



FISCAL COUNCIL
Republic of Serbia

**WAGES IN GENERAL GOVERNMENT: CURRENT STATE AND
GUIDELINES FOR REFORM**

Summary

The general government wage and employment system needs to be regulated in a systemic manner, as it is currently disordered, unjust and represents a fiscal risk. Serbia needs a comprehensive reform of the general government wage and employment system, and in this study the Fiscal Council shall provide guidelines and recommendations for its implementation. A regulated wage and employment system and an adequate number of professionals employed are cornerstones of fiscal sustainability and modern and efficient state, which the Government has recognized, ranking this reform high on the list of priorities at the beginning of the fiscal consolidation in the period 2015-2017. However, despite the initial enthusiasm and numerous announcements, concrete steps in this direction were, for the most part, absent. The general government wage system is still overly complicated, non-objective and often unjust, while the employment structure by sector and institution is inadequate. Moreover, some of the measures undertaken by the Government in the recent years have only aggravated the existing problems. Thus, the employment ban that has been in force for several years has led to a non-selective decrease in the number of employees and exacerbated the already unfavourable employment structure; the arbitrary increase of wages in the different parts of the public sector (education, security services, administration) only added to the disorder in the wage system. Since we have already written about the issue of inadequate employment in the general government in several previous studies, in this analysis we will primarily focus on the improvements of the poor wage system in the general government. It is an issue spanning several decades, which the Government has thus far failed to resolve appropriately.

Wages are determined without any objective criteria, using several dozen different wage bases and hundreds of multipliers - as a consequence, the same work affords different wages, while different jobs have the same wages. In the general government sector, the wages are determined using a long list of sectoral laws and Government Decrees and Conclusions. According to our analysis, there are as many as 23 different wage bases, over 500 multipliers and over 200 supplements to the basic wage. These elements are often implemented arbitrarily; raises in wages extend beyond the economy's ability to finance them, while some sectors are unjustly favoured. As a consequence, the relations between wages in different parts of the general government and within it have been completely disrupted, so it is not rare to see the same occupations and work resulting in wages that differ up to 70%. Another good illustration of the

lack of order in the current wage system is the fact that there are examples of equal, or even less demanding jobs being paid more (e.g. the wage of a librarian is higher than that of a teacher), or jobs being paid equal wages, while being obviously very different in terms of complexity (e.g. independent advisers in the state administration make the same basic wage as university professors at some of the faculties). Managing such a complex and disordered system is quite difficult; it is almost impossible to control and any further postponement of reforms in this field represent a significant fiscal risk.

Fiscal Council analysis shows what a permanently regulated wage and employment system should look like and which concrete measures would achieve it. For the needs of this study, we have undertaken several analyses which we could classify into three groups: 1) we analysed the existing wage system in the general government and its context - laws and other legislation that define wages, detailed financial and broader macroeconomic indicators pertaining to wages in the general government, individual ministries, private sector and alike; 2) we identified the largest current issues with the wage system, the causes that lead to them and concrete measures for overcoming them; and 3) we analysed the main traits of the ordered wage systems in the comparable Central and Eastern European countries that could be applied in Serbia. This resulted in parameters that a permanently regulated system of wages and employment in the general government in Serbia would have to meet; these parameters are presented in the first part of this study. In the second part, we present concrete measures that need to be undertaken in 2018 and the following years to allow such a system to take root. Finally, in the third section of this study we provide the main findings of the analysis of wages by individual sector of the general government, primarily aimed at the three largest public sectors (healthcare, education, Ministry of the Interior), with almost 70% of those employed in the general government.

General recommendations for a permanent regulation of the wage and employment system in Serbia

A total nominal increase in general government wages would have to be limited, by law, to a little under the nominal GDP growth rate. Thanks to the fiscal consolidation measures, general government wage bill decreased to the generally sustainable level of 9.5% of GDP¹ in 2017 (approximately the average of Central and Eastern Europe, CEE). The main task going forward is to maintain the budget expenditures at this level, i.e. not to undermine the achieved results. In addition, the average wage in the general government in Serbia is higher than that in the private sector by almost 19% (data of the Statistical Office of the Republic of Serbia, SORS for the first two months of 2018).² This difference can only partially be explained by the better educational structure of the employees in the general government - for a large part, however, it is a consequence of their privileged treatment (together with all other advantages, such as higher job security). Hence, the increase of average wages in the general government should be limited to a little under the nominal GDP growth rate, as this would ensure the

¹ This concerns the Gross 2 scope, which, in addition to the net wage bill, also includes the contributions paid by the employer and contributions paid by the employee. The expenditure of 9.5% of GDP is equivalent to the amount of about 8% of GDP in Gross 1 scope (subtracting the contributions paid by the employer), which is the scope used in the Budget System Law.

² There is data that shows (without delving into the structure per company) that the salaries in public and state-owned enterprises are even higher than those in the general government, therefore the aforementioned wage gap between the private sector and the entire public sector is actually even wider than the mentioned 19%.

country's fiscal stability, but also prevent further widening of the economically harmful wage gap between the public and private sector. Bearing in mind the current macroeconomic trends and medium-term perspectives of the Serbian economy, this means that the nominal average increase in the general government wage expenditures could amount to 5-6% annually (a little under the sum of the average production growth of 3.5 - 4% and the inflation of about 2.5%).

All general government employees should be encompassed by a single systemic law on wages. This would permanently regulate the relations between their wages and set uniform and objective criteria that would pertain to the wages of all employees in all of the general government sectors - instead of having individual sectoral legislation which afford higher privileges to certain groups (e.g. the excessive wages in the Ministry of Interior and lower wages of the healthcare staff). Such a systemic piece of legislation could also include judges, public prosecutors and officials in independent institutions, which were excluded from the scope of the new legislation that was adopted after 2015.

