



Народна банка Србије

# *Economic resilience in uncertain times – key challenges for Serbia and the Western Balkans*

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Governor of the National Bank of Serbia

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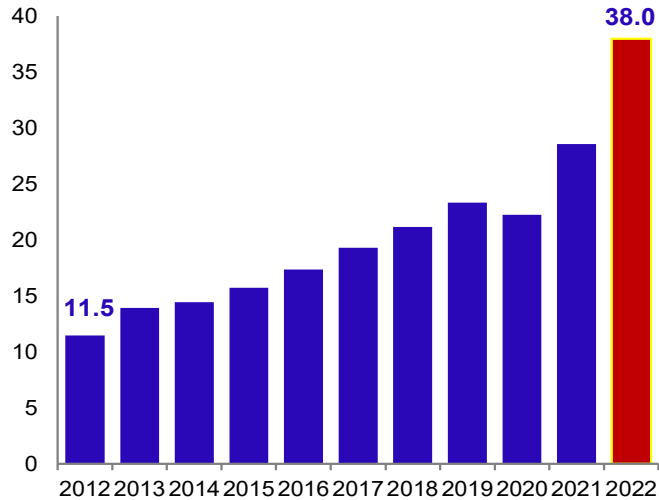
**Kopaonik Business Forum, 6 March 2023**



# APPROPRIATE ECONOMIC POLICY IN SERBIA

## Exports of goods and services (EUR bn)

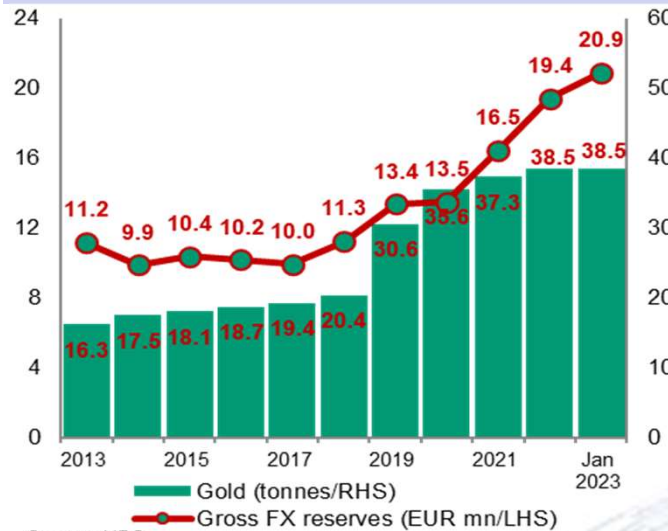
Record exports of goods and services ⇒



Source: NBS.

## Gross FX reserves and gold

Record FX reserves ⇒



Source: NBS.

## FDI inflow (EUR bn)

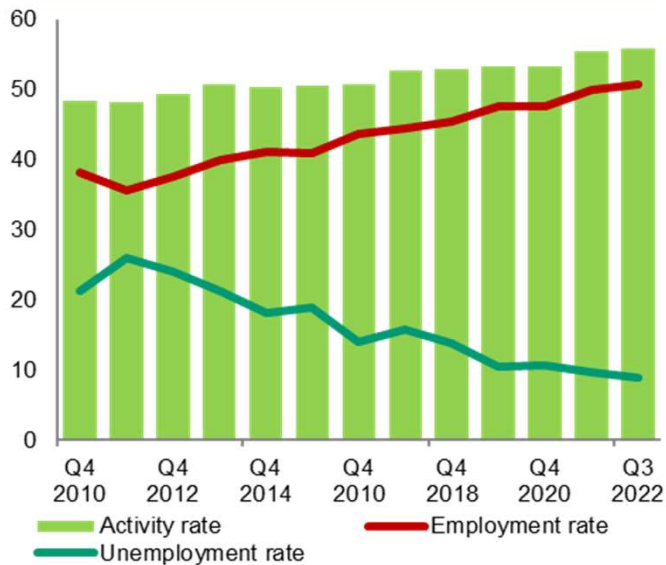
Record FDI ⇒



Source: NBS.

## Labour market indicators under Labour Force Survey (%)

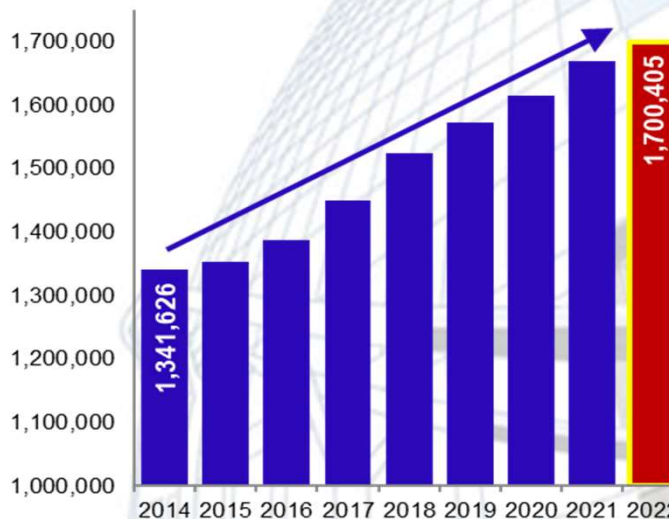
Unemployment rate is at its lowest level



Source: SORS.

## Formal employment in the private sector (12-month average)

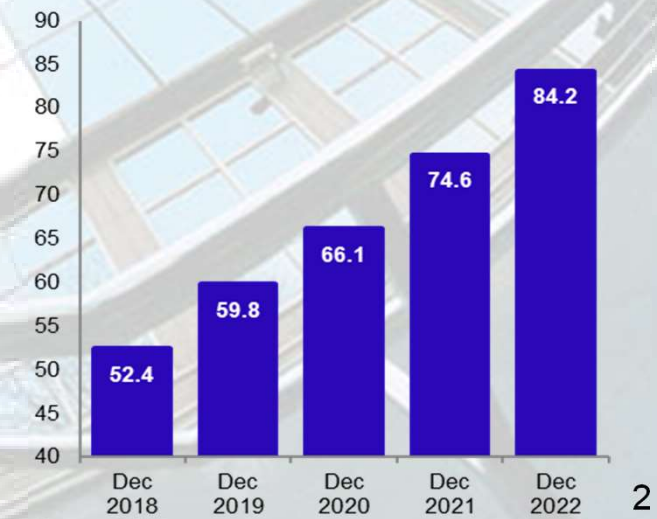
150 thousand employed people more than before the pandemic



Source: CROSO.

## Average net wage (RSD thousand)

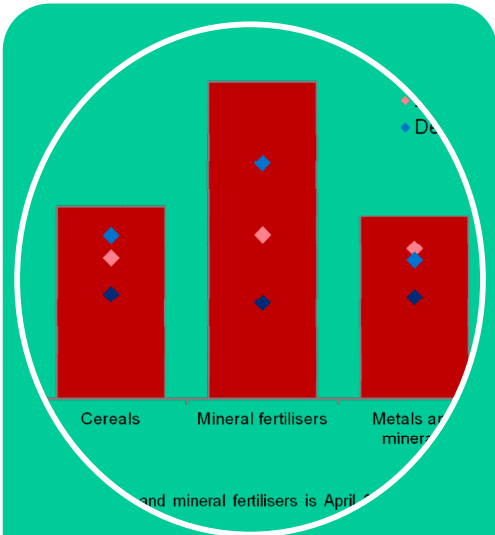
Average wage in December was 36% higher than pre-crisis



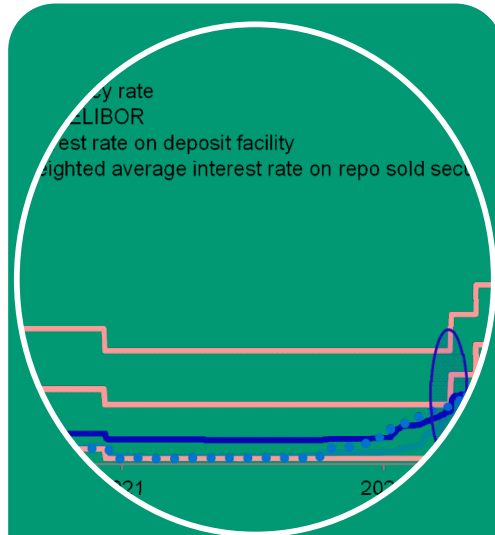
Source: SORS.



