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The Economic and Social Impact of COVID-19

LABOR MARKETS



“You and me” by Tanja Burzanovic (Montenegro)

The RER No. 17 is a collection of notes on the Economic and Social Impact of COVID-19 that will be published in three parts. The first part was launched on April 29 and focused on the macroeconomic impact of COVID-19. This second part shows how the macroeconomic impact affects the people in the region. It discusses the social impact of COVID-19 in the Western Balkans in six separate RER notes on poverty and welfare, labor, health, education, air pollution, and social protection. The third part, to be launched in early June, will focus on specific economic policy response areas—fiscal, external, and financial sector—and the crisis impact on the private sector as reported by firms.

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Western Balkan Labor Markets and the COVID-19 Shock¹

- Before the COVID-19 crisis began, the Western Balkans had record-high employment and record-low unemployment.
- The COVID-19 crisis has already wiped out part of the labor gains in the Western Balkans: by April 2020, 40 percent of the 2019 unemployment reduction gain was lost.
- The total employment impact is expected to be unprecedented and broad-based and all Western Balkan countries have moved to support enterprises to retain jobs and protect unemployed.
- As recovery phase starts, authorities should not lose sight of addressing longer-term challenges as acute shortages of labor and skills, and low productivity.

Measures to protect lives will adversely affect labor markets in the Western Balkans.

Restrictions on movement and social distancing have affected labor supply and demand, transport and travel in unprecedented ways. Whole sectors of national economies have been shut down—restaurants, hotels, nonessential retail trade, tourism, transport, and much manufacturing. Despite government support packages, businesses throughout the economies are suffering losses that threaten their operations and solvency. The most affected are small and medium-sized firms² and informal businesses. The impact on income-generating activities is especially harsh for unprotected workers and the most vulnerable groups in the informal economy. Where informal, temporary, and self-employment is disproportionate, labor markets are likely to see more job destruction, which will need to be addressed by social safety nets. Detailed policy options to support the unemployed and (newly) vulnerable as the social impact of the crisis unfolds and

during the recovery phase can be found in the companion RER notes, especially the note “Social Protection Responses to the COVID-19 Crisis in the Western Balkans.”

As the COVID-19 crisis began, the Western Balkans had record-high employment

In 2019 employment rate in the region grew to a historical high of 45.6 percent for age groups 15+, up by 1.4 percentage points (pp) from 2018. At year-end, Kosovo had the largest increase in people employed—6.7 percent year-on-year (y-o-y). Employment growth was around 4 percent y-o-y in Bosnia and Herzegovina (BiH), North Macedonia, and Serbia, and 3.1 percent in Albania, but in Montenegro, it slowed to 0.3 percent y-o-y. In 2019, 190,000 new jobs were created in the Western Balkans, more than a third of them in Serbia. By year-end, employment in the region was 7.7 percent higher than in June 2008, when the last global financial crisis began, and the region had experienced five years of uninterrupted employment growth averaging 2.8 percent a year.

1 This note, which was prepared by Sanja Madžarević-Sujster, benefited from the comments of Stefanie Brodmann, Marc Schiffbauer, Edith Kikoni, Enrique Blanco Armas, Jasmin Chakeri, and Gallina Vincelette.

2 See also the companion note “Covid-19 Vulnerability in the Western Balkans: A Firm-Level Perspective.”

Employment had grown so much in the region that it generated labor shortages and wage pressures. Before the crisis, labor shortages were already pronounced in Serbia and North Macedonia in manufacturing and transport, and Montenegro needed more workers in tourism. In the last two years increases in the minimum wage had pushed up the average wage by over 12 percent. Since 2017, gross wages in euro terms had gone up by 25 percent in Serbia, over 21 percent in North Macedonia, 18 percent in Albania, and about 10 percent in BiH; in Kosovo and Montenegro wage growth was above 2 percent. In Kosovo, although employment grew most there, there is

still a large untapped pool in the labor market. Montenegro recorded the highest level of gross wage, more than €780, but labor cost differences are narrowing: in 2017, Montenegrin gross wage was more than twice that of Albania; it is now 1.8 times higher.

