

SeeNews

**SERBIA ECONOMY
REPORT**

Q3 2021



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MACROECONOMIC SNAPSHOT

SERBIA – MACROECONOMIC SNAPSHOT AS OF Q3 2021	
GDP Growth	7.9% y/y
Business confidence indicator	105.8
Industrial output	1.1% y/y
Industrial sales	27.8% y/y
Wholesale	24.1% y/y
Retail sales	15.1% y/y
Average annual inflation	2.6%
Unemployment rate	10.5%
Number of building permits	12.7% y/y
Money supply growth	12.7% y/y
Household loans	8.9% y/y
Gross external debt	EUR 35.233 bln
Current account deficit	EUR 656.0 mln (Q2 2021)
FDI inflow	EUR 1.100 bln
Foreign trade deficit	EUR 1.734 bln

I. NATIONAL ACCOUNTS

1.1 Gross domestic product

GDP up by 7.9%/y/y in Q3 2021

The Serbian economy was again the third best performing in SEE in Q3 2021, Eurostat data shows. In real GDP terms, it grew by 7.9% on the year. The comparatively better performance of Serbia, as a continuation from the previous quarters, is projected to lead to the fastest recovery to 2019 levels in the region.

GDP and GVA Real Growth Rate

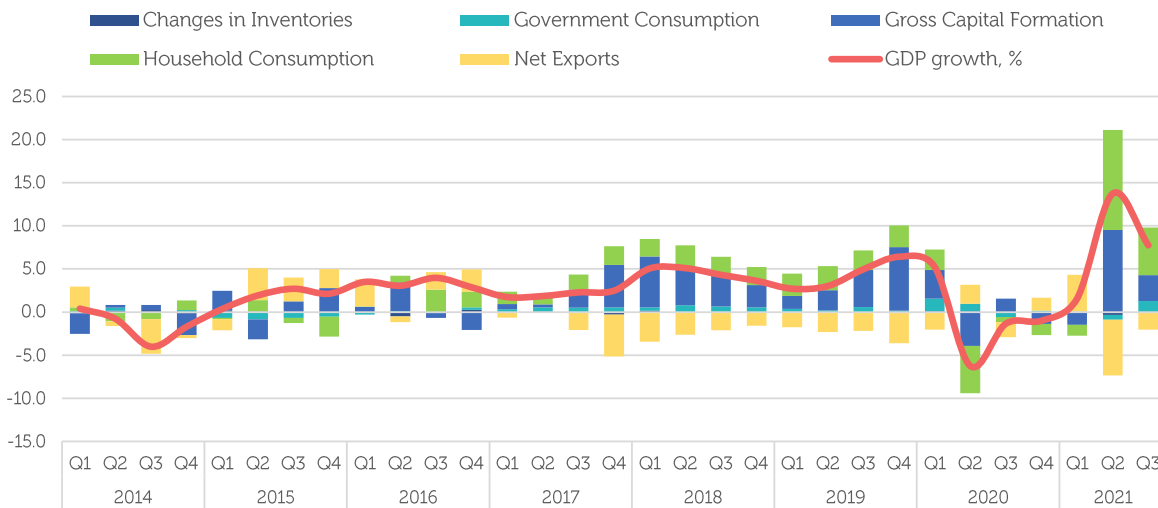


Source: Eurostat

The only components not contributing to the recovery of the Serbian economy in Q2 2021 were net exports and changes in inventories, which took away 1.9 pp and 0.1 pp from the annual GDP growth, respectively. All other components supported the GDP, including household consumption, which contributed the most, by 5.5 pp, and gross capital formation - by 3.0 pp. Government consumption added 1.3 pp to the GDP growth in the quarter.

Contributions to GDP growth

pp, unadjusted data, y/y



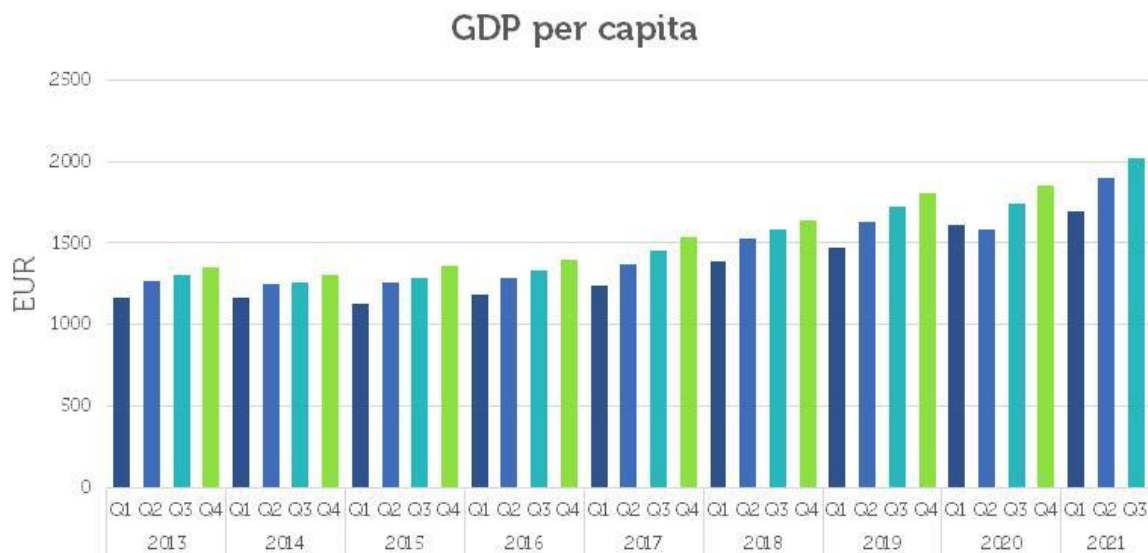
Source: SeeNews calculations; Eurostat

Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

1.2. GDP per capita

GDP per capita rose by 16.1% y/y in Q3 2021

Serbia's GDP per capita stood at EUR 2,020 in Q3 2021, up by 16.1% from the corresponding quarter of the previous year. On a q/q basis, it also advanced by 6.3%, to a large extent due to the clear seasonality of the indicator. Despite being the lowest among the five major SEE economies, Serbia's GDP per capita was the second fastest growing in the region in Q3 2021, facilitating the convergence between the country and the four EU members in the region.



