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**THE PRIORITY DIRECTIONS
OF NATIONAL ECONOMY DEVELOPMENT**

**ECONOMIC REALITY OF SERBIA AND IMPROVEMENT
PROSPECTS**

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***Abstract:** The author hereby identifies the state of Serbian economy, also points to deeper causes of the situation, indicating finally to priorities of accelerating economic growth and development. The state of Serbian economy is observed in the context of the five cause groups: systematic, economic, political, legal and social. Acceleration of economic growth is observed through growth of competitiveness and productivity of economy. Accordingly, priorities are determined for Serbian economy exit from the crisis via patch of stable and dynamic growth, as follows: reform of the political system, establishing of the rule of law, macroeconomic stabilization, completion of market economic system, development of the human capital, technical and technological modernization of the economy, building better infrastructure, improvement of social capital. The contribution of this study lies in identifying the specifics of each of the priorities in the context of economic growth and development of Serbian economy.*

***Key words:** economic growth, competitiveness of economy, systemic changes, economic crisis, economic structure.*

1. Introduction

Serbia has been suffering economic crisis since 2008, when negative effects of absence of effective market reforms and bad economic politics prevailed, strengthened by the influence of world economic crisis. Economic crisis in Serbia is evident in decrease and stagnation of economic activity, rapid increase of unemployment and escalation of foreign borrowings. As consequence to the crisis, but also to shortcomings in sphere of state control, reforms have been abandoned. Namely, privatization is being abandoned, reform of the public sector never enforced, with no improvement in protection of competition and state aid sphere. Improvements in general preconditions to economic growth and development, reflected in improvement of competitiveness and productivity of economy, have also been abandoned, thus the decrease in competitiveness of Serbian economy.

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The study analyses the nature of economic crisis in Serbia, primarily the crisis background. Reasons for the crisis are being identified as systematic, economic, political, legal and social. Central part of the study analyses development potentials of key economic sectors. Identification of the problem in Serbian economy is executed with the purpose of providing solution for exit from crisis and economy recovery. Economic prosperity may be expected only with creation of conditions for acceleration of economic growth, but taking care of quality of the growth. Basically the problems of acceleration of economic growth of Serbia are located in increase of competitiveness of economy.

2. Economic movements in Serbia

Serbia belongs to the group of developing countries, more precisely, countries in transition to market economy. Developing position of Serbia in Europe is unfavourable, as it belongs in the group of the least developed countries of Europe, that is, does not even reach 50% of the European average in economic power (Ministry of Economy of The Republic of Serbia, 2015, p. 1). Serbian economy has, moreover, undergone decades of economic crises. In case of Serbia, following the economic collapse in 1990-ies, there ensued a period of low-grade economic growth of 5.9% in the period 2001-2008, and then new deterioration of -0.52% in the crisis period 2009-2012 (Ministry of Finance of The Republic of Serbia, Sep. 2015, p. 22; Author's calculation). That has caused a low level of economic activity, amounting to 33,059 mill. Euro in 2014.

Table 1. GDP Movements (2014 = 100)

Years	GDP, Current prices, RSD bill.	GDP, Euro mill.	GDP per capita, (Euro)	GDP, Real growth, (%)
2001	820,8	13.805,5	1.840	5,0
2008	2.744,9	33.704,5	4.586	5,4
2009	2.880,1	30.654,7	4.187	-3,1
2010	3.067,2	29.766,3	4.082	0,6
2011	3.407,6	33.423,8	4.619	1,4
2012	3.584,4	31.683,1	4.400	-1,0
2013	3.876,4	34.262,9	4.781	2,6
2014	3.878,4	33.059,1	4.635	-1,8

Source: Ministry of Finance of The Republic of Serbia, Sep. 2015, p. 18-19.

Changes in economic structure of Serbia are characterized by growth in services sector of 3.3% in the period 2001-2012, industry 1,1% and agriculture 0,3%, which caused formation of a major gap between the service sector and production sectors (Ministry of Finance of The Republic of Serbia, Sep. 2015, p. 22; Author's calculation).

Table 2. Economic structure (in %) (GVA = 100.0)

Economic activities	2005	2006	2007	2008	2009	2010	2011	2012	2013
Agriculture	11,9	11,4	10,0	10,3	9,5	10,2	10,7	8,9	9,4
Industry	23,6	23,1	22,7	22,3	22,8	22,5	23,4	24,8	26,6
Manufacturing	17,2	16,6	16,7	16,6	16,7	16,3	16,7	18,0	19,1

