

THE IMPACT OF LABOUR MARKET ADJUSTMENT MECHANISMS ON THE LABOUR MARKET SEGMENTATION IN MACEDONIA

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Abstract

The impact of the prolonged transitional recession in Macedonia on the labour market has been manifested in a high and persistent unemployment rate. According to the composition of the unemployed population by various socio-economic characteristics (education, age, gender, occupation, duration of unemployment etc.) the empirical analysis reveals striking labour market segmentation. With respect to this, some segments of the labour force such as youths, less educated workers and some ethnic minority groups face a much higher probability of becoming and/or remaining unemployed than the rest of the labour force. Moreover, the incidence of long-term unemployment in Macedonia is extremely high compared to other transition countries, indicating a likelihood of increasing human capital depreciation.

In these circumstances alongside the traditional forms of adjustment in Macedonia have emerged additional mechanisms such as employment in the informal sector, inactivity and emigration. The investigation of the level of association between the unemployment and these labour market adjustment mechanisms is of particular importance since it enables to identify their role in cushioning the economic and social consequences of persistent unemployment in deprived labour market segments. Hence, it is necessary to assess the alternative labour market adjustment mechanisms from the perspective of their capacity to absorb a part of the unemployed workforce and providing additional income for the households.

In this paper we make an attempt to identify the impact that labour market adjustment mechanisms exert on the labour market segmentation in Macedonia. For this purpose we use results from the survey carried on a representative sample of registered unemployed workers. Furthermore, we estimate econometric models that reveal the level of segmentation with respect to various labour market adjustment mechanisms. Finally, we formulate appropriate policy measures that target disadvantaged segments in order to improve the labour market functioning and to provide the necessary conditions for balanced economic development.

Key words: Labour market, adjustment mechanisms, unemployment, segmentation

1. Introduction

The past two decades Macedonia has gone through the process of transition which is still shaping the social, political and economic ambience in the country. As a part of South-Eastern Europe, the Macedonian economic growth is constrained by the general regional predispositions, which amongst other things are determined by the political instability of the region. Hence, the economic performance of the South-Eastern European countries (SEECs) has not been strong enough compared to Central-Eastern Europe countries (CEECs), which already take part of the European Union. In this sense, Macedonia and other SEECs, are known as 'lagging reformers' with regard to completion of the reforms in all spheres of the society.

The transitional process as a multidimensional phenomenon has affected every domain of the political, economic, and social life in the country. In the economic sphere, transition has been characterised by a change in the ownership of capital, liberalisation of goods and capital markets, liberalisation of the foreign economic relations, radical change in the role of the state in the economy, and the creation of a less regulated labour market. In the sphere of social life, transition has led to rising poverty and income inequality, a weakening of the middle class and social exclusion of vulnerable social groups. Politically, the transition has been accompanied by the creation of a democratic society, differentiation of power into legislative, executive and judicial branches, the creation of a pluralistic political system and implementation of public and democratic elections (Pechijareski and Rocheska, 1998).

The initial transitional recession has *inter alia* manifested salient effects on the labour market performance. Generally, the transitional reforms initially had negative effects on labour markets, which were manifested in declining participation rates and in persistent high unemployment. The processes of ownership restructuring and sectoral reallocation assumed a large-scale transformation of state owned firms into privatised ones and, a reallocation of a substantial part of the labour force from the manufacturing and agricultural sectors towards the expanding service sector (Blanchard, 1997). The experience in almost all transition countries, including Macedonia shows that the creation of new jobs in the emerging private sector was not initially strong enough to absorb the mass of workers laid-off from the restructured state-owned firms. At the same time, the mismatch between the skill requirements of newly created jobs and effective skills owned by the workers has become a substantial problem (Svejnar, 2002). Consequently, the labour markets in early transition became less dynamic with a relatively stagnant unemployment pool leading to increases in unemployment and especially long-term unemployment (Cazes and Nesporova, 2003). The initial 'transitional unemployment' differed in several aspects from other types of unemployment in that it was characterised by pronounced labour market segmentation, long average duration of unemployment and a low probability of exiting unemployment into employment (Nikoloski, 2004).

