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## Informality revisited: Hidden Economy Dynamics in Macedonia

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“Promoting Good Governance and Economic Rights through empowering the Civil Society to Monitor and Tackle the Hidden Economy in Macedonia, Albania and Kosovo”

**B | T | D** The Balkan Trust for Democracy

A PROJECT OF THE GERMAN MARSHALL FUND

The project is financed partially by the Balkan Trust Fund (BTD)

# Regional research

	Population survey (2014) MK	Population Survey (2016) MK	Population Survey (2016) AL	Population Survey (2016) KS
Sample	1116	1100	1102	1100
Date	10/2014	05/2016	06/2016	06/2016
Representative	Regional and demographic	Regional and demographic	Regional and demographic	Regional and demographic

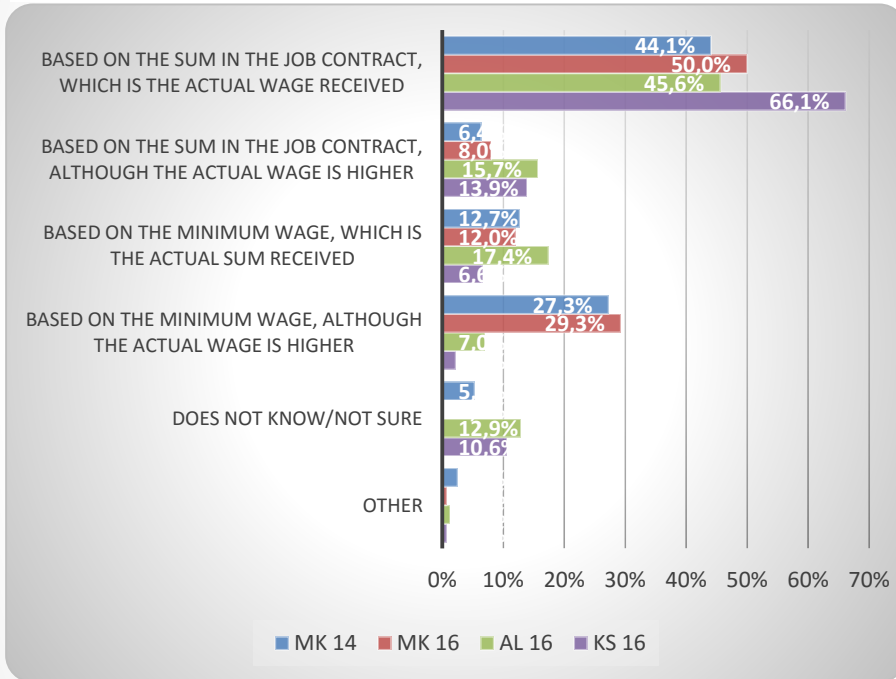
# Hidden Economy in MK, AL, KS

<b>MK Unemployment rate</b>	<b>24.5% (Q1 2016),</b>
MK Youth unemployment	47,3% (2015),
MK Long-term unemployment	81,6% (2015)
<b>AL unemployment rate</b>	<b>17.3% (Q2 2015)</b>
<b>KS Unemployment rate</b>	<b>35.3% in 2014</b>
KS Youth unemployment	61% in 2014
KS Long-term unemployment	68.9% in 2013

