

ECONOMICS OF NEW MILLENIUM

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***Abstract:** New millennium is appeared with big world financial crisis with recession that gripped America in several waves and Europe as well. Economic picture is created with a technology and globalization. Globalization as a process under the influence of technology changes the world and the conscience of the people. Deregulation and privatization in world economy since the fall of the Berlin`s Wall have a very big significance especially the liberalization. Information system is in the center of the planning and organization process. Stock market in the world and it has the best informative system grateful to the new technology and electronical manner of the work. European debt crisis has marked new millenium too. European Central Bank helped this countries with its own problem to overcome it. The Middle East also suffers fall in prices of capital and money in the market. Appropriate tools for the successful management of the current crisis is strongly needed. New Millenium is marked also for the Europe with the integration especially this 2012, year is importante for Serbia.*

***Keywords:** Technology era; market; crisis management; euroepan integration;*

1. INTRODUCTION

Each country has to do its best to overcome the crisis to the present days. For example in America consumption is increasing by an government stimulus packages of the public policy. The most powerful economy in the world is experiencing the second the biggest crisis from the Great depression of 1930s, followed by a deep recession. Green gold is depreciating what is the threat for all economic actors, having in a mind that 90% of world`s reserves is held in dollars. China holds 1.3 trillion of U.S. debt securities, Japan with 900 billion dollars of securities. It should always mention that "... the capital inflow from abroad is allowing a high rate of domestic consumption."¹ Regarding to Serbia, economical policy of the development can be a two-edged sword because on one hand increasing consumption is needed to stimulate demand but on other there is need for saving and investment. Also credit lines are strongly needed too, for that system banking network should work perfectly

¹ Ričard, W. Kopcke, Geoffrey, M.B. Tootell and Robert, K. Triest, The macroeconomic of fiscal policy, Cambridge, London, 2006, crp. 17-20.

and for that purpose it needs high level of the information. Significant information is necessary for successful making of the job ².

The world crisis influenced economic activity with the decline in all parameters, also there is a change in economic paradigms as well. It is dilemma between the market on one hand and state in the other hand. Today we have a lot of the changes in the market place theory also in the relations with the state. The trigger for the changes today is mainly in the technology opportunities which are very important for all segments of the working system in the economy but also in the law and security issues. In bigger organization there is need for bigger number of the leaders which are hierarchically correlated and coordinated ³.

2. INNOVATIONS IN THE ECONOMICAL MEASURES

Professional and sophisticated managers in modern terms of the business are using methods and concepts which are more aimed to the people and less to the material factors of the organizations.⁴ The financial crisis was triggered by a liquidity shortfall in the United States banking system in 2008. Questions regarding bank solvency, declines in credit availability and damaged investor confidence had an impact on global stock markets. Economies worldwide slowed during this period, as credit tightened and international trade declined. Governments and central banks responded with unprecedented fiscal stimulus, monetary policy expansion and institutional bailouts. State intervention inevitably comes into play to regulate the burning questions of the real estate market through the labor market and capital market. There is a widespread recession as a result of the globalization. Actually, Changes in the environment clearly indicate that business is entering a new era of competition which is increasingly called hyper competition ⁵. Heavy industry, stock market, banking system are completely disintegrated. The investments are falling, consumer spending grows, prices are jumping and inflation is rising.

There are negotiations with the IMF about the new arrangements. In the market there is need for "... the reflection of interference involving two functions, cognitive and participative".⁶ Shares on Wall Street fall continuously in response to the deepening recession, particularly affected by the action of financial and energy companies as well as banking system. The government is trying in various ways through spending cuts, debt ceilings, and the placement of bonds, reducing interest rates and pumping dollars primarily to mitigate the negative impact of financial crisis. What happens on the capital market? The dominant conceptual categories which determine market developments 2007-2008 are securitization (technique which was insufficiently transparent and insufficiently integrated).

