

Unemployment in Ukraine: prevailing trends and measures to reduce it

The unemployment rate, which is one of the major macroeconomic indicators in the developed countries, has not become significant in the context of macroeconomic policies and has not reflected the actual employment situation in Ukraine since its independence. In practice employment has not been the key objective of economic policy and the issue has been solved as a residual one. Moreover, a review of the scientific literature indicates a lack of in-depth methodological research into the subject. A high level of the shadow economy, which makes significant adjustments to the labour market and distorts the system performance, is one of the underlying reasons for the situation. Thus, the official statistics (the International Labour Organization (ILO) measure as well as the estimates by the State Statistics Committee of Ukraine according to Ukrainian legislation) provides incomplete and fragmentary perception of the current situation. Besides, a high level of the shadow economy adversely affects the state's potential to influence the labour market.

Major trends in the labour market

Labour market analysis shows that unemployment tended to decline from 2000 to 2008, which primarily related to economic growth during this period. In 2009 unemployment climbed, which reflected the global crisis and decline in economic activity. According to unofficial estimates, Ukraine lost 2 million jobs from 2008 to 2013. The situation worsened in 2014 after the Revolution of Dignity, which led to the annexation of Crimea, the beginning of the military conflict with Russia and the deployment of anti-terrorist operations in Donbas and eventually aggravated economic and political crises. Not only did it bring the typical problems associated with a sharp decline in economic growth accompanied by rising unemployment and the negative impact on the labour market. Ukraine faced an additional problem – the employment of internally displaced persons affected by the hostilities in Donbas. Local companies and companies with regional offices in these areas suffered serious disruption or destruction, which caused staff cuts or even closures. Besides, levels of migration increased.

Today we deal not only with labour migration but also with migration of refugees from unstable regions. The labour market of central and western regions of Ukraine is burdened with internal migration, which affects the level of unemployment. In addition, qualified Ukrainian specialists are in great demand abroad due to their low level of financial expectations despite high qualifications. The closure or isolation of some markets as a result of political events, a Russian one in particular, should not be overlooked.

Table 1. Unemployment rate in Ukraine in 2015
(Number of people in thousands)

	Total population	Economically active population	Employed population	Unemployed population*	Unemployment rate*	Registered unemployed
2000	48923,2	21150,7	18520,7	2630	12,40%	1178,7
2001	48457,1	20893,6	18453,3	2440,3	11,70%	1063,2
2002	48003,5	20669,5	18540,9	2128,6	10,30%	1028,1
2003	47622,4	20618,1	18624,1	1994	9,70%	1024,2
2004	47280,8	20582,5	18694,3	1888,2	9,20%	975,5
2005	46929,5	20481,7	18886,5	1595,2	7,80%	891,9
2006	46646	20545,9	19032,2	1513,7	7,40%	784,5
2007	46372,7	20606,2	19189,5	1416,7	6,90%	673,1
2008	46143,7	20675,7	19251,7	1424	6,90%	596
2009	45962,9	20321,6	18365	1956,6	9,60%	693,1

2010	45778,5	20220,7	18436,5	1784,2	8,80%	452,1
2011	45633,6	20247,9	18516,2	1731,7	8,60%	505,3
2012	45553	20393,5	18736,9	1656,6	8,10%	467,7
2013	45426,2	20478,2	18901,8	1576,4	7,70%	487,6
2014	42928,9	19035,2	17188,1	1847,1	9,70%	458,6

- * the ILO measure

Table 2. Population of Ukraine (in thousands)

