

SERBIAN ECONOMY IN TRANSITIONAL, EUROPEAN AND WORLD ECONOMIC CRISIS

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Abstract

At the transition beginning, economic crisis in Serbia was caused by political crisis in the area of former SFRY and institution crisis which, at the time were not ready for changing of the milieu they developed in until then. Political and economic crisis which started at that time in the area of former Yugoslavia, was intensified by the new transition crisis which have, in Serbia, being present – more or less intensively, until present days. Events in politics during the nineties, the introduction of economic sanctions by international organizations, hyperinflation, unemployment increase and overflow of gray economy, additionally contributed the crisis to last longer that it is usual for transition process. The economic crisis went on during the first decade of the new century. This period is known by accelerated privatization which, from the point of the crisis was double-edged sword: on one side, great inflow of assets partially preserved “social peace” and the crisis felt less; on the other, insufficient investments in production and long lists of redundancy workers from newly privatized companies anticipated that the economic crisis in the future will be wider and become the crisis of the social system. The great world economic crisis, which in 2008. started in the USA, had consequences for the whole world. Though, Serbia geographically and economically was not on the front line of the direct impact countries, yet economic consequences were great because the crisis hit the vulnerable system which in the previous decades was already in the crisis. Slowing of economic development and transition reforms, are most obvious consequences of its effect in Serbia. Decades of Serbian crisis and the possibility of having “Greek script” in Serbia, motivated the present government to adopt a new package of measures to ease the crisis, which will be effective in near future.

Keywords: World economic crisis, transition, Serbia, EU, Greek crisis

Introduction

Transition process, which started more than twenty years ago in Serbia, is still current and there is no clear indication that it will end soon. Economic crisis which accompanied the process of transition from defined and tested one to diametrically opposed system, was more strongly manifested in Serbia than in the other transitional economies of East Europe. Political conflicts within former Yugoslavia and its final disintegration, international organization sanctions, NATO aggression contributed as well as the fact that Serbia entered transition process with SFRY economic crisis remnants. Changes in 2000. in Serbia, marked the beginning of the period when the transition will be looked at and experienced with more optimism and enthusiasm. More intensive Serbian including in international economic relations, promotion of its economic potentials, increased interest of foreign investors followed by investments in economic development and infrastructure, pointed that Serbia is going towards economic recovery and European Union membership. However, besides short term prosperity, the first decade of this century is marked by numerous failures in creating and leading of economic policy. Haphazardly privatization, unplanned spending of revenues that came from foreign investments, with not great investments in export oriented economy branches and companies, decline in productivity, unemployment increase, the unfavorable structure of production and export, the competitiveness decline of domestic production on the world market, are some of the key facts of transition crisis overflow at the time when its effects should be sporadic or completely eliminated. With the appearance of the world economic crisis in 2008., all the weaknesses of Serbian economic policy, which was lead in two decades of transition period became prominent. The fact that the crisis have the global character and that its negative effects very quickly felt in other economies, and in the Serbian economy as well, showed the great number of accumulated problems which, under the crisis pressure, in the future will become more emphatic. After 2008. all the consequences of insufficient investments felt in the real economy sector (industry, civil engineering, agriculture), that is, in the sector of tradable goods and services which is to contribute increase of competitiveness of domestic economy, export increase, reduction of foreign trade deficit and reduction of unemployment.

The objective of this manuscript is to explain some of the most important impacts of the world and European crisis (EU crisis) on Serbian economy and point to the possibilities of its economic recovering and development.

Crisis in Serbia before SFRY disintegration

Present economic development differences of former SFRY Republics, first of all are consequences of their historical development, and then measure of their common economic policy. The basis of that economic policy was protectionist concept, which was in the function of faster country industrialization and overcoming of economic remnants inherited from the period before the Second World War. However, the concept defined the gap between richer northwest and poorer southeast. The essence of industrialization concept was in forcing of the manufacturing which freely formed the prices protected by high custom duty, concentrated in the northwest, on the expense of primary products (raw materials, energy and agricultural products) concentrated in the southeast of the state which prices were administratively controlled. This mechanism is well known as “Price scissors” between manufacturing and primary products and is at the expense of later. Helped by this mechanism, the income from undeveloped (less industrialized) overflowed into more developed (more industrialized) parts and took the surplus which, first of all was rejected by agriculture into other activities (Vukovic, 2011). Political and economic developing principles, effective during the second half of the twentieth century and the new postulates of the transitional process from the nineties up to now, in the following decades made the gap bigger and developing disproportions on the relations north - south obvious. The initial intensive economic growth and its flow during the decades of self-management socialism concept prosperity, may be illustrated by achieved domestic product growth rate at the level of that time SFRY and especially at the level of the republics.

