



MINISTRY OF TRADE, TOURISM AND TELECOMMUNICATIONS
Department for Bilateral economic cooperation

SPEECH
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ON-LINE BUSINESS CONFERENCE
THE REPUBLIC OF SERBIA AND THE FREE STATE OF BAVARIA

MAY 31st, 2021

Distinguished colleagues,

- Allow me to express our sincere appreciation to the official host East west economic cooperation forum for convening this event, regards to Mr. Sinner, Mr. Kirchner, H.E. General Consul Vučurović, all other participants and business representatives
- We are glad that organizer recognized Serbia as important and appealing business, trade and investment location for Bavarian companies and dedicated this forum to representing Serbia's political and economic potentials, doing business attractiveness and its general perspectives.
- Certainly, Serbia uses every opportunity, including this one, to single out Germany as its most important economic and trade partner and in that context to especially underline the role of Bavaria as the federal state with whom we share close political ties and very dynamic business relations connections, which would be further explained later on
- I will focus on general economic indicators of Serbia, overview of anti-covid combat, pandemic and crisis year and measures implemented in order to preserve Serbian economic stability, particularly to save businesses and ensure predictability for companies as much as possible in these unexpected global health and economic circumstances. Afterwards we are turning to more specific topic specifically bilateral Serbian-Bavarian relations.

- ***An overview of economic situation in Serbia¹***

The COVID-19 pandemic lasts longer than we expected. It is more resilient than anyone could have predicted at its onset. Its impact on world economy is deep and long-lasting. For the past 15 months, countries and economies have been facing challenging times worldwide.

In an environment of fast-changing economic cycles, Serbia acted pro-cyclically and counter-cyclically – investing in speeding up growth and development, introduction of new technologies, digitalization, but also in building buffers for a prompt and strong response. What is the result? Serbia with low and stable inflation, stable currency and healthy public finances. Serbia with almost doubled net foreign exchange reserves which are one of the pillars of defense from various shocks. The result is also investment growth, opening of new factories in Serbia, employment growth, building of infrastructure which raises the quality of life of citizens and attracts investors. **The result is that we entered this crisis much more prepared and resilient than the one of 2008.**

Had we not promptly introduced numerous measures, and then continued to respond by additional measures, the fall in economic activity in 2020 would have amounted to at least 6% (instead of recorded contraction of only 1% of GDP), while it would have taken as many as several years to recover and return GDP to its pre-crisis level. This would mean billions of euros lost, lower employment and undermined stability. The price of non-responding would be too high. The results as outcome are not only economic measures. The results achieved are coordinated measures of all policies, including those in the health sector.

We are very proud that one of the most important results in fighting the pandemic Serbia achieved in the vaccination process initiated in December 2020. Currently, there are 45.3% of all adult citizens vaccinated with the first dose and around 30% fully vaccinated. In the most difficult times, as a sign of good will and solidarity Serbia donated vaccines to our neighboring countries and even allowed thousands of their citizens to get vaccinated here.

¹ According to the National Bank of Serbia, Ministry of Finance, Statistical Office of the Republic of Serbia, official website of Serbian Government and the Ministry of Trade, Tourism and Telecommunication

Due to the fact that in the past 7 years Serbia managed to consolidate its finances by achieving fiscal stability and ensuring gradual economic recovery combined with timely and comprehensive government's measures to mitigate effects of a pandemic; and structure of Serbian economy, made it possible to record **contraction of GDP of only 1% in crisis year 2020** (according to this data Serbia is the 5th in Europe, after Ireland and Turkey that recorded positive growth and only Norway and Lithuania with lower negative growth, compared to 2019). In addition, **in the first quarter of this year**, Serbia recorded **growth rate of 1.2% of GDP**. Serbia reached the pre-crisis level of economic activity before many other world economies – already in the first quarter of this year, which is a quarter earlier than we expected.

I will share with you some figures about Serbia today

45,5% share in the GDP of the Western Balkans region, 52% share in the foreign trade of WB with the world, 60% share in all WB exports to the world and 60% share in all FDIs inflow to WB.

