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IMPACT OF GLOBAL ECONOMIC CRISIS ON SERBIAN ECONOMY AND THE POSSIBILITIES OF ITS OVERCOMING

The aim of the paper is to analyse the current economic crisis and recession of the world economy and trade, as well as their impact on the functioning of Serbian economy from the aspect of contemporary literature. The paper starts with the presentation of primary causes of global financial and economic crisis. Furthermore, the attention is focused on the nature of transformation of economic crisis into global recession. This is followed by the elaboration of signs of recovery of the global economy and consequences of the new wave of crisis. The final part of the paper points to the possibilities of overcoming the impact of the global economic crisis on Serbian economy.
Keywords: *financial crisis; global economic crisis; insolvency crisis; recession; public debt crisis.*

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ВПЛИВ ГЛОБАЛЬНОЇ ЕКОНОМІЧНОЇ КРИЗИ НА СЕРБСЬКУ ЕКОНОМІКУ І МОЖЛИВОСТІ ЙОГО ПОДОЛАННЯ

У статті проаналізовано поточну економічну кризу і рецесію світової економіки і торгівлі, а також їх вплив на функціонування сербської економіки, що знайшло відображення у сучасній літературі. Описано першопричини глобальної фінансової і економічної кризи. Приділено увагу природі транформації економічної кризи в глобальну рецесію. Виділено ознаки відновлення глобальної економіки і наслідки нової хвилі кризи. Вказано на можливості подолання наслідків впливу глобальної економічної кризи на сербську економіку.
Ключові слова: *фінансова криза; глобальна економічна криза; криза платоспроможності; економічний спад; криза державного боргу.*
Рис. 1. Літ. 12.

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ВЛИЯНИЕ ГЛОБАЛЬНОГО ЭКОНОМИЧЕСКОГО КРИЗИСА НА СЕРБСКУЮ ЭКОНОМИКУ И ВОЗМОЖНОСТИ ЕГО ПРЕОДОЛЕНИЯ

В статье проанализированы текущий экономический кризис и рецессия мировой экономики и торговли, а также их влияние на функционирование сербской экономики, что нашло свое отображение в современной литературе. Описаны первопричины глобального финансового и экономического кризиса. Уделено внимание природе трансформации экономического кризиса в глобальную рецессию. Выделены признаки восстановления глобальной экономики и последствия новой волны кризиса. Указаны возможности преодоления последствий влияния глобального экономического кризиса на сербскую экономику.
Ключевые слова: *финансовый кризис; глобальный экономический кризис; кризис платежеспособности; экономический спад; кризис государственного долга.*

Introduction. Before the outbreak of the global economic crisis, financial turbulences in the world economy pointed to the scope and character of unfavourable

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movements. Challenges which the world economy is facing today are reflected in high and rising prices for energy and metal, balance of payments deficit of the USA, balance of payments disequilibrium and financial disturbances. Financial crisis originated in the USA, after which it spread to Europe and other markets. The start of the crisis was marked by the fall in real estate prices and inability of creditors to collect receivables. It also turned out that the collateral did not suffice for the purposes of securing the loans, which made banks, investment funds and other funds experience great losses. Due to globalization and high interdependence of the world economy, the crisis moved from the USA to other countries through two channels: 1) international trade; 2) foreign direct investments. At the end of 2009, the world economy and trade experienced mild recovery, and this trend continued in 2010. In the middle of 2011, another wave of crisis started in the USA and spilled over into the EU where it was manifested as a public debt crisis of its members. Serbia bore the brunt of the crisis again. This crisis significantly affected the reduction of export, influx of capital, decline in economic activity and increase of public debt. With the purpose of recovering from the global economic crisis and repeated recession, Serbia has to improve its infrastructure, increase export, increase the foreign direct investments influx, improve information technologies and implement financial and technological innovations to a fuller extent.

Primary causes of global financial and economic crisis. Global financial crisis broke out in America in the summer of 2007. In the first and second quarters of 2008 it transformed into real global economic crisis. That period was marked by *JPMorgan Chase Bank's* publishing of loss statement and statement of insolvency, as well as by the unrecorded assistance coming from the *US Federal Reserve*. After that, other big world financial institutions published loss statements. These included *Lehman Brothers* investment bank and the company for provision of financial services *Merrill Lynch* that was merged with the *Bank of America*. All these events marked the start of the recession that could not be stopped by the *US Federal Reserve* but had to be publicly announced. The crisis spread from the USA like a tsunami all over the world (Gorcic, 2009: 129).

