

SERBIA ECONOMY REPORT

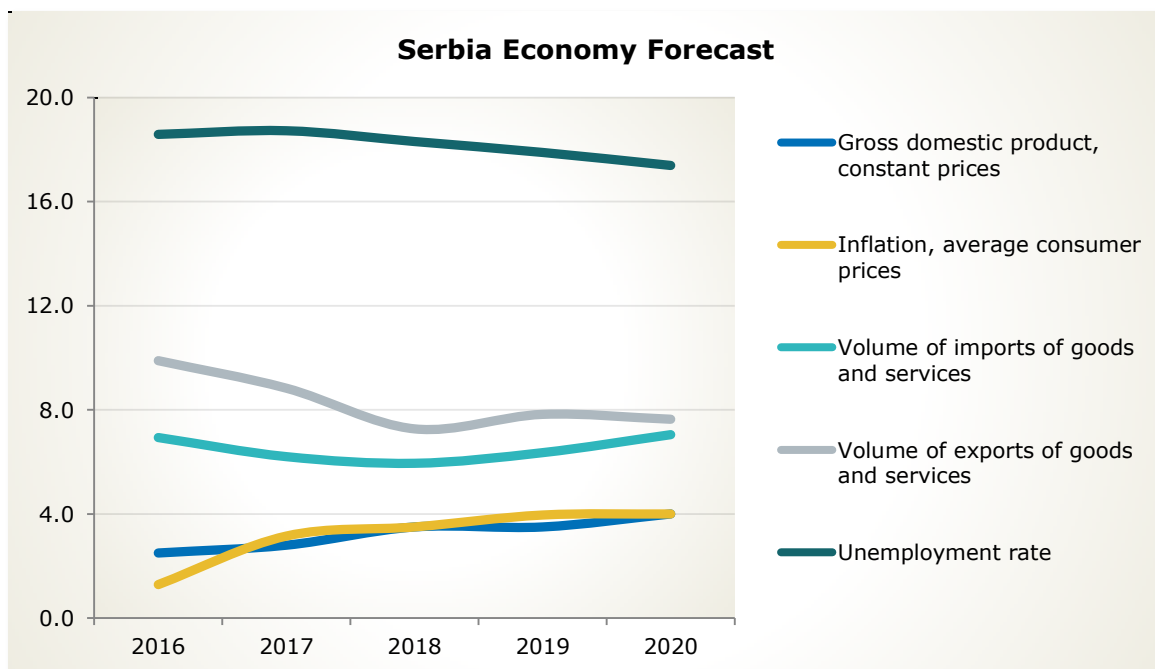
Q2 2016

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1. MACROECONOMIC SNAPSHOT AND FORECAST

SERBIA – MACROECONOMIC SNAPSHOT AS OF Q2 2016	
GDP Growth	2.0% y/y
Industrial output	6.1% y/y
Industrial sales	2.2% y/y
Retail sales	7.1% y/y
Average annual inflation	1.0%
Unemployment rate	15.2%
Number of building permits	1,075
Money supply growth	9.0% y/y
Household loans	7.4% y/y
BELEX15 blue-chip index	-12.6% y/y
Gross external debt	EUR 25.820 bln
Current account gap	EUR 272.1 mln
FDI inflow	EUR 432.1 mln
Foreign trade deficit	EUR 1.047 bln
Number of foreign tourist overnights	6.6% y/y



Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2016

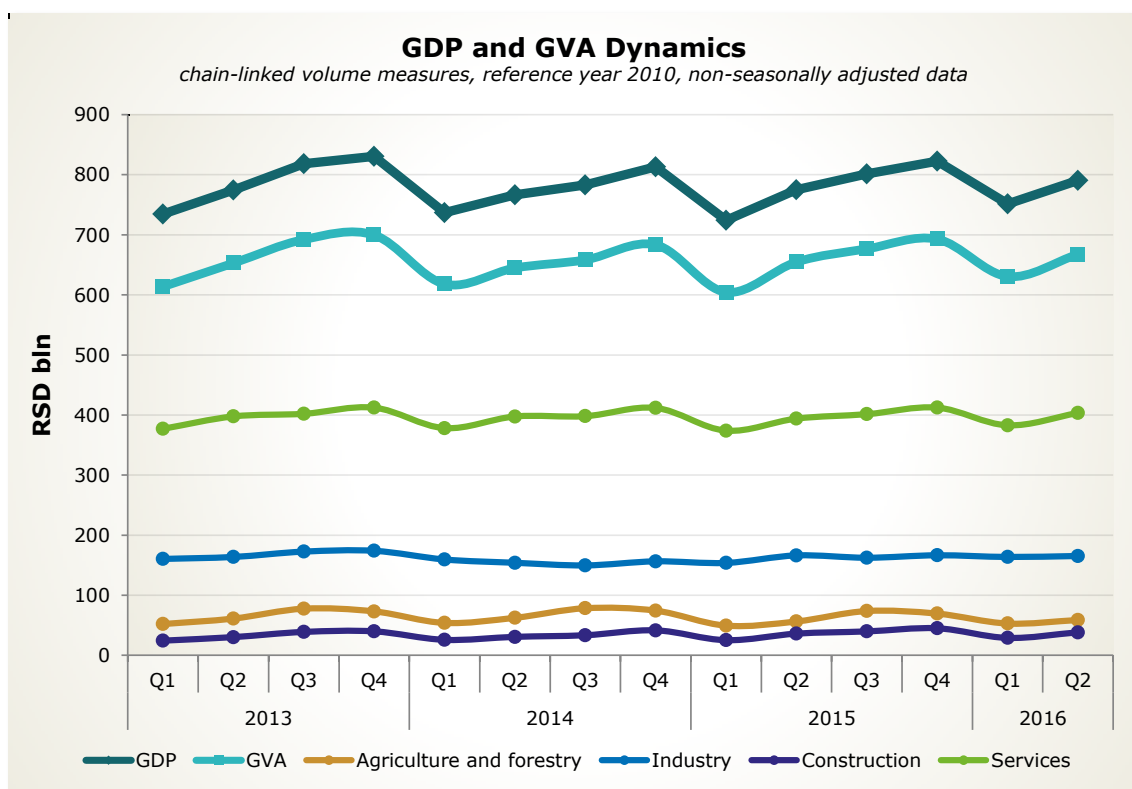
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by 2.0% y/y in Q2 2016

Serbia's GDP, including changes in inventories and net acquisition of valuables, increased by a real 2.0% y/y and totalled RSD 790.4 bln in Q2 2016, according to preliminary data of the Statistical Office of the Republic of Serbia (SORS).

Final consumption grew by 2.0% y/y to RSD 717.7 bln. Gross capital formation rose by 4.9% on the year to RSD 166.6 bln. Exports and imports also grew, by 10.0% and 12.3% y/y, respectively.