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Construction	5,7	6,4	5,5	6,3	5,8	5,6	5,9	5,4	5,1
Services	58,8	59,1	61,8	61,1	61,9	61,7	60,0	60,9	58,9
Trade	11,4	11,7	12,3	12,2	11,4	11,3	11,3	11,6	11,5
Transportation and storage	5,0	5,4	5,6	5,2	5,4	5,3	5,1	4,5	4,9
Information and communication	3,7	4,1	4,6	4,7	4,9	5,0	5,1	5,4	5,1
Financial activities	2,3	2,9	3,2	3,7	3,9	3,9	3,8	3,6	3,1
Real estate activities	11,6	10,3	9,7	9,6	10,7	11,1	10,6	10,9	10,3

Source: Republic Statistics Bureau, 2014, p. 143; Republic Statistics Bureau, 2015, p. 142; (Author's calculation)

Disruption in the structure of Serbian economy on relation services sector-industry, that is, expansion of sector of non-tradable goods at the expense of narrowing the tradable goods sector, generates high import and low export, resulting in escalation of external macroeconomic imbalances, which retroactively affect increase of disproportions and imbalances within economy and slowing down of economic growth dynamics. Weak point of economic structure of Serbia is the industry sector, primarily manufacturing industry, the participation of which in total economy does not exceed 19% of GDP in 2013.

Table 3. Macroeconomic indicators

Indicators	2009	2010	2011	2012	2013	2014
GDP, Euro mill.	30.654,7	29.766,3	33.423,8	31.683,1	34.262,9	33.059,1
GDP, Real growth, %	-3,1	0,6	1,4	-1,0	2,6	-1,8
Investment in fixed assets, % GDP	19,7	18,6	18,4	21,2	17,2	17,2
Inflation, %	6,6	10,3	7,0	12,2	2,2	1,7
Employees, 000	1.874	1.806	1.750	1.732	1.715	1.701
Unemployed, 000	747	744	753	762	775	767
Unemployment rate, %	16,1	19,2	23,0	23,9	22,1	18,9
Foreign trade deficit, % GDP	-16,5	-15,9	-15,9	-17,4	-11,2	-11,0
Current account deficit, % GDP	-6,6	-6,8	-10,9	-11,6	-6,1	-6,0
FDI, Euro mill.	2.067,8	1.133,4	3.319,6	752,8	1.298,3	1.236,3
FDI, % GDP	6,7	3,8	9,9	2,4	3,8	3,7
Foreign debt, Euro mill.	22.272	23.509	24.123	25.645	25.747	25.792
Foreign debt, % GDP	72,7	79,0	72,2	80,9	75,1	78,0
Fiscal deficit, % GDP	-4,4	-4,6	-4,8	-6,8	-5,5	-6,6
Public debt, Euro mill.	10.056	12.442	15.174	17.805	20.421	23.472
Public debt, % GDP	32,8	41,8	45,4	56,2	59,6	71,0
RSD/Euro, Exchange rate	95.89	105.50	104.64	113.72	114.64	120.95

Source: Ministry of Finance of The Republic of Serbia, Sep. 2015, p. 18-19, 29 and 88; National Bank of Serbia, Nov. 2015, p. 98 and 124.

Macroeconomic stability has not yet been established in Serbia. Inflation and dinar are unstable. The deficit of payment balance current account was stabilized at the level of 6 to 10% in the period 2009-2014, exceeding the critical limit of 6%. High foreign debt of Serbia of 25.792 million Euro (or 78,0% of GDP) in 2014, approaching the critical limit of 80% of GDP, indicates to possible occurrence of a new economic crisis. Fiscal deficit reached a high level of -6,6% of GDP in 2014, as consequence to high public expenditure. Total public debt of 23.472 million Euro (or 71,0% of GDP) in 2014 considerably exceeds the critical limit of 45% of GDP, witnessing to poor fiscal policy.

Crucial economic-social problems in Serbia are low employment and high unemployment, amounting according to employment rate to 39,7% (69.2% in EU) in 2014 and according to unemployment rate to 18,9% (10.1% in EU) (Republic Statistics Bureau, 2015, p. 10; Eurostat, 2015, p. 101 and 108). The unemployed of Serbia are mostly young, female, first employment seekers, secondary-qualified and senior (Republic Statistics Bureau, 2015, p. 15-16, 19-20 and 51-52). Particularly negative quality of unemployment is its perseverance, which amounts to 67,6% in 2014 (Republic Statistics Bureau, 2015, p. 52). High unemployment cannot be connected directly to recession (cycle) movements of economy, but are of structural, ie. systemic character (Kovtun, et al., 2014, p. 6).

Poverty in Serbia has increased in the period of crisis from 525 thousand of the poor in 2009 (or, according to poverty rate of 6.9%) to 628 thousand in 2014 (or 8.9%), corresponding to decrease in employment and increase in unemployment (Mijatović, 2015, p. 7 and 18). The most vulnerable social categories, according to poverty, are: rural population, persons with low qualifications, the unemployed, senior citizens, children and multi-member households (Mijatović, 2015, p. 11-15, and 19).

