

SERBIAN ECONOMY IN TRANSITION PERIOD

Radmilo Nikolić¹, Aleksandra Fedajev¹, Igor Svrkota¹

¹University of Belgrade, Technical Faculty in Bor

Abstract: *For more than two decades Serbian economy is in transition period. The transition is made of complex and dynamic changes aiming to transfer from government led into modern economy, based on the market and its laws. Changes were present in each segment of economy and industry. There were successes and fails. All in all, current results are bellowing the expectations. The goal to create efficient, rational and profitable economy has not been accomplished yet. Although there are many circumstances in and outside the country that make the transition more difficult, it has to go on. That is the certainty of today's economic reality.*

Keywords: *transition, market-based economy, efficiency, rationality, profitability.*

1. INTRODUCTION

Economic crisis, even more serious than this one, occurred in 80's of the last century, while Yugoslavia still existed. Huge national debt, deficit in foreign trade, industrial instability, economic disturbances, lacks in country's economical and political system, strong roots of inflation and all of that with constant slowing down of economic growth are the main characteristics of that period. Measures and activities taken trough long – term program of economic stabilization did not provide favorable results. On the contrary, high level of administration caused additional restrictions in economical liberty, which was already very low.

In late 80's, our country turns into market economy. Constitutional changes and new laws enabled the escape from "arranged economy". However, regardless of this positive turn, many negative trends were still going on. Illiquidity, and especially inflation, was seriously endangering the entire economic system. In 1989, inflation reaches enormous 2,665 %. That was the highest inflation in Europe and fourth highest in the world. One of the most important reasons for that was the fact that majority of domestic economy and industry had not been ready for system changes.

Few years later, political crisis joins the economic one. Socialist Federal Republic of Yugoslavia is falling apart, civil war begins and UN declares sanctions to Federal Republic of Yugoslavia (Serbia and Montenegro). All of that had worsened already difficult economic situation. Internal market was reduced, export activities were stopped and cooperative and business relations with republics of former Yugoslavia were tearing apart. The production was decreasing, as well as national income and life standard. Inflation went sky-high, and in 1993 reached 116 billion percent.

After a short period of recovery, caused by abolishment of UN sanctions, political problems appeared yet again. Crisis in Kosovo, EU sanctions and finally NATO campaign in 1999, led the economy to collapse. Most of the industry and infrastructure was destroyed and thousands of people lost their jobs. Citizens of our country paid that price through sharp descent of life standard. In such circumstances, the Government tried to maintain a minimal level of economic activities, mainly focused on basic human needs, and struggled to re-establish macroeconomic stability.

In early 2000's, political changes in our country provide abolishment of EU sanctions and Serbia becomes a member of numerous international organizations and financial institutions. At the same time, conditions for transition process became more favorable, enabling radical reforms of economical system. This is mainly the topic of this paper.

2. RESULTS OF TRANSITION-RELATED CHANGES

Transition process in Serbia included almost every aspect of economy and society. Some positive trends, such as democratization, liberation of market, reforms of economic system, structural improvements, started to develop.

2.1. Privatization of public property and state-owned capital

This is a very important segment of the transition process. Socio-economic system based on public property has been proven as non-flexible, non-efficient, irrational and unprofitable. This is especially the case in free market economy, when publicly-owned companies failed to compete with private capital. That is also one of the main reasons why socialism eventually failed.

Even in initial attempts to turn over to market economy, in former Yugoslavia, it was clear that one of the basic preconditions was the change of ownership, from public and state-owned into private.

New federal law on public property was intended to provide legal framework for changes. However, legal framework was changed several times, as well as transition models, so the results were very modest.

In 1997, Serbian Government introduces Law on Privatization. This law had both positive and negative reactions, but it manages to provide the change of ownership for significant part of public capital. Most of the complaints were related to lack of obligation for companies to enter the privatization process and lack of deadlines for process ending.

Table 1. Overall results of privatization in Serbia, 2002 - 2011

Period 2002-2011	Number of Public Calls	Offered for sale	Sold	Terminated contracts	Success ratio, %	Number of employees	Book value of property (in 000 EUR)	Sale value (in 000 EUR)	Investments (in 000 EUR)	Social program (in 000 EUR)
Tenders	301	218	90	37	41	67,627 (27,014)	921,038 (423,036)	1,074,590 (546,060)	929,760 (226,047)	276,689 (2,042)
Auctions	4,061	2,461	1,555	599	63	129,813 (55,484)	976,075 (357,184)	876,318 (514,333)	201,995 (79,765)	
Tenders and auctions (sold)	4,362	2,679	1,645		61	197,440	1,897,113	1,950,908	1,131,755	276,689
Capital Market		663	564		85	115,653	520,003	531,959	5,902	
Capital Market (previously terminated contracts)		264	172		65	21,046	95,016	101,196		
Capital Market (previously privatized companies)		1,067	902		85	85,994	75,963	53,053		
Total		3,606	2,381		66	334,139	2,588,095	2,637,116	1,137,657	276,689

Source: Serbian Ministry of Economy and Regional Development

Finally, in 2001, we have got a new law, with rather different approach from the previous attempts. Aims of privatization were public and state-owned capital, and the entire process was predicted to finish in four years. An important difference about this law was that company management was no longer in charge of the privatization process. Instead, several specialized bodies were formed: Privatization Agency, Fund for Shares and Central Portfolio Register.

The new privatization law made the process of public property transformation much more intensive. Depending on circumstances, the process was faster or slower, more or less successful.

In total, in period between 2002 and 2011, 3,606 companies were offered for sale and 2,381 of them were sold, which means that success ratio was 66 %.

By tender, 90 out of 218 companies were sold. However, many contracts were abated due to unfulfilled obligations, 37 or 41%.

Most of the companies were sold by auctions, 1,555 in total, with 63 % success ratio. On the market of capital 564 companies were sold, along with 172 companies which had previous contract abatements. We can add 902 companies which were privatized before the new law.

Incomes from privatization, in total, reach 2,637,116,000 EUR, most of it by tenders and auctions, about 74 %. Besides, there are buyers' obligations for new investments (1,137,657,000 EUR) and social program for people who lost their jobs (296,689,000 EUR).

On the other side, privatization of state-owned companies is practically at the beginning. Some of these companies owe enormous capital and have thousands of employees. Most significant are EPS (electric energy), JAT (airlines), PTT (postal service), etc. The government is very cautious about selling this type of companies. The only "big one" which was sold so far was NIS (oil company), to Russian "Gasprom", as a part of arrangement which included gas pipeline, underground gas storage in Banatski Dvor and 51 % of NIS shares. For other big companies, the idea is to restructure them before their privatization.