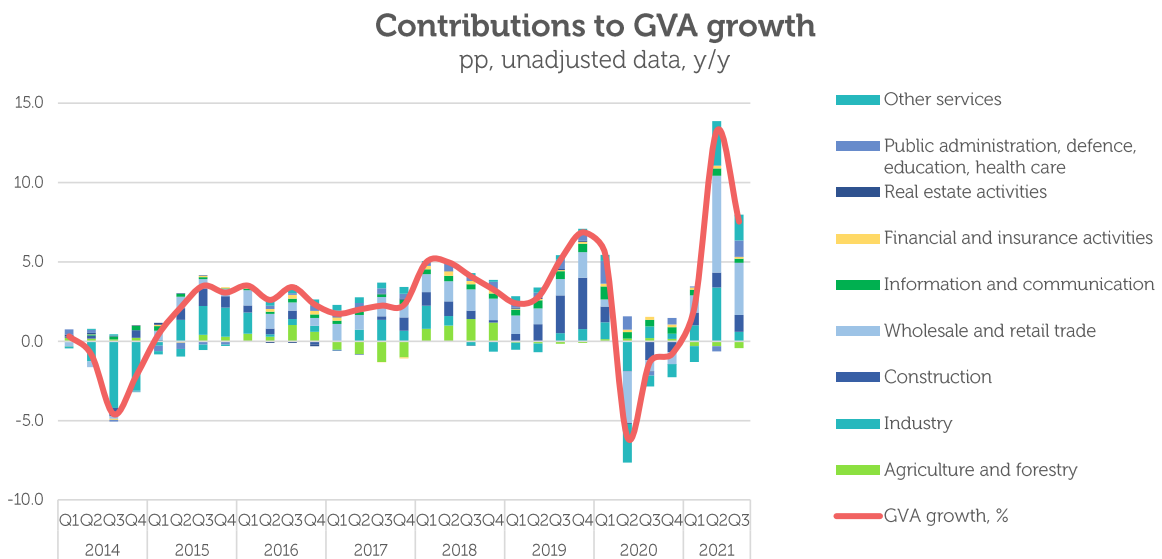
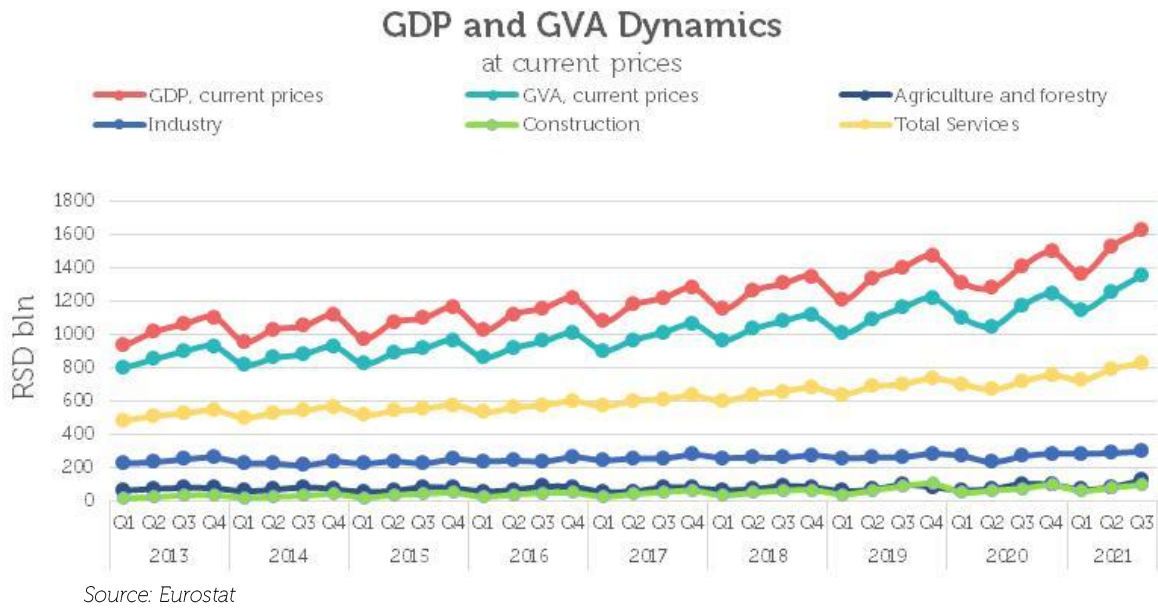
Source: Eurostat

1.3. Gross value added

GVA up by 7.5% y/y bolstered by all but one sector

The unadjusted gross value added (GVA) generated by the Serbian economy soared by 7.5% y/y in Q3 2021 and reached RSD 1,359.2 bln in current prices. The construction sector expanded by 29.0% y/y in value terms and was the main driver, along with services, behind the positive annual GVA growth, pushing GVA up by 1.1 pp and 6.4 pp, respectively.

Agriculture and forestry also grew at a fast annual rate of 21.9%, however it stayed on the negative side in terms of contribution and took away 0.4 pp from the GVA growth in Q3 2021. The wholesale and retail was the largest contributor among the services subsector with 3.3 pp, in line with its jump of 24.7% in annual terms. Four of the remaining subsectors also supported the real GVA growth, starting from 1.6 pp for other services to 0.1 pp for financial and insurance activity. Real estate activities registered the only neutral contribution to the third quarter's real GVA growth.



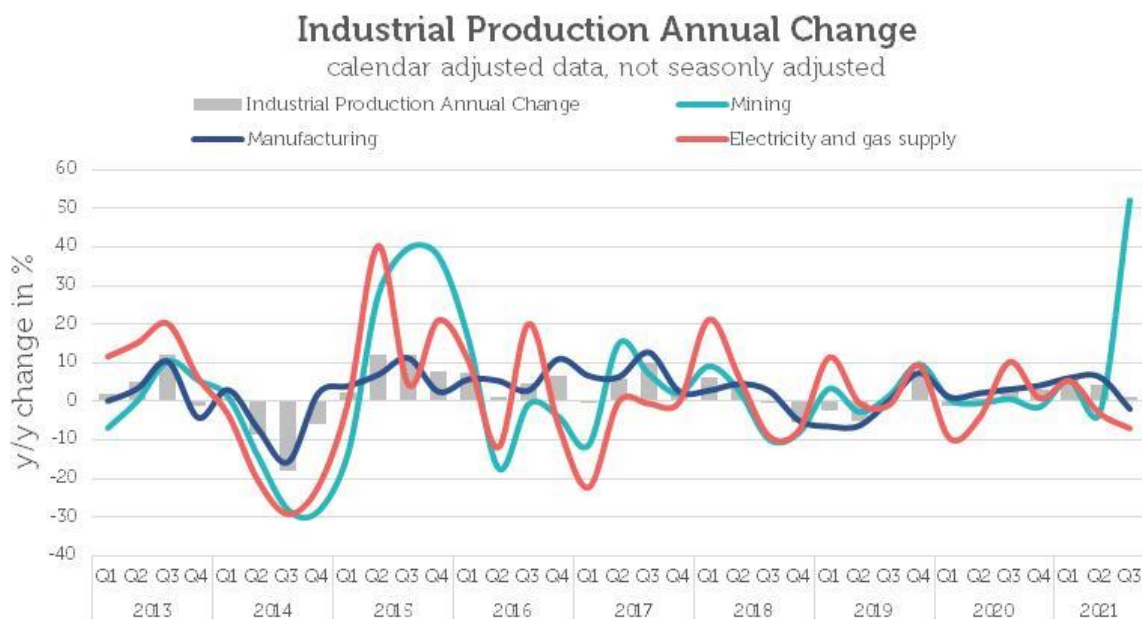
II. OUTPUT AND CONSUMPTION

2.1. Industrial production

Industrial production hesitant in Q3 2021

In the third quarter of 2021, industrial production annual change in Serbia stood at 1.1%, according to Eurostat. In regional aspect, Serbia was one of the poorer performing SEE countries, lagging behind the EU average of 3.9% and most of its neighbours, only better than Romania and North Macedonia.

Mining was the new and only driver of industrial recovery and posted an annual growth rate of 52.1% in Q3 2021. Manufacturing had been the main driver in the previous quarters, however in the current period it recorded an annual decrease, of 2.0%, among the industrial subsectors. The electricity and gas supply sector also sank by 7.0% on the year.

