
*Vladimir Gligorov*

# Serbia:
## Post-election crisis

***In Serbia recovery is unlikely this year and the prospects for the next two years will hinge on political stability and the economic policy pursued by the new government. The chances are that stagnation or slow growth is in the cards in the medium term.***

Similar to other Balkan economies, Serbia recorded negative GDP growth for the first quarter 2012: – 1.3%. Furthermore, industrial production declined rather strongly by 6.2% over the same period and future prospects are not encouraging. Driven by pre-election government munificence, imports increased and exports declined, while employment continued to fall. The outlook for the year as a whole has steadily worsened. The chances now are that growth this year will be negative: hovering, it is hoped, around – 1%.

This year's economic developments have been heavily influenced by pre-election politics. Presidential, general and local elections were held at the beginning of May. In the run-up to the same, the government put the IMF programme on hold and increased spending significantly. Indeed, almost everything else was held in abeyance. The outcome has been mixed. Whereas the incumbent president, Mr. Boris Tadic, was not re-elected, the governing coalition won enough seats to continue in office. Moreover, the incumbent parties fared pretty well in the local elections, especially in the major cities and the province of Vojvodina. Serbia is a parliamentary democracy, which hitherto has been run as though it were a presidential system. The lost presidential elections may thus cast a shadow on the new-cum-old coalition, which may ultimately prove to be less than stable and effective.

The new government will inherit a stagnant economy entailing risks to the country's macroeconomic stability. In the aftermath of the elections, the Fiscal Council, an independent body legally authorised to monitor fiscal sustainability, has issued a warning about the public debt increasing rapidly and a crisis looming large - with every risk of default perhaps just six months or so away. The projected fiscal deficit for the current year now stands at over 6% and the public debt is expected to come close to 50% of GDP by the end of the year. The recommendation is to embark on decreasing expenditures and increasing value-added tax from 18% to 22%.

As for the background, it should be recalled that public expenditures dropped from around 46% of GDP in 2008 to 44% in 2011. However, public revenues also declined from 44% to 39% of GDP over the same period. This year, public expenditure may well reach 48% of GDP owing to the pre-election spending spree and dismal GDP growth. The Fiscal Council recommends that expenditures be cut and a revenue-neutral tax reform set in motion. The idea is to engineer fiscal devaluation by cutting taxes on labour and increasing levies on consumption, viz. VAT. The corporate sector rejects the latter proposal because of the weak demand it is facing. For their part, however, the unions and the pensioners' party, which is part of the current government, refuse to countenance lower taxes on labour because it would mean lower contributions to the pension fund. This is all tied up with a proposal for reforming the pension scheme, which would result in lower pensions and a longer working life. The government will probably have little choice but to accept some version of these recommendations. It has to renew its programme with the IMF, whose members will certainly insist on reforms as one of the pre-conditions for their continuing to lend financial support.

Given the sharp depreciation of the dinar against the euro, the need for that support would appear most urgent. Although foreign financial inflows were quite significant, considering the circumstances prevailing throughout the previous year, they have practically stalled this year. The central bank has been drawing down funds to purchase dinars, yet it has failed to adjust interest rates adequately to the slowdown in inflation and so stabilize the foreign exchange market. Its efforts at stabilisation have not met with success to date. The stand-by agreement with the IMF thus seems inevitable.

The key problem is that exports have levelled off and industrial production has gone into decline. The ongoing depreciation of the domestic currency may help reverse the trend as far as foreign trade is concerned; however, investments are essential, if industrial output is to recover. Recovery is unlikely this year and the prospects for the next two years will hinge on political stability and the economic policy pursued by the new government. The chances are that stagnation or slow growth is on the cards in the medium term.

