

SERBIAN ECONOMY IS SAFE FROM BANKRUPTCY

> The creation of environment that is favorable for investments, focusing of all measures of economic policy towards reaching GDP growth and making electric power industry and the agriculture a priority will lead Serbia into brighter future. <

Macroeconomic indicators of the Republic of Serbia for 2013 are encouraging and they indicate that the Serbian economy is safe from bankruptcy. The relative debt indicators are not so good as well as its dynamics, but investors' interest in funding of our debt is not slowing down, and since their opinion is the only one that is relevant and that matters, we cannot conclude that the upper debt limit is reached and that the Serbian economy is close to its bankruptcy.

Low level of GDP

Ministry of Finance of the Republic of Serbia as well as the IMF estimates that the growth of the Serbian GDP in 2013 would be around 2 per cent. Also, already realized growth of exports of goods with expected good yields in agriculture and greater inflow of remittances would significantly contribute to adjustment of this year's balance of payments. It is expected that the current account deficit from the last year's 10.8 per cent of GDP would be reduced to 6 per cent of GDP at the end of this year. However, it is estimated that the net FDI inflow in 2013 would not exceed 2.5 per cent of GDP, which is equivalent to the amount of around 750 million euros.

The low level of investments brings into question the viability of such export oriented growth. In fact, both domestic and foreign investments are necessary to maintain the current level of export growth, as well as to continue with growth of economy on that basis. In that sense, the creation of environment that

is favorable for investments is the fundamental task of economic policy in the future. What's more, today Serbia still has one of the lowest corporate tax rate, the highest subsidies for investments and job creation, but again, not enough investments.

Today, Serbia is a de-industrialized country with an extremely low level of GDP of just around 30 billion euros. Public consumption is also very low, observed either in absolute amount or in per capita, which is the reason why the standard of living is low, but still it is extremely high in relation to GDP. So this is the reason why it should be very careful with often used populist phrases about the necessity of cuts in public spending in conditions of extremely low living standard. What Serbia really needs is GDP growth and focus of all measures of its economic policy towards reaching this goal. The desired effects of reducing the relative share of public spending in GDP, followed by the gradual increase in living standards can be achieved only with GDP growth.

Electric power industry and the agriculture – two key pillars

During all this time, two most important factors of economic sovereignty, as well as maintenance of social peace were the electric power industry and the agriculture. In that sense electric power industry and the agro food complex are the two key areas on which investments should be focused on. This does not mean that the investment is not required in other sectors, but the mentioned sectors needs to be a priority. Focus should be on the electric power industry for the reasons of its ability to create the conditions for the desired growth of industrial production, and on the agricultural and food complex because of its potential for contribution to the growth of the gross value of the national economy.

For example, few years ago Economics institute has been engaged in drafting the study of direct and indirect effects of electricity pricing policy in Serbia. In the period from 2001 to 2011 we have consistently, and above all, in order to maintain social peace main-

tained the price of electricity among the lowest in Europe. Thus, the poorest European countries had electricity prices by around 40 per cent higher than in Serbia. The result of such price policy was a missed chance for generating additional 500 million to 1.5 billion euros revenue per year by Public Enterprise Elektroprivreda Srbije, or 5 to 15 billion euros for the entire 10 year period. That amount is more than all the perceived needs for investment in PE EPS over the next 10 years. That's more than the total revenue generated from privatization. It's more than the emerging debt in the same period. What did we get? Situation in which the production and technological readiness of energy capacity has to be observed as limiting factor for industrial production growth. Also we got dilemma whether we can keep electricity as a factor of our sovereignty in the years to come. My opinion is that the electric power industry is the sector that should have priority in investing decision. If we do not do that, we simply would not have enough electricity for the growth of industrial production and for the uninterrupted industry operations. For this to be feasible and sustainable in the long term, it is necessary to relocate the social policy away from the Electric Power Industry of Serbia.

Another interesting example is the agricultural and food complex. Today its importance in the economic structure is still very high. However less bad does not necessarily mean good, because the good part of sector's increasing importance is the result of poor conditions in other sectors rather than the result of increasing in production productivity. Gross value of Serbian agricultural production is at a level of around 4.5 billion euros. With the resources that we have, along with the increased gross value of agricultural production per hectare, just on the average level in the EU, Serbia would generate around 12 billion euros per year from agriculture alone. For instance, if we would increase our production per hectare on the level of the Nether-

lands, the entire amount that we would generate from agriculture would exceed around 70 billion euros.

It is for these reasons the Energy Strategy and the Strategy of Serbian agribusiness should be a key national development documents approved by the National Assembly, and as such they should be a benchmark for the overall management of economic and industrial policies. Since these are the most important national resources, these long term strategies must be implemented continuously and without any discontinuity as a result of daily political circumstances.

Public sector cry for professionalization

Also, in the future it is necessary to implement fiscal consolidation and reform of public administration and public enterprises. Although fiscal consolidation on the revenue side of the budget was performed more or less quickly and uniquely (changes in tax law at the end of 2012), on the other hand a system of savings on the expenditure side of the budget has not yet been defined. Decision to limit (freeze) salaries and pensions was abandoned, despite the facts that they are the largest expenditure item of the budget. Pensioners are not the most vulnerable groups in Serbia, the unemployed are. It is better to freeze pensions than to make savings on investments, because it reduces the chances for employment and for economy growth. When it comes to the reform of public administration, the direction on which should be moving is professionalization. When it comes to the reform of public enterprises, the emphasis should be on corporatization rather than selling. It is necessary for the State to abandoned a practise of irresponsible manager and to become a responsible owner. As per Serbian saying „No one would put house on fire to scare away mice from the attic“ or „No one makes greater damage in order to mitigate the smaller one“.



(Non)developmental Road

The Serbian industrial production in 1999 was at a level of 34 per cent of those from the year 1989, while in 2012 it reached the level of 40 per cent. The growth of industrial production in the last 13 years combine was at the modest level of 5.5 per cent. Employment from 1989 to 1999 has decreased by 12 per cent and from 1999 to 2010 by 14 per cent, which combine makes the total employment reduction in the observed period by 26 per cent. Through the process of privatization 3,900 companies has been sold generating the revenue of approximately 5 billion euros. External debt has increased by the additional 16 billion euros, from 10 billion in 2000 to 26.3 billion in the year 2012, or on the level of 76 per cent of GDP.