

Republic of Serbia

Ministry of Finance

Macroeconomic and Fiscal Analyses and Projections Department



CURRENT MACROECONOMIC DEVELOPMENTS

January 2022

REAL SECTOR



Real GDP growth in 2021 was 7.5%,
according to the SORS estimate

IPAS recorded growth of 8.6% y-o-y in
November 2021

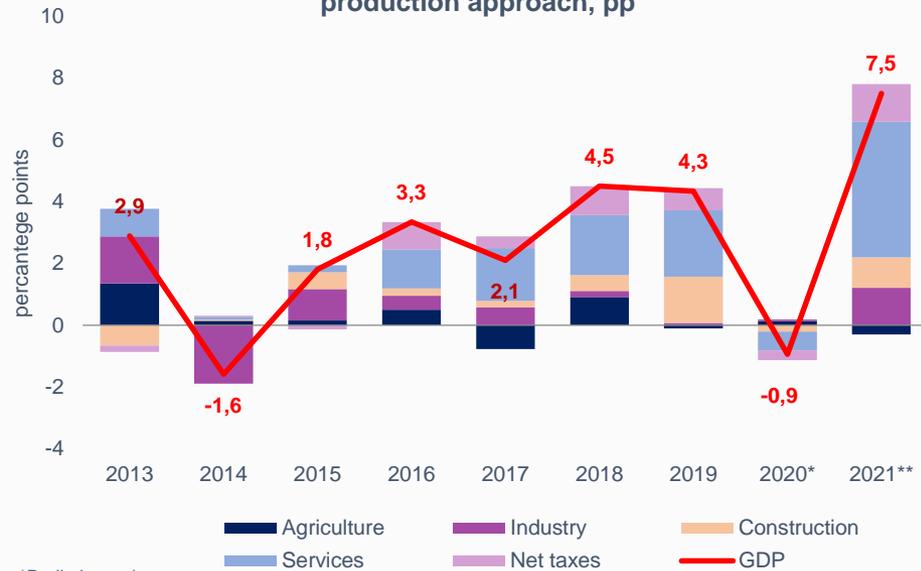
The total industry in November increased
by 7.0% y-o-y, with the same growth of
the manufacturing industry

Real retail trade turnover in November
was higher by 10.0% y-o-y

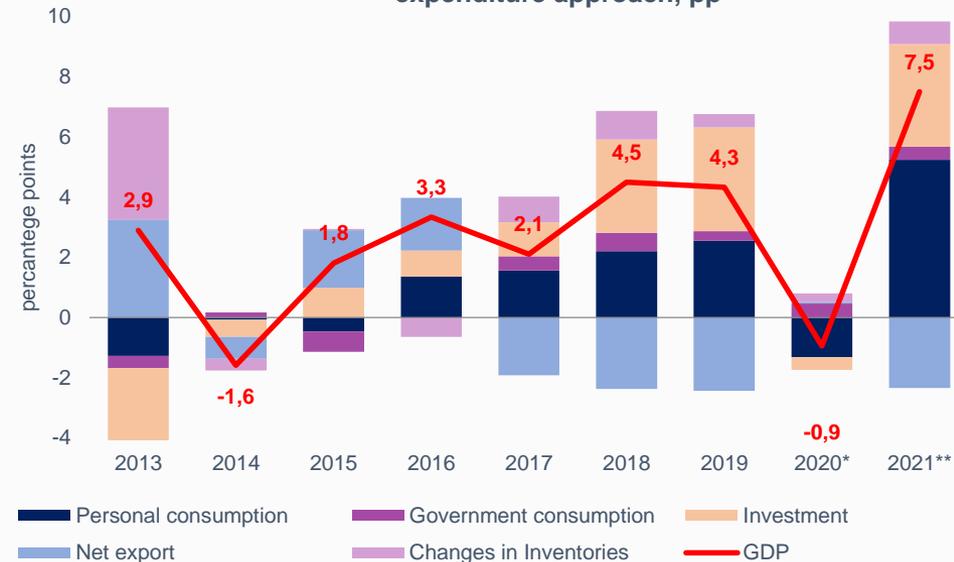
In November, the number of tourist
overnight stays increased by 51.9% y-o-y

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

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



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



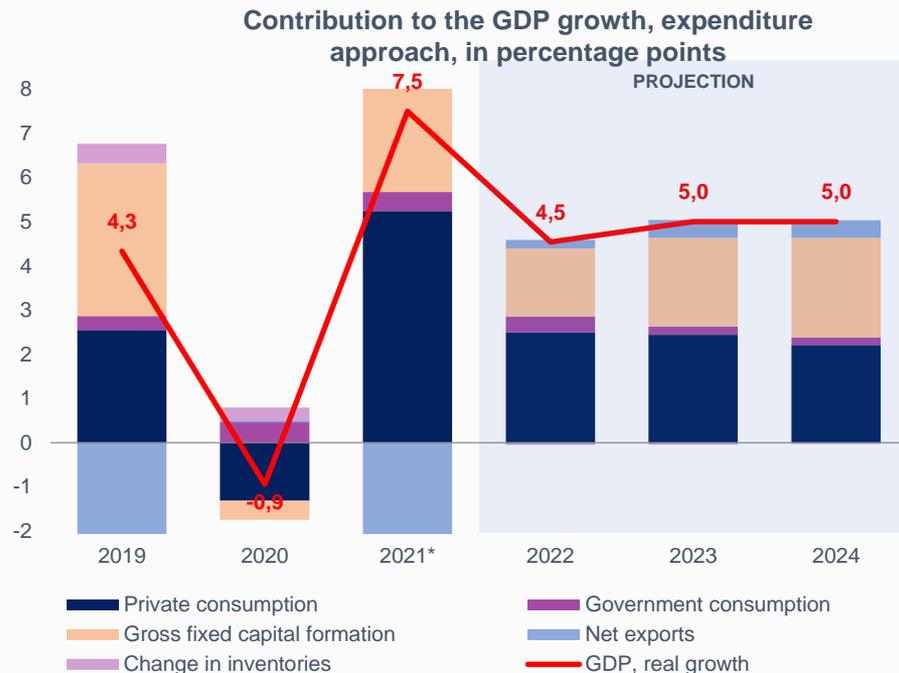
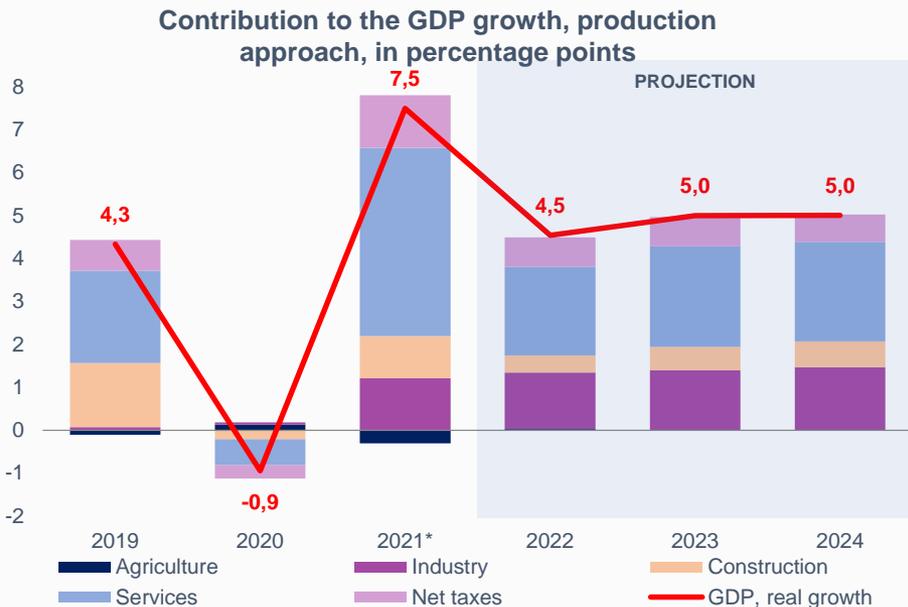
*Preliminary data
 ** SORS estimate
 Source: SORS, calculated in the MoF

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 larger 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 of 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 from about 1 p.p.

From expenditure side, GDP growth was entirely driven by domestic demand, while the contribution of net exports was negative. Preserved stability in the labor market and an increase in wages, supported by favorable financing conditions, resulted in the growth of personal consumption and its positive contribution to GDP growth of 5.2 p.p. Investments with a growth of about 14% 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.

Strong recovery of domestic demand, primarily investment activity, resulted in the upward revision of medium-term growth over the projected three-year period from 4% to 4.8% on average per year.



Source: SORS
* SORS estimate MoF projection

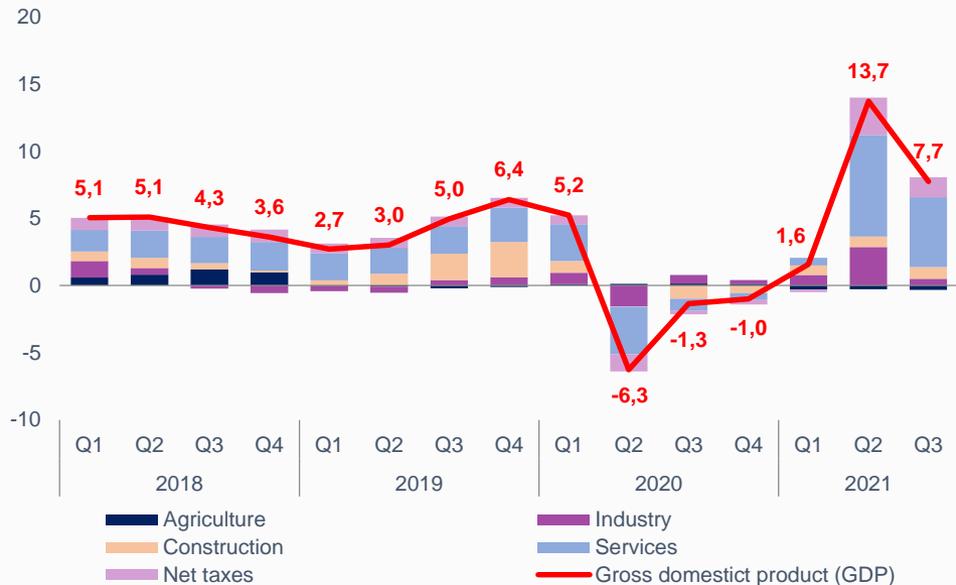
According to the medium-term macroeconomic projection, the cumulative growth rate in the period 2022-2024. year will amount to 15.2% and will be driven by the growth of domestic demand and with the recovery of global trade additionally supported by a slight positive contribution of net exports.

Observed from the production side, the increase in GVA created in 2022 is expected in all sectors. The service sector will play the role of the dominant driver of economic activity growth. Growth should be diversified and achieved in most service industries, especially strong in the ICT sector, trade and transport, while a return to pre-pandemic levels is expected in tourism and hospitality. With the further recovery of external demand and the activation of new production capacities, the industry will continue to grow during 2022. Accelerations of private construction operations, but also the continuation of the implementation of infrastructure projects will result in solid growth of construction, while in the agricultural sector, under the assumption of average agrometeorological conditions, slight growth is expected.

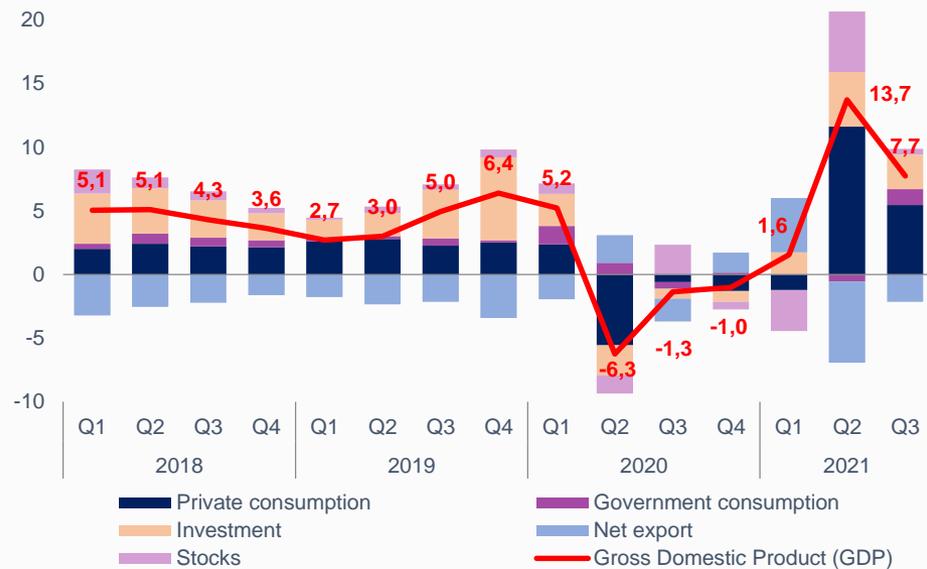
From expenditure side GDP growth in 2022 will continue to be driven by domestic demand, which will provide a contribution of 4.3 p.p. and a positive impact of 0.2 p.p. it will also have net exports. Favorable developments in the labor market and the expected real increase in wages, both in the private and public sectors, stable growth of pensions and continued favorable financing conditions, will result in growth of personal consumption and consequently the largest share of this aggregate in GDP will have contribution of 2.5 p.p. Investment will be the second most important component in terms of a positive contribution to GDP growth, which is very important from the point of view of its sustainability. The expected recovery of external demand, with the activation of new production capacities, will result in a slight positive contribution of net exports.

According to the SORS, in the third quarter of 2021, GDP growth of 7.7% y-o-y was achieved, which is a revision up by 0.3 pp in relation to flash estimation.

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



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



Source: SORS, calculated in the MoF

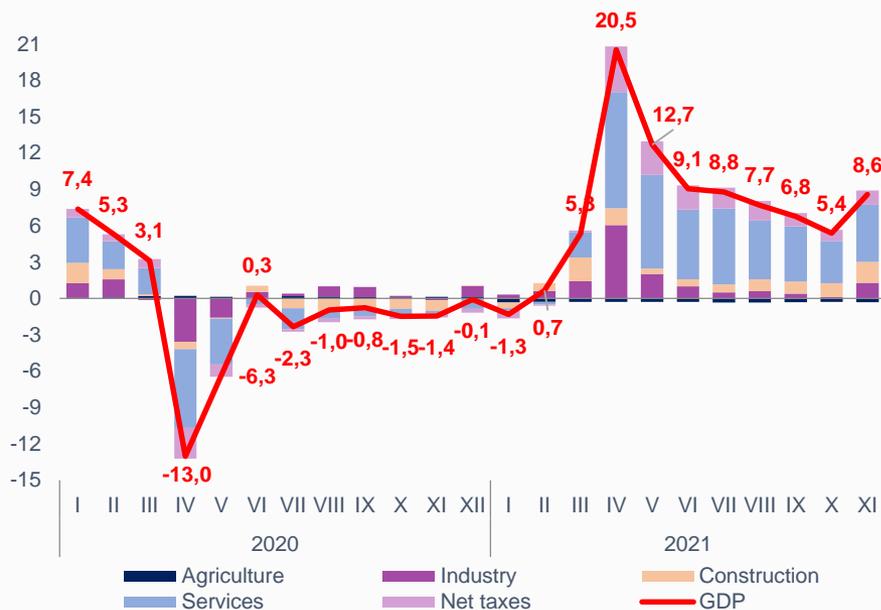
After the shock in the second quarter of 2020, economic activity, thanks to the program of support to the economy and the population, recorded a strong recovery in the second half of the year, and in the first quarter of 2021, GDP exceeded the pre-pandemic level. Good economic trends continued during the second and third quarters, which resulted in GDP growth of 7.6% in the first nine months of 2021.

Observed from the production side, GDP growth in the third quarter, according to the Ministry of Finance, was driven by the services sector, primarily due to growth in trade, tourism, transport, professional and technical services, as well as activities with predominantly state participation (Public Administration, Education and Health care). The recovery of private construction operations with the continued implementation of infrastructure works resulted in an increase in construction of about 16%. Economic activity in the industrial sector slowed during the third quarter, resulting in a modest contribution to GDP growth of 0.5 percentage points. The dry period during the summer affected agricultural production, which in this period recorded a decline of about 5%.

Observed by aggregates of use, GDP growth in the third quarter was entirely driven by domestic demand as a result of growth in private consumption and investment, while the contribution of net exports was negative. The growth of real wages and employment, along with the increased tendency of the population consumption, was reflected in the increase in private consumption and its contribution to GDP growth of 5.5 percentage points. Acceleration of private investments with continued implementation of infrastructure works resulted in an increase in investment activity of 12.6%. Export and import activity recorded growth at almost identical rates, but due to the higher share of imports in GDP, the contribution to the growth of net exports was negative.

The indicator of economic activity of Serbia (IPAS) recorded growth of 8.6 y-o-y in November 2021.

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



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



The monthly dynamics of economic activity continued to grow during November, so that GDP growth in the first eleven months, according to the Ministry of Finance, amounted to 7.5% y-o-y.

