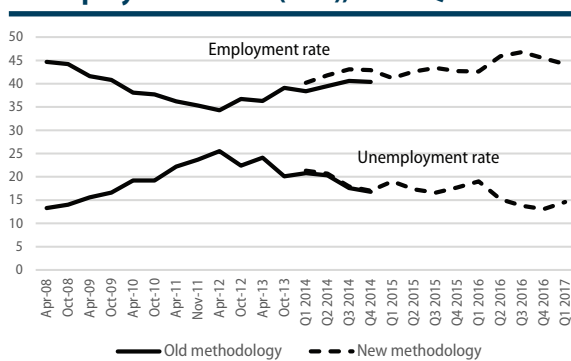


3. Labour Market

In the first quarter of 2017, earlier trends on the labour market continued. According to the LFS data, the activity rate was 51.8%, which is 0.8 pp lower than in the same quarter of the previous year, while the employment rates was 44.2%, up by 1.6 pp compared to Q1 2016. The unemployment rate dropped compared to the same quarter of the previous year, by as much as 4.4 pp and was 14.6% in Q1 2017. The decline in the rate of unemployment was the result of a reduction in the number of unemployed people by 149 thousand, but also of the decline in the number of active workers by 68 thousand. Negative demographic trends and high emigration had a negative impact on all labour market indicators. According to LFS data, the growth of formal employment was 4.9% year-on-year, while according to CRCSI data it was 2%. The rate of informal employment reached the lowest value in the last three years and is 19%. Nominal net wages increased by 4.2%, while real net wages increased by 1.1% year-on-year. Compared to the same period of the previous year, the real net wages increased the most in agriculture (5.7%), while a significant growth was also realised in information and communication sector and real estate. Public administration, education and healthcare recorded a lower year-on-year growth in real net wages. Cost of labour (in euros) increased by 3.4% year-on-year. Compared to Q1 2016, productivity has reduced and unit cost of labour has increased by -0.9% and 2.1%, respectively.

Employment and Unemployment

Graph T3-1. Trends in Employment and Unemployment Rates (15+), 2008-Q1 2017.



Note: Due to a change in methodology, the date for the period before and after 2014 are not completely comparable.

Source: SORS, LFS

The trend of strong inconsistency between the LFS data on labour market trends and trends in other macroeconomic and fiscal aggregates continued. For example, total employment in Q1 according to LFS was by 3.2% higher than in the same quarter of the previous year, while GDP in the same period increased by 1%. Lack of inconsistency in the trend of employment and economic activity, which has been present since 2012, has resulted in a significant drop in productivity and growth of unit labour cost. However, the growth of real wages on the liberalised private labour market is quite convincingly denying the data on productivity decline, while the strong growth of exports over the last few years contradict the growth of unit labour costs. In general, while other countries in the region in the post-crisis period had a growth of economy without a growth in employment, in Serbia, the statistical data indicates a different tendency – strong growth of employment with a modest growth of GDP.

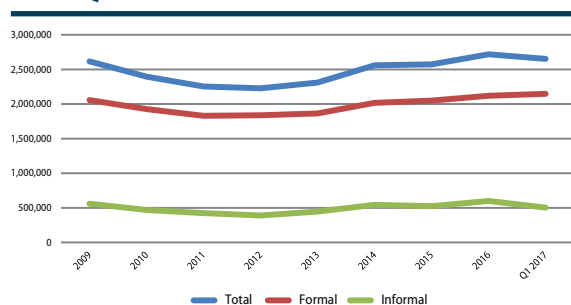
According to LFS, total number of employees in Q1 2017 was 2,652 million, which is a year-on-year growth of 3.2%. Formal employment is growing, while informal employment is declining, 4.9% and -3.4% y-o-y, respectively. The rate of informal employment dropped to 19%. The decline of informal employment is primarily the result of seasonal decline in the volume of work

The unemployment rate recorded a significant decline compared to the same quarter of the previous year, while the employment rate recorded a moderate growth...

