

ECONOMIC TRENDS IN SERBIA DUE TO RECESSION

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Abstract: *The dynamic development of the world economy in recent decades has caused major changes in the structure of the world economy. The transformation of the economy of the world into the world economy is getting a strong momentum and brings a qualitative change in economic relations and global economic trends. Economic reality and the processes that are present in the global economy confirm that economic relations and development processes are increasingly subject to internationalization. Intensive processes of globalization of the world economy are bringing the global economic system as the product and are creating a highly dynamic and flexible global economic order. The intensification of social and economic relations results in closer and higher mutual influences of global and local events.*

Keywords: *economic recession, economic indicators, fiscal policy, regional environment, economic growth*

1. INTRODUCTION

Economic turmoils that took place in developing countries, were interpreted as punishing bad macroeconomic policies in the institutionally, socially and civilizationally undeveloped world. Developed countries had sporadic problems, but their effects were limited and accepted as smaller market failures in a guaranteed long-term growth path. However, the intensity of the financial turbulence on the international level during past years has gone towards the deterioration of economic indicators. The decline of economic activity combined with serious international conditions for getting loans and loss of income have affected almost all states. The decline in economic growth at the global level is the result of significantly reduced demand in developed countries and a slowdown of bank credit functions.

The economic recession, that has now engulfed the economy of most countries especially the developed ones, whereas other countries have recorded negative impacts such as a significant economic slowdown, has imposed the issues how to be overcome.

2. ECONOMIC INDICATORS IN THE PERIOD AFTER THE CRISIS

The recovery of the world economy from the global economic crisis slowed down in the second half of 2011. Negative trends in the form of a new wave of crisis again occurred in 2012, due to a weakened global demand, high unemployment, high fiscal deficit and public debt. This is particularly the case in the eurozone, where the quarterly rates of real GDP growth in 2012 were 0.2%, -0.9%, -0.9% and -1% or -0.6% per annum. [1]

Table 1. International environment - macroeconomic indicators [2]

		2011	2012	2013	2014
Real increase GDP, %	Total	3,9	3,2	2,9	3,6
	EU	1,7	-0,3	0	1,3
	USA	1,8	2,8	1,6	2,6
	Central and Eastern Europe	5,4	1,4	2,3	2,7
	Euro zone	1,5	-0,6	-0,4	1
Consumer prices, annual changes, %	Developed economies	2,7	2	1,4	1,8
	Developing countries	7,1	6,1	6,2	5,7

According to IMF projections from October 2013, global growth is still slow. During the period of exiting the global economic crisis, developed countries achieved a certain level of growth, while economic growth in developing countries slowed. The biggest boost to the global growth is expected in the USA where, after fiscal measures, the acceleration of economic activity and fiscal consolidation are expected.

According to the projections of the European Commission, the European Union countries, after the recession in 2012, and then after the stabilization in the first quarter and growth in the second quarter of 2013, in the second half of 2013 economic growth of 0.5 % was expected compared to same period last year. On annual basis, in 2013, the real GDP growth was expected to be 0% in the EU and -0.4 % in the eurozone. In 2014 a gradual acceleration of economic growth is envisaged up to 1.4 % in the EU and 1.1 % in the eurozone. For the countries of Central and Eastern Europe, a gradual increase of 2.3 % in the 2013th and 2.7% in 2014 are foreseen. It is expected that significant structural reforms and fiscal consolidation, which have been applied in EU countries for several years, will in 2014 i 2015 allow domestic demand to gradually become the engine of the growth in Europe. [3]

However, the expected economic recovery in the EU is not strong enough to reduce unemployment, so the estimated unemployment rate in 2013 was 11.1% (EU) and 12.2% (eurozone). In 2014 stabilization of the labor market is projected and a slight decrease of unemployment is projected in 2015 up to 10.7% in the EU and 11.8% in the eurozone, although it is assumed that there will continue to exist vast differences among the member states. [4]

Table 2. Regional environment - the main economic indicators [5]

