

FISR2

STRUCTURAL REFORMS BETTER INTEGRATED
WITHIN FISCAL FRAMEWORKS

Managing Labor Market Structural Reforms

Trends in Labor Market and Education

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 - World Bank Regular Economic Report on Western Balkans: Towards Sustainable Growth, No.24, Fall 2023
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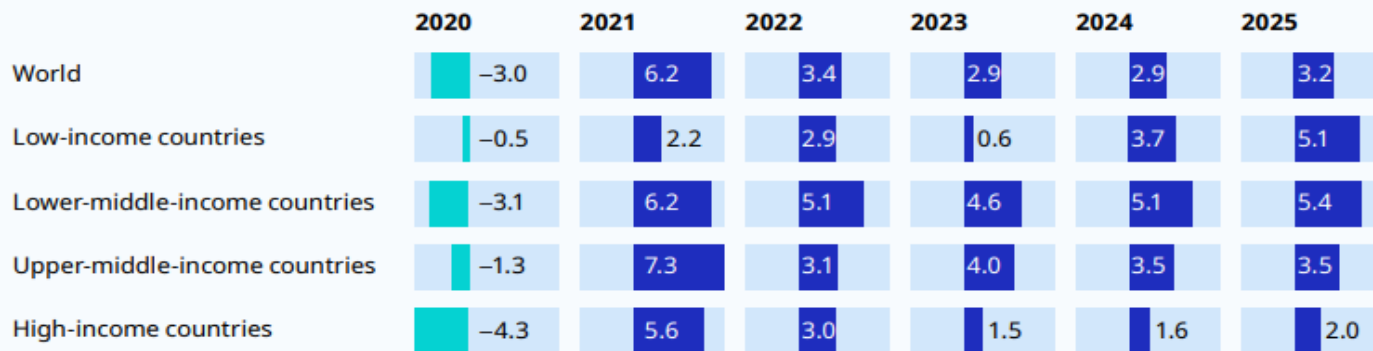
World Employment and Social Outlook: Trends 2024

1. Economic growth resilience
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https://www.ilo.org/wcmsp5/groups/public/---dgreports/---inst/documents/publication/wcms_908142.pdf

Economic growth resilience

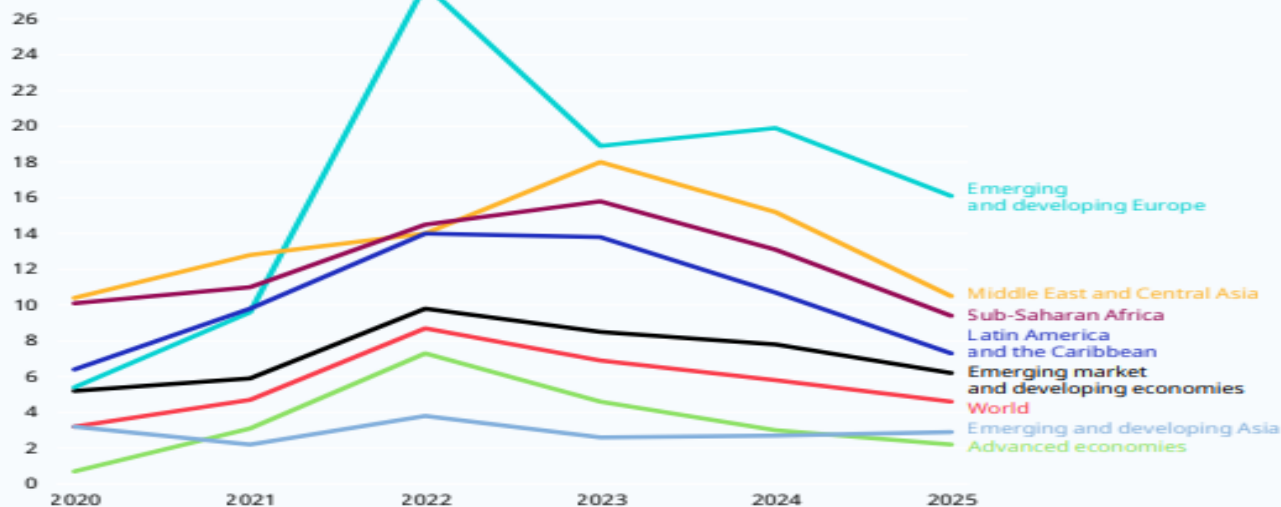
- Economic growth is crucial determinant of labor market developments
- GDP in 2023 proved to be more resilient than anticipated:
 - Most evident resilience among lower-middle and upper-middle-income countries
 - High-income and low-income countries experienced notable slowdown
- Inflation pressures eased in 2023 in most of the regions in the world

► **Figure 1.2. GDP growth outlook (percentage change)**

Note: GDP estimates are based on constant 2017 international USD.

Source: Authors' calculations based on IMF (2023).

► Figure 1.3. Recent and projected changes in inflation (percentages)



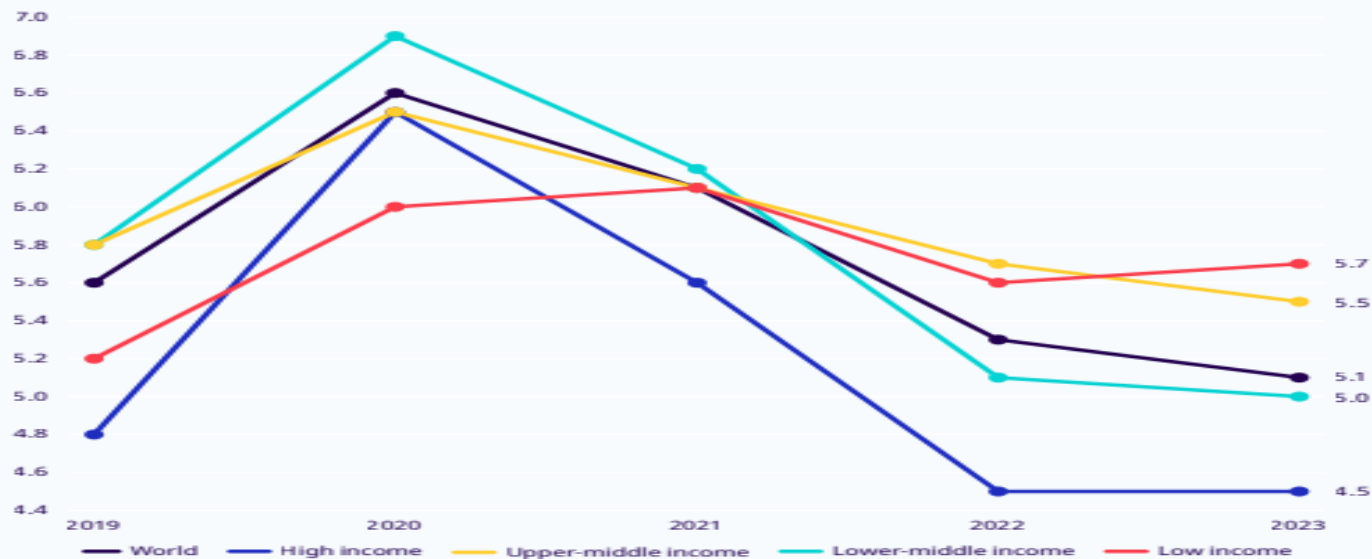
Source: Calculations based on IMF (2023).

