

31. SERBIA

The Serbian economy is projected to contract only moderately in 2020, due to a relatively short duration of the most stringent containment measures and significant policy support to mitigate the crisis impact. A recovery to pre-crisis output and growth levels is foreseen for 2021, driven by investment and private consumption. The economic contraction and sizeable fiscal mitigation measures will lead to a sharp temporary increase of the general government deficit in 2020. The debt-to-GDP ratio is set to increase by around 10 percentage points in 2020 and to slowly decline thereafter.

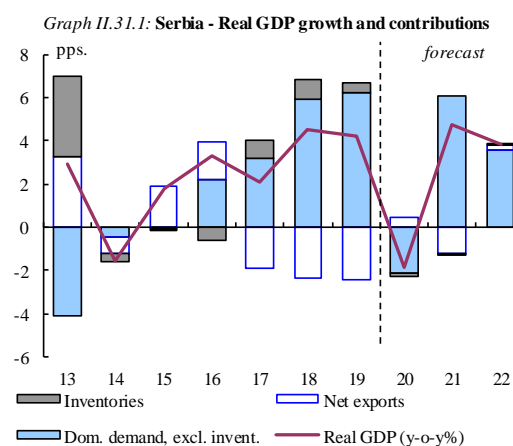
Fast in-year rebound after relatively short lockdown period

After recording still robust y-o-y growth of 5.1% in the first quarter of 2020, GDP contracted by 6.4% y-o-y in the second quarter due to the COVID-19 pandemic and the related containment measures. The contraction was the result of strong decreases in private consumption and investment that were only partially offset by higher government consumption and a positive contribution of net exports. The relatively short duration of most containment measures, mostly lifted by early May, lowered the overall negative impact on quarterly GDP, allowing most sectors of activity to rebound strongly already in May and June. Short-term indicators suggest that economic activity has continued to recover over the summer.

Moderate contraction followed by return to pre-crisis growth path

Supported by the relatively short duration of the most stringent containment measures in spring, a sizeable package of fiscal and monetary support measures, and less exposure than in regional peers to sectors hardest hit by the crisis, full-year contraction of GDP in 2020 is projected to be limited around 1¾%. The contraction is projected to be mostly driven by crisis-induced reductions in gross-fixed capital formation and private consumption that are only partially offset by higher government consumption and improved net exports. On the supply side, the relatively low share of tourism services and a good agricultural season are expected to dampen the economic contraction in 2020. In view of the limited domestic economic impact of the containment of the 2nd wave of the pandemic in Serbia in the summer, the renewed aggravation as of October is expected to only moderately dampen the recovery in the forecast baseline. At the mid-October level of stringency of remaining COVID-19 containment measures, GDP is projected to rebound by around 4¾% in 2021. The rebound is

expected to be mainly driven by private consumption and investment, only partially offset by more negative net exports, as imports are projected to grow more strongly than exports during the rebound, in view of the relatively stronger renewed contractionary impact of the pandemic in EU trading partners. After recovering its pre-crisis output level in 2021, the economy is set to return to its pre-crisis rate of expansion of close to 4% in 2022, mostly driven by private consumption and investment and a more positive contribution from net exports as export growth is expected to exceed import growth in 2022, in line with the recovery in the EU.



Unemployment rate to remain broadly stable

As discouraged workers not actively looking for employment are considered inactive in the labour force surveys, unemployment is projected to decrease slightly in 2020. As the pace of return of discouraged workers to the labour market is projected to initially exceed the growth of employment, the unemployment rate is expected to temporarily record a slight increase in 2021 before decreasing again in 2022. Inflation is set to slightly moderate in 2020, mostly reflecting lower oil prices, while reaccelerating somewhat in 2021 and 2022 in line with the recovery.

Outlook still subject to high uncertainty

The growth outlook is subject to a high level of uncertainty while risks appear to be tilted to the downside depending on the evolution of the pandemic. In particular, a strong domestic aggravation of the pandemic and ensuing more stringent containment measures could more persistently affect consumption and investment and thereby dampen the economic recovery, also in view of lower available fiscal space for renewed mitigation measures. A stronger than expected impact of resurgences in the EU could similarly dampen net exports and foreign direct investment as compared to the baseline.

