

Republic of Serbia

Ministry of Finance

Macroeconomic and Fiscal Analyses and Projections Department



CURRENT MACROECONOMIC DEVELOPMENTS

October 2022

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

REAL SECTOR



◆
**Real GDP growth in Q2 2022 was 3.9%,
according to the SORS estimate**

◆
**IPAS recorded growth of 2.2% y-o-y in
August 2022**

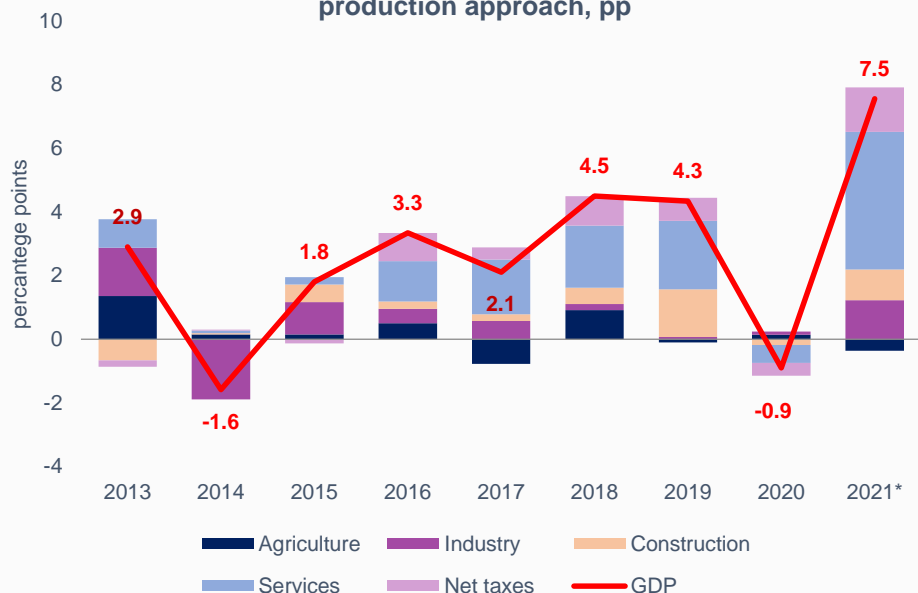
◆
**The total industry in August increased by
0.3% y-o-y, while manufacturing grew by
1.3%**

◆
**Real retail trade turnover in August was
higher by 4.6% y-o-y**

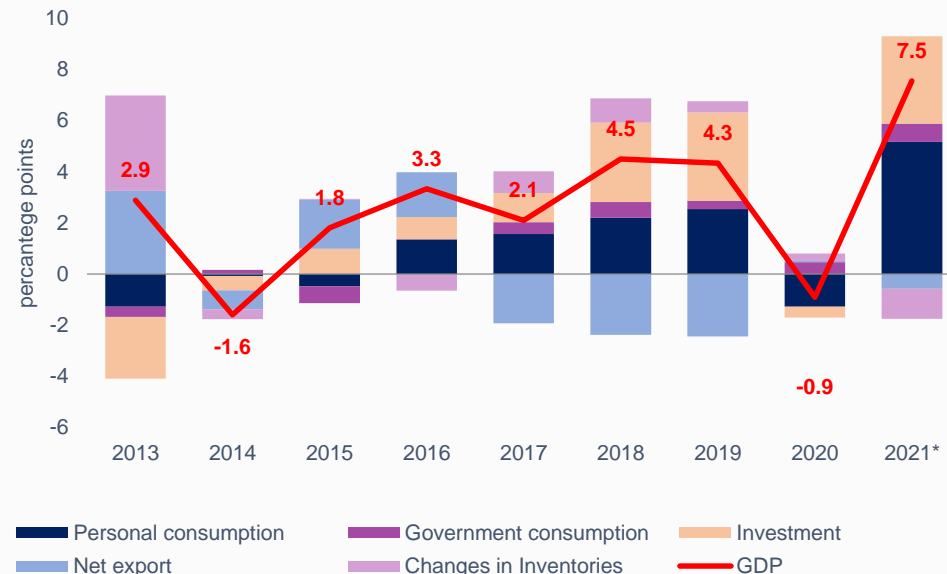
◆
**In August, the number of tourist
overnight stays increased by 21.0% y-o-y**

Economic activity in 2021 was higher by 7.5%, according to the SORS data.

Contributions to the real GDP growth rate, production approach, pp



Contributions to the real GDP growth rate, expenditure approach, pp



* Preliminary data
Source: SORS, calculated in the MoF

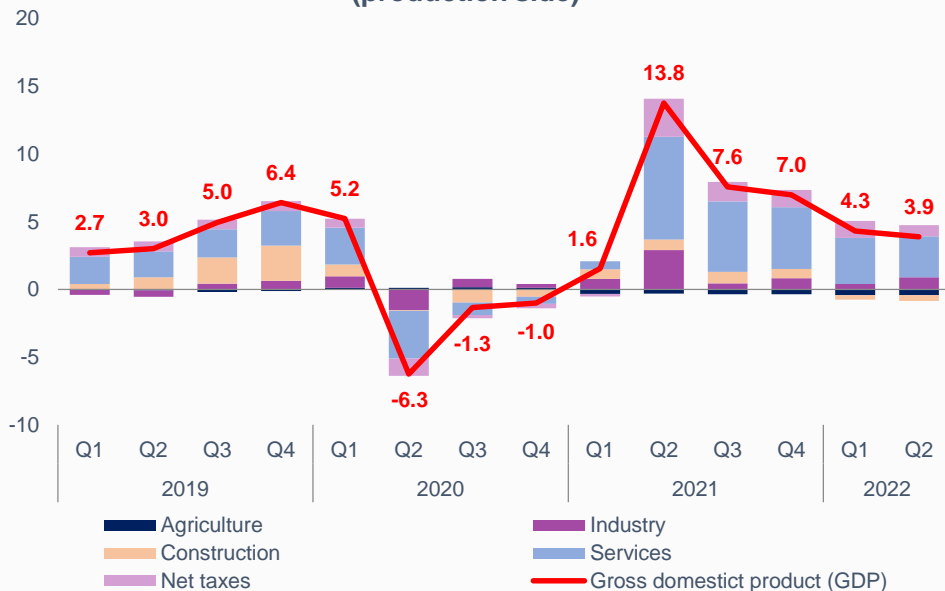
Preserved macroeconomic stability, activation of new production capacities with a comprehensive and continuous program of support to the economy and the population during the pandemic have resulted in strong economic growth in 2021, which is 1.5 percentage points higher than the initial projection.

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 1.0 pp.

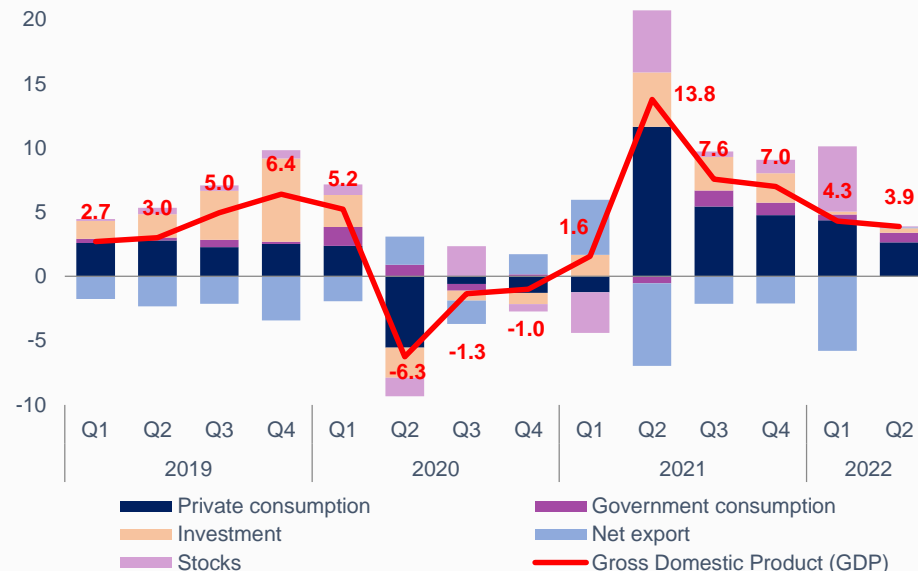
From expenditure side, GDP growth was entirely driven by domestic demand, while the contribution of net exports was slightly negative. Preserved stability in the labour market and an increase in wages, supported by favourable financing conditions, resulted in the growth of personal consumption and its positive contribution to GDP growth of 5.2 pp. Investments with a growth of 15.9% 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 data, in the second quarter of 2022, real GDP growth of 3.9% y-o-y was achieved.

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

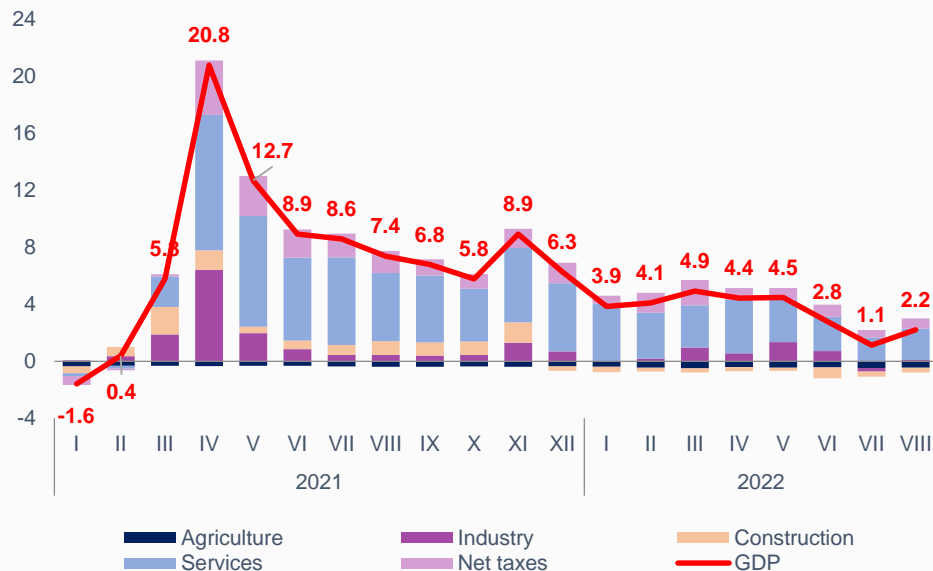
Despite growing geopolitical tensions, the conflict in Ukraine, as well as rising energy prices, developments in the real sector at the beginning of 2022 were generally in line with expectations. However, it should be noted that a more significant negative impact of these factors on domestic economic trends is expected with a certain time delay, during the second half of the year.

Observed from the production side, economic growth in the second quarter of 2022 was led by the service sector. The increase in economic activity was recorded in all service activities, and the most significant contribution to growth came from trade, transport, tourism, as well as services with dominant state participation, which determine half of the total GDP growth. Despite the significantly lower volume of electricity production, a positive contribution was recorded by total industrial production with a growth of 4.6%, as a result of good developments in the manufacturing sector and mining. The negative contribution came from construction, which recorded a drop of 7.6%, while agriculture, due to bad agrometeorological conditions, was down by 5.4% compared to the same period of the previous year.

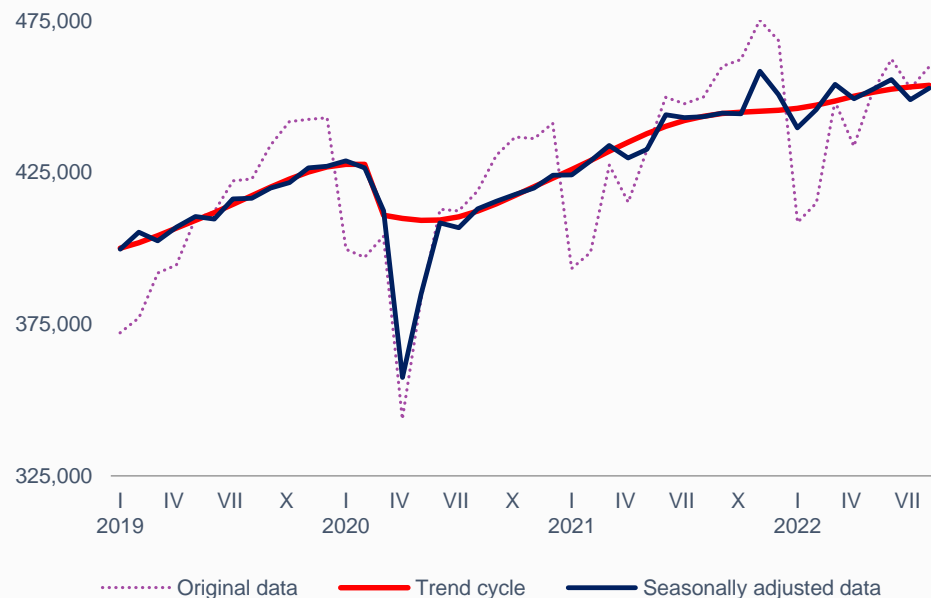
Observed by aggregates of use, GDP growth in the second quarter of 2022 was entirely driven by domestic demand, while the contribution of net exports was neutral. The growth of the disposable income of the population, along with significantly better epidemiological conditions, was reflected in the growth of private consumption, which amounted to about 4.0%. A slight positive contribution was also recorded by investments with a growth of 1.7% y-o-y. The effect on the supply side with solid external demand resulted in real export growth of 20.1%. At the same time, the import activity recorded a growth of about 17% due to the increased import of raw materials for the needs of the economy, as well as energy in order to ensure the security of supply to domestic consumers and ensure a certain level of stocks.

The indicator of economic activity of Serbia (IPAS) recorded growth of 2.2 y-o-y in August 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 with year-on-year growth during the summer months, but as it was expected, due to the negative impact of growing geopolitical tensions, at lower rates than in the first half of the year.

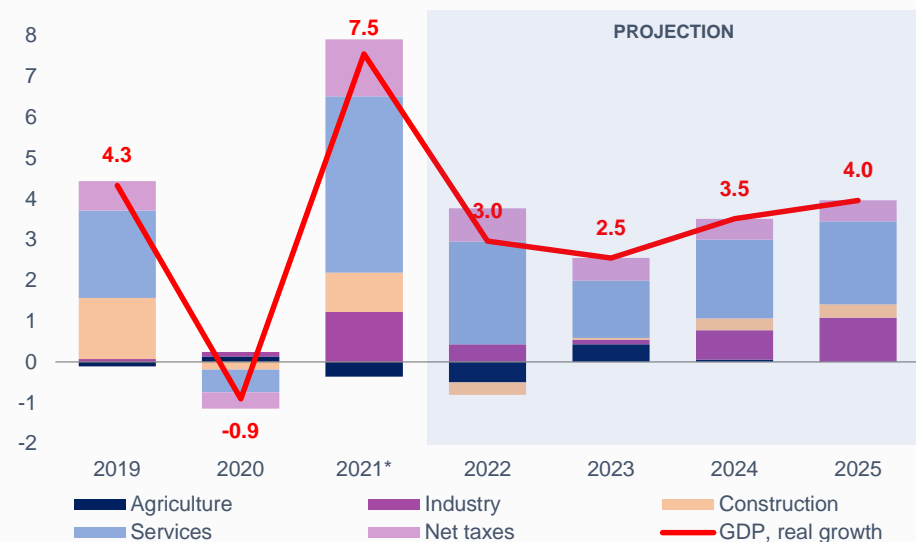
The Ministry of Finance, for the purpose of continuous monitoring of economic activity and early identification of activation of economic growth risks on the basis of short-term indicators, compiles a composite indicator of economic activity of Serbia – IPAS*, as an indicator of economic trends in monthly 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.

According to the Economic Activity Indicator of Serbia (IPAS), the total economic activity in August 2022 was 2.2% higher in real terms year-on-year. The main driver of growth remained the service sector, which achieved an increase of 4.5%, thanks to the growth of turnover in retail trade of 4.6%, tourism by 21%, while according to MoF, transport was higher by about 10%. Industry registered a slight growth of 0.3% and had a neutral contribution to GDP growth. On the other hand, the dry season was reflected in a decline in agriculture of around 8%, while construction, according to MoF, recorded a decrease in economic activity in August of around 5.5%.

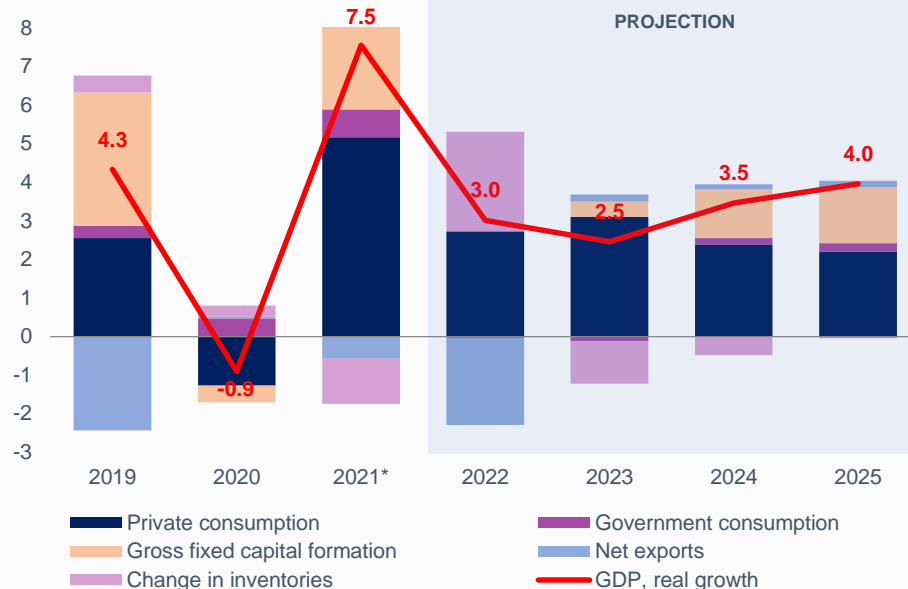
* https://www.mfin.gov.rs/upload/media/ZzkTpV_601696edb3a9a.pdf

Despite the achievements during the first half of the year, which are generally at the projected level, due to additional worsening of external environment and deepening of the energy crisis, as well as poor agricultural season, the GDP growth projection for 2022 was revised downwards by 0.5 pp, from 3.5% to 3.0%.

