

SERBIA

Table 1 2023

Population, million	6.6
GDP, current US\$ billion	75.6
GDP per capita, current US\$	11447.0
International poverty rate (\$2.15) ^a	1.2
Lower middle-income poverty rate (\$3.65) ^a	2.5
Upper middle-income poverty rate (\$6.85) ^a	7.5
Gini index ^a	33.1
School enrollment, primary (% gross) ^b	89.1
Life expectancy at birth, years ^b	75.5
Total GHG emissions (mtCO2e)	61.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ Most recent WDI value (2022).

The growth of the Serbian economy accelerated in the first half of 2024 leading to an increase in projected GDP growth for the year as a whole to 3.8 percent. The incidence of poverty declined to an estimated 6.9 percent. However, there is a possibility of revising down the projected growth considering the severe drought that hit Serbia in 2024. Poverty reduction is projected to continue at a much slower pace, as the remaining poor are often characterized by chronic unemployment and thus not benefiting from positive market trends.

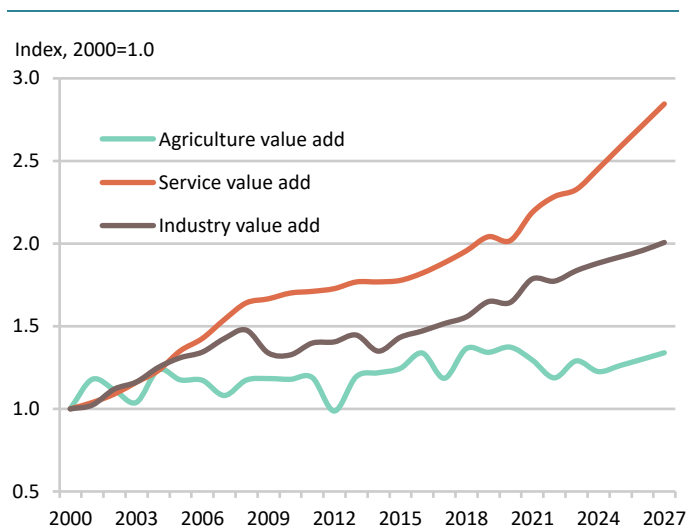
Key conditions and challenges

Growth in 2024 is projected at 3.8 percent, y/y, higher than the previously projected figure of 3.5 percent thanks to a better-than-expected performance of the construction and services sectors in the first half of the year. However, a severe drought that hit Serbia this summer had a significant negative impact on agriculture, which may still cause a downward revision of 2024 GDP projections. On the expenditure side, consumption and investment were the main drivers of growth in the first half of 2024 while net exports had a negative contribution. Consumption started to recover because of the continued increase in incomes as well as a steady decline in inflation. In order to reduce the high degree of volatility associated with the agriculture (and related food industry) output, Serbia needs to introduce policy and investment measures to mitigate the negative impact of increasing climate shocks and to promote private sector participation in these measures. Over the medium term, under the baseline scenario, the Serbian economy is expected to grow at around 4 percent. With limited space for future stimulus packages, structural reforms are needed to accelerate private sector led growth.

Recent developments

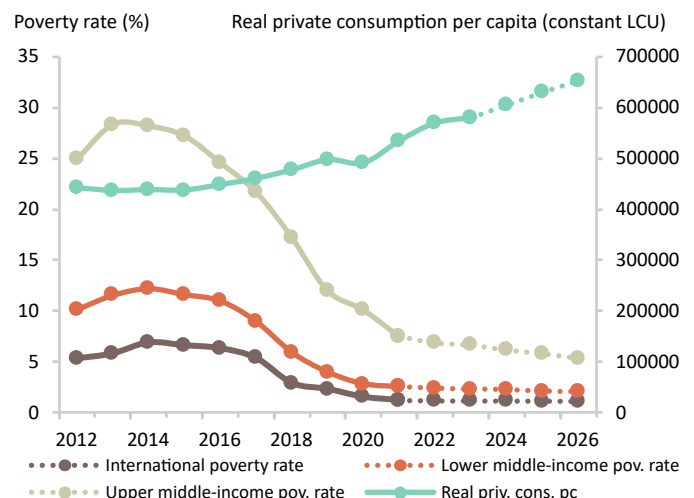
Strong GDP growth in Q1 and Q2 2024 (4.6 and 4 percent, y/y) was driven by a recovery of private sector consumption and investment. On the other hand, net exports made a negative contribution to growth in the first half of the year due to lower-than-expected export growth, as external demand weakened, and imports remained at a high level (in part explained by increased investment). Manufacturing remained resilient to external developments. Its output was 3.6 percent higher over the first seven months (y/y) thanks to the good performance of the food, tobacco, metals, electronics, and automotive sectors. Labor market indicators improved slightly in the first half of 2024. The unemployment rate reached 8.2 percent in Q2 2024 (a record low since Q2 2020) and the employment rate continued to increase (to reach a record high level of 51.4 percent) even though informal employment declined marginally. Wages increased by 14.7 percent in nominal terms (9.2 percent, in real terms) in H1 2024 compared to the same period of 2023. Poverty (based on the upper-middle income line of \$6.85/day in 2017 PPP) is estimated to have declined from 7.5 percent in 2021 to 6.9 percent in 2022. In 2023, poverty levels are likely to have stayed the same, as private consumption growth was modest, affected by the high inflation and the phasing out of government support programs, which had fueled the strong post-COVID-19 recovery of 2021.

