

SERBIA ECONOMY REPORT

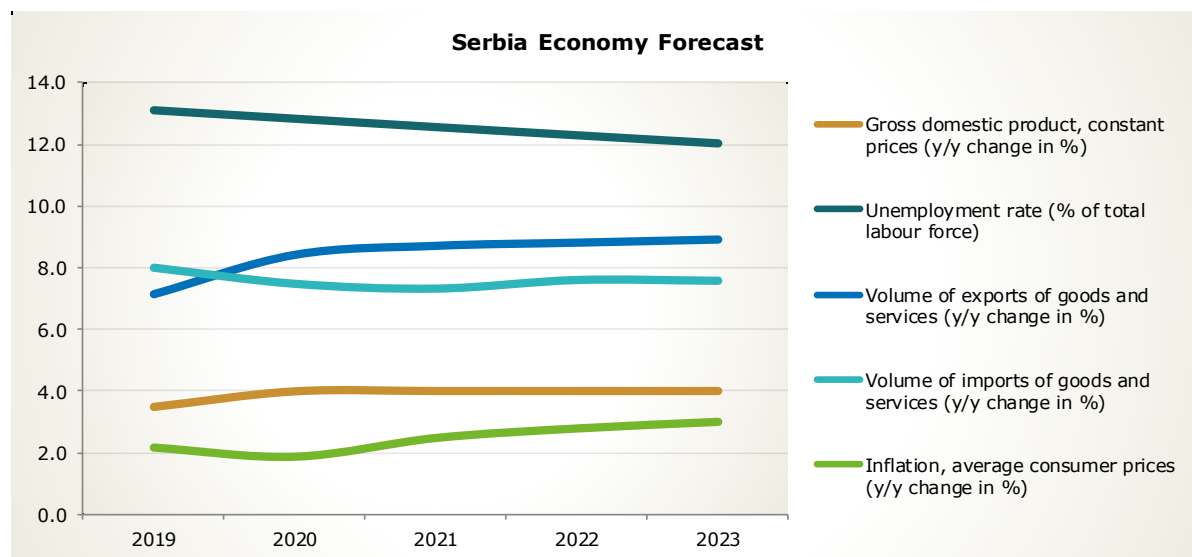
Q2 2019

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1. MACROECONOMIC SNAPSHOT AND FORECAST

SERBIA – MACROECONOMIC SNAPSHOT AS OF Q2 2019	
GDP Growth	2.9 % y/y
Industrial output	-2.0% y/y
Industrial sales	1.9% y/y
Retail sales	8.5% y/y
Average annual inflation	2.3% y/y
Unemployment rate	10.3%
Number of building permits	2.1% y/y
Money supply growth	11.2% y/y
Household loans	9.2% y/y
BELEX15 blue-chip index	4.2% q/q
Gross external debt	EUR 27.817 bln
Current account gap	EUR 744.6 mln
Net FDI inflow	EUR 986.5 mln
Foreign trade deficit	EUR 1.452 bln
Number of foreign tourist overnights	6.4% y/y

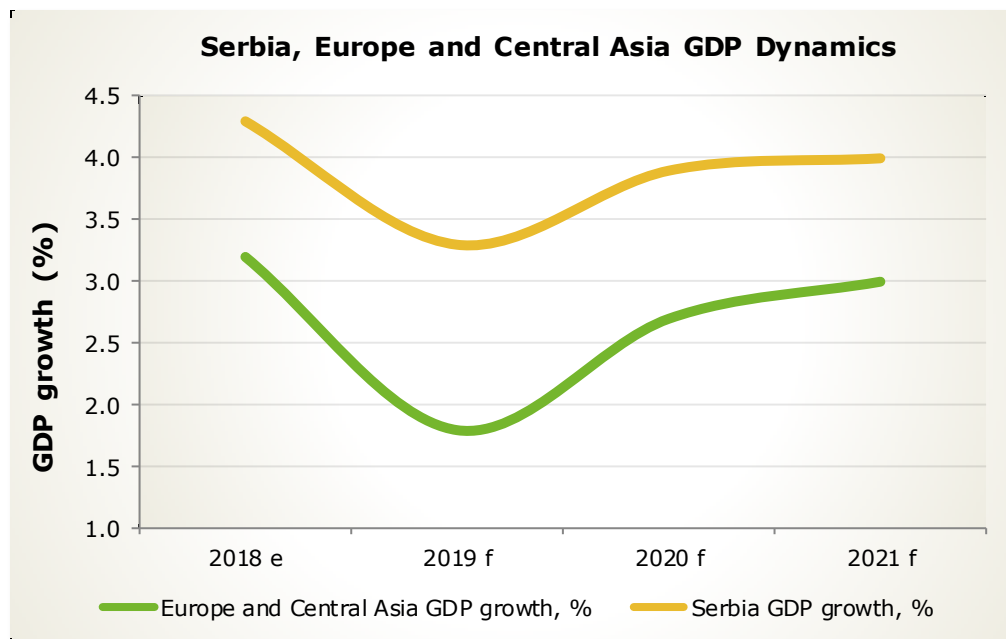


Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2019

IMF expects growth to accelerate to 3.5% by the end of 2019, driven by household consumption and investments. Supported by appropriate monetary policy of the National Bank of Serbia, inflation remains low, and is expected to reach 2.2% 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. In

domestic aspect, delay in delivering on structural reforms and erosion of fiscal discipline could harm confidence and hamper medium-term growth.



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 3.3% in 2019, which is higher than the projected growth for Europe and Central Asia, of 1.8%.

Serbia – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)						
	2016	2017	2018	2019 e	2020 f	2021 f
Real GDP growth, at constant market prices, y/y change in %	3.3	2.0	4.3	3.3	3.9	4.0
Private Consumption	1.3	1.9	3.3	5.3	4.6	3.8
Government Consumption	1.3	3.3	3.6	3.8	0.6	1.5
Gross Fixed Capital Investment	5.4	7.3	9.2	7.9	15.9	5.9
Exports, Goods and Services	11.9	8.2	8.9	4.0	3.8	8.7
Imports, Goods and Services	6.7	11.1	11.1	8.3	7.2	7.3
Real GDP growth, at constant factor prices (by sectors)						
Agriculture	8.3	-11.2	15.6	3.8	3.0	3.0
Industry	4.1	3.3	2.8	4.6	3.5	3.5
Services	2.9	3.2	3.8	2.6	4.2	4.4
Inflation (Consumer Price Index)	1.1	3.1	2.0	2.2	1.9	2.5
Current Account Balance (% of GDP)	-3.3	-6.3	-5.2	-6.7	-7.9	-7.7
Net Foreign Direct Investment (% of GDP)	3.5	4.4	3.9	6.2	6.0	5.7

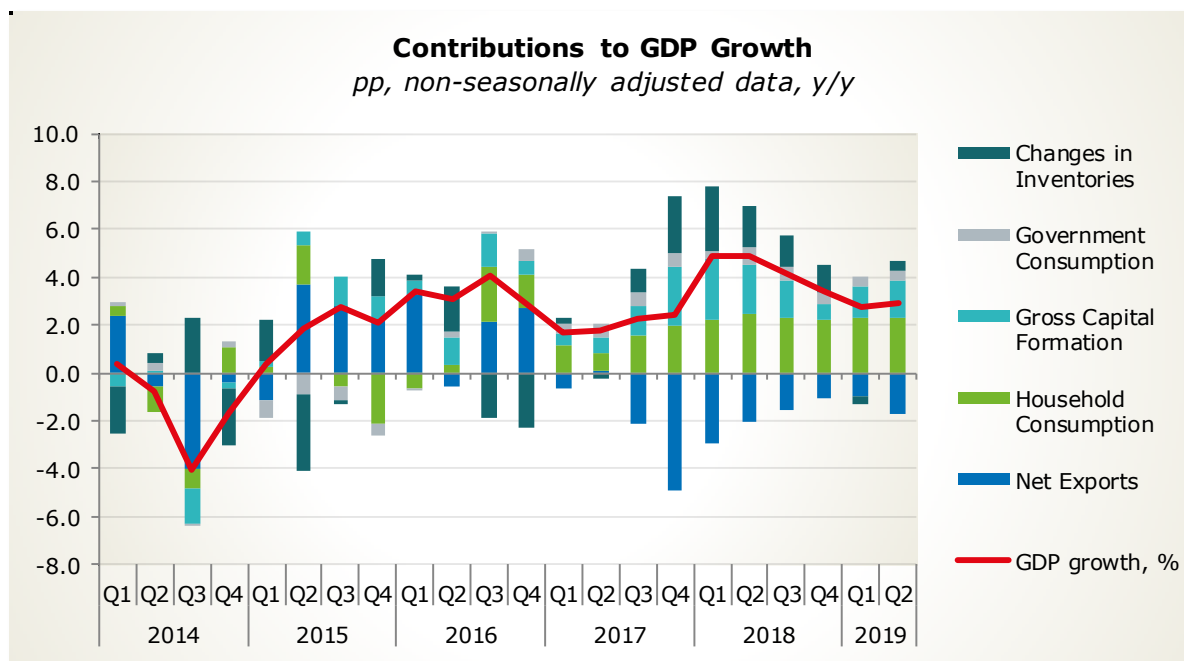
Source: World Bank, *Europe and Central Asia Economic Update*, June 2019