The unemployment rate dropped to historical lows in the Western Balkans. In 2019 it declined to 13.4 percent, 2.3 pp less than in 2018, with drops in Kosovo and North Macedonia of more than 3.5 pp. In Albania it reached a new low of 11.5 percent; in BiH it fell to 15.5 percent. In Q4 of 2019, the unemployment rate in the region dropped

Figure 1. Employment rate increased throughout the region in 2019...

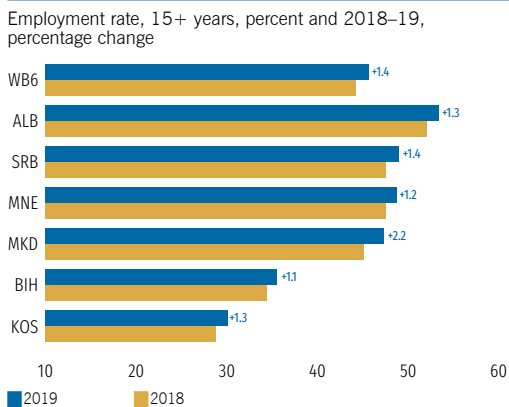
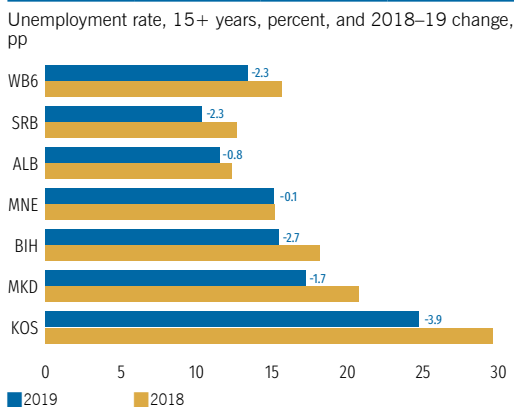


Figure 3. Unemployment rate reached new lows...



Source: National statistics offices and World Bank staff estimates.

Figure 2. ...and job creation even accelerated in 2019 Q4.

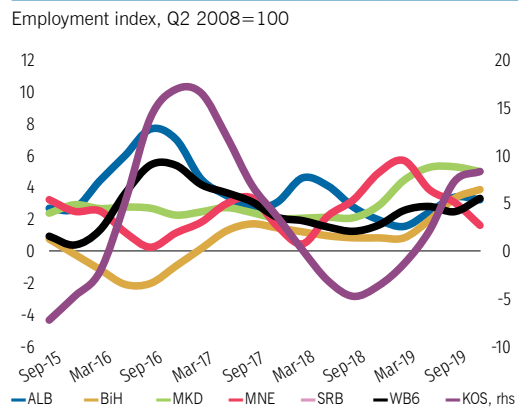
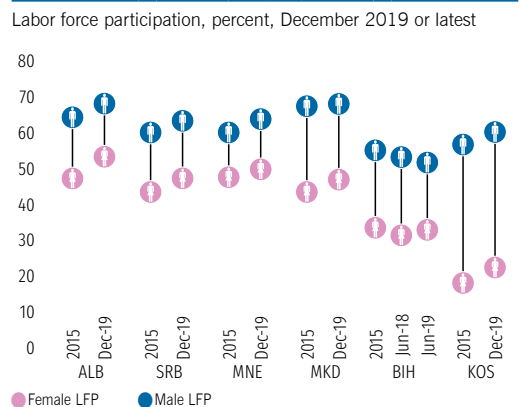


Figure 4. ...and participation rose as more women joined the labor force.



even further, to 12.7 percent, and in Serbia to a single digit, coming closer to the EU level of 6.1 percent. In 2019 in the Western Balkans there were 163,000 fewer unemployed than in 2018, half of them from Serbia, and 20 percent of which were young people, bringing youth unemployment down by 4 pp to less than 29 percent—the lowest on record.

Still, up to the COVID-19 crisis labor force participation was still low. In 2019 it had gone up very slightly (up 0.3 pp) to 52.7 percent in 2019, much of it due to more women entering the labor market. The improvements mostly occurred in Albania and Montenegro, where the participation rate went up by more than 1 pp. However, when the crisis began, almost half of the working-age population in the region were inactive. In Kosovo, inactivity had even increased pre-crisis; 70 percent of Kosovars entered the crisis without a job.

