

## **SERBIA ECONOMY REPORT**

### Q3 2017

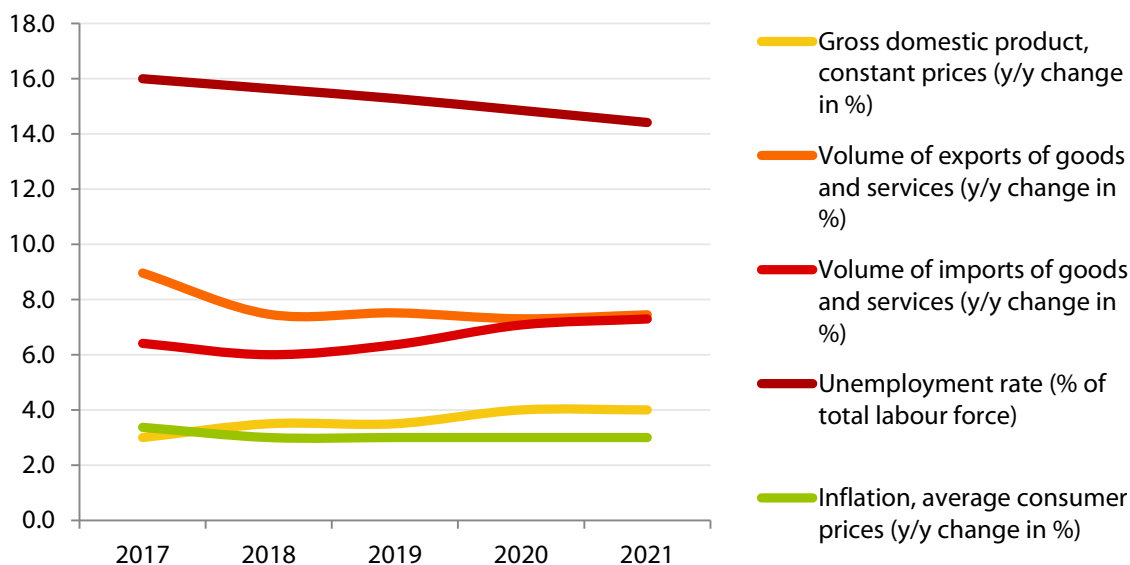
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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

SERBIA – MACROECONOMIC SNAPSHOT AS OF Q3 2017	
GDP Growth	2.1% y/y
Industrial output	3.5% y/y
Industrial sales	1.8% y/y
Retail sales	4.7% y/y
Average annual inflation	3.3% y/y
Unemployment rate	12.9%
Number of building permits	32.3% y/y
Money supply growth	5.6% y/y
Household loans	8.4% y/y
BELEX15 blue-chip index	-0.3% q/q
Gross external debt	EUR 26.033 bln
Current account gap	EUR 384.0 mln
Net FDI inflow	EUR 542.0 mln
Foreign trade deficit	EUR 952.4 mln
Number of foreign tourist overnights	18.6% y/y

