

### 3. Employment and Wages

According to the data from the Labour Force Survey (LFS), basic labour market indicators improved significantly in Q2 2015. Unemployment rate dropped compared to the previous quarter and to the same quarter of the previous year. Year-on-year growth in the number of the employed was 158 thousand persons (6.6%), while the growth of the employed compared to the previous quarter was 72 thousand (2.9%). Trends in the total and formal employment are not in line with the trends of GDP, consumer spending, and income from taxes and social security contributions (SSC). Certain sectors recorded an extreme growth in the number of the employed, such as, for example, accommodation and food services, financial and insurance activities and administrative and support services activities. According to LFS employment is currently also rising in sectors that are predominantly public sectors, which is contrary to the Ministry's data on the number of employees and labour costs. Average monthly gross wages recorded a year-on-year decline, both in nominal and real terms. As many as 12 sectors recorded a growth in average net wages in real terms, so the total decline of wages is primarily the result of the reduction of salaries in the public sector. Trends in wages and employment in certain sectors are not in line with the trends in economic activity in those sectors. Thus, for example, in Q2 2015, financial and insurance services recorded an increase in the number of the employed of 34% compared to the same quarter last year, and growth of real net earnings of 3%, in the same period when the real growth rate<sup>2</sup> of gross value added (GVA) in this sector was a modest 0.1%. According to LFS, formal employment is growing significantly while informal employment is declining, although data on labour tax and SSC's collection questions whether these changes are so intensive. As a result of wage freeze in the public sector and growth of wages in the private sector, the ratio of average wages in the public and private sectors continued to decline and was 1.08 in Q2 2015.

#### Employment

*According to LFS, in Q2 basic labour market indicators significantly improved...which is not in line with GDP trends, consumer spending and labour tax and SSC.*

According to LFS data, improvement trend of labour market indicators continued in Q2 2015 compared to the previous quarter and the same quarter of the previous year. Table T3-1 shows a decline in the unemployment rate compared to the same quarter of the previous year by almost 3 pp. There was a significant year-on-year growth of activity rate and employment rate in Q2 2015, which was 0.8 pp and 2.4 pp, respectively. These kinds of labour market trends deviate from other macroeconomic trends (such as, for example, GDP, consumer spending, labour taxes and SSC). Discrepancy between labour market trends and other macroeconomic aggregates in Serbia can also be seen by comparing them to EU countries. EU countries realised a year-on-year decline in the unemployment rate of 0.7 pp, while estimated GDP growth rate was 1.8%. For example, the Czech Republic recorded a decline in the unemployment rate of 1.1 pp, and its real GDP growth rate in Q2 2015, compared to the same period last year, was as high as 4.4%. Latvia recorded a decline in unemployment rate by 0.9 pp in the period when it realised a GDP growth of 2.7%. Luxembourg, at a GDP growth rate of 1.4% recorded a decline in the unemployment rate of only 0.3 pp. EU countries, in conditions of higher growth rates of economic activity, are recording a relatively small decline in unemployment rate compared to Serbia. Total employment (formal and informal) grew by 6.6% in Q2 2015 compared to the same quarter of the previous year, while GDP grew by only 1%. Change in the unemployment rate in Serbia is significantly higher than the real growth rate of GDP, which is not the case in EU countries. In general, we estimate that certain improvements on the labour market are present, but they are probably smaller than indicated in the LFS.

<sup>2</sup> Change compared to the same period of the previous year

Table T3-1. Trends in the rate of activity, employment, unemployment and inactivity (15-64), Q1 2014-Q2 2015

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Change in pp Q2 2015/Q2 2014
Activity rate (15-64)	61.2	62.5	62.2	61.2	62.3	63.3	0.8
Employment rate (15-64)	48.0	49.3	50.8	50.4	49.9	51.7	2.4
Unemployment rate (15-64)	21.6	21.2	18.4	17.6	19.9	18.4	-2.8
Inactivity rate (15-64)	38.8	37.5	37.8	38.8	37.7	36.7	-0.8

Source: SORS

According to LFS the number of the employed is significantly rising in sectors dominated by the state, which is rather strange.

