

Economy of Serbia

- trends, policies and reforms

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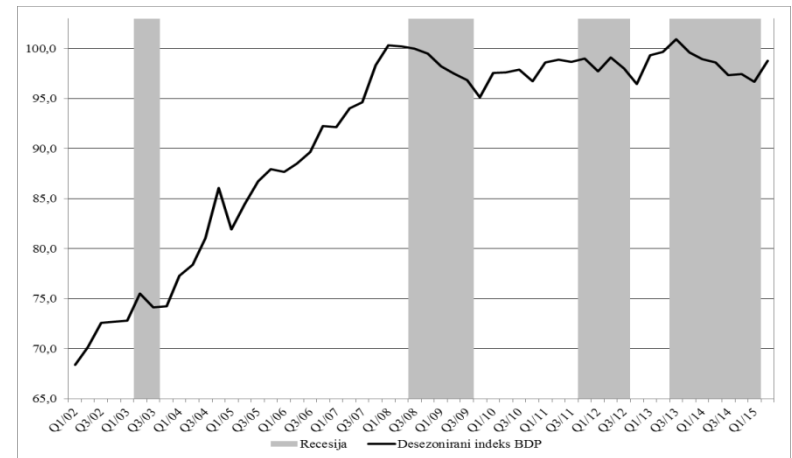
Recent macroeconomic trends

- Serbia saw improvement in several important indicators of the state of the economy in 2015:
 - Recession is over
 - Fiscal and current account deficits are reduced
 - Labour market indicators (probably) are improved
 - Inflation rate is low
- However, this is only the beginning of the recovery – state of the economy is worse than in the most other European countries:
 - GDP growth rate is smaller and unemployment rate is higher than in the rest of Europe, while fiscal and current account deficits are still high.
- In order to have significant and sustainable recovery it is necessary to be persistent in providing macroeconomic stability and reforms

Economic activity

- The recession which started in 2013 ended in Q2 2015
 - GDP grew by 1% y-o-y, and 2.2% q-o-q
- Other macroeconomic indicators (employment, industrial output, export, etc.)
- Structure of growth is favourable – growth is export and investment driven, while private and government consumption are in decline
- In terms of sectors, growth was widespread: industry (tradeable goods) and construction (investments)
- Restored growth is sustainable, since it is accompanied by narrowing internal and external imbalances
 - Fiscal deficit declines, inflation rate is low
 - Current account deficit declines

