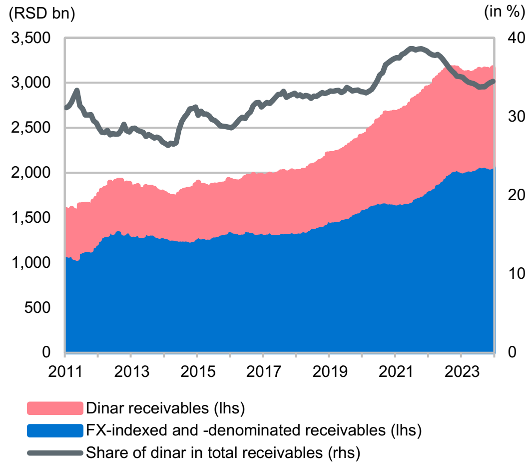
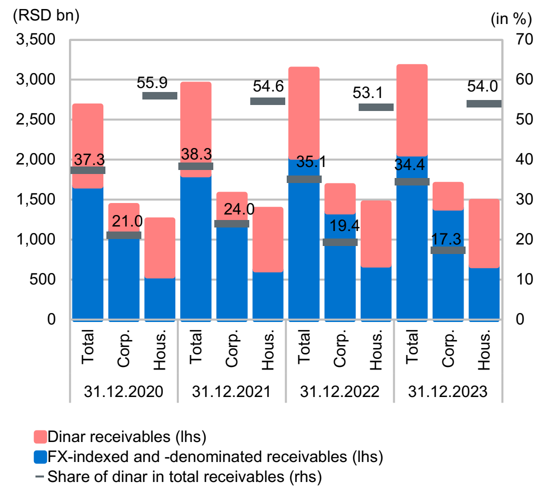
Chart III.5.3 **Share of dinar receivables in total corporate and household receivables**



Source: NBS.

Chart III.5.4 **Receivables by sector**



Source: NBS.

reliance of corporates on FX-indexed borrowing from banks. However, influenced by greater corporate lending in dinars, in Q4 2023 this trend reversed and the degree of dinarisation of corporate receivables went up by 1.0 pp, to 17.3% at the end of the year. Nevertheless, at the level of 2023 this indicator dropped by 2.1 pp.

The degree of dinarisation of household receivables increased by 0.9 pp in 2023, to 54.0% at year end. This indicator was on the rise throughout the greater part of the year, influenced by the rise in cash loans granted dominantly in dinars. The deceleration of the growth in housing loans worked in the same direction under the impact of ECB monetary policy tightening and hikes in interest rates on euro-indexed housing loans, approved dominantly at a variable rate.

The degree of dinarisation of corporate and household deposits continued on the long-term rising path in 2023, touching a record high level of 44.4% at the end of the year. Higher dinarisation was recorded for both households and corporates.

After two years of decline, the degree of dinarisation of deposits increased significantly (4.4 pp) to a record high level of 62.7% at year end, as a result of much stronger growth in dinar than in FX deposits (23% vs. 2%, respectively).

In 2023, the degree of dinarisation of household deposits also went considerably up (3.8 pp), reaching an all-time high of 31.4% at the end of the year. This rise is associated with the dynamic growth in dinar household deposits (26%), within which dinar savings[21] recorded the most pronounced nominal increase since data are monitored (RSD 41.6 bn or 43%), reaching a record high level of RSD 137.9 bn.

The dynamic increase in dinar savings in the past months is underpinned by their higher profitability relative to FX savings. Regularly conducted and published NBS analyses show that savings in the domestic currency were more lucrative than savings in euros regardless of the maturity, i.e. in both short and long run, and the longer the maturity the greater the difference in favour of the domestic currency. This is a result of relative stability of the exchange rate of the dinar against the euro, higher interest rates on dinar compared to FX savings and a more favourable tax treatment of interest on dinar savings (no taxation).

The increase in dinar savings was aided also by higher interest rates on dinar savings, partly on account of NBS monetary policy tightening, as well as promotional offers and bank activities around the World Savings Day, which some banks maintained even in the months that followed.

[21] Including savings of non-residents.

NBS measures and activities are expected to continue contributing to the increase in dinarisation in the coming period as well. One specific measure[22] to be implemented as of 2025 implies a reduction of capital for banks whose share of FX-indexed and FX loans granted to the non-financial and non-government sector from 1 July 2023 exceeds the defined limit. The limit will be gradually reduced every year, ending with 2027. In this way banks are encouraged to approve dinar loans rather than FX-indexed and FX loans.

6 Real estate market

Real estate price growth lost steam and trade subsided in 2023 from a year ealier.