Table 1: Flow of the annual domestic product growth rate in SFRY and the republics

SFRY	Total growth rate (in %)	Growth rate per capita (in %)
period 1951-1960	6,5	5,2
period 1961-1970	6,3	5,2
period 1971-1980	5,7	4,8
Republics period 1947-1990		
Bosnia and Hercegovina	4,3	2,9
Montenegro	4,2	2,9
Croatia	4,5	4,0
Makedonija	4,8	3,3
Slovenija	4,8	4,0
Serbia	4,5	3,4
Central Serbia	4,5	3,6
Kosovo and Metohija	4,0	1,6
Vojvodina*	4,5	4,0
*In the reporting period, growth rates of domestic product were under the average for Yugoslavia. At the same time, domestic product achieved in Vojvodina was above Yugoslav average.		

Source: Vukovic (2011), pg. 478

The successful start of self-management socialism concept realization and rapid economic progress, which was until seventies of the previous century, was based on borrowing from international financial institutions. The problems of old debts paying back, often solved by reprogramming, that is by new borrowings, become visible at the beginning of the eighties. Then the period of economic crisis on the whole area of former SFRY began, revealing the consequences of accumulated debts, which by the mechanism of unique currency split the economically developed and undeveloped states. SFRY, 1968. owed 1, 85 billion dollars, 1971. the debt increased up to 3,18 billion dollars and in 1981. rose up to 20,17 billion dollars (Vukovic, 2011). During the mid - eighties, self management economy system revealed itself: economic non-efficiency, which greatly reduced Yugoslav and Serbian economy competitiveness. This period is best illustrated by negative economic indicators (specifically by domestic product growth rate), to which should be added other problems such as: steady growth of indebtedness, annuity maturity for payment of new debts, high inflation rate, growing foreign trade and balance of payment deficit, growing deficit in public spending, shortages of great number of products on the domestic market and similar. Economy system dubiousness, under the pressure of political disputes is spread and hampers the economy development slowing the possibility of confronting more visible economic problems and their solving. During this period, the differences in regional development were underlined and Serbia, according to macroeconomic indicators was ranked in the group of undeveloped republics.

Table 2: The flow of annual domestic product growth rate in SFRY and in republics during 1981-1990.

	Toal growth rate (in %)	Growth rate per capita (in %)
SFRY	-0,4	-1,5
Bosnia and Hercegovina	-0,2	-1,2
Montenegro	-1,1	-2,4
Croatia	-0,8	-1,5
Macedonia	-0,3	-2,0
Slovenija	-0,7	-1,3
Serbia	-0,3	-3,4

Source: Miljkovic, Nikolic (1996)

According to data, it may be concluded that the state, during the eighties was in constant crisis, and the first consumer shortages were the signal that the crisis the economy was in, was not of acute character. Decline of domestic product per capita caused the real decrease of employment, earnings and social benefits, which together influenced the living standard decline and gradual elimination of the “middle class” population pointing, more and more to the differences between rich and poor. The fact that the state is in the vicious circle

of political and economic crisis, additionally is illustrated by data on inflation, balance of payment deficit and annual company losses. According to calculation of J. Mecinger, Slovenian and Yugoslav economist, at the end of 1990. inflation was even 588% (Susan L. Woodward, 1995).

Table 3: Inflation, deficit and SFRY economy losses during the period of 1980 – 1990.

	1981.	1983.	1985.	1986.	1987.	1988.	1989.	1990.
Inflation (in %)	39	40	72	90	120	194	1.240	121
Balance of payment deficit (in bil. \$)	3.728	2.958	2.374	2.054	1.811	2.382	4.215	2.360
Company annual losses (% GDP)	~2,1	~2,1	2,8	3,0	6,6	5,7	15,0	-

Source: Barać (2012), Retrieved from <http://www.nspm.rs>, available: October 2012.

The economic crisis in eighties finally showed non feasibility of, up to then, glorified Yugoslav brand of self- management socialism and the fact that there was the strong bond between the problems in the economic and political system. During the same period, Europe marked the end of the cold war and initiated the opening of the West toward the East. The republics of the former SFRY turned to new tendencies, and each with its own burden entered the transition process. Logically, the consequences of economic decline from the common state period, strongly hit the weakest system elements. Serbia, under heavy burden of crisis dating from the period of SFRY started the transition process. Challenges of the process in coming years will make the crisis chronic and orientation toward market economy challenges will, some of the crisis dimensions significantly deepen.

