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Contributions should be (preferably) in English, French or German.

Under the paper title, the name(s) of the author(s) should be given while the full name, official title, institute or company affiliation and the like should be placed at the end of the paper together with the exact mail and e-mail address, as well as short (running) title of paper.

Manuscript format. A brief abstract of approximately 100 to 150 words in the same language and a list of up to six key words should precede the text body of the manuscript. Manuscripts should be prepared as doc. file, Word version 6.0 or higher. Manuscript should be prepared using a Word template (downloaded from web address <http://casopisi.junis.ni.ac.rs/index.php/FUEconOrg/about/submissions#authorGuidelines>).

Manuscript length. Brief articles and discussions (10 pages or less) are encouraged. Otherwise, papers should present well-focused arguments of approximately 16 pages.

Style requirements. Letters, figures and symbols should be clearly denoted.

Equations should be typewritten and, with the number, placed in parentheses at the right margin. References to equations should be in the form "Eq. (2)" or simply (2). For equations that cannot be entered in a single line, use the Equation Editor in MS Word. In equations and in the text, *italicize* symbols that are used to represent variables or parameters, including subscripts and superscripts. Only use characters and symbols that are available in the Equation Editor, in the *Symbol font* or in *Times New Roman*.

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Preliminary communication

CAN BANKING UNION HELP THE VIABILITY OF EUROZONE BANKING SECTOR? SOME PRELIMINARY RESULTS

UDC 347.734:338.124.4

339.738(4-672EU)

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Abstract. *Although financial integration and convergence of EMU member countries reached a high level, the financial crisis that has developed into a banking and debt crisis has caused an intense process of fragmentation of financial markets along national borders. This significantly complicated the implementation of the single monetary policy and disrupted the monetary transmission mechanism. Furthermore, in EMU, the crisis was much more intense than in other economies, and was rapidly transmitted among Member States. Besides, the contagion spread quickly from banks to sovereigns and vice versa, creating a “vicious loop” between banks and governmental finances.*

This paper attempts to show that adequate, strong and politically independent supranational bank regulation and resolution is necessary for the viability of banking sector, but also the economies in European monetary union. It should restore the market confidence and harmonize the rules of the game in the single financial market. Although the project is on its very beginning, there are some first encouraging results.

Key words: *banking crisis, sovereign debt crisis, banking union, financial divergence*

JEL Classification: E42, E52, F42

1. THE NEED FOR THE BANKING UNION IN EUROPEAN MONETARY UNION

The specific regularities that precede or go in parallel with crisis throughout the history include the following: increase in private debt (domestic and external) before the crisis, banking and sovereign crises often joint occurrence and increase in public borrowing (Reinhart & Rogoff, 2010, p.1-2).

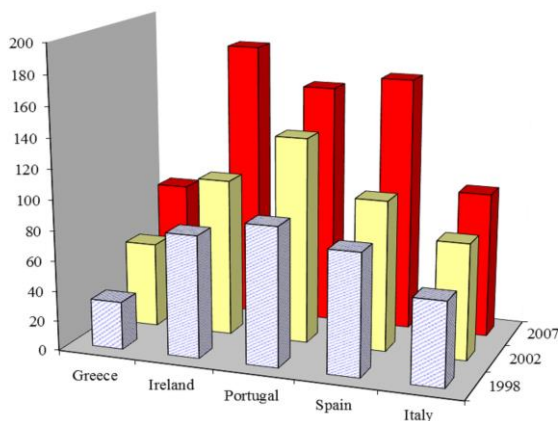
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Domestic credit rises sharply before the crisis. Household and consumption related debts in Eurozone countries accumulated significantly before the crisis 2007-2008 due to low interest rates and the absence of the foreign exchange risk. During the expansion, the financial sector became richer and more influential. The overconfidence led to underestimation of future shocks that resulted in insufficient asset holdings or too much debt accumulation. Decreased regulation and moral hazard behavior increased financial sector's profitability at the expense of the society. (Reinhart & Rogoff, 2008).



Graph 1 Loans to private sector as % of GDP for Euro zone periphery

Source: Authors' presentation based on World Bank's data

Private debt based on domestic banking credit or foreign borrowing significantly increases before the banking crisis. With the increase of countries' external debt (both private and public) the probability of sovereign and banking crises rises. What Reinhart and Rogoff (2010, p.20) presented for the sample of advanced economies is that average external debt/GDP ratio doubled in the period 1999-2009 leading to global financial crises starting with subprime crises in US in 2007. The similar debt accumulation happened in emerging markets in earlier 1981-1998 period and again from 2008 led by Euro zone periphery countries. Regarding the maturity structure, especially short-term debts escalate before the crisis. As has been confirmed in practice several times - any short term borrowing to finance illiquid assets makes the debtor susceptible to crisis of confidence (Diamond & Dybvig, 1983). Foreign capital inflows to emerging countries usually increase in the pre-crises years and then suddenly stop just before or during the crisis when foreign investors withdraw from those markets.

The long history of crises shows that banking crises often occur before the sovereign debt crises, although the opposite influence is seen in recent history, too. The banking crisis in large financial centers causes banking crises in other countries and domestic banking crises then leads to sovereign debt crises. The reverse relationship, where public debt accumulation leads to domestic banking crises, is more often seen after 1950s. Private debt surges explain this shift in influence. Increase in the public debt affects the default probability of the sovereign. Concerning the external debt accumulation (both private and public), it increases the chance of the banking crises (Reinhart & Rogoff, 2010).

One of the reasons for the increase of the public debt prior and during the sovereign debt crises may lie in the hidden debts and liabilities in implicit government guaranties to government agencies or private domestic borrowers.² The second reason may be the massive debt taking by sovereign from the private banks affected by the crisis. Even without bailouts, since state revenues decrease, sovereign debt rises leading to rating downgrade and defaults. Debts continue to increase even after the default as obligations continues to accumulate and at the same time the GDP contracts (Reinhart et al., 2003). Unfortunately, soon after the debt is restructured countries again start to re-leverage. In addition, when countries have significant amounts of debt denominated in foreign currency, banking crisis precedes the domestic currency crash. The decreasing value of domestic currency leads to insolvency of both private and sovereign debtors that have foreign currency debt on their balance sheets (Janković and Živković, 2014).

The latest global financial and debt crisis in Eurozone follows the explained patterns. CDS premiums as indicators of the level of default risk show high positive correlation of 94% for sovereigns and banks as issuers.



Graph 2 CDS indices for Euro zone sovereigns and European banks, in basis points

Source: Authors' presentation based on data from <http://us.spindices.com>

The contaminated assets held in bank balance sheets led to massive insolvencies. The government interventions resulted in deficit and debt accumulation. The hidden debts in euro area periphery have been revealed. Commercial banks held significant amounts of government securities on their balance sheets, as the safest assets. Financial and debt crisis and government defaults resulted in securities rating downgrade, significant risk premium and yield increase followed by sharp drop in securities' prices. Once secure and liquid assets held on the balance sheet suddenly became less liquid and almost worthless that in parallel with private debt defaults raised liquidity and solvency issues for banks preventing them to meet capital adequacy requirements.

² e.g. case of Fannie Mae and Freddie Mac in US and Greece in latest crises

1.2. Impact of the crisis on the financial divergence in European monetary union

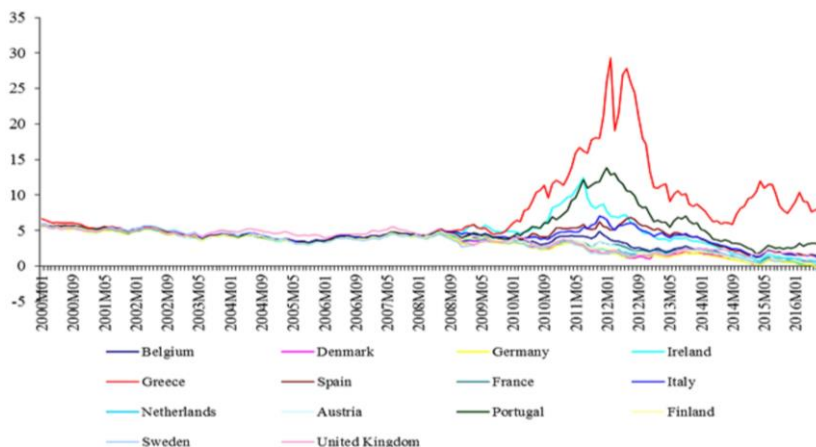
The global and sovereign debt crises in Europe revealed the shortcomings of the financial integration process. Euro zone has never reached the unification level which exists in the US since monetary union was not followed by banking and fiscal union. The Stability and Growth Pact failed in disciplining public sector and fiscal policy conduct. In addition, private sectors have accumulated significant debts that were financed through domestic banking sectors. The banks were, on the other hand, funded by European markets and financial institutions.

The substitution of national currencies in circumstances when banking regulation remains the national responsibility, means that national governments continue to carry the risk of banking crisis- the direct one (if bailing out affected banks) and indirect one (since GDP and tax revenues tend to remain low after the crisis). The national fiscal policies became the main countercyclical macroeconomic policies (Lane, 2012, p.49-50).

The private debt increased significantly in the first years of the EMU in periphery countries of the euro area. Although the public deficit in Greece had greater role in debt accumulation, in Spain, Ireland and Portugal private debt of the mostly non-financial sector had higher influence. Excessive credit growth was funded by domestic and foreign banks that led to macroeconomic imbalances and mortgage market price bubbles.

The local supervisors were in a sense permissive towards a national banking sector. The support provided was reflected in infrequent credit rating downgrades. Shift of supervision on supranational level was needed to help the reduction of the captive behavior of regulators.

The 1999-2007 was a period of good growth performances and stable financial environment that masked the accumulation of macroeconomic, financial and fiscal vulnerabilities of Eurozone periphery. The increase in private debt and current account deficits was intensive in 2003-2007. The individual fiscal policies have not been tightened, due to poor risk management, and were less countercyclical in this period. With the startup of global financial crisis, markets reacted in 2008 bringing accumulated structural weaknesses of the Eurozone members into light, triggering strong divergence process followed by market fragmentation and reversed capital flows towards the core countries. Banks faced nonperforming loans increase and liquidity squeeze.



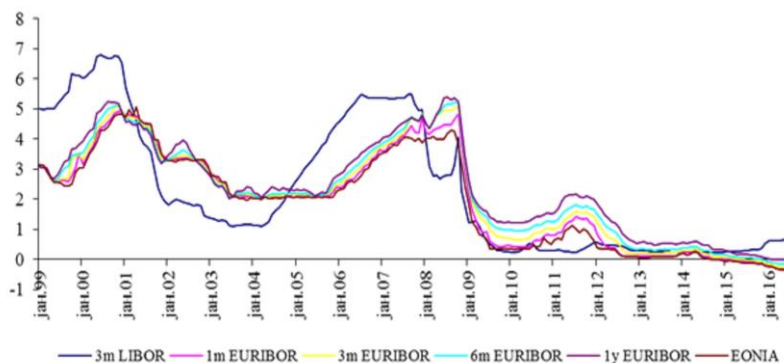
Graph 3 Divergence of sovereign bond yields (in %)

Source: Authors' presentation based on Eurostat data

During 2008-2009 debt markets remained calm. Demand for sovereign debt securities was even increasing since banks needed safe collateral for borrowing from ECB. The combination of domestic recessions, banking crises and withdrawal of foreign investors made basis for the sovereign debt crisis. In late 2009, countries of the euro area periphery reported higher than expected budget deficit/GDP ratios followed by rising bank losses and consequent fiscal risks that had negative impact on sovereign bond prices and yields. Markets reacted to rising credit risk and increased the yields to maturity on government debt securities while lowering their rating and prices.

The negative repercussions occurred due to the high share of now less valuable sovereign debt securities in the banks' balance sheets. In the member states with already weak sovereign the national banks were taking on a higher portion of public debt from 2009. It was particularly evident in the periphery where foreign investors were selling risky bonds and domestic banks were buying them. This process indicates an increasing fragmentation of the sovereign bond markets. Core countries, like Germany, have, on the contrary, experienced increase in sovereign bond holdings by non-residents due to the "flight to safety and quality" (Merler & Pisani-Ferry, 2012). Despite the increased loading with sovereign debt instruments, they remained a less significant share of banks' total asset. It is important to notice that before 2007, public debt in euro area countries was mostly financed by foreign investors and not domestic financial sector. This relaxes the idea that public sector was the dominant driver of the macro imbalances. With an exception of Greece the imbalances were mostly created on the side of the private sector expenditures that were financed by the financial sector (Constâncio, 2012). The monetary transmission channel was significantly jeopardized and the ECB was forced to take on dual role of both monetary area regulator and sovereign debt market stabilizer.

In addition, the behavior of reference money market rates indicated the reduced money market's volumes, in particular, to periphery countries. Rates decrease over time but show significant volatility after the beginning of the crisis related to increasing sovereign debt risk.



Graph 4 Reference money market rates (in %), Jan 1999-July 2016

Source: Authors' presentation based on ECB data

Both lending and deposit bank interest rates began to diverge across markets while the core countries started to withdraw liquidity from stressed countries back to headquarters. Foreign bank subsidiaries lost in share of the total banking sector assets.

As a consequence, the ECB monetary policy transmission process and its effect on interest rates' unification among member states became less effective. Thus, for the effective conduct of the monetary policy it is essential to reduce the financial fragmentation and to restore the monetary transmission mechanism. That is possible only when the ECB gets a chance to refocus on its primary goals while the proper crisis resolution mechanism is introduced in parallel. The joint EU/IMF programs were organized to provide a three year funding to vulnerable countries that have to implement fiscal austerity measures and structural reforms. The European Financial Stability Facility (EFSF) and European Stability Mechanism (ESM) were formed to provide resources to affected members by issuing bonds on the basis of guarantees from all member states. In order to be able to affect the risk premiums related to a fear of euro area break-up ECB had to impose strict conditionality to adequate EFSF or ESM programs. The proposed scheme of Outright Monetary Transactions (OMT) is based on this rationale. On conditionality based bond market interventions were aimed at reduction of the euro area survival risk and to help debt crisis resolution. However the three year period was too short for significant structural adjustments.

Financial and debt crisis showed some systemic weaknesses in the design of EMU bank regulation and resolution framework. They largely caused interdependence between the banking and sovereign crisis, which led to higher intensity of crisis in relation to other economies. That also made European monetary union more vulnerable to vicious circle of market expectations and deepening the crisis. When the crisis emerged, there was no supranational banking resolution framework. ECB did not have the role of the lender of last resort, and national governments were responsible for rescuing their national banking system. Having in mind the size of bank balance sheet, that meant very high costs for national budgets, and led to investor doubts about capability of some governments to pay off their debts. That led to new bank losses, since the national banks have large amounts of their national debt.

To increase the viability of EMU banking sector and break a loop between banks and sovereigns, euro area countries need credible source of unconditional liquidity - lender of last resort that is able to provide missing amount of liquidity whenever it is needed. Besides, avoiding future market distortion requires both national and supra-national regulation changes. Banking union moves the supervision of national and internationally important banks and the responsibility for rescuing them from national to European level. That should foster further financial convergence and financial integration, by unifying credit and deposit markets across Europe.

2. THE PILLARS OF THE BANKING UNION

According to ECB (European central bank, 2016c) the intent of banking union is to have a more transparent, safer and unified banking sector and bank supervision in Europe. Common rules and standards of bank supervision, recovery and bank resolution should be consistently applied. All banks should be treated as domestic, in the sense that all bank activities, national and cross-border, are treated the same. The financial soundness of banks

should be independent from the country in which they are located. Timely intervention should prevent the bank failures, but in the case when it is inevitable, bank resolution should be efficient and separated from the domestic government.

Banking union has two pillars: a single supervisory mechanism (SSM) and a single Resolution Mechanism (SRM). A European deposit insurance scheme (EDIS) should be the third pillar, but it would be in full operational as of 2024.

The goal of the single supervisory mechanism (SSM) that started on 4th November 2013, is the foundation of single supervisory authority in Europe that is independent from national political factors. It should decrease the moral hazard problem, by respecting the principle that not all the banks would be rescued, which means that principle “too big to fail” will not work anymore. Before the crisis, European central bank had auxiliary role in the process of supervision. By establishing SSM, ECB got responsibility for supervising all banks in Europe. It directly supervises all significant banks (banks with assets of more than 30 billion euro or at the least 20% of their home country GDP- around 130 banks) (Popovic, 2016, p.12). National supervisors are responsible for supervising less significant banks. They are accountable to the ECB, which can decide to directly supervise any of these banks, if needed.

Banks in euro zone have to follow the rules of Basel III, and increase the level and the structure of their capital. The implementation of these rules will be monitored by SSM. If in the process of day-to-day supervision, the deterioration of bank balance sheet is identified, ECB should react quickly to prevent the escalation of the problem. In the case when the bank failure is inevitable, bankruptcy procedures will be shorter. Part of the single supervisory scheme is the Comprehensive assessment procedure (CA) that will be carried out on the regular basis for all significant banks, but also when needed in the case of exceptional circumstances. It should ensure that banks have adequate level and structure of capital so that they can resist possible financial turmoils.

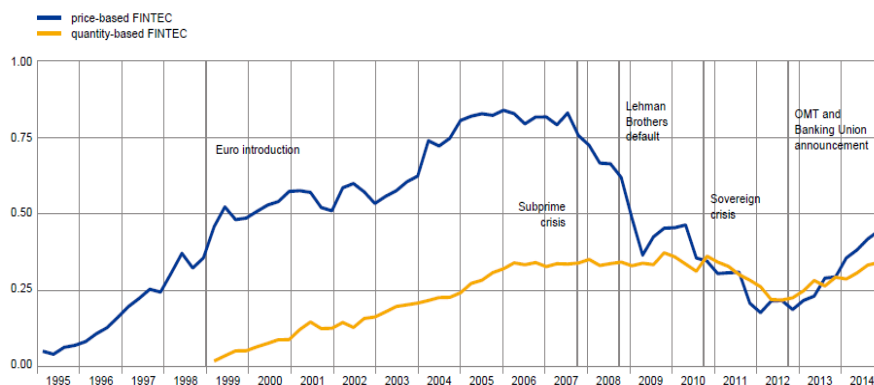
Banking union needs the third pillar, in order to have the common playground for all European banks and to ultimately prevent the interconnection between bank and sovereign crisis. The missing pillar is the European deposit insurance scheme (EDIS). Its task is to preserve the deponents confidence in the banking system and thereby prevent the possibility of bank rush, by shifting the costs and risks of protecting depositors, in the case of local bank failures, to the Banking union. This will enhance the resistance to possible financial crisis and prevent its fast spreading among member countries, by reducing the vulnerability of national deposit guarantee schemes to large local shocks. EDIS will be filled by bank contributions, and will be fully operational from 2024.

3. THE FIRST RESULTS OF BANKING UNION

Banking union is a big step towards financial stability and integration in Eurozone. This is a very new project, in its early stage. ECB became responsible for the supervision of systemic banks less than two years ago, SRM became fully operational since January 2016, but no bank resolution yet has been done. (Some Italian banks seem to be the first candidates, but Italy is trying to avoid bank resolution. It established the Atlas fund as shareholder of last resort to evade resolution even for the banks that have failed to increase their capital level (Merler 2016)). Still some early conclusions on the effectiveness of implemented

changes could be drawn. The next part of the paper analyses the impact of changes in the bank regulatory and supervisory framework in the EMU (banking union), together with the measures taken by the ECB in the meantime (Outright Monetary Transactions Programme-OMT and the Quantitative Easing-QE-TLTROs), on the degree of financial integration in the euro zone and banks performances.

ECB established two composite indexes of financial integration: the price - and quantity-based FINTEC indicators. Price based FINTEC is constructed on the basis of ten price dispersion indicators on money, bond, equity and banking markets covering the period from the first quarter of 1995, thus representing an comprehensive overview of financial integration in the euro area. ECB also publishes sub-indexes for listed markets. Quantity based FINTEC is constructed on the basis of five quantity indicators, from the first quarter of 1999. Those are intra-euro cross-border holdings expressed as a percentage of euro area total holdings (intra-euro area cross-border plus domestic quantities) (European central bank, 2015b, p.119). There are three sub-indices: interbank markets (includes money and banking markets), bond and equity markets. FINTEC ranges between 0 in the case of full fragmentation, to 1 in the case of full integration.



Graph 5 Price- and Quantity-based FINTECs

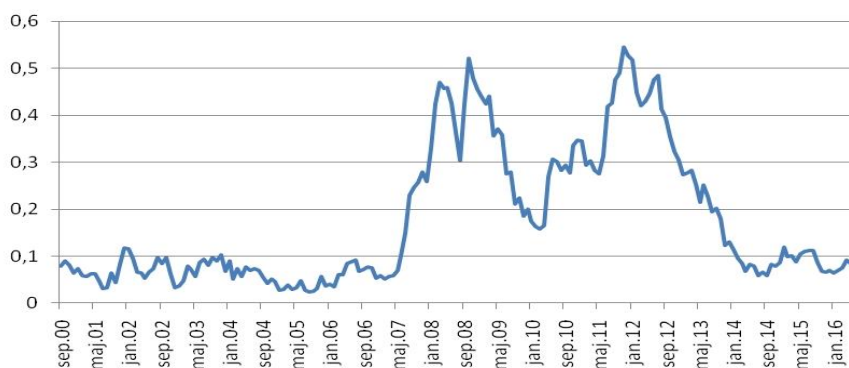
Source: Financial Integration in Europe, April 2015, ECB, p.9

Movements of price-based FINTEC prove what was shown in the first part of the paper – based on individual indicators of financial integration - that the level of financial integration in Eurozone rose until the outbreak of financial crisis in the end of 2007. Collapse of Lehman Brothers brought sharp drop in the level of indicator and sovereign debt crisis meant very high fragmentation of financial markets along national borders (In literature known as “balkanization” of the financial system) (Xafa, 2015, p.3; Smits, 2005, p.212). Situation started to improve at the end of 2012, after ECB President Mario Draghi stated that ECB would do everything that was necessary to save the euro, which was followed by the introduction of OMT program. That broke the spiral of market expectations and crisis deepening, and led to decreasing of sovereign spreads. Relatively late introduction of these measures showed structural flaws in the design of the Eurozone, due to which the functioning of the ECB as a lender of last resort was inefficient (Popovic, 2016). EU summit decision to launch banking union enabled such ECB measures by providing an adequate

pledge for those actions that was missing before. OMT, together with the start of banking union, led to new deepening of financial integration in euro zone, although pre-crisis level is still far away. This shows how fragile reached financial integration was and that thorough, full financial integration in euro zone cannot be achieved when financial stability architecture is national based (Nouy, 2015).

Quantity-based FINTEC shows lower volatility than price-based FINTEC, but it also indicates significant influence of the debt crisis on the fragmentation of financial markets that started to decrease after OMT and banking union announcement.

The significance of OMT and Banking union announcement could be analyzed by comparing the level of financial stress before and after introducing those measures. The level of financial stress in euro area is represented in graph 6, by the Composite Indicator of Systemic Stress- CISS. CISS is a new indicator of contemporaneous stress in the financial system; it measures the current state of instability-the current level of frictions, stresses and strains in the financial system. Its focus is on the systemic dimension of financial stress. The CISS is made up of 15 mostly market-based financial stress measures divided into five categories, the financial intermediaries sector, money markets, equity markets, bond markets and foreign exchange markets (Holló et al., 2012, p.3).



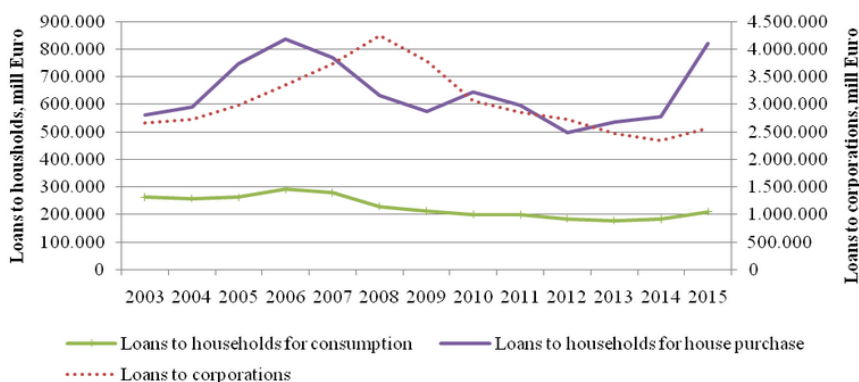
Graph 6 Composite Indicator of Systemic Stress- CISS in euro area (pure number)

Source: ECB, Statistical Data Warehouse

Until subprime crisis the level of systemic stress in Eurozone was quite low, and then started to increase rapidly, reaching the peak after Lehman Brothers collapse in September 2008. During 2009 the level of financial stress started to mitigate. Enhanced credit support measures of ECB had positive results, the situation on financial markets improved, money markets spreads decreased while capital markets revived. That is why ECB announced that its non-standard monetary policy measures are no longer necessary and will be gradually discontinued. Unfortunately, immediately after tensions started to increase on some segments of financial markets- especially sovereign debt market and caused new ECB interventions. From April to August 2011, conditions in the economy started to stabilize, so ECB raised its reference rate to 1.5% in order to neutralize risks to price stability. But since August a new wave of financial and debt crisis started, and the level of financial stress reached a new peak. This forced ECB to become a lender of last resort in the full sense- to promise unconditional financial support to banks as much and

as long as it is necessary. It introduced OMT program and banking union project. Graph 6 shows significant drop in the financial systemic risk level, after that. This was also the period of mild financial integration improvement.

The major challenge for ECB now is a very low inflation rate. It had a constant decline since November 2011 from the level of 3%, until the January 2015, when it reached its lowest level of -0.6%. Since then situation slightly improved, but the rate of inflation still fluctuates around 0 level. Some (peripheral) member countries have quite high negative inflation rates (Cyprus -1.9%, Spain -1.1%, Latvia -0.8% etc.), although inflation in some core members is also low or negative (Luxemburg -0.6%, Germany 0.0%, Italy -0.3%, France 0.1%, etc.) (Eurostat)³. There are opinions (Clays, 2014, p.15) that ECB was too late with its quantitative easing measures. It waited until June 2014 to start with massive monetary expansion in order to stimulate the economy and raise inflation expectations. This was supposed to stimulate banks to ease credit conditions and offer more credits to companies and households. The effect of measures ECB applied since 2012 on bank lending activity is shown on the Graph 7. The amount of new bank loans to households started to decline since 2007 and loans to corporations since 2008, and there has been a significant drop in bank lending activity for years.