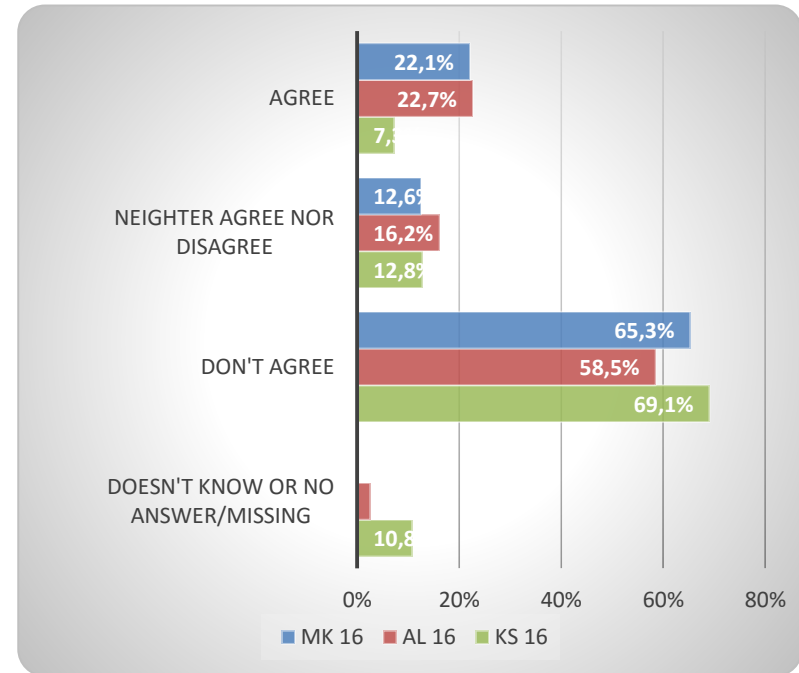
- **Hidden economy rate in Macedonia ranges from 24% to 47% of GDP, depending on the method used.**
- **Non observed Economy (NOE) estimated by the state statistical office sets it at around 20%.**
- **Hidden economy rate in Albania ranges from 32.7% to 39.8% of GDP (in 2013)**
- **No estimate for hidden economy rate in Kosovo**

# Survey Data – Population Perceptions

What is the wage amount on which your social security contributions are being paid by your employer (Q.7A). Source: CRPM population survey 2014 (population)



Level of agreement with the statement 'I would rather be an undeclared worker with a higher wage, than a declared one with a lower wage' (Q MK11 E). Source:

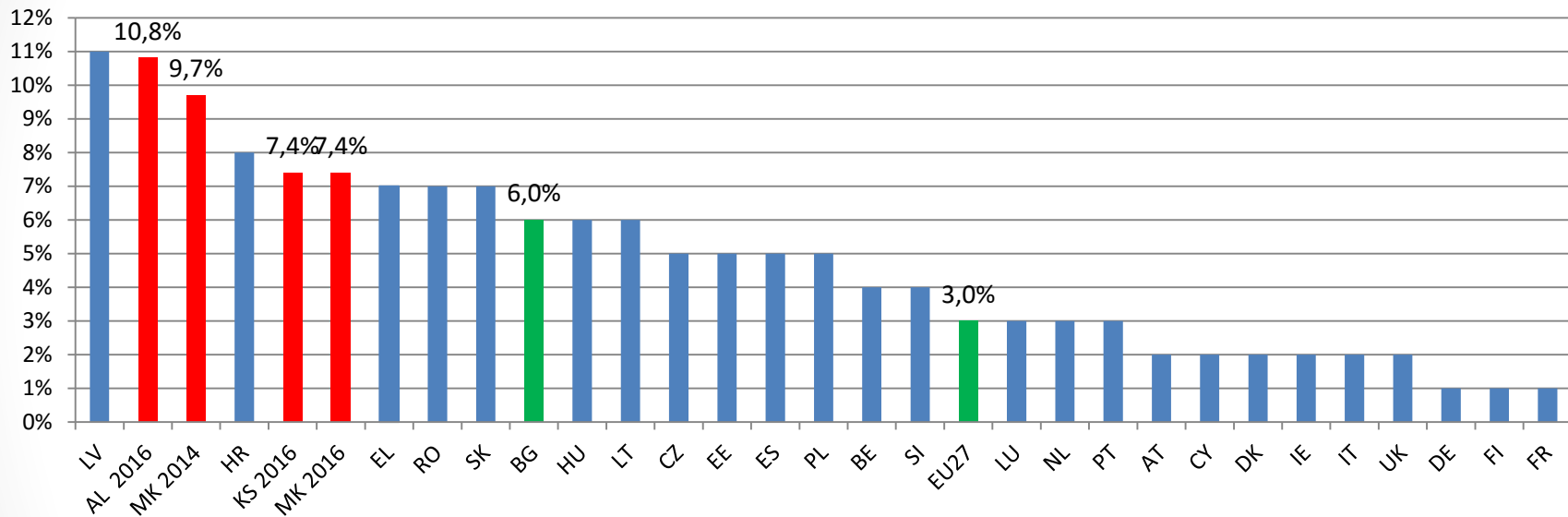


- As the first figure shows, **37.3% of employees in Macedonia** (29.3+8=37.3%) have their social security contribution paid by employers on contracted wages that are lower than the actual wage they receive.
- Situation is worse than 2014

