

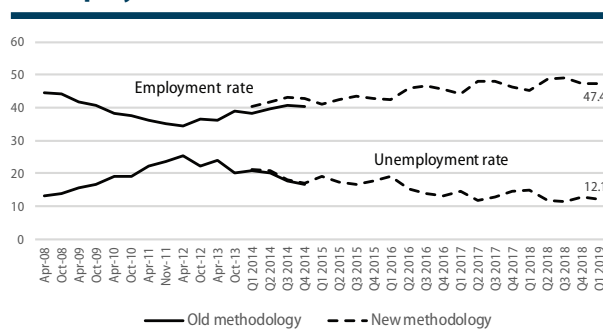
3. Labour Market

According to the Labour Force Survey (LFS), the basic labour market indicators in Q1 2019 recorded moderate improvements compared to the same quarter of the previous year. Activity and employment rates have increased, and the unemployment rate has been reduced. The activity rate was 53.9%, higher by 1 percentage point (pp) compared to the same quarter of the previous year. The employment rate was 47.4% in Q1 2019, and the unemployment rate was 12.1%. The number of unemployed persons according to the LFS decreased by 81,600, or 17.4% yoy. Reduction of the number of unemployed persons was the result of the growth of economic activity, but also of mass emigration of the population. The number of employed persons increased by 4.5%, with formal employment increasing by 6.4%, and informal decreasing by 3.6% in Q1 2019 compared to the same quarter of the previous year. The informal employment rate was 17.1%. Total and formal employment in Q1 grew at a higher rate than real growth of gross value added (GVA), which was 2.3%. On the other hand, the yoy growth of registered employment (CROCSI) was 2.7%, which was in line with the movement of economic activity. Employment increased in all activities, with the highest yoy growth of 13.3% in construction. Employment achieved 5% yoy growth in the private sector and 1.3% in the public sector. The increase in registered employment in the private sector was the result of the growth of economic activity, as well as the suppression of the grey economy. On the other hand, the reduction in public sector employment, although considered a positive trend, was probably less a result of public sector restructuring, and more of other factors (retirement, privatisation of remaining state enterprises, bankruptcy, etc.). Year-on-year wage growth in Q1 was 9.5% in nominal terms and 6.9% in real terms. Real wage growth was much higher than the real yoy growth of GVA. High wage growth with almost unchanged productivity (CROCSI employment) leads to a considerable real increase in unit labour costs. Real unit labour costs increased by 7.3% yoy. The biggest wages are still in public enterprises, followed by the public sector (public enterprises and the general government sector). Wages in public enterprises in Q1 2019 were 28% higher than in the private sector, while they were almost 20% higher in the public sector than in the private one. The nominal yoy growth of wages was around 10% in both the public and private sectors, as well as in public enterprises. The increase in wages in the private sector was the result of higher demand for labour in relation to labour supply and emigration of the population. Mass emigration of workers of different profiles gives local people higher negotiating power and the ability to negotiate higher wages. As of January 1, 2019, unemployment contributions at the expense of the employer have been abolished, which reduced the total fiscal burden of labour from 63% to 62%. Average net wages amounted to 455 euros, while the employer's costs amounted to 735 euros in Q1 2019. Due to the unchanged exchange rate of the dinar in Q1 2019 compared to Q1 2018, the yoy growth of earnings in euros corresponded to the increase in earnings in dinars.

The employment rate has increased compared to the same quarter of the previous year, while the unemployment rate has been reduced...

The reduction in unemployment was the result of the growth of economic activity and mass emigration

Graph 3.1 Trends in Employment and Unemployment Rates, 15+, 2008-Q1 2019



Note: Break in the series in 2014.
Source: LFS, SORS.