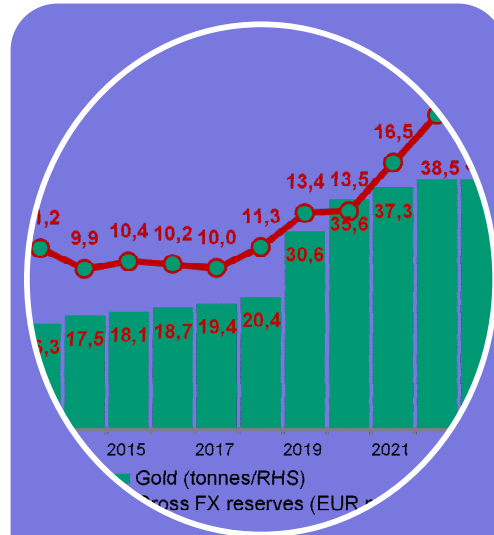
# TOPICS



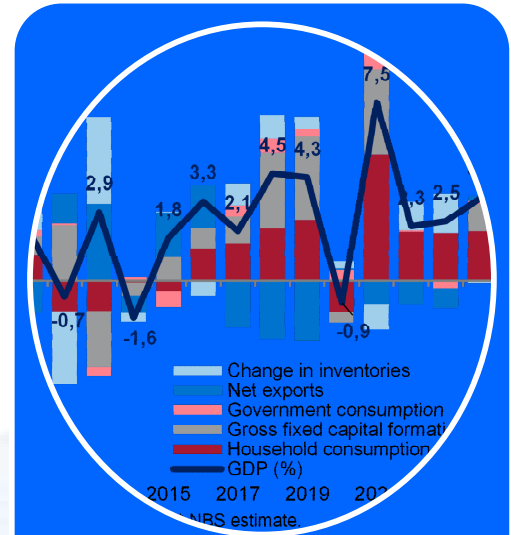
## Inflation factors in 2022



## Monetary policy response



## Resilience of the Serbian economy



## Expectations going forward

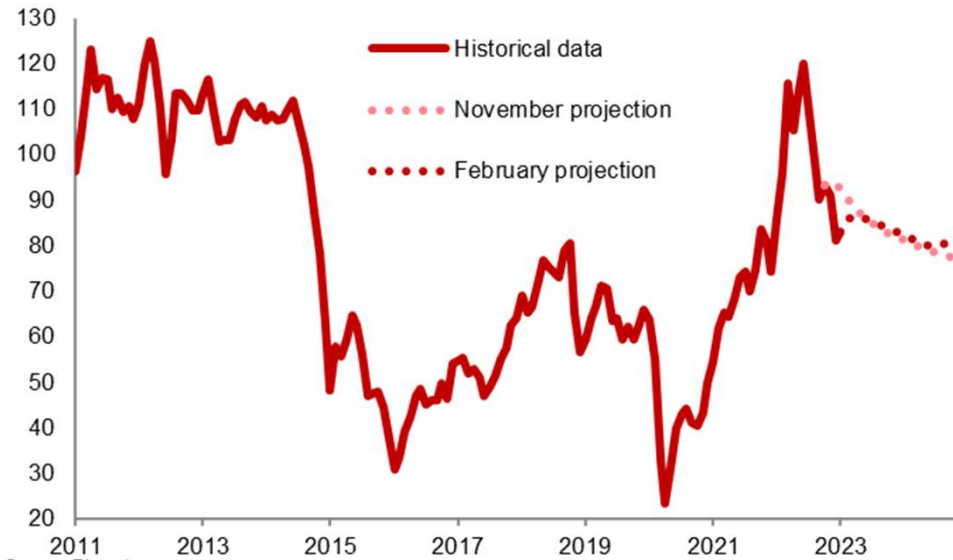




# 1 INFLATION FACTORS IN 2022 - GLOBAL (1/2)

## Assumption for Brent oil prices

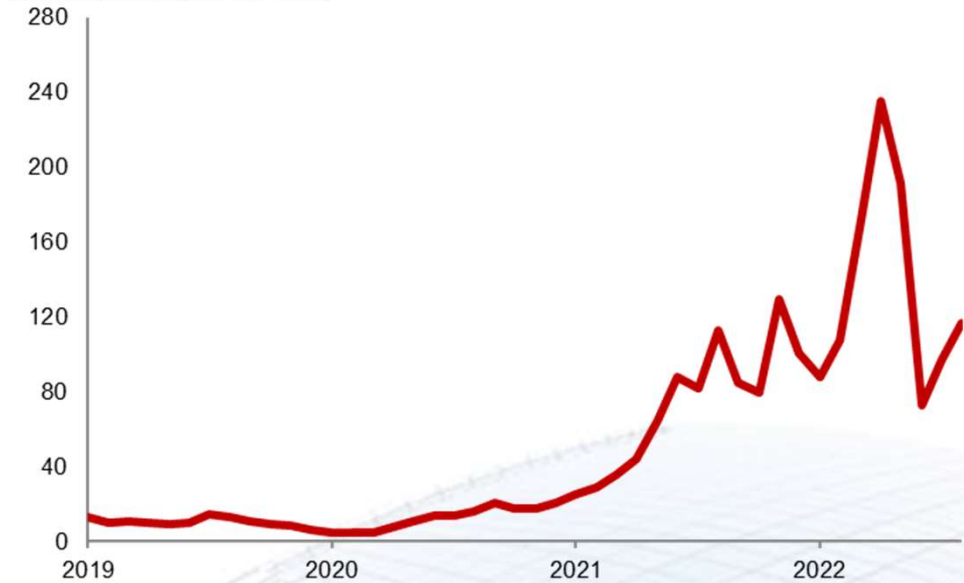
(USD/barrel)



Source: Bloomberg.

