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Professional paper

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## MACROECONOMIC ASSUMPTIONS FOR THE EMPLOYMENT POLICY - AN OVERVIEW OF THE SITUATION IN THE REPUBLIC OF MACEDONIA

### Abstract

The paper addresses the macroeconomic assumptions for the employment policy in the Republic of Macedonia. The main goal is to identify these assumptions as a base for creating favorable conditions for unemployment decrease. Providing sustainable economic growth is the key determinant for creation of new jobs and solving the unemployment problem. This growth requires macroeconomic assumptions such as: economic stability, favorable investment climate, flexible institutions on the labor force market to be achieved etc.

Regarding the unemployment problem in the Republic of Macedonia, creating the macroeconomic framework of the employment policy is a complex process that assumes mix of different sectorial policies, which should align their goals and objectives in order to achieve employment growth. The paper identifies possible activity directions of the monetary, fiscal and wage policy, as a set of core macroeconomic policies which have a direct and indirect impact on the employment growth.

The analysis in this paper leads to a conclusion that the achievement of sustainable growth and development of the Macedonian economy is a significant determinant to encourage employment in the future. It should be achieved through: maintaining macroeconomic stability, reducing the budget deficit, increasing the domestic and foreign

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investments, as well as investment in infrastructure, development of the real sector and increase of the competitiveness. Any successful policy in these areas would contribute to creating new, but also to maintain sustainability of the existing jobs in the country.

**Key words:** Labor Force, Unemployment, Monetary Policy, Fiscal Policy, Wage Policy.

**JEL classification:** J21, J64, E52, E62, J31

### **Introduction**

The study of the characteristics and relevant socio-economic aspects of unemployment in the country showed that unemployment could not completely be analyzed in terms of main types of unemployment. Its causal conditionality is characterized as a developmental-structural unemployment, and as such, it is a complex and very difficult problem to solve. Therefore, the need to consider the possibilities for reducing unemployment by building a comprehensive employment policy is imposed. Within this paper, the attention is focused on identifying the macroeconomic assumptions and sectors of activity of the employment policy, as a basis for creating favorable conditions for reduction of the unemployment. Furthermore, the areas of action, measures and actions of the monetary, fiscal and wage policy, which have a significant effect on the reduction of the unemployment in the country, are identified.

Providing sustainable economic growth and development is a key determinant for the creation of many new jobs, and thus, for solving the unemployment problem. This growth requires certain macroeconomic assumptions to be accomplished, such as: economic stability, favorable investment climate and flexible institutions in the labor force market.

The economic policy has a significant impact on the labor market functioning. Regarding the employment, both fundamental economic objectives of a country are related to the creation and provision of macroeconomic conditions for accelerating the economic growth and formulation of operational employment policy. In modern terms, the process of globalization is imposing the need in the creation of the economic policy to consider the international macroeconomic conditions. Considering that the macroeconomic policy framework for employment

is a complex process that implies creating a mix of different sectorial policies, which should align their goals and objectives in order to achieve increase of the employment, this paper identifies the possible actions of the macroeconomic policies, which have a direct and indirect impact on the employment growth.

### **1. Some theoretical aspects of the macroeconomic framework for the employment policy**

The establishment of the macroeconomic framework for the employment policy is a complex process because it presupposes creating a mix of different sectorial policies, which should align their objectives and strategies in order to achieve employment growth. The brief review of the three macroeconomic policies (fiscal, monetary and wage policy), aims to indicate their impact on the employment.

The fiscal policy plays a key role in defining the overall economic framework and the scope of measures and activities in the economic policy area. If the country wants to aim the fiscal policy at increasing employment, the focus should be put on stabilizing the macroeconomic framework, providing a solid and sustainable budget policy and establishing efficient regulatory and audit bodies. The aim is to reduce the budget deficit to a level that is acceptable in the long term, i.e. to a level that allows the future interest and repayments to be covered by state revenues. In the field, however, of the taxes and customs, as a part of the financial policy, there should be taken measures that will enable support of the new investments and development of the small and medium enterprises (SMEs). The effects in terms of the employment can be achieved only with the set of comprehensive specific goals. For example, a reduction or omission of taxes for starting new businesses or for creating new jobs can be introduced.