Graph 7 Bank business volumes - loans to corporations and households (new business) in the euro area

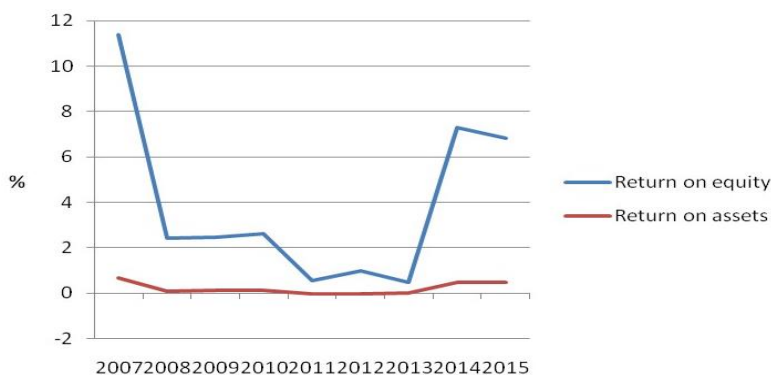
Source: Authors calculations based on ECB, Statistical Data Warehouse, 11.7.2016

Bank lending started slightly to recover in 2012, when the sum of loans to households for house purchase started to increase. The amount of new consumer loans is in mild increase since 2013, and bank lending to corporations is in increase since 2014. Banks eased terms and conditions on loans to enterprises and consumers, and ECB in its Bank lending survey expects a continued net easing of credit standards on different loans (with the exception of housing loans). Demand of enterprises for loans and credit lines is in increase since the first quarter of 2014, with the exception of the first quarter of 2015. The main contributing factors for loan demand were inventories and working capital, the general level of interest rates, mergers and acquisitions activities and fixed investment, especially as a result of developments in Germany, Italy and Spain (European central

³ Data for May 2016

bank, 2016b, p.12). Demand for housing loans is in increase in all large EMU countries except in Spain. Banks had to tighten credit standards on housing loans due to the implementation of the EU mortgage credit directive, but terms and conditions are eased because of higher competition pressure. Demand growth has surpassed bank expectations, and it is expected to increase further due to the low level of interest rates, and improved housing market prospects. Net easing of credit standards for consumer loans and other credits for households was very mild, but banks expect it to continue due to competitive pressures and reduced risk perceptions. Competitive pressures, banks' cost of funds and reduced balance sheet constraints influenced significant ease of credit terms and conditions on new loans. The demand for consumer and other loans to households has an increasing trend in the majority of large EMU countries. The demand growth is mostly the result of needs to finance the durable consumer goods and to a much lesser extent the result of increased consumer confidence.

A sizeable challenge for the banks in Europe is quite long period with low profitability. Graph 8 shows some improvements in the last two years, but ROE is still significant below pre-crisis level. Besides, estimated cost of capital is now around 9% (Constâncio, 2016), and since 2008 there has been a negative gap between banks' ROE and the cost of equity, though ECB data show significant decrease in the last two years.



Graph 8 Bank profitability in Euro zone

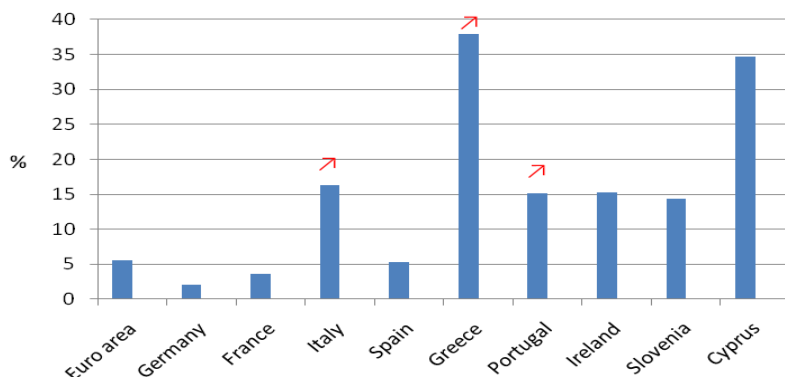
Source: ECB, Statistical Data Warehouse, 12.7.2016

There are also doubts if this profit recovery is sustainable. Domestic demand and GDP are in increase since March 2013, but pre-crisis level have still not been reached. Stock market developments at the global level and especially in the euro area are worrying. Euro Stoxx Banks Index shows significant fall in bank shares prices since the crisis emerged, but also during 2015 and 2016.

According to Angeloni (2016) that significantly underperforms general euro area stock index and a global index of developed countries' banks. Banks price-to-book ratios in the world are under pressure due to market skepticism regarding banks' earnings prospects, but banks in euro area are also facing low profitability issues and adjustments to new regulations and new business model. Constâncio (2016) highlighted that bank profitability reflects some cyclical and structural problems. According to him, the key

cyclical challenge is restoring bank profit in the environment of low nominal growth, low interest rates and flat yield curve. New TLTRO II, which will be conducted from June 2016 to March 2017, are introduced to improve long-term funding conditions for banks in order to further ease private sector credit conditions and to stimulate bank lending to the real economy (European central bank 2016a). Key structural challenges for European banks are: large amount of non-performing assets, excess capacity and the incomplete adjustment of business models.

Banks in the euro area have large amounts of non-performing assets. Significant banks had, at the end of 2015 almost 950 billion euro of nonperforming loans (some 9% of EMU GDP), and their average NPL ratio is 7.1% (Constâncio, 2016). The share of nonperforming assets varies significantly across the euro area - Graph 9.



Graph 9 Gross non-performing debt instruments (% of total gross debt instruments)

Source: ECB, Statistical Data Warehouse, 12.7.2016

The worst situation is in Greece, where there is very high (38%) and an increasing share of nonperforming debt instruments in the total amount of debt instruments (rising trend is marked with an arrow) and in Cyprus (35%). Nonperforming debt instruments are also very high in bank balance sheets in Italy, Portugal, Ireland and Slovenia, and in the first two countries that share is increasing. High burden of banks by large amounts of non-performing assets diminishes their profitability, while that asset is not generating revenue. Besides, those banks are high risk-averse and thus more reluctant (and less able) to lend. Single supervisory mechanism created a task force to scrutinize banks with high levels of non-performing loans and create long-term strategy for banks to reduce their NPLs levels. Positive shift is that in almost all countries and euro zone as a whole NPLs are decreasing, but negative point is low coverage ratio- only about 43% of NPLs are provisioned for (Mullin, 2016).

In some European countries, there is the overcapacity in bank sector. European banking system in general is characterized by low level of concentration. The Herfindahl-Hirschman Index in 2014 was lower than 750 (European central bank 2015a, p.25-26), although it had a significant increase since the crisis. There is a significant difference among countries. The lowest level of HHI is in larger economies- France, German and Italy, where banking sectors are more fragmented and include strong savings and cooperative banks. In

smaller countries-such as in Cyprus, Estonia, Finland, Greece and Lithuania banking sectors are more concentrated (the share of assets held by the five largest banks in Greece is close to 95%). Mergers and acquisitions, reduction of bank branches and employees per population is ongoing since the crisis emerged, and has helped to reduce banks' cost-to-income ratios, but still in some countries ratio of bank branches per capita is very high. For instance, in 2014 in Spain there were 70.2 commercial bank branches per 100,000 adults, in Luxemburg 80.4; in Italy 59.6; in Portugal 53.6; while in Finland there were 12.1, Estonia 12.4; Netherlands 14.2 and Germany 14.5 branches per 100,000 adults (The World Bank Databank). Obviously, in some countries there is a possibility for further consolidation that will diminish bank costs.

CONCLUSION

The common monetary policy without a common fiscal and other economic policies caused a significant divergence of economic performances of EMU Member States. Until the outbreak of the financial crisis, the common currency was hiding accumulated economic imbalances and financial markets have underestimated the potential risks. With the outbreak of the crisis, markets emphasized those differences, whose overvaluation jeopardized the solvency of some sovereigns and their banking sectors.

The fiscal situation in the majority of Euro area countries was healthier than in United States, Great Britain and Japan, prior to the crisis, but financial markets have become concerned about sustainability of public debts in some EMU countries. This is due to the lack of coordination of policies and externalities of common monetary policy, because of which the power of financial markets in the monetary union is much higher. Member States are in the same position as developing countries. They issue debt in the currency over which they have no control. Therefore, the inability to refinance their debts at reasonable interest rates, causes a stronger liquidity crisis to turn into a crisis of debt. Since usually the largest investors in the national bonds are domestic banks, withdrawal of investors reduces the value of their portfolio. They are faced with the problem of funding and sovereign debt crisis turns into a domestic banking crisis.

Prevention of future crisis in Monetary union involves improvement of policies coordination in the direction of taking joint actions and the elimination of externalities in monetary union. Establishing banking union is considered to be the first real European reform since the common currency. Single supervisory mechanism, independent from national political factors, should decrease the moral hazard problem, by directly supervising all significant European banks. Capital requirements are stricter, and if in a process of day-to-day supervision, ECB identifies the deterioration of bank balance sheet, it should react promptly to prevent the escalation of the problem. Single resolution mechanism is in charge for bank resolution, in the case when there are no other solutions, but with minimum use of public funds. This is especially significant in the case of nationally important banks. Investors, expecting that sovereigns will cover the losses of such banks in the event of serious financial crisis, begin to suspect the sustainability of countries' public finance. This creates the interconnection between banking and sovereign crisis. The third pillar of the Banking union, European deposit insurance scheme, aiming to shift costs from protecting bank deponents to the Banking union and thus preserving the confidence in banking system, is still missing.

Analysis in this paper showed some positive changes in the level of financial integration and bank performances in Eurozone, after the introduction of Banking union (together by measures taken by European central bank, at the same time). Two new composite indexes of financial integration, the price-and quantity-based FINTEC indicators have an increasing trend, since 2012, indicating the rising level of financial integration. In the same period, the level of systemic stress in Eurozone has a decreasing trend. Restoring bank profitability is a serious challenge, in the situation of still quite unfavorable macroeconomic environment-zero inflation rate, low nominal growth, low interest rates and flat yield curve. New bank loans to households and corporations have a mild increase, ROA and ROE also, but markets continue to suspect banks' earnings prospects. Obviously, although all implemented and planned measures are very significant, it will take time to foster financial and economic stability in the euro area.

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MOŽE LI BANKARSKA UNIJA POMOĆI ODRŽIVOSTI BANKRASKOG SEKTORA EVROZONE? PRELIMINARNI REZULTATI

Iako su finansijska konvergencija i integracija zemalja članica Evropske monetarne unije dostigli visok nivo, finansijska kriza koja je prešla u bankarsku i dužničku krizu, uzrokovala je intenzivni proces podele finansijskih tržišta duž nacionalnih granica. To je značajno zakomplikovalo sprovođenje jedinstvene monetarne politike i poremetilo proces transmisije monetarne politike. Kriza u EMU je bila intenzivnija nego u drugim ekonomijama i brzo se širila među zemljama članicama. Pored toga, kriza se prenela sa banaka na države i povratno sa država na banke, kreirajući začarani krug između banaka i javnih finansijskih institucija.

Ovaj rad nastoji da pokaže da su adekvatna, stroga i politički nezavisna nadnacionalna supervizija banaka kao i proces rešavanja problema banaka koje su bankrotirale, neophodni za vitalnost bankarskog sektora, ali i ekonomija Evropske monetarne unije. Ona bi trebalo da povрати poverenje tržišta i ujednači pravila igre na jedinstvenom finansijskom tržištu. Iako je ovaj projekat na samom početku, postoje neki prvi ohrabrujući rezultati.

Ključne reči: *bankarska kriza, dužnička kriza, bankarska unija, finansijska divergencija*

INTERNATIONALIZATION OF RETAIL – COMPARATIVE ANALYSIS OF CROATIA AND SERBIA

UDC 339.162.4(497.11+497.13)

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Abstract. *Globalization and integration of the world market leads to internationalization of retail and overall trade. At the turn of the century, internationalization has become a widespread retail phenomenon. Thus, it has become a permanent and inevitable process. Internationalization of trade, especially retail, covers a large number of countries, but with varying intensity. The subject of this work is the achieved level of internationalization of trade, especially retail, on the markets of the Republic of Croatia and the Republic of Serbia. Arguments for the selection of these countries are numerous. One of them is the fact that both countries originated from the former Yugoslav federation. At the same time, Croatia is the newest member of the European Union (as of 1st July 2013), and Serbia signed the Stabilization and Association Process, and is on the way of opening membership negotiations. For these reasons, Croatian experience can serve Serbia as a landmark in the implementation of activities in the segment of trade and its internationalization. The paper aims at mapping Serbian activities in the process of further internationalization of retail.*

Key words: *retail, internationalization, market, Croatia, Serbia*

JEL Classification: F23, O24

INTRODUCTION

Progressive globalization of the world economy has been recorded in the first years of the 21st century. Due to these developments, along with pronounced saturation of the domestic market, a large number of retail chains are starting to carry out their activities outside the domestic market, which allows them to access new customers and new capital.

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Increasing globalization of markets has caused a number of processes in trade. One of them is the ever-present internationalization of trade and retail, as a business imperative of large retail chains. Thus, internationalization becomes a process of divergence and convergence in the local, regional, and global environment. What is more, reasons for internationalization are numerous and diverse, as evidenced by various papers and studies on “push” and “pull” factors. In this context, the focus is on different directions of internationalization of retail, so that some countries achieve higher and others lower degree of internationalization, measured by the number of present international trade, i.e. retail chains, and achieved sales volume. Practice shows that the main part of international retail activity takes place among Western European countries. However, due to high market saturation and the economic crisis, Eastern European countries emerged as an attractive market for international retailers, as well as countries of the former Yugoslavia, especially Slovenia and Croatia. With these facts in mind, the aim of this paper is to analyze the achieved degree of internationalization of retail on Croatian and Serbian markets. The starting hypothesis is that the Croatian market is characterized by higher degree of internationalization of retail in relation to the Serbian market. Additional hypothesis to be tested is that Croatian experience can serve Serbia in tracing the future directions of internationalization of retail.

1. INTERNATIONALIZATION OF RETAIL IN THEORY

Literature in the field of internationalization of trade, particularly retail, has become quite voluminous and diverse in the last 10 to 15 years. This scientific research field has attracted, and still attracts the attention of a large number of authors, mainly from developed market economies, where internationalization of trade received practical valuation. All this has led to a number of different definitions of this phenomenon, so there is no universally accepted definition of the concept of internationalization of trade. Bearing in mind different definitions of internationalization of trade and retail (Yeng & Yazdanifard, 2015; Shulyn & Yazdanifard, 2015), their common characteristics can be highlighted, namely: 1) internationalization of trade represents a transfer of knowledge, concepts, and business formats; 2) internationalization of trade involves doing business on two or more different international markets; 3) internationalization of trade helps overcome linguistic, cultural, social, and legal barriers to communication between the two countries; 4) internationalization of trade allows business expansion beyond national markets and finding new sources to generate profit; 5) internationalization is a complex process, not a series of events.

What is especially noticeable is the fact that during the nineteen-eighties and nineteen-nineties there was a large number of research papers dealing with internationalization of trade, which speaks about a new wave of international trade, especially retail activities. Consumer society of the nineteen-eighties made retail chains focus more on international activities, because of increasing market orientation, size of stores, as well as power of the brand. All this generated increased academic interest in the process of internationalization of trade (Alexander, 1989; Alexander 1990a; Alexander, 1990b; Williams, 1992a; Williams, 1992b). During this period, research interest focused on internationalization strategies, structure of motives, geographic expansion, market positioning, and conceptualization of internationalization process, challenges and assumptions (Sternquist, 1997; Vida & Fairhurst 1998; Alexander & Myers, 2000).

Conceptualization of this process opened a new research niche in a number of papers and recognized the new agenda that opened the need for a detailed analysis of various

aspects of internationalization of trade and management of these activities. Accordingly, new research in the field of internationalization of trade at the beginning of the 21st century focused on operational aspects of internationalization, such as market selection, entry methods, withdrawal from the market, effects, factors, and motives (Doherty, 2008; Ćuzović & Sokolov Mladenović, 2008; Ćuzović & Sokolov Mladenović, 2015a). In all these studies, the focus was also on internationalization of trade companies in the FMCG sector (fast-moving consumer goods), as well as in the field of fashion and luxury brands. This was certainly fueled by accelerated international activity of the world's leading retail companies, such as *Wal-Mart*, *Carrefour*, *Home Depot* (in FMCG sector), *Zara*, *H&M* (the so-called fashion retailers). A common feature of all the research in the first decade of the 21st century was quantification of research results and analysis of good case studies (Alexander & Doherty, 2010).

Starting from 2010, research in the field of internationalization of trade has entered a new phase. Thus, Alexander and Doherty (2009) focus their theoretical and practical research on the pattern of international activity, characteristics of the expanding market, motives for internationalization, market selection, choice of entry methods, supply chain management on foreign markets, marketing and brand management, and reasons for withdrawal from the market due to a number of factors. Swoboda, Zentes, and Elsner (2009) put emphasis on motives of internationalization, internationalization strategy, market selection and entry, choice of entry methods, standardized or tailored "package deal", international performance, as well as errors in the internationalization of business. The common characteristic of this stage of research is agreement regarding international retail chains, designated as carriers of market globalization and internationalization of trade. At the same time, results of research on internationalization of trade in recent years could serve as a basis for creating the agenda for future research, as can be seen in Figure 1.

Figure 1 shows conceptualization of activities of international retail chains, which can be a platform of research agenda. Within the wider competitive market environment, Figure 1 shows three key activities: corporate domain, corporate orientation, and market-based activities. Determinants of corporate orientation are environment and corporate characteristics, while determinants of market-based activity are market activity management and market portfolio management. Each of these determinants has two additional factors that attracted and still attract the attention of scholars and practitioners.

2. INTERNATIONALIZATION OF RETAIL IN CROATIA

Trade, including retail, is an important segment of the Croatian economy, as figures on the share of entrepreneurs and number of employees in trade in total GVA show. Thus, Croatian trade involves 26% of companies, with 22% of the total number of employees, and its share in GDP is around 9.3% (http://www.hgk.hr/category/djelatnost/gosp_trgovina). In accordance with changes in the overall economic environment, changes take place in Croatian trade as well. An example of this is the fact that, before the economic crisis, Croatian trade recorded high growth rates, but the share of trade in GDP dropped from 10.9% in 2007 to 9.9% in 2011. In the period from 2008 to 2011, there was a decline in the number of employees in trade. For example, in 2012, compared to 2009, employment in trade decreased by 10.7% (Pupavac, 2014). When it comes to sale, its level decreased by 19%, compared to 2008, as a result of lower demand during recession.

COMPETITIVE MARKET ENVIRONMENT

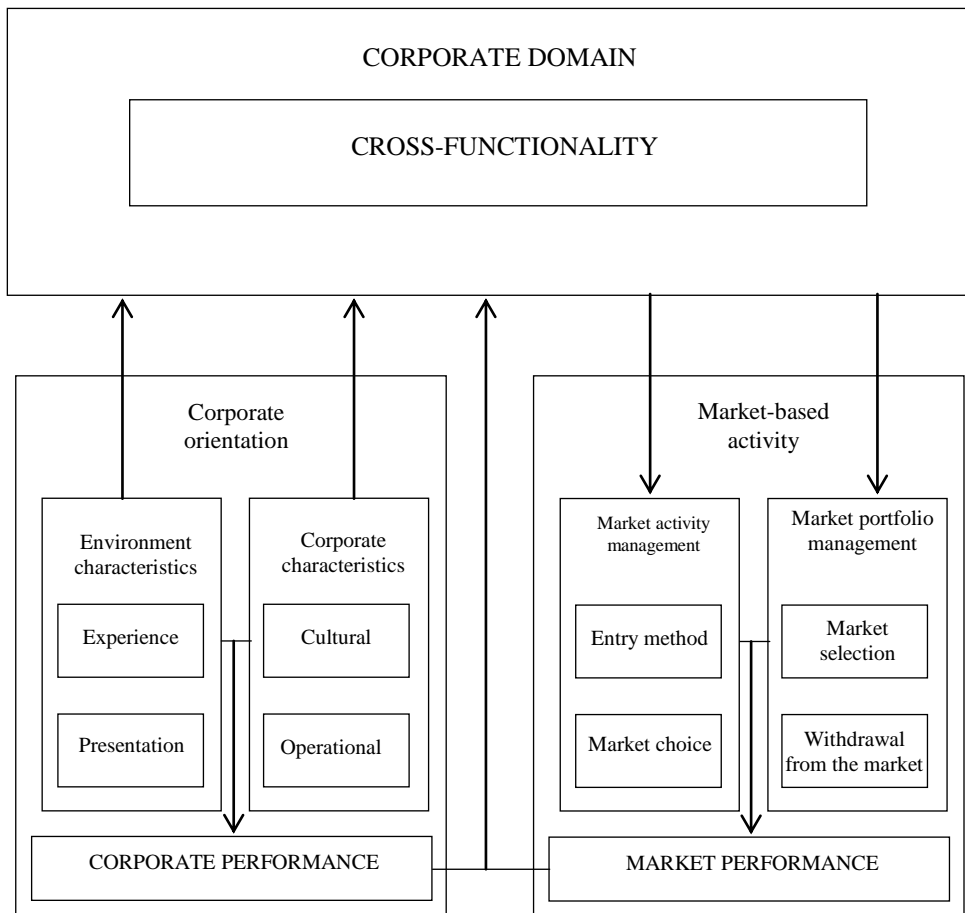


Fig. 1 Structure of internationalization of trade: study of operational activities and environment

Adapted from: Alexander, N. & Doherty, A.M.(2010), International retail research: focus, methodology and conceptual development, *International Journal of Retail & Distribution Management*, 38(11/12), 928-942.

The importance of trade and retail sector in the overall Croatian economy is confirmed by figures such as the share of trade entrepreneurs in the total number, number of employees in trade in the total number, as well as gross fixed capital formation. The analysis of relevant statistics (Osnovni pokazatelji trgovine u Republici Hrvatskoj u 2013, 2014) shows that trade has a leading role in the economy of the Republic of Croatia. Thus, in 2013, a total of 101.191 entrepreneurs operated in Croatia, of which 26.342 entrepreneurs in trade, which means that the share of trade amounted to 26.03% (Bačelić Grgić, 2014).

Judging by investment, Croatian trade also recorded positive results. Croatian National Bank data shows that, in the period from 1993 to 2013, amount of foreign investment in the

Republic of Croatia totaled 28.86 billion euros, with the amount of this investment in the retail sector being 3.98 billion euros (Priopćenje inozemna izravna ulaganja u Republiku Hrvatsku po djelatnostima, 2013). Of this, investment in wholesale sector and trade mediation was 2.64 billion euros, and in retail trade and repair sector 1.34 billion euros.

As already stated, Croatian trade has a significant share in the total number of employees. Trade is the second largest employer in the country today, after manufacturing industry (Bačelić Grgić, 2014). Thus, the trade sector employs 15.80% of all employees, with trade being the largest generator of new jobs as well.

Preliminary data shows gradual convergence of trends in Croatian trade to trade trends in the European Union. In such an environment, the process of internationalization of trade and retail on the Croatian market takes place, which has been rising in intensity since 1999 and still does (Knežević & Szarucki, 2011). Revitalization of the Croatian trade sector began in 1997, when construction of a flexible legal framework started, as an additional incentive to the development of trade (Knežević & Knežević, 2010; Knežević, 2003; Knežević, 2007; Knežević et al., 2011). This created conditions for the entry of foreign capital onto the Croatian market. After that, a large number of European trade companies, driven by economic interests, entered the Croatian market. Mercatone (Italy), Billa (Austria), Metro (Germany), Ipercoop (Italy), Kaufland (Germany), and others opened their retail stores in all major Croatian cities (Zagreb, Split, Osijek, Rijeka, and others.). The biggest retail companies in Croatia, seen by sales volume in 2014, are presented in Table 1.

