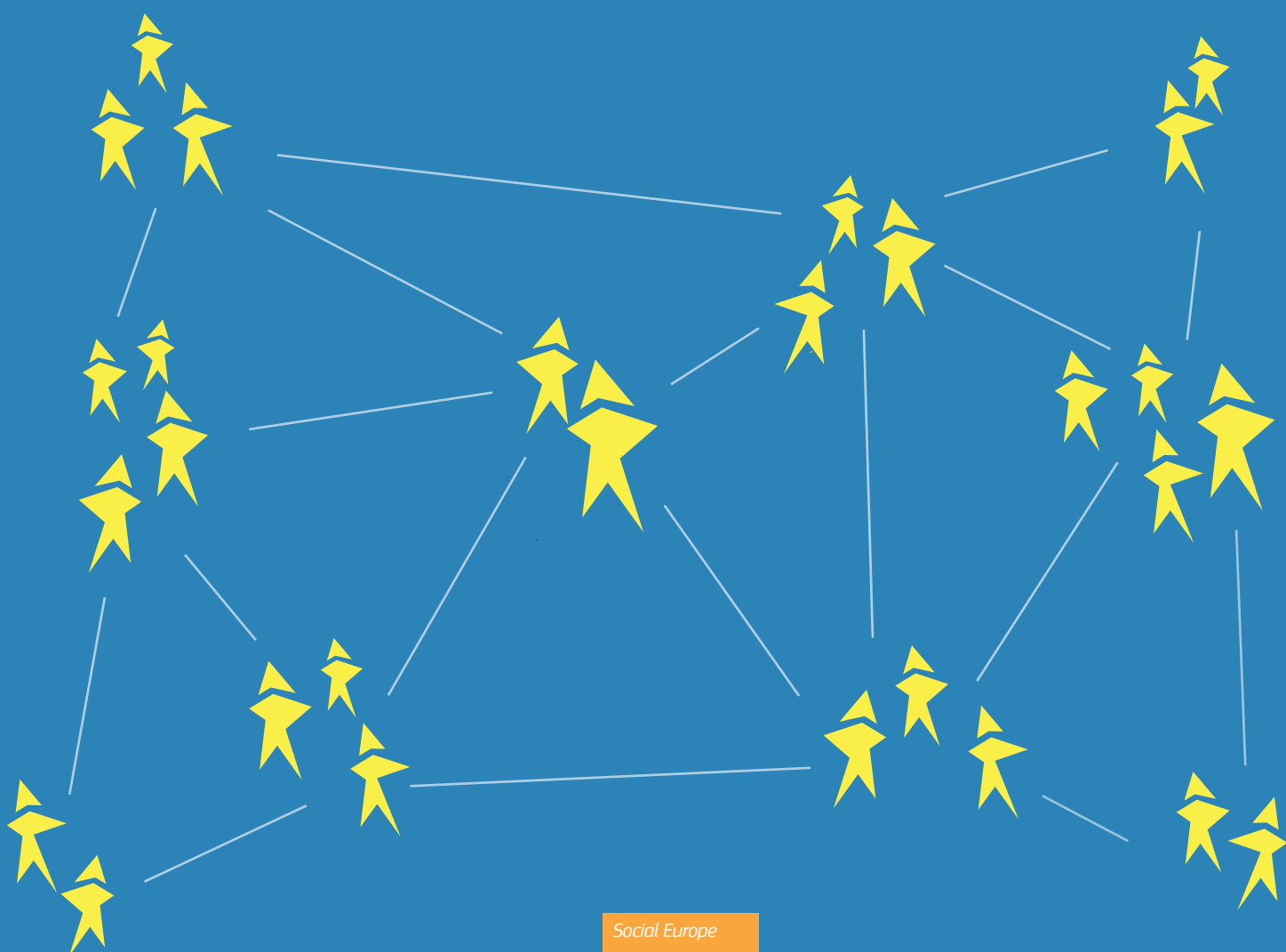




EUROPEAN SOCIAL POLICY NETWORK (ESPN)

# In-work poverty in Serbia

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Social Europe

**EUROPEAN COMMISSION**

Directorate-General for Employment, Social Affairs and Inclusion

Directorate C — Social Affairs

Unit C.2 — Modernisation of social protection systems

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*European Commission*

*B-1049 Brussels*

**European Social Policy Network (ESPN)**

**ESPN Thematic Report on  
In-work poverty**

**Serbia**

**2019**

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Quoting this report: Pejin Stokic Ljiljana, Bajec Jurij (2019). ESPN Thematic Report on In-work poverty – Serbia, European Social Policy Network (ESPN), Brussels: European Commission.

# Contents

- SUMMARY ..... 4
- 1 ANALYSIS OF THE COUNTRY’S POPULATION AT RISK OF IN-WORK POVERTY ..... 5
- 2 ANALYSIS OF THE POLICIES IN PLACE..... 9
  - 2.1 Policies with a direct influence on the IWP rates ..... 9
  - 2.2 Policies with an indirect influence on IWP rates ..... 12
- 3 POLICY DEBATES, PROPOSALS AND REFORMS ON IN-WORK POVERTY AND RECOMMENDATIONS ..... 13
- 4 ASSESSING DATA AND INDICATORS..... 15
- REFERENCES ..... 16
- ANNEX ..... 17

## Summary

Over the period 2013-2017, in-work poverty<sup>1</sup> (IWP) fell in Serbia: in 2017, 10.7% of all those employed were at risk of in-work poverty, 3.9 percentage points lower than in 2013.<sup>2</sup> Most of the IWP figures for the different sub-groups of workers fell: the rates only rose slightly for six (15.4%) of the observed indicators. Compared to the 2017 EU-28 averages, 19 (48.7%) of the indicators for Serbia had the higher IWP rates.

The main individual factors that contributed to an increased risk of in-work poverty were work intensity and level of education. In 2017, **the worst affected sub-groups of workers were:** part-time workers (with an IWP rate of 35.5%), the self-employed (35.1%) and workers with the lowest educational attainment (31%). Composition of the household was the main factor affecting a household's risk of IWP. In 2017, **the worst affected sub-group of households** were households with dependent children and low work intensity (a high rate of 41% IWP) and households with dependent children and medium work intensity (25.5%). Over the whole period, the IWP rates remained high for these households.

The period under consideration was marked by a gradual economic recovery after the economic crisis. The primary factors affecting the positive IWP changes were related to economic growth and improved labour market trends. The decrease in IWP could be attributed mainly to these positive trends, as there were no significant policy developments in areas that concern the wellbeing of the "income poor". Major reforms in education and social protection are long overdue. High informal employment has been a persistent factor that has had a negative impact on IWP. The delayed reform of education, which affects the increase in structural unemployment, has been another contributory factor with a negative effect on IWP.