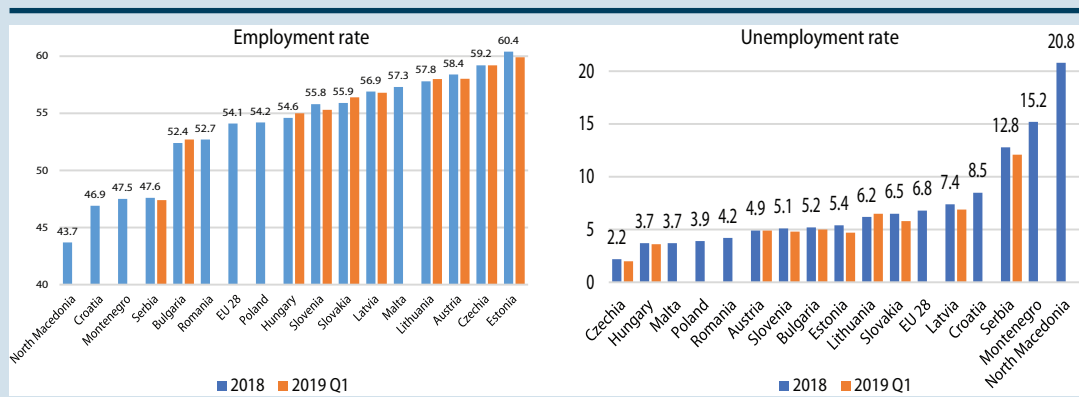
Employment and Unemployment

The employment rate in Q1 2019 was 47.4%, and the unemployment rate was 12.1%. Compared to the same quarter of the previous year, the employment rate increased by 2.3 pp, while the unemployment rate decreased by 2.7 pp. Graph 3.1 shows the trends in employment and unemployment rates since 2008.

Highlight 1. Comparison of the Employment and Unemployment Rates in Serbia and the Countries of Central and Eastern Europe

Although the unemployment rate has been significantly reduced, it remains high, much higher than the Central and Eastern European countries (CEE). Graph 3.2 shows the movement of the employment and unemployment rates in 2018 and the first quarter of 2019 for selected countries (Northern Macedonia, Croatia, Montenegro, Serbia, Bulgaria, Romania, Poland, Hungary, Slovenia, Slovakia, Latvia, Malta, Lithuania, Austria, Czech Republic and Estonia). Data for Q1 2019 are not yet available for all countries surveyed. The unemployment rate at the EU28 level was 6.8% in 2018. The lowest rate was in the Czech Republic - 2.2%, while the highest rate was in the Balkan countries. Unemployment rate was as high as 20.8% in Northern Macedonia and 15.2% in Montenegro. Although Croatia has a much lower unemployment rate than Serbia - 8.5%, it has a higher unemployment rate than other selected EU countries. The employment rate was the lowest in Northern Macedonia, followed by Croatia, Montenegro and Serbia. On the other hand, Serbia had a significantly lower employment rate compared to Estonia and the Czech Republic, which had an employment rate of 60%. Compared to the EU28 average, Serbia had 6 pp lower employment rate in 2018. Basic labour market data (employment and unemployment rates) show that Serbia is still far behind the countries of Central and Eastern Europe.

Graph 3.2 Employment and Unemployment Rates in European Countries, 15+, in %, 2018 and Q1 2019



Source: Eurostat, for Q1 2019 for Serbia, Czech Republic and Austria – national statistical offices.

Total employment (LFS) increased by 4.5% year-on-year, while the growth of registered employment (CROCSI) was 2.7%

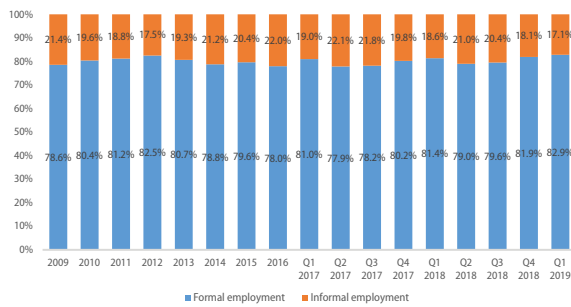
The growth of registered employment is in line with the movement of real GVA growth rate of 2.3%

Informal employment has been reduced. The informal employment rate was 17.1%.

The number of unemployed persons according to the LFS was 387 thousand in Q1 2019 and it was lower by 81.6 thousand compared to the same quarter of the previous year, i.e. the relative decrease was 17.4%. The number of unemployed persons was significantly reduced partly as a result of the growth of economic activity, but mostly due to the mass emigration of the population. The number of active persons increased by 1.3% compared to the same quarter of the previous year. A significant drop in the number of unemployed and a small increase in the number of active persons led to a decrease in the unemployment rate in the observed period.

