31. SERBIA

The Serbian economy is projected to rebound strongly in 2021, to above its pre-crisis output level, mainly driven by investment and private consumption. Due to renewed fiscal support measures and a high increase in public investment, the general government deficit is expected to decrease only slightly in 2021 followed by a more substantial reduction in 2022. The debt-to-GDP ratio is set to increase further in 2021 and to decrease slightly in 2022.

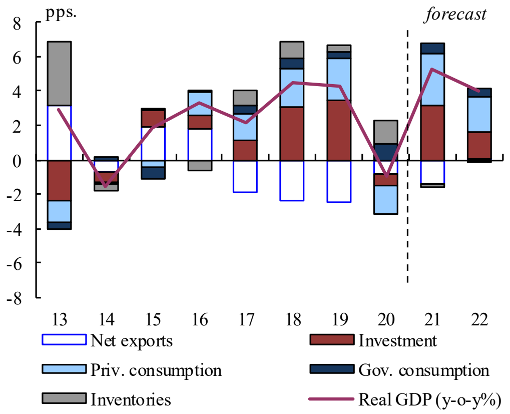
Moderate contraction in 2020

The Serbian economy contracted by a relatively mild 1% in 2020 as, inter alia, a strong pre-crisis growth momentum, sizable policy support, the sectoral structure of the economy and a relatively low average stringency of containment measures mitigated the economic impact of the COVID-19 crisis. The contraction was the result of decreases in private consumption, net exports and private investment that were only partially offset by higher inventories and government consumption and investment. Short-term indicators suggest that after some deceleration induced by the third wave of the pandemic at the end of 2020, the economic recovery has firmed in the first quarter of 2021. Thus, industrial production and retail turnover increased by 3.9% y-o-y and 4% respectively in the first three months of 2021.

Strong rebound before return to pre-crisis growth path

The economy is projected to rebound strongly by 5.3% in 2021, mostly driven by increases in gross fixed capital formation, private and public consumption that will only be partially offset by a larger negative contribution of net exports to growth. Imports are projected to grow more strongly than exports during the rebound particularly driven by import-intensive public investment and private consumption. After largely recovering its pre-crisis output level in 2021, the economy is set to return to its pre-crisis rate of expansion of around 4% in 2022, mostly driven by private consumption and investment as well as net exports due to the beneficial impact of the recovery in the EU and of increased export capacity on export growth. The current account deficit, after increasing temporarily in 2021 due in particular to strong investment, is accordingly expected to narrow in 2022.

Graph II.31.1: **Serbia - Real GDP growth and contributions**



Unemployment rate to remain broadly stable

Following a decrease in 2020, driven by falling labour market participation, the unemployment rate is expected to temporarily record a slight increase in 2021 as the pace of return of discouraged workers to the labour market is projected to initially exceed the growth of employment. Inflation is set to accelerate in 2021, mostly reflecting the rebound of oil prices from their lower 2020 level, and to slightly moderate in 2022.

Outlook still subject to high uncertainty

The growth outlook is subject to a high level of uncertainty while risks appear to be broadly balanced mostly depending on the evolution of the pandemic. In particular, fast domestic progress in vaccination avoiding further waves of the pandemic could lead to an accelerated rebound in consumer confidence and boost private consumption, in particular in contact-rich service sectors. On the other hand, a protracted impact of resurgences in the EU could dampen net exports and foreign direct investment as compared to the baseline. Slower-than-expected implementation of public infrastructure projects and of reforms of state-owned enterprises could also weigh on the growth prospects.

Additional fiscal stimulus in 2021 delays consolidation of deficit and debt levels

The COVID-19 crisis worsened sharply the general government deficit from close to balance in 2019 to 8.1% of GDP in 2020, mostly as a result of a large package of discretionary fiscal support measures. Due to a further package of support measures, including wage subsidies open to all enterprises, one-off payments to citizens and specific support to the most affected sectors, as well as substantial further increases in capital spending, the general government deficit is set to only slightly decrease in 2021 to close to 7% of GDP. In line with the expiry of one-off mitigation measures and lower capital spending, the deficit is forecast to drop to around 3.5% of GDP in 2022. Following an increase by 5 pps in 2020 to 58.3%, the debt-to-GDP ratio is projected to rise further by around 2.5 pps to close to 61% in 2021 before resuming a slight decline in 2022 in line with the lower 2022 deficit.

