

SERBIA ECONOMY REPORT

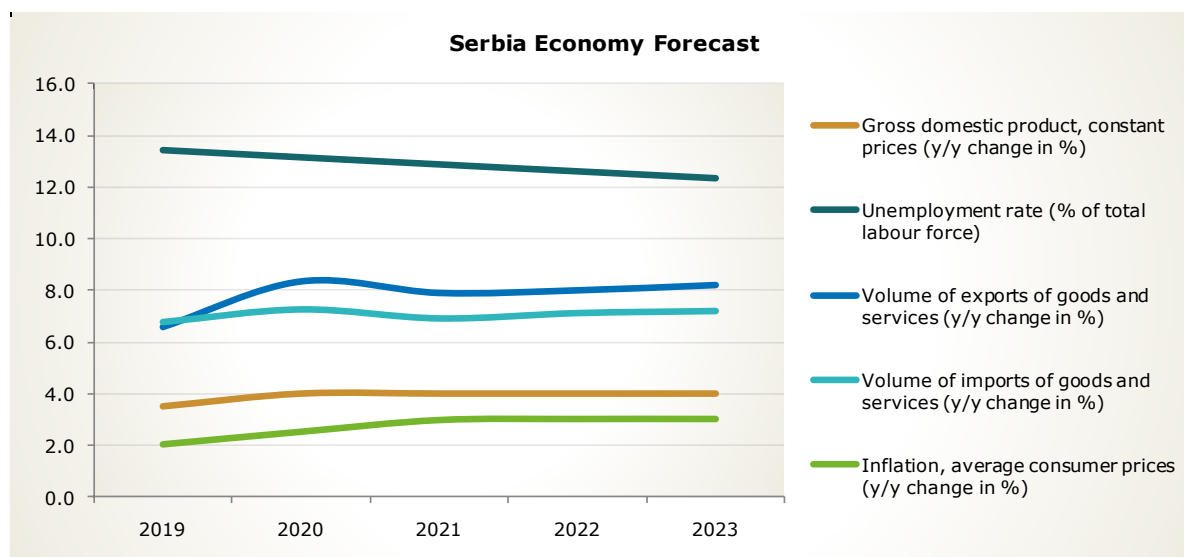
Q1 2019

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1. MACROECONOMIC SNAPSHOT AND FORECAST

SERBIA – MACROECONOMIC SNAPSHOT AS OF Q1 2019	
GDP Growth	2.5 % y/y
Industrial output	-1.9% y/y
Industrial sales	10.1% y/y
Retail sales	8.6% y/y
Average annual inflation	2.4% y/y
Unemployment rate	12.1%
Number of building permits	-7.7% y/y
Money supply growth	14.8% y/y
Household loans	12.2% y/y
BELEX15 blue-chip index	-5.3% q/q
Gross external debt	EUR 27.138 bln
Current account gap	EUR 936.6 mln
Net FDI inflow	EUR 796.7 mln
Foreign trade deficit	EUR 1.438 bln
Number of foreign tourist overnights	8.3% y/y

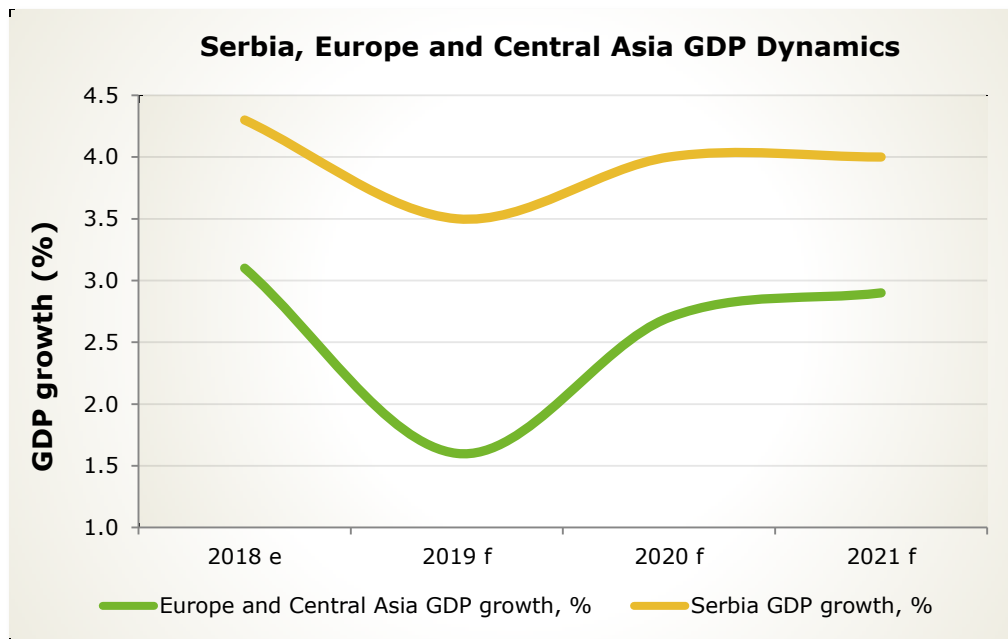


Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2019

IMF expects growth to accelerate to 3.5% by the end of 2019, driven 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 2.0% at the end of 2019.

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, *Global Economic Prospects*, June 2019

According to the World Bank estimates from June 2019, GDP growth of Serbia is likely to come in at 3.5% in 2019, which is higher than the projected growth for Europe and Central Asia, of 1.6%.

Serbia – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)						
	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices, y/y change in %	3.3	2.0	4.2	3.5	4.0	4.0
Private Consumption	1.3	1.9	3.1	3.0	3.8	3.8
Government Consumption	1.3	3.3	4.6	2.1	1.5	2.3
Gross Fixed Capital Investment	5.4	7.3	12.4	7.5	6.2	5.8
Exports, Goods and Services	11.9	8.2	10.5	9.0	8.7	8.7
Imports, Goods and Services	6.7	11.1	10.8	8.4	8.1	8.0
Real GDP growth, at constant factor prices (by sectors)						
Agriculture	8.3	-11.2	10.0	3.8	3.0	3.0
Industry	4.3	3.4	1.5	4.6	3.5	3.5
Services	3.0	3.3	3.6	3.0	4.3	4.4
Inflation (Consumer Price Index)	1.1	3.1	2.0	2.6	3.0	3.0
Current Account Balance (% of GDP)	-3.3	-6.3	-5.4	-5.1	-5.0	-4.7
Net Foreign Direct Investment (% of GDP)	3.5	4.4	5.8	5.6	5.6	5.2

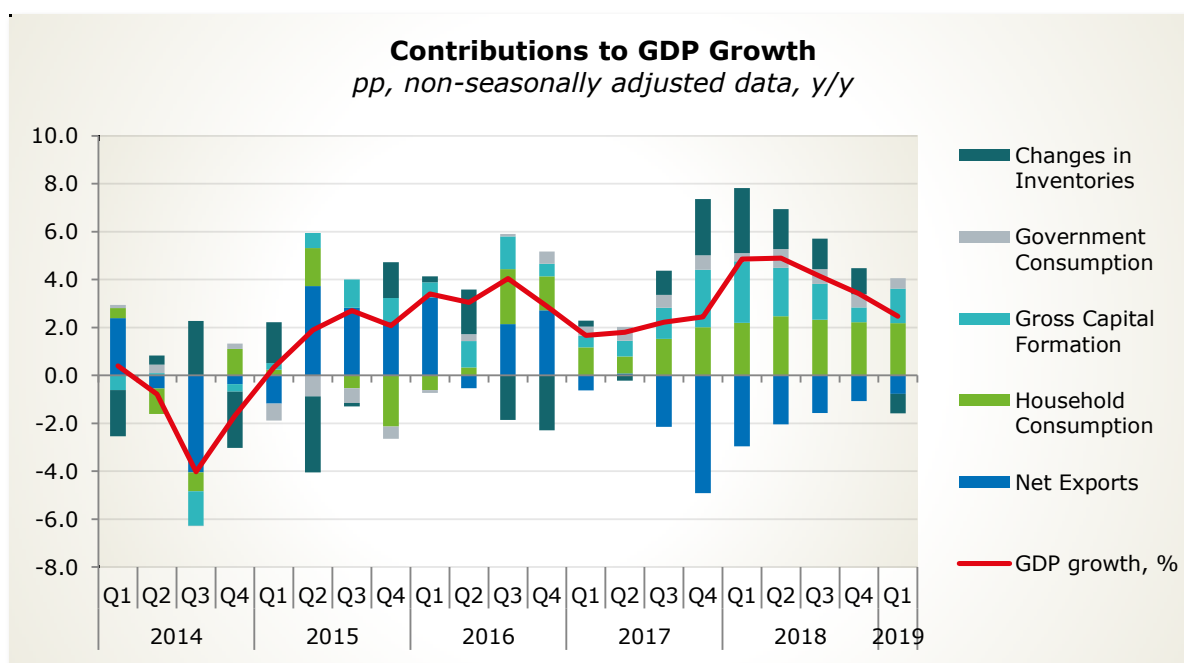
Source: World Bank, *Europe and Central Asia Economic Update*, April 2019

