



Republic of Serbia

ANALYSES, POSITIONS AND SUGGESTIONS

Fiscal Council

**PUBLIC SECTOR WAGE GRADES IN SERBIA:
LESSONS FROM A FAILED REFORM**

Public debate material

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Summary

- **The 2016 public sector pay grades reform failed in its very conception, not in its implementation.** Launched without clearly defined base salary, with an excessively narrow range of coefficients, and without a robust analytical framework, it was structurally inconsistent from the outset. Instead of objective job evaluation, the process shifted toward negotiations over coefficient levels, leading to further fragmentation, a proliferation of exceptions and a complete loss of the reform’s systemic character.
- **Control over the public sector wage bill was achieved without unified pay grades, but was accompanied with severe wage compression.** Stabilisation of the public sector wage bill resulted from fiscal rules and political commitment, rather than from normative unification. At the same time, the absence of systematic adjustments at the top of the pay scale, combined with a strong increase in the legal minimum wage, led to a narrowing of the effective wage range. Wage compression has thus evolved into one of the key structural risks to the functioning of the public sector, as it directly undermines the state’s ability to attract and retain key professional and managerial staff.
- **Any future reform approach must be sector-specific, transparent and institutionally realistic.** A return to a unified and highly centralised pay grades model entails a high risk of repeating past mistakes. Generic reform approaches – such as uniform pay scales promoted by the World Bank in the region – often fail to adequately account for local institutional legacies, which can result in suboptimal outcomes or even outright failure, as illustrated by the Serbian case. A sustainable solution requires sector-differentiated interventions, possibly including structural reforms of certain public services, based on reliable data, clear criteria, and a high degree of transparency – most notably through a public wage registry (“Iskra”). Such an approach enables targeted softening of wage compression where it has the most significant systemic consequences, while preserving fiscal sustainability and socio-political feasibility.

1. Introduction and context

The Government of Serbia has officially abandoned the wage grade reform launched in 2016. In March 2025, the National Assembly adopted legislation repealing the 2016 Law on the Salary System in the Public Sector, along with three accompanying laws that had regulated salaries in local self-government units, the Autonomous Province of Vojvodina, public services (education, health care, social protection), and public agencies. This decision officially discontinued the concept of a unified wage grade system as the overarching framework for public sector pay-setting, an approach that had been a key element of the reform agenda in the early phase of fiscal consolidation.

This outcome is neither surprising nor necessarily undesirable. Although the reform persisted “on paper” for almost a full decade, its implementation was repeatedly postponed, while the regulatory framework steadily lost internal coherence. In practice, the system became increasingly fragmented, burdened by numerous exemptions and ad hoc interventions. This was in turn used to mask the executive branch’s discretionary conduct of wage setting policy, reflected in arbitrary, ad hoc pay increases to different sectors on an annual basis. Under such circumstances, insisting on full implementation of the 2016 Law would not have improved job evaluation in the public sector. It would have probably generated additional distortions and intensify fiscal pressures. In other words, abandoning a non-functional legal framework may be seen as a more rational outcome than attempting to enforce a reform that was fundamentally mis-specified right from the beginning.

The purpose of this paper is to examine, with analytical distance, the reasons for the reform’s failure and to draw lessons for future steps. Repealing the legal framework initiated in 2016 does not imply that the structural problems of the public sector pay system have been resolved. On the contrary, they have become more pronounced and complex, but addressing them requires a different approach. For this reason, it is necessary to systematically assess how the reform was conceived, which problems it was meant to solve, and why it drifted in the wrong direction. Such a reassessment matters not only for evaluating a failed reform episode, but also as a starting point for a more realistic and sustainably designed reform agenda going forward.

2. A brief background: what the reform was meant to address?

The pay system reform was conceived as a response to chronically weak control over the public sector wage bill. To understand why the wage grade reform failed, it is necessary to return to the problems it was originally intended to solve. In the years preceding fiscal consolidation (2007-2012), Serbia faced systematic overruns of planned wage expenditures, which typically grew faster than budgeted ceilings. Over time, Serbia stood out as one of negative outliers in Central and Eastern Europe in terms of the size of these expenditures. The sustainability of wage spending thus became a major source of fiscal risk and, accordingly, a key motivation for considering new systemic solutions.

