

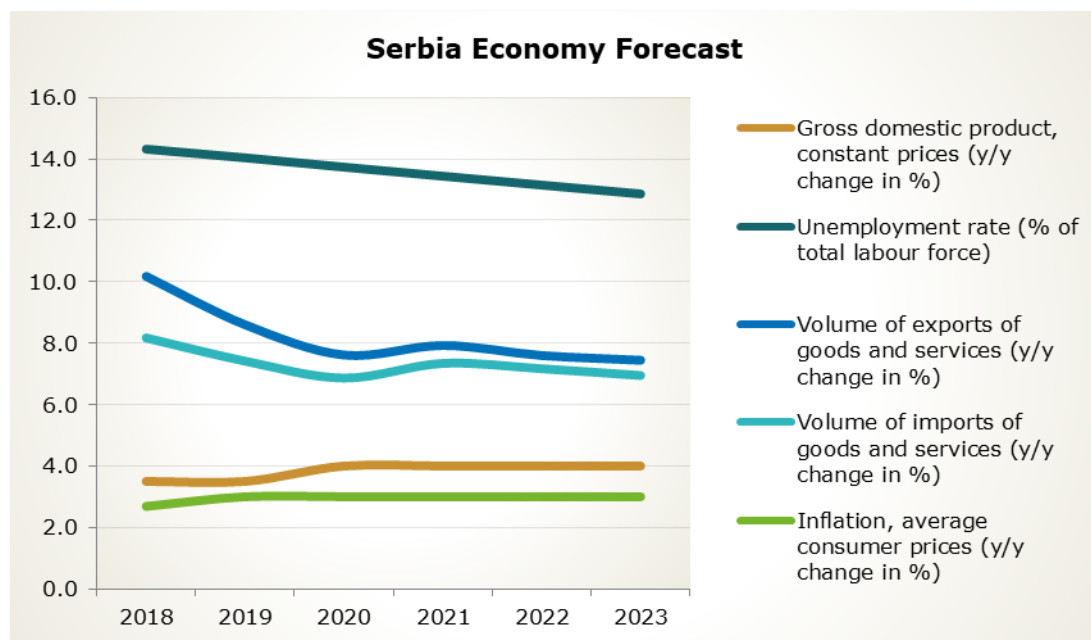
SERBIA ECONOMY REPORT Q1 2018

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1. MACROECONOMIC SNAPSHOT AND FORECAST

SERBIA – MACROECONOMIC SNAPSHOT AS OF Q1 2018	
GDP Growth	4.6 % y/y
Industrial output	5.9% y/y
Industrial sales	-4.8% y/y
Retail sales	3.2% y/y
Average annual inflation	1.6% y/y
Unemployment rate	14.8%
Number of building permits	24.8% y/y
Money supply growth	3.3% y/y
Household loans	6.9% y/y
BELEX15 blue-chip index	3.3% q/q
Gross external debt	EUR 25.4 bln
Current account gap	EUR 637 mln
Net FDI inflow	EUR 569 mln
Foreign trade deficit	EUR 1.25 bln
Number of foreign tourist overnights	13.5% y/y



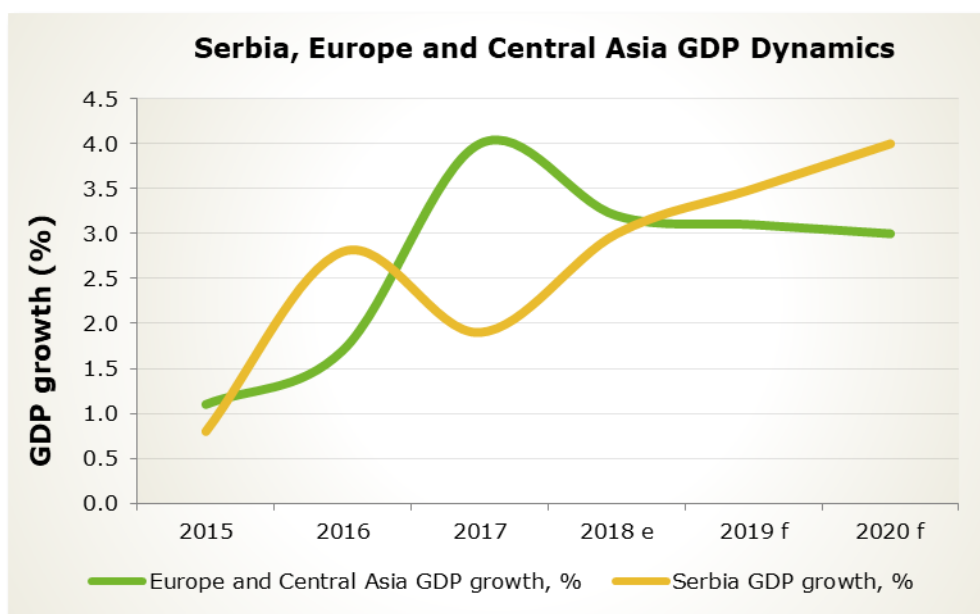
Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2018

According to the International Monetary Fund (IMF), Serbia has succeeded in addressing macroeconomic imbalances and restoring confidence. Authorities have restored fiscal sustainability, putting public debt on a firm downward path, and realigned the external position with fundamentals. Monetary policy has kept inflation under firm control, while supporting economic recovery and maintaining broad exchange rate stability. The

confidence instilled by the improved macroeconomic situation has been reflected in rising investment, both from foreign and domestic sources, and supported an economic recovery.

IMF expects growth to reach 3.5% in 2018, riven by consumption, investment and exports. Supported by appropriate monetary policy of the National Bank of Serbia, inflation remains low, and is expected to reach about 2% at the end of 2018.

Serbia remains susceptible to spillovers from regional and global developments and market volatility, including potential increased risk aversion for emerging markets, IMF considers. On the domestic front, delay in delivering on structural reforms or erosion of fiscal discipline, could undermine confidence and reduce medium-term growth prospects.



Source: World Bank, *Europe and Central Asia Economic Update*, June 2017

According to the World Bank estimates from June 2018, GDP growth of Serbia is likely to come in at 3.0% in 2018, up from an estimated 1.9% in 2017 (the actual growth in 2017 was 1.8%). This will be lower than the projected growth for Europe and Central Asia, of 3.2% in 2018.

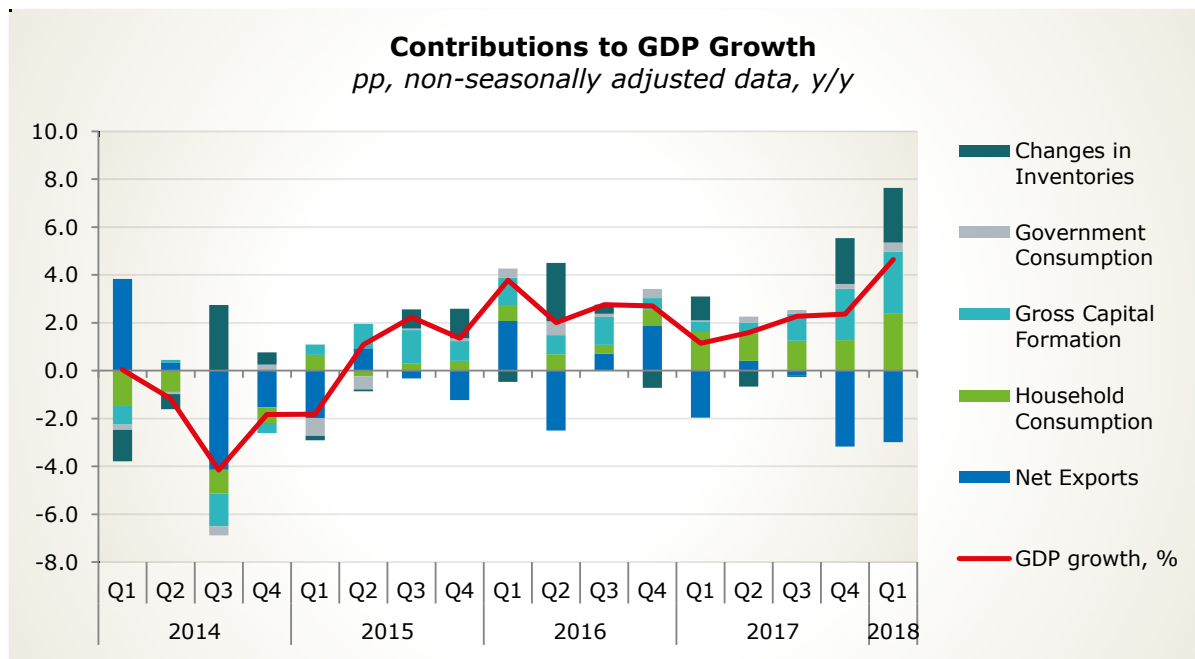
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth accelerated in the beginning of 2018 on strong industry, household consumption and capital investments growth

In Q1 2018, the Serbian economy accelerated its pace of real growth to 4.6% y/y, up from 2.4% y/y in Q4 2017, data from the National Statistics shows. In the first quarter, the economy was fueled by stronger household consumption and capital investments, which contributed to 2.4 pp and 2.6 pp to the overall y/y GDP growth. The final consumption (household and

government) advanced by 2.9% y/y in real terms in Q1 2018, while gross capital formation surged by 15% y/y.



