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Serbia:
Weather holds the key

In Serbia, prospects for the next couple of years are rather modest because those depend on a continued recovery of investments and on weather being supportive of agriculture. In addition, political and social stability need to be preserved which may prove difficult to achieve.

The official expectation is growth of 2% in 2013, then of above 3% in 2014 and a speed-up to 5% from 2015 onwards. This year, recovery should come from higher investments, increased exports, recovery of agriculture and stabilization of the labour market. In the medium term, employment and private consumption should also improve with persistently growing investments and exports. Also, agricultural production should continue to increase and become less reliant on the changing mood of the weather. How realistic is all that?

Recovery of agricultural production depends on the weather. Current forecasts assume a reversal to the mean level of production. If the weather is tolerably good, growth of agricultural production should be significant, compared to last year’s fall of 18%. More than that would require some additional help from the weather conditions. Still, even with an exceptionally good year, the contribution of agricultural production to overall growth cannot be too large. Also, given that the mean level of production has stayed practically the same over a rather long period of time, a sustained contribution of agricultural production to overall economic growth cannot be expected.

What improved weather conditions this year could additionally help with is inflation. The variability of food prices plays quite a significant role in the speed-ups and decelerations of inflation. In those, changing weather conditions play a very important part through their effect on the supply of agricultural products and the prices of food in general. So, if the weather obliges this year, inflation should decelerate from the rate of above 12% at the end of last year to the targeted 5% to 6% rate at the end of this year. Of course, that is conditional on the exchange rate and monetary policy too as well as on the growth of GDP.

More important is the expected increase in exports of FIAT cars. Optimistic projections put the growth of exports at 25% this year. The net export effect is uncertain though. In the past, growth acceleration has tended to go together with a widening of the trade and current account deficits because of the high dependence of exports on imports (which is also the case with the car industry now) and due to increased inflow of foreign financing. Even with GDP declining by around 2%, the current account deficit widened due to increased government borrowing from abroad last year. Official projections count with declining trade deficits, but that may not be consistent with the planned increases of investments. Most of these investments are supposed to come from abroad, which means that trade and current account deficits will continue to be large and perhaps even widening until at some point growing exports catch up with imports. That is probably not a medium-term perspective.

Finally, investments are expected to post high growth rates not only this year. Those should come from public and private sources. The government is determined to continue to borrow abroad to invest primarily in infrastructure. It has turned to Russia for credits for the modernization of the railway system and to China for investments in roads. Moreover, private investments are encouraged in agriculture and in industry. In addition to subsidies to foreign investors, the budget subsidizes credits for liquidity of the domestic companies, and there are other sweeteners as well that should support investments.

These interest rate subsidies of credits for liquidity are intended to ease the liquidity crunch that the economy is suffering from. So far, the effects have been that troubled companies have been able to refinance their financial obligations. There have been no noticeable effects on investments, which have declined also last year. The government has committed to start paying its own obligations regularly, or rather within 45 days. However, given the high inflation rate, this is still too long a period, though companies try to take advantage of the rising prices by delaying their payments even longer. Still, the main source of problems is in the loss making enterprises and in the growing non-performing loans in the banks.

Finally, the government has taken steps to reduce its fiscal deficit this year and plans to bring it down to practically zero in two years' time. This year this will be accomplished by some tax increases, but mainly with expenditures growing more slowly than inflation. So, public expenditures will be smaller in real terms. In the next two years, the same should be accomplished by public expenditures growing more slowly than the GDP. No nominal cuts are planned for now. With this strategy of fiscal consolidation, it is expected that public debt will reach 65% of GDP this year and should gradually decline over the period of about ten years. This rather crucially depends on the exchange rate because an increasing share of the public debt is in foreign currency. More important is the rising foreign debt, which is already growing towards 100% of GDP and will continue to increase due to persistent current account deficits and the intended reliance on foreign financing. This may prove unsustainable even in the medium run.