The main driver of unsustainable wage bill growth was arbitrary wage increases, rather than employment growth in public sector. In the period in question, the increase in wage expenditures was primarily driven by sector-specific and extraordinary pay adjustments that were not grounded in uniform rules or objective economic calculations. By contrast, employment growth had a significantly smaller impact on the overall wage bill dynamics. The

Fiscal Council highlighted this problem as early as 2012,¹ emphasizing that relatively high pay in the public sector – particularly in lower- and mid-skilled positions – rather than excessive staffing levels, was the leading cause of elevated labor costs in the public sector.

In that context, a more orderly and transparent job evaluation framework could have served as a rational instrument of fiscal discipline. Building on the 2005 Law on the Salaries of Civil Servants as a relatively functional model of unified wage grid for the core state administration, the Fiscal Council supported the idea of gradually extending a similar system to other parts of the public sector. Such an approach, however, needed to rest on a clear analytical framework, objective job-evaluation criteria, and reliable data on employees – including the establishment and systematic use of a central employee registry. At the same time, we noted that such a process would inherently be politically demanding, given that public sector wages (relative to the private sector) were particularly overvalued in lower-skill, lower-responsibility jobs, implying the need to confront resistance from parts of the trade unions.

Salary differences for similar jobs existed earlier as well, but they were not the decisive source of fiscal instability. These differences did contribute to perceptions of unfairness within the Serbian public sector, but they were not the main driver of growth in total wage expenditures. Nonetheless, during the design of the reform, the objectives of wage bill control and pay equalization gradually became conflated and treated as inseparable. This blurred priorities and made it harder to formulate an objective and fiscally sustainable reform framework.

The Fiscal Council cautioned that wage grades would be meaningful only if accompanied by a sufficiently wide pay range. Extending the system across the entire public sector needed to be technically grounded and supported by an adequate wage spread (i.e. the difference between highest and lowest salary), in order to avoid pay compression and preserve the public sector's ability to attract and retain key staff. The absence of such an approach substantially increased the risk that the reform – rather than introducing discipline and transparency – would become a channel for arbitrary deviations and political compromises, which is what ultimately happened in practice.

3. Why did the reform fail?

The reform was launched without clearly defined core parameters, which undermined its internal logic from the outset. With the start of fiscal consolidation, the Ministry of Public Administration and Local Self-Government (MPA) initiated the reform with advisory support from the World Bank, aiming to establish a unified, merit-based wage grade system. From the beginning, however, the process was mis-specified, as it was not guided by a firm, transparent and consistent analytical framework.

The base wage, which is the key parameter of the proposed new system, was not defined before negotiations on coefficients began. Since the new system was designed such that net pay would be the product of a single base applicable to all employees and a job coefficient, the logical and necessary first step should have been to determine the level of that base. Instead, the Government skipped this step and jumped directly into negotiations on coefficients, even though the base determines both the effective pay range (of greatest relevance to employees) and the overall fiscal impact of the reform (of greatest relevance to the employer, i.e. the state).

This wrong sequencing led to the further fragmentation, undermining the credibility and systemic character of the new law. Without a clear starting point, negotiations

¹ Fiscal Council (2012), Proposed fiscal consolidation measures for 2012-2016. [Full report](#) available in English.

focused exclusively on coefficient values, relying on historically inherited differences across sectors. For example, education unions – taking into account decades of lower sectoral bases relative to other parts of the public sector – secured relatively high coefficients that would not have been sustainable under a unified base wage. At the same time, the lack of a robust analytical framework meant that outcomes were driven primarily by bargaining power of the unions rather than objective criteria. This opened the door to excluding entire segments of the public sector from the common wage-grade system: first, the highest state officials (elected, appointed, and designated positions) were exempted; later, the security sector, although initially envisaged as an integral part of the unified system, was allowed to opt out entirely.