Source: SORS; SeeNews calculations

Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual

The gross value added (GVA) generated by the national economy increased by 5.0% y/y in Q1 2018 and totalled RSD 663.5 bln. The industrial sector went up in value by 5.3% y/y and accounted for almost a quarter of the total GVA. The services sector recorded a 3.3% annual increase, slicing a 61% share of the total GVA. The construction sector's GVA increased by 26% to RSD 31.5 bln, while the agricultural sector registered an annual rise of 6.1%.

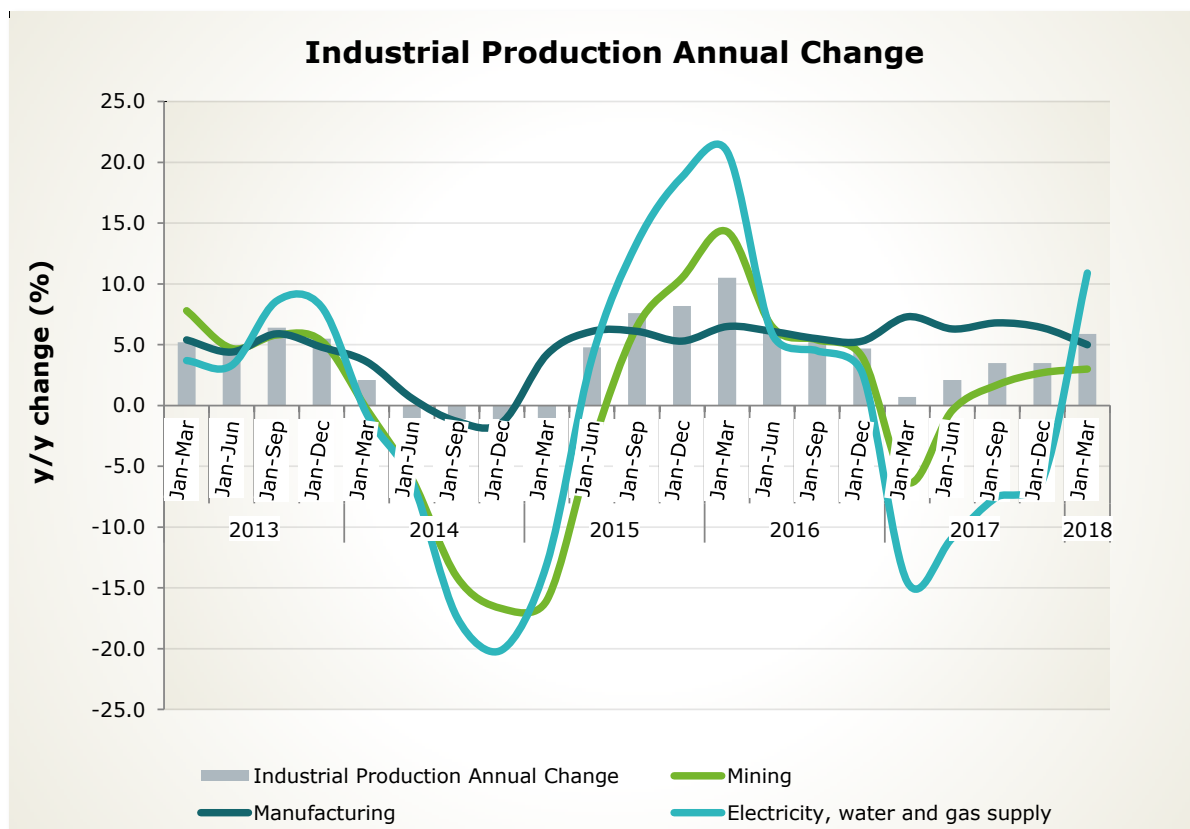
Source: SORS; SeeNews calculations

Note: Non-additive data due to direct chain-linking of GDP and its components.

2.2. INDUSTRIAL OUTPUT

Industrial output growth speeded up to 5.9% y/y in Q1 2018, up from 3.5% y/y in Q4 2017

The industrial output reported increase of 5.9%, in Q1 2018, accelerating from the growth of 3.5% y/y in Q1 2017, according to data from SORS. Electricity, water and gas supply sector expanded by 10.9% on the year. The mining sector went up by 3.0% y/y. The manufacturing industry rose annually by 5.0%.

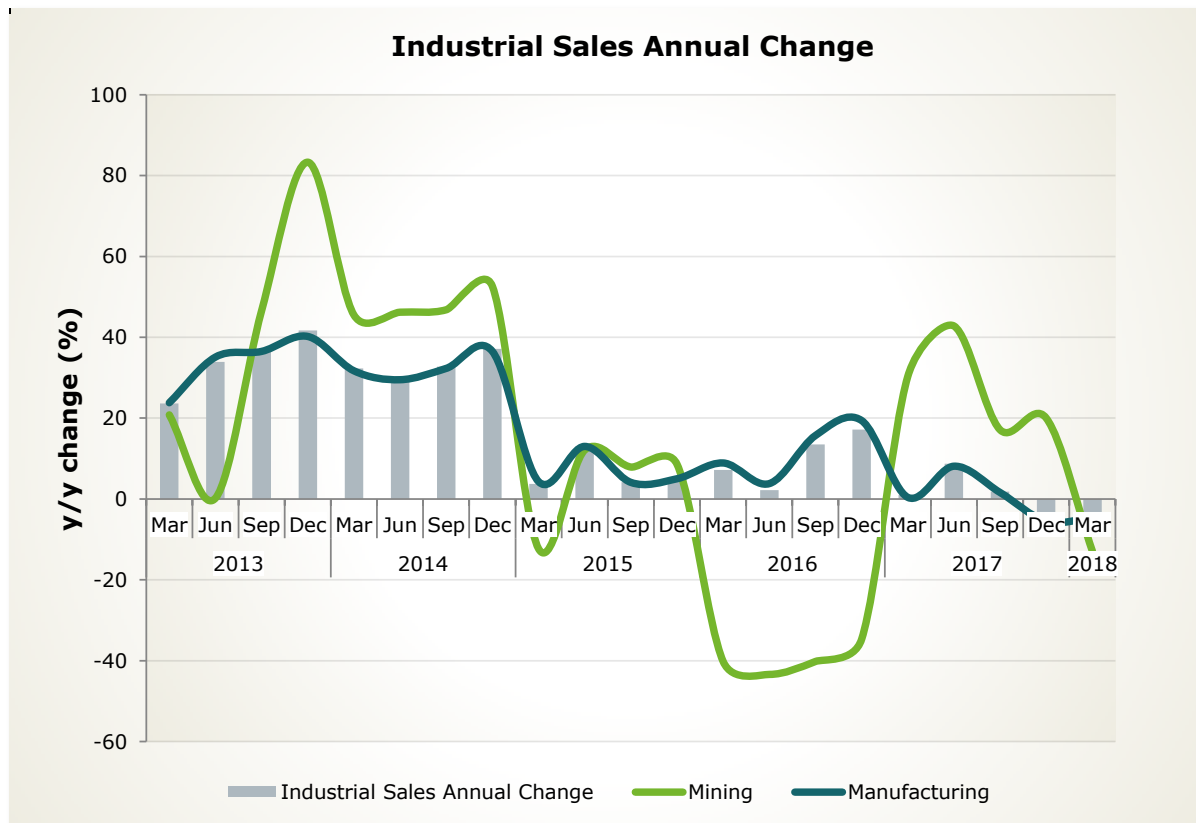


Source: SORS

2.3. INDUSTRIAL SALES

Industrial sales went down by 4.8% y/y in March 2018

The industrial sales decreased in March 2018, by 4.8% y/y, according to SORS. The manufacturing industry recorded a 4.7% annual decrease in sales, while the mining sector posted a 13% annual drop.



