

Poverty and social exclusion as modern problems of the Serbian economy

Abstract

In the last decade of the 20th century, the problems of poverty and social exclusion became topical on a European scale. Bearing in mind Serbia's European perspective, social policy has been gaining in significance. Serbia is a transition country lagging behind other ex-socialist countries, something that is evident in almost all socio-economic, political and societal spheres. In that context, Serbia has no consistent and uniform national strategy of social development, and this ranks it at the very top of the European tree where poverty and social exclusion are concerned. Neither factor is an individual's choice, but rather emerge as the consequence of different social and cultural circumstances. Such multi-dimensional problems imply a responsibility for society as a whole and modern, relevant and sustainable solutions are a necessity. Serbia must diminish the gap to Europe in the field of economic-social indicators, which is only possible through economic, social and societal advancement. Here, both co-operation and co-ordination with European partners will be required.

Keywords: poverty, social exclusion, Serbian economy, social policy

Introduction

The multitude of economic reforms implemented in Serbia in the years after 2000 have not led to any improvement in living standards or a reduction in poverty. The average rate of economic growth achieved during the transition period has not been sufficient to resolve the accrued economic and social problems. Furthermore, the global financial crisis has served additionally to sharpen the problems within this domain.

In all the official documents of the Government of the Republic of Serbia, Serbia's full membership of the European Union is highlighted as its key strategic goal. After several years of negotiation and hovering uncertainty, Serbia became a candidate for membership of the European Union in 2012. For that precise reason, one of the key obligations on Serbia's part lies within the area of social exclusion and poverty reduction.

This article is aimed at perceiving the causes that have contributed to the emergence of social exclusion and poverty in Serbia, as well as at pointing to perspectives under which the mentioned problems may be resolved. Official data published by the Statistical Office of the Republic of Serbia and by Eurostat represent a guarantee of the validity and topicality of the data that it uses.

The basic causes of poverty and social exclusion in Serbia

In every society, there are socially-vulnerable groups and individuals exposed to the risk of poverty and social exclusion. However, a large number of analyses show an extremely low degree of social integration in Serbia. The end of the twentieth century will be remembered for the decade that significantly contributed to the Serbian population's becoming aware of what was poverty at its worst. The disintegration of the Socialist Former Republic of Yugoslavia, hyperinflation, sanctions and NATO aggression stand for the key features of the 1990s.

Furthermore, in the last decade of the twentieth century, officially-reported as well as clandestine unemployment increased for the reason that the number of employees was being decreased more slowly than might have been expected given the dramatic fall in the economic activity (Veselinović, *et al.* 2012, p. 311).

At the beginning of the third millennium, ambitious economic and social reforms were initiated, albeit with a delay of one decade in comparison with other ex-socialist countries. Following initially positive results, the global financial crisis has served to sharpen the already-existing problems within the Serbian economy. The promises which were made over many years, such as an increase in living standards, higher employment and full membership of the European Union, have yet to be fulfilled.

Numerous analyses reveal a low degree of social integration in Serbia. In that context, we should point out that poverty and social exclusion have, since 2008, been becoming more substantial as a consequence of the reduction in economic activity. This is supported by data that, in 2012, industrial production in Serbia stood at only 38.4% its 1989 level, whereas GDP in 2013 stood at around 70% of that achieved in 1990. Such dramatic falls in macroeconomic indicators are a consequence of the 1993 hyperinflation, the international isolation of the 1990s and the NATO aggression in 1999, but also of the concept of the reforms implemented during the transition process, which process is still underway.

A significant inflow of refugees and displaced people was an additional burden on top of the difficult economic and social conditions. After the outbreak of the conflicts in Croatia and in Bosnia and Herzegovina, there were substantial migrations to Serbia of populations of Serbian nationality. Depending on the ferocity of the war conflicts and the sources of data used, there are variations in the number of both refugees and displaced persons which range between 350 000 and 800 000. The terrorist activities of the so-called Kosovo Liberation Army, NATO bombing and the arrival of the KFOR units compelled the non-Albanian population to leave the territory of Kosovo and Metohija. People displaced from Kosovo and Metohija were registered in 2000, showing that there were more than 200 000 of them living in Serbia.¹

The economic crisis in Serbia, which has lasted for several decades, has serious social consequences due to the existing high rate of unemployment as well as the difficulties experienced in the functioning of the state and its funding. The causes of that lie, first of all, in the deteriorating macroeconomic trends. The Serbian economy is faced with a several years-long recession, a large number of enterprises bearing

1 See: <http://www.srbija.gov.rs/pages/article.php?id=45>.

the burden of illiquidity, high external and public debts posing a threat to increases in GDP, while the employment rate is decreasing. The constant reduction in standards of living, accompanied by the high rate of unemployment, is having a significant influence on the deterioration of the material and social standing of the population.