The bankruptcy of *Lehman Brothers* in the middle of September 2008 marked the spillover of the global financial crisis on the economies of the EU. Due to this crisis, the EU countries entered the recession period unheard of since the World War II. After them, the crisis reached Russia and other post-transition economies. Finally, the crisis manifested itself in China, India, Brazil and other countries that based their growth on the expansion of the real sector.

The extent to which the world is economically and financially developed and networked determines the speed and width at which the crisis spreads, accelerates and multiplies. The strength of the shock wave of the crisis was influenced by the fact that it broke out in the country that stands for the major economic force in the world and with which economies of almost all other countries are directly or indirectly connected.

The crisis started in the summer of 2007 in the USA at the mortgage market that stood for one of the most developed markets and an almost certain low-risk profit. This crisis was manifested as *insolvency crisis* and was caused by difficult return of mortgage loans. After that, insolvency crisis grew into mortgage crisis of banks, crisis of other financial institutions, crisis of companies and their shares, as well as crisis of money and capital market (Gorcic, 2009: 129–130).

Mortgage crisis was known under the name of *subprime crisis*. The crisis was mainly caused by the approval of high-risk residential mortgage loans (*subprime lending*) to high-risk people. Such loans were supported by the American government that started to implement the program *"Affordable housing"* in 1992. Moreover, American government provided state guarantee for the loans that were approved by two private agencies – *Fannie Mae* and *Freddie Mac*, and stimulated commercial banks to approve subprime loans. Favourable loans increased the demand for real estate in the USA, which finally resulted in the rise in real estate prices by 124% in the period from 1997 to 2006 (Rosenberg, 2012: 69). Rise in the real estate prices in 2007 was stimulated by the approval of bank loans amounting to approximately 1.000 bln dollars. Besides, rise in the real estate prices was significantly influenced by the policy characterized by the reduction of Federal reserves basic interest rate from 5,25% in 2006 to 2% in September 2008. Consequently, such policy resulted in the placement of investment of cheap capital into long-term and capital-intensive projects such as real estate.

Majority of users of *subprime* loans counted only on the rise in interest rates in accordance with the loan terms and conditions, as well as on the rise in the prices of real estate that served as collateral. However, due to inability of loan return and fall in real estate prices in the USA, the balloon inflated with those derivatives burst. Fall in the value of real estate was especially manifested in 2006 and 2007, when it amounted to 6 bln USD, and in 2009, when it amounted to approximately 1.2 bln USD. In spite of the modest recovery of the real estate market in the first half of 2010, in the end of this year the value of real estate fell by approximately 0,6 bln USD (OECD Sees Eurozone GDP Rebound In 2012, 20.05.2012).

The crisis, whose epicentre was in the USA, had its shock wave and return wave. Shock wave seized the real sector and was manifested as the recession with the tendency of growing into depression. When this crisis is compared to the crises that affected developed countries in the last 30 years, it becomes clear that their essence is the same – unlimited greed for as much profit and commission as possible, as well as the desire to make risky investments to the extent that exceeds the regulatory limits.

Spreading of global economic crisis and recession. Financial crisis struck the real sector as well as the key industries of American economy. In the last quarter of 2007, economic growth was slowed down in America. In the period from December 2007 to February 2010, the unemployment rate in the USA doubled and reached 9.7%.

American crisis spread to the entire real economy due to (UNCTAD, 2009):

1. Limited availability of working capital loans, trade finance loans and loans for financing sustainable investments in the real economy.

2. Decisions to spend rationally, which resulted in the decline in production, employment and prices. This negatively affected the customers' and investors' trust.

3. Relationships between international trade and investments and remittance flows.

The crisis initially struck the financial sector of developed countries but it soon brought about the slowdown of economic growth and decline in the production in developed and other world countries. For that reason, the crisis got the characteristics of global recession. Synchronized recessions occurred several times in developed economies in the last 4 decades. The United States of America were in the centre of these recessions because of their strong trade and financial relations with the economies of other countries. Due to the big decline in production, trade and investments, recession occurring from 2007 to 2012 could be one of the deepest recessions after the Great Depression (Vyuptakesh, 2009).