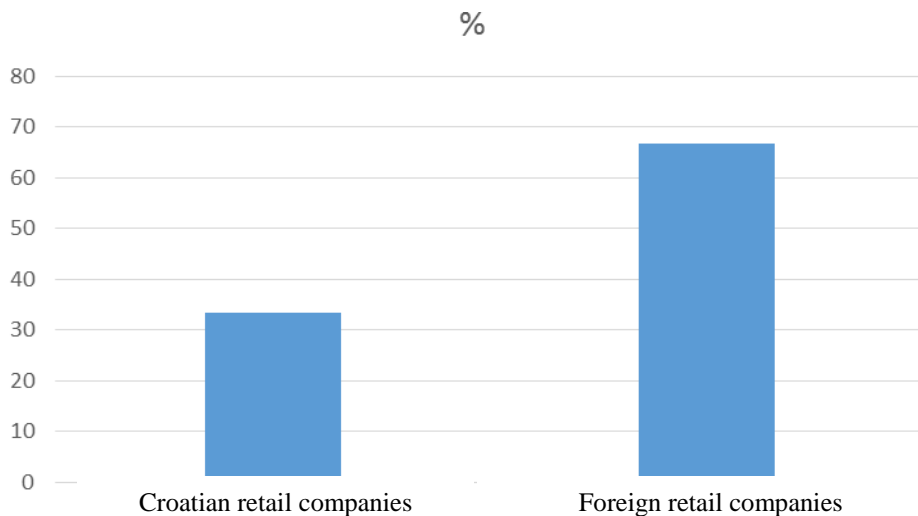
Table 1 Leading retail companies in Croatia (FMCG sector)

Company	Year of establishment/ entry onto the Croatian market	Registered office/ ownership	Number of branches	Revenue in 2013 (in millions of kunas)	Number of countries where the company operates	Revenue in 2013 in millions of dollars
Konzum	1957	Zagreb/ Konzum d.o.o.	700	13.391	3	4.011
Plodine	1993	Rijeka/Plodine d.d.	71	3.268	1	3.268
Lidl	1973/2006	Nekarsulm (Zagreb for Croatia/Lidl d.o.o.	80	3.004	26	98.662
Kaufland	1984/2001	Nekarsulm/German <i>Kaufland Stiftung & Co. KG</i> (German <i>Schwarz-Beteiligungs-GmbH</i>)	28	2.721	26	98.662
Merkator	1949/2000	Ljubljana (Sesvete for Croatia)/ Mercator-H d.o.o.	22	2.586	5	-
METRO	1964/2001	Düsseldorf/Metro AG	8	2.177*	32	86.393
Spar	1932/2001	Amsterdam (Zagreb for Croatia)/SPAR HRVATSKA d.o.o.	22	2.028	8	11.411
Tommy	1992	Split/Tommy d.o.o.	142	1.976	1	1.976
Billa	1953/1999	Wiener Neudorf (Zagreb for Croatia/REWE International AG	57	1.624	11	51.109

* Estimate

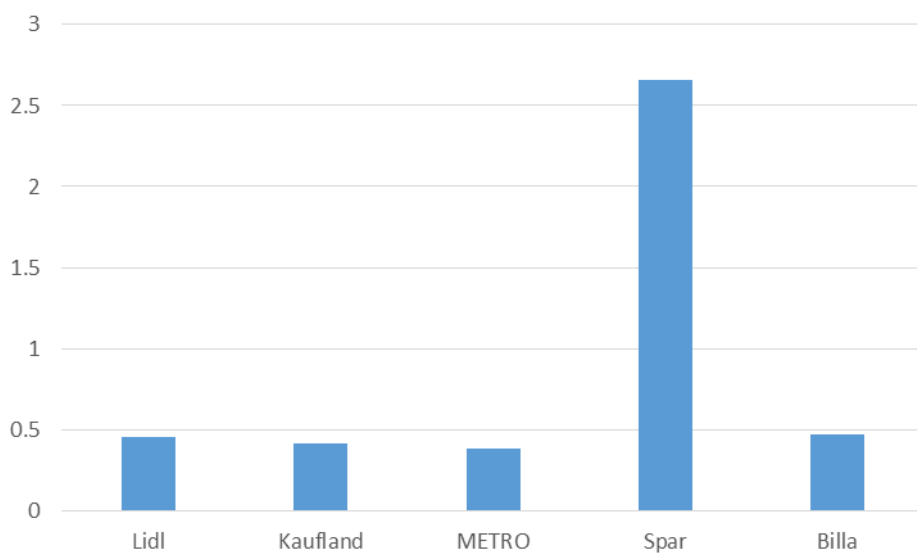
Source: Authors, based on <http://business.hr/hr/Kompanije>, Deloitte (2015), www.hsz.hr.

The share of international retail companies, as well as their sales activity (in %) on the Croatian market, can be seen in Graphs 1 and 2.



Graph 1 Share of foreign companies' sales activity in total sales of retail companies (in FMCG sector)

Source: Authors



Graph 2 Share of foreign retail companies' sales activities on the Croatian market

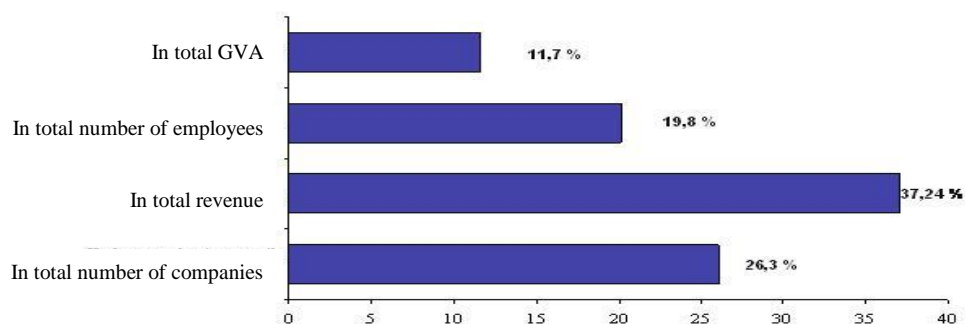
Source: Authors

Analyzing the share of foreign and Croatian retail companies' sales activity in total sales of leading retail companies (Graph 1), one can see greater share of foreign (66.7), compared to Croatian (33.3) companies. This indicates high concentration of foreign retail companies, but also a high level of internationalization of trade on the Croatian market.

If one analyzes the percentage share of sales activities of foreign retail companies on the Croatian market in total volume of their sales, one can see that it ranges from 0.38 to 2.66%. This leads to the conclusion that the Croatian market is relatively new for these companies, and that future expansion of their activities is to be expected. If one compares the analyzed foreign retail companies (Graph 2), it can be seen that SPAR has the biggest share, meaning that this company has the highest percentage share of sales activity (2.66) in the total sales volume on the Croatian market, compared to the other analyzed companies.

3. INTERNATIONALIZATION OF RETAIL IN SERBIA

Trade, including retail, occupies an important place in the overall economy of the Republic of Serbia, and has a key role in the creation of an integrated market economy. The importance of trade in the overall economy of the Republic of Serbia is illustrated by statistical data on its share in macroeconomic indicators (Graph 3), as well as data on the number of companies, employees, and number of retail stores (Tables 2, 3, and 4).



Graph 3 Share of trade in macroeconomic indicators of the Republic of Serbia (2014)

Source: <http://www.pks.rs/PrivredaSrbije.aspx?id=17&p=2&>

Table 2 Number of companies in internal trade (2014)

	Total trade	Retail	Wholesale	Sales and repair of motor vehicles
Total enterprises and entrepreneurs	44.385	14.313	25.755	4.317
Enterprises	34.708	6.112	25.102	3.494
Entrepreneurs	9.677	8.201	653	823

Source: <http://www.pks.rs/PrivredaSrbije.aspx?id=17&p=2&>

Table 3 Number of employees in trade (2014)

	Total trade	Retail	Wholesale	Retail and wholesale in motor vehicles
Total enterprises and entrepreneurs	378.461	274.586	76.117	27.758
Enterprises	218.085	114.210	76.117	27.758
Entrepreneurs	160.375	160.376	-	-

Source: <http://www.pks.rs/PrivredaSrbije.aspx?id=17&p=2&>

Table 4 Number and size of stores

	Number of stores	Total size (storage and sales space) in m ²
Total enterprises and entrepreneurs	114.253	11.101.717
Enterprises	42.339	9.291.532
Entrepreneurs	71.914	1.810.185

Source: <http://www.pks.rs/PrivredaSrbije.aspx?id=17&p=2&>

Serbian market in recent years has become attractive to a large number of international retail chains, which apply different strategies and models of business expansion (Čuzović & Sokolov Mladenović, 2015b; Čuzović & Sokolov Mladenović, 2015c). International retail chains continuously increase their market share and the number of stores. They are primarily concentrated in market areas of major cities, where they open large retail formats to attract consumers to make major purchases, but they also open smaller retail formats to meet the needs of consumers, who, in choosing stores, give priority to accessibility and comfort of rapid shopping. Lately, there are more and more rumors about their further expansion, as well as the potential arrival of new foreign retail chains.

Arrival of regional players inevitably affected the operations of national retail companies. Faced with new competition and new trends that foreign retail companies have brought to our market, local retailers adopt new business strategies, to survive on the market and improve competitive advantage. A large number of local companies have failed in this, so they are totally marginalized, with only few that survived or improved their position on the domestic market.

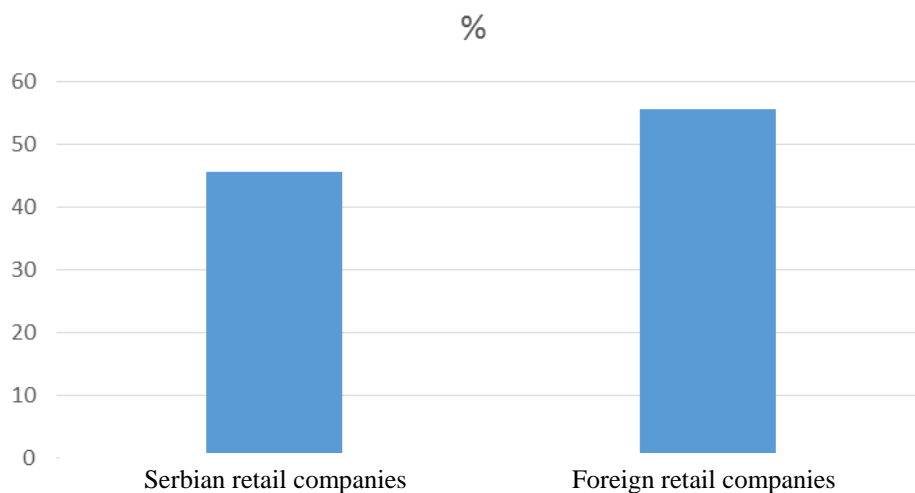
Thus, both domestic and foreign trade companies operate on our market. Applying a clearly defined strategy of creating and sustaining competitive advantage, they try to maximize their business results. Starting from the assumption that revenue is a measure of business performance of companies, Table 5 presents leading trading companies on the Serbian market in 2014.

The share of international retail companies, as well as their sales activity (in %) on the Serbian market can be seen in Graphs 4 and 5.

Table 5 Leading trading companies on the Serbian market (in FMCG sector)

Company	Year of establishment /entry onto the Serbian market	Registered office/ ownership	Number of branches	Revenue in 2013 (in millions of dinars)	Number of countries where the company operates	Revenue in 2013 (in millions of dollars)
Delhaize Serbia	2012	Belgium	381	101.624.416	9	28.037
Mercator-S	2002	Slovenia	137	63.363.962	5	-
IDEA	2005	Croatia	190	55.404.705	3	4.011
DIS	1999	Serbia	16	25.413.272	1	-
Metro cash&carry	2005	Germany	9	17.494.013	32	86.393
UNIVER EXPORT	1990	Serbia	42	13.791.932	1	-
Aman	1992	Serbia	139	7.521.939	1	-
Gomex	1995	Serbia	91	6.589.587	1	-
INTEREX	2005	France	9	4.966.353	6	37.351

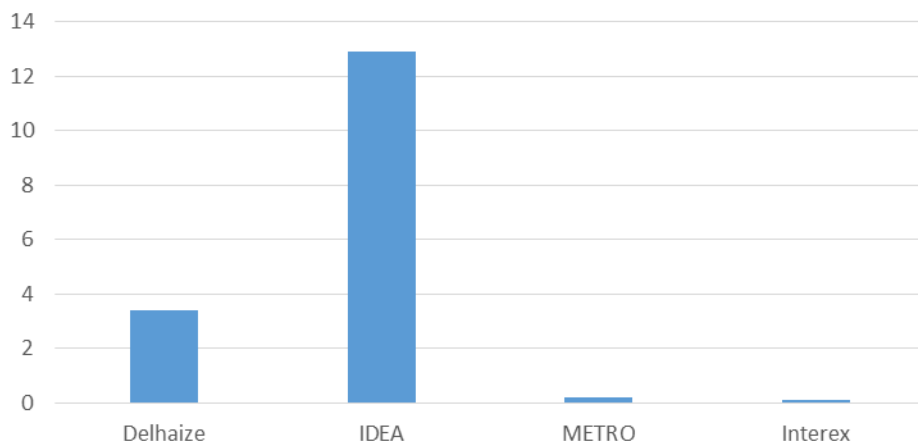
Source: Authors, based on Deloitte (2015), www.deloitte.com; www.apr.gov.rs.



Graph 4 Share of foreign companies' sales activity in total sales of retail companies (in FMCG sector)

Source: Authors

Analyzing the share of foreign and Serbian retail companies' sales in the total sales of leading retail companies (Graph 4), one can see greater share of foreign (55.5) in relation to Serbian companies (45.5). This indicates high concentration of foreign retail companies, as well as a high level of internationalization of trade on the Serbian market.



Graph 5 Share of sales activities on the Serbian market
in the total sales volume of international retail chains

Source: Authors

If one analyzes the percentage share of international trading companies' sales activities on the Serbian market in the total volume of their sales, it can be seen that it ranges from 0.12 to 12.9%. This suggests that the Serbian market is relatively new for these companies, and that expansion of their activities can be expected in the future. If one compares the analyzed international trading companies (Graph 5), it is noticeable that IDEA has the biggest share, meaning that this company has the highest percentage share of sales activity in the total sales volume on the Serbian market, compared to the other analyzed companies.

4. SIMILARITIES AND DIFFERENCES IN THE LEVEL OF INTERNATIONALIZATION IN CROATIA AND SERBIA – RECOMMENDATIONS FOR THE FUTURE

Bearing in mind the previous analyses, as well as plenty of theoretical and practical studies on internationalization of trade, especially retail, in Croatia, it can be seen that during 2006 and 2007 Croatia was one of the most attractive markets in the region (Knežević & Szarucki, 2011). When it comes to the Serbian market, the analysis shows that in 2005 and 2006 Serbia was one of the most attractive markets in the region. This, in turn, raises the issue of effects of internationalization of trade on Croatian and Serbian economies, as well as effects on customers, i.e. consumers. This issue was the subject of research of a large number of theorists and practitioners, trying to conduct an adequate cost-benefit analysis of international retail companies' operations on the Croatian market. Relying on Dawson's model (Dawson et al., 2003) of internationalization of trade, which observes effects of internationalization on the host country as one of its dimensions, as well as numerous studies of internationalization of retail on the Croatian market, the key effects of internationalization of trade on Croatian and Serbian economies are:

- Changes in the structure and relationships in channels of distribution, as confirmed by cooperation among international retail companies and Croatian companies, on the one hand, and Serbian companies, on the other hand, in various segments;
- Increasing competition, as evidenced by intense activity of both Croatian and Serbian companies in the field of performing marketing functions;
- New ways of competitive behavior;
- Increasing investment, as evidenced by data on such trends in the Croatian trade sector, while such investment was less in Serbian trade;
- Restructuring of the sector; and
- Accelerated innovation, as evidenced by examples of trading companies' operations on Croatian and Serbian markets.
- From the standpoint of customers, i.e. consumers, effects of internationalization of trade and retail on Croatian and Serbian markets are the following:
 - Increased awareness of consumers (better knowledge of products, prices, terms of sale), as confirmed by trading companies' operations aimed at permanent distribution of information on discount prices, products on sale, loyalty programs, and the like;
 - Changes in consumption habits, as evidenced by research results about weekly or monthly shopping;
 - Improved availability of products and services.

Taking into account these similarities, as well as indicators of the current state of the economy, especially in Croatian trade and retail, it can be seen that Croatia remains an attractive market and that one can expect a new wave of internationalization.

When it comes to trade and retail on the market of Serbia, it is evident that trade has predominantly local character, with a small number of retail companies with developed sales network in the narrow regional area within the national market. Retail stores are primarily concentrated in relatively larger cities and larger urban areas, where concentration of population and market potential are higher. These stores mostly use insufficiently developed technology, business strategies are focused on the local environment, and product range is dominated by products of local suppliers, whose brands are well-known to a consumer segment that gravitates to them.

A specific feature of the Serbian market is reflected in the existence of a large number of small retailers. Although under strong pressure from large retail chains, small retailers still have a significant share in the total turnover. However, lately there has been a trend of reduction of their market power in favor of an integrated retail. In order to survive on the market, small retailers often change the location of their retail stores, adapting to expansion of large stores. Although the number of existing independent retailers constantly decreases, new ones appear, who try to service the needs of narrow market segment from new locations.

In addition to weak purchasing power of the population and a decrease in retail sales, retail operators on the Serbian market face many other problems, which mainly arise from general characteristics of underdeveloped domestic market and overall economic situation. The current situation in the economy and trade of Serbia will mark future directions of internationalization of trade. In that regard, what encourages is the announced opening of the first department store of the Swedish company Ikea, as well as the first sales outlets of the German company Lidl.

CONCLUSION

Today's trade, as well as retail, carries out its activities in conditions of intense market globalization. Market globalization brings internationalization of trade and retail. Due to saturation of domestic markets, large trade, i.e. retail chains direct their activities towards foreign markets. Numerous factors dictate their international activities. In fact, the current economic crisis has changed the direction of internationalization of trade and retail, so that the so-called emerging markets are becoming more and more attractive. Markets in former socialist countries are particularly interesting and attractive to large retail chains. Bearing in mind all these facts, the paper analyzed the achieved level of internationalization of retail on Croatian and Serbian markets. The aim of the study was to analyze market and trade characteristics in both countries, in order to determine the achieved level of internationalization of retail. Both markets have the same social and economic legacy, with Croatia being the member of the European Union, while Serbia is currently a signatory of the Stabilization and Association Agreement, oriented to full membership in the European Union. The analysis showed that the Croatian market has realized a higher level of internationalization of retail in relation to the market of Serbia, and that Croatia can expect a further wave of internationalization. What is more, Croatian positive experience can serve Serbia in tracing future directions of internationalization of retail and attracting further investment by leading retail chains.

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INTERNACIONALIZACIJA MALOPRODAJE – KOMPARATIVNA ANALIZA HRVATSKE I SRBIJE

Globalizacija i integracija svetskog tržišta za svoju posledicu ima internacionalizaciju maloprodaje i ukupne trgovine. Krajem 20. i početkom 21. veka internacionalizacija postaje sveprisutna pojava odnosno fenomen u maloprodaji. Tako postaje permanentan i neminovan proces. Internacionalizacija trgovine, posebno maloprodaje, zahvata mnoge zemlje, s tim što se odvija različitim intenzitetom. Predmet istraživanja ovog rada jeste dostignuti nivo internacionalizacije trgovine, posebno maloprodaje, na tržištu Republike Hrvatske i Republike Srbije. Razlozi odabira upravo ovih zemalja su brojni. Jedan od njih jeste i činjenica da obe država potiču od bivše jugoslovenske federacije. S druge strane, Hrvatska je najnovija članica Evropske unije (od 1. jula 2013. godine), a Srbija je potpisala Sporazum o stabilizaciji i pridruživanju i nalazi se na putu otvaranja pregovora o članstvu. Iz ovih razloga, iskustvo Hrvatske može da posluži Srbiji kao orijentir u realizaciji aktivnosti iz segmenta trgovine i njene internacionalizacije. Cilj rada jeste mapiranje aktivnosti Srbije u procesu dalje internacionalizacije maloprodaje.

Ključne reči: maloprodaja, internacionalizacija, tržište, Hrvatska, Srbija

MONEY MULTIPLIER IMPACT ON INFLATION IN REPUBLIC OF SERBIA

UDC 336.748.12(497.11)

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Abstract. *The essential research intention in this paper is oriented toward considering the nature of money multipliers and their impact on inflation in Republic of Serbia. The analysis of research data includes data during period of 1997-2015 in order to achieve more effective results. Obtained results, after implementing adequate statistical procedures, emphasize the existence of negative and significant correlation between money multiplier m_3 and inflation. Since M_3 represents basis for forming m_3 multiplier, this implicates that wider range of assets in monetary aggregate M_3 have greater impact on inflation than other two monetary aggregates. Therefore, one of tasks for central banks should be higher control of M_3 through m_3 money multiplier analysis in order to prevent higher fluctuations in inflation rate.*

Key words: *Money multiplier, core inflation, m_1 , m_2 , m_3 , monetary base, central bank*

JEL Classification: E41, E51, E58

INTRODUCTION

Monetary stability represents one of crucial tasks for every central bank. Dynamic and uncontrolled increase in money supply can create troubles for home economy, where all economic calculations must be revised again and all effects of current economic policy will not bring expected results. In conditions of increased inflation, concern investors are starting to pull out their assets and to look for other places where they can invest them. Stable macroeconomic environment means a reasonably low inflation rate and small budget deficit that are conducive to sustained economic growth. On the other hand, high inflation reduces growth by reducing investment rate, but it also reduces productivity growth rate

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(Fischer, 1993). Small economies have much bigger problem in dealing with inflation, since they do not possess adequate mechanisms that can effectively solve inflation problem. Also, these countries are very vulnerable to changes at international markets that can lead to huge turnover in future economy growth.

Narrow money (M1), broad money (M2) and broader money (M3) represent basic parts of every country money supply. The analysis of these monetary aggregates can help central banks understand changes in money supply and demand better, and take right measures in direction of preventing possible monetary crisis. In the past, many monetary crises had strong impact on national economies and in the end they resulted in increased unemployment rate, inflation and recession. By putting monetary aggregates in proportion with monetary base or reserve money (B), proper money multiplier is obtained. This ratio helps in analyzing changes in money supply and demand, but also in monetary habits of population of certain countries. For each monetary aggregate there is a money multiplier that provides more information about changes in money supply and thus we have $m1$, $m2$ and $m3$ money multipliers.

Periods of financial instability have radically changed overall monetary environment. In a situation when larger banks cannot meet their obligations it is the first signal that something is not right. They could face with huge withdrawal of deposits which could have terrible consequences for the banking market. This can be seen through money multiplier change whose role in monetary system stability is very important. With lower amount of broad money, central bank must react in order to avoid deeper monetary crisis. After the outbreak of crisis in 2007, USA, EU and Japan had dramatic decline in money multiplier. At the beginning this was the result of spontaneous financial disintermediation caused by the crisis, but in subsequent years this effect was magnified by prudential regulations (Dabrowski, 2016, p.16). All three major banks have reacted with increase in base money, but also with partial increase of M1 and M3 aggregates from time to time. Economic growth was still at very low level, but this helped countries escape from recession.

The *central research aim* of paper is to determine the connection between money multiplier and inflation in Serbia that was measured through core inflation since it includes many goods and products with non-regulated process. Consequently, additional research *objectives* are set:

- To identify the direction and strength of connection between money multipliers and core inflation in Republic of Serbia;
- To identify the relations between money multipliers for each monetary aggregate;

The research *methodology* involves the use of appropriate statistical procedures due to the characteristics of selected variables and number of observations in the sample. In this case linear regression, with the assistance of descriptive statistics, Pearson r coefficient and Beta (β) coefficient, the direction and strength of connection between the variables will be determined. Also, it will be discovered whether all variables have statistically significant impact on basic inflation.

Taking into consideration the research methodology and period of analysis which involves many events that have had impact on changes in money multiplier and basic inflation (such as beginning of transition process, a few political instabilities, global economics crisis, floods etc.) following hypotheses will be tested:

H1: There is a negative correlation between all money multipliers and core inflation.

H2: There is a negative and statistically significant relationship between $m1$ and core inflation.

H3: There is a negative and statistically significant relationship between $m3$ and core inflation.

The structure of the paper includes three more chapters besides introduction and conclusion. In the first chapter literature review will be presented where different authors discuss money multiplier and its impact on various indicators. The second chapter provides detailed analysis of money multiplier and basic inflation in Serbia with strong emphasis on events that led to changes in monetary multiplier and basic inflation and their later impact on domestic economy. In the third chapter, money multiplier impact on basic inflation in Serbia is analyzed with proper statistical procedures. That analysis will provide a few recommendations for better monetary stability in Serbia.

1. LITERATURE REVIEW

Modern economies are fully aware of the connection between monetary and real sector. The sensitivity of monetary sector lies in fact that when money supply is not controlled properly and when wrong decisions are taken, it can cause big problems for domestic economies. Sometimes low money supply can also be a problem because economies do not have adequate mechanisms to direct money supply to sectors where there exists real need for assets. Money multiplier is one of the best ways to follow changes in money supply and it is also a subject of interest for many researchers.

Hossain (1993) developed a money multiplier model of the money supply for Bangladesh using quarterly data from 1972-1993. Using a component approach of the money multiplier, the author finds that only deposit-currency ratio equation is stable, but the narrow and broad money multiplier equations are found to be unstable. The author argues that the instability in the components of money multiplier makes it difficult for the monetary authority in Bangladesh to effectively conduct monetary policy through monetary targeting. He suggested that the central bank should make an effort to stabilize the value of the money multiplier for effective monetary conduct.

The connection between money multiplier and inflation rate in Japan during 1985-2004 period was analyzed by *Iida* (2005). Research showed that from 1991 to 2004 money multiplier constantly declined because of strong deflation expectations. On the other hand, low money multiplier also resulted in a cash ratio raise of the non-financial sector and the excess reserve possession of banks. In the years after 2000 money multiplier accelerated on a short term due to low deflation expectations. Author also found that the validity of "the bad loan hypothesis" is very low as an explanation for the sharp fall of the money multiplier and that monetary policy was too tightening for implementing proper measures.

In their research, *Polster* and *Gottschling* (1999) investigated the stability of the German money supply during 1991-1998 through money multiplier. Study showed that m_3 and Bundesbank main operating instrument – the overnight rate - have significant long-term relationship which indicates that changes in overnight rate can have strong impact on m_3 . However, the increasing money multiplier reflects the rising importance of influences on the German money supply which are not fully controllable by the Bundesbank. Controlling the money supply became very difficult during the 90s, but still some financial innovations that appeared after German unification were in position to guarantee price stability.

Hon Chu (2006) examined the Canadian experience with money multiplier during 1970-2004, where a zero reserve requirement regime has become fully effective since 1994. The findings showed that all money multipliers, except m_1 , under new regime have

become less volatile than before. Furthermore, short and long-term *ex ante* forecasts based on the Holt-Winters exponential smoothing model indicate that the money multipliers have apparently not become more unpredictable. Overall, the findings do not lend strong support to the monetary control argument for reserve requirements.

The long-term stability of money multiplier in India during 1978-1996 was tested by *Darbha* (2002). Most empirical studies have examined long-term stable relation between monetary aggregates and reserve money within the framework of cointegration and have interpreted their inability to reject the hypothesis of no cointegration as an indication of instability in money multiplier. Contrary to all previous studies, author proved the existence of a stable, but time-varying long-term relationship between monetary aggregates (M1 and M3) and adjusted reserve money. The results also indicate that observed variation in parameters could be characterized by a discrete shift around 1989, generated possibly by discrete changes in the conduct monetary policy such as the removal of controls on interest rates in the inter-bank call money ceiling rates in inter-bank money markets or deregulation of deposit rates.