The appropriate ratio between the lowest and highest basic wage of the general government employees should be 1:12. In this report, the Fiscal Council has constructed a basic matrix of valuation of jobs in the general government, starting from the fundamental principles defined by the Government in the process of adopting new legislation in the field of wages (equal pay for equal work etc). In addition, the matrix scope was also modelled in line with other European countries which have good solutions regulating this system. Based on that, we shall provide guidelines in this report for the ratios of wages of certain typical job positions; the next step would be to adapt all other jobs in the general government according to these same principles. An adequate wage range for the Serbian general government sector would be 1:12 (the range between the lowest and highest wage). We believe this range to be appropriate for at least two reasons: *Firstly*, this practice is already successfully implemented in certain EU countries and countries of the region (Romania, Slovenia). *Secondly*, such a range would provide high enough wages for the most responsible and professionally demanding jobs in the country (President, Prime Minister, surgeon, IT expert, judge), while still setting a clear limit on the level of raise that could be allowed on the wages paid from the budget. Transfer to such a range in Serbia would, at first glance, mean an increase of the range of wages compared to the legislation in force (1:7.5). However, it should be kept in mind that the current wage system already has numerous (non-transparent) exceptions to the existing rules, i.e. wages that exceed the lowest wages by a factor higher than 12 (e.g. judges). The increase in the range of wages is needed both at the level of the general government, but also at the level of the individual sectors where the wages are too compressed (especially emphasized in education).

The wage for same (generic) jobs in the general government should be equal. For those job positions with equal job descriptions, required qualifications, experience and other characteristics, there is no reason to have different wages, regardless of the body or institution. In the existing system this is not the case, as deviations from the principle of "equal pay for equal work" are enormous. Thus, for example, the wage of a legal expert (lawyer) varies greatly depending on the general government sector they are employed in, although in the vast majority of cases the work is practically identical. The lowest and highest basic wage of a lawyer varies by as much as 70%. Another obvious example is the administrative staff of the Ministry of Interior, with special wage supplements (which should only apply for uniformed staff), which are not in place for any other comparable job in the general government. In order to correct these imbalances, the occupations in the now-privileged sectors - which have managed to secure

unjustifiably high wages compared to the rest of the general government - should be levelled out in terms of the right to the basic wage and bonuses.

The method of calculating wages needs to be simplified. This means introducing a unique system comprising uniform base, multipliers and a smaller number of limited bonuses that would pertain to all employees of the general government (including the payments out of “own revenue” for budget beneficiaries). Within the current system, based on a large number of different bases, multipliers and bonuses, it is practically impossible to achieve efficient management and control; thus, the simplification of this system is a pre-requirement for the prevention of non-transparent abuses of different wage bonuses.

There is an urgent need to achieve complete transparency and regular reporting on wages paid out to all employees of the general government, including all wage supplements. The practice of EU countries is to have the complete data on the wages paid out to the employees of the general government, and to publish it regularly. Tax payers have the right to know how many employees work in the general government, by individual jobs and what their wages and bonuses are (as these are paid out from the money collected from the tax payers). Although these questions should not be that hard to answer, this practice, however, is still not applied in Serbia. It has now been several years since the first plan to create a transparent, central register of employees as the most precise and most reliable source of data on employment and wages in the public sector. The Fiscal Council requested the data from this central register from the competent ministries (of finance and state administration), but, since we received no reply, it seems that for all intents and purposes this register has not yet been formed. The best practice example that Serbia should follow is Slovenia, whose state administration system has a historical connection with the Serbian system (through the former Socialist Federal Republic of Yugoslavia). Slovenia established an open internet portal with a detailed view of the number of employees, overall wage bill and the wage structure in all bodies of the general government (with basic wages and all bonuses), including the security sector. Digitalization and the development of e-administration are items on the agenda of the current Serbian Government and we thus believe that establishment of an information system that would provide detailed and timely data on employees and wages in the general government should be a priority task. With regular monthly updates, such an information system would serve as a good base for objective analysis and management of the wage system. We thus believe that one of the key steps towards the introduction of order into the wage system of the general government is the creation of an information system for monitoring and regular publication of the wages paid out and the number of employees in the general government.

A thorough reform of employment in the general government is needed. A regulated wage system will not have much point if the general government sector fails to improve its employment structure. Even though we have discussed this issue several times in recent years, no significant steps have been made in their resolution in this time. The total number of employees in the general government in Serbia is probably adequate and quite comparable to the other CEE countries (considering the population, it is actually somewhat below average). A burning issue, however, is the unfavourable employment structure. It was problematic even before the fiscal consolidation, but now, four years into the employment ban, it has been significantly exacerbated, which decreases the (already low) quality of services provided by the general government. This non-systematic approach to downsizing during the fiscal consolidation placed numerous important sectors into an unfavourable position (healthcare, Tax Administration, environment, some local governments), which are now facing an evident shortage of the

necessary staff. An even greater fiscal danger lies in the easily imaginable uncontrolled growth of the number of employees once the employment ban is lifted (which has already happened in the past) - as there is no analysis available to permanently define the necessary job positions by sectors. Without a detailed systematization, it is impossible to control or properly manage the total number of employees. Due to all this, there is a clear need for a comprehensive reform of the largest public systems (healthcare and education), well-defined systematization of the staff employed in all state bodies (with surpluses eliminated and necessary additional staff employed), urgent employment in those sectors in which there is already a shortage of highly-skilled professionals, according to the objective needs and comparative analyses (tax inspectors, experts in control and investments in environment etc.), a lift of the employment ban and a final switch to sustainable models of general government employment control.