Contribution to the GDP growth, production approach, in percentage points



Contribution to the GDP growth, expenditure approach, in percentage points



Source: SORS
* SORS preliminary data; Mof projection 2022–2025;

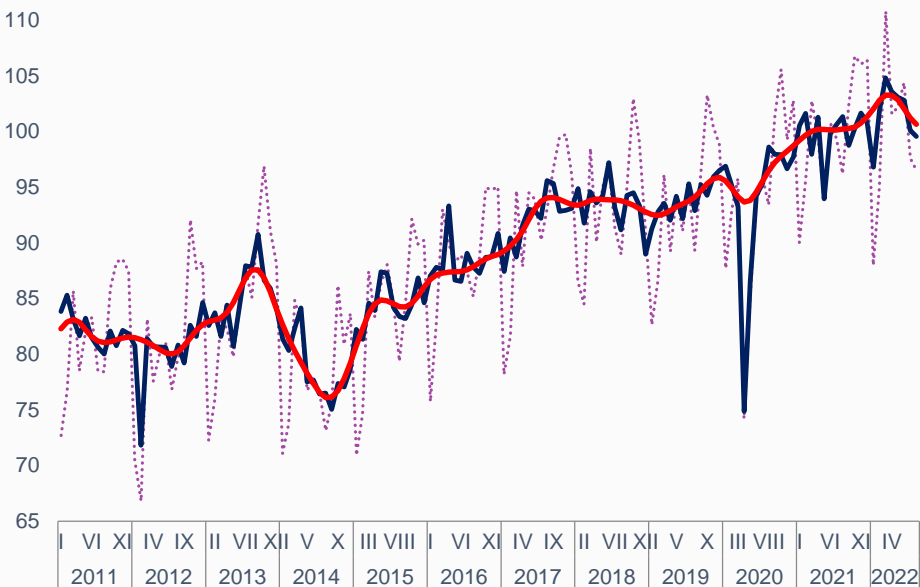
The additional escalation of the conflict in Ukraine and the related increase in global uncertainty have a negative impact on the prospects for economic growth in the medium term, which caused a downward revision of the expected GDP growth in 2023.

Looking at the production side, the most significant revision compared to the previous projection is expected in agriculture and construction. Extremely bad agro-meteorological conditions during the summer months were reflected in significantly lower yields of corn and industrial plants, so the original estimate of agricultural production, which included the average season, was corrected downwards from 0.5% to about -8%. Unfavourable trends than previously expected will also be recorded in the construction, primarily as a result of growing global uncertainty and a smaller volume of private investments, but also due to a strong increase in the price of construction materials. Despite the smaller volume of electricity production, industrial production will provide a positive contribution to GDP growth, in line with previously expected. The service sector retains its role as the dominant source of economic growth in the new projection, primarily as a result of good developments in the trade, transport, tourism, as well as ICT and financial services sectors.

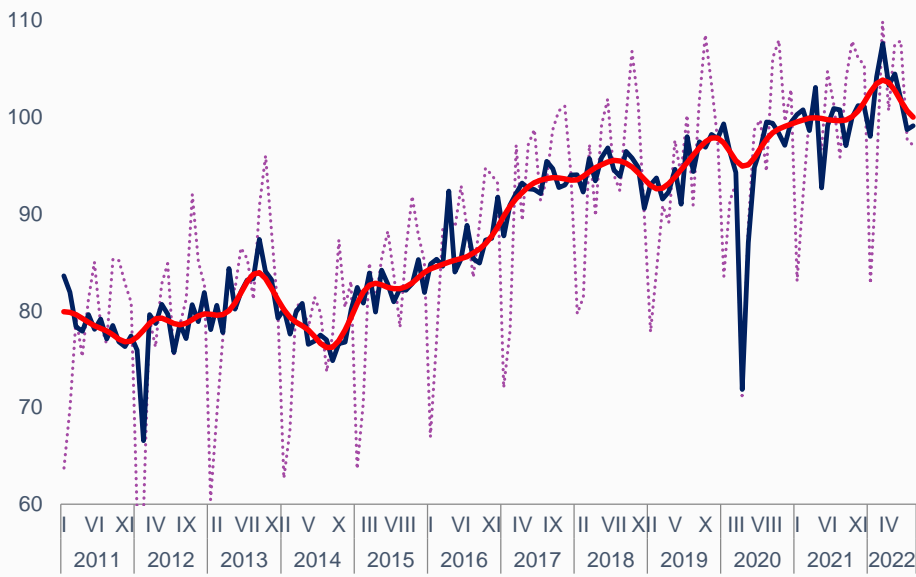
Observed by consumption aggregates, economic growth in 2022 will be entirely driven by domestic demand. Favourable trends in the labour market accompanied by growth in employment and real wages supported by one-time benefits to the population will be reflected in a stable growth of private consumption of around 4%, while the contribution of government consumption will remain neutral. Growing geopolitical tensions and investors' aversion to risk, together with rising input prices, affect a slower growth of fixed investments than previously projected, and instead of an increase of 3%, stagnant movements are expected. The realization of FDI from the previous period and the associated significant effect on the supply side will result in an export growth of 11.3%, despite slightly lower external demand than previously expected and restrictions on the export of certain products. On the other hand, the increased import of energy and raw materials is reflected in the higher growth of real imports in 2022, which according to the new projection is 12.7%.

In August 2022, industrial production achieved a slight increase in the physical volume of production of 0.3% year-on-year.

Indices of industrial output (2021=100)



Indices of manufacturing industry (2021=100)



..... Original data — Seasonally adjusted data — Trend

..... Original data — Seasonally adjusted data — Trend

Source: SORS, calculated in the MoF

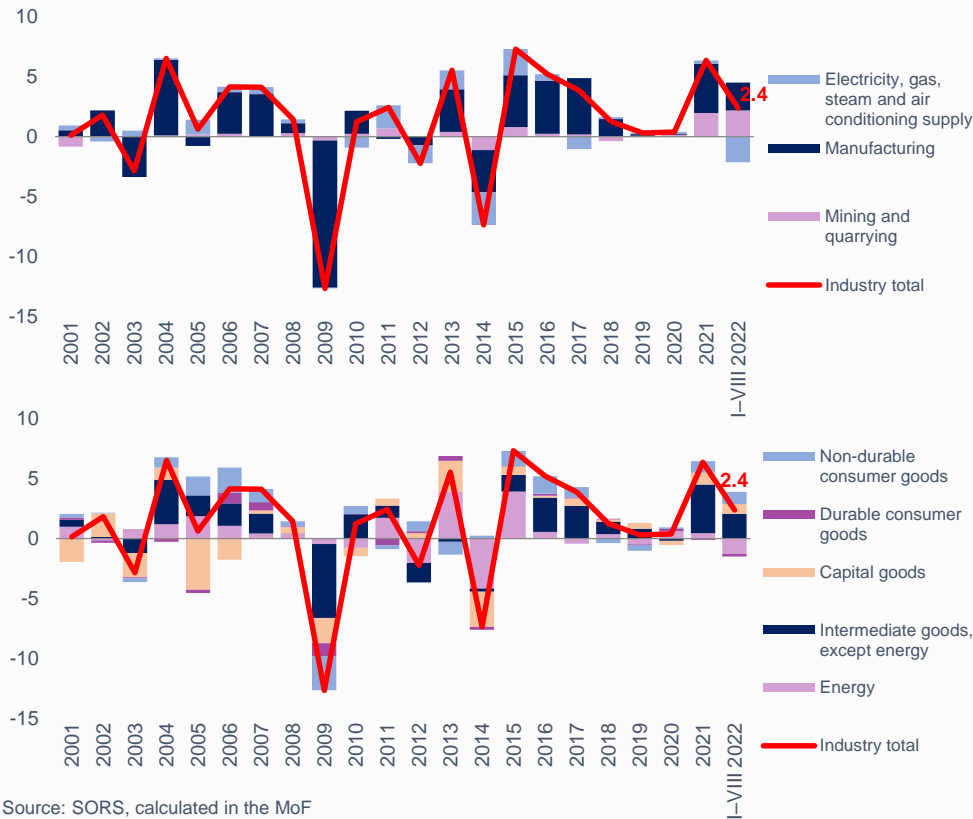
The dynamics of total industrial production has slowed down. In August, the production of the total industry decreased by 0.6% compared to July, while the level of the manufacturing industry remained unchanged.

The year-on-year growth of the manufacturing industry of 1.3% was neutralized by the decline in electricity production of 6.7%, while mining continued to grow but at a much slower pace of 3.8%. Observed by divisions of the manufacturing industry, in August, compared to the same month of the previous year, growth was achieved in 13 out of 24 activities. In addition, the production of metal ores continues to be the driver of the growth of the mining sector, while on the other hand, the production of electricity recorded a lower volume of production on year-on-year level since August last year, but with a significantly smaller decline than at the beginning of the year.

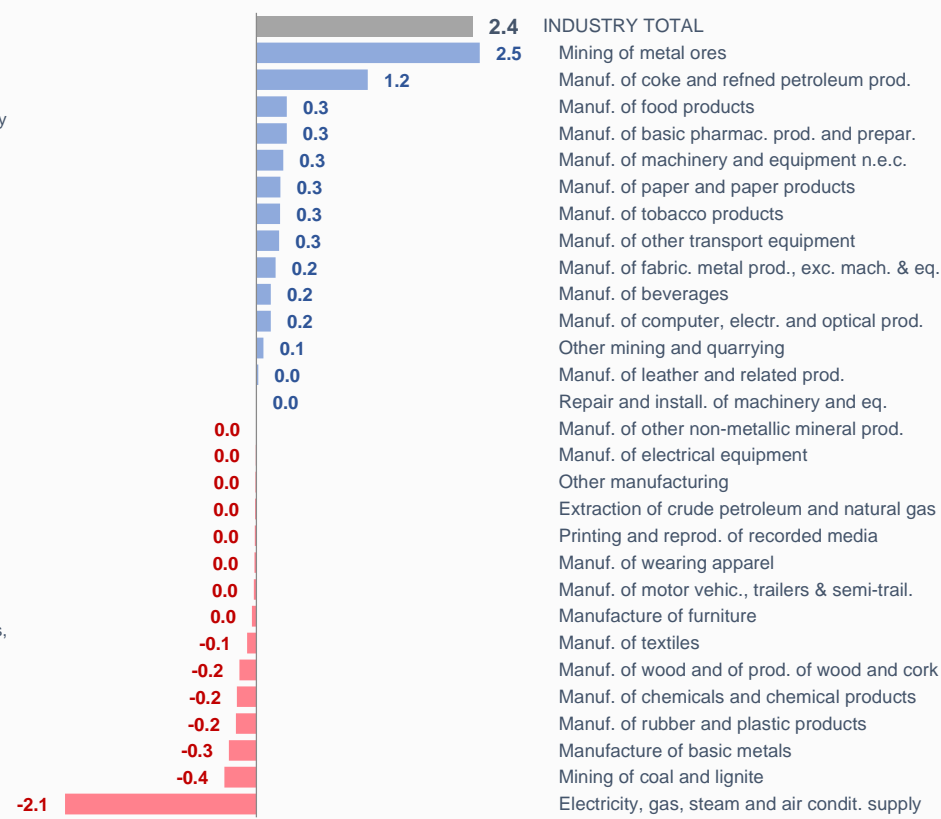
The most significant positive contribution to the year-on-year increase of the manufacturing industry came from the food industry (growth of 6.4%), while the production of the tobacco industry increased by 72.8%, partly as a result of the low base from the same month of the previous year. The automotive industry recorded a growth of 35.6%, while the production of paper and beverages increased by 19.1% and 8.0%, respectively. These five activities generated two-thirds of the positive impact among the activities that achieved production growth. On the other hand, in the case of activities with a decrease in production, about two-thirds of the negative impact comes from the metal and chemical industry with a decrease of 33.0% and 28.4% y-o-y, respectively. The physical volume of the rubber industry decreased by 7.0%, while the production of construction materials and wood was lower by 5.4% and 13.3%, respectively.

In the first eight months of 2022, physical volume of industrial production increased by 2.4% y-o-y.

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



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

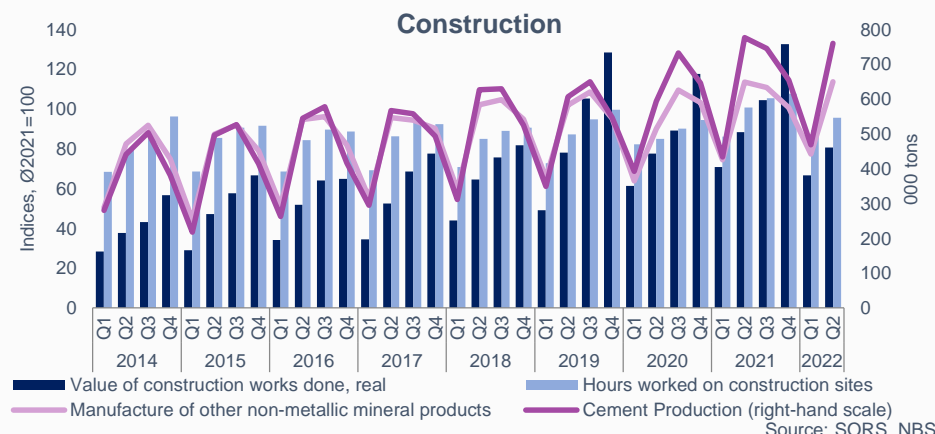
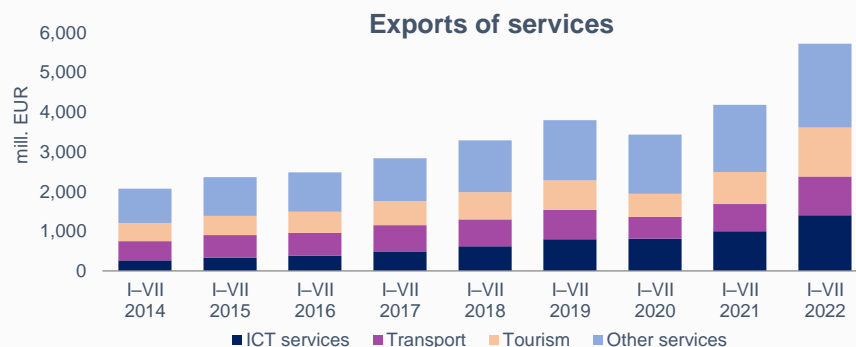
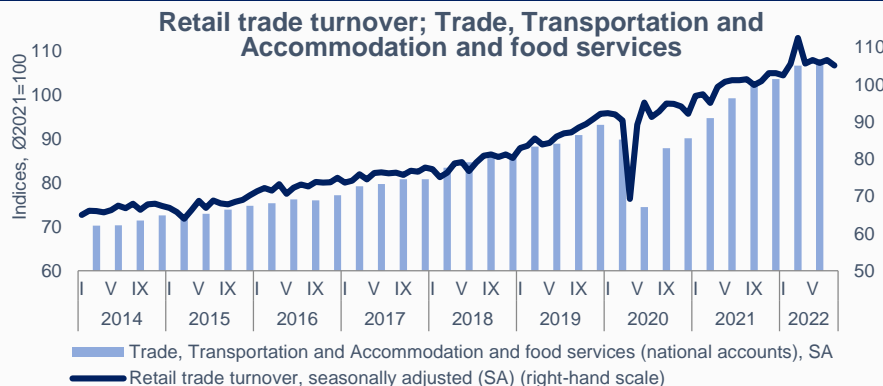


Uncertainties in the international environment due to geopolitical tensions pose significant negative risks, which with reduced external demand of our most important foreign trade partners, as well as delays in global supply chains may have a negative impact on the dynamics of the manufacturing industry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

In the first eight months, the growth of industrial activity is driven by a higher physical production volume of the manufacturing industry of 3.0% y-o-y, with growth achieved in 11 out of 24 activities of this sector. In addition, the growth of the mining sector of 28.9% y-o-y as a result of a higher volume of metal ore mining completely neutralized the decline in electricity production of 12.7% y-o-y.

In this period, slightly more than half of the growth of the manufacturing industry was determined by the increase in the production of the oil industry (growth of 17.8% y-o-y). Food (2.2%), pharmaceutical (8.0%) and machine industry (9.3%), as well as paper production (9.1%) also made a positive contribution. On the other hand, the most significant negative contribution was made by the metal industry (decline of 9.0% y-o-y), rubber (-3.6%) and chemical industry (-5.4%).

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



The growth in disposable income of the population was reflected in higher real turnover in retail trade in August by 4.6%, with turnover growth in all three product groups – motor fuels by 12.3%, non-food and food products by 3.8% and 1.2% y-o-y, respectively. At the same time, tourist activity measured by the number of tourist arrivals and overnight stays increased by 30.9% and 21.0% y-o-y, respectively.

Retail trade turnover in the first eight months of 2022 increased by 7.4% y-o-y in real terms. In the same period, about 2.5 million tourists visited tourist destinations, which is a y-o-y increase of 49.9%, with growth in the number of overnight stays by 30.3%. In the first seven months of 2022, foreign currency inflow from tourism increased by 52.7% y-o-y and amounted to EUR 1,231.4 million.

In the first two quarters of 2022, the physical volume index of transport increased by 23.4% y-o-y. At the same time, the number of registered automobiles decreased by 12.1% y-o-y.

In the first seven months of 2022, the growth of service activities exports continued, where the year-on-year increase in the exports of tourism and ICT services of 52.7% and 40.3% respectively accounts for more than half of the total growth.

In the first two quarters of 2022, GVA of construction recorded a real decline of 6.7% y-o-y, partly due to a slightly higher base from the same period last year, but also due to strong growth in prices of construction materials. In the first eight months, the number of issued building permits increased by 9.0% y-o-y, while the production of cement is higher, and construction materials is lower by 0.1% y-o-y.