In order to reduce the unemployment, the fiscal policy can achieve positive effects by reducing taxation. This policy would be effective in the sense that the reduction in taxation theoretically should increase consumption, that is, part of the increased available personal income (due to lower amount of taxes paid) to be spent on buying goods and services. However, if the unemployment is structural or friction, which is often long term, then it is better to use the policies that will

influence the supply side of the labor force. This means that fiscal policy can be used as a short-term solution to reduce the unemployment.<sup>3</sup>

In the formulation of the monetary policy<sup>4</sup>, in order to increase employment, the inequality of short-term and long-term goals should be taken in consideration. Thus, in the short term, when the potential GDP of the country is underused, the monetary expansion has a positive effect on the aggregate employment, because it means lower interest rates, which stimulates consumption and investment. At the same time, this expansive monetary policy tends to spur the inflation and distort the price stability. Higher rates of inflation are undermining the function of the prices and increase the uncertainty about the future decisions regarding the purchase of durable and capital goods. In long-term, this situation is increasing the negative effects on the employment.

The exchange rate policy, i.e. the policy of fixed exchange rate, without tying the national currency with an international currency, can have a significant impact on the aggregate employment. With the nominal devaluation of the domestic currency, i.e. by increasing the nominal exchange rate, the domestic goods become cheaper abroad and foreign ones become more expensive at home. It increases competitiveness of the national exporters and domestic producers, which increases demand for domestic products. If the production factors of the country are underutilized, it will cause a rise in aggregate employment.<sup>5</sup>

Regarding the wage policy, it is important to point out that salaries are the main expense of labor as a factor of production, but at the same time they are a household income, which increases their consumption power. The amount of the wage depends on productivity. The higher growth of wages compared to productivity growth can lead to inflation increase, what respectively can have a negative impact on employment. If employers fail to overcome the increased labor costs by raising prices, their profits and their interest to invest will decline. It will cause reduction of international competitiveness of the country, which

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<sup>3</sup><http://www.markedbyteachers.com/as-and-a-level/economics/discuss-the-effectiveness-of-a-fiscal-policy-in-reducing-unemployment.html>

<sup>4</sup> Frenkel Roberto and Taylor Lance, *Real Exchange Rate, Monetary Policy and Employment*, DESA Working Paper No.19, ST/ESA/2006/DWP/19, February 2006, p.1-9.

<sup>5</sup> Kausch I., Trommershäuser S., *Strategies for Employment – Labor-market and Employment Policy in Developing Countries and Countries in Transition*, GTZ, Eschborn, 2002, p.27.

consequently will reduce the number of jobs in those sectors that produce goods which are sold on the markets abroad.

In many countries, the concept of minimum wage is used as instrument of the social policy. The goal is to determine the lower limit of salary, which will provide a decent standard of living to the lowest paid workers. However, in terms of large labor supply, this concept may cause problems. In that case, the wages lose their function as a mechanism to align the supply and demand, which can lead to deterioration of the unemployment and underemployment.<sup>6</sup>

The importance of the abovementioned policies indisputably confirms the complexity of macroeconomic policy framework for employment, and the need to coordinate their goals and directions of action, for achieving employment growth.

## **2. The importance of accelerating economic growth**

In the contemporary conditions of globalization, the Macedonian economy is functioning as an open market economy, in which the basic preconditions for development are based on: increased investment activity and competitiveness, use of highly qualified labor force, infrastructure development and use of modern communication and information technology. The Republic of Macedonia, in order to achieve higher employment rates, should intensify economic growth, encourage domestic and foreign direct investments, maintain macroeconomic balance and stability of the national economy and increase competitiveness.

The data presented in the table below refer to the economic growth rate, employment and unemployment rate in the Republic of Macedonia, regarding the period from 1999 to 2013. In the Republic of Macedonia there are the periods of positive economic growth. However, economic growth does not always cause positive changes in employment (Table 1).

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<sup>6</sup> ILO, Global Wage Report 2008/09, *Minimum wages and collective bargaining - Towards policy coherence*, Geneva, 2008, p.33-36.