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth at 2.5% y/y in Q1 2019

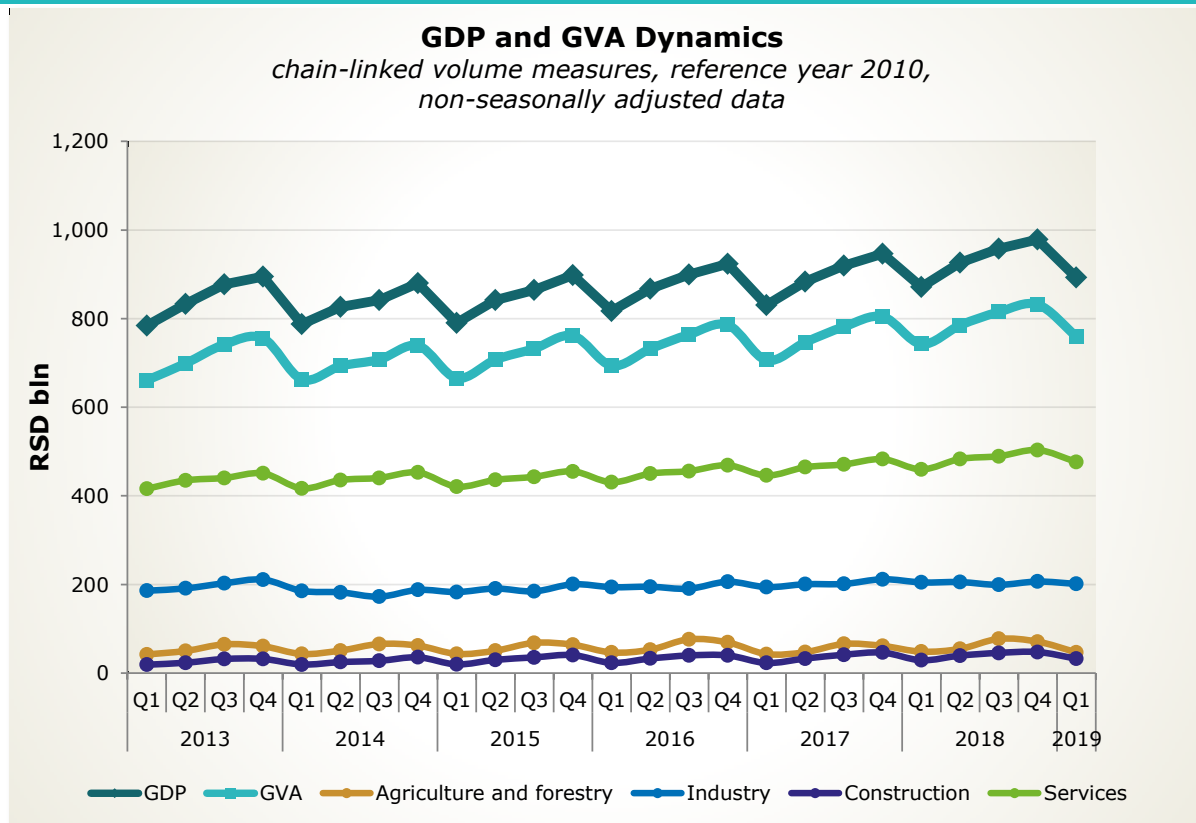
In Q1 2019 the Serbian economy grew by real 2.5% y/y, data from the Statistical Office of Serbia shows. The growth slowed down from 4.9% in the same quarter of the previous year. The economy was fueled by stronger household consumption and gross capital formation, which contributed by 2.2 pp and 1.5 pp, respectively, to the overall annual GDP growth. Final consumption (household and government) advanced by 3.0% y/y in real terms in Q1 2019, while gross capital formation increased by 8.4% y/y.



Source: SORS; SeeNews calculations

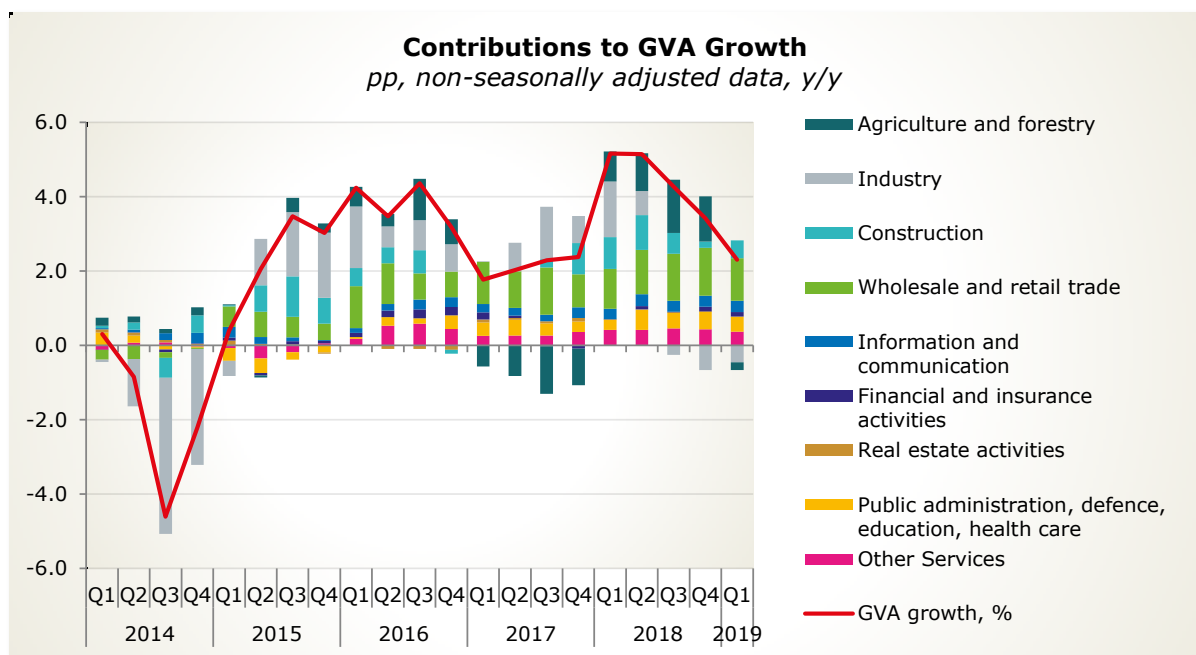
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual

The gross value added (GVA) generated by the national economy increased by 2.3% y/y in Q1 2019 and totalled RSD 759.8 bln. The construction sector went up in value by 12.3% y/y and accounted for 4.3% of the total GVA. Agriculture and forestry recorded a 3.1% annual decline, slicing a 6.2% share in the total GVA, compared to 6.5% a year earlier. The services sector's GVA expanded by 3.7% to RSD 476.6 bln, while the industry sector registered an annual decrease of 1.6% to RSD 201.3 bln.



Source: SORS

Sector wise, the largest contributor to the annual GVA growth was the services industry with 2.3 pp in Q1 2019. Other major contributors were wholesale and retail – 1.1 pp and construction – 0.5 pp.



