

# Economic Indicators of Condition and Tendencies of Serbian Economy

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## ABSTRACT

*Global economic crisis has, following financial crisis, hit real sector, and as after effect, large number, mostly developed countries in the world are in recession. Serbian industry is also influenced by global economic crisis. Outer debt is significantly and constantly increasing since beginning of transition process. Main cause to it is rather large disproportion between import and export. Trends in structure of outer debt indicate on notable decrease of national debt on account to private one, during whole transition period. On short term there is no significant risk for country on account of outer debt, but for long term elimination of this risk, it is necessary to considerably increase total export. Former policies should be linked to unconventional employment initiatives, as for new labour, as for redundant ones from restructuring economy branches. State has prominent role in transition process, by helping market exhibit its functions through physical and institutional infrastructure, as well through public sector, removing most of the market obstacles, and stimulating technical-technological development and education.*

**KEY WORDS:** *economic indicators, economy, transition, tendencies.*

**JEL CLASSIFICATION:** *A10, E0, E29*

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## INTRODUCTION

With market openings, countries in transition, among them Serbia as well, have become more interesting for investors which sought opportunities to enlarge their funds. Certain national industries have focused on adjusting of law regulations, building of institutions, and expanding of market autonomy, so they could improve on that way their image and activities, in other words become more attractive in investors' eyes. Analysis of impact on transitional economies has shown that foreign direct investments have contributed to elimination of most of macro economical structural biases, inherited from times of government and socialism domination.

High funds inflow from abroad, in general was positively represented, nevertheless often it was displayed that surplus can cause headaches. Funds inflow positively affects investments, e.g. economy growth, and also increases domicile consumption. On the other hand, inproportially large fund inflow related to domicile production, can lead to excessive consumption – aggregate demand, and transferably to inflation, and/or excessive import.

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Further consequences are reflected in decrease of industry competitiveness, increase of current deficit of payment balance and outer debt. Therefore, economy policy should react in situations of high inflow of funds from abroad, which would prevent influence of negative side effects on macroeconomic state stability. As well, in long term, in export increment it has to be found main factor for outer imbalance eliminating.

### 1. IMPORTANT ECONOMIC INDICATORS OF ECONOMY CONDITION IN WORLD AND SERBIA

According the estimations of IMF, growth rate of world economy in 2009 will be 2,2%, and in 2010 expectation for it's' value is around 4,6%. In EU countries and USA were came to fall of economic activities in compare with previous year (Table 1). Economy growth of EU countries in 2010 is estimated on 2,8%, while economy growth of USA will be in same year around 2,3%. Growth of world trade was 7,2% in 2008, until the end of 2009 is expected its' increment for 2,1%, as for 7,1% in 2010. Slowing down of world economy and trade growth, especially of economic activities in EU countries, have strong influence on economic flows in Republic of Serbia. Big impacts are from economic movements achieved in countries which highly participate in trade exchange with Serbia, in other words which represent its' major foreign trade partners. According the projections of macroeconomic indicators for the period 2009-2011, real sector will accomplish GDP growth, which will be cumulatively for one third lower in compare to previous year.

**Table 1. Relative values of some economic indicators on macro level**

Indicator (%)	Year		
	2008	2009	2010
Real GDP growth			
- World - total	3,7	2,2	4,6
- EU	1,5	-0,2	2,8
- USA	1,4	-0,7	2,3
Growth of world trade	7,2	2,1	7,1

Source: IMF, World economic outlook, 2009.

This is consequence of, before all, global financial crisis, which forego to recession in leading world economies, what indispensably brought to slowdown of Serbian economy growth. Because of employees deprivation wave and has not finished process of public companies restructuring yet, unemployment rate in Serbia is still after eight years of transition to high, and it goes up to 20% (Table 2). It is estimated that until the end of 2009 unemployment rate will be grown up, while in next two years it can be expected its' decrease for 1%.