**Table 1:****Economic growth rate, employment rate and unemployment rate in the Republic of Macedonia, 1999-2013**

<b>Year</b>	<b>Economic Growth Rate</b>	<b>Employment Rate*</b>	<b>Unemployment Rate**</b>
1999	4.3	40.2	32.7
2000	4.5	40.3	32.5
2001	-3.1	42.6	31.1
2002	1.5	40.4	32.4
2003	2.2	38.5	37.1
2004	4.7	36.8	37.4
2005	4.7	37.9	37.6
2006	5.1	39.6	36.3
2007	6.5	40.7	35.2
2008	5.5	41.9	34.0
2009	-0.4	43.3	32.3
2010	3.4	43.5	32.2
2011	2.3	43.9	31.6
2012	-0.5	44.0	31.2
2013	2.7	46.0	29.2

\* Employment rate is calculated as participation of the employed (15-64) in the working-age population (15-64)

\*\* Unemployment rate is calculated as participation of the unemployed (15-64) in the labour force (15-64 години)

Source: State Statistical Office of the Republic of Macedonia, Labour Force Survey, no. 2.4.06 (1999), no.2.4.1.03 (2000), no.2.4.2.08/410 (2002), no.2.4.3.13/453 (2003), no.2.4.5.02/494 (2004), no.2.4.6.07/531 (2005), no.2.4.8.06 (2007), no.2.4.9.12/632 (2008), no.2.4.10.04/651 (2009), no.2.4.11.09/692 (2010), no.2.4.12.11/727 (2011), no.2.4.10.04/651 (2012), no. 2.4.14.04/779 (2013), Statistical Yearbooks 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012 and 2013., Statistical Review National Economy and Finance, 3.4.14.04/793 (2014), Gross Domestic Product - New Release no. 3.1.14.06 (2014); National Bank of the Republic of Macedonia, Quarterly Report - Statistical Appendix IV/2009, IV/2010, IV/2011, IV/2012, IV/2013 and IV/2014

As a result of the military conflict in 2001, the period of positive economic growth was terminated. The economic growth rate in 2001 was negative (-3,1%). From 2002 till 2008 the period of economic recovery followed. The rate of economic growth varies from 1,5 % in 2002 to 6,5% in 2007. This is the highest rate of economic growth that was realized in the Republic of Macedonia in the period from its independence until today.

Moreover, a special interest in consideration arises from the employment rate. The aforementioned dynamics of the economic growth rate causes very small and insignificant changes in the employment rate

in the Republic of Macedonia. The positive increase in the employment rate is evident in 2001, which started slowly to decrease in the following years (40,4 % in 2002, 38,5% in 2003 and 36,8 in 2004). After five years of continuous economic growth period, the employment rate have started to increase. The highest level of employment in the past period is achieved in 2013 (46,0)%.

These changes in the employment rates are expected because of the trend of a slight increase in the national GDP growth rate, but primarily are a result of the institutional and legal changes made in the field of the employment in the recent years. As important factors for the increase in the employment, also are: the changes in the Employment Law, the introduction of the gross wages concept and fiscal policy measures that reduce the percentage calculated and paid for social security contributions on employees' wages. Another aspect is the active government programs for self-employment. These measures resulted with an increase in the employment rate in the period 2009-2013.

Regarding the decrease of the unemployment, Republic of Macedonia needs long-term continuous economic growth which will be accompanied with higher increase of the real sector as a creator of new jobs and increase of the competitiveness. The practices show that more significant effects in the employment can be expected only with sustainable economic growth in the longer run, and that those effects usually are manifested after the fourth year.

Macroeconomic indicators confirm that higher economic growth rates are realized in terms of the investments increase. Regarding the limited financial capital in the country in the last decade, the attention of the economic policy creators was focused on the increase of the foreign direct investments, as one of the main preconditions to achieve more dynamic economic growth. Basic prerequisites for attracting foreign direct investments are: political and macroeconomic stability of the country, favorable business environment, infrastructure development and credibility of the government policy.

