2. Economic activity

Economic activity in 2014 achieved a notable real decline of 1.8%. One of the reasons for bad results of economic activity in 2014 are May floods, which influenced a deep fall of mining (coal) and production of electricity in the last seven months of 2014. However, it is also important to state that the economic activity would be in recession in 2014 even without May floods, and that the real reasons for the fall of economic activity are deeper and therefore more difficult to eliminate. In the last quarter of 2014 seasonally adjusted GDP increased by 0.4% compared to Q3, and the reason for this increase are slightly better results of industrial production and construction. Preliminary data for January 2015 imply even better results of economic activity than in Q4 2014. We believe however that it is still early, and probably wrong, to argue that the economic recovery and the exit from the crisis started. It is hard to believe that the recovery of the economy can be achieved after several years of decrease in investments and exactly at the time of the beginning of the fiscal consolidation. Doubts about the sustainability and accuracy of the implied recovery of GDP are reinforced by the fact that the macro-economic trends showing the improvement are inconsistent, and in some cases almost impossible in the balance sheet - for example quite unlikely high seasonally adjusted growth of the food industry in November and December 2014, real y-o-y growth of average wages in manufacturing industry of 15% in January, employment growth during the recession and more. *QM* analysis indicates that it is highly possible that one of the reasons for improvement of macroeconomic trends is increased activity of the State in combatting the grey economy, which is being conducted since the second half of 2014. This is the reason why somewhat more real values of some economic indicators are being reported to SORS – which then looks like they are being improved. For 2015 we hold on to our estimate stated in the previous issues of *QM* that the economic activity will record a fall of about 0.5-1%. On the one side, the data with which it is entered into 2015 are slightly better than we expected and that can contribute to a higher growth (smaller drop) of economic activity, but on the other side, a renewal of normal production of coal and electricity after the floods is being delayed, and privatization of Železara Smederevo was not successful well, which we did not calculate in the previous analysis.

Gross domestic product

Real GDP drop in 2014 of 1.8%

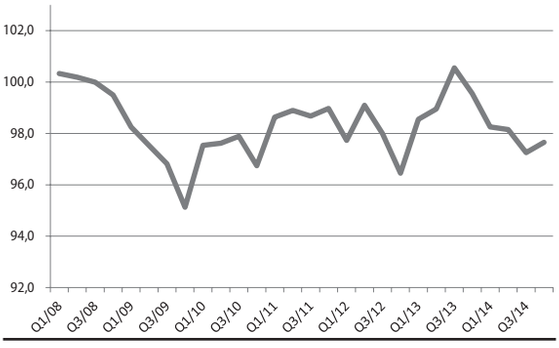
According to the SORS estimates, real year on year drop of GDP in 2014 amounted to 1.8%. About two thirds of this fall, or 1.2 p.p., is a consequence of May floods (and slow recovery), so if the catastrophic May floods had not happened, the GDP in 2014 would have record a fall of 0.6%. The reasons for the recession in which economic activity was throughout 2014 even without floods are unsustainable fiscal position of the state (because of which macroeconomic risks grew and averted private investors), a decrease in investments, low credit activity, a slowdown in exports after reaching full production capacity of car production (FAS) and more. As all of these were permanent and/or expected trends, we announced recession or stagnation of the economy in 2014 (see QM34) as early as in December 2013 which occurred in the end. We note however that the Government and the NBS predicted at the same time as QM economic growth in 2014 of 1.5% (see Fiscal Strategy for 2014 and Inflation Report from November 2013) and accordingly projected fiscal and monetary policy.

This is already third recession since the end of 2008

After the outbreak of the global economic crisis in the second half of 2008 the Serbian economy couldn't manage to return on a sustainable path of recovery and growth. After the fall of GDP in 2009 (which is after numerous revisions of SORS now estimated at 3.1%), with occasional episodes of mild recovery, two more economic downturns occurred, by 1% in 2012 and this last one by 1.8% in 2014. The current level of GDP is still about 2% lower than the one before the crisis, a fact by which Serbia, alongside with Croatia, is one of the few European countries in transition, which still, six years after the outbreak of the crisis, fails to reach pre-crisis level of production.