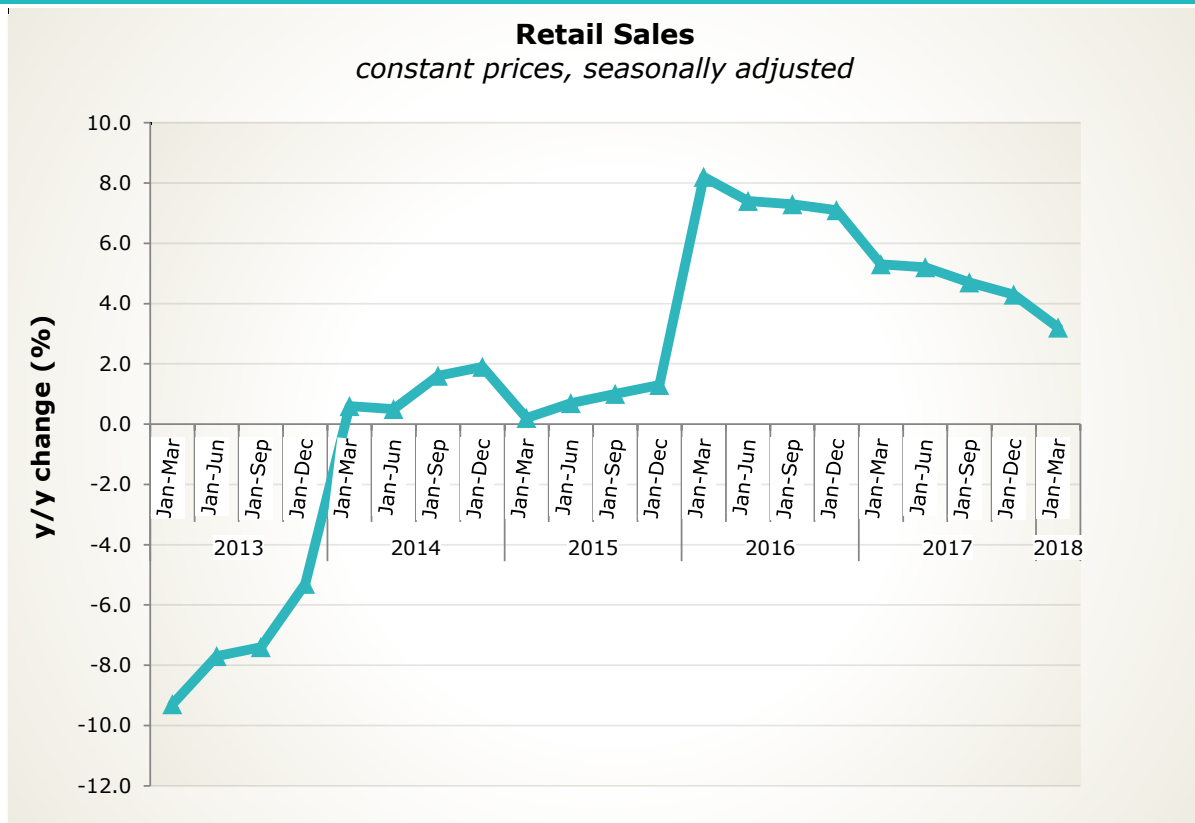
Source: SORS

2.4. WHOLESALE/RETAIL

Retail sales grew by 3.2% y/y in constant prices in Q1 2018

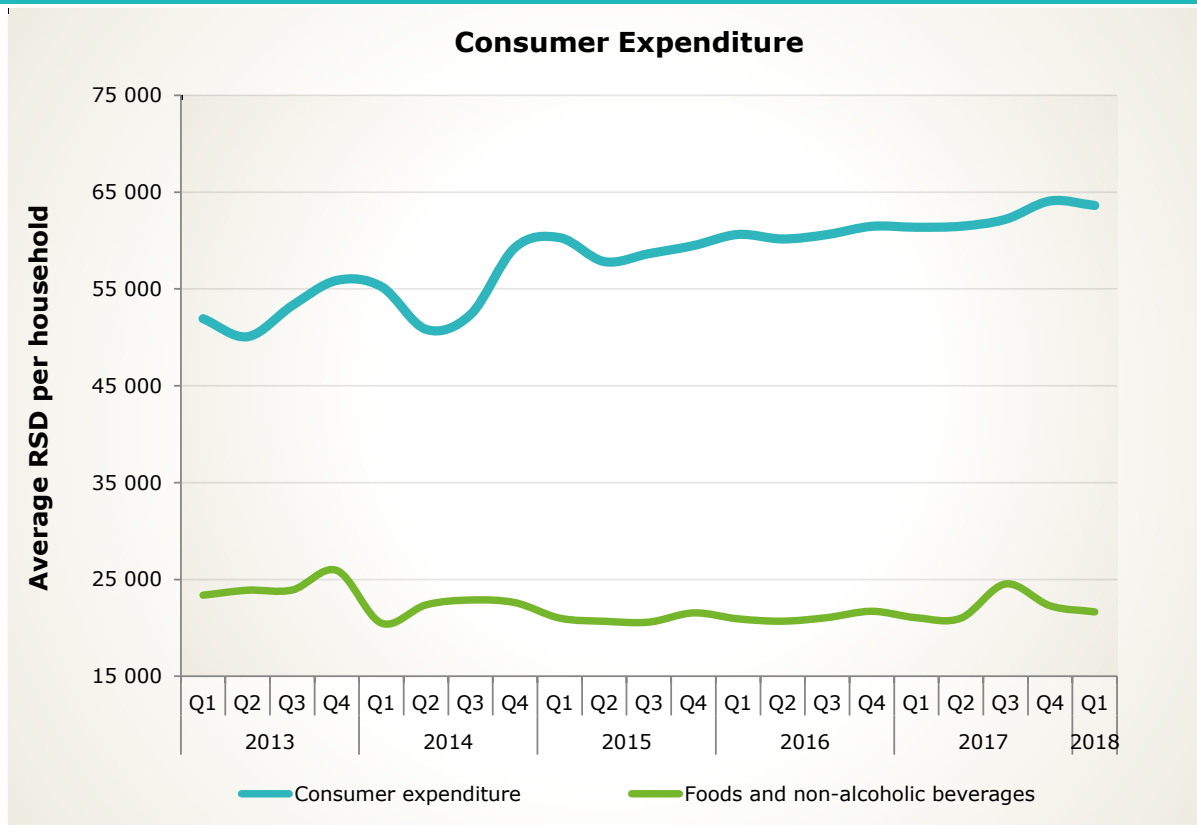
In Q1 2018, retail sales in Serbia rose by 3.2% y/y in constant prices, down from 4.3% y/y in Q4 2017. In current prices retail sales advanced by 4.6% y/y during the first quarter of the year.

Retail sales at the segment of food, beverages and tobacco increased by 3.4% y/y in constant and by 5.7% y/y in current prices. Non-food products (excl. fuel) retail sales increased by 3.8% y/y in constant prices in Q1 2018 and by 4.5% in current prices. Fuel sales advanced by 1.4% y/y in constant and by 2.4% in current prices.



Source: SORS

In Q1 2018, consumer expenditure increased by 3.7% y/y to an average of RSD 63,620 per household. Expenditure on food and non-alcoholic beverages had the highest share in the total consumer expenditure, of 34%. The latter increased by 2.9% y/y to RSD 21,654 per household.



