

SERBIAN ECONOMIC RESTRUCTURING AS DETERMINANT OF EUROPEAN INTEGRATION

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Abstract. *In recent decades, the integration processes in Europe, have had a strong influence on macroeconomic dynamics and changes in the sectoral structure of economies of the countries that are involved in them. There are significant differences in the economic structure of EU member countries and especially countries in transition. The strategic objective of the Republic of Serbia, late transition country, is the EU membership.*

The economic structure of Serbia, or the participation of industries and sectors in the formation of domestic product, has not significantly been changed in the last three decades. In future, Serbia needs a modern economic development, which involves the development of prosperous sectors and industries that have the appropriate level of demand. The restructuring of the Serbian economy to market principles will contribute to the economic inclusion of Serbia into the European development processes. The aim of this paper is to point to the necessity of structural adjustment of Serbian economy to contemporary business conditions, on the path of EU accession.

Key Words: *economy of Serbia, restructuring, sectoral reallocation, integration, EU.*

INTRODUCTION

Transition and economic reforms of the Serbian economy entered their eleventh year. Like at the beginning of the third millennium, the Serbian economy is now also at an important crossroads. The initial macroeconomic successes, based on the establishment of stabilization, have given results. However, sustainability of achieved results has become questionable by the existence of inflation, trade deficits, excessive public expenditure and low level of competitiveness of Serbian economy. The development of Serbian economy in these conditions, along with years of sanctions, war events and political turmoil, caused serious structural problems.

The economic structure of Serbia after 2001 changed in favour of the service sector having the largest sectoral share in GDP creation in the current year. Also, the Serbian economy has recorded relatively high average rates of economic growth. Achieved economic growth was based on expansion of domestic demand, high current account deficit and the enormous borrowing abroad. The world recession as well as domestic economic recession in 2008 and 2009 only further exposed many imbalances and systemic distortions, especially of structural character, or the presence of problems in the applied model of economic growth and development.

Given that the economic crisis will take time, which means that Serbia in the near future cannot expect again a significant inflow of foreign capital, it is necessary to find new sources of funding for economic development. It should be turned towards domestic savings, investments and development of real sector that only in the medium term can provide a multiple exports increase, reduction of unemployment and increase of real living standards.

The results achieved in the economic development of Serbia indicate that the model of economic development must be fundamentally changed. Development policy in future should be based on market-oriented economy and export. In order to achieve this, structural reforms in the Serbian economy are necessary. Serbia Economic Restructuring involves comprehensive changes in many areas: the production structure, finances, property - legal relations and organizational solutions at micro and macro levels.

While seeking answers to what future economic development of Serbia should be, the global economic structure of the EU and Serbia will be presented in this paper, as well as necessary changes in the economic structure of Serbia being a necessary condition for European integration. Unfortunately, much needed changes in the economic structure will be carried out under extremely adverse conditions, because the global economic crisis has more than halved the foreign direct investments and significantly reduced the volume of exports. A significant limitation is mirrored in the fact that the level of national savings is not significant enough to initiate a wave of investments in Serbia. However, despite these adverse circumstances, Serbia has no choice. Further economic development based on the model applied so far would result in growth of unemployment, debt, poverty and reduction of the already low living standard.

COMPARATIVE ANALYSIS OF THE ECONOMIC STRUCTURE OF THE EUROPEAN UNION COUNTRIES AND SERBIA

The beginning of the new millennium was marked by significant changes that took place at the global level. Certainly, the most important are changes in the socio – economic units and the processes developing simultaneously in this sense provide a visible seal to the overall social development. The global economic crisis has significantly affected the change in the economic structure of the EU.

The global financial system, which had major problems, has greatly contributed to both the collapse of the banking system and the decline in share prices in almost all EU countries. In addition, there has been a decline in demand, production, employment, and as a result of all this there was a significant drop in gross domestic product in all European economies. During the current year, there has been a recovery of some economies of the EU, although some are in even greater problems.