Date	Number (thousand)		
01.01.1990	51838,5		
01.01.1991	51944,4	+105.9	+0.204%
01.01.1992	52056,6	+112.2	+0.216%
01.01.1993	52244,1	+187.5	+0.360%
01.01.1994	52114,4	-129.7	-0.248%
01.01.1995	51728,4	-386.0	-0.741%
01.01.1996	51297,1	-431.3	-0.834%
01.01.1997	50818,4	-478.7	-0.933%
01.01.1998	50370,8	-447.6	-0.881%
01.01.1999	49918,1	-452.7	-0.899%
01.01.2000	49429,8	-488.3	-0.978%
01.01.2001	48923,2	-506.6	-1.025%
01.01.2002	48457,1	-466.1	-0.953%
01.01.2003	48003,5	-453.6	-0.936%
01.01.2004	47622,4	-381.1	-0.794%
01.01.2005	47280,8	-341.6	-0.717%
01.01.2006	46929,5	-351.3	-0.743%
01.01.2007	46646	-283.5	-0.604%
01.01.2008	46372,7	-273.3	-0.586%
01.01.2009	46143,7	-229.0	-0.494%
01.01.2010	45962,9	-180.8	-0.392%
01.01.2011	45778,5	-184.4	-0.401%

01.01.2012	45633,6	-144.9	-0.317%
01.01.2013	45553	-80.6	-0.177%
01.01.2014	45426,2	-126.8	-0.278%
01.01.2015	42928,9	-2497.3	-5.497%

Table 3. Unemployment rate in Ukraine in 2015
(Number of people in thousands)

	Total population	Economically active population	Employed population	Unemployed population*	Unemployment rate*	Registered unemployed
I квартал	42873,6	17335,6	15605,3	1730,3	10,00%	519
II квартал	42823,2	17375,8	15710	1665,8	9,60%	498
III квартал	42800,5	17437,7	15801	1636,7	9,40%	472,9

* the ILO measure

Comments:

- The number of “economically active”, “employed” and “unemployed” population, as well as the number of officially registered unemployed are given on average over the period (from the beginning to the end of a quarter or a year). The total population of Ukraine is taken at the end of the reported year.
- The number of unemployed population is calculated by the ILO (International Labour Organization). The ILO classifies a person as unemployed if they have not had a job, have sought work and have been able to start work for four weeks. It is obvious that this figure differs significantly from the number of officially registered unemployed.
- To calculate the unemployment rate, the ratio between unemployed population calculated by the ILO and economically active labour force is taken into consideration.

Table 4. Economically active population in 2014, by sex and place of residence

	Unit	Total	Females	Males	Urban settlements	Rural areas
Economically active population						
aged 15-70	thousands person	19920,9	9428,3	10492,6	14070,3	5850,6
of working age		19035,2	8878,4	10156,8	13552,7	5482,5
Economic activity rate of population	percent of the total population in respective age group					
aged 15-70		62,4	56,1	69,3	62,6	61,8
of working age		71,4	66,5	76,4	72,4	69,1
Employed						
aged 15-70	thousands person	18073,3	8718,9	9354,4	12780,9	5292,4
of working age		17188,1	8169,4	9018,7	12263,7	4924,4
Employment rate of population	percent of the total population in respective age group					
aged 15-70		56,6	51,9	61,8	56,9	55,9
of working age		64,5	61,1	67,8	65,5	62
Unemployed						
aged 15-70	thousands person	1847,6	709,4	1138,2	1289,4	558,2
of working age		1847,1	709	1138,1	1289	558,1

Unemployment rate of population	percent of the total population in respective age group					
aged 15-70		9,3	7,5	10,8	9,2	9,5
of working age		9,7	8	11,2	9,5	10,2
Economically inactive population						
aged 15-70	thousands person	12023	7370,3	4652,7	8407,1	3615,9
of working age		7617,7	4481,6	3136,1	5161,1	2456,6

Table 5. Employed population by economic activities in 2012-20141 ((thousands of persons))