Table T3-2 shows the trend of total employment, as well as the trend in the number of the employed by activities. Activities dominated by the public sector recorded a significant increase in the number of employees. Public administration and defence, mandatory social insurance recorded an increase of 9.5% in the number of employees. Year-on-year growth in the number of employees in education was 6.6% in Q1 2015 and 16% in Q2 2015. The number of employees in the education sector increased by 24,000 persons in Q2 2015 compared to the same quarter of the previous year. Year-on-year growth in the number of employees in healthcare was slightly above 15,000. If we consider the fact that there is currently a ban on public sector employment<sup>3</sup>, the entire growth in the number of the employed in the mentioned sectors should be in the private sector, which is highly unlikely, as it would require hundreds of private schools, hospitals and doctor's offices being opened in the last year<sup>4</sup>. Aside from that, it remains unclear how such an increase in the number of the employed is possible if GVA in public administration and mandatory social insurance, education and activities in healthcare and social protection recorded a year-on-year decline of 2.9%.

It is hard to explain extreme growth of employment in parts of private sector

Extremely high growth of 53.9% in the number of employees was recorded in the accommodation and food services sector, 34.4% in the financial and insurance services, and 27.2% in the administrative and support services. Growth in the number of employees in the financial and insurance services significantly deviates from the trends in GVA which recorded a moderate increase of 0.1%. We should take into account the fact that some of these sectors, such as financial services, do not operate in grey economy, so this increase in employment cannot be explained by the influence of legalisation and reduction of grey economy.

Table T3-2. Employed persons, age 15+, by sectors, Q1 2014-Q2 2015

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Index Q1 2015/ Q1 2014	Index Q2 2015/ Q2 2014
Total	2,342,966	2,407,930	2,475,135	2,459,048	2,494,346	2,565,712	106.5	106.6
Agriculture, forestry and fishing	469,196	500,302	533,833	538,040	495,660	479,253	105.6	95.8
Mining	27,230	23,941	30,013	29,198	25,883	27,428	95.1	114.6
Manufacturing industry	388,127	386,935	364,053	385,369	398,323	411,832	102.6	106.4
Supply of electricity, gas and steam	31,266	40,114	42,265	37,386	26,816	27,112	85.8	67.6
Water supply and wastewater management	37,139	42,579	34,799	35,548	37,760	37,390	101.7	87.8
Construction	96,744	99,763	113,033	120,476	107,618	110,849	111.2	111.1
Wholesale and retail trade, repair of motor vehicles	300,020	304,649	309,293	305,493	357,183	352,087	119.1	115.6
Transportation and warehousing	141,317	132,088	127,928	121,550	124,578	132,041	88.2	100.0
Accommodation and food services	62,153	59,826	61,707	55,442	83,339	92,050	134.1	153.9
Information and communication	56,796	61,045	51,779	49,253	56,018	64,365	98.6	105.4
Financial activities and insurance activities	44,616	39,275	43,357	40,839	48,654	52,795	109.1	134.4
Real estate	2,255	3,835	2,595	2,467	4,877	3,841	216.3	100.2
Professional, scientific and innovation activities	68,359	73,251	64,795	61,701	57,116	77,623	83.6	106.0
Administrative and support service activities	47,585	46,846	53,186	56,725	56,866	59,592	119.5	127.2
Public administration and compulsory social insurance	135,750	138,316	153,739	138,827	144,684	151,452	106.6	109.5
Education	149,005	150,117	163,450	164,215	158,833	174,097	106.6	116.0
Health and social care	140,776	146,563	141,630	141,713	154,575	161,790	109.8	110.4
Arts, entertainment and recreation	49,158	40,040	39,780	45,794	50,740	42,544	103.2	106.3
Other service activities	95,475	118,443	143,900	129,014	104,825	107,571	148.5	90.8

Note: The sectors which fall completely or dominantly into the public sector have been shaded.

