



A NEW ECONOMIC DEPRESSION AHEAD OF ELECTIONS

The news that the economic crisis afflicting the world is not nearing its end, but that its second phase is at our doorstep, the citizens of Serbia have learned from President **Boris Tadic**. It is unusual for politicians to communicate bad news before the elections, but the Serbian president most likely did it to prevent the ruling coalition to repeat the mistake made when the economic crisis began in 2008 when the Serbian ministers and politicians minimized its importance, claiming that **"the crisis in the world - is a chance for Serbia"**. This carelessly given promise has cost the parties in power the decrease of their popularity.

The good news for Serbia is that politicians are becoming aware of their mistakes and want to correct them. However, the question is whether the mistakes are being amended only in terms of verbal messages or the government is now really more ready to deal with the second phase of economic crisis?

The Serbian government hasn't understood what was happening when the global economic crisis began in 2008. The fact is that Serbia did better than some EU countries, such as Greece or Hungary, but not because the government successfully dealt with issues, but because the Serbian economy is not fully integrated into the world economic trends.

Serbia's economy depends significantly on revenues from privatization, foreign direct investment and the inflow of workers' remittances living abroad. Since the global economic crisis started, large foreign companies have stopped investing which hindered the process of privatization, and citizens from abroad are sending less money into the country. For Serbia, it was an economic tsunami. However, public spending on oversized government, high social benefits and benefits for retirees haven't been decreased. The solution was found in borrowing. It might have been a short-term solution to the crisis, but since its end is not in sight, it seems that Serbia will not be able to deal with what is ahead. Now it is obvious that the previous three years of crisis should have been used to implement systemic reforms, reduce public spending and public administration.

Serbian politicians approach the problems in dilettantish manner, without a plan, but making use of populism. Simply put, most of them do not deal with solving the issues but think how to better appeal to voters and what the media will report. The best example was the campaign of reducing the state administration conducted last year, the culmination of which was the government reshuffle in March this year.

For months the public was being announced the guillotine of regulations which will cut down cumbersome state administration and the number of ministers... The Prime Minister even asked his ministers to write reports on their work and submit plans for the rationalization of the number of employees, but it turned out that not one can be dismissed. Reconstruction of the government was implemented artificially just because it had been promised to the citizens. The parties in power merged departments of their ministers in order to show the public that the government has less ministers. The consequence of such crooked reconstruction is that several ministers lost their symbolic function, that Serbia gained odd sectors in which one minister covers totally different areas completely unrelated to one another, and the administration remained intact!

Recently, the Serbian media reported that out of the promised 14 thousand civil servants only 650 have been laid off! At the same time 255 thousand workers in the private sector lost their jobs! In Serbia, 535 thousand people works in the public sector .

The difficult economic situation is evidenced by the fact that the number of employees in Serbia from nearly two million in 2008 has been reduced to about 1.7 million. Those employees need to earn their salaries, pensions for nearly 1.6 million pensioners, salaries for over half a million civil servants and tens of thousands of citizens who belong to socially vulnerable groups.

Cynically, even these 650 laid-off civil servants do not share the fate of employees in the private sector who have lost their jobs. While workers who are unemployed are struggling to find new jobs, civil servants who left the government have been paid severance amounting to about 350 million dinars? It sounds incredible the fact that the average salary in the private sector is about 31 thousand dinars, while the average salary of those who are supported by private entrepreneurs in the public sector - 42 thousand dinars. **Dragoljub Rajic** from Union of Employers of Serbia said that the irrational distribution of wages in public enterprises and the economy is best illustrated by comparison of the productivity. **"Since 2001 the public sector made 4.35 billion euros of losses, while the income of the entire private sector is 43.2 billion euros! Part of that revenue goes to state taxes, salaries and the renewal of production. Out of 555 public companies only 16 make profit. Not to mention various bonuses, longer holidays, many days off and other benefits"**, said Rajic. An economist **Miroslav Zdravkovic** said that in September this year, compared to the same period in 2008, the biggest difference is identified in the number of employees in the manufacturing industry, in which about 59 thousand workers lost their jobs. Interestingly, during the same period 6369 people are employed in education, 2274 in health and nearly 700 people in public administration... If it is any consolation, the data from neighboring Croatia say that over the past ten years only 40 civil servants lost their jobs, while the Greek Constitution from 1911 which is still in force prohibits the release of civil servants?



