

Questions:

1. Did you achieve an agreement with government of Serbia on pension indexation? How will pensions be indexed in the future?

Yes, we can say we reached agreement, though it has to be approved by end-June. Pensions will start to be indexed in April 2011 semiannually in line with CPI inflation during the previous 6 months. In addition, in April 2011 and April 2012 these indexation payments would be increased by $\frac{1}{2}$ of real GDP growth rate achieved in the previous year.

2. Will pensions be linked to salaries in public sector?

There will be no legally-mandated link. In fact, we do not see good reasons for such a link over the long-term. But in an expected environment of still-weak growth – in order to fairly address the needs of fiscal consolidation for the 18-month period starting from April 2011 – we agreed to index public wages and pensions in line with the same formula for this limited period of time.

3. Did you agree to have wages in public sector raised during this year and in what percentage?

We agreed that a general raise in the public wages and pensions is not advisable at the moment. There are simply no funds for this in the budget. Also, from an economic perspective, in the current environment, an increase in the public wages and pensions would most likely result in demand for goods whose supply cannot be easily increased. This could have inflationary consequences, and will not help Serbia move toward a new, export-based growth model. But we see it as essential to protect the most vulnerable during the crisis, and support to lower-income groups will be provided this year.

4. Are you satisfied with the progress of reforms in Serbia and is government complying to the terms of stand-by arrangement?

As you can see, we agreed to complete the review. Thus, the progress of reforms is satisfactory. In particular, all key quantitative targets under the program have been met, with the exception of the fiscal deficit target, which was narrowly missed due to revenue shortfalls. While in the structural area progress could have been faster, the agreed pension reform is an important step forward in the process of spending-based fiscal consolidation.

5. Did you revise your GDP growth rate estimate for 2010. in Serbia? Do you see potential for larger GDP then 2%?

We actually revised the growth estimates slightly downward, to 1.5 percent, partly due to the expected slower growth in some of the trading partners in the region and partly based on our analysis of the first quarter developments, especially regarding private investment. On a brighter side, export growth in Euro terms has been robust in the first quarter of the year.

6. What is your view of the proposed tax reform?

We are studying options for such reform. In our view, the objective of these reforms – to reduce the tax wedge on labor through decreases in social contributions or the personal income tax and compensating the revenue losses through adjustments in indirect taxation, is desirable. This may help employment and economic growth more generally. But implementation is key: tax administration capacity should be strengthened, taxpayers and other stakeholders should be consulted early to avoid unnecessary surprises, and targeted social assistance should be increased to compensate for any regressive impact.

7. How do you see Serbia's economic performance this year and next year?

We see Serbia recovering, but somewhat slowly. As I mentioned, we have revised down our GDP growth forecast for 2010, due to lower exports and lower private investment. Lower exports reflect the economic difficulties in Serbia's main trading partners in the region as well as in the EU. Lower private investment likely reflects higher uncertainty in the private sector about prospects in Serbia but also the region as a whole. We continue to believe that the economy will gradually pick up, and GDP growth could be about 3 percent in 2011. We think this 3 percent growth approximates the growth rate where people will feel that the economy is really "job-creating," i.e. there will be positive employment growth in the labor market.

8. During the press conference minister Mladjan Dinkic said that he made an agreement with IMF to discuss the possibility of raising public wages this year, when the mission comes next time in august, in the case that there is an increase in public revenues. How do you comment this, considering that you said that it is agreed that all revenues above projected values would be saved and used to decrease fiscal deficit?

Our understanding of our agreement is that the treatment should be symmetric. If there is an additional revenue shortfall, we would agree on a higher deficit. But if revenues surprise on the upside due to a stronger economy the deficit would have to be lower.