Seasonally adjusted GDP indicates growth compared to Q3

Graph T2-1. Serbia: Seasonally adjusted GDP growth (2008=100)



Source: *QM* estimates based on SORS data

Seasonally adjusted GDP growth indices confirm negative trends in the movement of economic activity in 2014, and it is also noticed that the fall of economic activity started two months before May floods. This undoubtedly confirms our thesis that the floods are not the only reason for the last recession of economic activity. However, a mild growth of seasonally adjusted GDP of 0.4% can be noticed in Q4 when compared to Q3. Positive trends from Q4 have continued in 2015 to all appearances, as January saw very unusual seasonally adjusted growth in industrial production by 6.5%, compared to December 2014, y-o-y growth in retail sales in constant prices by 3.6% (despite reductions in pensions and salaries in the public sector), but also y-o-y growth of the average wage in the manufacturing industry in January of over 15%. The answer to the question whether the seasonally adjusted GDP growth in Q4 and surprisingly good indicators in January represent a hint of economic recovery, however, is currently very difficult to give.

…but it is still early to speak about economic recovery

The first fact that can be interpreted ambiguously is that somewhat better results are still not widespread in a larger number of sectors of the economy. Sectors of the economy which recorded the strongest growth in Q4 compared to Q3 are industrial production and construction, while the rest of the economy is stagnating or continuing the decline from the previous quarter. Within the industrial production, we noticed a mild recovery of mining and electricity production, which is a result of drying out of parts of flooded coal mines in the May floods and a gradual beginning of their re-exploitation. However, the real reason for the increase in industrial production in Q4 was very strong growth in the food industry, which in October and November recorded a seasonally adjusted growth of around 3-4% compared to the previous month, and in December an additional 15% compared to November. The observed increase in construction probably indicates that activities of flood damage reconstruction increased in Q4 when compared to Q3. For economic recovery to be sustainable, we believe that it should be more widely spread in a number of sectors.

The last positive data are very questionable

The second and we believe the key problem that complicates the interpretation of positive data in recent months is that many of themare economically quite unlikely, and some are almost impossible. For example, already described seasonally adjusted growth of the food industry in the last quarter of 2014 was economically hardly possible. The food industry is by far the largest single area of industrial production, but by its nature very heterogeneous, because it consists of a wide variety of third-party products (dairy, confectionery, bakery products, oils, meat products, etc.) with no individual type of product with a dominant share. Therefore, it is impossible that production in the short term increases by more than twenty percent, because that would mean a simultaneous jump in the production of a large number of essentially unrelated products, or some large investment, which did not happen[1]. Furthermore, the increase in the number of employees which by the official data occurred in Q4 in both formal and informal part of the economy[2] is economically unlikely. It is indicative that some sectors of the economy in which a formal employment grows the fastest are: real estate, trade and other areas, where certainly there was no increase in production volume (but are particularly likely to do business in the gray area). However, data for January 2015 are questionable in particular. The seasonally adjusted industrial production increased by 6.5% and manufacturing industry by 6%, which took place in January 2015 compared to the previous month is huge and historically occurred only after the extra-

1 In the broad public an explanation could be heard that due to the weather conditions in the second half of 2014 a usual campaign of sugar beet and oilseedsprocessing was delayed and that was the reason for the high seasonally adjusted growth of the food industry. But if that was the real reason then ithe described high growth in Q4 would had to be preceded by a large temporary decline in the food industry in Q3, which did not happen.

2 Employment growth in Q4 is indicated not only by the Labour Force Survey but also by independent research in formal employment.

ordinary decline in production (after the bombing and after the state of emergency due to bad weather in February 2012), and certainly not in regular circumstances. Similarly, y-o-y growth in retail sales by 3.6% in January is hardly possible, particularly bearing in mind that in January 2015 compared to January 2014, pension and public sector wages have been reduced, and a y-o-y real growth in average wages in the manufacturing industry in January of 15.5% is singled out as improbable.

