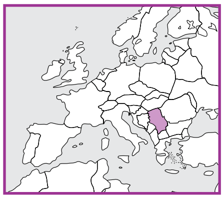
SERBIA

No strategy to counter economic and social insecurity



Serbians are facing increasing economic and social insecurity due to the lack of decent jobs, rising unemployment, high levels of corruption and deficient rule of law. The flow of foreign direct investment has slowed as a consequence of the global financial crisis, making the economy more fragile and unstable. Anti-crisis measures are based on taking out new loans from the international financial institutions and cutting public expenditure on education, health care and pensions–all of which risk pushing even more people into poverty.

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The global financial and economic crisis struck a heavy blow to Serbia's already weak and unstable economy. Low levels of investments and exports and increasing unemployment and illiquidity became the main problems. Foreign direct investment (FDI) in 2009 was only USD 1.5 billion, while at least USD 5-7 billion per year is needed to provide long-term macroeconomic stability and economic growth of 5%. The share of FDI in the gross domestic product (GDP) was 3.9% and a significant decrease of 25.2% was recorded within the framework of domestic demand.[1] High investment risks, corruption and weak institutions are the main barriers to capturing FDI together with a shrinking of financial sources at global level.

The decrease in economic activity in 2009 was 12.1% (industry), 25.1% (civil engineering), 12.3% (retail trade) and 8% (tourism). Foreign trade exchange went down in both exports (19.7%) and imports (28%). The positive aspect of this was a smaller foreign trade deficit, amounting to USD 7 billion (39.9% less than in 2008)[2], and a higher value of exports over imports of 53.4%.[3] The foreign trade debt made up 70.4% of GDP,[4] the budget deficit amounted to 3.2% of GDP and the public debt was 31.3% of GDP.[5] Turnover value in the Belgrade Stock Market fell 41.9% compared to 2008. The rate of unemployment was around 15%, an increase of almost two percentage points over 2008.

The economic slowdown was somewhat checked in the second part of 2009 by a number of Government economic and monetary measures. These included:

- Reduction of public expenditure by freezing pensions and salaries in the public sector.
- An IMF credit stand-by arrangement of USD 3.85 billion.

1 National Bank of the Republic of Serbia, "Report on Inflation," 2009.

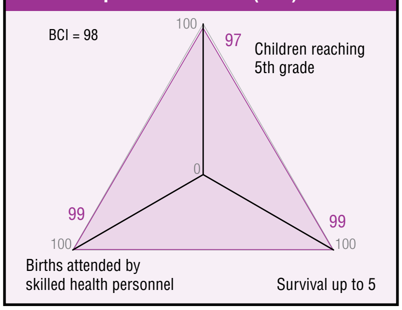
2 Ministry of Finance, "Bulletin of Public Finances," 2009.

3 Ministry of Finance, "Analysis of Macroeconomic and Fiscal Trends in 2009."

4 National Bank, *op. cit.*

5 Ministry of Finance, "Bulletin of Public Finances," *op cit.*

Basic Capabilities Index (BCI) 2010



- Financial support from the World Bank, European Bank for Reconstruction and Development and the EU, as well as Russia and China support to infrastructure projects.
- A fiscal deficit increase from 3% GDP to 4.5% approved by the IMF in October 2009 and agreed in the 2010 Serbian macroeconomic budget framework.
- A second credit installment from the IMF worth USD 470 million for strengthening foreign exchange reserves and the stability of foreign exchange rates.
- Measures to increase economic liquidity.

In 2009 the banks approved a credit of EUR 1 billion (then around USD 1.3 billion), of which USD 1.15 billion was for liquidity and the remainder for subsidizing consumer credit. These stimulus measures stopped the drop in industrial production and the foreign trade exchange. However the Serbian economy is still not attractive to investors. The National Bank of Serbia estimates the degree of economic openness of the economy at 6.3.[6] Serbia is ranked 93 out of 134 countries in the World Economic Forum's Index of Global Competitiveness.

Economic activities are burdened by the high indebtedness of companies and the lack of cheap credits to stimulate the export of goods. The budgetary revenue at the beginning of 2010 was 10% less than in the same period in 2009. Current revenues decreased 7.8% while tax revenues fell 7.8% and non-tax revenues fell by 8.1%. Significant revenues based on taxes, excluding excise taxes, decreased in relation to 2008, while the nominal revenue growth from excise taxes was 22.4% and social contribution was 1.9%.[7]

6 *Ibid.*

The Government has recently announced a new anti-crisis package, which is seen by many as political posturing in view of the upcoming election. Thus Serbians have heard contradictory statements by Prime Minister Mirko Cvetkovic, who in October 2009 stated that Serbia had emerged from the crisis[8] and six months later announced that there was no evidence of this.[9]

Increasing poverty

According to the Ministry of Labour and Social Policy, the number of poor people increased in 2009, with almost 700,000 people below the poverty line and 160,000 receiving social benefits.[10] However, the real number of people living in poverty is higher, up to 60%,[11] since the official data do not take into consideration indicators such as the availability of and access to health care, childcare, education and decent jobs.

