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# The Social Aspects of the Global Crisis in Serbia<sup>36</sup>

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## Abstract

*The global financial crisis has revealed structural weaknesses within Serbia's economic and social systems, which have heightened concerns for their long-term sustainability. The crisis has also been accompanied by a sharp decline in the national GDP, the deterioration of the national labour market, an increase in poverty rates, and adverse social consequences commonly pinned to economic frailty. Short-term measures to mitigate the negative effects of the crisis have only partially succeeded. Serbian social reforms in the previous decade incorporated profound changes to the state's pension and health care systems, unemployment protections, social welfare, etc. National social policies have likewise been reformed under the broader framework of European harmonization and the country's orientation towards EU accession. Yet the underwhelming results in all areas of social reform suggest that Serbia continues to fall further behind EU standards – a fact which has only intensified since the crisis began.*

## KEY WORDS:

*crisis, transition, unemployment, social exclusion, pensions, health services, social assistance*

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## 1. Introduction

Significant political, economic, and social problems followed the so-called period of transition in Serbia. In the aftermath of the “democratic changes” in 2000, progress has been made in terms of macroeconomic stability, economic reform, and standards of living. The 2008 global financial crisis, however, halted economic growth trends, resulting in decreased production, reduced exports and foreign investments, severely aggravating labour market conditions and increasing levels of poverty. The crisis has also negatively affected the privatization process for remaining public companies, cancelled various concession agreements, brought forth permanent insolvency for many companies, and raised the level of unemployment.

Initial estimates concerning the impact of the global financial crisis suggest that the national situation varied from the more optimistic to warnings about the need to prepare state intervention packages. Confronted with the problems surrounding the repayment of public debt, high inflation, and large budgetary deficits, the Serbian government adopted anti-crisis measures as a means to stabilize the financial sector, ensure economic liquidity, and promote economic development. In 2009 funds for the repayment of overdue loans intended to reduce the negative effects of the crisis were provided during negotiations with international financial institutions (the International Monetary Fund, World Bank, European Bank for Reconstruction and Development).

After a short period of recovery in 2010, Serbia succumbed to a new wave of recession and crisis. As a result, the government prepared a document featuring a new model for economic growth, which aimed to increase investments, reduce public spending, strengthen industry, and raise exports. In line with the Strategy “Europe 2020”, a similar report entitled “Serbia 2020”<sup>39</sup> was produced by the Serbian government in late 2010, envisaging increased employment, investments in education, poverty reduction, and the mitigation of social exclusion.

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39 “Serbia 2020”: The concept of development of the Republic of Serbia by 2020 was presented in December 2010 by the Prime Minister and Vice-President of the Government in charge of European Integration. The main intention of the authors of the document was to coordinate Serbia’s social-economic and political objectives with the EU.

The transition processes in Serbia were followed by an overhaul of the social system with a view to overcoming enduring problems and building a sustainable financial model. The crisis has now actualized the need for reviewing the results of the neo-liberal changes made in the provision of basic social rights and creating an adequate institutional framework.

## **2. Transition trends and effects of the global economic crisis**

The socialist transition in Serbia was a phased process. The first period ("blocked transformation") is characteristic of the 1990s, while the first decade of the twenty-first century ("de-blocked transformation") is considered the actual beginning of the transition process.

The first wave of political and economic changes in Serbia occurred simultaneously with the crisis in the former-Yugoslavia, which resulted in the disintegration of the federation and the creation of several independent states made up of its former republics. War, sanctions by the United Nations (1992), and economic crisis led to a decline in GDP, unprecedented inflation (1993), a constant decimation of wages (from 5 to 10 German Marks per month), increased unemployment and poverty, and near-economic collapse. During the 1990s, Serbia survived on reserves, the hastened printing and redistribution of currency, and the disappearing hope that international sanctions would soon end. NATO'S 1999 bombing of Serbia, the destruction of industrial, infrastructural, and civilian facilities, the large number of fatalities, and military defeat accelerated the process of political reform.

Following the "democratic changes" of 2000, a brief period of optimism took hold based on the easily given promises of resolving problems quickly and securing a European future for Serbia. The new government prepared a package of reform proposals aimed at "creating a real market economy" and "strong social policy"; these would nevertheless help the transition's losers confront the difficulties of economic reconstruction and

ensure a minimum living standard. Domestic and foreign trade were liberalized, companies and banks were privatized, and the tax system and public finances underwent a period of transformation. Dynamic GDP growth, as well as price and foreign exchange rate stability were soon realized alongside the continued growth of foreign reserves. By the middle of 2008, however, economic growth curtailed.

Positive trends achieved between 2001 and 2008 were the result of sound economic policy; the primary objectives were to maintain macro-economic stability and achieve higher rates of economic growth. "One of the transition characteristics of the Serbian economy has been a mismatch between production and consumption, i.e. consistently higher levels of consumption from production (about 20%). The consequence of this disparity was reflected in the growing trade deficit, which influenced the growth of the current account deficit. The structure of the use of GDP was characterized by high share of personal consumption and insignificant share of investments into fixed assets, as well as of exports of goods and services. High share of aggregate personal consumption was affected by the growth of real wages (which was higher than the labour productivity growth), pensions, loans as well as remittances from abroad" (Ministarstvo finansija, 2012: 55).