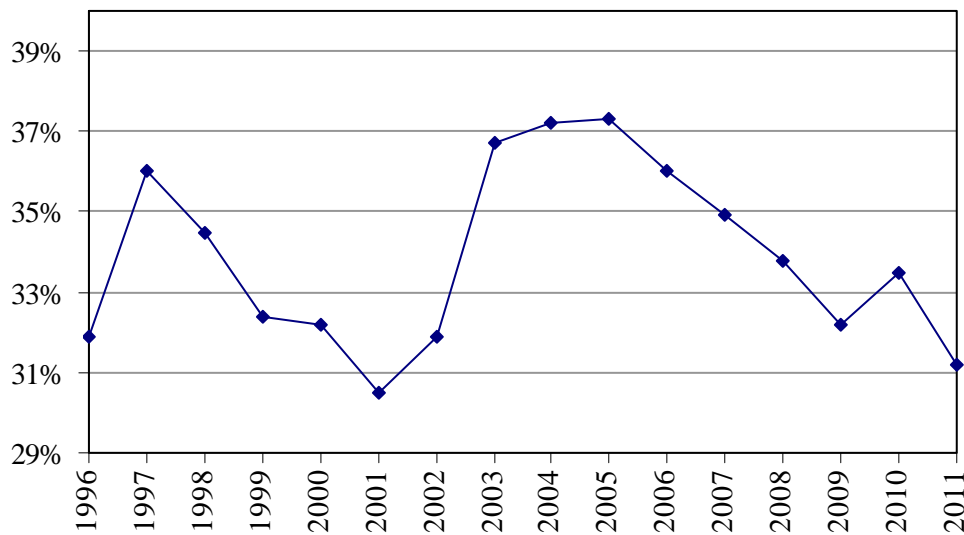
The aim of this paper is to assess the impact of the alternative labour market adjustment mechanisms on the labour market segmentation in Macedonia. To our knowledge this is the first study addressing this issue in Macedonia that will shed light on the sources of labour market segmentation and the role that adjustment mechanisms play in cushioning the negative social consequences. In this context, in section 2 we first present the general labour market trends in Macedonia. Next, in section 3 we will

investigate the labour market segmentation in Macedonia from different points of view such as gender, age, level of education etc. The empirical assessment of the impact of labour market adjustment mechanisms on the labour market segmentation in Macedonia will be subject of section 4. Finally, in section 5 we will conclude and formulate suitable labour market policies that will target deprived labour market segments.

2. Macedonian labour market performance

In order to investigate the features of the Macedonian labour market during transition, it is appropriate to divide the transitional period into two sub-periods. The first period encompasses the transformational recession from 1990 to 1995, with the second period starting immediately thereafter and lasting until the present. The changes of the unemployment rate in relative terms during the business cycle are rather small, which reflects the depressed characteristics of the Macedonian labour market (Nikoloski, 2004). The dynamics of the unemployment rate in Macedonia for the period 1996-2011 is shown on Figure 1.

Figure 1. The unemployment rate in Macedonia 1996-2011



Source: Macedonian Statistical Office, Labour Force Survey

The first Labour Force Survey (LFS) in Macedonia was conducted in 1996, and since then we have detailed data concerning labour market trends. During the period 1996-2003, the Macedonian LFS was conducted on a yearly basis, whereas since 2004 it is conducted as a continuous survey throughout the year with quarterly processing of data. For the period prior to 1996 we can explore labour market trends based on the number of registered unemployed workers. According to both sources of data we can generally distinguish several features of Macedonian labour market presented as follows.

First, during the initial phase of transition, the labour force participation and employment rates fell for most of this period, while the unemployment rate steadily increased. These trends are in line with the normal labour market patterns found in the

CEECs *i.e.* declining employment under the initial shock of recession and subsequent persistence of sluggish demand for labour.

Second, the mature phase of transition is characterised by broad stability in all three rates. However, we can observe recessions in 2001 (primarily caused by the already mentioned political instability) and in 2009 due to the global economic crisis. The downward trend in the unemployment rate was broken and unexpectedly remained high for several years due to the lack of job creation in the formal part of the economy (Micevska, 2008). Only recently, there are some positive signs of a slow recovery and the possibility of renewed decreases in unemployment.