Proposals for concrete measures in 2018 and 2019

In order to implement a regulated wage and employment system, concrete measures and deadlines for achieving such a system need to be set. Experience of the recent years has shown that the mere adoption of principles for a future regulation of the wage and employment system in the general government is not enough. Namely, the Serbian Government defined generally adequate principles for the regulation of the wage system in the general government over three years ago - which are not that different from the current proposal of the Fiscal Council. What was missing from this Government plan, however, was a definition and implementation of clear and quantitative (economic) measures and deadlines that would ensure their implementation. For this reason, instead of moving closer to a regulated wage system, the situation has deteriorated over the last three years - because arbitrary, *ad hoc* increases of wages in the individual general government sectors additionally undermined the existing system. In addition, there is a noticeable tendency to make exceptions from the legislation which should have regulated the wages of all employees in the general government (too much liberty is allowed to the sectoral legislation, excluding the judiciary and some other public services from this system, which is not the case in other countries). For this reason, the Fiscal Council does not only propose a targeted design of the future regulated wage system, but also concrete measures for 2018 and the years that follow that would allow that target to be reached.

When drafting the 2019 budget, the increase in wages in the general government would have to be based in objective economic parameters. *Ad hoc* increase in wages, which were a common practice in recent years, represent a fiscal risk and are, as a rule, unobjective and unjust; this practice needs to stop during the elaboration of the 2019 budget. An analysis of the Fiscal Council shows that positive economic trends allow for a raise in wages in the general government of 5-6% in 2019. Any increase of wages beyond this rate would lead to an unsustainable share of the wage bill in the GDP, but also to an unjustified increase in wages in the public sector far exceeding that in the private sector (for example, in the first quarter of 2018, the wages in the private sector increased by only 3%, while those in the general government increased by 9%). As for the wage structure, what we already know is that the wages in the general government are most underestimated in healthcare and most overestimated in the Ministry of Interior. Thus, it is economically justified and just to increase the wages in healthcare in 2019 above average, and the wages in the Ministry of Interior under average, within the overall wage increase of 5 - 6%. For instance, a good solution would be to have the wages in healthcare increased by 7%, in education by 6% and in the Ministry of Interior by 2-3%. The remainder of employees in the public sector (about 30%) should get a wage increase of 5% (until

a more detailed analysis can be performed for this group). This would ensure that in already in 2019, the first steps would be made towards the resolution of the most obvious discrepancies in the wages in general government; in the years to follow, this would continue within the individual sectors, in line with more precise analyses. In addition, such an “upward” adjustment would lead to a gradual correction of the discrepancies that would not be at the expense of the “privileged” sectors/job positions, as they would not experience a real drop in their wages (their wages would increase at the rate of the increase in inflation).

By the end of 2018, a complete catalogue of job positions in the largest sectors of the general government should be made, together with multipliers that would ensure a wage range of 1:7.5. For a future permanent and just regulation of wages of all those employed in the general government in all individual job positions, the first operational pre-conditions need to be established already in 2018 - a single catalogue of job positions should be drafted and new multipliers should be awarded to the job positions in the largest general government sectors (education, healthcare, police, army, administration - a total of 95% of all employees). This would allow for an immediate classification of a vast majority of jobs in the general government - all generic jobs in the general government that are identical would be recognized and assigned the same multiplier (e.g. drivers, accountants, etc.); the joint system of multipliers would also provide for weighting of typical jobs in the individual sectors of the general government (traffic police officer, teacher, GP etc.), i.e. the relations between wages for the majority of jobs in the general government would be defined. This would be a first step towards a uniform and just management of salaries in the general government, as it would show which sectors and which job positions lag behind the objective wage level and which general government segments are already overpaid. Even though such a catalogue would also require some “fine tuning” and expansion, the multipliers awarded, which should recognize and weight the generic and typical jobs in the majority of the general government would be a key element in preparing the grounds for a transfer to a comprehensive and detailed system of regulating wages in the following year.

In 2019, the job positions that require the most expertise and come with most responsibility within the individual sectors should be identified; the catalogue should include all employees - broadening the wage range to 1:12. Analyses show that the greatest privileges in terms of wages are afforded to the employees at intermediate and low level of responsibility and expertise in the general government. As an illustration, within the Ministry of Interior, which has the highest compensations compared to all other sectors of the government, the main issues are the excessive wages, bonuses and other privileges for jobs which are not high-risk, high-responsibility or require high professional expertise, while the wages of the small number of the most important jobs in the Ministry of Interior are, by all indicators, even now, too low. In healthcare, according to our analyses, the doctors (especially specialists) are in the worst position, while other segments of healthcare are closer to their realistic levels (e.g. non-medical staff). These examples show that it is necessary to additionally segregate specific jobs within individual general government sectors during 2019 and to define a broader range of wages (1:12) - whereby a limited, small number of key professions would be able to get adequate compensations. Finally, in 2019, the catalogue should be completed with all the remaining staff (judiciary, officials) - which the Government is currently reluctant to include in the single wage system. This, too, would require the broadening of the initial wage range from 1:7.5 to 1:12. When a comprehensive catalogue of the job positions with objective wage multipliers is compiled in 2019, comprising every job in the general government (something already available in many CEE countries) - a just, non-linear increase of wages at the level of individual job

positions will become possible from 2020. Namely, the current indexing of wages at the sectoral level would be abandoned for the indexation by job position - wages at individual jobs, which are now most drastically underestimated, could then grow by about 10% per year, while the wages for jobs that are currently overpaid, should grow in line with the prices growth (2-3%) or, in extreme cases of major discrepancies, be temporarily frozen.

