

Reforming Public Enterprises for Serbia's Growth

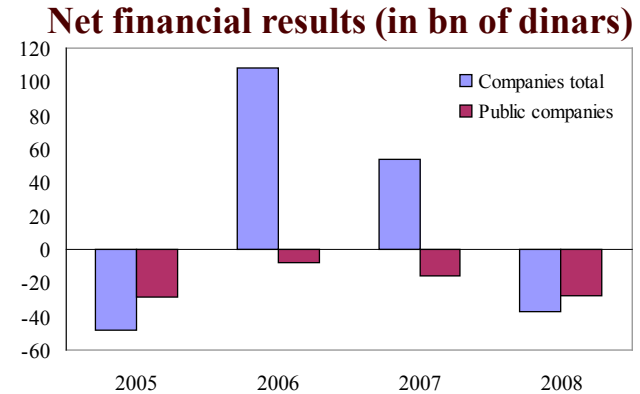
Bogdan Lissovolik, IMF, Belgrade, March 22,
2010

“Kapaonik consensus:” move to a new growth model. What is involved?

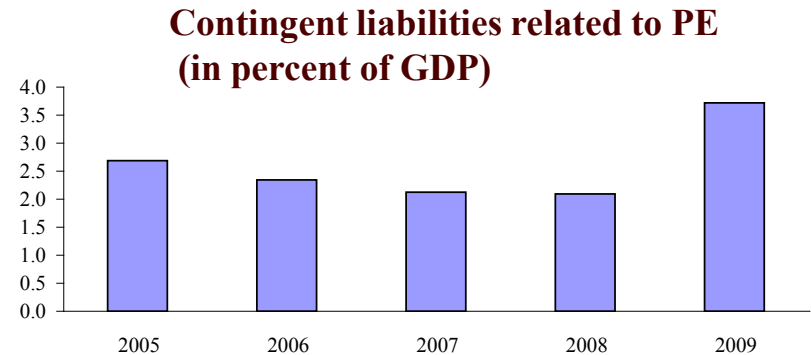
- Enhancing exports
- Raising domestic savings
- Giving a chance to the dinar vs. the Euro
 - The crisis exposed the old model
 - Moving to a new model entails demanding steps
 - Where do public enterprises fit in?

To date, public enterprises have largely been supportive of the “old” model

- “Responsible” for low priv. sector share, 60% vs. 80%
- Chronic financial losses
- Increasing fiscal risks (guarantees)
- Wage leaders
- Low exports
- Large borrowing in FX
- Added uncertainty in inflation targeting



Source: Solvency Centre



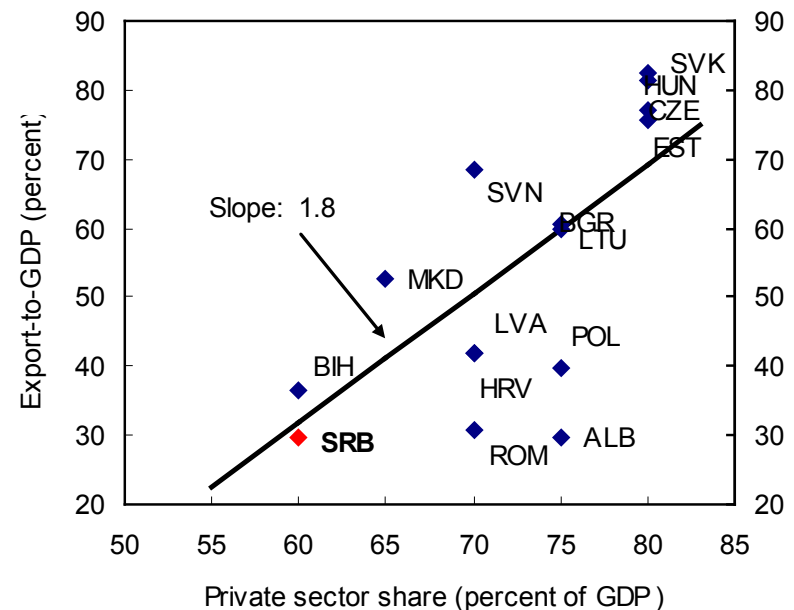
Source: Treasury

But public enterprises can help in the switch to the new, export-based model

□ Enhancing exports: how?

- Reviving privatization
- Competition and lower input prices
- Infrastructure upgrading
- Wage moderation

Higher private sector share is associated with higher exports, 2008



...and to other features of the new growth model

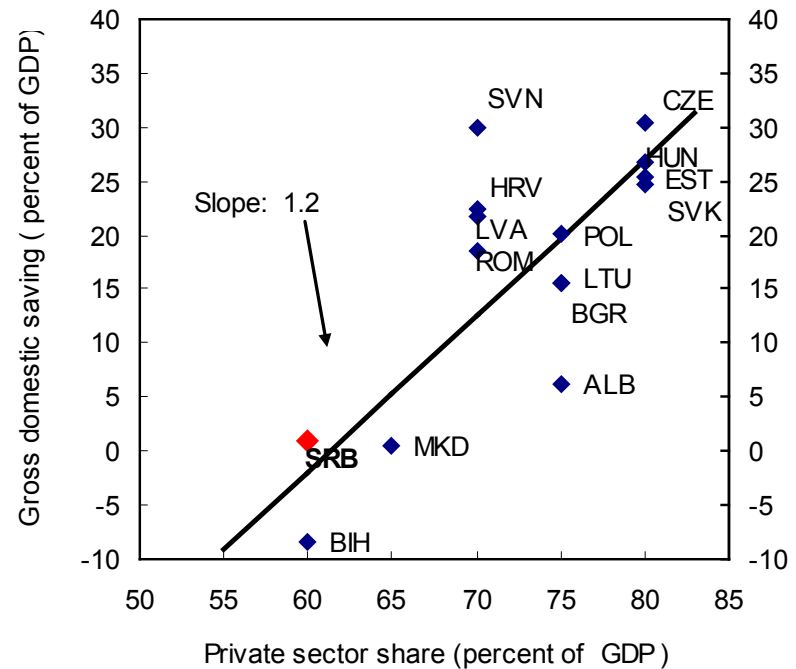
□ Raising savings

- Improving fiscal position
- Corporate savings (privatization)

□ Helping the dinar.

- Explore moving to dinar liabilities
- Ensure predictable utility price increases based on costs (improving inflation targeting)

Larger private sector shares are associated with higher domestic savings, 2008



What key reforms to consider?

- Privatization is key, through:
 - Corporatization
 - Proceeding with “deeper” steps (restructuring, managerial improvements, sale of non-core assets)
 - Not waiting for “perfect” market conditions
- Other reforms (well-known in theory, but lagging in practice)
 - Improving transparency (outside audits, financial statements, record of past investments)
 - Monitor and limit fiscal and “quasi-fiscal” losses
 - Simplify/unify regulatory environment where possible
 - Enhance managerial independence (pricing, employment)

Will it work? Slovakia was courageous with many such steps at the turn of the century.... But it's up to Serbia to judge...

Thank you!