Source: SORS

The gross value added (GVA) generated by the national economy increased by 2.0% y/y in Q2 2016 and totalled RSD 667.6 bln. The industrial sector inched down in value by 0.6% y/y, and its share in the GVA structure decreased to 24.8% from 25.4% in the same period of the previous year. The services sector recorded a 2.4% annual increase, slicing a 60.4% share in the GVA, up from 60.2% in Q2 2015. Construction sector's GVA grew by 6.1% to RSD 38.307 bln and accounted for 5.7% of the total GVA, up from 5.5% a year earlier. The agricultural sector registered an annual rise of 4.3% and its share in the GVA inched up to 8.8%, from 8.6%.

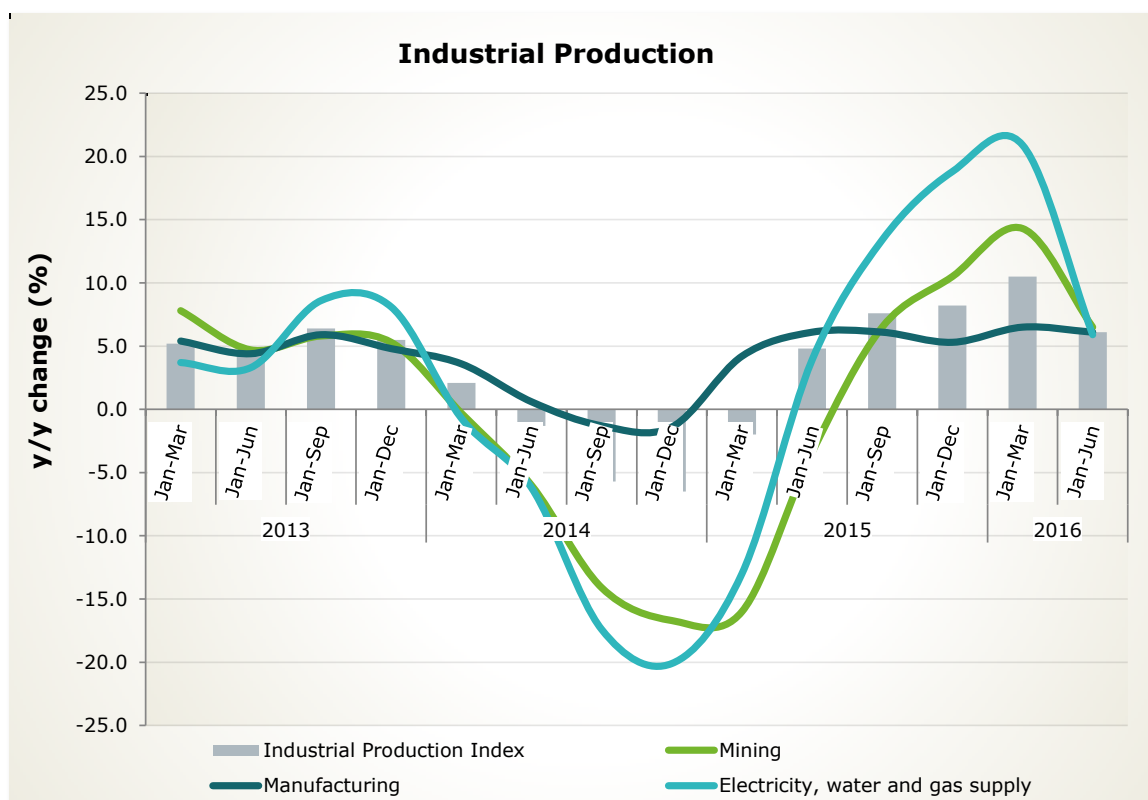
2.2. INDUSTRIAL OUTPUT

Industrial output went up by 6.1% y/y in January - June 2016

The industrial output grew by 6.1% on the year in January to June 2016, according to SORS. The mining sector reported the highest annual increase, of 6.5%, followed by the manufacturing and electricity, water and gas supply sectors, where production rose by 6.1% and 5.9%, respectively.

Manufacture of tobacco products was the segment with the highest annual production growth, of 37.2%, followed by manufacture of other transport equipment with 30.2%, and printing and reproduction of recorded media, up by 24.4% y/y.

On the other end was manufacture of textiles, which reported an annual drop of 26.3%. The output of manufacture of machinery and equipment fell by 9.8% and the manufacture of motor vehicles, trailers and semi-trailers dropped by 9.3%.

