

FEATURES OF THE LABOUR MARKET IN ALBANIA, IDENTIFICATION OF MAIN INDICATORS AND THEIR DYNAMICS OVER TIME

Orion Garo, Research Department, Bank of Albania

INTRODUCTION

The analysis of the features, problems and dynamics of labour market indicators, are important to understand the current trends in this market and to see the differences among various groups of employed and unemployed persons.

This analysis provides an overview of the labour market situation in Albania and its main components' dynamics, based on the quarterly and annually data taken from the Labour Market Survey reported by the Institute of Statistics. Notwithstanding labour market in Albania traces back in '90's, the consistency of data reporting on its main indicators dates back in 2000s. Hence, the following analysis is mainly based on these 18 years.

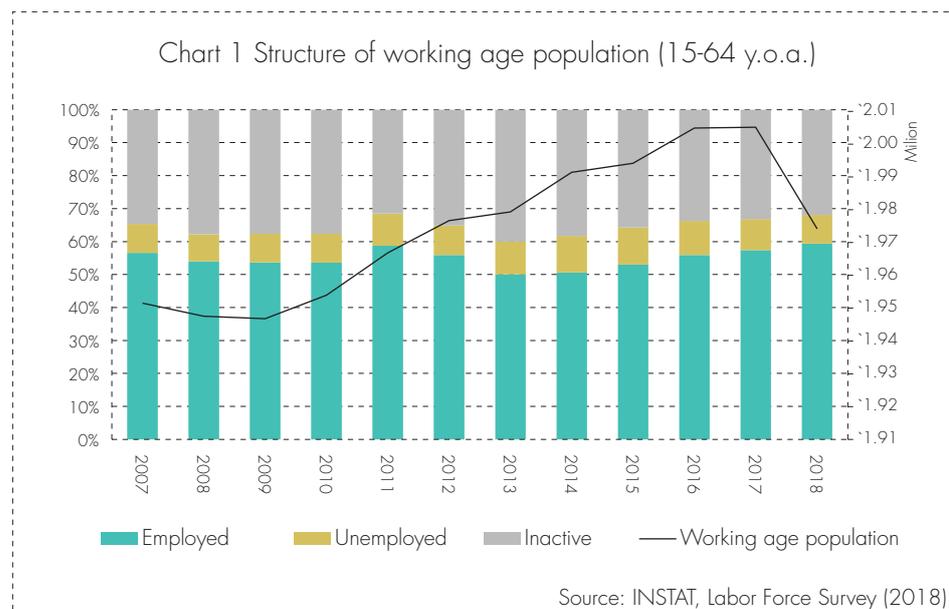
The purpose of this analysis is also to identify some of the most highlighted features of potential output of the Albanian society, including: workers; unemployed persons; working age population; and flows from its economic inactive component. Each of them is specific in case of Albania.

The results show that from 2014, the main indicators of labour market in Albania, employment and unemployment, show favourable and encouraging dynamics to economy. Nevertheless, figures show difficulty in finding a job, mostly encountered among young people, and a non-optimum utilisation of labour force of women, in our labour market. Also, it is noted, that based on the reports on the performance of the economically inactive population over time, the latter may include a considerable number of individuals who are vigilant and alert to developments in the labour market, and tend to join immediately the labour market once having this opportunity.

This paper is organised as follows: (i) The first session shows the main data and some developments of dynamics of the working age population, which includes all the segments of population engaged in labour market, and that part not economically engaged; (ii) second session deals with the labour force and its two components: employment and unemployment. It considers and interprets in particular data related with the gender and by age group differences, aged 15-29 years and 30-65 years. It also provides information on the dynamic of employed persons' productivity, in the reported time period; (iii) the third session identifies and analyses the composing categories of this population component at labour age; and (iv) the fourth session concludes.