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth at 2.9% y/y in Q2 2019

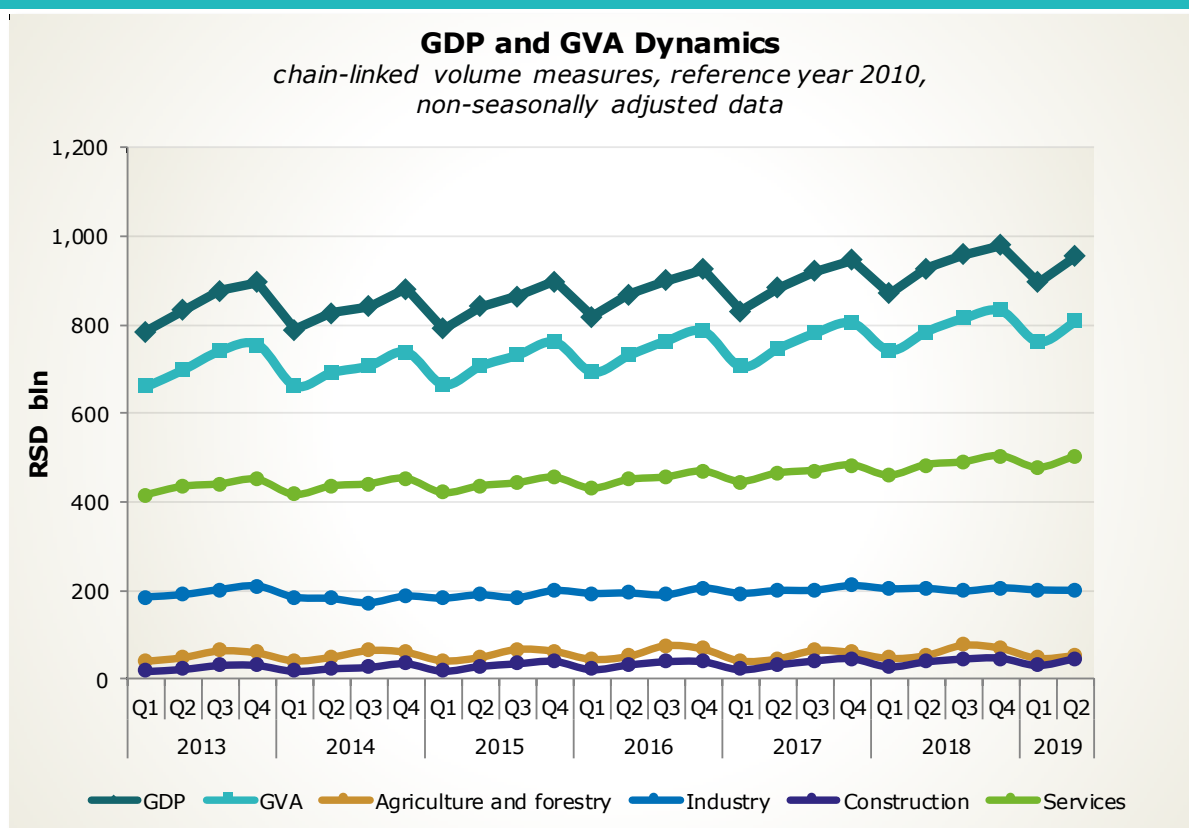
In Q2 2019 the Serbian economy grew by real 2.9% y/y, data by the Statistical Office of Serbia shows. The growth slowed down from 4.9% in the same quarter of the previous year. The economy was fueled by stronger household consumption and gross capital formation, which contributed by 2.3 pp and 1.6 pp, respectively, to the overall annual GDP growth. Final consumption (household and government) advanced by 3.0% y/y in real terms in Q2 2019, while gross capital formation increased by 8.6% y/y.



Source: SORS; SeeNews calculations

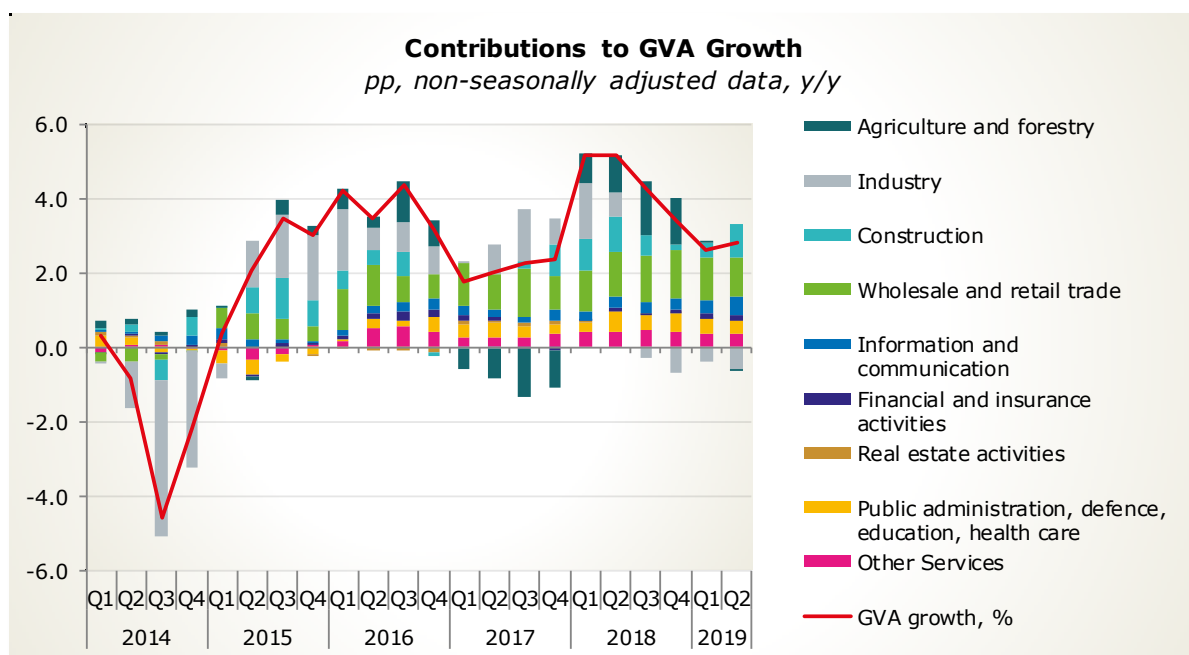
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual

The gross value added (GVA) generated by the national economy increased by 2.8% y/y in Q2 2019 and totalled RSD 807.2 bln. The construction sector went up in value by 16.8% y/y and accounted for 5.7% of the total GVA. Agriculture and forestry recorded a 0.5% annual decline, slicing a 6.7% share in the total GVA, compared to 7.0% a year earlier. The services sector's GVA expanded by 3.8% to RSD 501.8 bln, while the industry sector registered an annual decrease of 2.1% to RSD 201.0 bln.



Source: SORS

Sector wise, the largest contributor to the annual GVA growth was the services industry with 2.3 pp in Q2 2019. Other major contributors were wholesale and retail – 1.0 pp and construction – 0.9 pp.



