

**Republic of Serbia**

**Ministry of Finance**

Macroeconomic and Fiscal Analyses and Projections Department



# **CURRENT MACROECONOMIC DEVELOPMENTS**

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August 2021

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

# REAL SECTOR

❖  
**Real GDP growth in the second quarter of 2021 was 13.7% y-o-y, according to the SORS data.**

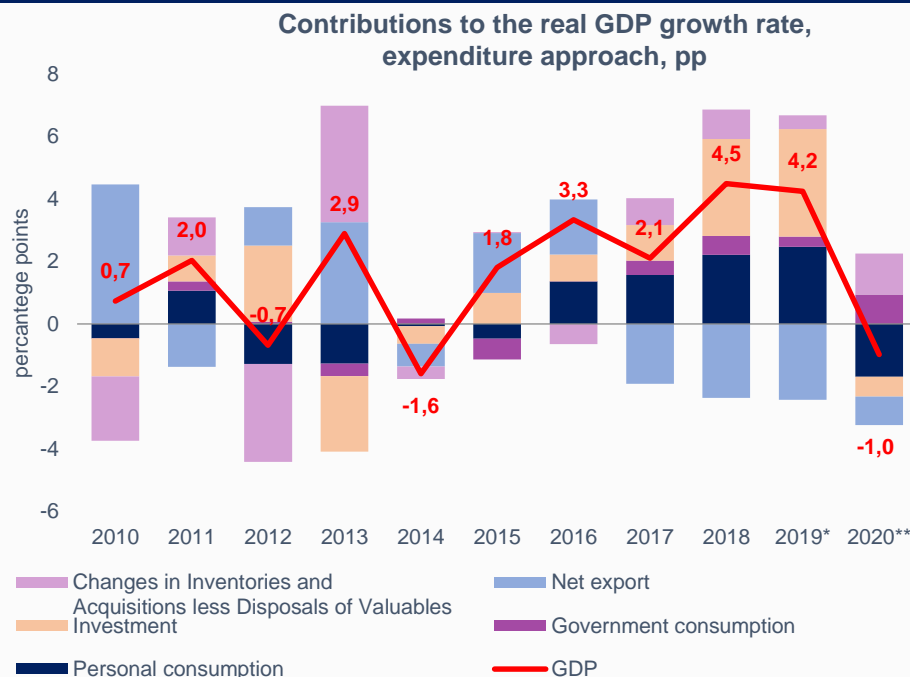
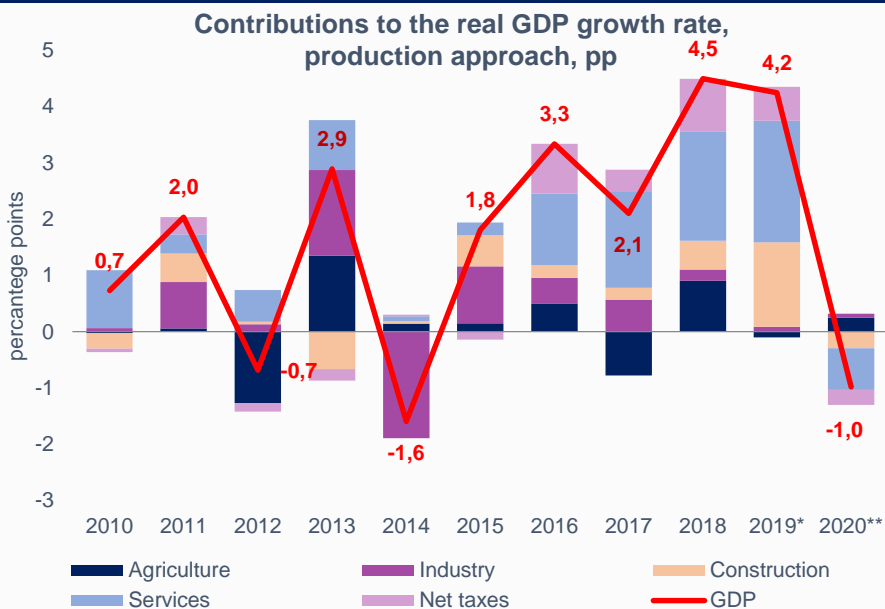
❖  
**IPAS recorded growth of 8.1% y-o-y in July**

❖  
**The total industry in July increased by 1.7% y-o-y, while manufacturing grew by 1.2%**

❖  
**Real retail trade turnover in July was higher by 11.1% y-o-y**

❖  
**In July, the number of tourist overnight stays increased by 60.0% y-o-y**

# Economic activity in 2020 decreased by 1.0%, which is among the best results in Europe.



\* Preliminary data  
 \*\* Yearly data calculation based on four quarters  
 Source: SORS, calculated in the MoF

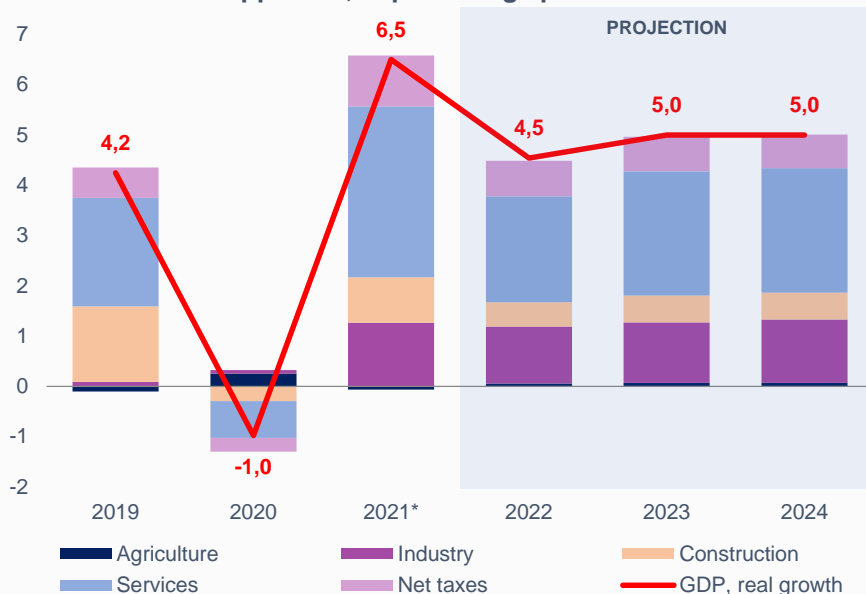
**The fall in GDP in 2020 is direct consequence of health measures to prevent the spread of the coronavirus, but also a significant reduction in external demand caused by the recession of our most important foreign trading partners. In order to mitigate these shocks, the Government and the NBS have adopted a comprehensive economic program of support to the economy and population, without which the fall in 2020 would be higher, amounting to about 5%, due to higher economic contraction in Q2 and absence of dynamic recovery in the Q3 and Q4.**

The most significant negative impact on the GDP growth rate had the service sector, which recorded a decline of 1.4% due to the negative effects of the coronavirus epidemic, primarily on tourism and transport, but also on entertainment and recreation as well as professional and technical services. The construction recorded a decrease in activity of 5.1% as a consequence of the base effect, i.e. the extremely high value of the performed works in 2019. Net taxes due to lower household consumption also had a negative contribution. Thanks to a strong recovery in the second half of the year, the industry managed to avoid recessionary trends, while the most significant positive contribution was made by agriculture with a growth of 4.2%.

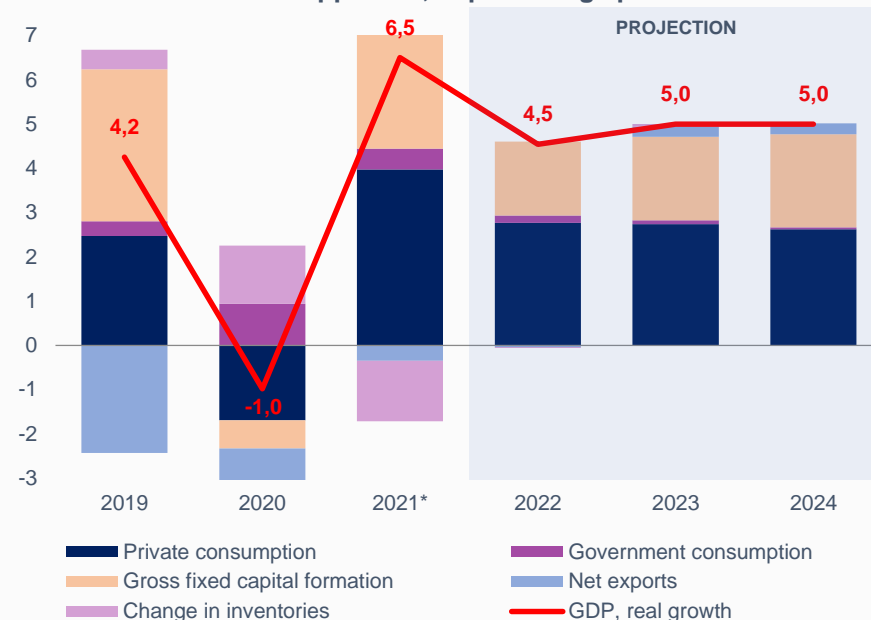
Observed from expenditure side of GDP, the most significant negative contribution was made by private consumption due to the reduction of expenditures for some service needs due to the prolonged effect of the epidemic. The shock in foreign trade resulted in a significant reduction in export-import activity with a slightly smaller decline in imports than exports due to increased imports of medical equipment and materials. Despite a significant increase in public investment, total investment activity nevertheless recorded a slight decrease of 2.8% due to lower private investment. Increased government expenditures due to the fight against the pandemic have resulted in an increase in government consumption, and stocks have also made a positive contribution, primarily due to the growth of agricultural production.

# 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.

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



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



Source: SORS, MoF projection  
\* MoF estimate

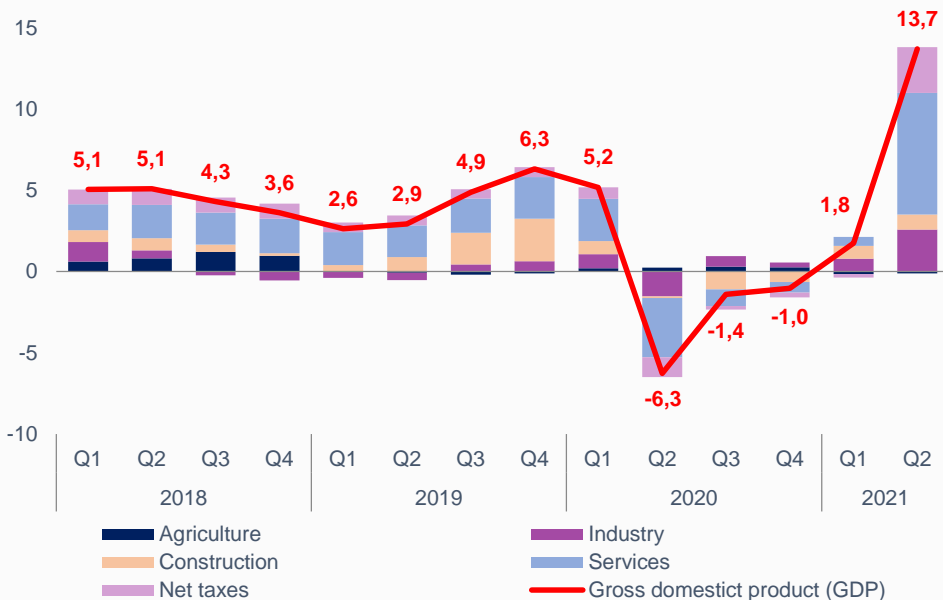
**Having in mind the good results in the first half of the year, as well as the expected trends in the following period, the Ministry of Finance revised upwards the GDP growth estimate for 2021 by 0.5 percentage points, from 6.0% to 6.5%. The achieved results were significantly influenced by the measures adopted to support the economy and the population in the previous period, as well as strong growth in investments and exports.**

The increase in GVA created in 2021 is expected in all sectors, except agriculture. The service sector, which was most affected by the pandemic during the previous year, will, due to its largest share in GDP, have the role of the dominant driver of growth. With the recovery of external demand and the activation of new production capacities, but also due to the base effect, the industry will accelerate the dynamics in 2021 and contribute to GDP growth by 1.3 pp. Construction activity should achieve solid growth due to further acceleration of the implementation of infrastructure projects, but also a strong recovery of private construction works.

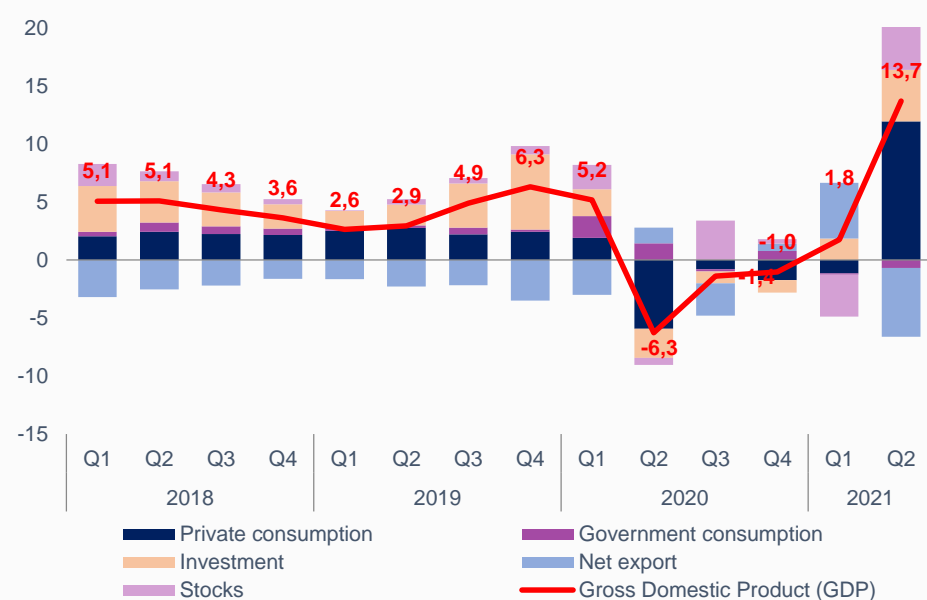
Observed by expenditure aggregates in 2021, growth will be entirely driven by domestic demand, while the contribution of net exports will be slightly negative. Preserved stability on the labour market and an increase in wages, supported by favourable financing conditions, will contribute to the growth of personal consumption. Investment will be 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 expected recovery of external demand, with the activation of new production capacities, will result in the strong growth of export activity, while a solid growth of private consumption with a strong growth of investments will result in the growth of imports.

# According to the SORS data, in the second quarter of 2021, a year-on-year GDP growth of 13.7% was achieved, which is a revision up by 0.3 percentage points in relation to the flash estimate.

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 developments continued in the second quarter, with GDP being 13.7% y-o-y higher and reaching 7.6% in the first half of 2021 compared to the same period last year.**

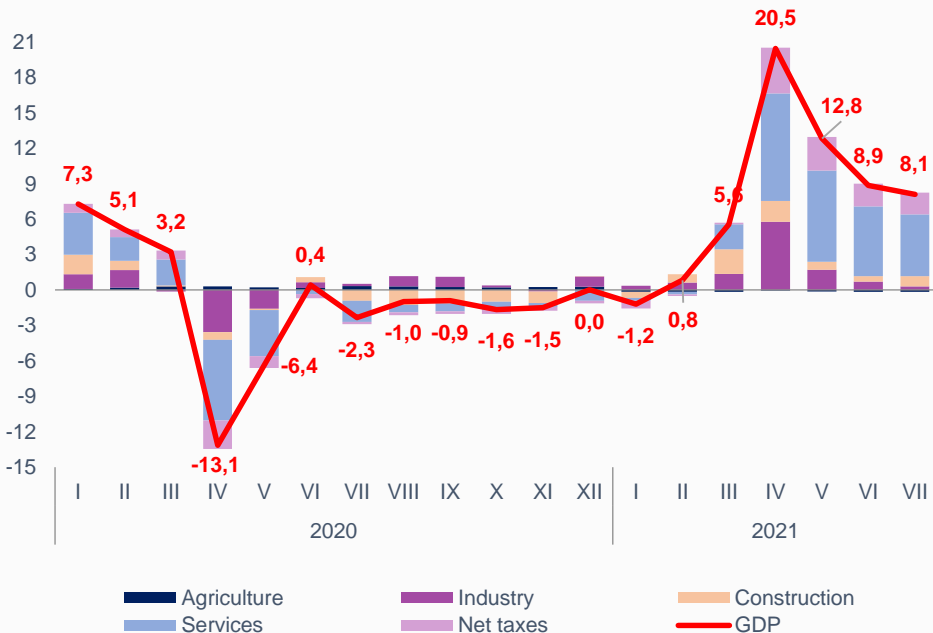
Observed from the production side, GDP growth in the second quarter was driven by the services sector, primarily due to growth in trade, tourism, transport, professional and technical services. Although the service sector was most strongly affected by the pandemic during the second quarter of the previous year, so that the high growth of about 15% was partly due to the base effect, a significant number of service activities exceeded pre-pandemic levels. The industry continued with good trends and recorded a contribution to GDP growth of 2.6 percentage points, while the recovery of private construction operations with the continuation of infrastructure works resulted in a growth of construction of 17.7%. The dry period during the summer affected agricultural production, which according to the first estimates of the SBS recorded a decline of about 2%.