A minimum income scheme was the main direct instrument which protected workers from the risk of in-work poverty. The wellbeing of the income poor was also protected by statutory social protection measures, which cover the population in need of social assistance.

Even though the IWP rate in most sub-groups fell, the risk of in-work poverty remained high for households with dependent children and with lower work intensity. **The key challenge** is to protect these households by increasing their employability and by introducing in-work benefits and adequate social protection benefits. The other challenge is to reduce informal work and to improve mechanisms for the protection of workers' rights.

**Future policy-making should be based on continuous quantitative and qualitative research and analysis** of the causal relations between demographic variables, employment and IWP. Improved understanding of the underlying causes of in-work poverty will facilitate adoption of effective instruments to reduce poverty among the most affected groups. **The main areas for improvement** are the increased quality of education and the creation of an advanced business environment conducive to the expansion of the private sector. Since the proposed changes will not have any positive

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<sup>1</sup> For ease of reading, in the rest of this report we will refer to the notion 'at risk of in-work poverty', and to the indicator that measures it, using the generic term of 'in-work poverty' (IWP)

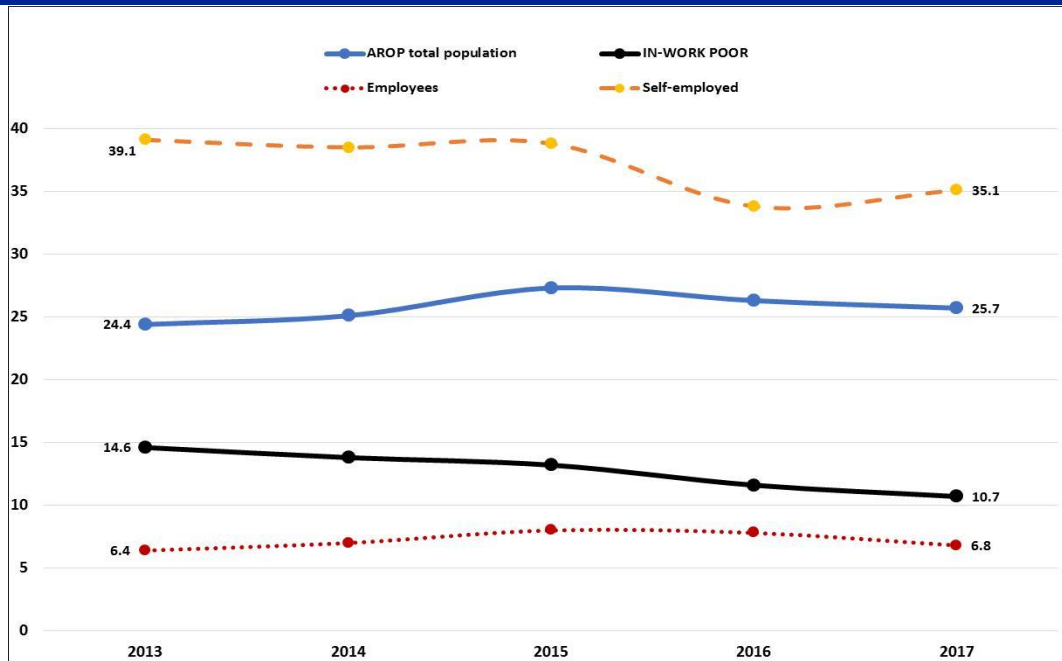
<sup>2</sup> In line with the EU agreed definition of IWP, a person is **at risk of in-work poverty** if he/she is in employment and lives in a household that is at risk of poverty. A person is **in employment** when he/she worked for more than half of the income reference year. Employed individuals can be waged employees or self-employed. In all but two EU countries (exceptions: Ireland (last 12 months) and the UK (current year)), the income reference year is the calendar year prior to the survey. A household is **at risk of poverty (or "income poor")** if its equivalised disposable income is below 60% of the national equivalised disposable household median income. The population covered is those aged 18-64.

impact in the short run, it will be necessary to reinforce institutional protection of the most vulnerable sub-groups.

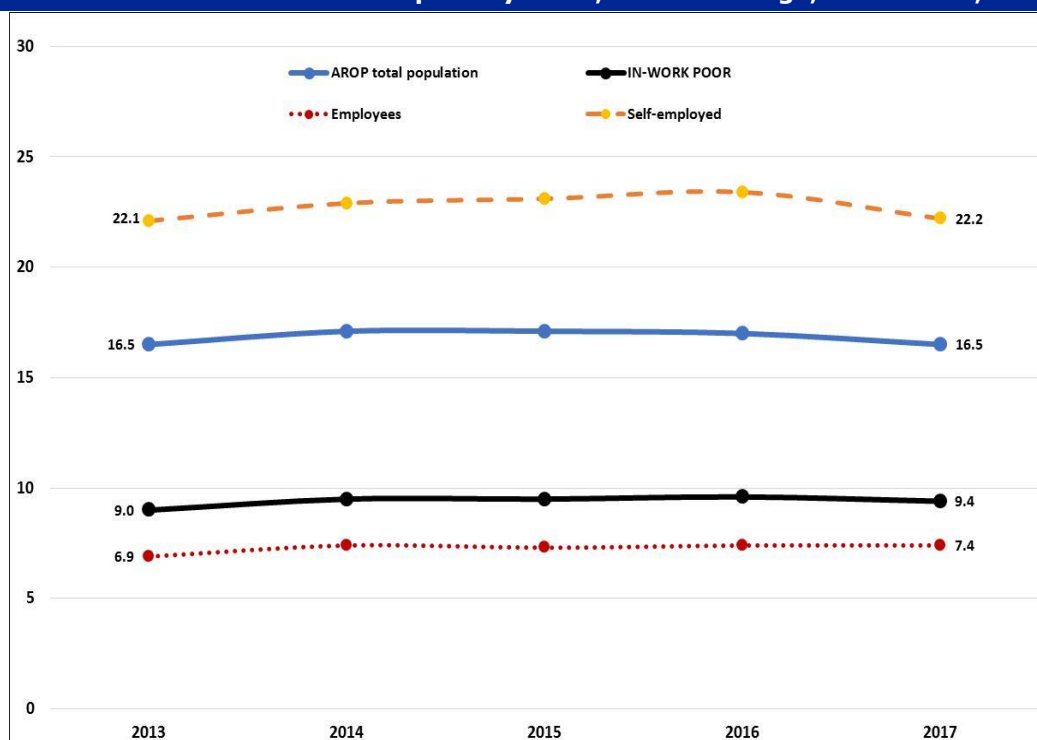
## 1 Analysis of the country's population at risk of in-work poverty

The in-work poverty (IWP) data available for Serbia cover the period 2013-2017. The main sources of data in this report are the Eurostat EU-SILC survey (data are presented in the Annex in Table A1) and national official statistics: Labour Force Survey (LFS), Household Budget Survey (HBS) and other relevant data on employment and earnings published by the Republic Statistics Office (the RSO).

