

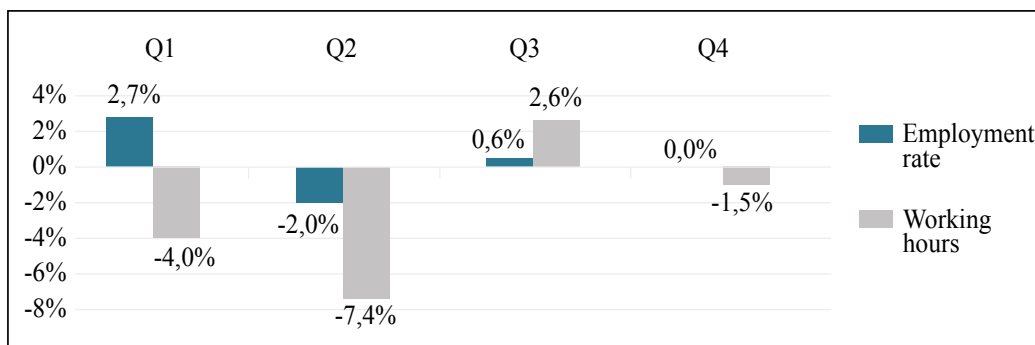
## POLICY BRIEF

## EFFECTS OF COVID-19 PANDEMIC ON THE LABOUR MARKET AND VULNERABLE GROUPS IN SERBIA

This policy brief presents the research results on the effects of the COVID-19 pandemic on the labour market in Serbia and identifies the groups that were hit the most during the crisis. The full report can be found [here](#), while in this brief, we summarise the main findings of the research and their policy implications.

As a response to the outbreak of the COVID-19 pandemic, the Government of Serbia introduced virus containment measures throughout 2020. The measures, which significantly affected economic activity, were most restrictive during the state of emergency, which lasted from March 15 to May 6. The government adopted generous support measures to mitigate the economic consequences of COVID-19. The measures towards firms included tax deferral and direct subsidies which were near universal and undoubtedly provided a lifeline for some businesses.

Compared to other economies, the GDP drop in Serbia in 2020 was relatively low – only 1%, with diverging trends within the year and across sectors. **The decrease in the economic activities has been transmitted to the labour market activity without any lag – with stronger effects in terms of working hours than in terms of employment.** Compared to 2019, the employment rate in 2020 remained unchanged, while working hours decreased by about 1 hour on average (or by 2.6%).



**Figure 1:**  
Annual changes in employment rate and working hours between 2019 and 2020

Source: Own calculation based on LFS data

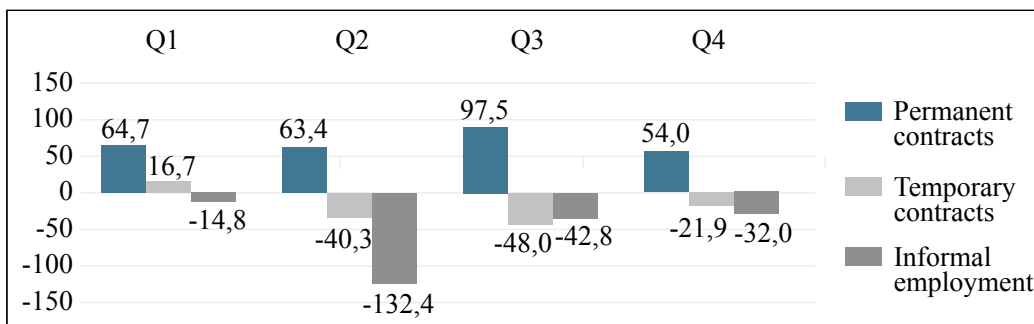
**The intensity of containment measures in different quarters directed the impact on the labour market. Most of the adverse effects on the labour market happened in Q2, during the state of emergency.** The employment rate decreased temporarily only in Q2 – by 2%, while the most significant decreases in the working hours were in Q1 – by 4.0% and particularly in Q2 – by 7.4%. The main reason for lower working hours in the first part of the year was absenteeism due to containment measures. In Q3 working hours increased, as significantly fewer workers were on holidays than in the previous years, in an attempt to make up for some lost time and income. In Q4, as some restrictions were again introduced due to rising cases, working hours were reduced (by 1.5%).

