

### 3. Employment and Wages

Official statistics on the labour market trends during 2013 are extremely divergent – according to the data of the October Labour Force Survey (LFS), the situation on the labour market is significantly improving, while according to the data from monthly reports, the formal employment is slightly declining. The data from the October LFS are not in line with other macroeconomic data. According to the LFS data, employment in October 2013 has increased by 3.4 percentage points, while unemployment has declined by 4 percentage points compared to April of the same year. The growth of employment, according to LFS, occurred in the grey economy, with helping household members in agriculture and with the self-employed. Although improvements like these are in principle possible on the labour market, it is our assessment that they are highly unlikely and we therefore express certain reservation towards them. Such large improvements on the labour market in a short period of time happen rarely and during times when there is an accompanying surge in economy, which is not the case in Serbia. Additional doubts about the LFS data are brought about the data on the growth of employment by business activities. So, for example, according to LFS, the employment in construction in October 2013 was higher by 4% than in October of the previous year, while all other data indicate that the business activity in construction has fallen between 15% and 25%! Similarly, high growth of the number of employees in healthcare, education and public administration in a short period is difficult to explain. Therefore, it is our opinion that even if there were certain improvements during 2013 in certain segments of the labour market (self-employment, helping household members, grey economy), those improvements are significantly smaller than indicated by LFS. At the year-on-year level, average monthly gross wages are higher in real terms by 3%. When it comes to business activities, the wages have increased the most in the sectors of professional, scientific and technical activities, information and communications, compared both to the previous quarter and Q4 2012.

#### Employment

*According to LFS, employment rate in October 2013 was 49.2%*

According to the data from the October Labour Force Survey (LFS), employment rate in October was 49.2%, while the number of employees compared to April 2013 increased by 140,000 and the employment rate by 3.4 percentage points. Even though it is possible that the level of employment in October (49.2%) was adequately recorded by LFS, it is our assessment that it is highly unlikely that the number of employees in the period April–October increased by 140,000 (Table T3-1). High employment rise in a relatively short time is not in line with other macroeconomic data (economic activity, spending), and the estimated growth of employment by business activities and labour market segments further raises doubts about the LFS data. Such large improvements on the labour market in a short period of only two quarters happen rarely and only in situations when economic activity significantly improves. One of the rare historical examples of employment growth was in the Baltic countries during 2010, which coincided with strong recovery of their economies after a deep fall of GDP at the beginning of the crisis. There had been no such growth of economic activity in Serbia during 2013, and the business activities that had some economic growth (agriculture, automobile industry) had a modest rise in employment.

**Table T3-1. Serbia: Employment and Unemployment According to the Labour Force Survey, 2008-2013**

		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		
<b>2008</b>	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
<b>2009</b>	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
<b>2010</b>	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
<b>2011</b>	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
<b>2012</b>	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
<b>2013</b>	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	21.00	20.2	22.00

Source: Labour Force Survey (LFS), SORS

**Employment trends in business activities additionally undermine the validity of published data**

Employment trends data by business activities additionally undermine the validity of the data on total employment. Data on employment trends in certain activities drastically deviate from the trends in economic activity – according to LFS data, employment in construction has increased by 4% in October 2013 compared to the same month last year, while the data on business activity trends in construction and production of construction materials indicate a decline in activities of about 20%! The number of helping household members was doubled compared to the same period last year, and more than doubled compared to April 2013. Also, it is difficult to believe that the number of employees in education was increased by almost 7% over the past year. Employment in healthcare and social protection shows unusual fluctuations, as these are not sectors with expressed seasonal component – in April 2013 the number of employees in this sector dropped by 12% compared to October 2012, only to rise again in October 2013 by 9.5% compared to April.

**Table T3-2. Employment Trends by Business Activities**

	October 2012	April 2013	October 2013	Oct 2013/ Oct 2012, index
TOTAL	2.299.038	2.227.432	2.394.004	104,1
Agriculture, forestry and fishery	494.700	461.819	522.084	105,5
Mining	25.092	21.173	23.065	91,9
Processing industry	394.992	389.193	399.654	101,2
Electricity, gas and steam supply	35.159	37.751	37.206	105,8
Water supply and waste water management	35.203	30.436	36.866	104,7
Construction	121.659	92.977	126.620	104,1
Wholesale and retail, Repair of motor vehicles	307.136	305.132	288.606	94,0
Transport and warehousing	125.748	137.980	130.882	104,1
Accommodation and food services	66.555	55.737	61.973	93,1
Information and communications	35.172	45.266	50.140	142,6
Financial and insurance activities	43.676	40.860	44.566	102,0
Real-estate business	2.885	3.012	2.028	70,3
Professional, scientific and innovation activities	50.896	61.194	63.185	124,1
Administrative and support services	47.076	47.919	49.175	104,5

