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Professional paper**

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**THE UNEMPLOYMENT, POVERTY AND SOCIAL EXCLUSION
IN THE REPUBLIC OF MACEDONIA**

Abstract

The paper addresses the unemployment, poverty and social exclusion in the Republic of Macedonia. In that context, theoretical aspects and definitions of poverty, the relation and interaction between the unemployment, poverty and social exclusion, as well as the strategies and measures for decrease of poverty and social exclusion, are elaborated. According the available data, the unemployment rate in the country in 2011 was 31.4%, while the poverty rate 30.4%. This means that approximately three of every ten citizens in the country are living under the poverty line, which is determined on 70% of the average annual incomes of the households. These indicators are showing that the country is facing with big poverty, which as a consequence has increase of the number of socially excluded persons. The policies, measures and activities which are defined in the National strategy on alleviation of poverty and social exclusion in the Republic of Macedonia 2010-2020, are of great importance in the process of decreasing the poverty and the number of socially excluded persons. Consequently, it will lead to higher standard of living and better quality life.

Keywords: unemployment, poverty, poverty rate, social exclusion, social policy

JEL classification: J64, I30, I32, I38

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Introduction

The year 2010 has been designated as the European year for combating poverty and social exclusion. The goals of the European year for combating poverty and social exclusion cover four broad objectives and guiding principles:¹

- a recognition of rights for all people, but especially those in a situation of poverty and social exclusion, to live in dignity and take part in society;
- a shared responsibility and participation, emphasizing both collective and individual responsibilities in the fight against poverty and social exclusion;
- promoting cohesion, emphasizing the benefits for all society of an eradication in poverty and greater social inclusion, and;
- establishing commitment for concrete action for the eradication of poverty and social exclusion at all levels of governance.

However, deep-rooted disadvantages faced by certain groups of society, coupled with ingrained attitudes and beliefs of others, means that legislation alone is unlikely to achieve the goal of creating a society which genuinely offers equal opportunities to all and is totally free from discrimination. Despite legislation, inequalities still exist in terms of gender, race or ethnic origin, religion or belief, disability, age or sexual orientation, and social exclusion tends to perpetuate itself in a cycle of deprivation from one generation to the next. These inequalities manifest themselves across many aspects of daily life, such as education, the workplace, healthcare, or in terms of access to goods and services of general interest.²

The aim of this paper is to identify the interaction between the unemployment, poverty and social exclusion in the Republic of Macedonia. The analysis would be focused on relevant aspects of the unemployment, and its influence on the increase of poverty and social exclusion. Relevant to this, main strategic purpose and separate goals of the National strategy on alleviation of poverty and social exclusion in the Republic of Macedonia 2010-2020 will be observed, including the measures which are necessary to be taken, in order to decrease the number of poor and socially excluded persons.

¹ Decision No. 1098/2008/EC

² European Commission, Eurostat Statistical Books, Combating poverty and social exclusion - A statistical portrait of the European Union 2010, Brussels, 2010, p.6

The analysis in the paper is referring to the data for the unemployment, poverty and social exclusion in the Republic of Macedonia for the period 2003-2011, as well as on the strategic documents from the Ministry of Labor and Social Policy, which are dealing with the alleviation of poverty and social exclusion in the country.

1. Theoretical aspects and definitions of poverty, social exclusion and unemployment

The poverty, social exclusion and unemployment influence each other, thus creating a spiral of insecurity, which ends in multiple deprivations. Deprivation usually begins with the loss of employment, which in turn leads to a significant degradation in living standards, that is, increased risk of poverty. Living in poverty creates additional difficulties in the search for employment and contributes to a long-term unemployment trap for many individuals. At the same time, unemployment and poverty inhibit participation in social activities. Due to the lack of money and to the stigmatization that can be caused by unemployment, social ties are weakened, increasing the probability of social isolation. In turn, the social isolation has an adverse effect on employment, since the individuals concerned are isolated from sources of information and lack the support needed for employment search.

Social exclusion is understood first and foremost as exclusion from the labour market. If social exclusion is conceived primarily as exclusion from the labour market, in other words, if employment is a precondition for inclusion, then education is one of the key mechanisms of social inclusion. The degree of employability is connected with the possession of qualifications and skills.

Better education will not automatically remove social exclusion. Social exclusion, and education itself, are affected by income inequality, class and/or ethnic divisions in society, physical separation, globalization, the division of power, the stratified nature of the education market, etc. Changes in education and educational aspirations are not enough to compensate for the lack of jobs or the highly competitive modern (global) labour market.

