

### 3. Employment and wages

Although the results of the Labour Force Survey (LFS), conducted in April 2012, are not yet available, it is expected that the employment rate has continued to decline, while the unemployment rate has continued to rise during the period between October 2011 and April 2012. According to the data from the survey "RAD" (Work) a formal employment continued to decline between September 2011 and March 2012, though at a considerably slower pace when compared with a previous six-month period. The average real wage continued to grow even in the first quarter of 2012 and it is higher by 6% in comparison with the same period of the previous year: wages in the public enterprises increased by 7.4% and in economy by 6.7%. For the first time after three full years in which the periods of the year-on-year decline and stagnation in wages took turns, wages in administration and in the sector of education and culture started to increase.

#### Employment

*Continuation of negative trends in the Labour Market*

According to the survey "RAD", formal employment continued to decline between September 2011 and March 2012, though at a considerably slower pace in comparison with the previous six-month period (Table T3-2, Column 1). The total number of formally employed in the period from September 2011 to March 2012 decreased by 0.23%, or 4,000 persons. The decline of formal employment was much more pronounced year-on-year, so between March 2011 and 2012 it amounted to 17,000 persons, i.e. 1%.

*The decline in employment is fully attributed to the decline in the number of employed with legal entities*

**Table T3-1. Serbia: Employment and Unemployment According to the Labor Force Survey<sup>1</sup>, 2008–2011**

		Total number of employed <sup>2)</sup>	Number of employed in agriculture and unpaid family workers 15-64 <sup>3)</sup>	Employment rate 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

Source: Labor Force Survey (LFS), SORS.

Notes:

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+.

*An employment drop in the past six months highest in the manufacturing industry*

The decline in employment in the previous six-month period is fully attributed to the decline in the number of employed with legal entities (Table T3-2, Column 2), while the number of employed with entrepreneurs has remained unchanged (Table T3-2, Column 3).

*Employment increased by about 2,000 persons in the public administration and public enterprises*

Sector breakdown indicates that the greatest decline occurred in the Manufacturing industry of 4,000 persons, i.e. 1.3% within the sector. The employment declined slightly in the Agriculture and Construction sectors, while it increased in the area of Information and Communication, as well as in the Public administration (both sectors by 1,000 persons) and Education (2,000 persons) (Table P-5 in the Analytical Appendix.)

Within the public sector, employment in the public administration and public enterprises increased by a total of 2,000 persons in the period between September 2011 and March 2012 (Table T3-3).

The number of unemployed registered at the National Employment increased by 40,000 persons, i.e. 5.1% between September 2011 and March 2012. (Table T3-2; Column 7). These data, although indicative, do not necessarily reflect the trends in the economically defined unemployment, as they only cover the persons who use the services of the National Employment Service, regardless of their real labour market status.

*The number of registered unemployed increased by about 40,000 persons*

**Table T3-2. Serbia: Number of Registered Employed and Unemployed<sup>1</sup>, 2004–2012**

		Total no. of employed	Employees in legal entities <sup>2)</sup>		Entrepreneurs		Total no. of employees	Number of unemployed (NES)	
			1 (=2+3)	2	3 (=4+5)	4			5
in thousands									
<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	1,993	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	176	230	1,579	774	
	September	1,738	1,337	401	174	227	1,564	743	
<b>2012</b>	March	1,734	1,333	401	203	198	1,531	783	

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: The data for September were corrected on the basis of semiannual survey RAD-1 / P of March 2011.

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).

**Table T3-3. Serbia: Public Sector Employment, 2004–2012**

		Employees in legal entities						Other <sup>1)</sup>
		Public sector					Public sector - total	
		From the budget			Public enterprises			
		Administration - all levels	Education and culture	Health and social work	National public	Local public		
		1	2	3	4	5	6	7
in thousands								
<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	933
	September	64	123	142	88	57	473	910
<b>2010</b>	March	62	124	142	87	56	472	890
	September	63	122	143	86	56	470	878
<b>2011</b>	March	61	124	143	84	57	469	880
	September	62	122	143	84	57	469	868
<b>2012</b>	March	63	122	143	85	57	470	863

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.