Economic structure of EU will be observed across the threesector model, which does not say much about the structure of individual member states. Almost all EU Member States have a modern economic structure, in terms of highest share of tertiary sector in the structure formation of GVA. The following graph supports this fact:

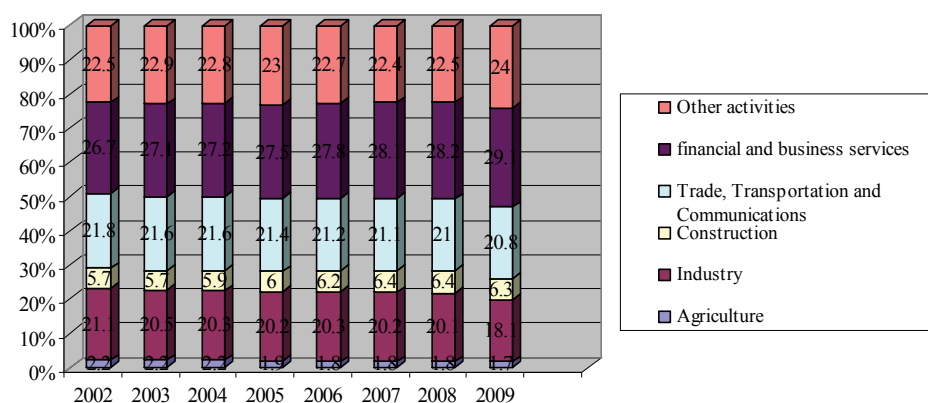


Chart 1. Share of individual sectors in the structure of GVA EU – 27

Source: Eurostat, Statistical books, European economic statistics 2010, page 35

The displayed graph clearly indicates the participation of individual sectors in the economic structure of the EU, therefore it is clearly seen that the most important part of it is that of the service sector, which at the EU level exceeds 75%. Industry is in the second place, with a share of about 23%, and at the end is agriculture with a share of about 2%.

Serbia at the beginning of the third millennium has made many positive economic results, which are attributed to the number of changes, but can also be attributed to the extremely low starting base. In the long run the industry sector was the main factor of rapid economic development. The process of transition, which began after 2000, did not lead to structural changes of the Serbian economy and the growth of competitiveness. After long-term isolation the Serbian economy faced strong competition and the effects of globalization of world economy, with serious consequences for the most important development indicators.

Much – needed institutional reforms in the Serbian economy have taken place much more slowly in relation to economic reforms. However, in the period after 2000 Serbia has achieved a growth rate of GDP growth, as shown in the following table:

Table 1. GDP growth in the economy of Serbia, 2001 – 2010

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP, real growth in %	5,3	4,3	2,5	9,3	5,4	3,6	5,4	3,8	- 3,5	1,8

Source: <http://www.mfin.gov.rs/UserFiles/File/tabele/2011%20maj/Tabela%201%20Osnovni%20makroekonomski%20indikator.pdf>, date of access 30.06.2011.

Presented data clearly show us that since the beginning of transition, except in 2009, positive economic growth rates were achieved, together with increasing fiscal and trade deficit, very low domestic savings, growing external debt, and a high average rate of inflation. The main characteristic of the developmental period of Serbia from 2001 to 2008 is a constant economic growth, with average growth rates of 5.0%. Expressive effect of the global economic crisis and the influence of domestic structural problems caused the economy to enter a recession. The economy of Serbia in 2009 recorded a negative growth rate of GDP of 3.5%, and in 2010 there was a slight recovery of Serbian economy, because it realized GDP growth rate of 1.8%. The total economic activity in the period between 2001 and 2010 grew at an average rate of 3.8%.

The dynamic growth of GDP in the period from 2001 to 2008 was achieved owing to the increasing share of services sector (transport and telecommunications sector, wholesale and retail and financial services), while dramatically reducing the participation of industry. These sectors in the said period based their propulsiveness on high investments (especially in telecommunications), liberalization of imports, private consumption growth and the privatization and restructuring of the banking sector. The level of industrial production is currently at 40.2% of industrial production in 1989, while in 2000 at the level of 37.6%. [3, pg. 410]. The structure of Serbia's GDP in the period from 2001 to 2010 will be presented the following table.

Table 2. The structure of Serbia's GDP in the period 2001 – 2010

Sectors	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Agriculture	15,5	14,3	12,9	14,2	11,3	10,7	9,6	10,1	10,6	8
Industry	24,8	23,1	21,7	21,4	17,7	17,6	17,8	17,3	15,6	19,6
Construction	3,7	3,3	3,5	3,43	2,9	2,9	3,1	3,2	2,9	3,7
Trade	7,0	7,7	8,4	9,0	9,3	9,7	11,2	11,7	12,3	9,7
Transport and Communications	7,9	7,7	8,3	8,8	9,1	11,1	12,8	14,1	17,7	10,1
Financial intermediation	5,5	5,9	6,2	6,3	5,7	6,3	6,7	4,9	5,0	3,4
Other activities	22,5	21,9	21,8	19,7	27,8	26,4	22,6	22,4	21,3	29,3
GVA	86,9	83,9	82,8	82,8	83,8	84,7	83,8	83,7	85,4	83,8
Taxes – subsidies	13,1	16,1	17,2	17,2	16,2	15,3	16,2	16,3	15,6	16,2
GDP	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

Source: Republic of Serbia, Statistical Office, Report no. 174, 30.06.2011

To make the image of the structure of Serbia's GDP clearer, based on the data presented, the following graphs clearly display the sectoral share of GDP of Serbia.