Table RS

## Serbia: Selected Economic Indicators

| | 2008 | 2009 | 2010 | 2011 1) | 2011 | 2012 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1st quarter | | | Forecast | |
| Population, th. pers., mid-year | 7350.2 | 7320.8 | 7291.4 | 7280.0 | . | . | 7250 | 7220 | 7200 |
| Gross domestic product, RSD bn, nom. 2) | 2661.4 | 2720.1 | 2881.9 | 3175.0 | . | . | 3300 | 3500 | 3700 |
| annual change in % (real) 2) | 3.8 | -3.5 | 1.0 | 1.6 | 3.0 | -1.3 | -1 | 1 | 2 |
| GDP/capita (EUR at exchange rate) | 4400 | 4000 | 3800 | 4200 | . | . | . | . | . |
| GDP/capita (EUR at PPP - wiiw) | 9000 | 8400 | 8400 | 8700 | . | . | . | . | . |
| Consumption of households, RSD bn, nom. 2) | 2023.6 | 2143.2 | 2282.8 | 2600 | . | . | . | . | . |
| annual change in % (real) 3) | 6 | -2 | 2 | 1 | . | . | 0 | 1 | 1 |
| Gross fixed capital form., RSD bn, nom. 2) | 632.4 | 510.2 | 512.3 | 700 | . | . | . | . | . |
| annual change in % (real) 3) | 8 | -5 | -4 | 0 | . | . | -1 | 3 | 3 |
| Gross industrial production | | | | | | | | | |
| annual change in % (real) | 1.4 | -12.6 | 2.5 | 2.1 | 5.7 | -6.2 | -3 | 3 | 4 |
| Gross agricultural production | | | | | | | | | |
| annual change in % (real) | 13.7 | 1.3 | 1.0 | 0.8 | . | . | 2 | 3 | 3 |
| Construction output 4) | | | | | | | | | |
| annual change in % (real) | 4.7 | -19.7 | -7.1 | 7.7 | . | . | 3 | 3 | 3 |
| Employed persons - LFS, th, average 5) | 2821.7 | 2616.4 | 2396.2 | 2253.2 | . | . | 2150 | 2100 | 2100 |
| annual change in % | . | -7.3 | -8.4 | -6.0 | . | . | -5 | -2 | 0 |
| Unemployed persons - LFS, th, average 5) | 445.4 | 503.0 | 568.7 | 671.1 | . | . | . | . | . |
| Unemployment rate - LFS, in %, average 5) | 13.6 | 16.1 | 19.2 | 23.0 | . | . | 27 | 27 | 26 |
| Unemployment rate, reg., in %, end of period | 24.0 | 25.9 | 26.7 | 27.2 | 26.8 | 28.5 | 30 | 30 | 30 |
| Average gross monthly wages, RSD 6) | 45674 | 44147 | 47450 | 52733 | 48803 | 54153 | . | . | . |
| real growth rate, % (net wages) 6) | 3.9 | 0.2 | 0.7 | 0.2 | -2.3 | 5.9 | . | . | . |
| Consumer prices, % p.a. | 13.5 | 8.6 | 6.8 | 11.0 | 12.8 | 4.8 | 6 | 5 | 5 |
| Producer prices in industry, % p.a. 7) | 12.4 | 5.6 | 12.7 | 14.2 | 18.2 | 6.3 | . | . | . |
| General governm.budget, nat.def., % GDP | | | | | | | | | |
| Revenues | 43.0 | 42.1 | 43.1 | 41.9 | . | . | . | . | . |
| Expenditures | 45.6 | 46.6 | 47.9 | 47.0 | . | . | . | . | . |
| Deficit (-) / surplus (+), % GDP | -2.6 | -4.5 | -4.8 | -5.1 | . | . | -6 | -4 | -4 |
| Public debt, nat.def., in % of GDP | 29.2 | 34.8 | 42.9 | 45.0 | . | . | 49 | 50 | 52 |
| Central bank policy rate, % p.a., end of period 8) | 17.75 | 9.50 | 11.50 | 9.75 | 12.3 | 9.5 | 8 | 6 | 5 |
| Current account, EUR mn | -7054.1 | -2084.4 | -2082.0 | -2967.8 | -760.3 | -1159.4 | -2900 | -3280 | -3240 |
| Current account in % of GDP | -21.6 | -7.2 | -7.4 | -9.6 | -11.8 | -16.9 | -10.1 | -11.2 | -11.2 |
| Exports of goods, BOP, EUR mn | 7416.0 | 5977.8 | 7402.5 | 8437.8 | 1954.8 | 1852.3 | 9000 | 9900 | 11100 |
| annual growth rate in % | 16.2 | -19.4 | 23.8 | 14.0 | 32.5 | -5.2 | 7 | 10 | 12 |
| Imports of goods, BOP, EUR mn | 15917.2 | 11096.3 | 12175.8 | 13951.5 | 3268.9 | 3394.7 | 14600 | 15600 | 16700 |
| annual growth rate in % | 18.3 | -30.3 | 9.7 | 14.6 | 22.9 | 3.8 | 5 | 7 | 7 |
| Exports of services, BOP, EUR mn | 2741.4 | 2500.0 | 2667.1 | 3032.2 | 631.4 | 676.0 | 3300 | 3600 | 4000 |
| annual growth rate in % | 19.0 | -8.8 | 6.7 | 13.7 | 17.6 | 7.1 | 10 | 10 | 10 |
| Imports of services, BOP, EUR mn | 2926.1 | 2481.7 | 2661.9 | 2871.5 | 603.9 | 638.2 | 3200 | 3500 | 3900 |
| annual growth rate in % | 14.1 | -15.2 | 7.3 | 7.9 | 8.8 | 5.7 | 10 | 10 | 10 |
| FDI inflow, EUR mn | 2017.5 | 1410.1 | 1003.1 | 1948.9 | 325.4 | -353.0 | 800 | 1000 | 1000 |
| FDI outflow, EUR mn | 193.1 | 37.6 | 143.0 | 122.0 | 18.8 | 18.5 | 100 | 100 | 100 |
| Gross reserves of NB, excl. gold, EUR mn | 7939 | 10278 | 9555 | 11497 | 9490 | 10492 | . | . | . |
| Gross external debt, EUR mn | 21088 | 22487 | 23786 | 24125 | 22672 | 24068 | . | . | . |
| Gross external debt in % of GDP | 64.6 | 77.7 | 84.9 | 78.2 | 73.5 | 77.6 | . | . | . |
| Exchange rate RSD/EUR, average | 81.47 | 93.94 | 102.90 | 102.93 | 103.99 | 108.11 | 115 | 120 | 128 |
| Purchasing power parity RSD/EUR 9) | 40.16 | 44.35 | 46.92 | 50.13 | . | . | . | . | . |

*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) Accorrding to gross value added. - 5) From 2008 extended survey as of April and October (before October only). - 6) From 2009 including wages of employees working for sole proprietors. - 7) Domestic output prices. - 8) Two-week repo rate. - 9) wiiw estimates based on the 2005 International Comparison Project benchmark and Eurostat.

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