It is possible that the real reason for better indicators is suppression of the gray economy

From mid-2014, there was apparently an intensification of activities of the state in suppression of the gray economy, which is also suggested by the fiscal data and we believe that this is reflected in the more realistic presentation of some statistical indicators. An additional argument in favor of this claim is somewhat more detailed analysis of individual data which are showing the largest improvement. For example, the average net wage in the sector of computer programming and service activities in January 2015 rose even more than seven times compared to January 2014 –from less probable 15,500 dinars at a much more realistic 114 000 dinars. This fact suggests the possibility that the practice of employees officially reported at a much lower amounts of real wages in this area of the economy is abandoned. Also, this is indicated by already noticed fact that a relatively large increase in formal employment occurs in sectors of the economy especially sensitive to the size of the gray economy (trade, real estate, accommodation and food services) which can also point to the registration of already employed workers, and not to real improvement in the trends in these parts of the economy. Finally, in the analysis of positive trends in industrial production, we saw that they are focused on the production of consumer goods, and not on the production of intermediate and investment products which do not end up in retail.

Decline in private consumption and investment and a significant slowdown in export growth in 2014

We have analyzed the structure of GDP trends in the entire 2014 and especially in Q4 by use. Table T2-2 shows the structure of GDP growth by expenditure principle. The Table shows that the greatest changes in 2014 compared to 2013 occurred in the movement of exports which, following high 20% growth in 2013 slowed down to only 3% in 2014. The remaining components of GDP were not changed so dramatically in 2014 compared to 2013 - private consumption, investments are in decline (although the decline of investments is significantly lower than in 2013), government consumption was unchanged in real terms, while imports recorded a small real growth (Table T2-2). Such structure of GDP suggests that economic contraction in 2014 by 1.8% after the growth of 2.6% in 2013 actually does not represent a major reversal of the trend of economic activity, as it may seem at first glance. Namely high growth of exports in 2013 was the result of the production of only two companies (FAS and NIS), which was evident to come to an end with reaching full production capacity of these companies. When this happened in the first half of 2014, unfavorable trends in the biggest part of the economy that already existed in 2013 were revealed. From this brief analysis two conclusions stand out. First, that the Serbian economy has structural long-standing problems whose resolving will be a great challenge and will require a certain amount of time, and second, that the re-entry of the Serbian economy into recession was predictable and expected, which we announced timely in the issues of QM from the end of 2013.

Table T2-2. Serbia: GDP by expenditure method, 2009-2013

	Y-o-y indices														Share
	2009	2010	2011	2012	2013	2014	2013				2014				
							Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2013
GDP	96.9	100.6	101.4	99.0	102.6	98.2	102.4	101.1	103.4	103.3	99.8	98.8	96.2	98.2	100.0
Private consumption	99.4	99.4	100.9	98.2	99.4	98.7	98.1	100.1	100.0	100.1	98.4	99.1	98.7	98.6	75.3
State consumption	100.6	100.8	101.1	102.4	98.9	100.1	96.7	94.2	102.5	101.6	99.3	100.3	98.6	101.9	17.8
Investment	77.5	93.5	104.6	113.2	88.9	97.3	97.0	81.9	90.4	90.2	97.3	99.6	92.5	100.0	17.6
Export	93.1	115.0	105.0	100.8	121.3	103.9	113.8	115.6	131.7	122.4	114.8	109.5	94.3	100.9	41.2
Import	80.4	104.4	107.9	101.4	105.0	103.3	99.4	102.5	109.6	108.2	103.7	106.3	101.9	101.6	51.9

