Global crisis, local unrest

Government indecisiveness and lack of a clear strategy and vision to counter the negative effects of the crisis have fuelled pessimism and discontent among the population, which demands actions – not just words – to combat corruption and crime and to establish the rule of law. The economic situation has been deteriorating, endangering citizens' economic and social rights. Government revenues have declined owing to large-scale privatizations since 2003. Pressured both by the IMF and by public discontent, politicians draft plans that are almost immediately discarded.

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Serbia is suffering from declining industrial output, dropping exports, imports, foreign and internal trade and a marked decline in the Belgrade Stock exchange. In addition, there is a high foreign trade deficit. The absence of foreign investment inflows and credit could cause serious problems in the balance of payments and an increase in the trade deficit, together with rising unemployment and falling earnings.

The declining economy

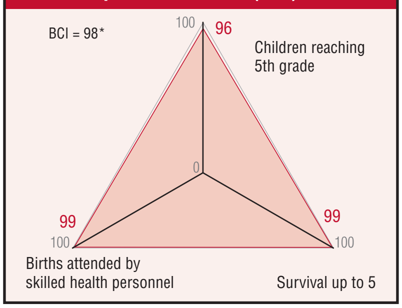
The planned GDP growth of 3.5% for the 2009 budget proved to be over-optimistic. The fall of GDP is evident, estimated at -4.8%.[1] The industrial production in May 2009 went down by 18 % compared to the 2008 average. The limiting factors of sustainable development are high unemployment and other social problems. According to data from the National Employment Agency, the number of unemployed by the end of June 2009 was 763,062 (25.85% – of which 52.94% were women) and 70% of employed people worked part-time.[2] Estimates of the number of workers who lost jobs between December 2008 and March 2009 vary from 31,000[3] to 133,000[4] , in many cases due to decreased production and cancelled orders. On the average, approximately 2,500 employees get dismissed every month[5]. More than 2,000 small and medium-sized enterprises ceased to exist in 2008; the economic context does not favour setting up new businesses while bankruptcy threatens 60,000 firms. Internal debt, totalling more than USD 3 billion in February, puts economic activities and employment at risk.

The foreign debt is constantly increasing and topped USD 30.7 billion in June 2009 (64% of GDP),[6] 16% higher than in 2007. While last year's foreign trade deficit was USD 9.5 billion, the value of the national currency, the dinar, dropped by 25% in the last quarter of 2008. The lack of foreign direct investments (FDI), and of money inflows from foreign banks, has limited the resources for defending it. An estimated foreign currency inflow of USD 5.9 billion is needed to maintain the dinar's stability. However, given that the country gained only USD 3.3 billion from the large-scale privatizations carried out since 2003 (now completed) and that increased foreign investment is not to be expected, this amount of money will not be available.

In fact, the results of privatization have been disastrous. The bulk of the capital from selling state property went into consumption, not investment, and the export sector was not restructured. Most of the investment went to banking, trade and real estate. Pushing industrial production into the background and neglecting technological development have led to the economy's extremely low competitiveness. There are no valid official figures for the total state revenues from the privatization process since 2000.[7] The purchase by foreign investors of whole industrial branches (e.g., the dairy industry) has contributed to monopolies and rising prices. The sale of 51% of the Oil Industry of Serbia to the Russian company Gasprom for USD 528 million has also raised discontent among the public and experts as this was one of the country's biggest sources of revenue. Before privatization, State companies contributed 44.5% of the GDP, in comparison to 17% in 2008. The number of workers shrank from 400,000 to 135,000 and is still decreasing. Even US Steel, who has bought the biggest Serbian forge Smederevo, has announced that it will dismiss workers.

The economic turmoil and unfavourable privatizations have led to increasing poverty. Within the first quarter of 2009, the number of those living below the poverty line increased by 60,000 people, and the trend has not declined.[8] Those who are most at risk are the unemployed, children, people above 65 years of age, persons with disabilities, the Roma, refugees, women, rural elderly households and large families.

Basic Capabilities Index (BCI)



Government response

The Government initially hesitated in the face of the crisis, reacting slowly and failing to warn the people. In an evaluation of the impact of the crisis in December 2008, it suggested that some sectors would be hard hit – though it was hard to know which ones – while others would not be affected.[9] However, it did develop a "Framework of Measures" related to the state (in the broadest sense), the economy (industrial and financial sectors) and the general population.[10]

In February 2009, the Government adopted a stimulus package aimed at increasing liquidity through approving loans to banks (so they could offer loans to businesses on favourable terms), and providing incentive funds for export-related activities to companies (which were then under an obligation not to reduce the number of employees). Favourable terms were set up for credit accounts of citizens to stimulate purchasing power and production. According to the Ministry of the Economy and Regional Development, up to 4 August, a total of USD 874 million had been given as loans for increasing liquidity[11] and USD 25 million for consumer loans.[12] Almost 1,000 requests for start-up loans for small and medium-sized enterprises were submitted. The Union of Employers demanded strict rules for ap-

* "Children reaching…" estimated following procedure "2" in p. 209.