Seasonally adjusted GDP, 2008=100



Industrial output

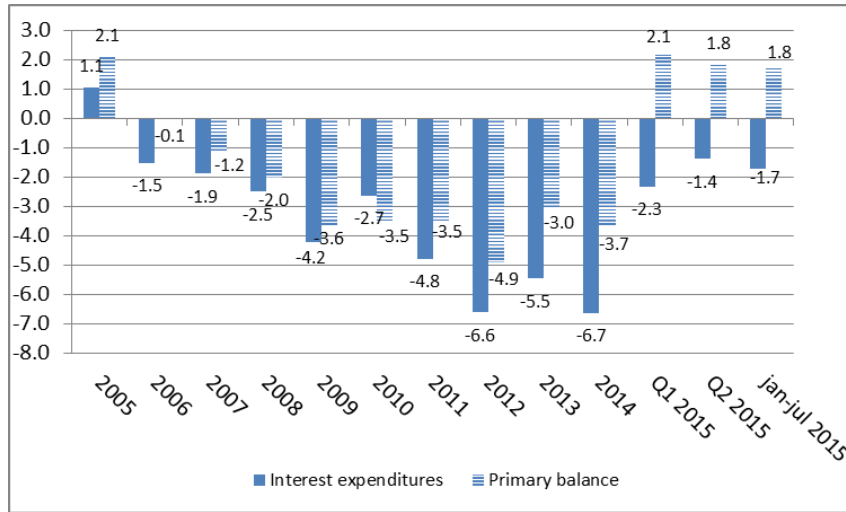


Economic activity

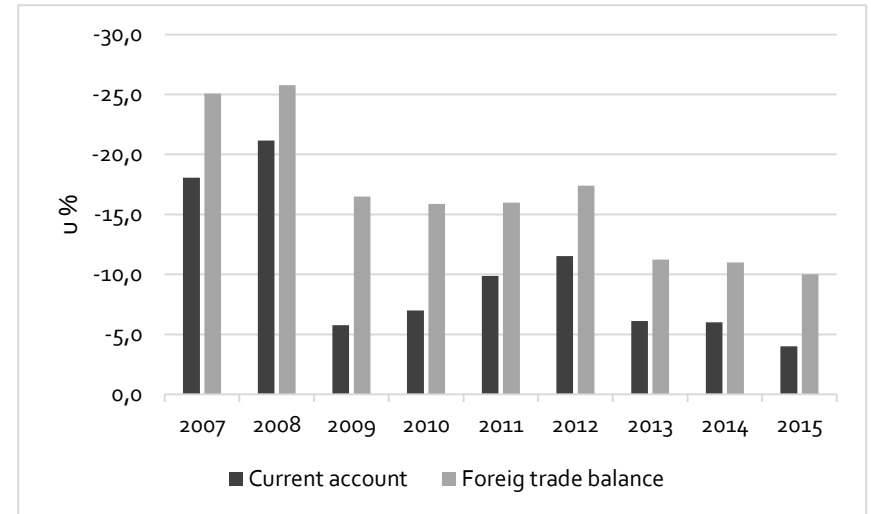
- In 2015 GDP will grow by 0.5-1%
 - If there was no draught, GDP would rise by 1.5%
 - 2015 growth is surprising, since demand is declining by 2% of GDP, due to fiscal consolidation
- Drivers of 2015 growth:
 - Favourable international circumstances: terms of trade
 - Improvement in doing business conditions in Serbia
- There is evidence on the start of the recovery, but there is no room for slowdown of fiscal consolidation and reforms
- 2015 GDP growth in Serbia will be among the slowest in Europe:
 - EU average growth: 1.8%; CEE average growth 2.5%...only in Croatia below 1%
- Growth rate is still below the medium-term target of 3-4% and the long term target of 5%
- Weaker growth performance of Serbia is the consequence of one decade delay of structural reforms and three years late in fiscal consolidation