The number of formally and informally employed persons amounted to about 2 million 811 thousand persons in Q1 2019, which is 122 thousand more than in the same quarter of 2018. Relative growth was 4.5%. The number of persons in formal employment amounted to 2 million and 329 thousand persons, while the number of informal employees amounted to 482 thousand in Q1 2019. Formal employment increased by 6.4%, while informal employment decreased by 3.6%, yoy. The informal employment rate was 17.1%, which is 1.5 pp less compared to the same quarter of the previous year. The SORS has published data on the number of formally employed according to a more rigorous definition (in addition to the employment contract, the criterion of compulsory social security of the employee is taken). That number is 2.181 thousand and it corresponds to the number of registered employees according to the CROCSI source. Registered employment according to CROCSI was 2 million 148 thousand persons. Registered employment increased by 2.7% compared to the same quarter of the previous year. The increase in registered

Graph 3.3 Formal and Informal Employment (15+) in % of total employment, 2009-Q1 2019



Note: Break in the 2014 series.
Source: LFS, SORS

employment was in line with the trend of real GVA growth of 2.3% yoy. On the other hand, total and formal employment is growing much faster than the real GVA growth rate in the observed period. We see that the employment structure changes in favour of formal employment (Graph 3.3). In Q1 2019, share of formally employed persons in total employment was 82.9%, while share of informally employed was 17.1%.

Employment increased in Q1 2019 compared to the same quarter of the previous year in all activities, in agriculture, industry, construction and services. Employment growth in agriculture was 5.4%, while in the previous quarter, in each quarter (from Q4 2016 to Q4 2018), agriculture recorded a yoy decline in the number of employees. The largest yoy growth in the number of employees was recorded by construction companies - 13.3%. The yoy real growth of GVA in construction was 12.3%. Table 3.1 shows the movement in the number of employees and GVA by sectors in the period 2016 – Q1 2019.

Table 3.1 Movement in the number of employees (15+) and real GVA by sectors, year-on-year change in %

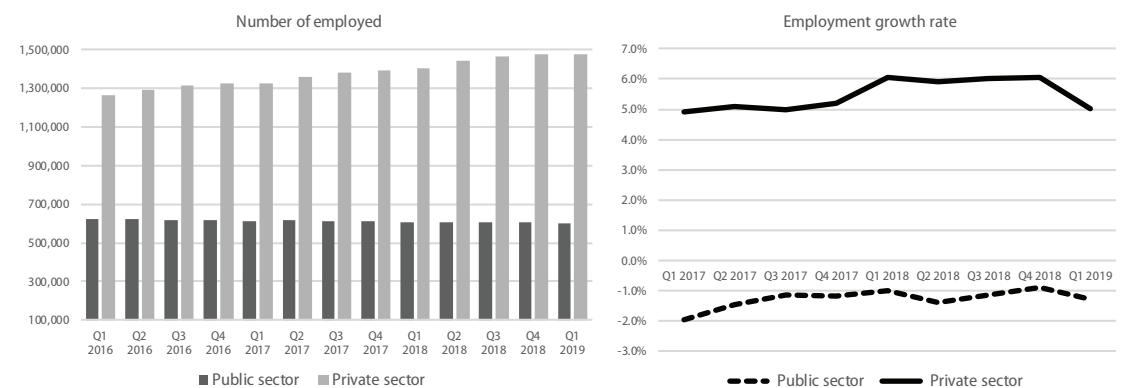
	2016				2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Total employment CROCSI	-0.3	1.2	1.3	2.1	2.3	2.6	2.7	2.8	3.3	3.2	3.3	3.4	2.7
Formal employment LFS	1.9	2.7	3.8	5.2	4.9	5.1	5.5	2.6	1.9	2.1	3.4	4.1	6.4
Total employment LFS	2.7	6.7	7.2	5.8	3.2	4.3	2.4	1.2	1.4	0.5	1.6	1.9	4.5
Total GVA	4.2	3.5	4.4	3.2	1.8	2.0	2.3	2.4	5.2	5.1	4.3	3.4	2.3
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
GVA-agriculture	7.5	4.6	11.8	8.1	-7.7	-10.6	-13.7	-11.4	12.6	15.9	17.2	15.6	-3.1
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
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	-1.6
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
GVA-construction	16.9	10.0	12.4	-2.0	-0.5	-0.4	4.1	16.0	26.7	20.4	9.9	2.7	12.3
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
GVA-services	2.3	3.3	2.9	3.0	3.5	3.2	3.3	2.9	3.1	4.0	3.9	4.3	3.7

Note: Source for employment was LFS, except for total employment for which we used both LFS and CROCSI. GVA data is revised data for 2015 and 2016, while for 2018 and 2019 we used prior data.
Source: SORS (LFS, SNA and CROCSI)

Employment is increasing in the private sector and decreasing in the public sector

Employment has been reduced in all parts of the public sector compared to the same period of the previous year, with the biggest decrease of 4.1% recorded in public enterprises.