So, even the privatization in Serbia lasts for more than 20 years, the process is not over yet. Numerous companies still have not determined their statuses, while many of them are in bankruptcy.

Generally, the expected effects of privatization have not been reached. Due to a large number of terminated contracts, many successful companies went out of work, unemployment rapidly grew and there were numerous abuses of the process. Also, assets gained by privatization were not used for development of industry and economy, or new jobs. Instead, they were mainly used for different kinds of expenditure.

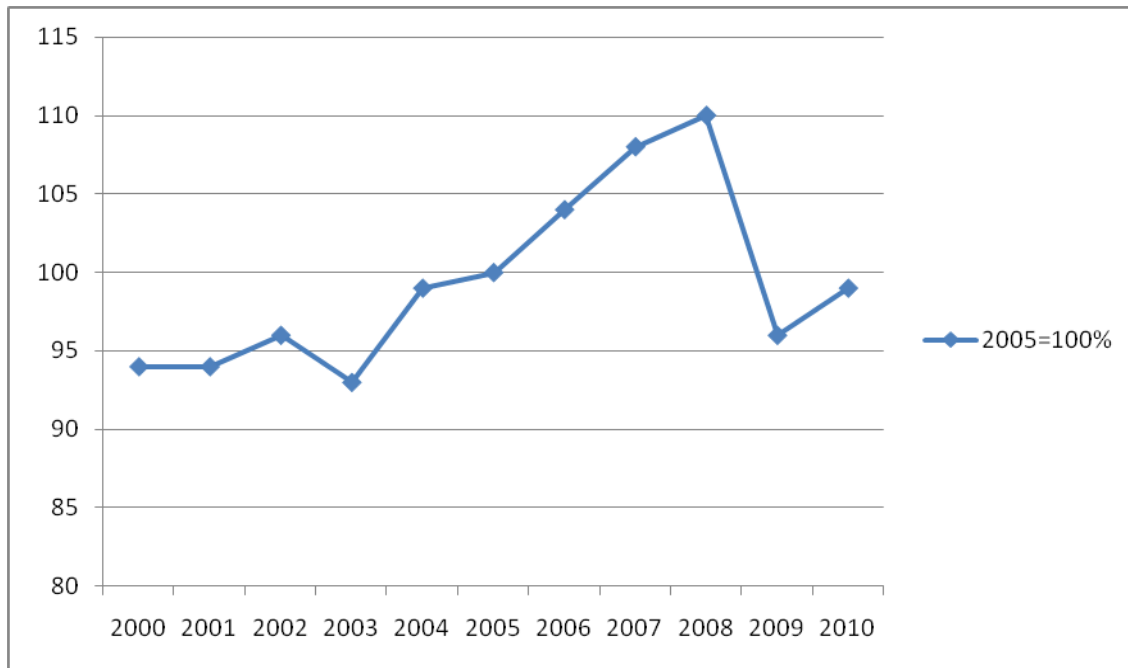
2.2. Economic effects of transition

Gained economic effects are significant segment of transition process. They are very strongly influenced by the process activities. We will take a closer look to some of them.

2.2.1. Production volume flow

Production trends over the period 2000 to 2010 would be analyzed through industry and agriculture, since they have major influence on entire economy.

Industrial production has a trend of light growth in this period. The exceptions are years 2003, when we had a slight decrease and 2009, when it was down by 13 % regarding the previous year. There were several reasons for that, but most important was the world economic crisis.



Graph 1. Indexes of industrial production flow

Table 2. Production flow by sectors of industry

Year	Total	Sectors		
		Ore and stone excavation	Processing industry	Production and distribution of electric energy and gas
2000	111.4	108.1	114.5	102.1
2001	100.1	87.2	100.7	101.2
2002	101.8	101.6	102.7	98.3
2003	97	100.8	95.4	102.3
2004	107.1	99.3	109.6	99.9
2005	100.8	102.1	99.3	106.6
2006	104.7	103.5	105.4	102.2
2007	103.7	99.4	104.3	102.8
2008	101.1	103.6	100.8	101.8
2009	87.9	95.7	84.2	100.6
2010	102.9	113.8	103.9	95.7

Previous year = 100

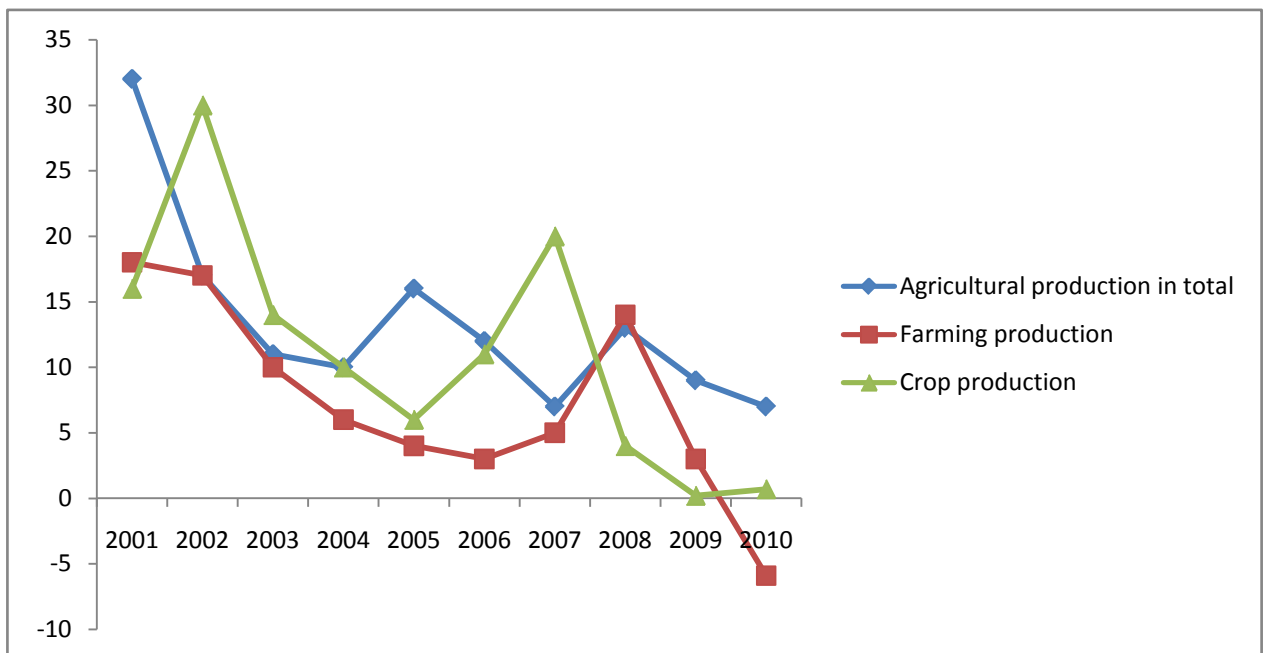
Source: Serbian Bureau of Statistics

Regarding the slight increase, industrial production is still far away from the level at the beginning of transition period. Current production is only at 47 % of industrial production in 1989.