SESSION I – FEATURES AND EVIDENCE AMONG THE WORKING AGE POPULATION

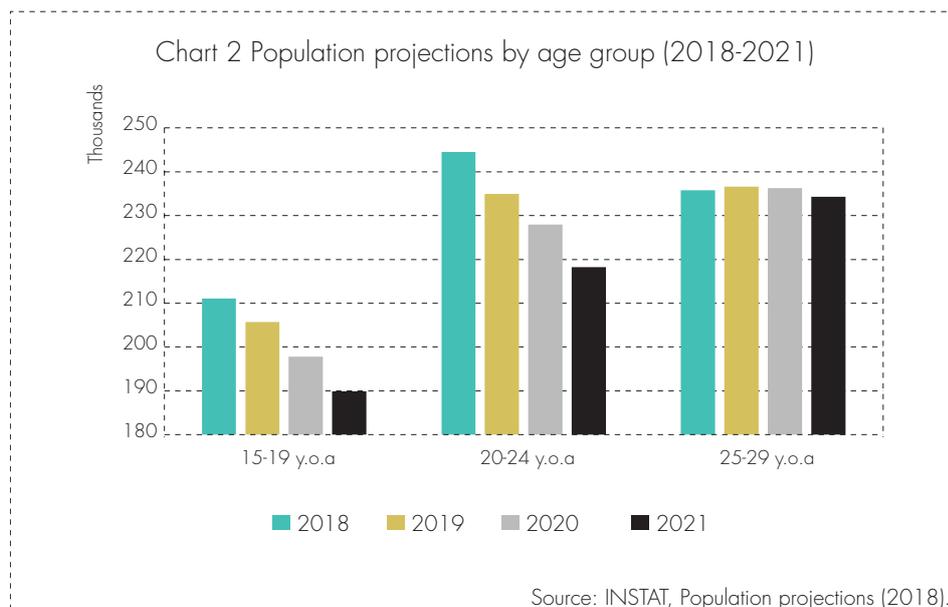
Graph 1 shows the ratio of average indicators of working age population, labour force, employment and unemployment in Albania, in the last ten years. The Graph provides information on the performance of working age people components over time, composed of the labour force (employed and unemployed persons) and the economically inactive population that includes all individuals who are not engaged economically in the society.



In the last 10 years, the working age population consisted in 2/3 of the whole population of the country. The labour force included 63.6% of working age population - around 1.3 individuals, while the rest is the economically inactive population.

In 2015, for the first time since the introduction of Albania in the free market economy, the working age population reached at 2 million. In 2018, the increasing trend decelerated averagely by 0.4% per year characterising this indicator since 2009. World Bank Group Report on the performance of labour markets in Western Balkans shows that (Vidovic, et al., 2018), the regions where Albanians live are the solely regions which do not show a falling trend of the working age population. Data for 2018 and the pace this population is increasing attributable to the flows of young people have started to gradually fall also in Albania.

Graph 2 shows the projections of population for three subdivisions of the youth population group, for 2018-2021, according to the collected data and INSTAT projections. It clearly shows that those aged 15-19 and 20-24 show a notable fall in the 4 forthcoming years. This trend marks the starting point of all for the total of population in working age, and will very soon reflect its impact on employment, productivity and economic growth in Albania.



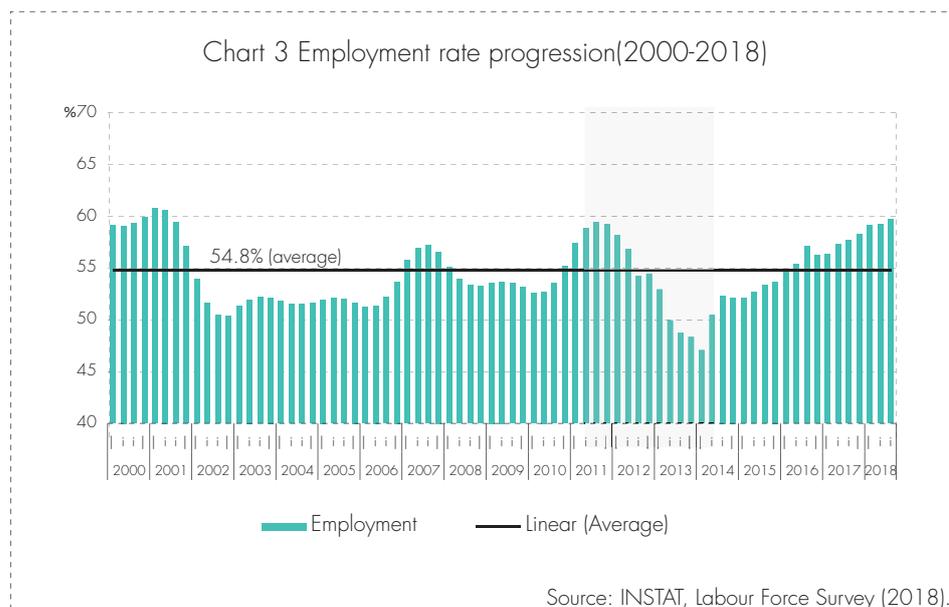
SESSION II - FEATURES OF THE LABOUR FORCE

According to INSTAT, labour force includes all individuals active in the labour market, aged 15 to 65, and is composed of only employment and unemployment. The latter and their dynamics are included in the main entities of the labour economy. They are combined quantitative indicators, hence one cannot be analysed without considering the other. Employment rate is the ratio of employed population to the total of working age population in a society; while unemployment rate is the ratio of unemployed people to the participants in the labour force. Because employment is the most important component of labour force, it considerably dictates its volatility. Data for Albania show that the participation rate in labour force tends to faithfully follow the unemployment rate volatility, due to the considerable impact that employment has in the composition and performance of labour force.

