

2018

## MACEDONIA

By Mare Anceva

**S**ocio-economic developments

**I**ndustrial relations

**F**orecasts

# Annual Review

of Labour Relations and Social Dialogue

**S**tate policies

**T**ripartite social dialogue



# Annual Review 2018

## of Labour Relations and Social Dialogue

Macedonia / By Mare Anceva

- Macedonia stands at a turning point in its history as an independent nation. In 2018 the country took decisive steps to resolve a long-standing dispute with Greece about its official name, when the two countries reached an agreement that needs to be confirmed. Prior to that, agreement for friendship, good-neighbourliness and cooperation was reached with Bulgaria, thus resolving the main open issues with neighbouring countries. Resolution of the name issue, which has been inflicting political and economic damage since 1991, is essential to consolidate Macedonia's EU and NATO accession process.
- The country is well positioned to seize the opportunities that accession can bring; however, it requires full awareness of the country's challenges in the process. In 2018 most of the political, social and overall energy was spent in bringing the mentioned agreement to its required confirmation. The opposition to it appears to be enormous in both Macedonia and Greece, as is the determination of both governments to end the dispute and bring the agreement to life. The national referendum did not give decisive confirmation since the high turnout threshold was not reached but 91.5 per cent of those who voted supported the agreement. At the moment, the amendments of the Macedonian Constitution are being discussed, which is final stage of the agreement's implementation on the Macedonian side.
- Generally, it was incredible how a small and restricted country such as Macedonia could absorb such a density of events in such a short period of time, as was the case in 2018. The screening process in EU accession was opened after signing the agreement with Greece and the invitation for NATO membership was reaffirmed. The European Parliament accepted the Commission's Draft Report on FYR Macedonia and settled opening negotiations in 2019. Reform processes are opened; many laws are now open for revision and change, including the labour law.
- However, the public was equally focused on the court trials that are going on in cases conducted by the Special Prosecution for crimes indicated by wiretapped conversations. Many former high governmental and political actors are being prosecuted. After being legally convicted, the former prime minister escaped from the country before imprisonment, causing another political scandal that has shifted the focus from more important issues the country has to deal with.






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## Socio-economic developments

The economic developments could not be undisturbed by the actual political situation during the last two-three years. Economic growth nearly stopped in 2017 with an increase in the GDP of only 0.2 per cent. During 2018 the economy is rebounding from stagnation driven by growth in exports, consumption and investment recovery. The GDP is expected to rise by 2.5 per cent on an annual basis, as it rose by 3.1 per cent in the second quarter and kept the same dynamic in the third quarter.

Foreign direct investment (FDI) recovered gradually in the first half of 2018, after stagnating the previous year, reflecting the developments on the political stage in the country. The amount of FDI in the first quarter of 2018 already overcame the sum recorded for all of 2017.

The fiscal deficit is expected to decline in 2018 as government revenue grows and capital investments drop. In the first half of the year revenues went up by 4.6 per cent (y-o-y) paced by social contributions, excise taxes and higher corporate and personal income tax receipts. At the same time, total spending increased by only 1.3 per cent due to underperformance in capital investment. On the other hand, current spending increased by 5.7 per cent, led by social transfers and employment subsidies to companies for compensation for the increase in the minimum wage. Hence, the budget deficit declined to 2.1 per cent of GDP (compared to 2.7 per cent in 2017); however on an annual basis it is expected to reach 2.6 per cent.

Despite the lower deficit the public and publicly guaranteed (PPG) debt rose from 47.6 per cent of GDP in 2017 to 49.1 per cent by June 2018 and is expected to reach 50.6 per cent by the end of the year. The increase is due to issuance of a new Eurobond, according to World Bank at the historically-best terms (a 7-year €500 million bond with 2.75% interest). The bond fully covered borrowing requirements for 2018 and allowed the government to lower the high upcoming refinancing needs by partial early redemption of the 2015 Eurobond.

The external balance remained stable in 2018. The current account deficit is expected to decrease marginally from 1.3 per cent of GDP in 2017 to 1.2 per cent this year. The contribution of exports of car parts, along with the steel, furniture and tobacco, left the trade balance largely unchanged despite the increase in imports by double digits. On the other hand, new private inflows increased sufficiently to cover the entire goods and services trade deficit.

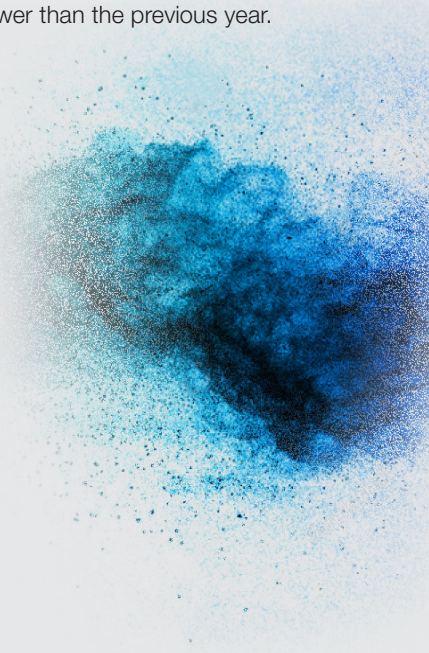
The inflation rate rose to 2.4 per cent in 2017 after recording negative values in the previous three consecutive years. After three quarters of 2018 the rate is at 1.5 per cent compared to the same period last year.

Wages grew nominally by 5.5 per cent driven by the increase of the minimum wage by 19 per cent in September 2017. The minimum wage was corrected upwards by an additional 1.4 per cent in July 2018. The low-wage, labour-intensive sectors are offered subsidies to cover the increase in wages and avoid layoffs. The subsidies provided for the employment program, including subsidizing the rise in minimum wage, doubled in amount compared to same period in the previous year.