Agriculture has a huge impact to national economy and social stability in Serbia. It is an economic area with long tradition. It used to provide employment and existence to majority of population. Today, some 11 % of population is related to it.

At the beginning of the transition period, agriculture has been in slight stagnation. However, the situation became drastically worse during 90's, with high oscillations in production levels and significant decrease of production. Nevertheless, the agriculture managed to carry the burden of crisis, but with high costs paid.

High oscillations in agricultural production proceeded in the first decade of this century. And, although business ambience was much more convenient, there were many circumstances which made the development difficult. Those circumstances were lack of investments, technical obsolescence, poor economic situation, high share of farming (grain) in overall production, unfavorable weather conditions, etc.



Graph 2. Indexes of agricultural production flow

High oscillations were also present in crop production. Highest growth was recorded in 2001 and 2004. Stock farming had less oscillations, but with the clear trend of livestock decrease.

2.2.2. Level of gross domestic product (GDP)

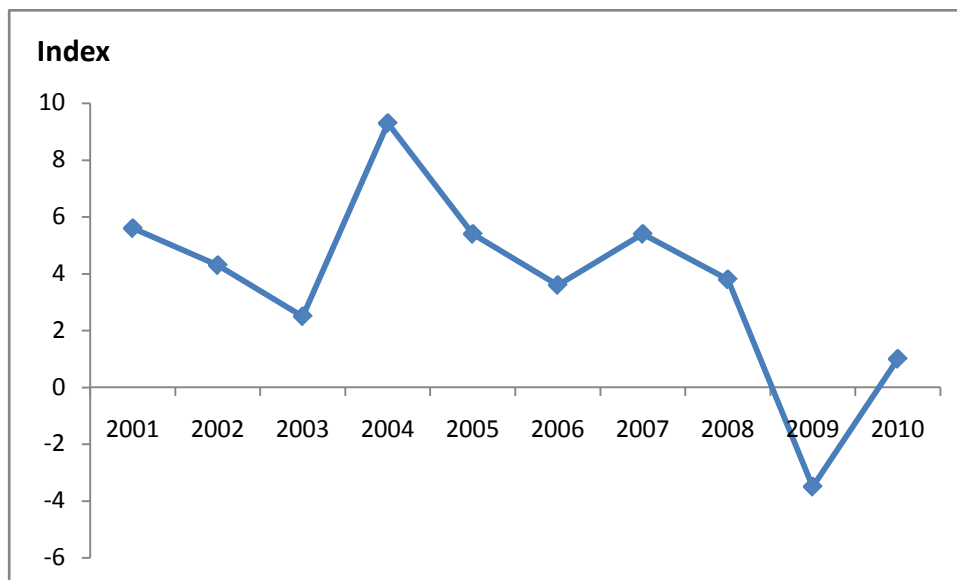
Gross domestic product was a mirror of situation in national economy. In a period after 2000, it had a trend of slight growth. Year 2009 was an exception, due to the World Economic Crisis. In 2010, GDP reached only 72 % of GDP in 1989.

Table 3. Gross domestic product flow

Year	GDP in current prices, Billions of RSD	GDP, Billions of EUR	GDP per capita, Billions of EUR
2001	762.2	12,820.9	1,708.7
2002	972.6	16,028.4	2,137.1
2003	1,125.8	17,305.9	2,313.4
2004	1,380.7	19,026.2	2,549.4
2005	1,683.5	20,305.6	2,729.0
2006	1,962.1	23,304.9	3,144.4
2007	2,276.9	28,467.9	3,856.6
2008	2,661.4	32,668.2	4,444.5
2009	2,713.2	28,883.4	3,945.4
2010	2,986.6	28,984.9	3,966.9

Source: Serbian Bureau of Statistics

In observed period, GDP in current prices was multiplied 3.9 times, or 2.3 times in EUR. At the same time, per capita increased from 1,708.7 in 2001 to 3,966.9 in 2010, but still remained low compared to countries in the region.



Graph 3. Gross domestic product (growth in %)

Along with its growth, the structure of GDP also changed. The share of agriculture and processing industry decreased, while the share of trade, both wholesale and retail trade, car repair, real estate, transport and communication, storage and similar was growing.

Table 4. The structure of GDP in %

Activity	Year	
	2001	2009
Agriculture, forestry, waterpower engineering, fishing	17.68	12.03
Excavation of ore and stone	1.96	1.48
Processing industry	22.30	13.71
Production of electric energy, gas and water	4.24	3.11
Construction and architecture	4.24	3.25
Wholesale and retail trade, car repair	8.08	12.66
Hotels and restaurants	1.24	0.70
Transport, communications and storage	9.10	17.77
Financial intermediation	6.33	5.03
Real estate, renting	9.95	14.81
Other	14.88	15.35
Total	100.00	100.00

