

31. SERBIA

Following two years of strong GDP growth, the Serbian economy is projected to contract sharply in 2020, followed by a strong rebound in 2021. Private consumption and investment are expected to fall in 2020 due to lockdown restrictions, confidence effects and uncertainties, before a strong recovery in 2021. Due to the economic contraction and sizeable fiscal mitigation measures, the general government deficit is forecast to rise sharply in 2020 followed by a strong reduction in 2021. The debt-to-GDP ratio is set to increase temporarily by around 10 percentage points in 2020.

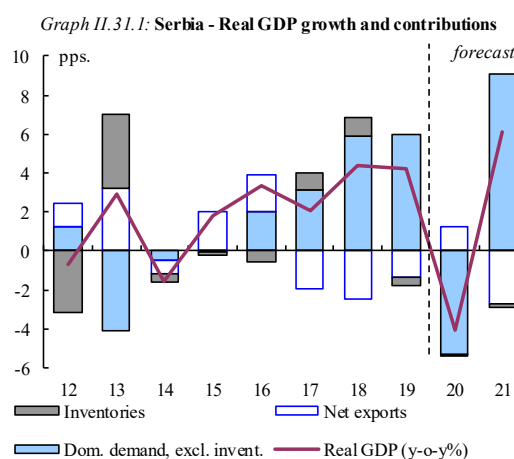
Strong growth momentum ahead of the crisis

Growth accelerated strongly in the second half of 2019, bringing annual growth above 4% for a second consecutive year. Robust domestic demand continued to determine the pace of expansion, in particular from gross fixed capital formation, strongly supported by the construction of the Turkstream gas pipeline. Short-term indicators suggest that growth remained robust in the first quarter of 2020, but the positive outlook came to a sudden halt due to the outbreak of the COVID-19 pandemic. The government declared a state of emergency on 15 March, imposing a series of containment measures, including a 12-hour daily curfew, the closure of all non-essential shops, restaurants and cafés, and transport shutdowns. A first gradual relaxation of lockdown measures started to be envisaged as of late April.

Sharp economic contraction before rebound

The impact of the COVID-19 pandemic is expected to cause GDP to contract by around 4% in 2020, followed by a strong rebound by 6% in 2021. Both the contraction and the recovery are forecast to be mainly driven by private consumption and investment. The overall short duration of lockdown measures is not expected to durably affect production capacity and the long-term growth trajectory, allowing for a strong recovery, also in line with the forecast recovery of external demand. Due to supply restrictions in many service sectors, not fully compensated income losses and uncertainty-induced precautionary savings, private consumption is projected to decrease by around 4¼% in 2020 and to rebound strongly in 2021. Gross fixed capital formation is also expected to have a similar-sized negative contribution to overall 2020 GDP growth, contracting by a projected 13½%, as many private investments are put on hold due to increased uncertainty and public investment is delayed. As these short-term crisis effects subside, investment is set to rebound strongly in 2021. On the external

side, due to its relatively high trade openness, the Serbian economy is set to be strongly hit by the COVID-19 crisis-induced contraction of external demand, particularly from its main trading partners in the EU, leading to a projected fall in exports by 8½%. The negative domestic demand shock is however expected to lead to a stronger fall of imports by 9½% and thus to a positive contribution of net exports to GDP growth in 2020. Exports and imports are forecast to rebound strongly in 2021.



Unemployment to rise temporarily

While government measures are expected to mitigate lockdown-induced job losses, the economic contraction is nonetheless expected to temporarily interrupt the continuous decline of unemployment over the last five years. Inflation is set to moderate further in the short term, reflecting lower oil prices and subdued domestic demand, while rebounding in 2021 due to the recovery.

Outlook subject to high uncertainty

The growth outlook is subject to high uncertainty with risks tilted to the downside. While a potential faster lifting of the main restrictions might allow for an earlier and stronger rebound, a potentially more protracted duration of restrictions on some

sectors may more persistently affect consumer confidence and consumption patterns, thereby dampening the economic recovery. In this regard, the effectiveness of measures to protect household disposable income and business liquidity will also be essential. On the external side, a potential stronger contraction in main trading partners would weigh on Serbian exports and investment.