Common practice has shown that recessions that are related to financial crisis, such as this one, are sharper and more persistent than the ones caused by other shocks. Mechanism of moving the crisis from the USA to other countries went through two channels: 1) international trade flows; 2) private capital flows (Bjelic, 2009: 219). The first flow was caused by the relationship between American economy and the world. If the import into the country that is struck by the crisis decreases, foreign trade partners of that country face the instant decrease of export into that country. Spreading of global economic crisis occurred in several waves. All countries were struck by this crisis to a greater or lesser degree because all of them participate in the world economy which is significantly globalized. All this had a negative impact on the scope of global export. In 2008, the growth of the total scope of world export of goods amounted to 2%, and in 2007 to 6%.

Data coming from the World Trade Organization show that in the middle of 2008 there was stagnation in world export, followed by the abrupt decline in world export. In the last quarter of 2008 and the first quarter of 2009 only, world export fell to the level held in the end of 2005. In the second quarter of 2009 a mild recovery was seen, as well as the first moderate growth of world export (Gorcic, 2009: 218).

Global economic crisis had a significant impact on the decline in scope and dynamics of foreign direct investments flows. Disturbances that occurred on financial markets and the slowdown of economic growth all over the world had a progressive impact on global foreign direct investments in 2008 and the first half of 2009. After incessant increase of foreign direct investments from 2003 to 2007, global foreign direct investment influx decreased by 14% in 2008 and reached 1.697 bln USD. In 2007, they amounted to 1.979 bln USD (Figure 1). After continuous growth that lasted for 5 years, FDI de facto reached the maximum in 2007, that is, 1.979 bln USD. However, in 2008, foreign direct investments started slowly decreasing, so that by the end of that year they amounted 1.697 bln USD (International Labour Office, 2010).

In the first half of 2009, FDI started decreasing at a faster rate, so that they reached 1.200 bln USD. When foreign direct investments are taken into consideration, global economic crisis has shown that transnational companies, struck by the crisis in their countries, currently withdraw capital from their branches and invest it into parent companies with the purpose of financing the survival of their headquarters. This is in contrast with economic logic, according to which it is better to invest capital in the economies not struck by the crisis and where the capital can find the fertile ground. That is exactly what happened in the countries in which there were branches of transnational companies. It seemed that their key strategy was to leave foreign markets and secure the survival of parent company with the idea to invest in developing countries once the crisis is gone.

At the end of 2008 and the beginning of 2009 economic crisis brought about the decline in value of all the components of foreign direct investments: 1) capital; 2) reinvested earnings; 3) other capital flows (mostly loans). This was especially expressed in developed countries. Capital investments decreased with the decrease of cross-border mergers and acquisitions. Lower profit of foreign branches decreased reinvested earnings in 2009 in particular. Consequently, there occurred a fall in the flow of capital from multinational companies to their foreign branches.

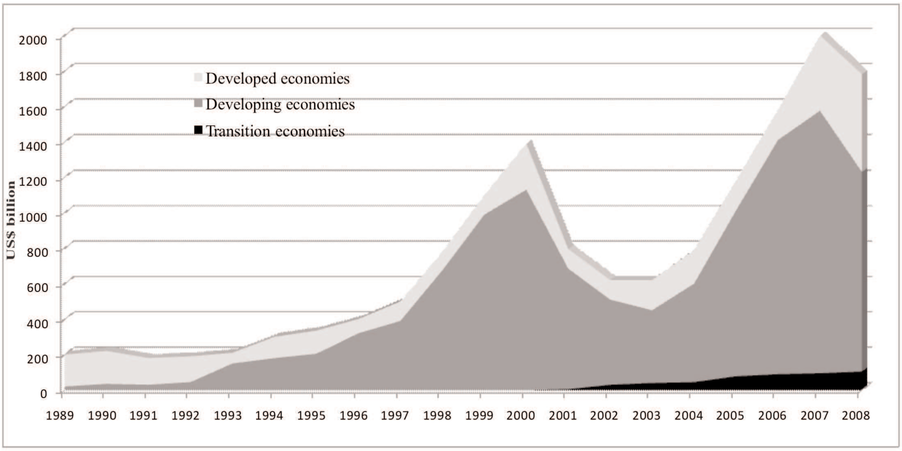

Figure 1. **FDI flows, globally and per groups of economies, 1989–2008,** *bln USD*

Recovery of global economy and a new wave of crisis. No one can predict with certainty for how long the global economic crisis will last. However, there are signs that point to the recovery of the world economy. In 2010 the world export of goods increased by 5.5% and reached 111.66 bln USD, whereas in 2009 it amounted 105.57 bln USD.

