Why are economists so concerned with economic growth? Mainly because it is the simplest way to see what the state of the economy looks like – with economic growth comes employment growth and wage growth, consequently also those expenditures that are financed from the budget such as pensions, wages in the public sector.
Economic growth creates sustainable growth of these parameters on which our quality of life directly depends; the growth of wages and pensions can also occur without economic foundations, through borrowing, but that lasts for a short time and the return to reality is inevitable, as Greece experienced firsthand, but we also first froze and then even reduced pensions in 2014.
In other words, in order to live better, we need a more productive economy, and we will see its performance through economic growth rates.

Three periods of the Serbian economy

When we look at the Serbian economy during the previous two decades after the beginning of the transition, we can clearly see three periods: the first is after the Fifth of October and lasts until the financial crisis of 2008, when the Serbian economy had high growth rates; the second period is after that crisis until 2017, when the average growth rate was very low, and the third period from 2018, when the growth rate is accelerating again.
Such trends, however, do not tell us much unless we compare them with the experience of other countries. 3% growth is good if other countries are stagnating, but bad if they are growing at 5%. In such a relative comparison, Serbia records good results only if compared with already developed European countries, but the situation is much worse if compared with more successful countries in transition or even with the average world economy.
The convergence effect tells us that poorer countries will develop faster. This is easy to understand because they have more unused capacities: when one more factory is opened in a city where there were only two previously, the growth will be 50%; but building a new factory in a place where there are already a dozen other factories contributes much less to growth. Therefore, it is particularly worrying that the Serbian economy after 2008 practically grows more slowly than the world economy and the economy of more successful countries in transition.
In terms of income level, Serbia is at the world average, and has a lower income than the new EU members, so in principle it should have at least equal or higher rates than them, which is not the case. Our income, measured by GDP per capita according to purchasing power parity, was at the beginning of our transition about 6,000 international USD against 8,000 which was the world average. By 2008, we had reached the world average, and since then we have followed it, only after 2018 we would begin to slowly surpass it.
The lay public probably attaches too much importance to the executive power when we talk about the effects of the economic policy being pursued. In other words, if the economy develops, it is exclusively interpreted as the merit of the politicians in power. But the range

of politicians is actually much smaller than it is thought, unless they decide to lead a catastrophically bad economic policy, as is currently the case in Turkey or in our country during the 1990s and politically induced hyperinflation or crazy increase in pensions before the global crisis of 2008. On the economic results during the mandate of each politician, and especially in the case of small and open economies like Serbia, global economic trends have a decisive influence, much more than domestic economic policy.

After the sovereign debt crisis, economic growth in Europe begins to accelerate following the quantitative easing program of the ECB, which released a huge amount of cheap money into the financial market. Cheap capital led to a new investment cycle, and part of it spilled over to Serbia as well – foreign direct investments increased, low interest rates encouraged domestic investments and made companies more profitable because it reduced their borrowing costs, state public debt was much cheaper to finance so they could refinance and previously take expensive loans; cheap energy products made it possible for energy-intensive companies to operate successfully and not depend on state subsidies.

In other words, in years of boom in the European economy, it is natural to expect good results from our economy as well, and vice versa in years of recession. But now the international environment is changing: due to inflation, nominal interest rates are rising and credits are no longer cheap, bad management of the EPS has threatened the entire energy sector and has cost us around 1 billion euros so far, which will have to be transferred to the state budget for the most part , the projected recession in Europe due to the possible termination of the supply of Russian energy products would also affect our economic developments. In such an environment, it is significantly more challenging to achieve previously recorded growth rates.

But even when we look only at the best series of years for the Serbian economy, after fiscal consolidation in 2015, our economy did not develop faster than the average of transition countries from Central Europe. It is possible to single out certain economies that had worse results than Serbia, such as Croatia, but also many that fared much better, such as Romania.

Taking into account the individual differences between countries, looking at the average of a whole group of similar countries is still much better than choosing only one case for comparison. This lagging behind those countries means that there are serious structural problems that prevent the Serbian economy from developing at a faster pace, even though it would be possible. Of course, this is nothing new, economists have been talking about problems related to high corruption and legal uncertainty for decades. We hope that our future government will address these problems more seriously, Talas writes.