Table 1 – Macroeconomic Trends 2001-2010

	2001	2004	2007	2008	2009	2010
<b>GDP, in bil.EUR</b>	12.8	19.0	28.5	32.7	28.9	28.6
<b>GDP, real growth in %</b>	5.3	9.3	5.4	3.8	-3.5	1.8
<b>Inflation, end of year</b>	40.7	13.7	10.1	6.8	6.6	10.3
<b>Average exchange rate RSD/EUR</b>	59.78	72.70	79.96	81.44	93.95	102.94
<b>Current account deficit, as % GDP</b>	2.2	-13.8	-17.7	-21.6	-7.2	-7.3
<b>Direct foreign invest- ments, as % GDP</b>	1.4	4.1	6.4	5.6	4.8	3.0
<b>Reserves of the National Bank of Serbia, in bil. EUR</b>	1.33	3.13	9.66	8.19	10.6	10.00

<b>Fiscal deficit, in % GDP</b>	-0.5	0.7	-1.9	-2.6	-4.5	-4.6
<b>Public debt, in % GDP</b>	104.8	50.9	30.8	26.3	32.9	41.4
<b>Foreign debt, in % GDP</b>	85.5	49.8	60.2	64.6	77.9	83.5
<b>Private foreign debt, in % GDP</b>	5.5	11.5	38.1	44.6	51.0	51.6

Source: *Ministarstvo finansija, 2011.*

GDP growth in the pre-crisis period was enhanced by the development of the service industry, particularly the financial sector, while the contribution of heavy industry was considerably modest. The inflation rate decreased from 40.7% in 2001 to 6.6% in 2006; however, it again reached double-digits (10.1%) in 2007. The high inflation rate, despite a restrictive monetary policy, resulted from high domestic demand based on the availability of affordable credits and the increasing indebtedness of households. An expansionary fiscal policy, encouraged by the growth of capital and current spending, was reflected in the growth of consolidated public spending, which reached 44.9% of GDP in 2007 (Republički zavod za razvoj, 2009). The initial period of "democratic changes" were also characterized by the expansion of foreign trade and a large trade deficit resulting from the weakened competitiveness of Serbian products on the European market.

The first indicators of the crisis in Serbia<sup>40</sup> were seen in the final quarter of 2008, and were first evident in the banking sector (the panicked withdrawal of money) and a dramatic decline in the domestic currency value. The National Bank of Serbia has since spent a significant portion of its foreign exchange reserves to stabilize the national currency (RSD) and reduce inflationary pressure. 2008 was also marked by a cessation of foreign capital inflows, declines in domestic demand and export, and also a significant drop in production. In such circumstances, "the accepted view became that the crisis has not bypassed Serbia, and that it rather represents an acute threat to the achievements in the sphere of human development, stability and economic progress, which were achieved during the last decade. Long-term risk lies in the fact that the crisis rapidly completed an entire

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40 For a more detailed approach, see Vuković, D. Perišić, N., Annual National Report 2010 - Pensions, Health and Long-term Care, Republic of Serbia, available at:[http://www.socialprotection.eu/files\\_db/910/asisp\\_2010\\_Serbia.pdf](http://www.socialprotection.eu/files_db/910/asisp_2010_Serbia.pdf)

cycle of economic growth which was based on increased demand and consumption, which was driven by substantial capital inflows. Recovery from the crisis will not mean a return to the old model, but it will be necessary in the meantime to lay the foundations for a new development model, based on greater reliance on own real sources of growth" (Krstic, 2010: 6).

A number of negative effects of the economic crisis emerged in 2009 as a result of a further fall in production, primarily in industry, construction, and trade, while other sectors continued the upward trend characteristic of previous years. For example, the agricultural sector in 2009 experienced (symbolic) growth. Overall, the economic crisis resulted in decreased foreign investments in Serbia, which significantly affected economic development. In the second quarter of 2009, public expenditures were 13% higher than in the same period in 2008. Also in 2009's second quarter, consolidated public spending recorded a 6% decline, which contributed to decreased capital investments and increased social transfers (mainly for pensioners). Some positive growth trends were recorded in 2010, namely GDP growth of 1.8%, a result of the service sector's relatively high growth rate (3.1%) (Ministarstvo finansija, 2012).

The 2011 current account deficit hovered around 2.5 billion EUR (or approximately 7.5% of GDP), which was almost the same as in the previous year. The inflow of foreign capital has enabled its financing; however, the situation may aggravate in 2012 due to the obligations of the loans. It is estimated that the servicing of public debt and interests abroad will require over 7 billion EUR in 2012. At the end of 2011, public debt approached its legal limit of 45% of GDP. The planned fiscal deficit in 2012 calls for 4.25% of GDP (Ministarstvo finansija, 2012).

The increase in living standards from 2001 to 2008 resulted from the dynamic increase to wages and pensions. During this period, earnings quadrupled and in 2008 averaged EUR 400. In 2009, average wages dropped to EUR 338 as a result of the crisis. In 2010 they continued to drop (to EUR 331); and in 2011 there was a negligible increase (EUR 337) (Republički zavod za razvoj, 2009). It must be noted that increased living standards during this period significantly aided in the reduction of poverty: according to the Household Measurement Survey, rates of absolute poverty decreased from 14% in 2002 to 6.6% in 2007 (Republički zavod za statistiku, 2009).