Employment subsidies contributed partly to improvement in the labour market situation. In the first half of 2018 employment grew by 2.1 per cent compared to the same period a year earlier. The unemployment rate fell to a historically low 21.1 per cent at the end of the second quarter and is expected to decline further to 20.4 per cent for 2018. However, it is not fully due to an increase in employment but rather to a lower participation rate and a transition from unemployment to inactivity, particularly among the long-term unemployed. At the same time, the unemployment rate among the youth population rose slightly to 47.6 per cent.

The poverty rate rose by 0.3 percentage points, reaching 22.2 per cent of the population at-risk-of-poverty in 2017. This percentage amounts 40.7 per cent before the social transfers with pensions and 25.9 per cent when pensions are excluded. The percentage has increased in the inactive and retired population and slightly declined in the unemployed population.

The Gini coefficient in 2017 was recorded at 32.5 per cent, which is 1.1 percentage points lower than the previous year.



## State policies

Since stepping into power the government seems to be more preoccupied with external issues at the expense of domestic policies. The result is a positive, bilateral agreement for friendship with Bulgaria and historical agreement on the name issue with Greece, now in the procedure of its effectuation in the Constitution. Thus, the main obstacles to getting NATO membership and opening the process of negotiations with the EU, after being candidate country since 2005, have been overcome. However, the necessary reforms were put aside for too long and require bigger efforts and effectiveness to catch a step in the EU integration process. Trying to help Macedonia overcome the stage of a “captured state” (as described in the 2016 EC Progress Report), the Commission suggested Urgent Reform Priorities primarily concerning the judiciary, rule of law, public administration reforms, media freedom and freedom of expression. These issues are now opened but it will take time to put necessary reforms in place.

In the economy, the new government remained committed to market-based economic policies, thus embarking on fiscal stimuli to subsidise investment and employment. Economic policy has continued to focus on three main pillars: (1) foreign direct investment; (2) raising private sector competitiveness through public infrastructure spending; and (3) boosting employment through active labour market policies and employer subsidies. A number of policies have been redesigned to improve their effectiveness. The government is increasing the subsidies for investment and employment in the private sector applying the “same subsidy” policy to both domestic and foreign companies (previously only foreign companies were subsidized). Companies are offered subsidies to compensate for the increase in the minimum wage and for wages lower than €300 in net amount.

The Law on Labour Relations was amended with some better provisions in labour rights (minimum severance pay is shifted from six to seven monthly wages; some restrictions are imposed on hiring new workers after making some of them redundant. etc.) and at the same time public discussion is opened on a new labour law in which the length of short-time employment contracts is expected to be reduced.

The Law on Pension Insurance was amended with improvements for workers that work in difficult and damaging working conditions, particularly underground miners.

The government proposed an increase of social contributions through amendments to the Law on Mandatory Social Contributions. The proposal is to increase the pension insurance by 0.8 percentage

points and health insurance by 0.5 percentage points by 2020. In spite of the proposals of World Bank for increasing the retirement age, for the time being reforms in the pension system are planned regarding the participants in the second pillar (mandatory private insurance), while the deficit of the state Pension Fund will be somewhat facilitated with higher contributions, more employment and better wages.

After long discussions on personal taxes, the government proposed a new law in which a progressive tax rate of 18 per cent is introduced for net monthly wages higher than €1,500 (the amount below that sum remains taxed at a 10 per cent rate) while for all types of income the rate shifts from 10 per cent to 15 per cent.

In the last years, driven by vast government employment programmes, the labour market has posted solid gains and large numbers of jobs were created. However, labour market distortions restrain the growth potential since the decrease in unemployment partly reflects low and declining activity rates and the gender gap remains significant with 78 per cent of men participating in the labour market compared to 52 per cent of women. The problem with a mismatch of skills and delayed reforms of the education system is progressing rapidly, particularly with large-scale emigration of skilled workers and a low level of enrolment in post-secondary education. The economy is struggling to rebuild a qualified young workforce, which will further delay necessary structural transformation of the economy. At the same time, the digitalisation of the economy is progressing fast.



# Industrial Relations

The political issues have continued to prevail over the economic and social in the reported period, as was the case for several years in row. In an atmosphere of political disputes about such serious issues like the change of the name of the country and amending the Constitution, social partners had to accommodate this situation. The good thing is that the government is opening broad debates on all issues. Debate has been opened on the labour law, pension system problems, the law on media, and others.

However, industrial relations were engraved by the political situation and some external influences, like the changes in EU customs policy towards non-member states. The sectors that make exports to the EU are facing higher tolls or tariff barriers, which might have consequences to jobs and earnings and this affects the negotiating position of unions.

The national federation SSM appealed part of the Law on Minimum Wage to the Constitutional Court and won its case. The provision that links the minimum wage with the accord performance was dropped from the Law on Minimum Wage, guaranteeing minimum earning for normal working hours (a full-time job). The accord performance was mostly abused by employers in the textile and garment industries who made workers work longer hours for the same pay, taking the required accord as an excuse.

Regarding the wage situation, all unions have objected to the shift to only the lowest wages, driven by the Law on Minimum Wage. In the low-wage labour-intensive companies the shift of the lowest wages caused some kind of "regimentation", bringing all wages to same level. In many companies adjustment only of the lowest wages caused disturbances regarding the acting pay scale and job ranking. Unions would like to have the minimum wage as value for coefficient 1 (simplest non-qualified jobs) in the collective agreements, which is not the case at the moment, particularly for the low-wage labour-intensive sectors.

The General Collective Agreement (GCA) for the private sector expired in mid-2017. According to the labour law, after expiring, its provisions will be administered until the conclusion of a new agreement. The Organization of Employers (ORM) is pressing for speeding up the negotiations, while SSM (these two are the signatories) is in a position to wait for the new labour legislation before entering final negotiations. Both sides have opposite proposals, particularly in the section regarding wages, allowances and compensation of work-related expenses: the employers are proposing some reductions while

the unions propose an increase. The General Collective agreement is a very important one since it is mandatory for all companies and employees in the private sector.

