

3. Employment and Wages

According to the official statistical data from the Labour Force Survey (LFS), the strong trend of improving the most important indicators on the Serbian labour market continues – unemployment rate is significantly dropping, while the employment rate is rising. However, for almost two years, trends of labour market indicators have drastically differed from the trends of other macroeconomic indicators, such as GDP, personal consumption, labour tax revenue, etc. According to official data, the unemployment rate in the third quarter of 2014 has declined by 1/3 compared to April 2012, while the employment rate in the same period increased by over 10%! Observed in absolute amounts, the number of the unemployed in this period decreased by around 200 thousand, while the number of the employed increased by around 250 thousand?! In the same period, GDP, which according to the new methodology includes grey economy and illegal activities, has remained almost unchanged. Since large improvements like these on the labour market in a short period of time do not happen to the most prosperous of economies, it is highly unlikely that they happened in Serbia's economy in a period alternating between stagnation and recession. Therefore, it can be concluded with some certainty that the official data in the last two years does not reflect the real changes on the labour market. So the question is, what is the reason behind bad data on the changes on the labour market in the last two years? One possibility is that the state of the labour market is now measured more precisely than in the past, which would mean that the unemployment rate in 2012 was not 25-26%, but probably closer to the current one. If that is the case, SORS would have to correct its wrong data for the period 2008-2012. Another less likely possibility is that mistakes in measurements have been made in recent years, i.e. that the unemployment rate is around 25% now as well, in which case SORS would have to correct the newer data. Unlike the employment data, the ones on the wages trends are consistent with other economic trends. On the year-on-year level, wages in real terms have increased by only 0.5%. Information and Communication sector is still recording the highest growth of wages – 12.8% in Q3 of this year.

Employment

With some reservations concerning the dynamic of the labour market indicators for the period 2008-2014, in this article we will focus on the trends during 2014. Even though changes on the labour market in 2014 deviate from trends in GDP, personal consumption and labour tax, these deviations are possible due to differences and seasonality of various macroeconomic variables.

Probably under the influence of the summer season, the employment is growing by 1.3 percentage points

As of this year, the Labour Force Survey is being conducted quarterly. For the third quarter of 2014, the Survey was conducted at the end of July and beginning of August, while in previous years there were only April and October surveys. Therefore, we cannot compare the data from Q3 of this year with the ones from the same period in 2013. Additionally, we cannot establish what is the contribution of the seasonal factors to the improvement of labour market conditions, since we do not have a long enough series for seasonal adjustment of data.

In Q3 2014, there were 4,605,403 individuals ages between 15 and 64 (by 14,938 less than in Q2 2014). Among these persons 2,865,922 were economically active (by 22,621 less than in Q2 2014):

- 2,337,424 were employed, which is by 60,011 more compared to Q2 2014. The increase in the number of the employed, but also the decrease in the number of individuals ages 15 to 64 has contributed to the rise of the employment rate by 1.3 percentage points.
- 529,953 were unemployed, i.e. by 82,181 less compared to Q2 2014.
- 1,739,481 was inactive, i.e. by 7,683 less than in Q2 2014. Decline of the inactivity rate from 37.8% to 37.5% is predominantly due to the reduction of the overall working population and, to a lesser extent, to the reduced number of the inactive (Table T3-1).

Table T3-1. Serbia: Employment and Unemployment According to the Labour Force Survey¹, 2008-2014

		Total no. of employed 15-64 ²⁾	Number of employed in agriculture and unpaid family workers 15-64 ³⁾	Employment rate 15-64			Total number of unemployed 15-64	Unemployment rate 15-64		
				15-64 god.				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
2012	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
2013	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	21.0	20.2	22.0
2014	Q1	2,229,063		48	55.1	41	613,787	21.6	21.0	22.3
	Q2	2,277,413		49.3	56.3	42.5	612,134	21.2	20.4	22.1
	Q3	2,337,424		50.8	57.5	44.2	529,953	18.4	17.9	19.1

Source: Labour force survey (LFS), SORS.

Notes:

1) Labour Force Survey is conducted twice a year since 2008 - in October and in April.

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

3) By October 2008 in the LFS classification of employees in agriculture and unpaid family workers for the 15-64 age group did not exist, only 15+.

