

3. Labour Market

According to the Labour Force Survey (LFS), there have been improvements in the labour market. The unemployment rate is decreasing, while the employment rate is increasing compared to the same quarter of the previous year. The unemployment rate reached a record low, falling below 10% for the first time. The number of unemployed is down by as much as 63.4 thousand, or 17.1% year-on-year. On the other hand, the number of employees increased slightly, by 9,500 or 0.3% yoy. The structure of employment is changing for the better, formal employment is moderately increasing and informal employment is significantly decreasing. Formal employment recorded a year-on-year growth of 2.4%, while informal employment decreased by 7.8% year-on-year. A significant decrease in informal employment and unemployment is a positive trend. However, the question is how much this trend is due to the moderate growth of economic activity, and how much is the consequence of mass emigration of the population. Although there are hardly any statistics on external migration, as well as accurate and reliable information on the number and characteristics of emigrants, emigration affects reduction of unemployment, even if the majority of those who emigrate were the ones who were employed in Serbia. Data from the Central Registry of Compulsory Social Insurance (CROCSI) show that registered employment increased by 1.6% yoy, or by almost 34 thousand. The sectoral structure of the change in employment is also positive, as employment in the private sector grows, while it decreases in the public sector. More detailed data on the number of employees in the public sector show that the overall administration, as well as the administration at the local level, recorded a year-on-year increase in the number of employed persons. In Q3 2019 compared to the beginning of 2016¹ the local administration had an increase of 7.9% in the number of the employed. Average earnings in dinars were nominally 10.9% higher, while real growth was 9.4% yoy. Earnings are growing much faster than economic activity, resulting in a 6.2% year-on-year growth in real unit labour costs. Productivity is achieving modest growth due to a slightly larger increase in Gross Value Added than the growth in the number of employees. High wage growth, along with modest productivity gains, has led to a deterioration in the competitive position of the Serbian economy. The announced growth of the minimum wage by 11.1% from January 1, 2020, as well as the growth of public sector wages from 8% to 15%, will further increase the growth of average wages and real unit labour costs. Due to a slight appreciation of the dinar (0.4% yoy), earnings in euros increased slightly more than earnings in dinars, by 11.3% yoy.

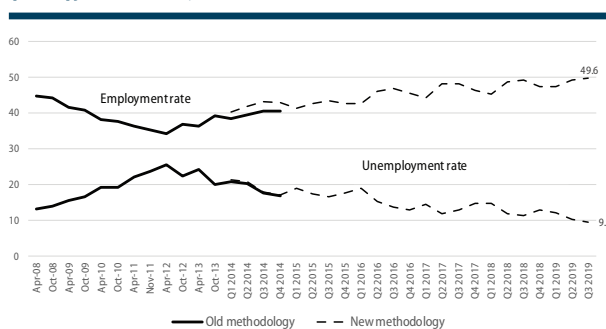
Employment and Unemployment

Unemployment rate reached a single digit value of 9.5%

Employment rate is rising

The basic labour market indicators show moderate improvements compared to the same quarter of the previous year as well as to the previous quarter. The activity rate is 54.8% and is 0.6 pp lower than in Q3 2018. The employment rate recorded a slight increase of 0.4 pp in Q3 2019 compared to Q3 2018 and is 49.6%. For the first time, a single-digit unemployment rate of 9.5% was recorded.

Graph 3.1 Employment and unemployment rates (15+), 2008 – Q3 2019.



Note: Break in 2014.
Source: LFS, SORS

The unemployment rate decreased by 0.8 pp over the previous quarter (Q2 2019) and by 1.8 pp compared to the same quarter of the previous year (Q3 2018). Graph 3.1 shows trends in employment and unemployment rates. The graph shows a decrease in the unemployment rate and an increase in the employment rate in the last few quarters.