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## MAIN FINDINGS AND POLICY IMPLICATIONS

### 1. The number of informal and formal temporary workers decreased in 2020 by about 10% and 6%.

While the number of permanent formal workers increased, there were significant decreases in temporary jobs. If their contract expired during the pandemic, temporary workers had difficulties in finding their next job due to the pandemic, and as a result, their income stability was compromised. Similarly, the employment and income of informal workers was negatively affected by the pandemic, as they don't have working contracts to rely on. Additional analyses suggest that while some of these workers found permanent positions, and some were dismissed, the main reason for this decrease seems to be the low availability of these jobs in 2020. Their employment is largely transitory, and the pandemic has put a significant hurdle in their usual labour market dynamics.



**Figure 2:**  
Annual changes in the number of employees (in thousands), by type of contract between 2019 and 2020

Source: Own calculation based on LFS data

On the other hand, the most significant decrease in the working hours was among self-employed and seasonal and occasional workers, by 7 and 11% respectively. While retention subsidies for micro, small and medium enterprises (MSMEs) provided safety for the jobs in formal self-employment, the pandemic decreased the time they spent on the job, which is likely the reason they also faced a decline in their earnings.

- **Support measures towards firms undoubtedly had their role in preserving permanent formal employment, and the more substantial support towards MSMEs was justified, as they were more vulnerable in the terms of liquidity.**
- However, **the income stability of temporary and informal workers who lost their jobs could have been preserved to a greater extent by additional income support measures in the pandemic period.** While it is difficult to target this group, one mechanism could have been to grant financial support to all unemployed persons registered with the National employment service, during the period of severe restrictions.

### 2. The consequences of the pandemic were considerably different across the sectors.

**The accommodation and food services activities (AFSA) sector suffered the most significant decline in employment and working hours.** This sector was under the highest impact as it requires close contact with customers and cannot be performed from home or replaced with online purchases. The number of formally employed in the AFSA sector was in 2020 lower by 8% than in 2019, while working hours were reduced by 10%. Additionally, about one-third of workers in the AFSA sector faced unpaid leave and wage reductions, the highest of all sectors.

**After AFSA, Arts, entertainment and recreation (AER) and Construction sectors faced the most substantial decreases in the working hours** of 9% and 7%. At the same time, an above-average reduction in working hours is also found in Transport, Professional, Administrative and Other services, however these sectors have not faced the loss of formal jobs. Aside from AFSA, Finance and Transport sectors also faced annual decreases in employment by 3% and 2%, with the decrease in Finance sector particularly pronounced in Q2 – by 25%. **Most informal jobs were lost**

**in the Agriculture sector.** While the number of formal jobs in agriculture remained unchanged, informal jobs in this sector shrunk by about 14%. On the other hand, Trade and Information and Communication had yearly increases in employment and did not face working hours decreases.

**Table 1. Largest decreases in employment and working hours in the first year of pandemic, by sector**

EMPLOYMENT	WORKING HOURS
Formal employment <ul style="list-style-type: none"> <li>• AFSA (-8%)</li> <li>• Finance (-3%)</li> <li>• Transport (-2%)</li> </ul>	<ul style="list-style-type: none"> <li>• AFSA (-10%)</li> <li>• AER (-9%)</li> <li>• Construction (-7%)</li> <li>• Transport (-5%)</li> <li>• Professional services (-5%)</li> <li>• Administrative services (-4%)</li> <li>• Other services (-4%)</li> </ul>
Informal employment <ul style="list-style-type: none"> <li>• Agriculture (14%)</li> </ul>	

Source: Own calculation based on LFS data

- Support measures towards firms with near-universal character positively affected the economy. However, **the amount and length of the assistance to firms should have been differentiated according to the estimated risks each sector faced and initial estimates of their performances. Although sector-specific support was applied in late 2020, differentiation could have been implemented earlier, and the assistance would be better targeted and cause lower costs.**
- Risk estimation could have included the information whether workers in each sector could work from home and if their work requires direct contact with other people, as these jobs were under a greater impact. Although such data are not available for Serbia, these estimates could have been taken from comparative research for other countries such as ICP for Italy or O\*Net for the US.