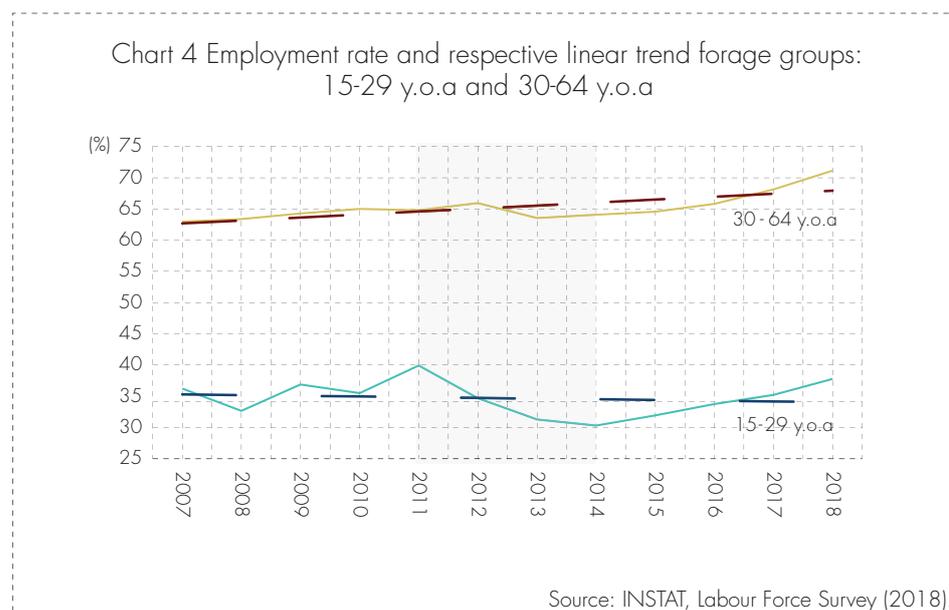
Employment – Statistics include a large number of individuals as employed persons. A considerable part of them are not included in employment for a periodic wage. There are also ambiguities and grey areas between employment for a wage, self-employment and self-employment in agriculture when the products are used for self-consumption, yet it is considered as employment.¹

¹ INSTAT determines the individuals included in the employed category, as follows:
The employed comprise all persons that (throughout the survey period) perform some work for a wage or financial benefit. They include:

- Self-employed persons who work in their own business, professional practice or farm.
- Persons temporarily absent from work during the survey period, for various reasons;
- Employed persons without a wage expecting to return to work within three months;
- Individuals self-employed in agriculture, who do not trade their products, but use them for self-consumption (Institute of Statistics, 2016).



Since 2014, employment has been trending upward, towards the level of 2000-2001. In this period the employment rate was stabilised at around 60% (see Graph 3). The analysis of employment rate since the beginning of 2000s shows its frequent volatilities between the range 50% and 60%, and a slight long-term falling trend (but not genuine).



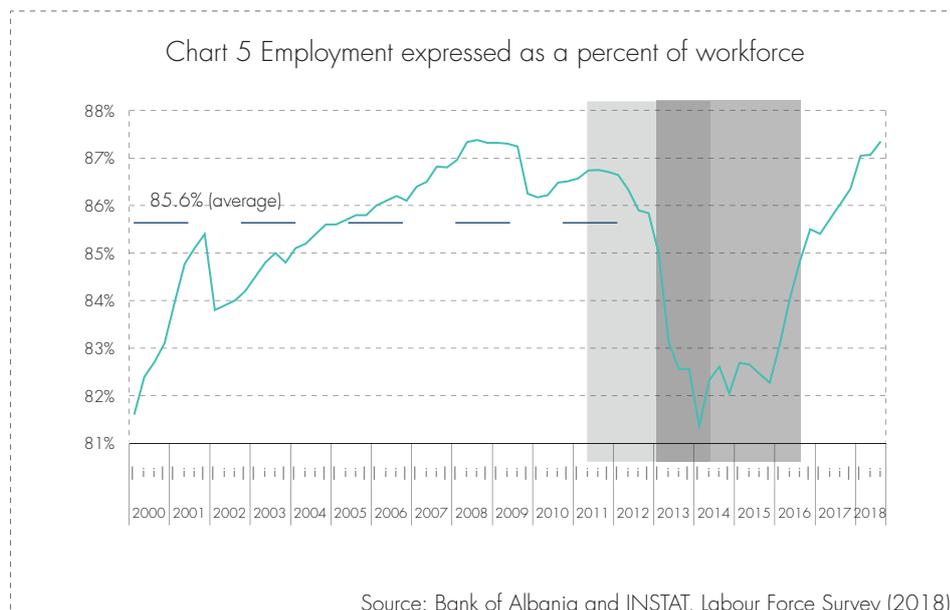
In 2001 Q1, employment recorded its highest level, 60.7%, while in 2017 Q1 the lowest level of 18 years, 47.1%. Structural fluctuation reflected in the fall of employment rate, in 2014, coincides with the lowest level of economic growth in the last 18 years, with an average growth of only 1.3% in 2011 (second quarter)-2014 (second quarter) and with the period of elections campaign of 2013. Following, employment rate grew by 12.6 percentage points since the beginning of 2014, supported also by the strategies on the formalisation of the economy implemented by the Government. Nevertheless, current employment level is only 4.9 percentage points above the average