Publication of data on the wages paid out (including all bonuses) in the individual general government sectors should start in 2018. As has already been said, one of the most important changes in the general government wage and employment system would encompass the establishment of a transparent information system. For this to be implemented, the bare minimum that needs to take place already in 2018 includes the publication of: 1) accurate and up-to-date data on employment: how many employees there are in the general government and in which job positions and 2) the basic data on their wages: average wages in ministries and state bodies and what share of that are basic wages and what share are the bonuses. In the next stage, during 2019, this database should become even more detailed and pertain to all catalogued job positions in the general government (as in Slovenia).

By the end of 2018, the sectoral analyses necessary for the regulation of employment in the general government need to be completed. Detailed employment analyses by sectors and individual institutions has been postponed for years now (it was originally announced that they would be completed by the end of 2015), which is why the number of general government employees has been controlled, in general, using a non-selective employment ban for four years now. This is a temporary measure that is causing damage to the already unfavourable employment structure in the general government; in order to abandon it, concrete reorganisation plans need to be formulated already in 2018 so that they can be implemented starting from 2019. In order to complete this complex task in the proposed deadline and create a strong base for a strategic approach to reform, it is necessary to improve the coordination of the Ministry of State Administration and Local Government, other line ministries (especially healthcare and education) and international institutions involved in this important reform (World Bank, EU).

The most important change that needs to take place in 2018 is for the Government to undertake concrete measures to show its commitment to a transition towards a regulated wage and employment system. Even though the most technically challenging parts of the wage system reform in the general government cannot be expected before 2019 (elaboration of a detailed and transparent information system in line with the Slovenian model, sectoral analyses that will lead to objective multipliers for the general government as a whole and for the individual sectors etc.) - the key to the success of the entire process will lie in what the Government does in 2018. The point of the wage system reform in general government is for the wage paid out to employees to become an objective compensation for their work in line with the economic power of the country. For this reason, the best concrete indicator that the Government truly is taking a “U” turn towards a regulated system will be the drafting of the 2019 budget. This budget would have to put an end to the practice of increasing the general government wages far more than in the private sector, as well as increasing wages in individual sectors without clear economic parameters. If this does not take place, then the reform that is underway is doomed to fail. In practice, this means that the trend of the most educated and most qualified staff leaving the general government due to inadequate compensations (doctors - specialists, IT experts etc) will continue, while at the same time the average Serbian citizen will keep his or her preference for getting a job in the overpaid and secure public sector, working jobs that are not too demanding.

The review of the wage system in the largest sectors of the government

Some general government sectors are particularly privileged in terms of their wages (police), while in others, the wages are too low (healthcare) - more objective criteria for sectoral wage raises need to be established. While we were analysing the wages in different parts of the general government Serbia (education, healthcare, Ministry of Interior, defence, state administration), which employ more than 95% of all employees in the general government, we discovered numerous instances of flawed logic and imbalances. The first important conclusion is that total compensation has to be observed separately from wages. Namely, overall monthly compensations of the general government employees is usually far higher than just the wage, due to numerous supplements and bonuses that don't show up in the basic wage. The wage (the term most often mentioned in public) is calculated by multiplying the wage base and the appropriate multiplier; it includes only those bonuses to the basic wage that are subject to taxes and contributions (e.g. compensation for on-call duty, for night shifts, for working on Sundays and holidays etc). The second part of the supplement to the basic wage, which is not subject to taxes and contributions (jubilee bonuses, solidarity aid, per diems for trips in the country and abroad) are not included in the wage. In this report, at the majority of occasions - whenever we had the data - we observed the total employee compensation, as this is the true measure of employee's income from work. Starting from this scope (basic wage plus all supplements and bonuses), it turned out that, in the general government of Serbia, the highest average compensation was that of the police, followed by defence, while other sectors (education, healthcare, administration) lagged pretty far behind. Such intersectoral discrepancies are not common in the CEE countries and there are clear indications that in Serbia, some sectors are currently overpaid (e.g. the police) while others are probably underpaid. For instance, while the total employee compensation in the Ministry of Interior is by about 40% higher than the average wage in Serbia, this difference in CEE is about 25%. On the other hand, the relative ratio of healthcare staff wages to the average wage in Serbia is less favourable in Serbia, compared to the CEE, by about 20% for practically all key job positions. Such pronounced disparities in wages by individual general government sectors are not objective (they do not reflect the true differences in the characteristics of the jobs) or fiscally sustainable, which is why future raises of wages that are paid from the budget have to be directed at resolving the existing imbalances.

Wages in Serbian healthcare are somewhat lower than the common level in comparable countries, which is de-stimulating for the employees in this sector. According to our research, average monthly wage in the healthcare sector will be about 55,000 dinars in 2018, which is over 30% lower than the wage of the employees in the Ministry of Interior. To compare the employees in Serbian healthcare to CEE countries, we used the data on net wages (this is lower than their total compensation as it does not include bonuses), which, according to the SORS data for the first two months of 2018, amount to about 50,000 dinars, coming in slightly higher than the national average (by about 3%). The healthcare sector in Serbia is not in a good position when compared to CEE countries. The wages of healthcare workers are visibly lagging behind those in the CEE countries for all three key positions in healthcare (for which we were able to find data). At that, the gap is especially pronounced in the case of doctors - specialists (which, in Serbia, make about 50% more than the national average wage, while the difference in

CEE countries is 80%); but there is also an evident gap in the wages of general practitioners and nurses. A comparative analysis is not the only signal pointing out that the healthcare workers in Serbia are underpaid, as the market is sending the same message. Namely, in the last three years alone (2015 - 2017) over 6,000 people have left the healthcare sector in Serbia - which is about 5% of the entire number of employees in this sector. This is especially problematic in the light of the low quality of healthcare in Serbia which is only getting worse in many segments; the destimulating wage system is certainly one of the reasons for such negative trends.

