From the Editor

Since 2000, the Serbian economy has achieved solid, though not exceptional, economic progress. The average GDP growth rate over the past 25 years amounted to 3.1%, implying that real GDP increased cumulatively by 116.6% over this period. Economic growth in Serbia during the past 25 years has been highly uneven, with three distinctly different sub-periods identifiable within the observed period. The fastest growth was recorded in 2000–2008, when the economy grew at an average annual rate of 5.9%, followed by nearly a decade of stagnation in 2009–2017, with an average annual growth rate of only 0.8%. After 2018, economic growth accelerated again, reaching an average annual growth rate of 3.6% in the period 2017–2025. Serbia's economic progress over the past 25 years can also be viewed through the prism of political regimes. The first period, 2001–2012, was characterized by the establishment of a democratic system, while after 2012 a system exhibiting the characteristics of an electoral autocracy was established. In the period 2000–2012, average GDP growth amounted to 3.7%, whereas in the period 2012–2025 it averaged 2.6%.

The growth achieved over the past 25 years is the result of the economic policies and reforms implemented in Serbia, as well as developments in the global economy. The high growth rates recorded during the period 2001–2012 were driven by the lifting of international sanctions, monetary and fiscal policy reforms, and numerous structural reforms, including opening the economy to the world, radically reducing government control over prices and interest rates, strengthening financial discipline, reducing losses of public enterprises, privatizing socially owned enterprises, liberalizing the labour market, establishing a modern banking system, and others. Although these reforms were not implemented effectively, they laid the foundations for Serbia's future economic progress by facilitating the transition from a socialist self-managed economy to a market economy dominated by private ownership.

The key driver of Serbia's strong economic growth in the period 2001–2008 was the economic policies and reforms implemented during that period, rather than the low initial base. A low initial base creates an opportunity for rapid economic growth, but it is not, in itself, a driver of economic growth. Convincing evidence that a low initial base does not automatically generate growth can be found in the numerous examples of less developed countries, some of which have achieved rapid economic growth, while others have remained at a low level of development for decades. If a low initial base automatically generated economic growth, all countries would eventually reach a similar level of development.

A necessary condition for sustainable economic growth was the establishment of macroeconomic stability, in which monetary and fiscal policy play the most important role. A systemic prerequisite for reducing inflation was the adoption of legal restrictions introduced at the beginning of the transition, prohibiting the National Bank from directly financing the government and banks, while defining the maintenance of price stability as the primary objective of monetary policy. This legislative framework put an end to the decades-long practice of treating the National Bank as a "service" to the government and the economy, covering their deficits and losses through money creation, which had resulted in prolonged high inflation and two episodes of hyperinflation. The monetary reform implemented during the first years of the transition reduced average annual inflation from around 50% in the period 1995–2000 to about 10% during the first decade of this century. It is important to note that inflation of around 10% was largely the result of increases in administratively regulated prices in infrastructure sectors. An important instrument for reducing inflation during the early years of the transition was the policy of maintaining a nearly fixed exchange rate of the dinar. However, under conditions of still relatively high inflation, such a policy led to a substantial appreciation of the real value of the dinar and a deterioration in the price competitiveness of the economy. Therefore, a depreciation of the dinar became necessary in order to restore the price competitiveness of the economy, albeit at the cost of somewhat higher inflation. In addition to allowing the dinar to depreciate, since 2006 Serbia has pursued a policy of allowing the exchange rate to be freely determined in the foreign exchange market, resulting in considerable fluctuations in the dinar exchange rate. In highly euroized economies such as Serbia's, greater exchange rate volatility increases risk, which is not a favorable environment for economic activity.

The implementation of fiscal policy during the first twelve years of this century can be divided into two distinctly different periods. The first period spans 2001–2006, during which the fiscal deficit remained low, while public debt declined both in absolute terms and as a share of GDP. The average fiscal deficit during this period amounted to -0.7% of GDP, while public debt declined from 179.8% of GDP in 2000 to 25% of GDP in 2008. The low fiscal deficit in the period 2000–2006 was the result of the fiscal consolidation implemented during the first half of 2001, which ensured that government revenues and expenditures were brought into approximate balance. The low fiscal deficit, together with the government's assumption of quasi-fiscal liabilities, substantially supported the implementation of the adopted monetary policy and contributed to improving macroeconomic stability during the first years of the transition.