Industrial participation in the structure of GDP of Serbia is 19.6% (including 14% of the share of manufacturing industry), unlike the EU – 27, in which the industry share is about 20%. Except from the above, there are differences in the level of share of agriculture in Serbia which accounts for about 10% in the EU – 27 somewhere around 1.8%.

Data presented indicate yet another fact: the tertiary sector is the dominant sector in the structure formation of the GDP of Serbia and the EU – 27. Decrease in the share of industry in the formation of Serbia's GDP is not a consequence of deindustrialization

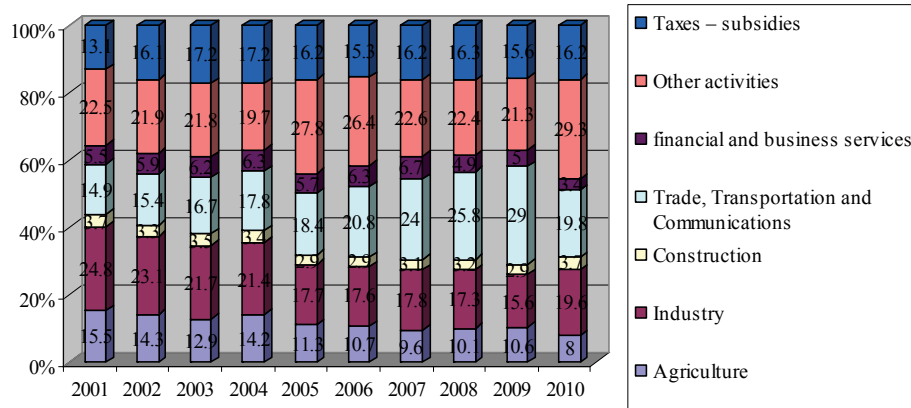


Fig. 2. Sectoral share of GDP of Serbia in the period 2001 – 2010.

Source: Own graph based on data from the table 2

process characteristic to the developed world. Deindustrialization, and devastation at the same time, of the Serbian industry is the result of many years of deep crisis and industrial development, and above all a consequence of the applied model of economic growth in Serbia. This concept of development, which favours the service sector, is not in accordance with the actual level of economic development, and as such could not be sustained for the long term. Evidence of everything said so far is Serbian export, which makes only 20% of GDP, while in other countries this percentage exceeds 50%.

Like the world economy, the Serbian economy in 2008 and 2009 was found in a deep recession, but in 2010 there was a gradual recovery of the economy: there was an increase rate of GDP, exports exceeded imports, increased investment in fixed capital, average net wages and labor productivity. In 2010, the main characteristic of the Serbian economy remained weak domestic demand, a key development constraint embodied in two-digit inflation which at the end of 2010 amounted to 10.6%.

In the future it is necessary to change the economic structure of Serbia and it is necessary to approach seriously to restructuring economy by change of the economic growth and development model. It should finally be clear that it is not possible to continue to implement the previous model of development based on internal demand growth faster than GDP growth, especially given the fact that the limited possibilities of borrowing abroad, and that the inflow of privatization receipts is declining. Precisely these were the main reasons for creating a new model of economic development of Serbia 2020.

Development policy in the future should have the main goal of economic recovery and development based on a qualitative basis. To bring about recovery and development of Serbian economy increase in the use of existing production and human resources, which have not been used sufficiently up to now, is necessary. Of course, the ultimate goal of economic policy should not be controversial, and this is increasing the rate of GDP growth.

NECESSITY TO CHANGE THE ECONOMIC STRUCTURE OF SERBIA

Serbia's preparations for EU internal market are undoubtedly one of the main levers of economic reconstruction. According to the Serbian government the strategic interest of Serbia is EU integration. That is, on the one hand, a way to provide easier access to the most important market in the world and, on the other hand, an essential precondition to solve the problems of development of domestic economy and stable democratic society.