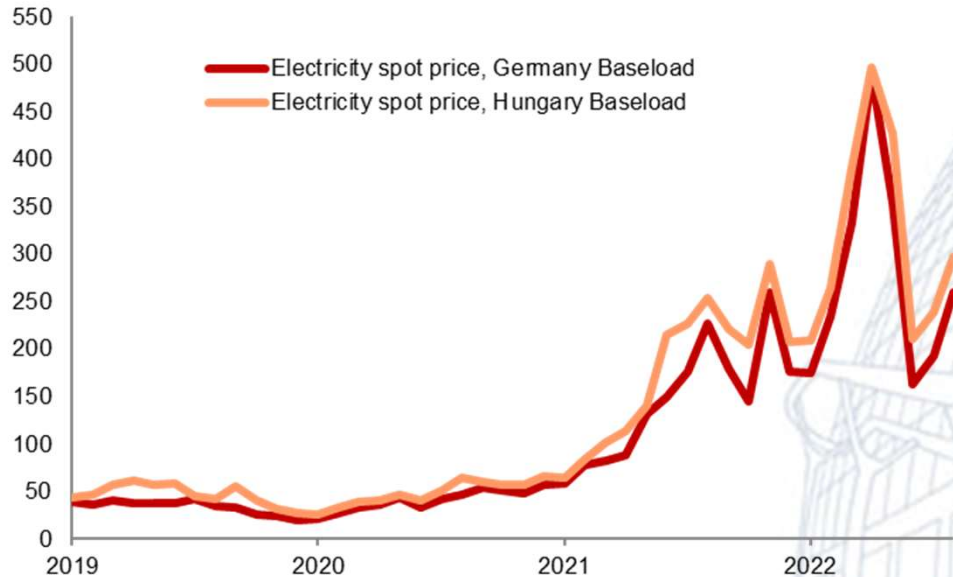
## Natural gas prices in TTF hub

(monthly average, EUR/MWh)



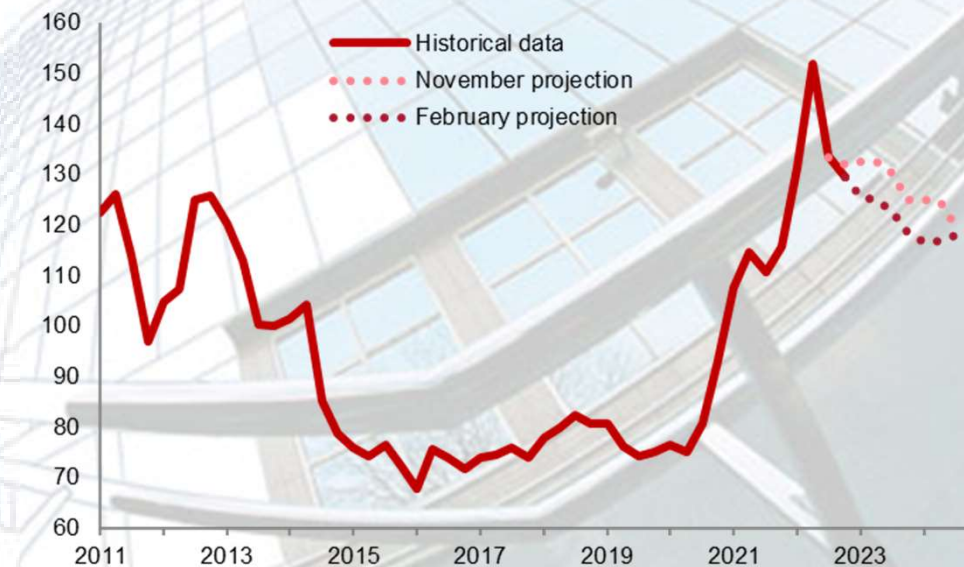
## Electricity prices in German and Hungarian exchange

(monthly average, EUR/MWh)



Source: Refinitiv.

## Assumption for global primary agricultural commodity prices (Q4 2013 = 100)

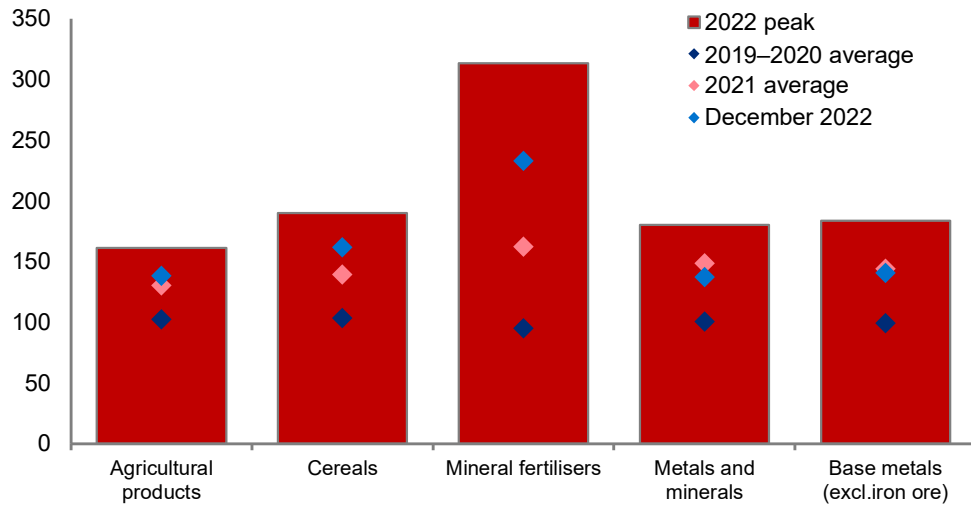


Source: CBOT, Euronext, and NBS calculation.



# 1 INFLATION FACTORS IN 2022 - GLOBAL (2/2)

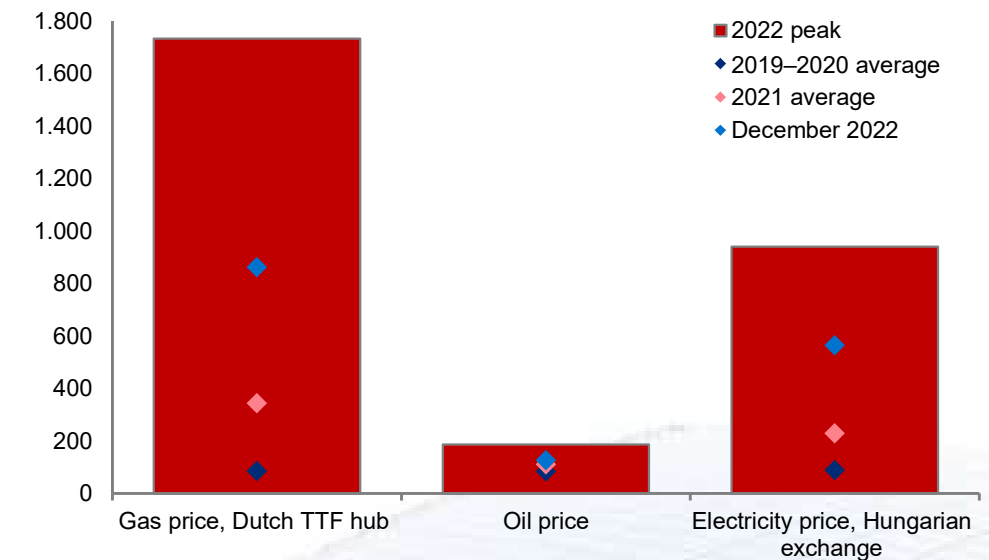
### Monthly indices of primary commodity prices (2019 = 100)



Source: World Bank.

Note: The peak for agricultural products and mineral fertilisers is April 2022, for cereals - May, and for metals, minerals and base metals - March.

