

### 3. Employment and Wages

According to the official statistical data from the Labour Force Survey (LFS), the improvement trend of the basic indices on the Serbian labour market has been somewhat mitigated. In the last quarter of 2014 compared to Q3, employment rate increased by 0.4 pp, unemployment rate decreased by 0.8 pp, while inactivity rate grew by 1 pp. However, compared to the same period in 2013, according to LFS, Serbia welcomed the end of 2014 with 100,000 less unemployed people. In the same period, employment grew almost entirely in the informal sector of the economy, and inactivity grew as well. It is not realistic to assume that all unemployed overflowed into the employed in the grey economy or in the inactive, i.e. that there was no new inflow into unemployment. This is especially impossible considering the contraction of economic activity in the amount of 1.8% of GDP in 2014. Since the decline of GDP is also related to grey economy, we express some doubts as to the growth of informal employment in this period. Generally speaking, the data on the labour market trends in Q4 are more consistent to other macroeconomic trends than was the case in the previous two years, when the statistics were showing a considerable improvement in the performance of labour market, while economy was in recession, citizen consumption was dropping, income tax was on a decline, and so on. Unlike employment data, the data on the trends in wages is more consistent to other economic trends. On the year-on-year level, real wages declined by 1.6%. Decline of real wages in Serbia is the result of the decline of wages in the public sector, while the increase of wages in the private sector was mostly the result of a reduction of the grey economy.

#### Employment

*Employment in the last quarter of 2014, compared to Q3, was down by 0.4 percentage points*

Labour Force Survey for the last quarter of 2014 shows that the rate of employment among the working age population dropped by 0.4 percentage points (pp) compared to the previous quarter. Considering that unemployment decreased by 0.8 pp, an increased rate of inactivity of one percentage point is expected.

The survey for the last quarter of 2014 was conducted at the beginning of November. Considering that in previous years, the observation period for the October survey was end of October, it is possible to compare the data from Q4 2014 with the October survey from 2013. Comparison of basic labour market indicators in Table T3-1 of the last quarter of 2014 with the same period in 2013 shows that:

- employment rate is growing by 1.2 pp
- unemployment rate is dropping by 3.4 pp
- inactivity rate is growing by 1.1 pp

In order to see better where these improvements are coming from, let us note that there were 4.6 million individuals in Q4 2014, ages between 15 and 64 (by 9.9 thousand less than in the same period in 2013). At the end of 2014, 2.8 million of these people were economically active (by 53 thousand less than in the same period in 2013):

- 2.3 million were employed. This is as much as 53 thousand more compared to 2013. Increase in the number of employed, therefore, contributed much more to the increased rate of employment than the decrease in the number of individuals ages between 15 and 64.
- 496.7 thousand was unemployed, i.e. by 106 thousand less compared to the end of 2013. Drop in the unemployment rate is the result of the decreased number of the unemployed, but also, almost to the same extent, the result of a reduction of active population in the observed period.
- 1.8 million were inactive, i.e. 43 thousand more compared to the end of 2013. Growth of the inactivity rate by one percentage point is to a lesser extent the result of the decline of total working age population, and to a higher extent the result of increased number of inactive individuals (Table T3-1).

## 3. Employment and Wages

***In Q4 2014, compared to the same period in 2013, there was an inexplicably high decline in the number of the unemployed***

What is most surprising in the observed trends between three basic statuses on the labour market are the changes in the absolute number of unemployed persons during 2014. From 612 thousand in the first two quarters, the number of the unemployed dropped to 530 thousand in Q3 and finally to less than 500 thousand in the last quarter of 2014. It is very hard to explain where 100,000 unemployed persons had disappeared. According to the survey, it would seem that about one half of the unemployed transferred to the employed (and mostly to informal employment, as we will later see) and almost the same number transferred to inactivity. All this with a very unrealistic assumption that there was no new inflow into unemployment.