Even assuming full implementation, the 2016 Law suffered from a fundamental design flaw: an insufficiently wide pay range between the lowest and highest salaries. Unlike the 2005 Law, which for the core state administration envisaged a coefficient range of 1-to-9, the 2016 Law on the Public Sector Pay System prescribed a narrower ratio of 1-to-7.5 for the entire general government sector, despite a major expansion in coverage – from roughly 40.000 to around 500.000 employees.

Narrowing the intended pay range inevitably produced structural wage compression. During the draft phase, the Fiscal Council warned that expanding the system across the the whole state sector would require a wider wage spread (around 1-to-12) to ensure competitive conditions for the most responsible and complex positions. Instead, the 2016 Law not only preserved pre-existing compression, but laid ground for further wage compression through disproportionately strong increases of the lowest wages. As a result, the system moved from the targeted 1-to-9 ratio which was the starting point in 2005 framework to only around 1-to-4.6 by 2026.² A particular weakness was that the 2016 law did not adequately address the relationship between the base wage and the statutory minimum wage, thereby opening an additional channel for pay compression – an outcome the Fiscal Council warned about without success.³

The law’s practical non-implementability was concealed through repeated postponements. Although the umbrella law formally entered into force in 2016, it never functioned in practice; for most of the public sector, the old regulations continued to apply. Deadlines for full transition were shifted year after year, even though it was clear from the outset that such legal framework would obstruct – rather than support – targeted sector reforms, particularly in education and health. The Fiscal Council continued to point to these issues and proposed a change in reform approach⁴, emphasizing, inter alia, that pay reform cannot be viewed in isolation from staff optimization (which also deviated markedly from the desirable trajectory right from the beginning).

This led to the paradox that a reform intended to unify the system actually produced even greater fragmentation. Rather than convergence toward a single base-wage, the number of different bases used for pay calculation increased, and special pay-regimes proliferated. Accordingly, given prolonged delays and growing distortions, the Fiscal Council

² We approximated the highest wage using the ceiling set by the 2012 Law on Determining the Maximum Wage in the Public Sector, while the lowest wage is represented by the statutory minimum wage under the Labour Law – thresholds that apply to the overwhelming majority of the public sector. We note, however, that at the level of the general government there are exceptions to the maximum net wage for a limited number of specific categories of employees, such as higher education and research institutions, judges of the Constitutional Court, the President of the Supreme Court and similar positions.

³ Fiscal Council (2019), Pay grades and employment in the civil sector in Serbia: from an unfinished reform to a sustainable system“. The [summary](#) is available in English.

⁴ Fiscal Council (2018), Wages in general government: current state and guidelines for reform. The [summary](#) is available in English.

ultimately called on the Government to abandon the reform⁵ – a step eventually taken in 2025. Any further insistence on a technically deficient solution would have “cemented” existing imbalances and further complicated future sector reforms—something the Government later implicitly acknowledged in the explanatory memorandum accompanying the repeal of the 2016 law.

The most important pay corrections over the past decade occurred outside the wage grade reform. Pay increases in health care and education – sectors that were relatively the most underpaid – did not result from systematic application of the law, but from reactive interventions under extraordinary circumstances. The COVID-19 pandemic necessitated a permanent increase in health-sector pay, while in 2025 – amid student and broader social protests – belated but necessary pay increases followed in education and higher education. While justified in principle, these measures were ad hoc and reactive rather than part of a coherent strategy for pay-system design. They also underscore a broader reality: the structure and organization of the public sector largely reflect prevailing socio-political preferences and inherited arrangements, which limits the expectation that meaningful reform can emerge solely from technocratic optimization.

Serbia’s experience clearly illustrates the limits of the “equal pay for equal work” principle. In practice, the principle raises complex questions: are seemingly similar administrative jobs truly comparable between central government institutions (the Government or ministries) and a small local self-government unit? Can differences in responsibilities and risks in formally similar jobs – such as a driver transporting valuable equipment versus one transporting routine supplies – be reduced to a single technical criterion? These questions do not admit a fully neutral technocratic answer, because they necessarily involve value judgments about fairness, responsibility, and the social importance of different functions. A key weakness of Serbia’s approach was that such substantive dilemmas were repeatedly postponed and delegated to technical instruments (including extensive work on a job catalogue) that, in practice, delivered neither clear job-evaluation criteria nor socially acceptable answers to widening disparities.

