarantine period and/or a negative PCR test results as an entry requirement for residents from the Western Balkan economies.

Table 2: Economic measures introduced by the Western Balkans economies

Economy	Increased health spending	Support to firms/ SMEs /sectors	Support to vulnerable groups	Employment /job support	Tax payment deferrals, credit or refunds	Liquidity /credit measures	Size of fiscal measures (% of GDP)
Albania	x	x	x	x	x	x	0.5
Bosnia and Herzegovina	x	x	x		x	x	0.15
Kosovo*	x	x	x	x	x	x	2.5
Montenegro		x	x	x	x	x	5.4
North Macedonia	x	x	x	x		x	n/a
Serbia	x	x	x	x	x	x	7.7

Source: World Bank ECA Economic Update Fall 2020, IMF

Most economies adopted similar support measures, although the size of measures varies between economies (see Table 2). The implemented measures are a mix of short-term measures for mitigating the immediate impact of the crisis, such as providing access to loans for businesses, tax breaks and loan repayment moratoriums. Wage subsidies were provided in most economies to cover the employee costs of affected companies in order to avoid large-scale dismissals. So far, wage subsidies to employers have been the most widely used measure to preserve jobs.

Support for employees unable to work due to the pandemic was also provided in several Western Balkans economies. Moreover, all economies temporarily increased social benefits for affected households. This differed in the type and amount, from a monthly allowance corresponding to half of employees' average monthly net salary (over the previous 24 months) in North Macedonia to a capped amount of financial support in other economies. One off cash-transfers to citizens were offered in some economies. For example, Serbia offered a cash transfer of the equivalent of €100 to persons aged 18 or older who applied for it (Pejin Stokić, 2020).

Although the initial recovery prospects were rather good for the Western Balkans, a new wave of COVID-19 infections at the start of the third quarter 2020 delayed reopening efforts and forced governments to reintroduce previous mitigation measures. Some of the central banks in the Western Balkans cut policy interest rates to record lows to deal with the economic impact of the pandemic (Albania, North Macedonia and Serbia). In Bosnia and Herzegovina, the entity banking agencies adopted temporary measures in 2020 to preserve the stability of the banking system.

Little evidence is available on the impact of these measures on reducing the negative effects of the pandemic on businesses, on job retention and well-being of households. Most measures were focused on providing social benefits to households and providing support to companies to sustain their cash flows in order to avoid bankruptcies and to protect jobs. These measures excluded informal sector enterprises and informal workers. Consequently, while they mitigated the potential negative impact of pandemic on the formal labour market, they did little to support the informal segment of the labour market. Mid-term labour market measures that focus on more vulnerable workers such as youth, women and the informally employed, would be of particular importance in the Western Balkans; however, they have not yet been introduced.

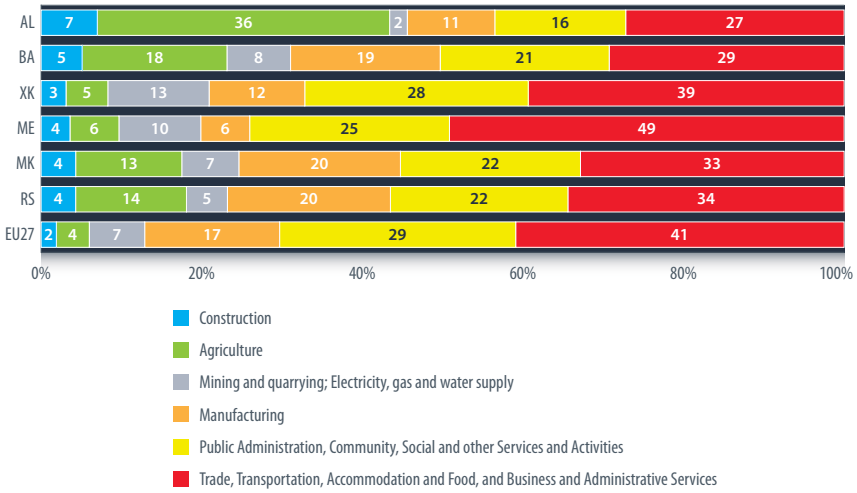
A microsimulation study with four scenarios has been carried out by the ILO and EBRD (2020). The first scenario is a situation without policy measures, and the other three scenarios assess the impact of key employment retention measures: (1) a subsidy of three minimum wages, (2) an income maintenance subsidy of EUR 100 per adult, and (3) a flat subsidy of 4,000 dinars to all pensioners. Under the simulations, a minimum wage subsidy (Scenario 2) has a main effect of preserving jobs because it is disbursed to enterprises rather than directly to employees. Scenarios 2 and 3 have greater distributional and anti-poverty effects, despite being less expensive than scenario 1, but do not have an equivalent job retention impact. The simulations suggest that a positive impact on the labour market could be expected from the job retention schemes, implemented though subsidies at the level of minimum wages in most of the Western Balkan economies.

However, the economies in the Western Balkans have little fiscal space for such measures and will not be able to continue with such support to businesses or individuals in the medium term. Moreover, as these subsidies are limited to formally employed and do not target vulnerable groups such as farmers or the informally employed they may increase the already large wage inequalities. Policymakers should consider covering informally employed persons by extending existing cash transfer and social assistance programmes to this group, including to returning migrants.

3.3. Factors affecting different sectors

A better understanding of the labour market impact of the pandemic can be gained by examining the structure of the economy by sector, since the pandemic hit different sectors disproportionately. The sectors that were most affected by the pandemic were those in which businesses closed down due to a lack of demand as customers stopped spending, most notably in the tourism sector and other customer-focused service sectors. The services sector generates between 66% and 79% of gross value added and has the largest share in total employment in the Western Balkans (IMF, 2019). This sector was heavily impacted by the pandemic, as travel restrictions and social distancing measures reduced both domestic and foreign demand for services. Montenegro has an especially large services sector (see Figure 14) and has been therefore very badly affected by the pandemic. Combined public and private sector services (public administration and other activities, trade transportation and other activities) account for 74% of employment in Montenegro, slightly above the 70% in the EU27. Services sector employment also accounts for a high 67% of all employment in Kosovo*. The other economies of the region are less dependent on the fortunes of the services sectors.

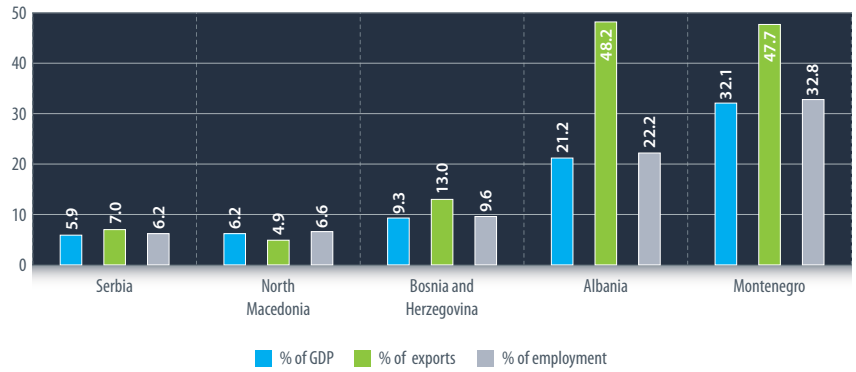
Figure 14: Structure of employment of the Western Balkans economies per sector (%)



Source: Eurostat online LFS data (EU27 ME MK RS) and National LFS surveys (AL BA XK). Note: Data are for 2018

One of the most affected services has been tourism, which supports a multitude of jobs and industries, and accounts for around 550,000 jobs in 2019 (RCC, 2020). Albania and Montenegro are highly reliant on tourism revenues as a percentage of their total exports and as a percentage of their GDP (see Figure 15). Montenegro in particular was disproportionately vulnerable to the pandemic due to the large dependence on tourism with almost one third of employment dependent on Tourism alone. In 2020 tourist arrivals in Montenegro were down by an enormous 83% compared to 2019 due to the restrictions imposed to combat the pandemic.[8]

Figure 15: The share of tourism in GDP, exports and employment, 2019 (%)



Source: World Travel and Tourism Council, World Bank (https://data.worldbank.org/). Note: No available data for Kosovo*.