In Q3 2019, according to LFS data, the number of the employed was 2 million and 939 thousand. The number of the employed increased by 9,500 thousand

¹ As a reminder, data on the number of the employed in the public and private sector exists as of 2016.

A significant reduction in the number of the unemployed

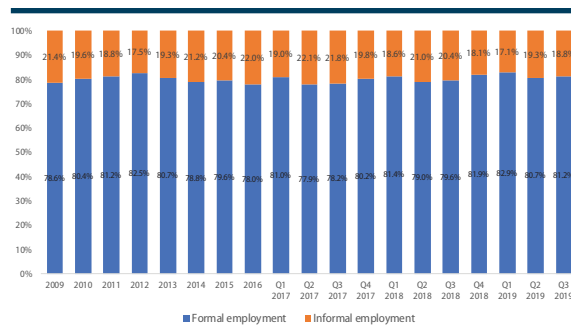
yoy. The number of unemployed persons amounted to 308 thousand, which is a decrease of 63 thousand persons, or 17.1% yoy. According to the National Employment Service, the number of unemployed persons is also significantly reducing and in September 2019, compared to 2018, it decreased by 80 thousand, while compared to 2017 it decreased by as much as 148 thousand. The decrease in both absolute and relative numbers of the unemployed is a positive trend, but it is only partly due to the improvement of the Serbian economy, and in part to the mass emigration of the population. Emigration of the workforce affects the reduction of unemployment, regardless of whether those who emigrate were employed or unemployed in Serbia. The departure of the unemployed abroad directly reduces unemployment in Serbia, while the departure of the employed does so indirectly by employing those who have been unemployed until then. So far, there are no official data, no reliable estimates on the number and structure of workers who have gone abroad over the past few years, but it is quite certain that the number is both macro-economically and demographically significant.

Total employment (LFS) is moderately increasing, 0.3% year-on-year

The positive trend of declining informal employment and increasing formal employment continues, which we estimate as a favourable trend. The number of formally employed persons is almost 2 million and 400 thousand (2,386.6 thousand). The number of formally employed persons increased by 56 thousand persons, which is an increase of 2.4% yoy. The number of informally employed persons in Q3 2019 was 552 thousand. Informal employment decreased

Employment structure is improving, formal employment is increasing and informal employment significantly decreasing

Graph 3.2 Formal and informal employment (15+) in % of total employment, 2009-Q3 2019



Note: Break in 2014.
Source: LFS, SORS

by almost 47 thousand, or 7.8% yoy. Due to a much larger decline in the informal than formal employment growth, total employment increased by 0.3% yoy. The informal employment rate was 18.8% and decreased by 1.7 pp compared to the same quarter of the previous year. The decrease in informal employment is also likely due to population emigration. Although some of the emigrants are people who are formally employed, we can assume that the unemployed and informally employed are more likely to emigrate. Graph 3.2 shows the structure of formal and informal employment in % of total employment.

Registered employment (CROCSI) grew by 1.6% year-on-year

According to CROCSI, the number of registered employed persons is 2 million and 180 thousand. The number of registered employed persons increased by 33,578 compared to the same quarter of the previous year, or 1.6%. GVA recorded a year-on-year growth of 5%, while GDP grew 4.8%. The growth rate of economic activity is higher than the growth rate of registered employment, as well as total and formal employment, according to the LFS data. In terms of activity, employment shows a slight decline in Services and Agriculture. Employment recorded a year-on-year growth of 3% in Industry and 6% in Construction.