The central message is that pay system fairness cannot be imposed solely through normative unification. Different pay levels for formally similar jobs existed even in socialist Yugoslavia, despite an explicit ideology of equality, and even then there was no single law governing pay across the entire public sector. Pay equalization was pursued by sector and enterprise level, while positions in influential parts of the state traditionally enjoyed higher pay. Comparative European practice likewise confirms that “equal pay for equal work” is difficult to accomplish without socio-political compromise. Pay differences often reflect historical priorities, and attempts to “correct” them retroactively can trigger strong social and political tensions, as illustrated by recent cases in France and other countries. A highly centralized wage grade system of the type planned in Serbia is not the dominant European model. Even several countries with a unified pay matrix for the whole state sector – such as Romania, Slovenia, and Portugal – have over time introduced various forms of flexibility and decentralized decision-making for valuing specific jobs. All this indicates that public sector pay systems must be approached through careful balancing of economic, institutional, and socio-political realities, rather than through rigid insistence on normative unification.

⁵ See chapter „Pay grade reform: looking ahead“ in Fiscal Council (2021), Assessment of the proposed Supplementary budget for 2021 and recommendations for the 2022 Budget. The [summary](#) is available in English.

4. The way forward: a transparent registry and sectoral reforms

Any new reform agenda in this area should return to the original problem: control of the wage bill and its fiscal sustainability. The key challenge identified by the Fiscal Council and the IMF more than fifteen years ago was an unsustainable level of wage expenditures in the public sector – both in absolute terms and relative to the private sector – along with weak wage bill control, which repeatedly exceeded budget ceilings. Addressing perceived unfairness arising from different pay levels for similar jobs within the public sector was seen as a desirable added value, but not a prerequisite for fiscal sustainability.

Positioning “fairness” as the central reform objective proved to be a strategic misdirection. Over time – within MPA and with strong World Bank support – this “added value” was placed at the core of the process and implicitly presented as a necessary condition for stabilizing wage expenditures. Practical experience in Serbia and across many European countries shows that this is not the case: the public sector wage bill can be effectively controlled even without a single law governing wages across the entire public sector.

During fiscal consolidation, Serbia demonstrated that wage-bill stabilization is possible without a unified wage grade system. Although the 2016 wage-grade reform failed, clear political commitment to fiscal rules made it possible to stabilize expenditures and bring average public sector wages to a level comparable to the private sector. This suggests that the key stabilization mechanism lay in fiscal policy and budget constraints – not in normative unification of the pay system. It should be noted, however, that this stabilization was accompanied by linear, discretionary pay increases in specific sectors that were not based on systematic analysis.

At the same time, pay compression has become one of the most serious structural problems in the public sector. While average wage levels have become broadly comparable to the private sector and the wage bill is no longer a direct source of fiscal risk, pay compression worsened markedly over the past decade. It has reached the point where it severely constrains – or even prevents – the most responsible and most specialized public sector positions from offering competitive conditions relative to the private sector. In other words, a problem that was only emerging prior to the 2016 Law is now acute and requires urgent action to preserve the state’s capacity to perform core functions.

Following the repeal of the 2016 Law, a pragmatic sector-based approach to improving the pay system is needed. While the principle “equal pay for equal work” remains a legitimate normative reference point, experience has shown that attempting to implement it through a single comprehensive and rigid law was counterproductive. Such an approach failed to recognize the institutional and functional diversity of the public sector in Serbia, as well as the socio-political constraints under which reforms are implemented. In addition, the process’s credibility was undermined from the outset by exempting the highest state officials (and other groups of employees) from the wage grade system.