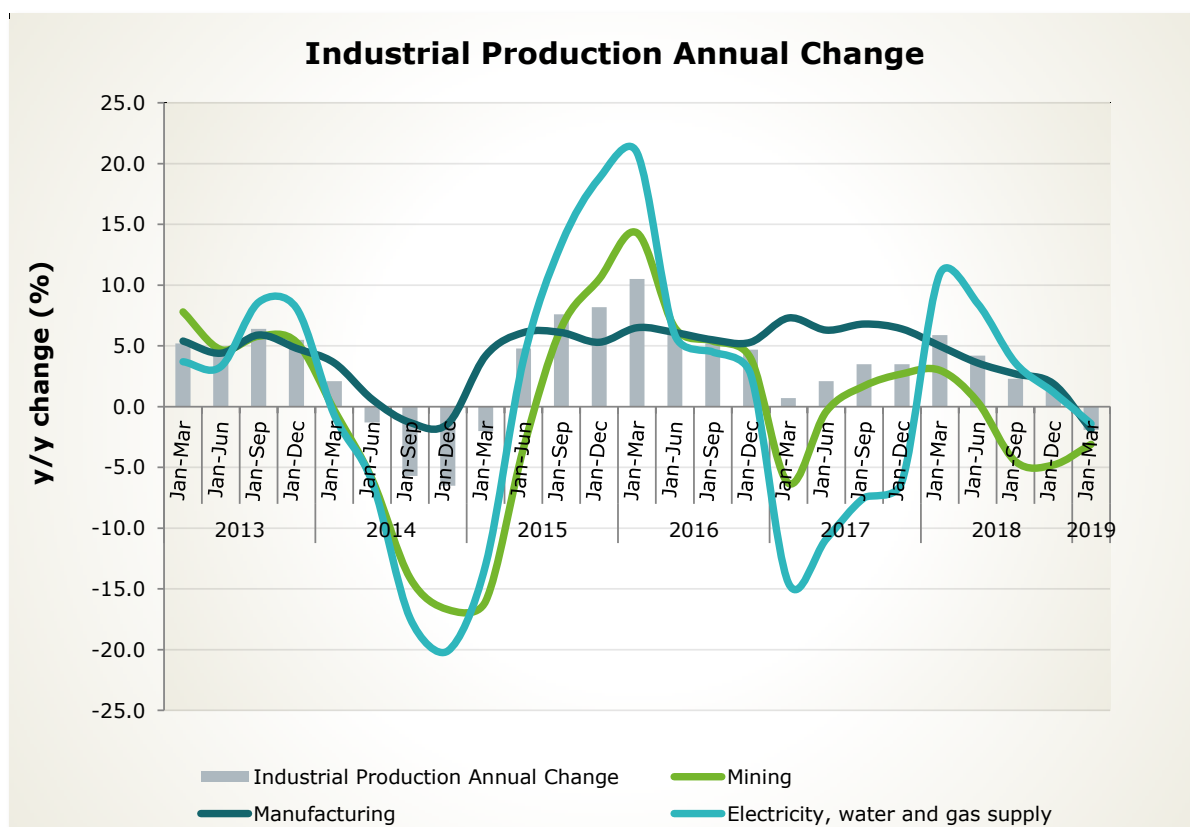
Source: SORS; SeeNews calculations

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

2.2. INDUSTRIAL OUTPUT

Industrial output went down by 1.9% y/y in Q1 2019

The industrial output reported a decrease of 1.9%, in Q1 2019, compared to a 5.9% rise in Q1 2018, according to data from SORS. In the period under review, all segments reported an annual decline - 1.9% was registered by manufacturing, the output of the electricity, water and gas supply sector went down by 1.4% y/y, while mining output fell by 3.1%.

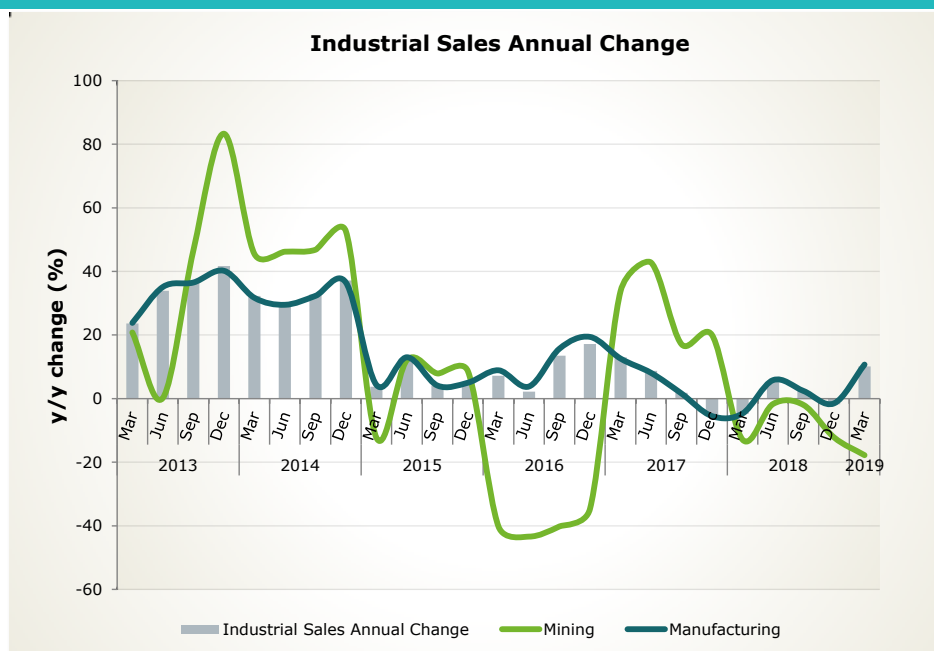


Source: SORS

2.3. INDUSTRIAL SALES

Industrial sales went up by 10.1% y/y in March 2019

The industrial sales decreased in March 2019, by 10.1% y/y, according to SORS. The manufacturing industry recorded a 10.7% annual increase, while the mining sector posted a 17.8% annual drop. Compared to the same month of 2018, industrial sales stabilized due to the developments in manufacturing, while mining ended its growth and contracted significantly.

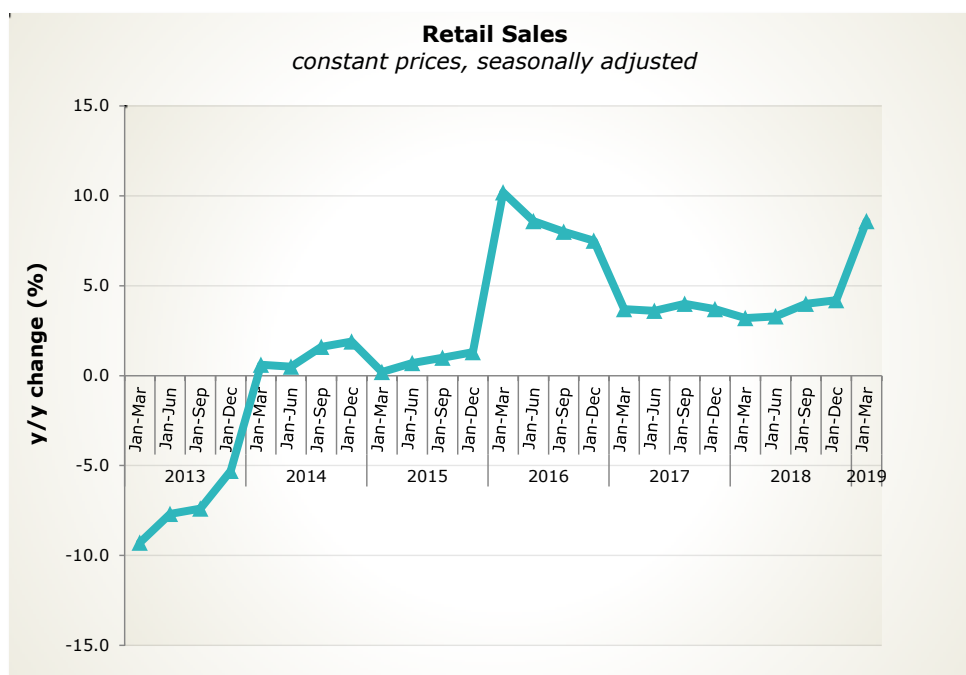


Source: SORS

2.4. WHOLESALE/RETAIL

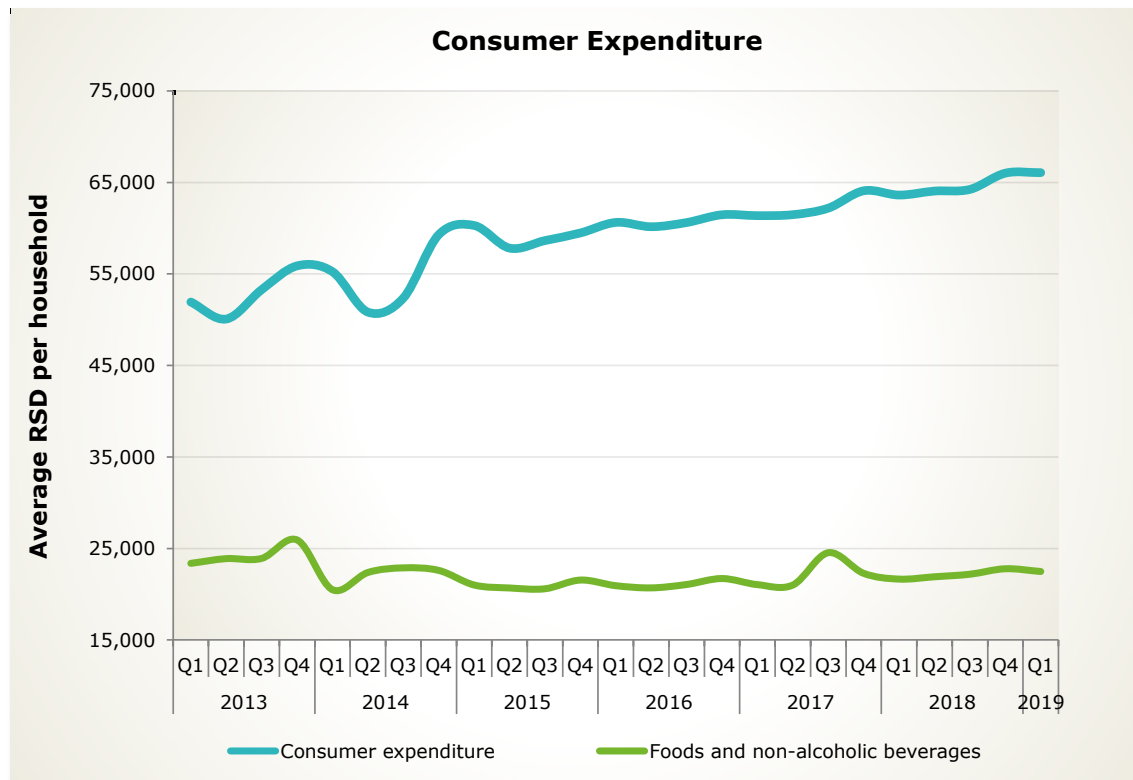
Retail sales grew by 8.6% y/y in constant prices in Q1 2019

In Q1 2019, retail sales in Serbia rose by 8.6% y/y in constant prices, up from 3.2% y/y rise in the previous year, according to SORS. The highest annual rise in retail trade in Q1 2019 was registered by non-food products and automotive fuel both with 11.6%, and food, beverages and tobacco – 5.0%.



