Serbia

Highlights

- **Real gross domestic product (GDP) growth is accelerating.** After 2.6 per cent in 2022 and 3.8 per cent in 2023, similar real growth of 3.8 per cent is expected in 2024, according to newly revised data, on the back of improved domestic demand, driven by easing inflation and the pursuit of ambitious public investment projects.
- **The Serbian authorities and International Monetary Fund (IMF) reached staff-level agreement on the fourth and final review under the Stand-By Arrangement (SBA) and on a successor 36-month Policy Coordination Instrument (PCI) request.** The PCI is a non-financing instrument designed to support strong economic policies with an economic reform agenda. The agreement is subject to approval by the IMF Executive Board in December 2024.
- **A draft bylaw implementing the country's new state-owned enterprise (SOE) governance legislation was adopted in September 2024.** The bylaw sets out the regulations determining the public service obligations of SOEs when implementing broader public-sector goals.

Key priorities for 2025

- **The reform agenda under the Reform and Growth Facility was approved in October 2024 by the European Commission.** Reforms will focus on the rule of law and other fundamentals, governance, the digital and green transitions, human capital development and the business environment.
- **Further SOE governance reforms are key to avoiding future fiscal risks.** An ongoing corporate governance programme in the state-owned electricity production company, Elektroprivreda Srbije (EPS), is essential for the successful restructuring of the company. Governance reforms in other SOEs, such as the railways, should also be accelerated, particularly considering the significant investments undertaken, funded by international loans and backed by sovereign guarantees.
- **The authorities should continue to decarbonise the energy sector.** This can be done by scaling up renewables through auctions and increasing the energy efficiency of buildings, including by way of a switch to consumption-based billing.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	-1.0	7.9	2.6	3.8	3.8
Inflation (average)	1.6	4.1	12.0	12.4	4.8
Government balance/GDP	-7.7	-3.9	-3.0	-2.1	-2.7
Current account balance/GDP	-3.9	-4.1	-6.6	-2.4	-3.0
Net FDI/GDP [neg. sign = inflows]	-6.0	-6.5	-6.8	-5.7	-6.0
External debt/GDP	62.8	65.2	66.0	60.4	na
Gross reserves/GDP	27.5	29.4	30.6	33.1	na
Credit to private sector/GDP	45.5	43.4	40.3	35.8	na

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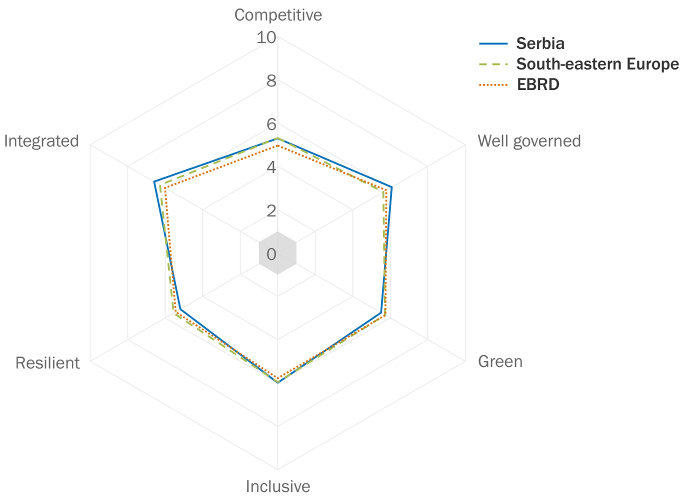
Macroeconomic developments and policy response

Real economic activity is accelerating. After 2.6 per cent real growth in 2022, consistent with the adverse global macroeconomic environment, and an acceleration to 3.8 in 2023, according to newly revised GDP data, real GDP growth picked up further to 3.9 per cent year on year in the first three quarters of 2024 (this figure may also be revised in line with the new methodology). The greatest contributions came from services, predominantly retail trade, catering and tourism, and construction. On the expenditure side, growth was driven by domestic demand – namely, household consumption and fixed investment – while net exports made a negative contribution due to higher growth in service imports, particularly tourism and transport, in line with easing inflation and the recovery in domestic demand. Higher import growth, along with a decrease in remittance inflows and government transfers in the first three quarters of the year, were reflected in a current account deficit of more than €3.3 billion, four times higher than the same period in 2023. Net foreign direct investment inflows remained strong at €3.6 billion in the first three quarters of 2024.