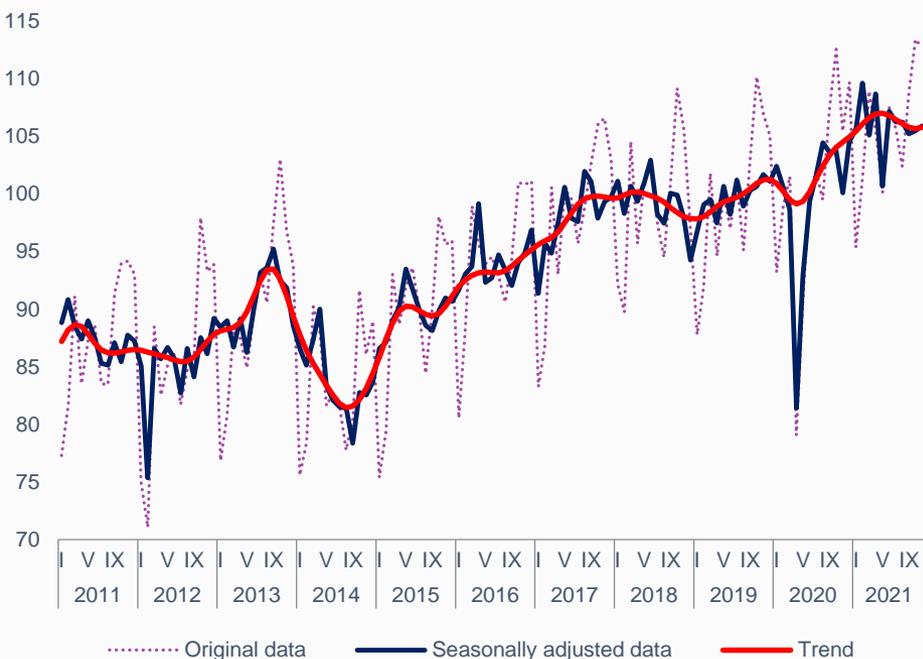
The Ministry of Finance, for the purpose of continuous monitoring of economic activity and early identification of activation of economic growth risks on the basis of short-term indicators, compiles a composite indicator of economic activity of Serbia – IPAS*, as an indicator of economic trends in monthly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

All production sectors, with the exception of agriculture, whose impact is negative, recorded a positive contribution to economic growth in November 2021. About half of the contribution was made by the service sector with a growth of 9.4%, primarily as a result of increased trade, transport, ICT and professional and technical services, as well as entertainment and recreation activities. Construction activity continued with solid developments, and according to the MoF, contributed to GDP growth in November of 1.7 p.p. After several months of almost stagnant trends, the industry recorded a solid year-on-year growth of 7.0%, which resulted in the contribution of this sector to GDP growth of 1.3 p.p.

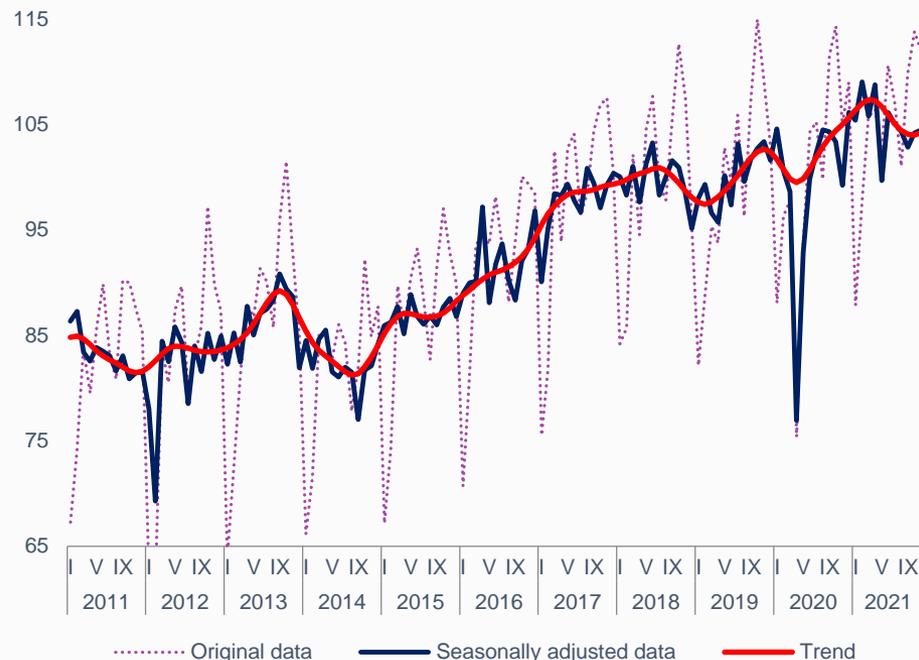
* https://www.mfin.gov.rs/upload/media/ZzkTpV_601696edb3a9a.pdf

The 7.0% increase in industrial production in November was driven by the same increase in the physical volume of the manufacturing industry.

Indices of industrial output (2020=100)



Indices of manufacturing industry (2020=100)



Source: SORS, calculated in the MoF

Seasonally adjusted data confirm the growth of industrial production in November compared to October, with the growth of the physical volume of total industry of 0.8% and manufacturing of 0.9%.

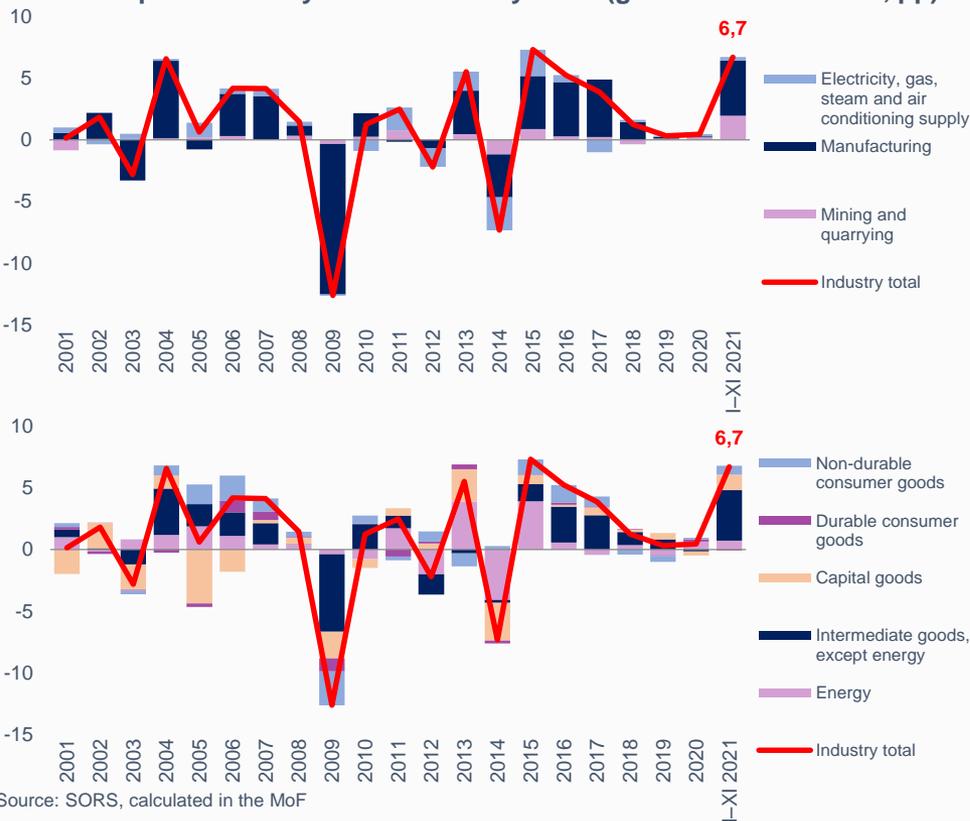
The November growth of industrial production was driven by higher production volumes of manufacturing and mining and quarrying of 7.0% and 48.7% y-o-y, respectively, while on the other hand electricity production decreased by 10.3% year on year.

The developments in the sector of mining and quarrying are determined by greater exploitation of metal ores, where physical volume in November was almost four times higher than in the same month last year. On the other hand, observed on a year on year basis, diversified growth was achieved in 17 out of 24 activities of the manufacturing industry.

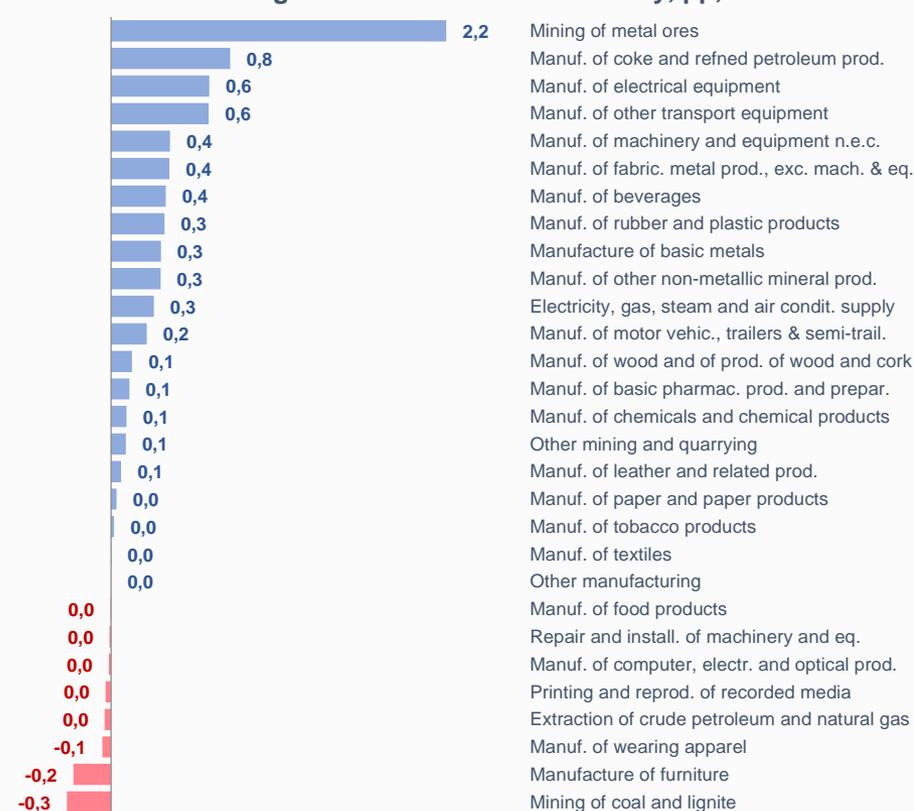
The most significant positive contribution came from the pharmaceutical industry with a growth of 59.1% y-o-y. The production of the oil industry with an increase of 19.7% y-o-y recorded the second most significant positive impact on the movement of the manufacturing industry, while the production of other transport equipment further accelerated with a growth of 138.8% y-o-y, which continued the positive contribution of these activities. Also, the activities of the metal industry and the production of metal products with an increase of 17.5% and 11.7% y-o-y, respectively, made an equally positive contribution. On the other hand, the most significant negative contribution comes from furniture production with a decline of 18.4% y-o-y.

In the first eleven months of 2021, industrial production recorded a growth in physical volume of 6.7% y-o-y.

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



Contributions to the growth rate of the total industry, pp, Jan–Nov 2021

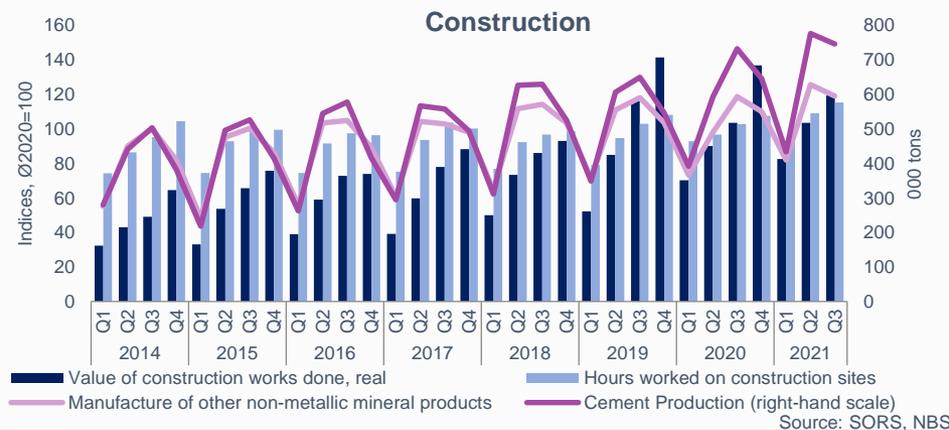
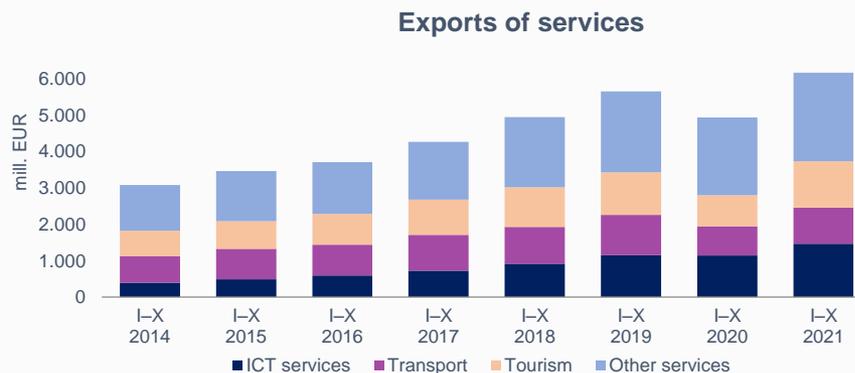


Activation of new production capacities primarily due to the effect of foreign direct investments from the previous period provided stable dynamics of economic activity of the manufacturing industry even in the conditions of the pandemic, which with a low base from the same period last year determines the growth of production of this sector of 5.7% y-o-y in the first eleven months.

In this period, the growth of industrial production was followed by the growth of all three sectors of industry, with two thirds of the contribution coming from the increase in production of manufacturing of 5.7% y-o-y, with growth in 18 of 24 activities in this sector. In addition, the 26.4% y-o-y growth of the physical volume of mining is the result of a strong growth of mining of metal ores, while the volume of electricity production was higher by 1.6% y-o-y.

At the same time, production growth was recorded in all MIGs groups except for durable consumer goods, where there was a slight decline in production. Slightly less than two thirds of the growth of the total industry comes from the production of intermediate goods with a growth of 13.2% y-o-y, mostly due to greater exploitation of metal ores. In addition, a significant positive contribution came from the growth of capital goods of 13.4% y-o-y.

High-frequency indicators point to a recovery of the service sector, which suffered the largest negative consequences due to the coronavirus pandemic.



The service sector is characterized by positive trends. Retail trade continues to record real growth, amounting to 10.0% y-o-y in November. At the same time, tourist activity measured by the number of tourist arrivals and overnight stays increased by 86.4% and 51.9% year on year, respectively.

Retail trade turnover in the eleven months of 2021 increased by 10.1% in real terms.

In the same period, about 2 million tourists visited tourist destinations, which is a y-o-y increase of 37.4%, with growth in the number of overnight stays by 28.4%. In the period January–October 2021, foreign currency inflow from tourism increased by 49% y-o-y and amounted to EUR 1.3 billion.

In the first three quarters of 2021, compared to same period in previous year 2020, the number of registered automobiles increased by 14.6%.

In the first ten months, tourism, ICT and transport services, with an increase in exports of 49.0%, 28.1% and 23.6% y-o-y, respectively, determined three quarters of the total growth in exports of service activities of 24.9% y-o-y.

Favourable trends continue in the construction sector, where in the first three quarters of 2021 GVA of construction increased by 15.5% y-o-y in real terms, while a real growth of value of the construction works done was 16.5% y-o-y. In the first eleven months, the number of issued building permits increased by 33.3% year on year, while the production of cement and construction materials increased by 11.1% and 10.2%, respectively.