The biggest problem with wages in education is not in their total amount; there are other issues in the sector that should be the priority of reforms. The general public opinion is that the employees in education are underpaid; and, truly, according to some earlier international studies, Serbia was one of the rare countries in which wages in primary and secondary education came below the average basic wage. However, the newest data published by the SORS using the new methodology (using the *full time equivalent* principle)³ paints a different picture - while the wages in education in the region are at the level of the national average, in Serbia, they are even somewhat over the national average wage (by about 7%). There are certain specific traits of measuring wages in education that make it more difficult to come to a unique assessment of their level. There are no disaggregated data available on the wages by the different parts of education sector (primary, secondary, higher) so it is possible that the sectoral average of 52,000 dinars (somewhat above the national average) is the result of the higher wages in higher education and proportionally lower wages in primary and secondary education. On the other hand, the existence of a large number of teachers without full-time working hours is somewhat specific of Serbia. Their wages, measured by the statistics as a *full-time equivalent* are actually much higher than the wages they receive, as they are not working full time (in a regulated employment system in education, the number of teachers not working full time would be minimized). Taking into consideration all the specific traits of the data on the salaries in education, it would seem that the average wage is not the main problem. The greatest challenge in this sector is the unreformed and inefficient system (one of its consequences is the excessive number of staff with part-time employment) and a generally obsolete manner of assessing quality of work in education. An entire working career (40 years of service) must pass in Serbia before a teacher attains the maximal wage prescribed by law, while the situation in the CEE countries is somewhat better, taking teachers 30-35 years to attain the same. In addition, there is almost no mechanism of stimulating employees, since they all have the same basic multiplier, so even the best teachers with long years of service have the same wages as the beginners (the only difference is the “years of service bonus”). A solution for this, and other problems in education, is thus not in the above-average linear increase of wages in the years to come, but in a comprehensive reform of the education sector that would roll out at the same time as the regulation of the wage system.

Average compensations in the Ministry of Interior in Serbia are not just higher than the rest of the general government but are also far exceeding the relative level achieved by the employees in this sector in comparable countries. The data on the average wages in the Ministry of Interior are especially unreliable - even if they are available, they are most often aggregated with other sectors in the public administration and are inadequate for analysis; the figure usually discussed in public is the basic wage which is not the entire compensation of employees in this sector. Using the data on the budget realisation for 2017, having in mind the increase of wages in the general government sector prescribed by the law and in force since

³ Wage paid out to an employee with full-time working hours.

January 2018, we have calculated that the average employee compensation in 2018 in the Ministry of Interior will exceed 70,000 dinars (taking into consideration the large and mostly non-transparent bonuses to the basic wage). It turned out that the sector has by far the largest multipliers of the initial multipliers, which finally resulted in the overall average wages in the police exceeding, by far, those of other sectors of general government (e.g. those in healthcare by over 30% and those in state administration by over 40%). Relatively high employee compensations in the Ministry of Interior (compared to other sectors) is nothing new in Serbian public finance - this sector has been favoured, in terms of its wages, for years now. The view that wages in Serbia in this sector are generous is also supported by international comparisons (observing the total employee compensation, compared to the average wage in the general government or GDP per capita), as they exceed the CEE standards by at least 15 p.p. Taking all this into consideration, it is clear that police should be the sector in which wages should grow at the slowest rate in the upcoming years, until the wages in some of the underpaid sectors (e.g. healthcare) reach a level where they allow for more balanced relations between the different parts of the general government.

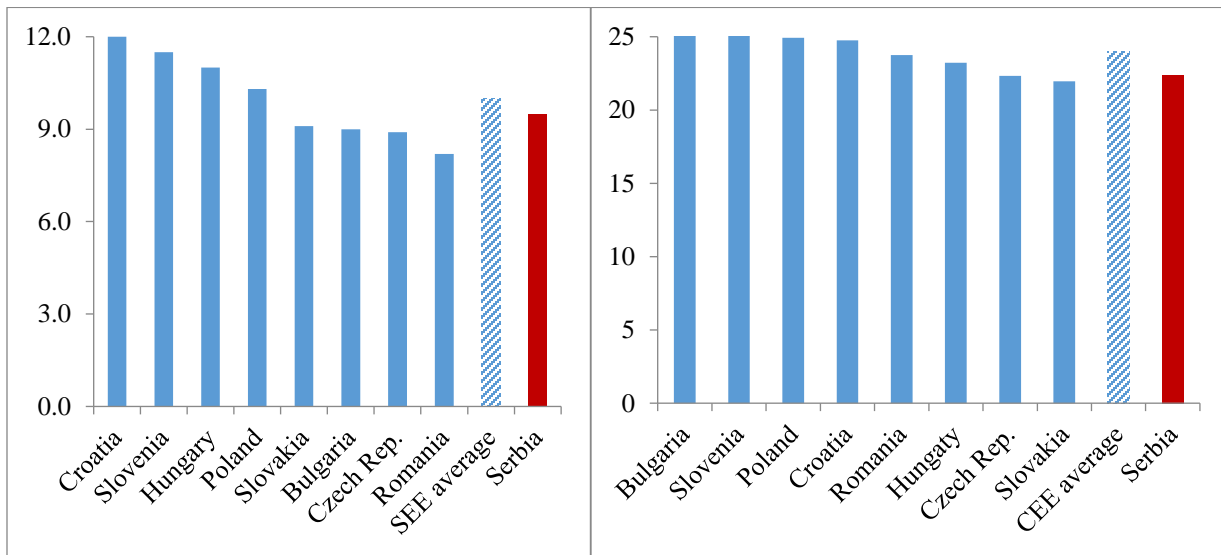
Tabular view of the proposed steps in solving main problems in the general government wage and employment system

