

Labour market and the characteristics of unemployment in Kosovo

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Abstract

Kosovo, given its difficult past, is the most underdeveloped country of Europe. Gross national product is the lowest in the region, in 2009 was 1853 euros per capita, which is half the value of the average gross national product of the region. Average economic growth in Kosovo during 2006-2009 was 4.8%. This economic growth, although seemingly large, given the low level of development in Kosovo cannot solve problems to address important economic issues that Kosovo faces, unemployment, poverty etc. Kosovo has a large import of goods and the export-import cover is only 10%, thus the trade deficit is extremely high. Unemployment remains the main economic problem for many years in Kosovo. The unemployment rate in Kosovo remains high even though there are no clear statistics about the rate of unemployment. According to many studies, whether local or international institutions, the unemployment rate ranges near 40%. So this high rate of unemployment imposes as a primary and essential task before the Kosovo institutions to establish policies and strategies for promoting employment which is undoubtedly the best way to combat poverty. According to many studies, in order to keep the unemployment at current levels, Kosovo needs a growth rate of 7% and therefore we conclude that in order to reduce unemployment, the growth should be significantly increased over 7%, and with current developments this is unachievable, neither it is expected to be achieved by the competent institutions regarding economical growth.

Key words: labour market, unemployment, economic development, Kosovo

1. Introduction

Kosovo still has not made the census to accurately disclose how much people there are. While the report published by the Statistical Office of Kosovo, it is said that in Kosovo live 2.1 million

inhabitants, of whom 92 percent Albanian, and 8 percent members of other ethnic groups. The report of the Statistical Office, "Kosovo in figures 2007" states that the data are consistent with international standards of statistics and Eurostat. The report includes socio-economic, demographic and agricultural issues for year 2007. The report includes data on employees, the unemployed, wages, price trends, information about education, health, culture, etc. Kosovo's economy today still suffers professional stagnation imposed by objective and subjective circumstances. Transition in Kosovo has lasted longer than other countries and this is reflected significantly in the daily lives of citizens. Inadequate policies and protracted privatization was not in function of accelerated economic development. Major differences between: (i) GDP and consumption, (ii) savings and domestic investment, (iii) public investment needs and budgetary capacity, (iv) export and import, and (iv) unemployment and the level of investment, highlight the need for concentration of efforts towards the reduction of these disproportions. Kosovo faces an unstable economy and an unfavorable trade balance with the world, which marks a deficit of over 1.7 billion euros. While gross domestic product per resident in Kosovo in 2008 was estimated at € 1,815 with a constant average annual increase of 3%.¹

2. Macroeconomic dispute

Trade policy remains one of the key aspects of overall economic policy (the connection between trade policy and macroeconomic policy). Kosovo has a trade regime that is simple and easily manageable, transparent and non-discriminatory.

Even companies bear some responsibility for poor performance of foreign trade sector in Kosovo. Some very specific problems that affect the firm's competitive position in the foreign market are as follows: lack of strategy to do international business, innovative approach in the production process and work (through which they would achieve product differentiation and increase the effectiveness of the organizational structure of the firm), limited number of links with foreign partners, limited opportunities to access business networks (in which various companies would be responsible for various activities from production up to the placement of products on the market).²

As for the obstacles that have to do with economic policies and institutions, the tax policy should also be discussed. The latter has consistently caused dissatisfaction among the business community, though often the facts have not been justified.

¹ Ministry of Trade and Industry, Trade Policy of Kosovo, August 2009. Pg.7.

² Riinvest Institute, Trade Policy and Export Promotion in Kosovo (Research Report) Pg.13.

The financial system is presented as an obstacle to business development in Kosovo. In the context of enterprise development, linked with the financial system, has been the implementation of the law (in particular the implementation of the contracts) which is regarded as a major obstacle. Then, in the context of the export sector, the customs services should be emphasized, complex procedures to refund the value added tax (VAT), insufficiently developed institutions for quality assurance, and other obstacles.

Recently, the Kosovo government undertook major steps in making tax policy more favorable to business and investments (the new tax scheme came into force on 1 January 2009). Kosovo is now applying the tax rate which is more competitive compared with the region of Southeast Europe (SEE). In addition, the tax system is conducive to export activities. Exports are not charged with VAT or customs fees. In the case of VAT, VAT is not charged with imported raw materials (applied deduction of VAT), other raw materials for production and finished products exported.

The institutions of Kosovo have been part of the liberalization of trade in the region, particularly those initiated by the Stability Pact. Although not an equal part in this mechanism, Kosovo made clear its commitment to respect the obligations of the Memorandum of Understanding on Trade Liberalization and Facilitation, signed by the countries of Eastern Europe in 2001 under the auspices of the Stability Pact.