EXTERNAL SECTOR



❖
In November, the year-on-year exports and imports growth was 24.9% and 22.6%, respectively

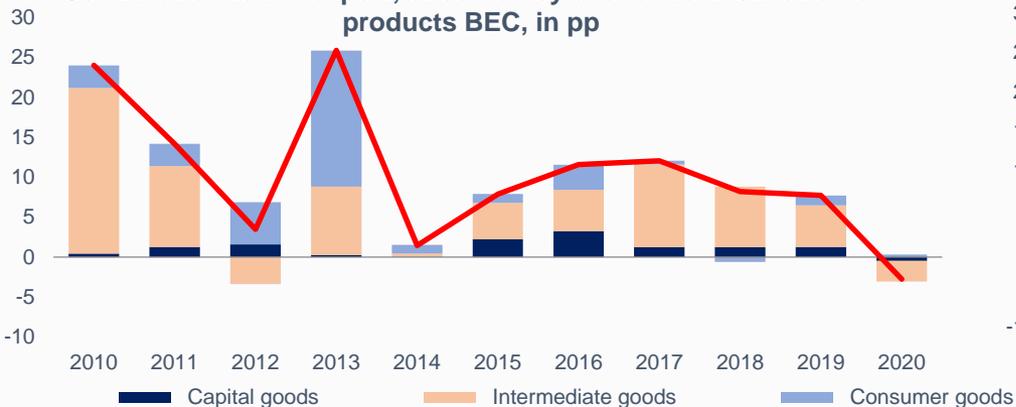
❖
Coverage of imports by exports of goods in November amounted to 74.5%

❖
Germany, China and Italy are the largest external trade partners

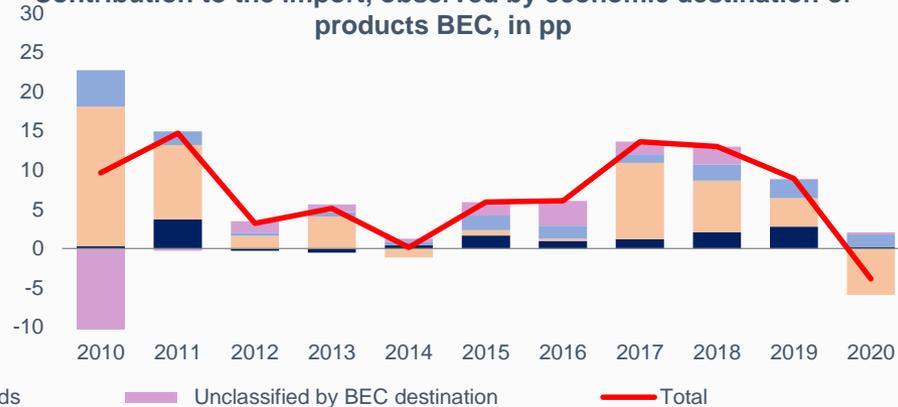
❖
In October 2021, the current account deficit amounted to EUR 273.6 mill

Reduced external demand and the introduction of a state of emergency, affected the movements of goods and services in 2020. The external trade of goods fell by 3.4% y-o-y and amounted to EUR 40 billion.

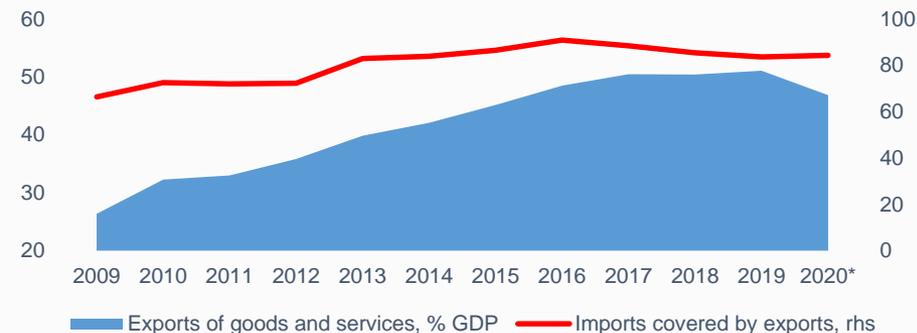
Contribution to the export, observed by economic destination of products BEC, in pp



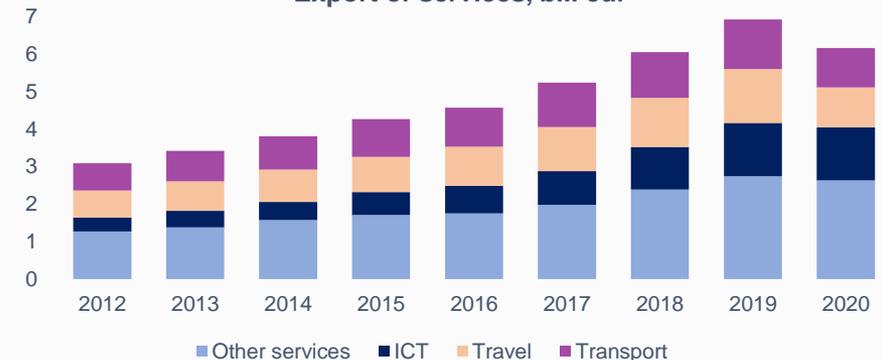
Contribution to the import, observed by economic destination of products BEC, in pp



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



Export of services, bill eur



The recovery of foreign trade from the lockdown started from September 2020, while at the end of 2020 it was registered a decline of exports and imports by 2.7% and 3.8%, y-o-y. Such movements defined that foreign trade deficit was lower by 6.9% compared to the 2019.

Despite a slowdown in external demand, the decline in export was relatively small. The export of manufacturing industry, which is the main driver of export activity, recorded a drop in exports of only 5%, with a noticeable recovery of export-oriented activities. Also, the increase in export activity was predominantly reflected in the good agricultural season, as well as increased exports in mining.

Imports of raw materials are dominant in the structure of merchandise imports by purpose groups. In 2020, it was 10.5% lower and thus determined the overall decline in import activity. Since the middle of the year, the recovery of imports of consumer goods and equipment has been noticeable.

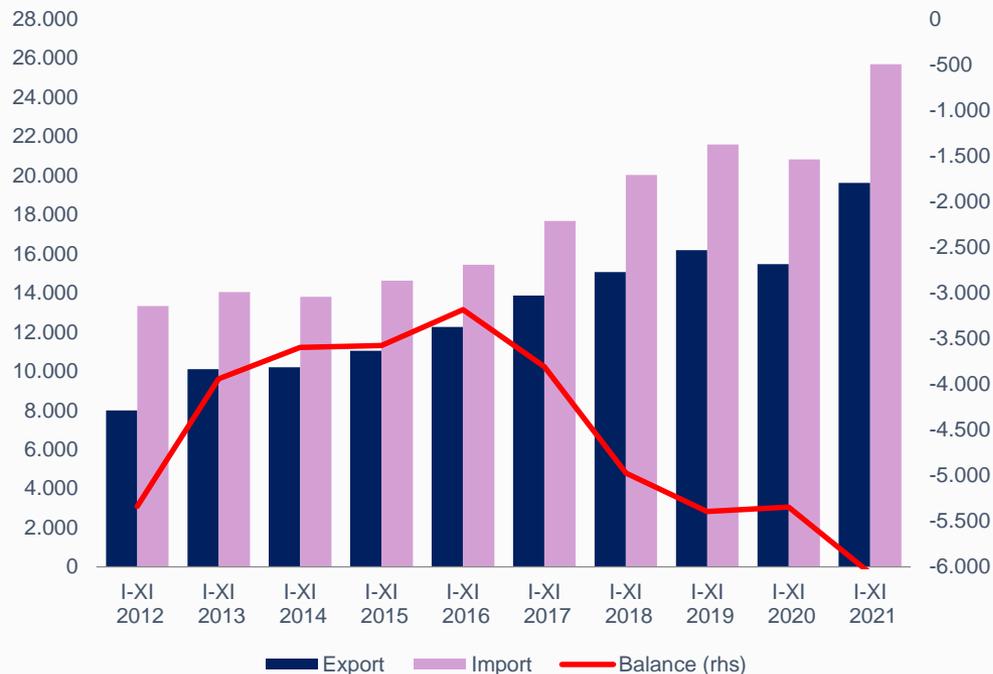
The decrease in the volume of foreign trade flows due to the global recession has resulted in a decrease in the share of total exports in GDP in 2020 to 48.2%, a decrease by 3 percentage points when compared to 2019.

Source: SORS

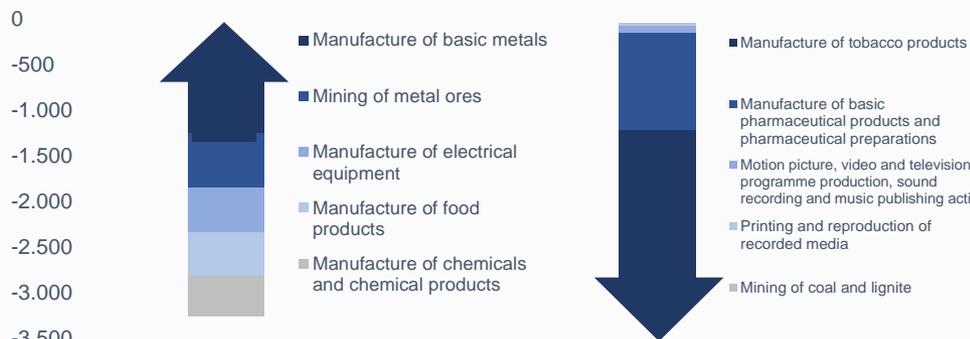
*MoF estimation, national accounts data

In the first eleven months of 2021, exports of goods amounted to EUR 19.6 billion and imports of goods amounted to EUR 25.7 billion (growth of 26.8% and 23.4% y-o-y, respectively). The coverage of imports by exports increased to 76.4% compared to 74.3% from the same period last year.

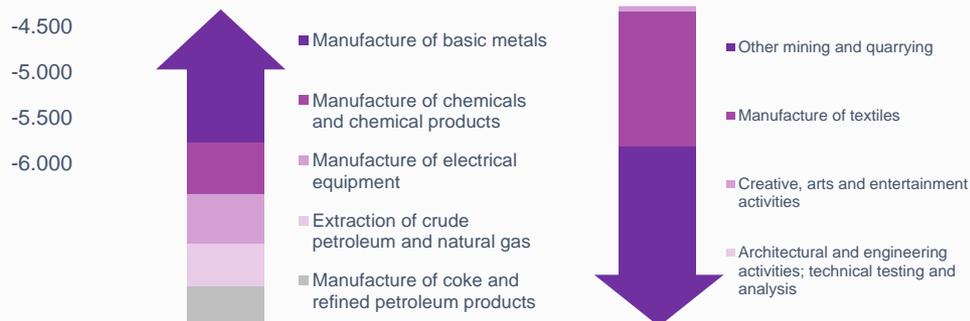
External trade in the period January–November (2012-2021), mill. EUR



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



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



Source: SORS

In November 2021, total foreign trade increased by 23.6% year-on-year to the level of EUR 4.7 billion, due to growth of export and import of 24.9% and 22.6%.

A total of 2 billion euros worth of goods were exported in November 2021, which is an increase of 24.9% over the same month last year. The growth of exports of the manufacturing industry in November amounted to 24.3%, and within it the most significant contribution was recorded in the metal, food and rubber industries (increases of 96.2, 72.7 and 37.5 mil. euros, respectively). In addition, strong growth in exports of the mining sector continues, with an increase of EUR 82.5 mill.

In the observed month, a total of EUR 2.7 billion was imported, a growth of 22.6%, y-o-y. Import activity was driven by higher imports of reproduction goods (growth of 37.3%), with continued growth in imports of consumer goods (3.1%) and equipment (0.5%).

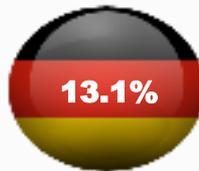
In the period January-November 2021, compared to the same period last year, exports increased by 26.8% (4.1 billion euros), while exports of the processing industry increased by 24.7% (or 3.4 billion euros). The highest growth in export activity was recorded in the metal (60.1%), electronic (27.6%) and food industries (25.5%), and positive trends continued in the chemical (43.5%) and automotive industries (20.6%). The record value of exports is recorded by the mining sector in the amount of 658.0 million euros.

In the first eleven months of 2021, import growth was recorded in 22 of the 23 product groups. Imports of intermediate goods contributed to just above two-thirds of the total imports growth, primarily due to higher economic activity but also due to higher oil prices as well. At the same time, import of consumer goods and equipment increased by 9.4% and 12.9%, respectively.

The largest external trade partners of Serbia in the period January–November 2021

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

	2.512,4
Equipment for distributing electricity	16.6
Rotating electric plant and parts	13.7
Fruit and fruit preparations	5.8
Railway vehicles and associated equipment	4.4
Other	59.5



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

	3.433,9
Copper	5.5
Medicaments	5.3
Motor cars and other motor vehicles	4.5
Electrical apparatus for switching or protecting el. circuits	3.3
Other	81,4

	704,5
Copper ores and concentrates	50.0
Copper	34.3
Wood, simply worked	3.4
Wood in the rough or roughly squared	2.2
Other	10.1



	3.283,1
Telecommunications equipment	7.9
Automatic data processing machines	4.0
Electrical machinery and apparatus	3.3
Electrical apparatus for switching or protecting el. circuits	3.1
Other	81.6

	1.695,7
Motor cars and other motor vehicles	13.7
Footwear	8.8
Flatt-rolled products non-plated	5.2
Maize	4.6
Other	67.7



	2.093,6
Parts and accessories of the motor vehicles	4.9
Copper	4.8
Leather	4.6
Articles of plastics	2.5
Other	83.2

	781,4
Fruit and nuts, fresh or dried	13.9
Rubber tyres, flaps, etc.	8.5
Medicaments	6.8
Clothing accessories of textile fabrics	6.2
Other	64.6



	1.306,6
Natural gas, whether or not liquefied	27.1
Petroleum and minerals oils, crude	15.9
Fertilizers (отхер тхан цруде)	8.4
Tobacco, manufactured	5.0
Other	43.5

	1.412,3
Petroleum oils and oils obtained from minerals	12.8
Flatt-rolled products of iron	3.6
Cereal preparations and preparations of flour	2.6
Iron and steel bars, rods and shapes	2.5
Other	78.5



	673,5
Coke and semi-coke of coal	14.9
Iron and steel bars, rods, angles	14.3
Wood, simply worked	6.9
Structures and parts of structures	4.6
Other	59.2

	1.001,2
Equipment for distributing electricity	17.3
Thermionic or photocathode valves	13.7
Flatt-rolled products non-plated	3.8
Tubes, pipes and hoses	3.5
Other	61.6



	1.074,0
Petroleum oils and oils obtained from minerals	12.2
Medicaments	7.0
Equipment for distributing electricity	5.1
Electric current	2.9
Other	72.6

Share in overall
external trade

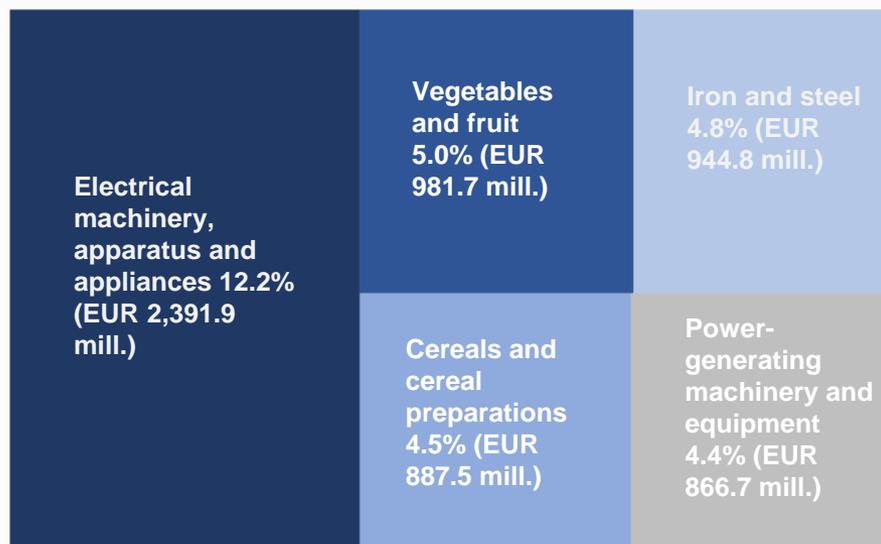
In the period January–December 2021, the total export value of 15 largest exporters amounted to EUR 5.5 bill. The largest exporter was Serbia HBIS group, followed by Zijin Bor and NIS.

