

COFACE MARKET INSIGHTS

Construction/Construction materials



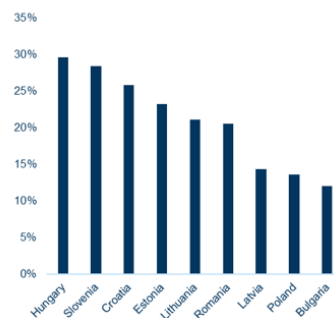
Business climate in Serbia remains stable, rated with A4 by Coface country risk assessment. Construction sector is characterized as the sector with very high risk in Central Eastern Europe.

(Source: [Coface](#))

COFACE SECTOR RISKS ASSESSMENTS HIGH RISK IN CEE



**Construction sector:
Share in total insolvencies
(%, 2023)**



Source: Local sources, Coface

35% out of total monitored companies stand in medium-high to very high risk (Debtor risk assessment from 1 to 5) and most of them had no evolution in past 24 months.

According to Fitch, investment in Serbia will remain strong as work ahead of Expo2027 (hosted by Belgrade) continues. FDI-financed projects will lift exports, as will the recovery in EU demand, although this will be offset by the import intensity of construction and infrastructure projects. Investment/GDP is forecasted at around 26.5% in 2024 and 2025, up from 18.2% between 2010 and 2019. Fitch forecasts growth of 3.3% in 2024 and 4.2% in 2025. Nearshoring, the free-trade agreement signed with China in September, the EU's new Western Balkans growth plan and the infrastructure associated with the Expo may all support stronger medium-term growth. (Source: [Fitch ratings](#))

Strengths of Construction sector:

- Activity generated from persistent rise in urbanisation in the emerging world
- Business opportunities, investment, and innovation for companies in the sector, on the back of the energy transition
- Strong push for infrastructure development

Weaknesses of Construction sector:

- The level of indebtedness of construction companies remains high
- High household debt at the global level
- Vulnerable to supply chain disruptions and labour shortages
- Cyclical sector, impacted by the global economic slowdown
- High interest rates environment globally

According to Bloomberg Adria which focused its analysis on construction sector in Serbia, 2023 was challenging for construction companies. Due to macroeconomic conditions, as well as other business activities, there was a drop in margins for both housing and civil engineering companies. As Bloomberg analysts emphasized, the company's need for labor due to more intensive projects will be partially satisfied by "importing" foreign workers, whereby it will not only defend its profitability but also ensure the operational implementation of projects. (Source: Bloomberg Adria analysis)

When it comes to assessing companies in Coface, we are trying to understand the whole picture on current situation of certain business entities and main factors which had dominantly affected business performance. Not counting only on financial figures but getting insights regarding reasons that stay beyond certain company's performance, we are considering particular sector as well as country and business climate in which company operates. (Our previous articles regarding [Home appliances](#) and [Agri-food sector](#) you can read on our website).

In this article our focus is on Construction materials sector.

Companies within construction material sector are facing constant pressure from the competition and this pressure is reflected in continual struggle for a more competitive price of the rebar and other materials that is offered. Despite the strong competition, companies are still able to manage their performance on the market and participate on large construction projects. It is noticeable that there is an increasing number of companies that are trading in metal goods.

The export of basic metal had cumulative growth of 63.1% (January-March 2024 compared to same period previous year) and export of metal products, except machinery had cumulative growth of 11.1% (January-March 2024 compared to same period previous year). (Source: [Serbian Statistical Office](#))

However, when they need to improve liquidity, they are ready to approach the price reduction strategy on the market which may cause a negative effect on other companies in the sector. Companies point out that the movement of steel and zinc prices has significant impact on their performance as well (depending on which material makes up the largest part of the product structure). However, companies are focused on monitoring those price movements on the market and it seems that for now they are able to adequately adapt to changes. Other problems that companies within this sector

are facing refer to searching for qualified workforce. The level of financial debt depends individually on the company – some are planning investments which are going to cause an increase in bank loans which are needed to support those investments; some others keep the financial debt stable at the level of previous years. (Coface – internal)

Building material producers are seeing a slowdown in sales, especially those exposed to European markets, but their profit margins are holding up thus far. The global construction sector has been struggling with a combination of high costs, shortage of labour/materials, timid demand and difficult credit environment partially caused by the high interest environment.

The market of construction materials is a very dynamic. We observe lot's of changes in 2 main subsectors wholesale of wood, construction materials and sanitary equipment and retail sale of hardware, paints and glass in specialized stores. We see annual changes of our DRA score in almost 30% of more than 8000 medium and large companies that are being checked on a constant basis in CER.

As in other sectors, it is noticeable that companies in construction materials sector as well are more cautious when it comes to making long-term plans as they are also taking into account current geopolitical situation. Nevertheless they are trying to monitor factors which they mapped as critical and they keep operating on the market considering that investments in construction sector continue to grow.

In the short term, lower interest rates are likely to boost construction activity, particularly in the residential and commercial sectors. Looking ahead to the medium term, global demand for cement is projected to remain relatively flat over the next five years. Overall, the immediate outlook for the building materials producers looks vulnerable but still somewhat stable, mainly thanks to steady margins and some continuing activity.

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COFACE: FOR TRADE

With over 75 years of experience and the most extensive international network, Coface is a leader in Trade Credit Insurance & risk management, and a recognized provider of Factoring, Debt Collection, Single Risk insurance, Bonding, and Information Services. Coface's experts work to the beat of the global economy, helping ~50,000 clients in 100 countries build successful, growing, and dynamic businesses. With Coface's insight and advice, these companies can make informed decisions. The Group' solutions strengthen their ability to sell by providing them with reliable information on their commercial partners and protecting them against non-payment risks, both domestically and for export. In 2023, Coface employed ~4,970 people and registered a turnover of €1.87 billion. people and registered a turnover of €1.81 billion.