Massive budget cuts and labour reforms to follow Serbian election

Paul Mitchell
22 March 2014

The Serbian Progressive Party (SNS) obtained a landslide victory in last Sunday's elections, receiving nearly half of the vote—158 of the 250 seats in the National Assembly. Turnout was just 53 percent of Serbia's 6,765,998 voters, down from 58 percent in the last election in 2012, indicating huge opposition to official politics.

The SNS was formed in 2008 as a split-off from the ultra-nationalist Radical Party of Vojislav Seselj who is on trial for war crimes. It has softened its rhetoric and embraced a pro-European Union (EU) course, winning the presidency and forming a government for the first time in 2012 in coalition with the Socialist Party (SPS). Since then, it has carried out a high-profile populist anti-corruption campaign that has seen dozens of politicians and businessmen arrested, including Serbia's richest man, the oligarch Miroslav Miskovic.

The vote of the SPS, successor to the former ruling League of Communists of Serbia, the Stalinist party led in the 1990s by Slobodan Milosevic, held steady at 13.6 percent allowing the party to retain its 44 seats. The SNS, now it has an outright majority, no longer needs the SPS and by May 1 there should be an announcement on whether it intends to govern alone.

The main reason for the SNS's success is the split in the Democratic Party (DS) earlier this year. After losing the leadership to Dragan Djilas, former Serbian president, Boris Tadic, left to form the New Democratic Party, which then merged with the Greens (NDS-Z).

The DS vote slumped from 22 percent to 6 percent and its number of seats from 67 to 19. The NDS-Z polled a similar percentage and picked up 18 seats.

The DS's catastrophic result is a far cry from 2000, when it was the largest party in the Democratic Opposition of Serbia (DOS) coalition that won 65 percent of the votes and 176 Assembly seats and saw DS leader, Zoran Djindic, appointed prime minister.

In Sunday's election, three parties failed to reach the threshold of 5 percent of the vote and lost all their seats, thus losing state funding and threatening their survival—Vojislav Kostunica's Democratic Party of Serbia (DSS), once the second-largest party in DOS, the United Regions of Serbia party, successor to the US-backed G17 Plus party of financial experts, and the Liberal Democratic Party, a 2005 split from the DS.

Parties representing the Bosniak ethnic minority in the Sandzak, ethnic Albanians in southern Serbia and Hungarian speakers in the Vojvodina region returned to the Assembly with 11 seats.

In the fortnight leading up to the elections the International Monetary Fund sent its latest mission to Serbia to drum home the precarious state of the economy. The government deficit is expected to reach a record 7.1 percent of GDP this year from 6.5 percent in 2013, and debt to rise above 70 percent of GDP by 2015 from 63 percent now—well above the 40 percent legal cap. Serbia's creditworthiness is classified as "highly speculative junk" status by ratings agencies and foreign direct investment in 2013 was under half the €2 billion expected by the government.

IMF officials said they will only provide further financial support if there are "ambitious fiscal consolidation and structural reforms… In particular, efforts to contain the public-sector wage bill and subsidies… the start of long-delayed restructuring of socially-owned enterprises [and] plans to reform the labour markets". In addition, "Other structural reforms of pension system, public administration, health, and education should also start without further delay."

Following the election results, United States Ambassador Michel Kirby declared, "…there are some difficult economic changes, continuing on the path to the EU, continuation of the dialogue between Belgrade and Pristina [over Serbia recognising Kosovan independence], giving the Serbian military… the basis for cooperation internationally."

German foreign policy spokesman and right-wing Christian Democrat, Philipp Missfelder, said, "From our perspective, the right way for Serbia is to continue further toward the EU with the SNS and Aleksandar Vucic. A precondition for that are negotiations with Kosovo."

Missfelder added that Serbia "has a very large state apparatus, and a large number of state-owned companies," and that "bureaucratic structures are too large and the educational system obsolete."

He has made very vocal criticisms of Russia and Vladimir Putin in the Ukraine crisis while at the same time arguing that Germany should not pick up the financial tab for the turmoil.

Russian Ambassador Aleksandr Chepurin declared, "Serbia is very close to Russia" and hoped that "forces and parties which maintain a friendly attitude toward Russia would assume power."

Over the recent period, Russia has succeeded in expanding its influence in Serbia, which has signed free trade and defence cooperation agreements. Construction has begun on the Serbian section of Gazprom's South Stream gas pipeline. At the same time the EU began accession talks with Serbia last January, accompanied by veiled threats about its close relationship with Russia. EU Energy Commissioner Gunther Oettinger said it had "to accept the rules of our market" and revise its agreement on the South Stream project "if it wants to avoid unnecessary obstacles on its path to EU membership."

Immediately after the election, Vucic took this "advice" to heart, declaring, "I expect we will pass key laws, including the labour law, the bankruptcy law, the privatisation law and the law on building permits by the end of June or mid-July."

With regard to the crisis in Ukraine, the government has been virtually silent. Attempting to walk on the increasingly precarious tightrope between the West and Russia, Vucic proclaimed, "We are not going to have a Ukraine or Bosnia in Serbia," while at the same time saying Serbia would not break off its ties with Russia, "regardless of what is happening in the world."

The planned structural reforms will make the terrible living conditions already afflicting the Serbian working class much worse. Official unemployment is 26 percent and above 50 percent for youth. The average monthly wage is about €380 (US$515). Huge jobs losses and wages cuts are in the pipeline for the 800,000 workers employed by the state. Serbian investment banker Dejan Tufegdzic told the *Financial Times* that only 10 percent of the 179 companies earmarked for privatisation will be able to survive, causing "drastic reductions" in jobs.