**Figure 1. Trends of IWP and risk-of-poverty rates in Serbia, 2013-2017, %**



Note: AROP = at risk of poverty.  
Source: Eurostat, ESSPROS data

**Figure 2. Trends of IWP and risk-of-poverty rates, EU-28 average, 2013-2017, %**

Note: AROP = at risk of poverty.  
Source: Eurostat, ESSPROS data

The growth trends in the majority of the IWP rates showed positive change; IWP rates increased slightly for only six (15.4%) of the sub-groups observed. Compared to the 2017 EU-28 averages, Serbia had higher figures for 19 (48.7%) of the indicators.

The IWP rate for workers in Serbia showed a continuous downward trend over the whole period: in 2017, the rate was 10.7% (3.9 percentage points (p.p.) down on 2013); it was 1.3 p.p. higher than the EU-28 average (Figure 1 and Figure 2). The differences on the basis of employment status were significant at the beginning of the period, when 39.1% of the self-employed were at risk of in-work poverty, compared to 6.4% of employees. By 2017, the difference had narrowed slightly, as the IWP rate for the self-employed had fallen by 4.0 p.p., while the rate for employees had increased by 0.4 p.p.. Even though the IWP rate for the self-employed had fallen by 2017, it was still 12.9 p.p. higher than the EU-28 average. The proportion of the self-employed in the total number of those working in Serbia decreased over the period: by 2016 it was 30% (Annex, Table A2). One of the reasons why the self-employed were at greater risk of in-work poverty was that the majority of them worked in low-paid sectors: in 2016, only 17% of them were employed in high-skills professions (RSO, 2017). Another reason concerns a potential under-recording of the true earnings of the self-employed. In 2016, around 38% of the self-employed were engaged in the informal sector, hence it was not possible to properly assess their earnings.<sup>3</sup> The differences in the material and social deprivation rates (MSD) of employees and the self-employed were not so extreme and did not reflect the highly deprived position of self-employed workers: in 2017, the MSD rates were very similar – 19.5% for employees and 18.2% for the self-employed. This inconsistency might be explained by the common practice of the self-employed under-reporting their wage levels.

<sup>3</sup> RSO (2017), LFS for 2016.



Type of contract had a lower impact on the risk of in-work poverty than other individual factors. The IWP rates for both types of contract showed a slight upwards trend over the period: in 2017, the IWP rate for employees on a permanent contract was 5.9% (0.1 p.p. increase) and the rate for those on a temporary contract was 11.2% (0.9 p.p. increase). The proportions of workers with these two types of contracts in the labour market displayed divergent growth trends over the period: the proportion of permanent workers fell to 76.3%, while the proportion of workers on a temporary contract rose to 23.7%, which is almost double the EU-28 average of 13.0%.<sup>4</sup> These trends were influenced by two policy measures: a ban on new employment in the public sector, imposed in 2014, and an increase in the period of duration for temporary contracts, introduced under amendments to the Labour Law in 2014. Another policy measure – a temporary cut and freeze on the wages of public employees – affected the increase in the IWP rate of workers on a permanent contract in this period, as the majority of public employees were employed on a permanent contract. The reliability of data on the recorded earnings of temporary workers is doubtful, due to the common practice among employers of using only the minimum wage as the monthly salary and paying the rest in cash (thus evading taxes and social contributions).<sup>5</sup>

The IWP rates by working time showed a downward trend for both full-time and part-time workers. Part-time employment generates a high risk of in-work poverty: in 2015 the IWP rate for part-time employees was 47.0%, whereas it had fallen to 35.5% by 2017; meanwhile the rate for full-time workers had fallen to 10% by the end of the period (a 3 p.p. decrease since 2013). Part-time work is not common in the Serbian labour market: the proportion of part-time workers in total employment was around 10.5% over the whole period. In 2017, the highest proportion of part-time workers (48.5%) was employed in the informal sector, and it can be assumed that these working arrangements were involuntary, caused by the individuals concerned being unable to find a full-time job.

Almost all the IWP rates structured by demographic characteristics showed a downward trend over the period. The IWP rates for women were consistently lower than those for men: in 2017 the rate for men was 12% , while it was 9.2% for women. The rather wide difference between the IWP rates stands in contrast to the gender pay gap: in 2014, the gender pay gap was 8.7%, whereas in 2017 it had increased further to 10.4%.<sup>6</sup> Distribution by age group shows some discrepancies between the Serbian and the EU-28 average rates. **The oldest age group (55-64) was at higher risk in Serbia** (13.0% IWP in 2017) than the other two age groups, whereas in the EU-28 the opposite was true. In 2016, the employment rate in Serbia for this age group was 42.7%, 5.7 p.p. below the national average. The higher risk for this age group could be attributed to the fact that a number of older workers were made redundant due to the ongoing privatisation process in Serbia, and many found new jobs in the informal economy on lower wages.

Educational attainment affects workers' income similarly in both Serbia and the EU-28. The highest IWP rates are among workers with the lowest education: in the first three years of the period under consideration, around one third of them were at risk of poverty; by 2017, their IWP rate was 4.2 p.p. lower than in 2013, amounting to 31.0%. In the same period, the proportion of employees with the lowest educational attainment in the total number of employees fell to 19% in 2017, 9 p.p. lower than in 2013.<sup>7</sup> IWP rates rose only for workers with tertiary education: in 2017 the rate was 3.4%, 0.4 p.p. up from 2013.

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<sup>4</sup> Eurostat, <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/WDN-20180813-1>, accessed 24 February 2019.

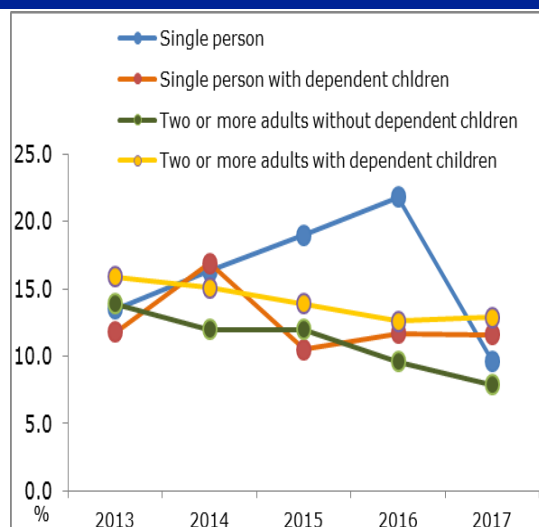
<sup>5</sup> [https://www.b92.net/biz/vesti/srbija.php?yyyy=2018&mm=11&dd=15&nav\\_id=1469774](https://www.b92.net/biz/vesti/srbija.php?yyyy=2018&mm=11&dd=15&nav_id=1469774)  
<https://www.blic.rs/biznis/minimalac-na-racun-ostalo-na-ruke-ovako-neke-firme-zakidaju-radnike/s0pfg3z>

<sup>6</sup> RSO (2018b); RSO (2017).

