

Republic of Serbia

Ministry of Finance

Macroeconomic and Fiscal Analyses and Projections Department



CURRENT MACROECONOMIC DEVELOPMENTS

April 2022

* When using the analysis published in this presentation, please indicate the source.

REAL SECTOR



Real GDP growth in 2021 was 7.4%,
according to the SORS estimate

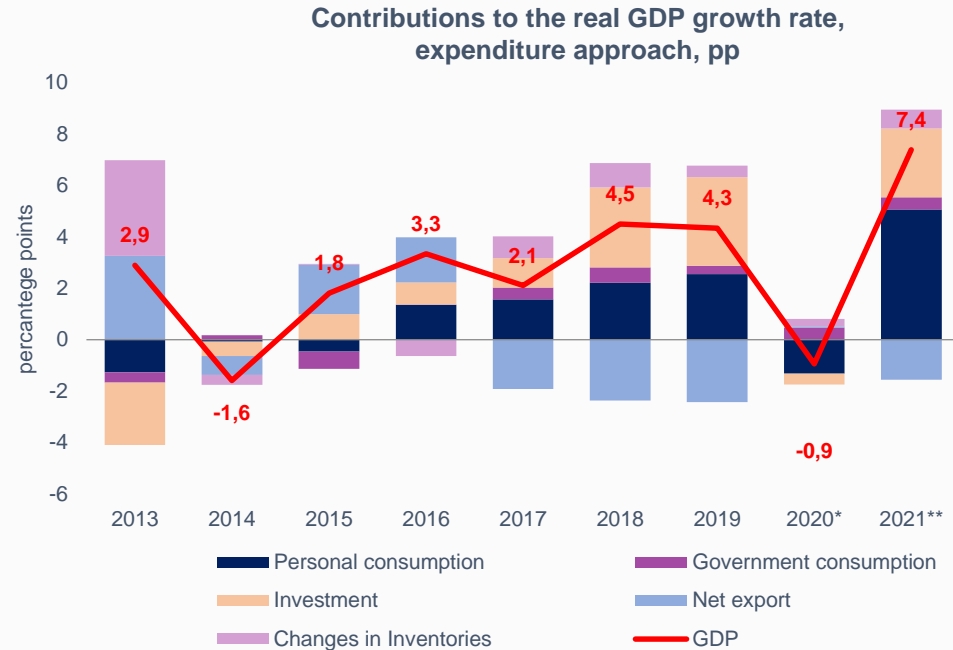
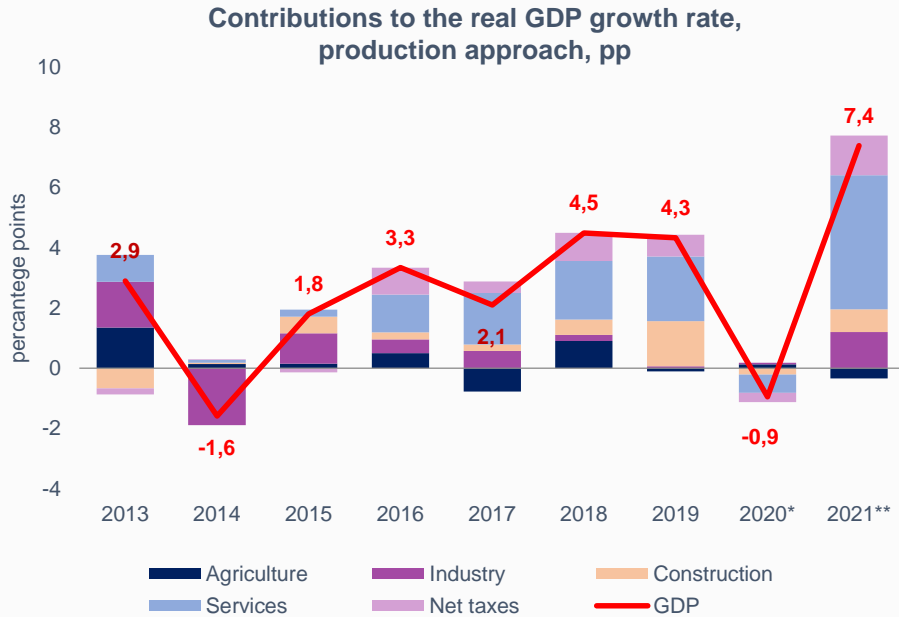
IPAS recorded growth of 4.1% y-o-y in
February 2022

The total industry in February decreased
by 0.7% y-o-y, while manufacturing grew
by 2.1%

Real retail trade turnover in February was
higher by 7.7% y-o-y

In February, the number of tourist
overnight stays increased by 24.9% y-o-y

Economic activity in 2021 was higher by 7.4%, according to the SORS estimates.



* Preliminary data
 ** SORS estimate based on the quarterly data
 Source: SORS, calculated in the MoF

Preserved macroeconomic stability, activation of new production capacities with a comprehensive and continuous program of support to the economy and the population during the pandemic have resulted in strong economic growth in 2021, which is 1.4 percentage points higher than the initial projection.

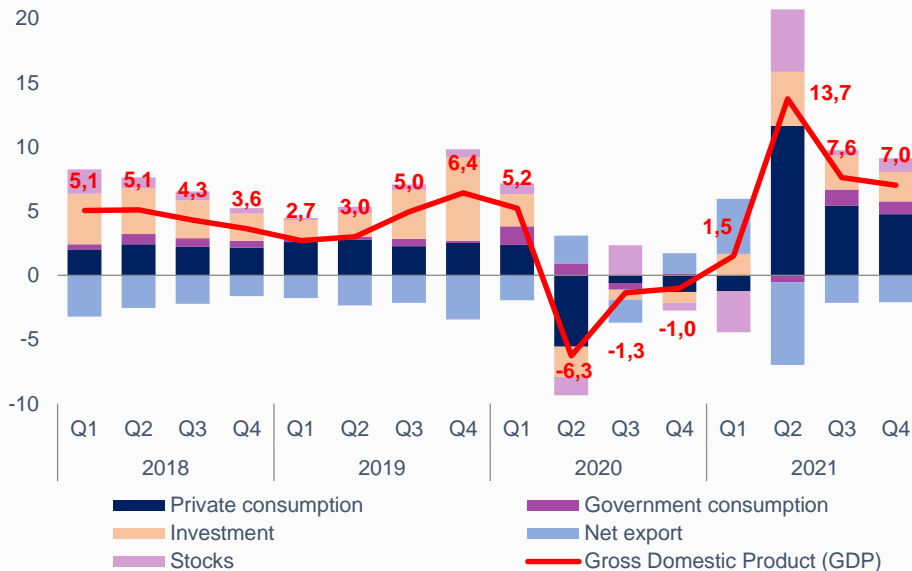
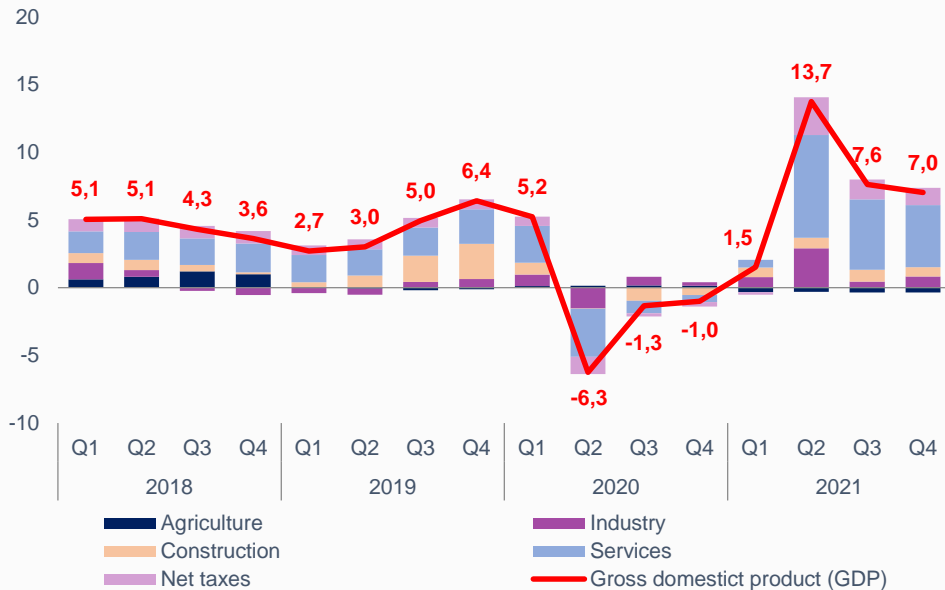
The increase in GVA created in 2021 was recorded in all sectors, except agriculture. The service sector, which was most affected by the pandemic during the previous year had the role of the dominant driver of growth, primarily as a result of increased trade, transport, tourism and vocational services. With the recovery of external demand and the activation of new production capacities, the industry accelerated its dynamics in 2021 and contributed to GDP growth with 1.2 percentage points. Construction activity achieved solid growth due to further acceleration of the implementation of infrastructure projects, but also a strong recovery of private construction works, which contributed to the growth of GDP by 0.8 pp.

From expenditure side, GDP growth was entirely driven by domestic demand, while the contribution of net exports was negative. Preserved stability in the labour market and an increase in wages, supported by favourable financing conditions, resulted in the growth of personal consumption and its positive contribution to GDP growth of 5.1 pp. Investments with a growth of 12.5% were the second most important component in terms of contributing to GDP growth, which is very important from the point of view of its sustainability. The recovery of external demand, along with the activation of new production capacities, resulted in the growth of export activity, while the solid growth of private consumption with strong investment growth and higher energy imports at the end of the year resulted in high import growth.

According to the SORS, in the fourth quarter of 2021, GDP growth of 7.0% y-o-y was achieved, which is an increase of 0.1 pp in relation to flash estimates.

Contribution to the quarterly growth of the GDP in pp (production side)

Contribution to the quarterly growth of the GDP in pp (expenditure side)



Source: SORS, calculated in the MoF

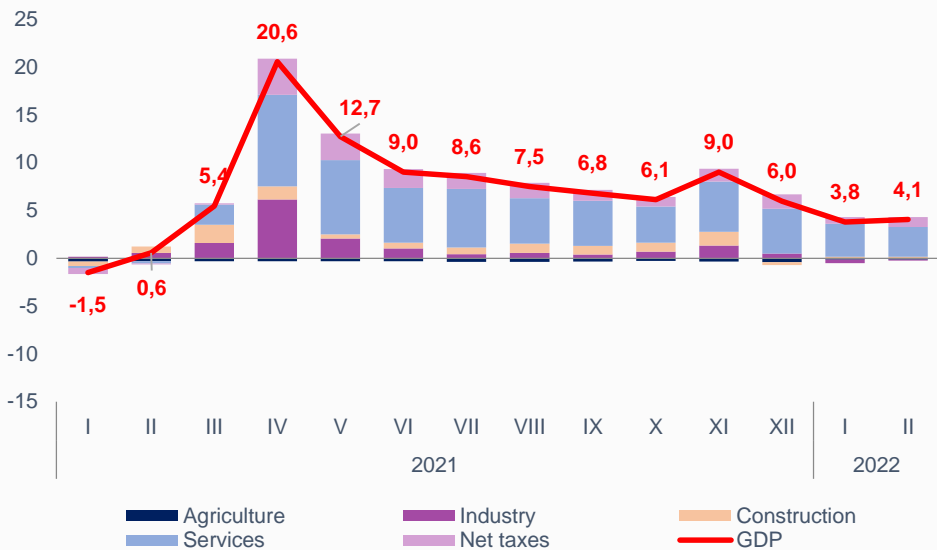
After the shock in the second quarter of 2020, economic activity, thanks to the program of support to the economy and the population, recorded a strong recovery in the second half of the year, and in the first quarter of 2021, GDP exceeded the pre-pandemic level. Good economic developments continued in the following quarters, resulting in GDP growth of 7.4% in 2021.

Observed from the production side, GDP growth in the fourth quarter was driven by the services sector, primarily due to growth in trade, tourism, transport, ICT and professional and technical services, as well as activities with predominantly state participation (Public Administration, Education and Health). The recovery of private construction operations with the continued implementation of infrastructure works resulted in an increase in construction of about 11%. Economic activity in the industrial sector accelerated during the fourth quarter and recorded real growth of 4.3%. The dry season during the summer affected agricultural production, which fell by 5.5% during this period.

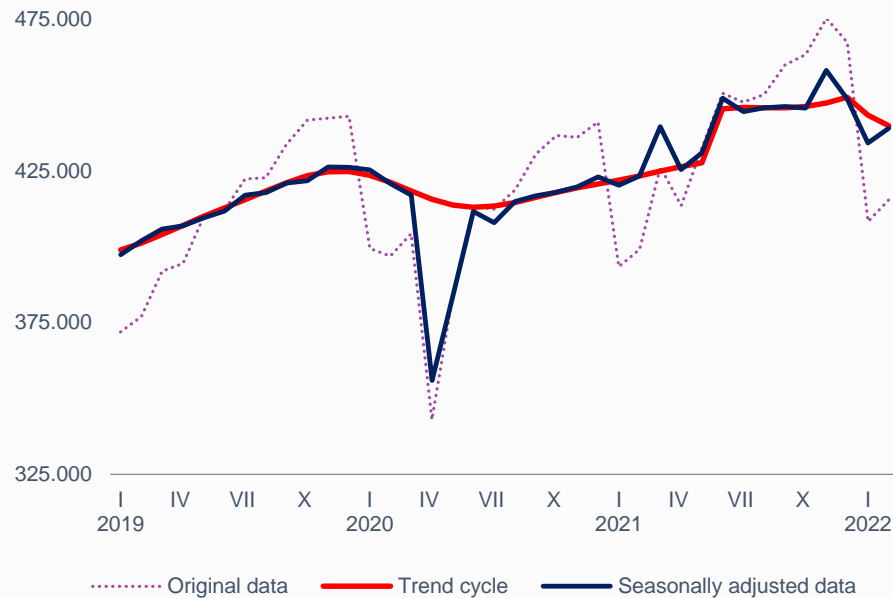
Observed by aggregates of use, GDP growth in the fourth quarter was entirely driven by domestic demand as a result of growth in private consumption and investment, while the contribution of net exports was negative. The growth of real wages and employment, along with the increased propensity of the population to consume, was reflected in the increase in private consumption and its contribution to GDP growth of 4.8 pp. Acceleration of private investments with continued implementation of infrastructure works resulted in an increase in investment activity of 9.8%. Export and import activity continued with double-digit growth rates, but due to slightly higher growth in real imports due to increased imports of equipment and energy, the contribution of net exports was negative.

The indicator of economic activity of Serbia (IPAS) recorded growth of 4.1 y-o-y in February 2022.

Indicator of Economic Activity by sections, (contributions to the growth, pp)



IPAS original, seasonally adjusted data and trend cycle, chain linked volumes, mil. RSD



The monthly dynamics of economic activity continued to grow y-o-y in early 2022, but at slightly lower rates than in the previous period. Significant negative effects of growing geopolitical tensions on domestic economic activity are expected during the second half of the year.

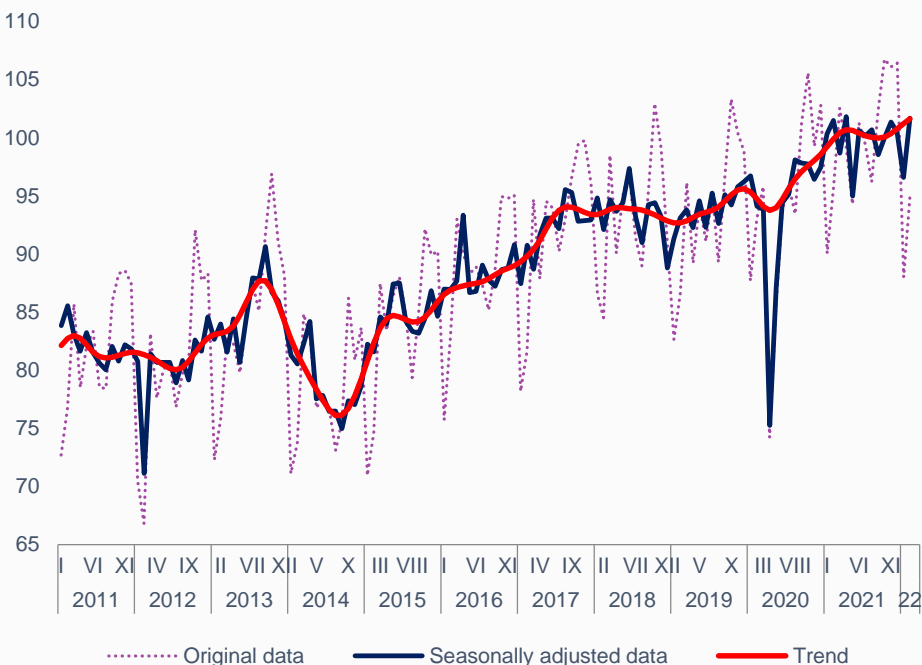
The Ministry of Finance, for the purpose of continuous monitoring of economic activity and early identification of activation of economic growth risks on the basis of short-term indicators, compiles a composite indicator of economic activity of Serbia – IPAS*, as an indicator of economic trends in monthly dynamics. This indicator shows high reliability for measure short-term trends, but can not be used as only indicator to assess annual and medium-term trends.

All manufacturing sectors, with the exception of industry, whose impact is negative, recorded a positive contribution to economic growth in February 2022. About four-fifths of the contributions were made by the service sector with a growth of 6.3%, primarily as a result of increased trade, traffic, tourism, as well as professional, technical and recreational services. According to the Ministry of Finance, construction activity in February was higher by about 4% y-o-y in real terms, while agriculture, based on the technical projection of the average season, recorded a growth of 0.3%. After a weak result in January, industrial production recorded solid trends in February, but y-o-y dynamics remained below last year's level by 0.7%.

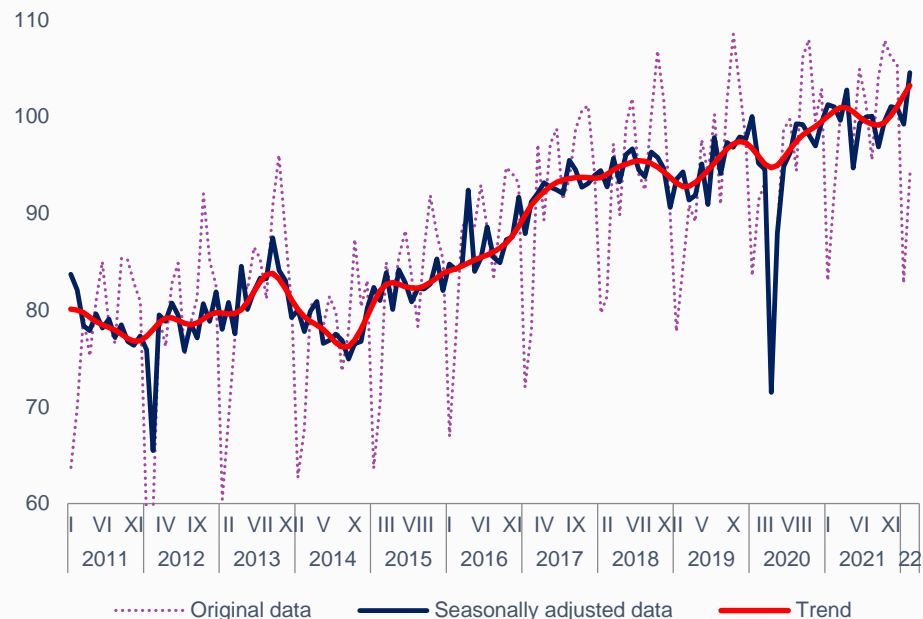
* https://www.mfin.gov.rs/upload/media/ZzkTpV_601696edb3a9a.pdf

In February 2022, industrial production achieved a year-on-year decrease in the physical volume of production of 0.7%.

Indices of industrial output (2021=100)



Indices of manufacturing industry (2021=100)



Source: SORS, calculated in the MoF

Negative trends in electricity production largely determined the reduced volume of total industrial production at the beginning of 2022, where in February the physical volume of this sector was down by a quarter year on year. The decline in production in February was significantly mitigated by growth in the remaining two sectors – mining and manufacturing by 44.9% and 2.1% y-o-y, respectively.

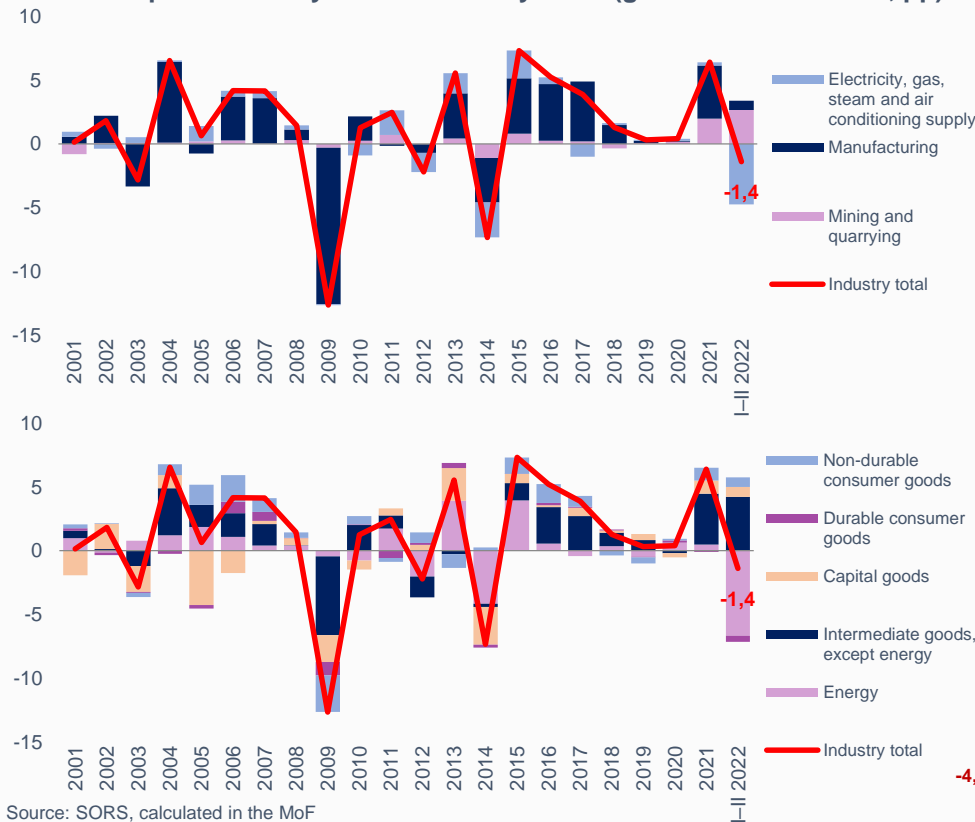
Industrial production recovered relatively quickly from the extremely negative effects of the coronavirus pandemic. The continuation of favourable trends in industry during 2021 was driven by the growth of the manufacturing, but also by the positive contribution of the electro-energy sector. This dynamic of the industrial production physical volume resulted in a cumulative growth in two pandemic years of 6.8%, with a simultaneous growth of the manufacturing of 5.6%. The good results in this period were also influenced by the activation of new production capacities, primarily as a result of the effect of foreign direct investments from the previous period, which provided stable dynamics of economic activity of the manufacturing during pandemic.

According to seasonally adjusted data, the February growth of the manufacturing industry of 5.5% exceeded the decline from January, while at the same time the total industry was higher by 4.9% compared to the previous month.

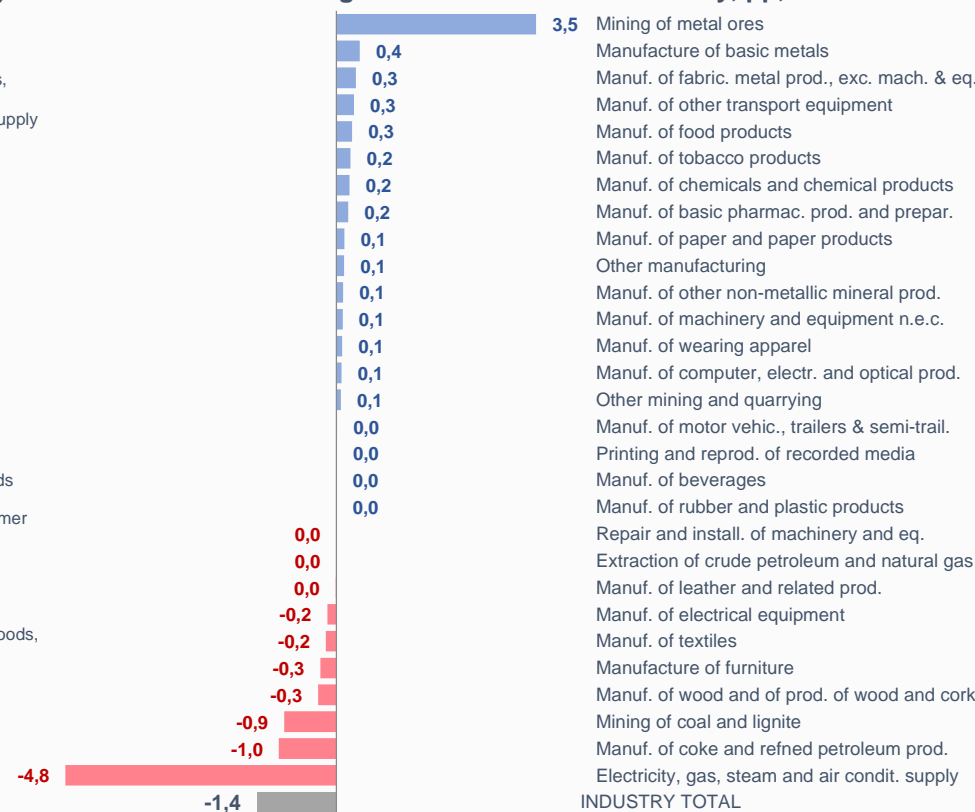
Observed on a year on year basis, in February, growth was achieved in 14 out of 24 activities of the manufacturing. The most significant positive contribution to this sector's growth came from the metal industry with an increase of 17.3%. The tobacco and food industries made an equal contribution with growth of 43.9% and 3.8% y-o-y, respectively. The production of the chemical industry increased by 10.4%, while the production of fabricated metal products increased by 5.7%. On the other hand, the most significant negative contribution was made by the oil industry with a drop of 10.9% y-o-y, under the influence of higher last year's base value due to increased production before the overhaul in March 2021.

In the first two months of 2022, physical volume of industrial production declined by 1.4% y-o-y.

Industrial production by sections and by MIGs (growth contributions, pp)



Contributions to the growth rate of the total industry, pp, Jan–Feb 2022

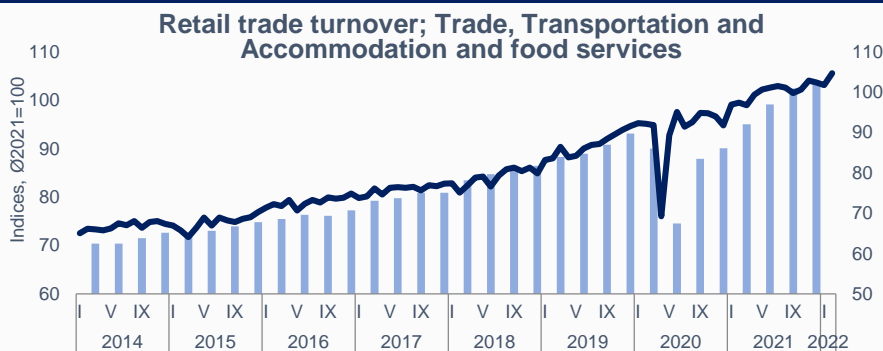


Uncertainties in the international environment due to geopolitical tensions pose significant negative risks, which with reduced external demand of our most important foreign trade partners, as well as delays in global supply chains may have a negative impact on the dynamics of the manufacturing industry in the coming period.

A drop in electricity production of 22.1% y-o-y determined a decrease in total industrial production in the first two months. On the other hand, mining continues to record strong growth of 37.5% y-o-y as a result of the activation of new production capacities since the middle of last year in the division of mining of metal ores. At the same time, the physical volume of the manufacturing industry increased by 0.8% year on year, with diversified growth in 17 out of 24 activities, primarily due to more favourable developments in this sector in February.

In the first two months, the most significant positive impact on the movement of the manufacturing industry had the production of basic metals (growth of 11.5% y-o-y) and fabricated metal products (6.7%), while the production of other transport equipment and the food industry was higher by 65.6% and 1.9% year on year, respectively. The most significant negative contributions were made by the oil industry (down 13.2% y-o-y), wood processing (-30.4%) and furniture production (-17.5%).

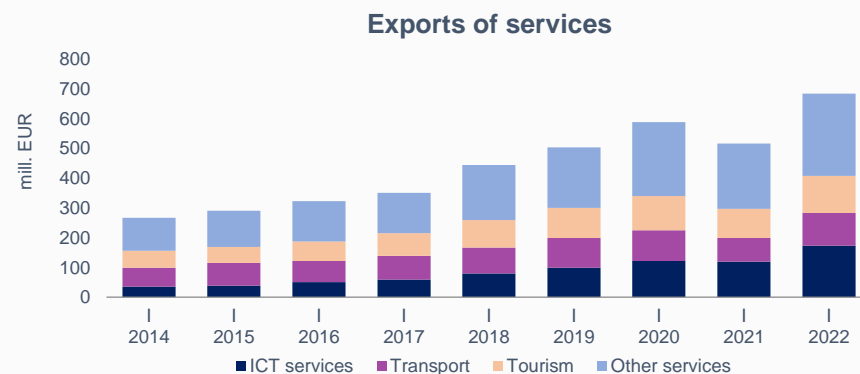
At the beginning of 2022, high-frequency indicators point to continued favourable developments in the service sector, despite growing geopolitical tensions.



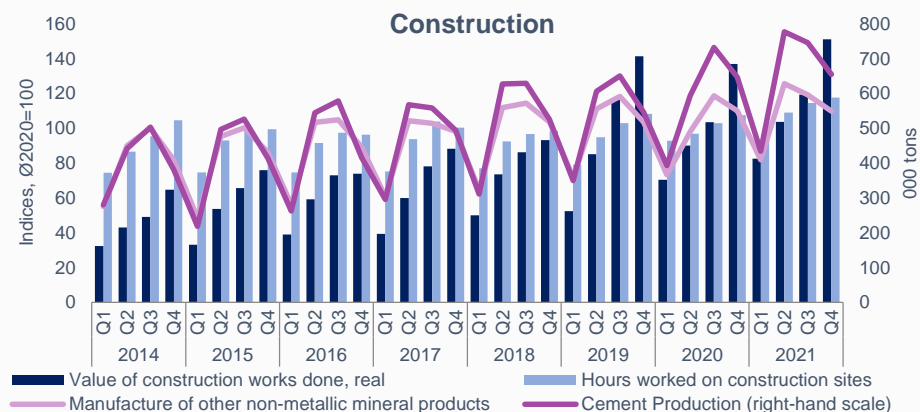
Trade, Transportation and Accommodation and food services (national accounts), SA
Retail trade turnover, seasonally adjusted (SA) (right-hand scale)



Tourists' overnight stays
Tourists' visits
BOP tourism inflow



ICT services
Transport
Tourism
Other services



Value of construction works done, real
Hours worked on construction sites
Manufacture of other non-metallic mineral products
Cement Production (right-hand scale)

Source: SORS, NBS

Retail trade continues to record real growth, which amounted to 7.7% y-o-y in February with an increase in turnover of all three product groups. Despite the growth of prices, the turnover of motor fuels and food products increased by 10.3% and 2.5% y-o-y in real terms, while the growth of non-food products was 13.0%. At the same time, tourist activity measured by the number of tourist arrivals and overnight stays increased by 37.8% and 24.9% y-o-y, respectively.

Retail trade turnover in the first two months of 2022 increased by 6.0% y-o-y in real terms.

In the same period, about 396 thousand tourists visited tourist destinations, which is a y-o-y increase of 46.3%, with growth in the number of overnight stays by 38.5%. In January 2022, foreign currency inflow from tourism increased by 28.5% y-o-y and amounted to EUR 125 million.

In 2021, compared to 2020, the number of registered automobiles increased by 8.3%.

In January 2022, the growth of service activities exports continued, with two thirds of the growth coming from ICT, transport and tourism services with a year-on-year increase of 45.4%, 36.6% and 28.5% respectively.

Favourable trends in the construction sector continued in 2021 compared to 2020, with a real growth of GVA of construction of 14.0%. In the first two months of 2022, the number of issued building permits increased by 23.4% year on year, while the production of cement was higher by 13.3% and the production of construction materials by 4.8%.

EXTERNAL SECTOR



❖ In February 2022, the year-on-year exports and imports growth was 26.1% and 53.0%, respectively

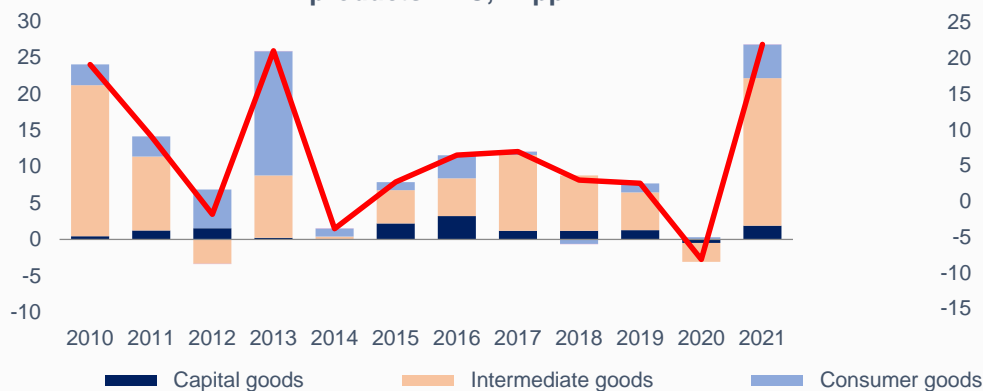
❖ Coverage of imports by exports of goods in February amounted to 65.2%

❖ Germany, Hungary and China are the largest external trade partners in February

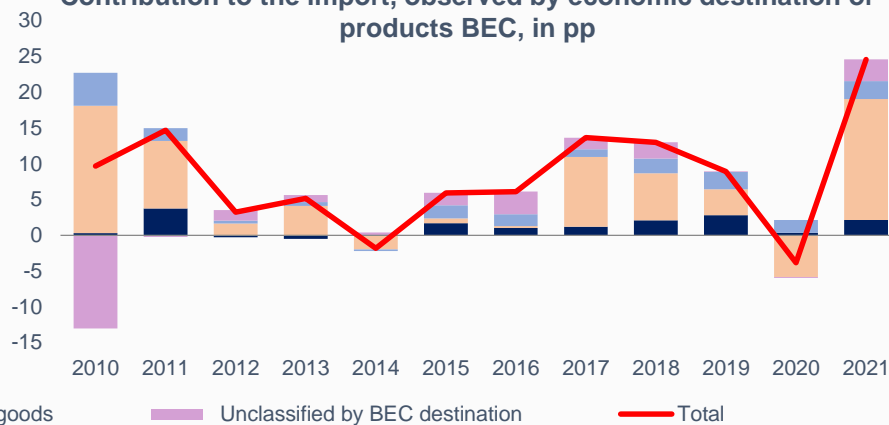
❖ In January 2022, the current account deficit amounted to EUR 141.7 mill

Due to the recovery of the world economy and external demand, exports of goods and services in 2021 recorded significant growth, despite disruptions in global supply chains

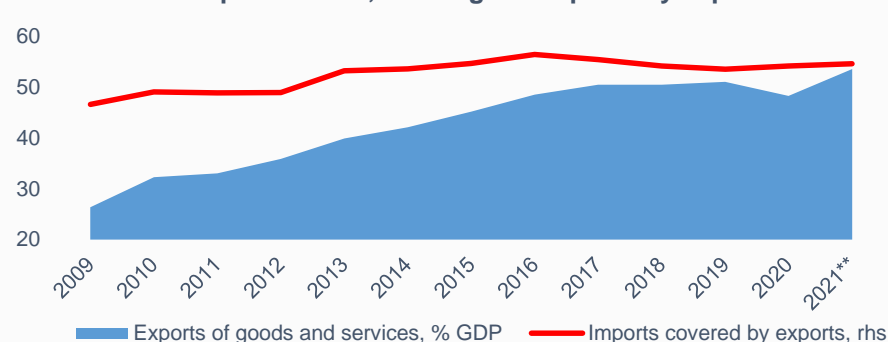
Contribution to the export, observed by economic destination of products BEC, in pp



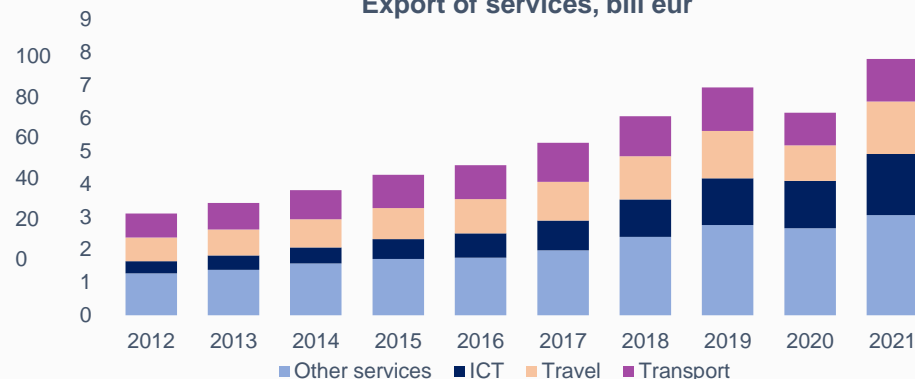
Contribution to the import, observed by economic destination of products BEC, in pp



Share of total export in GDP, coverage of imports by exports*



Export of services, bill eur



Due to the growth of both external and domestic demand, in 2021 the growth of exports and imports increased by 26.8% and 24.6% y-o-y, which led to an increase in the deficit of foreign trade goods by 18.3% compared to 2020.

Manufacturing industry, the main driver of the export activity, achieved a growth of exports of 24.5%, with a growth in 20 out of a total of 23 activities. The increase in export activity was also significantly influenced by the increased export in mining, which recorded a record amount of EUR 819.5 million, while the growth of exports was recorded in agriculture, despite the somewhat weaker agricultural season.

In 2021, the import of raw materials recorded a growth of 32.7% and thus determined the overall growth of import activity. Consumer goods and equipment also made a positive contribution to the growth of total imports.

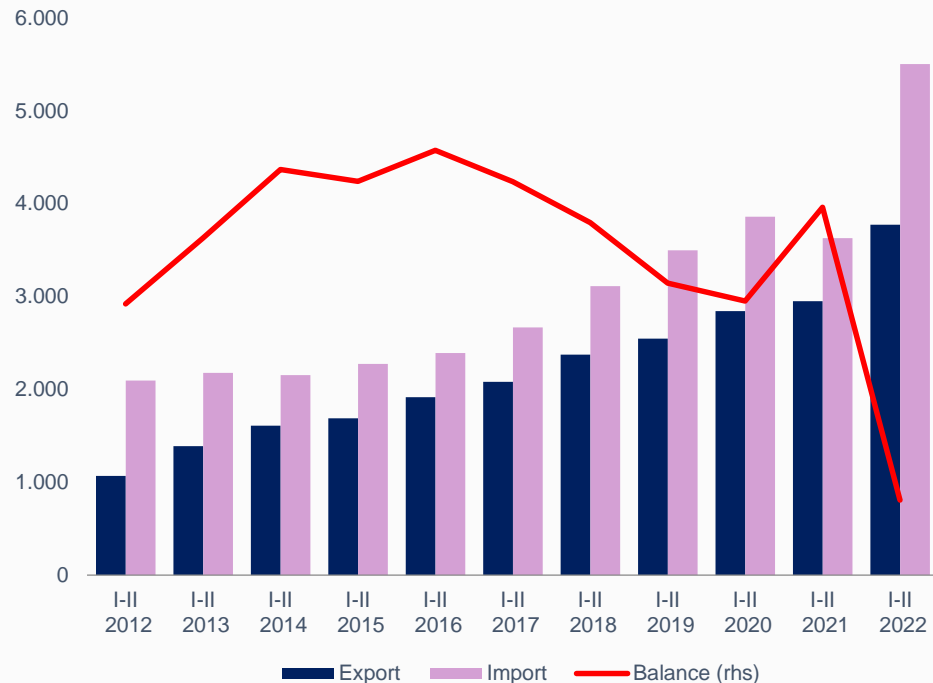
The increase in the volume of foreign trade flows has resulted in an increase in the share of total exports in GDP in 2021 to 40.6%, from 36.4% in 2020.

Source SORS: * MoF estimation, national accounts data

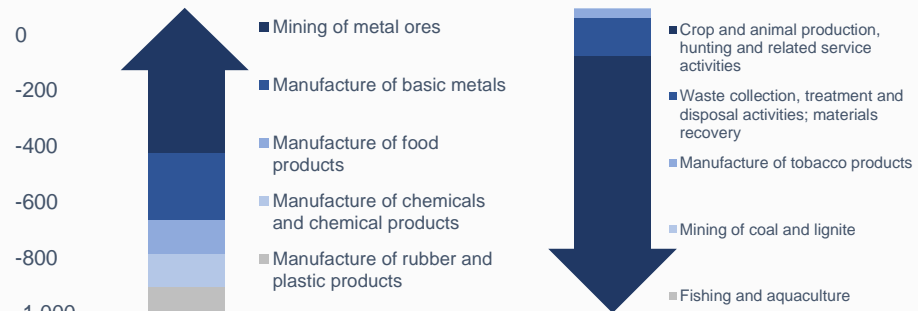
** MoF estimate for 2021 based on quarterly GDP data.

Exports and imports of goods in the first two months of 2022 amounted to 3.8 and 5.5 billion euros respectively. The coverage of imports by exports increased to 68.6% compared to 81.3% from the same period last year.

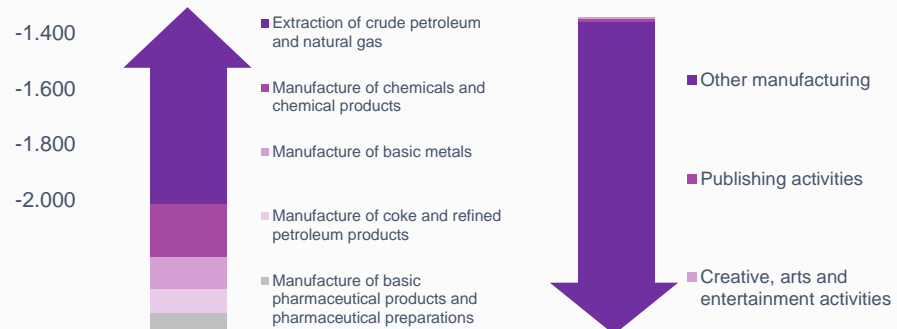
External trade in the period January-February (2012–2022), mill. EUR



Activities with the most significant impact on growth/decline of export



Activities with the most significant impact on growth/decline of import



In February 2021, total foreign trade increased by 41,1% year-on-year to the level of EUR 5.1 billion, due to growth of export and import of 26.1% and 53.0%.

Exports of goods in February 2022, amounted to EUR 2 bn, which is an increase of 26.1% y-o-y. The growth of exports of the manufacturing industry in February amounted to 23.2%, and within it the most significant contribution was recorded in the metal, food and chemical industries (increases of 77.3, 38.6 and 37.4 mil. euros, respectively). In addition, strong growth in exports of the mining sector continues, with an increase of EUR 102.9 mill. y-o-y.

Imports of goods in February amounted to EUR 3.1 billion, a growth of 53.0%, y-o-y. Import activity was driven by higher imports of reproduction goods (growth of 76.7%), with continued growth in imports of consumer goods (22.4%) and equipment (7.1%).

In the first two months of 2022, exports increased by 28.0% (EUR 826.1 million), while exports of the manufacturing industry increased by 25.4% (or EUR 665.9 million). The highest growth in export activity was recorded in the metal (62.3%), food (26.0%) and chemical industries (40.3%), while positive contribution also came from rubber (22.6%) and oil industries (96.1%). The record value of exports is recorded by the mining sector in the amount of EUR 228.2 million.

Imports of goods in the same period grew by 51.7% and it was recorded in 22 of the 23 product groups. Almost three quarters of the growth in imports was determined by higher imports of raw materials, due to increased economic activity, but also higher energy prices and energy crisis. At the same time, import of consumer goods and equipment increased by 24.6% and 8.6%, respectively.

The largest external trade partners of Serbia in the period January–February 2022

Good exports (mill. EUR) and most significant products (%)

	516,2
Equipment for distributing electricity	15.9
Rotating electric plant and parts	15.7
Railway vehicles and associated equipment	5.3
Fruit and fruit preparations	4.5
Other	58.7



Good imports (mill. EUR) and most significant products (%)

	601,1
Copper	6.8
Motor cars and other motor vehicles	4.8
Medicaments	4.4
Electrical apparatus for switching or protecting el. circuits	3.5
Other	80.5

	193,4
Equipment for distributing electricity	19.9
Maize, unmilled	5.2
Thermionic valves and tubes	4.6
Pumps for liquids	4.5
Other	65.8



	646,3
Natural gas, whether or not liquefied	69.5
Petroleum oils and oils obtained from minerals	3.6
Electric current	2.6
Medicaments	2.0
Other	22.4

	135,3
Copper ores and concentrates	46.2
Copper	35.2
Wood, simply worked	3.6
Rotating electric plant and parts	2.2
Other	12.8



	673,6
Telecommunications equipment	8.1
Steam or other vapor generating boilers	3.7
Automatic data processing machines	3.7
Medical and pharmaceutical products other than med.	2.8
Other	81.7

	315,3
Footwear	8.6
Motor cars and other motor vehicles	7.6
Rubber tyres, flaps, etc.	5.1
Wheat (including spelt) and meslin, unmilled	4.5
Other	74.2



	353,8
Leather	6.6
Copper	4.1
Parts and accessories of the motor vehicles	3.6
Medicaments	2.8
Other	82.9

	146,4
Fruit and nuts, fresh or dried	9.3
Rubber tyres, flaps, etc.	7.6
Medicaments	6.7
Women's coats and similar	6.1
Other	70.3



	281,5
Natural gas, whether or not liquefied	42.4
Fertilizers (other than crude)	21.9
Petroleum oils and oils from bituminous minerals	5.4
Tobacco, manufactured	3.7
Other	26.6

	257,7
Petroleum oils and oils obtained from minerals	16.4
Flatt-rolled products of iron	4.4
Iron and steel bars, rods, angles, shapes and sections	3.3
Oil seeds used for 'soft' oils	3.0
Other	72.8



	133,5
Coke and semi-coke of coal	22.7
Electric current	11.2
Iron and steel bars, rods, angles	9.6
Paper and paperboard	5.8
Other	50.7

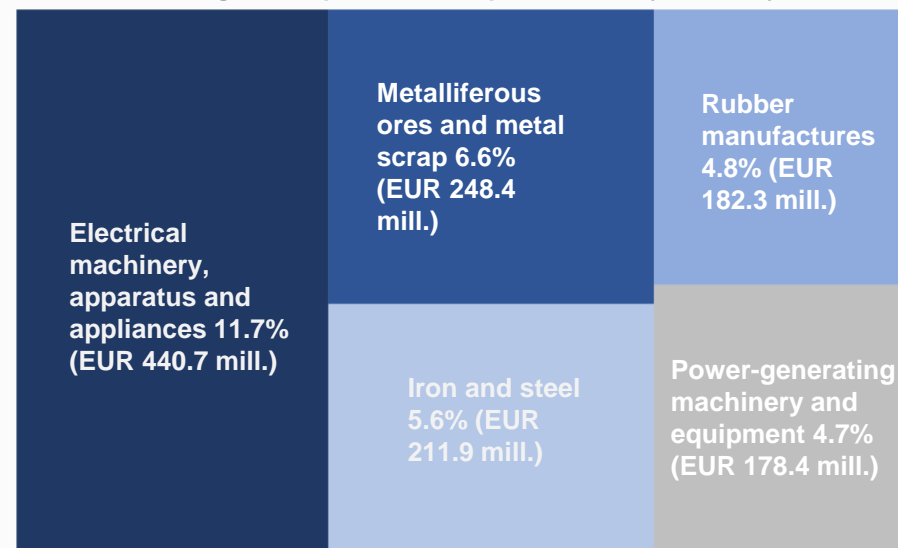
Share in overall
external trade

In the period January–March 2022, the total export value of 15 largest exporters amounted to EUR 1.8 bn. The largest exporter was Serbia Zijin Mining, followed by HBIS Group Serbia and Serbia Zijin Copper.

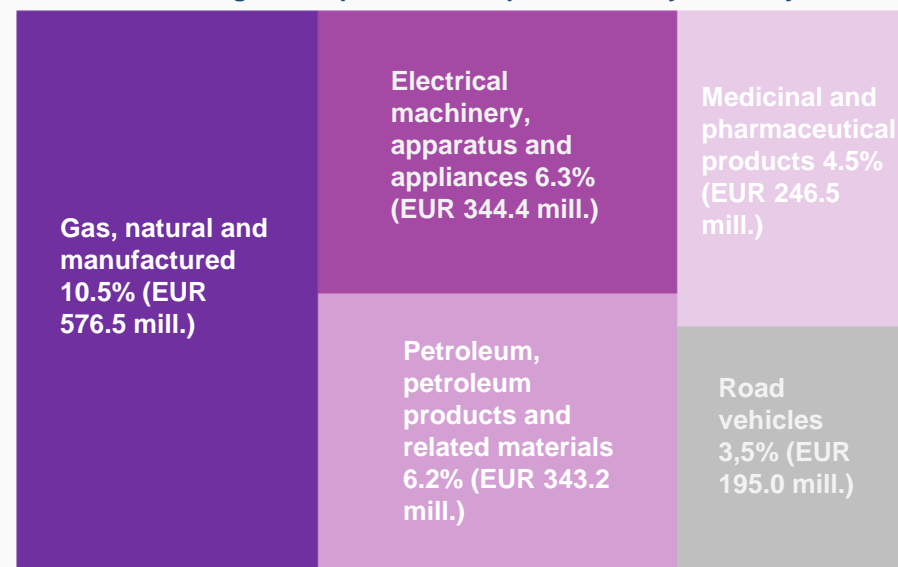
15 BIGGEST EXPORTERS* in the period January–March 2022

NAME OF EXPORTER	LOCATION	Export (EUR mill)
SERBIA ZIJIN MINING D.O.O.	BRESTOVAC	276.8
HBIS GROUP SERBIA IRON & STEEL D.O.O.	BEOGRAD	234.7
SERBIA ZIJIN BOR COPPER	BOR	210.0
NAFTNA INDUSTRIJA SRBIJE	NOVI SAD	147.5
TIGAR TYRES	PIROT	131.2
HENKEL SRBIJA	BEOGRAD	112.7
LEONI WIRING SYSTEMS SOUTHEAST	PROKUPLJE	97.0
ZF SERBIA D.O.O.	PANČEVO	80.9
YURA CORPORATION	RAČA	77.3
HIP - PETROHEMIJA	PANČEVO	76.9
DRUŠTVO ZA TRGOVINU ROBERT BOSCH	BEOGRAD	72.5
IMPOL SEVAL	SEVOJNO	67.7
HEMOFARM	VRŠAC	67.1
GRUNDFOS SRBIJA	INĐIJA	64.8
PHILIP MORRIS OPERATIONS	NIŠ	50.7

The most significant products in export in January–February 2022



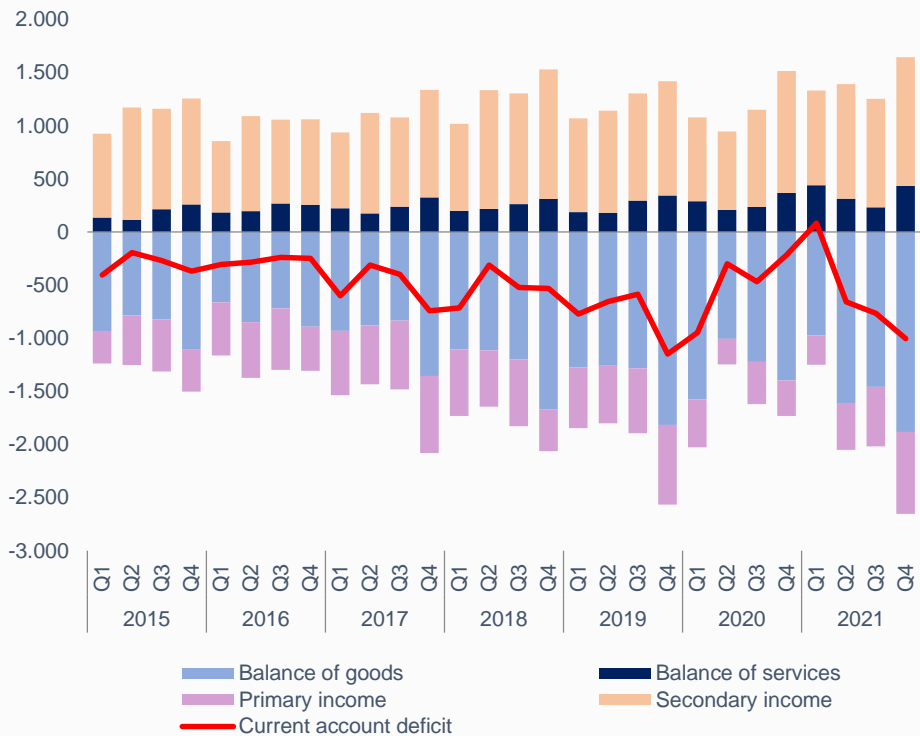
The most significant products in import in January–February 2022



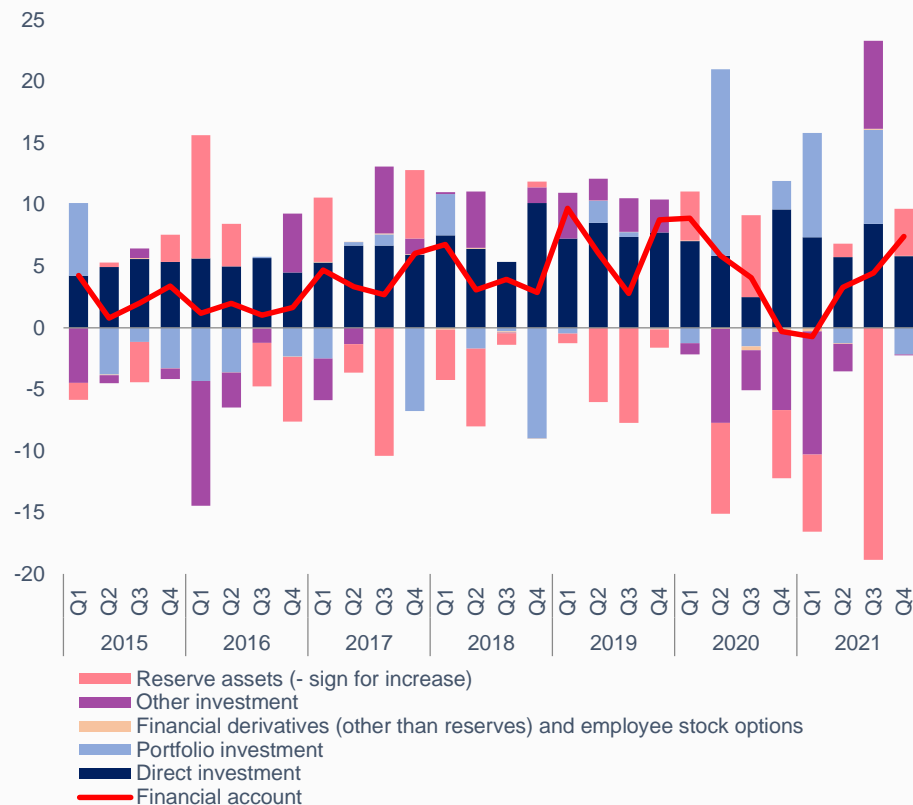
* Observed by Customs Administration, individual data (excluding consolidated reports of groups and holdings)

The current account deficit in January amounted to EUR 141.7 mil, which was largely due to the growth of the trade deficit, primarily due to the growth of domestic demand and the increased value of imports of raw materials due to the energy crisis and rising energy prices in the global market.

Balance of payment (mill. EUR)



The structure of financial balance, % of GDP



The deficit of goods and services amounted to EUR 314.7 mil, which represents a year-on-year growth of EUR 308.6 million.

In January 2022, trade deficit amounted to EUR 498.2 mill, which is higher by EUR 289.6 mill. y-o-y, while surplus in services amounted to EUR 183.5 bn, which is a decrease of EUR 19.0 mill.

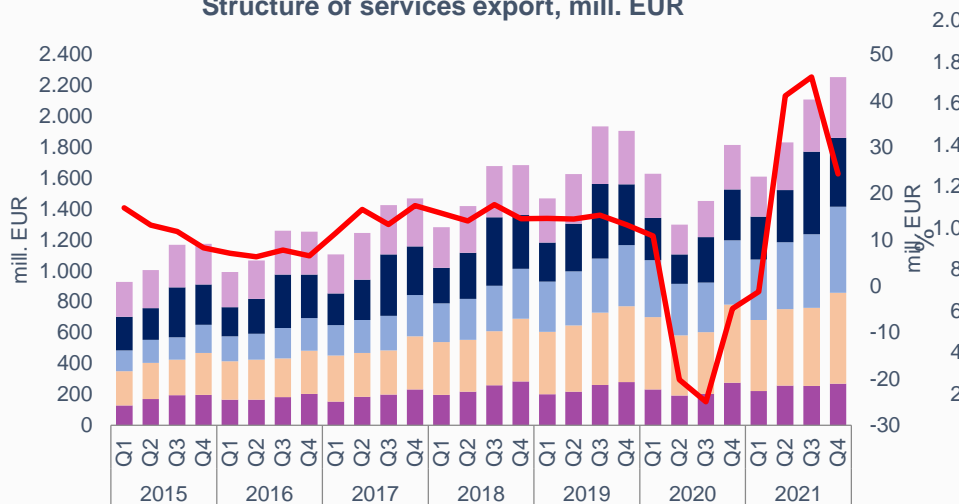
The deficit of primary income was 31.4% higher (increase of EUR 24.6 million). The surplus of secondary income was lower by 17.5% year-on-year and amounted to EUR 275.7 mill, mostly due to lower donations and reduced inflow from remittances.

In January 2022, net FDI inflows amounted to EUR 125.9 million, a decrease of EUR 110.2 mill. year-on-year. The total inflow based on FDI amounted to EUR 139.8 mill.

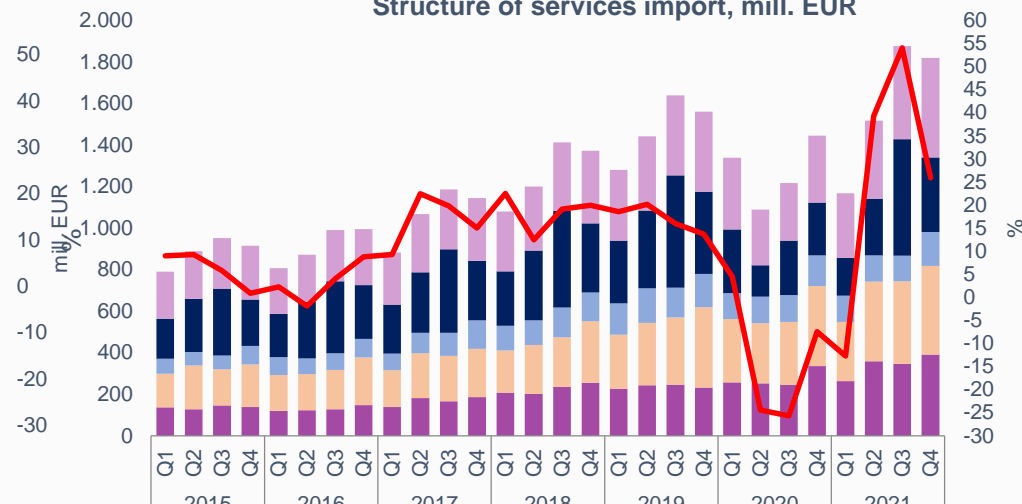
The net inflow of portfolio investments in the observed month amounted to EUR 48.8 mill.

**The surplus in foreign trade in services in January 2022 was lower by 9.4% y-o-y.
The largest surplus was in the ICT sector and business services.
Personal transfers from abroad decreased by 15.1% year on year.**

Structure of services export, mill. EUR

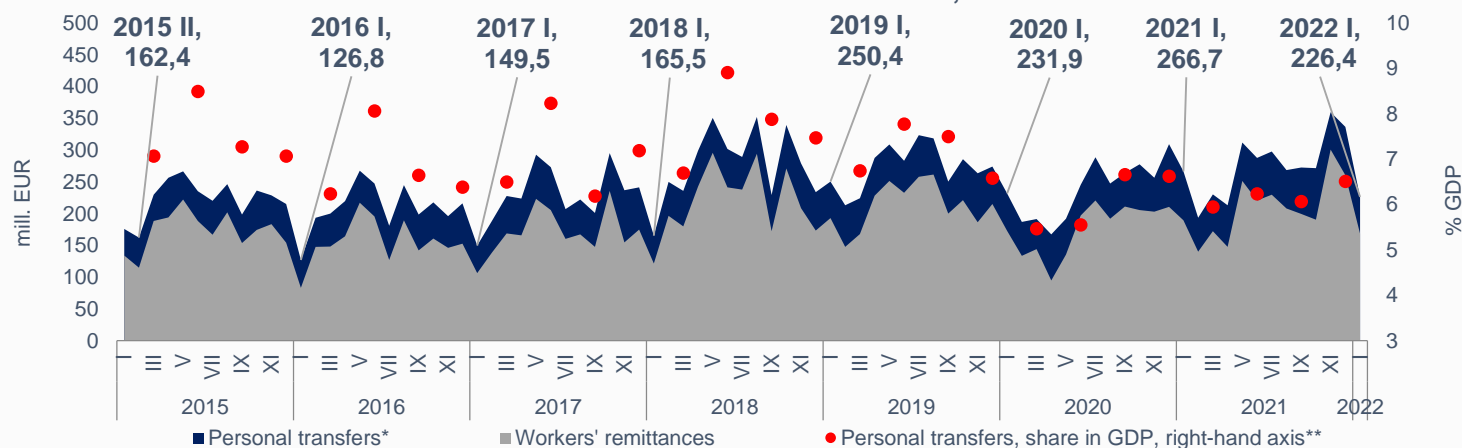


Structure of services import, mill. EUR



- Transport
- Travel
- Telecommunications, computer, and information services
- Other business services
- Other services
- Export of services, growth rate, right-hand axis, left chart; Import of services, growth rate, right-hand axis, right chart

Personal transfers* and workers' remittances, mill. EUR

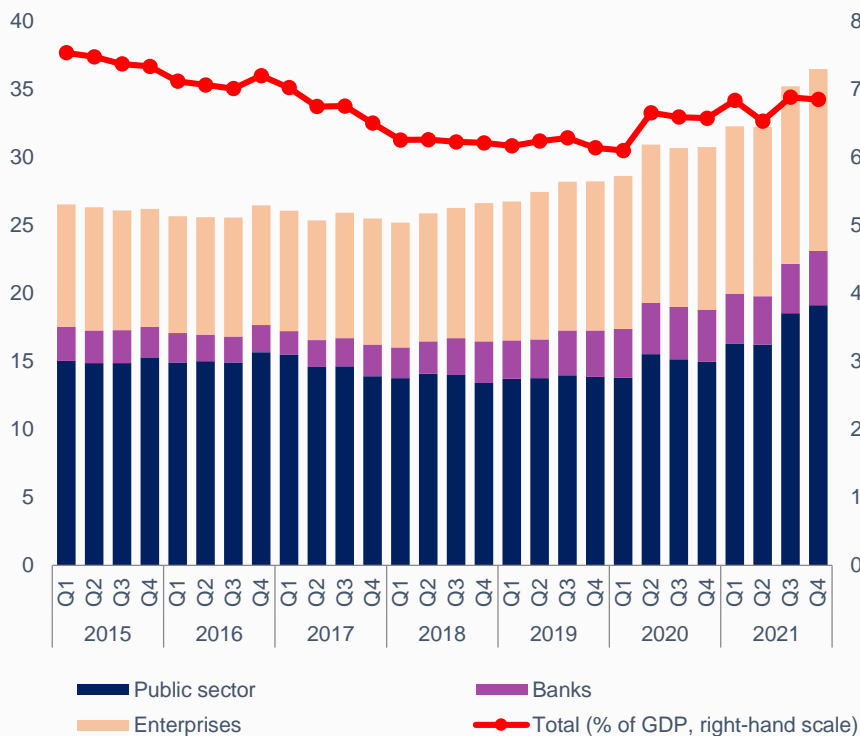


* Current transfers between resident and non-resident households.

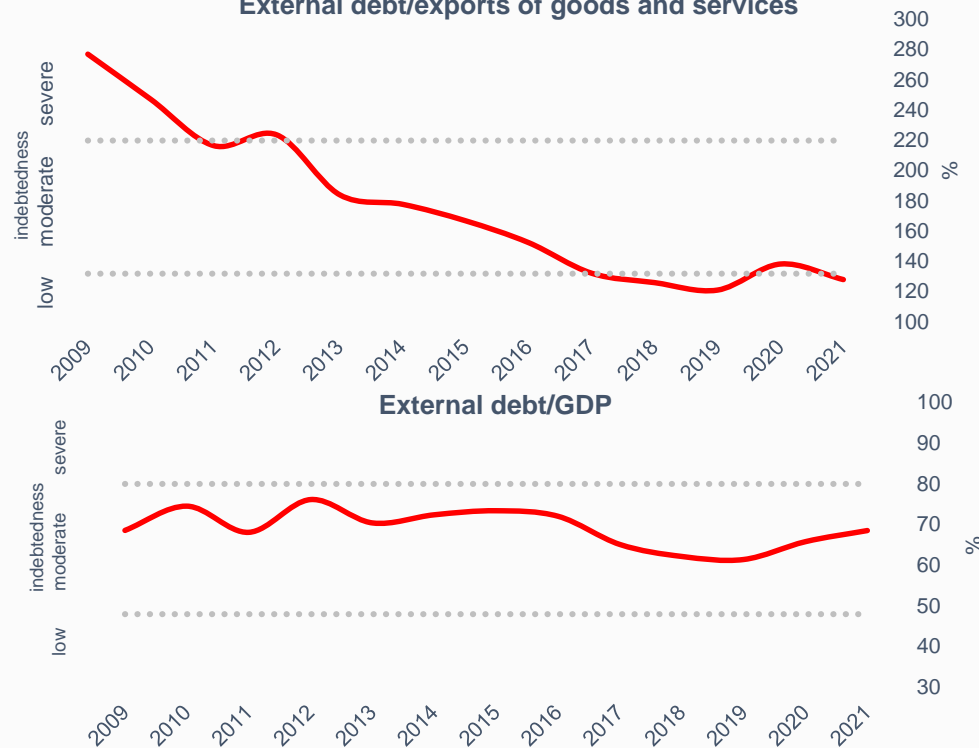
** MoF estimate for 2021 based on quarterly GDP data.

Total external debt at the end of 2021 amounted to 68.5% of GDP.

External debt, in billion EUR



External debt/exports of goods and services



External indebtedness of the public sector increased by EUR 4.2 billion in 2021, while at the same time an increase in indebtedness of enterprises and the banking sector rose by 1.4 billion and 163.8 million euros, respectively.

At the end of 2021, compared to the end of 2020, the ratio of external debt to exports decreased from 138.2% in the previous year to 127.9%, while in the same period the ratio of external debt to GDP increased from 65.8% at 68.5%.

According to the World Bank criteria*, the current level of external debt to exports and external debt to GDP ranks Serbia among medium-indebted countries.

* According to the World Bank's methodology, if the ratio of external debt to export is below 132% then the country is at the low indebted level and for ratio above 220% country is severely indebted. According to the same methodology, if the ratio of external debt to GDP is below 48% then the country is at the low indebted level and for the ratio above 80% country is severely indebted.

LABOUR MARKET



Registered employment in February was higher by 1.8% y-o-y

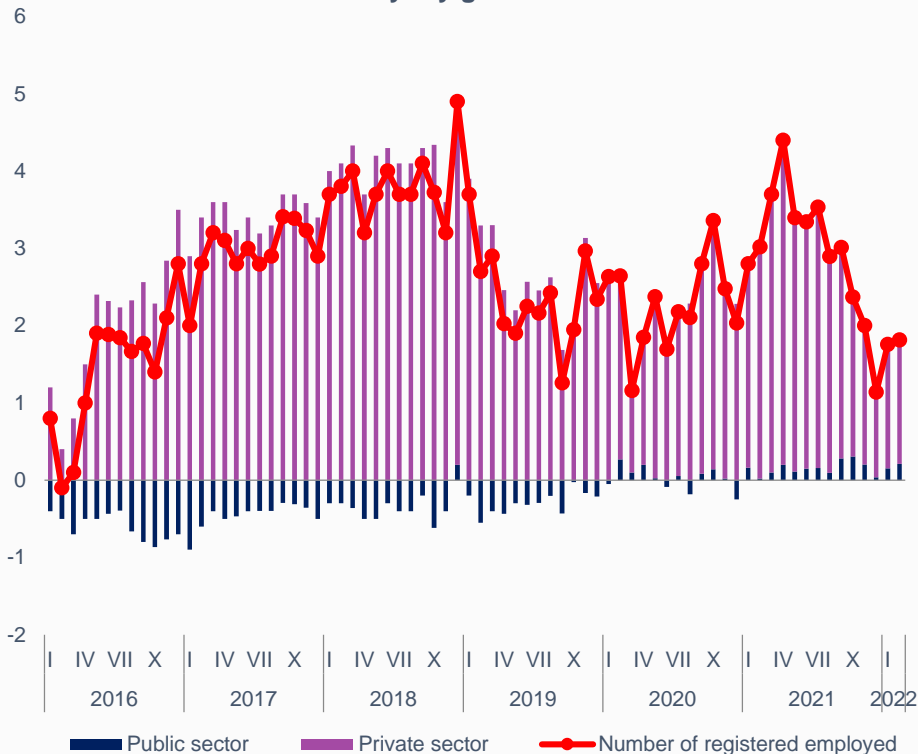
Unemployment rate in Q4 2021 totalled 9.8%

Average net salary in January was higher by 3.9%, y-o-y, in real terms

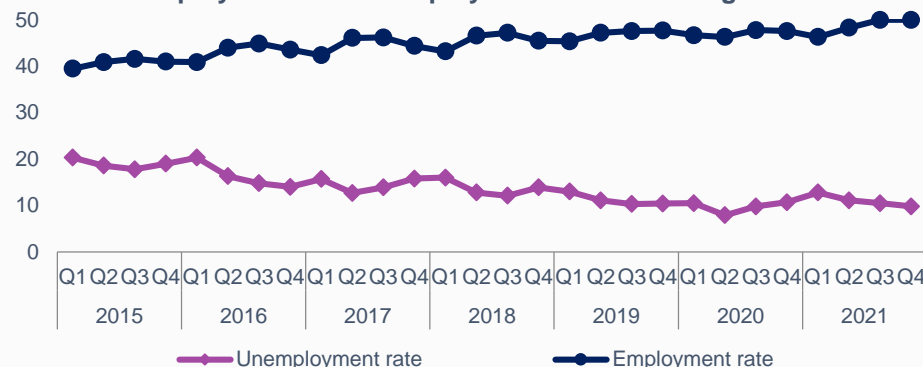
Average net salary in January totalled RSD 70,920

According to CROSO* records, the number of formally employed in February 2022 continued to grow, but at a slower rate than during the previous year, and was 1.8% higher y-o-y.

Average number of formally employed, contribution to y-o-y growth rate



Employment and unemployment rate according to LFS



Number of unemployed persons, according to NEA



The effects of geopolitical tensions are still not reflected on the domestic labor market, but their effect is expected during the year, which could lead to a further slowdown in the growth of the number of employees.

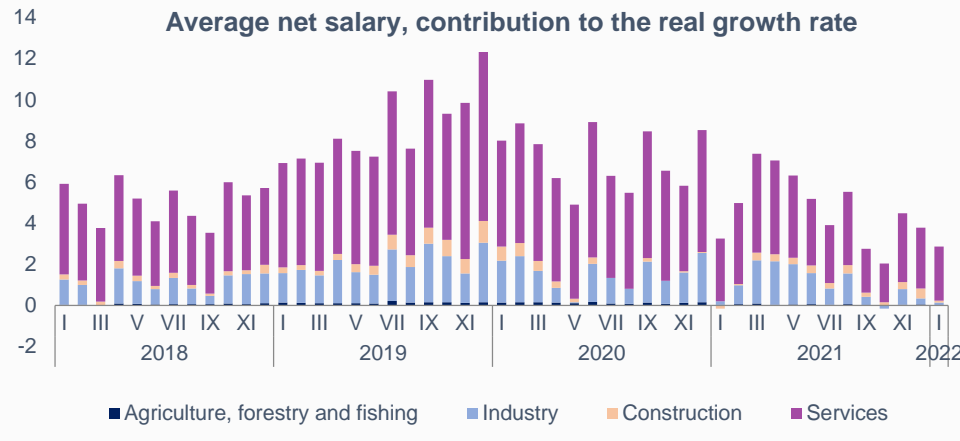
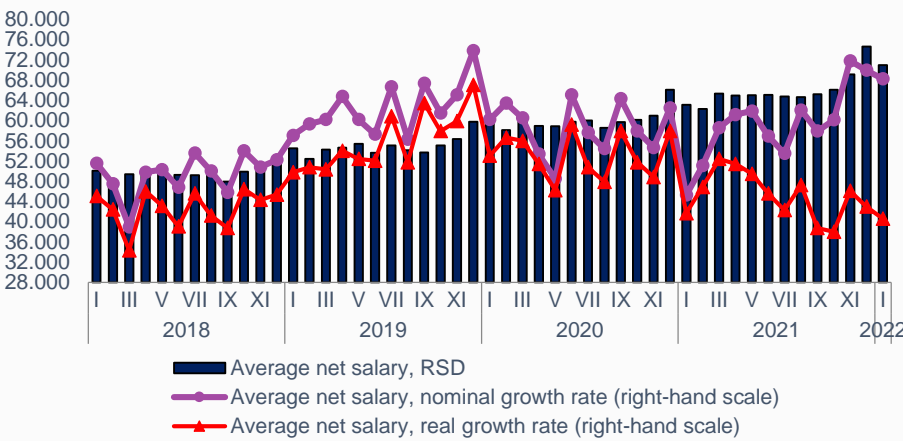
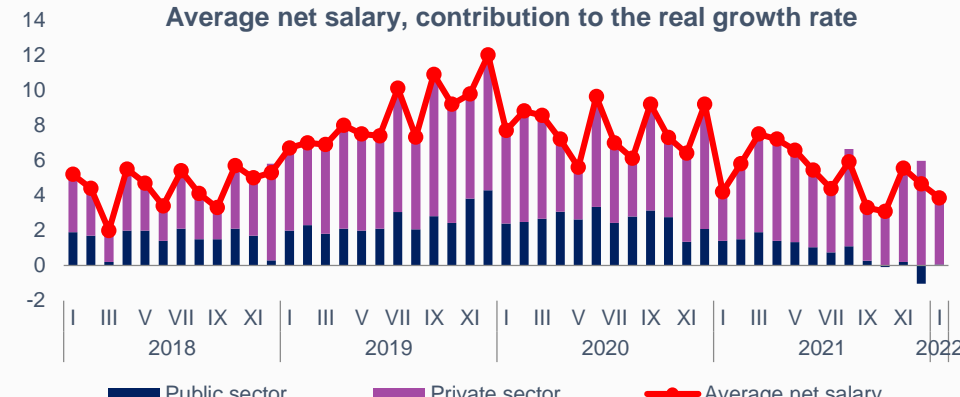
According to CROSO* records, the year-on-year increase in employment in February is mainly the result of growth in employment in the private sector (2.2%), while in the public sector the number of employees increased by 0.8%. Most significant yearly growth in February was registered in information and communication technologies and administrative and service activities.

According to the National Employment Service, the number of unemployed persons in February was lower by 6.5%, y-o-y.

In the fourth quarter of 2021, compared to the same quarter of the previous year, the employment rate increased by 2.4 percentage points and amounted to 50.0%. At the same time, the unemployment rate decreased by 0.9 percentage points to 9.8%, which was lower compared to the pre-pandemic level.

* Central registry of compulsory social security

The average net salary in January 2022 increased by 12.4% in nominal terms, y-o-y and amounted to RSD 70,920. However, under the influence of slightly higher inflation, the real wages increase totaled 3.9%, which is a slower growth than in the previous period.



Observed by activities, the most significant increase in salaries was recorded in the information and communications technologies and scientific and technical activities.

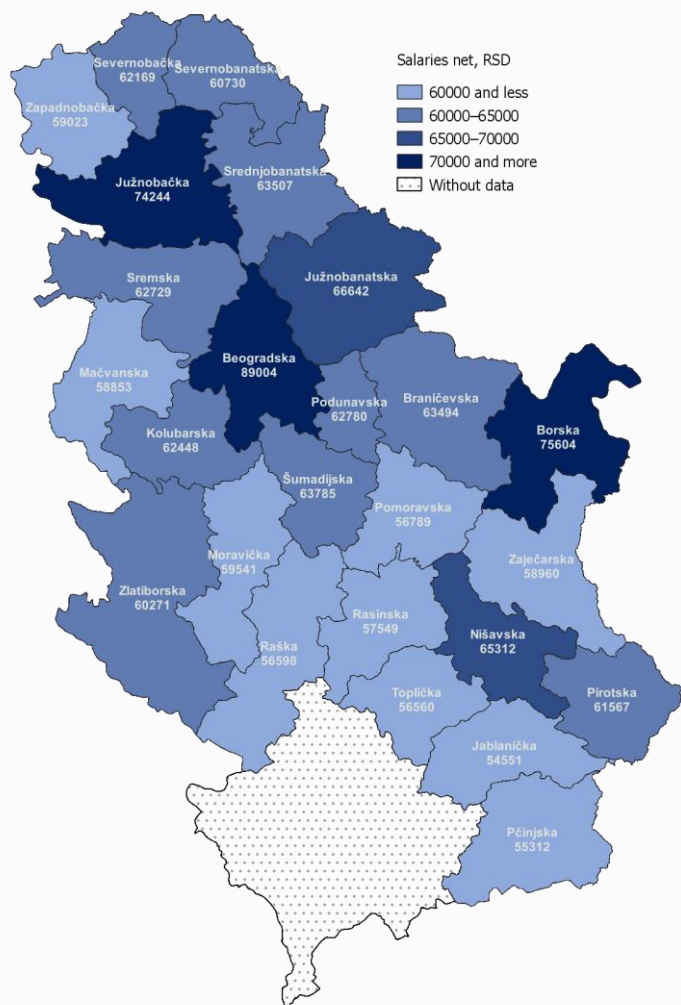
Yearly real wage growth in January was entirely driven by a 5.6% increase in private sector wages. Wages in the public sector increased by 8.4%, nominally, which is primarily the result of the government's decision to increase them in the range of 7% to 8% at the beginning of the year, while their real growth was 0.1%.

The overall increase of salaries was also influenced by an increase in minimum labour costs per working hour, net from RSD 183.93 in 2021 to RSD 201.22 starting from 2022.

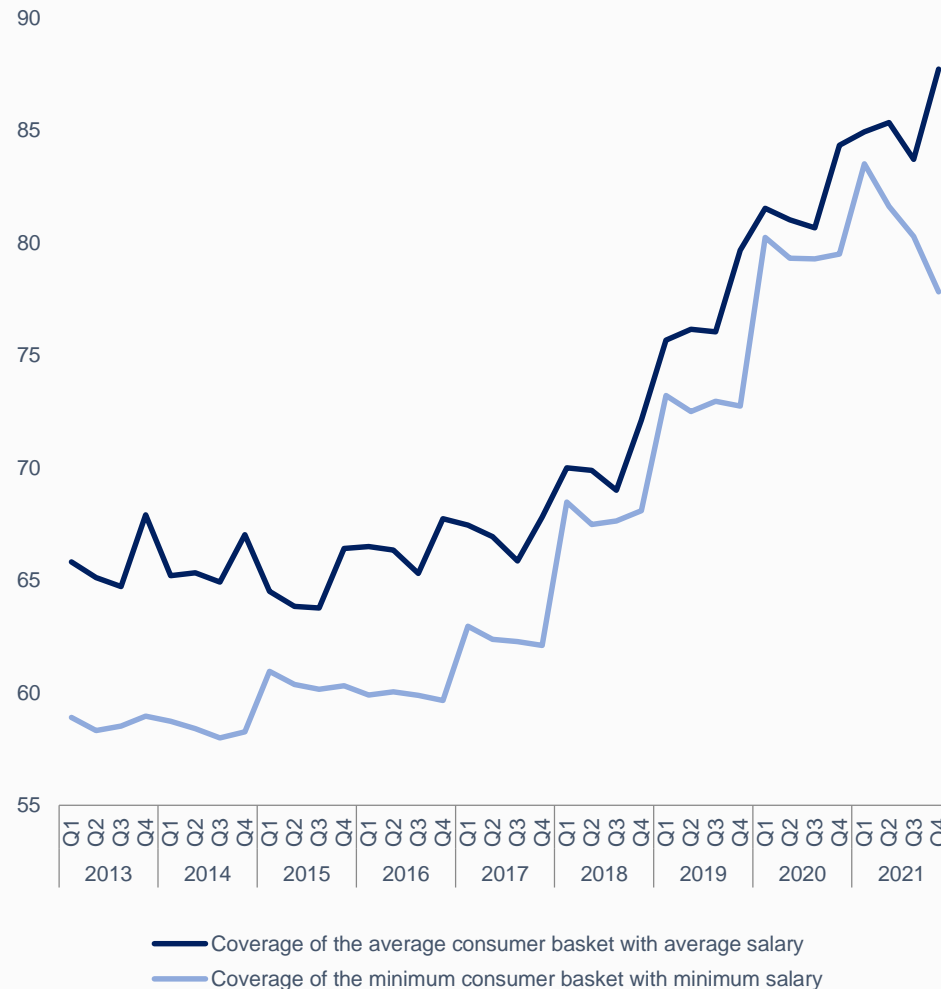
Source: SORS, calculated in MoF

Active measures of the Government of the Republic of Serbia were created in order to reduce the identified regional and social inequalities.

Average net salaries by areas, January 2022



The ratio of salaries and consumer basket



The regional criterion for subsidizing investments, the active role of the state in the socio-economic dialogue, primarily with regard to the minimum labour cost, and the introduction of the principles of gender-responsive budgeting, have ensured a continuous reduction of the problems of vertical and horizontal inequalities.

MONETARY DEVELOPMENTS



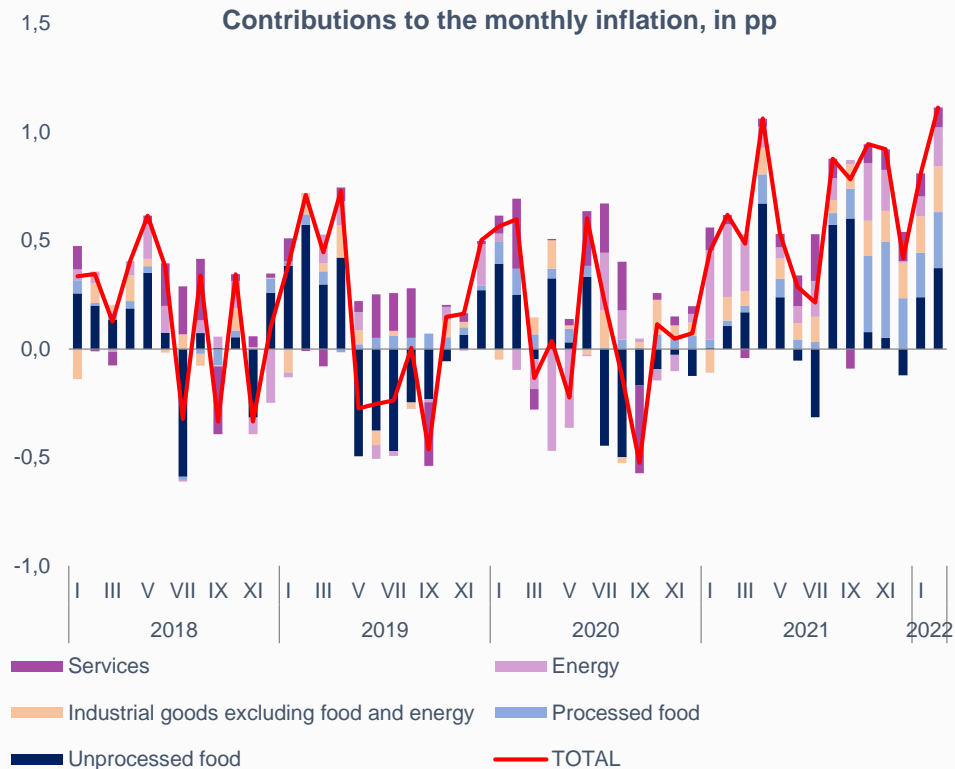
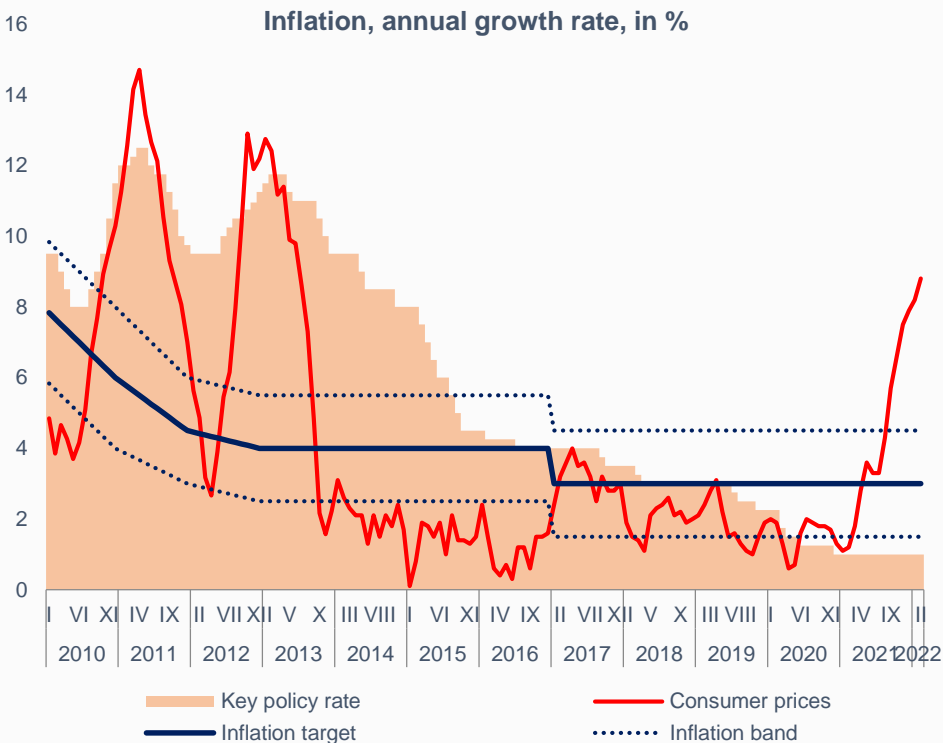
Annual inflation in February totalled 8.8%

Total lending activity registered nominal growth of 10.6% compared to February 2021

In February, dinar appreciated in real terms by 2.7%, on average, y-o-y

NBS foreign exchange reserves totalled EUR 15.6 billion at the end of February, which is higher by EUR 2.1 billion, y-o-y

From the middle of 2021, inflation was at a slightly higher level compared to the previous period. As a result of stronger-than-expected inflationary pressures, the NBS raised the key policy rate by 50 basis points to 1.5% in April, while reducing the monetary policy expansion by increasing the weighted average interest rate on reverse repo auctions, as well as the percentage of excess dinar liquidity withdrawn in those auctions.



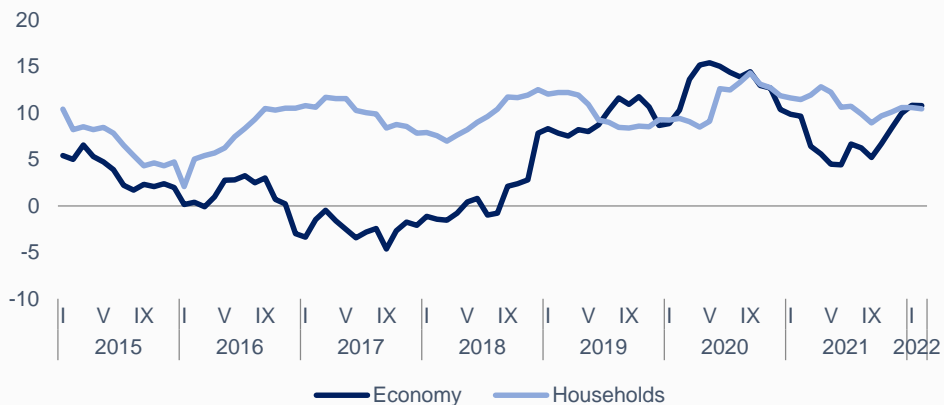
At the same time, core inflation was within the target and amounted to 4.4%, which was significantly influenced by the preserved stability of the exchange rate and overall macroeconomic stability, as well as inflation expectations of the financial sector and the economy within the target.

In February, the growth of consumer prices was above the upper limit of the allowed deviation from the inflation target, so it amounted to 8.8% year on year. This trend in inflation was influenced by the rise in world prices of oil and primary agricultural products and industrial raw materials, increased transport costs, stagnation in global supply chains, but also its low base value. In this period, 84% of inflation was determined by the increase in prices of food and non-alcoholic beverages, petroleum products and fruits and vegetables.

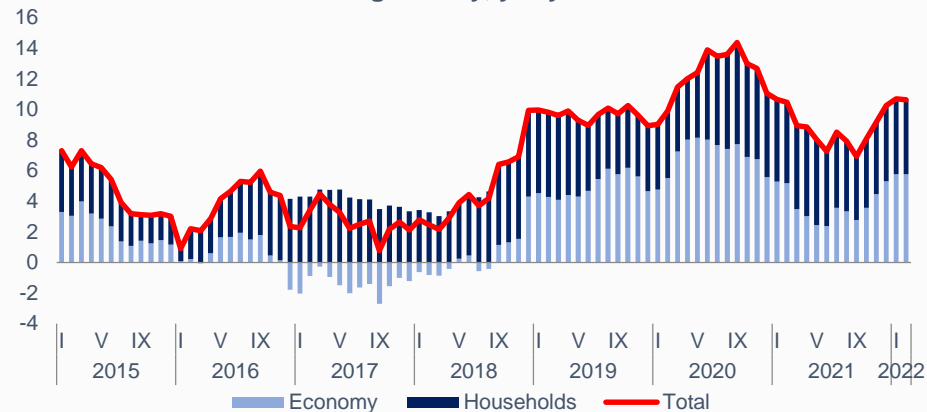
Simultaneously with the increase of the key policy rate, the interest rates on deposit and credit facilities of the National Bank of Serbia were increased to 0.5% and 2.5%, respectively. In the previous period, the NBS used the flexibility of its monetary framework, so it increased the weighted average interest rate by a total of 84 basis points, since October last year, when the process of tightening monetary conditions began, until it was almost equal to the key policy rate.

The total lending activity in February 2022 continued to record growth, due to the effects of the moratorium and a positive contribution from the guarantee scheme loans.

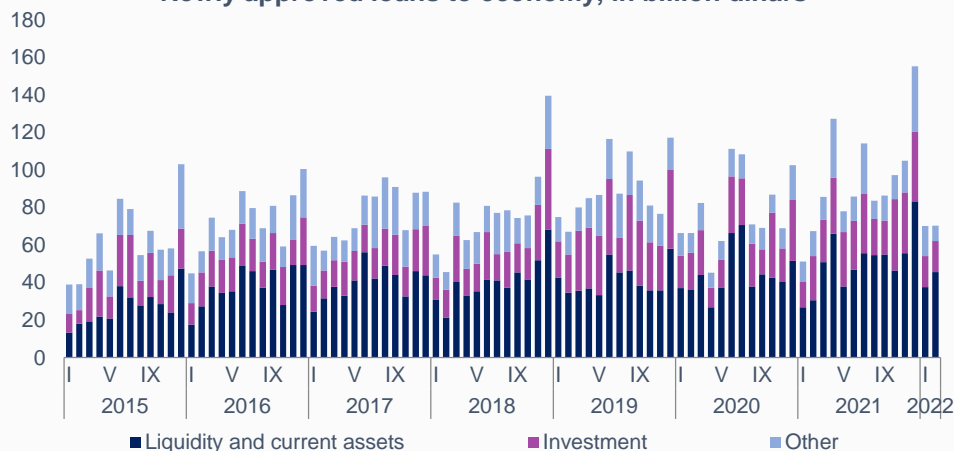
Annual growth rates of loans



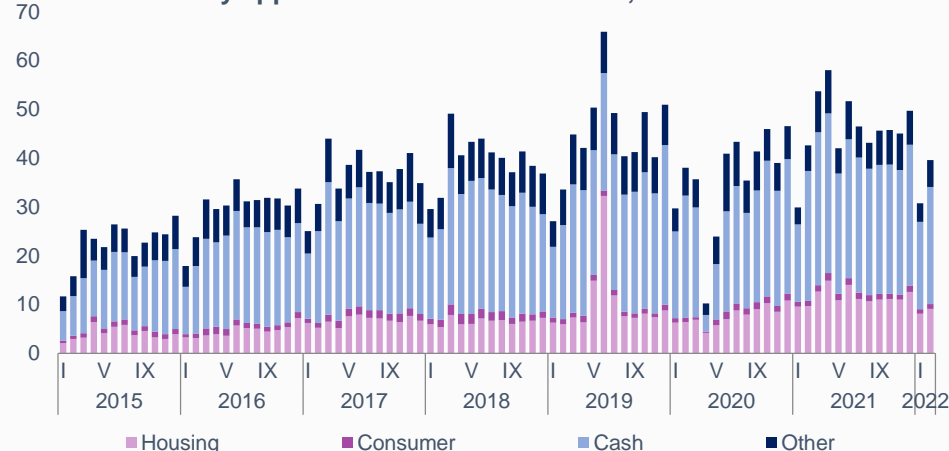
Lending activity, y-o-y contribution



Newly approved loans to economy, in billion dinars



Newly approved loans to households, in billion dinars



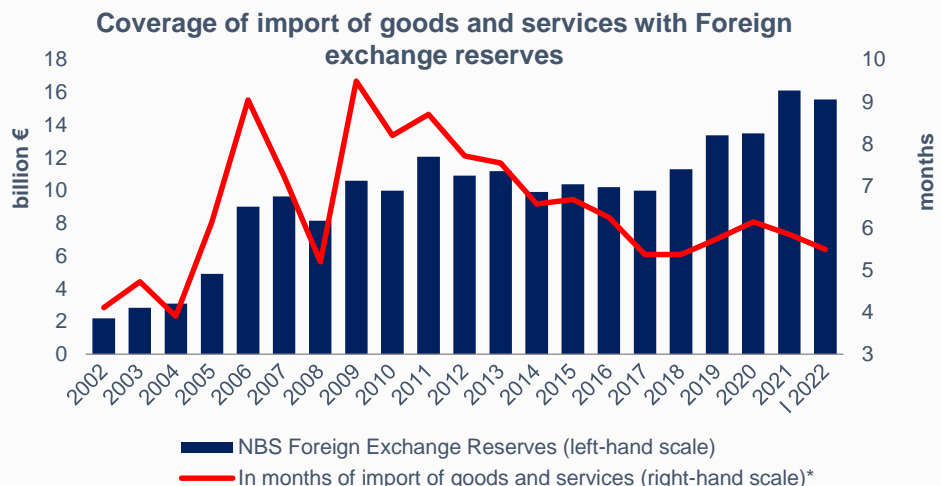
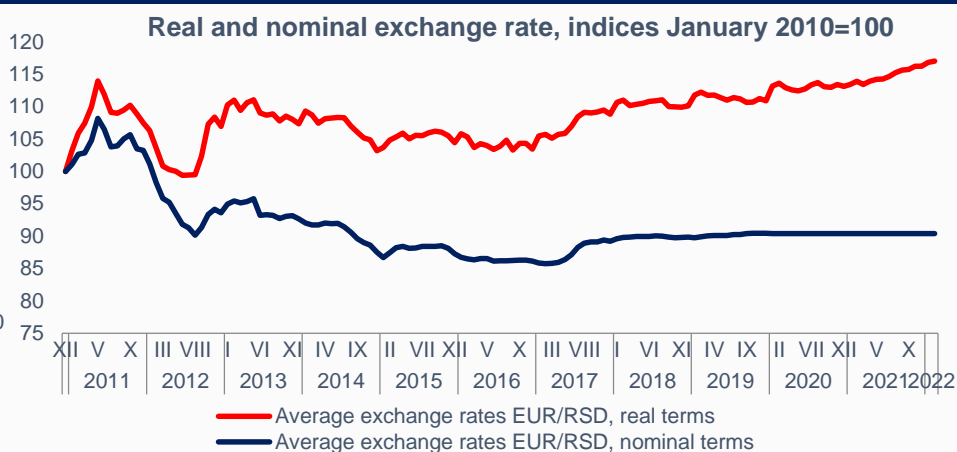
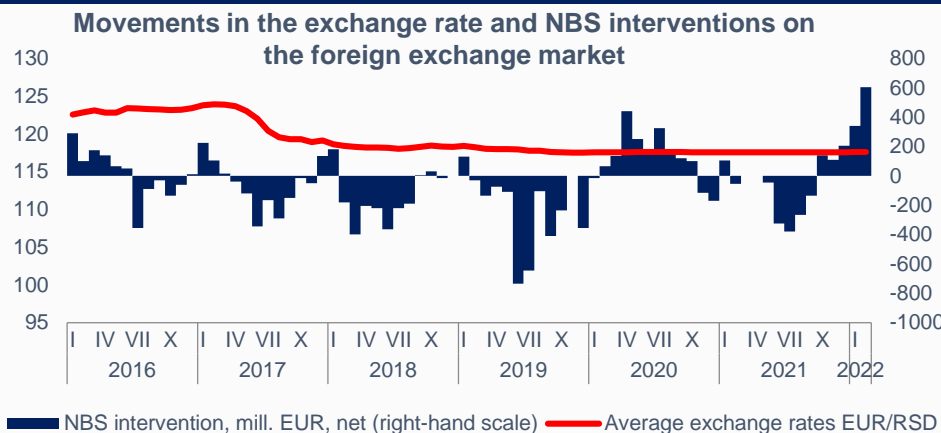
Both the economy and the households contributed positively to the growth of credit activity, while the favourable credit structure was maintained, primarily in the economy, where the share of investment loans was higher than share of loans for the liquidity and current assets. Share of NPL in total loans amounted to 3.5% at the end of December.

A nominal increase of loans to economy of 10.8% was registered in February, while the credit activity to households has grown by 10.4% y-o-y, in nominal terms. The interest rate on the total newly approved dinar loans decreased y-o-y by 0.4 pp, and amounted to 6.43%. Total newly approved dinar loans remained unchanged compared to same period previous year.

Owing to the effects of past monetary policy easing, borrowing conditions in the domestic market remained favourable during 2021 as well. As a result, lending activity was fuelled and the share of dinar loans in total loans continued up. At the beginning of 2022, NBS started to tighten monetary policy by increasing average repo rate.

Source: NBS

In February 2022, real appreciation of dinar was recorded on average, by 2.7%, y-o-y, while in nominal terms remained unchanged. Despite the reduction in foreign exchange reserves since the beginning of the year, they are still at a higher level compared to February last year and amounted to 15.6 billion euros.



* According to the latest available data from NBS Balance of payments statistics.

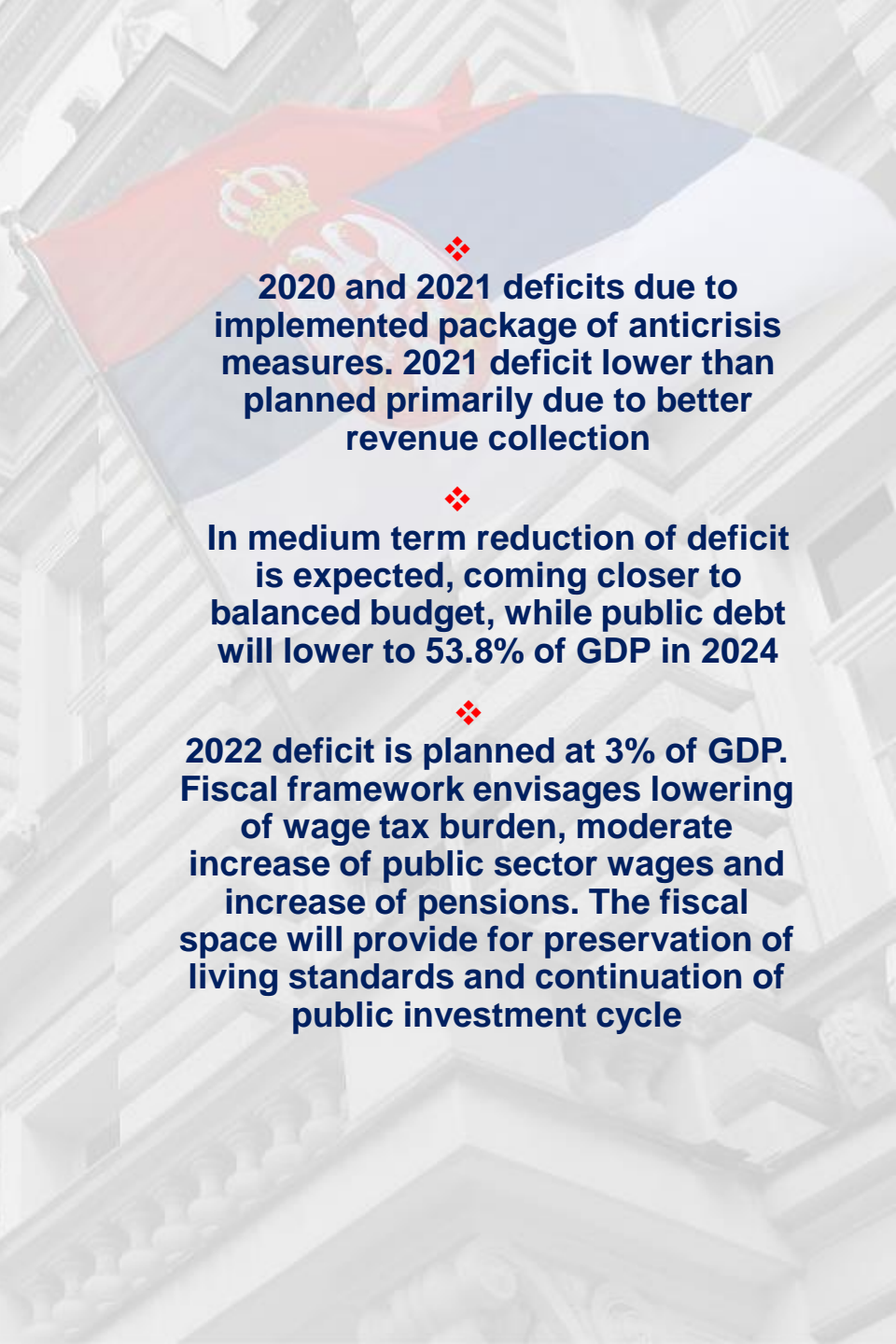
Since the beginning of the year, there have been significant pressures on the foreign exchange market and increased demand for foreign exchange as a result of more intensive foreign exchange purchases by energy importers, as well as increased global uncertainty due to the geopolitical crisis in Ukraine.

In order to mitigate excessive short-term fluctuations of the exchange rate in February, NBS intervened on the foreign exchange market by net selling foreign currency in amount of EUR 605 mil.

At the end February, the NBS foreign exchange reserves decreased by EUR 549.3 million compared to the previous month, mostly as a result of NBS activity in the IFEM aimed at maintaining stability, net debt repayment by the government in respect of loans and foreign currency securities issued in the domestic financial market.

Source: NBS

FISCAL DEVELOPMENTS

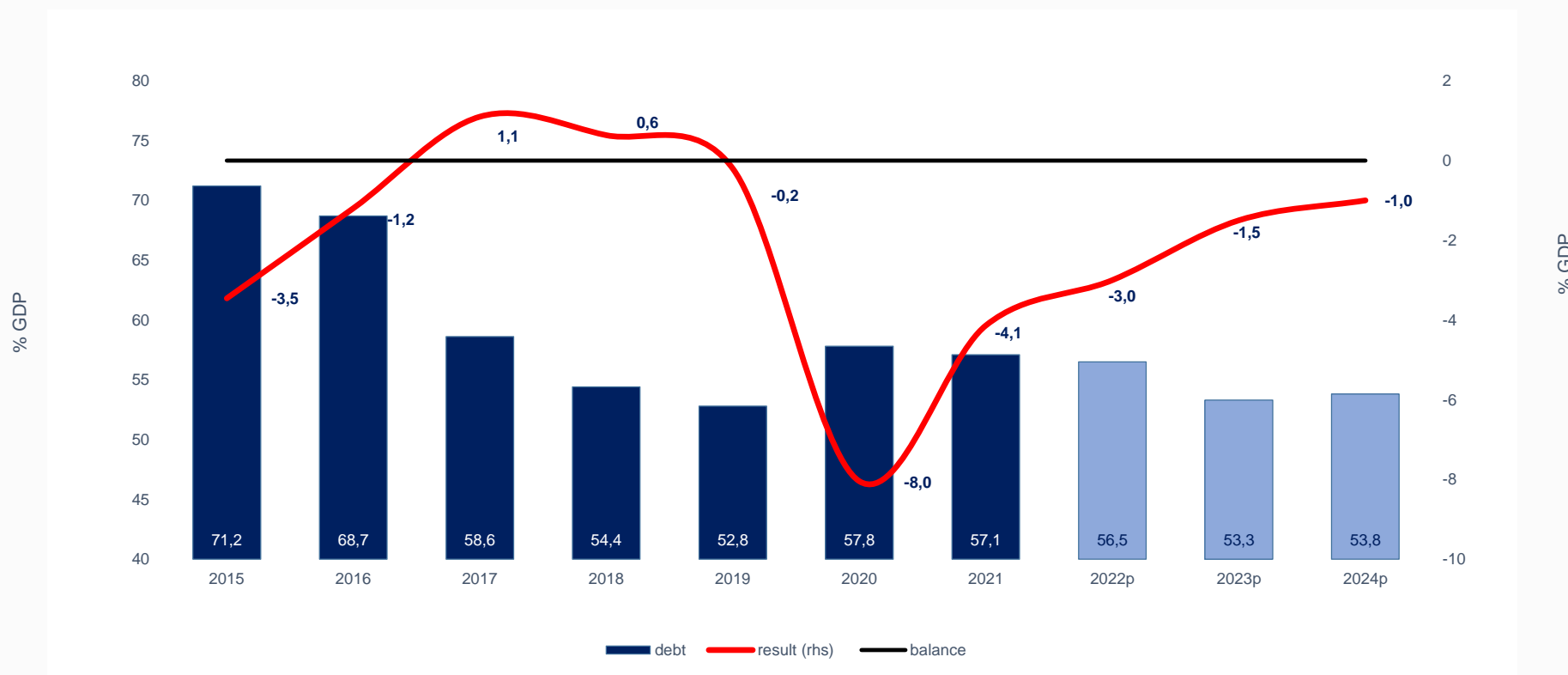


❖
2020 and 2021 deficits due to implemented package of anticrisis measures. 2021 deficit lower than planned primarily due to better revenue collection

❖
In medium term reduction of deficit is expected, coming closer to balanced budget, while public debt will lower to 53.8% of GDP in 2024

❖
2022 deficit is planned at 3% of GDP. Fiscal framework envisages lowering of wage tax burden, moderate increase of public sector wages and increase of pensions. The fiscal space will provide for preservation of living standards and continuation of public investment cycle

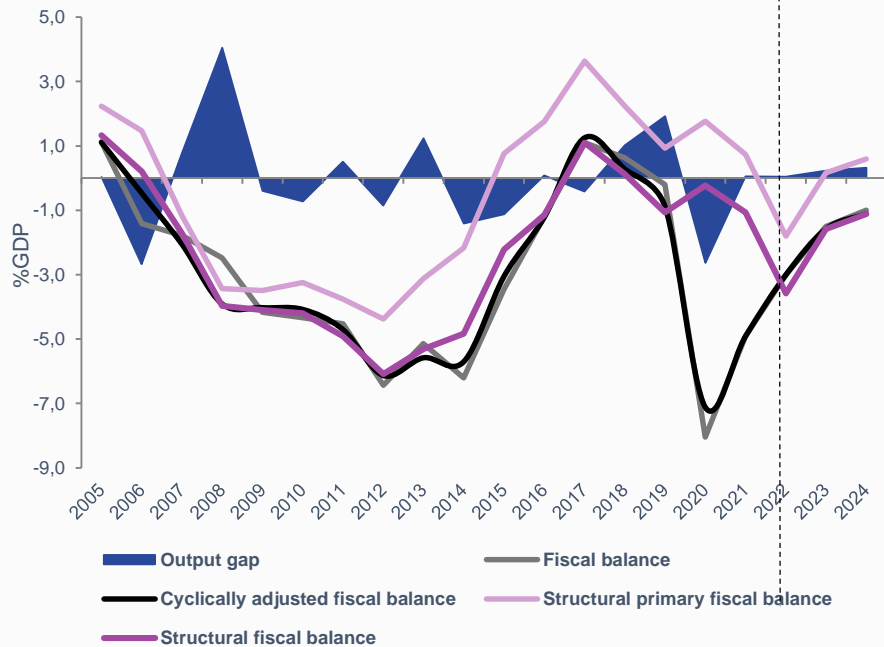
Fiscal result and general government debt, in % of GDP



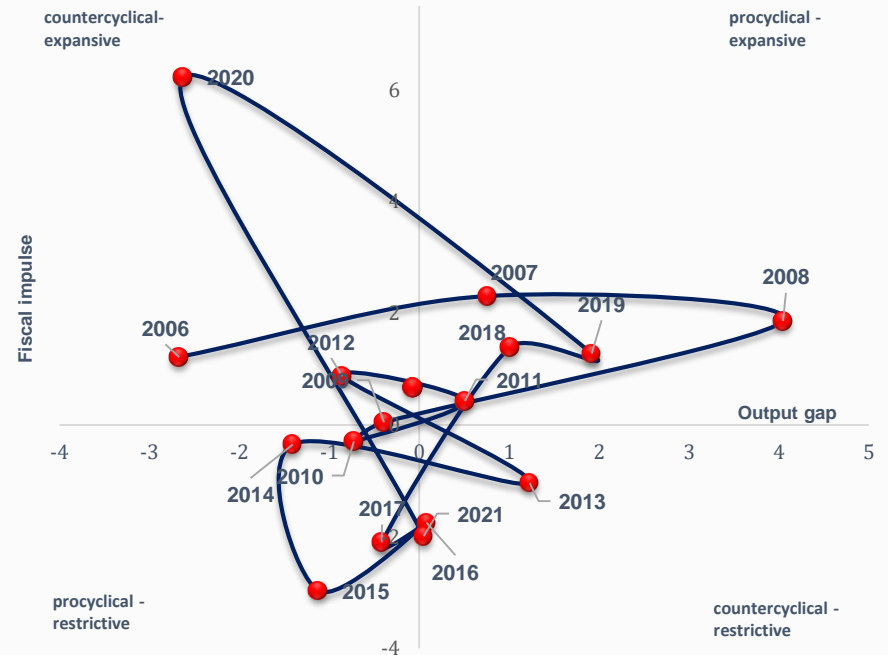
In the next medium-term period, a moderate reduction of the general government deficit is envisaged in order to ensure the necessary flexibility of the national economy to possible external shocks through fiscal policy. This, above all, refers to the expenditure side, in the form of increased public investment, as well as additional investment in the health sector. On the revenue side, the priority will remain to further reduce the tax burden on wages and to continue the fight against tax evasion and the gray economy.

Cyclically-adjusted and structural fiscal balance

Cyclically adjusted and structural primary fiscal balance in% of GDP for the period 2005–2024



Character of fiscal policy and output gap for the period 2006–2021



The structural fiscal position of the country has not been significantly disturbed, due to the implementation of measures in the field of fiscal policy of a time-limited nature in order to assist the economy. Due to the somewhat smaller scope of the package of economic support measures in 2021, fiscal policy is moderately restrictive and neutral in nature. In the period from 2022 to 2024, the countercyclical character is somewhat more pronounced, due to the set goals of balancing and stabilizing public finances, in the conditions of a positive production gap.

* A disaggregated approach to the OECD methodology was used to assess the cyclically-adjusted fiscal balance. A more detailed description of the methodology used can be found in the Fiscal Strategy for 2013 with projections for 2014 and 2015 or via the link <http://www.mfin.gov.rs/pages/article.php?id=8626>.

** Structured primary balance is obtained by excluding interest income and expense, as well as one-time revenues and expenditures from a cyclically-adjusted result.

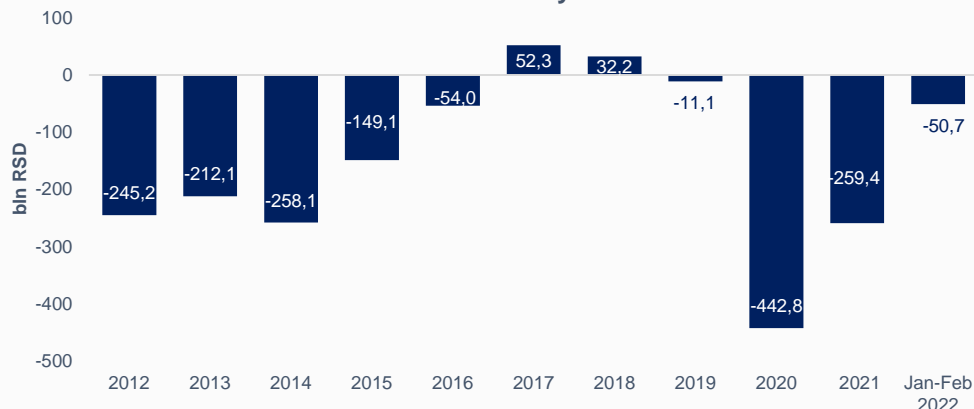
*** The character of fiscal policy is assessed by combining the production gap and the so-called fiscal impulse. The fiscal impulse defines fiscal policy as expansive or restrictive and in this case it is obtained as the difference between two successive structural primary balance.

Package of measures to support citizens and the economy in 2020 and 2021, in the conditions of the crisis caused by the Covid-19 pandemic

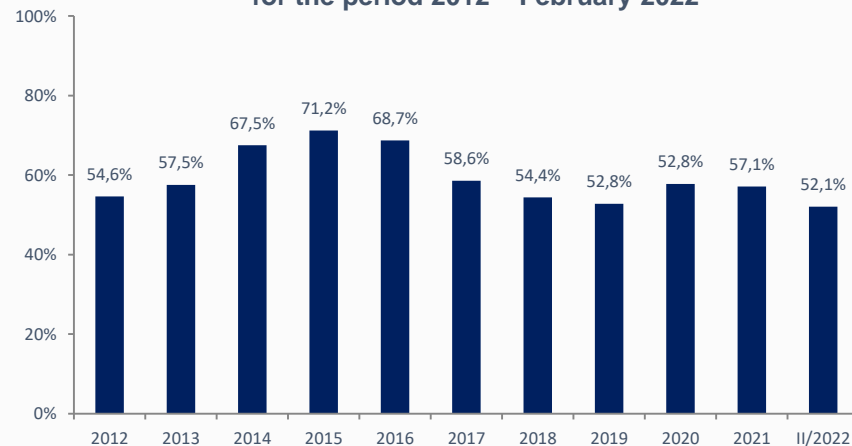
	% GDP	
Tax Policy Measures	Deferred payment of withholding tax for the private sector during the state of emergency and for one additional month; private companies will repay these obligations in instalments, but not before January 2021.	3.1
	Deferred payment of corporate income tax for the second quarter of 2020.	0.4
	VAT exemption for all donors.	–
	Total	3.4
Direct Support to Private Sector	Direct support to entrepreneurs paying flat tax and entrepreneurs paying tax on actual revenues, micro, small and medium enterprises in the private sector – three minimum wages with additional two months of 60% of minimum wages	3.5
	Direct support to large private companies – support in the amount of 50% of the net minimum wage (during the state of emergency) for employees who have received a decision on work termination (Articles 116 and 117 of the Labor Law) in 2020 and direct support to private sector - 3 monthly payments of 50% of minimum wages for all micro, small, medium and large enterprises in 2021	
	Direct sectoral assistance - road traffic passenger transport companies and bus stations - 600€ per bus	0.04
	Direct support to Hotel and Leisure sector – 350€ per bed, 150€ per room	0.1
	Direct support to caterers, travel agencies, hotels and car rental agencies (amount of 30,000 RSD)	0.1
	Direct support to sports clubs	0.02
	Total	3.8
Measures to Preserve the Private Sector Liquidity	Financial support program during the Covid-19 crisis of the Fund for Development of the Republic of Serbia	0.4
	Guarantee scheme to support the economy during the Covid-19 crisis	6.3
	Total	6.7
Other Measures	Dividend moratorium by the end of the year, excluding public enterprises and loss of income stemming from dividends	0.3
	Wage and Income measures (10% increase in salaries for health care workers, direct cash assistance of RSD 4,000 to all pensioners, support for agricultural producers, new additional assistance to all pensioners in the amount of RSD 5,000 and Covid bonus for health workers)	0.5
	Fiscal stimulus – domestic demand incentive	2.4
	Vaccination bonus	0.1
	Total	3.3
Fiscal Measures Impact Assessment	Total	10.9
Package of Measures	Total	17.2

In the period January – February 2022, the general government deficit amounted to 50.7 billion dinars, while public debt reached the level of 52.1% of GDP

Fiscal result for the general government for the period 2012 – February 2022

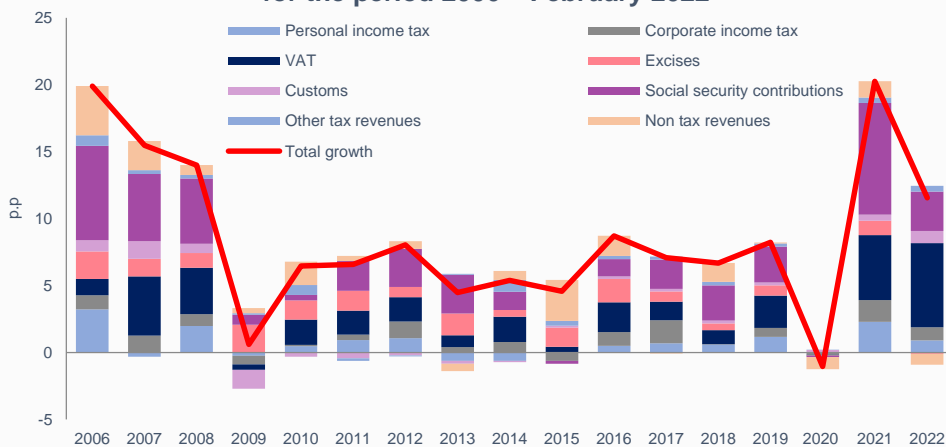


Public debt of the general government in% of GDP for the period 2012 – February 2022

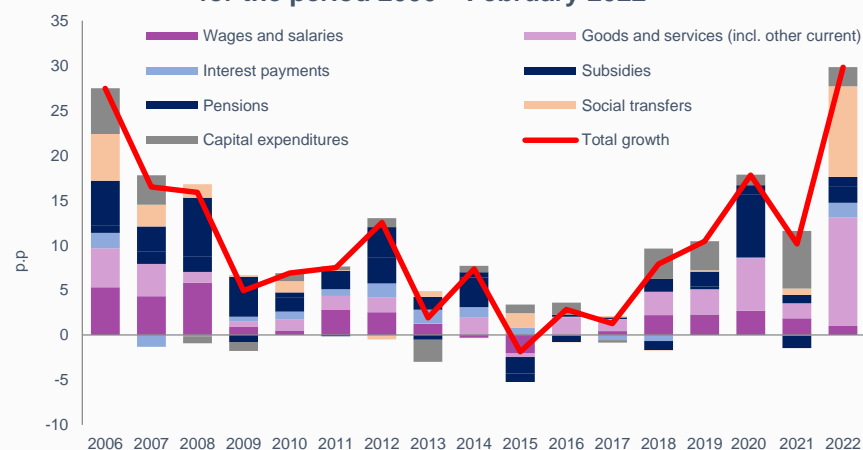


At the level of the general government in the period January - February 2022 a fiscal deficit of 50.7 billion dinars and a primary fiscal deficit of 8.4 billion dinars were recorded. In the observed period, revenues increased by 11.5%, due to better collection of VAT and corporate income tax, and expenditures increased by 29.8%, mostly due to the payment of one-time assistance to persons aged 18-29, paid from the position "other current expenditures".

Contributions to an annual growth rate of public revenues for the period 2006 – February 2022

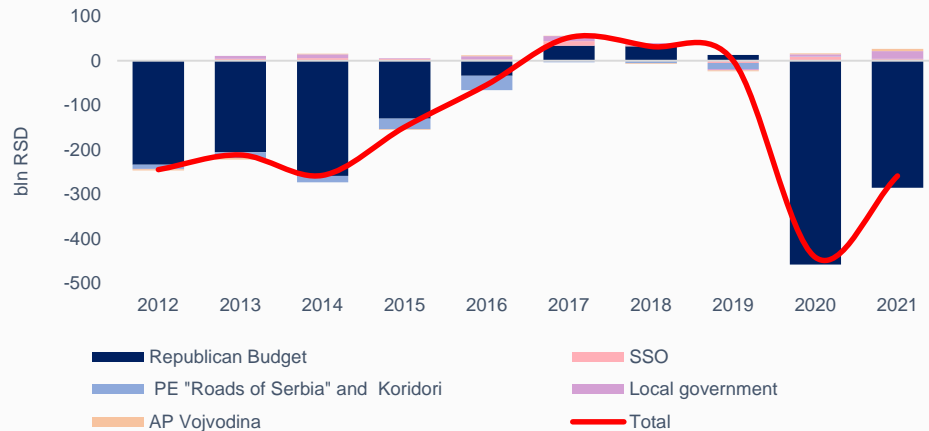


Contributions to an annual growth rate of public expenditures for the period 2006 – February 2022

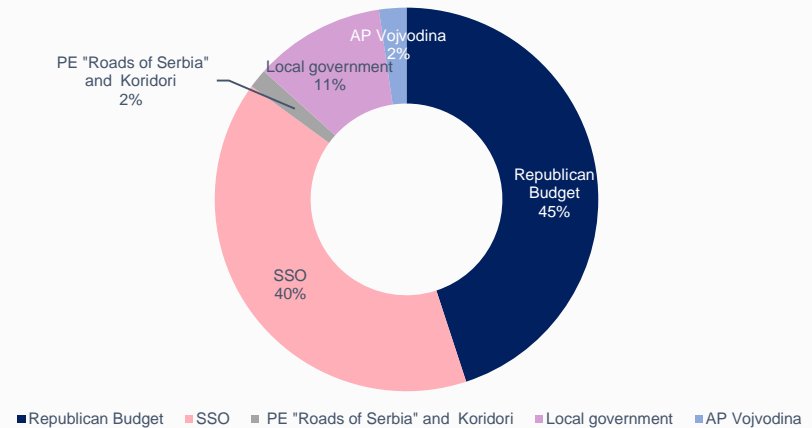


In the period January–February 2022, the Republican Budget deficit stood at RSD 52.9 billion

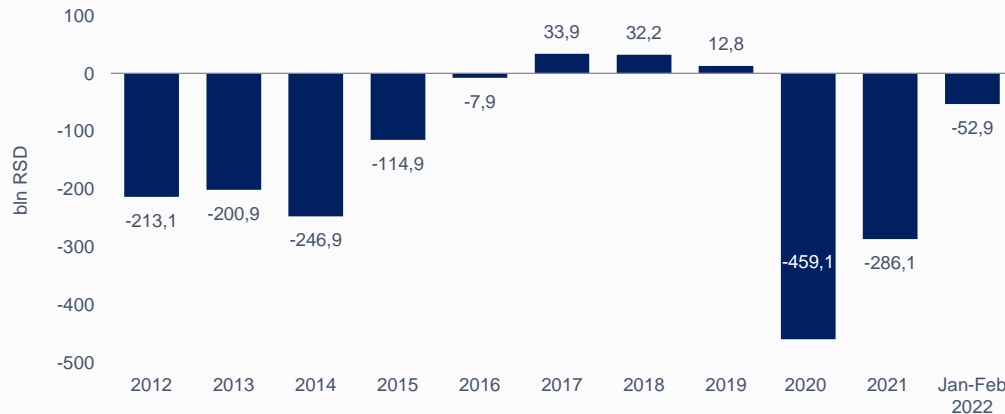
Consolidated general government balance by levels of government for the period 2012–2021



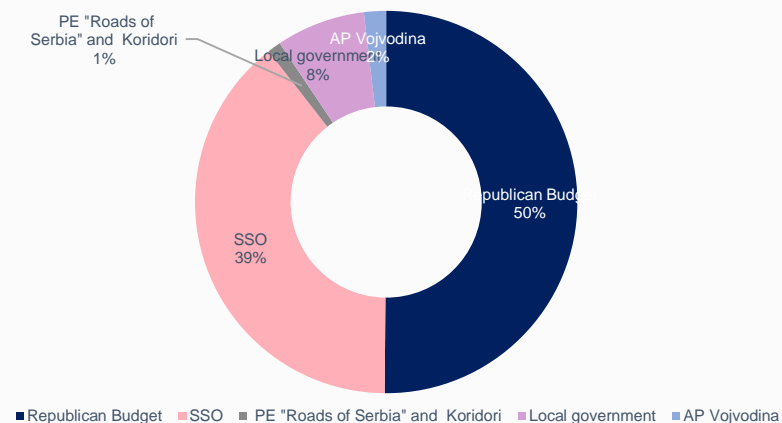
Structure of consolidated revenues by levels of government in period January–February 2022, in %*



Fiscal outcome of the budget of the Republic in period 2012 – February 2022



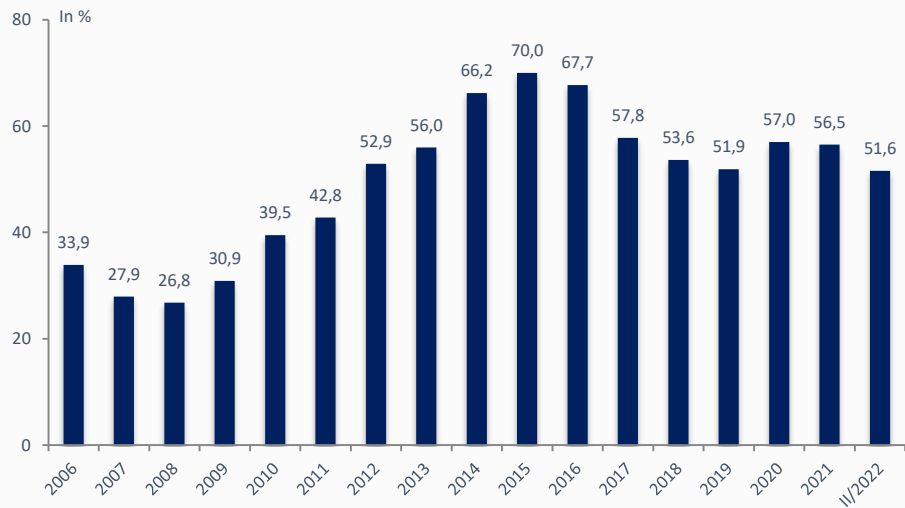
Structure of consolidated expenditures by levels of government in period January–February 2022, in %*



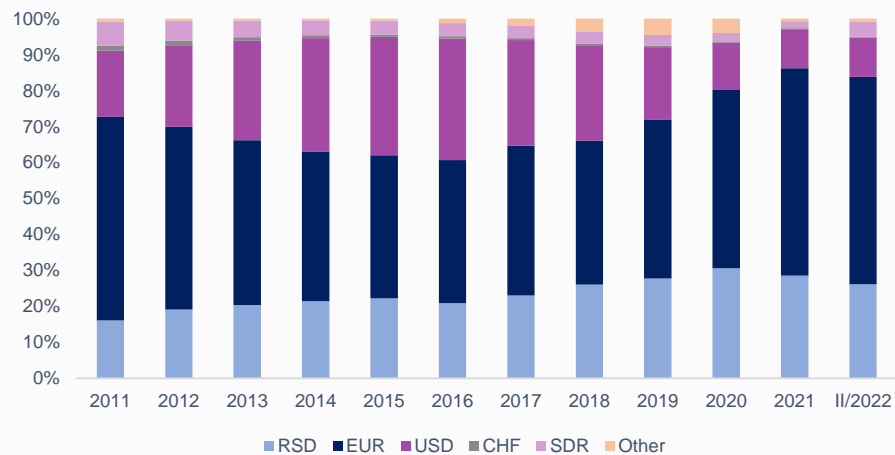
By the levels of government - the vast majority of consolidated revenues and expenditures belongs to the Republican Budget, also, significant portion of expenditures are executed at the level of Social Security Funds.

The central government debt in February 2022 amounted to 51.6% of GDP

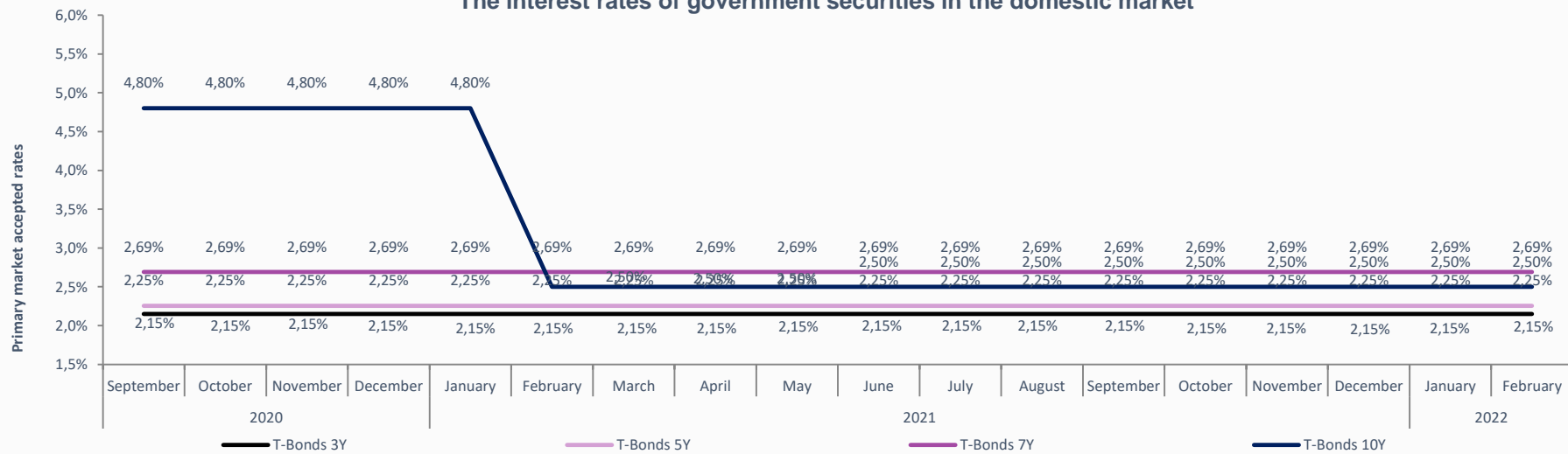
The share of public debt to GDP of the central government



Public debt currency structure in period 2011–February 2022



The interest rates of government securities in the domestic market



The last realized rate at auctions of government securities on a monthly basis

Credit rating of the Republic of Serbia and countries in the region

**STANDARD
& POOR'S**

FitchRatings

MOODY'S

	Rating	Change	Rating	Change	Rating	Change
Serbia	BB+	no change	BB+	no change	Ba2	no change
Bulgaria	BBB	no change	BBB	no change	Baa1	no change
Croatia	BBB-	no change	BBB	no change	Ba1	no change
Hungary	BBB	no change	BBB	no change	Baa2	no change
Rumania	BBB-	no change	BBB-	no change	Baa3	no change
Republic of North Macedonia	BB-	no change	BB+	no change	/	no change
Bosnia and Herzegovina	B	no change	/	/	B3	no change
Montenegro	B	no change	/	/	B1	no change

- Standard and Poor's** –In December 2021, the rating agency Standard and Poor's improved the prospects for further increase of the credit rating from stable to positive and confirmed the rating of the credit rating of the Republic of Serbia at the level of "BB +". In its report, the agency pointed out that the credit rating level at the BB + level is the result of long-term macroeconomic stability, a high level of foreign exchange reserves and regulated public finances. Thanks to the measures of fiscal discipline of the Government of the Republic of Serbia in the previous period, as well as the measures of fiscal consolidation, Serbia entered this crisis much more prepared and with better balanced finances compared to the crisis ten years ago. Also, the reduction of public debt in previous years has created enough fiscal space, so that fiscal policy in times of crisis can support additional borrowing to recover the economy from the negative impact of the pandemic and slow down the economic decline of the Serbian economy.

- Fitch Ratings** – In February 2022, Fitch Ratings affirmed the credit rating of the Republic of Serbia at BB + with a stable outlook for further improvement. Fitch reports that Serbia's rating is supported by credible macroeconomic and fiscal policies pursued by the Serbian government, as well as strong GDP growth over the past year. Responsible economic policy in previous years and good economic results, achieved in the period before and maintained during the pandemic, have resulted in stable and sustainable public finances, and the effects of the crisis in the Republic of Serbia have been significantly mitigated.

- Moody's** –In March 2021, Moody's upgraded the credit rating of the Republic of Serbia to "Ba2" from "Ba3" with a stable outlook for further improvement. The main factors that contributed to the improvement of the credit rating are the resilience of the Serbian economy to the consequences caused by the coronavirus pandemic, stable level of medium-term growth, as well as expectations that indicators of fiscal sustainability in Serbia will continue to be above the average. The improvement of the credit rating in very unstable circumstances, due to the COVID-19 pandemic, is a huge confirmation of the economic progress and results achieved by the Republic of Serbia with the continuous application of fiscal consolidation measures.

INTERNATIONAL ENVIRONMENT



According to Eurostat estimate, economic growth in Q4 2021 was 4.8% in EU27 and 4.6% in euro area, y-o-y.

❖

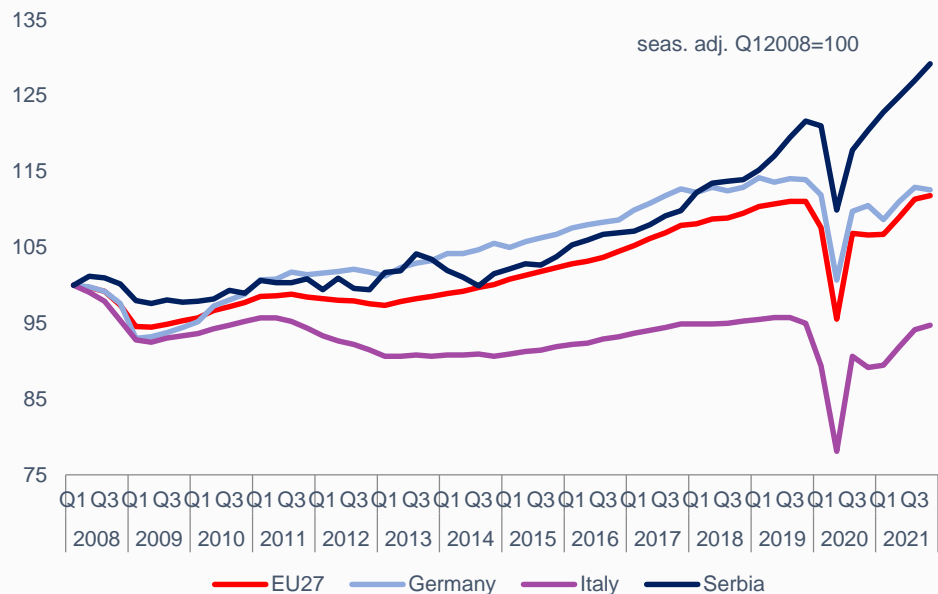
Composite PMI Eurozone index decreased by 0.6 points in March, BCI indicator decreased by 0.12 points, while ESI indicator decreased by 5.4 points.

❖

Euro area inflation increased to 5.9% y-o-y in February, from 5.1% in the previous month.

According to Eurostat estimate, the economic growth of Euro area and EU in Q4 2021 was 4.6% and 4.8% y-o-y, respectively.

Real GDP rates of the main international trade partners of Serbia



GDP, real growth rates, %

	2020	2021*	2022*
Euro area	-6.4	5.2	3.9
Main RS foreign trade partners			
Italy	-8.9	6.2	3.8
Germany	-4.6	2.7	4.6
Bosnia and Herzegovina	-4.3	2.8	3.2
Romania	-3.9	7.0	5.1
Russian Federation	-3.0	3.9	2.6
Montenegro	-15.3	10.7	6.4

* Projection

Source: IMF WEO January 2022 and October 2021.

The economic activity of our largest foreign trade partners, primarily Germany and Italy, but also in all other EU countries, was gradually recovering in 2021, after the fall in 2020.

According to Eurostat seasonally adjusted data, German economy registered a fall in the Q4 2021 compared to the previous quarter by 0.3%, while the annual growth amounted to 1.8%. Italian economy was characterised by growth of economic activity of 0.6% compared to the previous quarter, and a growth of 6.2% compared to the same quarter of the previous year.

Economic developments in the 2021 were somewhat affected by the coronavirus pandemic, however a trend of recovery is notable. Thus, in this period, the European economy recorded growth of economic activity after the initially unfavorable Q1.

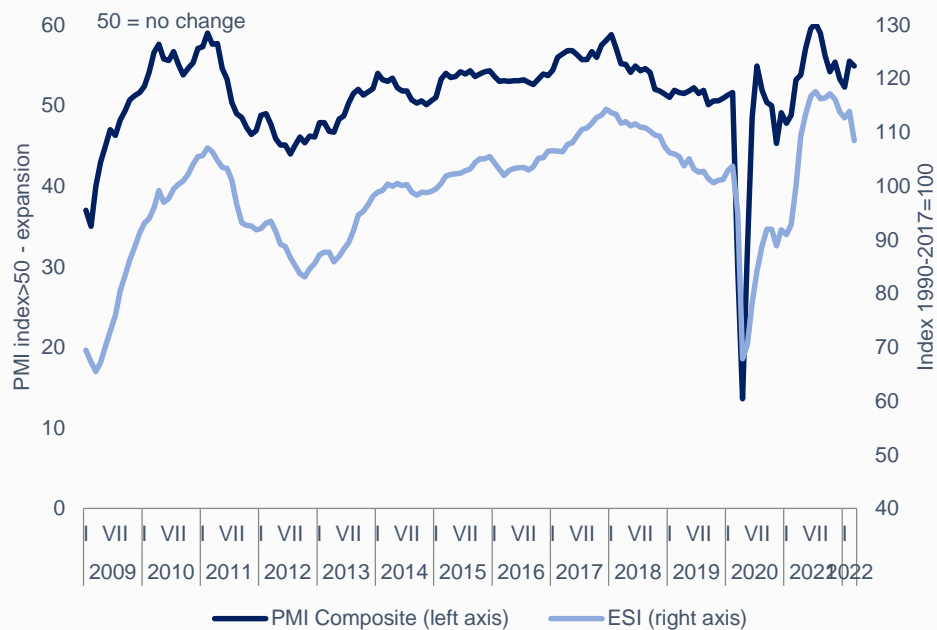
According to the January IMF WEO projections, economic activity in the euro area is continuing to recover from the recession caused by the pandemic. After a GDP growth of 5.2% in 2021, economic growth will slow down to 3.9% in 2022 and then to 2.5% in 2023. It should be noted that the risks to the realization of the projection are significantly asymmetric downwards due to the newly established geopolitical tensions and conflicts in Ukraine.

In March, ECB decided to keep the interest rate at record low level of 0%. Additional longer-term refinancing operations (LTROs) under favourable terms will be step-by-step reduced, in order to adjust monetary policy toward inflation stabilisation.

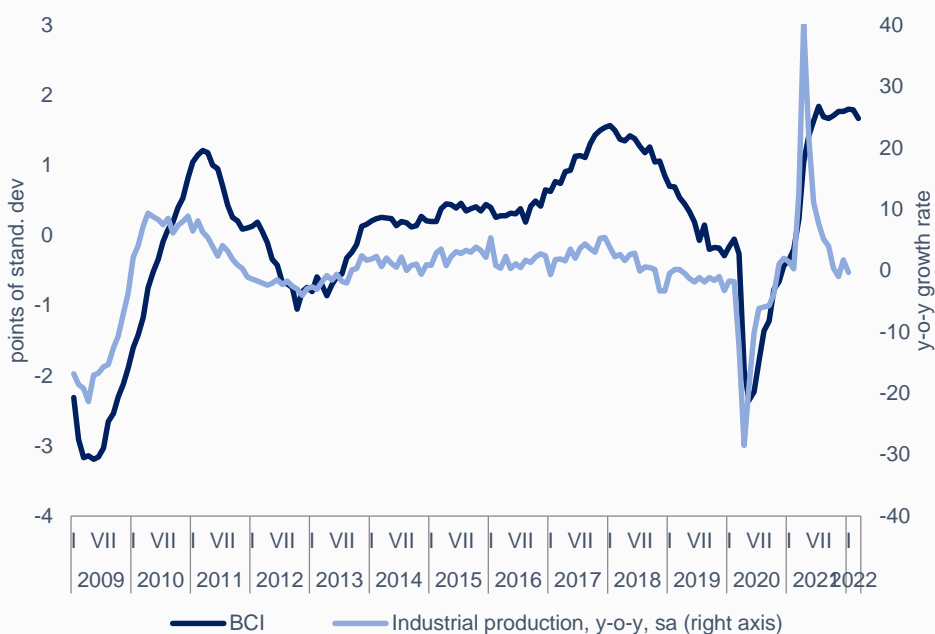
In March, FED decided to increase the interest rate to an interval of 0.25% to 0.50%.

Growing geopolitical tensions and the tightening of economic and political relations are reflected in indicators of economic activity and business climate.

Euro area economic indicators



BCI index and the industrial production in the Euro area



Source: IHS Markit, EC, Eurostat

Composite PMI index of Eurozone decreased from 55.5 points in February to 54.9 points in March, while the ESI index decreased to 108.5 points (down by 5.4 points). The development of these indicators was accompanied by deterioration of the business climate indicator – BCI.

The dynamics of the composite PMI of Eurozone in March 2022 (54.9) indicate the further growth and improvement of economic activity, considering that the value of the index continued to be above the borderline of 50. The services sector recorded growth of economic activity, as well as the manufacturing sector.

ESI indicator recorded decrease in March, and the deterioration of euro-area sentiment resulted from the decrease of consumer confidence, as well as trade and industry sectors, while construction remained unchanged, and services mildly increased. Slight decrease of the BCI index to 1.67 points was registered, which is a decrease of 0.12 points, compared to previous month.

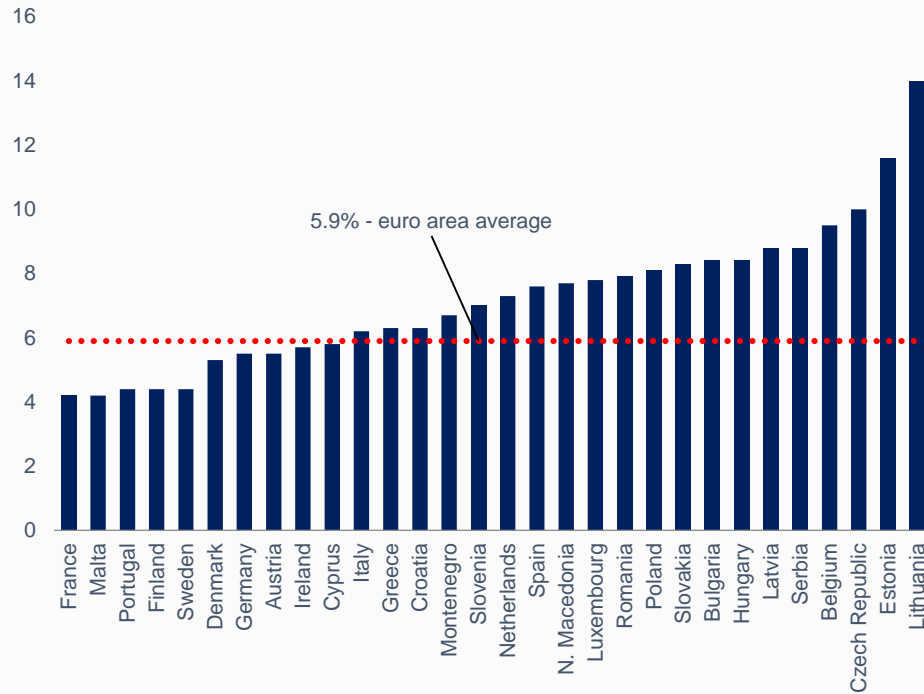
Eurozone PMI Composite index is developed by Markit LTD, and it is based on original survey data collected from a representative sample of 5,000 manufacturing and service companies. Methodology of this index tracks changes in employment, prices, sales and inventory. An index value above 50 indicates improving economic activity, while a value below 50 indicates a deterioration.

Economic Sentiment Indicator (ESI) was developed by the Directorate-General Financial and Economic Affairs (DG ECFIN) of the European Commission. ESI is based on the responses on the questionnaire that is conducted in several fields: manufacturing industry, construction, retail trade, services and financial services. An index value above 100 indicates improving economic activity, while a value below 100 indicates a worsening.

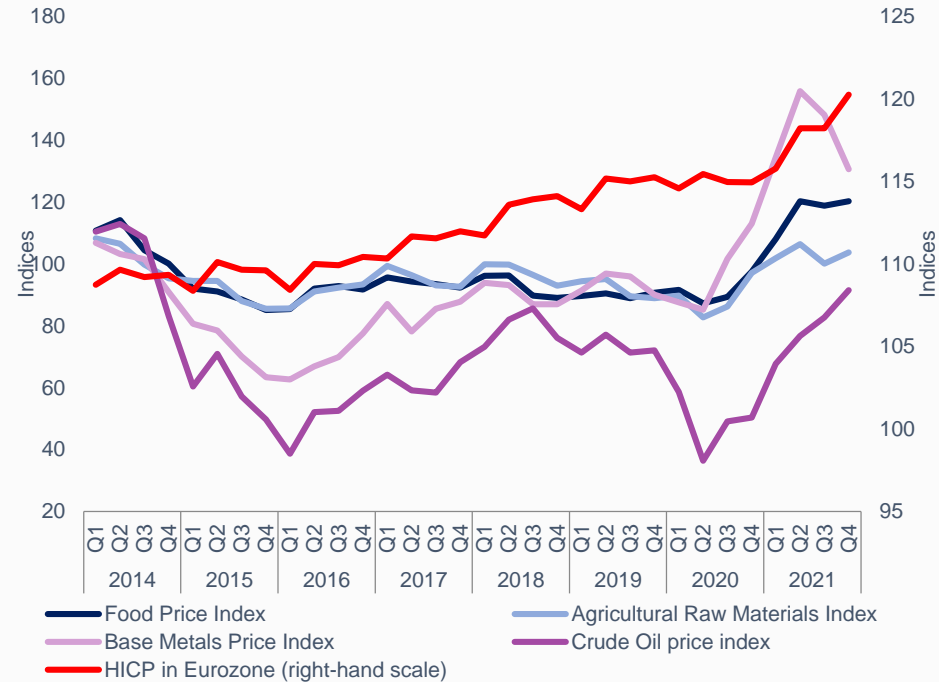
The Business Climate Indicator (BCI) is based on estimations of production, orders and inventories, as well as the current and future expectations of entrepreneurs. BCI index deviates from the industrial confidence indicator in number of inputs which are considered, and therefore is expressed in points of standard deviation.

Annual inflation in euro area increased from 5.1% in January, to 5.9% in February.

Annual inflation rate in February 2022, %



Prices of raw material, indices 2008=100



Source: IMF; Eurostat

In February 2022, the largest contributor to y-o-y inflation rate were energy, services, food, alcohol and tobacco and non-energy industry goods sectors (3.12 pp, 1,04 pp, 0.90 pp and 0.81 pp, respectively).

Total inflation in the euro area increased in Q4 2021 compared to previous quarter. According to the March ECB estimates, after a spike at 5.1% in 2022 driven by a series of exceptional energy price shocks, inflation should gradually decline to 2.1% and 1.9% in 2023 and 2024, respectively.

According to the OPEC data, the price of oil type Urals has amounted to 94.94 \$/barrel in February (up by 10,1% compared to the previous month). Since the beginning of 2022, the price increased by 55.5% compared to the same period 2021, to 90.48 \$/barrel.

Average prices of agriculture products have increased by 2.1% in February 2022 compared to the previous month, while food prices increased by 4.9%. Base metal prices increased on average by 3.7% compared to the previous month.

Republic of Serbia

Ministry of Finance



MACROECONOMIC AND FISCAL ANALYSES AND PROJECTIONS DEPARTMENT

Contact: macro.fiscal@mfin.gov.rs