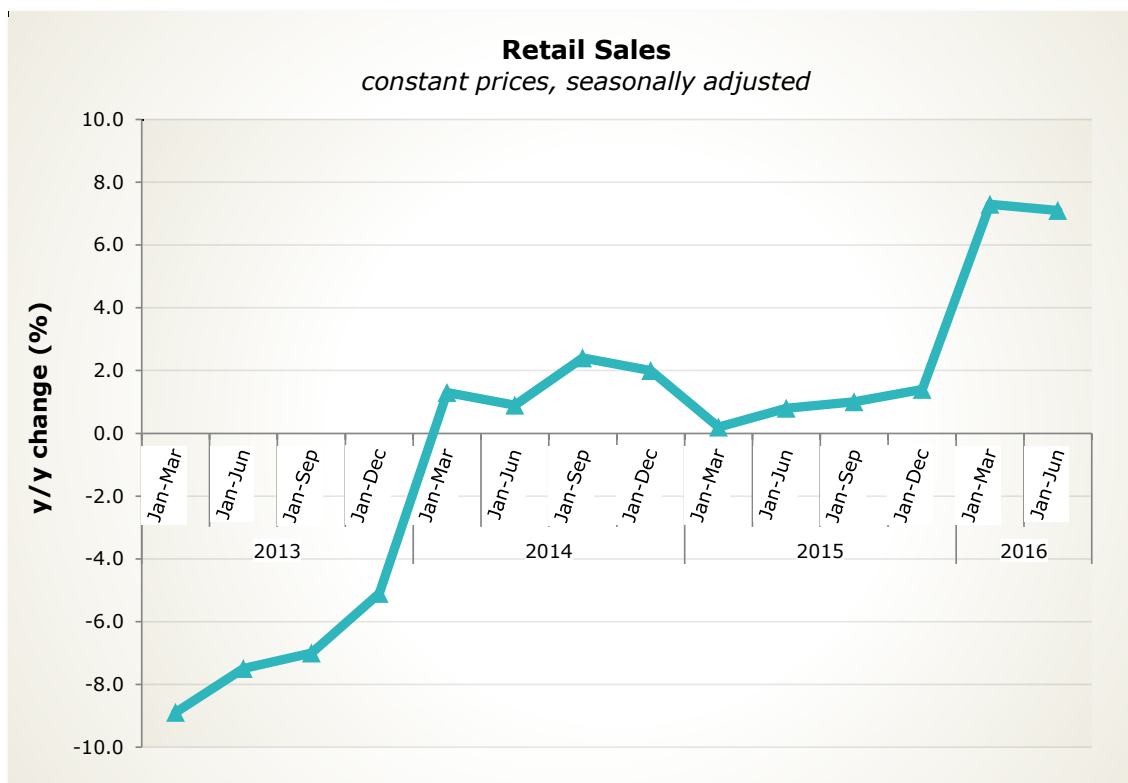


Source: SORS

2.3. WHOLESALE/RETAIL

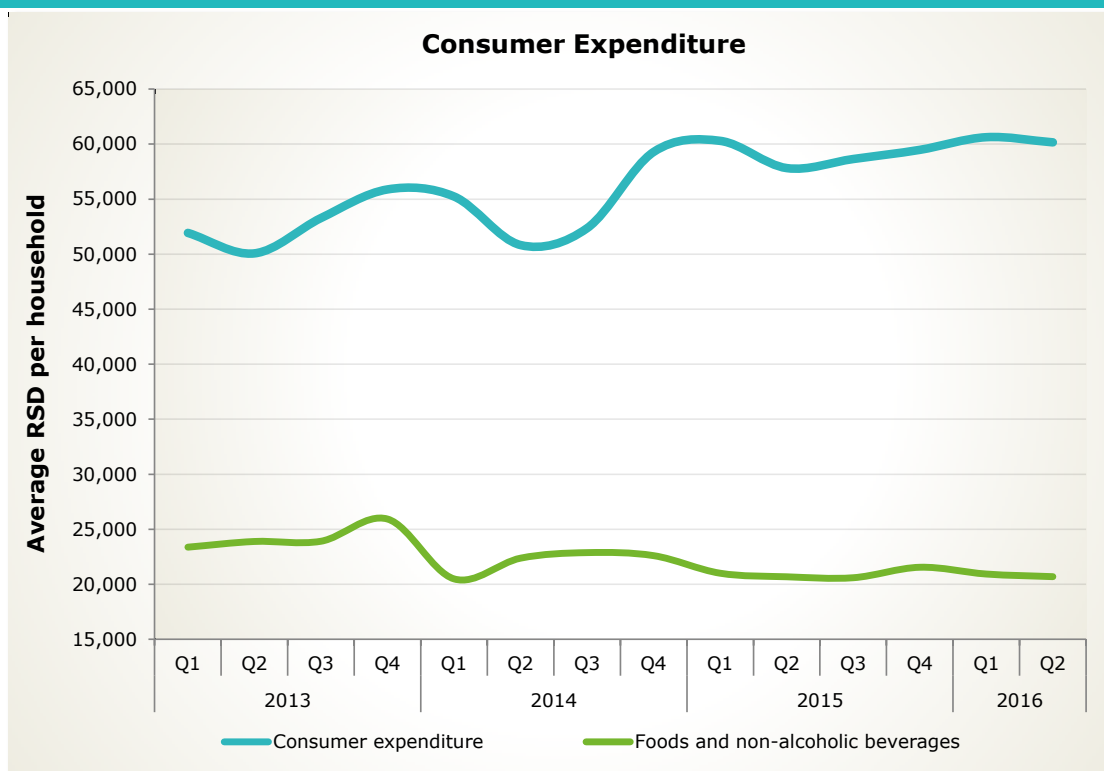
Retail sales grew by 7.1% y/y in January - June 2016

In the first six months of 2016, the retail sector increased by 7.1% y/y, according to SORS. During the months in the period, the sharpest annual rise in retail sales was registered in March – 10.4%, followed by 9.4% in April and by 7.6% in June.



Source: SORS

Consumer expenditure increased by 4.0% y/y to RSD 60,158 per household in Q2 2016. Expenditure on food and non-alcoholic beverages had the highest share in the total consumer expenditure, of 34.4%, followed by expenditure on housing, water, electricity, gas and other fuels with a 16.3% share and transport expenditure, which sliced a 9.3% share.