149,000 unemployed persons less than in Q1 2016.

Formal employment is increasing significantly, while informal employment is declining...

Graph T3-2. Trends in Total Formal and Informal Employment According to LFS, 2009-Q1 2017.



Note: Due to a change in methodology, the data for the period before and after 2014 are not fully comparable.

Source: SORS, LFS

in agriculture, where the share of informally employed is the highest. The trend of total formal and informal employment is shown on Graph 3.2.

The data on the trends in formal employment for Q1 differ significantly between CRCSI (Central Registry of Compulsory Social Insurance) and LFS. According to LFS, formal employment increased by as much as 4.9%, while according to CRCSI that growth of 2%, year-on-year. It is expected that the difference between the data collected according to two methodologies be accidental, which means that sometimes one methodology would show a bigger growth and sometimes the other one

would. However, based on data shown in Table 3.1., it would seem that difference is systematic – in all quarters of the previous year and in the first quarter of this year, the growth of employment according to LFS has consistently been quite higher than the growth according to CRCSI.

Table T3-3. Year-on-Year Change in the Number of Employees and Real GVA by Sectors, 2016 and Q1 2017 in %

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Total employment CRCSI	-0.3	1.2	1.3	2.1	2.0
Formal employment LFS	1.9	2.7	3.8	5.2	4.9
Total employment LFS	2.7	6.7	7.2	5.8	3.2
Total GVA	4.4	2.2	3.3	2.7	1.0
Employment- agriculture	-3.7	6.0	6.1	-3.4	-8.0
GVA-agriculture	7.7	4.6	11.8	8.1	-2.2
Employment-industry	4.2	7.8	7.9	7.6	9.3
GVA-industry	6.9	0.3	2.7	2.3	1.3
Employment-construction	-2.9	4.0	-2.1	-1.8	-12.6
GVA-construction	12.9	7.8	8.6	-0.6	-5.1
Employment-services	4.7	6.8	8.2	9.1	5.7
GVA-services	2.6	2.1	1.7	2.4	1.6

Note: Source for employment was LFS, except for total employment, which is stated according to both LFS and CRCSI.

Source: SORS, LFS, CRCSI and SNA.

Table T3-3. Year-on-Year Change in the Number of Employees and Real GVA by Sectors, 2016 and Q1 2017 in % shows a relative change in the number of employees in real GVA in 2016 and Q1 2017 compared to the same quarter of the previous year. If we exclude the first quarter of 2016, the growth rates of total employees in the observed period are higher than the growth of real GVA, which implies a decline in productivity. Similar trends were recorded in the sector of industry and services. In Q1 2016, the industry sector had 510,000 employees, while in the same quarter of 2017, that number was 557,000, i.e. 47,000 higher, which is a 9.3% growth. At the same time, the industry GVA increased by 1.3%, which is by as much as 8 pp less compared to the growth rate of the number of employees in the same period. On the other hand, the CRCSI data show a significantly lower growth in the industry of 4.5%, but also higher compared to the real growth rate of GVA in the industry.

