THE IMPACT OF THE PANDEMIC ON THE LABOR MARKET IN THE WESTERN BALKANS

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Abstract

This paper aims to research the impact of COVID-19 on the labor markets in the Western Balkans to close a gap in the literature (Bartlett & Oruc, 2021). This research focuses on available data and analysis with the overall goal of providing a comprehensive picture as well as identifying potential gaps in knowledge. Results of the analysis show that the pandemic has directly affected the labor market in almost all countries of the world. In the Western Balkans, more so than in other developed countries, the restriction of movement has caused a drastic drop in business activities (Bartlett, 2021). To that end, a considerable number of businesses closed down, and a large part of citizens suddenly became unemployed. The results of this analysis reveal that the number of workers in the informal economy has increased. In addition, wage-cutting practices reported during the pandemic are likely to continue even further. Based on these circumstances, the states of the Western Balkans were forced to take the necessary legislative measures, or other measures, to provide or organize in the appropriate scope to overcome the emergency crisis.

Keywords: Pandemic, Labor Market, Unemployment, Overcoming the Pandemic

Authors’ individual contribution: Conceptualization — M.B. and S.I.; Methodology — M.B.; Formal Analysis — M.B.; Investigation — M.B. and S.I.; Data Curation — M.B. and S.I.; Writing — Original Draft — M.B. and S.I.; Writing — Review & Editing — M.B.; Visualization — M.B.; Supervision — M.B.; Project Administration — M.B. and S.I.

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1. INTRODUCTION

The COVID-19 crisis, as it hit the whole world, also hit the Western Balkans such as Kosovo, Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia at the beginning of 2020. At the beginning of January 2020, a number of cases were reported along with the first deaths. As a result of these developments, a number of restrictions were applied rapidly which includes but were not limited only to economic and profit-generation activities. Such restrictive measures began being applied from late February up until the beginning of April when total isolation measures were applied. While the impacts of the pandemic were evidently noticed across all economies and regions, first studies generally reported that the vulnerable economies were suffering the most from the pandemic (Fana, Torrejón Pérez, et al., 2020).

The purpose of this study is to provide an overview of the impact of the COVID-19 pandemic on the labor market in the Western Balkans. It aims to highlight the actions taken by relevant institutions caused by the COVID-19 pandemic to improve the labor market. Because work is a product, all human beings have the right to pursue their material well-being, economic security, and equal opportunities (ILO Constitution, n.d.). Similar to other parts of the world, the pandemic became a detrimental factor to the already struggling economies of the Western Balkan countries. To that end, the economies were reported...
to have hit a recession, while in the meantime welfare services were halted and the governments generally became unresponsive to the critical and ever-growing needs of their citizens (The World Bank, 2020a, 2020b). Since the beginning of the COVID-19 pandemic in March 2020, movement restrictions and the development of economic activity had a great impact on the economy, especially on the labor market; the employment rate, unemployment, as well as the circulation of businesses in certain industries had significant fluctuations like a crisis that we have never seen before and therefore there is great uncertainty in the impact on people’s lives (Gap Institute, 2021).

With the onset COVID-19 crisis, the economies and labor markets of the Western Balkans faced a severe blow and at the same time, they also faced the health crisis, the financial crisis, as well as the labor market. Since the labor market is a complex structure of many related parties such as governments, workers, enterprises, suppliers, consumers, banks, and other institutions, etc. An unexpected stop creates a chain reaction, which can be observed on an individual level, but will be followed by collective damages. This alarming situation becomes clearer when considering the main indicators of the economy as well as the insufficient measures taken during this period by the governments. The pandemic crisis has increased unemployment and thrown even more workers into the informal economy. These circumstances that were created by the pandemic situation, which affected layoffs or salary reductions, have also been identified by the companies themselves as a strategy to face the crisis (Secretariat of the Investment Council, 2020). From this point of view, it is required from the governments to curb the pace of economic decline. For this reason, it will be very important to prohibit the reduction of wages by law and to revise the minimum wage as quickly as possible, so that it plays the right role in alleviating poverty and inequality (Xhafa & Kuçi, 2020).

Considering the already fragile labor market in the Western Balkan countries, it is important to review the impact of the pandemic on these labor markets. This paper aims to explore the issue. The main research question of this study is:

**RQ: Building on existing data, how was the labor market in the Western Balkans affected by the pandemic, and how has it adjusted?**

It focuses on analyzing existing data and provides a larger picture of the impact on the Western Balkan as a region. The main findings of this analysis reveal that unemployment has risen significantly, while the number of people working in the informal economy has increased, suggesting that businesses have adjusted in an attempt to avoid closure.