Graph II.31.2: **Serbia - General government budget balance and gross debt**

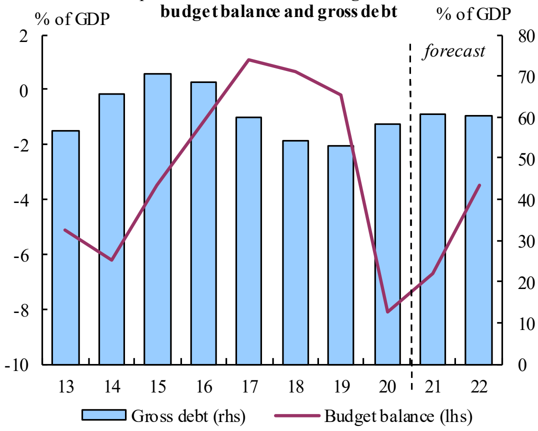


Table II.31.1:

Main features of country forecast - SERBIA

	2019		Annual percentage change						
bn RSD	Curr. prices	% GDP	01-16	2017	2018	2019	2020	2021	2022
GDP	5417.7	100.0	3.4	2.1	4.5	4.2	**-1.0**	**5.3**	**4.0**
Private Consumption	3696.7	68.2	2.8	2.2	3.1	3.6	**-2.5**	**4.5**	**3.0**
Public Consumption	901.8	16.6	2.0	2.9	3.7	2.0	**5.6**	**2.8**	**2.4**
Gross fixed capital formation	1217.9	22.5	6.3	6.6	17.5	17.2	**-2.8**	**14.8**	**7.1**
of which: equipment	:	:	:	:	:	:	**:**	**:**	**:**
Exports (goods and services)	2765.7	51.0	11.7	8.2	7.5	7.6	**-5.8**	**12.1**	**9.2**
Imports (goods and services)	3306.6	61.0	10.5	11.1	10.8	10.7	**-3.5**	**12.6**	**7.6**
GNI (GDP deflator)	5125.7	94.6	:	1.1	6.0	4.1	**1.5**	**4.2**	**3.7**
Contribution to GDP growth: Domestic demand			3.7	3.2	5.9	6.2	**-1.4**	**6.7**	**4.1**
Inventories			0.6	0.9	0.9	0.4	**1.3**	**-0.2**	**-0.2**
Net exports			-0.8	-1.9	-2.4	-2.5	**-0.8**	**-1.4**	**0.0**
Employment			-0.8	2.8	1.4	2.4	**-0.2**	**1.6**	**1.0**
Unemployment rate (a)			18.0	13.5	12.7	10.4	**9.0**	**9.3**	**8.5**
Compensation of employees / head			:	:	:	:	**:**	**:**	**:**
Unit labour costs whole economy			:	:	:	:	**:**	**:**	**:**
Real unit labour cost			:	:	:	:	**:**	**:**	**:**
Saving rate of households (b)			:	:	:	:	**:**	**:**	**:**
GDP deflator			12.0	3.0	2.0	2.4	**1.8**	**2.6**	**2.5**
Harmonised index of consumer prices			:	3.2	2.0	1.9	**1.6**	**2.4**	**2.1**
Terms of trade goods			1.2	-0.5	-2.0	0.7	**3.6**	**-0.3**	**0.0**
Trade balance (goods) (c)			-14.8	-9.0	-11.0	-12.2	**-11.2**	**-11.8**	**-11.5**
Current-account balance (c)			-7.9	-5.2	-4.8	-6.9	**-4.3**	**-6.1**	**-5.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-8.8	-5.2	-4.9	-7.1	**:**	**:**	**:**
General government balance (c)			-3.3	1.1	0.6	-0.2	**-8.1**	**-6.7**	**-3.4**
Cyclically-adjusted budget balance (d)			:	:	:	:	**:**	**:**	**:**
Structural budget balance (d)			:	:	:	:	**:**	**:**	**:**
General government gross debt (c)			54.5	60.1	54.4	52.9	**58.3**	**60.7**	**60.4**

(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.