1. In the short term, what can Serbia do in order to reduce problematic global spillover effects?

To have an effective shield from the crisis, Serbia has to maintain prudent fiscal, monetary and financial policies. This in particular means targeting a realistically-small budget deficit. Hence our agreement on the 2012 deficit of 4½ percent of GDP being somewhat lower than the maximum deficit of 4½ percent of GDP yielded by the fiscal rule. As to monetary policy, it should be aimed at controlling inflation: continued progress in this area would give a good signal to investors and the broader public. Finally, banks should maintain their reassuring capital and liquidity buffers.

2. Is there any chance for effects to be less devastating compared to the ones we felt after the events in 2008?

In some ways, Serbia is better positioned to face this wave of global crisis. Its current account deficit of 7 percent of GDP now is significantly smaller than the level of 22 percent of GDP observed in 2008. Also, Serbia’s cash budget reserves are now higher than 3 years ago. At the same time, some vulnerabilities remain, and much depends of the strength of domestic policies. In this respect it would be crucial to avoid election-driven public spending increases. These made the 2008-09 crises worse in Serbia. The new fiscal rules adopted last year help, but by themselves they are not enough: they have to be steadfastly implemented.

3. Can the solution lie in the urgent tax reform, labor tax reduction, and spending tax increase?

A “revenue-neutral” tax reform – a so-called fiscal devaluation -- could be one of the policy options. Other things equal, it may improve competitiveness. At the same time, much depends on the details of the reform. In addition, such a reform has yet to find political acceptance in Serbia. And political acceptance is necessary for good implementation, so realistically such reform cannot be part of an urgent solution.

4. There are permanent discussions on the need for improved tax collection mechanisms. Do you believe that Tax Administration has utilized all available mechanisms towards improvement of tax collection methods?

There is indeed room for improvement. First, the tax administration should find ways to maximize voluntary payment of taxes. For this,
it should continuously strive to know its taxpayers better and effectively disseminate information on tax liabilities. Progress is being made on this but much more is needed. Cases when taxpayers do not pay taxes simply because they do not know that they have to do it are not acceptable. Second, the tax administration should also improve its audit capacity, and should direct more efforts to the highest risk segments, particularly large enterprises. Finally, in order to effectively support its activities, the tax administration should have a modern specialized IT system.

5. Can maintenance of high fiscal deficit levels in the coming period as well, bring Serbia to gently slide into problems alike those making issues to Europe today, public debt crisis?

These risks should not be underestimated. Serbia’s deficits of above 4 percent of GDP are indeed high for a country with its level of development. This cannot continue beyond this year. If those deficits are not reduced in a decisive way, public debt can cripple confidence and economic activity. This happened in a number of European countries already.

6. Are we now paying the price for postponement of structural reforms...

Certainly. Serbia would have been in a much better position to face and overcome the crisis if it had a more resilient and dynamic private sector. This takes many years to build. But while opportunities were missed, it is extremely important to catch up. Three crucial issues in this regard stand out. First, a significant chunk of Serbia’s productive resources are still trapped in an inefficient and politics-influenced public enterprise sector. And while occasional reforms are being attempted, de-facto progress has been very slow. Second, excessively complex procedures and a proliferation of taxes and charges, both at the central and local level, are undermining the business environment, especially for small and medium-sized businesses. Last but not least, Serbia’s labor law needs to be made more friendly for employment creation.

7. Do you believe that banking sector in Serbia will stay stable and that it is possible to prevent parent banks to withdraw funds, if they need it?

Yes. We believe that the foreign subsidiaries of parent banks have solid capital and liquidity buffers. In addition, they are subsidiaries and not branches, so they are fully subject Serbia’s laws and regulations and to the strong supervision by the NBS.
8. Is it a kind of solution to fix costs of salaries in public service administration and pensions, i.e. wages and pensions freeze?

Our agreement on the 2012 budget assumes that legal indexation rules for public wages and pensions apply, as defined in the budget system law. In case the situation deteriorates, various revenue and spending measures could be considered. These could be subject of discussions during further reviews.