Economic growth resilience

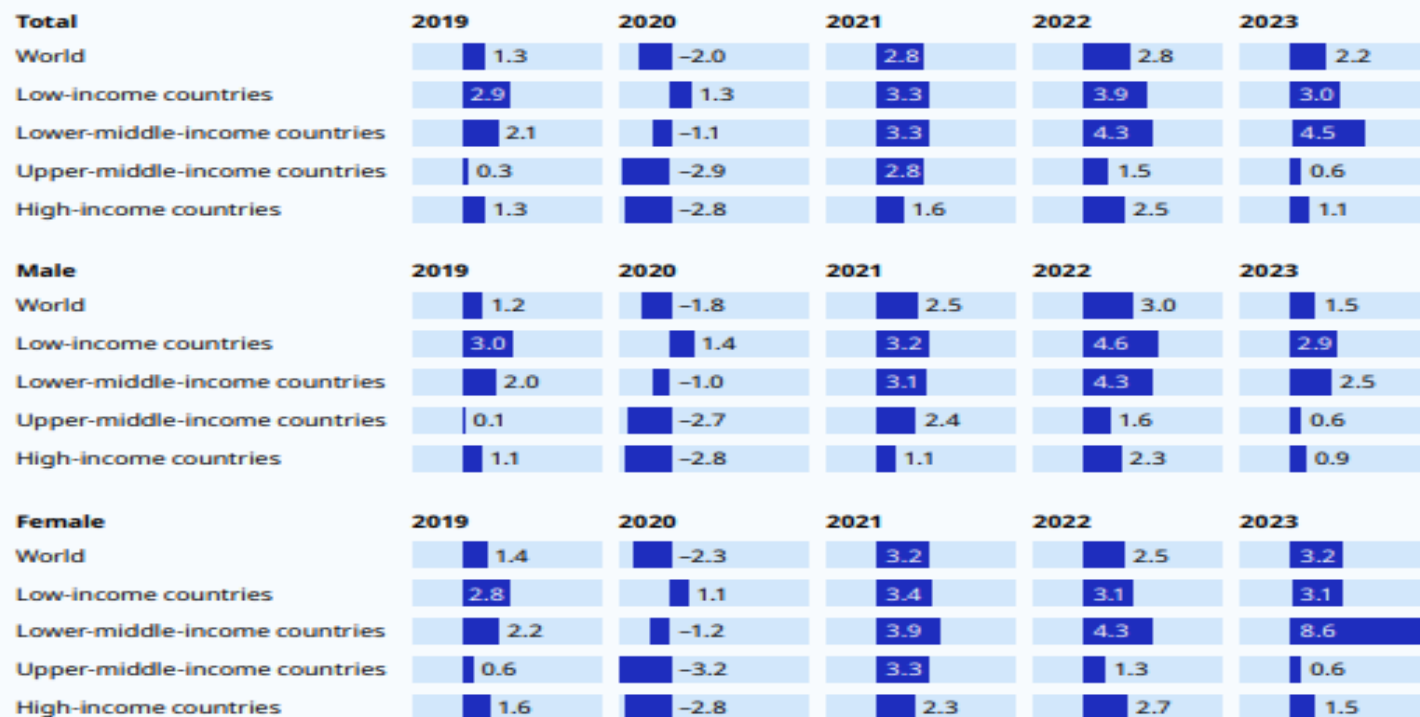
- Outlook 2024
- Global spillovers: Risks of deteriorating GDP that could exacerbate employment come from:
 - War conflicts
 - Potential disruptions in global value chains
 - Interest rates - if they remain higher, ripple effects on debt levels in emerging and developing economies likely to occur
- Inflation pressures could widespread in 2024/2025

Labor (im)balances in 2023

- On account of stronger than anticipated economic growth in 2023, *total labor force participation rates moved above their long-term linear trend*
- The downward trajectory in unemployment rates was maintained in 2023
- The jobs gap has improved in recent years, but in 2023 stood at nearly 435 million
- Employment growth remained positive across all income groups in the face of economic head-winds
- Despite low unemployment and positive employment growth, in countries with available data, *real wages have been declining*

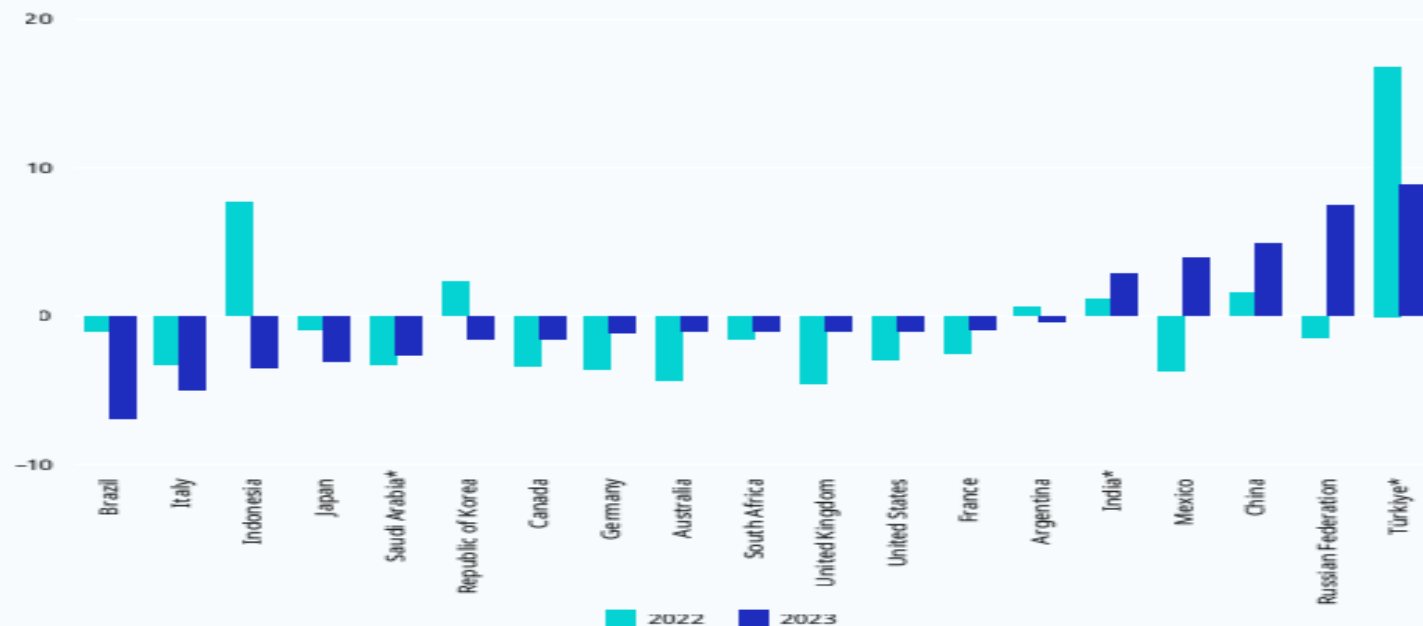
► **Figure 1.5. Unemployment rates (percentages)**

