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Serbia: Fiscal and other worries

In Serbia, prospect for this year will depend on the measures that will be taken before the summer recess. If the intended cuts in public spending materialise, that will affect negatively this year's growth, which in any case was not projected to be much faster than 2% and may be lower now. In the medium term, persistent fiscal and current account worries will make growth depend on exports and foreign investments. Those may keep recovering slowly, but a significant speed-up of growth is not very likely.

With the change of government last year, a long-term fiscal adjustment programme was adopted, which was supposed to start with a significant correction of the fiscal deficit from around 7% of GDP in 2012 to 3.6% in 2013. About half a year after the adoption of this year's budget, the expected fiscal deficit was running at between 7% and 8% of GDP for this year. As a consequence, the government is contemplating addition measures to reduce public spending. As on previous similar occasions, various structural reforms are also being announced, which do not differ significantly from those in the past. Whether this time around the implementation will be different is hard to say.

However, the government is split several ways along ideological and interest lines. The Socialists argue against measures of fiscal austerity, especially those that would require wages and pensions to be frozen, a measure recommended by the IMF and the Fiscal Council. In addition, there are disagreements about the privatisation and incorporation of public enterprises. They have amassed significant losses and continue to add to those year after year. Giving up the control over those may, however, not be in the interest of all the parties in the governing coalition. Finally, changes in the labour law with the aim to speed up the shedding of labour is not going to be popular, especially given that the government has decided not to fire anybody until the crisis is over. Having in mind the huge decline of employment in the past few years and the expected additional reductions in this and possibly next year, this may be risking social dissatisfaction on a larger scale than it has been seen so far.

The policy strategy of the new government was to rely on export growth and support for investments. Exports have been much higher at the beginning of the year mainly, though not exclusively, due to the start of car production in the FIAT plant in Kragujevac. There is little doubt that exports will continue to post high growth rates all through the year for the same reason. Next year and beyond, that will depend on the realisation of new investments which, however, are yet to materialise; public investments are in fact set to decline as part of fiscal consolidation.

Monetary policy has not been supportive of this investment strategy. The new central bank leadership attempted to shore up their credibility by measures that stabilised the exchange rate and with attempts to strong talk the inflation rate down. That has led to real appreciation of the exchange rate, which indeed contributed, together with the high interest rate, to some slowdown of the growth of prices. This has made investments less attractive because those could make sense only if the intended production is targeting foreign markets as domestic private consumption continues to decline. Also, the stream of bad news, especially that connected with the intended fiscal consolidation, does not ensure confidence in the stability of the exchange rate. If depreciation cannot be avoided, that will have inflationary consequences and the overall investment climate will not improve.

Hopes are being centred on the start of negotiations with the EU, which may get a positive push at the end of June. It is realistic to expect that the European Council will give Serbia a positive assessment which should lead to the negotiating process to start sometime early next year. That may contribute to political stability, though social stability is another matter altogether. The wave of outward migration has been supportive of the latter, but further deterioration may prove challenging. The mobilisation is low, but that can change rather quickly in current communication circumstances.

Prospects for this year will depend on the measures that will be taken before the summer recess. If the intended cuts in public spending materialise, that will affect negatively this year's growth, which in any case was not projected to be much faster than 2% and may be lower now. In the medium term, persistent fiscal and current account worries will make growth depend on exports and foreign investments. Those may keep recovering slowly, but a significant speed-up of growth is not very likely.