If people are unemployed, it is more likely that they will be poor, although some people who work are also poor due to a low income and large personal and family expenses. Efforts are being made to help people to work and to earn a salary, and thus become in a better position than those who receive assistance and benefits through the unemployment and social welfare system. The main problem is that many people are unemployed and/or are not easily employable and therefore are exposed to economic poverty and social exclusion.

With regard to the wider term social exclusion, it is generally believed that employment and education policies should provide a way out of the problems associated with the unemployment, such as poverty and dependency on social welfare. Many unemployment problems may be alleviated by an active labour market policy. Still, the question remains whether this policy is really successful, or just a way of concealing the problems related to employment.

In order to get satisfying results, an active labour market policy should adjust to changing economic conditions, and focus on the long-term supply of labour, improving factors such as the economic activity rate of the labour force, their level of education, and the flexibility and adaptability of both the employed and those looking for work. It is particularly important that labour market and social welfare policies are coordinated, so that they mutually reinforce one another. The policy which maintains levels of income and benefits during unemployment and the laws protecting employment should also stimulate integration on the labour market and promote its efficiency.

The EU's social inclusion process uses a relative definition of poverty that was first agreed by the European Council in 1975, and is used as definition by Eurostat:³

‘...people are said to be living in poverty if their income and resources are so inadequate as to preclude them from having a standard of living considered acceptable in the society in which they live. Because of their poverty they may experience multiple disadvantages through unemployment, low income, poor housing, inadequate health care and barriers to lifelong learning, culture, sport and recreation. They are often excluded and marginalized from participating in activities (economic, social and cultural) that are the norm for other people and their access to fundamental rights may be restricted’.

³http://ec.europa.eu/employment_social/spsi/docs/social_inclusion/final_joint_inclusion_report_2003_en.pdf.

Measuring the poverty requires in advance determined so called „poverty lines” that represents the standard of living level, which should be achieved for one person / household, not to be classified as poor. There are three types of poverty lines: absolute poverty line, relative poverty line and subjective poverty line.⁴

The absolute poverty line represents the determination of the absolute level of incomes (expenditures) which is necessary to satisfy the basic living needs. It is based on the standards about the quantity of goods and services which can be consumed by one person/household, i.e. on the standards for their survival with minimal expenses, while the time and space are used as constant.

The relative poverty line is based on the random setting of the poverty line, according the relative standard for persistence of the household. It can be determined as 50, 60 or 70% from the medial equivalent household consumption.

The subjective poverty line is based on the opinions expressed by the households about what is the minimum acceptable standard of living in the specific country.

The analysis of poverty problem is directly correlated with the determination of precise measures and standards about who will be considered as poor, as well as with the determination of poverty population scope, according those measures. The most usual measures which are used are:⁵

- Head Count Index – which shows the percentage of the population whose incomes are under the established poverty line. It is also known as the term poverty rate. The Head Count Index actually gives answer on the question how much poverty population is there in one country.
- Poverty Gap Index – is measuring the total deficit of all poor persons, i.e. their lack in relation to the poverty line.
- Poverty Severity Index – represents the layout of the poor under the poverty line. The changes in the incomes of the most poor have greater importance, than the changes in the incomes of other groups of poor.

⁴ Eftimoski D., *Economic growth – Basic theoretical concepts and models*, University „Ss. Kliment Ohridski”

- Bitola, Faculty for administration and management of information systems, Bitola, 2009, p.307

⁵ *Ibid.*, p.312

The social exclusion is wider aspect than the poverty. If the poverty refers to the lack of material or monetary resources and the poverty policy is directed towards reallocation of the budget funds, the social exclusion, apart from the lack of money and material goods, covers the social, cultural, political and other dimension. The successful realization of the policies against social exclusion, means providing better approach to the institutions and other mechanisms for social integration.

The relation between the social exclusion, poverty and unemployment has multidimensional nature, because it includes numerous material and socio-psychological consequences. This means that the unemployed persons on one hand have reduced revenues, and much poorer social life, and on the other, less chances for integration in the society. The question is how one can maintain social integration, in terms when the labour market can't offer more opportunities for social inclusion of the persons.

