

**Republic of Serbia**

**Ministry of Finance**

Macroeconomic and Fiscal Analyses and Projections Department



# **CURRENT MACROECONOMIC DEVELOPMENTS**

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November 2023

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

# REAL SECTOR

❖  
**Real GDP growth in Q3 2023 was 3.5%,  
according to the SORS flash estimate**

❖  
**IPAS recorded growth of 4.1% y-o-y in  
September 2023**

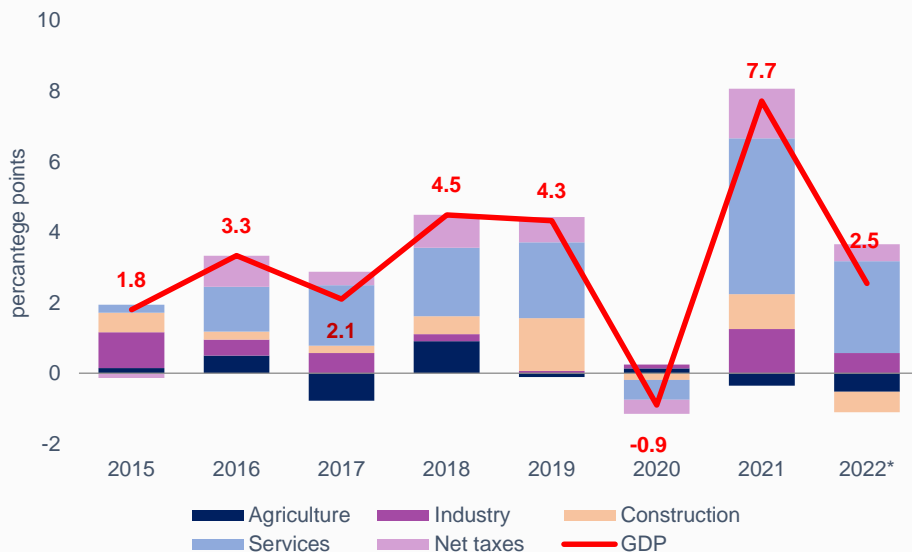
❖  
**The total industry in September  
increased by 3.0% y-o-y, with the same  
growth of the manufacturing industry**

❖  
**Real retail trade turnover in September  
was lower by 0.7% y-o-y**

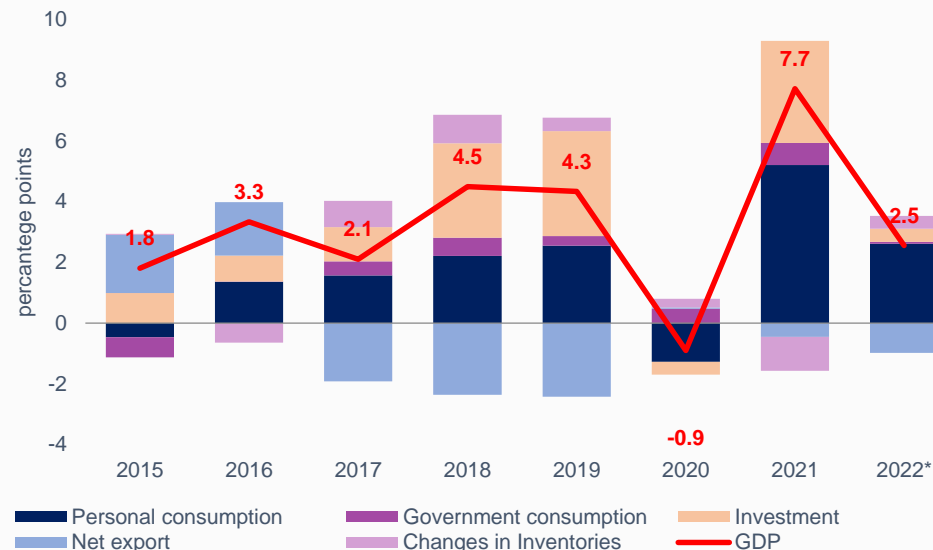
❖  
**In September, the number of tourist  
arrivals increased by 3.3% y-o-y**

# Economic activity in 2022 was higher by 2.5%, 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

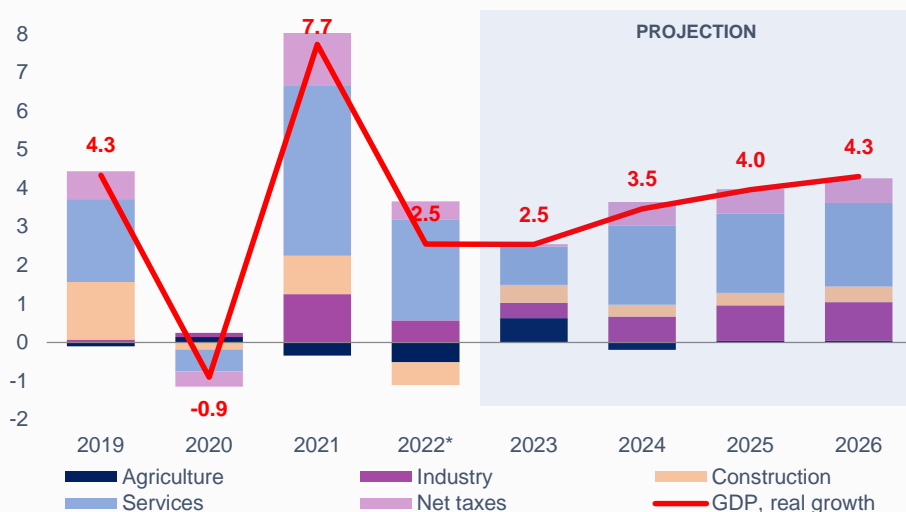
**After the recovery from the pandemic and an increase in GDP of 7.7% in 2021, under the influence of geopolitical tensions, reduced external demand as well as rising energy prices due to the conflict in Ukraine, there was a slowdown in economic growth in 2022.**

Observed from the production side, economic growth in 2022 was led by the service sector, which achieved a growth of 5.1% primarily as a result of solid developments in the sectors of trade, real estate, tourism, as well as in the sector of ICT and professional, scientific and technical services. Industrial production, despite weaker external demand and lower volume of electricity production, provided a positive contribution to GDP growth thanks to the effect of investments from the previous period in the manufacturing and mining sectors. Extremely bad agrometeorological conditions were reflected in significantly lower yields of corn, sugar beet and soybeans, which resulted in a decline in agriculture of 8.3%. Unfavourable trends and a decrease of 9.8% were also recorded in 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.

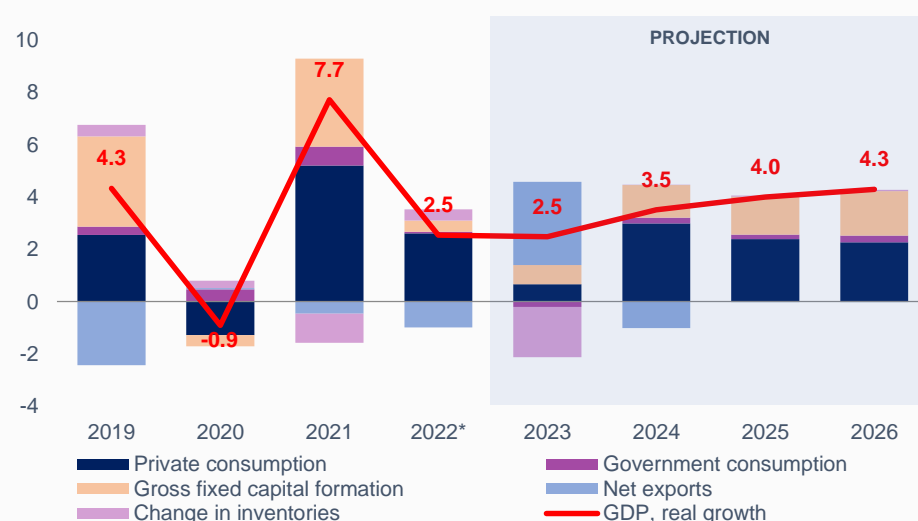
From expenditure side, GDP growth in 2022 was entirely driven by domestic demand. The still present favourable trends in the labour market, accompanied by the growth of employment and real wages, supported by one-time benefits to the population, were reflected in the stable growth of private consumption of 4.0%, while the contribution of government consumption remained almost neutral. Growing geopolitical tensions and investors' aversion to risk, along with the increase in input prices, influenced the slower dynamics of investment activity. The realization of FDI from the previous period and the associated significant effect on the supply side resulted in strong export growth, despite slightly lower external demand. On the other hand, the increased import of energy and raw materials was reflected in the higher growth of real imports in 2022, which resulted in a negative contribution of net exports to GDP growth of -1.0 pp.

**The materialization of risks in terms of longer-term geopolitical tensions and increased uncertainty affected the medium-term economic outlook. Accordingly, moderate GDP growth of 2.5% in 2023 is expected, followed by an acceleration to 3.5% in 2024 and then a return to a medium-term growth rate of around 4%.**

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



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



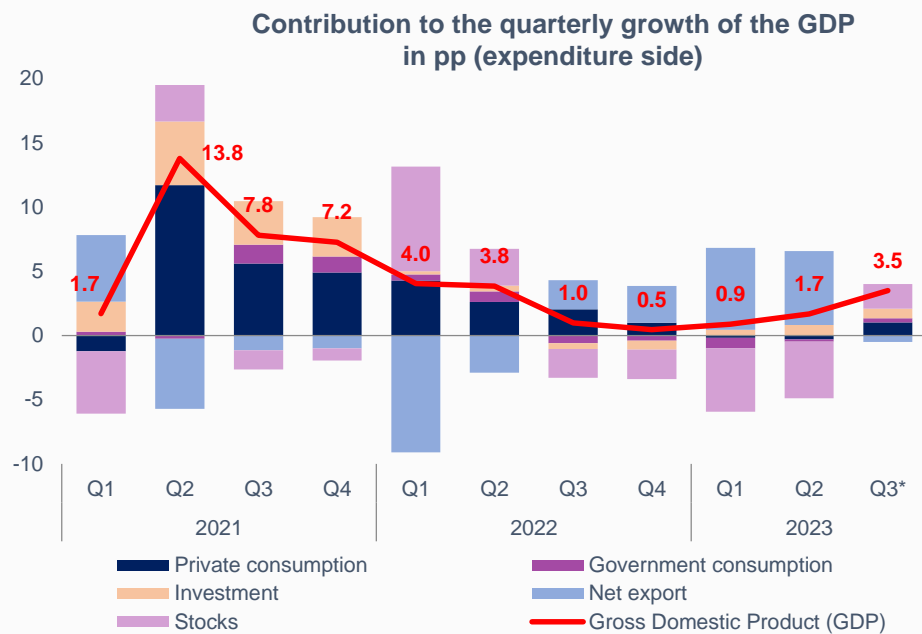
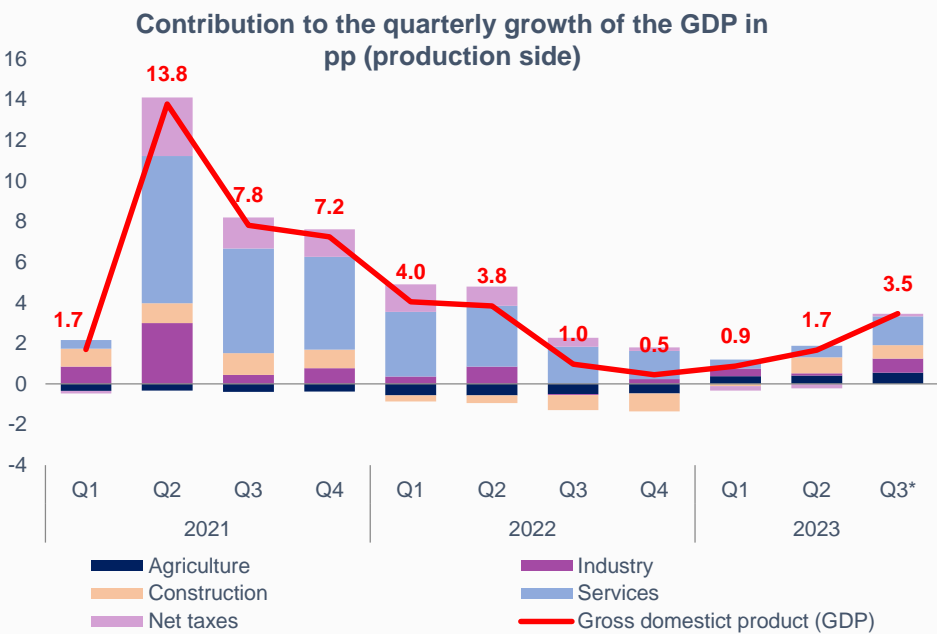
Source: SORS, \* Preliminary data  
MoF projection 2023-2026

**The uncertainty in the projections is far greater than usual due to the nature and extent of the shocks at the global level. The channels through which they can potentially affect the domestic economy are numerous, often linked in a chain, and the strength of the potential shocks is such that they can greatly affect medium-term developments.**

Observed from the production side, an increase in the created GVA will be recorded in all economic sectors. The service sector will be the main driver of growth in 2023. Growth should be diversified and achieved in most service industries. Despite weaker external demand than previously expected, the overall industry will continue its positive dynamics during 2023 and record an increase of around 2.0%, primarily due to the activation of new production capacities, but also the recovery of electricity production. It is estimated that construction will also record growth as a result of the expected increase in private investments and investments in infrastructure projects, and partly due to the lower base in 2022. Agricultural production, taking into account the current state of crops, should achieve growth of 9.3%.

Observed by expenditure aggregates, GDP growth in 2023 will be entirely driven by net exports, while domestic demand will have a negative contribution primarily due to the impact of changes in inventories. The activation of new production capacities will result in a real growth of export activity of around 3.0% despite reduced external demand. On the other hand, the drop in the import of energy products and lower import of raw materials will result in a drop in real import activity of 1.4%. The increase in wages, both in the private and in the public sector, higher employment and stable growth of pensions, will result in the continued growth of real private consumption, which will amount to about 1%. Investment activity will record moderate growth as a result of the increase in production capacity of the economy and will be additionally supported by the continuation of works on the implementation of infrastructure projects in the field of road and railway infrastructure, as well as significant investments in energy sector.

# According to the SORS flash estimate, in the third quarter of 2023, real GDP growth accelerated and amounted to 3.5% y-o-y.



\* SORS flash estimate  
Source: SORS, calculated in the MoF

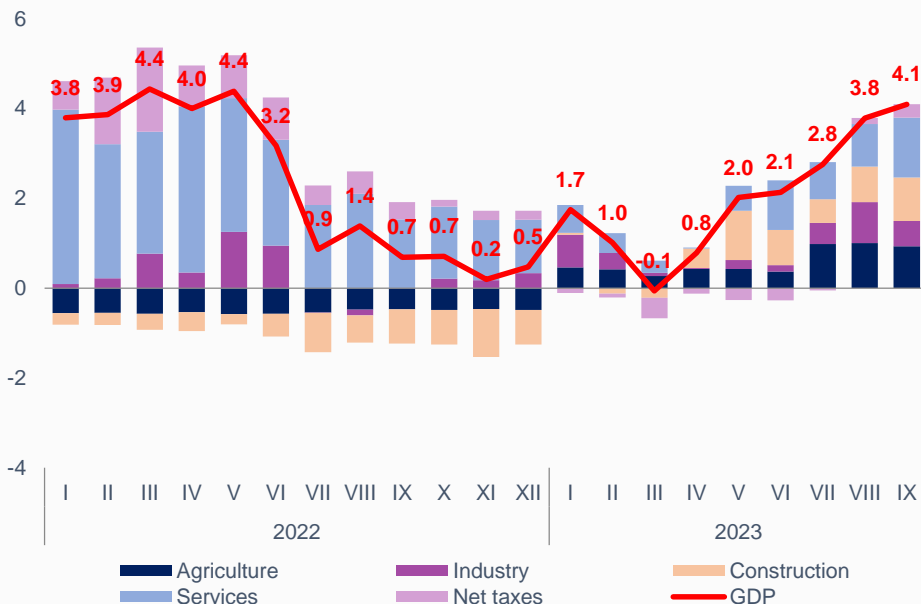
## Economic trends during 2023 in accordance with the projected quarterly dynamics needed to achieve the annual GDP growth projection of 2.5%.

Observed from the production side, economic growth in the third quarter of 2023, according to the estimate of the Ministry of Finance, was driven by the acceleration in the service sector. Economic activity in this sector increased in all activities, except for trade, which, according to the Ministry of Finance, recorded a decrease of about 1.5%. The industry achieved a GVA growth of 3.6% as a result of the continuation of higher production in the electric power sector, but also due to the return of the manufacturing industry to a positive growth path. Construction continued with solid dynamics, recording an increase in economic activity of around 12%. Agriculture achieved an increase of around 9% due to a good harvest of cereals and industrial plants, while the negative contribution came from the production of fruits and vegetables.

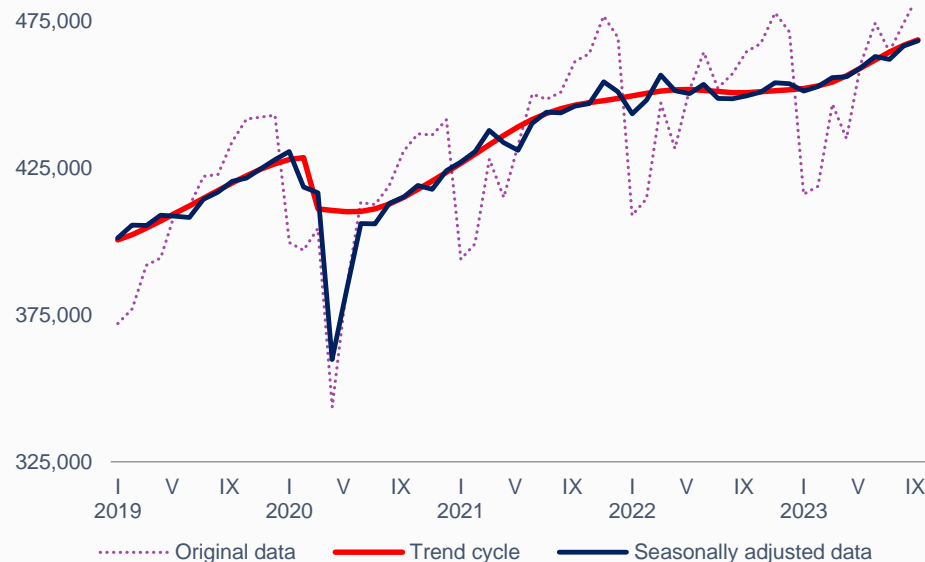
Observed by expenditure aggregates, GDP growth in the third quarter of 2023, according to the estimate of the Ministry of Finance, was driven by domestic demand. The stabilization of inflation was reflected in the growth of the real income of the population so that in the third quarter, after negative rates in the first half of the year, a growth of personal consumption of 1.1% was recorded. Government consumption also made a positive contribution to GDP growth. At the same time, investments in fixed assets achieved an increase of about 4% thanks primarily to larger construction works. According to the assessment of the Ministry of Finance, real exports and imports recorded almost stagnant movements year-on-year due to slightly lower external demand on the one hand and lower energy imports on the other. The seasonal effect and the good yield of corn and industrial plants determined the positive contribution of stocks.