According to the labour law, there should be a General Collective Agreement for the public sector negotiated between the government and confederations representative in public sector. However, such an agreement has not been concluded in the last 10 years. Besides, most of the issues regarding salaries, allowances, vacancies and other parameters are now incorporated in different laws, thus affecting the freedom of collective bargaining and hampering social dialogue in general.

The government provided a 5 per cent increase in public sector salaries effective from September 2019; however the unions are not satisfied. SONK is calling for strike while the unions in the healthcare sector asked for additional negotiations.

In general, bilateral social dialogue is in stagnation. The negotiations for GCAs are not effective while on the branch level the situation is different among the different sectors: in some sectors employers are not organized, in others their associations avoid the dialogue. The collective bargaining process during the previous year was mostly occurring at the company level.

The level of labour productivity remains an obstacle for higher earnings in the private sector. The FDI scarcely created backwards links to domestic companies and resources are not moving from less-productive to more-productive companies. Indeed, most jobs are low paid and created in low-productivity sectors. Two serious issues hinder productivity and might have a long-term negative effect: a low level of investment in research, development and new technologies and an inadequacy of human capital, with the education system remaining rigid and inadequate to labour market demands. In such situation, employers cite a lack of skills as the main obstacle for doing business, complain about low productivity and pressure for higher performance. On the other hand, the workers complain about the pressure to do more with less personnel and increased risk to health and safety. The unions point to low wages as the main reason for a lack of interest for production skills of all types (operators, mechanics, locksmiths, welders, electricians, etc.).

The unions are still not gaining members. All new factories in so-called Technological-Development Zones remain unorganized. It is impossible to guarantee job protection to workers who would be proactive, after cases of terminating short-term contracts immediately after



showing an interest in union organizing. Legal provisions for immunity and protection of union reps during their mandate and two years after are applicable only in case of permanent job contracts. That is the main reason for unions' pressure for changes in the labour law with regard to the duration of period in which the short-term contracts will be repeated for the same worker in a company.

During the year some shifts of membership from one union to another were recorded, which do not contribute to elevation of union power on either side; rather to the contrary. There is no specific strategy or plan on how to approach and organize new members, although the membership density is decreasing. The government proposed a draft of a new law on unions and collective

bargaining, justifying it as effort to facilitate organizing and strengthening of union. The unions objected to the draft, being suspicious about the effects of such a law in the current environment and foreseeing opposite effects.

The Organization of Employers (ORM) gained some new members and expects organizing a few new branch associations. At the moment, ORM claims to have as members over 1,000 companies that employ over 70,000 employees, thus proving to be representative with members that employ over 19 per cent of all employees in the country.

## Tripartite social dialogue

Tripartite social dialogue was livelier in the reporting period. More stakeholders were invited to meetings of the Economic-Social Council (ESC) than just the members of the body (all trade unions and employers' organizations and some civil society organizations). On agenda of the ESC were all proposed laws and amendments that go into normal procedure in the parliament. However, if the law is brought in a summary proceeding, the social partners most often are not asked for their opinions.

The unions' and employers' side are represented at the highest level (top people of the organizations). On the other hand, on the government's side there should be ministers of labour, economy, finance and the vice prime-minister for economic issues. However, except for the minister of labour, who presides over the body, the other ministers do not attend personally at the ESC but

are represented by low-level administrators from these ministries. Such behaviour shows the attitude towards social dialogue in general and hampers effective dialogue. The ESC is designed as stage where the main leaders on behalf of the three social partners can directly exchange opinions, attitudes and positions on certain issues. In a country with underdeveloped social dialogue it is very important that the government shows and exercises the culture of dialogue as an important message for support and concern for its well-being. Perhaps some more positive energy in this process might generate better overall results.

The local ESCs remained inactive, still not recognizing the mutual benefit of activity and being dependent on personal attitudes towards dialogue of the involved participants.

## Forecasts

There are two possible forecast scenarios: if the agreement between Macedonia and Greece is effectuated (which means a change of the Constitution and naming the country as the Republic of North Macedonia), then negotiations with the EU will be opened in June 2019 and all reform processes will be fast-forwarded, no matter how painful and difficult. This is the scenario to which the government is firmly committed, making all possible political concessions, because the parliamentary majority is tiny, the change of the Constitution requires a two-thirds majority and the opposition has been clear in rejecting the agreement as counter to the national interests.

If the process of implementation of the agreement is not successful, nobody dares to make any forecasts, but it is clear that the country will be stuck in the accession process, all reforms will be at stake and external support will be lost.

## Annex - Information About:

### • Collective Bargaining System

The collective bargaining system was designed in the 1990s. It has been part of each Labour Code adopted since then (1994 and 2005).

The existing Law on Labour Relations stipulates three levels of collective bargaining: general (for the private and public sector, respectively); sectoral (branch) and company (for a single employer). The general collective agreements are signed by representative confederations of unions and employers associations (for the private sector) and by representative confederations of unions and the Minister of Labour (for the public sector). The sectoral (branch) collective agreements are signed by appropriate and representative unions and employers' organizations. The company collective agreements are signed between the (representative) union organization in the company and the CEO.

According to the law, all levels of collective agreements are independent. However, since the unions negotiate them at all levels, it is generally accepted and implemented that the next level can stipulate only broader rights than the previous. This means that the workplace level collective agreement usually stipulates the broadest rights for the covered workers.

So far in Macedonia, the General Collective Agreement for the private sector has been concluded. It expired in July 2017; however its provisions are applied until signing of a new agreement. The General Collective Agreement for the public sector has not been concluded yet, while several branch collective agreements both in the private and public sectors are in force, as well as many company collective agreements.

### • System of tripartite social dialogue

The system of tripartite social dialogue is administered through the Economic Social Council (ESC). The ESC is a consultative body established on the basis of agreement and composed of representatives of the social partners. The current ESC was established in September 2010 and now consists of 4 representatives of each social partner: unions (two representatives from SSM and KSS each), four from ORM (the only representative employers' association) and four from the government (represented by the ministries of labour, economy, finance and the vice-prime minister). The body is presided over by the Minister of Labour.