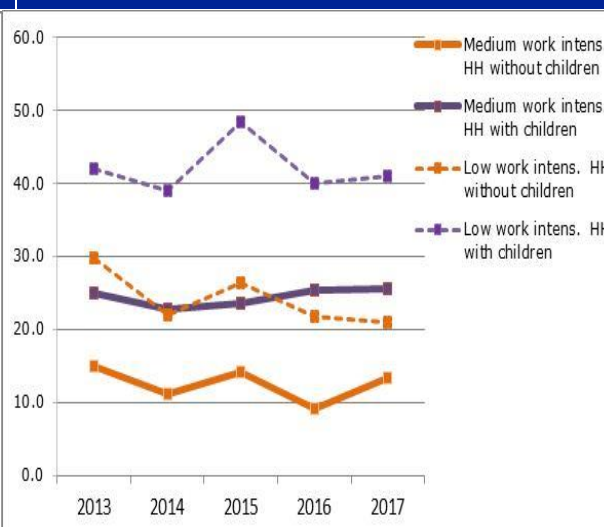
<sup>7</sup> RSO (2018b), LFS 2017.

Country of birth was not a distinctive characteristic, as Serbia does not have an influx of migrant workers. The majority of employees born in a foreign country were refugees from the former Yugoslav republics, who later received citizenship and settled in Serbia.<sup>8</sup> Over the period under consideration, their IWP rates were lower than the rates for native-born employees; this is the opposite of the EU-28 pattern. In 2017, the IWP rate for foreign-born workers was 8.3%, 2.7 p.p. lower than the rate for native-born workers.

**Figure 3. IWP by household type in Serbia, 2013-2017, %**



**Figure 4. IWP by household (HH) type and work intensity in Serbia, 2013-2017, %**



Source: Eurostat, ESSPROS data.

The IWP rates observed for household type and parenthood status decreased over the period for almost all categories (Figure 3). The growth path for single-person households was uneven, with a steep rise to 21.8% in 2016, and then a sharp decline of 12.2 p.p. in 2017. Among all household types, households with dependent children were at highest risk of IWP in 2017 (12.9%), 4.8 p.p. higher than the rate for households without dependent children. The IWP rates in 2017 for a single person (9.6%) and for a household with a single adult plus dependent children (11.6%) were significantly lower than the EU-28 average of 13.5% and 21.9%, respectively.

The increased level of work intensity reduced the risk of IWP for all households. In 2017 the IWP rates for Serbia were close to the EU-28 average for households with very high work intensity, while they were below the EU28 averages for other categories (Annex, Figure A1). In 2017, the rates for households with medium (20.6%) and low work intensity (32.6%) were much higher than for households with very high (5.5%) and high work intensity (5.1%). Parenthood status was the second important risk factor for households with lower work intensity (Figure 4): the IWP rates for households with dependent children and with medium and low work intensity were twice the rates for households without children but with the same levels of work intensity. In 2017, the highest recorded IWP rate of 41% was for households with dependent children and low work intensity, while the lowest recorded rate (3.1%) was for households without children and with high work intensity.

In 2017, **the worst affected sub-groups of employed workers were:** part-time workers (35.5% IWP), the self-employed (35.1%) and workers with the lowest educational attainment (31.0%). **These three categories of workers overlap**, as the majority of less-educated workers worked part time and were self-employed. The majority of these categories of workers were also engaged in the informal economy. Over

<sup>8</sup> UNHCR (2005).

the period under consideration, the proportion of workers in the informal economy was high: 19.3% in 2013, rising to 22% in 2016; in 2017 the proportion fell by 1.3 p.p..

**The worst affected sub-group among households** were households with dependent children and with lower work intensity. In 2017, households with dependent children and low work intensity had the highest IWP rate (41.0%) and households with medium work intensity were also affected (25.5%). The situation did not improve much for these two types of household over the whole period, as their IWP rates showed cyclical growth patterns, which highlight the negative impacts of insecure employment status.

**The key challenge** is to maintain a downward trend in the IWP rates of all workers, with a special focus on the most vulnerable groups. The measures to increase the work intensity of households with dependent children should be mainstreamed in future employment and fiscal policies. Another equally important challenge is to reduce the informal economy and increase the fiscal discipline of employers. Improvements in these areas would have a significant positive impact on the level of wages.

## 2 Analysis of the policies in place

### 2.1 Policies with a direct influence on the IWP rates

The minimum wage scheme has had a direct impact on most of the IWP rates in Serbia. The scheme, which was defined by the Labour Law (2001), guarantees a minimum payment to all registered employed persons and this has very often been used as a reference wage in the informal economy.<sup>9</sup> Although all employers are supposed to comply with this rule, it is often violated in the private sector, and occasionally also in the public sector. By comparing data on the minimum wage and at-risk-of-poverty thresholds, it is evident that only in the single-person household is the minimum wage adequate to stave off poverty (Table 1). In 2016, 21.3% of single-person households were at risk of in-work poverty, which means that their earnings were below the minimum wage; in 2017, this rate fell considerably, by 12.2 p.p.

**Table A1. Minimum wages and at-risk-of-poverty thresholds, 2013-2017 (in RSD/€)**

Year	Minimum monthly net wage November	At-risk-of-poverty threshold			
		1 member	2 adults	2 adults 1 child	2 adults 2 children
<b>2013</b>	19,320 (€173.40)	13,680 (€122.80)	20,520 (€184.20)	24,624 (€221.00)	28,728 (€257.90)
<b>2014</b>	18,400 (€158.70)	13,408 (€115.70)	20,112 (€173.50)	24,134 (€208.20)	28,156 (€242.90)
<b>2015</b>	20,328 (€164.50)	14,920 (€120.80)	22,380 (€181.10)	26,856 (€217.40)	31,332 (€253.60)
<b>2016</b>	21,296 (€173.20)	15,416 (€125.40)	23,124 (€188.10)	27,748 (€225.70)	32,373 (€263.30)
<b>2017</b>	22,880 (€184.70)	15,600 (€125.90)	23,400 (€188.90)	28,080 (€226.60)	32,760 (€264.50)

Note: RSD=Serbian dinar.