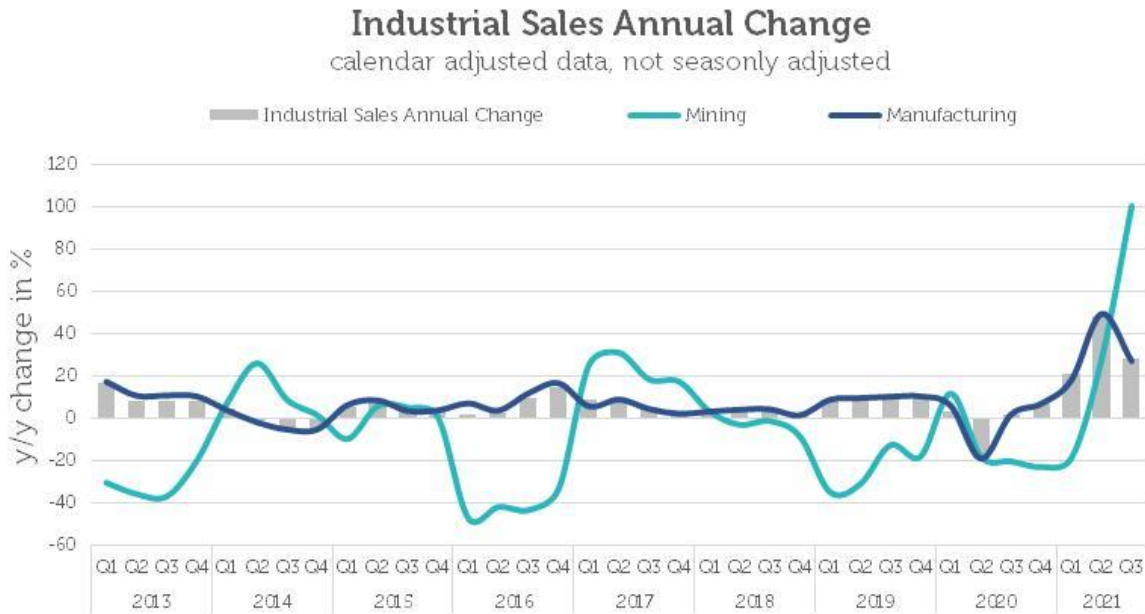


Source: Eurostat

2.2. Industrial sales

Industrial sales accelerated by 27.8% y/y in Q3 2021

Industrial sales jumped by 27.8% y/y in Q3 2021, according to Eurostat. Serbia's industrial sales growth was the fastest in SEE and surpassed by far the EU average of 13.3% y/y, bearing witness to the prompt recovery of the Serbian industrial sector after the initial blow by the COVID-19 pandemic. Sector-wise, both mining and manufacturing sales jumped drastically, with the former increasing two times, while the latter by 27.0%.



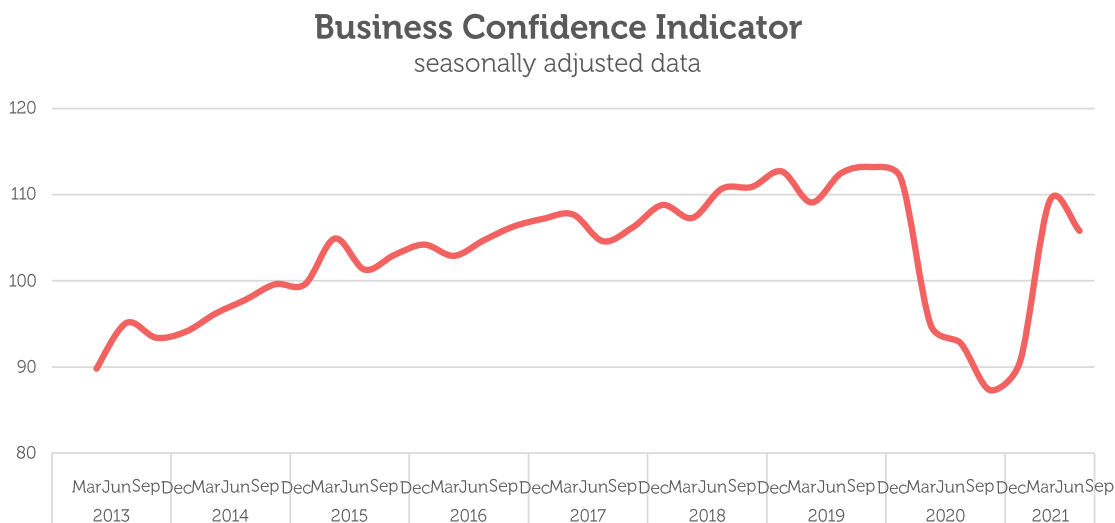
Source: Eurostat

2.3. Business confidence indicator

Business confidence indicator stable in September 2021

The business confidence indicator in Serbia showed signs of recovery in the previous quarter and stabilised in Q3 2021 after it was driven downwards by the COVID-19 pandemic outbreak and had, after six years of positive performance, reached its lowest level in the last quarter of 2020. The value of the Economic Sentiment Index by the European Commission was 105.8 in September 2021, down from 109.3 points in June 2021 and far better than the 92.8 points in September 2020.

Compared with the other SEE countries, the economic sentiment in Serbia in the end of Q3 2021 stood at the middle of the table, and still below the EU average of 116.6 points.



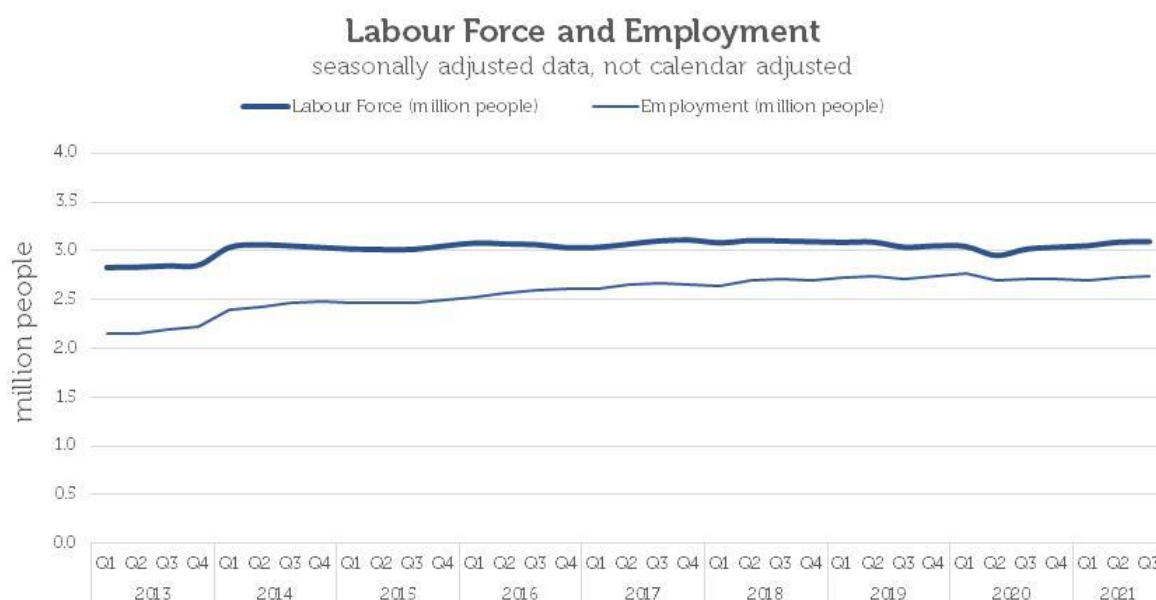
Source: Eurostat

III. LABOUR MARKET

3.1. Labour force and employment

Labour force and employment up in Q3 2021

The labour force in Serbia reached 3.094 million people in Q3 2021, up by 2.5% y/y, according to Eurostat. The employed population aged 15 years and older was 2.739 million, or by 1.0% more than in the corresponding period of the previous year. Employment growth turned back to positive after the first three months of 2021, due to the fall of the restrictions, which had started in November 2020 as a consequence of a recurring rise of coronavirus cases.