### **3. COVID-19 crisis has increased the inequalities of employment opportunities for low-educated, youth and persons from South-Eastern Serbia.**

These groups had significantly lower employment rates than the rest of the population even before the pandemic, and this gap has increased in 2020. **This effect was most pronounced for low-educated, as they faced decreased employment in Q3 and Q4** (by 2.4 and 3.0 percentage points), suggesting more durable effects. On the other hand, youth and workers from the South-Eastern Serbia (SES) region faced temporarily lower employment only in Q2 and Q3, respectively.

**Table 2. The effects of the pandemic on employment and working hours of vulnerable groups**

EMPLOYMENT	WORKING HOURS
<b>Employment gap increases</b> <ul style="list-style-type: none"> <li>• <i>Low educated vs others</i> by 2.4 (Q3) and 3 p.p. (Q4)</li> <li>• <i>Youth vs others</i> by 3 p.p. (Q2)</li> <li>• <i>SES region vs others</i> by 2 p.p. (Q3)</li> </ul>	<b>Working hours trends</b> <ul style="list-style-type: none"> <li>• <i>Youth vs others</i> additional reduction of 1.3 hours in Q2; increasing working hours in Q4</li> <li>• <i>SES region vs others</i> Worked about 1 hour more in Q3 and Q4</li> <li>• <i>Rural vs urban</i> Shorter hours in rural areas in Q1 and Q3 (by 1 hour), longer in Q2 (by 1 hour)</li> </ul>

Source: Own calculation based on LFS data

Young workers also had a higher decrease in working hours in Q2 than other workers and an increase in working hours in Q4, and were the only vulnerable group that had lower earnings during the pandemic by about 2%. In addition to a temporary reduction of employment in Q3, workers in the SES region had longer working hours in this quarter and in Q4. Rural workers faced different working hours trends than urban workers, likely due to the seasonality of their work.

- While some of these gap increases could be temporary, they have still impacted their income security and could have a permanent negative impact on their employability. Our results suggest that **employment programmes focused on low-educated, youth and SES region are necessary**. Government programmes for youth such as “My first wage” and support for young people to start their own business are important to support their employment. However, those who were hit the most – the low educated – haven’t had programs specifically designed for their needs. The same applies to workers from the SES region, as a least developed part of the country

#### **4. Some of the workers’ rights were violated during the crisis, and the government needs to ensure that they are adhered to a greater degree.**

- Employees (un)willingly used holiday days in the period of low economic activity in Q1 and Q2, and therefore they could not use them during the summer. Thus, **workers were doubly burdened - locked in their homes during the state of emergency and without holidays in the summer months**.
- According to the recommendation from the Government, the employers were to pay 100% of the wage to the employee who went on sick leave due to COVID-19 infection. However, **about one-third of the employees did not receive the full compensation during COVID-19 sick leave**.
- About one-third of the workers who worked from home did not have adequate working conditions such as office-like space and adequate chair for work, which could have caused additional health problems. The **employers haven’t provided working conditions for those working from home to a sufficient degree**.

## DATA

The results presented in this policy brief stem from the analysis of Labour Force Survey (LFS) and National employment service (NES) data, as well as from INEQ-RS-COVID-19 - a new nationally representative survey on the effects of COVID-19, designed particularly to analyse labour market and household outcomes changes that occurred during the pandemic. More details on the analysis and the methodology applied can be found [here](#).