

SERBIA ECONOMY REPORT

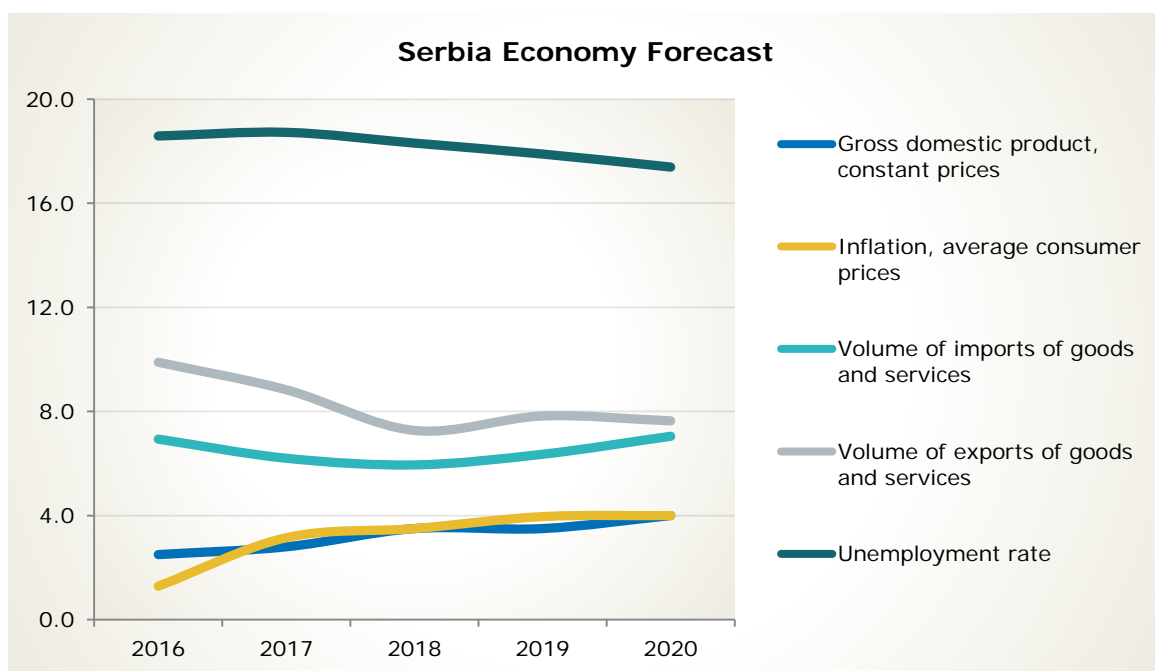
Q3 2016

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1. MACROECONOMIC SNAPSHOT AND FORECAST

SERBIA – MACROECONOMIC SNAPSHOT AS OF Q3 2016	
GDP Growth	2.6% y/y
Industrial output	5.2% y/y
Industrial sales	13.5% y/y
Retail sales	7.5% y/y
Average annual inflation	1.0%
Unemployment rate	13.8%
Number of building permits	1,319
Money supply growth	11.5% y/y
Household loans	10.5% y/y
BELEX15 blue-chip index	-2.7% y/y
Gross external debt	EUR 25.727 bln
Current account gap	EUR 298.6 mln
FDI inflow	EUR 539.0 mln
Foreign trade deficit	EUR 884.5 mln
Number of foreign tourist overnights	9.4% y/y



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

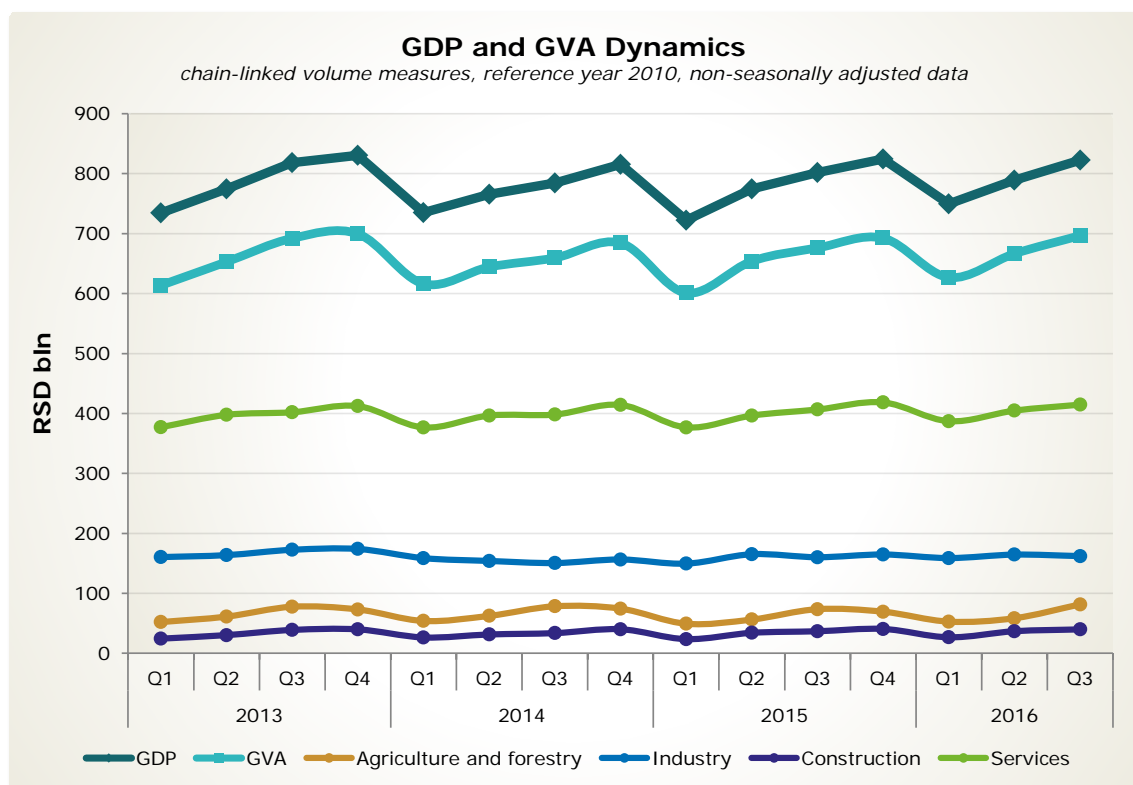
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by 2.6% y/y in Q3 2016

Serbia's GDP, including changes in inventories and net acquisition of valuables, increased by a real 2.6% y/y and totalled RSD 822.7 bln in Q3 2016, according to preliminary data of the Statistical Office of the Republic of Serbia (SORS).

Final consumption inched up by 0.6% y/y to RSD 735.1 bln. Gross capital formation rose by 6.2% on the year to RSD 171.9 bln. Exports and imports also grew, by 10.5% and 5.9% y/y, respectively.



