Bruno S. Sergi, Sanja Paunović and Rajko Kosanović

Analysis of the main trends in wages, employment and poverty in south-eastern Europe

Abstract

This article reviews the recent performance of south-east European, and eastern European, economies on the issue of wages. This is a revised version of an article which we carried previously (Vol. 20 No. 2) but which has now been updated to take account of information not available at the time of original publication. Given the importance of the issue to trade unions, as well as its significance in the area of social policy and development, we have taken the unusual step of re-publishing this revised version. Real wages have lagged behind productivity in south-east European countries in the entire period since 2008, although minimum wages have seen a process of catching up since 2012, while there has also been a small, but welcome, amount of income redistribution. The result of the lag is evident regarding the impact on workers as well as on aggregate demand, not least in that it symbolises a disconnect between economic growth and the growth in wages. That the share of wages in national income is declining will be to the long-term detriment of societies as workers miss out on increases in national prosperity.

Keywords: *wages, south-eastern Europe, minimum wages, income distribution, pay rises, wage share*

Introduction

Following the conflict-ridden 1990s, the countries of the western Balkans set out comprehensively to rebuild and reform their economies. They opened up to global trade and became increasingly export-oriented; expanded the role of the private sector; dismantled regulations that stifled business development; and began to build the institutions needed to support a market system. Banking systems were built up with the aid of foreign capital and know-how. The result of these efforts has been robust economic growth, a significant rise in incomes and living standards and enhanced macroeconomic stability. The Balkans experienced growth prior to the global financial crisis fuelled by credit and direct foreign investment; successively, however, growth declined as the crisis led to tighter credit conditions.

The process of the structural transformation of the western Balkans began to stall in the mid-2000s and remains incomplete. Meanwhile, the global financial crisis has had severe repercussions for economies right across the Balkans. International pressure has had a substantial economic and long-term political impact in terms of development across the Balkans which, nonetheless, still have an uncertain future both regarding domestic economic stability and in terms of international integration.

This same international context should prompt the European Union to move without hesitation to the implementation of its new strategic proposal for the entire continent. This should lay the foundations for a new approach to regional policy, with the latter oriented to making a balanced and forward-looking contribution to new world governance. Some Balkan countries (interestingly, these are substantially – though not always – those that did not experience direct Ottoman rule) have of course already joined the European Union (Slovenia in 2004; Bulgaria and Romania in 2007; and Croatia in 2013); while Albania, Macedonia, Montenegro and Serbia have recently gained candidate country status. Bosnia and Herzegovina and Kosovo still have a long way to go before starting the integration process. The European Union is thus becoming the guarantor of a process of reconstruction of south-eastern Europe based on new political spaces and new forms of social and regional solidarity, slowly replacing the role of the mediator of past tensions and conflicts under which it has been operating, and whose sparking point was territorial.

In this broad context, the issue of wages is quite complex and, as such, it can be viewed from different aspects: economic, legal, social, political, psychological, philosophical and historical, among others. Inequality in the transition economies of eastern Europe and the CIS comes from the past. In eastern Europe, changes in the distribution of income and wealth are associated with the restorations of market economies and the privatisation of state assets. The political implications are country-specific as the countries themselves are diverse regarding size, level of development, historical background and social and political structure. After a drastic increase in income inequality during the market liberalisation period, some eastern European nations have been able to improve, or at least maintain, the same level of Gini coefficient since 2000 due to economic growth and effective fiscal redistribution as regards social services.

From a purely economic perspective, many eastern Europe nations inherited a relatively large stock of human capital from the socialist period arising from the significant level of investment in and development of all stages of education.

However, the increase in inequality has resulted from rising unemployment due to an under-investment in human capital in more recent times. What we have witnessed in the last decades, and particularly in the wake of the crisis, has been a decoupling of wage developments from productivity growth. In most industrialised economies, and this is certainly also true of those in the EU, wage growth has been lagging behind productivity growth.

According to the OECD (2017), this is explained by declines in both labour shares and the ratio of median to average wages. The first reflects an income redistribution from labour to capital; the second a growing inequality among wage earners. The ratio of median to average wages has declined in all but two OECD countries and reflects disproportionate wage growth at the very top of the wage distribution.