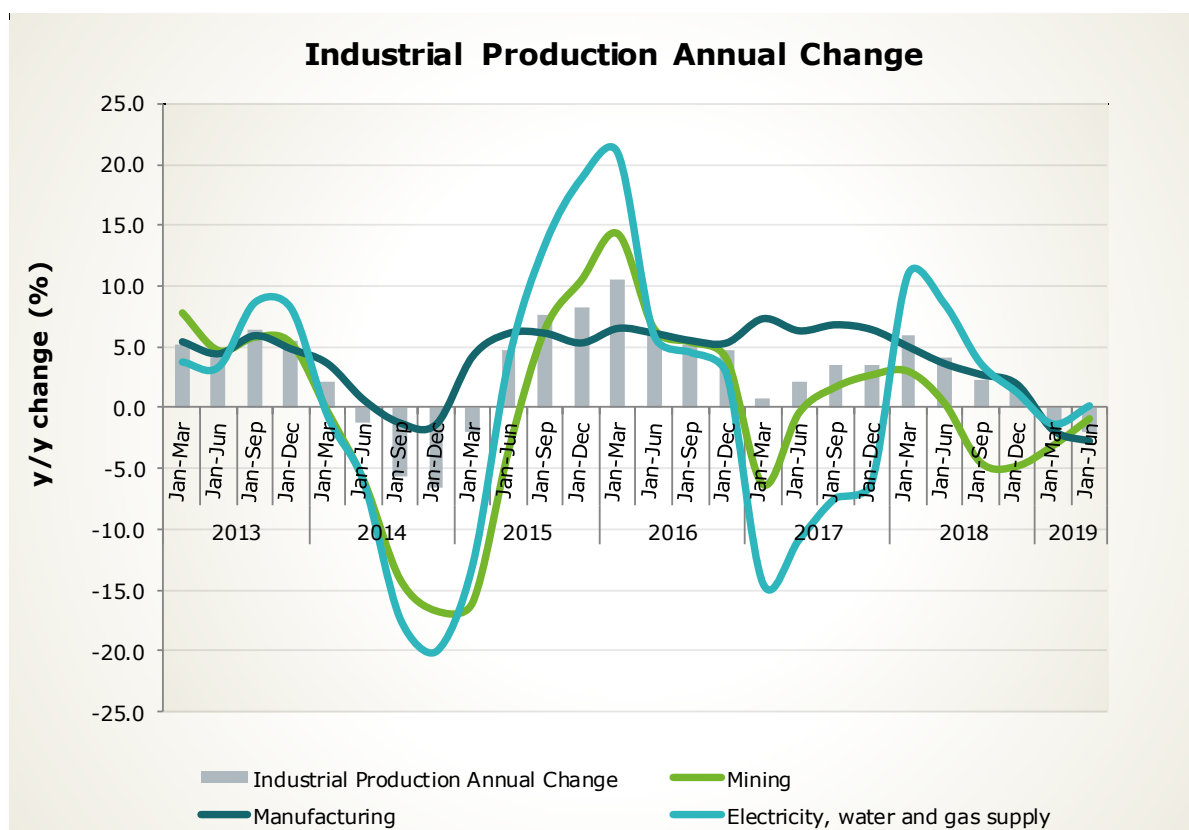
Source: SORS; SeeNews calculations

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

2.2. INDUSTRIAL OUTPUT

Industrial output went down by 2.0% y/y in Jan-June 2019

The industrial output reported a decrease of 2.0%, in H1 2019, compared to a 4.2% rise in H1 2018, according to data from SORS. In the period under review, almost all segments reported an annual decline - 2.8% for manufacturing, mining output fell by 3.1%, while electricity, water and gas supply was the only segment to go up, by 0.1% y/y,

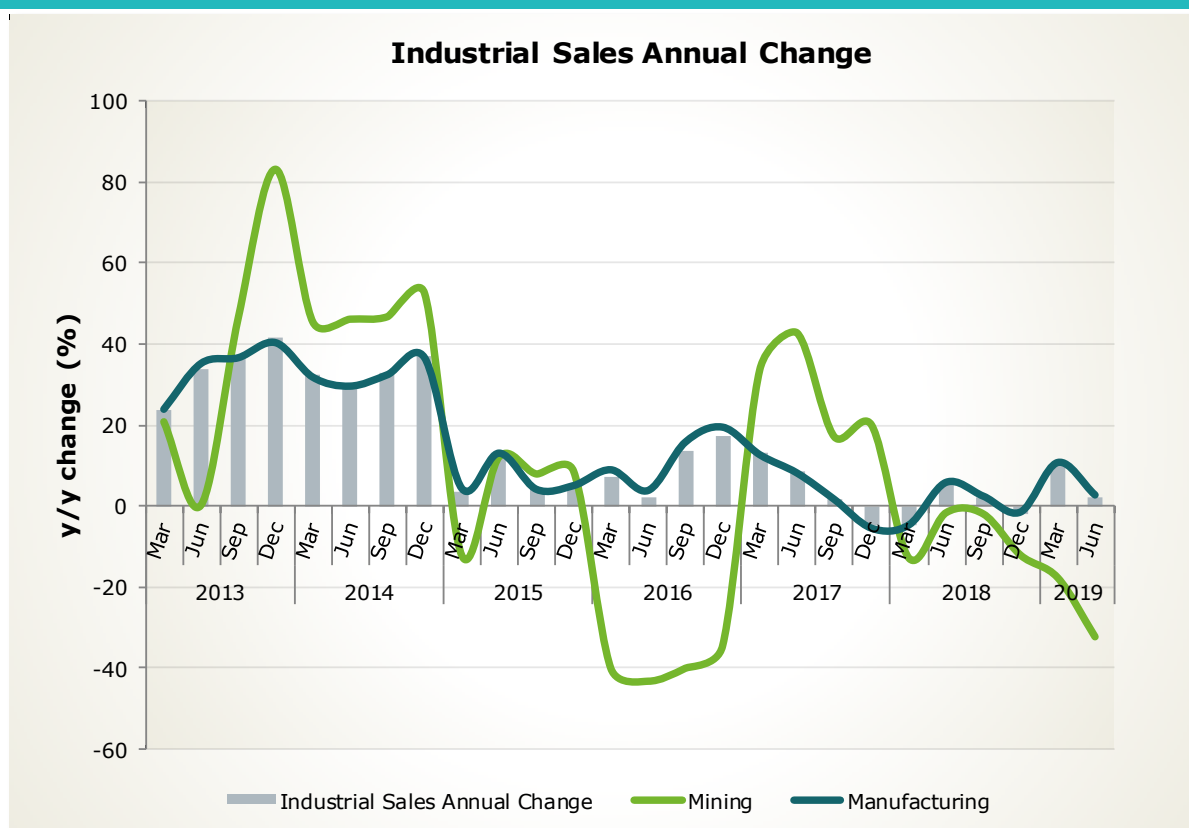


Source: SORS

2.3. INDUSTRIAL SALES

Industrial sales went up by 1.9% y/y in June 2019

The industrial sales increased in June 2019, by 1.9% y/y, according to SORS. The manufacturing industry recorded a 2.7% annual increase, while the mining sector posted a 32.4% drop y/y. Compared to the same month of 2018, industrial sales stabilized due to the developments in manufacturing, while mining contracted significantly for the third quarter in a row.



Source: SORS

2.4. WHOLESALE/RETAIL

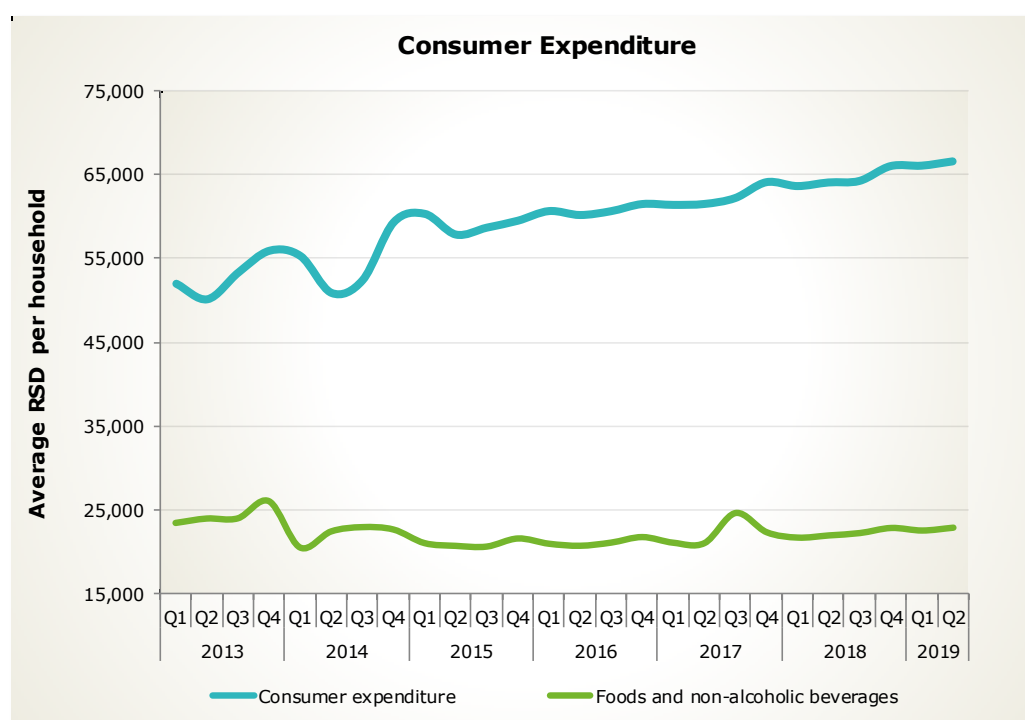
Retail sales grew by 8.5% y/y in constant prices in Jan-June 2019

In January-June 2019, retail sales in Serbia rose by 8.5% y/y in constant prices, up from a 3.3% y/y increase in the previous year, according to SORS. The highest annual rise in retail trade in the first half of 2019 was registered by non-food products, except motor fuels with 11.0%, followed by motor fuels with 7.8% and food, beverages and tobacco with 7.0%.



