

ECONOMIC CRISIS AND COPING STRATEGIES OF THE HOUSEHOLDS IN SERBIA

After decade of blocked transformation during 1990s, period of intensive reforms has brought significant changes in socio-economic and cultural environment in Serbia. However, since 2009 the effects of global economic crisis coupled with uncompleted and ineffective reforms have contributed to the new phase of deteriorated economic and social conditions.

Economic situation

During period of reforms prior to economic crisis (2000-2008), Serbia has experienced relatively high economic growth (around 5% on average), intensive privatization process, improvement of conditions for entrepreneurship and development of small and medium enterprises (SME) and increasing living standard of the population. However, these processes were not completed; growth was based on increase of consumption and break-out of economic crisis in 2008 revealed that this model was not sustainable.

Since then Serbia has been facing the problem of achieving stable and sustainable economic growth. In 2009 and 2012 the growth was negative, never to reach levels from first half of 2000 again. Sharp decline of FDI contributed to the recession and decrease of opportunities to generate new economic initiatives. Fiscal instability and increase in government indebtedness (reaching over 70% of GDP in 2014), contributed to the bleak picture of macroeconomic environment.

Table 1. Macroeconomic indicators in Serbia 2008-2013

	2008	2009	2010	2011	2012	2013
GDP mil. Euro	16.024,3	17.289,5	18.993,6	20.285,3	23.327,4	28.473,9
GDP per capita, in Euro	4.446,0	3.954,7	3.835,7	4.350,6	4.111,8	4.453,2
GDP real growth, in %	3,8	-3,5	1,0	1,6	-1,5	2,5
Foreign Direct Investments, net in mil. Euro	1.824,4	1.372,5	860,1	1.826,9	241,9	768,5

Source: Ministry of Finance of RoS¹

Behind these trends are severe problems of unsuccessful economic restructuring. Activity in key sectors has been declining: industry, agriculture, construction and retail trade. Only small number of service based activities remained drivers of the growth (i.e. financial services, insurance, communication). Part of the problems is related to ineffective privatization. Many privatized companies did not contribute to development, the process was marked by many problems and irregularities and the proportion of terminated or canceled privatization contracts has been growing steadily reaching 26% of the privatized enterprises in 2012 (Eric et al., 2012: 360-361). Government launched public sector reform in 2013, which will contribute further to the aggravation of labour market situation.

¹ Data accessed at <http://www.mfin.gov.rs/pages/article.php?id=7161> on 5 May 2014.

Employment

Employment is a key component of economic development. It is therefore essential to monitor main trends and characteristics of employment. In Serbia, social transformations over the last decades and the effects of the economic crisis in late 2008 have created unfavorable labor market trends. This is reflected in the decline of employment and size of an active population, increase in unemployment and a high share of informal employment.

Table 2. Key labour market indicators for population 15-64 in Serbia 2011-2013

	2008	2009	2010	2011	2012	2013
Activity rate	/	/	/	59.4	60.1	61.6
Employment rate	53.3	50.3	47.1	45.4	45.3	47.5
Unemployment rate	12.7	16.1	19.0	23.6	24.6	27.0

Source: for 2008-2010 *First National Report on Social Inclusion and Poverty Reduction*, for 2011-2013 *Second National Report on Social Inclusion and Poverty Reduction*

In the previous period, employment has declined drastically and is currently reflected in low employment rates, both in terms of the whole population as well as for specific social groups. Unfavorable labor market trends have marked post-socialist transformation. During the 1990s, labor market development was blocked. Although employment rates began to decline slowly during this period, it was not to the level of the decrease in gross domestic product, which recorded a drop of as much as 50%. The reason for this was the growth of 'hidden' unemployment in state owned enterprises, in which employees were only formally protected. Another consequence of this collapse of the labor market was dualization of the formal and informal economic activity, whereby informal economic activity has drastically increased (Mojić, 2004: 205-206).

In the first decade of the 21st century, Serbia underwent rapid privatization and growth of foreign direct investment, which consequently also led to the growth of GDP. However, this growth was not based on employment growth, rather, it was an effect of consumption growth - jobless growth. While the industrial and agricultural sectors were retreating, the services sector was steadily growing. Between 2001 and 2006 employment rates fell by 3% (Cvejic, Babovic, Pudar, 2010: 22). Although the first positive labor market trends were observed in 2007, this was quickly halted with the economic crisis in the last quarter of 2008. So called jobless growth, or consumption based growth, was not sustainable, and negative labor market trends were again dominant. In just one year (April 2008 - April 2009), employment decreased by 6.9%, while labor market exclusion and poverty increased (Ibid: 26). The next period was marked by further deepening the already existing problems in the labor market.

