

3. Employment and Wages

Labor Force Survey data (LFS) for October 2011, suggest a continuing deterioration of the labor market trends – the decline in the employment rate and even greater increase in the unemployment rate. The employment rate fell by 0.2 percentage points in comparison to April 2011, and at the end of the year it amounted to 45.3%. The employment rate of women has continued to decline, while the employment of men slightly increased, thus the previous trend of increasing the gap of those employment rates stopped. Between April and October in 2011, the unemployment rate rose from 22.9% to 24.4%. The unemployment rate of persons aged from 15 to 24 years amounted to exceptionally high 51.9%, while the unemployment rate of persons aged from 25 to 34 years increased by 1.7 percentage points, amounting to 32% in October 2011. As well as the formal, the overall employment was also reducing, mostly due to a decrease in the number of entrepreneurs and their employees. Finally, the overall decline in the employment rate throughout the past year took place in a private sector, as the public sector employment rate remained unchanged. The average real wage continued to grow in the last quarter, after its steady decline in the first nine months of 2011. The average real wages in Serbia, throughout Q4, were greater by 2.9% in comparison to the same period of the last year; while the income in economy, in the same period, increased by 3.3%, and wages in the public enterprises by as much as 7.3%. In the conditions of economic stagnation, it is possible that the real wage growth resulted from the wage growth in the state sector during the mid last year, and after a hike in minimum lease payments. It is also possible that this was a temporary phenomenon. In terms of economic point of view, there is a concern about the real growth of the wages in the public enterprises that were, even before, higher than wages in the economy and the state sector. It is therefore essential for the Government to introduce a tighter control of wages in public enterprises and equalize the working conditions between the public and private sectors.

Employment

The negative trends in the labor market continue

The end of 2011 marked a continuation of negative trends in the labor market: the decrease in the employment rate and the number of employed persons, particularly among women and the growth in the number of an unemployed persons.

The employment rate fell by 0.2pp since April, and in October 2011 amounted to 45.3%

A further employment decline and even more evident increase in the number of the unemployed marked the year 2011, which was a result of the economic crisis deepening in Serbia. According to the Labor Force Survey data (LFS), the number of employees fell by about 50,000 persons between April of 2010 and October of 2011. The employment rate decreased by 0.2 percentage points in the same period and in the April 2011 it amounted to 45.3%. This drop was, however, much milder than in the previous six months' period (Table T3-1).

The employment rate of women in October 2011 stood at alarmingly low 37.9%, while the employment rate of men was 52.5%.

Table T3-1. Serbia: Employment and Unemployment According to the Labor Force Survey¹⁾, 2008-2011

		Total number of employed ²⁾	Number of employed in agriculture and unpaid family workers 15-64 ³⁾	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		
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) The Labor Force Survey has been conducted twice a year since 2008 - in October and in April.

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

3) Until October 2008, the LFS did not comprise the 15-64 age group classification for the number of employed in agriculture and contributing household members, only 15+.

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The employment rate of women dropped by 0.9 percentage points since April 2011, and in October 2011 it stood at alarmingly low 37.9%. The employment rate of men had a mild growth by 0.3 percentage points in the same period, and in April, it stood at 52.5%. In this way, the current trend of reducing the gap between the employment of women and men was terminated. (Table T3-1).

The unemployment rate increased from 22.9% to 24.4%

According to ARS, the number of unemployed, between April and October 2011, grew by as much as 40,000 persons, increasing the unemployment rate from 22.9% to 24.4%. The growth in unemployment was more prominent among women and it amounted to 2.5 percentage points, while among men, the unemployment increased by less than one percentage point. (Table T3-1).

The greatest increase in the unemployment rate, as well as the greatest absolute unemployment level struck the persons aged between 15 and 24. Their unemployment rate rose by two percentage points between April and October 2011, amounting to extremely high 51.9%.