Graph 3.4 Employment trends in public and private sectors, number of the employed (left chart) and growth rate (right chart), Q1 2016 – Q1 2019



Note: Data for Q1 2019 is prior data.
Source: CROCSI, SORS

The total number of employees in the public sector was 598,493, of which the number of employees in public enterprises was 144,154 in Q1 2019. The number of employees in the general government sector was 454,339 (budget users). The number of employees in the private sector

was 1,475,044. The number of employees in the public sector was down by 7,851 yoy, or 1.3% yoy. The number of employees in the private sector increased by 70,313 yoy, which is a 5% growth. Compared to the first quarter of 2016, in the first quarter of 2019, the number of employees in the public sector decreased by 4.2%, while in the private sector it increased by 16.8%. Continuous decrease in the number of employees in the public sector and increase in the private sector is a positive trend. Although the administration at the level of local self-government records a year-on-year decrease in the number of employees (Q1 2019 / Q1 2018), in Q1 2019, compared to Q1 2016, the number of employees increased significantly (by 4.7%). Health and social work recorded a decrease in the number of employees in Q1 2019 compared to Q1 2016 by 2.8%, which we estimate as a negative trend. The number of employees in the public and private sector, as well as the yoy change in the number of employees in the public and private sector, are shown in Graph 3.4.

Wages

Net wages in Q1 2019 were around 54,000 dinars, realising a year-on-year growth of 9.5% in nominal and 6.9% in real terms

In Q1 2019, the average nominal net wages amounted to 53,739 RSD. Nominal net wages increased by 9.5%, while real growth was 6.9%. Growth of wages was much higher than real GDP growth (2.3%). The number of registered employees increased by 2.7%, which means that productivity was somewhat reduced (-0.4%). High growth in real wages with a smaller decline in productivity leads to a significant increase in real unit labour costs of 7.3% yoy. If we used LFS data on the number of employees, the productivity would be lower by 2.1% yoy, while real unit labour costs would have increased by 9.2%. Real wage growth of 6.9% in the period when economic activity increased by 2.3% is not justified nor sustainable in the long term. As of January 1, 2019, contributions for unemployment borne by the employer (0.75%) have been abolished, resulting in the reduction of the total fiscal burden on wages from 63% to 62%. The total contribution rate on wages has been reduced from 37.8% to 37.05%.

Real growth of wages was higher than the real growth of GVA, which is estimated as a negative trend

Faster growth of real wages than the growth of GDP in Serbia over the past two years is part of a wider trend that has affected the countries of Central and Eastern Europe. The main driver of strong growth of wages in CEE countries are movements in the labour market, and above all the mass emigration of workers from CEE countries to developed EU countries. However, faster wage growth from productivity growth reduces price competitiveness of the CEE countries, which may result in an increase in foreign deficits, less investment and ultimately slower growth in the future. The negative effects of such policies over a longer period of time have manifested in recent history in the countries of southern Europe, and especially in Greece. The negative consequences of the faster growth of wages than of productivity in the long run could be particularly strong in Serbia, as before this trend began, it had a high foreign deficit, high current consumption and low investment compared to GDP, high unemployment, etc. From the point of view of Serbian economy's price competitiveness, it is particularly unfavourable that, along with faster growth of wages than productivity, the policy of strong dinar is conducted.

Labour productivity has slightly decreased in Q1 2019 (CROCSI) compared to Q1 2018, while unit labour cost significantly increased (by 7.3%)

Average wages were the highest in public enterprises and amounted to 64,858 RSD, followed by the public sector¹ (60,528 RSD), while significantly lower in the private sector 50,519 RSD. We see that wages in public enterprises are on average around 15,000 RSD higher than in the private sector, or 28.4% higher in Q1 2019. The difference between the average wages in the public and private sector were around 10,000 RSD, that is, public sector wages in Q1 2019 were higher by 19.8% than private sector ones. General government wages recorded a year-on-year

If LFS data on the number of the employed is used, the real growth of unit labour cost was even higher and was 9.2% year-on-year