# The indicator of economic activity of Serbia (IPAS) recorded growth of 4.1 y-o-y in September 2023.

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



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



**After slightly lower growth rates at the beginning of 2023, since May there has been a gradual acceleration of economic activity, so that the value of this indicator in September indicates a GDP growth of 4.1%, which is the highest monthly growth of the economy, year-on-year, since May 2022.**

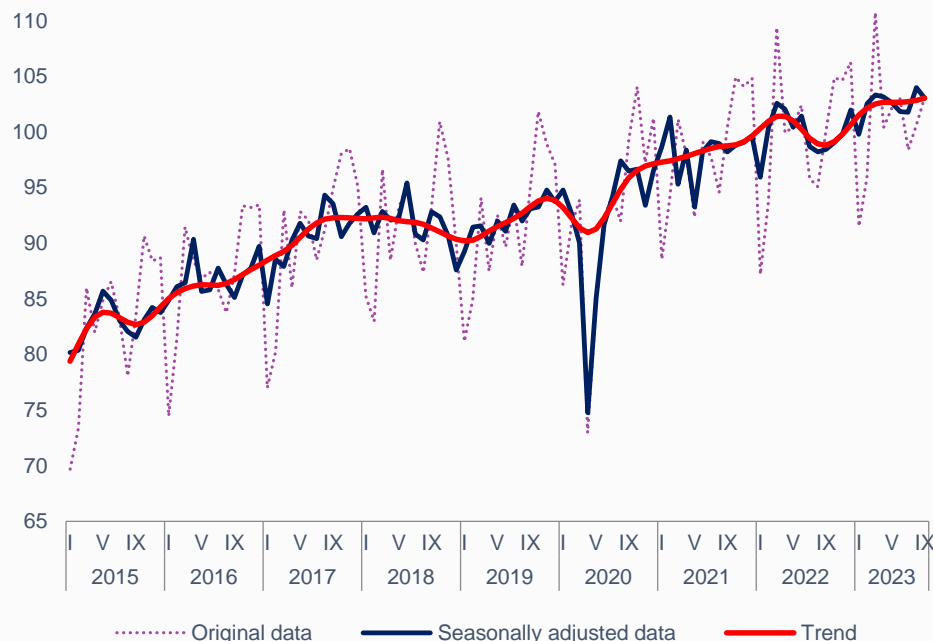
The Ministry of Finance, for the purpose of continuous monitoring of economic activity and early identification of activation of economic growth risks on the basis of short-term indicators, compiles a composite indicator of economic activity of Serbia – IPAS\*, as an indicator of economic trends in monthly 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 September 2023 recorded a real growth of 4.1% y-o-y. The most significant positive contribution to the dynamics of economic activity with a growth of 2.6% continued to provide service activities, but with a still present decline in the trade sector, which recorded a real decrease in turnover of 0.7% y-o-y. The construction industry continued with good movements and in September, according to the MoF estimate, it was higher by about 15%. Industrial production in September was higher by 3.0% y-o-y as a result of equal growth of 3.0% each in the manufacturing industry and the electric power sector. For agriculture, the current estimate of the Ministry of Finance was used, according to which the growth is 9.3%.

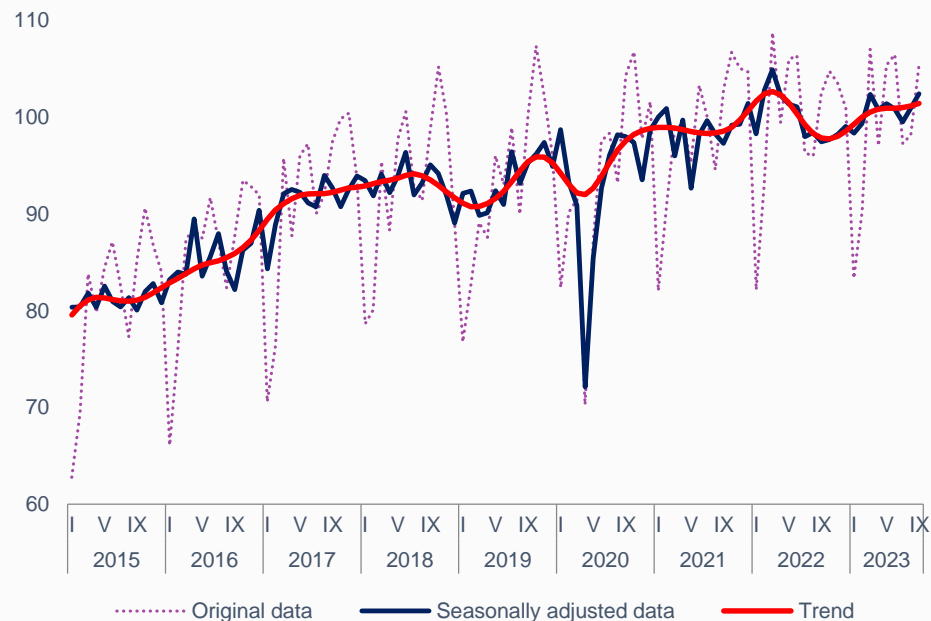
\* [https://www.mfin.gov.rs/upload/media/ZzkTpV\\_601696edb3a9a.pdf](https://www.mfin.gov.rs/upload/media/ZzkTpV_601696edb3a9a.pdf)

# In September 2023, industrial production achieved an increase in the physical volume of production of 3.0% year-on-year.

Indices of industrial output (2022=100)



Indices of manufacturing industry (2022=100)



Source: SORS, calculated in the MoF

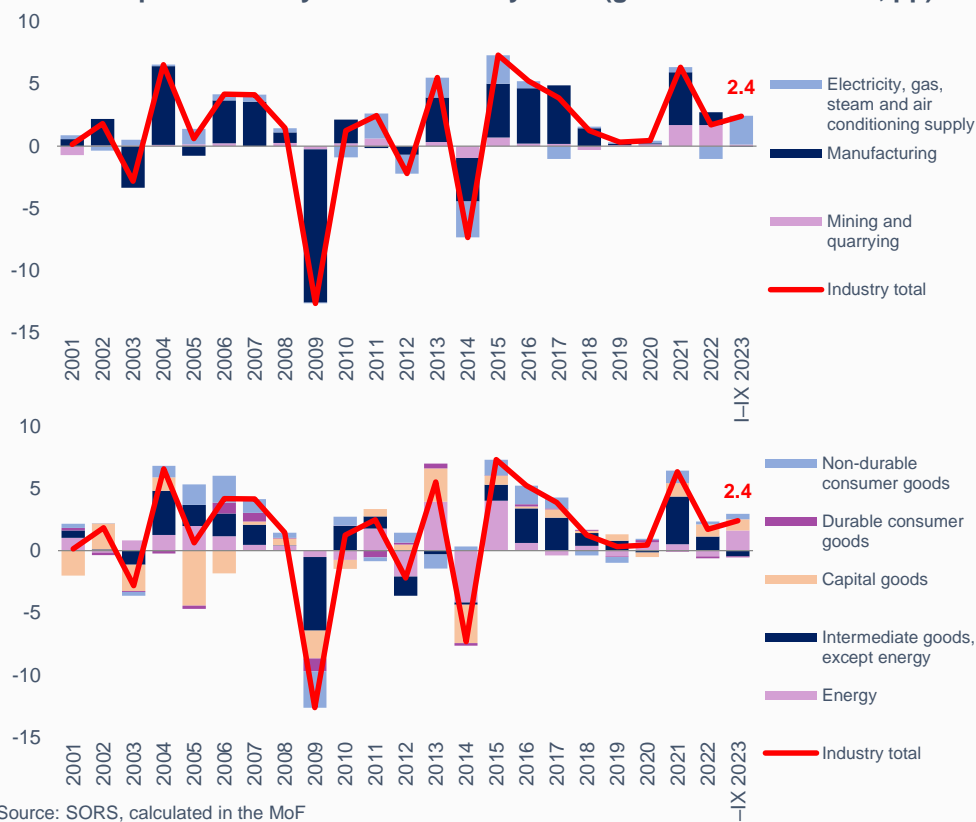
**Decreased external demand was reflected in the dynamics of the manufacturing industry in the previous period, primarily in export-oriented activities. However, the production of this sector in June came out of the negative zone, with continued positive trends, and during September the level of production increased by 3.0% compared to the same month of the previous year with an acceleration of growth by 1.0% compared to August level.**

On a year-on-year basis, the September growth in industrial production is the result of growth in all three sectors of industry. For the third month in a row, the manufacturing industry recorded an increase in production, which in September amounted to 3.0% y-o-y, defining the most significant positive impact on the movement of total industrial production. At the same time, the volume of electricity production was higher by 3.9% y-o-y, while mining and quarrying recorded a growth of 1.1% y-o-y. According to the seasonally adjusted data, the production of the total industry in September decreased by 1.1%, compared to the August level, while the physical volume of manufacturing industry increased by 1.0%.

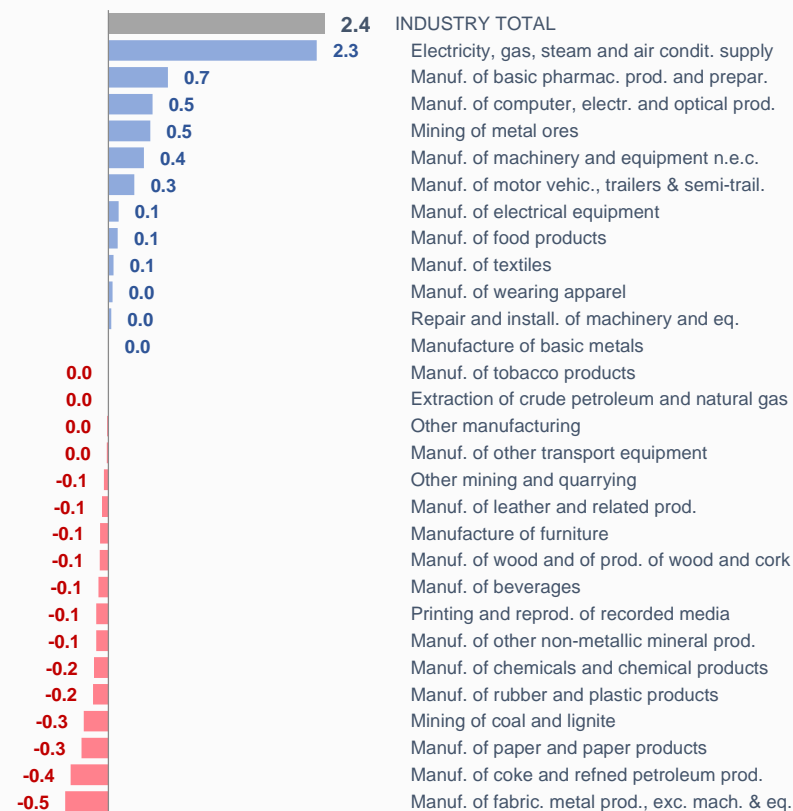
Out of 24 activities of the manufacturing, 9 activities recorded an increase in production. The most significant positive contribution to this sector comes from the food (13.7% y-o-y) and pharmaceutical industry (28.4%). The production level of the metal industry was higher by 38.1% y-o-y, which is also the average growth of this activity in the previous five months. The growth of the computer industry amounted to 34.9%, while the volume of production of the tobacco and automobile industries, as well as construction materials increased by 14.4%, 7.4% and 5.0% y-o-y, respectively. On the other hand, the most significant negative contribution comes from the oil industry and beverage production with a decline of 6.0% and 10.7% y-o-y, respectively. In addition, the production of fabricated metal products and the rubber industry had an equally negative contribution with a decline of 6.7% and 6.0% y-o-y respectively.

# In the first nine months of 2023, 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–Sep 2023

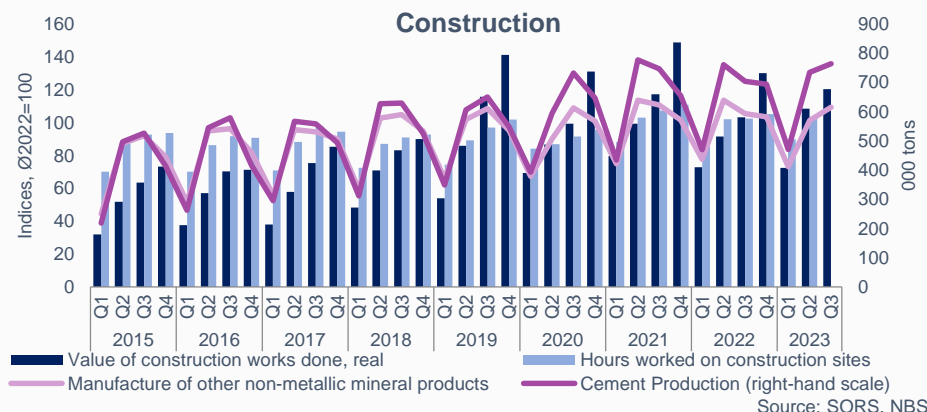
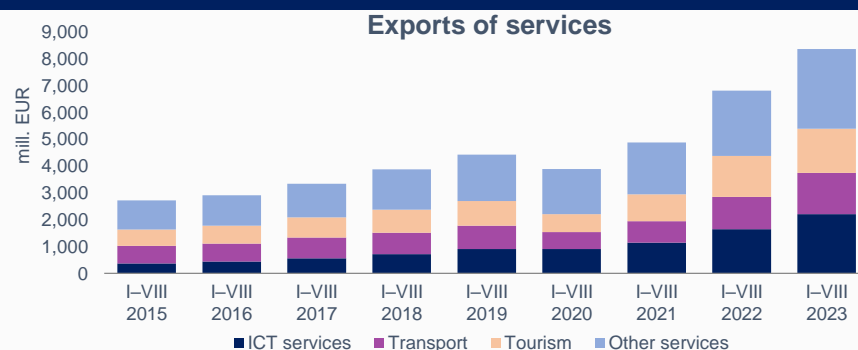
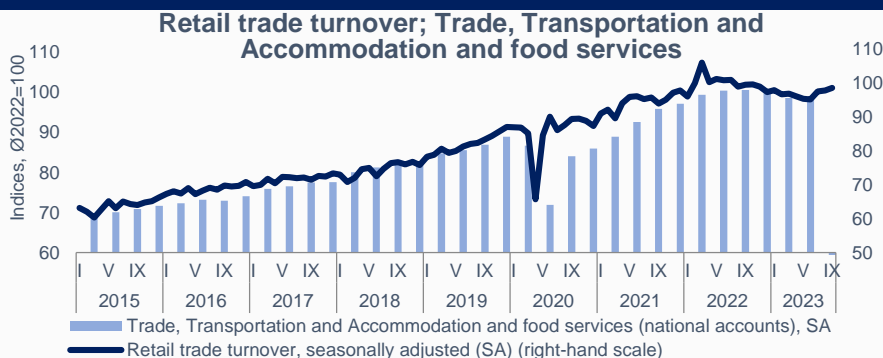


**Increased uncertainty in the international environment due to geopolitical tensions continues to define significant negative risks. However, despite this, a stable year-on-year growth in industrial production is expected until the end of the year as a result of the activation of new production capacities, but also under the influence of the lower base from the previous year, especially in the manufacturing.**

In the first nine months, the growth of industrial activity was driven by a higher physical volume of electricity production of 15.0% y-o-y, as a result of the stabilization of production processes but also a lower base from the same period of the previous year. In addition, the mining sector recorded a higher level of production by 1.7% y-o-y, while the production volume of the manufacturing was almost unchanged (decrease of 0.1%). Growth in production was recorded in 10, and decline in the remaining 14 activities of the manufacturing.

In this period, the most significant positive contribution to the manufacturing industry was achieved by the pharmaceutical, computer and machinery industry with growth of 13.8%, 52.4% and 11.7% y-o-y, respectively. On the other hand, the production of fabricated metal products (decrease of 9.0% y-o-y), production of coke and refined petroleum products (decrease of 5.5%) and production of paper (decrease of 10.0%) had the most significant negative contribution.

# Despite growing geopolitical tensions, high-frequency indicators point to a gradual acceleration of activity in the service sector.



**Most service industries continue to grow with a noticeable recovery of real turnover in retail trade. With the easing of inflation and the growth of the real disposable income of the *хојсехолдс*, trade turnover is expected to enter the positive zone.**

The retail trade turnover in the first nine months of 2023 nominally increased by 8.3%, while decreased in real terms by 3.9% y-o-y due to slightly higher inflation in this period. However, the slowdown in inflation in recent months is also reflected in the real value of retail trade turnover, and, after the June drop of 6.0% y-o-y, real turnover remained almost unchanged in September compared to the same month of the previous year (the decrease was 0.7% y-o-y).

At the same time, about 3.2 million tourists visited tourist destinations, which is an increase of 10.3%, with increase in the number of overnight stays by 4.2%. In the first eight months, foreign currency inflow from tourism increased by 9.0% and amounted to EUR 1,655.8 million.

In the first two quarters of 2023, the physical volume index of transport increased by 26.9% y-o-y due to the growth of passenger transport.

During 2023, the growth of exports of service activities continued, whereby in the first eight months, slightly more than a third of the growth came from the increase in exports of the ICT sector of 34.7% y-o-y.

After unfavourable trends in construction during the previous year due to growing global uncertainty, a strong recovery of construction activity is recorded in 2023, with a real growth in the value of construction works done of 11.6% in the first nine months. In the first eight months, the number of issued building permits increased by 1.9% y-o-y. In the first nine months, the production of cement increased by 1.9%, while the production of building materials decreased by 4.3% y-o-y.

