

Article

Structural Changes and the Ukrainian Labour Market Organisation^a

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Abstract. The article aims to analyze the structural changes and the Ukrainian labor market organization in the condition of military aggression against Ukraine. The Ukrainian economy encounters the devastating destructions and losses of economic entities, enormous capital, and labor under the effect of military aggression. Structural changes include a change in the industrial structure of production, the destruction of large enterprises, and supply chains, the loss of part of the labor force, and fluctuations between skilled and unskilled jobs.

Thus, SMEs in the service sector suffer due to the reduction of the population in cities, which causes both a reduction in demand for certain types of services (hotel and restaurant business, beauty salons, providers of extracurricular educational services, etc.) and a reduction in the supply of highly qualified specialists (IT sector, experts in financial, design and consulting services).

Small business because of the war feels caught between the minimum possible sale of their products and reduced demand. The basic research questions are identifying and estimating the urgent needs of the labor market and capital. It will be directed to define sectors that can speed up the process of rebuilding the economy. Diversifying the economy, increasing product/service sophistication, using comparative advantages and transfer of resources (both labor and capital) leads to more productive activities and a rise in well-being.

Keywords: structural changes; labor market; small and medium business.

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Introduction

Structural shifts in the Ukrainian economy are caused by the consequences of the pandemic COVID-19, the effects of Russian aggression against Ukraine, and global conjuncture changes. The war in Ukraine and deepening cuts to supplies of gas to Europe have amplified preexisting stresses in global commodity markets, driving natural gas prices higher once more [1]. The increases in food insecurity resulted in poverty and financial instability in the global markets.

The upswing in energy and food prices was accompanied by an inflation rise. Therefore, consumer confidence is weakening in European countries, the supply chain is disrupted, and input costs are increased. Geopolitical tensions and rising stagflation affect almost every industry and company owing to multi-level supply chains. The most affected sectors of the economy, in which production facilities have been destroyed due to military hostilities, are the agricultural industry, mining and metallurgical complex, chemical industry, oil, and gas production etc. in Ukraine. As a result of the war consequence many enterprises were relocated, reduced production, or closed. The number of workers decreased, and some of them were displaced to the secure parts of Ukraine or migrated out of the country (the major part is qualified women). The labor market is characterized by existing disproportions between labor demand and labor supply. The total number of migrants reached 7.8 million, and internally displaced peoples (IDPs) are estimated 6.2 million in Ukraine in 2022 [2]. Due to the displacement of a significant number of people from areas where fighting is taking place, the number of jobs dropped, and the unemployment rate increased. Internal migrants put additional pressure on the labor market in Ukraine. 412 industrial enterprises have been damaged and destroyed, including large and medium-sized facilities in the eastern and southern regions of

Ukraine. The amount of damage caused to enterprises and industries is \$ 9.7 billion [2]. Some enterprises have shifted towards the western and central regions. This exacerbated existing imbalances between labor supply and labor demand, skilled and unskilled workers, and employed and unemployed workers causing a rise in the unemployment rate. The labor market fluctuations were accompanied by decreasing labor demand and growing labor supply, which caused imbalances and uncertainty for workers. The deterioration of the situation in the labor market was associated with decreasing employment, wages, and a drop in the living standards of Ukrainian citizens. The economic restoration will enhance new job creation and return business confidence and the restoration of trust in society. The adoption and implementation of policy measures to restore labor market stability and enhance employment opportunities will be directed to improve the situation in the labor market.

The aim of the study is to investigate the urgent needs of the labor market, determine the economic sectors which could provide new jobs, and speed the restoration of the economy.

1. Literature Review

The types of work, the industries in which workers work, their employment, career options, and the income they receive are influenced by structural changes. Undoubtedly, structural transformations affect people's mobility. The global shifts, caused by Russia's large-scale war against Ukraine, resulted in energy supply shortages, pushing rising prices and a rise in interest rates. These led to increased uncertainty and destabilized the labor market and caused a higher rate of unemployment. Although governments have taken steps to lessen the impact of increasing food and energy prices on entrepreneurs and businesses, wage growth has lagged behind price inflation, contributing to the general tightness of the labor market.

