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### NBG – Economic Analysis Division

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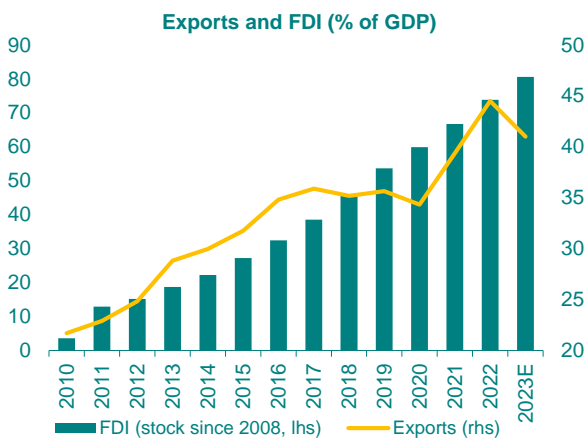
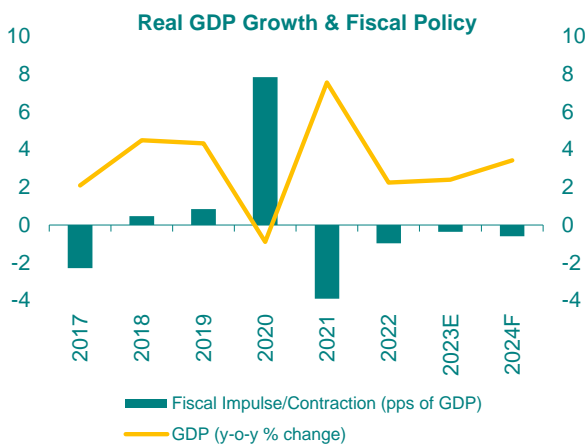
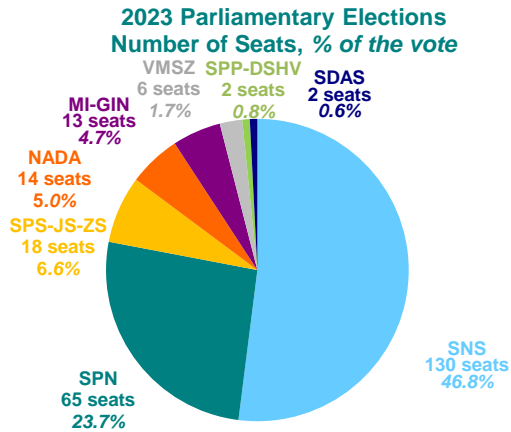
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# Serbia

BB+ / Ba2 / BB+ (S&P / Moody's / Fitch)



	8 Jan.	3-M F	6-M F	12-M F
1-m BELIBOR (%)	5.6	5.6	5.4	4.6
RSD/EUR	117.2	117.5	117.5	117.5
Sov. Spread (2029, bps)	310	310	300	280

	8 Jan	1-W %	YTD %	2-Y %
BELEX-15	878	0.3	0.3	6.3

	2021	2022	2023E	2024F	2025F
Real GDP Growth (%)	7.5	2.3	2.4	3.4	3.5
Inflation (eop, %)	7.9	15.1	7.9	3.8	3.4
Cur. Acct. Bal. (% GDP)	-4.2	-6.8	-2.9	-3.4	-3.7
Fiscal Bal. (% GDP)	-4.1	-3.2	-2.8	-2.2	-1.6

Sources: Reuters, Electoral Commission, OPBC & NBG estimates

**Ruling SNS scores landslide victory in the December snap elections, cementing President Vučić's authority, but tensions remain high amid protests over their result.** According to the final results, the ruling right-wing SNS -- in office since 2012 -- received an overwhelming 46.8% of the vote, securing an absolute majority in Parliament (130 out of 250 seats). The opposition "Against The Violence" bloc (SPN), comprising pro-EU centrist, left and green parties, which emerged in the aftermath of nationwide protests against the two mass shootings in May, garnered a rather disappointing 23.7% of the vote. The centre-left SPS-led coalition -- a junior partner in the outgoing Government -- came 3rd with just 6.6% of the vote, followed by two right-wing, pro-Russian formations, namely "NADA" and "MI-GIN" (with 5.0% and 4.7% of the vote, respectively).

