

CHAPTER 2. CHALLENGES AND PERSPECTIVES OF IMPLEMENTATION STRUCTURAL CHANGES IN THE SERBIAN ECONOMY¹

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Abstract:

The main purpose of this chapter is to analyse the pace of structural changes in the Serbian economy predominantly through comparative analysis with other countries of Western Balkans i.e. to identify the progress made in implementation these changes, main challenges and to perceive whether and in what way the concept should be modified. The analysis is mainly based on the surveys of the European Bank for Reconstruction and Development (Transition Indicators), World Bank (Doing business), World Economic Forum (Index of International Competitiveness) and Heritage Foundation (Index of Economic Freedom). The results of these surveys indicate that Serbia currently has not been well positioned in terms of implementing transitional changes, conditions for doing business, level of competitiveness and economic freedom. What is especially worrying is the fact the implementation of structural reforms and business conditions improvements in Serbia are very slow, particularly in the last couple of years. Nevertheless, it is clear that without more proactive policy and strong-minded implementation of structural changes, Serbia will increasingly lag behind other countries of the region and that will only hinder its existing position

Key words: structural changes, Serbia, transition, „multi-country“ analysis

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INTRODUCTION

The issue of structural changes is very complex and therefore the focus of researches in this field may be very diverse. Namely, researches may be focused to the changes in the structure of the national gross domestic product or individual sectors of the economy, then institutional changes or changes in employment, export and the like, but also to changes in organizing and functioning method of business subjects. However, researches in this field, especially when countries in transition are concerned, often include issues related to the dynamics and course of implementation of necessary structural changes (*Landesmann, 2000*).

Starting from aforementioned and in the inability to explore within one paper all structural changes aspects, the basic research goal is to analyse dynamics and course of implementation structural changes in Serbia, particularly in comparison with other Western Balkan countries. The intention of this chapter is to establish what is the position of Serbia in the process of implementation transition reforms, i.e. whether and in what way the transition reforms concept should be modified, in order to provide sustainable economic development in forthcoming period.

For several years, the Serbian economy has been facing significant problems, many of which have the roots in obsolete economic structure, mistakes in transition process, as well as in decisiveness for structural reforms implementation. Moreover, the negative effects of global financial and economic crisis in 2008-2011 have only more exposed deep structural problems, but also have imposed new challenges with regard to overcoming numerous difficulties.

Basic hypothesis of this chapter is that Serbia, despite noticeable improvements compared to the state from nineties of the last century, has been significantly lagging behind in the process of implementation transition changes and necessary structural reforms in comparison with the majority of Western Balkans countries, especially in the last years.

Besides abovementioned, one of hypotheses of the chapter is that in contemporary business circumstances, when the negative effects of global economic crisis are still noticeable, the role of state in implementation structural changes has to be more pro-active than it has been in Serbia so far. Designing measures of economic policy, especially in creating more propulsive economic climate, competitiveness improvement and creation of new jobs and starting-up production, must be more creative and implementation structural changes more decisive.

The structure of this chapter has been conceived in accordance to the basic hypotheses and objectives of the research. Upon introduction, in the second part of this chapter the analysis conception, as well as the literature overview and applied methodology has been presented. The third part of the chapter has been dedicated, based on the research of the Bank for Reconstruction and Development (EBRD), to the assessment Serbian progress in the transition process, whereas within the fourth part conditions for doing business have been analysed. The fifth part of the chapter has been dedicated to the competitiveness analysis based on World Economic Forum *Index of International Competitiveness*. In the sixth part the comparative analysis of selected business aspects in Serbia and other countries of Western Balkans based on *Index of Economic Freedom* have been conducted. The seventh part, based on the concept of PEST analysis, has been dedicated to the perspectives in the transition changes implementation in Serbian economy. The last, and not the least important, the conclusions and literature have been presented in the end of chapter.

CONCEPTION OF ANALYSIS, LITERATURE OVERVIEW AND METHODOLOGY

The issue of structural changes was the subject of numerous surveys and researches, which have tried, using different methodology and indicators, to analyse dynamics and course of implementation of these changes in various countries.

When the countries in transition are concerned, one of the most significant is the survey of the European bank for Reconstruction and Development (EBRD), which assess the transition changes in 29 countries based on 9 synthetic indicators. Also, very prominent is the survey of World Bank (*Doing business*) based on 10 synthetic indicators by which conditions for doing business in 183 countries are followed in unbiased manner. Moreover, the research of World Economic Forum (*Index of International Competitiveness*), based on three groups of criteria and 12 „pillars“, endeavoured to perceive the competitiveness level of 142 countries is very often cited. Furthermore, the research of Heritage foundation (*Index of Economic Freedoms*) based on 10 synthetic indicators by which some aspects of business operating have been followed in 179 countries is also frequently used.

