

SeeNews

**SERBIA ECONOMY
REPORT**

Q4 2021



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MACROECONOMIC SNAPSHOT

SERBIA – MACROECONOMIC SNAPSHOT AS OF Q4 2021	
GDP Growth	7.3% y/y
Business confidence indicator	108.5
Industrial output	3.8% y/y
Industrial sales	35.0% y/y
Wholesale	26.4% y/y
Retail sales	19.7% y/y
Average annual inflation	4.0%
Unemployment rate	9.8%
Number of building permits	13.7% y/y
Money supply growth	13.3% y/y
Household loans	10.6% y/y
Gross external debt	EUR 36.536 bln
Current account deficit	EUR 1.001 bln
FDI inflow	EUR 862.9 mln
Foreign trade deficit	EUR 2.215 bln

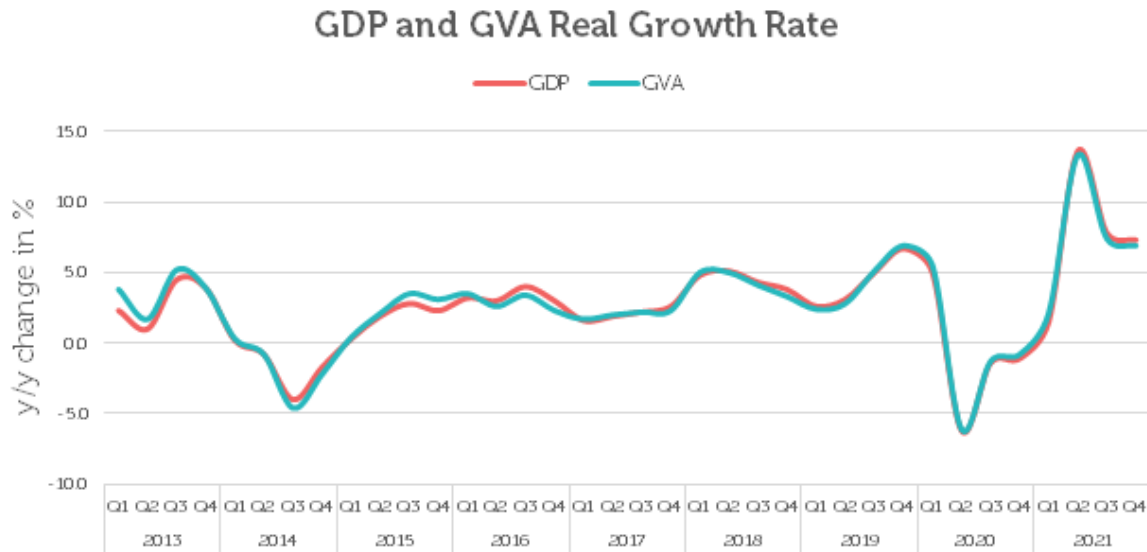
I. NATIONAL ACCOUNTS

1.1 Gross domestic product

GDP up by 7.3%/y/y in Q4 2021

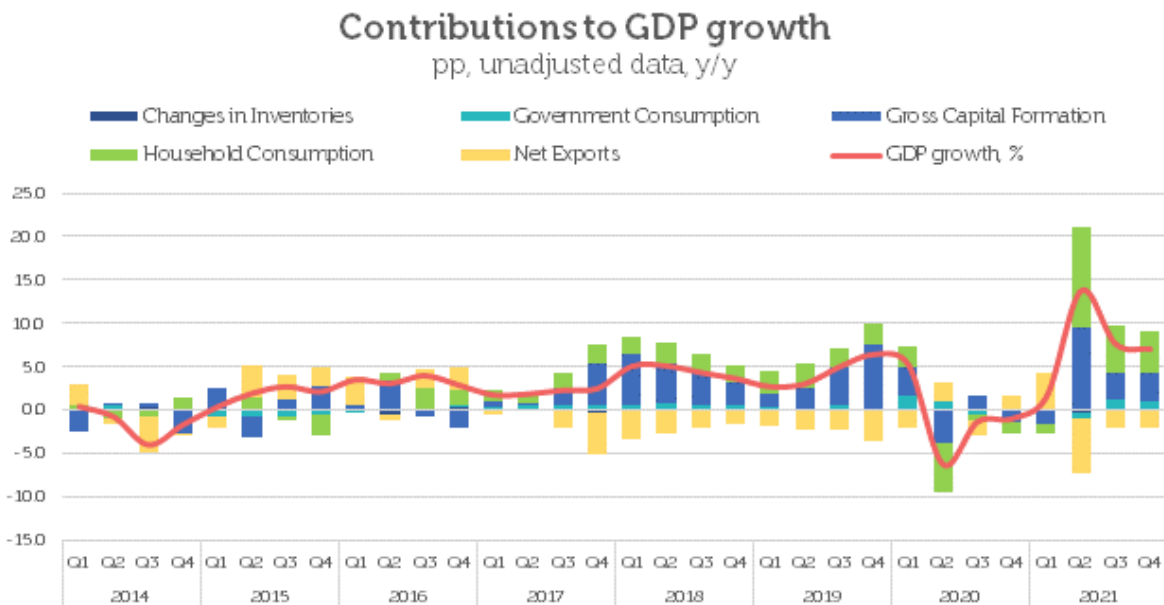
The Serbian economy was, for a third consecutive quarter, the third best performing in SEE in Q4 2021, Eurostat data shows. In real GDP terms, it grew by 7.3% on the year. The comparatively better performance of Serbia, as a continuation from the previous quarters, is projected to lead to the fastest recovery to 2019 levels in the region.

Full-year 2021 data showed an annual increase of 7.4% of real GDP, following the previous year's drop of 0.9%, influenced mainly by the COVID-19 crisis.



Source: Eurostat

The only components not contributing to the recovery of the Serbian economy in Q4 2021 were net exports, which took away 2.0 pp from the annual GDP growth and changes in inventories, which stayed neutral during the quarter under review. All other components supported the GDP, including household consumption, which contributed the most, by 4.7 pp, and gross capital formation - by 3.3 pp. Government consumption added 1.0 pp to the GDP growth in the quarter.



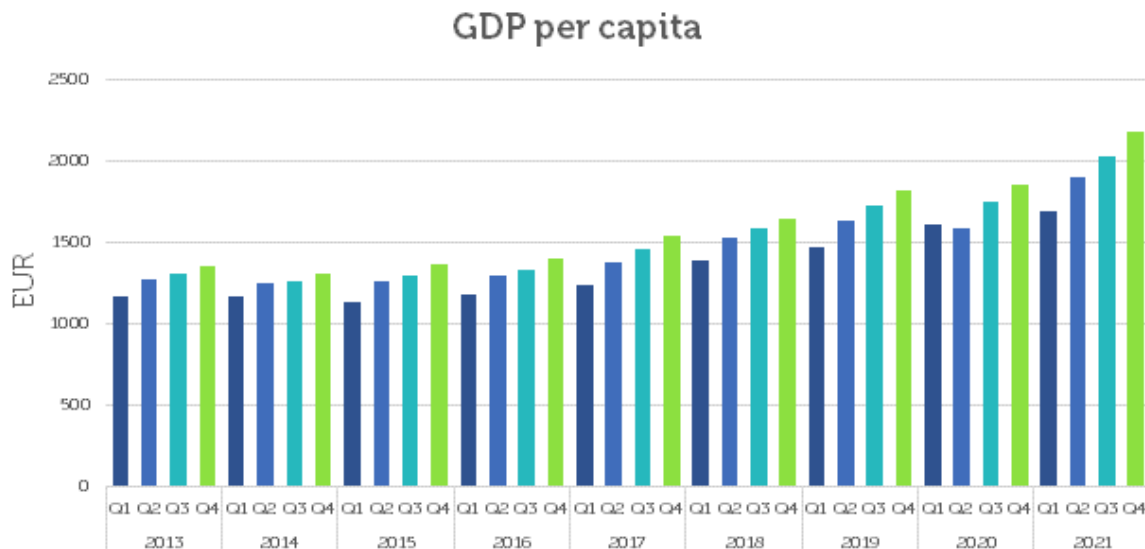
Source: SeeNews calculations; Eurostat

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 17.3% y/y in Q4 2021

Serbia's GDP per capita stood at EUR 2,170 in Q4 2021, up by 17.3% from the corresponding quarter of the previous year. On a q/q basis, it also advanced by 7.4%, 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 Q4 2021, facilitating the convergence between the country and the four EU members in the region.