The parliamentary election was held together with local elections in 65 municipalities, including the capital Belgrade, where, however, the poll gap between the SNS and the opposition nearly vanished.

The opposition has accused the SNS of election fraud, organizing massive protests and calling for a new vote. Note that international observers, including OSCE, reported several voting irregularities, while saying that the SNS had an unfair advantage following the "decisive" involvement of incumbent President Vučić in the elections. The latter recently resigned from the helm of the SNS, but still holds control of the party's politics and has considerable influence over media.

All said, political uncertainty is set to remain heightened in the period ahead. The cohesion of the (fragmented) opposition is a critical factor for the continuation of protests. Still, our baseline scenario is that the SNS will remain in power, although we expect President Vucic, who has come under scrutiny by the international community, to make some kind of concession to the opposition.

**Broader economic policy continuity is expected after the elections.** Fiscal discipline is due to be maintained, especially in view of the implementation of a new fiscal rule in 2025. The IMF programme under a EUR 2.4bn SBA, in place since end-2022, also provides a strong policy and reform anchor. Key challenges include reducing the economy's vulnerability to energy shocks and improving the business environment, especially through labour market reforms and human capital development, to increase further Serbia's attractiveness to investors, helping to sustain past years' impressive FDI performance. The latter has been underpinned by strong political support and numerous incentives to investors (incl. subsidies and tax holidays), which are expected to remain in place over the forecast horizon.

**A normalization in Serbia-Kosovo relations, a sine qua non condition for EU accession, seems a distant prospect.** The election took place at a time of straining relations between Serbia and the EU, not only because of the former's refusal to join Western sanctions against Russia, but also due to its failure to observe -- along with Kosovo -- the (EU-mediated) agreement they reached in March to normalize ties. Worryingly, the recent escalation in tensions between the former wartime foes, involving a deadly standoff between Serbian paramilitaries and Kosovo police, suggests that there is little chance of a breakthrough in the dispute. In response, the EU has raised the threat of sanction imposition, while calling Serbia to "deliver on de-facto recognition" of Kosovo, a prospect fiercely repelled by Vučić. Against this backdrop, we see limited progress in Serbia's EU accession talks in the period ahead. Note that although Serbia has made considerable progress in aligning with the EU acquis since starting negotiations in 2014, there are still significant efforts to be made, especially in the areas of fight against corruption and freedom of expression.

# North Macedonia

BB- / NR / BB+ (S&P / Moody's / Fitch)

**Economic activity should firm gradually through the course of 2024, driven by public investment and wage-driven private consumption, with full-year GDP growth accelerating to a still modest 1.9% from 1.3% in 2023.** Fixed investment should emerge as a key growth driver over the forecast horizon, with public sector holding the lead role. Note that the Corridor 8/10d highway alone, whose construction was recently initiated, should add c. 0.3 pps to GDP growth over the next 5 years, assuming an even distribution over time. Private investment (including from FDI, which has proven resilient so far, thanks, inter alia, to the growing nearshoring trend) is also set to contribute to overall growth, albeit modestly, due to tight financing conditions and elevated uncertainty.

At the same time, with inflation consolidating at relatively lower levels (projected at 3.5% on average in FY:24, down from a whopping 9.5% in FY:23, though still well above the past decade's average of c. 1.0%), private consumption, the economy's traditional growth driver, is set to progressively gain momentum, underpinned by strong real (*ex-post*) wage growth. The latter has turned positive since Q2:23, mainly thanks to a loose incomes policy, and its spillover to the private sector. Indeed, following a 12.6% hike in the minimum wage in March, public sector wages rose by 10% in September, with further increases being in the pipeline, following the revision of the wage-setting methodology, effective from the beginning of 2024. Note that labour market conditions have been tightening, as suggested by the declining unemployment rate, but mostly due the declining participation rate and shrinking labour force (with the latter associated, inter alia, to continuing immigration).