Money multiplier model for Pakistan, using monthly data covering the period from 1972 to 2009, was tested by *Khan* (2009). The results showed that money multiplier was non-stationary for entire period. Cointegration between money supply and monetary base was also tested. The coefficients restrictions $\beta_0=0$ and $\beta_1=1$ are satisfied only in post-liberalization period (1992-2009). This implies that the monetary authorities may control money supply by controlling the reserve monetary to achieve the price stability. The monetary authority used many mechanisms to control money supply growth by controlling the growth of base money to achieve the objective of price stability in short-term. The author recommended consideration of relationship between money supply and reserve money as a policy guide rather than the constancy of the money multiplier for the conduct of the monetary policy in short-term.

Downes et al (2006) examined the stability of money multiplier for six African countries using non stationary tests without and with structural breaks. They find that, when structural breaks are ignored, the null of unit root hypothesis is accepted while it is rejected when structural breaks are taken into consideration.

In their study, *Adam and Kessy* (2010) discussed the stability and predictability of m2 multiplier in the context of a reserve money anchor for inflation in Tanzania. Analysis showed that m2 multiplier is stable over the long run so average broad money has grown one-for-one with reserve money. However, in a short run multiplier is not so constant. Negative correlation between base money and the multiplier attenuates the impact of changes in base money on broad money so full pass-through should be taken around 24 months. The components of M2 multiplier are strongly seasonal, so monetary authorities must react on time to avoid huge variations in multiplier that can cause serious inflation growth.

The stability of money multipliers in Turkey for the period of 1990-2004 was investigated by *Saatcioglu* (2006). The results showed that the processes that extend the basic money supply to the final monetary aggregates are unstable, decreasing the effectiveness of monetary policies implemented by the Turkish central bank. In addition, the co-integration analyses showed that there are no long run relationships between the sub-components of money multipliers and money supply measures, indicating that traditional monetary theory prescriptions cannot be used to implement monetary policy in Turkey.

Zhang and Ruan (2013) have gone a step forward and analyzed the influence of electronic currency on money multiplier in China from 1993 to 2004. Narrow money multiplier (m1) has negative correlation with cash deposit ratio (r_c) which demonstrates the rapid development

and extensive use of e-money decreasing the cash deposit ratio and then enlarging money multiplier. The narrow money multiplier has positive correlation with e-money utilization ratio, which demonstrates the higher e-money utilization ratio causing the greater money multiplier. Consequently, the rapid development and extensive use of electronic currency, to some extent, does have an impact on money multiplier.

2. MONEY MULTIPLIER BACKGROUND IN SERBIA

The complexity of money multiplier lies in the fact that it is partially controlled by central banks. Bearing in mind that central bank has high degree of control over reserve money, this practically means that money multiplier is stable and money stock can be precisely controlled (Đurović – Todorović & Đorđević, 2010, p.137). Otherwise, money multiplier can be unstable and unpredictable, which creates a hard task for central bank in order to control money supply. Money multiplier can be presented through following formula:

$$m = \frac{M}{B}$$

In presented formula m is money multiplier, M money stock or overall sum of monetary aggregates and B reserve money or monetary base. In normal conditions, money multiplier has a positive sign and value above one, but it is more often positive and just above zero. Fewer variations between variables will make money multiplier more stable. Another important element in the money multiplier model which has been analyzed by a number of researches is the direction of causality between M and B in implementing a reserve money program, to ensure that the growth rate of B is not an endogenous variable in such a way that causality runs from money supply to monetary base. This is the case, for example, when the monetary base is essentially influenced by currency to deposit ratio and the private sector portfolio decisions.

Money multiplier analysis must include determinants that cause certain behavior of banking and non-banking subjects, since they can provide better view into money supply structure (Kožetinac, 2009., p.573). Factors that determine money multiplier are (Mishkin, 2004, p.378):

1. Currency ratio (c),
2. Excess reserve ratio (e),
3. Required reserve ratio (r).

An increase in c ratio means that depositors are converting some of their deposits into currency. Checkable deposits undergo multiple expansion while currency does not. When checkable deposits are being converted into currency, there exists a switch where one of money supply components undergoes multiple expansion to one that does not. Overall level of multiple expansion declines and so does its money multiplier. This way money multiplier is negatively related to c ratio. Same as c ratio, e ratio also has negative correlation with money multiplier. When e ratio increases, this means that banking system has fewer reserves to support checkable deposits. In these conditions, banks will contract their loans which will cause a small decline in level of checkable deposits, but it will also cause a decline in money supply and money multiplier. If c ratio increases, the same level of reserves cannot support a large amount of checkable deposits because

deposits will always be on higher level when required reserves start to grow. Due to these circumstances banks will be pushed to contract their loans which will cause a decline in deposits and hence in the money supply. At the end, with less multiple deposit expansion, money multiplier will fall and so we have negative correlation between money multiplier and r ratio. For the theory to hold, the amount of reserves must be a binding constraint on lending and the central bank must directly determine the amount of the reserves (McLeay et al., 2014, p.15). This way banking reserves will have impact on money multiplier.

This description of the relationship between monetary policy and money can be found in many introductory textbooks, where central banks determine the quantity of broad money via a “money multiplier” by actively varying the quantity of reserves (Benes & Kumhof, 2012). In that view central banks choose the quantity of reserves which are then “multiplied up” to a much greater change in bank deposits as banks increase lending and deposits.

Table 1 Money multiplier values in Serbia for 1997-2015 period

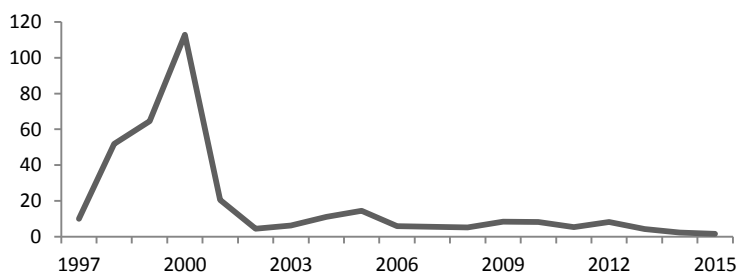
	<i>m1</i>	<i>m2</i>	<i>m3</i>
1997	1,01	1,35	1,74
1998	0,76	1,05	1,51
1999	0,90	1,13	1,51
2000	0,46	0,56	1,12
2001	0,70	0,82	1,51
2002	0,92	1,09	1,89
2003	0,86	1,08	2,12
2004	0,75	0,99	2,18
2005	0,58	0,77	1,85
2006	0,50	0,70	1,60
2007	0,57	0,89	2,06
2008	0,47	0,77	1,93
2009	0,48	0,82	2,26
2010	0,47	0,76	2,53
2011	0,48	0,80	2,48
2012	0,49	0,77	2,62
2013	0,60	0,85	2,67
2014	0,71	1,01	3,06
2015	0,77	1,08	3,07

Source: Calculation made by authors

Money multiplier values in Serbia showed same direction of changes, with the exemption of $m3$ for some years. For most of analyzed period $m1$ and $m2$ multiplier values were under 1, which tells that monetary expansion was not so dynamic in a way of securing more funds that could at the end lead to higher money multiplier value. Contrary to $m1$ and $m3$ multiplier in table 1 it can be seen that $m3$ multiplier volatility is far more stable than other two multipliers (although it includes more monetary variables). Values for $m3$ multiplier are above 1 and in last two analyzed years are even above 3, which is a good result.

For better understanding of money multiplier volatility, some facts must be added. Cash versus deposit proportion is very useful in examining multiplier, where higher proportion of deposits can raise multiplier value. It is assumed that final proportion should be 70:30 or higher in favor of deposits, but this was not a case in Serbia for a long time.

During the 1990s wars, hyperinflation, banking frauds and low economic activity spread the use of cash money leaving very little space for deposits. By the beginning of 2000s, things went better and with revitalized banking system, share of deposits started to grow. The outbreak of global crisis also was felt in Serbia with low GDP growth and increased unemployment. Central bank was forced to increase reserve requirements several times in order to prevent problems in banking system and this decision caused money multiplier fall. From 2012 money multipliers are on constant rise, but huge presence of gray economy blocks further increase of money multiplier, so this problem has to be solved. Only in that way monetary expansion will speed up and banks can provide more assets for big investments. In the end, money multiplier will continue to grow and it will be at more stable level.



Graph 1 Core inflation during 1997-2015 period

For a better look at money multiplier determinants, core inflation is included in whole story. National Bank of Serbia (NBS) uses exclusion method for core inflation calculation. In this process from calculation are excluded all agriculture products, electricity, coal and natural gas, cigarettes, milk, medicines, postal services and all other products and services whose prices are under some kind of state regulation (Maravić et al, 2009, p. 99). Graph 1 shows that core inflation was very high during the first three years of analyzed period, but then inflation rate was reduced to more reasonable level with several fluctuations during the remaining period. Comparing to money multiplier values, core inflation rate raised when money multiplier value declined. Reversely, rate reduced when multiplier increased. Linking core inflation with money multiplier, it should be mentioned that a large increase in the quantity of required reserves in the banking system should not be inflationary, since the central bank can adjust short-term interest rates independently of the level of reserves (Keister & McAndrews, 2009). In developing countries, central banks need a lot of time to adjust their mechanisms in order to calculate the exact level of reserves that will not create higher inflation rate, so this work can request some detailed analysis.

3. METHODOLOGY AND RESULTS

The research presented in this paper includes data about money multiplier and core inflation from 1997 to 2015. For the purpose of research, data were used from NBS publication Statistical Bulletin that is published on a monthly base. Values for each money multiplier are calculated on the basis of each monetary aggregate and reserve money for every year. The methods that are used in order to conduct analysis are: descriptive statistics, correlation analysis and linear regression.

Table 2 Descriptive statistics

	N Statistic	Min Statistic	Max Statistic	Mean Statistic	Std. Dev Statistic
m1	19	0,46	1,01	0,6568	0,17817
m2	19	0,56	1,35	0,9100	0,18980
m3	19	1,12	3,07	2,0908	0,54452
Core inflation	19	1,60	112,12	18,4368	28,28367
Valid N (listwise)	19				

Source: Calculation made by authors

Since variables include period of 19 years, values for all variables in that period were analyzed. As for variables values, their ranges can be seen in table one and so we have range 0,46-1,01 for m1, 0,56-1,35 for m2 and 1,12-3,07 for m3. Due to bigger content of variables, m3 multiplier has higher values than other two variables. Core inflation has values in range from 1,60 to 112,12. Among the variables, m3 and core inflation have the highest mean and standard deviation value.

Table 3 Results of ANOVA analysis

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	6656,517	3	2218,839	4,298	0,022
Residual	7742,868	15	516,191		
Total	14399,384	18			

Source: Calculation made by authors

Based on table 3 and the coefficient value $p < ,05$ existence of statistically significance for this model and its variables is confirmed. This means that proper linear regression and correlation coefficient analysis can be implemented with different results for each variable. In this model core inflation is selected for dependable variable, while m1, m2 and m3 are undependable variables.

Table 4 Correlation analysis

		m1	m2	m3	Core inflation
m1	Pearson correlation	1			
	Sig. (2-tailed)				
	N	19			
m2	Pearson correlation	0,927**	1		
	Sig. (2-tailed)	0,000			
	N	19	19		
m3	Pearson correlation	-0,120	0,105	1	
	Sig. (2-tailed)	0,625	0,659		
	N	19	19	19	
Core inflation	Pearson correlation	-0,022	-0,210	-0,656**	1
	Sig. (2-tailed)	0,927	0,387	0,002	
	N	19	19	19	19

** Correlation is significant at the level 0.01 (2-tailed)

Source: Calculation made by authors

Results illustrated in table 4 show that core inflation has negative correlation with all money multipliers. With this view the hypothesis H1 is confirmed, there is a negative correlation between all money multipliers and core inflation. Here must be taken a note that although the negative correlation exists, only m3 has statistically significant relation with core inflation (0,002) and that relation is the strongest among variables (-0,656). This way the hypothesis H3 is confirmed also, because negative and statistically significant relation between m3 and core inflation really exists. On the other hand, H2 can be rejected, because although there is negative relation between m1 and core inflation, there is no statistical significance. It is also interesting that only m1 and m3 have strong and statistically significant relation (0,927) between themselves and not with m3 or core inflation. Multipliers m1 and m2 have just a little difference between themselves, since M2 aggregate, in addition to M1 includes other dinar deposits, both short- and long-term. On the other hand, M3 aggregate includes short- and long-term foreign currency deposits beside M2, which makes a difference to other aggregates. This is why m1 and m2 multipliers are so close in their relations than m3 multiplier.

Table 5 Coefficients table

Model	Unstand. coefficients		Stand. coefficients	Sig.	95% Confidence Interval for B		Collinearity statistics	
	B	Std. error	Beta		Lower bound	Upper bound	Tolerance	VIF
(Constant)	107,656	31,766		0,004	39,949	175,383		
m1	56,844	98,090	0,358	0,576	-152,229	265,917	0,094	10,651
m2	-72,024	91,927	-0,483	0,446	-267,961	123,914	0,094	10,651
m3	-29,194	12,136	-0,562	0,029	-55,061	-3,327	0,656	1,523

Source: Calculations made by authors

To discover the true impact of money multipliers on core inflation, linear regression was used. With core inflation as dependable and money multipliers as independent variables, based on table 5 only m3 multiplier has statistically significant impact on core inflation. Also, m3 multiplier is the only one that does not show multicollinearity. Single increase in m3 multiplier by 1% will decrease core inflation for 0,562. This can be explained in a way that when multiplier starts to grow overall deposits start to grow, too. Increased deposits do not have impact on core inflation on a short-term, but in future they will be activated for different kind of ventures so the final result will be increased core inflation rate.

CONCLUSION AND RECOMMENDATIONS

Money multiplier is a very important tool in monetary policy. With setting up the level of reserve requirements central banks want to send an effective message to market participants that they carry about domestic monetary stability. Central bank role must be very strict, because modern way of business requests from banks to decide first what profitable opportunities for them are and then how to attract more deposits in order to lend money for clients. Uncontrolled creation of money can cause big inflation problem, so central bank sometimes must use all available mechanisms to prevent money supply from becoming "overheat problem". When central banks follow changes in money multiplier, it will be easier for them to react right on time and to slow down potential inflation increase.

Serbia was struggling with inflation for a very long time due to many circumstances. Lack of banking deposits created problem for NBS, because in one moment it could not control overall money supply and demand, because people relied on using cash for their payments. Things have changed through time and money multiplier became stable, which is a sign of monetary recovery. Also, inflation rate has been low for several years and these changes have created good basis for future progress of domestic economy. Next big task for central bank will be to create efficient mechanisms that will prevent huge amount of “hot money” from increasing inflation and to set up money multipliers on a level that cannot harm monetary stability of the country.

In this study following research results were achieved:

- By correlation analysis, hypothesis H1 was confirmed, which means that all money multipliers have negative correlation with core inflation with m3 multiplier as the only one that has statistically significant relation with core inflation.
- Analysis also showed that m1 multiplier has negative relation with core inflation, but since it is statistically significant, hypothesis H2 should be rejected.
- Correlation analysis and linear regression showed that m3 multiplier has negative and statistically significant relation with core inflation so hypothesis H3 is accepted.

Also, results of research are providing answers to all the objectives set in the introduction:

- All money multipliers have negative correlation with core inflation.
- Among money multipliers m3 has the strongest (-0,656) and the only statistically significant one (0,002).
- Between m1 and m2 multiplier there exists very strong (0,927) and significant relation, which is not the case for the rest of relations with money multipliers.

This study recommended that:

1. Central bank should continue with tightening up the reserve requirements during period of crisis, but this should be also done in a period of dynamic growth so trap with “hot money” could be skipped.
2. Government and authorities must work on reducing gray economy, since it can stir up more cash use, which can create inflation in the future.
3. Interest rate must be regulated in such a way that it is neither too low nor too high in order to avoid inflation rate raise, but also to motivate market participants to be more active on the market.
4. Currency swaps and exchange must be regulated in such a way that sudden changes in exchange rate do not harm total amount of money in a very serious way.
5. Banking system must be more rational in a way that planning assets must come first and then directions for profitable projects. With additional regulation, banks will be stopped from investing funds into some dangerous projects that will lead them to bankruptcy and create bigger money supply that will become a problem for central bank to control.

Since m3 multiplier has the strongest impact on core inflation, in further research structure of m3 multiplier should be analyzed with more detail in order to see which component of single M3 aggregate has strong impact on core inflation. Further research should also analyze money creation in Serbia in context of attracting potential foreign investments and their possible impact on Serbian monetary system.

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UTICAJ MONETARNOG MULTIPLIKATORA NA INFLACIJU U REPUBLICI SRBIJI

Osnovna istraživačka namera ovog rada usmerena je na analizu prirode monetarnog multiplikatora i njegov uticaj na inflaciju u Republici Srbiji. Kako bi se postigli efektivniji rezultati u analizu su uključeni podaci za period 1997-2015. Rezultati istraživanja do kojih se došlo primenom odgovarajućih statističkih postupaka naglašavaju postojanje negativne i statistički značajne korelacije između $m3$ monetarnog multiplikatora i inflacije. Kako monetarni agregat $M3$ predstavlja osnovu za izračunavanje $m3$ monetarnog multiplikatora, ovo ukazuje na to da veći broj elemenata unutar $M3$ monetarnog agregata imaju daleko veći uticaj na inflaciju u odnosu na druga dva monetarna agregata. Zato je neophodno da centralna banka posveti veću pažnju kontroli $M3$ monetarnog agregata i da prati promene unutar $m3$ monetarnog multiplikatora kako bi se sprečile veće fluktuacije u stopi inflacije.

Ključne reči: monetarni multiplikator, bazična inflacija, $m1$, $m2$, $m3$, monetarna baza, centralna banka.

Preliminary communication

**THE EFFECT OF MEDIA REPRESENTATION
ON THE DEVELOPMENT OF BANCASSURANCE
IN THE REPUBLIC OF SERBIA**

UDC 368.021.1:336.71(497.11)

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Abstract. *The intense competition among banks, in terms of narrowing the interest margins, has led to an increase in administrative and marketing expenses and has limited the profit margins of traditional banking products. At the same time, there has been a change in the preferences of bank clients in terms of reduced interest in investing in the classic banking products of the deposits-saving character and an increasing interest in investing in various forms of life and voluntary pension insurance. Accordingly, as well as with a number of other developments in the market for financial services in the last two decades, a connection between banks and insurance companies has been formed. This process is known as bancassurance. Bancassurance in its simplest form represents the distribution of insurance products through the branch network of banks as a sales channel. For banks this is a way to increase customer loyalty, the diversity of offers and the source of additional income in the form of a reimbursement paid by the insurer. In bancassurance, insurance companies see a relatively inexpensive sales channel of insurance compared to traditional channels, which allows them better market positioning and easier access to a higher quantity of clients. The largest success that bancassurance has had, is with the sale of life insurance, keeping in mind the similarity with the traditional deposit banking products. Past results of the implementation of bancassurance in the Republic of Serbia are insignificant in comparison to the value achieved on this basis in most EU countries. Apart from the objective factors, such results are caused by the lack of information among the population about the possibilities of purchasing different types of financial services in one place (in a bank) and numerous benefits which such integrated purchasing offers. The success of bancassurance largely depends on the determination of the participants (banks and insurance companies) to present the sales channel through the joint appearance on the market, continuous advertisement in the media, especially those who have access to the widest part of the population. For that reason, special emphasis is given to the influence of media*

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representation for the faster development of bancassurance, which would result in greater awareness and education of the population on that basis, which can later cause an increase in life and non-life insurance sales, given the size of the client basis and sales capacities of Serbian commercial banks.

Key words: *bancassurance, media representation, information*

JEL Classification: G21, G22

INTRODUCTION

The aim of the work is to assess the current level of development of bancassurance (sales channels of insurance through banks) in the Republic of Serbia based on the share of the premium generated by the sales channel of the total premium, the share of income from reimbursements and bank commissions on the basis of representation in insurance sales in total incomes from reimbursements and commissions of the Serbian banking sector for the period 2008-2014 and its current media representation.

The listed figures are negligible in comparison to the average value of subject categories in the member states of the European Union. The basic hypothesis is based on the assumption that greater media coverage of bancassurance in Serbia can contribute to its faster development. Faster development of bancassurance, taking into account the size of the client base of Serbian commercial banks, implies a further increase of signed contracts for insurance, especially life insurance contracts, given that it is usually signed through banks (according to the experiences of the EU member states), which generates multiple benefits that for customers, banks, insurance companies and the country as a whole.

In accordance with the subject of research and the formulated hypothesis, the following methods appropriate for the research area are applied in this work, and those are:

- method of description, whose purpose is to describe the current level of bancassurance development in Republic of Serbia,
- desk research based on available domestic or foreign literature and data collected from various sources (public databases of financial institutions and associations of insurers) has been used with a goal to formulate a theoretical basis for the checking of the hypothesis,
- the interview observation and analogy method are used to supplement the knowledge in the field of market research based on an anonymous survey-questionnaires (empirical data) on the impact of media representation on the further development of bancassurance in the Republic of Serbia.

1. BANCASSURANCE – TERMS AND DEVELOPMENT

In terms of more obvious competition on the insurance market, the changed attitude of customers and the development of technology, distribution channels for insurance products are of great importance for the successful operation of insurance companies (Curak & Jakočević, 2007). While adapting to the market conditions, insurance companies changed the traditional way of work by embracing new ways of marketing. Bancassurance represents a package of

financial services that includes banking and insurance services at the same time and in the same place (Babić-Hodović, 2003, p. 59-63). It also represents a strategy by which banks and insurers work together, more or less in an integrated way on the markets of financial services, which includes the distribution of insurance products by banks (Swiss Reinsurance Company, 2002, p. 3). Compared to other channels, this channel generates lower costs of insurance sales, as it uses the existing sales and the client infrastructure of banks. In addition, through bancassurance banks can achieve a significant additional source of interest free income without major additional investments, which results in building long-term relationships with clients. Main reasons for the expansion of bancassurance are profit and competition (Avdalović & Petrović 2016). It is estimated that bancassurance in continental Europe already accounts for 20-30% in the profit of banks (Agnus, 2002). The banks distribution of insurance is growing faster than through traditional distribution channels sales in developed countries but also in developing countries, first in life, and recently in non-life insurance. The beginnings of the modern development of the concept of bank insurance are linked to the legislative changes in France in 1984, which allowed banks access to the insurance market with permission to sell certain types of insurance through their sales networks. The current concept of bancassurance covers a wide range of detailed contractual relationships between banks and insurance companies and varies from country to country, depending on their demographic, economic and legal organization (Kočović & Šulejić 2006). For these reasons, there are a variety of models for the implementation of bancassurance and there is no standard model, even within one country. However, even though all of the models of bancassurance have not had identical success in their application, these types of insurance sales have attracted the attention of the sector for financial services in a short time. The reason for this is the recognition of bancassurance by banks and insurance companies as an attractive and simple way to increase profitability, which has gained importance especially in the aftermath of the global economic crisis (Cristea & Dracea & Cîrciumaru 2010).

2. BANCASSURANCE IN THE REPUBLIC OF SERBIA

The beginning of the development of bancassurance in the Republic of Serbia is linked to the legislation and the Banking Act (Službeni glasnik no 107, 2016) being put into effect, which allows banks to conduct insurance representation services, as well as the Decision on detailed conditions for granting approvals for banks to conduct insurance representations issued by the National Bank of Serbia, as the supervisory authority for the banking and insurance industry (Službeni glasnik no 57, 2016). In the Republic of Serbia, there were 25 insurance companies operating in 2014. Of that number 21 companies deal with insurance business, and only 4 companies deal with reinsurance business. Within the sales network, in addition to the insurance companies and numerous legal and natural persons - broker and insurance agents, another 19 banks participate, which received approval from the National Bank of Serbia for conducting activities of insurance representation (National Bank of Serbia – Insurance Sector Reports, 2014).

2.1. The share of insurance premiums generated by bancassurance in the total premium in Serbia for the period 2007 – 2014

Based on the data collected from official records (website of the National Bank of Serbia), Table 1 represent data relating to the premium of life, non-life insurance, total insurance premium, the share of life and non-life insurance in the total premium for the period from 2007 to 2014 in the Republic of Serbia. Based on the data submitted by the National Bank of Serbia, Administration for Supervision of Financial Institutions, the Department for supervision of the insurance business (24.06.2014, 22.09.2014, 10.12.2015) in the same tabular and graphical review the total premiums generated through bancassurance will be shown and its share in total insurance premium for the period from 2007 - 2014 in the Republic of Serbia.

Table 1 The total premiums of life and non-life insurance and the share of bank insurance premium in the total premium for the period 2007 – 2014 (in 000 RSD)

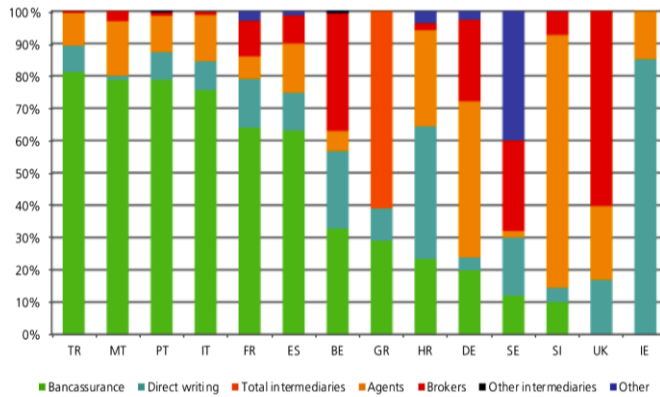
Years	Total premium life insurances	Total premium non-life insurances	Total premium of life and non-life insurances	Premium gained through bancassurance	The share of the bancassurance premium in the total premium
2007	4.939.508	39.840.510	44.780.018	14.460,18	0,03%
2008	6.347.035	45.839.596	52.186.631	101.660,13	0,20%
2009	7.881.193	45.653.453	53.534.646	302.754,57	0,57%
2010	9.352.714	47.168.218	56.520.932	658.194,30	1,164%
2011	9.992.706	47.321.292	57.313.998	1.019.105,86	1,778%
2012	11.855.400	49.608.308	61.463.708	1.318.448,44	2,145%
2013	14.065.458	49.976.051	64.041.509	2.076.588,68	3,242%
2014	16.005.074	53.399.931	69.405.005	2.617.896,32	3,771%

Source: Author's illustration (based on data: NBS – Insurance Sector Reports, 2007-2014 and data submitted at the request of the author NBS - the Administration for Supervision of Financial Institutions, 2014; 2015)

The National Bank of Serbia does not disclose information on its official website relating to the amount of insurance premiums earned by bank insurance, as well as the income generated by the banking sector achieved on that basis, but they are received at the request of the author for the purposes of the research. Therefore, the Administration for Supervision of Financial Institutions and the Department for supervision of the insurance business pointed out to the author that the National Bank of Serbia keeps track only of the total insurance premium realizable through bancassurance, without special records of premium life and non-life insurance, which is generated through this channel.