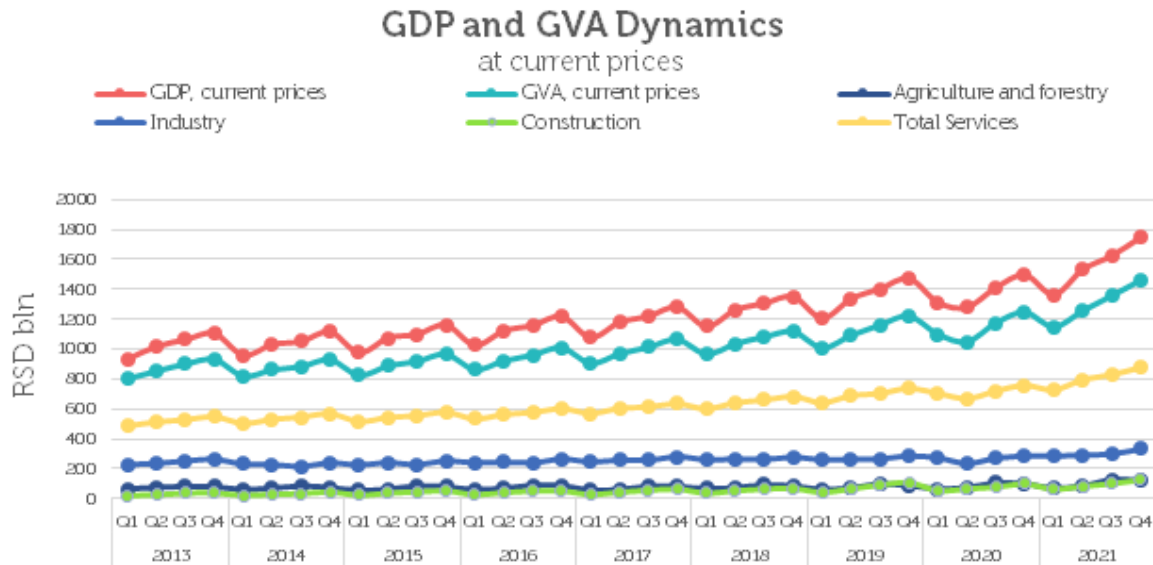
Source: Eurostat

1.3. Gross value added

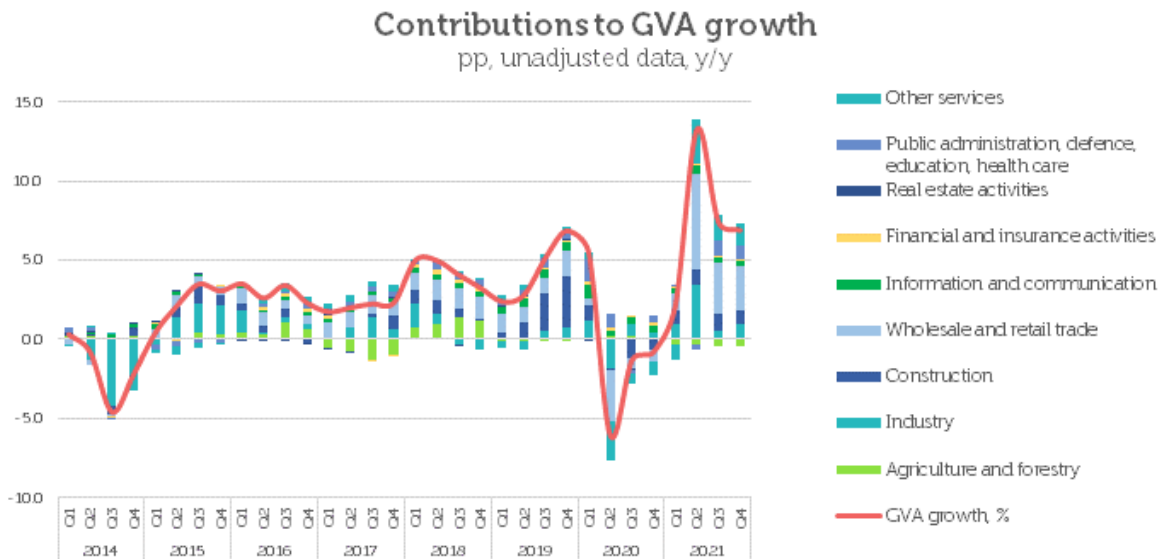
GVA up by 6.9% y/y bolstered by all but one sector

The unadjusted gross value added (GVA) generated by the Serbian economy soared by 6.9% y/y in Q4 2021 and reached RSD 1,460.1 bln in current prices. The industry sector expanded by 15.2% y/y in value terms and was the main driver, along with services, behind the positive annual GVA growth, pushing GVA up by 1.0 pp and 5.6 pp, respectively. Construction also added 0.9 pp, while registering the highest growth y/y of 27.1% in value terms.

Agriculture and forestry also grew at a fast annual rate of 22.7%, however it stayed on the negative side in terms of contribution and took away 0.4 pp from the GVA growth in Q4 2021. The wholesale and retail was the largest contributor among the services subsector with 2.8 pp, in line with its jump of 25.8% in annual terms. Four of the remaining subsectors also supported the real GVA growth, starting from 1.5 pp for other services to 0.1 pp for financial and insurance activity. Real estate activities registered the only neutral contribution to the fourth quarter's real GVA growth.



Source: Eurostat



Source: SeeNews Calculations; Eurostat

Note: Non-additive data due to direct chain linking of GDP and its components.

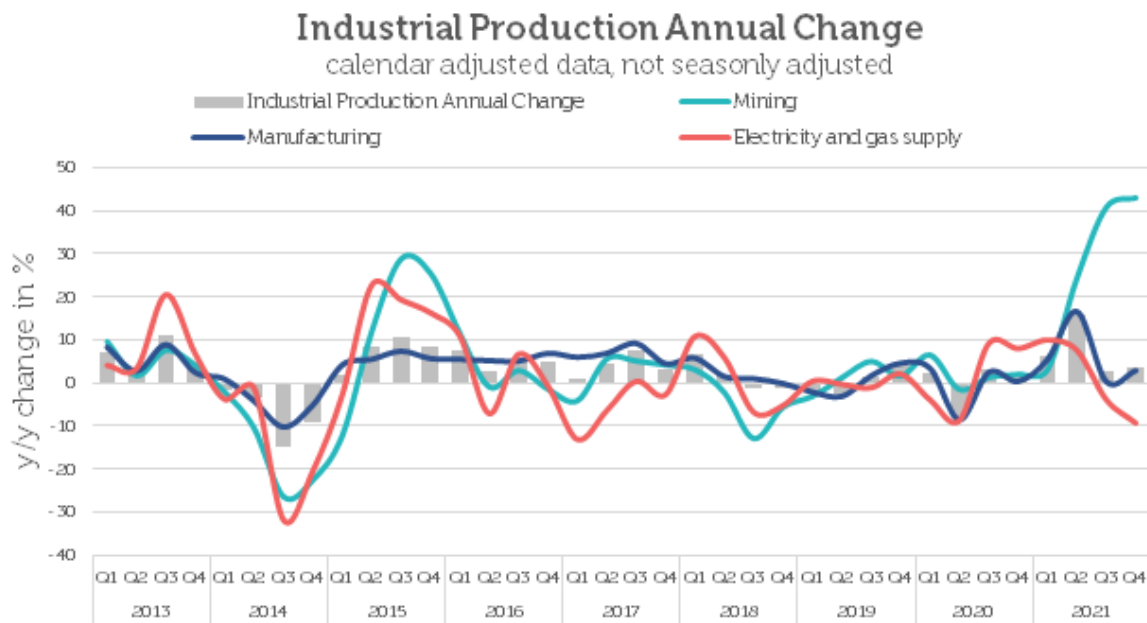
II. OUTPUT AND CONSUMPTION

2.1. Industrial production

Industrial production maintained its uptrend in Q4 2021

In the fourth quarter of 2021, industrial production annual change in Serbia stood at 3.8%, according to Eurostat. In regional aspect, Serbia had an average performance, running before the EU average of 1.2% and some of its neighbours – Romania, Montenegro and North Macedonia.

Mining was the main driver of industrial recovery and posted an annual growth rate of 43.0% in Q4 2021. Manufacturing recorded an annual increase of 2.9% in the current period, among the industrial subsectors. The electricity and gas supply sector, however sank by 9.3% on the year.

