

EXTENDED ABSTRACTS

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Economics

EFFECTS OF LABOR MARKET MEASURES AND POLICIES ON IMPROVING LABOR MARKET PERFORMANCE IN CENTRAL AND SOUTH EASTERN EUROPEAN (CSEE) COUNTRIES

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EXTENDED ABSTRACT

Purpose The study aims to examine the rationale, structure, and effectiveness of labor market measures and policies in Central and South-Eastern European (CSEE) countries, with particular attention to the post-transition challenges that have shaped their labor market dynamics. It highlights the critical role of Active Labor Market Policies (ALMPs) in enhancing employability, reducing structural unemployment, and fostering long-term socio-economic inclusion through targeted interventions addressing skill mismatches and persistent unemployment.

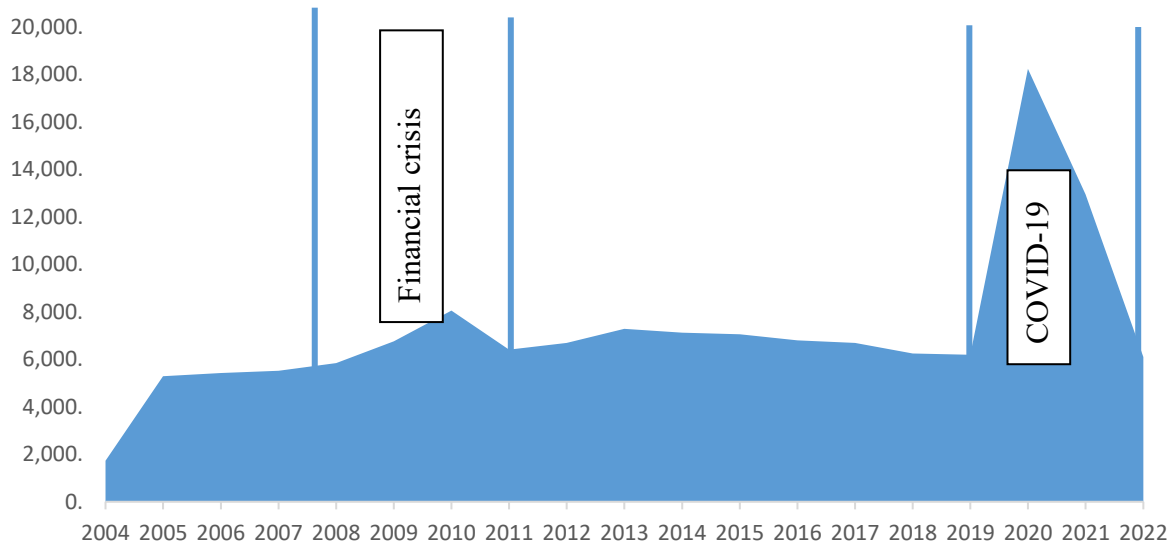
Design/methodology/approach The research applies a comparative analytical approach, combining theoretical insights from labor economics with empirical evidence drawn from policy evaluations and statistical indicators for selected CSEE countries. The analysis

categorizes labor market policies into six main groups—public employment services, training programs, employment incentives, direct job creation, entrepreneurship promotion, and financial support for the unemployed—and evaluates their scope, design, and institutional effectiveness across differing economic contexts. In addition, the empirical strategy employs a dynamic panel-data GMM estimator to identify causal effects while addressing endogeneity, unobserved heterogeneity, and potential serial correlation.

Findings The findings reveal that the efficiency and sustainability of labor market policies in Central and South Eastern European (CSEE) countries are largely contingent upon institutional quality, policy coordination, and fiscal capacity. Well-targeted active labor market policies (ALMPs)—particularly training programmes and employment incentives—have demonstrated measurable impacts in reducing long-term and youth unemployment (Kluve, 2006; Hijzen and Venn, 2011). In contrast, direct job creation and financial support measures tend to yield only transitory effects unless integrated with active reintegration strategies and skill development initiatives (Card *et al.*, 2018).

The temporal analysis of labor market policy expenditures from 2004 to 2022 identifies distinct phases shaped by post-transition economic transformation, EU accession processes, and exogenous shocks such as the 2008 global financial crisis and the COVID-19 pandemic. During periods of heightened macroeconomic instability, particularly in 2009–2010 and again in 2020–2021, governments in the region expanded ALMP spending through wage subsidy schemes and job retention programs (Hijzen and Venn, 2011). However, the subsequent withdrawal of emergency measures and the re-emergence of fiscal constraints reveal a persistent reliance on reactive, crisis-driven interventions. This contrasts with the more structurally embedded, long-term human capital and productivity strategies observed in advanced EU member states (Card *et al.*, 2018). The findings thus underscore the importance of transitioning toward forward-looking labor market policies that are institutionally grounded, fiscally sustainable, and aligned with broader goals of inclusive and resilient economic growth.

