

Comment: Serbia Can Survive Without US Aid

Author: [Dusan Pavlovic](#)

The threat to cut off donations if Belgrade fails to hand over Karadzic and Mladic is losing its force.

Once again the United States administration is pressing Serbia to collaborate more closely with the Hague tribunal, dangling the threat of blocking a promised 100 million US dollar fiscal aid package this spring.

Instead of a general request to cooperate fully with the court, as before, this time the Americans are specifically demanding the arrest of one of the tribunal's most wanted suspects – the former Bosnian Serb military leader Ratko Mladic.

But while the Senate threat to block the aid has caused a flurry of media speculation about whether Serbia's finances can survive the blow, in fact the money is less crucial than many believe.

Although budget reform remains one of the key tasks facing any Serbian government, the new administration can probably scrape through without American financial assistance.

The main reason is that revenues generated from privatisation in 2003 far exceeded the Belgrade government's expectations.

The final version of the Serbian budget for last year anticipated a deficit of 744 million dollars. But by the summer of 2003, the government found it had reaped an unexpected windfall from privatisation. It netted over 550 million dollars from the sale of two tobacco companies and the oil company Beopetrol – far more than the 198 million dollars it had counted on earning from all privatisations over the year.

The budget projection for 2004 – which the outgoing Serbian government proposed in November – anticipates a fairly similar deficit to last year's – of 774 million dollars – equivalent to a manageable 2.4 per cent of forecast gross domestic product.

This deficit is to be funded from revenues expected to include 360 million dollars in privatisation sales and 130 million in foreign donations.

The Americans' 100 million dollar aid package would account for the bulk of the foreign donations. But given that privatisation may once again bring in much more than anticipated, the loss of the US money should be more than compensated from other sources, allowing the deficit to be covered comfortably.

In addition, Serbia's new government will have funds left over from last year's privatisations to help finance the 2004 deficit, so that even if the US financial assistance does not come through, it will not knock the budget seriously off course.

And as the 2004 budget is only a projection, prepared in November 2003 before a new government had even been formed, a new administration may draw up entirely new projections that reduce the figure for expected donations. An altered revenue policy might rely less on donations and more on direct investment and expansion of the tax base. If it succeeds, America's assistance will be of little significance.

The real importance of the US package lies less in any potential losses than in the signals it may send to the outside world.

Some financial observers say any American move to withhold aid could have a knock-on effect on other institutions, such as the International Monetary Fund, IMF, and the World Bank. If they then decided to block Serbia's financial arrangements, the consequences could be far more serious.

The IMF approved a credit agreement worth 650 million dollars in May 2002 to be paid quarterly in 50 million instalments until May 2005. Under the deal, Serbia's adherence to the criteria procedure is monitored every six months, after which a decision is taken to continue instalments for the next half-year period. Six out of 13 tranches have been paid so far.

As for the World Bank, it approved a three-year envelope for Serbia and Montenegro in 2001 of up to 540 million dollars, with loans depending on performance set against agreed performance benchmarks. By the end of the 2003 fiscal year, the bank had transferred almost 397 million of the whole sum.

World Bank officials in Belgrade do not expect the US to press them to terminate their credit lines to Serbia, especially as the Americans have never linked IMF credit arrangements with Serbia to the Mladic extradition issue.

While the IMF and World Bank packages help maintain monetary stability – and cutting them could destabilise both the country and the region – there seems little appetite in Washington to do so.

Overall, Washington has shown itself to be more flexible towards Serbia than the US congressional committees, which is where the proposal to make American financial aid conditional on Mladic's extradition originated.

The very worst possible scenario would probably involve US representatives on IMF executive bodies abstaining from voting on the payment of the remaining credit instalments to Serbia.

The future prospects of IMF and World Bank loans to Belgrade may depend far more on the structure and policy of the next Serbian government.

The US under-secretary for economic affairs, Alan Larson, who visited Belgrade on February 11, made clear Washington wanted a new government comprising the same pro-democracy forces that overthrew Milosevic in 2000.

Such a government can probably count on US support. The question is what would happen if a new regime involved Slobodan Milosevic's Socialists or the Serbian Radical Party, who were Milosevic's allies during the 1990s, and if such a government then rejected cooperation with the Hague court.

In that case, Washington's stance could change drastically, and it could direct US representatives in the IMF and the World Bank to block all financial cooperation with Serbia and Montenegro.

The experience of past years suggests that while Washington always says financial aid is conditional on closer cooperation with the Hague court, in practice assistance packages have followed through.

The US wants Serbia to arrest Mladic, but if Belgrade is cooperative and can show the suspects are not in Serbia and thus cannot be arrested, that will suffice.

In the meantime, the Serbian government has enough room for manoeuvre to draft a financial strategy by March 31 aimed at alleviating any of the negative consequences that might follow a US decision that it has failed to cooperate fully with the tribunal.

Dusan Pavlovic is a policy analyst at the Jefferson Institute in Belgrade.

Location: Serbia

Focus: Balkans: Regional Reporting & Sustainable Training

Source URL: <https://iwpr.net/global-voices/comment-serbia-can-survive-without-us-aid>