Furthermore, legal regulations also represent an additional impulse towards negative tendencies. Government-imposed measures regarding reductions in salaries and pensions have additionally deepened the problems of poverty and social exclusion, although salaries and pensions lower than 25 000 dinars have been exempted from the application of this measure.

Social exclusion can be one-dimensional (the impossibility of the reproduction of one single resource) and multi-dimensional (the impossibility of the reproduction of two or more resources). The key resources on the basis of the availability of which the dimensions of social exclusion may be defined include: age; the condition of health; education; housing status; one's approach to information; the exercise of basic civil rights; the amount of income; employment; and socialisation.

Numerous data imply that poverty and social exclusion affect not only rural areas but also the big cities. The number of people surviving on soup kitchens has been increasing year after year. The scale of increasing poverty (and, accordingly, social exclusion) is accounted for by data reporting a more than 50% increase in the number of users of social assistance in Serbia in the period between 2010 and 2014.

Traditionally undeveloped areas, such as the south and the east of Serbia, are far more threatened with these problems compared to other regions of the state. Poverty and social exclusion especially affect so-called socially-endangered groups: children; elderly people; those with disabilities; refugees and internally displaced people; Roma; the rural poor; and the uneducated.

Indicators of poverty and social exclusion in Serbia

At the outset here, we should note that globalisation and contemporary trends in business have also had an influence on the increase in poverty and social exclusion at the global level. Those most endangered live in extreme poverty and in conditions of substantial deprivation. Despite the progress that has recently been made with regard to poverty reduction, there are still more than 2.2 billion people exposed to the influence of overlapping deprivations with respect to health, education and the standard of living while, simultaneously, almost 1.5 billion people are deprived in all three dimensions.

This means that more than 15% of the world's population is still endangered by multi-dimensional poverty. At the same time, almost 80% of the world's population still lacks comprehensive social assistance. Around 12% (842 million people) suffer from chronic famine, whereas almost one-half of all workers – more than 1.5 billion people – work in informal conditions and have to confront uncertainty (UNDP, 2014, p. 7).

Global inequality differs between those countries in which income per capita is €150-250 per month (sub-Saharan Africa, India) to those countries where income per capita reaches €2,500-3,000 per month (western Europe, north America, Japan), i.e.

it is ten to twenty times as big. The global average that corresponds approximately to the Chinese example is €600 to €800 per month (Piketty, 2015, p. 78).

When speaking about Serbia, according to official statistical data, income per capita ranges between €350 and €450 per month.

Turning next to the position in Serbia then, according to data obtained from the World Bank, the poverty rate increased from 10% to 15% during the global financial crisis. As far as the government's Team for Social Inclusion and a Reduction in Poverty is concerned, the rate of poverty in Serbia was 6.1% in 2008, reaching 8.9% around the end of 2014; however, these are people seeking to make ends meet on a level of consumption that does not exceed \$2 per day.

At the end of March 2015, the Statistical Office of the Republic of Serbia published the latest data related to poverty and social exclusion. In comparison with the other countries of the region, Serbia has the highest risk of poverty. According to the most current data, the rate of the risk of poverty or social exclusion was 43.2% in 2014; at the same time, the rate of the risk of poverty alone was 25.6%. These are persons who are not necessarily poor but, rather, those more exposed to the risk of being poor. Furthermore, young people under the age of 18 are the ones most exposed to the risk of poverty (29.6%); whereas people over the age of 65 have the lowest risk of poverty (20.7%). People living in households consisting of two adults with three or more supported children have the highest risk of poverty, standing at 35.2% (Statistical Office of the Republic of Serbia, 2015b, p. 1).

