



Advising national policy actions to support workers and enterprises during the COVID-19 crisis to help recovery in the Western Balkans

July 2020

Overview

The Covid-19 pandemic is affecting households, enterprises, and national economies in unprecedented ways, including in the six countries of the Western Balkans (WB6).¹ The International Labour Organization (ILO) and the EBRD have joined forces to respond to the coronavirus crisis in the Western Balkans by: i) assessing the impact of the crisis on the region's labour markets and employment; and ii) advising the authorities on policy actions to support workers and enterprises. The two country reports finalised so far have noted the significant job losses that have already occurred in some sectors and the risk of further substantial cuts in the employment rate. Recommendations include ensuring all those who lose jobs are entitled to some unemployment benefits, and introducing measures tailored to those most at risk of exclusion.

What is the goal of this policy engagement?

This exercise aims to support Western Balkans policy makers in responding to the coronavirus-induced crisis in the labour market. An adequate framing of policy responses is particularly important in the current crisis. The ILO Office for Central and Eastern Europe and the EBRD's Gender and Economic Inclusion Team have therefore created a joint regional Task Force, comprising ILO and EBRD experts and senior policy advisors from the region, to assess the impact of the crisis and advise Western Balkan countries on the

appropriate policy response. The Task Force is addressing the following questions: 1) What are the likely employment and labour market impacts of the Covid-19 crisis over the short- and medium-term in each Western Balkan country? 2) What are plausible policy responses that Governments and social partners should consider in order to mitigate the short- and medium-term effects of the crisis?

How is the impact of the coronavirus crisis on labour markets being assessed?

Multiple tools are being utilised in evaluating the impact of the crisis on labour markets. Because real-time data are lacking in most countries, particularly on labour market impacts, it is essential that the assessment takes into account multiple indicators and qualitative insights on economic and employment effects, including:

- a. **Enterprise surveys.** The rapid (impact) assessment builds on the results of the enterprise surveys conducted by employers' organisations in partnership with the ILO and the EBRD. These surveys provide a snapshot of how firms in different sectors are faring throughout the different phases of the crisis and their urgent needs. To

¹ See OECD (2020).

avoid any “cross-contamination” of perceptions, this rapid assessment is based on surveys carried out during the lockdown phase. The surveys will be repeated during the reactivation phase.

- b. **Sectoral analysis.** Through a sectoral decomposition (2-digit) of Labour Force Survey (LFS) data, the sectoral analysis provides an overview of those parts of the economy most at risk. It also offers some data for the parametrisation of policy options. The LFSs also provide baseline microdata for nowcasting.
- c. **Administrative data.** Selected administrative data are collected from public employment services, social welfare centres, tax authorities and other institutions (together with relevant time series) to gauge real-time occurrences in the labour market.

- d. **ILO nowcasting model.** High-frequency economic and labour market data support the ILO’s nowcasting model. This method uses data that are available almost in real time to predict aggregate hours worked, because actual data are published with substantial delay. The resulting estimates are compared with the baseline (the latest pre-crisis quarter, namely, the fourth quarter of 2019, seasonally adjusted). The data in the nowcasting model include a variety of economic indicators, including those capturing the evolution of the labour market. The ILO nowcasting model has produced Western Balkan aggregates for Q1 and Q2 2020. As further high-frequency indicators become available, the ILO will produce a direct nowcast for each Western Balkan economy in the second quarter of 2020.

What is the proposed framework of policy response?

Framing the appropriate policy response largely depends on the stage of the crisis. The chain of events triggered by the crisis can be split into three main stages: lockdown, reactivation and recovery (see Figure 1). In the lockdown phase, high-contact and non-essential labour is heavily constrained, and loss of working hours is the key metric in the short run. In the reactivation stage, workers gradually return to their workplaces but the process is slowed down by health and safety considerations for workers and clients.

