

SERBIA ECONOMY REPORT

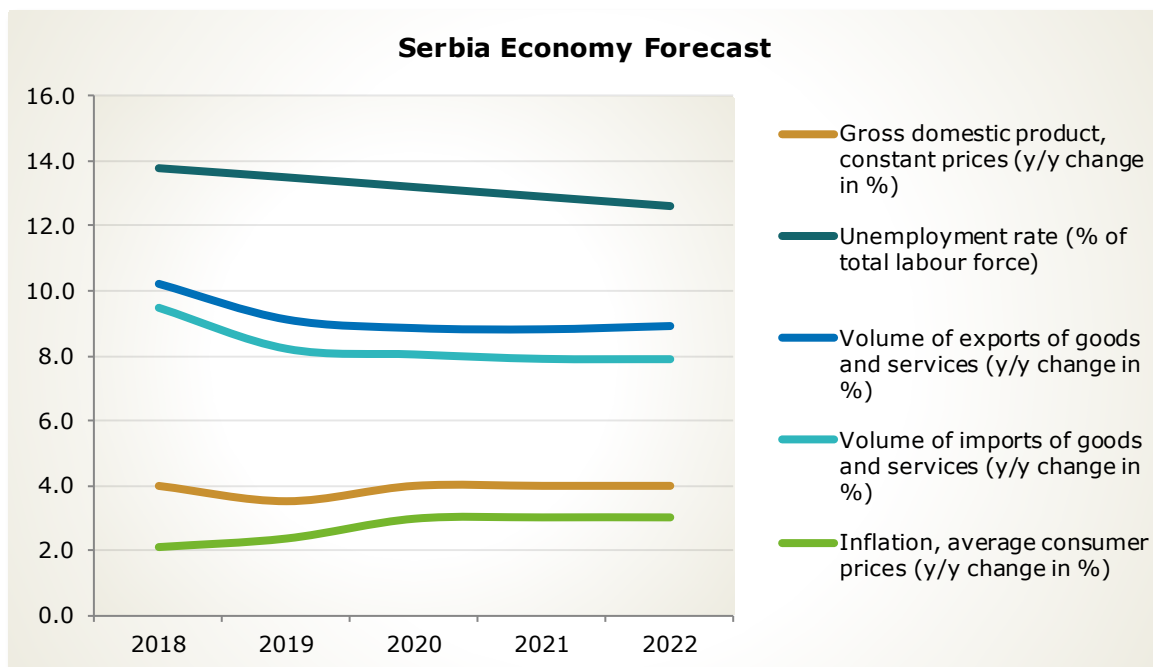
Q2 2018

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1. MACROECONOMIC SNAPSHOT AND FORECAST

SERBIA – MACROECONOMIC SNAPSHOT AS OF Q2 2018	
GDP Growth	4.8 % y/y
Industrial output	4.2% y/y
Industrial sales	5.6% y/y
Retail sales	3.3% y/y
Average annual inflation	1.7% y/y
Unemployment rate	11.9%
Number of building permits	1.7% y/y
Money supply growth	7.9% y/y
Household loans	9.0% y/y
BELEX15 blue-chip index	-2.8% q/q
Gross external debt	EUR 26.1 bln
Current account gap	EUR 264.7 mln
Net FDI inflow	EUR 667.7 mln
Foreign trade deficit	EUR 1.246 bln
Number of foreign tourist overnights	14.5% y/y



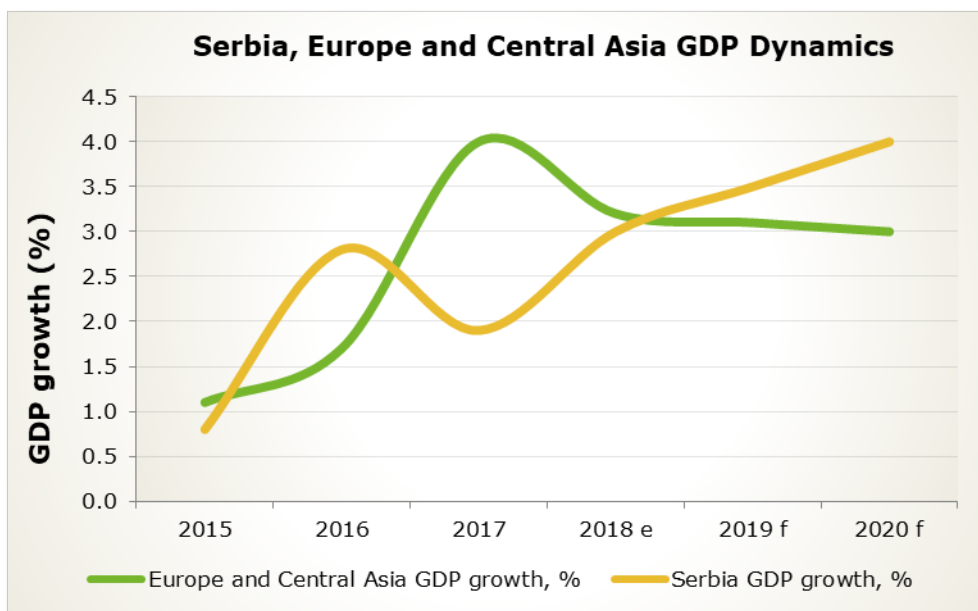
Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2018

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 4.0% by the end of 2018, 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 2.1% 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 May 2018, GDP growth of Serbia is likely to come in at 3.0% in 2018, up from an estimated 1.9% in 2017 and actual growth of 1.8%. This will be lower than the projected growth for Europe and Central Asia, of 3.2% in 2018.

Serbia – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)

	2015	2016	2017 e	2018 f	2019 f	2020 f
Real GDP growth, at constant market prices, y/y change in %	0.8	2.8	1.9	3.0	3.5	4.0
Private Consumption	0.5	1.0	1.7	2.2	2.9	4.0
Government Consumption	-1.5	2.3	4.0	3.6	-0.4	11.8
Gross Fixed Capital Investment	5.6	5.1	3.7	5.6	7.7	2.9
Exports, Goods and Services	10.2	12.0	8.1	6.5	7.5	7.5
Imports, Goods and Services	9.3	9.0	7.0	5.9	6.4	7.3
Real GDP growth, at constant factor prices (by sectors)						
Agriculture	-7.7	8.1	-9.9	5.0	3.0	3.0
Industry	3.0	2.4	4.5	4.0	5.0	5.0
Services	1.1	2.8	1.7	2.3	2.9	3.7
Inflation (Consumer Price Index)	1.4	1.1	3.0	3.3	3.5	3.5
Current Account Balance (% of GDP)	-4.7	-3.1	-5.7	-4.7	-4.4	-4.6
Net Foreign Direct Investment (% of GDP)	3.7	3.7	4.7	4.3	4.3	4.1

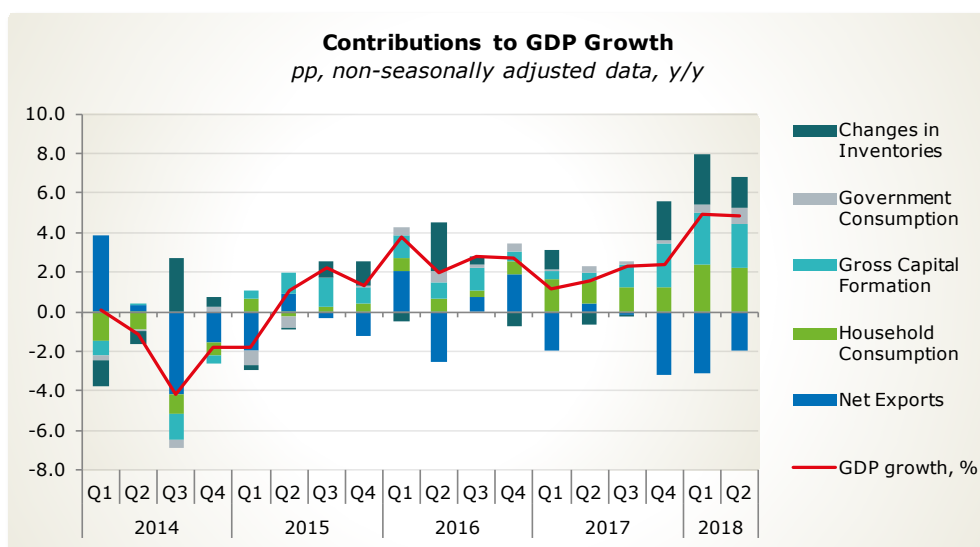
Source: World Bank, Europe and Central Asia Economic Update, May 2018