**Table 2. Relative value of economic indicators for Republic of Serbia**

Indicator (%)	Year		
	2008	2009	2010
Yearly rates of real GDP growth	6,0	3,5	4,5
Inflation	11,1	8,2	6,2
Unemployment rate	18,8	19,0	18,7
Gross debt (% of GDP)	30,0	28,6	27,8

Source: Republic Development Bureau (2009)

For period 2009-2011 was anticipated GDP increment from 3,5% to 4,5%, followed by decreased inflation to 6% in 2011 (Table 3). Deviation of achieved from projected macroeconomic indicators, also negative affects on investments inflows (often projected one digit inflation is overlapped by accomplished two digits inflation) what aggravate business planning and management of HR policy into the company, and at the same time increase investment risk. From demand point of view, biggest contribution to increment of GDP is expected from personal consumption, where in average this category should contribute with around 2,9%. Expected moderate slowdown of banks' credit activity in area of consumer credits, as well as commencement of instalment of prior taken credits from same category, will mostly affect on slowing down of personal consumption. Also expectations are that increase of salaries in private sector will in observed period follows dynamics of productivity growth. Price changes and planned inflations are based upon: planned monetary policies of NBS; restrictive fiscal policies and control of salaries in state sector and public enterprises; planed dynamics of price disparity clearance; establishing of competitive ambience. Total outer debt of Serbia will increase its participation in GDP, from achieved approximately 64% in 2008, it is expected its' rise to around 73% in 2011. Also is expected that ratio "outer debt/exported goods and services" stays on relatively high level, around 235% in analysed three-year period.

**Table 3. Accomplished and planned economic indicators in Serbia for the period 2008-2011**

Indicator	Year			
	2008.	2009.	2010.	2011.
GDP per capita (in EUR)	4.597	4.818	5.080	5.527
Yearly rates of real GDP growth (%)	6,0	3,5	4,5	6,0
Real increment of some GDP components (%)				
- <i>Personal expenditure</i>	11,1	3,2	4,2	4,3
- <i>Public expenditure</i>	2,4	1,0	0,8	3,2
- <i>Investments</i>	8,4	- 4,1	9,8	12,9
- <i>Export of goods and services</i>	14,3	- 3,9	12,1	13,2
- <i>Import of goods and services</i>	15,4	- 5,0	8,2	8,4
Inflation at the end of year (%)	9,5	8,0	6,5	6,0

Source: Ministry of finance of Republic of Serbia

On relevance and reliability of stated estimations affect: a) *global risks*, like deepening of global economical crisis; larger fall than expected of economic growth of leading world economies and significant Serbian foreign trade partners; withdrawal of investors from developing countries and Serbia; more restrictive terms of credit approval; and others; b) *internal risks*, like sharp decrease of aggregate demand; inflation; fluttering exchange rate RSD - EUR; failed implementation of planned reforms and measures of economic policy; larger decrease then expected in FDI inflow; increase of risk premium for foreign credits to local economy subjects; political risks; and others (Subić et al., 2007). Key macro economical risk which Serbian economy is facing is sharp and notable decrement of foreign funds inflow, what complicates coverage of high deficit in current balance of payments, and launches mechanism of balance of payments crisis – decreasing of foreign exchange reserves, undervaluation of RSD, inflation, slowing down of economic growth, in sustainability of outer solvency etc.

**Table 4. Contribution of aggregate demand categories to real growth of Serbian GDP (percent points)**

Year	Investment in fixed funds	Personal expenditure	Public expenditure	Net export
2007.	3,7	8,7	2,0	-7,3
2008.	1,8	8,0	0,4	-4,3
2009.	-0,9	2,4	0,2	1,8
2010.	2,0	3,2	0,1	-0,9
2011.	2,8	3,2	0,5	-,05

Source: Ministry of finance of Republic of Serbia

Investments in permanent assets in Serbia, during 2009, are reflecting badly on GDP, bringing to fall of GDP for 0,9%, while in years of 2010 and 2011 contribution of investments to GDP growth would be around 2,0%, and 2,8% (Table 4).

By restrictive fiscal policy in domain of earnings, and goods and services consumption real increase of public expenditures for 1% is expected in 2009 (Table 3). At other side, this category of aggregate demand in 2010 and 2011 should have real growth rate from 0,8%, and 3,2%. Export of goods and services (in EUR) in observed period should be grown per rate from 7,4%, and import of goods and services in same period will be increase for 4%, what will contribute to decrement of foreign trade account deficit participation from 21,3% of GDP in 2009, on 19,5% of GDP in 2011.