Source: Serbian Bureau of Statistics

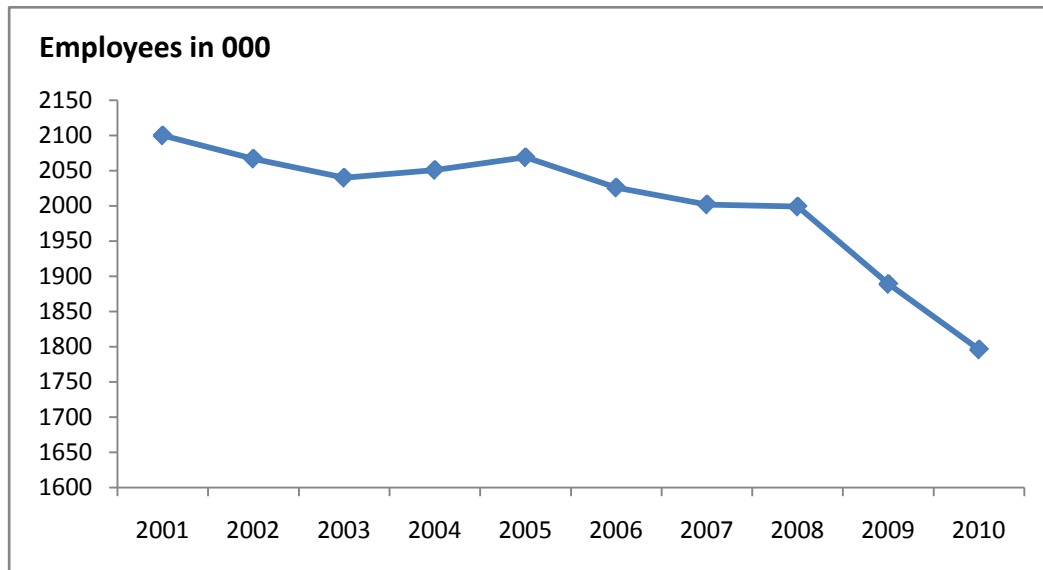
At the start of previous decade, the processing industry had the largest share in GDP (22.30%). Some 40 % of GDP was realized from processing industry and agriculture (17.68 %). After these two, there were wholesale, retail trade and car repair (8.08%), transport, communications and storage (9.10 %) and real estate and renting (9.95%).

After that, processing industry and agriculture decrease their shares in GDP. Processing industry decrease between 2001 and 2009 reached 39 %, while agriculture's decrease was 32 %. It means that these two sectors suffered from the consequences of crisis more than any other.

Transport, communications and storage are sectors with greatest share in GDP in 2009 (17.87%), which is almost twice as much than in 2001. There is a significant growth of wholesale, retail trade and car repair (57%), as well as real estate sector (49 %).

2.2.3. Employment – unemployment

Economic crisis, problematic privatization and other unfavorable circumstances caused constant decrease of employment. In a period between 2001 and 2010, number of employees is reduced by 306,000, or 15 %.



Graph 4. Employment flow

Employment has been reduced in almost every sector. The worse situation is in processing industry, where number of employees decreased from 619,113 in 2001 to 301,452 in 2010, which is 317,661, or over 50 %.

Table 5. Structure of employees by economic areas in %

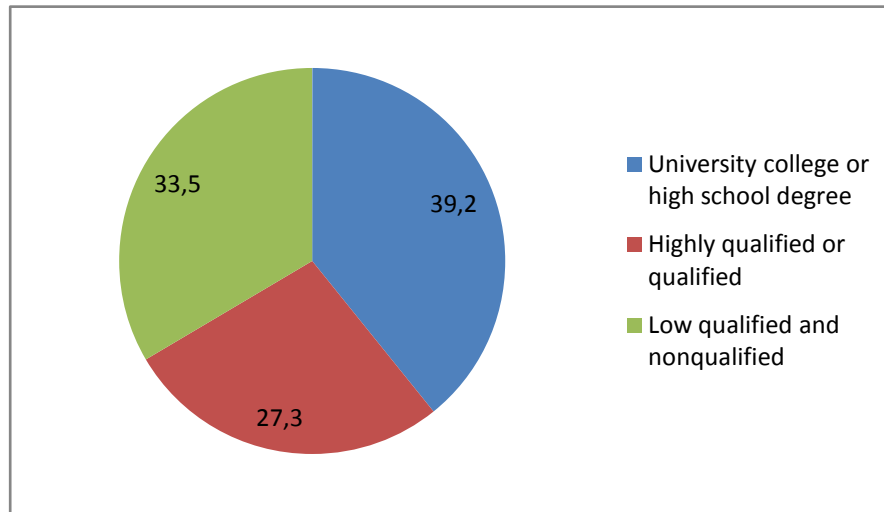
Activity	Year	
	2001	2010
Agriculture, Forestry, waterpower engineering, fishing	5	3
Excavation of ore and stone	2	2
Processing industry	35	22
Production of electric energy, gas and water	3	3
Construction and architecture	6	5
Wholesale and retail trade, car repair	12	13
Hotels and restaurants	2	2
Transport, communications and storage	7	7
Financial intermediation	2	3
Other	26	40
Total	100	100

Source: Serbian Bureau of Statistics

Number of employees has been reduced in almost every sector of the processing industry, especially in food, textile and metal processing industry. In agriculture, there is also a significant decrease of employees, 46,658 or 56 %. Also, this trend is recorded in wholesale and retail trade, but not as rapid as in other sectors, due to improved entrepreneurs' initiative. Since other sectors had a higher decrease of employment, this sector has improved its share in total number of employees by 1 % in 2010.

At the same time, unemployment rate in Serbia is growing. By the end of 2010, it reached 19.2 %, one of the highest in Europe. Most of the unemployed population has a university,

college or high school degree, 39.2 %. Highly qualified or qualified share 27.3 %, while low qualified and non – qualified make remaining 33.5 % of the unemployed population.



Graph 5. Unemployed persons by qualification and degree in 2010

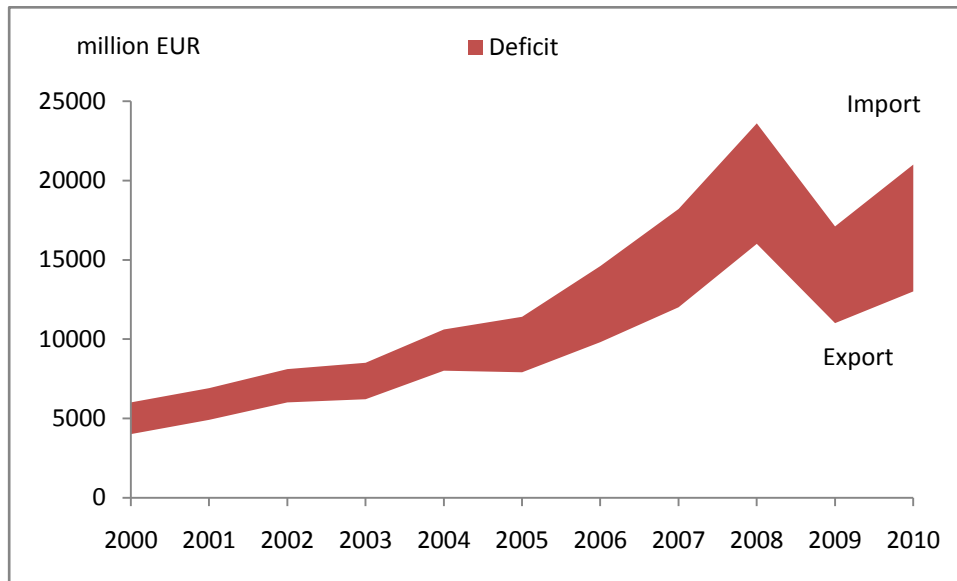
Some 53 % of 729,520 unemployed persons in 2010 were women. Also, there is a significant number of young people, but with rather long years of service, who lost their jobs during the privatization, either as redundant, or due to bankruptcy of their companies.