This paper is structured as follows. Section 1 is the general introduction. Section 2 is the literature review, which provides an overview of what the literature suggests and what gaps remain unaddressed. Section 3 provides information on the research methodology and approach of this paper. Section 4 presents the findings of this research. Section 5 discusses the results and Section 6 provides the final remarks and limitations of the present research.

### 2. LITERATURE REVIEW

The COVID-19 pandemic generally had a negative impact on employment perspectives (Shibata, 2020). In general, labor markets around the globe have been impacted by the pandemic, and studies immediately document significant declines in gross domestic product (GDP) growth. In addition, studies also documented increased unemployment rates as well as a decrease in the standards (Mashovic & Dragićević Radićević, 2022).

As for the labor markets in the Western Balkans, there have been significant changes as a result of COVID-19. The economic effects of the pandemic were quite severe, predicting an enormous increase in unemployment in the Western Balkans (Bellaqa, 2020). Globally, many workers who did not lose their jobs faced reduced working hours, wage cuts, and loss of bonuses (Mashovic & Dragićević Radićević, 2022).

The impact of COVID-19 in the Western Balkan region was the strongest at its initial stage in 2020 but its impact continued through 2021 as well (Bartlett, 2021). The economies of the Western Balkans have been more vulnerable to the epidemic and are more likely to have a continuing impact on the employment market (Fana, Torrejón Pérez, et al., 2020; Fana, Tolan, et al., 2020). For this reason, it is important to conduct an analysis of COVID-19 on the labor market in the Western Balkans (Bartlett & Oruc, 2021). In these circumstances, the impact of the recession on the labor market in the Western Balkans countries (Kosovo, Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia) has been analyzed. The aim is to perceive and determine how these countries have faced the challenges related to the increase in the unemployment rate, the change in the average annual increase in real minimum wages, and the need to take social protection measures. In this way, it focuses on two areas:

1. Analyses of the impact of the pandemic recession, the press refers to the significant increase in the unemployment rate.
2. Analyses of changes in the average annual growth of real minimum wages in the Western Balkan countries, emphasizing the importance of appropriate measures for social protection to reduce the current shocks in the labor market (Mashovic & Dragićević Radićević, 2022).

Before January 2020, Western Balkan economies shared a number of similarities among which were the low activity rates (2019, 59.5% in Kosovo and 39.6% in Albania), high unemployment rates (2019, 10.4% in Serbia, 25.7% in Kosovo), lower employment opportunities, and a flourishing informal employment structure which was detrimental to the establishment of a functional legal employment practice. In comparison, according to The World Bank (2020a, 2020b), the European Union (EU) labor market had an employment rate of 73.1% and an unemployment rate of 8.3%, which is significantly lower compared to unemployment rates in the Western Balkan region. These unemployment rates have increased mainly because there were low participation rates in the labor force, in particular women and young people failed to participate in desired percentages. In addition, a large percentage of this unemployment rate in the Western Balkans is a direct result of an informal labor market (Bartlett & Oruc, 2021).
The developments in the labor market due to the pandemic were particularly detrimental to young job seekers. According to The World Bank (2021a), average unemployment in 2020 was 12.9% which was a decline from 13.5% of reported average unemployment in 2019. However, compared to 2019, in 2020 the unemployment of young people increased to 33.6%. While in other Western Balkan countries unemployment rates had declined by the end of 2020, no progress was reported for Montenegro and Albania. There were a number of measures applied by the respective governments to prevent the impact of COVID-19 on the economy. In North Macedonia, while unemployment began to increase and reached 16.7%, the government developed a subsidy program that rapidly decreased the unemployment rate to 16.4%, which also happened to be lower compared to the reported unemployment rate of 2019 which was 17.5%. In comparison to other countries, Serbia turned out to have a more resilient economy, with an unemployment rate of 9% in 2020, while unemployment among youth increased to 32.4% which happened to be higher than the highest reported rate in 2018. The government in Montenegro offered one-time cash incentives to help with job loss, but the people who were already working in the informal economy did not receive the necessary support. Finally, in Kosovo, unemployment increased significantly because many informal workers reported being unemployed to claim benefits in the time of the COVID-19 pandemic.