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth remained strong in Q2 2018

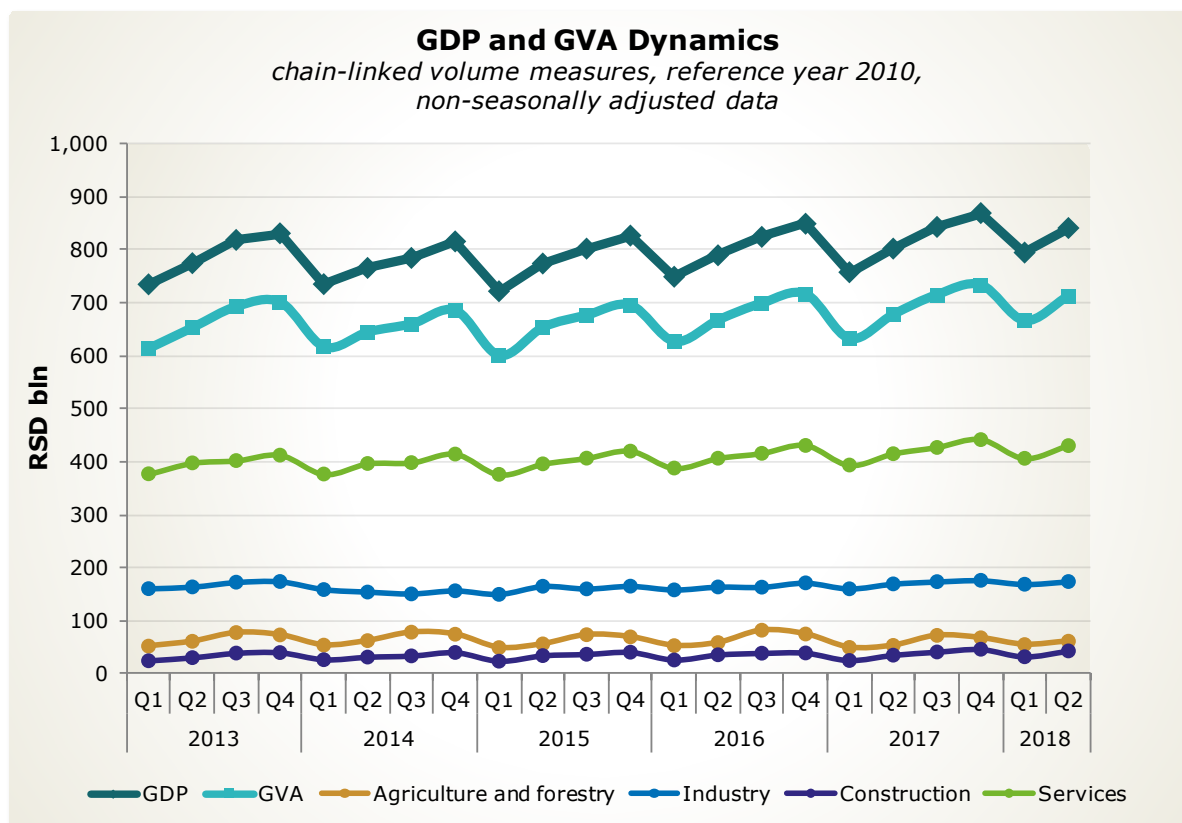
In Q2 2018, the Serbian economy grew by a real 4.8% y/y, data from the National Statistics shows. In the second quarter, the economy was fueled by stronger export of goods, and services and household consumption, which contributed to 3.9 pp and 2.2 pp to the overall y/y GDP growth. The final consumption (household and government) advanced by 3.5% y/y in real terms in Q2 2018, while gross capital formation jumped by 12.1% y/y.



Source: SORS; SeeNews calculations

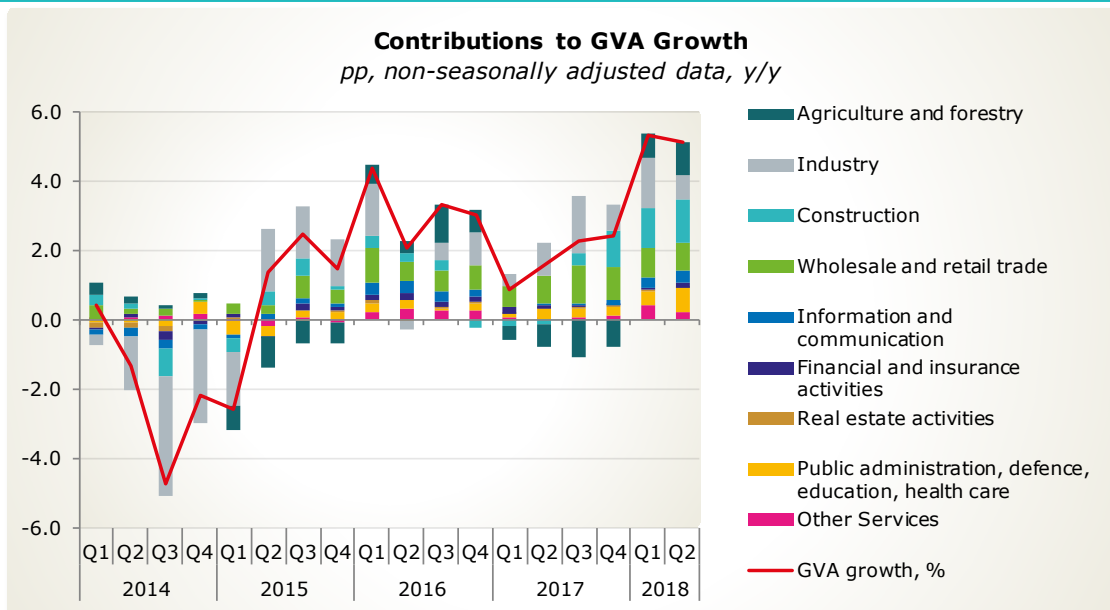
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual

The gross value added (GVA) generated by the national economy increased by 5.1% y/y in Q2 2018 and totalled RSD 711.8 bln. The construction sector went up in value by 22.9% y/y and accounted 6.0% of the total GVA. The agriculture and forestry sector recorded a 14.8% annual increase, slicing a 8.6% share of the total GVA. The services sector's GVA increased by 3.7% to RSD 430.3 bln, while the industry sector registered an annual rise of 2.6%.



Source: SORS

In terms of sectors, the largest contributor to GVA growth y/y was construction with 1.2 pp in Q2 2018. The agriculture and forestry sector contributed by 0.9 pp to the total GVA growth, while the wholesale and retail trade sector added 0.8 pp to the annual growth. The services sector as a whole contributed by 2.2 pp to the y/y growth in Q2 2018.