Source: SORS

The gross value added (GVA) generated by the national economy increased by 3.0% y/y in Q3 2016 and totalled RSD 696.7 bln. The industrial sector inched up in value by 1.2% y/y, and its share in the GVA structure decreased to 23.3% from 23.7%. The services sector recorded a 2.0% annual increase, slicing a 59.5% share in the GVA, down from 60.1% in Q3 2015. Construction sector's GVA grew by 8.5% to RSD 39.877 bln and accounted for 5.7% of the total GVA, up from 5.4% a year earlier. The agricultural sector registered an annual rise of 10.9% and its share in the GVA grew to 11.7%, from 10.9%.

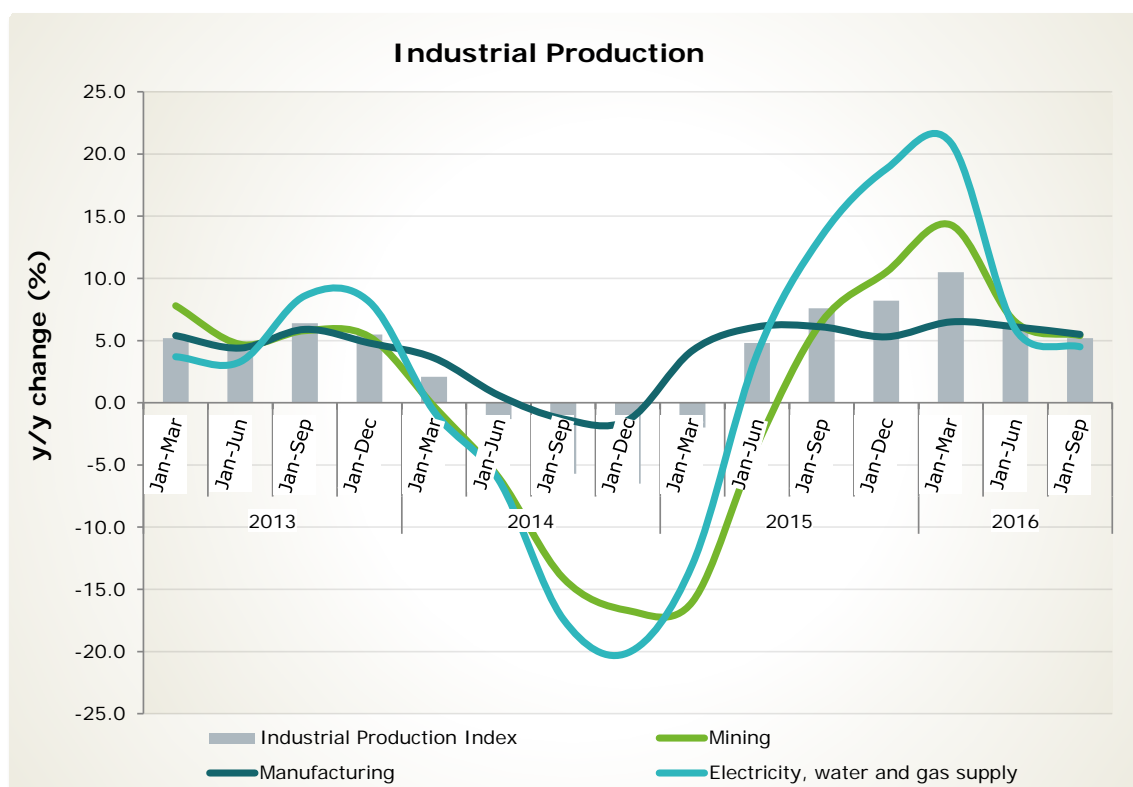
2.2. INDUSTRIAL OUTPUT

Industrial output went up by 5.2% y/y in January - September 2016

The industrial output grew by 5.2% on the year in January to September 2016, according to SORS. The mining sector reported the highest annual increase, of 5.5%, followed by the manufacturing, and electricity, water and gas supply sectors, where production rose by 5.4% and 4.5%, respectively.

Manufacture of other transport equipment was the segment with the highest annual production growth, of 34.6%, followed by manufacture of tobacco products with 30.2%, and manufacture of chemicals and chemical products, up by 18.6% y/y.

On the other end was manufacture of textiles, which reported an annual drop of 25.0%. The output of manufacture of motor vehicles, trailers and semi-trailers fell by 8.0% and extraction of crude petroleum and natural gas dropped by 7.3%.

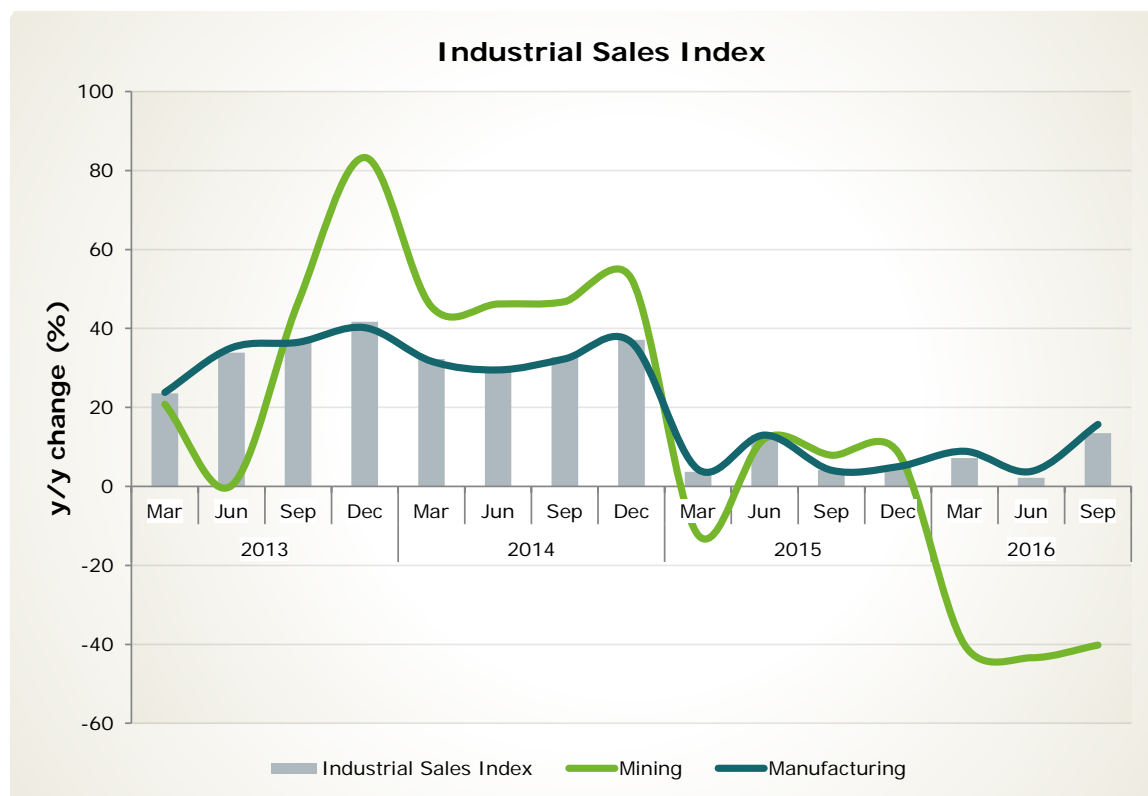


Source: SORS

2.3. INDUSTRIAL SALES

Industrial sales grew by 13.5% y/y in September 2016

The industrial sales jumped by 13.5% on the year in September 2016, according to SORS. In September 2016, the manufacturing industry recorded a 15.7% annual increase, while the mining sector posted a 40.2% decrease.