Source: ILOSTAT, ILO modelled estimates, November 2023.

► **Figure 1.6. Employment growth, 2020–23, by sex and country income groups (percentages)**

Source: ILOSTAT, ILO modelled estimates, November 2023.



► **Figure 1.8. Annual real wage growth in 2023 (percentages)**

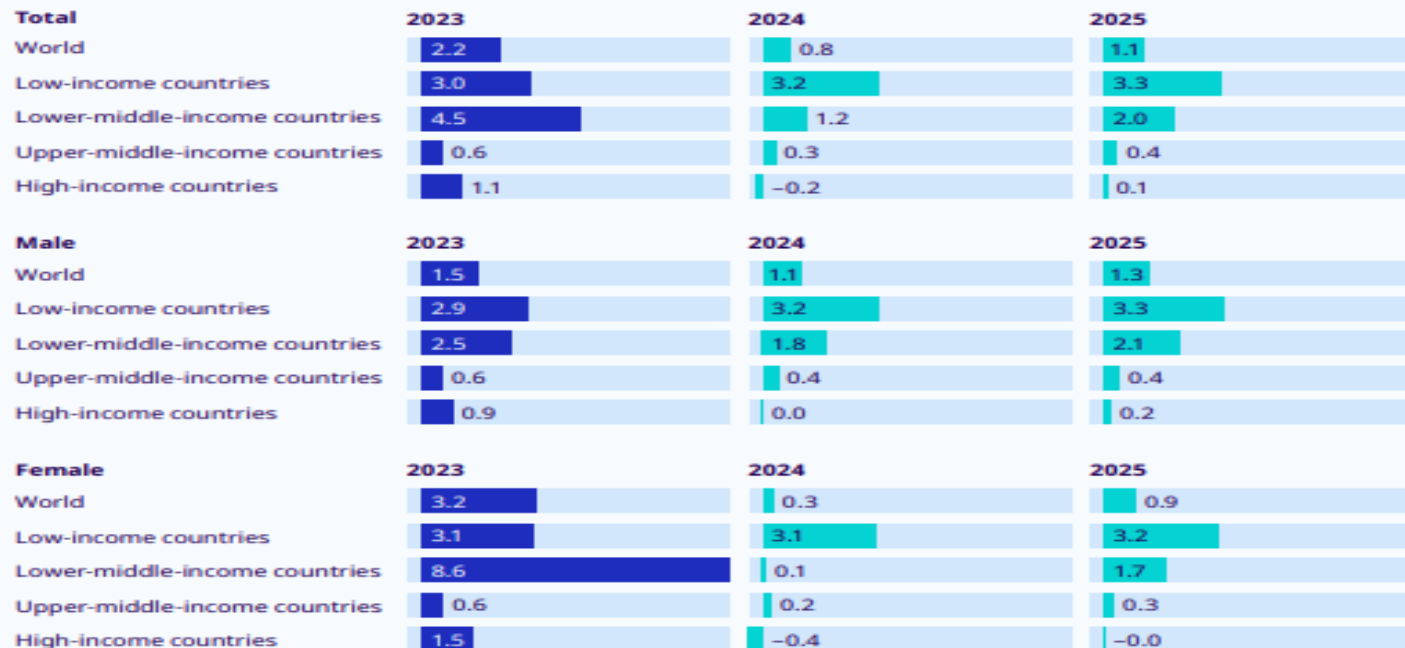
Note: For 2023, data refer to the real wage growth in the first or second quarter compared with the same quarter in 2022. Data for 2022 refer to full-year real wage growth compared with 2021.

* Data for India, Saudi Arabia and Türkiye refer to changes between 2022 and 2021 (rather than 2023 and 2022) and between 2021 and 2020 (rather than 2022 and 2021).

Source: ILO Global Wage Database.

Labor (im)balances - outlook 2024

- The economic slowdown is expected to reflect on the job creation in 2024, i.e. **the employment growth rate would decline**
- Despite modest increases in 2023, **participation rates are set to decline in the coming years**
- **Unemployment is expected to rise modestly.** Global unemployment is projected to increase in 2024 by around 2 million
- As financial conditions deteriorate, this may spell double trouble for both labor markets and public purses
 - This might affect much needed governments' measures to keep workers attached to the labor market and provide upskilling and reskilling support – both of which are central to encouraging a faster economic recovery

► **Figure 1.9. Employment growth, 2023–25, by sex and country income groups (percentages)**

Source: ILOSTAT, ILO modelled estimates, November 2023.

► **Table 2.5. Estimates and projections of working hours, employment, unemployment and labour force, regional and subregional, Europe and Central Asia, 2010–25**

Region/ subregion	Mean weekly hours worked per person employed						Total weekly working hours in full-time equivalent jobs (FTE = 48 hours/week) (millions)					
	2010	2019	2022	2023	2024		2010	2019	2022	2023	2024	
Europe and Central Asia	25.8	23.8	25.1	25.4	25.4		327	301	317	320	320	
Northern, Southern and Western Europe	26.1	23.9	25.3	26.2	26.0		158	145	153	158	156	
Eastern Europe	26.9	25.5	26.3	25.1	25.5		110	103	106	100	101	
Central and Western Asia	23.5	20.8	22.6	24.0	23.9		59	53	58	62	63	
	Employment-to-population ratio (percentages)						Employment (millions)					
	2010	2019	2022	2023	2024	2025	2010	2019	2022	2023	2024	2025
Europe and Central Asia	52.7	54.7	55.0	55.1	54.9	54.6	389	417	421	423	422	422
Northern, Southern and Western Europe	52.0	54.4	54.8	55.1	54.9	54.8	193	208	211	213	212	212
Eastern Europe	54.7	56.9	56.9	56.6	56.1	55.7	137	139	137	136	135	134
Central and Western Asia	50.5	51.7	52.5	52.9	52.7	52.5	59	70	73	74	75	76