# Survey Data mash-up

Employees who have received part or the whole wage as an envelope wage in the past 12 months in 2013 for EU-27 and within the last 1 month in 2014 and 2016 (Q5.1) for Macedonia. Source: CRPM/CSD Survey 2014, CRPM/D4D/IDM 2016 and Eurofound 2013 survey

[http://www.eurofound.europa.eu/sites/default/files/ef\\_files/ewco/surveyreports/EU1404011D/EU1404011D.pdf](http://www.eurofound.europa.eu/sites/default/files/ef_files/ewco/surveyreports/EU1404011D/EU1404011D.pdf)



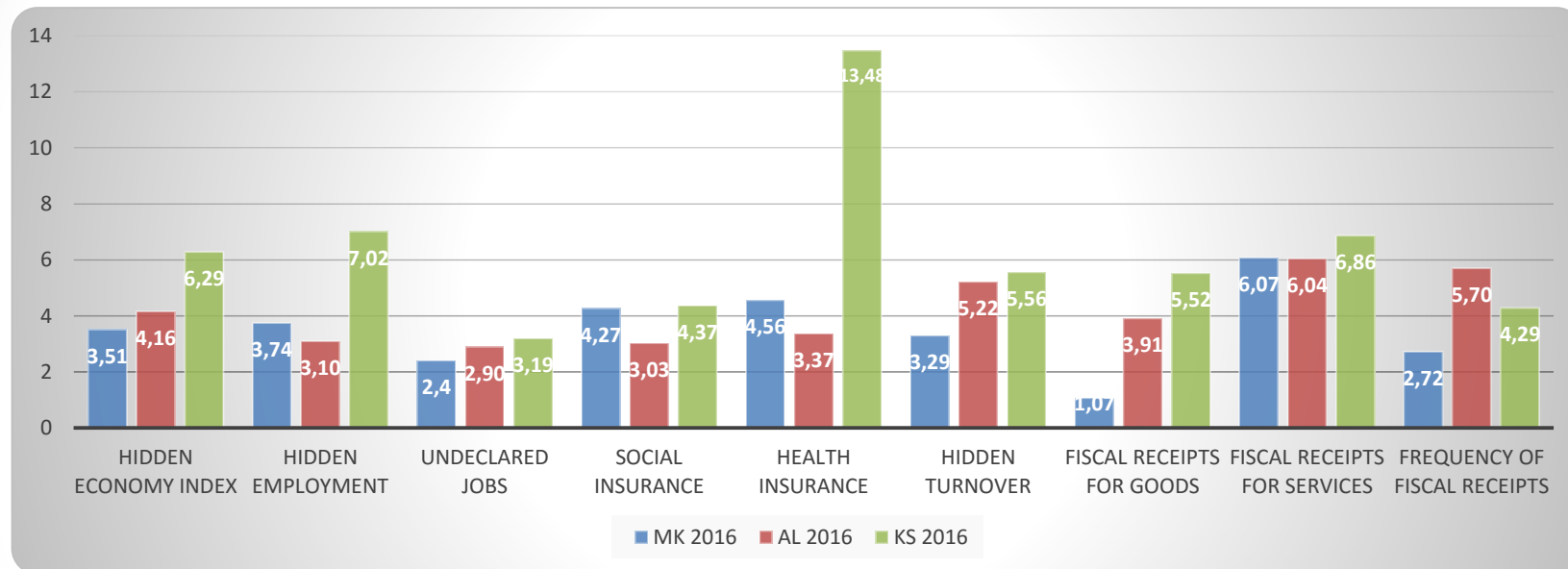
- After Latvia, Albania has the largest share of envelope wages representing **10.8% of the employed, followed by Macedonia and Kosovo (7.4 %)**. However **Kosovo** has the **lowest response rate (30%)** to this question which makes the **result less significant**.
- In Bulgaria **6% of the employed** receive envelope wages whereas EU-27 average is **3% of the employed**.
- Methodological differences between the 2 surveys (12 months vs. 1 month).