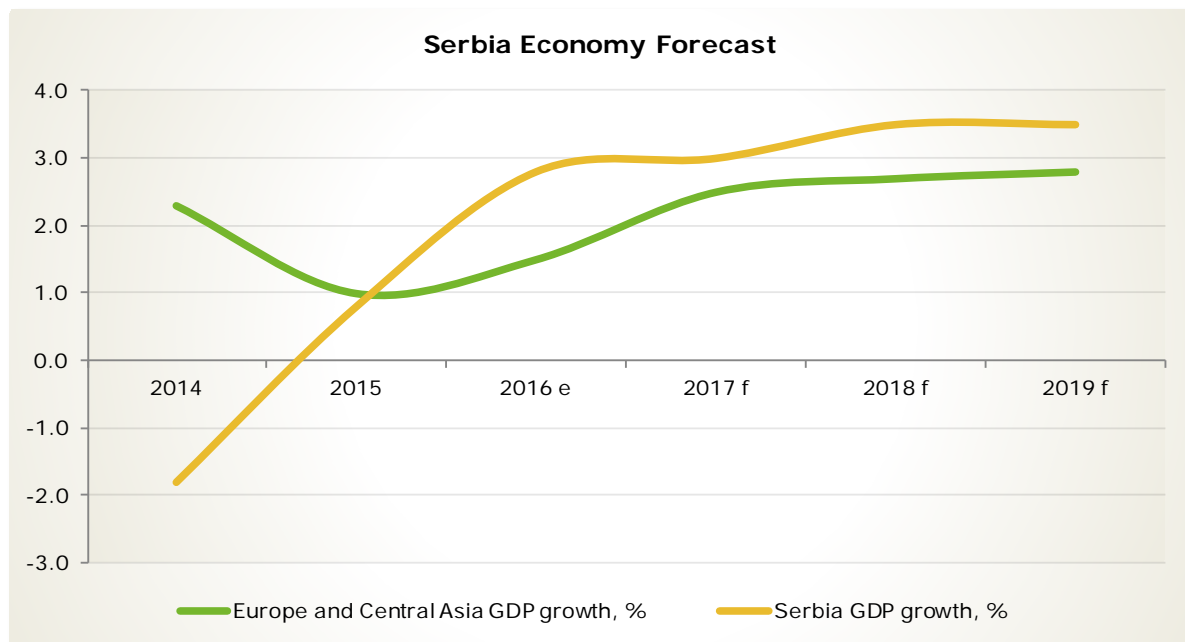
### Serbia Economy Forecast



Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2017

Serbia's real GDP growth is expected to accelerate to 3.0% in 2017 from 2.8% in 2016, according to an IMF forecast. The largest contributors to economic growth in 2017 will be government consumption and capital investments. The fund projects inflation to average 3.4% in 2017, up from 1.1% in 2016 on account of recovering demand and higher energy prices.

Risks to the IMF outlook include possible spillovers from regional developments and market volatility, political resistance to reform the state-owned enterprises (SOE), possible delay in delivering on structural reforms, as well as slippages in maintaining fiscal discipline.



Source: World Bank, Europe and Central Asia Economic Update, June 2017

The World Bank projects Serbia's GDP growth to accelerate from 2.8% in 2016 to about 3.5% over the medium term. Increases in the private consumption and capital investment are expected to be the main drivers of growth in 2017-2019. As domestic demand gradually recovers, the bank expects inflation to advance to 3.1% in 2017 from 1.1% in 2016. The current account gap is expected to expand to 4.9% of GDP in 2017-2019 from 3.2% of GDP in 2016.

As main risk to the forecasts, the World Bank points a possible delay in the implementation of structural reforms and the still high levels of unemployment, especially among younger generation.

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

	2014	2015	2016 e	2017 f	2018 f	2019 f
Real GDP growth, at constant market prices, y/y change in %	-1.8	0.8	2.8	2.3	3.0	3.5
Private Consumption	-1.3	0.5	0.8	3.9	2.2	2.9
Government Consumption	-0.6	-1.5	2.0	5.2	1.6	-3.9
Gross Fixed Capital Investment	-3.6	5.6	6.8	4.6	7.3	10.4
Exports, Goods and Services	5.7	10.2	11.9	9.8	6.5	7.5
Imports, Goods and Services	5.6	9.3	6.8	9.3	5.9	6.4
Real GDP growth, at constant factor prices (by sectors)	-1.8	0.8	2.8	3.0	3.5	3.5
Agriculture	2.0	-7.7	8.5	-10.0	5.0	3.0
Industry	-6.4	3.0	3.1	4.5	4.0	5.0
Services	-0.5	1.1	2.8	2.3	2.3	2.9
Inflation (Consumer Price Index)	2.1	1.4	1.1	3.1	3.5	3.5
Current Account Balance (% of GDP)	-6.0	-4.8	-3.2	-3.9	-4.7	-4.9
Net Foreign Direct Investment (% of GDP)	3.7	3.7	3.7	4.8	4.3	4.2

Source: World Bank, Europe and Central Asia Economic Update, June 2017

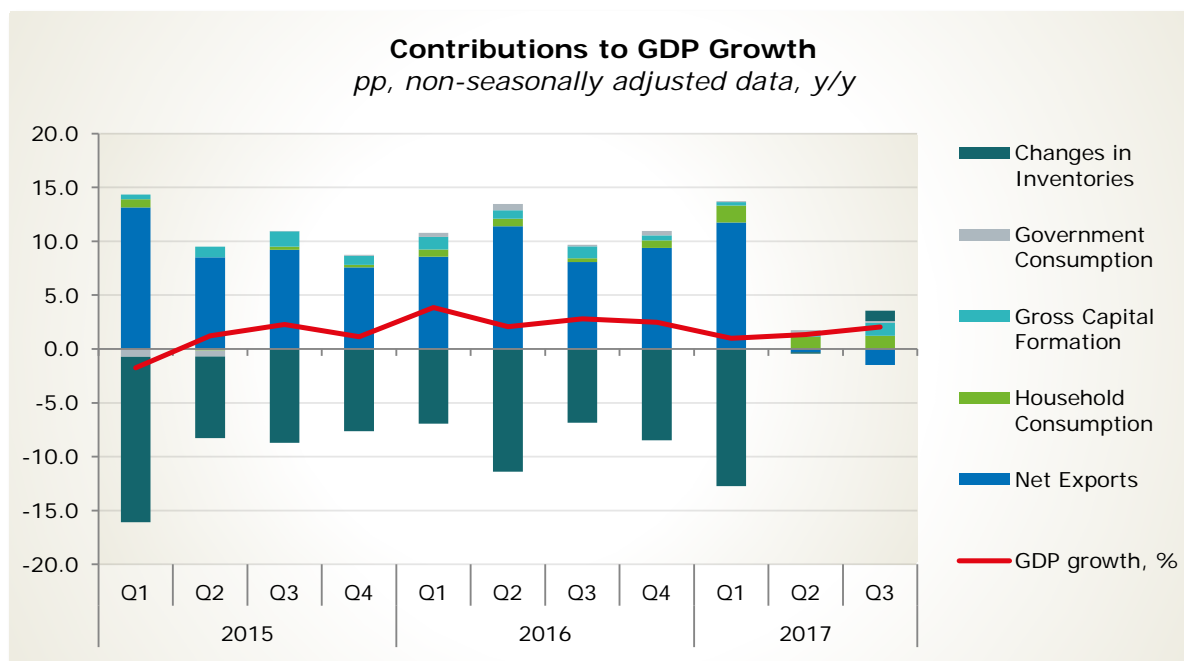
## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