Source: Republic Statistics Office

3 Ministry's data on expenses for wages and on the number of employees indicate that the ban is mostly respected, as well as that the total number of employees has been reduced due to retirement and exiting public sector after wage reductions.

4 Increase in the total number of employees in the stated sectors cannot be explained by registering workers who had previously worked without official registration, as they were included in the overall employment. This type of worker registration only changes the structure of the employed, but not their overall number.

**Growth of employment in processing industry is in line with the growth of production**

Growth in the number of employees in the processing industry of 6.4% and mining of 14.6% is accompanied by GVA growth of 7.8%<sup>5</sup>. Wholesale and retail trade, repair of motor vehicles and motorcycles recorded an increase in the number of employees of 15.6%. Employment growth in the sectors of wholesale and retail trade, repair of motor vehicles, transport and storage, accommodation and food services is significantly higher than the growth of GVA, having y-o-y real growth of 2.1%. Growth of employment in these sectors can partly be explained by reduction of the grey economy. Employment grows in the sectors of professional, scientific, innovative and technical activities (6%) and administrative and support services (27.2%), while GVA dropped by 1%. Increase in the number of employees in the construction sector is in line with the GVA trends, which increased in construction by 12.6% year-on-year.

Four sectors recorded a decline in the number of employees: agriculture, forestry and fisheries, power, gas and steam supply, air-conditioning, water supply, wastewater management, waste disposal process control, and similar activities and other services.

**LFS data indicate intensive registration of workers who had previously worked unregistered**

According to LFS data, total employment grew due to the growth of formal employment by 10%, while informal employment declined by 7% in Q2 2015 compared to the same quarter of the previous year. Informal employment rate dropped in Q2 2015 compared to the same quarter of the previous year, but also compared to the previous quarter. Adoption of the Labour Law in the middle of last year and increased control of Labour Inspection and Tax Authority probably caused part of the workers to be registered. However, it is highly unlikely that the number of the formally employed increased by as much as 10.2% (i.e. by 194 thousand), as it would have to reflect on a significant increase of income of labour taxes and SSC, which didn't happen (see the section on Fiscal Policy).

**Table T3-3. Formally employed persons and the structure of informally employed persons according to their professional status, Q1 2014-Q2 2015.**

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Index Q2 2015/ Q2 2014
Number of employed (total)	2,342,966	2,407,930	2,475,136	2,459,048	2,494,346	2,565,712	106.6
Formal employment	1,863,236	1,896,355	1,895,472	1,864,450	2,010,551	2,089,996	110.2
Informal employment	479,730	511,575	579,664	594,598	483,795	475,716	93.0
Informal employment by professional status							
Employed	62,352	71,723	118,522	123,737	108,179	127,950	178.4
Self-employed with employees	*	*	4,352**	*	*	*	*
Self-employed without employees	227,955	229,427	226,723	239,872	170,853	143,452	62.5
Helping households' members	187,056	209,509	230,068	226,875	202,258	202,216	96.5
Informal employment rate	20.5	21.2	23.4	24.2	19.4	18.5	

Note: \* A small number of occurrences – assessment not published, \*\* less precise assessment – use with caution

Source: Republic Statistics Office

If we look at the structure of the informally employed, we see that even though an extremely high growth of the formally employed has been recorded, who are partly working unregistered – as much as 78% (y-o-y in Q2 2015), the total number of the informally employed is dropping. The reason lies in the fact that the decline in the informal employment in the self-employed without employees (37.5%) and helping household members (3.5%) has a higher weight in the structure of total informal employment – 30% and 43%, respectively.