The share of Serbia in exports and imports of the region is larger than its share in the WB region's GDP due to the fact of increasing share in exports of export oriented foreign investors in the past years and positive trend that more and more of Serbian products are integrated in European and global value chains.

WB region is the second ranked market for Serbia representing 10% of overall trade exchange and 17% of Serbian exports to the world.

According to UNCTAD World Investment Report, Serbia attracted so far more than **48 billion USD** (cumulative FDIs). In comparison, North Macedonia (our neighbor and often competitor in attracting FDIs) in 2019 had FDI inflow 12 times smaller than Serbia (reaching 365 million USD in comparison to 4,3 billion of Serbia).

- In 2020 Serbia managed to avoid overall volume decline of industrial production and manufacturing, with decrease of exports of goods of only 2.8%. Activities of ICT sector remain stable and value declines of construction works and investments were minimized, even though comparing 2019 basics were considerably high. In the first quarter of 2021 contribution to the growth mainly came from construction and industry, and ICT exports reached growth rate of 25%. (there are ongoing construction works on more than 330 kilometers of highways, fast roads and modern train rails worth around EUR 4 billion, and with projects planned to start this year value of infrastructure investments will increase for additional EUR 2 billion).
- Extensive Program of economic measures for mitigating negative effects caused by the COVID-19 virus pandemic and supporting Serbian economy in 2020 and 2021 **valued almost 13% of GDP** in the last year and another **4.3% of GDP in 2021**. In 2020 it included the following: tax policy measures (delaying wages and contributions tax payments, income taxes and enabling return in installments starting from January, exemption of donations from VAT), direct financial aid to private sector (providing minimal wages for employees), liquidity measures (providing financial resources through Serbian Development Fund and the Guarantee Scheme of National Bank of Serbia as efficient stimulus to banks to step up their lending to the corporate sector under even more favorable conditions) and other measures such as moratorium on dividends, salaries increase, direct financial help to adult Serbian citizens for consumption boosting, etc. In this year all these measures continued and especially targeted the most

vulnerable sectors (direct support for hotels, restaurants and other providers of accommodation and food service, tourist and transport agencies, independent artists etc).

