UDC: 339.727.22(497.11)
Original scientific paper
Received: March 5, 2024
Accepted: March 26, 2024
Corresponding author: branka.markovic@fpsp.edu.rs

THE EFFECTS OF INTERNATIONAL FINANCIAL POTENTIAL ON THE ECONOMIC ACTIVITY OF SERBIA

Branka Marković
Faculty of Business Studies and Law, „Union - Nikola Tesla“ University, Belgrade, Republic of Serbia, e-mail: branka.markovic@fpsp.edu.rs

Đuro Krčić
Independent University of Banja Luka, Banja Luka, Bosnia and Herzegovina; e-mail:djuro.krcic@gmail.com

Dragan Milošević
Faculty of Economics and Engineering Management in Novi Sad, Novi Sad, Republic of Serbia, e-mail: dragan.milosevic@gmail.com

Abstract: *International financial potential through funds from international creditors and foreign direct investments in Serbia have played an important role since the economic opening to the world after the democratic changes in 2000. A lot of hope was placed in the funds of international financial organizations and FDI as an instrument of economic policy, as a mechanism that can accelerate economic growth and development in an environment with low domestic savings, lead to the replacement of outdated technology and absorb a large number of unemployed people who were losing jobs during the transition, i.e. privatization of inefficient state enterprises. Since 2006, various political structures and Governments have started with a special subsidy program for investments, although it is a program whose effects the majority of the domestic professional public has a negative opinion of. This program is still being carried out with undiminished energy, and politicians are regular guests at ceremonies for the opening of new industrial plants. Serbia and foreign capital have undoubtedly had positive effects on the entire economy of Serbia, including not only the revitalization of already existing former state-owned enterprises through brownfield (such as Fiat Automobili Srbija in Kragujevac) but also the construction of completely new greenfield investments (such as Continental Automotive in Novi Sad). , it seems that they did not fulfill all the hopes and* *expectations that were placed in them. despite a fairly high inflow of international capital, where Serbia is the regional champion measured by foreign direct investment in relation to GDP, the economic growth rate of Serbia is still quite insufficient.*

Keywords: *international financial potential, indebtedness, FDI, growth, development.*

INTRODUCTION

More than three decades ago, more precisely in 1990, Serbia's foreign debt amounted to 6.4 billion US dollars, and the GDP was about 20 billion, while the export of goods and services was 7 billion dollars. According to the criteria of the World Bank, the Republic of Serbia was then a low-indebted country based on the quantitative ratio of external debt to GDP and based on the ratio of debt to exports of goods and services (https://rs.n1info.com/biznis/vreme-javni-dug-srbije).

Due to the introduction of UN sanctions against the FRY and thus the termination of financial relations by international financial institutions, as well as economic relations with developed countries of the world and the systematic recording of regular and default interest, Serbia's external debt reached 10.83 billion dollars at the end of 2000. Since due to sanctions, war conditions in the immediate environment, inflation and hyperinflation, the disintegration of the country, etc. and lack of investment, the GDP fell below 50 percent and the export of goods and services decreased to about 25 percent of the amount from the above-mentioned 1990, the degree of external debt of Serbia in 2000 was extremely high.

In the period from 2001 to 2006, the Paris Club and the London Club wrote off Serbia's debt of about 4.5 billion dollars, but despite this, the foreign debt grew dynamically, reaching 11.23 billion dollars already in 2002. That is why the expert services of the International Monetary Fund created several scenarios of the sustainability of the foreign debt of the FRY as of 2010. The goal was that at the end of 2010, the external debt would be around 9 billion dollars, because it was expected that the amount of installment repayments would increase in relation to the amount of new debt. Of course, that didn't happen.

The lowest level of public debt was before the global economic crisis, in June 2008, when it dropped to 8,624 million euros. In 8 years, the debt was reduced by an average of 2.02 million euros per month, which means that it was lowered to a minimum of 23.5% of GDP. From mid-2008 to mid-2012, public debt increased to 15.3 billion euros, and its share in GDP doubled to 46.6%. In 48 months, the increase in debt amounted to 6,846 million euros, which was an average of 4.69 million euros per day or 54.3 euros per second. By the end of April 2020, public debt had increased by 9.3 billion euros since mid-2012, which was an increase of 3.28 million euros per day, or 38 euros per second. A little slower than in the period up to the middle of 2012, but the share growth was insignificant, at 52.4%, so this did not seem alarming.

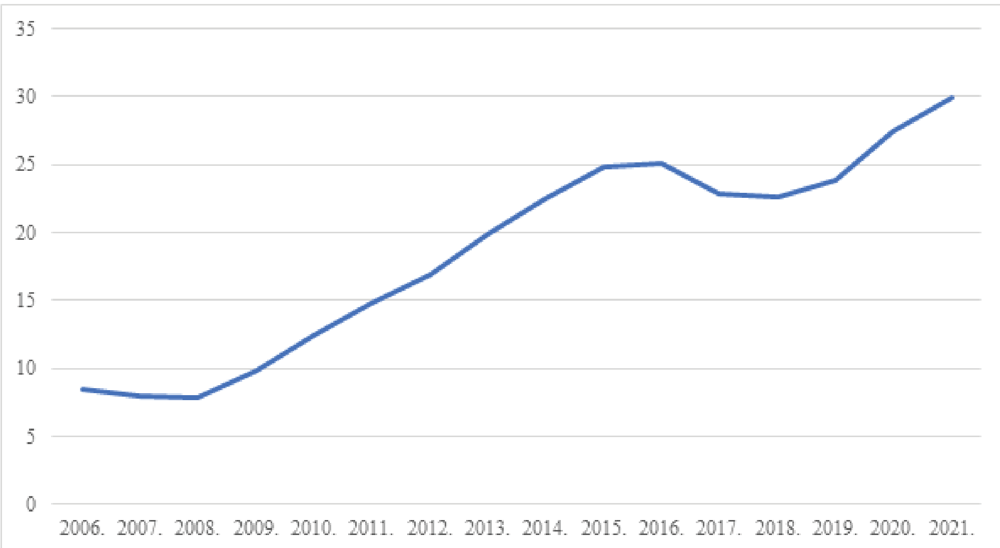
1. ANALYSIS OF THE EFFECTS OF INTERNATIONAL FINANCIAL POTENTIAL ON SERBIA'S ECONOMY