8 *"Survey on arrivals and overnight stays of tourists, total, 2020", Release no. 21, Montenegro Statistical Office, 24 February 2021.*

The negative impact of the pandemic on economic prospects and on business revenues has also reduced the incentives and capacities for investment, of both domestic and foreign companies, especially for the latter. Global value chains have been heavily disrupted leading to a sharp decline in global flows of foreign investment.[9] In the first half of 2020, global flows of FDI fell by 49% compared to the 2019.[10] Western Balkan economies have serious challenges in maintaining the same level of investments from FDI inflows. Since EU economies are the main investors in the region, and since they have been severely hit by the pandemic, their future FDI investments will depend on the pace of recovery of their economies. The economies that are most vulnerable to disruptions in FDI flows are those with a relatively high dependence on FDI inflows as a percentage of their GDP, most notably Albania (with FDI equivalent to 8.4% of GDP in 2019), Montenegro (8.4%) and Serbia (7.7%).[11] In both Bosnia and Herzegovina and North Macedonia FDI inflows account for less than less than 3% of GDP, and hence less vulnerable to disruption from this source. However, the effect of FDI on employment and wages should not be overestimated. Recent research has shown that the effect of FDI on employment in the Western Balkans while positive is very low (Perić and Stanišić, 2020). Consequently, a short-term reduction in FDI due to the effects of the pandemic may have limited effects on labour market outcomes.

It is also important to note that the Western Balkans economies are dependent of the steady inflow of remittances from abroad, which finances domestic demand and investment. The share of remittances in GDP is particularly high in Kosovo* (15.8%), Bosnia and Herzegovina (11.2%) and Montenegro (10.5%).[12] These inflows shrank in 2020, due to travel restrictions and increased unemployment of migrants abroad. Migrants, including those from the Western Balkans, are more likely to be concentrated in occupations and sectors most affected by closures and are less likely than natives to be able to work from home. They are also less likely to have permanent contracts. This makes them especially vulnerable to job and income losses (Gagnon 2020; McAuliffe and Bauloz 2020; Yayboke 2020). Although remittances probably fell overall, in Montenegro, Kosovo* and North Macedonia, recorded remittances actually increased as remittance senders switched from non-formal to formal channels as border or boundary closures and travel restrictions made it more difficult to return remittances home in the form of cash (World Bank, 2021: 30).

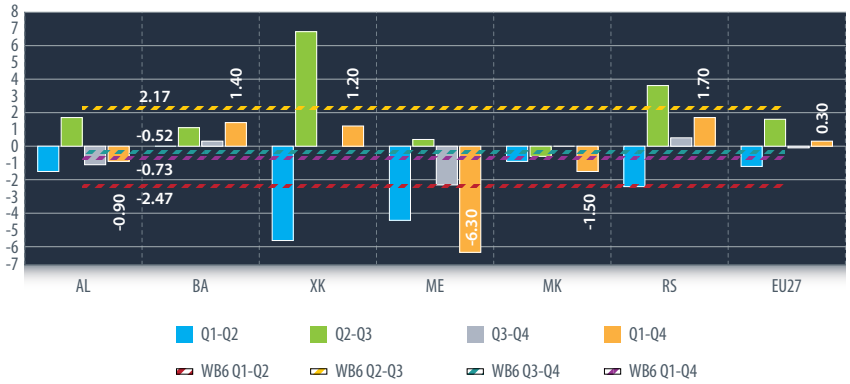
3.4. Labour market developments in 2020

The labour market was severely affected by the COVID-19 pandemic in 2020 and overall some 70,000 jobs were lost during the year throughout the region (World Bank, 2021: 8) about half of which were due to the collapse of tourism in Albania and Montenegro. The job losses would have been even more severe if it had not been for the job retention measures put in place by all economies. As shown above, these involved partial or full compensation for wage costs, tax reliefs, guarantee schemes, and subsidised credits. By the end of the year, many of the affected sectors including construction, transport, manufacturing and trade had recovered and jobs were maintained. However, a renewed burst of infections in March and April 2021 are likely to have made these gains short-lived.

3.4.1. Labour market participation (activity) rates in 2020

The impact of the COVID-19 pandemic on the labour market in the Western Balkans has been greatly affected by the mitigation measures introduced by governments. In response to the first wave of the pandemic in March 2020 strict lockdowns were introduced which caused a significant reduction in economic activity (see Figure 16). The lockdowns led to a fall in labour force participation rates (activity rates) by 2.5 percentage points (p.p.) in the region as a whole between the first and second quarters, compared to a fall of just 1.2 p.p. in the EU27. Above average falls in activity took place in Kosovo* and Montenegro. Activity recovered in the summer months from Q2 to Q3 especially in Kosovo* and Serbia, leading to an average regional increase of 2.17 p.p.

Figure 16: Quarterly changes in activity rates, Q1-Q4 2020 (percentage points)



Source: Eurostat online data 2019 (ME MK RS), Institute of Statistics (AL), Kosovo Agency of Statistics (XK), Agency of Statistics for Bosnia and Herzegovina (BA) (Labour force Survey data). Note: data for Q1-Q4 for Kosovo* refer to Q1-Q3 due to lack of data.*

As the situation with the pandemic worsened in the Autumn of 2020, activity again declined in Q3-Q4 by a regional average of 0.52 p.p., compared to a lesser fall of -0.1 p.p in the EU-27. Over the year as a whole, the average activity rate in the region fell by -0.73 between Q1 and Q4, compared to an overall increase in the EU-27 of 0.3 p.p. The largest drop in an individual economy was in Montenegro where activity rate fell by -6.3 p.p. over the year. The most successful economy was Serbia where activity increased by 1.7 p.p.

3.4.2. Employment rates in 2020

The first wave of infection in early 2020 and the subsequent strict lockdowns led to falls in employment rates everywhere in the region except in Bosnia and Herzegovina (Figure 17), with severe falls in Kosovo* and Montenegro between the first and second quarts of the year. In the Western Balkan region as a whole the employment rate fell by 1.8 p.p., slightly more than the 1.1 p.p. recorded in the EU-27. In the summer, restrictions were eased, and a temporary improvement of labour market trends took place with an average increase employment rates of 1.5 p.p. for Q2 to Q3. The only exception was Montenegro, where (as noted above) the important tourism industry was badly affected by the travel restrictions, leading to a fall in the employment rate by -1.9 p.p.

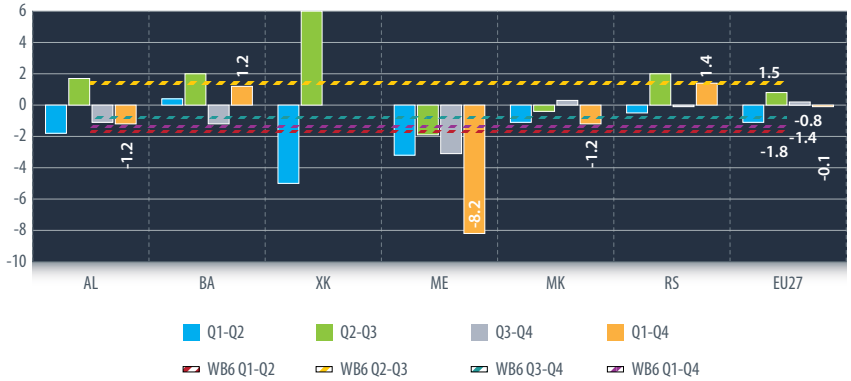
9 See: https://blogs.worldbank.org/psd/impact-covid-19-foreign-investors-evidence-second-round-global-pulse-survey

10 See: https://unctad.org/news/global-foreign-direct-investment-falls-49-first-half-2020

11 Data derived from UNCTAD online database

12 Data taken from the World Bank Development Indicators online database, 2019.

Figure 17: Quarterly changes in employment rates, Q1-Q4 2020 (percentage points)



Source: Eurostat online data 2019 (ME MK RS), Institute of Statistics (AL), Kosovo Agency of Statistics (XK), Agency of Statistics for Bosnia and Herzegovina (BA) (Labour force Survey data).*

In the autumn and winter months the pandemic returned in a second wave and the employment rate fell again by -0.8 p.p. for the region as a whole from Q3 to Q4. The most severe fall of -3.1 p.p. occurred in Montenegro, the employment rate also fell in Albania and Bosnia and Herzegovina. Over the year as a whole, the employment rate in the region as a whole fell by -1.4 p.p, significantly more than the fall of -0.1 p.p in the EU27. Montenegro was the worst hit with a cumulative drop in the employment rate of -8.2 p.p. In contrast in Serbia the employment rate increased by 1.4 p.p. over the year.