Children are particularly vulnerable. A Conference on Children and Poverty – organized in Belgrade in October 2009 by the Serbian Ministry of Labour and Social Policy, the European Commission's Technical Assistance and Information Exchange (TAIEX), UNICEF and the Serbian Parliament – stressed the need to monitor the effects of the economic crisis on children and families and to continue the reform of social policy.[12] Decreasing livelihoods are accompanied by increasing violence against women and children, reduced attendance at schools and declin-

7 Ministry of Finance, "Bulletin of Public Finance," *op. cit.*

8 Economist Media Group, "Cvetkovic: Serbia at the End of the Economic Crisis," *EMportal*, 16 October 2009. Available from: <www.emg.rs/vesti/srbija/101568.html> (accessed 10 March 2010).

9 Economist Media Group, "Cvetkovic: There is No Reliable Evidence about Coming out of the Crisis," *EMportal*, 9 March 2010. Available from: <www.emg.rs/vesti/srbija/115224.html> (accessed 10 March 2010).

10 See: <www.danas.rs>.

11 Aleksandar Rodic, "Life on Soup from Thrown Out Vegetable," *Blic Online*, 28 February 2010. Available from: <www.blic.rs/Vesti/Tema-Dana/178682/Zivot-na-corbi-od-bacenog-povrca> (accessed 28 February 2010).

12 Economist Media Groups, "Number of Poor is Increasing, Children Particularly at Risk," *EMportal*, 19 October 2009. Available from: <www.emg.rs/vesti/srbija/101841.html> (accessed 10 March 2010).

ing quality of childcare. The Millennium Development Goal (MDG) Monitor for Serbia highlights the continuous deepening of the education gap between children from different socio-economic and ethnic groups, revealing the inadequacy of the current education system to fully implement an inclusive education.

Increasing poverty was one of the top issues in the debate between governmental officials and representatives of business at the Business Forum in March 2010. Although all of them agreed that the eradication of poverty primarily depends on the Government's economic policies, no concrete proposals were put forward on what these should be, besides the announcement of a new Law on Social Security to be adopted in 2010 that would increase the level of social security benefits and the number of recipients.[13]

Growing unemployment, strikes and protests

Human rights NGOs, such as the Belgrade Centre for Human Rights, warn that economic and social rights are deteriorating and that vulnerable groups – including Roma, children, disabled people and women – are particularly at risk.[14]

Facing difficulty surviving the impact of the crisis, many companies have gone bankrupt or have tried to minimize costs, by reducing workers' wages and benefits, among other measures. Companies have cut salaries (promising that this would be a temporary measure) or stopped paying pension insurance contributions. More than 133,000 Serbians lost their jobs in 2009 and early 2010. The estimate for 2010 is that over 100,000 workers – some 450 a day – will lose their jobs,[15] while the possibility of finding work in the informal economy is also shrinking due to the negative effects of the economic crisis on construction and farming.[16]

The minimum hourly wage in March 2010 was USD 1.16, an amount that has not increased for more than a year as the Association of Employers has refused to agree to trade union demands. Due to the lack of social dialogue, tens of thousands of workers staged strikes in 2009 and at the beginning of 2010. In reaction to the seeming indifference of the Government and employers, workers often adopt extreme forms of protest including hunger strikes and blockages of roads and railways. As a way to reduce layoffs, a Bill on Amendments to the Labour Law was adopted in July 2009. It extended the period during which employers may send employees on paid leave to more than 45 days during a year. However this measure has not yet had any effect. Trade unions warn that they have no means to push for positive changes other than more strikes.

Credit arrangements and public services

The reduction of public spending, primarily pensions and salaries, is a dominant issue in the negotiations between Serbian officials and international financial institutions (IFIs).[17] Albert Jaeger, Chief of the IMF Mission in Serbia, said that the lending institution requires the Government to present clear plans for public spending cuts, "reforming the State administration, the pensions system, education and health care," if it wants to successfully re-open the credit arrangement.[18] The Government dropped the IMF's proposal to raise value added tax (VAT) and reduce pensions and salaries in the public sector and has instead proposed to reform the public sector.

