

MUTUAL LEARNING PROGRAMME:
PEER COUNTRY COMMENTS PAPER - SERBIA

From paid leave to partial activity schemes

Peer Review on “Employment measures to tackle the economic downturn: Short time working arrangements / partial activity schemes”

France, 27 - 28 September 2010

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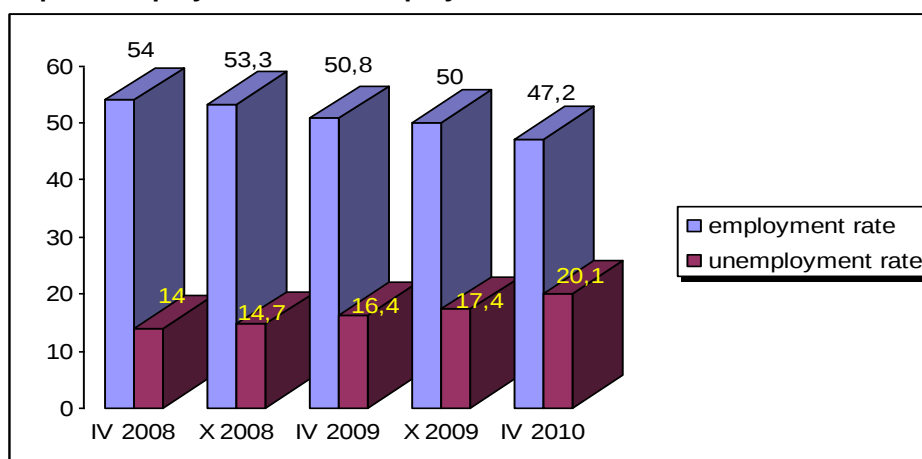
1 LABOUR MARKET SITUATION IN THE PEER COUNTRY

This paper has been prepared for a Peer Review within the framework of the Mutual Learning Programme. It provides information on Serbia's comments on the policy example of the Host Country for the Peer Review. For information on the policy example, please refer to the Host Country Discussion Paper.

In the years before the crisis, labour market conditions in Serbia were characterised by rather low employment rates (barely above 50 percent) and a high but decreasing unemployment rate (from more than 20.8 percent in 2005 to 13.6 percent in 2008). Although unemployment decreased, it was still high and long-term in nature.

Since the onset of the economic crisis, the employment rate fell by 6.1 percentage points to 47.2% in April 2010 (54.3 % for men, and 40.3 % for women), and the unemployment rate has grown to 20.1%. The recovery of economic activity in evidence since the second half of 2009 slowed in the first quarter of 2010. Economic activity in March 2010 stood at a level of some 3% lower than that seen in 2008, despite year on year growth of an estimated 0.9% in the first quarter of 2010. Given the pace of GDP decline, real 2008 GDP levels could be reached only in 2011. Labour market indicators continued to deteriorate, despite a stalling in the economic decline (graph 1).

Graph 1: Employment and unemployment rate



Elasticity of employment (to GDP) during the recession in Serbia has been considerably greater compared to other Central and Eastern European countries – while GDP fell by 4.7% during the crisis, the total fall in employment was 12.5%.

Around 20% of all employed workers are in the informal sector, and it is surprising that informal employment has also been falling during the crisis. According to Statistical Office of the Republic of Serbia, between September 2009 and March 2010, formal employment fell by around 23,000 persons, with the manufacturing industry leading the decline with around 16,000 persons who lost their jobs, followed by 6,000 persons in the construction sector. A large number of persons who stopped working moved to the category of inactive persons. Nevertheless, according to the latest Labour Force Survey (April 2010) 318,000 of inactive persons have declared that they are willing and capable to work.

Labour market flexibility is generally low, especially in the formal sector where the European system of protection of workplaces is enforced, although in private sector the implementation of the Labour Code is often very questionable.

