

## REVIEW OF ECONOMIC DEVELOPMENT IN THE REPUBLIC OF SERBIA IN TRANSITION CONDITIONS

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### **Abstract**

*The transition, or the process of transition from centrally-planned to a market economy in Serbia, started in the nineties of the twentieth century. Based on the concept of neoliberal economy, the system reform for the Republic of Serbia was extremely long and difficult. The decline in economic activity, rising unemployment, an increase in foreign trade deficit and balance of payment turbulence, among others, were the consequences of the implementation of neoliberal economic policy. The task of this paper is to show that Serbia, as one of the most developed countries of the Western Balkans must create and implement national economic and development policies in order to foster socio-economic development.*

*In line with this objective of this paper is to analyze the macroeconomic performances in Serbia in transition period or the last ten years, between 2004-2014.godine. The paper analyzes the basic macroeconomic performance as economic growth, unemployment, industrial production, import, export, and Balance of Payments. The paper consists of five parts, where in addition to the introduction analyzes the trend of economic growth, unemployment and industrial production, then analyzes the implementation of import and export policies, as well as the trend in the balance of payments. At the end, there were concluding observations and literature.*

**Keywords:** *transition, economic development, macroeconomic performances, Serbia*

**Clasificare JEL:** *E10*

### **1. Introduction**

Nineteens started the transition reforms that involved the transition to a market way of functioning of the economy. Building a market economy and quickly initiate a transition program that would open the process of market reforms, was supported by a political decision to abandon socialism and the transition to capitalism in transition countries (Filipovic, Raspopovic, Toskovic). It is further meant that the implementation of market reforms under democratic scenario was impossible without significant costs, policy of price liberalization and financial stabilization, as well as the reduction of social contributions and other forms of income redistribution (Blanchard & Kremer, 1997; Roland, 2000).

However, the transition process did not lead to economic growth and development, but also resulted in a fall in economic activity, an increase in unemployment, an increase in foreign trade deficit and balance of payment turbulence. Pursuant to the reality that the rough individualism and market fundamentalism destroyed all sense of community and led to reckless exploitation of unprotected individuals (Stiglitz, 2013), the question arises whether it is justified to continue with the creation of the economic system and economic policy on the principles of neoliberalism (Lekovic, 2015). It is essential that the methods of state influence on the behavior of economic agents are diverse and that they comply with the principles of the market economy and private enterprise (Kolodko, 1998), where the necessary active regulatory and corrective role of the state.

It was confirmed that the theoretical as well as empirical research, successful industrialization is a prerequisite for solving the four major economic problems of each country, which is a priority for underdeveloped countries - increasing added value, increase employment, earnings growth, and reducing the current account deficit (Reinert, 2006). Navigate the traditional activities of agriculture and other activities of the primary sector to modern industry is a

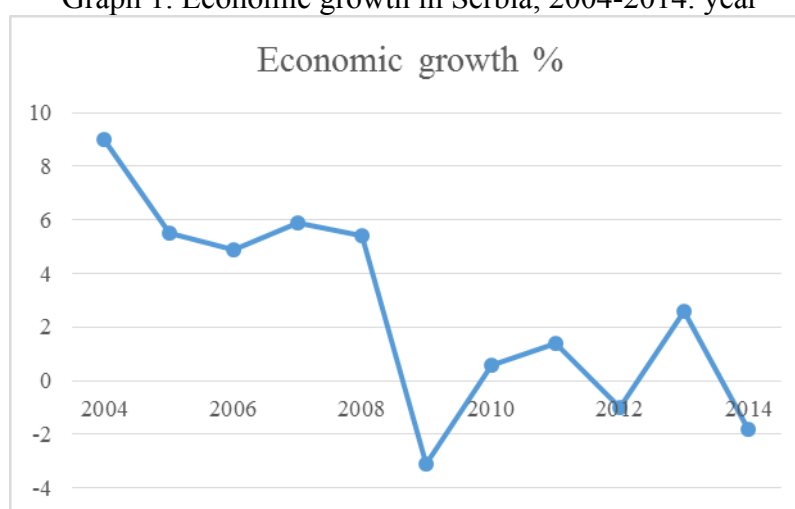
condition for an increase in savings and investment, which is key to fostering economic growth and sustainable development (Lekovic, 2015).

## 2. The trend of economic growth, unemployment and industrial production

The Republic of Serbia in the nineties began process transitional reforms of transition from planned to market economy, which followed the model of the free market in which the prevailing emphasis on the service sector. Today it is the largest sector of the Serbian economy Administration services sector, or tertiary sector, which covers 63.8% of GDP. Followed by the industrial sector in the amount of 23.5%, while the agricultural sector covers 22.7% of GDP. Moving the weight of a mode of functioning and change of economic policy, there has been a decrease in public spending, which currently stands at 20.6%, while private consumption is 74.3% and 28.6% of the investment.