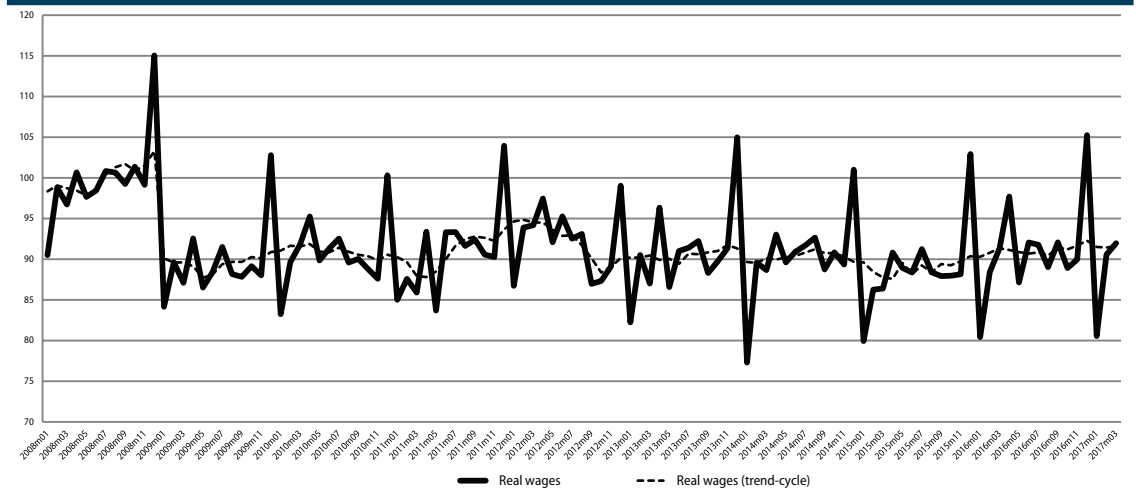
Wages

In Q1 2017, average nominal net wages were 45,437 RSD or 367 EUR. Compared to the first quarter of 2016, average net wages increased both nominally and in real terms by 4.2% and 1.1%, respectively. Graph 3.3 shows trends in the base index of real average net wages since 2008. General trends in real wages over the last few years indicate stagnation with relatively strong seasonal fluctuation, which is approximately in line with the trends of economic activity.

According to LFS, the growth rate of the total number of employees and the number of employees in the industry and services sectors are higher than the real growth rate of GVA...

Average net wages were nominally higher by 4.2% and by 1.1% in real terms compared to Q1 2016.

Graph T3-4. Indices of Real Average Net Wages (2008=100)

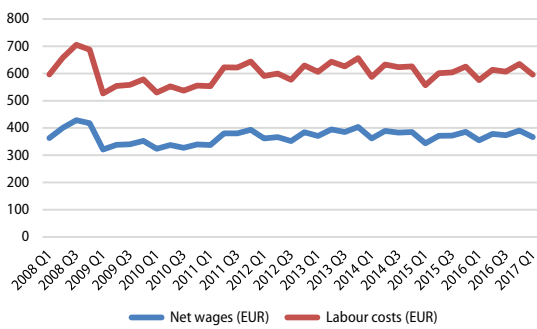


Source: Author's calculation with SORS data

Average net wages and cost of labour in euros increased by 3.4% year-on-year.

Trends of wages and cost of labour in euro are important when establishing the international competitiveness of Serbia's economy. Net wages in EUR and cost of labour increased by

Graph T3-5. Trends of Average Net Wages and Cost of Labour in EUR, 2008-Q1 2017.



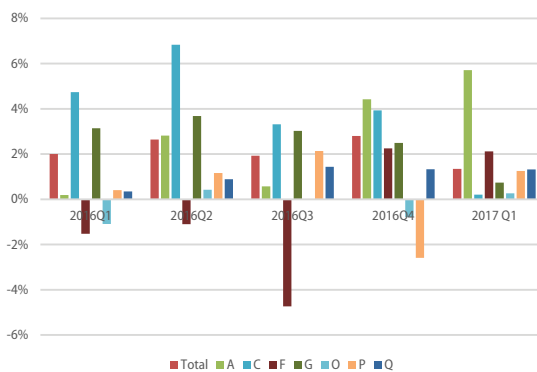
Source: Author's calculation with NBS data.

Agriculture, information and communication, and real estate sector realised a significant year-on-year growth of seasonally adjusted real net wages...

3.4% year-on-year, which is somewhat faster than the growth of economic activity. Faster growth of wages in euro than the growth of production and productivity¹ is moderate for now and is not jeopardising Serbia's competitive position. However, if this trend were to continue in the coming period, it would deteriorate the price competitiveness of Serbia's economy, which would further cause a deterioration in the foreign trade balance.