Source: SORS

2.4. WHOLESALE/RETAIL

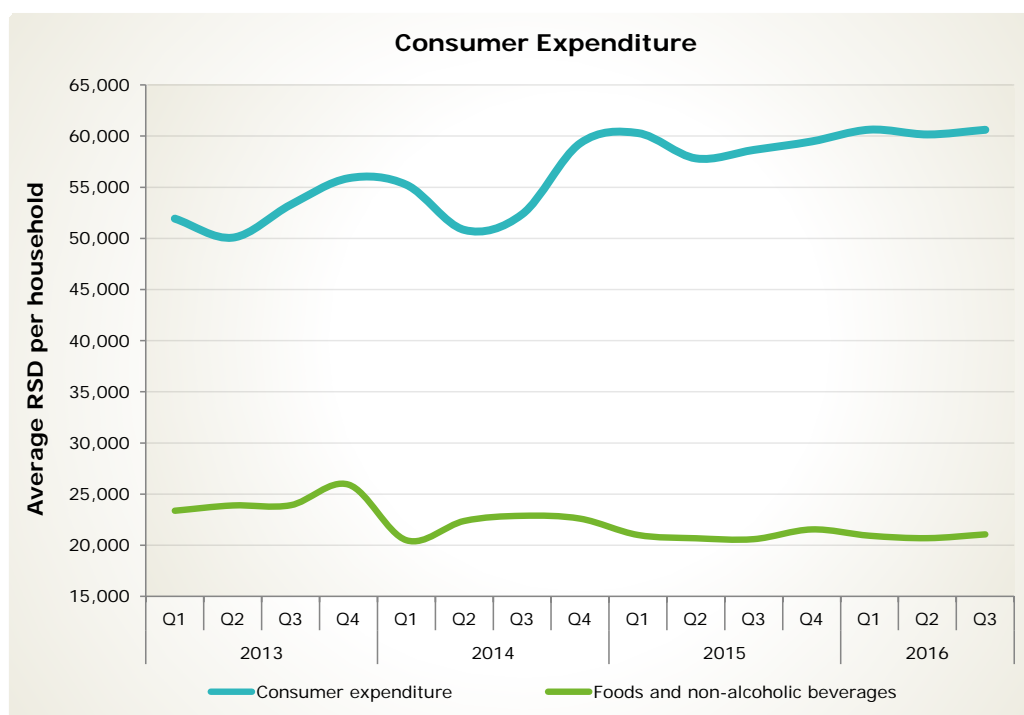
Retail sales increased by 7.4% y/y in January - September 2016

In the first nine months of 2016, the retail sector grew by 7.4% y/y, according to SORS. During the months in the period, the sharpest annual rise in retail sales was registered in March – 11.3%, followed by 9.8% in April and by 9.4% in September. There was no month with an annual drop in retail sales.



Source: SORS

Consumer expenditure increased by 3.4% y/y to an average of RSD 60,615 per household in Q3 2016. Expenditure on food and non-alcoholic beverages had the highest share in the total consumer expenditure, of 34.8%, followed by expenditure on housing, water, electricity, gas and other fuels with a 15.8% share and transport expenditure, which sliced a 9.7% share.