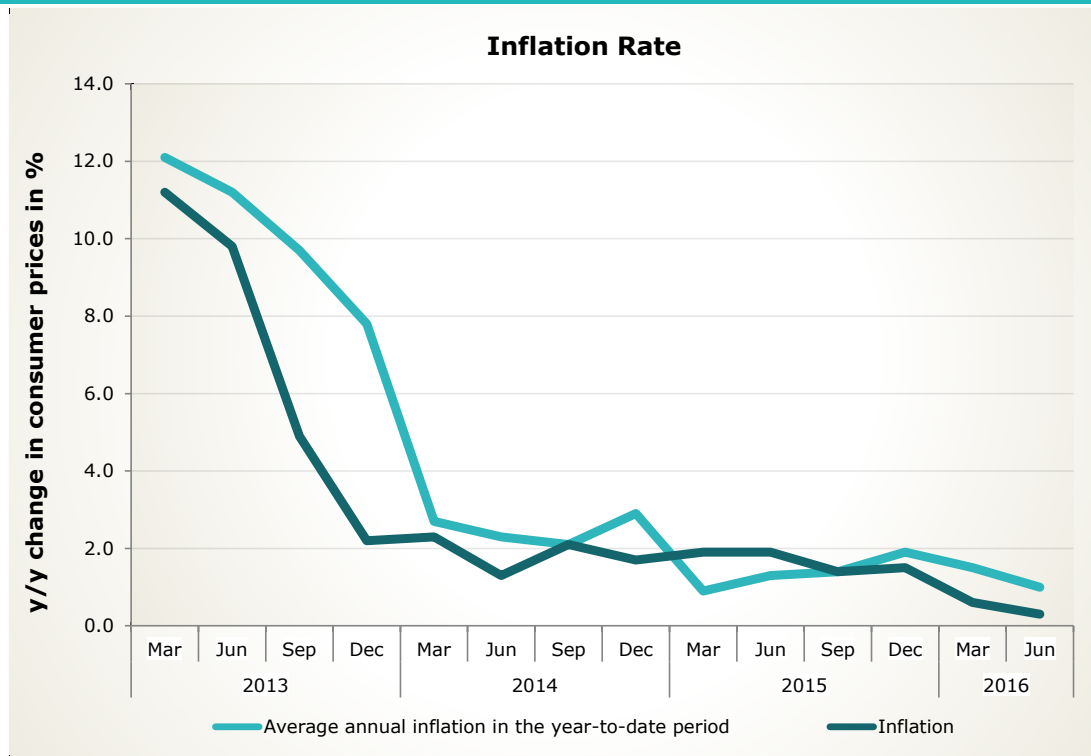
Source: SORS

2.4. INFLATION

Average annual inflation of 1.0% in January - June 2016

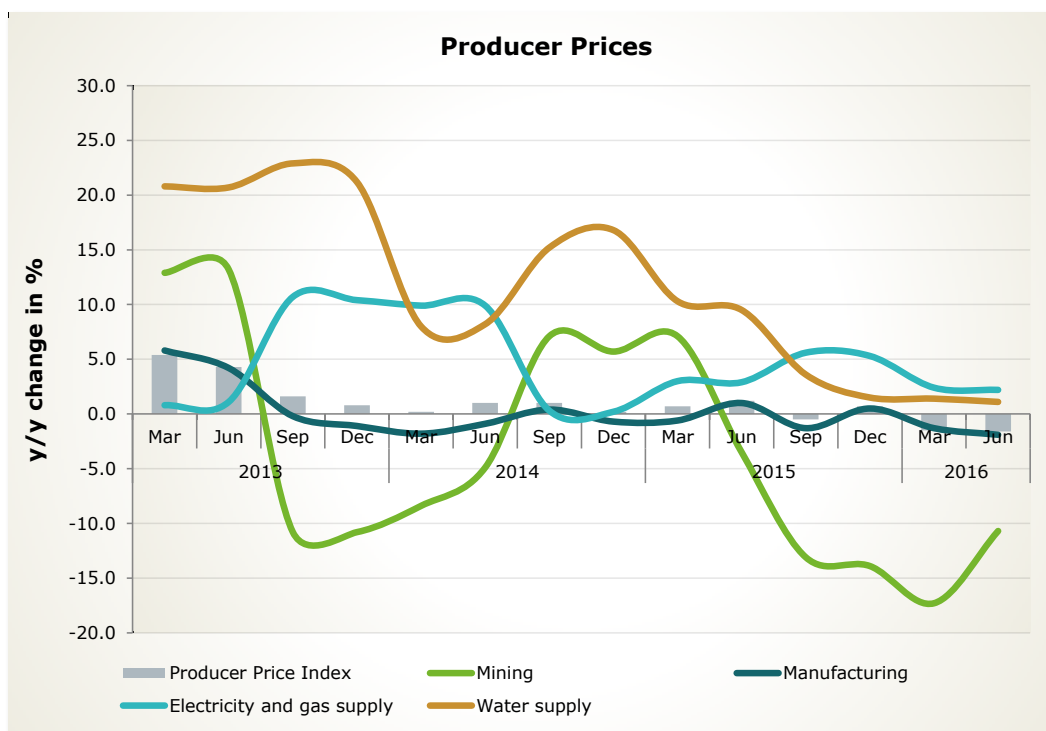
The average annual inflation was 1.0% in the first six months of 2016, compared to a 1.3% average annual inflation in the same period a year ago, according to SORS data.

The highest annual increase in consumer prices in January – June 2016, of 7.0% was registered in alcoholic beverages and tobacco, while prices of transport services dropped the most, by 2.6%.



Source: SORS

Producer prices went down by 1.6% y/y in June 2016. The mining sector reported the sharpest fall in producer prices, of 10.7%, followed by the manufacturing sector with 1.9%. Producer prices in the electricity and gas supply sector went up by 2.2% and water supply prices grew by 1.1%.



Source: SORS

3. LABOUR MARKET

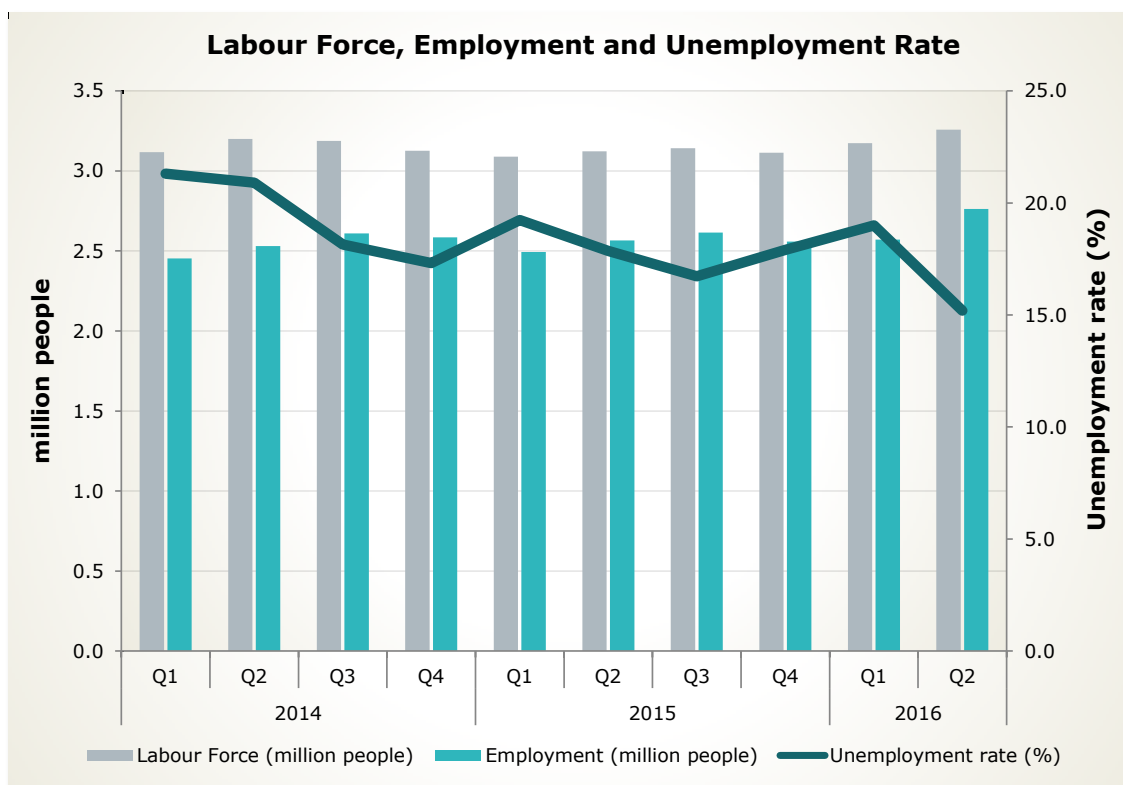
Unemployment rate went down y/y to 15.2% in Q2 2016

Unemployment in Serbia decreased to 15.2% of the total labour force in Q2 2016 from 17.9% year earlier, according to data of SORS.

The employed population aged 15 years and older was 2.762 million, up by 7.6% y/y.

The youth (population aged 15-24) unemployment rate also went down, to 36.1%, compared to 43.1% a year earlier.

The average monthly net salary in the second quarter of 2016 was RSD 46,550, up by 4.1% y/y.



Source: SORS

4. CONSTRUCTION AND REAL ESTATE

The number of building permits fell by 2.8% y/y in Q2 2016

The number of permits for new buildings in Serbia stood at 1,075 in Q2 2016, including 586 for housing projects and 31 for administrative buildings, according to SORS data.

The total number of permits for new buildings issued in the country in the period under review decreased by 2.8% in comparison to the same period a year earlier. Permits for housing projects went down by 15.8%, while permits for office buildings rose to 31 from 30.

The total built-up area of office units, covered by the permits, shrank to 35,409 sq m from 53,952 sq m. The total built-up area of new housing went up to 322,006 sq m from 289,885 sq m.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. RSD EXCHANGE RATE

The average exchange rate of the EUR against RSD increased to RSD 123.0108 in Q2 2016 from RSD 120.4404 a year earlier, according to National Bank of Serbia (NBS).