A sectoral approach makes it possible to address pay compression while also launching long-delayed structural reforms. Unlike a universal legal solution, sectoral reforms allow faster and more precise responses to acute problems, including the need to raise pay for the most responsible and complex positions in key ministries and agencies where the risk of staff outflows is highest. At the same time, this approach opens space for long-postponed deep structural reforms in sectors such as education, which largely stalled after 2016 – partly due to the existence of a non-functional (yet comprehensive) legal framework.⁶ An additional

⁶ In practice, following the adoption of the 2016 Law on Public Sector Wages, there was a recurring impression that line ministries postponed the launch of comprehensive sector-specific reforms, operating under the assumption that a key aspect of employees’ status – above all wage levels and pay differentials – would be resolved through

advantage is that sectoral reforms can address other systemic deficiencies beyond pay levels, thereby improving the position of public employees and the competitiveness of the public sector – especially for highly qualified and in-demand professions.

Sectoral reforms can be effective without a single base wage, but only if grounded in transparency and strong analytical foundations. Equalizing pay across different parts of the public sector does not require a single law or a single base; it does require decisions based on verifiable data, clear criteria, and well-articulated justification. In this regard, the establishment of the unified public sector employee registry “Iskra” represents an important institutional step, enabling systematic cross-sector pay comparisons and identification of significant deviations.⁷ It is essential that the database be analyzed regularly and that results be published transparently – both to identify major deviations and, equally importantly, to gradually build the socio-political support needed to address them.

A high degree of transparency is a key pillar of sustainable reform in this sensitive area. Some countries that could serve as an open-data benchmark for Serbia, such as Slovenia, have highly transparent reporting channels, including publicly available registries updated monthly and covering headcounts and the structure of earnings across the entire public sector. Such practices do not eliminate political tensions, but they greatly facilitate problem identification and the building of public support for solutions.

Introducing a public earnings registry would not be an institutional precedent in Serbia, but rather a continuation of earlier (unfinished) transparency efforts. At the outset of reform activities in 2013, Serbia established one version of a public sector earnings and employment registry. Although limited in scope and analytical capacity, this registry was an important step toward more systematic understanding of the public sector pay system. However, precisely with the start of the wage grade reform – rather than further developing and expanding this instrument across the entire public sector – the process reversed: the existing registry was discontinued in the first half of 2015. The new “Iskra” platform now provides an opportunity to restart and substantially upgrade that interrupted process, by expanding coverage to the full state sector and incorporating key indicators – not only headcounts, but also the level and structure of earnings (base pay, allowances, bonuses), vacancy rates relative to staffing plans, and others. This would create the necessary foundation for evidence-based and selective sector action, rather than broad and arbitrary interventions.

5. The worst option: returning to a flawed reform concept

Some recommendations have emerged in the public debate, suggesting that Serbia should return to the 2016 reform concept. A new World Bank study⁸ emphasizes the need to introduce a unified wage grade system based on a single legal framework and a single base wage for pay calculation. The experience of the past decade, however, indicates that this model was constrained by strong institutional and socio-political limitations: key elements remained

the implementation of a single, system-wide law. As that Law (together with the accompanying sectoral regulations) never became operational in practice, this approach resulted in a dual stalemate: the absence of sectoral reform as well as the failure to establish a coherent, system-wide pay framework.

⁷ This is a central information system for the calculation of earnings of public sector employees, whose establishment began in 2021. The register covers all direct and indirect beneficiaries of the central government budget (including education, state administration, the judiciary, cultural institutions, social protection, etc.), the public healthcare system, and local governments. Higher education and the security sector are currently outside the system, although their integration is planned by 2027.

⁸ World Bank (2025), Public Finance Review – Fiscal Policy for a High-Income Serbia, [pp. 69-76](#).

largely “on paper”, while pay policy in practice continued to be shaped through ad hoc sector interventions.

The 2016 Law is treated as a desirable reference point without a critical assessment of why it could not take hold in practice in the previous cycle. The 2016 Law on wage grades was not the product of a thorough technocratic analysis; rather, it emerged from numerous compromises in negotiations with trade unions, which limited its internal logic and, ultimately, its credibility. Notably, the highest state officials and elected office-holders were exempted from the system, weakening the message of universal rules. Moreover, in projections accompanying the new reform recommendations, the World Bank foresees the smallest adjustments in the judiciary – an outcome difficult to reconcile with the urgent need to strengthen institutions and the rule of law.