	2012		2013		2014	
Total	19261,4	100%	19314,2	100%	18073,3	100%
Agriculture, forestry and fishing	3308,5	17,18%	3389	17,59%	3091,4	16,05%
Industry	3236,7	16,80%	3170	16,46%	2898,2	15,05%
Construction	836,4	4,34%	841,1	4,37%	746,4	3,88%
Wholesale and retail trade; repair of motor vehicles and motorcycles	4160,2	21,60%	4269,5	22,17%	3965,7	20,59%
Transportation and storage	1150,9	5,98%	1163,6	6,04%	1113,4	5,78%
Accommodation and food service activities	326,7	1,70%	328,9	1,71%	309,1	1,60%
Information and communication	297,9	1,55%	299,9	1,56%	284,8	1,48%
Financial and insurance activities	315,8	1,64%	306,2	1,59%	286,8	1,49%
Real estate activities	322,2	1,67%	314,3	1,63%	286,1	1,49%
Professional, scientific and technical activities	504,1	2,62%	493,6	2,56%	456	2,37%
Administrative and support service activities	343,9	1,79%	343,3	1,78%	334,3	1,74%
Public administration and defence, compulsory social security	1003,62	5,21%	962,3	5,00%	959,52	4,98%
Education	1633,2	8,48%	1611,2	8,36%	1587,7	8,24%
Human health and social work activities	1181,4	6,13%	1171,8	6,08%	1150,5	5,97%
Arts, entertainment and recreation	225,6	1,17%	226,5	1,18%	221,2	1,15%
Other types of economic activity	414,3	2,15%	423	2,20%	382,2	1,98%

Table 6. Employment rate in 2014, by sex, age group and place of residence (percent of the total population in respective age group in average for period) ¹

	Total	Of which share of age groups, years							Of work ing age ²
		15-24	25-29	30-34	35-39	40-49	50-59	60-70	
Total population	56,6	29,5	71,6	74,9	77,9	78,4	59,4	15,5	64,5
females	51,9	25,2	62,7	67,7	74,6	78,7	54,6	13,8	61,1
males	61,8	33,6	80,2	81,9	81,2	78,2	65,3	18,1	67,8
urban	56,9	28,4	74,2	76,6	78,9	79,3	58,6	12,5	65,5

rural	55,9	31,8	65,2	69,8	75,4	76,6	61,2	22,9	62
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1 Excluding the temporarily occupied territory of the Autonomous Republic of Crimea and the city of Sevastopol.

2 Females aged 15-57, males aged 15-59.

Table 6. Basic indicators on labour market (annual data)

	Economically active population				of which							
	aged 15-70		of working age		employed				unemployed (following ILO methodology)			
	in average, thousands person	% of the total population	in average, thousands person	% of the total population	aged 15-70		of working age		aged 15-70		of working age	
					in average, thousands person	% of the total population	in average, thousands person	% of the total population	in average, thousands person	% of the total population	in average, thousands person	% of the total population
2010	20 894,1	63,6	19 164,0	71,9	19 180,2	58,4	17 451,5	65,5	1 713,9	8,2	1 712,5	8,9
2011	20 893,0	64,2	19 181,7	72,6	19 231,1	59,1	17 520,8	66,3	1 661,9	8,0	1 660,9	8,7
2012	20 851,2	64,5	19 317,8	72,9	19 261,4	59,6	17 728,6	66,9	1 589,8	7,6	1 589,2	8,2
2013	20 824,6	64,9	19 399,7	72,9	19 314,2	60,2	17 889,4	67,3	1 510,4	7,3	1 510,3	7,8
2014	19 920,9	62,4	19 035,2	71,4	18 073,3	56,6	17 188,1	64,5	1 847,6	9,3	1 847,1	9,7

At the end of 2015, the market situation remains tense and is characterized by a decrease in demand for labour. The main trends in the labour market are the following:

- *Employment rate is extremely low*

The number of employed persons for 9 months 2015 amounted to 16.5 million. The employment rate stood at 56.9%, including 57.6% in urban areas and 55.5% in rural. Employment rates among men were higher than among women – 62.5% and 51.9% respectively.

- *Despite depressed growth of unemployment, the unemployment rate remains high, especially among young people*

The number of unemployed people reached 1.6 million. The unemployment rate, by the ILO measure, was 9.0%, and among people of working age it was 9.4% of the economically active population. Among young people aged up to 25 years, the unemployed rate was twice as much as the national average – 21.8% of the economically active population.

The unemployment rate in urban areas was 8.9% and 9.2% in rural areas. Among men, the figure was 9.9% and among women – 8.0%.