**Table T3-1 Serbia: Employment and Unemployment According to the Labour Force Survey, 2008-2014**

		Total no. of employed 15-64 <sup>2)</sup>	Number of employed in agriculture and unpaid family workers 15-64 <sup>3)</sup>	Employment rate 15-64 15-64 god.			Total number of unemployed 15-64	Unemployment rate 15-64		
				Total	Male	Female		Total	Male	Female
		1	2	3			4	5		
2008	April	2,652,429	..	54.0	62.3	46.0	432,730	14.0	12.4	16.1
	October	2,646,215	443,243	53.3	62.2	44.7	457,204	14.7	12.7	17.3
2009	April	2,486,734	437,957	50.8	58.7	43.3	486,858	16.4	15.0	18.1
	October	2,450,643	411,303	50.0	57.4	42.7	516,990	17.4	16.1	19.1
2010	April	2,278,504	326,623	47.2	54.3	40.3	572,501	20.1	19.4	21.0
	October	2,269,565	352,724	47.1	54.4	39.9	565,880	20.0	19.0	21.2
2011	April	2,191,392	340,528	45.5	52.2	38.8	649,155	22.9	22.7	23.1
	October	2,141,920	329,378	45.3	52.5	37.9	690,782	24.4	23.5	25.6
2012	April	2,083,604	317,879	44.2	51.1	37.1	735,209	26.1	25.6	26.7
	October	2,201,760	345,883	46.4	53.7	39.1	661,698	23.1	22.1	24.5
2013	April	2,127,649	315,109	45.8	53.6	38.1	707,440	25.0	23.1	27.3
	October	2,268,750	349,742	49.2	56.2	42.1	602,651	21.0	20.2	22.0
2014	Q1	2,229,063		48	55.1	41	613,787	21.6	21.0	22.3
	Q2	2,277,413		49.3	56.3	42.5	612,134	21.2	20.4	22.1
	Q3	2,337,424		50.8	57.5	44.2	529,953	18.4	17.9	19.1
	Q4	2,322,200		50.4	57.2	43.7	496,177	17.6	17.3	18.0

Source: Labour Force Survey (LFS), SORS

***Employment in one year grew the most in the informal sector***

At first glance, it seems hard to explain the increase in the employment rate in the last quarter of 2014 compared to the same period in 2013, considering the observed overall economic trends. As can be seen in the Economic Activity section, GDP dropped 1.8% on an annual level. However, based on the Labour Force Survey, we see that the biggest part of employment increase in the amount of 53 thousand in the mentioned period occurred in the informal sector. To be more precise, employment in the period from the last quarter of 2013 to Q4 2014 increased in ten out of a total of twenty business activities. The biggest increase in the employment was realised in helping household members, which fall into the category of informally employed, since it has been almost doubled, from 41 to 78 thousand individuals. They are followed by the increase in employment in the mining sector by 26% (or 6 thousand) in the one year period. In other activities, growth of employment was small – only a few percentages.

The biggest decrease of employment of 11% occurred in companies that offer food and accommodation (hotels, resorts, camps). This is worrying information considering the potential of spa tourism in Serbia, which is not fully utilised due to unresolved property issues between the state and the Pension Fund (PIO), because of exceptionally long court proceedings which are preventing privatisation of these facilities (see section “Fiscal Trends and Policy”) (Table T3-2).

***Informal employment is still increasing and is currently 24.2%***

Informal employment rate, expressed as a share in the number of informally unemployed in the total number of the employed, is higher by 0.8 percentage points compared to Q3 2014. Survey from the last quarter of 2014 estimates that there are 594.6 thousand informally employed people in Serbia or by almost 20 thousand more than in the previous quarter. This includes those employed in unregistered companies, as well as registered companies but without formal labour agreement, as well as unpaid helping household members<sup>1</sup>.

<sup>1</sup> Helping household members are persons who have helped another family member in leading family business or agricultural land, without being compensated for it.

**Table T3-2 Employed by Business Activities, LFS**

	Q4 2013	Q4 2014	Q4 2014/Q4 2013
TOTAL	2,394,004	2459048	102.72
Agriculture, forestry and fishing	522,084	538040	103.06
Mining	23,065	29198	126.59
Manufacturing industry	399,654	385369	96.43
Supply of electricity, gas and steam	37,206	38386	103.17
Water supply and wastewater management	36,866	35548	96.42
Construction	126,620	120476	95.15
Wholesale and retail trade, repair of motor vehicles	288,606	305493	105.85
Transportation and warehousing	130,882	121550	92.87
Accommodation and food services	61,973	55442	89.46
Information and communication	50,140	49253	98.23
Financial activities and insurance activities	44,566	40839	91.64
Real estate	2,028		0.00
Professional, scientific and innovation activities	63,185	61701	97.65
Administrative and support service activities	49,175	56725	115.35
Public administration and compulsory social insurance	132,950	138827	104.42
Education	156,867	164215	104.68
Health and social care	136,455	141713	103.85
Arts, entertainment and recreation	44,823	45794	102.17
Other service activities	45,177	49499	109.57
Activities of households as employers	41,003	78810	192.21

Source: LFS

Note: \*a small number of occurrences, so it is impossible to make an assessment.