15 BIGGEST EXPORTERS* in the period January–December 2021

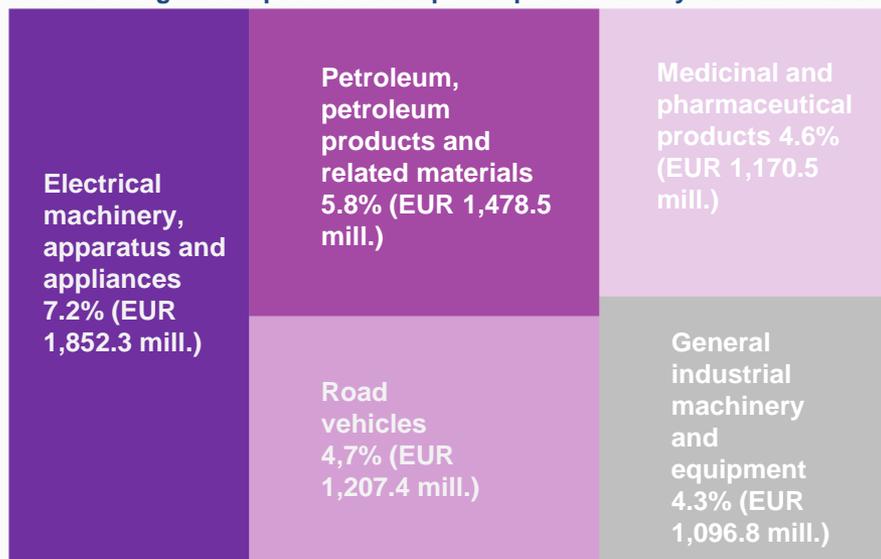
NAME OF EXPORTER	LOCATION	Export (EUR mill)
HBIS GROUP SERBIA IRON & STEEL D.O.O.	BEOGRAD	752.7
SERBIA ZIJIN BOR COPPER	BOR	750.3
NAFTNA INDUSTRIJA SRBIJE	NOVI SAD	481.9
TIGAR TYRES	PIROT	430.3
SERBIA ZIJIN MINING D.O.O. Bor	BRESTOVAC	392.0
HENKEL SRBIJA	BEOGRAD	369.9
LEONI WIRING SYSTEMS SOUTHEAST	PROKUPLJE	349.5
YURA CORPORATION	RAČA	301.4
FCA SRBIJA D.O.O.	KRAGUJEVAC	285.5
GRUNDFOS SRBIJA	INĐIJA	238.1
DRUŠTVO ZA TRGOVINU ROBERT BOSCH	BEOGRAD	236.7
HIP - PETROHEMIJA	PANČEVO	235.0
HEMOFARM	VRŠAC	219.6
ZF SERBIA D.O.O. PANCEVO	PANČEVO	215.6
PHILIP MORRIS OPERATIONS	NIŠ	206.4

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

The most significant products in export in period January–November 2021

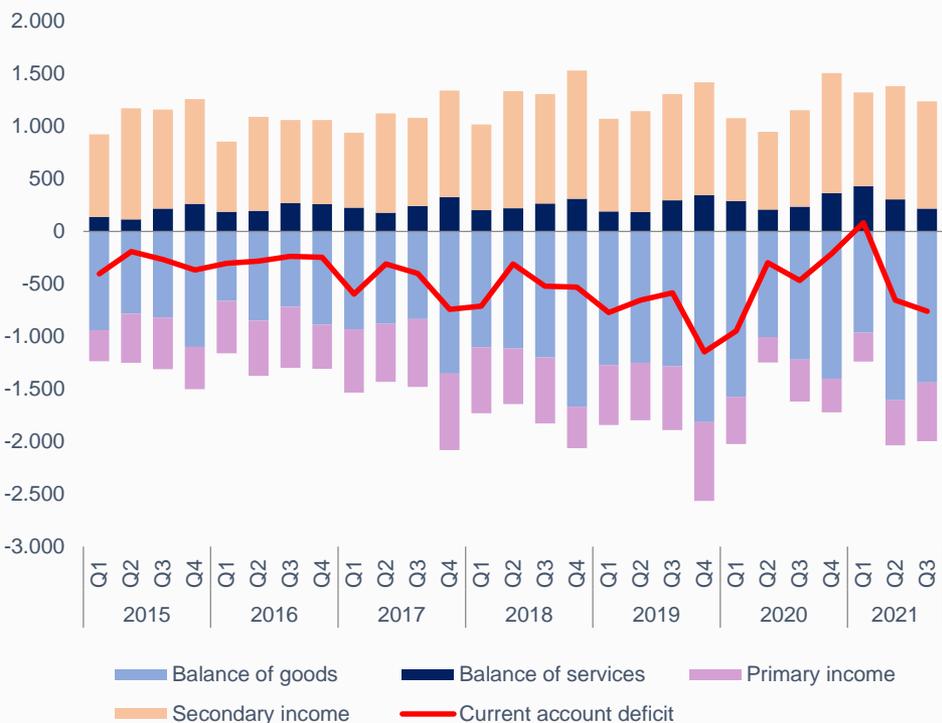


The most significant products in import in period January–November 2021



In the first ten months of 2021, the current account of the balance of payments recorded a deficit in the amount of EUR 1.6 billion, which is a decrease of EUR 81,4 mil. The contribution to the year-on-year improvement in the external position stemmed from an increase in the surplus in trade in services and the surplus in secondary income

Balance of payment (mill. EUR)



The structure of financial balance, % of GDP



The goods and services account recorded deficit, which amounted to EUR 3.5 bill, and it was higher by 4.8%, compared to the same period of the previous year.

In the period January–October 2021, trade deficit amounted to EUR 4.5 bn, which is higher by EUR 351.4 mill. y-o-y, while surplus in services amounted to EUR 1.1 bn, which is an increase of EUR 191.2 mill.

In the observed period, the deficit of primary income was 26.0% higher (increase of EUR 308.6 million). The surplus of secondary income was higher by 19.6% year-on-year and amounted to EUR 3.4 bn, mostly due to the increased inflow of remittances from abroad.

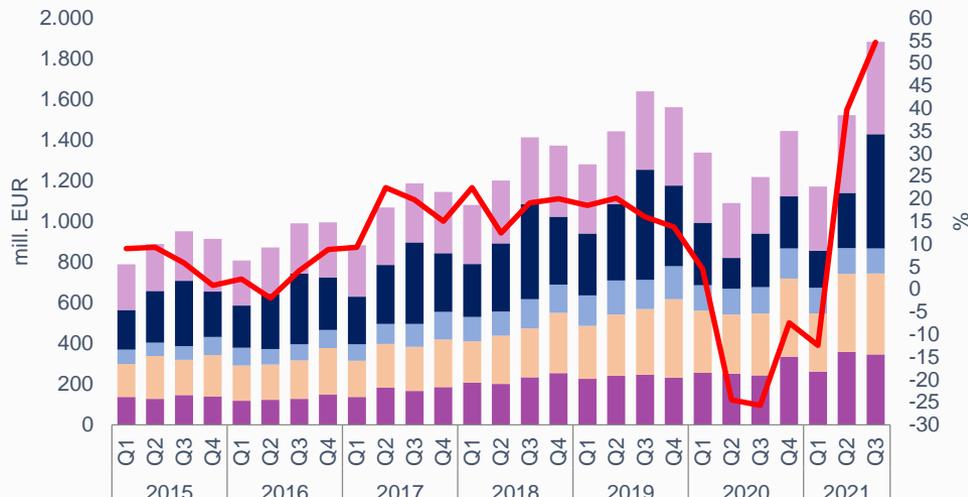
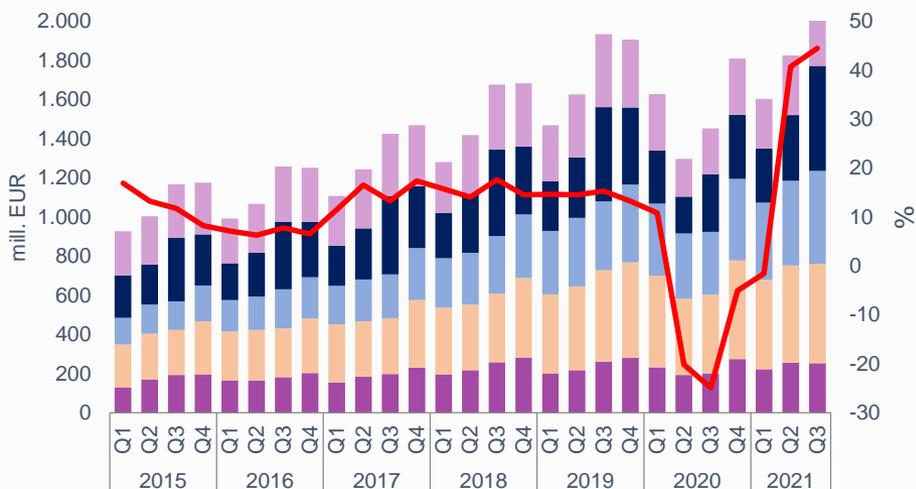
In the first ten months of 2021, net FDI inflows amounted to EUR 3.0 billion, an increase of 54.4% year-on-year. The total inflow based on FDI amounted to EUR 3.2 bn.

The net inflow of portfolio investments in the observed period amounted to EUR 1.7 bn.

In the first ten months of 2021, the foreign trade in services had a surplus that was higher by 21.9% y-o-y, determined by a higher surplus in the tourism sector and ICT. Personal transfers from abroad increased by 14.2% compared to the same period last year.

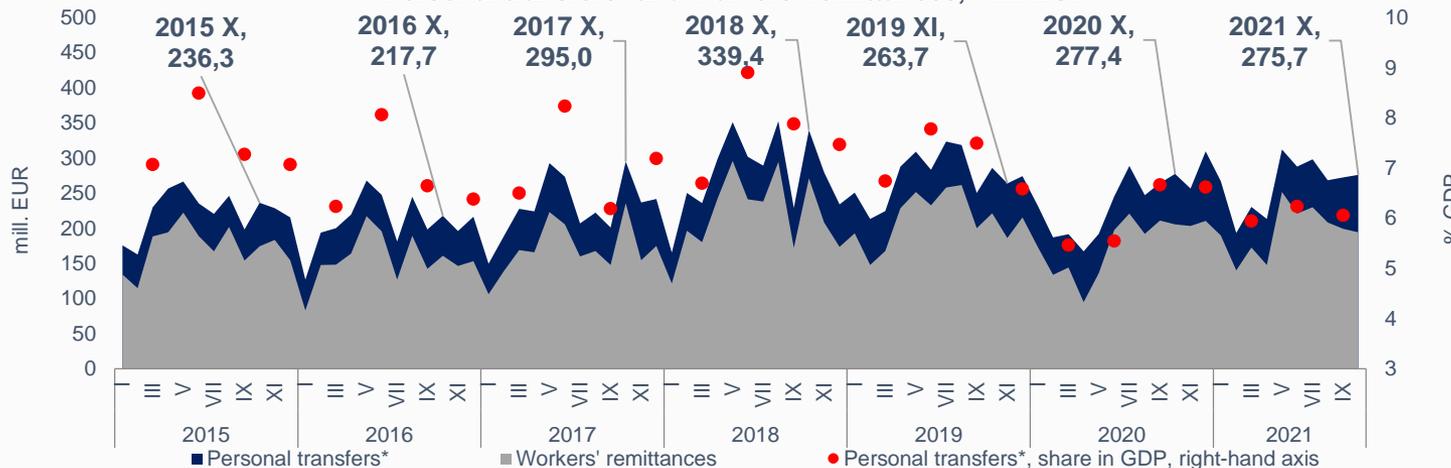
Structure of services export, mill. EUR

Structure of services import, mill. EUR



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

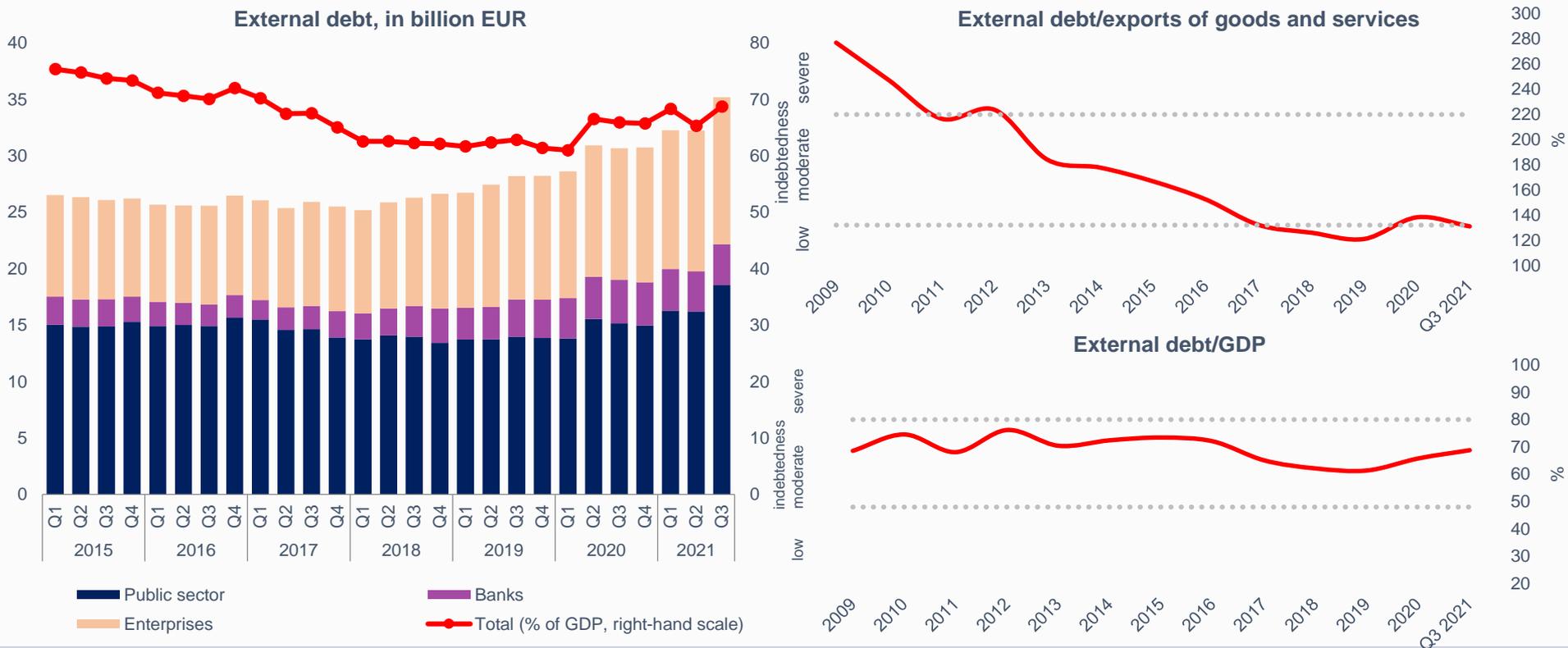
Personal transfers* and workers' remittances, mill. EUR



* Current transfers between resident and non-resident households.

Source: NBS

At the end of the third quarter 2021, total external debt amounted to 68.8% of GDP.



Debt of enterprises increased by EUR 1.1 billion, while a debt of banking sector decreased by EUR 200.3 mill, compared to the end of previous year. At the same time, indebtedness of public sector increased by EUR 3.6 billion.

At the end of the third quarter of 2021, compared to the end of 2020, the ratio of external debt to exports was reduced, while the ratio of external debt to GDP increased.

According to the World Bank criteria*, the current level of external debt to exports ranks Serbia among low-indebted countries, while according to the ratio of external debt to GDP it is at the level of 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 November was higher by 2.0% y-o-y

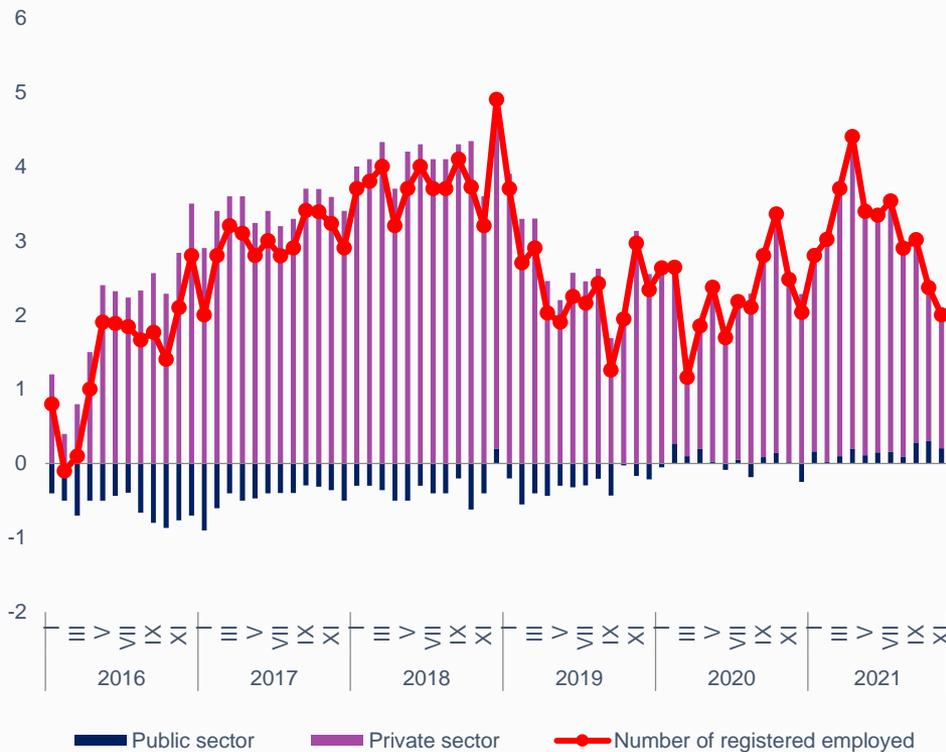
Unemployment rate in Q3 2021 totalled 10.5%

Average net salary in October was higher by 3.1%, y-o-y, in real terms

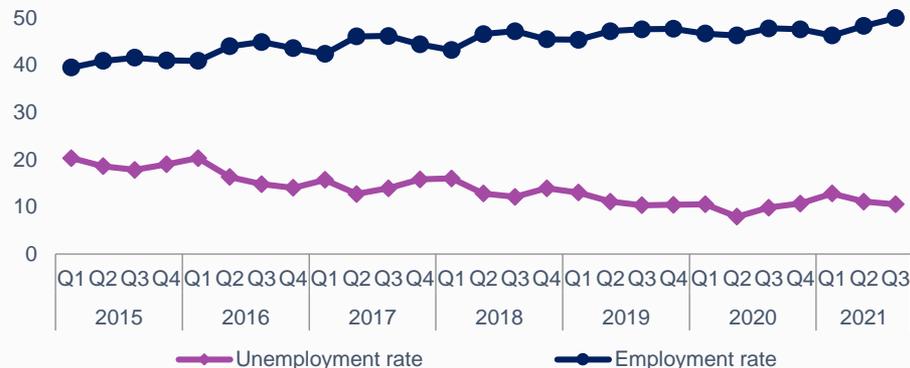
Average net salary in October totalled RSD 66,048

The number of formally employed in November, according to CROSO* records, continued to grow and was up by 2.0% year on year. According to the Labour Force Survey, in the third quarter of 2021, the unemployment rate was 10.5%, while employment rate totalled 50.0%.