Industry and Construction recorded an employment increase, while Agriculture and Services had a mild decline in employment

Table 3.1 Trends in the number of the employed (15+) and real GVA by sectors, yoy change, %

	2016				2017				2018				2019		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Total employment CROCSI	-0.3	1.2	1.3	2.1	2.3	2.6	2.7	2.8	3.3	3.2	3.3	3.4	2.7	1.6	1.6
Formal employment LFS	1.9	2.7	3.8	5.2	4.9	5.1	5.5	2.6	1.9	2.1	3.4	4.1	6.4	2.7	2.4
Total employment LFS	2.7	6.7	7.2	5.8	3.2	4.3	2.4	1.2	1.4	0.5	1.6	1.9	4.5	0.7	0.3
Total GVA	4.2	3.5	4.4	3.2	1.8	2.0	2.3	2.4	5.3	5.2	4.3	3.5	2.5	2.8	5.0
Employment- agriculture	-3.7	6.0	6.1	-3.4	-8.0	-1.6	-2.9	-7.8	-7.1	-8.6	-7.6	-1.2	5.4	-3.4	-0.9
GVA-agriculture	7.5	4.6	11.8	8.1	-7.7	-10.6	-13.7	-11.4	12.3	15.6	16.8	15.2	0.3	-0.3	-0.1
Employment-industry	4.2	7.8	7.9	7.6	9.3	8.4	7.7	6.3	12.0	12.3	6.1	0.9	3.9	0.7	3.0
GVA-industry	6.1	2.1	3.2	2.8	0.1	2.9	5.6	2.8	5.5	2.4	-1.0	-2.5	-1.4	-2.0	2.0
Employment-construction	-2.9	4.0	-2.1	-1.8	-12.6	8.2	-0.6	2.5	20.5	0.5	6.8	10.4	13.3	12.6	6.0
GVA-construction	16.9	10.0	12.4	-2.0	-0.5	-0.4	4.1	16.0	26.8	20.5	10.0	2.8	9.8	18.1	34.7
Employment-services	4.7	6.8	8.2	9.1	5.7	4.6	2.7	2.0	-1.2	-0.8	2.6	2.6	3.9	0.9	-0.8
GVA-services	2.5	3.5	3.0	3.1	3.7	3.3	3.4	3.1	3.4	4.4	4.4	4.7	4.0	4.0	4.3

Note: Data source for employment was LFS, except for the total employment where both LFS and CROCSI data were used. GVA data for 2019 is previous data. Source: SORS (LFS, SNA i CROCSI)

Employment growth rate was lower than the growth rate of economic activity, so the labour productivity slightly increased

Employment increased in the private sector, while it decreased in the public sector

Year-on-year decrease in the number of the employed was recorded in almost all parts of the public sector except administration

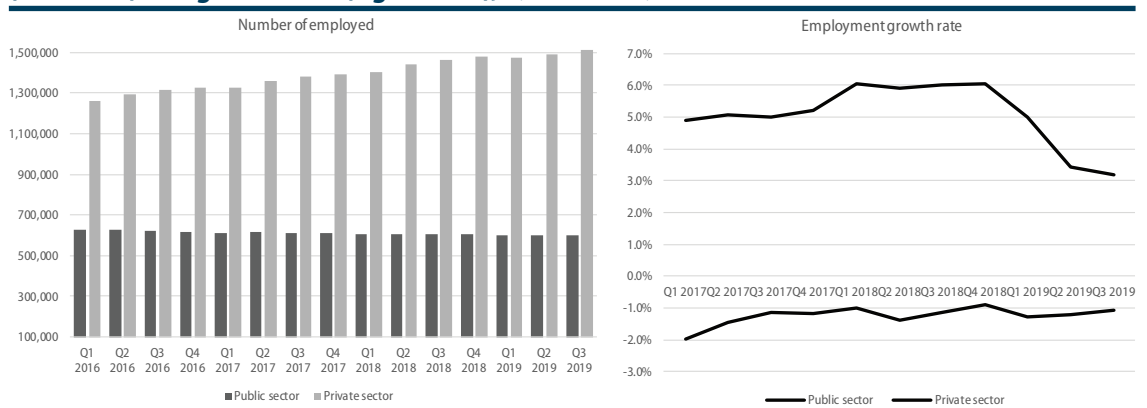
Administration at the local level increased the number of the employed by 7.9% compared to the beginning of 2016

The growth of administration at the local level is unjustified

Total productivity recorded a year-on-year growth of 3%, while productivity in non-agricultural activities increased by 3.4%. Registered employment (CROCSI) was used to calculate productivity.