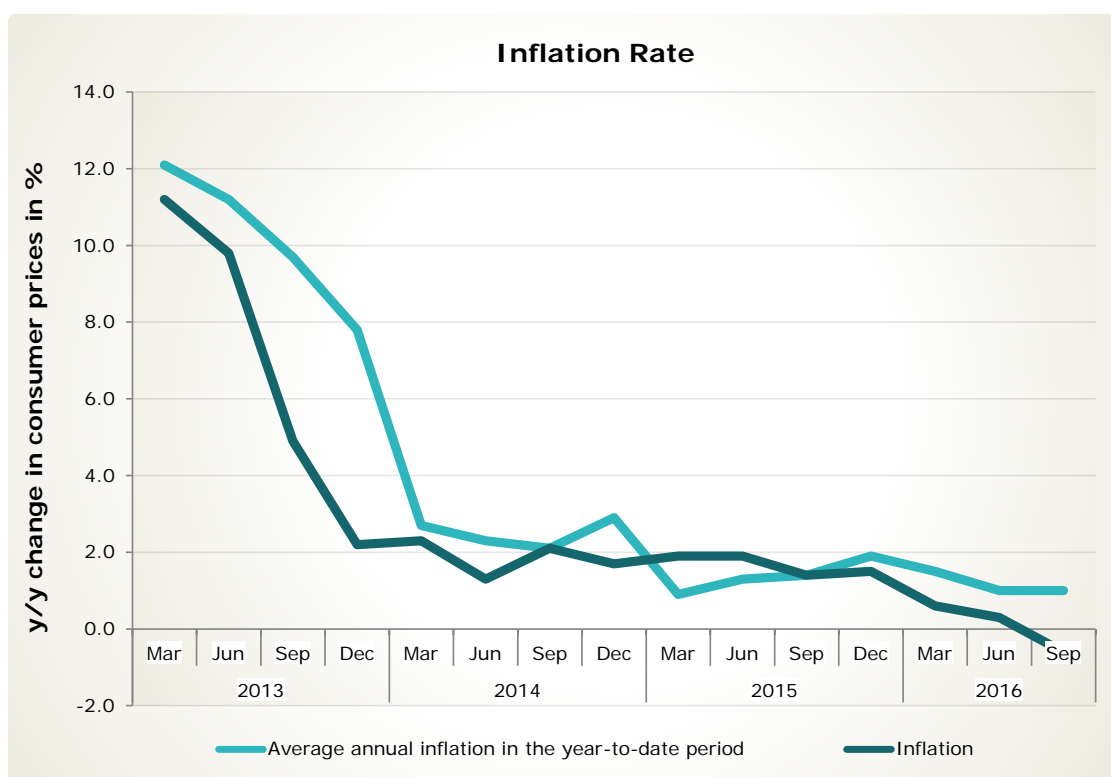
Source: SORS

2.5. INFLATION

Average annual inflation of 1.0% in January - September 2016

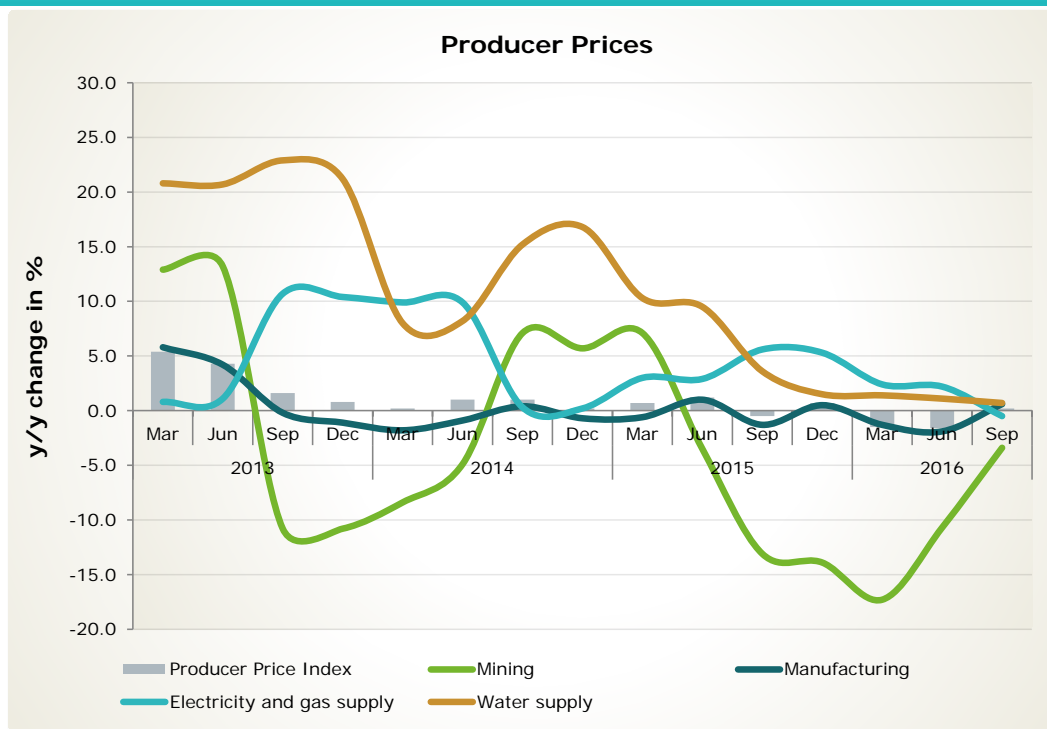
The average annual inflation slowed down to 1.0% in the first nine months of 2016, compared to a 1.4% average annual inflation in the same period a year ago, according to SORS data.

The highest annual increase in consumer prices in January – September 2016, of 6.8% was registered in alcoholic beverages and tobacco, while prices of transport services dropped the most, by 2.3%.



Source: SORS

Producer prices inched up by 0.2% y/y in September 2016. The water supply sector reported the sharpest growth in producer prices, of 0.7%, followed by the manufacturing sector with 0.6%. Producer prices in mining sector went down by 3.4% and electricity and gas supply sector prices fell by 0.5%.



Source: SORS

3. LABOUR MARKET

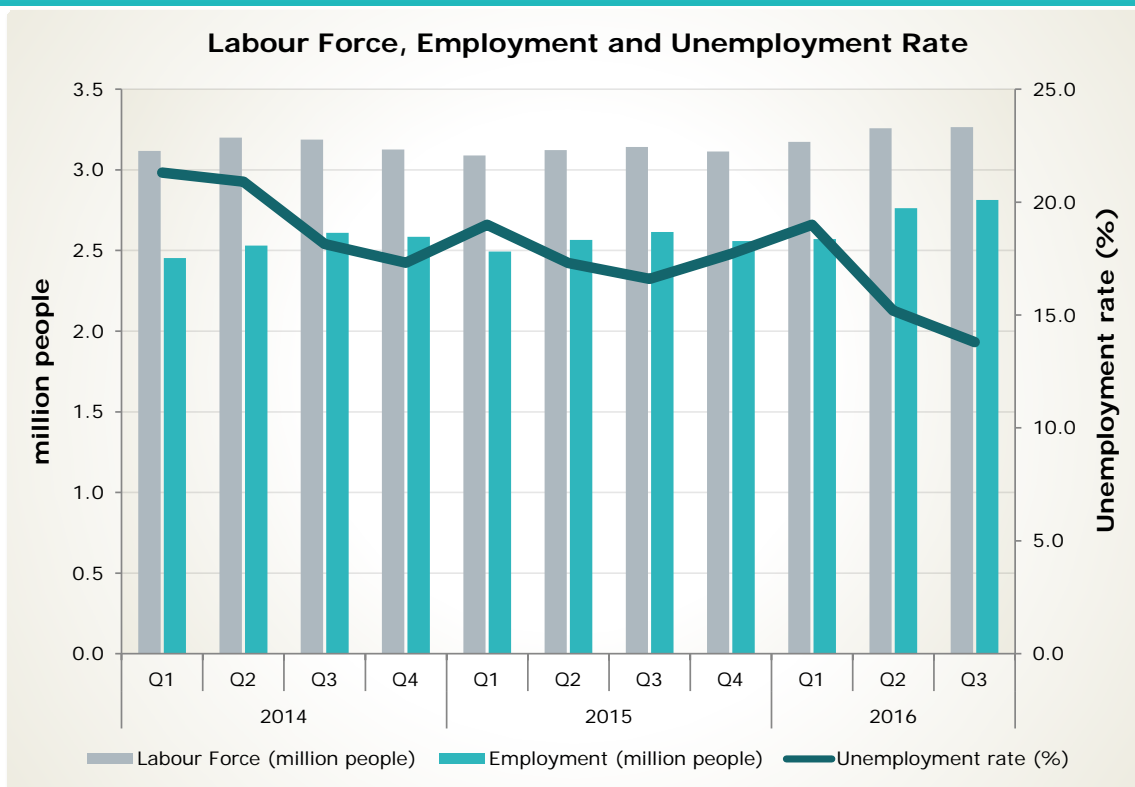
Unemployment rate went down y/y to 13.8% in Q3 2016

Unemployment in Serbia decreased to 13.8% of the total labour force in Q3 2016 from 16.6% year earlier, according to data of SORS.

The employed population aged 15 years and older was 2.814 million, up by 7.6% y/y.

The youth (population aged 15-24) unemployment rate also went down, to 28.5%, compared to 38.8% a year earlier.

The average monthly net salary in the third quarter of 2016 was RSD 46,041, up by 3.0% y/y.



Source: SORS

4. CONSTRUCTION AND REAL ESTATE

The number of building permits grew by 6.8% y/y in Q3 2016

The number of permits for new buildings in Serbia stood at 1,319 in Q3 2016, including 754 for housing projects and 35 for administrative buildings, according to SORS data.

The total number of permits for new buildings issued in the country in the period under review increased by 6.8% in comparison to the same period a year earlier. Permits for housing projects went down by 5.0%, while permits for office buildings rose to 35 from 28.

The total built-up area of office units, covered by the permits, jumped to 111,919 sq m from 42,595 sq m. The total built-up area of new housing went up to 444,678 sq m from 392,585 sq m.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. RSD EXCHANGE RATE

The average exchange rate of the EUR against RSD decreased to RSD 123.2951 in Q3 2016 from RSD 120.2074 a year earlier, according to National Bank of Serbia (NBS).

