Republic of Serbia
Fiscal Council

Fiscal Council Press Release on the Establishment of the 2012 Fiscal Framework

2012 Deficit Should be below 4.5 GDP

Bearing in mind slower pace of economic activity in the Euro zone and current economic trends in Serbia, the Fiscal Council reduced the economic growth projection for 2012 from 3% to 1.5%. In line with the fiscal rule on budget deficit, the given modification would result in the increase of the allowed 2012 deficit from 3.9% of GDP as originally planned to 4.5% of GDP. However, the consequences of the lower economic growth will for sure include the overrun of the public debt limit of 45% of GDP in 2012 which was defined by the law. For this reason, the Fiscal Council believes the 2012 deficit should be below 4.5% of GDP.

The Budget System Law defines two general fiscal rules related to fiscal deficit and public debt ceilings. The Fiscal Council is of the opinion that during the establishment of the 2012 budget, planned deficit should not be increased to the ceiling as provided by the fiscal rule relevant for budget deficit. Namely, lower economic growth than the one planned in 2012 will lead to likely violation of the other fiscal rule, i.e. the one on public debt amount. Therefore, any possible increase in the 2012 deficit as originally planned – 3.9% of GDP must not exceed the ceiling of 4.5% of GDP. The Fiscal Council reckons that the anti-recession policy through fiscal deficit increase must not lead to unsustainable public debt growth.

Slower pace of economic activity and possible recession in the Euro zone are indicated by the latest estimates of the European Central Bank and other relevant institutions. According to the most recent data, similar trends are present in Serbia, too. Therefore, the Fiscal Council believes that the GDP is not likely to exceed 1.5% next year. The latest IMF assessment on the economic growth in Serbia and in the region leads us to the same conclusion.

Lower economic growth reduces public revenues, indirectly affecting budget deficit increase. In line with the fiscal rule, as set by the Budget System Law, due to lower economic growth than the one planned (1.5% instead of 3%), it would be possible to increase the allowed fiscal deficit of general government in 2012 from 3.9% of GDP as originally set to 4.5% of GDP.

Pursuant to the most recent data from the Ministry of Finance, Serbian public debt amounted to 44.3% of GDP in late October. According to the projections of the Ministry of Finance, the public debt – to GDP - ratio in late 2011 will be the same as in October. The Fiscal Council considers that the given public debt to GDP ratio is feasible, with sound public debt management. In addition, it would be essential if the Government takes short-term remedy measures so as to keep the 2011 fiscal deficit under the ceiling, despite the fact the revenues will be slightly lower than planned within the budget revision – as the Fiscal Council indicated during budget revision analysis.

Unguaranteed debt of the local self-government which is still not covered by official data should be also included in the public debt of general government level. The current assessment indicates that the unguaranteed debt of local self-government in the end of 2011 will amount to around 1% of GDP. Therefore, upon its inclusion in the public debt in the end of 2011, public debt to GDP ratio in late 2011 will amount to around 45.5%.

Considerably slower economic growth in 2012 will have an adverse effect on the public debt to GDP ratio, which is why the Fiscal Council holds the view that the public debt in 2012 will almost certainly exceed the limit of 45% of GDP as defined by the law. Pursuant to the Budget System Law, the Government is obligated to define the measures for the public debt reduction if the public debt exceeds 45% of GDP. The Fiscal Council believes that planning a 2012 budget deficit lower than the highest one allowed by the fiscal rules (4.5% of GDP) is the first, short-term measure for public debt management. The second proposal would be for the Government to adopt medium-term measures in 2012 for public expenditure reduction as well as the tax system reform, thereby permanently limiting the deficit and the debt to conform to the legal framework.

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