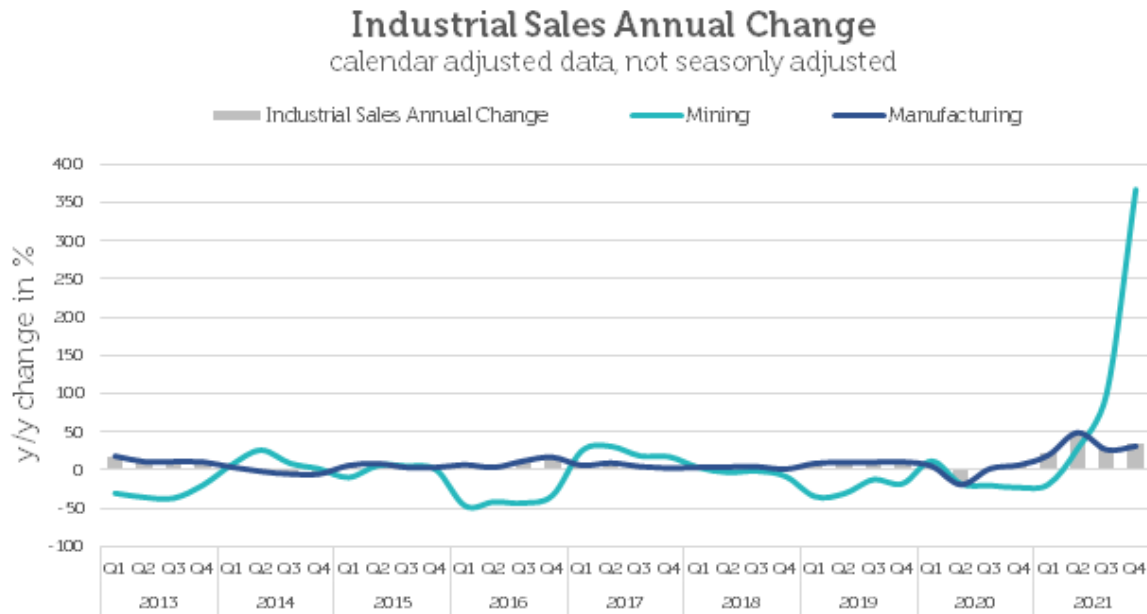


Source: Eurostat

2.2. Industrial sales

Industrial sales expanded by 35.0% y/y in Q4 2021

Industrial sales jumped by 35.0% y/y in Q4 2021, according to Eurostat. Serbia's industrial sales growth was the fastest in SEE and surpassed by far the EU average of 14.2% 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 more than 4.5 times, while the latter by 31.1%.



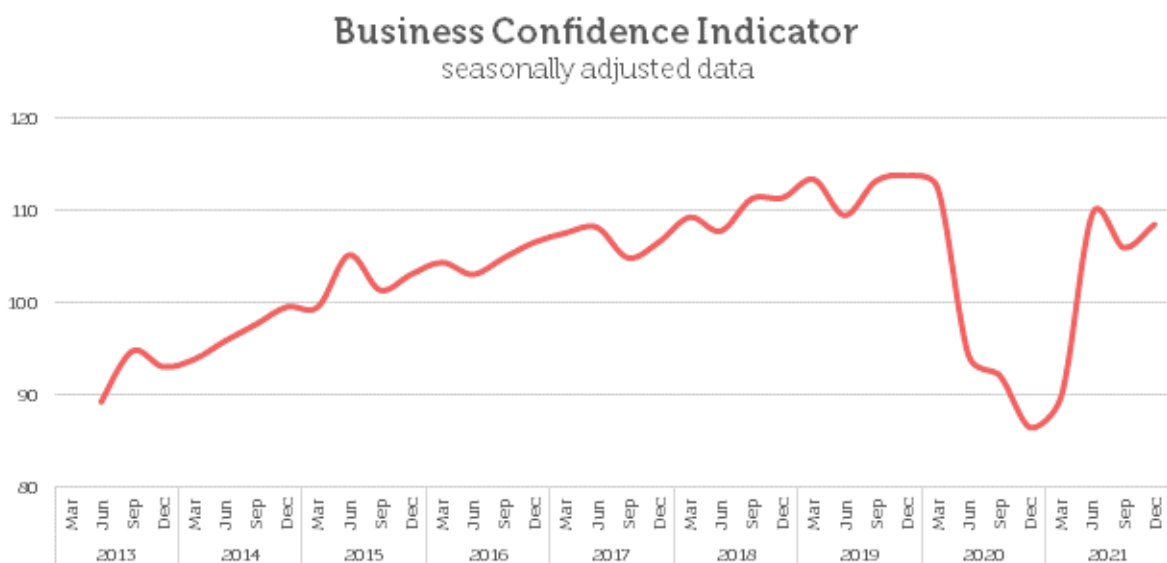
Source: Eurostat

2.3. Business confidence indicator

Business confidence indicator near its pre-crisis level in December 2021

The business confidence indicator in Serbia showed signs of recovery in the previous quarters and stabilised in Q4 2021, almost reaching its pre-pandemic levels. The value of the Economic Sentiment Index by the European Commission was 108.5 in December 2021, up from 106.0 points in September 2021 and far better than its lowest points of 86.5 in December 2020.

Compared with the other SEE countries, the economic sentiment in Serbia in the end of Q4 2021 stood at the middle of the table, and still below the EU average of 113.0 points.



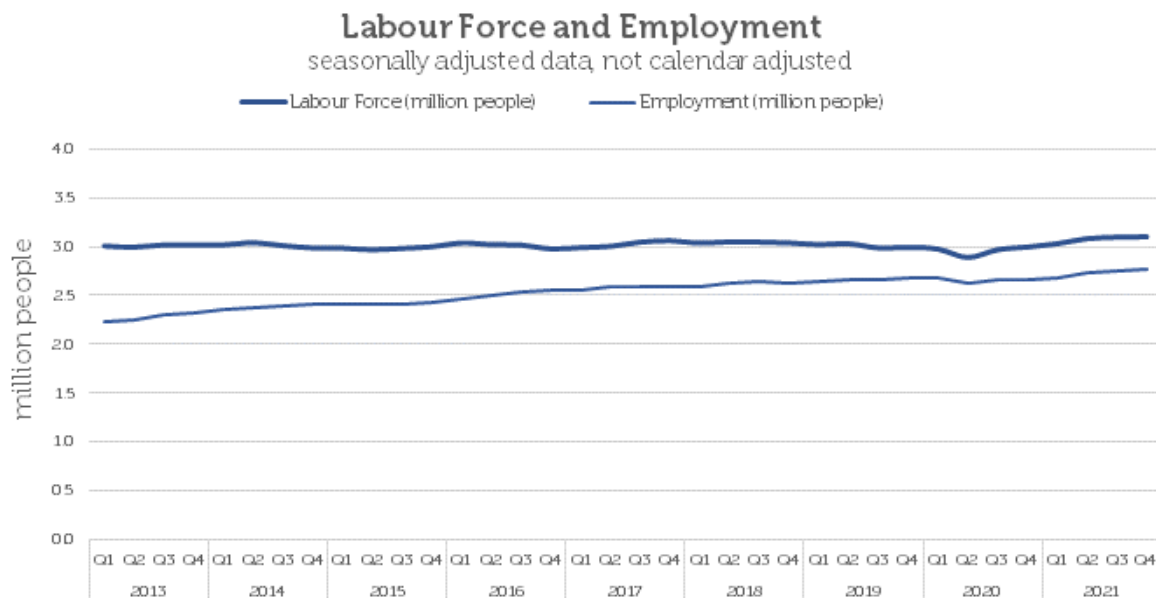
Source: Eurostat

III. LABOUR MARKET

3.1. Labour force and employment

Labour force and employment up in Q4 2021

The labour force in Serbia reached 3.102 million people in Q4 2021, up by 3.5% y/y, according to Eurostat. The employed population aged 15 years and older was 2.763 million, or by 3.8% 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

