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Serbia: the IMF has granted consent to the unfreezing of wages, pensions and social allowances

The International Monetary Fund (IMF) on 1 August granted consent for a raise in public sector wages and a re-evaluation of pensions and social allowances in January 2011, the first one since 2009. The government hopes that this move will improve public sentiment and stimulate economic growth.

The freezing of wages, pensions and social allowances was one of the main conditions for obtaining a stand by loan from the IMF in 2009. This allowed the state to keep itself financially stable and to reduce the budget deficit (to 4.2% GDP in 2009, fiscal deficit target for 2010 is 4.8% GDP), however it significantly raised the level of public dissatisfaction. For this reason, the Serbian government has been in negotiations with the IMF since the beginning of this year regarding consent for an increase in public benefits.

The IMF has taken this decision because the Serbian government has been implementing its recommendations efficiently. However, the IMF made the release of another tranche of the loan dependent on the government's passing a fiscal responsibility act by 27 September 2010. This piece of legislation is expected to prevent budget deficit from growing in coming years.

The increase in the inflation rate (6.6% in 2009) and the significant devaluation of the dinar against the euro (by 11% since the beginning of this year) have caused a significant reduction in the real income of Serbs. The sluggish economic growth in the first half of the year has also failed to stimulate new jobs. The unemployment rate is still growing (reaching 19.2% this July). All those factors are causing increasing public dissatisfaction. The government hopes that the raise in wages and allowances will help improve public sentiment and stimulate economic growth owing to the ensuing improvement in internal demand. The IMF's decision is an expression of its support for the present policy of a government determined to continue the process of reforms which are painful to society. <MarSz>