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REAL SECTOR IN SERBIA AND COUNTRIES IN REGION IN ECONOMIC CRISIS CONDITIONS

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Abstract: *The crisis in the USA and its frosting in the EU, which more has acquired the world character, has also certain negative consequences on our country. Considering high negative balance in international exchange, Serbia falls into most endangered countries in the Eastern Europe. The crisis has a great number of negative effects and it is clear that its scope and consenquences can be hardly perceived, but some urgent and all-inclusive measures are necessary for keeping the situation under control. In the paper, the authors firstly presented and analyze the effects of world economic crisis on Serbia and countries in the region, and than especially emphasized the negative influences of recession on Serbian companies functioning and business activities and measures for exceeding the emerged problems*

Key words*: global financial crisis, racionalization, countries in region, real sector*

Introduction

The global financial crisis, originated in the American market, has been experienced in the whole world. In time, the real dimension and size of the crisis has become more evident and clear. Even though the crisis emerged in the USA markets, for a short time it showed its influence on the markets in the whole world, which has confirmed the fact of inter-connection between markets in the world. These tendencies have indicated

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the global character of crisis and showed that the crisis has not been a local event. The recession is compared with the great world crisis from the 1929 that also became in the USA and caused the enormous damage in the American economy with the highest level of unemployment. The recovery of American economy lasted very long.

Economists quite argue over the origin of credit crisis in America. Some of them claim that the collapse has been caused by the exaggerated regulation of financial market and the other think that the absence of control and regulation has been the main „lawbreaker" of crisis in that segment of economy. But all of them agree about the fact that the recession became from housing or mortgage credits granted to citizens by banks. The main cause of crisis was credits that were granted disregarding income of credit seekers. Perceived the exceptionally uncollected credits banks were decided to issue bonds on the basis of stable monthly earnings. The bonds were buying by other banks which issued their bonds and the risk pyramidal increased at the world level.

Taking into account that the price of real estate was rising, as well as the mortgages, the mortgage „balloon" was growing. The credits were granted on the basis of sustained price growth, not on the real income, which led to the situation that borrowing money was based on sustained real estate price growth or its keeping. Actually, the whole financial system was based on unreal suppositions that value of something could rice constantly. The monthly installment for all credits was permanently changed and even increased in time and clients were not capable to service their obligations, so majority of them decided to sell their real estate. When the price of housing projects in the USA begun to decrease, banks deprived the housing projects from those who were not be able to service their obligations. With a view to provide necessary cash, the banks started to sell deprived mortgages, which caused further decrease in prices. The decrease in price of housing projects caused that the bonds based on housing projects lost their value.

This state brought the financial institutions that bought the mention bonds to a difficult situation. The banks that were faced with the cash problem were able to effect payment only by raising a loan from other financial institutions. However, since the environment was very indefinite and uncertain and risk borrowing was expensive, the activities in financial sector were narrower. This brought to the culmination of mistrust in financial market and responsible banks started to fail. The financial crisis started to show its influence on the real sector, too. And the financial economic crisis started to extend on the economy of other countries and became the world phenomenon.

Effects of economic crisis on Serbia and countries in region

Under estimation of the International Monetary Fund, all countries in region will record business depression influenced by the global financial crisis. Taking into account such prognosis, the countries have undertaken a number of measures on reduction of a consequence of global crisis, from stabilization of banking sector and tax reduction to cutting the unnecessary government expenditures. According to the statement of Stratford Agency, Croatia, Hungary, Romania, Bulgaria, Serbia, and Baltic countries are on the top of countries that will be a target of financial crisis [1]. For actual transition process, the countries of South-Eastern Europe are especially under the crisis' negative influence. However, it is important to stress that the mentioned countries are not in the same economic situation and therefore it is not relevant to pass an unique resolution of way of financial crisis influence on each of them.

Under estimation of the leading economists of the European Bank for Reconstruction and Development, Serbia falls into the group of six countries in transition that are most vulnerable on the negative effects of world financial crisis. [1] It is interesting an opinion of the leading economists that Serbian economy is not in recession, but in a serious social and economic crisis of a large scale without a visible end. The economy is faced with heavy losses, illiquidity, and increased unemployment. The crisis will mostly affect the sector of ferrous and non-ferrous metallurgy, automobile industry, industry of building materials, and that will also have certain indirect consequences, so each branch of industry will be affected.

Serbia is not immune on world crisis of mortgage loans, since its macroeconomic stability has based on foreign loans, revenues from privatization, and inflow of foreign direct investment, so Serbian economy is affected from the indirect effects. According to some estimation of most respectable banking groups in our country, GSP will decline for 2,5 percent on 29,5 milliard euros in 2009, and the decline will be slowed down in 2010 for 0,7 percent. The unemployed rate in 2010 will increase on 21, 5 percent in relation to the rate of 18 percent. Inflation in 2009 will be 7, 8 percent, and in 2010 will be 6, 2 percent, till in 2008 it was 11, 7 percent [3]. The direct foreign investment inflows will decline on 1,1 milliard euros from 1,9 milliard from 2008, and in 2010 it will rise again on 1,3 milliard euros. Deficit of current payment, which in 2008 was 17, 8 percent of gross domestic product, this year will decline to 10, 8 percent of gross domestic product, and in 2010 it decline on 9, 2 percent of gross domestic product [1]. Also, the business recession that has started in October 2008 will continue in 2009 and mostly affect export activities of Serbian economy, which will have a negative influence on the other companies that are in connection with the export sector. [10]

Serbia is faced the enormous problem of impossibility of receiving new credits from abroad. Foreign currency inflow based on selling companies to foreigners and green field investment has also significantly decreased, which is a consequence both of the world economic crisis and very low credit rating of Serbia. Foreign currency inflow based on current transfers has also been decreased (for about 6, 6%) and it has been specially decreased on the basis of export of goods and services – for about 21, 2% [8]. The consequence of these flows has been a significantly greater total foreign currency outflow than total foreign currency inflow (for about 200 million dollars), which has caused the depreciation of extremely overestimated national currency.