Source: SORS

In Q2 2019, consumer expenditure increased by 3.9% y/y to a monthly average of RSD 66,576 per household. Expenditure on food and non-alcoholic beverages had the highest share in the total consumer expenditure, of 34.3%. The latter increased by 4.1% y/y to RSD 22,819 per household.



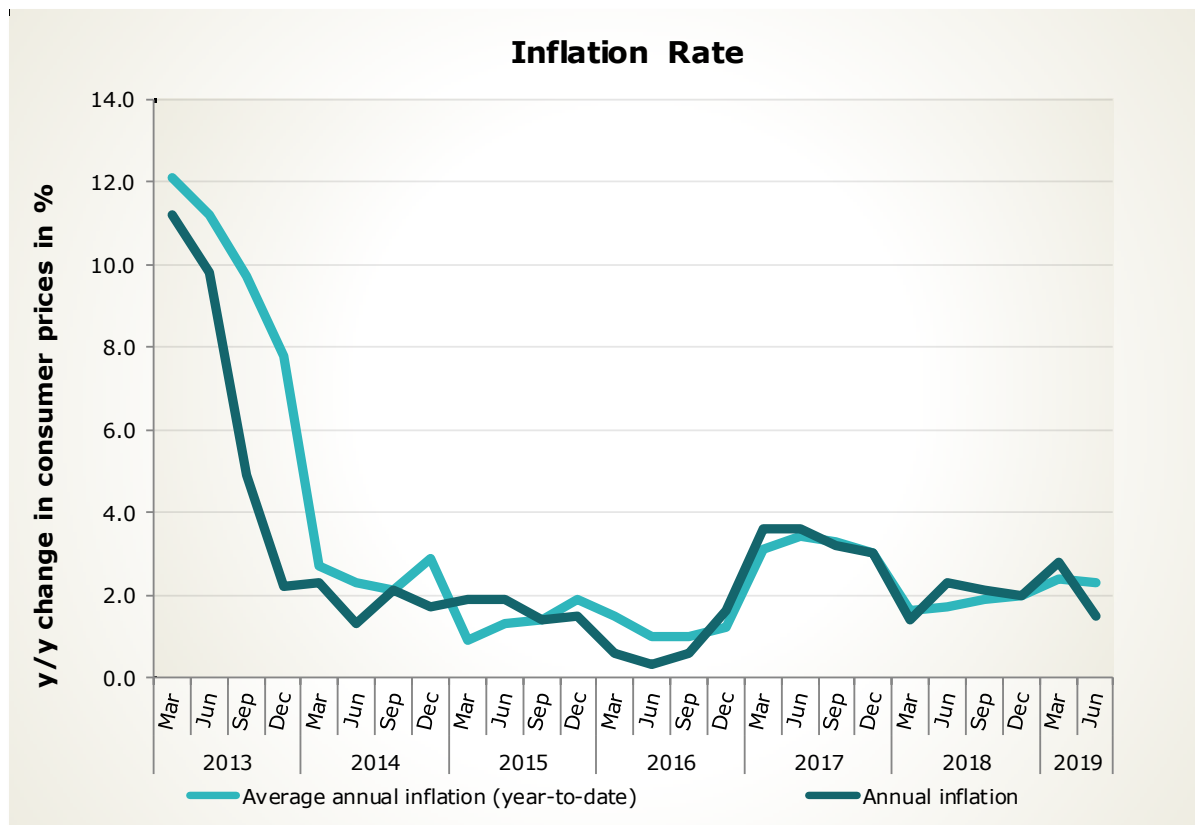
Source: SORS

2.5. INFLATION

Average annual inflation of 2.3% in Q2 2019

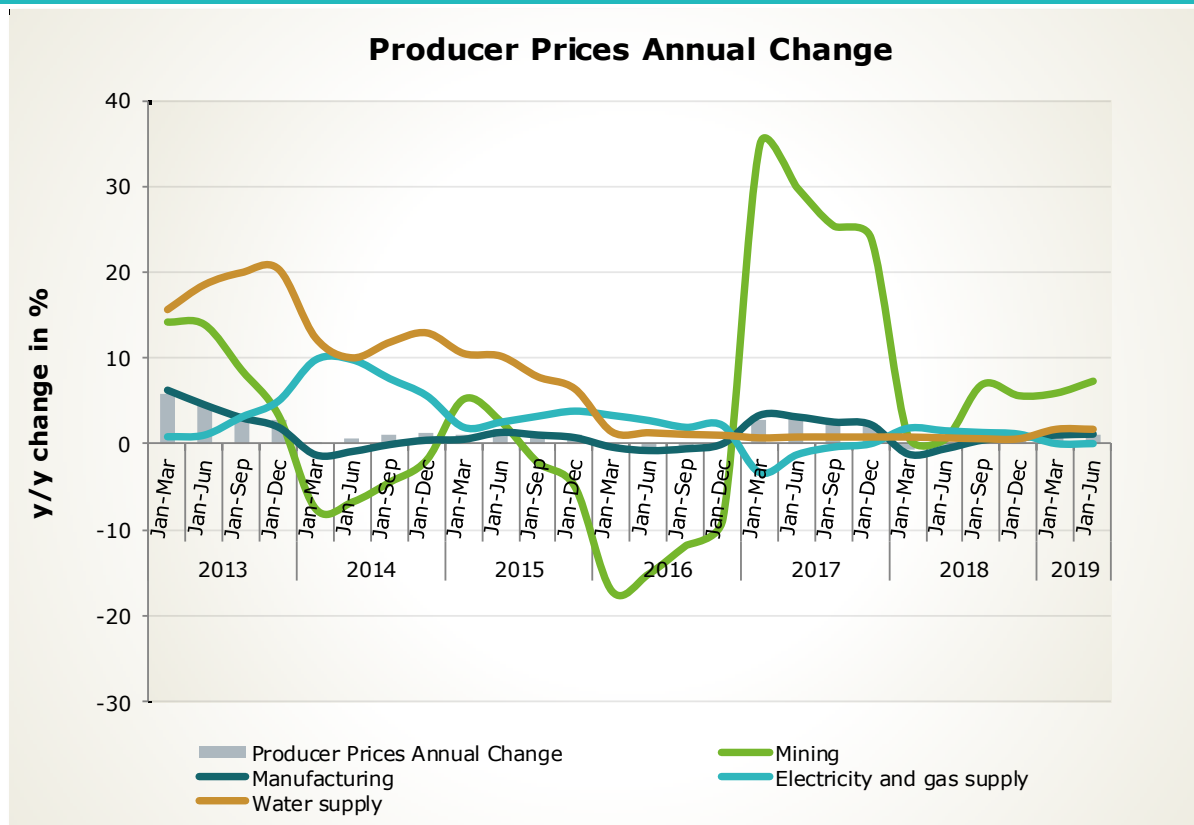
The average annual consumer inflation amounted to 2.3% in June 2019, up from 1.7% in June 2018, according to SORS data.

Inflation in the six-month period 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 with 3.6%, transport with 2.9% and health services – 2.3%. Clothing and footwear posted a decrease in prices of 1.8%, followed by communications with annual deflation of 0.4%.



Source: SORS

Producer prices inched up by 1.1% y/y in H1 2019, according to SORS data. All sectors except electricity and gas supply reported a rise, ranging from 1.2% for manufacturing to 7.3% for mining.