Table 1. The indebtedness of Serbia in the period from 2006 to 2021 in billions of euros

Years	Debt in billion euros
in 2006	8.5
in 2007	8
in 2008	7.9
in 2009	9.8
in 2010	12.4
in 2011	14.8
in 2012	16.9
in 2013	19.9
in 2014	22.5
in 2015	24.9
in 2016	25.1
in 2017	22.9
in 2018	22.6
in 2019	23.9
in 2020	27.4
in 2021	29.9

Source: Compiled by the author according to the Republic Statistical Office of Serbia

Graph 1. Debt of Serbia in billions of euros in the period 2006-2021. years



Source: Republic Institute of Statistics

Based on Table No. 1 and Graph 1, it is clear that in the observed period (2006 to 2021), Serbia's public debt had a mostly upward trend. The lowest level of public debt was at the beginning of the observed period, at the end of 2008 it was 7.9 billion euros. From 2008 and in the following eight years, the debt was constantly increasing and in 2016 it amounted to 25.1 billion euros. In the following year (2017), the debt will be reduced by 2.2 billion euros, and after that the debt will increase again and at the end of 2021 it will reach a record level of almost 30 billion euros.

1.1.The impact of Serbia's borrowing on its economic activity

Looking at many macroeconomic indicators, it is noticeable that credit debt has a positive effect on economic activity only if, along with it, there is an increase in investment demand, as well as personal consumption. When the transition period began in Serbia, the credit market was very inactive, as well as a difficult situation when it comes to bank balance sheets, because that period was characterized by uncollectible loans given to state and public enterprises.

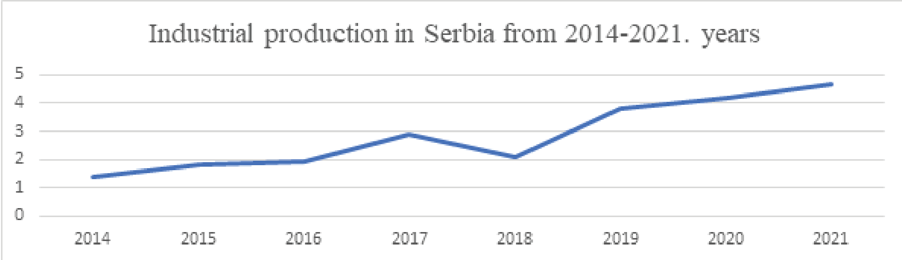
The increase in credit activity at that time was visible, but it was important for what purposes these funds were used. If credit growth is a consequence of the need to secure funds for investment financing and working capital needs, this growth is not only not risky, but also welcome for every economy. Otherwise, more intensive credit growth can be a signal of a potential crisis.

Table 2. Macroeconomic indicators in Serbia in the period from 2014 to 2021

	in 2014	in 2015	in 2016	in 2017	in 2018	in 2019	in 2020	in 2021
Real GDP growth (in %)	-1.6	1.8	3,3	2.1	4.5	4.3	-0.9	7.4
Government spending (in %)	0.9	-3.7	0.0	2.9	3.8	2.0	2.9	2.6
State investments (in %)	13.6	14.0	21.2	-6.3	45.3	30.7	11.0	32.4
Unemployment rate (in %)	20.6	18.9	16.4	14.5	13.7	11.2	9.7	11.0
Nominal wages (in %)	1.4	-0.2	3.7	3.9	6.5	10.6	9.4	9.6
Indebtedness (in billion euros)	25.1	26.3	26.5	25.5	26.7	28.3	30.8	36.5
FDI (in billion euros)	1.6	2.1	2,2	2.6	3.5	3.8	3.1	3.9
FDI (in % of GDP)	1.24	1.80	1.90	2.42	3.16	3.56	2.90	3.62
GDP (in billion euros)	35.4	35.7	36.8	39.2	42.9	46	46.8	53.4
GDP (per capita euro)	4970	5040	5210	5590	6140	6620	6780	7777

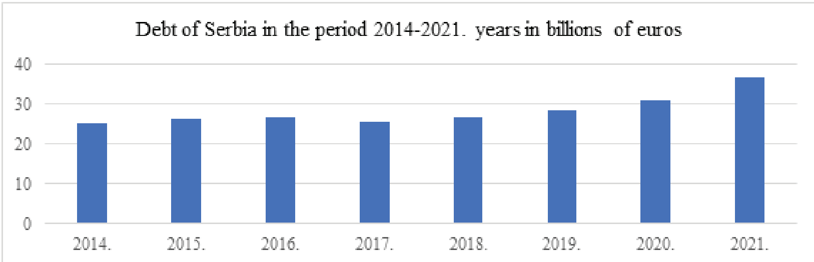
Source: Compiled by the author according to the Ministry of Finance of the Republic of Serbia

Graph 2. Industrial production in Serbia from 2014-2021. years



Source : Compiled by the author according to the Ministry of Finance of the Republic of Serbia

Chart 3. Debt of Serbia from 2014 to 2021



Source : Compiled by the author according to the Ministry of Finance of the Republic of Serbia

Based on Table 2 and Graph 3, it can be seen that the indebtedness of Serbia in the observed period (2014-2021) has been constantly growing, which has mostly followed the growth of other macroeconomic indicators. The lowest level of indebtedness was at the beginning of the period (2014) and amounted to 22.5 billion euros, with constant growth reaching the amount of over 30 billion euros in 2021.