# Comparative Hidden Economy Index

Macedonia, Albania and Kosovo (2016)

Hidden Economy Index and sub-indexes (population) for Macedonia, Albania and Kosovo (2014-2016)

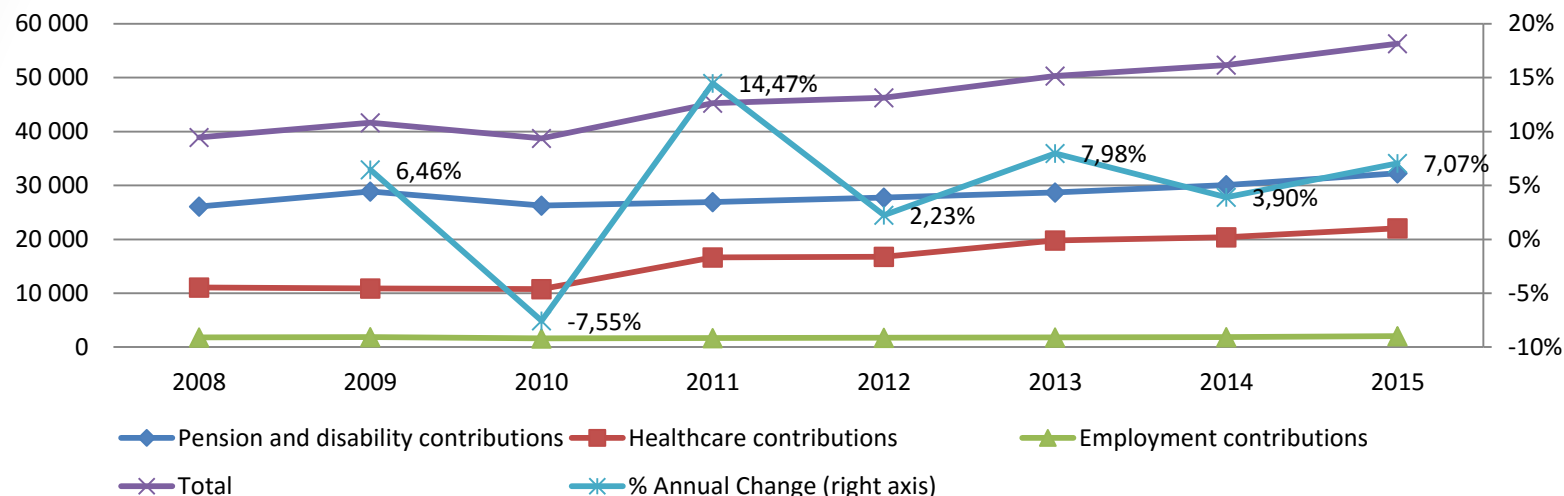
Source: Population survey CRPM/IDM/D4D 2016



- Kosovo has the **highest (worst)** hidden economy index (largest values), followed by AL and MK and is leading in most of the index subcategories.
- Healthcare Insurance category needs to be adjusted for Kosovo (employers are not responsible for paying their employees health insurance on Kosovo which brings values that breach the Index beyond the maximum of value 10).

# Factors - Social Security Contributions

Revenue from social security contributions for the period (2008-2015) in Billion of MKD. Source: Public Revenue Office



Rates of social security contributions in the period (2006-2015).

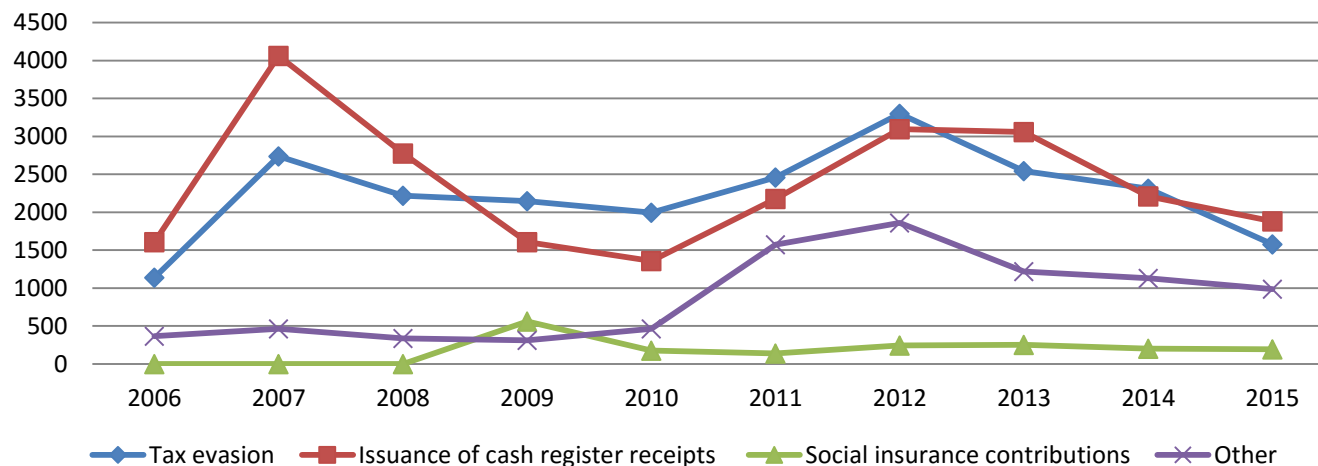
Source: KPMG (2012), the Public Revenue Office (PRO) (2014) and Trpeski, Tashevskva (2012)