Observed by aggregates of use, GDP growth in the second 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 with an increased tendency of the population to spend due to better epidemiological conditions compared to the second quarter of the previous year, was reflected in a strong increase in private consumption and its contribution to GDP growth of 11.9 p.p. Acceleration of private investments with continued implementation of infrastructure works resulted in an increase in investment activity of 22.5%. Faster real growth of imports than exports, primarily due to strong imports of raw materials for the needs of the economy, resulted in a negative contribution of net exports to GDP growth of 5.9 p.p.

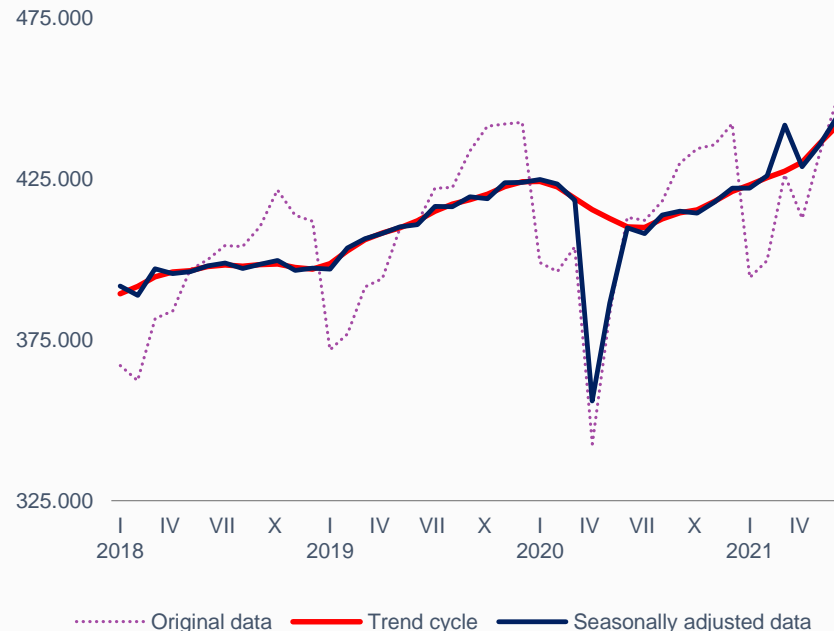


# The indicator of economic activity of Serbia (IPAS) recorded growth of 8.1 y-o-y in July 2021.

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 July, so that GDP growth in the first seven months, according to the Ministry of Finance, amounted to 7.6% y-o-y.**

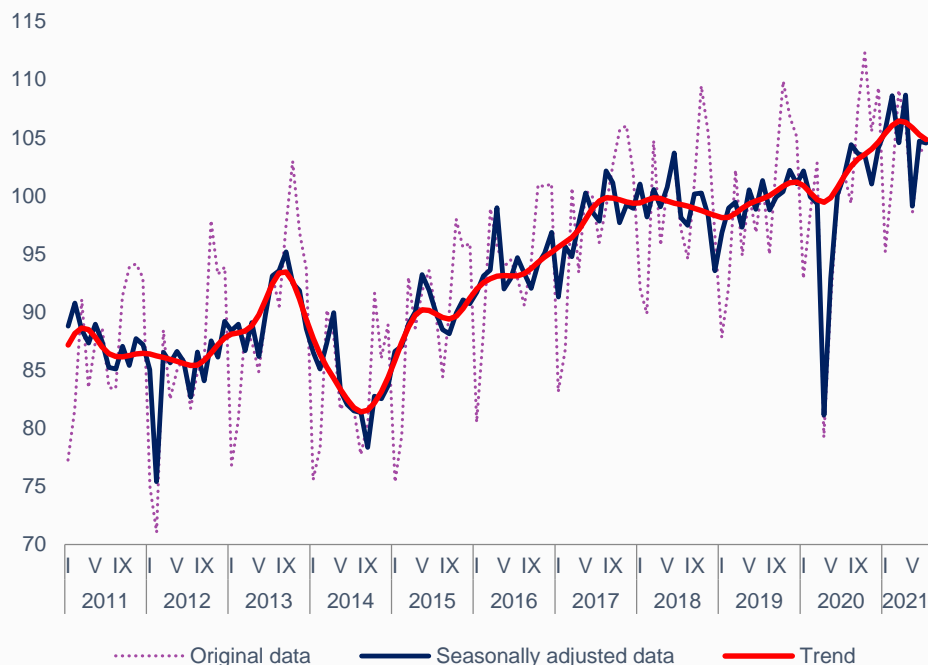
The Ministry of Finance, for the purpose of continuous monitoring of economic activity and early identification of activation of economic growth risks on the basis of short-term indicators, compiles a composite indicator of economic activity of Serbia – IPAS\*, as an indicator of economic trends in monthly 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 slightly negative, have made a positive contribution to economic growth. About two thirds of the contribution to the July economic growth was made by the service sector with a growth of 10.5% mg, primarily as a result of increased trade, transport, ICT and financial services, as well as activities with predominantly state participation (Health, Education, Public Administration). Construction activity continued with good trends, and according to the MoF, contributed to GDP growth in July with 0.9 percentage points. Industrial production recorded a year-on-year increase of 1.7% and positively contributed to GDP growth of 0.3 percentage points.

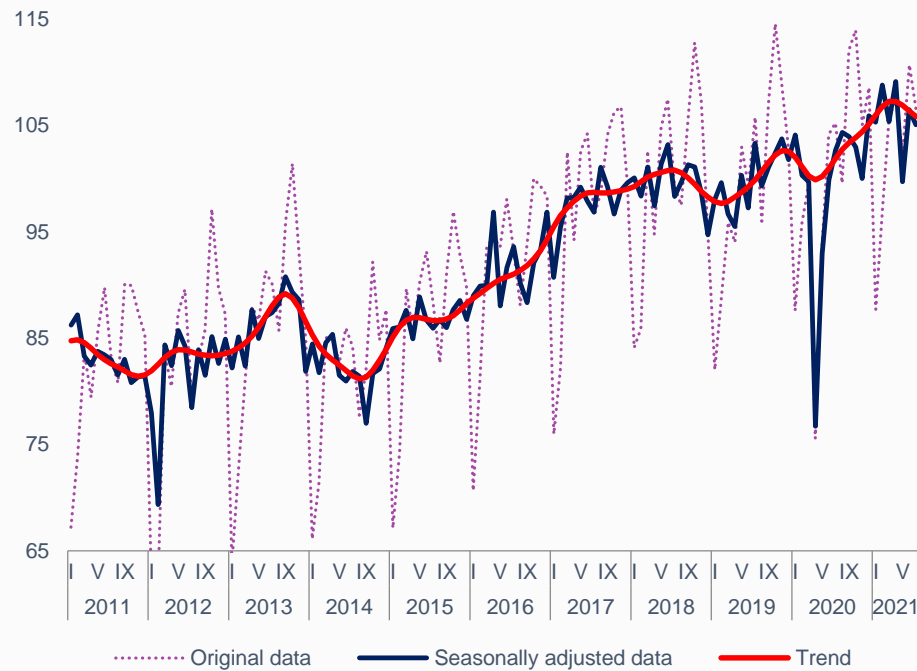
\* [https://www.mfin.gov.rs/upload/media/ZzkTpV\\_601696edb3a9a.pdf](https://www.mfin.gov.rs/upload/media/ZzkTpV_601696edb3a9a.pdf)

# In July 2021, industrial production increased by 1.7% y-o-y, with an increase in the physical volume of all three sectors of industry.

Indices of industrial output (2020=100)



Indices of manufacturing industry (2020=100)



Source: SORS, calculated in the MoF

**According to seasonally adjusted data, the dynamics of total industrial activity in July slightly accelerated compared to the June level of production by 1%, which is primarily the result of trends in the mining and electricity production, while at the same time manufacturing production remain almost at the same level compare to the previous month.**

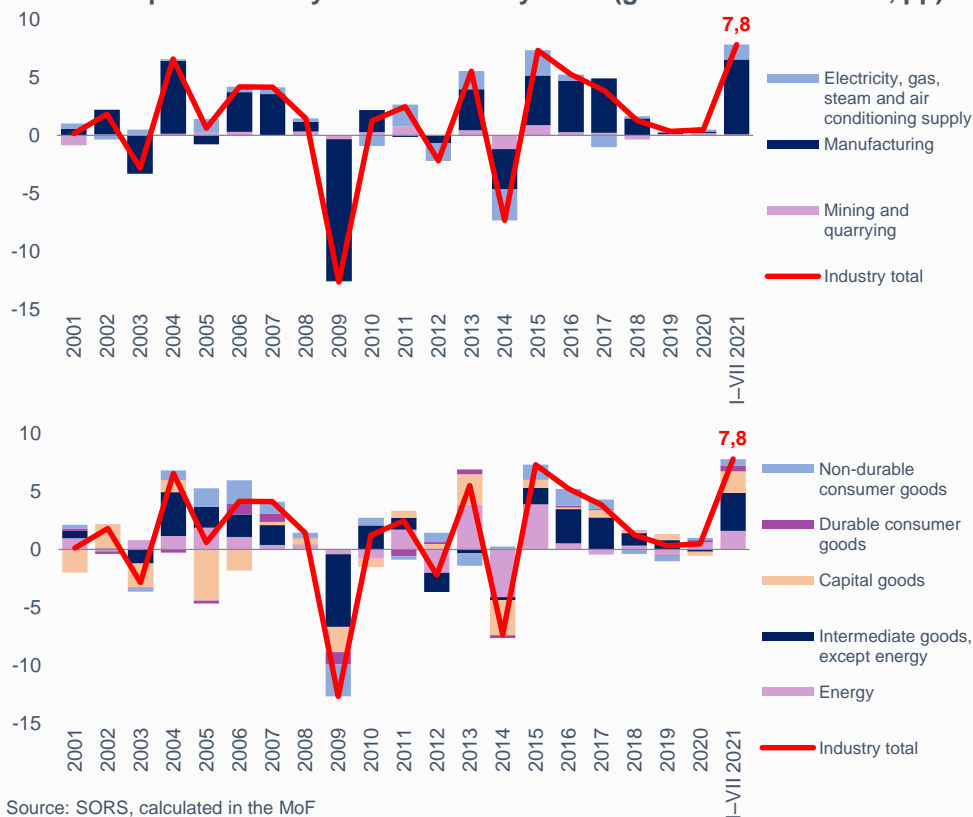
For the eighth month in a row, the manufacturing industry recorded year-on-year growth in production, with the physical volume increasing by 1.2% in July, providing slightly more than half of the growth of the total industry. At the same time, the July level of mining and electricity production was higher by 7.1% and 1.6% y-o-y, respectively.

Observed on a year on year basis, half of the total 24 activities of the manufacturing industry recorded an increase in production in July.

The most significant positive contribution to the July growth of manufacturing comes from the oil industry with a growth of 13.3% y-o-y. The production of other transport equipment has been growing since the beginning of the year, with the July level of production being 141.5% y-o-y higher. The tobacco industry accelerated its production, which under the influence of the lower base from the same month of the previous year gives a growth of 35.4% y-o-y. Production of beverages increased by 8.6%, while the physical volume of production of machinery and electrical equipment increased by 11.0% and 8.1% y-o-y, respectively. On the other hand, the most significant negative contribution had pharmaceutical and furniture production, with a decrease of 12.6% and 21.3% y-o-y, respectively.

# In the first seven months of 2021, industrial production recorded a growth in physical volume of 7.8% y-o-y.

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



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



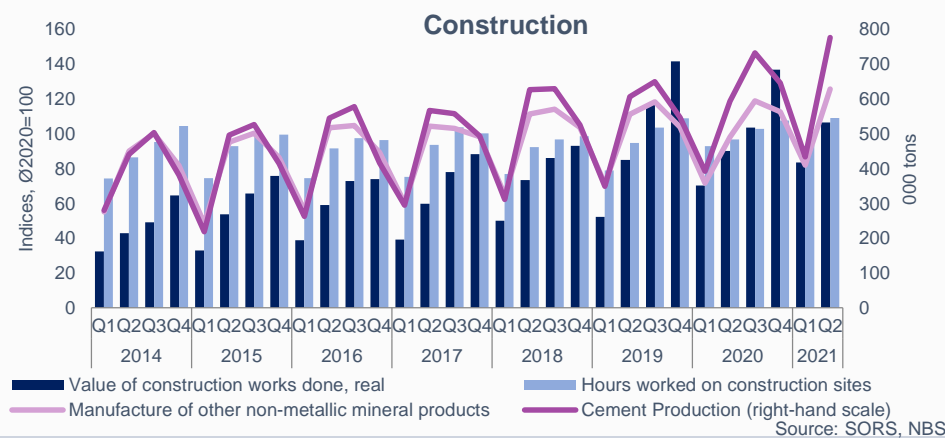
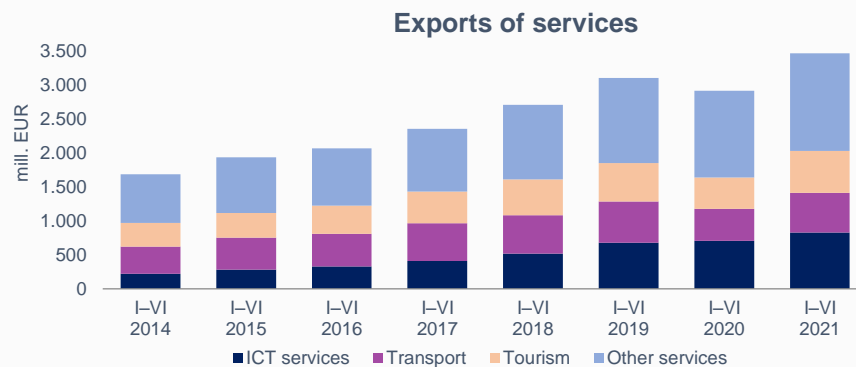
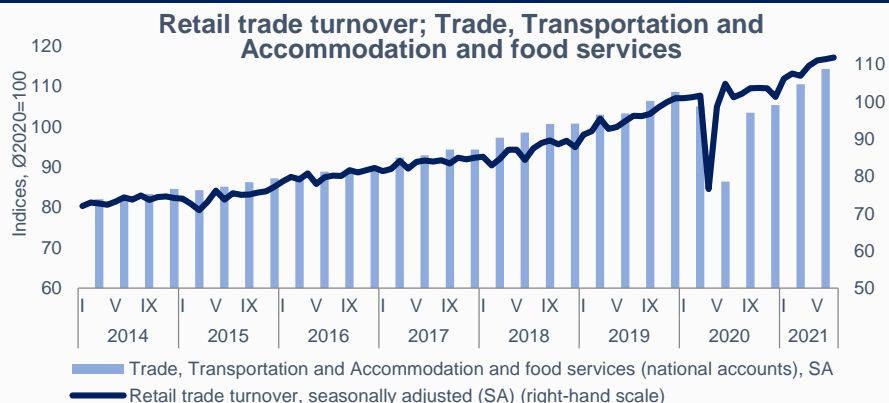
**Activation of new production capacities primarily due to the effect of foreign direct investments from the previous period provided stable dynamics of economic activity of the manufacturing industry even in the conditions of the pandemic, which with a low base from the same period last year determines the growth of production of this sector of 8.6% y-o-y in the first seven months.**

In this period, the increase in the production of the manufacturing industry of 8.6% y-o-y was accompanied by an increase in the physical volume of almost all activities in this sector, which determined slightly more than four-fifths of the growth of the total industry. Also, electricity production had a positive contribution to industrial activity with an increase in physical volume of 7.4% y-o-y, in addition to the mining sector, whose production increased by 0.7% year on year.

At the same time, all MIGs groups recorded growth in production. The largest positive impact came from the production of intermediate goods with a growth of 10.6% y-o-y, mostly due to the growth of the rubber industry, as well as the production of metal products and construction materials. With a capital goods growth of 20.0% y-o-y, these two MIGs groups accounted for about two-thirds of total industry growth..



# 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 11.1% y-o-y in July. At the same time, tourist activity measured by the number of tourist arrivals and overnight stays increased by 77.9% and 60.0% year on year, respectively.**

Retail trade turnover in the first seven months of 2021 increased by 11.9% in real terms.

In the same period, 1,334 thousand tourists visited tourist destinations, which is a y-o-y increase of 36.9%, with growth in the number of overnight stays by 31.0%. In the period Jan-June 2021, foreign currency inflow from tourism increased by 33.1% y-o-y and amounted to EUR 613.8 million.

In the first half of 2021, compared to same period in previous year 2020, the number of registered automobiles increased by 33.9%.

Year-on-year growth in exports of services of 18.9% in the first six months was accompanied by growth in almost all service activities, with exports of tourism and ICT services providing the most significant positive contribution with growth of 33.1% and 17.6% y-o-y, respectively.

Favourable trends continue in the construction sector, where in the first half of 2021 GVA of construction increased by 17.7% y-o-y in real terms, while a real growth of value of the construction works done was 19.2% y-o-y. In the first seven months, the number of issued building permits increased by 30.1% year on year, while the production of cement and construction materials increased by 20.2% and 18.0%, respectively.

