

Weekly *Economic* Bulletin

V.I.P. News Services, Cika Ljubina 6/II, 11000 Belgrade, Serbia

Phone: (381 11) 328 23 60, 328 61 40, Fax: (381 11) 328 61 41

Internet: vipnews@sbb.rs; bracavip@eunet.rs

Editor-in-chief: Bratislav Grubacic

Editors: Vesna P.Marjanovic, Tanja Jakobi

All rights reserved: all unauthorized copying and redistributing is illegal

Issue No. 812

Friday, May 25, 2012

ANALYSIS

Economic Trends in Serbia

(Part I)

1.1. Global Assessment of Economic Situation

The business climate in the Serbian economy in March 2012 cannot receive a passing grade. It is still dissatisfactory, because it has all the characteristics that were present in the previous period of this year as well, but over the preceding 4 years as well. At issue is an inefficient public sector in all in all fields and at all levels, which is hindering a faster and larger inflow of foreign direct investments, and broadens the space for the swelling of a forest of invisible cabinet hands, paperwork and, as the result of this, of corruption as well. In an environment of inefficient state institutions the monopolistic-cartel conduct of certain participants in the market has become a regularity.

The best illustration of the assessment of the business climate in Serbia will be shown in the Table made on the basis of the report of the World Economic Forum from the end of last year. This report included an analysis of 142 countries of the world.

Position of Serbia in the world according to selected indicators

Indicators	Position
Non-purposeful spending of the public sector's funds	100
Independence of judiciary	128
Efficiency of judiciary in resolving disputes	137
Favoring certain market players and companies in the adoption of government measures and decisions	124
Protection of the interests of minority shareholders	140
Protection of intellectual property	107
Quality of the entire infrastructure	120
Quality of roads	131
Quality of the railway	102
Quality of the educational system	111
Intensity of the competition on the domestic market	136
Efficiency of anti-monopoly legislation and institutions	137
Brain drain	139♦
Export performances (quality of exports)	136
Investments of companies in the research-development sector	130
Foreign direct investments and transfer of technology	110
Paperwork, procedures, permits and other direct or indirect fees caused by government measures	134

♦read: Serbia holds third place among the 142 analyzed countries upon the departure of human resources

Source: *The Global Competitiveness Report 2011 – 2012, World Economic Forum, 2011, p. 315*

We are of the opinion that, compared to that report, nothing major changed by March 2012, except that the situation in the country became even more turbulent because of the election campaign and the freezing of the arrangement with the IMF, which is a clear signal of the poor economic policy carried out by the now already former government of the Republic of Serbia.

According to the independence of its judiciary Serbia holds only 128th place. If one bears in mind that fact that, according to the protection of intellectual property, Serbia holds 107th place, according to the protection of the rights of minority shareholders is in 140th place, by the efficiency of the judiciary in the resolving of disputes it is 137th out of the 142 analyzed countries, then it is unequivocal that the business climate in the Serbian economy is extremely unsatisfactory and that, without an essential, practical turnaround strategy, which also requires the existence of political will for such a strategy, Serbia will not emerge from the economic and general, social crisis, but it will continue to swim, or better to say, to drown in it. In other words, as long as the personal goals of the political elite are placed at the top of the pyramid of interests, while the national interests are somewhere at the bottom, Serbia's competitive position will not change for the better, it can only get worse, which will also depend on how other countries which now hold worse positions than we do, will react to this report of the World Economic forum. That general interests have been placed at the bottom of the pyramid is also indicated by the fact that Serbia is in 100th position from the standpoint of the non-purposeful spending of the public sector's funds, which quite certain induces the further expansion of corruption, especially in view of the essentially non-transformed judiciary.

Among the market elements of competitiveness one should emphasize the extremely low intensity of competition and, therefore, the monopolized and cartelized market in Serbia. According to this criterion the Serbian economy has occupied the infamous 136th position among the 142 analyzed countries. In this regard, the anti-monopoly legislation is almost not being applied at all and is more of a screen, i.e. a cover for maintaining a status quo position. It is precisely according to the efficiency of anti-monopoly institutions and the legislation that Serbia holds the 137th position.

When all this is taken into account, the question being asked is how then to attract foreign investors to develop their business in Serbia. For this moment this is being done with generous subsidies from case to case, so not regularly, but when they dry out, which is inevitable in view of the exhausted budget of the Republic of Serbia, and if the present environment for doing business remains unchanged, who can guarantee that even the present investors will not move to a safer market haven.

Serbia is facing the abyss of a deep economic and social crisis. For this reason the new government of the Republic of Serbia must have a clear vision and goal, which will not rely on virtual presuppositions, but on realistic facts, so that it would be able to act in a synergetic manner on the resolution of the accumulated problems in the country. This will require a better synchronized government, with a prime minister with authority, without demagogical short-term social solutions, but a government with a long-term strategy which will seriously, with the IMF's support, launch painful reforms of the public sector and the tax system in the country.

In March 2012, positive trends were predominantly registered among most of the analyzed economic indicators: industrial output, tourist turnover, retail trade, exports, the foreign debt, the total public debt and average net wages. It should be underlined that this short-term positive move at the monthly level, was predominantly the result of the impact of the seasonal factor, and by no means of the improvement of the economic performances in the country. Essential all the mentioned indicators have a regular negative trends, which is indicated by a comparison of the results at the annual level.

In March 2012, a drop was registered in the arrival of total orders, the state of the total foreign currency reserves, the foreign trade balance and inflation.

1.2. Analytical Assessment of Economic Trends

Observed by certain economic and monetary indicators, at the end of March 2012, the following trends were registered in the Serbian economy:

- **As we had expected, in March 2012, a considerable growth of production activities was registered in the Serbian industry at a rate of a full 22.9% compared to the preceding month. Such a precipitate growth rate indicates that at issue is a low basis for comparison in February, when two large production systems such as the former Sartid and Petrohemija were at a standstill, and when, due to the freezing days and the inability of the EPS power company regularly to supply businessmen on the domestic market with electricity, a large part of the Serbian industry was unable to perform its production activities in continuity and to realize the received orders. It is only in such an environment that it is possible to have such a pronouncedly precipitate growth of production activities at the monthly level. However, in March this year compared to the same month in 2011, the physical volume of industrial production registered a drop at a rate of 3.2%, and when observed cumulatively through the first quarter of 2012 compared to the same quarter of the previous year, the level of production activities dropped by as much as 5.9%.**

Dynamics of industrial production according to commodity groups in Serbia

-Indices-

	$\frac{\text{III 2012}}{\text{II 2012}}$	$\frac{\text{III 2012}}{\text{III 2011}}$	$\frac{\text{I - III 2012}}{\text{I - III 2011}}$
Energy	94.8	89.4	95.9
Intermediary products, except energy	144.6	93.3	89.1

Capital goods	156.5	112.2	90.8
Durable consumer goods	148.7	94.3	95.4
Non-durable consumer goods	128.7	104.4	98.1
Industrial production - total	122.9	96.8	94.1

Source: Data of the Republic Office of Statistics (RZS)

- **The dynamics of the inflow of both domestic and export orders registered a drop in March 2012 as well.** True, in the reporting month the negative dynamics was of a somewhat lower intensity, which led to a certain improvement of production and export activities at the monthly level. The negative dynamics of the demand from the domestic and the foreign market is present in all the commodity groups (means of labor, intermediary products and consumer goods).

(to be continued)