Average RSD Exchange Rate			
Foreign Currency	Q3 2016	Q2 2016	Q3 2015
EUR	123.2951	123.0108	120.2074
USD	110.4652	108.9927	108.0375
GBP	145.1652	156.1732	167.4693
CHF	113.1697	112.1580	112.0188

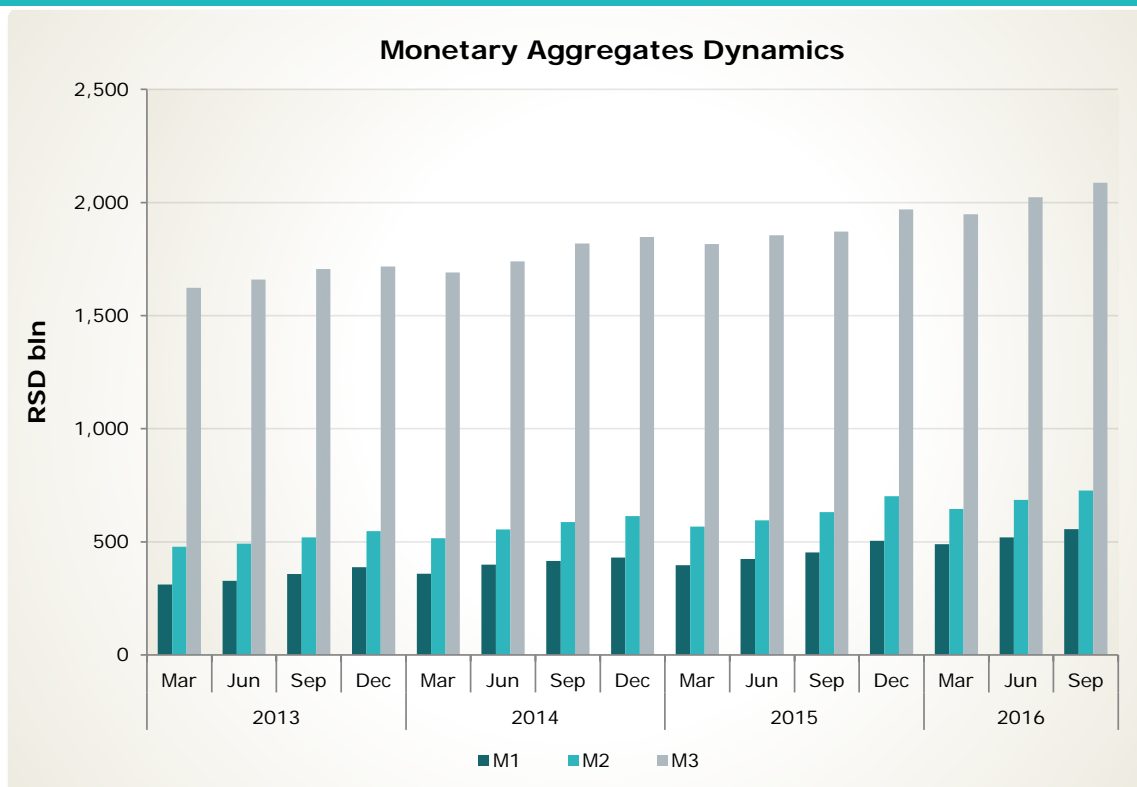
5.2. MONETARY AGGREGATES

Money supply growth was 11.5% y/y at end-September 2016

Broad money (money aggregate M3) increased by 11.5% y/y and reached RSD 2,087.0 bln as of September 2016, according to data provided by NBS.

The M2 money supply also grew, by 15.0% to RSD 727.1 bln.

Money aggregate M1, or narrow money, jumped by 22.6% to RSD 556.3 bln.



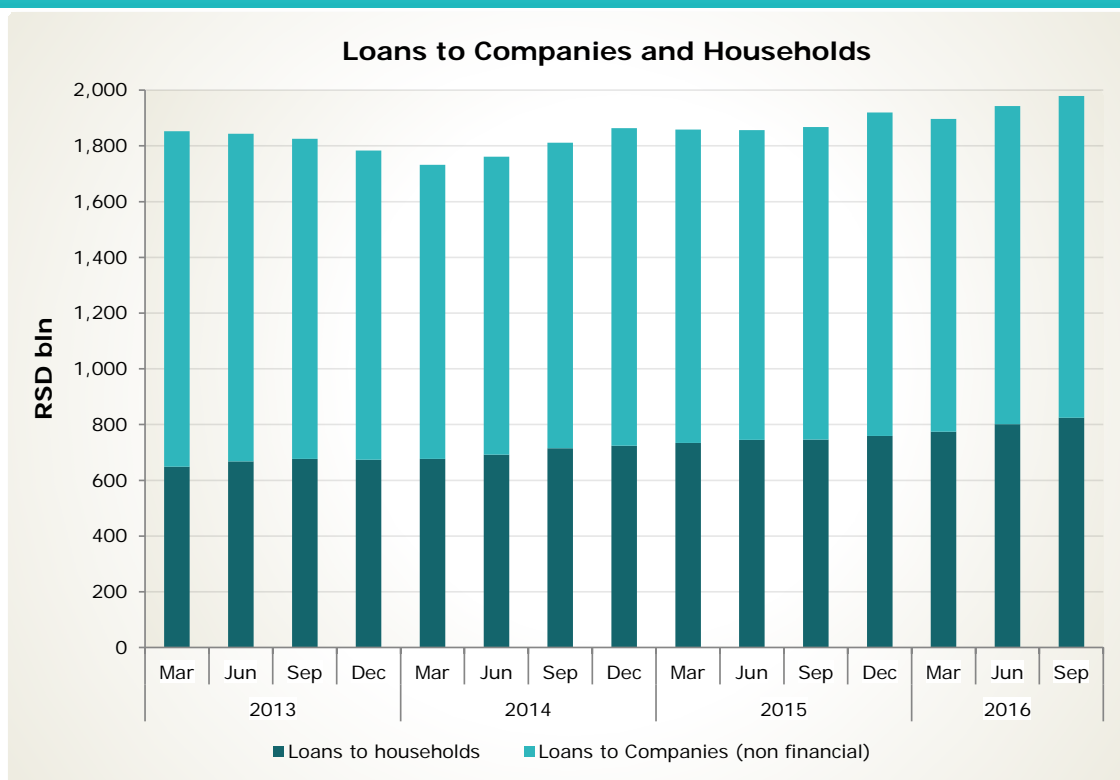
Source: NBS

5.3. BANKING AND INSURANCE

Household loans increased by 10.5% y/y in September 2016

Loans to the non-government sector totalled RSD 1,978.9 bln as of September 2016, up by 6.0% y/y, according to NBS.

Loans to non-financial corporations went up by 3.0% y/y to RSD 1,154.8 bln, while household loans rose by 10.5% to RSD 824.1 bln. House purchasing loans grew by 4.4% to RSD 356.0 bln, while consumer loans inched up by 0.6% to RSD 19.985 bln.



Source: NBS

At the end of September 2016, the assets of the banking system totalled RSD 3,172.0 bln, compared to RSD 3,007.6 bln at the end of September 2015. In comparison to end-June 2016, the total assets inched up by 1.7%.