# EXTERNAL SECTOR

❖  
In July, the year-on-year exports and imports of was 24.8% and 24.2%, respectively

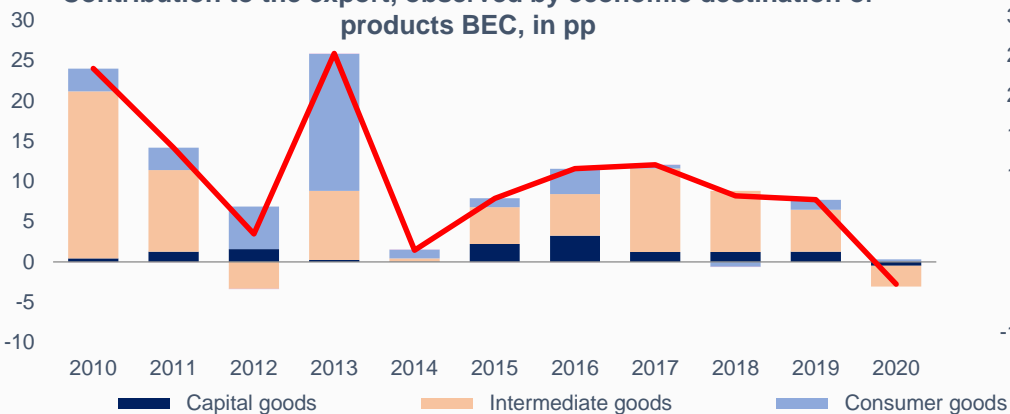
❖  
Coverage of imports by exports of goods in July amounted to 75.1%

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

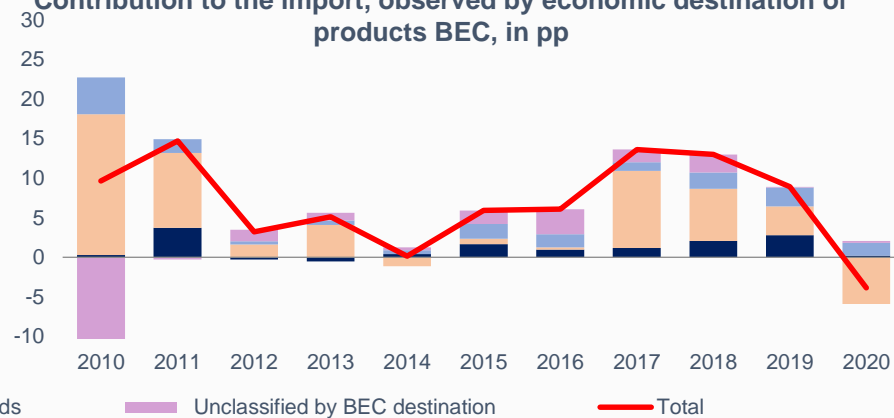
❖  
In June 2021, the current account deficit amounted to EUR 257.9 mill

# 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.

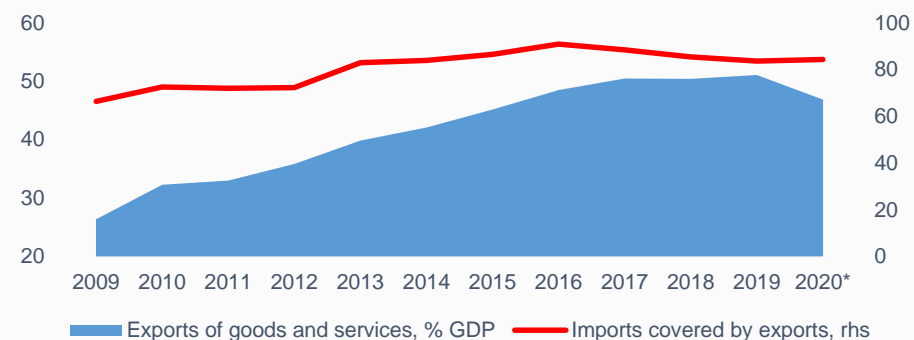
Contribution to the export, observed by economic destination of products BEC, in pp



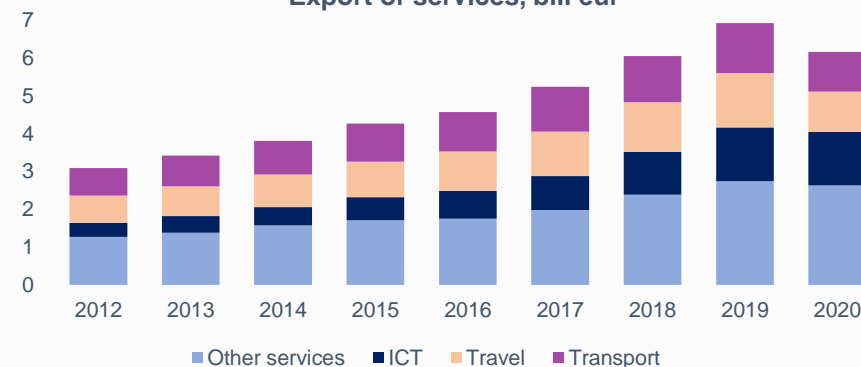
Contribution to the import, observed by economic destination of products BEC, in pp



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.

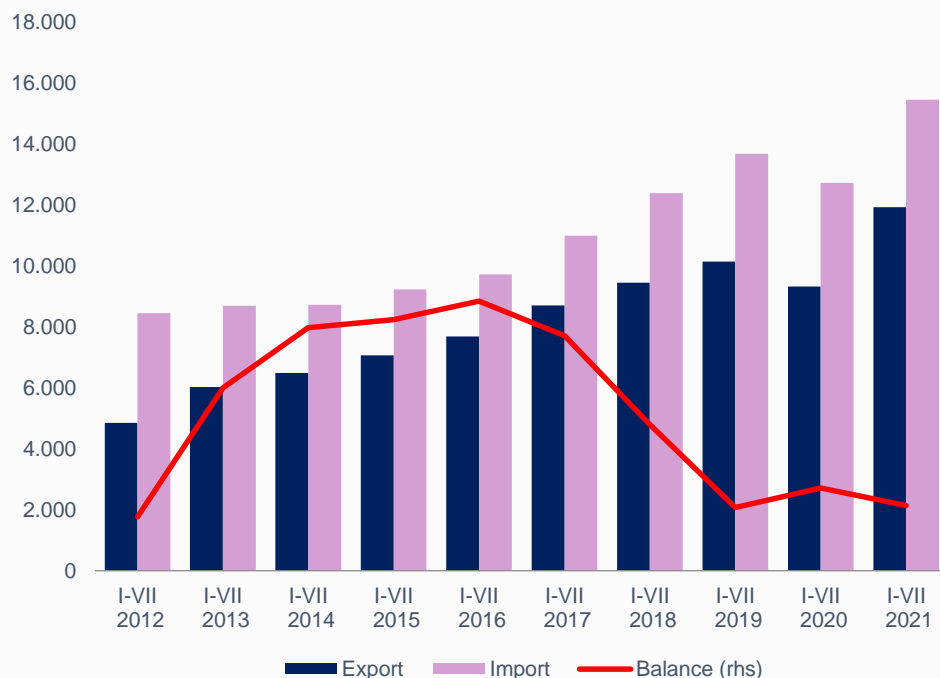
The decrease in the volume of foreign trade flows due to the global recession has resulted in a decrease in the share of total exports in GDP in 2020 to 48.0%, a decrease by 3 percentage points when compared to 2019.

Source: SORS

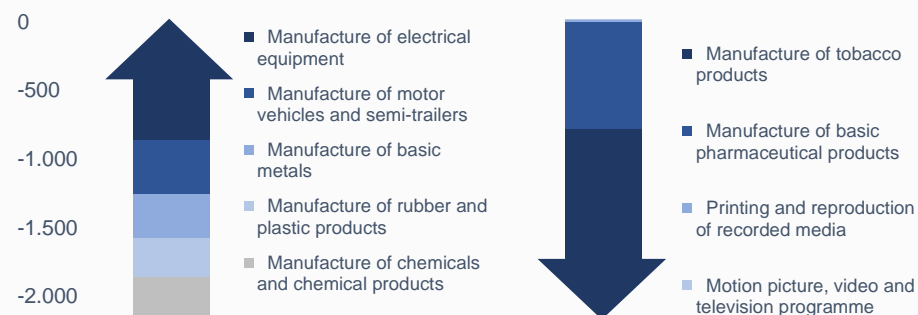
\*MoF estimation, national accounts data

**In the first seven the year, exports of goods amounted to EUR 11.9 billion and imports of goods amounted to EUR 15.6 billion (growth of 28.0% and 22.3% y-o-y, respectively). The coverage of imports by exports increased to 76.7% compared to 73.3% from the same period last year.**

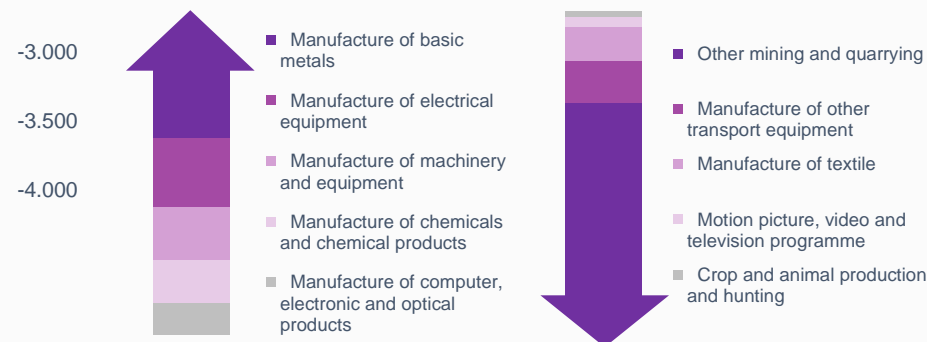
**External trade in the period January–July (2012-2021), mill. EUR**



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



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



**In July 2021, total foreign trade increased by 24.5% year-on-year to the level of EUR 4.3 billion, due to growth of export and import of 24.8% and 24.2%.**

A total of 1.9 billion euros worth of goods were exported in July 2021, which is an increase of 24.8% over the same month last year. The growth of exports of the processing industry in July amounted to 19.8%, and within it the most significant contribution was recorded in the metal, chemical and food industries (increases of 75.3, 40.3 and 30.3 mil. euros, respectively). In addition, strong growth in exports of the mining sector was continues, with an increase of EUR 75.4 mil.

In the observed month, a total of 2.5 billion euros was imported, a growth of 24.2%, y-o-y. At the same time, the growth of imports was mostly determined by higher imports of reproduction (34.7%), while positive contribution also came from higher imports of equipment (5.5%). and consumer goods (1.3%).

Increase in exports in the period January–July 2021 is the result of growth in all sectors. Export of the manufacturing industry was higher by EUR 2.2 billion, y-o-y. The largest increases were registered in exports of electronic (44.5%), metal (34.4%) and automotive industries (34.4%), while at the same time high growth rates of exports of rubber (28.1%) and chemical industry and (40.4%) were recorded. Higher export of agriculture and mining had a positive impact on export growth.

In the first seven months of 2021, import growth was recorded in 20 of the 23 product groups. In the first seven months of 2021, imports of intermediate goods contributed to two-thirds of the total imports growth. This growth of intermediate goods imports was primarily due to higher economic activity but also due to higher oil prices as well. At the same time, consumption of goods and equipment increased by 11.0% and 13.3%, respectively.

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

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

1.496,3

Equipment for distributing electricity	16,5
Rotating electric plant and parts	14,5
Fruit and fruit preparations	5,1
Railway vehicles and associated equipment	3,8
Other	60,0



1.046,3

Motor cars and other motor vehicles	13,9
Footwear	9,8
Maize	54,8
Articles of apparel	4,6
Other	700,2



416,2

Copper	44,4
Copper ores and concentrates	39,5
Wood, simply worked	3,6
Wood in the rough or roughly squared	2,3
Other	10,1



622,3

Equipment for distributing electricity	18,
Thermionic or photocathode valves	15,7
Tubes, pipes and hoses	4,0
Internal combustion piston engines	3,7
Other	57,9



513,8

Fruit and nuts, fresh or dried	17,4
Rubber tyres, flaps, etc.	8,4
Medicaments	6,6
Clothing accessories of textile fabrics	5,2
Other	62,5



746,5

Maize	30,0
Wheat	9,3
Equipment for distributing electricity	8,1
Manufactures of leather or of composition leather	3,6
Other	48,9



Share in overall  
external trade

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

2.077,1

Copper	5,5
Motor cars and other motor vehicles	4,6
Medicaments	4,1
Electrical apparatus for switching electrical circuits	3,4
Other	82,4

1.325,2

Parts and accessories of the motor vehicles	5,4
Copper	5,1
Leather	4,9
Articles made of plastic	2,6
Other	82,0

1.903,5

Telecommunications equipment	9,0
Automatic data processing machines	3,9
Electrical machinery and apparatus	3,5
Medical and pharmaceutical products	3,1
Other	80,6

689,7

Petroleum oils and oils obtained from minerals	12,0
Medicaments	7,2
Equipment for distributing electricity	5,7
Natural gas	3,0
Other	72,0

765,2

Natural gas, whether or not liquefied	27,0
Petroleum and minerals oils, crude	13,4
Fertilizers (отхер тхан цруде)	11,2
Tobacco, manufactured	5,1
Other	43,3

490,7

Petroleum oils and oils obtained from minerals	8,1
Flat-rolled products of iron or non-alloy steel	7,3
Veneers, plywood, particle board	5,2
Copper ores and concentrates	3,8
Other	75,6



**In the period January–July 2021, the total export value of 15 largest exporters amounted to EUR 3,4 bill. The largest exporter was Serbia Zijin Bor, followed by HBIS group and NIS.**

#### 15 BIGGEST EXPORTERS\* in the period January–August 2021

NAME OF EXPORTER	LOCATION	Export (EUR mill)
SERBIA ZIJIN BOR COPPER	BOR	556.1
HBIS GROUP SERBIA IRON & STEEL D.O.O.	BEOGRAD	409.4
NAFTNA INDUSTRIJA SRBIJE	NOVI SAD	285.1
TIGAR TYRES	PIROT	271.9
HENKEL SRBIJA	BEOGRAD	234.2
LEONI WIRING SYSTEMS SOUTHEAST	PROKUPLJE	220.2
YURA CORPORATION	RAČA	209.4
FCA SRBIJA D.O.O.	KRAGUJEVAC	189.3
GRUNDFOS SRBIJA	INĐIJA	162.6
HIP - PETROHEMIJA	PANČEVO	155.0
DRUŠTVO ZA TRGOVINU ROBERT BOSCH	BEOGRAD	151.7
PHILIP MORRIS OPERATIONS	NIŠ	139.0
HEMOFARM	VRŠAC	137.3
TETRA PAK PRODUCTION	BEOGRAD	130.1
ZF SERBIA D.O.O. PANCEVO	PANČEVO	129.7

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

#### The most significant products in export in period January–July 2021

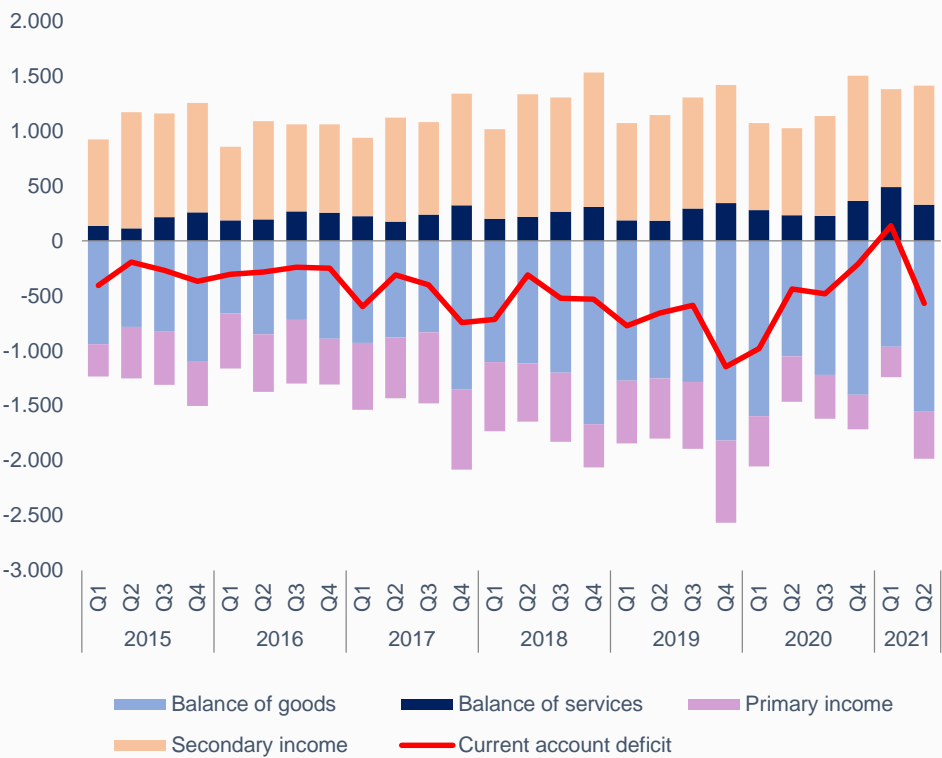
Electrical machinery, apparatus and appliances 12.8% (EUR 1,527.2 mill.)	Cereals and cereal preparations 5.0% (EUR 598.5 mill.)	Power-generating machinery and equipment 4.7% (EUR 554.8 mill.)
	Vegetables and fruit 4.5% (EUR 533.9 mill.)	Rubber 4.2% (EUR 505.8 mill.)