Source: Eurostat

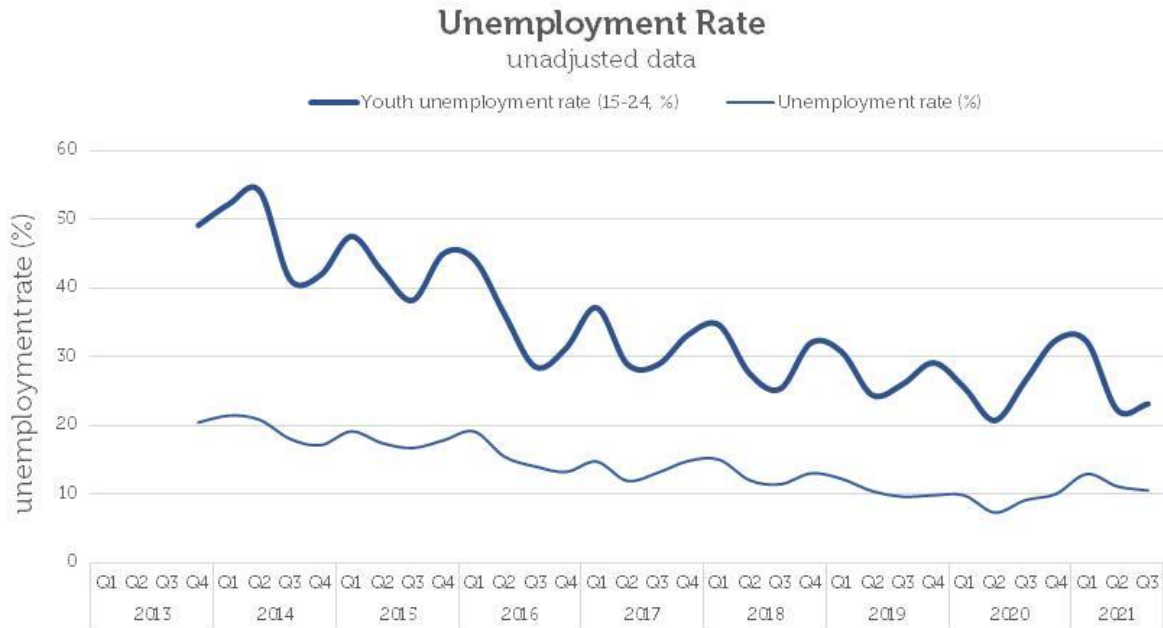
3.2. Unemployment rate

Unemployment rate increased to 10.5%, but down on the quarter

The unemployment rate in Serbia in Q3 2021 stood at 10.5%. On annual basis, it went up from 9.1% in the same quarter of the previous year, however on quarterly basis it improved from 11.1% in Q2 2021. Under the pressure on the labour market, caused by the coronavirus crisis, the unemployment rate is expected to rise by the end of 2021 and exceed 13.0%, according to IMF.

Youth (population aged 15-24) unemployment rate eased to 23.1%, compared to 26.5% in the corresponding quarter of the previous year. Despite being relatively high, the

youth unemployment rate in the period was the third lowest observed in the last ten years. In regional and European context, both indicators were among the highest and way above the EU average values.

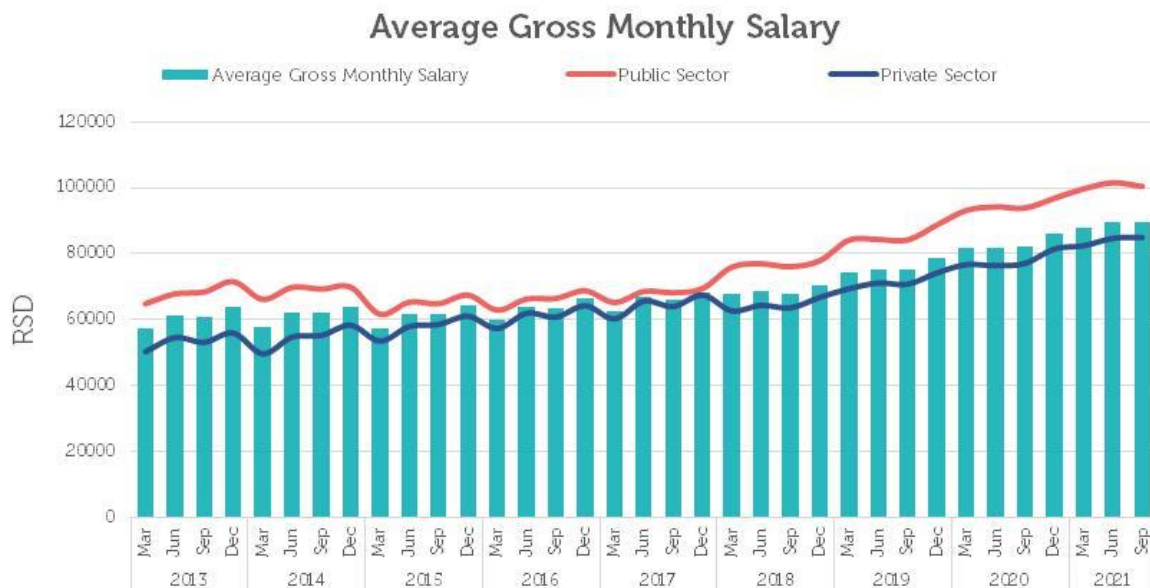


Source: Eurostat

3.3 Average monthly salary

Strong annual growth of the average gross monthly salary persisted in Q3 2021

Serbia’s average gross monthly salary rose by 9.0% y/y in Q3 2021 to RSD 89,504, SORS data shows. Salaries in the public and private sectors went up by 7.0% y/y and 10.2% y/y, respectively, and reached averages of RSD 100,405 in the public and RSD 84,940 in the private sector.



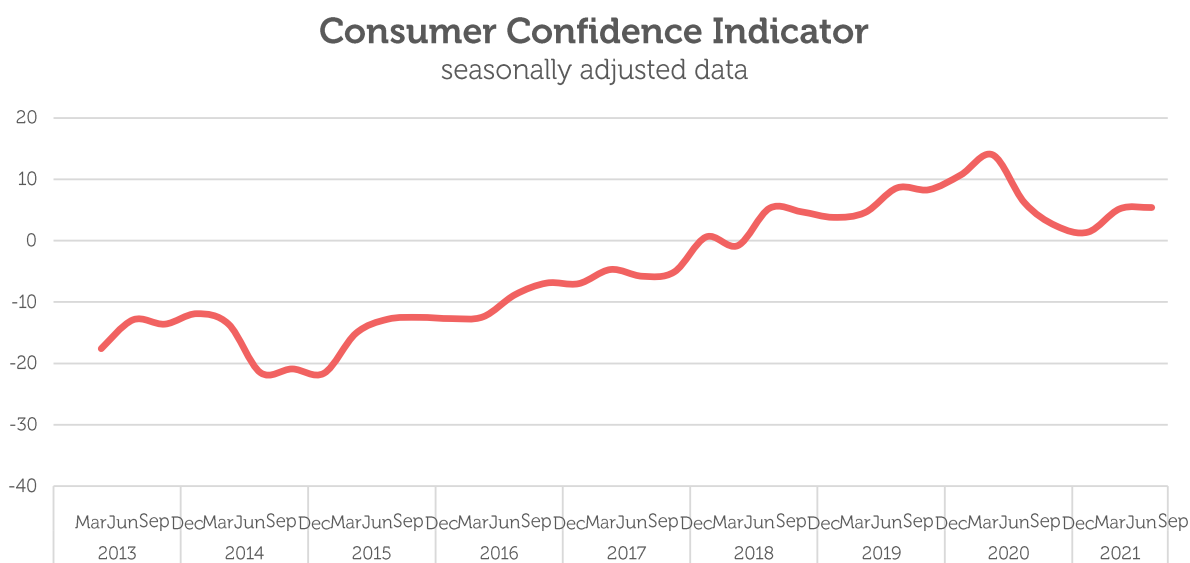
Source: SORS

IV. HOUSEHOLDS

4.1. Consumer confidence indicator

Consumer confidence indicator stable in Q3 2021

After the consumer confidence indicator in Serbia reached a record high of 14.0 points in the end of the second quarter of 2020, according to the European Commission, optimism stepped slightly back since September 2020 with the onset of the consecutive pandemic waves and the indicator moved downwards. However, in September 2021 it stood at 5.4 points, showing positive uptrend since the beginning of 2021. The consumer sentiment in Serbia in September 2021, for a consecutive quarter, remained the highest, and the only one above zero, among all SEE countries. It was also considerably better than the EU average of -5.2 points.