In August 2009, after a program review by the IMF, the Government adopted the Social Care Plan based on "reforms," which in this case means cuts in the budget for health care and education and reduction of the number of employees. The plan also includes reducing the number of teachers, classes and elementary schools and closing specialized schools for children with disabilities. As a result of this "reform" 11,000 classes out of 90,000 will be closed, making it more difficult for children in rural areas and children with disabilities to access elementary education. Similarly, the "reform" in the health system will be based on reducing the number of health care workers, reviewing subventions and closing a number of health care institutions, all allegedly to "save" money in the budget.

Legislation is being changed or adapted according to the policies guided by the IFIs, abolishing rights that had previously been gained. The new Serbian Law on Employment, passed on May 2009, abolished the right of women who lose a job during pregnancy to receive paid benefit during the unemployment period for more than one month. The Law introduced stricter conditions for receiving the right to unemployment subsidies if a worker loses a job during a period of sick leave. Pregnancy is considered as 'sickness' so it is not excluded.[19]

The global economic crisis can only partly be blamed for the many layoffs. According to trade unions and economists, job losses are also due to irresponsible economic policies as well as bad privatization models.[20] The media has reported many cases of dubious privatizations. The Directorate for Prevention of Money Laundering has estimated that more than USD 2 billion a year is laundered, mostly through the privatization of firms;[21] it has filed more than 1,700 cases of dubious privatizations, but until now only one privatization case has been overturned. Moreover corruption remains widespread. A 2009 survey showed that education, health and the judiciary were perceived as the most corrupt areas, and that one out of five people had paid for a (supposedly free) health service she or he needed.[22]

The Government's macroeconomic strategy is aimed at decreasing the structural fiscal deficit through limiting pensions and public salaries while increasing investment in infrastructure approved by the IMF.[23] However there is still no vision and no comprehensive and multisectoral strategy on how to protect the economic and social rights of citizens, securing them decent jobs and livelihoods. ■

13 B92, "How to Decrease Poverty in Serbia," *B92 Online,* 11 March 2010. Available from: <www.b92.net/info/vesti/index.php?yyyy=2010&mm=03&dd=11&nav_category=9&nav_id=417055> (accessed 11 March 2010).

14 Belgrade Centre for Human Rights, *Human Rights in Serbia 2009: Legal Provisions and Practice Compared to International Human Rights Standards,* Belgrade, 2010.

15 B92, "Fight for Working Places," *B92 Online,* 29 March 2010. Available from: <www.b92.net/info/vesti/index.php?nav_id=421112&dd=29&mm=03&yyyy=2010> (accessed 29 March 2010).

16 I. Radisavljevic, "Army of Poor is Increasing," *Blic Online*, 28 March 2010. Available from: <www.blic.rs/Vesti/Drustvo/182724/Raste-armija-siromasnih> (accessed 28 March 2010).

17 Economist Media Group, "Jelasic: Reduction of public expenditure – main topics of talks with IMF," *EMportal,* 12 February 2010. Available from: <www.emg.rs/en/news/serbia/113366.html> (accessed 20 February 2010).

18 I. Jovanovic, "IMF tells Serbia to slash spending," *SETimes.com,* 9 September 2009. Available from: <www.setimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/features/2009/09/09/feature-02> (accessed 20 September 2009).

19 J. Popadic, "Law Induces White Plague," *Politika,* 14 August 2009. Available from: <www.politika.rs/rubrike/Drustvo/Zakon-podstiche-belu-kugu.sr.html> (accessed 20 August 2009).

20 Union of Independent Trade Unions of Serbia, *Privatization in the Republic of Serbia 2002–2009,* Belgrade; and Economist Media Groups, "58 layoffs an hour in Serbia during 2009," *EMportal,* 30 March 2010. Available from: <www.emg.rs/en/news/serbia/117661.html> (accessed 30 March 2010).

21 T.N. Djakovic, "Mafioso Launders billions of euros through privatization," *Blic Online,* 4 March 2010. Available from: <www.blic.rs/Vesti/Tema-Dana/179212/Mafijasi-oprali-vise-milijardi-evra-kroz-privatizacije> (accessed 4 March 2010).

22 Belgrade Centre for Human Rights, *op. cit.*

23 Economist Media Group, "Serbia will pull 180 billion euros from the IMF on 6 April," *EMportal,* 1 April 2010. Available from: <www.emg.rs/vesti/srbija/117929.html> (accessed 1 April 2010).