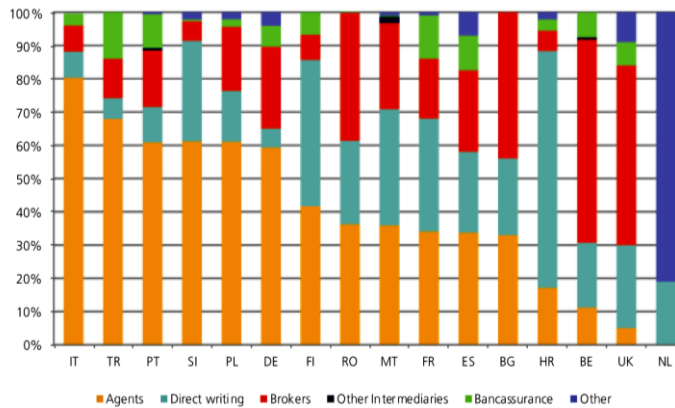
Despite the significant number of banks (19), which are agents of the leading insurance companies in the Republic of Serbia, a large number of insurance agents licensed by bank employees, good conditions in terms of the developed commercial network of banks (branch network, counters and offices) and a large client base of Serbian banks, we can conclude that the share of premiums generated through bancassurance in the total insurance premium is small in spite of the growth of premiums generated by this channel in the total premium from year to year. This further implies that the bancassurance in the Republic of Serbia is on a basic level of development compared to data on the participation of the sales channels in the total premium of life and non-life insurance in the member states of the European Union and some countries that are not member states, but that are relevant for this research, which is represented in Graphic 1

and Graphic 2 Gross written premium (GWP), that is shown in % in Graphic 1 and Graphic 2, represents the total premium (direct and assumed) written by an insurer before deductions for reinsurance and ceding commissions. Includes additional and/or return premiums. Direct premiums written represents the premiums on all policies the Company’s insurance subsidiaries have issued during the year. Assumed premiums written represents the premiums that the insurance subsidiaries have received from an authorized state-mandated pool or under previous fronting facilities (Insurance glossary, 2016)



Graph 1 Sales channels for life insurance by country (% of GWP²) – 2013

Source: Insurance Europea, 2016, p. 30



Graph 2 Non-life insurance sales channels by country (% of GWP) – 2013

Source: Insurance Europea, 2016, p. 31

² Gross written premium (GWP) is the total premium (direct and assumed) written by an insurer before deductions for reinsurance and ceding commissions. Includes additional and/or return premiums, available on: <https://www.irmi.com/online/insurance-glossary/terms/g/gross-written-premium-gwp.aspx>

Direct premiums written represents the premiums on all policies the Company’s insurance subsidiaries have issued during the year. Assumed premiums written represents the premiums that the insurance subsidiaries have received from an authorized state-mandated pool or under previous fronting facilities. (From EIG 8-K filed Nov 14, 2007) available on: https://en.wikipedia.org/wiki/Gross_premiums_written

If only countries from the Graphic 1 and Graphic 2 were taken into consideration, it could be concluded that bancassurance is the most important distribution channel for selling life insurance. In the selling of life insurance banks have for years had a dominant share especially in Portugal, Spain, France, Italy, Belgium, and more recently in Turkey (81.2%). In certain countries, this share is much smaller especially in Germany, the UK, the Netherlands and Switzerland (Insurance Europa, 2016, p. 30). When it comes to non-life insurance, bancassurance has a smaller share of the total premium in non-life insurance on the market of the EU member states, considering that the agents and brokers are still the dominant sales channels for the sale of these types of insurances (Insurance Europea, 2016, p. 31). The prevailing attitude in banks states that the sale of non-life insurance can be realized only through cross-selling with banking products, not their own, given that bank employees do not have sufficient knowledge and experience for that kind of sale. Besides, most bank managements are of the opinion that this type of sale generates less income from the sale of life insurance and frequent reports of realized damages, which requires additional administrative expenses.

2.2. The share of income from reimbursements and bank commissions on the basis of bancassurance in the total income of reimbursements and commissions from the banking sector of the Republic of Serbia for the period 2007-2014.

Data on the amount of income from commissions based on bancassurance (banks that are licensed by the NBS for performing insurance representation) and their share in the total revenue from reimbursements and commissions of the banking sector in the Republic of Serbia for the period 2007 to 2014 are shown in Table 2.

Table 2 Overview of the share of income from reimbursements and commissions from banks (insurance agents) on the basis of bancassurance in the total income from reimbursement and commission incomes of the banking sector in the Republic of Serbia for the period 2007 to 2014 (in 000 RSD)

Years	Bank commission on the basis of bancassurance	Total income of banks from reimbursements and commissions	The share of bank incomes from reimbursements and commissions on the basis of bancassurance in total incomes from reimbursements and commissions
2007	806.4	34.430.000	0.002%
2008	12.748.20	39.780.000	0.03%
2009	64.322.50	42.080.000	0.15%
2010	199.113.85	42.930.000	0.46%
2011	335.594.66	46.790.000	0.72%
2012	415.248.88	48.240.000	0.86%
2013	581.849.15	47.180.000	1.23%
2014	643.347.69	47.420.000	1.35%

Source: Author's illustration (based on data: NBS – Banking Sector Reports, 2007-2014 and data submitted at the request of the author NBS - the Administration for Supervision of Financial Institutions, 2014; 2015)

It is evident that there is a low share of bank income from reimbursements and commissions on the basis of representation in the sale of insurance in comparison to the total income of the banking sector from reimbursements and commissions for the observed period, despite the significant growth dynamics of the revenues from year to year. In the future, commercial banks in Serbia will lose primacy on the market for payments services, with the emergence of new providers for this service. For those reasons, banks will increasingly perform jobs that generate income of interest-free nature (from reimbursements and commissions), such as selling insurance.

3. MEDIA REPRESENTATION – A FACTOR OF FASTER DEVELOPMENT OF BANCASSURANCE IN THE REPUBLIC OF SERBIA

For the purpose of accelerating the development of bancassurance in the Republic of Serbia, it is necessary to increase its media representation, so that the general public could get a better insight of this kind of insurance selling. In this regard, defining and implementing the strategy of continuous joint marketing between banks and insurance companies, is a necessary condition for greater promotion of bancassurance. In addition to advertisements in daily newspapers and weekly magazines, on the radio, television and internet portals, it is also desirable to organise press conferences, broadcast reports, interviews and other forms of public appearances by representatives of banks and insurance companies on this issue (Manoy, 2001). The content and scope of marketing activities is the subject of an agreement between the bank and the insurance company and is defined according to the targets set by the action plan (Davis, 2007). In addition, it is necessary to mark and brand the counters in banks and places where employees work - agents in insurance sales by:

- sticking stickers on the front door of the counter hall,
- placing hanging advertisements on the premises of the bank,
- installing neon billboards on glass portals of the banks that will inform the customers of the bank that they can buy insurances of specific insurance companies in the bank,
- setting up promotional material in front of each insurance company's stand, such as flyers about the characteristics of insurance which the insurance company offers, bank flyers that provide information about the new bancassurance sales, brochures with the characteristics of the most frequently purchased types of life and non-life insurances in general, roll ups, posters, flags and others.

In order to determine the influence of media representation on the further development of bancassurance in the Republic of Serbia, a survey was conducted on a sample of 500 respondents with different demographic characteristics with the aim to get a better representation of the population regarding the relevant subject. The data was collected by 50 organisational units of banks throughout the Republic of Serbia, from Subotica to Kursumljija. The results obtained by this survey - the impact of the media representation on the development of bancassurance in the Republic of Serbia will be presented below. On the level of the entire sample, about 74% of the respondents were male and around 26% were female (Table 3). When it comes to the age of the respondents, most of them belonged to the age group of 30-60 years (Table 4).

Table 3 Gender of the respondents

	Frequency	%	Valid %	Cumulative %
Male	372	74.4	74.4	74.4
Female	128	25.6	25.6	100.0
Total	500	100.0	100.0	

Table 4 Age of the respondents

	Frequency	%	Valid %	Cumulative %
Up to 30 years	101	20.2	20.2	20.2
From 31-40 years	128	25.6	25.6	45.8
From 41-50 years	139	27.8	27.8	73.6
From 51-60 years	101	20.2	20.2	93.8
Over 60 years	31	6.2	6.2	100.0
Total	500	100.0	100.0	

From the aspect of marital status, the highest percentage of respondents are married (76%), have 2 children (44%) and live in a household that consists of four members (33%), as shown in Table 5, 6 and 7.

Table 5 Marital status of the respondents

	Frequency	%	Valid %	Cumulative %
Single	85	17.0	17.0	17.0
Married	379	75.8	75.8	92.8
Divorced	36	7.2	7.2	100.0
Total	500	100.0	100.0	

Table 6 Number of children

	Frequency	%	Valid %	Cumulative %
1	112	22.4	22.4	22.4
2	220	44.0	44.0	66.4
3	130	26.0	26.0	92.4
4	36	7.2	7.2	99.6
5	2	0.4	0.4	100.0
Total	500	100		

Table 7 Number of household members

	Frequency	%	Valid %	Cumulative %
1	24	4.8	4.8	4.8
2	86	17.2	17.2	22.0
3	151	30.2	30.2	52.2
4	167	33.4	33.4	85.6
5	54	10.8	10.8	96.2
6	18	3.6	3.6	100.0
Total	500	100.0	100.0	

According to the level of education, the most numerous were the respondents with secondary education (63%); respondents with college and university degrees were in about equal numbers, while the lowest number of respondents had an MBA, PhD or only primary education, as shown in table 8.

Table 8 Level of education

	Frequency	%	Valid %	Cumulative %
Primary school	27	5.4	5.4	5.4
Secondary school	313	62.6	62.6	68.0
College	78	15.6	15.6	83.6
University	74	14.8	14.8	98.4
MBA	5	1.0	1.0	99.4
PhD	3	0.6	0.6	100.0
Total	500	100.0	100.0	

When it comes to the distribution of the respondents by "total monthly income" the following data was recorded: most respondents have an income of between 20,000.00 and 40,000.00 RSD, respondents with a monthly income of up to 20,000.00 RSD and 40,000.00 to 60,000.00 RSD occurred in approximately equal numbers, while the last number of respondents had incomes larger than 100,000.00 RSD, as shown in Table 9.

Table 9 Total monthly income

	Frequency	%	Valid %	Cumulative %
Up to 20000	103	20.6	20.6	22.9
From 21000 to 40000	193	38.6	38.6	59.2
From 41000 to 60000	114	22.8	22.8	82.0
From 61000 to 80000	43	8.6	8.6	90.6
From 81000 to 100000	31	6.2	6.2	96.8
Over 100000	16	3.2	3.2	100.0
Total	500	100.0	100.0	

The smallest number of respondents stated that their knowledge on bancassurance is very low (4%) and very high (2%). Most respondents, 82% stated that their knowledge, as well as the knowledge of others from their expertise, is very little or bad. Only 12% of respondents said that their knowledge on bancassurance is high. However, if you take into account that bancassurance is a relatively new channels sale of insurance in the Republic of Serbia, further survey results may be considered valid, bearing in mind that 65% of respondents said they have a low, high and very high knowledge on bancassurance, which the representative sample represents (Table 10).

Table 10 Knowledge on bancassurance

	Frequency	%	Valid %	Cumulative %
Low	155	31.0	31.0	31.0
Very low	20	4.0	4.0	35.0
Little	255	51.0	51.0	86.0
High	60	12.0	12.0	98.0
Very high	10	2.0	2.0	100.0
Total	500	100.0	100.0	

When it comes to the amount of advertisements of bancassurance in the media, the majority of respondents, 87% believe that it is insufficient, which is in accordance with the real situation (Table 11). In 2014 in the Republic of Serbia, 19 banks concluded contracts on representing the insurance companies, and only 5 banks qualified for an advertising campaign about it, within the advertisement of basic bank products (Table 12).

Table 11 Media representation of bancassurance

	Frequency	%	Valid %	Cumulative %
Sufficient	64	12.8	12.8	12.8
Insufficient	436	87.2	87.2	100.0
Total	500	100.0	100.0	

Table 12 Advertisements referring to bancassurance

	Frequency	%	Valid %	Cumulative %
None	411	82.2	82.2	82.2
1-3	79	15.8	15.8	98.0
4-5	9	1.8	1.8	99.8
More than 5	1	0.2	0.2	100.0
Total	500	100.0	100.0	

Most respondents (82%) did not know to name any advertisement relating to bancassurance. In addition to the clear perception that there is a lack of representation, a need for it is clearly visible from the results.

Table 13 Continued advertising campaign relating to bancassurance

	Frequency	%	Valid %	Cumulative %
Yes	391	78.2	78.2	78.2
No	109	21.8	21.8	100.0
Total	500	100.0	100.0	

The largest percentage of respondents is of the opinion that the best way to advertise bancassurance is through its representation on the television, radio and internet portals at the same time (43%). A significantly smaller amount of respondents circled individually in separate intervals: TV advertising 23%, radio 17%, Internet advertising 14%, while the remaining 3% chose another form of advertising (table 14).

Table 14 Choice of media

	Frequency	%	Valid %	Cumulative %
TV, radio and internet	216	43.2	43.2	43.2
Radio	83	16.6	16.6	59.8
TV	116	23.2	23.2	83.0
Internet	71	14.2	14.2	97.2
Newspaper	10	2.0	2.0	99.2
Other forms of public representation	3	0.6	0.6	99.8
Other (recommendation from an acquaintance and other)	1	0.2	0.2	100.0
Total	500	100.0	100.0	

A large number of respondents (63%) believe that there is a difference when purchasing insurance in a bank and directly in an insurance company (Table 15).

Table 15 The review of respondents on the question: Is there a difference when purchasing insurance in a bank and directly in an insurance company?

	Frequency	%	Valid %	Cumulative %
Yes	317	63,4	63,4	63,4
No	183	36,6	36,6	100,0
Total	500	100,0	100,0	

The majority of respondents (75%) think that the insurance is more expensive, the process of buying it is slower and so is the process of resolving damage claims in the bank (Table 16). In addition, the factors which determine whether the insurance will be bought in a bank or an insurance company were: the cost of the product and the speed of solving the damages reported (75.4% of respondents named this factors, Table 16).

Table 16 The existence of differences in purchasing insurance in a bank and in an insurance company

	Frequency	%	Valid %	Cumulative %
Price	151	47.6	47.6	47.6
Expertise level of the staff	43	13.6	13.6	61.2
Process speed	35	11.0	11.0	72.2
Speed of resolving damage claims	88	27.8	27.8	100.0
Total	317	100.0	100.0	

Based on these results, we can conclude that the knowledge on bancassurance as a distribution channel of insurance, as well as the media coverage of it is small, whereby the need for continuous informing and a need for a greater level of awareness of the population is perceived on that basis. Keeping in mind the importance of bancassurance for all participants, but also the fact that insurance companies do not want to emphasis any features of the sales channels in particular in the media, a conclusion can be drawn that banks need to give special attention to advertising this insurance sales channel in the up-coming period, primarily through television, radio and internet portals.

In order to further the development of bancassurance in the Republic of Serbia special attention should be paid to educating and informing the population about this sales channel. The author of this study believes that the education and publicity can be performed simultaneously. An example of this would be advertising campaigns which not only supply information about bancassurance, but also inform the population that there is no difference in purchasing insurance in a bank compared to a traditional distribution channel. The focus of this research was on the results of the general sample. The author believes that we could obtain certain differences in the analysis of the research results if we take into account gender, educational structure of the sample, as well as the place of residence, i.e. a difference of opinion of inhabitants of villages and towns, which could be the subject of an upcoming research.

CONCLUSION

On the insurance market of the Republic of Serbia, bancassurance, as a channel of insurance distribution, is at the beginning of its development, which the total premium generated via this channel in the total insurance premium represents, as well as the share of revenues from reimbursements and bank commissions on the basis of bancassurance in the total income from reimbursements and commissions of the banking sector in the Republic of Serbia. For most banks, insurance agents, until recently the prevailing attitude was that bancassurance was a low profitable job, due to that; their management did not show greater interest in the development of this sales channel. However, a number of factors such as narrowing interest margins, increased credit risk, a large number of non-performing loans, increased competition between the banks themselves and the banks and insurance companies in terms of deposits, which results in an increased risk of their outflows, have led to more and more commercial banks in the Republic of Serbia, as a way of ensuring long-term customer loyalty, they see this in the collaboration with the insurers. In addition, in modern conditions there is an emergence of new participants in the market for payment services where banks until recently had primacy. Bearing in mind the factors above, banks are more interested in increasing interest-free incomes such as reimbursements and commissions paid to them by the partner-insurance company for parliamentary activity. Insurance companies through bancassurance achieve easier access to more customers, better market positioning with lower distribution costs compared to traditional sales channels, which further implies greater competitiveness and profitability. Based on the results of the survey about media representation of bank insurance, it can be concluded that the media coverage of this sales channel is insufficient, and it is clearly visible from the results that there is a need for it. The majority of respondents (about 80%) believe that in the case of continuous advertising campaigns and media representation, a greater awareness of the population about the possibility of buying insurance in banks would be achieved.

Bearing in mind the significance of bancassurance for all participants, but also the fact that the insurance companies do not have the practice of individual advertising of sales channels, but rather they focus on the advertising of the brand, banks, in the upcoming period, should pay more attention to media promotion of bancassurance. In this way, many of the benefits of this sales channel would be closer presented to the general

population and, above all, that bancassurance can fully meet the needs of a modern, more demanding customer, to whom, in an accelerated rhythm of life and business, the integrated purchases of various financial services suits, with the possibility of obtaining complex information in one place.

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UTICAJ MEDIJSKE ZASTUPLJENOSTI NA RAZVOJ BANKOOSIGURANJA U REPUBLICI SRBIJI

Intenzivna konkurencija među bankama, u uslovima smanjenja kamatnih marži, dovela je do povećanja administrativnih i marketinških troškova i ograničila profitne margine tradicionalnih bankarskih proizvoda. Istovremeno, došlo je do promena u preferencijama klijenata banaka u pogledu smanjenog interesovanja za ulaganje sredstava u klasične bankarske proizvode depozitno-štednog karaktera i povećanje interesovanja za investiranje u razne vidove životnih i dobrovoljnih penzionih osiguranja. U skladu sa tim, kao i brojnim drugim dešavanjima na tržištu finansijskih usluga u poslednje dve decenije, došlo je do je do povezivanja banaka i osiguravajućih kompanija.

Taj proces je poznat kao bankoosiguranje (engl. bancaassurance). Bankoosiguranje u svom najjednostavnijem obliku predstavlja distribuciju proizvoda osiguranja preko poslovne mreže banaka kao kanala prodaje. Za banke je to način povećanja lojalnosti klijenata, raznovrsnosti ponude i izvor dodatnog prihoda u vidu naknade koje naplaćuju od osiguravača. Osiguravajuće kompanije u bankoosiguranju vide relativno jeftin kanal prodaje osiguranja u odnosu na tradicionalne kanale, koji im omogućava bolje tržišno pozicioniranje i lakši pristup većem broju klijenata. Primena bankoosiguranja je najveći uspeh zabeležila u prodaji životnih osiguranja, imajući u vidu sličnost sa tradicionalnim depozitnim bankarskim proizvodima. Dosadašnji rezultati implementacije bankoosiguranja u Republici Srbiji su zanemarljivi u odnosu na dostignute vrednosti po ovom osnovu u većini zemalja EU. Pored objektivnih faktora, takvi rezultati uzrokovani su i nedovoljnom informisanošću stanovništva o mogućnostima kupovine različitih vrsta finansijskih usluga na jednom mestu (u banci) i brojnim prednostima koje takva integrisana kupovina pruža. Uspešnost primene bankoosiguranja u velikoj meri zavisi i od odlučnosti učesnika (banaka i osiguravajućih društava) da predstavljaju taj prodajni kanal kroz zajednički nastup na tržištu, kontinuiranim oglašavanjem u medijima, posebno onim koji imaju pristup najširoj populaciji stanovništva. Iz tog razloga, u radu je poseban akcenat dat uticaju medijske zastupljenosti na brži razvoj bankoosiguranja, koja bi za rezultat imala veću informisanost i edukaciju stanovništva po tom osnovu, što dalje može generisati povećanje prodaje životnih i neživotnih osiguranja, imajući u vidu veličinu klijenske baze i prodajne kapacitete srpskih poslovnih banaka.

Ključne reči: bankoosiguranje, medijska zastupljenost, informisanost

ECONOMIC CRISIS AND CURRENT PROBLEMS OF SERBIAN FAMILY

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Abstract. *Modern society and the world economy are highly contradicted to existing processes and relationships. It could be discerned in large social inequalities, in unfair and unequal opportunities of socio-economic development and in severe conflicts of different contrasting groups and interests. The problem of economic growth, especially of the smaller countries in development, is radicalized by unequal distribution of natural resources, economic and political power. At the moment In Serbia the crisis is visible in almost every sector of society. Unemployment is rising, just like crime rate, corruption and various forms of social pathology. The growing rate of violence and different forms of family abuse are spreading the sense of hopelessness. Not only did the education become more expensive but also the employment availability and social success became inversely proportional to the acquired knowledge. Every year the birth rate declines. All of these affect the young, who become discontent. Being unable to identify themselves with their own country they start to accept the situation with resignation and social apathy. The number of those who leave Serbia is increasing. The roots of very bad economic situation in Serbia are planted in the inherited systemic problems which arose after the disintegration of Yugoslavia and its markets, sanctions and aggression and destruction of economy and infrastructure by NATO, but mostly and primarily is rooted in the acceptance and implementation of arguably detrimental doctrine shaped by the concept of neo-liberal model of economic policy. In this research paper, the authors, in order to minimize potential developmental risk and to maximize the biological survival of Serbian population in future, state that neoliberal globalization begins with destruction of the family and ends with the destruction of the country itself. This hypothesis is confirmed by the current demographic and development trends in Serbia.*

Key words: *economic crisis, neoliberal globalization, the state, the family, Serbia.*

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INTRODUCTION

The problems of current economic crisis, as of the one from 1929-1933, are rooted in matrix of neoliberal capitalism. Individualism, free market, private property as the complete state's withdrawal from the economic sphere plus the ignoring of the national distinctions, social responsibility, moral worth and ethic principles resulted in deep contradictions of existing processes and relations with high rate of social inequalities and clash of interests among different conflict groups. The neoliberal globalization decreases power of the sovereign state or the country and increases the power of multinational corporations and international organizations that consciously direct their activities towards destruction of the small countries' economies and population.

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The destruction of the small countries' economies, the increasing rate of unemployment, rising social tensions, moral worth degradation, marginalization of state and church institutions represent the fake picture, the illusion of freedom, democracy and globalised education and information. Originated from this illusion the purpose-made primitive entertainment like the advertising campaigns of homosexuals, drug addicts and sects bring a destructive impact on traditional family, its roll and value. This generally reflects on the strength and stability of the country and its development survival perspective. The wealth of a small number of strong and powerful individuals is rising according to the rising poverty rate of most people.

1. NEOLIBERALISM IN THE CORE OF ECONOMIC CRISIS

The development of global modern society is followed by rising of numerous problems, risks and dangers that can impact the humanity and its institutions. We witness here the contemporary era paradox: by developing new techniques, modern technologies and economies, always steering towards future of predictable security the humanity produced itself instruments and prerequisites for free and decent life but instead it lives degraded and helpless, in constant fear of terrorism, war, violence, economic crisis and ecologic catastrophes. Concerning our insecurity in modern society I would quote Ulrich Beck "it does not decrease but it increases proportionally to the increase of the knowledge, research and expert rationality" (Bek, 2001).

Which are the reasons, and what is in the core of such state?

„Nowadays Humanity is in claws of manipulative global or mass culture based on the market principles and individual freedoms that promote a certain life style, form stereotypes and make illusion of an idyllic serene life where everything is within the reach of hand. In virtual pseudo-reality, in man, the consumer feelings are growing, which determine many aspects of life and his behaviour standards. People tend to became rich to gain profit so the primary ideal becomes money that controls the value system. Too busy with satisfying his own hedonistic needs the individual becomes indifferent to other people's sufferings and everything else that concerns one's material interest and life standard. The individual lives in his own virtual world where the religion and any other system of value except

money value are absent, where the individual material benefit prevails over general benefit. In a world like that the individual does not have free time or space for family and friends. There is not a social cohesion and to the individual a general benefit loses its importance, he is not willing anymore to make sacrifices for others“ (Dusanic, 2013, p.19), including his own children (added by authors). The modern society inequalities are deeply rooted in contradictory development of globalised world whose perspective and future development depends exclusively on control of availability of already limited resources like oil and fresh water resources or highly educated personnel and neutral media services.

The most visible characteristic of modern society is inequality. World wealth is increasing as well as world population and it is unequally distributed on the planet. At the beginning of 2000 a world GDP (Gross Domestic Product) was 3 billion dollars or something like \$ 5.000 per head. Still, in Ethiopia it was barely \$ 100 and in Switzerland that has the highest GDP rate, was \$ 38.000 per head. For The countries with low rate of domestic product (DP), (under \$ 750 per head) even for those with average rate of DP (between \$ 750 and \$ 9.500 per head) is hard to achieve the standard of countries with very high rate of DP (from \$ 9.500 and more) (Martin et al. 2006, p. 15).