Public administration and mandatory social security	125.469	129.761	132.950	106,0
Education	146.867	142.490	156.867	106,8
Healthcare and social protection	140.297	124.628	136.455	97,3
Art, entertainment and recreation	36.387	33.040	44.823	123,2
Other services	43.722	47.561	45.177	103,3
Activities of households as employers	20.377	18.632	41.003	201,2

**According to the Survey, employment is growing mostly due to increased number of self-employed persons and helping household members..., while employment by employers is dropping**

According to the Labour Force Survey during 2013, the structure of employment by professional status has changed considerably (Table T3-2). According to LFS, the percentage of the self-employed and helping household members has been increasing since October 2012. At the same time, the percentage of the employed has been dropping, i.e. persons working for a salary with an employer. This change of employment structure could be observed from the standpoint of reliability of measuring, as well as from the standpoint of job quality. Measuring the number of self-employed and helping household members is in principle less reliable than measuring employment by employers, which implies that the growth of total employment, which is the result of an increase in the number of the self-employed and helping household members, is also less reliable. Also, the quality of employment, especially in the case of helping household members, is weak as a rule, because they are usually less productive jobs.

**Table T3-3. Employment Structure by Professional Status**

	2012, oct.	2013, apr.	2013, oct.
Self-employed	24	24.1	25.4
Assisting household members	7.3	7.3	8.1
Employed workers	68.7	68.6	66.5

**... positive progress in the segment of self-employed and helping household members could only partially maintain changes on the labour supply side**

To the extent that the mentioned trends are real, it could be concluded that the main drivers of positive progress in employment are the result of trends on the labour supply side. Numerous factors can influence an increase in labour supply, and one of the most important ones are trends in unearned income, such as pensions, unemployment remittances or benefits. Benefits data published by the National Bank of Serbia show a continuous decline since 2009. Furthermore, according to the data from the Ministry of Finance, after 2009, which was the last year that pensions were significantly increased by 12%, the pensions started to decline as well in real terms. Finally, the declining state funds for unemployment benefits as of 2010, with a simultaneous growth of the number of users, has led to a decline in average real benefit. In short, according to the Labour Force Survey, there are indicative data that drying up the sources of unearned income has encouraged labour supply, i.e. there is an increased willingness of people to fend for themselves and accept any job. However, this explanation can be accepted with certain reservation as well, because the decline in unearned income started a lot sooner and was the highest in 2009–2010, while the supposed changes on labour market occurred during 2013 and in a time period of only two quarters.

**The share of private sector is increasing in the employment structure..., but only in grey economy employment**

According to the Labour Force Survey, the share of state in total employment is dropping, while the share of private sector is rising, which is generally good. However, growth of share of the private sector in the overall employment is generated exclusively by the growth of grey economy employment. Even though these tendencies are in line with other observations on the growth of grey economy, it is highly unlikely that they occurred in such a short time period. Still, the survey results could indicate a deterioration of business conditions in the regular private sector, but also a relatively high tolerance of the state towards grey economy.

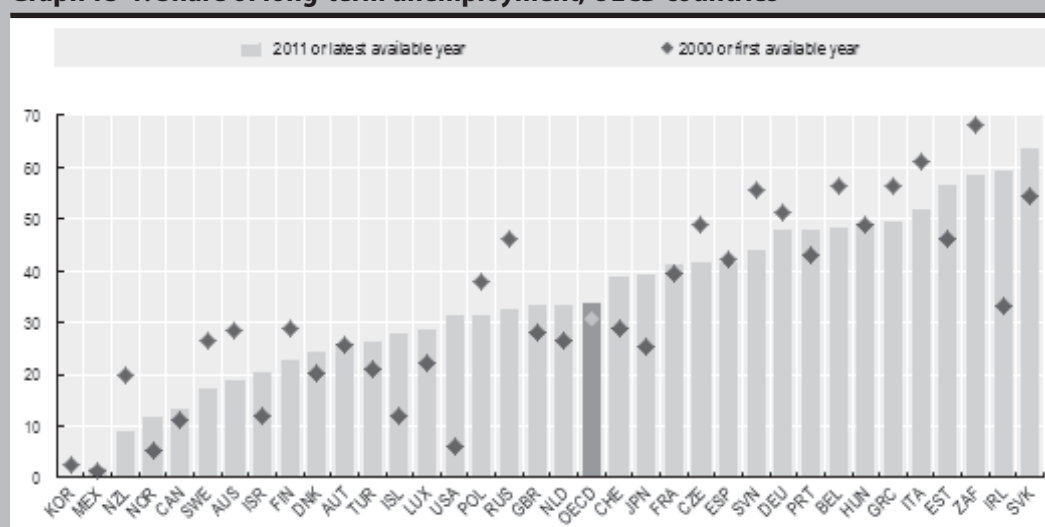
**Table T3-4. Employment Structure by Type of Ownership, in %**