3. Analysis of reasons for recessive tendencies and stagnation in Serbian economy

Serbia has been in a economic crisis in period 2009-2014, with records of negative economic growth rate of -0,2% per year, decline in industrial production by -2.0%, decrease of employment by -1,5%, increase of unemployment of 1,3% and increase of poverty by 3,3% (Ministry of Finance of The Republic of Serbia, Sep. 2015, p. 18-19; Author's calculation). Crucial problem of Serbian economy are poor prospects of more dynamic economic recovery. Competitiveness of Serbian economy is low, that is, Serbian economy in 2015, according to global competitiveness index, occupies position 94 on the ranking list of 140 countries. It is a devastating influence of poor institutional basis (position 120) on long-term prospects of faster economy growth, in terms of absence of rule of law, poor protection of private property and widespread corruption. Low competitiveness level is a consequence to negative indicators in the fields of goods market efficiency (127), labour market efficiency (118), development of financial markets (120) and business sophistication (135). Significant impact on the low level of economy competitiveness is placed by other factors as well: macroeconomic stability (125th position), infrastructure (75) and human capital (high education and training - 71) (World Economic Forum, 2015, p. 314-315). Consequently, the level of investments in fixed funds has amounted to the average 19,6% of GDP in the period 2008-2014, foreign direct investments 5,4% of GDP (Ministry of Finance of The Republic of Serbia, Sep. 2015, p. 18-19; Author's calculation).

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Reasons for arrearage and stagnation of Serbian economy are mostly of systemic nature, but there are unsystemic reasons also. Systemic factors may be observed through indicators of the European Bank for Reconstruction and Development, as given in Table 4.

Table 4. Transition indicators

Indicators	2008	2009	2010	2011	2012	2013	2014
Progress of transition, average value	3-	3-	3-	3-	3-	3-	3-
Large-scale privatisation	3-	3-	3-	3-	3-	3-	3-
Small-scale privatisation	4-	4-	4-	4-	4-	4-	4-
Enterprise restructuring	2+	2+	2+	2+	2+	2+	2+
Price liberalisation	4	4	4	4	4	4	4
Trade and foreign exchange system	4-	4	4	4	4	4	4
Competition policy	2	2	2+	2+	2+	2+	2+
Banking reform	3	3	3	-	-	-	-
Non-bank financial institutions	2	2	2+	-	-	-	-
Infrastructure	2+	2+	2+	-	-	-	-

Source: European Bank for Reconstruction and Development, 2009, p. 218; European Bank for Reconstruction and Development, 2010, p. 4 and 8; European Bank for Reconstruction and Development, 2011, p. 9 and 13; European Bank for Reconstruction and Development, 2012, p. 9 and 12; European Bank for Reconstruction and Development, 2013, p. 109 and 112; European Bank for Reconstruction and Development, 2014, p. 123.

Based on data in Table no. 4, Serbia has notably achieved a satisfactory grade in terms of privatization of small enterprises and market liberalization process, there are oversights in the segments of privatization of major companies and bank reform, whereas poorest results were achieved in the area of company restructuring, developing of capital market, reform of the infrastructure and competition policy. Therefore, we conclude that Serbian economic system, although inclined towards the market system, is still inwrought by numerous limitations of socialist heritage. The core of the economic-systemic problems is reflected in the systemic incompleteness and lack of unity. Transition in Serbia, going on for over twenty years, has not resulted in totality of the economic system, that is, functional market economy. Instead, the integral market is deficient, as, realistically observed, only the goods and services market is functioning, while labour and capital markets, though existent, do not authentically function. Problems exist, also, in domain of reaching the adequate level of presence of the private sector in economy, which, according to transition standards, should amount to at least 70% of GDP. In case of Serbia, participation of the private sector in creation of GDP is only 60%, which disrupts functioning of market economy, thus reducing its efficiency (The World Bank, 2014, p. 4).

Causes for the economic crisis and arrearage of Serbian economy can further be divided into economic, political, legal and social. Economic problems of Serbia find their expression in form of recessive tendencies, undermined economic structure, high unemployment and fast-growing foreign borrowings. And again, the economic causes lie in their background, in form of low GDP level, stagnation of economic growth, disbalance in economy structure, nature of unemployment and level of indebtedness.

Low GDP level of Serbia indicates to low accumulating capacity of economy, that is, low level of savings and investments, and consequently poor prospects of dynamic economic growth based on our own financial resources.

In Serbia there is a problem in relation of growth and development of economy, and concerns non-quality growth and absence of development in individual sectors of economy. As we know, there is a correlation between long-term economic growth dynamics and changes in structure of economy. Uneven growth by sectors may lead to disrupting of balance in economy, with consequences in form of slowing down dynamics of economic growth and occurrence of economic crisis. It is exactly the situation that we have in Serbian economy. Sector of industry demonstrates further decline of activity and deterioration from the development aspect in relation to services sector, illustrating expansion of disbalance in economy structure and continued stagnation.