level of these 18 years, and remains marginally below the level of 2000-2001s, when it recorded its maximum values (60%).

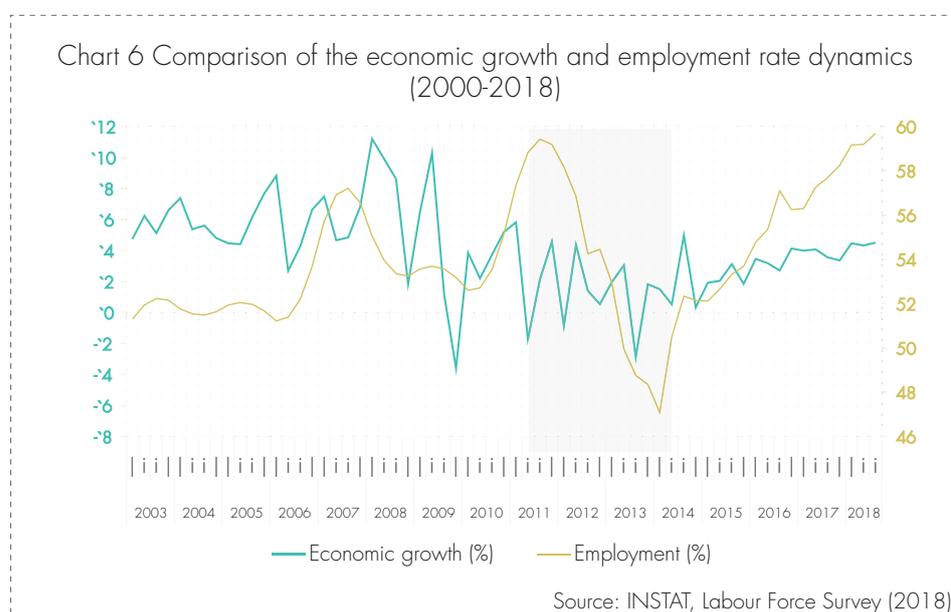
Regarding the differences by age group, pronounced differences are noted for individuals aged 15-29 years and those 30-69 years (see Graph 4). The average of employed young people aged 15-29 years, during the last 11 years, is 34.4%, almost half of the employed persons for individuals aged group 30-64 years (whose employment averages 65.3%). The percentage of employed persons aged 15-29 years has a falling linear trend, while the one age for group 30-64 years has an increasing linear trend. Also, the deviation from the employment rate trend for the group aged 15-29 years averages 2.2 percentage points, around 1.9 times higher than the average of the deviation from the trend of the group aged 30-64 years. This difference in the deviation from the trend shows the fact that fluctuations of young people employment are more frequent, by reflecting uncertainty to keep the work place, compared to the group aged 30-64 years.

Regarding the gender difference, during the last 10 years, the gap between employed men and women remains relatively constant, at 15.3 percentage points – on average around 153 thousand more men. Data show that in the last 18 years, on average 85% of the labour force was employed and the rest unemployed. Almost 3/5 of it are men, and only 1/4 are young people aged 15-29 years.

Graph 5 shows employment performance as a percentage of labour force, during the reported period. It is noted that employment percentage in labour force maintains a clear increasing trend till 2012. During the period 2013 Q1 - 2016 Q2 (the striped area) the trend changes immediately, and employment falls considerably at 85.7% of labour force composition (that was the average level till the end of 2012). This immediate fall of employment level reflect the economic slowdown in Albania, as it occurred rightly two years after the period 2011-2014 (grey area), during which, economy growth recorded the lowest values in these 18 years, on average 1.3%.