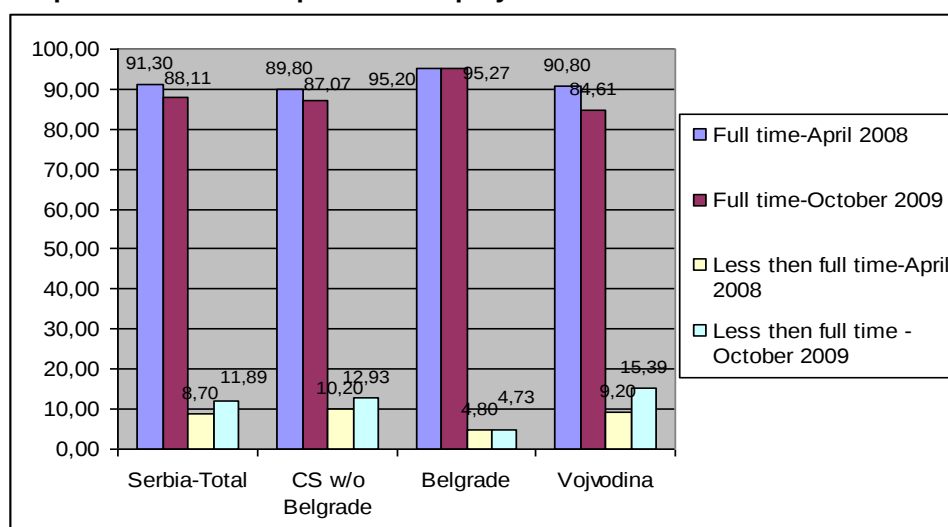
The position of particularly vulnerable segments of the population (the Roma, internally displaced persons, single mothers, social assistance beneficiaries) has been aggravated

during the crisis by decreasing availability of jobs in the informal economy on which they heavily rely, loss of formal employment, smaller chances to find a new job, and decreased wages both in the formal and informal economy.

2 ASSESSMENT OF THE POLICY MEASURE

Policy measures concerning internal flexibility enhancement in France are far more diversified than in Serbia. Since the economic downturn caused severe consequences for the Serbian labour market, it was expected that a number of enterprises, besides dismissal of employees, will turn to introducing more flexible labour market arrangements, such as part time work, fixed-term contracts and shortening of working hours/week.

Graph 2: Full time and part time employment



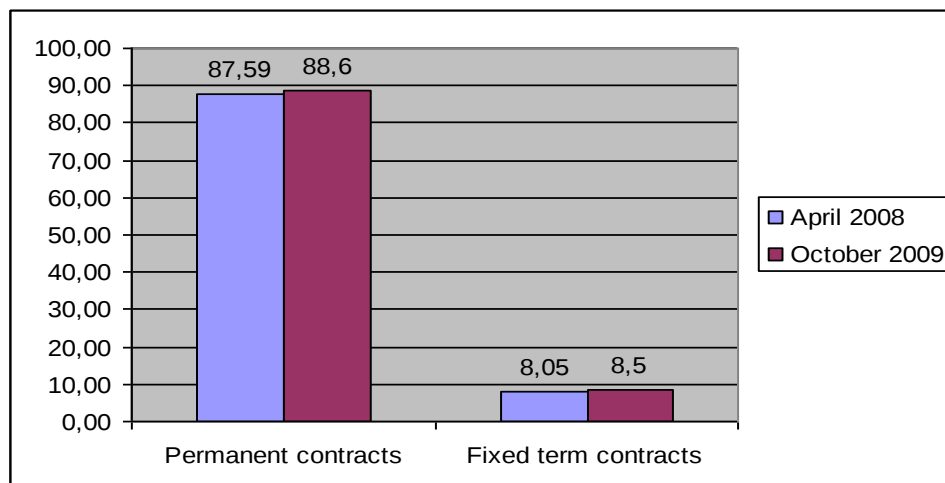
Source: Labour Force Survey

In graph 2, we can see that percentage of workers with less than full time arrangements grew slightly during the crisis in all regions, except in Belgrade¹. The structure of employed persons with less than full time arrangements in October 2009 shows that this increase mainly hit more vulnerable groups – women (10.1%), employed individuals with lower levels of education (no education and low level of education – 49.1% and 18.5%, respectively), young people (12.3% for age group 15-24) and older workers (13.5% and 37.5% for age groups 55-64 and 65+, respectively). On the other hand, regarding employment status, the self-employed had very high incidence of part time arrangements (19%).² Also, by comparing the beginning of the economic crisis and the last quarter of 2009, we can see there was no significant change in proportion of permanent and fixed term contracts.

¹ Full time work is by Labour Law defined as 40 hours per week.

² Unpaid family members had even higher incidence of less than full time employment arrangements – 31.1%.