** There are no available data on GEI.

1 EMportal, Economist Media Group Web site. 15 August 2009. Retrieved 17 August 2009. Available at: <www.emportal.rs>.

2 National Employment Agency (NAE).Government of the Republic of Serbia. Unemployment data June 2009. Retrieved 16 August 2009. Available at: <www.nsz.gov.rs/>.

3 *Ibid.*

4 B92. Citizens' Standard of Living Is Worsening. B92 Web site. 16 August 2009. Retrieved 16 August 2009. Available at: <www.b92.net>.

5 Government of the Republic of Serbia. Ministry of Labour and Social Policy Web site. Available at: <www.minzs.gov.rs>.

6 National Bank of Serbia. *Monetary and Forex Statistics*. Retrieved 15 August 2009. Available at: <www.nbs.rs/export/internet/english/80/index.html>.

7 Aleksic, J. and Stamenkovic, B. "Nobody Knows Where the Money from Privatisation Goes." *Blic*, 24 March 2009. Available at: <www.blic.rs/economy.php?id=4119>.

8 Government of the Republic of Serbia. Ministry of Labour and Social Policy Web site. Available at: <www.minzs.gov.rs>.

9 Government of the Republic of Serbia. *The Economic Crisis and Its Impact on the Serbian Economy*. Office of the Prime Minister. Available at: <www.media.srbija.sr.gov.yu/medeng/documents/economic_crisis280109.pdf>.

10 *Ibid.*

11 Until August 2009, 90% of Serbian companies have submitted requests for these loans.

12 Government of the Republic of Serbia. Ministry of Economy and Regional Development (MoE) Web site. 6 August 2009. Retrieved 16 August 2009. Available at: <www.merr.gov.rs/>.

proval of these loans to prevent corruption as previously there had been cases of loans to tycoons as well as funds that disappeared.[13]

Affirmative measures have also been developed to stimulate the employment of vulnerable groups, such as workers aged 45–50, people with disabilities, Roma and those who have been unemployed for more than two years. The employment of these categories will be subsidized by USD 1,100 to USD 2,200.

At the end of March 2009, negotiations with the IMF ended in the agreement on a stand-by arrangement worth USD 3.96 billion to be implemented by April 2011. It was pointed out that Serbia would not be able to cover its budget deficit or pay pensions and salaries without IMF assistance. The Government also signed a loan agreement with the World Bank worth USD 46 million for the development of the private and financial sectors[14]. The European Commission is assisting with USD 142 million to ease the economic and social consequences of the crisis.

The Government announced it would request from the IMF permission to increase the budget deficit from the agreed 3% of GDP to 4.5% in 2009. According to the media, as a guarantee for a less expensive state, the Government is ready to accept the conditionality of significantly slashing the number of employees in the public sector, mostly in the areas of education and health care.[15] This measure would particularly hit women who comprise the majority of employees in those sectors.

A state of indecision

Until mid-summer 2009, no consistent and comprehensive policy was implemented to counter the economic and social troubles of the population, despite the great number of announced-then-revoked measures. In March the Government also announced the introduction of a temporary "solidarity" salary and a pension tax of 6% for those who earned above USD 170, stating that this tax would be used to set up a fund to assist the poorest and help equalize the burden of the crisis. However the measure, which resulted from pressure by the IMF to decrease the State deficit, stirred up discontent among workers and pensioners while trade unions announced protests. They argued that the "solidarity" tax would hit the poorest,[16] cause a reduction in salaries and increase unemployment and work in the informal sector, while the rich would stay untouched. Overnight, the Government revoked the whole savings plan. It was caught between fear of social turbulence on one side and pressure from the IMF on the other, and the following weeks were marked by discordant voices from policy makers, who announced new packages of saving measures in the evening that were revoked the following morning.[17]

At one point the Ministry of the Economy recommended that the Ministry of Justice urge courts to prolong proceedings related to labour disputes in which workers were claiming non-payment of salaries from newly privatized firms and other benefits from the privatization process. The Ministry claimed that paying salaries would jeopardize production in those firms,[18] in complete disregard of the independence of the judiciary.[19] This controversial recommendation was subsequently revoked.

The revised savings plan was adopted on 16 April, together with a revision of the 2009 State budget.[20] The Government announced the setting up of a special budget fund that will be filled by taxing high salaries and reducing salaries in the public sector.

The Social Economic Council did not support the new savings plan because it includes the firing of workers and reducing salaries.[21] The Council estimated that the measures would not stimulate the economy but merely save budget resources, pointing out that instead of imposing taxes on workers, the money should be collected from those who got rich during the privatization process.

The population's pessimism and discontent have also been fuelled by the seeming inability of policy makers to put words into actions with respect to combating corruption and crimes, and establishing a rule of law that would really contribute to improving the financial situation of the country and its citizens. It is estimated that more than USD 500 million is lost every year due to lack of control over public procurements.[22] In 2008, by allowing for the non-payment of taxes by big private companies, the State lost an additional USD 1.3 billion.

