

### 3. Employment and Wages

As of this year, Statistical Office of the Republic of Serbia is gathering quarterly data within the Labour Force Survey (LFS). The first quarter survey was conducted at the end of January and beginning of February, when there is usually a negative effect of the winter season. However, comparing the labour market indicators of Q1 and those of October 2013, it would seem that the effect of the season on the labour market is mild and that the labour market situation is not deteriorating significantly. The biggest decline in employment was recorded in construction, while the number of helping household members, who fall into the group of informally employed, is rising. Recently adopted Government incentives for hiring job seekers will contribute to decreasing the grey economy labour only if the incentives are accompanied by a comprehensive and severe punishment policy of the black market labour. Still, we estimated in the Box that the effects of these measures on the increase of formal employment will be modest. At the year-on-year level, the average monthly gross wages are lower in real terms by 2.2%. By sectors, the wages have increased the most in the information and communications sector, which was also the case in the previous three quarters. Compared to the previous quarter, wages are dropping the most in education, healthcare and social protection, which is the result of introducing solidarity tax as of January 1<sup>st</sup> this year.

#### Employment

*As of this year, the Labour Force Survey will be published quarterly*

Labour Force Survey for Q1 2014 was conducted at the end of January and beginning of February. Considering that the survey was done in winter for the first time, it is impossible to compare labour market indicators to the same period last year.

In the previous issue of the Quarterly Monitor, we stressed that it is possible that the employment level in October 2013 (49.2%) was adequately measured within the Labour Force Survey, but it is highly unlikely that the number of employees in the April-October period had increased by 140,000 (Table T3-1). Such large improvements on the labour market in a short period of time of only two quarters happen rarely and in situations when the economic activity is significantly improving, which was not the case in Serbia during 2013. Therefore, we will be comparing LFS results from Q1 and October 2013, even though it should be noted that there is always a seasonal drop in employment in Q1. That is why in the previous years, the survey was conducted in April and October, when the effect of seasonal factors was the smallest.

As can be seen in Table T3-1, there were 4,644,890 individuals in Q1 2014, ages between 15 and 64 (by 29,290 more compared to October 2013). Among these persons:

- 2,805,513 were economically active (by 65,887 less compared to October 2013)
- 2,229,547 were employed (by 38,902 thousand less compared to October 2013)
- 613,787 were unemployed (by 11.136 thousand more compared to October 2013.)

The number of employed individuals in the first quarter is lower compared to October 2013 by almost 40 thousand, which is not surprising considering the weakness of the local economy, as well as the usual seasonal drop in employment in the first quarter.

**Table T3-1. Serbia: Employment and Unemployment According to the Labor Force Survey<sup>1)</sup>, 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

Source: Labour force survey (LFS), SORS.

Notes:

1) Labour Force Survey is conducted twice a year since 2008 - in October and in April.

2) Persons between 15 and 64 years are considered to be of working age.

3) By October 2008 in the LFS classification of employees in agriculture and unpaid family workers for the 15-64 age group did not exist, only 15 +.

*The biggest decline in employment was in construction*

Table T3-2 shows that in the period October-February 2014 (when the first quarter Survey was conducted), the employment dropped the most in construction – by 24%. Decreased employment in construction is largely due to seasonal factors, but also very strong recession tendencies in this field. The largest increase in employment was recorded in the helping household members, which fall into the group of informally employed, and by 25%. According to LFS estimates, the number of helping household members has increased in the past year by as much as 175%, which is probably to some extent reflecting the growth of the grey economy, but it is also due to methodological changes and perhaps even measurement errors. Table T3-2.