Source: SORS

2.5. INFLATION

Average annual inflation of 1.6% in Q1 2018

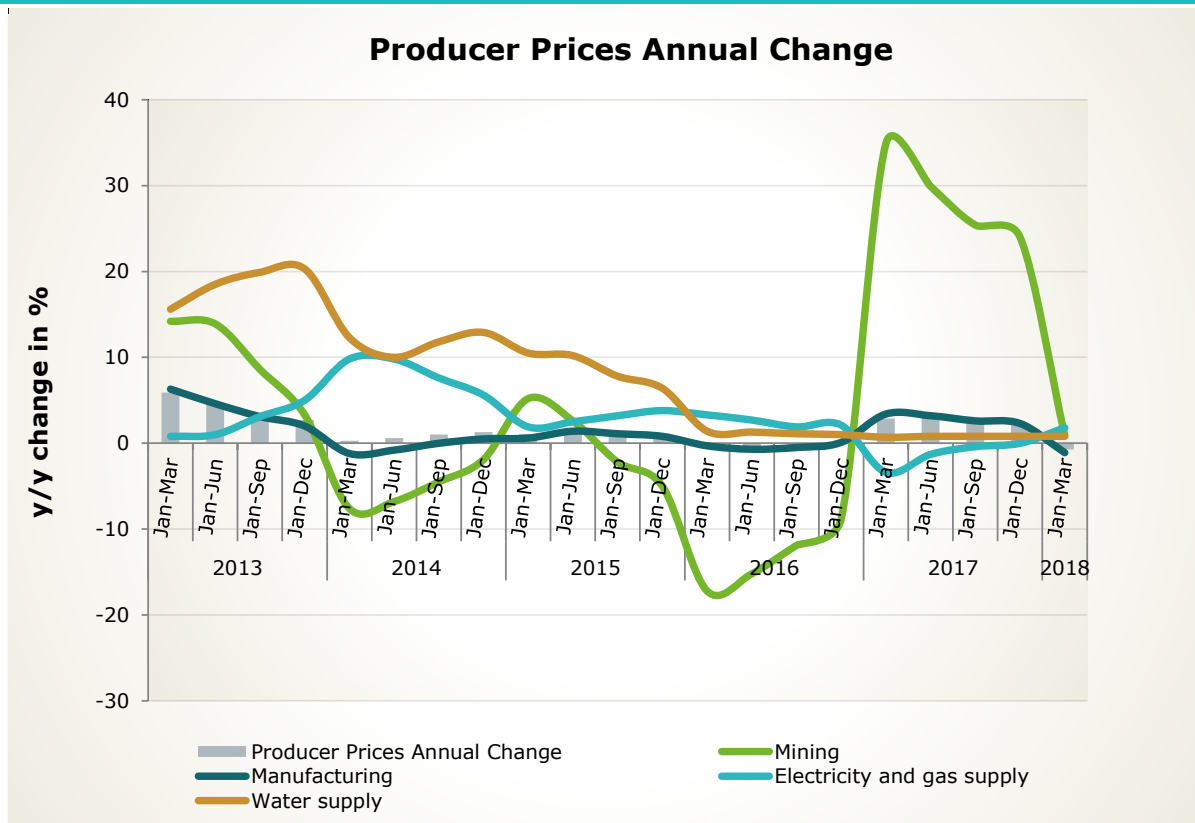
The average annual consumer inflation fell to 1.6% in Q1 2018, down from 3.0% inflation in Q4 2017, according to SORS data.

Inflation pickup was determined mainly by the increase of alcoholic beverages and tobacco by 5.1%, followed by communications with 3.0% and recreation and culture with 4.8%. Clothing and footwear posted a decrease in consumer prices in Q1 2018, of 1.8% on the year.



Source: SORS

Producer prices index (PPI) decreased by 0.7% y/y in Q1 2018, according to SORS data. The manufacturing sector reported decrease in producer prices, of 1.1% y/y. The mining sector showed increase of the prices by 0.9%, while electricity and gas supply and water supply sectors prices notched up by 0.8% and 1.8%, respectively.



Source: SORS

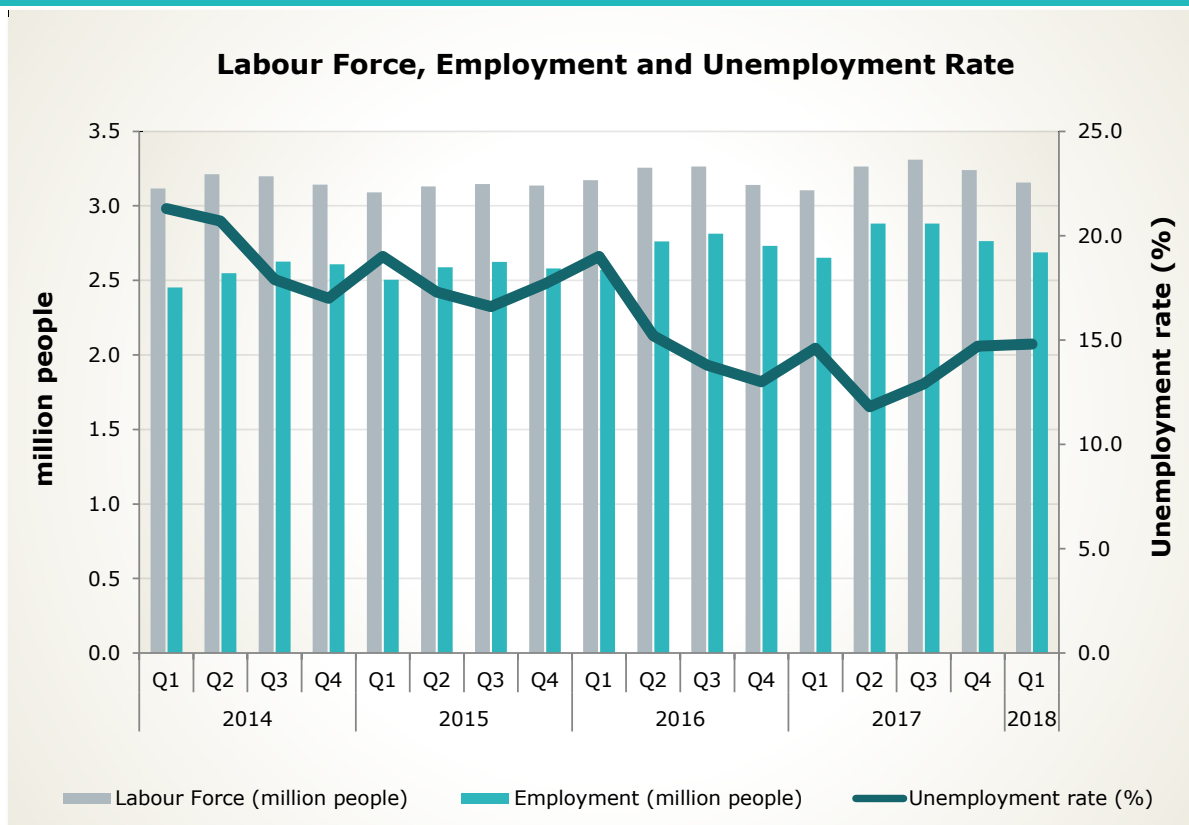
3. LABOUR MARKET

Unemployment rate continues to climb

Unemployment rate in Serbia increased continued its upward trend that has started since the second quarter of 2017. It advanced to 14.8% of the total labour force in Q1 2018, up from 14.7% in Q4 2017, according to data of SORS.

The employed population aged 15 years and older was 2.688 million, down by 1.4% y/y. Youth (population aged 15-24) unemployment rate also went up, to 34.6% in Q1 2018, compared to 33.3% in the previous quarter.

The average monthly net salary in Q1 2018 was RSD 49,089, up by 8.0% y/y. The rise was due to inflation pressure, despite the rising unemployment rate in the country.



4. CONSTRUCTION AND REAL ESTATE

The number of building permits went up by 25% y/y in Q1 2018

The number of permits for new buildings in Serbia was 1,211 in Q1 2018, including 669 for housing projects and 16 for office buildings, according to SORS data.

The total number of permits for new buildings issued in the period under review increased by 25% compared to Q1 2017. Permits for housing projects went up by 21%, while permits for office buildings declined by half.

The total built-up area of office units, covered by the permits, was 98,990 sq m, up by 52% on the year. The total built-up area of new housing was 441,517 sq m in Q1 2018, or an increase of 72% compared to the same period of the previous year.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. RSD EXCHANGE RATE

The average exchange rate of the EUR against RSD inched down to RSD 118.4 in Q1 2018 from RSD 123.88 a year earlier, according to National Bank of Serbia (NBS).

Average Annual RSD Exchange Rate			
Foreign Currency	Q1 2018	Q4 2017	Q1 2017
EUR	118.426	119.107	123.878
USD	96.328	101.125	116.193
GBP	134.087	134.271	143.963
CHF	101.618	102.468	115.761

5.2. MONETARY POLICY

The national bank decreased the policy rate to 3.5%

At its meeting in April 2018, the NBS Executive Board lowered the key policy rate to 3.0% from the previous 3.5% rate. At the same time, the decision was made to narrow the interest rate corridor from ± 1.5 to ± 1.25 pp, meaning that the deposit facility rate remains unchanged.

