

# Estimation of the size of shadow economy

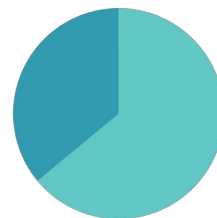
## Survey Method

Businesses are increasingly 'migrating' from the shadow zone to the formal zone. The survey respondents perceive that approximately nine out of 10 companies that worked in the regular economy in 2017 remained there until 2022, while only one out of 10 enterprises moved to the shadow zone. However, only two of the 10 companies that were in the shadow economy in 2017 remained there in 2022, and the remaining eight moved to legal flows.

**Drop from 11% to 8.5% of GDP**

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

**There is less and less informal work, but it is still a key element of the shadow economy.** About 8.5% of enterprises have informal employees, compared to almost 11% five years ago. The most common forms are the hiring of workers without a contract and the payment of part of the wage in cash. More than 90% of businesses have no difficulty in paying taxes and benefits.



**64 dinars**

out of 100 dinars earned in the shadow economy in Serbia, approximately 64 dinars come from undisclosed employee wages, and 36 dinars from undisclosed 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 undisclosed profit of the company.

**Recently established and non-employee companies most often work in the shadow zone.** About one fifth of the companies founded 1-3 years ago work in the shadow economy. Companies without employees are also a prominent category, of which as much as two thirds work in the shadow zone. Also, about 20% of businessmen covered by e-fiscalization run a part of their business contrary to the law.



**20%**

of companies in the construction and manufacturing industry are part of the shadow economy



**13%**

of workers in the construction industry and agriculture work without any contract



**14,5%**

of VAT payers in construction industry avoid paying all dues

**The downward trend in the shadow economy is associated with growing risks for "shadow" businesses.** More and more businessmen think that the offence can be detected: the share of those who believe that the chances of being discovered have increased from 47% in 2012, to 61% in 2017 and to 66% in 2022. Detection does not always mean punishment, but the share of business entities expecting to be punished after the detection of violations increased from 67% to 75% in the last 5 years. Companies increasingly expect that the imposed fine will indeed be charged - the average expected probability for this reached 33% in 2022, about 10 percentage points more than in 2017, while in 2012 the same was expected only by one tenth of businessmen.

**Tax morale is getting stronger.** There is a noticeable decrease in the share of those who justify doing business in the shadow economy, so their share was reduced to 35%, from about 42% five years ago.

## Monetary Method

The method shows a downward trend in the size of the shadow economy recently. Between 2005 and 2021, the shadow economy declined by about 8.2 percentage points, viewed against the whole economy, reaching a level of 20.1% of GDP. In this period, the shadow economy has declined almost constantly, with several phases turning this trend from upside to down – primarily in the years after the global economic crisis began in 2008. However, since the middle of the last decade, the shadow economy has started to decline again, influenced by both favorable economic tendencies and a significantly improved regulatory and strategic framework. At that time, the first National Program for Countering Shadow Economy was adopted. The Program was the first to systemize the measures and activities of the line institutions and the businesses and thus contributed to the effective countering.

**New technological trends call for new solutions to counter the shadow economy.** The trend of countering shadow economy was significantly slowed during the pandemic. It is possible that this was also influenced by changes in the habits of citizens and the businesses, the "relocation" of numerous activities on the Internet, and similar. All this point to the need to adopt new public policy instruments to meet new challenges. Therefore, the new Program of Countering Shadow Economy focused on measures to support cashless payments, but also includes support for efforts such as the introduction of e-fiscalization and e-invoicing

Estimation of the size of the shadow economy – Monetary method (in % of GDP)