Securitization is the financial practice of pooling various types of contractual debt such as residential mortgages, commercial mortgages, auto loans or credit card debt obligations. Debt as bonds, pass-through securities, mortgage obligations were selling to various

² Đurišić, B., Miladinović, M., Informative system for human resources and project management, International journal of economics and law, Vol. 1, No. 3, Novi Sad, 2011.

³ Vuksanović, S., Communications and leadership on the organization, International journal of the economics and law, Vol. 1, No. 3, Novi Sad, 2011.

⁴ Radosavljević, M., Radosavljević, D., Somina, I., Innovation and motivation as the key factors of the success, International journal of the economics and law, Vol. 1, No. 3, Novi Sad, 2011.

⁵ Martinović, M., Globalization and environment impact on business enterprises, International journal of the economics and law, Vol. 1, No. 3, Novi Sad, 2011.

⁶ George, Sros, The new paradigm for financial markets, the credit crisis 2008 and what it means, Perseus books group, USA, Philadelphia, 2008. str. 18.

investors. Interest rate on debt, underlying the security, is paid back to the various investors regularly. Securities backed by mortgage receivables are called mortgage-backed securities (MBS), while those backed by other types of receivables are asset-backed securities (ABS). Critics have suggested that the complexity inherent in securitization can limit investor's ability to monitor risk.

Competitive mortgage securitization is believed to have played an important role in the U.S. subprime mortgage crisis. In addition, balance sheet treatment for securitizations coupled with guarantees from the issuer can hide the extent of leverage of the securitizing firm, thereby facilitating risky capital structures and leading to an under-pricing of credit risk. Off balance sheet securitizations are believed to have played a large role in the high leverage level of U.S. financial institutions before the financial crisis, and the need for bailouts. The granularity of pools of securitized assets is a mitigate to the credit risk of individual borrowers.

General corporate debt, the credit quality of securitized debt is non-stationary due to changes in volatility that are time and structure-dependent. WBS (Whole Business Securitization) arrangements first appeared in the United Kingdom in the 1990s, and became common in various Commonwealth legal systems where senior creditors of an insolvent business effectively gain the right to control the company. On the basis of a certain quantum of quality of loans banks are formed pools of funds on basis of which the emission of high-quality bonds.

The advantage of this is that liquid bonds in the capital market, subject to evaluation and rating agencies have improved and diversified risk structure. By the securitization of loans balance sheets of banks are becoming more liquid and banks have more opportunities to adjust their portfolios. When the bank sells loans placed through a bond issuance, these loans go beyond the bank's balance sheet structure. In this way the bank has obtained the possibility that the funds went into new loans based on the same quantum of capital. This has the potential of multiple discharge of credit based on the same amount of capital and increases the rate of return on equity.

Mortgage loans represented a big risk, and no one had enough resources to cover it. The Bank is not able to settle dividends to their borrowers, shareholders and vice versa, the clients of banks have become insolvent and collapse of the banking system occurs. The shares of all world stock markets started to fall rapidly in a few days with a high volatility.

At the same time, due to the large number of investment shares, increasing the nominal value of the company the losses and unemployment have increased. Paul Krugman (Paul Krugman) notes that unemployment in the United States (9% at 2011) has become a permanent category of causing reduction of government revenues and worsening of the fiscal budget. Consumers are still encumbered by mortgage loans that are increasingly losing interest loans and cash becomes the most interesting assets.

3. GLOBAL ECONOMIC CRISIS

The world crisis has affected overall economic activity. Engineering as a set of the intellectual activities necessary to optimize the investment of the path realization of the concept selection and model design to the practical application of the conclusion, i.e. solutions that we obtained based on the certain models and methods.⁷

⁷ Mikić, S., Doroshenko, Y., Economy reengineering at the beginning of 21st centur, International journal of the economics and law, Vol. 1, No. 3, Novi Sad, 2011.