According to the bank, the expected movement in inflation and its underlying factors going forward allow for further monetary policy easing. The slowdown in inflation in the past three months was stronger than expected by NBS. In March, y/y inflation equalled 1.4%, indicating a further reduction in inflationary pressures while core inflation, which decelerated to 0.8% year-on-year in March, its lowest level since inflation has been measured by the consumer price index. NBS expects inflation to stay around the current level in the coming months. It is expected to come closer to the midpoint during 2019, also on account of growth in domestic demand. Inflationary pressures remain subdued as also indicated by anchored inflation expectations of the financial and corporate sectors, which expect even two-year ahead inflation to be at the target midpoint (3.0%). By lowering the key policy rate amid low inflationary pressures, the NBS will provide additional support to credit activity and economic growth.

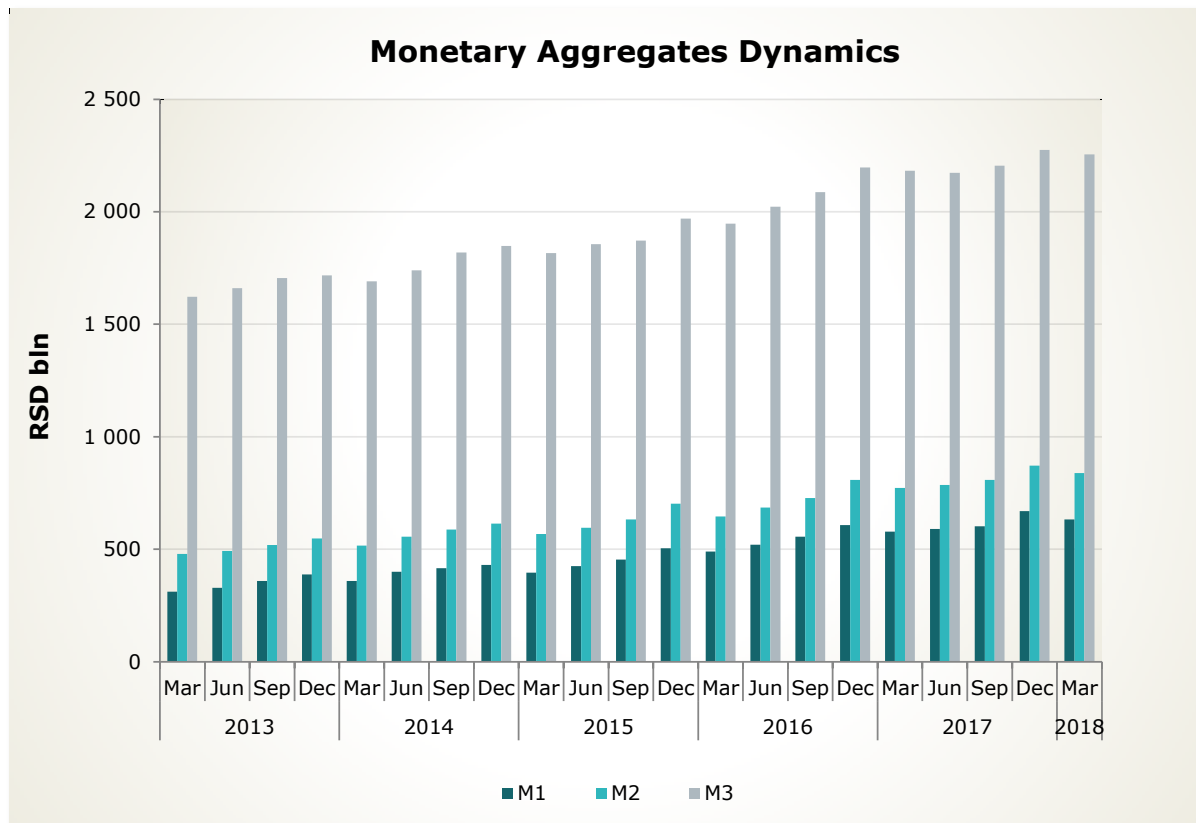
5.3. MONETARY AGGREGATES

Money supply growth was 3.3% y/y at the end of March 2018

Broad money (money aggregate M3) increased by 3.3% y/y and reached RSD 2,255 bln as of March 2018, according to data provided by NBS.

The M2 money supply also grew, by 8.5% to RSD 839 bln.

Money aggregate M1, or narrow money, jumped by 9.4% to RSD 632.9 bln.



Source: NBS

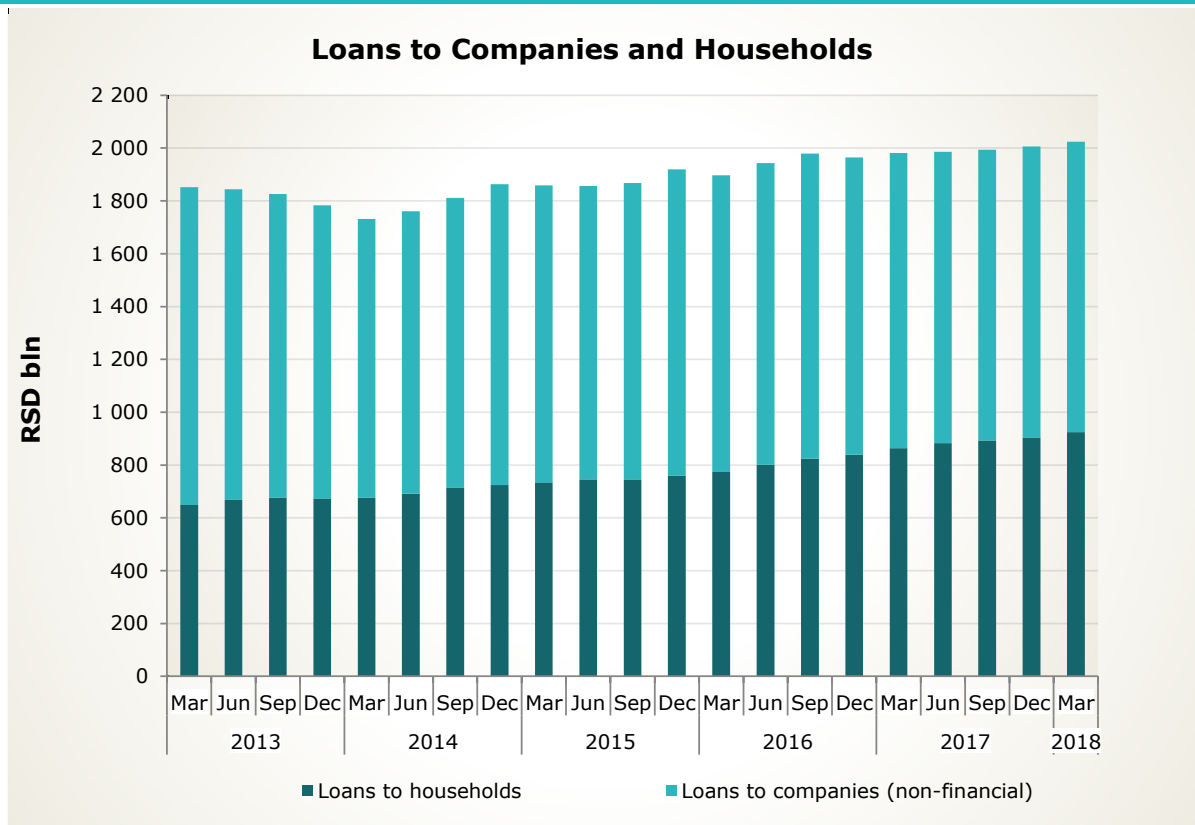
5.4. BANKING AND INSURANCE

Household loans increased by 6.9% y/y in March 2018

Loans to the non-government sector totalled RSD 2,025 bln as of March 2018, up from RSD 1,981 bln a year earlier, according to NBS. Loans to non-financial corporations went down by 1.5% y/y to RSD 1,100 bln.

According to NBS, lending has been sustained by the effects of past monetary policy easing, growing economic activity and labour market recovery. Coupled with the activities on the resolution of non-performing loans, this was conducive to the continued reduction in the share of non-performing loans in total loans to 9.2% in March.