High unemployment in Serbia at the number of 767 thousand people or, according to unemployment rate, 18,9%, and its structural character point to the impossibility of easy and fast overcoming of this problem. The impossibility of mid-term reduction of unemployment points to failure to use abundant human resources and, based on that, to certain part of lost national product. High long-term unemployment is particularly problematic, amounting to over 65% of the total unemployment, as it causes loss of acquired knowledge and work experience, that is, reduction of human capital, undermining in the last instance the prospects of fast economic growth. High unemployment of youth of about 50% points to general impossibility of acquiring work experience, and thus developing the labour resource (Republic Statistics Bureau, 2015, p. 51-52; Author's calculation). The pressure of high unemployment also hampers reforms in the public sector, due to state and political factor fear of additional increase of unemployment.

High foreign debt of Serbia at the amount of 78,0% of GDP in 2014 indicates the need to allocate significant funds to settling of debts, which already reflects in slower dynamics of economic growth. More precisely, empirical results of the IMF research point to high foreign debt over 60% of GDP in developing countries brings in average to reduction of economic growth rate by two percentual points. Serbia is also facing the problem of high public debt, reaching 71,0% of GDP, which actually narrows down the maneuvering space for economic policy both in developing and in stabilizing terms. The problem of high foreign and public debt of Serbia has shown fully as low credit rating of the country (Standard & Poor, BB-/negative; Fitch, BB-/negative) in 2014, which further reflectes in unfavourable price of capital, inability to borrow funds abroad and certainty of occurring debtor crisis (National Bank of Serbia, Aug. 2016).

Political problems can best be presented by the achieved level of democracy, quality of political institutions and level of political freedom, that is, the impact mode of political factor on economic state and movements. In accordance with research by the World Economic Forum for 2015, Serbia was placed according to impartiality of state bodies at 112th position of the ranking list of global competitiveness, 129th position by easy spending by state institutions, and 108th position according to transparency of government policies (World Economic Forum, 2015, p. 315). Dominating impact by executive authority over legislative and judicial power is particularly devastating. Lack of established political-democratic institutions and mode of deciding results in last instance in deterioration of economic and social situation of the country. Ligning up of bad political decisions in economic sphere in the form of absence of timely market reforms, establishing of

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institutions of the system and procyclical economic policy resulted in poor economic state of Serbia and low development potentials of economy. Serbia is also characterized by high political instability and unpredictability. Shortcomings of the political system and political instability further result in high risk of the country, thus rendering capital more expensive and reflecting on lower level of investments in economy.

Rule of law is only just being established in Serbia. Crucial problems of legal factor lie in inefficiency of courts, insufficient independence of courts, absence of the system of justices liability, widespread corruption, bad laws and poor law implementation. More precisely, according to ranking list of World Economic Forum, Serbia is ranked 123 in terms of court independence, 127 for efficiency of protection of legal order, 125 for efficiency of legal institutions in resolving conflicts (World Economic Forum, 2015, p. 315). On the ranking list by Transparency International, according to index of corruption perception, Serbia occupies position 71 in 2015 (Transparency International, 2015, p. 6). All these dictate uncertainty in property and contractual rights, which reflects negatively on volume, efficiency and structure of investments, as well as consequent low dynamics of economic growth.

Social capital is recording low value in Serbia. According to Gesis research from The European Values Study for Serbia in 2010 only 11,8% of the examinees confirmed they trusted other people (Golubović, et al., 2014, p. 79). Research by World Economic Forum places Serbia, by the indicator of public trust to politicians in position 115 in 2015, by the cooperation between employer and employee 136, and by the indicator of organized crime position 100 of the Forum list (World Economic Forum, 2015, p. 315). Creation of the system of values with distrust of another person as its central element disastrous, given that development and strengthening of trust between the market and general social participants constitutes a key factor of business success in progressive capitalist countries. In broader terms, absence of social cohesion in Serbia undermines political stability and presents an obstacle to reform processes, particularly to institutional reforms. In specific terms, low level of social capital in Serbia results in deterioration of investing and business environment of the country, with all the negative effects on economy following thereto.

4. Development prospects of key economic sectors

Economy of Serbia is characterized by structural imbalance in terms of domination of service sectors versus atrophied production sectors, constituting backgrounds for the current economic crisis. Service sectors (trade, traffic and warehousing, sectors of information and communication, financial mediation and real estate business) increased their share in the structure of Serbian economy from 26.8% in 2001 to 35.1% in 2008, whereas production sectors (agriculture and manufacturing industry) recorded decrease of share from 45.3% in 2001 to 27.0% in 2008 (Republic Statistics Bureau, 2014, p. 142-143; Author's calculation). In the period of crisis 2008-2012, due to low economic dynamics, only minor changes in economic structure were evident.