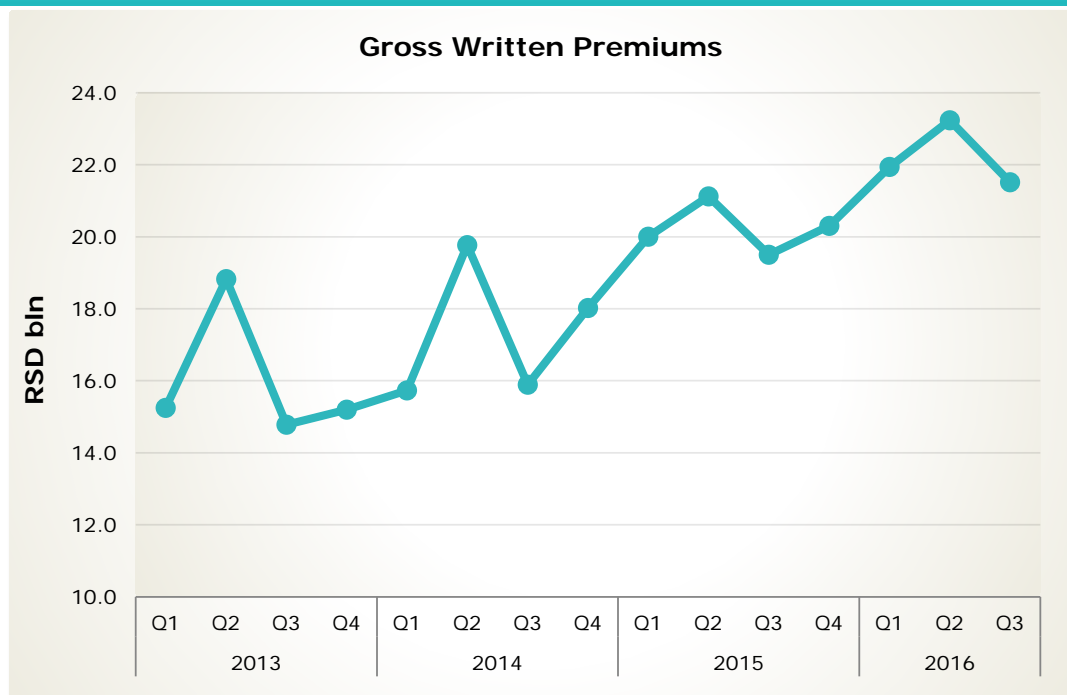
Non-performing loans (NPL) amounted to RSD 396.5 bln as of end-September 2016, down from RSD 404.3 bln in June 2016 and RSD 425.0 bln as of end-September 2015.

The total deposits amounted to RSD 2,161.7 bln at end-September 2016, or by 12.5% more than at the end of September 2015. Deposits of households accounted for the bulk, or 54.5% of the total deposits, while the corporate sector had a 27.7% share.

Premium income up 10.3% y/y in Q3 2016

The total gross written premiums of the non-life and life insurance companies stood at RSD 21.511 bln, up by 10.3% y/y in the third quarter of 2016, according to NBS data.

In the period Jan-Sept 2016, the gross written premiums totalled RSD 66.690 bln, a 10.0% increase in comparison to the corresponding period of the previous year.



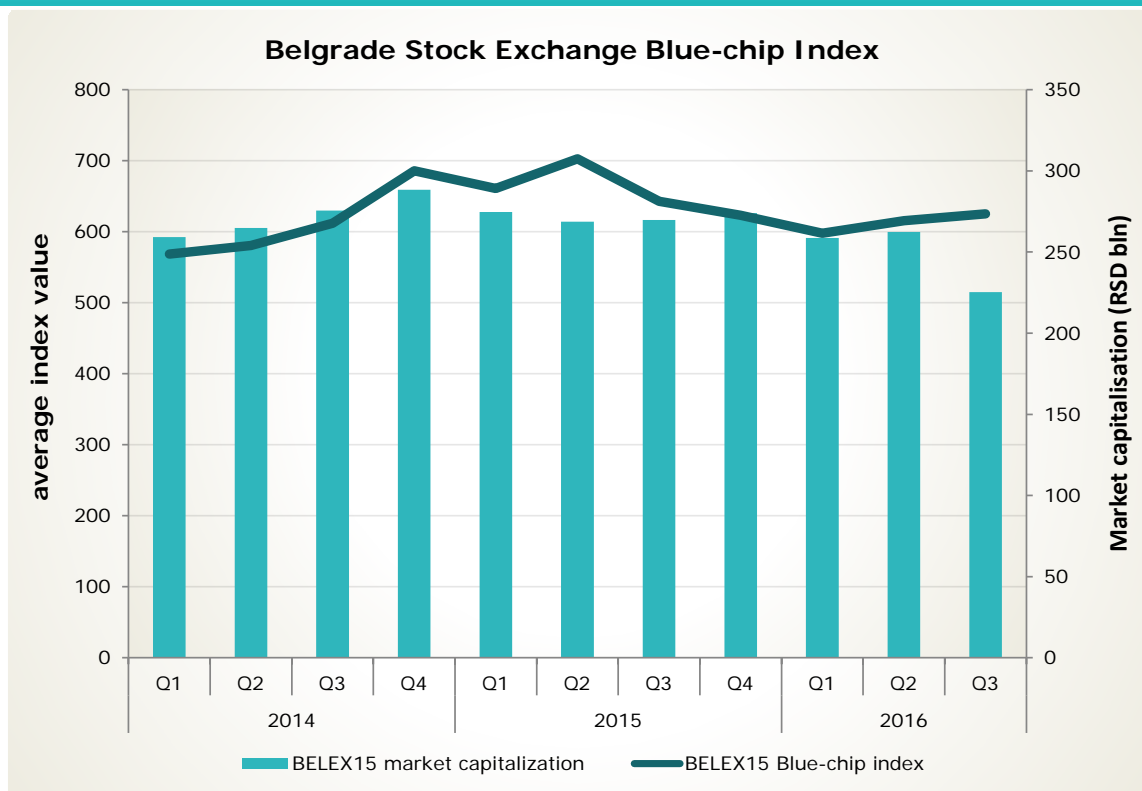
Source: NBS

6. CAPITAL MARKETS

Blue-chip index BELEX15 went down by 2.7% y/y in Q3 2016

The average value of BELEX15, the blue-chip index of the Belgrade Stock Exchange (BELEX), decreased by 2.7% to 625.2 points in the third quarter of 2016, compared to a year earlier.

The total turnover on BELEX jumped by 71.9% on the year to RSD 8.311 bln in Q3 2016. The number of transactions was 23,109 versus 28,090 a year ago.