2. The relation between unemployment, poverty and social exclusion in the Republic of Macedonia

In accordance with the need for international data comparability, for defining and measuring the poverty in the Republic of Macedonia, the definition of Eurostat is used. The State Statistical Office of the Republic of Macedonia for the calculation of the monetary poverty is using the concept of expenditures (household's consumption) and is calculating the relative poverty line as 70% of the medial equivalent household consumption, using the equivalent OECD scale.⁶

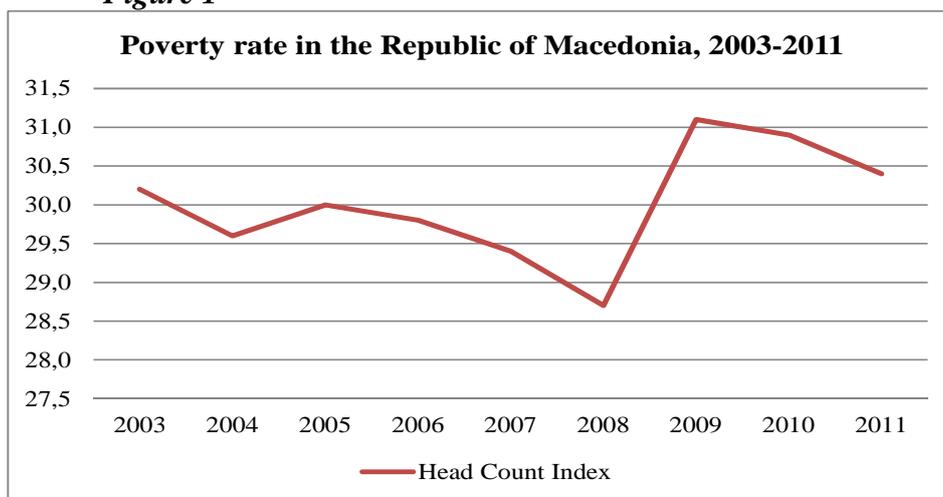
The Republic of Macedonia has very high unemployment rate of 31.4% (2011), as well as very high long-term (over 1 year) unemployment rate of 25.9%. This long-term unemployment is a serious problem, which is reflecting on more than 80% of the total number of unemployed persons. Having in mind this, the result is a large number of people who are longer unemployed and at the same time, are exposed on the danger of economic poverty and social exclusion.

⁶ State Statistical Office of the Republic of Macedonia,
<http://www.stat.gov.mk/MetodoloskiObjasSoop.aspx?id=37&rbrObl=13>

According to the data in Figure 1, in the period 2003-2011, the poverty rate in the country is around 30%. This means that approximately three of every ten persons are living under the poverty line, which is determined on 70% of the average annual incomes of the households. The indicator had the highest value of 31.1% (2009), and the lowest of 28.7% (2008). Consequently, having in mind that in the Republic of Macedonia the biggest part of the household expenses are accounted on food (39.3% in 2011), there is a situation which is indicative and typical for the poorer societies.

The poverty in the country usually is related with certain demographic and social characteristics of the population (gender, age, economic activity, education etc.). Therefore there are always some specific groups which are most exposed on the risk to become poor. In the Republic of Macedonia the poorest persons are those economically inactive, unemployed and with the lowest incomes.

Figure 1



Source: State Statistical Office, Republic of Macedonia, News release - Poverty line: 4.1.3.94 (2003), 4.1.7.47 (2004-2006), 4.1.8.48 (2007), 4.1.11.48 (2008-2010), 4.1.12.50 (2011)

In this sense, the households whose members are unemployed have the highest poverty rates (Table 1). During the period 2003-2011, the poverty rate of this category of the population had significant increase from 36.1% to 40.7%. These changes are showing that the poverty in the country is deepening, which is confirmed with the poverty gap index of the households whose members are unemployed. The value of this

indicator has increased from 12.1% (2003) to 16.0% (2010), while in 2011 it has decreased to 14.1%.

The reasons for the previously elaborated conditions, i.e. about the highest poverty rate of the unemployed, are due to the limited possibilities for employment in the country (insufficient number of jobs in the economy and weak dynamics on the labour force market, meaning that those who are jobless have difficulties to find employment).

One category of the population who is faced with the highest risk of getting poor is the young people. They have unfavorable social and economic position compared to other age groups, because usually they don't possess property, and have difficulties to find employment or place to live. The two biggest reasons for social exclusion of the young people in Republic of Macedonia derive from their unstable position on the labour market and because they are leaving the education. The unemployment rate of the young (15-24) is around 54% in 2010. These number means that more than half of the labour force of age 15-24 are unemployed.

