31. SERBIA

After a strong rebound by 7.4% in 2021, the Serbian economy is projected to expand more moderately by 3.4% in 2022 and by 3.8% in 2023. Growth is expected to be mainly driven by private consumption and investment, but dampened by the economic fallout of Russia's war of aggression against Ukraine. Inflation is set to peak in mid-2022 to then decelerate as of autumn 2022. Supported by a lower volume of fiscal support measures and high nominal GDP growth, the general government deficit and the debt-to-GDP ratio, after decreasing to 4.1% of GDP and 57.1% respectively in 2021, are expected to record further gradual reductions in 2022 and 2023.

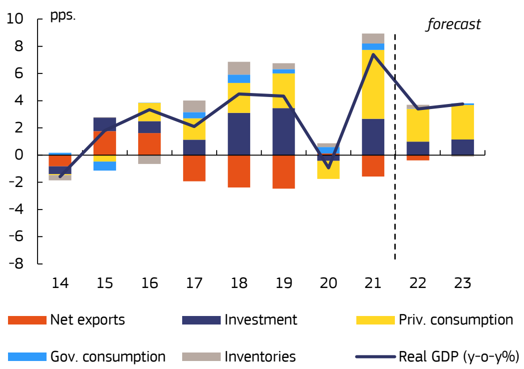
Strong rebound in 2021

After a relatively mild contraction in 2020, the Serbian economy recorded a strong rebound in 2021 to well above its pre-COVID-19 crisis level. Real GDP growth reached 7.4%, mostly driven by increases in private consumption, gross fixed capital formation and public consumption that were only slightly offset by a negative contribution of net exports to growth. The rebound of private consumption was particularly supported by a new fiscal stimulus programme worth around 2% of GDP and additional liquidity support measures of similar size. On the supply side, the recovery was chiefly driven by services, construction and industry. Short-term indicators suggest that the expansion of economic activity, while slightly decelerating, continued in the first quarter of 2022. Thus, industrial production and real retail turnover increased by 1.9% and 10.6% y-o-y respectively in the first three months of 2022.

Growth momentum dampened by the war in Ukraine

Economic growth is projected to reach 3.4% in 2022, mostly driven by increases in private consumption and investment that are expected to outweigh the small negative contribution of net exports to growth. The economic fallout of Russia's war against Ukraine is expected to weigh on the growth momentum in particular via higher commodity prices, impacting real disposable income, and reduced trade dynamics with Serbia's main trading partners in the EU. Under the assumption of a continued high level of geopolitical tensions, growth in 2023 is expected to remain below its pre-pandemic rate of somewhat above 4%. GDP growth in 2023 is projected to be mostly driven by private consumption and investment as well as an improving contribution of net exports due to increased export capacity supported by recent foreign direct investment in the tradable sector. The current account deficit, after a slight increase in 2021, is expected to rise substantially in 2022, mainly due to the higher cost of energy imports, and to broadly stabilise in 2023.

Graph II.31.1: **Serbia - Real GDP growth and contributions**



Unemployment to resume gradual decline

After a slight increase in 2021, as the pace of return of discouraged workers to the labour market initially exceeded the growth of employment, the unemployment rate is expected to resume a gradual decline in 2022 and 2023.

Inflationary pressures to decelerate from high levels

After accelerating strongly since the second half of 2021, mostly due to food and energy prices, inflation reached 9.1% in March 2022 and is projected to peak in the middle of the year. It is expected to decelerate as of autumn 2022 as base effects from lower price levels in early 2021 are set to subside, leading average annual inflation to stabilise at the level of the first quarter of 2022 and to return below 5% in 2023.

High uncertainty and substantial downside risks

Given the war in Ukraine, the growth outlook is subject to a high level of uncertainty while risks appear to be tilted to the downside. An even stronger or more durable hike in inflation, maintaining or exceeding the March 2022 level for a prolonged period, particularly due to continued pressure from energy and food prices, could further weaken purchasing power and thereby weigh on real growth more than currently anticipated. A protracted impact of supply-side bottlenecks, particularly in the EU, could dampen net exports as compared to the baseline. On the other hand, increased nearshoring of production could have beneficial effects on foreign direct investment and exports.