Since the Survey, ever since it started being published quarterly, shows the structure of the informally employed according to their professional status, we can observe that the biggest increase in the number of workers in the informal sector occurred among those with the status of employed or helping household members. The number of employed workers in the informal zone has almost doubled since the beginning of 2014, while the number of helping household members increased by 21% (Table T3-3).

**Table T3-3 Formally and Informally Employed According to Professional Status, 2014**

	Q1	Q2	Q3	Q4	Q4/Q1
Employed	62,352	71,723	118,552	123,737	198.4491275
Self-employed with employees	*	*	4,352	*	*
Self-employed without employees	227,955	229,427	226,723	239,872	105.2277862
Helping household members household	187,056	209,509	230,068	226,875	121.2872081

Source: LFS. \*a small number of occurrences, so the estimate was not published

Trends from the Labour Force Survey are in line with the data from the RAD survey, which primarily covers the formal segment of the labour market. According to the RAD survey, formal employment at the end of 2014, compared to the same period of the previous year, remained almost unchanged at 1,707,000 employed. During 2014, the number of the employed varied by only a few thousand.

According to LFS, the number of formally employed at the end of 2014 was somewhat higher compared to RAD data and was 1,864,450. Since the beginning of 2014 (considering that earlier Surveys did not publish the number of formally and informally employed), the number of formally employed remained practically unchanged. So, formal employment recorded the same stagnating trend in both surveys during 2014. The only segment of employment that is on the rise, and which can only be measured by LFS, is informal employment.

### 3. Employment and Wages

We should, however, bear in mind that 1.8% drop of GDP includes activities in the grey economy as well, so we have some doubts about such an increase in the number of employees in the informal sector in Q4 2014, compared to the same period in 2013. Especially, taking into account the data on VAT revenue (see section on Fiscal Trends and Policy), it would seem that the efforts toward fighting the grey economy are starting to yield first results. VAT revenue had a strong growth in real terms (by 8.2%) in Q4 2014 compared to the previous quarter, while real year-on-year growth (Q4 2014-Q4 2013) was even bigger and was 15.1%. At the same time, during 2014, the revenue from income tax decreased in real terms by 8.1%, while income from contribution strongly increased in real terms (by 3.1%) compared to 2013. This was primarily the result of the reduced rate of the tax on earnings and increased rate of contributions. But it is also possible that it was the result of the fight against the grey economy, since prevention of illegal trade of goods and services also prevents payment of wages outside legal channels. This causes an increase in the share of earnings which is paid legally (since the number of formally employed remained almost the same during 2014).

Therefore, poor overall economic situation allows for part of the unemployed to withdraw into inactivity, i.e. to stop actively seeking work. Also, informal employment is expected to grow. However, having in mind fiscal trends, primarily VAT revenue and GDP, we express some reservations as to the scope of increase in the informal employment during 2014.

In 2015, we expect growth of unemployment due to the decreased number of employed in the public sector (administration at all levels, education, healthcare, etc.), public enterprises and former socially-owned enterprises. In the signed agreement with the International Monetary Fund (IMF), the Government took on an obligation to reduce public sector employment by mid-2015 by 5%, i.e. by around 25 thousand. By the end of March, the Government intends to conduct an analytical review of public sector employment, in order to identify sectors with the highest potential for employment reduction and efficiency improvement. After that, during 2016 and 2017, there will be an additional reduction in the number of the employed by around 5% through organisational and functional restructuring within the public sector, and in line with the new Public Administration Reform Strategy (see Highlight 1 for an assessment of desirability and feasibility of plans to reduce the number public sector employees). An important component of structural reforms in this and the following years is improvement of cost efficiency of public enterprises, which includes laying off unproductive employees in most of the enterprises. It is estimated that the number of employees in public enterprises in the next three years will be reduced by several thousand a year. In addition, growth of unemployment during 2015 will be the result of individuals losing their jobs in former socially-owned enterprises (enterprises in restructuring and other enterprises), which have been until now a part of enterprises foreseen for bankruptcy. In the first wave, bankruptcy of 188 former socially-owned enterprises has been initiated, enterprises with around 5000 employees – it is estimated that most of the employees will be laid off.

#### Wages

**Average monthly gross wage was lower by 1.6% compared to the same quarter of the previous year**

**On the year-on-year level, the biggest decrease in wages was recorded in the public sector**

According to the data from the Statistical Office of the Republic of Serbia, average monthly gross wages in Q4 nominally increased on year-on-year level by 0.4%, and in real terms were lower by 1.6% (Table T3-4. Average monthly net wages in the last quarter of 2014 were almost 46,000 dinar or 399 euro.