Table 1
Relative poverty according the economic status of the household members, 2003-2011

Year	Poverty rate- Head Count Index	Poverty Gap Index	Structure of the poor
2003			
Unemployed	36,1	12,1	55,4
1 employed	29,3	8,6	30,9
2 and more employed	18,9	5,1	13,7
2004			
Unemployed	39,0	13,8	51,1
1 employed	27,8	8,0	32,6
2 and more employed	18,1	4,9	16,3
2005			
Unemployed	41,5	14,9	52,5
1 employed	28,2	8,3	31,6
2 and more employed	16,8	4,6	15,9
2006			
Unemployed	40,9	14,6	49,5
1 employed	28,1	8,9	31,8
2 and more employed	18,5	5,4	18,7
2007			
Unemployed	39,1	14,1	45,9
1 employed	30,7	9,7	36,0
2 and more employed	17,2	4,8	18,1
2008			
Unemployed	38,4	13,8	43,0
1 employed	30,6	9,1	35,4
2 and more employed	17,9	5,1	21,6
2009			
Unemployed	40,5	13,7	42,7
1 employed	32,5	10,4	33,8
2 and more employed	21,0	6,4	23,5
2010			
Unemployed	41,8	16,0	44,8
1 employed	30,5	10,1	32,8
2 and more employed	20,6	6,6	22,3
2011			
Unemployed	40,7	14,1	46,0
1 employed	30,0	8,4	31,8
2 and more employed	20,2	5,3	22,2

Source: State Statistical Office, Republic of Macedonia, News release - Poverty line: 4.1.3.94 (2003), 4.1.7.47 (2004-2006), 4.1.8.48 (2007), 4.1.11.48 (2008-2010), 4.1.12.50 (2011)

At the same time, the young population who has finished its education, most often accepts flexible types of employment (temporary jobs, part time jobs etc.), which makes them unable to strengthen their social status. In the Republic of Macedonia, usually, young people, especially if they are unemployed, are living with their parents or with other family members. In this situation they are not forced to bear the expenses for live and are not directly exposed to the fury of the poverty and social exclusion.

The risk of poverty and social exclusion is more prominent at the young people who are out of the educational process, who don't have qualifications, who aren't visiting professional trainings and are unemployed. This segment of the labour force commonly is called „status zero youths”.⁷

According the data from the Population Census from 2002, 32.2% of the persons aged 18-24, are prematurely dropping out of education.⁸ The participation of these persons according the LFS in 2011 is 13.5% and has significantly decreased since 2007 (19.9%).

In the „Europe 2020: A strategy for smart, sustainable and inclusive growth” is set out that this percentage in our country in 2010 should be 15.5%, while according the general target on EU level, the value of this indicator until 2020 to be under 10%.⁹

Regardless the fact that the data shows significantly reduced participation of the persons who prematurely drop out of school, still their part is big. Dropping out of school is lowering the chances for employment of these persons. As a consequence they may have difficulties to establish their secure position in society, are becoming dependent of the social security system in the country and are facing poverty and social exclusion.

In the Republic of Macedonia, the social transfers (including the pension system and social aid) are having big part in the income structure of the poor, especially of the unemployed. In September 2012, the transfers noted increase of 5.5% compared to the same period in 2011, and they were 62.6% of the total expenditures. The social transfers were 51.798 million MKD denars, were increased for 3.9% and their

⁷ UNDP, *Poverty, Unemployment and Social Exclusion – Croatia*, Denona d.o.o., Zagreb, 2006, p. 22

⁸ Pecakovska S. and Lazarevska S., *It's a long way to the society based on knowledge: Macedonian education in the light of the benchmarks and indicators of „Education and training 2010” – Program for work of the European Commission, Foundation Institute Open Society – Macedonia*, Skopje, 2009, p.22

⁹ European Commission,

http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators

participation in the total expenditures was 45.3%. On the other side, the transfers towards the Pension and disability insurance fund of Macedonia are covering most of the social transfers in amount of 30.582 million MKD denars, they have increased for 5.3% compared to the same period in 2011 and are participating with 26.7% in the total expenditures.¹⁰

The data explained above shows that in our country there is still big dependence on the social security system. The result is that the state instead of focusing the budget funds for accelerating the economic growth, increasing the investments, opening new jobs and creating better conditions for development, is using them to help the poor, social excluded and unemployed persons.

The analyses of the poverty of the households with employed persons shows that in the period 2003-2011 the poverty rate of the households members with 1 employed person is around 30%, and was increasing until 2009, when the value of the indicator was the highest (32.5%). After that it started to decrease and in 2011 was 30.0%.