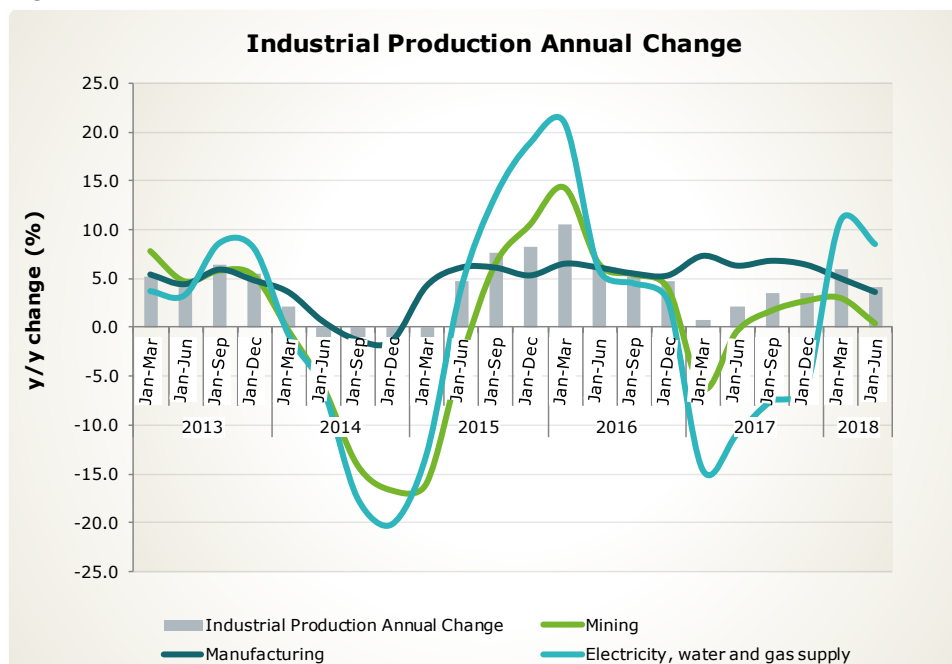
Source: SORS; SeeNews calculations

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

2.2. INDUSTRIAL OUTPUT

Industrial output growth slowed down to 4.2% y/y in Q2 2018, from 5.9% y/y in Q1 2018

The industrial output reported an increase of 4.2%, in Q2 2018, compared to 5.9% in the previous quarter, according to data from SORS. In comparison to Q2 2017, the output rose by 2.1 pp. In Q2 2018, the highest annual output rise, of 8.5%, was registered by the Electricity, water and gas supply sector. The output of the manufacturing sector went up by 3.6% y/y, while Mining inched up by 0.4%.

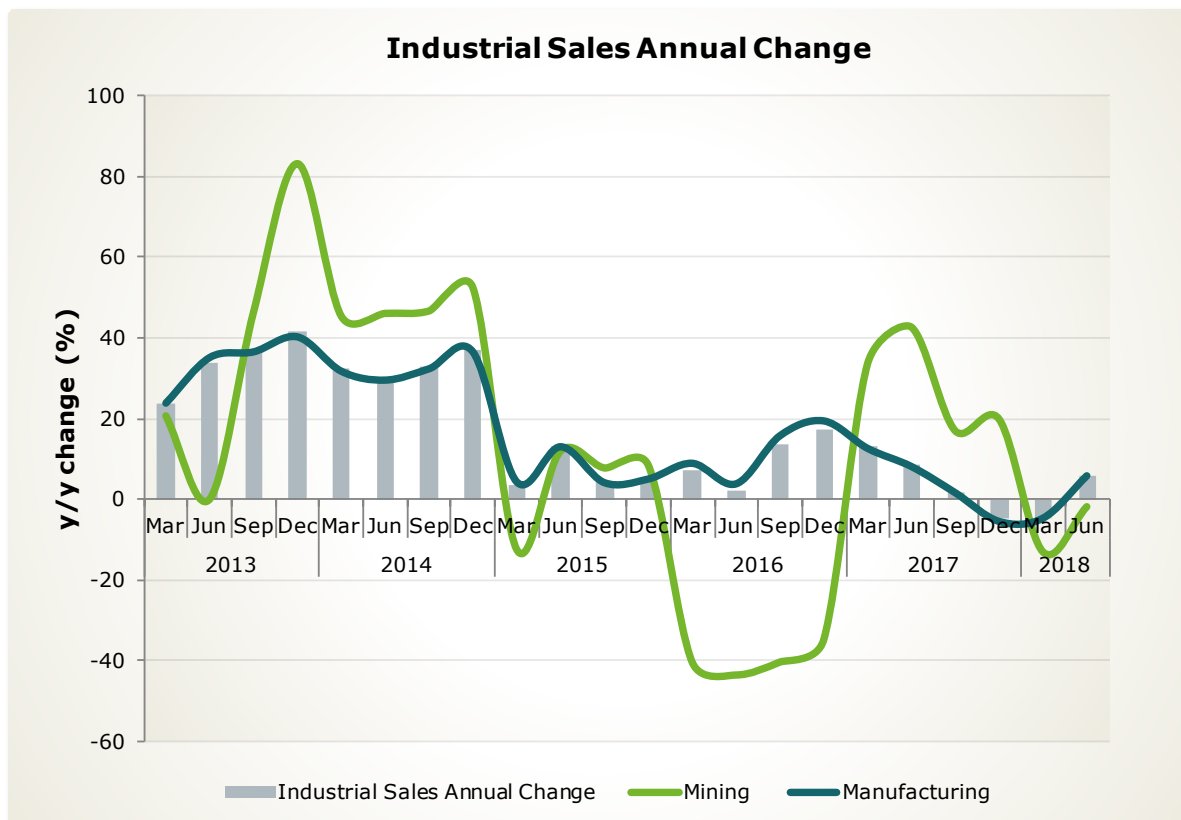


Source: SORS

2.3. INDUSTRIAL SALES

Industrial sales went up by 5.6% y/y in June 2018

The industrial sales increased in June 2018, by 5.6% y/y, according to SORS. The manufacturing industry recorded a 5.8% annual increase in sales, while the mining sector posted a 1.7% annual drop.