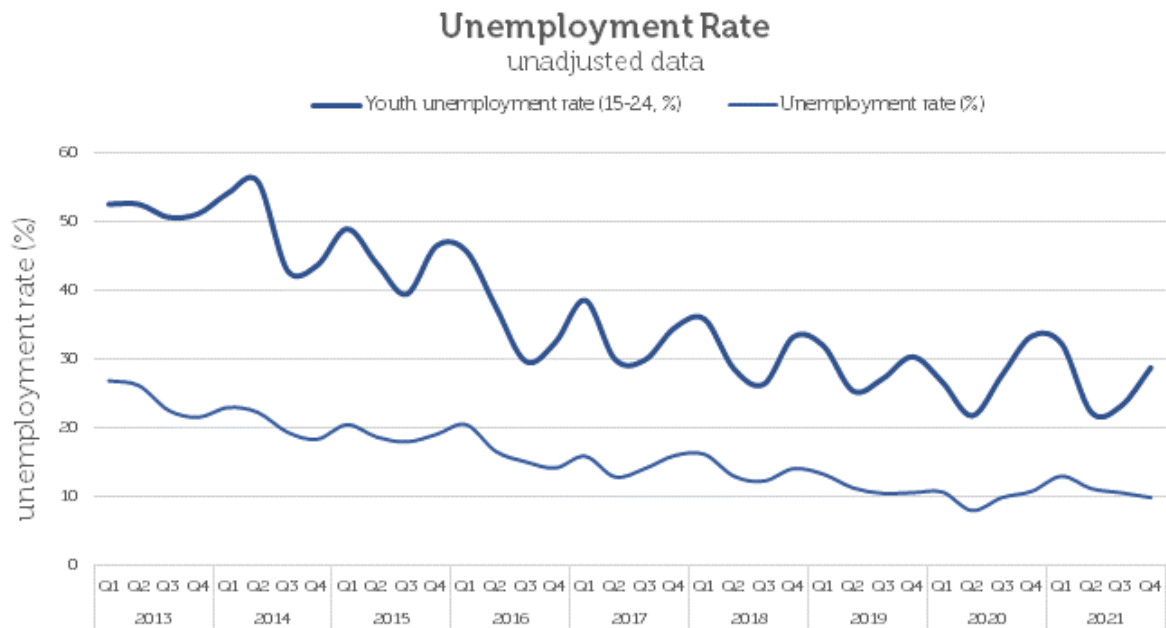
3.2. Unemployment rate

Unemployment rate at 9.8%, but down annually and on the quarter

The unemployment rate in Serbia in Q4 2021 stood at 9.8%. On annual basis, it went down from 10.7% in the same quarter of the previous year, likewise on quarterly basis it also improved from 10.5% in Q3 2021. The unemployment rate did not live up to the expectations set by the IMF to rise and exceed 13.0% by the end of the year, caused by the pressure on the labour market by the coronavirus crisis.

Youth (population aged 15-24) unemployment rate accelerated again to 28.7%, compared to 23.1% in the previous quarter, however, compared to Q4 2020 it went

down from 33.3%. In regional and European context, both indicators were among the highest and way above the EU average values.

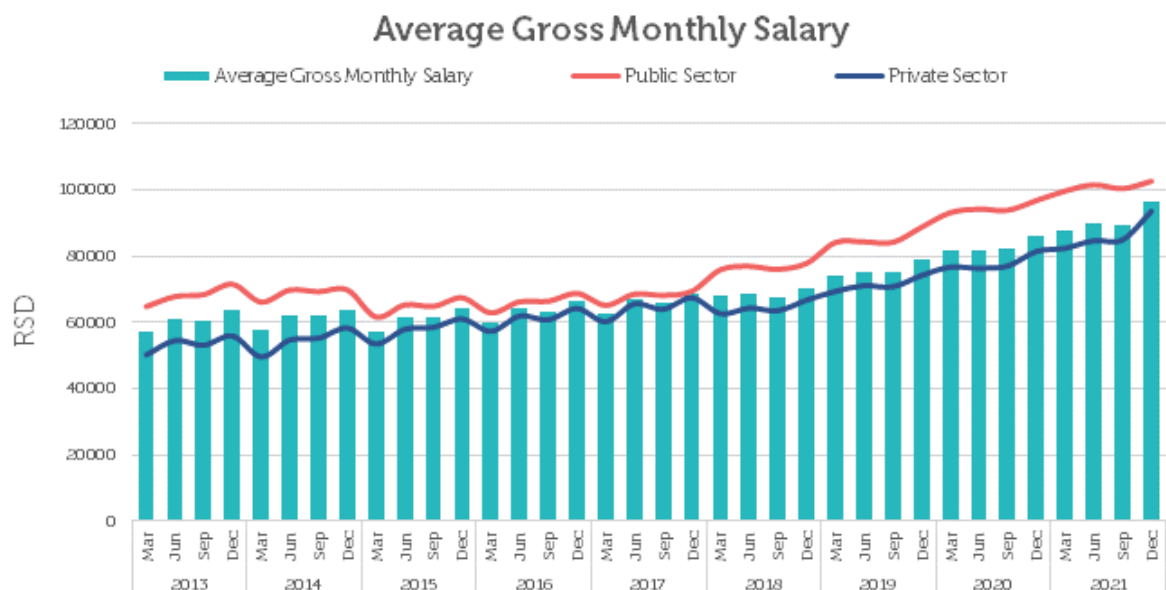


Source: Eurostat

3.3 Average monthly salary

Strong annual growth of the average gross monthly salary persisted in Q4 2021

Serbia’s average gross monthly salary rose by 11.8% y/y in Q4 2021 to RSD 96,213, SORS data shows. Salaries in the public and private sectors went up by 6.0% y/y and 14.8% y/y, respectively, and reached averages of RSD 102,603 in the public and RSD 93,526 in the private sector.



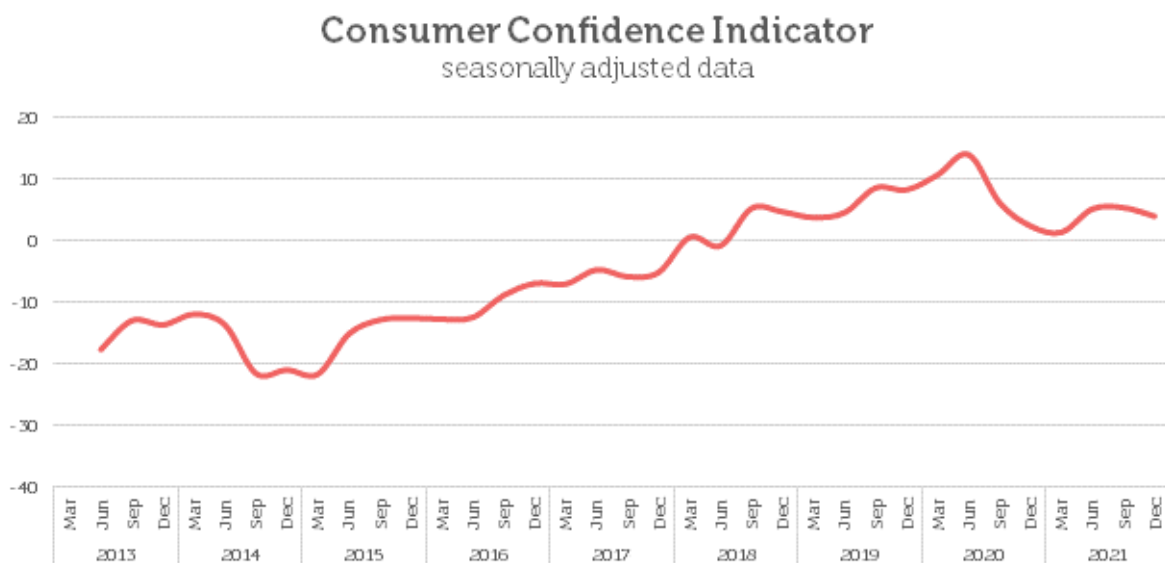
Source: SORS

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 December 2021 it stood at 4.0 points, showing positive uptrend since the beginning of 2021. The consumer sentiment in Serbia in December 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 -9.6 points.



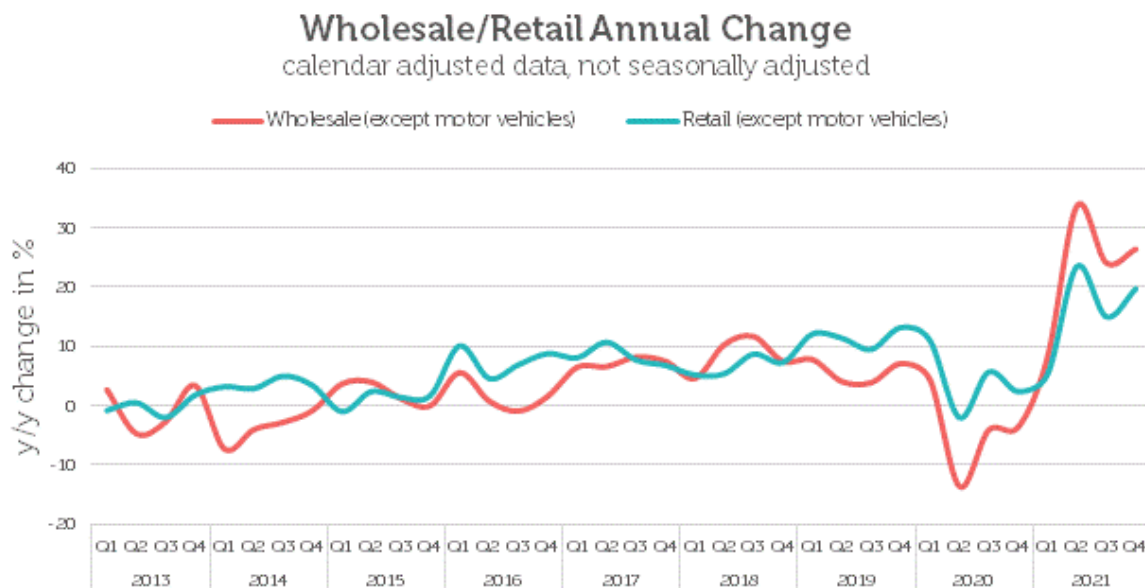
Source: European Commission

4.2. Wholesale and retail

Wholesale and retail sales surged in Q4 2021

In the last 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 19.7% y/y, while wholesale soared by 26.4% y/y. Wholesale, retail and repair of motor vehicles recorded the slowest growth on annual basis, of 15.6%.



