34. SERBIA

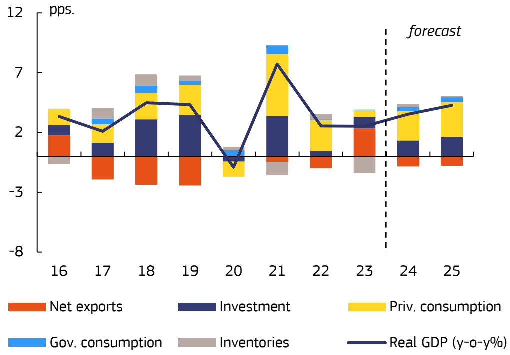
Economic growth in Serbia has picked up over recent quarters and is forecast to gradually strengthen in the next years, reaching 4.3% in 2025. It is expected to be driven by private consumption, due to rising real incomes, and exports, benefiting from expanding manufacturing capacities thanks to strong foreign direct investment (FDI) inflows. The general government deficit-to-GDP ratio is expected to continue decreasing to 1.5% and the debt-to-GDP ratio is set to fall to below 50% by 2025.

The acceleration of GDP growth is set to continue

GDP growth picked up speed over the second half of 2023, accelerating from 1.5% year-on-year (y-o-y) in the first half of the year to 3½% in the third and fourth quarters, with the annual growth rate reaching 2.5%. Growth was driven by net exports. Exports grew moderately while imports declined, reflecting a lower need for importing energy as domestic capacity was restored after a supply disruption in 2022. Private consumption was helped by decelerating inflation and strong wage growth. Investment was boosted by strong FDI inflows into manufacturing sectors. Short-term indicators suggest that the expansion of both private consumption and manufacturing continued strongly in early 2024. As a one-off factor, the regular maintenance of a large oil refinery is set to suppress industrial growth over the period of March to April 2024, but the negative impact on annual GDP is estimated to be marginal. Overall, the same growth drivers are forecast to extend into 2024 and 2025, with growth accelerating to 3.5% in 2024 and 4.3% in 2025. The boost to real disposable income from decreasing inflation is projected to spur private consumption further. Exports are projected to perform strongly, given the persistent inflow of FDI into manufacturing and strong service exports (information and communication technology, business services and tourism). Import growth is also set to accelerate, reflecting stronger consumption and investment. Therefore, the current account deficit as a percentage of GDP, which came down to 2.6% of GDP in 2023, is set to once again increase to almost 4% in 2024 and 2025.

In spite of the high external uncertainty, risks to growth appear balanced. Recent years have proven the relative resilience of Serbia's economy to external shocks. Still, a more persistent inflation than currently projected could weaken the pickup in purchasing power and thereby dampen consumption and real growth. As a country-specific risk, investments needed for the specialised EXPO 2027 exhibition and the 'Leap into the Future 2027' programme could not yet be fully accounted into the current forecast as many of the outlays are not yet credibly planned and announced. Additional public investment could lead to higher GDP growth, but also to unforeseen public expenditure rises.

Graph II.34.1: **Serbia - Real GDP growth and contributions**



Unemployment at a structural limit

Employment grew strongly in 2023, also boosted by a substantial increase in immigration from Russia. At the same time, unemployment declined slowly to about 9% of the working age population, and appears to have reached a structural limit. In 2024 and 2025, the trend of growing employment and marginally decreasing unemployment is set to continue. In parallel, nominal wage growth has continued to soar in both the public and private sector at about 15% y-o-y over the first months of 2024. Wage growth is expected to slow down gradually in response to lower inflation pressures.

Inflation to gradually decelerate

Consumer price inflation was on a declining trend in the second half of the year, but still averaged 12.1% in 2023. Inflation was driven especially by increases in food prices. Large increases in electricity and gas tariffs (24% and 33% respectively), also gave a one-off push to inflation in 2023. There are no such extraordinary tariff rises planned for the coming years. By March 2024, the inflation rate had declined to 5%, helped by decreasing pressures from food prices. Core inflation has reached a similar level. Inflation is expected to return within the central bank's target band (3% ±1.5 pps.) in mid-2024, reacting to the effects of past monetary tightening, the slower pace of imported inflation and the decrease in inflation expectations. Inflation is projected to decelerate further to slightly above 3% in 2025, in line with the assumed easing of global price pressures and decelerating wage growth.