Average economic growth in the period 2004-2014. amounted to 2.6% (Chart 1). Economic growth in Serbia before the onset of the economic crisis knotted recorded a growth path. The highest level was recorded in 2004, when economic growth was the highest of 9%. The emergence of the global economic crisis, there was a recession, which amounted to -3.1%. A slight recovery was recorded in 2011, amounting to 1.4%, but the second wave of the crisis re-created recession in the amount of 1%, which was continued in 2014 in the amount of -1.8%.

Graph 1. Economic growth in Serbia, 2004-2014. year



Source: World bank

By applying the transitional reforms and the entry of foreign companies on the domestic market there was a fire fighting industries in the region, including Serbia. In the period from 2004 to 2014. the highest level of industrial production was recorded in 2004, amounting to 5.6%. The privatization of the large number of enterprises and shutting down the companies, there was a gradual shutdown of production which is the highest recorded fall in the emergence of the crisis of 2008, when it stood at -5.3%. Followed by a mild recovery next year but the highest in the observed period recorded in 2014 when it was -7.1%, which is certainly a result of the crisis and excessive imports (Figure 2).

Graph 2: Industry % in Serbia, 2004-2014. year



Source: World bank

Industrial policy, which would initiate the process of re-industrialization of the country, is greatly important because the development industry create real opportunities for job creation, improvement and application of knowledge as a factor of innovation, which is an essential condition for the growth of productivity and competitiveness, and consequently, more dynamic economic growth and development (Lekovic, Micic, 2013).

Unemployment is one of the main objectives of macroeconomic policy which aims to achieve full employment. How was offered a job in Serbia is extremely poor, lack of employment opportunities makes young people to leave the region and thus seek a job elsewhere. In this way, emigration exacerbates the situation on the labor market, which initiates the conduct-oriented policies in order to ensure job creation. Serbia in the last twenty years, faced with a constant outflow of young and educated people, who have left their country and find a job abroad, which is unfortunately led to the expiration of unskilled labor (Toskovic, 2016).

By analyzing the trend of the indicators of unemployment at the beginning of 2004, unemployment in Serbia amounted to 18.5%. Until the emergence of the economic crisis, the highest unemployment rate recorded in the period 2005-2006. when it was 20.8%. The lowest level was in the year of stagnation crisis amounting 13.6%. However, the escalation of the second wave of the crisis in 2012 have had the largest unemployment levels of up to 23.9% (Chart 3). It is also the highest level in the last ten years. A must-see is worth noting that in 2015, unemployment exceeded one million people, which is a record for the last fifteen years.

Graph 3: Unemployment in Serbia, 2000-2014. year



Source: World bank

### 3. Analysis of the implementation of the import and export policy

The liberalization of foreign trade, imposed by international financial institutions (IMF and WB), with the help of the recommendations of the Washington Consensus, initiated primarily the liberalization of imports, where foreign investors have entered the domestic market, the use of domestic raw materials, and qualified for their goods. In this way, the liberalization of imports suppressed domestic production, which was not competitive enough to compete with the offer of foreign companies, which was suppressed domestic exports (Tošković, 2016). Certainly the result was a rise in imports of foreign goods and exports of domestic goods (Charts 4 and 5), which further led to growing foreign trade deficit.

Thus, the entry of foreign companies on the domestic market there was an increase in imports, which at the beginning of 2004 amounted to 50.6% of GDP. The uptrend continued until the beginning of the crisis, where in 2008 imports amounted to 54.1%. The escalation of the crisis there has been a slight decline, which continued in 2012, while the highest level was reached in 2014 in the amount of 54.3% of GDP.

Graph 4: Import % GDP in Serbia, 2004-2014. Year



Source: World bank

Next, the export policy over time began to wane due to shutdowns of production capacity. This directly influenced the increase in the trade deficit, which is the growth of imports grew bigger. In 2004, exports accounted for 24.2% of GDP. At the break of the crisis there was a decrease in exports of 2.3%, but already in 2010 followed by a recovery, which continued until 2014. Thus, the increase in exports has been a reduction in the trade deficit.

Graph 5: Export % GDP in Serbia, 2004-2014. Year



Source: World bank

Today, Serbia is a signatory to the agreement on free trade with the European Union, which is the most important foreign trade partner of Serbia, which Serbian producers can export their products to the area of the EU without customs duties and fees. For products (beef, sugar, wine) is determined by the allowed amount (quota) imports annually (SIEPA, 2016). In addition, Serbia's CEFTA<sup>1</sup>, enabling it to export to the countries of the region without customs duties, which

<sup>1</sup> CEFTA (Central European Free Trade Agreement) - trade agreement between Albania, Bosnia and Herzegovina, Macedonia, Moldova, Serbia (Kosovo) and Montenegro ..

every year realized foreign trade surplus. Also, agreements were signed with the countries of EFTA<sup>2</sup> and the Commonwealth of Independent States<sup>3</sup>, which has a unique position without customs access to major European markets.