### 3. Measures to mitigate the consequences of the crisis

The global financial and economic crisis has potentially presented an opportunity to create a policy that mitigates the negative effects of recession and creates conditions that expedite economic recovery, raising employment rates and living standards. In late 2008, the government enacted a Framework Programme as a response to the crisis and its impact on the economy. The planned austerity measures and cuts in public spending sought to increase the competitiveness of the national economy alongside the simultaneous affirmation of the “social character of the state.” More specifically, the programme envisaged the protection of the most vulnerable groups in society and find a means “[to go] through the crisis in a way that it feels like a mild slowdown, not a decline in living standard and return to the poverty years” (Vlada Republike Srbije, 2008: 8). It also planned to freeze pensions in 2009, write-off interest charges on unpaid taxes and contributions, and dispose of old health insurance obligations in cases where citizens regularly meet their current obligations.

In early 2009, three packages of economic policy were adopted. The first related to the reduction of risks and costs in the financial sector by increasing the amount of insured deposits in banks from EUR 3,000 to EUR 50,000. In addition, the implementation of tax regulations to incomes based on interests, and taxes on capital gain in the trading of securities was suspended in 2009. The second package aimed to stimulate bank lending in order to mitigate the recession in the national economy and ensure an increase in domestic demand. An integral part of this package were foreign credits (from EIB, KfB, EBRD, and the Government of Italy) amounting to EUR 480 million, which were intended for lending to small and medium-sized enterprises. An Action Plan on the construction of roads and the railway corridor 10 was adopted. Finally, during March 2009 negotiations started with the International Monetary Fund (IMF) on a new credit arrangement and other measures to reduce the crisis (Vukovic, Perisic, 2010).

“The prepared emergency package of economic policy in Serbia is focused on: 1. stimulating economic growth (increase in domestic demand,



liquidity, investments and export), 2. social measures (support to the most vulnerable layers of population – beneficiaries of social assistance, unemployed and persons aged 65 and over), 3. rationalization of government expenditures at all levels, 4. infrastructural measures (investments into Corridor X, the reconstruction of local infrastructure, promotion of social housing, modernization of public enterprises, development of rural infrastructure), 5. monitoring and correction of the package of measures, depending on the type of economic disorder" (Republički zavod za razvoj, 2009: 12).

Further, the government adopted the Social Protection Plan in August 2009 with a view to solving the key problems in the field of employment and enabling the insured to effectuate their statutory rights based on social insurance. The Plan called for the state to pay contributions for elderly and disability insurance to employees whose employers failed to pay contributions from January 1, 2004 to June 30, 2009 (and also "connecting" the years of service). The Plan additionally comprised of paying contributions for health insurance in 2009 in cases where employers had not done so. This provided lump sum benefits for employees with the lowest incomes, the rescheduling of arrears for electricity, and the preventing of abuses in the privatization process, etc.

A stand-by arrangement with the IMF provided financial support to Serbia valued at EUR 2.87 billion in 2009 and 2010, which positively impacted negotiations with other international financial institutions and stabilized the national banking sector. "The Letter of Intent of the Government of the Republic Serbia was released in December 2009 and contains the presentation of a programme agreed with the IMF, as well as results achieved in the field of macroeconomic stability and other fields. The planned deficit in the budget is 4% of GDP in 2010; the Letter envisages a reduction of the number of employed in public administration by 10% and the freezing of pensions and salary levels in the public sector. The Letter highlights the government's commitment to 'perform key reforms in the fields of pensions, education and health'. Other unintended social transfers are also frozen, but it is expected that the social expenditures will grow, due to increase in the number of poor people during the crisis" (Vukovic, Perisic, 2010: 9).

In early 2010, the Programme of Measures to Reduce the Negative Effects of the Global Economic Crisis in 2010 was adopted. This was in fact a con-

Continuation of the measures envisaged in the previous year. The main objective of the new programme was to ensure the preservation of jobs, create opportunities for new employment, and propel growth. In order to increase citizen purchasing power, the government adopted a special programme of subsidized cash and consumer loans for the purchase of domestic products in 2010. That same year, a decree on the conditions and ways of attracting foreign investments was enacted. Its purpose was to harness more favourable conditions for new jobs, and provide greater investments for the automotive and electrical industries, and telecommunication technology.

For the packages of recovery measures, the government provided loans to the economy and citizens in the amount of EUR 1.1 billion and EUR 1.9 billion in 2009 and 2010 respectively. A similar program was implemented in 2011.

Short-term measures to reduce the negative effects of the crisis were partially successful in maintaining fiscal stability. Control of budgetary costs, changes in the distribution of funds, and the freezing of pensions and wages in the public sector (2009-2010) all contributed to the targeted deficit reduction plan.

Table 2 – Indicators Europe 2020 – Situation and Objectives of Development

	Europe		Serbia	
	2010	2020	2010	2020
<b>Employment of people aged 20-64 (%)</b>	68	75	49	65
<b>Investment in research and development (% of GDP)</b>	1.9	3.0	0.3	2.0
<b>Share of consumption of energy from renewable sources in total energy consumption (%)</b>	16	20	12	18
<b>Energetic efficiency (toe/1000\$ of GDP)</b>	0.21	0.17	0.96	0.57
<b>Population aged 30-34 with university degrees (%)</b>	31	40	21	30
<b>Poverty rate (below 60% median of available income of the population)</b>	16	12	17	14

Source: *Ministarstvo finansija, 2011.*

Serbia's development goals for 2020 (as predicted in the Strategy "Serbia 2020") consist of increasing employment rates (up to 65% for persons aged 20-64 years) and investing in research and development (from 0.3% to 2% of GDP). In accordance with the objectives of "Europe 2020", the Serbian strategy outlines measures to improve human capital aimed primarily at reducing the school dropout rate for at-risk groups, and increasing the percentage of the public aged 30-34 with a university degree to 30%. Within the realm of sustainable development and environmental protection, electricity consumption from renewable sources is targeted to increase to 18% by 2020, with additional increases in energy efficiency provided for. As well, the strategy emphasizes the seriousness of the current demographic problem and the reduction of relative poverty from 17.7% in 2009 to 14% in 2020. To achieve the projected social inclusion goals, it is necessary to increase the amount of social assistance benefits and target better development programmes for full access to education, labour, health, and social services (active inclusion). Yet during the public debate on "Serbia 2020," many public sector actors pointed to its shortages in terms of the unrealistic projections of development, the extreme and unfounded optimism, and concerns with how the objectives will be realized.