Source: RSO: SILC 2016, 2017 data, [https://www.paragraf.rs/statistika/minimalna\\_zarada.html](https://www.paragraf.rs/statistika/minimalna_zarada.html)

Comparable data on the minimum wage and the consumer basket costs for 2013-2017 show that during the whole period the minimum wage was less than two thirds of the

<sup>9</sup> A similar scheme – the “guaranteed net wage” was defined in the 1995 Law on Labour Relations.

minimum consumer basket costs (Table 2).<sup>10</sup> The Republic Statistics Office estimated that around 12.5% of employees received a minimum wage in 2017.<sup>11</sup>

**Table 1: Minimum wage and consumer basket costs, 2013-2017**

Year	Minimum wage			Minimum consumer basket November RSD
	Per hour		Per month - November RSD	
	RSD	Euros		
<b>2013</b>	102	0.87	19,320 (€173.40)	34,348 (€308.30)
<b>2014</b>	115	0.98	18,400 (€158.70)	34,855 (€300.70)
<b>2015</b>	121	1.00	20,328 (€164.50)	35,239 (€285.20)
<b>2016</b>	121	1.02	21,296 (€173.20)	33,825 (€275.20)
<b>2017</b>	130	1.10	22,880 (€184.70)	36,250 (€292.50)

Source: [https://www.paragraf.rs/statistika/minimalna\\_zarada.html](https://www.paragraf.rs/statistika/minimalna_zarada.html), Ministry of Trade and communications, 2017, Consumer basket costs.

The measures to increase employment and to improve working conditions are defined in the annual national employment action plans (NEAPs) within the following objectives: (1) improvements in working conditions, (2) increase in employment, and (3) improvements in quality of the labour force and investments in human capital. The active labour market programmes (ALMPs) were designed primarily for the registered unemployed. The funding of adopted ALMPs was constantly reduced from 2011, when it represented 1.6% of national GDP, to 0.7% GDP in 2015.<sup>12</sup> The average coverage by the ALMPs over the period observed was rather minimal – less than 10% of the registered unemployed. One of the measures to reduce poverty in the most vulnerable families was activation of the unemployed beneficiaries of financial social assistance (FSA). The NEAPs<sup>13</sup> for 2015 and 2016 had a separate measure – “Integration of the FSA beneficiaries in the labour market” – which provided 12 months of subsidies for employers who employed FSA beneficiaries. In 2016, planned coverage was for 200 beneficiaries in all, whereas that year there were around 125,000 FSA beneficiaries capable of work.<sup>14</sup>

The ALMPs included programmes for the reintegration of workers laid off by public companies. The prevention programmes covered the potentially redundant workers from the public sector. The coverage of these programmes increased from 7,835 in 2013 to 19,791 in 2015, although there are no data on the number of redundant workers who found fresh employment.

Amendments to the law on the professional rehabilitation and employment of persons mentally and/or physically disabled were adopted in 2013, in order to improve data collection and to enhance support for the employment of this group. In 2015, around 1,500 disabled persons were employed; however, there are no precise data on the number of disabled persons of working age.

**The main contribution of the ALMPs** was to upgrade the education and entrepreneurship skills of future employees; however, coverage of the programmes was minimal and inadequate for actual needs.

**Informal employment has been high in Serbia for decades:** in 2013, the informal employment rate was 19.3%, and in 2017 it reached 27.6%. In 2017, one third (34.2%) of all workers aged over 50 worked in the informal economy. It was one of the reasons why the 55-64 age group had the highest IWP rate of all the age groups. Part-time work, which presents a high risk of in-work poverty, is also one of the characteristics of

<sup>10</sup> The minimum consumer basket covers a minimum of the existential needs.

<sup>11</sup> <https://www.blic.rs/biznis/minimalac-prima-vise-od-300000-ljudi-u-srbiji/sj1p08q>, accessed 20.11.2018.

<sup>12</sup> MoELVSP (2017).

<sup>13</sup> RS Official Gazette 101/14.

<sup>14</sup> National Employment Action Plan for 2015, 2016; RS Official Gazette 82/15; 92/16.

informal employment. In order to combat the informal economy, in 2015 the government adopted a law on inspection supervision and efficient coordination of inspections. The provisions of this law improved the previously inadequate coordination between different inspections and established competences for all inspections over unregistered business entities. In December 2015, the government adopted its National Programme for the Suppression of the Informal Economy.<sup>15</sup> There have been no official reports on the results of this programme. The constant inability of the government to successfully implement measures to effectively reduce informal employment has had a **strongly negative impact on the IWP** of the most vulnerable categories of workers.

The labour market segmentation between the public and the private sectors in Serbia is high. The employer's ownership status affects the type of employee contracts, working time and level of wages. In 2016, almost one third (30.9%) of all employees were employed in the public sector.<sup>16</sup> Public sector employees were in a better position than other employees, since a majority of them were employed on a permanent contract and worked full time. Average wages in the public sector were 11% above the national average wage, while wages in the private sector were 6% below the average (2017).<sup>17</sup>

**Fiscal consolidation policies and austerity measures had a mostly negative impact on the IWP rates**, mainly among public sector employees. In 2013, the government imposed 0.5% containment on the growth of wages in the public sector and introduced a ban on new employment; and in 2014 new measures imposed a 10% cut in wages in the public sector (except for wages of €210 or below) followed by a wage freeze (this measure lasted until the end of 2018).<sup>18</sup> The immediate effects of these measures were evident in 2015 and 2016: average net wages in 2015 rose only in the private sector (by 7.2%), while overall wages saw negative growth of 2.1%. In 2016, the intermediate annual growth in average wages in the private sector was 6.5%, and only 2% in the public sector (a number of large public companies did not follow the imposed measures).<sup>19</sup>

The ongoing privatisation processes have had a direct influence on IWP, as the bankruptcy and closure of public companies has generated a high number of redundant workers. In 2014, the government adopted a new law on privatisation (amended in 2015) to speed up the privatisation processes.<sup>20</sup> Some estimates show that around 100,000 workers were affected by the loss of jobs and were faced with accumulated debts for unpaid wages.<sup>21</sup> In 2013, of those unemployed persons who had a job in the period prior to the LFS survey, more than half (55%) had lost it due to company bankruptcy or because of redundancy. Privatisation affected mainly older workers, who had a hard time finding new employment.

Contract type affected the IWP rates, as employees on temporary contracts had a higher risk of in-work poverty than employees on permanent contracts. In 2014, employees on permanent contracts had wages 2.7% higher than the national average, while the average wages of workers on temporary contracts were 20% lower; the wages of workers engaged in occasional or seasonal work were 33% lower than the national average.<sup>22</sup> In 2016, around 23.7% of all workers in the Serbian labour market had temporary contracts; 18.8% had fixed-term contracts; and 4.9% had seasonal and/or

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<sup>15</sup> RS Official Gazette 28/2015.