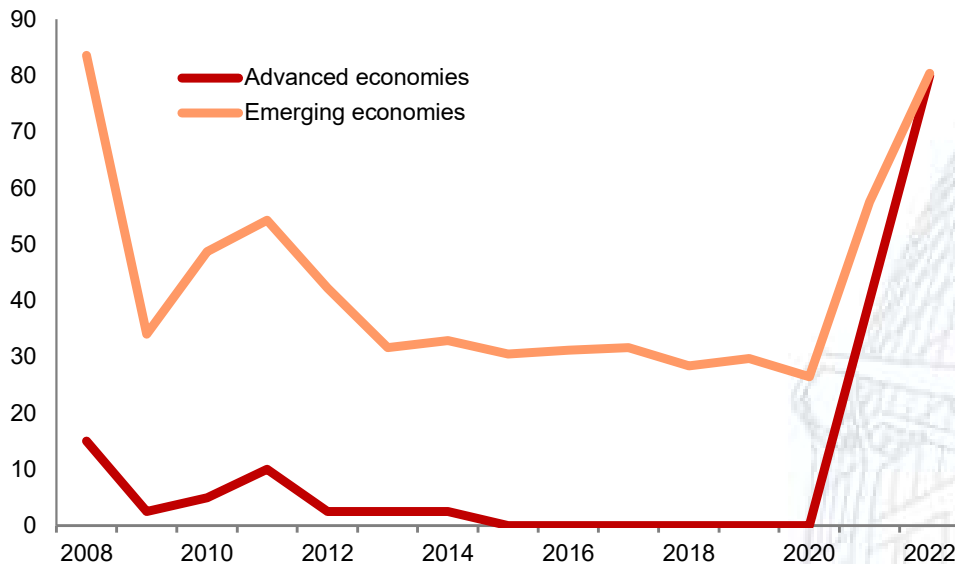
### Monthly indices of energy prices (2019 = 100)



Source: Refinitiv.

Note: The peak for gas and electricity is August and for oil - June 2022.

### Share of countries with inflation over 5% (by year, %)



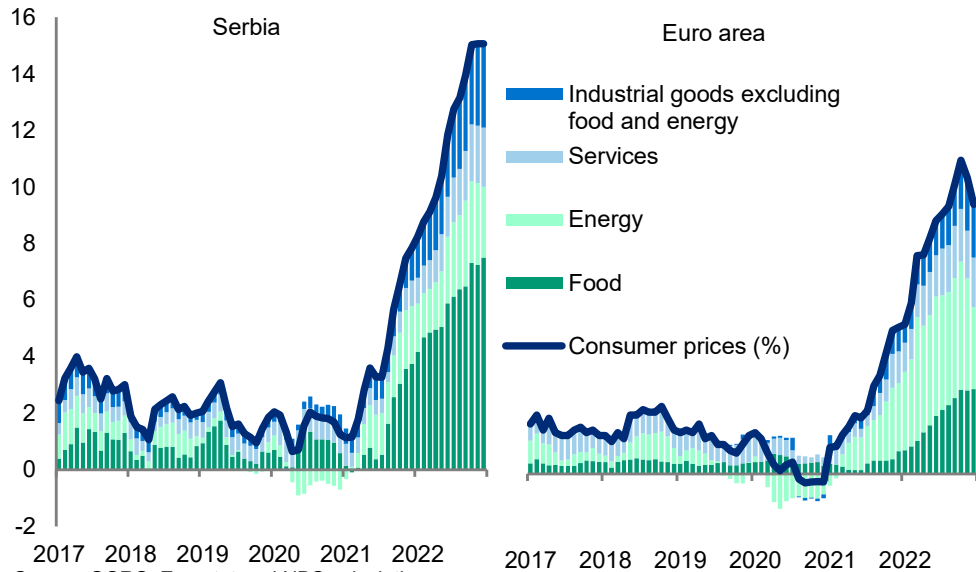
Source: IMF, WEO October 2022.

In 2022, inflation reached its multi-decade highs in many countries. According to an IMF analysis, in the period from 2015 to 2020 almost no advanced economy had inflation over 5%, while the share of emerging economies with inflation over 5% in that period was around 30%. At end-2022, the situation was completely different – the percentage increasing to 80% in both advanced and emerging economies.



# 1 INFLATION FACTORS IN 2022 - SERBIA

## Contributions to y-o-y inflation in Serbia and euro area (percentage points)



Source: SORS, Eurostat and NBS calculation.

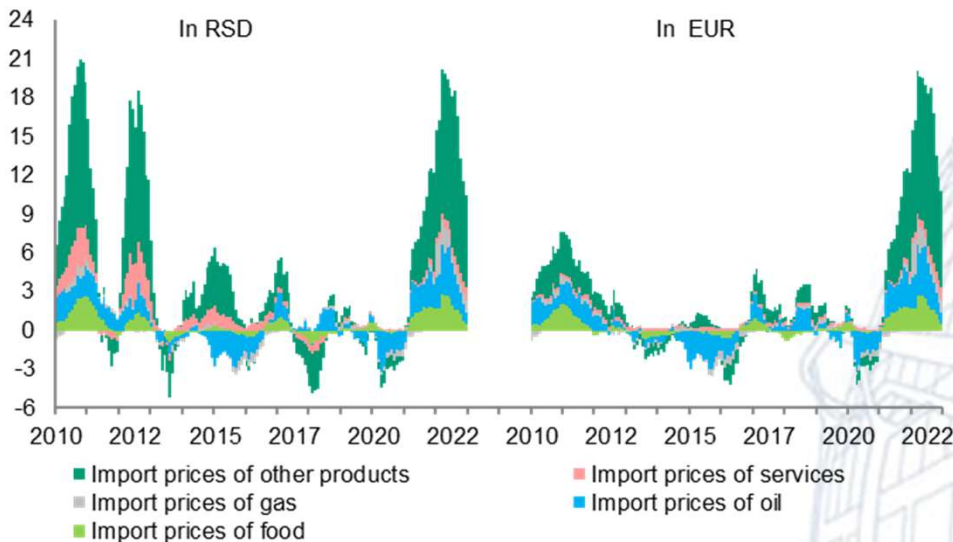
Together with rising global primary commodity prices and other production costs, the increase in imported inflation was the main driver of cost-push pressures in Serbia.

The contribution of food and energy prices to the y-o-y headline inflation ranged between 65% and 70% month after month.

Energy price growth impacts inflation not only directly, but also indirectly. The indirect effects are judged to be stronger than those direct.

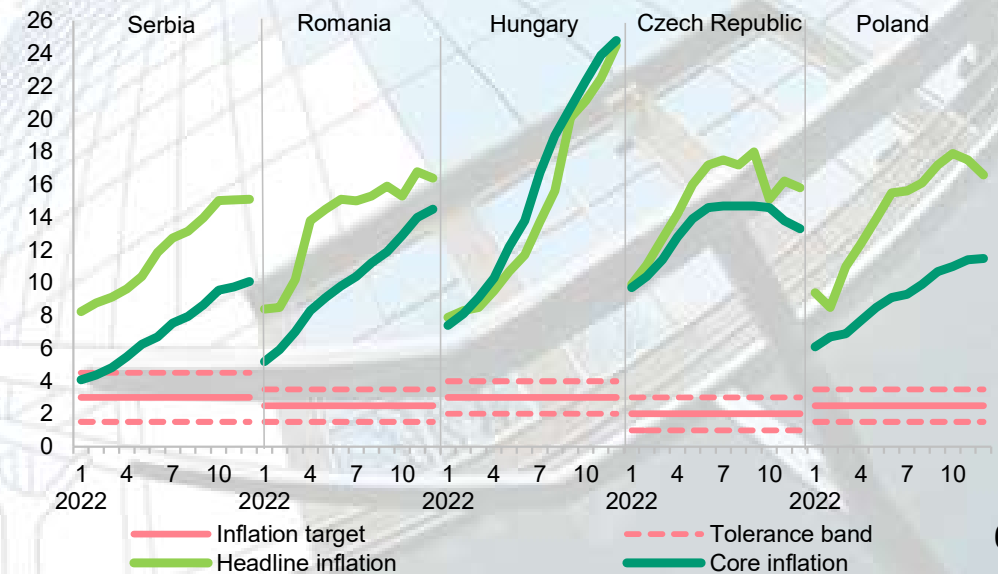
For a decade now, imported inflation movements have been determined exclusively by the growth in euro area consumer prices. Owing to the relative stability of the dinar exchange rate maintained even amid extremely uncertain conditions in the global financial market, we managed to keep that effect from being amplified further by the depreciation of the dinar against the euro. For the sake of reminder, in 2010 and 2012 the effect of imported inflation was considerably amplified by the depreciation of the dinar against the euro.

