

SERBIA

Table 1	2021
Population, million	6.9
GDP, current US\$ billion	63.0
GDP per capita, current US\$	9168.9
Upper middle-income poverty rate (\$5.5) ^a	10.1
Gini index ^a	34.5
School enrollment, primary (% gross) ^b	97.7
Life expectancy at birth, years ^b	75.7
Total GHG Emissions (mtCO ₂ e)	62.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2011 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2019).

The Serbian economy is recovering well from the impact of COVID-19 pandemic by growing 7.4 percent in 2021 and poverty incidence declined to an estimated 9.8 percent. Growth is expected to decelerate in 2022 and the risks to the growth outlook are clearly tilted to the downside. Poverty reduction is expected to stagnate in 2022 as income gains are weakened by rising inflation risks.

Key conditions and challenges

The focus of the Government of Serbia in 2020 and 2021 was on supporting the economy to recover from the impact of the COVID-19 pandemic. The Serbian government approved a robust fiscal stimulus program in both years and as a result the economy experienced only a mild recession (of -0.9 percent) in 2020 and rebounded by 7.4 percent in 2021. The impact of the program, however, came at considerable fiscal cost. The fiscal deficit reached 8.1 percent of GDP in 2020 and public debt increased to around 58 percent of GDP.

Over the medium term the Serbian economy is expected to return to the pre-pandemic growth levels. However, Serbia still faces challenges that limit its potential growth both in the short and medium to long terms. Most importantly, Serbia needs to further remove bottlenecks for private sector investment. These include a deteriorating governance environment, lack of infrastructure and an unreformed education sector, which creates skills mismatches in the labor market. With limited space for future stimulus packages, structural reforms are needed to bring the economy back to sustained growth, boost jobs and incomes and strengthen resilience to shocks. The second big challenge is a large and still not entirely reformed SOE sector.

Recent developments

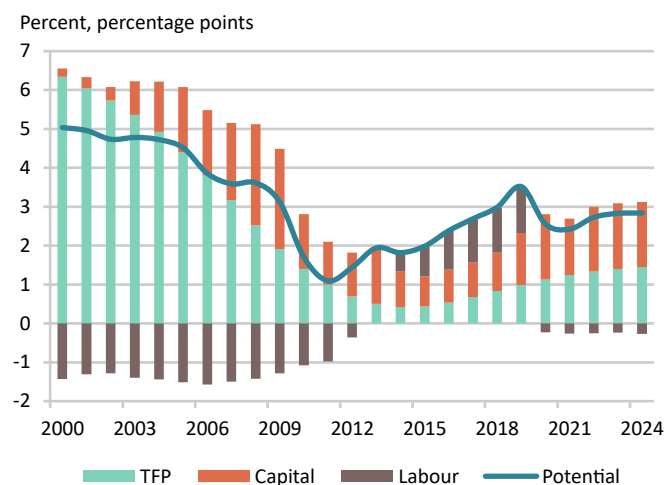
The economy grew by 7.4 percent in 2021 pushed by the consumption, pushed by a large increase in private consumption (up 7.6 percent in real terms y/y), thanks to a strong increase of salaries and consumption loans. The economic recovery in 2021 was broad based, with the exception of the agriculture sector, where output declined by 5.4 percent in real terms.

Poverty (defined as income under \$5.5/day in revised 2011 PPP) is estimated to have declined slightly from 10.2 percent in 2020 to 9.8 percent in 2021. The wage subsidy and cash transfers to citizens in 2020 helped to avert a spike in poverty. In 2021, poverty reduction slowly resumed due to strong economic growth and improving labor market conditions, though partly countered by an output decline in agriculture, rising inflation at the end of the year, and the phasing out of government support programs.

The labor market started improving throughout 2021. In Q4 of 2021, the unemployment rate dropped to 9.8 percent. Wages continued to go up, increasing by 9.6 percent in nominal terms in 2021.

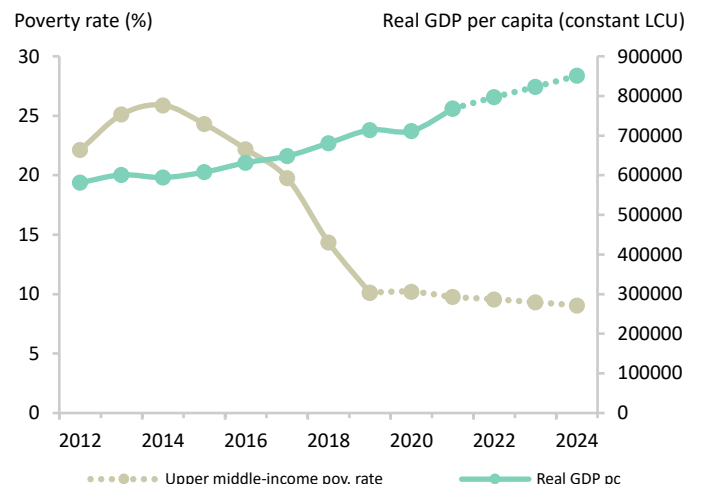
The consolidated fiscal deficit decreased significantly in 2021 to reach an estimated 4.1 percent of GDP. Despite the fact that government expenditures increased by 10.1 percent (in nominal terms). Public debt at end-December 2021 stood at 57.1 percent of GDP, thus only marginally decreasing since end-2020.