Third, the Macedonian labour market is affected by strong segmentation, meaning that certain social groups such as youths, less skilled workers, and ethnic minorities, face a higher risk of unemployment and inactivity than the rest of the labour force. As a consequence, the high Macedonian unemployment rate has enormous social implications such as rising poverty, income inequality and social exclusion of deprived social segments (Nikoloski, 2011).

Fourth, long-term unemployment prevails over the short-term unemployment implying likelihood of possible 'discouraged workers' phenomenon. For instance, long-term unemployment accounts for almost 80 percent of total unemployment (OECD, 2002). Long-term unemployment has significantly contributed to an erosion of skills and motivation of unemployed workers, making them less employable over time (Gregg and Manning, 1996). The deterioration of skills further reduces the attractiveness of the labour force and contributes to a blurring of the difference between the states of unemployment and inactivity. After remaining unemployed for a long period of time, a considerable part of unemployed workers stops looking for jobs and quits the labour force.

Fifth, the sectoral reallocation of labour has been characterised by a significant increase of subsistence agriculture and other non-standard forms of employment at the expense of rapid shrink of employment in industry. These trends in employment by sectors indicate that in Macedonia new jobs are not predominantly created in the more productive industries and service sector, but rather in agriculture and low productivity services. The increase in the share of employment in agriculture suggests that this sector has become a buffer for some people who have lost their jobs in the state-owned industrial enterprises (Nikoloski, 2009).

Finally, given the rigidities in the standard adjustment through employment and wages, less traditional (in the western context) labour market adjustment mechanisms may play a more significant role. Among the alternative labour market adjustment mechanisms in SEEC we particularly distinguish the non-participation, emigration and employment in the informal sector of the economy.

3. The labour market segmentation in Macedonia

The segmentation literally means separation on different parts or situation where the entire population is divided into specific segments. In the labour market context, the segmentation means that we can distinguish different segments where demand and supply

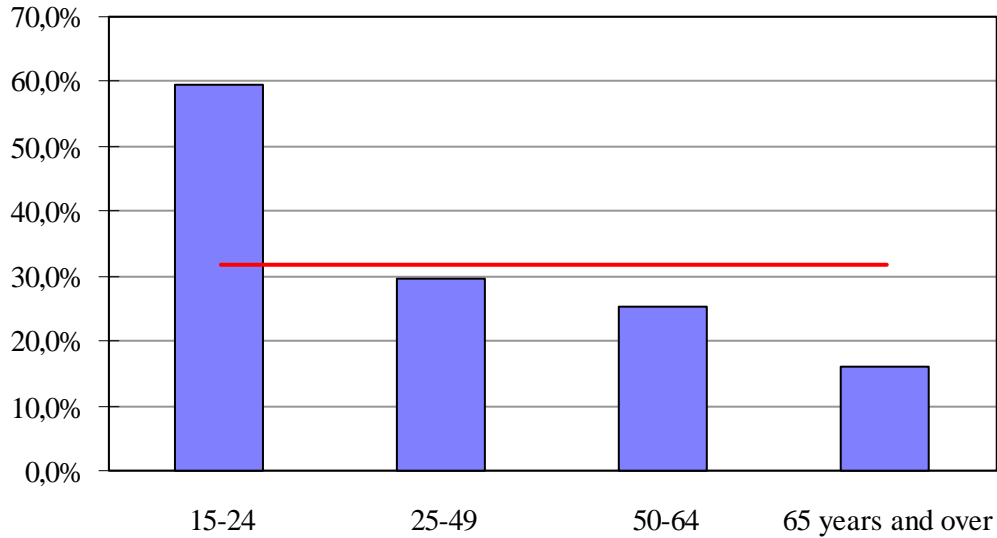
for labour in each segment adjust independently from the other segments. In other words, in the case of labour segmentation the established rules of behaviour of the labour market actors in each segment are different from those in other segments. According to the theory of segmentation, the labour market segments to some extent can operate independently because jobs and workers in each segment match according to particular conditions on the demand and supply side (Cain, 1976). On the supply side the labour market segmentation occurs as a result of the differences among the workers such as: age, gender, level of education, skills, professional preferences etc. On the demand side, the segmentation refers to the characteristics of the jobs such as: stability, wage level, required skills and education etc.