From mid-2006 onwards, fiscal policy changed in a way that was reflected in a permanent increase in public expenditures, while some tax rates were reduced, leading to a rise in the structural fiscal deficit. As a result, the average fiscal deficit in the period 2007–2012 amounted to 3.8% of GDP. Among the more important fiscal policy measures that contributed to the increase in the structural fiscal deficit during 2006–2008 were increases in pensions and wages on the one hand, and reductions in corporate income tax and personal income tax on the other. The adverse effects of these fiscal policy changes did not become immediately apparent, since the fiscal deficits in the period 2006–2008 were financed by privatization revenues. During 2009 and 2010, a number of measures aimed at reducing the fiscal deficit were implemented, including a freeze on public sector wages and pensions, as well as temporary increases in certain taxes, which resulted in a significant, although insufficient, reduction in the fiscal deficit. An additional shock to fiscal policy, which further increased the fiscal deficit, occurred in 2011 through fiscal decentralization, under which revenues amounting to 1.5% of GDP were transferred from the central government to local governments without a corresponding transfer of additional expenditure responsibilities. As a result of the persistently high fiscal deficits, public debt increased from EUR 8.8 billion (25% of GDP) at the end of 2008 to EUR 15.4 billion (44% of GDP) by the end of July 2012. The increase in the fiscal deficit, frequent changes in fiscal policy, together with large fluctuations in the exchange rate, increased macroeconomic instability, which had a negative impact on economic growth.

Economic growth in Serbia during this period was adversely affected by the global financial crisis, which led to a significant slowdown in European economies in 2008, followed by a sharp decline in GDP in 2009. Most European countries emerged from the recession in 2010, but their economic growth remained sluggish until 2014, which had a negative impact on Serbia's exports, as well as on FDI inflows, and consequently on Serbia's economic growth.

After the change in the political regime in mid-2012, the stagnation of the Serbian economy continued, with average GDP growth of 1% per year in the period 2012–2017. The reasons for this prolonged stagnation were partly domestic, including delays in implementing fiscal consolidation and reforms of the economic system, and partly external, as European economies remained stagnant until 2014. Instead of implementing fiscal consolidation during the second half of 2012, for which the Fiscal Council had already prepared a programme, the new Government further increased the fiscal deficit and accelerated public borrowing. The fiscal deficit rose rapidly, reaching 6.2% of GDP in 2012, while averaging 5.5% of GDP in 2013 and 2014, leading to an increase in public debt to EUR 22.7 billion, or 63.4% of GDP, by the end of 2014. The high fiscal deficit and the rapid increase in public debt, together with uncertainty regarding the economic policies and reforms that the new political regime would pursue, increased the risk of a public debt crisis, discouraging both foreign and domestic entrepreneurs from investing.

Fiscal consolidation began at the end of 2014, resulting in a substantial reduction of the fiscal deficit, while in some years a fiscal surplus was even achieved. The average fiscal deficit in the period 2015–2019 amounted to only -0.6% of GDP, which halted the growth of public debt at around EUR 24 billion and led to a decline in its share of GDP. During the COVID crisis, the fiscal deficit increased significantly, but after the crisis ended it returned to sustainable levels—below 3% of GDP. High borrowing during the COVID period, followed by moderate borrowing thereafter, resulted in a substantial increase in public debt measured in euros, which exceeded EUR 40 billion by the middle of this year. Nevertheless, its ratio to GDP has remained at a sustainable level.

In addition to fiscal consolidation, several other reforms were implemented during this period, including the completion of the privatization of socially owned enterprises, most often through the bankruptcy of large enterprises that had not been privatized, thereby eliminating government subsidies to these companies. The reduction in expenditures on wages, pensions and other social benefits created fiscal space for an increase in public investment to 6.9% of GDP during the period 2021–2025, while maintaining a sustainable fiscal deficit. A low fiscal deficit, moderate public debt, low and stable inflation, a stable exchange rate, and positive assessments of economic policy by the IMF all contributed to strengthening foreign investors' confidence in the prospects of the Serbian economy. Foreign investors were able to rely on government subsidies, as well as on a special status that shielded them from administrative obstacles, legal uncertainty and other difficulties faced by domestic businesses. International circumstances also became more favorable for Serbia after 2014, as European economies emerged from stagnation, while the expansionary monetary policies of the ECB and the Fed resulted in an abundant supply of low-cost capital on global financial markets. As a result of these developments, FDI inflows averaged 6.4% of GDP during the period 2017–2024. While macroeconomic stability in Serbia has so far been successfully maintained, the overall quality of institutions has been deteriorating for more than a decade, as reflected in rising corruption, declining regulatory quality, increasing inconsistency in the implementation of regulations, growing bureaucratic barriers and, on occasion, infringements of property rights.

The increase in public investment and foreign direct investment was the main immediate driver of the acceleration of GDP growth to an average of 3.6% per year during the period 2017–2025. However, rising business costs in Serbia, the stagnation of European economies, and the political crisis in Serbia caused FDI inflows to decline to 2.6% of GDP in 2025, while the data for this year indicate a further significant decline in FDI.

This raises the question of what the prospects are for Serbia's economic growth in the coming years. The experience of successful transition economies suggests that the chances of FDI returning to the levels recorded over the previous six to eight years are low. Moreover, public investment is close to its maximum level, so its share of GDP can be expected to decline in the future. Unless domestic private investment increases, total investment will remain low, making rapid economic growth and convergence with the countries of Central and Western Europe in terms of the level of development unlikely in the coming years. An improvement in the quality of institutions is a prerequisite for increasing domestic private investment, but there are currently no indications that the present political regime intends to pursue such improvements.