Source: SORS

In Q1 2019, consumer expenditure increased by 3.8% y/y to a monthly average of RSD 66,064 per household. Expenditure on food and non-alcoholic beverages had the highest share in the total consumer expenditure, of 34.0%. The latter increased also by 3.8% y/y to RSD 22,485 per household.



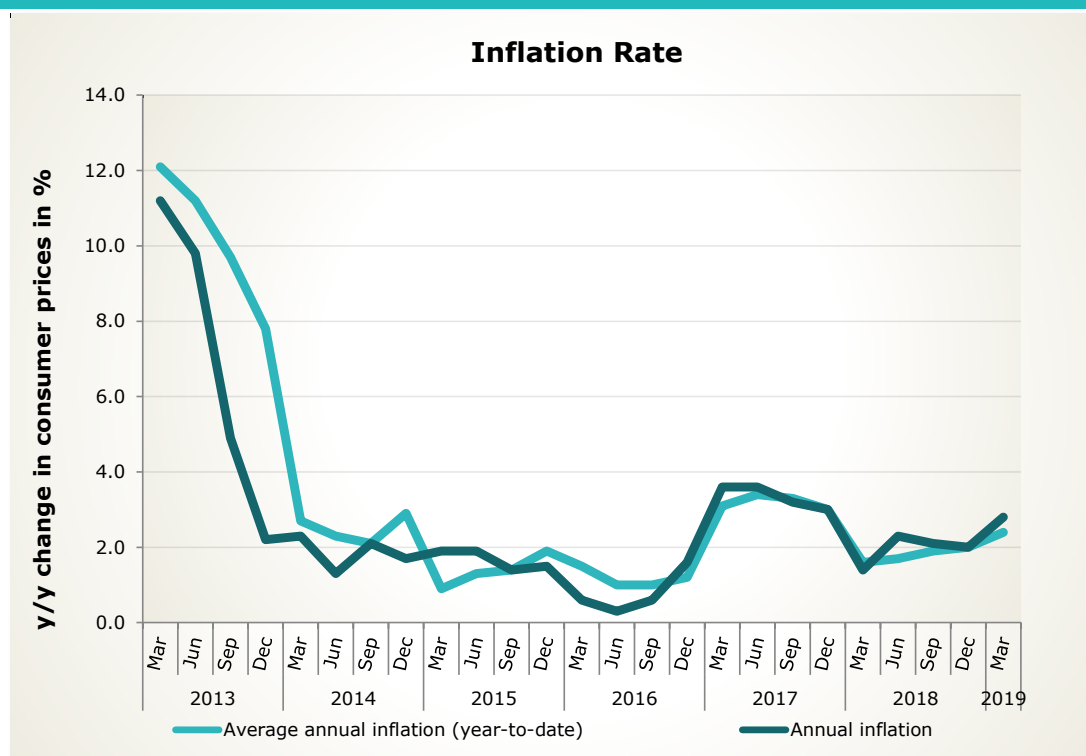
Source: SORS

2.5. INFLATION

Average annual inflation of 2.4% in Q1 2019

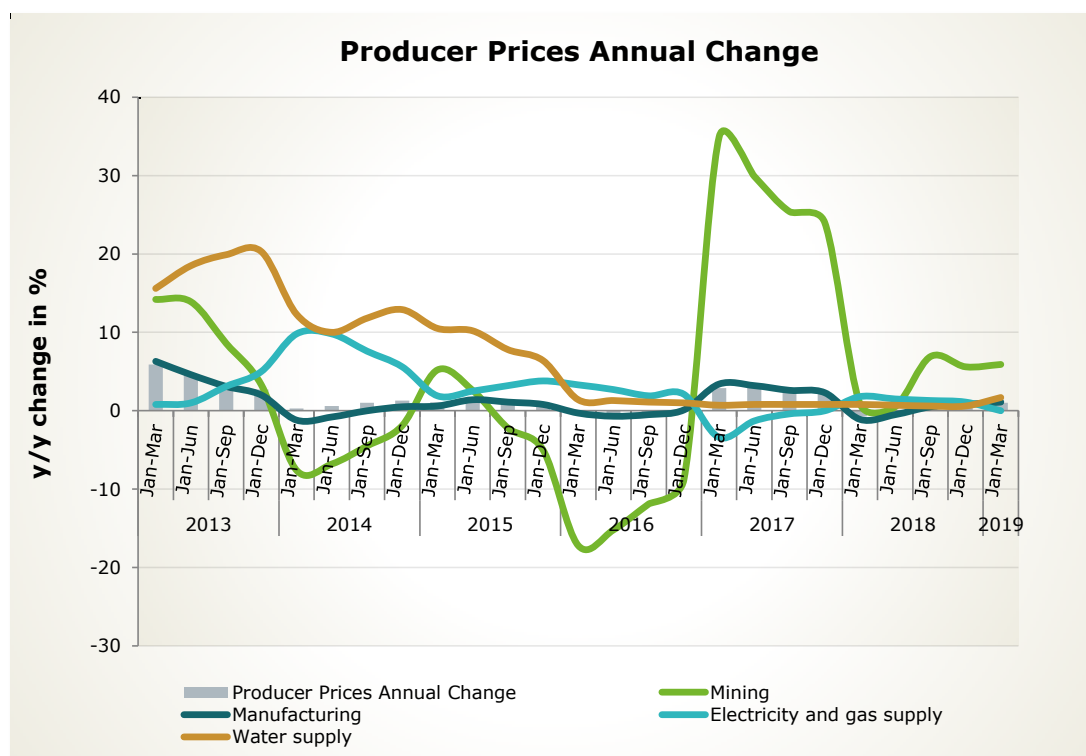
The average annual consumer inflation amounted to 2.4% in Q1 2019, up from 1.6% in Q1 2018, according to SORS data.

Inflation in Q1 2019 was determined mainly by the increase in prices of alcoholic beverages and tobacco - 5.2%. The other consumer groups with the highest increase in prices included food and non-alcoholic beverages - 4.1%, and transportation - 3.0%. Clothing and footwear was the only group to post a decrease in prices, of 1.3%.



Source: SORS

Producer prices inched up by 1.0% y/y in Q1 2019, according to SORS data. All sectors except electricity and gas supply reported a rise, ranging from 5.9% for mining to 1.1% for manufacturing.



