33. SERBIA

Economic growth in Serbia is projected to remain subdued in 2023 and then to pick up in 2024 in 2025, as the impact of lower inflation on real disposable income is set to support private consumption. Helped by high nominal GDP growth and lower capital transfers to state-owned energy utilities, the general government deficit and debt ratios are expected to continue falling gradually in 2024 and 2025.

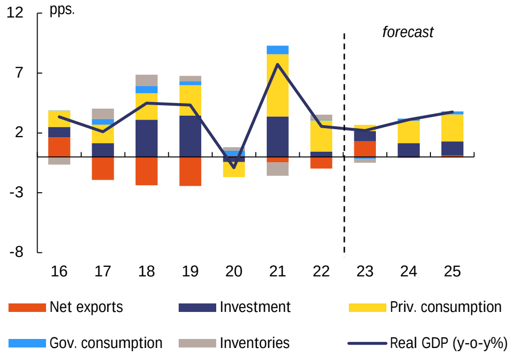
After subdued growth in 2023, growth to pick up in 2024 helped by lower inflation

Following a substantial deceleration in 2022, the Serbian economy continued to expand at a moderate pace of 1.3% y-o-y only in the first half of 2023, driven by net exports and investments. Short-term indicators suggest that the expansion of economic activity started to accelerate in the summer, which is forecast to translate into higher y-o-y growth in the second half of the year. The economy is expected to grow by 2.2% for 2023 as a whole. The impact of decreasing inflation on real disposable income is projected to foster private consumption growth towards the end of the year. Moreover, stronger net exports and investments will support moderate growth, albeit partially offset by lower inventories and lower government consumption. On the production side, all sectors are set to contribute positively to annual growth, with substantial contributions from agriculture and construction due to base effects from the drought and low construction activity in 2022. Economic growth is projected to accelerate to 3.1% in 2024 and 3.7% in 2025, mostly on the back of accelerating private consumption growth, helped by lower inflation, and a pick-up of investment. After the substantial positive effect in 2023, the contribution of net exports to growth is expected to be broadly neutral in 2024 and 2025, helped by increased export performance supported by recent foreign direct investment in the tradable sector. The economic expansion is, however, forecast to only gradually approach its pre-pandemic rate of somewhat above 4%. After a sharp decrease in 2023, mainly due to much lower energy imports, the current account deficit is set to remain broadly stable in 2024 and 2025.

Unemployment to resume its downward trend

In line with subdued employment growth, the unemployment rate is expected to remain broadly unchanged in 2023. It is projected to return to a moderately declining path in 2024 and 2025, in line with some pickup in employment growth reflecting the economic recovery.

Graph II.33.1: Serbia - Real GDP growth and contributions



Inflation to gradually decelerate

After reaching a peak of 16.2% y-o-y in March, inflation has gradually declined to 10.2% y-o-y in September, helped in particular by decreasing pressure from food prices. Inflation is projected to decelerate further in the remainder of 2023 and throughout 2024, partly due to base effects and tighter financing conditions. After a slight increase in 2023, average annual inflation is expected to return to single digits in 2024 and to return within the central bank's target band in 2025.

High uncertainty and substantial downside risks

Given Russia's continuing war of aggression against Ukraine and the intensification of other geopolitical tensions, the growth outlook is subject to a high level of uncertainty with risks tilted to the downside. Moreover, a more persistent inflation than currently projected could weaken the pickup in purchasing power and thereby dampen consumption and real growth. A protracted slowdown in Serbia's main trading partners, particularly in the EU, could dampen net exports 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 falling to 3.2% of GDP in 2022, the general government deficit is expected to decrease further in 2023. Lower-than-planned capital transfers to state-owned enterprises in the energy sector and more revenue from increased excise duties are projected to be mostly offset by discretionary expenditure measures. These include higher subsidies for agriculture, one-off lump-sum payments to pensioners and families with children, an extraordinary pension increase and additional wage rises in education and health. Supported by the economic recovery and a further decrease in energy-related capital transfers, the deficit is forecast to gradually decrease in 2024 and 2025. Following a decline to 55.6% in 2022, mostly as a result of the high nominal GDP growth, the general government debt-to-GDP ratio is projected to also gradually decline further, mainly due to the denominator effect amid a continued robust increase in nominal GDP.