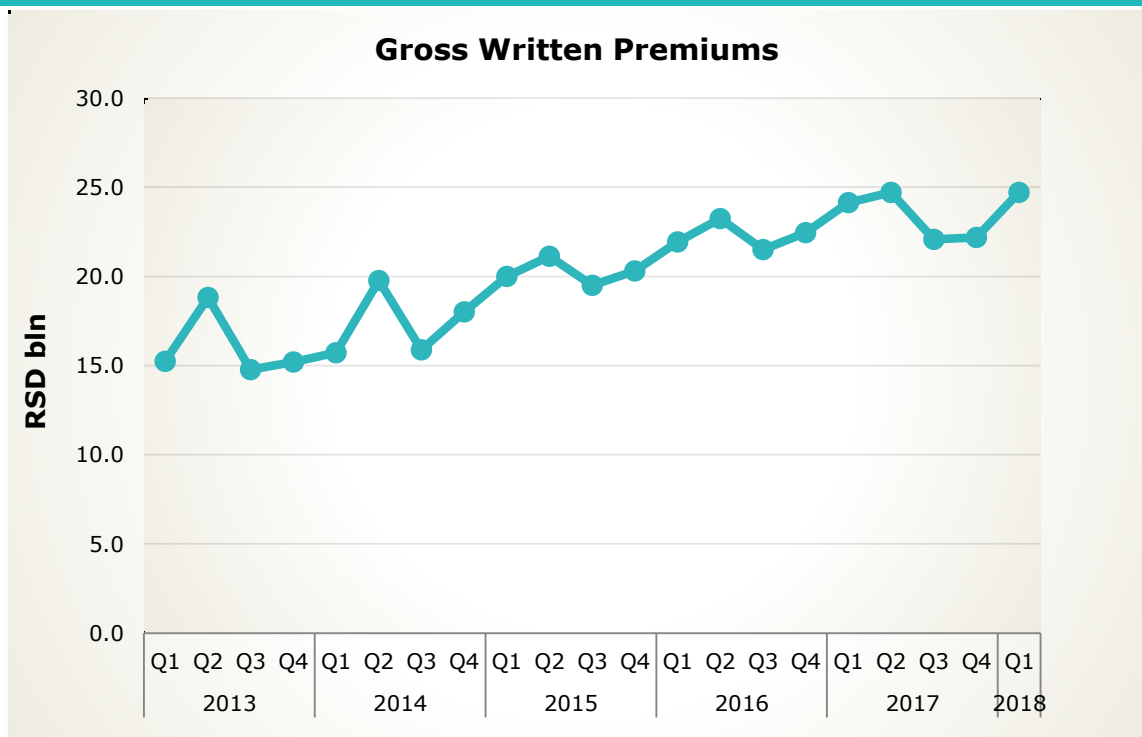
Household loans rose by 6.9% y/y to RSD 924 bln in March 2018, supported by consumer loans, House purchasing loans decreased by 1.0% to RSD 360.4 bln on higher refinancing of existing housing loans. Consumer loans increased by 15.6% on the year and stood at RSD 22.5 bln.



Source: NBS

Insurance premium income up 2.4% y/y in Q1 2018

The total gross written premiums of the non-life and life insurance companies were RSD 24.7 bln in Q1 2018, up by 2.4% y/y, according to NBS data.



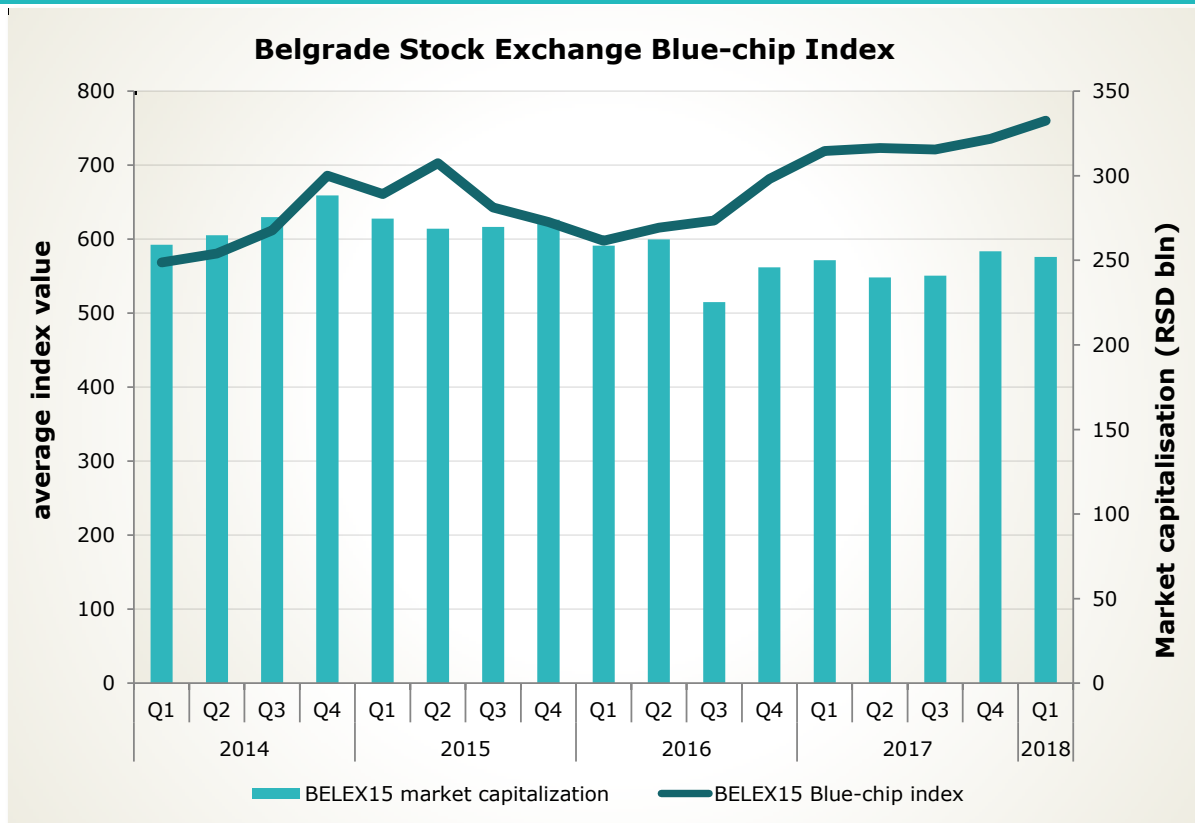
Source: NBS

6. CAPITAL MARKETS

Blue-chip index BELEX15 went up by 3.3% q/q in Q1 2018

The average value of BELEX15, the blue-chip index of the Belgrade Stock Exchange (BELEX), increased by 3.3% q/q to 759.9 points in Q1 2018.

The total turnover of BELEX decreased by 9.1% q/q to RSD 20.4 bln in Q1 2018. The number of transactions was 24,816 versus 19,390 a year ago.



