

### 3. Employment and Wages

According to the April Labour Force Survey (LFS), the condition at the labour market is still unfavourable with certain signs of improvement. The signs are modest and it is not certain whether they are sustainable having in mind the recession in most of the economy. The employment rate, even though it grew by 1.1 percentage points compared to April 2012, is on an alarmingly low level of 45.8%. The unemployment rate has been reduced by 1.1 percentage point, but it is still considerably high and is 25%. The unemployment rate in youth (age 15-24), although it has been reduced within a year by 1.2 pp, is currently almost twice as high compared to the unemployment of the entire population and is 49.7%. Observed by regions, only Belgrade has unemployment rate below the total one and it is 19.2%. Compared to April 2012, unemployment rate has mostly fallen in the Belgrade region, by 3.6 percentage points, followed by Vojvodina by 2.4 percentage points. With respect to level of education, the highest unemployment rate is recorded in persons who haven't finished school and it is twice as high compared to individuals with high education. Their unemployment rate has increased the most in the observed period, which could be the result of reduced funds for public works in the last year, having in mind that these activities are mostly performed by low-qualified labour force. Net wages at the level of entire economy continued to drop in real terms in Q2 of this year. Observed by regions, net wages in the first half of 2013 compared to the same period last year have mostly increased in the sector of Professional, Scientific and Technical activities, compared to previous quarter as well as compared to Q2 of previous year.

#### Employment

*Employment rate in April 2013 is still on a considerably low level of 45.8%*

Even though the number of employees based on the date of the April Labour Force Survey (LFS) grew compared to the same period last year, by almost 45,000 persons, and employment rate grew by 1.6 percentage points, it is still at an alarmingly low level of 45.8% (Table T3-1). It is now certain that projections from the National Employment Strategy for 2011-2020, which foresaw total employment reaching its minimum in 2010 and returning to the pre-crisis level in 2013, will not be realised. As things now stand, the employment has reached its minimum in April 2012 and has been increasing very slowly since then, but it is still uncertain how sustainable these upward changes are and how much time it would take for the employment to return to the levels before the start of the crisis.

**Table T3-1 Serbia: Employment and Unemployment according to the Labour Force Survey<sup>1</sup>, 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

Source: Labour Force Survey (LFS), RZS.

Note:

1) Labour Force Survey has been conducted since 2008, twice a year – in October and April.

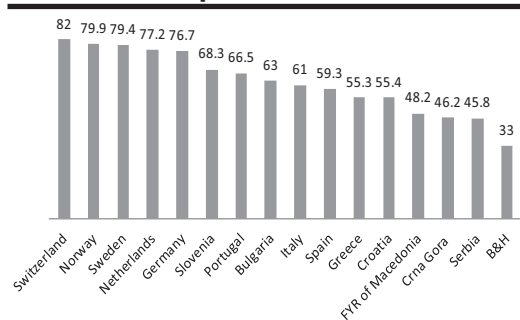
2) Persons between the age of 15 and 64 are considered to be of working age.

3) Until October 2008, LFS did not have the 15-64 classification for the number of employees in agriculture and helping members

## 3. Employment and Wages

Just how alarming the situation in Serbia's employment rate really is, is demonstrated by comparative data. The graph shows employment rates for a certain number of European countries, starting with those who recorded the highest

**Graph T3-1 Employment Rates for Selected Number of European Countries, 2012**



Source: Eurostat

*The percentage of employees in the grey economy is rising in the private sector, while registered employment is dropping*

Europe where the situation in the labour market drastically deteriorated with the start of the crisis. Finally, at the very bottom of the scale is Serbia and surrounding countries.

Percentage of employees in registered private economy in the total number of employees has dropped from 55.4% to 53.9% between April of this and previous year. Share of employees in private non-registered economy in the total number of employees has grown from 11% to 12.3%. A modest growth of share in total employment of 0.3 percentage points was recorded in other forms of ownership, while the share of employees in state-owned companies remained