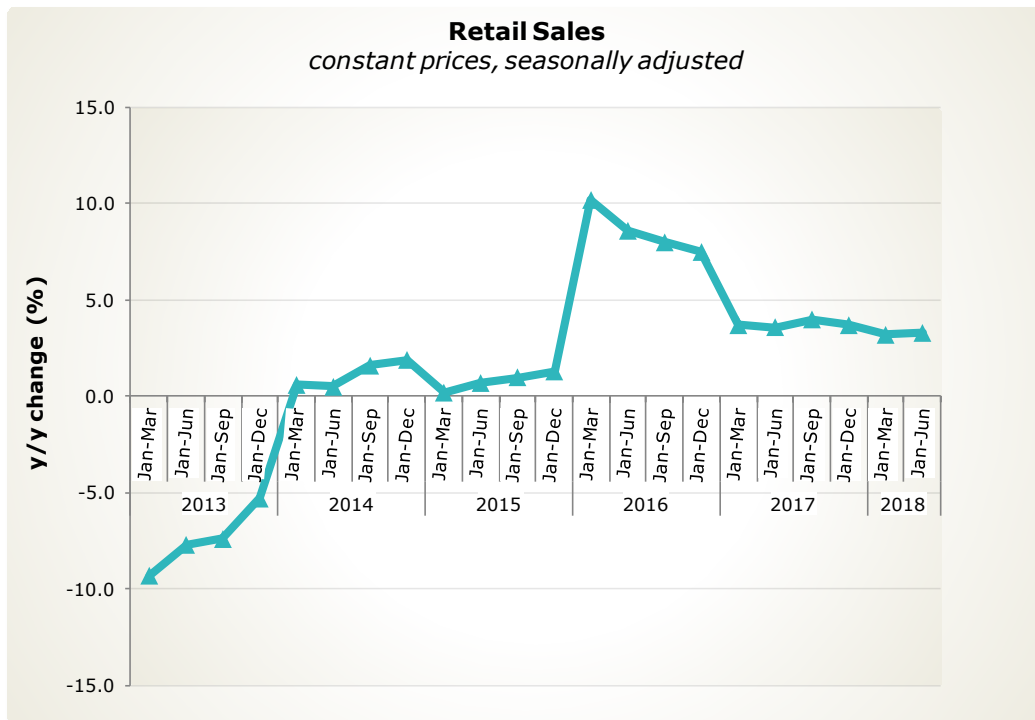
Source: SORS

2.4. WHOLESALE/RETAIL

Retail sales grew by 3.3% y/y in constant prices in Jan-Jun 2018

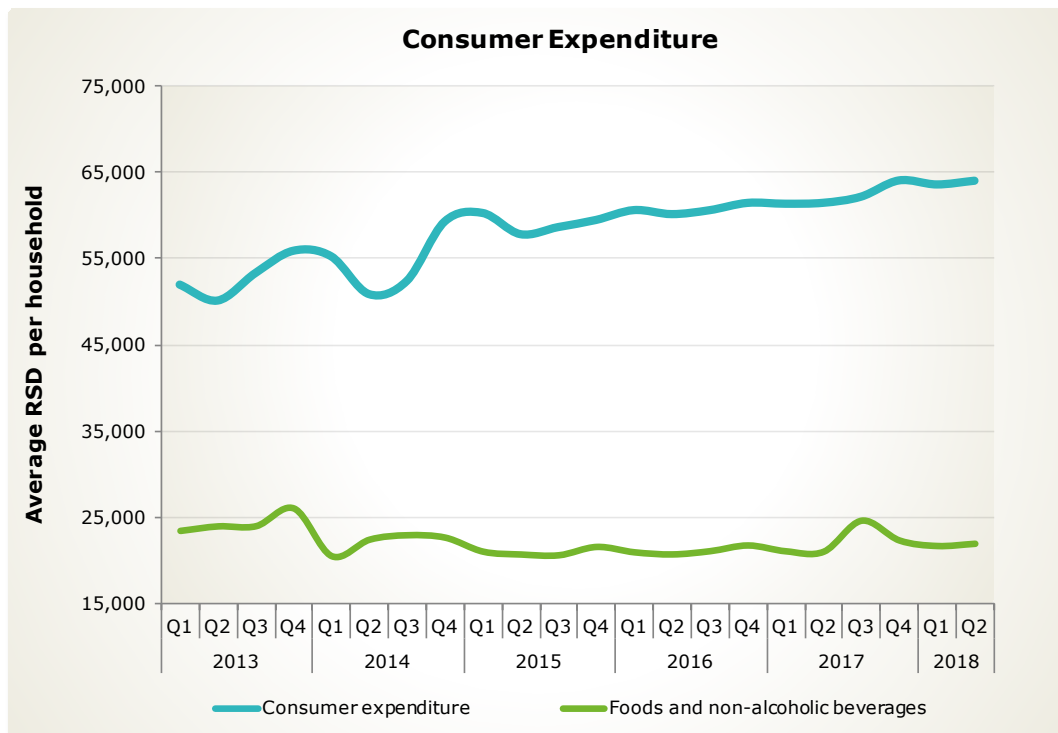
In the first half of 2018, retail sales in Serbia rose by 3.3% y/y in constant prices, up from 3.2% y/y rise in Q1 2018, according to SORS. In current prices the annual growth in January-June 2018 was higher – 5.2%.

In terms of constant prices, the highest annual rise in retail trade was registered by non-food products – 3.9%, followed by automotive fuel – 3.1%, and food, beverages and tobacco – 2.9%.



Source: SORS

In Q2 2018, consumer expenditure increased by 4.2% y/y to an average of RSD 64,055 per household. Expenditure on food and non-alcoholic beverages had the highest share in the total consumer expenditure, of 34.2%. The latter increased by 4.3% y/y to RSD 21,910 per household.



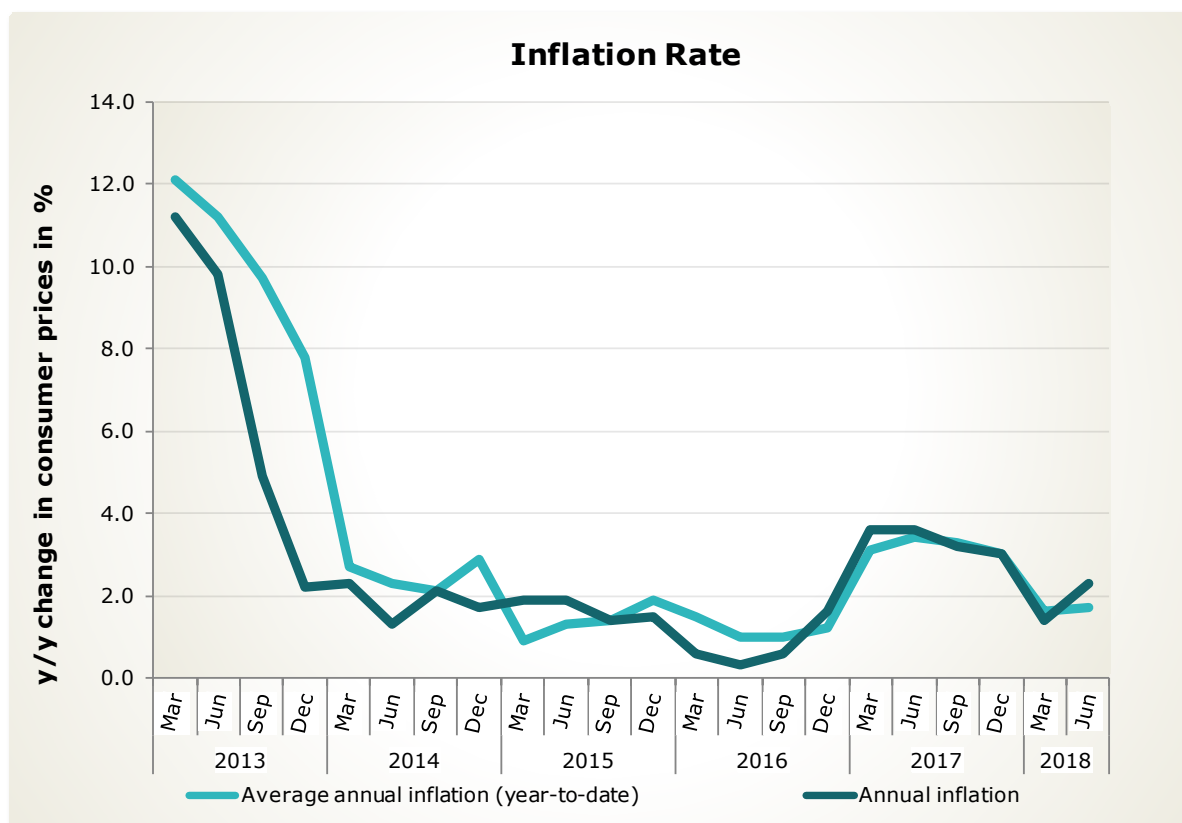
Source: SORS

2.5. INFLATION

Average annual inflation of 1.7% as of June 2018

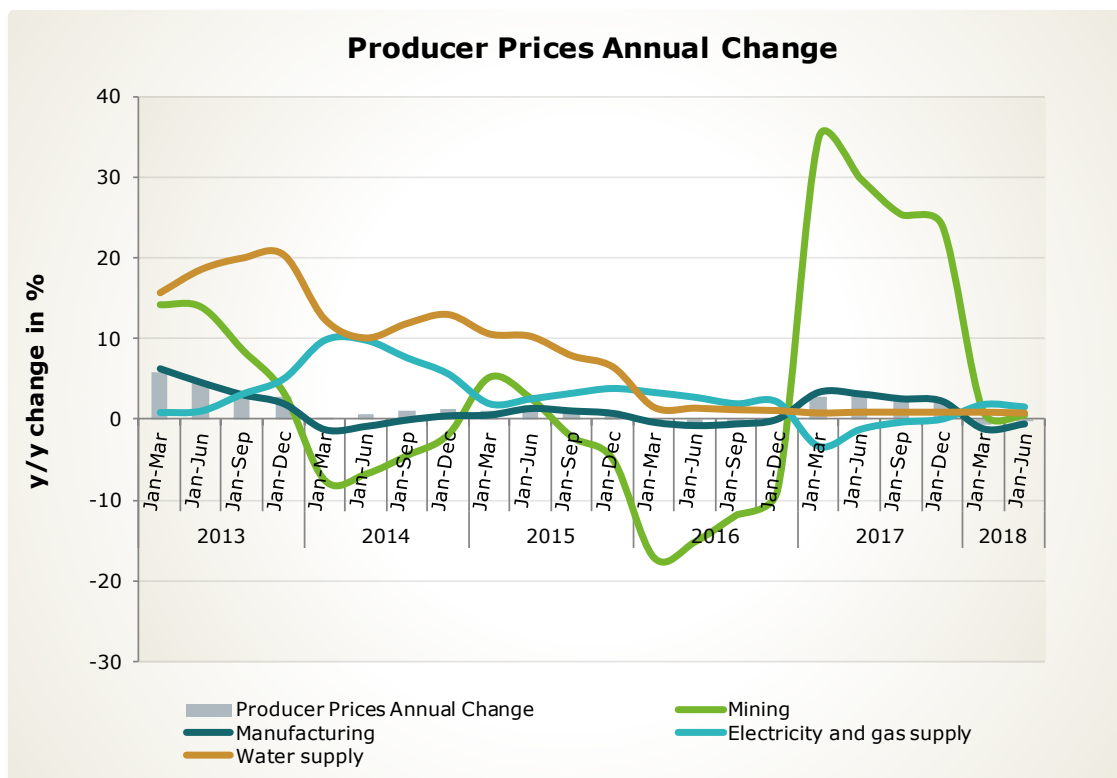
The average annual consumer inflation amounted to 1.7% in the first half of 2018, up from 1.6% inflation in Q1 2018, according to SORS data.