Apart from those employed in agriculture, informally employed workers and workers with temporary contracts have been disproportionately hit by the COVID-19 crisis since they were often the first to be laid off by employers. Furthermore, informally employed and self-employed workers were less likely to have jobs that are amenable to working from home because their jobs tend to require greater physical and manual intensity, face-to-face interaction and lower ICT use (ILO, 2020). Another high-risk group are own-account workers (including freelancers), particularly because in most of the Western Balkan economies they lack access to contributory social protection (e.g., health or pension insurance) despite being obliged to pay for these programmes. Due to their having a relatively higher employment rate, men were more adversely affected than women with a sharper drop in the male employment rate than the female rate (World Bank, 2021: 13).

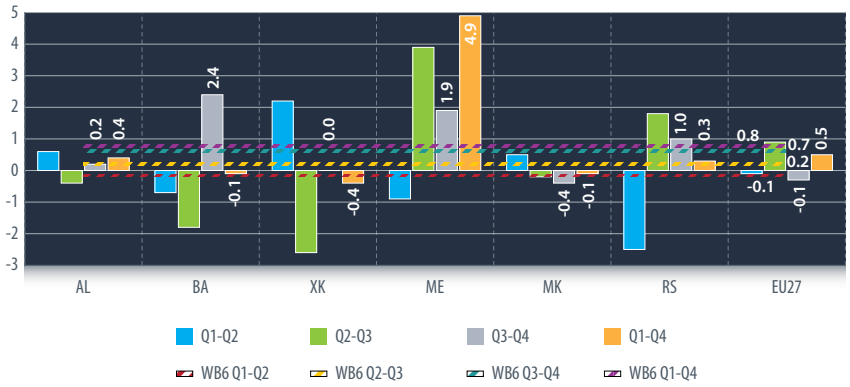
3.4.3. Unemployment rates in 2020

The initial impact of the pandemic on the unemployment rate was mild, with only a moderation in the trend of falling unemployment that had been occurring over the previous few years, as in the EU27 (see Figure 18). The average fall in the unemployment rate between Q1 and Q2 was just -0.1 p.p. This was due to the mitigation measures that had been put in place to protect jobs, but also due to withdrawals from the labour force into inactivity. In the summer the picture began to change with a trend rise in unemployment in the region between Q2 and Q3 of 0.2 p.p. This was less than in the EU27 which experienced a 0.9 p.p. increase in the unemployment rate. The unemployment rate increased sharply in Montenegro and Serbia during this time. In North Macedonia, the change in the unemployment rate was negligible.

In the autumn and early winter, the unemployment rate in the region increased by 0.7 p.p., in contrast to the EU27 where the unemployment rate fell slightly. Relatively large increases in the unemployment rate occurred in Bosnia and Herzegovina (2.4 p.p.), Montenegro (1.9.p.p.) and Serbia (1.0 p.p.) between Q3 and Q4 2020.

Over the year 2020 as a whole, the unemployment rate in the Western Balkans increased by 0.8 p.p., a little above the 0.5 p.p increase experienced in the EU27. The main impact was felt in Montenegro where the unemployment rate shot up by 4.9 p.p. Elsewhere in the region the impact for the year as a whole was muted, reflecting the mitigation measures in place.

Figure 18: Quarterly changes in unemployment rates, Q1-Q4 2020 (percentage points)



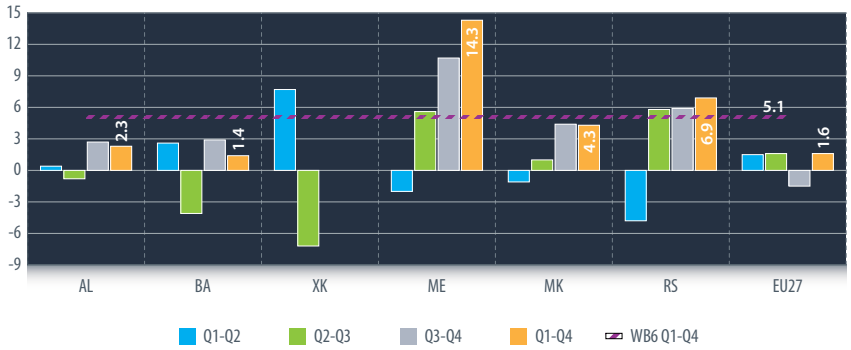
Source: Eurostat online data 2019 (ME MK RS), Institute of Statistics (AL), Kosovo Agency of Statistics (XK), Agency of Statistics for Bosnia and Herzegovina (BA) (Labour force Survey data).*

3.4.4. Youth unemployment rates in 2020

Youth unemployment has been relatively high in the Western Balkans for more than a decade. Young people are particularly vulnerable to the pandemic and face major challenges in finding and retaining their jobs. This is because they are over-represented in customer-facing occupations that are vulnerable to the pandemic such as retail trade, hospitality and tourism. They are also over-represented among informally employed workers with temporary contracts and are consequently more likely to be fired during economic downturns.

The position of young people was immediately affected by the pandemic as youth unemployment increased by 0.6 p.p. throughout the region between Q1 and Q2 2020 (see Figure 19). This was mainly driven by a large increase in youth unemployment in Kosovo*. In the summer months between Q2 and Q3 youth unemployment increase by a modest 0.3 p.p. compared to a rise of 1.6 p.p. in the EU27. A huge increase in youth unemployment took place in Montenegro and Serbia, which was regionally offset by a decrease in Bosnia and Herzegovina and Kosovo*, possibly due to mitigation measures. The autumn saw a rapidly worsening situation for young people with an increase of 4.2 p.p. in youth unemployment throughout between Q3 and Q4. Youth unemployment increased in every economy, with the largest increases recorded in Montenegro, Serbia and North Macedonia. In contrast youth unemployment began to abate in the EU27 falling by 1.5 p.p.

Figure 19: Quarterly changes in youth unemployment rates, Q1-Q4 2020 (percentage points)



Source: Eurostat online data 2019 (ME MK RS), Institute of Statistics (AL), Kosovo Agency of Statistics (XK), Agency of Statistics for Bosnia and Herzegovina (BA) (Labour force Survey data).*

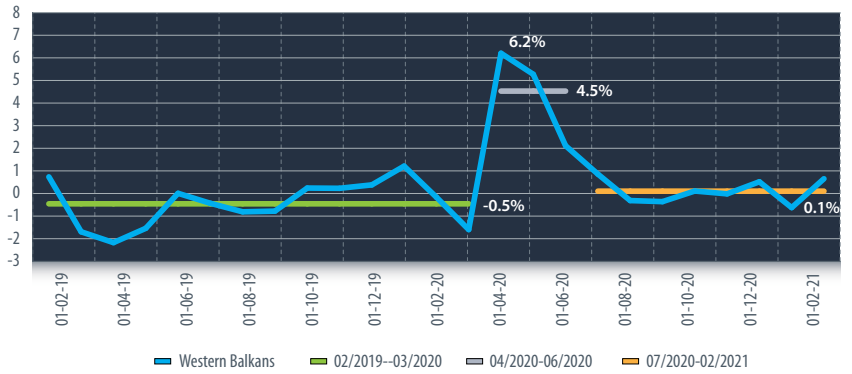
For the year as a whole, the Western Balkans experienced a large increase in youth unemployment of 5.1 p.p. This was a major setback to the trend of declining youth unemployment that had taken place over previous years. In contrast, the annual change in youth unemployment in the EU27 was a relatively modest increase of 1.6 p.p.

Women are also more likely to lose jobs or income than men because they are over-represented in sectors that are the most affected such as tourism and hospitality, retail trade and personal service activities. Moreover, working mothers bear an increased burden of childcare and unpaid housework brought by the closure of kindergartens, schools and workplaces due to the COVID-19 pandemic (ILO, 2020).