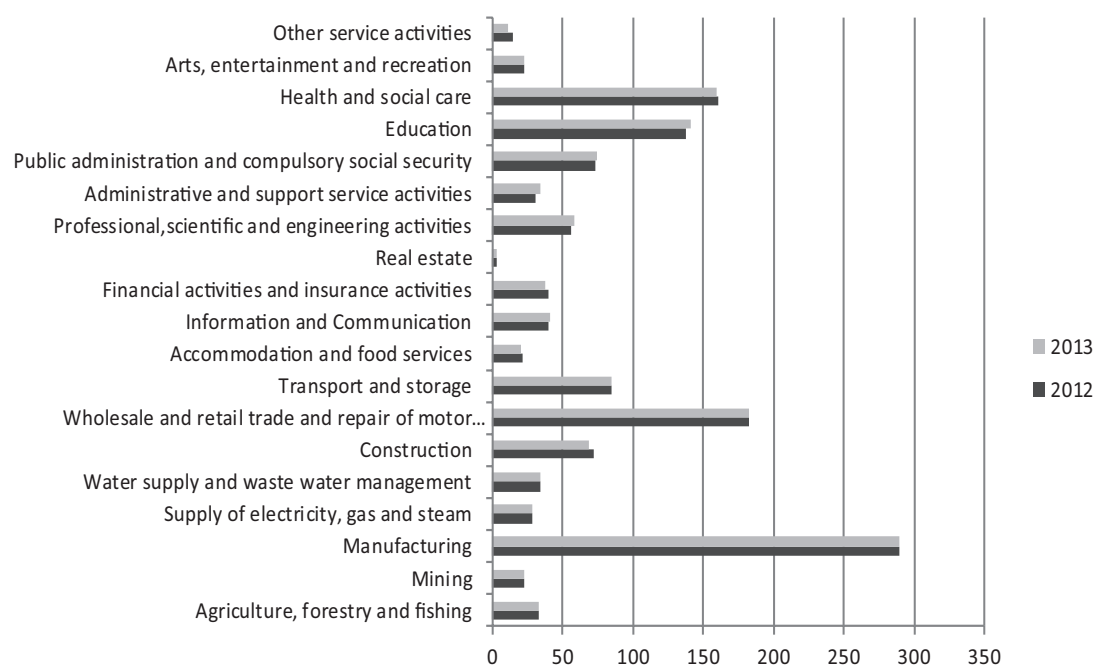
almost unchanged, 31.6% this year and 31.7% last year (Table T3-2).

**Table T3-2 Employee structure by form of ownership, in %**

	2012, april	2013, april
Registered private property	55.4	53.9
Unregistered private property	11	12.3
State property	31.7	31.6
Other forms of ownership	1.9	2.2

Source: LFS, April 2012. LFS, April 2013.

**Graph G3-1 Employees by activities, data expressed in thousands**



Source: RAD survey, SORS.

*Formal employment in Q2 2013 unchanged compared to the same period last year; growth in only 5 out of 19 sectors*

According to the data from the RAD survey, we can observe that the total formal employment in the second quarter of this year has remained unchanged compared to Q2 2012 (Table TP-4). Observed by sectors, number of employees has increased in only five out of a total of nineteen sectors. Growth has been recorded in the sector of Water Supply and Wastewater Management

- 5%, in Professional, Scientific and Technical Activities - 5.8%, in Administrative and Support Service Activities - 14.7%, in Public Administration and mandatory social security - 2%, and in the sector of Arts, Entertainment and Recreation - 2%. From the standpoint of healthy growth of employment, an unfavourable circumstance is that out of five sectors showing growth in formal employment, three are extremely dominated by the state, while significantly present in the other two. The biggest decline in employment has been recorded in the sector of Other Service Activities<sup>1</sup> by 20%, in Construction and in Financial and Insurance Activities by 3.5% each (Graph G3-1).

**Unemployment rate is 25% and has dropped compared to April 2012 by 1.1 percentage point**

According to the Labour Force Survey, the number of unemployed between April last year and this year has dropped by about 30,000 people. Unemployment decline is more expressed in men and is 2.5 percentage points, while in women the unemployment dropped by only 0.6 percentage points (Table T3-1).

**Youth unemployment (age 15–24) is still alarmingly high**

Youth unemployment, ages 15 to 24, is twice as high compared to the unemployment rate of the entire population. Although it dropped by 1.2 percentage points (pp) compared to April last year, it is still extremely high and is 49.7% (Table T3-3). In Highlights, we talk more about new measures, the so-called *guarantees for young people* which are applied in European Union and here, with the aim of resolving this priority social and economic problem.