A significant growth in the unemployment rate also affected persons aged from 25 to 34, in the same period. Their unemployment rate increased by 1.7 percentage points, reaching 32% in April 2011. Regarding the level of education, the largest unemployment rate increase occurred among persons with secondary education, whose unemployment rate rose from 25.3% in April to 26.9% in October 2011.

The unemployment rate increased, while the inactivity rate decreased

For the first time since the beginning of the crisis, the inactivity rate was stable in the period between October 2010 and April 2011. After that, it even dropped by one percentage point, reaching 40.1% in October 2011. This, possibly, suggests that some of the discouraged persons who had lost the job in the past, re-activated to seek employment, because the perceptions and expectations of the participants, in the labor market, on opportunities in finding the employment, increased. However, it is possible that the individuals who had previously transited to the inactivity, begun actively seeking the employment, because their alternative coping mechanisms were exhausted in the meantime.

Since October 2010, within the Labor Force Survey, the unemployment rates in four regions have been monitored. Until then the observed regions were Belgrade, Vojvodina and Central Serbia, and since the October survey in 2010, the region of Central Serbia is seen through two segments: Sumadija and the region of Eastern and Southern Serbia.

The unemployment rate mostly increased in the region of Belgrade

In the period from April to October 2011, the unemployment rate increased in all four regions, but mostly in Belgrade - 1.9%, then in the region of Eastern and Southern Serbia - 1.8%, and the least in the region of Sumadia - 1.3%. However, the unemployment rate still remains lowest in Belgrade, standing at 20.9%, and the highest in the region of Southern and Eastern Serbia, amounting to 27.6%.

Box 1. The Labor Code changes blocked

Within the standby arrangement with the IMF, the Government of Serbia has pledged that the Ministry of Labor and Social Affairs will submit several changes on the Labor Code to the Socio-Economic Council (SEC) for consideration by the end of October 2011. In particular, the first change referred to the severance payment whose amount would be determined depending on the employment duration exclusively with the last employer, rather than the current practice which is based on the overall working experience. The main goal of tying the severance payments to the working experience with the employer is to increase the demand for older workers with longer working experience with private employers. The second change referred to the extension of a duration of the employment contract for a definite period of time from the present 12 months to three years. This change should increase the labor market flexibility, which is a common request of the big investors and small companies.

The representative trade unions smoothly declined these two changes on the Socio-Economic Council meeting in October 2011. The surprising thing is the consent of the relevant Ministry with this decision. More precisely, the Ministry suggested to the Council for a new rule for calculating the severance payments to be applied only to those workers who had already received it based on the overall working experience. But the representative trade unions rejected this proposal as well, and the Ministry has concluded that there will be no changes to the Labor Code before new parliamentary elections.

Wages

The average real wage continues with the y-o-y growth

The average real wage in Serbia continued to grow even in the last quarter of 2011, this time by 2.9%. The largest increase in wages occurred in the public companies, by as much as 7.3%, while in the economy (private, social and mixed companies) wages increased by 3.3% (Table T3-3). The wage growth in the economy can be explained with the increase of a minimal wage from 95 to 102 dinars per working hour, and precisely the greatest number of employees, receiving a minimal wage, works in the private sector.

Table T3-2. Serbia: Average Monthly Wages and Y/Y Indices, 2008-2011

	Average Monthly Wage ¹⁾				Average Gross Monthly Wage Index ²⁾	
	Total labour costs ³⁾ , in dinars	Net wage, in dinars	Total labour costs, in euros	Net wage, in euros	nominal	real
	1	2	3	4	5	6
2008	47,882	29,174	586	357	117.8	104.8
2009	52,090	31,758	554	337	108.8	100.6
2010	55,972	34,159	543	332	107.5	101.2
2011	62,213	38,000	610	373	111.1	100.0
2008						
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
2009						
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
2010						
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
2011						
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

Source: SORS.

Notes:

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

The average nominal wage growth was decelerated in Q4, when compared to Q3. Observed in Euros, the average wage continued with the y-o-y growth in Q4 2011. Labor costs had a slight increase from 622 Euros in Q3 to 632 in the last quarter of the year 2011 (Table T3-2).

