



Fondacija za razvoj ekonomske nauke

Foundation for the Advancement of Economics

# POLICY Brief

## Gender Pay Gap in the Western Balkan Countries: Evidence from Serbia, Montenegro and Macedonia

### Gender pay gap

The gender gap in earnings is one of the most persistent labour market characteristics in the broader context, including in the European Union, where it remains at 17.5% on average<sup>1</sup>. The gender pay gap, which refers to the difference between the wages earned by women and by men, is one of the key indicators of women's access to economic opportunities. Probing the nature and factors behind wage disparities can shed light on measures that can be taken to address inequalities and improve women's access to economic opportunity, thus tapping their potential and creating conditions for economic growth. Evidence on the gender pay gap in Serbia, Macedonia and Montenegro is scarce (although substantially more researched in Serbia), while comparison between the countries is practically non-existing.

On the other hand, in the Western Balkans, labour market position of women in comparison to men is unfavourable due to large participation gaps, high participation of unpaid family members among employed women and gaps in the land ownership.

### Aims of the research

This research project<sup>2</sup> aimed to measure the scope and characteristics of pay disparities in the three Western Balkan countries (Macedonia, Serbia, Montenegro), but also to look at them in the larger context of women's labour market participation and employment. Research aimed to determine how different characteristics of women workers, sectoral and occupational segregation, workers' location within the public or private sector, etc. influence the wage gap. It is also an attempt to show how and why the sources of the gender pay gap may differ across the wage distribution. The analysis is based on the Labour force survey (LFS) data, which are comparable across countries and to the EU data.

<sup>1</sup> More formally, gender pay gap is a percentage difference between average gross hourly earnings of male and female employees, expressed as a percentage of male gross earnings, unadjusted (Eurostat, 2010).

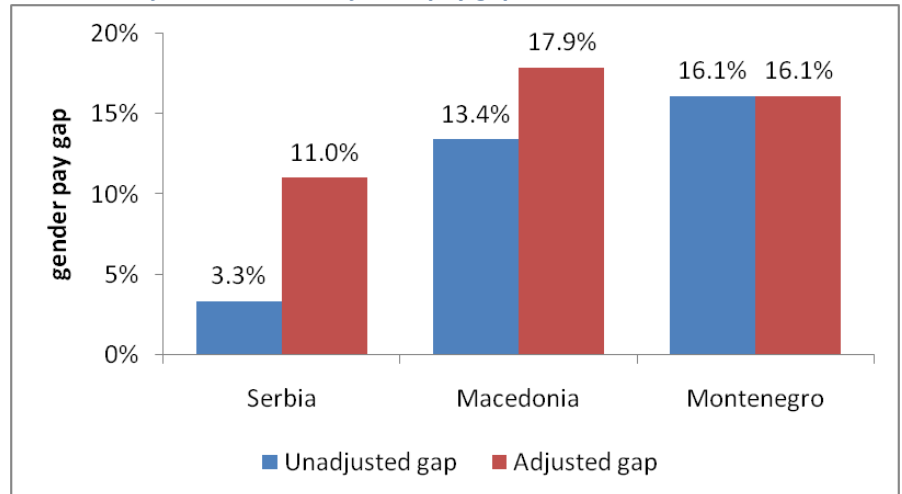
<sup>2</sup> The research project "Gender pay gap in the Western Balkan countries: Evidence from Serbia, Montenegro and Macedonia" has been carried out in partnership between the Belgrade-based Foundation for the Advancement of Economics (FREN) and Skopje-based University American College Skopje (UACS), within the framework of the Regional Research Promotion Programme in the Western Balkans (RRPP), run by the University of Fribourg upon a mandate of the Swiss Agency for Development and Cooperation, SDC, Federal Department of Foreign Affairs.

# The level of the gender pay gap in Serbia, Macedonia and Montenegro

**The unadjusted gap is lower than in the EU, but...**

In all three countries, on average, women have lower wages than men. In Serbia the gap stands at 3.3%, in Macedonia 13.4% and in Montenegro 16.1% (Figure 1). This is the so-called *unadjusted wage gap*. The unadjusted pay gap is defined by Eurostat (Eurostat, 2010) as a percentage difference between average gross hourly wages of male and female employees, expressed as a percentage of male gross earnings.

**Figure 1: The unadjusted and the adjusted pay gap in Serbia, Macedonia and Montenegro**



**... unlike in the Western economies, the gap in the Western Balkans cannot be explained by male advantage in the labour market characteristics.**

However, although the unadjusted gaps in the three countries are lower than the EU average, the 'true gap' in the Western Balkan countries is actually higher.

Namely, in the Western economies employed women on average have worse labour market characteristics than employed men. They have lower levels of education, work experience or 'worse' choice of occupation. Thus, in these economies, the part of the unadjusted pay gap is explained by the fact that men have characteristics that are on average of higher value to employers.

**On the contrary, women in Serbia and Macedonia have better labour market characteristics than men, while in Montenegro there are no differences.**

However, in Serbia and Macedonia women on average have better labour market characteristics, which 'hide' the true magnitude of the gap. Most importantly, employed women have better educational characteristics and work in better paid occupations. The main reason behind this female 'advantage' in labour market characteristics is the low employment of low-skilled women. Thus, when personal labour market characteristics are taken into account the gap in Serbia and Macedonia rises to 11% and 17.9% (Figure 1). This is the so-called *adjusted gap*<sup>3</sup>, the gap if working women, on average, were to have the same labour market characteristics as working men.