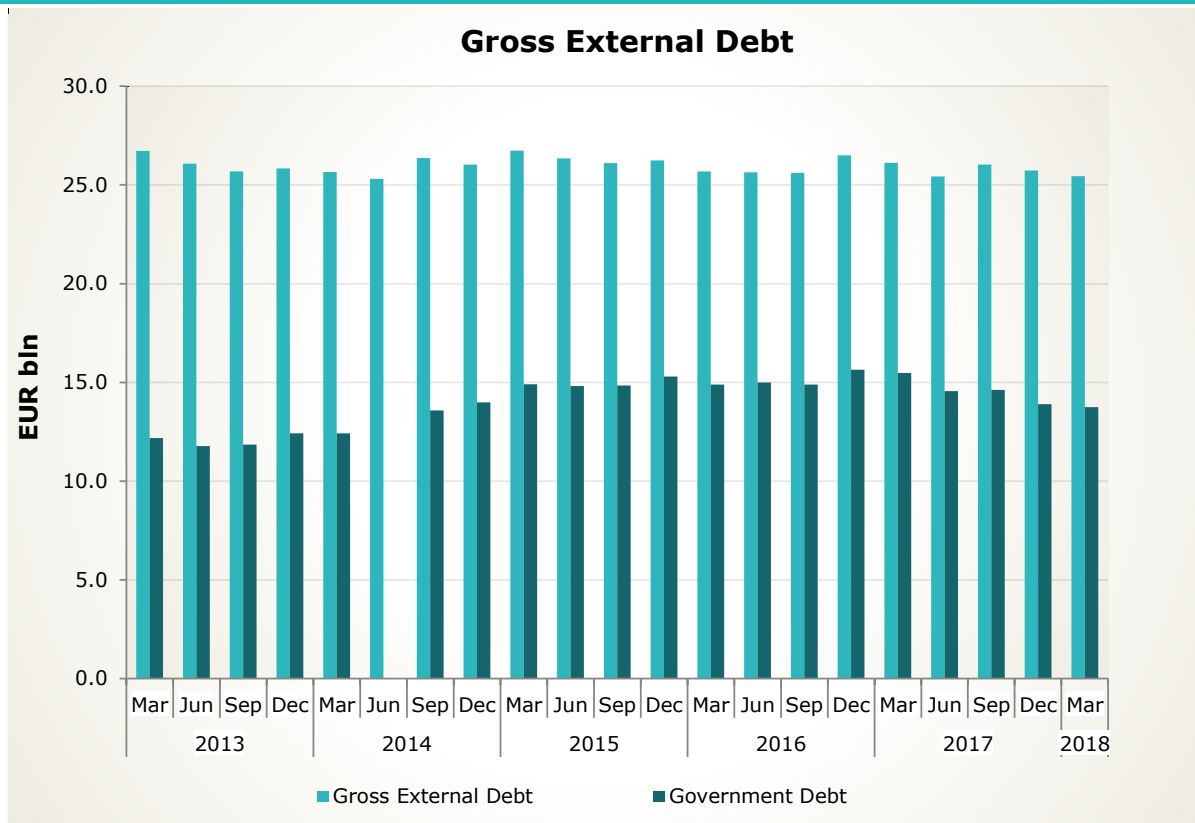
Source: BELEX

7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt went down 2.6% y/y to EUR 25.445 bln at end-March 2018

The gross external debt decreased by 2.6% y/y, totalling EUR 25.445 bln at the end of March 2018, according to NBS. In comparison to December 2017 the gross external debt inched down by EUR 290 mln.



Source: NBS

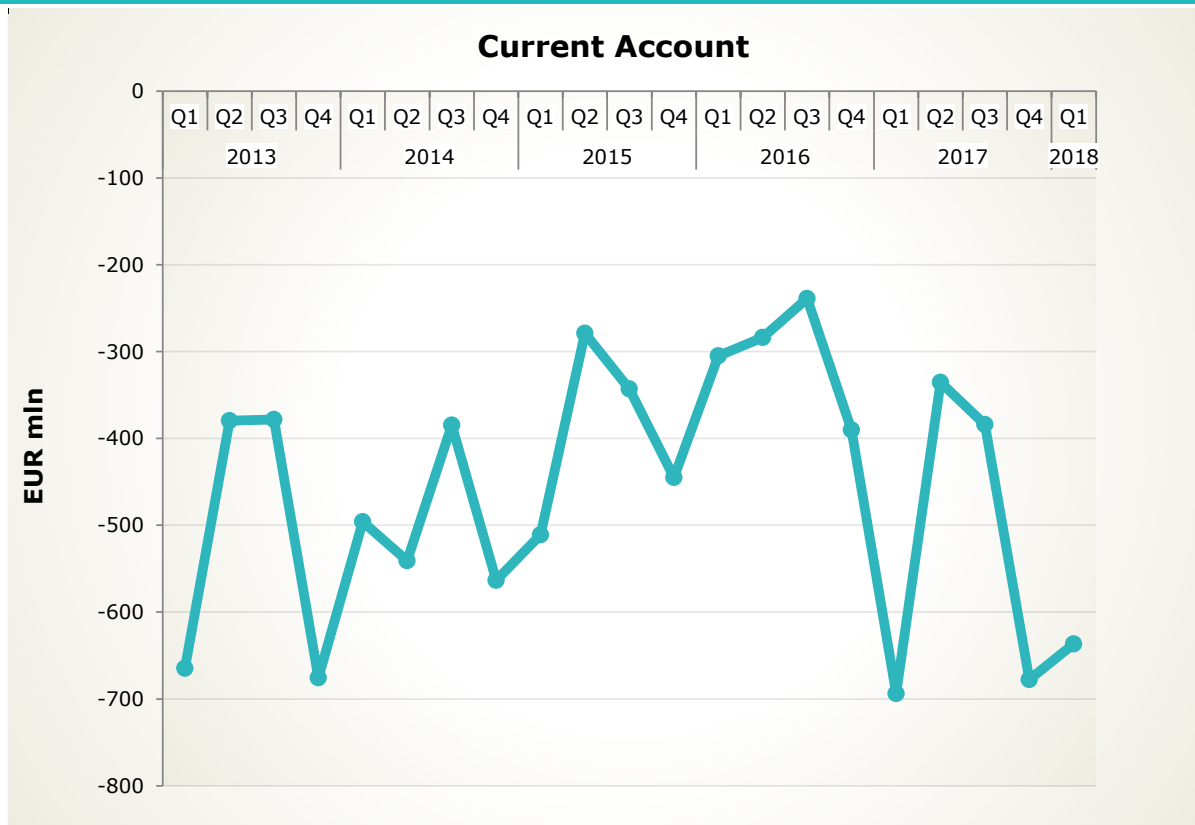
Editor's note: No data is available for gross external government debt for June 2014

7.2. BALANCE OF PAYMENTS

Current account gap decreased by 8.3% y/y at EUR 637 mln in Q1 2018

The current account gap shrank to EUR 637 mln from EUR 694 mln a year earlier, according to central bank data. The decreased current account gap mainly was a result of the improving income account. Foreign trade balance came in at EUR 1.25 bln in Q1 2017, up by 26% y/y.

Secondary income in Q1 2018 amounted to EUR 800 mln, up from EUR 713 mln in Q1 2017, or a 12.3% increase on annual basis.

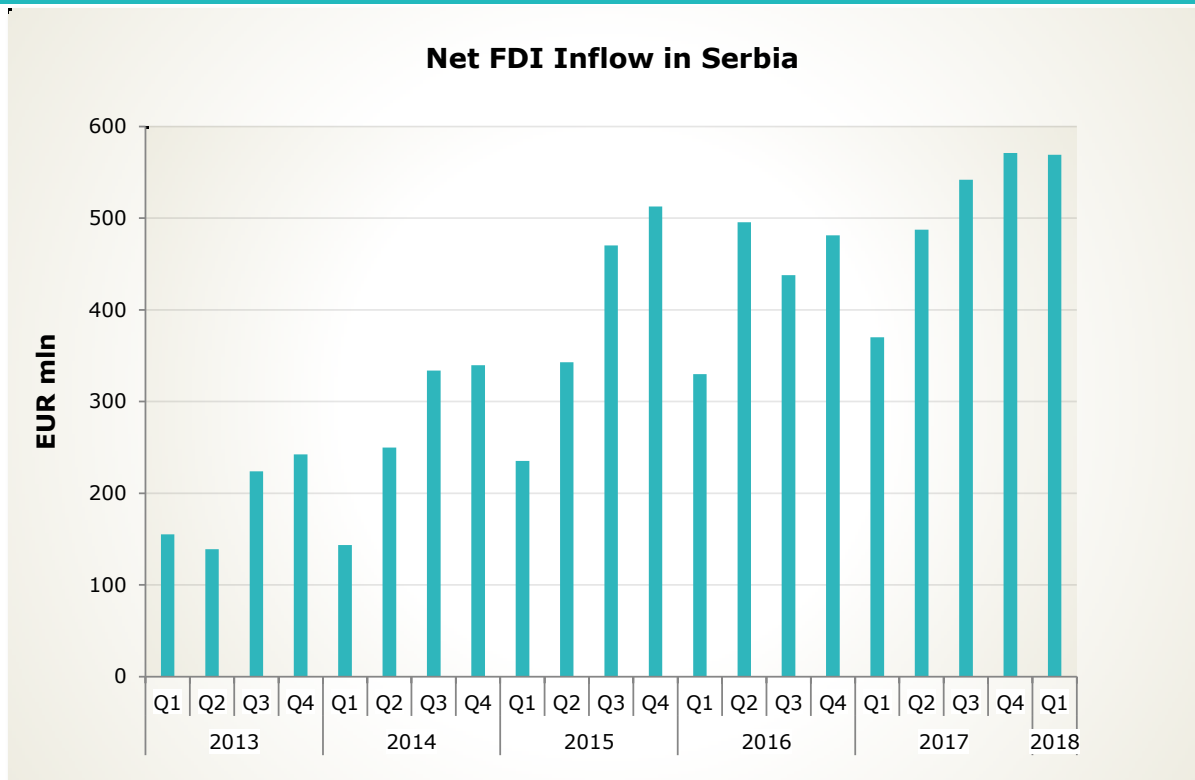


Source: NBS

7.3. FDI

Net FDI inflow stood at EUR 570 mln in Q1 2018, up 54% y/y.