## Wages

**Average monthly gross wages are dropping, both in nominal and real terms**

Average monthly gross wages have nominally decreased by 1%, while in real terms they declined by 2.3% in Q2 2015 compared to the same quarter of the previous year. The declining trend of nominal and real wages from the first quarter continued in the second quarter as well (Table T3-4).

<sup>5</sup> GVA is tracked collectively for the sectors of: mining, processing industry, power, gas and steam supply, wastewater supply and management

**Table T3-4. Serbia: Average monthly wages and y-o-y indices, 2012-Q2 2015.**

		Average Monthly Wage		Average Gross Monthly Wage Index		
		Total labour costs <sup>1)</sup> , in dinars	Net wage, in dinars	Total labour costs, in euros	Net wage, in euros	Nominal
						Real
2012						
Q1		63,846	39,068	591	362	111.0
Q2		68,140	41,664	600	367	109.6
Q3		67,457	41,187	577	352	106.4
Q4		71,452	43,625	630	384	108.7
Decembar		76,830	46,923	677	413	106.6
2013						
Q1		67,704	41,419	606	371	106.0
Q2		72,143	44,248	644	395	105.9
Q3		71,469	43,939	626	385	105.9
Q4		75,089	46,185	648	399	105.1
2014						
Q1		68,015	41,825	588	361	100.5
Q2		73,147	44,971	633	389	101.4
Q3		73,167	44,934	623	383	102.4
Q4		75,332	46,371	626	386	100.3
2015						
Q1		67,730	41,718	557	343	99.6
Q2		72,438	44,717	602	371	99.0

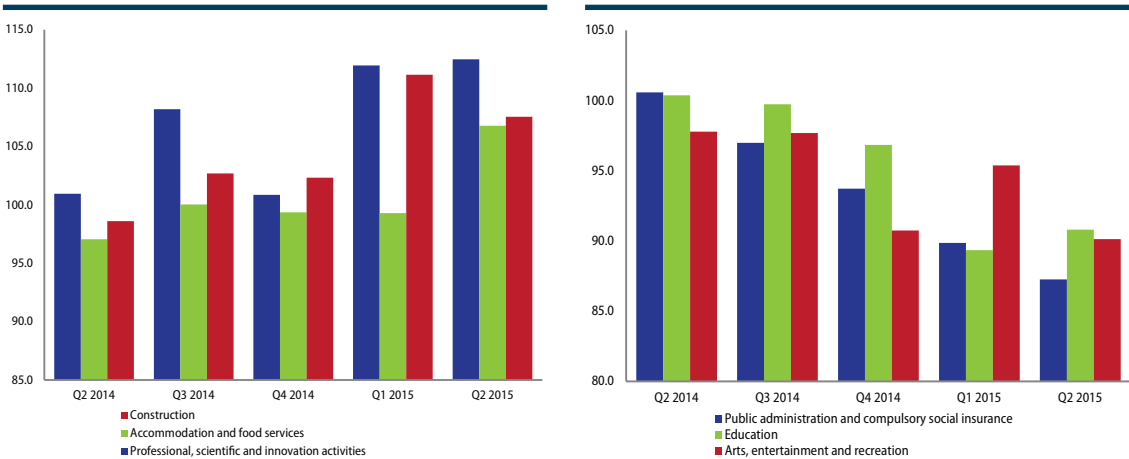
Source: Republic Statistics Office

1) 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."

*In most sectors, real wages grew in Q2 2015... sectors that recorded a decline are those which are mostly dominated by the state*

Most sectors recorded a year-on-year increase in real net wages. Sectors which are dominated by the state recorded a decline in real net wages, which is the result of the reduction of public sector wages by 10% at the end of last year (Graph T3-1). Significant decrease of real net wages in Q2 2015 of almost 13% was recorded in the public administration and defence, and mandatory social insurance. The smallest decline of real net wages was in the sector of power, gas and steam supply and air-conditioning and was 1%. Continuous declining trend in real net wages was also recorded in the real estate sector. Healthcare sector had a lower year-on-year decrease of real net wages compared to the education sector, although compared to Q1 2015 that difference was reduced by 0.5 pp.

