

### 3. Employment and Wages

Labor market indicators continue to deteriorate at almost the same pace as in the previous six-month period, despite a stall in economic decline. In the period between October 2009–April 2010, unemployment rose significantly, according to preliminary LFS data. The number of registered unemployed rose by around 41,000 persons in the same period. Also, according to the company survey RAD, between September 2009 and March 2010, formal employment fell by around 23,000 persons, with manufacturing industry leading the decline with around 16,000 persons who lost their jobs, followed by 6,000 persons in the construction sector. Except for a decline of the number of employed in public administration by 2,000 persons, the number of workers in the public sector remains almost unchanged, so it is clear that a comprehensive downsizing of the public sector is necessary to achieve long-lasting savings in the budget. Real wages moderately grew in Q1 2010 compared with two previous quarters. The corporate sector led with wage growth of 3.5%, followed by state-owned public companies of 2.2% despite nominal wage freeze across the entire public sector. In April, the average wage grew by a nominal 7.1% year-on-year and 2.6% in real terms, representing the biggest year-on-year rise in real terms since 2008.

#### Employment

**Labor market indicators continue to deteriorate at almost the same pace**

Labor market indicators continued to deteriorate at almost the same pace as in the previous six-month period, despite the fact that economic decline has ended. Employment between September 2009 and March 2010 declined at the same pace as in the previous six-month period, while available data indicate an accelerated growth of unemployment.

**A significant increase in unemployment rate, according to preliminary LFS figures**

Although results of the Labor Force Survey conducted in April 2010 are still not available, preliminary analysis indicates a significant increase in the unemployment rate. Foundation for the Advancement of Economics (FREN) expects that the unemployment rate in April 2010 reached around 19.5%, which would represent a 2 percentage point increase against October 2009. Administrative data by the National Employment Service confirm those assumptions, with the number of registered unemployed rising by around 41,000 persons, or 5.6% between September 2009 and March 2010 (Table T3-2, column 7).

**Number of registered unemployed rose by around 41,000 persons**

**Table T3-1. Serbia: Employment and Unemployment According to the Labor Force Survey<sup>1)</sup>, 2008-2010**

		Total number 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			Total number of unemployed 15-64	Unemployment rate 15-64		
				Total	Male	Female		Total	Male	Female
				1	2	3		4	5	6
2008	April	2,652,429	670,141	54.0	62.3	46.0	432,730	14.0	12.4	16.1
	October	2,646,215	589,240	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	..	..	..	..	..	..	19.5*	..	..

Source: Labor Force Survey (LFS), SORS.

Notes:

\*FREN forecast based on preliminary LFS data.

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

2) Persons of 15-64 years of age are considered to be working population.

3) Prior to October 2008 LFS there was no 15-64 age group classification for the number of employed in agriculture and contributing household members, only 15+.

**Formal employment declines by around 23,000 persons**

Formal employment has continued to decline. Between September 2009 and March 2010, formal employment fell by 1.2% (around 23,000 persons), according to RAD survey (Table T3-2, column 1). This increase can entirely be attributed to a declining number of those employed with legal entities, considering the fact that the number of entrepreneurs – private entities and their workers in March 2010 are not yet available (Table T3-2, column 2).

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**Employment numbers in the manufacturing industry fell by around 16,000 persons and by 6,000 persons in the construction sector**

The biggest fall in employment rates in the corporate sector between September 2009 and March 2010 was still taking place in the manufacturing industry, where the number of employed persons fell by around 16,000 or 4.8%. Also, the construction sector saw a significant decline in employment numbers, by around 6,000 jobs (7.7% of the sector). During the same period, 2,000 persons lost their jobs in the transport, communications and warehousing sector (1.9% for the sector) and 3,000 persons in other utility, social and personal services (5.3% for the sector). Eventually, not a single sector posted any significant increase in employment rates in the same period, which was expected considering a low level of economic activity (Table P-5 in Analytical Appendix).

**Table T3-2. Serbia: The Number of Registered Employed and Unemployed Persons, 2004-2010**

		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)	2	3 (=4+5)		
<b>in thousands</b>								
<b>2004</b>	March	2,065	1,601	464	208	255	1,856	...
	September	2,037	1,560	477	210	267	1,827	843
<b>2005</b>	March	2,070	1,557	513	228	285	1,842	884
	September	2,067	1,536	531	230	300	1,836	898
<b>2006</b>	March	2,032	1,496	536	228	308	1,804	920
	September	2,019	1,447	572	242	330	1,777	915
<b>2007</b>	March	2,004	1,438	566	239	327	1,765	913
	September	2,001	1,428	573	245	328	1,756	808
<b>2008</b>	March	2,006	1,432	574	245	329	1,761	795
	September	1,998	1,424	574	245	329	1,753	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	1,845	1,360	..	..	..	1,634	778

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.

Notes:

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. 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).