Financial giants (Fannie Mae and Freddie Mac) in the real estate crashed during the financial crisis, now government took over the shares and saved it from bankruptcy so it became a GSE (Government sponsored enterprises) company. Today, modern banking has tendency of dynamic evolution, adapting its business to valuable changes occurring in the global marketplace and a new philosophy of banking business that is oriented towards end users⁸.

The world crisis has impacted the Chinese economy too, as well as the economies of Japan, Europe and Middle East. Stock markets: Hong Kong, Japan, Dubai recorded a significant drop. Tokyo Stock market decreased its indices but the confidence in the green currency, dollar still remains. Oil prices (black gold) in the period July-August 2011, declined since the interest in yellow gold is much higher.

When it comes to money markets let's say that yen has fallen by 2% against the dollar. Japan intervened at the money market by purchasing the assets of 10 trillion yen more, totaling 50 trillion yen while interest rates remained at the same level of 0.1%. Toyota has announced a loss of 99.4% over last 2011. year as well as for all other exporters around the world. It is obvious that. It is known that the appreciation of national currency favors importers while the reverse is with currency depreciation.

The leaders of France and Germany, the euro zone's top economies, held a summit in Berlin (September, 2011) to find common ground on a plan to save the banks of credit crunch. German chancellor Angela Merkel met French president Nicolas Sarkozy in the face of evidence that some European banks are creaking under the strain of the mounting debt crisis which has pushed Greece to the brink of bankruptcy. On the eve of the Berlin summit, International Monetary Fund (IMF) chief Christine Lagarde, who was the first to call for banks to be urgently recapitalized. French banks are seen as particularly overexposed to Greek, Italian and Spanish debt. Leaders want to prevent any new, bigger reduction of Greece's debt triggering a banking crisis which must ensure that the banks have sufficient capital. Germany, Europe's strongest economy and effective eurozone paymaster, wants under-pressure banks to first turn to investors for funds before appealing for national or European cash. The EU's 440-billion-euro (US\$589 billion) European Financial Stability Facility (EFSF) bailout fund could intervene as a last resort.

Setting of the measures to achieve and maintain financial stability needs also all sectors of works, services, departments, in commercial company should, under preformed matrix of business skills, to build consistent identity as a desirable business fluid, channeled in the form of productions value, delivery and services⁹. Greece, Portugal and Ireland are increasingly dependent on loans whose rates under the effect of increased demand and growth are high. Eurobonds of France and Germany are the sweet poison because of the high return rate and low risk premium. To the progress of French gross domestic product, government stimulus package with reduced taxes have contributed a lot. French in this period were not spared on consumption and in this way improved the national economy. Like the French, Germans increased exports, which contributed more to GDP as well as to improving overall economical situation in the European Union. Reduced imports and higher government spending have led to an increase in GDP in Germany and France, but under the burden of government stimulus, budget deficits of these countries increase too. European banks continue to depend on government assistance, reluctant to lend money. German

⁸ Drašković, M., Vujičić, J., Smiljić, S., *Elektronic banking models*, International journal of the economics and law, Vol. 1, No. 3, Novi Sad, 2011.

⁹ Vujičić, J., Popara, B., Nikolić, M., *Strategic management determination in the function of understanding consumer paradigm*, International journal of the economics and law, Vol. 1, No. 3, Novi Sad, 2011.

bankers say that we cannot talk about the end of the crisis until the bank capital is not strengthened.

The injection of 200 billion Euros for the European economy has generated growth but also contributed to overcoming the debt crisis that threatens the whole Union. Recommendations of the Union include the development of common rules relating to investment funds. Global recession raises many questions for the economists, how to overcome the crisis and how to create package of measures that are to be taken. Capital market recorded a significant tool that can be used to help resolving of the situation: actually there is forfeiting in the banking system, forfeiting is improving cash flow while others banking tools stay unchangeable¹⁰. Drop in late 2011 year so interest from this market shift in the money market and from there to the banks.