Problems	Causes	New legislative changes and plans	Assessment of the new legislation	Permanently regulated system	Intermittent system in 2018 and 2019
Lack of a suitable legislative framework for wages	Excessive number of non-transparent sectoral laws and other legislation	Adopted Law on the system of wages in public sector (2016). For the implementation, a catalogue of job positions needs to be elaborated, sectoral laws need to be harmonized... Implementation postponed	There is a risk that the legislation for the envisaged sectors will not be adopted in 2018, either	All employees in the general government included in a single system	The largest sectors included in a single system (healthcare, education, police, military, administration) with an catalogue of jobs and adopted multipliers
Complicated and non-transparent method for calculating wages	Several dozens of wage bases and hundreds of multipliers, supplements and bonuses	Unique salary base and corresponding matrix of multipliers, as well as a decreased number of supplements and bonuses	The envisaged wage base is adequate, adoption of multipliers is expected, bonuses and supplements are only partly included into the system	Application of a single wage base, fair multipliers, control and a systemic approach to the determination of all kinds bonuses and supplements	Assignment of multipliers by job positions for the largest sectors
Similar and comparable jobs paid differently	Fragmentation of the legislation and lack of harmonization between sectoral laws	In principle, equal valuation of the same jobs	A good objective has been set, but it is uncertain how other legislation will set multipliers and bonuses	Same (generic) jobs paid the same	Completion of the job catalogue in 2018 and assignment of the appropriate multipliers by job positions

For the majority of jobs, the range between the lowest and highest wage in the general government is too narrow	Low multipliers for responsible and demanding jobs; high wages in certain organisations not regulated by law	The current range of multipliers is planned to be broadened (to 1:7.5)	Adequate for the intermittent solution, insufficient range for a permanent solution, i.e. for the inclusion of all employees and valuation of the most demanding positions	With the inclusion of all employees, a broader range of multipliers is needed (1:12)	Responsible classification of the job positions in the largest sectors in the envisaged range 1:7.5 (2018) Expansion to all employees and expansion of the range to 1:12 (2019)
Unpredictable and often excessive increases of the wage bill expenditures	Arbitrary decision-making, decisions by the Government and Parliament during the adoption of the Budget	Not setting a fiscally sustainable trend for the wage bill	All open issues with the increase in salaries are left to the Law on Budget. Insufficiently strict.	Wage bill needs to grow at a slower rate than the nominal GDP	Nominal increase of the wage bill in 2019 by 5-6%
Selective and arbitrary increase of wages by sectors; this leads to disparities in wages between the sectors (too high for the police, too low for healthcare)	Lack of analyses on the status and necessary development of the sectors; arbitrary favouring of certain sectors	Advocating increase of the underestimated salaries, without set methods and criteria	A criteria-based sectoral wage increases are lacking.	Targeted and variable changes in salaries by sectors and by job positions within sectors	Greater increase in wages in the sectors and for the employees that are found to have low salaries and a lower raise/salary freeze for other sectors
Data on wages and total employee compensations not available	Lack of a database and information system for monitoring and reporting wages	No improvements envisaged	Track-record of employees and their salaries should urgently be elaborated	Establishment of a comprehensive, up-to-date and accessible reporting system	Publication of data on wages and bonuses for the largest sectors (2018) and subsequently for all job positions (2019)
Wages in the general government unjustifiably higher than those in the private sector	Increase of salaries in the general government exceeds the economic power of the country	Future trajectory of wages in general government is not defined	The faster growth of wages in the public sector compared to the private sector needs to be prevented in a systematic manner	The wage bill in the general government should not grow faster than productivity and the growth of salaries in the private sector	Nominal increase of the wage bill in 2019 by 5-6%
Inadequate employment structure by sector	Lack of analyses and decisions by sector; employment ban spanning several years	Regulating the salaries, but not the employment	Employment requires its own dedicated regulation (systematization, human resource planning, decisions on employment/layoffs)	While maintaining the overall number of employees, change the sectoral structure (cover the shortages of employees in tax inspection, environment, healthcare etc)	Completion of sectoral analyses in 2018 and termination of the employment ban with targeted employment in the critical sectors in 2019

Brief graphic and tabular view of some of the results

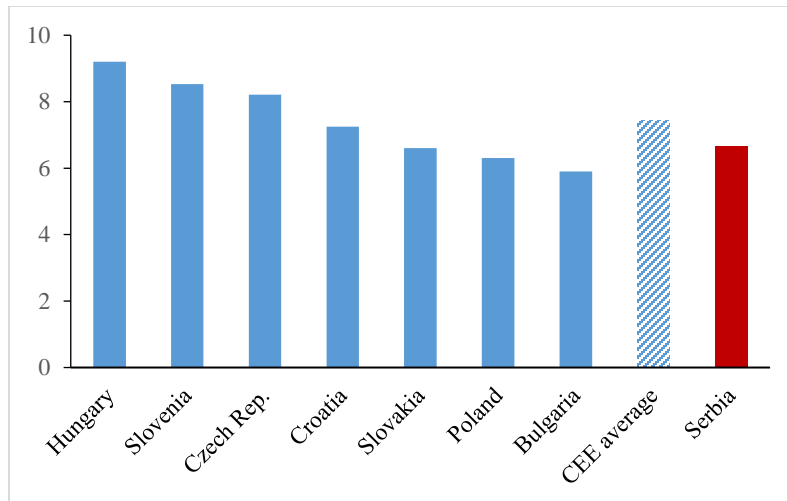
The wage bill in the general government has reached an appropriate level...