The labour market segmentation can be differentiated according to various attributes of the labour market. According to the dual labour market theory the labour market segments are differentiated by stability characteristics. In this context, the primary sector is characterised by higher level of wages, health benefit, and pension as well as higher level of job security. On the other side, the secondary sector is characterised by lower level of job security and jobs require low skilled workers and relatively little training. Besides this, the professional segmentation occurs as a result of the specific characteristics of each profession which limits the competition among workers with different professional background. Finally, the special segmentation occurs as a result of the relatively low geographical mobility of the labour force. As a consequence, the regional disparities in the levels of unemployment may persist for a long time.

The transition process in Macedonia has *inter alia* created increased preconditions for segmentation of the society that has affected the labour market (Nikoloski, 2009). As mentioned before, the Macedonian labour market during the two past decades is characterised by high and persistent unemployment rate, increased long-term unemployment and pronounced segmentation. The low probability for exiting the unemployment status is a reason for human capital erosion among the workers who were employed in the previous system but could not accommodate to the newly created ambience in the society. However, the analysis of the Macedonian labour market according to the data from the Macedonian Statistical Office shows that all workers are not equally affected of the unemployment problem. In these circumstances, as particularly affected we can distinguish some demographic segments such as: youth, some ethnic minorities (for example Roma), and less educated/less skilled workers. On the other hand the labour market segmentation is less obvious with respect to other socio-demographic characteristics such as: gender, place of living and profession.

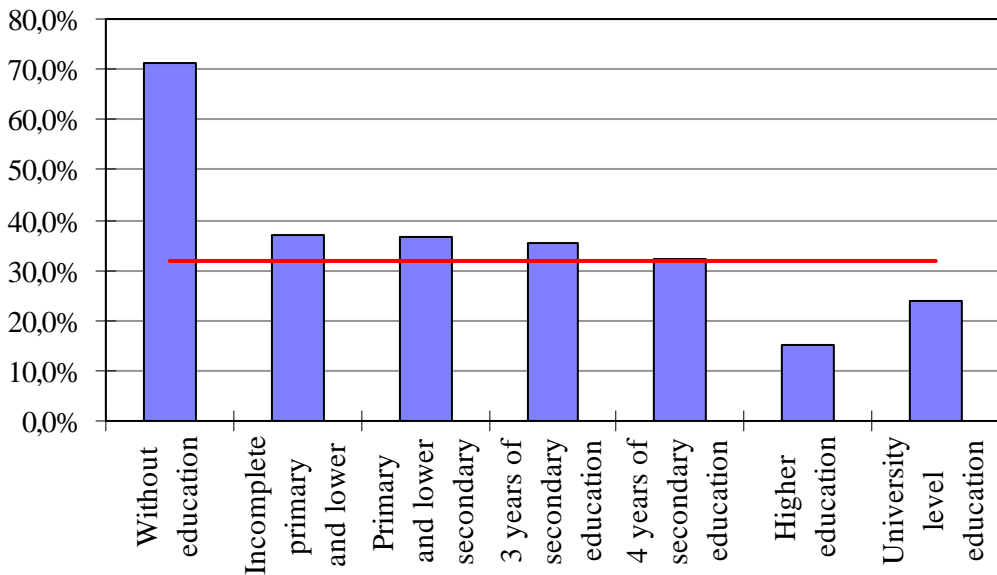
The unemployment rate among the marginalised segments on the Macedonian labour market is considerably higher compared to the average unemployment rate. For instance, the unemployment rate of the youth (from 15 to 24 years) in the fourth quarter 2011 was 59.4%. The unemployment rates for different age groups according to the data from the Labour Force Survey (LFS) in Macedonia are presented on Figure 2, where the red line represents the average unemployment rate.

Figure 2. Unemployment rates for different age groups



Similarly, the unemployment rate of the population without education is 71.3% which is significantly higher than the average unemployment rate of 31.8%. The unemployment rates according to the LFS data with respect to the level of education are presented on Figure 3.