<sup>16</sup> Government (2018b).

<sup>17</sup> RSO (2018b).

<sup>18</sup> Law on temporary regulation of the base for the calculation of the earnings, wages and other receipts for public sector employees; RS Official Gazette 116/2014.

<sup>19</sup> Economics Institute, Belgrade, Macroeconomic Analysis and Trends, no. 253 and no. 265.

<sup>20</sup> RS Official Gazette 83/2014; 46/2015.

<sup>21</sup> Daily newspaper *Danas*, <https://www.danas.rs/ekonomija/drzava-duzna-radnicima-300-miliona-evra/>

<sup>22</sup> RSO (2017).

occasional work contracts (Annex, Table A2).<sup>23</sup> The number of employees on a temporary contract started to rise after the Labour Law increased the duration of temporary contracts from 12 to 24 months (2014). Employers can offer a temporary contract only in specific business situations (a temporary increase in workload; replacement of a worker on maternity leave; etc.) and the duration of the contract cannot exceed 24 months (36 months for a newly registered employer).<sup>24</sup> The evidence shows that very often employers from the private sector violate this rule and prolong contracts for a longer period, since that allows for a less complicated termination of the employment contract.<sup>25</sup> Although employees on a temporary contract have the same rights as those on a permanent contract, their position is more vulnerable, since employers can fire them at short notice; consequently, they often agree to work on less favourable conditions (lower wages, longer working hours without overtime payment, etc.).

## 2.2 Policies with an indirect influence on IWP rates

Measures to alleviate in-work poverty that indirectly affect the IWP rates are mostly in the form of financial benefits and subventions.

There are no in-work benefits provided for low-wage earners.

Families with children are financially supported by three benefits: child benefit, parental payment for new-borns and subsidies for kindergarten. All of these benefits are means tested. Around 30% of children received child benefits during the period under observation; in 2016 (December) the monthly benefit was €22.70. Single parents and foster parents, as well as the parents of children with developmental problems, are entitled to an increased benefit (30% higher benefit and a 20% higher eligibility threshold). Kindergarten fees are partially reimbursed for families with inadequate income, and fully reimbursed for the families of children with special needs. There are large geographical disparities in the availability of kindergarten services: 46.1% of all services are located in the city of Belgrade, which includes 26.9% of all pre-school children (2016). Kindergarten capacities do not meet actual demand, and there are waiting lists in many less-developed local communities. Unemployed mothers/parents are discriminated against in terms of kindergarten waiting lists, since employed parents have more chance of having their child admitted. Such policies have had an adverse effect on the employment of a secondary earner in the household.

Subsidies for household energy bills are regulated by the Decree on Protected Energy Customers<sup>26</sup> of 2013, which was later amended in 2015 and 2016.<sup>27</sup> Eligibility depends on the household's monthly income and on the ownership status of the residence. FSA and/or child allowance beneficiaries are granted a subsidy as protected customers. The eligibility thresholds for 2016 were below the poverty thresholds, and only around 3% of all households were covered by this subsidy in 2016.

Serbia has a compulsory healthcare insurance scheme, which in 2016 covered 97.5% of the population. The most vulnerable population groups are adequately protected against co-payments for healthcare costs. Under the Health insurance Law, Article 22 "an additional consideration is given for persons who are at a higher risk of ill health, for socially vulnerable persons and for persons whose healthcare protection has a high social-medical purpose".<sup>28</sup> If these persons have no regular insurance, the state covers

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<sup>23</sup> Workers engaged in occasional or seasonal work do not have a fixed-term contract, but a contract for a specific task.

<sup>24</sup> RS Official Gazette 75/2014.

<sup>25</sup> RSO (2017), LFS 2016.

<sup>26</sup> RS Official Gazette, 27/13.

<sup>27</sup> RS Official Gazette 112/2015.

<sup>28</sup> RS Official Gazette 10/2016.

the social contributions for compulsory health insurance; in 2016, 20% of all insured persons were covered by this Act. Another form of protection against additional expenses – this time for all patients – is a set limit on the annual co-payments for healthcare services and prescription drugs.

Primary and secondary education is free of charge in state schools. Secondary education is not compulsory, which is one reason why the rates of young people not in education, employment or training (NEET) are so high: in 2017, the rate was 23.0%, far higher than the EU-28 average of 14.7%.<sup>29</sup> The parents of schoolchildren have numerous expenses to cover, even though education is free of charge. The distribution of free school books was halted in 2015, and there are no school-meals programmes, while fees are charged for in-school activities (sport, drama, etc.).

The structural unemployment issues have been addressed rather late; the Law on Dual Education was adopted in November 2017 and the corresponding school reform is still in its initial phase.<sup>30</sup> The Law on Education of the Elderly was adopted in 2013, in order to resolve the structural unemployment gaps; however, the necessary by-laws have not been adopted.<sup>31</sup> Coverage of formal and informal education and learning programmes is inadequate. Data from the adult education survey (2016) show that the lowest participation in these programmes was by older individuals, with lower educational attainment.<sup>32</sup> Participation by the unemployed and inactive individuals was only 11.0% and 9.8%, respectively. **The total participation rate for all types of formal/informal education and learning programmes was low, at 19.8%** – far lower than the EU-28 average of 45.1%. This indicates that the continuous upgrading of knowledge and skills and lifelong learning is still not properly organised and implemented in Serbia.

### 3 Policy debates, proposals and reforms on in-work poverty and recommendations

At the institutional level, social dialogue is conducted within the Social and Economic Council, which is legally defined by the Law on the Social and Economic Council, from December 2004.<sup>33</sup> The National Social and Economic Council of Serbia (SEC), includes three partners: the government of Serbia, representatives of the employers' associations and the trade unions. The SEC has an important policy-making role, and one of its tasks is to propose the minimum wage, which is agreed between the three partners in the council. The analytical report on the work of the SEC in the period 2010-2015 concluded that cooperation between the three partners was low and that the **SEC failed to address all relevant socio-economic issues under its jurisdiction.**<sup>34</sup>

**The trade unions have, on a number of occasions, spoken of the failure of the minimum wage scheme to address IWP.** They argue that the Labour Law provisions on the minimum wage have not been obeyed. The law stipulates that a decision on the minimum wage should be made in the following manner: "in determining the minimum wage consideration should be given to: **the existential and social needs of the employee and his family which are expressed by the consumer basket cost**, the employment rate, GDP growth, consumer price index and average wage growth". The representatives of the trade unions have, on a number of occasions, presented to the

<sup>29</sup> NEET – Young people (15-34 years) not in employment, education or training; Eurostat [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=edat\\_ifse\\_20&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=edat_ifse_20&lang=en)

<sup>30</sup> RS Official Gazette 101/2017.