#### *GDP growth stood at 2.1% y/y in Q3 2017*

Serbia's GDP, including changes in inventories and net acquisition of valuables, increased by a real 2.1% y/y and totalled RSD 841.6 bln in Q3 2017, according to data of the Statistical Office of the Republic of Serbia (SORS). This is a notable increase compared to the GDP growth in Q2 2017, of 1.4% y/y.

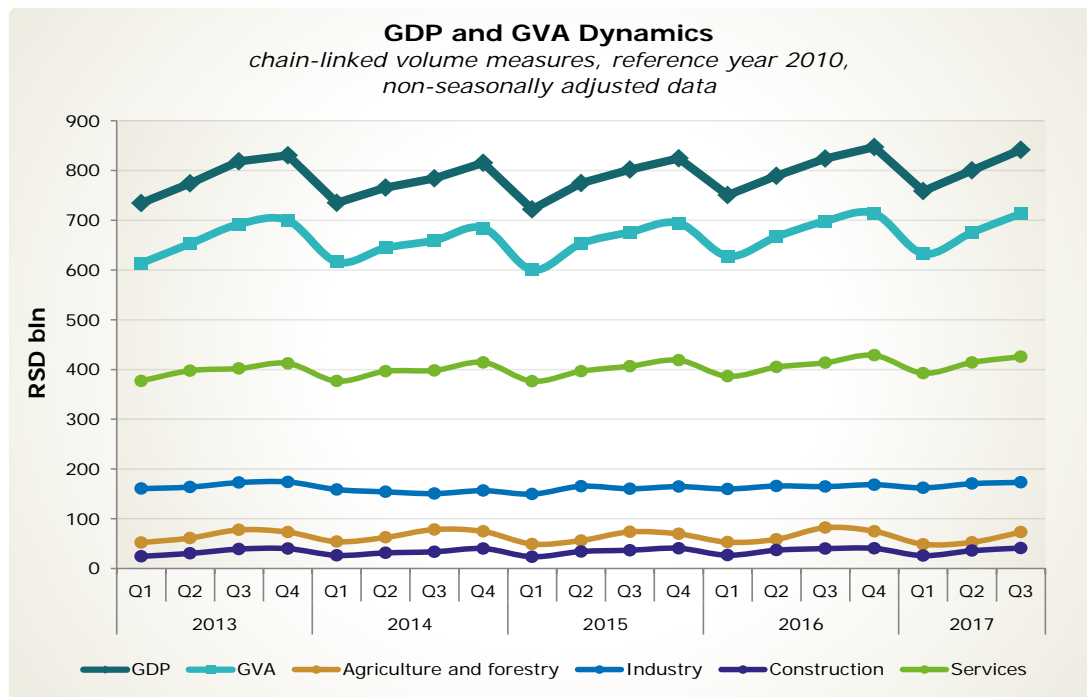
Exports grew by 11.4% y/y to RSD 480.9 bln, while imports increased slower at 10.7% y/y to RSD 590.0 bln. Final consumption inched up by 1.6% y/y to RSD 747.4 bln. Gross capital formation rose by 6.2% on the year to RSD 183.4 bln.