Average RSD Exchange Rate			
Foreign Currency	Q2 2016	Q1 2016	Q2 2015
EUR	123.0108	122.8513	120.4404
USD	108.9927	111.4157	108.9045
GBP	156.1732	159.3828	166.9279
CHF	112.1580	112.0265	115.6498

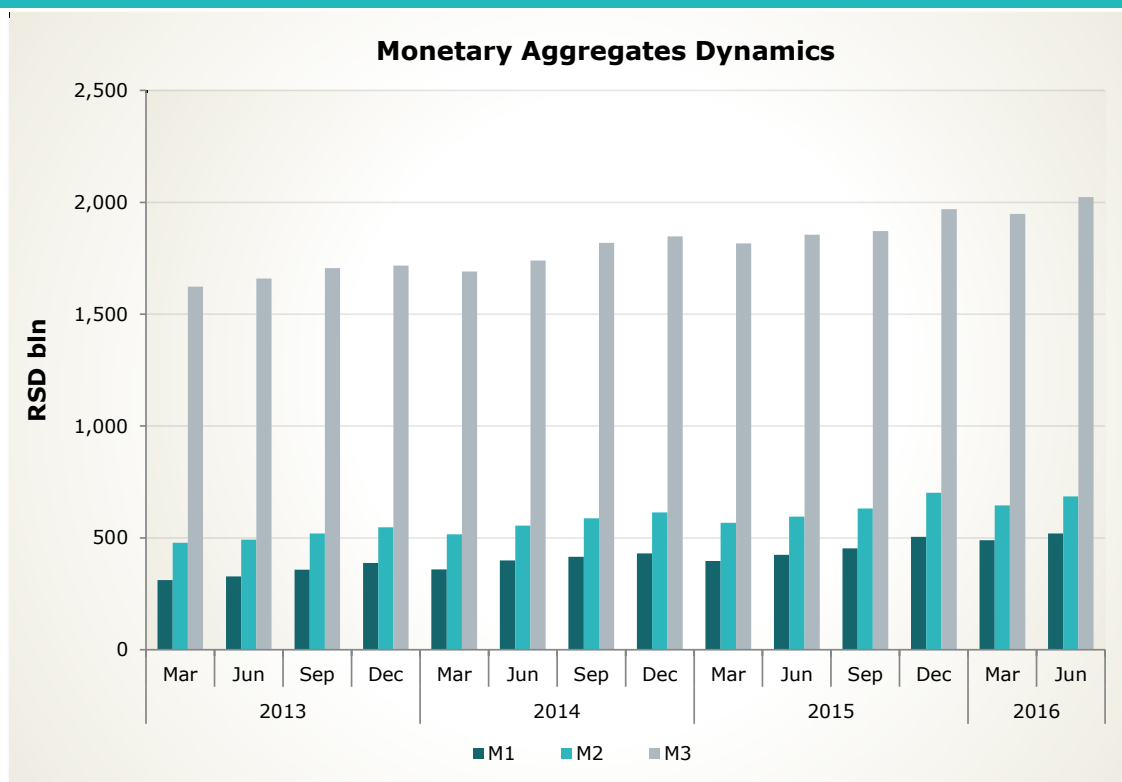
5.2. MONETARY AGGREGATES

Money supply growth was 9.0% y/y at end-June 2016

Broad money (money aggregate M3) increased by 9.0% y/y and reached RSD 2,023.2 bln as of June 2016, according to data provided by NBS.

The M2 money supply also grew, by 15.1% to RSD 685.0 bln.

Money aggregate M1, or narrow money, jumped by 22.5% to RSD 520.5 bln.



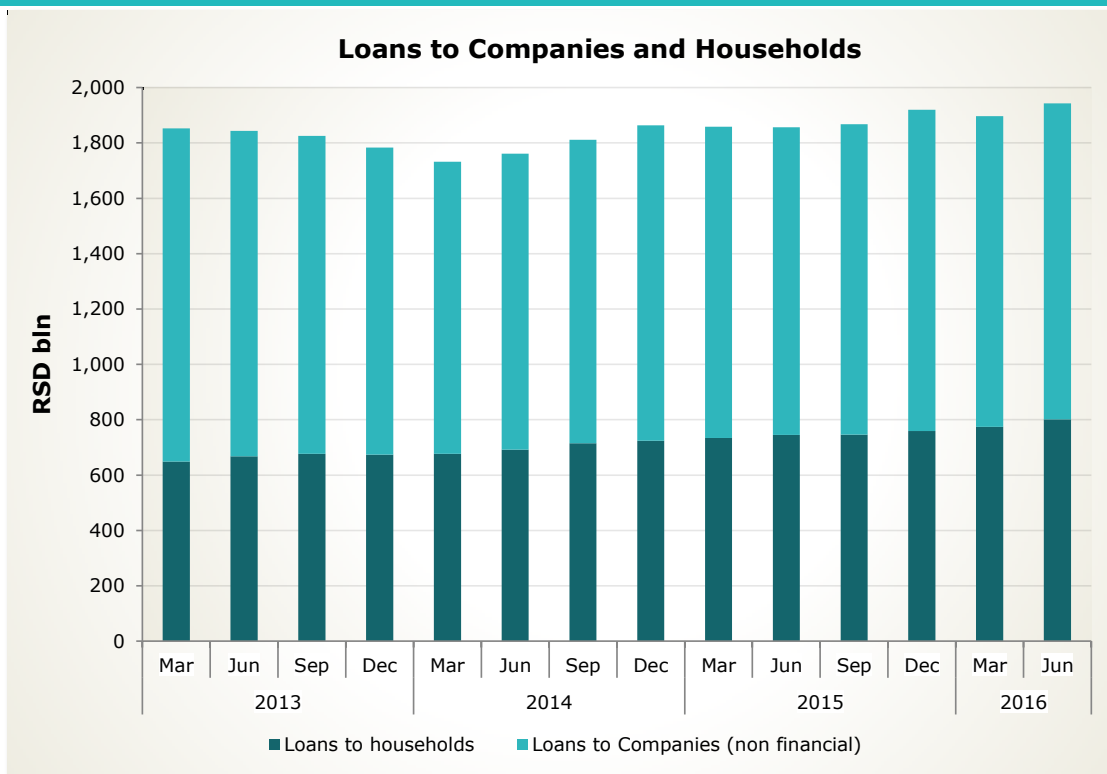
Source: NBS

5.3. BANKING AND INSURANCE

Household loans increased by 7.4% y/y in June 2016

Loans to the non-government sector totalled RSD 1,942.8 bln as of June 2016, up by 4.7% y/y, according to NBS.

Loans to non-financial corporations went up by 2.8% y/y to RSD 1,141.6 bln, while household loans rose by 7.4% to RSD 801.2 bln. House purchasing loans inched up by 1.6% to RSD 352.8 bln, while consumer loans grew by 3.0% to RSD 20.415 bln.



Source: NBS

At the end of June 2016 the assets of the banking system totalled RSD 3,120.4 bln, compared to RSD 2,984.7 bln at the end of June 2015. In comparison to end-March 2016, the total assets inched up by 2.5%.