Source: SORS

A smaller y-o-y decline in economic activity was achieved in Q4 when compared to Q3. Government consumption in Q4 was in real terms higher than in the same period of the last year by about 2%, due to a large increase in expenditures for goods and services in December (even 42% nominal y-o-y growth). Investments were at the same level as in Q4 2013, which is however

much better result compared to the previous three quarters of 2014 when they were in decline. We believe that the reason for somewhat better results of investments is intensification of State activities in the flood damage reconstruction activities from October, but the execution of some other infrastructure projects, because the growth in Q4 was achieved only by construction while imports and production of equipment still record the same large double-digit drop. Net exports in Q4 was in decline, but still achieved results were slightly better than we expected due to the solid recovery in exports compared to Q3, for which we are still not sure whether it will be sustainable in the coming quarters. Private consumption in Q4 achieved approximately similar decline as in Q3 (Table T2-2).

Construction and industry increasing in Q4, and other sectors do not signal recovery

Observed by production (Table T2-3) we see that in Q4 there was a relatively strong y-o-y growth of construction, which is estimated by SORS at 8.5%, after the quarter in which construction activity had relatively deep y-o-y fall of about 6%. Besides that, industrial production significantly reduced its y-o-y fall from 13% from Q3 to 9% in Q4. These two sectors of the economy gave their contribution to the seasonally adjusted GDP growth in Q4 compared to Q3 of over 0.5 pp. As total GDP in Q4 recorded seasonally adjusted growth of 0.4% this means that the remaining sectors of the economy (except construction and industry) in Q4 were still in a mild seasonally adjusted fall.

Table T2-3. Serbia: Gross Domestic Productby Activity, 2009-2014[1]

	2009	2010	2011	2012	2013	2014	2013				2014				Share
							Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2013
Total	96.9	100.6	101.4	99.0	102.6	98.2	102.4	101.1	103.4	103.3	99.8	98.8	96.2	98.2	100.0
Taxes minus subsidies	98.6	99.5	101.1	97.8	98.9	99.4	95.9	98.4	100.2	101.0	98.7	100.4	99.3	99.4	15.8
Value Added at basic prices	96.6	100.8	101.5	99.2	103.3	98.0	103.7	101.6	104.0	103.8	99.9	98.5	95.6	98.0	84.2
Non agricultural Value Added	96.7	100.2	101.5	101.1	101.6	97.6	101.7	99.2	102.4	102.3	99.7	98.2	95.1	97.6	90,6[2]
Agriculture	95.2	106.4	100.9	82.7	120.9	100.8	122.8	125.0	119.1	118.3	102.4	100.7	99.9	100.9	9,4[2]
Industry	96.8	100.8	103.2	105.6	106.0	92.9	107.3	105.8	107.0	104.0	99.7	94.5	86.8	91.0	26,6[2]
Construction	87.1	97.6	105.9	90.2	96.1	100.9	103.0	82.2	98.6	102.7	97.7	102.5	94.1	108.5	5,1[2]
Trade, transport and tourism	92.9	100.0	99.5	99.3	102.3	98.7	101.0	99.9	102.7	105.4	99.9	98.0	98.3	98.7	17,8[2]
Informations and communications	97.0	103.2	102.6	102.8	99.9	101.8	99.9	96.6	100.9	102.3	101.5	102.6	101.8	101.2	5,2[2]
Financial sector and insurance	102.6	101.9	98.4	92.0	90.5	98.4	89.2	90.1	89.6	93.4	96.6	100.2	97.4	99.3	3,1[2]
Other	99.7	99.8	100.9	101.8	100.2	99.7	100.7	99.3	100.7	100.1	99.6	99.7	99.6	100.1	32,8[2]