Source: SORS; SeeNews calculations

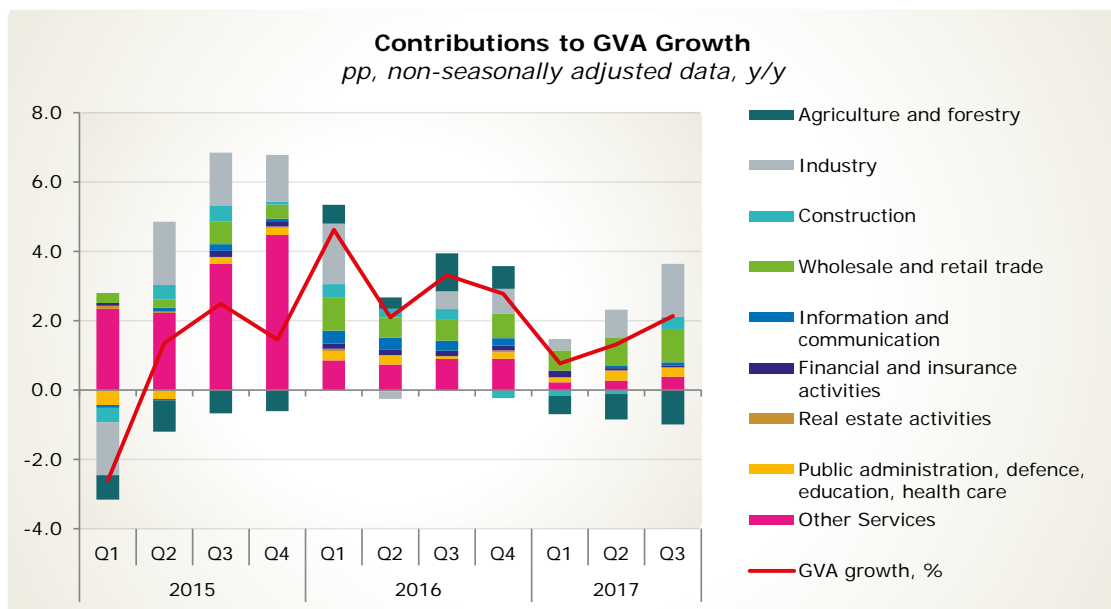
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The gross value added (GVA) generated by the national economy increased by 2.1% y/y in Q3 2017 and totalled RSD 713.2 bln. The industrial sector went up in value by 5.2% y/y and accounted for almost a quarter of the total GVA. The services sector recorded a 3.0% annual increase, slicing a 59.7% share of the total GVA, up from 59.2% in Q3 2016. The construction sector's GVA increased by 2.9% to RSD 41.1 bln, while the agricultural sector registered an annual drop of 11.1%.



Source: SORS

In terms of sectors, the largest contributor to GVA growth y/y was industry with 1.5 pp in Q3 2017. The wholesale and retail sector contributed by 1.0 pp to the total GVA growth, while the public administration, defence, education and health care sectors added 0.3 pp to the annual growth in the period. Agriculture and forestry took away 1.0 pp from the overall GVA growth.