Table 1. Range of search items

<table>
<thead>
<tr>
<th>COVID-19 pandemic</th>
<th>Western Balkan economies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment</td>
<td>Impact of COVID-19 on Western Balkan economies</td>
</tr>
<tr>
<td>Job loss</td>
<td>New unemployment rates</td>
</tr>
<tr>
<td>Mitigation measures</td>
<td>Government measures</td>
</tr>
<tr>
<td>Impact of closure</td>
<td>Financial support</td>
</tr>
<tr>
<td>Impacts on businesses</td>
<td>Employment opportunities</td>
</tr>
</tbody>
</table>

3.2. Criteria of inclusion

Considering that the search produced a rather large number of articles and reports, it was evident that not all of them were relevant to the topic of research. Therefore, it was important to consider the criteria for inclusion which in this research were

<table>
<thead>
<tr>
<th>Inclusion criteria</th>
<th>Examples of application</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevant to the topic</td>
<td>Articles/reports had to be directly linked to the topic</td>
</tr>
<tr>
<td>Peer reviewed</td>
<td>Articles must be from peer-reviewed journals, in cases of reposts, from well-established organizations</td>
</tr>
<tr>
<td>Design of studies</td>
<td>Qualitative and/or qualitative</td>
</tr>
<tr>
<td>Geography</td>
<td>Articles and reports specifically focusing on the Balkan region</td>
</tr>
</tbody>
</table>

3.3. Ethical issues

Several ethical issues are important to be considered in desk research, similar to other types of research. To that end, it was made sure that the information was obtained lawfully, that all information was reported accurately, and last but not least that confidentiality principles were respected.

While there are studies analyzing the impact of the pandemic in different countries of the Western Balkans, there is no study that analysis the general impact on the region. To that end, by analyzing available data for the region, this paper aims to address an existing gap in research output.

3. RESEARCH METHODOLOGY

This article examined the impact of the COVID-19 pandemic on the Western Balkan labor market. The first step in this work has been to conduct a systematic literature review. This search was initially focused on journal databases, where several key journals were identified. In the second step, research with the keywords was conducted in the databases of national and international organizations (i.e., The World Bank). The research was conducted in the time frame September 2021 to June 2022 and it resulted in a total of 11 reports for the region that were relevant for this analysis.

3.1. Search

The search was conducted using the terms presented in Table 1 below. There were general terms associated with the COVID-19 pandemic such as unemployment, job loss, measures, and impact on businesses. The results were then filtered using terms that were specific to the Western Balkan countries.

4. RESULTS

4.1. Crisis response measures by Western Balkan governments

Economies in the region were seriously affected by the pandemic due to the shutdowns that affected the supply of goods and services, as well as travel and mobility restrictions that significantly affected labor markets in the region. To reduce the impacts
on labor markets, governments took political measures to preserve jobs by providing support to businesses affected by closures and the general collapse of trade, including in particular industrial tourism (Bartlett, 2021). The governments of the Western Balkans have adopted a wide range of responsive measures under social protection policies aimed at supporting formal sector workers, the unemployed, the poor, and the elderly, which we will examine below. Some of these measures (such as wage subsidies) may be valuable policy instruments in the short term, but remain quite costly and may be less effective as long-term response measures. Consequently, it will be important that this combination of policies changes and adapts along the reaction phases of the Western Balkan countries that have implemented measures to encourage enterprises to preserve or create job places. A month after the implementation of the lockdown and restrictive measures across the region, all the governments of the region had adopted several support programs to save jobs and firms. In addition to health protection measures, fiscal relief, guarantee schemes, subsidized credit lines, and social assistance measures, there have also been measures to save jobs through partial or full compensation of wage costs, as well as payments of higher unemployment rates with eased benefit criteria (Bartlett & Oruc, 2021). There are many workers who claimed benefits from the policies being implemented especially to help with job retention at the beginning of the pandemic. These job retention policies were rather popular measures among the Western Balkan region, other measures being implemented to help workers were reduced working hours while also reducing the administrative requirements towards benefit claims. The governments of the Western Balkans (Kosovo, Montenegro, North Macedonia, and Serbia) have provided wage subsidies to support employment. In Serbia, the government covered three-month wages for micro, small, and medium enterprises (MSMEs). In large enterprises, all employees whose contracts have ended due to the crisis have been paid 50% of the minimum wage. In Kosovo, monthly salaries were covered for April and May with a value equal to the minimum wage, a measure which is calculated at 41 million euros. In North Macedonia, wages have been subsidized, in the amount of the minimum wage for 9,000 craft workers and about 250,000 employees of private sector firms, which register at least a 30% drop in income due to the crisis. In Montenegro, the government has subsidized wages for two months in the amount of 100% of the minimum wage for all firms in the affected sectors, as well as a six-month wage subsidy for newly declared employment in all sectors, to encourage the formalization of employment (United Nations Development Programme [UNDP], 2021). Against these measures, unemployment continued to fall throughout the Western Balkans, reaching a new historic low in all countries. Despite these improvements, unemployment rates in the region remain high compared to EU counterparts (The World Bank Group, & The Vienna Institute for International Economic Studies, 2020). The losses from the pandemic recession in the Western Balkans are greater compared to the losses recorded during similar periods to any other modern crisis including the global financial crisis of 2007–2009 (Mashovic & Dragićević Radević, 2022). Labor markets have been severely affected by the COVID-19 crisis, due to the lockdowns and isolation implemented by governments. In conclusion, according to Bartlett and Oruc (2021), the pandemic resulted in significantly fewer economic activities, more unemployment, shorter working hours, and consequently lower income, this was evident in all Western Balkan countries (Bartlett & Oruc, 2021).