Table RS

Serbia: Selected Economic Indicators

	2009	2010	2011	2012 ¹⁾	2012 1st quarter	2013	2013 Forecast	2014 Forecast	2015
Population, th. pers., mid-year	7320.8	7291.4	7160.0	7130.0	.	.	7100	7070	7040
Gross domestic product, RSD bn, nom. ²⁾	2720.1	2881.9	3208.6	3386.2	746.8	850.0	3600	3900	4200
annual change in % (real) ²⁾	-3.5	1.0	1.6	-1.7	-2.7	1.9	1.0	2.0	3.0
GDP/capita (EUR at exchange rate)	4000	3800	4400	4200	.	.	.	.	.
GDP/capita (EUR at PPP)	8400	8500	8800	9000	.	.	.	.	.
Consumption of households, RSD bn, nom. ²⁾	2143.2	2282.8	2438.2	2552.5	614.8	.	.	.	.
annual change in % (real) ³⁾	-2.4	-0.6	-0.8	-2.0	-2.3	.	0.0	1.0	2.0
Gross fixed capital form., RSD bn, nom. ²⁾	510.2	512.3	592.8	604.3	111.8	.	.	.	.
annual change in % (real) ³⁾	-22.1	-5.5	8.4	-3.4	0.8	.	3.0	4.0	5.0
Gross industrial production ⁴⁾									
annual change in % (real)	-12.6	2.5	2.1	-2.9	-6.2	5.1	3.0	4.0	5.0
Gross agricultural production									
annual change in % (real)	1.3	1.0	0.8	-18.0	.	.	10.0	5.0	10.0
Construction output ⁵⁾									
annual change in % (real)	-19.7	-7.1	7.7	4.0	.	.	3.0	3.0	5.0
Employed persons, LFS, th, average ⁶⁾	2616.4	2396.2	2253.2	2228.3	.	.	2200	2200	2200
annual change in % ⁶⁾	-7.3	-8.4	-6.0	-1.1	.	.	-1.0	0.0	1.0
Unemployed persons, LFS, th, average ⁶⁾	503.0	568.7	671.1	702.7	.	.	.	.	.
Unemployment rate, LFS, in %, average ⁶⁾	16.1	19.2	23.0	24.0	.	.	25.0	25.0	25.0
Unemployment rate, reg., in %, end of period	25.9	26.7	27.6	28.2	28.5	29.0 ^{Feb}	30.0	30.0	28.0
Average gross monthly wages, RSD ⁷⁾	44147	47450	52733	57430	54153	57425	.	.	.
annual change in % (real, net) ⁷⁾	0.2	0.7	0.2	1.8	5.9	-5.3	.	.	.
Consumer prices, % p.a.	8.6	6.8	11.0	7.8	4.8	12.1	6.0	5.0	5.0
Producer prices in industry, % p.a. ⁸⁾	5.6	12.7	14.2	5.5	6.3	5.9	.	.	.
General governm.budget, nat.def., % of GDP									
Revenues	42.1	42.5	41.0	41.3	.	.	.	.	.
Expenditures	46.6	47.2	46.0	47.7	.	.	.	.	.
Deficit (-) / surplus (+)	-4.5	-4.7	-5.0	-6.4	.	.	-6.0	-4.0	-3.0
Public debt, nat.def., % of GDP	34.7	44.5	49.0	58.9	.	.	65.0	65.0	65.0
Central bank policy rate, % p.a., end of period ⁹⁾	9.50	11.50	9.75	11.25	9.5	11.8	6.0	5.0	5.0
Current account, EUR mn	-2084.4	-2082.2	-2870.0	-3155.1	-1175.6	-615.3	-2700	-2750	-2500
Current account, % of GDP	-7.2	-7.4	-9.1	-10.5	-17.0	-8.1	-9.0	-9.0	-8.0
Exports of goods, BOP, EUR mn	5977.8	7402.4	8439.6	8822.3	1853.7	2264.9	9700	10700	11800
annual change in %	-19.4	23.8	14.0	4.5	-5.2	22.2	10.0	10.0	10.0
Imports of goods, BOP, EUR mn	11096.3	12176.0	13758.0	14272.1	3403.3	3410.2	15000	16100	17700
annual change in %	-30.3	9.7	13.0	3.7	5.5	0.2	5.0	7.0	10.0
Exports of services, BOP, EUR mn	2500.0	2667.1	3032.2	3091.1	667.0	703.3	3300	3500	3700
annual change in %	-8.8	6.7	13.7	1.9	5.6	5.4	7.0	7.0	5.0
Imports of services, BOP, EUR mn	2481.7	2661.9	2869.0	2938.8	638.2	664.2	3100	3400	3700
annual change in %	-15.2	7.3	7.8	2.4	5.7	4.1	5.0	10.0	10.0
FDI inflow, EUR mn	1410.1	1003.1	1948.9	274.1	-343.0	173.1	700	1000	1000
FDI outflow, EUR mn	37.6	143.0	122.0	42.3	18.5	1.9	100	100	100
Gross reserves of NB, excl. gold, EUR mn	10278	9555	11497	10295	10492	11217	.	.	.
Gross external debt, EUR mn	22487	23786	24125	25721	24068	36772	.	.	.
Gross external debt, % of GDP	77.7	84.9	76.7	85.8	77.6	87.3	.	.	.
Exchange rate RSD/EUR, average	93.94	102.90	101.96	112.98	108.11	111.69	120	128	135
Purchasing power parity RSD/EUR	44.27	46.56	50.69	54.46	.	.	.	.	.

Note: Gross industrial production, construction output and producer price index refer to NACE Rev. 2.

1) Preliminary. - 2) According to ESA'95 (non-observed economy partially included, real growth rates based on previous year prices). - 3) wiiw estimate. - 4) Excluding arms industry. - 5) According to gross value added. - 6) From 2008 extended survey as of April and October (before October only). - 7) From 2009 including wages of employees working for sole proprietors. - 8) Domestic output prices. - 9) Two-week repo rate.

Source: wiiw Database incorporating national statistics. Forecasts by wiiw.