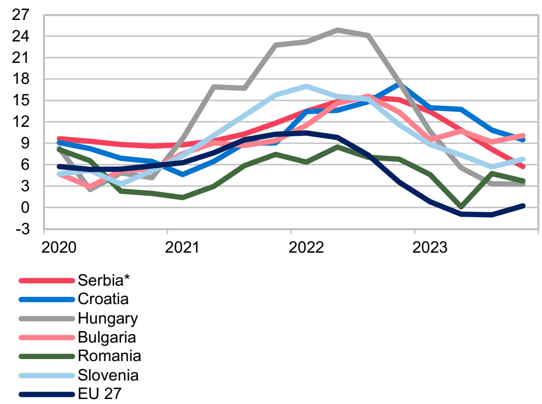
According to the Republic Geodetic Authority, in 2023 the number of purchases (121,627) dropped by 13% from 2022 and the total **volume of turnover** in the real estate market by 13% to EUR 6.5 bn, of which 52.8% relating to flats.

The Republic Geodetic Authority data on **real estate prices** point to the continuation of price hike in 2023, though at a somewhat more moderate pace than in 2022. **The average price of a new flat** went up by 1% to EUR 1,697 per square metre (from EUR 1,688), while **the average price of an old flat** in Serbia in 2023 measured EUR 1,468 per square metre, up by 11% from 2022 (EUR 1,325). The average surface of a new flat equalled 56 square metres and of an old flat 52 square metres.

The number of real estates bought from loans declined as a consequence of rising interest rates – around 17% of purchased flats were financed in this way compared to 26% in 2022.

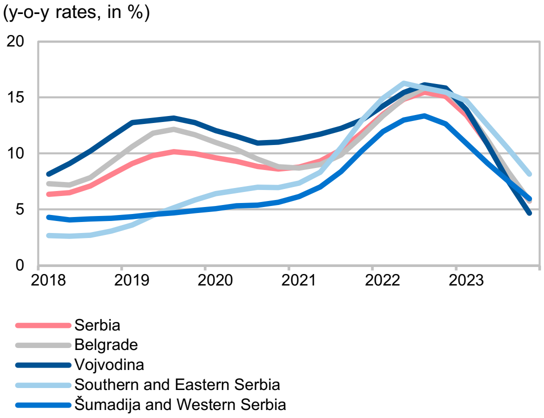
Other countries in the region also saw a slower pace of real estate price growth. According to Eurostat data for Q3

Chart III.6.2 **Flat price movements measured by the Flat Price Index, in countries of the region**
(y-o-y rates, in %)



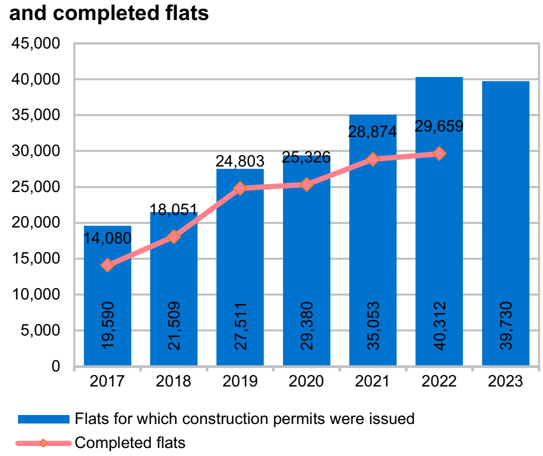
Sources: Eurostat and Republic Geodetic Authority.
* Preliminary data for Q4 2023.

Chart III.6.1 **Flat price movements in Serbia measured by the Flat Price Index**
(y-o-y rates, in %)



Source: Republic Geodetic Authority.
Note: Preliminary data for Q4 2023.

Chart III.6.3 **Number of issued construction permits and completed flats**



Source: SORS.

[22] Decision on Capital Adequacy of Banks (RS Official Gazette, Nos 103/2016, 103/2018, 88/2019, 67/2020, 98/2020, 137/2020, 59/2021, 67/2022, 137/2022, 48/2023 and 110/2023), Article 13a.

2023, Bulgaria and Croatia recorded the sharpest increase (10.1% and 9.5%, respectively), while the EU as a whole saw residential property prices rise slightly, by 0.2%.

According to SORS, the prices of new flats in Serbia went slightly up in 2023, by 0.7% from 2022, owing to the growth in H1, while in H2, these prices even declined by 4.8 y-o-y. The average price of new flats in Serbia equalled RSD 211,103 per square metre. After Belgrade, where the prices of new flats went up by 2.8%, to RSD 312,011 per square metre in 2023, the highest levels were recorded in: Novi Sad (RSD 206,400 per square metre), Čajetina/Zlatibor (RSD 197,521 per square metre), Medijana - Niš municipality (RSD 176,336 per square metre) and Vrnjačka Banja (RSD 172,663 per square metre).

SORS data indicate that the total **number of issued construction permits** in 2023 came at 31,216, up by 6.4% y-o-y. The rise was driven by the higher number of issued permits for buildings (9.0% y-o-y), while the number of permits for flats dropped by 1.4% for the first time in nine years.