	2012, oct	2013, april	2013 octr
Registered private property	54.6	53.9	53.9
Unregistered private property	11	12.3	13.6
State property	31.7	31.6	30.3
Other forms of ownership	1.9	2.2	2.2

Source: LFS

**Box 1. Share of Long-term Unemployment in Total Unemployment**

Share of long-term unemployment represents a percentage of those who have been unemployed for one year or longer in the total number of unemployed population. This rate is mostly lower in countries that have had a high rate of economic growth for several consecutive years. However, long-term unemployment can also drop at the beginning of an economic crisis due to increased inflow of newly unemployed individuals and then again grow with the deepening of the crisis, as is the case with most OECD countries (Graph T3-3).

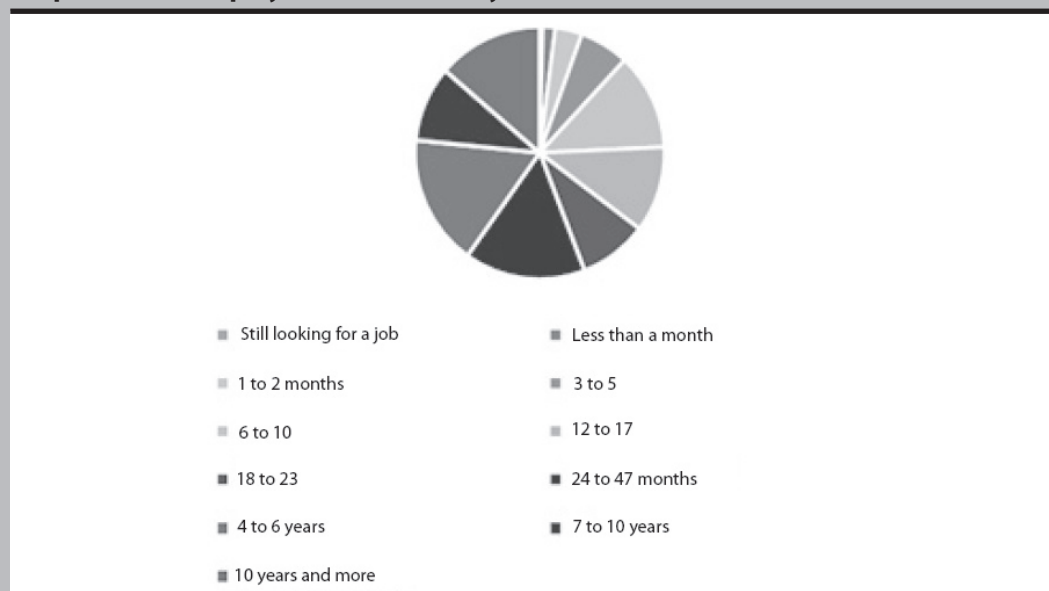
**Graph T3-1. Share of long-term unemployment, OECD countries**

The Graph shows that more than half of the countries had a share of long-term unemployment around or above the OECD average. For countries such as Estonia, Ireland, Italy and Slovakia, the rates go even above 50%. It is interesting that in Germany, the share of long-term unemployment persists at a high level of 48% despite the growing trend of the employment rate since 2005. This could be a consequence of generous unemployment benefits available for a longer period of time, which reduces an incentive to look for work.

In Serbia, share of long-term unemployment is quite high – 75.7%, which is significantly higher than any OECD country, but still the lowest compared to the countries in the region. Based on the data from the national Labour Force Surveys, this rate is 82% in Macedonia and Bosnia and Herzegovina, and 84% in Montenegro.

High share of long-term unemployment in the total unemployment speaks to the inefficient functioning of the labour market. But it is quite certain that other policies also affect long unemployment status. Generous unemployment benefits are not one of the factors influencing the high share of unemployment in Serbia because, as we said, the state on average is allocating fewer and fewer funds for these purposes. Also, the maximum duration of benefits is 12 months, and as can be seen in Graph T3-4, among the unemployed persons looking for work over a year, most of them have been looking for jobs between two and six years, and even longer than 10 years, which is considerably longer than the maximum duration of benefits. In other words, among the long-term unemployed there aren't many who are receiving unemployment benefits.