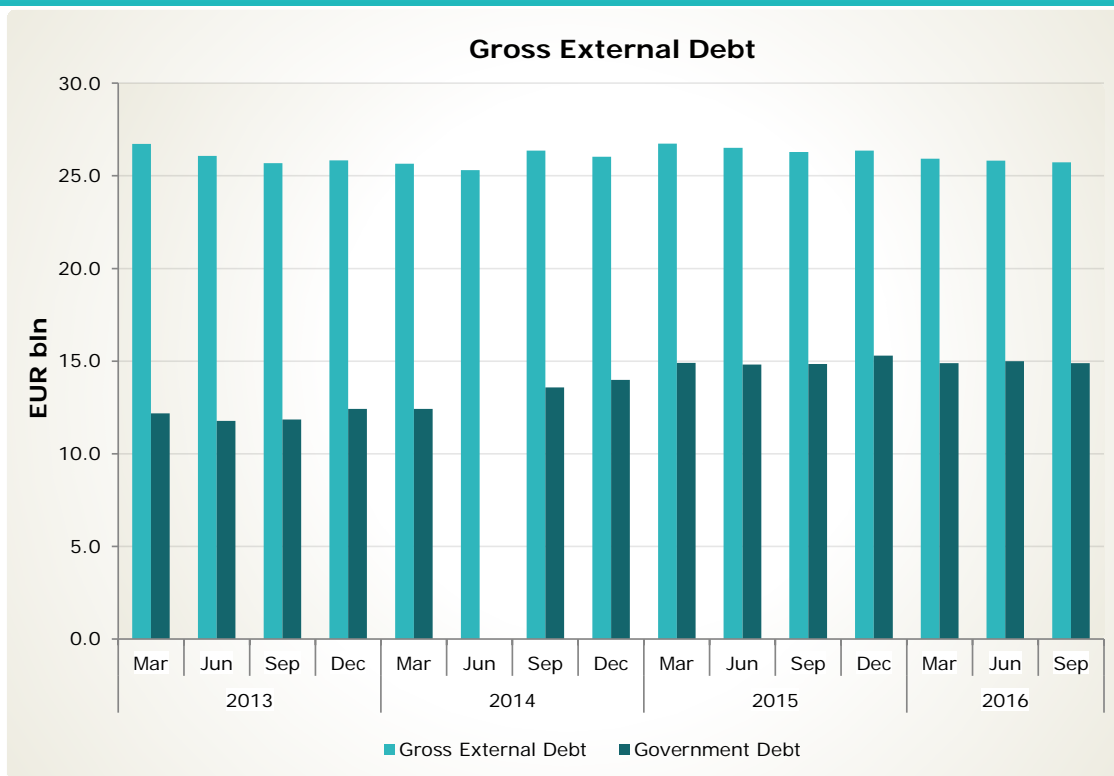
Source: BELEX

7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt shrank y/y to EUR 25.727 bln at end-September 2016

The gross external debt decreased by 2.1% y/y, totalling EUR 25.727 bln at the end of September 2016, according to NBS. In comparison to June 2016 the gross external debt narrowed by 0.4% or EUR 92.5 mln.



Source: NBS

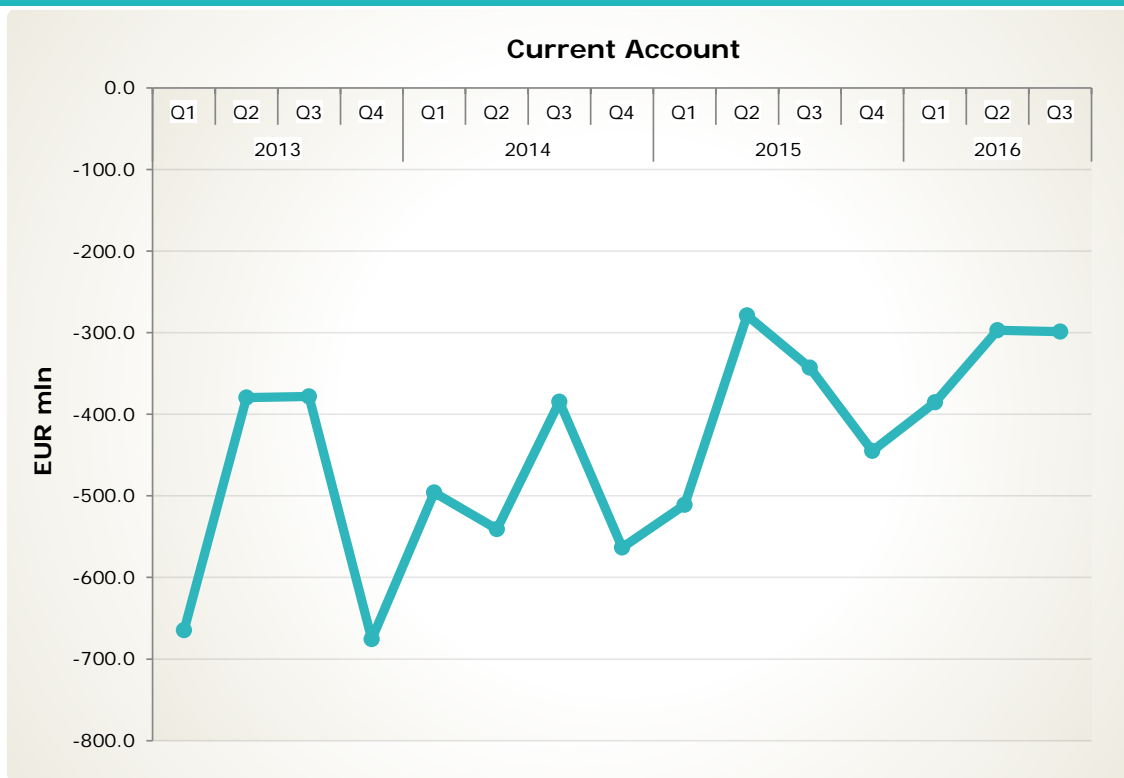
Editor's note: No data is available for gross external government debt for June 2014

7.2. BALANCE OF PAYMENTS

Current account gap at EUR 298.6 mln in Q3 2016

The current account gap shrank to EUR 298.6 mln from EUR 342.9 mln in the same quarter a year earlier, according to central bank data. In comparison to the previous quarter, Q2 2016, the deficit was EUR 2.0 mln bigger.

Secondary income in Q3 2016 amounted to EUR 791.7 mln, down from EUR 894.8 mln in Q2 2016. On annual basis it decreased by 4.4%.