In contrast, the rate of the risk of poverty in the EU-28 was 24.5% in 2013, a small drop on the 24.8% recorded in 2012.² Consequently, there is a reduction of 0.3% at EU-28 level although in countries where there are more severe economic problems, the rate is (evidently) higher. Serbia ranks lower than the EU average in this domain as well.

Depending on labour status, where people aged 18 and over are concerned, those who are most exposed to the risk of poverty are the unemployed (47.1%), while the lowest rate of the risk of poverty lies among those who are employed with an employer (8.6%). The rate amounts to 38.4% among the self-employed. The rate of the risk of poverty among pensioners is 13% (Statistical Office of the Republic of Serbia, 2015b, p. 3).

The threshold of the risk of poverty in 2014 was, for a single-person household, an average 13 408 dinars per month. For households with two adults and one dependant child younger than 14 years of age, the threshold of the risk of poverty was 24 134 dinars; while, for a four-member household with two adults and two dependant children younger than 14, the threshold was 28 156 dinars (Statistical Office of the Republic of Serbia, 2015b, p. 2).

Comparing this data with that contained in the previous report, it is clearly noticeable that there has been a decrease in the standard of living of the Serbian population. According to data for 2013, the threshold of the risk of poverty for a single-member household was an average 13 680 dinars per month; that for the risk of

2 See: http://ec.europa.eu/eurostat/statistics-explained/index.php/People_at_risk_of_poverty_or_social_exclusion.

poverty among households with two adults and one dependant child younger than 14 was 24 624 dinars; and for a four-member household consisting of two adults and two dependant children younger than 14 years, it stood at 28 728 dinars (Statistical Office of the Republic of Serbia, 2013, p. 1).

No data is yet available for 2014 for all EU states, so it is impossible to provide a direct point of comparison. Yet, in view of the growth of the rate of the risk of poverty in Serbia, there is a presumption that Serbia (25.6%) will remain in the group of countries which have the highest percentages of their respective populations exposed to the risk of poverty – along with Greece (23.1%), Romania (22.6%), Spain (22.2%), Bulgaria (21.2%) and Croatia (20.5%) (Statistical Office of the Republic of Serbia, 2013, p. 4).

The picture of the scale of poverty and social exclusion is made more complete by data published in the Survey on Household Consumption, which points out the funds available to and personal consumption of households in the Republic of Serbia. According to the 2014 data, the average household's monetary income originates predominantly from income arising from the labour relationship (47.8%). Yet, one-third of the income being generated from pensions (33.2%) confirms the already-known, and alarming, data that the ratio between the number of the employed and the number of pensioners in Serbia is 1:1 (Statistical Office of the Republic of Serbia, *Anketa o potrošnji domaćinstva*, 2015, p. 1).

Where the structure of personal consumption in Serbia in 2014 is concerned, the data leads us to develop further our conclusion that poverty and social exclusion are becoming increasingly present. The largest part of personal consumption is for food and non-alcoholic drinks (38.4%); followed by housing, water, electricity, gas and other fuels (16.1%); and transportation (9%). Thus, around two-thirds of personal consumption relate to these three segments. Devastatingly, just 1% relates to education (Statistical Office of the Republic of Serbia, 2015a, p. 1).

Major differences among the regions stand as a negative feature of the Serbian economy which have now lasted for several decades. Today, Serbia is a state which has the highest regional differences in Europe, with substantial economic differences between the most developed municipality and the most undeveloped one, including as regards the funds available per household. In 2014, the average level of funds per household across the republic as a whole stood at 57 954 dinars. Belgrade, where the figure stood at 67 462 dinars, was the only region to exceed that average; although the region of Vojvodina lagged only slightly behind, at 56 405 dinars. The region of Šumadija and western Serbia, where the figure stood at 54 142 dinars, does not substantially lag the republic average. However, the region of southern and eastern Serbia lags vastly behind: here, the average income per household stood at just 49 392 dinars (Statistical Office of the Republic of Serbia, 2015a, p. 2).