There is an increasing number of questions related to wages which, among other things, can be put in several groups, these being:

1. economic policy and wages
   - policy of growth and development; and specifically austerity policy
   - implementation of fiscal consolidation; existence of IMF arrangements
   - giving importance to foreign investments
2. the level and distribution of wages, where the basic indicators are:
   - wage purchasing power – wages compared to the average and the minimum consumer basket (where these exist)
   - purchasing power parity – PPP
   - differences in wages between different European countries
   - differences in wages between sectors within a country
   - differences in wages between companies doing business in different countries
   - differences in wages between men and women
   - differences in wages between regions
   - the wage levels of young people, particularly in relation to the minimum wage
   - the relationship between the highest and the lowest wages
   - the Gini coefficient
   - regularity of the payment of wages, and other associated issues
3. wage rises – the basic indicators are:
   - indices of nominal and real wage rises
   - wage rises compared to profit growth
   - development of basic macroeconomic indicators: gross domestic product; prices; industrial production; employment; productivity; the budgetary deficit; and public and overall foreign debt
4. wage structure (basic wage; the component representing performance at work; wage increases; criteria for valuing human work)
5. fiscal burden of wages
   - income tax
   - contributions towards mandatory social insurance
   - tax burden
   - tax wedge
6. minimum wage (minimum wages as a social and economic category; the minimum wage as a rule, or a special law or labour law, regulating the right to the minimum wage and including any exemptions)
7. paid annual leave and public holiday leave, and other paid special leave
8. statistics on wages (methodology for determining the average wage and other indicators).

These issues listed here can, in general, be sub-divided into two broad groups: wage creation and increase; and wage distribution (at the macro- and micro- economic levels).

The social consequences of economic policy

Social protection is rooted in the constitutions of almost all modern European democracies and, accordingly, all citizens should be equally protected regardless of their status, nationality, gender, age and origin. The social welfare system is based on solidarity and equal rights and aims to provide better living and working conditions; access to public services, education and health care; and forms of protection against the major risks of life.

Today, unemployment is reaching pre-crisis lows, wages have been growing at a strong pace over an extended period and current account balances have begun again to deteriorate. However, financial sustainability and economic competitiveness have gained the upper hand over the social dimension. The social consequences of this most recent re-orientation of the approach to economic policy are:

- unemployment continuing nevertheless to be too high
- de-industrialisation (as a result of the mantra that development should be based on services rather than on industry and mass production)
- an increasingly widespread informal economy
- low and insecure wages inhibiting a proper and continuing contribution to systems of social protection
- reduction in employees' rights
- high prices for basic foodstuffs
- increasing poverty[1] – the population living below the poverty threshold and at risk of poverty or social exclusion continually increasing
- a deterioration in health status at national level
- access to healthcare and hospitalisation becoming a prominent issue in the austerity context as patients bear increasing burdens as a result of public services only being willing to meet a lower level of costs. A second factor here is the privatisation trends in the health sector[2]
- mass emigration from a country in search of work – it is necessary in such cases to take stock of the changing paths of work and demography with a focus on more and better employment across all age groups.

With the ageing of the European population, the increasing dependency ratio and the limited interventions for recovery, social protection systems are under pressure while budget cuts reduce their coverage, adequacy and quality.

The social importance of a sound wage policy and, within it, a policy on minimum wages is derived from the need to ensure a safety net for employed people because being in work is no longer a protection against poverty. The population living below the poverty threshold and at risk of poverty or social exclusion has continually increased to the point where it reached 23.5% of the population (EU-28) in 2016 and,

1 Despite the EU key target (contained in the Europe 2020 strategy) of reducing the number of people experiencing poverty or social exclusion by 20 million by 2020, the number of people at risk of poverty has increased from 116 million people in 2008 to 122 million in 2014, or 24.4% of the population (EU-28). However, in the last three years, the trend has been reversed and now we have a reduction in the number of people at risk of poverty from 119 million in 2015 to 112.9 million in 2017, or 22.5% of the EU-28 population. This means people being in at least one of the following three conditions: at risk of poverty after social transfers (income poverty); severely materially deprived; or living in households with very low work intensity.

2 See the Resolution adopted at the ETUC Executive Committee Meeting held on 15 December 2016: *ETUC Action Programme for Welfare and Social Protection.*

more specifically as regards several of the countries of south-east and eastern Europe as follows: Croatia 27.9%; Serbia 38.7%; Macedonia 41.1%; Hungary 26.4%; Italy 30.0%; Greece 35.6%; and Lithuania 30.1%.

Updating to 2017, Eurostat data suggests that more than one-third of the population was at risk of poverty or social exclusion in three member states: Bulgaria (38.9%), Romania (35.7%) and Greece (34.8%). In contrast, the lowest shares of people at risk of poverty or social exclusion were the Czech Republic (12.2%), Finland (15.7%), Slovakia (16.3%), the Netherlands (17.0%), Slovenia and France (17.1%) and Denmark (17.2%).

Table 1 – Europe 2020 Strategy: Poverty or social exclusion

Headline indicator	Past situation	Current situation	
	2008	2016	2017
People at risk of poverty or social exclusion (million)	116.1	118.0	112.9
People at risk of poverty or social exclusion (% of total population)	23.7	23.5	22.5
People living in households with very low work intensity (%)	9.2	10.5	9.3
People at risk of poverty after social transfers (%)	16.6	17.3	1 6.9
Severely materially deprived people (%)	8.5	7.5	6.9

Source: Eurostat News release, 119/2018 – 17 July 2018 How is the European Union progressing towards its Europe 2020 targets?; and Eurostat News release 159/2018 – 16 October 2018 Downward trend in the share of persons at risk of poverty or social exclusion in the EU.

