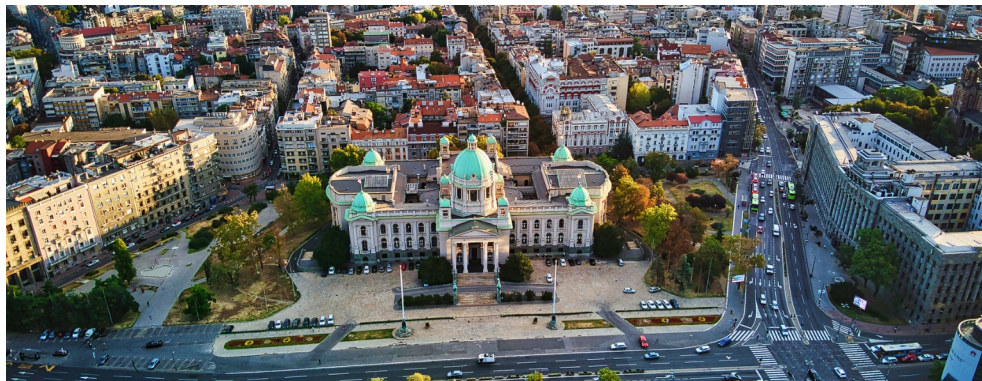


Serbia Watch: Net exports and investments supported 0.7% yoy GDP growth in Q1

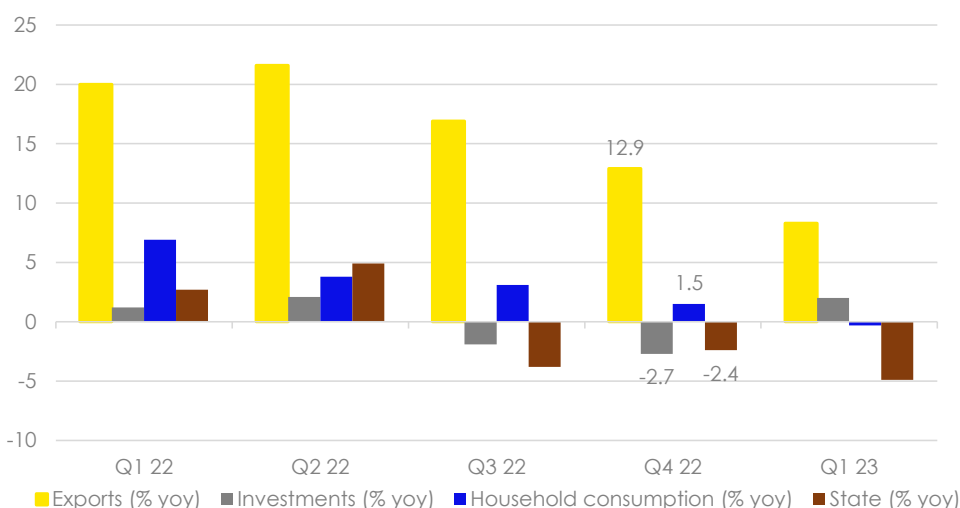
Less energy consumption, falling energy prices and infrastructural investments supported GDP growth of 0.7% yoy in Q1 after 0.5% yoy in Q4 2022. We maintain the GDP forecast at 1.9% yoy for the entire 2023.

Disclaimer **3**

Analyst **7**



GDP structure



Source: Statistical Office of the Republic of Serbia, RBI/Raiffeisen Research

As per quarterly data, GDP fell by 0.2% qoq in Q1 2023 after +0.6% qoq growth in Q4 2022, amid lower private and public consumption. On the one hand, despite stable employment, private consumption is falling due to growing energy prices on the local market, still increasing lending rates in Q1 and less frequent wage inflation adjustments in the private sector vs. the state sector. On the other side, the government runs a conservative fiscal policy meaning that liquidity surpluses are channelled only to the top priorities at the moment and these are capital infrastructure and subsidies to the energy sector which is undergoing a 2-year transformation program monitored by the IMF.

In annual terms, GDP growth in Q1 (+0.7% yoy) outpaced the Q4 2022 (+0.5% yoy) and surprised us given the depth of the global energy crises. From the sectoral perspective, economic growth was achieved due to good industry performance (+2.3% yoy) which we credit to the energy sector performance more than to the manufacturing. Actually, warm winter, falling energy prices and increased production capacity in the energy sector were supportive. Then, information and communication played quite well (+9.9% yoy) as well as agriculture which had the first positive performance since Q4 2020. Further, arts and entertainment had solid growth (+7.4% yoy), though having less share in the

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GDP formation (2.7%). From the expenditure perspective, the drivers were net exports (i.e. stable exports and plunging imports mostly because of the less energy imports, particularly electric energy imports) and investments. Energy consumption dropped moderately due to production cuts in individual sectors of the economy for price reasons, but also due to falling domestic demand. Concerning the investments, we assume that the key driver is state investments in infrastructural projects.

Retail trade (constant prices) remain in the red zone in April (-6.1% yoy) though the fall moderated a bit compared to March (-9.0% yoy), partly due to the low base effect which was quite high in March and partly due to recovered oil consumption, though still lingering in the negative territory (-2.8% yoy) after -15.2% yoy.

Still, high financing costs and weak domestic demand fueled a slowdown in industrial production in April (+0.4% yoy) after 0.9% yoy growth in March, this was due to manufacturing (-2.6% yoy) vs. -2% yoy in the month before.

Many disinflationary factors supporting inflation slowdown on the one side and rather sluggish fundamentals on the other side, prompted NBS to stop the rate hiking in May. This might help the economy to return to the growth path in H2. Nonetheless, energy prices hike on the local market in May and new ones planned for the end of 2023 coupled with the recession in Germany in Q1 (the country's key export partner) and uncertain agriculture season, are all together supporting our GDP forecast to be maintained at 1.9% yoy for the entire 2023.

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Imprint

Creation time of this publication: 31/05/2023 13:46 P.M. (CEST);

First Dissemination of this publication: 31/05/2023 13:46 P.M. (CEST)

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