- *Permanent depopulation and population aging lead to the employment potential decrease in Ukraine*
- *The number of unified social contribution taxpayers decreases*

The number of insured persons subject to obligatory state social insurance (according to the Pension Fund of Ukraine) in November 2015 was only 10.6 million. In comparison with November 2014, the number dropped by 500 thousand people.

- *The average number of full-time employees is decreasing in all kinds of economic activity and in almost all regions*

In November 2015, according to the State Statistics Service of Ukraine, the average number of full-time employees was only 7.9 million. In comparison with November 2014, it decreased by 560 thousand people, most significantly in industry, education, health care and social assistance, wholesale and retail trade, repair and transport.

- *Involuntary part-time employment is high*

The number of people on unpaid holiday entitlement amounted to 58 thousand for 9 months 2015 and the number of employees transferred to part-time day (week) for economic reasons reached 698 thousand, or 8.6% of average number of staff.

Among employees working part-time, 50% worked in industry and every third was employed in the transport and warehousing.

The number of employees warned about the planned large-scale redundancy increases

In 2015, employers informed the public employment service about planned large-scale redundancy of 444 thousand employees, which is almost twice as much as in 2014.

- *The demand for workers is declining in almost all economic activities and in major sections of the Standard Occupational Classification*

The number of vacancies reported by employers to employment centres on January 2016 amounted to 26 thousand. However, compared with the corresponding data in 2015, the number fell down by a quarter. It should be noted that the number of vacancies at the beginning of 2016 is the lowest for the entire observation period (since 1991).

On January 1, 2016, there were 19 unemployed people for a vacancy (January 1, 2015 – 14 people).

- *There is a tendency towards gradual decrease of the economically active population*
- *The number of employed persons in the informal sector of economy is still significant*

The number of employed in the informal economy was 4.4 million (26.5% of the employed population). The most widespread informal employment comprised agriculture, forestry and fisheries, wholesale and retail trade, repair of motor vehicles and construction.

Comparing trends in formal and informal employment in Ukraine in the last three years, their opposite orientation is striking. If the level of informal employment since the beginning of 2013 to mid-2015 increased by 2.8%, the level of formal employment during this time decreased by 2.3%. Generally, over the last decade the level of informal employment of the population aged 15-70 decreased from 57.7% to 57.0%. Nevertheless, the rate of informally employed in this age group increased by 1.2 times from 21.5% in 2005 to 26.4% in 2015.

The analysis of informal employment in different age groups shows that mainly people of working age worked in the informal economy - 94.2% in the first half of 2015.

The highest level of informal employment represents people aged 15-24 (35.8%) and 60-70 (36.2%). These are the categories which are the most vulnerable and socially unprotected in modern conditions.

Young people are interested in informal employment because they want to earn money while getting education. People of retirement age are involved in informal employment because of low pension replacement rate, which leads to high levels of poverty among older people and encourages them to seek more informal sources of livelihood. The desire to continue careers makes older people agree to informal employment and take posts that are not attractive to younger workers.

Widespread practice of “grey” wages in Ukraine contributes to shadow employment. It attracts a large number of already employed people to informal economy as well, which jeopardizes the socio-economic situation in the country and does not promote the welfare of the population. According to various experts, as a result of the shadow segment of the labour market in Ukraine, 30-50 percent of payrolls are now in the shadow, reaching 200 billion UAH. This means that annual revenues are reduced by about 30 billion UAH, social security funds lose 70-90 billion and pension fund lacks about 70 billion UAH. However, people who do not pay insurance premiums are entitled to the state health services, fully or partly, and receive other social benefits, for example, maternity, unemployment, low income, pension etc. All this encumbers the social security funds and the state budget of Ukraine.