EXTERNAL SECTOR



❖
In August 2022, the year-on-year exports and imports growth was 23.4% and 29.1%, respectively

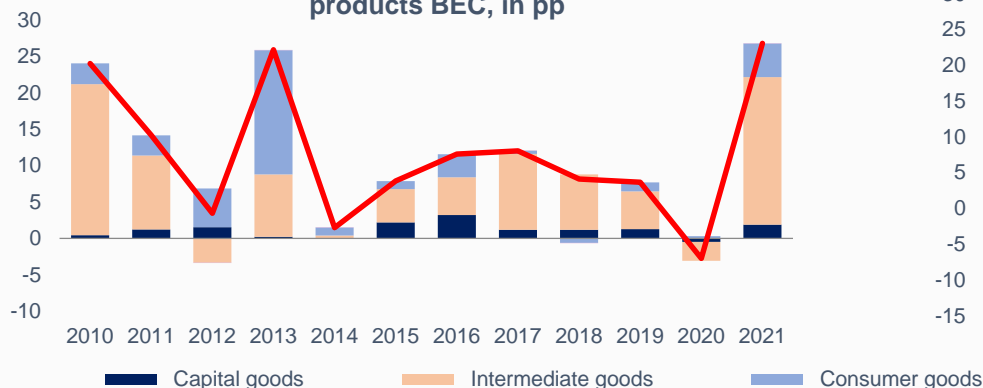
❖
Coverage of imports by exports of goods in August amounted to 70.8%

❖
Germany, China and Italy are the largest external trade partners in the period January–August

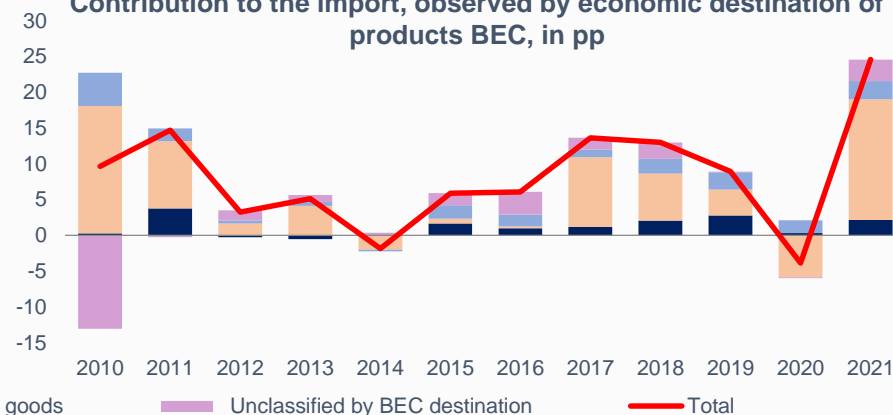
❖
In July 2022, the current account deficit amounted to EUR 8.5 mill

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

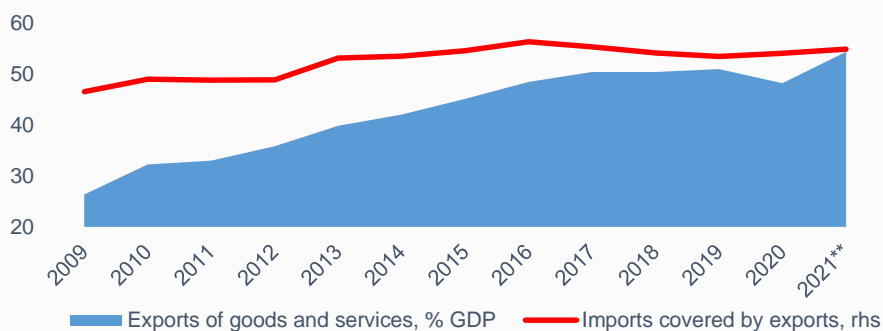
Contribution to the export, observed by economic destination of products BEC, in pp



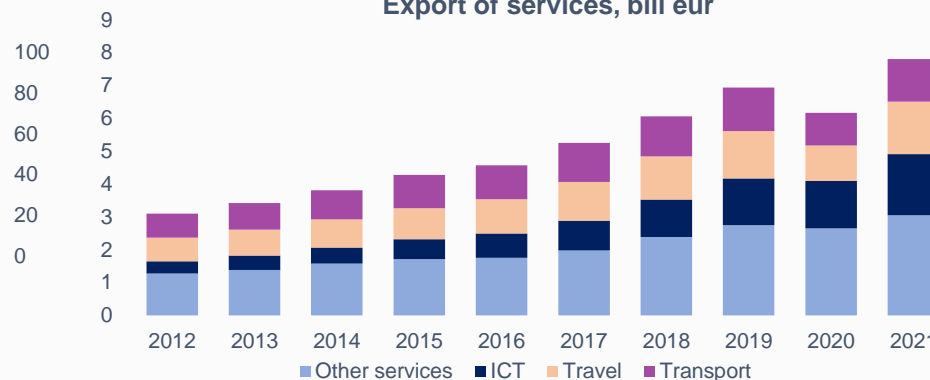
Contribution to the import, observed by economic destination of products BEC, in pp



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



Export of services, bill eur



Source SORS: * MoF estimation, national accounts data.** MoF estimate for 2021 based on preliminary GDP data.

The total volume of foreign trade in goods in 2021 amounted to EUR 50.2 billion, and was 25.5% higher than in 2020. In addition, a foreign trade deficit of about EUR 7 billion was recorded, and the increase in its share in GDP from 12.6% in 2020 to 13.1% in 2021 was accompanied by the growth of both external and domestic demand, resulting in an increase in exports and imports of 26.8% and 24.6%.

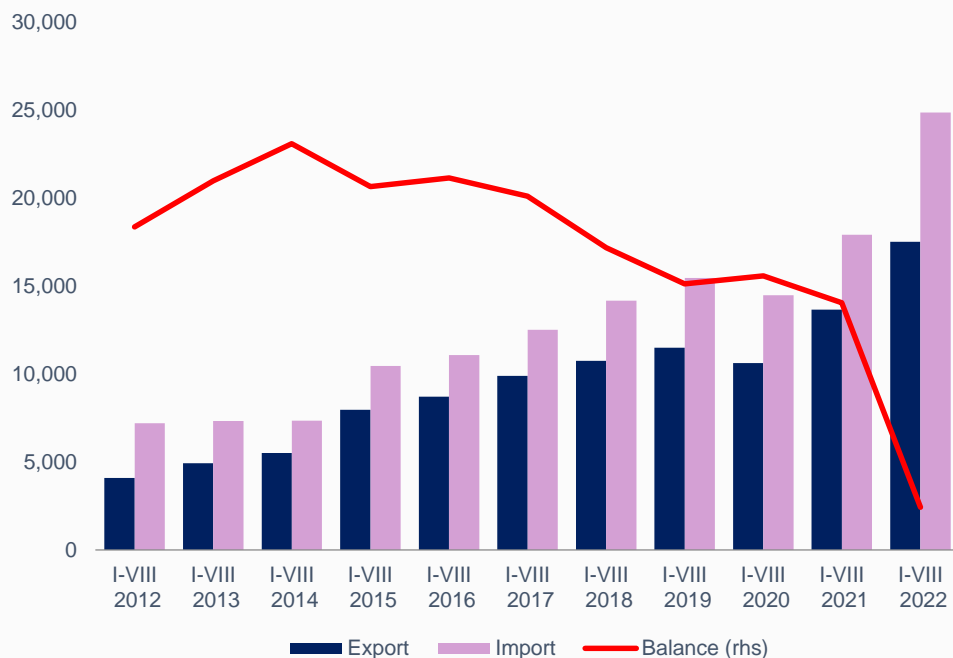
Manufacturing industry, the main driver of the export activity, achieved a growth of exports of 24.5%, with a growth in 20 out of a total of 23 activities. The increase in export activity was also significantly influenced by the increased export in mining with record amount of EUR 819.5 million, which is almost entirely the result of the mining of metal ores with exports of EUR 800 million. In addition, 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, with recorded growth rates of 12.5% and 15.1%, respectively.

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 54.5%, from 48.2% in 2020.

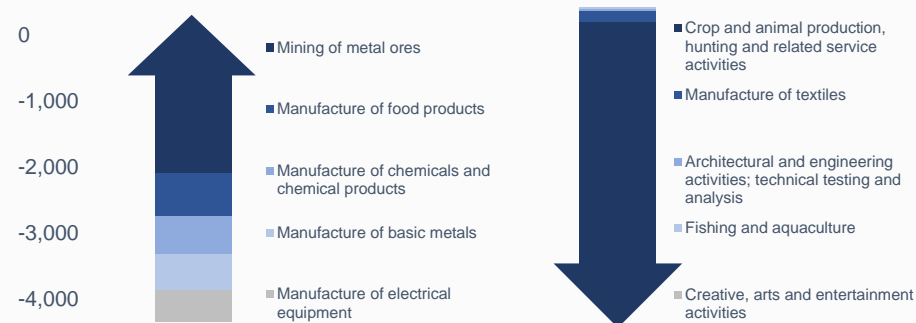
Exports and imports of goods in the first eight months of 2022 amounted to 17.5 and 24.9 billion euros respectively. The coverage of imports by exports decreased to 70.4% compared to 76.3% from the same period last year.

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

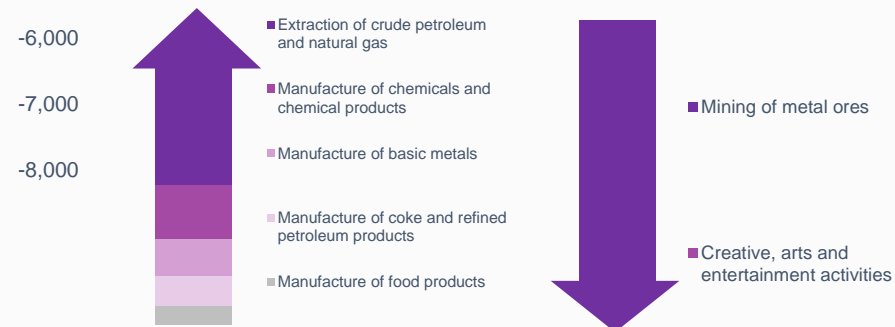


Source: SORS

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



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



In August 2022, total foreign trade increased by 26.7% year-on-year to the level of EUR 5.2 billion, due to growth of export and import of 23.4% and 29.1%.

Exports of goods in August 2022, amounted to EUR 2.1 bn, which is an increase of 23.4% y-o-y. The growth of exports of the manufacturing industry in August amounted to 22.0%, and within it the most significant contribution was recorded in the electronic, automotive, and food industries. In addition, strong growth in exports of the mining sector continues.

Imports of goods in August amounted to EUR 3.0 billion, a growth of 29.1%, y-o-y. Import activity was driven by higher imports of reproduction goods (growth of 24.2%), with continued growth in imports of consumer goods (27.2%) and equipment (10.8%).

In the first eight months of 2022, exports increased by 28.2% y-o-y (EUR 3.9 bn), while exports of the manufacturing industry increased by 24.7% (or EUR 3.0 bn). The highest growth in export activity was recorded in the food (27.9%), chemical (33.9%) and metal industries (26.2%), while positive contribution also came from electronic (20.3%) and rubber industries (20.6%). The record value of exports is recorded by the mining sector in the amount of EUR 1.2 billion, primarily as a result of the mining of metal ores.

Imports of goods in the same period grew by 38.8% and it was recorded in all of the 23 divisions of manufacturing industry. Nearly 70% 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 20.8% and 16.9%, respectively.

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

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

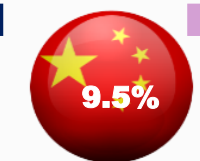
	2,385.6
Rotating electric plant and parts	16.1
Equipment for distributing electricity	14.1
Railway vehicles and associated equipment	5.2
Parts and accessories of the motor vehicles	4.3
Other	60.3



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

	2,899.2
Copper	6.4
Medicaments	5.3
Motor cars and other motor vehicles	4.7
Electrical apparatus for switching or protecting el. circuits	2.8
Other	80.8

	799.3
Copper ores and concentrates	74.5
Copper	15.0
Wood, simply worked	2.5
Rotating electric plant and parts	1.9
Other	6.1



	3,217.2
Telecommunications equipment	6.6
Steam or other vapor generating boilers	3.4
Automatic data processing machines	3.0
Electrical apparatus for electrical circuits	2.7
Other	84.4

	1,326.0
Footwear	8.4
Motor cars and other motor vehicles	6.1
Articles of apparel	4.8
Rubber tires, flaps, etc.	4.7
Other	75.9



	1,691.5
Leather	5.7
Medicaments	2.8
Articles of plastics	2.6
Parts and accessories of the motor vehicles	2.0
Other	87.0

	665.5
Fruit and nuts, fresh or dried	13.7
Medicaments	6.0
Clothing accessories of textile fabrics	5.7
Household electrical and nonelectrical equipment	5.4
Other	69.2



	1,905.2
Petroleum oils and oils from bituminous minerals	37.4
Natural gas, whether or not liquefied	28.0
Fertilizers (other than crude)	10.7
Petroleum oils and oils from bituminous minerals	3.5
Other	20.5

	880.5
Equipment for distributing electricity	16.4
Fertilizers	4.7
Thermionic valves and tubes	4.5
Pumps for liquids	4.1
Other	70.2



	1,578.4
Natural gas, whether or not liquefied	42.5
Petroleum oils and oils obtained from minerals	7.5
Electric current	4.0
Medicaments	3.7
Other	42.3

	1,304.1
Petroleum oils and oils obtained from minerals	15.0
Iron and steel bars, rods, angles, shapes and sections	4.1
Flatt-rolled products of iron	3.6
Maize, unmilled	2.6
Other	74.8



	695.2
Coke and semi-coke of coal	24.4
Iron and steel bars, rods, angles	12.3
Wood, simply worked	5.8
Structures and parts of structures	4.9
Other	52.5

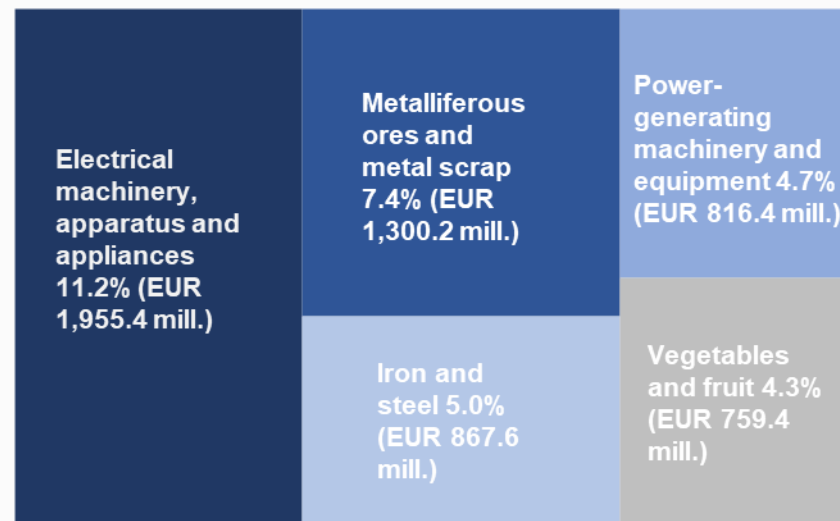
Share in overall
external trade

In the period January–September 2022, the total export value of 15 largest exporters amounted to EUR 5.4 bn. The largest exporter was Serbia Zijin Mining, followed by HBIS Group Serbia and Serbia Zijin Copper.