Key role in achieving of economic policy goals has coordination in creation and leading of monetary and fiscal policies (Colombatto, 2006). Fiscal policy will ensure reduction of public expenditures on all levels through decreasing of current spending, as it will contribute to the rise of economic activities by the larger capital investments, before all in infrastructure. Monetary policy, in combination with fiscal one, will be focused on accomplishment of planned inflation by the predominant usage of market instruments of monetary regulation. Acceleration of economic reforms in 2009, as in next two years, what is typical for the second phase of transition, has crucial importance on long term sustainable growth and stability of Serbian economy.

Deficit of consolidated public sector in Serbia is estimated in 2009 on 1,4% of GDP (Table 5 and 6). For 2010 and 2011 is forecasted further deficit decreasing on 1 %, and 0,7 % of GDP. Incomes estimation for period 2009-2011 is based on relevant macroeconomic indicators for specified categories of incomes, as on planned changes of fiscal, duty and excise policies. During 2009 significant income is accomplished from the part of public companies profit achieved in 2008, in other words assets which were transferred into the republic budget according the rights which government have into these companies. Profit achievement of public companies in next period, like transferable part of profit too, will be depend as from movement of economic activities in state, as from ending of restructuring processes of these companies and government share size into their capital.

For long term viable economy development is important, besides privatization process, and creation of competitive business ambient too, in other words necessary conditions for free market competition in which all participants will be equal, accomplished transaction costs minimal, and monopolies adequately regulated. Such like ambient will be encouraged entrepreneurship initiatives, business and technological innovations, as competitiveness of economy entities, while at other side it will push away beneficitation through privileges and corruption.

**Table 5. Planned consolidated incomes of Serbia in period 2009 - 2011. (In % of GDP)**

Indicator	Year		
	2009.	2010.	2011.
Public incomes	47,4	46,8	46,8
I Current incomes	41,9	41,6	41,6
1. Fiscal incomes	36,4	36,4	36,4
1.1 Duty	1,7	1,3	1,1
1.2 Citizens income tax	4,8	4,8	4,8
1.3 Companies income tax	1,6	1,7	1,9
1.4 VAT	11,1	11,1	11,1
1.5 Excise	4,3	4,4	4,5
1.6 Estate tax	0,7	0,7	0,7
1.7 Other fiscal incomes	0,6	0,6	0,6
1.8 Social insurance	11,7	11,7	11,7
2. Non fiscal incomes	5,5	5,2	5,2
3. Capital incomes	...	...	...

Source: Ministry of finance of Republic of Serbia

**Table 6. Planned consolidated expenditures of Serbia in period 2009 – 2011 (In % of GDP)**

Indicator	Year		
	2009.	2010.	2011.
Public expenditures	43,3	42,7	42,3
1. Current expenditures	38,9	38,1	37,4
1.1 Expenditures for employees	10,1	9,8	9,7
1.2 Purchasing of goods and services	7,0	6,7	6,3
1.3 Interest repayment	0,9	0,9	1,0
1.4 Subsidies	2,1	2,0	2,0
1.5 Social care and transfers to population	18,2	18,0	17,6
1.6 Other current expenditures	0,7	0,7	0,8
2. Capital expenditures	3,7	4,1	4,4
3. Net budget loans	0,7	0,5	0,5

Source: Ministry of finance of Republic of Serbia (2008, December)

Fiscal policy has crucial role in fulfilment of macroeconomic goals (Greenspan, 2007). Sustainable growth of GDP requires significant decrease in domicile demand and increase in domicile supply. Demand decrement is based upon strong fiscal adjustments, starting from current year. Decrease of public expenditures and fiscal deficit, especially deficit of republic budget, represent key action for reducing of domicile demand and conditionally fall of inflation rate, import and foreign trade deficit in following years. Resumption of tax system reforms, which is by now stimulant and competitive comparing to region, looks promising, and all with a view to create adequate terms of enhanced investments and increase in employment. Higher level of state investments into physical and institutional infrastructure is one of the limiting factors to attraction of private investments, primary factor of long-term sustainable economic growth. Therefore certain measures are being taken, as: slower rate of average salaries growth then nominal growth of GDP,

commercialisation of certain activities, etc. Further reforms of state administration and public offices would enable cost decreasing, primarily for number of employees and their salaries in these departments, and consequentially through increase in work efficiency and through rendering more quality services of these departments.