Source: SORS

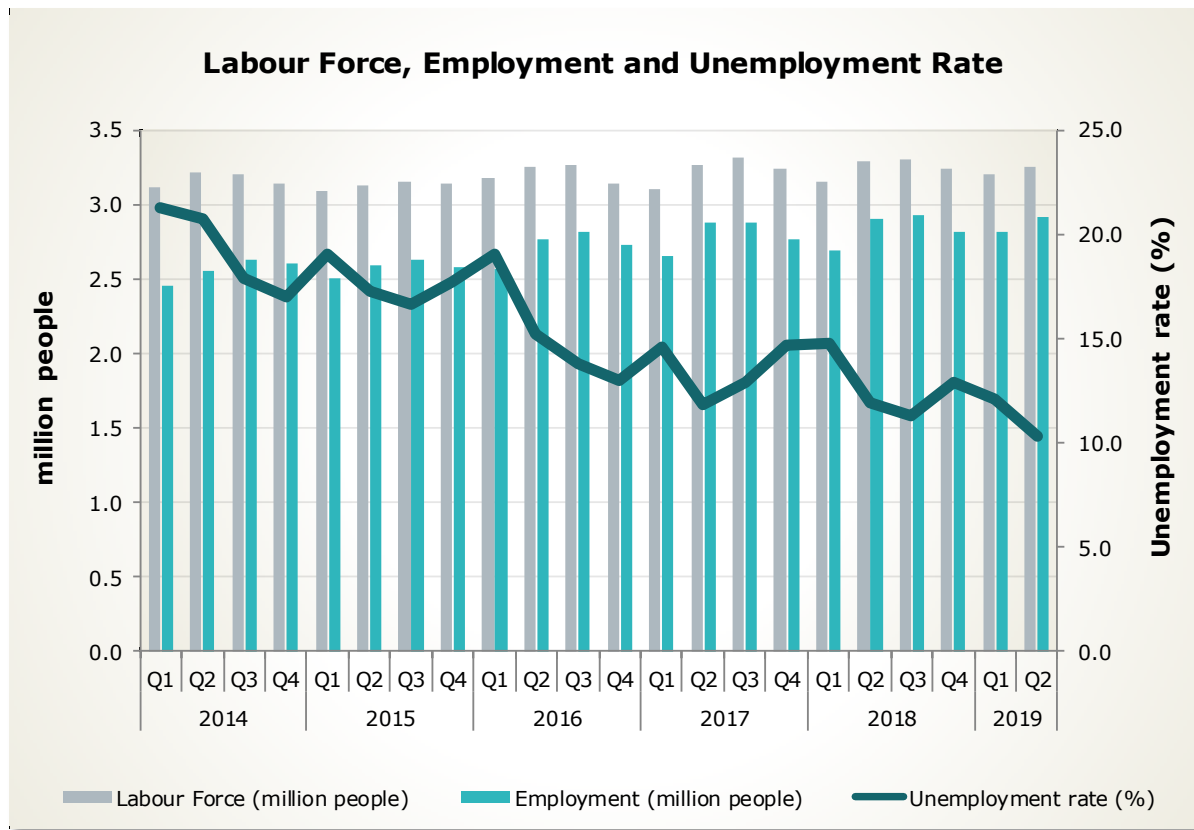
3. LABOUR MARKET

Unemployment rate further down

Unemployment rate in Serbia continued to ease, reaching 10.3% in Q2 2019, down from 12.1% in Q1 2019 and 11.9% in Q2 2018, according to SORS. Youth (population aged 15-24) unemployment rate also improved, averaging 24.4% in Q2 2019, compared to 30.7% in the previous quarter and 27.5% in Q2 2018.

The employed population aged 15 years and older was 2.917 million, up by 0.7% y/y.

The average monthly net salary in Q2 2019 was RSD 54,553, up 10.0% y/y.



Source: SORS

4. CONSTRUCTION AND REAL ESTATE

The number of building permits went up by 2.1% y/y in Q2 2019

The number of permits for new buildings in Serbia was 1,687 in Q2 2019, including 856 for residential projects and 30 for office buildings, according to SORS data.

The total number of permits for new buildings issued in the period under review decreased by 2.1% compared to Q2 2018. Permits for residential projects dropped by 2.1%, while permits for office buildings grew to 30 from 22 in the previous year.

The total built-up area of the office units, covered by the permits, dropped to 39,592 sq m from 43,889 sq m.

On the contrary, the total built-up area of new housing was 608,122 sq m in Q2 2019, a 4.5% increase 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 117.965 in Q2 2019 from RSD 118.172 a year earlier, according to National Bank of Serbia (NBS).

Average Annual RSD Exchange Rate			
Foreign Currency	Q2 2019	Q1 2019	Q2 2018
EUR	117.965	118.231	118.172
USD	104.941	104.053	99.126
GBP	134.885	135.629	134.871
CHF	104.725	104.359	100.592

5.2. MONETARY POLICY

The national bank kept the policy rate at 2.5%

At its meeting in October 2019, the NBS Executive Board kept the key policy rate at 2.5%.

Inflation is expected to grow within the targeted range - 3.5%±2.5%.

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 favorable internal macroeconomic outlook.

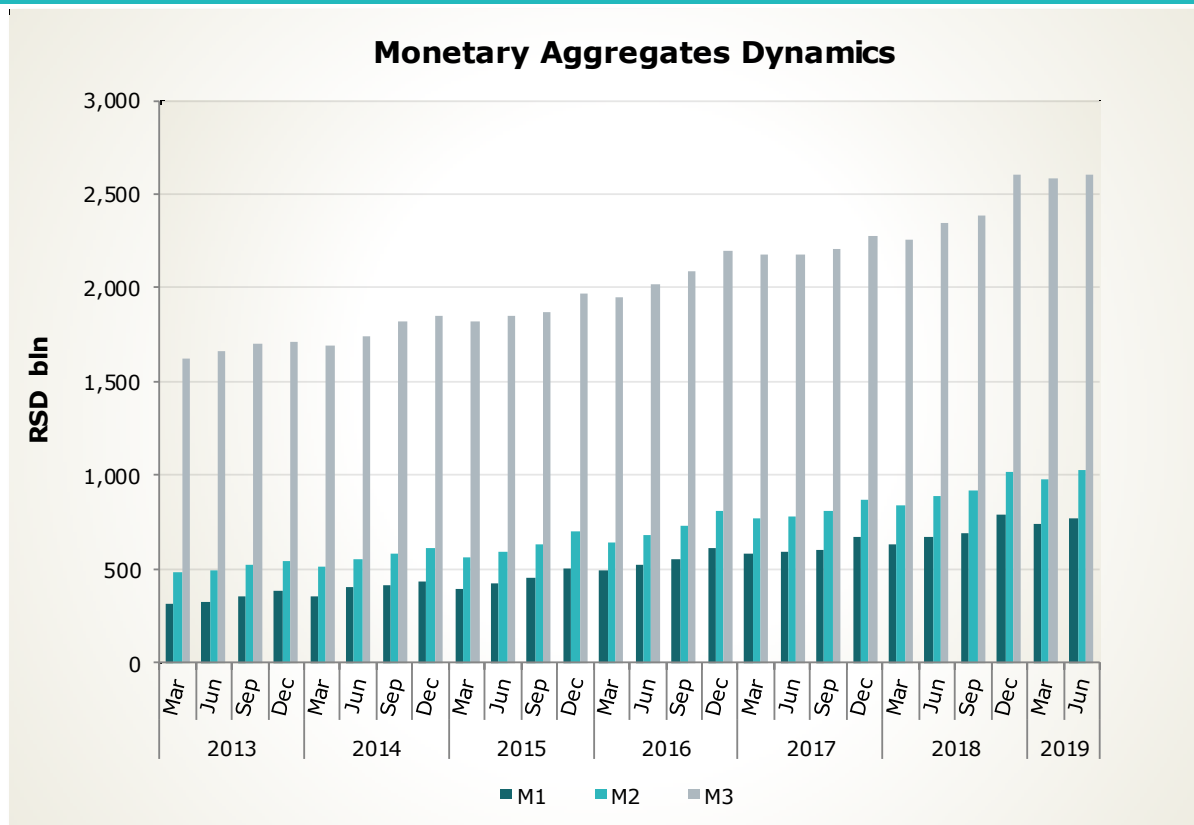
5.3. MONETARY AGGREGATES

Money supply growth was 11.2% y/y at the end of June 2019

Broad money (money aggregate M3) increased by 11.2% y/y and reached RSD 2,609.1 bln as of June 2019, according to data provided by NBS.

The M2 money supply also grew, by 15.4% to RSD 1,031.0 bln.

Money aggregate M1, or narrow money, jumped by 15.5% to RSD 773.5 bln.