**Declining employment in public administration by 2,000 jobs**

**Ostatak javnog sThe remainder of the public sector stays unchanged ektora nepromenjen**

**Despite new regulations, we do not expect any significant employment cuts in the biggest municipalities**

Except for the loss of 2,000 jobs in the public administration, the number of employed in the public sector remains almost unchanged between September 2009 and March 2010 (Table T3-3). The registered fall in employment in the public administration can be attributed to the downsizing process currently taking place in the state administration, following the adoption of the Law on a maximum number of workers in the public administration and the Law on the maximum number of workers in local self governments in December 2009. As the Ministry of Public Administration and Local Self-Government estimated after the adoption of those laws, around 8,000 employees are expected to leave the public administration, but it is clear that this process is not over yet.

Preliminary research figures on the number of employed in local self governments<sup>1</sup> confirm that the downsizing of local administrations is still ongoing. Results also indicate that in spite of the new regulations, there will be no significant job losses in the biggest municipalities. Namely, municipalities which turned into towns under the 2007 Law on territorial organisation of the Republic of Serbia (24 municipalities became towns), were obliged to established City Councils and elect Mayors, whose wages are excluded from the overall limit on the number of local administration workers. Newly formed towns have also assumed responsibility to set up communal police units at the start of 2010, while due to taking over the authority to collect own revenue and establish local tax administrations in early 2009, all municipalities in Serbia have been obliged to employ new tax officers.

<sup>1</sup> Research conducted by FREN on a sample of municipalities within the USAID's MEGA project.

**Table T3-3. Serbia: Public Sector Employment, 2004-2010**

		Employees in legal entities						
		Public sector			Public enterprises		Public sector - total	Other <sup>1)</sup>
		From the budget	Health and social work		National public	Local public		
		Administration - all levels	Education and culture					
		1	2	3	4	5	6	7
		<b>in thousands</b>						
<b>2004</b>	March	63	117	147	125	57	509	1,092
	September	63	116	148	124	57	508	1,052
<b>2005</b>	March	63	119	148	122	61	513	1,044
	September	61	117	147	112	61	498	1,038
<b>2006</b>	March	60	118	141	105	61	485	1,011
	September	58	117	138	102	60	475	972
<b>2007</b>	March	58	121	138	100	59	476	962
	September	59	120	139	100	58	476	952
<b>2008</b>	March	60	124	140	99	58	481	951
	September	61	122	141	100	58	482	943
<b>2009</b>	March	64	125	142	89	57	478	935
	September	64	123	142	88	57	473	923
<b>2010</b>	March	62	124	142	87	56	472	885

Source: SORS.

Note: Those employed in the Ministry of Defense and the Ministry of the Interior, even though financed from the budget, do not enter the total balance of the employed persons presented in this table. Their numbers are estimated at around 80,000, and they add another 4% to the total number of employed in Serbia. The data on their exact numbers and wages are not published by the SORS because of national security concerns.

Footnotes:

1) Private, socially-owned and mixed ownership enterprises (without entrepreneurs). This column is not disaggregated further due to data availability limitations. The number presented in column 7 is calculated by subtracting the total number of employees in public enterprises and those financed from the budget from the total number of employees in legal entities from Table T3-2.

**A comprehensive downsizing of the public sector is the key for lasting budget savings**

Public sector employment figures indicate that any lasting budget savings can be achieved only through downsizing of the public sector in a wider sense, which would assume a comprehensive reform of education and health sectors as well as all public enterprises, which account for almost 87% of the entire public sector employment. Considering the fact that during the period of economic crisis the employment decline almost entirely took place in the private sector, and that employment levels in Serbia fell to a historic minimum over the past six-month period, it is clear that without concurrent strengthening of the private sector to create new jobs there is no other way to reform the public sector, which currently employs one third of the entire workforce. If the reform of the public sector is not accompanied by serious strengthening of the labor market and the competitiveness of the Serbian economy, we will reach an absurd situation in which public sector workers will only be transferred to another “tap” of public expenditures, either through early retirement or unemployment benefits (for more detail see Highlight 2: “Political Economy of Employment Cuts in Local Administrations” in this *QM* issue).

**Parallel strengthening of the private sector to create new jobs is a crucial condition for public sector reform**

## Wages

**Real wages posted moderate 1.1% growth in Q1 2010 against the two previous quarters**

Real wages moderately rose in Q1 compared with two previous quarters, posting 1.1% year-on-year growth. Nominal wages continued to rise year-on-year, which stood at 5.7% in Q1 2010 (Table T3-4). In April 2010, average wages posted a significant increase against the previous year. The average wage rose by 2.6% in real terms year-on-year, representing the highest real year-on-year growth since 2008. Considering the fact that data on public sector wages for April 2010 are still not available, we are not able to analyse this abrupt wage increase. However, SORS explains this increase with the fact that part of the May wages, due to Labor Day holidays, was allegedly paid at the end of April in some public institutions, and SORS registers all the wages paid “within a month” not “for the month”.