The ESC discusses and gives its opinion about issues according to the founding agreement. Although tripartite dialogue has improved significantly in the last five years, the dominant position of the Minister of Labour as the ESC's chairperson sometimes affects the operation and effectiveness of this body. It is common that issues within the ESC's domain are not discussed at all, to the dissatisfaction of both the union and employer social partners.

### • Social security systems

According to its Constitution, Macedonia is declared as a social country. Social security covers:

- employees who pay insurance contributions;
- retired persons;
- children and students whose parents are covered by insurance (until the age of 26);
- unemployed persons who are actively seeking a job.

Generally, only people with an unresolved citizenship or residency status are outside the system of social security.

However, the number of persons registered as insured (according to the state funds statistics) is not compatible with the number of people employed (based on a labour force survey). The number of insured persons who regularly pay insurance is 79 per cent (column 4/column 3) of the employed population, or 59 per cent of the active population. A portion of the active population is still in the education process; however the difference compared to labour force indicates the scope of the informal economy.



## Labour force covered by insurance

| Year | Labour force   | No. of employees (labour force survey) | No. of insured Persons |
|------|----------------|--|------------------------|
| 1    | 2              | 3                                      | 4                      |
| 2015 | 954,924 (100%) | 705,991 (74%)                          | 558,821 (59%)          |
| 2016 | 955,699 (100%) | 739,892 (77%)                          | 570,168 (60%)          |
| 2017 | 954,212 (100%) | 740,648 (77.6%)                        | 575,574 (60.3%)        |

Source: State Statistical Office; State Pension Fund

The contributions from the gross wage are at the moment 27 per cent (a decrease from 32 per cent in 2008). According to the Law on Contributions for Mandatory Social Insurance, the employee is the only entity obliged to pay the contributions (for all mandatory contributions; there is no distribution between the employer and employee), while the employer is obliged to calculate and pay the contributions on the employee's behalf. There is a minimum threshold for calculation of contributions at

a level of 50 per cent of the average gross wage in the country. The maximum limit for payment of contributions is sixteen times the average gross wage; for amounts above that only personal income tax is required. The personal income tax is a flat rate, at 10 per cent of net salary. Tax exoneration is calculated at the lump sum of four average net wages in the country per year (for all employees regardless of the level of income or marital and family status).

### • Health

The health insurance rate is 8 per cent from the gross wage. The health insurance system is based on solidarity but it works only for those insured persons who pay the fee regularly. A delay in payment of salaries, caused by problems on the employer's side, deprives the insured persons from health services. According to available

statistics, 1-4 per cent of employers do not pay salaries on time; hence their employees have problems with healthcare coverage. The healthcare system has been in constant reform for years. The insurance contributions do not cover the expenditures of the healthcare fund and it is in constant deficit.

### • Pensions

The pension insurance system relies on three pillars:

- state mandatory fund
- private mandatory fund
- private voluntary fund.

The insurance rate is 18 per cent of the gross wage, which is divided between the private and state obligatory funds: 33 per cent of the contribution goes to the private fund and 67 per cent to the state fund. The required age for retirement is 64/62 (men/women), and the ultimate age is 65 both for men and women. However, changes in the legislation (July 2014) allows all employees to voluntarily continue to work until 67. The years of service are important for the amount of pension: the full amount is paid if 40/35 years of service (men/women) are completed; if less/more, the pension is lower/higher proportionally. The Law on Pension and Insurance in Case of Disability regulates family and disability pension rights. At the moment the ratio is 1.85 (insured) employees to 1 retired person.

The average monthly pension is €224; the lowest pension is €140, while the highest paid amount is €789 (October 2017). The deficit in the State Fund is huge, amounting to 42 per cent in 2016 and is growing, due to a lowered contribution rate (and the low level of wages); a change of the system (with division of the contribution between the state and private fund), subsidies for new-created jobs, and creating mainly the lowest paid jobs. Urgent measures for preserving the sustainability of the pension system have been recommended by the World Bank.

- Insurance in case of unemployment

Unemployment insurance is obligatory. The contribution rate is 1.2 per cent of the gross wage and it is collected by the government's Agency for Employment. The fund is used for payment of unemployment benefits (maximum 12 months, unless a person is 18 months before retirement) as well as active measures for increasing of employment: subsidies, trainings, requalification, etc.

There is special protection for workers who are redundant in bankruptcies and privatization of state-owned companies. If unemployed, they are entitled to compensation through the State Agency for Employment until retirement.

- Education and vocational training

*Structure of labour force by education, second quarter 2018*

|  | % of labour force | % in unemployed population |
|--|-------------------|----------------------------|
| <b>No education, incomplete primary school and lower secondary education</b> | 19.4%             | 23.3%                      |
| <b>3 years secondary education</b>   | 8.9%              | 8.5%                       |
| <b>4 years secondary education</b>   | 47.0%             | 46.9%                      |
| <b>Higher (industrial college) level education</b>                           | 1.9%              | 1.6%                       |
| <b>Academic university level education</b>                                   | 22.8%             | 19.7%                      |

Source: State statistical office

The table shows the situation regarding the existing education structure of the labour force and unemployed population.

Lifelong learning is mentioned in long-term strategies for employment; however it is not an operational system. Though secondary education is mandatory, there is no career consultation or any guidance for the labour market situation and job perspectives for the students. Interest in education for industrial jobs is decreasing year after year and the interest in education for non-industrial jobs is rising (particularly for medical, economic or judicial education). The education system eliminated the apprenticeship model and practical work in industry for industrial-school students many years ago. This has had a prolonged negative impact in terms of further increasing (instead of decreasing) the need for re-qualification and the inability to get a suitable job.