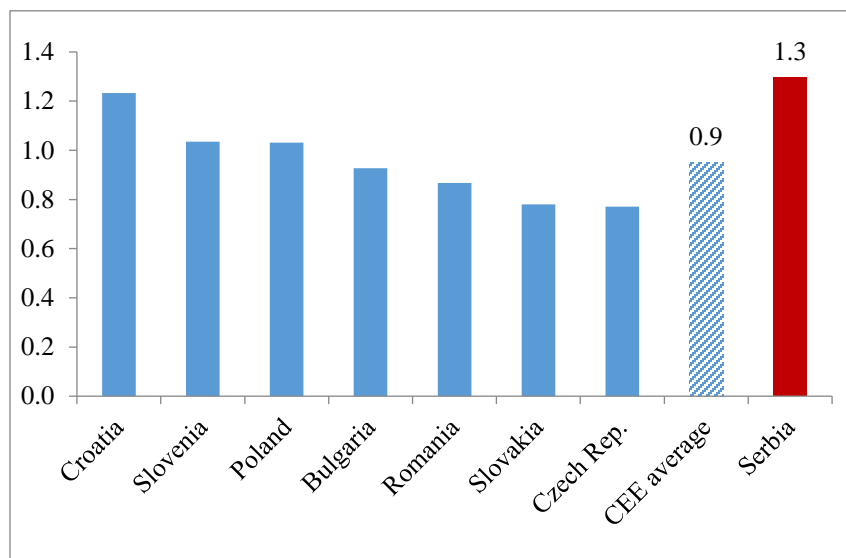
Salaries in the general government: As % of GDP (left panel) and as % of overall public expenditures (right panel)

... at which the total number of employees is somewhat smaller and the average salary somewhat higher than necessary

Number of employees in general government, per 100 inhabitants



Average wage in the general government compared to GDP per capita



There are stark differences between the employee compensations in different sectors...

	Average compensation (in RSD)	Compensations in the Ministry of Interior are higher than in the appropriate sector in the first column by:	Compensations in the defence sector are higher than in the appropriate sector in the first column by:	Compensations in education are higher than in the appropriate sector in the first column by:	Compensations in healthcare are higher than in the appropriate sector in the first column by:
Ministry of Interior	73,000	-	-	-	-
Defence	62,000	18%	-	-	-
Education	58,000	26%	7%	-	-
Healthcare	55,000	33%	15%	5%	-
State administration	53,000	38%	17%	9%	4%

Average compensations in the general government, Fiscal council estimate for 2018

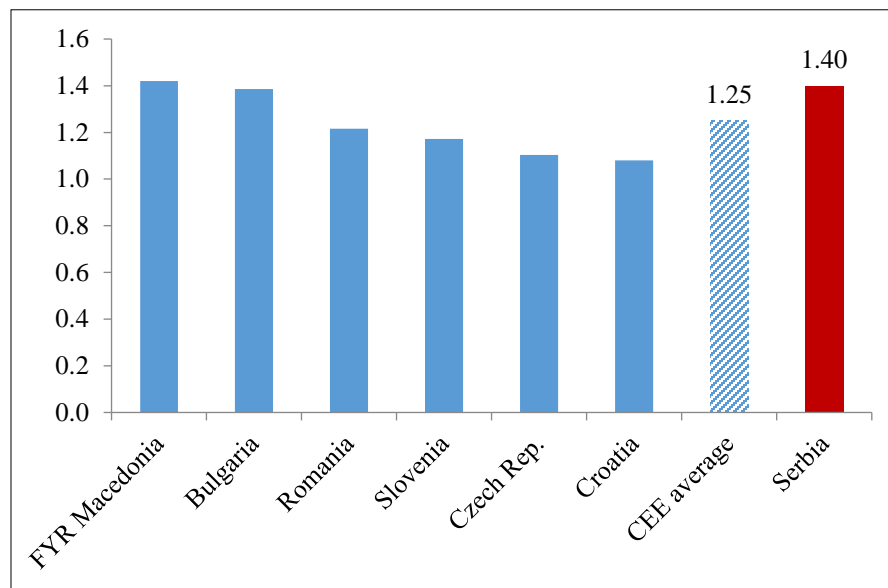
... which results in disparities in the relations between the wages in the largest general government systems, the most prominent of which are:

- Low wages in healthcare

	Wage of a nurse/national average salary	Wage of a general practitioner MD/national average salary	Wage of a specialist MD/national average salary
Slovakia	1.0	1.5	2.0
Czech Republic	1.2	1.5	2.0
Slovenia	1.0	1.2	1.3
CEE average	1.1	1.4	1.8
Serbia	0.9	1.2	1.5

Comparison of relative wages for the different jobs in healthcare

- *High compensations in the police*



Average salary in the Ministry of Interior compared to the national average

The wage system is inadequate and it results in numerous anomalies, such as unequal pay for equal work

	Degree of vocational education	Base * multiplier
		Basic salary
Job position DRIVER		
Driver/courier in the Academic Network of Serbia (AMRES)	IV	29,800
Driver - cashier in the Institute of Sports	: IV	29,500
Driver in a theatre	IV	29,000
Driver in a cultural institution	IV	26,500
Driver of a passenger vehicle in institution of pupil standard	IV	26,000
Driver in a social welfare institute	IV	22,700
Driver of a passenger vehicle in a University	IV	22,500
Driver in the Province Branch of the National Employment Service	IV	21,200
Driver in professional services of the National Employment Service	IV	20,500
Job position LAWYER		
Legal associate - coordinator at the AMRES	VII	75,000
Lawyer in a social welfare institution	VII	54,500
Lawyer in a cultural institution	VII	51,700
Complex legal tasks in a theatre	VII	49,200
Bachelor of Law in institution of pupil standard	VII	48,700
Lawyer in a University	VII	45,200

Salaries of drivers and lawyers in different parts of the general government, in RSD

Several dozens of salary bases and hundreds of multipliers, supplements and bonuses make the system non-transparent and the control of salaries almost impossible