Graph 4. GDP in the Republic of Serbia

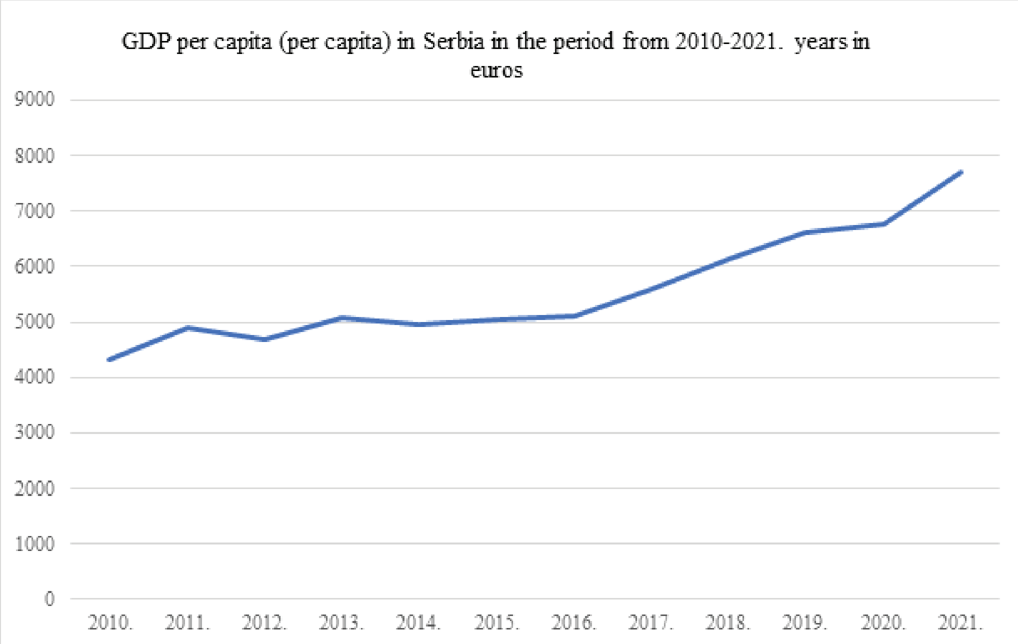
Source: Compiled by the author according to the Ministry of Finance of the Republic of Serbia

From Chart 4, it can be seen that the movement of GDP in the period 2010-2021. years had constant growth, which had a very favorable effect on the overall economic picture of the Republic of Serbia. The value of GDP in the observed period ranged from 31 billion euros in 2010 to 53.4 billion last year in 2021, which is an increase of about 70 percent in 11 years. Due to the sustained macroeconomic and financial stability, coupled with timely and comprehensive economic measures implemented by the National Bank of Serbia and the Government, Serbia has achieved a remarkable cumulative real GDP growth of 6.4% over the two pandemic years. This achievement is not only exceptional within Europe but also stands out globally, with few economies managing similar feats. In 2021, Serbia further demonstrated its resilience by attaining a real GDP growth of 7.4%. This growth was primarily fueled by the resurgent service sector, accompanied by robust expansion in construction and industry. Despite the challenges posed by the conflict between Ukraine and Russia, which disrupted global supply chains and impacted prices of essential commodities, Serbia's GDP growth remained strong at 4.4%. This growth was largely driven by the service sectors and industry, underscoring the economy's ability to navigate external challenges while maintaining steady growth.

Given the ongoing uncertainty regarding the conflict's trajectory and duration, coupled with the economic repercussions of escalating energy, food, and primary product prices globally, the GDP forecast for 2022 has been adjusted downward. Initially projected within a range of 4 to 5%, the revised forecast now falls within a range of 3.5 to 4.5%. Despite these challenges, growth in 2022 is anticipated to be driven by increased activity in the service sectors, construction, and industry. However, given the prevailing conditions arising from the conflict between Russia and Ukraine, the risks to the GDP growth projection for 2022 are viewed as predominantly skewed towards a downward trajectory.

The year 2020 witnessed significant contributions from various sectors to the formation of GDP. The manufacturing industry sector took the lead with a noteworthy share of 13.3%, trailed by the wholesale and retail trade and motor vehicle repair sector at 11.3%. Also playing a pivotal role was the real estate business sector, contributing 7.0% to the GDP. Other sectors that made substantial contributions include agriculture, forestry, and fishing, accounting for 6.3% of the GDP, the information and communication sector at 5.4%, and the construction sector also at 5.4%. Observed by aggregates of GDP use, the participation of expenditures for individual consumption of the household sector amounted to 65.5%, expenditures for individual consumption of the state sector 9.9%, expenditures for collective consumption of the state sector 7.6%, gross investment in fixed assets 21 ,4%, export of goods and services 48.2% and import of goods and services 56.5%. The real growth of gross domestic product in 2021 was 7.5 percent compared to 2020.

Graph 5. GDP per capita



Source: Compiled by the author according to the Ministry of Finance of the Republic of Serbia

In the observed period (2010-2021), that is, in the last eleven years, the GDP per capita followed the state of GDP. It can be seen on the basis of Graph 5 that the GDP per capita has constantly tended to grow and that it has almost doubled for the observed period (11 years). It grew from 2010 at the beginning of the observed period from close to 4,000 euros to 7,777 euros at the end of the period. GDP per capita is a much more precise macroeconomic parameter that shows the state of a country's economy and the quality of life of its inhabitants.