Subsequently, unemployment, underemployment and job losses are useful metrics for impact assessment. In the recovery phase, employment gains may be limited by subdued aggregate demand, as well as limited fiscal space of the government. More general metrics such as registered employment, GDP per person employed and the bankruptcy rate of enterprises are useful at this point.

Figure 1: Impact of Covid-19 crisis on the labour market

Lockdown	Reactivation	Recovery
<ul style="list-style-type: none"> • near complete and mandatory • timing and gradual removal subject to debate balancing health, political and economic interests • high-contact and non-essential labour heavily constrained • consumer demand for durables and non-essential goods and services plummeted, fuelled by uncertainty • loss of working hours as key metrics in the short run 	<ul style="list-style-type: none"> • workers gradually return to workplaces • return is slowed down by safety and health considerations for workers and clients • negotiations on safe return to work • ruptured productive supply chains need mending • in the medium term, liquidity shortages also undermine viable businesses • unemployment, underemployment and job losses as useful metrics in the medium term 	<ul style="list-style-type: none"> • made difficult by (still) low aggregate demand • fiscal limitations circumscribe government room for manoeuvre • registered employment; GDP per person employed; and mortality rate of enterprises as helpful metrics in this phase

Source: Task Force elaboration based on several sources.

Policy measures implemented by the governments in the Western Balkans are organized around four pillars, based on international labour standards. These are: 1) stimulating the economy and employment, including through active and accommodative fiscal and monetary policy; 2) supporting

enterprises, jobs and incomes, including through social protection and employment protection measures as well as liquidity support to firms; 3) protecting workers in the workplace, including through strengthening health and safety measures and adapting work arrangements; and 4) relying on social dialogue for solutions (see Figure 2).

Naturally, some policy measures cut across several pillars and are mutually reinforcing. The relative effectiveness of

some aspects of the policy packages depends on their coming to fruition during the right phase of the crisis.

Figure 2: Policy responses for the labour market



Source: ILO (2020).

Three main considerations with regards to identifying plausible policy measures are relevant. First, general policy packages need to be calibrated depending on the available fiscal space and the existing policy framework. Second, policy packages already adopted have some gaps – either in the design or in the implementation – from the

perspective of protecting the most vulnerable, such as non-standard workers, own-account workers, and micro-enterprises. And third, policy measures are effective only if tailored and properly timed to the phase of the Covid-19 crisis in which the economy is primarily placed.

What are the preliminary results of this policy engagement?

Country Assessment Reports for North Macedonia and Montenegro were presented to the national authorities and published.² The remaining four reports for Bosnia and Herzegovina, Albania, Serbia and Kosovo are currently being drafted and the policy recommendations will be presented to the relevant authorities for their consideration and further evaluation.

The authorities in North Macedonia have responded to the report by expanding coverage of the unemployment benefits scheme to include most vulnerable workers. The Assessment for North Macedonia finds that the decline in working hours during the second quarter is equivalent to the loss of 85,550 full-time jobs; certain jobs are curtailed only temporarily, while others will be lost permanently. The repercussions and lingering effects of the Covid-19 crisis on enterprise performance and jobs in specific sectors also depend on their relative vulnerability to shocks. In nine sectors that were strongly impacted by the crisis, 40,000 jobs are at immediate risk. The report finds that the main employment retention measures put in place by the Government were timely, but the intensity of the support might have been too low to achieve the desired impact. Most workers losing their jobs during this crisis belong to the second-tier (atypical employment contracts) and/or

third-tier (informal) segments of the labour market, with little or no access to unemployment benefits. Therefore, the report recommends that the rules governing eligibility for receiving unemployment benefits should be temporarily relaxed for the scheme to better function as an automatic stabilizer. Following this recommendation, the Government of North Macedonia relaxed the eligibility criteria to ensure all workers who have lost their jobs due to the Covid-19 crisis receive unemployment benefits. This was one of the 11 policy recommendations presented to the authorities.