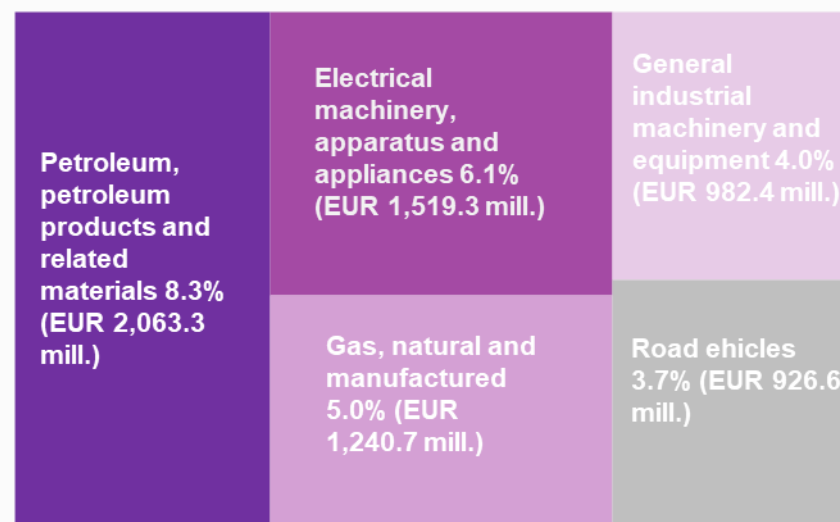
15 BIGGEST EXPORTERS* in the period January–September 2022

NAME OF EXPORTER	LOCATION	Export (EUR mill)
SERBIA ZIJIN MINING D.O.O.	BRESTOVAC	769.5
HBIS GROUP SERBIA IRON & STEEL D.O.O.	BEOGRAD	679.5
SERBIA ZIJIN BOR COPPER	BOR	676.4
NAFTNA INDUSTRIJA SRBIJE	NOVI SAD	484.2
TIGAR TYRES	PIROT	370.8
HENKEL SRBIJA	BEOGRAD	368.9
LEONI WIRING SYSTEMS SOUTHEAST	PROKUPLJE	309.1
ZF SERBIA D.O.O.	PANČEVO	273.2
DRUŠTVO ZA TRGOVINU ROBERT BOSCH	BEOGRAD	241.8
HIP - PETROHEMIJA	PANČEVO	241.5
YURA CORPORATION	RAČA	233.3
HEMOFARM	VRŠAC	213.1
GRUNDFOS SRBIJA	INĐIJA	195.7
PHILIP MORRIS OPERATIONS	NIŠ	175.4
GORENJE	VALJEVO	172.7

The most significant products in export in the period January–August 2022



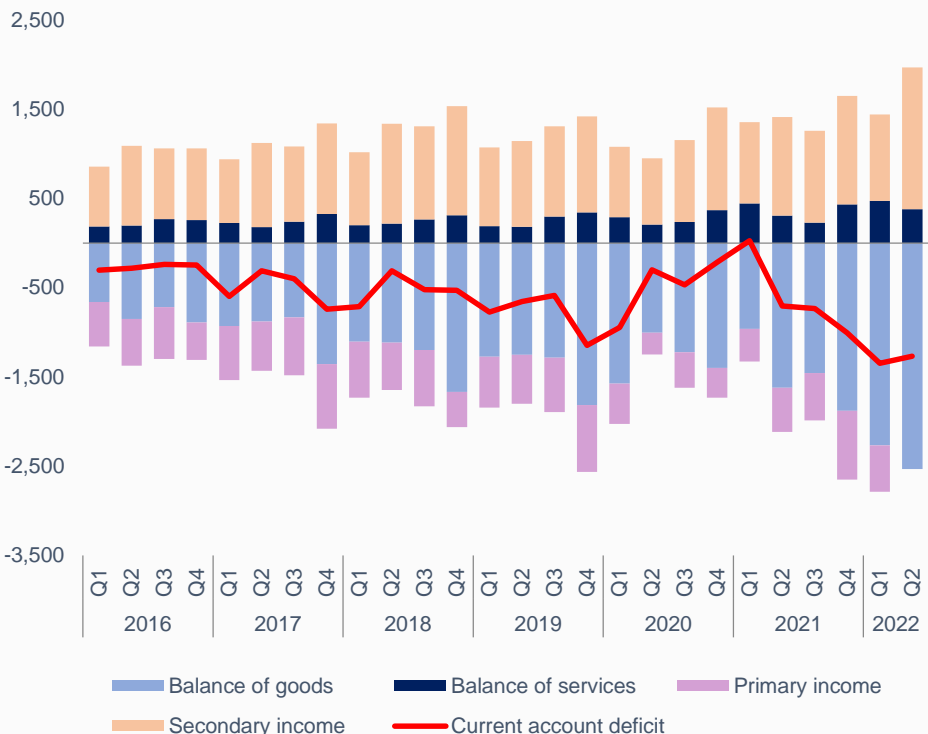
The most significant products in import in the period January–August 2022



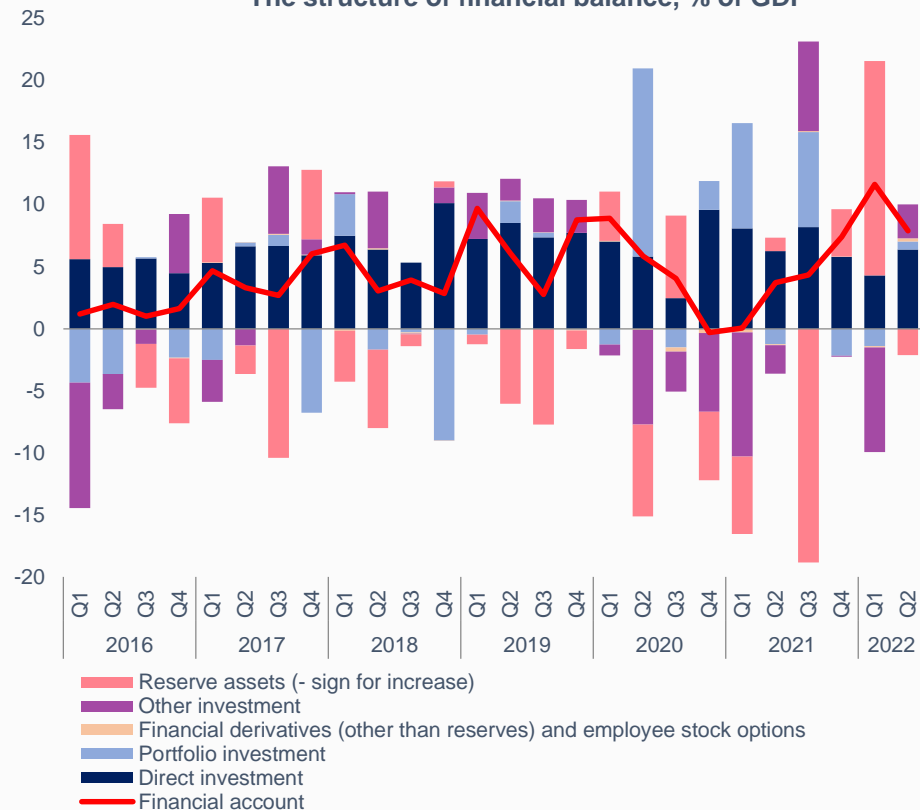
* Observed by Customs Administration, individual data (excluding consolidated reports of groups and holdings)

The current account deficit in the period January-July amounted to EUR 2.6 bn, 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 4.3 bn, which represents a year-on-year growth of EUR 2.0 bn.

In 2021, a current account deficit of EUR 2.3 bn (-4.4% of GDP) was recorded, with a record inflow of FDI (EUR 3.9 bn).

In the period January-July 2022, trade deficit amounted to EUR 5.3 bn, which is higher by EUR 2.2 bn y-o-y. A surplus of 1.0 billion euros was recorded on the services account, which is 208.0 million euros more than in the same period last year.

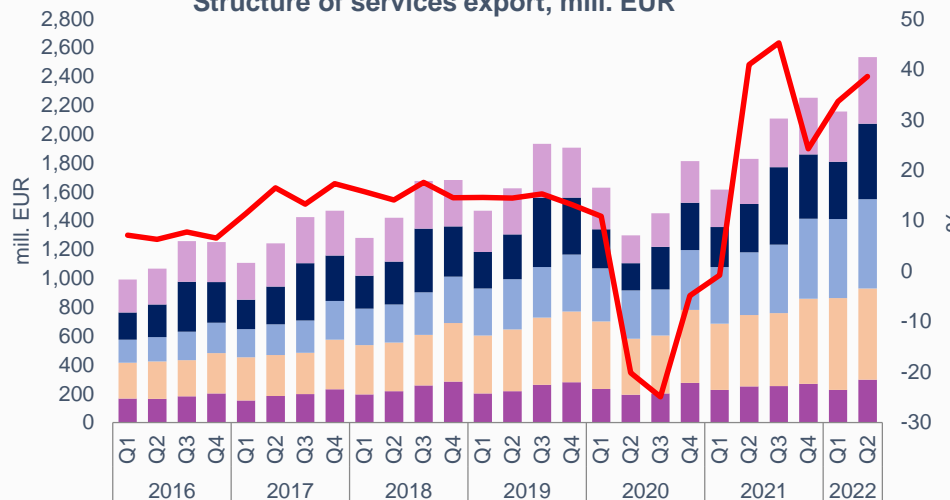
The deficit of primary income was 46.1% higher (increase of EUR 452.2 million). The surplus of secondary income was higher by 30.3% y-o-y and amounted to EUR 3.1 bn, mostly due to increased inflow from remittances (growth of 49.7%).

In the period January-July 2022, net FDI inflows amounted to EUR 1.9 bn, while the total inflow based on FDI amounted to EUR 2.1 bn.

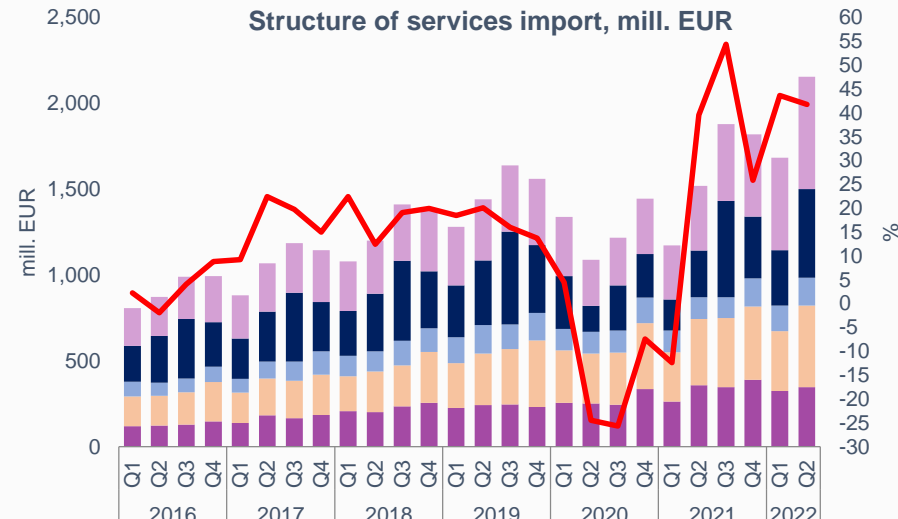
The net outflow of portfolio investments in the observed period amounted to EUR 152.1 mill.

The surplus in foreign exchange of services in the period January-July 2022 recorded growth of 25.3% and amounted to EUR 1.0 billion. The largest surplus was in the ICT sector and business services.

Structure of services export, mill. EUR

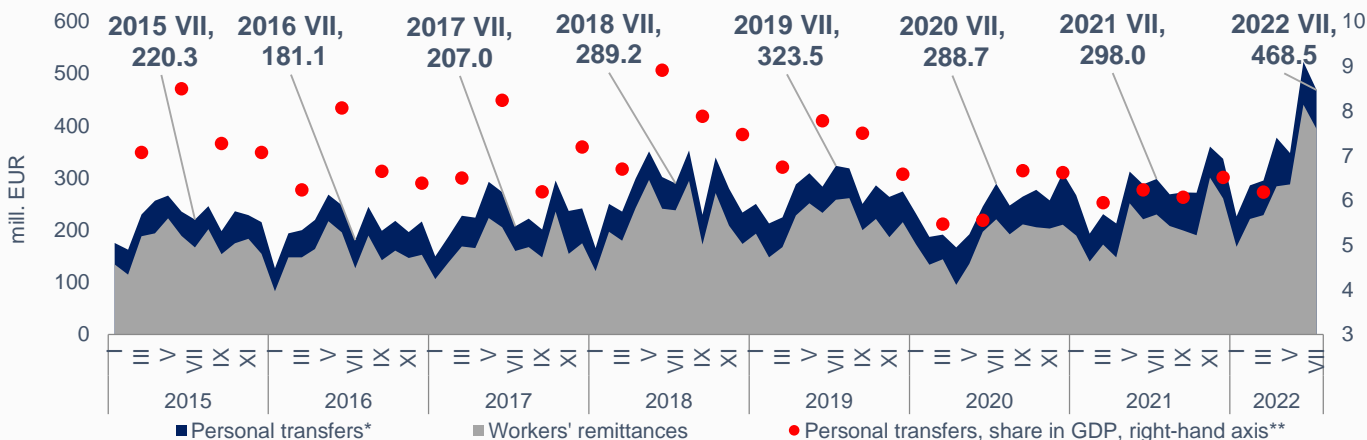


Structure of services import, mill. EUR



- 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

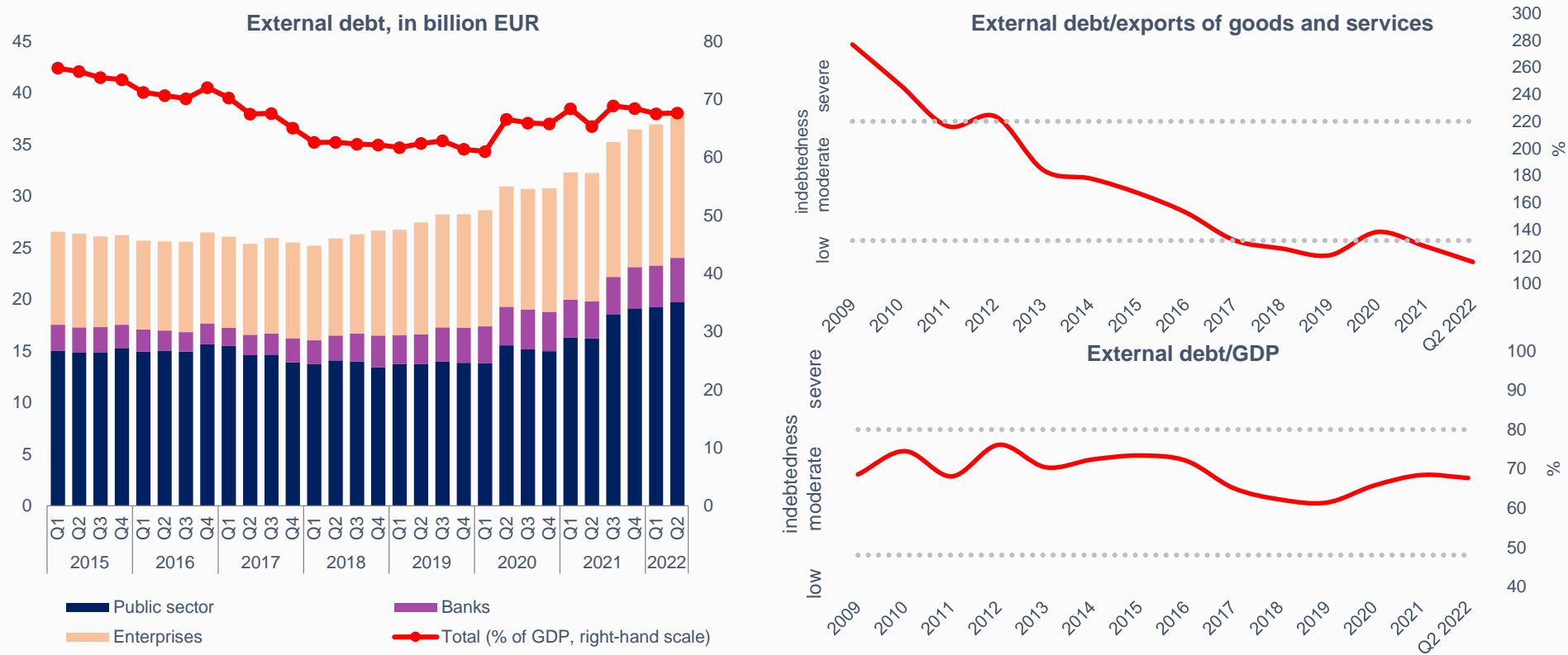


Since the beginning of the year, there has been an increase in transfers and remittances from abroad. Personal transfers from abroad increased by 40.1% year on year.

* Current transfers between resident and non-resident households.

** Mfin estimate based on preliminary GDP data.

Total external debt at the end of June 2022 amounted to 67.7% of GDP.



External indebtedness of the public sector increased by EUR 585.6 million at the end of June 2022 compared to the end of 2021, while at the same time an increase in indebtedness of enterprises and the banking sector rose by EUR 889.6 million and EUR 321.5 million, respectively.

At the end of June 2022, compared to the end of 2021, the ratio of external debt to exports decreased from 127.7% to 116.1%, while the ratio of external debt to GDP decreased from 68.4% to 67.7%.

According to the World Bank criteria*, the current level of external debt to exports ranks Serbia among low-indebted countries 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 August was higher by 1.0% y-o-y

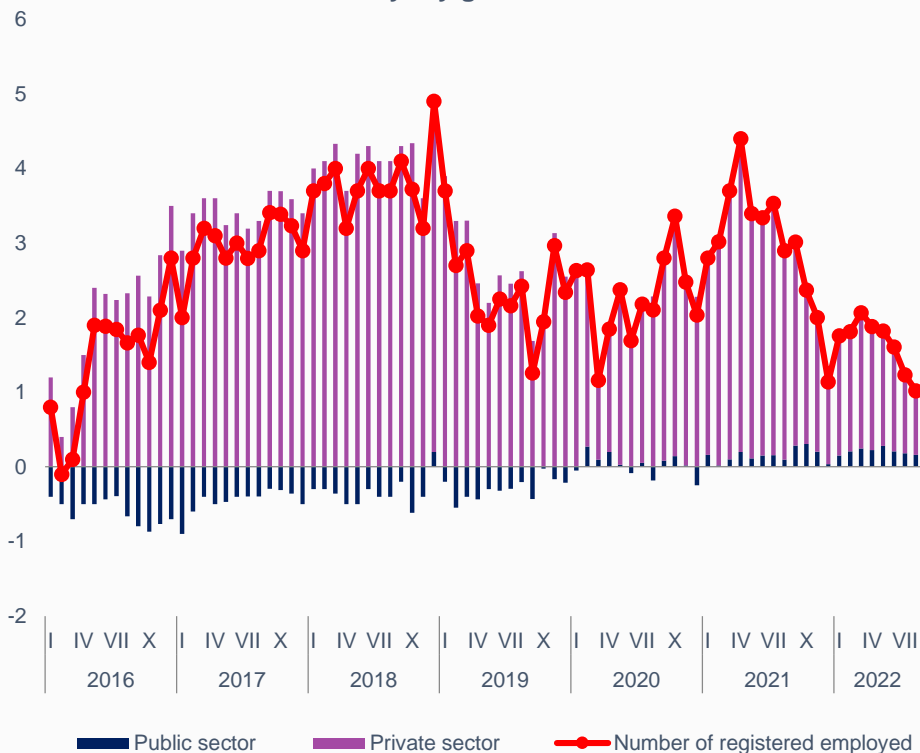
Unemployment rate in Q2 2022 totalled 8.9%

Average net salary in July, y-o-y was higher by 13.0% in nominal terms and by 0.2%, in real terms

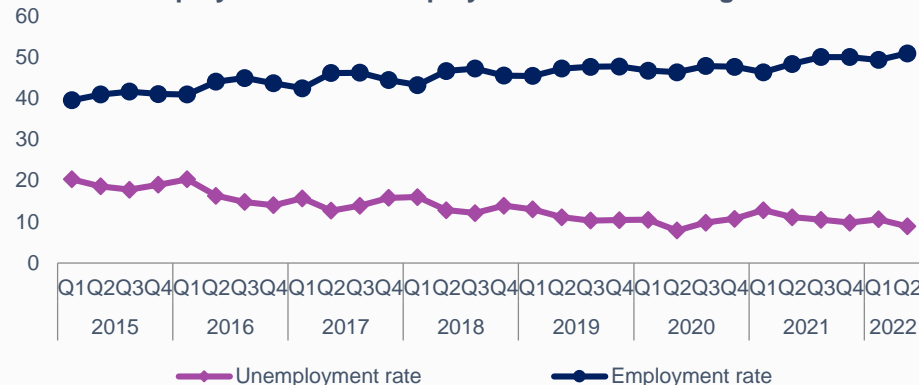
Average net salary in July totalled RSD 73,114 (EUR 623)

The beginning of 2022 is characterized by the continuation of positive trends in the labour market, which is reflected primarily in the growth of employment and real wages, but under the influence of geopolitical tensions somewhat slower compared to the previous period.