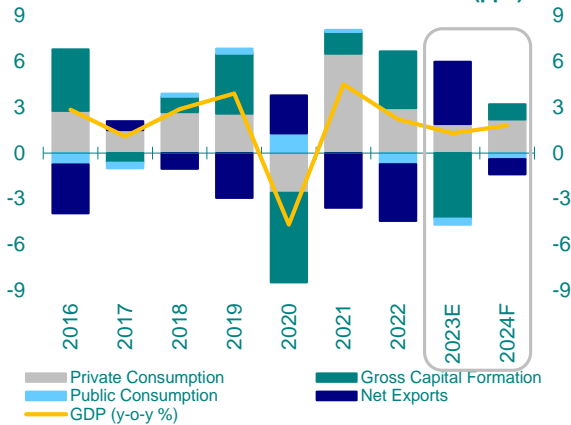
Worryingly, amid sluggish growth in the EU (especially Germany, which absorbs 45% of the country's exports) and strengthening domestic demand, especially GFC (due, *inter alia*, to the need to replenish inventories, which have been depleted, following disruptions in global supply chains), net exports should turn into a drag on overall growth.

Policies are not expected to sustain economic growth this year. On the one hand, after stalling in FY:23, fiscal consolidation is set to resume -- albeit at a slow pace -- in FY:24, with the phasing-out of stimulus measures freeing space to increase investments. On the other hand, amid elevated inflation, the NBRNM cannot but maintain its tightening bias, at least until inflation returns to more normal levels, with the first cuts in the policy rate expected only in mid-2024.

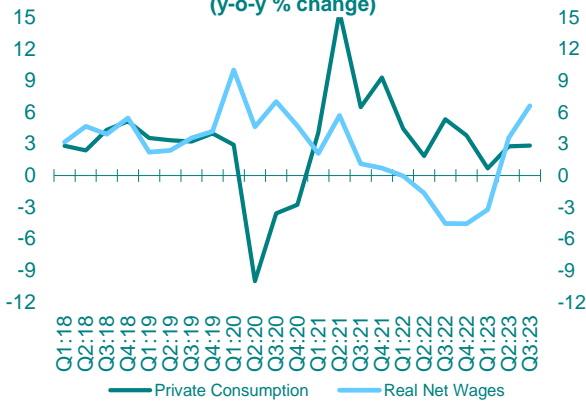
All said, reflecting a weak carry-over effect, GDP growth should pick up modestly to 1.9% in FY:24 from an estimated 1.3% in FY:23, slightly below the regional average, with the output gap remaining negative, largely due to significant output losses recorded during the pandemic and the subsequent energy crisis. Should delays in the execution of the ambitious public investment programme arise or price pressures re-emerge (reflecting repercussions from geopolitical tensions and/or a price-wage spiral), GDP growth could come in lower than projected.

**The political factor has come to the forefront.** Worryingly, political noise is set to remain elevated in the period ahead, mainly surrounding the controversial deal settling the country's long-standing dispute with Bulgaria, which eventually, however, enabled the launch of accession talks with the EU. In fact, the Government is unlikely to secure enough support to pass the necessary constitutional amendments (recognizing existence of a Bulgarian minority) before the next election, due by September '24. The latter is expected to be tightly contested by the ruling SDSM and the opposition VMRO-DPMNE, none of which is expected to secure a constitutional majority, meaning that further delays in the EU accession progress may be forthcoming. Still, the prospect of EU accession should continue act as an anchor for structural reforms.

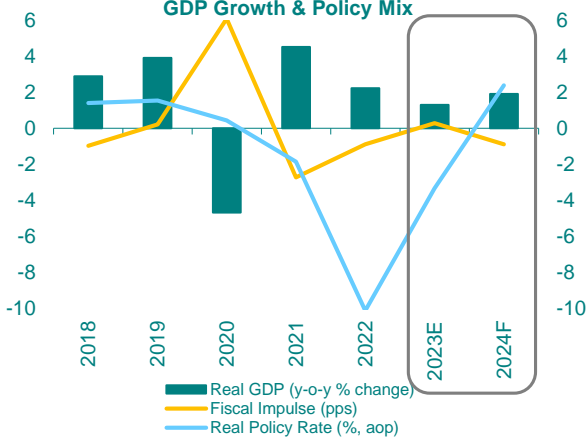
Contributions to Annual Real GDP Growth (pps)



Private Consumption & Real Net Wages (y-o-y % change)



GDP Growth & Policy Mix



	8 Jan.	3-M F	6-M F	12-M F
1-m SKIBOR (%)	4.3	4.2	4.1	3.7
MKD/EUR	61.6	61.6	61.6	61.6
Sov. Spread (2028, bps)	333	330	320	300