In the case of the households with 2 and more employed the situation is almost the same as in the households with 1 employed. The highest poverty rate was in 2009 (21.0%), then it started to decrease and in 2011 was 20.2%.

These numbers shows that even the poverty rate of the households members with one, two or more employed is decreasing, it is still very high. This is due to a low income and large personal and family expenses of some employed persons.

3. Strategies and measures for decrease of poverty and social exclusion

The role of the state in overcoming the problem with the social exclusion, poverty and unemployment is very complex and significant. In that sense, the main strategic goal to decrease the poverty and social exclusion in Republic of Macedonia is „reduction of poverty and social exclusion through better use of the available human and material resources, improvement of the living conditions for all citizens,

¹⁰ Ministry of Finance, Sector for macroeconomic policy, Newsletter – September 2012, Skopje, November 2012, p. 14

systematic and institutional synergy in function of faster growth, higher standard of living and better quality life”.¹¹

In the National strategy on alleviation of poverty and social exclusion in the Republic of Macedonia 2010-2020, is highlighted that it is more appropriate if the policy for social inclusion is represented through measures and possibilities for more universal approach to the social services and benefits, instead of focusing on specific targeted vulnerable groups. With this, the policy for social inclusion would be formed according the needs and possibilities of every citizen who would find himself in position of risk and social exclusion.

During the 2012 were adopted operative plans for 2012 for implementation of the National strategy on alleviation of poverty and social exclusion in Republic of Macedonia 2010-2020. At the same time it is necessary to dedicate special attention to revise the same strategy according the recommendations in Europe 2020.¹²

The most significant priorities, whose realization would improve the conditions of the social exclusion from the labour market in the country are referring to: *first*, locating the reasons for long-term unemployment, and suggesting systematic and other measures to decrease the unemployment; *second*, following the indicators which are detecting the effects of the active labour market policies (or are directed towards the negative action of certain policies) as a precondition to remove the obstacles that are creating the long-term unemployment; *third*, adoption of measures with individual programs and active participation, in order to eliminate the barriers for employment of the long-term unemployed, who are becoming stigmatized and socially excluded; *fourth*, determination the employment quotas for these persons, as well as for the persons with limited abilities, by giving subsidies to the employers who are hiring the socially vulnerable persons, which will provide their bigger social inclusion; and *fifth*, support of the public work initiatives in the regions in which part of the population is exposed to social risks and social exclusion, expecting that this will allow temporary engagements and incomes as well, and will provide better existence and conditions for further hiring of these persons.

¹¹ Ministry of Labor and Social Policy, National strategy on alleviation of poverty and social exclusion in the Republic of Macedonia 2010-2020, Skopje, 2010, p.4

¹² In the Programme for realization of the social protection in 2012, in details are explained the areas in which the Ministry of labor and social policy is acting.

Considering the conditions and changes in the field of unemployment, poverty and social exclusion in the Republic of Macedonia, as well as the outlined goals, in the National strategy on alleviation of poverty and social exclusion in Republic of Macedonia 2010-2020, are provided preconditions and measures necessary to overcome the poverty:¹³

- Building a system of permanent measurement through harmonized parameters and data sources, which would be comparable with the indicators that are used to evaluate the poverty line in the European union;
- Determination of the nationally acceptable or adopted definition for social exclusion, according to which analyses can be made, will ease the methodological procedures, but would also specify the policies that will be realized in this area;
- Considering the mechanisms, conditions and assets for timely assistance to the persons who are facing the poverty (urban and rural), defining minimal wage (or minimal income);
- Determination of the targeted groups which should be observed and application of measures and policies for social inclusion through permanent system for solving the problems of socially excluded persons;
- In the socially excluded categories to be included: employed with especially low incomes, rurally poor, women from the ethnic communities who are living in the rural areas, children from larger families (3 and more kids especially with unemployed parents, and children who live in institutions);
- Providing new movable, deinstitutionalized services for more categories of socially excluded groups (different than the existing ones), especially for older persons, as well as increase the number of the daily centers for sheltering the homeless and the children of the streets.