Source: SORS

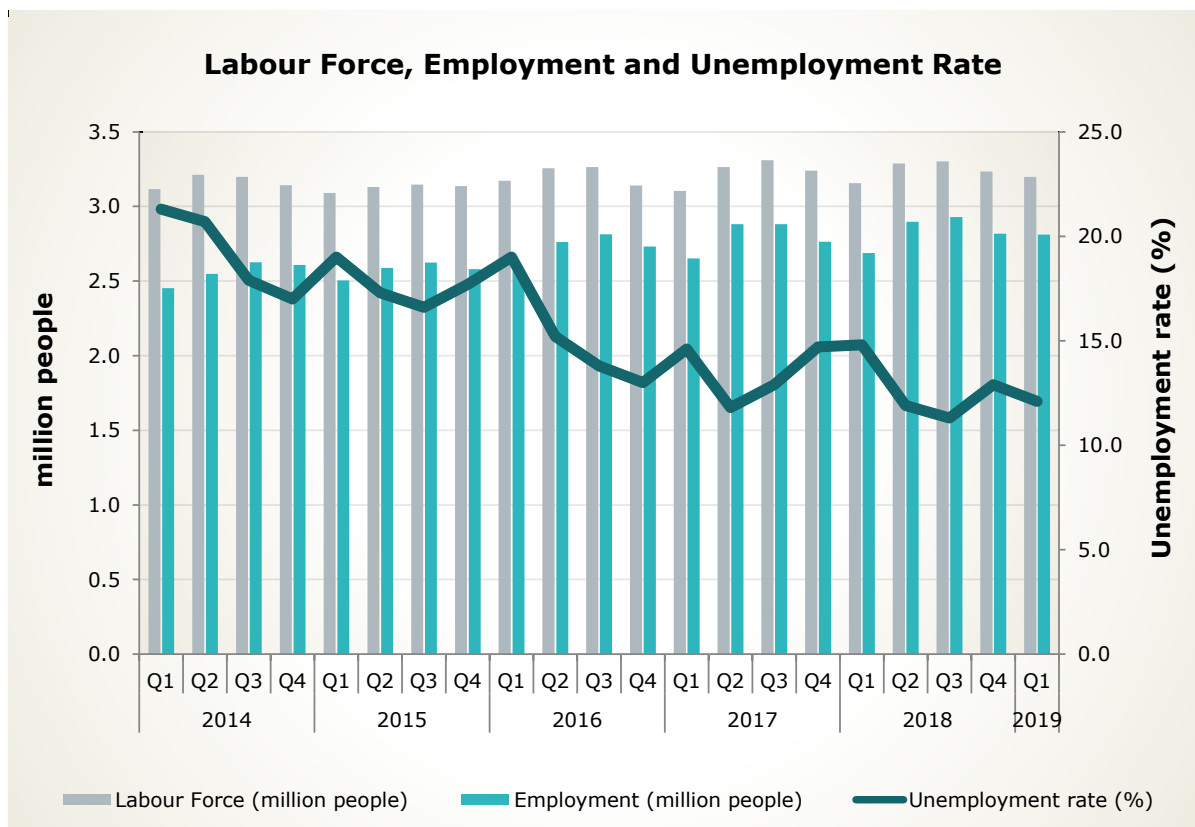
3. LABOUR MARKET

Unemployment rate continues to decline

Unemployment rate in Serbia continued to ease, reaching 12.1% in Q1 2019, down from 12.9% in Q4 2018 and 14.8% in Q1 2018, according to SORS. Youth (population aged 15-24) unemployment rate also improved, averaging 30.7% in Q1 2019, compared to 32.0% in the previous quarter and 34.6% in Q1 2018.

The employed population aged 15 years and older was 2.811 million, up by 4.5% y/y.

The average monthly net salary in Q1 2019 was RSD 53,739, up 9.5% y/y.



Source: SORS

4. CONSTRUCTION AND REAL ESTATE

The number of building permits went down by 7.7% y/y in Q1 2019

The number of permits for new buildings in Serbia was 1,118 in Q1 2019, including 594 for residential projects and 17 for office buildings, according to SORS data.

The total number of permits for new buildings issued in the period under review decreased by 7.7% compared to Q1 2018. Permits for residential projects dropped by 11.2%, while permits for office buildings grew to 17 from 16 in the previous year.

The total built-up area of the office units, covered by the permits, slumped to 27,231 sq m from 98,990 sq m.

On the contrary, the total built-up area of new housing was 546,948 sq m in Q1 2019, a 23.9% increase compared to the previous year.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. RSD EXCHANGE RATE

The average exchange rate of the EUR against RSD went down to RSD 118.2 in Q1 2019 from RSD 118.4 a year earlier, according to National Bank of Serbia (NBS).

Average Annual RSD Exchange Rate			
Foreign Currency	Q1 2019	Q4 2018	Q1 2018
EUR	118.231	118.352	118.426
USD	104.053	103.673	96.328
GBP	135.629	133.345	134.087
CHF	104.359	104.155	101.618

5.2. MONETARY POLICY

The national bank kept the policy rate at 3.0%

At its meeting in April 2019, the NBS Executive Board kept the key policy rate at 3.0%.

Inflation is expected to remain stable and within the targeted range - 3.0%±1.5%.

Despite the positive factors, NBS remains cautious in its monetary policy, primary because of risks in the international environment. Among them are the slowdown in global economic

growth, protectionism in international trade and geopolitical risks, which could worsen investor sentiment.

Nevertheless, according to NBS the resilience of the Serbian economy to potential negative effects on international markets has increased, thanks to the improved internal macroeconomic outlook.

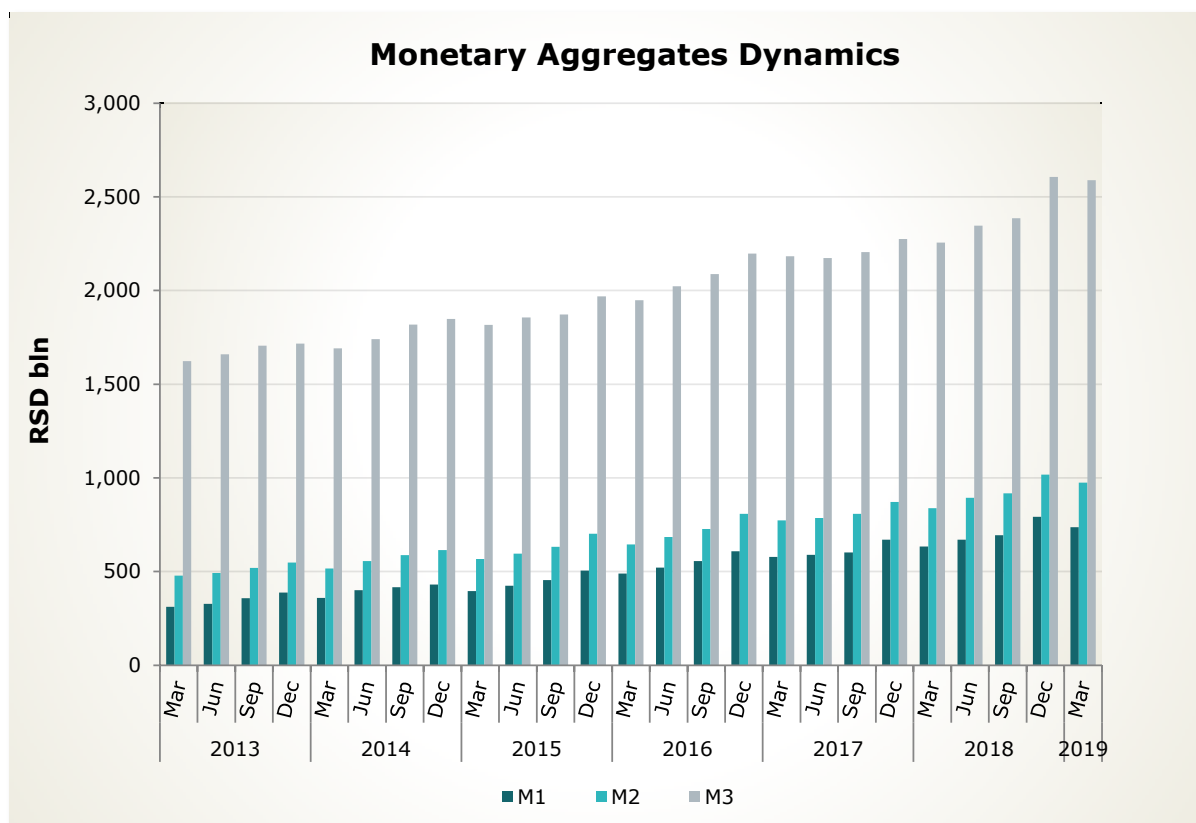
5.3. MONETARY AGGREGATES

Money supply growth was 14.8% y/y at the end of March 2019

Broad money (money aggregate M3) increased by 14.8% y/y and reached RSD 2,588.8 bln as of March 2019, according to data provided by NBS.

The M2 money supply also grew, by 16.2% to RSD 974.8 bln.

Money aggregate M1, or narrow money, jumped by 16.4% to RSD 736.5 bln.