The number of the employed in the public sector² is about 600 thousand, while the number of the employed in the private sector is about 1.5 million. The number of the employed in the public sector decreased by 1.1% compared to the same quarter of the previous year, while the growth in the number of the employed in the private sector was 3.2%. Compared to the beginning of 2016, the growth in the number of employees in the private sector is 19.6%, while the decrease in the number of employees in the public sector is 4.1%. Looking more closely at the public sector in Q3 2019 compared to Q1 2016, the number of the employed has been reduced in almost all parts, with the largest decrease of 13.8% recorded in public state-owned enterprises. The decrease in the number of employees in public and other state-owned enterprises was influenced by the privatisation of state-owned enterprises such as RTB Bor, PKB, as well as the bankruptcy of a number of companies in restructuring. On the other hand, administration at the local level increased by 7.9% in Q3 2019 compared to the start of 2016. Continuous decline in public sector staff and private sector growth is estimated as a good trend. However, we see the decline in the number of the employed in health and social care as well as in education and culture as a negative trend. Graph 3.3 shows trends in the number of the employed and the growth rates of the number of the employed in the public and private sectors.

Graph 3.3 Trends in employment in the public and private sectors, number of the employed (left chart) and growth rate (right chart), Q1 2016 – Q3 2019



Note: Data for Q3 2019 is previous data.

Source: CROCSI, SORS

Wages

Real growth of wages was 9.4%, year-on-year

Real growth of wages was significantly higher than the growth of economic activity

The average net wages in Q3 2019 amounted to RSD 54,285, and was nominally higher by 10.9% and in real terms by 9.4% yoy. In Q3 2019, compared to the 2018 average, the nominal growth of wages was 9.4%, while the real growth was 7.5%. Wages increased in real terms more than economic activity growth (5%) and productivity growth (3%), leading to an increase of unit labour costs. Year-on-year growth in real unit labour costs was 6.2%. This has had a long-term negative impact on the competitive position of the Serbian economy. Compared to 2008, wages increased by 12.7% in Q3 2019 (Graph 3.4). A significant growth of public sector wages has been announced, which will further increase the real unit labour costs. The minimum wage will increase by 11.1% in 2020, which is also significantly higher than the expected growth of economic

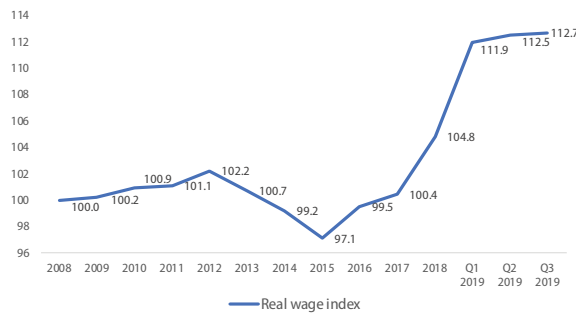
² The public sector is part of the national economy that includes the general government level, as well as non-financial state-controlled enterprises (public and other state-owned enterprises) primarily engaged in commercial activities (Law on the Budget System, Official Gazette of the RS, No. 54/2009, 73/2010, 101/2010, 101/2011, 93/2012, 62/2013, 63/2013, 108/2013, 142/2014, 68/2015 and 103/2015). Therefore, the public sector includes beneficiaries of budgetary funds in the fields of education, culture, healthcare and social work and state administration, as well as public enterprises established by the state or local self-government units, and which carry out activities of general interest (Law on Public Enterprises and Performing Activities), Official Gazette of the RS, No. 119/2012, 116/2013 and 44/2014). In addition to the public state-owned enterprises, there is a portion of non-privatised former socially-owned enterprises. The public sector is subdivided into the following sub-groups: public state-owned enterprises, public local enterprises, administration - state level, administration - autonomous provincial level, administration - level of local self-government, healthcare and social work, and education and culture.

