



Weekly Briefing

Serbia Economy briefing:
Economy of Serbia in 2018 - A Forecast
IIPE


China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Chen Xin

Kiadásért felelős személy: Huang Ping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 office@china-cee.eu

 china-cee.eu

1. The forecasting of current developments in economy is reliable as it is in meteorology. It is not possible to foresee all factors influencing them. In the case of forecasting small economies it is additionally risky. These economies are more susceptible to foreign impacts than big economies. Small economies necessarily have higher coefficient of dependence on foreign trade than big ones. Big economies are price makers and small ones price takers on international markets. Serbian economy has the role of price taker in imports and in exports. Moreover, as a small economy, Serbia is susceptible to the changes in the international movements of capital, in monetary policies of central banks of big economies, and in geopolitical games of big powers.

2. International Monetary Fund (IMF) and the World Bank foresaw favorable external economic environment in 2018 for Serbian economy. The rate of growth of world economy will reach 3.7%. For the economy of Serbia are important forecasts of the economies of her main trade partners – European Union and neighboring countries. IMF foresees a rate of growth of the economy of Euro-Zone of 1.9%. The European Commission (EC) predicts favorable development in the economies of Serbian neighbors. However, EC takes in account some uncertainties: health of European banking systems, the outcome of negotiations on withdrawal of Great Britain from the European Union, economic and international policies of the USA, program of structural adjustments in the People's Republic of China.

Thanks to the sense of movements in world economy and in the economy of Serbia, there are relatively optimistic forecasts for current development in the economy of Serbia in 2018. The EC foresees a rate of growth of the GDP of 3.6% along a moderate budget surplus. The public debt in 2018 will be reduced to 70% of the GDP. IMF has a slightly different forecast for the economy of Serbia in 2018: rate of economic growth 3.5%, rate of inflation 3.0%, deficit of current balance equal to 3.9% of the GDP.

3. Domestic forecasts of current developments in the economy of Serbia in 2018 are somewhat more optimistic ones.

The Government of Serbia argues that the growth of the economy is based on sound fundamentals – rise in production, in exports, and in private consumption. It estimates that the economic growth in 2018 could be 4%. The external debt is already reduced to 62% of GDP, and the rate of unemployment to 12% in 2017, and in 2018 it could be farther slowed down. The Government hopes that, towards the law of credibility, the climate will not contrive again a plot against her farmers, as it did in 2017.

Domestic non-official forecasts for current developments in 2018 are rather optimistic too. The Fund for Development of Economic Science estimates that in 2018 economy of Serbia could reach a rate of growth of 4%. It expects stability of prices, moderate rise in employment, real wages growth between of 3 % and 4%, and a foreign deficit as in 2017 or somewhat higher.

Economic growth will depend greatly on private consumption. The rise in employment and in incomes, primarily in the private sector, together with the rise of consumer credits and the macroeconomic stability could considerably speed up the consumption in households. Therefore, private consumption in 2018 could grow by 3.3%, public expenses by 2.5%, and the rate of unemployment reduced to 11%.

Government of Serbia however has to be careful. Macroeconomic stability is still rather fragile. External and public debts are still high. The strengthening of the Dinar could renew the rise of external deficit. A certain risk looms for the rise in consumer prices because of the rise in domestic demand and of the rise in the prices of petroleum. The needs for refinancing of debts and repayment of interest are considerable. The dynamics of the debts and of its repayment is susceptible to influence of fluctuation of the exchange rates.

The rate of growth of Serbian economy, although gradually augmenting, remains, however, modest. It is notably lower than in the countries of Central and Eastern Europe (CEE). Catastrophic drought that had great impact on

economic growth in Serbia 2017, did not explain her lagging behind the economies of CEE.

4. Countries of CEE had entered the “transition” with enormous assistance from the West. They were not deindustrialized. Serbian economy has a bitterer destiny.

During 1960-es and 1970-es Serbia experienced “economic miracle” comparable to Japanese one, letting behind all CEE countries. But Serbia entered “transition” with destroyed economy. The reason were: economic blockade, aggression of the NATO, fake privatization and precipitous liberalization of internal market. Sometimes medium industrialized country remained without manufacturing. Her GDP in the 2000 dropped below 50% of GDP in 1989. Therefore, starting position for Serbian economy in “transition” was a deep depression.