Source: SORS
1) In the previousyear's prices
2) Share in GVA

We hold on to the estimates on GDP fall in 2015 by around 0.5-1%

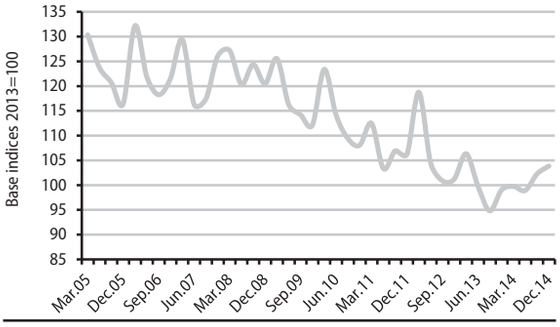
Announced data for Q4 and also available data for January 2015 are better than we expected in the previous issues of QM. However, it is still uncertain whether these trends will continue in the following quarters, especially because there is, we believe justified, doubt that announced data completely reliably describe the movement of economic activity in the last few months. On the other hand, some unfavorable events took place, which we also did not expect in the previous analysis. For example, we didn't expect that even by the end of 2014 the consequences of May floods on mining (coal) and production of electricity were not remediated. Mining and electricity production were also in January for 15-20% lower than the usual production levels – which will have negative impact on the results of the economic activity compared to our previous expectations. Also, the announced successful privatization of Železara Smederevo did not occur, based on which we expected a positive contribution to the GDP growth in 2015 by 0.2-0.3 p.p. Taking all this into account we maintain our estimate of the GDP fall in 2015 from the previous issues of QM of 0.5-1%.

Unit labor costs growing significantly in Q4…

Unit labour costs[3] (ULC), measured in dinars are growing in Q4 when compared to Q3, but also compared to the same period of the last year – y-o-y growth of ULC amounted to about 5% (Graph T2-4). ULC represent the share of labour costs in the added value and we measure them for total economy from which we excluded the agriculture and public administration sectors so we could assess the real trends in the "market" part of the economy which does not depend essentially on changes of meteorological factors (such as agriculture). We estimate the increase of ULC in our sample as inadequate because it indicates that with the same labour costs less is being produced. However, in this case also it is possible that the observed ULC increase

3 Unit Labor Costs in dinars are calculated for the economy (excluding the Agriculture and Public Administration sectors).

Graph T2-4. Serbia: Real Unit Labor Costs in the Economy, 2005-2014



Source: *QM* based on SORS and NBS data

… This increase in ULC is probably a consequence of unreliable official data, and not the actual trends

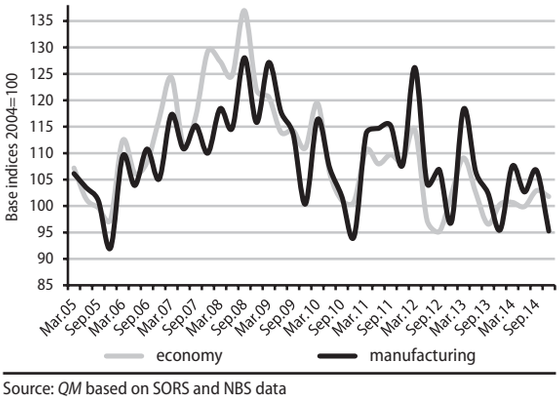
is mainly a consequence of the reduction of the grey economy, i.e. more accurate presentation of the real labour costs, and that it is only a small part a result of the growth in wages received by employees. The previous long-term trend of ULC was their significant decrease (Graph T2-4).

The direct reasons for the growth of the ULC in Q4 were officially published labor market trends which we believe to be unreliable - and therefore we still do not consider the observed ULC growth to be certain or troubling. In Q4, according to the official data, the growth of the average wage and formal employment occurred. Although at first glance it appears that the average wage in Serbia in Q4 was not significantly increased (the y-o-y growth of total average wageby 0.3% was achieved) in our sample from which the public sector is excluded (in which wages were reduced by 10% from November 2014), nominal wage growth was actually over 3%. We expect that the problem of unreliable measurement of wages in the private sector will further escalate when we calculate ULC for Q1 2015, as in January y-o-y growth of wages in the manufacturing industry was amazing 15.5%. Q4 also saw a slight increase in formal employment, which is also unlikely. In the previous part of the text we have already hinted the possibility that the real reason for some unusual macroeconomic trends we observed in Q4, and most likely in January 2015, were State actions to combat the grey economy. However, please note that statistics on employment and wages in Serbia has not been reliable enough for quite some time – and the Labor Force Survey can be used as the best example of bad data published in this area.