#### 4. Balance of Payments trend in Serbia

Balance of payments represents a collection of all economic transactions of a country over a period of one year, which presents a picture of the performance of the economy. In fact, it is the balance of receipts and payments arising on the basis of total economic transactions with foreign countries in the period of one calendar year. Serbia and the other countries in the region faced with the problem of the deficit of the current account, which was in 2008 due to the crisis increased to 7.126 billion. Reducing the current account deficit recorded in 2009, but the onslaught of the second wave of crisis once again stopped the inflow of foreign investment deepening deficit. The total current account deficit in the period 2007-2012. in Serbia amounted to 23.996 billion euros, as a result of trade deficit, which amounted to 36.692 billion. In the same period, direct investment amounted to 12.288 billion, portfolio investments 3.882 billion, while other investments were 7.460 billion euros. The inflow in the financial account, net, which amounted to 24,313 billion, influenced the growth of foreign exchange reserves, which reached 1.155 billion euros (Table 1).

Table 1: Balance of Payments of Serbia (million Eur), 2007-2014.year

ITEM		2007	2008	2009	2010	2011	2012	2013	2014
1	Current account	-5,474	-7,126	-2,032	-2,037	-3,656	-3,671	-2,098	-1,985
1.A	Goods and services	-7,358	-8,684	-5,056	-4,729	-5,341	-5,523	-3,845	-3,645
1.A.a	Goods	-7,113	-8,488	-5,066	-4,719	-5,496	-5,634	-4,159	-4,111
1.A.b	Service	-245	-196	9	-10	154	111	313	465
1.B	Primary income	-982	-983	-479	-658	-1,368	-1,097	-1,419	-1,343
1.C	Secondary income	2,866	2,541	3,504	3,351	3,054	2,949	3,166	3,003
2	Capital account	-312	6	0	0	-3	-8	15	7
	The balance of the current account and the capital account	-5,786	-7,120	-2,032	-2,037	-3,659	-3,680	-2,083	-1,978
3	Financial expense, net	-5,349	-6,598	-2,280	-1,553	-3,340	-3,351	-1,630	-1,705
	The balance of the financial account	-5,349	-6,598	-2,280	-1,553	-3,340	-3,351	-1,630	-1,705
3.1	Direct investments, net	-2,528	-2,486	-2,068	-1,133	-3,320	-753	-1,298	-1,236
3.2	Portfolio investments, net	-678	91	49	-67	-1,600	-1,676	-1,883	-369
3.4	Other investments, net	-2,884	-2,516	-2,626	549	-197	214	855	1,703
3.5	Foreign exchange reserves	742	-1,687	2,363	-929	1,801	-1,137	697	-1,797
4.	Net errors and omissions	437	522	-249	485	318	329	453	273

Source: NBS (National bank in Serbia)

In conditions of deep social and economic crisis in which Serbia is expressed budgetary and balance of payments imbalances, high external debt, there is no doubt that the limited economic power and narrow maneuvering space for active and efficient functioning of the state in terms of economic growth moving (Lekovic, 2015). To achieve economic growth and achieve sustainability of economic development is essential institutional convergence and synergy of all economic institutions (Lekovic, 2016). For the successful functioning of the economy in the Republic of Serbia, to achieve a more dynamic economic growth and sustainable development, it is necessary to leave the neo-liberal model and with full appreciation of the theoretical and empirical context, the creation of the economic system and economic policies that will satisfactorily enable the realization of the priority objectives, such as the reindustrialization of the country, encouraging faster employment, of economic growth and sustainable development.

<sup>2</sup> EFTA (European Free Trade Association) - now has four members: the Republic of Iceland, the Principality of Liechtenstein, the Kingdom of Norway and the Swiss Confederation, which have concluded 18 free trade agreements (eg. Albania, Canada, Chile, Croatia, Egypt, Israel, Lebanon, Macedonia, Mexico, Singapore, Serbia ...), and is negotiating with another 6 countries and customs territories.

<sup>3</sup> Commonwealth of Independent States (CIS) -podrazumeva international alliance of nine former Soviet republics (Azerbaijan, Belarus, Armenia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Uzbekistan).

The conclusion is that the economies in transition including Serbia and its economic growth should not be based only on the inflow of foreign direct investment, but to find another model of growth (Lekovic, 2015).

## 5. Conclusion

Devastated industry, economic activity and high unemployment were the result of incorrect privatization and wrong neoliberal economic policy that has been implemented since 2000 in Serbia. Today the state is expected to engage all available capacity in the areas of institution building, as well as the areas of monetary and fiscal policy to create and implement economic and development policies in order to foster socio-economic development. It is necessary to implement an active policy through increased domestic production, employment, encouraging industry and therefore exports, even at the cost of fiscal and monetary stability. The task of the state is to take the necessary measures, aimed at stimulating entrepreneurial initiative, then encouraging the creation of new jobs, mobilizing all available sources of financing, as well as research and development. Be sure to achieving sustainable growth and development in the Republic of Serbia, it is primarily the abandonment of the neoliberal concept by creating national economic policies that will enable the realization of re-industrialization of the country and faster employment. Full employment should be the primary goal, because in this way provides a stable society.

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