1.2. Foreign direct investments in Serbia

Direct foreign investments have been a prominent topic in Serbian society for the past few years, and even decades, (not only in Serbia but also in all countries of the former Yugoslavia). It is clear that these concepts should be separated, as the concepts of direct foreign investment and the placement of money by international organizations are often "mixed". Foreign direct investment refers to the investment of a foreign person in a domestic legal entity, through which the foreign investor acquires a share or shares in the capital of that legal entity, and in accordance with the law, acquires all other rights based on such investment. Therefore, foreign direct investment means the investment of foreign capital by a resident investor (enterprise) of one country in a resident (enterprise) of another country in order to achieve common interests. With such an investment, the foreign investor acquires the right to control and manage the company in which he has invested capital. The two largest groups of companies that can be directly invested in are Brownfield and Greenfield. Brownfield investment entails investing in an already existing company, while Greenfield investment involves opening a new company. The names Brownfield and Greenfield can be interpreted as brown land, that is, land on which something already exists, and green land, that is, land on which something is yet to be created. Hence the names with such metaphors. These investments can take several forms: public investments by the state, private investments by individuals or groups, and investments by companies. Basically, all those investments are classified according to the types of investment into the following groups:

- Direct foreign investments (Foreign Direct Investment - FDI)
- Joint investments - joint ventures
- Investment portfolio
- Investing funds through privatization and - Concessions.

Direct foreign investments are a characteristic of modern economic relations and the process of globalization, as they unify international trade in a specific way, that is, the international movement of capital, technology, labor, and factors of production. In this way, foreign direct investments act as a connective tissue between developed and underdeveloped countries, connecting north with south, capital with production, and workforce with new technologies and techniques. Foreign direct investment helps underdeveloped regions, whether they are countries, provinces, districts or cities, to grow economically much faster than would be the case if the same region relied only on its own development potential. Investments minimize the limiting factors of organic growth, such as lack of financing sources, insufficient productivity, insufficient presence in target markets, lack of modern production and service delivery technologies, structural problems of the local economy, as well as poor development policies in the previous period. For local self-governments, new investments can have a special significance because there are examples in Serbia of doubling the number of employees in the economy on the territory of the municipality in a very short period of time through the implementation of just one investment project. The most common reasons for expanding business activities to other countries, whether it is the expansion of production capacities, the relocation of business activities or the acquisition of existing companies abroad, are cited as:

- lower operating costs, mainly in terms of labor costs
- proximity of raw materials needed for production
- avoiding customs and other export costs to target markets
- reduction of transport costs of delivering products to target markets
- gaining experience working in promising markets
- taking over companies that are direct competitors in the target markets or may become so
- acquiring rights over patents and technology owned by companies abroad

- facilitating the development of the company in a better business environment
- avoiding the limiting factors of domestic regulations related to research and development.

When Serbia became a candidate for EU membership on March 1, 2012, opportunities opened up for it to use EU pre-accession funds. Those funds are intended to help candidate countries for EU membership in transforming their institutions and economies, adapting them and bringing them closer to the level of the EU, so that upon entry they would be competitive with the economies of the countries in the European Union. The EU pays special attention to the IPA program, which serves to help local governments achieve the above-mentioned goals and programs for agriculture, i.e. the IPARD programs, which Serbia started using in 2017. The European Union has also signed with Serbia a number of other programs that are successfully used, such as:

- Horizon 2020
- Program of competitiveness of small and medium-sized enterprises - COSME
- Program for employment and social innovation
- Erasmus
- Creative Europe
- Europe for citizens
- European Health Program III
- Fiscalis 2020
- Customs 2020
- European Union Civil Protection Mechanism.

The EU is not the only financier of Serbia's development, there is also the United States of America with its USAID programs and other countries, as well as international financial organizations and transnational companies. Citizens and companies cannot directly apply for funds from the mentioned programs. These funds are placed through state funds, agencies and commercial banks. So, for example, an application for the IPARD program is submitted to the Administration for Agrarian Payments, or an application for one of the entrepreneurship promotion programs can be submitted to the Development Agency of Serbia or the Development Fund.

1.3. A brief history of foreign direct investments in Serbia

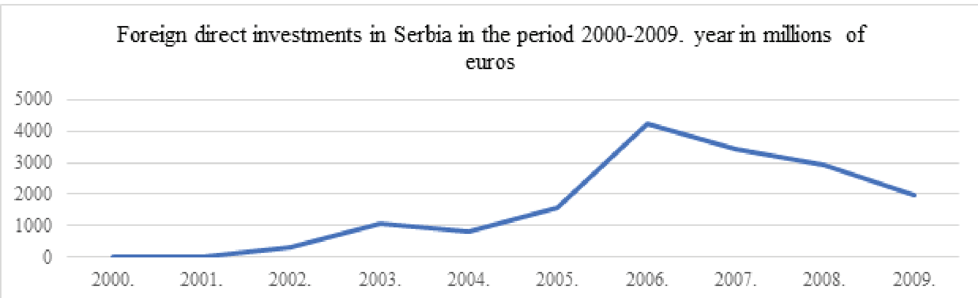
Serbia has a long history of dealing with foreign investments, dating back to the late 19th and early 20th centuries. During this period, the mining and energy sector were predominantly owned by Austrian, Hungarian, German, and French capital. Following the Second World War and up until the late sixties, foreign capital entered Yugoslavia under strict governmental control. A period of productivity growth and technological development ensued, lasting until the late seventies, when foreign donations ceased. This halt led to a rapid increase in Yugoslavia's public debt, coupled with a rise in the inflation rate, negatively impacting productivity.

The economy faced significant challenges, including a growing foreign trade deficit and reliance on exporting raw materials while importing finished products. By the late eighties, Yugoslavia's economy was in serious trouble, with a high foreign trade deficit, public debt, and current account deficit totaling 3.7 billion dollars. With borrowing options exhausted, the government had no choice but to pass the Law on Foreign Investments, allowing foreign citizens to start businesses.