European Central Bank is doing everything to prevent shooting of its currency, euro including 17 central banks in the decision making process. We hear from European officials that the government now has to play the best it can.

The unemployment rate in EU is 9.9 % in June 2011, what represents a little progress in this field having in mind that the unemployment rate in May 2010 was 10.2% as can be seen in the Eurostat report. The same source says, inflation rate in the EU was in June 2011 was 2.5%. Frankfurt is ready to spend 850 billion dollars on the purchasing of Italian and Spanish bonds, which would facilitate the overall weight of the debt crisis situation. Serbia as part of Europe and the Balkans also falls into a debt crisis if we take into account a number of arrangements with the IMF where Serbia has huge debt. The same position is determined by the war, sanctions and national crisis in economic and political terms. Serbia can improve its position in the region through the trade and services in the appropriate areas. One of the very important services for our country is distribution. Relation between trade and consumers can be realized in the channel of the distribution trough the exclusive distribution, intensive distribution and selective distribution¹¹. High unemployment rate (30%) continues to grow, the gray economy is expanding like a cancer wound in our economy. The government implemented measures of recovery through the expansion of credit lines and tax incentives. The value of shares on the Belgrade Stock Exchange recorded a high rate volatility. Foreign trade regime in Serbia actually measures the health condition of the country. Trade deficit for this year (2011) in Serbia is much lower than in the previous period, especially in the service sector. Top of FormCooperation with the IMF is focused primarily on the implementation of stand-by arrangement approved in the Republic of Serbia (total amount of it is around 3.0 billion Euros). During 2010, four quarterly reviews are completed on the basis of positive evaluations of the IMF Board of executive directors. So Serbia was able to withdraw the amount of 1.5 billion Euros like a first part of the arrangement. It would be better of Serbia to be integrated in the European Union. Finally I would like to emphasize that process of EU integration will need more effort, peoples patience and political will¹².

The World Bank has continued to provide advisory and financial support to the Republic of Serbia as part of a strategy program. In Serbia, in the circumstances of the global economic crisis, macroeconomic stability has been preserved thanks to the timely adoption of measures in cooperation with the IMF.¹³

¹⁰ Miljković, A., Miljković, Lj., Forfeiting-cash of the loan, International journal of the economics and law, Vol. 1, No. 3, Novi Sad, 2011.

¹¹ Polovina, B., Čiaček, J., Trade cooperation with the consumers in distribution chanel in modern business term, International journal of the economics and law, Vol. 1, No. 3, Novi Sad, 2011.

¹² Konjević, O., EU and Serbia, International journal of economics and law, Vol. 1, No. 3, Novi Sad, 2011.

¹³ Central bank of Serbia, Annual report about the results of business, 2010. str. 97.

4. CONCLUSION

Strong institutions in the globalization process are the basis prosperity and economic development in the world. Authors who are skeptical about economic globalization argue that this process should be viewed through the categories of transnational corporations based in America, Japan and Europe, "... globalization is a relatively new phenomenon that figures from the sixties of last century, it prevents us from seeing more clearly the tensions between transnational and national patterns of transnational corporations and the new global corporate structures and dynamics." ¹⁴

Technological progress has caused the destruction of the sophisticated processes of globalization. Crisis is an inevitable phase of business cycles and its overcome also is driven by technological progress and successful economic policy. Continuous improvement in order to keep up with modern processes is essential. New knowledge and new competitive skills are necessary to handle an obstacles for integration and prosperity. Nobel Laureate Paul Krugman notes that there is a recession not only because of bad legislation or negligence in the stock market but also due to an error in the theoretical models. America needs to find solution in monetary policy to regulate the issue of unemployment, inflation and growth. Finally, we need a modern theoretical model that will help us to explain these changes and to understand their meaning.

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¹⁴ Vuletić, Vladimir, Globalization, Institute for the books, Belgrade, 2003. str. 35.

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