* The Europe 2020 target on poverty and social exclusion was defined for the EU excluding Croatia (EU-27). The 2008 data presented in this table, therefore, refer to EU-27 countries.

2017 data are estimated and occasionally refer at country level to 2016.

Among those EU member states for which 2017 data exist, the rate of the population at risk of poverty or social exclusion has grown in the period after 2008 in ten Member States, the highest increases being in Greece (from 28.1% in 2008 to 34.8% in 2017, i.e. an increase of 6.7 percentage points), Italy (+3.4 points), Spain (+2.8 points), the Netherlands (+2.1 points), Cyprus (+1.9 points) and Estonia (+1.6 points). In contrast, the largest decreases were observed in Poland (from 30.5% to 19.5%, a decrease of 11.0 percentage points), followed by Romania (-8.5 points), Latvia (-6.0 points) and Bulgaria (-5.9 points).

The population living below the poverty threshold and at risk of poverty or social exclusion is on the increase among several key groups: women; children and young people; elderly and retired people; people living in single-parent households; people with low levels of education; and migrants.

Table 2 – People at risk of poverty and social exclusion in selected EU member states and candidate countries, 2008 and 2017

	% of total population		in thousands	
	2008	**2017**	**2008**	**2017**
Bulgaria	44.8	38.9	3 421	2 767
Czech Republic	15.3	12.2	1 566	1 267
Greece	28.1	34.8	3 046	3 702
Croatia**	:	27.9	:	1 159
Italy	25.5	28.9	15 082	17 407
Hungary	28.2	25.6	2 794	2 465
Romania	44.2	35.7	9 115	7 040
Serbia**	:	38.7	:	2 724
Slovenia	18.5	17.1	361	345
Slovakia	20.6	16.3	1 111	856

Source: Eurostat News release 159/2018 – 16 October 2018 Downward trend in the share of persons at risk of poverty or social exclusion in the EU.

Data for 2017 are estimated.

: Data not available

** 2016 data instead of 2017.

Average and minimum wage growth

According to the most recent ILO estimates, in 2015 there were 3.3 billion employed persons in the world, 1.8 billion (54 per cent) of whom were waged workers (a global estimate based on the combination of real and estimated wage data for 132 economies).[3]

Accordingly, we can see that developments in real wages are particularly important for domestic purchasing power and for welfare but also for global economic growth and health. Nevertheless, real wages have lagged behind productivity in south-east European countries in the entire period since 2008. The shares of wages in GDP tend also to be lower in central and eastern Europe (c. 55 per cent) than in the EU-15 (65 per cent); while the main trend is also downwards. GDP growth is below potential and, instead of abandoning the ‘low wage competitiveness’ model, this is being reinforced.[4]

Based on the limited data available, some 10-20 per cent of workers earn the minimum wage in the wider region. Increases in the minimum wage thus contribute

3 ILO (2018) *Global Wage Report 2018/19 – What lies behind gender wage gaps* ILO: Geneva.

4 Béla Galgóczi (2017) *Pay rise CEE: feasible and necessary!* European Trade Union Institute / PERC Economists Network Meeting ‘Wage policy forum’, 10-11 May, Chişinau, Moldova.

to overall wage growth directly as well as indirectly through spill-over effects; indeed, some one-quarter of the average wage growth in the countries of the broader region over 2012-15 is associated with developments in minimum wages. In the period since 2012, minimum wages have been rising faster than average wages in most of the countries of central and eastern, and south-eastern, Europe. The pace of the increase has been particularly sharp in Turkey, as well as in some of the Baltic States and in south-east European countries.

In northern, southern and western Europe, wage growth accelerated in 2015 after a long period of relative wage stagnation or even decline. Real wage growth had resumed in 2013 and, in 2015, the growth rate of wages was twice (1.5 per cent) the rate observed in 2014 (0.7 per cent). However, such growth has since stalled and wages across the region as a whole were static in 2017. The EU, which includes some countries from the above region, experienced higher wage growth than in the previous 15 years, going from negative growth in 2012 to a growth of 1.9 per cent in 2015. It is as yet unclear whether such wage growth will be sustained in the future or whether developed countries will return to their previous pattern of wage stagnation although the most recent evidence again points to the latter.

Labour markets are back to pre-crisis levels in terms of job quantity, but nominal wage growth remains remarkably lower than it was before the crisis because of the quantity of low-paid jobs and the wages associated with them.

Stagnating average wages can have serious social and economic consequences. The disconnect between economic growth and wage growth means that workers and their families do not feel that they are receiving a just share of the fruits of economic progress. On the economic side, low wage growth dampens household consumption and this can reduce aggregate demand, particularly when wages in several large economies are stagnating at the same time. In this respect, the higher wage growth seen in 2015 in various countries has had positive economic effects beyond country borders.