Inflation in January-June 2018 was determined mainly by the increase of alcoholic beverages and tobacco by 5.5%. Other consumer groups to report an increase in prices were food and non-alcoholic beverages – 1.7%, and housing, water, electricity, gas and other fuels – 1.6%. Clothing and footwear was the only group to post a decrease in prices, of 1.1%.



Source: SORS

Producer prices index (PPI) decreased by 0.2% y/y in Q2 2018, according to SORS data. The manufacturing sector reported a 0.5% y/y decrease in producer prices. All other sectors posted a growth, ranging from 0.5% for Mining to 1.5% for Electricity and gas supply.



Source: SORS

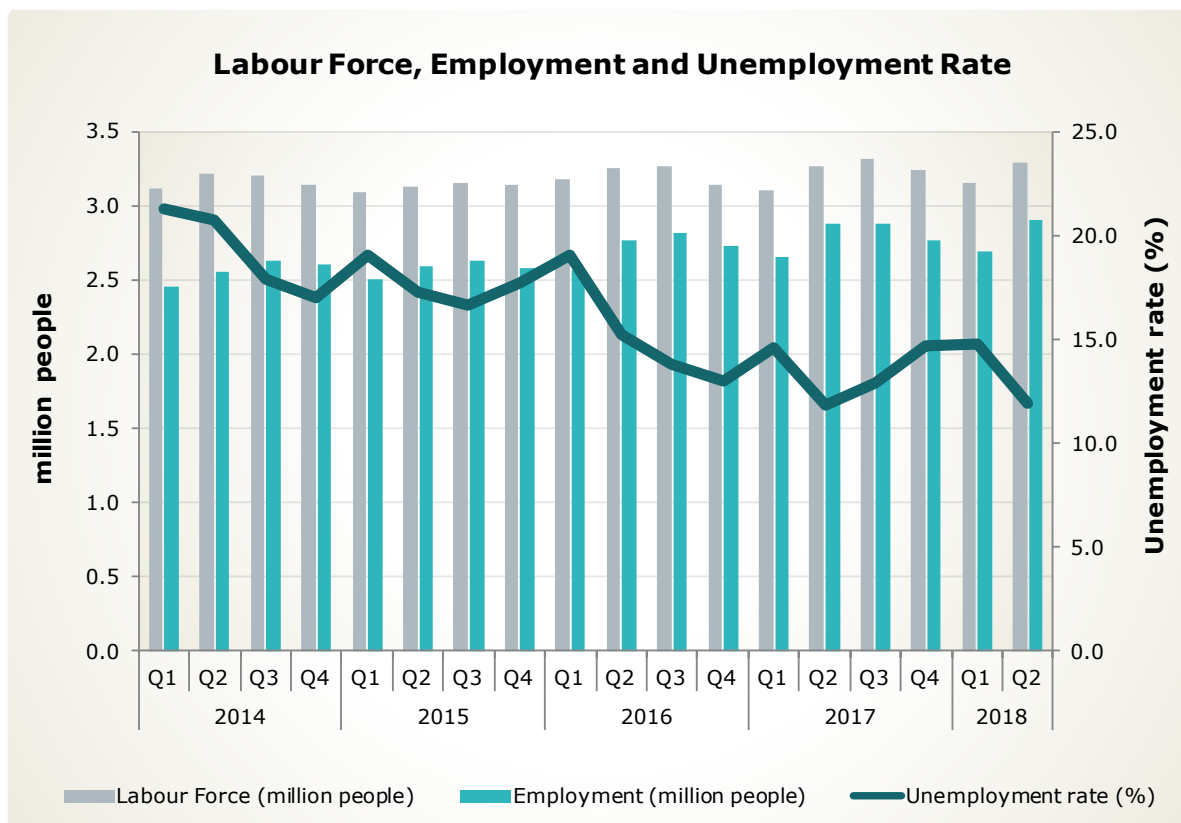
3. LABOUR MARKET

Unemployment rate continues to decline

Unemployment rate in Serbia started decreasing after its upward trend that has started since the second quarter of 2017, according to SORS. It shrank to 11.9% of the total labour force in Q2 2018, down from 14.8% in Q1 2018. In comparison to Q2 2017, unemployment inched up by 0.1 pp.

The employed population aged 15 years and older was 2.897 million, up by 0.5% y/y. Youth (population aged 15-24) unemployment rate went down, to 27.5% in Q2 2018, compared to 34.6% in the previous quarter and 28.9% in Q2 2017.

The average monthly net salary in Q2 2018 was RSD 49,573, up 1.9% y/y.



Source: SORS

4. CONSTRUCTION AND REAL ESTATE

The number of building permits went up by 1.7% y/y in Q2 2018

The number of permits for new buildings in Serbia was 1,654 in Q2 2018, including 874 for housing projects and 22 for office buildings, according to SORS data.

The total number of permits for new buildings issued in the period under review increased by 1.7% compared to Q2 2017. However, permits for housing projects inched down by 0.6%, while permits for office buildings declined by 21.4%.

Despite the drop in office permits number, the total built-up area of the office units, covered by the permits, more than doubled y/y in Q2 2018 to 43,889 sq m.

The total built-up area of new housing was 581,877 sq m in Q2 2018, an increase of 20.6% compared to the same quarter of 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 Q2 2018 from RSD 119.1 a year earlier, according to National Bank of Serbia (NBS).

Average Annual RSD Exchange Rate			
Foreign Currency	Q2 2018	Q1 2018	Q2 2017
EUR	118.172	118.426	122.908
USD	99.126	96.328	111.752
GBP	134.871	134.087	142.835
CHF	100.592	101.618	113.398

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 months was stronger than expected by NBS. In June y/y inflation equalled 2.3%, indicating a further reduction in inflationary pressures. 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.

