

English version of the interview of [Bogdan Lissovolik](#) on *Dana*, September 3, 2010

1. Were there conversations on the budget positions from which the resources will be taken in order to finance increase in wages and pensions in January and one-time support to pensioners in October? How do you comment the fact that Serbia is not successful in realisation of capital investment projects?

We discussed the budget's financing situation during the mission. While selling the dinar T-bills to raise funds may be now more difficult and costly than before, the agreed deficit of 4.8 percent of GDP could still be realistically financed through a combination of Euro-denominated borrowing from banks, foreign loans, further T-bills sales, and, if necessary, drawing down government deposits. This underscores the benefits of a reasonably prudent fiscal deficit target.

The weak execution of public investment is not a new problem in Serbia – lack of multi-year budget planning is one of the reasons for these problems. Another problem is the legal uncertainty related to property compensation for key infrastructure projects.

2. How much will expenses for wages and pensions be enlarged during 2011. in total (including all three indexations) and from that, how much will go for pensions and how much for wages in public sector?

Public wages and pensions would be treated symmetrically during 2011 – the rate of increases would be the same. There would be adjustments in January, April and October. As to the percentage increase, it cannot be determined exactly because it would depend on the rate of inflation. For example, we currently project that in December 2011 public wages and pensions would be about 6 percent higher than in December 2010.

3. Do you find it realistic that all pensioners with incomes lower than 20.500 dinars will be able to receive one-time help of 5.000 dinars, as was suggested by vicepresident of government Jovan Krkobabic, and is it possible that those with pensions under 30.000 will also get the help? How much money would be left for subsidies to agriculture and other sectors?

The amount of resources available for re-distribution has been estimated, on a preliminary basis, at 6 billion dinars. It may be revised up or down when the mission comes back in October, depending on the expenditure execution developments during the next few weeks. What part of this possible amount will be allocated to the one-off payment of pensions really depends on the government's political priorities. Provided the government accords top priority to those payments, for now they appear realistic.

4. In your view, what is the best way to use "surplus" of money in budget? How come that some had calculated with "surplus" of 20 billion dinars, at a beginning of negotiations?

Again, we do not want to interfere with priorities as long as the level of spending is consistent with credible and prudent fiscal policies. The only exception is social assistance to the most vulnerable, which we believe should take priority.

On the calculation of the so-called 20 billion dinar figure, our understanding is that it also incorporated revenue overperformance. However, the bulk of this extra revenue is expected on account of the so-called own-resource budgets, which in practice cannot be re-allocated toward spending by other budgetary institutions. In addition, as announced earlier, it was agreed in May that any “general” revenue overperformance (this would be a relatively minor amount currently estimated at only 2 billion) would be saved. Thus, whatever the nature of the revenues, they cannot be used for extra spending. This would fit the modern fiscal policy principle of keeping within-year budget expenditures stable through good or bad economic times, with the exception of extra support to the most vulnerable in bad times.

5. In what way will accordance with fiscal rules be ensured in 2011., when fiscal council will start its work only in time for 2012. budget? Is it a good solution to have two members of the fiscal council chosen by the President of the Republic and Ministry of Finance and only one by independent institution (central bank)?

The 2011 budget will be discussed already this October and would be still covered under our standby program. The targeted fiscal deficit of 4 percent of GDP is consistent with the agreed formula in the proposed amendments to the Budget System Law. Thus, we expect that agreement on the 2011 budget should provide a good and credible start to the implementation of the new fiscal rules. When the program expires in April 2011, the “baton” would be passed to the newly formed fiscal council, which will focus on the 2012 budget and future budgets based on the adopted framework.

As regards the members of the fiscal council, it is not just the issue of who proposes them. First, they **should** be approved by – and accountable to -- Parliament, which means that they should command reasonably broad support among elected lawmakers. Second, they should be qualified professionals as defined in the draft amendments to the law, and their ability to make independent but professional decisions should be a factor in judging this qualification. Under these conditions, we believe that it will be in the interest of the institutions who propose the council members to focus on competent experts.

6. Are you satisfied with the speed of reforms?

We are satisfied with the progress of the short-term fiscal and financial stability-related measures. But we also would have liked to see quicker progress in longer-term structural reforms. This regards efficiency improvements in public spending, especially health and education. It also concerns broader reforms of the business environment, for example the guillotine project, full implementation of the recent laws on competition and public procurement, and stopping uncoordinated levying of various fees and charges by for example local governments. This broad area of making the economy more business friendly is not subject to formal conditions of the program, but this progress is key in the medium term to help the economy move toward higher-quality economic growth.

7. What shall be the main topics of the next review?

The main topics would be the budgets for 2010 and 2011. On the 2010 budget, we expect to discuss the additional spending to make sure it fits the agreed envelope. This would be very important for determining a realistic base for the 2011 budget. As regards the latter, we expect that some hard choices will have to be made to reach the 4 percent of GDP deficit target.