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Income Changes and Consumer Choices in Serbia: Household Consumption, Purchasing Power, and the Changing Structure of Expenditure

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Abstract

This paper examines the relationship between changes in household income and consumer choices in Serbia, with particular attention to the period 2021–2025. Using official Household Budget Survey evidence from the Statistical Office of the Republic of Serbia (SORS), the study documents changes in nominal household income, individual consumption expenditure, the composition of household budgets, and differences between urban and other settlements. Average monthly household income in money and in kind increased from RSD 71,733 in 2021 to RSD 109,136 in 2025, while average individual consumption expenditure increased from RSD 71,902 to RSD 109,787. Despite substantial nominal growth, household budgets remained heavily concentrated in necessities: food and non-alcoholic beverages accounted for 36.6% of consumption expenditure in both 2024 and 2025, while housing, water, electricity, gas and other fuels accounted for 16.1% in 2025. The findings are consistent with the proposition that income changes affect consumer choice not only through the quantity of goods purchased but also through the allocation of household resources across essential and discretionary categories. However, nominal income growth should not be interpreted as an equivalent increase in real purchasing power because consumer prices also changed during the period. The paper therefore emphasizes the importance of distinguishing nominal income growth from real welfare improvements and of considering household heterogeneity, settlement type, demographic structure, and the relative price of necessities when interpreting changes in consumption.

Keywords: Serbia; household income; consumer choice; household consumption; purchasing power; expenditure patterns

1. Introduction

Income is one of the principal determinants of household consumption decisions. In standard consumer theory, households allocate limited resources among competing goods and services subject to income and prices [6]. When income rises, households may increase consumption of necessities, but they may also allocate a larger share of resources to recreation, education, transport, communication, durable goods, and other discretionary activities. The pattern depends on household preferences, relative prices, expectations, demographic composition, credit availability, and uncertainty.

Serbia provides an informative setting for studying these relationships because household incomes and consumption expenditures have increased substantially in nominal terms in recent years while households have simultaneously faced changes in food, energy, housing, and other prices. Official SORS data show that average monthly household income in money and in kind increased from RSD 71,733 in 2021 to RSD 109,136 in 2025. Over the same period, average individual consumption expenditure increased from RSD 71,902 to RSD 109,787 [1,5]. These changes raise an important empirical question: how have Serbian households translated changing incomes into changing consumption choices?

The question is relevant for consumer research, macroeconomic policy, poverty analysis, retail strategy, and social protection. A rise in nominal income may coexist with constrained consumer choice when essential goods absorb a large proportion of the household budget. In 2025, food and non-alcoholic beverages alone represented 36.6% of household individual consumption expenditure in Serbia, while housing, water, electricity, gas and other fuels represented 16.1% [5]. Together, these two categories accounted for more than half of recorded consumption expenditure.

This study therefore aims to examine income changes and consumer choices in Serbia through four objectives: (1) document recent changes in household income and consumption; (2) describe the structure of household expenditure; (3) examine urban–other settlement differences; and (4) discuss the implications for purchasing power, consumer behavior, and public policy.

2. Literature and Theoretical Framework

Consumer choice theory assumes that households choose bundles of goods and services to maximize utility subject to a budget constraint [6]. An increase in disposable resources expands the feasible consumption set, while a price increase reduces the purchasing power of a given nominal income. This distinction is essential when analyzing Serbia because the observed increase in household income is measured in current dinars and therefore does not by itself establish an equivalent increase in real consumption possibilities.

Engel’s law provides a second useful framework. As household income increases, the absolute amount spent on food may rise while the proportion of total expenditure devoted to food tends to decline, particularly when households move from subsistence-oriented consumption toward broader discretionary consumption [7]. Consequently, expenditure shares can provide information about household welfare and the degree to which budgets remain constrained by necessities.

The permanent-income hypothesis further suggests that households base consumption on expected long-term resources rather than current income alone [8]. In periods of uncertainty, households may save additional income, reduce discretionary purchases, or prioritize essential goods even when current nominal earnings rise. Similarly, the life-cycle approach emphasizes age, household structure, and expected future income as determinants of consumption [9].

3. Data and Methodology

The analysis uses secondary data from the Statistical Office of the Republic of Serbia's Household Budget Survey (HBS), supplemented by the Survey on Income and Living Conditions (SILC) and relevant international economic literature. The HBS collects information on household income and individual consumption and also records demographic, economic, and social characteristics and indicators of living standards [10]. The 2025 release reports data for 2021–2025 and provides national and settlement-level information [5].

The empirical approach is descriptive. It compares nominal changes in average monthly household income and individual consumption expenditure and examines the expenditure shares of major consumption categories. Growth rates are calculated from published SORS values. The analysis deliberately avoids treating nominal growth as real growth; interpretation of purchasing power therefore remains cautious unless price-adjusted measures are explicitly available.

4. Income Changes in Serbia

Serbian households experienced strong nominal income growth during 2021–2025. Average monthly income in money and in kind rose from RSD 71,733 in 2021 to RSD 109,136 in 2025, an increase of approximately 52.1% over the four-year interval [1,5]. Annual nominal growth was 9.3% in 2022, 12.2% in 2023, 11.1% in 2024, and 11.7% in 2025 [2–5].

The composition of income also remained concentrated in labor earnings and pensions. In 2025, salaries and wages represented 54.8% of average household income in money and in kind, while pensions represented 29.8%; agriculture, hunting and fishing contributed 3.8% [5]. This composition suggests that changes in employment, wages, pension policy, and labor-market participation can materially influence aggregate household purchasing capacity.

Year	Average monthly income (RSD)	Nominal income growth	Consumption expenditure (RSD)	Nominal consumption growth
2021	71,733	—	71,902	—
2022	78,393	9.3%	78,678	9.4%
2023	87,973	12.2%	88,244	12.2%
2024	97,705	11.1%	98,165	11.2%
2025	109,136	11.7%	109,787	11.8%

Source: SORS Household Budget Survey releases [1–5]. Growth rates calculated from published annual values.

5. Changes in Consumer Choices and Expenditure Structure

The composition of household expenditure provides a clearer indication of consumer priorities than aggregate expenditure alone. In 2025, food and non-alcoholic beverages accounted for 36.6% of individual household consumption expenditure, followed by housing, water, electricity, gas and other fuels at 16.1%. Transport represented 9.0%, miscellaneous goods and services 6.0%, communication 5.5%, recreation and culture 5.3%, clothing and footwear 4.7%, alcoholic beverages and tobacco 4.4%, and health 4.0% [5].

The stability of the food share between 2024 and 2025—36.6% in both years—is notable [4,5]. It suggests that even amid nominal income growth, food remained a dominant component of household budgets. Such a pattern is consistent with a consumer environment in which necessities continue to absorb substantial resources. It does

not, by itself, demonstrate falling welfare, because expenditure shares can reflect both income and relative price changes.

Consumption category	2024 share (%)	2025 share (%)
Food and non-alcoholic beverages	36.6	36.6
Housing, water, electricity, gas and other fuels	16.3	16.1
Transport	8.9	9.0
Miscellaneous goods and services	5.9	6.0
Communication	5.4	5.5
Recreation and culture	5.2	5.3
Clothing and footwear	4.7	4.7
Alcoholic beverages and tobacco	4.4	4.4
Health	4.1	4.0
Other groups	8.5	8.4

Source: Statistical Office of the Republic of Serbia [4,5].

6. Urban and Other Settlement Differences

Consumer opportunities are also geographically differentiated. In 2025, average monthly household income in urban settlements was RSD 111,805, compared with RSD 106,050 in other settlements. Individual consumption expenditure was RSD 111,331 in urban settlements and RSD 106,906 in other settlements [5]. Thus, both income and expenditure were higher in urban areas, although the difference was not large enough to imply identical consumption opportunities or welfare.

Urban households may face higher housing and service costs while also having greater access to formal employment, retail variety, transportation networks, digital services, and leisure activities. Households in other settlements may have different consumption possibilities because of agricultural production, natural consumption, local prices, and access to markets. These differences demonstrate why national averages should not be interpreted as representative of every Serbian household.

7. Income, Purchasing Power, and Consumer Choice

A central analytical distinction is between nominal income and real purchasing power. If income increases by 11% while the prices of frequently purchased necessities increase substantially, the effective expansion of the household budget may be considerably smaller than the nominal figure suggests. Accordingly, consumer choice should be evaluated using both income changes and the price environment.

Serbia's household expenditure structure indicates that food and housing-related costs have a particularly important role in determining the discretionary budget. When these costs rise, households may respond by substituting toward lower-priced products, reducing quantities, delaying purchases of durable goods, or reducing expenditure on recreation and other discretionary categories. Such responses are standard mechanisms of consumer adjustment under a binding budget constraint [6,7].

The evidence also has implications for retailers and producers. Income growth can support demand for higher-quality products, convenience services, communication, recreation, and transport, but the large share devoted to food and utilities means that price sensitivity remains important. Firms serving Serbian consumers may

therefore need to balance premiumization with affordability, promotions, smaller package sizes, private-label products, and differentiated product quality.

8. Poverty, Inequality, and Consumption Constraints

Income growth at the national average does not imply that all households experience the same improvement. SORS reported an at-risk-of-poverty rate of 19.7% in 2024, while the at-risk-of-poverty-or-social-exclusion rate was 24.3% [11]. The poverty threshold for a single-person household was RSD 35,606 per month in 2024, while the threshold for a household consisting of two adults and two children below age 14 was RSD 74,773 [11].

These indicators reinforce the importance of distributional analysis. Households with lower incomes generally devote a larger proportion of their budgets to necessities, leaving less room for discretionary consumption and savings. Consequently, aggregate income growth can coexist with substantial differences in consumer choice across income groups.

9. Discussion

The Serbian evidence is broadly compatible with established consumer theory. Rising nominal household incomes have been accompanied by rising nominal consumption expenditure, but the composition of spending has remained strongly concentrated in necessities. Food expenditure remained at 36.6% of household consumption in both 2024 and 2025, while housing-related expenditure remained around 16% [4,5].

Three conclusions follow. First, income growth and consumption growth have moved closely together in nominal terms. Second, consumer choice remains strongly shaped by necessities, suggesting that the discretionary component of household budgets is still limited for many consumers. Third, settlement differences and poverty risk imply substantial heterogeneity that national averages conceal.

The findings should not be interpreted as evidence that Serbian consumers are becoming more or less welfare-rich solely because nominal incomes increased. A stronger welfare assessment would require deflating income by an appropriate price index, examining income distribution, and analyzing household-level microdata. Future research could therefore estimate Engel curves, income elasticities of demand, and price elasticities for major consumption categories using micro-level HBS data.

10. Policy Implications

1. Monitor real rather than purely nominal household purchasing power when assessing changes in living standards.
2. Strengthen targeted social protection for households whose budgets are disproportionately affected by food, energy, and housing costs.
3. Improve access to comparable consumer-price information so households can make more informed purchasing decisions.
4. Support competition in food retail, essential services, and other concentrated markets where appropriate, because competitive pricing can affect real purchasing power.
5. Promote employment and wage growth while maintaining macroeconomic stability so nominal income gains translate into sustainable real-income improvements.

6. Use household-level distributional analysis when designing tax, transfer, energy, and food policies because national averages conceal substantial differences.
7. Encourage financial literacy and responsible household financial planning, particularly where changes in income are temporary or uncertain.
8. Support regional development and connectivity so households outside major urban areas have greater access to employment, services, and competitive markets.

11. Limitations and Directions for Future Research

This study is primarily descriptive and relies on published aggregate HBS and SILC statistics. It therefore cannot identify causal relationships between income changes and specific consumer decisions. Moreover, nominal income and expenditure changes cannot by themselves establish changes in real purchasing power. Future research should use microdata to estimate consumption elasticities by income decile, household size, age, region, and settlement type. Panel or repeated cross-sectional models could also examine how inflation shocks affect food substitution, durable-goods purchases, savings, and discretionary consumption.

12. Conclusion

Income changes have been accompanied by substantial changes in household consumption in Serbia. Between 2021 and 2025, average monthly household income in money and in kind increased from RSD 71,733 to RSD 109,136, while individual consumption expenditure increased from RSD 71,902 to RSD 109,787 [1,5]. Nevertheless, the structure of consumption remained heavily concentrated in necessities, with food and non-alcoholic beverages accounting for 36.6% and housing-related expenditure 16.1% in 2025 [5].

The evidence indicates that understanding Serbian consumer choice requires more than tracking income growth. Real purchasing power, prices, household composition, settlement type, and distributional differences all influence the choices available to consumers. For policymakers, the implication is that income-support measures, price stability, employment, competition, and targeted social protection should be considered together. For researchers and businesses, the results highlight the importance of distinguishing aggregate nominal growth from the underlying changes in household purchasing power and consumer preferences.

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