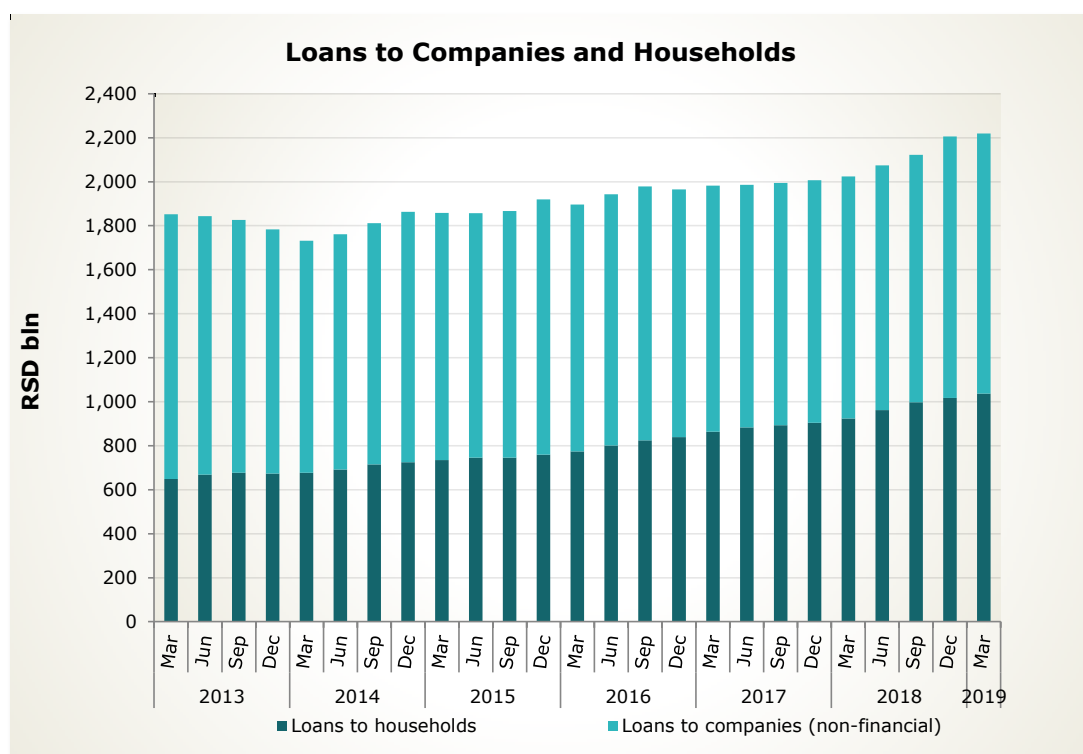
Source: NBS

5.4. BANKING AND INSURANCE

Household loans increased by 12.2% y/y in March 2019

Loans to the non-government sector totalled RSD 2,218.9 bln as of March 2019, up from RSD 2,024.5 bln a year earlier, according to NBS. Loans to non-financial corporations grew by 7.5% y/y to RSD 1,182.5 bln.

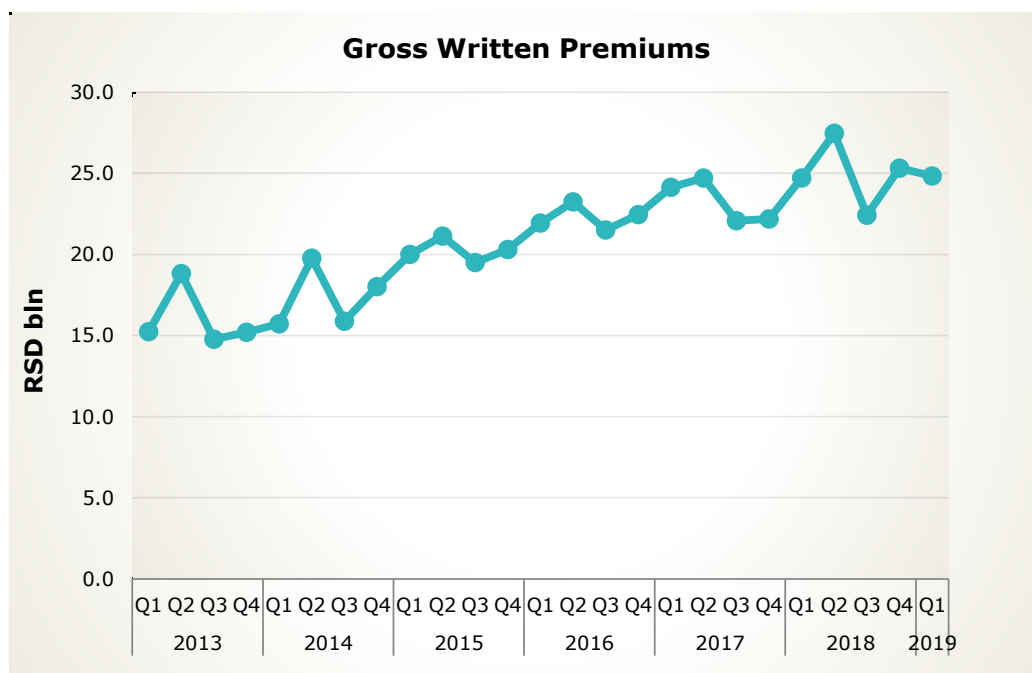
Household loans rose by 12.2% y/y to RSD 1,036.5 bln in March 2019, while house purchase loans expanded by 8.1%, reaching RSD 389.8 bln on higher refinancing of existing housing loans. Consumer loans went down by 0.8%, to RSD 22.3 bln.



Source: NBS

Insurance premium income up 7.3% y/y in Q1 2019

The total gross written premiums of the non-life and life insurance companies were RSD 24.833 bln in Q1 2019, up by 0.5% y/y, according to NBS data. In comparison to Q1 2018, the insurance market grew by RSD 0.115 bln.



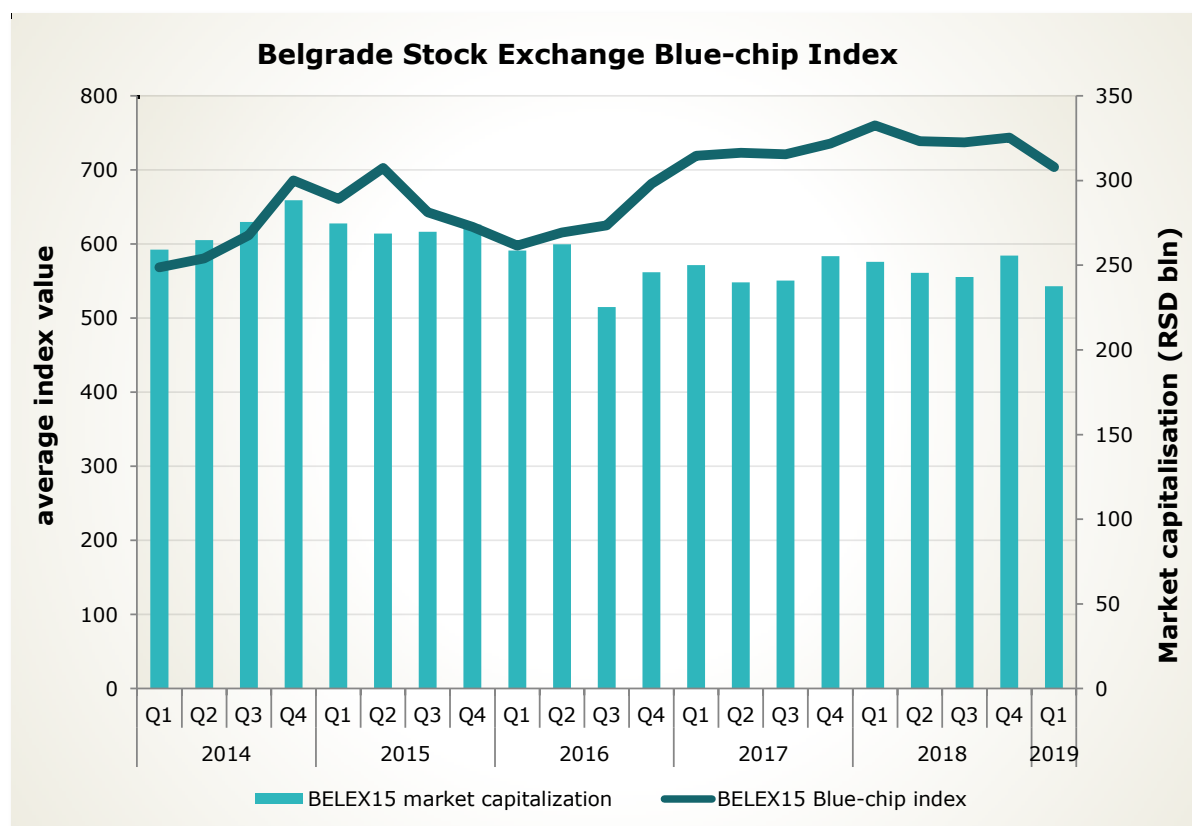
Source: NBS

6. CAPITAL MARKETS

Blue-chip index BELEX15 went down by 5.3% q/q in Q1 2019

The average value of BELEX15, the blue-chip index of the Belgrade Stock Exchange (BELEX), dropped by 5.3% q/q, to 703.9 points in Q1 2019.

The total turnover of BELEX dropped by 33.5% y/y to RSD 11.659 bln in Q1 2019. The number of transactions came to 7,941 versus 24,816 in the same period of the previous year.