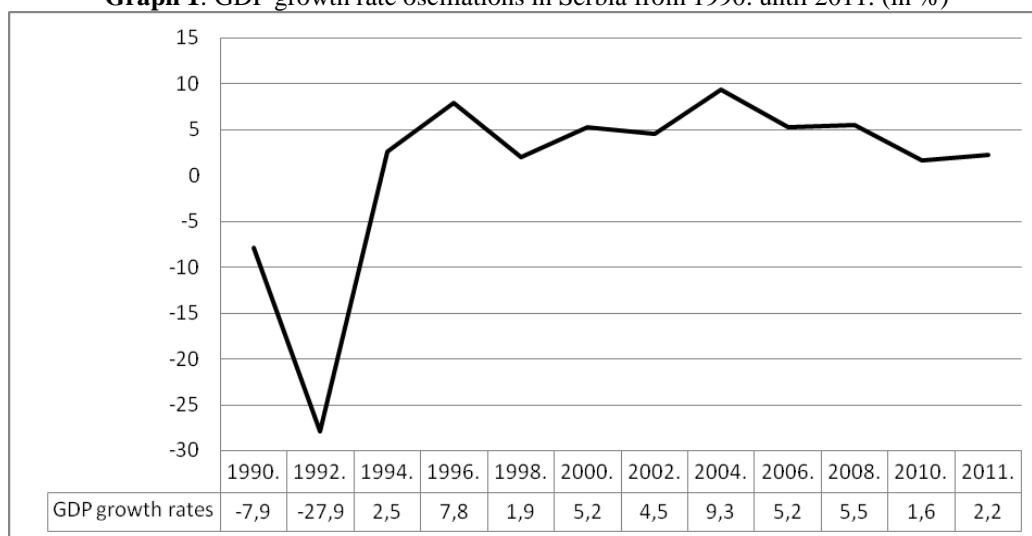
Transitional crisis in Serbia

By the end of the eighties of the twentieth century, in the countries of Central and Eastern Europe, there were dramatic political- economic changes. These changes were caused by the fact that previous economic systems expressed inability to complete a satisfactory level of economic growth, and they were to be replaced through a transition process by market oriented systems. The process of transition in Serbia is in its third decade without clear notification of its recent termination. The Serbian long lasting transition may be explained by the fact that this great wide and complex change was neither isolated nor only limited to the economy. The striking example is in that in Serbia, besides (hesitant) attempts of transition to go from non market into the market system, came in at least three devastating phenomena: war disintegration of the state in several phases, international economic sanctions and NATO bombing of Serbia. Another issue is that now more than certain, generally speaking, and not only in Serbia – transitional changes themselves were not well designed and implemented. Almost simultaneously with implementation of adopted concept,

there was its critical review and contestation (Radmilovic, 2010, pg.7). In these circumstances, Serbia was forced to accept neoliberal development concept though not ready for it. Deep in transitional crisis, not only in economic but also on the wider social plan, Serbia encountered global economic crisis in 2008. The negative effects of this crisis additionally intensified existing “crisis state” of Serbian economy and pointed the necessity of taking certain measures for its recovery and crisis consequences mitigation.

The analysis of aggregate macro-economic indicators and comparison of the present economy situation to state prior to transition period, showed that economy crisis was present in Serbia since 80-es. Then, Serbia from one form of crisis (which was in the inefficiency of the economic system and economic development stagnation), went into another dictated by the transition process, being exposed together with the other countries to the global recession. The former analysis confirmed that during the eighties, the growth rate of GDP measured and compared upon republics, was the lowest in Serbia. Pronounced oscillations of GDP growth rate from pre transition period went on during the period of state union with Montenegro, and have also been present for the last six years, as of Serbia have the status of independent state.

Graph 1: GDP growth rate oscillations in Serbia from 1990. until 2011. (in %)



Source: EBRD, <http://www.ebrd.com/pages/research/economics/data.shtml>, data for 2011.:
<http://www.mfp.gov.rs>

The graph shows that the economic growth in the middle of the last decade was relatively fast. However, it is well known that it was not based on fundamentals contributing the long term preservation of a growing trend. That intensive growth was, largely the result of the high inflow of the foreign capital: direct and portfolio investments, loan support of international financial institutions, remittances and foreign inter banking and inter-company loans. What made that growth unstable and unsustainable was real economy sector lack of

support and export companies which would absorb new capital investments thus recording the production and export activities growth. The process of deindustrialization as one of integral parts of transitional process and the basics for creating market economy lead to this (Bozic, 2009).

As a multidimensional phenomenon, deindustrialization process had numerous consequences on all segments of Serbian economy and society. Milieu where the reforms took place, and within them deindustrialization conducted, was defined by historic heritage and unfavorable political circumstances. In such an ambient it was necessary, on behalf of consistent carrying out transition process, to accept and realize “Washington consensus” necessary measures. Privatization of public companies was one of these measures. Privatization method choice and its conducting conditioned drastic decrease of production activity in many companies once significantly contributing economy development by their production and export activities. Direct consequences of accelerated and uncontrolled privatization were: production decrease, layoffs and for a great number of them – bankruptcy and liquidation. For majority industrial and other companies, privatization meant losing of respectability positions they had on the domestic and foreign market.