The high share of private consumption in Serbia's GDP (around 70% compared to the usual 60% in CEE countries) leaves no room for faster growth of wages than of productivity over a longer period of time

¹ The public sector is a part of the national economy that includes the general level of the state, as well as non-financial enterprises controlled by the state (public and other state enterprises) primarily engaged in commercial activities (Law on Budget System, "Official Gazette of the Republic of Serbia" No. 54/2009, 73/2010, 101/2010, 101/2011, 93/2012, 62/2013, 63/2013, 108/2013, 142/2014, 68/2015 and 103/2015). Accordingly, the public sector includes users of budgetary funds in the activities of education, culture, healthcare and social work and state administration, as well as public enterprises founded by the state or units of local self-government, and performing activities of general interest (Law on Public Enterprises and Performance of Activities of general interest, "Official Gazette of the Republic of Serbia", No. 119/2012, 116/2013 and 44/2014). In addition to public enterprises, the state also owns some of the non-privatised former social enterprises. The public sector is classified into the following subgroups: public state enterprises, public local enterprises, administration - state level, administration - level of the autonomous province, administration - local self-government level, healthcare and social work, education and culture.

Average wages are the highest in public enterprises and are around 65,000 RSD.

Average wages in the public sector are around 60,000 RSD, which in the private sector they are around 50,000 RSD

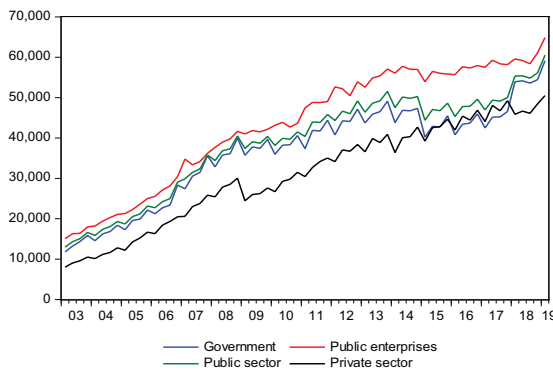
The difference in wages between public enterprises and the private sector is 28.4%, while the difference in wages between the public and private sector is 19.8%

Year-on-year nominal growth rate of wages in the public sector, public enterprises and the private sector was around 10%

Year-on-year growth of wages in euros corresponds to the increase in wages in dinars in Q1 2019, due to the unchanged exchange rate

Year-on-year growth of wages in euros was 9.7%

Graph 3.5 Movement of average net wages, public sector, public enterprises, general government sector, and private sector, Q1 2003-Q1 2019



Note: Break in the 2009 and 2018 series.
Source: SORS

nominal growth of 9.6% in Q1 2019 compared to the same quarter of the previous year. In the public sector, yoy nominal wage growth was 9.4%. The growth of wages in public enterprises was 8.8%. Growth of wages in the private sector was slightly higher than in the public sector and its sections, amounting to 10.1%. The yoy rate of inflation was 2.4%, so the real wage growth in the public and private sector was about 6-7%, yoy. Graph 3.5 shows the movement of average net wages in the public and private sectors, as well as in sections of the public sector (public enterprises and the general government sector).

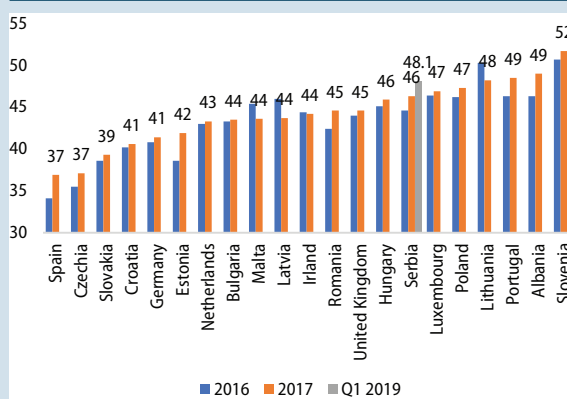
Due to the massive emigration of workers abroad, there have been significant changes in the labour market. The relationship between labour supply and demand has changed, which affects the better negotiating position of workers and the growth of private sector wages.

affects the better negotiating position of workers and the growth of private sector wages.