<sup>31</sup> RS Official Gazette 55/2013.

<sup>32</sup> RSO (2018a).

<sup>33</sup> RS Official Gazette 125/2004.

<sup>34</sup> IPA 2012, Twinning project, "Promoting social dialogue 2015", Analytical report about the work of the Social and Economic Council, period 2010-2015.



Ministry of Employment, Labour, Veterans and Social Policy (MoELVSP) cases of violation of workers' rights. On one occasion, in 2017, they discussed the difficult socio-economic status of around 70,000 employees in the public communal services (street cleaning, garbage disposal, etc.). The communal services employ a number of workers with low educational attainment, while a large number of their employees are from the Roma minority. The average wage of these employees was 30% lower than the average wage of public employees, and around 30% of employees received the minimum wage or lower.

In 2013, in cooperation with the International Labour Office, the government adopted "The Decent Work Country Programme 2013-2017".<sup>35</sup> In-work poverty was not directly addressed in the document, only in the part on strengthening the negotiating power of trade unions for better minimum pay and better working conditions. There has been no information on the activities undertaken or on the results achieved.

Two economic reform programmes have been adopted: the first for the period 2015-2017 (May 2015) and the second for 2018-2020 (May 2018). IWP issues have not been directly addressed, but measures to increase employment and activity have been adequately addressed. In May 2016, the government adopted the "Employment and Social Reform Programme". This document addresses poverty and employment issues, but without any direct reference to IWP.

The government's main policies in the last decade have focused on ensuring economic and financial stability, and reducing debt accumulation. These goals have primarily been achieved through fiscal consolidation measures and an acceleration of structural reforms. In 2013, the unemployment rate was high (23.0%) and the employment rate low (47.5%). In such an environment, unemployed individuals were willing to accept any kind of work arrangement, while a number of employers exploited the situation to cut wages and other work benefits. By 2017, the labour market situation had improved: unemployment had decreased to 14.1% and employment had risen to 57.3% (15-64 years), although in the same period informal employment had also increased.

Over the period there were no major reforms with a direct impact on IWP. Several amendments to the Labour Law in 2014 had a limited effect on the labour market: a phased-in equalisation of the retirement age for women from 60 to 65 years; and the introduction of penalties for early retirement decreased entry to the pension scheme. The 2017 amendments to the Law on Financial Support to Families with Children substantially increased the parental allowance for new-born children and introduced paid maternity leave for mothers working on service and temporary contracts, as well as for insured farmers. The reform of social protection has been announced and is still pending, as is the comprehensive reform of the education sector.

The EU Instrument for Pre-accession Assistance (IPA) has been used for social inclusion of the most vulnerable groups, and also to increase the employability of young people and persons with disability (Annex, Table A3). The important contributions have been in the area of lifelong learning and in linking the reform of education with employment and social inclusion areas. Over the period 2013-2017, the funding of major projects amounted to €81.64 million.

**Future policy-making should be based on continuous quantitative and qualitative research and analysis** of the causal relations between demographic variables, employment and IWP trends. Improved understanding of the underlying causes of in-work poverty will facilitate adoption of the effective instruments for reducing poverty among the groups most affected. In the short term, it is necessary to protect the wellbeing of households with dependent children and with low work intensity, by increasing their employability and by increasing the adequacy of social protection benefits.

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<sup>35</sup> <https://www.minrzs.gov.rs/program-dostojanstvenog-rada-za-rs-2013-2017.html>



An efficient system for continuous upgrading of skills and knowledge through lifelong learning has to be one of the priorities of the reform of the education system. An improved business environment for the expansion of the private sector is another important precondition for higher wages and economic growth. Improved results in these areas cannot be achieved in the short run, as the processes will yield dividends only over a long period of time. For this reason, planned reform of the social protection sector should address the ongoing IWP challenges and define adequate institutional measures to protect those groups of employees most affected.

#### 4 Assessing data and indicators

The Republic Statistics Office has introduced new methodologies, which have improved accuracy and comparability with EU statistics:

- 1) From January 2018, data on earnings have been collected from the national tax administration; previously, data were collected by a survey (RAD-1) of 800,000 employees. Data are published monthly.
- 2) The methodology for the Labour Force Survey (LFS) has changed since 2015, and the data for 2014 have been revised. The LFS statistics for the calendar years before 2014 are not compatible with the new methodology. The new methodology partially influenced the reported increase in the employment rates. Previously, the LFS was conducted twice a year (April, October), while from 2015 the survey has been held four times a year, with the inclusion of summer months when seasonal employment is high (in agriculture, construction, etc.).
- 3) The Household Budget Survey (HBS) is regularly published quarterly.
- 4) The high employment in the informal economy has been the cause of distortion of data for the most vulnerable groups of employees, since their wages have not been officially recorded. The official statistics cannot resolve this situation, however; this distortion has to be acknowledged when interpreting the IWP rates.

Data on wages of the self-employed might also be misleading for several reasons. A number of self-employed professionals (lawyers, physicians, dentists, plumbers, taxi drivers, car repair mechanics, etc.) do not report their wages, but pay taxes and social contributions on the estimated lump-sum taxable income.<sup>36</sup> The evidence shows that their earnings have been much higher than the taxable income base. The other cause of a possible distortion in the data relates to the illegal practice by a number of the self-employed of reporting only the minimum wage as their monthly income (while the rest is paid in cash). This illegal practice is also carried out by private sector employers, mostly for the calculation of the wages of temporary workers. In May 2018, the minister of labour, employment, veterans and social policy announced that the ministry had prepared a plan for the suppression of the illegal practice of paying part of wages in cash, without the coverage of social contributions and income tax.<sup>37</sup>

The EU indicators available are adequate for analysis of the current IWP situation in Serbia. However, some peculiarities have been observed when comparing the values of IWP rates at the level of households. Further segregation by the age of the household head might be helpful in better understanding these relations. On the subject of the very low IWP rates for single-parent households (11.7% in 2016) compared to the other IWP rates, an additional review of data could clarify this issue.

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<sup>36</sup> RS Official Gazette 57/2014, the Law on Individual Income Tax.