Insufficiently prepared, the Serbian government is awaiting the second phase of crisis. It lacks any new measure to help the economy that will suffer the greatest pressures. In this situation, Serbia will continue to borrow, attempting to keep employment, living standard and consumption.

It is unclear why the Government hasn't made an agreement with businessmen, banks and the National Bank of Serbia (NBS)? For months, industry and bankers have been announcing problems They seek from the NBS to lower bank reserve requirements in order to provide cheaper loans to industry, to reduce state expenditures, to begins to return debts and establish a development bank. These were the conclusions of the meeting held in June between 250 businessmen and Prime Minister Cvetkovic. As five months later, nothing has been done, so on November 22 the businessmen made a dramatic public appeal to the state. Six associations and Serbian Association of Economists attacked the commercial banks saying they "**seriously jeopardize the business**". They ask the NBS to "**use all available instruments for the banks to reduce interest rates to maintain at least the same level of loans as last year**". They argue that some banks use the crisis period to make higher profits, while not caring for the economy, which the government ought to take seriously. However, besides the businessmen, the Government should be desperate as well.

This year around 1.5 billion euros entered Serbia, not the planned three billion euros of investment, public spending is not reduced, and the reform of public enterprises is not running. The government has announced an increase in employment, measures to encourage exports and the formation of a development bank, but since then nothing happened. The Fiscal Council reduced its projection of economic growth in Serbia in 2012 - from three to 1.5 percent. Meanwhile, the biggest Serbian exporter, the American company U.S. Steel, owing a steel mill, announced the reduction of operations in Serbia due to poor business. The state and the city of Smederevo where the steel mill is located immediately responded by providing new benefits to the company, because its withdrawal would gravely damage the Serbian economy.

The government is now struggling to keep foreign companies in Serbia, but the impression is that it responds on a case by case basis, rather than systemically. The German Stada Pharmaceuticals Group, which owns the Serbian Velefarm has recently blackmailed the Serbian government by withdrawal from the market and the closure of the factory unless it received written guarantees that the debt for supplied medicines amounting to 50 million euros would be paid. At the same time no one in the government has tried to make the calculation why the citizens of Serbia pay for medicines more than citizens of neighboring countries?

That the government has no plan was confirmed by a prominent economist **Vladimir Gligorov** from the Vienna Institute for International Economic Studies, who said that the government relied largely on short-term measures that can not be sufficient, while an alternative was structural reforms and improvement in product and labor market. Gligorov believes that the state does not want to initiate reforms because it defends the interests of existing monopolies as it protects the public sector employees. Head of the IMF in Belgrade **Bogdan Lisovolik** warns that the three most important trade partners of Serbia: Italy, Germany and Bosnia and Herzegovina are in trouble. Lisovolik estimates that Italy will be in a recession, while Serbia is linked to it, not only through export channels, but also the banking sector and foreign investment, while Germany will have a decrease of economic growth compared to this year. That the new wave of crisis will be problematic for Serbia was a comment of the Minister of Economy and Regional Development **Nebojsa Ciric**.

Even if we put aside all the economic indicators, the lack of governmental plans and opportunities for reaction, Serbia is facing a new wave of economic crisis at the worst possible time – in the eve of the election. In the election campaign it is not popular to speak the truth to voters, because it can cost the party the votes.

On the other hand the government is not ready to implement painful reforms in fear of reducing the election result. Even ready, the question is how the present Government would be able to take any action because the ruling Democratic Party is under the daily pressures and blackmail by smaller parties.

All this suggests that elections are the only solution for Serbia the new government of which would try to implement reforms and solve problems in the country. The impression is that Serbia is in so difficult situation that it almost does not matter who will be in power after the elections, because it is clear what must be done if we want Serbia to survive. Otherwise, it could happen that a new government attempting to survive on demagoguery would pay the price for the mistakes of both their and previous governments - and not live to see the end of the mandate. It is therefore clear that after the next election the Serbian politicians will have to change their way of thinking and working, or people will look for some other responsible people to represent them. If they are clueless what to do, it's enough to start following what is happening in the world. They might encounter some messages like the one recently published in *Financial Times* written by a professor of economics at Harvard University **Robert Barro** - "**if right measures aren't taken, a new crisis will cause no less damage than the recent financial collapse**".