2.2.4. Foreign trade

In the first decade of this century Serbia had very dynamic foreign trade. Export has increased by 3.8 times and import by 2.7 times. However, there is still rather high deficit, which in 2010 reached over 5 billion EUR.

Most of the export activities are focused to EU. Value of exported goods into EU exceeded 4 billion US \$, which makes 57 % of total export. Most of the exported goods went to Italy and Germany. Besides, significant export activities include CEFTA countries and the Russian Federation. From countries in the region, most of the products were sold in Bosnia and Herzegovina.

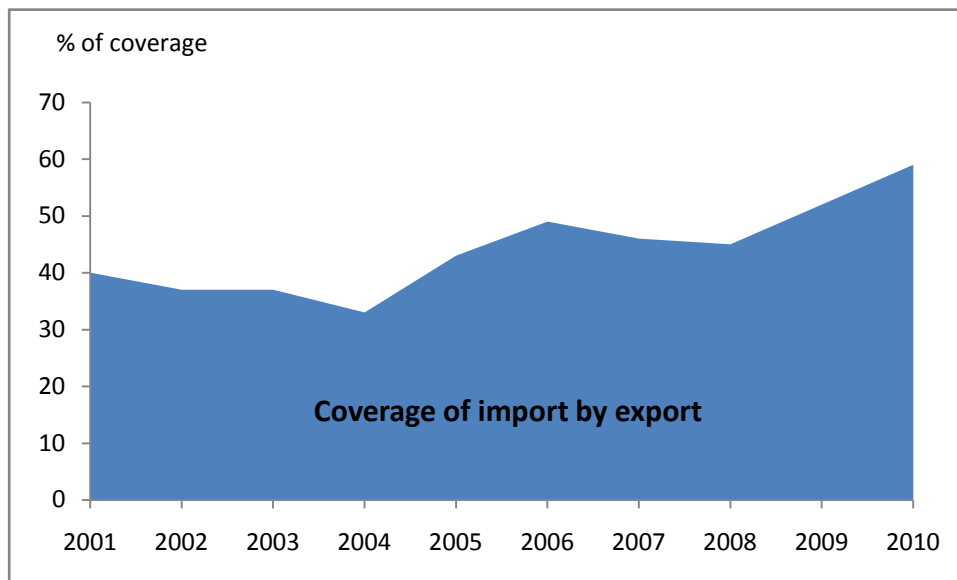
Most popular export products are: metals, simple metal products, machines, devices, units and parts, crops, food products, liqueurs and tobacco, plastics, rubber, textile and textile products.



Graph 6. Foreign trade

Most of the imported goods come from the Russian Federation (around 13 %), EU (mostly Italy and Germany) and China. Most imported products are chemical industry products, machines, devices, appliances and parts and simple metal products.

Export is not able to follow the increase of import, so the deficit of trade balance is growing. In 2008, the deficit was by 22 % higher than export of goods and services.



Graph 7. Covering of import by export

Covering of import by export is still low. But, in recent years, the situation has improved. Covering the rise from 40 % in 2001 to 59 % in 2010, which is an improvement of 48 %.

An important contribution to Serbian foreign trade comes from agriculture. In 2010, export of agricultural goods exceeded 2 billion and surplus reached 650 million US \$. But, that

was still far from actual potential in this field. Serbian export of agricultural goods per hectare of arable land is 477 US \$, which is one of the lowest in Europe.

2.2.5. Indebtedness and Public Debt

Indebtedness is one of the serious problems in our country, and the situation is getting worse. Only in the last ten years the external debt was enlarged by 2.5 times.

Table 6. State of indebtedness, in million EUR

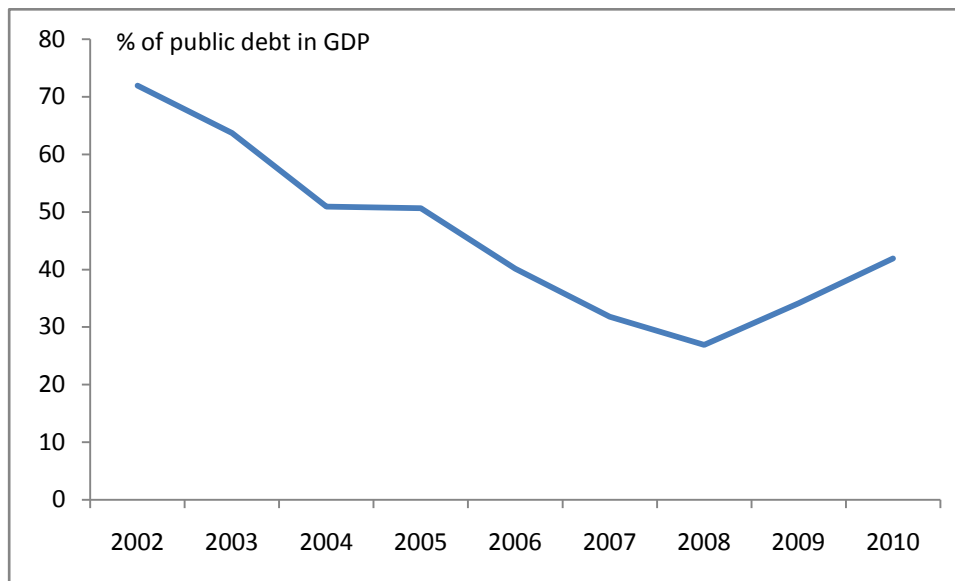
Year	External debt	Share of external debt in GDP, %	Short-term external debt	Servicing of external debt	External debt/export of goods and services	Foreign exchange reserves
2001	9,561	74.6	1,163	102	497	1,325
2002	9,402	58.7	606	218	427	2,186
2003	9,678	55.9	529	348	396	2,836
2004	9,466	49.8	442	736	334	3,104
2005	12,196	60.1	948	945	338	4,921
2006	14,182	60.9	958	1,635	278	9,020
2007	17,139	60.2	1,050	2,885	266	9,634
2008	21,088	64.6	2,143	3,453	284	8,162
2009	22,487	77.9	2,005	3,314	377	10,602
2010	23,786	82.1	1,830	3,403	322	10,002