Graph 6 shows the dynamics in the performance of both economic growth and employment rate. Their relatively harmonised performance is noted. In the short-term view, it is noted that the economic growth anticipates the fall in the unemployment rate, in the period 2013-2015. The pronounced fall in the economic growth rate in 2011 Q1, is followed by the start of the decrease in employment rate, almost two periods after. This decrease continues till 2014 Q1, recording the lowest values of the last 16 years. The recovery of economic growth in 2014 Q3 is followed, about two periods later, by an upward trend of employment. This trend continues into the current period. Since the beginning of 2014, while economic growth trend has averaged 0.16 percentage point per quarter, employment rate has increased by 0.61 percentage point per quarter. Hence, economic growth affects the employment rate trend, in addition to a set of factors.



Productivity of Employed Persons (PEP) –one of the most used indicators of labour productivity, according to OECD (2008), is “Labour productivity per person employed”. “Productivity expresses the degree of efficiency in using the main factors of production in an economy [...], and it can be calculated as the ratio between the output measurements and a single production factor – single factor productivity – or multiple production factors – multifactor productivity” (Çeliku & Metani, 2011). In our case, PEP is a single factor, as from production factors it considers only the labour factor (the number of employed persons). Graph 7 shows the performance of this indicator during the last 18 years, calculated by real GDP with year 2010 as a base.

Chart 7 Comparison of employment and productivity of employees dynamics



Source: INSTAT, Labour Force Survey (2018)

Fluctuations in productivity of the employed persons occur depending on their number in the labour force. The Graph shows that during the period when employment is downward, the domestic product is accomplished by less employed persons, hence the productivity to employ records higher values, and vice versa. In concrete terms, the slight falling trend of productivity to employ noted for the period of 2014 and following, results from the falling trend ratio of real GDP to the increase of the number of employed persons during this period. Year 2018 records a positive turn in the employed productivity trend, as the number of employed persons continues to increase since 2014.

Unemployment – Unemployment people include participants in the labour force who are without a work. Currently, unemployment rate in Albania is 12.2% (2018 Q3). Since 2014, when unemployment recorded its highest level (18.2%) in these 18 years, it has gradually trended downward.

Unemployment rate maintained an average level of 14.7%. Overall, it has a gradual falling trend, down by around 5 percentage points, from 2000 to 2012. This trend increased considerably in 2012-2013, but in 2014 it records the beginning of its continuous gradual fall. Statistical tests² show a structural break of its performance in 2013 Q2 (see Graph 8), coinciding with the lowering of the economic growth pace in 2011-2013. A falling trend of unemployment rate is noted in the following years. Currently, this rate has exceeded its lowest level during these 18 years, in 2008.

² Test of structural break for unemployment rate series (tests are made available upon the request).

Chart 8 Unemployment rate progression



Source: Bank of Albania (2018) and INSTAT, Labour Force Survey.

Regarding the differences by age group, the unemployment rate shows considerably different values for the groups aged 15-29 years and 30-64 years. Considering the fact that the group aged 15-29 years includes young people who: [1] have not started yet or has just started their professional career; [2] are having a testing period in the labour market of their producing and creative skills for the profession/career they have to choose; [3] are active and persistent in searching an adequate stable job; it is expectable that unemployment for this age group to have a higher level, compared to the group aged 30-64 years.