Fiscal deficit projected to reach 1.5% by 2025

In 2023, revenue growth outperformed projections and fiscal support to state-owned energy utilities was lower than planned. Despite a usual late-year supplementary budget spending some of the over-performance on pensions, transfers and public sector wages, the general government deficit as a percentage of GDP fell by one pp. to 2.2%, which is better than expected. The deficit is forecast to reach the government's fiscal targets of 2.2% in 2024 and 1.5% in 2025, as tax revenue is set to benefit from the pick-up in economic activity and a strong labour market, while energy-related expenditure is projected to decrease. This would bring the debt-to-GDP ratio down to around 50% in 2025, from 52.3% in 2023. An upside risk to this fiscal projection would be further positive surprises in tax base growth. On the other hand, the government typically spends excess revenue towards the end of the year via a supplementary budget. Also, the details of announced ambitious investment plans are still uncertain.

Table II.34.1:

Main features of country forecast - SERBIA

	2023			Annual percentage change						
	bn RSD	Curr. prices	% GDP	04-19	2020	2021	2022	2023	2024	2025
GDP		8150.5	100.0	3.0	-0.9	7.7	2.5	**2.5**	**3.5**	**4.3**
Private Consumption		5483.0	67.3	2.5	-1.9	7.8	4.0	**0.8**	**3.6**	**4.3**
Public Consumption		1292.5	15.9	1.2	2.8	4.1	0.4	**0.3**	**2.1**	**2.6**
Gross fixed capital formation		1850.4	22.7	5.5	-1.9	15.7	1.9	**3.9**	**5.9**	**7.0**
Exports (goods and services)		4880.8	59.9	8.0	-4.2	20.5	16.6	**2.4**	**5.2**	**6.8**
Imports (goods and services)		5247.9	64.4	6.7	-3.6	18.3	16.1	**-1.1**	**6.2**	**7.6**
GNI (GDP deflator)		7662.4	94.0	2.7	1.5	6.8	1.4	**1.4**	**3.5**	**4.3**
Contribution to GDP growth:		Domestic demand		3.3	-1.2	9.3	3.1	**1.6**	**4.1**	**4.9**
		Inventories		0.3	0.3	-1.1	0.4	**-1.4**	**0.3**	**0.1**
		Net exports		-0.5	0.0	-0.5	-1.0	**2.3**	**-0.8**	**-0.8**
Employment				:	-0.2	2.6	1.8	**1.7**	**0.5**	**0.5**
Unemployment rate (a)				17.8	9.0	11.1	9.5	**9.5**	**9.3**	**9.1**
Compensation of employees / head				:	:	:	:	**:**	**:**	**:**
Unit labour costs whole economy				:	:	:	:	**:**	**:**	**:**
Saving rate of households (b)				:	:	:	:	**:**	**:**	**:**
GDP deflator				6.2	2.4	5.8	10.4	**12.0**	**4.4**	**3.4**
Consumer price index				34.0	1.6	4.1	12.0	**12.4**	**4.7**	**3.2**
Terms of trade goods				0.5	2.1	0.4	-3.9	**4.2**	**2.1**	**0.4**
Trade balance (goods) (c)				-13.8	-10.7	-10.7	-14.9	**-8.9**	**-8.2**	**-8.5**
Current-account balance (c)				-7.4	-4.1	-4.5	-6.9	**-2.6**	**-3.6**	**-3.6**
General government balance (c)				-2.6	-8.0	-4.1	-3.2	**-2.2**	**-2.2**	**-1.5**
Structural budget balance (d)				:	:	:	:	**:**	**:**	**:**
General government gross debt (c)				82.1	60.0	57.1	55.6	**52.3**	**51.4**	**49.9**

(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.