Public administration, education and healthcare recorded a small growth of wages.

Graph T3-6. Year-on-Year Trend of Seasonally Adjusted Real Net Wages, 2016-Q1 2017.



Source: Author's calculation with SORS data

Notes: A – Agriculture, forestry and fishery; C – Processing industry; F – Construction; G – Wholesale and retail; motor vehicle and motorcycle maintenance; O – Public administration and defence; compulsory social insurance; P – Education; Q – Healthcare and social protection

The highest year-on-year growth of seasonally adjusted real net wages was recorded in the sector of agriculture – as much as 5.7%. Information and communication recorded a growth of 3.5%, while the real estate sector had a 3.1% growth. Graph 3.5 shows year-on-year growth rates of seasonally adjusted real net wages for certain sectors.

We can see that the processing industry recorded a significantly lower growth in Q1 2017 compared to the growth rates during 2016. We can also see that construction, after three consecutive quarters of declining wages, recorded a growth in Q4 2016 and Q1 2017. Activities that are predominantly in the state sector, recorded a modest growth of wages: administration had 0.3%, while education and healthcare had a year-on-year growth of 1.3%. Even though administration and auxiliary services had a growth of seasonally adjusted real net wages in Q1 2017 compared to the 2016 average of as

¹ Based on data on registered employment, the productivity in Q1 compared to the same period of the previous year dropped by 0.9%. However, it is our estimate that this decline is temporary and a result of decelerated GDP in the first quarter. Based on LFS data on total employment, according to which we have a reserve, the productivity in the first quarter dropped by as much as 2%.

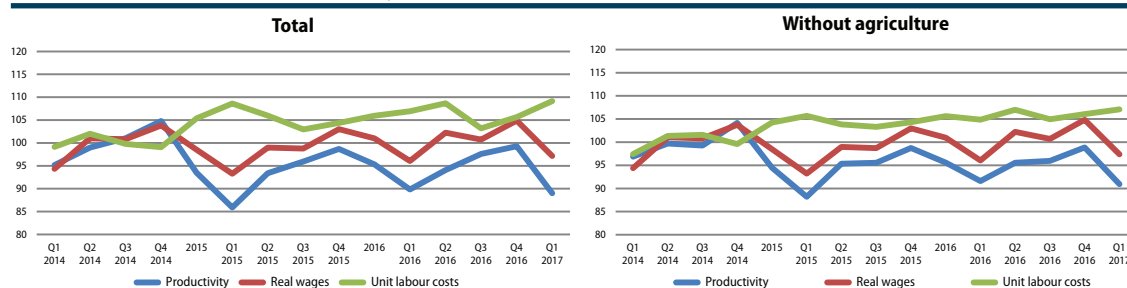
much as 4.3%, the year-on-year growth was 0%. The 2016 average was considerably affected by the growth in the first quarter of 2016 compared to the same period of the previous year by almost 14%, even though the rest of the quarters of 2016 recorded a decline or a modest year-on-year growth.

Labour Productivity

Trends in registered employment, real GVA and real net wages indicate a decline in labour productivity and an increase in the unit labour cost

In the first quarter of 2017, the trend in labour productivity and unit labour cost was the same as in the previous period (Graph 3.6). According to CRCSI data, the number of employees in Q1 2017 increased by 2% compared to the same quarter of the previous year. In the same period, real GVA increased by 1.1%, which caused a drop in labour productivity of 0.9%. The decline of productivity is somewhat lower when we exclude agriculture, -0.7%. Real net wages increased by 1.4%, so the increase in unit labour cost was 2.1% in non-agriculture sectors. According to LFS, the data on total employment indicated an even bigger decline of productivity and growth of unit labour costs, -2% and 5.7%, respectively, in Q1 2017 compared to the same quarter of the previous year. It is our estimated that the implied productivity drop and growth of unit labour costs according to LFS data is fictitious and rather a result of a mistake in labour statistics.