4.2. Unemployment rates in the Western Balkans

Labor force participation rates remained low across the region, especially for women, and the youth unemployment rate reached 33.2% at the end of 2021 and remains high (The World Bank, 2022a). The contraction of employment in the Western Balkans is already visible. Data on the progress of the labor market show that the largest annual increase in the number of unemployed people until 2020 has occurred in Albania, which increased by 25%, and in North Macedonia, by 11%.

Figure 1. Unemployment levels at the end of 2020

![Unemployment levels at the end of 2020](image1)

Figure 2. Decrease in job opportunities in the Western Balkan countries

![Decrease in job opportunities in the Western Balkan countries](image2)
This partly reflects the regularization of informal workers who are registered to benefit from health insurance and other social payments. Except for Serbia and Kosovo, administrative data on unemployment have begun to show an annual increase in the number of unemployed people. In the following months, there were about 63,000 people newly registered to the employment offices. Also, in the first quarter of 2020, data on vacancies for Montenegro show a decrease of 75%, and for Serbia a decrease of 48%, which indicates a further deterioration of the situation in the labor market. Work in the future (Organization for Economic Co-operation and Development [OECD], 2020). At the beginning of the pandemic in March 2020, the number of registered unemployed in the Western Balkans was 1.22 million, while as a result of the coronavirus up to November 2020 it had increased to 1.4 million, which represents an increase of 14.5%. Despite the differences between the economies of the Western Balkans, it is more than obvious that jobs have been hit hard. It is more important that the authorities do not divert attention from such long-term challenges as acute labor shortages.

5. DISCUSSION

The COVID-19 shock and its effects caused stress, unemployment, and instability in labor markets, but prompted a strong response by urgently responding governments to mitigate the consequences of COVID-19 as much as possible. It is important to note that if these problems of productivity and new capital generation are to continue, it is possible that the ultimate result will be a long-term recession. However, pandemic outbreaks are not new to humanity, and as such previous outbreaks have also hit the labor market and the economy in general. In the specific case of the COVID-19 pandemic, which in many ways is unlike any other previous pandemic outbreak, much of the economic recovery depends on how unpredictable the consequences of this pandemic are (Vardari, 2022).

The findings of this paper are particularly important as they show that the Western Balkan countries face similar challenges, which may be due to the fact that these countries are more or less in a similar stage of their development. To that end, the analysis also reveals that these countries will face the impact of the flourishing informal economy that emerged as a result of the pandemic COVID-19. Finally, the paper has several limitations. This study builds its conclusions by using secondary sources and not gathering new data. Additionally, the data available is quite limited which has also impacted the overall conclusions of this paper.

The economies of the Western Balkans, such as Kosovo, Montenegro, Albania, Bosnia and Herzegovina, North Macedonia, and Serbia, experienced a new economic growth of 7.4% in 2021, as the region begins to emerge from the review of 2020. The countries of the Western Balkans will need careful supportive policies to manage these crises effectively and to preserve important gains. The COVID-19 pandemic has forced businesses to re-evaluate the way they operate, as well as to see from a new perspective what the future labor market will look like. Thus, the labor market is slowly improving, but high youth unemployment calls for political intervention. Despite real growth, employment improved only slightly; unemployment remains high and is particularly high among young people. Employment and labor force participation have not yet reached their pre-pandemic levels, despite the strong growth output (The World Bank, 2022).

The high unemployment rate in the Western Balkans can increase workers’ concerns about job insecurity, which can harm their well-being and health and create anxiety, stress, and depression (Liang et al., 2022). Despite these difficulties, the countries of the Western Balkans can expect only moderate growth between 2021 and 2023 as the damage caused by the COVID-19 pandemic will continue to reduce investment and employment.