There are several measures and activities provided for support of the socially excluded persons:¹⁴

¹³ Ministry of Labor and Social Policy, National strategy on alleviation of poverty.....op.cit., p.47

¹⁴ Ibid., p.46

- Improving the conditions in the capacities for inclusion in the educational process and the possibilities to get education (taking over the expenses about the education);
- Relief from certain taxes and contributions (such as participations to use the services from the state or the municipality) in order to decrease the impoverishment of the persons who are facing the social risk, and consequently facing the possibility to become socially excluded;
- Enabling the young to get higher level of contemporary education, which can help them to get away from the zone of the unqualified labour force, that is not attractive for the labour force market;
- Financial help to maintain healthy and hygienic sanitary conditions of the persons and families who are poor, introducing regular free health checks (in order to stop spreading contagious diseases etc.);
- Providing social help which will be in function to the persons who really need it (nonregistered persons, unreported, illiterate, hungry persons etc.) and which also will take in consideration the number of the children in the family that is receiving the social help;
- Providing quality approach to different types of services that are under the influence of the government (health, educational, cultural, sport, fun and other);
- Mapping the social organizations and firms, their capacities, structure and services, in order to evaluate the potential of the institutional and non-institutional forms for social inclusion;
- Setting indicators to follow the energetic poverty and creating measures to decrease or remove the reasons for it;
- Participation of relevant representatives of the ethnical groups and poor people in the preparation and coordination of the social inclusion policies.

Delineating the measures for different groups of poor people is becoming a need, in order to evaluate the success of separate measures. According the National strategy on alleviation of poverty and social exclusion, there are three categories of poor in the Republic of Macedonia. But, since the needs of these categories are different, the measures directed towards them should be different as well. This means:

a) special accent should be given to the trainings and consulting services to those who are considered as newly poor; b) it is necessary to make more available the financial transfers for those determined as traditionally, chronically poor; c) better information for all poor people about the possibilities that are offered.

The relation between the poverty, social exclusion and unemployment is taken in consideration during the preparation of the National Employment Strategy of the Republic of Macedonia 2015. The employment policies and measures outlined in the strategy should stimulate the demand on the labour force market; compliance the supply and demand of labour force according the needs of the labour force market; provide better balance between the flexibility and security, as well as should delineate the grey economy. Reaching these goals will increase the number of employed persons and will decrease the unemployment.

In order to reach the main purpose of the Strategy of 55% employment rate in the country until 2015, there is priority goals defined:¹⁵

- stimulation of the labor force demand and its harmonization with the supply;
- increase of the employment;
- inclusion of the women, ethnic communities and other vulnerable groups;
- increase the efficiency of the labour market institutions;
- increase of the quality, productivity and security of the employed persons.

Realization of the policies and measures determined in the strategy will increase the employment and will provide better conditions and bigger chances for the poor and socially excluded persons.

Conclusion

The concept of monetary poverty is based on relative measures, which may be responsive to a range of macro-economic policies, for example, relating to redistribution and employment. While poverty may be concentrated within a high proportion of jobless households, there is

¹⁵ Ministry of Labor and Social Policy, National strategy for employment of the Republic of Macedonia, Skopje, 2011, p. 31
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also a risk of poverty among working families, especially where wages are low and family commitments restrict the availability to work. Young adulthood is also considered to be a time of uncertainty and vulnerability, particularly in the current economic climate, which results with significant youth poverty and social exclusion.

Poverty knows no age barrier, nor having in consideration the process of population ageing. With proportionally smaller active population having to support increasing numbers of retired people, it is likely that there will be increasing pressure to provide adequate and sustainable pensions.

Social exclusion is a much broader concept than just income poverty, because there may be many other factors that leave groups of society isolated. These include such wide-ranging factors as unemployment, access to education, childcare and healthcare facilities, living conditions, as well as social participation. The persistence of large numbers of people excluded from work represents a key challenge for the objective of social cohesion. The longer a period of unemployment for an individual, the longer that person generally is staying in social exclusion, through their inability to afford material goods, services and housing, while their social contacts are often reduced (in part due to a lack of money for going out socially, or due to the stigma of being unemployed). This may lead to a lack of confidence and a reinforced sense of isolation.

Having on mind these problems, one can say that the decrease of the poverty and social exclusion in Republic of Macedonia depends on range of factors, among which, except the continuous economic growth, very significant are also the policies for social protection, social inclusion, for education, for health, as well as for the regional development.

The adoption of new solutions in the field of the social policy should be based on the fundamental analysis. This means not only focusing on the economic benefits on short and middle term, but at the same time on the social expenses and influences on long term. In that context, through the policies for active inclusion on the labour market of the poor and socially excluded persons, as well as through increasing the possibility to maintain the social expenditures (pensions, health protection, child protection, long-term care and other social transfers) on appropriate level, the volume of the consumption and the activity of the total population can be maintained.

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