On the other hand, the use of restrictive monetary and fiscal policy in the recent years has enabled the achievement of macroeconomic stability in the Republic of Macedonia. But this stability does not endure economic growth. The last financial and global crisis caused recession in the whole world. The growth of the jobless disturbed the established macroeconomic stability, and that made Republic of Macedonia more

risky country for foreign investors. Therefore, political instability is another important factor that discourages FDI.

In that manner, numerous measures and activities were taken, but the results have remain relatively modest. Although, the investment policy is based on equal treatment of the domestic and foreign investments, it seems that state aid to domestic companies is relatively lower, especially if real investment opportunities are considered. In that sense, the suggestion is to force direct help with the budget funds to the companies from the real sector, in order to enforce the real sector development and the creation of new jobs.

In parallel with the activities of fostering economic growth in Republic of Macedonia, it is necessary to undertake more serious measures to increase competitiveness as an important assumption of encouraging the export and to decreasing the trade deficit of the country. In this context, very important subject is the policy of transfer of technology, particularly of the information technology.

Investments in infrastructure are also important prerequisite for increasing competitiveness of the national economy and for investment increase. Through these investments, higher economic growth and balanced regional development should be achieved, which can promote employment and reduce poverty and social exclusion. According to the planned capital expenditures, public investments in the country aim at: energy, road, railway and utility infrastructure, improvement of education and health care conditions, as well as improvement of quality of infrastructure in the social, cultural life, as well as in the sport.

Therefore, one can conclude that it is necessary to achieve sustainable economic growth and development of Macedonian economy, as a significant determinant to encourage the employment, especially to contribute in creating new, but also in maintaining sustainability of the existing jobs in the country.

### **3. Fiscal and monetary policy**

The state fiscal policy is a key factor in defining the economic framework and the volume of actions available for the economic policy. A number of developing countries, not excluding the Republic of Macedonia, are facing budget deficits, which more or less, are financed

by expanding the money supply or by using the funds that are available from the bilateral and multilateral cooperation.

The implementation of the fiscal policy reforms in the Republic of Macedonia is a good basis for creating an environment to support SMEs, creating new jobs, attracting FDI. All these measures and actions are aimed at reducing unemployment in the country. In order for fiscal policy to support the economic growth, it is necessary to maintain a controlled budget deficit at a moderate level of about 2%-3% of GDP, which will be used for the realization of capital investment projects, primarily in transport, energy, utilities, education and health infrastructure. If the state wants to use the fiscal policy to improve the situation in the field of employment, it should be focused on stabilizing the macroeconomic framework, providing a solid and sustainable fiscal policy. In addition, measures that will affect the scope and structure of the income and expenditures in the budget, and which directly and indirectly contribute to the employment growth, should be taken. In that sense, a system of taxes and contributions should be designed not to burden the labor factor too much. This goal can be achieved if the tax is more focused on consumption rather than on production. However, taxation of consumption should be selective in order to minimize the negative distribution effects.

Lowering taxes and tariffs can be used to attract more foreign direct investment or to promote SMEs. In general, primary benefit from this reduction will be the creation of low-skilled jobs. However, the use of this instrument has an opposite effects in the sense that it leads to profit outflow, while at the same time, the added value of production is very low. So, in terms of encouraging employment, such tax and customs benefits should primarily be directed to the domestic SMEs. In order to achieve significant effects in the field of employment, these benefits should be linked to specific targets of the employment, for example, temporary tax breaks for new businesses or lower taxes for creation of new jobs.

The Republic of Macedonia uses different combination of measures to stimulate economic activity and to increase and diversify the investments. Particularly significant are fiscal incentives that attract foreign direct investments. At the same time, fiscal measures which are used to encourage FDI are: different types of tax incentives, special customs measures and the establishment of institutions that provide information, legal and organizational support to foreign investors.

The projection of the budget revenue of the Republic of Macedonia is based on the realized revenues in the current year and projected macroeconomic indicators for the next period (expected economic growth, employment, inflation, wages and other relevant variables).<sup>7</sup> Regardless of that, in order to achieve the consolidation of the budget, efforts should be focused on increasing tax revenue by expanding the tax base by one, and to improve the efficiency of tax collection, on the other hand.