In 2010 the world trade increased four times faster than the world production although it is common for it to rise twice faster than the gross domestic product. Both export and production increased faster in developing countries than it was the case with developed ones. Real scope of export increased by 13% in developed countries and by 17% in developing ones. Import into developed countries increased by 11% in comparison to the increase of import by 18% in developing countries. These results in 2010 were influenced by high decline in trade in 2009 by 12% and the creation of global supply chains. These chains cause the situation in which the goods cross national borders several times in the course of production process, which makes the trade flow look bigger in comparison to previous years (Standard & Poor's Downgrades U.S. Credit Rating for First Time in History, 08.08.2011).

In spite of temporary recovery, negative impact of financial crisis and global recession will probably continue to manifest itself for some time. Majority of leading economies faced imbalance in the balance of trade in 2010 which was regarded as the year of recovery. Deficit of the USA in 2010 increased by 26% in relation to the situation in 2009. Trade surplus of China, in relation to industrial products, in 2010 was 7% lower than it was the case with the surplus in 2009. The European Union had the trade deficit with the rest of the world amounting to 190 bln USD, which was 26% higher than in 2009 but 49% lower than the deficit in 2008. In 2008, after the first wave of the financial crisis, Japan had surplus amounting to 19 bln USD, which was quadrupled in 2010

(Standard & Poor's Downgrades U.S. Credit Rating for First Time in History, 08.08.2011).

In 2011 another financial tsunami came from the USA. On August 8th, credit agency *Standard & Poor's* lowered the credit rating of the USA for the first time in history from the level AAA to the level AA+. The crisis quickly moved and seized the European Union, manifesting itself as the *public debt crisis* of these countries. Crisis struck Greece whose high public debt amounted to 390 bln euro. Debt crisis had a domino effect so that it struck other countries of the Eurozone as well, such as Italy, Spain, Portugal, Ireland, Germany and France. According to the data of Eurostat, Greece has the highest debt (159.1%) when seen in relation to the gross domestic product. Greece is followed by Italy (119.6%), Portugal (110.1%) and Ireland (104.9%). These countries were forced to ask International Monetary Fund for assistance in restructuring the debt with the purpose of easier implementation of fiscal and economic reforms. IMF reacted by providing them with certain financial assistance packages but also required they should take fiscal austerity measures and implement structural reforms. This kind of assistance within the Eurozone caused the strengthening of euro in relation to dollar, which additionally worsened the competitiveness of over-indebted European countries. In this kind of situation, improvement of competitiveness of these countries would require depreciation of euro.

In the first 3 months of 2012, world stock markets showed signs of significant recovery. Due to its growth of 11%, American stock market reached the level at which it was one year before the outbreak of the world economic crisis. In 2012 growth of global gross domestic product will amount to approximately 3.4%. The expected growth of gross domestic product of the USA in 2012 is approximately 2.6%.

European stock markets follow the trend of their American counterparts. In the first quarter of 2012, countries of the Eurozone avoided the expected decline in economic growth by 0.2% mostly because of high export and economic growth of Germany by 0.5% (Milovanovic, 2011). According to the estimates of the experts from the OECD, real growth of gross domestic product in countries of the Eurozone in 2013 will amount to approximately 0.9% (Buoyant Germany allows euro zone to avoid recession, 20.05.2012).

The latest economic results in China and India could point to a slow recovery of global economy. Industrial production in China increased in April this year by 9.3% per annum, which has been the lowest level in almost 3 years.

Global economic crisis and the recovery of Serbian economy. Under the conditions of modern business, it is impossible to remain isolated from the effects of global crisis. This was proved by the cases of crisis in 2008 and 2009, as well as by the new crisis that occurred in 2011 and 2012. All the countries in the region are to some extent networked with the world market via export, investments and banking, so it is difficult to find an efficient way in which they could be isolated from the effects of crisis.