## 3. Employment and Wages

Although the results of the Labour Force Survey conducted in April 2012 are not yet available, we do not expect significant changes in the key indicators of the labour market. As shown in the Table T3-3, from the year 2008, since the survey has been conducted twice a year, in April and October, the employment rate has had a downward trend. A mere 45.3% of working population aged 15-64 had a job in October 2011. The participation rate has decreased as well, currently standing below 60%. These trends highlight the stagnant labour market in Serbia with low employment opportunities. Although the public often speaks of a high unemployment rate as a main problem of Serbian labour market, low activity of a working population is equally concerning. Together, they indicate the insufficient utilization of labour resources.

**Table T3-4. Indicators of the labour market situation for the persons of working-age (15-64), 2008-2011.**

	October 2008.	April 2009.	October 2009.	April 2010.	October 2010.	April 2011.	October 2011.
Activity rate	62.6	60.8	60.5	59.1	58.8	58.9	59.9
Employment rate	53.3	50.8	50	47.2	47.1	45.5	45.3
Unemployment rate	14.7	16.4	17.4	20.1	20	22.9	24.4
Inactivity rate	37.4	39.2	39.5	40.9	41.2	41.1	40.1

Source: SORS, Labour Force Survey, Statements.

The transitions between the main labour market states: employment, unemployment and inactivity, which are contained in the transition matrices such as these given in the Table 3-4, as well bear witness to the stagnant labour market in Serbia. Rows of the matrix show the status of the individual in the initial period (April 2011), while the columns show the status of the same individual in the following period (October 2011). Each cell in the matrix indicates the number of individuals in the each of the nine status pairs on the labour market over the period of observation.

The construction of the transition matrices requires the panel data. Given that the half of the samples within the Labour Force Survey remains unchanged between the two Surveys, it enables observation of the employment status changes of a certain number of the same individuals during the six-month period.

Table T3-4 indicates that, during the year 2011, the probability for an unemployed individual to find a job after six months was very low- 9.2%. In the countries of European Union, transitions from unemployment to employment amount to a slightly less than 30% in the case of Belgium, Slovenia, Italy and the Czech Republic, while 45% of unemployed find a job after a year in the UK, Spain, Austria, Lithuania and Estonia<sup>1</sup>. Although these data came from the observing a longer time period, a year, it is still concerning that the transition probability from the status of unemployed to employed is much lower in Serbia than in a significant number of European countries.

The table further shows that the large number of unemployed, as much as 18.4%, became discouraged in finding a job and withdrew from the labour market after six months. Meanwhile, the inflow of individuals in the status of unemployed was moderate- probability for the employed person to lose a job after six months amounted to 5.3%.

Finally, transitions from inactivity to employment and unemployment are very low and amount to 3%. In other words, a few people decide to enter the labour market, and equally small number of individuals truly succeeds in doing so. However, in this regard, we do not lag behind the countries such as France, Belgium, Slovenia and Spain. On the other hand, a somewhat larger number of individuals, over 5%, get out of inactivity in Austria, Lithuania, Estonia, Great Britain and the Netherlands.

<sup>1</sup> Christine Erhel and Mathilde Guergoat-Larivière Labour market status, transitions and gender: a European perspective, <http://hal.archives-ouvertes.fr/>

**Table T3-5. Trends in the labour market from April 2011 to October 2011**

Status in April 2011	Status in October 2011			Total
	Employed	Unemployed	Inactive	
Employed	2,059,893	121,828	98,848	2,280,569
	90,3%	5,3%	4,3%	100%
Unemployed	59,991	470,338	119,734	650,063
	9,2%	72,4%	18,4%	100%
Inactive	3,105,931	100,082	3,160,914	
	3,1%	3,0%	93,9%	100%
Total	2,225,815	692,248	3,379,496	6,297,559
	35,3%	11,0%	53,70%	100%

