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THE PRIORITY DIRECTIONS OF NATIONAL ECONOMY DEVELOPMENT

EFFECT OF THE NATIONAL DEBT ON ECONOMIC DEVELOPMENT

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Abstract: *External debt represents a burden for any economy. Longfinancial crisishas made thechange andattitude towards the national debt in international finance. It is believed that the debtautonomously from the state,becausethe key decisions indebited countries do not make their governmentthanclubs of creditors. Many experts believe that the renegotiation or write-off of part of the debt, indebted countries was the fairest solution in relation to creditors, the richest countries. These negotiations, as a rule, they last a very long timeandthecharacter ofthedramatic aharrowing. Mostlieformulaboils down to "no reform, no money." The question iswhether theincrease in debt of wrong economic policy of austerity, the global crisis or not implementingreforms leading to fiscal balance and social justice.*

Key words: *National debt, international finance, indebtedness.*

1. Introduction

Huge economic and financial crisis, which has on two occasions after 2007, struck the world made it clear all the major world economies that everything has its price. Everything, even the real credit boom that marked the few years ahead of the crisis, when governments, corporations and individuals have borrowed more than their real possibilities. The world economy has probably slipped into a recession in most governments, particularly developed countries, has announced a new economic policy which was based on more austerity and reduction of public debt and private.

However, eight years after the onset of the crisis many things regarding the debts have not changed, on the contrary. The Council not only did not go through the reduction of debt leveraged more than an additional 57 trillion. For example, the debt in 2014 was three times higher than the gross domestic product of the world's economy, so that the world is

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more leveraged than before the performance of the general economic crisis. The financial crisis at the global level has led to debt-laden countries in a position to take the key decisions. In doing so, public debt reduction is not a question of saving rather than guarantee the country's sovereignty. The situation in the euro area and in Greece is the best example of this. Namely, in mid-July 2015. Greece has with the level of debt exceeding 170 percent of gross domestic product, or anything of the local economy and create citizens per year (more than 323 billion euros), practically changed part of the sovereignty to regulate the use of debt and austerity measures. No matter what the beginning of 2015 the Greek SYRIZA won the elections by the anti-austerity, Greece, in the end had to accept all the negotiators (creditors) asked him, and thus trampled on campaign promises. Be sure that the trust in the Greek economy and curtailed its sovereignty in decision making and in the implementation of measures of economic policy.

The negotiated with creditors, provides for a series of measures in the tax and pension reforms, not only an additional control Greek finances by the IMF, but the previous checks of all reform legislation. For Greece is now necessary rescheduling of debt and practically this means repackaging loans, which usually involves the extension of repayment deadlines and lower interest rates.

Negotiations on debt restructuring carried out in several stages, and usually end with a portion of debt write-downs. On the other hand, the growing debts, uneven economic development of the US, EU, China, Russia and some other countries in the economic upswing, could be the main instigators of the following "highly prospective" financial collapse of the world.

2. Raising the level of public debt

The high indebtedness of some countries and governments slowing economic recovery and increase the risk of new financial and general economic crisis. Numerous studies indicate not only how much debt countries but also what is the total indebtedness of individual economies taking in the indebtedness of households, financial institutions and non-financial corporations. For example, in the second quarter of 2014 enterprises, financial sector and private companies all over the world were charged with 199 thousand billion dollars (about 145 thousand billion), and it is about 57 trillion dollars more than at the outbreak of the financial crisis in 2007. Moreover, compared to the year 2000 the world is indebted to (almost) two and a half times, and total debt amounts incredible 286 percent of gross domestic product (GDP) around the world.

For the largest share of these additional 57 trillion debts "deserving" are governments that have raised public debt to 25 trillion, while the financial sector has reduced its debts, particularly in the United States and some other countries. However, what is worrying is the fact that out of the 47 economies surveyed, only five of them reduce the public debt. These are Ireland, Egypt, Russia, Saudi Arabia and Argentina.