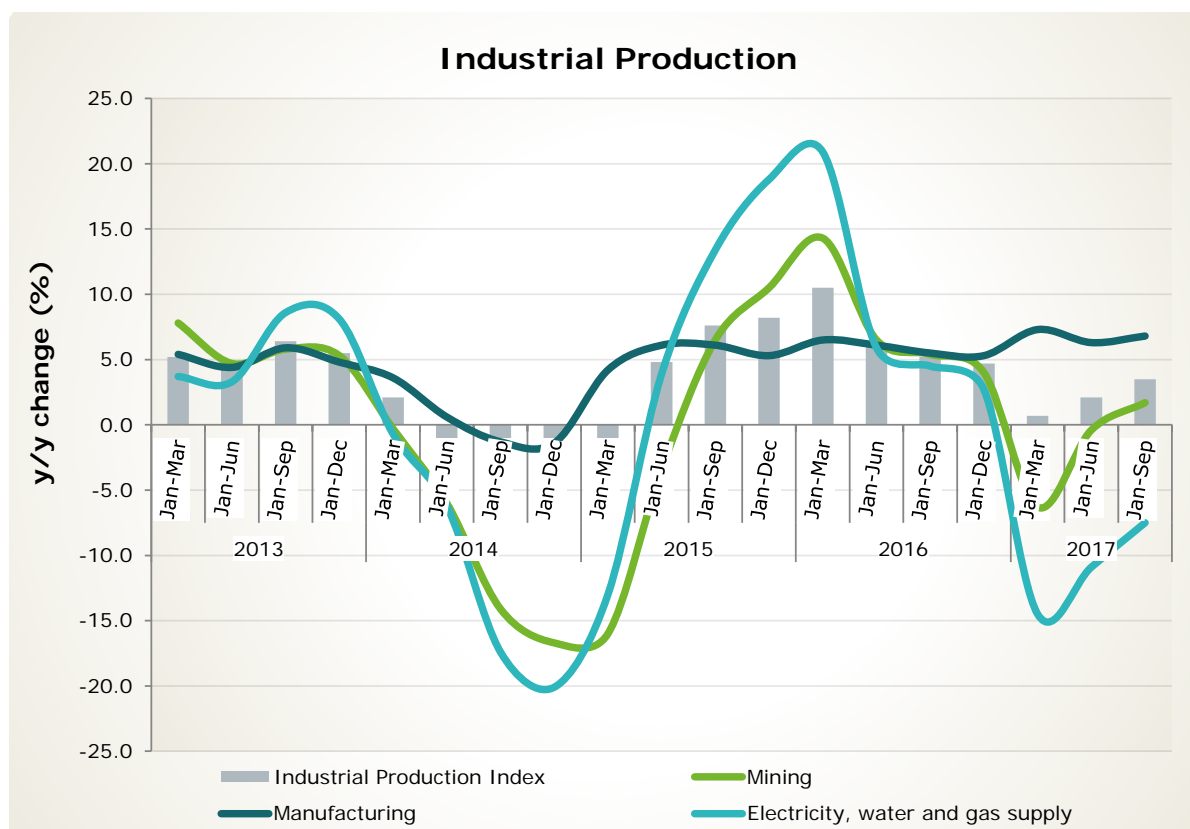
Source: SORS; SeeNews calculations

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

## 2.2. INDUSTRIAL OUTPUT

### *Industrial output expanded by 3.5% y/y in Q3 2017*

The industrial output reported increase, of 3.5%, in Q3 2017, a slowing down from the growth of 5.2% y/y in Q3 2016, according to data from SORS. Industrial output grew modestly on weak electricity, water and gas supply sector, which slumped by 7.5% on the year, The mining sector went up by 1.7% y/y. The manufacturing industry performed the best and its output rose annually by 6.8%.

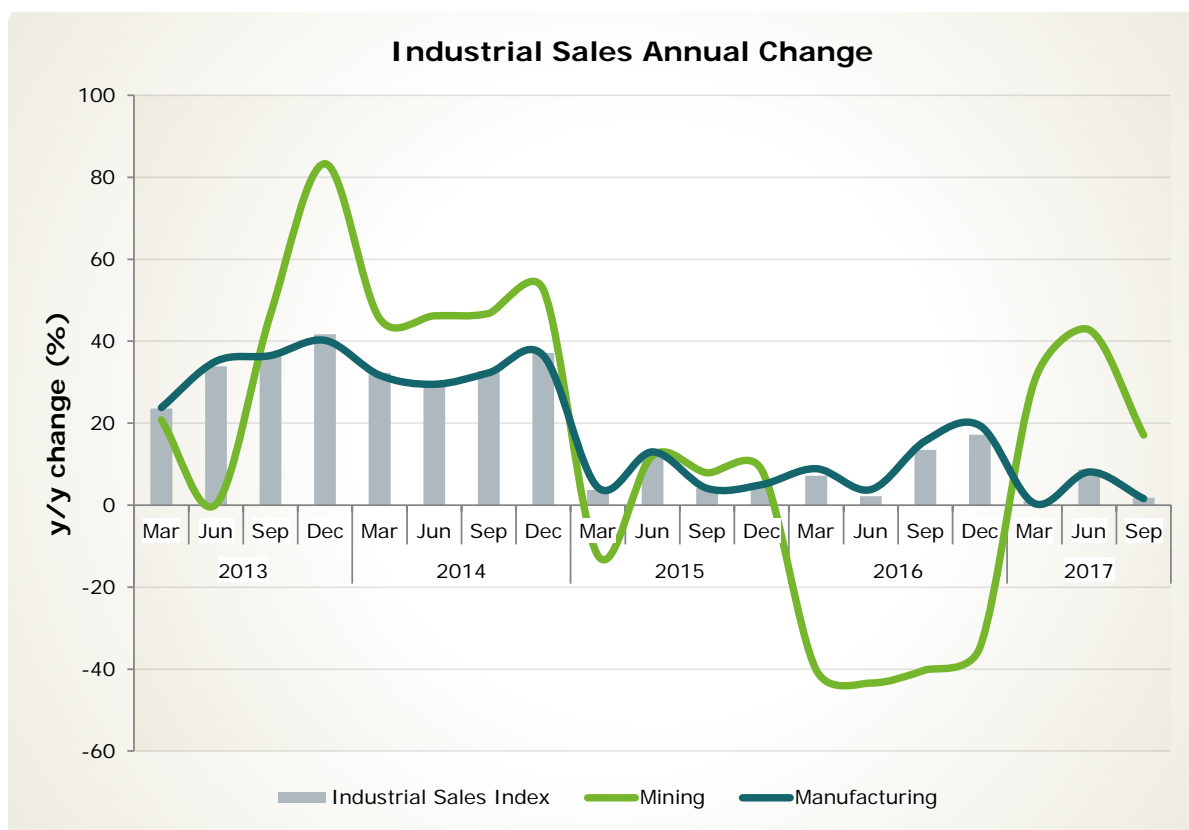


Source: SORS

## 2.3. INDUSTRIAL SALES

### *Industrial sales expanded by 1.8% y/y in September 2017*

The industrial sales increased slightly in September, by 1.8% y/y, according to SORS. The manufacturing industry recorded a 1.6% annual increase in sales in September, while the mining sector posted a 17.1% annual rise.