Source: European Commission

4.2. Wholesale and retail

Wholesale and retail sales soared in Q3 2021

In the third quarter of 2021, both retail sales and wholesale in the Serbian economy maintained their recovery process, according to Eurostat data.

Retail sales, except motor vehicles, went up by 15.1% y/y, while wholesale surged by 24.1% y/y. Wholesale, retail and repair of motor vehicles also has shaken off the

negative effect of the shutdown in the previous year, recording a record the same growth on annual basis as retail sales, of 15.1%.



Source: Eurostat

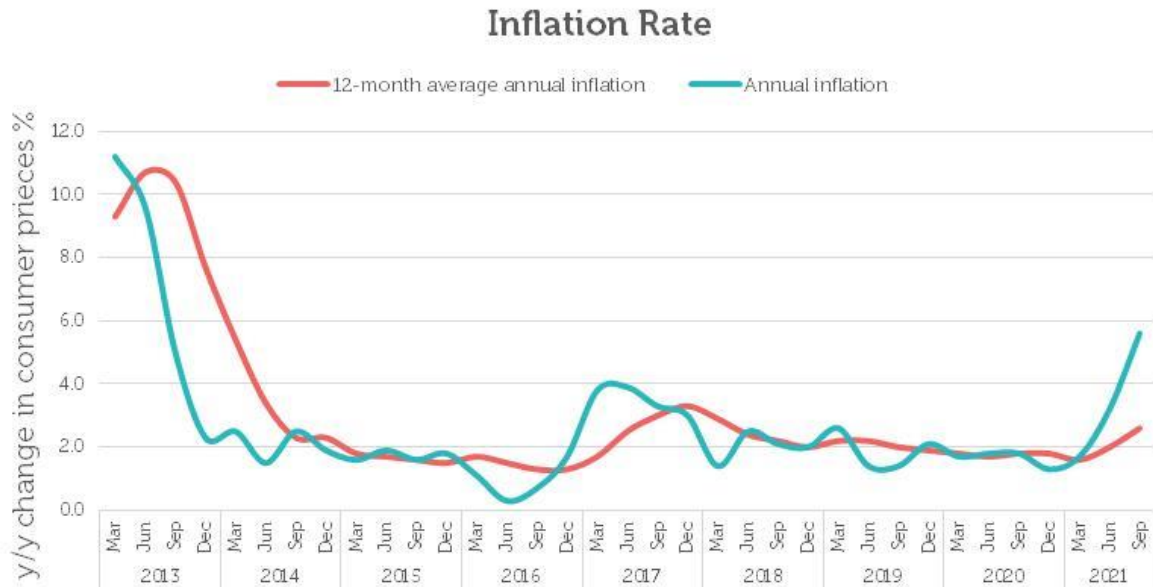
V. PRICES

5.1. Inflation

Inflation accelerated in Q3 2021 to 2.6%

In Q3 2021, the moving twelve-month average inflation in Serbia amounted to 2.6%, according to Eurostat, up from 1.8% in the corresponding quarter of the previous year. In regional aspect, Serbia ranked third among the SEE countries in terms of the highest inflation rate, behind Romania and North Macedonia.

Annual inflation also picked pace up in September 2021 to 5.6%, compared with 1.8% in the same month of 2020. With the sharp drop of consumer expenditures caused by the external shock of the COVID-19 pandemic, consumer prices are expected to remain moderate and volatile depending on the development of the pandemic and the associated changes of short-term expectations among consumers.



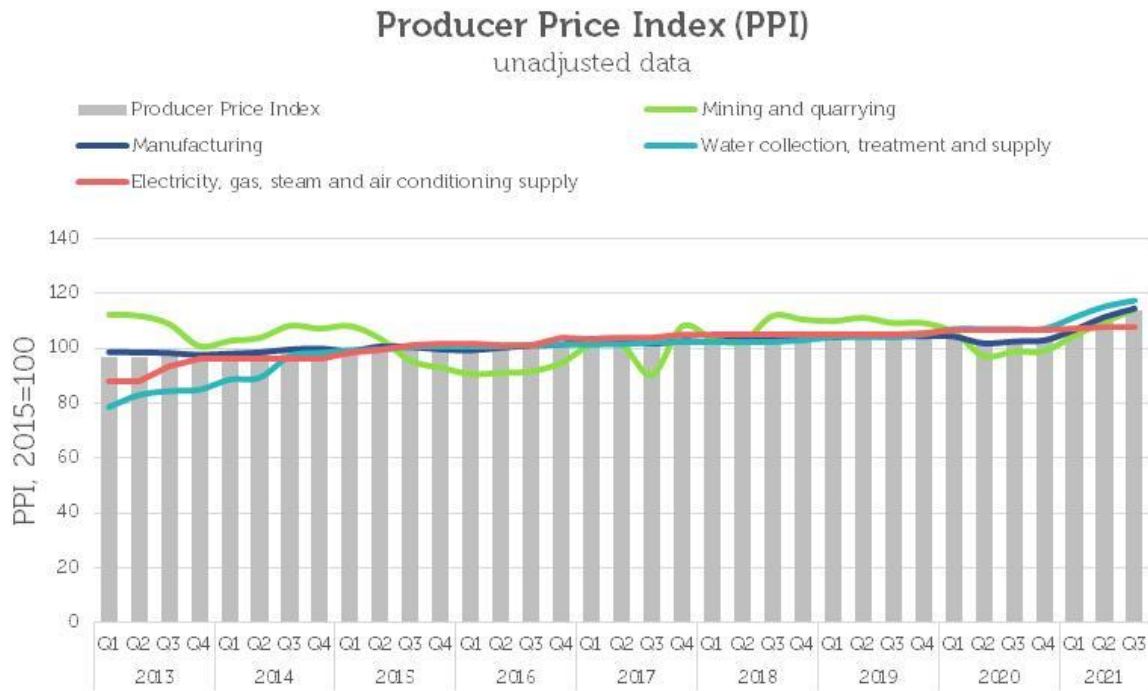
Source: Eurostat

5.2. Producer price index

Producer price index highest in the last ten years

Eurostat's unadjusted producer price index in Serbia stood at 113.7 points in Q3 2021, marking the highest increase in the last decade. Compared to the same quarter of the previous year, the indicator rose by 10.7 pp, and a slower increase, by 2.8 pp, on quarterly basis.

Mining and quarrying was the sector to register the largest increase in producer prices in Q3 2021 on annual basis by 15.4 pp. The producer price index in the other sectors also climbed both compared with the year-ago quarter and on quarterly basis. In manufacturing it rose by 12.0 pp y/y followed by water collection, treatment and supply with 10.4 pp y/y, while electricity, gas and steam supply increased with 1.1 pp on the year.