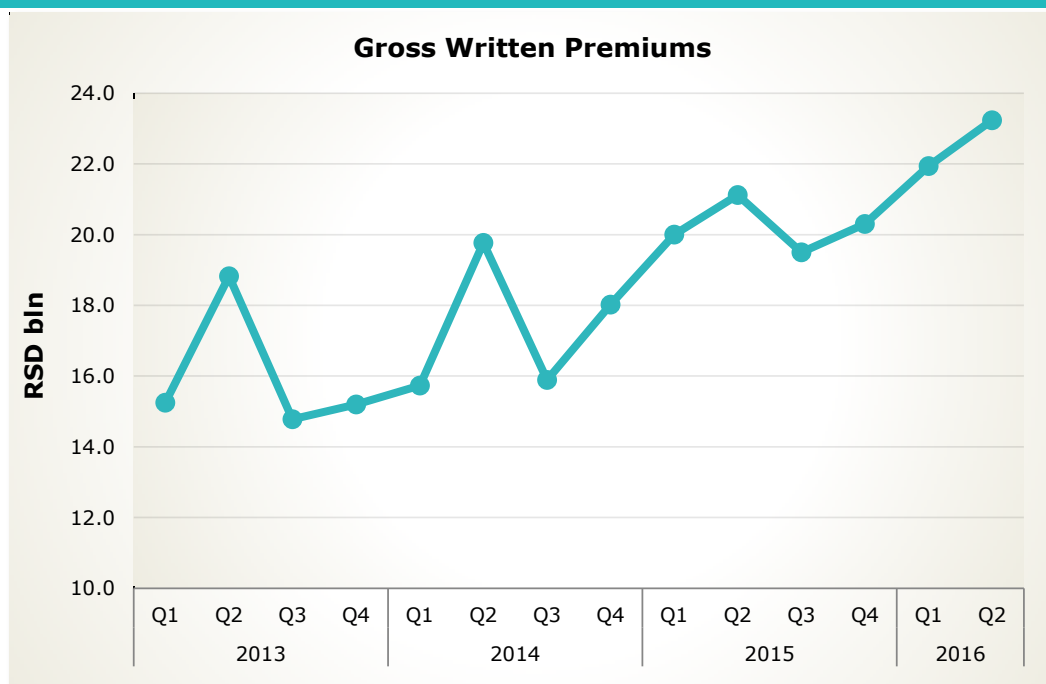
Non-performing loans (NPL) amounted to RSD 404.3 bln as of end-June 2016, down from RSD 406.6 bln in March 2016 and RSD 438.5 bln as of end-June 2015.

The total deposits amounted to RSD 2,069.3 bln at end-June 2016, or by 9.3% more than at the end of June 2015. Deposits of households accounted for the bulk, or 56.4% of the total deposits, while the corporate sector had a 26.8% share.

Premium income up 10.0% y/y in Q2 2016

The total gross written premiums of the non-life and life insurance companies stood at RSD 23.239 bln, up by 10.0% y/y in the second quarter of 2016, according to NBS data.

In the period Jan-June 2016, the gross written premiums totalled RSD 45.179 bln, a 9.9% increase in comparison to the corresponding period of the previous year.



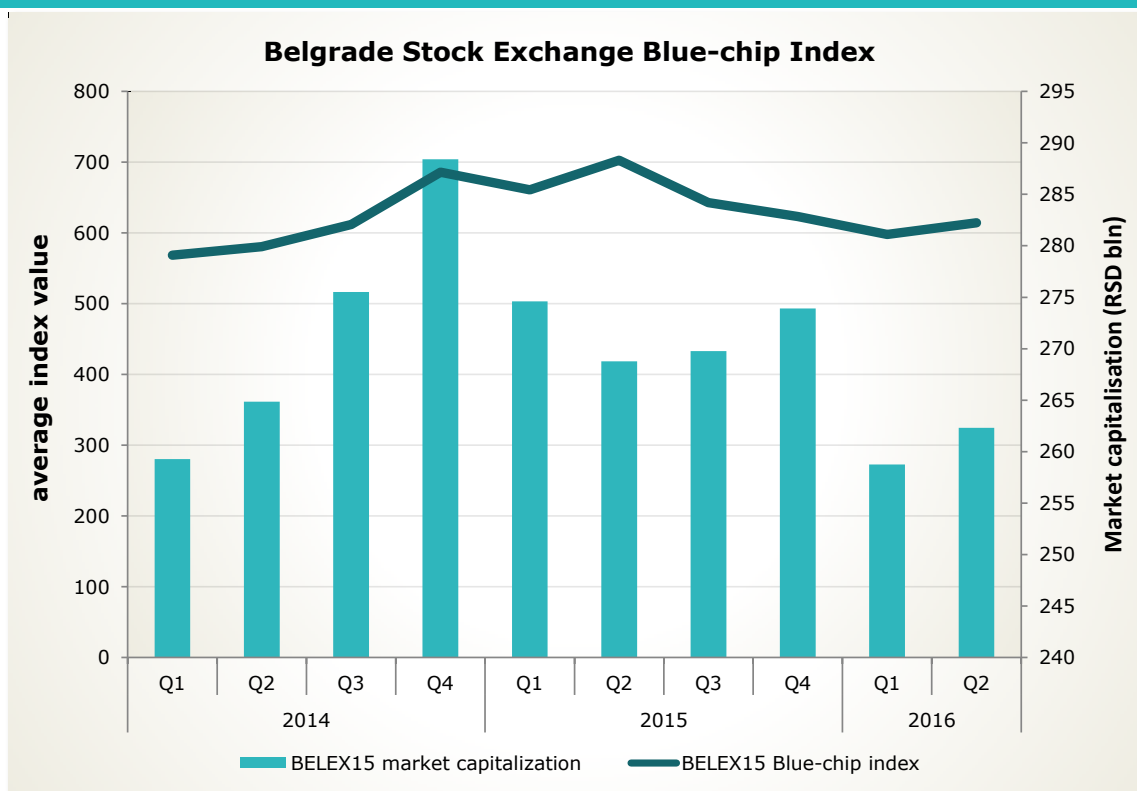
Source: NBS

6. CAPITAL MARKETS

Blue-chip index BELEX15 went down by 12.6% y/y in Q2 2016

The average value of BELEX15, the blue-chip index of the Belgrade Stock Exchange (BELEX), decreased by 12.6% to 614.5 points in the second quarter of 2016, compared to a year earlier.

The total turnover on BELEX jumped five times on the year to RSD 13.863 bln in Q2 2016. The number of transactions was 17,099 versus 40,187 a year ago.