Besides mentioned, there are numerous other surveys focused on monitoring and measuring key structural changes and various business performances in numerous countries of the world⁴. The idea of these surveys is to perceive in unbiased and on

⁴ FDI Confidence Index (<http://www.atkearney.com>), Global Production Location Scoreboard (<http://www.global-production.com/scoreboard>), International Country Risk Guide

continuous base the key business performances in different countries or some regions. In that way, an important analytic framework has been created to identify some countries' economies relative positions and to follow key economic performances of the various countries in the world.

These researches have been occasionally the subject of critic addressed in the first place by politicians unsatisfied by some reports parts or given scores. Thus for example, according to the claim of the Ministry for Spatial Planning of Serbia (*Daily newspaper „Večernje Novosti“ dated 26.10.2011.*) the World bank has made a big oversight in new report for 2012, by giving low score for procedures for obtaining construction permits, because it has taken into account the “old” Law on Planning and Construction, which was in force until 2009., and by which a greater number of procedures was anticipated for obtaining permits than those that are anticipated by new law.

The mentioned surveys had also come under magnifying glass of some researchers. Thus for example, some econometric researches were performed (*Bienkowski, 2006; Lovrinčević, Mikulić, Rajh, 2008; Tošović Stevanović, 2011*), by which it was tried to determine relations between scores presented in indicators of the World Bank, EBRD and World Economic Forum with trend of gross domestic product (GDP), export and foreign investments. Slightly disappointing in many of these researches statistically significant relation between GDP growth and majority of synthetic indicators has not been found.

Moreover, numerous economists are to a certain extent sceptical to the international institutions and organizations surveys. A number of papers that dealt with phenomena in transition countries, such as for example De Melo et al. (1997), Fisher, Sahay and Verg (1998), Havrylyshin, Izvorski and van Rooden (1998), Berg et al. (1999), Barro (2003), Campos (2001), Campos and Coricelli (2002). In these papers the advantage were given to the econometric models over researches based on synthetic indicators.

Although employ different methodological approaches, as well as oversights in the assessment of some countries certain performances are possible, the international institutions surveys represent undoubtlessly valid measure for the “quality“ of business environment, i.e. competitive ability of countries and other key operating performances in certain countries. In addition, it should be indicated that „multi-country“analysis due to high costs of these researches and numerous practical

problems, can hardly implement without inside to surveys of reputable international institutions.

Starting from the international institutions surveys numerous scientific papers were published. Among them there are certain numbers of papers focused to the transition changes in Serbia (*Presnall, 2006; Todorović, 2010; Bošnjak, 2008; Petković, 2008, Stošić & Erić, 2009*). Some researchers (*Stošić, Erić & Redžepagić, 2011*), based on the results of these surveys, pointed out to unsatisfactory performances that Serbian economy achieves in the transition process. According to these authors Serbia is today one of the least developed post-socialist economies and the main cause of its position could be seen long-lasting, incomplete and with a lot of mistakes lead economic transition. In addition, the non-competitiveness problem of Serbian economy was pointed out as one of key limiting factor for more dynamic development and current economic problems (*Mitrović 2010*).

Based on the surveys of the European Bank for reconstruction and Development (*Transition indicators*), the World Bank (*Doing business*), the World Economic Forum (*Index of international competitiveness*) and Heritage foundation (*Index of Economic Freedoms*), the transition changes and current business climate analysis in Serbia has been done in this chapter.

The analysis is based on „multi-country“ comparisons with other countries of Western Balkans. Descriptive and explanatory method has been implemented in research these issues which in the circumstances of negative effects of global economic crisis has become even more complex and requires additional efforts with regard to analysis of current state and searching for answers to newly imposed challenges.

PROGRESS IN TRANSITION

After more than ten years of implementing transitional changes, the process of reforms in Serbia may be assessed, according to the EBRD report, by passing score on average of 2.9 (on a scale from 1 to 4). Unfortunately, many of originally desired and expected goals have not been yet achieved. Thereby, initial enthusiasm and belief that those reforms would enable fast economic progress, is more and more replaced by exhaustion in implementing changes, and even disbelief and pessimism regarding imminent successes of transition reforms (*Stošić & Erić, 2009*).