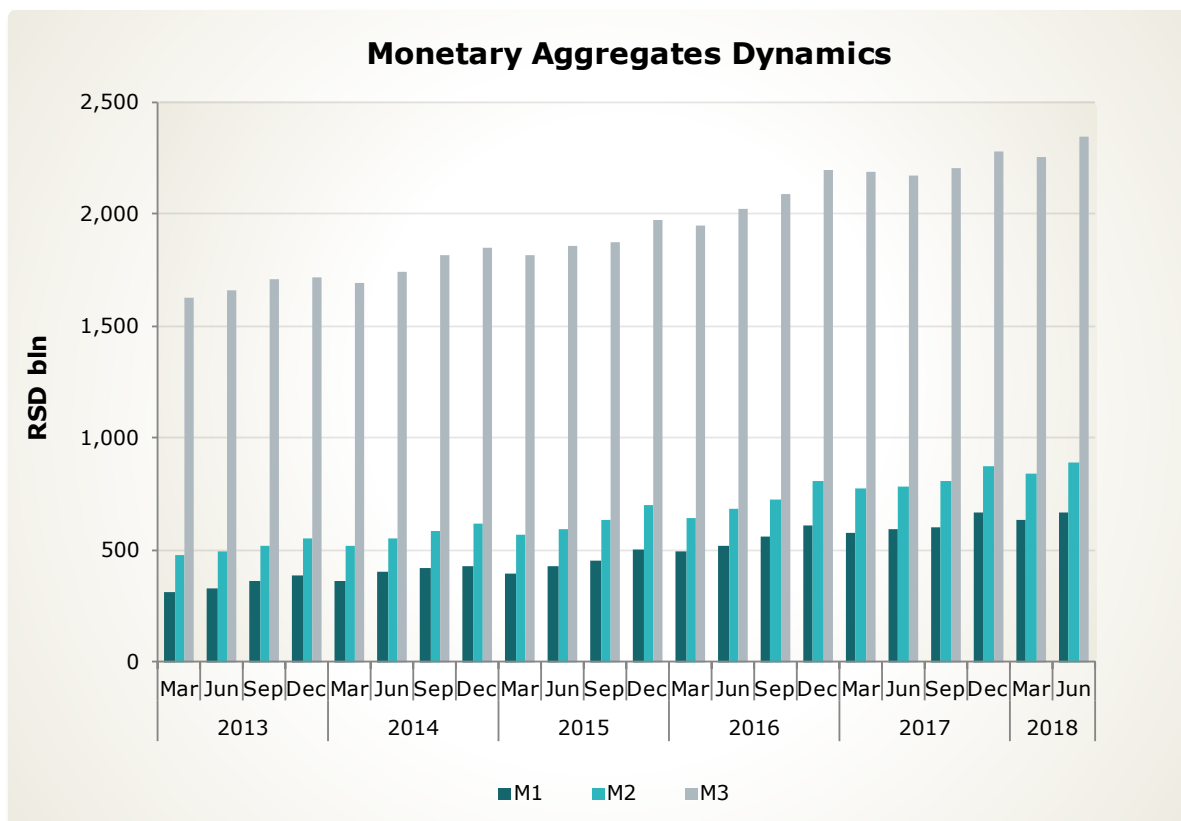
5.3. MONETARY AGGREGATES

Money supply growth was 7.9% y/y at the end of June 2018

Broad money (money aggregate M3) increased by 7.9% y/y and reached RSD 2,346 bln as of June 2018, according to data provided by NBS.

The M2 money supply also grew, by 13.7% to RSD 893.1 bln.

Money aggregate M1, or narrow money, jumped by 13.5% to RSD 669.6 bln.



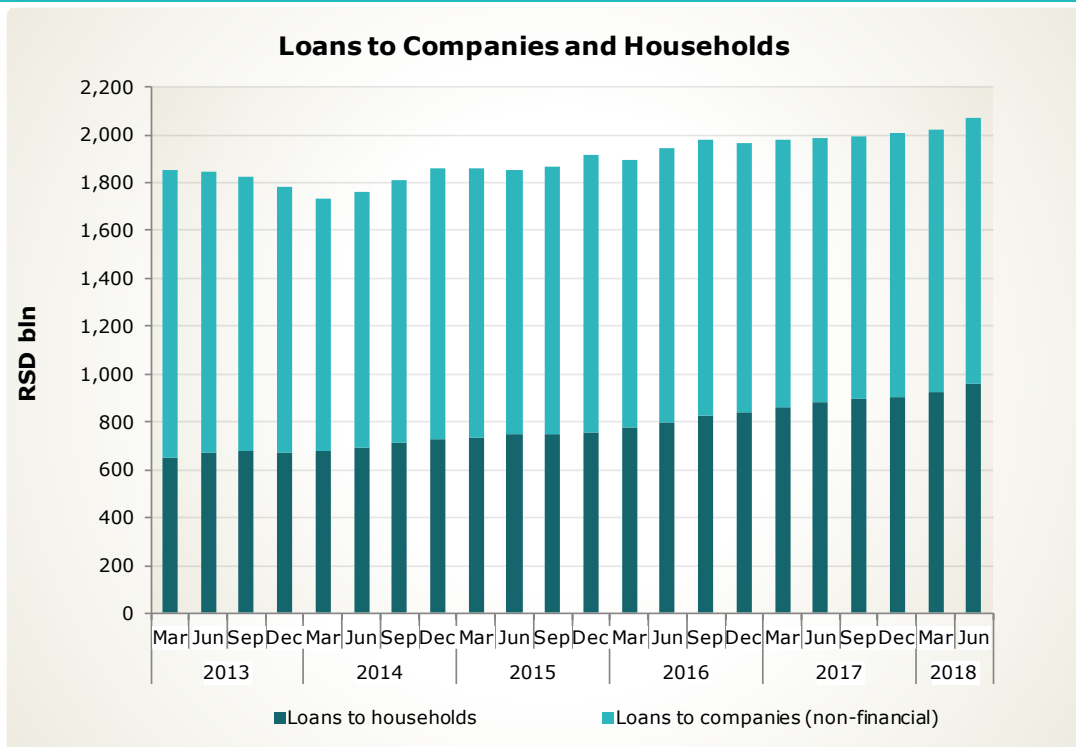
Source: NBS

5.4. BANKING AND INSURANCE

Household loans increased by 9.0% y/y in June 2018

Loans to the non-government sector totalled RSD 2,073 bln as of June 2018, up from RSD 1,986 bln a year earlier, according to NBS. Loans to non-financial corporations inched up by 0.8% y/y to RSD 1,111 bln.

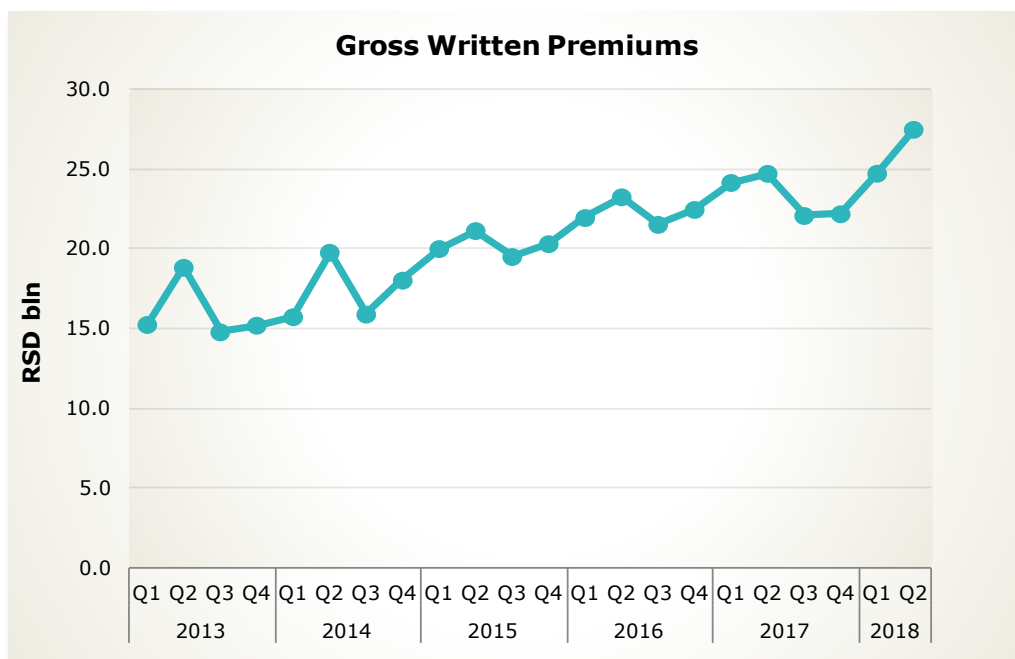
Household loans rose by 9.0% y/y to RSD 962.5 bln in June 2018, supported by the 20.3% rise in consumer loans. House purchasing loans grew much slower, by 2.5%, reaching RSD 367.4 bln on higher refinancing of existing housing loans.



