

Estimation of the size of shadow economy

Survey Method

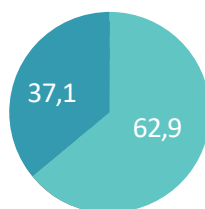
Businesses are increasingly “migrating” from the shadow to the formal economy. According to the perception of entrepreneurs surveyed, only two out of ten companies that operated in the shadow economy in 2017 remained there in 2022, while the remaining eight moved into legal flows. The share of unregistered businesses operating in the shadow zone decreased from 11% in 2022 to 8.3% in 2024, indicating a continued positive effect of the measures aimed at business formalization.

Drop from 11% to 7,4%

drop of the share of companies with informal employees, compared to the period five years ago

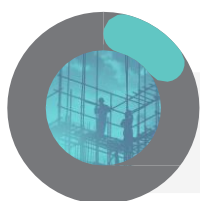
There is less informal work, but it remains a key element of the shadow economy in the business sector. About 7.4% of enterprises have informal employees, compared to almost 11% five years ago. The most common forms are hiring workers without contracts and paying part of the wages in cash. Around 90% of companies have no difficulties in paying taxes and contributions.

The percentage of business entities employing workers without contracts in 2024 is only 3%, while this percentage was as high as 7.3% in 2022, which means a reduction of over 4 percentage points in two years. Additionally, the percentage of employers paying part of the wages in cash is only 4.4%, which also represents a decrease of 2 percentage points compared to 2022.



Out of every 100 dinars earned in Serbia's shadow economy, approximately 63 dinars come from undeclared employee wages, while 37 dinars come from undeclared company profits.

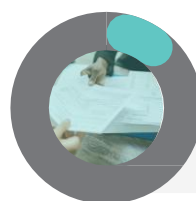
Although the size is decreasing, the structure of the shadow economy remains unchanged. The shadow economy in the formal economy in Serbia has two basic elements – informal employment, i.e., partial or full payment of wages in cash, and undeclared company profits.



It is estimated that the shadow economy is largest in agriculture, where it amounts to as much as 23% of GDP.



In the trade sector, the shadow economy is estimated to account for 13% of the GDP of this activity.



In the manufacturing sector, the shadow economy accounts for 12.6% of the sector's GDP.

The downward trend in the shadow economy is associated with increasing risks for "shadow" businesses. More and more businessmen believe that violations can be detected: the share of those who think there is a chance of being discovered has risen from 47% in 2012, to 61% in 2017, then 66% in 2022, and up to 70% in 2024. Detection does not always mean punishment, but the share of business entities expecting to be fined after a violation is detected has increased from 67% to 80% over the last six years, with a 5 percentage point rise just in the last two years. Companies also increasingly expect that imposed fines will actually be collected—the average expected probability reached as high as 64% in 2024, which is an increase of 24 percentage points compared to 40% in 2022.

Tax morale is getting stronger. There is a noticeable increase in the share of those who do not justify doing business in the shadow economy — their share grew to 80% in 2024 compared to 78% in 2022.

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Monetary Method

Research using this method shows a downward trend in the size of the shadow economy when observing the period since the early 2000s. From 2005 to the first quarter of 2024, the shadow economy decreased by about 9 percentage points of GDP, reaching a level of around 18% of GDP in Q1 2024. During this period, the share of the shadow economy declined relatively strongly, especially from around 2013–14 until the beginning of the pandemic in 2020, and since then it has remained at a level of about 18–19% of GDP. The reduction in the size of the shadow economy over the past two decades has been influenced by an improved regulatory and strategic framework, and at certain times, also by more favorable economic trends. During this period, the first National Program for Countering the Shadow Economy was adopted, which for the first time systematized the measures and activities of the relevant institutions and the business sector, thus contributing to effective suppression.

New technological trends demand new solutions for combating the shadow economy. The trend of reducing the shadow economy significantly slowed during the pandemic. This may have been influenced by changes in the habits of citizens and businesses, the “relocation” of many activities to the Internet, and similar factors. All of this points to the need to introduce new public policy instruments to address these new challenges. Therefore, the Program for Countering the Shadow Economy focuses on measures to support cashless payments and improve inspection oversight, while also supporting the introduction of solutions such as e-fiscalization and e-invoicing.

Estimation of the size of the shadow economy in Serbia 2005.-2024. (in % of GDP)