	8 Jan.	1-W %	YTD %	2-Y %
MBI 100	6,221	1.7	1.7	0.2

	2021	2022	2023E	2024F	2025F
Real GDP Growth (%)	4.5	2.2	1.3	1.9	3.3
Inflation (eop, %)	4.9	18.7	3.6	3.4	2.5
Cur. Acct. Bal. (% GDP)	-2.8	-6.1	-1.0	-2.3	-2.9
Fiscal Bal. (% GDP)	-5.3	-4.4	-4.7	-3.8	-3.3

Sources: Reuters, NBRNM, MAKSTAT & NBG estimates

## DETAILED MACROECONOMIC DATA

SERBIA					
	2021	2022	2023e	2024f	2025f
<b>Real Sector</b>					
Nominal GDP (EUR million)	53,379	60,463	69,805	75,988	81,343
GDP per capita (EUR)	7,810	8,909	10,348	11,310	12,155
GDP growth (real, %)	7.5	2.3	2.4	3.4	3.5
Unemployment rate (% aop)	11.1	9.6	9.4	9.1	8.8
<b>Prices and Banking</b>					
Inflation (% eop)	7.9	15.1	7.9	3.8	3.4
Inflation (% aop)	4.1	11.9	12.5	5.3	3.6
Loans to the Private Sector (% change, eop)	10.1	6.9			
Customer Deposits (% change, eop)	13.3	6.9			
Loans to the Private Sector (% of GDP)	47.3	44.7			
Retail Loans (% of GDP)	21.9	20.6			
Corporate Loans (% of GDP)	25.4	24.1			
Customer Deposits (% of GDP)	52.1	49.2			
Loans to Private Sector (% of Deposits)	90.9	90.8			
Foreign Currency Loans (% of Total Loans)	61.1	64.1			
<b>External Accounts</b>					
Merchandise exports (EUR million)	21,018	26,912	28,210	29,556	30,906
Merchandise imports (EUR million)	27,038	36,282	35,207	37,437	39,610
Trade balance (EUR million)	-6,020	-9,370	-6,997	-7,880	-8,704
Trade balance (% of GDP)	-11.3	-15.5	-10.0	-10.4	-10.7
Current account balance (EUR million)	-2,266	-4,134	-2,021	-2,553	-2,981
Current account balance (% of GDP)	-4.2	-6.8	-2.9	-3.4	-3.7
Net FDI (EUR million)	3,657	4,303	4,691	4,925	5,171
Net FDI (% of GDP)	6.9	7.1	6.7	6.5	6.4
International reserves (EUR million)	16,455	19,416	24,085	26,208	28,148
International reserves (Months <sup>a</sup> )	5.9	5.2	6.4	6.5	6.6
<b>Public Finance</b>					
Primary balance (% of GDP)	-2.4	-1.7	-1.2	-0.5	0.1
Fiscal balance (% of GDP)	-4.1	-3.2	-2.8	-2.2	-1.6
Central Government debt (% of GDP)	56.5	55.1	52.2	50.2	48.5
<b>External Debt</b>					
Gross external debt (EUR million)	36,488	41,885	45,094	47,569	50,921
Gross external debt (% of GDP)	68.4	69.3	64.6	62.6	62.6
External debt service (EUR million)	6,000	5,300	5,500	6,300	4,800
External debt service (% of reserves)	36.5	27.3	22.8	24.0	17.1
External debt service (% of exports)	20.8	14.0	13.4	14.5	10.4
<b>Financial Markets</b>					
Policy rate (2-w repo rate, % eop)	1.0	5.0	6.5	5.3	4.5
Policy rate (2-w repo rate, % aop)	1.0	2.6	6.1	6.1	4.8
10-Y T-bill rate (% eop)	4.1	7.3	6.2	5.9	5.5
Exchange rate: EUR (eop)	117.5	117.2	117.5	117.5	117.5
Exchange rate: EUR (aop)	117.5	117.4	117.4	117.5	117.4