7 Inflation expectations

One-year ahead inflation expectations of the financial and corporate sectors were stable in H1 2023 despite the continuation of inflation growth from the beginning of the year. In H2, however, inflationary pressures waned and inflation expectations slowed down approaching the NBS target band. The lowering of one-year ahead inflation expectations and anchoring of medium-term inflation expectations of the financial sector speak in favour of the credibility of the NBS monetary policy.

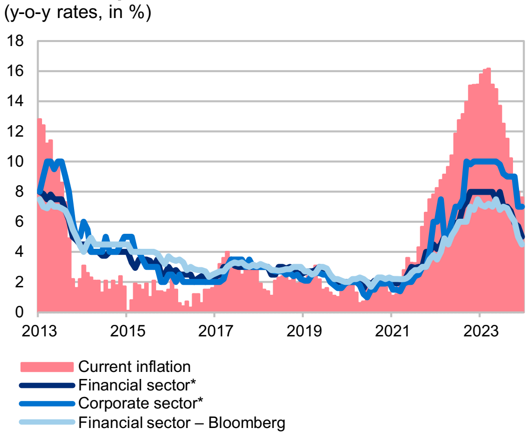
According to the Bloomberg survey, **one-year ahead inflation expectations of the financial sector** trended around 7% for the most part of H1, only to go down to 4.5% by year end, which is the upper bound of the target tolerance band. According to Ipsos, these expectations were stable at around 8% in H1, after which they declined to 5% in December.

One-year ahead inflation expectations of the corporate sector were stable in H1, at 10% until June when they started decreasing and reached 7% at year end. The percentage of corporates expecting a rise in the prices of their final products and services in the coming three months more than halved from end-2022, to around 32%. In December, more than a half of surveyed corporates expected no increase in the prices of their products and services over the next twelve months (49.2%).

Having moved at around 20% for ten months, **household inflation expectations**, which are usually higher than those of other sectors, went down to 15% in February 2023 and hovered at that level for most of the year. According to the qualitative survey, the index of expected inflation was lower than the index of perceived inflation, indicating that households expected that inflation would be lower in the coming 12 months than in the previous year.

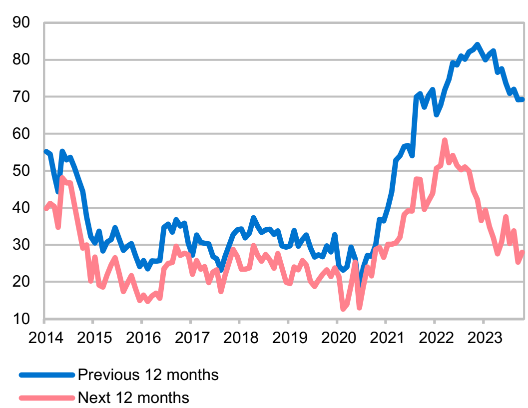
Inflation expectations of the financial sector for two years ahead ranged between 4.0% and 5.0%, while

Chart III.7.1 **Current inflation and one-year ahead inflation expectations***
(y-o-y rates, in %)



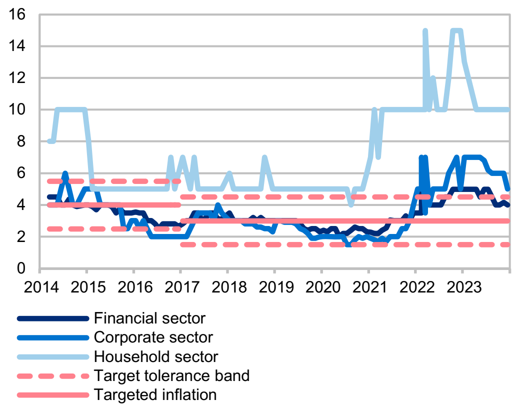
Sources: Gallup, Ipsos/Ninamedia, Bloomberg and NBS.
* Ipsos and Gallup agencies until December 2014, Ninamedia since December 2014, and Ipsos since January 2018.

Chart III.7.2 **Inflation perceived and expected by households***
(in index points)



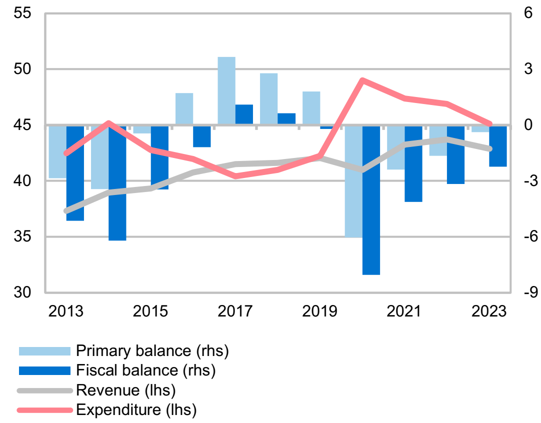
Sources: Ipsos/Ninamedia and NBS.
* Ipsos until December 2014, Ninamedia since December 2014, and Ipsos since January 2018.

Chart III.7.3 **Two-year ahead inflation expectations***
(y-o-y rates, in %)



Sources: Ipsos/Ninamedia and NBS.
* Ipsos until December 2014, Ninamedia since December 2014, and Ipsos since January 2018.

