

The war in Ukraine will have a greater impact on Serbia than on most other Eastern European countries, due to close economic and political ties with Russia, analysts at the Vienna Institute for International Economic Studies said in their latest spring report. They believe that the real challenges for our country stem from the policy of balancing between the EU and Russia.

As an expert on Bosnia and Herzegovina, Croatia, Montenegro, Northern Macedonia and Serbia, Branimir Jovanovic, an economist at the Vienna Institute for International Economic Studies, told Biznis.rs that Serbia must insist on getting a quick EU accession, along with all Western countries.

“Also, direct financial support should be sought from the EU, in order to mitigate economic losses from more expensive energy and, in general, from distancing oneself from Russia.” At the same time, we need to work on reducing energy dependence on Russia. In the short term, talks should be held with countries that could replace Russian gas, such as some Arab countries with which Serbia has traditionally good relations. In the long run, more must be invested in renewable energy sources, for which Serbia has great potential. ”

Are infrastructure projects endangered by the worse economic results of Serbia at the beginning of the year?

“I think they still haven’t, because our new projections are that the Serbian economy will still grow, this year and next, by about 3.5 percent.” It is weaker than previously expected, but there is still some growth. Of course, if the war in Ukraine escalates and there is more political turbulence, Serbia could enter a recession, and then infrastructure projects would slow down, due to weaker budget revenues. But that is not our primary scenario. “

How will a possible increase in the price of electricity affect economic flows in Serbia? What would that mean for the economy and what for consumers?

“Rising electricity prices would have serious negative effects in this situation. Inflation would increase even more, which would further reduce people’s purchasing power, which would make them spend less, and that would stop economic activity. Also, the poverty rate would increase, because the increase in the price of electricity, as well as food, affects the poor more than the rich. When it comes to companies, their production costs would increase, which would worsen the financial results. That would reduce investments, and could lead to the closure of some companies. That is why it is very important that the price of electricity is controlled in these conditions, and if it has to be increased, it should be kept to a minimum and that the state should offer help to the affected people and companies. ”

Regulations on frozen prices of basic foodstuffs and petroleum products are still in force. What will happen to prices when they move to market formation?

“It depends on what the world prices will be like when the regulations expire.” If world prices are high, ie higher than when the freeze occurred, there is no doubt that domestic prices will jump after thawing. This has already been seen in some countries that have gone

through this, such as Northern Macedonia. Macedonia thawed food prices in March, which significantly increased prices, led to panic shopping and shortages. Serbia should learn a lesson from the Macedonian experience. The government must keep prices frozen for as long as possible, ideally until they fall on world markets, or at least until domestic inflation subsides. If that is not feasible, then it must gradually increase prices, over a period of several months, in order to avoid a sudden jump, panic and shortages. “

If there is no optimism at the global level for next year, which is predicted to be even more difficult, then what is the projection for Serbia?

“Our projections are that next year will be similar to this one. Serbia’s GDP growth next year would be 3.4 percent, this year it is expected to be 3.6 percent, which is more or less the same. Inflation would be reduced slightly next year, we expect it to be around six percent, and this year it will be around 10 percent. ”

The huge impact of the crisis on all countries in the region shows the need for connectivity. Is the Open Balkans initiative a good platform for cooperation?

“Open Balkans is basically a good idea, because it strives to reduce barriers in the Balkans, which should increase economic and cultural cooperation, and thus improve relations. However, only three economies in the region are currently involved – Serbia, Albania and Northern Macedonia. Efforts must be made to involve others – Bosnia and Herzegovina, Montenegro and Kosovo. Without that, the idea will not give the desired effects, and maybe it could even lead to the division of the region into two parts, which does not suit anyone. The Balkan region has great economic potential, but only if it works together. ”

Foreign exchange reserves are stable

For now, the National Bank of Serbia controls the dinar exchange rate. Can foreign exchange reserves defend the value of the domestic currency, given all the pressures?

“Foreign exchange reserves are at a pretty good level, in February they were 15.6 billion euros, which is about 30 percent of GDP, which is a pretty high rate. They have decreased a little since the beginning of the year, by about a billion, but they are still about two billion more than before the pandemic, so there should be no dilemmas about this”, Biznis writes.