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Table RS

Serbia: Selected Economic Indicators

	2008	2009	2010	2011	2012 1)	2013	2014 Forecast	2015
Population, th. pers., mid-year	7350.2	7320.8	7291.4	7160.0	7130.0	7100	7070	7040
Gross domestic product, RSD bn, nom. 2)	2661.4	2720.1	2881.9	3175.0	3400.0	3600	3900	4200
annual change in % (real) 2)	3.8	-3.5	1.0	1.6	-1.9	1.0	2.0	3.0
GDP/capita (EUR at exchange rate)	4400	4000	3800	4300	4200	.	.	.
GDP/capita (EUR at PPP)	9000	8400	8500	8700	8800	.	.	.
Consumption of households, RSD bn, nom. 2)	2023.6	2143.2	2282.8	2600.0	2800.0	.	.	.
annual change in % (real) 3)	6.0	-5.7	-2.0	-0.6	0.0	0.0	1.0	1.0
Gross fixed capital form., RSD bn, nom. 2)	632.4	510.2	512.3	700.0	700.0	.	.	.
annual change in % (real) 3)	8.0	-22.5	-10.0	26.9	-8.0	3.0	3.0	5.0
Gross industrial production 4)								
annual change in % (real)	1.4	-12.6	2.5	2.1	-2.9	3.0	4.0	5.0
Gross agricultural production								
annual change in % (real)	13.7	1.3	1.0	0.8	-18.0	10.0	5.0	10.0
Construction output 5)								
annual change in % (real)	4.7	-19.7	-7.1	7.7	4.0	3.0	3.0	5.0
Employed persons, LFS, th, average 6)	2821.7	2616.4	2396.2	2253.2	2230.0	2200	2200	2200
annual change in %	.	-7.3	-8.4	-6.0	-1.0	-1.0	0.0	1.0
Unemployed persons, LFS, th, average 6)	445.4	503.0	568.7	671.1	705.0	.	.	.
Unemployment rate, LFS, in %, average 6)	13.6	16.1	19.2	23.0	24.0	23.0	23.0	23.0
Unemployment rate, reg., in %, end of period	24.0	25.9	26.7	27.5	30.0	30.0	30.0	28.0
Average gross monthly wages, RSD 7)	45674	44147	47450	52733	57440	.	.	.
real growth rate, % (net wages) 7)	3.9	0.2	0.7	0.2	1.4	.	.	.
Consumer prices, % p.a.	13.5	8.6	6.8	11.0	8.0	6.0	5.0	5.0
Producer prices in industry, % p.a. 8)	12.4	5.6	12.7	14.2	5.5	.	.	.
General governm.budget, nat.def., % of GDP								
Revenues	42.9	42.1	42.5	41.0	43.0	.	.	.
Expenditures	45.6	46.6	47.2	46.0	50.0	.	.	.
Deficit (-) / surplus (+)	-2.6	-4.5	-4.7	-5.0	-7.0	-4.0	-4.0	-3.0
Public debt, nat.def., % of GDP	29.2	34.7	44.5	48.7	63.0	65.0	65.0	65.0
Central bank policy rate, % p.a., end of period 9)	17.75	9.50	11.50	9.75	8.00	6.0	5.0	5.0
Current account, EUR mn	-7054.0	-2084.4	-2082.2	-2770.6	-3300.0	-3300	-3350	-3150
Current account, % of GDP	-21.6	-7.2	-7.4	-8.9	-11.0	-11.0	-11.0	-10.1
Exports of goods, BOP, EUR mn	7416.0	5977.8	7402.4	8439.7	8700.0	9400	10300	11300
annual growth rate in %	16.2	-19.4	23.8	14.0	3.1	8.0	10.0	10.0
Imports of goods, BOP, EUR mn	15917.2	11096.3	12176.0	13758.1	14400.0	15400	16500	18200
annual growth rate in %	18.3	-30.3	9.7	13.0	4.7	7.0	7.0	10.0
Exports of services, BOP, EUR mn	2741.4	2500.0	2667.1	3032.1	3180.0	3400	3600	3800
annual growth rate in %	19.0	-8.8	6.7	13.7	4.9	7.0	7.0	5.0
Imports of services, BOP, EUR mn	2926.1	2481.7	2661.9	2869.6	2980.0	3100	3400	3700
annual growth rate in %	14.1	-15.2	7.3	7.8	3.8	5.0	10.0	10.0
FDI inflow, EUR mn	2017.5	1410.1	1003.1	1948.9	200.0	1000	1000	1000
FDI outflow, EUR mn	193.1	37.6	143.0	122.0	50.0	100	100	100
Gross reserves of NB, excl. gold, EUR mn	7939	10278	9555	11497	10295	.	.	.
Gross external debt, EUR mn	21088	22487	23786	24125	25500	.	.	.
Gross external debt, % of GDP	64.6	77.7	84.9	77.5	84.7	.	.	.
Exchange rate RSD/EUR, average	81.47	93.94	102.90	101.96	112.98	120	128	135
Purchasing power parity RSD/EUR	40.16	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 and wiiw estimates. - 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.