Fast privatization brought Serbia a certain amount of capital. However, the greater part of the capital was directed to solving current development problems, and only a small amount was placed on development of propulsive and export oriented industrial branches. It resulted in deteriorating of Serbian position in international economic relations, conditioned by deteriorating production structure and export in direction of greater participation of primary products and products of lower processing phase. Such movements made Serbia vegetate in the process of transition for more than two decades, still confronting the problems of unfavorable production and export structure, with high rate of inflation and unemployment together with foreign debts which were higher than half of GDP.

Table 4: Macro-economy indicators of Serbian economy development in transition period

	1995.	2000.	2005.	2008.	2010.	2011.
BDP (in bil \$)	24.097,0	23.429,8	25.234,4	47.760,6	37.073,7	45.040,0
Unemployment rate (in %)	24,2	25,6	32,4	28,4	27,9	23,7
Inflation (in%)	82,7	70	16,2	12,4	10,3	11,0
Foreign debt (% GDP)	-	154,7	61,6	65,5	84,9	74,5
Foreign trade deficit (in mil \$)	-1.135,0	-1.582,0	-5.290,0	-11.256,5	-6.940,0	-8.364,0

Source: <http://www.ebrd.com/pages/research/economics/data>; <http://data.worldbank.org/country/serbia>; <http://webrzs.stat.gov.rs/WebSite/public/ReportView.aspx>; all available: October 2012

The table shows that until 2008.,there was a certain move concerning Serbian economy recovery. Specifically, GDP increased, inflation rate decreased and unemployment growth mitigated. World economic crisis led to reduction of domestic companies activities, thus leading after 2008. GDP to record downward trend. NBS measures such as: dinar appreciation, increase of reserve requirements, money withdrawals by repo operations, contributed short term macroeconomic stability since 2000. to 2008. The result was a significant reduction of high ratings inflation for the earlier period. However, this decreasing inflation trend was very difficult to maintain in the coming years. As of 2008. the price rise first of all, of agriculture and food products conditioned the inflation rate increase. It is predicated that the inflation rate will increase in coming period due to bad weather and unsatisfactory agricultural measures and customs policy. According to estimates of the National Bank of Serbia, the annual growth rate of inflation is expected in the coming months as a result of rising food prices due to poor agricultural season, the expected growth in regulated prices, increasing import prices, as well as the low base effect.

Above mentioned macroeconomic stability and inflow of foreign investments until 2008.did not have appropriate results concerning employment. Positive effects of new tendencies were much lower than the damage to domestic companies, first of all their employees, which was caused by quick and unorganized privatization. Owing to few Greenfield investments and opening of several big plants in Serbia (Jura, Leoni, Fiat and similar) after 2008., the number of unemployed was slightly reduced, but the high rate of unemployment has still been one of the biggest problems the Serbian economy and society is confronted with. Due to the fact that for the period of 2011-2020., 428.000 new positions have been projected, that is averagely per a year about 43 000, it is to be expected that in the first “ after crisis” year the rise of unemployment will be stopped, and significant increase in employment achieved. Unfortunately, the number of unemployed increased systematically and, by the end of October 2011., were 817 000 (Kovacevic,2011).

External debt, that is its growing participation in GDP, even from the period of former Yugoslavia, has been one of the problems ballasting and slowing down Serbian economy development. This, everlasting problem additionally escalated under the pressure of the world economic crisis. It is the fact that Serbia has been for decades in the serious debt crisis, which instead of systematic liquidation of existing liabilities from newly created values, has persistently been solved by new debits from IMF and other creditors. Republic of Serbia Government, in 2009. borrowed from IMF 1,6 billion EUR and bonded to pay back the fund in eight three quarter installments during the period of three to five years, which is a huge

burden for Serbia concerning the actual level of economic activities. On the other side, the economy is not capable, by its activities, of providing servicing of new debit liabilities which amount exceeds annual amounts of installments of already accumulated external debt. Since in the new package of measures to ease the crisis, IMF loans take central position, there is no any fact that would indicate mitigation or end of the debt crisis in Serbia.