Source: Eurostat

VI. CONSTRUCTION AND REAL ESTATE

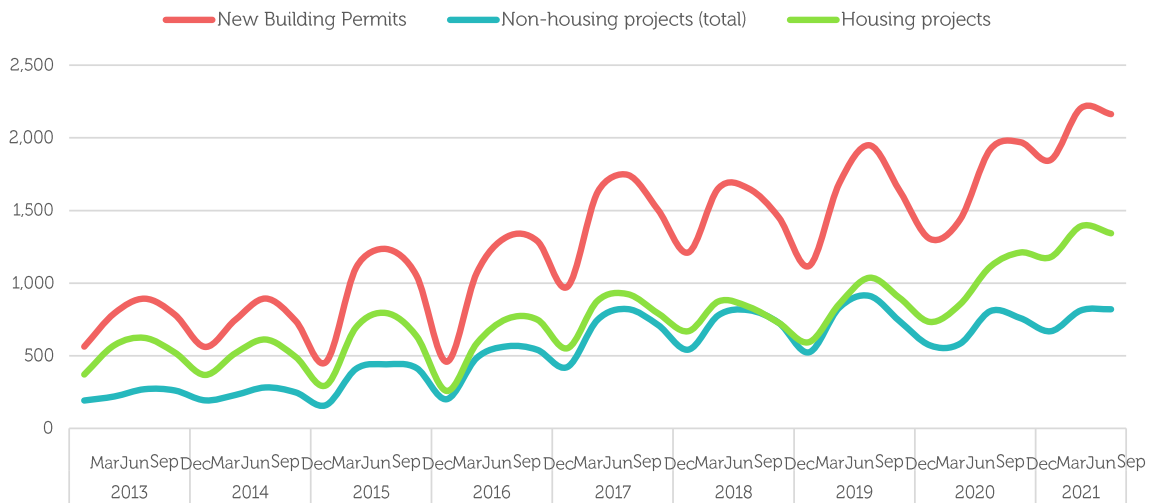
6.1. New building permits

New building permits jumped by 12.7% y/y in Q3 2021

The number of building permits issued in Serbia in the third quarter of 2021 expanded by 12.7% y/y and totalled 2,163, according to SORS data. Housing projects again recorded the highest growth, of 20.7%, while permits for non-housing buildings increased by 1.6% y/y to 820, compared to 807 a year earlier.

The total built-up area of non-residential units decreased drastically by 21.6% on an annual basis to 633,207 sq m in Q3 2021. The built-up area covered by new residential permits rose by 12.6% to 946,261 sq m.

Number of Building Permits



Source: SORS

VII. MONEY

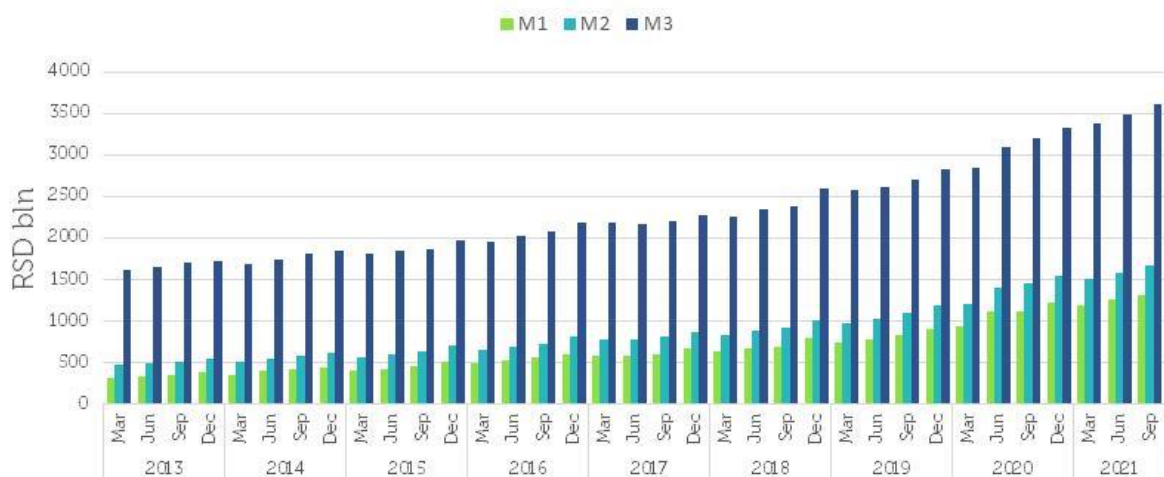
7.1. Monetary aggregates

Money supply growth up by 12.7% y/y in Q3 2021

At the end of Q3 2021 the broad monetary aggregate M3 rose by 12.7% on an annual basis and the total money supply in the Serbian economy stood at RSD 3,614.1 bln.

The M2 money supply expanded slightly faster than the M3, growing by 13.6% y/y. The monetary aggregate M1, or narrow money, jumped by 17.5% to RSD 1,321.4 bln.

Monetary Aggregates Dynamics

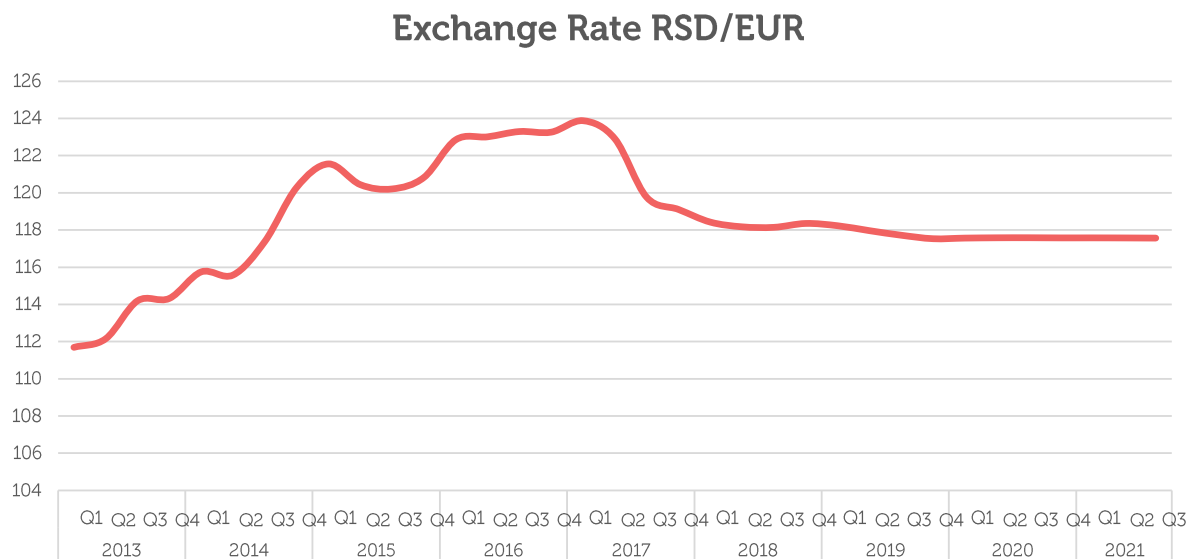


Source: NBS

7.2. Exchange rate

Serbian dinar (RSD) stayed stable against the euro in Q3 2021

The RSD maintained its exchange rate against the euro in Q3 2021 close to the level of the same period of the previous year, reaching an average quarterly rate of RSD 117.5657. Serbia's central bank has intervened actively in the foreign exchange market to maintain a stable exchange rate during the COVID-19 crisis period.