FIGURE 1 Serbia / Real GDP and potential growth and contributions to potential GDP growth



Source: World Bank staff calculations.

FIGURE 2 Serbia / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Note: see Table 2.

Starting in the summer, there was a gradual increase in inflation and the consumer price index (CPI) reached 8.8 percent (y/y) in February. Food inflation, higher than in all EU countries in January 2022, hurt the poor. Household energy tariffs in Serbia are regulated and have been kept unchanged so far despite rising energy costs. The current account deficit (CAD) increased to an estimated 4.4 percent of GDP for 2021, up from 4.1 percent in 2020.

Outlook

The Serbian economy was expected to continue to grow at around 4-4.5 percent annually. However, the war in Ukraine and sanctions on Russia will certainly have an impact on Serbia's exports, FDI, remittances and tourism revenues. Having in

mind the significance of these flows, growth for 2022 could be revised downwards to 3.2 percent. Further revisions are possible depending on the length of the war and the scope of sanctions toward Russia. Over the medium term, the economy is expected to grow steadily at around 3 percent annually.

The outlook also crucially depends on the domestic reform agenda and its implementation. The ongoing crisis in the domestic energy sector emphasized once again the importance of improved management of SOEs. In addition, contingent liabilities could affect public finances, particularly those related to the deterioration in the performance of SOEs, as demonstrated recently by Telekom Srbija and Air Serbia. As a remedy, the government should embark on a comprehensive and thorough reform of SOEs to make them financially

sound and viable. In addition, the government should use the opening of new chapters of the EU acquis to accelerate reforms and align Serbian legal and institutional system to that of the EU.

Poverty reduction is expected to stagnate in 2022. The unfolding war in Ukraine poses significant downside risk for household welfare in Serbia. While Serbia's economy is expected to continue to grow, contributing to income growth for households, rising inflation will limit purchasing power. Particularly rising energy prices, if they are passed onto household energy tariffs, would disproportionately hit the poor. Poverty in 2022 is projected at 9.6 percent, close to its 2021 level, though could be revised upward depending on the length and severity of the war's economic impacts. The pace of labor market recovery remains critical for resumed poverty reduction.

TABLE 2 Serbia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.3	-0.9	7.4	3.2	2.7	2.8
Private Consumption	3.7	-1.9	7.6	6.1	4.2	3.7
Government Consumption	2.0	2.9	2.6	1.1	0.5	-0.6
Gross Fixed Capital Investment	17.2	-1.9	12.5	-1.0	0.3	2.1
Exports, Goods and Services	7.7	-4.2	19.4	5.4	5.2	5.4
Imports, Goods and Services	10.7	-3.6	19.3	5.7	4.8	4.7
Real GDP growth, at constant factor prices	4.4	-0.8	7.3	3.0	2.6	2.9
Agriculture	-1.7	2.2	-5.4	5.7	4.5	3.4
Industry	5.9	-0.6	7.8	2.4	4.5	4.5
Services	4.4	-1.2	8.7	3.0	1.5	2.0
Inflation (Consumer Price Index)	1.9	1.6	4.0	7.0	4.0	3.7
Current Account Balance (% of GDP)	-6.9	-4.1	-4.4	-6.4	-5.8	-5.1
Net Foreign Direct Investment (% of GDP)	7.7	6.3	6.8	5.8	5.9	5.9
Fiscal Balance (% of GDP)	-0.2	-8.0	-4.1	-4.1	-3.0	-2.2
Debt (% of GDP)	52.8	57.8	57.2	58.2	58.9	56.8
Primary Balance (% of GDP)	1.8	-6.0	-2.4	-2.3	-1.0	-0.1
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	10.1	10.2	9.8	9.6	9.3	9.0
GHG emissions growth (mtCO₂e)	-2.1	0.5	1.6	-0.4	-0.6	-0.8
Energy related GHG emissions (% of total)	75.4	75.7	76.1	76.0	75.8	75.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

a/ Calculations based on ECAPOV harmonization, using 2013-EU-SILC, 2017-EU-SILC, and 2019-EU-SILC. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.

b/ Projection using point-to-point elasticity (2013-2017) with pass-through = 0.2 and 0.3 based on GDP per capita in constant LCU, reflecting impacts of rising prices.