The biggest growth of employment was among the helping household members

Employment increased in eleven out of twenty business activities between Q3 and Q2 of this year. The biggest employment growth was recorded in helping household members, which fall into the category of informally employed, by 22.2%, followed by "other services"¹ by 18%. There was a significant growth of employment in construction as well, i.e. 13%, which was expected due to the summer season. Considering the ban on new employment in the public sector, the data on the growth of employment by more than 15 thousand in the state administration and mandatory social insurance funds was surprising. Also, the Survey recorded 13 thousand newly employed workers in education. The 25% growth of employment in the mining sector should be taken with caution, since SORS noted in its announcement that the estimate was not reliable (Table T3-2).

Table T3-2. Employed by Sectors (LFS)

	Q1 2014	Q2 2014	Q3, 2014	Q3/Q2 index
TOTAL	2,342,966	2407930		
Agriculture, forestry and fishing	469,196	500302	533833	106.70
Mining	27,230	23941	30013	125.36
Manufacturing industry	388,127	386935	364053	94.09
Supply of electricity, gas and steam	31,266	40114	42265	105.36
Water supply and wastewater management	37,139	42579	34799	81.73
Construction	96,744	99763	113033	113.30
Wholesale and retail trade, repair of motor vehicles	300,020	304649	309923	101.73
Transportation and warehousing	141,317	132088	127928	96.85
Accommodation and food services	62,153	59826	61707	103.14
Information and communication	56,796	61045	51779	84.82
Financial activities and insurance activities	44,616	39275	43357	110.39
Real estate	*	*	*	*
Professional, scientific and innovation activities	68,359	73251	64795	88.46
Administrative and support service activities	47,585	46846	53186	113.53
Public administration and compulsory social insurance	135,750	138316	153739	111.15
Education	149,005	150117	163450	108.88
Health and social care	140,776	146563	141630	96.63
Arts, entertainment and recreation	49,158	40040	39780	99.35
Other service activities	43,803	42157	50027	118.67
Activities of households as employers	51,280	75690	92502	122.21

Source: LFS

Note: *small number of occurrences, so an estimate was impossible.

¹ Other services include associations (of employers and unions); repair of computers and object for personal use, as well as services of hairdressers and undertakers.

Informal employment is still rising and is currently 23.4%

Informal employment rate, expressed as a share of the number of informally employed in the total number of the employed, is higher by 2.2 percentage points compared to Q2 2014. Survey from the third quarter of this year estimates that there are 579,664 informally employed people in Serbia or by around 70 thousand more than in the previous quarter. This includes those employed in unregistered companies, those working in registered companies but without a formal contract, as well as the unpaid helping household members². Since the Survey, ever since it is being published quarterly, shows the structure of the informally employed according to their professional status, it can be observed that among the workers in the informal sector, the number of those with the status of employed or helping household members grew the most. Due to a small number of occurrences, the number of self-employed with workers working in the informal economy has not been published so far, while the Q3 estimate is unreliable (Table T3-3).

Table T3-3. Formally and Informally Employed According to Professional Status, Q1 & Q2 2014

	Q1	Q2	Q3
Employed	62.352	71.723	118552
Self-employed with employees	*	*	4352
Self-employed without employees	227.955	229.427	226.723
Helping household members household	187.056	209.509	230.068

Source: ARS, Q1 2014. *a small number of occurrences so the evaluation was not published

Box 1 Employment of welfare beneficiaries

A regulation¹ was recently passed by the Ministry of Labour the aim of which is to encourage those welfare beneficiaries who are capable of working to join the labour market. The reason for adopting this regulation, as emphasised many times by the Ministry, was the fact that out of the total number of welfare beneficiaries (270 thousand), 50% or more precisely 147 thousand are individuals capable of working.

The regulation foresees the Centre for Social Work, as the body deciding the allocation of social welfare, concluding an agreement with the beneficiary who is capable of working on “actively overcoming his unfavourable social situation”. Forms of activation include: directing the beneficiary to further education; acquiring knowledge and skills; treatment, community service, and finding employment.

The part of the regulation related to employment brings nothing new. That is, the Law on Social Protection already foresees an obligation of an unemployed welfare beneficiary who is capable of working to register with the National Employment Service (NES). The Service is supposed to offer the beneficiary work or direct him to one of the programmes of further education, training, acquiring new knowledge and skills. If the beneficiary refuses to accept the job or NES training, the Centre for Social Work has the right to suspend the welfare payments.