Public deficit and debt to rise strongly in view of crisis mitigation

The strong revenue performance in 2019 allowed for high increases in current and capital spending while maintaining a general government deficit close to balance. The public debt-to-GDP ratio also continued its gradual decline towards 50% of GDP. The COVID-19 crisis is set to deteriorate sharply the deficit to 7½% of GDP in 2020, both due to the effect of automatic stabilisers, mostly on the revenue side, but also due to a sizeable package of discretionary fiscal measures to cushion the impact of the crisis. The package includes deferred tax payments, income support to employees in SMEs and to temporarily suspended workers in large companies, one-off payments to all citizens and liquidity-enhancing loan guarantees. The package has a direct budgetary impact of around

6% of GDP and another 5% in liquidity-enhancing measures. In line with the projected recovery, the fading out of one-off mitigation measures and the revenue increase from deferred tax payments, the deficit is forecast to drop sharply to 2% of GDP in 2021. The debt-to-GDP ratio is projected to rise above 60% in 2020 reflecting both the high deficit and low GDP developments, before resuming its gradual decline in line with the economic rebound and lower deficit developments in 2021.

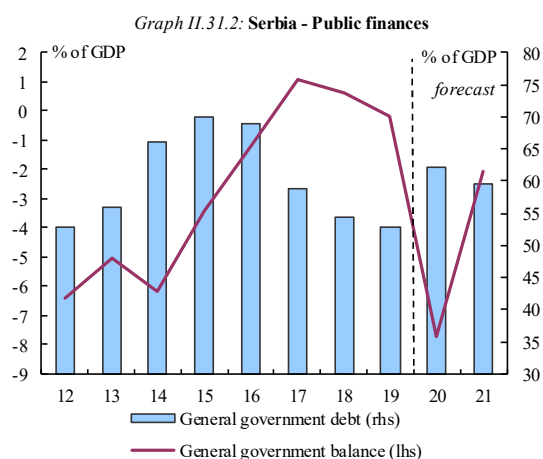


Table II.31.1:

Main features of country forecast - SERBIA

	2018			Annual percentage change						
	bn RSD	Curr. prices	% GDP	00-15	2016	2017	2018	2019	2020	2021
GDP	5068.6	100.0	-	-	3.3	2.0	4.4	4.2	-4.1	6.1
Private Consumption	3511.9	69.3	-	-	1.3	1.9	3.1	3.2	-4.2	6.8
Public Consumption	839.3	16.6	-	-	1.2	3.3	3.7	2.9	3.2	2.8
Gross fixed capital formation	1016.5	20.1	-	-	5.4	7.3	17.8	16.4	-13.5	19.4
of which: equipment	-	-	-	-	-	-	-	-	-	-
Exports (goods and services)	2573.6	50.8	-	-	11.9	8.2	8.3	8.5	-8.5	13.8
Imports (goods and services)	3005.3	59.3	-	-	6.7	11.1	11.6	9.5	-9.4	16.7
GNI (GDP deflator)	4806.8	94.8	-	-	2.4	1.0	5.9	3.9	-3.7	6.4
Contribution to GDP growth:										
Domestic demand					2.0	3.1	5.9	6.0	-5.4	9.0
Inventories					-0.6	0.9	0.9	-0.4	0.0	-0.2
Net exports					1.9	-2.0	-2.4	-1.3	1.3	-2.7
Employment					5.6	2.8	1.4	2.4	-3.2	2.7
Unemployment rate (a)					15.3	13.5	12.7	10.3	12.7	10.0
Compensation of employees / head					-	-	-	-	-	-
Unit labour costs whole economy					-	-	-	-	-	-
Real unit labour cost					-	-	-	-	-	-
Saving rate of households (b)					-	-	-	-	-	-
GDP deflator					1.5	3.0	2.1	2.5	1.8	3.0
Consumer-price index					1.1	3.2	2.0	1.7	0.9	1.9
Terms of trade goods					0.0	-1.0	-1.6	0.5	0.0	0.0
Trade balance (goods) (c)					-7.3	-9.0	-11.1	-11.3	-10.1	-11.9
Current-account balance (c)					-2.9	-5.2	-4.8	-6.9	-4.3	-5.5
Net lending (+) or borrowing (-) vis-a-vis ROW (c)					-	-	-	-	-	-
General government balance (c)					-1.2	1.1	0.6	-0.2	-7.7	-2.1
Cyclically-adjusted budget balance (d)					-	-	-	-	-	-
Structural budget balance (d)					-	-	-	-	-	-
General government gross debt (c)					68.8	58.7	54.5	52.8	62.2	59.5

(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.