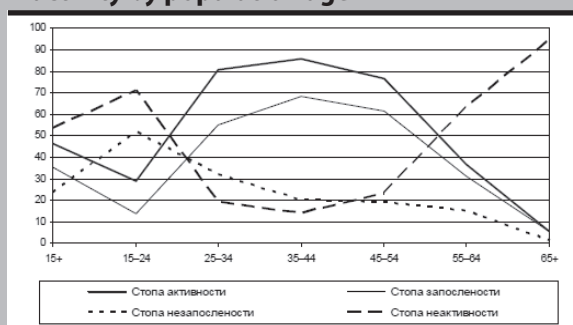
Source: QM estimates based on LFS from April 2011 and October 2011

### Frame 1. (Non)active ageing

The year 2012 in the European Union is marked as the year of active ageing and solidarity between generations<sup>1</sup>. The principal of active ageing is one of the key economic and social objectives of the European Union that is faced with the chronic problem of the population ageing and the sustainability of the existing pension systems. In the recent years, the European Council has in several occasions issued the conclusions aimed at increasing the employability of older workers<sup>2</sup>. The conclusions suggest that the population ageing will not only cause problems in the financing the pension system and health care system, but also in the functioning of the labour market. Increased participation of the older workers in the labour market, considering their knowledge and experience that grows with age, is an important factor contributing to a smart, sustainable and inclusive growth that stands in the basis of the strategy *Europe 2020*. Measures propagated and gradually introduced in the Member States, despite the political unpopularity, include the increase of the effective time spent in the labour market by five years, gradual retirement and so-called part-time pensions.

Inactivity rate in Serbia is most recognizable among the population aged between 55 and 74 (Graph T3-1). The inactivity within this group is not uniform and increases with the age of individual. Reduced activity for this part of the working population is dominantly, in slightly more than 75%, caused by one reason- pension. However, more than 350.000 inactive persons of this age are not retired.

**Graph T3-1: The movement in the rate of activity, employment, unemployment and inactivity by population age**



Source: LFS, October 2011

As there is a difference in the status, so do the older workers differ in terms of transition between the working statuses. In Table T3-5 it can be noticed that among the individuals aged 65-74 during 2011, no transition to the status of unemployed occurred (the same phenomenon occurred between LFS in October 2010 and in April 2011); either the majority of people remained inactive between the two surveys, or they directly transitioned from the employment to inactivity.

On the other hand, individuals aged from 55 to 64 achieve greater dynamics in the labour market than the persons aged 65-74, but considerably lower in comparison to the entire population. For instance, a very low percentage of an unemployed in this age group finds

<sup>1</sup> See more: <http://europa.eu/ey2012/>

<sup>2</sup> "Dealing with the impact of an ageing population in the EU (2009 Ageing Report), "Equal opportunities for women and men: active and dignified ageing" (2009), "Active ageing" (2010)

a job after six months—a mere 1.6%. In the EU countries, indeed after a year, as much as 15% of unemployed in this age group finds an employment. Furthermore, it is noted that a significant number of the unemployed in this group became inactive after six months— as much as 34.7%. Of course, a number of them have reached the retirement age, but percentage this high may indicate also the discouragement in a job search.

**Table T3-6 Trends in the labour market for older people, April 2011- October 2011**

Status in April 2011		Status in October 2011			Total
		Employed	Unemployed	Inactive	
55-65 years	Employed	354,960	8,735	30,984	394,679
		89.90%	2.20%	7.90%	100.00%
	Unemployed	1,168	47,271	25,713	74,152
		1.60%	63.70%	34.70%	100.00%
	Inactive	26,712	12,334	803,772	842,818
		3.20%	1.50%	95.40%	100.00%
Total		382,840	68,340	860,469	1,311,649
		29.20%	5.20%	65.60%	100.00%
65-74 years	Employed	60,007		28,892	88,899
		67.50%		32.50%	100.00%
	Inactive	12,976		1,423,423	1,436,399
		0.90%		99.10%	100.00%
Total		72,983		1,452,315	1,525,298
		4.80%		95.20%	100.00%