On the other hand, industry needs a skilled (young) workforce that is not available in the current labour

market; hence, the structural nature of unemployment and the country's inability to cope with such a high unemployment rate. Active labour market policies also include measures for re-qualification and education. According to the annual reports of the National Agency for Employment, there are funds allocated for those purposes but they sometimes remain unused because of lack of interest. At the same time the employers complain that required skills are unavailable and all reforms of the system of education so far are just formal, not essential. The unions and employers are trying to influence the reform of legislation as stakeholders. However, there is no broader public discussion on this issue and stakeholders are practically not involved in the reform process.

- Employment rate

*Dynamics of Employment*

|                          | 2015    | 2016    | 2017    | 2018*   |
|--------------------------|---------|---------|---------|---------|
| <b>Active population</b> | 954,924 | 948,599 | 954,212 | 957,471 |
| <b>Employed</b>          | 705,991 | 723,550 | 740,648 | 755,073 |
| <b>Activity rate</b>     | 57.0    | 56.5    | 56.8    | 56.9    |
| <b>Employment rate</b>   | 42.1    | 43.1    | 44.1    | 44.9    |

Source: State Statistical Office \* Last published data: second quarter 2018

## Employed by economic status

| Year  | Employed total | %   | Employee | %  | Employer | % | Self-employed | %  | Unpaid family worker | % |
|-------|----------------|-----|----------|----|----------|---|---------------|----|----------------------|---|
| 2015  | 705,991        | 100 | 521,536  | 73 | 30,407   | 4 | 98,016        | 15 | 56,032               | 8 |
| 2016  | 723,550        | 100 | 552,941  | 76 | 34,768   | 5 | 92,681        | 13 | 43,163               | 6 |
| 2017  | 740,648        | 100 | 564,964  | 76 | 33,239   | 5 | 95,475        | 13 | 46,970               | 6 |
| 2018* | 755,073        | 100 | 569,350  | 75 | 30,497   | 4 | 108,081       | 14 | 47,144               | 6 |

Source: State Statistical Office

\* Last published data: second quarter 2018

## • Unemployment rate

|                              | 2015    | 2016    | 2017    | 2018*   |
|------------------------------|---------|---------|---------|---------|
| <b>Labour force</b>          | 954,924 | 948,599 | 954,212 | 957,471 |
| <b>Unemployed</b>            | 248,933 | 225,049 | 213,564 | 202,398 |
| <b>Unemployment Rate (%)</b> | 26.1    | 23.7    | 22.4    | 21.1    |

Source: State Statistical Office

\* Last published data: second quarter 2018

The situation among young population (age 15-24) for the same period is shown in following table:

| Population 15-24             | 2015    | 2016    | 2017    | 2018*   |
|------------------------------|---------|---------|---------|---------|
| <b>Labour force</b>          | 93,425  | 85,945  | 88,994  | 84,205  |
| <b>Employed</b>              | 50,146  | 44,493  | 47,075  | 44,136  |
| <b>Unemployed</b>            | 43,279  | 41,451  | 41,919  | 40,070  |
| <b>Inactive</b>              | 188,976 | 188,498 | 178,371 | 175,750 |
| <b>Unemployment Rate (%)</b> | 46.3    | 48.2    | 47.1    | 47.6    |
| <b>Activity Rate (%)</b>     | 33.1    | 31.3    | 33.3    | 32.4    |

Source: State Statistical Office

\* Second quarter 2018

Although decreasing in the previous three years, the unemployment rate for young people is still very high and the labour market is non-functional. The high rate of unemployment among young people (around 50 per cent) as well as the low activity rate of women in the workforce are structural problems that need to be addressed in a strategic way. The low activity rate among the young population is due to mandatory secondary education. There is an inappropriate education and skill structure and a mismatch between the education system and the needs of the labour market.



- Average monthly salaries

*Monthly average gross wage by activity sector (in €\*\*)*

|                    | 2015 | 2016 | 2017 | 2018* |
|--------------------|------|------|------|-------|
| <b>Total</b>       | 523  | 534  | 548  | 574   |
| <b>Agriculture</b> | 374  | 399  | 416  | 452   |
| <b>Industry</b>    | 551  | 584  | 601  | 644   |
| <b>Services</b>    | 576  | 591  | 614  | 639   |

Source: State Statistical Office

\* Last published data average wages I-IX/2018; State Statistical Office

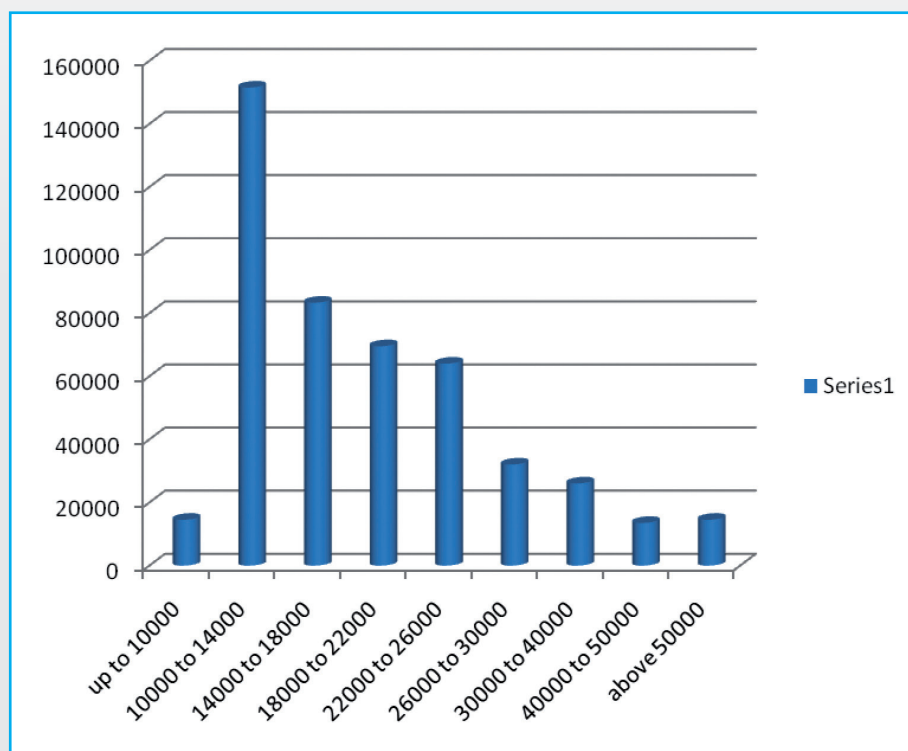
\*\* Own calculations in €, by mid-point exchange rate

Nominally wages increased 5.5 per cent for the first 9 months of 2018; real wages increased 3.9 per cent.