Source: Eurostat

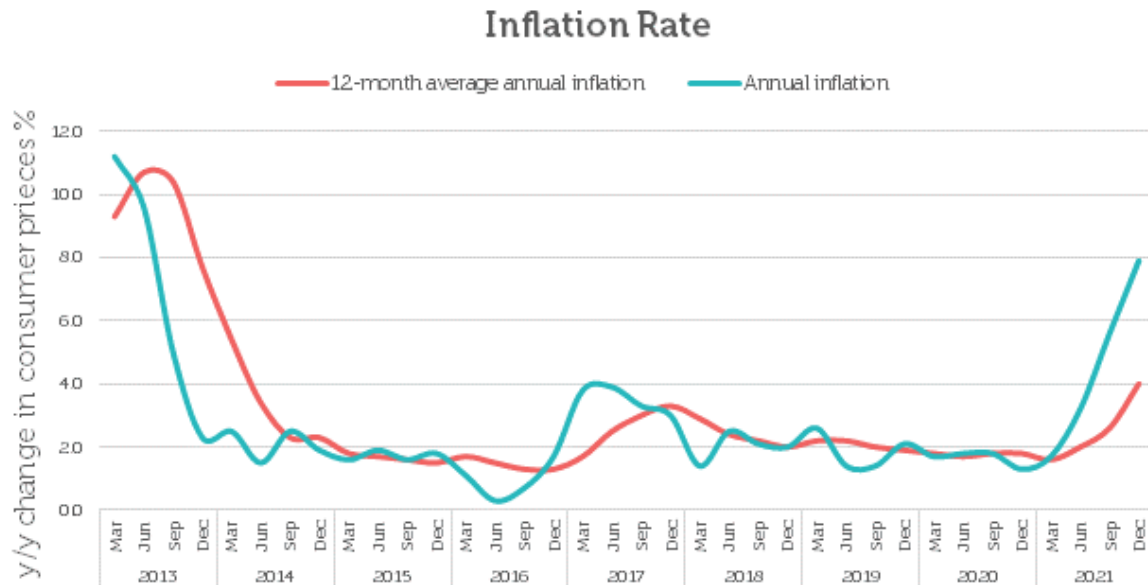
V. PRICES

5.1. Inflation

Inflation accelerated in Q4 2021 to 4.0%

In Q4 2021, the moving twelve-month average inflation in Serbia amounted to 4.0%, according to Eurostat, up from 1.8% in the corresponding quarter of the previous year. In regional aspect, Serbia ranked second among the SEE countries in terms of the highest inflation rate, a notch down behind Romania's 4.1%.

Annual inflation also picked pace up in December 2021 to 7.9%, compared with 1.3% 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.



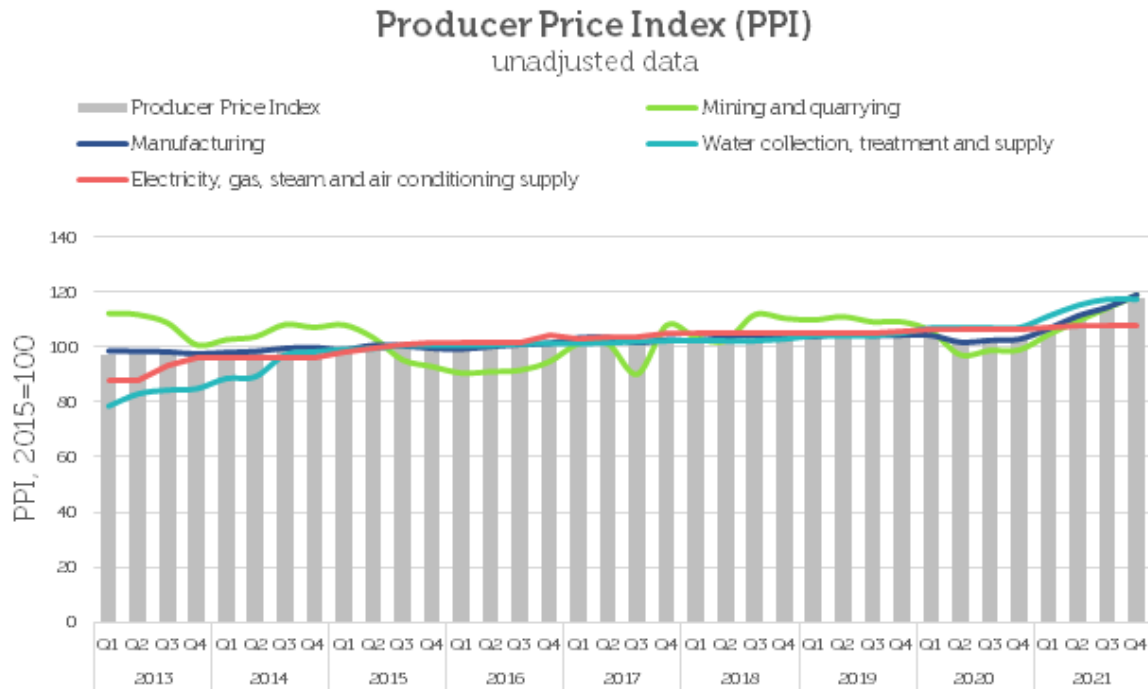
Source: Eurostat

5.2. Producer price index

Producer price index highest in the last ten years

Eurostat's unadjusted producer price index in Serbia stood at 117.6 points in Q4 2021, marking the highest increase in the last decade. Compared to the same quarter of the previous year, the indicator rose by 14.3 pp, and a slower increase, by 3.9 pp, on quarterly basis.

Mining and quarrying was the sector to register the largest increase in producer prices in Q4 2021 on annual basis by 19.9 pp. The producer price index in the other sectors also climbed compared with the year-ago quarter. In manufacturing it rose by 16.1 pp y/y, followed by water collection, treatment and supply with 10.3 pp y/y, while electricity, gas and steam supply increased with 10.3 pp on the year, the latter two however, stayed unchanged compared to Q3 2021.



Source: Eurostat

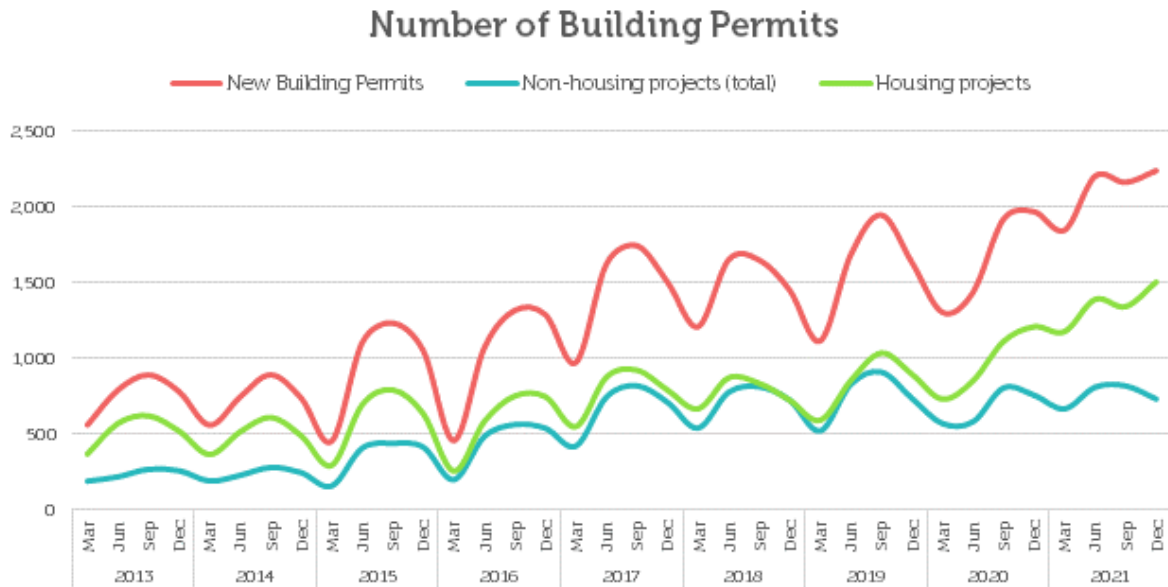
VI. CONSTRUCTION AND REAL ESTATE

6.1. New building permits

New building permits jumped by 13.7% y/y in Q4 2021

The number of building permits issued in Serbia in the fourth quarter of 2021 expanded by 13.7% y/y and totalled 2,240, according to SORS data. Housing projects again recorded the highest growth, of 24.4%, while permits for non-housing buildings decreased by 3.3% y/y to 734, compared to 759 a year earlier.