In Montenegro, the policy response should take into account the emerging gaps in sectoral and generational employment. The Montenegro Country Assessment found that the decline in working hours during the second quarter of 2020 is equivalent to the loss of 31,000 full-time jobs. Manufacturing, wholesale and retail trade, and accommodation and food service activities top the list of sectors at high risk in terms of employment impacts, followed by transportation, construction, professional, scientific and technical activities, and administrative and support service activities. In these seven sectors, 36,000 jobs are at immediate risk, which could imply a drop of 15 percentage points in the employment rate. The assessment calls upon the decision-makers to be careful not to

² See EBRD (2020a) and EBRD (2020b).

exacerbate the dynamic of “winners and losers” that is emerging from the current crisis. In particular, to avoid the risk of an emerging “lockdown generation”, this report advocates policy solutions based on inter-generational solidarity. Six preliminary policy recommendations emerge from this rapid assessment, which will be further evaluated and adjusted through consultation with national authorities and social partners.

In Montenegro, the policy response should take into account the emerging gaps in sectoral and generational employment. The Montenegro Country Assessment found that the decline in working hours during the second quarter of 2020 is equivalent to the loss of 31,000 full-time jobs. Manufacturing, wholesale and retail trade, and accommodation and food service activities top the list of

sectors at high risk in terms of employment impacts, followed by transportation, construction, professional, scientific and technical activities, and administrative and support service activities. In these seven sectors, 36,000 jobs are at immediate risk, which could imply a drop of 15 percentage points in the employment rate. The assessment calls upon the decision-makers to be careful not to exacerbate the dynamic of “winners and losers” that is emerging from the current crisis. In particular, to avoid the risk of an emerging “lockdown generation”, this report advocates policy solutions based on inter-generational solidarity. Six preliminary policy recommendations emerge from this rapid assessment, which will be further evaluated and adjusted through consultation with national authorities and social partners.

References

OECD (2020), *Supporting people and companies to deal with the Covid-19 virus: Options for an immediate employment and social-policy response*, Paris, Organisation for Economic Co-operation and Development (available at <https://www.oecd.org/coronavirus/policy-responses/supporting-people-and-companies-to-deal-with-the-covid-19-virus-options-for-an-immediate-employment-and-social-policy-response-d33dffe6/>).

EBRD (2020a), *EBRD and ILO advise North Macedonia on labour market after coronavirus*, 28 May 2020 (available at <https://www.ebrd.com/news/2020/ebrd-and-ilo-advise-north-macedonia-on-labour-market-after-coronavirus.html>).

EBRD (2020b), *EBRD-ILO advise Montenegro on labour market policies after coronavirus*, 25 June 2020 (available at <https://www.ebrd.com/news/2020/ebrdilo-advise-montenegro-on-labour-market-policies-after-coronavirus.html>).

Acknowledgements

This note was produced by Dragana Marjanovic from Gender and Inclusion Team, part of Economics, Policy and Governance Department (EPG) of EBRD. Contributions were made by Jakov Milatovic, Radu Cracan, Peter Sanfey and Ana Kresic (EPG). The views expressed in this note are those of the authors only and not necessarily those of the EBRD.

© European Bank for Reconstruction and Development
One Exchange Square
London EC2A 2JN
United Kingdom
www.ebrd.com

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, including photocopying and recording, without the written permission of the copyright holder. Such written permission must also be obtained before any part of this publication is stored in a retrieval system of any nature.

Terms and names used in this report to refer to geographical or other territories, political and economic groupings and units, do not constitute and should not be construed as constituting an express or implied position, endorsement, acceptance or expression of opinion by the European Bank for Reconstruction and Development or its members concerning the status of any country, territory, grouping and unit, or delimitation of its borders, or sovereignty.

The contents of this publication reflect the opinions of individual authors and do not necessarily reflect the views of the EBRD.

For more information on the EBRD's Covid-19 policy engagements, visit:
<https://www.ebrd.com/what-we-do/coronavirus/coronavirus-policy-response>