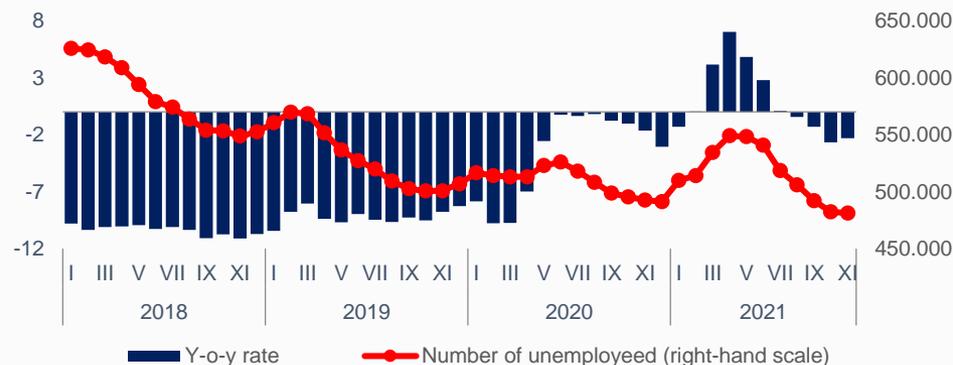
Average number of formally employed, contribution to y-o-y growth rate



Employment and unemployment rate according to LFS



Number of unemployed persons, according to NEA



The success of the economic package of measures was verified by the absence of significant negative effects of the pandemic to the labour market. Jobs and wages have been preserved, both in the private and public sectors, and the scenario of a significant increase in unemployment has been avoided.

According to CROSO* records, the year-on-year increase in employment in November is almost entirely the result of growth in employment in the private sector (2.5%), while in the public sector the number of employees increased by 0.7%. Most significant yearly growth in November was registered in manufacturing industry and information and communication technologies.

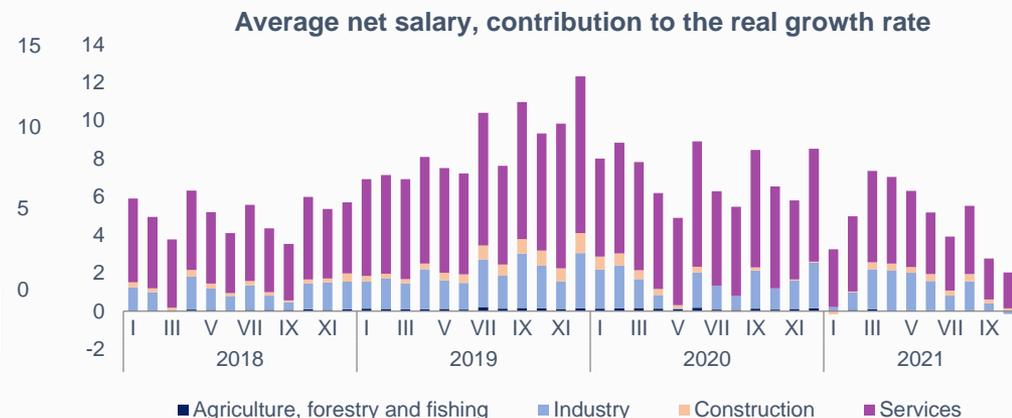
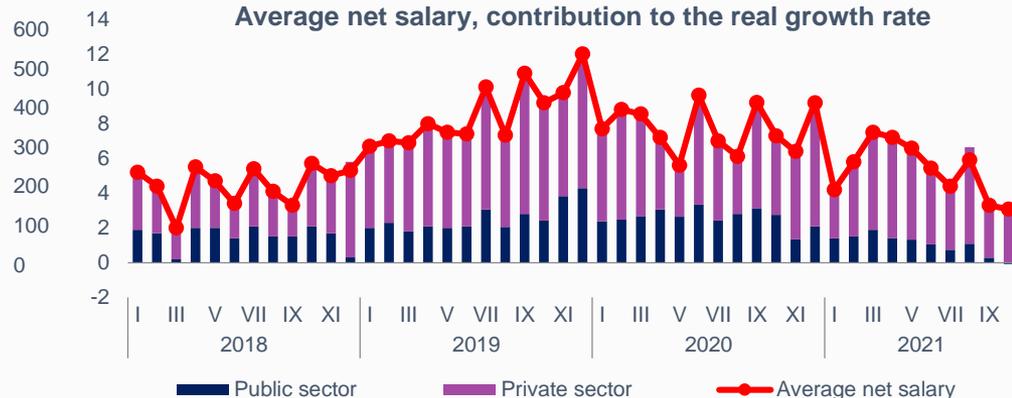
In period January–November employment increased by 3.1%, y-o-y.

According to the National Employment Service, the number of unemployed persons in November was lower by 2.3%, y-o-y.

In the third quarter of 2021, the activity rate was 55.8%, and it increased compared to the same quarter of the previous year by 2.8 percentage points.

* Central registry of compulsory social security

The good situation on the labour market is reflected in the growth of wages, which is, above all, the result of the general stability of the economy and economic growth. In October the average net salary increased nominally by 9.9%, and in real terms by 3.1%, y-o-y and totalled RSD 66,048.



Observed by activities, the most significant increase in salaries was recorded in the information and communications technologies, trade and scientific and technical services. Within the public sector, salaries increased the most in health care.

Salaries growth in October was driven by a year-on-year increase by 4.7% in the private sector, while in the public sector it declined by 0.3% in real terms. The growth of salaries in the public sector is the result of the Government's decision to increase salaries in the public sector, starting from January 2021, by 5.0% for employees in health care, and for the rest of the public sector employees by 3.5%, as well as an additional 1.5% from April.

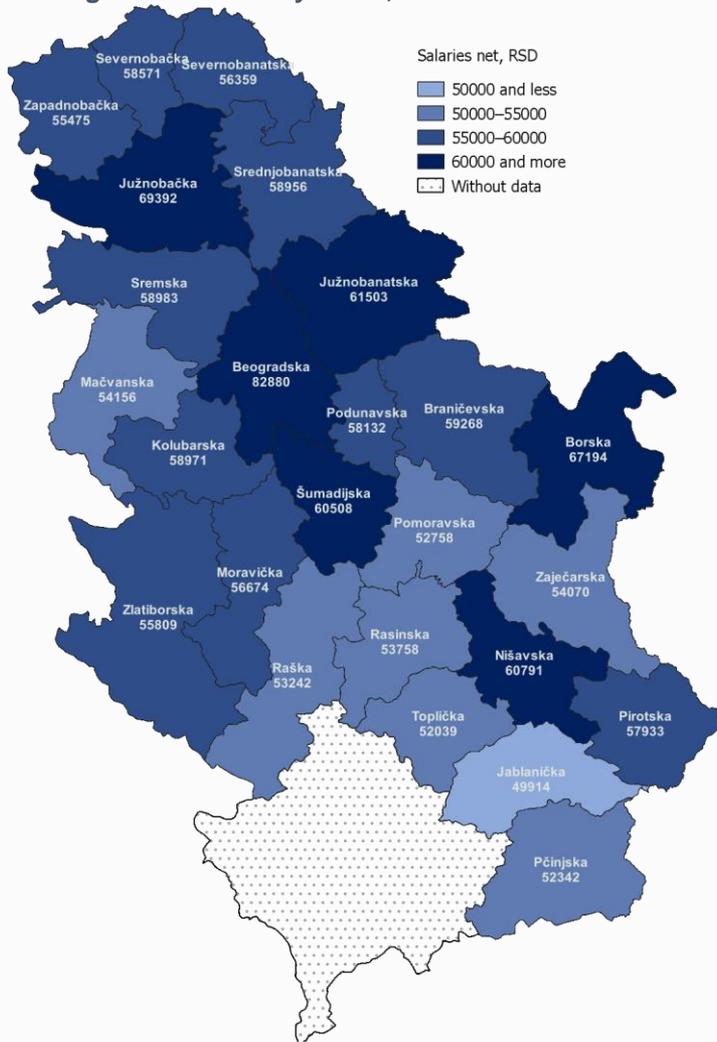
In period January–October average net salary increased in real terms by 5.3%, y-o-y.

The overall increase of salaries was also influenced by an increase in minimum labour costs per working hour, net from RSD 172.54 in 2020 to RSD 183.93 starting from January 2021.

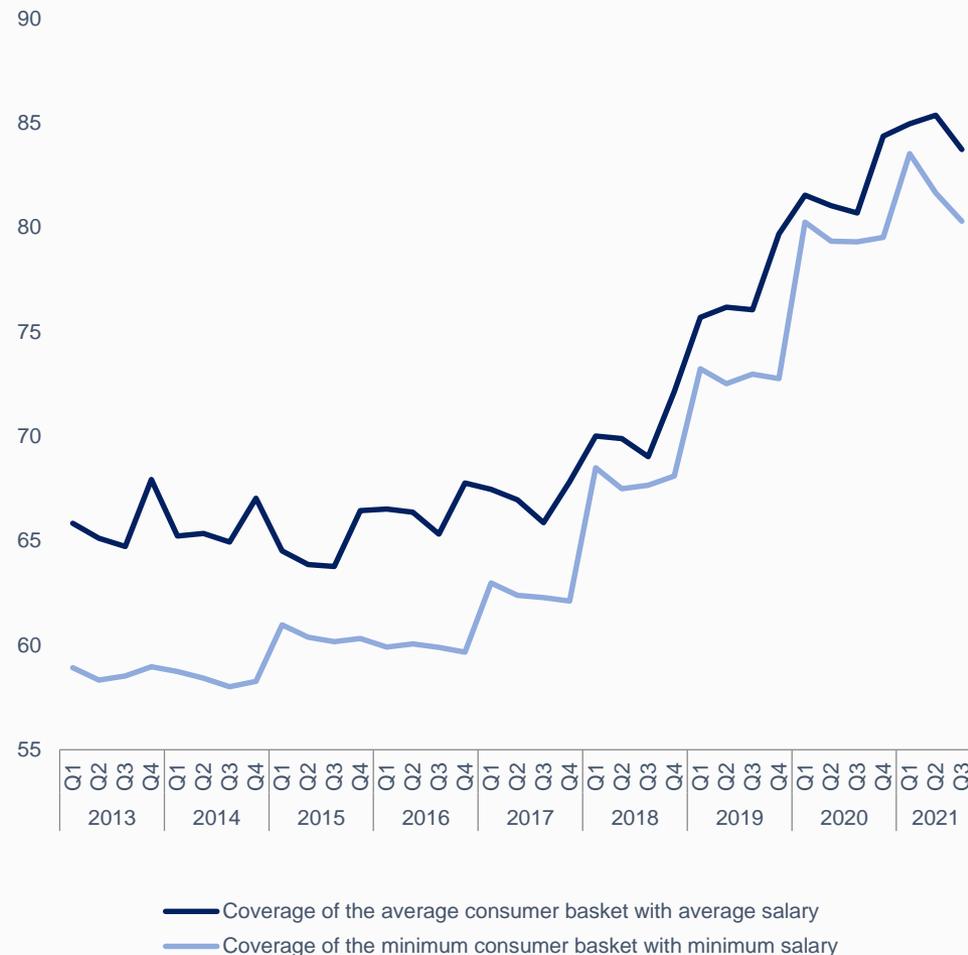
Source: SORS, calculated in MoF

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, October 2021



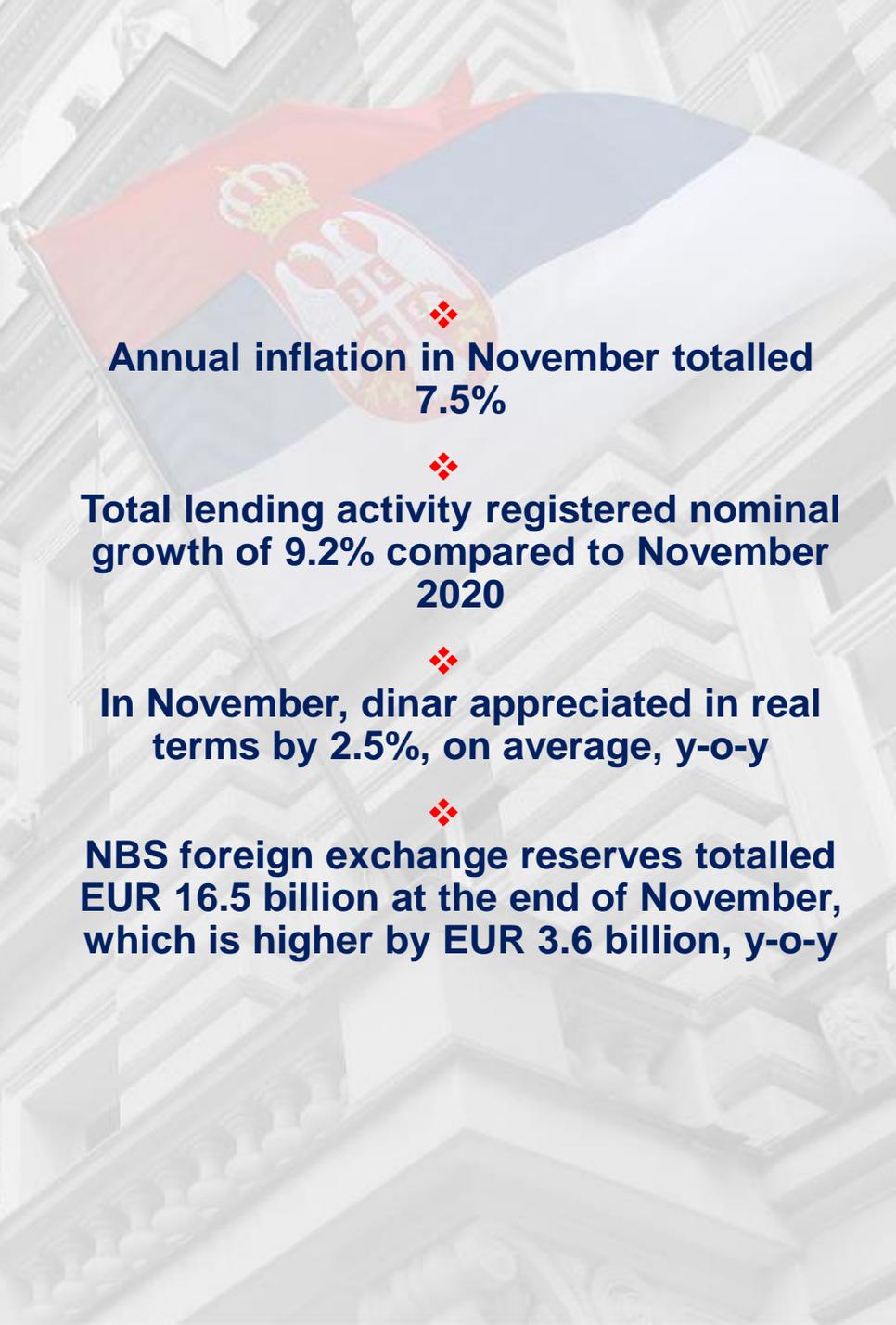
The ratio of salaries and consumer basket