Figure 3. Unemployment rates with respect to the level of education



When considering the marginalised categories, we assume that the same segments are the most inclined toward informal employment arrangements or temporary emigration where jobs are characterised with low security and lower wages compared to jobs in the formal sector. In addition, the marginalised segments are affected by the fluctuations in the business cycles more than the rest of the labour force which is evident from the last

economic recession (Nikoloski, 2010). According to our hypothesis the alternative labour market adjustment mechanisms such as employment in the informal sector, emigration and inactivity may play crucial role in alleviating poverty among marginalised labour market segments. Therefore, in what follows we will try to assess the role of the labour market adjustment mechanisms in cushioning the social implications from high and sustained unemployment among the registered unemployed workers with paying particular attention to disadvantaged labour market segments.

4. The role of the labour market adjustment mechanisms

In this section we will use an empirical analysis in order to assess the impact of labour market adjustment mechanisms on the labour market segmentation in Macedonia. As stated before, the high and sustained unemployment rate in Macedonia has been coupled with various forms of labour market adjustment mechanisms. The conventional (standard) forms of labour market adjustment are characteristic for the employed workers, whereas non-standard forms are mainly alternatives for the unemployed workers. Among the alternative adjustment mechanisms we will pay particular attention to the role of employment in the informal sector, emigration and social transfers. As informal economic activities will be considered only those who are legal in nature but not officially registered such as subsistence farming. The emigration as a coping strategy will include temporary work abroad as well as reliance on remittances from the relatives who are permanent emigrants. Finally, the inactivity will mainly encompass reliance on social transfers including both direct and inter household transfers.

To our knowledge, in Macedonia there is a lack of consistent cross-section data about different alternative labour market adjustment mechanisms. In order to estimate to what extent the unemployed workers are prone toward the above mentioned non-standard forms of adjustment we have designed and carried out a survey based on a representative sample of registered unemployed. The survey was conducted during a reference period from mid October to mid November 2011, whereas the sample consisted of 2.300 unemployed workers selected randomly in each of 30 branch offices of the Employment Service Agency (ESA) all over the country. Due to the lack of exhaustive lists of registered unemployed that are confidential, the interviewers had freedom to choose eligible respondents from their surrounding. Moreover, the geographical distribution was maintained by selecting from each branch office a proportional number of respondents with respect to the total number of registered unemployed workers.

In order to assess the factors that influences the labour market attachments in Macedonia furthermore we estimate a Logit model, where the dependent variable takes value zero if the person does not believe that there are available jobs or does not look for a job. In the opposite case where the unemployed search either temporarily or actively, the dependant variable takes value one. In the paper the possible determinants are divided in two groups: personal traits and services provided by the Employment Service Agency (ESA). This will allow to distinguish between two different sources of segmentation i.e. the socio-demographic characteristics and the provision of services for the unemployed. The results are presented in Table 1.

Table 1. Estimated Logit model for the labour market attachment of unemployed

Variable	Coefficient	Standard error	t-value
Intercept	1.86842661	0.1896326	9.8528789
Personal traits			
Female	0.17386377	0.1114702	-1.5597328
Youth (under 25)	0.18237071	0.1708769	1.0672640
Married	-0.47291926	0.1301912	-3.6324985***
Rural	-0.35239389	0.1272309	-2.7697198***
Minority	-0.05665663	0.1467321	-0.3861230
Without elementary education	-0.91573661	0.1714371	-5.3415326***
Long-term unemployed	-0.01831776	0.1499864	-0.1221295
Services from the ESA			
Health insurance beneficiary	0.20884957	0.1135179	1.8397942*
Unemployment benefit	-0.71746530	0.1757596	-4.0820832***
Participation in active programmes	0.36406291	0.1983480	1.8354753*

Note: *, ** and *** represent statistical significance at the 10%, 5% and 1% levels respectively.

According to the obtained results, among the personal traits of the unemployed workers, the marital status, the place of living and the level of education appear to be statistically significant determinants of job search. Considering the marital status of the unemployed, we can conclude that those that are married on average are 37.68 % less likely to search for job than the unemployed with other marital status (single, divorced or widowed). This can be explained with the fact that unemployed in marital community where the spouse is employed are less stimulated to search for job. Considering the place of living of the unemployed, we can conclude that those that those living in rural areas on average are 29.70 % less likely to search for job than the unemployed that live in urban areas. This can be attributed to the disproportional deference in employment opportunities between urban and rural areas. We assume that job creation is greater in cities, which may induce urban unemployed to search for job, though leading to higher discouragement among unemployed workers in rural areas. With respect to the level of education of the respondent, it is to be concluded that persons without elementary education on average are 59,98% less likely to search for job then the rest of the respondent that have acquired at least education.