The highest wage growth in the public companies

In the last quarter of 2011, wages in the public companies grew more than double the increase in wages in private companies and in the sector of the General Government (Table T3-3). The real y-o-y growth stood at 7.3%. Given the fact that their participation in the overall employment is small, the contribution of the wages growth in the public companies, to the total real wages growth amounted to 21.23%. This hike resulted from unfreezing of the wages at the end of 2010, then followed the payment of bonuses, resource and delayed wages, which all reflected to the wages growth in Q4. However, even before this increase, the wages in the public companies were higher than the wages in a private sector and the General Government. Although there is no empirical evidence, anecdotal record suggests that the individuals with the same qualifications receive substantially greater earnings in the public companies than employees in the private sec-

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tor. This speaks of a dual situation in a Serbian labor market or the existence of sectors with relatively secure and better-paid workplaces, such are the public companies and private sectors with volatile, and less paid workplaces and poorly protected worker rights. For a start, it is necessary to introduce a firmer control of the wages in public companies. The above-average earnings are, however, only one of the consequences of the structural problems in public sectors. Therefore, it is necessary to work on the elimination of these gaps so as to eliminate the protection of public companies and equalize the working conditions between the public and private sector.

Table T3-3. Serbia: Gross Wages in the Public Sector, 2004-2011, Y/Y Real Indices

	From the budget			Public enterprises		Other ¹⁾	Serbia average
	Administration - all levels	Education and culture	Health and social work	National public	Local public		
	1	2	3	4	5		
2004	107.4	107.7	110.9	107.9	113.4	113.7	111.4
2005	105.9	106.0	100.8	100.5	103.0	106.9	107.1
2006	109.1	107.2	109.4	110.8	102.9	113.7	111.3
2007	111.1	114.7	123.8	116.7	105.0	114.1	114.6
2008	100.7	105.7	101.3	101.2	95.9	105.7	105.5
2009	95.1	96.3	97.0	97.9	97.8	104.1	101.1
2010	99.1	95.1	94.3	98.1	98.0	104.5	101.2
2011	99.2	95.5	97.2	104.0	95.1	101.1	99.9
2007							
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
2008							
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
2009							
Q1	99.8	97.9	99.4	98.4	100.8	105.1	102.5
Q2	94.0	97.4	98.1	99.0	99.3	104.8	102.0
Q3	93.6	96.2	96.9	98.1	95.4	102.9	100.1
Q4	93.0	93.6	93.5	96.0	95.9	104.0	99.9
2010							
Q1	95.8	96.1	96.1	102.2	98.0	103.5	101.1
Q2	101.0	96.7	95.1	102.1	98.3	106.6	103.2
Q3	100.4	95.1	94.6	94.5	99.8	105.8	101.8
Q4	99.4	92.5	91.2	93.5	95.7	102.4	98.8
2011							
Q1	98.1	89.4	92.0	100.6	92.2	100.4	97.7
Q2	97.8	94.4	97.4	99.9	94.3	98.3	97.7
Q3	100.7	97.5	97.6	108.3	95.1	102.5	101.5
Q4	100.0	100.8	102.0	107.3	98.8	103.3	102.9

Source: SORS.

Notes:

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

2) Column 6 shows the estimated value arrived at by deducting the public sector wage bill from the total wage bill and then dividing the difference by the number of workers employed in the corporate sector (column 7, Table T3-3).

3) Real y/y wage indices in columns 6 and 7 for 2008 and 2009 were calculated on the basis of the expanded sample for the calculation of the average wage, which now includes also workers employed by entrepreneurs.