# EXTERNAL SECTOR

❖  
**In September 2023, year-on-year growth in merchandise exports and imports recorded decline of 5.7% and 10.5%, respectively**

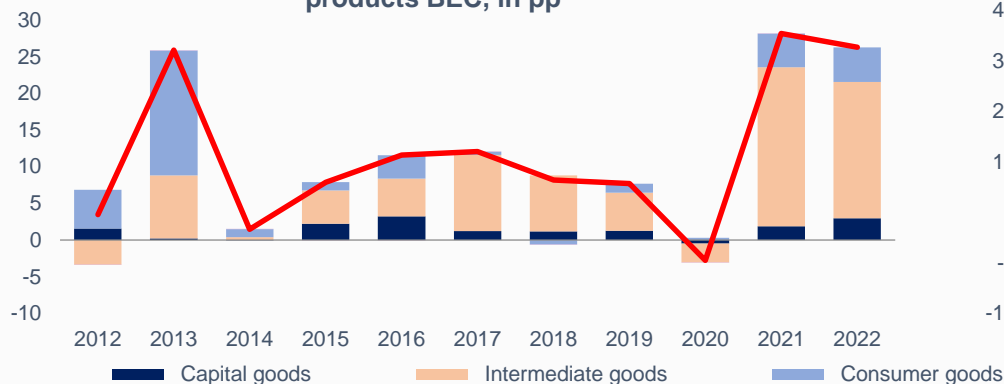
❖  
**Coverage of imports by exports of goods in September amounted to 80.8%**

❖  
**Germany, China and Italy are the largest external trade partners in the period January-September 2023**

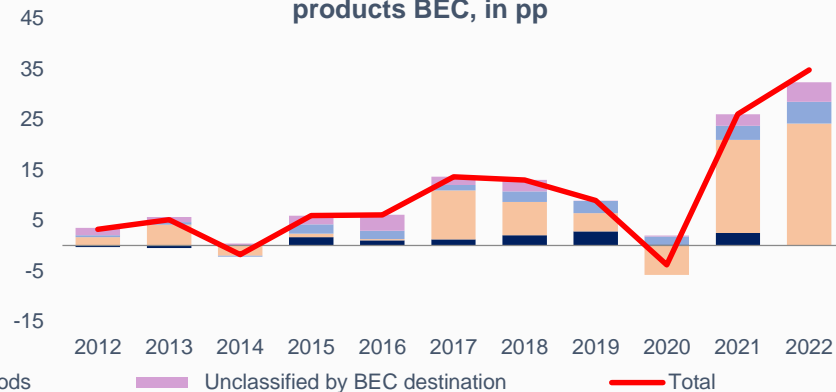
❖  
**In August 2023, the current account deficit was EUR 100.7 million**

# After the full recovery of foreign trade goods exchange in 2021 from the shock caused by the pandemic, strong growth continued in 2022.

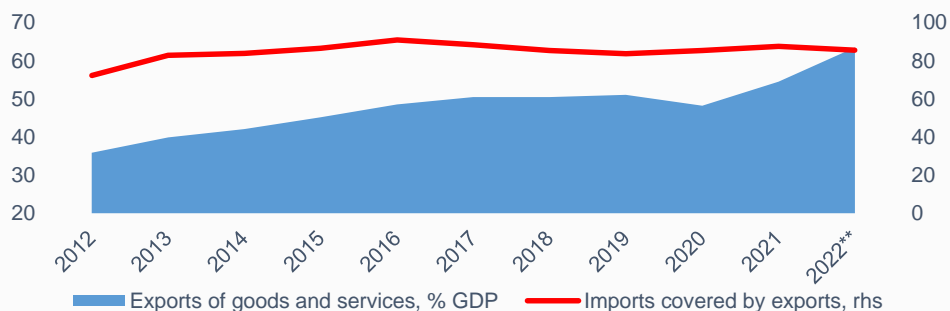
Contribution to the export, observed by economic destination of products BEC, in pp



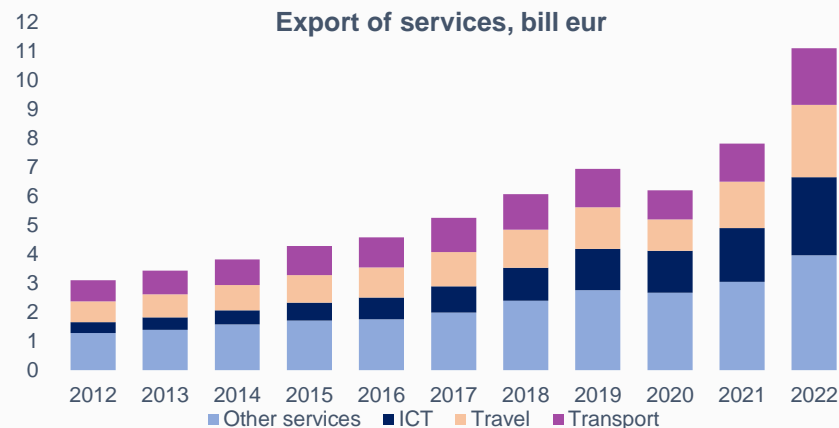
Contribution to the import, observed by economic destination of products BEC, in pp



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 based on yearly data

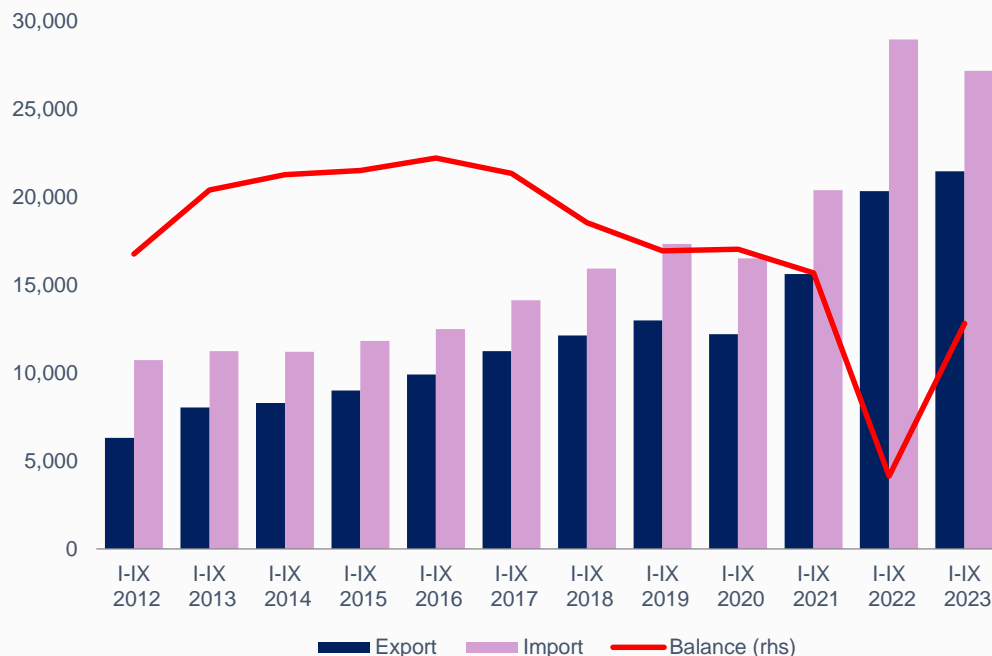
**The total volume of foreign trade in goods in 2022 was EUR 66.6 billion, and was 31.1% higher than in 2021.**  
**The deficit in foreign trade of goods stood at EUR 11.4 billion, of which 3/4 refers to the deficit in the energy sector.**

The high growth of exports is the result of the growth of external demand due to the recovery of the economies of the main foreign trade partners after the implementation of restrictive measures in the fight against the pandemic, the activation of new export-oriented capacities due to the high inflow of FDI from the previous period, as well as the continuation of the trend of growth in export prices. The manufacturing industry, as the carrier of export activity, achieved export growth of 22.8% in 2022, with growth in 22 out of a total of 23 activities. Better export performance was significantly influenced by higher production and exports of mining sector, which recorded a record amount of EUR 1.8 billion, which is almost entirely the result of the exploitation of metal ores. Agriculture, on the other hand, despite the increase in the prices of cereals and primary agricultural products, recorded a drop in exports of 4.4%, due to weaker agricultural seasons in 2021 and 2022.

In addition to the growth of economic activity and the increased import of reproductive goods for the needs of the economy, higher imports in 2022 are primarily a consequence of the high growth in the import of energy products, primarily due to the strong increase in their prices on the world market. In 2022, the import of raw materials recorded a growth of 43.4% 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 growth rates of 22.4% and 17.5%, respectively.

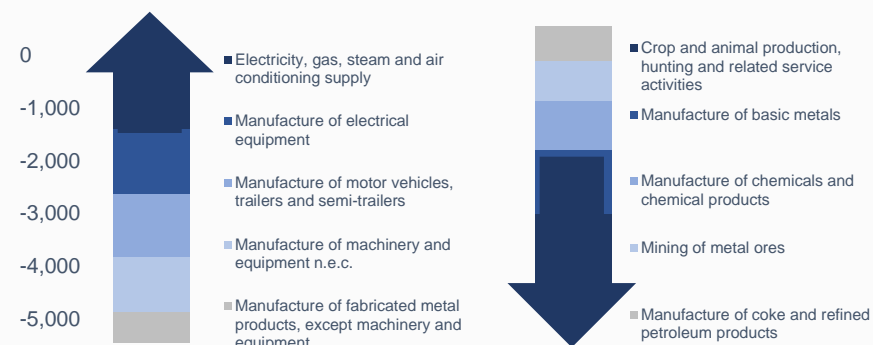
# Exports and imports of goods in the first nine months of 2023 amounted to 21.5 and 27.2 billion euros, respectively, while the coverage of imports by exports increased to 79.1% compared to 70.3% in the same period of the previous year

External trade in the period January-September (2012-2023), mill. EUR

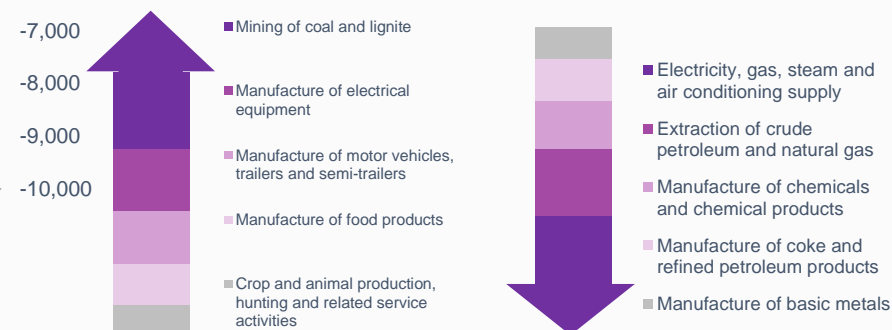


Source: SORS

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



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



**In September 2023 alone, foreign trade in goods decreased year-on-year by 8.4% and amounted to EUR 5.4 billion, due to decline of export of 5.7% and import of 10.5%.**

Exports of goods in September 2023 amounted to EUR 2.4 billion, which is a decrease of 5.7% y-o-y, primarily as a consequence of the drop in exports of the electrical energy sector and agricultural products, while exports of the manufacturing industry remained almost unchanged compared to the same month of the previous year. The automobile, metal and machine industries contributed the most to the mitigating the decline in exports of the manufacturing industry (increase of 30.8, 19.6 and 18.4 million euros, respectively).

The value of goods imports in September amounted to EUR 3.0 billion and decreased by 10.5%, y-o-y, which is largely a consequence of the high base in the previous year, as well as lower energy prices on the world market. The decline in imports contributed the most to the decline in the import of intermediate goods, where a drop of 15.6% was recorded (a decrease of EUR 303.9 million). The decline in import activity was also reflected in the lower import of equipment (a drop of 21.5%, i.e. EUR 93.1 million), while the import of consumer goods recorded growth of 3.5% (EUR 19.6 million).

In the first nine months of 2023, exports of goods increased by 5.6% (or EUR 1.1 billion), while exports of the manufacturing industry increased by 7.0% (by EUR 1.2 billion). The highest growth in export activity within the manufacturing industry was recorded in the electric (21.5%), automotive (23.9%) and machine industries (30.6%), and a positive contribution was also recorded in the metal (23.8%) and electronic industry (30.1%).

In the same period, the fall in goods imports amounted to 6.1% and was recorded in 16 out of 23 divisions of the manufacturing industry. The decrease in the total import of goods was mainly contributed by the decrease in the import of intermediate goods of 12.1%, y-o-y, with a simultaneous decrease in the import of equipment of 12.3%, y-o-y. On the other hand, the import of consumer goods recorded a growth of 6.9%.

# The largest external trade partners of Serbia in the period January-September 2023

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

	3,229.3
Rotating electric plant and parts	18.6
Equipment for distributing electricity	13.9
Parts and accessories of the motor vehicles	7.8
Railway vehicles and associated equipment	4.6
Other	55.1

14.0%

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

	3,571.7
Motor cars and other motor vehicles	5.6
Medicaments	5.1
Copper	4.9
Elec. apparatus for switching or protecting elec. circuits	2.7
Other	81.7

	822.5
Copper ores and concentrates	71.2
Copper	21.7
Wood, simply worked	2.2
Elec. apparatus for switching or protecting elec. circuits	0.6
Other	4.3

8.6%

	3,364.9
Telecommunications equipment	7.3
Automatic data processing machines	2.8
Electrical machinery and apparatus	2.5
Elec. apparatus for switching or protecting elec. circuits	2.3
Other	85.1

	1,341.1
Footwear	8.9
Articles of apparel	7.1
Rubber tires, flaps, etc.	5.7
Furniture and parts	4.8
Other	73.6

6.8%

	1,953.2
Leather	5.7
Copper	2.6
Articles of plastics	2.6
Other machinery and equipment for particular industries	2.1
Other	86.9

	1,507.1
Petroleum oils and oils obtained from minerals	9.8
Electric current	4.7
Alcoholic beverages	3.1
Footwear	2.8
Other	79.5

4.7%

	771.0
Electric current	15.6
Coke and semi-coke of coal, of lignite or of peat	14.0
Iron and steel bars, rods, angles	12.2
Briquettes lignite and peat	8.9
Other	49.2

	1,172.0
Equipment for distributing electricity	18.2
Electric current	15.2
Thermionic valves and tubes	7.3
Rotating electric plant and parts	3.8
Other	55.5

4.7%

	1,097.3
Petroleum oils and oils obtained from minerals	9.7
Natural gas, whether or not liquefied	8.0
Medicaments	7.8
Equipment for distributing electricity	6.0
Other	68.5

	854.2
Household type, elec. and nonelec. equipment	10.6
Clothing accessories of textile fabrics	7.5
Fruit and nuts, fresh or dried	6.2
Feeding stuff for animals	6.0
Other	69.7

4.5%

Share in overall  
external trade

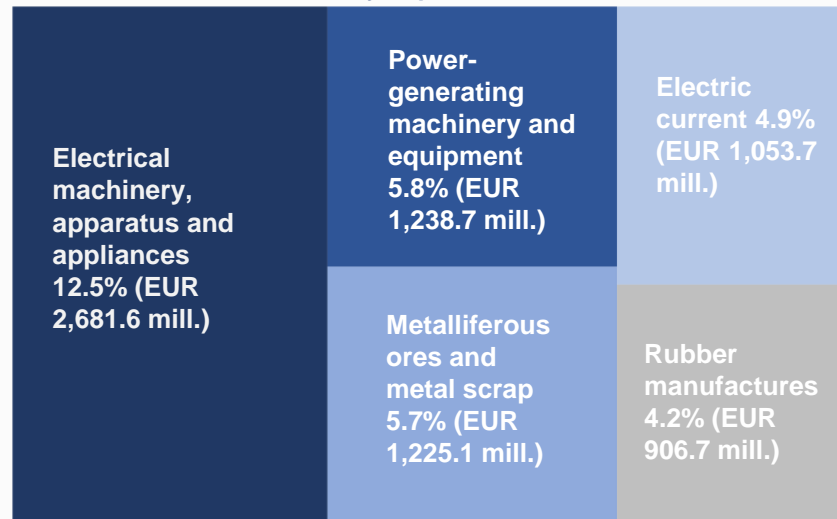
	1,315.4
Natural gas, whether or not liquefied	69.7
Fertilizers (other than crude)	12.7
Tobacco, manufactured	2.1
Inorganic chemical elements, oxides and halogen salts	2.1
Other	13.5

# In the first ten months of 2023, the total export value of 15 largest exporters amounted to EUR 6.0 bill. The largest exporter was Serbia Zijin Mining, followed by Serbia Zijin Copper and HBIS Group.

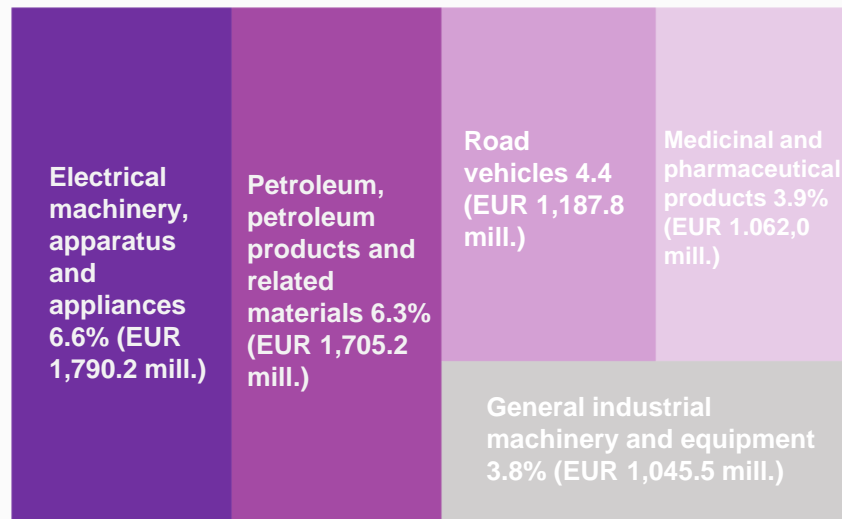
## 15 BIGGEST EXPORTERS\* in the period January-October 2023 (EUR mill.)