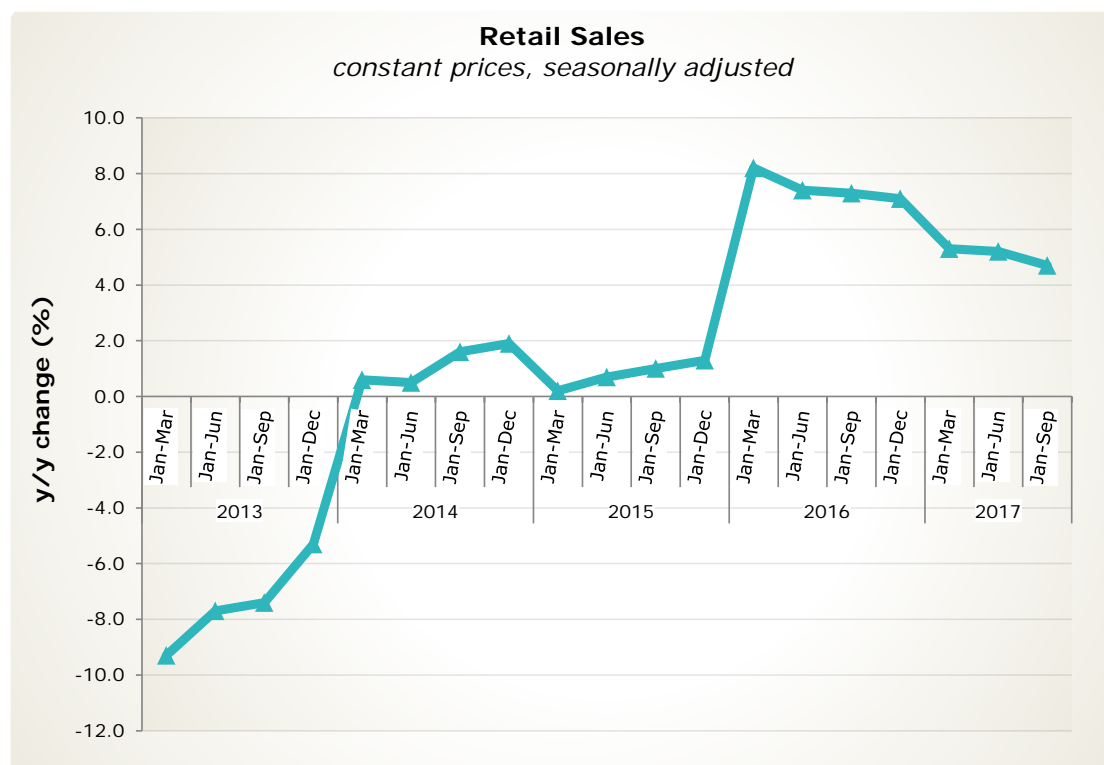
## 2.4. WHOLESALE/RETAIL

### *Retail sales grew by 4.7% y/y in constant prices in Jan-Sept 2017*

In the period Jan-Sept 2017, retail sales in Serbia rose by 4.7% y/y, down from 7.3% y/y in the same period of 2016. In September 2017 alone, Serbia's retail sales grew by 2.1% y/y in constant prices, according to data from SORS. In current prices, retail sales went up by 9.4% y/y with sales of food, beverage and tobacco increasing by 7.9% y/y, non-food products, except motor fuels rising by 9.8% y/y and motor fuels achieving 12.3% growth due to the oil price recovery on the international markets.