Box 2. A major reduction in funds for active labor market programs

Despite the deterioration of the key labor market indicators in 2011 and the earlier announcements in the Government of Serbia that the funds for active labor market policies (ALMP) will be increased, resources for these purposes in the budget for 2012, are significantly reduced. In 2011, they amounted to 0.18% of gross domestic product (GDP), and in 2012, they will drop to 0.1% of GDP. This conflicts with the National Employment Strategy, adopted for the period 2010-2020, which predicts the funds for ALMP to be increased to 0.4% of GDP by 2013, and 0.5% of GDP by 2020. It should be noted that thanks to a reduction in the expenditure on passive labor market programs (which are basically made up of unemployment benefits) - as a result of new rules introduced with the Law on Employment and Unemployment Insurance in 2009, total funding for active and passive labor market programs would not be increased, rather they would only be redistributed in the favor of active programs. According to this year's budget, the total funding for unemployed will be reduced, in the situation where their number is in constant growth.

The reduction of funds for active policies will certainly affect many of the goals determined in the late 2011 through National Employment Action Plan for 2012 to be accomplished to a more modest extent. According to a latest projection of Ministry of Economy and Regional Development, the number of employment subsidies will be reduced from more than 30,000, as their amount was in 2011, to 12,000 in the year 2012. The funds for training the unemployed, as well as the subsidies for a new employment will be three times lower. Finally, the number of unemployed individuals that will be able to take part in the public works will be reduced from 5,000 to 3,500.

Table T3-4 provides the overview of active labor market programs in the OECD countries, with special emphasis on their effectiveness. It is believed that the program is effective when the average employment or re-employment probability of the participants in the program increases as a result of that participation.

Table T3-4. Active Labor Market Policies in the OECD Countries: Types of Programs, Their Costs and Effectiveness

Program Type	A. Costs	
	B. Conclusions on the effectiveness	
a. The employment agency services (mediation and counseling)	A. relatively inexpensive	B. very effective (consensus)
b. Training	A. Expensive	B. effective (mixed conclusions)
c. Subsidies for employment and self-employment	A. relatively expensive	B. effective (mixed conclusions)
d. Direct job creation and employment in the public sector (public labor)	A. relatively expensive	B. not effective (consensus)

Source: Lehman, 2010

Although the evaluation of active labor market programs has only recently begun to be implemented in Serbia, in the past few years, several studies, attempting to determine the efficiency and effectiveness of active labor market programs, have been published.¹ The study by authors Arandarenko and Krstic (2008)² evaluated the impact of all major types of labor market programs applied by National Employment Service, in the period between 2002-2007, on the movement of the corresponding labor market indicators. Authors found that the most effective are the intervention and counseling programs, then subsidies for employment and training, and the ones with the weakest effects are the public works programs. However, the studies by Bonin and Rinne (2006) and Marina Petrovic (2010) indicate that the participation in the public labor has had a positive effect on the participants through the increase in their self-confidence and a satisfaction with life.³ In general, one should have in mind that active labor market policy aims not only at the bigger efficiency, but also the fight against the exclusion in the labor market. Even when its results from the standpoint of efficiency are relatively modest, it has its justification if it enhances the equality in the labor market.⁴

The study Nojkovic et al. (2010)⁵ has evaluated the effects of the project “Severance to job”, conducted in the period between 2007 and 2009, as an innovative program, whose target group were the workers fired during the process of privatization and reconstructing. The results of the study show a strong positive causal connection between participation in the program and employment probability.

1 More on active labor market programmes in Serbia can be found in : Arandarenko, Mihail (2011), The Labor Market in Serbia – trends, institutions, policies, CID, Faculty of Economics, University of Belgrade.

2 “Impact Analysis of Employment Policy and Active Labour Market Programmes in the Republic of Serbia, 2003-2007” Government of the Republic of Serbia, Deputy Prime Minister’s Poverty Reduction Strategy Implementation Focal Point.

3 “Beautiful Serbia”, IZA Discussion Paper No. 2533 (December 2006).

4 “Subjective Well-Being of Social Assistance Recipients in Serbia: Experience of Public Work Participants” World Bank International Conference on Poverty and Social Inclusion in the Western Balkans, Brussels, Belgium, December 14-15, 2010.

5 “Severance to job”. The Government of Serbia i UNDP.