Figure 1: Total Expenditures on Labor Market Policies and Measures in Selected Central and Eastern European Countries (in million EUR)



(Source: EUROSTAT)

The data presented in Table 2 indicate pronounced differences in the distribution of total labor market policy expenditures among the selected Central and South Eastern European countries

during the period 2004–2022. Poland consistently dominates the expenditure structure, accounting for between 41.5% and 59.3% of total spending, reflecting both the size of its economy and its long-standing strategic commitment to improving labor market performance and reducing unemployment. Hungary follows with an average share of approximately 15%, although its expenditure dropped sharply to 7.3% in 2020 due to temporary fiscal adjustments and programme restructuring during the COVID-19 pandemic, before recovering in 2022. The Czech Republic ranks third, recording a 23% share of total expenditures in 2022, while Romania and Bulgaria exhibit notably low and declining spending levels, with Romania’s share falling from 8.1% in 2005 to only 1.3% in 2020, suggesting limited fiscal support and weak institutional capacity. Slovenia maintains a relatively stable share of around 4–5%, indicating consistent but modest financing, constrained by its smaller economic base. Croatia, included in the later years of observation, recorded a substantial increase in expenditure in 2020, driven primarily by emergency job-retention programmes introduced during the pandemic. Overall, the data from Table 2 demonstrate that countries with stronger institutions and greater fiscal capacity, such as Poland and the Czech Republic, sustain higher and more stable levels of labor market policy spending, while those with weaker institutional frameworks, such as Romania and Bulgaria, remain constrained by low and fragmented investment in labor market interventions.

Table 1: Share of Selected Central and Eastern European Countries in Total Expenditures on Labor Market Measures and Policies (in %)

Country	2005	2010	2015	2020	2022
Bulgaria	3,0	2,6	3,6	4,3	6,2
Romania	8,1	9,3	4,2	1,3	
Slovenia	3,8	5,4	4,2	5,4	4,3
Croatia			4,8	7,7	
Czechia	9,3	13,0	14,6	15,7	23,0
Poland	59,3	45,7	44,9	50,0	41,5
Hungary	12,1	16,4	17,8	7,3	12,0
Slovakia	4,4	7,7	6,0	8,3	13,0

(Source: ILO STAT)

The data presented in Table 3 illustrate significant variation in the allocation of expenditures across distinct categories of active labor market measures (ALMMs) in the selected Central and South Eastern European (CSEE) countries over the period 2004–2022. The largest proportion of spending is consistently directed toward employment incentives, which peaked in 2020 at EUR 3,670.26 million and remained elevated in 2021. This trend reflects the widespread implementation of wage subsidy schemes and job-retention programmes introduced as emergency fiscal responses to mitigate mass layoffs and labor market disruptions caused by the COVID-19 pandemic. Expenditures on services provided by public employment institutions also constitute a substantial share of total spending, displaying steady growth from EUR 521.57 million in 2005 to EUR 862.31 million in 2022. This pattern suggests continued institutional investment in employment mediation, counselling, and job placement support. In contrast, spending on training and skills development programmes has declined markedly, from EUR 564.99 million in 2008 to just EUR 86.6 million in 2022, indicating a reduced and inconsistent emphasis on long-term strategies for human capital enhancement. Meanwhile, expenditures for direct job creation and support for self-employment exhibit cyclical dynamics, with noticeable increases during crisis periods—particularly in 2010 and 2020—underscoring their role as short-term countercyclical instruments rather than components of a sustained

developmental agenda. Overall, the evidence from Table 3 suggests that active labor market policy in the region remains primarily oriented toward short-term labor market stabilization, while structural interventions aimed at improving skills, fostering entrepreneurship, and enhancing long-term labor market resilience receive comparatively limited and inconsistent financial prioritization.