**In April, real year-on-year growth of average wages was 2.6%, the highest since 2008**

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**Table T3-4. Serbia: Average Monthly Wage and Y-o-y Indices, 2008-2010**

	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
	1	2	3	4	5	6
<b>2008</b>	47,882	29,174	586	357	117.8	105.5
<b>2009</b>	52,090	31,758	554	337	108.8	101.0
<b>2008</b>						
Q1	43,957	26,814	532	324	119.3	105.2
Q2	47,351	28,846	584	356	119.4	103.1
Q3	48,322	29,435	627	382	117.9	105.0
Q4	51,898	31,599	602	366	115.1	104.1
Dec	56,399	34,348	637	388	112.0	103.1
<b>2009</b>						
Q1	49,444	30,120	525	320	112.5	102.6
Q2	52,164	31,808	552	337	110.2	102.0
Q3	52,065	31,737	558	340	107.7	100.1
Q4	54,689	33,366	579	353	105.4	99.9
Dec	60,265	36,789	628	383	106.9	100.8
<b>2010</b>						
Q1	52,261	31,924	530	324	105.7	101.1
Apr	57,211	34,952	576	352	107.1	102.6

Source: SORS.

Footnotes:

1) Data for 2008 are adjusted on the basis of the expanded data sample to calculate the average wage, which now includes the salaries of entrepreneurs.

2) Y-o-y wage indices of average monthly gross earnings for 2008 are calculated from the average earnings for 2007 and 2008 based on the old sample that does not include 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, while their nominal value was reduced by about 12%.

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

**Table T3-5. Serbia: Gross Wages in the Public Sector, 2004-2010, Y-o-y Real Indices**

	From the budget			Public enterprises		Other <sup>1)</sup>	Serbia average
	Administration - all levels	Education and culture	Health and social work	National public	Local public		
	1	2	3	4	5		
<b>2004</b>	107.4	107.7	110.9	107.9	113.4	113.7	111.4
<b>2005</b>	105.9	106.0	100.8	100.5	103.0	106.9	107.1
<b>2006</b>	109.1	107.2	109.4	110.8	102.9	113.7	111.3
<b>2007</b>	111.1	114.7	123.8	116.7	105.0	114.1	114.6
<b>2008</b>	100.7	105.7	101.3	101.2	95.9	105.7	105.5
<b>2009</b>	95.5	96.7	97.4	98.3	98.2	104.1	101.1
<b>2007</b>							
Q1	111.5	112.6	125.4	129.8	113.8	117.3	118.5
Q2	118.6	119.2	131.5	118.9	104.5	117.4	118.6
Q3	114.1	116.7	127.5	112.5	104.1	112.5	114.1
Q4	100.1	110.3	111.0	105.8	97.4	109.0	108.2
<b>2008</b>							
Q1	99.2	109.5	105.6	94.3	98.5	107.3	105.2
Q2	99.6	104.8	99.4	103.0	89.0	104.2	103.1
Q3	100.8	104.7	101.1	103.6	91.7	106.3	105.0
Q4	103.3	103.7	99.2	103.9	104.4	105.1	104.1
<b>2009</b>							
Q1	100.1	98.3	99.7	98.8	101.1	105.1	102.5
Q2	94.6	98.0	98.8	99.7	99.9	104.8	102.0
Q3	93.8	96.4	97.1	98.3	95.7	102.9	100.1
Q4	93.4	94.0	93.9	96.4	96.2	104.0	99.9
<b>2010</b>							
Q1	95.8	96.1	96.1	98.0	103.5	..	101.1

Source: SORS.

Footnotes:

1) Column 6 includes private, socially-owned and mixed ownership enterprises (excluding entrepreneurs).

2) Column 6 shows an assessed size calculated by deducting the wage bill in the public sector from the total wage bill. The difference is divided by the number of workers employed in the real sector (column 7, Table T3-3).

3) Real Y-o-y wage indices in columns 6 and 7 for 2008 and 2009 are calculated on the basis of the expanded sample for calculation of average earnings, which now includes entrepreneurs.

***The biggest real, year-on-year wage increase took place in the corporate sector: 3.5%, followed by public, state-owned enterprises: 2.2%***

This moderate average wage increase in Serbia in the course of Q1 resulted from real, year-on-year growth of wages in the corporate sector of 3.5%, followed by real year-on-year wage growth in public, state-owned enterprises of 2.2% (Table T3-5, columns 4 and 6). Real wages in the rest of the public sector continued to decline year-on-year, due to the public sector wage freeze, in place since Q4 2008. The posted wage decline in Q1 2010 was weaker than in the previous period, because the base to calculate its year-on-year decline was Q1 2009, when the wage freeze was already in place.

***Despite the wage freeze, real wages in public, state-owned enterprises rose***

Eventually, despite the public sector wage freeze, real wages in public, state-owned companies rose in Q1 2010. Considering that nominal wages in public, state-owned companies were also rising in the course of 2009 (despite some decline in real terms), it seems that some public companies were still finding ways to increase payments to their workers despite fiscal restrictions.