Source: NBS

Insurance premium income up 11.2% y/y in Q2 2018

The total gross written premiums of the non-life and life insurance companies were RSD 27.5 bln in Q2 2018, up by 11.2% y/y, according to NBS data. In comparison to Q1 2018, the insurance market grew by RSD 2.749 bln.



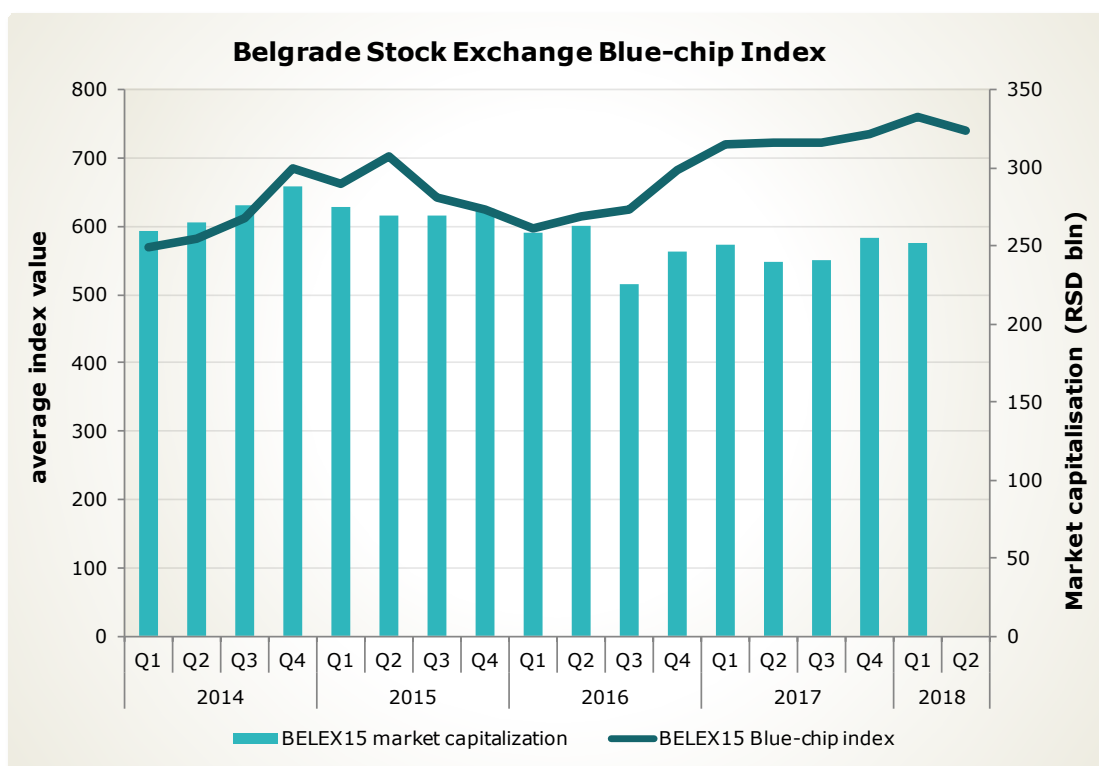
Source: NBS

6. CAPITAL MARKETS

Blue-chip index BELEX15 went down by 2.8% q/q in Q2 2018

The average value of BELEX15, the blue-chip index of the Belgrade Stock Exchange (BELEX), decreased, by 2.8% q/q, to 738.8 points in Q2 2018.

The total turnover of BELEX dropped by 27.9% q/q to RSD 14.7 bln in Q2 2018. The number of transactions was 13,159 versus 24,816 a year ago.



Source: BELEX

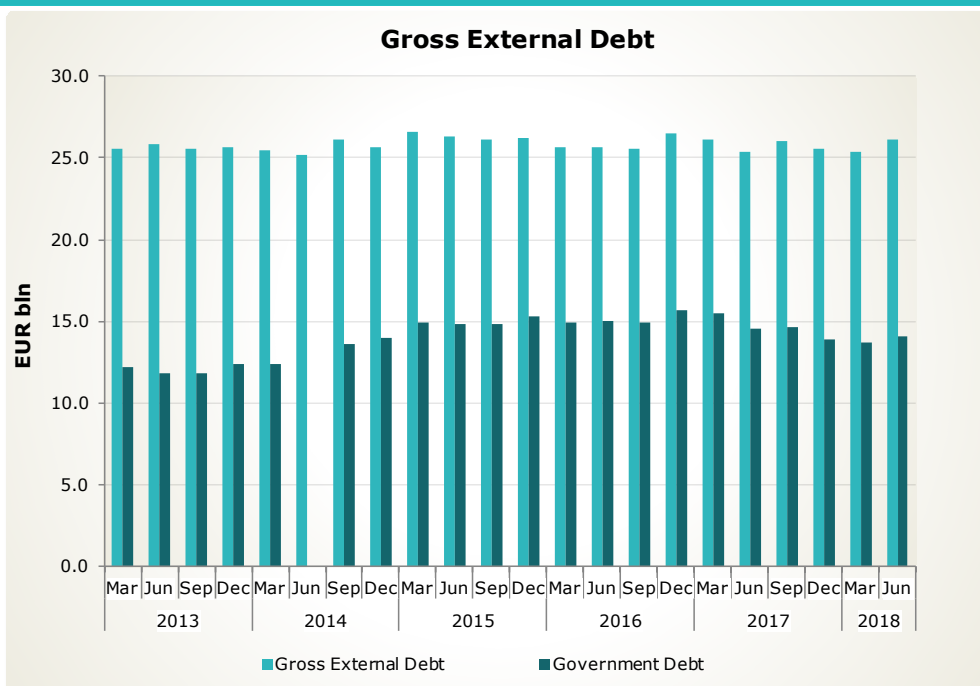
Editor's note: No data was available for BELEX15 market capitalization for Q2 2018

7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt went up 2.8% y/y to EUR 26.1 bln at end-June 2018

The gross external debt increased by 2.8% y/y, totalling EUR 26.108 bln at the end of June 2018, according to NBS. In comparison to March 2018, the gross external debt expanded by EUR 695.2 mln.



Source: NBS

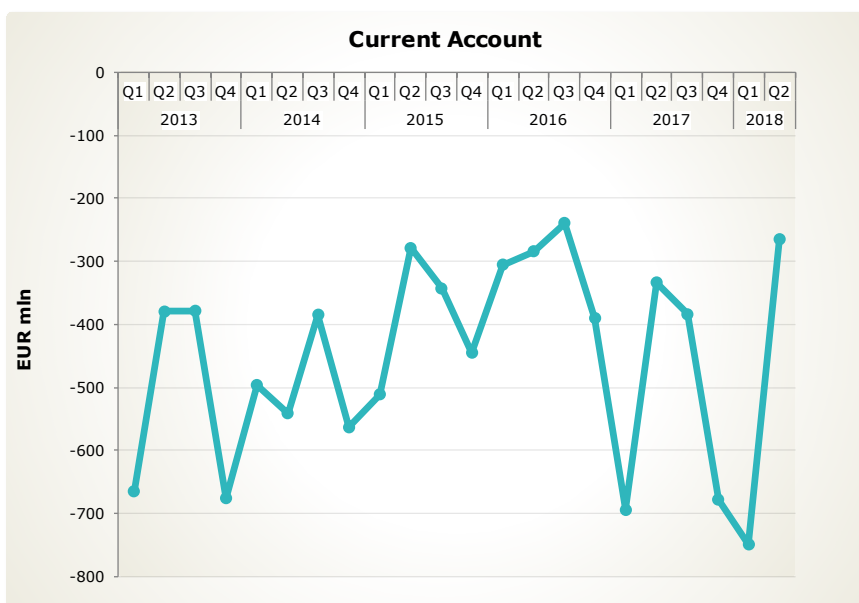
Editor's note: No data is available for gross external government debt for June 2014

7.2. BALANCE OF PAYMENTS

Current account gap decreased by 20.6% y/y to EUR 264.7 mln in Q2 2018

The current account gap shrank to EUR 264.7 mln from EUR 333.3 mln a year earlier, according to central bank data.

