Chapter 2.

MACROECONOMIC CONDITIONS - WHAT CAN WE EXPECT?

The global economy is undergoing deep structural changes. The focus is on the "great transition" which signifies the movement towards a sustainable economy, the reconfiguration of global supply chains in the context of the green transition, and rising geopolitical tensions, as well as the race for critically important raw materials stemming from the demands of digitalization and the greening of economic activities.[59]

In the new global circumstances, the world economy has proven to be more resilient than expected.[60] The worst-case recession scenario for 2023 has been avoided, but a long period of low economic growth is anticipated. The fragile resilience of the world economy conceals short-term risks and structural weaknesses. Price pressures remain strong in many countries, and further escalation of conflicts in the Middle East carries the risk of disruptions in energy markets with adverse effects on global inflation. The expected prolongation of a period of higher borrowing costs and stricter lending conditions does not favor the world economy burdened by debt, which requires greater investments to stimulate growth and accelerate progress in implementing the Sustainable Development Goals. Industrial and innovation policies play a crucial role in this process as levers for achieving structural changes and as a catalyst for the green transition. The imperative of implementing the 2030 Agenda for Sustainable Development calls for strong global cooperation, which is more necessary today than ever before. At the

[59] European Bank for Reconstruction and Development (2023). *Transition Report 2023-24 – Transitions big and small.* London: EBRD, p. 6.

[60] See: Jovanović Gavrilović, B., Gligorić Matić, M., Jovanović Gavrilović, V. (2023). Projections of Macroeconomics Indicators as a Guide for the Development of Insurance Market. *Challenges And Insurance Market's Responses To The Economic Crisis,* Kočović, J., Mladenović, Z., Boričić, B., Jovanović Gavrilović, B. (eds.), Belgrade: Faculty of Economics, University of Belgrade, pp. 23-42. and Jovanović Gavrilović, V. (2023). Deposit Insurance in the Face of Crisis: Current State and Key Issues. *Challenges And Insurance Market's Responses To The Economic Crisis,* Kočović, J. et al. (eds.), Belgrade: Faculty of Economics, University of Belgrade, pp. 383-400.

Future Summit, planned for September 2024, the UN will attempt to find "multilateral solutions for a better future".[61]

1. GLOBAL ECONOMIC CONTEXT

Although economic growth has long been a subject of lively debate in academic and professional circles - ranging from questioning growth to the need for enhancing its quality - any serious analysis of macroeconomic conditions in the world, at regional or national levels, still starts from indicators that illustrate trends in this area.[62] For more than seventy years, increasing production overall or *per capita* has been the dominant goal of economic policy and the main measure of economic performance. Current trends towards weakening global economic growth call into question this prevailing political approach

Global **economic growth** has been progressively slowing over the last two decades. The International Monetary Fund estimated the economic growth rate for 2023 at 3.1% (1.6% in developed countries and 4.1% in emerging markets and developing economies), which is the lowest level since the beginning of this decade. For comparison, the average annual GDP growth rate from 2000 to 2019 was 3.8%.[63] Economic activity in 2023 is significantly below pre-pandemic projections, especially in emerging markets and developing economies (see Figure 1). According to estimates for 2023, global production is 3.4% or about $3.6 trillion at 2023 prices below pre-pandemic expectations. The strongest recovery among the world's major economies was recorded in the USA where the GDP in 2023 exceeded pre-pandemic forecasts. The Eurozone has recovered, but less robustly, with its production remaining 2.3 percent below pre-pandemic projections, due in part to greater exposure to the war in Ukraine, as well as a spike in imported energy prices. In China, the slowdown caused by the pandemic and the real estate sector crisis is responsible for

[61] United Nations - Department of Economic and Social Affairs (2024). *World Economic Situation and Prospects* 2024. New York: United Nations, p. XIV.

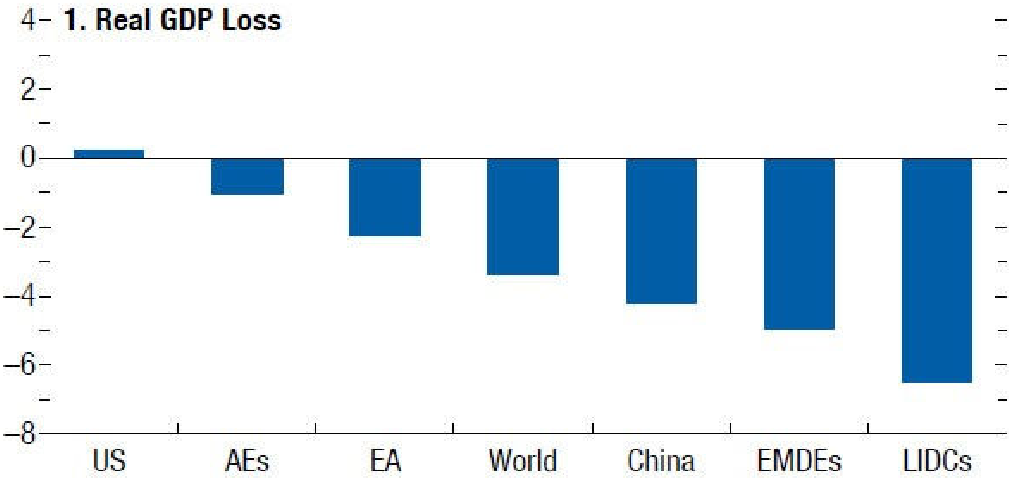
[62] See: Gligorić Matić, M., Jovanović Gavrilović, B., & Stanišić, N. (2018). GDP and beyond: Prosperity convergence in the countries of Western and Eastern Europe. *Acta Oeconomica, 70*(4), pp. 493-511; Gligorić, M., Jovanović Gavrilović, B., & Savić, Lj. (2018). Prosperity Index as a measure of wellbeing in European Union and Western Balkans countries. *Teme, 12*(4), pp. 1253-1275.