The amounts presented as the average salary in industry are particularly controversial. For instance, the average gross salary for the overall industrial sector is reported to be €644 while in the same statistical publication the average salary for the manufacturing industry is reported to be €472. If the manufacturing sector employs 90 per cent of all workers in industry, how can the average for the Industry be so high?

The State Statistical Office does not publish information for the median income. According to data on structure of employees by level of salary, the median gross salary would be between €427 and €457, which would make the median income 13 to 22 per cent lower than the published average gross salary. This shows that the gap between the median and average gross salary has somewhat contracted in 2017 compared to 2016 (then it was 25 per cent), which is due to the increase of the minimum salary by 19 per cent since September 2017.

*Structure of employees by level of net salary (in MKD)*



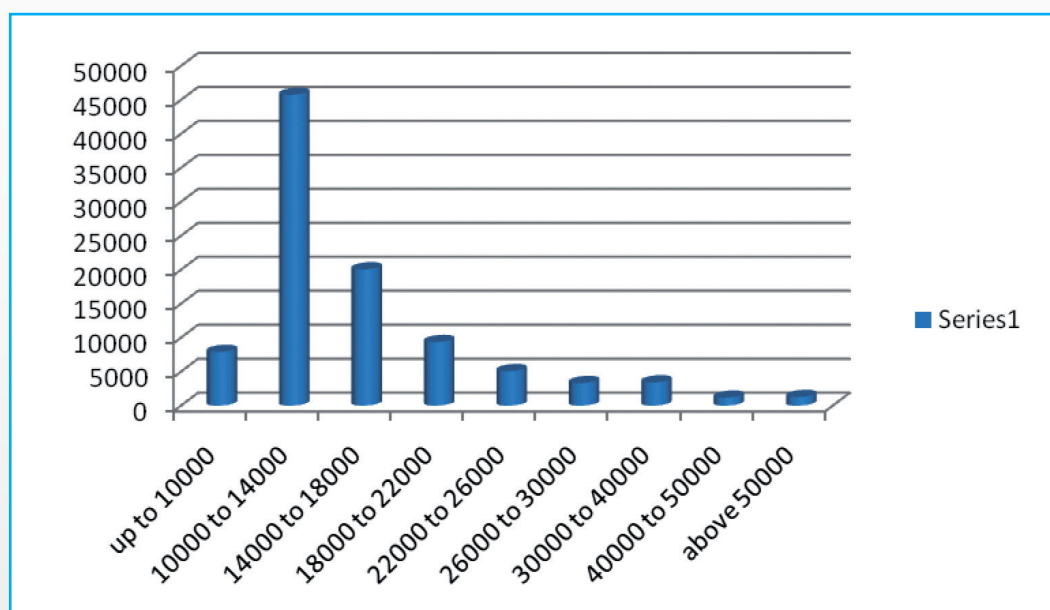
Source: State Statistical Office

The chart above shows the structure of employees according to the net salaries in 2017. The highest peak shows that most workers earn net salaries between €164 and €228 (MKD 10,000-14,000) – mainly in agriculture, textile and some other manufacturing industries as well as construction workers. From the total statistical population, 9.6 per cent earned less than the minimum salary in 2017; however, the statistics show annual data while the minimum salary was increased from MKD

10,000 to 12,000 since September 2017. In any case, 62 per cent of the employees earn less than average, while 38 per cent of employees earn more than average salary. The average salary is fairly low itself. Therefore, the percentage of employed persons that are at the at-risk-of-poverty threshold is 9 per cent.

The structure of salaries in the sector of manufacturing industries is shown in the chart below.

*Structure of employees in Manufacturing industries by level of net salary (in MKD)*



Source: State Statistical Office

This chart best illustrates the level of salaries in the private sector, where the largest group earns between MKD 12,000 and MKD 18,000 while 14 per cent of employees earn less than the minimum salary (up to MKD 12,000).

On the other hand, SSM is calculating and publishing monthly the average sum of living costs for family of four (two adults and two children of school age). The sum

of money necessary to cover the living costs is almost unchanged in the last five years and is around € 530. This means that a family with two employees who earn lower than the average net salary (and according to the statistics it is almost two-thirds of employees) practically cannot cover the minimum living costs for their families.

## • Gender pay gap

There is a gender pay gap, officially confirmed by the State Statistical Office. The situation is best illustrated by examining the structure of earnings by occupation and gender (given in national currency). The table shows that the gender pay gap varies from -4 per cent to -46 per cent. Apparently, the gender pay gap has broadened compared to the previous observed period, where the differences were from +2 per cent to -34 per cent.

Actually, the differences are biggest in occupations where women are less frequent. If looked at in a more-detailed table with 39 types of occupations, there are only three occupations where women are paid better than men: as administrative and commercial managers; as legal, social and cultural associates; and as office and service clerks.

## Structure of average 4-year gross earnings by occupation and gender 2014 (in MKD)

|  | <b>Total</b> | <b>men</b> | <b>women</b> | <b>Difference</b> |
|--|--------------|------------|--------------|-------------------|
| Managers   | 799795       | 828928     | 745948       | - 11%             |
| Professionals and scientists                       | 545022       | 611053     | 493116       | - 24%             |
| Technicians  | 412758       | 426929     | 395838       | - 8%              |
| Clerical support workers                           | 346527       | 353867     | 339480       | - 4%              |
| Service and sales workers                          | 264295       | 295208     | 217501       | - 36%             |
| Skilled agricultural, forestry and fishery workers | 244967       | 252118     | 203190       | -24%              |
| Occupations for non-industrial work in production  | 270975       | 300882     | 205445       | - 46%             |
| Plant and machine operators                        | 270222       | 295995     | 219887       | - 34%             |
| Elementary occupations                             | 239745       | 271920     | 201662       | - 35%             |

Source: Agency of Employment, annual reports

Unfortunately, more recent data has not been published by the State Statistical Office.