Table 1: Transition indicators for Serbia and other countries of Western Balkans for 2011

| | Albania | B&H | Croatia | FYROM | Montenegro | Serbia |
|---|---------|-----|---------|-------|------------|--------|
| Large-scale privatisation | 3.7 | 3 | 3.3 | 3.3 | 3.3 | 2.7 |
| Small-scale privatisation | 4 | 3 | 4.3 | 4 | 3.7 | 3.7 |
| Enterprises restructuring | 2.3 | 2 | 3 | 2.7 | 2 | 2.3 |
| Price liberalisation | 4.3 | 4 | 4 | 4.3 | 4 | 4 |
| Trade & foreign exchange liberalisation | 4.3 | 2.3 | 4.3 | 4.3 | 4 | 4 |
| Competition policy | 2.3 | 2 | 3 | 2.3 | 2 | 2.3 |
| Corporate sectors | 2.8 | 2.3 | 3.4 | 3 | 2.6 | 2.8 |
| Energy | 3 | 2.1 | 3.3 | 3 | 2.6 | 2.1 |
| Infrastructure | 2.4 | 2.7 | 3.1 | 2.5 | 2.3 | 2.7 |
| Financial institutions | 1.9 | 2.1 | 2.9 | 2 | 2 | 2.5 |
| Average score | 3.1 | 2.5 | 3.5 | 3.2 | 2.8 | 2.9 |

Source: EBRD Transition Report

The accomplished results are very different. Serbia has realised the best results in price liberalisation, trade and foreign exchange liberalisation, small-scale privatisation, as well as in reform of banking system. On the other hand, the least progress has been made in implementation and adopting the competition policy, and then development of private capital market and energy.

What is worrying is the fact that upon noticeable progress recorded during 2002, then 2005 and 2006, there was a significant slowdown pace of reforms in Serbia. The transition reforms, especially those related to structural changes, are developing rather slow and by principle «stop-and-go», to a great extent depending on political circumstances. According to the EBRD assessment, no essential progress hasn't been realised in implementation of transitional changes in the last three years!

In comparison to other countries of Western Balkans, Serbia does not have particularly favourable position. Namely, Serbia has been positioned worse than Croatia, Albania and Macedonia (FYROM) and somewhat better in comparison to Bosnia and Herzegovina and Montenegro. This is partially the result of go-slow in transitional changes implementation compared to other countries of the region

during the last couple of years. Namely, even in 2008 Albania and Macedonia were lagging behind Serbia in transition progress, to overtake it in 2011.

Avoiding black-and-white assessments, overall process of implementing transitional changes in Serbia, besides certain results, cannot be assessed as satisfactory and better than in many countries of Western Balkans. Moreover, Serbia's economy is facing many problems that the negative effects of the global economic and financial crisis further enhance. All this indicates that Serbia has to initiate comprehensive processes of structural transformation in forthcoming period (in order to achieve standards that would enable the membership in EU) and create economically more propulsive climate than the current one.

CONDITIONS FOR DOING BUSINESS

Conditions for doing business in Serbia are not too favourable and competitive compared to the other countries in the region. Namely, in the World Bank survey (report «*Doing Business 2012*») Serbia was ranked in 2011 on 92nd position out of 183 countries.

And while some other countries of Western Balkans (in the first place FYROM, then Croatia and Albania) according to assessments of the World Bank have been making progress with regard ease of doing business, Serbia has been stagnating or lagging.

*Table 2: Doing business in Serbia and countries in the region
- Ranks for 2008-2012*

| Country/Rank | 2008 | 2009 | 2010 | 2011 | 2012 |
|------------------------|------|------|------|------|------|
| Albania | 135 | 86 | 81 | 77 | 82 |
| Bosnia and Herzegovina | 117 | 119 | 110 | 127 | 125 |
| Croatia | 107 | 106 | 89 | 79 | 80 |
| FYROM | 79 | 71 | 36 | 34 | 22 |
| Montenegro | 84 | 90 | 65 | 56 | 55 |
| Serbia | 91 | 94 | 90 | 88 | 92 |

Source: World Bank: Doing Business, 2012.

Very small progress was recorded in enhancement conditions for doing business in Serbia during the last couple of years. The World Bank analysts have noticed in the report «*Doing Business 2012*» the progress, compared to their previous report, in only one area in Serbia (registering property). In the same period, Macedonia realized reforms in four areas and improved its rank, so that it takes up 22nd position

and currently is the best ranked country of Western Balkans. The rank of Montenegro remained unchanged (56th global position) despite reforms in their areas. Croatia realized reforms in one area, but it worsened its rank for one place and has 80th position in the world now. Albania realized reforms in one area and worsened its rank compared to previous year for 5 places, so that it takes up 82nd position in the world now. Bosnia and Herzegovina realized reforms in two areas, but it still remained the worst ranked country in the region of Western Balkans with regard ease to doing business (125th global position).