#### **4. Labour market in the conditions of the crisis**

The social effects of the crisis appear to be the most dramatic given the negative growth trends in the labour market, i.e. falling employment and rising unemployment. The unfavourable conditions in the 1990s continued in the following decade, despite evident progress and economic growth in the period before 2008. The process of restructuring and privatizing social sector firms, which centred on releasing redundant workers, led to mass unemployment and poverty in Serbia. Among the most disadvantaged were those seeking their first jobs; women (who have consistently recorded higher unemployment rates than men); those with low and/or only secondary school qualifications; older workers (who had lost their jobs during the privatization process); the disabled community; refugees and internally displaced persons; and some ethnic groups.

“The fall in employment since the beginning of the crisis was dramatic. The number of working age employees (15-64 years of life) fell by almost 200,000 or about 7% between October 2008 and October 2009. This led to a corresponding decline in the employment rate (15-64 years) from 53.3% to 50%. In the same period, the number of unemployed persons (15-64 years) increased by almost 60,000 bringing the unemployment rate from 14.7% to 17.4% (October 2008 to October 2009)” (Vlada Republike Srbije, 2010: 3). In addition to these paltry figures, the employment situation in Serbia has been characterized by less “secure” jobs and work contracts (of limited duration); seasonal work in the agricultural industry; and self-employment and contributing family members in the retail trade and crafts sector.

A study identifying the situation of vulnerable groups in the labour market conducted by Krstic in 2010 reveals that during the crisis, the youth and rural populations in southeast Serbia experienced the greatest societal pangs. For the elderly and women, no major changes were observed, although the number of older workers (55-64) who lost their jobs increased dramatically (Krstic, 2010). For other categories of vulnerable groups (Roma, refugees and internally displaced persons, and the disabled), there was no data about their employment situation before 2008. Given the demographic characteristics and educational levels of these categories, it can be assumed that their position during the crisis worsened, which would be reflected in a further decline in their living standards and increased poverty.

Table 3 – Labour Market Indicators for the Population Aged 15-64 (%)

Age 15-64	April 2008	Oct. 2008	April 2009	Oct. 2009	April 2010	Oct. 2010	April 2011	Nov. 2011
Activity rate	62.8	62.6	60.8	60.5	59.1	58.8	58.9	59.9
Employment rate	54.0	53.3	50.8	50.0	47.2	47.1	45.5	45.3
Unemployment rate	14.0	14.7	16.4	17.4	20.1	20.0	22.9	24.4
Non-activity rate	37.2	37.4	39.2	39.5	40.9	41.2	41.1	40.1

Source: Republički zavod za statistiku, 2012.

Unemployment in Serbia is very high, and according to data from the Labour Force Survey,<sup>41</sup> 20% of the working age population (15-64 years), or rather 566,000 citizens were unemployed in October 2010. The structural characteristics of the unemployed are also unfavourable, giving the appearance that women also fall into the "vulnerable category" throughout the transition period. In October 2010 unemployment rates for women and men were 20.4% and 19.2% respectively. Even greater differences can be observed in terms of employment rates: for women they were 30.9%; for men 45.0%. Regarding age groups, the highest unemployment rate is in the category of persons aged 15-24 years, which was 46.1% in October 2010. In other words, the number of unemployed young persons in this age bracket was 112,165, accounting for 19.7% of the total unemployment figure (Republički zavod za statistiku, 2012). Young people are also more likely to work in the informal economy and accept jobs beneath their qualifications.

Unfavourable trends in the labour market and the negative effects of the new wave of recession were also visible in 2011. According to the Labour Force Survey, the employment rate was 45.5% in April 2011; it was significantly lower for women (38.8%) than for men (52.2%). In November 2011, there was a further decline (0.2%) in the overall employment rate (45.3%), with a slight increase in male employment (52.5%) and decrease in female employment (37.9%). High unemployment is still the most invasive structural problem in Serbia. The registered unemployment rate of persons actively seeking employment in October 2011 was 29.6% (Ministarstvo finansija, 2012). Due to the unfavourable economic climate, significant changes in the labour market are not expected in 2012.

In response to the crisis, positive amendments were made to the laws regulating the labour market's functioning; strategic documents and action plans were also drafted. The programme of measures for the rapid-solving of the unemployment problem envisaged greater investments for active labour market policies (ALMP). In 2009, the majority of active labour market measures were directed towards programme for young trainees ("First Chance") and the public works sector.

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<sup>41</sup> Data on unemployment held by the National Employment Office differ from data obtained by the Labor Force Survey conducted by the Republic Statistical Office.