By contrast, the Recorder in increasing public debt in the period from 2997 to 2014 was Spain (72%), China (83%), Portugal (100%), Greece (103), Singapore (129%) and Ireland (172%). This data points to the unlikely possibility of debt forgiveness by the Eurozone, Greece, because the forgiveness of debts declared and Ireland, Portugal and Spain.

Table 1. Changing the debt in relation to GDP from 2007 to 2014 (in%)

The analysis used the total debt of households, non-financial corporations and government			
1. Irleand	172%	11. Italy	55%
2. Greece	103%	12. Canada	39%
3. Portugal	100%	13. Australia	33%
4. China	83%	14. V. Britania	30%
5. Spain	72%	15. Brazil	27%
6. Sweden	68%	16. Rusia	19%
7. France	66%	17. USA	16%
8. Japan	64%	18. Germany	8%
9. Holland	62%	19. India	0%
10. Belgium	61%	20. Argentina	11%

Source: Consulting house: “McKenzie“, according to: „Politika“, News paper, Beograd, 09.02.2015., p.4.

The current financial crisis may deepen and that if it continues with rapid additional printing of money, as was the case in 2015 in the euro area with the continuing tendency of such a monetary policy. While many creditors are expected funds from China, it should be borne in mind that the Chinese and the total debt (public, commercial and private persons) is at the end of 2014 was 20.8 billion dollars, or about 285 percent of GDP, which is classified as highly indebted countries . On the other hand the international stock exchanges and investors agree that the highest post-crisis borrowing of China in relation to the boom real estate market (sale and purchase of land and new construction). China, meanwhile, has collected 3.9 trillion foreign exchange reserves, but these funds could be used for bailouts of indebted local governments.

3. Write-off of debt in international finance - a historical overview

In international relations the financial debt write-off a large debtor is better and sometimes for the creditor. Forgiveness or debt cancellation is a category of lending relationships known and used during ancient Babylon. "In times of great adversity, debts should be let down the drain," he thought, a long time ago, King Hammurabi. Specifically, the king of Babylon in 1792 BC suggested that the compatriots forgive all their debts to the state and officials. State debts during the Antiquity and the middle Ages gave rise to numerous wars and intrigues that at the time of the industrial revolution became the subject of serious theoretical study. Known British economist Adam Smith was still in 1776 in the famous book "The wealth of the nation," warned that "when the national debt grows to a certain (higher) level, there is little chance that it will be fairly and fully repaid." The Smith's current assessment is still in international financial relations. Assessments public debt of developed countries amounts to 108 percent of GDP. At the same time the IMF believes that developed countries should keep public debt below 85 percent of GDP, while the countries in rapid economic development should restrain him below 70 percent of GDP. Then the modern history of the world is full of examples of state bankruptcy and forgiveness of certain sovereign debts. In the period 1820-2014 107 years of the country is

248 times foreign creditors announced their bankruptcy. In the period between the two world wars of the twentieth century, people are financially very much cost these conflicts (with huge irreplaceable human sacrifice). Europe in the First World War came indebted and in a recession. Going mid-thirties of the twentieth century a large number of countries left the gold standard with the intention that the money additional printing encourages the development of local economies. As part of this process, the creditors (staring into future profits strengthened industry) Most European governments ever wrote off debt obligations. Between 1932 and 1939, creditors are developed countries, on average, 19 percent of the debts written off. France even in this half of what was then a Greece in the amount of 40 percent of GDP. On the other hand it should be noted that Germany during the twentieth century went bankrupt three times. After the first bankruptcy, thirty years ago, the United States in 1953, at the International Conference in London on German debt, given the green light for forgiveness almost the entire debt of about 280 percentBDP-a (between 1947 and 1953). This conference of German debt is completed by a clause that in case of unification of the two postwar German (Eastern and Western) Agreement of 1953 should be revised with regard to additional payments of the minimum sum of compensation.