#### The most significant products in import in period January–July 2021

Electrical machinery, apparatus and appliances 7.4% (EUR 1,151.9 mill.)	Petroleum, petroleum products and related materials 5.2% (EUR 815.9 mill.)	General industrial machinery and equipment 4.5% (EUR 698.1 mill.)
	Road vehicles 5.0% (EUR 772.6 mill.)	Medicinal and pharmaceutical products 4.4% (EUR 679.7 mill.)

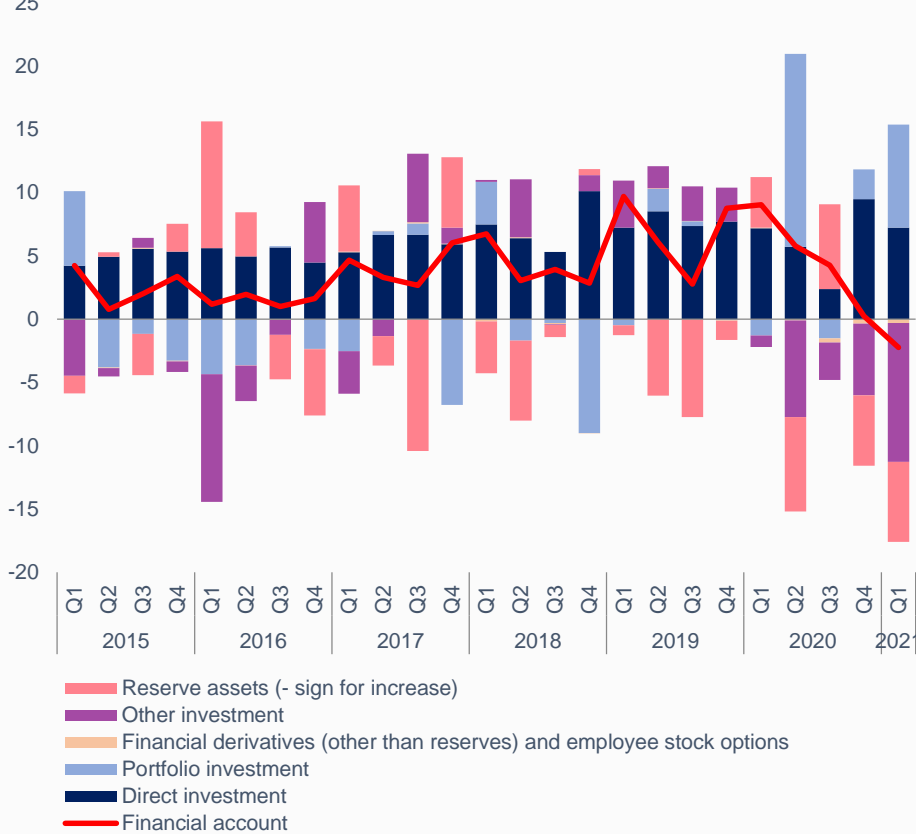
# In the first half of 2021, the current account of the balance of payments recorded a deficit in the amount of 431.9 mil. euros, which is a decrease of 855.5 mil. euros compared to the same period last year.

Balance of payment (mill, EUR)



Source: NBS  
Included intercompany loans and reinvested earnings.

The structure of financial balance, % of GDP



## The goods and services account recorded deficit, which amounted to EUR 1.7 bill, and it was lower by 19.7%, compared to the same period of the previous year.

In the period January–June 2021, trade deficit amounted to EUR 2,520.3 mill, which is lower by EUR 82.7 mill y-o-y, while surplus in services amounted to EUR 817.4 million, which is an increase of EUR 334.5 mill.

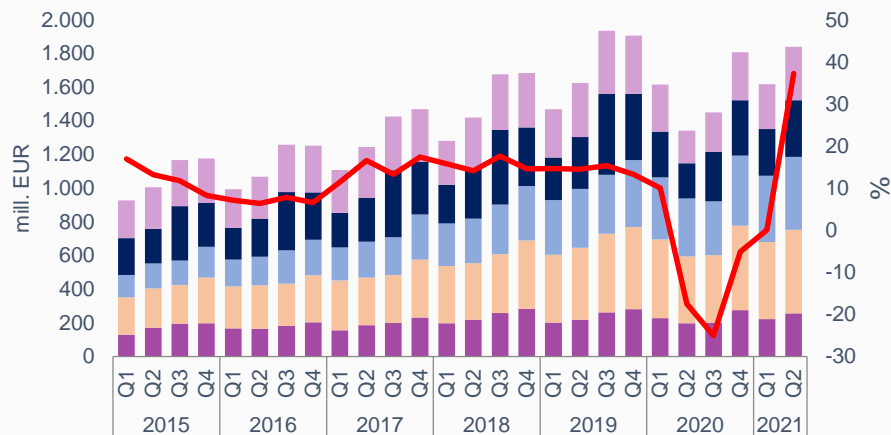
In the observed period, the deficit of primary income was slightly higher (increase of EUR 11.7 million, i.e. by 1.7%). The surplus of secondary income was higher by almost 30% year on year and amounted to 1,974.9 mil. euros, mostly due to the increased inflow of remittances from abroad.

In the first six months of 2021, net FDI inflows amounted to 1.6 billion euros, an increase of 11.4% year on year. The total inflow based on FDI amounted to 1,732.8 mil. euros.

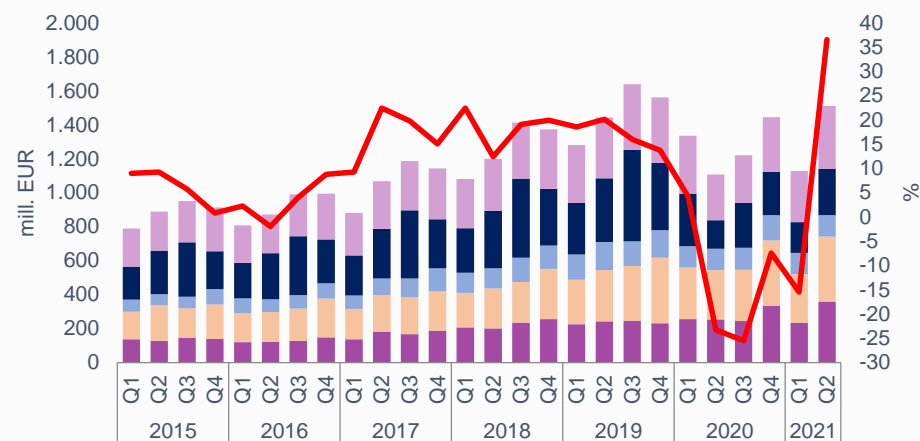
The net inflow of portfolio investments in the observed period amounted to 783.7 mil. euros.

**In the first half of 2021, the foreign trade in services had a surplus that was higher by 69.3% y-o-y, determined by a higher surplus in the tourism sector and ICT. Personal transfers from abroad increased by 23.7% compared to the same period last year.**

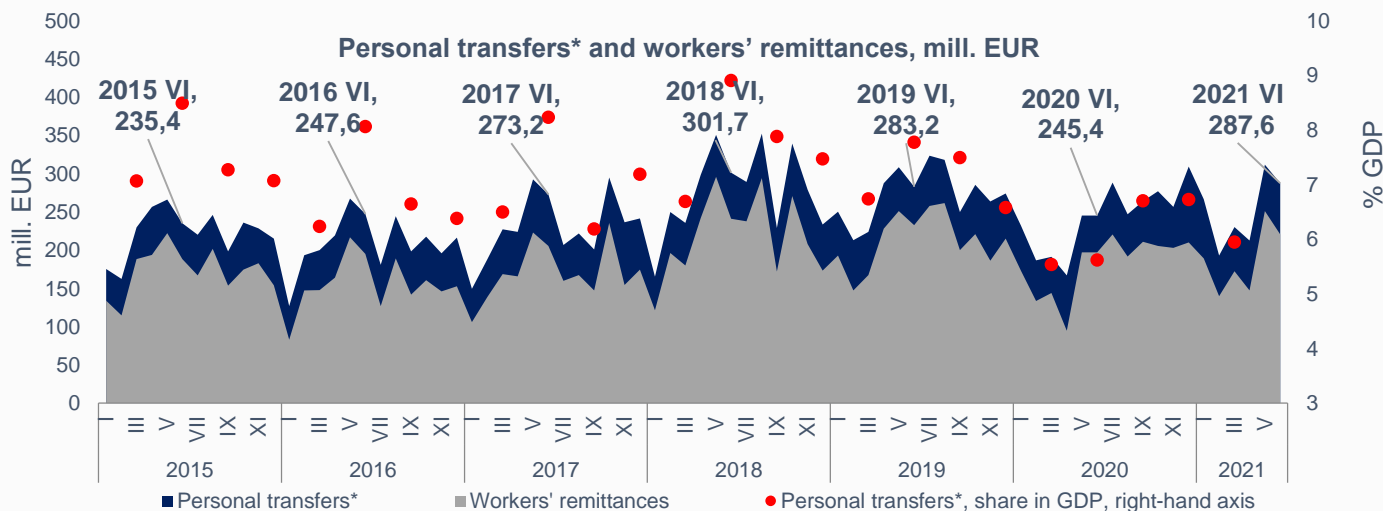
**Structure of services export, mill. EUR**



**Structure of services import, mill. EUR**



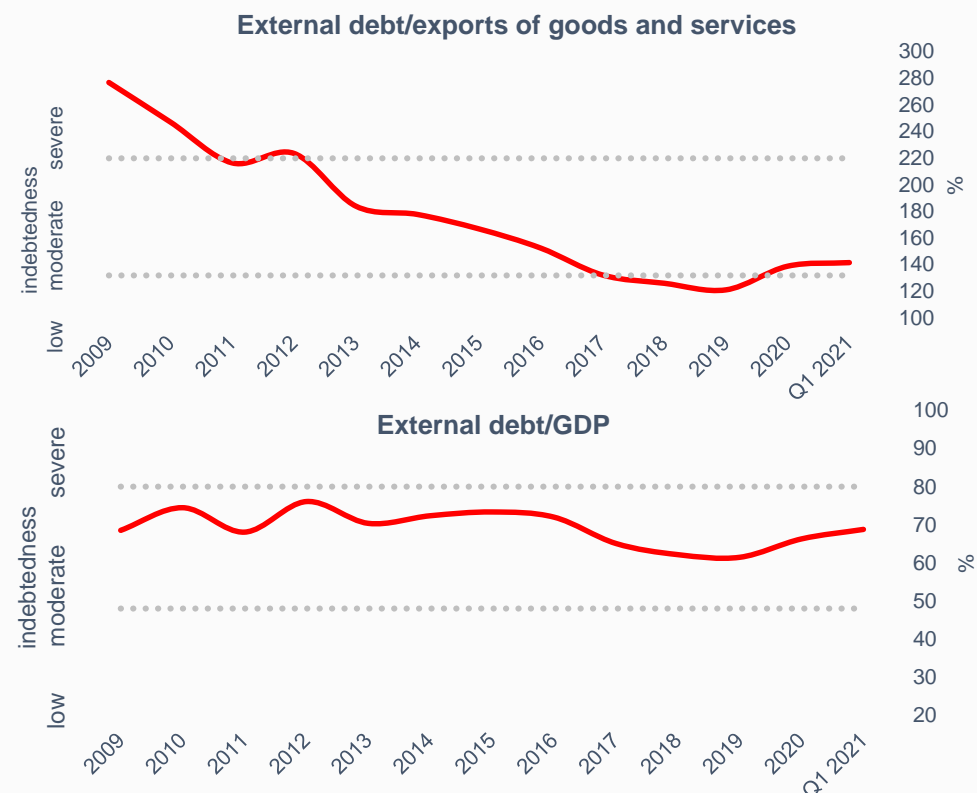
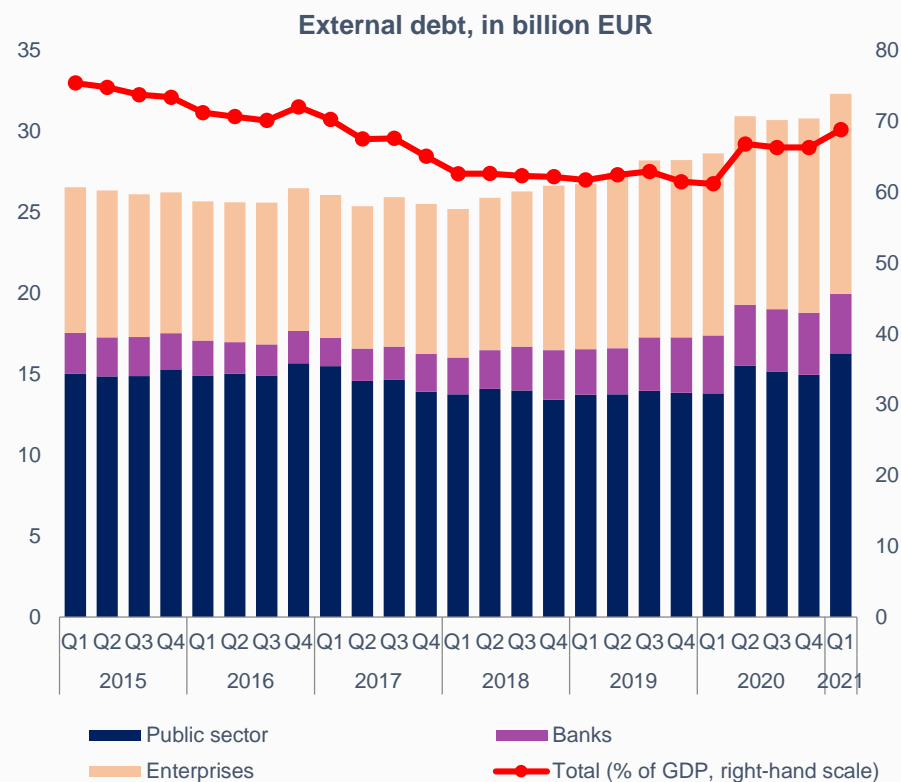
Export of services, growth rate, right-hand axis, left chart; Import of services, growth rate, right-hand axis, right chart



\* Current transfers between resident and non-resident households.

Source: NBS

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



**Debt of enterprises increased by EUR 347.3 million, while a debt of banking sector decreased by EUR 146.1 mill, compared to the end of previous year. At the same time, indebtedness of public sector increased by EUR 1.3 billion.**

At the end of first quarter 2021, compared to the end of 2020 the ratio of external debt to exports and external debt to GDP increased. The increase in both ratios was mostly influenced by the sale of government bonds on the international financial market in the amount of one billion euros, with the goal of helping the economy during the economic uncertainty which was caused by the coronavirus epidemic.

According to the World Bank criteria\*, the current level of external debt to exports and external debt to GDP ranks Serbia among medium-indebted countries.

\* According to the World Bank's methodology, if the ratio of external debt to export is below 132% then the country is at the low indebted level and for ratio above 220% country is severely indebted. According to the same methodology, if the ratio of external debt to GDP is below 48% then the country is at the low indebted level and for the ratio above 80% country is severely indebted.