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

Source: SORS and Ministry of Trade, Tourism and Telecommunications

MONETARY DEVELOPMENTS



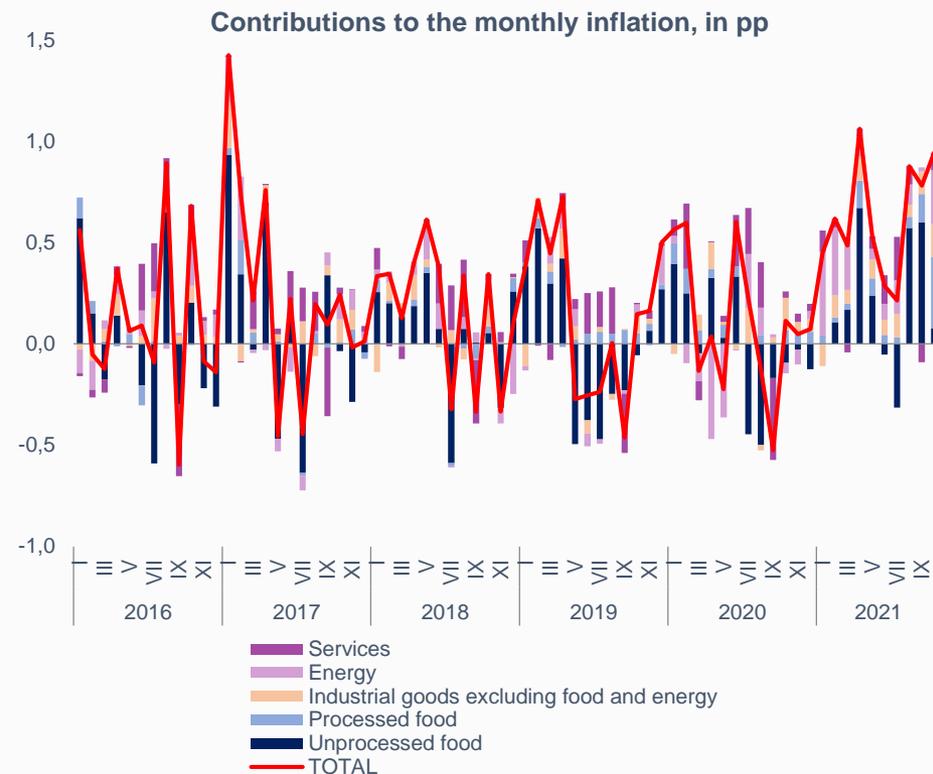
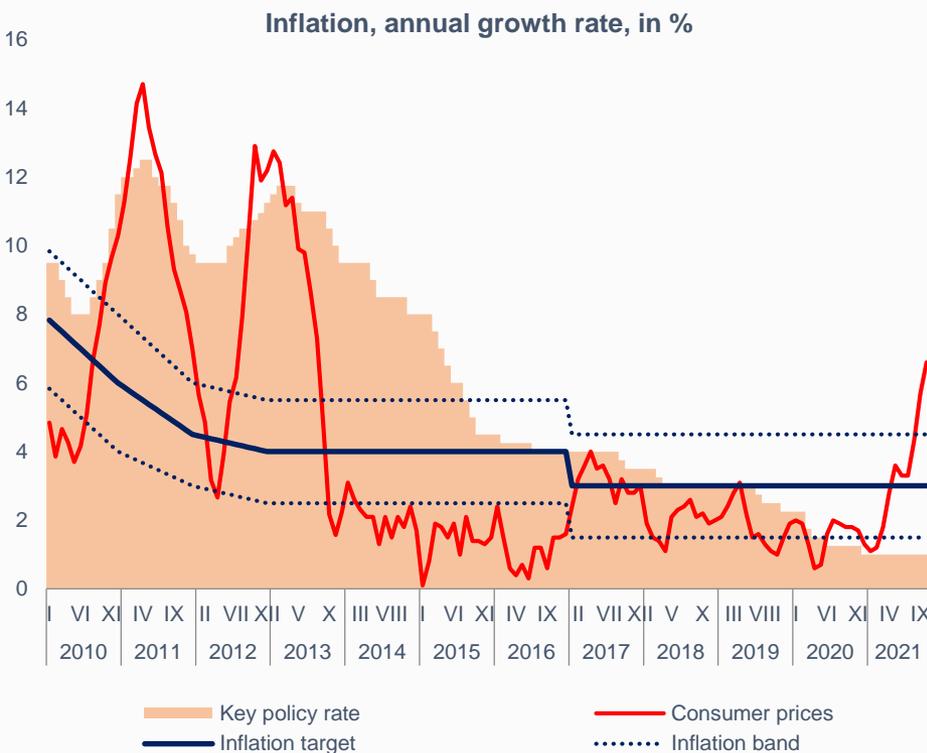
❖ Annual inflation in November totalled 7.5%

❖ Total lending activity registered nominal growth of 9.2% compared to November 2020

❖ In November, dinar appreciated in real terms by 2.5%, on average, y-o-y

❖ NBS foreign exchange reserves totalled EUR 16.5 billion at the end of November, which is higher by EUR 3.6 billion, y-o-y

From the middle of 2021, inflation was at a slightly higher level compared to the previous period, which was a consequence of the influence of temporary factors. In January, the NBS maintained the key policy rate at 1.00%, with monetary conditions tightening by increasing the repo rate and by withdrawing excess liquidity from the banking sector.



The temporariness of inflationary pressures is indicated by the relatively stable movement of core inflation, which was at the same time significantly lower and amounted to 3.0%, which was again significantly influenced by the preserved stability of the exchange rate and inflation expectations of the financial sector and economy within the limits.

In November, the growth of consumer prices was above the upper limit of the allowed deviation from the inflation target, so it amounted to 7.5% year on year. This trend in inflation was influenced by temporary factors, primarily the rise in world prices of oil and primary agricultural products, increased transport costs, stagnation in global supply chains, but also its low base value. The increase in the prices of petroleum products, vegetables, meat, electricity, fruit, tobacco, oil, utilities, firewood, alcoholic and non-alcoholic beverages and restaurant and hotel services had a significant impact on the growth of inflation in this period.

When making the decision to keep the key policy rate unchanged, the NBS had in mind that the positive effects of past large-scale monetary and fiscal measures on economic activity, including the third support package for businesses and households, could be expected going forward and that the favorable financing conditions could be sustained at a somewhat lower degree of monetary accommodation. The Board particularly stressed the importance of Serbia's strong growth dynamics, which outperformed expectations this year, quarter after quarter.

The total lending activity in November 2021 continued to record growth, due to the effects of the moratorium and a positive contribution from the guarantee scheme loans.

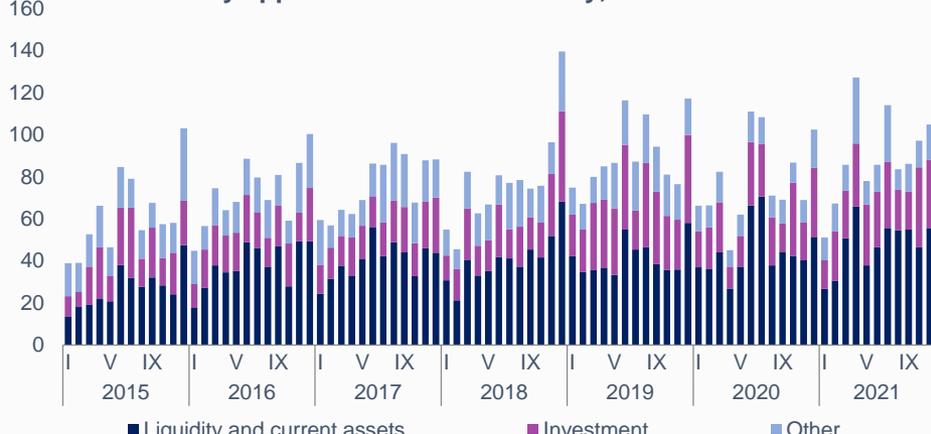
Annual growth rates of loans



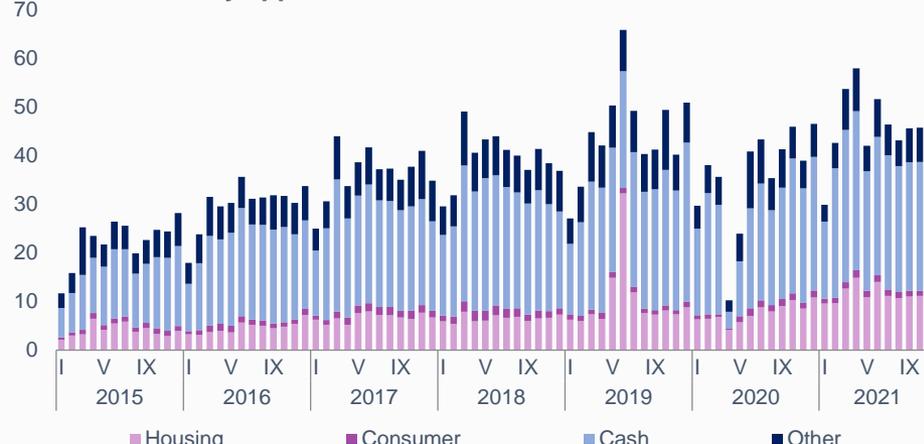
Lending activity, y-o-y contribution



Newly approved loans to economy, in billion dinars



Newly approved loans to households, in billion dinars



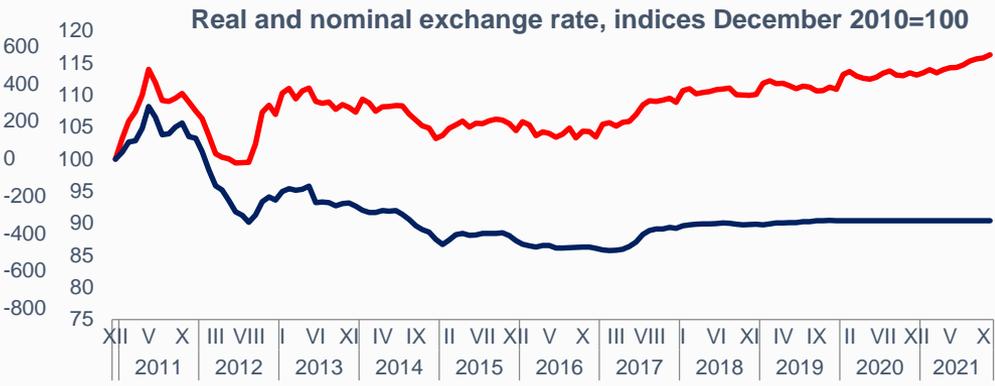
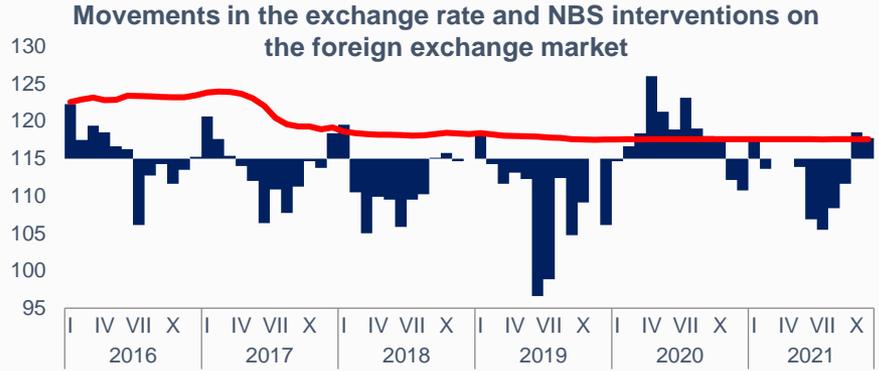
Both the economy and the households contributed positively to the growth of credit activity, while the favourable credit structure was maintained, primarily in the economy, where the share of investment loans was higher than share of loans for the liquidity and current assets. Share of NPL in total loans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

A nominal increase of loans to economy of 8.4% was registered in November, while the credit activity to households has grown by 10.1% y-o-y, in nominal terms. The interest rate on the total newly approved dinar loans decreased y-o-y by 0.6 pp, and amounted to 5.75%. Total newly approved dinar loans increased by 38.9% y-o-y.

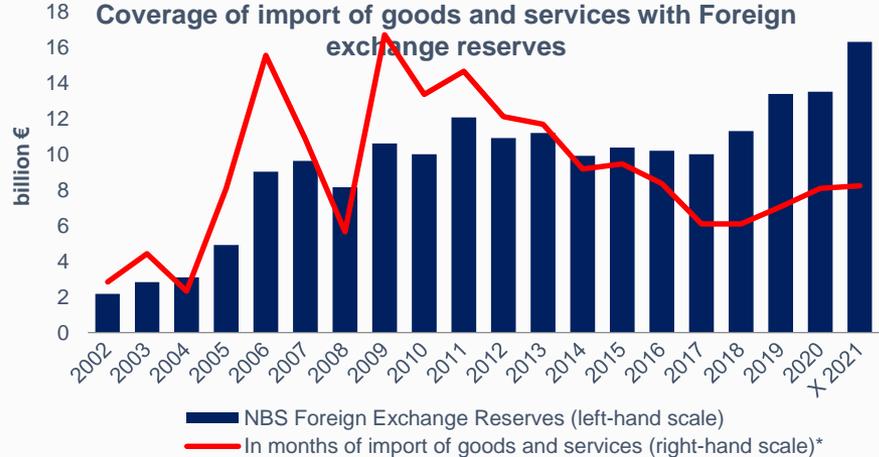
Owing to the effects of past monetary policy easing, borrowing conditions in the domestic market remained favourable during 2021 as well. As a result, lending activity was fuelled and the share of dinar loans in total loans continued up.

Source: NBS

In November 2021, real appreciation of dinar was recorded on average, by 2.5%, y-o-y, while in nominal terms remained unchanged. At the same time, foreign exchange reserves increased by 28.1% compared to November 2020 and totalled EUR 16.5 billion.



■ NBS intervention, mill. EUR, net (right-hand scale) — Average exchange rates EUR/RSD



— Average exchange rates EUR/RSD, real terms
— Average exchange rates EUR/RSD, nominal terms



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

Developments on the foreign exchange market are characterized by the relative stability of the exchange rate, despite negative effects of coronavirus.

In order to mitigate excessive short-term fluctuations of the exchange rate in November, NBS intervened on the foreign exchange market by net selling foreign currency in amount of EUR 110 mil.

At the end November, the NBS foreign exchange reserves increased by EUR 175.3 million compared to the previous month, mostly as a result of banks' FX required reserves, sale of government securities in the local financial market as well as from FX reserves management and other sources .

Source: NBS

FISCAL DEVELOPMENTS

2020 and 2021 deficits due to implemented package of anticrisis measures. 2021 second revised budget accounts for lower deficit than planned in the first revision because of better revenue collection

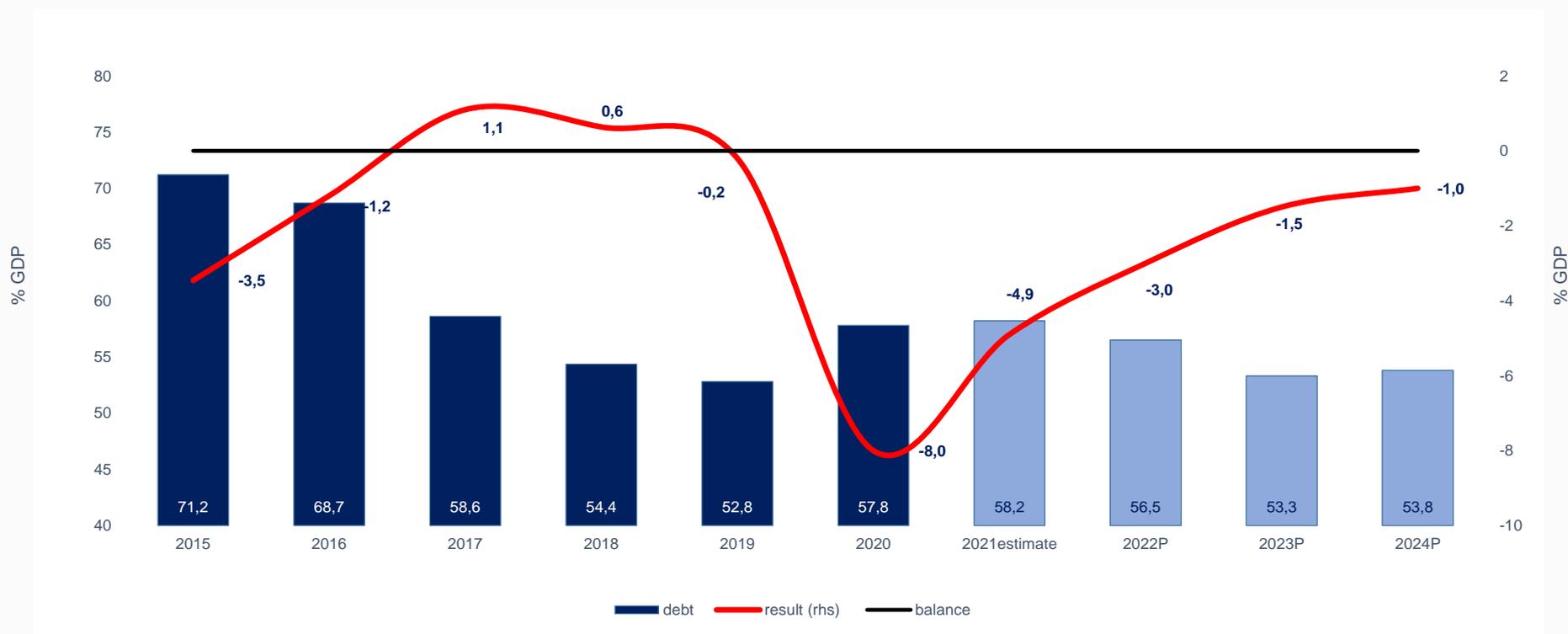


In medium term reduction of deficit is expected, coming closer to balanced budget, while public debt will lower to 53.8% of GDP in 2024