**Table T3-2. Employment by sectors, LFS**

	October 2012	April 2013	October 2013	Oct 2013/ Oct 2012,	Q1 2014/ Q1 2014	Q1 2014/ Apr 2013,	Q1 2014/ Oct 2013
TOTAL	2,299,038	2,227,432	2,394,004	104.1	2,342,966	105.2	97.9
Agriculture, forestry and fishing	494,700	461,819	522,084	105.5	469,196	101.6	89.9
Mining	25,092	21,173	23,065	91.9	27,230	128.6	118.1
Manufacturing industry	394,992	389,193	399,654	101.2	388,127	99.7	97.1
Supply of electricity, gas and steam	35,159	37,751	37,206	105.8	31,266	82.8	84.0
Water supply and wastewater management	35,203	30,436	36,866	104.7	37,139	122.0	100.7
Construction	121,659	92,977	126,620	104.1	96,744	104.1	76.4
Wholesale and retail trade, repair of motor vehicles	307,136	305,132	288,606	94	300,020	98.3	104.0
Transportation and warehousing	125,748	137,980	130,882	104.1	141,317	102.4	108.0
Accommodation and food services	66,555	55,737	61,973	93.1	62,153	111.5	100.3
Information and communication	35,172	45,266	50,140	142.6	56,796	125.5	113.3
Financial activities and insurance activities	43,676	40,860	44,566	102	44,616	109.2	100.1
Real estate	2,885	3,012	2,028	70.3	*		
Professional, scientific and innovation activities	50,896	61,194	63,185	124.1	68,359	111.7	108.2
Administrative and support service activities	47,076	47,919	49,175	104.5	47,585	99.3	96.8
Public administration and compulsory social insurance	125,469	129,761	132,950	106	135,750	104.6	102.1
Education	146,867	142,490	156,867	106.8	149,005	104.6	95.0
Health and social care	140,297	124,628	136,455	97.3	140,776	113.0	103.2
Arts, entertainment and recreation	36,387	33,040	44,823	123.2	49,158	148.8	109.7
Other service activities	43,722	47,561	45,177	103.3	43,803	92.1	97.0
Activities of households as employers	20,377	18,632	41,003	201.2	51,280	275.2	125.1

Source: ARS. \*a small number of occurrences so that it is not possible to have the assessment

*According to the RAD survey, formal non-agricultural employment continues to drop*

Formal employment (outside the registered agricultural workers, members of the military and the police) according to the RAD survey conducted in March 2014 was 1,697,511 and it has dropped compared to September 2013 by 7 thousand and compared to March last year it dropped by 28 thousand (Table T3-3). This is a disconcerting tendency as it is the highest quality

segment of employment, where statistical measurements are most reliable<sup>1</sup>.

**Table T3-3 Serbia: number of registered employed and unemployed, 2008 - 2014**

		Total no. of employed	Employees in legal entities <sup>2)</sup>	Entrepreneurs		Total no. of employees	Number of unemployed (NES)	
				Total	No. of entrepreneurs			No. of employees with entrepreneurs
				1 (=2+3)	3 (=4+5)			4
<b>in thousands</b>								
<b>2008</b>	March	2,006	1,432	574	245	329	1,761	795
	September	1,993	1,425	568	245	323	1,748	726
<b>2009</b>	March	1,911	1,411	500	210	290	1,701	758
	September	1,868	1,383	485	211	274	1,657	737
<b>2010</b>	March	1,817	1,362	455	199	257	1,618	778
	September	1,775	1,348	427	183	244	1,592	721
<b>2011</b>	March	1,755	1,349	405	204	201	1,550	774
	September	1,738	1,337	401	203	198	1,535	743
<b>2012</b>	March	1,730	1,339	391	203	188	1,527	783
	September	1,724	1,343	381	213	168	1,511	751
<b>2013</b>	March	1,725	1,347	378	213	165	1,512	776
	September	1,705	1,329	376	230	146	1,475	759
<b>2014</b>	March	1,697	1,321	376	230	146	1,467	791

Source: SORS – The semi-annual report on employed persons and wages of the employed persons RAD-1/P; the update to the semi-annual survey RAD-1; Semi-annual survey on private entrepreneurs and their employed workers RAD-15; the National Employment Service.

Note: Data from October 2012 are corrected based on the Semiannual research -1/P for September 2012. Individual data on the number of private entrepreneurs and the number of employees are taken from of Monthly Statistical Bulletin 2/2013 of the NES.

Footnotes:

1) By the registered number of employed, we refer to the formal economy, i.e. those employees with employment contracts and for whom social security contributions are being paid.

2) By the registered number of unemployed, we refer to those persons that have registered with the National Employment Service (NES). NES moved from monitoring the number of job seekers to the number of unemployed persons in September 2004. This is why we do not have these data for the previous period (column 7).

3) Figures do not include employees of the Ministry of Defense and Ministry of Interior

**The unemployment rate has grown by 0.6 percentage points, and the inactivity rate by 0.8 percentage points**

As we stated at the beginning, even though it is difficult to compare October survey and the one conducted in winter, we observed an increased number of the working age unemployed by 11 thousand, so the current unemployment rate is 21.6%. The number of inactive individuals has also increased, i.e. individuals who are out of work and are not actively seeking employment, so the inactivity rate is currently 38.6% (Table T3-1).

**The number of the unemployed registered at the National Employment Service has increased**

The number of the unemployed registered at the National Employment Service is 791,000 and it has increased compared to March last year by 14 thousand (Table T3-3).