	Unemployment rate (percentages)						Unemployment (millions)					
	2010	2019	2022	2023	2024	2025	2010	2019	2022	2023	2024	2025
Europe and Central Asia	9.0	6.6	5.9	5.7	5.8	5.7	38.4	29.3	26.5	25.4	25.8	25.7
Northern, Southern and Western Europe	9.9	6.9	6.3	6.2	6.3	6.3	21.2	15.5	14.2	14.0	14.3	14.3
Eastern Europe	7.9	4.7	4.4	4.0	4.0	4.0	11.8	6.8	6.4	5.7	5.7	5.5
Central and Western Asia	8.3	9.0	7.5	7.1	7.2	7.3	5.4	6.9	5.9	5.7	5.8	5.9
	Labour force participation rate (percentages)						Labour force (millions)					
	2010	2019	2022	2023	2024	2025	2010	2019	2022	2023	2024	2025
Europe and Central Asia	57.8	58.6	58.5	58.5	58.2	58.0	428	446	448	448	448	448
Northern, Southern and Western Europe	57.7	58.5	58.5	58.7	58.6	58.5	214	224	225	227	227	227
Eastern Europe	59.4	59.7	59.5	58.9	58.4	58.0	149	146	144	142	140	139
Central and Western Asia	55.1	56.8	56.8	56.9	56.8	56.6	65	77	79	80	81	82

Source: ILOSTAT, ILO modelled estimates, November 2022.

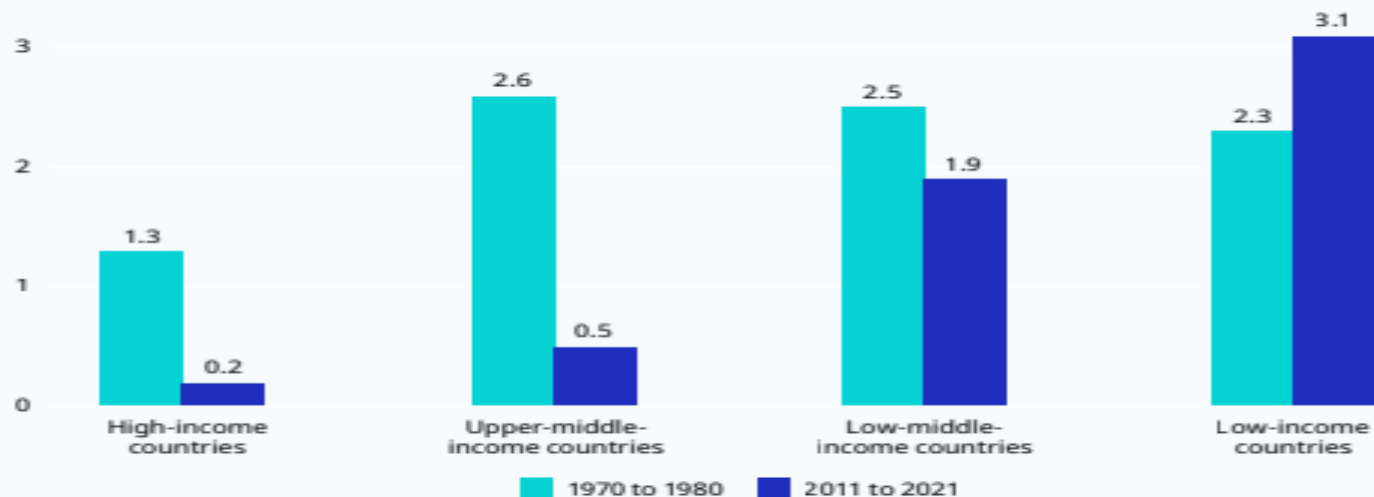
Structural issues in labor market adjustment

- The degree and nature of **labor shortages** differ across sectors and occupations, with **leading sectors** being:
 - Manufacturing
 - information and communications
 - Construction
 - Contact-intensive sectors such as accommodation and food services
 - Healthcare
- **Skills and labor shortages are not limited to high-income economies**
- Shortages of essential workers in key sectors are set to create supply bottlenecks in affected economies
- **Labor productivity has downward trend**

Structural issues in labor market adjustment

- Demography - aging of the labor force
- Youth participates less in the labor market
- The number of young people not in employment, education or training (NEET) was 285 million worldwide in 2020
- Working hours have evolved differently across sectors and occupations
- The share of part-time workers has increased in many high-income economies
- Job mobility decreases due to increasing proportion of older workers, as well as housing barriers

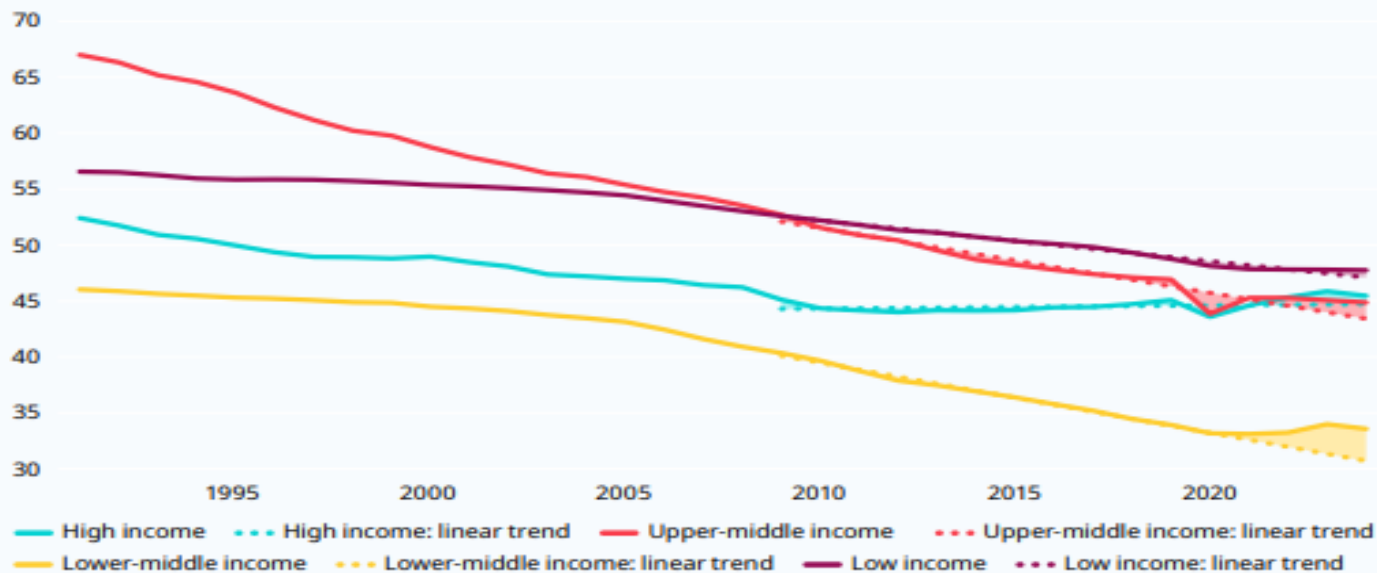
► **Figure 1.13. Growth of population aged 20 to 64, by time period and country income group (compound annual percentages)**