Table 3 – Real wage growth, ILO modelled estimates (per cent changes)

	World*	NSW Europe*	Albania**	BiH***	Croatia***	Macedonia***	Montenegro***	Serbia***	Slovenia	Hungary	Italy
2000	2.6	0.8	10.2	8.3	2.3	-0.6	n/a	6.2	1.6	3.4	0.5
2001	2.3	1.3	7.6	-0.4	0.1	-5.3	n/a	18.4	3.2	8.1	1.0
2002	2.5	1.2	6.1	8.6	4.3	4.0	n/a	30.9	2.0	12.4	-0.2
2003	1.9	0.8	9.4	8.0	2.5	3.7	n/a	14.0	1.8	7.0	-0.3
2004	1.7	0.5	-0.1	1.5	3.5	4.8	n/a	11.1	2.0	-0.8	1.2
2005	2.2	0.2	2.6	1.0	1.3	3.3	n/a	6.8	1.1	5.0	0.9
2006	2.8	0.5	7.2	1.8	2.9	4.6	n/a	11.4	2.2	4.1	0.8
2007	3.4	0.7	21.1	8.2	3.4	1.9	11.0	14.8	2.2	1.3	0.1
2008	1.5	0.2	21.3	8.6	1.1	1.4	12.4	3.9	2.5	-3.5	-0.6
2009	1.8	0.7	2.9	8.6	-0.4	14.8	1.9	0.2	2.5	-3.4	-0.6

	World*	NSW Europe*	Albania**	BiH***	Croatia***	Macedonia***	Montenegro***	Serbia***	Slovenia	Hungary	Italy
2010	2.7	-0.2	-7.0	-1.0	-0.8	-0.7	10.5	0.6	2.1	1.3	0.6
2011	1.9	-0.7	1.3	0.7	-1.0	-2.6	-2.0	0.1	0.2	-1.0	-1.9
2012	2.6	-0.8	1.4	-0.5	-2.2	-3.0	-2.9	1.0	-2.4	1.7	-4.2
2013	2.7	0.2	-3.8	0.2	-1.4	-1.6	-2.3	-1.9	-2.0	1.7	-0.3
2014	2.2	0.7	-0.7	0.8	0.5	1.3	0.3	-1.7	0.9	3.2	0.2
2015	2.2	1.6	0.3	1.0	0.8	3.0	-1.3	-2.4	1.2	4.4	1.2
2016	2.4	1.3	-3.3	2.1	1.8	2.9	3.9	-1.7	1.9	5.7	1.3
2017	1.8	0.0	n/a	0.3	3.9	1.3	-0.5	0.9	1.3	10.3	1.7

Source: ILOSTAT, 20 March 2017.

* ILO estimates (northern, southern and western Europe)

** Other administrative records and related sources

*** Survey data; n/a – not available

The region of northern, southern and western Europe covers the following countries: Albania, Austria, Belgium, Bosnia and Herzegovina, Croatia, Denmark, Estonia, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Montenegro, the Netherlands, Norway, Portugal, Serbia, Slovenia, Spain, Sweden, Switzerland, the Former Yugoslav Republic of Macedonia and the United Kingdom.

In 2016, the G20 called for the implementation of macroeconomic policies to achieve substantial wage and productivity growth, and for sustainable wage policy principles in which strengthened labour market institutions and policies – such as minimum wages and collective bargaining – could help wage increases better reflect improvements in productivity growth.[5]

Bargaining systems that co-ordinate wages across sectors tend to be linked with lower wage inequality and better employment outcomes, including for vulnerable groups. Furthermore, wage co-ordination increases solidarity between workers in different sectors and helps ensure that collective bargaining improves employment by taking due account of macroeconomic conditions.

Minimum wage legislation exists in more than ninety per cent of all countries, and it is important for our purposes here to note that it can improve income distribution through four types of effects:[6]

1. minimum wages can reduce poverty by improving the incomes of minimum wage and low-wage earners, but minimum wage levels are often too low to push household incomes above the poverty level

5 ILO (2016) *Global Wage Report – Wage Inequality in the Workplace 2016/17*, Geneva, p. XIX, XX.

6 Jan Drahokoupil (2016) *What role can minimum wages play in overcoming the low-wage model in central and eastern Europe?* European Trade Union Institute Working Paper 2016.09: Brussels, p. 12.

2. minimum wages are likely to improve income distribution and reduce inequality, primarily by pushing up lower wages, if set sufficiently high
3. minimum wage increases can improve workers' incomes in general if a higher wage floor provides incentives for employers to increase the wages of better-paid workers to retain sufficient pay differentiation
4. minimum wages can influence the distribution of productivity between labour and capital by pushing up the share of income taken by wages. The latter has been declining across the world, with negative effects on inequality and economic growth (ILO and OECD, 2015).