NAME OF EXPORTER	LOCATION	EXPORT
SERBIA ZIJIN MINING D.O.O.	BRESTOVAC	957.1
SERBIA ZIJIN BOR COPPER	BOR	633.5
HBIS GROUP SERBIA IRON & STEEL D.O.O.	BEOGRAD	458.9
ZF SERBIA D.O.O.	PANČEVO	415.8
LEONI WIRING SYSTEMS SOUTHEAST	PROKUPLJE	415.7
TIGAR TYRES	PIROT	397.1
DRUŠTVO ZA TRGOVINU ROBERT BOSCH	BEOGRAD	380.6
HENKEL SRBIJA	BEOGRAD	353.2
YURA CORPORATION	RAČA	331.5
NAFTNA INDUSTRIJA SRBIJE	NOVI SAD	329.1
HEMOFARM	VRŠAC	289.9
SCM POWER D.O.O.	BEOGRAD	282.9
PHILIP MORRIS OPERATIONS	NIŠ	242.5
MINTH AUTOMOTIVE EUROPE D.O.O.	LOZNICA	237.8
GORENJE	VALJEVO	237.1

## The most significant products in export in the period January-September 2023



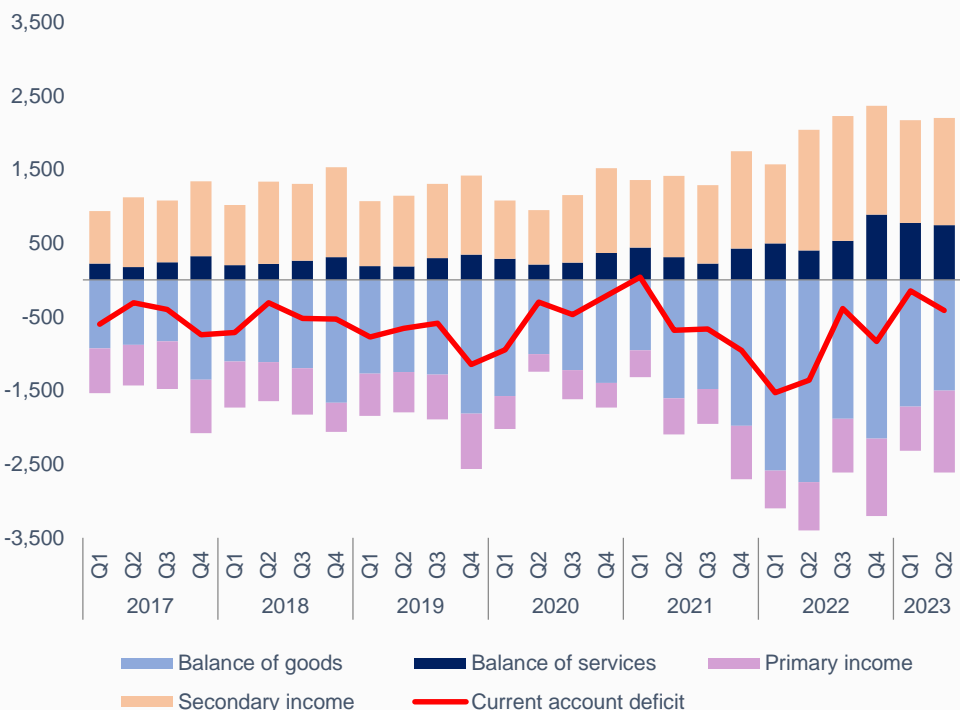
## The most significant products in import in the period January-September 2023



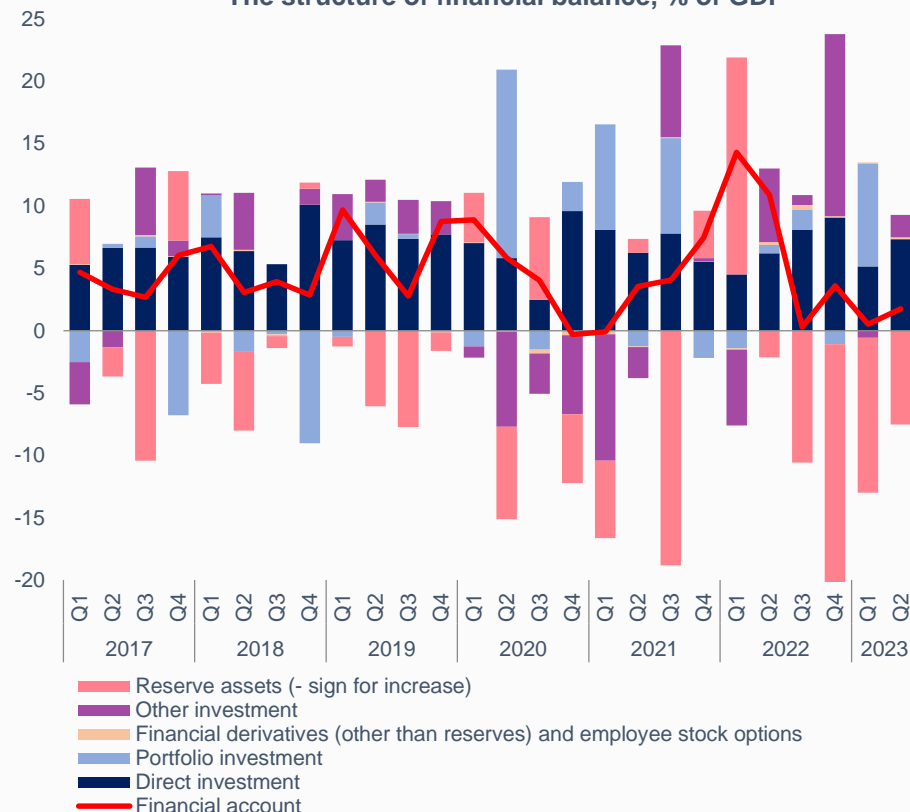
\* Observed by Customs Administration, individual data (excluding consolidated reports of groups and holdings)

**In the first eight months of 2023, the current account of the balance of payments recorded a deficit in the amount of EUR 697.9 million, which is EUR 2.4 billion less than in the same period of the previous year. The decrease in the current account deficit was largely contributed by the decrease in the goods deficit.**

**Balance of payment (mill. EUR)**



**The structure of financial balance, % of GDP**



**The deficit of goods and services amounted to EUR 2.3 bn, which represents a year-on-year decrease of EUR 3.1 bn.**

In 2022, a current account deficit of EUR 4.2 billion (-6.9% of GDP) was recorded, with a record inflow of FDI (EUR 4.4 billion).

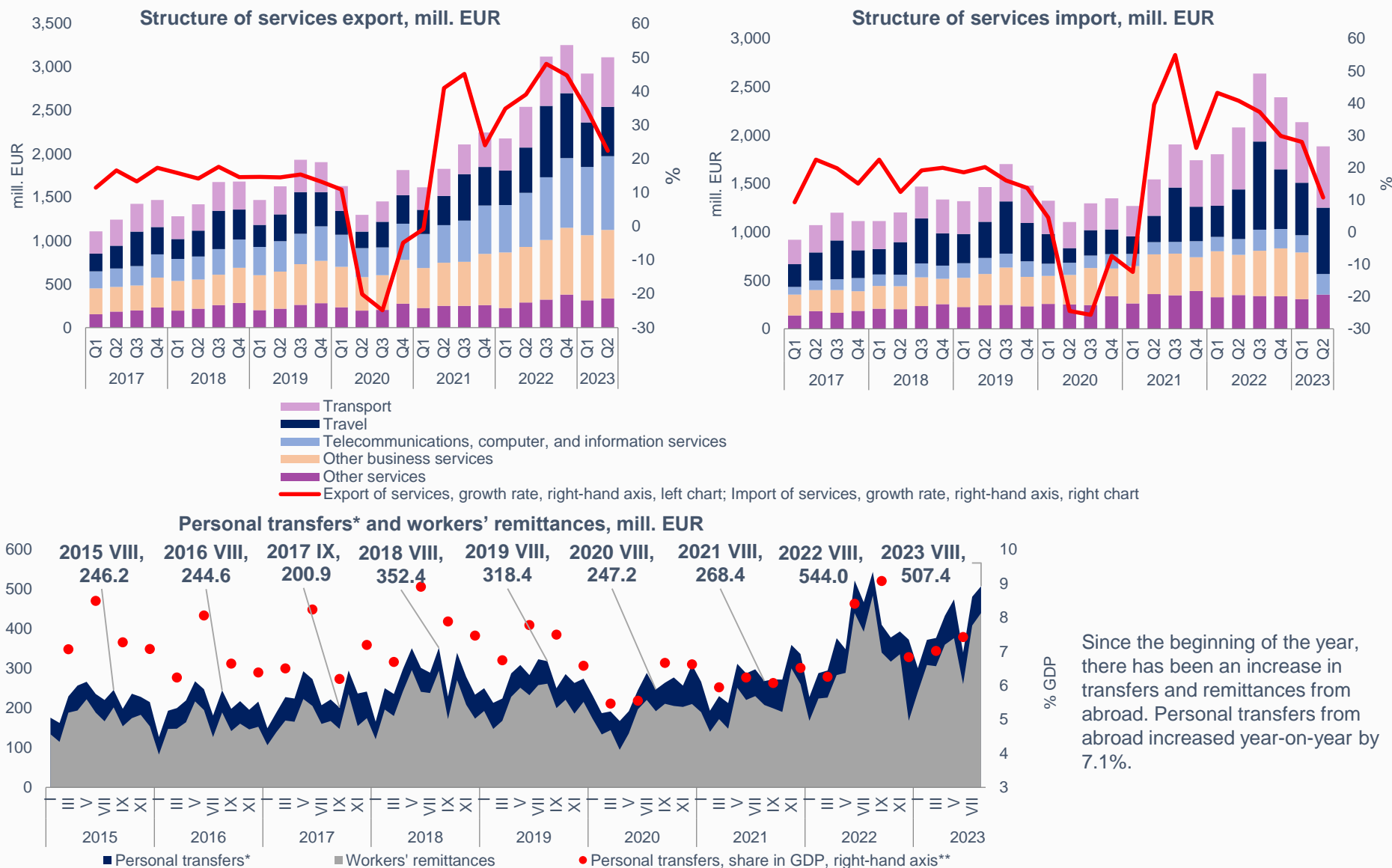
In the period January-August 2023, the goods deficit amounted to EUR 4.1 billion and is lower by EUR 2.6 billion y-o-y. A surplus was recorded on the services account, which is EUR 554.5 million higher year-on-year, and amounted to EUR 1.8 billion.

The deficit of primary income was higher by 52.5% (an increase of EUR 819.9 million), while the surplus of secondary income was higher by 1.7% and amounted to EUR 3.9 billion, mostly due to the increased net inflow of remittances from abroad (a growth of 7.7%).

The net inflow of FDI amounted to EUR 2.6 billion, while the total inflow of FDI amounted to EUR 2.8 billion.

The net inflow of portfolio investments in the observed period amounted to EUR 1.2 billion.

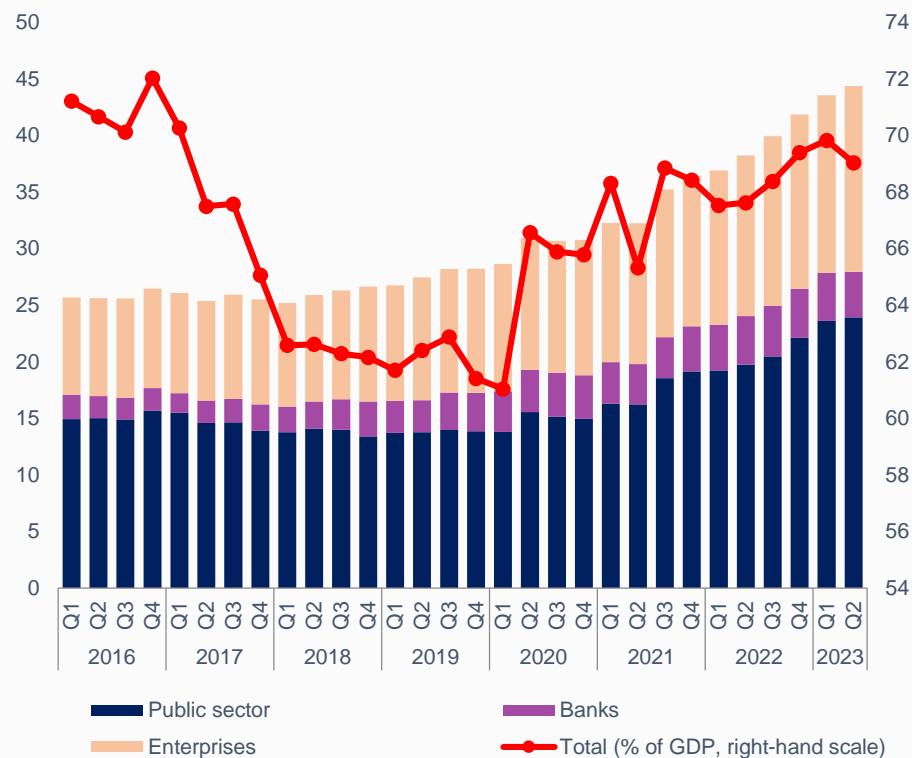
**The surplus in foreign trade exchange of services in the period January-August 2023 amounted to EUR 1.8 billion, and it is higher by 44.8%. The largest surplus was realized in the ICT sector and business services.**



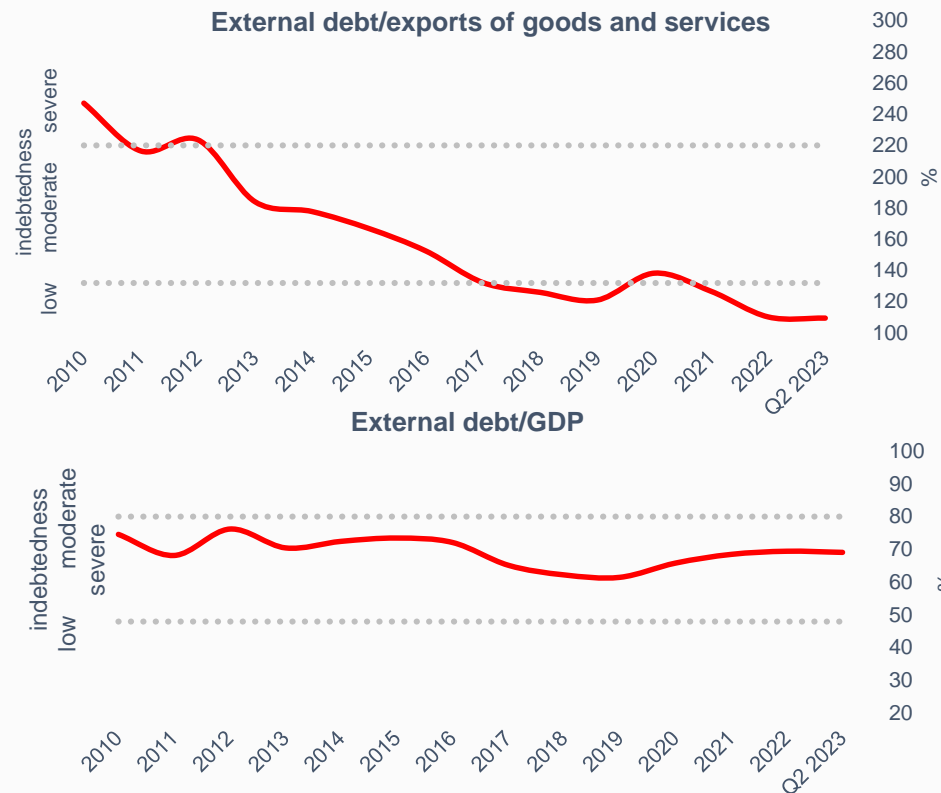
Since the beginning of the year, there has been an increase in transfers and remittances from abroad. Personal transfers from abroad increased year-on-year by 7.1%.

# Total external debt at the end of June 2023 amounted to 69.0% of GDP

External debt, in billion EUR



External debt/exports of goods and services



**At the end of June, the external indebtedness of the public sector compared to the end of the previous year increased by EUR 1.8 billion, with a simultaneous increase in the indebtedness of enterprises of EUR 989.9 million, while the banking sector reduced indebtedness by EUR 311.3 million.**

At the end of June 2023, compared to the end of the previous year, the ratio of external debt to exports decreased from 110.2% to 109.5%, while the ratio of external debt to GDP decreased from 69.4% to 69.0%.

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 September was higher by 2.4% y-o-y

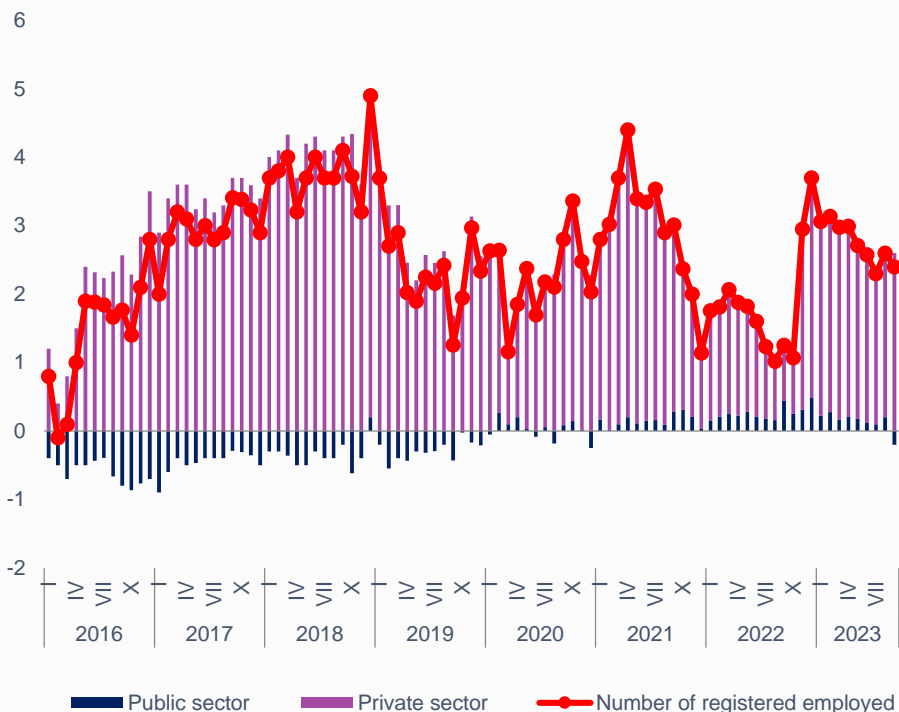
Unemployment rate in Q2 2023 totalled 9.6%

According to the National Employment Service, the number of unemployed persons in September was lower by 8.6%, y-o-y.

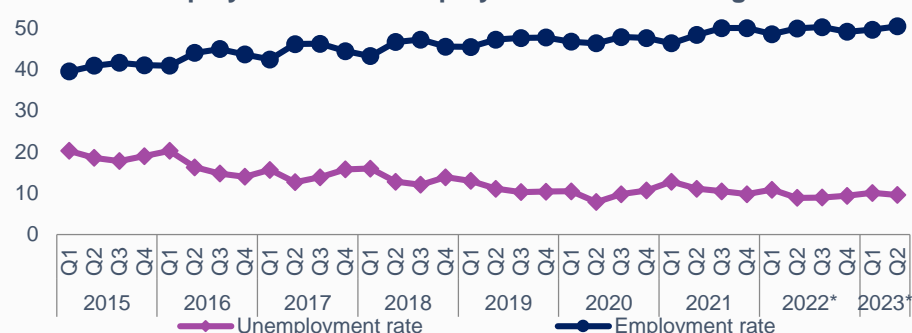
Average net salary in August totalled RSD 86,112 (EUR 735)

# In September 2023, the continuation of the trend of positive developments on the labour market was recorded, which was reflected, above all, through the growth of employment.

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

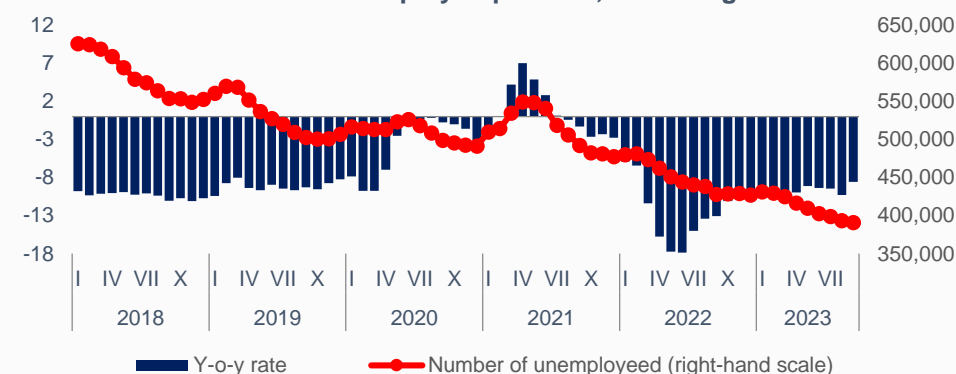


Employment and unemployment rate according to LFS



\* Data was calculated on the basis of demographic estimates for 2022, according to 2022 Population Census, and are not comparable with previous data

Number of unemployed persons, according to NEA



## Most significant yearly growth of employment in September was registered in scientific activities, information and communication technologies and manufacturing.