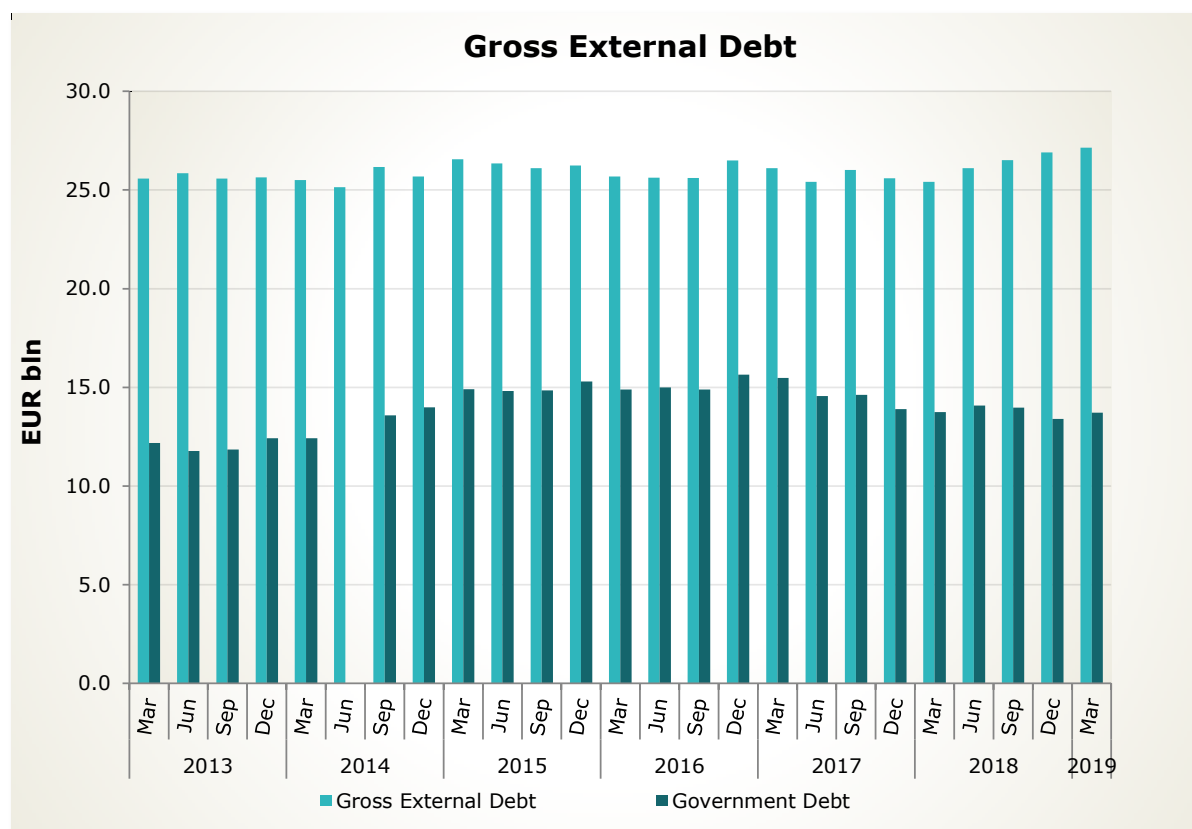
Source: BELEX

7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt went up by 6.8% y/y to EUR 27.138 bln at end-March 2019

The gross external debt increased by 6.8% y/y, totalling EUR 27.138 bln at the end of March 2019, according to NBS. In comparison to March 2018, the gross external debt expanded by EUR 1.7 bln.



Source: NBS

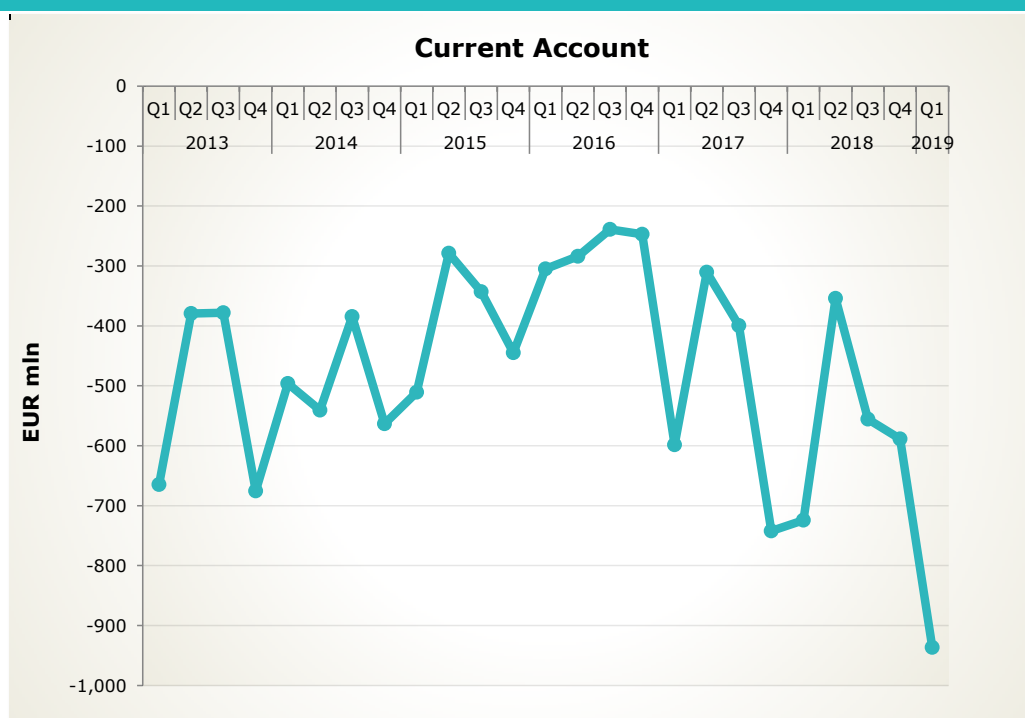
Editor's note: No data is available for gross external government debt for June 2014

7.2. BALANCE OF PAYMENTS

Current account gap widened by 29.3% y/y to EUR 936.6 mln in Q1 2019

The current account gap expanded to EUR 936.6 mln from EUR 724.2 mln a year earlier, according to central bank data.

Secondary income in Q1 2019 amounted to EUR 809.6 mln, down from EUR 810.0 mln in Q1 2018, or a 0.1% decrease.

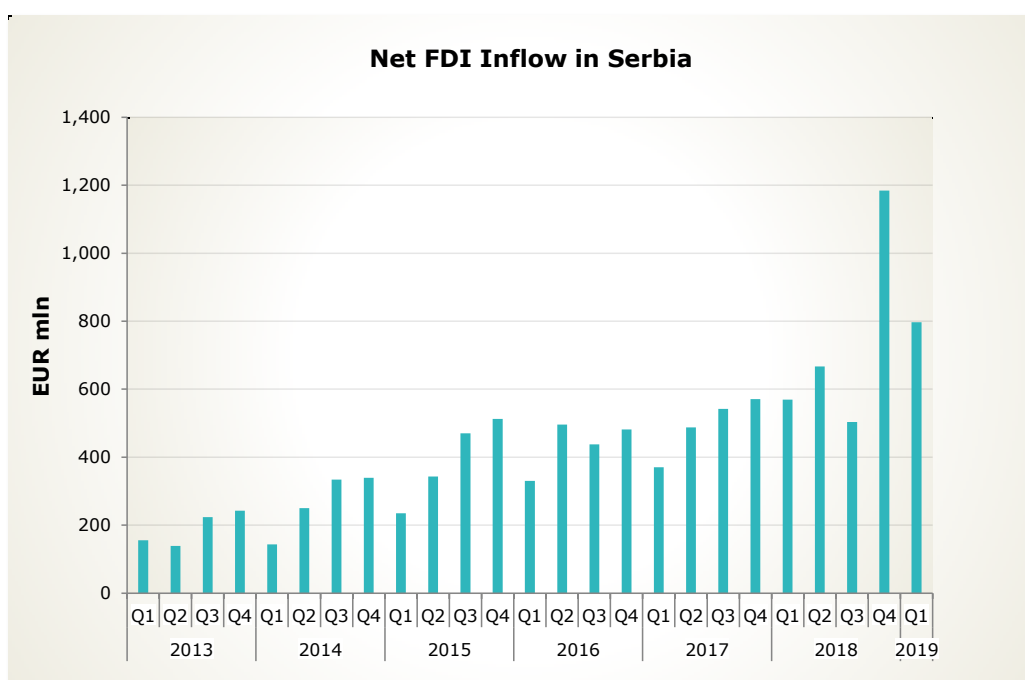


Source: NBS

7.3. FDI

Net FDI inflow stood at EUR 796.7 mln in Q1 2019, up 40.0% y/y.

The net Foreign Direct Investments (FDI) inflow in Serbia in Q1 2019 totalled EUR 796.7 mln, according to NBS. This is up by 40.0% compared to a year ago when the FDIs were EUR 569.1 mln.