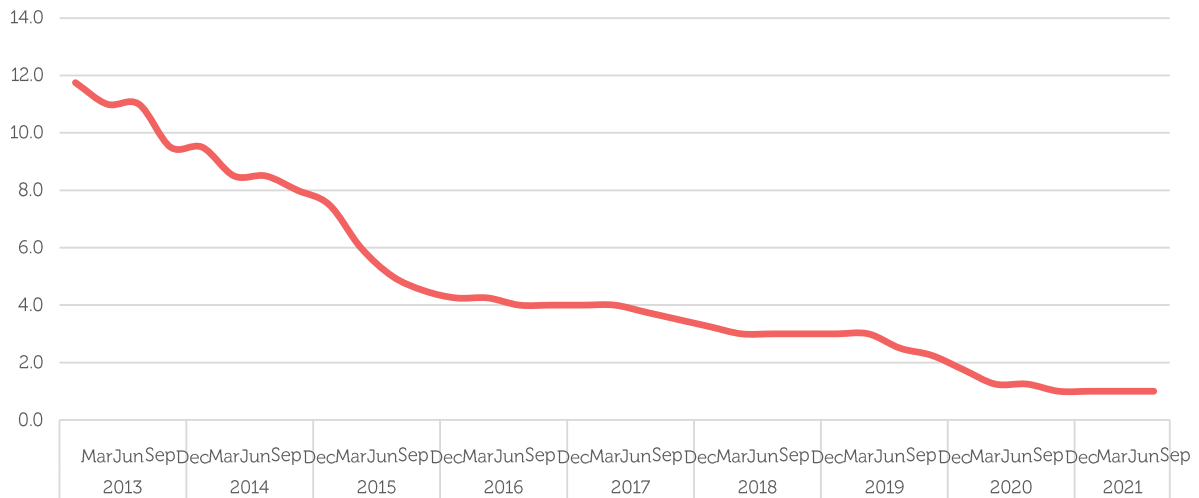
Source: NBS

7.3. Central bank's interest rate

NBS maintained key policy rate at 1.00% in Q2 2021

In the end of Q3 2021 the key policy rate of NBS stood at 1.00%, the lowest value on record in the modern history of Serbia, after the cut by 0.25 pp implemented in the third quarter of 2020. The central bank implemented a series of rate cuts as an immediate response to the economic crisis caused by the coronavirus lockdown after mid-March 2020. The lowering of the base interest rate indicates the determination of Serbia's central bank to stimulate investment and consumer spending in order to keep the economy going.

Central Bank's Interest Rate



Source: NBS

7.4. Loans to companies and households

Loans to companies up by 5.2% y/y, household loans - by 8.9% y/y in Q3 2021

In September 2021 the loans to non-financial corporations rose by 5.2% on the year to RSD 1,500.4 bln. Loans to households expanded at a faster annual rate of 8.9% and totalled RSD 1,346.4 bln. The rise was driven mainly by mortgage loans, which advanced by 16.4%, while consumer loans grew by 7.2% y/y.

Loans to Companies & Households

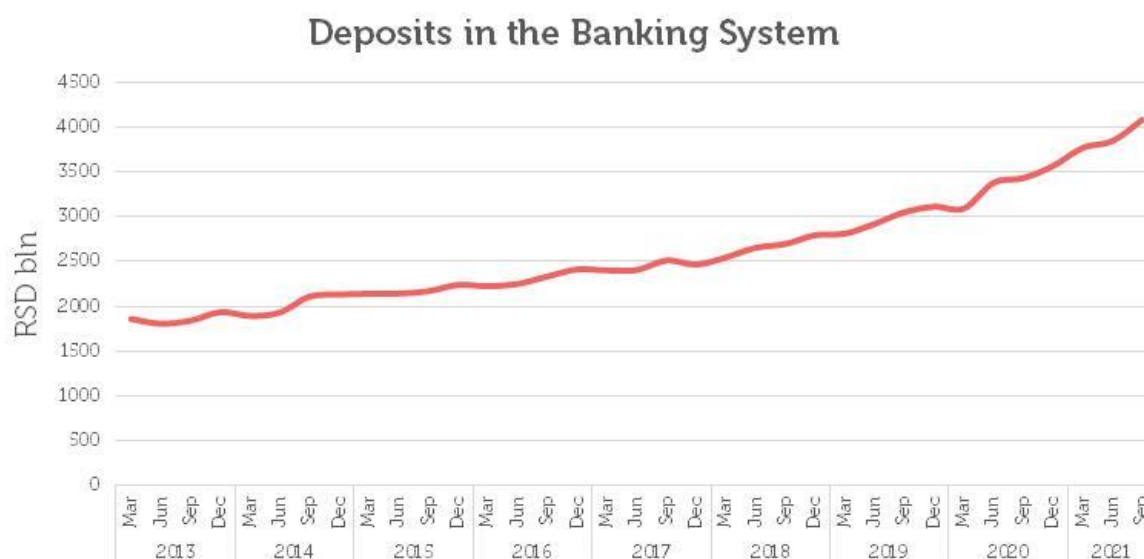


Source: NBS

7.5. Deposits

Deposits increased by 19.0% y/y in Q3 2021

The total amount of deposits in the banking system, as of end-September 2021, expanded by 19.0% y/y and stood at RSD 4,082.4 bln, compared to RSD 3,430.3 bln in the same month of the previous year. The growth is likely to continue throughout the year as a consequence of the increased savings rate in Serbia as a reaction to the high uncertainty associated with the coronavirus crisis.



Source: NBS

VIII. EXTERNAL SECTOR

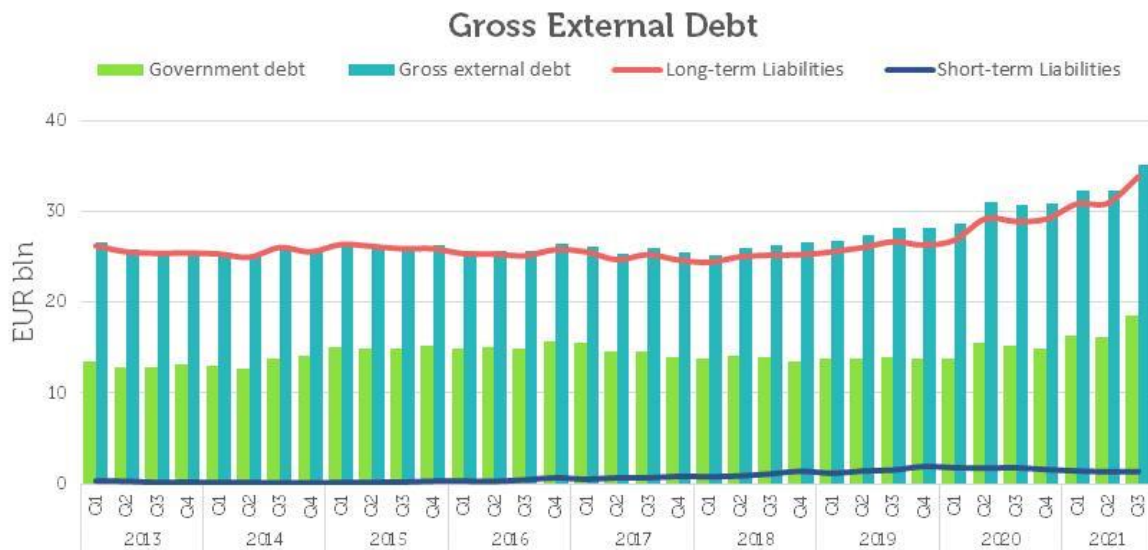
8.1. Debt

Gross external debt increased by 14.7% y/y in Q3 2021

The gross external debt went up by 14.7% y/y totalling EUR 35.233 bln as of end-September 2021, according to NBS. It accounted for 75.3% of the country's latest annual GDP, with its share going up by 6.3 pp on quarterly basis. This makes Serbia well positioned, although behind most of its regional peers, in global aspect in the group of countries with low risk of excessive indebtedness due to the government fiscal measures to combat the negative economic effects of the COVID-19 pandemic.

Government debt also rose on an annual basis in Q3 2021, by 22.5% to EUR 18.563 bln at the end of the period. Long-term liabilities expanded by 17.1% y/y and amounted to EUR 33.874 bln, representing 96.1% of the total debt, and short-term liabilities totalled

EUR 1.359 bln, following a 23.7% annual drop. Facilitated by the decrease of short-term liabilities, the structure of Serbia’s debt remains extremely favourable, with very low share of the total debt due to be repaid within a year.



Source: NBS

8.2. Current account

Current account deficit nearly doubled in Q2 2021¹

The current account deficit totalled EUR 656.0 mln in Q2 2021, compared with the EUR 331.0 mln in the year-ago quarter, according to Eurostat data. As a share of Serbia’s GDP, the current account deficit expanded to 5.1%, up from 3.1% in Q2 2020. Secondary income in April-June 2021 stood at EUR 1.084 bln, up by 46.5% on the year.



Source: Eurostat

¹ Data for Q3 2021 was not available at the time of preparation of this report.