Key for fulfilment of main goal of fiscal policy in following period, presented in preservation of macro economical stability, is decreasing in state current expenditure, presented in percents of GDP. Premises for that are contained in relative decrease of three main categories of expenditure: salaries of employees in state and public sector (including reducing of employees' number), transfer to population regarding pensions, and state subventions (Hagen, 2007). These expenditures ought to grow at slower rate in following medium-term period than nominal growth of GDP. Planned expenditures in observed period, 2009-2011 would have to bring to decrement of public expenditures by 1%. Public expenditures will be reduced in segment of current expenditures for 1,5% in mentioned period, while capital investments should grow at rate larger than nominal growth of GDP and thus increase their participation in structure of GDP by the end of 2011. Public finances of Republic of Serbia face numerous risks, making state fiscal position highly unstable. There should be mentioned that success in managing fiscal risks depends most on political, macro economical, and social conditions in country and in region.

## 2. ECONOMIC PARAMETERS OF SERBIAN ECONOMY – PLANS AND FORECASTS

In Serbia, within reconstruction of existing and building up of new infrastructural capacities, realisation of numerous investment projects has been planed. Basic mechanism of financing will lean on increment of public debt, which will enable financing of Corridor X, reconstruction of railway network, construction of irrigation systems and many other projects of high importance for further economic development of Serbia. New debt will mostly represent indirect obligation of Republic of Serbia. Public debt flux is directly linked to macro economical flux. Public debt is direct consequence of fiscal policies from former period; therefore only competent fiscal policy provides its sustainability, where under sustainability is considered ability of Serbia to ordinarily handle its obligations towards domicile and foreign creditors.

**Table 7. Planned Serbia's payments toward the biggest creditors in period 2009-2011**

Debt (in million)	Currency	Indicator	Year		
			2009	2010	2011
Old foreign currency saving	EUR	Principal	249,4	260,2	274,9
IBRD	EUR	Principal	17,0	71,5	71,5
		Interest	22,2	89,5	85,3
Parisian club	USA \$	Principal	88,5	86,0	78,4
		Interest	102,8	84,6	87,6
London club	USA \$	Principal	...	71,7	71,7
		Interest	40,3	71,4	66,5

Source: Ministry of finance of Republic of Serbia (2008, December)

Parallel to coordination of authorized institutions, in further period there is a need of Ministry of finance capacity improvement in area of public debt managing, as well as development of organizational system that will guarantee successful fulfilment of main goals of public finances in area of public debt. Expectations are that by the end 2011 republic system for public debt managing, as one of priorities in reform of Serbian public finances (Table 7), should be uplifted at level of developed European countries. In this period process of Serbia's accession to EU will be paced up, as well as process of joining Serbia to WTO, and of course cooperation within South-East Europe region will be enhanced, in the frame of regional council for cooperation and CEFTA agreement, which was ratified by all countries of mentioned region. Taking paced up economical and other reforms in concern, which are anticipated by Stabilisation and Association Agreement (SAA), it is expected that Serbia will, by the end of 2012, reach all necessary conditions for entering into EU.

Interesting is presentation of forecasted macroeconomic effects, which will be achieved according expected scenarios of accession, or in accession of Serbia to EU (Study – effects of Serbian integration into EU, Table 8). Assumption is that turning year of possible joining to family of European countries is 2014.

Actual standpoint and prognosis connected to probable incoming is that gains will be higher than costs of integration with EU. By analysis, potential political and economical processes are expressed in currency. Results show that differences between that, what will Serbia has to invest and that, what will get as EU member state, in other words net financial effects, will be around 1,5% of GDP. Accession to EU will enable easier and larger approach to non credit resources for current deficit financing, before all to FDI and funds which will be used for macroeconomic adjustment. Dominant part of macroeconomic gains is with long term character, as after effect of market enlargement for domestic producers and stronger competition on national market. Expected inflator pressure will be not expressed, while membership will get cheaper credits, as for state like debtor, as for local economic entities and population (Katić et al., 2009).