However for the last half of the century this gap is growing and as a consequence the middle class is disappearing. For example during the mid-seventies the number of high rate GDP countries was 8 times higher than of those with average GDP rate and 40 times higher than of those with low GDP rate (1:8:40). Till 2000 the proportion has been significantly changed to 1:15:60, so the proportion points out that the countries with high GDP rate had their GDP rate 60 times higher than the ones with low GDP rate. According to Milovanovic, at the moment, only 14 % of world population could be considered as middle class, barely 4 % as upper or rich class and 78 % is considered as low class on the edge of poverty (Milovanovic, 2006). There is no need to explain further on these differences. Just the fact that there is even a metaphysical chance to live 60 times better is enough to explain why the countries with low GDP rate or with low and middle life standards have high rate of migrations towards countries with high life standards.

„Side by side with global society development is developing “the global barbarity” (crime, terrorism, insider trading, prohibited substances trading, human trafficking, war and war threats, children and women exploitation, ecological problems, problems with moral norms). As the biggest consequence of globalisation and global society development is “impatience” of some politic and economic power centres. They wish to “speed-up” the process and to impose themselves as global society leaders, they want to take advantage of their starting positions and to create “monopoly” over globalisation. That causes completely realistic and expected reactions of those ones who suffer the most and who are in “outsider position” comparing to the main streams of globalisation (Dusanic, 2013, p. 19).

If the sovereign countries even try to give a resistance to “global trends” they will get sanctioned. They get both economic and military sanctions. The international laws are violated by isolated political decisions and the influence and authority of the United Nations dissolves. Democracy and human rights are misused. The big and financially powerful countries impose the political resolutions in small countries; they even establish the dictatorship regimes that mercilessly lead the society into totalitarianism.

In future as the experts predict the international competition and apathy will increase. The same thing will happen with national, racial and religious discrimination. The aim of this possible scenario is to reach the complete domination of use and control over the

most important world resources, which will encourage the insecurity and fear of individual and social groups around the world.

2. SOCIO-ECONOMIC GENOCIDE OF SERBS

The 20th century crisis in Serbia that arose during the 1990s brought to disintegration of former Yugoslavia and seriously wounded the production branches of Serbian economy in transition.

Severe political and social problems, like disintegration of Yugoslavia, sanctions, aggression, destruction of infrastructure enforced and introduced by NATO, are in the roots of inequality in Serbia today. The essence of these inequalities is NATO's, inconsiderate and negligent application of so called neoliberal economic policy, denial of the importance of country in defining of main development aims as of their application and control.

Soon after the October revolution of 2000 Serbia faced the steep economic decadence that was systematically encouraged and inspired by IMF. The IMF used the same pattern as usual whenever it had access and possibility to impact the state's political economy. The most important goal of the IMF as always is protection of financial system stability and its capacity to repay the external debt. Essentially the IMF represents the creditors or creditor countries and protects their interests. The encouragement of liquidation of state-owned enterprises and withdrawal of the state from economic sphere is the safest way that leads to achievement of already mentioned goal, but that encourages introduction of neoliberal economic model.

The economic development public officials instead of concentrating on the establishment of adequate institutional infrastructure and instead of creating and establishing the rules and optimal conditions for long term economic growth they, so called "the Serbian experts in economy", already familiar with the positive and negative experiences of neighbouring countries in transition, are putting the accent on stabilisation, liberalisation and privatisation. The stabilisation, liberalisation and privatisation are basic elements of the original Washington Consensus.

With the revolutionary verve, and introduction not to say intrusion of democracy, started the implementation of neoliberal economic doctrine.

The stabilisation is revised to "Stable local currency" that reveals the unreal picture of strong Serbian economy, and as overrated, it influences the price growth of domestic goods on international market, discourages the export of domestic products and stimulates the import of goods. An additional impact on domestic economy was the reduction of import duties for the foreign countries goods, and even the complete elimination of duties.

A foreign capital without the verification of proofs of origin, from different suspicious funds and sources, right after the October changes in 2000 attacked the free Serbian market. The funds hurled to Serbia because the possibilities of money laundering and its value and asset growth were extremely diverse, without any duty towards the state or towards employees.

It is worth to mention that the biggest four domestic banks were closed. It provided the opportunity for foreign countries banks to implement and present to inhabitants and local economy the offensive and aggressive credit policy. The state with its destroyed economy and people eager to have a better life both headed into debts.

With high level of foreign currency cash inflow, and with numerous foreign credit lines withdrawals, with privatizations of state property, enterprises, banks, cellular network

operators, fresh water resources the foreign currency supply was growing and Serbia finished with pegged exchange of “strong” local currency “Dinar”. Export oriented domestic enterprises and enormous state systems that employed thousands of people, started to have a huge financial losses and accordingly to shrink the production volume so people got fired, and with big financial problems they started to lose markets and even to close the companies. The potentates in order to save themselves from revolt of unsatisfied employees and their electoral apparatus they started without any control to pump in the endless financial assets, which end up “in bottomless pit”.

A wrong implementation of stabilisation and liberalisation in Serbia brought to domestic production suffocation and resulted in enormous increase of unemployment, big national debt, mass and uncontrolled privatisation of state property and resources. But a bigger problem was that the realized incomes were not used in the right purpose. Instead of being used to solve the problem of unemployment and to encourage the economy development they were used for current Government expenses. It is clear that the economic growth could not be encouraged by increased consumption, especially not by consumption of imported goods as it is case in Serbia.

The transitional processes in 2001 were applied in phases: privatisation, restructuring of economy, macroeconomic stabilisation, the liberalisation of unregulated export and cost trade, banking sector consolidation and privatisation, initial phase of joining the EU, numerous legal adaptations in every sector of economy and society, numerous tax system and public sector reforms, adaptation of fiscal and monetary policy improvement of banking system efficiency and financial markets development, development of partnership between especially the infrastructural private and public sectors, the regulation of labour market and relations between employer and employees, attempts in levelling down the grey economy and corruption. The introduced reforms generally should improve the credibility of Serbia and increase its competitiveness. The same ones should decrease the risk rate of investment. Since they were partially and unsystematically applied without any general control or revision and under the influence of strong political factors they just multiplied the negative development effects.

In 2008 the global Economic Crisis, impacted additionally Serbian already instable economy and its shaken social and economic activities. At first the crisis existence was negated, and then the optimistic evaluations predicted that the crisis will not hit Serbia. Crisis was even presented as a good chance for development. Unfortunately the crisis effects were not positive at all. With variable intensity they hit the financial and other existing sectors, and negatively reflected in main economic development indicators.

The economic recession in 2012 again stopped the recovery of the market. As the result the investment activities decreased, investment resources and capital decreased too, export development slowed down, inflation raised, unemployment increased, external and internal debt of the country increased, inflation weakened the value of local currency “Dinar”. Other negative effects could be seen in state’s constant need for augmentation of fiscal charges, and decreased motion of bank credit activities.

The detailed analysis of the Serbian Business Registers Agency’s data published in June 2013 compared with financial data from 2011 and 2012 reveals chronic inefficiency of Serbian economy (Business Registers Agency, 2013). The public release of the business effectiveness of our economy states that there is no possibility for profit oriented economy in Serbia.

A clear affirmation of this statement is a big problem of Serbian economy which is incapable of dealing with piled up business organizations losses from previous period.

Other indicators of risks and negative effects on future of Serbian economy and its development are the data on country's excessive indebtedness.

Under the constant increase of accumulated losses, the capital of Serbian enterprises dissolves, in order to solve the problem they take credits. The fact is that the companies do not have their assets or capital that represent the difference between assets and duties. So the financing comes from borrowed resources either interest-bearing ones or suppliers' investments or foreign country legal entities' investments. Another characteristic of already mentioned enterprises' dealings is the constant increase of expenses which are followed by further accumulation of losses that will probably result in bankruptcy.

A tendency of cumulative losses increase and unequal division of financial performances are easily notable in Serbian economy. In 2012 the business organizations that ran deficit over the level of capital were in 25.338 of them which is 27,5% of the total number of business organizations (Business Registers Agency, 2013, p. 13). Total number of employed people in these companies is 154.293. Taking all of this into consideration it is clear that in the nearest future a huge number of people will remain without work. (Milicevic, 2013.)

There are already too many destroyed enterprises, and too many people who remained without work. In 2010 the industrial production is for 11,4% lower then it was in 1998 during the political and economic sanctions, not to mention the period before the war for example if we compare the period of 2012 and period of 1989 it is lower for 46,7% (38,4%) (Sojic, 2015).

The absence of any Government vision in creation of economic policy, the wrong application of models, suggested by International financial institutions whose politics is based on principles of "Washington's Consensus", brought Serbia to the edge of collapse .these protagonists performed economic genocide over Serbian economy, country itself and their own population.

In his work "Neoliberalism transition and crisis" professor Jovan Dusanic states that the economic doctrine based on Washington Consensus principles is applied especially supporting the interests of world oligarchy and big businesses with strong financial power, creating the possibility to design the politics, media, to direct the politic economy according to their own interests, without being publically criticized by the small and poor countries. In order to realize its own interests the world oligarchy tends to weaken the national security systems, government institutions and country sovereignty. It tries to replace them with international law and its institutions, and in this way destroys the national economic structures so they become dependent on transitional capital and its interests. The realization of its goal is easier if the country is involved in debts, and it supports a chaotic state of the society, degrades the authority of the state and its institutions, corrupts and demoralizes the national elite, forms many non-government organisations (most of them are financed from foreign country resources), degrades directly or indirectly the main national institutions like church, academy of sciences. It uses mass media to shape and control the public opinion and change the national history facts, and public opinion through the mass media. There are already chosen compradors that will in adequate moment take the country's key positions, using different means they try to gain and keep as long as they can the strategic politic functions. We are also offered ready-made solutions

and independent economic advisors from foreign countries. The ideology of this policy is radical Neoliberalism.“ (Dušanic, 2013, p. 19).

3. SOCIO-ECONOMIC IMPLICATIONS OF TRADITIONAL SERBIAN FAMILY DEGRADATION

A family is considered a social group or a sub-system of one wider social system (state, community, and nation). Clearly it is a spot where global economic processes and trends are intertwining that put the family in difficult position full of temptations.

Modern society and liberal tendencies encourage the need for individual affirmation and ability demonstration. In modern society any person ambition is to have freedom and individuality within family and family relations. It is one of the most important challenges. The important question is how to achieve individual freedom, personal choice and free decision without endangering the position of other family members? Patriarchal and traditional families are directly affected by that individuality, independence, and need for every family member personal respect.

Nowadays Serbian families in order to obtain original function and expected roll are faced with numerous difficulties and problems. Unfortunately the results of unaccomplished basic function are: dysfunctional matrimonial relations, growth of social pathology like violence, dehumanisation of family relations, family detached, lonely and insecure individuals. In the concept of any country general economic activities the important roll has labour market with its general state, characteristics and tendencies. Labour market of the republic of Serbia is pointing out high level of unemployment, hidden unemployment and insufficient mobility of manpower. Unemployment is one of the greatest and most severe economic and social problems in Serbia. It is a cause of poverty and social detachment. Poverty affects the family in two ways; firstly due to the poverty they disintegrate quickly and secondly the young can not start their own families in time so they can not fulfil the expected functions like: getting married, giving birth, and giving proper education...

As a consequence of modern liberal tendencies arises conclusion that implicates the correlation between already disturbed family relations and social relations. Because of its negative effects father loses his authority, the same thing happens with teacher's or other expert's authority. It also affects the state and its institutions' authority.

The family relations analysis, as it is explained by political sociologist Lj. Despotovic, the traditional authority and father's role in family weakens and dissolves. It makes a vacuum or even a gap in family organisation and its internal harmonious relations. Father's task since the very beginning was to provide for a child safe and secure environment within family. Raised in healthy family with a strong father's role of a social and moral norms bearer, the child is slowly introduced to social system with norms. In this way his proper emotional and intellectual development is supported and encouraged. A child needs a father with strong attitudes, with strong moral beliefs, that applies the norms but respects them too serving as an adequate roll model. Anyhow today children have too many rights and they take the positions that do not belong to them. Parents become insecure because the society and state with law obligations take away the current traditional and already established positions. The father's authority nowadays is pretty shaken or even demolished because the institution of a family where once everybody relies on father is destroyed (Despotovic, 2014).

The economic reasons also take a great part in it. With economic function loss, job loss, incapability of finding a new job in short period, father loses rolls of protector, husband and pedagogue. In such changed value system a father becomes demoralised and he ceases to be the roll model for his descendants and other family members. Most of them became depressed and a lot of them committed suicide. Some of them became alcohol, drug or even domestic violence addicts. They blamed their own family for their incapability of taking care of already mentioned one.

The bigger problem is expansion of violence and aggressive behaviour. Families are endangered both by violence within family and violence from their surrounding. The aggressive behaviour is notable among the spouses, or in relation parents towards children or even in relation children towards parents. High rate of family violence is deeply rooted in frustrations, demoralisation, fear, insecurity, difficulties. These are all brought on individual by society and then the individual consciously or unconsciously transmits them on a family.

The conflicts are constantly rising between parents and children concerning individuality, freedom, and obligations or roll that they are supposed to have or expected to prove. Unsatisfied with the situation within family, constant intellectual pressure make them search and find sanctuary in groups that are exact negation of a family. Children and wife represent mirror which reflects man's failure, and it should be destroyed. In modern society in general and in Serbia too the insufficient tolerance within family, egoism, excessive demands for freedom and individuality, as postulates of liberalism, are the most common causes of increased number of divorces.

For example in 2013 in Serbia comparing with data from 2012, marriage and divorce statistics shows that the number of marriages raised for 5%, but number of divorces raised too for 11%. Most of divorced marriages concern married couples with children 55% of them. After the divorce the custody of the dependants or children are usually entrusted to mother (Statistical Office of the Republic of Serbia, Marriage and Divorce Statistics in the Republic of Serbia in the year of 2013, public announcement, 30/06/14). The published data of The USA organization that did the research named "Fatherhood factor" show how boys and girls raised in broken families with divorced parents specially the ones without father, have two times more chances to end up in prison, and four times more chance to be in need for professional help for dealing with emotional and behavioural issues.

In the USA in families where the father's authority is marginalised and not important or not present grow up 43% of children; there are even 90% of children that run away from their homes; also 80% of the rapist and people with anger control issues come from such families; 71% of teenage girls that got pregnant are from those families too. The single parent families also bread 75% of adolescents that end up in rehab centres; 70% of juveniles that grew up without father are in correctional institutions and 85% of the young finish in penitentiary (U.S. Fatherless Statistics).

The analysis of the population census data from 2011 the total number of population in Serbia was 7.258.753 people (Statistical Office of the Republic of Serbia, 2012). The analysis warned about other serious problems like: decrease of the total number of population, clearly visible negative natural birth rate, migrations especially migrations of young and highly educated population. The ones that remain at least most of them are with bad health and emotional condition. All of these caused changes in demographic structure. Only in the last few years precisely in the period from 2002 till 2011, the total

number of citizens in Serbia decreased for 241.237 people which is 3,21% of total number of population.

Table 1 Natural movement of the population of Serbia, 2002 - 2013

Year	Population in midyear	Births	Deaths		Natural increase	Marriages	Divorces	per 1000 inhabitants			Infant deaths per 1000 live births	
			Total	Infants				Births	Deaths	Natural increase		Marriages
2002	7.500.031	78.101	102.785	790	-24.684	41.947	9.982	10,4	13,7	-3,3	5,6	10,1
2005	7.440.769	72.180	106.771	579	-34.591	38.846	7.661	9,7	14,3	-4,6	5,2	8,0
2006	7.411.569	70.997	102.884	525	-31.887	39.756	8.204	9,6	13,9	-4,3	5,4	7,4
2007	7.381.579	68.102	102.805	484	-34.703	41.083	8.622	9,2	13,9	-4,7	5,6	7,1
2008	7.350.222	69.083	102.711	460	-33.628	38.285	8.502	9,4	14,0	-4,6	5,2	6,7
2009	7.320.807	70.299	104.000	492	-33.701	36.853	8.472	9,6	14,2	-4,6	5,0	7,0
2010	7.291.436	68.304	103.211	460	-34.907	35.815	6.644	9,4	14,2	-4,8	4,9	6,7
2011	7.258.753	65.598	102.935	414	-37.337	35.808	8.251	9,0	14,2	-5,2	4,9	6,3
2012	7.199.077	67.257	102.400	415	-35.143	34.639	7.372	9,3	14,2	-4,9	4,8	6,2
2013	7.164.132	65.554	100.300	413	-34.746	36.209	8.170	9,2	14,0	-4,8	5,0	6,3

Source: Statistical Office of the Republic of Serbia (2014).

Statistical Yearbook of Serbia, p. 36

By the vital statistics analysis in 2011 the natural birth rate was -5,2‰. the natural birth rate was 9‰, and the mortality rate was 14,2‰. These results state out that in Serbia in 2011 were born 37.337 babies less then it is necessary for simple reproduction of the population (Statistical Office of the Republic of Serbia, 2014, p. 36).

The young do not decide easily to get married and have children. And even if they do decide, they will satisfy only with one child. The decrease of fertility rate is clearly visible if we compare the number of newly born babies and number of women capable of reproduction. Thinking of numerous factors that affect the fertility, we can point out most important ones; like socio-economic, cultural factors, intertwined socio-psychological factors. Yes it is clear that the fertility is a natural phenomenon but it is affected by all of previously mentioned factors.

The total number of fertility rate is under the border line of simple reproduction. For the last ten years it decreased from 1,6 to 1,4 babies per woman, which demonstrates that an average household or average Serbian family has 2,86 members. So Serbia per a married couple doesn't have even one whole child (Statistical Office of the Republic of Serbia, 2012, p. 25).

In Serbia rises a kind of paradox which is evident in number of abortions performed in public, state hospitals which are around 100.000 per year. Not to mention the statistic number of abortions from private hospitals that is unavailable. Anyway it is supposed to be somewhere around 200.000 abortions per year. On the other side there are many married couples that have problem with fertility and are looking for help in order to become parents.

In period from 2002 to 2011, the total number of population younger from 15 and older from 65 in percentage varied a lot. The percentage of the young (0-14) in 2002 decreased from 16,1% to 15% in 2011 while the percentage of the old (65 and over) rose from 16,6% in 2002 to 16,8% in 2011. The population quota for people from 14 to 64 rose from 67,3% in 2002 to 68,2% in 2011. During the same period the natural birth rate decreased from 10,4‰ to 9‰, meanwhile the number of fertile women decreased from 24,1% to 22,9%. Mortality rate per each 1000 inhabitants rose from 13,7% to 14,2%. The leading causes of death are still cardiovascular and neoplasm diseases concerning both male and female. Neonatal mortality decreased importantly from 10,1 to 6,3 dead babies per 1000 live born babies (Republic Institute for Statistics, 2012, p. 25).

In Serbia many young couples do not even want to procreate and have their descendants. They are convinced that first they have to solve housing and any other problem. They run after their carriers, they wish to have economic independence. Young women become much more egoistic, they do not even think of the new life that they should procreate.

The average population age in period from 1953 to 2011 increased for 12, 2. An average male and female life span in Serbia is prolonged for almost 2 years (from 69,7 years to 71,6 years concerning male population and from 75 years to 76,8 years concerning female population).

Observing the period from 2002 to 2011 we can notice that the participation of population younger than 20 decreased from 22,3% to 20,7% while the participation of population older than 60 rose from 22,7% to 23,7%.

During the same period the average population age increased from 40,2 to 41,5 years. The average age of women in Serbia is 42,9 years. It means that the average woman entered in fifth decade of her life.

The total number of communities under observation is 145. Even 85 of those municipalities are in the stadium of advanced old demographic age, and in 51 of them is noted the last stadium of ancient demographic age. That means that more than 93% of population there is demographically very old (Development Report, 2010, p. 66).

Ageing and migrations seriously endanger the rural areas in Serbia. The number of working age population is decreasing and side by side is decreasing the capability of sustainable managing of natural resources. The extended volume of mostly aged and economically inactive population in Serbia inevitably causes the increase in public consumption especially in areas of health and social insurance and retirement insurance of old individuals.

The changes in age structure clearly reflect on the social structure of population because the number of retired people or elderly depending ratio is growing from year to year. In the context of basic economic and demographic characteristics of Serbia we can find the information that for the last half century we have eight times more retired people and we can also find the information that the number of dependants makes a third of the total number of population. If this trend continues by the prognosis of the Republic Bureau of Statistics by the 2041 Serbia will have 5,5 million of inhabitants, which is relative indicator of 1,7 million or 23, 6% of inhabitants less then it is shown in the census records from 2011 and with much more unfavourable age structure (Kupiszewski, et.al. 2012, p. 91).

Table 2 The average age of the population, aging index and the life expectancy of live births in the Republic of Serbia

Year	The average age of the population			Ageing index			Life Expectancy	
	Total	Male	Female	Total	Male	Female	Men Children	Women Children
1953	29.4	28.4	29.9	24.1	19.7	8.4	58.7	60.4
1961	30.5	29.6	31.4	28.7	24.4	33.3	62.4	64.9
1971	32.4	31.5	33.3	37.9	33.7	42.3	66.2	70.0
1981	33.7	32.8	34.6	39.7	34.3	45.4	67.8	72.6
1991	34.9	33.9	36.0	51.5	43.9	59.5	68.8	74.4
2002	40.2	39.0	41.5	99.1	84.2	114.8	69.7	75.0
2003	40.3	39.0	41.5	99.5	84.4	115.3	69.9	75.1
2004	40.4	39.1	41.7	100.4	84.9	116.6	69.9	75.4
2005	40.6	39.3	41.8	100.6	84.9	117.2	69.9	75.4
2006	40.7	39.4	42.0	101.4	85.4	118.2	70.6	75.9
2007	40.9	39.6	42.2	103.2	86.9	120.3	70.7	76.2
2008	41.1	39.7	42.4	105.9	89.3	123.4	71.1	76.3
2009	41.2	39.9	42.5	108.6	91.7	126.4	71.1	76.4
2010	41.4	40.0	42.7	111.4	94.2	129.6	71.4	76.6
2011	41.6	40.2	42.9	114.3	96.8	132.9	71.6	76.8

Source: Statistical Office of the Republic of Serbia (2012).

Demography, vital statistics.

CONCLUSION

The global economic crisis clearly indicates that it is completely necessary to reanalyse the economic patterns and science in general.

Modern Neoliberalism through a doctrine became an ideology, based on values of classic liberal capitalism that ignores any national individuality or characteristic, social responsibility, ethic norms and moral principles. Such society organisation system where profit, capital and market are the most important and self-sufficient goals and man with once specified position in society that provided him self respect and security now is brutally degraded and treated as object, as product. The sense of injustice, poverty, social detachment, humiliation, being a cast off with no perspective, treated like product input, insecure and chronically frightened had a deep impact on people's psychological stability and direct destruction of traditional family.

Neoliberal globalisation begins with destruction of the family and ends with destruction of complete sovereign country leaving the space for world oligarchy and transnational companies to control and use limited resources of the country like: raw materials, oil, fresh water, cultivated terrains, experts and highly educated personnel, neutral media services.

The negative results of applied "transition" strategy, reflected in application of neoliberal economic model, are legal product of contradictions of any capitalistic production manner directed to profit gaining and unpaid work accumulation. That is one of the main reasons of contemporary dramatic situation in Serbian economy and even demographic situation. In order to minimise the development potential risks and biologic survival risks in Serbia we suggest and indicate the necessity of new economic model introduction.

Serbian modern society “a society of the irresponsible ones” in order to survive has to remember that man and his wellbeing are to be in the focus of economic activity, life promotion, giving birth, creation of healthy patriotism, unselfish love, primal freedom, individual’s valuable creativity. Above everything The Serbs must remember to respect and praise The Holy Orthodox Church and original moral and traditional values.

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EKONOMSKA KRIZA I AKTUELNI PROBLEMI SRPSKE PORODICE

Savremeno društvo i svetska privreda nalaze se u dubokim protivrečnostima postojećih procesa i odnosa, u velikim društvenim nejednakostima, sa neravnopravnim i nejednakim šansama za društveno-ekonomski razvoj, u izraženim sukobima različitih konfliktnih grupa i interesa. Nejednakim rasporedom prirodnog bogatstva, ekonomske i političke moći, radikalizovan je problem privrednog rasta i razvoja, pre svega manjih zemalja i zemalja u razvoju. Kriza je, danas, u Srbiji vidljiva bezmalo u svakom segmentu društvenog života. Nezaposlenost raste, baš kao i kriminal, korupcija i razni vidovi društvene patologije. Nasilje je sve izraženije i opasnije, a širenjem osećaja besperspektivnosti, mnogobrojni vidovi bolesti zavisnosti sve su učestaliji. Obrazovanje je sve skuplje i nedostupnije, a šanse za zaposlenje i društveni uspeh obrnuto proporcionalni stečenom znanju. Iz godine u godinu natalitet opada. Broj onih koji napuštaju Srbiju je sve veći. Koreni izrazito loše ekonomske situacije u Srbiji ne nalaze se samo u nasleđenim sistemskim problemima, raspadu SFRJ i njenog tržišta, sankcijama, agresiji i razaranju privrednih i infrastrukturnih objekata od strane NATO pakta, već ponajviše i prevashodno u prihvatanju i bezpogovornom sprovođenju, po Srbiju, pogubne ekonomske doktrine, uobličene u konceptu neoliberalnog modela ekonomske politike. U radu, autori, s ciljem minimiziranja potencijalnih razvojnih rizika i rizika biološkog opstanka stanovništva Srbije u budućnosti, iznose stav da neoliberalna globalizacija počinje s rušenjem porodice, a završava sa rušenjem nacionalnih država. Tu trdnju potvrđuju aktuelna demografska i razvojna kretanja u Srbiji.

Ključne reči: ekonomska kriza, neoliberalna globalizacija, država, porodica, Srbija.