Source: National Bank of Serbia

By the end of 2010 the external debt reached 23,786 million EUR, or 82.1 % GDP. It means that each resident of Serbia has a debt of 3,341 EUR. Since the debt exceeds 80 %, our country belongs to the group of highly – indebted countries by methodology of the World Bank. A similar evaluation could be gained from the aspect of debt servicing. The annual debt service reaches 15 % of GDP, which is 5 % over the limit for highly indebted countries. With current indebtedness and export level, it would take three years to completely repay the debt. These facts lead us to a conclusion that indebtedness is one of the most important limiting factors of growth and development. The positive side is the amount of foreign exchange reserves and their tendency of constant increase.

The share of Public Debt (external and internal) in GDP was in constant decrease till 2008, when it rose rapidly. The economic crisis in recent years forced the Government to get into new indebtednesses.

In 2010, Public Debt reaches 12 billion EUR, or 41.9 % of GDP, with tendency of further growth. At least, it is still lower than the limit of 45 % GDP.



Graph 8. Share of Public debt in GDP

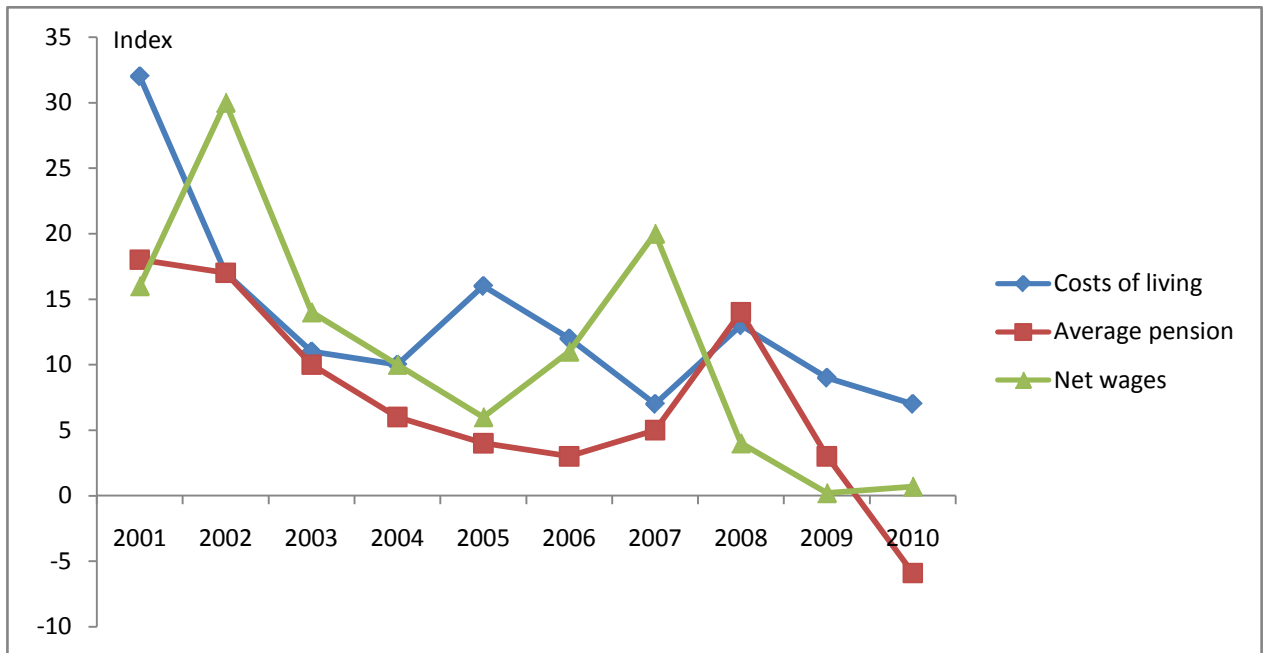
In the aspect of Public Debt, Serbia is in a much better position than many European countries. According to OECD data, Greece has the highest level of Public Debt (147.3 % of GDP), followed by Italy (126.8 %), Iceland (121.2 %), Portugal (103.1 %), Belgium (100.7 %), etc. These are the countries that face serious crisis. Some of them are on the edge of bankruptcy (Greece, Italy). Some countries that have lower level of Public Debt than Serbia are Estonia (12.1 %), Luxemburg (19.7 %) and Switzerland (40.2 %).

It should be mentioned that the rating agency Fitch Ratings raised the credit rating of Serbia to BB-, and improved it from negative into positive in November 2010. That is the rating Serbia had before the World Economic Crisis. This should contribute to lower exposure to foreign exchange risks, although we should not expect radical improvements.

2.2.6. Standard of living

Breakout of former Yugoslavia, economic sanctions by UN, civil war and always present economic crisis, heavily influenced the life standard of people in Serbia. The most rapid downfall of standard happened in the first half of 90's. Since 2000, the situation became slightly better, but the standard is still far away from good.

In a period from 2000 to 2010, the net wage growth rate exceeded costs of living only twice, in 2002 and 2007. The situation with pensions is even worse. Practically, they have always been bellowing the costs of living. At the end of 2010, net wages averaged 34,142 RSD, or 324 EUR, while pensions averaged 19,890 RSD, or 189 EUR. In the region, only Bulgaria has lower wages.



Graph 9. Indexes of net wages, average pensions and costs of living

Table 7. Wages in March of 2011 (in EUR)

Country	Amount	Serbia = 100 %
Slovenia	987	276
Croatia	755	211
Hungary	518	145
Montenegro	484	136
Bosnia and Herzegovina	418	117
FYROM	367	103
Romania	358	100.3
Serbia	357	100
Bulgaria	352	99

Source: Politika newspaper, October 30, 2011

One of the parameters that show the level of life standard is the structure of personal expenditure per household member. Around 45 % of available funds for personal expenditure go on food, footwear and clothing.

Utilities (16 %) and transport (9 %) also belong to the group of significant costs. After servicing basic existence needs, very low amount of money is left for improvement of life quality.

Table 8. Structure of personal expenditure – monthly average per household member in 2010 (%)

Sector	Personal expenditure
Food and non – alcoholic drinks	41.3
Liqueur and tobacco	4.4
Footwear and clothing	4.8

Rent, water, electricity, gas and similar	16
Furniture, household equipment and maintenance	4.4
Health	4.1
Transport	9
Communications	3.9
Recreation and culture	4.7
Education	0.9
Restaurants and hotels	1.9
Other goods and services	4.6
Total	100

Source: Serbian Bureau of Statistics

2.2.7. Macroeconomic stability

Macroeconomic stability is an important precondition for successful functioning of national economy. Instability in this area lowers the competitiveness of the economy, attraction for external investments and most of all, economic growth and development.

Regardless of certain improvements in some segments, macroeconomic stability is still bellow a satisfactory level. The presence of external and internal misbalance, high inflation, fluctuation of exchange rate, weakness of domestic currency and similar problems all have negative influence to macroeconomic stability.

External misbalance is expressed through deficit of balance of payments. It is constantly present in Serbian economy, and its peak occurred in 2008, 7.21 billion EUR. In 2010, this deficit was 2.28 billion EUR, or 7.8 % of GDP.

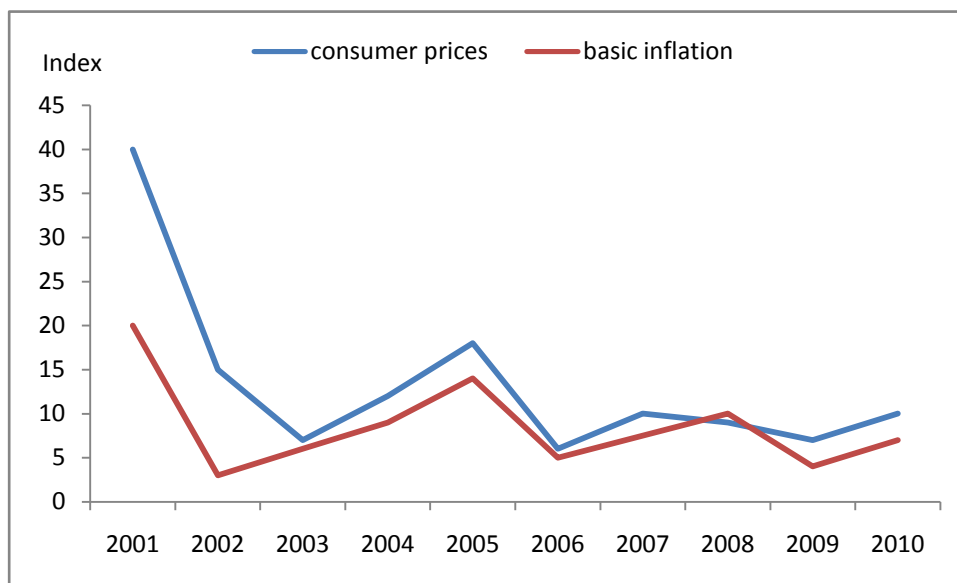
Despite the significant inflow of funds from the privatization of publicly-owned companies and remittances of Serbian workers abroad, the deficit could not be covered. According to data from the World Bank, Serbian people sent some 43 billion US \$ into the country, in a period from 2000 to 2010. Since the privatization of publicly-owned companies is close to the end, much less inflow is expected in the next period. On the other hand, the privatization of state owned companies is on its way, so we could expect the increase of direct external investments. Also, foreign exchange reserves exceeded 10 billion EUR.

Table 9. External and internal misbalance

Year	Balance of payments		Budget	
	Deficit, million EUR	Deficit share in GDP, %	Deficit or surplus, million EUR	Share of deficit or surplus in GDP, %
2001	370	2.9	26	0.2
2002	1,190	7.4	689	4.3
2003	1,770	10.2	450	2.6
2004	3,001	15.8	57	0.3
2005	2,046	10.1	61 (surplus)	0.3 (surplus)
2006	2,541	10.9	443	1.9
2007	5,219	18.3	484	1.7
2008	7,217	22.1	556	1.7
2009	2,282	7.9	953	3.3
2010	2,275	7.8	1,043	3.6

Source: National Bank of Serbia

The internal misbalance is expressed through the budget deficit. Except in 2005, the deficit is present in the entire observed period. The lowest deficit occurred in 2001 (0.2 % of GDP), while the highest was in 2010 (3.6 % of GDP), when it exceeded one billion EUR, with a tendency of further increase. Incomes from the privatization helped this segment, too. As a comfort, we could say that many European countries had higher budget deficits in 2010 – Ireland (32.4 %), Great Britain (10.3 %), Greece (10.4 %), Spain (9.2 %), Portugal (9.2 %), and Poland (7.9 %). The only country with extremely high surplus was Norway (10.5 %). Serbia covers its budget deficit mostly by new indebtedness, often with unfavorable payment conditions. The interest on securities in 2011 exceeds 7 %. It also should be mentioned that very little work has been done in order to reduce the budget outcomes, especially in public sector.



Graph 10. Indexes of consumer prices and basic inflation

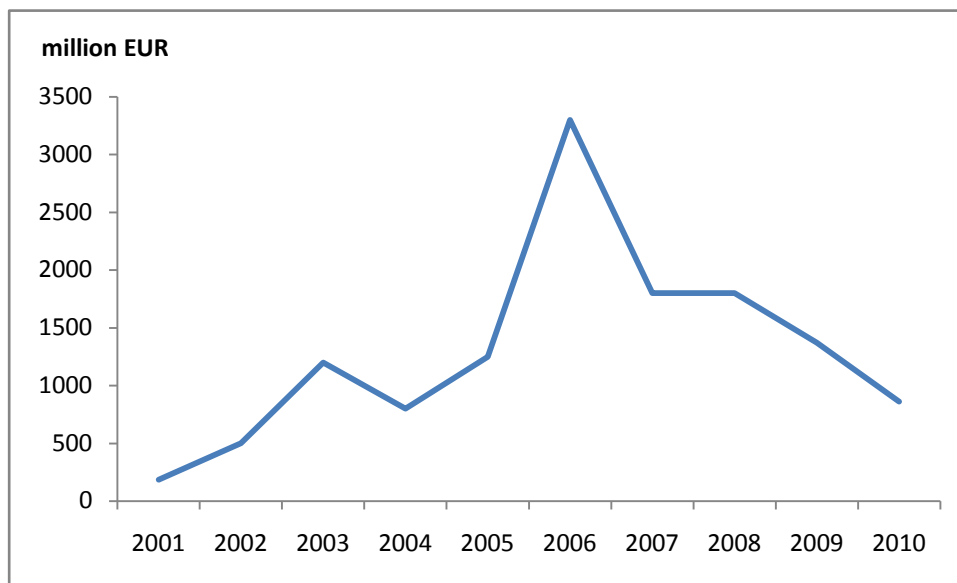
The next macroeconomic problem our country is facing is inflation. Despite the obvious stabilization regarding the period of hyperinflation in 90's, the situation is still worrying.

Serbia has significantly high inflation, one of the highest in Europe. In 2010, the annual increase of consumer prices was 10.3 %, and the basic inflation 8.6 %. Countries in the region have a much lower inflation rate – Albania 3.6 %, Bosnia and Herzegovina 2.1 %, FYROM 1.6 %, Croatia 1 % and Montenegro 0.5 %.

At the same time we have a very high depreciation of domestic currency. Dinar, as a national currency, depreciated 72 % in period from 2001 to 2010. In 2001, 1 EUR was worth 59.78 RSD (average), while in 2010 it increased to 103.04 RSD. However, regardless of this situation, we can still hear that Dinar is overrated, which is unfavorable for export and stimulates excessive import. It should be annotated that the National Bank of Serbia, in order to stabilize the exchange rate, often intervenes in the exchange market with money from foreign exchange reserves.

High inflation, instability of domestic currency and high credit risk, caused a pretty high cost of capital. Interest rates on credits are often several times higher than in economically stable countries. That is convenient for creditors, especially banks, while it is unfavorable for industry, e.g. economic entities, as credit users.

According to the data from the Association of Small and Medium Enterprises, in the period between 2001 and 2010, the industry paid about 22 billion EUR of interests. Such a situation makes worse the already poor solvency of industry and makes its recovery much difficult. In 2011, some 69,500 companies were insolvent, with over 260 billion RSD of obligations and 700,000 employees.



Graph 11. Direct foreign investments

Since the macroeconomic and business environment is still unfavorable, direct foreign investments are very rare. This makes overall situation in this area very poor.

The highest income of foreign investments occurred in 2006, with over 3.2 billion EUR. After that, came the period of stagnation. By countries, the greatest investor is Austria, followed by Greece, Germany, Holland, Norway and Italy, and after them Slovenia, France, Luxemburg, Hungary, etc.

3. GLOBAL POSITION OF SERBIA

According to the data from the World Economic Forum, and also some international and domestic institutions, we will give the global position of Serbia with analysis of vital indicators.

Table 9. Position of Serbia according to indicators provided by the World Economic Forum in 2011

Number of analyzed countries - 142			
No.	Indicator	Value coefficient	Ranking
1	Competitiveness	3.88	95
2	Macroeconomic stability	4.5	91
3	Level of domination at the market	2.5	139
4	Volume of state regulations	2.3	134
5	Efficiency of anti – monopoly policy	2.8	137
6	Success in solving social conflicts	2.5	137
7	Rate of national savings	14.8	103
8	Cooperation between employees and employers	3.3	136
9	Independent judiciary	2.4	128
10	Organized crime	4.3	107

As we can see, Serbian ranking is poor. Out of 142 countries, it is at 95th spot in competitiveness, 91st place in macroeconomic stability, while in other categories the situation is even worse. Furthermore, in some indicators, the situation is getting worse.

To complete the overall picture, we will add two more indicators – the rate of economic liberty and the state of democracy. According to the report of the Heritage Foundation and the Wall Street Journal, in the domain of economic liberty Serbia takes 98th place out of 184 analyzed countries, with 58 points. This means that Serbia belongs to the group of countries with lack of economic liberty. Except Bosnia and Herzegovina, all of the countries in the region are better placed – FYROM 43rd, Albania 57th, Bulgaria 61st, Romania 62nd, Slovenia 69th, Montenegro 72nd and Croatia 83rd.

The situation is slightly better in the segment of democracy. On the list of the Economist Information Unit (EIU), Serbia has taken 64th position out of 165 countries in 2011. That is one position better than in the previous year. By the democracy index, Serbia is behind all of the countries in EU, but in front of FYROM, Montenegro and Bosnia and Herzegovina.

4. CONCLUSION

Big expectations and even bigger disappointments, we could say. Aims of transition are yet to be accomplished. Furthermore, in many segments, the situation is even worse than in 90's, when the process started.

The privatization of public property, after more than two decades, is close to an end. Unfortunately, the process was not very successful. Huge number of economic entities no longer exists; some are still in agony with insecure future, while the number of those who preserved or improved their business economy is very small. Also, several hundred thousands of employees lost their jobs.

Economic effects of transition are catastrophic. Industrial production recovers slowly and barely reaches 50 % of the production level at the beginning of 90's. A similar situation is in agriculture, too, with significant decrease of farming production. GDP grows slowly, but the share of industry and agriculture in it is decreasing. The level of foreign trade is low

and with strong deficit of trade balance and with low coverage of import with export. Foreign investments are rare and they do not contribute to growth and development. Unemployment, reaching 20 %, is one of the highest in Europe.

By the level of external debt (82.1 % of GDP), Serbia belongs to the group of highly indebted countries. Public debt reached 42 %, out of maximally allowed 45 %, with a tendency of further growth. Debt servicing becomes more and more questionable.

External and internal misbalance is still present (deficit of balance of payment and budget), followed by high inflation, instability of domestic money, insolvency and low level of life standard of the residents.

Also, according to numerous indicators, the global position of Serbia is extremely unfavorable, or even humiliating. Out of 142 countries taken in consideration, our country is ranked 95th in competitiveness, 91st in macroeconomic stability, 139th in level of dominance at the market, 134th in volume of state regulations, 103rd in rate of national savings, 128th in independence of judiciary, 107th in organized crime, etc. There is also low placement in ranking related to the rate of economic liberty – 98th place out of 184 countries. A small improvement has been made in the domain of democracy (64th out of 165 countries).

This situation is not sustainable. Poorness of the Serbian economy has to be stopped. The actual model of economic growth and development has to change. Instead of the expenditure model, with spending more than earned and covering it with new indebtedness, there should be a new model which has to be focused on investments and development, based on re – industrialization, increase of export and drastic reducing of public spending. Such a model is imposed by economic reality of modern business economy.

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