	Net base (December 2017)
According to the Government Conclusion 05 no. 121-13033/2017	
1. Primary and secondary education, pupil standard	2,871.8
2. Student standard	2,736.9
3. University education	2,612.5
4. Healthcare and social welfare institutions	2,817.4
5. Other public services that are budget beneficiaries, with the exception of Organisations of Mandatory Social Insurance (OMSI)	2,486.6
6. Cultural institutions	2,763.7
According to the Government Conclusion 05 no. 121-13034/2017	
Salaries of the employees in the Central Register of Mandatory Social Insurance	
7. Directors and deputy directors	3,775.9
8. Branch office managers, province branch managers, sectoral managers etc.	3,581.6
According to the Government Conclusion 05 no. 121-13036/2017	
9. Salaries of the elected officials in local government bodies and services from Art. 9. of the Law on Salaries in State Bodies	10,194.9
10. Salaries of the appointed officials in local government bodies and services	2,194.0
11. Salaries of employees in local government bodies and services	2,392.6
In line with Art. 9. of the Law on Budget of the Republic of Serbia for 2018	
12. For employees in the Tax Administration and Customs Directorate	18,811.4
13. For civil servants and appointees at the Ministry of Defence, penal institutions, courts and public prosecutor's offices	19,751.9
14. For civil servants and appointees at the Constitutional Court, High Judicial Council, State Prosecutorial Council and State Public Defender's Office	18,854.2
15. For civil servants and appointees whose salary bases are not classified in the previous three groups	17,956.4
16. For judges, public prosecutors and deputy public prosecutors	31,327.7
17. For the presidents and judges of the Constitutional Court	29,835.9
According to the Government Conclusion 05 no. 121-13036/2017	
18. Elected officials at the bodies of the Autonomous Province (AP) and Local Government Units (LGU)	10,194.9
19. Appointed persons at the bodies of the AP and LGU	2,194.0
20. Employees at the bodies of the AP and LGU	2,392.6
According to the Government Conclusion 05 no. 12365/2016	
21. For employees of the Ministry of Interior*	27,868.6
According to the Government Conclusion 05 no. 12364/2016	
22. For the members of the Security Information Agency*	1,781.5
According to the Government Conclusion 05 no. 12366/2016	
23. For professional members of the Serbian Army*	27,868.6

Salary bases for general government employees, in RSD

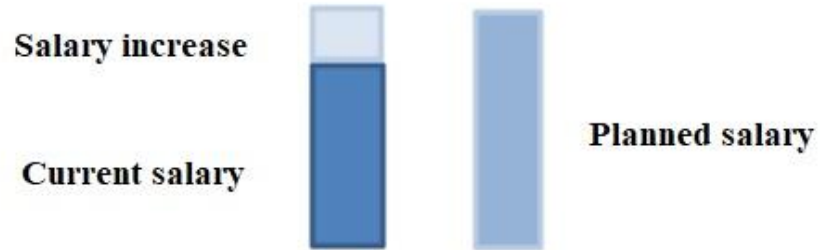
We believe it is possible to prescribe appropriate multipliers for all job positions

	Multipliers	Basic salary in line with this proposal	Current basic salary
President of the Republic	11-12	275,000-300,000	125,000
President of the National Assembly			100,000
Prime Minister			100,000
President of the Constitutional Court			360,000
State Public Prosecutor	10-11	250,000-275,000	190,000
Ombudsman			360,000
President of the National Audit Institute			210,000
Minister			85,000
Member of Parliament			70,000
Judge of the Constitutional Court	8-10	200,000-250,000	310,000
President of the Supreme Court of Cassation			180,000
Director of the Tax Administration			140,000
Director of the Customs Directorate			140,000
Director of Police			no data
General Secretary of the Parliament			70,000
Judge of the Supreme Court of Cassation			150,000
Agency Director	6.5-8.5	160,000-210,000	180,000
State Public Defender			150,000
State secretaries			70,000
Director of special organisations	5.5-6.5	137,500-162,500	160,000
Judges of basic and other courts	3-6	75,000-150,000	78,000-125,000
Assistant Minister	5.5	140,000	130,000
Ministry secretary	5	125,000	130,000
Manager in government services	3.5-4.5	90,000-110,000	70,000
Advisor in state administration	1.5-3.5	37,000-90,000	35,000-100,000
Associate in state administration	1.2-1.9	30,000-47,500	30,000-50,000
Clerk in state administration	1.1-1.6	27,500-40,000	25,000-40,000
Appointee in state administration	1-1.1	25,000-27,500	35,000-45,000
Police inspector	1.7-2.2	42,500-55,000	45,000-50,000
Police officer	1.5-1.7	30,000-42,500	40,000
Lecturer in University education	3-4	75,000-100,000	65,000-80,000
Lecturer in secondary education	1.8-2.2	45,000-55,000	40,000-50,000
Lecturer in primary education	1.8-2.2	45,000-55,000	40,000-50,000
Kindergarten teacher	1.6-2.2	40,000-55,000	40,000-50,000
Classroom teacher	1.6-2	40,000-50,000	40,000
Doctor, subspecialist and specialist	3.5-4.5	90,000-110,000	65,000-80,000
Medical doctor	3-3.5	75,000-88,000	65,000
Nurse	1.6-1.9	40,000-47,500	40,000-45,000
Technical staff in healthcare	1.1-1.5	28,000-38,000	25,000-40,000

Proposal for multipliers for the calculation of basic wages for typical job positions in the general government.

The fiscal space for the increase of wages should be used for those whose wages are lagging behind the wages calculated using the new multipliers.

- Increase of those wages that are currently below the planned level...



- ...and control of those wages that are currently above the planned level.