Euro-ULC not growing due to a dinar depreciation

Unit labour costs measured in euros (euro-ULC) are an indicator of the price competitiveness of the Serbian economy, as they define the greatest national cost component (labour costs) in relation to the added value. We calculate euro-ULC for the manufacturing sector (which produces by far the greatest share of tradable goods), and for the economy as a whole[4], as shown in Graph T2-5.

Graph T2-5. Serbia: Real Euro - Unit Labor Costs in the Economy and Industry, 2005-2014



Source: *QM* based on SORS and NBS data
Note: the growth of euro-ULC on the graph represents the decline in price competitiveness

Graph T2-5 shows that the euro-ULC are at approximately same level compared to the same period of the last year besides the fact that the dinar-ULC (Graph T2-4) increased considerably. The reason for this is a significant real dinar depreciation throughout 2014 which compensated for this increase of the dinar-ULC. Based on the values of the euro-ULC (Graph T2-5) and the comparison with their historical values, it could be said that the price competitiveness of the domestic economy is with currently at the satisfactory level with the dinar exchange rate above 120 dinars per euro, but a moderate real depreciation would even be more favourable.

4 Excluding the Public Administration and Agriculture sectors.

Industrial production

Industrial production recorded a fall of 6.5% in 2014

Industrial production recorded a fall of 6.5% in 2014 (Table T2-6) which was particularly pronounced in the second half of the year. The main reason for such a deep fall in industrial production were the May floods and inefficient flood damage reconstruction, which is why mining and electricity production in 2014 recorded an annual decline of around 20%. However, even if there were no floods the industrial production in 2014 would be in decline, as evidenced by the movement of the manufacturing industry (which was not under significant influence of floods) which recorded a decline of 1.4% in 2014.

In Q4 y-o-y fall in industrial production slowed down

Similar structure of decline in industrial production continues in Q4, as well as in Q3 where the y-o-y decline is led by mining and electricity production (decrease of about 25%), while manufacturing had lower y-o-y decline, which amounted to 2.8% (Table T2-6). While the structure is similar this decrease in all three sectors of industrial production in Q4 was considerably lower than in Q3, which may indicate their recovery.

Table T2-6. Serbia: Industrial Production Indices, 2009-2014

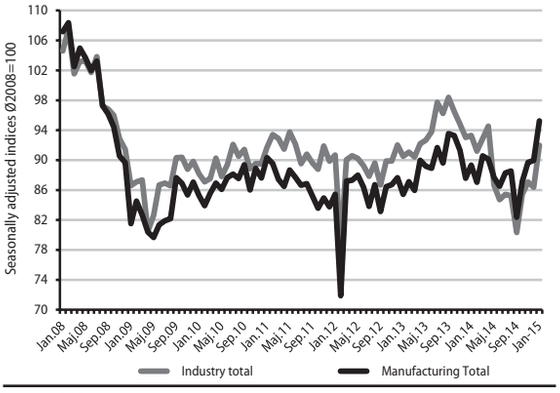
	Y-o-y indices														Share
	2009	2010	2011	2012	2013	2014	2013				2014				2013
							Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Total	87.4	102.5	102.2	97.1	105.5	93.5	105.2	103.0	110.8	103.3	102.1	95.7	85.8	90.5	100.0
Mining and quarrying	96.2	105.8	110.4	97.8	105.3	83.3	107.8	102.2	107.6	104.1	99.7	87.3	71.6	76.2	8.5
Manufacturing	83.9	103.9	99.6	98.2	104.8	98.6	105.4	103.2	108.8	102.2	104.2	98.7	94.0	97.2	73.9
Electricity, gas, and water supply	100.8	95.6	109.7	92.9	108.1	79.9	103.7	103.7	120.5	106.8	99.3	86.2	61.3	72.6	17.6

