

Сажетак: Искуства бивших неразвијених земаља као и успешних транзиционих привреда говоре да је развој снажног и конкурентног извозно-оријентисаног сектора кључни корак у постизању циља одрживог привредног развоја. Међутим, у супротности са њиховим искуствима, српска макроекономска политика са једне стране у потпуности занемарује интересе извозно-оријентисаног сектора, док са друге, фаворизује динамичан развој неразменског сектора и спекулативних активности. У нашем раду стојимо на становишту да је српски модел развоја неодржив и штетан. Српској економској политици су потребне тектонске промене како би се сачувало оно што је преостало од националног богатства и, евентуално, изградила извозно-оријентисана производња чији је циљ генерисање одрживог фискалног и трговинског суфицита.

Кључне речи: *извозно-оријентисани сектори, неразменски сектори, јавни трошкови, дефицит текућег рачуна, девизни курс.*

Dissonance between macroeconomic policy and developmental interests of export-oriented sectors in Serbia [*](#)



Summary: Experiences of former underdeveloped economies, as well as experiences of successful transition economies indicate that development of strong and competitive export-oriented sectors is a quintessential step in achieving the goal of sustainable economic growth. However, in contrast to the above mentioned experiences, Serbian macroeconomic policy, on one hand, completely neglects interests of export-oriented sectors and, on the other, favors dynamic development of non-tradable sectors and speculative activities. In our paper, we argue that Serbian model of development is unsustainable and harmful. Serbian economic policy needs to undergo tectonic changes as soon as possible in order to preserve what has left of remaining national wealth, and, eventually to build up export-oriented production aiming at generating sustainable fiscal and trade balance surpluses.

Key words: *export-oriented sectors, non-tradable sectors, government expenditures, current account deficit, foreign exchange rate.*

"We must not let our rulers load us with perpetual debt."

Thomas Jefferson

Introduction

Main task of any economic authorities should be to establish economic structure capable of generating a sustainable economic growth. Sustainable economic growth is by definition economic development that leads to fulfilling current needs, without jeopardizing future consumption of younger generations. In order to achieve this task in the long run, it is necessary to create a system that produces more than it consumes. In other words, it is of utmost importance to create a combination of trade, industrial, fiscal and monetary policies aiming at stabilizing prices and generation of trade and fiscal surpluses. Key of success lies in implementation of developmental policies that result in creation of strong and competitive export-oriented (tradable) sectors. Unfortunately, for the time being, Serbian authorities failed to achieve macroeconomic stability and, in general, to provide fertile macroeconomic environment for tradable sectors development. Namely, in last six decades Serbia had two economic regimes: socialistic (bureaucratic and self-management in period from 1945 to 2000) and capitalistic (from 2000 till today). In both regimes, the state was a key actor, and the final outcome has been a continual accumulation of systematic deficit and usage of different mechanisms in order to temporary cover deficit or to transfer this deficit into future at the expense of the forthcoming, not even yet born, generations. Result of Serbian economic paradigm has been creation of imbalances in almost all key social and economic sectors: imbalance between production and consumption, domestic accumulation and required level of investments, imports and exports, fixed and working capital in enterprises, employed and unemployed, employed in industry and employed in economic and state administration, center and periphery, etc.

The main characteristic of the whole period of socialistic economy (1945-2000) was an imbalance between desired rate of economic growth and pace of accumulation of domestic savings, i.e. inability to finance, from domestic accumulation, the whole specter of built-in rights of different social groups. In addition to insufficient accumulation, this system produced suboptimal allocation of savings, thus multiplying already existing imbalances. From the beginning of communist ruling, normal, and to healthy mind logical paradigm savings – investments - increase in wealth clashed with insufficient domestic savings. This clash, was, of course, consequence of the fact that strategic problem of the Serbian society was invalidity of model of accumulation, which was based on the state and collective ownership. Unsuccessful quest for a rational model of accumulation, in which many different variations had been tested [

1]

, is the main trait of the whole post World War II period. In the midst of fundamental lack of “capability” to create sufficient level of accumulation and to provide its rational allocation, the state became a key economic actor (ruling party nomenclature). Again, the state wasted its all energy in idle attempts to find

perpetuum

mobile mechanism aiming at continual covering of ever rising deficits at the individual level, and after, at the level of enterprises and finally at the level of the state (escalation of external illiquidity). This economic model, based on unstable and insecure sources of accumulation permanently caused instability and cyclical crises and, finally, breakdown of the system in 2000.

In 2000, the Serbian society, seemingly, voted for elimination of a half-century long soft budget constraint and building up of a modern market economy grounded on the sustainable economic growth model. It supposed to be the end of the state, as a predominant economic actor. Building up the market and market institutions, passing and implementing laws that stimulate economic activity and uncompromisingly protect private ownership and business contracts, merciless war against corruption, investments in education, science, imports of modern technologies and expansion of tradable sectors, as well as increase in domestic savings were, in the first place, seen as effective remedies against almost a six-decade long disease of continual deficit accumulation.