According to CROSO\* records, the year-on-year increase in employment in September amounted to 2.4% and was the result of growth in employment in the private sector (3.6%), while in the public sector the number of employees decreased by 0.6%.

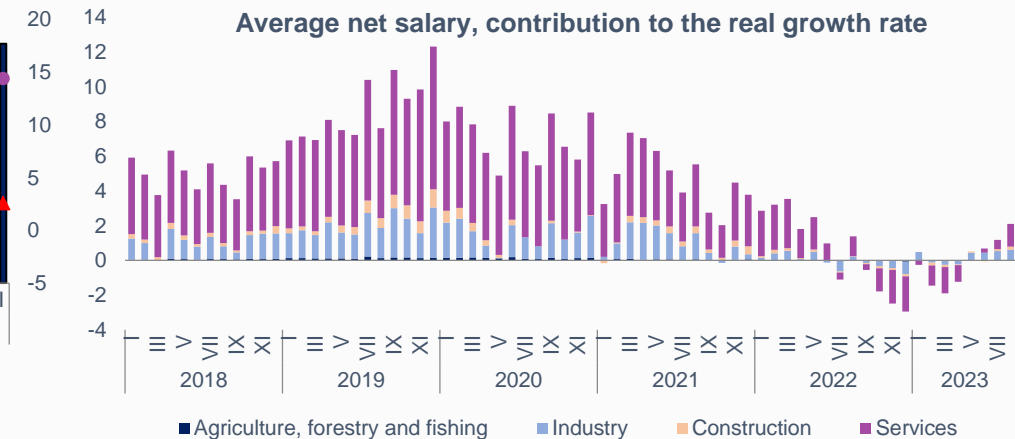
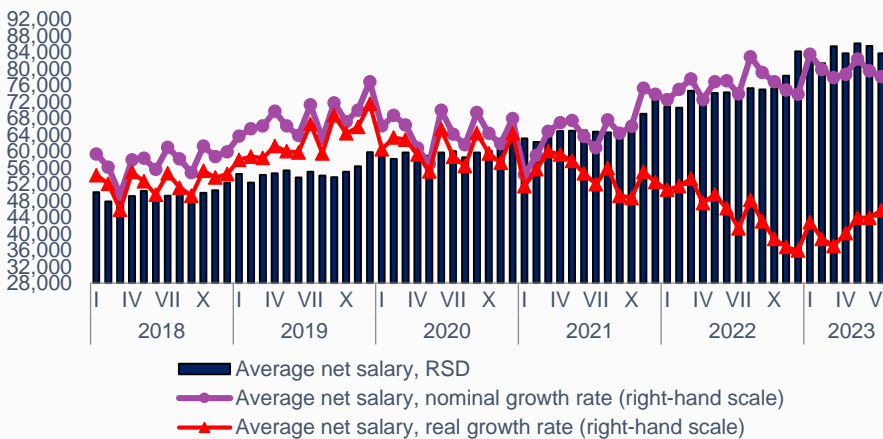
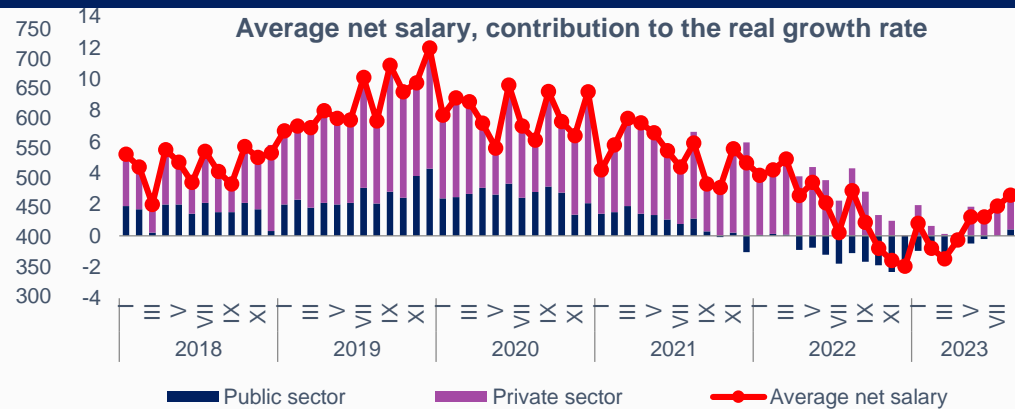
In the period January-September employment increased by 2.7%, compared to the same period of the previous year. Most significant contribution to the growth came from employment increase in the ICT and scientific activities.

\* Central registry of compulsory social security

According to the National Employment Service, the number of unemployed persons in September was lower by 8.6%, y-o-y.

In the second quarter of 2023, compared to the same quarter of the previous year, the employment rate increased by 0.5 percentage points and amounted to 50.4%. At the same time, the unemployment rate increased by 0.7 pp to 9.6%.

**The average net salary in August 2023 increased by 14.4% in nominal terms, y-o-y and amounted to RSD 86,112. At the same time, in real terms wages increased by 2.6%.**



**Observed by activities, the most significant year-on-year real wage growth in August was recorded in the trade and manufacturing industry.**

The year-on-year real increase in wages in August was primarily the result of a wage increase in the private sector of 3.0%.

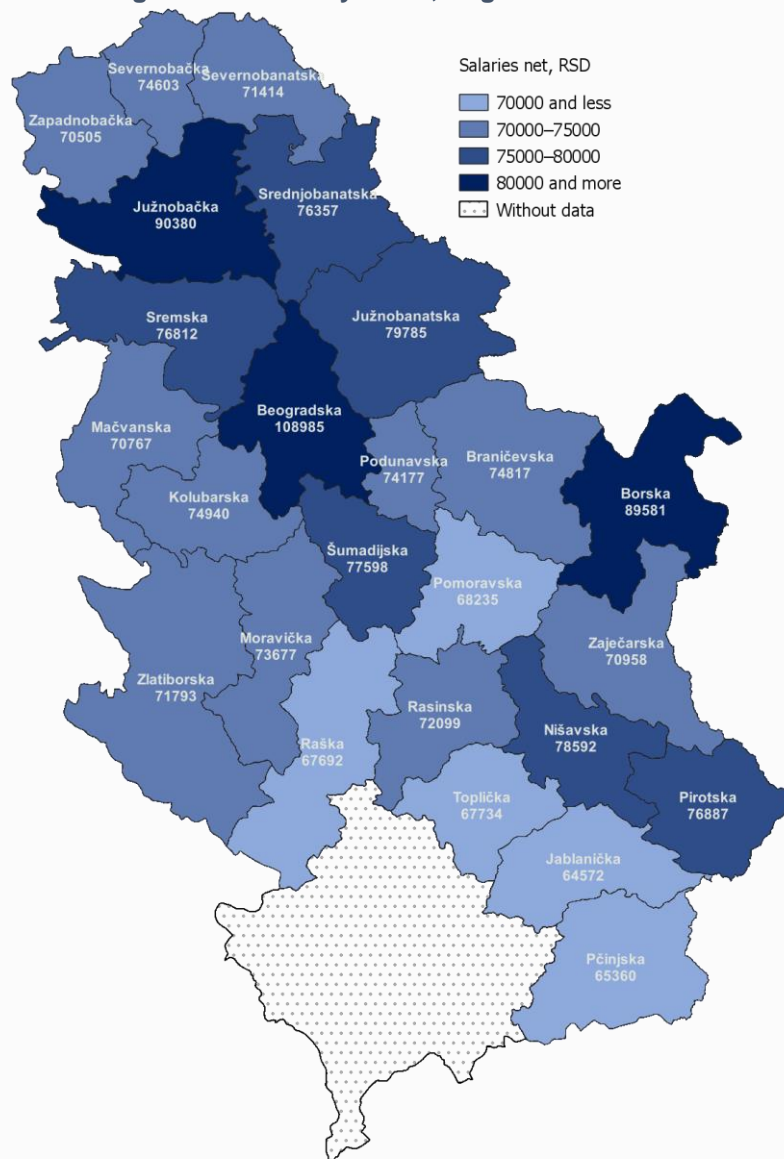
Since 2023, minimum cost of labour per working hour increased by 14.3% to RSD 230.0.

In the period January-August salaries increased by 0.7% in real terms compared to the same period of the previous year.

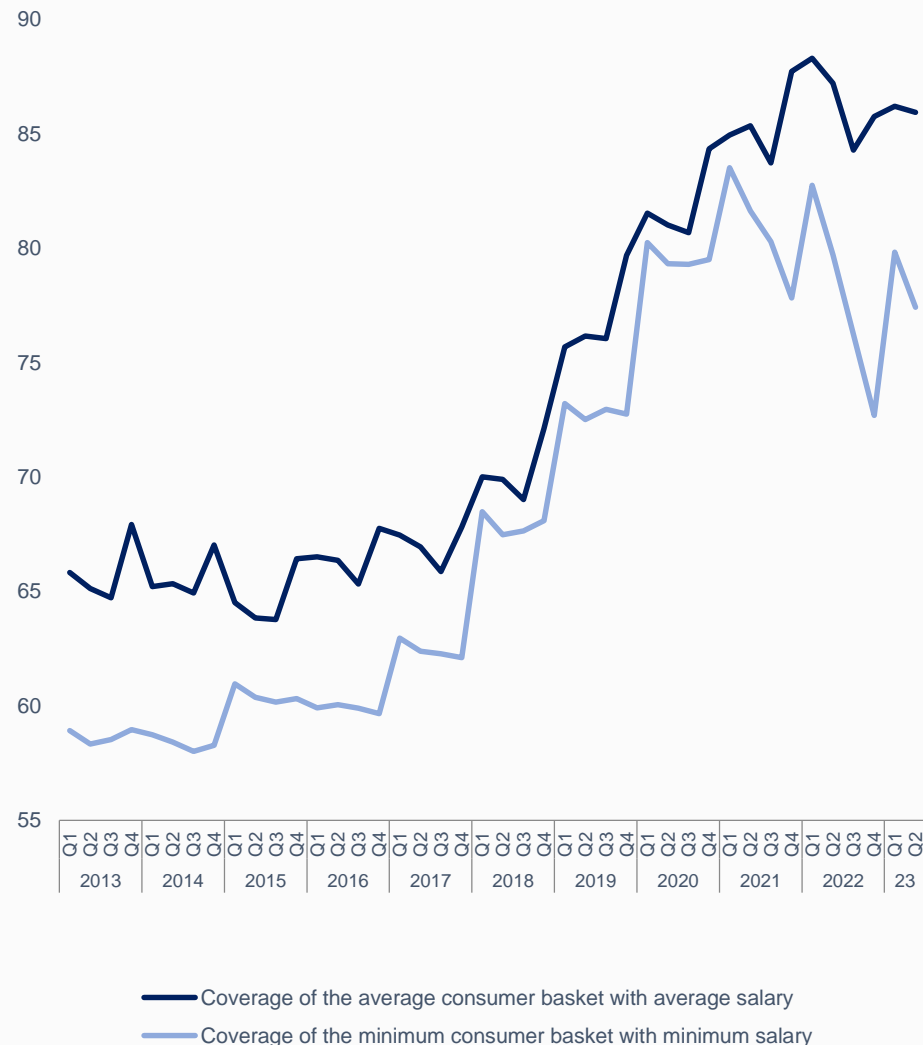
Source: SORS, calculated in MoF

# 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, August 2023



The ratio of salaries and consumer basket



Source: SORS and Ministry of Trade, Tourism and Telecommunications

# **MONETARY DEVELOPMENTS**

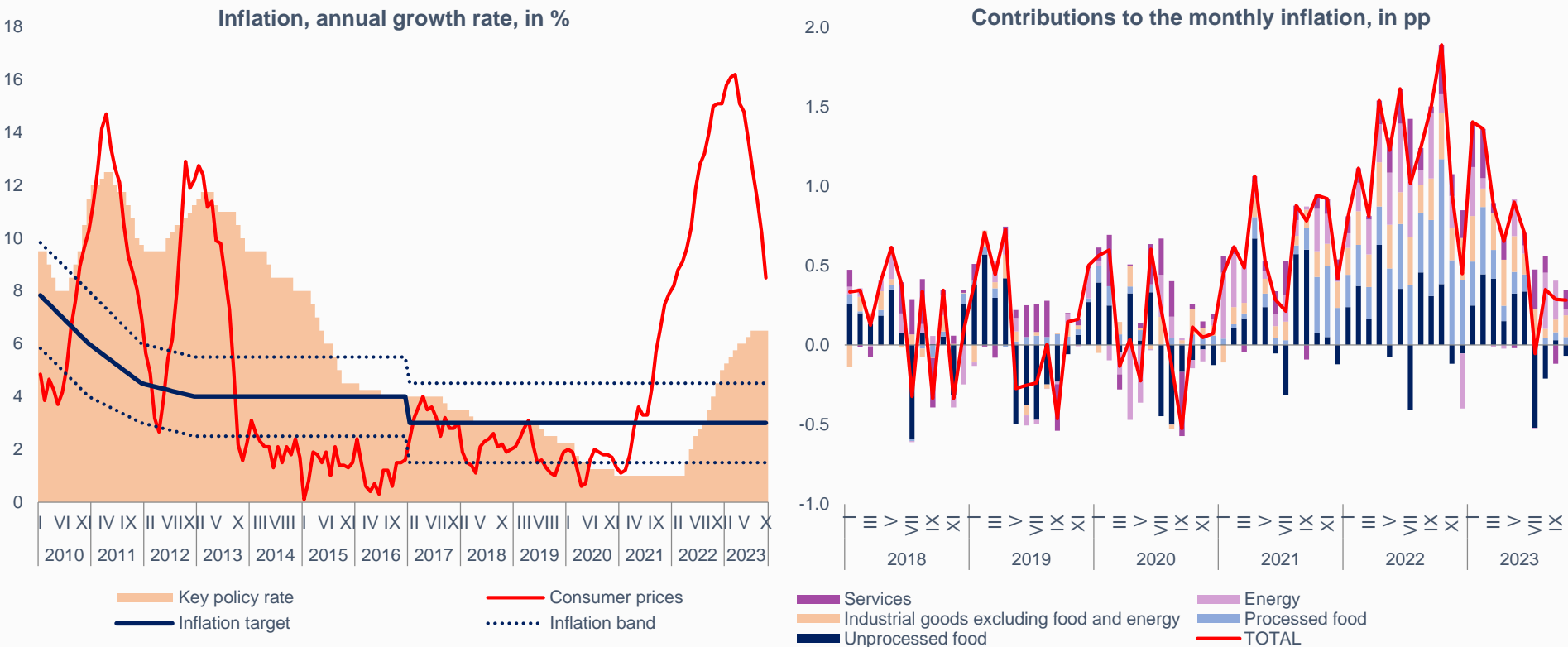
❖ Annual inflation in October totalled 8.5%

❖ Total lending activity registered nominal decline of 0.5% compared to September 2022

❖ The relative stability of the dinar was preserved also in September 2023

❖ NBS foreign exchange reserves totalled EUR 24.2 billion at the end of September, which is higher by EUR 7.7 billion, y-o-y

**In October 2023, the slowdown in the growth of consumer prices continued and the annual inflation rate totalled 8.5%. As a result of declining inflationary pressures, the NBS kept the key policy rate to 6.50% in November.**



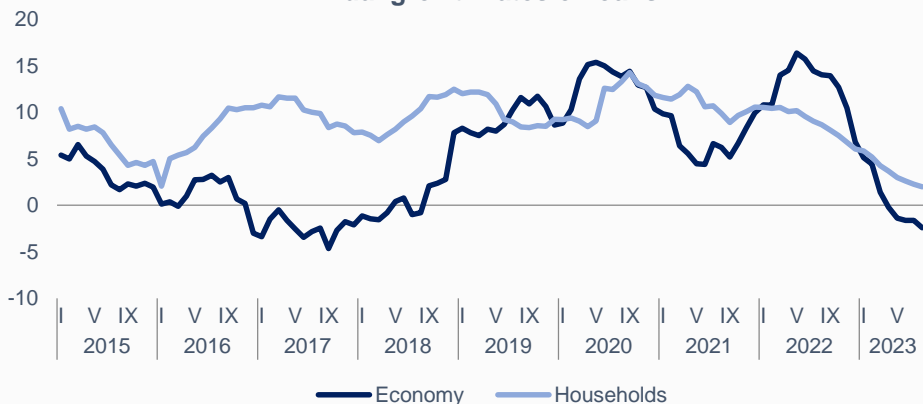
**At the same time, core inflation was significantly lower and amounted to 7.3%, which was significantly influenced by the preserved stability of the exchange rate, as well as preserved business and consumer confidence.**

In October, the growth of consumer prices continued to move on a downward path, so it amounted to 8.5% year-on-year, which is still above the target level. This trend of inflation was influenced by reduced cost pressures, the continued slowdown in the growth of food prices, as well as the prices of products and services within the base inflation (consumer price index excluding food, energy, alcohol and tobacco).

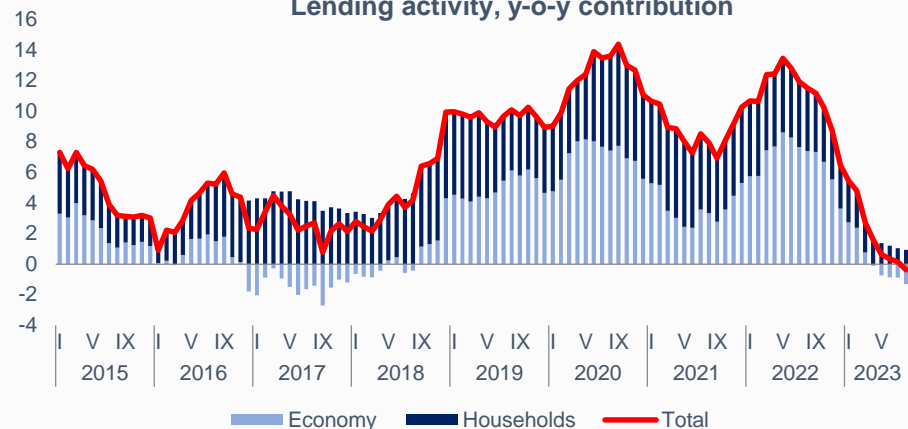
During 2023, the restrictiveness of monetary policy increased. Thus, since the beginning of the year, the key policy rate has been increased six times to the level of 6.50%, as well as lending facility rate to 7.75% and the deposit facility rate to 5.25%. Keeping the key policy rate at an unchanged level from July to November 2023 was influenced by the further easing of global inflationary pressures, the established downward path of domestic inflation and its expected movement within the target band over the monetary policy horizon, as well as the effects of the previous tightening of monetary policy.