**Informal employment increased by 20.5%**

Informal employment rate, expressed as a share of informally employed in the total number of employed, is higher by 0.2 percentage points compared to October 2013 and is currently 20.5%. The survey conducted in the first quarter of this year estimates that there are around 480,000 informally employed people in Serbia. This includes those employed in an unregistered business, as well as in a registered company but without a formal employment contract, as well as the unpaid helping household members<sup>2</sup>. This year's survey shows for the first time the structure of the informally employed according to their professional status, which can be seen in Table T3-4. The biggest number of informally employed is among the self-employed who have no other employees, followed by the helping household members. Due to a small number of occurrences, the number of self-employed with employees working in the informal economy is not published.

1 In the case of Serbia, the data on formal employment does not always adequately reflect the level of economic activity due to employers' practice, mostly state companies, keeping on their payroll workers that are not engaged productively. Even though the formal employment, which is not accompanied by work engagement, is gradually decreasing, it is still present especially in the companies undergoing restructuring and in EPS (Kosovo and Metohija workers).

2 Helping household members are persons who are helping another family member run family business or agricultural land, without being paid in money.

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**Table T3-4. Formal and informal employment by professional status**

Formally employed		Informally employed	
Employed	1,518,295	Employed	62.352
Self-employed with employees	86.163	Self-employed with employees	*
Self-employed without employees	258.779	Self-employed without employees	227.955
		Helping household members household	187.056

Source: ARS, Q1 2014. \*a small number of occurrences so that evaluation was published not

This structure of the informally employed should be kept in mind when planning reforms, which should aim at reducing the number of employees working in the grey economy and transferring them to legal employment. In our opinion, the recently adopted measure for encouraging hiring job seekers has exactly that goal, and we presented the details of the adopted solutions in the Box.

**Box no. 1 Incentives for hiring job seekers**

In mid-May, the Serbian Government adopted tax reliefs for hiring job seekers. That is, an employer – a legal entity, or an entrepreneur who hires a job seeker will be entitled to a partial refund of the tax paid on wages and of the paid contributions for the mandatory social security, both on the employer's and the employee's side. The incentives will be effective as of July this year and will last until June 2016.

Employer will be entitled to tax and contributions refund as follows:

- 65% if he hired a minimum of 1 and a maximum of 9 job seekers;
- 70% if he hired a minimum of 10 and a maximum of 99 job seekers;
- 75% if he hired a minimum of 100 job seekers.

Job seekers are considered those individuals that have been registered at the National Employment Service as unemployed for at least six months. This category also covers individuals who were interns for at least three months and were not paid for their work engagement.

In order to prevent possible abuse, it is stipulated that the job seeker cannot be any individual that was previously employed by an employer that is affiliated to the employer currently offering employment to the job seeker. The tax relief can also be used by an employer who starts doing business after March 31, 2014, but he has to fulfil the abovementioned conditions related to hiring job seekers.

Introduction of these cancels some earlier tax reliefs, primarily those related to job seekers below 30 and above 45 years of age, on which the employers had tax reliefs on wages.

Although the main goal of this measure is to incite new hirings, the Government has already stressed several times that it expects to encourage the employers who have thus far not offered their employees employment contracts and have not been paying tax and contributions for them, to do so now and legalise them. The LFS data indicates that almost 60% of the informally employed could benefit from this measure, since they are working either for an employer or are self-employed without a formal contract, so they have no paid taxes and contributions. Naturally, the employed workers who have formal contracts, but no taxes or contributions paid for them should also be taken into account. Krstić (2012)<sup>1</sup> uses this extended definition to arrive to informal employment rate that is by 5 percentage points higher than those from the LFS.

The latest research of the Foundation for the Advancement of Economics<sup>2</sup> showed that according to employers surveyed, among factors contributing to grey economy, high taxes are very highly ranked. Average rate of grey economy when it comes to income (ratio of unreported and total real labour income), according to the survey conducted among companies and entrepreneurs, is

<sup>1</sup> Krstić, G. (2012). "Labour Force Flows and Informal Economy in Serbia", International Conference From Global Crisis to Economic Growth. Which Way to Take?, The Faculty of Economics, University of Belgrade, September 2012

<sup>2</sup> Grey Economy in Serbia: New Findings and Reform Recommendations, March 2013. The project was financed by USAID.

26.2%. On average, it is significantly higher in entrepreneurs, i.e. wages paid by entrepreneurs, than in companies. Observed by sectors, grey economy in the area of employee wages is most expressed in the sectors of construction, hospitality and transportation, quite lower in the manufacturing sector, and the lowest in companies involved in trade.