Source: NBS

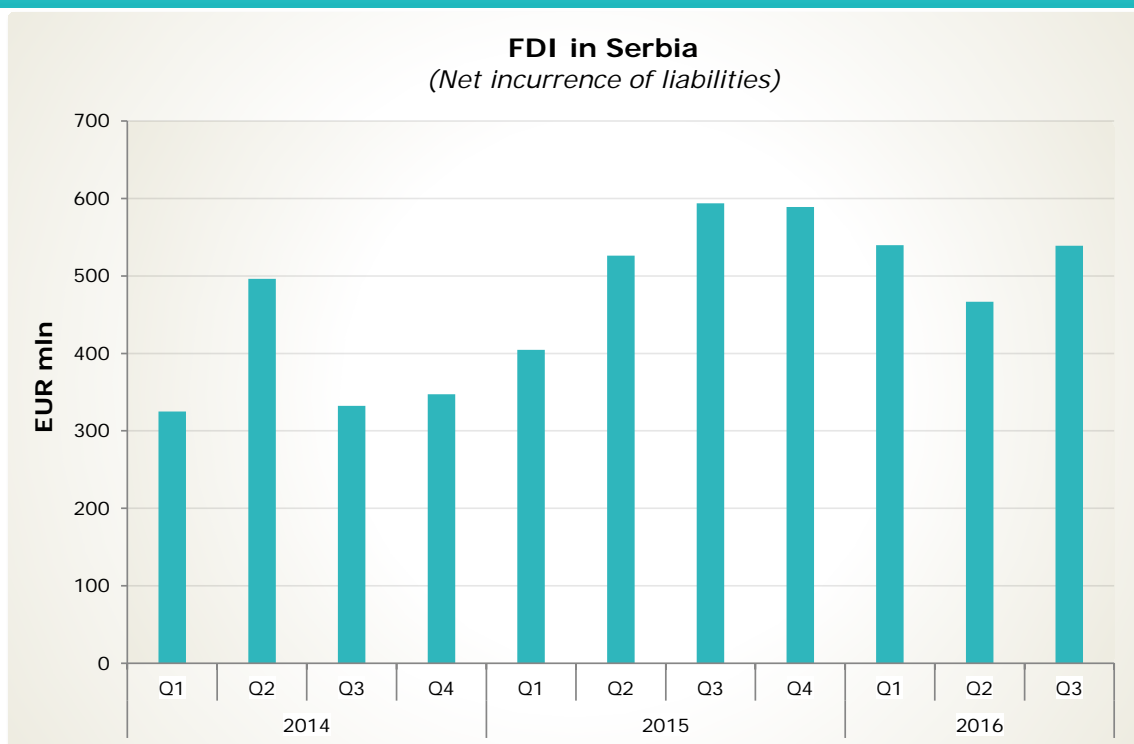
7.3. FDI

FDI at EUR 539.0 mln in Q3 2016

Foreign Direct Investments (FDI) in Serbia totalled EUR 539.0 mln in Q3 2016, according to NBS data. In comparison to the previous year the FDI inflow shrank by 9.2%, or EUR 54.8 mln.

Netherlands was the largest foreign investor in Serbia in Q3 2016 with FDI of EUR 79.6 mln, followed by the Germany with EUR 65.2 mln and Hong Kong with EUR 50.5 mln.

A breakdown by industries shows that the leading sector in terms of attracted FDI was construction, accounting for 18.8% of the total FDI inflow. Manufacturing of basic metals and fabricated metal products came second with a 13.9% share and financial intermediation, except insurance and pension funding was the third most attractive sector for foreign investors with a 13.3% share.



Source: NBS

7.4. FOREIGN TRADE

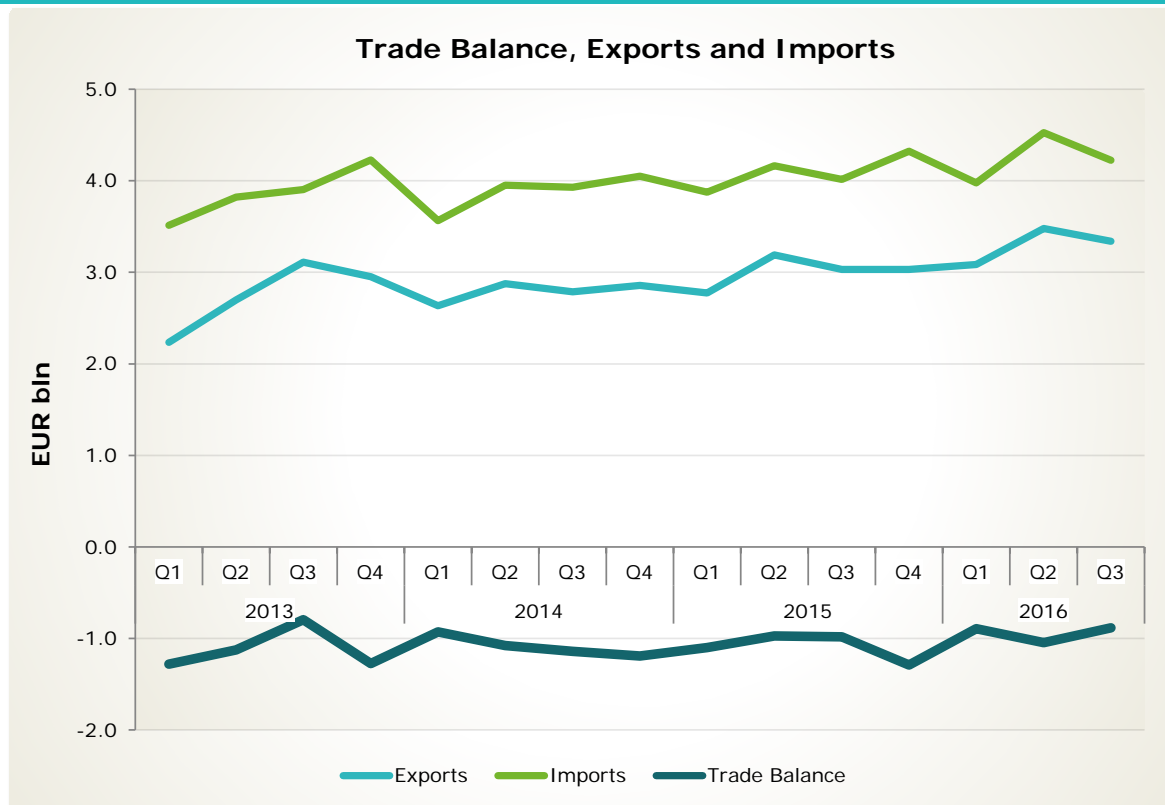
Foreign trade deficit shrank by 10.0% y/y in Q3 2016

The trade deficit stood at EUR 884.5 mln in Q3 2016, down by 10.0% compared to the corresponding quarter of the previous year, according to SORS.

In Q3 2016, exports totalled EUR 3.340 bln, up from EUR 3.032 bln a year earlier, while imports grew by EUR 209.4 mln to EUR 4.224 bln.

In the third quarter of 2016, Serbia's leading sectors in terms of exports were manufacture of motor vehicles, trailers and semi-trailers, which accounted for 12.1% of the total exports, followed by manufacture of food products with an 11.5% share, and manufacture of electrical equipment with 8.8%.

In terms of imports, the main sectors were not else classified goods, which made up 15.5% of the total, followed by manufacture of chemicals and chemical products, slicing a 9.9% share, and manufacture of motor vehicles, trailers and semi-trailers, which had a 8.8% share.



Source: NBS

7.5. TOURSIM

Number of foreign tourist overnights rose by 9.4% y/y in Q3 2016

Tourist overnights of foreigners increased by an annual 9.4% to 904,910 in Q3 2016, slicing a 36.0% share of the total number of tourist overnights in the country, according to SORS data. The total number of tourist overnights jumped by 10.8% on the year to 2,516,773.

The number of foreign tourists also went up - by 12.4% y/y to 437,906. Most foreign tourists visiting Serbia in the third quarter of 2016 came from Turkey- 34,267, followed by tourists from Bosnia and Herzegovina - 27,942, and Montenegro - 27,504.



Source: SORS

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