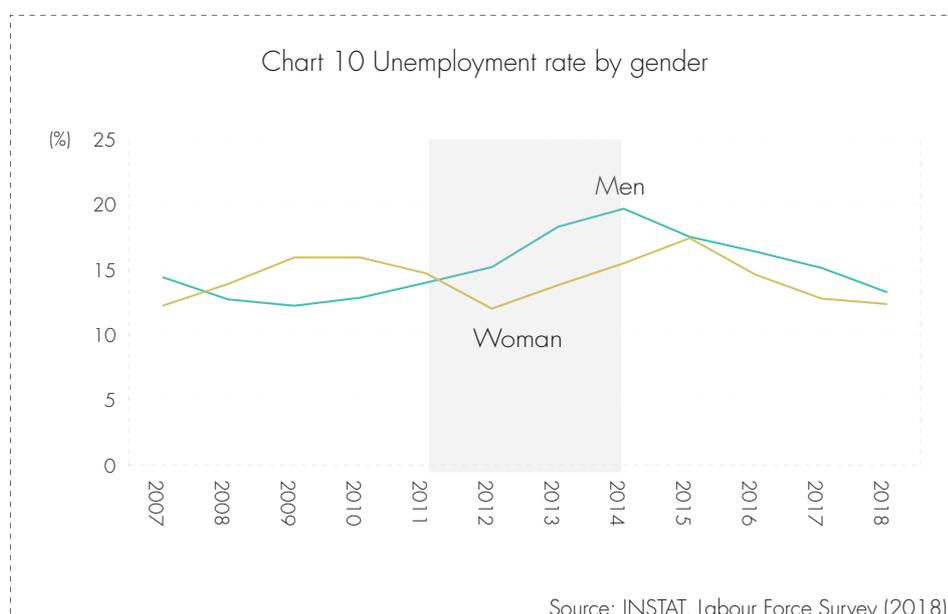
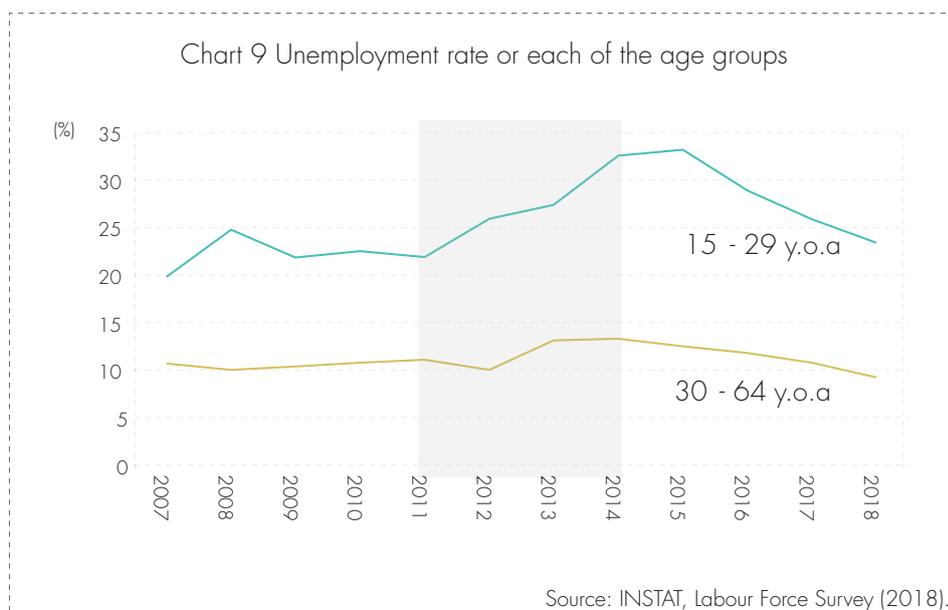
Graph 9 shows the 11-years performance (2007-2018) of unemployment trends for each age group. Currently, the percentage of unemployment for the group aged 15-29 years is 23.4% that is 2.5 times higher than for the group aged 30-64 years. During the last 11 years, the increase of unemployment rate for both young persons and the group aged 30-64 years is identical, 0.6% (meanwhile, regarding the increase of employment rate, it is -0.7% for young people, and 0.1% for age group 30-64 years).

With respect to gender difference, as shown in Graph 103, unemployment rate for men is around 1 percentage point higher than for women. Albeit 1 percentage point is not a considerable difference, it identifies the tendency of men to be more present than women in the number of unemployed persons. We should remember that women are more present in the population that is economically inactive: only somewhat higher than the half (54.7%) of the total number of women in working age included in the labour force. Meanwhile for men in working age, the inclusion in the labour force is around 73.4%. These figures show the tendency of women in Albania to avoid long period

³ We should keep in mind that unemployment rate is calculated as a ratio to the respective degree of labour force. In Graph 10, data on men unemployment rate are calculated as a ratio to the degree of the male labour force; while data on women unemployment rate are calculated as a ratio to the degree of female labour force. The level of male labour force is around 35% higher than female labour force.

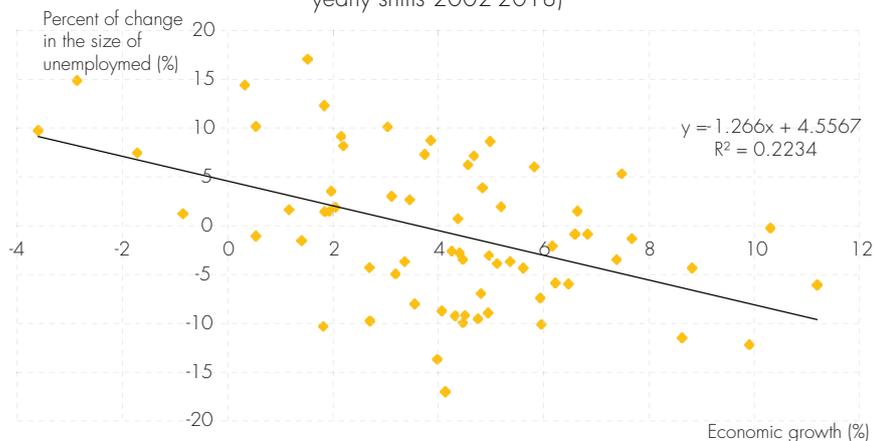
of no work and in search of work, standing in economic inactivity in absence of secured employment.