Table 3. The key labor market indicators in Serbia

Labour participation	
Activity rate 2013	61.6%
Employment rate 2013	47.5%
Unemployment rate 2013	27.0%
Long-term unemployment rate (for population aged 15 to 64) 2013	17.5%
Quality of employment	
Informal employment rate 2013	19.3%
Permanently employed (percentage of employed population aged 15 to 64) in 2008 ²	87,8%
Vulnerable employment – self-employed and family helpers (percentage of employed population aged 15 to 64) in 2008 ³	31,2%

Source: 2011-2013 *Second National Report on Social Inclusion and Poverty Reduction*, 2014, except where specified in footnote

The labor market in Serbia is today particularly unfavorable, both to the general population, as well as in regard to different social groups. Employment rates for women were lower than for men. At the same time, unemployment rates of women are slightly higher than for men (Statistical Office of the Republic of Serbia (SORS), 2013b). These trends are a result of long-term processes whereby women's position on the labor market has deteriorated.

Apart from gender inequalities, labor market divisions can also be observed in regard to other social groups who are in an unfavorable position. Accordingly, young people, people from rural areas, refugees and internally displaced persons, Roma, persons with disabilities, the elderly, and people with lower education are among especially vulnerable groups on the labor market (Krstic et al., 2010: 13). All these groups are characterized by difficulty to find employment and high rates of unemployment and inactivity. These were also the groups most severely affected by the economic crisis in late 2008.

It is estimated that during the 1990s about 500,000 young people left the country in search of a better life opportunities. Two decades later, their entrance into the labor market is still very difficult, especially among some specific groups such as young Roma, young people from rural areas, young migrants, youth with disabilities, and young people aged 15 to 30 with low level of education (Youth employment fund, 2010). One of the main characteristics of the youth employment is significantly lower quality of employment. Also, young people are more frequently employed in part-time jobs or temporary jobs, as well as in the informal sectors. The labor market position of youth has further deteriorated with the onset of the economic crisis. In just one year (from the end of 2008 till the end of 2009) the activity rate of youth declined by 3%, employment by 4.2%, while unemployment increased by 8.1%. During this same period, elderly were affected by the crisis layoffs, while the young going out of business due to the nature of employment (Krstic et al., 2010: 35-36).

²Krstic et al. (2010: 23).

³ Ibid: 22.

Although the labor market position of refugees and internally displaced persons is difficult, higher rates of self-employment among this group compared to the general population of Serbia can be observed. Furthermore, members of these vulnerable groups are faced with limited access to social protection in the workplace and their salaries are often below the national average in Serbia. Similar to the young population, internally displaced persons are more frequently employed in temporary jobs and in the informal sector of the economy (Babovic, Cvejic, 2008). The main reason for working in the informal economy is the existence of barriers in regard to entry into the formal labor market.

People with disabilities are particularly vulnerable group, extremely high rates of inactivity are registered. They are often discouraged to seek employment due to discrimination by employers, unsuitable work opportunities that do not meet their needs, but also due to the fear of losing social welfare protection rights after employment (Cvejic, Babovic, Pudar, 2010: 32). People from rural areas are also an especially vulnerable group in regard to employment. This group also includes those who are self-employed and unpaid family workers, predominantly women. The Roma population is a significantly underrepresented group among the labor force with low employment rates and high unemployment rates. A particular concern in this group, but also at the level of the general population of working age, is the long-term nature of unemployment. Long-term unemployment increases the risk of permanent exclusion from the labor market, as well as exposure to poverty and social exclusion (Krstic et al., 2010: 76).

In order to solve the existing problems, it is necessary to actively implement measures to improve employment opportunities, both for the general population but also specifically for particular vulnerable groups.

Economic inequalities

Economic inequalities appear in different forms between regions, urban and rural areas, households, individuals and social groups. Regional inequalities are striking in Serbia. Uneven development has geographical divide as well, since Belgrade as metropolitan area is the most developed in opposition to other parts of Serbia, particularly those on the East and South of the country. The economic activity is highly concentrated in the city of Belgrade, and South Backa, the area of Vojvodina Province that is bordering Belgrade region, while remaining regions are facing the problem of low economic activity and underdevelopment.

Table 4. Indicators of economic inequality

Regional inequalities		
Share of regions in GDP, 2010, in % ⁴	Belgrade	40.0
	Vojvodina	26.0
	Sumadija& West Serbia	19.5
	South&East Serbia	14.5
GDP per capita, 2010, Serbia=100 ⁵	Belgrade	178
	Vojvodina	97
	Sumadija& West Serbia	70
	South&East Serbia	64
Unemployment rate regional differences ⁶	Belgrade: Branicevski district	1:10
Income inequalities		
Income inequality S80/S20, 2012 ⁷		8.8
Gini coefficient, 2012 ⁸		38.0
Poverty⁹		
Poverty rate (absolute poverty), 2012	Urban areas	6.0
	Rural areas	12.3
At risk of poverty rate (relative poverty), 2012		24.6

Data presented in the previous table indicate that in 2010 major portion of GDP was generated in Belgrade. GDP per capita was above average value for Serbia only in Belgrade. Also, in 2009, the gross added value per capita was 6.5 times higher in Belgrade than in East and South Serbia (Ministry of Finance and Economy, 2011).