Chart III.8.1 **Fiscal and primary balance of general government budget**
(in % of GDP)



Source: Ministry of Finance.

expectations **for three years ahead** were within the NBS target tolerance band. **Two-year ahead corporate expectations were lowered** from 7% at the beginning of the year to 5% in December. **Three-year ahead** corporate expectations stood at 5.0% for most part of the year. Two-year ahead **inflation expectations of households** decreased to 10% in April and remained at that level all the way until the end of the year. This was also the level of three-year ahead expectations.

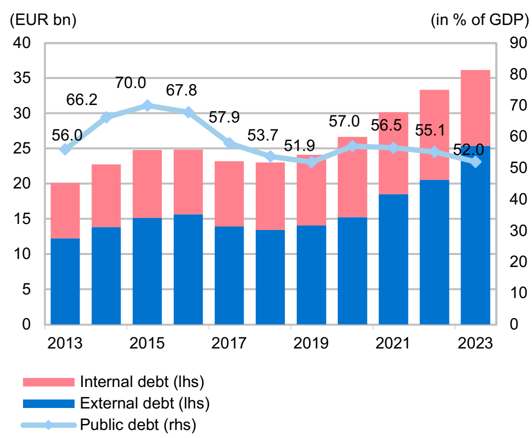
8 Fiscal trends

In 2023, **general government deficit measured RSD 181.1 bn** (2.2% of GDP). At the same time, **the primary balance recorded a deficit of RSD 31.8 bn** (0.4% of GDP). The deficit in 2023 was **lower by RSD 46.4 bn than envisaged by the supplementary budget for 2023** owing to the higher than planned revenues and lower spending, primarily for the procurement of goods and services as well as for subsidies. A better fiscal performance and a weaker than expected fiscal impulse contributed to lower inflation.

Public revenues increased by 11.9% (RSD 370.0 bn) with all categories of tax revenues recording growth. Revenues from social insurance contributions posted the highest growth in nominal terms, increasing by RSD 108.6 bn (3.5 pp contribution), largely as a result of the wage bill increase, despite the government's decision to reduce the rate of contributions paid by employers by 1 pp. VAT collected in 2023 went up by RSD 63.4 bn (2.0 pp contribution), partly a result of rising prices, and partly of the real growth, bearing in mind that the VAT on domestic goods recorded an increase of RSD 92.3 bn (3.0 pp contribution), while, in contrast, VAT from imports dropped by RSD 29.5 bn, primarily on account of the reduced value of energy imports. The rise in tax revenues was almost equally supported by the higher profit tax (2.0 pp contribution) as in 2023, tax payers paid tax on the profit made in 2022 when corporate sector performed extremely well. Income tax revenues also went up (1.5 pp contribution) owing to the already mentioned rise in the wage bill.

Public expenditures in 2023 were 9.8% higher than in 2022, or by RSD 326.2 bn. The greatest expenditure increase in 2023 relative to 2022 was recorded in case of social security expenses (5.2 pp contribution of which

Chart III.8.2 **Public debt***

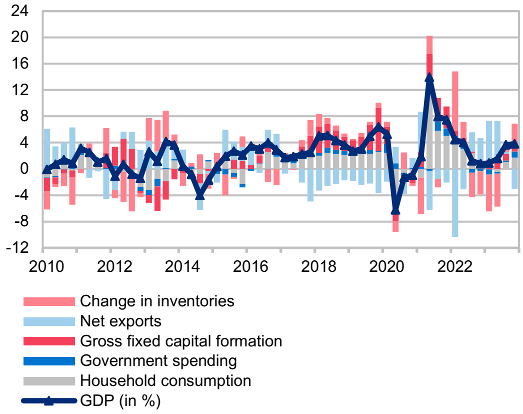


Source: Ministry of Finance.
* Central government.

pensions provided 4.1 pp), followed by employee expenses (2.4 pp) because of the government's decision to raise wages and pensions in H2. Public expenditure rise was driven by the higher purchases of goods and services (2.1 pp), and somewhat less so by subsidies (1.6 pp), and capital expenditures and interest payments (1.3 pp each). When it comes to capital expenditures, their execution in 2023 was at the level of around 97% relative to the plan from the Revised Fiscal Strategy (RSD 584.4 bn) and they were nominally higher by RSD 42.5 bn compared to 2022.

Central government public debt measured EUR 36.2 bn at end-2023 and its share in GDP 52.0%. Compared to end-2022, the share of public debt in GDP contracted by 3.1 pp, almost entirely a result of higher nominal GDP in 2023 (7.4 pp contribution to the reduction in the share of GDP). To a lesser extent, the share of public debt in GDP contracted also thanks to the decrease in the stock of dinar debt (0.9 pp contribution) and exchange rate differences on account of the dinar's strengthening against the dollar and other currencies.

Chart III.9.1 **Contributions to y-o-y GDP growth rate − expenditure side**
(in pp)



Sources: SORS and NBS calculation.