"Public work programmes are designed as a direct income support for the most vulnerable unemployed people, typically in underdeveloped areas, providing them with temporary, subsidized, formal employment, while increasing their chances to find a subsidized employment at the end of the programme. However, recent analyzes have found that these programmes, in the form and the manner they have been conducted in Serbia, achieve much better results when it comes to the first stated goal, than the second one. Not surprisingly, public work programmes did not have long-term effects on employment. Partially because of these disappointing results, the budget for public work programmes in 2010 was reduced to 'standard' amount of RSD 700 million" (Arandarenko, 2011: 34).

As part of the measures to improve labour market conditions, a set of strategic documents and action plans have been drafted. A new National Employment Strategy for 2011-2020 is essentially based on "Europe 2020." Beginning with the current situation in Serbia, specifically the structural problems within the labour market, the Strategy opted to reduce the differences in employment and coordinate employment programmes with EU Member States over the next decade. "The current difference of 20% is so large that it represents one of the biggest obstacles to fulfilling the core Copenhagen criteria for EU accession of the Republic of Serbia. Convergence towards the objectives set by the 'Europe 2020' requires more rapid average annual economic growth compared to the EU average, with simultaneous the same or greater labour productivity" (Vlada Republike Srbije, 2010: 15).

Labour market trend projections for Serbia through 2020 are based on assumptions concerning the dynamics of economic growth and the final process of labour market reforms. The Strategy for the period 2011-2020 predicts that employment in 2013 will reach its pre-crisis level, and is set to grow at the pace of approximately 50,000 persons on average in the following years. At the end of the projected period, the total number of employees would reach an estimated 3 million (or 440,000 more people compared to the situation in 2010). Unemployment is expected to decline beginning in 2013; in 2020 the total number of unemployed persons in Serbia would reduce to about 340,000. Compared to the 2020 employment rate projections for the EU Member State populations aged 15-64 and 20-64 (70% and 75% respectively), the projected rates in Serbia are much lower (61% and 66% respectively) (Vlada Republike Srbije, 2010).

## 5. Poverty and social exclusion

Programmes and measures of social inclusion in Serbia have also been amended in recent years. As part of the activities connected to EU accession, the first steps to improve upon these social conditions were made in early 2009, when a draft list of indicators for monitoring social inclusion was created on the basis of making statements in order to create a starting point for defining the policy of reducing social exclusion. It is envisaged that the measurement of social inclusion is fundamental to the Laeken Indicators (financial poverty, employment, education, and health) to expand with two new, nationally-specific dimensions: the satisfaction of basic needs and social participation.

Data on financial poverty indicate higher rates of poverty risk in Serbia when compared to EU Member States. Taking into account the incompleteness of the national data and its subsequent comparability to the EU data, the average rate of poverty risk in Serbia is 17.7%, whereas the EU average is 16.6%. At the same time, the relative risk of the poverty gap amounted to 22% below the poverty line, which is fully comparable with the EU average of 21.9%. The quintile ratio of 4.7 was slightly lower than the EU average (5) as well as Gini coefficient (29.5 versus 30.6 in the EU) (Vlada Republike Srbije, 2011). These two indicators are not objectively high in contrast to the subjective feeling of the population regarding the "distribution" of inequalities in society.

Contrary to the above, indicators of social inclusion related to employment in Serbia have been far less favourable than those found in the EU; they are only comparable with other countries in South East Europe. One factor accounting for this is that, the decline in employment during the crisis was significantly higher than the GDP drop, in contrast to all other European countries, including those in the region. The long-term unemployment rate (10.9% of total unemployment) and the participation of the long-term unemployed of 65.5% rank Serbia highly unpopular on the European scale (Vlada Republike Srbije, 2011). The same refers to the unemployment rates of young people, those without qualifications, the rural population, refugees and internally displaced persons. A special challenge concerns the unemployment of Roma. All these indicators were generally unfavourable, but they became even worse during the crisis.

Indicators of education, as in the case of employment, reveal significant deficits when compared to the EU, especially where it regards the quality of educational programmes and contents. The participation of children in preschool education is just 46.9% (the EU average is 85%). The ratio of coverage of children aged 0-3 years is even less favourable. Coverage rates of children with primary education in Serbia are high, amounting to 98.07%, and primary school completion rates are almost 100%. Yet the percentage of children dropping out of primary school is high – 7.04% annually, or 5,997 children, most of whom are Roma. Net enrolment rates for secondary schools also increased, amounting to 82.7%; however, the dropout rates are comparatively very high (23.5% and 9.3% for three-year and four year secondary schools respectively). In addition, they are highest within Serbia's most marginalized groups (62% of Roma), as well as those from poorer families (42%) (Vlada Republike Srbije, 2011). The coverage of the population with programmes of life-long learning is extremely low.

Health as a factor of social inclusion has shown mixed results. Indicators relating to access to health care reveal a high percentage of the population with health care coverage (about 94%) and shortages in coverage for more marginalized groups. Life expectancy in 2009 was 73 years on average (76.4 and 71.1 for women and men respectively), but it still falls behind the EU average. Survey statements about the general health situation rank Serbia worse than the EU (56% in Serbia versus 65.1% in the EU said they are of good health). Despite some progress in this area, indicators of the reported quality of health care in Serbia reveal patient satisfaction rates to be considerably high. The prenatal mortality rate, however, is also very high (8.9% and 5.8% in Serbia and the EU, respectively). Moreover, differences concerning the inequalities in health outcomes for people in the general population compared to vulnerable groups have endured. Finally, the long-term financial sustainability of the health care system indicates that the percentage of GDP expenditures for health are higher in Serbia than in the EU (9.8% of the GDP compared to 9% of the GDP in EU Member States). This fact, however, is only relative because the Serbian GDP is disproportionately smaller, so the actual consumption is extremely low by comparison. Thus, the cost of health care in 2008 amounted to \$838 PPP per capita, as opposed to \$2,877 PPP per capita in the EU (Vlada Republike Srbije, 2011).