3.4.5. Registered job seekers

In this section we analyse monthly data from the national Public Employment Services (PES) for the period February 2019 to February 2021 in order to obtain a more granulated insight into the impact of the pandemic on regional labour markets (see Figure 20). The data for the two-year period clearly show how registered unemployment peaked sharply in the Western Balkans in April-May 2020 as a result of the layoffs of workers from companies that were forced to shut down in response to the coronavirus effects. Due to the decline in infections in the summer months, the first wave of the coronavirus infections wore off and registered unemployment ceased to increase at high rate. However, whereas before the first wave of the pandemic the unemployment rate had been falling at an average of 0.5% per month after the crisis it recorded a steady increase of about 0.1% per month (despite the relatively large fall in GDP in 2020 Q4 – see Figure 13 above). The levelling of the change in registered unemployment can be explained by the lesser intensity of the virus in the second half of 2020 combined with the mitigation measures put in place by governments to preserve jobs. However, in February 2021 registered unemployment began to tick up again as a third wave of the pandemic began to take off, accelerating into March and April (see Appendix 3).

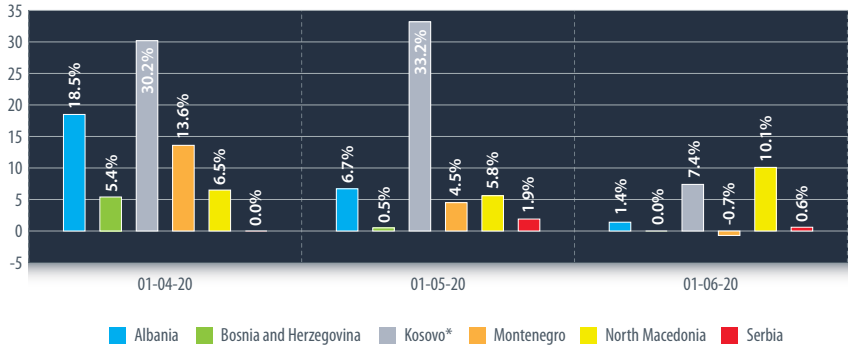
Figure 20: Change in cumulative registered unemployment, monthly data



Source: Author's calculations based on data from WB6 PES offices, presented at the RCC ESAP Observatory

The detailed changes in registered unemployment by economy in the three-month period from April to June 2020 are shown in Figure 21. Registered unemployment increased substantially in each economy in April and May, with especially large increases observable in Albania and Kosovo*. The case of Kosovo* is explained by the policy to encourage registration by offering a monetary subvention for registered jobseekers. This encouraged large numbers of mainly young unemployed people to come forward to register at the PES who would otherwise have not bothered to do so because of their perception that the PES provided little support for the job seeking activities (see accompanying RCC youth employment report for Kosovo*).

Figure 21: Increase in registered unemployment, April-June 2020 (%)



Source: Author's calculations based on data from WB6 PES offices, presented at the RCC ESAP Observatory

The pattern of registered jobseekers varies by level of education. The largest increase in registered unemployment has been among individuals with secondary education in Bosnia and Herzegovina and Montenegro; in other economies it has been largest among those with primary education. Low-educated and low-skilled workers are at a

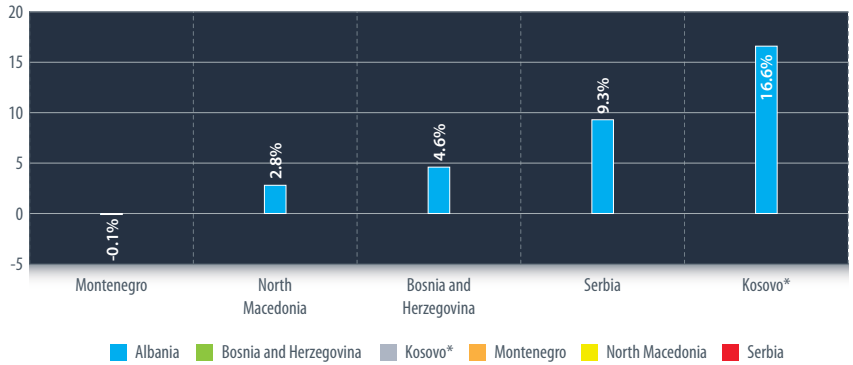
high risk of reduced hours and pay, as well as layoffs, because they are over-represented in the sectors most affected by the economic downturn (wholesale and retail trade, accommodation and food, land transport and storage). Moreover, they have a lower ability for working from home.

Unemployment rates are also expected to increase further in 2021 because of increase inflow of returning migrants. As the Western Balkans has a large number of emigrants, mainly in the EU, the continuation of containment measures and demand shocks that affected European labour markets are expected to increase return migration to the Western Balkans. Moreover, many seasonal migrants work in the EU, particularly in Croatia, Slovenia, Austria and Germany. Migrant workers are over-represented in vulnerable occupations and among workers with short-term labour contracts; hence, they are among the first to be laid off. Many of them have already returned home (e.g., IOM BiH, 2020) and the trend is expected to continue. Although this return migration will not be fully reflected in the change of unemployment data, it may have a major impact on the earnings and welfare of households, depending on the income derived from their seasonal work in the EU (IOM BiH, 2020).

3.4.6. Wages in 2020

Monthly gross wages fell in the early periods of the pandemic, but subsequently returned to the pre-pandemic levels. Over the year, wages rose relatively in a large amount in Kosovo* and Serbia, possibly reflecting labour shortages (see Figure 22). However, in Montenegro where the worst effects of the pandemic have taken place and where unemployment increased by the greatest extent, wages were flat reflecting the large excess supply of labour and the lack of demand for workers in the tourism industry.

Figure 22: Monthly gross wages, in Euro, monthly average 2020



Source: National statistical offices. Note: Data for Albania were calculated at a rate 123.9 ALL/1 EUR. Data for Bosnia and Herzegovina in KM were recalculated into EUR at a fixed rate of 1.95583 KM/1 EUR. Data for North Macedonia were calculated at a rate 61.5 MKD/1 EUR, and for Serbia were calculated at a rate 117.25 RSD/1 EUR.

4. Conclusions and Recommendations

This report has analysed the trends and underlying factors in the labour markets of each of the Western Balkan economies in the period leading up to and during the COVID-19 pandemic. The analysis considered the effects of the COVID-19 pandemic, and the related measures undertaken by governments, on labour market outcomes. It also considered the structure and characteristics of the labour force, the situation of employment and unemployment in general and of youth, low-skilled workers and women in particular. Additionally, factors related to structural characteristics of the economies have been taken into account as these have differentially affected job losses and opportunities for job creation.

As the evidence presented in the first section showed, the economic and labour market prospects of the Western Balkans before the pandemic were promising. Economic development trends were improving, with relatively high growth rates in most economies, while unemployment rates were on a declining trend. Despite the positive trends in recent years, the labour markets of the Western Balkans are mostly still characterised by low activity and employment rates and by high unemployment rates, particularly among women and youth. The economies have also experienced high rates of out-migration. Over the last few years, employment in the region has increased to such an extent that it has generated labour shortages and wage pressures. Labour shortages have been most severe in sectors such as health and for ICT professionals, for skilled construction workers in Albania, Bosnia and Herzegovina and Kosovo*, in manufacturing and transport in Serbia and North Macedonia, and in tourism in Montenegro.

The labour markets were severely affected by the COVID-19 crisis in 2020 due to reductions in both aggregate demand and aggregate supply due to changes in consumer behaviour and to lockdowns and other confinement measures taken by governments. Each economy has introduced tough measures to lock down their populations fearing the collapse of their weak health systems. The impact of the COVID-19 pandemic on the labour markets in the Western Balkans has been affected by the measures introduced by governments. During the first wave in March 2020, strict lockdowns caused large falls in economic activity, increased unemployment, reduced working hours, and reduced payments to workers. In all economies, the number of newly registered unemployed increased in March and April 2020 during the first wave of the pandemic and subsequent lockdown. The summer period was characterised by the easing of restrictions and a temporary improvement in labour market trends. The situation began to worsen again in Autumn 2020 due to a second wave of the pandemic.

Some economies experienced an increase in unemployment rates in the second quarter of 2020, while other economies experienced a decrease in unemployment rates in the same period. According to the available statistics for all four quarters of 2020 the unemployment rate did not increase much compared to the same period in 2019, with the notable exception of Montenegro.