Secondary income in Q2 2018 amounted to EUR 1.090 bln, up from EUR 946.4 mln in Q2 2017, or a 15.2% increase.

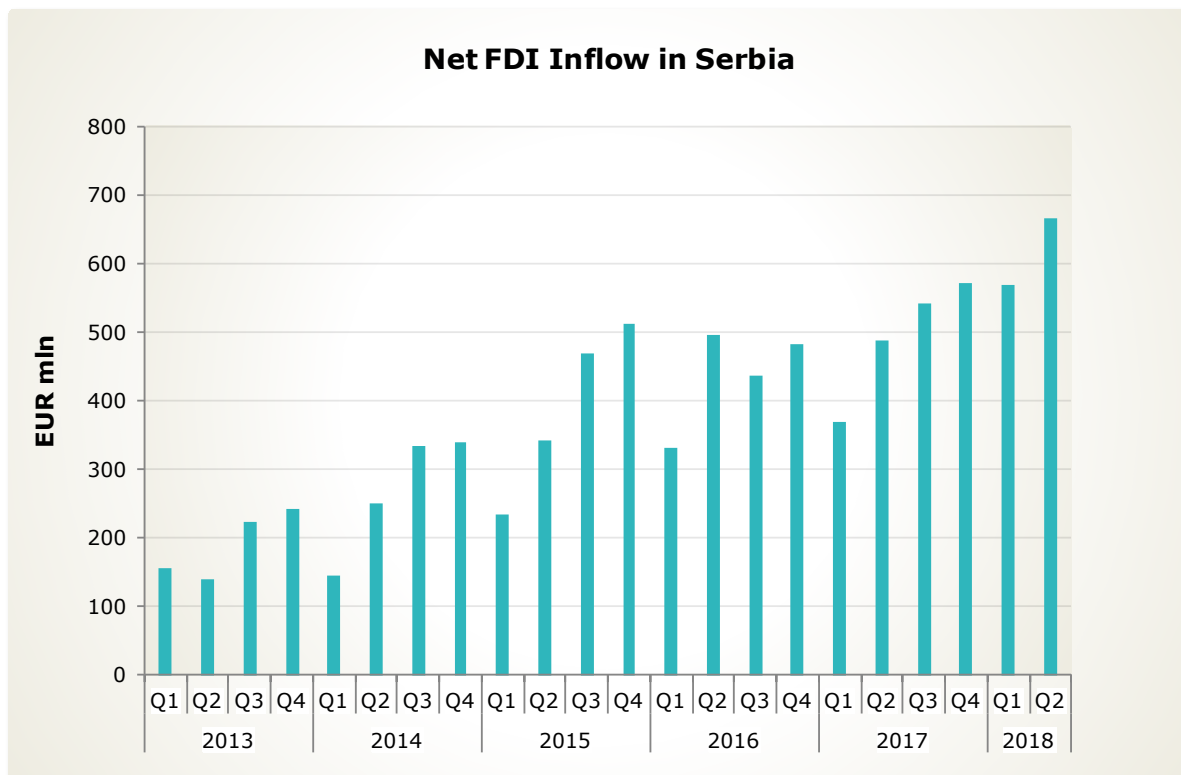


Source: NBS

7.3. FDI

Net FDI inflow stood at EUR 666.7 mln in Q2 2018, up 36.8% y/y.

The net Foreign Direct Investments (FDI) inflow in Serbia in Q2 2018 totalled EUR 666.7 mln, according to NBS. This is up by 36.8% compared to a year ago when the FDIs were EUR 487.3 mln.



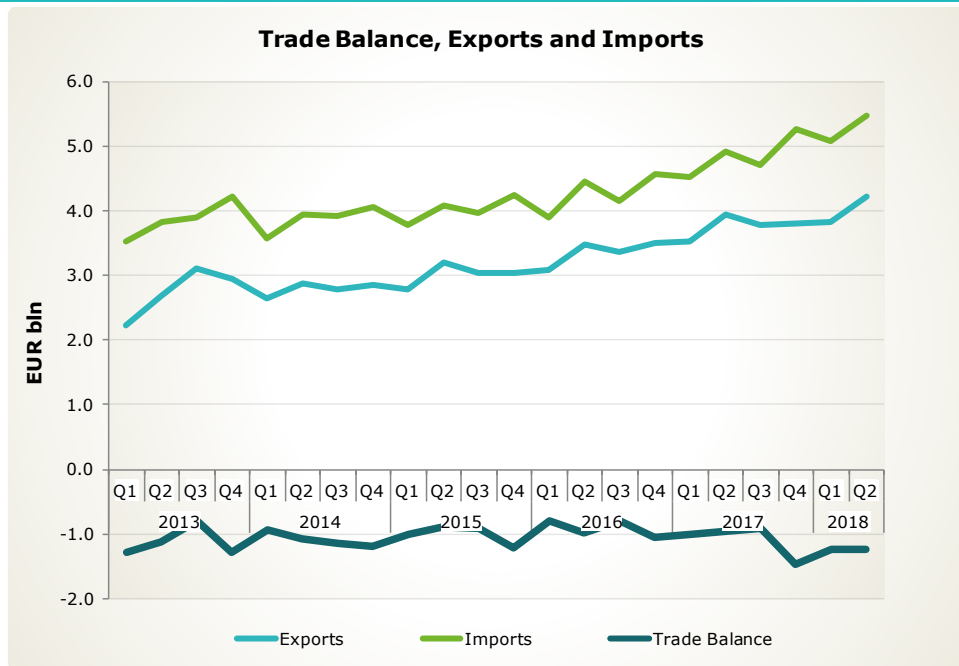
Source: NBS

7.4. FOREIGN TRADE

Foreign trade deficit widened by 28.7% y/y in Q2 2018

The trade deficit stood at EUR 1.246 bln in Q2 2018, up by 28.7% compared to the previous year, due to faster growth of imports over exports, according to SORS data.

In the second quarter of 2018, exports totalled EUR 4.213 bln, up 6.6% y/y, while imports went up by 11.0% to EUR 5.458 bln.



Source: NBS

7.5. TOURSIM

Number of foreign tourist overnights rose by 14.5% y/y in Q2 2018

Tourist overnights of foreigners increased by an annual 14.5% to 943,582 in Q2 2018, slicing a 36.8% share of the total number of tourist overnights in the country, according to SORS data. The total number of tourist overnights jumped by 13.9% y/y to 2,561,965.

The number of foreign tourists went up by 14.1% y/y to 456,336.



Source: SORS

8. MAJOR DEVELOPMENTS

Aptiv to sign deal with Serbian municipality to hire 2,000 workers

June 28, 2018

The UK-based car parts maker Aptiv, formerly known as Delphi Automotive, and Serbia's Leskovac will sign a contract on July 2, obliging the investor to hire 2,000 employees at its planned cable set factory in the municipality.

[Read the full story here](#)

Serbia opens two new chapters in EU accession talks

June 26, 2018

Serbia opened two new chapters in its EU accession talks at the 8th Intergovernmental Conference in Luxembourg.

[Read the full story here](#)

Serbia investing EUR 5.0 bln in road infrastructure

June 18, 2018

The new investment cycle, among others, includes the construction of the Fruska Gora and Moravian corridors, the Nis-Merdare-Pristina motorway, as well as the motorway and expressway project connecting Ruma, Sabac and Loznica.

[Read the full story here](#)

Serbia opens 270,000 jobs with EIB support in 10 years

May 23, 2018

The European Investment Bank (EIB) supported the opening of 270,000 jobs in Serbia through its cooperation with commercial banks in the country in the last 10 years.

[Read the full story here](#)

Serbia to coordinate EBRD loans, EU grants to improve access to financing of SMEs

May 15, 2018

Serbia's government is working on coordinating the lending of the European Bank for Reconstruction and Development (EBRD) to small and medium-sized enterprises (SMEs) with the grants extended to them by the European Union.

[Read the full story here](#)

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