Source: QM estimates based on LFS from April 2011 and October 2011

Previous strategic documents and practical policies of the activation of older workers did not provide significant results. Since 2006, subsidies of social security contributions and income tax exemptions have been introduced for employers who hire workers older than 50 years. Employment subsidies are among the most expensive active labour market policies per user, and the evaluation of the effect these measures had in other countries are mixed (See QM 27). In Serbia, they have made modest results— a mere 11,000 older workers have been hired due to this programme over the last six years.

In the period from 2006 and 2009, the program “*Severance to job*” was conducted with the aim to assist the older workers, who received a severance pay in the process of a company privatization, in finding a new job in the private sector or starting their own businesses. The study Nojkovic et al. (2010) found a strong positive causal connection between the participation in the program and the employment probability.

Other activation measures, such as *flexible forms of employment*, which are often more preferable for older workers, are still not developed sufficiently in Serbia. Employments with partial (or part-time) working hours are discriminated against by the taxation system, due to a high minimum social security contributions base, hence very rare— they account for only 9% in the total employment, and even less in the formal sector.

The activation of older workers in Serbia seems not to be desirable as a goal in itself. It is still seen as a last resort policy, or a side effect of delaying retirement rights for older workers. Indeed, with the latest changes made to the Pension and Disability Insurance Law 2010, provisions were introduced to discourage the early retirement. On the other hand, early withdrawal from the labour force is in some way favoured through certain provisions of the Labour Code. For example, the amount of the severance pay is based on the total years of service, rather than depend on the employment duration solely with the last employer. This provision often serves as the substitute for the early retirement. Severance payment based on the total years of service reduces not only the labour supply of the older workers, but also the demand for their services. In QM 27, we wrote about this problem and the fact that the changes of this Law provision were rejected by the representative trade unions at the meeting of the Social and Economic Council in October 2011. Moreover, the line Ministry has agreed with this decision.

## Wages

*The average real wage in Q1 2012 continues to grow y-o-y*

The average real wage in Serbia in the first quarter of 2012 continues to grow year-on-year, and this time by 6%. As the last quarter of 2011, early 2012 was marked by a highest wage growth in the public enterprises, as much as 7.4%, but a significant wage growth, by 6.7% occurred in the economy (private, community and mixed enterprises).

**Table T3-7. Serbia: Gross Wages in the Public Sector, 2004-2011, Y-o-Y Real Indices**

	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>2008</b>						
Q1	43,957	26,814	532	324	119.3	106.0
Q2	47,351	28,846	584	356	119.4	104.2
Q3	48,322	29,435	627	382	117.9	105.2
Q4	51,898	31,599	602	366	115.1	104.0
Dec	56,399	34,348	637	388	112.0	103.1
<b>2009</b>						
Q1	49,444	30,120	525	320	112.5	102.2
Q2	52,164	31,808	552	337	110.2	101.3
Q3	52,065	31,737	558	340	107.7	99.8
Q4	54,689	33,366	579	353	105.4	99.5
Dec	60,265	36,789	628	383	106.9	100.2
<b>2010</b>						
Q1	52,261	31,924	530	324	105.7	101.1
Q2	55,989	34,192	548	335	107.3	103.2
Q3	56,435	34,372	537	327	108.4	101.8
Q4	59,204	36,149	556	339	108.3	98.8
Dec	64,784	39,580	609	372	107.5	97.5
<b>2011</b>						
Q1	57,539	35,108	553	338	110.1	97.7
Q2	62,177	37,994	623	381	111.1	97.7
Q3	63,386	38,760	622	380	112.3	101.5
Q4	65,749	40,139	644	393	111.1	102.9
Dec	72,056	43,887	700	426	111.2	103.9
<b>2012</b>						
Q1	83,846	39,068	591	362	111.0	106.0

Source: SORS.