<http://www.oeconomica.uab.ro/upload/lucrari/1420122/24.pdf>

	2006	2007	2008	2009	2010/2016
Pension and disability contributions	21,2%	21,2%	21,2%	19%	18%
Health Insurance contributions	9,2%	9,2%	9,2%	7,5%	7,3%
Unemployment Insurance Contributions	1,6%	1,6%	1,6%	1,4%	1,2%
Additional Health Insurance contributions in case of accidents at work and work related injuries				0,5%	0,5%
Personal Income Tax	15%	12%	10%	10%	10%
<b>Total Tax Burden</b>	<b>47%</b>	<b>44%</b>	<b>42%</b>	<b>38,4%</b>	<b>37%</b>

# Public Revenue Office (PRO)

Report of irregularities on the hot-line (198) and the PROs e-reports. Source: The PRO - <http://ujp.gov.mk/mk/statistika/naplata/9/0/0>



- A decrease in reports of irregularities while issuance of cash register receipts remains the biggest problem.
- However audits of the General Tax Inspectorate have detected 10% more irregularities (3.182) in 2015 while maintaining a ratio of audits with irregularities vs. total audits at 40%

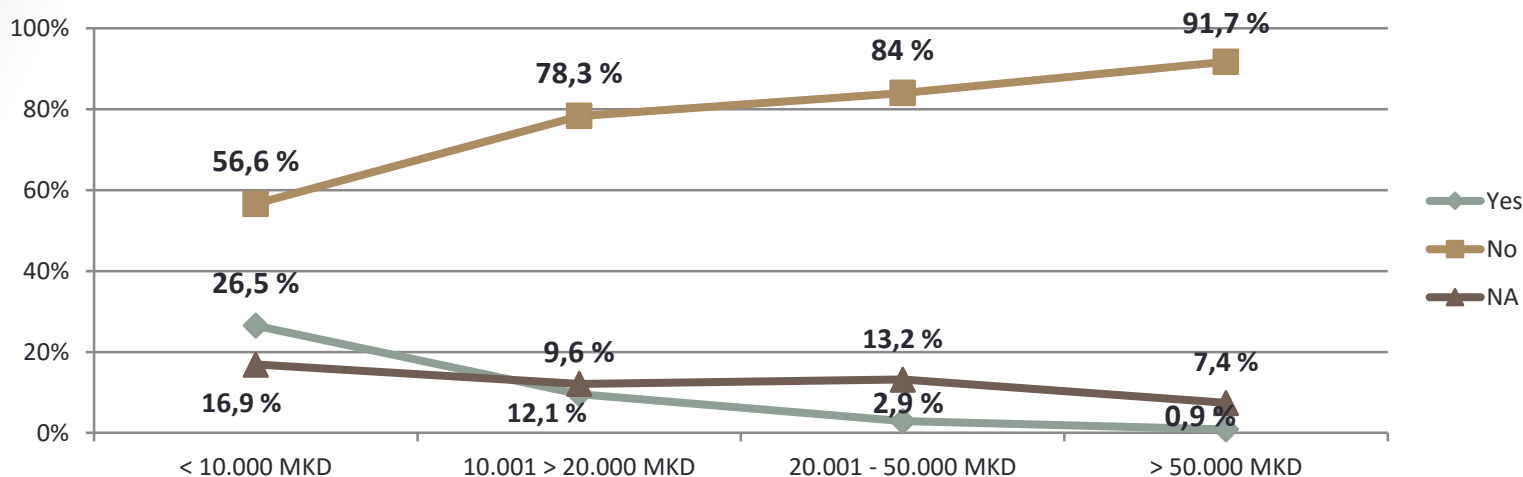
## Activities of the General Tax Inspectorate (2011 - 2015).