In terms of age group, in the group age 15-29 years, the percentage of unemployed girls (23.4%) is 2.6 times higher, compared to unemployed women of the group aged 30-64 years (9%). This fact evidences the higher trend of girls aged 15-29 years to be unemployed.



As shown above, economic growth is one of the factors affecting the labour force. Graph 11 shows the presence of the interconnection between economic growth of Albania and the difference rate in total number of unemployed persons. Assessments identify a negative connection between the two indicators, showing that, in the last 17 years, a growth of real GDP by 1% has affected the decrease of total number of unemployed persons by 1.3%.

Chart 11 The correlation between the percent change in the size of unemployment and the economic growth as theorized by Okun's Law (quarterly data with yearly shifts 2002-2018)



Source: INSTAT, Labour Force Survey (2018).

The measurement in Graph 11 shows a considerable relation ($R^2 = 22\%$) between the economic growth and difference rate in the total number of unemployed persons in Albania. Also, the Granger causality tests show that changes in economic growth drive to changes in unemployment and not the opposite, in the period under review. Nevertheless, this exercise requires further detailed elaborations of data and assessments, which go beyond the purpose of this analysis.

SESSION III - HETEROGENEOUS COMPOSITION OF THE INACTIVE ECONOMICALLY POPULATION

Graph 12 shows schematically the composing components of working age population (Bureau of Labor Statistics, USA (2016), Eurofound (2017) and INSTAT (2018)). Its main components are: employed persons, unemployed

Chart 12 Economic partaking of the working age in the society



Source: Eurofound (2017), INSTAT (2018), and Bureau of Labor Statistics (2016).

persons and the economically inactive population. According to Bureau of Labor Statistics, USA (2016) and Eurofound (2017), the economically inactive population is composed of three categories: [I] hidden employment; [II] population partially related to the labour force (including the discouraged workers); and [III] economically inactive population.

The economically inactive population, in case of Albania (see Graph 1), has a considerable share of individuals in working age population. Data about the economically inactive population show the high disproportionally levels of the presence in it of women and young people. Around 65% of this population are women, and 56% are young people aged 15-29 years (for comparison purposes that in the population of working age, young people share only 37%). The concentration in these levels of young people in the economically inactive population occurs because the major part of them is graduating, and thus joins the labour force after the graduation.

If the component economically inactive population is categorised by age group, 55% of individuals aged 15-29 years are girls. Meanwhile in the group aged 30-64 years, 72% are women. The reasons behind this gap of women's percentage in both age groups of the economically inactive population relate to: [1] the trend that boys, after the age of formal education, shall join the labour force at higher percentages, compared with girls; and [2] tendency of women to distract from labour force after 30 years age, mainly due to the dedication to raise children⁴ and other non-economical family commitments.⁵ The economically inactive population in Albania includes a considerable number of individuals who, albeit not categorised and not reported as unemployed⁶, are rather available to start a job as soon as a possibility arises. This segment includes at major part, those individuals that current literature of economy refers as "partially related to the labour force"⁷ (U.S. Department of

⁴ According to Eurostat data (2017) across the EU Member States, in the female economically inactive population, mothers of children 0-6 years old are around 36% more frequent, compared to women that are not in the same situation. Meanwhile, fathers of children 0-6 years old share around 1/4 of male economically inactive population, the rest is composed of men who are not in the same situation.

⁵ According to Eurostat data (2017) across the EU Member States, the economically inactive women made up 48%. Around 5.p.p of them report inactivity due to family or personal responsibilities (this percentage is even higher across the Southern European countries). The economically inactive men made up 34%. Their percentage reporting inactivity due to family or personal responsibility, practically is 0.