**Table 8. Possible macro economic effects of Serbia's accession to EU**

<b>Expected macroeconomic effects</b>	<b>Observed fiscal year</b>	<b>Scenario A without accession</b>	<b>Scenario B with accession</b>
<b>GDP</b>			
Growth rate (in %)	2015.	3,4	4,7
Per capita, in EUR	2015.	5.530	6.075
<b>Personal expenditure</b>			
Per capita, in EUR	2015.	3.280	4.250
<b>Investments</b>			
Per capita, in EUR	2015.	1.380	1.880
% of GDP	2015.	25	31
<b>Export</b>			
Per capita, in EUR	2015.	2.250	2.280
% of GDP	2015.	37	47
<b>Import</b>			
Per capita, in EUR	2015.	2.850	3.900
% of GDP	2015.	47	64

<b>Deficit of current account</b>			
% of GDP	2015.	5	10
<b>Foreign direct investments</b>			
Per capita, in EUR	2015.	1.400	2.300
% of GDP	2015.	5,5	8,2
<b>Foreign currency reserves</b>			
In billion EUR	2015.	6,1	10,2
<b>External debt</b>			
Per capita, in EUR	2015.	2.870	3.350
% of GDP	2015.	51,9	60,6

Source: Politika, <http://www.politika.rs/rubrike/Ekonomija/106052.sr.html>

By achieving of macroeconomic stability, with further liberalization of economic regime, as with progress in regional and European integrations, relatively cheap rate labour force, tax allowance and national treatment of foreign investors, is expected high inflow of foreign direct investments. Improvement of business and investment ambience will enable faster growth of Greenfield investments, key factor of economy growth, new investments and employment. Establishment of new legislative about concession and other forms of cooperation between public and private sector will also contribute on high inflow of FDI, what will improve investment possibility by this model. How is better employment one of the priorities of economic policy, it is needed to constitute, as precondition of investment, an adequate financial stimulations for existed and future employers.

Gradual foreign trade liberalization and improvement of competition policy indirectly will contribute to price forming in competitive conditions. Also will be continued prices adjustment in area of natural monopolies on economical principles. Fiscal policy in upcoming period has to answer on challenges connected to macroeconomic and financial stability preservation, in the conditions of worsening of global financial and economic surrounding (Porter, 2008). During the next mid term period will be taken up all necessary measures and activities related to establishing of business market principles in all segments of economy.

For example in mining sector is planning improvement of mining industry competitiveness, with reduction of business costs and implementation of modern information technologies. Main goal of energetic sector in next period is securing of safe, more qualitative and reliable energy distribution to all potential consumers (Panic, 2007). That will achieve through: - further modernization of republic energetic system, which includes modernization of all local systems under its management; - opening of electric energy and natural gas markets, according to verified Contract of energetic partnership establishment among EU countries and Albany, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, Serbia and Interim mission of UN on Kosovo, related to resolution 1244 of UN security council, with the stimulation of energy system competitiveness and adjustment to the EU energetic regulations and polices; - conduction of regulatory and organizational measures with the aim to stimulate larger usage of renewable energy resources, as bringing out of Strategy of clean development mechanism appliance, agreeable to provisions of Kyoto protocol and frame convention of UN about climate changes.

Also will be led active industrial policy directed as to the structural adjustment of complete industrial sector, as to adjustment of certain industrial branches. Highly important role in more active foreign investor attraction has closure of privatization process, accompanying

with efficient restructuring of big industrial companies, before all in car, metal and chemical industry, in other words in industries in which is expecting larger interest of investor for their consolidation and further investment. For improvement of industrial sector, will be focused financing of cleaner, modern and in world verified technologies, then more efficient usage of raw materials and production of ecologically acceptable products, usage of waste as energy resources, adjustment of educational system to new market requirements.

In field of agriculture, main goals of reform are contained in (Cicea et. al.): increment of competitiveness and effectiveness of agricultural production; ensuring safe and highly qualitative food produced for domestic consumption and exportation; supporting of viable rural areas development; environment protection from harmful influences of technological processes in agriculture; preparation for WTO and EU accession; etc. Reform of agricultural sector requires certain changes in Strategy of Serbian agriculture development, what will enable completing of existing legislative, establishing of new institutions, proper land reform and privatization in agriculture. In last few years exists strong support to implementation of relevant standards in segment of food safety, at first HACCP and Euro GAP standards, as protection and control of geographical origin of agro food products. In critical periods, as in present time, above mentioned goals has stronger meaning, how sector of agriculture suffer the most of consequences because of lower demand for its products, impossibility to sale produced goods and to execute obligations on borrowed credits.