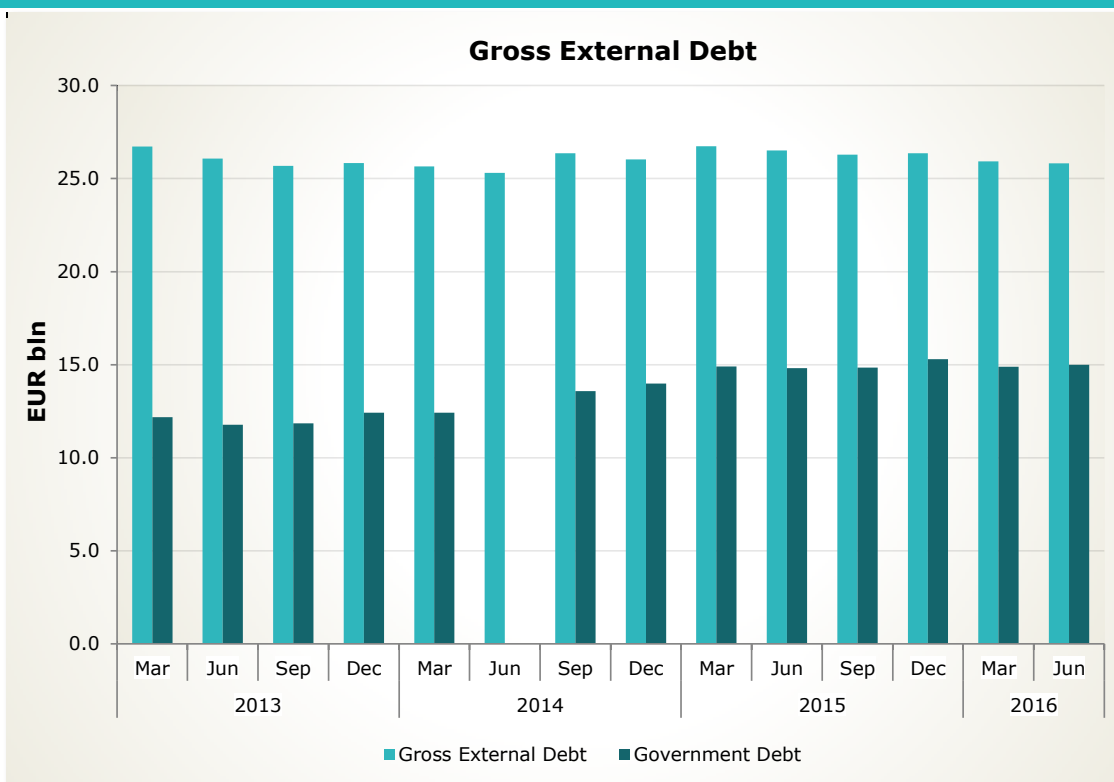
Source: BELEX

7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt shrank y/y to EUR 25.820 bln at end-June 2016

The gross external debt decreased by 2.6% y/y, totalling EUR 25.820 bln at the end of June 2016, according to NBS. In comparison to March 2016 the gross external debt narrowed by 0.4% or EUR 106.7 mln.



Source: NBS

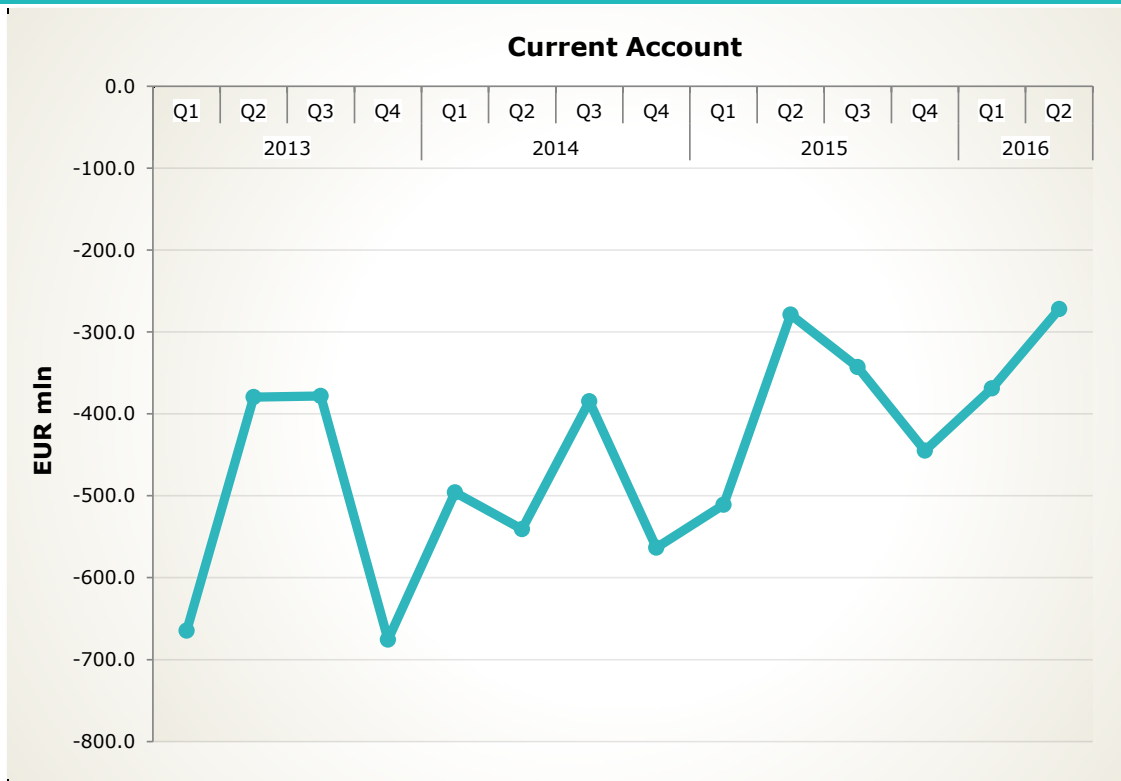
Editor's note: No data is available for gross external government debt for June 2014

7.2. BALANCE OF PAYMENTS

Current account gap at EUR 272.1 mln in Q2 2016

The current account gap shrank to EUR 272.1 mln from EUR 278.8 mln in the same quarter a year earlier, according to central bank data. In comparison to the previous quarter, Q1 2016, the deficit was EUR 96.9 mln lower.

Secondary income in Q2 2016 amounted to EUR 894.8 mln, up from EUR 670.3 mln in Q1 2016. On annual basis it decreased by 5.6%.



