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## **Serbia: IMF forever**

Serbia went through the crisis more or less the same way as most other countries. There was a sharp deceleration in growth of industrial production; a sharp correction in the trade and current account deficits, due to the steeper decline in imports than in exports, which was supported by strong initial nominal exchange rate depreciation; an eventual decline in employment and some increase in unemployment; and an overall GDP decline of 3% (official estimate). By the second half of last year, there was some stabilization but not much of improvement in growth and employment.

The policy response was different from most other countries because Serbia decided to ask for IMF support. That led to a stand-by agreement and to the initiation of what was to be known as The Vienna Initiative. The latter is a commitment by participating banks, mostly foreign-owned, not to lower their credit exposure for a specified period of time (until the end of 2010). Other countries with IMF programmes joined in that initiative later on. As a consequence, financial markets were stabilized, though the flow of credit was not really kicked off.

At the end of last year and the beginning of this year, the dinar experienced some instability, depreciating by almost 5%. This has made the corporate sector nervous because the risks to macroeconomic stability have increased. This pressure on the dinar exchange rate was attributed to increased public spending and to financial outflows perhaps due to the anticipated relaxation in the terms of The Vienna Initiative. In any case, stability has remained fragile.

The government and the IMF expect GDP growth of 2% this year and a speed-up of growth to around 3% in 2011. It is not clear whether both of them consider this forecast as realistic. The government seems to suggest that they expect faster growth, while the IMF has been changing its forecasts quite frequently in the past and might do that again. In any case, demand is still quite weak, which is reflected in the fast deceleration of inflation. Though the CPI is expected to rise by 6% this year, headline inflation is very close to zero. Most of the rise in prices will be due to those that are under government control. That may even have deflationary effects on the rest of the economy because incomes cannot be expected to grow. With that in mind, if there is no additional fiscal stimulus or significant financial support, it is hard to see that GDP will post any growth this year.

In the next two years, it is expected that there will be some acceleration of growth mainly due to boosts to exports. The current IMF agreement does not envisage any significant recovery in public spending, and households and corporations have limited possibilities to expand either their

consumption or investments. Also, credit will most probably remain tight as long as the economy does not show significant signs of recovery. As a consequence, the return to potential growth rates may occur only slowly.

In that context, it is probably realistic to expect that Serbia will renew its programme with the IMF. The current one expires at the end of this year. However, with the need to ensure continuing macroeconomic stability and with shortage of financial resources, IMF financial support may prove needed for an extended period of time. Recovery may be speeded up if Serbia's recent application for EU membership is accepted and negotiations start. That will mean increased funds from the EU budget as well as improved risk assessment by the financial markets and by potential investors. So, medium-run prospects may prove to be better than they seem at the moment.