Table 5. Dynamics of changes in crucial economic sectors

Indicators	2007	2008	2009	2010	2011	2012	2013
GVA, real growth (%)	5,3	4,8	-3,4	0,8	1,5	-0,8	3,3
- Agriculture	-7,9	8,7	-4,8	6,4	0,9	-17,3	20,9
- Manufacturing	9,5	3,3	-4,5	-0,3	1,9	7,7	5,7
- Construction	0,2	13,1	-12,9	-2,4	5,9	-9,8	-3,9
- Trade	14,3	3,8	-8,8	-3,0	0,4	0,8	1,5
- Traffic and storage	11,5	-2,0	-4,6	7,1	-0,3	-7,7	7,6
- Information and comunic.	21,3	9,6	-3,0	3,2	2,6	2,8	-0,1
- Financial activities	20,8	18,9	2,6	1,9	-1,6	-8,0	-9,5
- Real estate activities	0,6	4,0	0,6	0,2	0,5	1,0	1,0
GVA, structure (%)	100,0	100,0	100,0	100,0	100,0	100,0	100,00
- Agriculture	10,0	10,3	9,5	10,2	10,7	8,9	9,4
- Manufacturing	16,7	16,6	16,7	16,3	16,7	18,0	19,1
- Construction	5,5	6,3	5,8	5,6	5,9	5,4	5,1
- Trade	12,3	12,2	11,4	11,3	11,3	11,6	11,5
- Traffic and storage	5,6	5,2	5,4	5,3	5,1	4,5	4,9
- Information and comunic.	4,6	4,7	4,9	5,0	5,1	5,4	5,1
- Financial activities	3,2	3,7	3,9	3,9	3,8	3,6	3,1
- Real estate activities	9,7	9,6	10,7	11,1	10,6	10,9	10,3
Investment, structure (%)	100,0	100,0	100,0	100,0	100,0	100,0	100,0
- Agriculture	2,8	3,8	2,6	2,4	2,8	3,3	4,0
- Manufacturing	21,8	22,1	20,9	20,7	25,5	34,6	30,2
- Construction	8,7	8,7	15,7	9,5	8,3	6,7	4,5
- Trade	18,4	13,0	12,8	13,0	11,0	9,8	9,5
- Traffic and storage	12,8	11,8	5,3	5,1	6,1	6,6	7,1
- Information and comunic.	-	-	17,0	8,0	5,9	5,1	13,4
- Financial activities	3,9	3,5	3,0	2,9	3,0	3,7	2,8
- Real estate activities	9,4	13,6	3,6	1,8	0,7	0,4	1,2
Employment, growth (%)	-2,6	-0,3	-2,2	-3,0	-0,9	0,0	-0,2
- Agriculture	-6,9	-10,1	-7,2	-7,0	-6,9	-5,1	-0,8
- Manufacturing	-6,9	-5,3	-8,4	-8,5	-2,0	-2,0	-0,7
- Construction	-3,3	-0,2	-4,4	-9,2	-2,8	-1,6	-5,6
- Trade	-0,5	1,5	-3,0	-2,0	-1,8	0,3	-2,1
- Traffic and storage	-0,9	-0,9	-1,8	-2,4	-3,4	-2,3	0,4
- Information and comunic.	-	-	-1,9	-0,3	3,3	5,4	0,8
- Financial activities	2,3	6,8	11,9	1,2	-0,7	0,5	-5,2
- Real estate activities	-0,7	12,1	6,8	-	-	-	-
Labour productivity, growth (%)	7,2	4,8	-1,4	4,5	2,4	-1,3	-
- Agriculture	0,0	22,5	8,8	7,2	8,4	-12,5	-
- Manufacturing	12,6	6,8	-8,0	10,3	2,6	3,2	-
- Construction	14,2	4,6	-16,2	-2,3	13,6	-5,9	-
- Trade	16,0	4,9	-4,4	3,8	-4,8	-0,8	-
- Traffic and storage	5,5	-1,5	-9,1	10,9	6,3	2,5	-
- Information and comunic.	17,9	8,2	12,1	5,8	7,0	4,2	-
- Financial activities	14,7	8,8	-1,9	5,9	1,7	-	-
- Real estate activities	-8,9	-26,3	-4,6	-19,8	-0,2	3,7	-

Source: Ministry of Regional Development and Local Administration of The Republic of Serbia, 2012, p. 150; Ministry of Regional Development and Local Administration of The Republic of Serbia, 2013, p. 145; Republic Statistics Bureau, 2007, p. 99-100, and 174-175; Republic Statistics Bureau, 2010, p. 90-91, 122-123, and 248; Republic Statistics Bureau, 2012, p. 53, 149 and 196; Republic Statistics Bureau, 2014, p. 62, 143, 146, and 166-168; Republic Statistics Bureau, 2015, p. 62-63, 142, 144, and 165-167. (Authors' calculations).