## 6. Social reforms

The nature of social problems and the severity of the situation for the majority of the population in Serbia during the 1990s influenced the content and objectives of social reforms in the period after 2000. The first social policy steps aimed to alleviate poverty and pay deferred benefits (social assistance, pensions, child allowances, etc). Following this, the state has taken its obligation to pay regularly all of the cash benefits in the system concerning social protection. In parallel, a process of shaping a new social policy, coordinated by the Ministry of Social Affairs in consultation with international monetary institutions (IMF, WB) and governments of donor countries has been established.

### 6.1. Introduction of private pension option

The strategic objectives of the pension system reforms have been defined as "ensuring stable and sufficiently high pensions for all, creating a financially sustainable pension system, increasing domestic savings and accelerating economic development, increasing fairness of the pension system and expanding choices for insured" (Vlada Republike Srbije, 2003: 113). The most significant changes were made in the period 2001-2003. Parametric reforms of the pay-as-you-go system (PAYG) included a one-time raising of the retirement age from 55 to 58 years of life for women, and from 60 to 63 for men; the application of the Swiss formula of pension indexation (i.e. the adjustment of pensions based on wage growth and living costs); a reduction of contribution rates; the calculation of pensions based on earnings realized during the entire life cycle; and the introduction of more stringent conditions for effectuating the right to disability pension (Vuković, 2009).

Subsequent changes in legal regulations (beginning in 2005) aimed at reducing public expenditures and establishing macroeconomic stability. These were carried out amidst strong pressure from the IMF. Critical tones in the debates about the proposed changes and the differences in opinion between political parties have led to the mitigation of radical demands and the adoption of compromised solutions. The retirement

age was again raised by two years, with a gradual introduction of this programme beginning in 2011. The changes included pension indexations: in lieu of the Swiss formula, the government opted for a cost-of-living index, provided that the average pension cannot be lower than 60% of one's average earnings at the end of 2008 (Mijatović, 2008).

Recent changes to public pension insurance (in late 2010) partially related to the elimination of certain benefits for the insured with privileged years of service, and the extension of years of service for retirement for women from 35 to 38 years, as well as the raising of the retirement age for survivor pensioners. Other and more integral changes address pension indexation.<sup>42</sup> Changes have been introduced in connection with raising the minimum retirement pensions for agricultural pensioners, the status of farmers, and the introduction and transfer of those insured within the military system into the public old-age and disability insurance.

Another direction of reforms within Serbia's pension system is based on a decision made in 2001 in consultation with the WB on the introduction of a voluntary private pension insurance. Deciding on the introduction of the so-called third pillar was motivated by the desire to prevent the consequences of the current and projected demographic situation in Serbia, as well as the distribution of burden for financing pensions.

The legislation based on which voluntary private pensions were introduced in Serbia was made only in 2005. Its insufficient development is most likely the result of a small number of actively insured, and the low level of assets of private funds in the national GDP, despite their growth. The reasons for this are the short time since its introduction, low living standards, and macroeconomic instability (caused by the crisis); however, they also speak to the low level of informed citizens where it concerns this issue.

At the end of 2008, the total number of those maintaining voluntary pension funds amounted to 195,000, while only 66,000 of them regularly made payments into their individual accounts. The majority of the property of

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 42 The changes in the indexation mechanism were among the most noteworthy topics up for public debate. The adopted solution provides for the following: "in two first years (2011/2012) pensions are to be indexed based on percentage representing a sum of the percentage of consumer prices' growth in the previous 6 months and percentage representing one half of the actual rate of GDP growth in the previous calendar year (Similar to the Swiss formula with GDP). After that, pensions are to be indexed twice a year (in April and October) based on consumer prices' trends" (Stanić, 2010: 32).

funds were on custody accounts (54%), and invested into state shares (34%); 60% of the funds were in EUR. At the end of 2009, the net assets of funds increased to 66.3% compared to 2008, a result of increased net payments from the insured and profits realized by the funds. Data for 2010 pointed to a further decrease in the number of insured (2.5%) compared to 2009, and an overall growth in the net property of funds to 39.2% (Vukovic, Perisic, 2011).

Along with the implementation of reforms in the first and the third pillars, the option of introducing the second pillar (mandatory private pensions) was also discussed. It was subsequently delayed (for an indefinite period of time). The reason why decision-makers should accept the change of model without the mandatory private system lie in the fact "that the existing system ensures that all those who have paid contributions can achieve certain security in their old age. If the system would be based only on savings accounts and if the money would be invested by private companies, the uncertainty would be much greater, because, of course, no matter what control mechanisms and regulations are put in place, it is possible to assume that a number of such accounts would be emptied due to bankruptcy or wrong investments, which would mean that even though people have been paying contribution for old age, such a system would not enable that" (Matković, 2003: 269). Among the reasons listed were: high transition costs; underdeveloped financial markets; the lack of realistic and convincing arguments for its introduction in other countries; (Mijatović, 2008) and inadequate mechanisms of control concerning the supervision of private funds (Vuković, 2009).