Graph II.33.2: Serbia- General government budget balance and gross debt

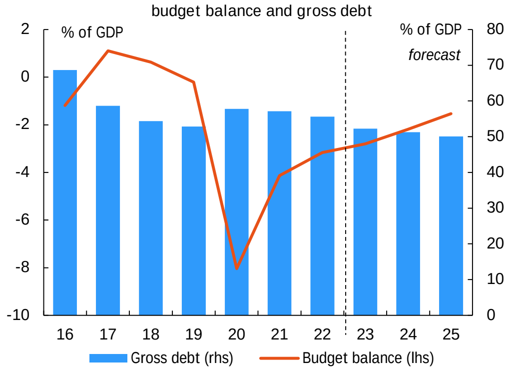


Table II.33.1:

Main features of country forecast - SERBIA

		2022			Annual percentage change						
	bn RSD	**Curr. prices**	**% GDP**	**04-19**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
GDP		7097.6	100.0	3.0	-0.9	7.7	2.5	**2.2**	**3.1**	**3.7**
Private Consumption		4845.8	68.3	2.5	-1.9	7.8	4.0	**0.8**	**2.9**	**3.4**
Public Consumption		1148.7	16.2	1.2	2.8	4.1	0.4	**-1.1**	**1.1**	**1.7**
Gross fixed capital formation		1714.5	24.2	5.5	-1.9	15.7	1.9	**3.5**	**4.7**	**4.9**
Exports (goods and services)		4531.2	63.8	8.0	-4.2	20.5	16.6	**3.3**	**6.9**	**7.3**
Imports (goods and services)		5309.8	74.8	6.7	-3.6	18.3	16.1	**1.1**	**6.2**	**6.4**
GNI (GDP deflator)		6695.7	94.3	2.7	1.5	6.8	0.7	**2.4**	**2.9**	**3.4**
Contribution to GDP growth:	Domestic demand			3.3	-1.2	9.3	3.1	**1.2**	**3.2**	**3.7**
	Inventories			0.3	0.3	-1.1	0.4	**-0.3**	**-0.1**	**0.0**
	Net exports			0.8	0.0	-0.5	-1.0	**1.3**	**0.0**	**0.1**
Employment				-0.3	-0.2	2.6	2.3	**0.3**	**0.5**	**0.6**
Unemployment rate (a)				17.9	9.7	11.0	9.4	**9.4**	**9.0**	**8.6**
Compensation of employees / head				:	:	:	:	**:**	**:**	**:**
Unit labour costs whole economy				:	:	:	:	**:**	**:**	**:**
Saving rate of households (b)				:	:	:	:	**:**	**:**	**:**
GDP deflator				6.2	2.4	5.8	10.4	**13.5**	**5.4**	**3.9**
Consumer price index				6.8	1.6	4.1	11.9	**12.7**	**5.5**	**3.6**
Terms of trade goods				:	1.0	0.1	-3.7	**2.5**	**0.0**	**0.0**
Trade balance (goods) (c)				-14.2	-11.1	-11.3	-15.5	**-11.5**	**-11.7**	**-11.8**
Current-account balance (c)				-7.2	-4.1	-4.3	-6.9	**-3.3**	**-3.5**	**-3.3**
General government balance (c)				-2.6	-8.0	-4.1	-3.2	**-2.8**	**-2.2**	**-1.5**
Structural budget balance (d)				:	:	:	:	**:**	**:**	**:**
General government gross debt (c)				82.1	57.8	57.1	55.6	**52.2**	**51.2**	**50.1**

(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.