The net Foreign Direct Investments (FDI) inflow in Serbia in Q1 2018 totalled EUR 570 mln, according to NBS. This is up by 54% compared to a year ago when the FDIs were EUR 370 mln.



Source: NBS

7.4. FOREIGN TRADE

Foreign trade deficit increased by a quarter to EUR 1.25 bln

The trade deficit stood at EUR 1.25 bln in Q1 2018, up by 26% compared to the previous year, according to SORS.

In 2017 exports totalled EUR 3.8 bln, up from EUR 3.5 bln a year earlier, while imports grew by EUR 560 mln to EUR 5.07 bln.



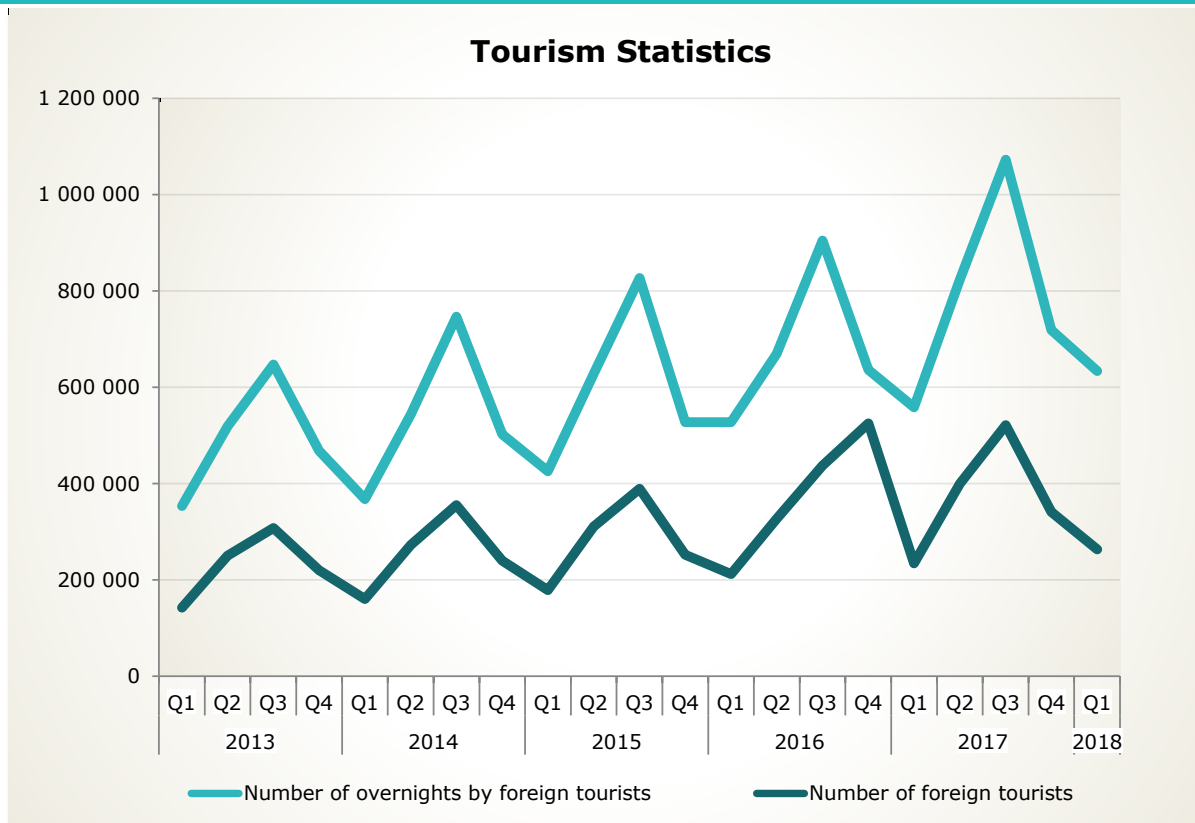
Source: NBS

7.5. TOURSIM

Number of foreign tourist overnights rose by 13.5% y/y in Q1 2018

Tourist overnights of foreigners increased by an annual 13.5% to 633,787 in Q1 2018, slicing a 40% share of the total number of tourist overnights in the country, according to SORS data. The total number of tourist overnights jumped by 10.7% on the year to 1,726,655.

The number of foreign tourists went up by 12.4% y/y to 263,610.



Source: SORS

8. MAJOR DEVELOPMENTS

Serbia to invest EUR 1.5 bln in Pozega-Boljare motorway project

Mar 29, 2018

Serbia's government announced it plans to invest EUR 1.5 bln in the construction of a motorway section of pan-European transport Corridor XI, connecting Pozega to Boljare, on the border with Montenegro.

[Read the full story here](#)

Serbia expects to open two transport chapters in EU accession talks

Mar 29, 2018

Serbia's government expects to open two transport regulation chapters in its EU accession talks in 2018, according to the state secretary at the infrastructure ministry, Dragan Poledica. The government expects to start talks on Chapter 14 - Transport Policy and Chapter 21 - Trans-European Networks.

[Read the full story here](#)

Serbia to add 250 MW of renewable energy capacity in 2019 - energy min

Mar 28, 2018

Serbia expects to add up to 250 MW of new renewable power capacity in 2019, according to Serbia's energy minister Aleksandar Antic. The government plans to have put into

operation 1,000 MW of electricity generation capacity by 2020 in the biggest investment cycle in the country's energy sector in the last 30 years, Antic added.

[Read the full story here](#)

World Bank approves EUR 225.7 mln loans to Serbia

Mar 21, 2018

The World Bank approved three loans in the total amount of EUR 225.7 mln to back Serbia's efforts to improve public expenditures management, make energy and transport public utilities more efficient, and to advance healthcare.

[Read the full story here](#)

Turkey's Exim Bank ready to provide USD 400 mln financing to Serbia - trade min

Mar 21, 2018

Turkey's Exim Bank is ready to provide USD 400 mln financing for the development of infrastructure projects in Serbia, according to the Serbian trade ministry.

[Read the full story here](#)

IMF starts talks with Serbian authorities on new reform programme

Mar 19, 2018

IMF completed its visit to Serbia to initiate discussions with policymakers in the country on a new economic reform programme supported by the fund. The authorities confirmed their interest in a new programme focused on maintaining fiscal and macroeconomic stability and advancing reforms to reach faster, more inclusive and sustainable private sector-led growth.

[Read the full story here](#)

Serbia lags behind with anti-corruption measures – GRECO

Mar 16, 2018

The Group of States against Corruption (GRECO), the Council of Europe's anti-corruption monitoring body, said Serbia has not implemented in a satisfactory manner any of the 13 recommendations made in July 2015.

[Read the full story here](#)

Reform of state-run companies top priority in new EBRD strategy for Serbia

Mar 5, 2018

The reform of state-owned enterprises and public utilities tops the list of priorities set out in the new five-year strategy for Serbia which the European Bank for Reconstruction and Development (EBRD) has adopted, the lender announced. In 2017 the bank provided more than EUR 380 mln in more than 20 projects across various sectors of the Serbian economy.

[Read the full story here](#)

Serbia successfully concludes 3-yr programme with IMF

Feb 22, 2018

Serbia exits a successful USD 1.32 bln (EUR 1.07 bln) three-year programme with the IMF boasting outperformance on several of its goals, the IMF announced. After three years of effort under the programme, Serbia's economy has turned around, as fiscal accounts recorded a surplus in 2017, economic confidence improved with stronger investment both from foreign and domestic sources, while unemployment is near historic lows, and falling,

banks are solid, and non-performing loans are now below their pre-crisis levels, according to the IMF.

Read the full story [here](#).

Serbia climbs on economic freedom chart as fiscal health improves - Heritage Foundation

Feb 2, 2018

Serbia climbed 19 positions to 80th place in the 2018 global economic freedom index published by US-based think-tank The Heritage Foundation. Serbia's overall score puts the country within the group of moderately free economies, as it rose to 62.5 points in 2018 from 58.9 in the 2017 edition of the index, when it was on the list of the economically unfree countries.

Read the full story [here](#).

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