[63] Intenational Monetary Fund (January 2024). *World Economic Outlook Update*. Washington, DC: IMF, p. 1.

significant production losses of about 4.2 percent compared to the pre-pandemic projection. The slowest recovery is visible in low-income countries.[64]

The deceleration of growth in the last two decades has been largely contributed to by the slowdown in global productivity growth. This must be augmented by negative demographic effects, including slower growth of the working-age population and a decline in the labor force participation rate, which is conditioned by population aging.[65] The adverse impact of weakening growth in global investments should not be overlooked either, where the prolonged effects of the global financial crisis on investments have been further intensified by the pandemic. Along with these secular trends that undermine economic growth, it is also necessary to mention threats associated with climate change

Figure 1. Incomplete Recovery: Scarring from the Shocks of 2020–22 (percent; deviation in 2023 from prepandemic projections)



Source: International Monetary Fund (October 2023), op. cit., p. 2.
Note: "Prepandemic projections" refers to those in the January 2020 World Economic Outlook Update. AEs = advanced economies; EA = euro area; EMDEs = emerging market and developing economies; LIDCs = low income developing countries.

In a situation where the post-pandemic recovery is losing momentum, with increasing warnings of an impending low-growth regime, economic growth itself is scrutinized as the main concern of economic policy. While some consider "degrowth" a better goal of economic policy, others recognize the

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[64] Intenational Monetary Fund (October 2023). *World Economic Outlook – Navigation Global Divergences*. Washington, DC: IMF, p. 1.

[65] See: Kilic Celik, S., Kose, A., & Ohnsorge, F. L. (2023). Potential Growth Prospects: Risks, Rewards, and Policies. *Policy Research Working Paper*, Series 10355, Washington, DC: World Bank

importance of reviving productivity and investment renewal as drivers of production increase to provide an adequate response to fiscal pressures, demographic changes, risks associated with climate change, geoeconomic fragmentation, and pronounced disparities in development.[66] The key question today, however, is not whether the world still needs economic growth, but rather what the quality of that growth is – how economic growth is achieved and what purposes it serves. The traditional metric of growth quantity is complemented by a holistic approach to the growth quality.[67]

The World Economic Forum has proposed a multidimensional framework for assessing the quality of growth, which is based on four pillars: Innovativeness, Inclusiveness, Sustainability, and Resilience. There can be a trade-off between the desired outcomes for individual pillars and short-term growth maximization, but there is a more pronounced synergy among them in the long run. It has been shown that the global economy as a whole has reached halfway to the ideal trajectory of fully innovative, inclusive, sustainable, and resilient growth. Innovativeness is the dimension where the lowest global score of 45.2 (out of a possible 100) has been achieved, while Inclusiveness records the best result at 55.9 (out of a possible 100). In between, the scores for Resilience (52.8) and Sustainability (46.8) are located. No country (except Switzerland in the Innovativeness pillar) has exceeded a score of 80 in any of the four observed dimensions.[68]

As shown in Table 1, in high-income countries, the growth trajectory is characterized by high scores in Inclusiveness, Resilience, and Innovation, and significant room for improvement in Sustainability. Middle-income countries with higher levels of income place greater emphasis on Inclusiveness and Resilience, while in Sustainability and Innovation the gap from the maximum possible outcome of 100 is more pronounced. The growth path of lower-middle-income countries is marked by high scores in Sustainability, above those recorded in developed economies, with significant opportunities for improvement in Innovation. In low-income countries, performance in Sustainability is the highest, while there is a noticeable lag in all three remaining pillars from the maximum score.

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[66] See: World Economic Forum (2024a). *How can we get growth back on track?*. Geneva: WEF.

[67] More about the quality of growth see in: Jovanović Gavrilović, B. (2013). *Kvalitet privrednog rasta.* Belgrade: Faculty of Economics, University of Belgrade

[68] World Economic Forum (2024b). *The Future of Growth Report 2024*. Geneva: WEF, p. 15.

Table 1. Assessment of growth quality - scores for pillars, income groups, world, and Serbia

Income group	**GDP *per capita* PPP *(2023)***	**Average GDP *per capita* growth (2018-*2023)***	**Average GDP growth (2018-*2023)***	***Score***			
				Innovativeness	**Inclusiveness**	**Sustainability**	**Resilience**
High	52,475	1.01	1.38	59.4	68.9	45.8	61.9
Upper middle	17,900	1.32	2.18	39.3	54.8	44.0	50.0
Lower middle	7,633	1.95	3.05	34.9	44.8	50.0	45.8
Low	1,533	0.22	3.10	26.8	30.0	52.7	39.0
World	19,092	0.91	1.86	45.2	55.9	46.8	52.8
Serbia	21,300	4.00	2.50	45.5	60.0	46.9	56.1

Source: Data selected and presented by the authors from: World Economic Forum (2024b), op. cit., pp. 18-25.

In the context of assessing the quality of growth, Sustainability is reduced to an ecological dimension and is understood as the extent to which an economy's trajectory can keep its ecological footprint within finite environmental boundaries. It is evident that, in the Sustainability pillar, countries with low and lower-middle incomes on average achieve better results than the other two income groups due to lower harmful emissions, which compensates for their weaker performance in the areas of green finance and technologies.

For comparison, Table 1 also contains data for Serbia, which, like other upper-middle-income countries, records better scores in terms of Inclusiveness and Resilience, but worse in Sustainability and Innovativeness. It is characteristic for our country to achieve above-average results in each of the four characteristic pillars of economic growth quality. Regarding the quantitative aspect of growth, it is estimated that Serbia's GDP growth rate in 2023 remained at the level of the previous year at 2.5%.[69] Among the Western Balkan countries, Montenegro and Albania achieved more dynamic growth in 2023, but it is on a downward trajectory.[70]

The European Union and the Eurozone, as Serbia's most important trading partners, lost momentum and experienced subdued economic growth of only 0.5% in 2023[71] due to the erosion of household purchasing power, strong monetary tightening, partial withdrawal of fiscal support, and a decline in external demand.

Global **inflation** is calming down faster than expected after peaking in 2022, a result of the fading price shocks, particularly those related to energy prices (the average annual price of oil is estimated to have decreased by 16% in 2023), as well as easing labor market pressures and limited wage growth with scant evidence of a “wage-price spiral”. The increase in consumer prices worldwide in 2023 was 6.8% (4.6% in developed countries and 8.4% in emerging market and developing economies).[72] This is 1.9 p.p. points below the level of global inflation from the previous year (2.7 p.p. in the case of developed countries and

69 Ministry of Finance of the Republic of Serbia (2024). *Osnovni indikatori makroekonomskih kretanja*, Belgrade.

70 World Bank Group (2023). Toward Sustainable Growth, *Western Balkans Regular Economic Report*, No. 24, Washington, DC, p. 5.

71 European Commission (February 2024). European Economic Forecast - Winter 2024 (Interim). *Institutional Paper,* No. 268, Luxembourg: Publications Office of the European Union, p. 1.