Table 4 – Minimum wages in south-east and eastern Europe (2008-2018) (€ per month)

Country	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Albania	131	137	130	137	144	150	157	157	160	163	181
Bulgaria	112	122	123	123	138	158	174	184	215	235	261
Croatia	-	373	385	381	373	372	396	396	408	433	462
Czech Republic	300	298	302	319	310	318	310	332	366	407	478
Greece	794	818	863	863	877	684	684	684	684	684	684
Hungary	272	268	272	281	296	335	342	333	351	412	445
Lithuania	232	232	232	232	232	290	290	300	350	380	400
Latvia	230	254	254	282	286	287	320	360	370	380	430
Macedonia	-	-	-	-	-	199	214	214	227	240	-
Montenegro	-	-	-	-	-	-	288	288	288	288	-
Poland	313	307	321	349	336	393	404	409	434	454	503
Romania	139	149	142	157	162	157	190	217	232	275	408
Serbia	208	233	222	213	230	239	235	235	233	248	285
Slovakia	241	295	308	317	327	338	352	380	405	435	480
Slovenia	538	589	597	748	763	784	789	791	791	805	843
Spain	700	728	739	748	748	753	753	757	764	826	859
Turkey	354	310	338	385	363	415	362	424	518	480	446

Source: Eurostat, 22 June 2018.

Minimum wages are regulated by labour law regulations in most of the countries of south-east and eastern Europe. Socio-economic councils (tripartite structures involving representatives of employers, the government and trade unions) are authorised to conduct negotiations on the minimum wage and to ensure the equal representation of different economic interests.

Minimum wages in EU member states in January 2018 ranged from €261 to €1,999 per month. Over the ten-year period from 2008 to 2018, the average annual growth rate of the minimum wage was particularly strong in Romania (11.4%), Bulgaria (8.8%), Slovakia (7.1%) and the Baltic countries – Latvia (6.5%), Estonia (6.0%) and Lithuania (5.6%). Table 5 provides data on the minimum wage for some EU member states and those countries which are candidates for EU membership: Albania, Montenegro, FYR Macedonia, Serbia and Turkey.

Table 5 – Growth in minimum wages in south-east and eastern Europe, January 2008 and 2018 (€ per month)

Country	2008	2018	Difference 2008-2018 (%)	Difference 2008-2018 (€)
Albania	131	180.5	37.8	49.5
Bulgaria	112	260.7	132.8	148.7
Croatia	-	462.3	-	-
Czech Republic	300	477.8	59.3	177.8
Greece	794	683.8	-13.88	-110.2
Hungary	272	444.7	63.5	172.7
Lithuania	232	400	72.4	168
Latvia	230	430	87.0	200
Macedonia	-	-	-	-
Montenegro	-	-	-	-
Poland	313	502.7	60.6	189.7
Romania	139	407.9	193.5	268.9
Serbia	208	285.4	37.2	77.4
Slovakia	241	480	99.2	239
Slovenia	538	842.8	56.7	304.8
Spain	700	858.5	22.6	158.5
Turkey	354	446.4	26.1	92.4

Source: Eurostat, 22 June 2018.

The social importance of minimum wages arises from the need to ensure a social safety net for employees and their dependants. Therefore, it is necessary to set the minimum wage at a level which provides a minimum acceptable standard of living for low-paid workers.

It is also important to emphasise that higher real and minimum wages play an important role in allowing the countries of south-eastern and eastern Europe better to retain labour locally and to ensure that they are able to gain the benefits of their investment in worker education and training. Higher domestic wages, and greater wage equivalisation with western Europe, would allow labour-exporting countries better to control the 'brain drain'; in the interim, better attention to creating and spreading employment opportunities across all age groups needs to step into the gap.

Case study of wage rises in Serbia

When talking about single individual countries in Europe, we need to realise that the challenges at national level are complex and specific; and to recall that it is necessary for trade unions to have a meaningful voice within the social dialogue in which these problems can be addressed.

Table 6 shows the development of average gross (and net) monthly wages at nominal level in national currency and in Euros (at exchange rate parity) for Serbia.

Table 6 – Trends in average wages in the Republic of Serbia (2000-2017)

Year	RSD exchange rate against €	Net wage		Gross wage	
		(RSD)	(€)	(RSD)	(€)
2000	58.6750	2,389	40.7	3,806	64.9
2001	59.7055	5,840	97.8	8,691	145.6
2002	61.5152	9,208	149.7	13,260	215.6
2003	68.3129	11,500	168.3	16,612	243.2
2004	78.8850	14,108	178.8	20,555	260.6
2005	85.5000	17,443	204.0	25,514	298.4
2006	79.0000	21,707	274.8	31,745	401.8
2007	79.2362	27,759	350.3	38,744	489.0
2008	88.6010	32,746	369.6	45,674	515.5
2009	95.8888	31,733	330.9	44,147	460.4
2010	105.4982	34,142	323.6	47,450	449.8
2011	104.6409	37,976	362.9	52,733	503.9
2012	113.7183	41,377	363.9	57,430	505.0
2013	114.6421	43,932	383.2	60,708	529.5
2014	120.9583	44,530	368.1	61,426	507.8
2015	121.6261	44,432	365.3	61,145	502.7

Year	RSD exchange rate against €	Net wage		Gross wage	
		(RSD)	(€)	(RSD)	(€)
2016	123.4723	46,097	373.3	63,474	514.1
2017	118.4727	47,814	393.3	64,727	546.3

Source: Database of the Statistical Office of the Republic of Serbia, October 2018; Statistics from the National Bank of Serbia, October 2018; calculations by the authors.