**Graph T3-4. Unemployment Structure by Duration of Job Search**



Source: LFS, October 2013

The above would suggest that income earned in the informal economy is most probably the source of income for those who are long-term unemployed. High share of long-term unemployment and growing informal economy are related to the incentives for accepting (formal) work in Serbia. That is, high tax burden of work income and sudden reduction of social benefits after an individual realises even a minimum income, contribute to the high opportunity cost of finding formal employment.

**According to the Labour Force Survey, the unemployment rate is 21% and has dropped compared to April 2013 by as much as 4 percentage points, ... it is highly unlikely that such a change in unemployment actually occurred**

According to the Labour Force Survey, the unemployment in October 2013 was 21% and it was by as much as 4% lower than in April the same year, and 2% lower than in the same period of 2012. The survey indicates that the unemployment rate in October 2013 was the lowest since October 2010, and that it is related to the growth of employment in grey economy, in the self-employed and helping household members. All of the earlier mentioned reservations about the high growth of employment during 2013 can also be applied to the registered reduction of unemployment.

### Wages

**Average monthly gross wages higher in real terms by 3% compared to the same quarter of the previous year**

According to the data from the Statistical Office of the Republic of Serbia, average monthly gross wages at the year-on-year level were nominally higher by 5.1% in Q4 and by 3% in real terms (Table T3-5). Average monthly net wages in the last quarter of 2013 were 46,000 RSD or 399 EUR. In the entire 2013, average wages in Serbia grew nominally by 5.7%, while they dropped in real terms by 1.9%. Reduction of real wages during 2013 reflect 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 small companies and entrepreneurs.

## 3. Employment and Wages

**Table T3-5. Serbia: Real Seasonally Adjusted Net Wages, by business sectors**

	Average Monthly Wage <sup>1)</sup>				Average Gross Monthly Wage Index (SORS) <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	104.8
<b>2009</b>	52,090	31,758	554	337	108.8	100.6
<b>2010</b>	55,972	34,159	543	332	107.5	101.2
<b>2011</b>	62,213	38,000	610	373	111.1	100.0
<b>2012</b>	67,724	41,386	599	366	108.9	101.4
<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

Source: SORS

It is interesting that the year-on-year quarterly indices of nominal wages were relatively stable during 2013, while real indices recorded a significant drop during the year. It can thus be concluded that the growth of year-on-year real wages can mostly be explained by a sudden reduction of inflation during 2013 – stable indices of nominal wages were divided by decreasing indices of prices. Therefore, the real wages during 2013 didn't grow because the nominal wages increased, but because the inflation dropped.

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

The year-on-year index of net wages indicates that the wages realised in Q4 2013 increased in all twelve sectors compared to the same period last year. The highest growth was recorded in the sectors of information and communications (12.8%), other service industries (10.9%), and professional, scientific and technical sector (10.3%). Other sectors had no more than 5% increase (Table T3-6).

**Table T3-6. Year-on-Year Index of Net Wages in Real Terms**

	Professional, scientific and engineering activities	Other services	Information and communication
2011-2013			
2012,Q1	108.6	106.6	104.3
2012,Q2	114.4	108.2	116.5
2012,Q3	105.0	99.6	97.1
2012,Q4	102.7	96.3	105.5
2013,Q1	91.5	97.2	95.8
2013,Q2	105.5	103.4	95.9
2013,Q3	102.5	103.5	114.6
2013,Q4	110.3	110.9	112.8

**Wages increased the most in professional, scientific and technical sector**

Observed by business activities, as can be seen in Table T3-7, the net wages in Q4 2013 increased the most in professional, scientific and technical business activities by 17.5%. A 5.3% growth of wages was recorded in the sector of information and communications, while other sectors had up to one percent growth. The biggest decline in wages of 7.2% was recorded in the sector of real-estate, followed by a 4% decrease in finance and insurance sector. Other sectors had a decline in wages between 0.5% and 1.1%.

**Table T3-7. Year-on-Year Index of Net Wages**

	Professional, scientific and engineering activities	Information and Communication	Real estate	Financial and insurance activities
2012, Q1	106,89201	103,061046	104,541566	106,639936
2012, Q2	102,94142	104,4022938	103,560818	95,366857
2012, Q3	95,962883	91,93509773	91,9229062	94,5908223
2012, Q4	97,333157	103,7359959	97,7051048	97,6902022
2013, Q1	94,310793	99,12122665	105,745097	101,473767
2013, Q2	100,95682	101,3764895	97,1591386	99,2037039
2013, Q3	100,73621	98,08931379	104,05263	102,452746
2013, Q4	117,45046	103,272816	96,8143905	98,4490083

Source: QM calculations