72 Intenational Monetary Fund (January 2024), op. cit., p. 6.

1.4 p.p. for emerging markets and developing economies), but still above its pre-pandemic average for the period 2017-2019 of 3.5%.[73]

The delayed recovery of growth in the EU and Eurozone has been accompanied by a faster reduction in inflation—from 9.3% in 2022 to 6.3% in 2023, and from 8.4% to 5.4%, respectively.[74] This significant drop in inflation was primarily driven by a decrease in the inflation of energy prices (fuel, gas, and electricity), as the EU successfully reduced its dependence on Russian gas. Additionally, there was a decrease in inflation for food prices, non-energy goods, and services. The latter two cases can particularly be attributed to the vigorous tightening of monetary policy.

Inflation in Serbia, measured by the increase in consumer prices at the end of the year, stands at 7.6% in 2023, which is half of that recorded in 2022 (15.1%).[75] The slowdown in inflation is largely due to the slowing of food price increases, followed by the prices of products and services (almost to the same extent) within core inflation. The price movements were influenced by the previous tightening of monetary policy, reduction in import inflation, decline in inflation expectations, and easing of cost pressures (drop in prices of primary products and some industrial raw materials). Compared to the Western Balkan countries, Serbia has by far the highest rate of inflation. The closest to it is North Macedonia with an inflation rate of 5.7% for the observed year. For comparability with the mentioned data for the world and the EU, if one considers the average annual growth of consumer prices instead of the increase at the end of the year, the inflation rate in Serbia in 2023 amounts to 12.1%, compared to 11.9% in 2022. As such, it is significantly higher than the inflation rate in the EU and each member country, except for Hungary.[76]

The increase in global **trade** is at a historically low level. In 2022, the growth rate of world trade was 5.2%, and in 2023 it is estimated at only 0.9%, which is significantly below the average for the period from 2000 to 2019 of 4.9%.[77] The deceleration of global trade is noticeable in developed countries and emerging market and developing economies, with the former experiencing a much more pronounced decline. This drop reflects not only subdued global demand but also changes in its structure towards domestic services. Trade barriers are on the rise. In 2022, nearly 3000 new restrictions were introduced compared to less

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[73] Intenational Monetary Fund (October 2023), op. cit., p. 6.

[74] European Commission (February 2024), op. cit., p. 50.

[75] Ministry of Finance of the Republic of Serbia (2024), op. cit.

[76] Intenational Monetary Fund (October 2023), op. cit., p. 129.

[77] Ibid, p. 12.

than 1000 in 2019.[78] The fact that international trade is losing momentum, along with rising trade barriers at national borders and efforts to bring production back to the home country, moving it closer to national borders or to allied states, indicates a partial retreat from the hyper-globalization that existed until about a decade ago. Although the pace of economic integration is slowing down or stabilizing in some aspects, the world remains hyper-connected with economies that are highly interdependent. Interdependence in the 21st century is much more than just counting how much goods, people, or bits cross the border. The quality of mutual connections is also important. Interdependence in the modern world is increasingly planetary and instantaneous. In a globally interdependent world, shocks and disruptions, as clearly manifested in recent years, have multiple and sometimes unpredictable effects.[79]

EU countries recorded a decline in the volume of foreign trade (both imports and exports) in 2023. Weak foreign demand adversely affected exports, while weak domestic demand and production activity caused a reduction in imports.[80] The foreign trade in goods of Serbia in 2023 decreased, but slightly less than in the previous year 2022, with an export growth of 3.7% (contributed by the growth of the manufacturing industry) and a reduction in imports by 5.5% (mainly due to the decrease in the value of imports of reproduction goods including energy sources). Serbian exports showed resilience despite reduced demand in EU countries and the region. The majority of exports were directed to the EU, CEFTA, and the countries of the Eurasian Economic Union. The share of the trade deficit in GDP in 2023 reached 11.8% (compared to 18.9% in 2022). The current account balance as a percentage of Serbia's GDP also significantly decreased in 2023 to a record low level of 2.6% (from 6.9% in 2022).[81]

The weak response of trade to the increase in production, observed at a global level, is linked to unfavorable trends in **investment**, which tend to be more trade-intensive than other types of expenditures. Data indicates that in 2023, there is a continued slowdown in the growth of real gross fixed investments (the estimated growth rate at the global level for the observed year is 1.9%, while in 2022 it was 3.3%). Unfavorable trends are present both in developed economies and in emerging market and developing economies. The investment growth rate

[78] Intenational Monetary Fund (October 2023), op. cit., p. 18.

[79] See: United Nations Development Programme (2024). *Human Development Report 2023/2024 – Reimagining cooperation in a polarized world.* New York: UNDP, pp. 15-16.

[80] European Commission (February 2024), op. cit., p. 14.

[81] Ministry of Finance of the Republic of Serbia (2024), op. cit.

in 2023 remains below the average for the period from 2000 to 2019 globally (4%) and in the two observed groups of countries. It is evident that global investments in the energy sector are growing faster than total investments in 2023. Moreover, investments in clean energy have been increasing for the third consecutive year, but not sufficiently to achieve the zero net emissions target by 2050. At the same time, investments in fossil fuels, primarily coal, are increasing, surpassing pre-pandemic levels in 2022 and 2023.[82] Let us also note that in 2023, the investment rate decreases from 27.4% to 26.4%.[83]

The growth rate of fixed investments in the EU during the period January-September 2023 fell to 1.1% (from 3% in the same period of the previous year).[84] The estimated growth rate of gross fixed capital formation in Serbia for the year 2023 was 3.1%.[85] The corresponding figure for the gross fixed investment rate in our country was 23.3%, which is slightly below the level from 2022 (24.2%). In 2023, government investments reached about 7% of GDP, and together with foreign direct investments, significantly increased profitability of the economy and investment loans, represent an important source of financing for investments.[86] Foreign direct investments for 2023 amount to a net of 4.2 billion euros (compared to 4.3 billion in 2022) or 6.1% of GDP.[87]

The global **labor market** has proven surprisingly resilient in 2023. Employment worldwide has increased overall and across all income groups of countries, although the pace of this growth is slowing down (excluding countries with lower middle incomes). Globally, employment in 2023 has grown by 2.2%, compared to 2.8% in 2022. Regarding unemployment, the declining trajectory of unemployment rates continued in 2023. The global unemployment rate decreased by 0.2 p.p. amounting to 5.1%, which is below the pre-pandemic level. Among country groups, low-income countries are an

[82] United Nations - Department of Economic and Social Affairs (2024), op. cit., pp. 19-21.

[83] https://www.imf.org

[84] European Commission (February 2024), op. cit., p. 14.

[85] Government of the Republic of Serbia (2023). *Revidirana Fiskalna strategija za 2024. sa projekcijama za 2025. i 2026. godinu*, Belgrade, p. 17.

[86] National Bank of Serbia (February 2024a). *Makroekonomska kretanja u Srbiji*. Belgrade: National Bank of Serbia

[87] Ministry of Finance of the Republic of Serbia (2024), op. cit.

exception where the unemployment rate slightly increased (from 5.6% to 5.7%), and high-income countries where it remained unchanged (4.5%).[88]

The labor market in the EU has remained strong even in conditions of economic activity stagnation, with high levels of employment and low unemployment. Employment in the EU and the Eurozone continued to grow in the third quarter of 2023 at a rate of 0.2% (compared to the same quarter of the previous year), following a growth rate of 0.1% in the second quarter. In December 2023, the average unemployment rate in the EU was 5.9%, and in the Eurozone, it was 6.4%. The continuous growth in employment was accompanied by a stagnation in the total number of working hours, indicating workforce hoarding and the reluctance of EU firms to reduce employment. Among the largest EU economies, labour hoarding in Germany, France, and the Netherlands remains greater than a year ago.[89]

In 2023, the trend of increasing employment in Serbia continued at a slightly higher growth rate of 2.2% (compared to 1.6% in 2022). This growth was driven by the private sector and was present in most sectors (especially in ICT, scientific-technical activities, and manufacturing industries).[90] The unemployment rate (according to the ILO methodology) remained at the 2022 level of 9.5%.[91]

Despite low unemployment and rising employment, the decline in **real wages** remains a challenge worldwide. Most G20 countries have recorded a decrease in real wages in 2023, as wage growth has not been able to keep pace with inflation. The exceptions are China, Russia, and Mexico, where real wages are increasing. The largest gains in wage levels were achieved in China and Russia, where labor productivity growth was among the highest in the G20. The decline in real wages was particularly pronounced in Brazil, Italy, and Indonesia.[92] In 2023, Serbia recorded a growth in real wages of 2.4% (compared to 1.7% in the previous year).[93]. At the same time, wages in the private sector grew faster (3%) than in the public sector (1.1%).[94]

[88] International Labour Organization (2023). *World Employment and Social Outlook: Trends 2024*. Geneva: ILO, pp. 26-28.

[89] See: European Commission (February 2024), op. cit., p. 18.

[90] National Bank of Serbia (February 2024a), op. cit.

[91] Ministry of Finance of the Republic of Serbia (2024), op. cit.

[92] International Labour Organization (2023), op. cit., pp. 24-25.

[93] Ministry of Finance of the Republic of Serbia (2024), op. cit.

[94] Statistical Office of the Republic of Serbia (2024). *Trendovi – Q4*. Belgrade: Statistical Office of the Republic of Serbia, p. 30.

The COVID-19 pandemic marked a turning point in the thirty-year trend of reducing global **poverty**. In 2020, the number of people living in extreme poverty (with less than $2.15 2017 PPP dollars per day) increased by 8.7% compared to the previous year—from 701 million to 762 million. After 2020, poverty declined, but at a slower pace compared to the 2000-2019 period, reaching a level of 691 million people in 2023 (only 13 million fewer than in 2022). Similar trends are also noticeable for those living below poverty lines of $3.65 and $6.85 per day, which correspond to countries with lower and higher middle income levels, respectively. In fact, the number of people living on less than $6.85 per day was even slightly higher in 2023 compared to 2019.[95] It's also noteworthy that among employed workers worldwide in 2023, 241 million were living in extreme poverty. This represents an increase of 1 million compared to the previous year, although the poverty rate in 2023 decreased to 6.9% (from 7.1% in 2022)[96]

Available data on relative poverty in the EU show that the at-risk-of-poverty or social exclusion rate (AROPE) in 2022 was 21.6%, similar to the previous two years (21.7% in 2021 and 21.6% in 2020). The stability of this rate underscores the crucial role of social protection and social inclusion in ensuring socio-economic resilience to shocks. In absolute terms, 95.3 million people in the EU experienced poverty or social exclusion in 2022, including 19.9 million children under 18 years of age. Romania had the highest AROPE rate at 34.4%, while the Czech Republic had the lowest at 11.8% (although this rate increased to 12% in 2023). The in-work at-risk-of-poverty rate (in-work AROP rate) was 8.5% in 2022, lower than in 2021 (8.9%) and 2020 (8.8%), with higher in-work AROP rates among those with lower education levels.[97]

Absolute poverty in Serbia, defined as an income of less than $6.85 per day (2017 PPP dollars), which is the standard for upper-middle-income countries, has seen a slight decrease from 9.1% in 2021 to 8.5% in 2022. It is estimated that this trend continued into 2023, reducing the poverty rate to around 8%, thanks primarily to economic growth and improved labor market conditions.[98] Available data on relative poverty in our country reveal that the at-risk-of-poverty or social exclusion rate (AROPE) in 2022 was 28.1%, which is 0.3

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[95] The World Bank (2023). *2023 in Nine Charts: A Growing Inequality*. Washington, DC: The World Bank

[96] International Labour Organization (2023), op. cit., p. 30.

[97] See: Europe Commission (2023). *Employment and Social Developments in Europe (ESDE) 2023*. Luxembourg: European Commission.

[98] World Bank Group (2023). *Macro Poverty Outlook - Europe and Central Asia.* Washington, DC: IBRD / The World Bank, pp. 36-37.

percentage points lower than in 2021. Among the regional countries for which data are available in 2022, Montenegro recorded a higher AROPE rate of 34.1%, which had increased over the previous three years, reaching a level of 38.9 in 2022.[99]

If 2022 was a year of uncertainty, 2023 can be characterized as a year of **inequality**, according to the World Bank's assessment. Global inequality was decreasing until 2020 when the pandemic led to a reversal of the trend. Data shows that the Gini coefficient dropped from around 70 in 1990 to 62 in 2019. Compared to pre-pandemic projections, the Gini coefficient increased in 2020 by 0.7 p.p. to 62.6. There are indications that, alongside increasing inequality between countries, inequality within countries also deepened, as poorer households lost jobs and income at a somewhat higher rate than wealthier ones. The full impact of the crises on global inequality has not yet been assessed, and the divergent recovery across countries and income groups globally after 2020 suggests that this impact could be significant, leaving global inequality at a higher level in the coming years.[100] The Gini coefficient value in the EU in 2022 was 29.6, which is lower than in 2021 (30.2) and 2020 (30.0). Notably high values in 2022 and 2023 are recorded in Bulgaria (38.4 and 37.2, respectively) and Latvia (34.3 and 34, respectively).[101]

In 2022, the Gini coefficient for Serbia was 32, which is lower than in the previous three years when it reached 33.3. Among the neighboring countries for which data are available in 2022, Montenegro has a slightly lower Gini coefficient than Serbia—31.5, which has also been on a downward trajectory over the past few years.[102] It can be concluded that the multiple crises that have impacted the world and Serbia have not worsened the position of poor groups in our country, nor have they deepened the existing inequality, but there has also been no significant progress in this regard.

2. PROSPECTS FOR THE FUTURE

The uncertainty present in projecting future trends is far greater than usual due to the magnitude and nature of shocks at the global level. The world has entered a period of volatility in which geopolitical, economic and environmental changes work together to shape its future.

[99] https://ec.europa.eu/eurostat/en/

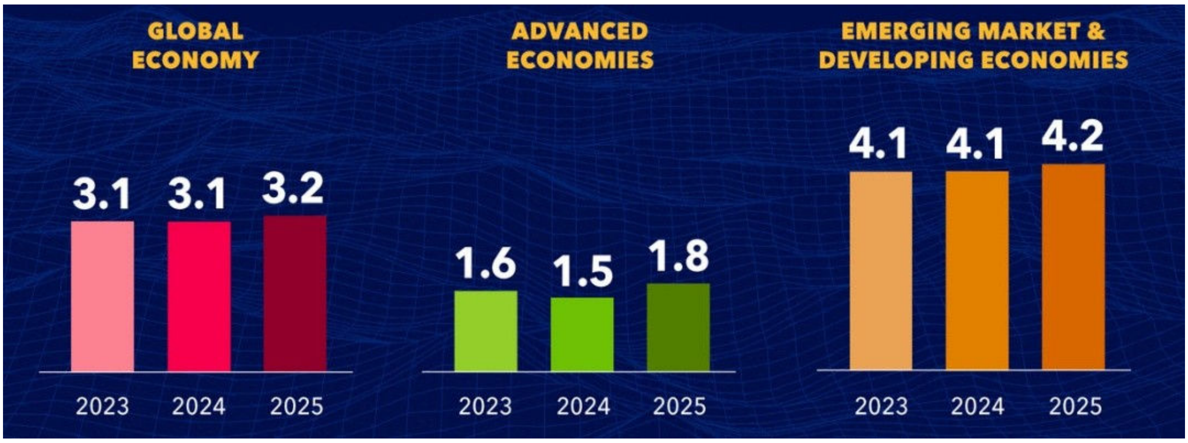
[100] See: World Bank Group (2022). *Poverty and Shared Prosperity 2022 – Correcting Course*. Washington, DC: IBRD / The World Bank, pp. 86-87.

[101] https://ec.europa.eu/eurostat/en/

[102] Ibid.

The global economy, as shown by the updated IMF data from January 2024, is going through a prolonged period of low **economic growth**. The growth of the world economy is projected at 3.1% in 2024, which is at the level of the growth rate from the previous year, and 3.2% in 2025. The forecast for 2024 is 0.2 p.p. above that of October 2023 due to greater than expected resilience in the USA and several large emerging market and developing economies, primarily China and Russia. The projected growth rates reflect restrictive monetary policies, withdrawal of fiscal support, and low productivity growth. According to IMF projections, there will be no significant changes in the growth rate of the world economy up to 2028, which will range between 3.1% and 3.2%, but a slight decline is noticeable from 2026 to 2028.[103]

Figure 2. Economic growth projections, real GDP growth, percent change



Source: Intenational Monetary Fund (January 2024), op. cit.

In developed economies, economic growth will slightly slow down in 2024 before accelerating in 2025, along with a recovery of low growth in the Eurozone, which reflects a relatively high exposure to the war in Ukraine, and a deceleration of growth in the USA influenced by the delayed effects of tightening monetary policy, gradual tightening of fiscal policy, and softening in the labor market which slows down aggregate demand. Emerging market and developing economies will experience stable growth in 2024 and 2025, accompanied by regional differences in the pace of real GDP increase. According to IMF projections up to 2028, there are no significant changes in the growth dynamics of advanced economies and emerging market and developing economies, but both groups of countries show a mild tendency of slowing growth during the 2026-2028 period.[104]

[103] https://www.imf.org

[104] Ibid.

According to IMF experts, the risks to the global outlook are generally balanced. There is room for further positive surprises in global growth (stronger growth could arise from a faster decline in inflation, slower withdrawal of fiscal support, faster economic recovery in China, etc.), but the impact of other potential factors that could pull the risk distribution in the opposite direction should not be overlooked (increased prices of food, energy, and rising transportation costs in conditions of geopolitical and weather shocks, slower than expected reduction of core inflation, fluctuation of growth in China, etc.). It is important to keep in mind that targeted and carefully planned structural reforms, even within limited political space, can accelerate productivity growth and reverse declining medium-term prospects for economic growth. Linking reforms that alleviate the most critical constraints on economic activity can enhance the outcomes, even in the short term, and secure public support for changes. [105]

Regarding the EU, the annual economic growth rate is projected by the European Commission at 0.9% in 2024 (0.8% in the Eurozone) and 1.7% (1.6% in the Eurozone). While economic activity decreased in 11 EU countries in 2023, an expansion is expected across all EU countries in 2024. Several smaller economies are projected to record GDP growth rates of 2-3%. The IMF predicts slightly higher growth rates for the EU (and Eurozone) in 2024 and 2025 at 1.5% (1.2%) and 2.1% (1.8%) respectively, followed by a slight slowdown in economic dynamics to 1.7% (1.3%) in 2028.[106] The projected GDP growth rate for Serbia in 2024 ranges between 3% and 4%, with a central value of 3.5%. In 2025 and 2026, a return to the potential growth path of over 4% is expected (between 4% and 5% in the two observed years), taking into account the implementation of investments planned for the hosting of the specialized world exposition in Belgrade, "EXPO 2027".[107] The IMF has forecasted a slightly lower growth rate for 2024 at 3%, which is expected to increase to 4.5% in 2025, and then stabilize at 4% until 2028.[108] These projections, of course, should be taken with caution. Although relevant international institutions assess that the risks of macroeconomic projections, including economic growth projections, are lower today than a year or two ago, they are still numerous and arise from both international and domestic environments.

[105] Intenational Monetary Fund (January 2024), op. cit., pp.7-8.

[106] https://www.imf.org

[107] National Bank of Serbia (February 2024b). *Izveštaj o inflaciji*. Belgrade: National Bank of Serbia, pp. 5-6.

[108] https://www.imf.org

According to IMF expectations, global **inflation** will decline over the next two years, with a faster reduction in developed economies than in emerging market and developing economies. The drivers of inflation deceleration vary by country but are generally attributed to the effects of continued stringent monetary policies, easing in labor markets, and the transmitted impact of earlier and ongoing declines in relative energy prices. Most countries with inflation targeting regimes expect to return to target ranges by 2025. In the case of inflation, risks associated with this projection are assessed as balanced. It should be noted that IMF projections indicate that global inflation will continue to steadily decline after 2025, reaching below 4% (3.8%) by 2028.[109]

Table 2. Inflation projections, average consumer prices, percent change

	Year over Year					
		Estimate	Projections		Difference from October 2023 WEO Projections 1/	
	2022	2023	2024	2025	2024	2025
World Consumer Prices	**8.7**	**6.8**	**5.8**	**4.4**	**0.0**	**–0.2**
Advanced Economies	7.3	4.6	2.6	2.0	–0.4	–0.2
Emerging Market and Developing Economies	9.8	8.4	8.1	6.0	0.3	–0.2

Source: International Monetary Fund (January 2024), op. cit., p. 6.

According to projections by the European Commission, the EU is also expected to continue experiencing disinflationary trends, although trade disruptions in the Red Sea will slow down this process in the near term. Inflation is projected to fall to 3% in 2024 and to 2.5% in 2025. The corresponding projections for the Eurozone are 2.7% and 2.2%. Increased geopolitical tensions (escalation of war conflicts in Ukraine, expansion of conflict in the Middle East to the Red Sea) tilt the balance of risks towards more unfavorable outcomes. The EU is particularly exposed to these risks due to its geographical proximity to the ongoing conflicts, deep integration into global value chains, dependency on energy, and the fact that a significant portion of its trade uses the route through the Red Sea. Domestically, risks associated with inflation are assessed as broadly balanced.[110] Projections from the European Commission suggest that after 2025, inflation in both the EU and the Eurozone will continue on a downward trajectory, such that by 2028, it will fall below 2%, with minor differences between them.[111]

[109] https://www.imf.org

[110] European Commission (February 2024), op. cit., pp. 26-28.

[111] https://www.imf.org

Regarding Serbia, the established downward trend in domestic inflation is expected to continue in the coming years, with a return to target ranges anticipated by mid-2024. By the end of the year, inflation is expected to approach the central target value of 3%, around which it will fluctuate in the subsequent period. The risks associated with the inflation projection are assessed as symmetrical.[112] The IMF's forecasts align with expectations in Serbia, suggesting that inflation should decrease from 4% in 2024 to 3% by 2028.[113]

The IMF has projected global **trade** growth at 3.3% in 2024 and 3.6% in 2025, which is significantly below the average of 4.7% recorded during the period from 2005 to 2014.[114] The aforementioned forecasts assume a decrease in both fuel (2.3% and 4.8% respectively) and non-fuel commodity prices (0.9% and 0.4% respectively) in the observed years. The same applies to interest rates in major economies, which are expected to remain at current levels before gradually decreasing in the second half of 2024 as inflation approaches target levels.[115]

Table 3. Projections of world trade volume, percent change

	Year over Year					
		Estimate	Projections		Difference from October 2023 WEO Projections 1/	
	2022	2023	2024	2025	2024	2025
World Trade Volume (goods and services) 6/	**5.2**	**0.4**	**3.3**	**3.6**	**–0.2**	**–0.1**
Advanced Economies	6.1	0.3	2.6	3.2	–0.4	–0.1
Emerging Market and Developing Economies	3.7	0.6	4.5	4.4	0.2	0.0

Source: International Monetary Fund (2023). World Economic Outlook Update - Inflation Peaking amid Slow Growth. Washington, DC: IMF, p. 6.

Trade distortions and geoeconomic fragmentation are expected to continue adversely affecting the volume of global trade, leading to a gradual decrease in its growth rate to 3.4% by 2028.[116] International trade has long lost some of its dynamism. Not only has its growth significantly slowed down, but the elasticity of global trade growth relative to economic growth has also decreased. This can be partly explained by the increasing share of non-tradable goods and services in total production. This trend is likely to continue in the future.

[112] See: National Bank of Serbia (February 2024b), op. cit., pp. 6-7.
[113] Ibid.
[114] International Monetary Fund (January 2024), op. cit., p. 133.
[115] Ibid, p. 3.
[116] https://www.imf.org

Between 2024 and 2026, an increase in the volume of foreign trade exchange is expected in Serbia. The recovery of external demand, along with the activation of new export-oriented capacities resulting from foreign direct investments, will contribute to a dynamic average export growth of 10%. At the same time, growth in domestic demand, due to a lower base from the previous year, will contribute to an average import growth rate of 9.3%. For this period, an increase in the current account deficit to levels of 4.0%, 4.1%, and 4.1% of GDP respectively is projected, due to the expected acceleration of the investment cycle and the associated import of equipment and raw materials.[117]

Global **investments** are expected to remain subdued in the medium term. For 2024, slight improvements are projected, but the growth rate of global investments will remain below the average level of 4% from the period 2011-2019.[118] After a decline in 2023 and 2024, the global investment rate will slightly increase until 2028. Over the past two decades, capital accumulation has been the dominant source (accounting for over 50% of the contribution) of potential economic growth in emerging markets and developing economies compared to labor and total factor productivity. It is estimated that its contribution will continue to be around 50% during the period 2022-2030.[119] Poor investment growth exacerbates the situation of already unmet investment needs in this group of countries. Significant investments are required to address climate change, accelerate the digital transition, improve social outcomes, and support long-term growth. This is difficult to secure in conditions of limited fiscal space and a challenging macroeconomic environment for private investments. Nonetheless, the efforts of these countries should be focused on investment acceleration. A comprehensive package of policies that promotes macroeconomic stability and addresses structural issues plays an important role in this. High institutional quality is crucial for the success of policies aimed at investment acceleration.[120]

By 2026, Serbia is expected to see a stable growth in fixed investments at an average annual rate of 6.1%.[121] After a decline in the share of gross fixed capital formation in Serbia's GDP in 2023 by nearly 1 p.p, it is projected to gradually return to previous levels, with values of 24% in 2025 and 24.3% in 2026. The anticipated growth rate of investments is based on planned capital projects in

[117] See: Government of the Republic of Serbia (2023), op. cit., pp. 17-18.

[118] United Nations - Department of Economic and Social Affairs (2024), op. cit., p. 19.

[119] Ibid, pp. 99-100.

[120] For more detailed information, see Chapter 3 in: United Nations - Department of Economic and Social Affairs (2024), op. cit.

[121] Government of the Republic of Serbia (2023), op. cit., p. 18.

infrastructure and the "EXPO 2027" projects. State investments in our country in 2023, as already mentioned, reached about 7% of GDP, and are expected to remain around that level in the medium term.[122] Stable inflows of foreign direct investments are projected for the coming years, although their share in GDP, according to World Bank expectations, could fall below 6% during the 2024-2026 period.[123] A stagnation or even decline in foreign direct investments could follow due to rising business costs in Serbia (primarily increases in wages and energy prices), and due to the slow economic recovery of EU countries from which the majority of these investments originate. This should also take into account the reduction of tax incentives for investing abroad by EU companies as a result of regulatory changes in those countries. There is room for increasing the investment rate in Serbia, especially considering the experience of some new EU member states (like Estonia, Czech Republic, Hungary), which in recent years, for which data is available, recorded a share of fixed investments in GDP between 26 and 28%.[124] Investments, along with productivity growth, are expected to be the main drivers of economic growth in our country in the medium term, while the contribution of labor will be significantly lower.

Table 4. Employment growth, 2023-2025, by coutry income groups (percentages)

Total	2023	2024	2025
World	2.2	0.8	1.1
Low-income countries	3.0	3.2	3.3
Lower-middle-income countries	4.5	1.2	2.0
Upper-middle-income countries	0.6	0.3	0.4
High-income countries	1.1	−0.2	0.1

Source: International Labour Organization (2023), op. cit., p. 26.

Economic slowdown is expected to align with job creation at a global level in 2024. It is known that the **labor market**, particularly employment, reacts with some delay, which partly explains its resilience in 2023. Modest employment growth of 0.8% and 1.1% respectively is expected over the next two years. The situation is particularly concerning in high-income countries where employment decreases in 2024, followed by a modest increase in 2025. Small gains in employment are also expected in upper-middle-income countries over the next

[122] National Bank of Serbia (February 2024a), op. cit.

[123] World Bank Group (2023), op. cit., p. 77.

[124] https://ec.europa.eu/eurostat//en/

two years. In other country groups, employment growth should continue to be robust.

The global unemployment rate is expected to remain stable in 2024 and 2025, with a slight increase from 5.1% in 2023 to 5.2% in 2024, and the rate ma intaining unchanged in the following year. This minor increase is primarily due to a rise in the unemployment rate in developed countries by 0.2 percentage points to a level of 4.7% in 2024, which remains unchanged in the next year.[125]

The labor market in the EU has withstood the weakness in economic activity in 2023. However, employment growth is expected to be modest in the upcoming upswing, given evidence of labor hoarding.[126] According to IMF projections for the Eurozone, the trend of decreasing unemployment rates will be gradual but steady—from 6.6% in 2023 to 6.3% in 2028.[127]

In Serbia, favorable developments in the labor market are expected in the medium term, with a decrease in the unemployment rate.[128] The IMF also predicts a continuous decrease in the unemployment rate in our country during the period from 2023 to 2028, with the rate dropping to 8.5% in the final year.[129]

Regarding the medium-term prospects for the movement of **real wages** in our country, a continuation of their growth is projected. [130] In this regard, it is expected that in the private sector, wage growth will follow productivity growth, while in the public sector, wages will increase in accordance with specific fiscal rules designed to reduce salary expenditures to a sustainable level—up to 7% of GDP. For the first two quarters of 2024, an annual growth of real net wages at a rate of 2.8% and 2.7% respectively is projected.[131] In the coming years, the growth of real wages should be similar to GDP growth and largely determine the rise in the standard of living of the population (incomes from regular employment account for about 50% of total household incomes in Serbia[132], and the movement of other incomes, such as pensions, social security benefits, etc., is linked to wage trends).

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[125] International Labour Organization (2023), op. cit., p. 27.

[126] European Commission (February 2024), op. cit., p. 19.

[127] https://www.imf.org

[128] Government of the Republic of Serbia (2023), op. cit., p. 21.

[129] https://www.imf.org

[130] Ibid, p. 21.

[131] Statistical Office of the Republic of Serbia (2024), p. 31.

[132] See: National Bank of Serbia (February 2024b), op. cit., p. 33.

The trend of decreasing global **poverty** is expected to continue in the years to come. As a result, the World Bank predicts that by 2030, the number of extremely poor will fall to 574 million or 6.8%, which is significantly above the World Bank's target of 3%, based on the MDGs and SDGs, which was difficult to achieve even without the ongoing crises.[133]

A group of authors from the United Nations University recently came out with an even less favorable forecast, based on poor prospects for economic growth and high indebtedness of many countries in the global South, of 619 million extremely poor in 2030. This indicates the necessity for urgent national and global actions, including a stronger focus on inclusive growth and productive capacities, as well as various forms of international financial assistance and support.[134]

For absolute poverty in Serbia, defined as an income of less than $6.85 per day (2017 PPP dollars), which is the standard for upper-middle-income countries, a further relatively modest decline in the poverty rate to 7.5% in 2024 and 6.8% in 2025 is projected.[135] The pace of recovery in production and the labor market, along with the mitigation of inflation, has critical significance for future progress in reducing poverty.

In the context of the prospects of economic **inequality** worldwide and in Serbia, the question arises whether artificial intelligence will further deepen income inequalities. The launch of ChatGPT in November 2022 marked the beginning of a new era for artificial intelligence. Artificial intelligence, like other technological advancements, will transform the labor market and enhance productivity, but its gains will not be evenly distributed. Without adequate policy interventions, artificial intelligence could increase inequality within and between countries by reducing the demand for lower-skilled workers, which could negatively impact vulnerable groups and low-income countries where lower-skilled economic activities predominate.[136]

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[133] World Bank Group (2022), op. cit., p. 9.