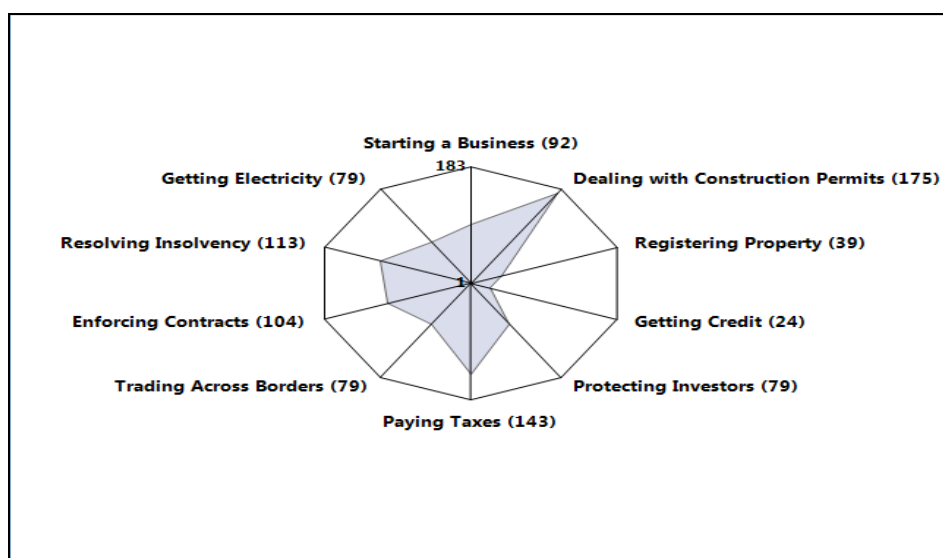
Current, rather unfavourable rank of Serbia with regard ease to doing business has been caused by numerous factors, among which the following are:

- For starting a business in the Republic of Serbia 7 different procedures and on average 13 days are required. Thereby, the rank of Serbia, when starting a business and business development are considered, has been lower in 2011 (92nd global place) than in previous year (81st). It is obvious that the conditions in other countries for establishing, especially small and medium-sized companies, more significantly improved than in Serbia. The last registered reforms and changes of legislation (by which the required procedures number has been reduced from former 11 and required time for establishment shortened from 23 days) were implemented in 2009;
- In obtaining different types of construction permits, getting electricity and telephone lines, and approvals from inspections or other bodies to start-up business, companies face 19 procedures for fulfilment for which they spend on average 279 days. In that respect, Serbia has been significantly lagging behind the average of Western Balkans holding inglorious 175th position among 183 countries of the world;
- With regard to registering property, Serbia has recorded massive progress. Registering property requires 6 procedures now and lasts on average 11 days instead of former 91 days. Thanks to reforms in 2011, time for registering has been shortened, by which Serbia improved its position from 98th to 39th;
- Considering getting a credit, Serbia has a very solid position and in respect of this indicator, it has the highest rank among all indicators analysed by the World Bank experts (it takes up 24th position in the world);
- With regard protecting investors, Serbia takes up 79th position in the world. Nevertheless, the rank of Serbia has been worsened compared to previous year for 5 positions due to non-implementation further reforms in this field;
- The Republic of Serbia belongs to a group of countries with a complex paying taxes and fees system – the number of annual payments is 66 times, i.e. for preparation, calculation and payment of taxes and other mandatory giving, companies spend even 279 hours a year, and overall system is not transparent

enough. No more essential changes have been registered in this field during the last three years, and in this respect, Serbia takes up undesirable 143rd position!

- Regarding foreign trade liberalization, Serbia takes up 79th global rank. However, no significant reforms have been registered in this sphere;
- The processes resolving insolvency take too much time and resources. However, certain changes have been noticed in this area and Serbia improved its rank – from 101st global position in 2009, to 86th in 2011;
- The legal system efficacy is not on satisfactory level in the Republic of Serbia. It is required on average 495 days and 36 procedures to collect debts based on commercial contracts, and costs collecting are very high (on average around 31%). No changes have been registered in that area for the last three years!