Until the privatization of social enterprises began in the nineties, foreign investments mainly took the form of joint ventures, mostly in the processing industry. However, due to the breakup of Yugoslavia and UN sanctions, traditional EU partners could not legally invest in the Federal Republic of Yugoslavia until 1996. After the sanctions were lifted, over 2,800 contracts for foreign investments were signed, totaling over two billion German marks by 1997. Investments during this period also included acquisitions through privatization. The telecommunications sector, food industry, metal processing, and chemical industry were among the dominant sectors for foreign investments.

During the NATO bombing, Yugoslavia was isolated from international events and investments until the revolution period when Serbia reconnected with international capital flows. The official reopening for foreign investments and international capital occurred with the passing of the Law on Foreign Investments in 2002, which aimed to equalize the rights and obligations of foreign and domestic investors. The liberalization of customs and the legal framework also led to preferential treatment for foreign capital.

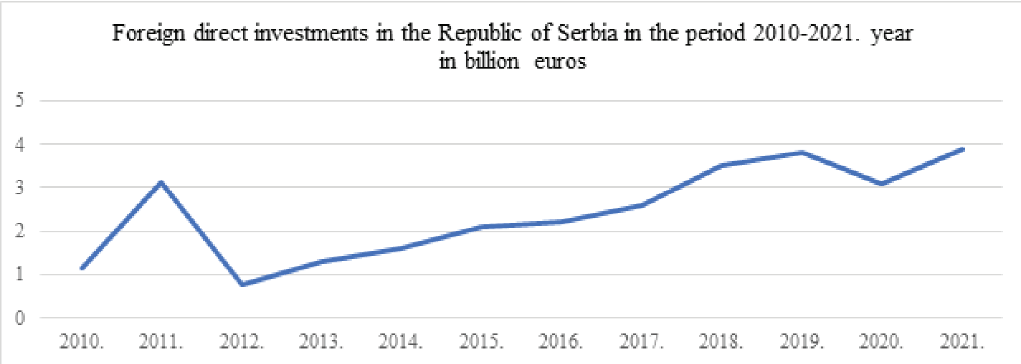
Chart 7. Foreign direct investments in Serbia



Source: Compiled by the author according to the Ministry of Finance of the Republic of Serbia

From Chart 7, it is clearly seen that the year 2002 and the passing of the Law on Foreign Investments was a turning point in the arrival of international capital and significant investment by foreign investors in the Serbian economy. Since then, foreign capital tends to grow until 2006, when it reaches a record level of 4.256 billion euros. In the following year, 2007, foreign direct investments decreased by around 800 million euros and at the end of that year amounted to 3.439 billion euros. And in the next two years, foreign investments will fall, so that at the end of the observed period (2009), it will reach a value of around 2 billion euros.

Chart 7. Foreign direct investments in the Republic of Serbia



Source: Compiled by the author according to the Ministry of Finance of the Republic of Serbia

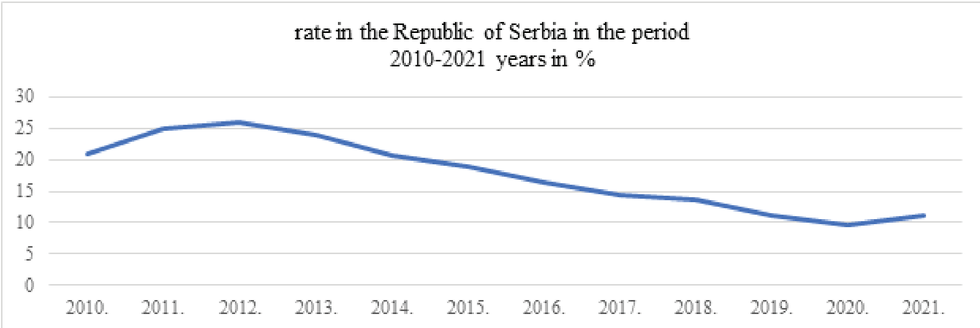
In 2010, the downward trend of foreign direct investments in the Republic of Serbia continues, when they reach the lowest level recorded in the previous 6 years. In the following year, 2011, the investment of foreign investors grows and reaches the level of over 3 billion euros, only to have a sharp drop again the following year. From 2012 to the present day, foreign capital has returned significantly to Serbia and has a growing trend to reach nearly 4 billion euros at the end of last year (2021).

Graph 8. FDI in % of GDP in Serbia

Source: Compiled by the author according to the Ministry of Finance of the Republic of Serbia

From Graph 8, it can be seen that the participation of foreign direct investments in the percentage of gross domestic product, in the observed period, followed the entry of international capital into Serbia and that it mostly grew during the entire period, except for 2012, when there was a significant drop.

Chart 9. Unemployment rate in the Republic of Serbia



Source: Compiled by the author according to the Ministry of Finance of the Republic of Serbia

From the previous graph, the trend of the decline of the unemployed can be observed mainly, if we exclude the first two years of the period (2010 and 2011). Since the following year, 2012, the unemployment rate has been steadily falling, and in 2020 it will reach a historic minimum of 7.3%. in the second quarter of that year, the number of employees was 2,844,000, and the number of unemployed was 222,900. At the same time, the employment rate was 48.2%. There were 352,400 unemployed people in Serbia last year, and compared to 2020, that number is higher by 53,200 or 17.8 percent. Last year 2021, 2,848,800 people were employed, and compared to the previous year 2020, that number was higher by 72,100, or 2.6 percent. At the same time, the rate of the population outside the labor force decreased by 2.5% and in 2021 it amounted to 45.3%.