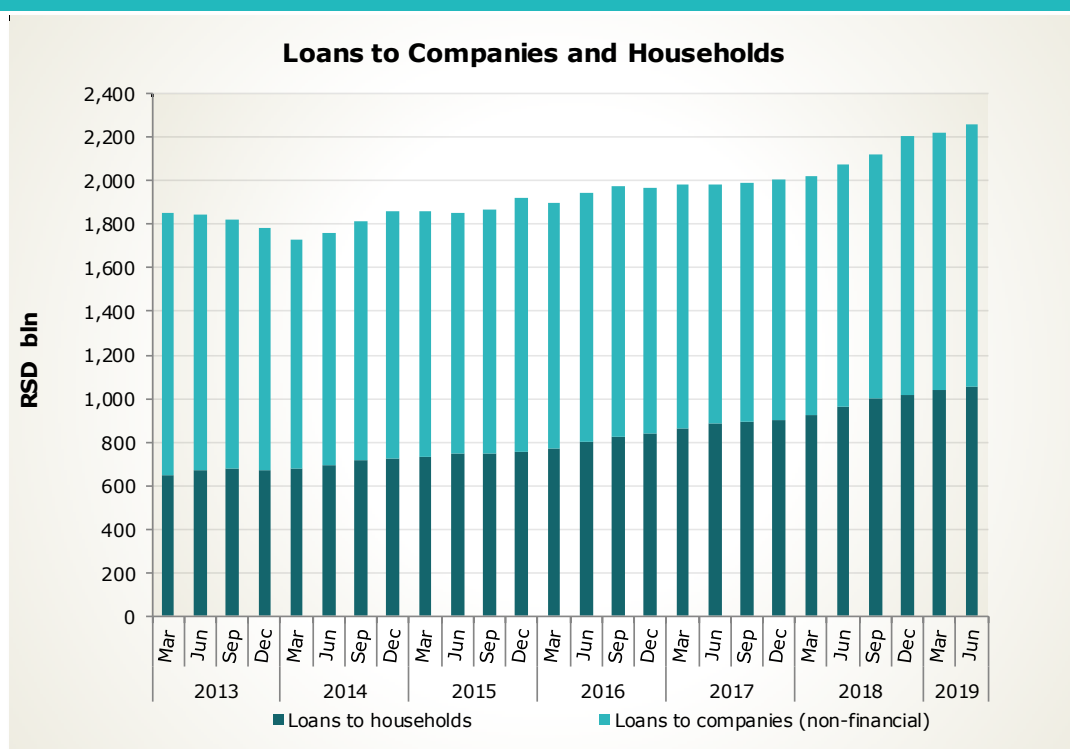
Source: NBS

5.4. BANKING AND INSURANCE

Household loans increased by 9.2% y/y in June 2019

Loans to the non-government sector totalled RSD 2,259.5 bln as of June 2019, up from RSD 2,073.9 bln a year earlier, according to NBS. Loans to non-financial corporations grew by 8.7% y/y to RSD 1,208.2 bln.

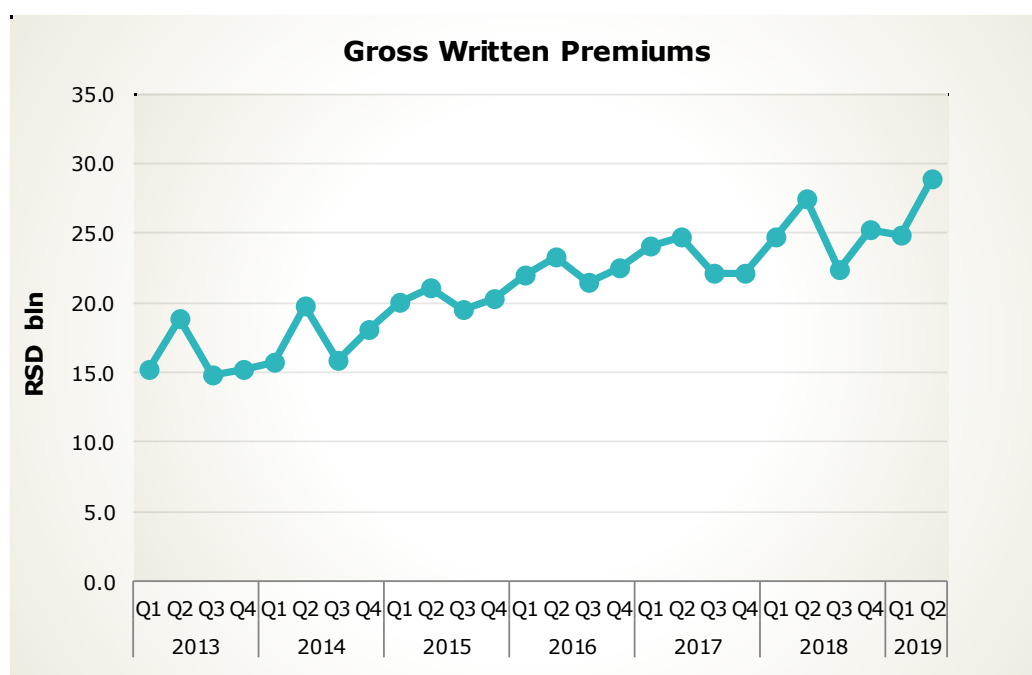
Household loans rose by 9.2% y/y to RSD 1,051.3 bln in June 2019, while house purchase loans expanded by 3.6%, reaching RSD 380.7 bln on higher refinancing of existing housing loans. Consumer loans went down by 10.9%, to RSD 21.8 bln.



Source: NBS

Insurance premium income up 5.2% y/y in Q2 2019

The total gross written premiums of the non-life and life insurance companies were RSD 28.888 bln in Q2 2019, up by 5.2% y/y, according to NBS data. In comparison to Q2 2018, the insurance market grew by RSD 1.421 bln.



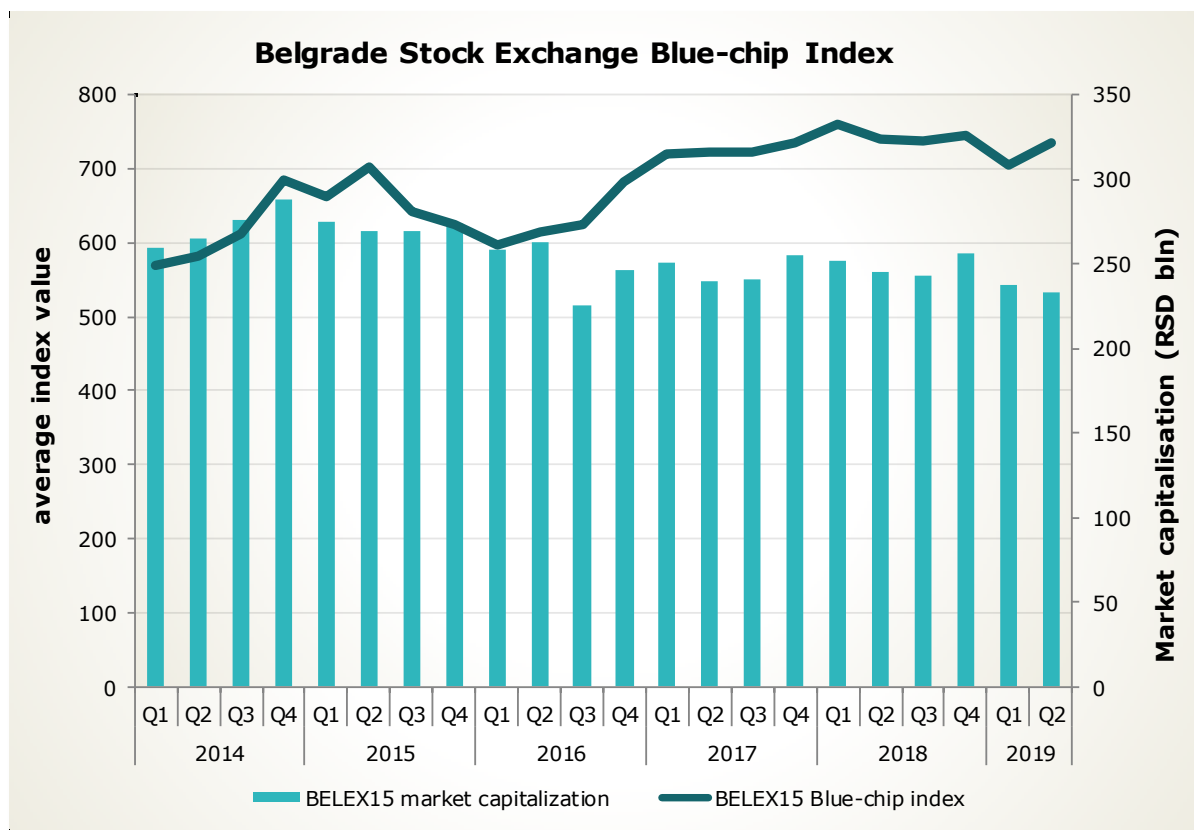
Source: NBS

6. CAPITAL MARKETS

Blue-chip index BELEX15 went up by 4.2% q/q in Q2 2019

The average value of BELEX15, the blue-chip index of the Belgrade Stock Exchange (BELEX), increased by 4.2% q/q, to 733.8 points in Q2 2019.

The total turnover of BELEX rose by 64.7% y/y to RSD 19.208 bln in Q2 2019. The number of transactions came to 8,716 versus 13,159 in the same period of the previous year.