Also, it is the only way for all the countries of Southeast Europe, under the auspices of the EU, to fully liberalize international trade flows and capital, reconstruct and develop their infrastructures and by adopting European legal and institutional framework, improve their competitive position in European and world economy. European option will enable Serbia to strengthen existing and normalize and restore the severed ties with former Yugoslav republics that have, in the wake of the country, each exchanged two – thirds of the out republic trade. Liberalization of cooperation with neighboring countries and Mediterranean countries is the natural course of preparation for the highly competitive Western European and world markets.

In May 2008 Serbia signed the Stabilization and Association Agreement, and thus closer to candidate status for EU membership, the European Commission has given the green light to develop an opinion on Serbia. According to the most favorable scenario Serbia should become a candidate until the end of 2011. That should be an enabling act to encourage economic development. At the start of EU accession process, one must conclude that the position of Serbia is unfavorable and complicated. The present moment is imposed as the main objective of changing the model of economic development of Serbia and the creation of export – oriented economies.

Bearing in mind that the current model of economic development of Serbia has had shortcomings, it is important to determine the causes of the situation, the most important consequences, and therefore proposals for the future. The key economic problem of Serbia lies mainly in the real sector of economy, inadequate structural changes and lack of enterprise restructuring and production capacity after the political turnaround in 2001.

During the autumn of 2010 the Government of the Republic of Serbia presented the model of post-crisis economic growth and development of Serbia 2011 – 2020¹, which has been developed by a consulting firm Deloitte Consulting in cooperation with the Economic Faculty in Belgrade. The global economic crisis has revealed that the current model of economic growth and development of Serbia is not sustainable, and must be fundamentally changed if we are to avoid the fate of undeveloped and heavily indebted countries. One thing is certain: no one will allow you to spend more than you make and that is running a deficit on all sides. We spent during the last decade as much as 20% more than we create. Privatization revenues are being cut, and with it, we all have limited possibilities of borrowing abroad. Serbia needs a new model of economic growth and development that is pro investment and export – oriented.

Post – crisis model was adopted at the time when after more than 10 years it was finally clear that in Serbia there was more money to finance consumption rather than production. In other words, Serbia is still ahead of the global economic crisis, which has only

¹ Below instead of post – crisis model of economic growth and development of Serbia 2011 – 2020, we will use the term post-crisis model

worsened the situation, especially in the real sector and in employment, faced with two fundamental macroeconomic imbalances. On the one hand, too rapid growth of private and public spending in relation to the gross domestic product (GDP) and, on the other hand, excessive reliance on growth in the creation of non – tradable goods in relation to the gross value added (GVA), which increased foreign trade and current account deficit country. According to the authors, this is the right time for Serbia to turn to a new model of economic growth and development that is pro investment and export – oriented. Also, the authors believe that the projections to 2020 are optimistic, but realistic and achievable.

Presented document, although very systematically and analytically processed, in the macroeconomic sense cannot, by definition, present the model of sustainable development in Serbia. This is because the very notion of sustainable development is not just an economic "growth without ceasing," and cannot be achieved solely by macroeconomic measures. The indisputable fact is that it is necessary to substantially change a lot of things, particularly in development policy and strategy so that social development should be based on a sustainable basis. You need the harmonization of basic indicators of development (micro and macro), social and institutional indicators, as well as those related to environmental protection and natural resources.

The basic point of post – crisis model is embodied in the fact that Serbia is ahead of major changes that create the opportunity to achieve economic growth and development, since the possibilities and assumptions on which it was based in previous development have been exhausted. It also emphasized the major priority reforms that Serbia would have to implement in the next decade in order to achieve strong economic growth. The main purpose of the model is to consider the development opportunities of Serbia, based on the new export – oriented growth and development. A key proposal of the proposed strategy is to replace the dominant growth of consumption with dominant investments growth.

Post – crisis economic growth model of Serbia requires two turns interrelated: one is of the unrealistic ambitions of spending directed towards investments in the modernization of industry, agriculture and productive services that encourage exports and provide foreign exchange inflow and the other is in the sphere of creating a more favourable business and investment environment where more active role of the state is needed. The model includes four main parts, but it essentially boils down to two:

The first part of post – crisis model refers to the macro – economic projections of economic growth, employment and productivity by 2020. Consistently shows that it is possible to achieve an average annual rate of real GDP growth of around 6%, and increase the number of employees to over 400.000, an increase in productivity, which increases the international competitiveness of Serbian economy, doubling the share of exports in GDP, achieved high rates of investment growth, leading restructuring the economy towards tradable goods while maintaining internal and external macroeconomic equilibrium. At the same time, using alternative scenarios, it warns of the dangers if, due to social and political pressures, "populist" model is accepted that after a while introduces Serbia into an even deeper crisis.