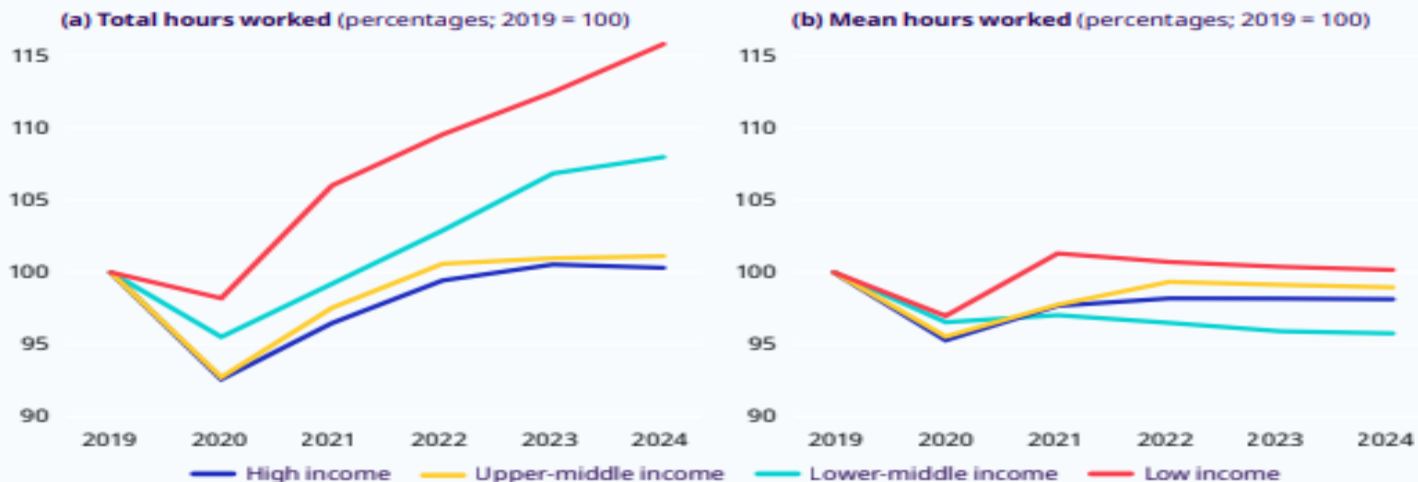
Note: Country income groups are as per World Bank categorization.

Source: Calculations based on UN Population Division estimates, World Population Prospects 2022 (<https://population.un.org/dataportal/>).

► **Figure 3.4. Youth labour force participation (percentages)**



Source: ILO modelled estimates, November 2023.

► **Figure 3.6. Total hours versus mean hours actually worked per employed person**

Note: These indicators are based on the 13th ICLS definition. They refer to mean weekly hours actually worked per employed person and total weekly hours actually worked by employed persons in their main job. More information can be found in the ILO Modelled Estimates (ILOEST) database description (<https://ilostat.ilo.org/resources/concepts-and-definitions/ilo-modelled-estimates/>).

Source: ILOSTAT, ILO modelled estimates, November 2023.

Structural issues in labor market adjustment

- Addressing labor market and skills imbalances could help tackle short-term labor market challenges and underlying structural issues
- Wages and labor mobility are important channels in the adjustment of labor markets. Both these channels may have lost efficiency in recent years.
- Wages are adjusting slowly and rising living costs are swallowing small gains.
- Work quality and education skills also play significant role in adjustment of the labor markets. In this context, new technologies needs to be incorporated in the further matching of education and jobs

► **Figure 3.1. Channels of labour market adjustment and resulting imbalances**

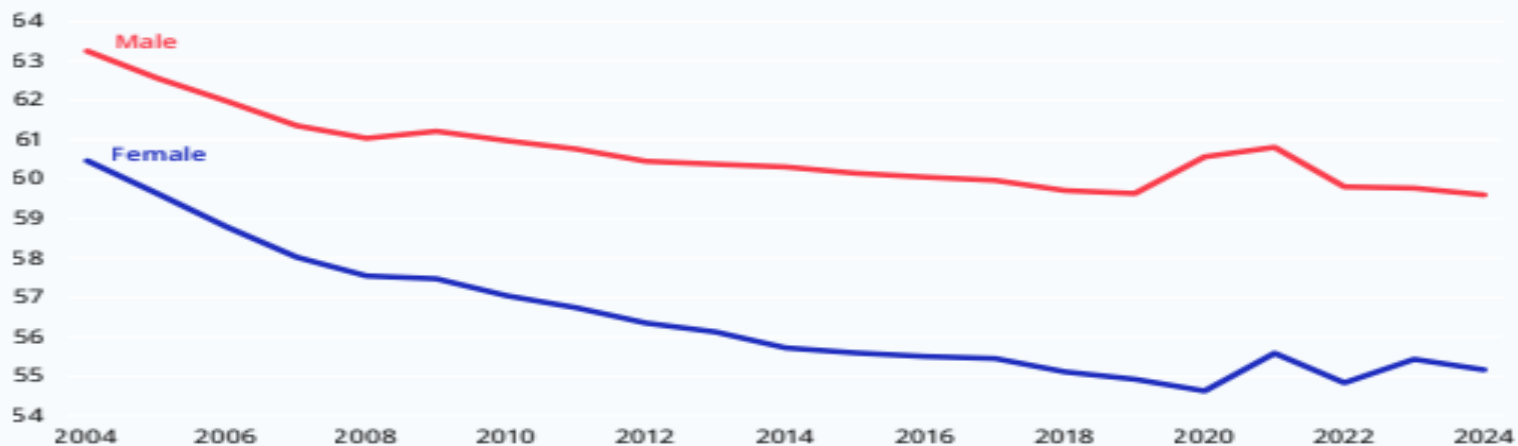


Source: ILO.