## • Monthly minimum salary

The Law on Minimum Salary was adopted in January 2012. The minimum salary was established as a percentage of the average wage in the country (39.6 per cent, contrary to the OECD recommendations). In February 2014 the law was amended and the minimum salary was given in a net fixed amount for 2014 (€144), 2015 (€156), and 2016 (€164). With the last amendments, since September 2017 the minimum salary is a net amount of MKD 12,000 (€195) or gross amount of

MKD 17,130 (€279) per month. According to the law, the minimum salary should rise annually for a one-third increase of the GDP, one-third of the rise in costs of living and one-third of the rise of the average salary. With regard to that provision, the minimum salary was moved upwards to €198 net and €283 gross.

| <b>Year</b> | <b>Minimum net</b> | <b>Minimum gross</b> | <b>Average net</b> | <b>Average gross</b> |
|-------------|--------------------|----------------------|--------------------|----------------------|
| <b>2015</b> | 156€               | 231€                 | 357€               | 523€                 |
| <b>2016</b> | 164€               | 240€                 | 363€               | 534€                 |
| <b>2017</b> | 195€*              | 279€*                | 370€               | 548€                 |
| <b>2018</b> | 198€**             | 283€**               | 391€***            | 574€***              |

Source: State Statistical Office; Law on Minimum Wage

\* After IX.2017

\*\* After VII/2018

\*\*\* Last published data I-IX.2018

## • Actual weekly working hours

Actual weekly working hours are 37.5 as the one-half hour daily break is considered as part of the regular 40 working hours per week. Collective agreements have no different stipulations. The law provides the possibility for shorter working hours on more physically-demanding and risky jobs; however this possibility is not enforced in practice. Overtime is legally limited to a maximum of

8 hours per week and 190 hours per year. An employee who performed more than 150 overtime hours in the year (and was not on sick leave more than 21 days) is entitled to a bonus in the amount of one average month's salary. In spite of all limitations, actual overtime work is much longer than limited by law and workers generally do not complain because it is a way to earn higher income.



- Normal work / atypical work

| Year | Number of contracts | %   | Standard Contracts | %    | Atypical contracts | %    |
|------|---------------------|-----|--------------------|------|--------------------|------|
| 2014 | 178,115             | 100 | 81,370             | 45.7 | 96,745             | 54.3 |
| 2015 | 189,807             | 100 | 90,691             | 47.8 | 99,116             | 52.2 |
| 2016 | 184,877             | 100 | 84,805             | 45.9 | 100,072            | 54.1 |
| 2017 | 185,237             | 100 | 76,317             | 41.2 | 108,920            | 58.8 |

Source: Agency of Employment, annual reports

Atypical work most often takes the form of short-term employment contracts (from one month duration and upwards) regardless whether it is for regular or seasonal work. The Labour Code permits the employer to repeat the short-term contracts for an employee up to five years, after which transformation into a standard contract is

mandatory. Employment through agencies for temporary employment does not prevail. The number of agencies is declining; perhaps there were too many in a small market space. The number of contracts per year is more/less stable, which is shown in the following table:

#### *Contracts concluded by Agencies for Temporary Employment*

| Year  | Number of contracts | Number of agencies |
|-------|---------------------|--------------------|
| 2015  | 73,785              | 19                 |
| 2016  | 71,550              | 17                 |
| 2017  | 70,301              | 17                 |
| 2018* | 52,472              | 19                 |

Source: Association of Agencies for Temporary Employment  
\*7 months of 2018

- Migration

Only external migration (from Macedonia to other countries) is reported here. The number of persons that emigrated is as follows:

| Year                | 2014 | 2015 | 2016 | 2017 |
|---------------------|------|------|------|------|
| Number of emigrants | 740  | 767  | 440  | 141  |

Source: State Statistical Office

The official statistics is not worth considering because the real-life situation is much different. External migration has an enormous dimension; that is the general public opinion. Young people and skilled workers emigrate on a daily basis. The number of pupils in schools is rapidly decreasing. Since the population census was not enforced in 2011 it is difficult to check the accuracy of these figures. Unofficially, the brain drain is severely progressing, particularly among the young and the highly-educated population who are leaving the country for better perspectives abroad.

## • Collective agreement coverage

By amending the Labour Code in November 2009, General Collective Agreements became mandatory for all employers in the private and public sectors. Therefore, by power of the law the coverage became universal or it is considered that workers in the private sector are 100 per cent covered by a collective agreement.

However, the enforcement of the General Collective Agreement is an issue, particularly for small companies with unorganized workers. There are strong indications that many employers do not respect the provisions of

the agreement, abusing the weak control by Labour Inspection, while the unorganized workers mostly do not report violations anyway. Therefore, the coverage is (dejure) universal but this statement (defacto) is not fully accurate. The GCA for the public sector is not yet concluded; therefore employees in the public sector are covered by a collective agreement if there is one for the branch. Branch collective agreements are concluded for a few sectors: public health, police forces, and employees in the army, while for education and public servants in administration the agreements are re-negotiated after expiry.

## • Ongoing important collective bargaining agreements

The General Collective Agreement for the private sector expired in July 2017. However, due to extraordinary circumstances the social partners did not enter negotiations for extending or amending the agreement. That is expected in 2018. Meanwhile, the provisions are fully implemented, since the labour law has strict regulation for such situations.

No significant events were recorded at the branch/sector level.

At the workplace/employer level collective agreements are signed or amended regularly if, of course, the workers are organized.