	Total audits	Audits with irregularities	Ratio of audits with irregularities /total audits
2011	7,771	3,522	45%
2012	7,292	3,698	51%
2013	6,806	3,171	47%
2014	7,194	2,849	40%
2015	7,914	3,182	40%

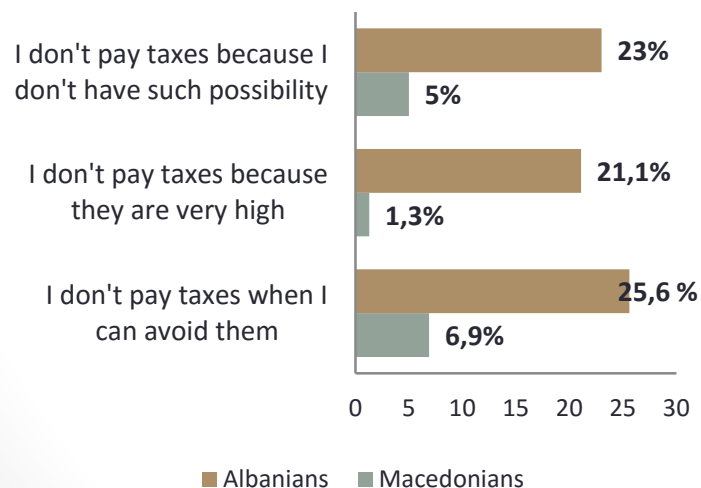


# Tax compliance – part 1

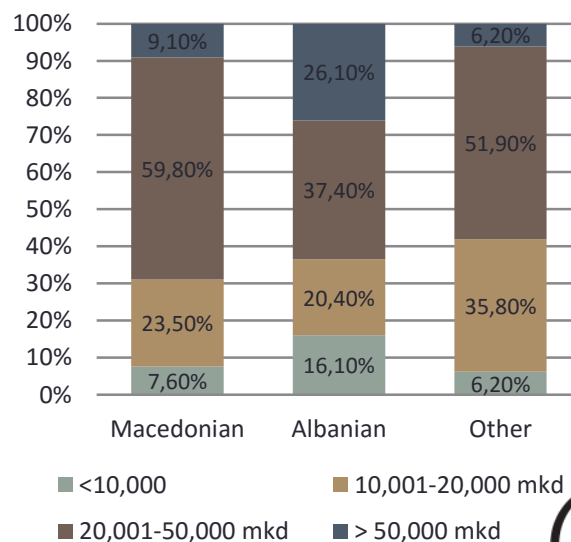
Do you agree with the following statement “I do not pay taxes since they are too high?” (D27\_B)



What percentage of the population agrees with the following individual statements?



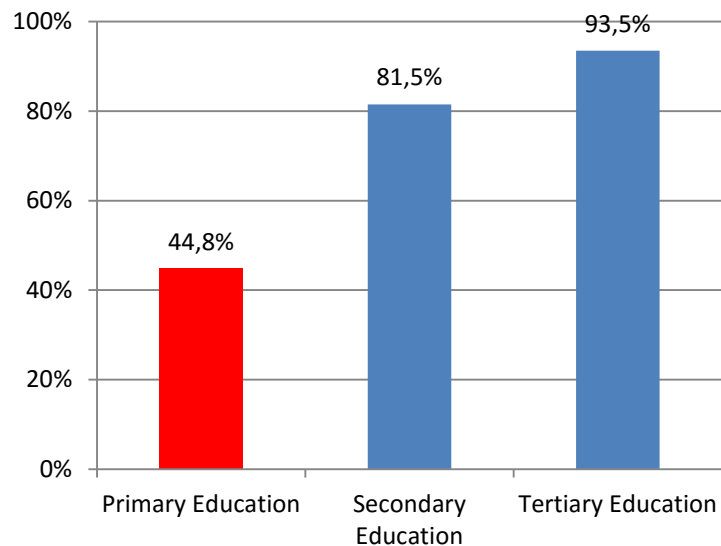
Monthly household income according to ethnic background