⁶ INSTAT includes in unemployed persons those individuals that: [1] are unemployed during the reference week; [2] are disposable to work during the reference week, and within two weeks after the reference week; [3] search for a job actively, by undertaking specific steps to search for a job with a salary or to establish a business, during the 4-week period that ends with the reference week. Persons available for a job included in the economically inactive population are not categorised as unemployed persons, as they do not meet the third above-mentioned condition. (Instituti i Statistikave, 2016)

⁷ "Marginally attached to the labour force" - Bureau of Labor Statistics (2016), this category includes individuals that wish to work, they have been actively seeking for a job for a 12-month period preceding the reference week, but have stopped seeking actively for a job during the four-week period ending with the reference week. A category of these individuals are the discouraged workers.

Labor, 2009), and their sub-category known as discouraged workers.⁸ These individuals manifest the behaviour of typical unemployed persons versus the demand for work in the market, taking a considerable part of vacancies when finding the opportunity.

The last report by (2018) on the quarterly survey of labour force includes data on discouraged workers. According to this report, the discouraged workers made up 9% of the economically inactive population in 2018 Q3. They have lost hopes to find a job from weeks, months or even longer and have stopped looking actively for a job. In addition to the category partially related with labour force, they compose that economic phenomenon known as "labour market slack"⁹ in the labour market of a country. In addition with the underemployment phenomenon¹⁰, labour market slack shows the underutilized workforce¹¹, present in the economy, when the latter is not able to provide employment opportunities adequate to the population.

The Unemployment rate in Albania shows the features of a long-term uniformity, as the work demand in the market is met by two categories of possible employees (the unemployed persons and those who are partially related with the labour force), albeit reacting against this demand. There are a set of difficulties to have correct quantitative definitions of labour slack, if data series are not available. The economic literature has ample evidence on the presence of a number of sub-division of individuals within the number of economically inactive population. These sub divisions should be exactly identified, to make possible genuine categorisations of this share of population.

SESSION IV – CONCLUDING REMARKS

This analysis aimed at reflecting and examining the main features of the labour market in Albania, which reflect the structure and dynamics in time of its main components. They include: unemployment, employment, labour force, working age population, the economically inactive component of the society; and the problems related with the insufficient demand of labour factor in Albania labour market. The main findings are provided following:

Data published by INSTAT show a constant growth of the share of working age population, during the last 18 years. The projections show this growth has already peaked and is expected a gradual fall in the working age population in the years to come. It is the first time our country records such a demographic

⁸ "Discouraged workers" - according to Eurofound (2017), this group captures the category of economically inactive individuals, who wish to work, but have no hope and stopped looking for work because they believe the market does not provide job opportunities for them. INSTAT identifies this category through their declaration that the reason of not looking for a job is the conviction that there are no available job for them.

⁹ "Labour market slack" (European Foundation for the Improvement of Living and Working Conditions, 2017)

¹⁰ "Underemployment". According to ILO (1996-2018) persons in under-employment consist of all employed persons who work during the reference period and who wish to work adequately, as reported in the relevant surveys.

¹¹ "Labour underutilization" (ILO, 1996-2018).

development, so far unknown to our economy. Its consequences are going to be felt quickly in all fields of human activity in Albania, from the various levels of education to the most important economic implications related with the domestic product, productivity, insurance schemes and living standard.

In the last 18 years, participation in labour force is characterised by continuous volatilities ranging 58% and 72%. Its current trend is recovering from a historical minimum of these 18 years, recorded in 2014.

Currently, participation in labour force is around 68%, and in recent years it has positively affected the performance of its both components: employment and unemployment.

Employment calculated as the ratio against the working age population is relatively constant, averaging 54% of the working age population. Employment rate is characterised by a fluctuation which performs almost identically with that of the participation in labour force. Employment grew in the last six years, at around 60% of the working age population. Current employment rate is around 1% lower, compared with the best reported period for this indicator. Figures show difficulties of employment mainly for young people. More frequent volatilities of both unemployment and employment are noted in the 15-29 years age group, showing difficulties to keep the job.

Unemployment rate (measured as a percentage to labour force) does not show considerable volatilities. Notwithstanding, an overall downward trend is noted in the last years. Currently, unemployment is around 12.2%, the lowest level since 2000. In terms of different age groups, the 15–29 years age group suffers more the unemployment, which although having a downward trend, again is high (the current unemployment rate for this age group is around 23%).

The economically inactive population is an important component in the labour market flows, sharing averagely 36% of the working age population. Women continue to mad up a high share of this component in the Albanian society (around 63%), showing a continuation of the non-optimum utilisation of the female potential workers from the labour market.

On the other hand, the economically inactive population shows the features of a heterogeneous composition. In addition to the economically inactive individuals, this share of population may include also a considerable number of individuals related to the labour force (having similar trend of employment with the unemployed persons), and of discouraged workers

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