9 Aggregate demand

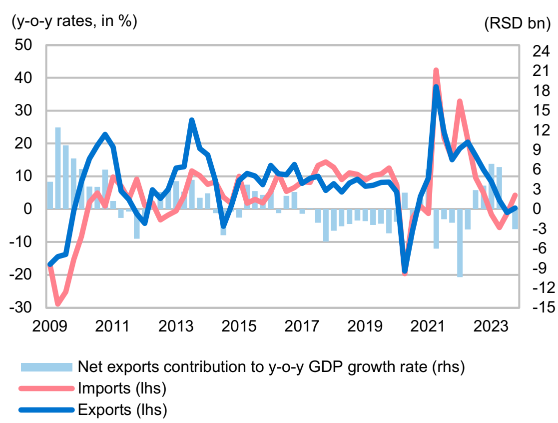
Real GDP growth came at 2.5% in 2023, driven chiefly by net exports, and to a lesser extent, fixed investments. A positive contribution came also from household and government consumption, while the reduction in inventories had an adverse impact on GDP growth in 2023 as a large portion was spent for domestic consumption and export purposes.

Private consumption went up by 0.8% at the level of 2023, owing to its recovery in H2. Household consumption growth is indicated by the rise in real catering turnover by 9.4% in 2023 and an increase in the import of consumer goods by 5.2% despite its gradual deceleration during the year. The waning of inflationary pressures enabled the recovery of real retail trade turnover at end-Q3 and in Q4, which, nevertheless, declined by 1.9% at the level of the year. As in previous years, consumption growth was generated by the primary source of consumption financing – the wage bill. In 2023, the wage bill went up by 17.0% in nominal and by 4.0% in real terms. In addition, lending pushed consumption up as loans intended for consumption (cash and consumer loans, current account overdrafts, credit cards) posted 1.7% growth at the level of the year. On the other hand, after two years of robust growth, in 2023, remittances dipped by 0.6%, largely on account of the high last year's base and partly of economic slack and growing costs of living in Western European countries where the bulk of remittances come from.

As government consumption went up by 0.3% in 2023, adding 0.1 pp to GDP growth, total domestic consumption increased by 0.8%, contributing 0.6 pp to GDP growth.

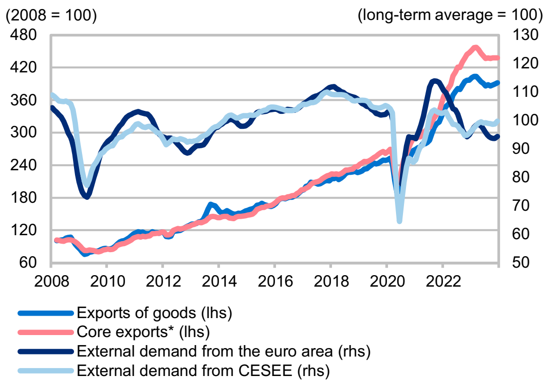
Despite pronounced geopolitical tensions, the positive dynamics of **private investments** was maintained in 2023 and they increased by 3.3%. Investment growth is indicated by the rise in the production of machinery and equipment by 5.1%. At the same time, the value of executed works and the number of issued construction

Chart III.9.2 **Exports and imports of goods and services**
(in previous-year constant prices, ref. 2010)



Sources: SORS and NBS calculation.

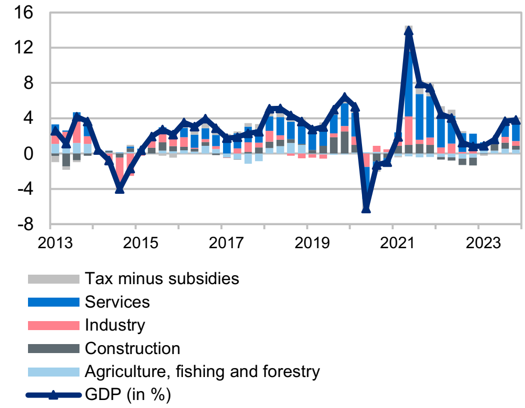
Chart III.9.3 **Movement of indicators of external demand for Serbian exports**
(3M moving average, s-a)



Sources: European Commission, SORS and NBS.

* Core exports are exports excluding the exports of agricultural products, base metals, motor vehicles, petroleum products and electricity.

Chart III.10.1 **Contributions to y-o-y GDP growth rate – production side**
(in pp)



Sources: SORS and NBS calculation.

permits also increased, by 11.7% and 6.4%, respectively. We estimate that the bulk of investments were financed from own sources, indicated primarily by the last year's corporate profitability of around RSD 864 bn, as well as a considerable FDI inflow (EUR 4.5 bn) which exceeded last year's record. A part of this growth was supported by investment loans, which went up by 3.8% y-o-y in 2023. Continued implementation of government-financed infrastructure projects contributed to the 5.4% growth in **government investments** in 2023. Accordingly, total fixed investments increased by 3.9% in 2023, providing 0.9 pp to GDP.