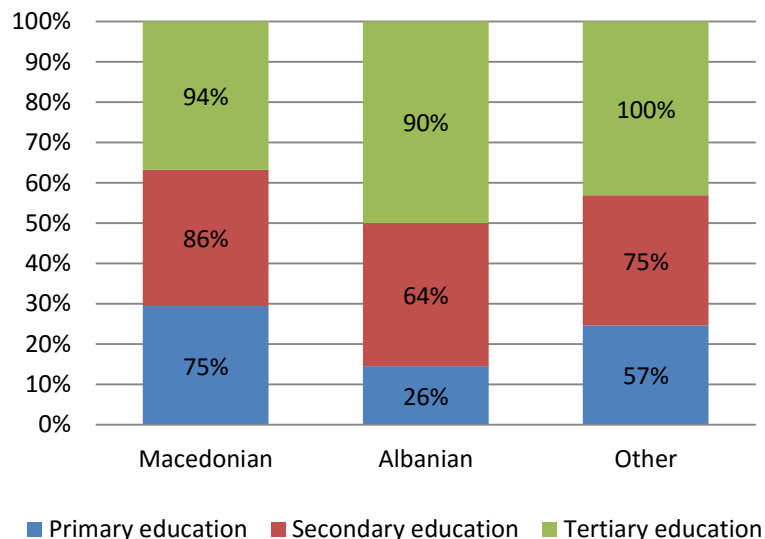
# Tax compliance – part 2

## Education, ethnicity, written contracts

Percentage of population with written contract for primary job according to educational attainment % (Q.3 vs. Q.D3) (population)



Share of the population with written contracts according to educational attainment & ethnic background (population)



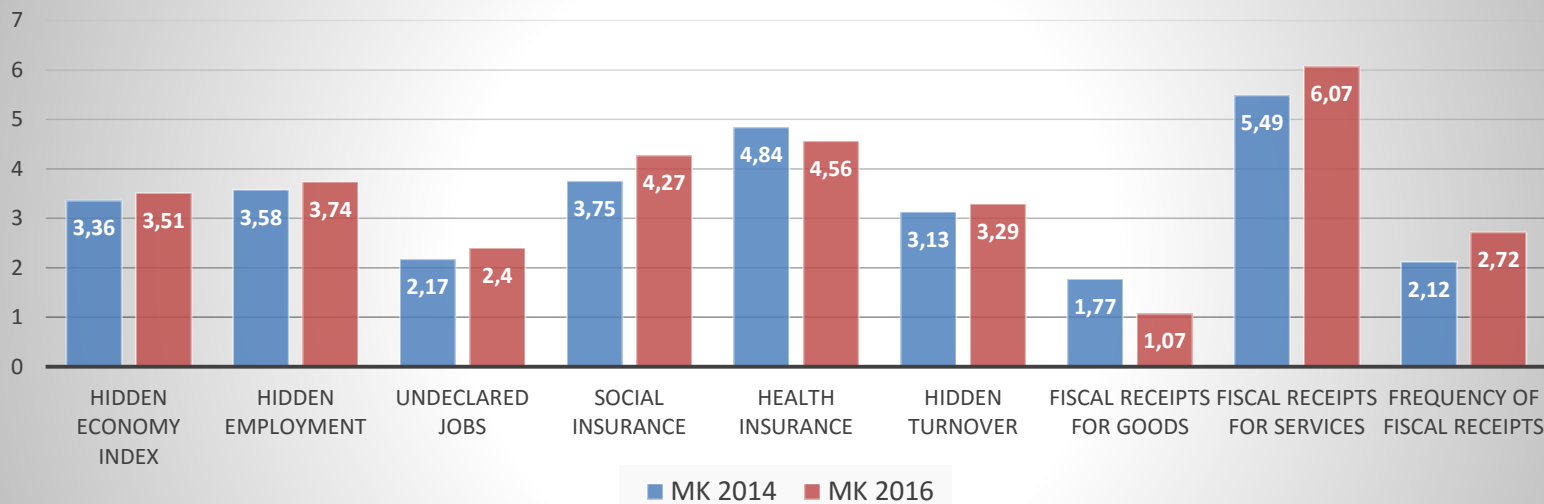
- Significant difference in the rate of acquiring a written contract due to the **crossover from primary to secondary education**
- That difference is even more significant if you take the ethnic background in context. **75% of Macedonians** with primary education have a written contract compared with **26% of Albanians** and **57% of other ethnic communities**.