The year-on-year trends in the labor market, characterized by an increase in unemployment and a decrease in the population outside the labor force, stem from the changes brought about by the coronavirus pandemic crisis in 2020. During that year, individuals who were unable to seek or commence work due to virus containment measures were not classified as unemployed according to the International Labor Organization's (ILO) definitions but were instead categorized as part of the population outside the labor force. Therefore, the rise in the unemployment rate from 9.7 percent in 2020 to 11 percent in 2021, coupled with the decline in the population outside the labor force from 47.8 percent to 45.3 percent in the same period, can be viewed as indicators of recovery, indicating a return to pre-pandemic crisis levels. Concurrently, the employment rate increased from 47.1 percent to 48.6 percent.

In 2021, the employment rate among individuals aged 15 and over in Serbia stood at 48.6 percent. The Belgrade region boasted the highest employment rate at 52.5 percent, followed by the Vojvodina Region and the Šumadija and Western Serbia Region, with employment rates of 49.3 percent and 48.7 percent, respectively. The South and Eastern Serbia Region recorded the lowest rate at 43.2 percent. The unemployment rate among individuals aged 15 and over in Serbia in 2021 was 11 percent. At the regional level, the Belgrade Region exhibited the lowest rate at 8.8 percent, followed by the Vojvodina Region at 9.5 percent and the Šumadija and Western Serbia Region at 12.6 percent. Conversely, the South and Eastern Serbia Region experienced the most challenging labor market conditions, with the highest unemployment rate at 13.6 percent. Additionally, in 2021, the number of employed young people aged 15 to 24 increased by 27,600, or 19.3 percent, while the number of unemployed in the same age group rose by 6,600, or 12 percent, compared to 2020.

1.4. Debt of Serbia

Serbia's total foreign debt at the end of 2009 was about 23 billion euros or 69.9 percent of GDP and accounted for about 194 percent of total exports in that year increased by remittances from Serbian citizens living abroad. In December 2010, the foreign debt increased compared to the same period of the previous year by 790 million euros, while at the end of May 2011, the foreign debt of Serbia amounted to 22.89 billion euros, which is 166.7 million more than in the previous month and 900 million less than at the very beginning of the year. In the period from 2000 to 2009, the external debt expressed in euros grew at an average rate of 7.7 percent, and the trend continued in the following year. The situation improved a little in the first half of the following year.

As can be seen from the following table, the total debt of Serbia in 2009 compared to 2001 increased by as much as 80 percent, which is a lot for a relatively short period of time. According to international financial institutions, at the end of 2009, the debt amounted to 4.9 billion euros, or 21.8 percent of the total debt. In the debt of these financial institutions, the largest share was held by the IMF with 22.3 percent and the IBRD with 24.8 percent. As for the debt and its interest rate structure, most of the debt is linked to EURIBOR (79.5 percent) and a smaller part to LIBOR, and the rest to the US dollar and the Swiss franc. This is a common practice, but also an additional risk factor, if any. in view of the fact that in the coming period, Serbia expected an increase in interest rates on the international money market, and thus an increase in debt servicing costs.

Table 3. External debt of Serbia to creditors in millions of euros for the period from 2010-2020. years

Debt structure	**in 2010**	**in 2011**	**in 2012**	**in 2013**	**in 2014**	**in 2015**	**in 2016**	**in 2017**	**in 2018**	**in 2019**	**in 2020**
IMF	163	308	541	730	706	732	185	0	0	2.110	2.4
IBRD	1.65	1.81	1.81	1.81	1.81	1.80	1.61	2.60	1.58	1.23	2.37
IFC	114	153	162	87	87	62	159	199	193	216	210
AND THAT	0	0	161	318	318	395	418	425	461	469	521
EBRD	0	2	42	205	205	295	382	418	584	676	707
EIB	275	55	103	207	207	275	387	518	592	742	874
E U	0	223	224	260	260	273	273	273	273	273	273
EUROFIMA	129	138	142	125	118	136	128	113	114	101	91

Debt structure	**in 2010**	**in 2011**	**in 2012**	**in 2013**	**in 2014**	**in 2015**	**in 2016**	**in 2017**	**in 2018**	**in 2019**	**in 2020**
MIB	10	12	0	0	0	0	0	0	0	0	0
EUROFUND	25	27	26	24	21	18	25	22	52	60	58
EFSE	0	0	0	0	0	0	51	62	73	93	103
Government and governmental agencies	4.69	4.92	2.97	3,743	2.71	3.10	2.37	3.28	2.38	2.26	4.44
The Paris Club	4.18	4.29	2.41	2.24	2.21	2.48	1.78	1.72	1.76	1.76	2.86
Other govern-ments	506	626	560	496	494	620	592	559	618	499	576
The London Club	0	0	0	0	793	909	817	729	764	748	844
The London Club	2.44	2.60	2.34	2,190	61	74	55	51	56	60	0
Other creditors	686	971	1.08	1.309	2.18	3.61	6.67	9.69	12.1	12.3	15.87
Kratkor. debt	1.24	1.16	978	844	733	1.27	1.2	1.32	2.42	2.28	3,754
CLEARING	225	207	175	146	134	89	80	72	75	74	86
TOTAL DEBT (billion euros)	14.6	14.6	15.7	16.8	19.1	23.0	24.8	24.7	27.8	29.7	33.6

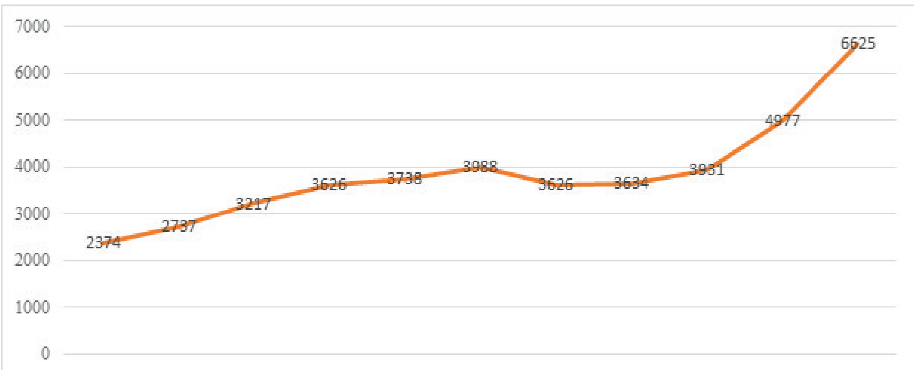
Source: National Bank of Serbia

Table 4. Serbia's borrowing in millions of euros from International Financial Institutions (IFIs) in the period 2010 – 2020

Year	in 2010	in 2011	in 2012	in 2013	in 2014	in 2015	in 2016	in 2017	in 2018	in 2019	in 2020
Debit	2374	2737	3217	3626	3738	3988	3626	3634	3931	4977	6625

Source: Made by the author according to NB

Graph 10. Debt of Serbia in millions of euros with MFIs for the period 2010-2020 .