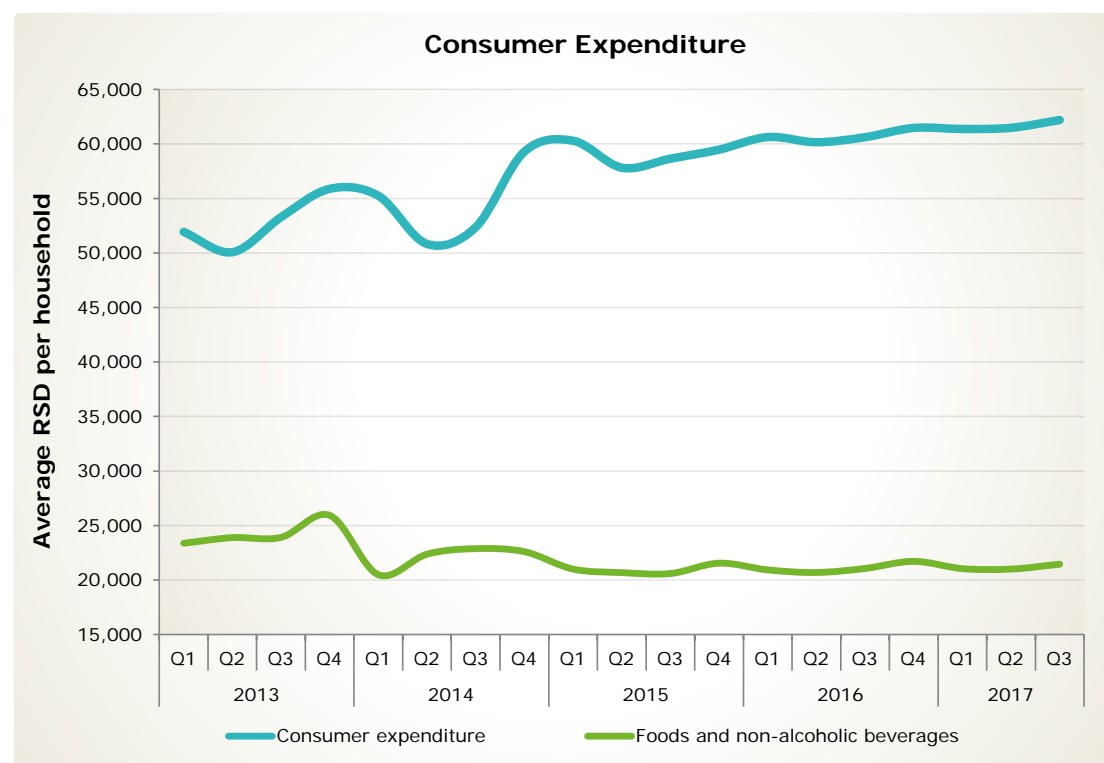
The data for September 2017 indicates that the total value of sales and purchase of agricultural, forestry and fishing products in the Serbia increased by 28.4% y/y at current prices, and by 16.3% y/y at constant prices.





Source: SORS

In Q3 2017, consumer expenditure increased by 2.6% y/y to an average of RSD 62,190 per household. Expenditure on food and non-alcoholic beverages had the highest share in the total consumer expenditure, of 34.5%. The latter increased by 1.8% y/y to RSD 21,456 per household.