Table 2. Government debt (selected countries) as percentage of GDP in 2014

1. Japan	245%
2. Hellas	41%
3. Italy	137%
4. Portugal	131%
5. USA	106%
6. G. Brittany	93%
7. Ukraine	68%
8. China	41%

Source: Eurostat, according to "Politika" Belgrade, 04.02.2014; p.2

The total world economy at the beginning of 2015, more indebted than before the outbreak of the financial and general economic crisis. Several studies of global consultancies indicate that the major economies of the world today, significantly more indebted than at the beginning of the financial crisis in late 2007. Studies indicate that debts are ordinary people, large debtors, ie households in a significant number of countries. The population of the most indebted in the Netherlands, Sweden, Australia, South Korea, Malaysia, Thailand and particularly in Canada, which recorded worryingly high coefficients which measure debt-to-income households. Canadians are only slightly less indebted than the Greeks, in relation to their income. After all, in 2014 the total world debt amounted to 50 billion dollars more than in 2007. On the other hand, in this period, households in Ireland, Spain, Britain and the United States recorded a fall in the gearing ratio in relation to income.

4. Greece debt crisis

The financial drama takes Greece since 2008, and she did not see the end, or dismissal, on the contrary. It is evident that Greece is unable to repay its debts or to perform obligations. On the other hand, is not in the interest of the creditors to have fictitious claims cannot collect. Therefore, the return of Greek debt should be postponed for a while until they stabilize the Greek economy. This is possible if now stabilized (decrease) expenses for interest to "kill" the economy. So it is necessary to create an environment for economic growth in order to respond to future obligations. However, to achieve this it is necessary to apply a whole set reforms, restrictive laws which are a condition of international lenders (with strict austerity measures) to start negotiations on the next package of assistance (p.ex.third aid package amounts to 86 billion euros). To the contested legislation to increase VAT to farmers and the regulation of the pension system and the new European regulations for the provision of assistance "troubled" banks and new regulations in the sphere of justice aimed at speeding up lengthy court processes and reduce costs. Otherwise, Greece owes mainly German banks - about 80 billion euros. However, Greece insists it does not want just a one-time write off the debt with new bonds. These are two types of bonds, with what would one such debt securities; related to nominal economic growth replaced the European rescue loans. Other bonds with unlimited shelf life to replace Greek bonds owned by the ECB. In return, Greece would commit itself to a permanent budget surplus and the settling of accounts with the rich tax evaders. On the other hand some consulting companies and experts suggest newspapers in repayments of mortgage loans and other debts that would be better shared risk between the debtor and creditors. Then, consider that future crises be prevented deposition repayment or writing off debts and to the program of "quantitative easing" conducted by the central bank. Then, they are useful cuts in the public sector, particularly indebted countries such as Japan, Ireland and Singapore, and may require the privatization of state property, higher taxes for the rich, liberal attitude towards inflation and "efficient programs of debt restructuring." German financial experts believe that the Greek debt crisis has demonstrated the urgent need for additional reforms to the Eurozone has become more stable. They therefore propose not only measures to strengthen the European banking union, but also to establish a mechanism that would address the problem of insolvent states.