Source: SORS

Seasonally adjusted indices show strong growth in industrial production since the beginning of the fourth quarter…

Graph T2-7 shows seasonally adjusted production indices of total industry and manufacturing ending with the last available data for January 2015. The Graph shows that after a temporary decline in September 2014, which occurred because the NIS almost entirely ceased production due to the overhaul in its plants (NIS production in September was less than 10% of normal production), an increase in seasonally adjusted indices of total industrial production and also of the manufacturing industry occurred in Q4. In January, these trends were almost extreme. Achieved seasonally adjusted growth in industrial production of 6.5% (and in the manufacturing industry of 6%) is unrecorded in ordinary circumstances and occurred only after extraordinary events (after the bombing, with the completion of a state of emergency due to the bad weather in February 2012, and was not reached, for example, after the end of the May floods in 2014).

Graph T2-7. Serbia: Seasonally Adjusted Industrial Production Indices, 2008-2014

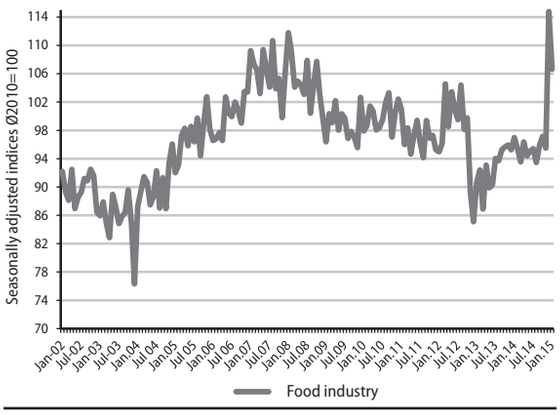


Source: SORS

It is unlikely that this unusually high growth in industrial production, and within it in the manufacturing industry, indeed took place in Q4 2014 as well as in January 2015. QM editorial office is close to the opinion that the real reason for these trends is better recording of the existing economic trends that have so far performed in the grey area, and that a real increase in production (at least not to this degree) actually did not happen. There are some other indirect indications in the statistics of the labour market and the wage movements for this opinion. However, there is always the possibility that the SORS has made some mistake in calculating these indicators. We will have a clearer picture of what really happened when the data for several months in 2015 are published, i.e. in the following editions of QM.

In Graph T2-8 we showed, as an illustration, special seasonally adjusted indices of the food industry (ending with the last available data for January 2015), which were crucial for the growth of the manufacturing industry (and total GDP) in Q4 2014. The Graph clearly shows rather extreme and unlikely growth of the food industry in the last few months of 2014. We have already explained that this is hardly possible in heterogeneous areas such as the food industry. More detailed analysis further confirms this assessment, because it shows that the growth of the food industry was preceded neither by extraordinarily good agricultural year[5] nor by strong increase in imports of agricultural products[6], so it is unexplainable where the inputs for such a huge increase came from. It is interesting to note that the exports of food products in the last two months of 2014, despite the exceptional growth of production, actually slowed its growth compared to the first 10 months of 2014.

Graph T2-8. Serbia: Seasonally Adjusted Food Industry Indices, 2002-2015



Source: *QM* based on SORS data

Q4 saw reduced decline of energy production and recorded a growth of consumer goods production

When observed by use (Table T2-9), we see that there was a reduction in y-o-y decline in energy production by about 10 p.p. in Q4 when compared to Q3. There are two reasons for this. The first is that NIS was overhauling its production capacities in Q3, and therefore the production in Q3 was extraordinarily low, and the other is that part of flooded coal mines was drained, and in accordance with that both the exploitation of coal and the electricity production gradually increase. We observed a similar change in the production of consumer goods which, after the y-o-y decline of 2.5% in Q3 saw a y-o-y growth of 5.6% in Q4, and the most important reason for this was already described increase in the production of the food industry, but there are some other areas that produce consumable products which achieved better results in Q4 compared to Q3 (beverage, textile, etc.). This structure of growth in Q4 may be a further indication of somewhat better results in industrial production (and the overall economy in Q4) being partly a consequence of the suppression of the grey economy, because only the production of consumer goods is growing, while the production of intermediate and investment goods didn't show any changes in Q4 compared to Q3.