Who really needs to tighten their belt?

By implementing the newly adopted Law on Confiscation of Property Gained by Crime, the state could collect USD 2.64 billion in one year, a sum equalling the one Serbia is asking for from the IMF.[23] At the International Automobile Fair in Belgrade, all the most expensive models were sold on opening day for a total of more than USD 2.6 million.[24]

The level of subsidies for a four-member family without an income in December 2008 was USD 134. The minimum cost of living for a four-member family was estimated at USD 1,100. One of the priorities of the Ministry of Labour and Social Policy will be opening food kitchens for the poor; there are now 58 kitchens for 21,000 beneficiaries, but many more are needed.[25] In March, the Ministry of Trade and Finance opened the first "SOS Market" in Belgrade and announced the establishment of similar markets all over the country. These markets are supposed to sell food products at lower prices and are intended to improve the situation of vulnerable groups. SOS cards have recently begun to be issued.[26]

Instead of protecting workers from their rights being violated, trade unions leaned to the other side. At the beginning of 2009, the Union of Independent Unions and the United Branch Union "Independence" agreed with the Union of Employers and the Government to postpone the implementation of the General Collective Bargaining Contract and to delay some of employers' financial obligations towards workers, including paying worker benefits.[27] This contributed to the overall practice of employers in the private sector to not pay wages and other benefits. As a result, every tenth worker in Serbia (180,000 in total) does not receive a salary.[28] The labour inspectorate receives thousands of reports, but claims that it has no mechanisms to force employers to pay salaries.

At midst of August, 30,000 workers in 29 companies have been on strike over unpaid wages, health and pension insurance and violations of collective or privatization contracts.[29] Strikes become more and more frequent, and the workers voices more and more resolute. For instance, workers from the Partizan factory in Kragujevac went on hunger strike until exhaustion to force the owner to pay unpaid salaries. And those from the First May factory in Lapovo lied down on the railroad tracks and blocked international railway transportation. Workers from the Zastava Electro in Racha and from the Belgrade Department Stores have spent months protesting against bad privatisation practices, including protests in front of governmental buildings in Belgrade. Workers of Rashka Textile Company in Novi Pazar, being in a hunger strike for a week, succeeded in catching the public's attention and forcing the payment of salaries after one of them severed and ate his own finger. ■

13 Solesa, D. "Without Corruption with Loans." *Economic Review*, 30 January 2009.

14 Government of the Republic of Serbia. "World Bank to Provide 34.9m Euro Loan." Available from: <www.serbia.gov.rs/vesti/vest.php?id=54564>.

15 EMportal, Economist Media Group Web site. 14 August 2009. Retrieved 17 August 2009. Available at: <www.emportal.rs>.

16 In January 2009, the average pension was USD 305 a month and the average salary USD 440. The highest salaries were those of managers of public enterprises (USD 3,100).

17 For example, reducing the number of ministries, increasing property taxes, taxing mobile phone bills and the purchase of new cars, introducing a luxury car tax, banning new employment in the public sector, limiting business trips abroad and reducing working hours.

18 *Blic*. "It Is Not Possible to Step Out from Crisis by Violation of Laws." 24 March 2009. Available from: <www.blic.rs/>.

19 The Board of the Supreme Court has decided that this recommendation violates the Constitution and the European Convention on Human Rights and Fundamental Freedoms.

20 Government of the Republic of Serbia. "2009 Budget Revision Adopted." Available from: <www.srbija.gov.rs/vesti/vest.php?id=55061>.

21 FoNet. "Social Economic Council Does Not Support the Government's Measures." *Blic,* 15 April 2009. Available at: <www.blic.rs/ekonomija.php?id=88413>.

22 Vucetic, S. "Unbreakable Partnership of Politics and Tycoons." *Blic*, 17 April 2009. Available from: <www.blic.rs/>.

23 Cvijic, V. Z. "In the Serbian Cash Register 2 billion Euro from the Mafia Property." Blic. 25 March. Retrieved 26 March 2009 from: <www.blic.rs/>.

24 Press Online. "No Crises: Two Million Euros for One Day!" 28 March. Retrieved 30 March 2009 from: <www. pressonline.com.rs>.

25 Ministry of Labour and Social Policy (MoL). Government of Serbia. Retrieved from: <www.minrzs.gov.rs/>.

26 B92 Net. "SOS Cards Are Starting to Be Issued". Retrieved 30 March 2009 from: <www.b92.net/biz/tv_emisije.php?nav_id=352330>.

27 Solesa, D. "Crisis 'Tied' Social Partners?" *Economic Review*, 30 January 2009.

28 B92 Net. "180,000 Workers do not Receive Salaries". 15 August 2009. Retrieved 16 August 2009. Available at: <www.b92.net>.

29 EMportal, Economist Media Group Web site. 15 August 2009. Retrieved 17 August 2009. Available at: <www.emportal.rs>.