# The total lending activity in September 2023 recorded fall of 0.5%, y-o-y.

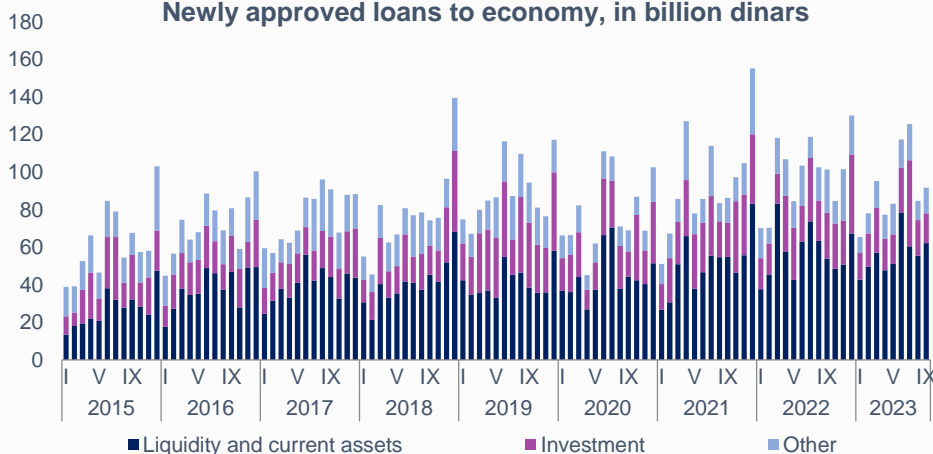
Annual growth rates of loans



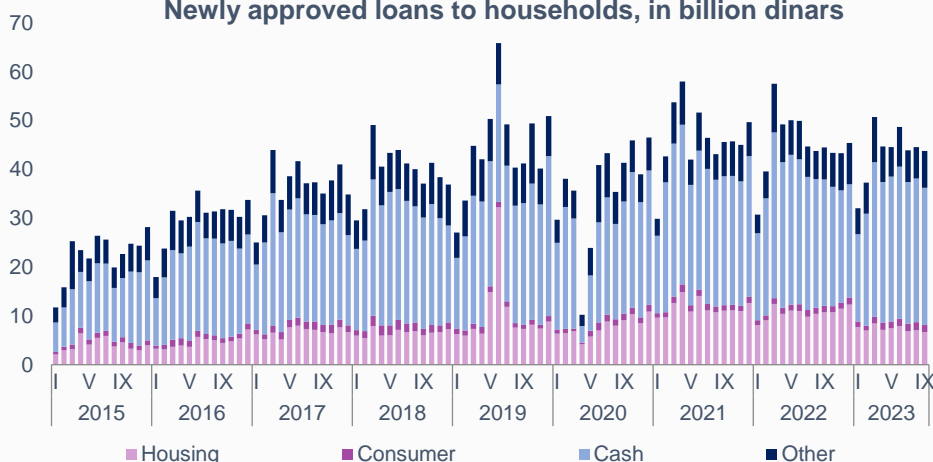
Lending activity, y-o-y contribution



Newly approved loans to economy, in billion dinars



Newly approved loans to households, in billion dinars



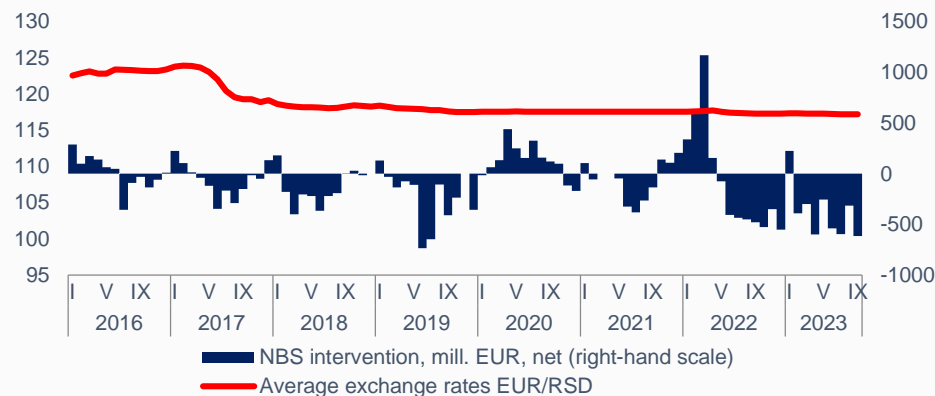
**The negative contribution to the decline in total loans comes from the lending activity of the economy, while loans to households had a positive contribution. Share of NPL in total loans amounted to 3.2% at the end of August.**

The slowdown and negative growth of loans is a consequence of the high base and the tightening of the monetary policy of the NBS and the ECB. In September, a nominal decrease in total placements was registered by 0.5%, placements to the households increased by 1.6%, while economy recorded decrease of 2.3%, y-o-y.

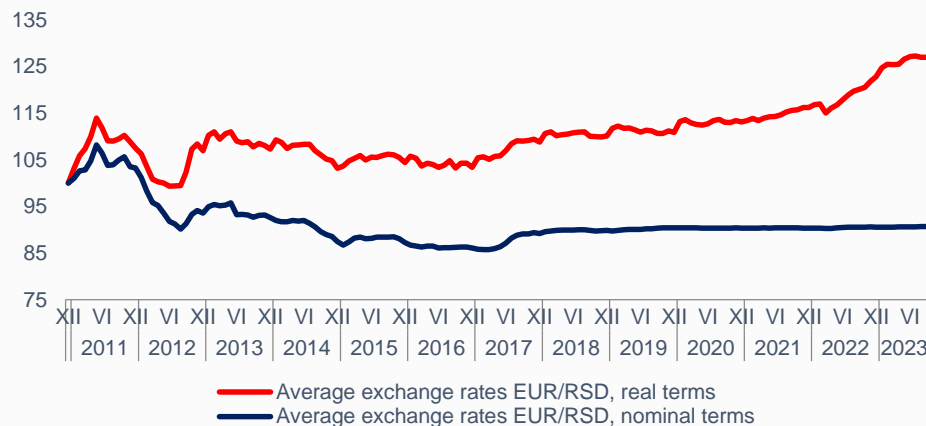
The tightening of monetary conditions was accompanied by an increase in interest rates on the new dinar loans to the economy and the households. Also due to the tightening of the monetary policy of the ECB, there is also an increase in interest rates on euro-indexed loans on the domestic market. The interest rate on total newly approved dinar loans in September increased by 2.7 pp and amounted to 11.69%. Total newly approved loans decreased year-on-year by 7.1%. Source: NBS

# In September 2023, nominal and real appreciation of dinar was recorded on average, by 0.1% and 5.8%, respectively.

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



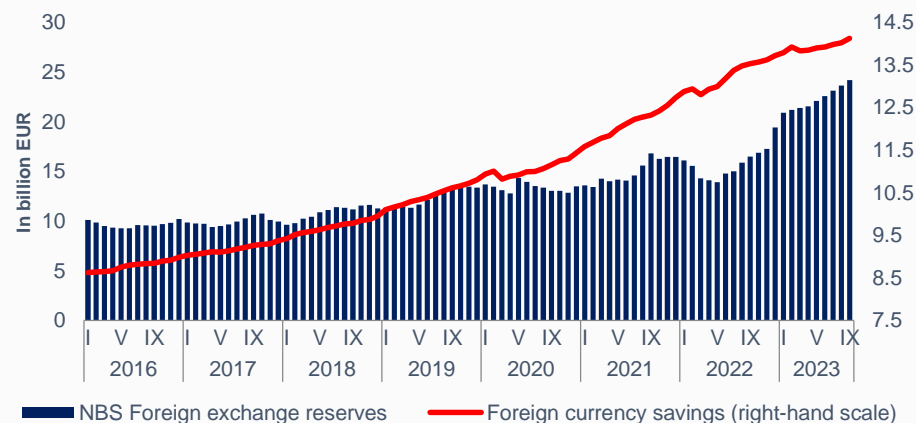
**Real and nominal exchange rate, indices January 2010=100**



**Coverage of import of goods and services with Foreign exchange reserves**



**Foreign exchange reserves and foreign currency savings, EUR billion**



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

In order to mitigate excessive short-term dinar exchange rate fluctuations, the NBS intervened in the foreign exchange market in September with a net buying of foreign exchange in the amount of EUR 615 million.

In September, foreign exchange reserves increased by EUR 0.6 billion compared to the previous month and amounted to EUR 24.2 billion. The increase in foreign exchange reserves reflects primarily net FX purchase of the NBS in the local FX market.

Source: NBS

# FISCAL DEVELOPMENTS

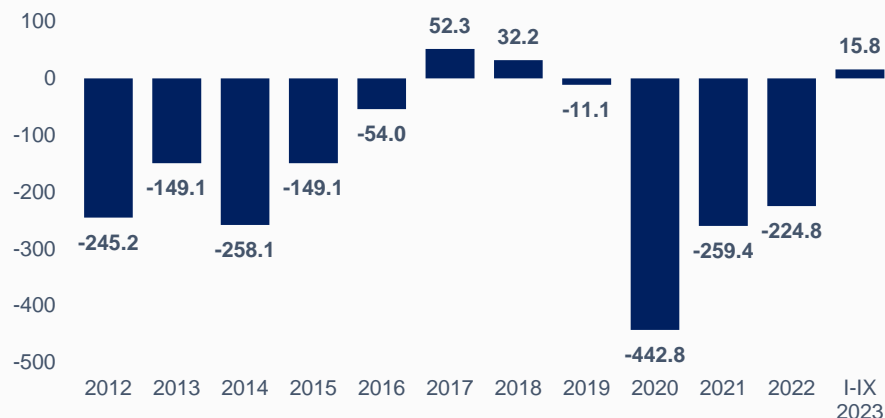
❖ In January-September of 2023, a fiscal surplus of RSD 15.8 bln was realized at the general government level.

❖ In the first nine months of 2023, public revenues recorded a growth of 10.7%, mostly thanks to higher revenues from contributions and corporate profit tax, while expenditures recorded a growth of 11.7%, mostly due to higher pensions and subsidies to agriculture sector.

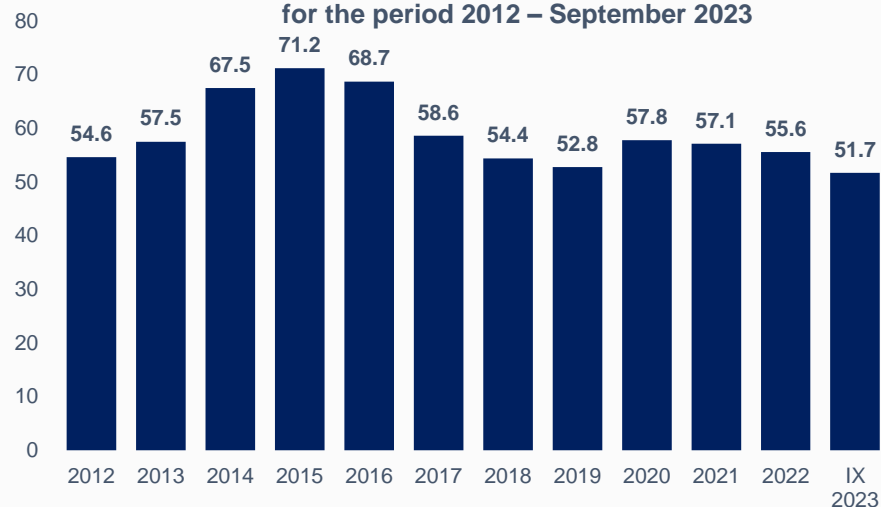
❖ At the end of September 2023, the public debt of the general government amounts to 51.7% of GDP, while the debt of the central level of government amounts to 51.3% of GDP.

# In January-September 2023, the general government surplus amounted to 15.8 billion dinars, while public debt stood at 51.7% of GDP

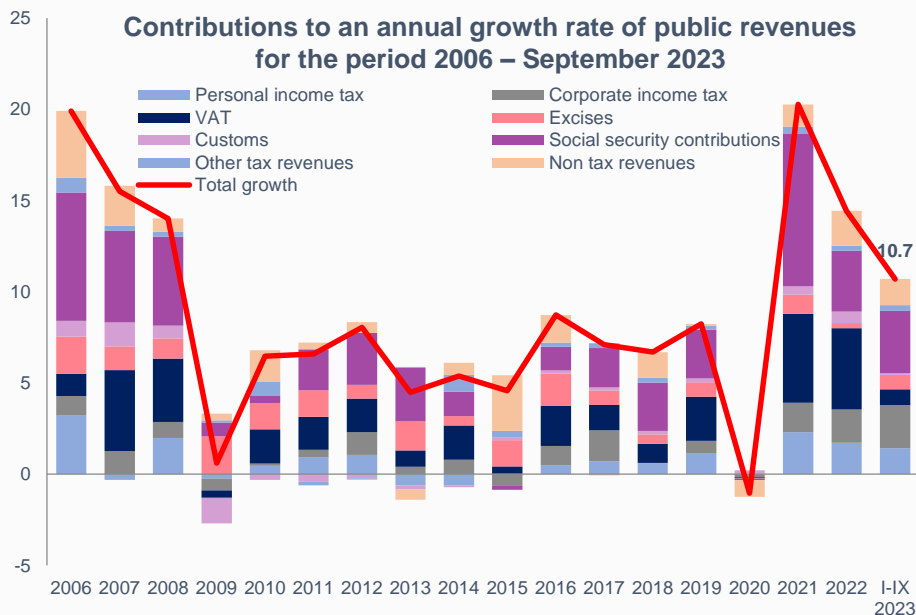
**Fiscal result for the general government for the period 2012 – September 2023**



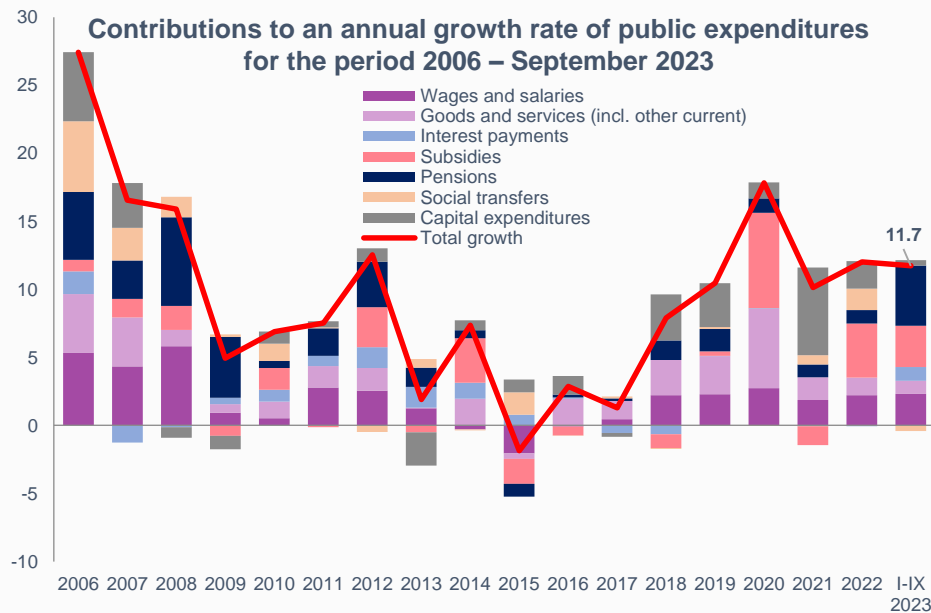
**Public debt of the general government in% of GDP for the period 2012 – September 2023**



**Contributions to an annual growth rate of public revenues for the period 2006 – September 2023**

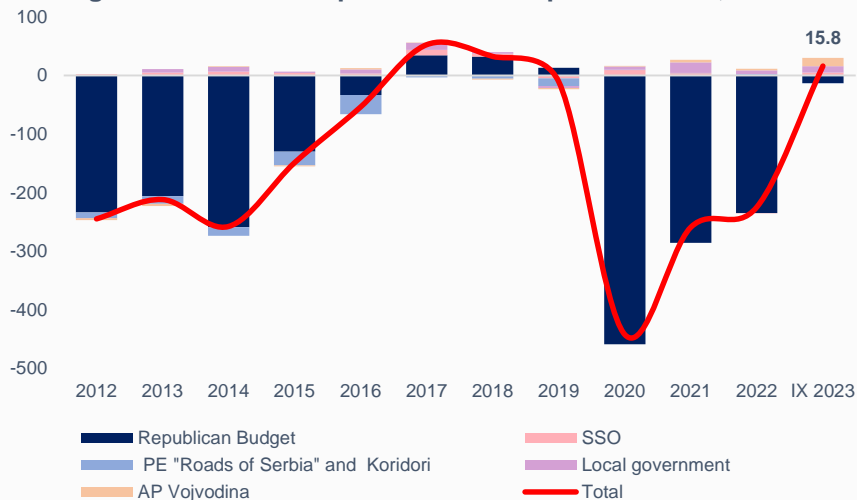


**Contributions to an annual growth rate of public expenditures for the period 2006 – September 2023**

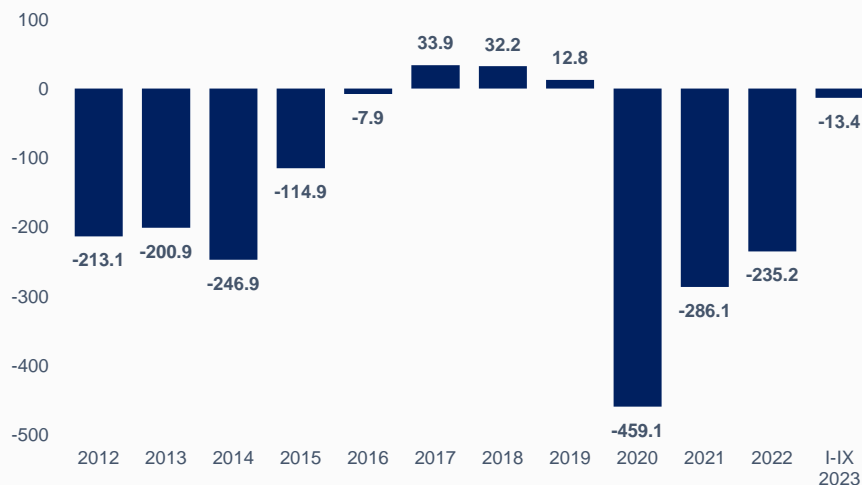


# In January-September 2023, the Republican Budget surplus of RSD 13.4 billion was recorded

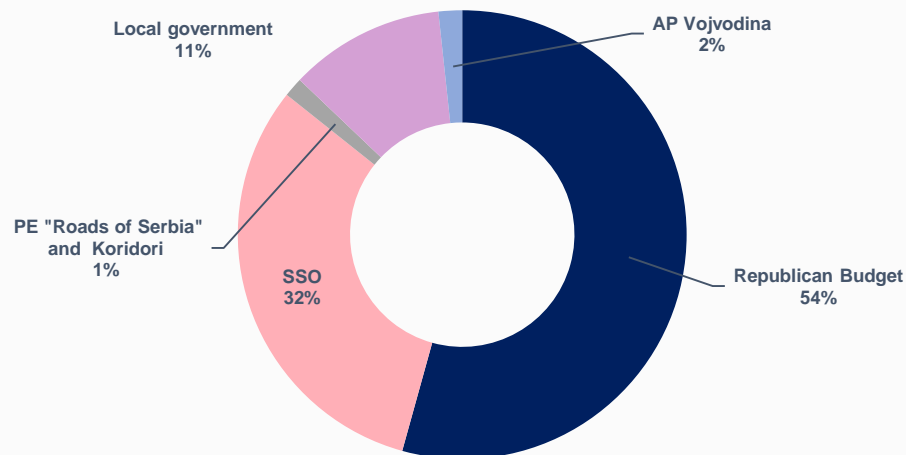
Consolidated general government balance by levels of government for the period 2012 – September 2023, in bln RSD



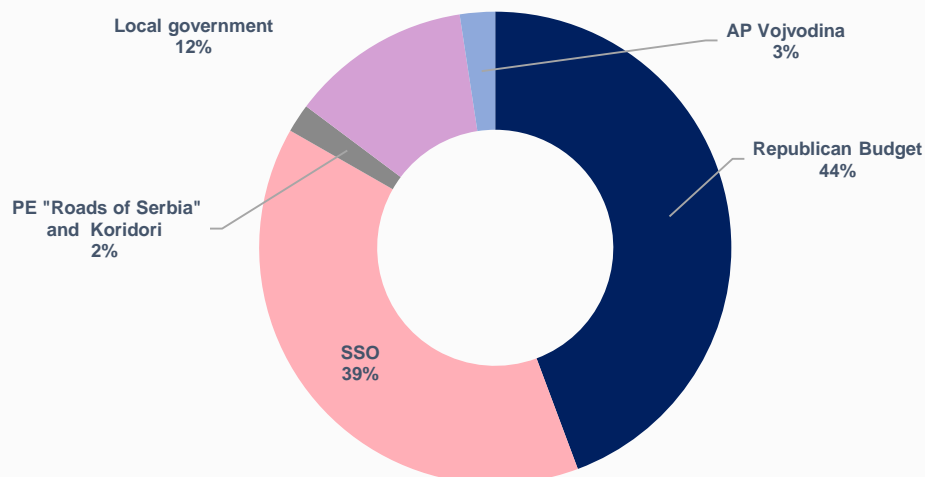
Fiscal result of the Republican budget for the period 2012 – September 2023



Structure of consolidated revenues by levels of government in September 2023 \*



Structure of consolidated expenditures by levels of government in September 2023 \*



\* Not including transfers between levels of government

# The new set of fiscal rules is an integral part of the Law on Amendments to the Law on the Budget System, adopted at the end of 2022

## General fiscal rules\*:

- The general government debt, including obligations based on restitution, will not exceed 60% of GDP.
- The target medium-term deficit is 0.5% of GDP.