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

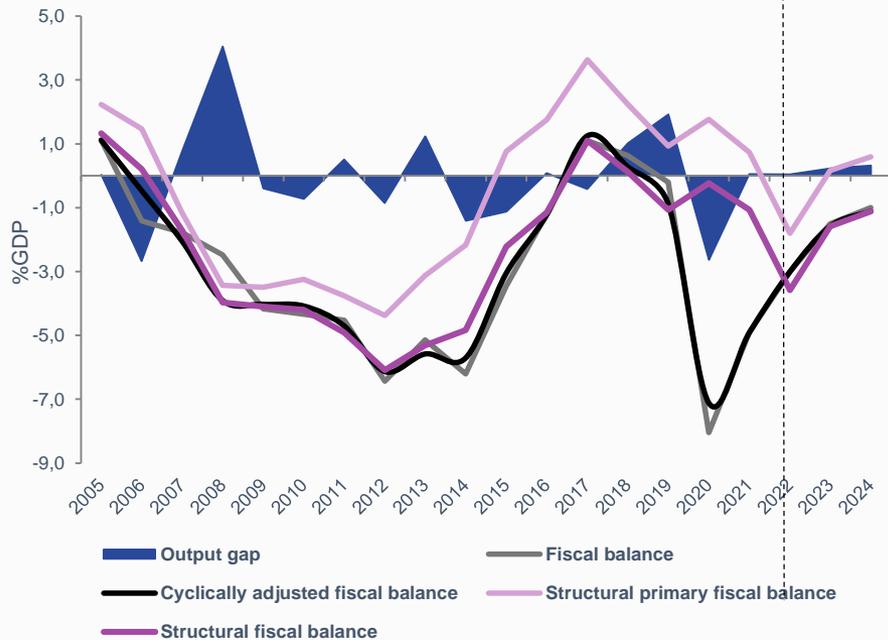
Fiscal result and general government debt, in % of GDP



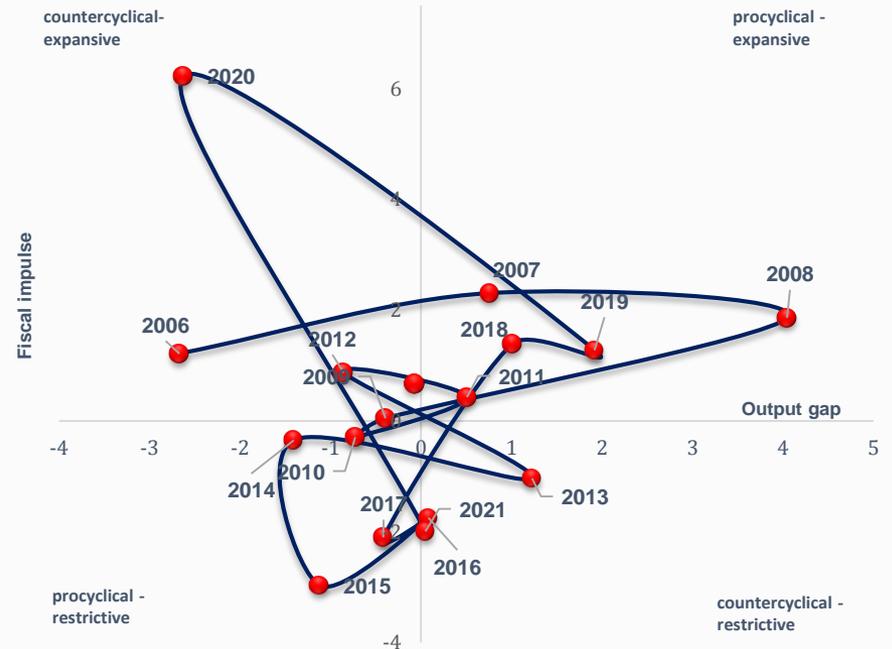
In the next medium-term period, a moderate reduction of the general government deficit is envisaged in order to ensure the necessary flexibility of the national economy to possible external shocks through fiscal policy. This, above all, refers to the expenditure side, in the form of increased public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

Cyclically-adjusted and structural fiscal balance

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



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



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

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

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

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

Serbia's Proactive Response to the Covid-19 Pandemic in 2020

The Government has taken proactive measures to counter the negative effects of the global COVID19 pandemic and support its local economy. Serbia entered the crisis in a strong fiscal position with low Government debt, thanks to its prudent fiscal measures over the past years

	% GDP	
Tax Policy Measures	Deferred payment of withholding tax for the private sector during the state of emergency and for one additional month; private companies will repay these obligations in instalments, but not before January 2021.	3.1
	Deferred payment of corporate income tax for the second quarter of 2020.	0.4
	VAT exemption for all donors.	-
	Total	3.4
Direct Support to Private Sector	Direct support to entrepreneurs paying flat tax and entrepreneurs paying tax on actual revenues, micro, small and medium enterprises in the private sector – three minimum wages with additional two months of 60% of minimum wages	2.3
	Direct support to large private companies – support in the amount of 50% of the net minimum wage (during the state of emergency) for employees who have received a decision on work termination (Articles 116 and 117 of the Labor Law).	0.1
	Direct support to Hotel and Leisure sector – 350€ per bed, 150€ per room	0.03
	Direct support to caterers, travel agencies, hotels and car rental agencies (amount of 30,000 RSD)	0.05
	Direct support to sports clubs	0.02
	Total	2.5
Measures to Preserve the Private Sector Liquidity	Financial support program during the Covid-19 crisis of the Fund for Development of the Republic of Serbia	0.4
	Guarantee scheme to support the economy during the Covid-19 crisis	4.4
	Total	4.8
Other Measures	Dividend moratorium by the end of the year, excluding public enterprises and loss of income stemming from dividends	0.3
	Wage and Income measures (10% increase in salaries for health care workers, direct cash assistance of RSD 4,000 to all pensioners, support for agricultural producers)	0.5
	Fiscal stimulus – domestic demand incentive	1.3
	Total	2.0
Fiscal Measures Impact Assessment	Total	8.4
Package of Measures	Total	12.8

Package of measures to support citizens and the economy in 2021

The positive effects of the previous economic support program were carried over to the beginning of 2021, but the prolonged action of the pandemic, with an uncertain duration, conditioned the need for a new package of support to the economy and the population.

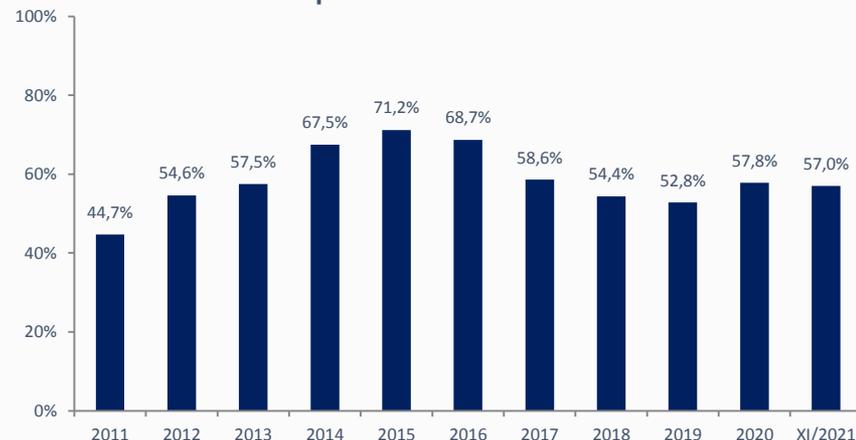
Direct Support to Private Sector	% GDP
Direct support to private sector - 3 monthly payments of 50% of minimum wages for all micro, small, medium and large enterprises	0.8
Direct assistance to hotels in urban areas	0.0
Direct sectoral assistance - catering, tourist agencies, hotels, rent a car agencies	0.1
Free artists	0.0
Direct sectoral assistance - road traffic passenger transport companies and bus stations - 600€ per bus	0.0
Total	1.0
Measures to Preserve Private Sector Liquidity	
Continuation of present guarantee scheme to support the economy during the COVID-19 crisis	1.0
New guarantee scheme to support the crisis stricken businesses	1.0
Total	1.9
Other Measures	
Fiscal stimulus – domestic demand incentive	1.2
Vaccination bonus	0.1
Total	1.3
Total Fiscal Measures Impact Assessment	2.3
Total Package of Measures	4.2

In January-November 2021, the general government deficit amounted to 112.1 billion dinars, while public debt reached the level of 57% of GDP

Fiscal result for the general government for the period 2012 – November 2021

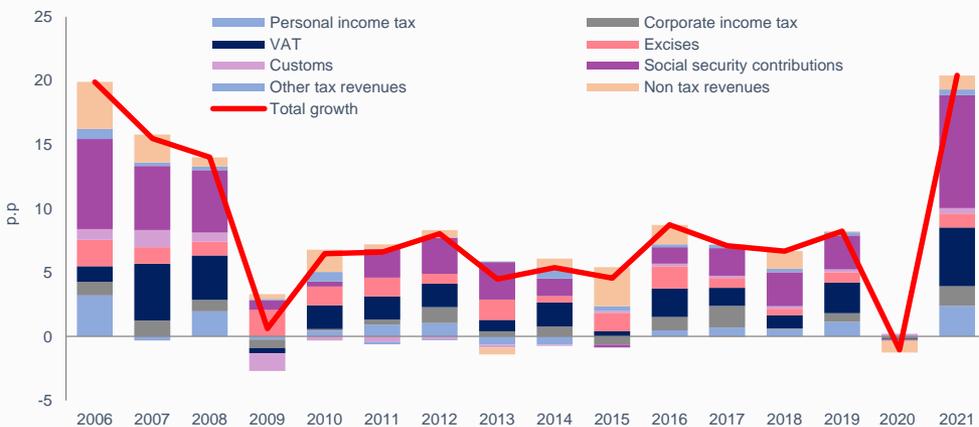


Public debt of the general government in% of GDP for the period 2011 – November 2021

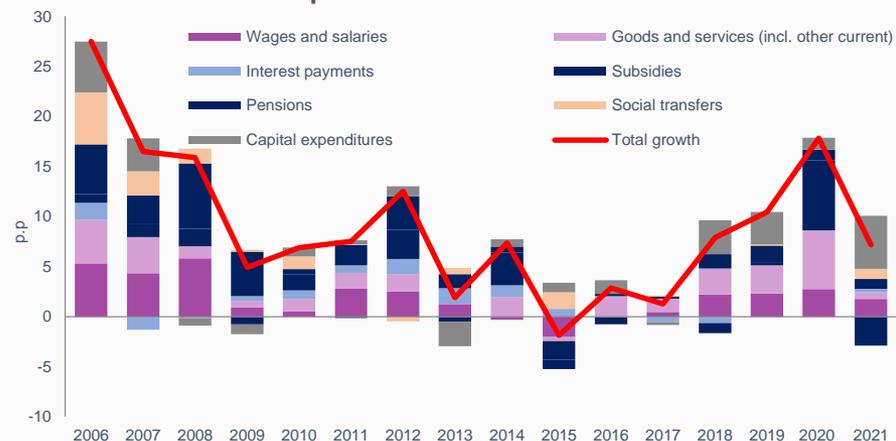


At the level of the general government in period January-November 2021 a fiscal deficit of 112.1 billion dinars and a primary fiscal deficit of 5 billion dinars were recorded. In the observed period, revenues increased by 20.4% due to better collection of social contributions, and expenditures increased by 7.2%.

Contributions to an annual growth rate of public revenues for the period 2006 – November 2021

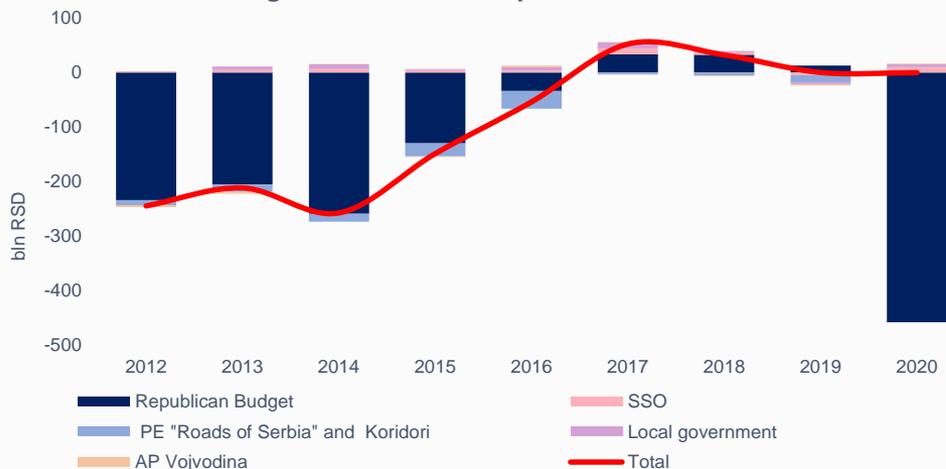


Contributions to an annual growth rate of public expenditures for the period 2006 – November 2021

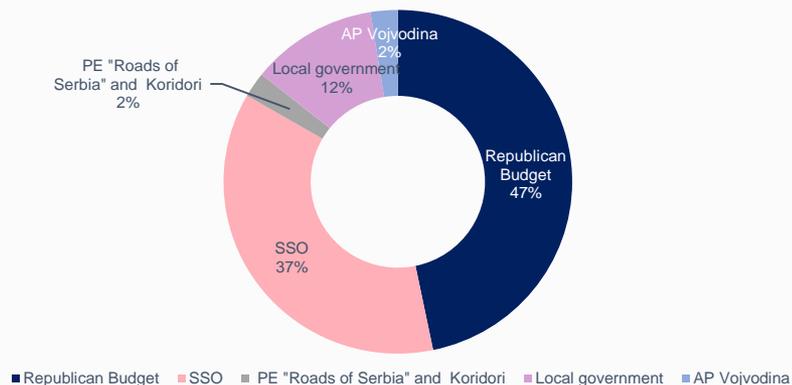


In January-November 2021, the Republican Budget deficit stood at RSD 149.6 billion

Consolidated general government balance by levels of government for the period 2012–2020



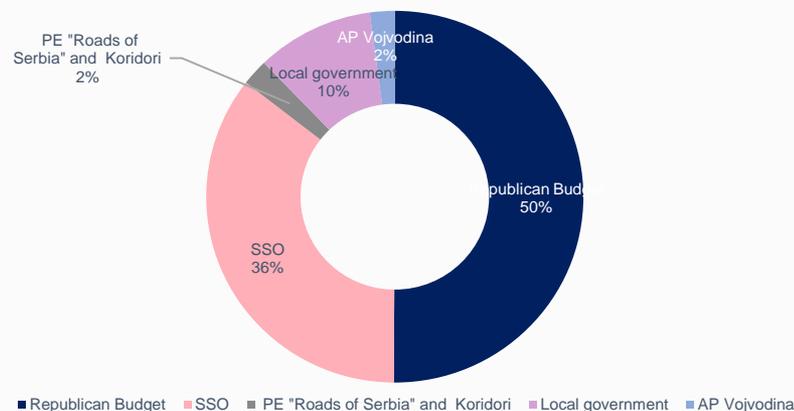
Structure of consolidated revenues by levels of government in January-November 2021, in %*



Fiscal outcome of the budget of the Republic in period 2012–November 2021



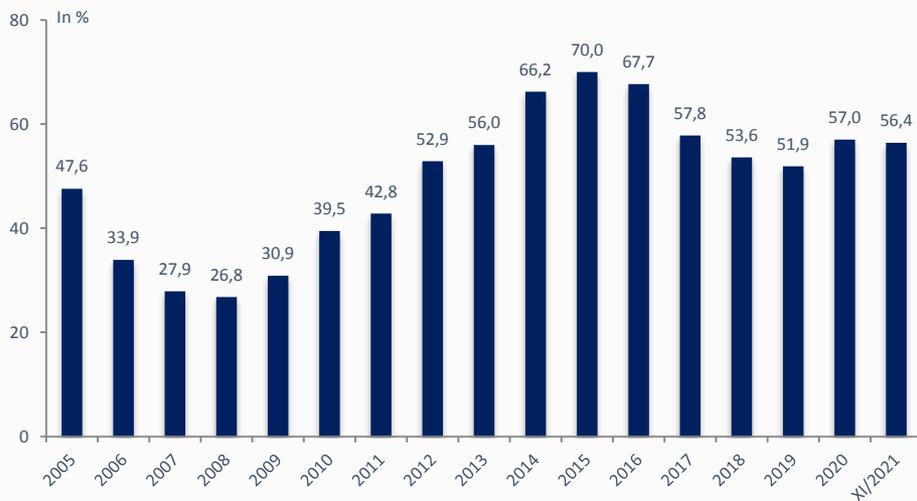
Structure of consolidated expenditures by levels of government in January-November 2021, in %*



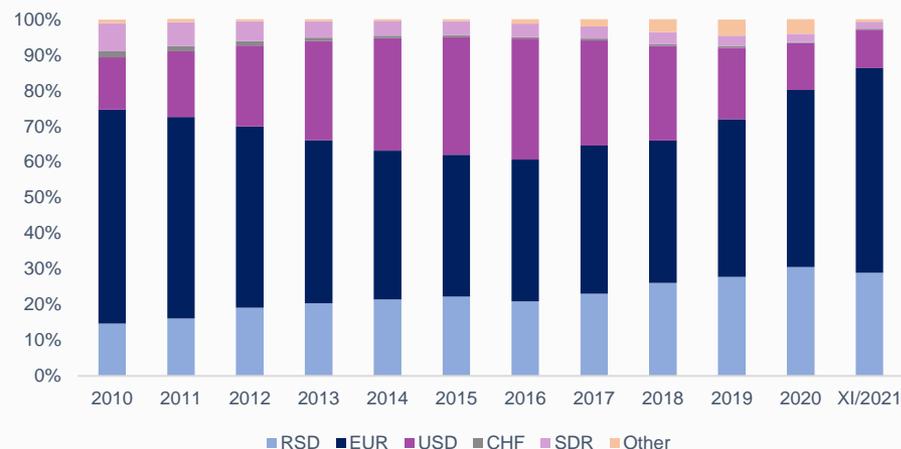
By the levels of government - the vast majority of consolidated revenues and expenditures belongs to the Republican Budget, also, significant portion of expenditures are executed at the level of Social Security Funds.