# LABOUR MARKET

Registered employment in July was higher by 3.5% y-o-y

Unemployment rate in Q2 2021 totalled 11.1%

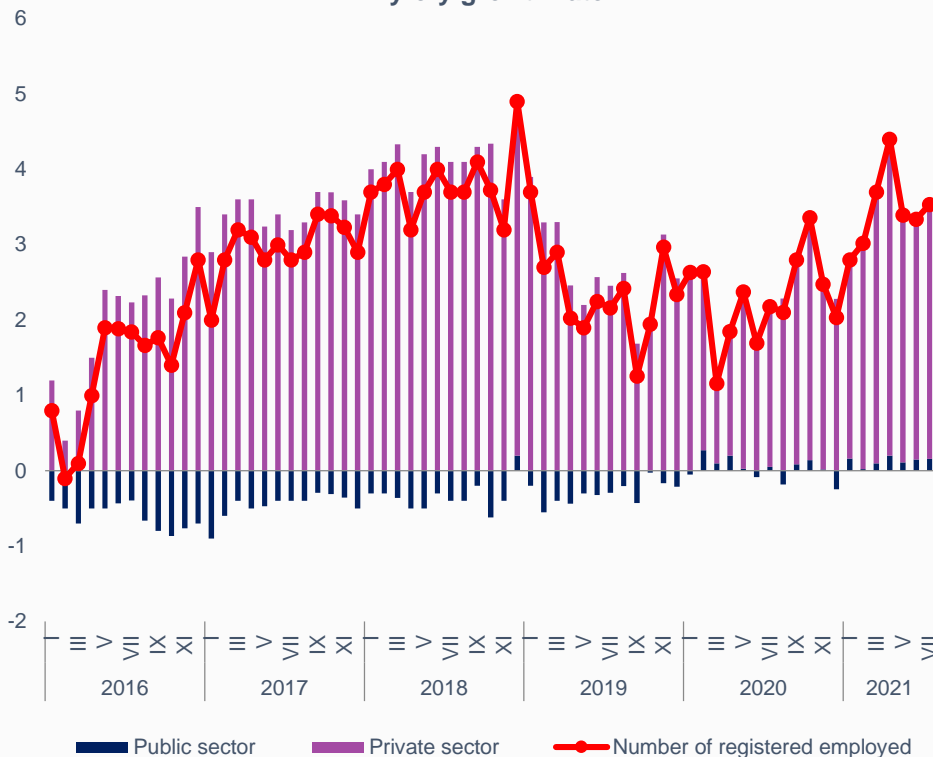
Average net salary in June was higher by 5.4%, y-o-y, in real terms

Average net salary in June totalled RSD 65,070

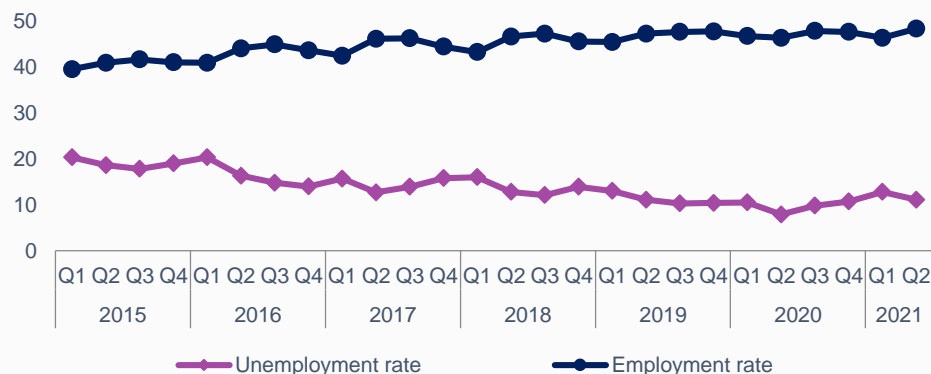


# The number of formally employed in July, according to CROSO\* records, continued to grow and was up 3.5% year on year.

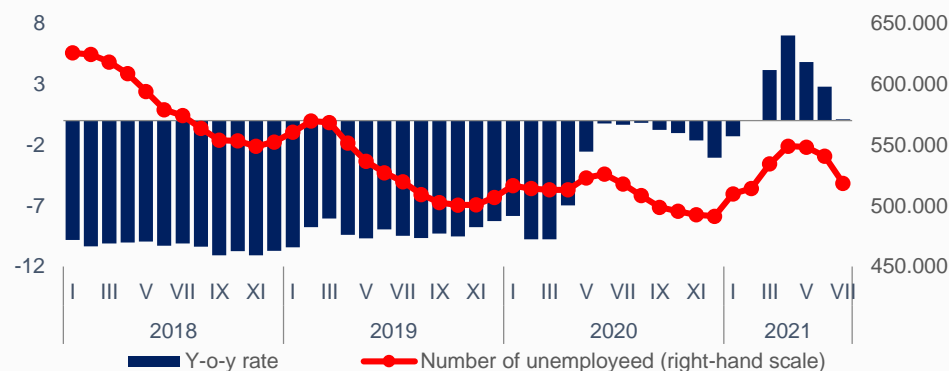
Average number of formally employed, contribution to y-o-y growth rate



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 July is almost entirely the result of growth in employment in the private sector by 4.7%, while in the public sector the number of employees increased by 0.6%. Most significant yearly growth in July was registered in manufacturing industry, trade, information and communication technologies and professional, scientific and technical activities.

In period January-July employment increased by 3.5%, y-o-y.

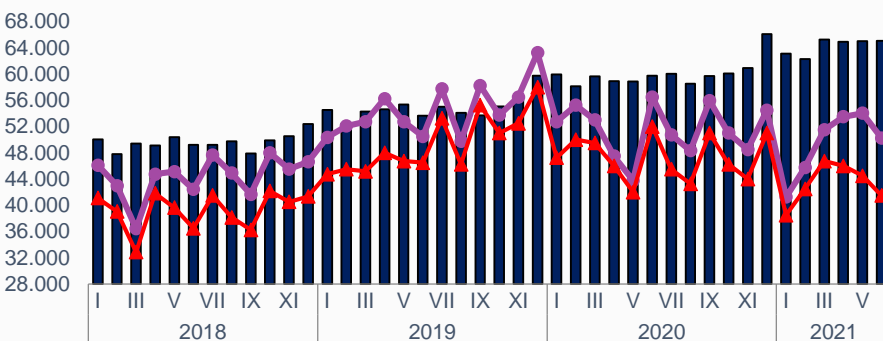
\* Central registry of compulsory social security

On the other hand, according to the National Employment Service, the number of unemployed persons was almost unchanged in June. According to the changed methodology of the Labour Force Survey in the second quarter of 2021, the unemployment rate was 11.1%, while employment rate totalled 48.3%.

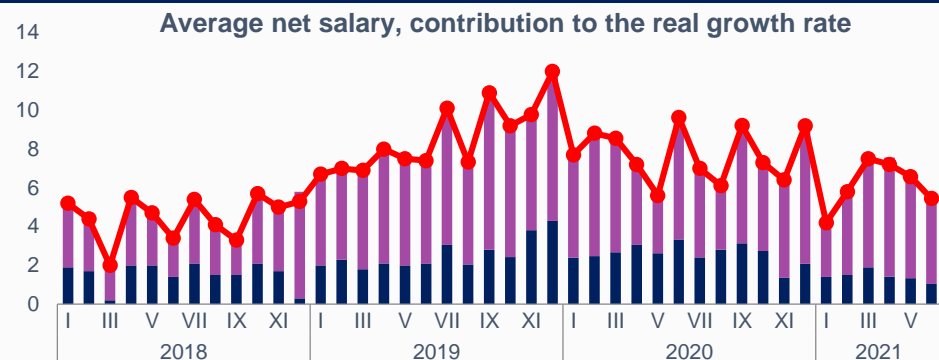
**The good situation on the labour market is reflected in the growth of wages, which is, above all, the result of the general stability of the economy and economic growth. In June the average net salary increased nominally by 8.9%, and in real terms by 5.4%, y-o-y and totalled RSD 65,070.**



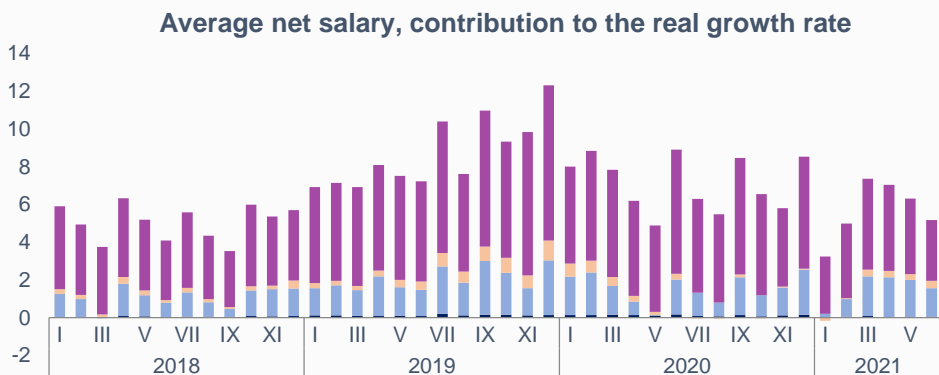
■ Average net salary, EUR



■ Average net salary, RSD  
 — Average net salary, nominal growth rate (right-hand scale)  
 ▲ Average net salary, real growth rate (right-hand scale)



■ Public sector ■ Private sector — Average net salary



■ Agriculture, forestry and fishing ■ Industry ■ Construction ■ Services

**Observed by activities, the most significant increase in salaries was recorded in the manufacturing industry and trade. Within the public sector, salaries increased the most in health care.**

Salaries growth in June was driven by a year-on-year increase by 6.4% in the private sector, while in the public sector it grew by 3.7% 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.

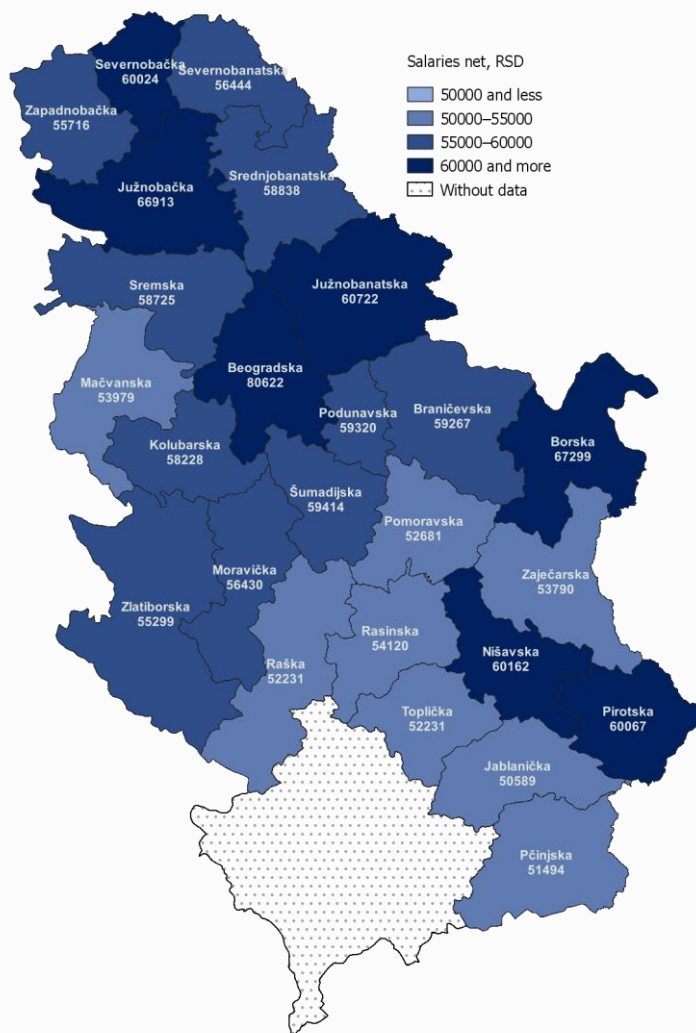
In period January-June average net salary increased in real terms by 6.2%, y-o-y.

The overall increase in salaries at the beginning of 2021 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.

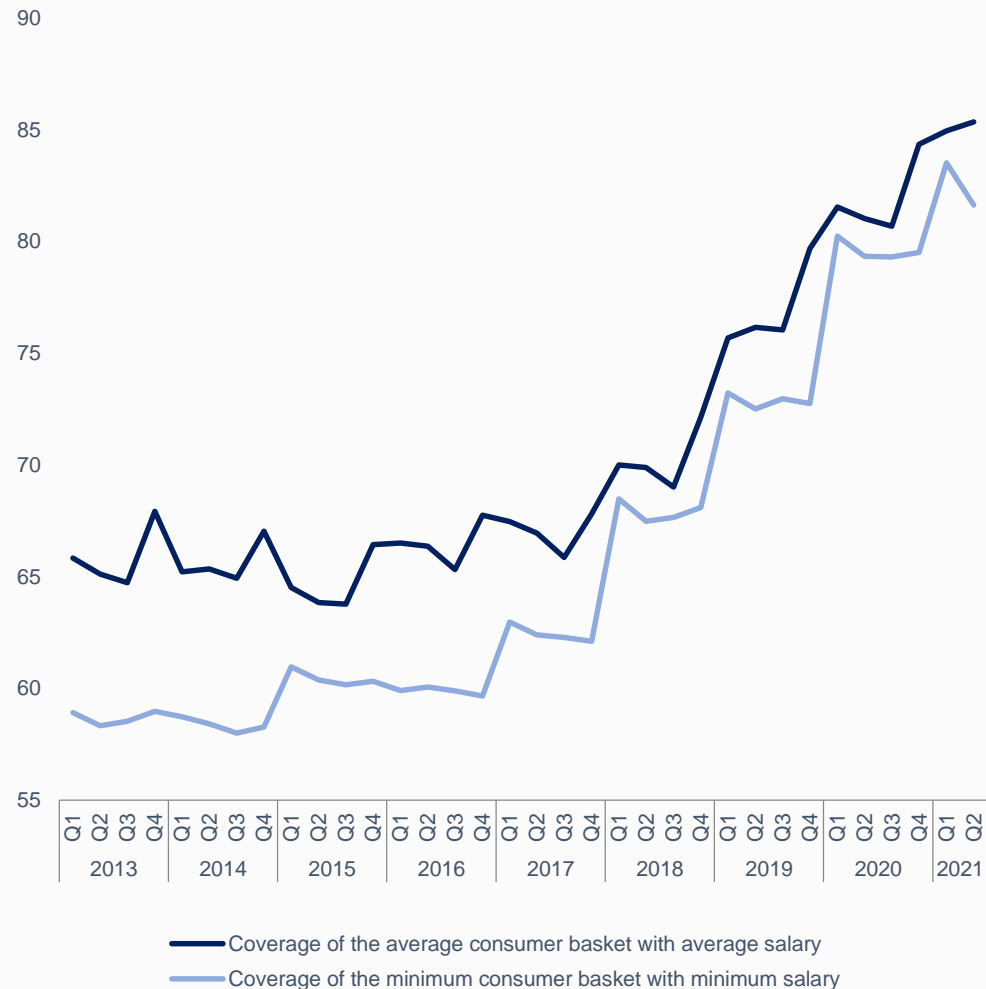
Source: SORS, calculated in MoF

# 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, June 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 July totalled 3.3%

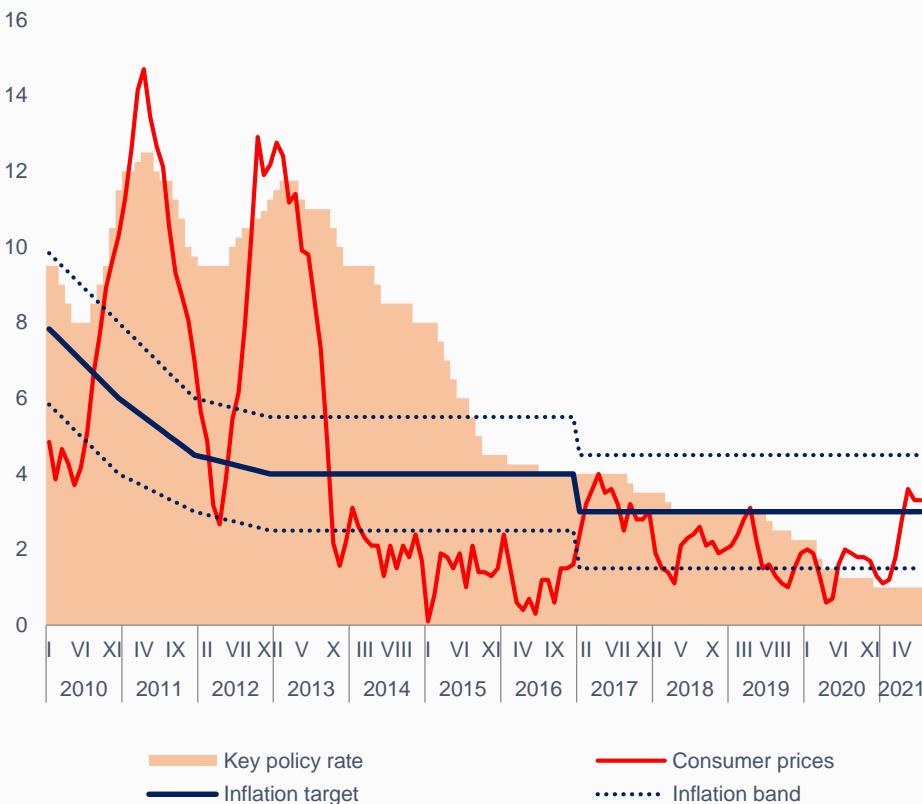
❖ Total lending activity registered nominal growth of 8.5% compared to July 2020

❖ In July, dinar appreciated in real terms by 1.1%, on average, y-o-y

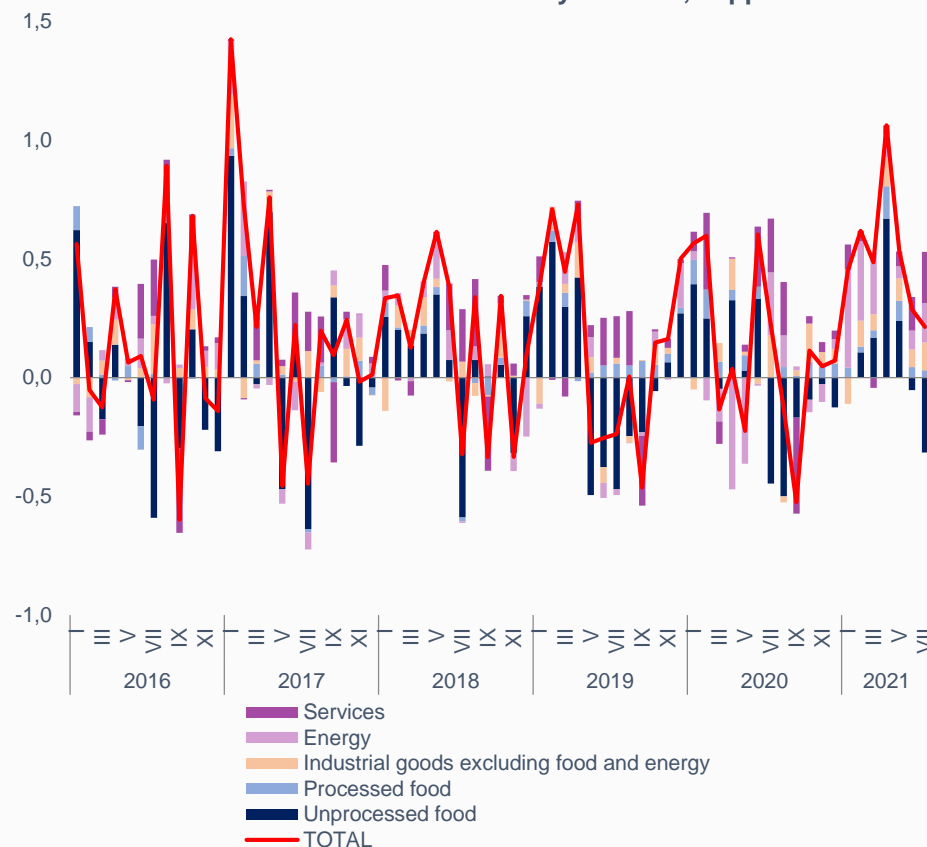
❖ NBS foreign exchange reserves totalled EUR 14,580 million at the end of July