The foreign trade deficit is also one of macroeconomic indicators, which together with above mentioned indicators give one complete picture of Serbian economy in the period of transition. Political problems in the first decade of transition, combined with sanctions, new policy of deindustrialization and other devastating factors, contributed the decline of domestic production competitiveness on the world market. Systematic degradation of industrial production and participation reduction of once leading electronic, machine and processing industry in the structure of total export, caused a deterioration of the Serbian position in international economic relationships. Once being an important exporter of final products, Serbia, during the transition process became their importer, redirecting its export orientation to primary (first of all agricultural) products and lower phase finalization products. As a consequence, there is a constant increase of the foreign trade deficit with the tendency of further increase in the future. The application of Agreement on Market Liberalization with the European Union regulations as of 2014 will contribute, as well as opening of Serbian market for import of consumer goods, which with small improvements of the existing production capacities may be produced in Serbia.¹²

Global crisis and its impact on Serbian economy

Serbia is a small country and its market is, on the global scale negligible. But, the fact that Serbia is an active participant in the globalization process, and that Serbian market is integrated into the world economic system, tell that there is no mechanism which would isolate it and protect it from the effects of global economic crisis. However, there is the question on intensity of these effects and their possibility to have destructive effect on Serbian economy which, in economic analysis was attributed to in previous years. Time spent in the transition process and transition crisis with still present effects, had limiting play on finance market development, especially on asset market in Serbia. In comparison to investment activities and flows of USA and economically developed countries of Western Europe, Serbian investment flows are negligible, and bad loans minimal. Also, there is no real danger of savings loss – it is largely directed on banking accounts as deposits, whereas

¹²Memorandum of the Serbian government in connection with the filing requirements of the Republic of Serbia for membership in the European Union., 2009, pgs 3-5

small part is invested in the private investment funds or buying securities. The minimally active Serbian finance market disabled the negative effect of the global crisis to stronger penetrate into the core of the economic system. However, the intensity of these effects activities were enough to additionally disturb and destabilize those more sensitive and unstable parts of the system. It is the fact that to the quality of economic present, the great impact comes from economic decisions adopted in the past. Considering this, it may be said that “retro” decisions which were in the sphere of economic policy from one or two decades ago, largely directed the Serbian economy destiny in the period of global crisis and conditioned certain reactions of some of its segments to crisis challenges.

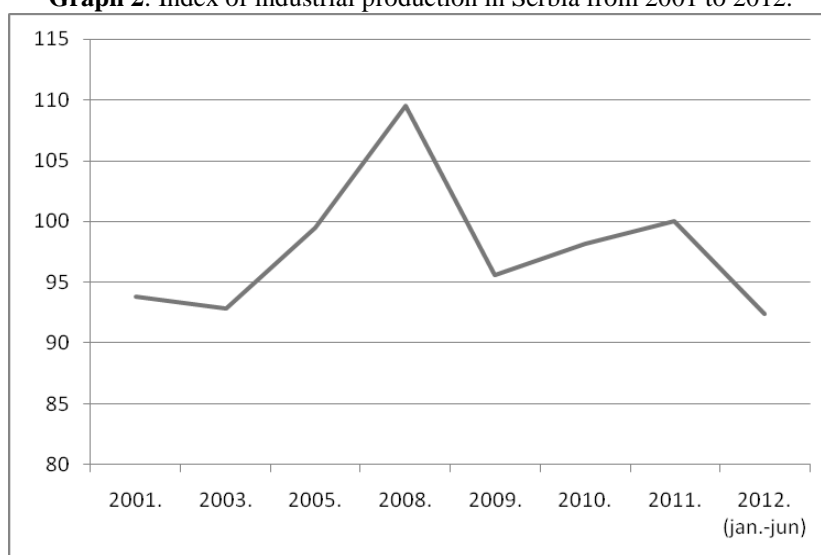
The restructuring of the financial sector in Serbia performed after 2000. lead to, on one hand to reduction of the total number of banks and number of banks were the state was majority owner, and on the other to increase number of great private bank branches from developed European countries. Though this ownership transformation of financial sector needs review and analysis whether the state could maintain the control on its greater part, at the moment the arrival of a great number of foreign banks seemed perspective for further economic development (Bozic-Miljkovic, 2006). Foreign banks entrance of Serbian market, increased the competitiveness of the financial service market and contributed more intensive process of merging and integration of banks. Connected to this, the huge inflow of foreign investments had a positive impact on banking sector efficiency and attributed the increase of available sources of population and economy investing. Impression that foreign banks were the source of power and stability, however, was disturbed by the first waves of the world economic crisis because these banks were the first under attack of its negative effects. The general reduction liquidity trend on the world financial market lead to the European banks orientation of preserving their parent companies and reducing branches financing in the countries of East Europe. The economic crisis in Greece, Italy, Spain and Portugal, and generally the crisis in the Euro zone, may in the future lead their parent banks reduce financing of foreign branches to the level of their existence. Serbia, as other countries in transition, allowed foreign banks (Greek, Italian and Austrian) a great influence on the market thus creating a mechanism of world financial crisis overflow on domestic economy.