On the other hand, as in 2023 a large portion of inventories from previous years was spent for domestic consumption and a part for exports too, the reduction in inventories dragged GDP growth in 2023 down by 1.5 pp.

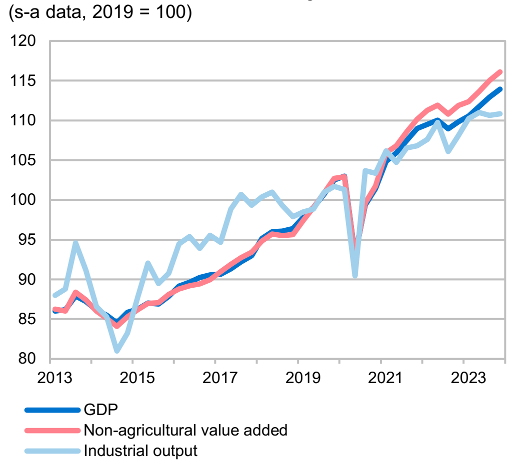
The greatest positive contribution to GDP growth in 2023 was provided by **net exports (2.5 pp contribution)** as a result of the real growth in goods and services exports (2.4%) and a decline in imports (-1.1%), exerting a key impact on positive trends in H1. The rise in exports was due primarily to previous investments in tradable sectors which pushed up significantly the export supply of manufacturing, as well as to the recovery of the energy sector production which enabled electricity exports.

10 Economic activity

In 2023, for the second year in a row, GDP growth amounted to 2.5%, despite the slowdown in external demand amid economic slack of the euro area, our most important trade partner, and pronounced geopolitical tensions. The growth was driven by more intense activity in all production and most service sectors. An almost equal impetus came from construction, industry and agriculture.

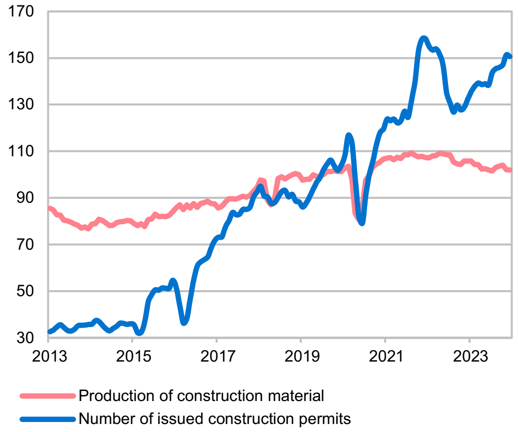
The rise in **industrial production** in 2023 (2.3%) was led by the recovery of **electricity sector** whose volume of production stabilised and rose to 12.7% after the problems experienced in late 2021 and early 2022. **Manufacturing** rose by 0.7%, as confirmed by the data on the volume of its production (0.8%). The rise in the volume of production was posted by a half of the 24 manufacturing branches, with the highest positive contribution coming from the production of computers and electronic products, followed

Chart III.10.2 **Economic activity indicators**
(s-a data, 2019 = 100)



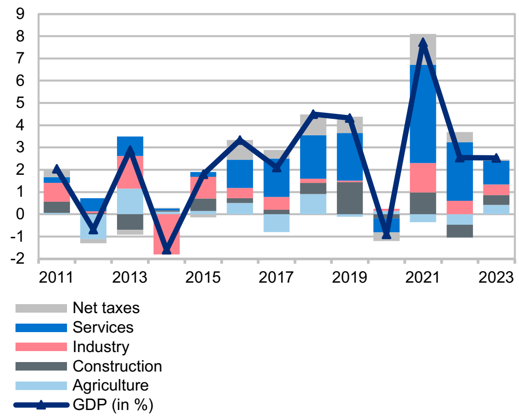
Sources: SORS and NBS calculation.

Chart III.10.3 **Construction activity indicators**
(quarterly averages s-a, 2019 = 100)



Sources: SORS and NBS calculation.

Chart III.10.4 **Contributions to annual GDP growth rate – production side**
(in pp)



Sources: SORS and NBS calculation.

by motor vehicles (and trailers) and food. On the other hand, the largest negative contribution to manufacturing stemmed from the reduced volume of production of metal products, coke and petroleum products, as well as chemical products. After growing at a rate of over 20% for two years in a row (partly on account of expanded production capacities), the volume of **mining** output stayed broadly unchanged in 2023.

Construction picked up by almost 9% in 2023, which is a result of the low last year's base and continued implementation of significant transport infrastructure projects (Belgrade bypass, sections of the Morava corridor, Novi Sad-Subotica railway). The value of executed construction works, which went up by 11.7% in 2023, also indicates a rise in the construction sector. At the same time, the number of issued construction permits climbed by 6.4%.