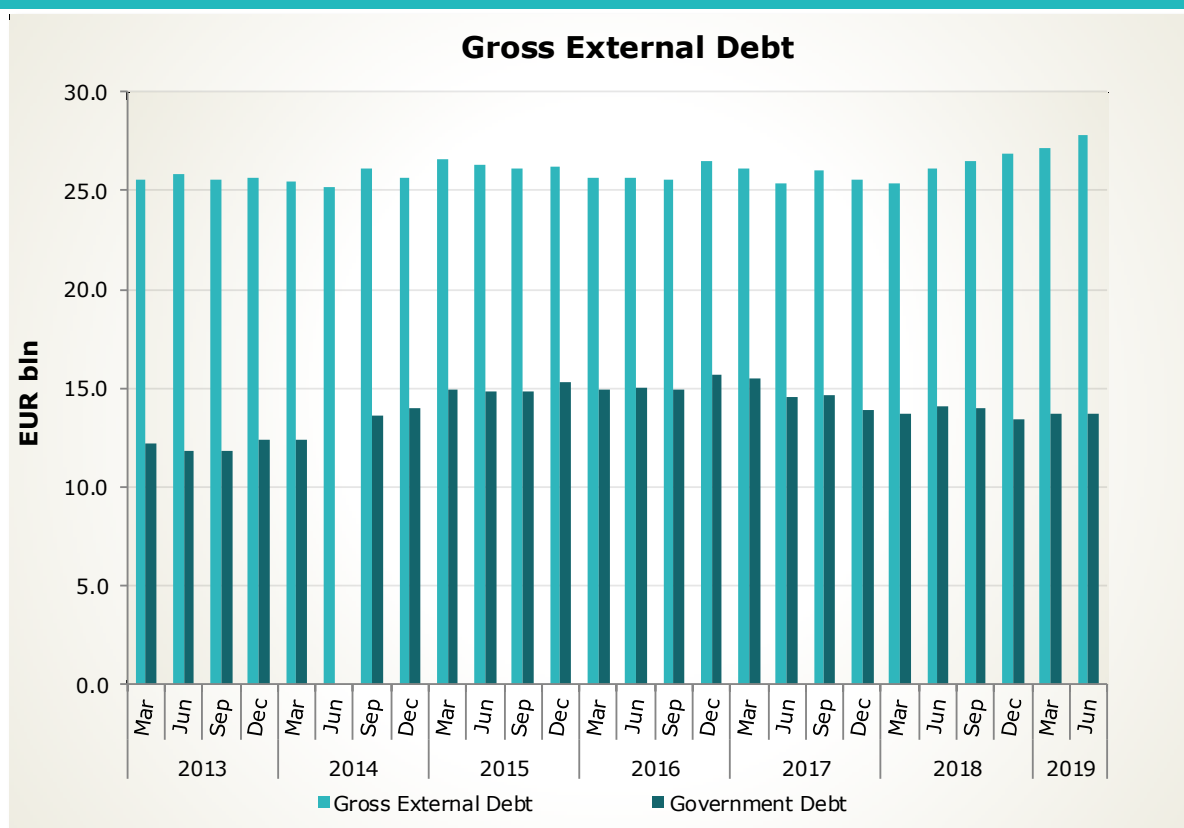
Source: BELEX

7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt went up by 6.5% y/y to EUR 27.817 bln as of end-June 2019

The gross external debt increased by 6.5% y/y, totalling EUR 27.817 bln at the end of June 2019, according to NBS. In comparison to June 2018, the gross external debt expanded by EUR 1.709 bln.



Source: NBS

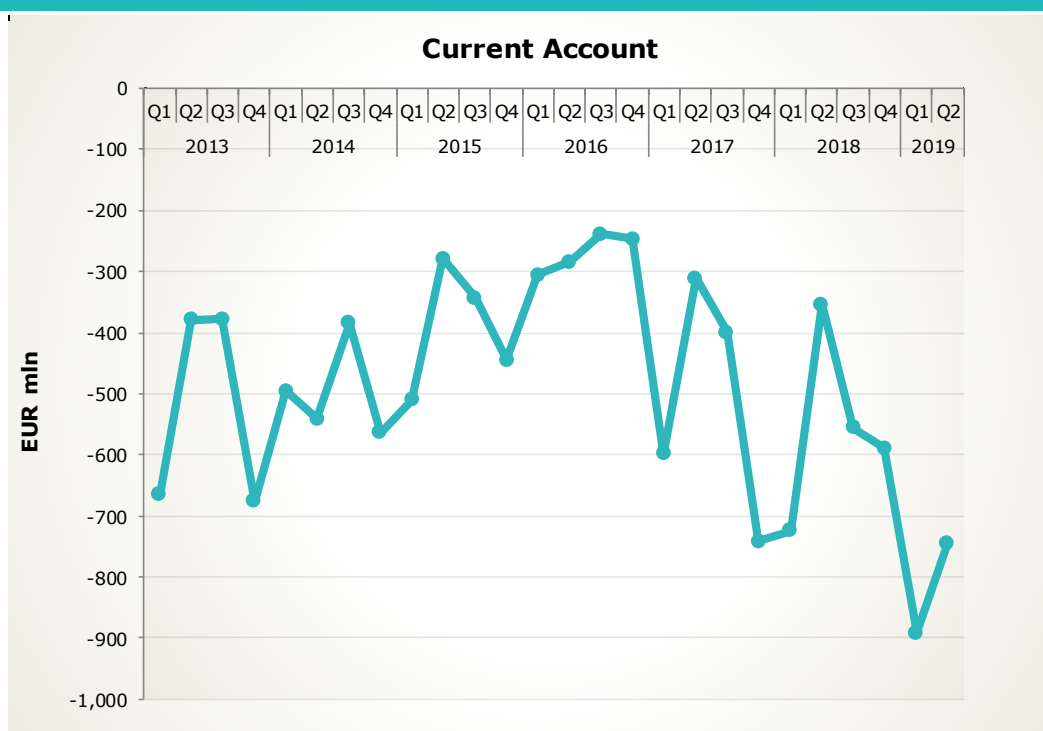
Editor's note: No data is available for gross external government debt for June 2014

7.2. BALANCE OF PAYMENTS

Current account gap widened twice y/y to EUR 744.8 mln in Q2 2019

The current account gap expanded to EUR 744.6 mln from EUR 354.1 mln a year earlier, according to central bank data.

Secondary income in Q2 2019 amounted to EUR 930.5 mln, down from EUR 1,089.7 mln in Q2 2018, or a 14.6% decrease.

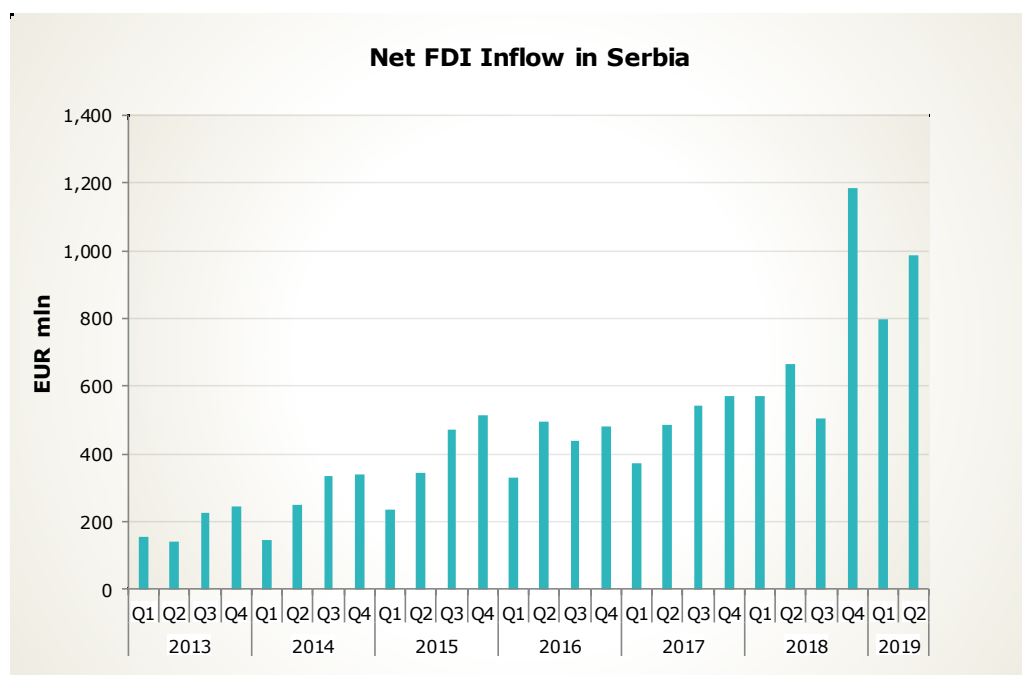


Source: NBS

7.3. FDI

Net FDI inflow stood at EUR 986.5 mln in Q2 2019, up 48.0% y/y.

The net Foreign Direct Investments (FDI) inflow in Serbia in Q2 2019 totalled EUR 986.5 mln, according to NBS. This is up by 48.0% compared to a year ago when the FDIs were EUR 666.7 mln.