<sup>37</sup> <https://www.blic.rs/biznis/kontrola-poslodavaca-neze-vice-biti-isplate-plate-na-ruke/e3m2mz0>

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## ANNEX

**Table A1. The IWP rates for Serbia, 2013-2017**

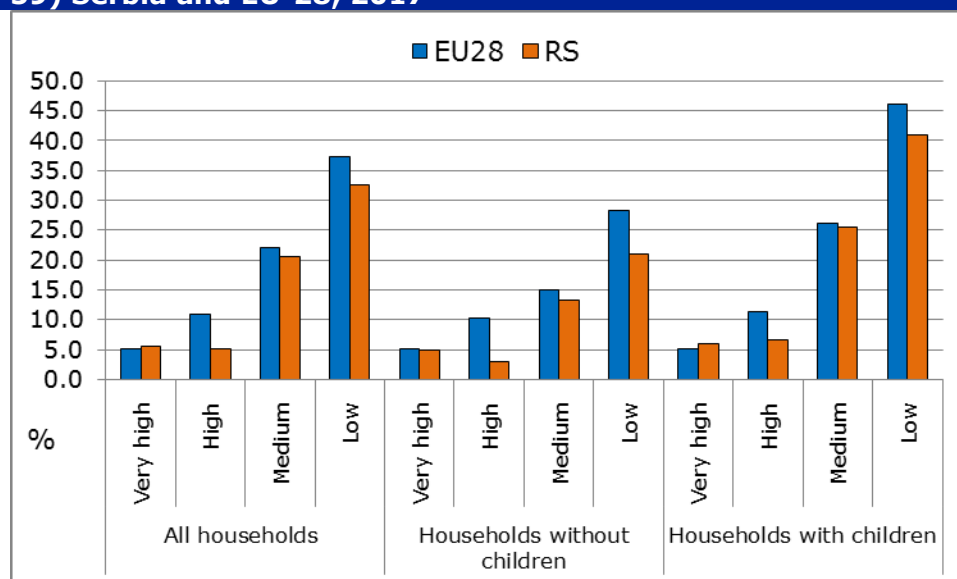
		2013	2014	2015	2016	2017
IWP rate	Employed persons	14.6	13.8	13.2	11.6	10.7
IWP by activity status	Employees	6.4	7.0	8.0	7.8	6.8
	Self-employed	39.1	38.5	38.8	33.8	35.1
IWP by gender	Males	16.3	15.5	15.5	13.6	12.0
	Females	12.4	11.8	10.3	9.1	9.2
IWP by age	18-24y	14.9	14.5	13.7	11.3	7.8
	25-54y	13.6	12.9	12.5	10.9	10.5
	55-64y	19.6	19.0	16.7	15.3	13.0
IWP by education	Less than primary, primary and lower secondary education (levels 0-2)	35.2	32.3	37.9	29.0	31.0
	Upper secondary and post-secondary non-tertiary education (levels 3 and 4)	14.1	13.7	13.1	12.2	10.8
	Tertiary education (levels 5-8)	3.0	4.8	3.5	4.8	3.4
IWP by contract	Employees with a permanent job	5.8	5.9	7.2	6.9	5.9
	Employees with a temporary job	10.3	13.5	12.5	12.1	11.2
IWP by working time	Part-time	35.6	37.3	47.0	32.6	35.5
	Full-time	13.0	12.7	12.0	10.6	10.0
IWP by country of birth	EU-28 countries (current composition) except reporting country	:	10.3	8.7	11.4	12.7
	Non-EU-28 countries (current composition) nor reporting country	14.6	13.5	9.3	12.4	4.2
	Foreign country	14.6	12.0	9.0	11.9	8.3
	Reporting country	:	14.0	13.6	11.6	11.0
IWP by HH type	Single person	13.5	16.3	19.0	21.8	9.6
	Single person with dependent children	11.8	16.9	10.5	11.7	11.6
	Two or more adults without dependent children	13.9	12.0	12.0	9.6	7.9
	Two or more adults with dependent children	15.9	15.1	13.9	12.6	12.9
	Households without dependent children	13.9	12.5	12.6	10.9	8.1
	Households with dependent children	15.7	15.2	13.8	12.6	12.9
IWP by HH work intensity (all HH)	Very high work intensity (0.85-1)	9.1	8.0	6.3	5.2	5.5
	High work intensity (0.55-0.85)	12.0	12.9	9.2	8.4	5.1
	Medium work intensity (0.45-0.55)	21.1	18.7	20.1	19.4	20.6
	Low work intensity (0.2-0.45)	36.6	31.4	37.8	32.6	32.6
IWP by HH work intensity (HH without children)	Very high work intensity (0.85-1)	9.7	9.1	9.0	8.2	4.9
	High work intensity (0.55-0.85)	10.7	10.6	6.9	7.4	3.1
	Medium work intensity (0.45-0.55)	14.9	11.2	14.2	9.2	13.3
	Low work intensity (0.2-0.45)	29.8	21.9	26.3	21.8	20.9
IWP by HH work intensity (HH with children)	Very high work intensity (0.85-1)	8.7	7.3	4.8	3.3	6.0
	High work intensity (0.55-0.85)	13.0	14.5	10.9	9.2	6.6
	Medium work intensity (0.45-0.55)	25.0	22.8	23.6	25.3	25.6
	Low work intensity (0.2-0.45)	41.9	39.0	48.4	39.9	41.0
Material and social deprivation by activity status	Employed persons		31.2	25.1	:	19.3
	Employees		30.0	24.4	:	19.5
	Self-employed		35.6	28.2	:	18.2

Source: Eurostat data, EU-SILC survey [ilc\_iw01].

**Table A2. Workers by type of employment and working contract (15-64), in %**

	2013	2014	2015	2016	2017
<b>Employees</b>	67.6	69.4	71.2	70	69
<b>Self-employed</b>	32.4	31.6	28.8	30	31
<b>Permanent contract</b>	84.5	83.1	72.1	76.3	77.3
<b>Temporary contract</b>	15.5	16.9	27.9	23.7	22.7

Source: RSO, LFS 2014-2017.

**Figure A1. IWP by work intensity of the household and by parenthood (18-59) Serbia and EU-28, 2017**

Source: Eurostat data, EU-SILC survey [ilc\_iw01].

**Table A3. Major areas supported by the EU Instrument for Pre-accession Assistance (IPA) 2013-2018**

Year	Title	EUR
2013	Social Development: <ul style="list-style-type: none"> <li>Increasing the effectiveness and inclusiveness of employment services</li> <li>Social inclusion and poverty reduction of vulnerable and multiply disadvantaged groups</li> </ul>	23,605,000
2014	Youth Employability and Active Inclusion	9,790,000
2014	Towards Lifelong Learning	5,750,000
2016	EU Roma inclusions	4,000,000
2016	Improving the accessibility of public buildings for persons with disabilities	7,500,000
2016	Education reform in Serbia strengthening links with employment and social inclusion	27,000,000
2016	Key steps toward gender equality	4,000,000
	<b>TOTAL</b>	<b>81,645,000</b>

Source:

