

SERBIA IN CONDITIONS OF TRANSITIONAL AND GLOBAL ECONOMIC CRISIS AND MEASURES TAKEN BY THE SERBIAN GOVERNMENT AND NBS IN ORDER TO MITIGATE THE CONSEQUENCES

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Abstract

Since the crisis began to manifest itself, Serbian Government in cooperation with NBS has enacted a program of measures with the aim of avoiding the recession and accomplishing the continuity in GDP growth, taking care not to violate the concept of enterprising as the basis of economic system. Analysis is directed to: 1) overflow of the effects of global crisis on the Serbian economy, 2) measures program of Serbian Government and NBS in conditions of transitional and global financial and economic crisis and the results in revitalization of the economy and enterprises, 3) real constraints with which the Serbian economy is faced, at the achieved level of economic growth and 4) critical review and proposed measures for achieving the results, i.e. to create the basis for long-term and sustainable economic growth.

Key words: economic growth, revitalization of economy, program of measures of Serbian Government, driving force, real limits, fiscal policy, monetary policy

INTRODUCTION

Economic policy has occurred as a direct consequence of the collapse of mortgage market in the USA, but it has very quickly assumed the characteristics of the general global financial crisis with the consequences in economic recession [1]. The beginning of the global financial crisis is linked to expansive crediting policy in USA, which began in 1996 when the banks have resorted to second-rate borrowers, especially of mortgage loans whose solvency was less than necessary. Due to the growth of demand, in the period 2001-2003, the prices on real estate market have increased by over 13%, and for the period 1996-2003 by 124%. In order to reduce the risk of such loans, the banks have resorted to their securitization by placing the securities based on mortgage loans, and in order to attract the investors, the interests were sufficiently high, so the banks and funds from all over the world were involved [2].

In developed capitalist economies, for overcoming the negative effects of global crises, the following measures were also taken:

1. Longer loan repayment periods
2. Dilution of illiquid balance sheet items
3. Elimination of toxic financial assets

4. Support to the real sector
5. Limitation of managers' and directors' earnings
6. Global application of previous measures

Economic crisis could not sidestep the Serbian economy, whose almost entire export (96.55%) is meant for European market, so Serbia is in a small group of countries, which has until the April 2009 presented plan and program for exiting the crisis, whose end cannot be expected, according to the MMF experts, before 2011 [3]. However, we cannot escape the fact that crisis in Serbia did not occur only because of the global economic crisis, but also that it is the consequence of problems of long-term and structural nature (deindustrialization of the country and over-expansion of non-exchange economy sector, eurisation in monetary system, foreign trade gap, socialization of income distribution, the level of foreign indebtedness of the country that is higher than normal credit risk limit etc). In this paper, the analysis will be focused on: 1) Overflow of global financial crisis on Serbian economy; 2) Measures of Serbian Government and NBS against global financial crisis; 3) Real constraints with which Serbian economy faces at the particular level of

economic development; 4) Proposed measures for long-term and sustainable economic growth.

1. OVERFLOW OF GLOBAL FINANCIAL CRISIS ON SERBIAN ECONOMY

Dynamic economic growth that Serbia had in the period 2001-2008 was interrupted in the fourth quarter of 2008 and in 2009, when the

decline in economic activity occurred under the influence of global financial crisis. However, all the countries in the region were faced with the consequences of negative growth rate and the decline in GDP value. Compared with the other transitional economies, Serbia has recorded a milder decline in GDP, but due to the delayed start of pre-transition beginning, it still falls behind economically in relation to other transitional economies (Figure 1).

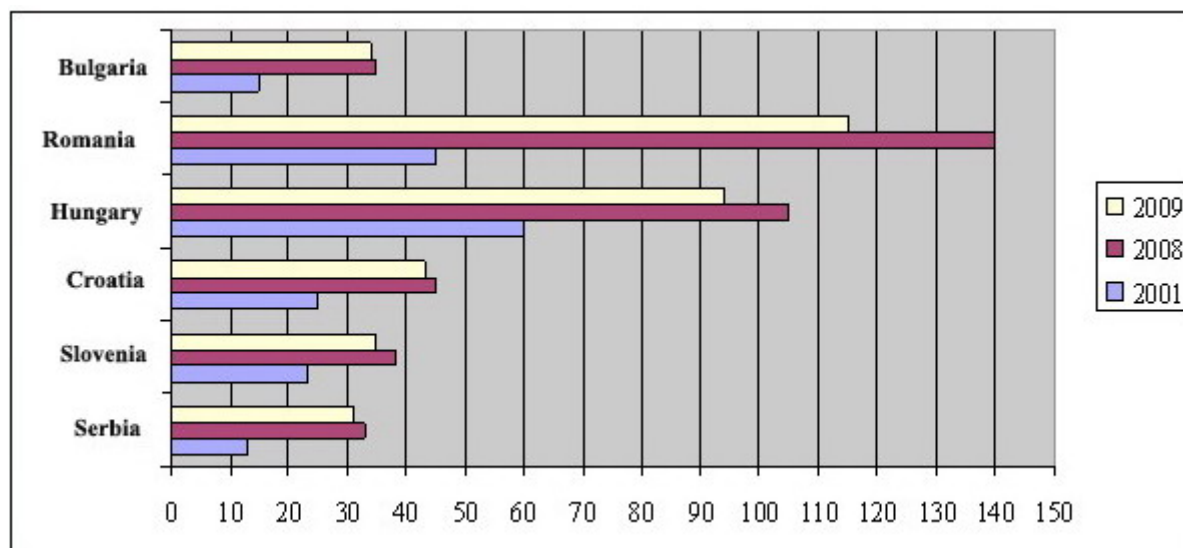


Fig. 1: GDP 2001-2009 (in billions of Euros)

Source: Republic Statistical Office

Gross domestic product in 2009 records a decline by 3% and the greatest effect of the crisis has reflected on the decline in overall industry of 12%, and especially in manufacturing industry of 15.8% and construction of 25.1%. The influence of crisis has reflected on the Serbian economy in conditions of high domestic demand and high current account deficit. Due to the reduction of foreign capital inflow (4.4% GDP, and in 5.3% GDP in 2008), lending activity slowdown, significant earning slowdown, there was a decline in domestic activity by approximately 7%. The effects of global crisis in 2009 have showed themselves in gross added value decline of industry sector by 12.2%, manufacturing industry by 15.3%, construction by 17.1% and trade by 8.7%. The share of industry in GDP was reduced from 25.8% to 18.9% in 2009, and the share of manufacturing industry from 20.2% to 14.1%. In GDP structure in 2009, the disproportion between the sectors of exchangeable and non-exchangeable goods kept growing and that

ratio is 30% of share of the exchangeable goods sector and 70% of share of the non-exchangeable goods sector.

During 2009, with the decline in economic activity, there comes to the slowdown of earnings growth, employment drop and unemployment growth, which has lead to worsening the living standard. Average net earnings in 2009 amounted 338 Euros, total number of employees was reduced in relation to 2008 by 5.5%, and the unemployment rate is increased to 16.6% in relation to 14.0% in 2008. More than 700,000 people lived on the verge of poverty. Below the poverty line (8360 dinars), 9.2% people have lived. Compared to the European countries, living standard in Serbia is one of the lowest. Serbia has about three times lower GDP per capita in relation to the average of the EU countries [4].

The effects of crisis are considered and analyzed through quantitative indicators presented by the official bodies and line ministries such as: Republic Development Office, Republic Statistical Office, Serbian

Chamber of Commerce, EUROSTAT (Statistical Office of European Union), Ministry of Finance, Ministry of Economy and regional development of other ministries and institutions.

However, it is difficult to evaluate to which extent the negative trends in Serbian economy are exclusively the consequence of global economic and financial crisis, and to which extent they are the consequence of factors that exist in transitionism phase in which Serbia still is.

When the processes, which are characteristic for the transition, such as: privatization, macro-economic stability, institutional reforms and reindustrialization do not develop and end in continuity and within usual deadlines, which the case in Serbia, transition transforms to transitionism. Due to the decline in activity, by starting the reforms, the typical curve of GDP in transition is the curve of the letter J and in transitionism there is a different performance movement (Figure 2).

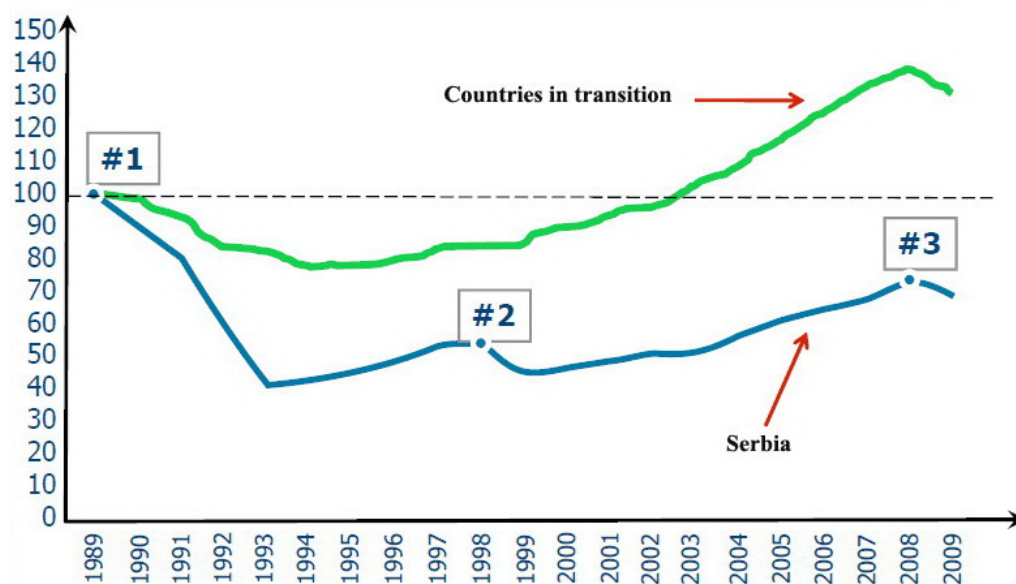


Fig. 2: GDP of countries in transition and Serbia

During the initial period of transition, decline in performances, increase of risk and drop of economic expectations occur due to inflation growth caused by higher prices in non-exchangeable goods sectors in compliance with the growth of wages in exchangeable goods sectors, as a consequence of investment effects [5]. When the privatization starts and by introducing strong budget constraints at macro and micro level, there comes to the decline in the level of economic activity, restrained lending by the banks and decline in demand and transitional recession occurs. As a consequence of the mentioned factors, transitional stagflation occurs, which lasts until the conditions for intensifying the reindustrialization process are created by institutional reforms and disinflation policy, and from that moment, the shift from decline towards growth begins (the upper part of J curve).

Serbia lives in crises combination: transition crisis and global economic crisis, which

support and worsen each other. It is the consequence of delay in transition, which was started at the same time as in the region countries and environment, and the influence of negative effects of global crisis, which began in 2008. Unlike the other countries that have a typical transition curve, which is rather similar to the theoretical curve of the letter J, the situation in Serbia is different. Namely, if we consider the GDP level as 100% in 1989, which is considered as the last year prior to transition until 2009, according to the data of European Bank for Reconstruction and Development, it can be seen that the economies of Eastern and Central Europe have, until 2003, went beyond the pre-transition level of GDP, and until then the transitional curve in Serbia has a triple letter J (Figure 2).

Two decades after the beginning of transition, the Serbian economy has reached 69% GDP from 1989, i.e. from the period prior to the transition. Besides that, transition

deficit is followed by endemic stagflation (inflation + unemployment), which has reached 23% (17.4+6). The vulnerability degree of economy to the extreme stresses is very high due to low competitiveness. According to the World Economic Forum, Serbia is at 93rd place in competitiveness ranking among 133 countries and with GDP per capita of 6,781,9 USD, it is at the tail of the group of 26 countries that tend to increase overall competitive position through the efficiency improvement. Albania and B&H are the only two countries that have worse ranking positions according to competitiveness than Serbia, the ex-Yugoslavian countries: Montenegro, Croatia and Macedonia have better positions, and the countries that have deteriorated their positions in the aspect of competitiveness, apart from Serbia, are Croatia and B&H ranked countries according to competitiveness [6].

Control of inflation is the maximum of transition model “a strong currency in weak economy”, which results in insufficient economic growth. However, in conditions of maintaining price stability as well, the model wasn't efficient because the inflation was at two-digit level until 2008. Stability of a general level of prices is followed by a continuous growth in total foreign exchange reserves that are increased from 1.8 billion of USD in the end of 2001 to 13 billion in the end of 2008. Such a transition model has lead to the appreciation of dinar, which has, under the influence of global economic and financial crisis from October 2008, affected the destabilization of foreign exchange market (dinar exchange rate in 2008 has depreciated by 11.4% in 2008, and a stronger pressure of depreciation was renewed before the end of 2009 and it continued in 2010).

In addition, Serbia has a high public spending and average share of public spending in GDP in the period 2005-2009 that amounts to 43.6%. Such a state is a consequence of public sector size, the size of state administration but also the increase of salaries in public sector that exceeds the work productivity growth.

Therefore, the transitional model “a strong currency in weak economy” is not sustainable because of a few reasons: firstly, the strength of national currency depends on the strength of

national economy and Government credibility and not on the ability of the Central Bank and secondly, the defense of dinar rate by revenues from privatization is not in accordance with the principle that money supply is influenced by cash flows and not the capital flows. Such a model is counterproductive because not only that it does not contribute to the economic growth, but it does not enable the creation of strategic reserves either. In conditions of global economic crisis, due to investments reduction and decline in demand, it leads to instability of the economy of high vulnerability degree.

2. MEASURES OF SERBIAN GOVERNMENT AND NBS AGAINST GLOBAL FINANCIAL CRISIS

The measures of Serbian Government and NBS against global financial and economic crisis in 2010 are only an essential continuation of package of measure enacted in the beginning of 2009, when it became clear that global crisis will not sidestep Serbia and when the manifestations of crisis on banking and real sector reflected in partial remission, due to psychological factors, foreign currency deposits in our banks, reduction of foreign loans inflow to the banks that operate in Serbia, depreciation of national currency and despite the high costs of maintaining the course, stopped privatization of small and medium enterprises, reduced liquidity of economy and enterprises and certainly insufficient level of economic activity.

In this situation, the banking sector was the only one that showed stability, so there I an increasing number of supporters of economic policy with the attitude that a stable banking system raises the efficiency of financial system and, therefore, it increases the performances of economic system. [7]

In order to influence the mitigation of the effects of global financial crisis, Serbian Government has adopted a set of measures. The first one, which has largely marked the return of shaken confidence in the banking system, is increasing the state guarantees for savings from 3,000 to 50,000 Euros per one deposit, in case that bank goes bankrupt. This step of authorities has contributed to decrease of anxiety and fear of the citizens, caused by

psychological factors. In order to encourage savings, the tax on interest income for foreign currency savings, which is 20%, was temporarily abolished since the 1st January 2009. From the beginning of 2010, this tax will be re-calculated and then it will be 10%. Until the end of 2012, the tax on capital gains will also be temporarily abolished, as well as the tax on transfer of absolute rights in case of securities. Capital gains tax is 20% and it is paid on the difference between buying and selling price of shares, while the tax on transfer of absolute rights is paid when selling the shares and it is charged 0.35%. National Bank of Serbia has welcomed the decision of the Government, but it has also, from its part, enacted a set of measures.

However, besides the restrictive monetary policy led by NBS during 2008 and in the beginning of 2009, under the influence of negative effects of the global financial crisis, core inflation has in 2008 exceeded the upper limit of target range of 3-6%, so in the end of the year it was 10.1%. The data that referent interest rate, which was 10% in January, was increased a couple of times, so that it would reach the level of 17.75% in the end of the year, also speaks about what kind of restrictiveness of monetary policy in 2008 is in question. This move was supposed to protect dinar, i.e. to prevent its sudden drop. However, it appears that in exceptional circumstances, the currency defense by raising interest rate is inefficient, which was obvious in the example of a country, such as Great Britain, which failed to defend the pound by increasing interest rate in 1992, so it had to devalue. The similar situation is in Serbia, where high interest rates of 17.75% that the banks received from NBS for dinar repo papers didn't stop them to go from them onto foreign currency. In that way, dinar repo stock has dropped from 248 billion of dinars (equivalent value of 3.25 billion of Euros) in the end of September 2008, to 95 billion of dinars (over 1 billion of Euros) in the end of December. Therefore, measures of NBS have enabled the banks to deposit dinar obligatory reserves to NBS and withdraw foreign currency and other in order to purchase the foreign currencies directly to pay the debts

abroad and pay the foreign currency savings that was withdrawn.

Considering the fact that Serbia, as well as other countries, was entering the recession in the beginning of 2009 and that GDP was showing significantly lower growth rate than the planned one, the National Bank of Serbia was gradually passing from restrictive monetary policy to the expansion, and thus the referent interest rate has reached the level of 8% in June 2010.

With a stable banking sector, in conditions of global economic crisis, what is certainly significant is the share of NBS in the interbank foreign exchange market when 1,284,700,000,00 Euros was sold (level of foreign currency reserves was close to the bottom sustainable limit, estimated at 5 billion of Euros) in order to ensure a smooth functioning of foreign exchange market and to less big daily fluctuations of dinar, which has led to the increase of foreign currency liquidity, in conditions when it came to the withdrawal of foreign currency savings of nearly a billion of Euros or 17% of total savings [8].

The results of so-called stress tests, conducted within Financial Sector Support Program (FSSP), and published in the beginning of November 2009, have shown that the banks in Serbia do not need an extraordinary preventive recapitalization in the case of assumed pessimistic macroeconomic scenario for 2010. In the normal course of monitoring of financial state of the banking sector, NBS has updated macroeconomic assumptions and stress tests of the banking sector to credit risk for 2010 and 2011, on a sample of 16 banks that make more than 80% of total assets of banking sector and the obtained results show that banking sector is highly capitalized and resistant to macroeconomic shocks, i.e. that it can absorb all the projected losses with the existing capital and reserves and, afterwards, to remain above the regulatory minimum.

In case of realization of the assumed pessimistic scenario, the indicator of capital adequacy would still remain above the required minimum by 12%, i.e. it would be reduced from the initial 22.36% in 2010 to

16.04%, and in 2011, it would be reduced to 15.6%.

At 30th October 2009, the capital adequacy ratio is, for example, 13.4% in Croatia, 9.2% in Bulgaria, and 8.3% in Hungary.

We believe that the package of applied and suggested measures should have regulated the following issues more precisely, such as: 1) paying the state's obligation to the private sector; 2) determination towards the monetary model and exchange rate policy; 3) clearly highlighting the priorities of investing in industries such as energy, agriculture and infrastructure, including the telecommunications, as well; 4) separation of personal income and pension policy from the policy of helping the most vulnerable part of population.

As for the Program for 2010, it can be said the following: 1) it is a continuation of realization of measures for mitigating global economic and financial crisis from 2009; 2) the basic objective of the program, in conditions of global financial and economic crisis, in Serbia is to preserve the workplaces, with the possibility of creating new ones, as well as to achieve the economic growth with the help of cheap loans for citizens and economy; 3) the users of loans assume the contractual obligation to maintain at least the same level of employment; 4) program of measures is based on activating the significant credit potential of banks, with minimum budget funds and 5) credit requests are submitted to commercial banks that approve them on the basis of their business policy and risk assessment.

Through this program, the state will, in 2010, give the total of 3 billion and 535 million dinars, while the banks, economy and citizens will place 90 billion dinars. Cash assets would be realized for the following types of loans: 1) liquidity loans, where the state would give 2 billion dollars, and banks would place 50 billion to the economy; 2) credit for investment, where the 535 billion would be given by the state and the banks would place more than 15 billion dinars to the economy and 3) consumer credit, where 1 billion is provided by the state and the banks place about 25 billion to the economy.

Program of measures for 2009 and 2010 has shown good results in the struggle against the recession and the decline in economic activity was stopped, because in two consecutive quarters, Serbia records, according to the statistics, a positive economic growth. However, exiting the recession does not imply that a sustainable economic growth is provided, because Serbia is still in the combined crisis where global economic and financial crisis intensifies the defects of domestic crisis.

3. REAL CONSTRAINTS WITH WHICH SERBIA IS FACED IN CONDITIONS OF RECESSION

Real constraints with which Serbia is faced in conditions of global economic and financial crisis, i.e. in conditions of decline in production, world trade and drastic reduction of liquidity in global financial markets are the following:

- 1) Transition crisis, i.e. the facts that Serbia has not reached the GDP level from pre-transition period (1989) and that industrial production in 2009 amounts to only 40% of the level before the transition began,
- 2) High foreign trade and current balance deficits unsustainable in terms of decline in export demand and increased import offer,
- 3) A smaller inflow of foreign direct investments,
- 4) Reduced availability of foreign loans, especially those that were withdrawn through foreign banks,
- 5) Relatively limited foreign exchange reserves and
- 6) High interest rates.

In other words, real constraints are: 1) insufficient efficiency, productivity and competitiveness of domestic economy, which generates the unsustainable external deficits and 2) low confidence of the country in global financial markets so that it could credibly and under competitive conditions borrow up to the standard limits given in Maastricht criteria. Certainly, these constraints can be eliminated on the long and medium term, but they can hardly be replaced on the short term.

Transitional model of Serbian economic growth was based on a few key factors:

- 1) Economic growth is based on the inflow of foreign capital,

- 2) Dynamic growth of 5.4% in the period 2001-2008, mostly depended on domestic aggregate demand, because the export demand is four times lower due to the structure of economy and uncompetitiveness and
- 3) Strong economic growth was contributed by service sector, with the average rate of gross added value of 7%.

Transitionism has significantly influenced the performances of Serbian economy. Table 1 shows the basic indicators linked to the level of economic activities, inflation, international exchange, unemployment and the level of personal income, external liquidity, monetary

indicators and indebtedness. There are two characteristics that are obvious from the above table: firstly, the presence of the phenomenon of transitionism and secondly, vulnerability degree of economy to the extreme stresses.

The data on the share of export in GDP of 19%, out of 35%, tells us that transition recession still exists in Serbia. The increase of trade openness is the most important measure for encouraging economic growth, especially for the market of the size such as Serbia. When the coefficient of trade openness (export and import as GDP percentage) is bigger than 50%, it is considered that the economy of one state is very dependent on international trade.

Table 1: Main macroeconomic indicators

Economic activities	2004	2005	2006	2007	2008	2009
GDP, bill. of EUR	19,0	20,3	23,3	28,8	33,4	30,9
GDP, real growth in %	8,3	5,6	5,2	6,9	5,5	-3
Inflation	13,7	17,7	6,6	10,1	6,8	6,6
Currency RSD/EUR	72,57	82,92	84,16	79,98	81,44	93,96
Current account deficit % GDP	- 11,9	-8,9	- 13,3	- 15,6	- 17,1	- 5,7
FDI, % GDP	4,1	6,1	14,1	6,2	5,3	4,4
NBS reserves, bill. of EUR	3,12	4,94	9,08	9,64	8,16	10,6
Budget deficit % from GDP	0,7	1,0	- 1,6	- 1,9	- 2,5	- 4,1
Public debt, % from GDP	53,3	50,0	36,2	29,4	25,6	31,3
Foreign debt, % from GDP	54,3	64,2	63,3	60,2	64,5	74,1
Private for. debt, % from GDP	17,0	26,3	36,0	39,5	45,6	50,6
Unemployment rate %	19,5	21,8	21,6	18,8	14,4	17,4
Net earnings	14.108	17.443	21.707	27.759	32.746	31.733
Export of goods, bill. of €	2,83	3,61	5,10	6,43	7,43	5,96
Import of goods, bill. of €	8,62	8,43	10,46	13,57	15,49	11,16
Foreign trade deficit, bill. of €	- 5,79	- 4,83	- 5,36	- 7,07	- 8,06	- 5,19
Export/GDP	0,15	0,18	0,22	0,22	0,21	0,19
Import/GDP	0,45	0,45	0,44	0,46	0,45	0,35

Source: RDO, RSO, NBS, MOF

4. CRITICAL REVIEW AND PROPOSED MEASURES FOR ACHIEVING THE RESULTS IN THE FOLLOWING YEARS

As the statement that enacted and applied program of measures has given good results in the struggle against financial crisis is indisputable, in the same way, the statement that those enacted and applied measures cannot eliminate long-term and structural problems of Serbian economy and provide sustainable economic growth is completely correct.

The package of the measures taken cannot solve numerous structural disorders in which Serbian society has found itself even before the global economic and financial crisis occurred.

Serbian economy has entered the balance of payments crisis in the end of 2006 and it still is in it. There is a small number of countries in which the adaptation of balance of payments is conducted exclusively either on the basis of devaluation or on the basis of changes in foreign exchange reserves. However, high balance of payments deficit in the beginning of transition is matching the view in economic theory on intertemporal nature of payments deficit, where a higher payments deficit reflects the greater investment opportunities [9].

However, the reality was different because in the period observed the balance of payments deficit was one of the highest in the countries of Central and Southeastern Europe, but at the same time the share of investments in GDP

was average and it almost did not change for the last five years. Converting the foreign savings into domestic investments was limited and far below the ratio 1:1 and, simultaneously, the share of domestic savings in GDP was constantly decreasing [10].

By adopted package of measures in terms of global economic and financial crisis, in short and middle term, it is difficult to eliminate the disruptions that are related to deindustrialization of economy and growing domination of the sector of non-exchangeable goods production. In other economies in transition, the share of service sector in GDP also grows, but at the expense of agriculture, not industry. In our country, the share of agricultural production in GDP is stable, but the share of industry is declining (manufacturing industry and energy sector). The growth of GDP, based on the increased share of non-exchangeable goods, creates a long-term structural problem of insufficiently developed export sector of economy. As our economy is a small, but open economy, the low level of export share is a big problem. It cannot be solved by devaluation of dinar but, in the long run, the overvalued dinar rate prevents a change of economic structure. And, there is the real problem. If the economic structure is not changed, it necessarily causes the overvalued domestic currency.

The ratio of exchangeable and non-exchangeable sector of economy affects the goods real exchange rate.

As the ratio of exchangeable to non-exchangeable sector decreases, the real exchange rate appreciates, but the actual real exchange rate is also affected by other factors, primarily capital inflow and interest rates. They can significantly change the direction of the ratio in short term, but in the long term, however, the real exchange rate depends on the exchange ratio of the basket of domestic and foreign goods [11].

If the professional community in Serbia agrees that the existing model of economic growth is unsustainable and that there is a series of structural disorders, such consent does not exist when it comes to the new model of economic growth. This issue is the theme of discussion of almost every serious scientific conference, professional public, individuals

and parliamentary parties. From a number of issues related to macroeconomic policy, they would highlight those that are the most topical.

1. Certainly the greatest attention is devoted to disorders of dinar exchange rate. Considering that we have a system of managed foreign exchange rate, NBS uses the foreign currency reserves for defending foreign exchange rate, which cannot be defended actually. Namely, if we continue to defend the course at this pace, our own foreign exchange reserves will be threatened, because for the year 2010, according to the agreed views between NBS and IMF, for the defense of dinar 4.6 billion of Euros can be spent at most. This year in May, while the Serbian Government was negotiating with IMF on the fourth revision of credit tranche of 360 billion of Euros for the defense of the exchange rate, for that time NBS has spent three times more funds for the defense of exchange rate than it received for that purpose. It is clear that the situation with this monetary model is unsustainable and the most probable is that NBS and the Government will have to switch to a new monetary model, which will have three objectives in monetary policy. In addition to prices stability, it is necessary to stabilize the exchange rate and the third objective needs to be reduction of unemployment [12].
2. In the strategy of economic development, we need to determine the rates of sustainable development according to which, Serbian economy could flourish and debts could be serviced. The level of debt of our country is high in relation to the export level and also, the foreign debt is approaching the level of 80% GDP. Through investing in the public sector, where privatization is not finished, and that refers to the energy field, selective parts of food industry, agriculture and infrastructure sector, we can provide the economic growth of our country.
3. New policy of development is necessary, and it should be based on innovations, information technologies and repeated process of industrialization. The basis for development of industry should be foreign import demand and construction of new

high-technology sectors.

4. Restructuring of Serbian should be done as soon as possible, which is the basis for increasing the export of the exchangeable goods sector, which is developing at a very modest average rate of only 2.3% a year. Development of Serbian economy, which is based on service sector such as financial intermediation, transport and trade since it is unsustainable in the long run.
5. Big problem of Serbia in previous economic development, but also for providing sustainable economic development, is the choice of a way of development financing. One of the best ways is to finance the economic development by foreign direct investments and not by domestic resources. Financing the economy through subsidized interest rates by the state, which was applied in the last couple of years, with no doubt it provides the effects in the short run, but sustainable development should be provided through foreign direct investments.

CONCLUSION

It is certain that Program of measures of Serbian Government had positive effects on Serbian economy and enterprises in the conditions of global crisis in the period 2009-2010, catastrophic consequences for the real and financial sector were avoided and in a relatively short period of time, there was a revival of economy and enterprises.

However, enacted and applied measures cannot eliminate long-term and structural problems of Serbian economy and enterprises and provide sustainable economic growth. Problems for Serbian economy are much greater, because Serbia is faced not only with global economic crisis, but also with transitional, which support each other and directly influence the total economic growth.

Namely, the model of economic growth that

is based on balance of payments deficit, privatization revenues, borrowing on the external and internal plan, deindustrialization of the country, consumption that exceeds the production, is actually unsustainable in new global economic circumstances.

Structural problems cannot be removed in short and medium term, but what urgently needs to be done is the start of structural reforms.

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