Table RS

## Serbia: Selected Economic Indicators

	2004	2005	2006	2007	2008	2009 <sup>1)</sup>	2010	2011	2012
	Forecast								
Population, th pers., average	7463.2	7440.8	7411.6	7381.6	7350.2	7320.0	7300	7280	7250
Gross domestic product, RSD bn, nom.	1384.3	1687.8	1980.2	2362.8	2790.9	2900	3100	3300	3500
annual change in % (real)	8.3	5.6	5.2	6.9	5.5	-2.9	0	2	3
GDP/capita (EUR at exchange rate)	2600	2700	3200	4000	4600	4200	.	.	.
GDP/capita (EUR at PPP - wiiw)	6800	7200	7800	8500	9300	10100	.	.	.
Consumption of households, RSD mn, nom.	1052.7	1281.0	1492.7	1714.0	2030	2160	.	.	.
annual change in % (real) <sup>2)</sup>	.	5.0	5.4	6	6	-2	0	2	2
Gross fixed capital form., RSD mn, nom.	265.7	319.9	412.8	552.3	670	670	.	.	.
annual change in % (real) <sup>2)</sup>	.	5.0	15.2	12	8	-5	0	3	4
Gross industrial production									
annual change in % (real)	7.1	0.8	4.7	3.7	1.1	-12.6	0	3	3
Gross agricultural production									
annual change in % (real)	26.0	-3.4	-2.6	-8.0	9.0	5.0	.	.	.
Construction output total <sup>3)</sup>									
annual change in % (real)	3.5	2.0	7.7	10.8	4.6	4.8	.	.	.
Employed persons - LFS, th, Oct <sup>4)</sup>	2930.8	2733.4	2630.7	2655.7	2821.7	2616.4	2560	2560	2560
annual change in %	.	-6.7	-3.8	1.0	.	-7.3	-2	0	0
Unemployed persons - LFS, th, Oct <sup>4)</sup>	665.4	719.9	693.0	585.5	445.4	503.0	.	.	.
Unemployment rate - LFS, in %, Oct <sup>4)</sup>	18.5	20.8	20.9	18.1	13.6	16.1	20	20	20
Reg. unemployment rate, in %, end of period	26.4	27.2	28.0	25.4	24.0	25	.	.	.
Average gross monthly wages, RSD <sup>5)</sup>	20555	25514	31745	38744	45674	44147	.	.	.
annual change in % (real, net) <sup>5)</sup>	10.1	6.4	11.4	19.5	3.9	0.2	.	.	.
Consumer prices, % p.a.	11.4	16.2	11.7	7.0	11.7	8.4	6	4	4
Producer prices in industry, % p.a. <sup>6)</sup>	9.1	14.2	13.3	5.9	12.4	5.6	.	.	.
General governm.budget, nat.def., % GDP									
Revenues	42.6	42.9	43.8	42.4	41.1	38	.	.	.
Expenditures	41.6	41.9	45.4	44.3	43.5	43	.	.	.
Deficit (-) / surplus (+), % GDP	0.9	0.9	-1.7	-1.9	-2.4	-5	-4	-2	-2
Public debt, nat.def., in % of GDP	50.7	50.5	39.8	30.0	25.8	31.5	34	35	35
Discount rate of NB, % p.a., end of period	8.5	8.5	8.5	8.5	8.5	8.1	.	.	.
Current account, EUR mn	-2620.0	-1778.0	-2356.0	-4615.0	-6054.0	-2150	-2700	-3100	-3100
Current account in % of GDP	-13.7	-8.7	-10.0	-15.6	-17.7	-7	-9	-10	-10
Exports of goods, BOP, EUR mn	3286.0	4009.0	5109.0	6382.0	7415.0	5900	6200	6800	7500
annual growth rate in %	12.1	22.0	27.4	24.9	16.2	-20	5	10	10
Imports of goods, BOP, EUR mn	8487.0	8287.0	10090.0	13020.0	14964.0	10900	11400	12500	13800
annual growth rate in %	31.2	-2.4	21.8	29.0	14.9	-27	5	10	10
Exports of services, BOP, EUR mn	1189.0	1320.0	1839.0	2304.0	2742.0	2550	2600	2900	3200
annual growth rate in %	29.9	11.0	39.3	25.3	19.0	-7	0	10	10
Imports of services, BOP, EUR mn	1056.0	1325.0	1880.0	2558.0	2913.0	2470	2500	2800	3100
annual growth rate in %	43.5	25.5	41.9	36.1	13.9	-15	0	10	10
FDI inflow, EUR mn	771.9	1268.1	3392.4	2512.6	2015.0	1200.0	1500	1500	1500
FDI outflow, EUR mn	-2	18	70	692	193	200	200	200	200
Gross reserves of NB, excl. gold, EUR mn	3022.8	4770.4	8857.9	9440.7	7938.5	10500	.	.	.
Gross external debt, EUR mn	10354.5	13064.0	14884.4	17789.4	21800.5	22500	.	.	.
Gross external debt in % of GDP	59.0	66.2	59.4	59.7	69.2	74	.	.	.
Average exchange rate RSD/EUR	72.57	82.91	84.19	79.98	81.47	94.12	100	110	115
Purchasing power parity RSD/EUR <sup>7)</sup>	27.26	31.72	34.42	37.66	41.04	39.30	.	.	.

1) Preliminary and wiiw estimates. - 2) wiiw estimate. - 3) Gross value-added. - 4) From 2004 according to census 2002 and revisions based on ILO and Eurostat methodology; from 2008 extended survey as of April and October. - 5) From 2009 methodological changes of survey. - 6) Domestic output prices. - 7) Benchmark results 2005 from Eurostat and wiiw estimates.

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