In terms of budget expenditure, the attention of the fiscal policy should be aimed at increasing public investment particularly, the investment in infrastructure, and to provide basic social services (health care, education, gaining professional qualifications, etc.). The investments in the infrastructure are more than necessary, but require large spending. Regarding this, positive experiences of using public-private partnership, through which the infrastructure projects can be implemented efficiently and with less budget, should be used and promoted. However, reduction of government spending for such investments, in the short term, causes decline in aggregate demand and incurs job losses.

Expenditure side of the budget for the time it is designed to support the recovery of the Macedonian economy and overcoming the consequences of the crisis period. For this purpose, tighter control of current expenditures and a significant increase in capital expenditures for investments in infrastructure projects is provided. During the projection of the expenditures in the country, especially in the segment of the salaries and allowances, it is necessary to continue with the strict control of new hires and postponed wage increases in order to stabilize the general economic conditions and to complete the consolidation of public finances. Regarding current expenditures, full and timely payment of pensions and social security benefits, as well as providing social welfare of the beneficiaries of these rights, should be allowed.<sup>8</sup>

Monetary policy is a potential control instrument that can affect the labor market. In the creation of the monetary policy, the central bank faces two problems. The first refers to the conflict of the short- and long-term effects on the employment. Namely, on short term, when the aggregate output of the country is under-used, the expansion of the

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<sup>7</sup> Ministry of Finance, *Fiscal Strategy of the Republic of Macedonia 2011-2013*, December 2010, p.12.

<sup>8</sup> *Ibid.*, p.13.

money supply has a positive effect on the aggregate employment, because it means lower interest rates which stimulate the household consumption and the investment by businesses. However, this expansive monetary policy tends to increase the rate of inflation and thus jeopardize the overall price stability. The higher inflation rate on one side has an influence on the prices, and on the other, it creates uncertainty in the decisions to purchase durable consumer and capital goods, which on long term increases the negative effects on the employment.

The second problem of the monetary policy is the management of the central bank, because it is very difficult to predict the intensity of the real economic effects and the time of their occurrence. Countries in transition have additional problems in that direction, because of the lack of relevant data and statistics, but also because of the imperfection of the money market and capital market. Therefore, these countries often refrain to use the monetary policy to achieve the objectives of the labor market. Their central banks are focused on maintaining the price stability, while the expansion of the money supply is mainly directed towards the development of the overall production potential of the country.

In this sense, the monetary policy in the Republic of Macedonia is aimed at maintaining price stability, which is the main objective of the Central Bank. Setting this goal is consistent with the empirical findings, which confirm that the price stability creates the most favorable macroeconomic environment for long-term sustainable economic development. Thus, maintaining the stability of the exchange rate is the intermediate target of the monetary policy. For achieving the price stability, as the primary objective of the monetary policy, the Central Bank has different monetary instruments. Regarding that, the exchange rate policy of the country should provide competitive prices for Macedonian products, an increase in their demand and greater engagement of the labor force.

#### **4. Wage policy**

Wage policy is a very important prerequisite for the functioning and development of the labor market. The salary is a major expense of the labor as a factor of production, but it is also a household income that increases their power consumption. The amount of the wage depends on the productivity and represents an important determinant of the labor

force performance. Therefore, the dissatisfaction of the wages results in a decline of the labor productivity. In fact, the increase in wages in the country should be directed to the development of the aggregate productivity. The determination of the wages above the level that provides productivity growth, may cause a change in the ratio of the labor earnings and the profits, or may lead to an increase of the inflation rate. In both cases, it can create problems in the employment area, expressed in unemployment increase and underemployment. Namely, if the employers fail to overcome the higher labor costs with higher prices, their profits and new investments will decline. On the other hand, if the higher costs are covered by the higher prices, it would cause a drop in the international competitiveness of the country, which will lead to cutting jobs in the sectors that produce trading goods.