The ultimate objective of this activity was the implementation of bilateral FTA's among the countries of the region. According to the MoD, FTAs were binding on signatory countries, except for Kosovo in which case the only countries were advised to sign the FTA, if they consider this step as useful.³

The aim of CEFTA is the creation of rules and mechanisms by which the foreign trade is governed in the region. These rules have been harmonized with the principles of the EU and the WTO. Experience gained in trade with the region will make Kosovo's products competitive for the EU market and beyond. Also, Kosovo in this process will shape the institutions and policies that are consistent with WTO requirements. Another aim of CEFTA is creating an attractive regional market which will create new opportunities for local businesses or investors. This dimension is particularly important for Kosovo, as FDI are of paramount importance to improve the competitive position of Kosovo industries in foreign markets. With all these advantages deriving from the liberalization of foreign trade in Kosovo it has led to competition from imports to domestic enterprises, and market distortions were created due to asymmetric

³ MTI, Trade Policy of Kosovo, Kosovo Tax Policy in the context of trade policy. Page 19 Kosovo Government MTI. Commercial exchanges of Kosovo 2008. Page 13-16

fiscal relations with neighboring countries that were reflected negatively on the competitiveness of Kosovo as in the foreign market but also in the country.

Table 1. GDP per resident in Kosovo

	2004	2005	2006	2007
Population (000)	2,041	2,070	2,100	2,130
GDP per resident (Euro)	1,473	1,482	1,520	1,612

Statistical office of Kosov(SOK)- April 2009

Another indicator is the new structure of the population of Kosovo, close to 53% are under age 25. This indicates that the group of 16 up to 25 years old, is a group which is attacked with the problem of unemployment. Normally, special policies should be taken that specifically address youth and youth unemployment.

Despite the young age of the population, which is on average 24 years, unemployment which is administrative category that measures the number of those actively seeking work but have not managed to find it and on the other side instead of contributing to the growth of GDP they have contributed to increase the pressure on social funds, which represents a burden for the economic development in many aspects. This high rate of unemployment had a negative impact on consumption growth. Low consumption, has influenced the low local production, that in the near future prevents expansion of economic capacity, if unless it could put it on the foreign market. These and many other determining factors have influenced that Kosovo still remain after the region.¹

Referring to the unemployment rate of about 43%, current employment trends and contingents of young people able to work that every year are added to the labor market, this problem will convey the Kosovan society in the next decade.

Modern fiscal (budgetary management and the problem of deficit financing, budget deficits) and the taxes are being built. However, the main concerns of enterprises are directed against tariffs and VAT on goods manufacturing, which have become an obstacle to the acceleration of investment. Tax evasion is an obstacle to modern tax policy and competition. A considerable part of the approved laws and the Regulation on Foreign Investment, meet the standards of the market economy. However, the package of commercial laws and other laws is not yet complete and as a consequence not implemented, therefore, the

lack of synergistic effects is still not enough observing advantages of Kosovo's legal system.⁴

Basic indicators of labor market in Kosovo is comprised of:

- A flexible labor market is key to creating jobs that are in urgent need.
- Structure of the population (relative size of the population of working age)
- Status of activity
- Employment
- Unemployment

3. Unemployment

Unemployment refers to members of the workforce of a country but who for various reasons do not have one. As noted above, economic growth is priority for policymakers in each country of the world then the optimal utilization of production stakeholders should be a priority during the construction of economic policy. One of the factors of production more important to a country's economic growth is human capital, whose optimal unexploitation does not provide an economic perspective to the country. Trends of unemployment and Gross Domestic Product (GDP) of countries show a close relation, it is known that in periods of reduced unemployment the GDP marks growth, while in periods of rising unemployment in the whole product falls dramatically. Connection between unemployment and inflation are actually evident in the economy of all countries that is in periods of increasing unemployment, inflation falls significantly, and vice versa in periods of reduced inflation unemployment grows. Therefore, taking into account the facts discussed above in the next section we will discuss the level and condition of the unemployed in Kosovo based on certain characteristics and in some factors and conditions that are specific to unemployment.

4. Characteristics of unemployment in Kosovo

According to statistics published on the performance report of the Department of Labour and Employment (DPP) of the Ministry of Labour and Social Welfare of the Government, the total number of jobseekers registered as unemployed at the offices of public employment services in Kosovo is 338534 people, until the end of June 2009. This number represents an unemployment rate registering approximately 39-41%, representing an increase of 0.8% compared to the same period of 2008, which was 335,942 and an increase of 1.2% compared with the proportional period of 2007, when this number was 334598. The main problems in analyzing the characteristics of the labor market in Kosovo present-

⁴ Statistical Office of Kosovo (SOK) - Labour Force Survey 2002 -2008

ted to us the differences in the statistical data presented to us by various publications of the institutions that deal with analyzing the labor market in Kosovo.⁵

5. Unemployment by qualification

Unlike the employment rate, unemployment rate is in negative correlation with the level of education. With a degree over 60% of people with lower qualifications is likely to become or remain unemployed, and this rate down to about 26% at secondary level, while persons with higher education or university degree appear in unemployment around 0.9%.⁶