Large growth of wages in real terms had a negative effect on the unit labour cost, and therefore on Serbia's economic competitiveness as well

Real unit labour costs increased by 6.2% in Q3 2019 compared to Q3 2018

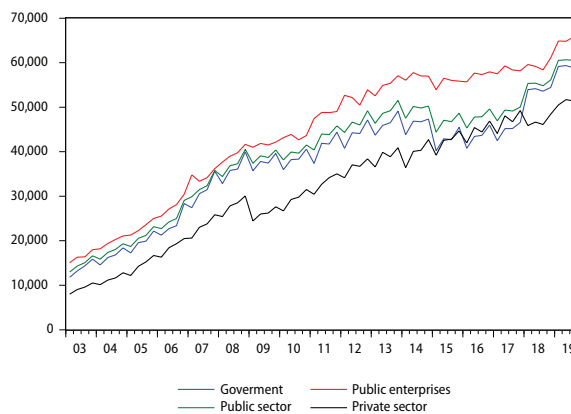
Emigration affected the growth of wages in the private sector as well.

Graph 3.4 Index of real wages (2008=100), 2008-Q3 2019



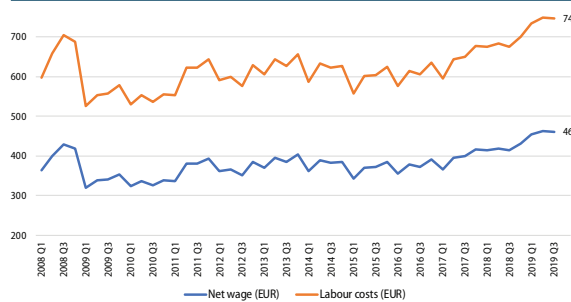
Note: Break in 2009 and 2018.
Source: Author's calculations using SORS data.

Graph 3.5 Trends in wages in the public sector, public wages, state and private sector, Q1 2003 – Q3 2019



Source: SORS

Graph 3.6 Trends in net wages and employer's costs in EUR, Q1 2008-Q3 2019



Note: Break in 2009 and 2018.
Source: Author's calculations using SORS and NBS data.

activity next year. Mass emigration, in addition to reducing unemployment, also affects the growth of wages in the private sector. Due to higher demand than supply in certain industries, the bargaining power of workers is higher, which enables an increase in wages, as well as a transition from informal to formal employment. This has happened in the countries of Central and Eastern Europe, as well as in the new EU member states.

Graph 3.5 shows the trend in average wages in the public and private sectors, as well as in parts of the public sector. We see that average wages are the highest in public enterprises - RSD 65,827, followed by the public sector - RSD 60,546. The public sector had an average wage of RSD 58,834, while the average wage in the private sector was RSD 51,405. In Q3 2019, average wages in the public sector were 17.8% higher than average wages in the private sector. The trend of narrowing the unadjusted gap between public and private sector wages continues. Let us remember that the unadjusted wage gap is not a true measure of the wage gap, because the characteristics of the person (education, work experience, occupation, etc.) have not been taken into account, as well as the fact that in the private sector part of wages is paid in cash, which is not the case in the public sector. Given the significant 8% to 15% increase in public sector wages, the gap between public and private sector wages will widen again.

The average net wage in euros was EUR 461, while the costs of the employer were EUR 746 (Graph 3.6). Net wages in euros increased by 11.3% yoy, while employer costs increased by 10.5%. In Q3 2019, compared to the same quarter of the previous year, the dinar strengthened by 0.4%. Growth of wages in euros was slightly higher than the growth of wages in dinars due to a slight increase in the value of the dinar against the euro.

Annex

Table D 3. 1 Labour market basic indicators according to LFS and CROCSI, Q1 2014 - Q3 2019.