Besides determining the average wage levels, another important factor for the employment is the wage differentiation, which should be done in accordance with the sectorial and regional factors, as well as with the factors related to the qualifications level. This will allow low-skilled workers, despite their low labor productivity to find employment. However, the wage policy that is in favor of the employee groups with low pay, can be counterproductive in achieving the objectives of the employment policy. Thus, more logical solution for these categories is to provide certain tax releases or relief from some contributions, which will ensure that they are going to earn enough income for a decent life. Trade unions and employers' associations have an important role in the negotiations to determine wages in different sectors and industries. Determination of wages in the country can be characterized as a decentralized process. Public wages are determined by collective bargaining at sectorial level, while the wages in the private sector are mainly defined by bargaining between employer and employee.

In the country there are informal practices of wages in the formal sector. Those are undeclared wages, which mainly comprise the so-called "envelope wage". It means that employers officially pay the minimum wage and report their employees with the minimum wage, which is then supplemented with additional salary paid in cash (which is not reported). This practice has a negative impact on the public finances, i.e. it reduces the tax and social contributions, and consequently have unfavorable impact to the social security and pensions for workers.

Regarding this situation the persistence of the grey economy in the country is evident. Also, the number of the employees that are hired

and paid like freelancers is very high. Therefore, recently the changes in the Law on contributions for compulsory social insurance were adopted.<sup>9</sup> These changes predict that on the income derived by performing physical and/or intellectual work based on contractual agreements or on copyright agreements, and other agreements in which the net amount is higher than the amount of the minimum wage established by law, shall be calculated and paid pension insurance contributions (17,6%), compulsory health insurance (7,3%) and personal income tax (10,0%). It is expected that this law changes will minimize the informal employment and the grey economy.

Relatively high taxes, which are representing the difference between gross and net wages, are discouraging the process of opening new jobs. Over the past decade, one of the reasons for employment increase is due to the changes in the tax system. The ratio between the actual gross and net salary has dropped from 1.76 in 2000 to 1.69 in 2001, when a progressive system of personal income tax (PIT) with two separate tax rates (15 and 18 percent) was introduced. In 2007, a system of flat PIT and income tax with a fixed rate of 12 percent was introduced. Later, in 2008, the flat rate was further reduced to ten percent, which resulted that the growth rate of the net salary for the first time to be higher than the growth rate of the gross salary. This suggests that the reduced rate of personal income tax was used to increase the workers' salaries, rather than to reduce the labor costs. The relation was further reduced in 2009, with declining rates of social security contributions.<sup>10</sup>

In terms of the wage settings it is very important to strengthen the social dialogue at bipartite level - the level of branch and enterprise – and at three partite level - through the Economic - Social Council. Through the tripartite dialogue a higher level of negotiations should be provided, which will protect the vulnerable groups of workers, while through bipartite negotiations, the focus should be on the specifics of the branch or the company. Improved social dialogue can contribute to the further elaboration of mechanisms for determining salary which are inefficient and give poor results.

More countries in transition are using the minimum wage as an instrument of the social policy. The goal is, with the determination of the

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<sup>9</sup> The Public Enterprise Official Gazette of the Republic of Macedonia, *Law on contributions for compulsory social insurance, no.20/2015*, from 12.02.2015.

<sup>10</sup> Blazevski M. Nikica, *The influence of the crisis to the wages in Former Yugoslav Republic of Macedonia*, ILO, Budapest, 2011, p.30.

minimum wage, to ensure that workers with low incomes will have an acceptable standard of living. However, in terms of the higher labor supply, minimum wage settings can cause problems. This means that wages are losing their function as a mechanism for adjusting the supply and demand of the labor and can cause an increase in unemployment and underemployment.

The effects of minimum wage functioning regarding the employment in the country can be positive or negative. The existence of the minimum wage in the economic system is of a particular importance for workers on low-profile jobs. This wage needs to improve their standard of living and to increase the efficiency of their working positions, leading to improve of the general productivity. As a result, the positive effect of the minimum wage introduction will be seen in the growth of consumption in the economy. But on the other hand, the legal obligation of the employer to increase the salary of some of his employees, may also lead to the abolition of (part of) such jobs. The literature mainly empirically is verifying this effect: a decrease of one to three percent of the employment in low productive jobs in terms of minimum wage growth of an additional 10%. However, subsequent findings argue that this effect is significantly reduced, but remained negative, and that this negative effect is particularly expressed in countries that have nonregulated or less regulated labor markets. An alternative way to compensate for the negative impact of setting the minimum wage is for the employer to increase the prices of his products, which on the other hand can lead to inflation in the economy.<sup>11</sup>