		2012	2013	2014	2015
Increase GDP, %	Bulgaria	1,0	1,5	2,5	3,5
	Romania	0,9	2,5	3,0	3,3
	Bosnia and Herzegovina	0,0	1,0	2,5	3,5
	Montenegro	0,2	1,5	2,0	2,0
	Hungary	-0,1	0,8	1,6	1,7
	Croatia	-1,1	1,0	1,5	2,0
	Macedonia	1,0	2,0	3,5	4,2
	Serbia	-2,0	2,0	3,5	4,0
Inflation, %	Bulgaria	1,9	2,3	2,8	3,0
	Romania	2,9	3,2	3,0	2,9
	Bosnia and Herzegovina	2,2	2,1	2,2	2,4
	Montenegro	3,4	3,0	3,5	3,4
	Hungary	5,6	3,5	3,0	3,0
	Croatia	3,0	3,0	3,0	3,0
	Macedonia	2,0	2,0	2,0	2,0
	Serbia	7,5	11,1	4,8	4,5
Unemployment rate, %	Bulgaria	11,5	11,0	10,2	8,7
	Romania	7,2	7,0	6,8	6,6
	Bosnia and Herzegovina	27,6	26,5	25,5	24,5
	Montenegro	-	-	-	-
	Hungary	10,9	10,5	10,4	10,3
	Croatia	14,2	13,3	12,8	12,0
	Macedonia	31,9	30,2	29,2	28,4
	Serbia	26,2	26,1	25,2	23,8
Gross country debt, % GDP	Bulgaria	17,9	16,4	18,4	15,3
	Romania	34,6	34,5	33,7	32,9
	Bosnia and Herzegovina	43,7	41,3	38,1	36,0
	Montenegro	53,9	53,6	51,6	50,0
	Hungary	74,0	74,2	75,3	75,9
	Croatia	54,3	57,0	59,4	61,3
	Macedonia	30,9	29,7	30,2	30,0
	Serbia	65,1	65,2	58,7	58,4

Regarding inflation, relatively low level of 1.6% is projected in 2014 and 2015 in the EU and 1.5% and 1.4% respectively in the eurozone.

Gradual economic recovery in the future will be accompanied by the necessary fiscal and external trade consolidation, improving conditions on the financial markets, together

with the unchanged conditions on the labor market and the possible growth of structural unemployment that could jeopardize potential growth.

3. ENVIRONMENTAL INFLUENCE ON ECONOMIC TRENDS IN SERBIA

For Serbia economic trends of the most important external trade partners are particularly important. The slowdown of eurozone countries and the risk of spreading the debt crisis onto the Western Balkans adversely affect the recovery of economic activity in Serbia.

According to the current economic trends in Serbia, the international environment and the decreased estimations of macroeconomic indicators by the international financial institutions, having in mind the planned economic policies, the basic macroeconomic aggregates and indicators for Serbia were projected.

Macroeconomic projections for the period 2013 to 2015 indicate a slight increase in 2013 than 2.0%, then the acceleration of growth 3.5% and 4.0% in 2014 i 2015. The projected average growth rate for the next three years 3.2% will provide an employment increase only in 2014 in accordance with the increase of productivity that would increase the international competitiveness of the economy. The acceleration of export growth and investment is the main development factor that will, together with the restructuring of the economy towards the tradable goods, enable the acceleration of growth, reduction of internal and external macroeconomic imbalances and open space to increase the standard of living in real terms.

The medium-term macroeconomic projection foresees at the end of 2015 a slight increase in the share of fixed investments in basic funds to about 17% of GDP, reduction of the government spending share in GDP to 20.2% and increase of the share of exports of goods and services in GDP to 48%. In addition, over the next three years there may be an increase of domestic savings share in GDP due to the growth of private savings. [6]

Table 3. Projection of the main macroeconomic indicators of Serbia [7]

	2011	2012	2013	2014	2015
GDP, mil. dinars	3.175.024	3.267.099	3.679.015	3.979.131	4.316.243
GDP per citizen, EUR	4.288,3	3.966,7	4.295,5	4.545,3	4.846,8
Real growth GDP	1,6	-2,0	2,0	3,5	4,0
Personal consumption	-0,6	-0,7	-1,3	0,7	1,0
State consumption	-1,6	4,8	-4,4	0,8	1,7
Investments	26,9	-14,5	8,7	7,8	8,3
Goods and service export	3,9	1,8	9,2	10,6	11,1
Goods and service import	6,9	-0,4	2,5	5,6	6,6
Goods and service balance, EUR, % GDP	-16,6	-18,9	-16,2	-14,4	-12,8
Inflation, %	7,0	13,8	5,5	5,0	4,5
Formally employed, in 000	1.746,1	1.725,0	1.721,6	1.742,2	1.782,3
Investment ratio, % GDP	17,0	14,6	15,2	16,0	16,8
External debt, % GDP	77,5	87,7	87,5	85,4	85,2