The trends presented in this report and others suggest that labour markets in the Western Balkans reacted to the pandemic more by reducing wages (at least temporarily) and introducing remote working, than through laying off workers. Although these adjustments helped to avoid a substantial rise in unemployment (except in Montenegro) they have also caused a reduction in workers' incomes, which has increased the already high level of in-work poverty

across the region. These trends have had negative consequences for low-educated and low-skilled workers, and young workers, as they are usually the first ones to receive lower wages and work fewer hours because their bargaining power is low and the weak trade unions in the region are unable to protect them. Moreover, they are over-represented in sectors that have been the most affected by the pandemic (such as the tourism and hospitality sector, wholesale and retail trade, and transport and storage). These trends should be recognised and addressed by governments in the region.

Young people are particularly vulnerable to the pandemic. Current disruptions in education and training systems may also take a toll on future graduates, which may worsen the already unfavourable labour market indicators and the future prospects of youth. This is likely to be further aggravated by reduced employment opportunities abroad and the resulting likely increase in the labour supply on the domestic labour market, which is already struggling with high unemployment rates.

Long-term unemployment is an issue to be tackled with appropriate policies and measures by the governments of the region. As these unfavourable trends are expected to increase as a result of the pandemic and the difficulties it has brought to young jobseekers, governments ought to put this group of unemployed people high on their employment policy agendas.

Recommendations

The governments of the Western Balkans should address both the consequences of the COVID-19 pandemic as well as the persistent vulnerabilities of the labour market to future economic downturns. This should be addressed by a combination of short-term and long-term measures, taking into account fiscal space and sustainability of such measures.

Short-term measures should provide immediate support to workers affected by the actions taken by businesses to fight the crisis, including lay-offs and reduced wages. These measures should target vulnerable individuals such as youth, low skilled workers and returning migrants. Short-term measures should be implemented for businesses to preserve jobs and for workers to restore their livelihoods. The set of measures should include extensions to the coverage of social assistance benefits, particularly towards the informally employed.

The set of currently implemented short-term programmes, such as wage subsidies, direct loans, and loan guarantees for companies should be continued as long as the confinement measures are in place and companies are affected by them. Moreover, introducing and extending additional short-term measures such as temporary employment for low-skilled workers through public works in order to provide a temporary source of income should be considered. These measures should be regularly evaluated and redesigned accordingly.

Social assistance benefits, in addition to being extended to new vulnerable groups such as people laid-off due to the pandemic or returning migrants, should be evaluated against their impact on the budget, overall poverty impact and impact on specific groups. For that purpose, the use of microsimulation models of tax and benefits policies is suitable and is widely used in the EU. Unfortunately, despite being developed and available in Bosnia and Herzegovina, North Macedonia and Serbia these analytical tools are under-utilised by the relevant government institutions, which should consider using them in the design and reform tax and benefits policies and programmes.

Medium-term measures should involve structural reforms in the labour markets, the education systems and the economic environment. Western Balkans governments face limits in their ability to provide direct support to liquidity-constrained companies and individuals during the crisis. A more effective way of spending public money would be to invest in structural reforms to increase the productivity and competitiveness of their economies. The measures proposed here have been prepared after a review of the national Economic Reform Programmes (ERPs) and aligned with them, specifically with the measures related to education and skills, labour market reforms, and social protection and inclusion.

The impact of economic downturns on labour market outcomes will in the medium- to long-term depend on the extent to which structural and institutional reforms designed to improve economic specialisation, social protection and labour market regulation are implemented. First, as several economies have introduced reforms of their labour market regulation and institutions (e.g., Bosnia and Herzegovina, Kosovo*, Serbia), further reforms ought to draw on the most recent available evidence from the period of the pandemic. Specifically, the “flexicurity” agenda for social protection and labour market reforms that have been promoted by some international actors and implemented by the Western Balkans governments during the entire transition period has placed great emphasis on flexibility; in the future, labour market policies will need to put much more emphasis on security. The ERP measures of most Western Balkans economies have also included reforms to labour market regulation; future reforms should take account of recent experiences with the COVID-19 pandemic.

Future reforms should also include improvements to the functioning of social dialogue (as mentioned in ERP for Bosnia and Herzegovina), especially reflecting recent developments and the need to address new vulnerable groups such as the informally employed and returning migrant workers. This also includes improvements in social inclusion and poverty indicators and employment of vulnerable categories in social enterprises (cf. ERP for Albania). Moreover, this can also include support at local level, through the development of social plans (cf. ERPs for Albania and North Macedonia).

An improved quality and quantity of labour market analyses and evaluations of active labour market programmes should also be carried out on a systematic basis, as these are a precondition for improved design of policies. These measures are proposed in the ERPs of Albania, Montenegro and North Macedonia. In these efforts, a strengthened cooperation between public institutions and the academic community is important. Institutions should provide access to labour market data to researchers, and an emphasis on policy relevant research should be promoted among the research community.

In addition to addressing new vulnerabilities on the labour market, governments of the Western Balkans need to strengthen their support to vulnerable groups, such as young people, women, minorities and long-term unemployed. Transition from school to work is a cumbersome experience for young people, often lasting far too long and creating adverse long-term consequences for their labour market integration. The measures that should be introduced to address these challenges should cover both the supply and demand side of the labour market. On the supply side, much needed reforms of the education system to improve its matching with the labour market needs are becoming ever more urgent. This is covered in all ERPs, with specific emphasis on vocational education and training (VET) reforms included in ERPs for Albania and North Macedonia, on the dual education system in Serbia, on reforms of pre-school education and life-long learning in the ERP for Bosnia and Herzegovina, and on the introduction of professional orientation programmes in primary schools in the ERP for Montenegro. On the demand side, specific measures targeting youth should be introduced, such as implementation of youth guarantees (cf. ERP for North Macedonia), and the introduction of specific ALMPs targeting youth (cf. ERP for Montenegro).

The expected future increase in employment combined with a decrease in the size of the labour force in some economies may further exacerbate existing skills shortages, particularly in the occupations with high emigration rates such as health and ICT professionals, as well as skilled construction workers. This may put further pressure on wages and make companies less competitive on the global market. Such trends will require more substantial educational reforms and investments in skill formation, as well as policies to attract immigrants. Improving technical and vocational education and training (TVET) (cf. ERPs for Albania and North Macedonia) and its match with the labour market needs (cf. ERP for Bosnia and Herzegovina) are among the key actions planned in ERP programmes. For such efforts to be successful, it is important to have access to relevant data on skills needs and skills mismatch, and to implement reforms to reduce skills imbalances using such evidence. Given the low internal mobility of workers who often only look for jobs close to their place of residence, local labour market analyses and information systems should be established (cf. ERPs for Albania and North Macedonia). This would provide a much clearer picture of the labour market needs and skills mismatches than aggregate data at the national level.

Furthermore, increased investment in reskilling and upskilling measures are needed, both for recently graduated students and recently unemployed persons, as well as for the currently employed who need to improve their skills. Towards that goal, increased investments in the expansion of life-long learning and education need to be planned (cf. ERP for Bosnia and Herzegovina), which can be achieved through public-private partnership schemes. This could involve the use of public funds to finance private providers of such services through the mechanism of vouchers provided to jobseekers enabling a competitive quasi-market to be established for the provision of adult training (see Finkelstein, 2000; Hacke 2016). In particular, work-based training programmes that offer high-quality and relevant training curricula should be identified and supported, and clear employment pathways should be provided to their trainees. Opportunities for involving such initiatives in active labour market policies (ALMPs) and actions towards reducing skills gaps and skills mismatch should be explored.

Policies to attract skills and investments from the diaspora are also needed. The Western Balkan economies should examine different ways to harness the development potential of its diaspora, in particular its strong human capital. This is particularly important given the relatively low quality of education in the region and its limited capacity to provide graduates of both secondary and tertiary education with appropriate and up-to-date skills in many sectors. A highly educated and skilled diaspora may provide an opportunity to overcome the weaknesses of the education systems, especially in higher education. The challenge lies in attracting these highly skilled people to promote the region's economic growth. Moreover, promotion of circular migration is important for harnessing the potential of migrants who could apply their skills on the labour markets in the region, as well as unlocking the innovation potential of the region. Cooperation with diasporas and the promotion of circular migration are included in the ERPs for Kosovo* and Serbia and should be included in other ERPs as well.