In other age groups, unemployment has dropped by 1.5 percentage points, and the smallest decline was in persons ages 45-54 (0.9 percentage points).

**Unemployment rate has dropped the most in the Belgrade region and is currently 19.2%**

Over the last year the unemployment rate has dropped in all four regions, but the highest decline was in Belgrade – 3.6 and Vojvodina – 2.4 percentage points. The smallest decline of unemployment was recorded in the region of South and East Serbia – only 0.3 pp (Table T3-3).

**Observed by educational level, unemployment of persons who haven't finished school has increased the most**

Observed by educational level, the unemployment has only dropped for persons who have mid-level education and by 2.3 pp (Table T3-3). Compared to April last year, unemployment in persons without any education has increased by 15% (1,800 people). This could be a consequence of decreased funding of public works, where mainly workers of a lower educational profile are engaged, as well as a decreasing participation of workers with lower education in public works. In other countries, in addition to public works, measures that are used to improve the position of unskilled labour force are programmes of functional adult literacy and general training. Programme of functional adult literacy was introduced in 2004 on trial basis, but it didn't last. Then in 2011, a new programme started, financed by the European Union, entitled "Second Chance". It is planned that by the end of 2013, 4000 adults over the age of 15, without primary education or professional competence, pass through this concept of functional literacy.

Another programme that potentially could have benefited the most persons with low education is "Training for the Known Employer", but provided it is improved and directed more towards people with low educational profile, which currently isn't the case.

**Table T3-3 Unemployment rate by age groups and educational level**

	Age groups					Educational level			
	15-24	25-34	35-44	45-54	55-64	withouth	lower	midle	higher
Unemployment rate, April 2012	50.9	33.2	22.2	20.7	19.1	25.2	26.6	28.7	18
Unemployment rate, April 2013	49.7	32.6	20.7	19.8	17.6	40.2	26.5	26.4	19.4

Source: LFS, April 2012 and April 2013.

**Percentage of unemployed people seeking employment for more than a year is 76.3%**

According to LFS of April this year, 76.3% of the unemployed fall into the category of long-term unemployed, i.e. have been looking for a job over a year. This percentage has considerably increased since the beginning of the crisis, i.e. 2008, when it was 71.6% (LFS April 2008). The fact that almost 40% of the unemployed have been waiting for work for more than four years is

<sup>1</sup> This sector (as a residual category) includes activities of organisations based on membership, computer maintenance, maintenance of objects for personal and home use, and various personal services.

### 3. Employment and Wages

extremely alarming. In addition, the fact that as much as 17% of the unemployed have been looking for work longer than 10 years indicates there is a considerable number of discouraged people, most probably transition losers, who the economic crisis additionally pushed to the margins of the labour market.

Share of long-term unemployed in the total number of unemployed people does not differ by gender, but there are some differences by regions. So for example, in Sumadija region and West Serbia, as much as 81.6% of unemployed women have been looking for work for over a year, while the lowest number of unemployed women is in Vojvodina – 71.3%. Observed by educational level, the biggest number of long-term unemployed is among the population between 55 and 64 years of age, as much as 86.4%. Finally, the smallest number of unemployed people looking for work for over a year is among those who are highly educated (69.4%), while the biggest number is among those without formal education (83%).

### Wages

*Average monthly gross wages lower by 4.1% compared to the same quarter of previous year*

According to the data from the Statistical Office of the Republic of Serbia (RZS), at the year-on-year level, average monthly gross wages are nominally higher by 5.9%, and in real terms they are lower by 4.1% (Table T3-4). Average monthly gross wages in the second quarter of this year were 44,248 dinar or 395 euro, and it was lower in real terms by 3.5% (Table TP-5).

**Table T3-4 Serbia: Average Monthly Wages and Year-on-Year Indices, 2008-2013**

	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	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

Source: RZS

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

According to the National Statistical Office data, average monthly net wages in the surrounding countries, for the first half of 2013, were 740 EUR in Croatia, 480 EUR in Montenegro, 420 EUR in Bosnia and Herzegovina, and 330 EUR in Macedonia.