**At 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. NBS kept its key interest rate in September at the level of 1.00%.**

**Inflation, annual growth rate, in %**



**Contributions to the monthly inflation, in pp**



**The still low inflationary pressures are indicated by the movement of core inflation, which amounted to 1.9% in July, y-o-y.**

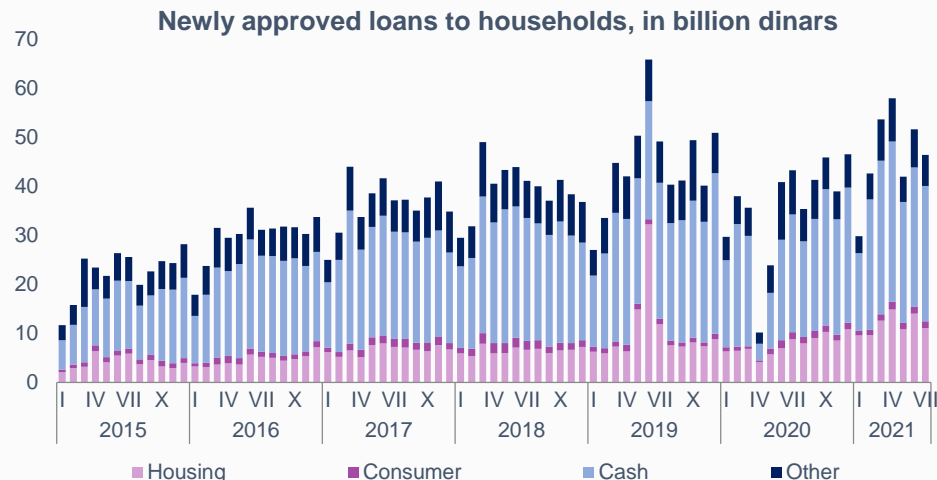
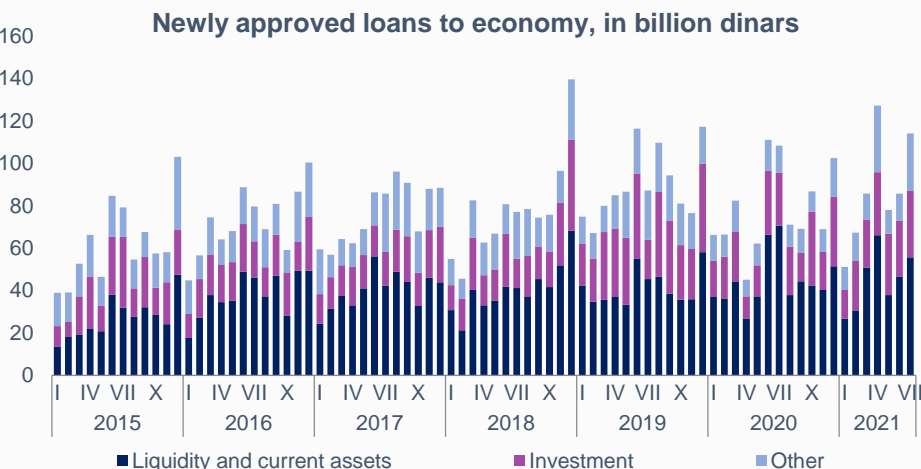
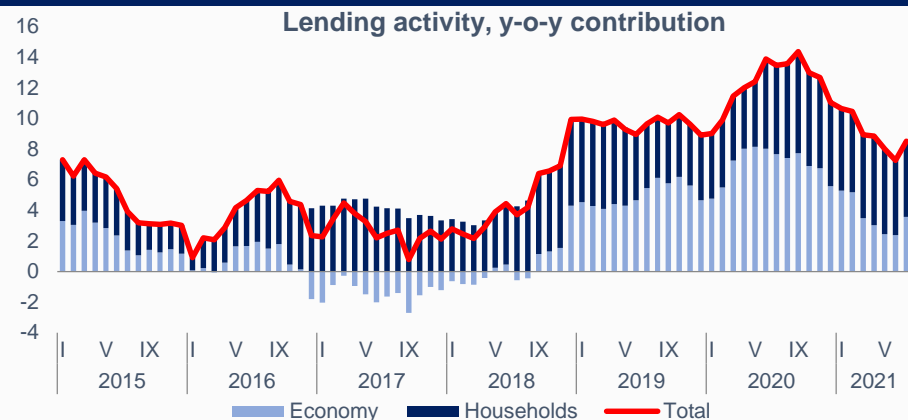
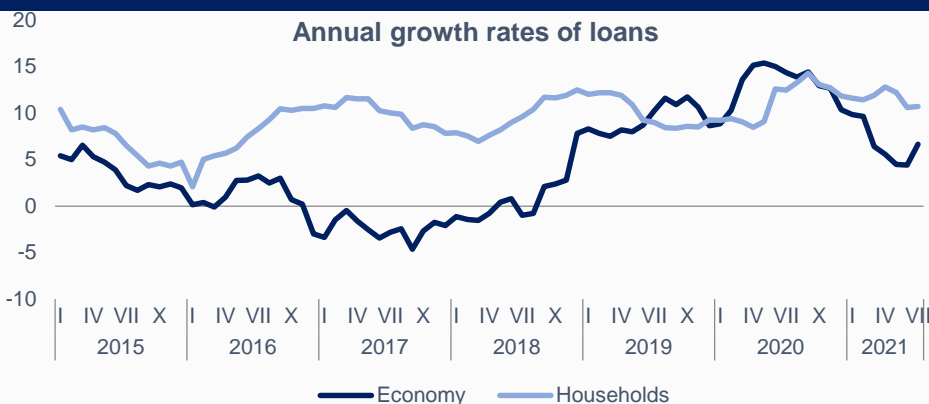
The increase in inflation in July was driven by temporary factors – an increase in world oil prices, vegetables, as well as by its low base value.

On the monthly basis, consumer prices increased in July by 0.2%, mainly due to the increased prices of oil derivatives, travel arrangements and tobacco.

Good economic developments, with higher-than-expected growth rates, the absence of significant inflationary pressures, with current positive inflation expectations, as well as the accelerated recovery of the world economy influenced the NBS to keep the reference interest rate at 1.00%, established in December 2020.



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



**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 July.**

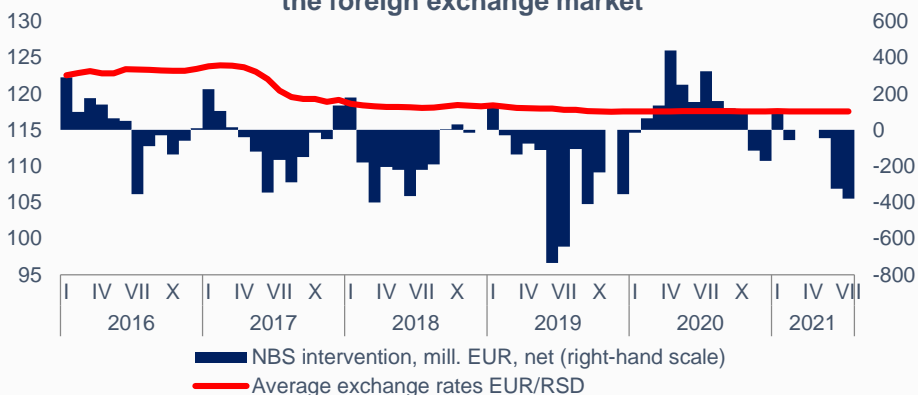
A nominal increase of loans to economy of 6.6% was registered in July, while the credit activity to households has grown by 10.7% y-o-y, in nominal terms. The interest rate on the total newly approved dinar loans increased y-o-y by 0.3 pp, and amounted to 5.82%. Total newly approved dinar loans increased by 5.9% 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.

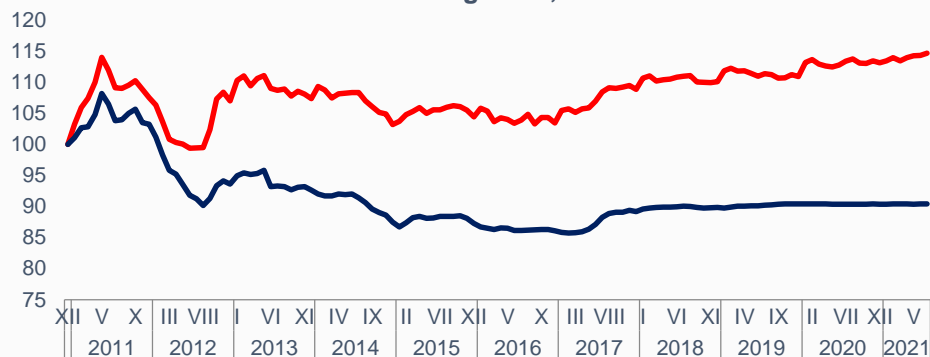
Source: NBS

**In July 2021, real appreciation of dinar was recorded on average, by 1.1%, y-o-y, while in nominal terms remained unchanged. At the same time, foreign exchange reserves increased by 7.8% compared to July 2020 and totalled EUR 14.6 billion.**

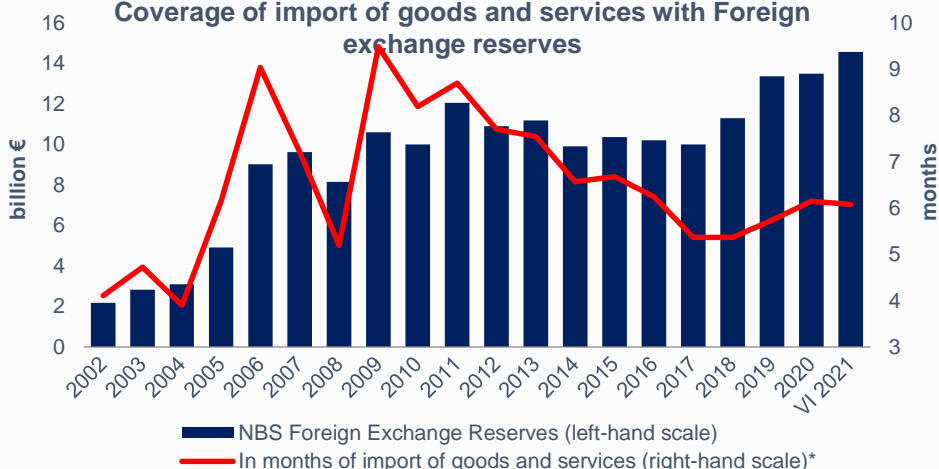
**Movements in the exchange rate and NBS interventions on the foreign exchange market**



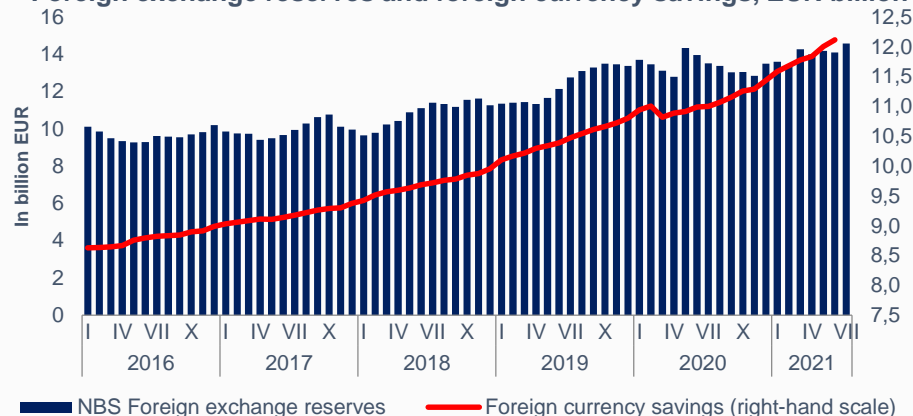
**Real and nominal exchange rate, indices December 2010=100**



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



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



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

**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 July, NBS intervened on the foreign exchange market by net buying foreign currency in amount of EUR 380 mil.

At the end July, the NBS foreign exchange reserves increased by EUR 488.5 million compared to the previous month, mostly as a result of net inflow arising from NBS activity in the local FX market.

# FISCAL DEVELOPMENTS

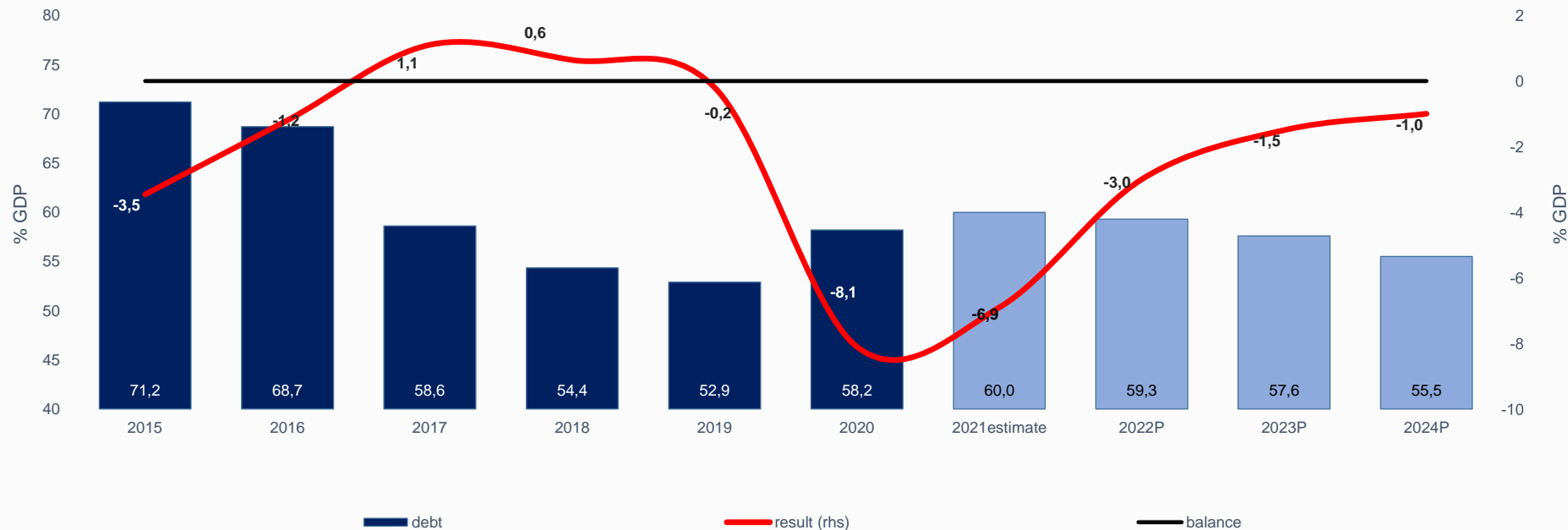
❖  
**Temporary character of 2020 and 2021 high deficit levels**

❖  
**2020 deficit of 8.1% of GDP due to implemented package of anticrisis measures and procurement of medical equipment**

❖  
**2021 deficit of 6.9% of GDP due to additional package of measures estimated at 4.6% of GDP, including sectorial aid and additional assistance to general population. Capital expenditures soaring at 7.2% of GDP**

❖  
**Extended costs for fighting the pandemic have had massive impact on public debt level, albeit it is firmly kept under 60% of GDP threshold**