Recent studies (Stanić, Živković, 2009) reveal that the transfer of 7% of current contributions for the public old-age and disability insurance (out of a total of 22%) into the second pillar would result in extremely high and long-lasting transition costs (Stanić, Živković, 2009).

## **6.2. Access, quality and financial sustainability of health system**

An explicitly formulated health care policy did not exist for a long period of time in Serbia. Consequently, there are many problems in the field of public health and an absence of national policy objectives that would

be in line with real (financial) possibilities and the actual and perceived needs of the population. Only in 2003 (note: many years after other parts of the social protection system were addressed) did health insurance and health care reforms begin. To date, most reforms have related to the aspirations aimed at putting primary care at the centre of the system, after which a concept to choose doctors was introduced. Yet financial developments have only recently been made, and in most cases only partially: in late 2011 the final activities for the introduction of capitation as a method of payment in primary care facilities were implemented. The introduction of diagnosis-related groups for secondary and tertiary care is planned to be begin in the next five years.

Public health insurance has not undergone any significant changes. In 2008, a voluntary health insurance was introduced; at the moment, this programme has very modest coverage.

Public and private health sectors exist in parallel, but are still independent of one another, despite the proclaimed objectives of reform “to increase the participation of private, profit and non-profit sectors in providing health care funded by the Republic Health Insurance Fund” (Ministarstvo zdrav-lja, 2003: 25). Even though nearly a decade has passed since this statement was made, no significant developments have been undertaken.

The legal introduction of the possibility to sub-contract health services, based on which the Republic Health Insurance Fund pays fees to private doctors, did not affect the changes aimed to bring the public and private health sectors closer together; this model is also not used in practice.<sup>43</sup> As it turns out, the so-called temporary engagement of doctors (who are regularly employed by the public sector) in the private sector is not a realistic option for the legal binding of these two sectors.

According to estimates of the Private Medical Chamber, over 50% of the population uses private health sector services; 50% for diagnostic and specialist health services; 65% for gynaecology; 80% for laboratory and dental services (Privatna lekarska komora, 2012).

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 43 The reasons for that partially result from the “overlapping of the public and private health sectors, widespread corruption, and the inability of the state to introduce [a] control system” (Vuković, 2010: 215).

A systematic and complex evaluation of reform measures thus far undertaken has not been carried out; however, partial examinations provide insights into specific aspects of the health system.

According to the WB,<sup>44</sup> "the health care system in Serbia has seen significant progress in the last 15 years" (Svetska banka, 2009: 22), which was largely achieved in two important areas: the management of the system, and the activities conducted by the Republic Health Insurance Fund. Yet "most of the reform objectives have not been achieved" (Vuković, 2009: 137). Recent studies show that there are still many difficulties in the implementation of statutory rights and that this directly affects the health of the population. The differences are apparent in the indicators related to access to health services, the availability of all types of institutions, the level of quality, and the overall satisfaction of patients, etc.

In general, health services are evenly distributed, but these figures are based on the existing standards. Shortcomings are evident in the equality of the services provided. They are generally of higher quality in larger urban centres, as opposed to the quality of services in less developed areas of the country. Inadequate health care coverage (even for primary care) is especially visible within the more vulnerable population groups.<sup>45</sup> Its underdevelopment continues to prevent the overall raising of services. Progress in increasing quality has primarily been achieved by investing large pools of resources in the reconstruction of health facilities and the purchasing of modern equipment. A significant number of hospitals and institutes were re-invigorated, primarily in cities with large medical centres, while the situation in rural areas remains poor.

The organization of public health services is an inherited problem of the socialist system. In practice, there are complex organizations where a clinical approach is dominant, while health promotion and prevention are neglected.

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44 WB was among the health care reform actors in Serbia (together with the EU and UN); it conditioned its help to the energy sector with health sector reforms (Arandarenko, Golicin, 2006).

45 Many Roma children are not covered with health care. Unfavorable situation is also in refugees and internally displaced persons, who do not have personal documents. At the same time, mechanisms of control of paying health contributions became stricter so that the employees whose employers do not pay health contributions for them cannot obtain medical booklets.

Problems connected to the financing of health care persist and their interaction prevents the partial reform measures from taking hold, and requires substantial changes. Yet the level of acceptance among the general population concerning the need to change the funding model does not automatically lead to acceptance of its consequences (whether it could be increased contributions, taxes, or the separation of the public and private sectors). This results from the low purchasing power of the population, and thus limited options for private health care. Factors inherited from the generous socialist period also do not favour private options (Vukovic, Perisic, 2009).

### **6.3. Support and help for the poor**

The reform framework of poverty reduction and strategic directions for the fight against poverty are outlined in the Poverty Reduction Strategy Paper adopted in 2003. The Strategy is based on three main areas: dynamic economic growth and development, with an emphasis on job creation in the private sector; the prevention of new poverty as an expected consequence of modernization and economic restructuring, and rationalization of the state and its basic functions; the effective implementation of existing and defining new programmes, measures, and activities directly targeted to the poorest and most vulnerable, particularly in the least developed areas (children, elderly, disabled, refugees, internally displaced persons, Roma, rural area inhabitants, and the undereducated). The objective of these activities is defined as the start of a long process of training the above-mentioned groups to emerge from poverty, enabling them thus to develop skills necessary in a new economy, and providing them with the minimum standard of living (Vlada Republike Srbije, 2003).