Considering the labour market policies we can say that all of them have statistically significant influence on one's decision to search for job or not. In that context unemployed that have the benefit of the free health insurance on average are 23.23% more likely to search for job then those that do not have this benefit. Contrary to this, unemployed that have unemployment benefit on average are 51.20% less likely to search for job than those that do not have this kind of benefit. Concerning the participation in active programs provided by the ESA we can conclude that those unemployed that were enrolled in those activities on average 43.92% are more likely to search for job than those that were not enrolled in the ESA active programs.

In order to assess the factors that influences the engagement in informal economic activities among registered unemployed in R. Macedonia furthermore we estimate a Logit

mode, where the dependent variable takes value zero if the person declared that does not earn income from additional activities in the informal sector. In the opposite case where the unemployed stated that he/she undertakes and earns income from such activities, the dependant variable takes value one. Again, we divide the possible determinants in two groups: personal traits and services provided by the ESA. The results are presented in Table 2.

Table 2. Estimated Logit model for engagement in informal economic activities

Variable	Coefficient	Standard error	t-value
Intercept	0.29730187	0.15015292	-1.9799939
Personal traits			
Female	-0.55559236	0.09157188	-6.0672813***
Youth (under 25)	-0.58301535	0.13272726	-4.3925817***
Married	0.11972461	0.10391422	1.1521484
Rural	0.57012798	0.10861924	5.2488672***
Minority	-0.11504163	0.12481037	-0.9217314
Without elementary education	0.22682514	0.16426913	1.3808142
Long-term unemployed	0.08732422	0.12114384	0.7208308
Services from the ESA			
Health insurance beneficiary	-0.19639852	0.09357449	-2.0988469**
Unemployment benefit	-0.03123265	0.16258340	-0.1921024
Participation in active programmes	0.60602637	0.14629588	4.1424705***

Note: *, ** and *** represent statistical significance at the 10%, 5% and 1% levels respectively.

According to the obtained results, we notice that the gender, age and place of living are statistically significant variables of the employment in the informal sector. Concerning the gender, female unemployed on average are 42.63% less likely to engage in the informal sector than the male unemployed. Concerning the age, unemployed under 25 years on average are 44.18% less likely to engage in the informal sector than all other unemployed having in mind the age structure. With respect to the place of living, we can conclude that unemployed in rural areas on average 76.85% more likely to engage in the informal sector than the unemployed in the urban areas.

Considering the labour market policies we can say that health insurance beneficiary and the participation in the active programmes by the ESA have statistically significant influence on one's decision to engage in the informal sector or not. In that context unemployed that have the benefit of the free health insurance on average are 17.83% less likely to engage in the informal sector than those that do not have this benefit. Contrary to this, unemployed that have been enrolled in the active programmes from ESA on average are 83.31% more likely to engage in the informal sector than those that were not enrolled in the ESA active programs.

In order to assess the factors that influence the decision to emigrate, among registered unemployed in R. Macedonia furthermore we estimate a Logit model, where the dependent variable takes value zero if the person declared that if one has the possibility would not work abroad. In the opposite case where the unemployed stated that has intention to emigrate the dependant variable takes value one. In the paper the possible

determinants are divided in two groups: personal traits and services provided by the ESA. The results are presented in Table 3.

Table 3. Estimated Logit model for the intention to emigrate

Variable	Coefficient	Standard error	t-value
Intercept	1.14765647	0.15264184	7.51862296
Personal traits			
Female	-0.49258920	0.09055604	-5.43960596***
Youth (under 25)	0.13815685	0.13181611	1.04810297
Married	-0.54334663	0.10398492	-5.22524455***
Rural	-0.15160782	0.10901244	-1.39073876
Minority	-0.00777443	0.12337922	-0.06301248
Without elementary education	-0.25925154	0.16287101	-1.59175994*
Long-term unemployed	-0.11962496	0.12016169	-0.99553323
Services from the ESA			
Health insurance beneficiary	0.05291680	0.09282841	0.57004960
Unemployment benefit	-0.46214573	0.15955279	-2.89650669***
Participation in active programmes	0.09572237	0.15081504	0.63470044

Note: *, ** and *** represent statistical significance at the 10%, 5% and 1% levels respectively.