MIGRATION AS A FACTOR OF CHANGING THE ECONOMIC AND DEMOGRAPHIC PROFILE OF THE EUROPEAN UNION

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Abstract. *In the age of raising global migration flows and increased mobility of the labour force in the world, there is a need to understand the main determinants of this phenomenon and to direct the focus of migration research to the various challenges it brings. This is a very important theme, especially in Europe, because 2014 and 2015 were the years of the highest number of immigrants, since WWII. Migrants are economic migrants and refugees, but in unique term they are asylum seekers as they want to stay, live and work in EU countries. Their population structure is quite different from that of EU population: they are young and in optimum reproductive and working age. Is that going to change not only quantitative, but also qualitative characteristics of population living in EU countries which are facing population decline or stagnation, low fertility rate, ageing and lack of labor force? Can we expect the redistribution of EU population due to intensive migration flows in certain countries, or a change in religious structure of the continent? Those are the questions of great importance because the migration flows today are shaping the future of EU population.*

Key words: *migration, labour force, refugees, asylum seekers, economic migrants*

JEL Classification: J61, J19

INTRODUCTION

International migrations are an increasingly important element of contemporary demographic dynamics and due to its high volatility, it remains the most unpredictable element of population change (Coleman, 2008). Today, the world is facing mass migration flows, which are the most obvious indicator of globalization process. The voluntary and

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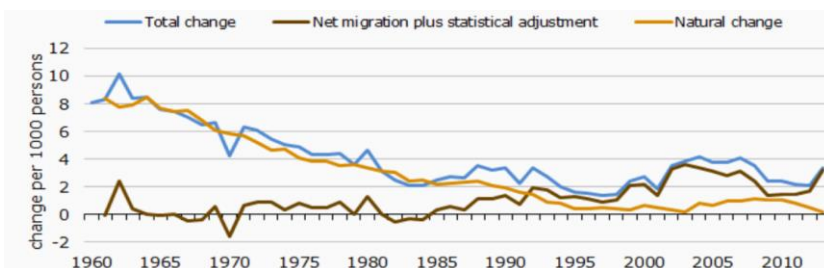
irregular migrations are the main demographic factors that are shaping nations and states worldwide. More than 230 million people are international migrants, which represents 3% of total world population. But together with internal migrants that number reaches 1 billion people which means that every 7th person in the world changed their place of residence. More than 60 million people around the world in 2014 had been forced to flee their homes due to armed conflict, violence, environmental stress and were living in displacement within or outside of their home country. That is the largest number of displaced persons since WWII with 33 millions IDPs and 16 millions refugees. This includes 11 million people who were newly displaced during the year in comparison to 2013, the equivalent of 30.000 people a day (UNHCR, 2015).

Europe is facing highest peacetime level of migration flows for centuries, both in absolute numbers and in relation to population size. It is the dominant factor of changing demographic characteristics determining the size, spatial distribution, rate of change, and composition of the most EU countries, and also affects the age-structure of their population (Coleman, 2008). In this paper we will analyze the contemporary migration flows to EU, pointing out how the qualitative and quantitative characteristics of migrant population can affect the current demographic profile of EU. Also, the diversity and importance of migration to and within EU with all its consequences to contemporary and future demographic development will be emphasized.

1. POPULATION DYNAMICS OF EU – MAIN TRENDS AND CHARACTERISTICS

On 1 January 2015, the population of the European Union was estimated at 508.2 million which was 70% of population living in whole European continent. Compared to the data from 1 January 2014 (506.9 million), that is the increase of 1,3 million people. However, between 1960 and 2015 the population has increased by 100 million people. In the same period the share of the world's population living in EU members states fell from 13,4 % to 7,1 %.

In 2014 EU as a whole recorded a positive natural change of its population of 0.2 million or 0,4‰. That was two times higher than in 2013. The crude birth rate was 10.1‰ or in absolute terms 5.1 million births. The highest crude birth rates were recorded in Ireland (14.4‰) while the lowest were registered in Portugal (7.9‰). The crude death rate was 9.7 ‰ or 4,9 million deaths. The highest crude death rate was in Bulgaria (15.1 ‰), while the lowest was in Cyprus (6.2‰). The highest positive natural change of the population was registered in Ireland (8.1‰), Cyprus (4.7‰), France and Luxembourg (both 4.0‰), United Kingdom (3.2‰). Among the eleven EU Member States which registered a negative natural change in 2014, the largest were in Bulgaria (-5.7‰), Romania (-3.5‰), Latvia and Lithuania (both -3.4‰) and Hungary (-3.3‰) (www. epp.eurostat.ec.europa.eu).



Graph 1 Population change by component, EU 28, 1960-2013. (Eurostat, 2015.)

The contribution of net migration to total population growth has exceeded the proportion of natural increase since 1992 and became the main determinant of population growth. Compared to 2012, the natural change halved and net migration doubled. In terms of crude rates in 2012 net migration was 1.7 and a year later 3.4 ‰. It peaked in 2003 (95% of total population growth), decreased to 57% in 2009 and peaked again at 95% in 2013. Conversely, the proportion of natural change in total population growth declined from 43% in 2009 to 5% in 2013.

Considering the previous data it is obvious that countries in the eastern part of EU are facing population decline from very low and sustained fertility levels and negative net migration, while in western part the number of population is growing because of the attractiveness and opportunities to migrants. In some countries of Western Europe immigration is driving up population growth. The examples are Germany and Italy, countries with total population increased in 2015, even in spite of negative natural change, meaning that the population growth was driven by net migration. On the other hand, the Member states on the east recorded slow or reverse decline. In some countries in the east emigration predominates and accelerates the reduction of numbers arising from natural decrease (Graph 2; Coleman, 2008).

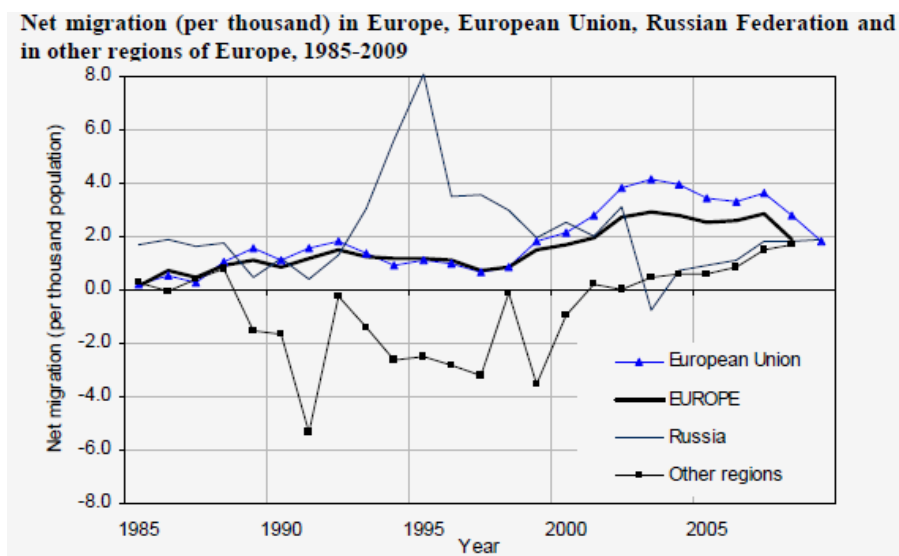
2. MIGRATION PATTERNS IN THE EU – MACRO FLOW, MICRO MOTIVES

The history of Europe has been shaped by migration, either across continent, beyond it, or (increasingly) into Europe (Moses, 2011). Since the Age of great discoveries until the second half of the XX century, Europe was continent of emigration, mainly into the New World, but also in colonies in Asia and Africa. That means that for most European countries, large scale of immigration is a more recent phenomenon (Hall, 2000).

In the second half of the XX century two main types of migration formed new, ethnically different population in advanced Europe industrial countries: "guestworkers" and "colonial workers" (Castles & Miller, 2009, p. 97). The rapidly expanding economies of the West utilized the labour reserves of the less developed European periphery: Mediterranean countries, with strong influx of labour force from Turkey and North Africa. Also the former Yugoslavia was a one of the major sources of guest workers, especially from the eastern part of Serbia (Šantić et al, 2016). On the other hand, migrants from former colonies were important for Britain, France and the Netherlands. In the period 1945-1973 the number of foreign workers in Western Europe doubled from 3 to 6% of the total labour force (Hall, 2000). Economic motivations for migration were predominant, but that led also to family reunion and formed very strong chain migrations, which caused the formation of new ethnic minorities.

The fall of the Berlin Wall (1989), ending of the Cold War (1991) together with process of globalization brought a new phase in European migration patterns. Transformation in both North and South regions worldwide increased the pressure to migrate and generate new forms of mobility: decline of organized labour migration in Western Europe, family reunion of former foreign workers, transition of many countries of, so called, EU periphery to countries of immigration, shifts in the origin and forms of migration, emerging forced and irregular migration, increase in the international mobility of highly qualified persons (Castles & Miller, 2009).

Since 1991, the migration component became the major factor in increasing the EU population and exceeded the value of the natural growth rates. Political obstacles have ceased to exist and the people start to migrate from Central and East Europe toward the West. The enlargements of the European Union eastwards in May 2004, January 2007 and July 2013 completed a geo-political shift in post-1989 Europe that in terms of the migration and mobility of population poses the biggest demographic change in Europe since the end of the WWII. Migration issues played a significant role in the negotiations with new and future member states, greatly contributing to differentiation within the countries of Central and Eastern Europe. (Favell, 2008). The growing role of the EU in the field of migration has contributed to the strengthening and expansion of the migration system, concentrated around the countries of the Union. Significant shift in migration patterns in the first decade of XXI century can be explained by more restrictive migration policies, both at the level of the European Union and within its Member States. Also, spreading economic recession and unemployment which started in 2008 caused significant drop in the scale of migration flows (Graph 2).



Graph 2 Net migration in Europe, EU, Russian Federation and in other regions of Europe

(Eurostat (2010), Council of Europe (2006), Rosstat (2009), Sobotka (2009))

The EU Member states are very important destinations of immigrants. In the period 1985-2008 net migration gain was 22 million immigrants or one million per year on average, with a strong acceleration after 2000, which marked the beginning of a new era of the EU as a major immigration destination. Immigration has become the main driver of population increase, because two-thirds of the EU population growth were attributable to migration. But, at the same time, European regions are very diverse in their immigration and emigration levels and trends, with many Eastern European countries losing population due to emigration (Sobotka, 2009). In 2013 3.4 million people immigrated, while 2.8 million

emigrants were reported to have left an EU-28 Member State. In the most states a higher number of immigrants than emigrants was recorded. Germany is the country with the largest absolute net migration among the Member States, with 592.200 persons in 2012, followed by the UK (498.000), Italy (350.000), France (327.400) and Spain (304.100). States in which the amount of net migration is less than 10.000 are: Croatia, Malta, Slovakia. The exceptions are Bulgaria, Poland, Romania and three Baltic republics: Estonia, Latvia and Lithuania. In absolute numbers, Spain, Germany and the United Kingdom received the largest number of migrants, which amounts to more than half of the total number of migrants in the European Union. The biggest decline in the number of immigrants was recorded in Italy (100.000 people), and, on the other hand, the largest increase recorded in Germany (200.000 persons). In relation to the total population, Luxembourg has the highest share of migrants, as much as 36%, which means that every third inhabitant of the country is immigrant (80% of all immigrants are from EU member states). In the same period, it recorded the highest rate of emigration: 21% (<http://epp.eurostat.ec.europa.eu>).

The first decade of the twentieth century is characterized by large migration waves both from EU member states, and from other countries worldwide. Among 3.4 million immigrants moving to and between the EU in 2013, 1.4 million citizens were from non-member countries, 1.2 million people with citizenship of a different EU Member State from the one to which they immigrated. On 1 January 2014, the number of people living in the EU-28 who were citizens of non-member countries was 19.6 million (3.9% of the EU-28 population), while the number of people living in the EU-28 who had been born outside of the EU was 33.5 million, an estimated 6.6 % of the population were foreigners. It is important to emphasize that at the beginning of XXI century the number of foreigners living in EU-27 has increased by 10.2 million. People born outside the EU-28 outnumbered persons without the citizenship of a Member State in all EU- 28 Member States except the Czech Republic. In absolute terms, the highest numbers of non-nationals were in Germany (7 million), United Kingdom (5 million), Italy (4.9 million), Spain (4.7 million) and France (4.2 million). Non-nationals in these five Member States collectively represented 76% of the total number of non-nationals living in the EU-28, while the same five Member States had a 63% of the EU's population (www.eurostat.eu).

But from where are people coming to EU? Slightly more than half of the total number of immigrants originating from EU member states, in a first place from: Romania (384.000 persons), Poland (266.000) and Bulgaria (98.000). It is obvious that there is a clear division, within the EU, in net migration between the 'older' members (15 EU countries as of 2003) and the 'new' member states (12 countries of which only two, Cyprus and Malta, do not belong to the post-communist societies). The EU-15 countries have been attractive for immigrants because of their economic development, which surpassed their small natural increase ever since 1989. In contrast, most of the 'new' member states have recorded both negative net migration (since the late 1980s) and negative natural population increase (since the mid-1990s), resulting in a continuous population decline. Exceptions are Czech Republic, Hungary and Slovenia, who have recorded considerable immigration after 2000.

Considering the immigrants from non EU – 28, there were significant changes in the countries of origin. In the first decade of new millennium, most migrants were coming from Morocco (157.000), followed by residents of China (97.000), India (91.000), Albania (81.000) and Ukraine (80.000). The largest number of Moroccans immigrated to Spain (94.000) and Italy (37.000), while most Chinese chose Spain (27.000). The main destination for the people from India was the United Kingdom (<http://epp.eurostat.ec.europa.eu>). But in the

last five years there have been considerable changes. Due to the wars in MENA region, population pressure in Sub Saharan Africa and worsening the economic situation due to global economic crisis, Southern Europe became an example of a massive immigration fueling the strongest population increase in Europe. Refugees and economic migrants are coming from Syria, Afghanistan, Iraq, Iran, Eritrea, Somalia, and many other Asian and African countries. The highest pressure of immigrants is in Greece, Italy and Spain, countries at the external EU borders. Those migrants usually represent the asylum seekers whose number in 2013 was 435.000, increasing to 626.000 in 2014 and over a million in 2015. Among those who are seeking asylum in the EU-28 in 2014, the highest number were from Syria (122.000), followed by Afghanistan, Eritrea and Serbia (each accounting for between 31 and 41.000 asylum seekers). In 2015 the highest number of asylum seekers was from Syria (180.000), then Afghanistan (80.000), Iraq (50.000), Albania, Pakistan, Eritrea. Most of those refugees went to Germany, Sweden and Austria. The conflict in Syria continues to be by far the biggest driver of the migration. But the ongoing violence in Afghanistan, Iraq, abuses in Eritrea, as well as poverty in many other countries are also leading people to leave their countries. Because of the rapid increase of refugees there is a rising tension in EU Member States, especially the ones with the highest influx of asylum seekers. That is why the EU ministers voted to relocate² 120.000 migrants from Hungary, Italy and Greece over 2 years period: in Germany 30.000 migrants, in Britain 20.000, but within 5 years and directly from Syria, in Sweden 2.700. But many EU countries, especially at the East refuse that relocation plan because their governments think that migration is a burden to their economy (Carrera & Guild, 2015; <http://epp.eurostat.ec.europa.eu>).

It is important to emphasize that given data of total immigrants residing in EU member states are underestimated, because they do not include undocumented immigrants. Quantifying the size of undocumented migration is difficult as EU member states do not apply comparable internal apprehension practices, and comparison of country-specific migration. Number of immigrants irregularly residing in the EU 15 countries are different: ranged between 1.8 and 3.3 million in 2008 (Kovacheva & Vogel, 2009), and 10.8 million (Hoefer et al., 2010). That means between 7% and 28% of total migrants were unauthorized immigrants.

3. THE IMPACT OF MIGRANTS ON THE EU ECONOMY

The old member states have, for many years, been an attractive destination for both the residents of economically less stable EU countries, as well as for the inhabitants of the Third world. The reasons why people migrate to the EU are different, but the European Commission points out that, since 1995, job search has become the main reason for the migration to the EU. Thus, higher earnings and better working conditions in the EU market are the main factor of modern migration within the EU (Gallardo et al., 2016).

When it comes to the impact of migrants on the economic changes within the EU, it is important to begin from the fact that the main driving force of migrants are economic

² Key to relocation plan:

- a) the size of the population (40%) as it reflects the capacity to absorb a certain number of refugees;
- b) total GDP52 (40%) as it reflects the absolute wealth of a country and is thus indicative for the capacity of an economy to absorb and integrate refugees;
- c) average number of spontaneous asylum applications and the number of resettled refugees per 1 million inhabitants over the period 2010-2014 (10%) as it reflects the efforts made by Member States in the recent past;
- d) unemployment rate (10%) as an indicator reflecting the capacity to integrate refugees.

factors. Even for refugees, who leave their home countries for mostly political reasons, the economic factor is important and difficult to separate. That this is actually so is shown in the data on tens and hundreds of thousands of Middle Eastern refugees, who chose Germany, Austria, Sweden or France as their final destination, as opposed to those who remained in Macedonia, Serbia or another economically weaker EU country (Bulgaria, Romania, Croatia).

As noted, the impact of the influx of migrants to the EU demographic conditions is one of the key problems that pressures European countries. However, changes in the economies of these countries, which are directly caused by the rapid increase in population, are equally important for the understanding of the issue of migrant crisis. The population that comes in the highest percentage belongs to the younger age group (children and labour contingent), compared to the European population that is aging, the migrant population is on average younger by almost 20 years. Although this primarily refers to refugees and not economic migrants, the impact on the European economy is no less drastic. Although the main cause of this type of migration is war conflict, the age structure of migrants more or less remains the same. In both cases it is a young population, the only difference being the fact that the gender structure of refugees is more uniform, while in economic migrants they are mostly men.

How significant the impact of migrants on the economy is, is best illustrated in the increase in the labor force of Europe in the last decade, with a migrant share of 70%. The arrival of migrants is at the same time both desirable and undesirable for the economies of European countries. With the arrival of fresh labour force, vacancies are being filled, especially in the 3D job sector (dirty, dangerous, difficult) that the resident population of the EU countries does not want to perform. On the other hand, the high influx of skilled and highly educated migrants as cheap labor suppresses educated locals. Of course, one must take into account that the influx of migrants affected the developed countries in such a way that, relatively soon after the Second World War, they became economic empires.

At that time, economic migrations corresponded to both emigrant and immigrant countries. This can be seen in the case of Yugoslavia, where, in a relatively short period, during the 1960s, a surplus of unskilled labour force was reported, because the influx of the rural population from rural to urban areas was disproportionate to the economic development. All that excess labour was directed towards Western Europe, which at that time had the opposite problem. Already in 1980s there occurred the saturation of the labor market in Western European countries, but not when it comes to educated migrants. The process of "brain drain" became particularly strong during the civil war in Yugoslavia, but continues even today with no less intensity. The EU member economies are affected not only by the fact that there is the increased inflow of unskilled labour, but also the fact that migrants come from areas with different cultures, customs and religious beliefs.

Precise parameters that might quantitatively show the impact of modern migration on economies of the EU countries can not be determined. What is possible to monitor is the number of migrants who reach the EU countries from countries threatened by war and poverty, and thus perform certain migrant impact assessment. For example, only in 2014 almost 285,000 migrants reached these countries, mostly Syrians, Eritreans and Albanians (Annual risk analysis, 2015).

4. HOW IMMIGRANTS ARE CHANGING EU POPULATION STRUCTURE?

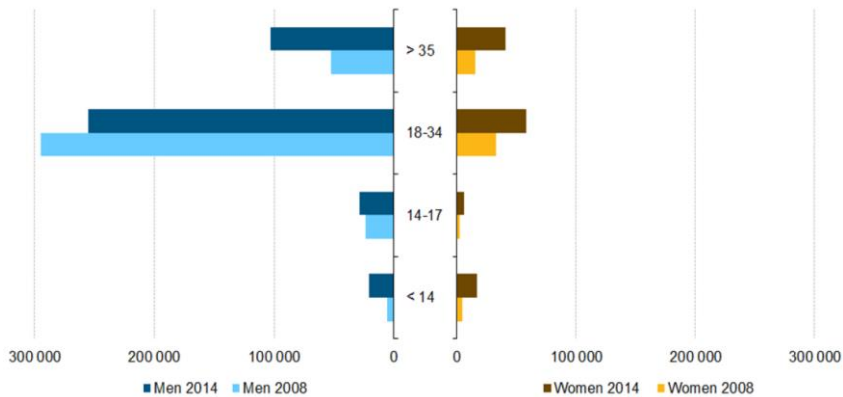
Migration flows have important demographic and economic implications on the development of EU Member states, primarily in transforming the main characteristics of their population for over a half of the century. Those countries are characterized by a low levels of fertility (SUF 1,5) which is in almost every country below replacement level (Ireland is an exception). Life expectancy is increasing and populations are aging, and fewer people in working age in future will have to support more elderly people (Castles, Miller, 2009). Ageing society represents a major demographic challenge for many economies. Falling fertility rates over several decades and a modest increase in the most recent decade, combined with the impact of the baby-boomer cohorts on the population structure causes greater gender imbalance within the EU-28 among older age groups (Eurostat, 2014).

Immigration to EU Member states is very heterogeneous in terms of the different recipients and countries of origin, ethnicity of migrants, as well as in terms of education. For instance, in Spain 47% of the foreign born residents are coming from Latin America, in France 40% of immigrants from North Africa, in Portugal, 45% of immigrants are from Africa and 21% from Latin America and in UK 29% of immigrants are coming from Asia (Dustmann, Frattini, 2012).

Those immigrants, especially from non-EU states, have different demographic characteristics. Foreign-born women tend to have more children. In 2008, 27% of foreign-born women lived in households with one dependent child, 19% with two dependent children, and 8% with more than two children (compared respectively to 24%, 16% and 4% of native-born women). It is important to mention the two different models of reproductive behavior: progressive within group of foreign-born women of Muslim confession and regressive or stationary model of native, predominant Christians. The higher levels of fertility among immigrants in future will cause the changes in both qualitative and quantitative characteristics, in the first place in number, age structure, religion. On the other hand, postponement of motherhood among native-born women may in part be attributed to increases in the average length of education of women, increased female employment rates, and changes in attitudes towards the position of women within society and the roles of men and women within families. (Dustmann & Frattini, 2012; Eurostat, 2015).

Regarding gender distribution in 2013, there were slightly more men than women immigrants (53 % compared to 47 %). The Member State reporting the highest share of male immigrants was in Slovenia (61 %) and the highest number of female immigrants was reported in Ireland (52 %). In Cyprus, for example, women outnumbered men among immigrants with Filipino, Sri Lankan and Vietnamese citizenship. On the other hand, in Italy and Spain women outnumbered men in the biggest group of immigrants (with Romanian citizenship in the case of Italy, and Moroccan citizenship in the case of Spain). In addition, among immigrants to Italy, women outnumbered men among citizens of Ukraine, Moldavia, Poland and Russia, while in Spain, the same applied for citizens of Pakistan and Senegal (Graph3; Eurostat, 2015).

Immigrants into EU Member States in 2013 were, on average, much younger than the population already resident in the country of their destination. The median age of the EU-28 population was 42 years. By contrast, the median age of immigrants to the EU-28 was 28 years. Apart from Poland, Latvia, Estonia, Lithuania, Romania, Slovenia and France, the foreign-born population tends to be younger than the native population. The youngest foreign-born populations reside in Iceland, Ireland, Finland and Spain.



Graph 3 The number of men and women immigrants, 2008-2014.
(Eurostat, 2015.)

Considering the levels of education there are certain regularities: "old" EU Member States are receiving an influx of highly educated, talented or (in any case) ambitious East Europeans, driven by the very positive selection mechanisms working in the European context (Borjas 1999). East European migrants are in fact regional 'free movers' and, with the borders open, they are more likely to engage in temporary circular and transnational mobility flow of economic demand. On the opposite side are quite different migration trends connected with the post-colonial, guestworker and asylum immigration that has proven such a long-term permanent immigration and asylum-seeking (Favell, 2008). The foreign-born population in the prime working age group of 25–54 tends to have a lower educational attainment than the native born population and they are marginally underrepresented at the high educational level and over-represented to a much greater extent at the low educational level. Only in Ireland the proportion of the foreign-born who are highly educated exceed 40%. Several countries tend to attract immigrants with a lower level of education (Portugal, Greece, Italy, Spain and France), where 40% or more of the foreign-born population have a low level of education. Those immigrants are predominantly positioned at the bottom of the wage distribution and they are employed in so called 3D jobs (Dustmann & Frattini, 2012; Eurostat, 2015).

Across all countries, it seems that immigrants are economically disadvantaged, even if we compare them to natives with the same characteristics. The reason for this is that institutions in EU countries have not yet been sufficiently adapted to accommodate foreign born individuals and with no clear immigration policy or strategies about the long-term integration into economic and social structures. This might be more a problem for non-EU immigrants, as EU laws facilitate access of EU immigrants to labor markets of EU member states (Dustmann & Frattini, 2012). More recently, certain migrant worker policies have focused on attracting highly skilled or educated migrants. EU member states are looking for better type of immigrants: better educated and possessing skills that can be adopted to modern and fast developing technologies (Bonifazi at all). This approach has been seen in several national programs (such as in Denmark, Germany, Sweden and the United Kingdom), and now forms the basis of the EU Blue Card Scheme. Student migration has become particularly important in some parts of the EU, with generally young adults migrating to take part in university courses and other educational opportunities (Eurostat, 2015).

Some predictions are that there will be lack of labor force in EU Member States for 10% every year if there will be no migration influx. According to available projections, the proportion of the population of foreign origin in some European countries will increase from 5–15 % to 15–30 % by mid-century. Such projections depend primarily on the assumptions about the level of international migration. EU will have in future an almost desperate structural need, in both demographic and labour force terms, for increased intra-European population movements. For the next 20–30 years, regardless of what happens to birth rates, this demand will persist; and if more countries come to very low birth rates and fertility levels, the situation will get worse. Who will fill these 3D ('dirty, dangerous and difficult') jobs? EU authorities argue for their neighbors from the East, who are likely to be temporary rather than permanent, and are ethnically 'similar'? (Favell, 2008) The EU thus must be seen as a concentric, territorial project in regional integration that has used its external partner agreements to set up new mechanisms of managing regional migration flows, while closing doors to others (Favell, 2008; Rogers, 2000).