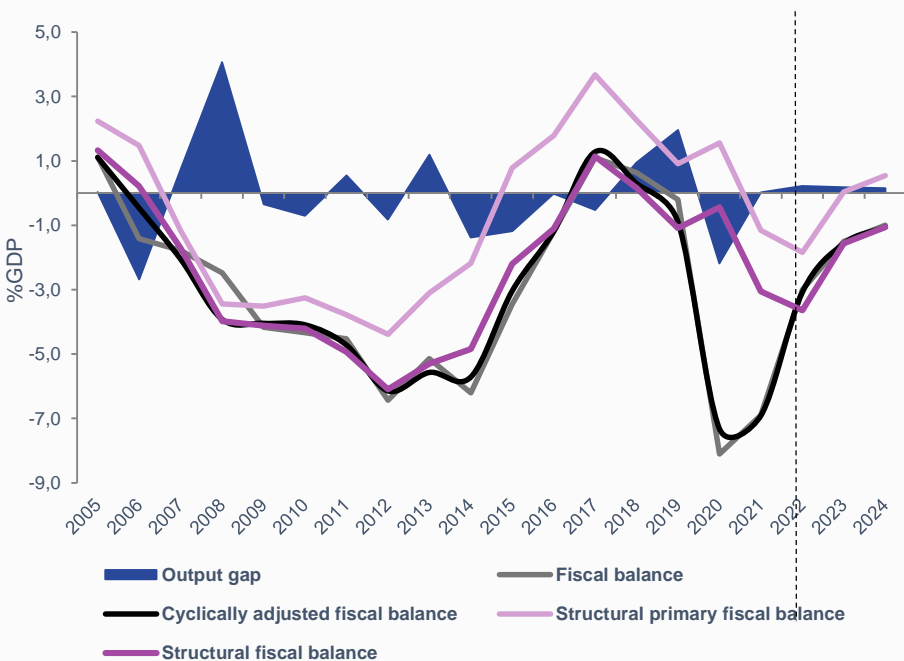
# Fiscal result and general government debt, in % of GDP



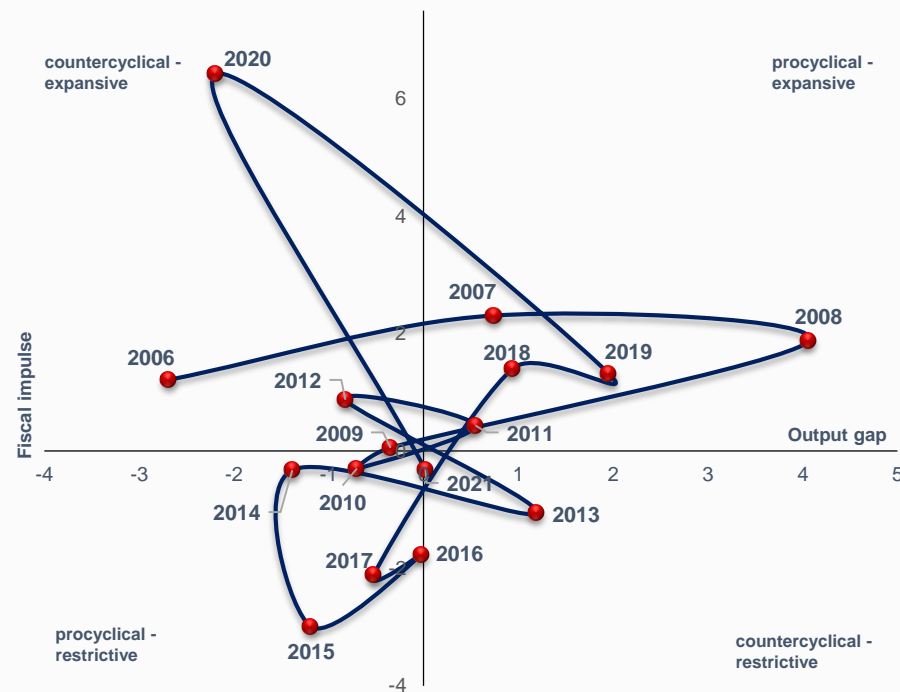
In the next medium-term period, a moderate reduction of the general government deficit is envisaged in order to ensure the necessary flexibility of the national economy to possible external shocks through fiscal policy. This, above all, refers to the expenditure side, in the form of increased public 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 2005–2021



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
	3.5
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
	2.4
	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
	2.1
Fiscal Measures Impact Assessment	Total
	8.5
Package of Measures	Total
	12.9

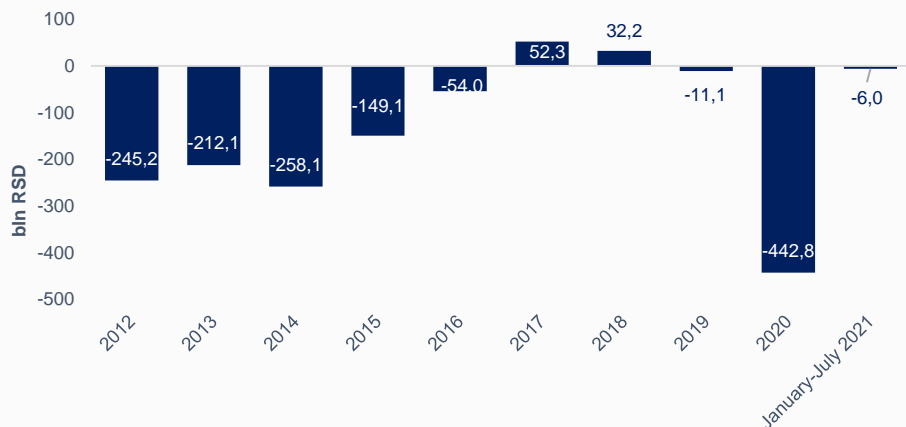
# Package of measures to support citizens and the economy in 2021

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.

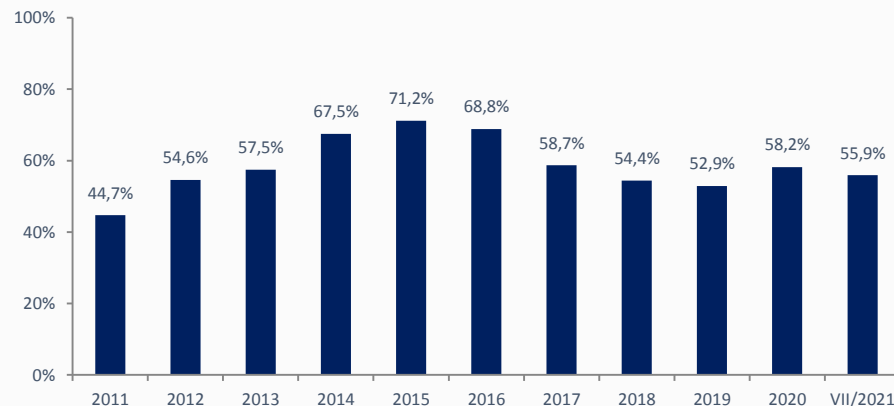
Direct Support to Private Sector	% GDP
Direct support to private sector - 3 monthly payments of 50% of minimum wages for all micro, small, medium and large enterprises	1.2
Direct assistance to hotels in urban areas	0.0
Direct sectoral assistance - catering, tourist agencies, hotels, rent a car agencies	0.1
Free artists	0.0
Direct sectoral assistance - road traffic passenger transport companies and bus stations - 600€ per bus	0.0
Total	1.3
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	2.0
Other Measures	
Fiscal stimulus – domestic demand incentive	1.2
Vaccination bonus	0.1
Total	1.4
Total Fiscal Measures Impact Assessment	2.7
Total Package of Measures	4.6

# In January-July 2021, the general government deficit amounted to 6 billion dinars, while public debt reached the level of 55.9% of GDP

**Fiscal result for the general government for the period 2012 – July 2021**

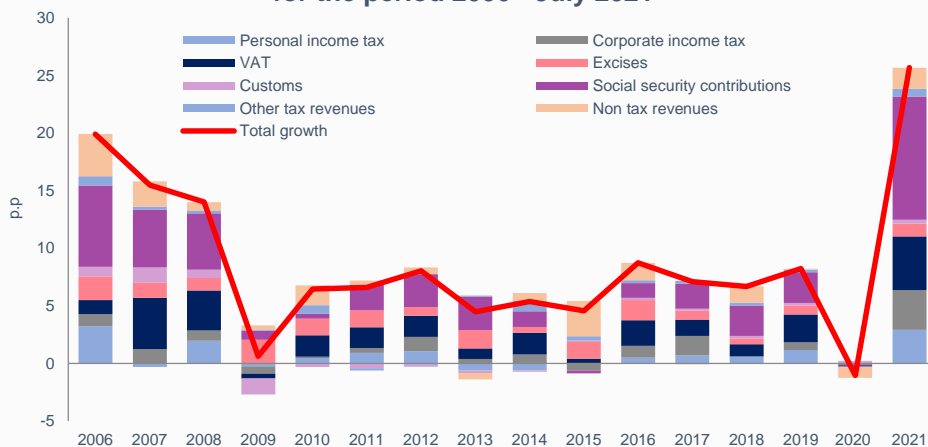


**Public debt of the general government in% of GDP for the period 2011- July 2021**

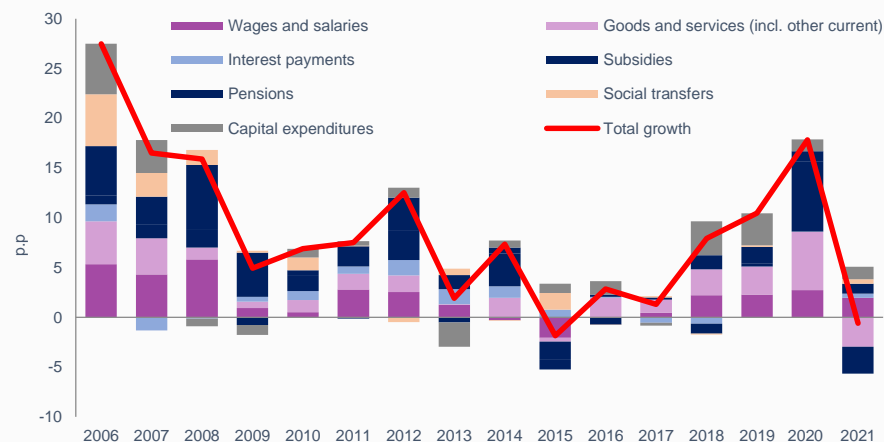


At the level of the general government in period January-July 2021 a fiscal deficit of 6 billion dinars and a primary fiscal surplus of 73.1 billion dinars were recorded. In the observed period, revenues increased by 25.7%, due to better collection of social contributions, and expenditures decreased by 0.6%.

**Contributions to an annual growth rate of public revenues for the period 2006 - July 2021**

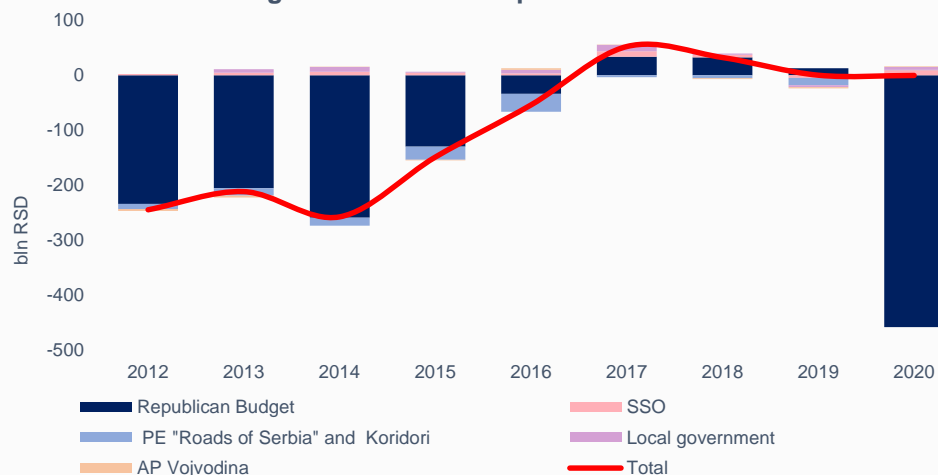


**Contributions to an annual growth rate of public expenditures for the period 2006 – July 2021**

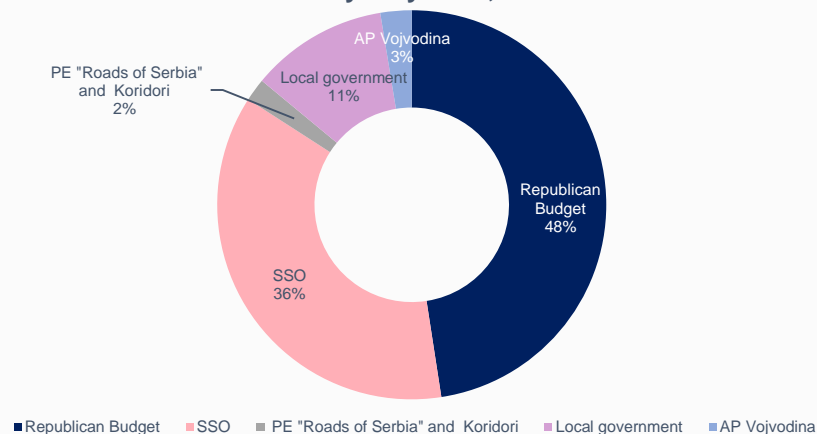


# In January-July 2021, the Republican Budget deficit stood at RSD 39.6 billion

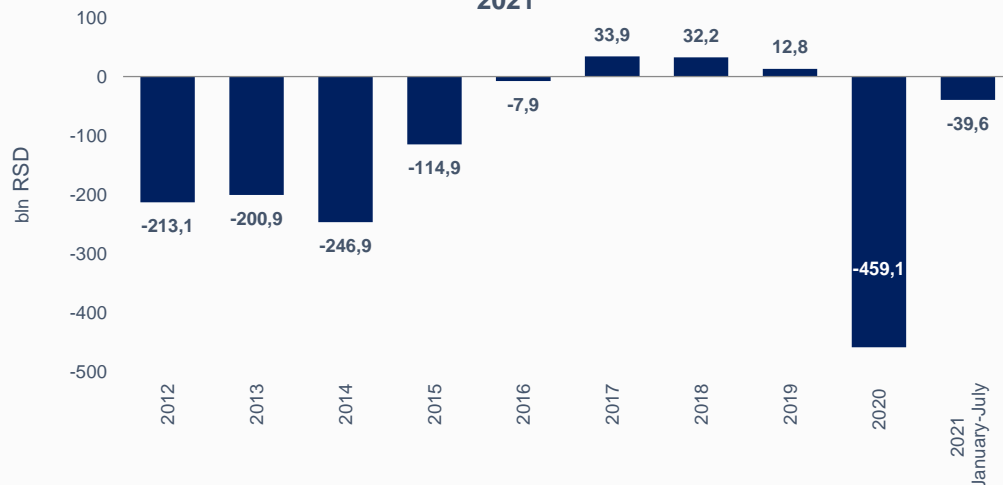
Consolidated general government balance by levels of government for the period 2012–2020



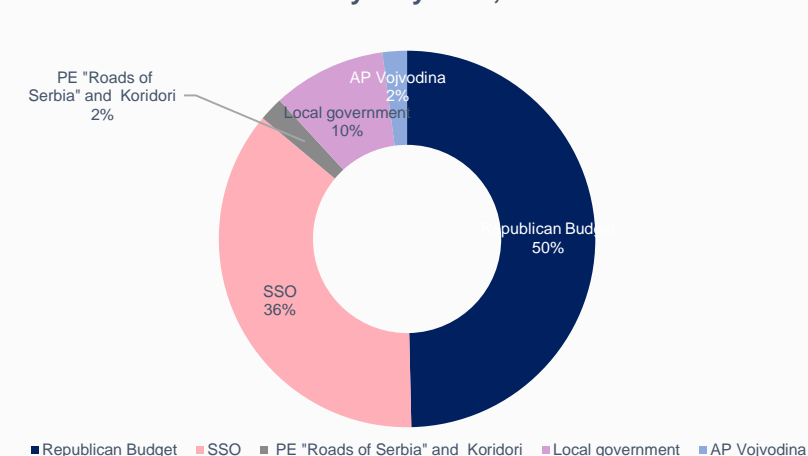
Structure of consolidated revenues by levels of government in January-July 2021, in %\*



Fiscal outcome of the budget of the Republic in period 2012- July 2021



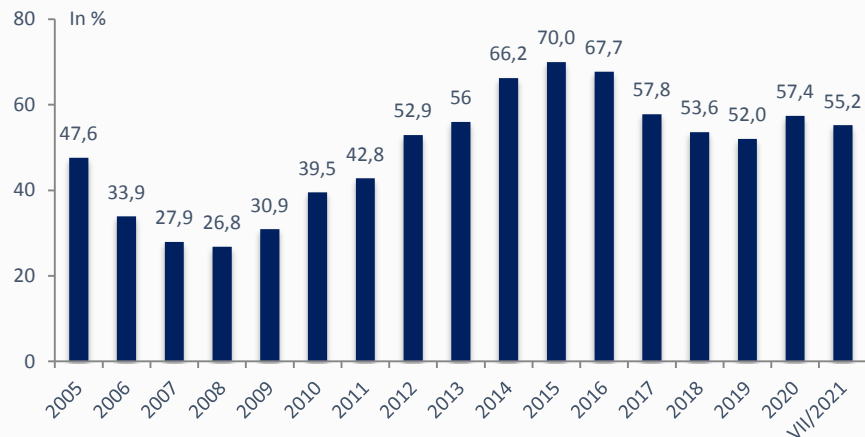
Structure of consolidated expenditures by levels of government in January-July 2021, in %\*