Source: Compiled by the author according to NBS

Although, in the opinion of many economists, Serbia was significantly indebted in this period, according to the criteria of the World Bank and the IMF, it did not belong to highly indebted countries. But if this level of indebtedness were to continue in the following period, it would be necessary to take into account the level of indebtedness, as well as to properly settle the assumed obligations.

The share of public sector debt in the total debt in 2010 compared to the end of 2000 was reduced by 49 percent, which is the result of regular repayments, as well as write-off of debt to the Paris and London Club of Creditors and rescheduling of obligations to China and Kuwait. When it comes to the public sector and its borrowing from international financial institutions, which amounts to 2.8 billion euros, the IMF accounts for 1.4 billion, the IBRD 1.3 billion, the European Investment Bank (EIB) 734 million, and 377 million euros to the European Bank for Reconstruction and Development (EBRD).

Of the total foreign debt, the debt of the private sector (banks and companies) amounted to 15.4 billion euros or 62.5 percent. The largest debt is the debt of companies and it amounts to 10.4 billion euros, and this is the result of their indebtedness to banks. And when it comes to international financial organizations, the debts to them are 3 percent of the total external debts of the company, namely to the IFC 83 million euros, to the EIB 10 million and, at most, to the EBRD 223 million euros (Republican Bureau of Statistics).

When we talk about the banking sector, their debt is 4.8 billion euros, which compared to 2008 increased by 779 million euros, as a result of the Vienna initiative (namely, at the meeting in Vienna, which was held at the end of March 2009 under the auspices of chairmanship of the IMF, with the aim of mitigating the consequences of the World Financial Crisis, as well as supporting the Serbian authorities in implementing structural reforms, the headquarters of the largest European banks (Intesa Sanpaolo, Raiffeisen International, Hypo Alpe-Adria, Eurobank EFG, National Bank of Greece, Unicredit, Societe Generale, Alpha Bank, Volksbank International, Piraeus Bank), expressed their desire and determination to continue doing business on the territory of Serbia and pledged to maintain the same level of approved loans in 2009 and 2010 as they had in 2008. representatives of all relevant international financial institutions (World Bank, EBRD, EIB) as well as representatives of the Ministry of Finance of Serbia were present at the meeting, and they all supported the economic reforms of Serbia foreseen within the new arrangement with the IMF.

One of the conditions for the IMF to confirm the new arrangement on the withdrawal of around 3 billion loans by mid-2011 was to maintain the same amount of private debt abroad. In the total indebtedness of banks, the debt to international financial institutions is 463 million euros. In the currency structure of external debt, the euro plays the most significant role with a share of 76.8 percent, followed by the US dollar with 12.1 percent, the Swiss franc 4.9 percent, the Japanese yen 0.5 percent, the clearing dollar 0.3 percent, and all other currencies 5.1 percent.

As is known, external debt is actually the total public and private debt towards all creditors from abroad (governments of other countries, private commercial banks and international financial organizations). According to data from the European Union and the IMF, Serbia is not among highly indebted countries, because at the level of the European

Union, the share of external debt in relation to GDP in 2009 was 129 percent, while in Serbia it was 69.9 percent, from which shows that it is only half of the European project of the EU countries. Only five EU member states have a smaller share in GDP than Serbia (Poland, Czech Republic, Romania, Slovakia and Malta). It is interesting to see that the external debt per capita at the EU level amounts to 75,726 US dollars, while at the same time this amount in Serbia is 4,297 US dollars. The delay in servicing the external debt in 2009, due to the decline in economic activity, the inflow of remittances from citizens from abroad, as well as foreign direct investments due to the World Financial Crisis, Serbia was forced to agree with the IMF on a *stand-by* arrangement, all with the aim of strengthening foreign exchange reserves as and support for structural reforms.

Graph 11.

Source: National Bank of Serbia

If we compare Serbia's borrowing as a percentage of GDP from international creditors in the period from 2001 to 2009 and the period of the following 12 years, it is clearly seen that the percentage is uniform, excluding the year 2001 when the share of external debt in GDP reached historical levels. borders. Already in 2002, the situation changed significantly and showed a constant in the following twenty-year interval.

A rough indication of the scale of nominal convergence in Serbia in the next ten years can be provided by the ratio of the price level in Serbia to the price level in selected transition countries and developed Europe. This table provides an overview of the ratio of the consumer price index in 2010 and 2020, which are comparable using the exchange rate of the respective country against the euro. The year 2010 is the first available year for Serbia, and it was measured by the available data for 2009. The data show that nominal convergence took place during the last four years in Serbia as well as in comparable countries. The data for 2020 includes the exchange rate correction (except for Bulgaria, Slovakia and Slovenia), which, in most cases, including in Serbia, made the comparison more realistic, indicating larger deviations than in 2008.

In the next ten years, Serbia can nominally converge following the path of today's results of transition countries from Hungary through the Czech Republic to Slovakia. Croatia probably still has an overvalued currency. Thus, in 2020, Serbia converged to the price level of Slovakia at that time (70.2%), which means that the dinar increased its value (appreciated) by 31% in ten years, which is below 3% per year.