However, although in the course of last nine years, one could, on daily basis, read in newspapers and hear in the news bold announcements of Serbian officials about dynamic and sustainable economic growth of our economy, we argue in this paper that old matrix of economic functioning has not been changed yet: we consume more than we produce, our external debt has been increasing continuously, while export-oriented sectors have remained uncompetitive and underdeveloped. Reasons for growing difficulties we have been facing lie in lack of strategic approach to the issue of economic development, overly expansive fiscal policy, inconsistent monetary policy and political factors that promote dynamic development of non-tradable sectors and speculative activities.

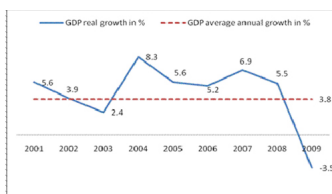
Economic growth and government expenditures

In order to understand whether economic growth is sustainable, sources of this growth should be explored in more details. Economic growth is sustainable only if it is based on expansion of exports and, at the same time, steady and decreasing external debt and, on average, continuous generation of trade and current account surpluses. On the other hand, expansion of exports, and consequently, rise in competitiveness of local producers critically depends on

macroeconomic stability. In other words, factors that strongly influence competitiveness of domestic producers are fiscal policy, monetary policy, development of infrastructure, education and science, rule of law and law enforcement, level of corruption, etc. Therefore, it is in this light recommendable to analyze quality of the economic growth of Serbia in the period of 2001-2009, in order to gain as accurate as possible estimation of its long-term sustainability.

In the period of 2001-08 pace of growth of real Gross Domestic Product (GDP) of 6,7% annually was very high and promising. However, due to negative growth rate of GDP in 2009, as a result of the global financial crisis and, consequently, overall decrease in production of goods and services, as well as consumption, this imposing growth fell to modest 3,8% annually for the period of 2001-09 (Graph 1).

Graph 1. Real and average annual growth of GDP



Sources: Basic Macroeconomic Indicators, March 2010, Ministry of Finance, Republic of Serbia and author's calculations.

There are two main sources of this dynamic growth: high and expansive public spending and high consumption of household sector (Tables 1 and 3). [2] Since public spending grew faster than GDP, and because this spending was predominantly used for increase in final consumption, strong inflation pressures were created, and consequently, due to, among other things, increase in a real foreign exchange rate (Graph 3)

[3] deficit of current account and trade balance was growing continually, which, in the final instance, led to increase in external debt (Table 2, Graph 2).

On the other hand, again, when monetary authorities only partially sterilized [4] capital inflows, increase in external debt resulted in rise in money supply, which led to another round of rising inflation pressures, increase in real exchange rate and further deterioration in trade and current

account deficit.

Table 1. Consolidated balance of government, 2005-2009. (in billion dinars)

	2005	2006	2007	2008	2009
I Public revenues	724.3	867.7	1.002	1.143,6	1.146,5
II Public expenditures	706.8	899.3	1.046.80	1.214	1.267,9
1. Current expenditures	653.2	807	919.5	1.088,8	1.154,2
Expenditures for employees	170	204.4	238.3	293.1	301.8
Purchase of goods and services	125	156.4	190.3	204.6	211.2
Interest payments	17.7	30.2	17.9	16.3	22.4
Subsidies	54.9	55.6	63.7	78	63.1
Social assistance and insurance	285.7	360.4	409.3	496.8	555.6
of which: pensions	186.1	227.7	259.9	353.8	387.3
2. Capital expenditures	45.9	81.3	112.1	105.9	93.3
3. Net lending	7.8	10.9	15.3	19.3	20.5
III Consolidated balance (I-II)	17.4	-31.6	-44.8	-70.4	-121.4

Source: Ministry of Finance, Republic of Serbia.