Figure 1: Global ranks of Serbia with regard ease of doing business



Source: «Doing Business 2012», Serbia

COMPETITIVENESS ANALYSIS

The competitiveness of Serbia is not satisfactory according to the report of World Economic Forum for 2011-2012. Namely, Serbia takes up 95th position out of overall 142 included countries and is at the rear of the group of 28 countries (Stage 2 – efficiency driven economies) that tend to realize economic growth and improve their overall competitiveness position through efficiency increase.

For the sake of truth, Serbia improved its rank for one position in 2011 in comparison with the previous year, but it is still one of the least competitive countries in European continent. Out of countries in region of Western Balkans, only Bosnia and Herzegovina has lower value of Global National Competitiveness Index (GCI). Besides, some countries, such as Macedonia and Albania for example, have overtaken Serbia past couple of years and Bosnia and Herzegovina has decreased a gap significantly, threatening to overtake it, too.

Table 3: Index of GCI for Serbia and other countries of Western Balkans, ranks and scores for 2008-2012

| GCI | 2008-09 | | 2009-10 | | 2010-11 | | 2011-12 | |
|------------------------|---------|-------|---------|-------|---------|-------|---------|-------|
| | Rank | Score | Rank | Score | Rank | Score | Rank | Score |
| Albania | 108 | 3.5 | 96 | 3.7 | 88 | 3.9 | 78 | 4.1 |
| Bosnia and Herzegovina | 107 | 3.6 | 109 | 3.5 | 102 | 3.7 | 100 | 3.8 |
| Croatia | 61 | 4.2 | 72 | 4.0 | 77 | 4.0 | 76 | 4.1 |
| FYROM | 89 | 3.9 | 84 | 4.0 | 79 | 4.0 | 79 | 4.1 |
| Montenegro | 65 | 4.1 | 62 | 4.2 | 49 | 4.4 | 60 | 4.3 |
| Serbia | 85 | 3.9 | 93 | 3.8 | 96 | 3.8 | 95 | 3.9 |

Source: Annual Report, World Economic Forum, 2011-12.

According to World Economic Forum, key bottle necks for Serbia competitiveness improvement are institutional factors, goods and labour efficiency and business sophistication. The essence is that institutional framework in Serbia is not good enough for business and investments, and that results from inefficient state regulation, corruption, problems assessing credits under favourable conditions, then weak efficiency of judiciary and inadequate legal system, as well as inadequate anti-monopoly legislation implementation.

Ranks and scores of basic twelve groups' competitiveness factors (pillars) for Serbia are the following:

Table 4: GCI of Serbia by competitiveness factors groups

| Pillar | Groups of factors | 2009-10 | | 2010-11 | | 2011-12 | |
|--------|------------------------------|---------|-------|---------|-------|---------|-------|
| | | Rank | Score | Rank | Score | Rank | Score |
| 1. | Institutions | 108 | 3.4 | 120 | 3.2 | 121 | 3.2 |
| 2. | Infrastructure | 102 | 2.7 | 93 | 3.4 | 84 | 3.7 |
| 3. | Macroeconomic environment | 86 | 4.7 | 109 | 4.0 | 91 | 4.5 |
| 4. | Health and primary education | 46 | 5.8 | 50 | 5.95 | 52 | 5.8 |

| Pillar | Groups of factors | 2009-10 | | 2010-11 | | 2011-12 | |
|--------|-------------------------------|---------|-------|---------|-------|---------|-------|
| | | Rank | Score | Rank | Score | Rank | Score |
| 5. | Higher education and training | 70 | 3.9 | 74 | 4.0 | 81 | 4.0 |
| 6. | Goods market efficiency | 115 | 3.7 | 125 | 3.6 | 132 | 3.5 |
| 7. | Labour market efficiency | 66 | 4.4 | 102 | 4.1 | 112 | 3.9 |
| 8. | Financial market development | 89 | 3.9 | 94 | 3.8 | 96 | 3.7 |
| 9. | Technological readiness | 61 | 3.5 | 80 | 3.4 | 71 | 3.6 |
| 10. | Market size | 65 | 3.6 | 72 | 3.6 | 70 | 3.6 |
| 11. | Business sophistication | 100 | 3.5 | 125 | 3.1 | 130 | 3.1 |
| 12. | Innovation | 70 | 3.1 | 88 | 2.9 | 97 | 2.9 |
| | Total | 93 | 3.8 | 96 | 3.8 | 95 | 3.9 |

Source: Annual Report, World Economic Forum, 2011-2012.

Presented competitiveness indicators do not indicate progress and capability of Serbian economy to improve its competitiveness and evolve into more advanced development stage. Namely, according to rank of total 105 indicators, distributed in 12 pillars, competitiveness advantages were determined (rank from 0-50) only at 13 indicators (or 12% out of total number), whereas weaknesses (rank over 50) were determined at remaining 92 indicators.