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

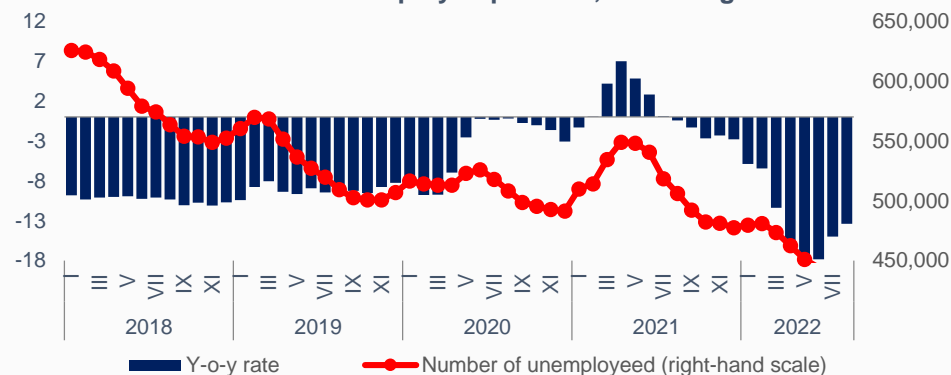


Employment and unemployment rate according to LFS



— Unemployment rate — Employment rate

Number of unemployed persons, according to NEA



Most significant yearly growth of employment in August was registered in information and communication technologies, scientific activities and administrative and service activities.

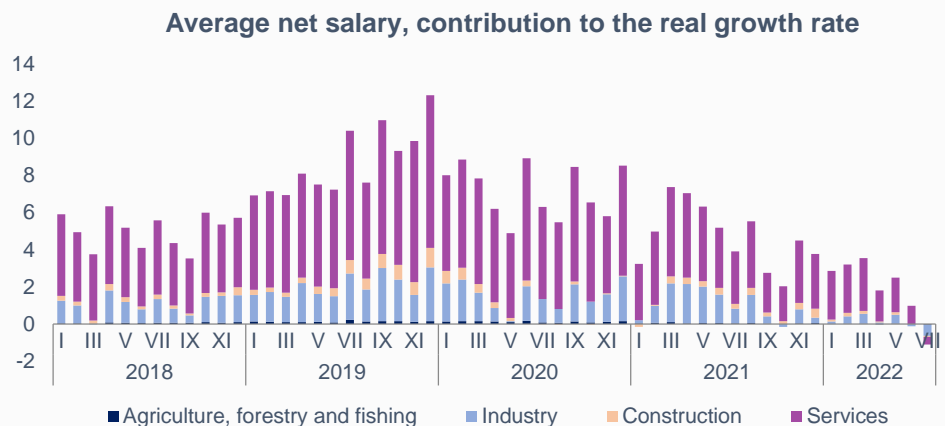
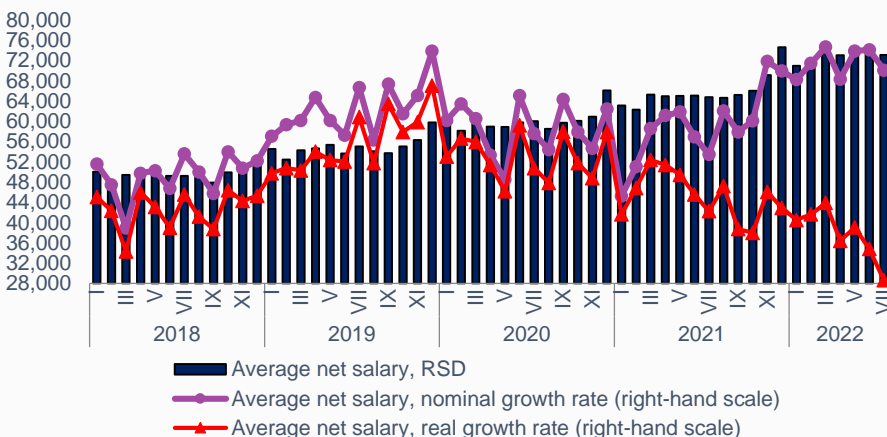
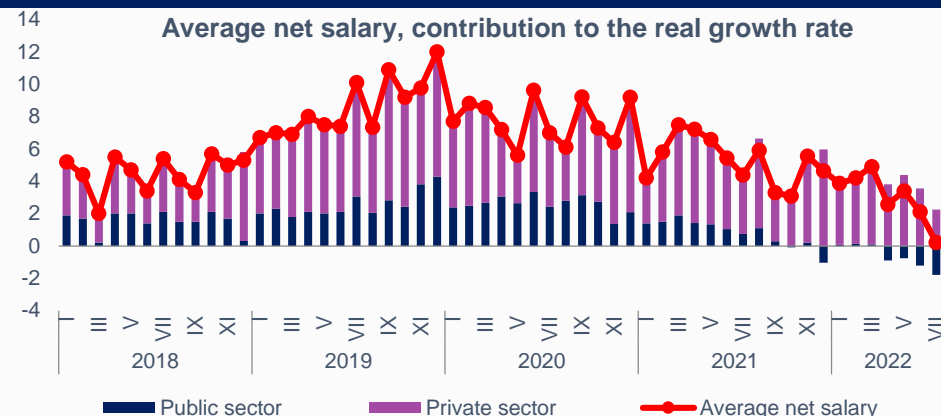
According to CROSO* records, the year-on-year increase in employment in August amounted to 1.0% and was mainly the result of growth in employment in the private sector (1.2%), while in the public sector the number of employees increased by 0.6%.

According to the National Employment Service, the number of unemployed persons in August was lower by 13.4%, y-o-y.

In the second quarter of 2022, compared to the same quarter of the previous year, the employment rate increased by 2.6 percentage points and amounted to 50.9%. At the same time, the unemployment rate decreased by 2.2 pp to 8.9%.

* Central registry of compulsory social security

The average net salary in July 2022 increased by 13.0% in nominal terms, y-o-y and amounted to RSD 73,114. At the same time, real pace of wage growth is slower and totaled 0.2%.



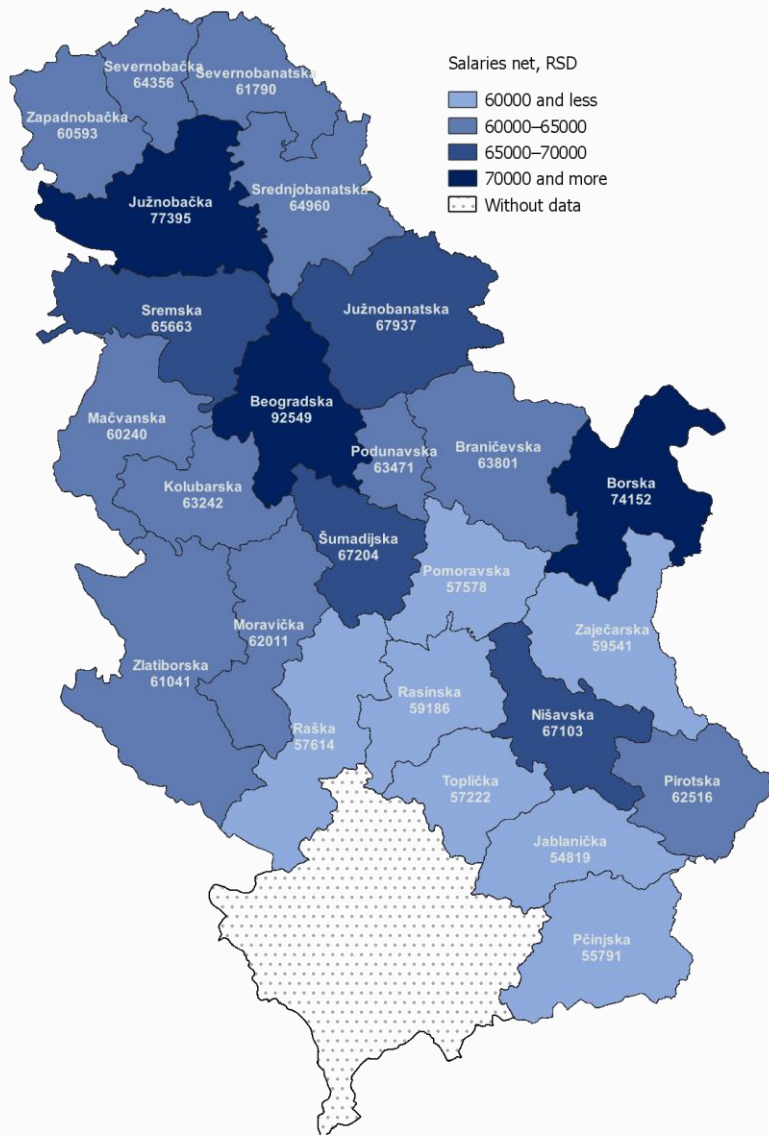
Observed by activities, the most significant increase in salaries was recorded in the information and communications technologies and scientific and technical activities.

Yearly real wage growth in July was entirely driven by a 3.1% increase in wages of the private sector. Despite the increase in wages in the public sector by the decision of the Government in the range of 7% to 8%, their nominal growth was completely neutralized by the growth of inflation.

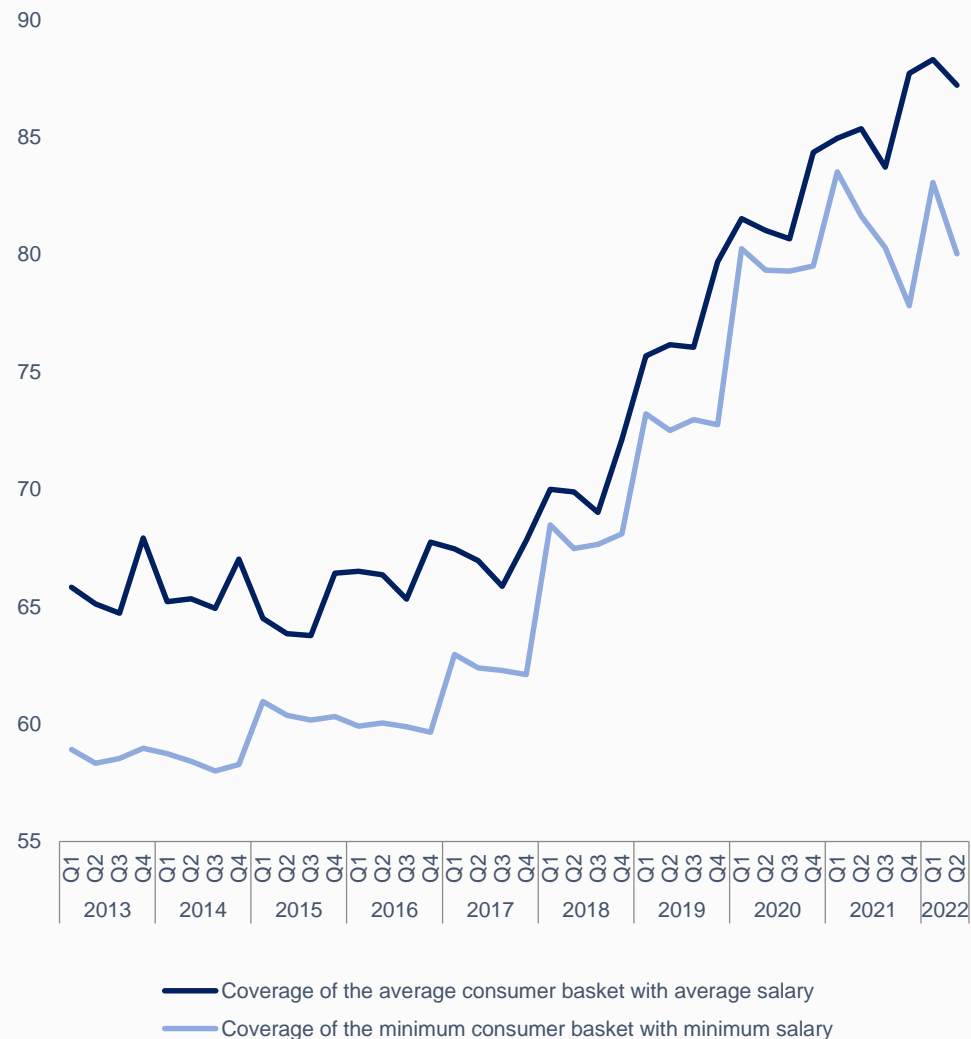
The overall increase of salaries was also influenced by an increase in minimum labour costs per working hour by 9.4% to RSD 201.22 starting from 2022.