**Graph T3-1. Year-on-year indices of real net wages, Q2 2014- Q2 2015.**



Note: Right graph – three sectors with the highest y-o-y decrease of wages in Q2 2015, left graph – three sectors with the highest y-o-y growth of wages in Q2 2015

Source: SORS

Real net wages in construction recorded a year-on-year growth of 12.5% in Q2, which was probably the result of this sector's recovery, but also registration of some of the workers who had previously worked unregistered. Year-on-year growth from the first quarter additionally increased in the second quarter.

The growth trend of wages continued in the processing industry, but it was slower than the growth of production, so productivity in this sector is growing. Processing industry sector recorded a year-on-year growth of production of 7.3% in Q2, while year-on-year growth of wages was 4.2% in Q2 2015.

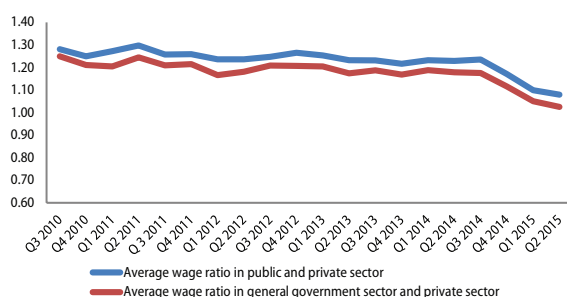
Higher growth of wages than value added adversely affect the real unit labour costs in these sectors, which has negative effects in the long term.

**The trend of reducing the difference in wages in the public and private sectors continued in Q2 2015 as well.**

The ratio of average wages in the public<sup>6</sup> and private sectors, as well as the ratio of average wages in the general government sector<sup>7</sup> and private sector continued to decline in Q2 2015 (Graph T3-2). The ratio of weighted average wages in the public and private sector was reduced to 1.08, while the same ratio in the general government sector and private sector was reduced by 1.03<sup>8</sup>. Growth of weighted wages in the private sector in Q2 2015 compared to the same quarter of 2014 was 2.9%, while the decline in the public sector and general government sector was significant, 10.6% and 11.9%, respectively. Decrease of wages in the public sector contributed to a significant reduction of differences between average wages in the private and public sectors.

It is difficult to predict the trend of these ratios in the coming period. Wage freeze in the public sector was announced for the period 2015–2017, which should additionally reduce the difference in average wages in the public and private sector.

**Graph T3-2. Ratio of average wages in the public and private sectors, 2010-Q2 2015.**



Source: QM calculations

Note: For the weighting we used relative share of the number of employees in each sector compared to the total number of employees in the private sector, public sector and general state sector.

On the other hand, there are constant pressures to abolish this decision, but increase of wages, even if it is realised, will be minimal. Also, rationalisation of public sector was announced, i.e. significant lay-offs due to overstaffing. This will affect a change in weighting and a change in wage ratio as well. As a result of expected growth of wages in the private sector and freezing or minimal increase of wages in the public sector, it is our estimate that the wages in the public sector over the next year will be significantly reduced compared to the wages in the private sector.

<sup>6</sup> We included the following sectors in the public sector: B – Mining, D – Power, gas and steam supply, and air-conditioning, E – Water supply; Wastewater management, Waste disposal process control and similar activities, O – Public administration and defense; Mandatory social insurance, P – Education, Q – Healthcare and social protection, R – Art, entertainment and recreation. Private sector includes all other sectors.

<sup>7</sup> General state sector is stated separately in order to separately observe the sectors that mainly don't have any commercial activity and do not generate revenue from market activities.

<sup>8</sup> We used seasonally adjusted wages except for sectors D and P, because wages in these sectors have no statistically significant seasonal component, which is why we prefer the use of original series to seasonally adjusted ones. In the previous issue of QM, we used seasonally adjusted data for all sectors.