Table T2-9. Serbia: Components of Industrial Production by use, 2009-2014

	Y-o-y indices																	
	2009	2010	2011	2012	2013	2014	2012				2013				2014			
							Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total	87.4	102.5	102.1	97.1	105.5	93.5	94.5	97.2	96.4	99.4	105.2	103.0	110.8	103.3	102.5	95.7	85.8	90.5
Energy	98.8	97.7	106.2	93.6	113.2	82.6	95.8	88.3	91.4	98.7	108.6	109.7	131.6	107.7	101.1	89.3	65.1	75.9
Investment goods	79.3	93.6	103.2	103.8	127.6	95.9	92.0	105.4	113.7	104.2	132.3	130.2	140.5	104.2	107.4	97.5	89.5	88.6
Intermediate goods	78.4	109.2	102.2	91.2	99.0	96.8	89.4	96.3	89.1	90.0	94.7	93.1	101.9	104.8	105.7	95.4	94.2	91.4
Consumer goods	86.8	102.1	95.4	103.2	100.7	100.7	97.8	104.5	104.6	106.1	107.0	101.5	97.4	100.0	100.2	99.6	97.5	105.6

Source: SORS

Construction

Q4 saw a growth of activity in the construction sector

Construction activity, after three years of continuous fall, ended 2014 at approximately the same level (a slight increase of about 1%) when compared to 2013. These results in the construction sector were significantly contributed by slightly better results in Q4 when the construction activity recorded a growth of about 5% compared to the same period of the previous year. Two main indicators of construction activity which we monitor independently: 1) The value of construction works performed, from the official construction activity statistics and 2) The cement production

5 Agriculture recorded growth of just 0.8% in 2014
6 Imports of agricultural products increased by 1% in 2014 compared to 2013, or for a little less than 5 million of euros.

index which we generate by ourselves based on SORS data; undoubtedly show a somewhat better movement of construction activity in Q4 compared to Q2 and Q3 of 2014. The nominal value of construction works performed in Q4 was by 6.4% higher than in the same period of the last year, while cement production recorded a y-o-y growth of 4.7% (Table T2-10).

Table T2-10. Serbia: Cement Production, 2001-2014

	Y-o-y indices				
	Q1	Q2	Q3	Q4	Total
2001	89.5	103.5	126.9	148.1	114.2
2002	83.6	107.9	115.6	81.6	99.1
2003	51.1	94.4	92.7	94.4	86.6
2004	118.8	107.4	98.5	120.1	108.0
2005	66.1	105.0	105.8	107.4	101.6
2006	136.0	102.7	112.2	120.2	112.7
2007	193.8	108.9	93.1	85.0	104.4
2008	100.1	103.7	108.1	110.1	105.9
2009	34.1	81.4	86.0	75.3	74.4
2010	160.7	96.9	96.0	97.4	101.1
2011	97.7	101.3	96.2	97.7	98.3
2012	107.9	88.3	58.2	84.9	79.6
2013	83.5	78.7	127.6	93.5	94.9
2014	136.2	90.3	96.2	104.7	101.5

Source: SORS

The most probable reason for the growth of activity in the construction sector in Q4 is intensifying work in the flood damage reconstruction, which took momentum in the fall of 2014, and slightly increased construction of public infrastructure projects, indicated by a high y-o-y growth of government spending on capital investment in the last quarter of 2014, of about 25%. Unfortunately there are still no indications that the observed increase in the construction activities is partly the result of an increase in investment activity in the private sector (which is crucial for the future growth of the economy). Namely, the production and import of capital equipment do not show the same signs of improvement in Q4 as construction activity.