Footnotes:

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

2) Column 6 shows an estimate 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 from 2008 onwards are calculated on the basis of the expanded sample for calculation of average earnings, which now includes entrepreneurs.

For the first time in three full years in which the periods of y-o-y decline and stagnation of wages took turns, wages in the sectors of administration and education and culture started to increase. The wages in Q1 2012 had a real growth by 4.9% in comparison with the same quarter in the year 2011 in the sector of education and culture, and by 4.7% in the public administration on the all government levels. The wage growth is the result of the combined effects of the deflation and wage increase in the mentioned sectors in the year 2011. By way of a reminder, in April 2011, in accordance with the regulations defined by the Law on the Budget System, wages in the public system nominally increased by 5.5%, and the increase was based on the price growth plus half of the GDP growth. Then, inflation rate suddenly dropped and mild nominal increase in wages occurred, by 1.5%, in public sector in October 2011. Downward trend in inflation rate continued, thus the aforementioned nominal increase led to a real wage increase.

However, looking at the real seasonally adjusted data on net wages in these sectors, it can be noticed that the wages remained unchanged in the first quarter this year compared to the last



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quarter of 2011. Only in the national enterprises real net wages increased by 7.1%, as well as in local enterprises by 1.6%. Table T3-7 shows also that the April wage growth in the public sector last year mostly affected the wage growth in the sector of Education and Culture by as much as 3.5% in Q2 in comparison to Q1, while in the sector of Health and Social Work wages increased by 2.5%.

**T3-8: Real seasonally adjusted net wages, chain indices**

	Administration all levels	Education and Culture	Health and Social Work	National public	Local public
2011, Q1	96	96.4	99.7	107.2	97.7
2011, Q2	101.8	103.5	102.5	99	101.3
2011, Q3	102.2	100.6	98.7	102.4	100
2011, Q4	100.7	100.4	101.1	98.8	100.4
2012, Q1	100	100.1	100.4	107.1	101.6

Source: QM estimates

Observed in Euros, the average net wage decreased after several consecutive quarters of growth throughout the past year. Labour cost reduced as well, from 644 € in Q4 2011 to 591€ in the first quarter of this year.

**Table T3-9. Serbia: Average Monthly Wages and Y-o-Y Indices, 2008–2011**

	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>2008</b>						
Q1	43,957	26,814	532	324	119.3	106.0
Q2	47,351	28,846	584	356	119.4	104.2
Q3	48,322	29,435	627	382	117.9	105.2
Q4	51,898	31,599	602	366	115.1	104.0
Dec	56,399	34,348	637	388	112.0	103.1
<b>2009</b>						
Q1	49,444	30,120	525	320	112.5	102.2
Q2	52,164	31,808	552	337	110.2	101.3
Q3	52,065	31,737	558	340	107.7	99.8
Q4	54,689	33,366	579	353	105.4	99.5
Dec	60,265	36,789	628	383	106.9	100.2
<b>2010</b>						
Q1	52,261	31,924	530	324	105.7	101.1
Q2	55,989	34,192	548	335	107.3	103.2
Q3	56,435	34,372	537	327	108.4	101.8
Q4	59,204	36,149	556	339	108.3	98.8
Dec	64,784	39,580	609	372	107.5	97.5
<b>2011</b>						
Q1	57,539	35,108	553	338	110.1	97.7
Q2	62,177	37,994	623	381	111.1	97.7
Q3	63,386	38,760	622	380	112.3	101.5
Q4	65,749	40,139	644	393	111.1	102.9
Dec	72,056	43,887	700	426	111.2	103.9
<b>2012</b>						
Q1	83,846	39,068	591	362	111.0	106.0

Source: SORS

Notes:

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

2) Y-o-Y average monthly gross wage indices for 2008 were calculated on the basis of average earnings in 2007 and 2008 based on the "old" sample that does not include those employed with entrepreneurs. 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%.