f: NBG forecasts; a: months of imports of GNFS

NORTH MACEDONIA					
	2021	2022	2023e	2024f	2025f
<b>Real Sector</b>					
Nominal GDP (EUR million)	11,855	13,053	14,484	15,265	16,179
GDP per capita (EUR)	6,454	7,135	7,950	8,412	8,951
GDP growth (real, %)	4.5	2.2	1.3	1.9	3.3
Unemployment rate (% aop)	15.4	14.4	13.0	12.8	12.5
<b>Prices and Banking</b>					
Inflation (% eop)	4.9	18.7	3.6	3.4	2.5
Inflation (% aop)	3.2	14.0	9.5	3.5	2.6
Loans to the Private Sector (% change, eop)	8.0	9.3			
Customer Deposits (% change, eop)	8.5	5.1			
Loans to the Private Sector (% of GDP)	52.5	52.1			
Retail Loans (% of GDP)	27.5	26.8			
Corporate Loans (% of GDP)	25.0	25.3			
Customer Deposits (% of GDP)	60.7	58.0			
Loans to Private Sector (% of Deposits)	86.5	89.9			
Foreign Currency Loans (% of Total Loans)	40.7	42.5			
<b>External Accounts</b>					
Merchandise exports (EUR million)	6,041	7,320	7,459	7,796	8,077
Merchandise imports (EUR million)	8,378	10,801	10,251	10,911	11,446
Trade balance (EUR million)	-2,337	-3,481	-2,792	-3,115	-3,369
Trade balance (% of GDP)	-19.7	-26.7	-19.3	-20.4	-20.8
Current account balance (EUR million)	-0,329	-0,797	-0,141	-0,351	-0,463
Current account balance (% of GDP)	-2.8	-6.1	-1.0	-2.3	-2.9
Net FDI (EUR million)	0,388	0,654	0,556	0,584	0,628
Net FDI (% of GDP)	3.3	5.0	3.8	3.8	3.9
International reserves (EUR million)	3,643	3,863	4,538	4,688	4,838
International reserves (Months <sup>a</sup> )	4.5	3.7	4.5	4.3	4.2
<b>Public Finance</b>					
Primary balance (% of GDP)	-4.1	-3.3	-3.5	-2.5	-2.0
Fiscal balance (% of GDP)	-5.4	-4.4	-4.7	-3.8	-3.3
Gross public debt <sup>b</sup> (% of GDP)	59.8	58.5	58.8	59.6	59.9
<b>External Debt</b>					
Gross external debt (EUR million)	9,577	10,856	11,588	12,059	12,749
Gross external debt (% of GDP)	80.8	83.2	80.0	79.0	78.8
External debt service (EUR million)	2,574	2,621	3,393	3,136	3,821
External debt service (% of reserves)	70.7	67.9	74.8	66.9	79.0
External debt service (% of exports)	33.1	27.2	33.9	29.8	34.8
<b>Financial Markets</b>					
28-d CB bill rate (% eop)	1.3	4.8	6.3	5.3	4.5
28-d CB bill rate (% aop)	1.3	2.5	5.8	6.0	4.7
1-Y T-bill rate <sup>c</sup> (% eop)	0.7	3.5	4.3	3.7	3.2
Exchange rate: EUR (eop)	61.6	61.6	61.6	61.6	61.6
Exchange rate: EUR (aop)	61.5	61.5	61.5	61.6	61.6

f: NBG forecasts; a: months of imports of GNFS; b: incl. guaranteed debt; c: primary market

