MACROECONOMIC DEVELOPMENTS AND THE INFLUENCE OF INFLATION ON THE PERFORMANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES AND ENTREPRENEURSHIP IN SERBIA*

ABSTRACT: Today, entrepreneurs and small businesses (SMEs) represent a driving force of the national economy, a key component of the innovation cycle, and knowledge transformation into new products and processes. The importance of this sector is well recognized due to its significant contribution to various socio-economic objectives, such as job creation, employment possibilities, poverty reduction, inclusive growth of the economy, social cohesion, and fostering entrepreneurship (innovations, ideas, skills). SMEs also increase competition among themselves, heat up the market scenario, and represent vital subcontractors to large enterprises (the "elephant and bee alliance"). At the same time, throughout recent history, this sector has shown exceptional toughness and resistance to crises, risks, uncertainty, and insecurity.

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Today, the global economy faces an exceptional moment of uncertainty. Geopolitical risks will be the key threat to the economic outlook for 2024. Rising geopolitical tensions and global financial risks, high inflation, tightening monetary and fiscal policies, labor shortages, high trade barriers, and slowing integration into global value chains all contribute to a more challenging business environment for SMEs. High and persistent inflation has become a clear and present danger for many countries around the world. The aim of this paper is to analyze how recent changes in the macroeconomic environment in Serbia, especially inflation, affect the dynamics and challenges of SME economic performance in the short and medium terms.

*Keywords:* SMEs, entrepreneurship, developing economies, macroeconomic development, inflation rate, economic growth.

**INTRODUCTION**

The roots of entrepreneurship run deep in history, offering invaluable lessons to today’s entrepreneurs. Until the 15th-16th century (Renaissance era), there was no independence and autonomy of the economic sphere in relation to other spheres of social existence. The medieval world was static, and the bloody political and religious wars (such as the crusades, as a testimony of that time) were not conditioned by economic logic or the logic of capital movement, but were caused by primitive needs for plunder and extortion, as well as specific religious motives that brought different religious groups into open conflicts. In the Middle Ages, entrepreneurship did not play any role in the acquisition of political and economic power. It was a time when armies met on wide fields, under flags, swords, and spears, and the winner had the moral satisfaction and the right to collect taxes and use prisoners of war as labor force.

It took half a millennium for entrepreneurs (and combative managers) to appear on the scene today (instead of warriors and old military leaders) and compete with each other for a certain market niche, talk about (un)friendly takeovers of companies, joint stock companies, national and multinational companies. And the reasons are primarily of an economic nature. Thus, contemporary conditions represent a match between nations and individuals; a match in which the state of entrepreneurship has become the supporting principle of the global economy. In the time we live in, the complete triumph of the entrepreneurial principle and the global economy based on it transcends the framework and interests of nation-states and their economic structures.
Today, the main function of entrepreneurship is to "reform or revolutionize the production system", implementing innovative changes, creating new products or qualities, and conquering new markets by reorganizing market conditions. Entrepreneurs are innovators who bring "creative destruction" (Schumpeter, 1934). The strength of the national economy does not lie in the static conditions of its economy but in the dynamics of entrepreneurs who continuously revolutionize the economic structure endogenously, destroying the old and constantly creating a new one. This vision of Schumpeter is also echoed by Octave Gélinier, a renowned French consultant who insisted, as early as the late 1970s, on the importance of what the entrepreneur could bring to the economy: "Countries, professions, firms that develop and innovate are those which practice entrepreneurship. Statistics of economic growth, international exchanges, patenting, licensing, and innovations for the past 30 years clearly establish this point: it is very costly to do without entrepreneurs" (Gélinier 1978).

In this perspective, entrepreneurship represents a real engine of economic development. The concept of entrepreneurship is strongly associated, above all, with micro, small, and medium-sized enterprises (SMEs) which form a large part of economy businesses. These economic units are worldwide acknowledged as the key actors of socioeconomic development. In today's modern world, the SME sector has a crucial role in creating value-added, new jobs, economic growth, competitiveness, innovation, and solving the pandemic unemployment crisis. SMEs and entrepreneurship are accepted as "a key source of dynamism, innovation, and flexibility in advanced industrialized countries, as well as in emerging and developing economies" (OECD, 2006).

Only large companies are not sufficient or decisive for the economic well-being of a country. Discussions that have been ongoing for a long time, not only in theoretical spheres, point to an essential question: what is the combination of small, medium, and large enterprises that is able to best fulfill the economic and social goals of a country? In most industrial branches, even in the economy as a whole, there is a combination of company sizes. Small, medium, and large enterprises stand in both mutually competitive and complementary relationships.

Small business entities with large companies give a synergistic effect in the economy. The effectiveness of small businesses is largely the result of the economy of time - new technologies and products come from the laboratory to the market in a very short period of time. For smaller companies, a much shorter period of time is needed from innovation to commercialization, because in most cases they are focused on one market segment.
The dynamics of the activity and performance of these enterprises are influenced by many internal (e.g., management efficiency, technology, level of organization, profitability, etc.) and external factors (e.g., real GDP growth, inflation rate, unemployment rate, banking sector stability, etc.). Among the external factors that affect the growth of SMEs, an important role is played by the macroeconomic environment. All of these factors are necessary not only for business formation but also for business survival and expansion (Iwasaki et al., 2021).

THE ROLE OF SMEs IN SERBIAN MACROECONOMIC CONTEXT

Micro, small, and medium-sized enterprises and entrepreneurs (SMEEs) play an important role in supporting the national economy. According to the latest available official data from 2021, this sector accounts for 99.9% of all economic entities in Serbia, employs 64.3% (almost 2/3) of employees, generates 66.2% of turnover, creates 59% of gross added value (GVA), and participates in exports with 37.2%, and in imports of the non-financial sector with 53.4%.

**Table 1. Basic economic indicators (2021), non-financial sector (current prices)**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Entrepreneurs</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>SMEEs</th>
<th>Large</th>
<th>Total</th>
<th>SMEE - Share in non-financial sector (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of enterprises</td>
<td>303.300</td>
<td>87.657</td>
<td>12.241</td>
<td>2.734</td>
<td>405.932</td>
<td>601</td>
<td>406.533</td>
<td>99.9</td>
</tr>
<tr>
<td>Number of employees</td>
<td>280.387</td>
<td>163.087</td>
<td>147.119</td>
<td>281.603</td>
<td>972.187</td>
<td>540.670</td>
<td>1.512.857</td>
<td>64.3</td>
</tr>
<tr>
<td>Turnover*</td>
<td>1,953.472</td>
<td>1,959.769</td>
<td>2,958.958</td>
<td>3,259.906</td>
<td>10,132.105</td>
<td>5,165.970</td>
<td>15,298.075</td>
<td>66.2</td>
</tr>
<tr>
<td>GVA*</td>
<td>530.258</td>
<td>323.119</td>
<td>581.814</td>
<td>736.861</td>
<td>2,172.052</td>
<td>1,509.122</td>
<td>3,681.174</td>
<td>59.0</td>
</tr>
<tr>
<td>Export*</td>
<td>23.969</td>
<td>168.366</td>
<td>269.348</td>
<td>449.059</td>
<td>910.741</td>
<td>1,536.056</td>
<td>2,446.797</td>
<td>37.2</td>
</tr>
<tr>
<td>Number of exporters</td>
<td>3.520</td>
<td>6.506</td>
<td>3.883</td>
<td>1.375</td>
<td>15.284</td>
<td>398</td>
<td>15.682</td>
<td>97.5</td>
</tr>
<tr>
<td>Import*</td>
<td>29.249</td>
<td>317.370</td>
<td>594.338</td>
<td>750.736</td>
<td>1,691.693</td>
<td>1,479.030</td>
<td>3,170.724</td>
<td>53.4</td>
</tr>
<tr>
<td>Number of importers</td>
<td>4.469</td>
<td>12.074</td>
<td>5.556</td>
<td>1.858</td>
<td>23.957</td>
<td>479</td>
<td>24.436</td>
<td>98.2</td>
</tr>
</tbody>
</table>

Source: SMEE Strategy in the Republic of Serbia for the period 2023-2027, Ministry of Economy, based on Statistical Office of the Republic of Serbia data

*) Unit: millions of dinars
In the period 2015-2019, the SMEE sector recorded a significant increase in the total number of enterprises, as well as the number of exporters and importers, growth in the number of employees, growth in the value of turnover, GVA, exports, and imports. The correlation between the indicators of the number of business entities increase, employment, and realized GVA indicates that the entrepreneurial sector had a clear tendency to grow in the observed period, which is also confirmed by the strong trend of investment in fixed assets. The fact that the share of exporters in the entire population of MSMEs and the share of exports in the total turnover decreased in that period shows that MSMEs based their development mostly on the growing demand in the domestic market.

From the beginning of the second quarter of 2020, an unstable period in the development of SMEs began due to the impact of the COVID-19 pandemic, which significantly changed the way the global economy functions, especially in the service sector (tourism, catering, and passenger transport), where a large number of SMEs operate. Timely measures to support both the economy (primarily SMEEs) and households, implemented by the Government and the National Bank of Serbia (NBS), significantly contributed to mitigating the impact of the negative consequences of the pandemic.

During 2021, the SME sector showed clear signs of recovery and achieved visible progress in all key macroeconomic indicators. At the beginning of 2022, a new crisis caused by war conflicts in Ukraine occurred, which is expected to have probably even more pronounced negative impacts on the SMEE sector, primarily due to the rise in energy prices and inflation, the significant increase in financing costs, and demand in the domestic market.

The sectoral analysis indicates that the SMEE subjects mainly operate in four sectors: trade, processing industry, transport and storage, and professional, scientific, technical, and innovation activities, followed by construction and accommodation and food services. Within the sector of the processing industry, five sub-sectors mark the total operations of MSMEs, namely the food industry, textile industry, wood processing, rubber and plastic industry, and metal industry. The participation of high and medium-high technological complexity sectors in the structure of SMEEs remained low and below the EU average, which is a structural characteristic that is slowly changing despite the strong development of the ICT sector. The average number of employees per economic entity in this sector has not changed much and is around 2.4 compared to 3.66 in the EU.

The majority of SMEE businesses are still concentrated in the Belgrade region and the region of Vojvodina. In terms of regional asymmetry, disproportions still exist between the Belgrade Region and the South and East
Serbia Region. The Belgrade region achieves an above-average real growth rate in relation to the average rates of the SMEE sector as a whole, as well as in relation to other regions, so there is a negative tendency to further deepen this gap. This regional disproportion of the SMEE sector development is a consequence of a large number of factors that determine the overall level of development of certain areas, which cannot be overcome solely by interventions at the level of the MSME sector. It is very important to provide additional support and assistance for SMEEs from less developed areas, in order to alleviate regional development disparities. In less developed areas, the SMEE sector contributes to local employment between 70-80% (e.g., 84.3% in Zaječar administrative district and 93.5% in Raška administrative district).

The share of women in the total number of entrepreneurs (2021), including registered entrepreneurs and persons who are simultaneously (co)owners and main representatives of companies, increased from 28.9% to 31.2%. Women's businesses continue to operate mostly in the service sector. Compared to the previous period (2011), the share of female entrepreneurs operating in the trade sector has significantly decreased (in the catering sector has also decreased somewhat), but the share of those operating in the IT sector and communication activities, real estate, and especially professional, scientific, technical, and innovation activities has notably increased. The share of women's businesses is quite uniform by region, with a slightly higher share of female entrepreneurs in the Belgrade region and the lowest participation in the region of Southern and Eastern Serbia.

The economy of the Republic of Serbia (and thus the SMEE sector) is characterized by a growing trend in the degree of innovation, although it still lags significantly behind the EU average. According to innovation performance, the Republic of Serbia is today in the group of moderate innovator countries but lags significantly behind the EU average and most European countries. In relation to neighboring countries, only Slovenia and Croatia have a better innovation performance than the Republic of Serbia, while Poland, Romania, and Bulgaria have weaker performance.3

The main weaknesses of this sector are reflected in:

- Excessive fragmentation of the sector,
- Low average economic strength and productivity;
- Sectoral concentration in activities with lower added value and lower technological complexity;

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− Weak integration into value chains and mutual cooperation (involvement in supplier chains, clusters, business cooperation of interest);
− Low level of application of more advanced technologies and more advanced forms of digitization and standards;
− Insufficiently developed corporate management and business organization;
− Insufficient dedication to the development of personnel, soft skills and knowledge;
− Insufficient focus on export.4

In order to respond to these development challenges, the New SMEE Strategy (2023-2027) defines 6 strategic pillars: Improving the business environment; Improving access to funding sources; Continuous development of human resources; Strengthening the sustainability and competitiveness of SMEs; Improving access to new markets; Development and promotion of entrepreneurial spirit and encouragement of entrepreneurship of women, youth, and social entrepreneurship. Its accompanying Action Plan foresees 224 different measures.

CURRENT MACROECONOMIC DEVELOPMENTS IN SERBIA

After the global recession in 2020 caused by the COVID-19 pandemic, a new global earthquake caused by the war in Ukraine followed in early 2022. Businesses are faced with an accelerated increase in energy and food prices, supply chains are being interrupted, and company debts are growing at a record high as a result of previously taken favorable loans. Given that numerous countries are involved in the conflict in Ukraine, the consequences will be global and long-lasting.

The key external risks to growth in 2023 are the high degree of uncertainty about the end of the war in Ukraine, the unpredictability of energy input prices, and the risks of large shortages. Based on the WEF (World Economic Forum) survey, the five biggest risks in the next two years in Serbia relate to: (1) ecological damage caused by man (deterioration of protected areas, industrial accidents, oil spills, contamination with radioactive material, trade in wild and protected animals); (2) debt crises in major economies, Serbia's largest foreign trade partners; (3) employment crisis and lack of livelihood; (4) digital inequality; and (5) geopoliticalization of strategic

resources (concentration, exploitation, or restriction of the mobility of goods, knowledge, services, or technologies that are crucial for human development, all in order to gain a certain geopolitical advantage).  

The key macroeconomic growth performances in 2022 and (projections for) 2023:

- The gross domestic product reached more than 60 billion EUR in 2022, with an expected growth rate of 2.5 percent in 2023. A return to pre-crisis economic growth rates of about 4% is expected in the medium term,
- The GDP per capita (standard of living) reached EUR 9.000,
- The service sector and personal consumption contributed the most to economic growth of 2.3% in 2022,
- Registered employment increased in 2021 by 2.6% and in 2022 by 1.6% (from 2.21 million to 2.31 million in 2022). Total formal employment in the period Q1-Q3 2023 amounted to 2.36 million persons and is higher by 2.6 % y/y (59.000 persons),
- The unemployment rate, after a short-term increase in 2021 (11%), continued its downward trend in 2022, and is again, like in 2019, at a record transitional minimum of 9.6 % (Q2 2023),
- The average net salary increased by 5.4% in 2021 and 2% in 2022 and reached an average amount of EUR 630
- The share of fixed investments in nominal GDP in 2022 has reached the level of around 24 %
- FDI inflow reached record levels of around 7% of GDP in 2021-2022. In 2022, FDI inflow amounted to EUR 4.4 bn (net inflow EUR 4.3 bn),
- In 2022, the current account deficit of EUR 4.2 bn (6.9% of GDP) was recorded. NBS CAD projection for 2023 remained unchanged (at 2.5% of GDP) due to strong export growth and lower energy import and has been revised upwards to 3.8% for 2024, primarily driven by a new investment cycle and the recovery of equipment and intermediates import.
- An intensive growth of goods export of 28.0% in 2022 was driven by manufacturing and mining sector. The service export growth in 2022 amounted to 42.1% and was driven by tourism and ICT services export. During the first half of 2023, an increase in goods export by 5.8% y/y was recorded as well as increase in services growth of 20.7% y/y.

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5 Macroeconomic analyses and trends No.338, Serbian Chamber of Commerce and Economics Institute, Belgrade, march 2023, p.25.
6 NBS projections
- Goods imports increased by 34.1% in 2022, driven by intermediate products. Imports of services increased by 37.0% in 2022, driven by tourism and transport services. During the nine months of 2023, imports of goods decreased by 6.0% y/y, while the import of services increased by 15.2 y/y for the same period.
- In 2022, fiscal deficit was recorded in the amount of RSD 221.2 bn (3.2% of GDP). In nine months of 2023, consolidated budget surplus was recorded at the level of 0.3% of GDP. According to the revised Fiscal strategy, it is planned to reduce the share of the deficit in GDP to 2.8% in 2023,
- The dinar remained unchanged against the euro in 2022 and in 2023 (0.1% appreciation in ten months of 2023),
- During the Q3 2022, investment loans rose by 4.2% y-o-y, while the share of liquidity and current assets loans decreased to 46.7% due to maturity of guarantee scheme loans. Micro, small and medium-sized enterprises loans made 58.3% of total corporate loans at the end of 2022.
- Certain indicators of Serbia's external position worsened during 2021-2022. External debt increased by EUR 9.2 bn. (from EUR 30.8 bn in 2020 to EUR 40 bn at the end of September 2022). The share of public debt in GDP was reduced from 57.1% in 2021 to 55.7% of GDP in 2022.
- One of the biggest economic risks in 2022 is rising inflation. While 2021 ended with inflation growth of 7.9%, year-on-year price growth at the end of 2022 was doubled (15.1%).

*Table 2. Basic macroeconomic indicators, 2020-2022*

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (RSD, bn)</td>
<td>5.504</td>
<td>6.272</td>
<td>7.098</td>
</tr>
<tr>
<td>GDP (EUR, bn)</td>
<td>46.8</td>
<td>53.3</td>
<td>60.4</td>
</tr>
<tr>
<td>GDP per capita (EUR)</td>
<td>6.786</td>
<td>7.806</td>
<td>9.068</td>
</tr>
<tr>
<td>Economic Growth (GDP, ann.var.%)</td>
<td>-0.9</td>
<td>7.7</td>
<td>2.5</td>
</tr>
<tr>
<td>Domestic Demand (ann.var.%)</td>
<td>-0.9</td>
<td>7.7</td>
<td>3.6</td>
</tr>
<tr>
<td>Private Consumption (ann.var.%)</td>
<td>-1.9</td>
<td>7.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Government Consumption (ann.var.%)</td>
<td>2.8</td>
<td>4.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Fixed Investment (ann.var.%)</td>
<td>-1.9</td>
<td>15.7</td>
<td>1.9</td>
</tr>
<tr>
<td>Exports (G&amp;S, ann.var.%)</td>
<td>-4.2</td>
<td>20.5</td>
<td>16.6</td>
</tr>
<tr>
<td>Imports (G&amp;S, ann.var.%)</td>
<td>-3.6</td>
<td>18.3</td>
<td>16.1</td>
</tr>
<tr>
<td>Industrial Production (ann.var.%)</td>
<td>0.4</td>
<td>6.1</td>
<td>1.6</td>
</tr>
</tbody>
</table>
MACROECONOMIC DEVELOPMENTS…

<table>
<thead>
<tr>
<th></th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment (% of active population, aop)</td>
<td>9.0</td>
<td>11.1</td>
<td>9.6</td>
</tr>
<tr>
<td>Fiscal Balance (% of GDP)</td>
<td>-8.0</td>
<td>-4.1</td>
<td>-3.2</td>
</tr>
<tr>
<td>Public Debt (% of GDP)</td>
<td>57.0</td>
<td>56.5</td>
<td>55.1</td>
</tr>
<tr>
<td>Inflation (CPI, ann.var.%, eop)</td>
<td>1.3</td>
<td>7.9</td>
<td>15.1</td>
</tr>
<tr>
<td>Current Account Balance (% of GDP)</td>
<td>-4.1</td>
<td>-4.2</td>
<td>-7.0</td>
</tr>
<tr>
<td>Merchandise Exports (EUR, bn)</td>
<td>16.1</td>
<td>21.1</td>
<td>26.9</td>
</tr>
<tr>
<td>Merchandise Imports (EUR, bn)</td>
<td>21.3</td>
<td>27.0</td>
<td>36.4</td>
</tr>
<tr>
<td>Foreign Direct Investment (EUR, bn)</td>
<td>3.2</td>
<td>4.5</td>
<td>5.1</td>
</tr>
<tr>
<td>External Debt (% of GDP)</td>
<td>65.8</td>
<td>68.4</td>
<td>69.3</td>
</tr>
</tbody>
</table>

Source: According to: Macroeconomic and Fiscal Data, November 2023, Ministry of Finance; Serbia Economic Outlook, Focus Economics (https://www.focus-economics.com/countries/serbia/- visited on December, 3, 2023 at 17.04); Key macroeconomic indicators and indicators of Serbia’s external position, National Bank of Serbia (https://www.nbs.rs/, visited on November 26, 2023 at 10.45)

In the group of macroeconomic indicators with a high degree of risk, inflationary pressures that affect all macroeconomic stabilizers, from the standard of living of the most vulnerable social groups (pensioners), to attracting investments, youth employment, social and social cohesion and reducing inequality, are highlighted. It should be noted that due to the trend of decreasing the number of working-age population, the dependency index is worsening.

MACROECONOMIC CHALLENGES – INFLATION RATE

After a decade of low inflation (2009-2019), the world was suddenly swept by a wave of "brutal inflation" that proved to be the biggest threat to global progress. The inflationary wave began in America and quickly spread to the rest of the world. As we have already mentioned, inflation cannot be seen outside the context of the conflict in Ukraine, which is largely the cause of the rise in prices and energy, even before February 2022. The conflict has exacerbated the search for alternative sources of gas supply, particularly in Europe, where tension and uncertainty over the past year have had a huge impact on inflationary expectations.

According to the EU Craft and SME Barometer, The SME Business Climate Index (BCI) shows a slight recovery for the second half of 2023. This improvement is linked to the ability of micro, small and medium-sized
enterprises (SMEs) to diversify supply chains, ensuring access to energy and improving energy efficiency. Moreover, the positive development of services, such as hospitality, contributed to a more positive outlook compared to the overall economy.

Inflation rates, which vary significantly among member countries, are influenced by various factors such as the "anatomy" and "physiology" of their economic structures, external influences beyond their control, as well as various adopted measures aimed at mitigating inflation. Member States with below-average inflation rates demonstrate their ability or effectiveness in controlling inflation better than countries with above-average inflation rates. Most of these countries are part of the Eurozone and benefit from strong monetary policy, while non-Eurozone countries may be further affected by the depreciation of their currencies.

BCI Index shows that EU SMEs were most affected during the pandemic lockdown period while the second (geopolitical) crisis, characterized by high energy prices and inflation, seems to have less impact on SMEs in comparison to larger entities. The service sector (personal services, tourism, events industry) has brought micro, small, and medium enterprises greater benefit from stronger internal demand.

The overall performance of EU SMEs during the first semester of 2023 does not differ much from the previous semester. Policy responses to energy shortage and inflation led to an improvement in the overall situation, but this improvement had a very limited impact on the SME specific indicators, which show a slight decrease for turnover and very limited increases for employment, investment, and orders. Negative figures continue for all these indicators. Only the result for prices has a clear downward trend and points to a reduction in the inflation dynamic. However, a high number of SMEs still report an ability to increase sales prices, indicating further upward pressure for inflation.9

Average annual inflation in Serbia (2022) was 11.9% and was conditioned by supply-side factors: the global energy crisis, cumulative consequences of the pandemic, and the drought that hit our region. Inflation was reduced in September 2023 both on a monthly and year-on-year basis. In August and September 2023, monthly inflation of 0.4% and 0.3%, and year-on-year inflation of 11.5% and 10.2% were registered. Thus, year-on-year inflation (as opposed to monthly inflation) has been steadily declining since April 2023.

In August and September 2023, Serbia had higher year-on-year inflation than the average of the European Union and lower year-on-year inflation than only one member of the Union (Hungary). In August and

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9 Ibidem, p.6.
September 2023, year-on-year inflation, according to the concept of the harmonized consumer price index, was 11.5% and 10.1% in Serbia - and 5.9% and 4.9% in the European Union (inflation of 14.2% and 12.2% was recorded in Hungary).

According to the new NBS projection, inflation is expected to fall to around 8% at the end of the year. The expected inflation towards the middle of next year should be within the target band, and then it will continue to slow down approaching the target midpoint at the end of 2024. Such movements will be aided primarily by the effects of past monetary policy tightening, subsiding global cost-push pressures, slowing of imported inflation, and subdued demand amid weaker global growth.\(^\text{10}\)

\textit{Chart 1.} NBS Inflation projections, november 2023 (y/y rates, in%)

The main cause of the downward inflationary path is the drop in the prices of stock exchange products - energy and food to the greatest extent. Oil prices have been declining throughout 2023 due to falling demand - as monetary restrictions discourage consumption and investment. Gas prices are well below 2022 peaks, partly due to huge inventories and partly due to increased supply from Norway and North Africa. Food prices eased slightly in 2023 due to reduced demand, which was quickly offset by reduced supply.

Some of the current European surveys regarding the effects of the rising inflation rate on their small businesses indicate a negative impact on their turnover (63%) and a decline in their weekly income (71%). When we break down the reasons for the impact of rising inflation, small businesses reported that the associated rising energy prices (42%), rising fuel prices

\(^{10}\) Inflation Report -November 2023, National Bank of Serbia (NBS), p. 11. (www.nbs.rs)
(31%), maintaining profits (33%), and a drop in customer demand (31%) are the most significant challenges that their businesses are facing in the current climate. All these aspects are even more challenging for micro-businesses (51%, 44%, 39% and 35% respectively).  

A new report from Xero12, the global small business platform, has revealed that 48% of U.S. small business owners have experienced an extreme or high impact from inflation on their cash flow over the past six months, and 44% expect inflation to continue to have a similar impact throughout the next six months. Due to the rising challenges and pressures, managing cash flow in a small business is a very strong or strong priority for 85% of owners.

According to some target surveys in Serbia13, small business owners expressed slight optimism regarding business prospects for the coming year. For small business owners, inflation is still at the top of the list of challenges, followed by rising interest rates, supply chain issues, and income. Inflation impacts every aspect of a small business (higher costs, higher revenue, falling demand, inventory management changes, supply chain disruption, rising interest rates, increased value for leased equipment), as well as personal decisions (freezing hiring or prohibiting overtime hours for employees, laying off staff, reducing shifts or assigning fewer weekly hours, delaying personnel decisions, such as awarding promotions or bonuses, requiring salaried employees to take on more responsibility).

CONCLUSIONS

Although a certain acceleration of economic activity is expected in the second half of this year, the results from the first half of the year indicate that the annual GDP growth in Serbia in 2023, according to the World Bank report, will be around two percent. When it comes to risks that can threaten Serbia's basic macroeconomic prospects this year, they include high inflation, but also a high level of public debt. The inflation rate has started to fall, but it is still among the highest in Europe. According to the expectations of the National Bank of Serbia, the return of inflation to the target band is expected in the middle of 2024.

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11 Do Small Businesses Suffer the most from the rising inflation?, The Savanta UK Business Tracker, (https://savanta.com/knowledge-centre) accessed on December 05, 2023 at 13,14.
13 Various surveys conducted by the Chamber of Commerce of Serbia, Economic Institute, National Bank of Serbia, Ipsos, Bloomberg, L.P., Forbes...
The basic macroeconomic prospects in 2023 and in the following period may be threatened by numerous risks. First, high inflation could remain present for an unexpectedly long time, so a further coordinated approach of fiscal and monetary policy may be needed to bring it down to the target level. High inflation has a negative impact on growth and diminishes the successes achieved in increasing living standards, especially for poorer citizens. Secondly, bearing in mind the high level of public debt in Serbia, it is of crucial importance to direct the scarce funds available for public investment into projects with high economic and social returns and achieve a balance between them and fiscal risks in the medium and long term.

The impact of inflation on small businesses is heterogeneous. One of the vital factors (decisions) is the ability to pass on higher costs to customers, which is very diverse across the SMEE business sector in Serbia. A sharp and uneven increase in prices has a very negative impact on the performance and structure of this sector. The pressure on the labor market can increase, acquisition activity may increase, so all this can adversely affect the competitiveness of the economy as a whole.

At any time, but especially during times of crisis and along the road of economic recovery, it is vital that SMEEs dynamics are carefully measured and supported by effective programmatic decision-making. Small businesses do not have the purchasing power of big companies and invariably pay higher unit costs for energy. The industries most affected will be retail, distribution, hospitality, manufacturing, and food processing. On the national level, such measures could provide access to energy and goods at affordable prices, through, for example, a reduction in the VAT rate on gas and electricity. Therefore, even in "normal economic conditions", SMEs need policymakers’ attention and specific support measures, first of all, anti-inflation measures that should be coordinated, targeted, and of a temporary nature.

REZIME

MAKROEKONOMSKA KRETANJA I UTICAJ INFLACIJE NA POSLOVANJE MALIH I SREDNJIH PREDUZEĆA I PREDUZETNIŠTVO U SRBIJI*

Preduzetnici i mala preduzeća (MSP) danas predstavljaju pokretačku snagu nacionalne ekonomije, ključnu komponentu ciklusa inovacija i transformacije znanja u nove proizvode i procese. Značaj ovog sektora je dobro prepoznat zbog njegovog značajnog doprinosa zadovoljavanju različitih socio-ekonomskih ciljeva, kao što su otvaranje radnih mesta i mogućnosti zapošljavanja, smanjenje siromaštva, inkluzivni rast privrede, socijalna...
kohezija i podsticanje preduzetništva (inovacije, ideje, veštine). MSP takođe povećavaju konkurenciju među sobom, podgrevaju tržišni scenario i predstavljaju vitalne podizvođače velikim preduzećima (tzv. „savez slona i pčele“). Istovremeno, kroz noviju istoriju ovaj sektor je pokazao izuzetnu čvrstinu i otpornost na krize, rizike, neizvesnost i nesigurnost. Danas se globalna ekonomija suočava sa izuzetnim trenutkom neizvesnosti. Geopolitički rizici će biti ključna pretnja u projekcijama ekonomskih kretanja za 2024. Rastuće geopolitičke tenzije i globalni finansijski rizici, visoka inflacija, ponostravanje monetarne i fiskalne politike, nedostatak radne snage, visoke trgovinske barijere i usporavanje integracije u globalne lance vrednosti doprinose izazovnijem poslovnim okruženju za MSP sektor. Visoka i uporna inflacija postala je jasna i prisutna opasnost za mnoge zemlje širom sveta. Cilj ovog rada je da analizira kako dinamika makroekonomskog okruženja u Srbiji, a posebno inflacija, utiču na poslovne performanse ovog sektora u kratkom i srednjem roku.

Ključne reči: MSP, preduzetništvo, ekonomije u razvoju, makroekonomski razvoj, stopa inflacije, ekonomski rast.

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