Graph 3: Permanent and fixed term contracts



Source: Labour Force Survey

According to the Serbian Labour Law before the economic crisis in 2008, in case of discontinuation of work that occurred without any fault of the employee, an employee was entitled to the compensation of salary in the amount of 60% of the average salary in the three preceding months, where it could not be lower than the minimum salary set pursuant to this Law, and maximum paid leave was 45 days in a calendar year. In July 2009, in order to maintain the level of employment, the Law was slightly changed. Besides the case of “discontinuation of work”, the Law introduces the possibility of paid leave also in cases when there is reduction in the scope of work. If a longer period of work discontinuity or reduction in the scope of work is anticipated, the leave can be longer than 45 working days, with the same remuneration for the employee (60% of the average salary in the three preceding months) paid by the employer. Also, it can be specified by collective agreement that the remuneration can be higher than 60% of the average salary in the three preceding months.

There were also several ideas introduced by the Government, which in general triggered discontent both between employers and trade unions: in spring 2009, the Government suggested the possibility of shortening the working week from 40 to 32 hours, with maintaining the same level of wages. The main problems regarding this proposal concerned possible legal issues with continuity of past service and ability of employers and government to provide resources for the compensation of employees' wages.

During 2009, some enterprises, like US Steel Serbia, introduced a 4-days working week (32 hours), and their model supposed that for the 5th (non-working) day employees receive 60% of their salary, which caused the reduction of salaries by 7% for their workers. There was also a suggestion that the employer could pay the full salary for non-worked day, and that it could be compensated later through overtime hours. Some enterprises implemented this measure – there is a legal possibility to redistribute working hours – non working days were compensated with overtime hours (before or after), while the salaries stayed on the same level during the whole period.

According to Government officials, the extension of paid leave was more efficient in mitigating layoffs than previous suggestions addressed to employers to increase part time employment. An assessment of these measures is extremely difficult, due to the lack of official data. Nevertheless, since enterprises use the possibility of paid leave, we can assume that the global picture of the labour market in Serbia is very bleak, having in mind that the unemployment rate is very high and that, in spite of the economic recovery, labour market indicators continue to deteriorate. “Hidden unemployment” caused by paid leave could worsen the picture, since the return to full time work must be triggered by a stronger economic recovery which would be able to induce improvements in the labour market.

Further changes in Labour Law are announced – all directed to introducing and enhancement of more flexible forms of employment (working from home, part time work, fixed-term contracts).

3 ASSESSMENT OF THE SUCCESS FACTORS AND TRANSFERABILITY

The main problem in implementing the French model of partial activity is the rather severe fiscal position of Serbia. For example, expenditure for active labour market programmes are only 0.1% of GDP and these limited resources, even in the case of their optimal use and maximum impact, could not fundamentally change the general labour outcomes - the use of resources for active labour market programmes is significantly less than optimal. Additional subsidies which should be directed towards employers in order to help them minimize the number of dismissed workers could be a significant fiscal burden. On the other hand, although there is no final conclusion regarding assessment of this measure in France, integration of part time activity (or in case of Serbia – paid leave) and vocational training seems to be potentially good stimulus both for enterprises to develop and maintain changes in their approach to training, and employees to enhance their skills.

The enhancement of the concept of partial activity in Serbia demands stronger fiscal resources and social dialogue, and potential effects are rather vague, since the impact of any measure implemented is very likely to be affected by unfavourable labour market conditions in Serbia. Since the labour market still doesn't respond positively to signs of economic recovery, the question of possible time-frame would be very important – what is the necessary time to return to full time employment and is it feasible, having in mind fiscal problems? There are also large regional differences, so that some tailored regional approach would be desirable.

4 QUESTIONS

1. What was the largest obstacle in implementing this measure?
2. What was the treatment of social security contributions during the partial activity schemes?

ANNEX 1: SUMMARY TABLE

Labour market situation in the Peer Country
• Unfavourable labour market situation • Labour market responded sharply to recession
Assessment of the policy measure
• There were no completely comparable measures • Some Labour Code changes were aimed to prevent dismissals and keep core workers • Assessments are very difficult due to lack of data
Assessment of success factors and transferability
• Program implementation is limited due to the lack of the financial resources • Some aspects related to trainings could be transferred
Questions
• The treatment of social security contributions • What was the largest obstacle in implementing this measure?