Table 2: Expenditures by Categories of Active Labor Market Measures in Selected Central and South Eastern European Countries, 2004–2022 (in million EUR)

Year	Services Provided by Public Labor Market Institutions	Training and Skills Development Programmes	Employment Incentives	Direct Job Creation	Incentives for Starting One's Own Business
2005	521,57	341,21	282,19	314,16	434,37
2006	645,79	387,55	291,73	319,21	447,24
2007	701,49	421,61	381,2	313,88	533,55
2008	758,92	564,99	417,52	342,38	653
2009	716,66	252,92	708,62	456,42	959,84
2010	735,26	292,91	1062,18	660,4	1132,33
2011	762,37	147,07	648,12	376,15	849,89
2012	766,07	147,55	680,57	622,52	641,8
2013	753,08	167,01	829,68	882,92	599,33
2014	802,68	169,42	918,92	977,38	543,58
2015	782,65	149,19	943,17	1091,39	513,27
2016	755,16	120,63	903,9	1114,92	488,38
2017	799,67	130,04	873,21	1014,93	490,37
2018	753,97	145,15	811,52	748,26	472,45
2019	858,15	123,5	707,75	683,09	484,53
2020	883,38	88,71	3670,26	495,88	676,59
2021	835,29	71,85	2577,58	511,61	522,87
2022	862,31	86,6	691,03	422,33	573,75

(Source: ILO STAT)

The results of the econometric analysis indicate that among all categories of active labor market measures, the most substantial and statistically significant positive effect on employment in Central and South Eastern European countries is associated with services provided by public labor market institutions. A 10% increase in fiscal spending on such services is estimated to raise the employment rate by 0.2%, underscoring the critical role of institutional support, including counselling, job matching, and individualized assistance, in facilitating workers' integration into the labor market. Conversely, training and skills development programmes display a statistically significant negative relationship with employment, reflecting their limited efficiency, low participation rates, and insufficient alignment with labor market needs, particularly in countries such as Bulgaria and Romania, where training initiatives often remain formalistic and poorly connected to employer demand. Employment incentives, in contrast, exhibit a positive and significant effect, where a 10% increase in fiscal incentives is expected to raise employment by 0.1%, confirming their relevance as short-term activation tools. The strongest effect, however, is observed for direct job creation measures: a 10% rise in related expenditures increases employment by an estimated 0.4%, suggesting that these interventions are particularly effective during crises, albeit with limited long-term sustainability. Measures promoting self-employment show a negative and significant impact, indicating structural

weaknesses such as weak entrepreneurial ecosystems, regulatory uncertainty, and inadequate institutional support. Overall, the findings suggest that the effectiveness of labor market measures across the region is strongly contingent upon the institutional capacity and operational efficiency of public employment services. Countries with well-developed and adaptable institutions achieve higher and more sustained employment outcomes, while those with fragmented systems and limited fiscal resources face persistent challenges in reducing unemployment and enhancing human capital.

Table 3: Expenditures by Categories of Active Labor Market Measures in Selected Central and South Eastern European Countries, 2004–2022 (in million EUR)

Dynamic Panel Data Estimation Results (Arellano-Bond GMM)		
Number of observations = 132		
Number of countries = 8		
Instruments (total) = 10		
Wald $X^2(4) = 29346$		
Prob > $X^2 = 0.000$		
Dependent variable: employment		
Variable	Coefficient	Robust. Std. Err.
L1.employment	.9304527***	.063456
services	0.0229 ***	0.0041
training	-0.0179 **	0.0029
empl_incentives	0.0109*	0.0017
job_creation	0.0384 **	0.0049
start_up	-0.0233 ***	0.0070
out_work	0.0011	0.0011
cons	49.9130 ***	0.4950
Significance levels: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$		
Arellano-Bond test for AR(1) in first differences: $z = -1.79$ $p = 0.074$		
Arellano-Bond test for AR(2) in first differences: $z = 0.15$ $p = 0.878$		
Sargan test of overid. restrictions: $\chi^2(5) = 3.87$ $p = 0.568$		
Hansen test of overid. restrictions: $\chi^2(5) = 4.01$ $p = 0.547$		

(Source: Authors' own calculations)

Originality/value This study contributes to the academic discourse by providing a comprehensive and context-specific evaluation of labor market policies in post-transition economies, emphasizing the interaction between policy design, institutional capacity, and macroeconomic environment. It offers valuable insights for policymakers seeking to enhance the long-term resilience of labor markets in CSEE through integrated, evidence-based, and human capital-oriented strategies.

Keywords: Labor market policies, Employment incentives, Active labor market measures, Institutional capacity, Central and South Eastern Europe

JEL classification: J08, J21, J68

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