### Highlights : Effects of changes in tax regulation on the labour market

Through amendments to the Law on Income Tax and Law on Social Security Contributions, the following novelties have been introduced as of June this year:

- Tax rate on wages has been reduced from 12% to 10%;
- Non-taxable part of the wages has been increased from 8,776 RSD to 11,000 RSD;
- Contribution rate for pension and disability (PIO) on the employee's side has been increased from 11% to 13% (while the rate for PIO on employer's side has remained the same – 11%);
- Rate of PIO contributions for other wages (temporary service contracts, etc.) has been increased from 22% to 24%.

The goal of these changes was to reallocate tax revenue from local self-governments to the state, and they probably won't have any impact on the labour market, since the unbundling of the wages was minimal. Even though the expert public has discussed several times the necessity of reducing the fiscal burden on labour<sup>1</sup> in order to increase demand for labour, before this kind of measure is introduced, research data from other countries should be taken into account, where similar policies have already been implemented. Different research shows that fiscal unbundling of labour leads to a reduction in the cost of labour and an increase in employment only if it is well prepared and supported by other measures of economic policy. Otherwise, there is a possibility of most of the fiscal unbundling being used for the growth of net salaries, in which case the cost of labour does not change and there is no increase in the demand for labour force.

<sup>1</sup> Labour taxes (or labour tax burdens) represent a sum of contributions for social security at the burden of the employee, contributions at the burden of the employer and tax on salaries. Total cost of labour includes gross salary increased by social security contributions at the burden of the employer. Net salary increased by the tax on salaries and contributions at the burden of the employee make the gross salary.

*In the first half of the year, compared to the same period in 2012, wages have increased the most in the regions of Šumadija and West Serbia*

*Wages increased the most in Professional, Scientific and Technical Activities*

Observed by regions, average net wages in the first half of the year, compared to the same period in 2012, have increased the most in the regions of Šumadija and West Serbia by 8.7%. The smallest growth was recorded in the Belgrade region – 4%.

Observed by activities, as can be seen in Table T3-5, in Q2 2013 compared to the previous quarter, the net wages increased the most in Professional, Scientific and Technical Activities, and Administrative and Support Services by 6.7% each. In other sector, growth ranged from 0.5% to 1.1%. The biggest decline in wages in the amount of 3% was in the field of Finance and Insurance. As in the growth of employment, in this case as well the biggest growth of wages was realised in the activities dominated by the public sector.

**T3-5 Real, seasonally adjusted net wages, by activity sectors**

	Professional scientific and engineering activities	Administrative and support service activities	Financial and insurance activities
Q1, 2012	106.35	106.35	106.77
Q2, 2012	103.3	103.3	95.26
Q3, 2012	95.19	95.19	94.65
Q4, 2012	98.6	98.6	97.6
Q1, 2013	93.69	93.69	101.89
Q2, 2013	100.43	100.43	98.62

Source: QM calculations

## 3. Employment and Wages

**Table P-6 Serbia: Average Monthly Wages and Year-on-Year Indices, 2012-2013**

	Average Monthly Wage (SORS)			Average Monthly Wage (SORS)	
	Total labor costs in rsd	Gross in rsd	Net in rsd	Y-o-y real indices, gross	Y-o-y real indices net
<b>2012</b>					
January	59,927	50,829	36,639	101.5	101.9
February	65,440	55,505	40,003	107.1	107.3
March	66,171	56,125	40,562	109.3	109.6
April	68,930	58,465	42,215	104.1	104.3
May	66,267	56,206	40,442	110.2	110.0
Jun	69,221	58,712	42,335	102.0	102.1
July	67,486	57,240	41,180	99.6	99.2
August	68,975	58,503	42,122	101.7	101.7
September	65,910	55,903	40,258	94.2	94.2
October	68,067	57,733	41,558	96.6	96.5
November	69,460	58,914	42,395	98.9	98.8
December	76,830	65,165	46,923	95.1	95.3
<b>2013</b>					
January	64,193	54,447	39,197	95.0	94.9
February	70,975	60,199	43,371	96.5	96.4
March	67,943	57,628	41,689	91.4	91.5
April	75,750	64,249	46,530	98.6	98.9
May	68,289	57,921	41,821	94.7	95.0
Jun	72,389	61,399	44,394	95.3	95.6

Source: RZS

Note: 2008 data represents corrected data based on expanded scope of the sample for calculating average wages. Thus, the nominal values of wages for 2008 are comparable to the nominal values for 2009, but not to previous years.