## Contributions of individual components to y-o-y growth rate of import prices (percentage points)



Source: Destatis, FAO, Bloomberg, Eurostat, SORS and NBS calculation.

## CPI movements in selected CESEE countries in the past year (concluding with Dec 2022) (y-o-y rates, %)

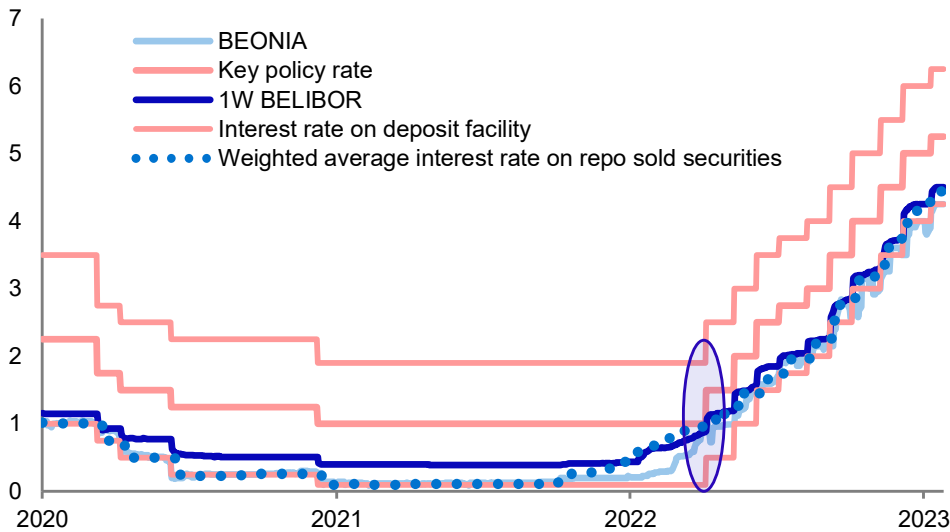


Source: central banks of selected countries.

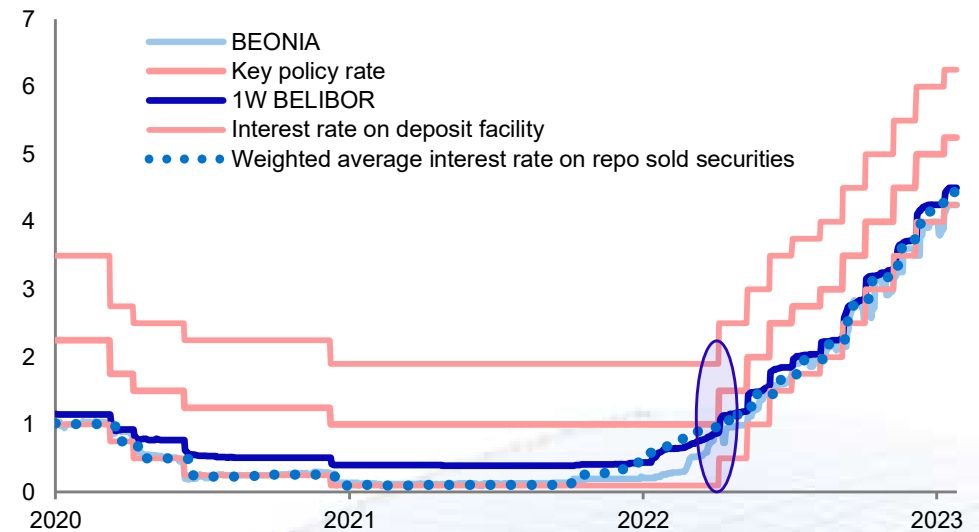


# 2 MONETARY POLICY RESPONSE

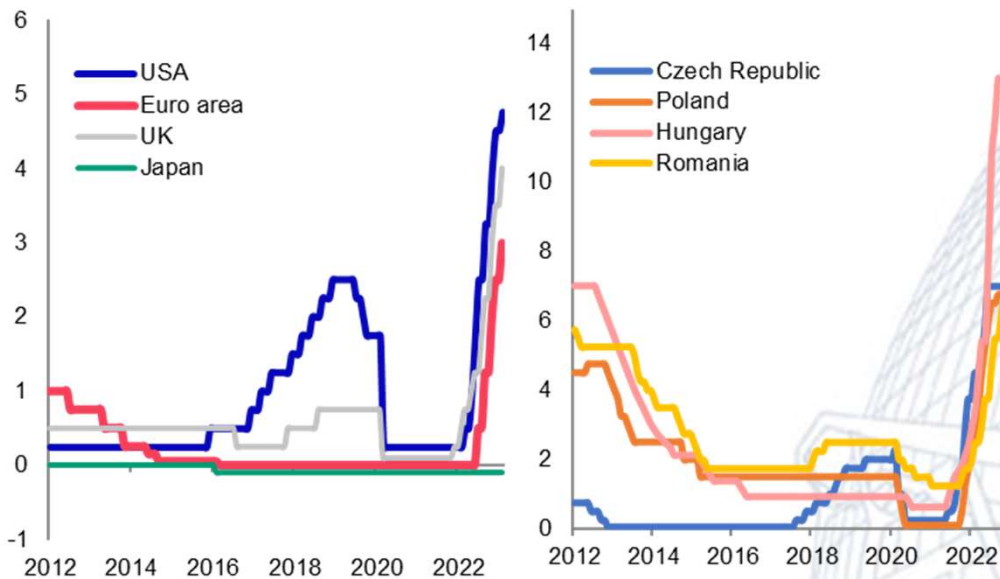
## NBS monetary policy response (%)



## Exchange rates of national currencies against the euro\* in inflation targeting countries (daily data, 31 Dec 2019 =100)



## Policy rates across countries (p.a., %)



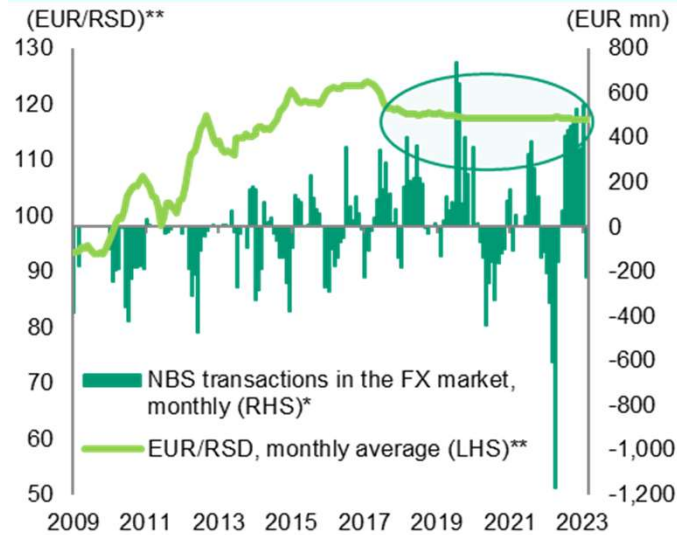
Source: central banks of selected countries.

