

**English version of the interview of Bogdan Lissovolik on "Politiku", December 30, 2010**

**1. How do you explain different understanding or interpretation of the Law on pension and disability insurance, you say that you have agreed with Serbian negotiators to move the retirement age for women from 1<sup>st</sup> January while the trade unions say that the Prime Minister told them that both retirement age and years of service requirement will be postponed? How can that be?**

First, we were not negotiating with the trade unions, and we are not well-placed to comment on their discussions with the government. We can only comment on our own negotiations. We were negotiating the issue of women's pension rights -- and the pension reform more broadly -- only with the government. In our discussions in October, this was understood as delaying reforms of two existing privileges for women – their reduced years of service and the higher level of pension benefits earned for the same amount of contributions. Our counterparts in the government in charge of technical issues had the same understanding. The authorities' Letter of Intent contained precise definitions of what would be changed, and we had detailed calculations on what the effects would be. The draft law approved by the government on December 16 was consistent with this; and this played a crucial role in our decision to assess the prior actions as having been met...

Delaying the increase in the minimum retirement age from 53 to 58 years was not, at least explicitly, discussed with us. But in any case it looks to us more problematic. The original reform step meant to apply equally to men and women. Delaying the increase just for women makes things much trickier – it would introduce a new privilege for women compared to men and the costs of this specific step for the future budgets have yet to be calculated -- but they are clearly not trivial and would burden future budgets.

**2. You say that the minimum pensions that cannot be lower than 27 percent of the average net wage would not have been lower than if the Law prescribed reference to the gross wage. The calculations of those who are in the Working Group for the reform of the pension and disability insurance system confirm just the opposite. So how much will the lowest pensions be starting from 1<sup>st</sup> January?**

Again, when we discussed this on mission it was very clear what the definition was. While in a public debate the term "wage" may imply either gross or net wage depending on the context, this was precisely defined in the Letter of Intent and our technical memorandum as a percentage of net wage. Also, a World Bank expert visited Belgrade, and shared with both us and the government her calculations on the issue. On this basis we could agree on the figure of 27 percent. In fact, had it been a percentage of gross wage, the figure of 27 percent would have been inconsistent with the 2011 budget framework. As to the minimum pensions in

January 2011 we expect their level to be about RSD 11,650, though a precise calculation depends on the level of wages in December. This figure would be indexed further in line with all other pensions. The 27 percent figure should be understood as a floor, to be triggered only if pensions fall below this ratio.

**3. How do you comment that despite the fact that almost 50 percent of total budget revenues are being used for the payout of pensions, the state does not want to reveal who are the largest debtors that are not paying contributions for their employees and because of which the treasury (vaults) of the PIO Fund is almost empty? How much can the IMF influence Serbian negotiators on this issue?**

We do not see any problem with revealing the list of companies with the largest arrears on social contributions. This may help the effort to improve payments to some extent, but we are working with the tax administration on a comprehensive set of measures to stop arrears from accumulating. This is essential given the disequilibrium you mention. But further efforts would be necessary – including effective steps to facilitate economic growth and employment.

**4. How will you sway Srbijagas and EPS to start restructuring since you say that only if that process does not produce results should tariffs for electricity and gas be increased. How realistic are the energy tariff increases and how do you comment announcement from EPS's management that electricity tariff should be increased by 60% over the next two years.**

I would like to clarify this issue further. Yes, restructuring is essential to keep the costs down. In this context, any plans for price increases should be part of a clear development and restructuring plan. But in some circumstances it may already clear that even the best effort aimed at restructuring under the circumstances may not be sufficient to eliminate enterprise losses. In this case, immediate increases may be necessary. But even then it is preferable to justify increases with a transparent explanation why potential for savings from enterprise restructuring have been exhausted.

Regarding your question on the required increase of 60 percent for power prices, as macroeconomists, we usually do not comment on the situation in specific enterprises. In any case, it seems desirable that EPS present a clear public report about its activities and motivates a case for such a large increase.

**5. Having in mind all this how do you see that fact that Srbijagas, a loss making company, is taking over other companies that owe them for gas whereas the excuse is the salvation of such companies and that it is the way to collect their claims for delivered energy. Was this practiced anywhere in the region and is there a possibility that “savior” gets drowned by those that are drowning?**

Such acquisitions of non-core debtors by public enterprises is not best practice, although it sometimes happens in other countries as well. The desirable outcome is a debt restructuring, while keeping these non-core assets separate from creditor companies. Clearly, managers in a public utility company like Srbijagas will, for example, have little expertise in raising and selling chickens, and, in any case, running this kind of business is best left to the private sector.

**6. What will the IMF work on during 2011 together with Serbian negotiators?  
What are the priorities that are already agreed but have to be specified  
together with the IMF, on which Serbia should work on?**

Regarding IMF plans for next year, we plan to have the 7<sup>th</sup> and final standby review mission in February 2011. At that time, we would discuss, as usual, macroeconomic developments and performance under the program, including meeting the fiscal target and completing the benchmark on corporate debt restructuring. After the program expires in mid-April, we expect to continue to collaborate with Serbia either in the form of post-program monitoring or, if the authorities so wish, a follow-up arrangement. Regardless of whether a program is in place after April 2011, Serbia has two top strategic priorities. First, structural fiscal reforms in such areas as health, education, public enterprises, infrastructure, and, again, pensions remain essential for keeping the deficit under control. The second priority would be growth-oriented structural reforms, such a major improvement of the business climate to encourage formal private sector activity and a more effective policy to inject private initiative and competition in the economy. All these steps should help underpin Serbia's adoption of a more export-based growth model.