Service sectors, collectively, went up by 2.0% in 2023, contributing 1.1 pp to GDP growth. This is primarily confirmed by tourism indicators, as the tourism turnover, measured by the number of arrivals and overnight stays increased by 8.4% and 1.6%, respectively. Also, the real turnover in catering increased by 9.4%. On the other hand, real retail trade turnover declined by 1.9% y-o-y, which can be linked to higher food prices, as well as to the base effect since early last year (particularly in March) basic foodstuffs were purchased increasingly following the outbreak of the Ukraine conflict.

After two consecutive bad seasons, in 2023 **agricultural production** recorded almost double-digit growth of over 8% and contributed 0.4 pp to GDP.

Net taxes went slightly up from last year, adding 0.1 pp to GDP growth.

Looking at individual quarters, the growth dynamics accelerated significantly in H2. The y-o-y growth stepped up from 1.2% in H1 to 3.7% in H2, with the quarterly rise in Q4 measuring close to 1% s-a. This contributes to the high carry-over effect for 2024 and facilitates the achievement of the projected growth rate, which is in the 3–4% range, with a central value of 3.5%. GDP growth rates were positive in all quarters.

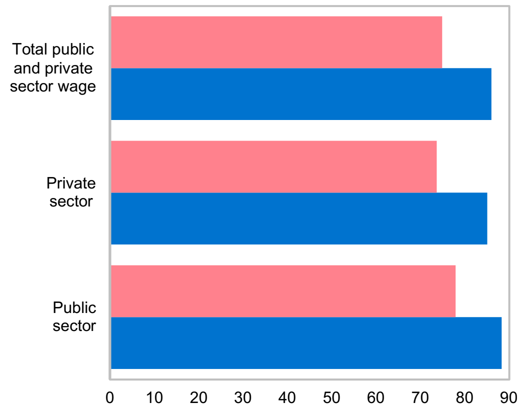
11 Wages and employment

Favourable labour market trends continued into 2023 as testified by the further increase in employment, reduction in unemployment and a double-digit y-o-y rise in wages.

At the level of 2023, the average **nominal net wage** amounted to RSD 86,007, up by 14.8% y-o-y. As the private sector wage growth (15.5%) was faster than that of the public sector (13.3%), the gap between public and private sector wages narrowed further (to 1.04 at the annual level). The minimum cost of labour increased to RSD 230 per hour at the beginning of the year, while the median net wage in 2023 averaged RSD 65,670.

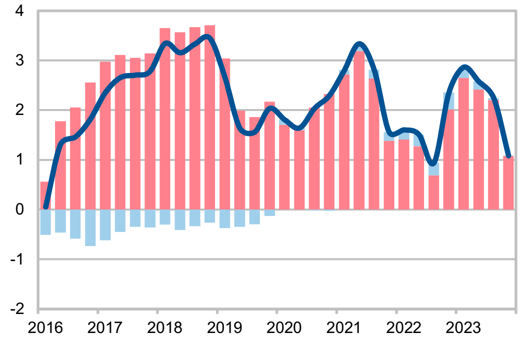
In 2023, the wage growth remained widely dispersed as confirmed by the higher wages in all sectors of the economy, with the most striking rise registered in trade (15.7%), transport (15.5%) and public administration (15.3%).

Chart III.11.1 **Average nominal net wage**
(RSD thousand)



Source: SORS.

Chart III.11.3 **Composition of y-o-y growth in formal employment**
(in pp, quarterly average)



Source: SORS and NBS calculation.

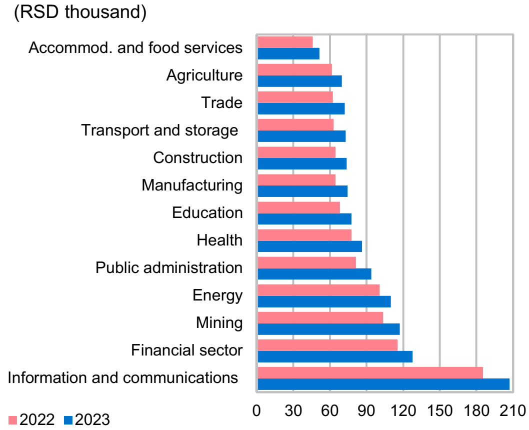
As the dominant source of consumer demand, the total nominal **net wage bill** rose by 17.0% in 2023, thanks to the nominal wage growth in all sectors and higher formal employment.

We estimate that the **overall economic productivity** growth decelerated from 0.9% in 2022 to 0.3% in 2023, on account of a faster employment rise in 2023 than in the previous year.

Total formal employment increased on average by around 51 thousand (2.2%) in 2023 thanks to growth in employment with legal entities (by around 38 thousand) and entrepreneurs (by around 16 thousand), while the number of individual farmers went down (by around three thousand). At the same time, formal employment increase was largely driven by private sector employment which came at around 1.75 mn at end-2023. Public sector formal employment also went up, to 611 thousand in December, on account of a more flexible control of employment with public funds beneficiaries.