- In inflation targeting countries, central banks gradually increased their policy rates, with the intensity and pace of the response more pronounced in countries where both domestic demand and labour market conditions had an inflationary impact.
- **The Serbian authorities were among the first to respond by gradual tightening of monetary conditions since October 2021. This was first done by increasing the executive repo rate, a model enabled by changes to the monetary framework from December 2012. At the time, this brought huge savings to the citizens, companies and government.**
- Since then, monetary conditions have been adjusted more frequently, and in-between NBS Executive Board meetings, providing us with flexibility in monetary policy conduct, which is particularly important amid instability in the global financial market.



# 3 RESILIENCE OF THE SERBIAN ECONOMY

## EUR/RSD exchange rate and NBS transactions in the IFEM

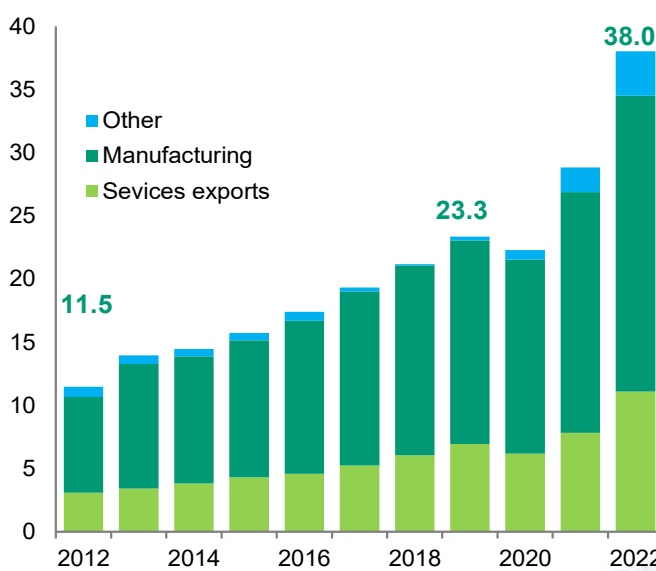


\* + net purchase; - net sale.

\*\* 1 EUR in RSD.

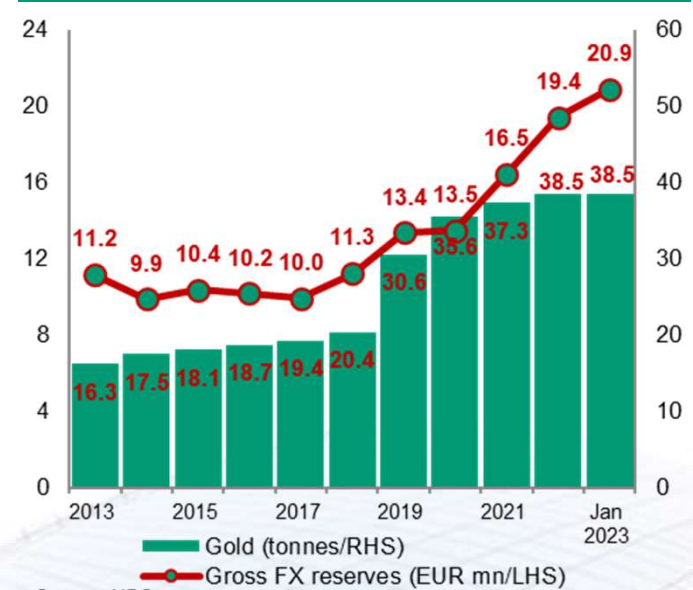
Source: NBS.

## Exports of goods and services (EUR bn)



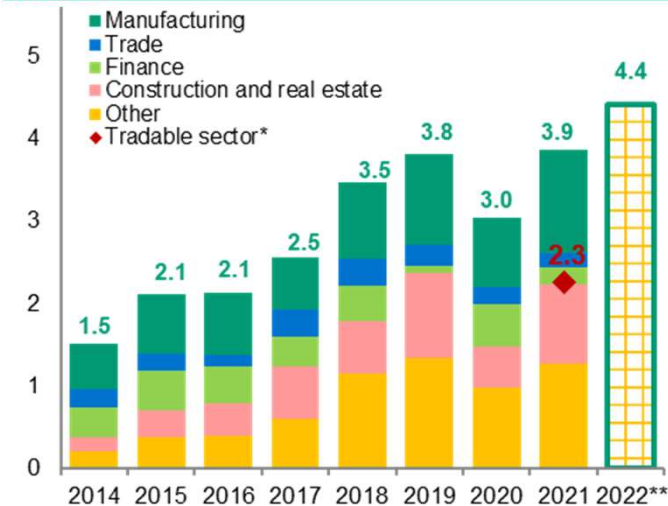
Source: NBS.

## Gross FX reserves and gold



Source: NBS.

## FDI by sector (EUR bn)

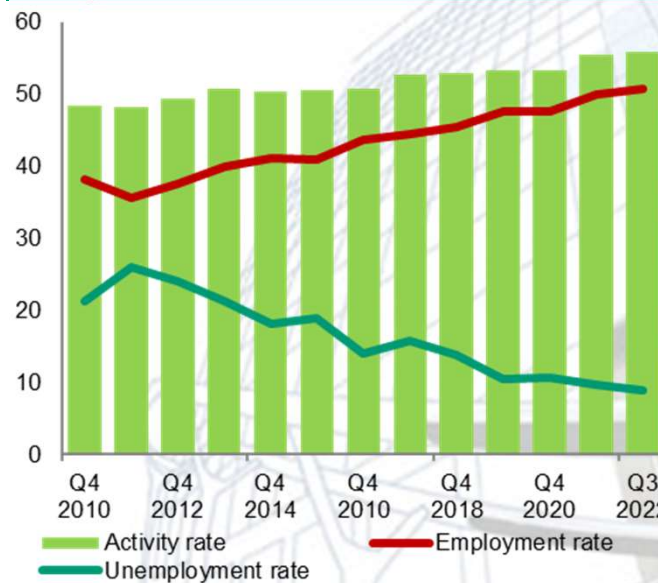


Source: NBS.

\* Industry, agriculture, transport and warehousing, catering.

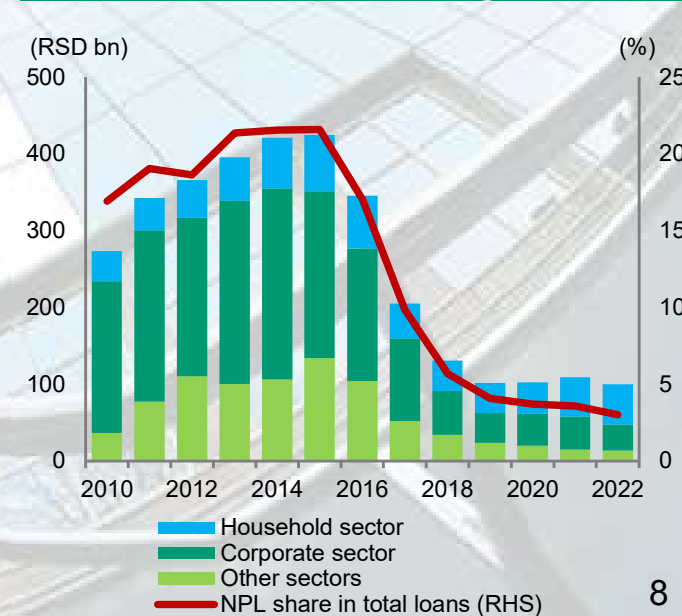
\*\* NBS estimate.

## Labour market indicators under the Labour Force Survey (%)



Source: SORS.