Year-on-year index or real net wages shows that the wages realised in Q4 2014 decreased in ten out of nineteen sectors compared to the same period of the previous year. The biggest decline was in the sectors of art, entertainment and recreation (8.7%), real-estate (8%), healthcare and social protection (6.2%), public administration (5.8%), education (4.6%). This is certainly the result of reduced wages in the public sector, which came into effect at the beginning of November. In other sectors, decrease of net wages in real terms on the year-on-year level was up to 3%.

**Table T3-4 Serbia: Average Monthly Wages and y-o-y indices, 2012-2014**

	Average Monthly Wage <sup>1)</sup>				Average Gross Monthly Wage Index <sup>2)</sup>	
	Total labour costs <sup>3)</sup> , in dinars	Net wage, in dinars	Total labour costs, in euros	Net wage, in euros	nominal	real
<b>2012</b>						
Q1	63,846	39,068	591	362	111.0	106.0
Q2	68,140	41,664	600	367	109.6	105.3
Q3	67,457	41,187	577	352	106.4	98.4
Q4	71,452	43,625	630	384	108.7	96.8
Decembar	76,830	46,923	677	413	106.6	95.1
<b>2013</b>						
Q1	67,704	41,419	606	371	106.0	94.6
Q2	72,143	44,248	644	395	105.9	95.9
Q3	71,469	43,939	626	385	105.9	99.1
Q4	75,089	46,185	648	399	105.1	103.0
<b>2014</b>						
Q1	68,015	41,825	588	361	100.5	97.8
Q2	73,147	44,971	633	389	101.4	99.6
Q3	73,167	44,934	623	383	102.4	100.5
Q4	75,332	46,371	626	386	100.3	98.4

Source: SORS.

1) Data for 2008 are adjusted on the basis of a wider sample to calculate the average wage, which includes the salaries of employees of entrepreneurs.

2) Y/y wage indices of average monthly gross earnings for 2008 were calculated on the basis of average earnings in 2007 and 2008 and the old sample that does not include those employed by entrepreneurs. However, these indices are comparable with the indices for 2009, given the fact that the expansion of the sample of earnings preserved their growth dynamics and only reduced their nominal value by about 12%.

3) Total labor costs (TLCs) comprise employer's total average expense per worker, including all taxes and social security contributions. TLCs stand at around 164.5% of the net wage. Gross wage growth indices are equal to total labor cost indices, because the average TLC is greater than the average gross wage by a fixed 17.9% of employer based social security contributions

Reduction of nominal wages in the public sector was the result of replacement of the solidarity tax (which was imposed only on high wages in the public sector), reduction of almost all wages in the public sector by 10% (reduction refers to wages above 25 thousand dinars, which is around 50% of average wage in the public sector). Public sector wages were additionally reduced by cancelling the benefits for the work realised with other employers (the so-called “past performance”). In addition, according to the IMF agreement, public sector wages are foreseen to stay nominally unchanged in 2015 and in the following two years. Wages of a part of public sector employees have additionally been reduced. In line with the IMF agreement, after the reduction of public sector wages, there will be a reform of the wage class system in public administration. The goal is to simplify the system, make it more fair in various state bodies, and easily managed.

Administrative and Support Services<sup>2</sup> recorded the highest growth of wages by 7.5%. They are followed by growth of wages in the sector of Information and Communication (3%). This sector has been recording a continuous growth of wages in the last year and a half. In other sectors, growth of wages has not exceeded 3% (Table T3-5).

**Table T3-5 Year-on-Year Index of Net Wages in Real Terms**

	Admin. and support service	Information and communication	Arts, entertainment, recreation	Education	Health and social protection	Public administration
2013, Q1	94.6	95.8	94.6	95.5	96.1	95.8
2013, Q2	85.6	95.9	94.4	94.4	94.6	93.9
2013, Q3	88.5	114.6	99.9	97.9	97.7	100.4
2013, Q4	104.7	112.8	101.8	101.6	102.6	103.4
2014, Q1	89.1	123.3	95.6	98.6	97.3	97.1
2014, Q2	112.4	119.1	97.8	100.5	100.2	100.5
2014, Q3	109.2	112.8	97.7	99.7	99.2	97.2
2014Q4	107.5	103.1	91.3	95.4	93.8	94.2

Source: QM calculations

<sup>2</sup> This sector is not connected to public administration, but rather includes activities of renting and leasing, employment agencies, private security, etc.