The current context within which EU member states are drawing up their migration policies is complex and confusing. In recent years the EU has been actively trying to develop a common EU immigration policy because of the increasing number of irregular migrants entering Europe. But on the otherhand, Member States are simultaneously confronted with an ageing population that asks for policy responses to secure employment demands in the coming decades. By 2030 the labour shortage in Europe is predicted to rise to 8.3 million workers. Without migration, the EU's working age population will decline by 15 million this decade alone (2010–2020). To overcome these challenges, EU authorities have identified labour market integration of legal migrants and increasing the attractiveness of the EU as key priorities.

CONCLUSION

Some of the most rapid and radical changes in the history of European international migration have taken place over the last fifty years. New destinations, new regions and new flows emerged. European continent form predominantly emigrant turned to predominantly immigrant. Economic transition, political changes and ethnic conflicts have affected the size and directions of the EU migration flows. Restrictive immigration policies have produced the shift from the traditional migrant workers and their families to large flows of asylum seekers and undocumented migrants. As a result, different countries in Europe today are home to very dissimilar immigrant populations, in terms of origin, ethnicity and education (Bonifazi et al, 2008; Dustmann & Frattini, 2012).

Basic characteristics of the EU population are declining numbers, due to lower fertility rates below the replacement levels as well as an intensive process of population aging. Estimates are that by 2040 the population of the continent will decline, mainly in Romania, Germany, Bulgaria, Lithuania for almost 1/5 of the total population (www.worldpopulationreview.com). Patterns of migration flows can change greatly over time, with the size and composition of migrant populations reflecting both their current and historical patterns. Combined with the complexity and long-term nature of the migrant integration process, this can present challenges to policymakers who need good quality information on which to base decisions.

No one knows what will happen to asylum trends. One estimate puts the number of irregular migrants in the EU each year to 400.000. The probability is that wars and the economic crises will keep the asylum numbers high. But immediate attention in Europe is likely to shift back to more conventional labour-shortage recruitment. There will be no return to the open door policy of the 1960s, but the EU economy will require an increase in selective primary immigration.

The present xenophobia mainly spread with radical right-wing parties across EU Member states calls for restriction of migration because the foreigners at the doorstep are a threat for the creation of common EU identity and free labour mobility (Moses, 2011). There are initiatives for suspension of Schengen agreement, new controls on the borders, introducing quota systems, rising divergence between Christian and Muslim immigrants and selectiveness by main types of migrants (mainly between refugees and economic migrants). Nevertheless people are still coming to the EU Member States changing their demographic structure, facing EU governments with new challenges of integration and creation of multicultural society, instead of deportations and xenophobia.

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MIGRACIJE KAO FAKTOR PROMENE EKONOMSKOG I DEMOGRAFSKOG PROFILA EVROPSKE UNIJE

U vreme globalnog širenja migracionih tokova i povećane mobilnosti radne snage, postoji potreba da se razumeju glavne determinante ovog fenomena i da stavi akcenat na istraživanja migracija i izazove koje one donose. Ovo je veoma važna tema, posebno u Evropi, jer su 2014. i 2015., bile godine sa najvećim brojem imigranata, od Drugog svetskog rata do danas. Migranti mogu biti ekonomski migranti i izbeglice, ali univerzalni naziv je azilanti, jer oni žele da ostanu, žive i rade u zemljama EU. Njihova struktura stanovništva se prilično razlikuje od strukture stanovništva EU: oni su mladi i u optimalnom reproduktivnom dobu i radno sposobni. Da li će to promeniti ne samo kvantitativne, već i kvalitativne karakteristike stanovništva koje živi u zemljama EU, koja se suočava sa padom ili stagnacijom stanovništva, niskom stopom nataliteta, starenjem i nedostatkom radne snage? Možemo li očekivati preraspodelu stanovništva EU zbog intenzivnog priliva migranata u određenim zemljama ili promene u verskoj strukturi kontinenta? To su pitanja od velikog značaja, jer migracioni tokovi današnjice oblikuju budućnost stanovništva EU.

Ključne reči: *migracije, radna snaga, izbeglice, azilanti, ekonomski migranti*

Review paper

**THE IMPACT OF THE GREAT DEPRESSION (1929–1933)
ON TRADE RELATIONS BETWEEN THE KINGDOM
OF YUGOSLAVIA AND GERMANY**

UDC 338.124.4:339.5(497.1+430)''1929/1933''

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Abstract. *This paper examines the impact of the Great Depression (1929–1933), the biggest blow that the capitalist world had undergone in its history up to that point, on trade relations between the Kingdom of Yugoslavia and Germany. At that time, the trade relations were based on a trade agreement of 1927, which would be cancelled during the crisis and replaced with a new one in 1934. Germany skillfully used the difficulties that the countries of Southeastern Europe, including the Kingdom of Yugoslavia, suffered from the Great Depression regarding the marketing of their main export commodity, agricultural products. A contributing factor to this was the fact that France and Great Britain, the main partners of the aforementioned countries, were losing economic interest in this area, which enabled Germany to impose itself as the leading trade partner through the expansion of existing and the making of new trade agreements. A key factor in this process was the existing economic complementarity of the two countries, which gained special significance in the years following the crisis. In this sense, it can be said that the world economic crisis, i.e., its aftermath, combined with a general state of political affairs in Europe in the 1930s, ultimately contributed to the promotion of economic cooperation between the Kingdom of Yugoslavia and Germany and the strengthening of the ties between the two countries.*

Key words: *the Kingdom of Yugoslavia, Germany, trade relations, Great Depression*

JEL Classification: N54, N74

INTRODUCTION

The Great Depression, which started in October 1929 in the United States of America with the crash of the New York Stock Exchange, and then, due to the interconnected nature of the world economy, spread like wildfire onto other countries, was in its devastating impact an unprecedented event in the history of the capitalist world, hitting all the key areas of economic activity with equal force. The industrial crisis was followed by a crisis of agricultural production, which even surpassed it in terms of its territorial reach, as well as severe disturbances in the credit and financial mechanisms. The consequences of the crisis were especially dominant in the area of international trade exchange, manifesting themselves through the intensification of competition in the markets and growing protectionism (Popov, 1995, p. 30-33). Having this in mind, the severe and comprehensive nature of the Great Depression (1929-1933) meant that it had to leave its mark on international relations since it directly endangered the economic and political system built in the years following World War I and contributed to the shift of power in Europe (Cvetković, 2006, p. 119). The Great Depression (1929-1933) and its impact on the economy of the Kingdom of Yugoslavia was the topic of the following domestic historiographers (Vinaver, 1987; Vučo, 1968; Vučo, 1976; Lukač, 1976; Vučković, 1976; Pejić, 1976, etc).

Having united historical areas that used to belong to four different countries before World War I and have different kinds of political and economic development, the Kingdom of Serbs, Croats and Slovenes—Yugoslavia—was not able to overcome this inhomogeneity a decade after its unification, and its economy retained its colorful character during the entire period between the two wars (Aleksić, 2010, p. 15-16). Because of this, the Kingdom of Yugoslavia, or at least a greater part of it, failed to completely go with the trends of modernization which were present in Europe at the time (Đurović, 1993, p. 182). Throughout its existence, it retained the characteristics of a distinctly agricultural country, so the consequences of the Great Depression were the gravest in this sphere. In the field of agriculture, the crisis manifested itself in the same way as in the economy—by a rapid drop in product prices, primarily of grain, which was more than a serious problem for a country which was one of the European exporters of agricultural produce, along with Romania, Bulgaria, Hungary and Spain (Popov, 1995, p. 31). Another important consequence was the massive outflow of foreign capital from the Kingdom of Yugoslavia at the peak of the banking crisis in Europe during 1931 (Obradović, 1939, p. 18).

1. TRADE RELATIONS BETWEEN THE KINGDOM OF YUGOSLAVIA AND GERMANY BEFORE THE GREAT DEPRESSION (1925-1929)

Since Germany's national unification in 1871, German political and economic circles had an interest in the area of Central and Southeastern Europe in the context of creating a "Large Economic Space", which was considered necessary for the survival of the state and the nation (Ristović, 1991; Mitrović, 1974b). The loss of the colonies and the overseas territories after World War I, followed by the Great Depression, have largely intensified and spotlighted the aforementioned idea, only to particularly put this issue in the political foreground in the 1930s with the preparations of the Third Reich for war (Gašić, 2013, p. 9-10). In the so-called *Grosswirtschaftsraum project*, Yugoslavia was primarily accorded the role of a base for raw material, a food manufacturer and a market

for industrial goods (Đurović, 1997, p. 134). In an attempt to protect its interests endangered by the measures of agricultural protectionism, through which industrial countries tried to protect their own agriculture, the Kingdom of Yugoslavia formed the so-called “Agricultural Block” with Romania and Hungary during the Bucharest Conference in July 1930 (Vučo, 1968, p. 161-163) and, in a way, contributed to the realization of the German project (Đurović, 1993, p. 183).

At that time, the trade relations and the exchange of goods between the Kingdom of Yugoslavia and Germany were governed by the *Agreement on Trade and Navigation* signed on October 6, 1927, in Berlin (Službene novine, No. 288, 1927). This contract took effect by its mutual acceptance on December 17 of the same year, i.e. the day when the ratification instruments were exchanged (Đorđević, 1960, p. 25), and it was based on the usual principles of regular contracts of that kind that the Kingdom of Yugoslavia made with other countries, as well, i.e., the principles of free trade exchange and the most favored nation clause (AY, 335-99, p. 401).

Table 1 Germany’s participation in the export of the Kingdom of Serbs, Croats and Slovenes from 1925 to 1929 (millions of dinars)

	Year				
	1925	1926	1927	1928	1929
The Total Export of the Kingdom of Serbs, Croats and Slovenes	8,905	7,818	6,400	6,445	7,922
Export to Germany	639	724	679	779	675
Share in percentage	7.18%	9.26%	10.6%	12.1%	8.52%

Source: Jugoslavija 1918-1988: statistički godišnjak [Yugoslavia 1918-1988: a Statistical Yearbook], Belgrade 1989, 299-301.

The appended table shows that the export from the Kingdom of Serbs, Croats and Slovenes to Germany in the five-year period before the Great Depression, up to 1929, oscillated from 639 million dinars in 1925 to 779 million dinars in the year after the aforementioned trade agreement was signed. Seen in percentages, the value of Yugoslavian export to Germany in relation to its entire amount ranged between 7.18% in 1925 and 12.1% in 1928, which placed Germany among the most important trade partners of the Kingdom of Serbs, Croats and Slovenes, along with Italy, Austria and Czechoslovakia. It should be noted that until 1927, Czechoslovakia was in third and Germany in fourth place regarding Yugoslavian exports, while 1928 saw Germany climb to the third position (PAAA, R 240726/200).

Table 2 Germany’s participation in the import of the Kingdom of Serbs, Croats and Slovenes from 1925 to 1929 (millions of dinars)

	Year				
	1925	1926	1927	1928	1929
Total import of the Kingdom of Serbs, Croats and Slovenes	8,753	7,632	7,286	7,835	7,595
Import from Germany	866	918	899	1,067	1,188
Share in percentage	9.89%	12.02%	12.34%	13.61%	15.64%

Source: Jugoslavija 1918-1988: statistički godišnjak [Yugoslavia 1918-1988: a Statistical Yearbook], 299-304.

On the other hand, when a percentage of its part in the total import of the Kingdom of Serbs, Croats and Slovenes is taken into consideration, import from Germany was visibly and constantly growing in the aforementioned period. During 1928, Germany got into third place regarding the countries with the highest import into Yugoslavia with 13.61%, additionally securing this place in 1929, when its import of 15.64% meant it was just behind Czechoslovakia (17.5%) and Austria (17.43%) (PAAA, R 240726/199). At the same time, the Kingdom of Yugoslavia took second place regarding German export targeted towards the Balkans, with a German tendency and an expectation for Yugoslavia to replace Romania in the first place (PAAA, R 240726/200).

As far as the structure of the trade between Germany and Yugoslavia is concerned, the most important items exported to Germany by the Kingdom of Yugoslavia were copper, wood, eggs, corn, meat, grain and fruit, while German export into Yugoslavia mostly consisted of machines necessary for different economic activities and metallurgical products (PAAA, R 240726/217-219). A significant portion of the needs of the Kingdom of Yugoslavia was settled through Germany's execution of its war-reparation obligations (PAAA, R 240726/191).

2. THE IMPACT OF AGRICULTURAL CRISIS ON ECONOMIC AND POLITICAL MOVEMENTS IN EUROPE DURING THE GREAT DEPRESSION

The onslaught of the Great Depression caused a massive upheaval in the area of international traffic of goods. Due to a sharp drop in agricultural product prices in the world market, Germany was, like France and Italy, forced to take measures to protect its own agriculture, which encompassed introducing high customs, and different restrictions and limitation, which would ultimately lead to the revision or cancelling of a whole series of its trade agreements (AY, 335-99, p. 401). Until then, Germany, being a highly industrialized country, had not paid too much attention to developing its agriculture since it had been able to import those products easily and at an affordable price. The question of the agricultural crisis was foregrounded at the moment the Great Depression reached its peak since German agricultural manufacturers increasingly started feeling unrightfully sacrificed in favor of industrial manufacturers, which, in their opinion, turned out to be an obviously wrong idea. In order to mitigate their discontent, Germany had to introduce measures of agricultural protectionism (*Politika*, February 8th, 1931, No. 8174, p. 5).

At the same time, the crisis served as an excellent playing field for different political moves and combinations. Considering that the other states were too busy with their own economic issues and that they would not react to potential changes in the *status quo*, the German and Austrian governments worked on economic and political rapprochement in utmost secrecy during 1930 and 1931, crowning their efforts with an agreement on the "assimilation of customs conditions" and a joint trade policy of the two states, which was actually an agreement on the creation of a trade alliance between Germany and Austria. However, not only could this event not go unnoticed, but it also deeply concerned the European public. France considered this mentioned "economic Anschluss" as a precursor to the political annexation of Austria to Germany. Its intensive protests were joined by the Little Entente, especially Yugoslavia and Czechoslovakia, in line with the decisions made at the Bucharest Conference (May 3–5, 1931). Pointing to the political and legal unsustainability of the agreement, which, as a first step towards the Anschluss, was contrary

to the principles and provisions of the Peace Treaty of Versailles and St. Germaine, France and the Little Entente brought this issue up at the League of Nations Council, and it was finally resolved by the International Court of Justice in the Hague, whose negative decision was preemptively confirmed by Germany and Austria themselves by saying they gave up the project of a customs union. However, Germany used the Great Depression as an excellent opportunity for something even more important—its liberation from paying war reparations and rejection of the Young Plan, which failed mid-1932 (Popov, 1995, p. 273-276).

On the other hand, as an exporter of agricultural products, the Kingdom of Yugoslavia started facing increasing difficulties from 1930 onward. The basic factors that endangered its international economic position were the drop of agricultural product prices, reduced amounts of those products which it could export to foreign markets, as well as the decreasing propensity of foreign markets to accept agricultural products (Cvetković, 2006, p. 131-134).

The escalation of the agricultural crisis in 1931 and 1932 led to the deterioration of the economic position of the Danube Basin countries (Vučo, 1976, p. 47-48). The so-called “wheat problem” in the Danube Basin, the problem that the exporters of wheat and other grain faced when distributing their products in industrial countries that introduced the measures of agricultural protectionism, was additionally complicated by the fact that the escalation of the economic crisis led to a more intense overlapping of economic and political interests. Alarmed by Germany’s attempt at an “economic Anschluss” and wishing to preserve its political influence in Central and Southeastern Europe, France attempted to find a solution for the economic problems in the Danube Basin countries and stop the German breakthrough by uniting them in a single economic block (Vinaver, 1985, p. 214). The concrete realization of these tendencies was the project of the French Prime Minister André Tardieu presented to the League of Nations on March 2nd, 1932, which the contemporaries dubbed the Tardieu Plan (Cvetković, 2006, p. 128-129). This plan envisaged forming an economic block between Hungary, Austria, Czechoslovakia, Romania and Yugoslavia, which would be based on the system of preferential tariffs which the Danube Basin countries would grant each other regarding agricultural products (Vanku, 1976, p. 154). The plan should have ultimately lead to the economic stabilization of the Danube Basin through forming bonds among the mentioned countries, backed by French financial aid, and it was expected that Great Britain, Germany, and Italy would aid its execution. However, the great powers viewed the French motivation for this action with suspicion, looking for underlying political instead of economic interests (Cvetković, 2006, p. 129). The Tardieu plan was especially opposed by Germany since it considered that it would thwart their breakthrough to the Balkans and the Anschluss of Austria (Vanku, 1969, p. 65). Instead of that, it offered the signing of bilateral preferential agreements to the agricultural states of the Danube Basin (Vinaver, 1987, p. 138). However, the main reason why the Tardieu Plan could not succeed was the fact that the very countries that were to be part of it were not enthusiastic about it (Vanku, 1969, p. 65).

At the Little Entente conference held in Belgrade from May 15 to May 17, 1932, the members of this alliance discussed, among other things, the Tardieu Plan on the reorganization of Central Europe and reached the conclusion that it was good in theory, but that it was still far from realization. That was why they adopted the stance that solving the Central European economic and political issue needed to be left to the Danube Basin countries, with the affirmation of the great powers, but by no means under the influence of any of them

(Krizman, 1975, p. 63). In fact, at that time, Romania and Yugoslavia already started facing a dilemma: stand by France, to which they were tied by political interests, or turn to Germany, which was increasingly becoming the focal point of their economic interests (Cvetković, 2006, p. 130).

3. EFFECTS OF THE GREAT DEPRESSION ON THE TRADE RELATIONS BETWEEN KINGDOM OF YUGOSLAVIA AND GERMANY

Due to the crisis, the German market increasingly gained significance for the Kingdom of Yugoslavia, and after a rough 1931 and a disastrous 1932 regarding export, 1933 saw Germany and Austria become the most significant buyers of Yugoslav products, as opposed to the Italian and Czechoslovakian markets, whose share in the exports of the Kingdom of Yugoslavia declined (Cvetković, 2006, p. 130; Mirković, 1968, p. 373-374).

Table 3 Germany's participation in the export of the Kingdom of Yugoslavia from 1930 to 1934 (millions of dinars)

	Year				
	1930	1931	1932	1933	1934
The Total Export of the Kingdom of Yugoslavia	6,780	4,801	3,056	3,378	3,878
Export to Germany	791	543	345	471	598
Share in percentage	11.67%	11.31%	11.29%	13.94%	15.42%

Source: Jugoslavija 1918-1988: statistički godišnjak
[Yugoslavia 1918-1988: a Statistical Yearbook], 299-301.

At the same time, the value of German import in the Kingdom of Yugoslavia decreased during the Great Depression, and its share in the total Yugoslav import reached its lowest value in 1933 (13.15%). Yugoslavia had an active balance of trade with Germany during 1933 and 1934, achieving a surplus of 92 and 101 million dinars respectively. The cause to this should be primarily sought in Germany cancelling its war reparations, since the liabilities in Yugoslavia's trade with Germany up to that moment consisted of Germany's consignments on account of reparation payments, as import that did not have an adequate counterpart in the regular balance of payments (Đorđević, 1960, p. 27).

Table 4 Germany's participation in the import of the Kingdom of Yugoslavia from 1930 to 1934 (millions of dinars)

	Year				
	1930	1931	1932	1933	1934
Total import of the Kingdom of Yugoslavia	6,960	4,800	2,860	2,883	3,573
Import from Germany	1,221	925	506	379	497
Share in percentage	17.54%	19.27%	17.69%	13.15%	13.91%

Source: Jugoslavija 1918-1988: statistički godišnjak
[Yugoslavia 1918-1988: a Statistical Yearbook], 299-304.

However, at that time, the trade agreement between the two countries from 1927 was no longer in effect. The aforementioned need of Germany to protect its own agricultural

production in the midst of the crisis encountered problems due to fixed custom rate items that certain trade agreements contained, and that was the reason why it eventually had to cancel them. As far as the Kingdom of Yugoslavia was concerned, a fixed custom rate for eggs forced Germany to cancel the *Agreement on Trade and Navigation* in September 1932 (AY 38-860-1044, 1932). So, after the end of a six-month cancellation term, on March 6, 1933, Yugoslavia stopped having a contractual relation with Germany, which was a state that lasted until August 1 of the same year, ending in a provisional agreement concluded in the form of the exchange of notes, which regulated trade relations based on the most favored nation status (AY 334-386-1213), while payments between the countries were performed based on a clearing agreement of September 13, 1932, between the National Bank and the Reichsbank (AY, 335-99, p. 401).

The Nazis coming to power in Germany in January 1933 introduced new components into its trade, and especially its agricultural policy. It was in one of the first government sessions of the Nazi regime, held on April 7, 1933, that the German Minister of Foreign Affairs, Konstantin von Neurath presented the basic guidelines of the Reich's international policy, emphasizing the importance of assuring political and economic influence in the countries of Southeastern Europe, primarily Romania and Yugoslavia. Not long after that, experts from corresponding ministries submitted to Hitler a *Note on the State and Outlook of the German Export*, which labeled the general trade exchange of Germany, especially the segment with the countries of Southeastern Europe, as unsatisfactory. The document emphasized the necessity of preserving natural ties with this area, despite the fact that German foreign trade balance was passive, and appealed to the government to mitigate the existing export limitations and protective customs in order not to cut the achieved trade flows. Further specification of the economic strategy was agreed on the session of the Reichstag held on October 4, 1933, when they ratified the conception of connecting the economies of Southeastern Europe countries into a unique market, i.e. economic space, in which Germany "could achieve the status of a leading state through its technology, its entrepreneurial spirit and its talent for organization" (Mitrović, 1974a, p. 227-234).

In accordance with these guidelines for starting an active trade policy, concrete steps were made towards the promotion of economic cooperation and expanding trade exchange with countries from Southeastern Europe through updating and renewing trade relations and the existing contracts with them (Lukač, 1976, p. 66).

In the case of the Kingdom of Yugoslavia, the interim agreement of 1933 was replaced by a definitive and permanent agreement signed on May 1, 1934, in Belgrade (Službene novine No. 123, 1934). This agreement was based on the most favored nation clause for all relations in the field of trade, navigation, and citizen mobility (Đorđević, 1960, p. 140-141). According to the then Minister of Trade and Industry, Juraj Demetrović, its main significance was reflected in its large scale basis and its longer (two-year) term, which was supposed to introduce stability and the prerequisites for a peaceful development into the trade relations between the two countries (AY 38-860-1044, 1934). The Agreement, among other things, envisages the establishment of a permanent Yugoslav-German economic committee, which would meet at least once a year, and whose task would be to discuss issues relating to the implementation of the agreement, work on the expansion of mutual trade, and care about adapting Yugoslav production to the needs of German imports (Đorđević, 1960, p. 147). The essence of the said trade agreement was the fact that through it Germany would, not without certain financial sacrifices, commit to purchasing large amounts of Yugoslav agricultural products at high prices, but on a clearing

basis, thus providing its industrial goods with a safe market. The implementation of this agreement brought about significant relief and benefits to Yugoslav farmers; however, on the other hand, the dependence of the Yugoslav economy on the Third Reich it caused started to be noticed as early as 1935 (Popov, 1995, p. 332).

Once started, this change in the foreign trade orientation of the Kingdom of Yugoslavia was not transient; on the contrary, it led to its growing economic reliance on Germany in the following years (Aleksić, 1998, p. 66).

CONCLUSION

It can be said that the Great Depression, i.e., its aftermath, combined with a general state of political affairs in Europe in the 1930s, ultimately shifted the Kingdom of Yugoslavia's orientation towards Germany, which contributed to the promotion of their economic cooperation and the strengthening of the ties between them. A key factor in this process was the existing economic complementarity of the two countries, which gained special significance in the years following the crisis. Germany skillfully used the difficulties that the countries of Southeastern Europe, including the Kingdom of Yugoslavia, suffered from the Great Depression regarding the marketing of their main export commodity, agricultural products. A contributing factor to this was the fact that France and Great Britain, the main partners of the aforementioned countries, were losing economic interest in this area, which enabled Germany to impose itself as the leading trade partner through the expansion of existing and the making of new trade agreements.

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UTICAJ SVETSKE EKONOMSKE KRIZE (1929-1933) NA TRGOVINSKE ODNOSI KRALJEVINE JUGOSLAVIJE I NEMAČKE

U ovom radu razmatra se uticaj svetske ekonomske krize (1929-1933), kao najvećeg potresa koji je kapitalistički svet doživeo u svojoj dotadašnjoj istoriji, na trgovinske odnose Kraljevine Jugoslavije i Nemačke, zasnovane u to vreme na trgovinskom ugovoru iz 1927. godine, koji će za vreme krize biti otkazan i 1934. godine zamenjen novim. Nemačka je vešto iskoristila teškoće na koje su zemlje evropskog Jugoistoka, uključujući i Kraljevinu Jugoslaviju, nailazile pri plasmanu svojih poljoprivrednih proizvoda, kao glavnog izvoznog artikla, za vreme svetske ekonomske krize, što joj je, uz istovremeno slabljenje ekonomskog interesa njihovih dotadašnjih glavnih partnera – Francuske i Velike Britanije za ovaj prostor, omogućilo da im se proširivanjem postojećih ili sklapanjem novih ugovora nametne kao vodeći trgovinski partner. Ključni faktor u tom procesu bila je, od ranije prisutna, komplementarnost privreda dveju zemalja, koja je u godinama nakon krize posebno dobila na značaju. U tom smislu, može se reći da je svetska ekonomska kriza, odnosno njene posledice, u kombinaciji sa sveopštom konstelacijom političkih prilika u Evropi tridesetih godina 20. veka, u krajnjoj liniji doprinela unapređenju privredne saradnje Kraljevine Jugoslavije i Nemačke i produbljanju njihovih veza.

Ključne reči: *Kraljevina Jugoslavija, Nemačka, trgovinski odnosi, svetska ekonomska kriza*

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