	2014				2015				2016				2017				2018				2019		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Activity rate (%)	51.0	52.6	52.5	51.6	50.8	51.5	52.0	51.9	52.6	54.1	54.3	52.3	51.8	54.5	55.3	54.2	52.9	55.2	55.5	54.4	53.9	54.8	54.8
Employment rate (%)	40.2	41.8	42.1	42.9	41.2	42.6	43.4	42.7	42.6	45.9	46.8	45.5	44.2	48.1	48.2	46.3	45.1	48.6	49.2	47.4	47.4	49.2	49.6
Unemployment rate (%)	21.3	20.7	17.9	17.0	19.0	17.3	16.6	17.7	19.0	15.2	13.8	13.0	14.6	11.8	12.9	14.7	14.8	11.9	11.3	12.9	12.1	10.3	9.5
Informal employment rate (%)	19.7	20.4	22.8	21.8	19.7	19.7	21.5	20.4	20.3	22.7	24.1	20.9	19.0	22.1	21.8	19.8	18.6	21.0	20.4	18.1	17.1	19.3	18.8
Employment in 000, (LFS)	2453.6	2548.3	2626.8	2609.0	2504.1	2587.8	2623.9	2580.8	2570.7	2761.5	2814.0	2731.4	2652.2	2881.0	2881.9	2763.6	2688.3	2896.8	2929.3	2817.4	2810.5	2916.5	2938.7
Employment, index, (2014=100), (LFS)	95.9	99.6	102.6	101.9	97.8	101.1	102.5	100.8	100.4	107.9	109.9	106.7	103.6	112.6	112.6	108.0	105.0	113.2	114.5	110.1	109.8	114.0	114.8
Formal employment in 000, (LFS)	1969.8	2029.5	2027.6	2041.4	2010.5	2078.3	2058.6	2055.5	2048.7	2134.9	2136.6	2160.7	2148.1	2245.0	2255.5	2217.2	2188.2	2289.6	2330.4	2308.2	2328.5	2352.3	2386.6
Formal employment, index, (2014=100), (LFS)	97.6	100.6	100.5	101.2	99.7	103.0	102.1	101.8	101.6	105.9	105.9	107.1	106.5	111.2	111.7	109.9	108.5	113.5	115.5	114.4	115.4	116.6	118.3
Total employment in 000, (CROCSI)	1835.8	1844.9	1850.3	1851.0	1977.0	1982.0	1993.7	1994.0	1978.0	2008.3	2023.0	2030.3	2024.3	2061.5	2077.7	2086.7	2092.2	2126.6	2146.8	2158.7	2147.9	2162	2180
Total employment, index, (2014=100), (CROCSI)	99.5	100.0	100.3	100.3	107.1	107.4	108.0	108.0	107.2	108.8	109.6	110.0	109.7	111.7	112.6	113.1	113.4	115.2	116.3	117.0	116.4	117.1	118.1

Source: Author's calculations using SORS data.

Table D 3. 2 Real net wages and employer's costs in EUR, Q1 2014 - Q3 2019.

	2014				2015				2016				2017				2018				2019		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Average net wages, total, (€)	361	389	383	386	343	371	372	386	355	378	373	391	367	399	398	416	415	419	414	430	455	462	461
Average net wages, industry, (€)	359	382	378	378	351	376	379	389	369	391	382	399	376	417	411	429	404	416	405	425	439	454	450
Labour costs, total (€)	588	633	623	626	557	601	603	626	576	613	607	635	596	648	647	677	676	684	676	701	735	748	746
Labour costs, industry (€)	582	622	617	615	570	611	617	632	599	635	623	649	611	677	669	699	658	678	660	692	709	735	729

Note: The industry includes B, C and D activities, weighted average of earnings. Dinar exchange rate against the euro, the period average (NBS).

Source: Author's calculations using SORS data.