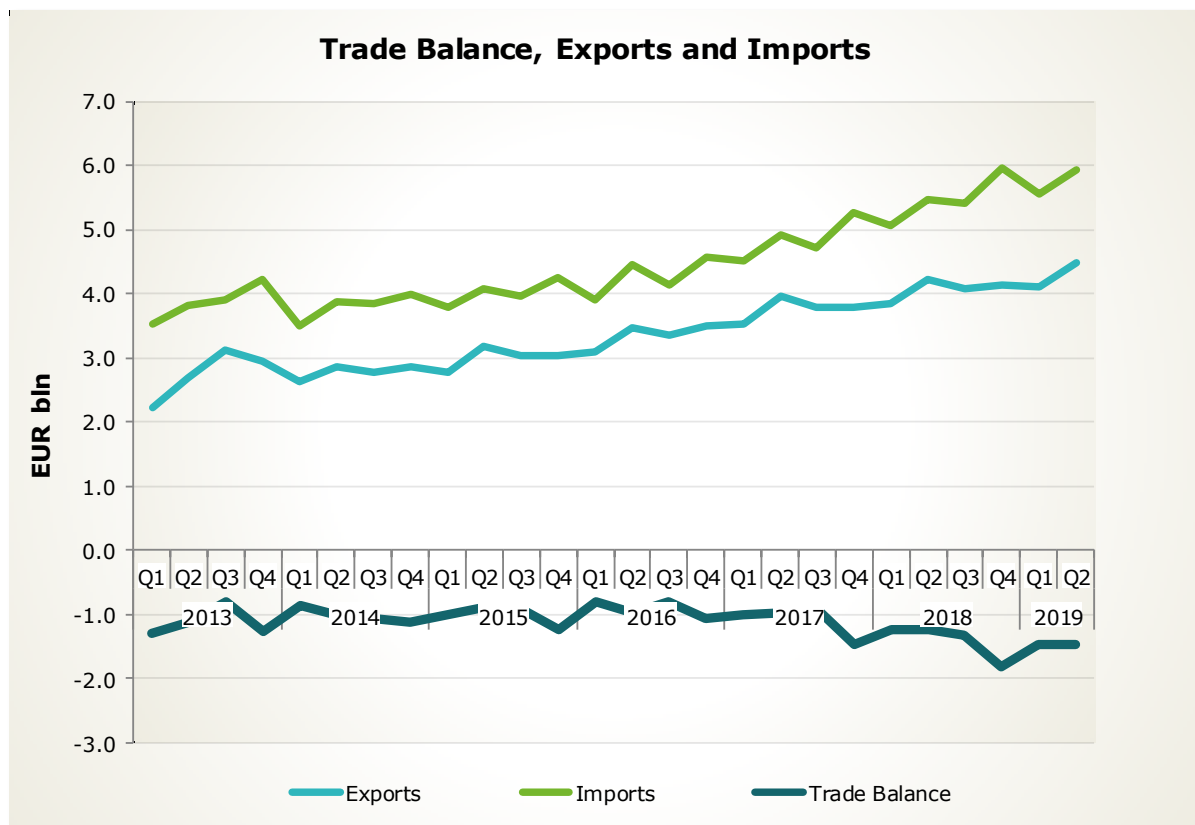
Source: NBS

7.4. FOREIGN TRADE

Foreign trade deficit widened by 16.4% y/y in Q2 2019

The trade deficit stood at EUR 1.452 bln in Q2 2019, up by 16.4% compared to the previous year, due to faster growth of imports over exports, according to SORS data.

In Q2 2019, exports totalled EUR 4.488 bln, up 6.6% y/y, while imports went up by 8.8% to EUR 5.940 bln.



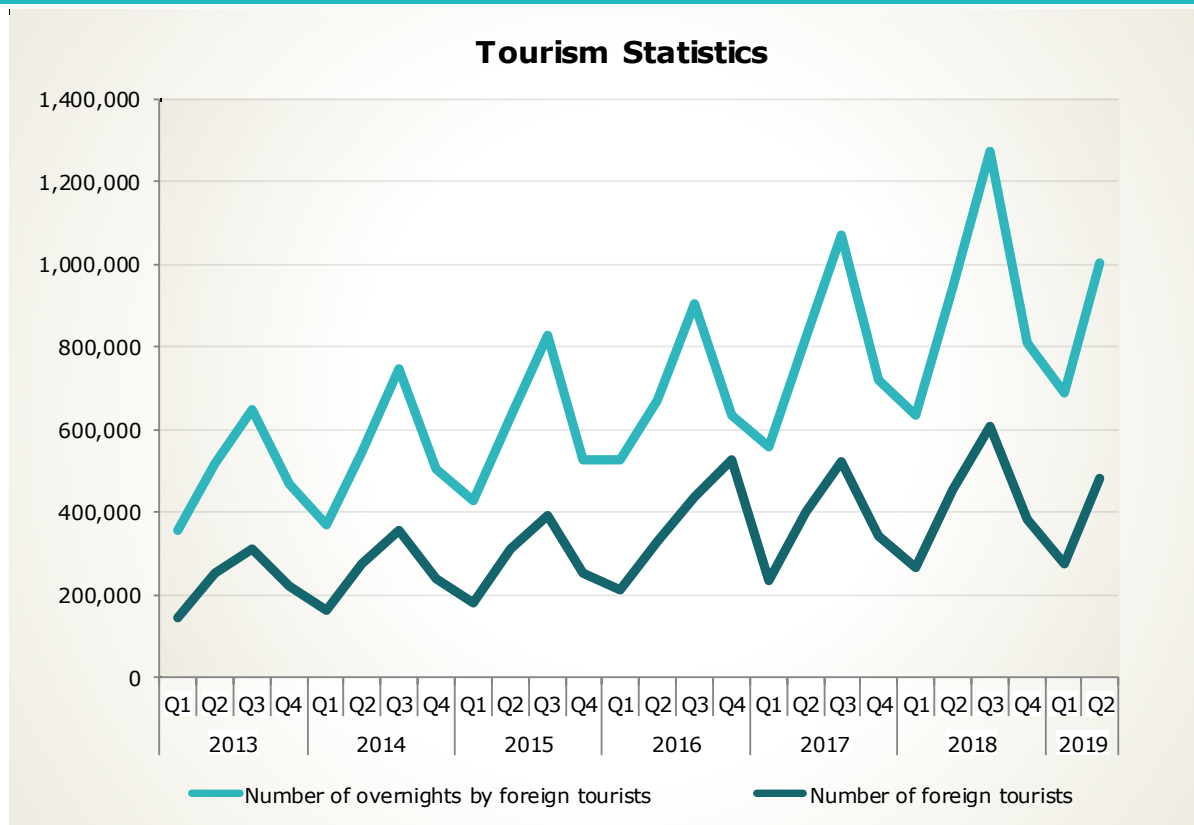
Source: NBS

7.5. TOURSIM

Number of foreign tourist overnights rose by 6.4% y/y in Q2 2019

Tourist overnights of foreigners increased by an annual 6.4% to 1,004,080 in Q2 2019, slicing a 36.6% share of the total number of tourist overnights in the country, according to SORS data. The total number of tourist overnights went up by 7.2% y/y to 2,745,245.

The number of foreign tourists grew by 5.0% y/y to 479,357.



Source: SORS

8. MAJOR DEVELOPMENTS

Serbia opens new chapter in EU accession talks, signs contract for EUR 179 mln in pre-accession funds

June 28, 2019

Serbia said it has opened a new chapter in its accession talks with the European Union and at the same time signed a contract for pre-accession funds worth EUR 179 mln.

[Read the full story here](#)

Serbia to start exports of pork, dairy products to China in 2019 - agriculture min

June 20, 2019

Serbia hopes to launch exports of pork and dairy products to China by the end of 2019, agriculture minister Branislav Nedimovic said.

[Read the full story here](#)

Serbia eyes EUR 8.0 bln of fresh Chinese investment - infrastructure min

June 14, 2019

Serbia aims to launch with China joint investment projects with a total value of EUR 8.0 bln, infrastructure minister Zorana Mihajlovic said.

[Read the full story here](#)

Serbia to invest EUR 350 mln in expressway construction project

June 5, 2019

Serbia plans to invest EUR 350 mln in the construction of an expressway linking Pozarevac to Veliko Gradiste and Golubac, in the country's eastern part, infrastructure minister Zorana Mihajlovic has said.

[Read the full story here](#)

Serbia investing EUR 300 mln in water transport sector - infrastructure min

May 30, 2019

Serbia's government is investing EUR 300 mln in the development of the country's water transport, infrastructure minister Zorana Mihajlovic said.

[Read the full story here](#)

Serbia completes construction of its part of Corridor X motorway

May 20, 2019

Serbia has completed the construction of the entire motorway of European transport Corridor X on its territory, the government said.

[Read the full story here](#)

EIB to lend EUR 35 mln for sewerage system project in Belgrade - deputy mayor

May 16, 2019

The European Investment Bank (EIB) has approved a EUR 35 mln loan for the construction of a sewerage system on the left bank of the Danube river in Serbia's capital Belgrade, deputy mayor Goran Vesic said.

[Read the full story here](#)

EIB lending EUR 22 mln to Serbia to back poor municipalities

Apr 15, 2019

The European Investment Bank (EIB) has signed an agreement to provide a EUR 22 mln loan to Serbia to revitalise public infrastructure in poor municipalities in the country that have been affected by migration and natural disasters, the lender said.

[Read the full story here](#)

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