The fact that the index of most qualitative shares that is the share price of the best companies in Serbia, BELEX 15, has been drastically decreased also has indicated the great crisis in Serbian economy. The complete situation is aggravated by the external imbalance and greater foreign borrowing in the recession conditions when, in short-term, it is not possible for capital inflow in Middle and East Europe to be returned at the level from previous period.

The following table shows the flow of GDP and average rate of transition economies compared with the data from 2001. It is obvious that Serbia lags behind the other countries in region primarily because of late transition [7, p. 5].

Table 1: Gross Domestic Product

Transition economies	Million EURs		Average rate (%)	GDP/ EUR	
	2001	2008		2001	2008
Bulgaria	15.250	34.118	5,6	1900	4400
Romania	45.357	137.035	6,2	2000	6400
Hungary	59.521	105.244	3,4	5800	10500
Croatia	25.501	48.183	4,5	5000	11000
Slovenia	22.707	37.516	4,4	11400	18200
Serbia	13.186	33.750*	5,4	1723	4500*

Source: Eurostat, national statistics, RZR

Hungary is the regional country that unavoidable has sunk to deeper crisis. It was for long time in general the first country among the transition countries, but now it has got into rear position. During the first years after changing the social system, it was the leading country in the region concerning economic development, reforms of big systems, and foreign capital inflows. The difficulties in economy arisen after certain time, when it was recognized that numerous privatizations were, in fact, the miss which the country tried to hide through an excessive borrowing and often change of government that additionally got into debt with the view to fulfill the election promises. Besides the difficulties from the nearest past, Hungary has faced with the negative effects of global financial crisis, having in mind that its economy has been closely connected with the economies of most developed European countries. Hungary imports from Western Europe and almost exclusive exports to Western Europe. Such close connection of economies indicates the clear fact that recession in the West will mean a serious slowdown in economic growth in the East.

The catastrophic situation in Hungary is indicated by the fact that more than 30000 people loosed their jobs in the last ten months. A great number of stocks were loosed their value in the stock exchange. At this moment it is seems that the Hungarian economy is affected by the global crisis more than other former socialist countries which are the actual members of European Union. The reason for that is the big external debt as a significant sum of money that was borrowed by the government in Budapest and Hungarian countries and citizens.

Romania, that was recently a standard model of economic development in Central and South-Eastern Europe, also is faced with the dramatically increase of unemployment, especially in private sector. The economic crisis caused that 321 Romanian companies, mostly from the private sector, fired almost 34 thousands employees. The oil industry, automobile industry, chemical industry and building industry were mostly affected. In the report of International Monetary Fund it is estimated that in Romania, during last months, the global recession has influenced the deterioration of economic indicators, considerable decline of industrial production, and the trust of investors were also declined. As the measures for protection of crisis, some companies announced that they would reduce production or stop their activities. According to a survey made in this country, the half of small and medium enterprises in Romania have been strongly affected by economic crisis, till only two percent has induced that they have not felt the consequences of crisis. The situation is favor increasing uncertainty and decreasing foreign investors trust.

It is obvious that in Slovenia, the most developed country from the all republics of former Yugoslavia, the crisis has crossed a threshold, and inflation, dismissals, and bad results in economy are not unfamiliar, so therefore it is not discussible if it is necessary and economic correct to involve government in economic-financial flows. The influence of crisis is most evident in metal industry – iron and steel plant, aluminium production and all industries that are connected with automobile industry.

According to prognosis of European commission, the economic growth in Slovenia in the next two years will significantly decline and unemployment will increase. The results of the same research indicate that in this year Slovenia could expect the economic growth of only 0, 6%. The estimation of the IMF is that in these conditions Slovenian economy could have the negative rate of growth of 2, 7%, and in 2010 it will again have a negative growth at the rate of 1, 4%. The negative growth, according to the estimation of the IMF, is primarily caused by a slowdown in exports because of economic crisis in euro-zone and stronger credit terms. Trade, production, and investment have drastically decreased, till, on the other hand, unemployment and public debt have increased. In 2009 the unemployment will most probably reach 6, 2% of labor force, comparing with 4, 4% in 2008, before it will go down on 6, and 1% in the next year [9].

Global recession that belatedly has come in Croatia would mostly influence export-oriented companies, which has faced with sudden decline of order from foreign markets. Some initial analysis indicates that influence of recession will mostly reflect in sector of tourism and building. It is also expected a wave of bankruptcy of small and medium enterprises, which, because of growing illiquidity and high cost of financing, will not succeed in riding out the crisis. Dismissal of workers is announced, first of all in endangered branches, such as shipbuilding industry and wood manufacturing, but also in those economic activities that could be affected by global economic crisis. Croatia is especially vulnerable since it has an enormous budget and trade gap, as well as a great dependence of credit linked with foreign currency – primarily with euro.

The economic crisis, which spreader the most developed countries, has started „to damage” Bulgaria and the whole region of Southeast Europe. In Bulgaria the crisis in industrial production is most expressive. Dismissal of workers is also important in this country. A great number of small and medium enterprises are forced to send their workers on compulsory vacations because of their impossibility to receive bank credits. As a consequence of global crisis influence, in Bulgaria is more difficult to open credit – the interests increase and credit conditions become stricter. The