The central government debt at the end of November 2021 amounted to 56.5% of GDP

The share of public debt to GDP of the central government



Public debt currency structure in period 2010 - November 2021



The interest rates of government securities in the domestic market



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

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

**STANDARD
& POOR'S**

FitchRatings

MOODY'S

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

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

- Fitch Ratings** – In September 2021, Fitch Ratings affirmed the credit rating of the Republic of Serbia at BB + with a stable outlook for further improvement. The good economic results of Serbia achieved in the period before and maintained during the pandemic, as well as the successfully implemented fiscal consolidation measures, resulted in achieving stable and sustainable public finances, creating conditions for economic recovery and long-term sustainable macroeconomic development. All this enabled the Government of the Republic of Serbia to react in a timely and rapid manner in the conditions of the global crisis, caused by the COVID-19 virus, with a large package of measures to support the economy and citizens, and to reduce the potential negative consequences of the crisis to a minimum.

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

INTERNATIONAL ENVIRONMENT



❖
The economic activity of our largest foreign trade partners is characterized by somewhat better than expected outlook.

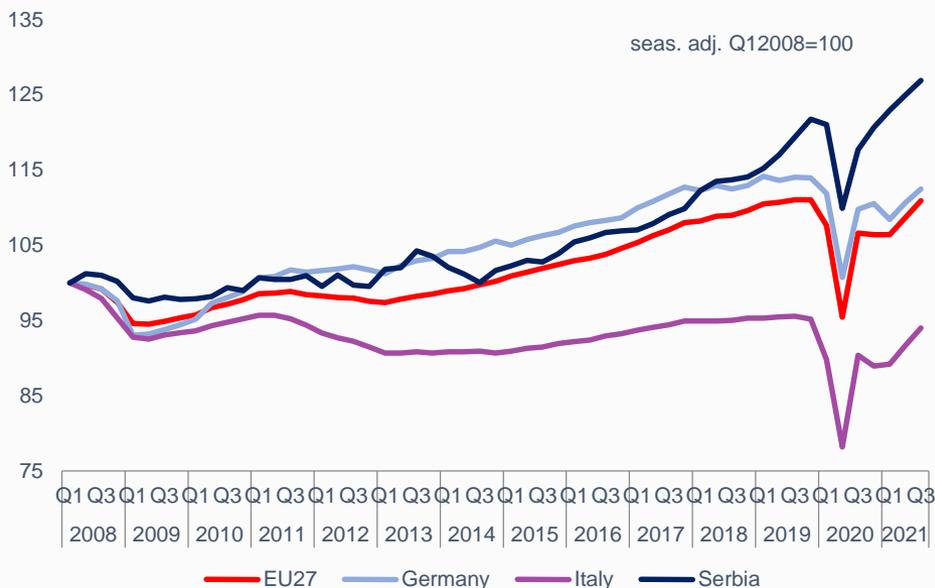
❖
According to Eurostat estimate, economic growth in Q3 2021 was 4.1% in EU27 and 3.9% in euro area, y-o-y.

❖
Composite PMI Eurozone index decreased by 2.1 points in December, BCI indicator increased by 0.05 points, while ESI indicator decreased by 2.3 points.

❖
Euro area inflation increased to 4.9% in November, from 4.1% in the previous month.

According to Eurostat estimate, the economic growth of Euro area and EU in Q3 2021 was 3.9% and 4.1% y-o-y, respectively.

Real GDP rates of the main international trade partners of Serbia



GDP, real growth rates, %

	2020	2021*	2022*
Euro area	-6.4	5.0	4.3
Main RS foreign trade partners			
Italy	-8.9	6.2	4.3
Germany	-4.6	2.7	4.6
Bosnia and Herzegovina	-3.2	2.8	3.2
Romania	-3.9	7.0	5.1
Russian Federation	-3.0	3.9	2.6
Montenegro	-15.3	10.7	6.4

* Projection

Source: EC, Autumn projections, November 2021;
for Bosnia and Herzegovina: 2020 – Eurostat, 2021-2022 – IMF WEO October 2021.

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

According to Eurostat seasonally adjusted data, German economy registered a growth in the Q3 2021 compared to the previous quarter by 1.7%, while the annual growth amounted to 2.6%. Italian economy was characterised by growth of economic activity of 2.6% compared to the previous quarter, and a growth of 3.9% compared to the same quarter of the previous year.

Economic developments in the 2020 were strongly affected by the coronavirus pandemic, which led to the implementation of strict measures in the fight against the infection through the closure of a large number of economies. Thus, in this period, the European economy enters a sudden recession and records the largest reduction in production since World War II.

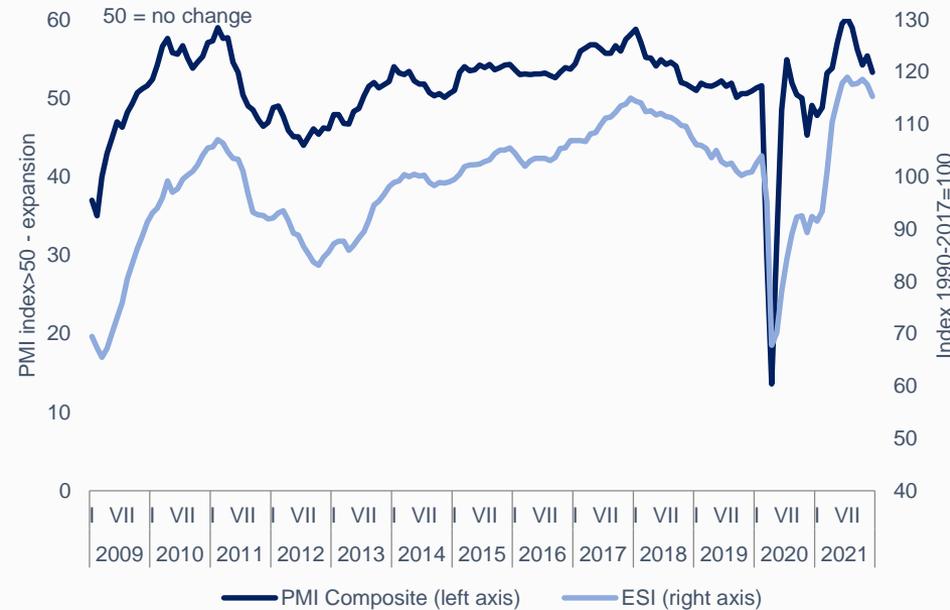
According to the EC Autumn projections, economic activity in the euro area is recovering from the recession caused by the pandemic faster than expected. After a GDP growth of 5.0% in 2021, economic growth will slow down to 4.3% in 2022 and then to 2.4% in 2023. The risks to the projection are significantly lower than during the pandemic, but remain above pre-crisis levels. In addition to the risks around the further evolution of the pandemic, economic risks include the potential prolonged impact of current supply difficulties and supply bottlenecks.

In October, ECB decided to keep the interest rate at record low level of 0%. Additional longer-term refinancing operations (LTROs) will continued to be conducted temporarily, under considerably more favourable terms, to provide immediate liquidity support.

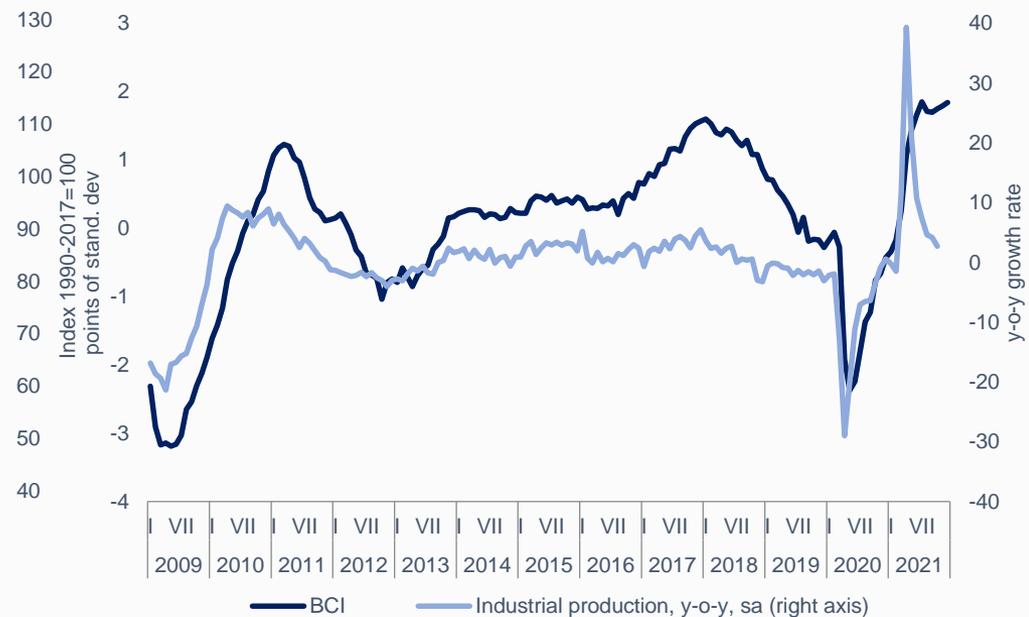
In September, FED also decided to keep the interest rate to an interval of 0.00 to 0.25%.

After expressed negative developments in March and especially April 2020, due to the coronavirus pandemic, indicators of economic activity and business climate in the euro area indicate a gradual recovery.

Euro area economic indicators



BCI index and the industrial production in the Euro area



Source: IHS Markit, EC, Eurostat

Composite PMI index of Eurozone decreased from 55.4 points in November to 53.3 points in December, while the ESI index decreased to 115.3 points (down by 2.3 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 December 2021 (53.3) indicate the further growth and improvement of economic activity, considering that the value of the index continued to be above the borderline of 50. The services sector recorded growth of economic activity, as well as the manufacturing sector.

ESI indicator recorded decrease in December, and the deterioration of euro-area sentiment resulted from the decrease of services, retail and consumer confidence, while construction and industry sectors remained improved. Slight increase of the BCI index to 1.84 points was registered, which is an increase of 0.05 points, compared to previous month.

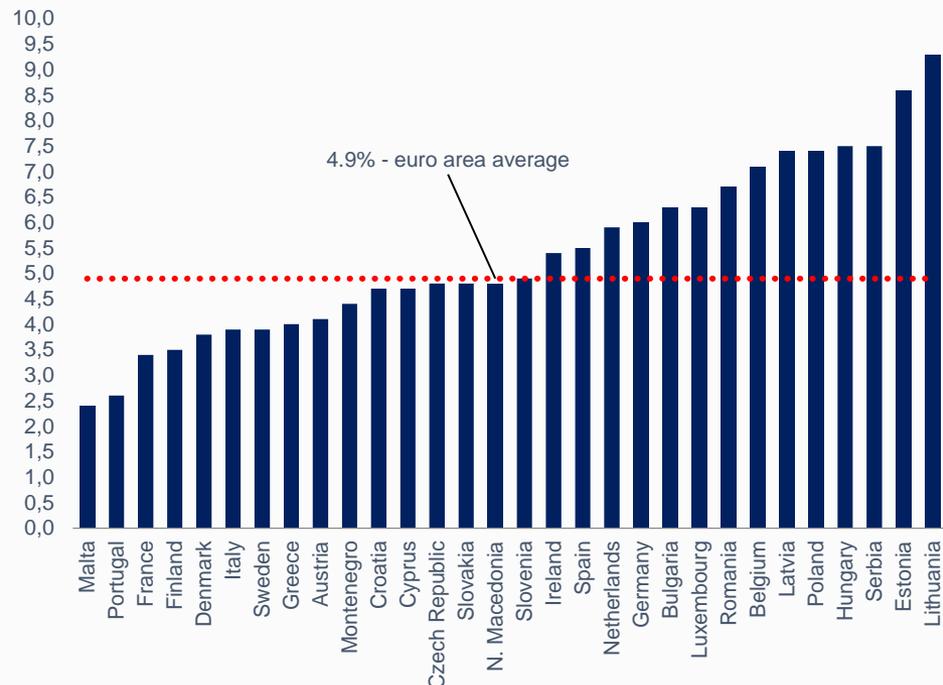
Eurozone PMI Composite index is developed by Markit LTD, and it is based on original survey data collected from a representative sample of 5,000 manufacturing and service companies. Methodology of this index tracks changes in employment, prices, sales and inventory. An index value above 50 indicates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

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

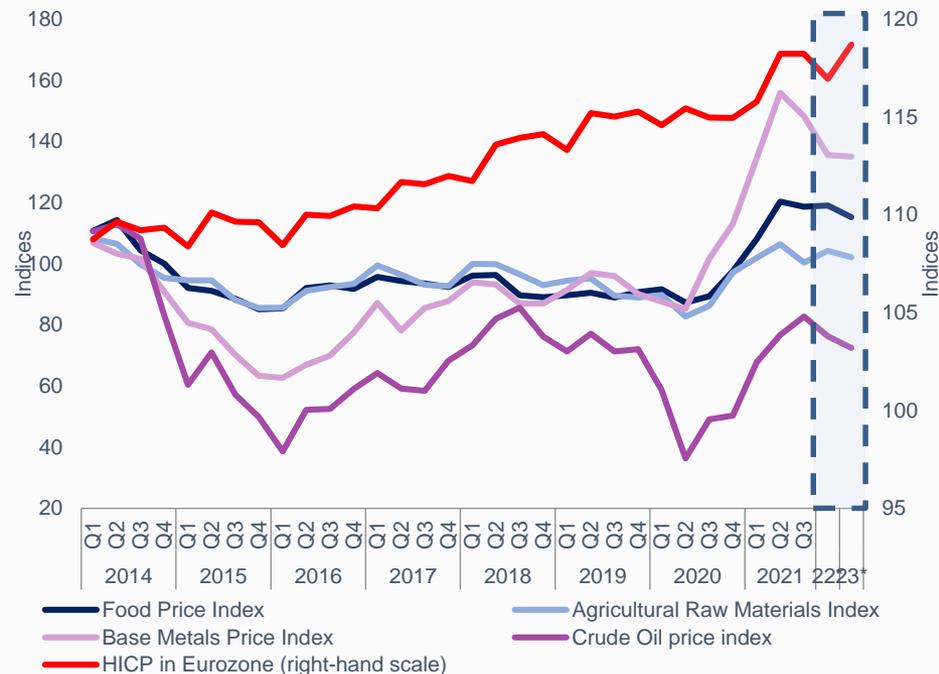
The Business Climate Indicator (BCI) is based on estimations of production, orders and inventories, as well as the current and future expectations of entrepreneurs. BCI index deviates from the industrial confidence indicator in number of inputs which are considered, and therefore is expressed in points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

Annual inflation in euro area increased from 4.1% in October, to 4.9% in November 2021.

Annual inflation rate in November 2021, %



Prices of raw material, indices 2008=100



Source: IMF; Eurostat

In November 2021, the largest contributor to y-o-y inflation rate were energy, services, non-energy industry goods and food, alcohol and tobacco sectors (2.57 pp, 1,16 pp, 0.64 pp and 0.49 pp, respectively).

Total inflation in the euro area increased in Q3 2020 compared to previous quarter. According to the September ECB estimates, after a spike at 2.2% in 2021 driven by temporary upward factors, inflation should return to rates of 1.7% and 1.4% in 2022 and 2023, respectively.

According to the OPEC data, the price of oil type Urals has amounted to 80.08 \$/barrel in November (down by 2.3% compared to the previous month). Since the beginning of 2021, the price increased by 68.2% compared to the same period 2020, to 69.08 \$/barrel.

Average prices of agriculture products have increased by 2.2% in November 2021 compared to the previous month, while food prices increased by 1.2%. Base metal prices decreased on average by 8.3% compared to the previous month, while the price of iron ore recorded a decrease of 21.3%, and copper prices increased by 1.0%. In the group of precious metals, the price of gold and silver increased by 2.4% and 3.9%, respectively.

Republic of Serbia

Ministry of Finance



MACROECONOMIC AND FISCAL ANALYSES AND PROJECTIONS DEPARTMENT

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