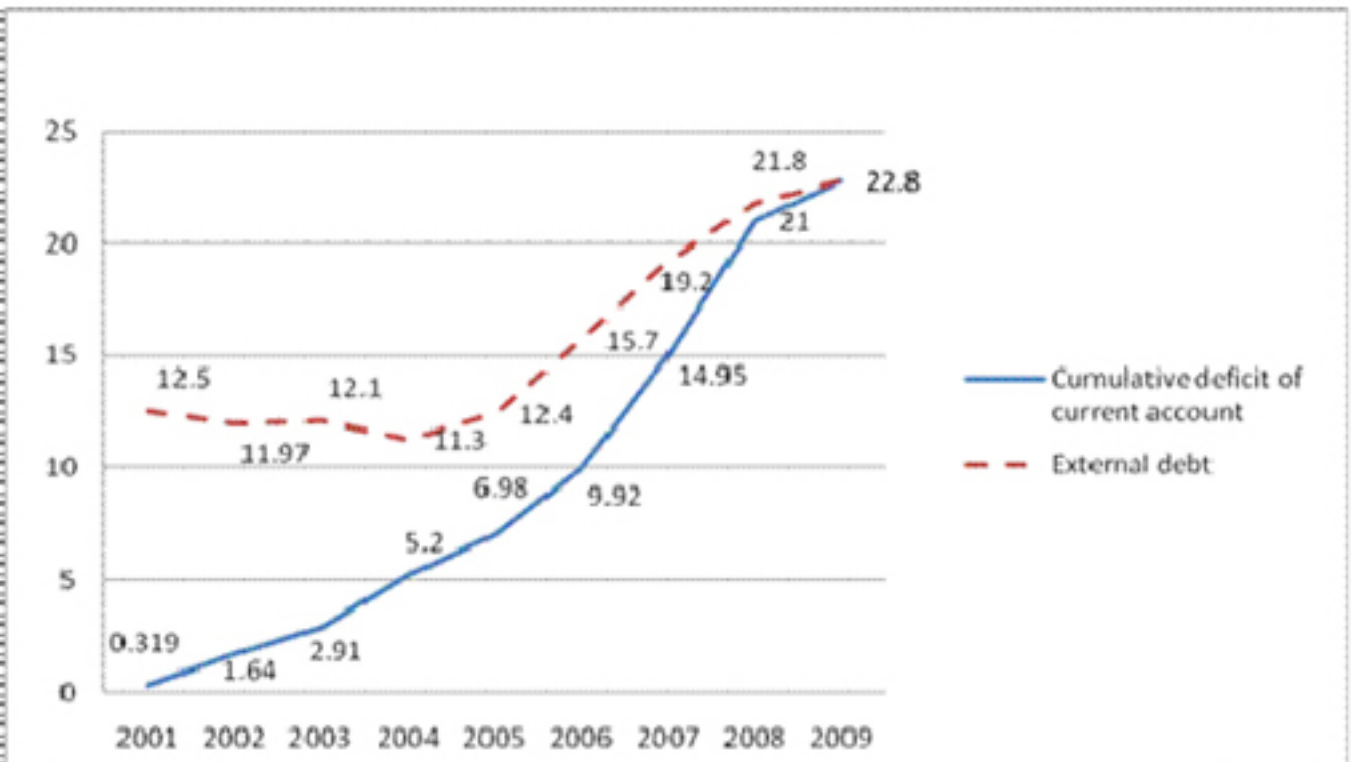
Table 2. GDP, current account deficit, deficit of goods and services balance and external debt

Dissonance between macroeconomic policy and developmental interests of export-oriented sectors in Serbia

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понедељак, 09 август 2010 17:36

	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP (in billions of euros)	12.9	16.2	17.5	19.1	20.4	23.6	29.1	34.3	31.5
Deficit of current account (as % GDP)	2.3	8.2	7.2	15.5	8.7	12.4	17.3	17.6	5.4
Deficit of goods and services balance (as % GDP-a)	17.8	20.2	19.4	26.4	20.8	21.3	22.2	22.5	15.1
Exports/Imports of goods and services (in %)	48	48	52	46	56	58	57	56,8	64
External debt/Imports of goods and services (in %)	456.4	381.6	311.3	253.6	233.8	227.5	222.3	214.6	268.9
External debt (in billions of euros)	12.5	11.97	12.1	11.3	12.4	15.7	19.2	21.8	22.8
External debt (as % GDP-a)	96.6	73.9	69	59.1	60.6	66.4	66	63.6	72.4
Public external debt (as % of external debt)	81	78	77	69	51	43,2	34	29,2	31.6
Private external debt (as % external debt)	19	22	23	31	46	56,8	66	70.8	68.4
Private external debt (in billions of euros)	2.4	2.6	2.8	3.5	5.1	9.9	12.6	15.4	15.5
External debt of banking sector (in billions of euros)	0.687	0.727	0.806	1.2	2.1	4.1	4.3	3.9	4.7
Cross-border loans (in billions of euros)	1.7	1.9	1.98	2.3	2.99	4.8	8.3	11.43	10.8

Republic of Serbia, Ministry of Finance, Republic of Serbia, National Bank of Serbia, Statistical Office of



	2001	2002	2003	2004	2005	2006	2007	2008	2009
Final consumption expenditure	92	100	99	97	95	94	98	94,4	92,9
Individual consumption expenditure	84	88	87	88	88	88	91	88	89,4
Household sector and NPISH	75	77	76	77	76	79	79	75,3	76,5
Government sector	9	11	11	12	12	13	12,7	12,9	12,9
Collective consumption expenditure	12	12	12	9	6	6	6,9	6,5	6,5
Gross fixed capital formation	19	18	19	19	19	21	21	23,2	16,7
Changes in inventories	3	2	3	10	5	3	3	5,4	2,4
Statistical discrepancy	0	0	0	2	3	3	0	0	0
Exports of goods and services	24	23	23	25	29	32	35	30,7	26,5

Republic of Serbia, Ministry of Finance, Republic of Serbia, National Bank of Serbia, Statistical Office of