4. SERBIAN POLITICS FOR ECONOMIC RECOVERY

The objective of fiscal policy in the medium term is the slowdown of the increasing government debt and its relative decrease, namely, in the long run, decreasing the share of debt in GDP to around 45 %, in accordance with the overall fiscal politics. In 2012 public debt has grown to 65 % of GDP and any lack of implementation of fiscal consolidation measures would lead to a debt crisis. Debt reduction over the medium term can be done by reducing the consolidated deficit, measures of tax policy and expenditure policy.

In the period of 2013 to 2015 public debt share in GDP should decline and at the end of the period it is expected to reach 58.4 %, primarily as a result of the fiscal consolidation and reduction of the fiscal deficit, but to a certain extent of the operations on the financial market. Since the public debt does not reach the target value of 45%, in the period after 2015 it is necessary to continue the program of fiscal consolidation and reduction of the fiscal deficit in the long term. [8]

Table 4. Simulation of the public debt level in the baseline scenario until 2020 [9]

Basic scenario	2012.	2013.	2014.	2015.	2016.	2017.	2018.	2019.	2020.
Income	43,7	44,1	44,1	43,7	43,5	43,5	43,5	43,5	43,5
Expenses	49,8	47,7	46,0	44,7	43,5	43,1	42,7	42,5	42,4
Fiscal results	-6,1	-3,6	-1,9	-1,0	0,0	0,4	0,8	1,0	1,1
Public debt GDP	65,1	65,2	58,7	58,4	56,9	54,0	51,0	48,0	45,0
GDP real growth	-2,0	2,0	3,5	4,0	4,0	4,0	4,0	4,0	4,0

Fiscal adjustment awaiting Serbia in the next five years is such that it requires the introduction of solid, legal rules.

Serbia's economic policy, apart from changes in the international environment, will depend on the inherited domestic problems and future challenges. Prospects of the real sector recovery are vague. The rising unemployment and decrease of wages may cause wider social problems, political turmoil and government sway towards achieving short-term goals. Without the reform of the public sector, budget deficit and public debt will grow. External debt is rising and the ability of regular debt servicing is a major threat to the economic stability and growth. [10]

In order to strengthen the economy special attention should be paid to creation of a stimulating business environment for entrepreneurs and investors, creating the conditions for easier business operations, the stability of the national currency, a favorable price of capital, government subsidies for agriculture, export promotion. Economic reforms should improve the business environment. The aim is to establish business environment through structural reforms that will allow an increase in domestic and foreign investment, acceleration of economic restructuring and increase of productivity and economy competitiveness.

Economic recovery and reconstruction of Serbian economy will significantly contribute to the reduction of irrational public spending and an increase in investment spending, which would spur economic growth and employment. Here the main role has fiscal policy and the stability of the national currency, through the efficient use of monetary policy instruments, attracting foreign investments more vehemently, discouragement of unnecessary imports, encouragement of firms to substitute imports and boost export offer.

5. CONCLUSION

The priority objective of the economic policy in the medium-term will be the economic recovery of the country and creation of conditions for sustainable and balanced economic growth based on investment and export increase which provide an increase of employment and life standard.

The economic policy with its development-oriented measures will contribute to the increase of production, export, employment and life standard of the citizens by supporting the growth of economic activity, primarily in the sector of tradable goods production, particularly by investing in agricultural production, together with better yield and a higher degree of product finalization, as well as through support of development of export-oriented sectors, with more effective mechanisms of guarantee for export business. A particular challenge of economic policy will be financial incentives in economy for programs that, with available resources, provide the best results and contribute to the acceleration of economic growth and employment. The activities of comparative advantage such as agriculture, energy economics and infrastructure will be specially supported. A new investment cycle will start in these aspects, and business environment that encourages investors and provides the attraction of foreign direct investment has the key role, as well as the state with the public investments and the financial sector with its potential, all for the purpose of recovery and economic growth.

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