In an analysis of the Serbian economic position in the years of global recession, it is necessary to point out the consequences the real economy sectors of developed European countries had together with the damage the Serbian export companies had. The crisis in the real economy sector in most European countries, had as a direct consequence direct reduction of their aggregate demand. It significantly influenced reduction of already small export

revenue domestic economy achieved by realization of goods and services on foreign markets and caused additional unbalance of foreign trade and balance of payments. In situation of currency rate instability and strong depreciation pressure there was the question on Serbian ability to service its debt liabilities upon current loan arrangements. However, in the general economy-system ambiance confronted on one side to the challenges of the transition process, and on the other to consequences of global recession, the paying off old debts without making additional credit arrangements was almost impossible. The lack of sustainable macroeconomic stability and for decades depressed and neglected real sector made global recession in Serbia have stronger effect and more visible consequences than it would, for example, in years prior to transition. In this crisis period, Serbia entered with negative macroeconomic indicators and generally with problematic economic prehistory, thus one may talk about its un-readiness to respond to new challenges and preserve own economic stability at the time of global economic stability disturbance.

As it has already been pointed, one of the important Serbian stagnation factors in new economic conditions and its limited range in reduction of global crisis consequences, is multiyear continuous decline of production and lack of more intensive investments into export oriented economy branches and activities. The data flow of industrial production indexes additionally explain the situation in the real sector in years prior and during the global crisis.

Graph 2: Index of industrial production in Serbia from 2001 to 2012.



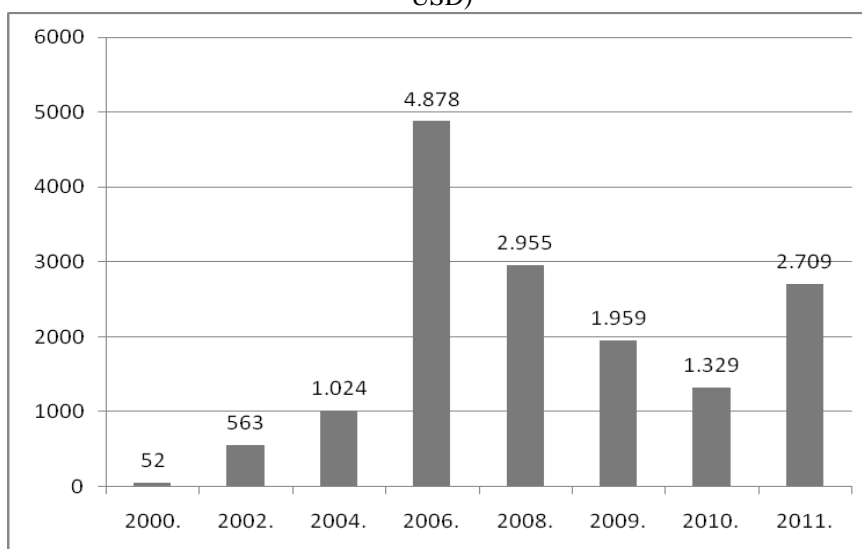
Source: <http://www.nbs.rs/internet/80/index.html>

The presented data show descending industrial production index trend, that is confirming the fact that unless there is the investment of foreign capital, domestic companies are unable in front of new challenges and demands of the world market. What can moderate

many decades crisis and “push up” Serbian economy from the bottom of recession towards recovery, is company production orientation of goods and services in demand of world market. The intensive production includes powerful investment support which, in years of global crisis justifiably is absent or its realization is in insufficient scope.

The next graph illustrates the fact that the liquidity crisis on the world financial market is conditioned by drastic decrease of investment inflows in Serbia. Greenfield and investments upon company privatization are equally vulnerable.

Graph 3: Fluctuation of direct foreign investments inflow into Serbian economy from 2000 to 2011. (in bill USD)



Source: UNCTAD <http://unctadstat.unctad.org>

The inflow scope of foreign investments in Serbia has been more than modest during the last decade - it is far below its needs and even possibilities. For the last four years, the world economy crisis significantly influenced the decrease of that inflow. Recorded increase of foreign investments influx in the middle of last decade, especially in 2006. was conditioned by privatization policy and activities focused on its faster implementation. Slowing down the privatization process and achieved performance reconsideration after 2006. lead to decrease of foreign investments interest in Serbia. Trend of their decrease was stopped in 2011. Today, there are a number of barriers to foreign capital, and global economic crisis, which additionally intensifies economy sensitivity both it comes from and the one it is reflected in, is only one of them. Significant barrier to foreign investors in decision making on capital placements in Serbian economy is its political instability, reflected through complex political relations with Kosovo, then decrease of population support to democracy and market economy, non efficiency in changes of the on Planning and Construction Law (Decree on Conversion rights to use the right of ownership of building

land), complicated administrative proceedings which define number of days needed for the start of the new business and similar.