Graph T3-7. Labour Productivity and Unit Labour Costs, indices (2014=100), 2014-Q1 2017.



Source: Author's calculation using SORS data.

Note: CRCSI data was used for the number of the employed.

Annex 1 Main Labour Market Indicators according to LFS and CRCSI, 2014-Q1 2017.

	2014					2015					2016				2017
	Q1	Q2	Q3	Q4	prosek	Q1	Q2	Q3	Q4	prosek	Q1	Q2	Q3	Q4	Q1
Activity rate (%)	51.0	52.6	52.5	51.6	51.6	50.8	51.5	52.0	51.9	53.3	52.6	54.1	54.3	52.3	51.8
Employment rate (%)	40.2	41.8	43.1	42.9	42.5	41.2	42.6	43.4	42.7	45.2	42.6	45.9	46.8	45.5	44.2
Unemployment rate (%)	21.3	20.7	17.9	17.0	17.7	19.0	17.3	16.6	17.7	15.3	19.0	15.2	13.8	13.0	14.6
Informal employment rate (%)	19.7	20.4	22.8	21.8	20.4	19.7	19.7	21.5	20.4	22.5	20.3	22.7	24.1	20.9	19.0
Employment in 000, (LFS)	2,454	2,548	2,627	2,609	2,574	2,504	2,588	2,624	2,581	2,719	2,571	2,762	2,814	2,731	2,652
Employment, index, (2014=100), (LFS)	95.9	99.6	102.6	101.9	100.6	97.8	101.1	102.5	100.8	106.3	100.4	107.9	109.9	106.7	103.6
Formal employment in 000, (LFS)	1,969	2,030	2,028	2,041	2,050	2,011	2,078	2,059	2,054	2,137	2,049	2,135	2,137	2,161	2,148
Formal employment, index, (2014=100), (LFS)	97.6	100.6	100.5	101.2	101.7	99.7	103.0	102.1	101.8	105.9	101.6	105.9	105.9	107.1	106.5
Total employment in 000, (CRCSI)	1,836	1,845	1,850	1,851	1,989	1,983	1,985	1,998	1,989	2,008	1,978	2,008	2,023	2,032	2,018
Total employment, index, (2014=100), (CRCSI)	99.5	100.0	100.3	100.3	107.8	107.5	107.5	108.2	107.7	108.8	107.2	108.8	109.6	110.1	109.3

Note: Registered employment in 2017 does not include March data, as it is unavailable.

Source: SORS

Annex 2 Real net Wages and Labour Productivity, 2014-Q1 2017.

	2014					2015					2016				2017
	Q1	Q2	Q3	Q4	prosek	Q1	Q2	Q3	Q4	prosek	Q1	Q2	Q3	Q4	Q1
Average real net wages, index, (2014=100)	94.3	101.0	100.8	103.8	98.5	93.3	99.0	98.8	103.0	101.0	96.1	102.2	100.7	104.9	97.2
Average net wages, total, (€)	361	389	383	386	368	343	371	372	386	374	355	378	373	391	367
Average net wages, industry, (€)	359	382	378	378	374	351	376	379	389	385	369	391	382	399	376
Average gross wages, total, (€)	498	537	529	531	506	473	510	512	531	515	489	520	515	538	505
Average gross wages, industry, (€)	494	528	523	521	515	483	518	523	536	532	508	539	528	551	519
Productivity, without agriculture, index, (2014=100)	96.9	99.7	99.3	104.2	94.5	88.2	95.3	95.6	98.7	95.6	91.6	95.5	96.0	98.7	90.9
Productivity, total, index, (2014=100)	95.2	99.0	101.0	104.8	93.5	85.9	93.4	95.9	98.7	95.3	89.8	94.1	97.6	99.2	89.0

Note: Industry includes B,C and D activities, weighted average of wages. The dinar exchange rate against the euro, period average (NBS). Labour productivity was calculated based on the registered employment data.

Source: SORS and NBS