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, July 2022

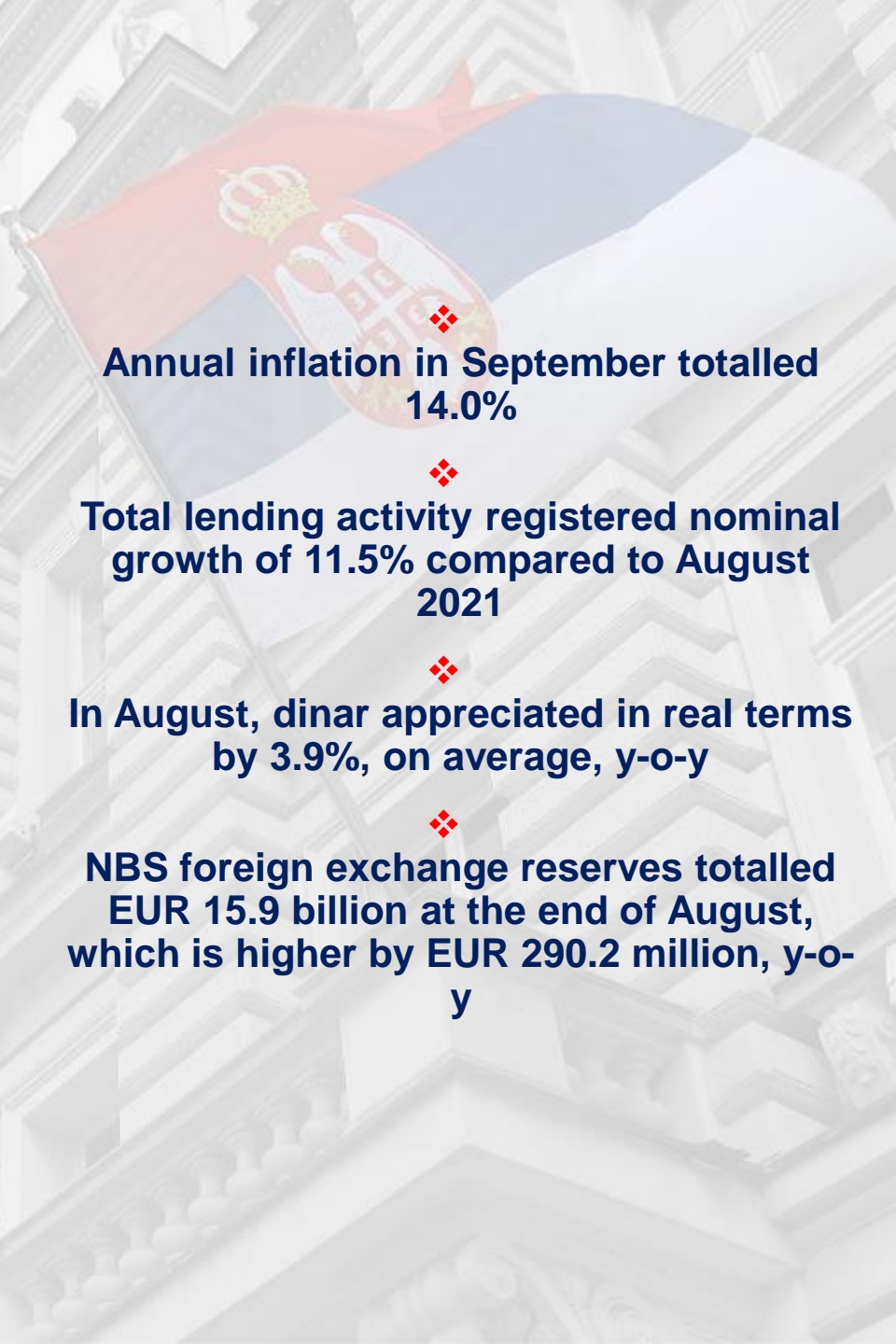


The ratio of salaries and consumer basket



Source: SORS and Ministry of Trade, Tourism and Telecommunications

MONETARY DEVELOPMENTS



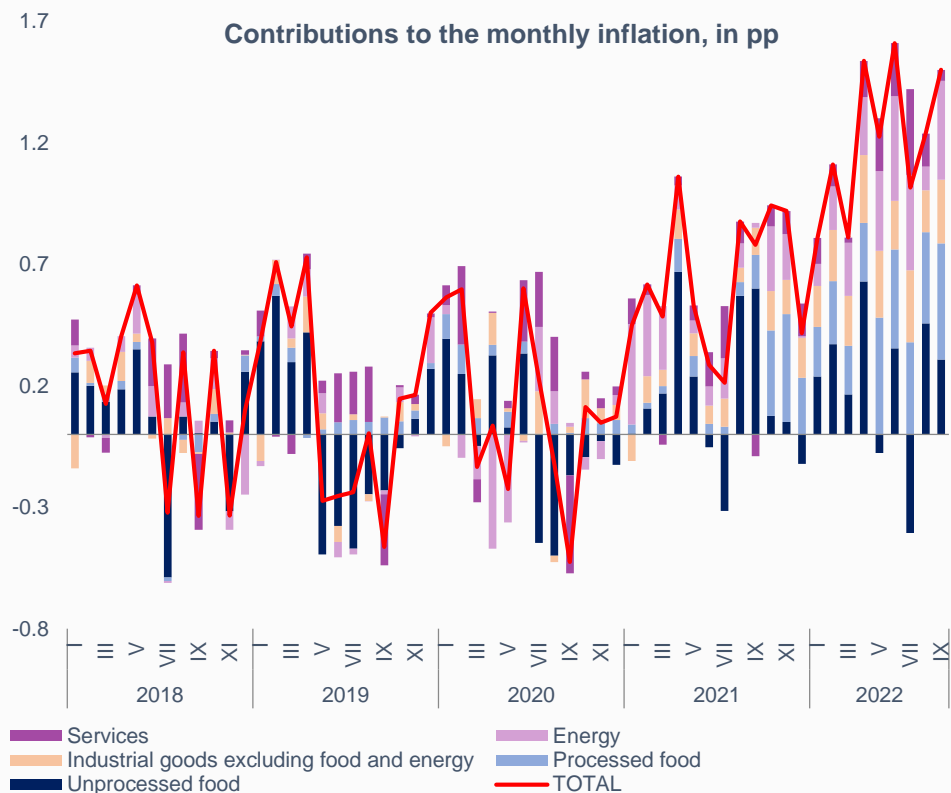
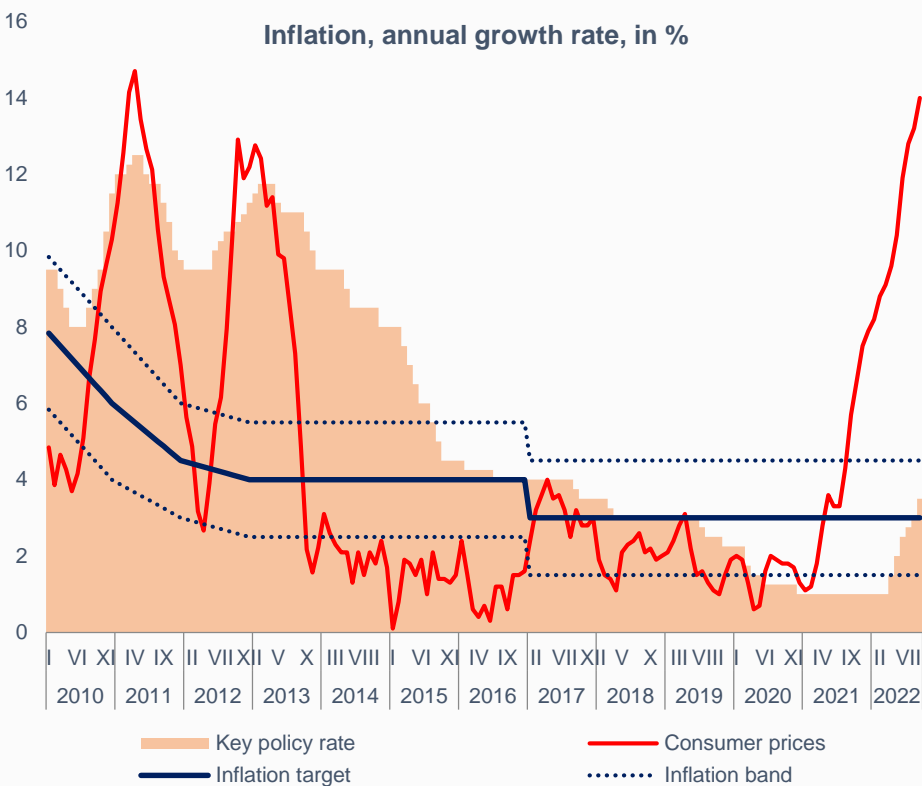
❖ Annual inflation in September totalled 14.0%

❖ Total lending activity registered nominal growth of 11.5% compared to August 2021

❖ In August, dinar appreciated in real terms by 3.9%, on average, y-o-y

❖ NBS foreign exchange reserves totalled EUR 15.9 billion at the end of August, which is higher by EUR 290.2 million, y-o-y

From the middle of 2021, inflation was at a higher level compared to the previous period and amounted to 14.0% in September 2022. As a result of stronger-than-expected inflationary pressures, the NBS raised the key policy rate by 50 basis points to 4.0% in October.



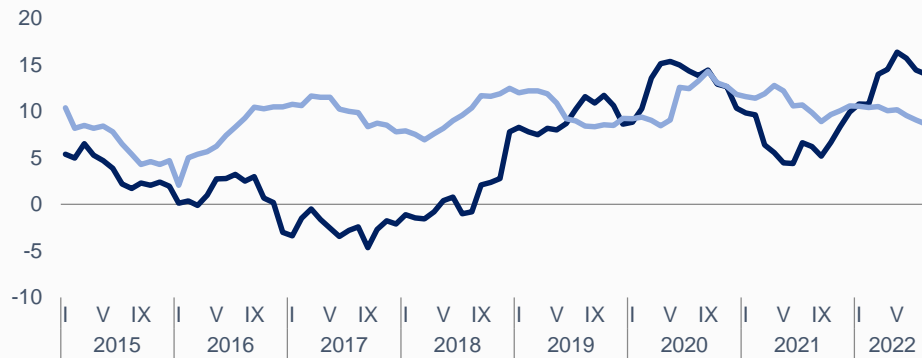
At the same time, core inflation was significantly lower and amounted to 8.6%, which was significantly influenced by the preserved stability of the exchange rate, as well as inflation expectations of the financial sector within the target.

In September, the growth of consumer prices was above the upper limit of the allowed deviation from the inflation target, so it amounted to 14.0% year on year. This trend of inflation was influenced, first of all, by the so-called imported inflation, i.e. external factors on which the NBS has no direct influence, such as the rise in world prices of oil and primary agricultural products and stagnation in global supply chains. In this period, around three fifths of inflation was determined by the increase in prices of food and non-alcoholic beverages, petroleum products and fruits and vegetables.

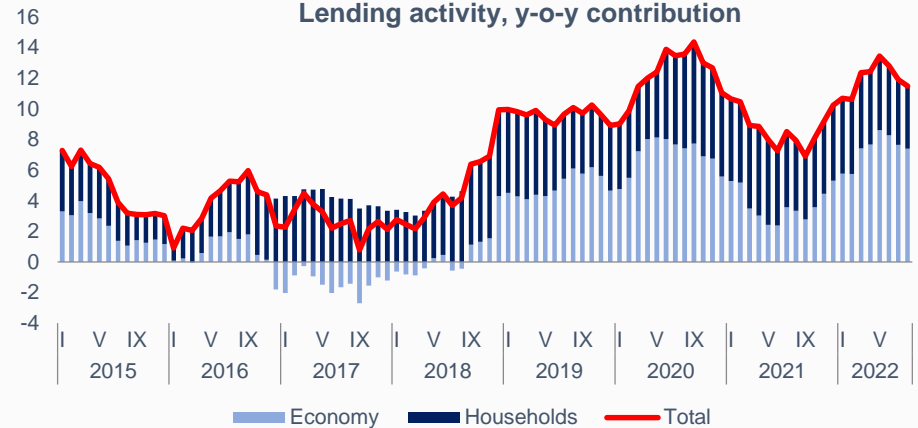
In October credit facility rate equals 5.0% and the deposit facility rate 3.0%. With a more moderate increase in the key policy rate, the NBS continues to react to increased inflationary pressures, without jeopardizing the further growth of economic activity. The NBS strives to limit the secondary effects on inflation expectations and ensure that inflation is on a downward path, as well as that it returns to the limits of the permissible deviation from the target by the end of the projection period.

The total lending activity in August 2022 continued to record growth, due to still relatively favourable financing conditions and a positive contribution from the guarantee scheme loans.

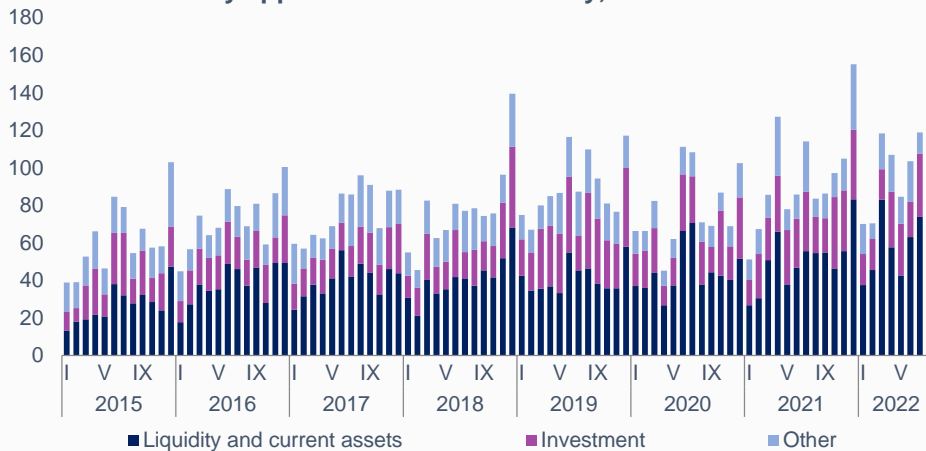
Annual growth rates of loans



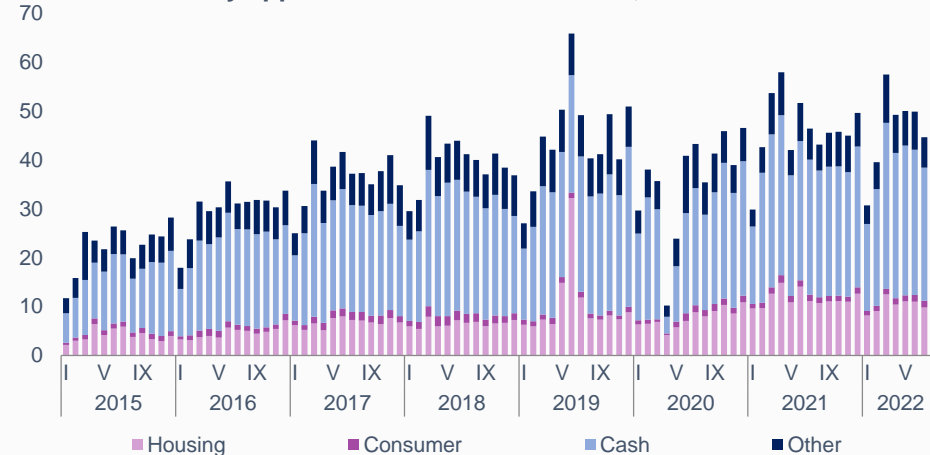
Lending activity, y-o-y contribution



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 3.2% at the end of July.

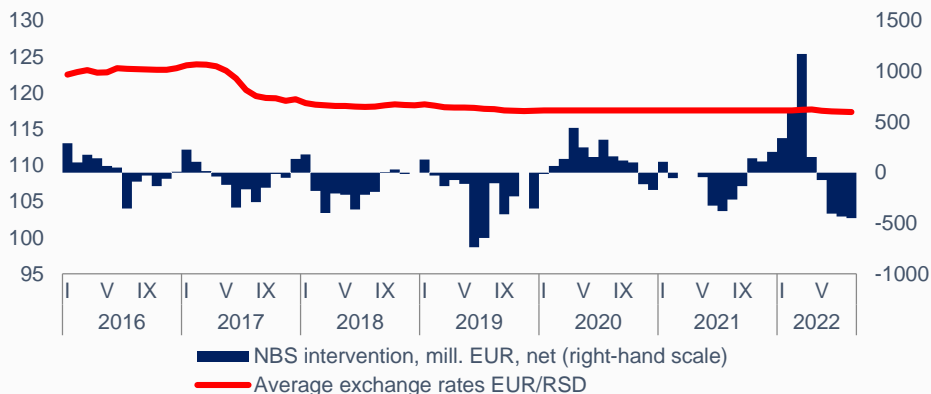
A nominal increase of loans to economy of 14.0% was registered in August, while the credit activity to households has grown by 8.7% y-o-y, in nominal terms. The interest rate on the total newly approved dinar loans increased by 2.0 pp and amounted to 8.53%. Total newly approved dinar loans increased by 15.6% y-o-y.

Owing to the effects of past monetary policy easing, borrowing conditions in the domestic market remained favourable during 2021 as well. Since the beginning of 2022, NBS started to tighten monetary policy by increasing average repo rate and key policy rate.

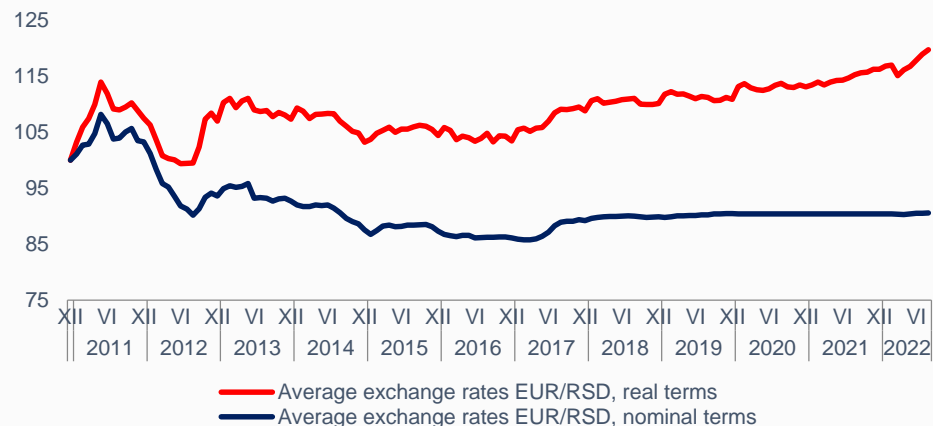
Source: NBS

In August 2022, nominal and real appreciation of dinar was recorded on average, by 0.2% and 3.9%, respectively. 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.

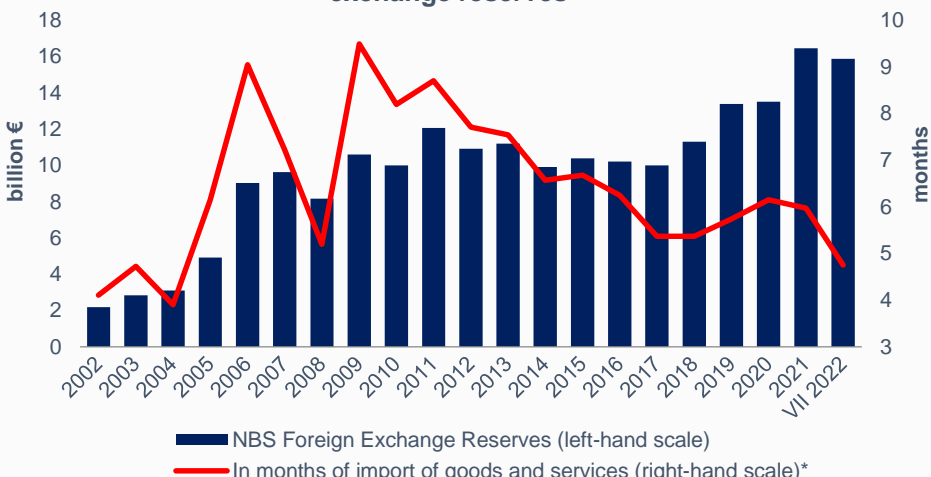
Movements in the exchange rate and NBS interventions on the foreign exchange market



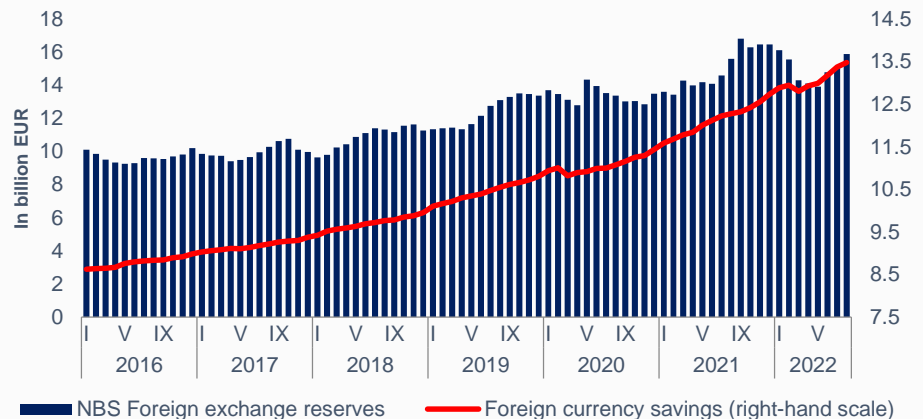
Real and nominal exchange rate, indices January 2010=100



Coverage of import of goods and services with Foreign exchange reserves




Foreign exchange reserves and foreign currency savings, EUR billion



In order to mitigate excessive short-term fluctuations of the exchange rate in August, NBS intervened on the foreign exchange market by net buying foreign currency in amount of EUR 450 mil.

At the end August, the NBS foreign exchange reserves increased by EUR 852.7 million compared to the previous month, which is almost entirely due to NBS activities in the local FX market and inflows from the sale of FX government securities.