The gender gap in labor force participation further narrowed in 2019. Participation of women rose by 1.4 pp to more than 42 percent in the region, although with large variations across the Western Balkan countries. Albania led the gender inclusion effort; its female participation rate reached a new high of 53.3 percent. Montenegro followed the rate neared 50 percent, as maternity benefits of unlimited duration are gradually abolished. Although Kosovo is still far behind, initial successes raised the female participation rate to above 22 percent of working-age women. Region-wide, the participation gap between men and women narrowed from close to 19 percent in 2018 to 17.4 pp difference—but due in part to male participation rate declining in all Western Balkan countries except Albania and Serbia.

The COVID-19 crisis has already wiped out part of the labor gains in the Western Balkans

Employment contraction is already very evident in the Western Balkans. Data on labor market performance by April suggest that the largest annual increase in the number of unemployed so far in 2020 has been in Albania, up by 25 percent, and North Macedonia, by 11 percent.³ Partly this reflects the formalization of informal workers who registered to access health insurance and other benefits. Except for Serbia and Kosovo,⁴ the administrative unemployment data already show a y-o-y increase in the number of unemployed. Since January there were some 63,000 newly registered at employment bureaus. Further, in 2020 Q1, job vacancy data for Montenegro showed a drop of 75 percent and a drop in Serbia of 48 percent, suggesting a further labor market deterioration ahead.

Companies moved quickly to defensive measures: changes in working hours, temporary reductions in working time, forced leave, unpaid leave, and finally layoffs or even forced shutdowns to cope with the falling operations.⁵ According to the Serbian Chamber of Commerce, by March 31, about 77,000 workers were on forced leave due to suspended production, and about 1,000 companies had their accounts blocked due to inability to pay

3 In North Macedonia, firms were allowed to rehire workers and apply for wage subsidies for April and May, which will likely lead to a downward adjustment of the number of unemployed.

4 In Kosovo, firms have registered a much higher number of workers as newly unemployed than their formal workers, suggesting that the employment support provided to formal sector workers as part of the government's Emergency Fiscal Package has contributed to a formalization of employees.

5 According to the North Macedonia Finance Think survey in mid-April, about 43 percent of businesses were forced to close due to measures preventing movement and interactions, and 40 percent of businesses expected a plunge in revenue. The impact on micro-businesses was particularly strong; the percentage of businesses being forced to close has been about 55 percent and those with severe shortfalls in revenue about 50 percent.

what they owed. Workers with fixed-term contracts were let go first. According to the early April survey by the Economic Chamber of North Macedonia, only 19 percent of firms had put workers on forced leave and only 0.8 percent of firms had fired employees. Many had enough liquidity to protect jobs temporarily and were waiting for the announced government wage subsidy support. Still, some 29,000 jobs were in jeopardy after most bars, restaurants, and hotels closed on official lockdown orders. A business association in Kosovo found that 84 percent of firms surveyed had either closed entirely, reduced capacity, or reduced work schedules, and about 29 percent had reduced the number of workers.⁶

Unemployment will be further affected by returning migrants. In 2017 about 3.7 million Western Balkan workers lived in Europe.⁷ As containment measures and demand shocks affected European labor markets, migrant workers on short-term labor contracts were among the first to be laid off. Many decided to return home to reduce living costs in host countries where they had no access to social insurance or unemployment benefits, but official data are not yet available. If only 10 percent return, this would increase the number of unemployed by one-third.

The total employment impact is expected to be unprecedented and broad-based

Following economic contraction with some delay, the employment adjustment will likely intensify; in 2009, there was a two-quarter

delay before the impact of the slowdown on employment was clear. In the current crisis, lockdowns have made the employment impact more immediate, although rigidities in labor regulation did not allow for faster labor shedding. The magnitude of the impact will likely take time to emerge. It depends on

- the evolution of the crisis—whether recovery is V-shaped, L-shaped, or U-shaped;
- the heterogeneity of economic structure of each country and how COVID-19 impacts specific sectors;
- how quickly labor markets respond to the changing economic trends; and
- how effectively government measures protect jobs and firms (from “whatever it takes” approaches to targeted and fiscally contained packages).