The total built-up area of non-residential units decreased drastically by 22.7% on an annual basis to 605,140 sq m in Q4 2021. The built-up area covered by new residential permits rose by 35.9% to 906,046 sq m.



Source: SORS

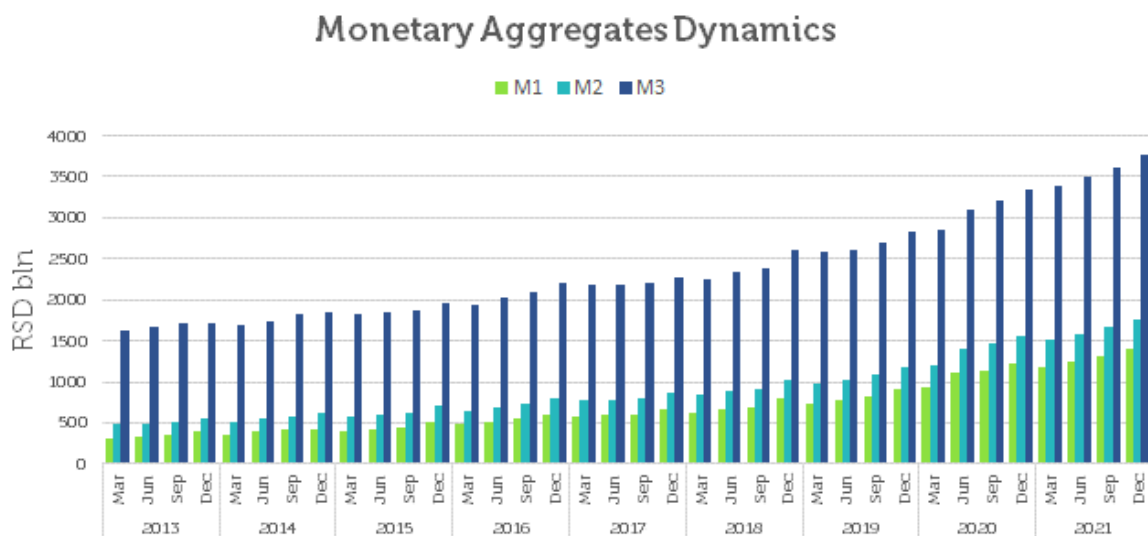
VII. MONEY

7.1. Monetary aggregates

Money supply growth up by 13.3% y/y in Q4 2021

At the end of Q4 2021 the broad monetary aggregate M3 rose by 13.3% on an annual basis and the total money supply in the Serbian economy stood at RSD 3,778.1 bln.

The M2 money supply expanded slightly faster than the M3, growing by 13.8% y/y. The monetary aggregate M1, or narrow money, jumped by 14.8% to RSD 1,401.1 bln.

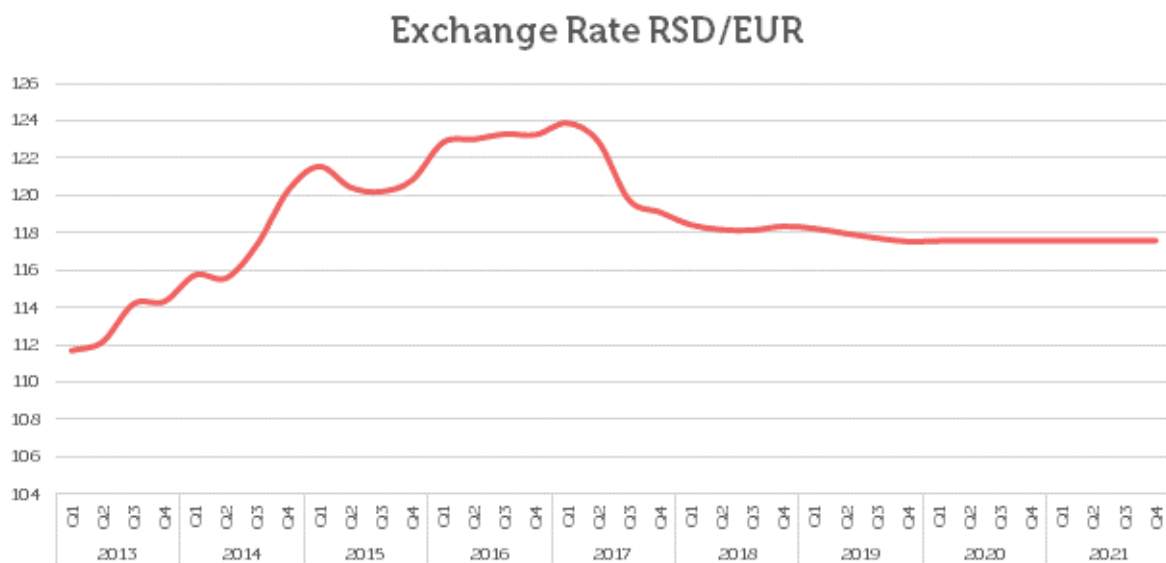


Source: NBS

7.2. Exchange rate

Serbian dinar (RSD) stayed stable against the euro in Q4 2021

The RSD maintained its exchange rate against the euro in Q4 2021 close to the level of the same period of the previous year, reaching an average quarterly rate of RSD 117.5760. Serbia's central bank has intervened actively in the foreign exchange market to maintain a stable exchange rate during the COVID-19 crisis period.

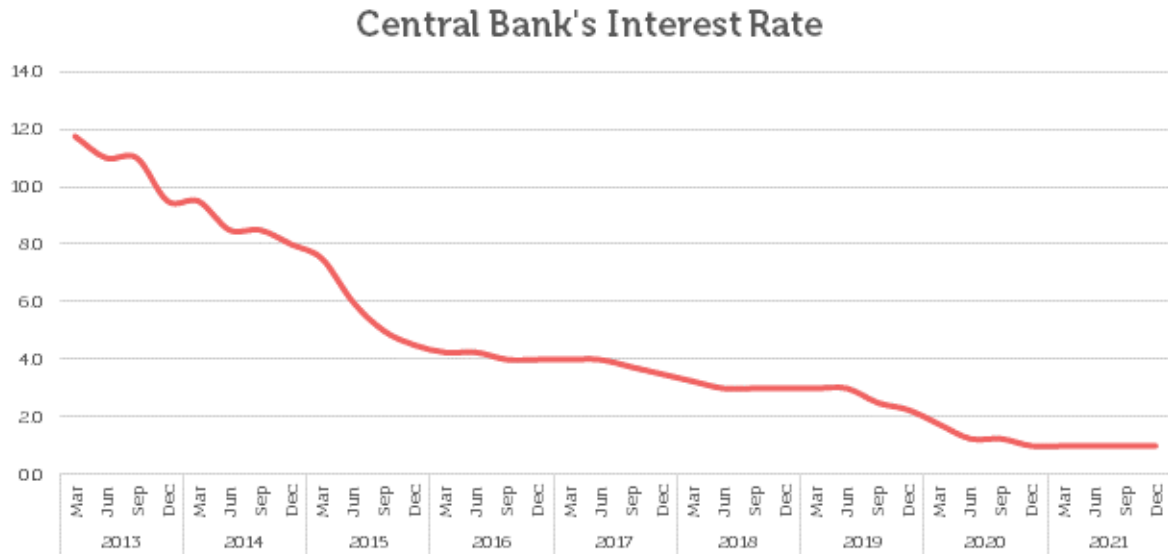


Source: NBS

7.3. Central bank's interest rate

NBS maintained key policy rate at 1.00% in Q4 2021

In the end of Q4 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.