Other macroeconomics trends

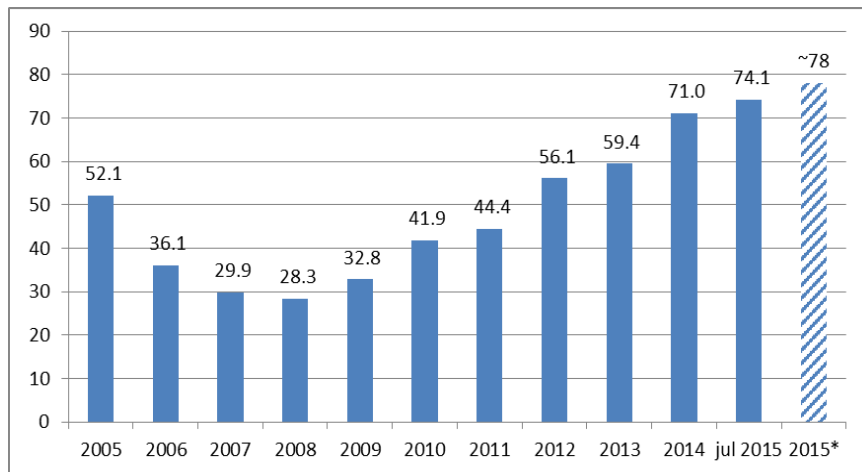
Fiscal balance, % GDP



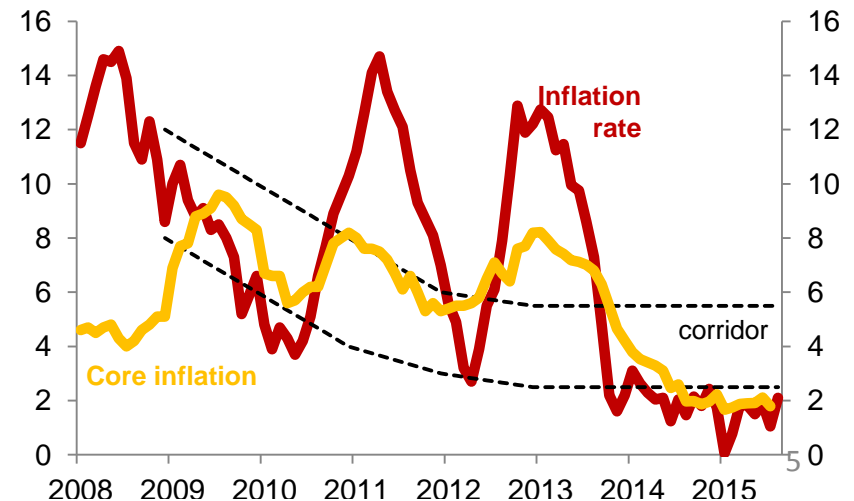
Current account and foreign trade balance, % GDP



Public debt, % GDP



Annual inflation rate (%)



Has rebalancing of the growth model started?

- Serbian economy was posting high growth rates from 2001 to 2008 (average by 5.5%), but the growth was accompanied by large internal and external imbalances
- Growth model rebalancing started a few years ago:
 - Faster growth of exports than import: export doubled, import rose by 30% since 2007
 - Industrial output rises faster than GDP
 - Fiscal deficit and inflation rate have been reduced
- However, still a lot to be done until sustainable growth is achieved:
 - Investments (20% GDP) and exports (44% GDP) are low (relative to GDP), while government consumption (44% GDP) is high
 - Unemployment rate is very high $\approx 18\%$
 - Domestic savings is low $\approx 10\%$ GDP
 - Share of industry, agriculture and other tradable sectors in GDP is low
 - Fiscal and CA deficit still high
- Main growth drivers in mid-term: export and investments
 - Private demand shall be rising slower than GDP in 2015 and 2016, while government consumption shall decline in the next 3-4 years

Economics policy and structural reforms

- Macroeconomic policy
 - External and internal imbalances have been reduced, but they are still not at sustainable level
- Since 2014 Government has conducted some of the important reforms which have been delayed for years:
 - Structural reforms: Labour Law, bankruptcy procedure, construction permits reform (good law and efficient implementation), e-filing of tax returns, tackling shadow economy
 - Some reforms have been announced but there are problems with implementation: privatization of SOEs, restructuring of large public owned companies (EPS, Srbijagas, etc.)
- Reforms conducted in the last 15 months are expected to be reflected in international rankings in 2015/2016
 - 2015 WEF results reflect 2014 data
 - Doing business ranking is expected to improve

Economic policy for sustainable growth

- Strengthening macroeconomic stability :
 - Reducing fiscal deficit to below 3% of GDP until 2017 and by additional 1% of GDP in mid run:
 - Reducing public expenditures to 40-41% GDP
 - Change in structure of expenditures: To increase public investments (from 3% of GDP to 4-5% of GDP) targeted at building of modern infrastructure
 - Reduction of labour taxes and rise in consumption taxes
 - Increase in domestic savings: direct impact of government on public savings and indirect impact on private savings
 - Keeping inflation low in long run
 - Solving NPLs problem
 - effective use of the exchange rate policy
 - Stable exchange rate and slight real depreciation
 - Reducing fiscal deficit and CA deficit (to 3-4 % GDP)

Structural reforms for sustainable growth

- For finalization of transition to market-based economy and for creation of growth drivers it is necessary:
 - To complete the privatization SOE by mid 2016 (more pro-active role of Privatization Agency needed)
 - To make more intense efforts in restructuring large public owned companies (EPS, Železnica, Srbijagas)
 - To implement efficiency-enhancing reform of public administration
 - To strengthen the rule of law and protection of ownership rights (judiciary reform, catastro, anti-corruption measures)
 - To tackle the shadow economy systemically (reform of Tax Administration)
 - Reform of education – crucial for long term growth (all levels of education)
- Industrial policies (?): agriculture, technological development, subsidies (?)
 - Low institutional capacity for sophisticated industrial policy
- The largest potential for improvement in the next two-three years: strengthening macroeconomic stability, efficient construction of infrastructure, finalization of SOEs privatization, restructuring public companies
- Development of institutions and education reform: long run issue

Thank you!

Questions and comments?

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