Strong increase of public deficit and debt following crisis mitigation measures

The COVID-19 crisis is set to worsen sharply the general government deficit from close to balance in 2019 to around 9% of GDP in 2020, mostly as a result of a large package of discretionary fiscal support measures including deferred tax payments, wage subsidies, one-off payments and liquidity-enhancing loan guarantees. After extension of most measures until the end of the third quarter, the stimulus is estimated to have a direct budgetary impact of around 7% of GDP and another 5% in

liquidity-enhancing measures. In line with the projected recovery, the end of one-off mitigation measures and the revenue increase from deferred tax payments, the deficit is forecast to drop to around 3% of GDP in 2021 and 2½% of GDP in 2022. The debt-to-GDP ratio is projected to rise to 61½% of GDP in 2020 reflecting both the high deficit and the fall in GDP, before resuming a gradual decline by around 1pp annually in line with the economic rebound and lower deficits in 2021 and 2022.

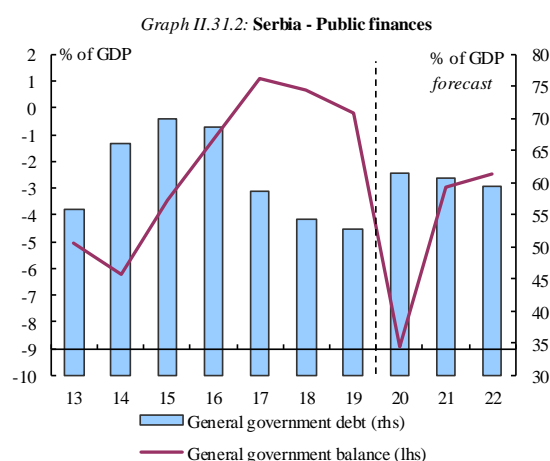


Table II.31.1:

Main features of country forecast - SERBIA

	2019			Annual percentage change						
	bn RSD	Curr. prices	% GDP	01-16	2017	2018	2019	2020	2021	2022
GDP	5417.7		100.0	-	2.1	4.5	4.2	-1.8	4.8	3.8
Private Consumption	3696.7		68.2	-	2.2	3.1	3.6	-2.0	4.2	2.6
Public Consumption	901.8		16.6	-	2.9	3.7	2.0	6.2	2.4	2.1
Gross fixed capital formation	1217.9		22.5	-	6.6	17.5	17.2	-8.5	13.5	6.6
of which: equipment	-		-	-	-	-	-	-	-	-
Exports (goods and services)	2765.7		51.0	-	8.2	7.5	7.7	-7.7	11.5	9.2
Imports (goods and services)	3306.6		61.0	-	11.1	10.8	10.7	-7.2	12.0	7.4
GNI (GDP deflator)	5125.7		94.6	-	1.1	6.0	4.1	-1.4	5.0	4.0
Contribution to GDP growth:				-						
Domestic demand				-	3.2	5.9	6.2	-2.2	6.1	3.6
Inventories				-	0.9	0.9	0.4	-0.1	-0.1	0.0
Net exports				-	-1.9	-2.4	-2.4	0.5	-1.2	0.2
Employment				-	2.8	1.4	2.4	-0.6	1.4	0.8
Unemployment rate (a)				-	13.5	12.7	10.3	9.3	9.6	9.0
Compensation of employees / head				-	-	-	-	-	-	-
Unit labour costs whole economy				-	-	-	-	-	-	-
Real unit labour cost				-	-	-	-	-	-	-
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				-	3.0	2.0	2.4	2.9	2.7	2.4
Consumer-price index				-	3.2	2.0	1.7	1.5	1.8	1.8
Terms of trade goods				-	-0.5	-2.0	0.7	1.0	0.3	0.0
Trade balance (goods) (c)				-	-9.0	-11.0	-12.2	-10.5	-11.0	-10.7
Current-account balance (c)				-	-5.2	-4.8	-6.9	-5.8	-6.0	-5.2
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)				-	1.1	0.7	-0.2	-8.9	-2.9	-2.5
Cyclically-adjusted budget balance (d)				-	-	-	-	-	-	-
Structural budget balance (d)				-	-	-	-	-	-	-
General government gross debt (c)				-	58.6	54.4	52.8	61.5	60.7	59.6

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.