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Expansion of the service sector and faltering by production sectors in the period 2001-2008 is consequence to absence of strategy of economic development and bad economic politics. In given period the economic, political and legal environments of Serbia were such as to cause higher attractiveness of investing in the service sector than in the industrial sector, which resulted in varied dynamics of growth in these sectors. For example, share of investments in production sectors does not exceed 27% of total investments in economy. Direct foreign investments are also dominantly directed towards the service sector, and predominantly to the sectors of telecommunications, trade and financial services (Ministry of Finance of The Republic of Serbia, 2011, p. 140-141). Service sector, as consequence to investments and modernizations, recorded growth in labour productivity of 5.7% in the period 2002-2008 (Ministry of Finance of The Republic of Serbia, 2011, p. 136; Author" calculation). In industry, the recorded growth of labour productivity of 8.8% comes as consequence to reduction of the number of employees through the process of company privatization and restructuring, rather than to technical-technological modernization and growth in volume of investments, as they are actually absent (Ministry of Finance of The Republic of Serbia, 2011, p. 136; Mičić & Zeremski, 2011, p. 54-59). In the period of crisis 2008-2012, labour productivity in both sectors (services and industry) grew as consequence to reduction of the number of employees, given the stagnation of economic activity. The state of agriculture was bad in the period 2002-2012, both in terms of absence of investments and achieved technical-technological levels. To summarize, industry and agriculture of Serbia are characterized by low competitiveness. This indicates low development prospects of the sectors, and thus low prospects for growth of entire economy.

Essence of the problem of development and growth of Serbian economy lies in the disfunctional economy, that is, small and undeveloped sector of industry and the consequently insufficient export, national income and level of spending, retroactively affect the service sector, decelerating and stopping its growth and development, and thus the growth and development of entire economy. Roots to this problem are found in the disorganized, unestablished and deficient market, on one side, and oversized public sector and domination of politics over economy, on the other side. The industry is suffering due to bad economic politics, absence of rule of law and general business uncertainty, thus moving to lower level, where technologically more demanding sectors are reduced, and those with lower technologically intensity are spreading, thus harming the entire economy.

Crucial question of the analysis is: why are certain types of jobs in Serbia profitable, and others are not? It takes much less effort to perform a job in a service activity relative to profit, according to market relations and business terms in Serbian economy, than to perform a job in industry, and even harder in agriculture. Services appear as a kind of safe spot for business. What characterizes services in Serbia? For example, trade is characterized by dominance of major players (monopolies and oligopolies), but also by the market niches. Given market niches constitute a good space for development of a small business, which does not require major investments, offers fast recovery of funds, independence from final consumers. Although a small business in trading sector suffers pressure by supplier and severe competition by other market subjects competing within the target space, the tradesman himself, as opposed to consumer, is in a considerably better position in conditions of poor consumer protection, and therefore dictates the price and other terms of exchange. Relation tradesman-consumer is practically in favour of the tradesman, which is evident from high margins and absence of effort to increase

productivity. However, if we were to perceive the state of industry or agriculture, we would find ourselves on a much more unstable grounds. Industry is suffering severe pressure by foreign competition due to full liberalization of the market. Moreover, considerable capital that needs to be collected to form a certain level of productivity and competitiveness in industry is unavailable or available under unfavourable terms. Human capital shaped in form of knowledge and expertise is even more unavailable, being the long ago abandoned factor in terms of investing. Education appropriations amount to annual 4,5% of GDP, those for science 0,3% (Ministry of Economy of The Republic of Serbia, 2015, p. 4). More precisely, according to global competitiveness index (column high education) of the World Economic Forum, Serbia occupied position 110 in terms of quality of the educational system in 2015 (World Economic Forum, 2015, p. 315). Narrow passage exists in domain of infrastructure quality, in terms of road quality it is located at position 114, position 122 in terms of quality of port infrastructure, position 99 in terms of air transport quality, and position 90 in terms of quality of railway infrastructure. Negative impact of low level of absorption on new technologies into economy is particularly striking (position 127) and low capacity for innovation (position 132) on growth and development of industry and entire economy (World Economic Forum, 2015, p. 315). Unfavourable position of Serbian industry is caused also by distinct macroeconomic instability, that is, high inflation and appreciation of dinar, favouring the service sector, but harmful to local industry, by bringing down competitiveness. One can conclude that it is much harder to survive in industrial sector than in the service sector. The situation is far worse in agriculture, due to nature of the activity, its seasonal character, climatic conditionality, subordinate position related to other economic activities, small size of average dimension of agricultural economies. Of course, crucial problem of growth and development of Serbian agriculture is depopulation of rural areas and, consequently, shortage of manpower, which disables economic activity in work.