Table 2. Unemployment rate by qualification

Qualification	Registered Unemployment 06/2009	%	12 Months Income	12 Months Outcome	ShH Monthly Average	ShD Monthly Average
Unqualified	202857	59.92%	10870	8745	0.33%	0.36%
Semi qualified	13615	4.02%	499	800	0.20%	0.49%
Qualified	28970	8.56%	1149	1663	0.18%	0.48%
High School	87844	25.95%	7416	6347	0.38%	0.61%
Professional School	2193	0.65%	182	178	0.50%	0.67%
University	3055	0.90%	1197	981	3.32%	2.77%

Source: MSPE / DPP Annual Report 2008

From the data presented in Table 2 we see that as higher levels of training are ("high school" and "university") facing both the highest average monthly entry and the highest average monthly outflow, showing the proportional dynamic labor market, meaning lower risk of remaining unemployed (long term). In addition to limited absorption capacity of Kosovo's economy, highly skilled Kosovars certainly looking to some searching (new groups by age) and do not overlap, namely technological unemployment (older persons), while unemployment of more skilled groups may seem low by dominant structure. While calculative proportion of long-term unemployment in Kosovo is 93.4% on average, the proportion of long-term unemployment calculative reference levels with higher qualification is approximately 71% on average.

Bearing in contrast especially to the unemployed in the three lower levels of qualification that suffer from a combination of both - growth in enrollment and

⁵ MPMS / DPP Annual Report 2008

⁶ MPMS / DPP - Performance Report 06/2009

low dynamic in terms of flow of the labor market, they carry smaller scale but at the same income while the smaller scale of outcome presenting greater risk of remaining unemployed for long.

6. Conclusions and recommendations

From all of this that has been said about the characteristics of the labor market in Kosovo we conclude that the high rate of unemployment is the result of non-developed economy in which greatly affects the unexploitation of the workforce which we possess.

As GDP increases by increasing the involvement of factors of production and better use of them, then among the measures of fiscal policy in terms of promoting economic growth can be counted those that affect the growth of labor productivity and better utilization of the capital, technological progress and better use of production factors, such as:

- stimulation of investment through tax facilities;
- subsidizing the different economic sectors;
- increasing infrastructure investment;
- promotion and increasing investment in research, education and training.

On the other hand, the existence of significant differences between: (i) GDP and consumption, (ii) savings and domestic investment, (iii) public investment needs and budgetary capacity, (iv) export and import, and (iv) unemployment and the level of investments and reduction of these differences should be priorities of policymakers in Kosovo.

Kosovo must create favorable policies to attract foreign capital, because given the advantages that offers Kosovo, it is likely that it becomes a very attractive market for foreign investors, compared with regional countries. Strategic orientation of Kosovo's economy should be state politics of favoring the development of small and medium enterprises, which would enable the growth of youth employment.

Reforming the education system in order to produce human resources that would be competitive in regional markets will significantly affect the reduction of unemployment by exporting manpower abroad. This is a serious thing and requires that the relevant ministries to deal seriously with the development of policies that will be profiling the youth, will be profiling their education, which will be adapted to market economies and the current demand in Kosovo. Normally, it should be taken special policies that specifically address youth and youth unemployment.

According to the study "Towards a Kosovo Development Plan", prepared by John Bradley and Gerald Knaus of the European Stability Initiative, any person employed in Kosovo, is obliged to hold six family members. In these circumstances, the savings for business investment are extremely difficult. Adapting

the education system to labor market demands is a given to be further elaborated by the competent ministry of education. Currently, Kosovo needs more skilled profile, but it feels like the education system is excessively delayed in creating deficient frameworks.

In the absence of economic development of Kosovo for a long time, employment in the absence of substantial parts of Kosovo residents have migrated and continue to migrate to the developed Western countries. With hard work they have created a substantial capital and at the very first chance, they are willing to invest their capital to open their businesses.

Reform of fiscal policy to support the government's substantial improvement to stimulate competition through tax regime with low tariffs and a broad base should be preserved although it would put a heavy burden on public expenditure policy.

Kosovo's economic policies should be directed at controlling and managing the budget that is key to reducing feed costs and job creation in the private sector, in this sense, the social safety net should focus only on those who have most in need, and employment in the civil service should be limited in what it takes to complete the essential functions of the government.

It would be essential to increase productivity through competition and private sector investment, which will be supported by ongoing efforts to improve the physical infrastructure through public investment and to increase human capital through better training services. Also, within the system of tertiary education by developing non-university options - Specific presentation of informal training for youth that clearly refer to the existing shortage of skills - further development of formal training and employment support services for young people to meet gaps -development of alternative employment schemes (to increase accountability and self initiative among young people, where career development training would be in the focus, and would impact directly on positive changes in the structure of the labor market in Kosovo.

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