In forestry, main goals of reform are contained in: securing of economic, ecologic and social functions of forests; adequate forests protection and preservation; improvement of their condition and establishing of new forest areas.

For more efficiency water resources management, after passing of National strategy of water management development and new legislation of water resources, some sub legal acts and regulations from this field are enacted, in accordance as with EU water framework directive, as with other EU directives and standards connected to the water.

Establishing of efficient and integral system for environmental protection bring out National strategy of viable development. Special importance is given to legislative which regulates certain fields significant for environmental protection: law of packing material and packing material waste; law of waste management; law of air protection; law of biocide; law of nature protection; other laws important for stimulating and directing of professional and financial potentials to economic development of Republic.

For increasing of volume and better quality of transportation services, as for more efficient flow of all segments of traffic, based on Strategy of railway, road, air and intermodal transportation from 2008, adequate measures were taken for ensuring of existing traffic infrastructure improvement (Trbović, 2009). Until the end of 2010 it is planned growth of given transportation services for 20%. In area of communication, taken activities are directed to the further telecommunication services market liberalization, establishment of competitive relations and enlargement of investments in development of existing systems of telecommunication infrastructure.

System legislative which regulates inner Serbian market is intensively adjusted with regulations of WTO and EU. In accordance with Strategy of trade development, exertions are in building of institutional surrounding for viable development of trade and services, with achieving of their portion in GDP structure competent to average level within EU.

By Strategy of tourism development, some priority tourist destinations are determined, in which will be improved complete tourist infrastructure, in other words will be given support to local companies and organisations in field of tourism.

Process of Serbia's accession to EU requires institutional approach in solutions finding of all problems connected to regional development. According to that very important is adaption of Statistical territory units of EU nomenclature, i.e. NUTS classification, which represents standardized system of territorial division of Serbia, one of preconditions for usage of significant assets of before accession EU funds. Policy of regional development is defining next: adequate usage and management under development potentials of territorial units and wider regions of Serbia; help to territories which considerably stay behind in development, with decreasing of differences in development levels; removal of failures into the connections between basic units of local government, as in connections between local autonomies and central government; accelerated development of cross border cooperation.

## **CONCLUSIONS**

Hitherto rhythm of Serbian economy growth, does not guarantee its macro economical and political stability. Level of economical activity still remains low, capital market is failing, investments are not forwarded towards productive areas, inflow of FDI is decreasing, and indebtedness increasing. Matter here is not conventional recession due to hyper production, but transitional recession due to crises in hyper production and investment myopia in inefficient economy with high system risk. In such context it has been proved that increase in salaries in public sector was economically unjustifiable and inappropriate, as well as distribution of gratuitous shares. It is paradox that redundant labour are paid not to work through programmes of volunteer quitting, instead of employment increasing through unconventional initiatives implemented in industrial politics, or politics of regional development.

Promotion and popularization of investment activities are not possible without adjusted fiscal, monetary, foreign trade and legal system. IMF experts' advices for the sake of creation of convenient climate for enhanced investment activity direct us toward carrying out following measures: radical fiscal adjustments necessary for successful realisation of programmes of stabilizing economical flows and privatisation of companies in Serbia; public expenditures and deficit have to be limited to a level determined by real possibilities for their servicing; by means of restrictive monetary policy reduce inflation to reasonable extent (money supply should follow reached level of economical activity; convertibility of domicile currency; steady foreign exchange rate); reinstatement of state of law and setting up institutions that will guarantee and provide financial discipline in economy, through processes of insolvency, bankruptcy, termination or undertaking of unsuccessful companies; reforms in price segment through stimulation of mechanism for market determination of prices.

Experience with market economies explicitly shows that for achieved level of development, as for cultural and educational level of population, regulations have to be carried out on that way, in order that gradual liberalization leads economy in efficient mode. Current state of economy unfortunately provokes one of considerations, that surrender of economy to complete influence of market regularity could be lead it into condition of deep shock.

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