5. The crisis in the eurozone

The crisis in the euro zone long and deepened to the point that some countries, primarily Greece, think about her leaving. The Greeks, in solving the debt crisis, have a backup plan, which is rather out of the euro zone, was based on the establishment of "euro denomination currencies", more precisely, printing their own temporary currency that was pegged to the euro. Greek debt in 2015 reached over 320 billion euros. The International Monetary Fund, European Central Bank, the US and Germany point out that the current Greek debt uncollectible. In case that the debate really began to write-off, influential World Bank already know how much of the debt of Europe should not write off Greece if it wants to keep the Euro zone in the community. For example, the American Citibank, in its analysis published in mid-July 2015, claims that it is necessary write-off of 110-130 billion dollars. The French bank "Lizard" write-off of Greek debt estimated at 113 billion. Analyst's consultation several houses, claiming that, as far as the state debts, the improvement can not be expected in the short term. However, they point out that in the euro area will exist three exceptions that will not increase its indebtedness as follows: Germany, Ireland and Greece. On the other hand, although Spain, Japan, Portugal, France, Italy and the UK experts recommend reducing the debts of the public sector cuts and higher taxes, they believe that these measures could jeopardize the economic growth of these countries. For example, the American consultants believe that in addition to "quantitative easing" conducted by central banks in repayment of debts, suggested that States printing money and the single programs purchased bonds of indebted countries. This also applies to the program of pumping 60 billion euros per year in the euro zone, which began to be implemented in March 2015. On the other hand a group of German financial experts believe that the euro zone should introduce a mechanism that would allow each country to go bankrupt indebted to you for that, and creditors suffer losses. Thus, it appears as a model for the financial rescue of insolvent euro zone, but allows the possibility of leaving the euro zone, which should "be on the table" as a last option. "In order to ensure the unity of the monetary union, we must accept the fact that voters in countries creditors are not ready to permanently finance the country's debtors." However, the creation of the euro zone are collectively responsible for the potential costs, and that her (previous) does not surrender any part of national sovereignty over fiscal and economic policy, sooner or later will make monetary union unstable. On the other hand, a group of German experts advocated the introduction of the Minister of Finance of the euro zone, which should be managed by a special budget euro zone on the basis of a law to impose special taxes on the level of the whole euro zone.

6. Lessons for Serbia

At the height of the Greek crisis raises the question of what lessons can pull Serbia whose public debt, in mid-2015, driven 70 percent of GDP with a tendency to reach up to 80 per cent in mid-2018.

Table 3. debt stock Serbia (end of first quarter 2015)

➢ Public debt at the end of 2014 amounted to 22.76 billion euros (70.8% of GDP)
➢ Public debtat the end of March 2015 stood at 24.19 bilion.evra (73.3% of GDP)
➢ Debts of dinarsincreased from 589 to 622 billion diners
➢ The debt in euro increasedfrom 9.5 to 9.6 billion euros
➢ The debt in dollars was unchanged and amounted to 8.7 billion dollars
➢ The debt in other currencies increased from 150 to 160 bilion dinars
➢ In March and April (2015)nbthe cost of borrowing for a period of 7 years in diners decreased by 1.59 percentage points, to 3 years of 1.47 percentage points<

Source: Ministry of Finance RS, „Politika“, Beograd, 28.04.2015.

From the Greek case Serbia should draw an important lesson - not to borrow for consumption but for investment. Especially since Serbia in 2015 required 6.6 billion euros in new loans to finance due liabilities and minuses in the state budget. In this regard, additional borrowing would be very problematical. Otherwise, according to the criteria of the European countries it is considered to be over-indebted country whose debt crossed the 60 percent of GDP. In the structure, for example, it is interesting that Serbia and Germany have the same proportion of debt to GDP, but we should bear in mind the difference in repayment of debt. The basic difference in their lead was just the structure of the economy. The German economy is export-oriented and import Serbian. So that Germans can sell

goods overseas to ensure regular servicing obligations. With the same level of debt expenses for interest in the German budget (about 2 percent of GDP) is almost twice lower than the expenditure for interest in Serbian budget (about 3.5 percent). Also the Germans can leave without his can on new debt, or to take advantage of the situation on the international financial market, and expensive loans with cheap substitutes, since their currency, the euro, but from that aspect is no currency risk. Also, Serbia, falling price of borrowing and how they can now borrow much cheaper (than until 2010, when he borrowed at an interest rate of 7.25 per cent) and at an interest rate of two percent per year, reflecting investor confidence. In support of this assessment is best exemplified by cases of Spain, Italy and Portugal, countries that until mid-2014 were on the verge of bankruptcy. These countries now borrow at an interest rate of almost zero percent in the short term. In this context, if it is now in the international financial market situation is such that the capital has never been cheaper; there is question whether Serbia can replace expensive loans with cheaper? Of course it's not that simple. To make this happen should be updated first deadlines payment out loans with the issuance of government debt securities, and seize the moment when interest rates are favorable and inexpensive to replace expensive loans. As with the euro zone countries, economists worried that more people did not reduce the debt, and that they needed much more flexible agreements on housing loans, clearer rules on personal bankruptcy and precise standards for lending money.
In the first half of 2014. Serbia has reduced the deficit, but it remains a country with a big minus in the budget.