What is especially worrying is the fact that in period 2008-2011 the competitiveness has been worsened or not improved in most of the observed factors, with the exception of infrastructure and partly technological readiness. However, it should be especially pointed out that the progress in the domain of infrastructure is mainly owned due to the World Economic Forum methodology change according to which the factor number of mobile phones users was include to this group of competitiveness factors – Serbia is relatively well ranked in the world (28th place) and that significantly raised average score for this group of factors on the whole. Nevertheless, this is insufficient, particularly if it is taken into account that other countries have made significant progress – for example, Albania has increased in three years, by significant public investments, the score of status of road infrastructure from 2.4 to 3.5 points.

On the other hand, since 2008, labour market efficacy, efficacy of merchandise market, institutions and business sophistication has been the most worsened in Serbia. Especially high fall has been recorded at labour market efficacy (the decline from 66th to 112th position), and then the business sophistication (the decline from 100th to 130th position).

Serbia has been the worst ranked with regard to protection of minority shareholders' interests, extent of market dominance, „brain drain“, efficacy in solving legal framework in settling disputes, anti-monopoly policy efficiency, cooperation in labour-employer relations, natural comparative advantages, firm-level technology absorption, willingness to delegate authority, burden of government regulation, quality of port and airport infrastructure, extent of staff training, degree of customer orientation, reliance on professional management, ethical behaviour of firms, etc. Namely, considering all stated indicators, Serbia has been ranked above 130th place among 142 countries.

On the other hand, Serbia has been ranked favourable considering index of protection of rights, number fixed telephony lines, and number of mobile phones, internet bandwidth application, a series of health care indicators, and redundancy costs.

Table 5: The best and worst competitiveness factors of Serbian economy

| Worst | | Best* | |
|--|------|--------------------------------------|------|
| Factor | Rank | Factor | Rank |
| Protection of minority shareholders' interests | 140 | Legal rights index | 20 |
| Extent of market dominance | 139 | Number of fixed telephony lines | 26 |
| „Brain drain“ | 139 | Number of mobile phones | 29 |
| Efficiency of legal framework in settling disputes | 137 | Internet bandwidth | 34 |
| Effectiveness of anti-monopoly policy | 137 | Number of diseased with tuberculosis | 34 |
| Cooperation in labour-employer relations | 136 | New-born mortality rate | 40 |
| Nature of competitive advantage | 136 | Redundancy costs, weeks of salary | 50 |
| Firm-level technology absorption | 136 | | |
| Willingness to delegate authority | 136 | | |
| Burden of government regulation | 134 | | |
| Reliance on professional management | 133 | | |
| Quality of port infrastructure | 133 | | |
| Quality of airport infrastructure | 132 | | |
| Extent of staff training | 132 | | |
| Quality of roads | 131 | | |

| Worst | | Best* | |
|-------------------------------------|------|--------|------|
| Factor | Rank | Factor | Rank |
| Degree of customer orientation | 131 | | |
| Company spending on R&D | 130 | | |
| Ethical behaviour of firms | 130 | | |
| Wastefulness of government spending | 130 | | |

Source: Annual report, World Economic Forum, 2011-12.* The factors of 4th pillar: Health and primary education that are on high level in many countries such as HIV and tuberculosis prevalence have not been included.

Taking into account all aforementioned, it must be stated that Serbia is in very unfavourable competitive position. According to the majority of indicators, Serbia is ranked badly and it is below average of the countries from the second development stage, and that means far from average of member countries of European Union. As one of positive issues, we estimate the fact that the Government of the Republic of Serbia has recognized low competitiveness as one of considerable problems. With aim of solving it, and by making certain efforts, the National Council for Competitiveness was formed in 2009, which tried through five working groups to suggest concrete steps in solving noticed weaknesses and problems.

ECONOMIC FREEDOM

According to the research of Heritage Foundation (*Index of Economic Freedom*), based on score of 10 synthetic indicators by which certain aspects of business are followed in 179 countries, Serbia is ranked in 2011 on 98th place. Compared to previous years, Serbia gradually improves its rank for one position, but it is still, with the exception of Bosnia and Herzegovina the worst ranked among the countries of Western Balkans.

