This country case study analyses Serbia’s debt situation and its relationship with the International Monetary Fund (IMF). It covers the period going back to the final years of the former Yugoslavia, since many of the problems Serbia faces today are rooted in the relationship between Yugoslavia and the international financial institutions (IFIs) in the past.

There are three distinct phases of the Serbia-IMF relationship. First, the final years of united Yugoslavia, of which Serbia was a part. Second, Serbia’s big bang transformation process from a quasi-socialist to a quasi-capitalist society around the year 1990. Third, the IMF programmes prescribed for independent Serbia since 2000.

Over the past 35 years, the policies and development of Yugoslavia, and later Serbia, were almost permanently under the strong influence of the IMF, exercised through the IMF’s lending-with-conditionality programmes, and less formal channels such as policy advice and surveillance.

Prior to 1965, the non-aligned nation Yugoslavia had received grants from the USA and other western powers as part of their containment policy, with the aim of establishing opposition to the socialist bloc during the Cold War. Once these grants stopped, Yugoslavia started to take out loans from the World Bank, IMF and private lenders, which were used to promote the development of heavy industry, among other things.

Yugoslavia’s industrialisation process was never entirely debt-driven. Domestic investment rates were among the world’s highest in the mid-1960s. At 33 per cent of Gross Domestic Product (GDP), they superseded those of Japan (30 per cent) and the USA (16 per cent). However, the acceptance of foreign loans still contributed to building up an external debt burden that would eventually cause severe problems.

The pressure to generate surpluses to service foreign loans led to a first wave of austerity policies from 1974-1992, characterised by a reduction in salaries, pension freezes and the liberalisation of prices that resulted in price hikes. The Yugoslavian population, in particular in the Southern and Eastern parts of the country, suffered a severe drop in living standards.

Austerity policies imposed by the IMF achieved the aim of bringing debt levels down. Yugoslavia’s public debt was less than 20 per cent of GDP in 1990, down from 50 per cent in 1985. However, the austerity policy and the conditionality attached to IMF-designed adjustment programmes during the 1980s meant that Yugoslavia’s central government lacked the fiscal space to ensure social cohesion in a country that was already characterised by wide income and development disparities across regions. The consequences were fatal: They created an environment in which nationalist and separatist ideologies could flourish, eventually leading to the breakup of the Yugoslavian nation in a series of civil wars that left several hundred thousand people dead, and devastated the Serbian state economically.

From quasi-socialism to neoliberalism: IMF’s role
The IMF played a decisive role in the transformation process from a quasi-socialist to a neoliberal economy that reached its climax in around the year 1990. In fact, this study finds that the transformation process had started much earlier, and that the IFIs partnered from the beginning with local elites – including from the Communist Party and bureaucratic echelons of

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power – to overthrow the Yugoslavian model that was characterised by state and collective ownership of strategic sectors of the economy, and workers’ participation in decision-making regarding enterprises.

The IMF demanded large-scale privatisation programmes, transferring ownership to private and foreign investors. An IMF and World Bank sponsored bankruptcy law (the Financial Operations Act) in 1989 resulted in 248 firms being steered into bankruptcy or liquidated, with 89,400 workers laid off. In 1990, directly following the adoption of an IMF programme, another 889 enterprises with a combined work-force of 525,000 workers were subjected to bankruptcy procedures. In total, 614,000 workers from a total industrial workforce of 2.7 million were laid off. The largest concentration of bankrupt firms and lay-offs was in Serbia, Bosnia-Herzegovina, Macedonia and Kosovo.¹

The IFIs then started to promote policies to attract foreign investment, including trade liberalisation, foreign investment and property rights protection. The successive Serbian governments eventually provided large amounts of public funding to subsidise foreign investment. The results were meagre, however. Serbia never again reached the levels of up to 35 per cent in industrial output as a percentage of GDP that it had achieved in the later Yugoslavian years. As in other countries of the Central and Eastern European (CEE) region, foreign investors made use of forced privatisations in the context of IMF programmes as an opportunity to strip formerly state-owned companies’ assets, or simply to shut them down to reduce competition. The buyers included shell companies based in tax havens. The income that was generated through such compulsory fire-sale privatisations for the Serbian public budgets were insignificant.

The new Serbian state had Stand-by Arrangements (SBAs) with the IMF from 2001 to 2006, from 2009 to 2013 and then again from 2014. As well as lending-with-conditionality, this study finds that close surveillance and policy advice has been another channel of IMF influence, even in times when Serbia was not formally under an IMF-programme. An important feature of newer arrangements with the IMF is that the number and extent of prior actions (PAs) is increasing.

From this analysis, it is obvious that the number of conditionalities is actually growing, and they cover an ever-wider range of policy areas, including the financial sector, fiscal and tax policies, investment and trade policies, labour and agricultural policies, among others. Privatisations continue: The new SBA of 2015 includes the condition to privatise about 500 remaining publicly owned companies, while the measures to cushion the impact on 45,000 workers who are expected to lose their jobs should be debt-financed by the public budget, through new loans taken out from the World Bank.

**IMF programmes fail to reduce Serbia debt levels**

This study finds that the IMF programmes were a tremendous failure when it comes to the criteria to keep Serbia’s debt at sustainable levels. In 2015, Serbia’s public debt accounted for 75 per cent of GDP.

¹ http://www.globalresearch.ca/articles/CHO202G.html
This is higher than in 1985 when the austerity policies were first intensified to tackle the debt burden, and almost four times the ratio that former Yugoslavia had in 1990.

The economic, social and political price that Yugoslavia and later Serbia paid was tremendous: today, Serbia is a largely de-industrialised country. Domestic ownership is frequently replaced by foreign ownership, increasing the country’s vulnerability to crises. Foreign ownership is a continuous drain on the country’s resources. Poverty is widespread, unemployment is high, and key social indicators have deteriorated in comparison to the Yugoslavian era.

Perhaps the gravest indicator is Serbia’s population loss. The population is shrinking by 60,000 annually. Half of this shrinkage is due to low birth rates; the other half is due to the migration of young people, who are seeking work opportunities in the Global North. This brain drain and loss of human capital is limiting the nation’s development even further.

On the political side, even the promise of democracy remains elusive. Elections that have happened since the fall of Yugoslavia have largely been smokescreens, since government policies have been predetermined by IFI conditionality rather than by party programmes and the electorate’s preferences. An open and democratic discussion about the path and extent of transformation never took place. IMF conditionality has also destabilised the political system, as the question of how to implement measures prescribed by the IMF led to tensions and blockades in the Serbian parliament.

The IMF itself states that, “Given Serbia’s fragmented politics and resulting weak coalition governments, an important feature of the Fund’s role was to serve as an internal coordination device”. Key positions in Serbian ministries are now filled by former IFI staff, offering another channel of influence. The IMF actions were complemented by other foreign interventions in Serbia’s domestic political processes, such as those of the neoliberal Group of 17, which received funding from the USA – the IMF’s major shareholder – and pursued a similar ideology to the IMF itself.

**Conclusion: promised prosperity never delivered**

The study concludes that the IMF programmes have never tackled the real structural problem of the Yugoslavian, and later Serbian, economy. Rather they were based on an ideological one-size-fits-all approach, and promoting foreign economic interests in Serbia. While Serbia was a good pupil of the IMF, largely implementing the neoliberal transformation programme that the IMF developed and imposed, it never achieved the development and prosperity that was promised over the last three decades of the relationship. Serbia remains stuck in a vicious cycle of high debt levels that in turn create the need to attract new loans from foreign creditors, which then impose conditionalities that further increase the demand for foreign financing.