1.5. The long-term impact of Serbia's borrowing from international monetary and financial institutions

In the form of loans and grants in the last two decades, these international financial organizations have granted very significant funds intended for economic prosperity to underdeveloped countries as well as to the state of Serbia. The approval of these funds to Serbia was conditioned by a positive assessment of the achieved results in the implementation of the economic program supported by the IMF with its financial arrangement. The financial support of these financial institutions was needed all these years, and it is still needed today both for the implementation of economic reforms and for achieving the greatest possible economic growth. It is impossible to imagine the improvement of agriculture, ecology, transport infrastructure, health and social protection, local self-government, development of small and medium-sized enterprises without the use of loans from the IMF, IBRD and other financial organizations.

The main goal of all measures of international financial institutions is to maintain macroeconomic and financial stability in the coming years, which would be reflected in:

- acceleration of EU integration
- reduction of public spending
- low and stable inflation
- encouraging employment, reforming the pension system as well as the health insurance system, reforming the labor market, continuing the privatization process
- expenditures in the budget for capital projects related to infrastructure of state importance

1.6. Relations between Serbia and the International Monetary Fund

The former Socialist Federal Republic of Yugoslavia (SFRY) was among the nations that participated in the Bretton Woods Conference in 1944 and was one of the founding members of the International Monetary Fund (IMF) and the World Bank. The IMF approved 12 stand-by arrangements for the SFRY since its inception. The most significant cooperation with the IMF occurred between 1980 and 1991, during which the SFRY received seven stand-by arrangements totaling 3.5 billion special drawing rights (of which 2.7 billion were utilized).

Yugoslavia signed its first financial arrangement with the IMF in 1949, amounting to 9 million US dollars, and its last one, totaling 460 million special drawing rights, on March

16, 1990. The IMF's Board of Executive Directors declared on December 14, 1992, that the SFRY no longer existed, thereby terminating its membership in the IMF. Additionally, the conditions under which the successor countries (Bosnia and Herzegovina, Croatia, North Macedonia, Slovenia, and the Federal Republic of Yugoslavia) could inherit the SFRY's membership in the IMF were established. The Federal Republic of Yugoslavia accounted for 36.52% of the assets and liabilities of the SFRY in the IMF.

On December 20, 2000, the IMF's Board of Executive Directors retroactively approved the Federal Republic of Yugoslavia's membership, effective from December 14, 1992. On the same day, the Board authorized 116.9 million special drawing rights (approximately 185 million US dollars) to the Federal Republic of Yugoslavia as part of "Emergency Post-Conflict Aid" to support its economic stabilization and institution and administration restoration program. A portion of these funds was used to repay a bridging loan of 101.1 million special drawing rights, which Switzerland and Norway had granted to settle financial obligations to the IMF.

To further support the government's economic program, the IMF's Board of Executive Directors approved a stand-by arrangement of 200 million special drawing rights (approximately 317 million dollars) on June 11, 2001. The withdrawal of funds was contingent on the successful implementation of the agreed-upon stand-by arrangement program. The approved funds were disbursed in four equal tranches. This stand-by arrangement formed the basis for negotiations on debt relief for Serbia and Montenegro with the creditors of the Paris Club. The utilized funds were repaid between March 2004 and May 2006.

Following the successful implementation of previous financial arrangements and the agreed-upon economic stabilization and structural reform program for the period 2002-2005, a three-year financial arrangement titled the "Extended Financing Arrangement" was approved by the IMF on May 13, 2002, totaling 650 million special drawing rights (approximately 1,030 million dollars).

The use of approved financial resources was contingent upon meeting agreed-upon performance criteria and implementing structural measures. Over the course of six half-year program reviews, the total approved funds were disbursed in 12 tranches, with the final tranche being withdrawn in February 2006. Subsequently, following Montenegro's separation and based on the Constitutional Charter, Serbia assumed the legal personality of the former union, becoming an independent state and assuming membership in the IMF and other organizations. This marked the continuation of successful cooperation that persists to this day.

CONCLUSION

Based on the relevant indicators, it is evident that international financial potential has significantly benefited Serbia in several ways. While investors primarily seek profit through capital investment, determining its precise impact on the country's economic development is complex and not easily answered. Alternative development strategies are guided by varying perspectives on economic growth and capital's role in it. Traditional development theories, prevalent in academic and institutional circles in the latter half of the 20th century, emphasized capital as a direct driver of development. Early economic models directly linked the amount of international capital invested to economic growth.

Millions of dollars of international capital give percentages of gross domestic product growth, and billions of dollars give percentages. In order for an economy, especially an underdeveloped one, to have results in the field of economic progress, the arrival of all forms of international capital is very important, which was also confirmed through the research in this scientific paper, but capital does not mean much if it is not invested in the right way. In order for the market mechanism to function well, an institutional framework of legal certainty and entrepreneurial freedom is needed. We should turn to improving the business environment and develop several benchmarks, indices and rank countries according to various criteria of the quality of institutions and ease of doing business.

It is striking that credit debt mostly affects the construction of infrastructure projects, while international capital in the form of foreign direct investments is related to foreign trade and can be divided into investments that substitute foreign trade, investments that encourage foreign trade, those investments that complement it, and investments which divert foreign trade to the recipient country.

In the future, underdeveloped economies, including the Serbian economy, must work significantly on improving the business environment, neutralizing political risks, improving the work of institutions, and transparency in the use of international capital. In addition to the above, Serbia should direct significant efforts towards improving the business and investment climate, creating an effective institutional framework that will positively influence the attraction of international funds, direct efforts towards priority sectors, the implementation of programs in practice as well as the systemic fight against corruption.

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