Regional inequalities are prominent also in the aspect of employment, concentration of investments, concentration of industrial activity, living standard. For example, unemployment is three times higher in South and East Serbia than in Belgrade; share of Belgrade in total investments in new assets in 2009 was 43%, industrial density index for Belgrade is 2.1% and for Region of South and East Serbia only 0.6% (ibid).

Big regional inequalities are the consequence of inherited misbalances of economic structure, population trends and lack of adequate institutional settings and infrastructure. Problematic post-socialist transition has only contributed to the increase of regional disparities.

⁴Statistical Office of the Republic of Serbia (2013a: 121).

⁵Ibid

⁶Ministry of Finance and Economy of RS (2011).

⁷ Statistical Office of the Republic of Serbia, (2015).

⁸Ibid

⁹*Second National Report on Social Inclusion and Poverty Reduction, 2014*

Major part of Serbia is rural - up to 86% of its territory (Zivkov et al, 2012). Urban rural divide is marked by prominent inequalities and significantly different population trends. Internal migration is intensive from rural to urban areas and from border to central areas of the country, particularly towards Belgrade and few other bigger cities. Due to these migration trends minority of population lives in these areas (42%). Economy in rural areas still is dominantly focused on agriculture. The agricultural production is performed mostly through the private farming households and it is marked by low productivity and weak market orientation. Only about 40% of farming households sell their products on the market and the income is not competitive to the incomes in other sectors (Cvejic et al, 2010). Financial market is not adjusted to the needs and capacities of farming households and they face obstacles to provide means for investment in the modernization or expansion of agricultural production or diversification of household economy due to the lack of loans. Insufficient information on market conditions, opportunities, and available forms of support is also lacking in rural areas preventing incentives for development of rural economy. Employment opportunities outside of household and agriculture are very limited and consequently living standard is much lower than in urban areas.

Income inequalities have been increasing in Serbia. Data presented in the table above indicate that quintile of population with highest incomes has 8.8 times higher incomes than quintile of population with the lowest one. This is higher than average for EU27 (it was 5.0 in 2010). Value of Gini coefficient which measures overall income distribution was on the level of 38 and again higher than average for EU27 which was 30.4 in 2012.

Data on poverty in Serbia, whether absolute or relative poverty measures are taken into account indicate that certain groups are constantly more exposed to the poverty risks. Rural households are considerably more exposed to poverty compared to the urban ones and households without employed persons, as well as the households of the Roma and IDPs. Also, households with children are somewhat more exposed to poverty, as well as the ones with women as the head of the household, compared to the ones where men are the heads of the household (Cvejic, Babovic, Pudar, 2011; SORS, 2015). There is another vulnerable group that is often exposed to poverty – the elderly, especially those with a lower level of education. Most of the elderly people experiencing poverty are suffering from some kind of chronicle disease and in many cases they live alone and do not have family or friend's support (Satarić et al., 2009).

Even though employment greatly reduces poverty risks, according to the study on human development and social exclusion, 10.7% of employed persons lived in households with monthly spending below the poverty line in 2009. In 43% of the cases, such individuals were employed as skilled and unskilled manual workers, mostly under indefinite-term agreements (in 62% of the cases) in privately owned companies (in 60% of the cases) and specifically, in the manufacturing industry (19% of the cases), public administration and social services (14%), public and personal services(13%) and agriculture (11%). However, material deprivation was considerably more frequently present in rural than in urban population (especially in the elderly population in rural areas), it was present above average in households with no employed members, whereas IDPs and members of the Roma population were faced with an extremely high percentage of this problem.

Livelihood strategies and economic behaviour

Individuals and households develop strategies for providing the existence within the contextual constraints, depending on available resources and mechanisms. Studies of economic strategies of households conducted for 2007 and 2012 show the significant decline of overall economic activities performed by individuals and households. The economic recession had direct impact on “shrinking” the total amount of work performed through employment, self-employment, market and non-market economic activities. Decrease of economic participation is evident from data presented in the following table.