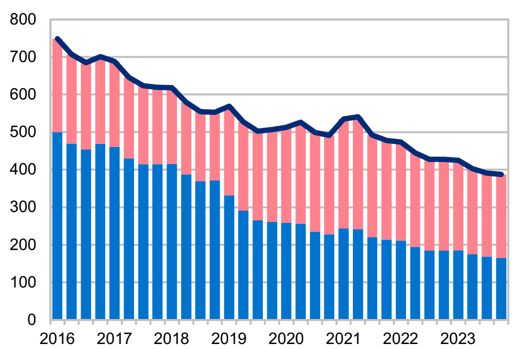
The highest number of new recruits in 2023 was on average recorded in the ICT sector and professional, scientific, innovation and technical services (by 13 thousand each), followed by manufacturing (around six thousand). At the same time, employment increased in other sectors dominantly belonging to the private sector,

Chart III.11.2 **Average nominal net wage by economic sector**
(RSD thousand)



Source: SORS.

Chart III.11.4 **Registered unemployment**
(in thousand of persons, end-of-quarter)



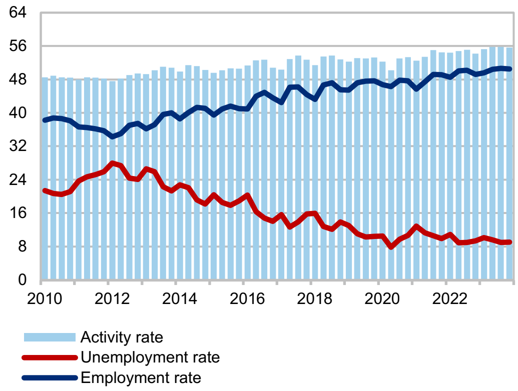
Source: NES.

except administration and auxiliary services as well as agriculture where employment decreased by around two thousand and one thousand on average, respectively. Public sector employment also rose, driven dominantly by employment gains in the health sector (around five thousand).

The multiannual downward trend of **registered unemployment** continued into 2023. According to the National Employment Service, registered unemployment came at 393,095 in December, down by around 39 thousand from a year ago. At the same time, the y-o-y unemployment drop was registered in all occupation groups in the manufacturing and service sectors.

According to the Labour Force Survey, inclusive of both formal and informal labour market segments, in Q4 2023 the working age (15–64) participation rate stood at 71.5% and the activity rate of population older than 15 at 55.6%, marking a 1.2 pp and 1.4 pp increase relative to the same period last year, respectively. The unemployment rate of 9.1% was 0.3 pp lower than in the same period of 2022, while the employment rate was 1.3 pp higher, measuring 50.5%.

Chart III.11.5 **Labour market indicators under the Labour Force Survey**
(in %)



Source: SORS.

IV Outlook for key macroeconomic indicators in 2024

The monetary policy decisions made in the course of 2023 were largely determined by the expectations and macroeconomic projections for 2024. It should be noted that the projections for 2023 entirely materialised in terms of inflation, current account deficit and real GDP growth outturns. The projections for 2024 envisage the continuation of favourable trends – further inflation decline and acceleration of economic growth, supported by increased investment, employment gains and maintained living standards.

According to the projections made in 2023, **inflation** is expected to return within the target band in mid-2024 and approach the 3% midpoint by the end of the year. Such inflation profile should reflect mainly the effects of past monetary tightening, the weakening of global cost-push pressures, further slackening of imported inflation and the anticipated continuing decline in inflation expectations.

Economic growth is expected to accelerate in 2024 to the range of 3–4%, with central value of 3.5%, which speaks in favour of a soft landing, i.e. that monetary policy tightening has had a minimal effect on economic activity and financial stability. The projected GDP growth will be led by domestic demand. Private consumption will pick up on the back of further growth in employment and real wages. However, as consumption will rise at a slower pace than total GDP, no major inflationary pressures are likely on this account. Thanks to the continued implementation of projects in transport, energy and utility infrastructure, a positive contribution to growth is expected also from fixed investment which boosts the country's potential output. The effects of past investment into export-oriented sectors will be reflected in further export growth in 2024, though the contribution of net exports will be negative due to the expected robust increase in imports, notably of equipment and intermediate goods.

Given the above, the **current account deficit**, projected at 4% of GDP in 2024, will remain fully covered by net FDI inflows. The anticipated continuing FDI inflows and the strong non-residents' demand for dinar securities testify to Serbia's favourable macroeconomic prospects and resilience to negative shocks from the international environment.

In making monetary policy decisions, account was taken of the fact that, according to the Revised Fiscal Strategy for the 2024–2026 Period, the medium-term fiscal framework envisages a reduction in **the share of public debt in GDP and the curbing of the government deficit** to 2.2% in 2024. Looking at expenditure, focus will be maintained on infrastructure and capital projects, with capital expenditure accounting for around 6–7% of GDP in 2024–2026. In our view, the narrowing of the government deficit in the period ahead will contribute to lower inflationary pressures, which combined with the downward trajectory of public debt will have a positive bearing on the country's credit rating and risk premium.

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