FIGURE 1 Serbia / Indexes of the level of sectoral GDP



Source: World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

Inflation continued to gradually decline in the first half of 2024, mainly due to a significant decline in food-related inflation. However, the headline inflation index edged up again in July, due to an increase in food prices, most likely because of the drought. The NBS kept unchanged the key policy rate at 6.5 percent from July 2023 through June 2024 when it was lowered for the first time. Currently, the key policy rate is 6 percent.

Budgetary revenues overperformed significantly in H1 2024 (up 14.1 percent in nominal terms, y/y), primarily thanks to a higher-than-planned collection of contributions for social insurance, VAT, and excises. Over the same period, expenditures increased by 15.2 percent in nominal terms. As a result, the consolidated fiscal surplus was lower than in the same period of 2023, while still reaching 0.4 percent of annual GDP. After a continued decline over 15 months (February 2023-May 2024), public debt increased significantly in June 2024 (by 2.1pp) to reach 52.6 percent of GDP.

The current account deficit is expected to increase to 4.1 percent of GDP in 2024. Over the first half of the year the CAD already more than doubled compared to the same period of 2023. The trade balance keeps widening as well as the primary income deficit. At the same time, net transfers declined marginally, although still reporting a major surplus. Net FDI has continued to perform strongly, remaining broadly unchanged in euro terms (at EUR 2 billion in H1). Foreign currency reserves increased to a record high level of EUR 27.5 billion by June. Overall credit decreased by 1.2 percent (y/y) through June 2024. However, loans to private businesses and households were up by 7.3 percent and 4.8 percent respectively. Gross nonperforming loans declined to 2.9 percent in June 2024.

Outlook

The Serbian economy is expected to grow at around 4 percent over the

medium-term, driven primarily by consumption and to some extent by investment. There are both up and downside risks. Downside risks relate to the impact of climate change on agriculture and infrastructure. On a positive side, there could be a more significant impact of exports on growth, including but not limited to the recent private sector investment in the automotive sector. Inflation is expected to decline gradually and to stay within the NBS target band. The fiscal deficit is now projected at a higher level than before since the government decided to de facto suspend fiscal rules until 2029, in the context of large-scale infrastructure public spending plans.

Continued economic growth will keep bringing more Serbians out of poverty. However, the remaining poor are increasingly concentrated among pensioners, the long-term unemployed, or those completely out of the labor force. Thus, targeted social assistance or other direct channels will become essential to continue poverty reduction.

TABLE 2 Serbia / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	7.7	2.5	2.5	3.8	4.2	4.0
Private consumption	7.9	4.0	0.8	4.0	4.2	4.0
Government consumption	4.3	0.4	0.1	8.4	4.3	3.1
Gross fixed capital investment	15.7	1.9	3.9	6.1	6.9	5.9
Exports, goods and services	20.5	16.6	2.4	6.2	6.8	5.7
Imports, goods and services	18.3	16.1	-1.1	8.6	7.1	6.0
Real GDP growth, at constant factor prices	7.7	2.2	2.6	3.8	4.2	4.0
Agriculture	-5.5	-8.3	4.8	-3.0	3.4	3.4
Industry	8.9	0.1	-0.8	3.0	4.5	4.5
Services	8.8	4.5	4.1	4.9	4.1	3.8
Inflation (consumer price index)	4.0	11.9	12.1	4.5	3.1	3.0
Current account balance (% of GDP)	-4.3	-6.9	-2.6	-4.1	-4.7	-5.0
Net foreign direct investment inflow (% of GDP)	6.9	7.2	5.5	5.5	5.5	5.5
Fiscal balance (% of GDP)	-4.1	-3.0	-2.2	-2.2	-2.5	-2.3
Revenues (% of GDP)	43.2	43.4	42.6	43.3	43.4	43.2
Debt (% of GDP)	57.1	55.6	52.6	52.0	50.4	48.4
Primary balance (% of GDP)	-2.4	-1.5	-0.4	-0.2	-0.5	-0.5
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	1.2	1.2	1.2	1.2	1.2	1.1
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	2.5	2.4	2.3	2.2	2.1	2.1
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	7.5	6.9	6.7	6.2	5.8	5.4
GHG emissions growth (mtCO₂e)	-3.2	0.8	0.2	2.0	1.7	1.5
Energy related GHG emissions (% of total)	74.2	75.0	74.9	75.2	75.5	75.7

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

Notes: e = estimate, f = forecast.

a/ Calculations based on ECAPOV harmonization, using 2022-EU-SILC. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.

b/ Projection using neutral distribution (2021) with pass-through = 0.87 (Med (0.87)) based on private consumption per capita in constant LCU.