We have already mentioned that the number of users of social assistance increased by 50% in 2014 compared with the previous period. According to the Ministry of Labour, the base income for paying out social assistance was, in March 2015, 7 789 dinars. Given that the amount is adjusted each 1st April and 1st October by the index of consumer prices in the previous six months, and in view of there being almost no trace of inflation in the Serbian economy (it is below the target of 2.5%), the

consequence is that the base income for social assistance purposes was lower than in the previous year. This is so despite the poverty rate increasing as a result of the application of the measures of fiscal consolidation, including reductions in salaries and pensions.

Meanwhile, the scale of poverty and social exclusion is reflected in data on material deprivation, as reported in Table 1.

Table 1 – Indicators of material deprivation, %

	2013	2014
Persons living in a household that:		
Cannot afford to go on a week-long holiday outside the house	67.2	68.4
Cannot afford meat or fish every other day	30.6	26.1
Cannot afford an unexpected cost of 10 000 dinars	50.1	50.7
Cannot afford adequately to heat the house	18.3	17.1
Rate of material deprivation (three or more items)	44.3	44.1

Source: Statistical Office of the Republic of Serbia, 2015b, p. 3

The data which reports that material deprivation at the level of the EU-28 in 2013 stood at 9.6%, around one-quarter of the rate in Serbia, best speaks about how substantial the scale of material deprivation is in Serbia. Within the EU, the biggest rate of material deprivation is in Bulgaria (in 2013, it was 43%; in 2014, it was 33.1%); Greece (in 2013, 20.3%; in 2014, 21.7%); and Hungary (in 2013, 26.8%; in 2014, 20.3%).³

In order to show as much detail as possible on the scale of poverty and social exclusion, we can also note the data reported in the *Human Development Report*, issued by the United Nations. Subsequent to the global financial crisis, the majority of people in a large number of countries have been achieving ever-better indicators where human development is concerned. The key indicator in the Report is the Human Development Indicator, representing a summary assessment of long-term progress in the three basic dimensions of human development: long and healthy life (life expectancy); an approach to knowledge; and a decent living standard (UNDP, 2014, p. 26).

The value of the HDI index for Serbia in 2013 was 0.745 – which classifies it in the category where there is high human development – ranking it 77th out of a total of 187 states and territories. In the period between 1990 and 2013, the value of the HDI index for Serbia was increased from 0.726, i.e. an overall 2.6% increase across the period as a whole, or an annual average of about 0.11%. Serbia is ranked on a level with Jordan (UNDP, 2014, p. 26).

3 See: http://ec.europa.eu/eurostat/statistics-explained/index.php/Material_deprivation_statistics_-_early_results. No 2014 data is available for Romania, although the 2012 and 2013 data put it the second highest in the EU.

The value of the HDI index for Serbia in 2013 (0.745) is higher than the average (0.735) for countries in the group with high human development; and is also higher than the average (0.738) for European and central Asian countries. From within the group of European and central Asian countries, those that have 2013 HDI rankings closest to Serbia and which are similar to Serbia with respect to the size of the population are Croatia and Belarus, which are ranked 47th and 53rd, respectively, according to HDI (UNDP, 2014, p. 28).

The data we have reported here lead us to conclude that poverty and social exclusion are problems that, to a significant extent, burden the population of the Republic of Serbia. Economic theory has long since proclaimed that fighting poverty is precisely one of the key goals of the functioning of the state. Given that Serbia's strategic goal is full membership of the EU, it is necessary in the forthcoming period to make a significant effort to have these problems resolved and the numerous challenges within this domain mitigated.

We spend the rest of this article looking briefly at the political frameworks which have been adopted and the barriers which exist to their success.

Perspectives on the reduction of poverty and social exclusion

During 2012, Serbia became a country candidate for accession to the EU. For that very reason, the issues connected to a reduction in the level of poverty and social exclusion will, in the forthcoming period, become a mandatory segment of integration policy. It will also be necessary that all the defined goals and requirements within the framework of the Europe 2020 development strategy should be met and implemented. All the measures directed towards a reduction in poverty and social exclusion in Serbia must come under the wider field of the social policy which can be perceived independently of economic, social and political processes in the next few years.