FISCAL DEVELOPMENTS



❖
2020 and 2021 deficits due to implemented package of anticrisis measures. 2021 deficit (4.1% of GDP) lower than planned primarily due to better revenue collection

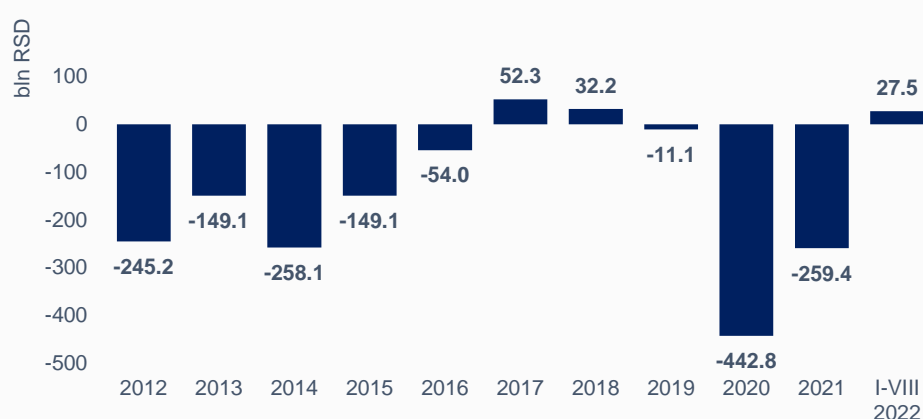
❖
In the period January-August 2022, at the general government level fiscal surplus of RSD 27.5 billion was recorded

❖
Public debt at the end of August stood at the level of 54% of GDP

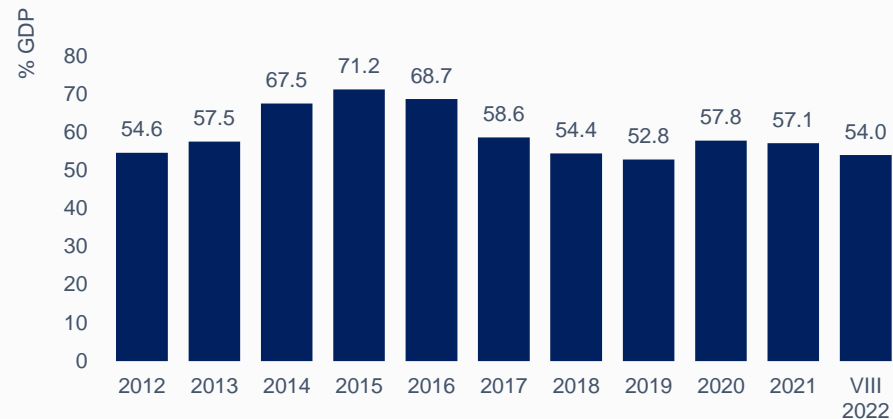
❖
During the first eight months 2022, the total revenues of the general government recorded a growth of 13.9%, due to better collection of VAT, contributions and corporate income tax. Public expenditures are higher by 10.4%, y-o-y

In the period January – August 2022, the general government surplus amounted to 27.5 billion dinars, while public debt reached the level of 54% of GDP

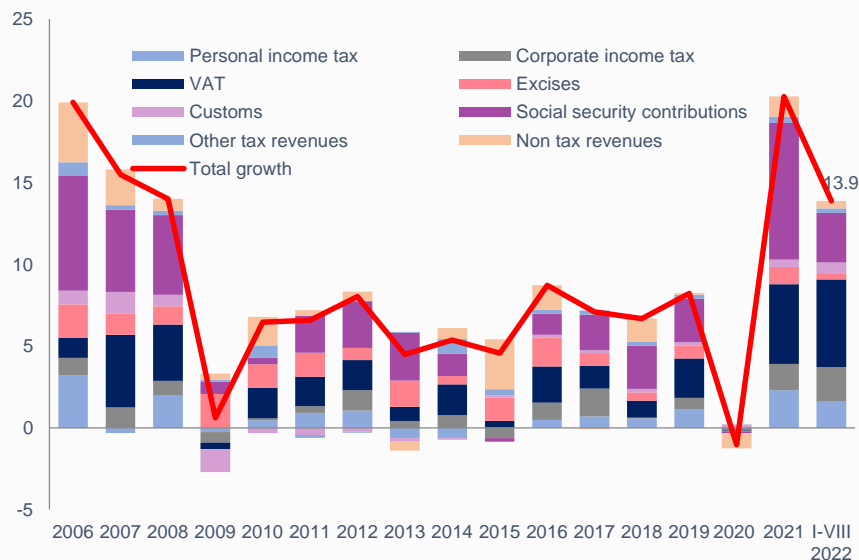
Fiscal result for the general government for the period 2012 – August 2022



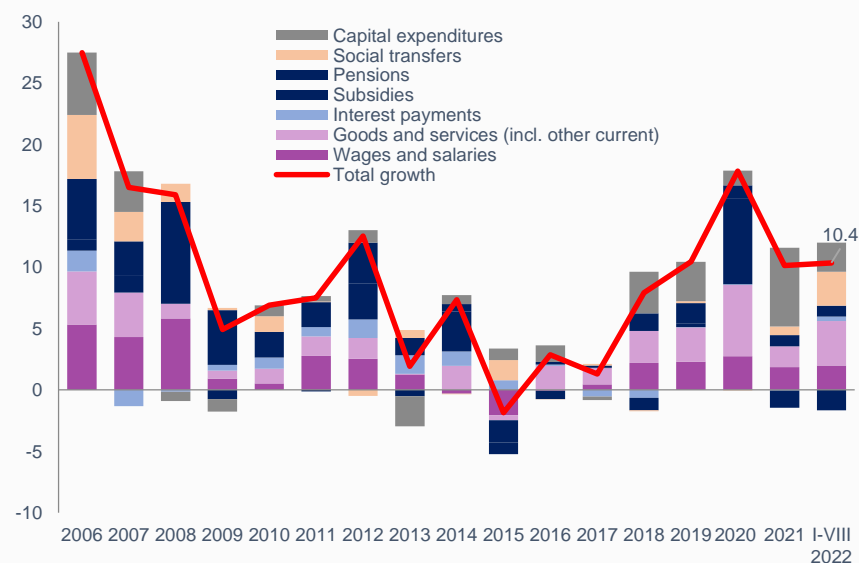
Public debt of the general government in% of GDP for the period 2012 – August 2022



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

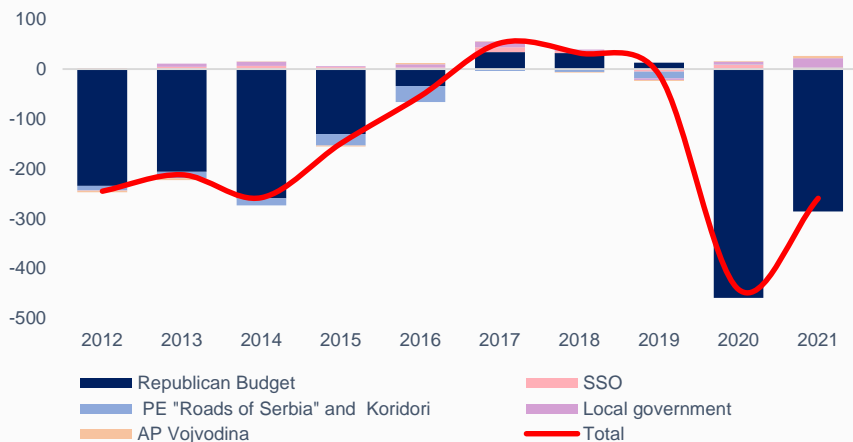


Contributions to an annual growth rate of public expenditures for the period 2006 – August 2022

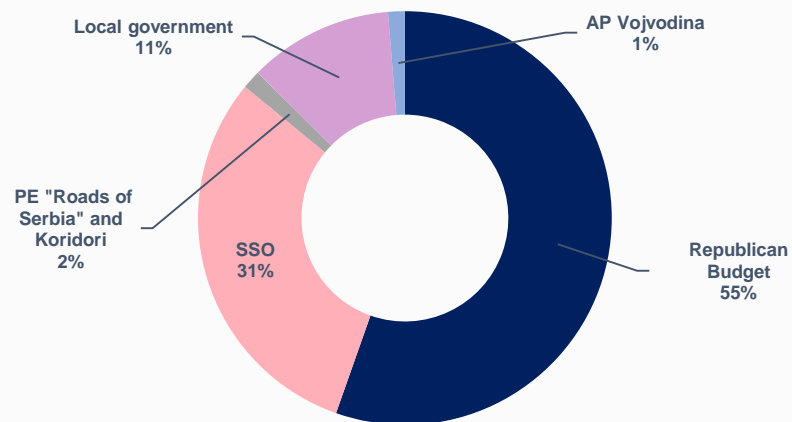


In the period January–August 2022, the Republican Budget surplus stood at RSD 0.5 billion

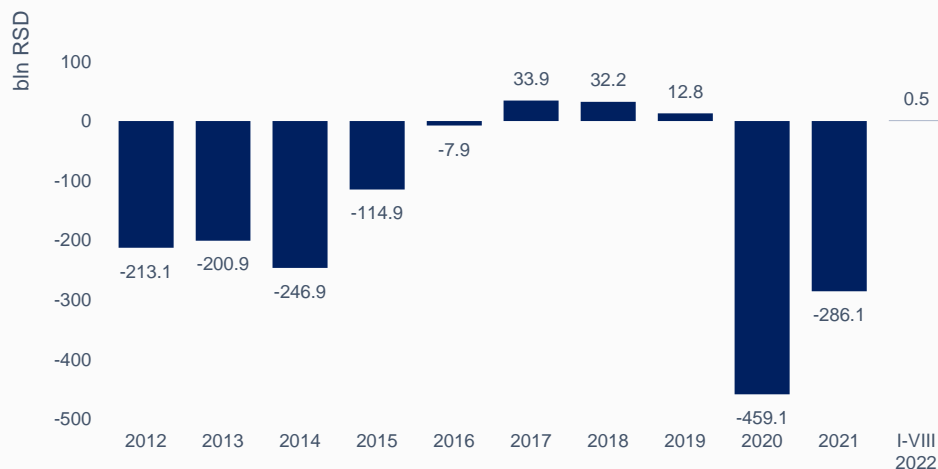
Consolidated general government balance by levels of government for the period 2012 – 2021, in bln RSD



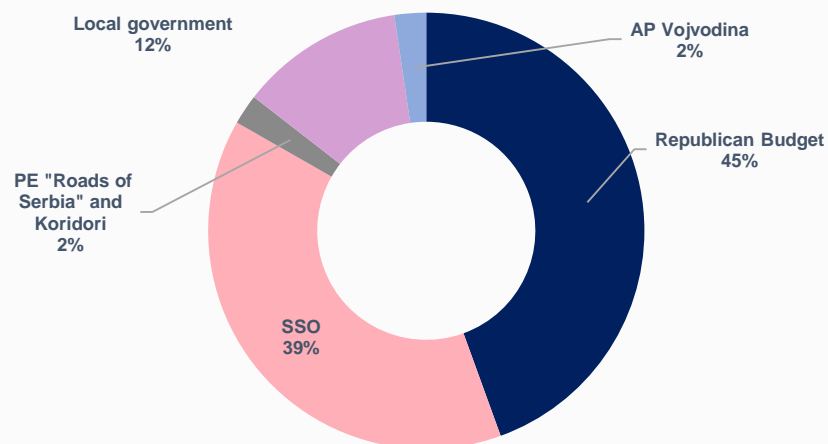
Structure of consolidated revenues by levels of government in the period January – August 2022 *



Fiscal result of the Republican budget for the period 2012 – August 2022



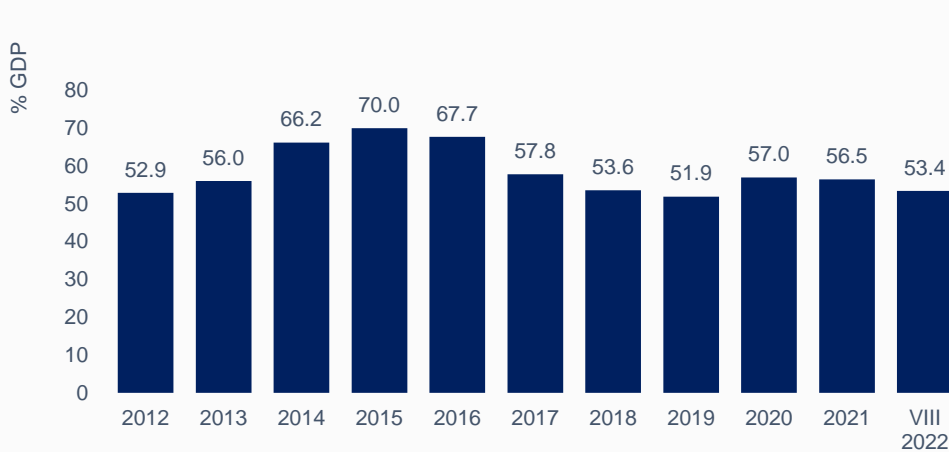
Structure of consolidated expenditures by levels of government In the period January – August 2022 *



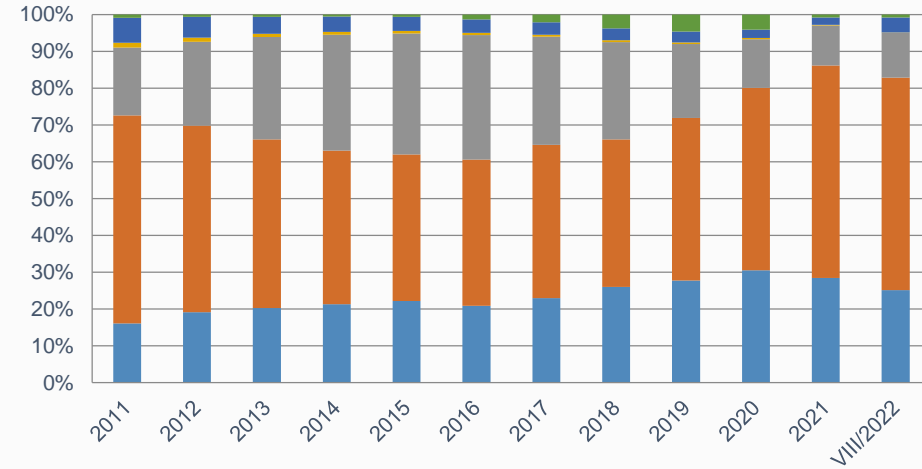
* Not including transfers between levels of government

The central government debt in August 2022 amounted to 53.4% of GDP

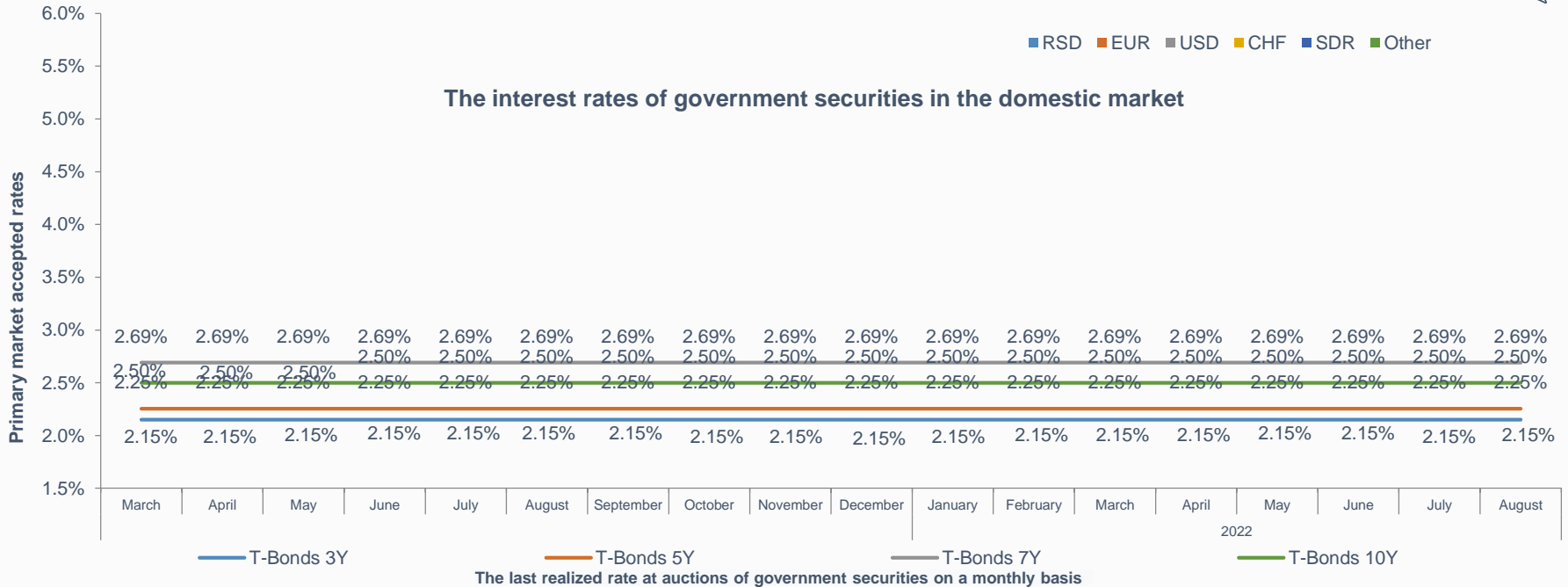
The share of public debt to GDP of the central government



Public debt currency structure in period 2011 – August 2022



The interest rates of government securities in the domestic market



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

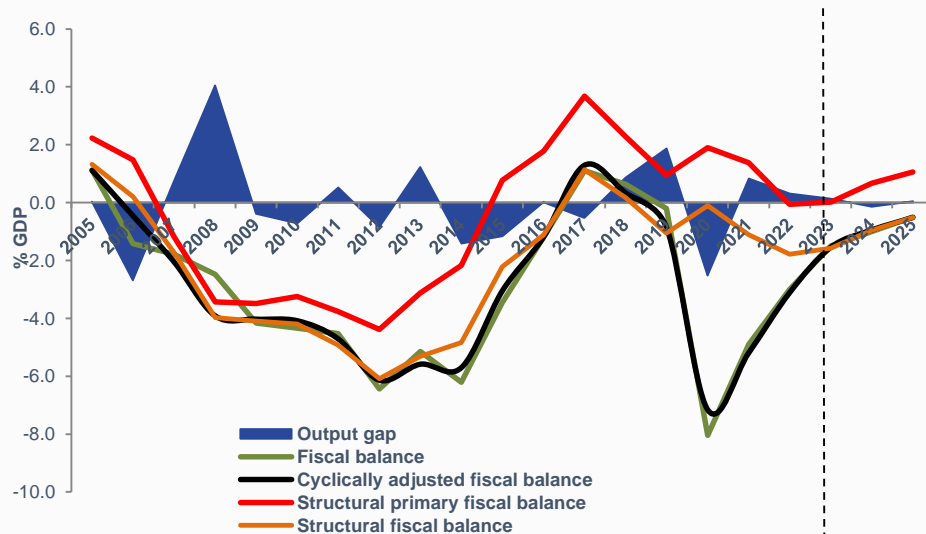
- Standard and Poor's** – In June 2022, the rating agency Standard and Poor's reaffirmed Serbia's credit rating at BB+ with a stable outlook for its further increase despite the conditions of the intensified global crisis caused by the outbreak of the conflict in Ukraine. In its report, the agency pointed 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 the geopolitical crisis and slow down the economic decline of the Serbian economy.