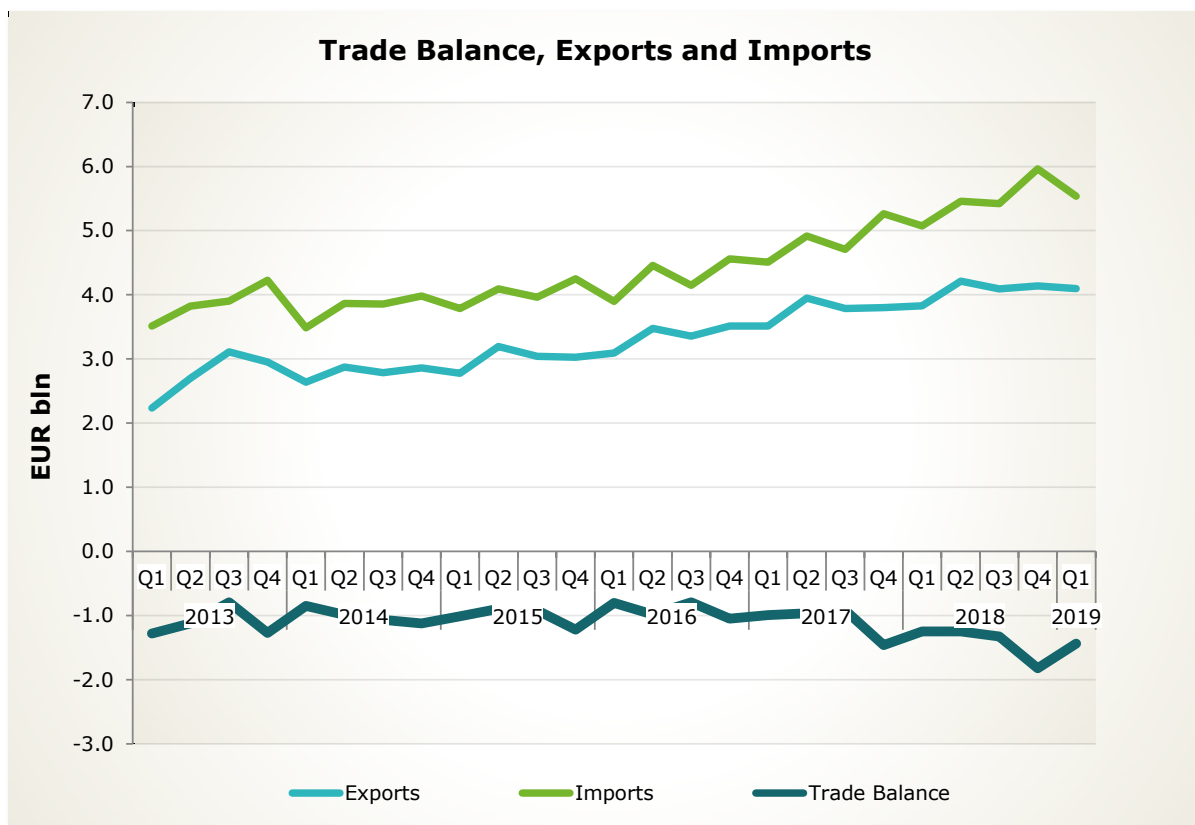
Source: NBS

7.4. FOREIGN TRADE

Foreign trade deficit widened by 15.3% y/y in Q1 2019

The trade deficit stood at EUR 1.438 bln in Q1 2019, up by 15.3% compared to the previous year, due to faster growth of imports over exports, according to SORS data.

In Q1 2019, exports totalled EUR 4.098 bln, up 7.0% y/y, while imports went up by 9.1% to EUR 5.536 bln.



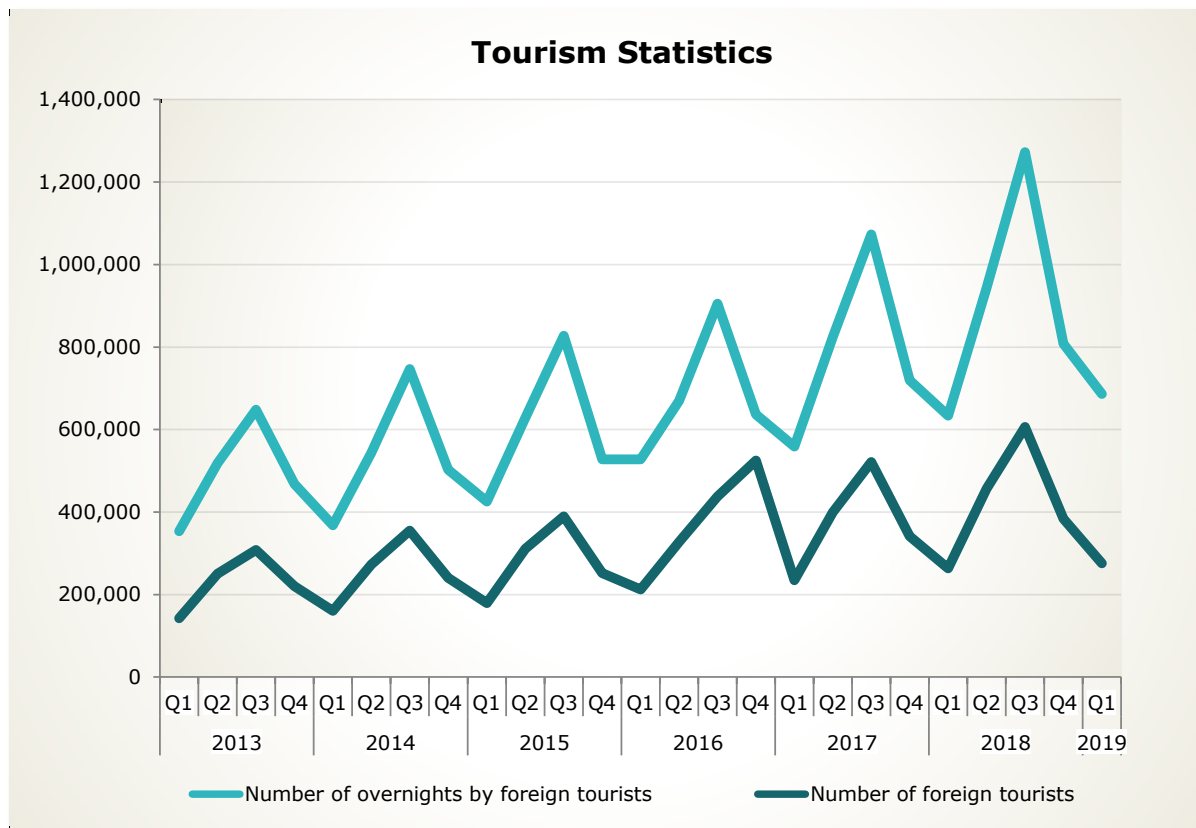
Source: NBS

7.5. TOURSIM

Number of foreign tourist overnights rose by 8.3% y/y in Q1 2019

Tourist overnights of foreigners jumped by an annual 8.3% to 686,455 in Q1 2019, slicing a 38.3% share of the total number of tourist overnights in the country, according to SORS data. The total number of tourist overnights went up by 3.9% y/y to 1,793,764.

The number of foreign tourists grew by 4.5% y/y to 275,476.



Source: SORS

8. MAJOR DEVELOPMENTS

Serbia approves environmental impact study of Bulgaria-Hungary gas link

Mar 28, 2019

Serbia's environment ministry said it has approved the environmental impact study of the project for the construction of a section of the TurkStream natural gas transmission pipeline on the country's territory that will connect Bulgaria and Hungary.

[Read the full story here](#)

Serbia mulls incentives for e-vehicles, hybrids from 2020 - environment min

Mar 28, 2019

Serbia's government is considering the introduction of incentives for the acquisition of electric and hybrid vehicles as of 2020, environment Minister Goran Trivan has said.

[Read the full story here](#)

EU provides further EUR 2.2 mln to back EBRD programme for Serbian SMEs

Mar 13, 2019

The European Union (EU) has provided additional funding of EUR 2.2 mln to back a programme of the European Bank for Reconstruction and Development (EBRD) supporting

Serbian small and medium-sized enterprises (SMEs), a Serbian government official said in March.

[Read the full story here](#)

Serbia to invest EUR 530 mln in new roads from Zrenjanin to Belgrade, Novi Sad – Vucic

Feb 11, 2019

Serbia's government plans to invest EUR 530 mln in the construction of a high-speed road linking Zrenjanin to Novi Sad and a Zrenjanin-Belgrade motorway, President Aleksandar Vucic has said.

[Read the full story here](#)

Serbia to invest EUR 142 mln in gas pipeline to Pcinja District – Vucic

Feb 9, 2019

Serbia plans to invest EUR 142 mln in the construction of a natural gas pipeline to its southern districts of Pcinja and Jablanica, President Aleksandar Vucic said.

[Read the full story here](#)

EIB to provide EUR 100 mln funding for motorway project in Serbia – govt

Feb 6, 2019

The European Investment Bank (EIB) plans to provide EUR 100 mln financing to Serbia for the construction of part of the Nis-Merdare motorway, the government said.

[Read the full story here](#)

Serbia to build EUR 100 mln bridge on Sava river - Vucic

Jan 31, 2019

Serbia plans to invest EUR 100 mln in the construction of a bridge on the Sava river at the border with Bosnia, Serbian president Aleksandar Vucic said in January.

[Read the full story here](#)

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