**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.**

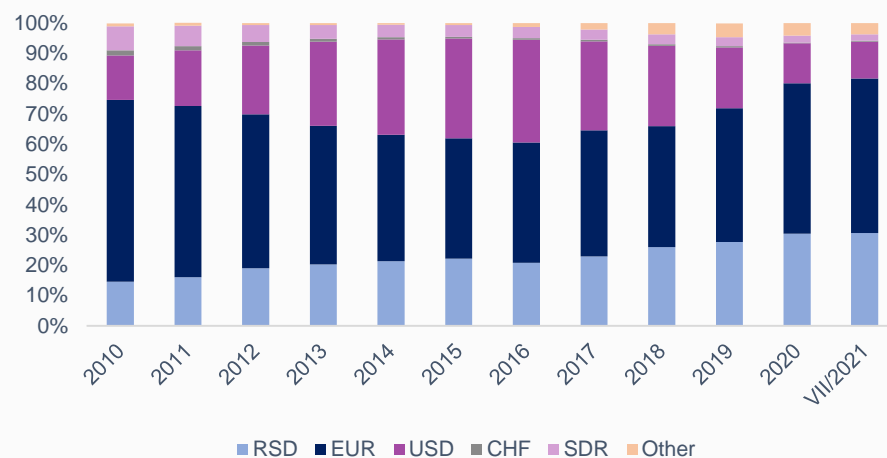
# The central government debt at the end of July 2021 amounted to 55.2% of GDP

The share of public debt to GDP of the Republic of Serbia\*

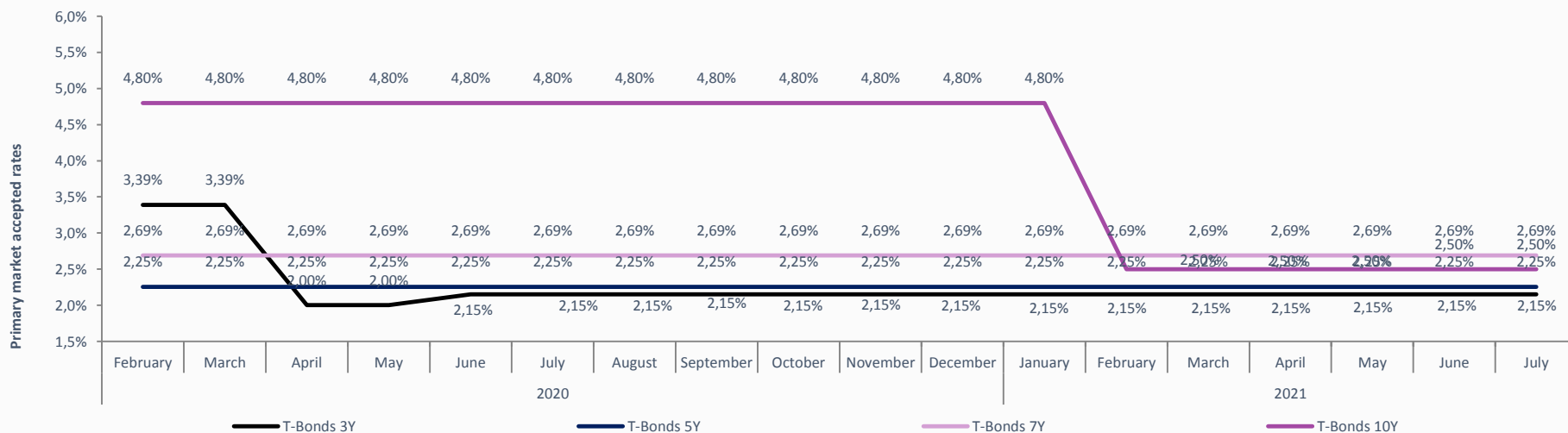


\* Refers to the central government debt

Public debt currency structure in period 2010- July 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		Baa3	no change
Rumania	BBB-	no change		BBB-	no change		Baa3	no change
Republic of North Macedonia	BB-	no change		BB+	no change		/	no change
Bosnia and Herzegovina	B	no change		/	/		B3	no change
Montenegro	B	no change		/	/		B1	no change

• **Standard and Poor's** –In June 2021, the rating agency Standard and Poor's reaffirmed Serbia's credit rating at BB+ with a stable outlook for its further increase. 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.

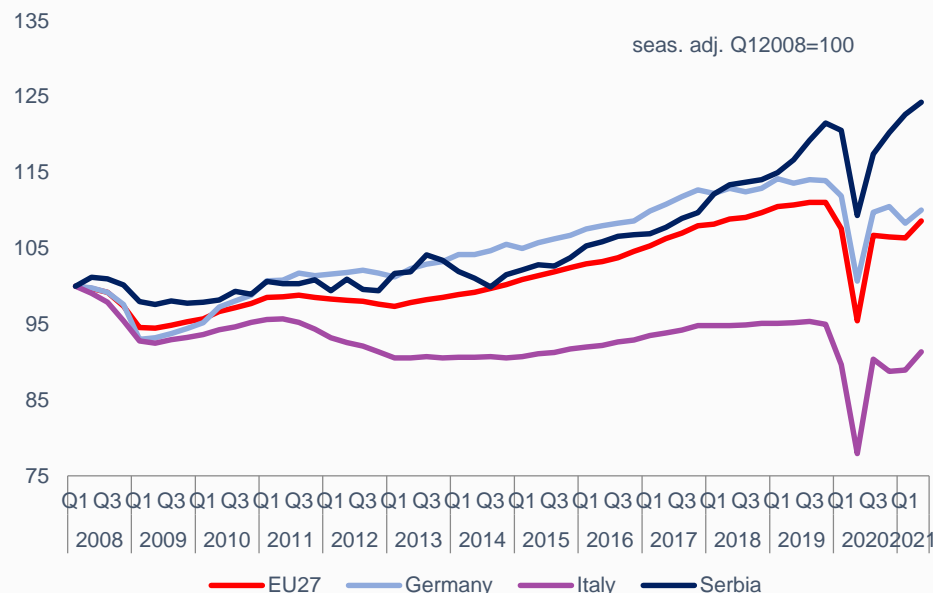
❖ According to Eurostat estimate, economic growth in Q2 2021 was 13.8% in EU27 and 14.3% in euro area, y-o-y.

❖ Composite PMI Eurozone index increased by 0.7 points in July, BCI indicator increased by 0,20 points, while ESI indicator increased by 1.1 points.

❖ Euro area inflation mildly increased to 2.2% in July, from 1.9 in previous month.

# According to Eurostat estimate, the economic growth of Euro area and EU in Q2 2021 was 14.3% and 13.8% y-o-y, respectively.

Real GDP rates of the main international trade partners of Serbia



GDP, real growth rates, %

	2020	2021*	2022*
Euro area	-6.5	4.6	4.3
<b>Main RS foreign trade partners</b>			
Italy	-8.9	4.9	4.2
Germany	-4.8	3.6	4.1
Bosnia and Herzegovina	-5.5	3.5	3.3
Romania	-3.9	7.4	4.9
Russian Federation	-3.0	4.4	3.1
Montenegro	-15.2	7.1	6.5

\* Projection

Source: IMF WEO April and July 2021, EC Spring and Summer projections 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 Q2 2021 compared to the previous quarter by 1.6%, while the annual growth amounted to 9.4%. Italian economy was characterised by growth of economic activity of 2.7% compared to the previous quarter, and a growth of 17.3% compared to the same quarter of the previous year.

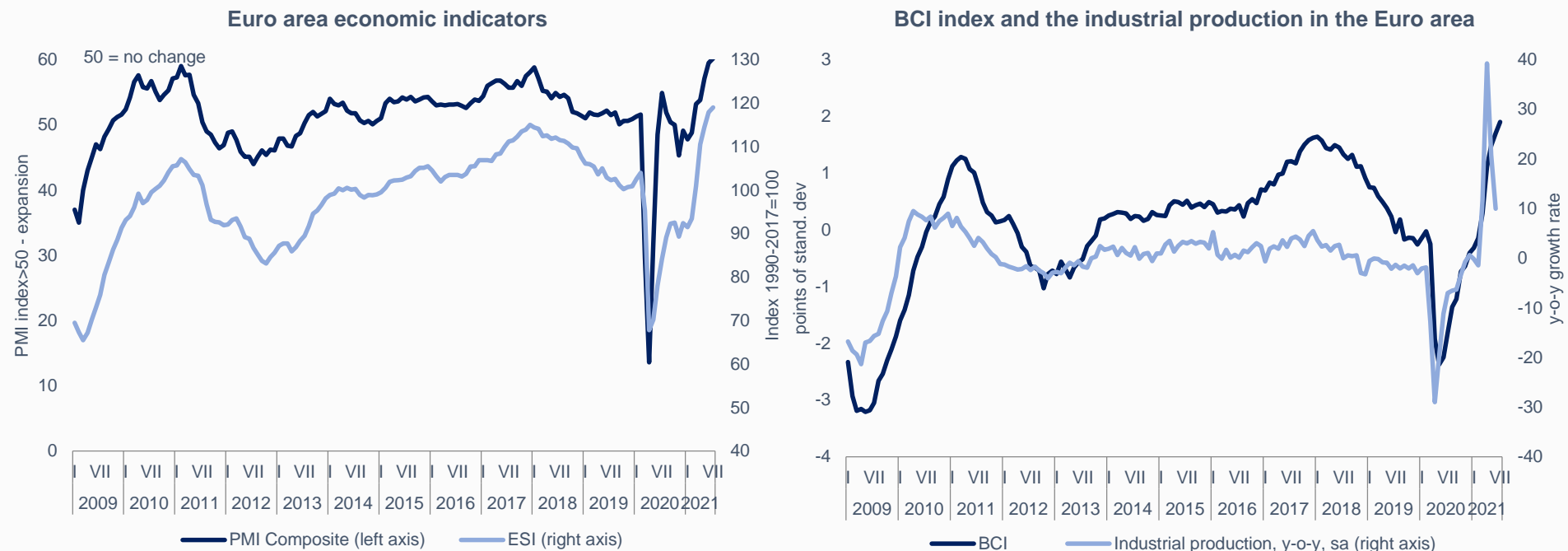
Economic developments in the 2020 were strongly affected by the coronavirus pandemic, which led to the implementation of strict measures in the fight against the infection through the closure of a large number of economies. Thus, in this period, the European economy enters a sudden recession and records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

According to the IMF WEO July projections, the decline in the euro area in 2020 was 6.5%, while, assuming there will be no new restrictive measures, a growth is expected to be 4.6% and 4.3% in 2021 and 2022, respectively (improved expectation by 0.2 pp and 0.5 pp, respectively, compared to the April projection). There is a high level of uncertainty regarding the realization of the projection, while in the short term the risks are still tilted to the downside and are mostly related to the emergence of new variants of virus and the slowdown in the pace of vaccination.

In July, 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 July, 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, with some fluctuations.**



Source: IHS Markit, EC, Eurostat

**Composite PMI index of Eurozone slightly increased from 59.5 points in June to 60.2 points in July, while the ESI index increased to 119.0 points (up by 1.1 points). The development of these indicators was accompanied by strong improvement of the business climate indicator – BCI.**

The dynamics of the composite PMI of Eurozone in July 2021 (60.2) indicate the further growth 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 increase, and the improvement of euro-area sentiment resulted from the increase of industry and services sectors, while consumer and construction recorded decrease and retail remained unchanged. Increase of the BCI index to 1.90 points was registered, which is an increase of 0.20 points, compared to previous month.

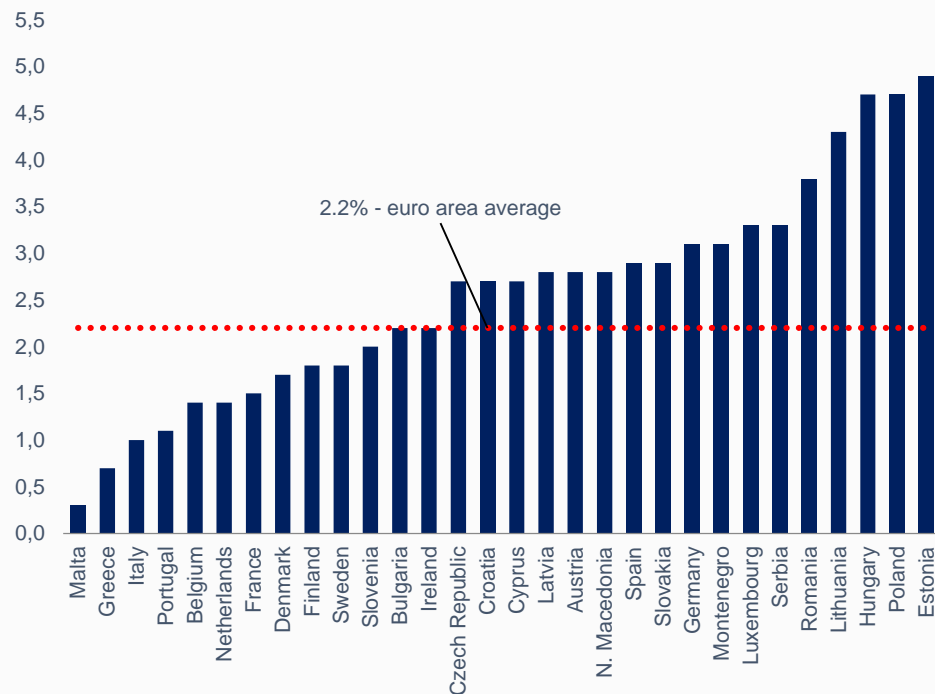
Eurozone PMI Composite index is developed by Markit LTD, and it is based on original survey data collected from a representative sample of 5,000 manufacturing and service companies. Methodology of this index tracks changes in employment, prices, sales and inventory. An index value above 50 indicates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

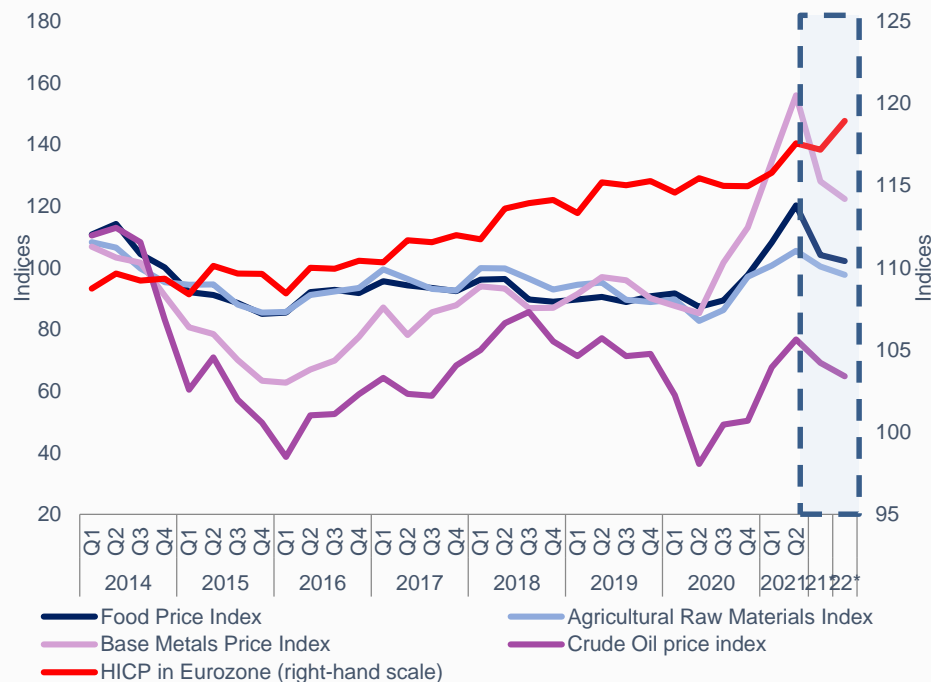
The Business Climate Indicator (BCI) is based on estimations of production, orders and inventories, as well as the current and future expectations of entrepreneurs. BCI index deviates from the industrial confidence indicator in number of inputs which are considered, and therefore is expressed in points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

# Annual inflation in euro area mildly increased from 1.9% in June, to 2.2% in July 2021.

Annual inflation rate in July 2021, %



Prices of raw material, indices 2008=100



Source: IMF; Eurostat

**In July 2021, the largest contributor to y-o-y inflation rate were energy, services, food, alcohol and tobacco and non-energy industry goods sectors (1.34 pp, 0.35 pp, 0.31 pp and 0.17 pp, respectively).**

Total inflation in the euro area increased in Q2 2020 compared to previous quarter. According to the June ECB estimates, after a spike at 1.9% in 2021 driven by temporary upward factors, inflation should return to rates of 1.5% and 1.4% in 2022 and 2023, respectively.

According to the OPEC data, the price of oil type Urals has amounted to 73.09 \$/barrel in July (up by 2.1% compared to the previous month). Since the beginning of 2021, the price increased by 61.9% compared to the same period 2020, to 65.27 \$/barrel.

Average prices of agriculture products have decreased by 2.1% in July 2021 compared to the previous month, while food prices increased by 0.2%. Base metal prices increased on average by 0.2% compared to the previous month, while the price of iron ore recorded a decrease of 0.7%, and copper prices decreased by 1.9%. In the group of precious metals, the price of gold decreased by 1.5%, while the price of silver decreased by 4.6%.

Republic of Serbia

Ministry of Finance



# MACROECONOMIC AND FISCAL ANALYSES AND PROJECTIONS DEPARTMENT

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