Several national ERP programmes envisage improvements in the work of public employment services (PES). One of the main recommendations of the RCC ESAP's bench-learning activity implemented in the Western Balkans in 2017 was an improved design of PES to increase their capacity to deliver more effective ALMPs, combined with better targeting towards vulnerable groups such as young people, women and less skilled individuals. Further support to PES is much needed. Improvements in management practices and in the design of ALMPs based on the results of impact evaluations are recommended to all Western Balkans economies (cf. ERPs for Albania, Montenegro, North Macedonia and Serbia). Where capacities of PES cannot be expanded due to constraints on public appointments, contracting out to private sector providers of active labour market services should be considered. ALMPs can encourage labour-market participation, provide short-term employment opportunities and spur entrepreneurship, but they need to be financially sustainable and coordinated with policies that increase the demand for labour.

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6. Annex 1: Economy Profiles 2010-2019

6.1 Albania

The Albanian labour market is characterised by low activity rates and high unemployment rates, particularly among vulnerable population such as youth. The employment rate is highest among all economies in the Western Balkans. Unemployment rates do not differ between men and women, an exception in the region. There is a large sector of informal employment. The employment rate is increasing but is still largely driven by employment in the informal sector. In 2020, the labour market in Albania was affected by reduction of tourism activities. The activity rate fell by 0.9 percentage points (p.p.) between the first and fourth quarters; this was by more than the regional average. The employment rate fell by 1.2 p.p. and the unemployment rate increased by 0.4 p.p; both by less than the regional average.

Albania	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1 Activity rate											
Activity rate, 15-64	62.3	68.5	64.9	59.6	61.5	64.2	66.2	66.8	68.3	69.6	69.1
Activity rate, male 15-64	72.3	73.4	73.4	70.2	72.2	73.4	74.1	75.8	76.9	77.6	77.05
Activity rate, female 15-64	52.9	60.8	56.4	50.1	51.3	55.1	58.3	57.7	59.7	61.6	61.15
2 Employment rate											
Employment rate, 15-64	53.5	58.7	55.9	49.9	50.5	52.9	55.9	57.4	59.5	61.2	60.6
Employment rate, male 15-64	63.1	65.7	62.2	57.3	58.0	60.5	61.9	64.3	66.7	68.2	67.8
Employment rate, female 15-64	44.5	51.8	49.6	43.1	43.4	45.5	49.7	50.3	52.4	54.4	53.6
Youth employment rate, 15-24	23.4	34.1	25.8	19.0	17.7	18.9	20.2	21.6	25.7	27.2	26.3
3 Unemployment rate											
Unemployment rate, 15-64	14.2	14.3	13.8	16.4	17.9	17.5	15.6	14.1	12.8	12.0	12.2
Unemployment rate, male 15-64	12.8	14.0	15.2	18.3	19.7	17.5	16.4	15.1	13.2	12.2	12.0
Unemployment rate, female 15-64	15.9	14.7	12.0	13.8	15.5	17.4	14.6	12.8	12.3	11.8	12.4
Youth unemployment rate, 15-24	30.5	23.9	29.8	31.4	39.0	39.8	36.5	31.9	28.3	27.2	26.5

6.2. Bosnia and Herzegovina

The key labour market indicators for Bosnia and Herzegovina are presented below. The labour market of Bosnia and Herzegovina is characterised by a decreasing and ageing population (driven by both relatively low fertility rates as well as by high emigration rates), low activity and employment rates, as well as by high unemployment rates, particularly among vulnerable population such as women and youth. Moreover, there is much informal employment. In recent years, the active labour force has decreased, mainly due to the emigration to the EU and particularly as a replacement labour force to Croatia. In 2020, the labour market in Bosnia and Herzegovina was affected by disruption of global value chains and by reduced demand for their products and services at home. However, the impact on the labour market was relatively mild. The activity rate increased by 1.4 percentage points (p.p.) between the first and fourth quarters and the employment rate increased by 1.2 p.p. The unemployment rate decreased by 0.1 p.p. A snapshot of the effects of the COVID-19 pandemic on the economy in June 2020 are provided by ILO (2020 BA).

Bosnia and Herzegovina	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1 Activity rate											
Activity rate, 15-64	54.0	53.8	53.9	53.4	54.2	54.6	54.1	54.5	54.2	55.5	58.2
Activity rate, male 15-64	67.0	66.3	67.0	65.8	65.9	66.2	66.2	66.1	66.4	66.4	70.4
Activity rate, female 15-64	41.1	41.2	40.9	41.0	42.4	42.9	41.9	42.7	41.8	44.4	46.1
2 Employment rate											
Employment rate, 15-64	39.0	38.7	38.5	38.5	38.9	39.2	40.2	43.0	44.0	46.4	48.8
Employment rate, male 15-64	49.6	48.7	49.0	48.0	49.0	48.8	51.1	53.3	54.7	57.0	60.2
Employment rate, female 15-64	28.5	28.6	28.1	28.8	29.0	29.4	29.1	32.5	33.0	35.6	37.3
Youth employment rate, 15-24	14.0	13.1	10.7	11.6	10.9	12.2	13.8	17.6	19.7	23.4	21.0
3 Unemployment rate											
Unemployment rate, 15-64	27.8	28.0	28.6	28.0	28.0	28.2	25.8	21.1	18.9	16.4	16.2
Unemployment rate, 20-64	26.7	27.1	27.6	27.0	26.9	26.9	24.7	20.3	18.3	15.8	15.7
Unemployment rate, male 15-64	26.1	26.5	26.8	27.0	25.7	26.2	22.8	19.4	17.6	14.2	14.4
Unemployment rate, female 15-64	30.3	30.4	31.5	29.5	31.9	31.4	30.6	23.8	21.0	19.7	19.0
Youth unemployment rate, 15-24	57.6	57.5	62.8	58.8	62.9	62.2	54.3	45.8	38.8	33.8	36.6

6.3. Kosovo*

The key labour market indicators for Kosovo* are presented below. The labour market is characterised by low activity and employment rates, as well as by high unemployment rates, particularly among vulnerable populations such as women or youth. The employment rate is the lowest among all economies in the Western Balkans, although employment growth in recent years has been the highest compared to other economies of the region. Moreover, informal employment is large. In 2020 the activity rate increased by 1.2 percentage points (p.p.) between the first and fourth quarters. The unemployment rate decreased by 0.4 p.p.

Kosovo*	2012	2013	2014	2015	2016	2017	2018	2019
1 Activity rate								
Activity rate, 15-64	36.9	40.5	41.6	37.6	38.7	42.8	36.5	34.9
Activity rate, male 15-64	55.4	60.2	61.8	56.7	58.3	65.3	63.7	59.6
Activity rate, female 15-64	17.8	21.1	21.4	18.1	18.6	20.0	19.0	19.5
2 Employment rate								
Employment rate, 15-64	25.5	28.4	26.9	25.2	28	29.8	25.1	26.1
Employment rate, male 15-64	39.9	44.0	41.3	38.7	43.0	46.6	45.3	46.2
Employment rate, female 15-64	10.7	12.9	12.5	11.5	12.7	12.7	12.3	13.9
Youth employment rate, 15-24	10.1	10.2	9.1	8.7	10.3	11.5	10.1	12.3
3 Unemployment rate								
Unemployment rate, 15-64	30.9	30.0	35.3	32.9	27.5	30.5	31.3	25.2
Unemployment rate, male 15-64	28.1	26.9	33.1	31.8	26.2	28.7	28.5	22.6
Unemployment rate, female 15-64	40.0	38.8	41.6	36.6	31.8	36.6	33.4	34.4
Youth unemployment rate, 15-24	55.3	55.8	61.0	57.7	52.3	52.7	55.3	49.1

6.4. Montenegro

The labour market is characterised by low activity and employment rates, as well as by high unemployment rates, particularly among vulnerable population such as women or youth. Long-term unemployment is highest among other economies of the region. In 2020, the labour market was negatively affected by a collapse in tourism activities, which account for about one third of GDP and one half of exports. In 2020 the activity rate fell by 12.9 percentage points (p.p.) compared to 2019 and the employment rate fell by a massive 12.2 p.p.; these falls were by far more than the regional average. The unemployment rate increased by 2.5 p.p.; this was by far more than the regional average. A snapshot of the effects of the COVID-19 pandemic on the Montenegrin economy in June 2020 are provided by ILO (2020 ME).