The crisis of the labour market has posed dire threats to the social security of the country:

- less public confidence in the economic and social institutions, which leads to lack of faith in the government reform potential and aggravates readiness for necessary changes;
- substantial reduction in collecting taxes from personal income and unified social contribution (USC), which complicates the fulfilment of the state’s social obligations;
- widespread poverty, which blocks reforms in housing, medicine, education and critically reduces the internal purchasing power;
- deskilling and marginalization of an increasing number of people of working age who find themselves in a state of prolonged inactivity, which becomes an obstacle to further economic human resources development;
- the scope and depth of deviant behaviour caused by sudden impoverishment, severe material losses and a sharp decline in living standards and social protection, a sense of despair, high level of a family and interpersonal conflict.

However, there are positive trends along with the problems in the Ukrainian labour market:

- Association Agreement between the European Union (EU) and Ukraine and the launch of DCFTA on January 1, 2016 create opportunities for new jobs and professional realization of Ukrainian specialists;

- Pharmaceutical sector and information technology industry continue to preserve relative stability despite the general economic crisis;
- A shift in the political elite enables top managers of the commercial sector to apply their knowledge and experience to public administration.

Measures to combat unemployment and normalize the labour market

Relatively effective tools currently used by the state are the following:

- Setting up a unified database of vacancies in Ukraine;
- Encouraging employers to create new jobs and employ insufficiently competitive jobless people in the labour market by paying compensations to employers in the amount of the single fee for the compulsory state social insurance;
- The possibility of temporary employment for the jobless and for those who work and aim at additional income with the help of public and other temporary works.
- The amendments to the Tax Code that reduce the tax load on the payroll have been beneficial. Since 2016, the unified social contribution (USC) is cut to 22% from 41% and the USC of 3.6% withheld from salary is abolished. Meanwhile, the taxable base of USC increases from 17 to 25 minimum statutory monthly salaries (about 34.45 thousand UAH). These innovations do not directly solve the issue of unemployment but create positive preconditions for the labour market legalization and its normalization.

In 2015, the Labour Code underwent several amendments. They partially harmonize Ukrainian labour legislation with the EU legislation.

Besides, the law “On external labour migration” was adopted at the end of 2015. The law is expected to facilitate and streamline the process of labour migration and to promote social and legal protection of citizens working abroad.

Overall, in 2015, the public employment service provided 716.9 thousand people with jobs, including 444.7 thousands of registered unemployed. Every fourth person belonged to socially vulnerable groups, including internally displaced persons and participants of ATO. 15.4 thousand of them started their own business by obtaining a single unemployment benefit. New jobs were given to 14.0 thousand by compensating a single fee for obligatory state social insurance to the employer, including 4.7 thousand people not competitive in the labor market and 9.3 thousand employed by small businesses.

As for the public employment service’s assistance to internally displaced persons (on December 31, 2015), the Department of Labour and Social Welfare registered 1 million 679 thousand IDPs by December 30, 2015. Of these, 991 thousand are retired people, 213 thousand are children and 69 thousand are disabled. 403 thousand were people of working age and 129 thousand asked for employment.

Since the beginning of Crimea occupation and anti-terrorist operation, 62.7 thousand of residents of Crimea, Donetsk and Luhansk regions have requested help with employment. The public employment office has assisted in employing 17.2 thousand people. 5.4 thousand IDPs have participated in public and other temporary works.

Recommendations

Labour market policies aim to implement the following measures:

- to liberalize hiring and firing process along with the elimination of discriminatory phenomena and protection of employees;
- to eliminate informal regulation of employment in enterprises and regions;
- to stimulate internal labour mobility, redistribute human resources as a result of reduced employment in agriculture, extractive industries and public sector;
- to stimulate educational services and health care with the aim of increasing competitiveness of the national labour force;
- to encourage competition among regions and eventually attract better labour force and investments;
- to develop mechanisms and methods for quantification of economic jobs, their monitoring, certification and inventory aimed at defining units of intensity, complexity and extent of work effort, as well as aligning them with the size of labour remuneration;

- to develop national and regional models of alignment and depolarization of employment conditions for different categories of workers, economic activities, cities, towns and rural areas by providing them with the necessary organizational and financial support and agreement between the social dialogue participants and social structures;
- to prompt public-private partnership;
- to develop and implement regional programs on micro crediting small businesses