The sectors most affected by a drastic fall in output are accommodation and food services, some manufacturing, wholesale and some retail trade, and real estate and business activities (Table 1). They are labor intensive and often employ low-paid, low-skilled workers, particularly accommodation and food services and retail trade. Workers engaged in activities deemed essential (e.g., food distribution, pharmaceuticals) continued to work but their occupational health risks are high. There will be differential impacts in manufacturing—pharmaceuticals, agro-processing and food production, some paper and textile will continue their activities, but workers in car-supply chains were asked to stay home as production ground to a halt. Transport, storage, and communications have

6 See also the companion note: “Covid-19 Vulnerability in the Western Balkans: A Firm-Level Perspective”.
7 <https://www.un.org/en/development/desa/population/migration/data/estimates2/estimates19.asp>.

Table 1. Sectors at Risk - Heatmap

	ALB	BIH	KOS	MKD	MNE	SRB
Education	Low					
Human health and social work activities						
Public administration and defense; compulsory social security						
Utilities						
Financial and insurance activities						
Information and communications						
Agriculture; forestry and fishing						
Mining and quarrying		Low-medium			Low-medium	
Transport; storage and communication	Medium-high*					
Manufacturing	Medium-high*					
Construction	Medium-high*					
Accommodation and food services	High					
Real estate; business and administrative activities						
Wholesale and retail trade; repair of motor vehicles and motorcycles						
Arts, entertainment and recreation, and other services						

Source: Adjusted per the ILO Monitor 2nd edition: "COVID-19 and the World of Work."

Note: Heatmap shows the assessed risks of adverse labor market adverse impact for each sector.

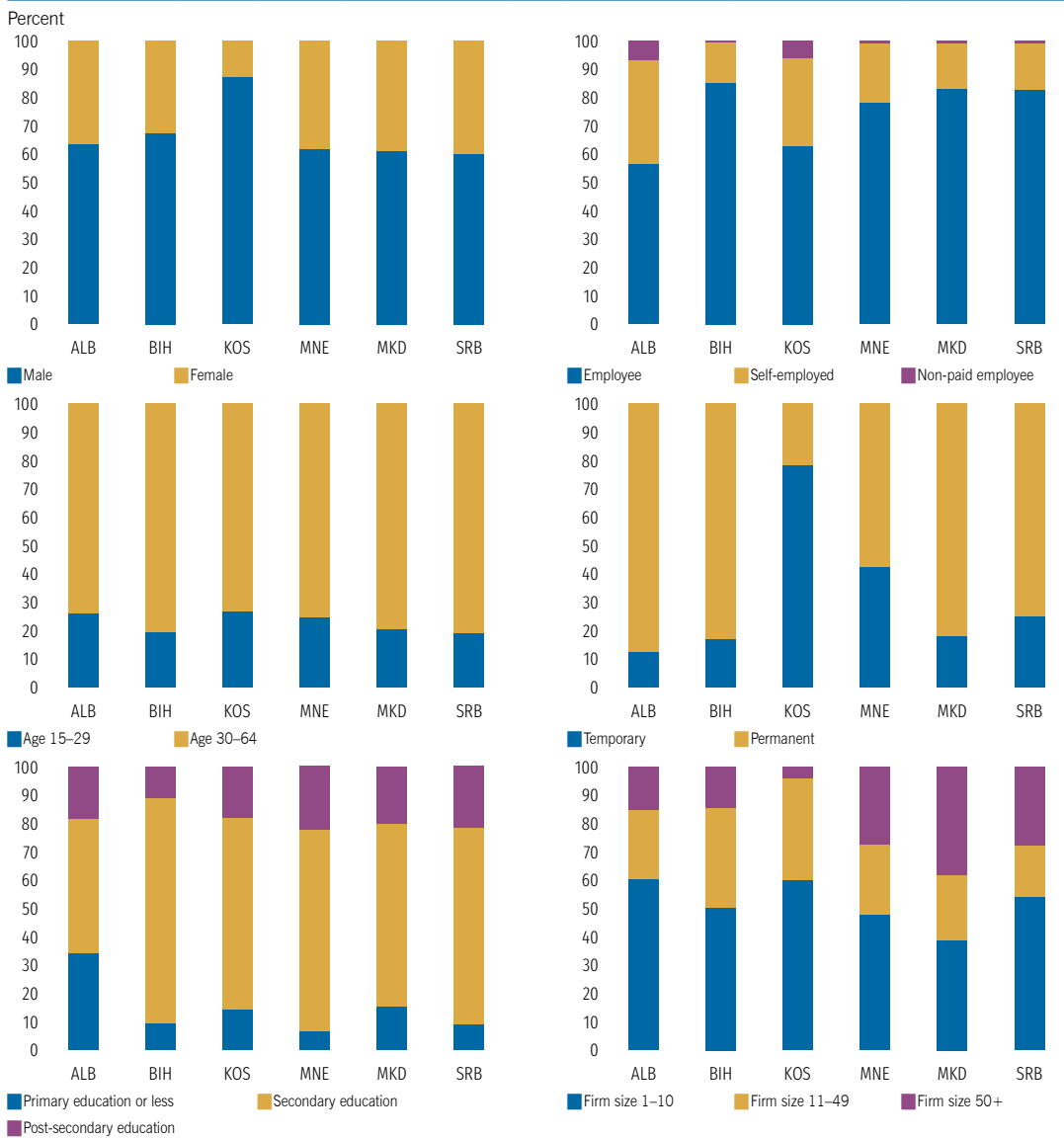
seen some workers negatively affected (e.g., in the airline industry); while others continue to meet the increased demand for online retail. Agriculture has been largely unaffected, except for constrained supply of imported materials and agricultural inputs due to border closures.

