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CONSTRUCTION

SECTOR OVERVIEW DECEMBER 2016



TOP NEWS

Negative impact of Brexit on construction sector of the UK can be best seen in the fact that as much as 82 % contractors in 2016 had at least one supplier backing off during some project

However, it looks like the impact of Brexit slowly melted, because research from the end of 2016 shows that 54 % contractors in construction sector of the UK expects increase of profit margin in 2017.

The biggest European infrastructure project – building of new railway line in London- is going according to the plan and coming to an end

The project worth 14.8 billion GBP, run by Crossrail Limited company, deals with building of new railway line named Elisabeth which will have the length of 42km and running from the southeast to east London. Currently, 75 % of the project is completed – it started in 2009, and new railway line is expected to start working in 2018. There will be 10 new railway station and 30 of existing will be reconstructed, by which this project will integrate new and existing part of London railway. Capacity of railway station will increase by 10 %, which means additional 200 million passengers per year.

When building a new railway line in London, Crossrail Ltd came up with an idea for new way of collaboration between constructors and the creation of innovations

Namely, Crossrail “made” constructors share ideas among each other, and to pay for that kind of privilege. It asked constructors to pay certain amount of money in order to finance innovative ideas which they themselves come up with , i.e. their collaboration, from that sum. For the beginning, on construction site WiFi projectors are set, so that constructors could communicate quickly and efficiently, on the spot, instead of going to offices. Collaboration between experts from different areas quickly led to using drones on construction site for the purpose of visual research or new special instruments for checking the quality of construction components. What is also good is that this project will keep on living after the railway line is built, because an idea was already turned into platform called i3P.

In Tokyo, construction of stadium for the Olympics 2020 has begun

Stadium worth 1.5 billion USD will be built in traditional Japanese stile, looking like Japanese temples and pagodas, and the main material for construction will be steel and – wood. Wood as a construction material is gaining an importance more and more and it seems that construction by this material will be trend in the following period. Completion of construction of stadium is expected in November 2019.

Introduction of electronic construction license reduced grey economy and corruption in 2016

With the same aim the Law on legislation of illegally constructed buildings was passed, as well as black and white lists of construction enterprises, since about 15 % of companies of this sector operated as subcontractor, although they did not log their workers. The next step is cadastre reform, which will be a further improvement of business and life in Serbia. It is expected that cadastre reform will bring to further improvement on Doing business list of World Bank, and the plan is that Serbia by 2020 become one of the first 15 to 20 countries ranged by business environment.

Domestic construction companies and their workers will be able to count on new projects worth 9,777 million Euros in 2017

Namely, Serbian Government plans to invest in infrastructure near billion Euros in projects on which domestic companies will work in 2017. Of the big projects expected in 2017, the biggest are building of the part of Bypass around Belgrade, highway from Surcin to Obrenovac and railway line Belgrade – Budapest, worth 743 million Euros, and domestic companies can count on the half of this money. In the continuation of rehabilitation project of 1100 km of regional roads and maintenance of state roads of I and II importance, on which mainly domestic companies work, 153 million Euros will be invested. When it comes to railway, for design and reconstruction of railway at Koridor 10 and reconstruction of the railway Nis – Dimitrovgrad, 175.9 million Euros is estimated, as well as 3.5 million Euros for works on Belgrade railway station Centar, that is to say Prokop. From “Russian credit” investment of the total of 557 million Euros was agreed, and projects worth half of this amount are given to domestic companies.



GLOBAL MARKET

Global construction industry growth is steady, with estimation that at the end of 2016 it was 2.8% which is insignificantly higher compared to growth of 2.4 % in 2015

These growth rates are modest compared to an average growth rate in the last 10 years of 5 % per year, when construction sector was the leader of global growth. Three factors mostly contributed to poorer construction sector growth in the last two years. Those are: 1) Historically low oil prices, which made construction growth slower in countries that export oil; 2) economic faltering of China, the biggest world player in construction sector; and 3) strengthening of American dollar, which lowered investment activity of construction sector which consists of big leverage and long deadlines for debt repayment.

Growth of oil prices in December, melting of negative impact of Brexit and stabilization of Chinese economy are the reasons for optimism in construction sector in 2017. Also, in favor of positive expectations also goes optimism coming from American market, after disclosures of direction of economic policy of newly elected American president.

Although the elections in the USA brought uncertainty at first, expectations at this market improved

As newly elected president announces bigger investments in infrastructure expectations in construction sector are improving. It is estimated that construction sector in the USA will spend more than 1.2 trillion \$ in 2017.

Estimations of construction sector growth in the EU show slight increase for 2017 – While the current estimation is that increase in 2016 was 2 % estimations for 2017 are somewhat better – 2.1 %. However, this growth rate is bigger from expected growth rate of GDP of the EU which is 1.4 %. Also, Euroconstruct shows that interesting opportunity will be made in short term due to combination of cheap credits and favorable construction perception as protective investment. In long term, opportunities from growth will occur due to public demand for living space. Estimations for 2018 and 2019 show similar growth rates – between 2.1 and 2.2 %.

Construction sector of UK shows signs of recovery from the shock after Brexit and positive estimations for the following years

It is expected that investments in this construction sector in this country will be over 300 billion GBP in the following three years.

Chinese economy is stabilizing, so more positive prospects of construction sector can be seen on this market as well

Despite economic faltering of China during 2016, PMI index in the last two months of this year (51.7 and 51.4, respectively) shows that the growth is estimated in Chinese industry. Government stimulus policy and growth of real estate sector contributed to this optimism. It is expected that China will remain the greatest power in the construction world until 2030.

Construction sector of India will be the third largest in the world by 2030

Considering the fact that every sixth person in the world that moves to city is Indian, the fact that urbanization rate in this country is the second highest in the world (after China) and that by 2025 construction sector of India will have a value of billion dollar and employ 75 million people is not surprising. It is expected that by 2030 India will have 77 cities with over million citizens.



DOMESTIC MARKET

In October 2016 the record in the number of issued building licenses in Serbia was made, primarily thanks to new online procedure

During October in Serbia was issued the total of 1464 licenses, which is the best result since 2007 from when SBS monitors these data. During the first ten months of this year more building licenses were issued for 18.7 % compared to the same period last year, while the estimated value of the works is 8.3 % higher (buildings for 38.9 %, while the estimated value of other construction lower – for 29.4 %). Out of the total estimated works value in October, estimated value of new construction was 63.2 %.



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