Table 5. Indicators of coping strategies

Economic livelihood strategies	2007	2012
Economically passive households (% of total)	5.7	11.7
Households with only non-market economic activity (% of total)	8.9	13.6
Households with at least one employed member (% of total)	63.9	58.8
Households with at least one member engaged in informal work (% of total)	48.7	33.8
Households with at least one member engaged in agriculture (% of total)	13.6	7.8

Source: Babović, 2012

The share of economically passive households (with no employed members and not performing any market or non-market economic activity except basic activities of household maintenance) has increased, as well as share of households performing only non-market economic activities (i.e. production of food for personal consumption, replacing market services by unpaid work of household members in clothing, repair, reconstruction, care and similar). At the same time, share of households engaged in market economic activities has significantly decreased, which is evident by decline of number of households with at least one formally or irregularly employed member. The picture on livelihood strategies of households in Serbia is bleak and even worse when compared with data from the end of 1990s. Namely, during the decade of 1990s, marked by the economic crisis related to the blocked transition, wars and sanctions, the sphere of formal employment was destroyed, so individuals and households compensated that by variety of informal or otherwise irregular, market and non-market activities, including intensive exchange with other households. The picture on livelihood strategies in 2012 reveals much poorer sphere of economic activity of households and individuals, which have less opportunities and/or motivation to develop more diverse and abundant economic activities. Their livelihood strategies are again focused on the side of reduction of consumption which is bad option from the perspective of their living standard and quality of life, but also from the perspective of economic development in Serbia (Babovic, 2012).

More proactive reaction to unfavourable livelihood opportunities is decision to move from the constraining context. Migration therefore represents one of the strategies that individual and household chose in order to improve their life prospects. Migrations have both good and bad effects from the perspective of the development. They can contribute to the development by increasing local resources supporting them from abroad (in financial terms through remittances, but also through development of human resources, education, development of skills, attitudes, access to new information, etc.). However, migration can have negative effects for development potential in case of critical loss of human resources in emigration areas, by losing skilled labour force, by omitting to use resources from diaspora for local development, and similar. Decades of hindered development and poor livelihood opportunities for certain groups and areas have led to high level of internal and international migrations.

Table 6. Indicators of migration

Economic emigration	
Internal migration in Serbia in 2013, number of persons ¹⁰	125,000
First permits issued to Serbian citizens in 2013 in the EU, Norway, Switzerland and Iceland ¹¹	29,139
Number of Serbian citizens requesting asylum in EU, Norway, Switzerland and Iceland in 2013 ¹²	15,350
Number of returnees from Western Europe according to readmission agreements in 2013 ¹³	7,516
Inclinations towards migrations (% in total) in 2010 ¹⁴	19

Internal migration has been dominantly unfolding from rural towards urban areas, from border municipalities to more dense and dynamic urban areas, particularly towards the metropolitan area of Belgrade. In 2010 migration towards urban areas counted for 70.6% of total internal migration (GoS, Migration profile of Serbia, 2010).

When international migrations are at stake, in 2013 there were over 400,000 citizens of Serbia living in EU countries (GoS, Migration profile of Serbia, 2013). At the end of the 2013 almost 2,000 more citizens of Serbia were issued temporary stay permits in EU than in 2012 (Cvejic, Babovic, 2014). According to estimations of former Ministry for Diaspora (which is broader category than emigration, since it includes all persons who 'feel' they are Serbian even if they are descendant of emigrants), approximate size of overall diaspora counts 2.7 million of persons. A research (Penev, 2012) identifies the areas in Serbia that are the most prominent sources of emigration: Central-East Serbia, South-East Serbia and South-West Serbia. These are actually the areas with significant problems of underdevelopment and with high share of ethnic minorities (from the perspective of total population in Serbia).

Besides regular migration it is important to notify the increase of irregular migration from Serbia. Number of citizens of Serbia found illegally present in EU countries, Norway, Switzerland and Island has increased from 8,375 in 2009 to 11,625 in 2013 (Cvejic, Babovic, 2014). Particular problem appeared after visa liberalisation in 2009 since many economic migrants from Serbia (poor, marginalized population with high share of Roma ethnic group) have been misusing international protection and requesting asylum in EU countries. Over 7,500 citizens of Serbia illegally staying in EU have registered in 2013 as returnees according to readmission agreements.

Data on migratory inclinations are also very indicative. According to human development survey on social exclusion (Cvejic, Babovic, Pudar, 2011), around 19% of persons from sample declared that they would probably go abroad in search for employment. One third of these respondents have already lived abroad. There are much more potential emigrants among young respondents (46%), among unemployed persons (41%), among persons with high education (31%) and among internally displaced persons (29%).

¹⁰Government of Serbia, *Migration profile of Serbia 2013*, Belgrade.

¹¹Cvejic, Babovic, 2014.

¹²ibid.

¹³ibid.

¹⁴Cvejic, Babovic, Pudar, 2011.

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