European Commission

Pensioners' rights in Serbia: assessing the impact of fiscal consolidation measures

JURIJ BAJEC – EUROPEAN SOCIAL POLICY NETWORK

ESPN FLASH REPORT 2016/11

In October 2014, the Serbian Parliament adopted a Law which imposed a progressive cut in pensions and which is likely to affect around 40% of pensioners. The ongoing debate concerns the perceived violation of pensioners' acquired rights and defiance of the existing pension scheme. In September 2015, the Constitutional Court rejected an initiative for legal arbitration of the Law submitted by the Association of the Pensioners' Syndicates in November 2014.

Description

In October 2014, the government of Serbia introduced strict fiscal consolidation measures, aiming to reduce the budget deficit by containing public expenditure on public sector wages and pension bills, and by reducing aid to state-owned enterprises. The corresponding fiscal sustainability package has been drawn up for the "Stand-By-Arrangement" with the International Monetary Fund, signed in February 2015 and presented in the Memorandum of Economic and Financial Policies' Letter of intent. The new measures suspended the indexation of pensions in years in which the share of pension expenditure is expected to be above 11% of GDP. These measures were introduced in the amendments to the Budget System Law of 2014 and 2015. In 2014, the share amounted to 13%.

The "Law on the temporary provisions for the administration of pension payments" adopted in 2014 (hereafter "the Law") introduced cuts to pensions which are higher than the average (€208). A 22% reduction is imposed on pensions in the range of €208-330, and a 25% reduction on pensions higher than €330. This cutback affected around 40% of pensioners. The measure aims to decrease the substantial expenditure from the central budget to the Pension and Invalidity Fund (hereafter the PIO Fund), which is necessary due to the Fund's high deficit.

The impact of the Law is that about 10% of pensioners (with pensions in the range of €208-330) will not receive 12 full monthly pension payments in 2015, but on average only 11.40. Pensioners with pensions higher than €330 (around 9% of beneficiaries), will receive only 10.5 of their acquired monthly pension payments (author's own calculations based on PIO Fund data, November, 2015). Pensions have decreased in real terms by 2.1% in 2014 and by 5.5% in the first nine months of 2015 (Fiscal Strategy for 2016, with Projections for 2017 and 2018). The Fiscal Council (an independent state body accountable to the National Parliament responsible for assessing the credibility of fiscal policy) estimated that this reduction and the suspension of cost of living indexation will decrease pension expenditure by 12%.

Since January 2015, pensioners' associations as well as a number of legal and economic experts have argued that the Law violates the pensioners' rights as defined by the current Law on Pensions and Invalidity insurance and negatively affects pensioners who worked longer. In October 2014, the Association of the Pensioners' Syndicates appealed to the Constitutional Court for the arbitration of the Law, but the appeal was refused in September 2015.

The fiscal consolidation measures brought on positive results regarding budget deficit containment. In November 2015, the fiscal deficit was reduced to 4% of GDP (compared to a planned 5.9%). Consequently, the government decided to increase all pensions in 2016 by 1.25%.

Outlook & Commentary

There are no announcements by the government as to how long the "temporary" Law imposing a progressive cut in pensions will be enforced. However, what is clear is that the scheduled 2016 increase of pensions is rather minor when compared to the reductions imposed by the Law.

For example, a monthly pension of €400 was decreased by €48, and will be increased only by €4.6 in 2016 (authors own calculations, based on PIO Fund data). The estimates of the Fiscal Council are that these measures will have to be maintained till 2018. The Law did not specify if, or when, pensioners will be compensated for the reduction in their pensions.

The 1.25% increase in pensions decided by the government does not even represent a real indexation of pensions, since the National Bank of Serbia projects inflation of 4% (±1.5%) in 2016. Since all pensions will be increased by the same percentage, the imbalances caused by the Law will remain. It could be argued that, instead of the planned increase of all pensions, proposed expenditure could have been directed only to the pensions affected by the temporary Law, in order to moderate the generated discrepancies among pensioners.

From a social inclusion perspective, the negative impact on pensioners' standard of living could be moderated, if the budget would allow, by reinstating the previous practice of indexation of pension entitlements to consumer prices twice a year.

Opposition parties contested passing of this Law, during the scheduled Parliament debates, while Trade Unions did not participate in any debates. Recently, the Association of Pensioners' Syndicates announced that it will appeal to the European Court of Human Rights.

Further reading

Fiscal Council, January, 2015, Opinion on the draft of Fiscal strategy for 2015.

Fiscal Council, October, 2015, Monthly Report

IMF Stand-by agreement

Ministry of Finance, Fiscal Strategy for 2016, with projections for 2017, 2018

Pension and Invalidity Fund, Monthly Bulletin September, November 2015

Authors

Jurij Bajec, University of Belgrade and Economics Institute