Serbian place on the global competitiveness list gives the precise picture on its economy state, gives directions for future expectations and may be of use to foreign investors in completing the picture on potential investment destination. According to the newest World Economy Forum Report, Serbia is on 95. place considering the index of global competitiveness 2012-2013. Though this place has not be altered concerning the report for the period of 2011-2012, compared to other countries in transition, Serbia is upon competitiveness achievement at the very bottom of the list (WEF, The Global Competitiveness Report, 2012-2013., pg 13). Such a status was impacted by uncertainty initiated by political changes, problems connected to international community requests concerning Kosovo and consequences of the world economic crisis reflected, first of all, through decrease of foreign capital inflow and increase of borrowing foreign financing institutions. Though Serbia was not among the countries directly impacted by the crisis, it is the fact that for decades old problems of domestic economy, under the pressure of the crisis became more visible, and awareness of their long lasting consequences has been rising to the highest level.

Table 5: Serbian place on the different areas of economy life lists and competitiveness factors upon this during the period of 2008-2011.

	2008. (of 131 countries)	2009. (of 133 countries)	2010. (of 139 countries)	2011. (of 142 countries)
Institution development	108	110	120	121
Macro-economy stability	86	111	109	91
Development of goods market	115	112	125	132
Development of labor market	66	85	102	112
Development of finance market	89	92	94	96
Business development	100	102	125	130
Inovation capacities	92	82	22	110
Quality of research- development institutions	49	54	56	61
Expences of research and development companies	97	110	108	130
Economy and science cooperation	62	81	71	81
Education system quality	49	71	86	111
Level of employment training	121	120	130	132
Availability of most modern technology	120	114	117	123
Inflow of technology upon foreign direct investments	14	81	113	110
Quality of export structure	110	111	133	136

Source: WEF, The Global Competitiveness Report (for 2008/2009, for 2009/2010, for 2010/2011. and for 2011/2012).

Considering the table there is no reason for optimism upon Serbian competitiveness on the international market. Especially noticeable segments are where Serbia, at the beginning of reference period was properly placed, and then in the following period there was a significant downfall on the list. Those are, first of all, inflow of technology upon foreign direct investments, where Serbia in the reference period fell for even 96 places, then education system quality where there was downfall for 62 places, development of the labor market where Serbia, in the reference period from 66. fell to 112. place, expenses of research and development companies are, in accordance to negative trends, also reduced, and Serbia from 97. comes to 130. position. For this drastic competitiveness downfall in different areas economy life, the world economy crisis is not only to blame (though the reference period overlaps with it). The presence of economic crisis for many decades in the Serbian economy system, together with the pressures of existing economy system problems and new global crisis trends, present the factors that achieved the actual Serbian position on the global competitiveness list.

Sustainable economic development of Serbia in the following period shall still depend on the foreign resource influx, especially foreign assets. That is why, expected gradual reduction of asset inflow from the privatization demand creation of stimulating ambiance for Greenfield investments increase. In this context, it is advisable to identify factors that most impede foreign companies business in Serbia. According to World Economy Forum for 2012-2013. five most problematic factors for business activities development in Serbia are: non efficient administration (13,1%), corruption (12,5%) approach to financing (11,1%), regulations for foreign currency performance (8,5%) and high rate of taxing (7,5%). To a lesser extent the present problems are: insufficiently stable government, not adequate infrastructure offer, political instability, inflation and insufficient innovative capacity (WEF, Global Competitiveness Report 2012-2013, pg 312). Considering theses problems, it is necessary to make the strategy for overcoming the existing investing barriers, work on all competitiveness aspects, promote more intensively Serbian economy potentials and accelerate adjustments of Serbian legislation with the EU regulations, for the purpose of business and investing legal safety.

Fear of “Greek script” and new measures for crisis overcoming

Consequences of Greece debt crisis which escalated in social unrest and resulted in existence of this country in Euro – zone, put creators of economic policy in Serbia into higher level of alert more than the world economic crisis has done. The Greek crisis has its tradition: it is well known that it joined the European Union as an economy undeveloped country and

the reasons for its joining were political. Apart from macroeconomic safety provided by west European surrounding, Greece constantly confronted serious macro-economic disequilibrium which reflected in high budget and the foreign trade deficit. Economy system problems, Greek officials solved by borrowing from international finance institutions and foreign banks. Thus, the logic of economy functioning was stimulated based on excessive consumption rise. “The bursting of financial balloon” on mortgage bonds market of USA and overflow of the first negative effects of the crisis in Europe, the logic of excessive consumption become unsustainable and Greece sinks into recession.