Source: NBS

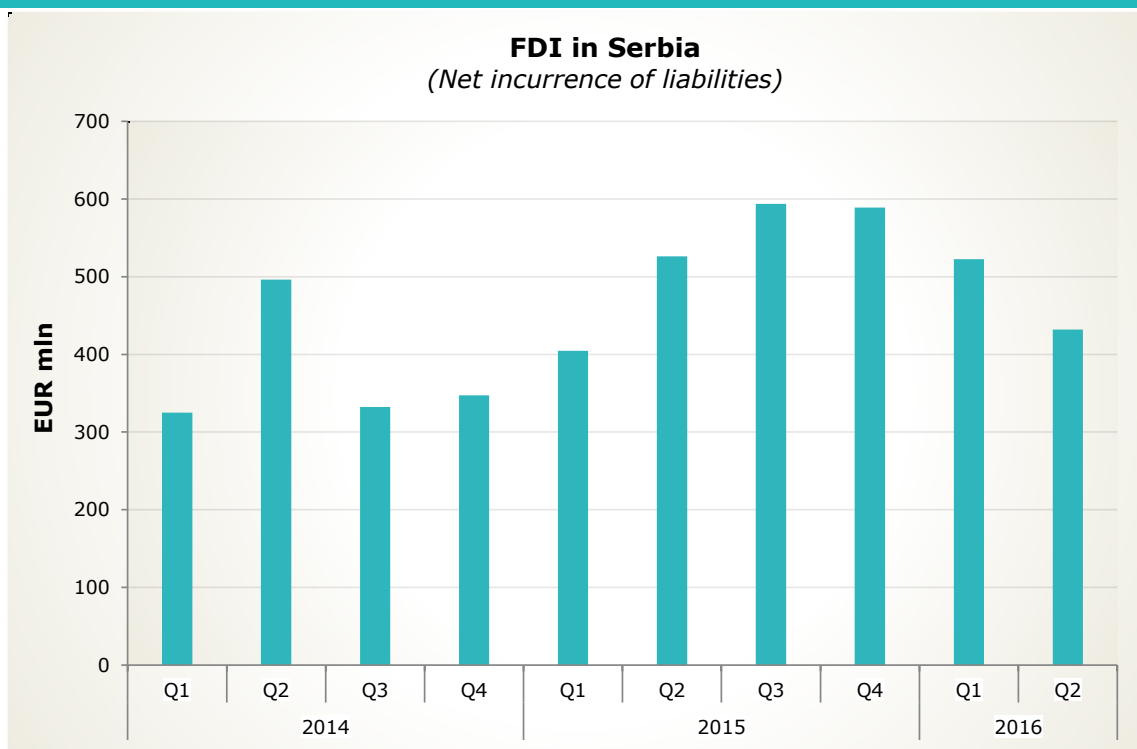
7.3. FDI

FDI at EUR 432.1 mln in Q2 2016

Foreign Direct Investments (FDI) in Serbia totalled EUR 432.1 mln in Q2 2016, according to NBS data. In comparison to the previous year the FDI inflow shrank by 17.9%, or EUR 94.3 mln.

Netherlands was the largest foreign investor in Serbia in Q2 2016 with FDI of EUR 196.7 mln, followed by the Hong Kong with EUR 60.1 mln and Germany with EUR 28.5 mln.

A breakdown by industries shows that the leading sector in terms of attracted FDI was basic metals and fabricated metal products, accounting for 15.3% of the total FDI inflow. Real estate activities came second with a 14.1% share and the air transport sector was the third most attractive sector for foreign investors with a 12.4% share.



Source: NBS

7.4. FOREIGN TRADE

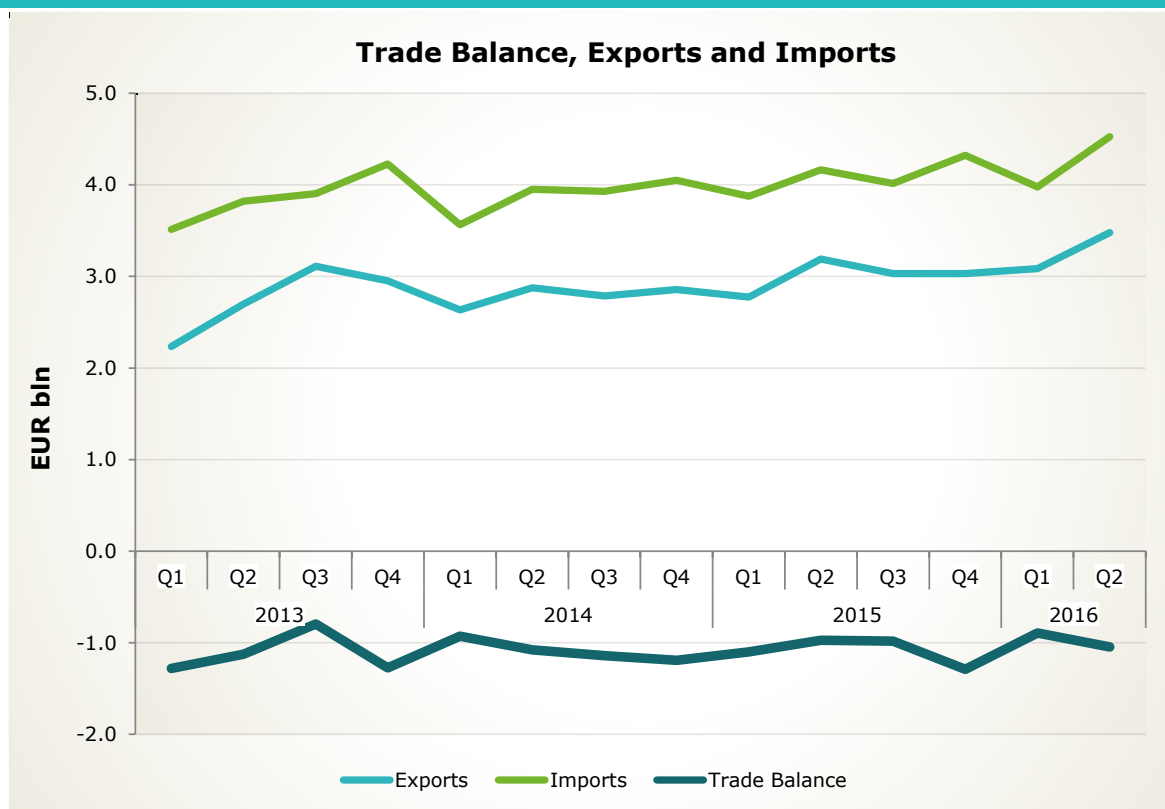
Foreign trade deficit widened by 7.5% y/y in Q2 2016

The trade deficit stood at EUR 1.047 bln in Q2 2016, up by 7.5% compared to the corresponding quarter of the previous year, according to SORS.

In Q2 2016 exports totalled EUR 3.479 bln, up from EUR 3.190 bln a year earlier, while imports grew by EUR 362.6 mln to EUR 4.526 bln.

In the second quarter of 2016, Serbia's leading sectors in terms of exports were manufacture of motor vehicles, trailers and semi-trailers, which accounted for 16.3% of the total exports, followed by manufacture of food products with a 10.4% share, and manufacture of electrical equipment with 8.5%.

In terms of imports, the main sectors were not else classified goods, which made up 15.0% of the total, followed by manufacture of motor vehicles, trailers and semi-trailers, slicing a 11.9% share, and manufacture of chemicals and chemical products, which had a 9.5% share.



Source: NBS

7.5. TOURSIM

Number of foreign tourist overnights rose by 6.6% y/y in Q2 2016

Tourist overnights of foreigners increased by an annual 6.6% to 669,817 in Q2 2016, slicing a 34.2% 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 1,955,712.

The number of foreign tourists also went up - by 5.2% y/y to 327,372. Most foreign tourists visiting Serbia in the second quarter of 2016 came from Bosnia and Herzegovina - 28,960, followed by tourists from Turkey - 24,489, and Slovenia - 22,666.



Source: SORS

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