# Hidden Economy Index

## Macedonia 2014-2016

Hidden Economy Index and sub-indexes (population) for Macedonia (2014-2016)

Source: Population survey CRPM/CSD 2014 and CRPM/IDM/D4D Survey 2016



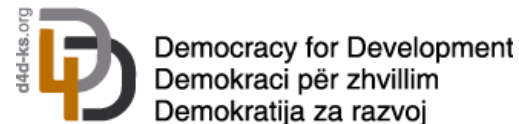
- Macedonia experienced **slight worsening (larger values)** across the board in **most categories** of the hidden economy index for 2016.
- **Improvement** is only evident in categories **Health Insurance** and **Fiscal Receipts for Goods**.
- Macedonia has been entangled in a **major and ongoing political crisis since 2014** which has affected the efficiency of the government institutions as a whole and is highly likely to be the reason for the negative changes in the Hidden Economy Index

# Conclusions

- **Positive trend of the revenues** coming from social security contributions and other taxes gathered by the Public Revenue Office (PRO) despite the decrease in tax rates in Macedonia.
- **Non-issuance of fiscal bills and Tax evasion in Macedonia** are the **first and second leading reasons** for detected irregularities in the period of 2006-2015 (PRO)
- **Only 44% of the employees with primary education** have a written contract compared to **81% of the employed with secondary education**. The difference is more drastic if ethnic background is taken into account.
- **1/3 of employees in Macedonia** with primary employment besides their regular wage also **receive envelope wages or additional wage through temporary service contracts**.
- **In 2016 in Macedonia around 45% of employees (a rise from 40% in 2014)** with primary employment are **partially or completely undeclared**.
- **7.4% of the employed in Macedonia** admitted that they **received envelope wages** in the past month.
- Macedonia experienced **slight worsening (larger values)** across the board in **most categories** of the hidden economy index for 2016.
- **Kosovo has the highest (worst) hidden economy index (largest values)** set at 6.29 of 10, followed by Albania with index of 4.16 of 10 and Macedonia with 3.51 of 10.
- **The ongoing political crisis in Macedonia since 2014** is most likely **responsible for the lower scores** across the board in the Hidden Economy Index.



# Thank you for your attention!



[www.crpm.org.mk](http://www.crpm.org.mk)

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## To view additional publications on the topic follow the links for:

1. “Best Practices Reader In Monitoring The Hidden Economy” in Albanian and Macedonian only.  
[http://www.crpm.org.mk/wp-content/uploads/2015/05/zbirka\\_trudovi.pdf](http://www.crpm.org.mk/wp-content/uploads/2015/05/zbirka_trudovi.pdf)
2. Shurkov, E, Mickovska, R. A, (2014), Policy Brief Nr. 30: The Economics of Blurs and Shadows – The Hidden Economy In Macedonia. <http://www.crpm.org.mk/wp-content/uploads/2014/12/policy-brief-n.30eng1.pdf>
3. Shurkov, E, Mickovska, R. A, (2015), Policy Brief Nr. 31: Hit And Miss – The Dynamics of Undeclared Labor in Macedonia. Available at: [http://www.crpm.org.mk/wp-content/uploads/2015/01/policybrief31\\_eng.pdf](http://www.crpm.org.mk/wp-content/uploads/2015/01/policybrief31_eng.pdf)
4. Shurkov, E, Mickovska, R. A, (2015), Policy Brief Nr. 33: Hunting the Shadows – Tax Evasion Dynamics in Macedonia (2015). [http://www.crpm.org.mk/wp-content/uploads/2015/03/policybrief33\\_eng.pdf](http://www.crpm.org.mk/wp-content/uploads/2015/03/policybrief33_eng.pdf)
5. Shurkov, E, Mickovska, R. A, (2015), Background Analysis on the Spread and Trends of the Hidden Economy In Macedonia. <http://www.crpm.org.mk/?p=13971>
6. Shurkov, E, Mickovska, R. A, (2015), Monitoring the Hidden Economy in Macedonia: Trends and Policy Options, Center for Research and Policy Making – Skopje. Available at: <http://www.crpm.org.mk/?p=14289>