Wage increases were spectacular between 2000 and 2008 while, in the period between 2008 and 2016, nominal wages (both in national currency and Euros) showed a more moderate increase. In real terms, however (not shown in this table), they essentially stagnated. The minor level of real wage increases in 2009-2011 was wiped out by stronger decreases between 2012 and 2015 and the trend towards a real increase in 2016 and 2017 only adds up to a real wage level that is stagnant when compared to 2008.

According to the Law on the Budget for 2017, the developments in overall wage costs for employees in 2017 are defined on the one hand by a statutory wage rise (for employees in education, the police, the army, health, justice and some other segments of public services) and, on the other, by a rationalisation in the number of employees. The net result of these two measures should condition the growth of expenditure on employees in 2017 by 3.5 per cent.

Poverty and social inequalities continue very much to be present, especially compared to EU member states. Therefore, it is necessary to start systematically to resolve this growing problem. On the one hand, salaries in public service are limited by the adoption of the budget (into which trade unions have no insight); while, on the other, salaries of executives and directors are 33 times higher than average salaries. Limitations on salaries are being imposed by the state while, at the same time, those who are highest paid are additionally rewarded through various subsidies, tax reliefs, etc. For example, the 1-2 per cent of the richest citizens in Serbia have tax reliefs at their disposal upon the calculation of their annual income tax. Furthermore, the income tax system is regressive, which leads to the poorest classes of society being over-burdened with taxes and social contributions while the richest are burdened to a proportionately lower extent. The largest part of collected public income continues to be transferred, via public expenditure, from the poorest to the richest.

The contribution of indirect taxes (consumption tax) to the overall Serbian tax wedge is quite substantial, so the poor are again burdened to a proportionately higher extent while they spend a larger part of their income (often more than 100% through taking on debt) compared to richer citizens.

Data acquired from surveys on income and living conditions in Serbia show that a large number of people have jobs which do not provide for decent living standards for their families. Furthermore, some one person in four works in the informal sector while one person in three are in precarious jobs.

In order to balance the tax system, direct taxes need to be designed more typically to secure progressiveness, i.e. to burden those citizens with higher incomes proportionately more. It is possible to achieve this also via taxes on corporate profits as well as property and inheritance taxes.

Concerning wage developments and collective bargaining, we should remind ourselves that sectoral collective agreements and company collective agreements stopped being valid on 29 January 2015; i.e. six months after the last amendments to the July 2014 Labour Law came into effect. After these amendments, sectoral collective agreements outside the public sector have practically disappeared, especially in the processing industry, which has resulted in the collapse of sectoral collective bargaining and increased pressure on salaries as well as the drastic reduction of trade union and labour rights.

Furthermore, a small number of households are covered by social assistance and child support and the amounts received are quite low – lower by about one-half than the EU average. Children in Serbia are exposed to an above-average risk of poverty while, more generally, families with children – even where the parents are employed – are in a less favourable position than similar families in most EU member states. Child support and financial social assistance are intended primarily for the poor (child support) and very poor (financial social assistance).

Summary

If we look at wage developments in the region, we can note signs of consolidation. Serbia and Montenegro, which also have comparably more balanced labour markets, are in the vanguard with real wage increases which have picked up in the most recent past. Among those south-east European countries for which data are available, only Croatia had a lower real wage increase than the EU-27 average over the course of the last decade, but Croatia also had a significantly high wage level for the region.

The Gini coefficient measures the extent to which the distribution of income among individuals or households deviates from a perfectly equal distribution.[7] Growing income inequality is a general trend in Europe and there is no evidence to support the assumption of an equality-efficiency trade-off. Indeed, the act of depressing wages has led to a loss of efficiency, with the purchasing power of the population being maintained through credit that has, eventually, built to unsustainable levels and resulted in a debt crisis (Qerimi and Sergi, 2014 and 2015).

However, looking forward we can see how the important variables of GDP growth and unemployment are forecast to change in the region (see tables and charts below).

7 A Gini coefficient of zero represents perfect equality – everyone has the same income – while an index of one (100 on the percentile scale) implies perfect inequality in the income distribution (one person has all the country’s income; everyone else has nothing).