How to escape from depression? Unique outcome is new industrialization. But for rebuilding the manufacturing, huge investments are necessary. Being deindustrialized, she did not have a source of sufficient accumulation of capital. Serbia obeyed do the necessity: gradual “growing out of crisis”. She must at any cost create the conditions for reindustrialization - the environment for profitable investments, domestic and foreign ones. The main elements of this environment are: (a) financial stability, (b) supply of energy, and (c) “external economies” – adequate transport infrastructure, (d) access to foreign markets.

(a) Serbia already had fulfilled the first condition almost completely. The measures of fiscal consolidation gave expected results. In 2017 Serbia realized a budget surplus. National Bank of Serbia (NBS) maintained stable exchange rate of Dinar. Public debt is reduced to 62% of GDP in 2017. Rate of inflation is below targeted level.

Stability of prices is important for business. Government is aware of it. It has to go between Scylla and Haribda. Fourth year in a row Serbia limits wages in public sector and pensions as a measure of financial stabilization. But as there is danger of deflation, Government is cautiously augmenting effective demand.

The problem is how to retain inflation in desirable limits towards the Keynesian teaching. Lawrence Summers recommends the rate that the businessmen do not take in account in preparing their plans for next year, namely below 3%. Serbia is near to this level of inflation.

(b) Prospects for fulfilment of second condition are promising. Serbia already modernized her biggest electrical plant – “Hydro-electric plant Djerdap” and “Thermal-electric plant Nikola tesla”. China has been building “Thermal-electric plant Kostolac B3”, first new electric plant in Serbia in last 30 years. The plant has to be built by the 2020. There is a good prospect that the pipeline “Turkish stream” will reach Serbia in the near future. Therefore, Serbia will be endowed with this kind of energy too. New industrial plants that are in construction now will ensure energy supply.

(c) Serbia is fulfilling the third condition - adequate “external economies”. Whole country became huge building-plot of transport infrastructure. Most important is “Corridor 10” – highway and railway. The highway (2,300 km) begins in Salzburg and goes via Zagreb – Beograd – Niš – Skoplje to Salonica. A leg of this highway goes from Niš via Dimitrovgrad to Constantinople (Istanbul). This corridor has to be built in 2018. The highway “Corridor 11” links Rumania via Belgrade to South Adriatic and Italy. It has to be finished in 2018. A highway Belgrade – Sarajevo is also foreseen.

The railway branch of the “Corridor 10” (2,527 km) already exists. It links Western and Central Europe with Greece and Turkey. Utmost importance for Serbia is modernization of the railway Belgrade – Budapest. It will be realized together with China and Hungary. With the speed of 200 km/h, it will reduce the time from 8 to 3 hours. It has to be finished by 2023. Serbia by herself undertook modernization of the part Belgrade – Novi Sad that has to be finished by 2020.

Old saying “All roads lead to Rome” (*Omnes viae Romam ducunt*) is getting a twin: “All roads lead to Belgrade” (*Omnes viae Singidunum ducunt*). Importance of building the infrastructure is already visible. The biggest

producer of furniture in Europe, Swedish “IKEA”, has already built a big store along finished “Corridor 10”. Along this same corridor are already built factories owned by Italian, Turkish, German companies and companies from other countries as well.

d) Serbia concluded agreements on free trade with EU, EFTA, CEFTA, Russia, Belorussia, Kazakhstan and Turkey. So she got a free trade zone from Atlantic to Pacific. Serbia also enjoys treatment from General preferential scheme in trade with USA.

5. Official economic policy is inspired by philosophy of Italian saying: „*Chi va piano, vasa no ed arrivalo lontano*“ (Who goes slowly, goes soundly, and reaches far). Domestic economy has been gradually growing out of crisis. With a hope that rainfall will be more generous toward Serbian farmers than in previous year, in 2018 Serbia may expect a decent growth in GDP, in exports and in domestic consumption, with further slow down in unemployment. With a free trade treatment between Atlantic and the Pacific, and a profitable internal business environment, Serbia is becoming a paradise for investors. After completion of the program for infrastructure and energy supply, Serbia might expect an acceleration in domestic and foreign investment and, therefore, an economic growth rate of 5-6% per year.