- In the period of crisis Serbia managed to find optimal approach in balancing necessary financial support to public health and private sector and to keep sustainable public finances. **Public debt in the first quarter of 2021** amounted to **55.7% of GDP** and it is planned not to exceed level of 60% of GDP, as required by EU Maastricht criteria.
- In **2020 consumer prices** changed in average for **1.6%** and in **the first quarter of this year for 1.4%**.
- Corona pandemic did not affect labor market in Serbia. The **unemployment rate** equalled **9.9%** at the **end of 2020** (based on the results of the Labour Force Survey).
- **Net salaries and wages** in December 2020 increased by 10.6% in nominal terms and by 9.2% in real terms and in February this year amounted to **EUR 533 on average**.
- Serbia aims to reach the standards and **the Green Agenda of the EU**, namely **the Green Deal**, which is perhaps the most important for the future quality of life in our country. Government's priorities in that area are improvement and protection of air quality, wastewater treatment and solid waste management. The construction of wastewater treatment plants will be launched in 28 local municipalities in Serbia by the end of this year. The topic of environmental protection and energy and green transition is one of key priorities of the Serbian government and the estimated investment framework in the field of water management alone, in order for Serbia to achieve EU standards, is EUR 6 billion.
- Serbia attracts more and more **foreign direct investments** by each year. Macroeconomic and financial stability combined with structural reforms has created a favorable climate for FDIs which are diversified by sector and origin and contributing to the country's export potential. **FDI inflow reached record levels of around 8 % of GDP**.
- EU is the main source of FDIs in Serbia. Between 2010 and 2020 net inflow of FDIs from EU reached 16,7 billion EUR representing a EU share of 71,2% in overall FDIs. In 2020 only, net inflow of FDIs from EU reached 2 billion EUR. During 2018-2020, the bulk of FDI inflows still came from EU countries (78%), with an increasing share of Asian countries (18%) such as China/Hong Kong and UAE as well as USA and non- EU countries such as Russia, Turkey and Switzerland.
- Out of a gross inflow of 10,3 billion euros in past three years, 5,6 billion euros has been directed into tradeable sectors, most notably manufacturing (2,8 billion euros). **Manufacturing sectors with the highest FDI inflows (metals, automotive, food, tires) recorded a high growth in employment, output and export**.
- Results were acknowledged by confirmed credit ratings in 2020 (Fitch and S&P), as well as in March 2021 when Fitch confirmed and Moody's upgraded credit rating of Serbia, despite the global crisis caused by the COVID-19 pandemic. (Serbia maintained its **credit rating** with agencies Fitch (BB+ stable) and Standard & Poor's (BB+ stable) and in March 2021 Moody's upgraded Serbia's ratings to Ba2 from Ba3). Serbia's goods export returned to the pre-crisis level already in the summer of 2020 and in the last quarter of 2020 it was 6.8% higher y-o-y. Also, Serbia's comparative advantages in the production of agricultural products and food with the development of agricultural capacities and above-average agricultural season, contributed to the resilience of Serbia's export.
- When it comes to **trade in goods in 2020** volume of overall trade amounted to **EUR 40 billion (decrease of 3.4%** compared to previous year). Serbian export amounted to **EUR 17.1 billion (-2.8%)** and Serbian import amounted to **EUR 22.9 billion (-3.8%)**. **Serbia trade mostly with the countries with whom there is a FTA in force**. Trade with the EU represents 61.4% of overall Serbian trade on goods: export to the EU represents 64.9% of overall export and import from the EU represents 58.8% of overall Serbian import. Our second most important partner are CEFTA countries and with them we have a surplus of EUR 2.1 billion (trade with these countries represents 9.6% of Serbian trade with the World). Beside EU and CEFTA, Serbia has FTA with Eurasian Economic Union (share of 6% of trade

with the World), Turkey (3.3% of overall Serbian trade in goods), EFTA countries (2.2%). **Main trading partners are:** for export / Germany, Italy, Bosnia and Herzegovina, Romania and Hungary; and for import: Germany China, Italy, Russia and Hungary. **The first five sections in exports are:** electrical machines and apparatus, cereals and produces thereof, vegetables and fruit, power engines and motors and rubber products, and in imports: electrical machines and apparatus, medical and pharmaceutical products, other general- purpose machinery, road vehicles and oil and oil derivatives.

- In the first quarter of this year volume of overall trade in goods amounts **EUR 10.8 billion** (growth of 5.5% compared to previous year). Serbian **exports** amounted to **EUR 4.8 billion** (+13.8%) and Serbian **imports** to **EUR 6 billion** (-0.3%).
- When it comes to **trade in services in 2020** volume of overall trade amounted to **EUR 11.3 billion**. Serbian export amounted to **EUR 6.2 billion** and Serbian import amounted to **EUR 5.1 billion**. **Main services exported from Serbia** are: other business services (mainly professional and management consulting services and technical, trade-related and other business services); telecommunications, computer and information services; travel and transport services. **Main services imported to Serbia** are: other business services (mainly professional and management consulting services and technical, trade-related and other business services); transport and travel services. **Main trading partners are:** for export / USA, Germany, Switzerland and Bosnia and Herzegovina; and for import: Germany, United Kingdom, Slovenia, Austria and Turkey.
- In the first quarter of this year volume of overall trade in services amounts **EUR 2.7 billion**. Serbian **export** amounts **EUR 1.6 billion** and Serbian **import** amounts **EUR 1.1 billion**.
- This year, we expect **two-digit growth rate of Serbia's goods export**, owing to contributions of both factors on the supply side – i.e .further investment growth in export-oriented sectors –and of the recovery of external demand, with the expected successful vaccine roll out across the world.