[134] Yusuf, A. A. et al. (2023). Will the poverty-related SDGs be met? Global projections for 2030. *Research brief,* No. 4, United Nations University - World Institute for Development Economics Research

[135] World Bank Group (2023), op. cit., p. 37.

[136] See: Gmyrek, P., Berg, J., & Bescond, D. (2023). Generative AI and jobs: a global analysis of potential effects on job quantity and quality. *ILO Working Paper*, No. 96. Geneva: International Labour Organization

3. RISK MAP – POTENTIAL THREATS AND CHALLENGES AT THE GLOBAL AND NATIONAL LEVEL

The future is highly uncertain. The dominant narrative starts from the assumption that the global economy has shown surprising resilience in facing the most aggressive global monetary policy tightening in recent decades. Despite widespread predictions of a recession in 2023, it did not occur, which fuels beliefs in a “soft landing”. Inflation is decreasing amidst a tight labor market and higher-than-expected consumption and economic growth, especially in the USA. In another version of current events and expectations for the future, persistently high inflation in many countries and high interest rates burden economic growth, particularly in export-oriented economies where the manufacturing industry plays a significant role. An already visible economic recession is likely to spread with the risk that new economic shocks become uncontrollable and unmanageable.[137] Besides these opposing narratives about the world's economic future, the continuation of trade conflicts and geoeconomic divisions between leading global economies, along with open armed conflicts at a global level, contribute significantly to the substantial economic uncertainty that lies ahead. This should be supplemented with extreme weather conditions around the world, where actions taken and resources invested in mitigating climate change are not in line with actual needs.

The world is undergoing multiple long-term structural transformations. It is realistic to expect that in the coming years, fundamental conditions and parameters will change in several key areas - geostrategic, climate, but also technological and demographic. These changes represent the backdrop for global risks that will manifest in the coming period, with the potential to influence their scale, speed, and spread.[138]

According to research by the World Economic Forum on global risks, the short-term (two years) and especially long-term (ten years) outlooks for the world are predominantly negative. In the short term, some instability and moderate risk of global disasters are anticipated, and in the long term, a stormy or turbulent outlook. As ongoing crises erode the resilience of the global system, new and rapidly evolving sources of risk are expected in the coming years. Extreme weather events are at the top of the risk list in 2024, followed by AI-generated misinformation and disinformation, and societal and/or political polarization.

[137] See: World Economic Forum (2024c). *The Global Risk Report 2024*. Geneva: WEF, pp. 27-28.

[138] Ibid, p. 40.

Economic risks are not among the top five most pronounced current risks, nor are they among the short-term risks. The top three risks are identical, only the first and second risks have switched places. Misinformation and disinformation, which rank so highly in the short term, represent a serious threat to electoral processes in the next two years. They can deepen societal polarization and provoke civil unrest, and there is also a risk of repression and erosion of rights as authorities try to curb the spread of false information, as well as risks if they hesitate and act too slowly. Economic risks, such as inflation and economic downturn, occupy the sixth and ninth positions respectively. Among the long-term risks, environmental and technological risks dominate. Nearly all environmental risks are ranked in the top ten most serious for the next decade. Most economic risks lose relative position in the long-term perspective (for example, inflation falls from 7th to 32nd place, and economic recession from 9th to 28th). As a counterpart to the identified risks on a global scale, the World Economic Forum has compiled a ranking of national risks, which represent their short-term reflection (up to 2026) within a specific country. Regarding Serbia, the top three positions are occupied by economic risks: Labour shortage, Inflation, and Economic downturn. In this regard, our country shares many similarities with the countries of the European Union and the region, although it is one of the few countries in this group (along with Austria, the Netherlands, Croatia) where Labour shortage occupies the first position, which can be linked to unfavorable demographic trends.[139]

In the context of Serbia's economic future, the question also arises whether our country can avoid the „middle-income trap“, which implies slower economic growth (below potential) as an obstacle to progressing towards high-income status, and whether it can successfully adapt its policies and institutions to the given circumstances?[140] The World Bank addresses the difficulties of economic growth in middle-income countries in the *World Development Report 2024*. There are a total of 108 such countries (54 lower-middle income and 54 higher-middle income, including Serbia) that cover 40% of the world's economic activity. Between 1990 and 2019, 31 middle-income countries moved into a higher income group.[141] Hungary and Poland, among others, have benefited

[139] See: World Economic Forum (2024c), op. cit., pp. 102-111; Radivojević, B., & Jovanović Gavrilović, B. (2018). Niska ekonomska aktivnost starijeg stanovništva Srbije – uzroci i posledice. *Zbornik Matice srpske za društvene nauke*, *167*(3), pp. 573-584.

[140] For more about the “middle-income trap”, see in: Gill, I. S., & Kharas, H. (2015). The Middle-Income Trap Turns Ten. *Policy Research Working Paper,* No. 7403, Washington, DC: World Bank Group, p. 11.

[141] World Bank (2024). *World Development Report 2024 – Economic Growth in Middle-income Countries*, Concept Note, Washington, DC: World Bank, pp. 1-3.

from joining the EU during a period of healthy growth in developed economies. Over the past decade, the global economy has moved from healthy to faltering and from largely integrated to increasingly fragmented, which presents challenging circumstances for all, including middle-income countries. A specific incentive for economic growth and convergence of Serbia, as well as other Western Balkan countries towards developed Europe, is represented by the New Growth Plan for the Western Balkans for the period 2024-2027, worth 6 billion euros (two billion in grants and four billion euros in favorable loans). This plan is aimed at the economic growth of the region, accelerating reforms, and investments that can enhance the process of the European Union's enlargement to the Western Balkans. Economic convergence is a crucial element in bringing the Western Balkan countries closer to the EU. The current level and convergence, according to the European Commission, are not satisfactory, both in terms of reform processes and socio-economic convergence. GDP *per capita* in PPS in Serbia is just slightly above 40% of the EU-27 average. Montenegro is positioned somewhat better, while the other Western Balkan countries fare worse.[142] It is important to note that in granting funds, the EU practices conditionality based on achieved results in key reforms, which emphasizes the country's responsibility for its own progress. However, such a mechanism of assistance puts the country in an inferior position.

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[142] Communication from the Commission to the European Parliament, the Council and the Committee of the Regions of 8 November 2023. *New growth plan for the Western Balkans*, COM(2023) 691 final, p. 1.