Table 6: Summary index of economic freedoms for Serbia and other Western Balkans countries, ranks and scores for 2008-2011

| Country | 2008 | | 2009 | | 2010 | | 2011 | |
|------------------------|-------|------|-------|------|-------|------|-------|------|
| | Score | Rank | Score | Rank | Score | Rank | Score | Rank |
| Albania | 63.7 | 62 | 66 | 53 | 64 | 70 | 65.1 | 57 |
| Bosnia and Herzegovina | 53.1 | 134 | 56.2 | 110 | 57.5 | 104 | 57.3 | 104 |
| Croatia | 55.1 | 116 | 59.2 | 92 | 61.1 | 82 | 61.1 | 83 |
| FYROM | 61.2 | 78 | 65.7 | 56 | 66 | 55 | 66 | 43 |
| Montenegro | 58.2 | 94 | 63.6 | 68 | 62.5 | 76 | 62.5 | 72 |

| Country | 2008 | | 2009 | | 2010 | | 2011 | |
|---------|-------|------|-------|------|-------|------|-------|------|
| | Score | Rank | Score | Rank | Score | Rank | Score | Rank |
| Serbia | 56.6 | 109 | 56.9 | 104 | 58 | 101 | 58 | 98 |

Source: <http://www.heritage.org/index>; * The value of score over 80 means free, from 70-79.9 means partially free, from 60–69.9 moderate free, from 50-59.9 mostly not free, and below 50 suppressed.

Furthermore, it can be noticed that some countries of Western Balkans, such as for example Macedonia and Croatia, significantly improved their position according to *Index of Economic Freedom*, and Bosnia and Herzegovina has significantly reduced a gap, threatening to overcome Serbia soon, too.

Current, rather unfavourable rank of economic freedoms for Serbia is determined by numerous factors, and in the first place is related to the rule of law, level and efficiency of Government spending and high perception of corruption existence.

Table 7: *Index of Economic freedom for Serbia for 2011*

| Indicators | Index | Rank |
|-------------------------|-------|------|
| Business freedom | 56.5 | 128 |
| Trade freedom | 77.9 | 87 |
| Fiscal freedom | 84.1 | 52 |
| Government spending | 39.3 | 140 |
| Monetary stability | 68.0 | 153 |
| Investment freedom | 60.0 | 64 |
| Financial freedom | 50.0 | 72 |
| Property rights | 40.0 | 72 |
| Freedom from corruption | 35.0 | 80 |
| Labour freedom | 68.7 | 62 |

Source: Heritage foundation <http://www.heritage.org/index>

Serbia's overall economic freedom index should be understood as one of the key indicators of progress on the road of reforms and implementing structural changes. Over the past decade, Serbia has implemented significant structural reforms in some parts of its economy. However, despite certain progress, Serbia's overall economic freedom continues to be constrained by the lack of political will to undertake the bold reforms that are required. Government spending remains inefficient, high, and poorly managed. Deeper institutional reforms are needed to tackle bureaucracy and reduce corruption.

Regrettably, researches performed by Heritage Foundation indicate that in respect of economic freedom Serbia has not realized noticeable progress in the last years and that it lags behind most of the Western Balkans countries.

PERSPECTIVES OF IMPLEMENTATION STRUCTURAL CHANGES IN SERBIAN ECONOMY

Despite huge progress, compared to the state before 2001, the existing economic environment of Serbia cannot be assessed as propulsive enough.

Starting from the end of 2000, intensive transition changes were implemented. The process had been characterized by the adoption numerous new laws and establishment a large number of new institutions (agencies, independent regulatory bodies, etc.). For example, only in the last four years, the National Assembly of Serbia adopted nearly 1,000 legal acts. The "anatomy and physiology" of the economic environment has changed. However, these changes have been unfortunately often incomplete, since the new laws adoption was not accompanied by the adoption of the secondary regulations, which would allow the new legislation operationalization. In addition, the enforcement and implementation of "new" laws has been often incomplete and actual trends have been under strong impact of political factors.

For successful business operations the existence a stable, not too prohibitive environment is the crucial precondition. Based on the observation and analysis of the authors, the key element of the current environment of Serbia can be through PEST matrix summarized as follows (Stošić, Nikolić, Zdravković, 2012):