- ***An overview of Serbian-Bavarian relations²***

- **Economic relations between Serbia and Germany** are highly diversified and cover all aspects of economic cooperation. Germany is the most important Serbian foreign trade partner, ranking the 1st position both in trade in goods and services. It is also the 5th most important foreign investor in Serbia and the 1st most important development partner. There are around 1.000 companies owned by legal and natural persons from Germany or by German sole proprietors doing business in Serbia and German Embassy estimates that around 400 originally German companies with around 70 thousand employees operate in our country. Overall, more than 11.300 business entities register trade activities (export/import) with Germany.
- Within Serbian-German bilateral relation it is necessary to **stress out the importance of cooperation with Bavaria, in both political and economic aspect**. We are trying to maintain continues political dialog as we appreciate the Bavarian role as one of the key and the most influential factors, not only in Germany, but also in the EU context. We are physically linked by Danube, and culturally through around 70 thousand Bavarian citizens of Serbian origin.
- Comparing to other federal states of Germany, Serbia records the largest volume of trade and the largest export, as well as a surplus with Bavaria.
- Serbian relations with Bavaria has **50 years long tradition**. **Serbian-Bavarian Standing Committee, established as far back as in 1970**, represents the longest standing mixed committee of Serbia, comparing to all other countries.

² According to DESTATIS, the Ministry of Trade, Tourism and Telecommunication, National Bank of Serbia, Statistical Office of the Republic of Serbia and official website of Serbian Government

- It is estimated that around 600 Bavarian companies have contacts with Serbian economy and around 150 of them operates in Serbia. **Of all employees in Serbia hired by German companies, approximately one third work at Bavarian companies.**
- In the period from 2010 to 2020 the values of trade volume and also of our export more than doubled. Serbia has a higher volume of trade in goods with Bavaria than with many countries. For example, comparing Serbian export to other destinations, Bavaria is ahead of countries such as Croatia, Poland, Bulgaria, Slovenia, Austria, and France (are all among the top 15 Serbian export markets in 2020). Overall exchange of goods with Bavaria exceeded the exchange of Serbia with Bulgaria (which is its 15th most import trade in goods partner).
- Mutual trade exchange (of goods) is worth one fifth, i.e. 20% of overall trade exchange between Serbia and Germany, and **Serbia has been recording surplus for years. 26% of overall Serbian exports to Germany refers to Bavaria.** Large amount of German investors are actually Bavarian companies, especially in the key sectors such as industry and manufacturing.
- Serbian exports structure indicates that the most common exported items are being produced in Bavarian companies in Serbia: Siemens, LEONI, DAD Dräxlmaier Automotive, Wacker Neuson, etc. Production of these investors does not affect only Serbian trade with Bavaria, but also influence our export performances to Germany and the World, too. They are listed as the most important Serbian exporters and importers to and from Germany.
- **Serbia for years was traditional exporter of cereals and fruits both holding top positions in overall Serbian exports. Today, Serbian number one export product to the world are ignition wire sets produced by Bavarian companies - investors in Serbia, integrating products “made in Serbia” in European and global value chains thus giving huge contribution to the rebirth of the automotive and car components sector in Serbia and consequently boosting our overall exports and economic growth.**
- From beginning of the 2010 concluding with 2020 inflow of German investments in Serbia amounts EUR 1.884 billion, which puts Germany in the 5th position among other Serbian FDI partners. Most of those investment projects have been implemented by companies from Bavaria, North Rhine-Westphalia, Baden-Württemberg and Hessen.
- Perspective sector with Bavaria: agriculture, metal processing, wood industry, textile, construction, **IT industry as one of the fastest growing industry in Serbia** (Serbia ranks fifth in the world in the field of block chain, gaming industry develops at a dizzying rate and this industry attracts more and more workers from all around the world, ICT has 25% export increase in March this year).
- **Let me conclude**
- All said and done, let me emphasize, therefore, that in the forthcoming period, our mutual goal is to improve trade and investment relations, and on behalf of the Serbian side I'm confirming our strong commitment that all necessary steps for doing so will be undertaken.
- I would like to express personal belief that the events such as this one are the right place for open fruitful and invigorating discussions on several topics of mutual interest and I hope that participants from both sides will just do so.