The second part of post – crisis model indicates what is to be done so that the desired scenario of growth and development should be achieved. Or it indicates the need for appropriate macroeconomic policies of keeping the public sector reform, economic restructuring and the emphasis on infrastructure development. It is the realization of such a set of transition, and structural reform to create process economic environment that leads to achieving the desired goals of growth and development.

In this way, average annual real GDP growth of 5.8% will be achieved while domestic demand would grow by 7.7%. The value of GDP in 2020 would reach to 52.7 billion euros, or nearly 8 thousand euros per capita. At this pace, by the end of the period production will have achieved cumulative growth of 50.4%, and employment would have increased by 16.9% and it would have opened around 430.000 new jobs.

According to the study, expectations are high: increasing the share of fixed investment to GDP to 25% in 2015 and 28% in 2020, with average annual growth of 9.7%, reduction of consumption in GDP from 92.5% in 2011 to 81% in 2020, an increase of exports of goods and services in GDP from 27.6% in 2009 to 65% in 2020 and significant reduce of the external current account deficit from 7.1% of GDP in 2010 to 3.3% which is expected for 2020.

A new model of growth and development includes the following: average growth of industrial production in the period from 2011 to 2020 is projected at 6.9% per annum, for the manufacturing industry is projected to average growth of 7.3%, the construction sector should achieve growth of 9.7%, agriculture 3.4% and services 5.5%. The basis of production growth would produce a comprehensive investment growth, namely from 4.9 billion euros, that they stood in 2009, to almost 15 billion euros expected in 2020. Direct foreign investments will have an important role, and as expected, should reach a level of about 2.3 billion per year. [8, pg. 65-69]

Basic plans, contained in post – crisis development model, refer to:

- investment growth rate of 9.7%, for which a new stimulating economic environment is needed,
- support to agriculture and processing industry to increase production and export of tradable goods,
- investment in infrastructure, not only railways and roads, but also in IT infrastructure. [8, pg. 9 – 10]

At first glance, the plans have nothing intrinsically objectionable. However, the reason may be to ask how realistically the plans are set and of course the pace of realization of the ambitious goals. Given the fact that in Serbia, in the past decade, more than 70 billion dollars have entered on various grounds (privatization, FDI, donations and loans, foreign currency remittance abroad of employees), and in that period, the Government of the Republic of Serbia has not practiced model of development based on investment growth, investment in infrastructure and increased industrial production, again the question arises – **what assets will be used to realize so ambitious plans in the next decade?**

According to such a set of development plans, the following key objectives derive:

- increase investment in GDP, so that the end of the period that participation will be 28%,
- share of consumption in GDP in the trend of decline, so that it is no more than 81% at the end,
- average annual GDP growth rate 5.8%, so that at the end of the period Serbia's GDP amounts to 52.7 billion euros or 8,000 euros per capita,
- employment growth of 16.9%, including 430,000 new jobs. [8, pg. 9 -10]

As we have seen, given projections seem to be very optimistic, according to study authors, realistically achievable. The proposed model is the only way to achieve sustainable economic development, which is based on increasing productivity and employment. At the same time with this model of development both internal and external macroeconomic stability would be provided.

However, based on everything so far mentioned, many questions about the methodology of defining the future quantities and, above all, new jobs and structure of new employees (whether it is a net increase or not) are asked. Yet, economically speaking, the essential questions might include:

1. Who will be the generator of employment of so many workers, if not the state? This way of hiring people is certainly not a viable way of solving the unemployment problem in Serbia. If the idea is to become the holder of the private sector employment, the logical question arises – how to increase competitiveness and not to be based on the reduction of labor productivity. Economists dealing with crisis and development at the global level, believe that sustainable economic growth in the world has to be modest, but longer term;

2. Is growth rates height real? The growth in the past decade in Serbia was very inspiring because it was based on the inflow of FDI of 12.5 billion euros. In such conditions, the average growth rate could be higher than 4.2%, so the logical question arises what is the way to achieve growth of around 6% on average per year;

3. How to control inflation in Serbia? Perennial problem of the Serbian economy is inflation. To meet the planned growth, it is necessary to combat radicalization of its reduction to below 5%. Keeping inflation at 10%, will affect the re-appreciation of the Serbian dinar, and sooner or later be forced to reduce the value of the Serbian dinar to raise price competitiveness. One thing is certain: Serbian economy can achieve sustained macroeconomic stability, but not impressive sustainable growth without a consistent fight against inflation.