Social policy encompasses the goals and measures which are directed towards a prevention of the risk of social exclusion and, consequently, it should encompass different sectoral policies and their measures as well as those related to the following policy aims (Miletić and Mičić, 2014, p. 425):

1. increasing employment opportunities
2. efficient social protection
3. education with the aim of reducing poverty
4. efficient health protection
5. reform of the pension system and a better position of pensioners and elderly people
6. reform of the public sector and also of the tax system in the direction of job creation
7. the urban, rural and regional aspects of the reduction of poverty and social exclusion
8. the environmental aspects of poverty reduction.

With the aim of reducing poverty and social exclusion, Serbia adopted its *Strategy for Reducing Poverty for the Period 2003-2009* in 2002. At the end of October 2014, the *Second National Report on Social Inclusion and Reduction in Poverty in the Republic of Serbia for the Period 2011-2014* was adopted. The Report encom-

passes an overview of the legal, strategic and institutional frameworks relevant for the processes of social inclusion and poverty reduction; an analysis of the current situation in the relevant fields; an overview of the realised measures, conclusions and challenges, and the basic directions for development in the next period (Vlada Republike Srbije, 2014, p. 6-21). On the basis of the strategies, reports and action plans in the diverse domains which have so far been adopted, the simple conclusion arises that there has been no qualitative progress in the resolving of the accrued problems.

Economic practice has confirmed that there is a direct proportionality between the achievement of economic growth and the reduction of poverty and social exclusion. In the forthcoming period, the aim of increasing employment and reducing social inclusion will, fundamentally, require an increase in GDP. Apart from that, there is a need for its more equitable distribution; balanced regional development; the building of infrastructure; an increase in investment; and the development of social capital. It should also be mentioned in this respect that the savings measures implemented by the Government of the Republic of Serbia in the social sphere (the reduction in salaries and pensions) are not in compliance with the set goal for reducing poverty and social exclusion.

The current situation in the Serbian economy indicates a need to initiate a permanent, institutional and non-discriminatory social dialogue. Simultaneously, it is especially important for Serbia to adapt and harmonise its social legislation with, respectively, the normative-institutional framework and practice of social dialogue in EU countries (Stojiljković and Mihailović, 2010, p. 66).

In order for the fight against poverty and social exclusion to be successful, political will, as well as the development of a real partnership between the main actors in that process, will emerge as a necessity. Apart from that, there needs also to be the willingness and the readiness to take responsibility for achieving a better quality of life. International institutions, and the EU institutions which provide financial assistance in the fight against poverty, must play a significant role in resolving the burning problem with which Serbia is faced.

Conclusion

Transition processes in their full swing contributed to the achievement of encouraging rates of economic growth in the first years of the transition in Serbia, especially in view of what, economically speaking, was the lost final decade of the twentieth century. The global financial crisis has, however, halted economic growth and has also pointed to the numerous developmental limitations of the Serbian economy. The global financial crisis has, furthermore, halted the trend of poverty reduction. A reduction in the economic indicators has had negative consequences on the living standards of ordinary people.

Throughout the transition period, the Serbian government has prided itself upon achieving results in the field of poverty reduction. According to the official data, poverty was reduced from one year to the next. The official Serbian data, however, are different from the data presented by the EU. Indeed, even the state authorities frequently announced that the data had no realistic foothold. It remains unknown whether this was the result of inadequately-conducted research studies or whether the

wish to create as good an image of Serbia as possible in the eyes of the EU was a far greater factor.

The key determinant of poverty and social exclusion implies that it is related to economic problems of a structural character, whose basic characteristic is that mistakes in this field happen quickly and solutions are found slowly. In view of the seriousness of the dimensions of these problems, it is only possible to define goals and find solutions to the same in the long run. This, however, does not mean that short-term moves that are in the purview of long-term action are not needed.

In order to reduce poverty, the development of partner relations amongst all the parties interested in seeing these problems resolved is crucially important. The education of the endangered and marginalised segments of the population, with the aim of having that population included in the processes of decision-making on the issues of life, appears a necessity. Simultaneously, the status of these categories of the population would be perceived more comprehensively, which would contribute to offering them more adequate assistance.

It is hoped that this article will inspire the academic as well as the expert public to conduct more adequate and more purpose-serving research studies in this field in the next few years, so as to have the necessary measures taken and activities carried out. The consequence would be that this would contribute to a reduction in the level of poverty and social exclusion.

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