In particular, the pandemic has disrupted the work of SMEs which similar to SMEs in other regions were faced with the challenge to prevent bankruptcy. In preventing bankruptcy, the help from the government, no matter how limited in time and value, helped significantly (Wahab et al., 2020).

An important issue in the case of Western Balkan countries is the lack of data when it comes to employment. More specifically, it is hard to fully comprehend to what extent the possession of skills mediated the impact of COVID-19. In some countries, such as Vietnam, employees who suffered the highest pay cuts were the ones who did not have any previous qualifications (Do & Pham, 2023). In the case of Western Balkan countries, the data only specifies differences between age groups and genders; it does not provide insights based on qualification type and/or level. To that end, it is rather hard to estimate the impact among specific employee categories.

6. CONCLUSION

Labor market conditions in Western Balkans improved significantly in the pre-crisis period and remained tight even during the slowdown of 2018-2019. The Western Balkan region is one of the smallest and least developed regions in Europe, but the economy, work, and market prospects of the Western Balkans before the pandemic were more promising (Durić, 2022). Today, the countries of the Western Balkans are at the same time facing a series of economic shocks. The region’s economy had just begun to recover from the downturn caused by the COVID-19 pandemic, but now it must also face the consequences of the war in Ukraine.

Beyond the pandemic, it will be necessary to direct public investments and industrial policies toward sectors that improve people’s lives, increase dignified employment, strengthen the country’s resistance to crises, and ensure the transformation of the economy (Xhała & Kuçi, 2020). While the economy gradually recovered from the recession caused by the pandemic, the energy crisis and the war in Ukraine brought new challenges. Thus, we can assume that workers are more likely to lose their jobs due to the blockade in the short term and face very high economic uncertainty (Fana, Tolan, et al., 2020). According to the findings in this paper, the expected impact of the pandemic is the result of the interaction and various factors, including the extent and duration of restrictive measures,
the structure of an economy and the effect on specific sectors, the demand reduction, the recovery measures implemented by governments and the extent to which work can be done from home (Bartlett & Oruc, 2021). Reforms for active labor market measures should be based on the implementation of the integrated partnership approach in the region (OECD, 2021). It is noted that the perspective of the labor market in the Western Balkans will be difficult and the lack of jobs work from the increase in inflation and the difficulty of economic recovery and the recovery of jobs if workers' wages will not increase. In addition, it is also important to note that the informal economy has flourished in the Western Balkans, which has a series of negative impacts on the economy. This topic, however, is beyond the scope of this paper, but the implication is that the economy will be affected for a long period.

In conclusion, the development of an informal economy that generally does not protect employee rights and the increase in unemployment rates will result in a further brain drain of the Western Balkan economies. According to the OECD (2019) around 19% of the young and skilled workers of the six Western Balkan countries look for job opportunities abroad. The situation that emerged after the pandemic could have contributed to an increase in the percentage of young skilled employees actively seeking jobs abroad. This will result in high rates of brain drain and will be detrimental to economic growth and prosperity for the region.

The World Bank (2020a, 2020b) maintains that Western Balkan countries, in specific, ought to invest in skill development while also providing young people with more opportunities to build necessary skills. In this regard, necessary skills refer to skills such as ICT skills, creativity, interpersonal as well as intrapersonal skills, and communication among others. To that end, The World Bank (2020a, 2020b) argues that the development of these skills will enable young workers to quickly adapt to labor market demands.

The Western Balkans remains a region of political instability, repeated economic crises, youth unemployment (stagnant economies. Since the COVID-19 crisis is so profound that it will not only fundamentally affect labor markets in the short and medium term but may also significantly change the way work is organized.

Western Balkan countries should actively prioritize labor market policies for young workers, who have been severely affected by the pandemic, to help them return to work through appropriate training programs and specialized job search support, and other appropriate measures for new employees (Bartlett & Oruc, 2021). To make the medium-term economic recovery sustainable, the countries of the Western Balkans must focus on their economies more resilience to the shocks of COVID-19. Under these circumstances, economic development in the region also depends a lot on the acceleration of structural reforms to increase productivity, strengthening state institutions that protect the rule of law, protecting the private sector, and improving public services to preserve their jobs (The World Bank, 2020a).

In conclusion, according to The World Bank (2021a, 2021b), Western Balkan governments must take measures to rebuild a better and more resilient labor market as it is an essential investment in the future and future generations. In addition, the capacities of the public employment services in the region will need to be improved to implement targeted and effective active employment policies to support the post-COVID recovery.

REFERENCES