5. Priorities for recovery of Serbian economy

Dynamic economic growth is of essential importance for Serbia, representing the path to exit years-long economic crisis and compensate for what was missed in development route. Here one needs to mind the quality of economic growth, that is, the growth is particularly based on increase of production (offer), export, as well as on our own potentials in material, human and financial sense. Economic growth requires, primarily, increase in competitiveness and productivity of economy. Here, further, it is necessary to mind the changes in economic structure, more precisely, development of economy as a whole. Having in mind the analysis of state of Serbian economy presented in previous parts of the study, it is possible to identify eight points leading to economic prosperity:

- reform of political system and accompanying institutions;
- establishing rule of law, i.e. establishing of independent and strong judicature;
- establishing of macroeconomic stability;
- increase of efficiency of goods market, labour market and capital market;
- development and advancement of human capital;
- technical-technological modernization of economy and innovation development;
- construction and modernization of the infrastructure; and
- strengthening of social cohesion and social capital.

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Reform of political system and accompanying institutions provides basis for overcoming of previous shortcomings of the system, particularly when reaching the right decisions and making the right choices is concerned. In this area it is necessary to continue strengthening distinction between three authorities of power- legislative, executive and judicial power; eliminating and attenuating elements of party state; and generally expanding political freedoms. Advancement of the managing mechanism is of special importance in relations the state is establishing with economy and in domain of formation and implementation of economic policies. What must not happen, as it did until now, is occurrence of political cycles, resulting in higher macroeconomic instability and stagnation of economic growth, while decision lies in reform of the political system.

Establishing rule of law implies strengthening of court independence, increase of court efficiency, building the system of judge accountability and advancement of accessibility of justice. Significance of advancement and establishing of full functionality of the legal system and judicature finds its expression in better protection of property and more efficient execution of agreements. It's common knowledge that criminal and corruption are factors undermining the quality of business environment, thus strengthening of rule of law can be expected to bring improvements in these areas.

Macroeconomic stability is not in itself a guarantee of economic growth, but absence of stability certainly harms economy. Namely, high inflation, unstable currency or high fiscal deficit affect behavior and decisions of economic subjects, and thus the economic activity as well, as the first thing to be reduced in unpredictable and risky business environment are investments. In our case, crucial problem lies in excessive public spending, followed by high fiscal deficit and critically-high public debt, pointing to defects of fiscal policy and absence of structural reforms. This, on the other hand, imposes extremely restrictive monetary policy, in order to maintain low inflation. Solution to the problem lies in the area of fiscal policy, reduction of fiscal deficit, public spending and public debt. What is necessary, therefore, is a restrictive fiscal policy, in order to give space to more neutral monetary policy and, therefore, grant better opportunity to local economy.

Increase in functionality and efficiency of integral market is in direct conjunction with finalization of transition process, primarily the process of company privatization, by reforming the public sector and institutional reform. It is impossible to expect higher rates of economic growth without rounding up of the economic system, as a semi-system is a great inhibition to growth and development of economy. It is necessary to undertake priority interventions in the area of institutional framing of the goods market, in terms of strengthening of competition protection, on one side, and consumer protection, on the other side, in order to improve efficiency of the market. Labour market demands further advancement in terms of flexibility and mobility of work. Capital market does not perform its basic function, i.e. does not provide grounds for acquisition of additional investing funds to economy. The problem lies in absence of rule of law, business uncertainty and intransparency. Eliminating these limitations is a time-consuming process, so we can say that capital market will not be functional for a while. We need to add here that success in the area of functioning and growth of efficiency of integral market largely depends on the size of the public sector, which now generates ca. 40% of GDP, so that only with its reduction to below 30% of GDP we can expect full effect of previously proposed measures. More precisely, it is necessary to accelerate and finalize the process of privatizing the remaining social and public companies.

Advancement of human capital is a long-lasting process, demanding higher state investment in education and stimulating economy to invest more in knowledge and skills of people, as there is no healthy and sustainable prosperity without investing in people. There is already a problem of lack in qualified and expert labour force in Serbia, which will come into full effect with recovery of economy. Educational system of Serbia is not coordinated to the labour market and employer needs. Therefore it is necessary to invest additional systemic efforts to stimulate businessmen to invest more in human capital, particularly to train young people. Also, to establish better cooperation between the state and private sector, in terms of advancement of human capital. That is, to transform the education system in direction of satisfying needs and criteria of employer and labour market. Here, further, efforts are to be made towards increase in labour market efficiency, that is, establishing of closer connection between labour productivity and wages, in order to create a healthy motivation leading to development of human capital. In this respect, state influence over the labour market need to be reduced and legal limitations, rendering labour resource expensive and work worthless, need to be eliminated.