If the general government debt is above 60% of GDP, the fiscal position of the general government must be balanced, so that the deficit is at most 0% of GDP.

If the general government debt is between 55% and 60% of GDP, the deficit amounts to a maximum of 0.5% of GDP.

If the general government debt is between 45% and 55% of GDP, the deficit amounts to a maximum of 1.5% of GDP.

If the general government debt is below 45% of GDP, the deficit will not exceed the amount of 3% of GDP.

## Special fiscal rules\*\*:

- Share of general government salaries in GDP up to 10%.
- Indexation of pensions depending on their share in GDP.

If the total expenditure for pensions is less than 10% of GDP, the pension will be adjusted according to the change in the average salary without taxes and contributions, in the manner defined by the law governing pension and disability insurance.

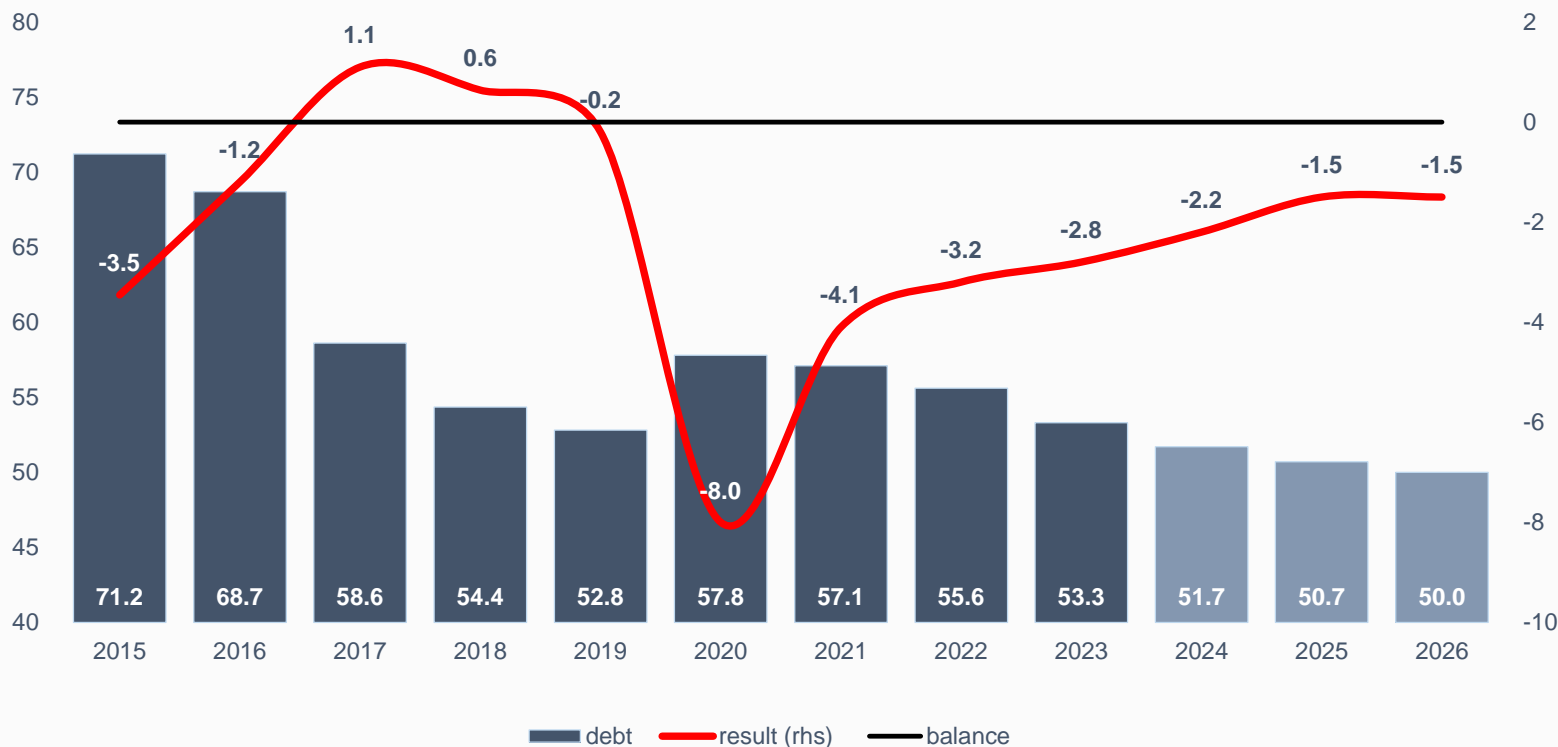
If the total expenditure for pensions is 10% or more than 10% and less than 10.5% of GDP, the pension will be adjusted to the sum of half of the change in the average salary without taxes and contributions and half of the change in consumer price, in the manner defined by the law governing pension and disability insurance.

If the total expenditures for pensions are equal to or greater than 10.5% of GDP, the pension will be adjusted according to the change in consumer prices, in the manner defined by the law governing pension and disability insurance.

*\* will be applied from the adoption of the law on the budget of the Republic of Serbia for 2025, until then the fiscal goals established in the Fiscal Strategy will be applied*

*\*\* will be applied from the adoption of the law on the budget of the Republic of Serbia for 2023, with a gradual expansion of the scope of the general government, in accordance with the law*

# Fiscal result and general government debt, in % of GDP

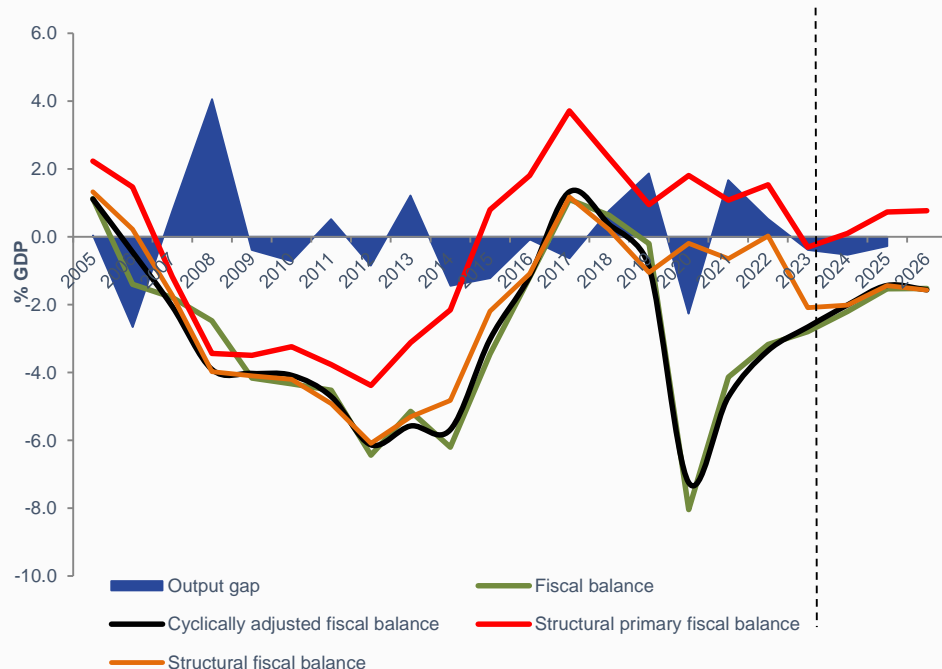


The expansionary fiscal policy during 2020 and 2021 reduced the negative economic consequences of the pandemic. In 2022, the focus shifted to protecting the economy and the population from the energy crisis. In the next medium-term period\*, a moderate reduction of the deficit of the general government is foreseen in order to ensure the flexibility of the national economy through fiscal policy, as well as a timely and effective response to possible external shocks. This, above all, refers to the expenditure side. On the revenue side, the priority will remain the further reduction of the tax burden on wages and the continuation of the fight against tax evasion and the gray economy.

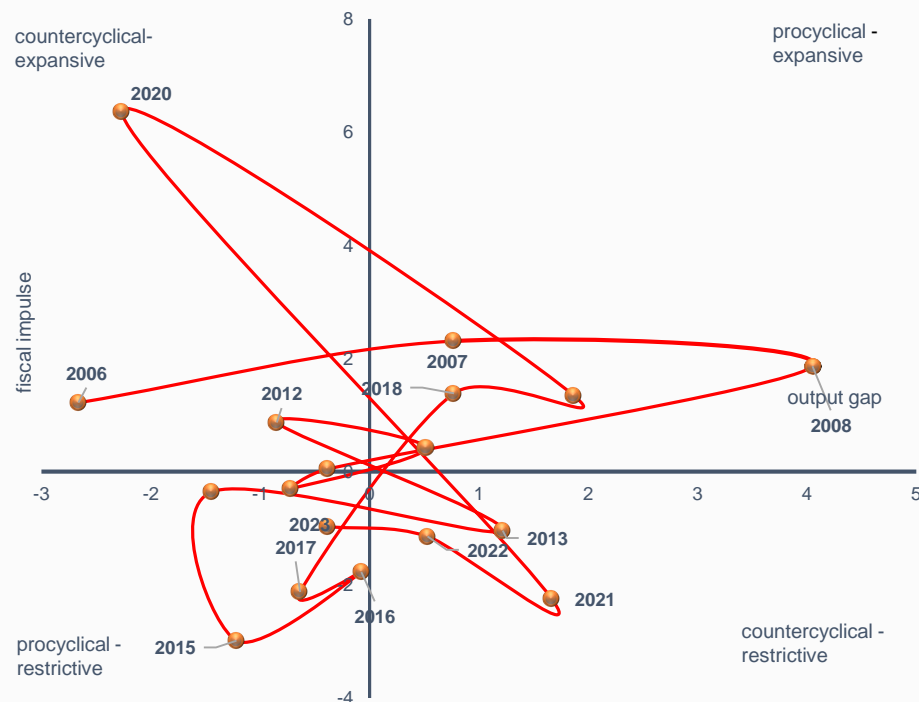
\* Revised Fiscal Strategy for 2024 with projections for 2025 and 2026

# Cyclically-adjusted and structural fiscal balance

Cyclically adjusted and structural primary fiscal balance in % of GDP for the period 2005–2026



Character of fiscal policy and output gap for the period 2006–2023



The structural fiscal position of the country was not significantly jeopardized in the period between 2020 and 2023, 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 was extremely expansionary-counterprolative, 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 was more restrictive than the year before and neutral in character. In 2022, the restrictiveness of the fiscal policy was reduced considering the significant funds spent to overcome the crisis in the energy sector.

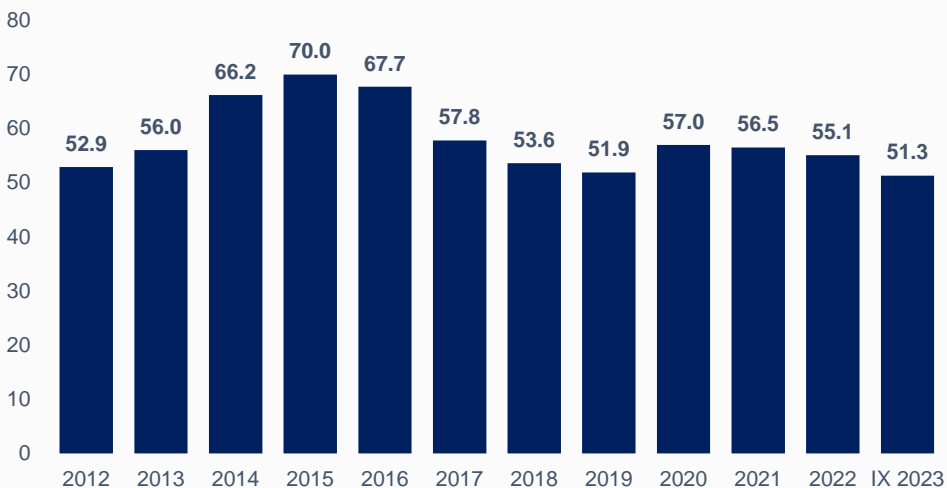
\* A disaggregated approach to the OECD methodology was used to assess the cyclically-adjusted fiscal balance. A more detailed description of the methodology used can be found in the Fiscal Strategy for 2013 with projections for 2014 and 2015 or via the link [https://www.mfin.gov.rs/upload/media/jzsbpl\\_601ab1585ca02.pdf](https://www.mfin.gov.rs/upload/media/jzsbpl_601ab1585ca02.pdf).

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

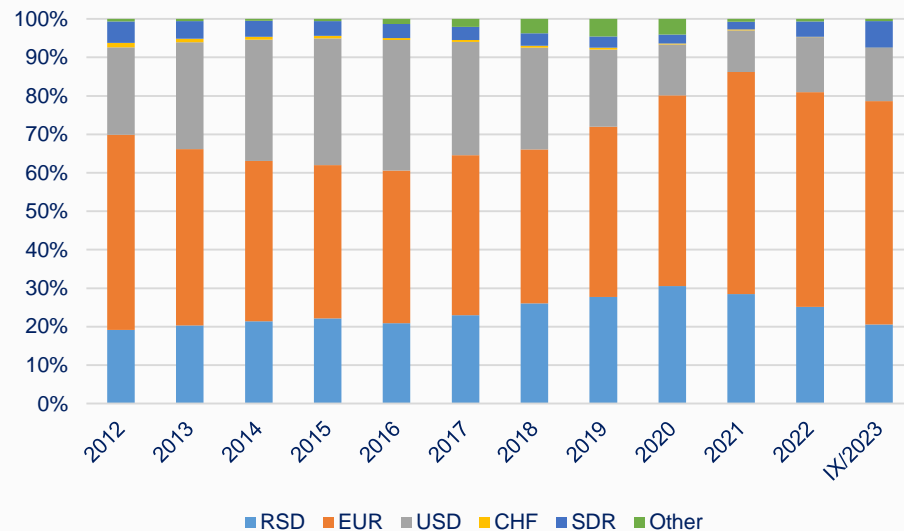
\*\*\* The character of fiscal policy is assessed by combining the production gap and the so-called fiscal impulse. The fiscal impulse defines fiscal policy as expansionary or restrictive and in this case it is obtained as the difference between two successive structural primary balance.

# The central government debt in September 2023 amounted to 51.3% of GDP

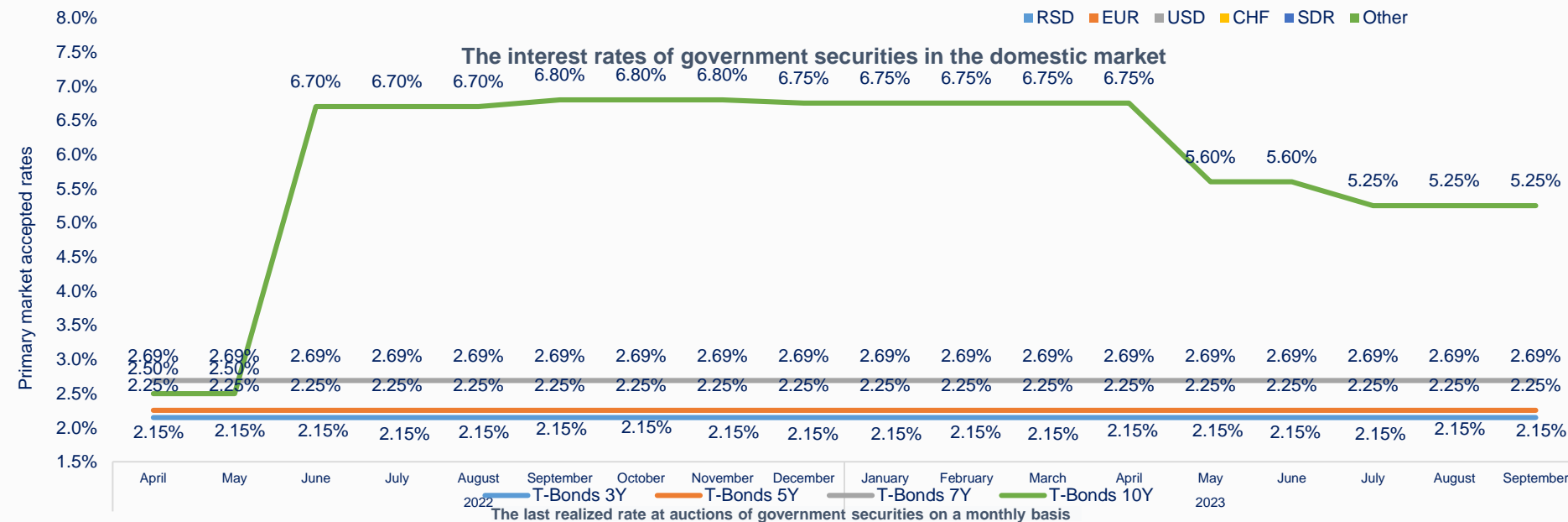
The share of public debt to GDP of the central government



Public debt currency structure in period 2011 – August 2023



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

	Rating	Change
Serbia	BB+	no change
Bulgaria	BBB	no change
Croatia	BBB+	increase
Hungary	BBB-	no change
Rumania	BBB-	no change
Republic of North Macedonia	BB-	no change
Bosnia and Herzegovina	B+	no change
Montenegro	B	no change

## FitchRatings

	Rating	Change
Serbia	BB+	no change
Bulgaria	BBB	no change
Croatia	BBB	no change
Hungary	BBB-	no change
Rumania	BBB-	no change
Republic of North Macedonia	BB+	no change
Bosnia and Herzegovina	/	/
Montenegro	/	/

## MOODY'S

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

• **Standard and Poor's** – In October 2023, the credit rating agency Standard and Poor's confirmed the credit rating of the Republic of Serbia at BB+ level and maintained stable prospects for its further increase. The confirmation of the credit rating is the result of a moderate level of public debt and a credible monetary policy framework. It is estimated that the Government of the Republic of Serbia will meet its target budget deficit of 2.8% of GDP this year, compared to the originally planned 3.3%. The agency states that the Government aims to continue fiscal consolidation, and that from 2025, the level of the budget deficit will amount to 1-2% of GDP. Also, a high inflow of foreign direct investments will enable a further increase in foreign exchange reserves, which are already at a historical maximum, and contribute to the reduction of public debt and the strengthening of exports. The report points out that inflation will begin to fall significantly in 2024, thanks to the strict monetary policy of the National Bank of Serbia and the stable exchange rate of the domestic currency against the euro, and that it will approach the target range of 3% +/- 1.5% in the second half of 2024. The agency states that the credit rating could be improved if the negative consequences of geopolitical uncertainty are kept under control and there is an accelerated growth of the economy. The stable forecast for the next period is an indicator that the Republic of Serbia will continue to lead a responsible monetary and fiscal policy, aimed at further reforms, at investing in infrastructure projects, at preserving the stability of the exchange rate, the stability of the banking sector and the public debt, and that, despite numerous challenges, it will preserve economic growth and stability.