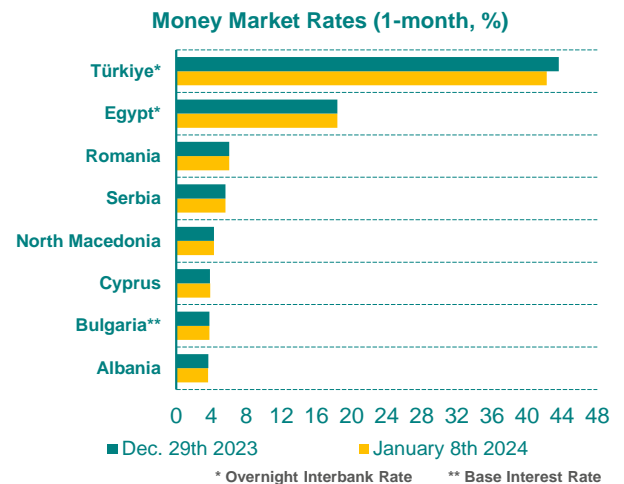
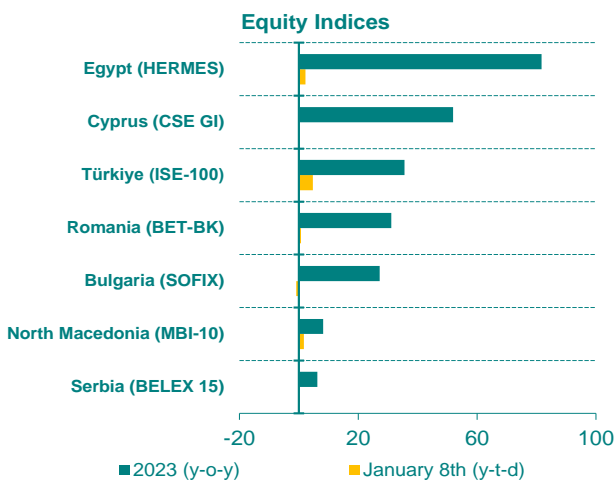
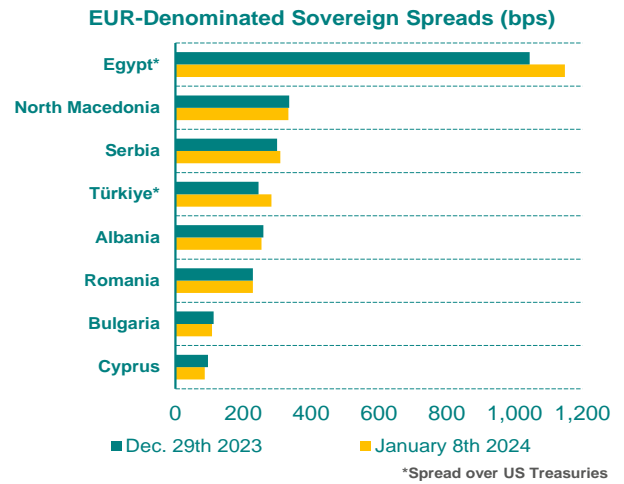
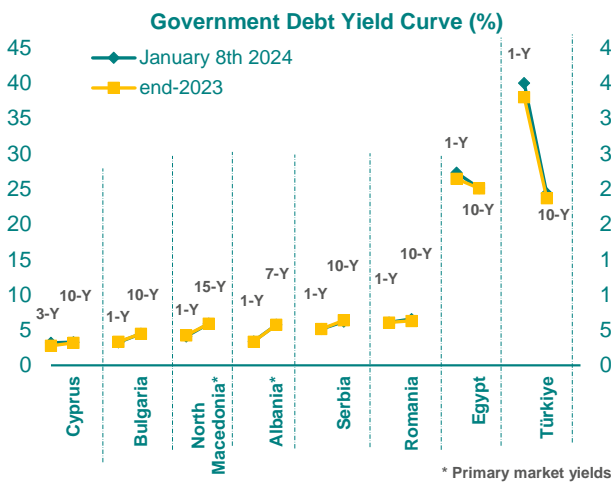
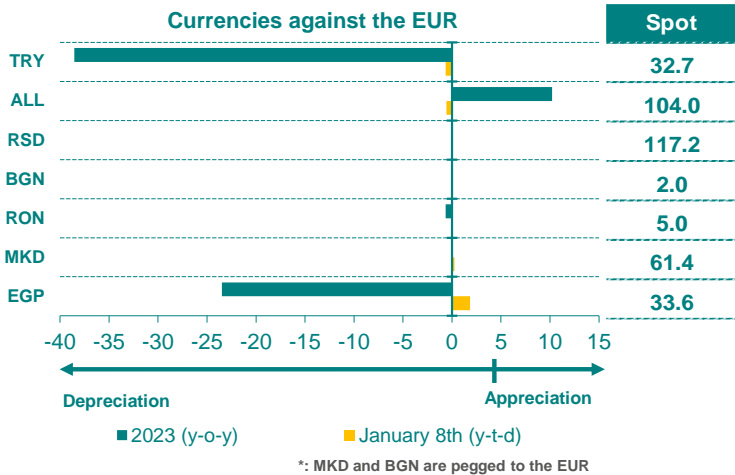


# REGIONAL SNAPSHOT: MACROECONOMIC INDICATORS



Sources: National Sources & NBG estimates

# REGIONAL SNAPSHOT: FINANCIAL MARKETS



Sources: Reuters & NBG estimates

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