Table 7 – GDP developments and forecasts (real change in per cent on previous year)

	2016	2017	2018	2019
Albania	3.2	3.5	3.9	4.0
BiH	2.3	2.8	3.0	3.1
Kosovo	3.6	3.9	3.8	3.7
Macedonia	2.5	3.1	3.3	3.0
Montenegro	2.7	3.1	2.9	3.3
Serbia	2.7	2.8	3.0	3.3
Western Balkans	2.7	3.0	3.2	3.4
Turkey	1.9	2.1	2.6	3.1
Belarus	-2.6	0.5	1.6	2.2
Kazakhstan	1.0	2.0	3.0	3.0
Russia	-0.2	1.7	1.7	2.0
Ukraine	2.0	2.5	3.0	3.0
CIS + Ukraine	0.0	1.7	1.9	2.2
VIS-4	2.6	2.9	3.0	3.0
BALT-3	1.9	2.5	2.7	2.9
SEE-9	3.8	3.5	3.6	3.6
Non-EU-11	0.6	1.9	2.2	2.5
CESEE-22	1.3	2.2	2.5	2.7

Chart 1 – Real GDP growth, 2015-2019 (per cent)

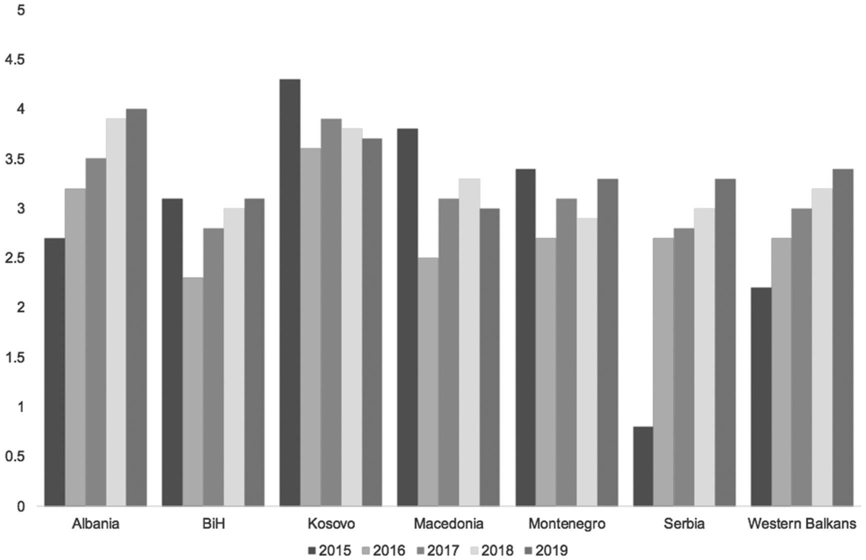
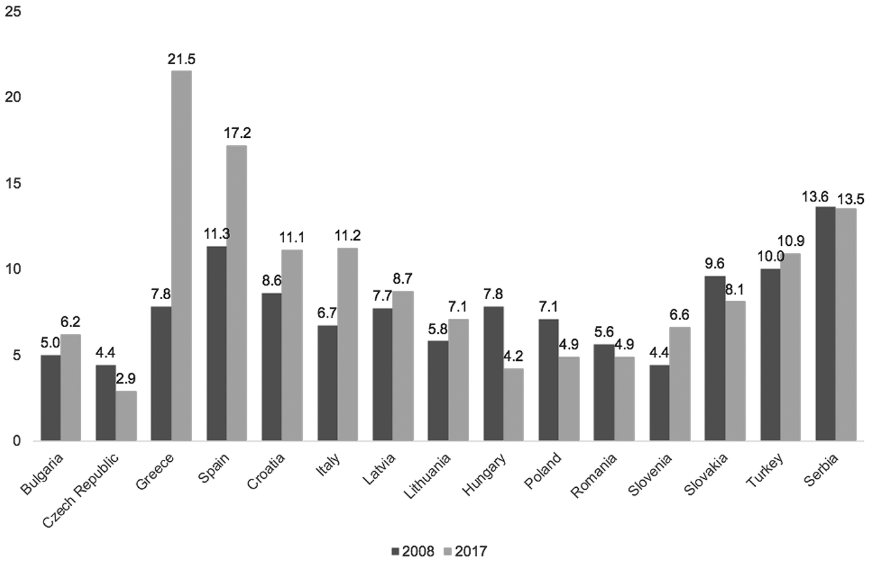


Table 8 – Unemployment (LFS) outturns and forecasts (rate in per cent; annual average)

	2016	2017	2018	2019
Albania	15.2	14.8	14.5	14.0
BiH	25.4	25.3	25.1	25.0
Kosovo	26.5	25.8	25.5	25.2
Macedonia	24.0	24.0	23.0	23.0
Montenegro	17.5	17.0	16.5	16.5
Serbia	16.1	15.0	14.0	14.0
Western Balkans	19.1	18.4	17.7	17.6
Turkey	10.8	11.0	10.6	10.4
Belarus	0.8	1.0	1.0	1.0
Kazakhstan	5.0	5.0	5.0	5.0
Russia	5.3	5.6	5.6	5.5
Ukraine	9.4	9.2	8.1	7.3
CIS + Ukraine	5.9	6.0	5.8	5.6