• **Fitch Ratings** – In August 2023, the Fitch Ratings agency confirmed the credit rating of the Republic of Serbia at BB+ level with a stable outlook for further improvement. According to Fitch Ratings, in conditions of great uncertainty, the banking sector continued its successful operations and proved its resilience. Banks remained profitable and liquid, while the share of problem loans in total loans is close to a historical minimum. Fitch Ratings states that, despite the great turbulence on the world market, the relative stability of the dinar exchange rate against the euro has been preserved as an important pillar of the country's overall stability. Also, the country's foreign exchange reserves have increased to a record level. There was a high inflow of foreign direct investments and continued growth of employment, while the unemployment rate is at a low level. The agency estimates that high cost pressures led to inflation growth in 2022 and the first quarter of 2023, of which the biggest contribution comes from energy and food prices. It is stated that inflation has reached its peak and that it will gradually decline from the second quarter, while a more pronounced decline is expected in the second half of the current year. By the end of 2023, a return to single-digit inflation is expected. Fitch Ratings estimates that Serbia's medium-term prospects remain favorable. He predicts that the labor market will remain strong and resilient. It is particularly significant that employment will continue to grow. The continuation of the stable inflow of foreign direct investments and the return of GDP to the growth path of 4 percent from 2025 is also expected.

• **Moody's** – In September 2023, the rating agency Moody's confirmed the credit rating of the Republic of Serbia at Ba2 and maintained a stable outlook for its further increase. The Agency's report points out that, despite the crisis and all the challenges from the external environment, Serbia managed to preserve the stability of the economy and the confidence of investors, to achieve a high level of foreign direct investments and to preserve jobs. This rating also reflects the positive results of fiscal consolidation supported by the recently revised fiscal framework. The structural reforms implemented in the last few years, with the help and support of the International Monetary Fund and the European Union, helped preserve the country's macroeconomic stability. The stable prospects for a further increase in the credit rating confirm the expectations of the Moody's agency that the Republic of Serbia will continue to lead a cautious fiscal policy, as well as that it will continue to make progress in structural reforms. The Government of the Republic of Serbia will continue to monitor influences from the international and domestic environment, with continuous positive responses to various challenges, with the tendency to preserve economic growth, maintain financial stability, preserve the stability of the exchange rate, the stability of the banking sector and attract foreign investments.

# INTERNATIONAL ENVIRONMENT

According to the flash Eurostat estimate, economic growth in Q3 2023 was 0.1% in both EU27 and euro area, y-o-y.

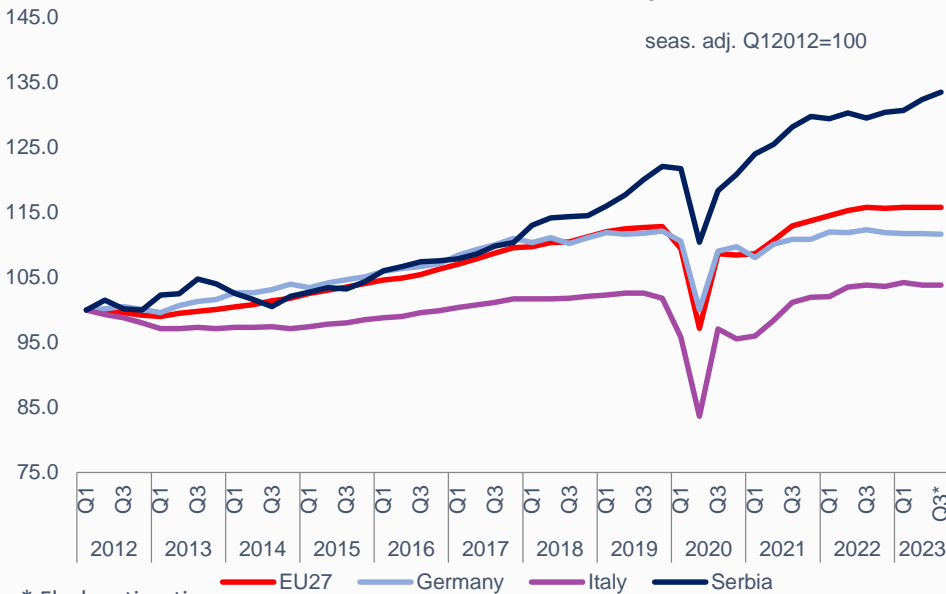
Composite PMI Eurozone index decreased by 0.7 points in October, BCI indicator increased by 0.02 points, while ESI indicator decreased by 0.1 points.

Euro area inflation decreased in September to 4.3% y-o-y.

# According to the flash Eurostat estimate, the economic growth of both euro area and EU in Q3 2023 was 0.1%, y-o-y.

Real GDP rates of the main international trade partners of Serbia

seas. adj. Q12012=100



GDP, real growth rates, %

2022	2023*	2024*
3.4	0.6	1.3

Main RS foreign trade partners

EU	3.4	0.6	1.3
Italy	3.7	0.7	0.9
Germany	1.8	-0.3	0.8
Bosnia and Herzegovina	4.1	1.5	2.0
Romania	4.6	2.2	3.1
Russia	-2.1	2.0	1.6
Montenegro	6.4	4.9	2.7

\* Projection

Source: Eurostat, European Commission, November 2023.

**The economic activity of our largest foreign trade partners, primarily Germany and Italy, is still significantly affected by the conflict in Ukraine and high inflation, which has a negative impact on private consumption and foreign demand.**

The dynamics of the economic activity of European economies during 2022 was burdened by the jump in energy prices, as well as the rising interest rates of central banks due to the fight against high inflation. Although in 2022 a solid growth of 3.4% was achieved in these economies, the expected speed of recovery was missing due to the consequences of the conflict in Ukraine.

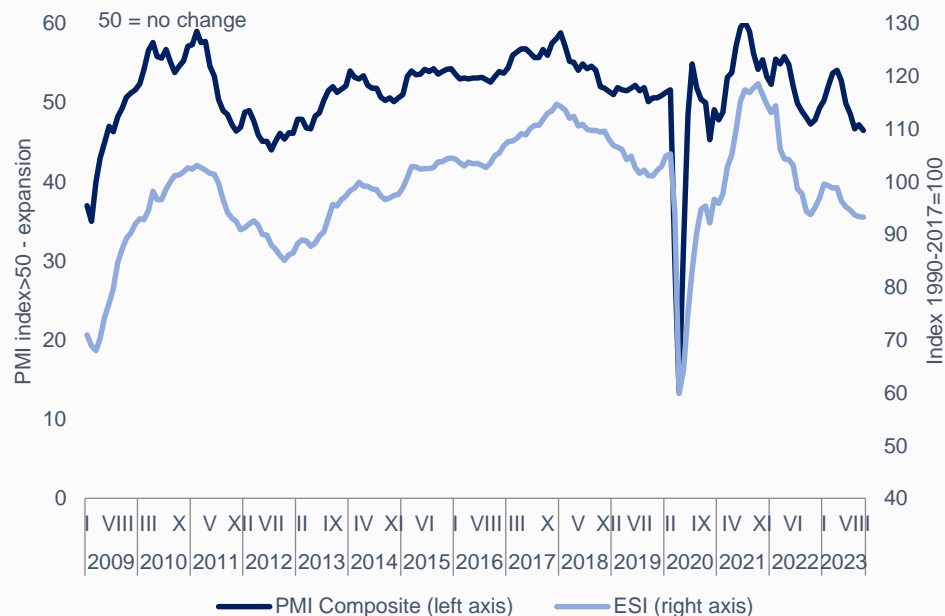
During 2023, the EU economy further slowed down, recording an average growth in the first three quarters of 0.5% compared to the same period of the previous year. According to the flash Eurostat estimate, the German economy continued with weak results in the third quarter of 2023 and recorded a decrease of 0.1% compared to the previous quarter, while the year-on-year decrease was 0.4%.

After the growth of 1.2% y-o-y in the first half of 2023, Italian economy was characterised by a stagnation of economic activity compared both to the previous quarter and to the same quarter of the previous year.

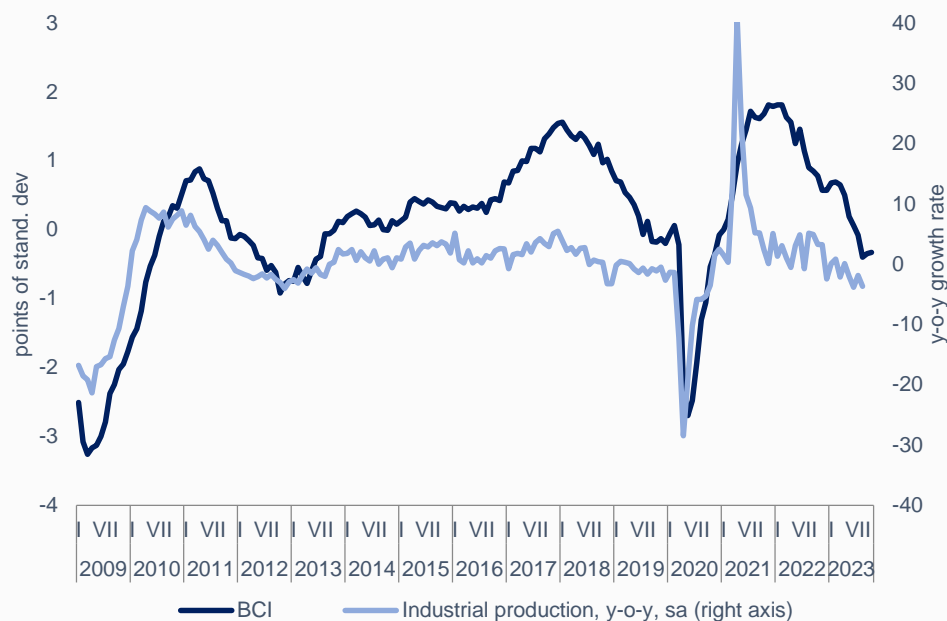
According to the EC's November estimates, the economic growth of the EU countries will slow down to 0.6% in 2023, while a moderate growth of 1.3% is expected in 2024. In the medium term, a gradual acceleration of growth is expected as external demand approaches pre-pandemic trends, but also thanks to the growth of the real income of the population with the support of calming inflation. However, growth will continue to be weak due to the tightening of monetary policy and its delayed effect on the real economy, as well as due to the gradual disappearance of fiscal support.

# 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



**Composite PMI index of Eurozone mildly decreased from 47.2 points in September to 46.5 points in October, while the ESI index amounted 93.3 points (fall by 0.1 points). The development of these indicators was accompanied by mild improvement of the business climate indicator – BCI.**

The dynamics of the composite PMI of Eurozone in October 2023 (46.5) indicate the slowdown of economic activity, considering that the value of the index is under the borderline of 50 for the fifth consecutive month. The services sector recorded a decline for the third month in a row, while significant contractions in the manufacturing sector were the main cause of the decline in overall economic activity.

ESI indicator recorded minimal fall in October, and the euro-area sentiment showed deterioration in the sector of retail, improvement in the sector of services, while the remaining sectors remained stable. BCI index registered mild increase of 0.02 points but remained negative at 0.33 points.

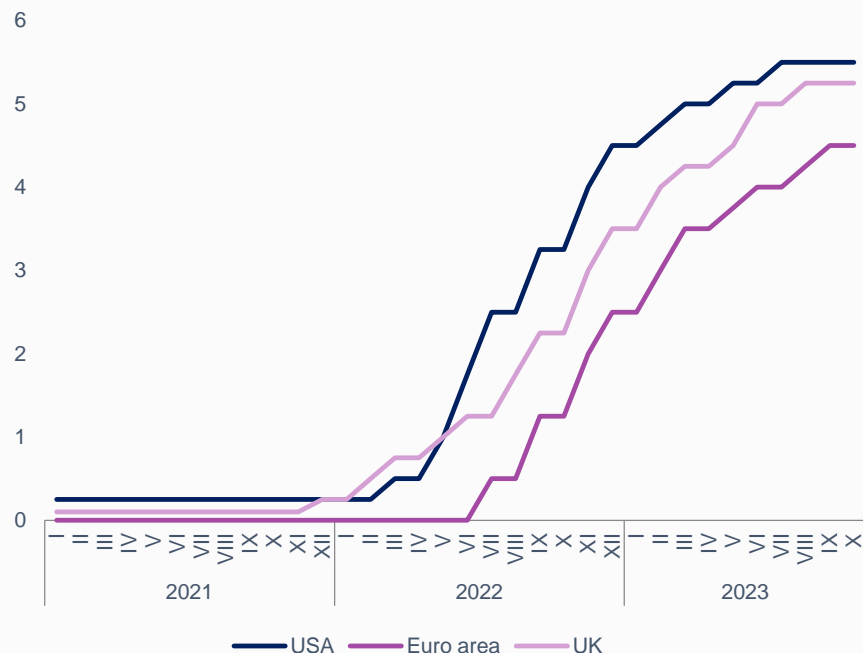
Eurozone PMI Composite index is developed by Markit LTD, and it is based on original survey data collected from a representative sample of 5,000 manufacturing and service companies. Methodology of this index tracks changes in employment, prices, sales and inventory. An index value above 50 indicates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

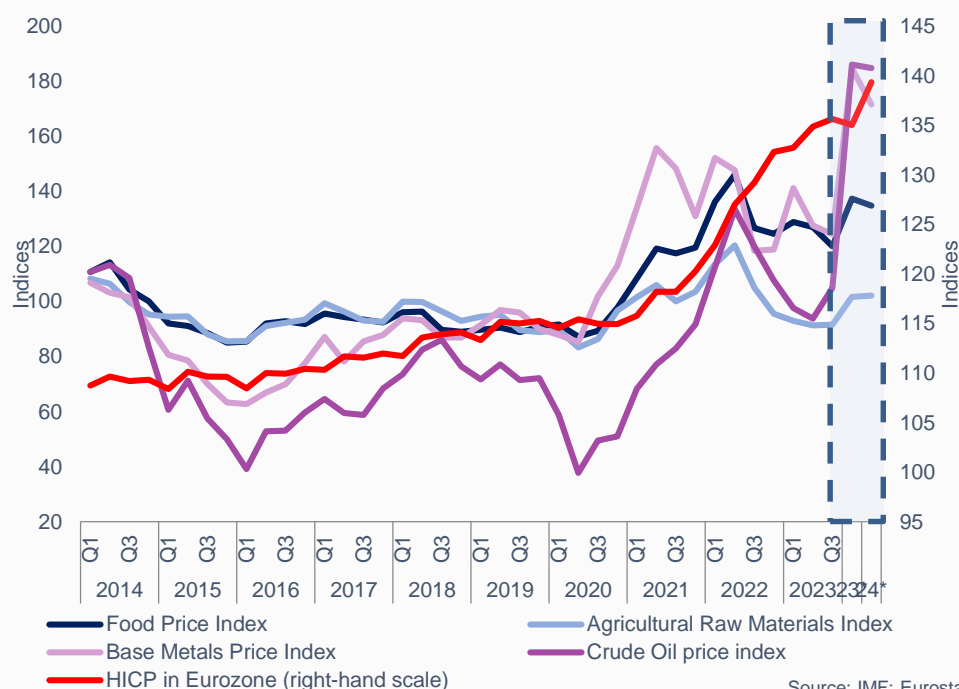
# Annual inflation in euro area slowed down to 4.3% in September compared to previous month, when recorded value of 5.2%.

Key policy rates in selected countries, %



Source: Central banks of selected countries

Prices of raw material, indices 2008=100



Source: IMF; Eurostat

**In September 2023, the largest contributor to y-o-y inflation rate were made by services, food, alcohol and tobacco, non-energy industrial goods and energy (2.05 pp, 1.78 pp, 1.06 pp and -0.55 pp, respectively).**

Total inflation in the euro area decreased in Q3 2023 compared to previous quarter. According to the September ECB estimates, inflation peaked in 2022 driven by a series of exceptional energy price shocks and conflict in Ukraine, and should gradually decline from 5.6% in 2023 to 2.1% in 2025.

In October, ECB decided to keep the interest rate to the level of 4.50%.

In November, FED decided to keep the interest rate to an interval of 5.25% to 5.50%.

According to the OPEC data, the price of oil type Urals has amounted to 84.23 \$/barrel in September, which is 13.0% higher compared to the previous month. Since the beginning of 2023, the price decreased by 26.7%, to 61.06 \$/barrel, compared to the same period 2022.

Average prices of agriculture products have increased by 0.6% in September 2023 compared to the previous month, while food prices decreased by 1.2%. Base metal prices increased by 3.7%, compared to the previous month, while the price of iron ore increased by 9.9%, copper prices decreased by 0.9%. In the group of precious metals, the price of gold decreased by 0.2%, while the price of silver decreased by 1.0%.

Republic of Serbia

Ministry of Finance



# MACROECONOMIC AND FISCAL ANALYSES AND PROJECTIONS DEPARTMENT

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