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The literature review about labor identifies the methods for the assessment of the effects of structural changes in the labor market. The employment structure has undergone significant changes in the transformation process. The appearance of large gaps in the worker's outcomes emerged due to friction in the labor market. It results in wage differences and inconsistency of wages, and incomes, and provides reallocation of labor force or consumption disproportions in basic economic sectors. Structural reforms are an important driver of growth over the medium to long term and - in combination with macroeconomic policies they are - a key element of achieving the G20's objective of strong, sustainable, balanced, and inclusive growth [3].

The concept of structural transformation substantiates the transfer of resources (both labor and capital) toward the more productive activities of the economy [4]. Nomaler et al [5] analyze how structural change affects well-being and observe the growing trend in living standards increase. The scientists conclude that structural change will increase or decrease inequality in the labor market. The authors consider the effect of structural change in sectors with high technical biases for highly skilled labor, such as market services. They prove that structural change tends to increase inequality.

Another approach defining the intensity of structural shifts in investment and labor demonstrates the effects of the changes in the employment structure, production, economic investment, and labor market organization. Accelerating structural shifts in the Ukrainian economy cause an increase in structural changes that smooth the transition to the neo economy within the global processes of restructuring the world economy, retreating from the industrial and agricultural sectors, and transitioning to the service sector [6].

Literature develops over time on the transformation of the labor market organization under the effects of the sectoral structure changes from the predominance of industry and agriculture toward a growing share of the service sector.

The integrated index of the structural changes in the sectoral structure of GDP and its structural elements in Ukraine displays the deviation of the values in the real structure to the sectoral division of GDP into the industry, agriculture, and services depending on the technological complexity of the process of producing goods (works, services).

The domestic economy shows significant deviations in virtually all sectors. It indicates a low level of the economy, a non-conformity between supply and demand in the labor market, a low level of innovation, and the inertia of transformational processes in the transition to the post-industrial stage of production [7]. Oliskevych and Lukianenko [8] propose an econometric model which describes changes in the level of employment in the region as a whole and separately in agriculture and industry. Comparative analysis of employed shares in economic sectors in Ukraine and Europe shows significant differences between them. The fundamental characteristic of the Ukrainian economy is the substantial overabundance of the agricultural and trading sectors relative to the construction, industry, transport, financial, real estate, and healthcare sectors.

By reviewing the evidence of gaps in sectoral labor productivity Donovan and Schoellman [9] assert the existing large sectoral productivity gaps in developing countries. This finding by itself suggests (but does not quite show) that the allocation of labor is inefficient. The fact that workers reallocate more frequently among these unproductive jobs suggests that they face barriers to achieving stable, high-wage work.

Most of the literature identifies policy measures enhancing labor productivity under transformational effects. Workers reallocate

more frequently to more productive, higher-paying sectors in developing countries. Dustmann et al [10] find that the minimum wage raised wages but did not lower employment. It also led to the reallocation of low-wage workers from smaller to larger, from lower- to higher-paying, and from less to more productive establishments. This worker upgrading accounts for up to 17% of the wage increase induced by the minimum wage.

The policy debate highlights the vital role of industrial development in fostering structural change and promoting the country's long-term development objectives. Swiston and Barrot [11] explore the relationship between structural changes and growth and estimate that the degree of structural efficiency by one standard deviation raises growth by 0.5%. This implies that Central American countries could significantly increase their long-run growth rates by increasing the flexibility of markets and improving the quality of regulation. Pariboni and Tridico [12] explore channels that operate through both the demand and the supply side of the economy, with a special focus being placed on labor market flexibilization and transformations in the productive structure of the economies involved.

The effects of the labor transfer from low - to high-productivity sectors and productivity improvements within sectors are considered a source of economic growth. The employment share in manufacturing could decrease due to higher productivity growth. Higher productivity would, however - via declining prices - boost demand for a given income, a feature intensively studied in computer technology [13]. Sectoral effects in manufacturing cause decreasing shares of resource-related goods and increasing shares of innovative components. The structural policy debate points out the predominance of the approach for the interdependence of economic growth and economic development based on the sectoral structure of the economy [14].

The literature review provides evidence that the effects of labor market transformation are considered unilaterally and based on an analysis of the basic factors. The various factors included in the research on the structural changes in the labor market give a broad picture of labor organizations. Many publications are devoted to the analysis of the effectiveness of possible policy responses in developed countries. The labor market structure, organization, and performance in the conditions of a structural transformational shift in post-soviet countries have not been researched deeply. There are a few publications in the current literature that require more in-depth research.

2. Structural Changes in Ukrainian Economy

Economic recovery after COVID-19 has led to a resurgence in labor demand in the global value chains. The tendency of nominal wages to grow caused the return of major economies to a pre-pandemic level of industry and services development in 2021. In most countries, participation rates have continued to rise, with inactivity rates substantially below pre-pandemic levels. In addition, the labor market recovery in some emerging-market economies has largely been driven by higher numbers of informal jobs, which will not be reflected in the labor force statistics [15].

The military aggression against Ukraine caused terrible destruction and losses of economic entities, infrastructure damages, capital, and labor force costs. The primary challenge of economic improvement in Ukraine is rebuilding the most important sectors - drivers of future economic growth and recovery. The main sectors in Ukraine's economy are agriculture, mineral commodities, mining, metallurgical complex, IT sector, chemical industry, pharmaceuticals, retail,

Table 1: Ukraine’s key economic data, projections 2019-2023. Constructed according to Ref. [17].

Values	2019	2020	2021	2022	2023 (Forecast)
GDP (current, US\$, billion)	154	155	181	204	223
Real GDP (annual percentage change %)*	3.2	-3.8	3.4	-35	-
GDP per capita (current, US\$)	3,690	3,741	4,3848	4,958	5,440
Total investment (% of GDP)	15	7.5	10	16	17
Gross national savings (% of GDP)	12	12	10	14	13
General government total expenditure (% of GDP)	41	46	41	40	38
General government gross debt (% of GDP)	50	61	54	52	49

oil, and gas production sector. The multi-sectoral industry, agriculture, and services make up the bulk of Ukraine’s economy. The leading industries are ferrous metallurgy and machine building, although their share is changing with time. The chemical industry operates in a single complex with metallurgy. Machine building is mainly represented by heavy, transportation, electrical engineering, production of aircraft, ships, military and space equipment, and precision equipment. Chemistry and pharmaceuticals, mechanical engineering, woodworking, pulp, and paper industry, light industry goods, mining and metallurgical complex, energy carriers, agriculture, food industry, transport, communications, IT sector, and tourism determine the sectoral structure of the Ukrainian economy. The current data depict a decrease in nominal GDP, a high volume of the shadow economy, an increasing volume of the state debt, and a growth of the negative balance in foreign trade in goods and services. Ukraine’s GDP is expected to shrink by an estimated 35.1 % this year (2023) [16], given the heavy loss of life, significant damage to Ukraine’s productive capacity and infrastructure, and very large population displacement - see Table 1, Fig. 1, Fig. 2.

The World Bank predicts that "a more severe and protracted war could see poverty rates rise to nearly 30% of the population".

In economies with more stringent employment protections, wage growth appears to be on average more sensitive to changes in labor market slack (unemployment) and inflation expectations. This would be consistent with labor prices (wages) adjusting faster to changing conditions when restrictions on labor quantities (firing or hiring of workers) are present. In economies in which firms exhibit greater market power in product markets as proxied by the average price markup wages appear slightly more responsive to unemployment changes [19].

Structural reforms in the economy provide the transition from extensive production to an efficient intensive economy. The share of unskilled workers typically decreases along with these developments, while the share of skilled workers typically rises. A large body of empirical work documents the importance of skills, rather than just formal educational achievement, in fostering employment and productivity. There is also a growing recognition of increasing imbalances between the technical training of workers and the actual fast-changing demands of the labor market.

A skills development strategy determines the economic behavior of employees in the process of structural reforms. A better skills strategy has the potential to overcome structural challenges by improving firms’ performance and increasing the productivity of the Ukrainian economy. Skills gaps are significantly constraining firms’ performance in Ukraine. In a 2014 survey of four key sectors (agriculture, food processing, information technology, and renewable energy), 40 percent of firms reported that there have been significant gaps between the skills of their employees and the skills they need to achieve the firm’s business objectives. About half of all firms in food processing and IT (a sector in which most employees have postsecondary education levels) decry the lack of skills. The lack of skills is less salient in the agriculture and renewable energy sectors, but at least 20 percent of firms in both of those sectors’ report that skills are inadequate [20].

There were lost millions of jobs in Ukraine due to the war, which meant the destruction of the fundamental structure of the economy. It resulted in significant added value losses and efficiency decline. At present, the Kyiv School of Economics has calculated the total losses of the economy which amounted to 267 billion US % (see Table 2). To estimate the real damage and losses in the agrarian sector one could analyze State Service Emergency Situations data about 300,000 square kilometers mined, suitable territories for agricultural businesses. Losses in the metallurgical sector are 40 % of pre-war capacities. About 2.7 % of the GDP of Ukraine is made up of IT service exports. The only sector in the nation with minimum losses and potential for growth is IT. The IT sphere remains the most competitive sector in the economy, where approximately 42 % of firms have their employees and facilities abroad. Due to the departure of part of the skilled labor force abroad, there is a problem with the emergence of a shortage of workers in certain sectors of the economy. According to the calculations of the Union of Chemists of Ukraine, the losses of the industry drop in production and sales amount to 5-6 billion dollars, the loss of profit – almost 600 million dollars, and the cost of the destroyed capacities – 2 billion dollars [22]. Data for other sectors of the economy are not available due to ongoing hostilities throughout the whole territory of the country.

The demand for labor declined sharply due to the hostilities in war zones, reduced demand for goods and services, logistical prob-

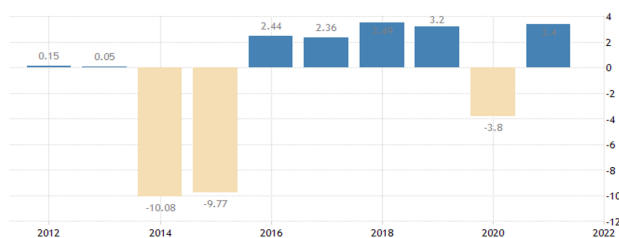


Fig. 1. Ukraine GDP Growth (%). Adapted according to Ref. [18].

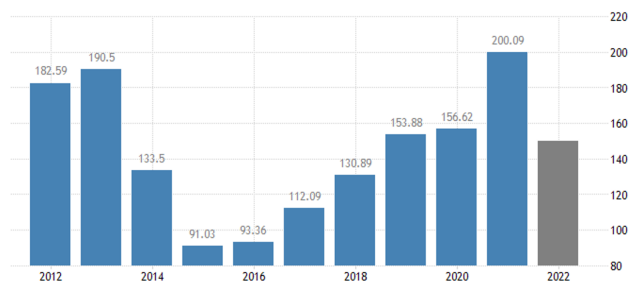


Fig. 2. Ukraine GDP (US\$ Billion). Adapted according to Ref. [18].

Table 2. Damages, Losses, and Recovery Needs (September 2022) Constructed according to Ref. [21].

Property types	Damages, \$ bln	Losses, \$ bln	Reconstruction and recovery needs, \$ bln
Housing	47.8	3.5	75.3
Transportation infrastructure	35.1	18.7	51.1
Industry and business services	9.7	30.3	19.7
Agri sector and land resources	4.3	23.4	17.5
Social services	0.2	6.4	6.6
Vehicles	2.7	0.4	5.0
Education	4.4	2.1	5.4
Commerce	2.1	23.3	3.9
Energy	1.8	11.6	3.5
Health care	1.6	2.7	2.5
Utilities	1.3	2.3	1.7
Culture, religion, sport, and tourism	2.0	4.3	3.2
Administrative buildings	0.9	0.1	1.3
Digital infrastructure	0.6	1.1	1.0
Financial sector	0.02	0.2	0.02
Total	114.5	130.4	197.8
Additional needs for demining (according to the WB preliminary assessment)			70
Total with demining			267.8

lems, and the uncertainty of the future. Therefore, the imbalance between labor supply and demand has become significant.

In a survey of 280 companies, conducted by KPMG – one of the leading auditing and advisory companies, the war losses for companies were estimated at 46% expect a drop in sales and 47% a drop in earnings. In addition, 80 percent assume that the Ukraine war will negatively impact their company for longer than a year. Forty percent fear negative effects lasting longer than three years. Almost every second company expects losses in sales and earnings as a result of the war in Ukraine – more than two out of five companies (41%) cannot yet assess its effects on their company [23].

International Labor Organization (ILO) estimates that 4.8 million Ukrainians have lost their jobs since Russia's full-scale invasion began compared to 2021, putting unprecedented pressure on the country's social welfare system - see Fig. 3.

As a result of the war, 41% of Ukrainian citizens stopped working. Among those who continue to work, 24% work part-time or remotely. According to the State Employment Service [24] and the work.ua web portal [25], the number of applicants for 1 vacancy has decreased from peak values, which reached 13 in the second quarter, to 5-9, respectively, in September of 2022. The reduction in the number of vacancies amounts to more than 70% of the pre-war level.

The right to work is a fundamental human requirement in a civilized society. The labor institutions' improvement is the basis for the restoration of labor market relations. The new enterprises' establishment and SME development will enhance new job creation.

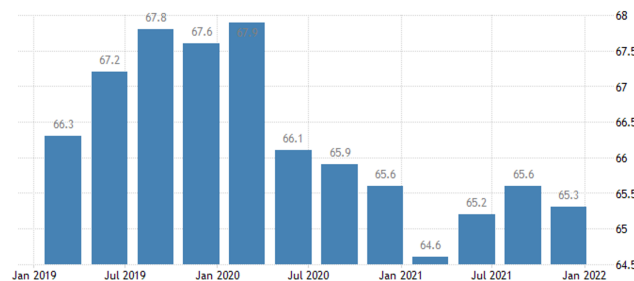


Fig. 3. Ukraine Employment Rate (%). Adapted according to Ref. [18].

Facilitating employers' and workers' activities in the labor market will support and ensure the continuation of work and stimulate labor productivity rise.

3. Labor Market Organization

Significant changes in labor supply and demand were mirrored in the organization of the labor market. The Russian military aggression had a devastating impact on the Ukrainian labor market. By the end of 2022, the level of employment in Ukraine was 15.5 percent below the level of 2021. Over 6 million Ukrainians are internally displaced persons (IDPs). The number of Ukrainian refugees in Europe reached approximately 7.7 million people. The European Union granted a "temporary protection" status to Ukrainians who fled the country following the Russian Federation's aggression and allow displaced persons to enjoy harmonized rights across the EU. These rights include residency, access to the labor market and housing, medical assistance, and children's education. The influence of the temporarily displaced persons/refugees on the Ukrainian and European Union labor market needs further detailed research, particularly an analysis of the structure of jobs.

The partial recovery of the Ukrainian labor market is a consequence of the fact that the number of territories of Ukraine that are under occupation and those that are active hostilities has decreased.

Ukraine has already lost 30-50% of its industrial capacity, mostly in the Eastern region, because of the war - see Fig. 4.

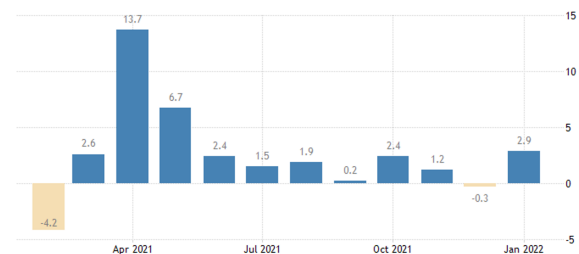


Fig. 4. Ukraine Industrial Production (%). Adapted according to Ref. [18].

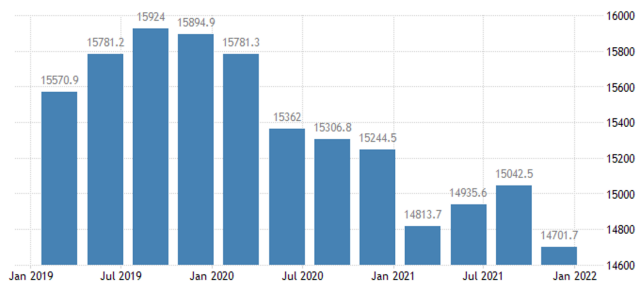


Fig. 5. Ukraine Employed Persons (Thousand). Adapted according to Ref. [18].

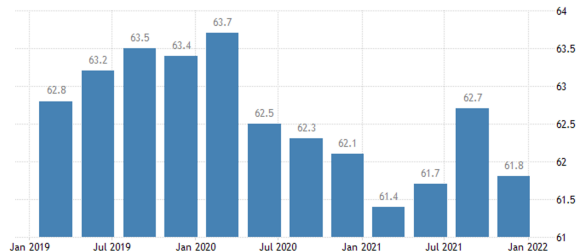


Fig. 6. Ukraine Labor Force Participation (%). Adapted according to Ref. [18].

The majority of these capacities were engaged in heavy industry, which accounted for 25–30% of the economically active population. Only 1% of Ukrainian businesses are still operating profitably after military activities. The recovery of labor demand will be restrained by the weak financial condition of businesses and insufficient volumes of investment in the economy in the near term. Next year, only 19% of entrepreneurs plan to implement new investment projects.

As by a survey, 30 areas the most in need of workers in Ukraine, in general, are retail trade, agriculture, transportation and logistics, the oil and gas sector, the metallurgy sector, pharmaceuticals, food industry, construction, and public administration [26]. Professions became the least in demand in the field of tourism and hotel and restaurant business. It became more difficult to find a job for lawyers, insurers, service workers, security guards, educators, and scientists.

Rehabilitating and rebuilding destroyed public infrastructure is a key priority. At the same time, the government also needs to take account of pre-existing territorial disparities and governance challenges, to ensure a strong and inclusive recovery that helps rebuild local economies while improving citizen well-being [27].

Employment is recovering extremely slowly, and there is still a low demand for labor. Real household earnings have decreased, and the economy will continue to deteriorate - see Fig. 5.

To continue working, 68% of companies reduced costs, 44% attracted loans from partners, 35% relocated enterprises and only 13% launched new business lines. Interestingly, 25% of the Association's enterprises reoriented business for humanitarian needs, and 13% for the needs of the army [26].

Due to intense competition, employers may now pick and choose the employees they want, which drives down pay and ups the number of requirements - see Fig. 6. The revitalization of economic activity both in the production sector and in the service sector, and an adaptation of employers to new conditions of economic activity

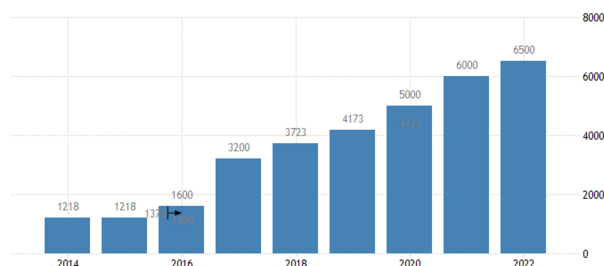


Fig. 7. Ukraine Minimum Wage (UAH/Month). Adapted according to Ref. [18].

contributed to a certain recovery of activity on the labor market in recent months. As said by the personnel portal grc.ua, the average number of candidates for each open position has increased five times since pre-war times, reaching 12 people. Companies are mainly re-hiring employees, but priority is given to the spot replacement of employees and hiring personnel in strategic directions.

As stated by the report of the National Bank of Ukraine most enterprises cannot ensure salaries at the pre-war level - see Fig. 8. The drop in salaries in the private sector amounted to 25-50 % compared to pre-war indicators. An increasing number of enterprises cut the salaries of employees by 10-50 %, in particular, in energy and services, transport, and trade. They suffered the most from mining and construction.

The average wage in the private economy was nearly the same during the year as it was for the corresponding time in 2021. After accounting for inflation, wage payments rapidly decreased in real terms. The real average pay for the private sector fell by 15% during the year before deepening to 27% in October 2022 - see Fig. 8.

Nominal wages climbed by 5% in the first ten months of 2022. But from January to October, real salaries fell 11%, with a sharp 21% year-over-year loss in the second quarter of 2022. Despite rising inflation, since July, they have steadied at about 18% thanks to an increase in nominal salaries [30]. Djakov and Blinov [29] emphasize significant divergence between the productive economy and the public service sector. This divergence has the potential to create labor market discrepancies and cement higher fiscal redistribution in the economy and chronic dependence on public procurement and tax incentives.

The absence of a slow pace of economic change, particularly regarding to laws governing the labor market and institutions of higher learning, is one of the key factors contributing to this underwhelming economic performance.

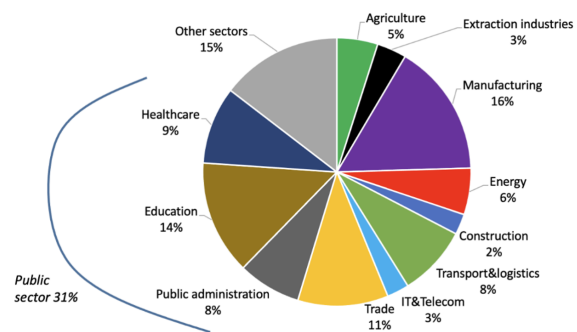


Fig. 8. Ukraine's payroll breakdown in 2021. Adapted according to Ref. [28-29].

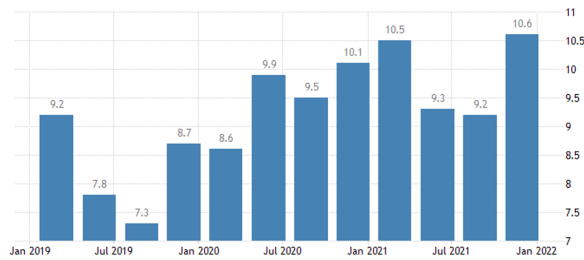


Fig. 9. Unemployment rate (%). Adapted according to Ref. [18].

As stated by the findings of the survey by Gradus Research, 73% of European Business Association member companies plan to increase the wages of their employees in 2023, of which 40% will increase wages at the level of 10 to 20%. At the same time, 26% of companies will keep salaries at the current year's level, and 1% have planned to reduce them.

Research results by the Rating Group [31] depict that among those who had a job before the war, only 36% are working in the usual mode, 19% are working remotely or partially, 6% have found a new job, 37% have lost their job and are currently unemployed.

This survey provides the data that the restoration of jobs and income sources is more important for Ukrainians as direct financial support. Thus, among the programs most needed for war-affected communities, the most often chosen were the restoration of businesses and jobs (60%) and the damage repair (55%). Financial support was identified as an important program by 44%. 37% of respondents named medical and humanitarian assistance as significant. Children's development programs and psychosocial care are important for a quarter of the polled. Instead, programs for either democratic institution's development or cultural and social cohesion were chosen less often – by 3 to 6%. A new trend in the labor market is facing employment problems due to the extremely low number of vacancies, highly qualified specialists, in particular, top-level specialists, accept positions with lower qualifications.

The data from the National Bank of Ukraine there is 30% of Ukrainian unemployed in 2022 (28.6% is estimated by the International Labor Organisation). The forecast for 2023 there will be 26.9% unemployment.

The new Unemployment Law allows for the payment of unemployment benefits during times of conflict without the need for an in-person visit to the employment office, as long as the unemployed indicate their intention to stay jobless at least once every 30 days via any form of communication. The maximum amount of benefits is 1.5 times the minimum wage as of January 1 of the calendar year, as stated in the law on unemployment in times of war (today

it is 9,750 UAH) - see Fig. 9. The Government of Ukraine has so far made considerable efforts to keep the national social protection system operational by guaranteeing the payment of benefits, including to internally displaced persons, through the utilization of digital technologies to this effect.

The absence of a slow pace of economic change, particularly regarding to laws governing the labor market and institutions of higher learning, is one of the key factors contributing to this underwhelming economic performance. The reallocation enterprises in the safer areas, the new enterprises settings, the creation of new jobs opportunities, restoration infrastructure, and professional networks to support the needs of displaced workers play an important role in business restoration and in ensuring the labor market recovery. The basic directions of labor reforms are state investment in the creation of new jobs in the priority activities sectors, enhancement of public-private partnership development, and boosting various forms of state aid to SMEs for job creation.

Conclusions

Structural changes in the economy contribute to the economic growth and redistribution of capital and labor resources from inefficient branches to high-value-added sectors. These affect people's job creation and provide new career opportunities and higher wages in the service sector.

The labor market organization substantiates new challenges caused by war aggression resulting in the labor demand decline, wage reduction, unemployment growth, poverty rate increase, and inflation rise. The estimated damages, losses, and recovery needs demonstrate the urgent needs of labor force in Ukraine. The restoration of basic sectors, including energy, construction, food, and IT would be directed to speed up the process of rebuilding the economy. Increasing product/service complexity, diversifying the economy, utilizing comparative advantages, and transferring resources (labor and capital) all result in more productive activities and an improvement in well-being. The labor reform proposes the usage of labor market regulation mechanisms, professional skills, education, and training institutions' development. Enhancing the self-regulation of the labor market will stimulate a choice of various professions and work opportunities in the period of rebuilding the economy.

Abbreviations

SME	-	Small and Medium-seized Enterprise
GDP	-	Gross Domestic Product
IDP	-	internally Displaced Person
ILO	-	International Labor Organization
UAH	-	Ukrainian Hryvna

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