## NPLs and their share in total loans, gross



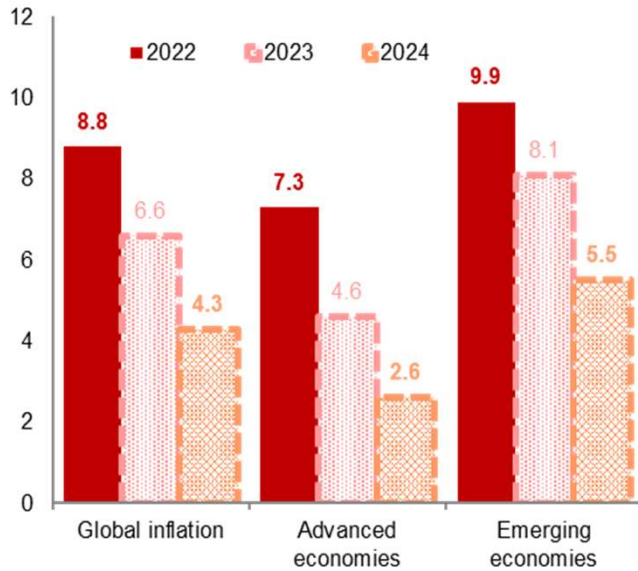
Source: NBS.





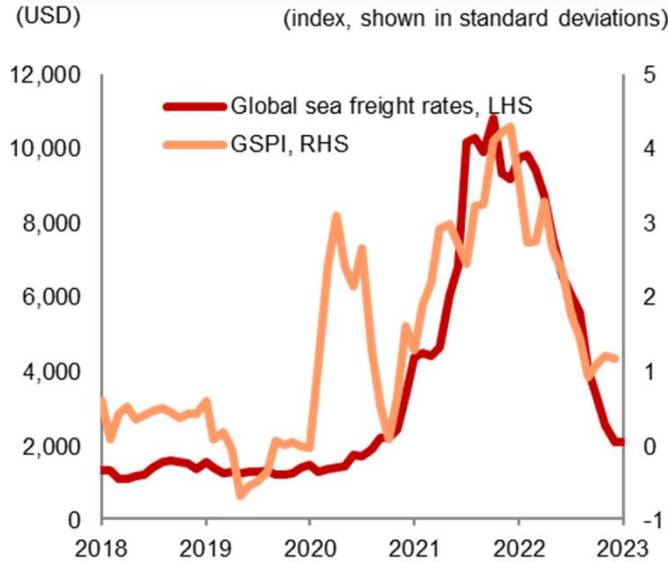
# 4 WHAT DO WE EXPECT GOING FORWARD

## Global inflation projection for 2023 and 2024 (%)



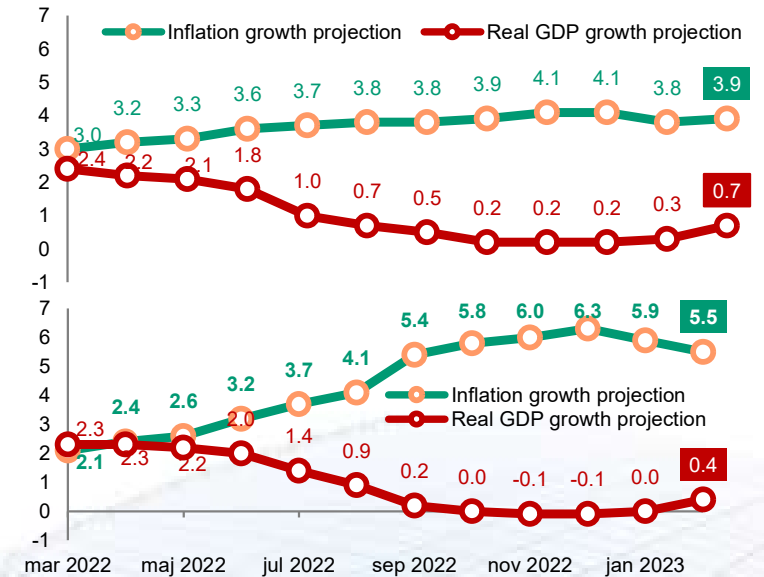
Source: IMF.

## Global supply chain pressures and sea freight rates



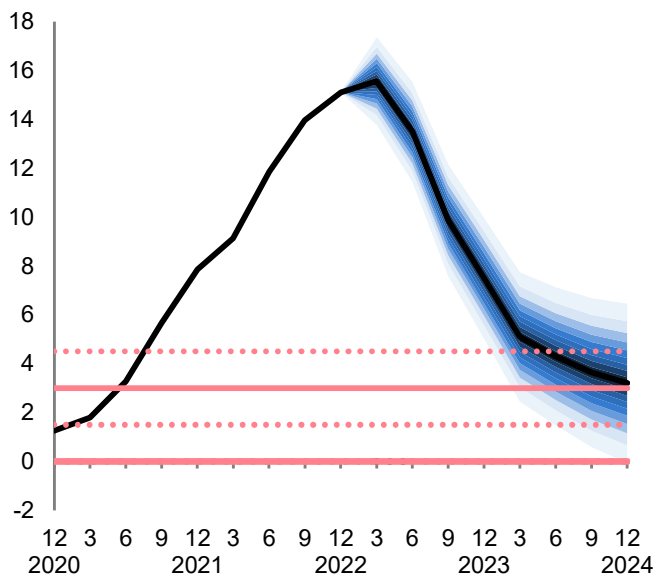
Source: Federal Reserve Bank of New York, Freightos.

## Evolution of GDP and inflation projections in the USA and euro area for 2023 (%)



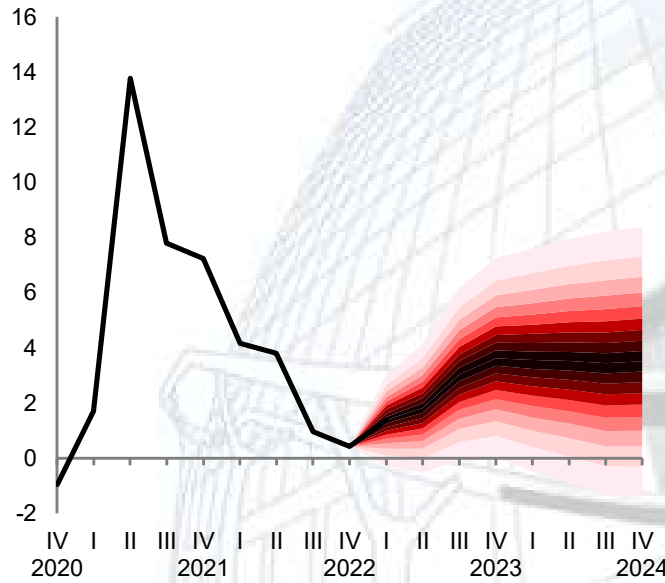
Source: Consensus Forecasts.

## Inflation projection (y-o-y rates, %)



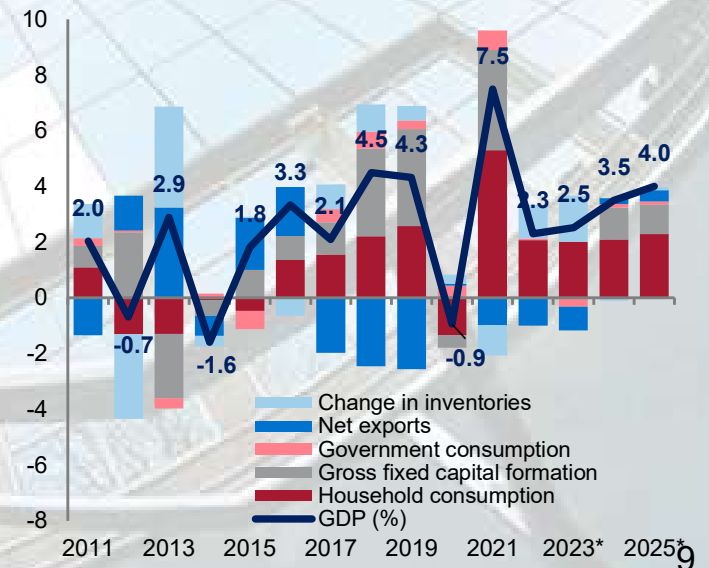
Source: NBS.