Montenegro	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1 Activity rate											
Activity rate, 15-64	59.3	57.3	58.7	58.9	61.6	62.6	63.4	63.5	64.7	66.2	61.5
Activity rate, male 15-64	67.1	63.8	65.1	65.1	67.7	68.3	70.2	70.5	72.3	73.3	68.3
Activity rate, female 15-64	51.7	50.9	52.3	52.8	55.5	56.9	56.6	56.5	57.2	59.1	54.7
2 Employment rate											
Employment rate, 15-64	47.6	45.9	47.0	47.4	50.4	51.4	52.0	53.1	54.7	56.0	50.3
Employment rate, male 15-64	54.3	51.2	52.4	51.9	55.5	56.0	57.2	59.4	61.0	67.5	56.1
Employment rate, female 15-64	41.0	40.7	41.6	42.9	45.3	46.9	46.8	46.8	48.4	54.2	44.4
Youth employment rate, 15-24	13.7	13.1	13.5	13.5	19.2	18.9	20.9	21.3	23.2	27.3	19.8
3 Unemployment rate											
Unemployment rate, 15-64	19.8	19.9	19.9	19.6	18.2	17.8	18.0	16.4	15.5	15.4	18.3
Unemployment rate, male 15-64	19.1	19.7	19.5	20.3	18.0	18.1	18.4	15.7	15.6	15.0	17.8
Unemployment rate, female 15-64	20.7	20.1	20.5	18.9	18.4	17.6	17.4	17.2	15.3	15.9	18.8
Youth unemployment rate, 15-24	45.5	37.0	44.0	41.8	35.9	37.7	35.8	31.7	29.4	25.2	36.0

6.5. North Macedonia

The labour market in North Macedonia is characterised by low activity and employment rates, as well as by very high but decreasing unemployment rates. Moreover, informal employment is large. Employment growth in recent years was among the highest in the region. In 2020, the labour market was affected mainly by disruption of global value chains in which multinational companies located in North Macedonia are embedded. However, the effects on the labour market were relatively mild since these multinationals have few backward linkages into the domestic economy, being mainly focused on outward processing activities. In 2020 the activity rate fell by 0.8 percentage points (p.p.) compared to 2019, the employment remained unchanged, and the unemployment rate fell by 0.8 p.p. A snapshot of the effects of the COVID-19 pandemic on the economy in June 2020 are provided by ILO (2020 MK).

North Macedonia	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1 Activity rate											
Activity rate, 15-64	64.2	64.2	63.9	64.9	65.3	64.9	64.5	65.3	65.4	66.3	65.5
Activity rate, male 15-64	77.7	76.8	76.6	76.8	77.7	77.5	77.8	78.4	78.3	77.3	76.7
Activity rate, female 15-64	50.4	51.2	50.8	52.7	52.5	52.0	50.8	51.7	52.2	54.8	54.0
2 Employment rate											
Employment rate, 15-64	43.5	43.9	44.0	46.0	46.9	47.8	49.1	50.5	51.7	54.7	54.7
Employment rate, male 15-64	52.8	52.3	52.4	54.5	56.1	56.6	58.6	60.5	61.4	64.4	63.7
Employment rate, female 15-64	34.0	35.3	35.3	37.3	37.4	38.8	39.2	40.3	41.7	44.7	45.3
Youth employment rate, 15-24	15.4	14.4	15.5	16.2	15.2	17.3	16.2	17.5	17.4	20.7	19.8
3 Unemployment rate											
Unemployment rate, 15-64	32.2	31.6	31.2	29.1	28.1	26.3	24.0	22.5	21.0	17.4	16.6
Unemployment rate, male 15-64	32.1	31.9	31.6	29.1	27.8	27.0	24.6	22.9	21.5	16.6	16.9
Unemployment rate, female 15-64	32.5	31.0	30.5	29.2	28.7	25.3	22.9	22.0	20.1	18.6	16.1
Youth unemployment rate, 15-24	53.7	55.3	53.9	51.9	53.1	47.3	48.2	46.7	45.4	35.6	35.7

6.6. Serbia

The key labour market indicators for Serbia are presented below. The labour market in Serbia is characterised by decreasing and ageing population (driven by both relatively low fertility rates as well as by high emigration rates), low activity rates, as well as by high but rapidly decreasing unemployment rates. Employment rate in Serbia is among the highest of all economies in the Western Balkans. Long-term unemployment is lowest among the economies of the region. In 2020, the economy was affected by the disruption of global value chains in which multinational companies located in Serbia are embedded. However, the effects on the labour market were relatively mild since these multinationals have few backward linkages into the domestic economy being mainly focused on outward processing activities. In 2020 the activity rate increased by 1.7 percentage points (p.p.) compared to 2019, and the employment rate increased by 1.4 p.p. The unemployment rate increased by just 0.3 p.p. A snapshot of the effects of the COVID-19 pandemic on the economy in June 2020 are provided by ILO (2020 RS).

Serbia	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1 Activity rate											
Activity rate, 15-64	59.0	59.4	60.1	61.6	63.1	63.4	65.6	66.7	67.8	68.1	67.7
Activity rate, male 15-64	67.3	68.1	68.8	70.1	71.0	71.3	73.1	73.8	75.1	74.9	74.6
Activity rate, female 15-64	50.8	50.7	51.2	53.2	55.2	55.5	58.1	59.6	60.6	61.3	60.8
2 Employment rate											
Employment rate, 15-64	47.2	45.4	45.3	47.5	50.4	51.7	55.2	57.3	58.8	60.7	61.3
Employment rate, male 15-64	54.4	52.4	52.4	54.9	57.2	58.7	61.9	63.9	65.6	67.1	67.7
Employment rate, female 15-64	40.1	38.3	38.1	40.1	43.6	44.7	48.4	50.8	52.0	54.3	54.8
Youth employment rate, 15-24	15.2	14.0	14.5	14.5	14.9	16.4	19.7	20.9	21.1	21.5	20.8
3 Unemployment rate											
Unemployment rate, 15-64	20.0	23.6	24.6	23.0	20.1	18.2	15.9	14.1	13.3	10.9	9.5
Unemployment rate, male 15-64	19.2	23.1	23.9	21.7	19.4	17.4	15.3	13.5	12.5	10.4	9.2
Unemployment rate, female 15-64	21.0	24.3	25.6	24.6	21.0	19.2	16.7	14.8	14.2	11.5	9.9
Youth unemployment rate, 15-24	46.2	50.9	51.1	49.4	47.3	43.3	34.9	31.9	29.7	29.9	26.6

7. Annex 2: The employment elasticity of output

The employment elasticity of output measures the percentage change in employment that is associated with a 1% change in economic activity, usually measured by the real GDP. For the Western Balkans, data are available for the period 2011-2019 which enable a calculation of the employment elasticity. The arc elasticity can be easily calculated by dividing the change in employment by the change in real GDP over a period of time, and multiplying this by the ratio of the average level of economic activity divided by the average level of employment as follows:

$$\text{Arc elasticity of employment with respect to output} = \frac{\Delta E}{\Delta GDP} \times \frac{GDP}{E}$$

The point elasticity of employment with respect to output are calculated on the basis of a log-log regression equation of the form: $\ln(E_t) = \beta_0 + \beta_1 \ln^{13}(GDP_t) + \epsilon_t$. The coefficient β_1 gives the point employment elasticity with respect to output

Table A2.1: Arc and point elasticities of employment with respect to output calculation

	Arc employment elasticity of output	Point employment elasticity of output
Albania	0.988	1.191
Bosnia and Herzegovina	0.551	0.516
Kosovo*	0.733	0.619
Montenegro	0.890	0.769
North Macedonia	1.070	0.933
Serbia	0.705	0.737

Source: Employment data from Eurostat [LFSI_EMP_A] for Montenegro, North Macedonia and Serbia, from INSTAT for Albania and ASK for Kosovo, and from ILOSTAT for Bosnia and Herzegovina; GDP data from Eurostat, chain linked volumes index 2010=100 [NAIDA_10_GDP].*