The new World Bank initiative also fails to address the structural problem that has escalated in the meantime: pay compression in the public sector. As we have explained, the pronounced wage compression in the public sector that emerged over the past decade resulted from two factors: the failure to increase the highest coefficients for the most highly qualified positions when the coverage was expanded from 40,000 to 500,000 employees under the 2016 Law, and the misalignment of the public sector base wage established by the 2016 Law with the minimum wage prescribed by the Labour Law. Unfortunately, even the latest initiative of the World Bank fails to recognize these key shortcomings or to envisage their correction through an increase in the maximum allowable coefficients for the most responsible positions.

Furthermore, to prevent compression at the lower end of the distribution, the public sector base wage would need to be aligned with the statutory minimum wage under the Labor Law. This parameter was not defined and published transparently before coefficient negotiations during the adoption of the 2016 Law, while available analyses suggest that fully equalizing the base and minimum wage would significantly increase budgetary costs –to a fiscally unsustainable level. This implies that, even in a renewed version of the same concept, it would still be for minimum wage growth to generate additional compression over time – precisely the mechanism that dominated the past decade.

Box 1. The risks of generic one-size-fits-all reform approaches

The initiative to introduce a unified pay-grade system in the public sector is not limited to the Republic of Serbia; the World Bank has been promoting similar reform blueprints across other Western Balkan countries as well. Such generic “one-size-fits-all” reform approaches entail significant risks, as they very often fail to adequately take into account inherited institutional, social, cultural, and other legacies that differ across countries.

A telling example is the situation from a decade ago, when the World Bank strongly advised Serbia and other countries in the region to design their pension systems so that pensions in payment would be indexed solely to inflation (Serbia Public Finance Review – *Towards a Sustainable and Efficient Fiscal Policy*, July 2015, p. 43). A large number of experts in Serbia, including the Fiscal Council, pointed out that this approach was inconsistent with the country’s long-standing pension tradition and with social expectations that pensions should be partially indexed to wage growth as well. Fortunately, the World Bank’s recommendations were rejected at the time, and Serbia implemented an (expanded) Swiss formula, which has proven successful over the past decade.

By contrast, Romania adopted a rule whereby pensions in payment were indexed only to inflation. After several years, this led to substantial disparities between the pensions of

members of the same professions (doctors, teachers, police officers) who retired only a few years apart. This generated significant social dissatisfaction and demands for the reintroduction of the Swiss formula, which was ultimately reinstated at the end of 2023. However, correcting the pension disparities that had accumulated over the previous decade proved to be very costly and will burden the Romanian budget by 1.7% of GDP annually.

When formulating new reform steps, it is also important to consider the institutional context of external support in the previous cycle. The wage-grade reform was not exclusively a domestic initiative; it was developed with strong technical and expert support from the World Bank. Moreover, the support framework included Development Policy Loans (DPLs), under which disbursement conditions were tied almost exclusively to the formal adoption of regulation. Since funds were disbursed in a single tranche once formal conditions were met, this design shifted the executive branch’s incentives toward “meeting the form,” while complex and long-term institutional changes in implementation remained secondary. In practice, this produced a clear dichotomy between formally reported reform progress and real-world outcomes: on the one hand, early phases of the process highlighted progress in public administration and pay system reform,⁹ while on the other hand, the new legal framework never took hold in practice and was ultimately repealed in full.

Accordingly, the Fiscal Council recommends that the Government should not accept a return to the 2016 reform concept. Given the depth of structural problems in the public sector pay system and limited institutional capacity, Serbia cannot afford another prolonged reform cycle that ends without tangible results. Rather than a single comprehensive and rigid solution, reform efforts should be directed toward sector-differentiated measures grounded in reliable data – primarily through “Iskra” database – high transparency, and a clear reliance on objective parameters, possibly including deeper structural reforms of certain public services. Such an approach is better suited both to urgently addressing pay compression where it directly undermines the state’s capacity to retain key expert staff, and to gradually correcting the largest structural imbalances in pay relativities over the longer term – while maintaining fiscal sustainability and securing adequate socio-political support.

⁹ See, for example, [World Bank satisfied with public administration reform](#) .