Inflationary pressures are easing, although more slowly than in Serbia's peers. Average inflation fell from 12.4 per cent in 2023 to 4.8 per cent in the first nine months of 2024. The authorities have employed monetary and fiscal policy measures to support the economy in light of still relatively high inflation. Monetary policy shows signs of easing, with the policy rate declining slightly from its peak of 6.5 per cent to 5.75 per cent in September 2024, where it remained until November. A new set of measures announced for the second half of 2024 are easing the fiscal stance by increasing pensions, the minimum wage, average public-sector wages and agricultural subsidies. Despite these expansionary policies, the fiscal deficit is set to remain at 2.7 per cent of GDP, according to the IMF (below the increased target of 2.9 per cent of GDP), which has assessed Serbia's public debt as being sustainable. Serbia received an investment grade rating (BBB-, with stable outlook) by S&P Global, upgraded from BB+ in October 2024, owing to macrofiscal stability, strong growth prospects and sound external buffers. In September, Moody's upgraded its rating to Ba2 (Positive) (two notches below investment grade) from Stable; and in August Fitch upgraded Serbia to BB+ (Positive) (one notch below investment grade) from Stable. The government is expecting another ratings move to investment grade next year, supported by the new IMF Policy Coordination Instrument programme.

Real GDP growth is set to pick up in the near term. Economic growth is forecast to be at its medium-term potential in the short term, at 3.8 per cent in 2024 and 4 per cent in 2025, in line with the expected global recovery. However, the recent revision of historical data on GDP, in line with a new methodology, may affect growth statistics in 2024 and the forecast for 2025. Downside risks arise from possibly low growth in the EU, Serbia's major trading partner, tight labour markets, geopolitical instability affecting supply chains and adverse weather conditions, which may have a negative effect on agricultural production. In contrast, successful implementation of reforms in the area of governance of state-owned enterprises and well-planned and executed capital investment may boost growth further. The medium-term outlook remains robust, underpinned by macroeconomic stability, and a solid track record of strong public and foreign investment.

Assessment of transition qualities (1-10)



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Structural reform developments

Progress on key reforms will unlock important external financing. Serbia is set to receive around €1.6 billion from the funds of the EU's Growth Plan for the Western Balkans once it completes critical reforms set out in the country's reform agenda. Key areas include the justice system and the fight against corruption, the green and digital transition, renewables regulation, private-sector development and improvements to the business environment.

Anti-corruption reforms have advanced. In July 2024, the government adopted a National Anti-Corruption Strategy for 2024-28, aimed at meeting 14 transitional benchmarks for the EU acquis negotiation chapter on justice and fundamental rights. The document covers the areas of policing, health, education, local self-government, construction, financing of political activities, taxes and customs, public procurement, privatisation and public enterprise.

SOE governance is being improved. The new SOE governance law, which takes inspiration from the OECD Guidelines on Corporate Governance of SOEs, came into effect in September 2024, although some transition provisions will last until early 2025. The authorities are working closely with international financial institutions – namely, the IMF and the EBRD – to prepare secondary legislation that will allow the law to be implemented, including bylaws on public service obligations and SOE classification based on ownership rationale, which were also adopted in September 2024. Better staffing and resources at the Ministry of Economy are key to allow the SOE oversight unit to handle its greatly expanded responsibilities under the new law.

Amendments to the Law on Payment Services have been adopted by parliament. The amendments were adopted in August 2024 and will be applied from May 2025. They will harmonise the law with EU regulations. The key goals of the amendments are to enhance market innovation, secure greater competition and transparency of payment services, better protect users and increase payment security. The newly introduced "open banking concept" will allow the clients of financial institutions to initiate payments and have a consolidated overview of information on all of their payment accounts in one platform, regardless of the provider the account was opened with. ●