Among the personal traits, the statistically significant determinants of the intention to emigrate are gender, marital status and level of education. In this context female unemployed on average are 38.90% less likely to emigrate than the male unemployed. Concerning the marital status we can conclude that married unemployed on average are 41.92% less likely to emigrate than the other unemployed (single, divorced or widowed). Also unemployed that have low level of education on average are 22.84% less likely to emigrate than unemployed with higher level of education.

Considering the labour market policies, results show that unemployment benefit is statistically significant determinant on the decision to emigrate. In this context unemployed persons that have unemployment benefit on average are 37.01% less likely to emigrate than those that do not have the unemployment benefit.

5. Conclusions and policy recommendations

In this paper we have made an attempt to analyse the role that the alternative labour market adjustment mechanisms play in cushioning the social implications of high and sustained unemployment among disadvantaged labour market segments in Macedonia. From the analysis we can conclude that there exists to some extent a relationship between the labour market segmentation and the alternative labour market adjustment mechanisms. In the case of insufficient job creation in the formal sector of the economy, different segments of unemployed rely on different adjustment mechanisms. For instance, those who are not married, live in urban areas and have more than elementary education are more likely to actively search for job. On the other hand, male, mature and those living in rural areas are prone toward informal employment arrangements. Finally, male, those who are not married and those who have more than

elementary education manifest the highest intention to emigrate in order to find job abroad.

With respect to the services provided by the ESA, being health insurance beneficiary increase the labour market attachment, but decrease the probability of engagement in the informal sector. Furthermore, being unemployment benefit recipient decrease the labour market attachment as well as the intention to emigrate abroad. On the other hand, participation in the active programmes goes hand in hand with the labour market attachment and engagement in the informal economic activities. Therefore, when designing the labour market policy measures the policymakers should have into consideration both passive and active labour market policies. The passive labour market policies need to provide minimum subsistence for the disadvantaged segments, whereas the active labour market policies have to facilitate the provision of competitive skills for disadvantaged segments and assist the transition from unemployment to work.

Having in mind the above analysis about the relationship between the labour market segmentation and labour market adjustment mechanism for unemployed workers we can draw several conclusions and policy implications. First, the labour market segmentation in Macedonia represents significant problem that particularly affects certain disadvantaged labour market segments such as youth and less educated workers. Second, having in mind the insufficient job creation in the formal sector, most of the unemployed workers resort to various forms of labour market adjustment mechanisms that alleviate the negative social consequences of the unemployment. Third, the policy measures should target the most vulnerable segments of the unemployed population in order to provide appropriate employment opportunities in the formal sector.

The incentives to register as unemployed in Macedonia originate in the relatively generous eligibility for other entitlements rather than in the generosity of the unemployment benefits, a situation common to other transition countries. Furthermore, the easy access to these entitlements renders some other adjustment mechanisms, such as employment in the informal sector or temporary/seasonal emigration, as more attractive alternatives for those not employed in the formal sector. As a consequence, when undertaking measures to restrict unemployment benefits' generosity the government has to account for at least two important issues. First, the incentives created by other entitlements tied to the registration status of unemployed and second, possible overlaps between registered unemployment and other labour market adjustment mechanisms. Namely, less generous passive labour market policies that are not accompanied by sufficient additional job creation in the formal sector are unlikely to cause a decrease in the unemployment rate.

Even though the scope of the active labour market programmes in Macedonia carried out by the ESA is relatively large, their coverage is relatively modest. In our view the accent should be given to the apprenticeship programmes in order to increase the employability of the young unemployed persons and to prevent their lack of skills when they enter the labour market. Additionally, the preparatory programme for employment need to provide training for registered unemployed workers from disadvantaged segments in order to improve their competitiveness and employability on the labour market as well as improving the matching process between supply and demand of workers with appropriate skills. With respect to the targeting of disadvantaged labour market segment

it has been identified a lack of coordination among the key institutions and social partners. Therefore, the future policy recommendations should focus on overcoming the lack of coordination among the institutions and social partners as well as encouraging their larger involvement in the process of anticipating skill demands.

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