Highlight 2. The Ratio of Minimum and Average Wages in Europe

In 2018, the minimum net wage per hour was 143 RSD and it increased to 155.3 RSD in 2019. The nominal growth of the minimum net labour cost per hour was 8.6%. The average price increase in the first 5 months of 2019 compared to the same period of the previous year was 2.5%. Real growth in the minimum net labour cost per hour for the first 5 months of 2019 compared to the same period of the previous year was 5.9%. According to Eurostat, the ratio of minimum and average wage¹ in 2017 was 46.3% in Serbia, which was slightly above the EU average² of 44.1%. However, in the next two years the minimum wage significantly increased, so in the first three months of this year the ratio of minimum and average wage was 48.1%. The increase in the ratio of minimum and average wage

Graph 3.6 Ratio of minimum and average wages in EU countries and candidate countries in %, 2016 and 2017.

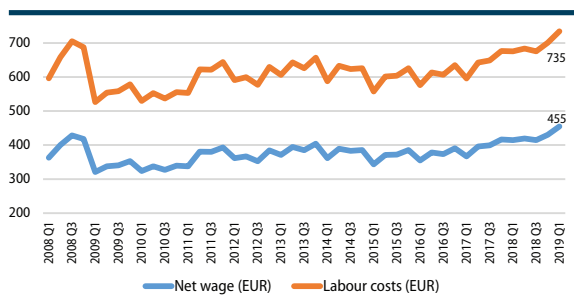


Note: Q1 2019 data on minimum wage is Socioeconomic Council, and for average wage SORS.
Source: Eurostat

in Serbia over the last two years, similar to other CEE countries, is an attempt to slow down labour migration through the increase of wages. However, the flip side of the faster growth of minimum and average wages than productivity growth is the reduced price competitiveness of these countries. Spain had the lowest ratio of 36.9%, while Slovenia had the highest ratio of 51.7% in 2017. In 2017, compared to 2016, the ratio of minimum and average wages had increased in most countries, while in some countries this ratio declined. The largest decrease was in Latvia and Lithuania, 2.3 pp and 2.1 pp, respectively. Estonia had the highest growth, 3.3 pp, followed by Spain 2.8 pp, Albania 2.7 pp. In Serbia, this growth was 1.7 pp. Graph 3.6 shows the ratio of minimum and average wages in EU countries and candidate countries in 2016 and 2017.

1 Average earnings include B-S activities (NACE Rev.2) except for extra-territorial organisations and bodies and activities of households as employers. The average wages are gross wages.

2 Minimum wages exist in 22 out of the 28 EU countries. There is no national minimum wage in 6 EU countries and EFTA countries. Countries that do not have the national minimum wage are: Denmark, Italy, Cyprus, Austria, Finland, Sweden, Iceland, Norway and Switzerland. The candidates for EU membership with minimum wage are: Albania, Northern Macedonia, Montenegro, Turkey and Serbia.

Graph 3.7 Movement of average net wages and cost of labour in EUR


Note: Break in the 2009 and 2018 series.

Source: Author's calculations based on SORS and NBS data.

Average net wages in euros were 455 euros, while the employer's costs amounted to 735 euros. The yoy growth of wages in euros was 9.7%, while the costs of the employer increased by 8.7%. The increase in wages in euros after a long time equals the increase in wages in dinars (Q1 2019 compared to Q1 2018). The exchange rate in Q1 2019 and in Q1 2018 was almost unchanged, 118.2 and 118.4, respectively. Therefore, the increase in wages in euros was not due to the change in the exchange rate, but due to the higher nominal wage growth in dinars of 9.5%.

Graph 3.7 shows the movement of average net wages in euros and costs of employers in euros.

Appendix

Table D 3.1 Basic labour market indicators according to LFS and CROCSI, Q1 2014- Q4 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
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
Employment rate (%)	40.2	41.8	43.1	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
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
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
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
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
Formal employment in 000, (LFS)	1969.3	2029.5	2027.6	2041.4	2010.5	2078.3	2058.6	2053.5	2048.7	2134.9	2136.6	2160.7	2148.1	2243.0	2253.5	2217.2	2188.2	2289.6	2330.4	2308.2	2328.5
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
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
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

Source: Author's calculations using SORS data.

Table D 3.2 Real net wages and costs of employers in EUR, Q1 2014- Q4 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
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
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
Labour costs, total (€)	588	633	623	626	557	601	603	626	576	613	607	635	596	648	647	677	676	684	676	701	735
Labour costs, industry (€)	582	622	617	615	570	611	617	632	599	635	623	649	611	677	669	699	658	678	660	692	709

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

Source: Author's calculations using SORS and NBS data.