Social outlook

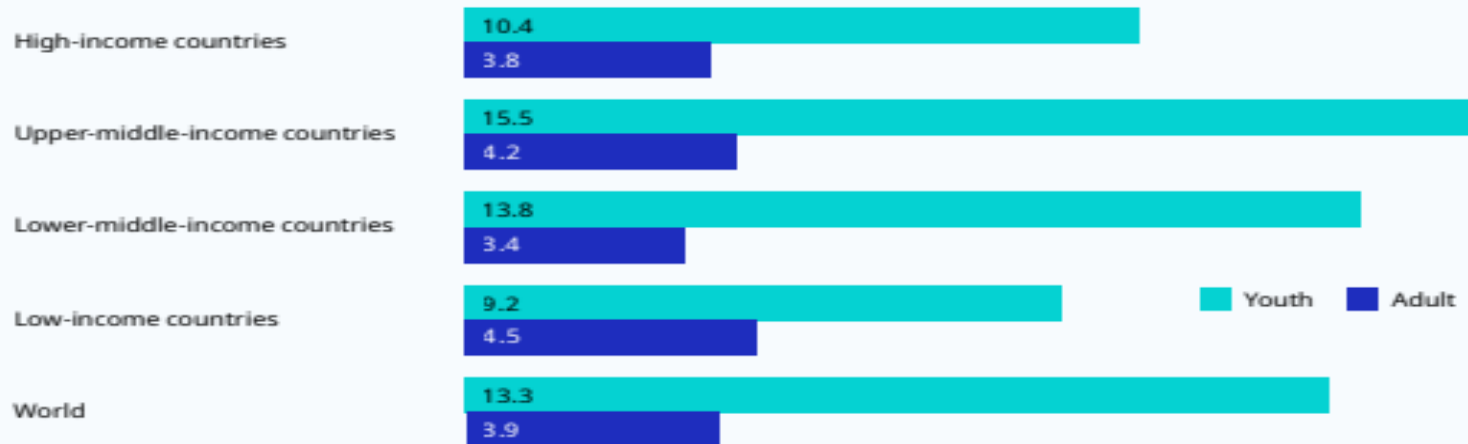
- Decent work deficits persist, with considerable heterogeneity across regions and groups
- Gender gaps in participation rates persist - female participation is low(er)
- Youth unemployment rates are nearly 3.5 times higher than those of adults
- Informal employment was over 2 billion in 2023 – its highest level in two decades
- Close to 241 million workers were living in extreme poverty in 2023
- Population ageing is changing the consumption patterns in advanced economies
- The climate crisis and green transition are set to challenge attitudes to skills development

► **Figure 1.12. Informal employment as share of total employment, 2004–24 (percentages)**



Source: ILOSTAT, ILO modelled estimates, November 2023.

► **Figure 1.11. Youth and adult unemployment rates (percentages)**



Source: ILOSTAT, ILO modelled estimates, November 2023.

Priorities for action

- In fast-ageing countries, **policymakers need to support the participation of groups with weak labor market attachment, notably youth, women and older workers**
- **Investment and skills policies need to raise productivity and potential growth and facilitate more productive use of technological progress**
- **Improvements in sectors and occupations with low pay and difficult working conditions** may motivate workers who left to come back
- Ensuring that **internationally mobile workers get matched to adequate jobs** could alleviate some of the shortages
- None of the structural headwinds facing labor market adjustment is likely to disappear over the short term, which makes it important that governments and social partners engage in supplemental efforts to address these challenges

Regional trends in the Western Balkans

**World Bank Regular Economic Report on Western Balkans:
Towards Sustainable Growth
Fall 2023**

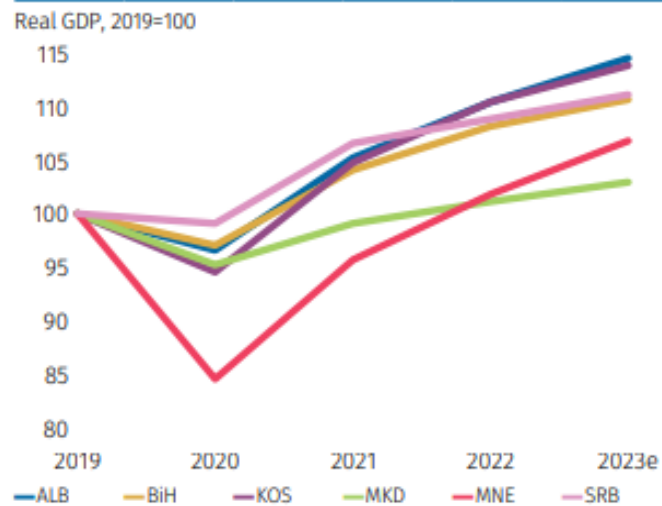
Available at:

<https://www.worldbank.org/en/region/eca/publication/western-balkans-regular-economic-report>

Regional trends in the Western Balkans

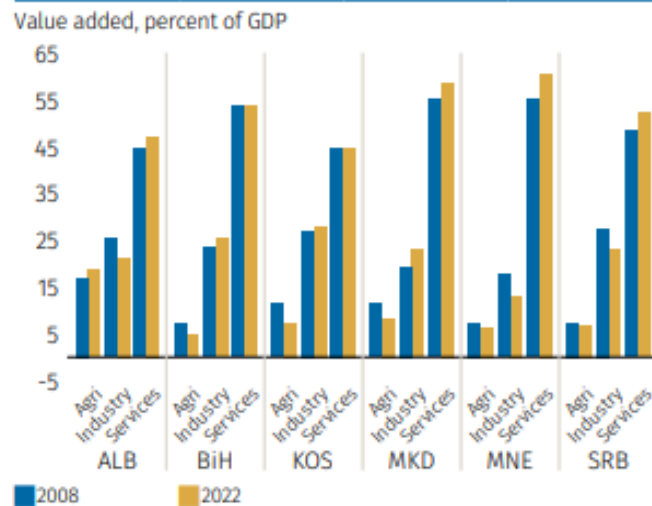
- Growth in the Western Balkans decelerated over the course of 2022 and into 2023
- Inflation pressures in the WB6 region are easing, although price pressures persist
- On the demand side, private consumption remained in general an important growth driver, but price pressures have started putting a dent into households' purchasing power

Figure 2.1. Real GDP growth in 2022 was stronger than expected, but decelerated over the course of 2022 and in 2023...



Source: National statistical offices; World Bank staff.