In the area of technological modernization of domestic economy it is necessary to invest additional effort to enable greater implementation of new technologies in economy, and thus increase productivity. As Serbia has derelict and undeveloped innovation potentials and low prospects of developing new technologies, in current stage of development we need to focus on increase in diffusion of foreign technologies, that is, enabling the economy and creating of an institutional environment for adopting of new technologies. In this respect, special significance lies with attracting direct foreign investments, as they can be a generator to transfer of technologies into domestic economy. In the area of development of innovation activity, actions need to be taken in direction of providing more investment funds for research and development, advancement of capacity of scientific-research institutions, establishing of closer cooperation between the university and industry, and better protection of intellectual property.

The infrastructure constitutes the bloodstream of an economy and of a country, therefore its advancement announces positive consequences in terms of acceleration of economic growth and balancing of economic development. This does not refer only to the already known classic infrastructure, such as transportation, telecommunication, energy and utility, but also to a much wider extent, such as the infrastructure within the sector of industry (clusters, technology parks, etc.), all the way to infrastructure related to agriculture (cooperatives, associations, etc.). Advancing the classic infrastructure requires opening of markets for these activities to private capital and regulation and establishing of transparent framework of private-public partnership. The issue of advancement of the infrastructure in industry and agriculture in form of clusters or cooperatives refers to systemic and institutional effort of the state directed towards support to the private sector, which alone, in their turn, take initiative in its construction.

Social capital present a significant factor of economic and social development, its special significance is evident in contribution to development of human capital. Therefore, advancement of social climate imposes itself as priority, and demands certain interventions in the area of formal and informal institutions. Disrupted system of values draws its strength from disrupted distributive role of the market due to strong interference of the state, that is, allocation of wealth in discord with invested work, knowledge, responsibility or risk taken. More precisely, huge public sector and lack of the quality system in it in

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terms of rewarding work and experience, but, instead, according to political affiliation and family connections, as well as strong influence of state on the private sector, result in disrupted system of values. Therefore, by cutting connection of irresponsible behavior of an individual - open access to money, that is, weakening of party state influence in economy and parallel strengthening of rule of law, improvement of the system of values can be expected, which will reflect positively on economic growth.

6. Conclusion

Serbia has suffered years-long economic crisis, identified by decline and stagnation of production, high unemployment and critically high foreign debt. Essence of the problem is that numerous development potentials have in the meantime been destroyed or exhausted, without occurrence of any real structural reforms. Understatements of the economic system are cause for lower economy efficiency and consequently weaker dynamics of economic growth. Economic problems, in form of high unemployment, unstable currency and indebtedness, directly cause slower growth of economy. Political factor, by inadequate economic policy and absence of reforms, reinforce the bad situation. Problems arise from social sphere, where social capital, as significant factor of growth and development of economy, has been destroyed. The sum of these negative factors has caused numerous disproportions in structure of economy and moving of economic activity in an unwanted direction, as well as stabilization of social product at a relatively low level.

For Serbian economy to break out of the economic crisis, it is necessary to move to a path of healthy and dynamic growth. Economic growth implies growth of productivity, i.e. increase of economic competitiveness. Here it is necessary, also, to take care of economic development, that is, change in the structure of economy, in order to realize a quality growth. Therefore, it is necessary to provide conditions for growth and development of industry in Serbia. Creation of conditions for dynamic economic growth of Serbia denote the following: (1) reform of political mechanism; (2) rule of law; (3) macroeconomic stability; (4) efficient integrated market; (5) higher investment in human capital; (6) technological remodeling of economy; (7) adequate infrastructure; and (8) greater social cohesion. Satisfying these requirements can be expected to bring more competitive position of Serbian economy and, consequently, all positive fruits in form of higher wages, better state services and higher quality of life, following such position.

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EKONOMSKA STVARNOST SRBIJE I IZGLEDI ZA POBOLJŠANJE

Apstrakt: Autor u radu identifikuje stanje u privredi Srbije, zatim ukazuje na dublje uzroke takvog stanja, da bi u krajnjoj instanci ukazao na prioritete dinamiziranja privrednog rasta i razvoja. Stanje u privredi Srbije se sagledava u kontekstu pet grupa uzroka: sistemski, ekonomski, politički, pravni i društveni. Dinamiziranje privrednog rasta se posmatra putem rasta konkurentnosti i produktivnosti privrede. Saglasno tome, utvrđuju se prioritete izlaska privrede Srbije iz ekonomske krize na putanju stabilnog i dinamičnog rasta, i to sledeći prioritete: reforma političkog sistema, utemeljenje pravne države, makroekonomska stabilizacija, zaokruženje tržišnog privrednog sistema, razvoj ljudskog kapitala, tehničko-tehnološka modernizacija privrede, uspostavljanje kvalitetnije infrastrukture i unapređenje socijalnog kapitala. Doprinos rada ogleda su u identifikovanju specifičnosti navedenih prioriteta u kontekstu rasta i razvoja privrede Srbije.

Ključne reči: privredni rast, konkurentnost privrede, privredno-sistemske promene, ekonomska kriza, privredna struktura.