8.3. Trade balance

Foreign trade gap expanded by 21.9% in Q3 2021

The almost equal rise in annual terms of exports and imports in Q3 2021 facilitated the 21.9% increase of the foreign trade gap to EUR 1.734 bln, according to NBS. In the period July - September 2021, exports went up by 27.3% and reached EUR 5.562 bln. Imports came in at EUR 7.296 bln, or by 25.9% more than in the corresponding quarter of the previous year.

In the third quarter of 2021, Serbia exported mainly vegetables and fruit, cereals, iron and steel and rubber products. In terms of annual growth rate, exports of metalliferous ores and metal scrap jumped more than four times, followed by raw hides, skins and fur, which more than doubled on the year.

Petroleum, petroleum products and related materials were again the leading product group in Serbia's imports in Q3 2021, slicing a 5.9% share of the total, followed by medicinal and pharmaceutical products and iron and steel with 4.3% and 3.8%, respectively. The highest rise in imports, of over 50%, was recorded by three product groups, including petroleum, petroleum products and related materials, electric current and fixed vegetable fats and oils. Imports of crude fertilisers shrank the most, by 35.9%, compared to the same period of 2020.

The main export markets for Serbian goods and services, for a consecutive quarter were Germany, Italy, Bosnia and Herzegovina and Romania. The European Union accounted for 65.3% of the total exports of Serbia, up from 64.2% in 2020. The main trading partners of Serbia in terms of imports in the third quarter of 2021 were Germany, China, Italy and Russia, together forming 39.3% of all imports in Serbia. Imports from all these countries, except Russia which registered a decline of 4.6%, were stronger on annual basis.

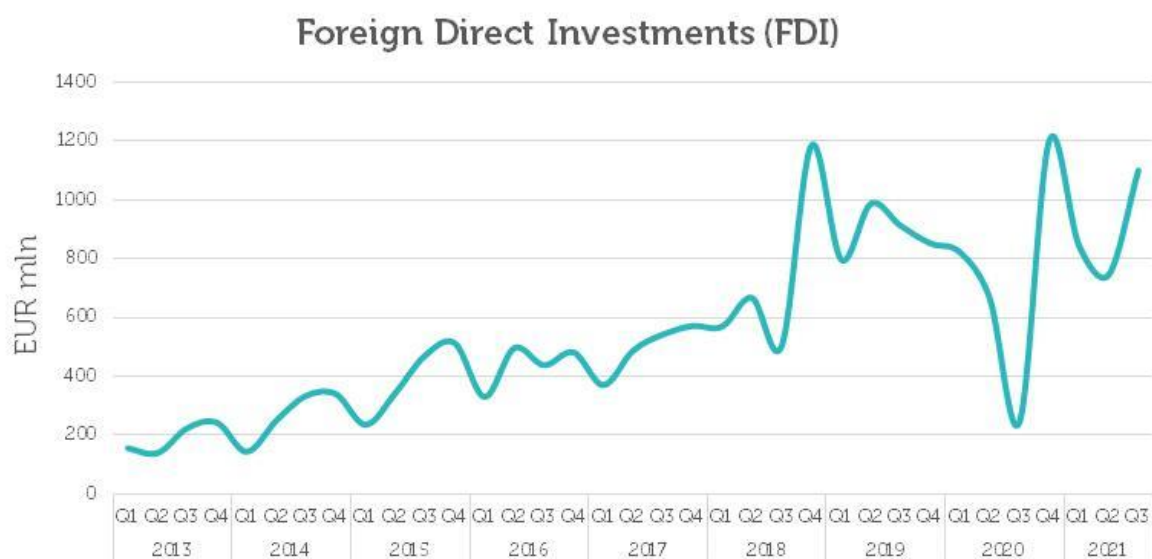


Source: NBS

8.4. FDI

FDI inflow skyrocketed y/y in Q3 2021

Net FDI flow in Serbia reached EUR 1.100 bln in Q3 2021, up by more than four times y/y, according to NBS data. Between July and September 2021 FDI's accounted for 8.0% of the country's GDP for the period, distinctly above the 2.0% share in the corresponding quarter of the previous year, due to the slower recovery of foreign investment compared with the national GDP.



Source: NBS

FORECAST AND ANALYSIS

Based on the overall 2020 performance, Serbia is the SEE country that coped best with the negative economic effects of the initial stages of the COVID-19 pandemic. The annual decrease of real GDP by 1.0% put the country in the group of the best positioned countries in terms of swift economic recovery perspectives. According to the IMF, Serbia's GDP is projected to surpass its pre-crisis level by the end of 2021 as a result of a projected sound annual GDP growth of 6.5%. This will make it the only country in the region, possibly along with Romania, to exceed its 2019 GDP as early as 2021. In the medium term, real growth will remain strong, at 4.5% annually in 2022 and 2023.

The World Bank's latest forecast is similarly optimistic, following a 1.0 pp upward revision to 6.0% of the projected 2021 real growth rate. In the next two years the Serbian economy is expected to expand at moderate rates of 4.5% in 2022 and 4.0% in 2023. Short-term growth will be primarily driven by recovery of consumption,

supported by government incentives packages, while investment is expected to need more time to take off.

These forecasts incorporate recent data showing a faster recovery than earlier anticipated. However, the outlook remains highly uncertain, reflecting the still unpredictable course of the pandemic. One of the three fastest COVID-19 vaccination rollouts in Europe as of April 2021 is expected to secure additional edge to Serbia above its regional peers, but weaker than planned progress in many European partners of Serbia could delay normalization of international economic relations and hamper the growth of the economy.

MAJOR DEVELOPMENTS

Foreign tourist arrivals to Serbia increase 65.4% y/y in Jan-Aug

Sept 30, 2021

The number of foreign tourists who visited Serbia in the first eight months of 2021 rose 65.4% year-on-year to 530,061, statistical office data showed.

[Read the full story here](#)

EC to start procedure for approving poultry imports from Serbia - agri min

Sept 28, 2021

The European Commission (EC) will launch a procedure for approving imports of poultry from Serbia in the next two weeks, Serbian agriculture minister Branislav Nedimovic said.

[Read the full story here](#)

Serbia investing 6.5 bln euro to modernise railway infrastructure - PM

Sept 14, 2021

Serbia is investing about 6.5 billion euro to modernise railway lines with a total length of 1,000 km, prime minister Ana Brnabic said.

[Read the full story here](#)

Fitch affirms Serbia at 'BB+', outlook stable

Sept 6, 2021

Fitch Ratings said that it has affirmed Serbia's long-term foreign-currency issuer default ratings (IDRs) at 'BB+' with a stable outlook.

[Read the full story here](#)

Hungary, Gazprom to sign deal for imports through Serbia in Sept - report

Aug 31, 2021

Hungary expects to sign in September an agreement with Russia's Gazprom for the import of 3.5 billion cubic metres of natural gas annually through Serbia, Budapest-based media reported.

[Read the full story here](#)

Serbia's c-bank raises 2021 economic growth forecast to 6.5% - governor

Aug 18, 2021

Serbia's central bank, the NBS, revised up its forecast for the country's economic development and now expects a 6.5% growth of the gross domestic product (GDP) in 2021, versus a 6.0% increase projected earlier, governor Jorgovanka Tabakovic said.

[Read the full story here](#)

Serbia proposes projects worth 785.5 mln euro for financing from WBIF

Aug 5, 2021

Serbia's government has proposed seven projects with a total value of 785.5 million euro for financing under the sixth round of investment grants of the Western Balkans Investment Framework (WBIF), it said.

[Read the full story here](#)

Serbia prepares 17 bln euro investment plan for mining, energy sectors

July 16, 2021

Serbia's government is preparing an investment plan for the mining and energy sector worth 17 billion euro, energy minister Zorana Mihajlovic said.

[Read the full story here](#)

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