Figure 2.2. ...as weakening global demand has a diverse impact across the WB6, due to their different economic structures



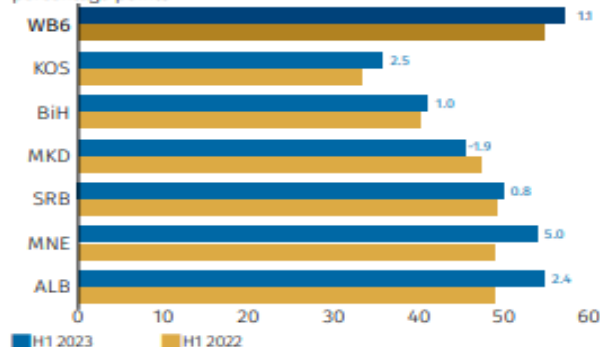
Source: National statistical offices; World Bank staff.

Regional trends in the Western Balkans

- The **average employment rate** for the Western Balkans reached a historical high of **47.8 percent** in June 2023
- Unemployment declined in all Western Balkan countries, except in Serbia
- The labor force participation rate increased, as well as youth employment.
- On a regional level, all sectors except agriculture contributed to the job market recovery
- in 2023, **labor shortages continued to be among top concerns raised by businesses in the Western Balkans**

Figure 3.1. The employment rate reached a historical high in the Western Balkans...

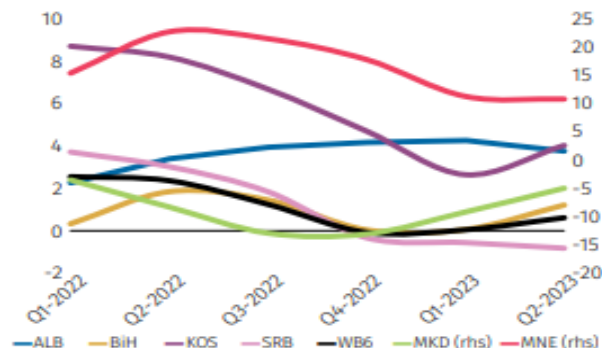
Employment rate, 15+ years, percent, and H1 2023–H1 2022 change, percentage points



Source: National statistics offices; World Bank staff estimates.
Note: 15–64 years for Kosovo.

Figure 3.2. ...but a slowdown is underway in most countries

Change in employment, percent, 3-month moving average yoy



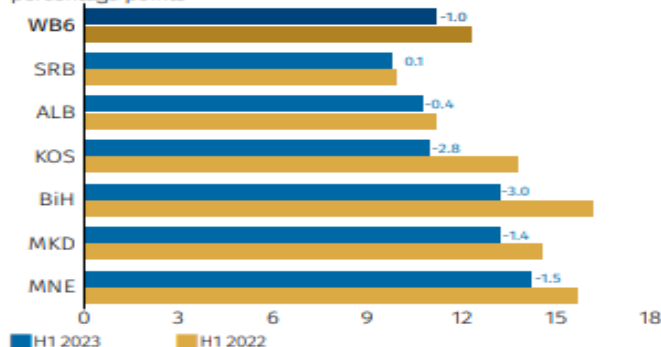
Source: National statistics offices; World Bank staff estimates.

- 3 This analysis was affected by: (i) delayed publishing of Labor Force Survey (LFS) data in Kosovo and by (ii) a sampling revision in BiH, Montenegro, and North Macedonia that reduced comparability with previous LFS data. Using tax administration data, and unemployment data for Kosovo helped provide an approximate picture of the labor market in 2023. Serbia also revised the 2022 LFS data.
- 4 The employment rate is the region's simple average for the population aged 15–64 years for Kosovo and 15+ for all other WB countries.

WESTERN BALKANS REGULAR ECONOMIC REPORT NO.24

Figure 3.5. Unemployment rate declined to a new low

Unemployment rate, 15+ years, percent, and H1 2023–H1 2022 change, percentage points

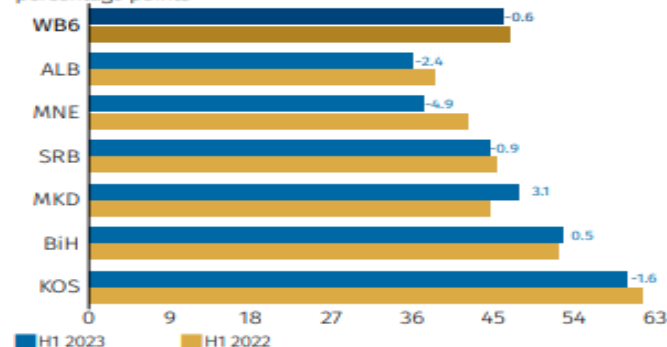


Source: National statistics offices; World Bank staff estimates.

Note: 15–64 years for Kosovo.

Figure 3.6. Inactivity declined in most countries as labor market strengthened

Inactivity rate, 15+ years, percent, and H1 2023–H1 2022 change, percentage points



Source: National statistics offices; World Bank staff estimates.

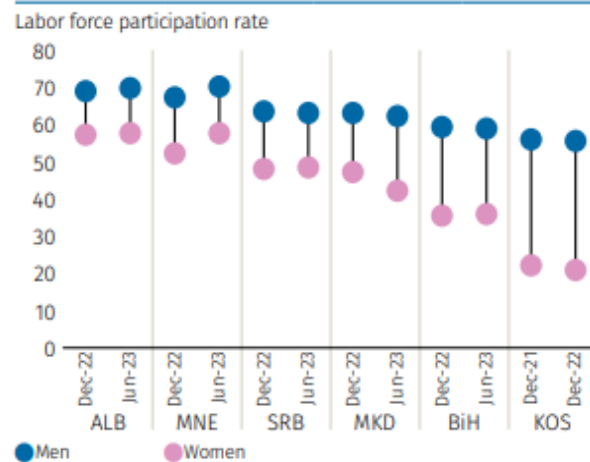
Note: 15–64 years for Kosovo.

Figure 3.7. Youth unemployment rate declined to a new low



Source: National statistics offices; World Bank staff estimates.
Note: 15–29 years for Albania.

Figure 3.8. More women returned to the labor market than men in 2023, except in Kosovo and North Macedonia



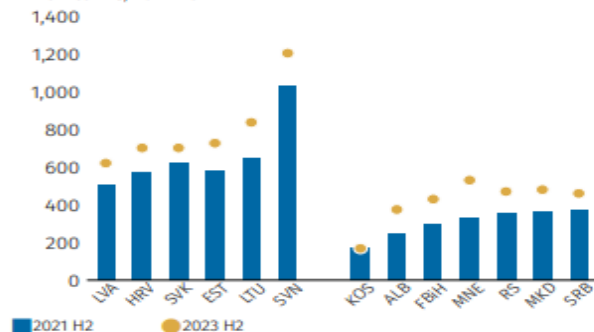
Source: National statistics offices; World Bank staff estimates.