13 "Ln" represents the natural logarithm

8. Annex 3: COVID 19 infections

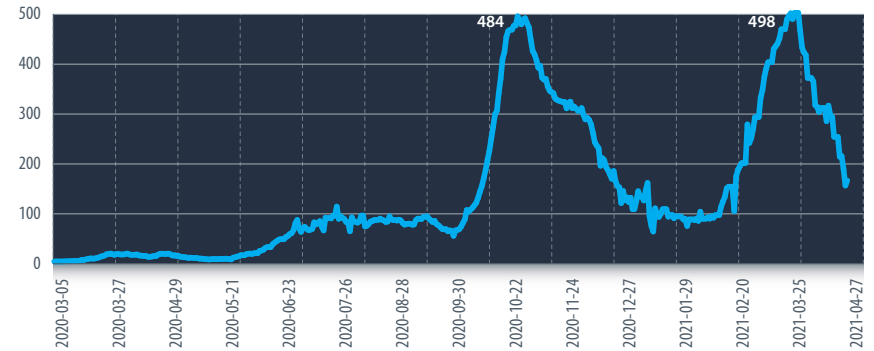
The rate of COVID-19 infections has proceeded in two waves in most WB economies. This annex shows the timing of the waves of infections for each of the Western Balkan economies, and for the EU. In Albania the infection rate peaked in February 2021 with 386 new daily infections per million population. In Bosnia and Herzegovina there were two peaks, the first in November 2020 with 484 new daily cases and a second wave which peaked in March 2021 with 498 new daily cases. All this can be compared to the European Union were cases peaked generally at 492 new daily cases per million in November 2020, and 380 new daily cases per million in March 2021. The first wave in Bosnia and Herzegovina was thus about the same as in the EU, while in Albania it was much lower with only one wave, and with different timing to elsewhere.

In the other four WB economies in the region the experience was worse than in the EU. In North Macedonia there were two waves of infection, peaking at 528 cases per million in November 2020 and 544 at the end of March to early April 2021. In Kosovo* there were also two waves, but the second wave was more intense than the first, peaking with 657 cases per million in March 2021. In Montenegro the first peak occurred in November 2020 with over 1,000 daily cases per million; a second wave peaked in March 2021 with 963 daily cases, which was by far the worst second wave count in the region. In Serbia the new daily cases peaked during the first wave rather later than elsewhere, in December 2020, with by far the highest first wave intensity in the region with 1,070 new daily cases per million, followed by a second wave in April 2021 with 805 new daily cases per million, double the level in the EU.

Figure 23: Albania: New daily COVID-19 cases per million population

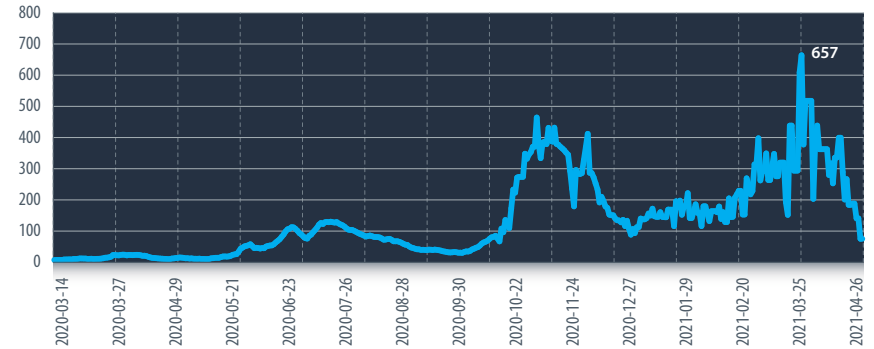
Source: Our World in Data: https://ourworldindata.org/coronavirus/country/albania

Figure 24: Bosnia and Herzegovina: New daily COVID-19 cases per million population



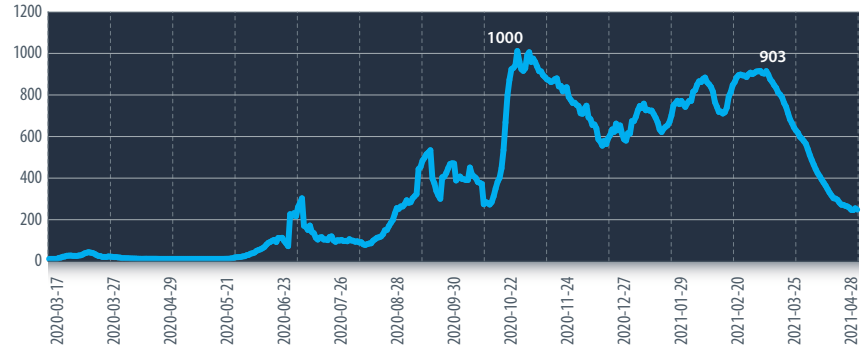
Source: Our World in Data: https://ourworldindata.org/coronavirus/country/bosnia-and-herzegovina

Figure 25: Kosovo: New daily COVID-19 cases per million population*



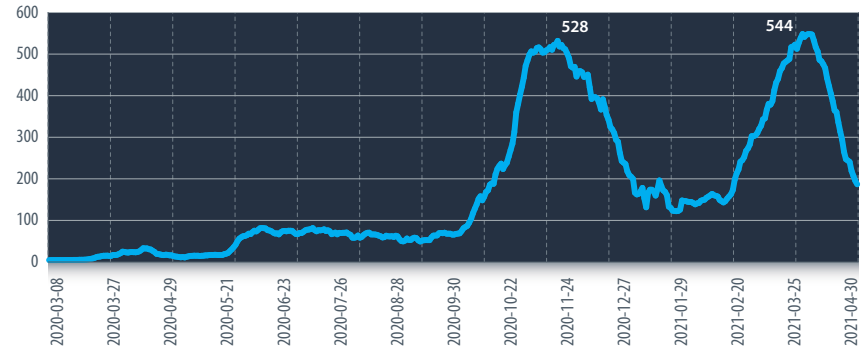
Source: Our World in Data: https://ourworldindata.org/coronavirus/

Figure 26: Montenegro: New daily COVID-19 cases per million population



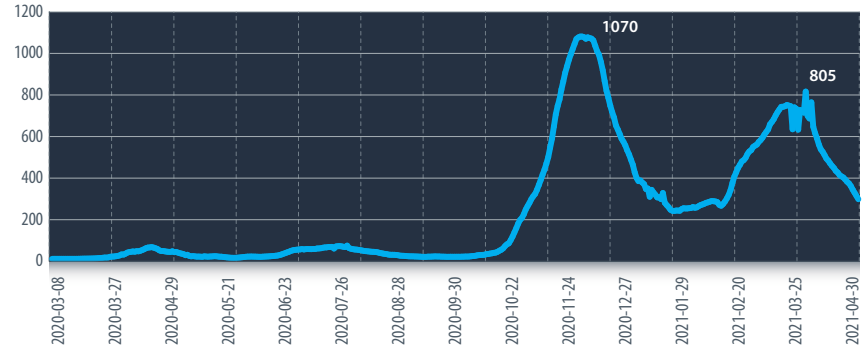
https://ourworldindata.org/coronavirus/country/bosnia-and-herzegovina?country=~MNE

Figure 27: North Macedonia: New daily COVID-19 cases per million population



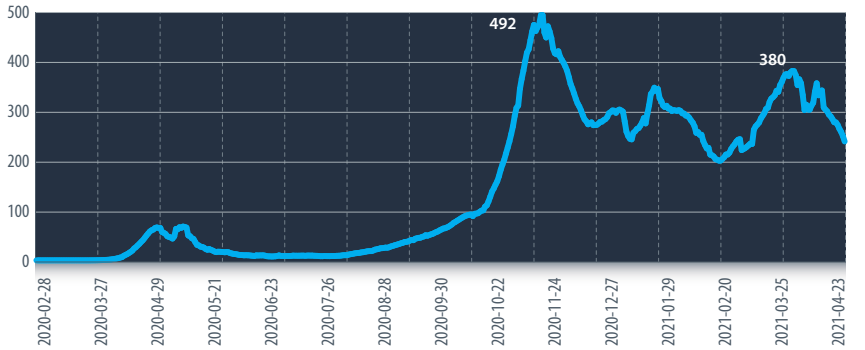
https://ourworldindata.org/coronavirus/country/bosnia-and-herzegovina?country=~MKD

Figure 28: Serbia: New daily COVID-19 cases per million population



https://ourworldindata.org/coronavirus/country/bosnia-and-herzegovina?country=~SRB

Figure 29: European Union: New daily COVID-19 cases per million population



Source: Our World in Data: https://ourworldindata.org/coronavirus/

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