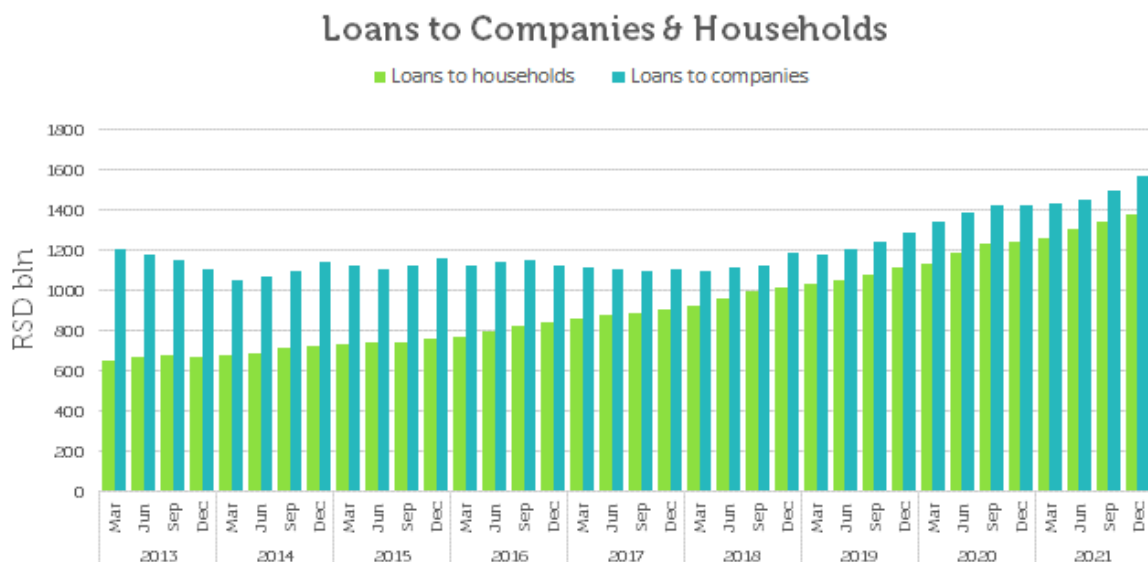


Source: NBS

7.4. Loans to companies and households

Loans to companies up by 9.9% y/y, household loans - by 10.6% y/y in Q4 2021

In December 2021 the loans to non-financial corporations rose by 9.9% on the year to RSD 1,566.6 bln. Loans to households expanded at a faster annual rate of 10.6% and totalled RSD 1,374.2 bln. The rise was driven mainly by mortgage loans, which advanced by 17.3%, while consumer loans grew by 4.4% y/y to RSD 23.370 bln.

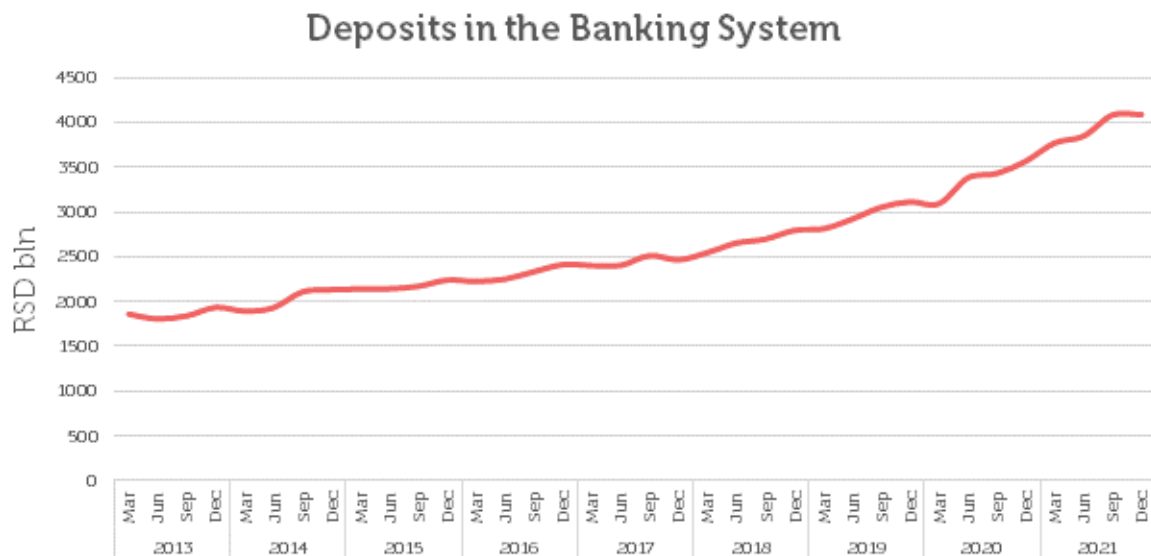


Source: NBS

7.5. Deposits

Deposits increased by 14.6% y/y in Q4 2021

The total amount of deposits in the banking system, as of end-December 2021, expanded by 14.6% y/y and stood at RSD 4,086.7 bln, compared to RSD 3,566.2 bln in the same month of the previous year. The growth is likely to continue 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 18.6% y/y in Q4 2021

The gross external debt went up by 18.6% y/y totalling EUR 36.536 bln as of end-December 2021, according to NBS. It accounted for 68.5% of the country's latest annual GDP, with its share going up by 2.4 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 Q4 2021, by 27.8% to EUR 19.143 bln at the end of the period. Long-term liabilities expanded by 19.1% y/y and amounted to EUR 34.775 bln, representing 95.2% of the total debt, and short-term liabilities totalled

EUR 1.762 bln, following an 11.1% annual rise. Despite the increase 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.

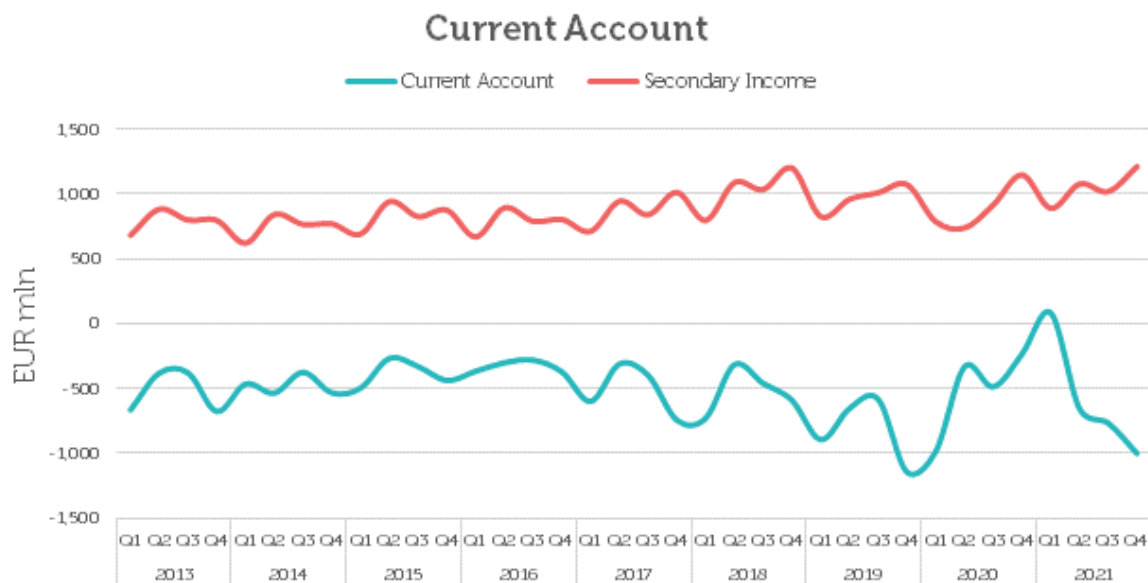


Source: NBS

8.2. Current account

Current account deficit up by more than four times in Q4 2021

The current account deficit totalled EUR 1,001.0 bln in Q4 2021, compared with the EUR 233.0 mln in the year-ago quarter, according to Eurostat data. As a share of Serbia’s GDP, the current account deficit shrank to -5.0%, up from -4.0% in Q4 2020. Secondary income in October-December 2021 stood at EUR 1.213 bln, up by 5.6% on the year.