Parallel with the Greek crisis escalation and pictures of multidimensional consequences of this crisis we were watching from day to day, there is greater comparability of Serbian and Greek economies, more intensive retrospection on the achieved level of cooperation, but also fear that “Greek script” may also be repeated in Serbia. Mechanism for overflowing of Greek crisis certainly exists. First of all is banking system and the fact that Greek banks have significant participation in the Serbian finance system. Thus, reduced liquidity of the parent branches shall certainly have consequences for Greek banks abroad, and at the crisis time there is a real possibility of putting under question the existence of some branches. The second overflow crisis mechanism is foreign trade. However, despite traditionally good neighbor relations and geographic nearness these two markets, between Serbia and Greece do not have major foreign trade relations which, if with reduced intensity would have negative consequences upon the Serbian economy. It is well known that Serbia (as well as its transitional neighbors), give advantage in foreign trade relations to European Union countries. Moreover, according to data, in that trade milieu Greece is not one of important partners in Serbia, nevertheless the closeness of the markets, traditional economic relations and good neighbor relations (Bozic – Miljkovic, 2010). According to Serbian Chamber of Commerce, most significant foreign trade flows are with Italy, Germany, Romania, Hungary, CEFTA members and even some geographically far countries such as China and Russia.

What worries Serbian officials in the context of Greek crisis, that is “script” moving to Serbia is the fact that there is, between these two countries big similarity in the ways of solving economy system problems. Serbia, as well as Greece, is in the category of overdue countries, and as it is mentioned above, this problem solves with new borrowings from international financing institutions, first of all IMF. Considering that Serbia has big problems with servicing foreign debt, Greek example may be used for realizing what problems may appear in a country if elements of debt crisis are not recognized in due time. The fact that

consequences of Greek crisis, besides in overcoming difficulties there is the maximum help of the European Union, were enormous, there is the question what after many decades of bad debtor internship may Serbia expect being still in transition and not in situation to count on help from European institutions, at least not at the level of Greece. Despite officials insisting on estimation that, thanks to new anti crisis measures, “Greek script” has been avoided in Serbia, it is real that there is a fear of Serbian debt crisis escalation which at the existing intensity of borrowing, in near future is really possible.

However, at the top of the Serbian government measure package for overcoming the crisis, there is a new arrangement with IMF. The justification of one more in the series of *stand by* arrangements is in the fact that Serbia, in the following years will not be able to provide itself financial funds for servicing increasing debts and will not be in position to fight against huge public spending. In the essence of this problem is not the excessive borrowing but the problem of unproductive allocation of earlier received funds.

New measures for overcoming the crisis, except for new credit arrangements, also include significant support to agriculture and sector of small and medium companies. Elimination of para- fiscal levies, partial subsidizing of agricultural production, announced reform of the public sector with restitution fiscal policy, give reason to believe that this time the results of these measures application be concrete and visible. However, in context of further borrowing policy, many things depend on the way upon new arrangements received funds location, that is on relocation these funds from the area of preserving social peace to the area of supporting export oriented companies. European and world experience is in favor the fact that, in modern economy small and medium companies are the activator of economy development. With the adequate state support, these companies may be the lever which will pull out Serbia from the chronic crisis state and allow it to move on towards recovery and development with its own strength.

Conclusion

It is often said that Serbia was not ready for the world economic crisis. It would be more precise to say that Serbia, at the moment world economic crisis started, was for almost two decades a state in crisis. The roots of this many- decades crisis are in the period prior to entering into transition process, that is during the period when political and economic activities in Serbia happened within SFRY. The transition process puts this small country of Serbia in front of the great challenge, and attempts of the different governments to consistently conduct transition requests lead to immense economy system dubiousness. Solutions to reduce the negative effects of the crisis to acceptable frames were short term and

often were only cosmetic changes. During the whole transition period, it was said about the constant production decrease, increase of the foreign trade deficit, unemployment, borrowing and similar. Some macro economy parameters such as GDP, are during this period, owing to domestic companies privatization and inflow of funds upon this, were in rise. However, due to the way of realization, this kind of achievement was unsustainable in the long run. So, Serbia, global economic crisis faced chained by its own transition crisis. That is why the effects of this crisis in Serbia felt more strongly and caused greater consequences than in some countries in transition whose macro economy stability at that moment was at the higher level. Nevertheless, very often for the situation in the whole society and a certain number of economic movements were justified in economic global crisis. Layoffs, inability to change business policy of the company, reduction of salaries, production stagnation and performance of big infrastructure projects, often were justified by the global economic crisis. Considering the size of the Serbian market, the degree of its integration in the world economy flows and poorly developed financial market, it may be said that a crisis action in our economy was over estimated. The fact that negative consequences of the transitional crisis, under the pressure of the global economic crisis became visible, but the global crisis itself did not have that effect on Serbian economy it had on economically developed and integrated economies. It is omitted that our internal weaknesses and problems, especially those political ones, greatly impacted the economic growth and development. It's that way the performance of our economy policy should be considered both stabilizing and development

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