The proposed growth model is consistent with the recently adopted strategy of "Europe 2020", which is a long-term response of the European Union to the challenges of the global economic crisis. It is sincere authors' desire that the Serbian government reviews the document and accepts it as a basis for developing a comprehensive strategy for development of Serbia until 2020.

Given the negative experiences of the previous model of economic development, by economic development and successful part of the economy and by increasing inflow of funds from exports, a good basis for developing branches on which Serbia can improve the international competitiveness is created. It is quite certain that one of the key segments of the new model of economic development should be reindustrialization and export-oriented industrial development strategy, because only in this way, in the long run may multiple increase exports be provided, unemployment reduced and real living standards increased.

CONCLUSION

Previous development of the Serbian economy was based on an inadequate model of economic development, which was based on the inflow of foreign capital and a dynamic development of the service sector. At the same time, the development of the real sector, respectively industry and agriculture, was neglected. The applied concept of development has contributed to the deformation of economic structure, with the escalating number of very difficult problems. After a decade of transition, Serbia is faced with a low GDP growth, high and growing unemployment, enormous trade deficit and high and rising external debt.

Naturally, being a small country, Serbia is referred to international trade and economic cooperation. The lack of international economic relations gives Serbia a non developmental perspective in terms of self – development, job creation, and even the ability to maintain current production levels. Sustainable development implies economic internationalization of Serbian companies' operations and increase of business in the international market. But for that to happen, it is necessary to adjust the Serbian economy contemporary conditions: the range must be adapted to the requirements of international demand, use of modern technology and increase of production efficiency.

Given the fact that the current model of economic development of Serbia is chronically dependent on foreign capital inflows, in new circumstances, it has become practically useless. Weight of accumulated problems, but also a strong need to overcome the effective current economic crisis put the spotlight on the necessity of applying a different model of economic development, based on export-oriented development. Going forward, the economic policy makers have significantly stimulated economic sectors and industries that will encourage long-term sustainable growth in production, as the basic prerequisite of good results in foreign trade.

Historically, Serbia stood at a crossroads more than once. So it is now. There must be more comprehensive and dynamic qualitative socio – economic changes, such as structural, institutional and technological changes in the economy. This also means creating a new economic structure that will be export-oriented. Modern economic development, which is technologically and economically propulsive structure, orientation involves the prosperous sectors and industries that have the appropriate level and quality of demand in which to raise the efficiency and competitiveness based on productive use of factors of production. Development of competitive industries, which will concentrate the available resources and create high-quality and modern products, contributes to increasing the competitiveness of the overall economy and ensure its successful performance in foreign markets.

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PRESTRUKTURIRANJE SRPSKE EKONOMIJE KAO DETERMINANTA EVROPSKIH INTEGRACIJA

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Poslednjih decenija, integracioni procesi u Evropi, imali su snažan uticaj na makroekonomsku dinamiku i promene u sektorskoj strukturi privreda, zemalja koje su u njih uključene. Prisutne su značajne razlike u privrednoj strukturi zemalja članica EU i naročito zemalja u tranziciji. Strateški cilj Republike Srbije, zemlje zakasnele tranzicije, je članstvo u Evropskoj Uniji.

Privredna struktura Srbije, odnosno učešće privrednih grana i sektora u formiranju domaćeg proizvoda, nije značajnije izmenjena u poslednje tri decenije. U narednom periodu, neophodan je moderan razvoj privrede, koji podrazumeva razvoj prosperitetnih sektora i grana privrede koje imaju odgovarajući nivo tražnje. Prestrukturiranje privrede Srbije na tržišnim osnovama doprineće ekonomskom uključivanju Srbije u evropske razvojne procese. Upravo je cilj ovog rada da ukaže na neophodnost strukturnog prilagođavanja privrede Srbije savremenim uslovima poslovanja, na putu pridruženja EU.

Ključne reči: ekonomija Srbije, prestrukturiranje, sektorska realokacija, integracija, European Union.