Serbian government slashes wages and pensions

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The Serbian government plans to slash public sector wages and pensions by up to 20 percent, in order to meet International Monetary Fund (IMF) conditions for a new loan. The measures will be put to the Serbian parliament in mid-October in a revised budget demanded by the IMF.

The IMF insists cuts totalling “around €400 million” (US$543 million) are the “key condition” for Serbia to get the new loan. However, reports suggest that €2 billion will need to be saved over the next three years just to keep public debt at its present level.

In the new measures announced by Prime Minister Aleksandar Vucic, public sector salaries over €211 per month will be reduced by around 10 percent while those above €844 will be reduced by 20 percent.

Pensions between €211 and €256 will be reduced by 3.1 percent, those between €256 and €295 by 6.2 percent, those over €337 by 9 percent, and those above €844 by 16 percent.

Other austerity measures being discussed include cuts to public sector jobs, raising the retirement age, reducing subsidies to and further privatisations of 153 public enterprises while providing more support to private companies, curbs to the “grey” economy, cuts to public spending, and raising Value Added Tax.

Kori Udovicki, minister for state administration and local self-management, told reporters, “We are in talks with the IMF about cutting the number of employees in public sector by 5 percent.”

“We hope to be able to meet this demand to the largest degree as workers retire, but there are concerns that we will have to lay off 25,000 people.”

However, media reports suggest as many as 100,000 public sector workers—20 percent of the total—may be made redundant. The former finance minister, Lazar Krstic, was demanding a minimum 160,000 job cuts before he resigned earlier this year after criticising the government for not being more “radical” with its reforms.

The European Union (EU) welcomed the new measures because, of course, it had helped draft them. Freek Janmaat, head of the EU Delegation to the Republic of Serbia, said that Brussels supported the proposals as “part of the broad structural reforms which are to follow”. They are built on the recent adoption of a new labour law providing more “flexibility” in the labour market, i.e., making it easier to fire workers and reduce redundancy payments.

Serbia is in a grave economic crisis, with government ministers needing to regularly talk down the threat of bankruptcy. In 2012, the IMF suspended its loan programme because the country failed to meet its budget targets. Since then, the budget deficit has doubled to more than 8.5 percent of economic output (GDP), Europe’s highest, and public debt has risen to an enormous €20 billion (US$25.7 billion). The country is facing its third recession in five years, a situation made worse by the devastating floods earlier this year. Bankruptcy has been staved off by huge multi-billion-dollar investments from the United Arab Emirates, whose Etihad Airways bought the Serbian national airline JAT last year.

Serbia’s economic difficulties have been compounded by its political woes as it attempts to balance between its traditional ally Russia and integration into the European Union. Vucic regularly describes how “Serbia wants to be part of the EU, but does not want to destroy its relations with Russia.”

Some analysts have talked of Serbia becoming “a new Ukraine in the Balkans.”

The country gained EU candidate status in 2013 and will chair the Organisation for Security and

Cooperation in Europe (OSCE) in 2015. However, the prospect of full EU membership appears to be receding—to 2020 at the earliest—due to what former European enlargement commissioner Günter Verheugen described as the EU's "enlargement fatigue."

In late August, an international conference on the Balkans, convened by German Chancellor Angela Merkel, attempted to dispel these concerns. But the whole affair fell flat when it was revealed that incoming European Commission President Jean-Claude Juncker failed to include an EU Enlargement Commissioner in early proposals for his new ministerial team.

Merkel, along with other EU leaders, is insisting that Serbia's membership depends on "normalising" its relationship with the former Serbian province of Kosovo, which declared independence in 2008. However, last year's EU-sponsored "First Agreement of Principles Governing the Normalisation of Relations between Serbia and Kosovo" has ground to a halt.

The EU and United States are above all insisting on Serbia severing its links with Russia, with which it has a free trade agreement. Earlier this year, an EU email was leaked rebuking Vucic for not imposing sanctions against Moscow, complaining that this threatened "European solidarity". US ambassador to Serbia Michael Kirby recently spoke publicly about his concern over the invitation to Belgrade of Russian President Vladimir Putin to this month's World War II commemorations.

Following last month's announcement by Russia's state-owned energy conglomerate, Gazprom, that the construction of the Serbian stretch of the South Stream gas pipeline would start in October, European Commission spokesperson Marlene Holzner declared, "If the idea is to bring gas from Russia to Europe, you have to go through European territory and as we have said for all big infrastructure… If you do business on European territory, you have to respect our legislation."

Tensions are also brewing over the proposed privatisation of Serbia's richest public company, the Serbian Electric Enterprise, which is attracting attention from Russia's Inter RAO and Germany's RWE.

Meanwhile, official unemployment remains at around 24 percent, with youth joblessness at 50 percent. The average monthly wage is a wretched €377 (US$476) and has declined by 0.8 percent in real terms since the beginning of the year. The population has decreased, despite the fact that in the 1990s during the Balkan Wars nearly one million Serbs migrated from Croatia and Bosnia-Herzegovina. By 2020, estimates suggest pensioners will make up 34 percent of the total population as young people leave in search of a better future. A recent poll suggested 78 percent of Serbian youth would like to do so.