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# **ECONOMIC, DEMOGRAPHIC AND SOCIAL EFFECTS OF POTENTIAL SCENARIOS OF NORMALIZATION OF RELATIONS BETWEEN BELGRADE AND PRISTINA**

## Summary:

In the process of defining the Serbian relations with Kosovo and Metohija, and there from determining the demographic, social and economic effects, it is primarily supposed that these relations can move in two directions:

1. The first direction, that can be defined as “expected” or *real scenario*, assumes that the relations between Serbia and Kosovo and Metohija will be ‘normalized’ – either through the exchange of territories, or through applying the Brussels Agreement (2013) in an adequate manner. Consequently, the results of these processes would lead to the accession of Serbia to the European Union. The process of the Serbian European integration will be intensified and finalized in the period between 2025 and 2030.
2. The second direction, which will not lead to the normalization of relations between Serbia and Kosovo, i.e. where the present status will be maintained; therefore this scenario will be named *status quo*. Accordingly, it is supposed that the Serbian negotiations with the European Union will be unsuccessful and this can be regarded as a ‘pessimistic’ solution, which envisages the largest population decline, deteriorated economic conditions, and to miss out on growth and convergence towards the developed EU countries.

## I. Demographic consequences of solving relations between Serbia and Kosovo and Metohija

In the last few decades, the population trends in Serbia were characterized by the following processes:

- **Population ageing**, due to falling fertility rates and extended life expectancy;
- **Decreased total number of population**, resulting from the negative natural increase and emigration from Serbia;
- **Falling activity rates** (decreasing number of active population in the whole population).

According to the estimations made by the Statistical Office of the Republic of Serbia, the total population number in Serbia in 2015, and this was used as a starting value for demographic projections, equalled 7.1 million. In order to have insight in the future Serbian demographic trends, created were the population projections in five variants, for the period until 2060. The results of these projections indicate that in 2060 the population of Serbia can be found in the interval from 3.9 million (as regards the scenario of failed normalization of relations between Belgrade and Pristina) to 5.8 million (the variant of high fertility). This means that in the period from 2015 to 2060 the realization of the maximum variant would cause the Serbian population number decrease for somewhat more than one million people (1.2 million, or by 17%), i.e. the minimum variant (*status quo*) would lead to by one half decreased number of Serbian population (less 3.1 million people, or by 44% in relation to 2015).

Of the mentioned five variants of population projections, for the purpose of analysing the solution of relations between Serbia and Kosovo and Metohija we shall be focused at the following two variants:

- **Real scenario** of demographic movements, which is corresponding to the political scenario of normalized relations with Kosovo, and according to the methodology of demographic projections is compliant with the variant of expected fertility, and

- **Status quo scenario**, which corresponds to the situation of failed normalization of relations between Serbia and Kosovo.

For each of the two scenarios, certain hypotheses were offered, namely the assumptions on the trends of fertility, mortality (death rate) and migration during the projected period. Based on these assumptions, the demographic future was modelled:

### *Real scenario – hypotheses*

**Migration** – in the mid-2030s the number of emigrants and immigrants would be equalized (zero migration balance). This would imply that the Serbian emigration potential is reduced, due to more favourable economic development status, decreased unemployment, however also because of the demographic aged population.

**Fertility** – in 2015 the total fertility rate in Serbia equalled 1.44. According to *real scenario* it is expected to gradually increase and reach the value of 1.85 in 2060.

**Mortality (death rate)** – the mortality by age is supposed to decrease continually, i.e. life expectancy at birth would be on the increase both for male and female population, so in 2060 it will be 81.9 years for men and 86.4 years for women (in 2015 these values equalled 72.5 and 77.6 years for men and women, respectively).

**Labour force** – presently rather low activity rate (63.6% in 2015) is far below the EU average, where for the same period it equalled 72.4%.

It is a general assumption that until 2030 Serbia would gradually achieve the average activity rates already existing in the EU-10 and that the trend of moderate growth would be resumed until the end of the projection period. That is to say that the projected **activity rate**<sup>1</sup> for the population aged 15 to 64 would equal 68.6% (2030), i.e. 70.8% (2060). Also the **unemployment rate**, which in 2015 equalled 18.2%, is envisaged to fall to 11% in 2030 for the population aged 15 to 64, and to 7.8% in 2060. In this variant, **employment rate** for the population aged 15 to 64

### *Status quo scenario – hypotheses*

- According to this variant it is supposed that the specific rates (by five-year age groups) of fertility, mortality, net migration, activity and unemployment, would remain the same as in the beginning of the projection period (i.e. 2015).
- However, since the relative shares of population age groups will be changed, changes will appear also as regards the projected rates of economic activity on larger, i.e. aggregated population age groups (e.g. by ten-year age groups or for the entire population).
- The missed changes concerning the specific demographic rates and activity rates (as envisaged in *status quo* scenario) would lead to **decreased rates of activity and employment** and increased unemployment rate, which is the trend contrary to that envisaged by *real scenario*: in this case **activity rate** for the population aged 15 – 64 would equal 63.7% in 2030, i.e. 63.4% in 2060. **Employment rate** would slightly vary around the present one equalling 52%; namely, in 2030 it would reach 52.4%, and in 2060 would drop again to 52.2%. **Unemployment rate** would slightly decrease; to equal 17.7% in 2030, where it would remain as long as until 2060.

<sup>1</sup> Active population include all employed and unemployed persons. Activity rate presents the percentage share of active population in total population.

### *Real scenario* – results of projections

- Number of population – In 2060 will be registered down for 1.5 million (by 21%) in relation to 2015, i.e. it is envisaged to amount to 5.57 million; this fall will be mainly caused by negative natural increase, which would lead to the decreased population for 1.684 million, while the net migration would be positive and noted to amount 158 000.
- Active population (persons aged 15 – 74) – In 2060 will be registered down for 811 000 people (or by 26.1%).
- Age structure – Share of population aged over 65 will be registered up by 23.1% in 2060, and population of prime age (20 – 64) would decrease by 35%, namely, from 4.382 million in 2015 to 2.850 in 2060.
- Share of population aged 65+ - rising from 18.7% in 2015 to 29.4% in 2060.
- Aged dependency ratio, showing the share of persons aged 65+ in the total number of working-age population, will be rising from 30.3 in 2015 to 57.4 in 2060

### *Status quo scenario* – results of projections

- Number of population – In 2060 will be registered down for 3.1 million (by 44.2%) in relation to 2015, i.e. it is envisaged to amount to 3.9 million; this fall will be mainly caused by negative natural increase, which would lead to the decreased population for 2.693 million, while the net migration would be negative and noted to amount -444 000.
- Active population (persons aged 15 – 74) – In 2060 will be registered down for 1,571 million (or by 50.5%).
- Age structure – Share of population aged over 65 will be registered up by 11.5% in 2060, and population of prime age (20 – 64) would decrease by 51.5%, namely, from 4.382 million in 2015 to 2.123 in 2060.
- Share of population aged 65+ - rising from 18.7% in 2015 to 29.7% in 2060.
- Aged dependency ratio, showing the share of persons aged 65+ in the total number of working-age population, will be rising from 30.3 in 2015 to 55.4 in 2060.

Therefore, provided that *real scenario* comes true, which we consider expected, and that assumes a successful solution of the relations between Serbia and Kosovo and the Serbian accession to the EU in the middle of the next decade, in 2060 the Serbian population number would drop to **5.57 million**, which is less 1.5 million or by 21.5% when related to the number recorded in 2015 (namely, in 2030 the population number would amount to 6.34 million, which is a fall by 10.7%). The losses as a consequence of the natural migration of population in the period 2015 – 2060 would amount to 1.7 million (582 000 until 2030), while the negative effect of migratory trends would exist until 2030, whereupon the increased immigration would result in a smaller decrease of the population number. The volume of labour force (person aged 15 – 64) would be decreased by 26% (by 10% until 2030), and the aged dependency ratio, which presently equals 30.3, in 2030 would equal 43.7, and until 2060 it would be increased to 57.4.

**Constant (status quo) scenario** envisages that the relations between Serbia and Kosovo would remain unsolved, i.e. that the normalization would not be achieved, and that the Serbian negotiations with the EU will be unsuccessful, which all together exclude the option of more favourable demographic and economic status, due to beyond comparison lower wellbeing and considerably weaker population policy. This scenario assumes the remained, i.e. unchanged values of demographic indicators on the status quo level (unchanged until the end of the projection period), which all would lead to the decreased total population by 44%, or for 3.1 million; therefore, in 2060 the Serbian population number would amount to **3.96 million** (6.20 million in 2030, which is a decrease by 13%). The reduced number of population due to the negative natural increase envisaged by *status quo* scenario would amount to as much as 2.7 million until 2060 (i.e. 707 000 until 2030). This scenario anticipates also large migration losses (-183 000 until 2030, i.e. -444 000 until 2060), and considerably reduced labour force resources: until 2060 by 50.5%, i.e. over 1.5 million people (until 2030 by 17%, over 512 000 people).

Therefore, until the end of the projection period, i.e. in 2060, **the difference in the population number decrease** between these two scenarios would amount to 1.6 million in favour of *real scenario*. Namely, the failing to solve the relations between Belgrade and Pristina would result in the negative demographic effect of 1.6 million people. The natural increase would be higher by 1 million in the case of *real scenario*, and the losses in labour force (persons aged 15 – 64) would assume by 700 000 lower figures when *real scenario* is compared to *status quo scenario*.

## II. Social consequences of solving relations between Serbia and Kosovo and Metohija: sustainability of pension system

Provided that *real scenario* comes true, i.e. in case of achieving normalized relations between Belgrade and Pristina, the projected average annual GDP growth in the period 2015 – 2060 would equal 3.2%, according to macroeconomic projections. In addition, in this case the average real pension would grow by 2.1% on annual basis. Due to satisfactory economic movements, the GDP expenditures for pensions would be decreased to 7.8% in 2030, i.e. to 5.2% in 2060 (from 11% as they equalled in 2016). That is to say, the financial stabilization of the pension system could be expected.

Contrary to *real scenario*, in the case of *status quo scenario*, with adequately projected and considerably lower average annual GDP growth of 1.3% in the period 2015 – 2060, the expenditures for pensions would remain on the level of about 10% until 2060. In both scenarios (in case of solving or failing to solve the relations between Serbia and Kosovo and Metohija), the trend of rising aged dependency ratio would entail serious economic consequences (inevitable population aging), i.e. significant burden on the Budget, since the pressure on pension funds will be on the increase, and their receipts ever decreasing. As especially important (potentially the most harmful) is regarded the combined impact of the rising number of pensioners and the reduced labour force. Namely, the dependency ratio, i.e. the share of persons aged over 65 in working-age population (aged 20 – 64), which indicates the ageing effect, according to *real scenario* would equal 57.4, and according to *status quo scenario* would equal 55.4 in 2060. However, the ageing effect, in cases of projected pension expenditures, would be more quickly neutralized in the case of *real scenario*.

In other words, in order to achieve a sustainable macroeconomic stability with *status quo scenario* adopted as the solution, we would be forced to decrease pensions and total expenditures for pensions; namely, the pension adjustment would be missed out and they would remain on the same level as in 2016, i.e. 2017, for the entire period of 43 years. This would lead to their social unsustainability and therefore to the created social burden on public finances, and on the other side to significantly increased rates of relative, and absolute poverty. On the contrary, in the scenario of solving the relations between Belgrade and Pristina, pensions in real terms would be on constant increase, owing to the extended space for macroeconomic progress.

## III. Direct net economic effects of solving relations between Serbia and Kosovo and Metohija

For the purpose of estimating net economic effects of various scenarios used was Gross domestic products (GDP), as the basic measure of economic development of a country, region or sub-regional territorial unit. In order to survey the potential GDP gains or losses, we used *three modalities* of solving the relations between Serbia and Kosovo: normalization of relations with exchange of territories, normalization without exchange of territories, however with the applied Brussels Agreement (2013), and status quo, i.e. failed normalization of relations.

1. **Scenario of normalization of Serbia and Kosovo relations with exchange of territories** – This variant assumes that the territorial wholes of the Republic of Serbia with the majority of Albanian population would be joined to Kosovo, and the territories of Kosovo with the majority of Serbian population would be joined to the Republic of Serbia. There from, the GDP created by the territorial wholes joined to Kosovo would represent *loss* for the Republic of Serbia. On the other side, the GDP of Kosovo municipalities, which on the basis of the exchange of territories would be joined to the Republic of Serbia and reintegrated into its economic and legal system, would represent *benefit*, since it would increase the existing Gross domestic products of the Republic of Serbia.

Only the ***ethnically homogenous territories*** would be exchanged, namely the territories populated dominantly with Albanian population on the side of the Republic of Serbia, and vice versa, the territories on Kosovo with dominant share of population of Serbian (and non-Albanian) ethnicity in the total population number of the respective municipalities, and the territories found in border parts.

Therefore, when Serbia is concerned, only Preševo municipality is seen as the subject of possible territorial exchange, with 29 600 inhabitants, of which 91% are Albanians. This territory would be exchanged for the municipalities of North Kosovo – Zvečan, Zubin Potok, Leposavić and the northern part of Kosovska Mitrovica (North Kosovska Mitrovica), with estimated population of 42 021 inhabitants.

#### Direct economic effects – exchange of territories sub-scenario

- **Demographic benefit:** the total population number of North Kosovo is 42 000, and of Preševo municipality 30 000; the difference of 12 000 could be regarded as a demographic benefit for Serbia;
- **Territorial gain :** the area of North Kosovo covers 1 331 km<sup>2</sup>, and Preševo municipality 264 km<sup>2</sup>; the difference of about 1 000 km<sup>2</sup> present a gain for Serbia, i.e. the reduced total loss of territories caused by the self-proclaimed Kosovo declaration of independence;
- **Office for Kosovo and Metohija expenditures:** instead of the current annual expenditures amounting to 47 million euros annually, these expenditures would amount to 9 million euros; namely, the positive effect based on the reduced budgetary expenditures would amount to 38 million euros on annual basis;
- **Effect on GDP:** the gain resulting as the difference between the GDP of the Serb municipalities in North Kosovo and that of Preševo municipality would amount to about 52.9 million euros annually;
- **Total benefit:** the envisaged GDP plus the reduced budgetary expenditures for the Office for Kosovo and Metohija would amount to about 90 million euros on annual basis, i.e. 3.8 billion euros in the next 30 years.

2. **Scenario of normalization of relations between Serbia and Kosovo without exchange of territories – applied Brussels Agreement (2013)** – In this case the existing administrative borders between Serbia and Kosovo would remain unchanged. Brussels Agreement (2013), i.e. *First agreement of principles governing the normalization of relations between Kosovo and Pristina* would ensure the establishment of **Community of Serb Municipalities**, as a form of local autonomy and self-government within Kosovo, with the status of autonomy and governance/supervision in the domain of economic development, education, health, urban planning and rural development.

The Agreement envisages the abolishing of the security structures and judiciary institutions of the Republic of Serbia on Kosovo and Metohija, in the municipalities with the majority of Serb population. The judiciary authorities in the municipalities with the majority of Serb population will be integrated and functioning within the legal system of Kosovo. The Court of Appeals of Pristina would establish a commission where the Serb judges would hold the majority and the commission would be authorized/have jurisdiction in all municipalities with Serbian ethnic majority. In other words, the existing Serb municipalities on Kosovo would be fully integrated into the legal and political system of Kosovo, while ensuring their autonomy and local-self government in the stated areas. In this case, these municipalities would remain out of the legal and economic system of the Republic of Serbia, and all economic subjects, legal entities and physical/natural persons would be regarded as so-called non-residents, who add to the creation of the GDP of the country they belong to – Kosovo. Since these Serb municipalities, namely all economic subjects on Kosovo, are already excluded from the official GDP estimations, this scenario will cause no direct, immediate effects on the GDP value of the Republic of Serbia. However, the global, overall effects, which were derived in the calculations of (hereinafter elaborated) macroeconomic projections of the normalization of relations with Pristina, are envisaged to be, by all means, positive.

3. **Status quo scenario**, i.e. the maintained existing state, without normalization of relations and with the existing borders/territorial distribution between the Republic of Serbia and Kosovo. This scenario also will not cause direct, immediate effects on the Serbian GDP value, since the GDP calculations for the Republic of Serbia, which are conducted by the Serbian Statistical Office, do not cover the territory of Kosovo due to the absence of administrative and statistical data sources. In the case of **status quo scenario**, in comparison with the alternative of the exchange of territories, the immediate net effects on the GDP of the Republic of Serbia are also seen as neutral; however, the global, long-term effects will be negative, which will be elaborated in the macroeconomic presentation of status quo scenario. In the case of normalization without exchange of territories sub-scenario (Brussels Agreement (2013)) and **status quo scenario**, the mentioned benefits on the GDP value would be missed out, and only, as annual losses, the reduced expenditures of the Office for Kosovo and Metohija amounting to about **9 million euros annually (270 million euros for the 30-year period)** would remain in the first case, i.e. non-reduced expenditures of about **47 million euros (1.4 billion euros for the 30-year period)** in the second case.

#### IV. Other aspects of achieving common economic interest

Within the sub-scenario of exchange of territories, it is needed to consider the fact that, in time, economic migration would result in the territory being populated with old-people households only, and consequently, with this population dying out, the complete depopulation will be seen as soon as in the next generation. In order to avoid this situation, **the economic sustainability** of the gained territory needs to be ensured, through three important processes:

1. Internal exchange of territories – The exchange would assume, for instance, to cede the terrains and tourist and sports and recreation **resorts on Šar Mountains** for certain territory that could be physically linked with the municipalities Kosovska Mitrovica, Leposavić, Zvečani and Zubin Potok, provided that



this joining has an exclusive aspect of economic consolidation. Since on the Kosovo side a clear interest for the complex on Šar Mountains is expressive, for Serbia the optimum solution would be to gain in exchange the ownership over some object of economic interest, such as the Mining, Metallurgical and Chemical Combine *Trepča*.

2. Settlement through transformation of ownership – This process assumes the restructuring of the large, electric power and industrial complexes, pursuant to the principle of ownership, by separating/transforming technical and technological wholes into individual companies, with completely incorporated/entered property that these companies use and have created from their own assets. In the course of this process for the Serbian side it is important to get *in the first place* focused on the natural resources, such as the exploitation of ores for the needs of *Trepča* and *Ferronikeli* from Glogovac, as well as the lignite mining plants of Obilić. As the *second priority* effort shall be taken to attain the maximum possible ownership share in the large economic systems: electric power industry, *Trepča combine*, *Ferronikeli* and other companies. Thereby the conditions would be created for the employment of non-Albanian population, which could possibly stimulate their return to the traditional settlements. Since the majority of the economic complexes are located in the territory that will remain to Kosovo, in this process of settlement it is necessary to insist on the **ownership transformation**, which envisages ownership shares or absolute ownership over corporations also for the parties/owners that are not residents of the country.
3. Restitution of state, clerical/communal and private property – The restitution of nationalized property to the traditional churches and religious communities has a major civilization aspect, which significantly influenced the decisions of a number of states that recognized so called Kosovo Republic, however voted against its membership in UNESCO. This issue need to be internationalized and solved while seeking the final solution, and in accordance with the well known and globally recognized models of extraterritoriality of clerical property and local self-government. Some of the Serbian historical and cultural monuments of utmost importance are the religious objects that would remain on the Kosovo territory. On the other side, the Church used to be the major proprietor on Kosovo and Metohija before the nationalization. This property, holding a significant commercial potential have by all means to be returned to the Church, partly in natural form and partly as compensated. Due to the situation in field, which indicates that the most of the property was expropriated/seized, the natural restitution could be hardly expected; however, various solutions have to be sought and insisted on in order to ensure compensation in the property of similar kind on other locations, or as financial compensation appropriate to the real value of the seized property.

## V. Trepča

Although the Mining, Metallurgical and Chemical Combine *Trepča* is formally registered as a single legal entity, it presently operates as two separate technological wholes:

1. *Trepča Sever*, with plants located in Serb municipalities and employing over 4 000 workers , comprises four mines/mining facilities in the territory of Leposavić municipality (Crnac, Belo Brdo, Žuta prila and Koporić)
2. *Trepča Jug*, employing about 5500 workers of Albanian ethnicity, where the main mine is Stari Trg in Kosovska Mitrovica, with the most substantial reserves of lead-zinc ore.

The estimations show that the total reserves of lead-zinc ore on Kosovo amount to 50 – 60 million tonnes, and about a half of these reserves belong to the largest mining facility of this system, Stari Trg. In North Kosovo, in the territory with the majority population of Serbian ethnicity, the reserves are estimates at only 6.5 million tonnes.

According to the data on the production of the three most important metals within the production range of *Trepča* (lead, zinc and silver), dating from the period 1981 – 1990, we came to the following estimations:

- The average annual production/output of **raw lead** and lead alloys amounted to about 80 000 tonnes annually; at the current price of 2 100 euros per tonne, the production/output value would amount to about 204 million euros on annual basis, i.e. 6.1 billion euros for the 30-year period;
- The average annual production/output of **zinc** and zinc alloys amounted to about 29 500 tonnes annually; at the current price of 2 700 euros per tonne, the production /output value would amount to 79.6 million euros on annual basis, i.e. 2.4 billion euros for the 30-year period;
- The average annual production/output of **silver** amounts to about 84 tonnes annually; at the current price of EUR/kg 450, the production/output value amounts to 38 million euros annually, i.e. 1.1 billion euros for the 30-year period.

After summarizing these results, the estimated production/output value amounts to about 320 million euros annually, i.e. about 9.6 million euros for the 30-year period. In addition, to this amount cumulated potential income from sales of unprocessed lead and zinc concentrates could be added, whereby the total annual production/output value would be increased to about 330-350 million annually (depending on the price movements), i.e. the production/output value would amount to about 10 billion euros for the 30-year period.

Note: The provided values refer to **output** value, namely to the potential production value that present the theoretical maximum, from which the expenditures of intermediate consumption would have to be excluded (material input, energy commodities, interest expenditures and other costs). Then after, the final effects in the form of net income or gains could be by 50% lower.

## VI. Effects of various scenarios on external macroeconomic balance

The level and dynamics of external indebtedness is one of the fundamental macroeconomic challenges encountered by economic policy holders. According to the criteria envisaged by the International Monetary Fund and the World Bank, over-indebtedness of a country is a situation when the debt exceeds the share of 80% in GDP, i.e. when the total debt to exports of goods and services ratio exceeds the limit of 220%. Then the creditworthiness of the debtor is questionable.

Based on the various outcome of solving the relations between Belgrade and Pristina (normalization of relations, with or without exchange of territories, or remained status quo situation), derived are the indicators of macro-economic sustainability, which describe the dynamics of GDP, investments, consumption and debt service. The objective is to define, under the circumstances of high external indebtedness and the burden of external debt service, the sustainability of macroeconomic balance, which assumes a more expressive growth of investments than that of GDP, and a more expressive growth of GDP than that of consumption. Simultaneously, efforts are aimed at reducing the total burden of indebtedness.

Based on the trends of these indicators, certain scenario of solving the relations between Serbia and Kosovo and Metohija is assessed as more or less acceptable as regards misbalances, the required capital and the external debt sustainability.

The most important indicators for estimating the external macroeconomic position are foreign exchange reserves, expressed in months of imports, and debt service coverage ratio. If the volume of available foreign exchange reserves is below three months' imports, or debt service coverage ratio is above 25%, the scenario sustainability is critical. High rates of GDP growth and investments may make a scenario seemingly acceptable from the aspect of external position indicators. However, it has to be acceptable also from aspect of envisaged limitations of growth and development, such as are e.g. reform agenda or external limitations.

From the aspect of macroeconomic projections and long-term effects on economic activity, two modalities of solving relations between Belgrade and Pristina are differentiated: *status quo* and scenario of *normalization of relations*. In accordance with these modalities, the model of macroeconomic relations incorporates the respective assumptions, based on which the foreign debt sustainability needs to be examined for the projection period from 2017 to 2030. Since 2025 was marked as the year when Serbia could attain the EU membership, for the purpose of analysing the impact of various scenarios on the macroeconomic position of Serbia, taken was the time interval of 14 years, i.e. the period 2017-2030.

### Real scenario – assumptions

- Average **GDP** growth rate: 4.5%.
- **External trade deficit** expressed as the share in GDP: from 6.4% (2016) grows to 7% in 2018 and in 2022 stops at 8% and remains there until 2030.
- **Current transactions deficit in payment balance**: fall from 3.1% in 2017 to 2.4% of GDP in 2030.
- **Fixed capital formation**: increased share from 19% in 2016, to 25% in 2023 and 29.5% in 2030 (average annual growth of about 8.5%).
- **Government consumption**: decreased from 17% of GDP in 2016 to 13% in 2030.
- **Export of goods and services**: from 50.2% in 2016 to 65% in 2030.
- **Inflation rate**: 3% over the entire period.
- **RSD exchange rate**: depreciation of about 2% annually from 2020 until the end of the period.
- As a source of financing gross domestic investment, instead of so far dominant net factor income and transfers from abroad, **domestic savings** would be dominant (their share would grow from 35.9% in 2016 to 62.6% in 2030).

### Status quo scenario – assumptions

- Average **GDP** growth rate: 1.9%.
- **External trade deficit** expressed as the share in GDP: from 6.4% (2016) grows to 7% in 2030.
- **Current transactions deficit in payment balance**: grows from 3.1% in 2017 to 5.1% of GDP in 2030.
- **Fixed capital formation**: increased share from 19% in 2016 to 20.5% until the end of the projection period (average annual growth of 3.6%).
- **Government consumption**: maintained at 17% over the entire period of projection.
- **Export of goods and services**: from 50.2% in 2016 to 38% in 2030.
- **Inflation rate**: drastically rising over the entire period, due to low economic growth rate combined with increased all forms of consumption.
- **RSD exchange rate**: high depreciation over the entire projected period because of increased consumption and inflation.

In case of failing to solve the relations between Belgrade and Pristina (i.e. in case of realized *status quo* scenario) and consequently the postponed Serbian admission into the EU, it realistic to expect the deterioration of all fundamental economic performances. In the first place, a drastic fall of foreign direct investment from the EU and other developed countries could be expected, which would further lead to the fall of economic growth, employment and living standard. Because of the increased risks and deteriorated economic climate in the country, the credit rating would fall, and the debt price (interest) would rise. Also the volume of financial assets that the EU allocates as the instruments of pre-accession assistance would fall, and these assets are used to finance the internal reforms. The economic cooperation with the EU Member States would be drastically reduced. Therefore, the main driving force

for the growth that is expected to ensure for Serbia the convergence to the EU standard – facilitated growth of investments, modernized infrastructure, more efficient public sector, industrial modernization, upgraded quality of education – would be all missed out in the case of status quo scenario.

In the end of the observed period, in 2030, the GDP would amount to 65.8 billion euros in case of *status quo scenario*, instead of 85.7 billion euros as envisaged by *real scenario*, which presents **a loss of about 19.9 billion euros**. On cumulative basis, according to *status quo scenario* the GDP growth would equal 27.2%, which is by 53.4 p.p. less than envisaged by *real (basic) scenario*. Therefore, in *real scenario*, the GDP expressed in constant prices 2016 would be increased for 17.7 billion euros regarding the whole period (2017-2030), while in the case of *status quo scenario* the growth would amount to 0.5 billion euros only. In addition, the growth of investments, which would equal 3.6% annually in *status quo scenario*, would be by 4.9% higher in *real scenario*, i.e. would equal 8.5%. Net foreign direct investment would have inflow of 48.1 billion euros in real scenario, while in the case of *status quo scenario* it would be for 15.1 billion euros lower and would amount to 32.9 billion euros.

### Real scenario – conclusions

- **Total Debt service coverage ratio** (share of paid out capital amount and interest in exports) – fall from 31.1% in 2017, to 2.3% in 2030.
- **Adequacy of foreign reserves** (indicates the time in months over which a country can maintain the existing level of imports in case all inflows stoppage) – fall from 5.6 months in 2017 to 4.8 months in 2030, according to the reduced risk as regards external liquidity.
- **Share of total external debt in exports of goods and services:** fall from 126.7% in 2017 to 26.6% in 2030.
- **Share of total external debt in u GDP:** fall from 64.9% GDP in 2017 to 17.3% in 2030.
- **Share of FDI in GDP:** growth from 5.8% in 2017 to 6% in the period 2018 – 2023. There after the decrease is expected due to the possible profit outflow (net inflow of 48.1 billion euros for the entire period until 2030).
- **Growth of investment:** 8.5% on annual basis.
- **Share of imports and exports sum in GDP:** (external trade to GDP ratio): growth from 109.2% in 2017 to 138% in 2030, which indicates a high level of economic openness over the projection period.

### Status quo scenario – conclusions

- **Total Debt service coverage ratio** (share of paid out capital amount and interest in exports) – fall from 31.1% in 2017, to 9.2% in 2027, where upon it is expected to be rising again (to 11.8% in 2030).
- **Adequacy of foreign reserves** (indicates the time in months over which a country can maintain the existing level of imports in case all inflows stoppage) – fall from 5.6 months in 2017 to 3 months in 2030, due to the lower GDP growth rate and accompanying increased all forms of consumption.
- **Share of total external debt in exports of goods and services:** fall from 126.7% in 2017 to 81.9% in 2030.
- **Share of total external debt in u GDP:** fall from 64.9% in GDP in 2017 to 31.1% in 2030.
- **Share of FDI in GDP:** fall from 5.8% in 2017 to 4% in 2030 (net inflow of 32.9 billion euros for the entire period until 2030).
- **Growth of investment:** 3.6% on annual basis.
- **Share of imports and exports sum in GDP:** (external trade to GDP ratio): decrease from 109.2% in 2017 to 83% in 2030, indicating a declining level of economic openness over the projection period.