New Serbian government commits to austerity measures

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It has taken more than two months since the May 6 parliamentary and presidential elections for Serbia to form a new government that will have as its most important task a sweeping attack on the working class.

Last week, an official agreement on the formation of the new government and its broad goals was signed by the Serbian Progressive Party (SNS), Socialist Party (SPS) and United Regions of Serbia (URS). Having won 73, 44 and 14 parliamentary seats, respectively, they will command a narrow majority of 131 in the 250-seat parliament. The new government should be officially installed by the end of this month.

The agreement says that Serbia will remain on the path to European Union accession. It sets as the most urgent task the introduction of "radical measures" to cut budget deficits and state spending. The country is on the brink of its second recession in three years. GDP shrank 1.3 percent in the first quarter of this year.

Latest figures show the budget gap at 7.3 percent of GDP, compared with a 4.25 percent target agreed with the International Monetary Fund (IMF), and public debt at 52 percent of GDP, greater than the agreed 45 percent limit. The current account deficit of 17 percent stands at double the target. The government needs to borrow €2.5 billion by the end of the year to pay the deficit and interest on earlier loans.

The IMF suspended a $1.3 billion loan to the country earlier this year. Conditions for resumption of the loan include "a supplementary 2012 budget consistent with the program's debt and deficit objectives, a medium-term fiscal consolidation program, and a package of growth-enhancing structural reforms."

"This will require deepening the program's reform agenda, which includes restructuring and privatising state-owned enterprises, increasing labour market flexibility, and better guaranteeing property rights," the IMF continues.

According to the Bank of Serbia, the new government must "curb public spending and ensure conditions for economic recovery." It expressed concern over the euro zone crisis affecting Serbia, where nearly 75 percent of the banking sector's assets are held by foreign banks.

In June, the Fiscal Council, which advises the government on economic policy, called for cuts in public spending including pensions, public sector salaries, subsidies, spending by government agencies, and an increase in the sales tax (VAT).

In foreign policy the new government faces a delicate balancing act between its proclaimed pro-Western orientation and some of the traditional allies of the SNS and SPS—above all Russia. This is reflected most sharply in the issue of Kosovo. The US and some European countries are pushing strongly for Serbia to recognise its independence, a move Serbia has so far opposed, relying on Russia and China for support.

The US has tried to prevent the formation of the SNS-SPS government it perceives as more hard-line on Kosovo, especially since the International Steering Group for Kosovo agreed early in July to end the period of "supervised independence" and to grant "full independence" by September.

The former Serbian province could be more accurately described as a US colony. US General Wesley Clark, who commanded the NATO campaign against Serbia in 1999 that resulted in Kosovo breaking away, has even applied, through his company Envidity, to take over the coalfields in the west of the country.

Two high-level US State Department officials visited Belgrade within a few days of each other to push for a coalition between the SNS and the former ruling Democratic Socialists (DS) instead. While this did not materialise, Tomislav Nikolic, the SNS leader and new

Serbian president, has seemingly softened his stance on Kosovo, recently announcing, "I don't think I will ever be president in [the Kosovo capital of] Pristina, but the president of the interim authorities in Pristina will also never be president in Mitrovica,"—that is, in the Serbian populated north Kosovo. This statement implies the possible partition of Kosovo, something both Serbia and the US have firmly rejected so far.

The key man in the new government will be SPS leader Ivica Dacic. Deputy prime minister and interior minister in the last DS-led government, Dacic will now be prime minister and retain the position of the head of police. The SPS is the direct successor of the Stalinist League of Communists of Serbia, and Dacic was the right-hand man of former Yugoslav president Slobodan Milosevic. After Milosevic's death in 2006 Dacic became the head of SPS and pursued a pro-Western course.

The SNS split in 2008 from the ultra-nationalist Radicals led by Vojislav Seselj—on trial at the International Criminal Tribunal in The Hague since 2003. Under Nikolic, the SNS moderated its rhetoric and set on a pro-EU road.

The third minority partner, the URS led by Mladjan Dinkic, has taken the new name of G17 Plus, a group of economists and "technocrats" who have been part of every government since 2000 and are largely responsible for the disastrous and semi-criminal privatisations that have devastated most of Serbian industry. Dinkic was deputy prime minister and economics minister in the last government, until he was sacked in 2011 for "inadequate work results".

Dinkic barely made it over the 5 percent threshold to enter parliament. He is reportedly to be the next finance minister. At the press conference after the new coalition deal was signed he spoke of "budget rebalancing" and "fiscal consolidation" that needs to be implemented by the end of September in cooperation with the IMF and the World Bank, as well as with Serbian employers and the unions.

Dinkic knows he can count on the help of the unions to disorient and disarm the working class. Confederation of Autonomous Trade Unions of Serbia (CATUS) Vice-President Zoran Mihajlovic told B92 news last month that he "unfortunately" expects "a wave of dissatisfaction, protests and strikes that will spill over to the streets. I think in this situation simply any economic measures will provoke a wave of dissatisfaction... I think this year is going to be very hard, unfortunately the next [year] is not going to be any better and we are faced with a very difficult situation."

Since the beginning of the world economic crisis in 2008, Serbia has experienced an increase in the official unemployment rate from 14 to over 25 percent. Less than half the population over 15 years old are economically active. Last week the country's only steel mill at Smederevo, bought by the government last December from US Steel for a nominal $1, closed with its 5,500 workers sent home on half wages until after the company's sale expected in September.

The latest Global Competitiveness Report by the World Economic Forum ranked Serbia 139 out of 142 countries for severe "brain drain," as tens of thousands of university graduates have left the country.

Recent official figures show that the average wage in Serbia 56,206 dinars (€490) in May, down 5.2 percent in real terms from April. About 700,000 people in Serbia out of a population of 7,260,000 are living below the poverty line, with a monthly income of less than €80. Particularly affected are the Roma population (around 110,000, according to official statistics, but unofficially up to 500,000), most of whom have no ID and cannot get health, education or other public services.