	2016	2017	2018	2019
VIS-4	6.0	5.8	5.7	5.6
BALT-3	8.2	7.7	7.3	7.0
SEE-9	11.3	10.9	10.4	10.2
Non-EU-11	7.6	7.7	7.4	7.2
CESEE-22	7.3	7.3	7.1	6.9

Chart 2 – Unemployment rate (2008 and 2017) (percentage of active population)



Source: Eurostat, 26 October 2018

The global financial crisis and the high prevailing level of social disparities are additions to our analysis. So far, the focus has been on the broader state of social welfare. We have explored the relevant situations and trends in the light of the global economic crisis and the influence that this has exerted on labour markets in the south-east European region and, to a certain extent, also globally.

However, a more complete and comprehensive vision of this state of affairs would benefit significantly from an understanding of the effects which this has had on different social categories. Certainly, participation in labour markets and employment rates differ according to age, gender, level of education and other similar criteria.

The ILO has argued (2010) that it has indeed been the young who have been hit badly by the global financial crisis, while the statistics show a particularly dramatic increase in youth unemployment in the south-east European region. In contrast to the challenging unemployment rates in south-east European countries, we can observe, in the Eurozone, generally lower levels of unemployment among the under-25s. It must, however, be noted that, in those EU member states that were most hit by the crisis, youth unemployment rates are similar to, or even higher than, some of those in the Balkans region.

The global economic crisis has also had an impact on other dimensions of labour, resulting in some countries with increased and higher unemployment rates for men than women. This effect is exposed particularly prominently in the case of Croatia, where the unemployment rate for men has increased three times more than that for women. The same pattern, though to a different degree, is present among other countries of the region. Thus, the unemployment rates among men are also significantly higher than those for women in Bosnia and Herzegovina, Bulgaria, Montenegro and Serbia. Romania would appear to be the only exception in the broader region; here, the female unemployment rate has actually increased by more than the male unemployment rate (Qerimi and Sergi, 2014 and 2015).

Our work in this highly important sphere of wages will continue and, of course, we will seek to report further on our analysis and our findings in future editions of the *SEER Journal*.

References

Drahokoupil, Jan (2016) What role can minimum wages play in overcoming the low-wage model in central and eastern Europe? European Trade Union Institute Working Paper 2016.09: Brussels.

ETUC (2016) Resolution adopted at the Executive Committee Meeting 15 December 2016: ETUC Action Programme for Welfare and Social Protection Brussels.

European Trade Union Institute (2017) Benchmarking Working Europe 2017 Brussels.

Eurostat News Release 119/2018, 17 July 2018 How is the European Union progressing towards its Europe 2020 targets?

Eurostat News Release 159/2018, 16 October 2018 Downward trend in the share of persons at risk of poverty or social exclusion in the EU.

Galgóczi, Béla (2017) Pay rise CEE: feasible and necessary! European Trade Union Institute/PERC Economists Network Meeting ‘Wage policy forum’ 10-11 May, Chişinau, Moldova.

Gasmi, Gordana, Predrag Dedić and Rolf Weber (2016) ‘Comparative analysis of minimum wages in Western Balkans and in the European Union – Case study of minimum wages in Denmark’ Review of International Affairs LXVII: 1162-1163, April-September.

ILO (2016) Global Wage Report – Wage inequality in the workplace 2016/17 Geneva.

ILOSTAT (2017) Wage growth by region – ILO modelled estimates December 2016, Geneva.

Kosanović, Rajko, Sanja Paunović and Bruno S. Sergi (2017) 'Comparative analysis of wages in central and eastern Europe' SEER Journal for Labour and Social Affairs 20(2): 159-180.

OECD (2017) Decoupling of wages from productivity: macro-level facts Economics Department Working Papers No. 1373, OECD: Paris, https://www.oecd.org/eco/Decoupling-of-wages-from-productivity-Macro-level-facts.pdf.

Qerimi, Qerim and Bruno S. Sergi (2014) 'Global Economic Crisis, Social Welfare and Social Disparities in South East Europe: Understanding the Crisis's Effects on Employment' in On The Social Dimension of EU Enlargement, Special Issue Solidar pp. 101-125, Bruxelles: FEPS.

Qerimi, Qerim and Bruno S. Sergi (2015) 'Development and Social Development in the Global Context' International Journal of Business and Globalisation 14(4): 383-407.

Sergi, Bruno S. (2017) Comparative analysis of wages in SEE/NIS, European Trade Union Institute/PERC Economists Network Meeting 'Wage policy forum', 10-11 May, Chişinau, Moldova.