## • Trade union density

Trade union density is declining. Under the law, representativeness is determined based upon the number of members who pay the fee out of their salaries, thus excluding the members who pay from their own accounts or are exonerated for different reasons (mainly because they do not earn a regular wage). For this reason it is also impossible to keep as members people who lose their jobs or retire. Overall, the unions sometimes count more members than is taken into account when establishing representativeness. In 2017 new figures were published for the unions in health&social care; forestry&wood industry and for construction. The national federations SSM and

KSS remain representative on the national level: SSM in both the private and public sector, while KSS only is representative in the public sector.

The national federations SSM and KSS were representative on the national level: SSM in both the private and public sectors, while KSS is only representative in the public sector. However, the confirmation of representativeness is required every three years and in 2018 there were no re-confirmations.

The density by the most important sectors is as follows:

|  |     |
|--|-----|
| ○ Agriculture, tobacco and food industry | 22% |
| ○ Construction                           | 11% |
| ○ Education and science                  | 62% |
| ○ Mining, metal and electro industry     | 30% |
| ○ Water supply and garbage disposal      | 72% |
| ○ Police forces                          | 63% |
| ○ Health and social care                 | 27% |
| ○ Public and judiciary administration    | 60% |
| ○ Forestry and wood industry             | 40% |

Mainly in the private sector, more bankruptcies of companies in the last two years occurred, as well as redundancies, thus weakening the main unions organized in the private sector. All new employers are offering only short-term contracts and it is very difficult to organize those workers.

- Employer's organizations density

The Organization of Employers of Macedonia (ORM) has again proved its representativeness with membership of employers that engage 19.6 per cent of the employees on the national level (according to the Labour Code, the representativeness is counted only on the basis of number of employees; information on the number of employer members of ORM is not publicly disclosed). There are 15 branch associations organized within ORM.

There is also the Confederation of Employers of Macedonia, which has not applied to establish representativeness; hence, there are no data on density regarding this organization. This organization has mostly micro and small companies as members.

- Workplace representation

There was no change in the workplace representation situation during the observed period. Therefore, there is not any form of participation and co-determination by the example of EU practices (e.g. Works Councils). Therefore, workplace representation is covered by a trade union organization in the company. If workers are organized, there is a local union organization at the employer's site and the board of shop stewards (elected by the members) is responsible to negotiate, communicate with the management and workers, speak up on behalf of the workers, observe the implementation of laws and collective agreements, to react in case of violations and/or non-implementation of the legislation (regulation), and so forth.

However, the trade union acts only on behalf of its members (not all employees). According to the law, the employer will address the trade union for issues that require information and consultation. If there is no local union organization at the employer (which is most typical for many small private employers) then there is practically no workplace representation. This is the situation so far. The demands of the unions go into a direction of legal changes that would provide a system of participation and co-determination for smaller employers.





## • Trade Union Mapping

### ◦ National Trade Union Confederations:

1. Sojuz na sindikati na Makedonija - SSM; Trade Union Federation of Macedonia (64,000 members –figure from 2013), affiliated to ITUC and ETUC in 2013; 17 branch unions.
2. Konfederacija na slobodni sindikati na Makedonija - KSS; Confederation of Free Trade Unions of Macedonia (figure of members to be disclosed), application for membership in international associations; 10 branch unions; affiliated to ETUC.
3. Unija na avtonomni sindikati na Makedonija - UNASM; Alliance of Autonomous Trade Unions of Macedonia; no data for membership; 5 branch organizations; member of ITUC.
4. Konfederacija na sindikalni organizacii na Makedonija – KOSOM; Confederation of Trade Union Organizations of Macedonia; no data for membership; 2 branch unions; no data on international membership.

### ◦ Trade Union Federations by branches:

1. Sindikat na industrija, energetika i rudarstvo na Makedonija - SIER; Trade Union of Industry, Energy and Mining of Macedonia (SSM), 6,500 members; member of IndustriAll-global and IndustriAll-EU.
2. Sindikat na rabotnicite od agroindustriskiot kompleks na R.M. - Agro Sindikat; Trade Union of Workers from the Agricultural, Water, Tobacco and Food-Processing Complex of the Republic of Macedonia; (SSM) 6,500 members; member of IUF/EFFAT;
3. Sindikat za gradeznistvo, industrija i proektiranje na RM - SGIP; (SSM) Trade Union of Civil Engineering, Industry and Planning of Macedonia, 6,000 members; member of BWI and IndustriAll-global;
4. Sindikat za obrazovanie, nauka i kultura na Makedonija- SONK, Trade Union of Education, Science and Culture of Macedonia; (KSS) 26,000 (figure from 2014) members; member of EI;
5. Samostoen sindikat za zdravstvo, farmacija i socijalna zaštita na RM; Autonomous Trade Union of Health Care, Pharmaceuticals and Social Work; (SSM) 10,000 members; member of EPSU/PSI.
6. Makedonski policiski sindikat - MPS; Macedonian Trade Union of Police Force (SSM); 12,000 members; member of PSI;
7. Sindikat na vrabotenite vo uprava, pravosudstvo i zdruzenija na gradjani - UPOZ; Trade Union of Employees in Administration, Judiciary and Civil Associations (SSM); 6,500 members; member of PSI/EPSU;
8. Sindikat na rabotnicite od ugostitelstvo, turizam, komunalno-stanbeno stopanstvo, zanaetnistvo i zastitni drustva na RM –SUTKOZ; Trade Union of Workers in Catering, Tourism, Communal and Housing Economy, Handicraft and Protecting Associations of Macedonia (SSM); 6,500 members; member of PSI, IUF, PSU, EFFAT.

## • Employer's Organisations

1. Organizacija na rabotodavači na Makedonija - ORM; Employers' Organization of Macedonia; (figure of members to be disclosed); member of SEEFF;
2. Konfederacija na rabotodavači na Makedonija - KERM; Confederation of Employers of RM; no data for membership (collective, like National Federation of Agencies for Temporary Employment, and individual); member of a few European and SEE employers' associations (no further data).



# Annual Review 2018

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