In contrast to the centralization of social assistance in the 1990s, the Social Assistance Development Strategy of 2005 envisaged a greater degree of decentralization (with mixed results in practice). The legal basis of the system over the past 20 years was regulated by the Law on Social Assistance and Providing Social Protection to Citizens of 1991. During this period, the law was subjected to numerous and substantial changes. In 2004 one of the most important innovations was introduced concerning the right to social assistance benefits; these were limited for able bodied beneficiaries (for 9 months during a given year). This led to a reduction in

the total number of beneficiaries. Yet the unification of the poverty line (as opposed to previous differences between the municipalities) at the state level has resulted in an increase in the number of beneficiaries in general.

Finally in March 2011 a new law was enacted in this area. The new solutions provide for modified rights to cash benefits and social services.

The population coverage with social assistance is very low – approximately 2% of the total number of households in Serbia (Matković, Mijatović, 2009). Defined eligibility conditions and real financial constraints of social assistance expenditures have basically dictated the coverage of beneficiaries, their socio-economic status, the number of individuals and family structure, and finally the amount of the benefit.

The criteria for the effectuation of rights are extremely strict. The defined poverty line is lower than the absolute poverty line used in the Living Standard Survey so that the amount of social assistance does not provide coverage for basic needs. Cash benefits reduce the risk of poverty, but they do not guarantee an adequate level of security.

The targeting of cash benefits can still be improved. First, the existing data on the average share of social transfers of income for the lowest earners of the population reveal an increase (from 10.1% in 2006 to 12.1% in 2009). However, they also testify that “about 50% of social transfers are received by those who are not poor” (Vlada Republike Srbije, 2011: 96). On the other hand, “data show that from 2006 to 2008 the efficiency of social transfers increased, since the percentage of social transfers distributed to the poor (before receiving social transfers) increased from 44.9% in 2006 to 49% in 2008, and then in 2009, it dropped to 47.7%” (Vlada Republike Srbije, 2011: 96). Social transfers in Serbia only moderately contribute to poverty reduction, compared with the average EU Member State, and their efficiency in Serbia is “almost seven times lower than the average of the Union” (Republički zavod za razvoj, 2009: 63). The most efficient social transfers were targeted for children: child allowances have reduced child poverty from 24.5% to 22.1% in 2009. In contrast, the poverty rates for the elderly after social transfers (excluding pensions) decreased from 18.9% to only 18.2% in the same year (Vlada Republike Srbije, 2011).

## 7. National and European contexts - comparative view

The Serbian social protection system is generally comparable to European social models, both from the point of view of its organization (Bismarckian basis) and expenditures (the so-called “new” EU Member States). At the same time, in order to resolve many problems in its functioning and balance its current strengths and advantages with its distinct weaknesses and threats, the reform orientations during the last ten years have been adjusted to the guidelines and norms of the EU. However, the general characteristics of Serbia’s dialogue with the European Union have focused more on political rather than economic criteria. Likewise, social dimensions have largely remained in the shadow. Frequently, the aspiration to join the EU was used by the national elite as a means to reduce social transfers, while the introduction of those changes which are a positive legacy of the European welfare states have been omitted.

The immediate impact of EU social policy on social reforms in Serbia remains difficult to evaluate. Conditions have modestly changed in recent years as a result of progress made within the realm of EU accession and Serbia’s determination to become a Member State. Ratings of the Commission on the progress have had a positive impact on the harmonization of regulations and practices, particularly where they concern employment policy and social assistance.

As a means to assess the impact of EU policies on the Serbian social protection system, the government’s responses to the European Commission<sup>46</sup> and the First National Report on Social Inclusion and Poverty Reduction are relevant national documents.

The national policy of active aging, the greater participation of the elderly in the labour market, and life-long learning are discussed within the framework of special national programmes and reports. The National Employment Strategy (2011-2020) illustrates the need to develop pro-

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<sup>46</sup> Responses to the Questionnaire of the European Commission, Belgrade, January 2011, available at [http://www.seio.gov.rs/upload/documents/upitnik/odgovori\\_na\\_upitnik\\_ek.zip](http://www.seio.gov.rs/upload/documents/upitnik/odgovori_na_upitnik_ek.zip)



programmes specifically oriented towards unemployed older workers (50-64 years). In addition, the need to develop an adequate system of adult education and new skill acquisition courses, particularly those promoting active ageing policies and the concept of life-long learning and motivating the elderly to continue to work in accordance with their skills, is recognized. The programme also encourages employers to hire and retain older workers on the job and prevent discrimination in employing the elderly, especially women.

Health care reforms have also been popular topics in government discourse, frequently those equalized with European harmonization and the better positioning of indicators and performance of the Serbian health system. The first steps have been completed, including the harmonization of Serbian health legislation with the EU, and the adoption of numerous strategies, inspired by the development of health care in EU Member States.

Some elements of the Open Method of Coordination (OMC) in the health system, such as reports and indicators, have been partially introduced, even though the concept of the OMC is not directly represented in any national context. Although there are pessimistic signs concerning the realization of objectives related to the promotion of accessibility and quality of health services, as well as the long-term sustainability of the health care system, OMC represents one of the most important segments of national health care reform.

Finally, considerations for the problems stemming from relative poverty and social exclusion are one of the most important elections of national social policies towards the harmonization with European trends. In this context, the need to improve many aspects of the social system and the position of many vulnerable groups in society is more than evident. Diversified social services introduced by the new Law, among others, are directed towards the expansion of social networks for the poor and those at risk of poverty. Efforts aimed at decentralization have been also motivated by the need to better recognize the social needs of the communities and to react to them in a timely manner.

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