The COVID-19 labor crisis will most affect male workers over 30 years old with secondary education and jobs in SMEs with permanent contracts

Applying the sectoral risk assessment to the labor force data of the Western Balkan countries suggests that male, older than 30, with a secondary education, and working in SMEs on a permanent contract will be most affected by the COVID-19 impact. Around two-thirds of workers likely to be affected are men, because more men than women are employed

and because of the different professions they occupy most. In Kosovo, the pre-existing gender gap suggests that only 13 percent of workers affected will be women. It will be important to ensure that gender inequalities do not widen during and after the pandemic and that the gains in female accumulation of human capital, economic empowerment, and voice and agency painstakingly achieved in decades, are not reversed. Three-fourths of likely affected workers are aged 30–64. For the region as a whole, two-thirds have secondary education, but in Albania the share is less than 50 percent. About 34 percent of those affected have only primary education. About 23 percent of all those likely to be affected are self-employed, while the majority (three-fourths) are employed in SME firms on permanent contracts (two-thirds).

Figure 5. Profiles of the Likely Affected Workers⁸



Source: National statistical offices, World Bank staff estimates.

Note: Labor Force Survey (LFS) 2017 data for North Macedonia and Serbia. LFS 2018 data for Albania, Kosovo, and Montenegro. For BiH, LFS 2019 data; calculations by the World Bank and the BiH Agency for Statistics.

Not surprisingly, private sector employees will bear the brunt of the crisis (88 percent). Only in Kosovo will more temporary than permanent workers lose jobs but that is due to the pre-crisis labor market structure. Half of the affected workers will be in small companies (up to 10 employees), although in North Macedonia over 38 percent of affected workers

will come from large firms. In the Western Balkans, one-third of all affected workers work in wholesale and retail trade.

⁸ Calculations done by Ana Maria Oviedo (Albania), Trang Van Nguyen (Serbia and Montenegro), Anastasia Terskaya (North Macedonia), Stefanie Brodmann (Kosovo), Leonardo Lucchetti with the Agency for Statistics of Bosnia and Herzegovina (BiH).

Table 2. Labor Protection Support Programs Across the Western Balkans

Fiscal measures	Albania	Bosnia and Herzegovina	Kosovo	North Macedonia	Montenegro	Serbia
Subsidies/waivers for social security payments		✓	✓	✓	✓	✓
Private sector wage subsidies			✓	✓	✓	✓
Unemployment benefits with relaxed eligibility	✓	✓	✓	✓	✓	✓

The magnitude of the rise in unemployment will also depend on how effective the policy measures to boost labor demand are