Regional trends in the Western Balkans

- Strong labor demand, labor shortages, and high inflation in the Western Balkans have created wage pressures
- Minimum wages increased twice as fast in the Western Balkans compared with EU peers
- Wage pressures, combined with growth headwinds, are likely to slow the pace of hiring by firms in the future
- Poverty is projected to continue to fall in the region, but at a slower pace

Figure 3.9. Gross minimum wages increased twice as fast compared with EU peers over the past two years

in EUR terms, 2021–23

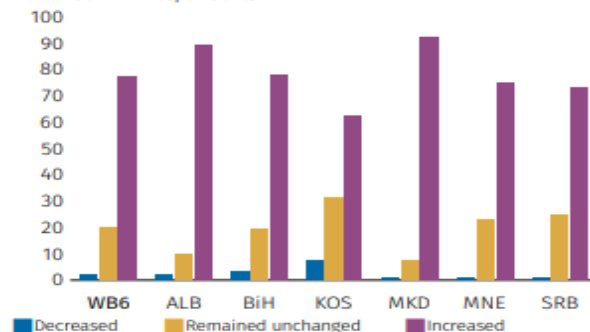


Sources: Eurostat, National statistics offices; World Bank staff estimates.

Note: LVA=Latvia; HRV=Croatia; SVK=Slovakia; EST=Estonia; LTU=Lithuania; SVN=Slovenia; FBIH=Federation of Bosnia and Herzegovina; RS=Republic of Srpska.

Figure 3.10. Labor and other costs increased over the last year

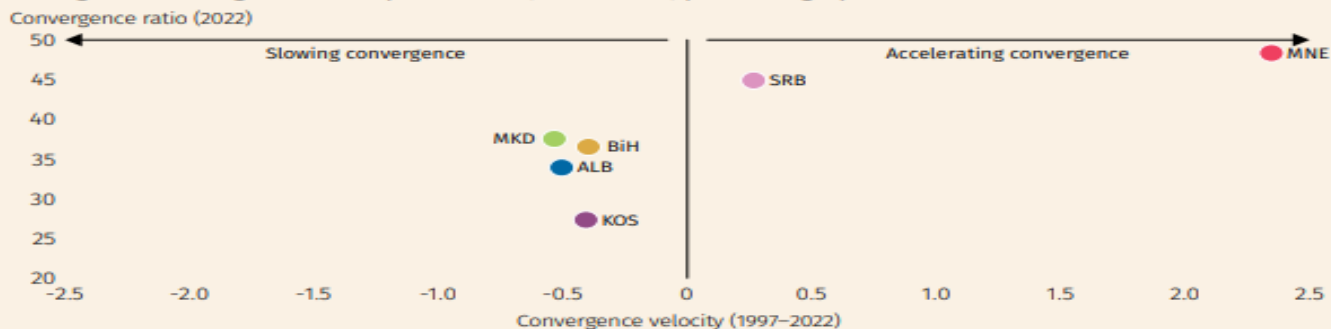
Percent of firm respondents



Source: Balkan Business Barometer 2023 survey.

Figure 2.7. The Western Balkans' standards of living are between one-quarter and one-half that of the EU average, but convergence is moving at different speeds

Change in convergence ratio per decade, 1997–2022, percentage points



Source: WDI; World Bank staff.

Note: Calculations based on GDP per capita, PPP (constant 2017 US\$). For Kosovo, data are available starting 2008.

- 2 See World Bank Country Economic Memorandum (CEM) for Serbia (2020), Albania (2021), Kosovo (2022), Montenegro (2023) and BiH (forthcoming).

Priorities for action

- Boosting the growth with adequate sectoral policies
 - Coordinated policies and investments for regional integration can also generate significant economy-wide benefits.
- Addressing labor shortages
 - Businesses require policies to retain the labor force and attract diaspora to the Western Balkans labor market
 - Despite some improvements over time, labor force participation rates in the Western Balkans continue to lag other countries with similar levels of economic development. They should be increased.
 - The shortage of accessible and affordable pre-school and afterschool care can profoundly impact parents and families and affect the participation on the labor market
 - Education must match labor demands
- Increase of labor productivity

WEF Report on Future of Jobs

World Economic Forum: Future of Jobs Report 2023

Available at:

https://www3.weforum.org/docs/WEF_Future_of_Jobs_2023.pdf

WEF Report on Future of Jobs

- The largest job creation and destruction effects come from environmental, technology and economic trends
- Technology adoption will remain a key driver of business transformation in the next five years
- The impact of most technologies on jobs is expected to be a net positive over the next five years
- Employers anticipate a structural labor market churn of 23% of jobs in the next five years
- Large-scale job growth is expected in education, agriculture and digital commerce and trade
- The largest losses are expected in administrative roles and in traditional security, factory and commerce roles.

WEF Report on Future of Jobs

- Employers estimate that 44% of workers' skills will be disrupted in the next five years
- Analytical thinking and creative thinking remain the most important skills for workers
- Six in 10 workers will require training before 2027, but only half of workers are seen to have access to adequate training opportunities today
- Forty-five percent of businesses (participating in the Report's survey) see funding for skills training as an effective intervention available to governments seeking to connect talent to employment
- A majority of companies will prioritize women (79%), youth under 25 (68%) and those with disabilities (51%) as part of their DEI programmes.

Education and labor market

OECD findings:

[https://gpseducation.oecd.org/revieweducationpolicies/
#!node=41763&filter=all](https://gpseducation.oecd.org/revieweducationpolicies/#!node=41763&filter=all)

Education and labor market - OECD findings

- Having higher levels of education increases the likelihood of being employed
- Educational attainment and employment rates are positively correlated across different levels of tertiary attainment
- The employment advantage of a vocational qualification as compared to those with a general qualification tends to weaken over people's lifetimes
- Adults with more education and better problem-solving skills in technology-rich environments earn more
- Mismatches between skills and what is required or expected at work are pervasive
- Valuable skills from immigrants may go unrecognised in host countries

Education and labor market - OECD policy options

- Strengthen links between tertiary education and the labor market
- Improve data and analysis about the labor market outcomes of tertiary graduates
- Include labor market perspectives and actors in the development of tertiary education policies and in governance structures of tertiary institutions
- Ensure vocational education and training meets labor market needs
- Engage stakeholders to strengthen links between vocational programmes and labor market needs
- Activate the skills supply
- Ensure the VET offer's continued relevance and facilitating its students' horizontal transitions

Discussion

- **At what extent global issues apply to WB and Turkey**
- **Common regional challenges in WB and Turkey**
- **Peer-to-peer learning possibilities**
- **How to articulate labor market reforms through ERP/Reform Agenda?**

Thank you for your attention

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