However, it should be noted that payment of salaries in cash is present the most in micro companies (up to 10 employees) and entrepreneurial shops, and with their growth, the rate of grey economy in the area of wages is dropping. Considering that the capacity of micro companies, given their turnover and revenue, to increase the number of employees (even to register the already employed) is quite small, the question remains to what extent will the adopted measures truly be able to contribute to the increase of employment, as well as to the increase of state tax revenue from wages and contributions.

Additionally, the net effects of the changes should also be kept in mind, considering that the old reliefs that were intended for workers younger than 30 and older than 45 have been abolished. Finally, a question is raised why anyone who hasn't been paying taxes and contributions so far would start doing that now, when the state is tolerating grey economy anyway. If the business environment is not fundamentally changed, measures such as these incentives cannot by themselves lead to a significant and permanent reduction of the grey economy. In addition to improving the business environment, to combat the gray economy, it is crucial to increase the probability of detection of undeclared work and to indiscriminately apply harsh sanctions against employers who hire workers illegally.

## Wages

**Average monthly gross wages are lower in real terms by 2.2% compared to the same quarter last year**

According to the data from the Statistical Office of the Republic of Serbia, at the year-on-year level, the average monthly gross wages in Q1 were nominally higher by 0.5% and in real terms lower by 2.2% (Table T3-5). Average monthly net wages in the first quarter of 2014 were 41,000 dinar or 360 euros. The reduction of wages in real terms reflects the dominating negative tendencies in most of the economy, as well as on the labour market, but also an increasing share of grey economy, which is especially present in the segment of small enterprises and entrepreneurs.

**Table T3-5. Serbia: average monthly wages and y-o-y indices, 2008-2014**

	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
Dec	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

Source: SORS

Notes:

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

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**At the year-on-year level, the biggest growth of wages was recorded in the information and communications sector**

**Compared to the previous quarter, the biggest decline of wages was recorded in the healthcare and social protection and education**

The year-on-year index of net wages shows that the wages realised in Q1 2014, compared to the same period last year, increased in only six out of nineteen sectors. The biggest growth was recorded in the information and communications sector (24.7%), as was the case in the previous three quarters as well. It is followed, in size, by a 6% growth of wages in the accommodation and food sector, which can probably be explained by the winter tourist season. The same growth of wages was recorded in the sector of electricity, gas, steam and air-conditioning. The largest decline of wages in the amount of 15% was recorded in the administration and support services<sup>3</sup> (Table T3-6).

**Table T3-6: Y-o-y indices of nominal net wages**

	Informations and communications	Energy supply	Admin. and support service activities
2013,Q1	107.5	96.9	106.1
2013,Q2	105.9	107.1	94.5
2013,Q3	122.6	112.5	94.6
2013,Q4	115.1	103.7	106.8
2014,Q1	124.7	106.3	85.3

Source: QM

Observed by business activities, as can be seen in Table T3-7, net wages in Q4 2013, compared to the previous quarter, increased in eight out of nineteen sectors. The highest growth of 2.5% was realised in mining, professional, scientific and technical activities, and service industries. It should be borne in mind that the sector of professional, scientific and technical activities includes legal and accounting business, consulting activities, advertising agencies, photo stores, court interpreters and translators, veterinary institutions, but also research and experimental development in social and natural sciences. The last category includes institutes, which are under the jurisdiction of the Ministry of Science and are financed from the state budget, and are therefore subject to solidarity tax. Even though this category also had a decline of net wages in Q1 2014 compared to the previous quarter, it is impossible to observe it considering the diversity of subjects belonging to this category.

**Table T3-7. Real seasonally adjusted net wages**

	Mining	Education	Health and social care
2013,Q2	99.7	101.8	103.3
2013,Q3	100.5	99.9	99.6
2013,Q4	98.9	99.7	100.6
2014,Q1	102.5	98.0	96.8

Source: QM

In other sectors, the growth of net wages was between 0% and 1.5%. The highest decline of wages of 3.2% in Q1 2014 compared to the previous quarter was recorded in the sector of healthcare and social protection, which is the result of the implementation of solidarity tax as of January 1, 2014. The same decline of wages was recorded in the financial and insurance sector. The net wages in the sector of education dropped 2% compared to the previous quarter, which can also be explained by the introduction of the solidarity tax.

<sup>3</sup> This sector is not connected to the public administration, but rather includes activities of rent and leasing, hiring agencies, private security companies, etc.