Deficit and debt levels on a downward path

After reaching 8.0% of GDP in 2020, mostly as a result of COVID-19-crisis-mitigating fiscal support measures, the general government deficit dropped to 4.1% of GDP in 2021 on the back of lower fiscal support measures, strong revenue performance in line with high nominal growth and deferred tax payments, and despite substantial further increases in capital spending.

In line with a lower overall volume of government support measures, lower capital spending and continued strong revenue performance from high nominal growth, the deficit is forecast to decrease further to around 3% of GDP in 2022 and to continue declining in 2023. Following an increase by 5 pps in 2020 to 57.8%, the debt-to-GDP ratio has slightly decreased to 57.1% in 2021 as a result of very high nominal GDP growth. The ratio is projected to continue a gradual decline in 2022 and 2023 in line with lower public deficits and continued rather high nominal GDP growth.

Graph II.31.2: **Serbia- General government budget balance and gross debt**

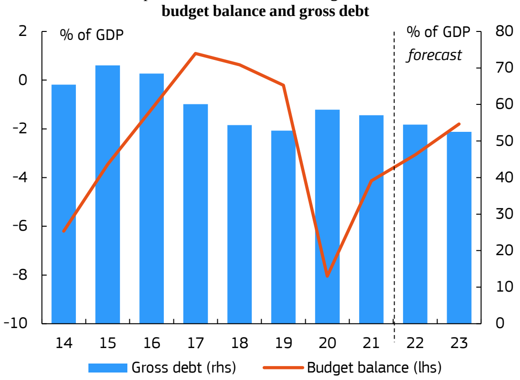


Table II.31.1:

Main features of country forecast - SERBIA

		2021			Annual percentage change					
	bn RSD	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP		6268.7	100.0	3.1	4.5	4.3	-0.9	**7.4**	**3.4**	**3.8**
Private Consumption		4100.7	65.4	2.8	3.1	3.7	-1.9	**7.6**	**3.7**	**3.8**
Public Consumption		1052.5	16.8	1.7	3.7	1.9	2.8	**2.7**	**0.1**	**0.7**
Gross fixed capital formation		1409.5	22.5	6.4	17.5	17.2	-1.9	**12.5**	**4.4**	**4.8**
Exports (goods and services)		3410.2	54.4	9.8	7.5	7.6	-4.1	**19.3**	**8.6**	**8.5**
Imports (goods and services)		3902.2	62.2	8.0	10.8	10.7	-3.6	**19.3**	**8.1**	**7.3**
GNI (GDP deflator)		5991.0	95.6	2.7	6.0	4.0	1.5	**5.9**	**3.3**	**3.5**
Contribution to GDP growth:	Domestic demand			3.7	5.9	6.3	-1.3	**8.2**	**3.4**	**3.8**
	Inventories			0.1	0.9	0.4	0.3	**0.7**	**0.3**	**-0.1**
	Net exports			1.4	-2.4	-2.5	0.1	**-1.6**	**-0.4**	**0.0**
Employment				-0.9	1.4	2.4	-0.2	**2.6**	**0.8**	**0.7**
Unemployment rate (a)				18.1	12.7	11.2	9.7	**11.0**	**10.0**	**9.3**
Compensation of employees / head				:	:	:	:	**:**	**:**	**:**
Unit labour costs whole economy				:	:	:	:	**:**	**:**	**:**
Saving rate of households (b)				:	:	:	:	**:**	**:**	**:**
GDP deflator				7.9	2.0	2.4	2.4	**6.1**	**7.6**	**4.5**
Consumer price index				8.3	2.0	1.7	1.6	**4.0**	**8.5**	**4.6**
Terms of trade goods				:	-1.3	3.1	1.0	**2.7**	**-2.7**	**-0.2**
Trade balance (goods) (c)				-14.6	-11.9	-12.2	-11.1	**-11.1**	**-12.9**	**-13.0**
Current-account balance (c)				-7.1	-4.8	-7.0	-4.1	**-4.4**	**-6.5**	**-6.4**
General government balance (c)				-3.0	0.6	-0.2	-8.0	**-4.1**	**-3.1**	**-1.8**
Structural budget balance (d)				:	:	:	:	**:**	**:**	**:**
General government gross debt (c)				52.0	54.4	52.8	58.6	**57.1**	**54.5**	**52.5**

(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.