Immediate policy responses need to provide relief to workers and enterprises to protect livelihoods and economically viable businesses, particularly in hard-hit sectors, thus laying the ground for a prompt, job-rich recovery once the pandemic is under control. Public resources should first be used to provide temporary targeted relief to hard-hit sectors. Experience from previous economic downturns suggests that wage subsidies can help retain jobs.⁹ Negative assessments of wage subsidies usually relate to programs targeting the disadvantaged or promoting job creation in “normal” economic times. However, getting subsidy programs up-to-speed can take time. Effective communication, social dialogue, and clear government commitments are critical to limiting job losses now.¹⁰

The following short-term policies have often been applied to protect affected people and help to preserve jobs in otherwise viable businesses:

- Facilitating alternative employment or employability for those out of work;
- Providing income protection for those that do lose jobs and livelihoods;
- Shielding businesses from immediate bankruptcy because of demand shocks, disrupted supply chains, and lockdown; and
- Supporting worker retention through employment subsidies.¹¹

All Western Balkan countries have moved to encourage enterprises to retain or create jobs. By April 2020, a month after lockdown and containment measures were introduced throughout the region, all the governments had adopted programs to save jobs and firms. In addition to health protection measures, tax reliefs, guarantee schemes, subsidized credit lines, and social assistance measures, there were also measures to save jobs through partial or full compensation for wage costs, and stronger unemployment benefits with relaxed eligibility criteria (Table 2). While measures announced by governments are still being put in place; it is important to monitor the effects and make adjustment to measures as needed.

⁹ See, for example Cahuc (2019) for a review of short-time work compensation schemes and Bruhn (2016) for Mexico.

¹⁰ See the following note for wage subsidy design principles: <https://www.jobsanddevelopment.org/wp-content/uploads/2020/05/WB-Design-and-Implementation-Practices-for-Wage-Subsidies-during-COVID-19.pdf>.

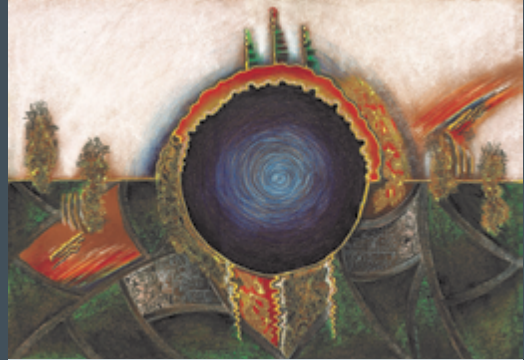
¹¹ See the companion notes: “Covid-19 Vulnerability in the Western Balkans: A Firm-Level Perspective” and “Social Protection Responses to the Covid-19 Crisis in the Western Balkans.”

While the effects of the crisis are still unfolding, there are faint signs of at least temporary easing in some countries.

Authorities should therefore not lose sight of such longer-term challenges as acute shortages of labor and skills, and low productivity. Opportunities from near-shoring, services outsourcing, and digitalization are worth exploring. Long-term, Western Balkan countries also need to both step up investment in skills and broaden access to skills development. To lower the threat of automation and improve the quality of jobs, the region needs to boost investment in foundational skills and in such modern, “new economy” skills as ICT, problem solving, creativity, communication and people skills, so that current and future workers can adapt more easily to rapidly changing labor markets.¹²

¹² World Bank and wiiw (2020): Western Balkans Labor Market Trends 2020.

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Dr. Tatjana Burzanovic has a wide experience in the fields of graphic design, graphics in architecture, interior design. She has worked as an art editor, interior designer and graphic designer at various levels. Many of her art exhibitions have taken place at different places. She has received many awards for her arts and literary works. She has published a book with a title *The Interrelation between Art Worlds*, with the support from the Embassy of India for Austria and Montenegro in Vienna. Her artistic philosophy includes displaying of interrelationship between art worlds (spatial and temporal arts). The artist thus meditates between nature and the spirits and yet stems from the absolute idea and serves the goal of realization of absolute spirit. 'Grasping the meaning through the form' is a task of the art set by a contemporary thinker to demonstrate that building forms and creating sense are two simultaneous, intertwined, and absolutely inseparable processes in Arts. Without that recognition it is not possible to take any further step in investigating the nature of art and literature. She believes that art is a way to search the truth. Art is inseparable from searching the truth.

People forge ideas, people mold dreams, and people create art. To connect local artists to a broader audience, the cover of this report and following editions will feature art from the Western Balkan countries.