Negative effects of the crisis are manifested in Serbia as well. First, slowdown of economic growth and fall in demand in the EU directly affect the decrease of export from Serbia. Second, problems within the real sector and recession climate do not favour foreign investors, which is why it cannot be expected that investments in Serbia will reach the planned volume of approximately 3 bln euro per annum. Third, the crisis negatively affects the banking sector as well due to the fact that foreign banks withdraw capital from their accounts in Serbia and put it into the accounts of parent banks in some other country in which higher profits could be expected.

Economic movements in the EU have a strong influence on Serbian economy, which is justified by the fact that Serbia realizes approximately 80% of its export in the EU countries and countries in the region that are not members of the EU but that are highly dependent on it. Due to low individual and state savings, investments in Serbia are highly dependent on the influx of foreign capital that comes mainly from the EU.

Global economic crisis increased negative effects of the transition crisis which has been present in Serbia for more than two decades. Serbia failed to benefit from the positive conjuncture of the world economy in the first half of the previous decade. Influx of capital obtained from export, foreign remittances, foreign direct investments, debts and privatization was not used for the establishment of efficient and sustainable economic system on a long-term basis. Wrong privatization model in Serbia almost completely destroyed the real sector, that is, industry and agriculture. Real sector is much more exposed to negative effects of the crisis than it is the case with financial sector dominated by foreign owners. In the second half, and especially the last quarter of 2011, Serbia faced the recession. For that reason, Serbia's real economic growth amounted 1.6% and not to officially projected 2%.

Starting from the middle of 2011, export, which stood for one of the main driving forces of development in the last two years, started to slow down. Slowdown of export was caused by the fall in export demand, as well as by deterioration in price competitiveness due to high appreciation of dinar in 2011. Fiscal deficit increased from planned 4.1% of gross domestic product to 4.5% of gross domestic product, which caused the increase of public debt above the projected limit of 45% of GDP (Arsic, 2011: 5). This level of debt is relatively high for Serbia, due to the fact that Serbia stood for the country with low credit rating even under stable conditions. These facts are even more striking in the period marked by economic crisis and lack of trust of investors.

In the future period, economic growth of Serbia will largely depend on the development of crisis in Europe. International Monetary Fund's predictions are that the growth rate in 2012 will be 0.5%. Since the export from Serbia to Italy decreased by more than 1/5, that negative trend could be amortized by the expansion of bilateral cooperation with Bulgaria, Romania, Hungary, Czech Republic, Slovakia and Poland which stand for the countries that achieve certain economic growth. Besides, Serbia should intensify bilateral cooperation with Russia and Turkey as well as other countries that are not members of the EU but which achieve significant economic growth. Serbia can see a positive example in Germany which managed to compensate the fall in export to Greece, Spain, Portugal and Italy by growth of export to China, Russian Federation and the USA. With the purpose of increasing export, especially to China, Kazakhstan and Brazil, Serbia has to focus on joint appearance which involves the process of joining of the same or similar producers with the purpose of reducing costs of marketing and transport. Export to Saudi Arabia, which stands for the great exporter of oil but faces food deficits, might be another export chance for Serbia.

Conclusion. Global economic crisis is primarily the result of fundamental structural weaknesses that have existed in the field of financial regulations and control for years and that consequently resulted from the idea on unlimited liberalization of financial markets. Financial crisis originated in the USA when the so-called housing bubble burst and broke the global financial system. The USA faced the fall in real estate prices and the inability of creditors to collect their receivables.

Effects of world financial crisis spilled over into the real sector, which was expressed through the lack of capital, worsening of borrowing conditions, increase of interest rates and shortening of loan return periods. Companies became more cautious within investment processes under the conditions of crisis. Moreover, FDI flows experienced record falls.

New wave of public debt crisis that seized great number of the Eurozone members in the second half of 2011 stopped the mild recovery of European economies, whereas some of them faced new recession. Inability of the EU to solve the problem of public debt of its members, decrease high unemployment rate and increase competitiveness in relation to other parts of the world endangered the survival of Eurozone and the EU itself.

In case of deeper and longer crisis in the EU, Serbian economy in the future might be in a position to realize lower growth rates than the planned ones. Nevertheless, at the beginning of 2012 world stock markets recorded the growth of majority of indices, which pointed to the alleviation of crisis. Interventions of the European Central Bank enabled more favourable loans, which will reduce recession tensions in Eurozone. Serbia will have to strengthen bilateral relations with countries from the region that are not members of the EU as well as with countries belonging to BRIC group that were also struck by the crisis but that managed to record significant growth rates.

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