**In Montenegro part of the gap can be explained by the fact that women are more frequently pushed into low-paid 'female' occupations.**

In Montenegro, a different trend occurs: employed women are better educated, but this advantage of women is neutralized by their higher frequency in low-paid occupations. Thus, when personal labour market characteristics are taken into account the gap in Montenegro stays at the same level 16.1% (Figure 1). In other words, high unadjusted wage gap in Montenegro partially exists due higher frequency of women in low paid occupations and sectors, some of which are traditionally 'female' and in which female workers are pushed into in spite of their better educational levels. On the other hand, in Serbia and Macedonia, this type of discrimination cannot explain the gap.

<sup>3</sup> The adjusted gap is calculated by using BO decomposition, an econometric method of wage decomposition.

## Public and private sector

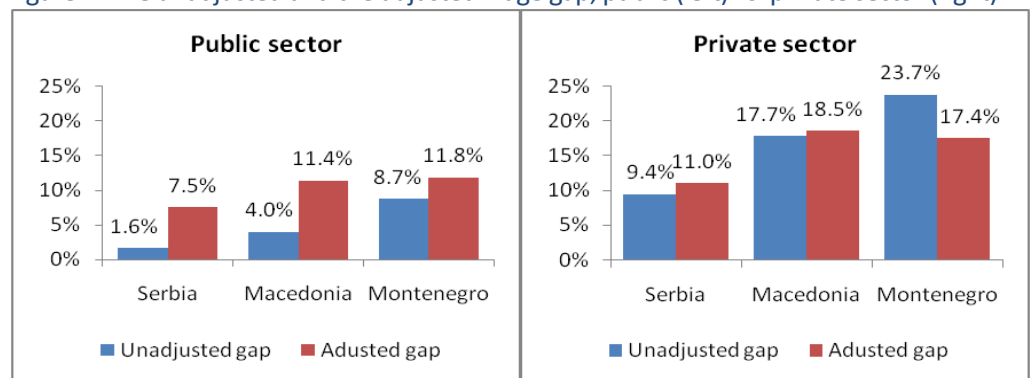
**The gap is significantly higher in the private than in the public sector.**

**The differences in the gaps are lower, when the labour market characteristics are taken into account.**

Due to the strong labour market duality in the Western Balkans the gender wage gap can be better understood when we split the sample of the analysis into public vs. private sector. In all three countries the gap is higher in private is significantly higher than in public sector (Figure 2, blue bars).

However, in Serbia and Macedonia, the 'advantage' of women in the labour market characteristics is higher in the public than in the private sector, while in Montenegro, men have better characteristics in private sector and women in the public. Thus, after controlling for the labour market characteristics the differences in the gaps between the sectors become less pronounced (Figure 2, red bars). In other words, in all the countries the gap is higher in the private than in the public sector, but the simple difference in the average wages overestimates this effect.

Figure 2: The unadjusted and the adjusted wage gap, public (left) vs. private sector (right).



## Explaining the gap

**Lower returns for women in Macedonia and Montenegro explain only minor part of the gap, while in Serbia have no impact on the wage gap.**

**Most of the gap is due to differences in unobserved characteristics, such as employers' attitudes, family responsibilities, personal characteristics etc.**

**To further understand the gender pay gap, more research on differences in these characteristics is needed.**

In all three countries the adjusted gap, which is often contributed to discrimination, is better explained by unobserved heterogeneity between the genders, than by differences in returns to observable labour market characteristics.

In Serbia, women do not have lower returns on the same labour market characteristics than men. For example, they are not paid less for each additional year of education or for their choice of occupation. On the other side, in Macedonia and Montenegro men have slightly higher returns to these characteristics, but these differences explain only smaller part (30% and 25% respectively) of the adjusted gap.

The analysis suggests that the gap mainly exists due to the different unobserved characteristics (which are not measured in LFS). These could vary from the differences in female and male labour market behaviour which employers perceive as less valuable and thus reward less / punish more. For example, women may be perceived as less flexible in terms of working hours or business trips due to home and reproductive responsibilities, to other non-measurable effort and ability related variables, as well as labour market frictions. Due to constraints in data<sup>4</sup> availability, these unobserved characteristics are beyond the scope of this analysis. Thus, in order to further understand the gender pay gap, more research on differences in these characteristics is needed.

<sup>4</sup> The research is based on the Labour Force Survey (LFS) data in the period from the 4th quarter of 2008 to the 4th quarter of 2011 (bi-quarterly data). The base sample includes individuals in the age group 15-64, who work full-time either in the public or in the private sector, are not in training or formal education, and are not self-employed and/or unpaid family members.

## Explaining the gap

**In the private sector, the gap is higher among the top wages than among the bottom.**

**In the public sector, the trends across the wage distribution vary significantly in three countries.**

In all three countries the gap varies significantly across the wage distribution. Again, this phenomenon is better understood if public and private sector are analysed separately.

In the private sector, in all three countries the (adjusted) gap rises along the wage distribution: the gap is the lowest in the 1<sup>st</sup> quintile of the distribution, and the highest in the 5<sup>th</sup>. Only in Macedonia, the gap is the largest in the 4<sup>th</sup> quintile, while the gap in the 5<sup>th</sup> is the second largest one. This suggests the so-called '**glass ceiling effect**' in the private sector in all three countries: it is more difficult for women to access the top paid jobs in the private sector.

Looking at the gender gap across the wage distribution in the public sector, different trends emerge. While in Serbia the adjusted gap seems to be equally pronounced at all levels of the wage distribution, in Macedonia there is a clear glass ceiling effect, where the most pronounced gender difference in wages comes at the 5<sup>th</sup> quintile. Montenegro public sector has the most pronounced glass ceiling effect of all three countries, but also a pronounced wage gap also at the bottom of the distribution, which implies that women with the lowest wages also earn substantially less than men with the lowest wages in the public sector.