Table 8: PEST analysis of Serbia - key elements

| Opportunities | Threats |
|--|---|
| P - Political and institutional environment | |
| The EU accession process – candidate status | Political instability - the electoral cycle |
| The adoption of numerous laws harmonized with EU practices | Problems related to the Kosovo and Metohija status |
| Obtaining a Schengen visa | Implementation and enforcement of laws |
| Strengthening accountability and efficiency of executive authorities | The high corruption level |
| Openness of Parliament to collaboration with science | Political influences in governing state-owned enterprises |

| Opportunities | Threats |
|---|--|
| E - Economic environment | |
| Relatively satisfactory macro-economic stability | Recession risk |
| The increased interest of foreign investors | Slow and incomplete structural reforms |
| The development of agriculture, energy, infrastructure | The high budget deficit and its financing |
| Reindustrialization of Serbia | The high level of public spending |
| Encouraging entrepreneurship and SMEs | Unfavourable interest rates on loans |
| Relatively healthy banking sector | The growing public and external debt |
| | Exchange rate fluctuations |
| | Poor privatization results |
| | The high level of informal economy |
| | Low energy efficiency |
| | The lack of public enterprises restructuring |
| S - Socio-cultural environment | |
| The existing human capital | The low employment rate and high unemployment rate |
| Reforms of education system, a large number of business schools | Declining of population and its aging |
| | The low purchasing power and living standard |
| | Worsening situation of vulnerable groups |
| T - Technological environment | |
| Increased public investment in R&D | The lag in innovation and technology |
| The level of education and open research systems | Low private sector investments in R&D "Brain drain" |

Regrettably, the PEST analysis results indicate that the impact of existing environment to business is not too favourable. Namely, the presented PEST analysis point to that business subjects operating in current environment is significantly aggravated by absence of adequate business ambient and characterized by weaknesses and threats dominancy over strengths and opportunities.

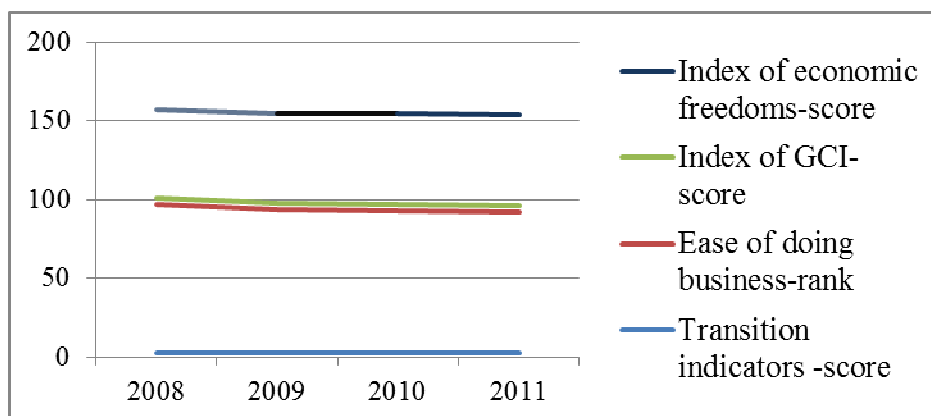
Furthermore, main structural problems of Serbia are insufficient economic activity level, high unemployment and low export activity level. Serbian economy reached in the end of 2011 only 70% of GDP from 1989, unlike other transition economies that

have long ago exceeded the level of economic activity generated before the transition process start. At the same time, Serbia has low employment rate (59.9%) and high unemployment rate (25.5%), which represents one of the principal economic and social problems of the Serbian society. The last, and not the least important, Serbian exports is currently amounting only some 11.8 billion USD and the volume of export per capita is among the lowest in the region. As a result Serbia is constantly facing of foreign trade deficit and problems with debt repayments.

CONCLUDING REMARKS

In spite significant progress realized after 2000, Serbia lags behind many Western Balkans countries in the process of implementation structural changes, especially in the last years. The progress in transition is practically halted, the conditions for doing business have not been improved significantly, the economy competitiveness does not rise, and economic freedoms are not on desirable level.

Figure 2: Progress made in period 2008-2011



These conclusions could be driven from international institutions and organizations unbiased surveys and must be taken with a significant dose of respect!

For the sake of truth, global financial crisis have significantly aggravated current economic climate in Serbia. But that cannot be the excuse for go-slow in structural changes implementation. Namely, contrary to Serbia, other countries from the region of Western Balkans have managed, in the same period in which negative effects of global financial crisis were manifested, to implement certain transition reforms, improve conditions for doing business and improve competitiveness.

Unfortunately, there is no evidence that Serbia is making any significant breakthrough in solving key structural problems. Furthermore, numerous controversies and open questions related to further courses and dynamics of structural reforms implementation are still present in Serbia.

However, it is clear that without more pro-active policy and strong-minded implementation of structural changes, Serbia will increasingly lag behind other countries of the region and that will only hinder its existing position. Consequently, there is a strong need for faster structural changes implementation in order to provide better conditions for doing business and more intensive, long-term sustainable economic development.

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