In Republic of Macedonia, the minimum wage was introduced in 2012 and it was 8.050 MKD, while since January 2015 it's been 9.590 MKD, and is a result of the agreement of the three social partners – the Government, employers and Unions. Considering that the amount of the minimum wage is the result of mutual agreement, it is currently the maximum amount that does not jeopardize the jobs of the workers. Benefits of the introduction of the minimum wage in the country are: increasing the living standard of the poorest and most vulnerable segments of society, motivation and encouragement for employees to work more, stimulating the consumption and increasing the work ethic, reducing the gray economy, as well as providing material and social security for workers.

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<sup>11</sup> Petreski Marjan, *Minimum wage determination – Brief for the public policies in Macedonia*, Center for Economic Analyses – CEA, p.11-12.

Salaries represent household income which increases their consumption power. In the Republic of Macedonia wages are relatively low and for a longer period are not corrected according to the increase of the life expenditures. That has influence on the continuous reduction of the aggregate consumption, and thus on the dynamics of economic growth and employment increase. Therefore, we consider that it is necessary to introduce a specific dynamics of the wage increase, both in the state and in the private sector, which should be higher than labor productivity growth. This should stimulate the consumption, increase the production and create opportunities for new jobs.

### **Conclusion**

Achieving sustainable economic growth and development is a key determinant for boosting employment and thus alleviating the problem of unemployment in the Republic of Macedonia. This should be achieved by maintaining macroeconomic stability, reducing the budget deficit, increasing the domestic and foreign investments, as well as the investments in the infrastructure, by dynamic development of the real sector and increase of the competitiveness. Successful policies in these areas would certainly contribute to the opening of many new jobs, but also to the sustainability of the existing employment in the country.

Fostering economic growth and development should be accompanied by creation of the macroeconomic framework for employment policies. It is a complex process that implies creating a mix of different sectorial policies, which should align their objectives and strategies to achieve employment growth. For this purpose, the paper identifies possible directions of activity of the main macroeconomic policies (fiscal, monetary and wage policy) that have a direct and indirect impact on the employment growth.

The study confirms the importance and possibilities of action of each of the macroeconomic policies aimed at increasing employment. However, it is noted that the success of the employment policy expressed by the growth of employment is conditioned not only by appropriately defined goals, measures and activities in each of the aforementioned policies, but also in their compliance in order to achieve the stated objectives of the employment policy.

Regarding the importance of accelerating economic growth, it can be concluded that changes in the employment rates in the Republic of Macedonia are expected because of the trend of a slight increase in the GDP growth rate, but primarily are a result of the institutional and legal changes made in the field of the employment in the recent years.

Republic of Macedonia uses different combinations of measures to stimulate economic activity and to increase and diversify investments. Particularly significant are the fiscal incentives that attract foreign direct investments. Fiscal measures which are used to encourage FDI are: different types of tax incentives, special customs measures and the establishment of institutions that provide information, legal and organizational support to foreign investors.

The relatively high taxes, which represent the difference between gross and net wages, discourage the process of opening new jobs. Over the past decade, one of the reasons for employment increase has been a result of the changes in the tax system. In 2008 the personal income tax was reduced to ten percent, which resulted that the growth rate of the net salary for the first time to be higher than the growth rate of the gross salary. This suggests that the reduced rate of personal income tax was used to increase the workers' salaries, rather than to reduce the labor costs.

The other measure of the wage policy is the concept of minimum wage, whose benefits are: increasing the living standard of the poorest and most vulnerable segments of society, motivation and encouragement for employees to work more, stimulating the consumption and increasing the work ethic, reducing the gray economy, as well as providing material and social security for workers.

All the proposed measures of the macroeconomic policy suggest that in the process of drafting the employment policy in the Republic of Macedonia, all the measures and actions should be taken in accordance with the principles of flexibility and security, with strengthening of the active labor market policies, promoting lifelong learning and modernizing labor legislation and social security systems.

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