In this regard, there are some opinions in the public that low NES capacities are to blame for the unemployment of welfare beneficiaries, as well as the bad economic situation regarding the number of available jobs. However, we should bear in mind that the category of welfare beneficiaries who are capable of working is dominated by individuals with low level of education and/or little working experience, so they tend to find work mainly on the so-called secondary sector of the labour market². In this market segment, the level and structure of the employment

1 <http://www.minrzs.gov.rs/lat/aktuelno/item/1320-uredba-o-merama-socijalne-ukljucenosti-korisnika-novcane-pomoci>
 2 Secondary labour market includes the employed with “flexible” contracts (e.g. temporary or service contracts), majority of those employed in the private sector, self-employed, those employed in traditional services, most of the industry and agriculture. For instance, if someone has a formal labour contract, but part of his wages are paid “off the books”, he would also be classified as the secondary segment of the market. Jobs on the secondary market are usually insecure and poorly paid. On the other hand, the primary segment of the labour market includes the public sector, modern services (such as banking and finance, IT and marketing), and a small number of large privatised companies with foreign ownership. This market segment is characterised by employment security, good working conditions and above-average earnings.

² Helping household members are persons who were helping another family member in managing family business or agricultural land without being paid.

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is determined by the supply of labour, much more than by the trends in gross domestic product. While labour supply, on the other hand, depends on availability of various sources of non-working income, such as welfare financial aid.

If we take for example a single parent with two children, the non-working income of this family (the sum of welfare financial aid of 14,592 dinars, and two child benefits of 6,742 dinars) according to current regulation would be 21,334 dinars. If the parent found minimum wage employment (at around 20,000 net), this family would lose all rights to welfare, while keeping the child benefits. Their total income, in that case, would be only 5 thousand dinars higher compared to the income before finding a job. In case the parent accepts the same job but only part-time, for example (because of their obligations regarding children), the total income of this family would be even lower than with welfare³. In other words, the current design and amounts of welfare do not provide good enough incentives for seeking employment, so potential reforms should be headed in that direction. If welfare beneficiaries who are capable of working would be able to keep a part of their welfare financial aid, together with their working income, it would increase their motivation to seek and accept employment.

³ Similar is valid for single parent families with one child, as well as families with one or two children when one of the parents manages to find a minimum-wage job.

Wages

Average monthly gross salary higher in real terms by 0.5% compared to the same quarter last year

According to the data from the Statistical Office of the Republic of Serbia, at the year-on-year level, the average monthly gross salary in Q3 was nominally higher by 2.4%, and in real terms by 0.5% (Table T3-5). Average monthly net wages in the third quarter of 2014 were almost 45 thousand dinar or 383 euro.

Table T3-4. Serbia: Average Monthly Wages and year-on-year indices, 2012-2014

	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
2012						
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
2013						
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
2014						
Q1	68,015	41,825	588	361	100.5	97.8
Q2	73,147	44,971	633	389	101.4	99.6
Q3	73,167	44,934	623	383	102.4	100.5

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

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

Table T3-5. Y-o-y real net wages indices

	Information and communication	Admin. and support service	Construction
2013Q1	95.8	94.6	89.7
2013Q2	95.9	85.6	89.2
2013Q3	114.6	88.5	94.5
2013Q4	112.8	104.7	109.7
2014Q1	123.3	89.1	100.8
2014Q2	119.1	112.4	101.0
2014Q3	112.8	109.2	108.2

Source: QM

Year-on-year index of net wages in real terms shows that the wages realised in Q3 2014 grew in ten out of twelve sectors compared to the same period last year. The biggest growth was recorded in the Information and Communication sector (12.8%), which was the case in the last four quarters as well. They are followed by the growth of wages in the sector of administrative and service activities³ in the amount of 9.2%, which could probably be explained by summer tourist season. The situation is similar in construction as well where the wages grew 8.2%, while other service activities realised a growth in net wages of 5.9%. Growth in the rest of the sectors did not exceed 2% (Table T3-6).

³ This sector is not related to public administration, but rather includes activities of renting and leasing, hiring agencies, private security, etc.