## GDP growth projection (y-o-y rates, %)



Source: NBS.

## Contributions to real GDP growth, expenditure side (percentage points)

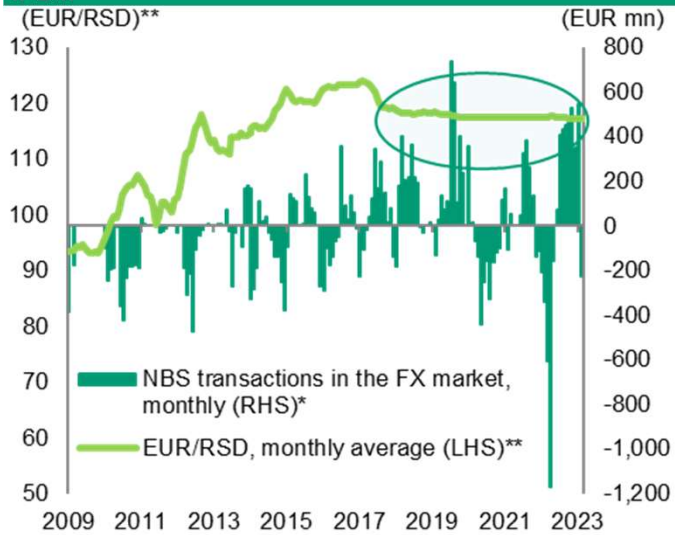


Source: SORS and NBS. \* NBS estimate.



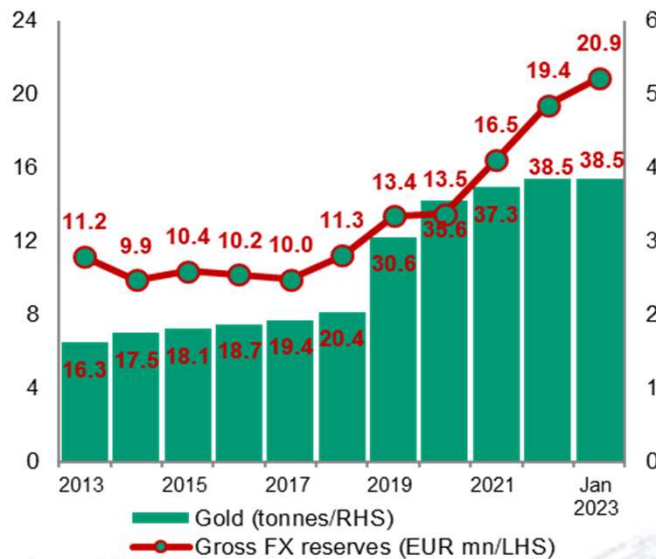
# POLICIES THAT YIELD GOOD RESULTS SHOULD NOT BE CHANGED

## EUR/RSD exchange rate and NBS transactions in the IFEM

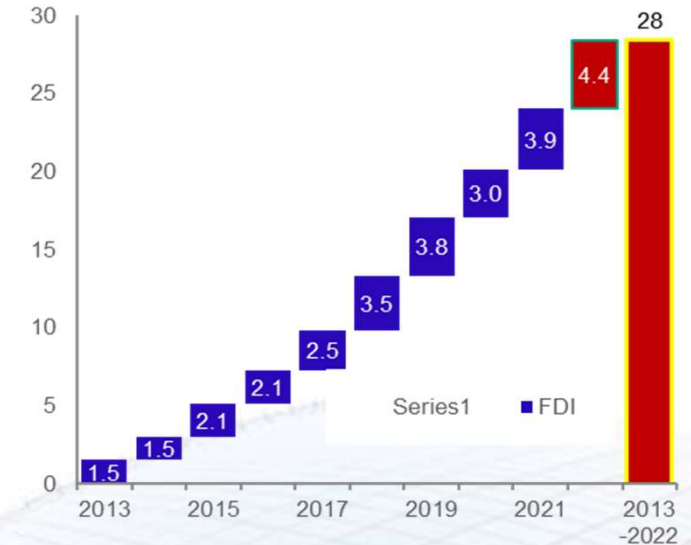


\* + net purchase; - net sale.  
 \*\* 1 EUR in RSD.  
 Source: NBS.

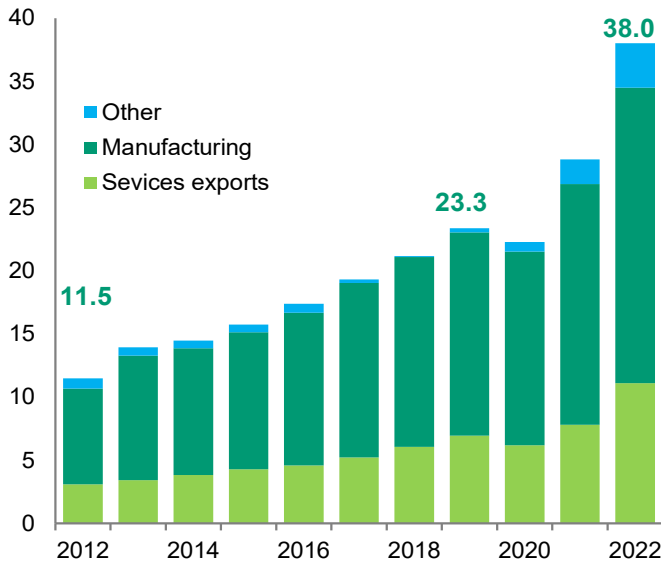
## Gross FX reserves and gold



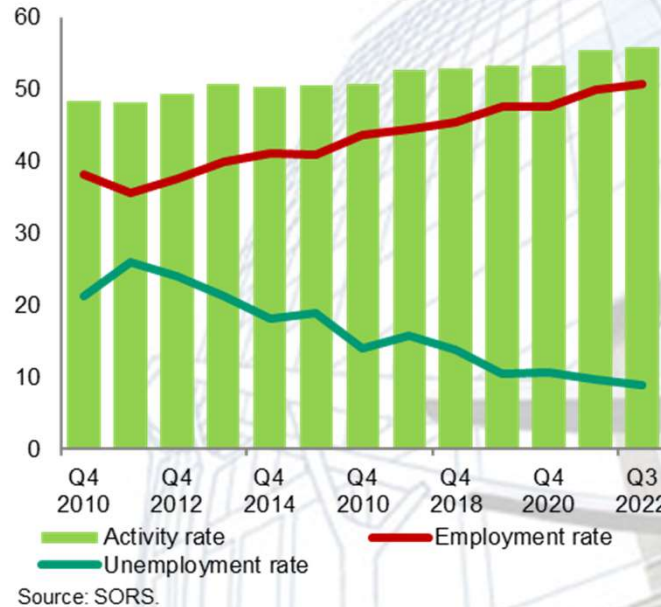
## FDI inflow (EUR bn)



## Exports of goods and services (EUR bn)



## Labour market indicators under the Labour Force Survey (%)



## Formal employment in the private sector (12-month average)