Table 4. Budget deficit outskirts of the first half of 2014
Country budget plan (share of GDP) forecast for the whole 2015

1.Montenegro	5.3	5.3
2.Croatia	4.8	5.1
3.Albania	4.8	4.9
4.Slovenia	4.0	4.0
5.Macedonia	3.8	4.0
6.Serbia	5.9	3.5(4.5)
7.Bulgaria	3	3
8.Poland	2.9	2.8
9.Hungary	2.7	2.7
10.Slovakia	2.6	2.6
11. BiH	2.4	2.4

Source: IMF, According to "Politika", Belgrade, 01.08.2014., P.1.

In the first half of 2015, the state budget deficit in Serbia was 60 billion diners less than planned.

7. Debt Forgiveness

The history debt forgiveness has a long tradition; a primer can serve as a primer to Britain in the 18th century financed their military expenditures bonds maturity. This means that the principal cannot be due for payment, but only pays interest and principal will not be returned. The Greek crisis has introduced new terms in international finance. For example, Angela Merkel uses the term "debt haircut" (haircutting) as a synonym for debt relief. Regardless of the tough stance of Germany, in this regard, history shows that the "window dressing" loans, in recent decades, and how this was applied in practice. In the period from 1950 to 2015, there were no fewer than 186 "cutting debt" in 25 countries. Apart from forgiveness of debt to Greece in 2012. This mechanism was applied even to Russia in 1997, and then in 2000. On three occasions happened to Argentina in 1987, 1993 and 2005. It should be borne in mind that Argentina before their debts "repackaged" (1952, 1962 and 1965). Then came one of the major forgiveness of debts according to the example of Serbia after 2000. Paris Club creditors chantry approved in mid-November 2001, approved the write-off of 66 percent or 4.56 billion dollars as the country is owed a group of the richest countries. At the beginning of 2001 the total debt to foreign creditors amounted to $ 12.2 billion, a 90 percent got the billing. Serbia has been given 22 years to repay the remaining $ 1.8 billion debt to the group of countries with a grace period of six years. London Club of creditors, in which the commercial banks, 1 July 2004 wrote off 62 percent of Serbia's debt, or about 1.6 billion euros of the total obligations of the state with $ 2.7 billion has been reduced to $ 1.08 billion. The interest rate to restore the remaining 38 percent of the debt in the first five years was 3.75 percent, and from six to twenty years is 6.75 percent.

8. Conclusion

Huge and long-term economic and financial crisis, which has on two occasions after 2007, struck the world made it clear all the major world economies that everything has its price. Everything, even the real credit boom that marked the few years ahead of the crisis, when governments, corporations and individuals have borrowed more than their real possibilities, he fanned the flames of the global financial crisis. The world economy has probably slipped into a recession in most governments; particularly developed countries announced a new economic policy that is based on greater savings at all levels, and reducing public debt and private. However, eight years after the onset of the crisis many things regarding the debts have not changed, on the contrary. The Council not only did not go through the reduction of debt leveraged more than an additional 57 trillion. For example, the debt in 2014 was three times higher than the gross domestic product of the world's economy, so that the world is more leveraged than before the performance of the general economic crisis.

In conditions of growing globalization, "the big question is" how a small country like Serbia or Greece, for example, can lead to its policy in any sphere. It is the Greek drama has shown more clearly the essential weakness of small versus large, or that the states less sovereign if their external debt higher, a key government decisions are not taken care Club of Creditors. This means that in the heavily indebted countries economic policies created creditors rather than domestic economic power.

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UTICAJ NACIONALNOG DUGA NA PRIVREDNI RAZVOJ

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Ključne reči:Nacionalni dug, međunarodne finansije, prezaduženost.