- Fitch Ratings** – In August 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.

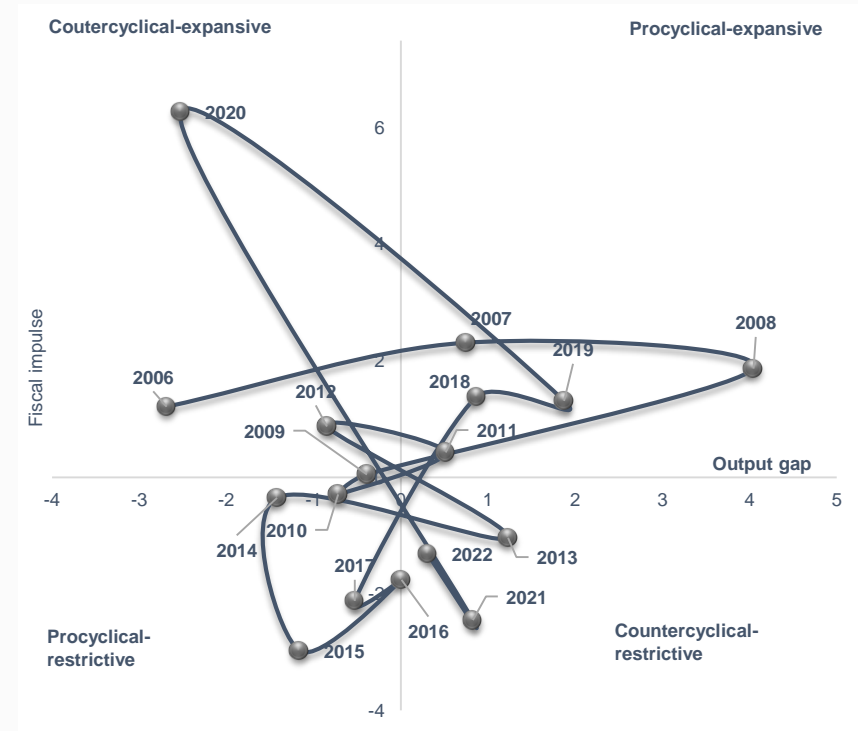
- Moody's** – In March 2021, Moody's upgraded the credit rating of the Republic of Serbia to "Ba2" from "Ba3" with a stable outlook for further improvement. The main factors that contributed to the improvement of the credit rating are the resilience of the Serbian economy to the consequences caused by 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.

Cyclically-adjusted and structural fiscal balance

Cyclically adjusted and structural primary fiscal balance in % of GDP for the period 2005–2025



Character of fiscal policy and output gap for the period 2006–2022



The structural fiscal position of the country was not significantly jeopardized in the period between 2020 and 2022, due to the fact that measures to help the economy were implemented from the domain of fiscal policy of a time-limited nature. Fiscal policy during 2020 is extremely expansionary-countercyclical, aimed at mitigating the negative economic cycle. Due to the somewhat smaller scope of the package of economic support measures in 2021, the fiscal policy is more restrictive than the previous year, and neutral in character.

* 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.

INTERNATIONAL ENVIRONMENT



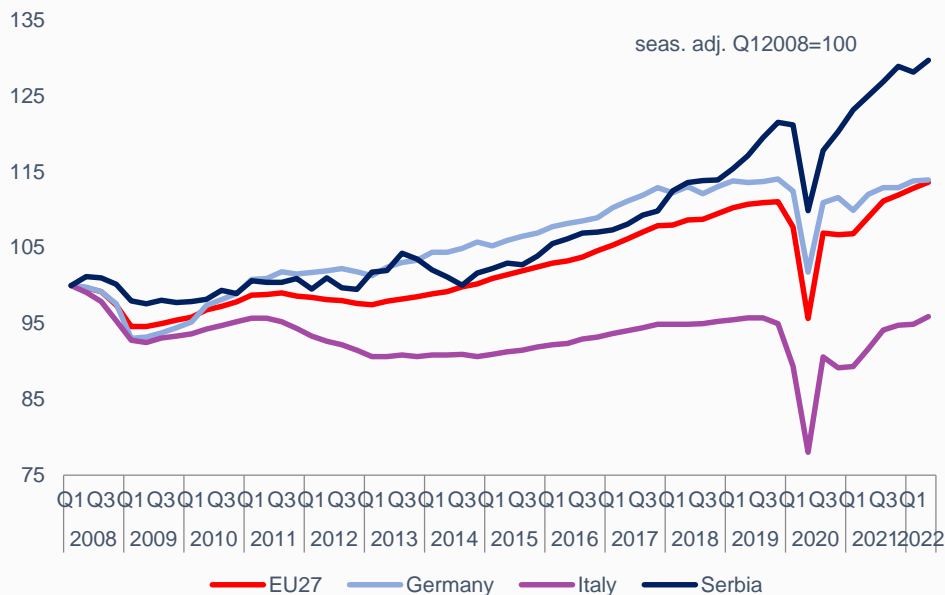
According to Eurostat estimate, economic growth in Q2 2022 was 4.2% in EU27 and 4.1% in Euro area, y-o-y.

❖
Composite PMI Eurozone index decreased by 0.8 points in September BCI indicator decreased by 0.02 points, while ESI indicator decreased by 3.6 points.

❖
Euro area inflation increased in August to 9.1% y-o-y.

According to Eurostat estimate, the economic growth of Euro area and EU in Q2 2022 was 4.1% and 4.2%, respectively y-o-y.

Real GDP rates of the main international trade partners of Serbia



GDP, real growth rates, %

	2021	2022*	2023*
Euro area	5.2	3.1	0.5
Main RS foreign trade partners			
Italy	6,6	3,2	-0,2
Germany	2,6	1,5	-0,3
Bosnia and Herzegovina	7,5	2,4	2,0
Romania	5,9	4,8	3,1
Russian Federation	4,7	-3,4	-2,3
Montenegro	13,0	7,2	2,5

* Projection

Source: IMF WEO October 2022

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

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 unfavourable Q1.

According to Eurostat estimate, German economy recorded a slight growth of 0.1% in the Q2 2022 compared to the previous quarter while the annual growth amounted to 1.7%. Italian economy was characterised by growth of economic activity of 1.1% compared to the previous quarter, and a growth of 4,7% compared to the same quarter of the previous year.

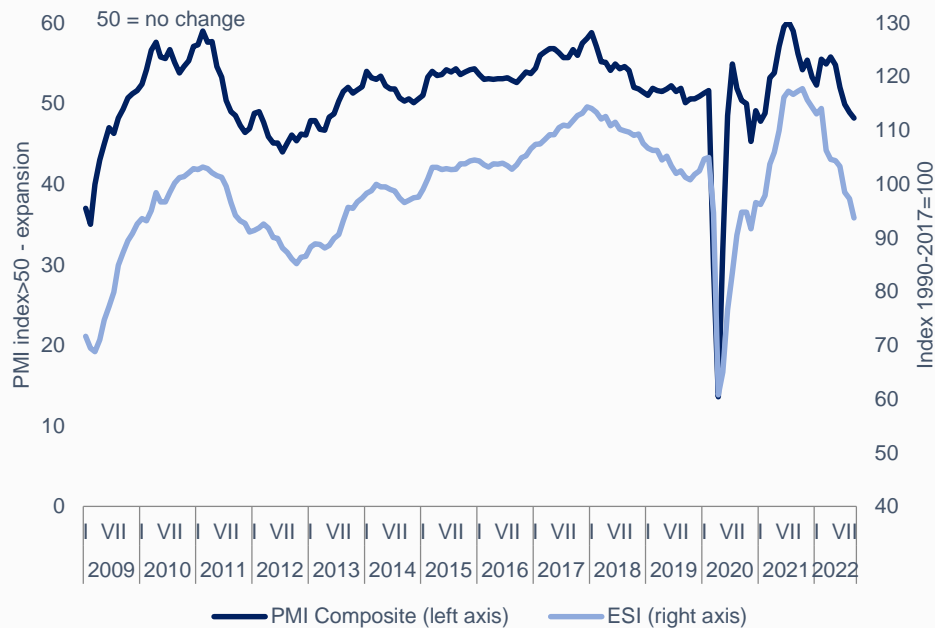
According to the October IMF WEO projections, economic activity in the EA faced with inflation higher than seen in several decades, which together with the Ukrainian crisis caused sharper-than-expected slowdown. Economic growth will slow down to 3.1% in 2022 and then slow even further to 0.5% in 2023. 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 September, ECB decided to increase the interest rate to the level of 1.25%. Additional longer-term refinancing operations (LTROs) under favourable terms was ended as of July in order to adjust monetary policy toward inflation stabilisation, but will continue to monitor bank refunding conditions.

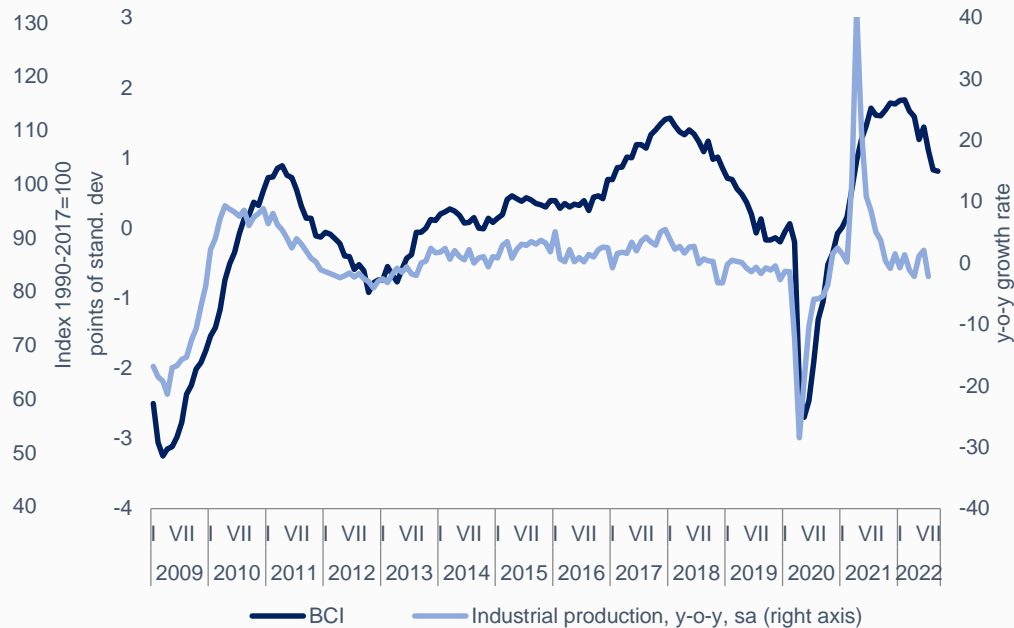
In September, FED decided to increase the interest rate to an interval of 3.00% to 3.25%.

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 48.9 points in August to 48.1 points in September, while the ESI index amounted 93.7 points (down by 3.6 points). The development of these indicators was accompanied by mild deterioration of the business climate indicator – BCI.

The dynamics of the composite PMI of Eurozone in September 2022 (48.1) indicate the slowdown of economic activity, considering that the value of the index is under the borderline of 50, which is the third month in a row. A decline was recorded in both services and manufacturing sectors due to high inflation, soaring energy costs and rising economic uncertainty.

ESI indicator recorded decrease in September, and the deterioration of euro-area sentiment resulted from the decrease in all sectors, especially consumer confidence. BCI index registered 0.81 points, which is a decrease of 0.02 points, compared to previous month.

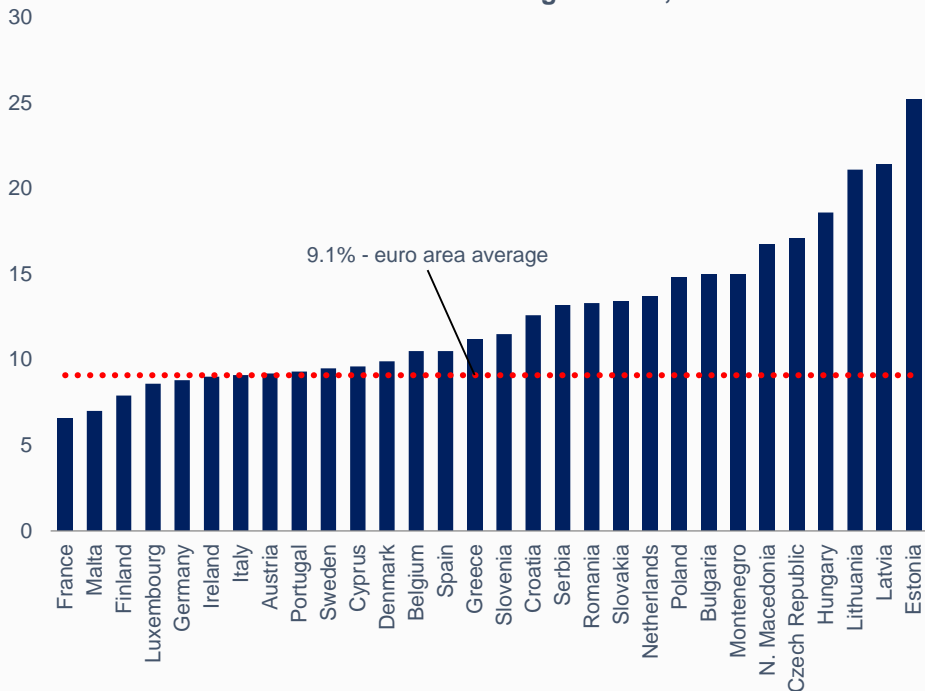
Eurozone PMI Composite index is developed by Markit LTD, and it is based on original survey data collected from a representative sample of 5,000 manufacturing and service companies. Methodology of this index tracks changes in employment, prices, sales and inventory. An index value above 50 indicates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

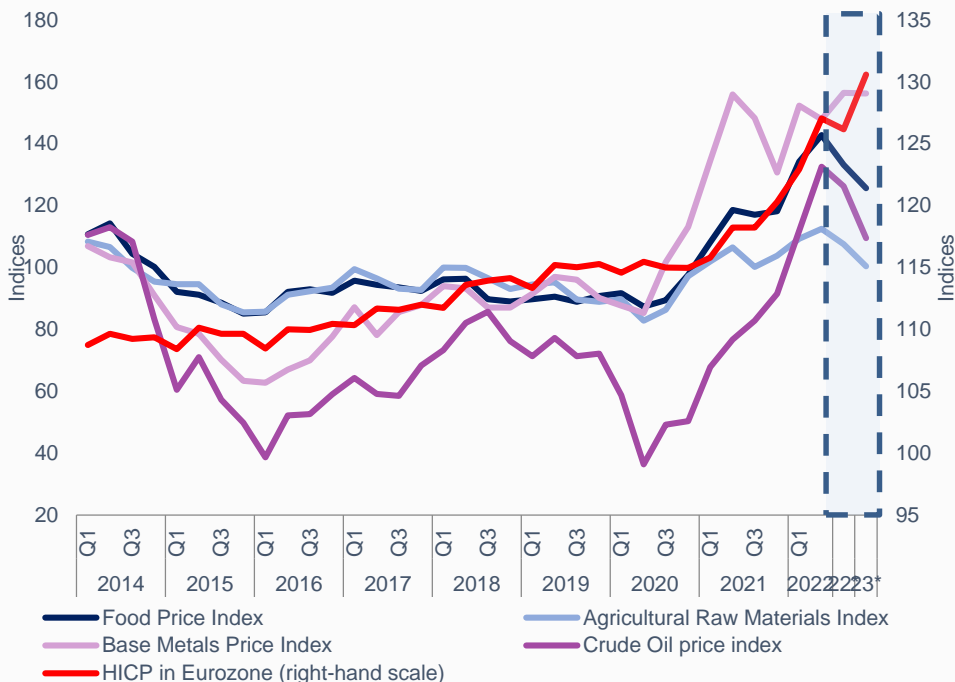
The Business Climate Indicator (BCI) is based on estimations of production, orders and inventories, as well as the current and future expectations of entrepreneurs. BCI index deviates from the industrial confidence indicator in number of inputs which are considered, and therefore is expressed in points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

Annual inflation in euro area increased to 9.1% in August compared to previous month, when recorded value of 8.9%.

Annual inflation rate in August 2022, %



Prices of raw material, indices 2008=100



Source: IMF; Eurostat

In August 2022, the largest contributor to y-o-y inflation rate were energy, food, alcohol and tobacco services and non-energy industry goods sectors (3.95 pp, 2.25 pp, 1.62 pp and 1.33 pp, respectively).

Total inflation in the euro area increased in Q2 2021 compared to previous quarter. According to the June ECB estimates, after a spike at 6.8% in 2022 driven by a series of exceptional energy price shocks and conflict in Ukraine, inflation should gradually decline to 3.5% and 2.1% in 2023 and 2024, respectively.

According to the OPEC data, the price of oil type Urals has amounted to 77.34 \$/barrel in August (down by 9.4% compared to the previous month). Since the beginning of 2022, the price increased by 29.9% compared to the same period 2021, to 85.25 \$/barrel.

Average prices of agriculture products have decreased by 3.2% in August 2022 compared to the previous month, while food prices decreased by 1.6%. Base metal prices increased by 1.3%, while the price of iron ore remained unchanged by 16.8%, while copper prices increased by 5.9%. In the group of precious metals, the price of gold increased by 1.5%, while the price of silver also increased by 3.4%.

Republic of Serbia

Ministry of Finance



MACROECONOMIC AND FISCAL ANALYSES AND PROJECTIONS DEPARTMENT

Contact: macro.fiscal@mfin.gov.rs