Source: Eurostat

8.3. Trade balance

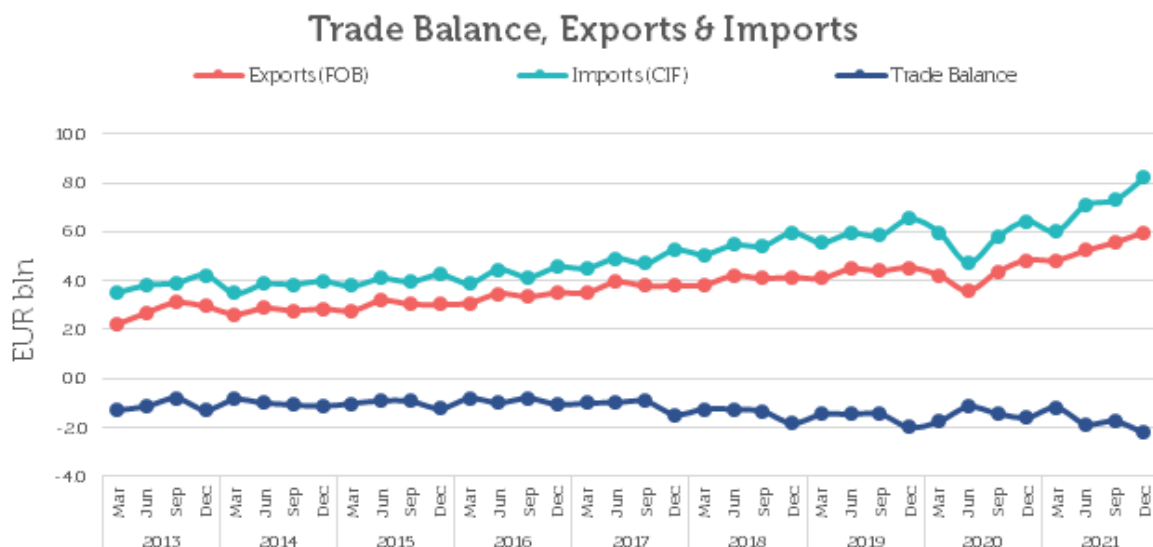
Foreign trade gap expanded by 39.8% in Q4 2021

The almost equal rise in annual terms of exports and imports in Q4 2021 facilitated the 39.8% increase of the foreign trade gap to EUR 2.215 bln, according to NBS. In the period October - December 2021, exports went up by 23.4% and reached EUR 5.986 bln. Imports came in at EUR 8.201 bln, or by 27.5% more than in the corresponding quarter of the previous year.

In the fourth quarter of 2021, Serbia exported mainly vegetables and fruit, metalliferous ores and metal scrap, iron and steel and rubber products. In terms of annual growth rate, exports of metalliferous ores and metal scrap jumped more than 3.5 times, followed by raw hides, skins and fur, which almost doubled on the year.

Petroleum, petroleum products and related materials were again the leading product group in Serbia's imports in Q4 2021, slicing a 5.9% share of the total, followed by medicinal and pharmaceutical products and iron and steel with 4.5% and 3.8%, respectively. The highest rise in imports, by more than two times, was recorded by two product groups – oil-seeds and oleaginous fruits and electric current. Imports of crude fertilisers shrank the most, by 28.1%, 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 64.5% of the total exports of Serbia, down from 64.9% in 2020. The main trading partners of Serbia in terms of imports in the fourth quarter of 2021 were Germany, China, Italy and Russia, together forming 39.4% of all imports in Serbia. Imports from all these countries registered a strong growth on annual basis, where China tops the ranking with a 26.9% y/y increase.

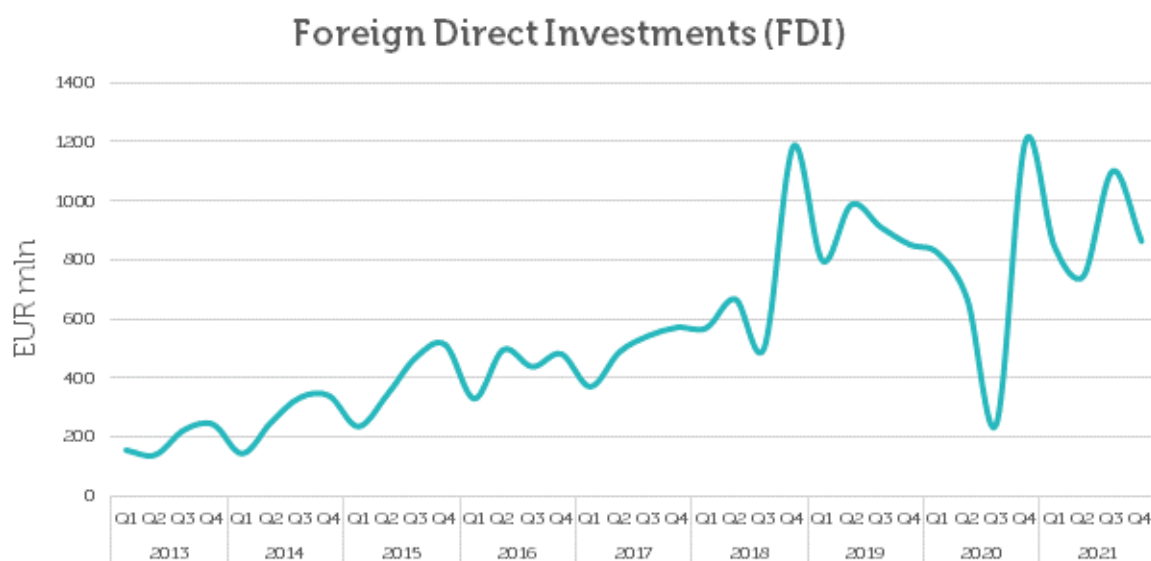


Source: NBS

8.4. FDI

FDI inflow shrank y/y in Q4 2021

Net FDI flow in Serbia reached EUR 862.9 mln in Q4 2021, down by 28.1% y/y, according to NBS data. Between October and December 2021 FDIs accounted for 5.8% of the country's GDP for the period, below the 9.4% 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 2021 performance, Serbia is the third best SEE country in terms of GDP recovery. According to the IMF, Serbia's GDP surpassed its pre-crisis level in 2021 as a result of a sound annual GDP growth of 7.4%. This makes it one of the few countries in the region to exceed its 2019 GDP as early as 2021. In the medium term, real growth will remain strong, at 3.5% annually in 2022 and 4.0% in 2023.

The World Bank's latest forecast is similarly optimistic, following a 1.4 pp upward revision to 7.4% of the projected 2021 real growth rate. In the next two years the expansion of the Serbian economy is expected to decelerate to 3.2% in 2022 and 2.7% in 2023. Short-term growth will be impacted by the war in Ukraine and the sanctions on Russia, which will reflect on the country's exports, FDI, remittances and tourism. The remaining risks for Serbia are the domestic reform agenda and its implementation, along with the country's domestic energy crisis.

MAJOR DEVELOPMENTS

Serbia hires China's CRBC to build 1.5 bln euro section of Corridor XI

Dec 27, 2021

China Road and Bridge Corporation (CRBC) and Serbia signed a contract worth 1.5 billion euro under which the Chinese firm will build a 75-kilometre section of pan-European Corridor XI, Serbian president Aleksandar Vucic said.

[Read the full story here](#)

Serbia not planning to tap financial markets in case of energy crisis - fin min

Dec 15, 2021

Serbia has ensured financial liquidity for January and February and will not have to venture into financial markets in the event of an energy crisis, finance minister Sinisa Mali said.

[Read the full story here](#)

S&P revises Serbia's outlook to positive, affirms BB+/B ratings

Dec 13, 2021

Standard & Poor's (S&P) said it has affirmed Serbia's long-term and short-term foreign and local currency sovereign credit ratings at BB+/B, and revised its outlook from stable to positive, the agency said.

[Read the full story here](#)

Serbia to buy about 30 military helicopters in 2022-2023

Dec 13, 2021

Serbia will buy about 30 military helicopters in the next two years, president Aleksandar Vucic said.

[Read the full story here](#)

EU approves opening of Cluster 4 in Serbia's accession talks

Dec 9, 2021

The Committee of Permanent Representatives in the EU (COREPER) has approved the opening of Cluster 4 - Green agenda and sustainable connectivity in Serbia's accession talks on December 14, the Serbian EU integration ministry said.

[Read the full story here](#)

Serbia calls referendum on judicial reforms

Dec 1, 2021

Serbia's parliament decided to call a referendum on amendments to the constitution that aim to depoliticise the appointment of prosecutors and judges and bring the judiciary closer to EU standards, the government said.

[Read the full story here](#)

Foreign tourist arrivals to Serbia increase 81% y/y in Jan-Oct

Nov 30, 2021

The number of foreign tourists who visited Serbia in the first ten months of 2021 rose 80.9% year-on-year to 719,495, statistical office data showed.

[Read the full story here](#)

World Bank to invest \$1.2 bln in Serbia in 2022-2026

Nov 29, 2021

The World Bank plans to invest \$1.2 billion (1.1 billion euro) in Serbia in the period between 2022 and 2026, the Serbian finance ministry said.

[Read the full story here](#)

Serbia's parl approves 2022 budget with 3%/GDP deficit

Nov 24, 2021

Serbia's parliament approved the 2022 state budget envisaging a deficit of 200.2 billion dinars (\$1.9 billion/1.7 billion euro), equivalent to 3% of the projected gross domestic product (GDP), the government said.

[Read the full story here](#)

Serbia, Hungary inaugurate cross-border gas link

Oct 1, 2021

Serbia and Hungary officially opened a cross-border interconnection allowing natural gas flow through the TurkStream pipeline of Russia's Gazprom, the Hungarian government said.

[Read the full story here](#)

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