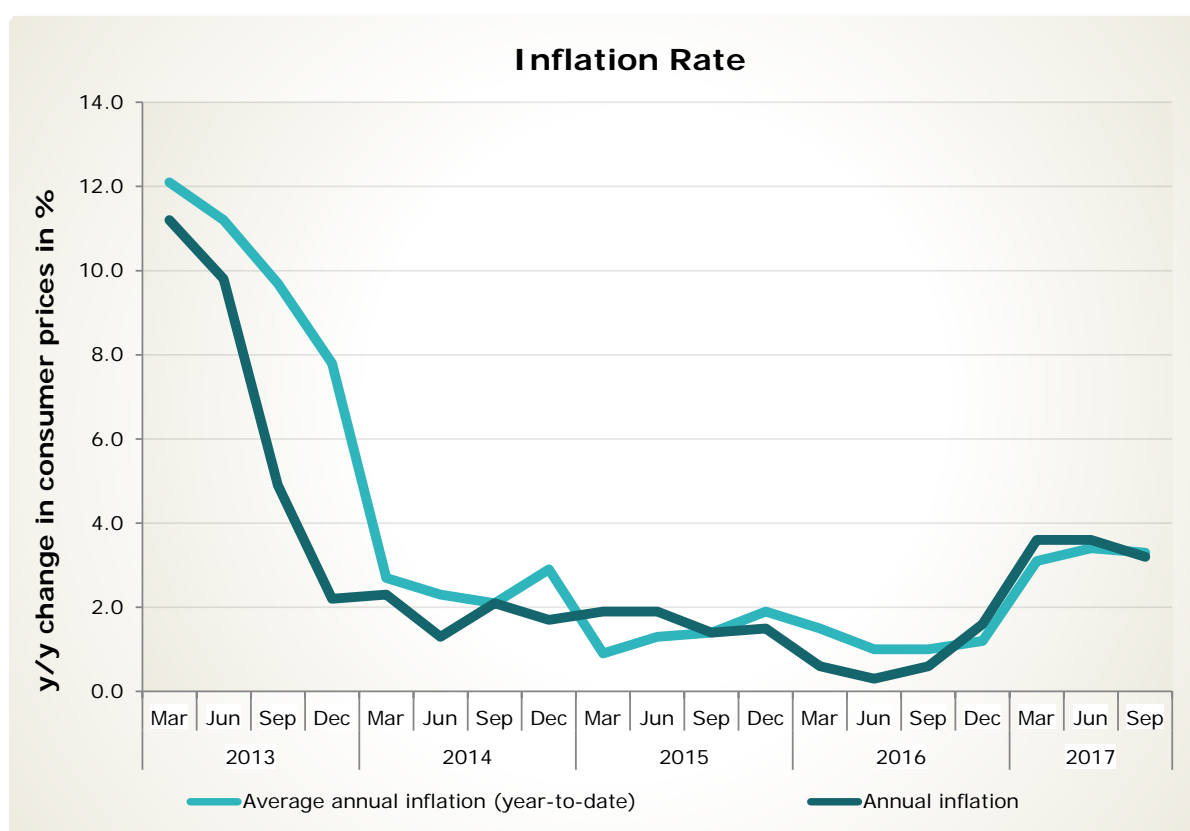
Source: SORS

## 2.5. INFLATION

### *Inflation went up in Q3 2017 to 3.3% y/y*

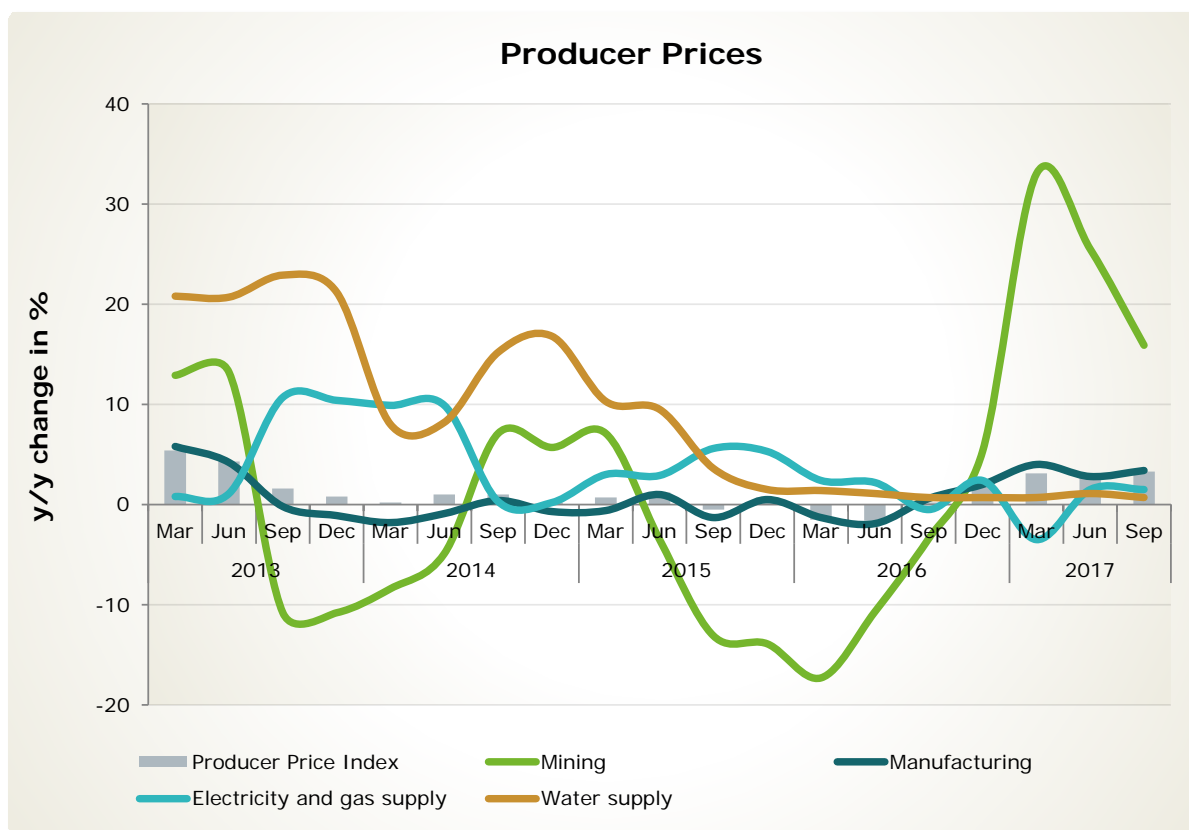
The average annual inflation increased to 3.3% in Q3 2017 from 1.0% in Q3 2016, according to SORS data. Headline inflation also went up, to 3.2% in September of this year compared to 0.6% in the same month of 2016.

Inflation pickup is determined mainly by the increase of consumer prices of recreation and culture activities by 7.1% y/y in the first nine months of 2017, followed by alcoholic beverages and tobacco with 6.3% and transport with 5.3% y/y. Clothing and footwear was the only category to post a decrease in consumer prices in Jan - Sept 2017, of 1.6% on the year.



Source: SORS

Producer prices (PPI) increased by 3.3% y/y in September 2017, according to SORS data. The mining and quarrying sector reported the sharpest increase in producer prices, of 15.9%. The manufacturing sector showed increase of the prices by 3.4%, while electricity and gas supply and water supply sectors prices notched up by 1.5% and 0.7%, respectively.



### 3. LABOUR MARKET

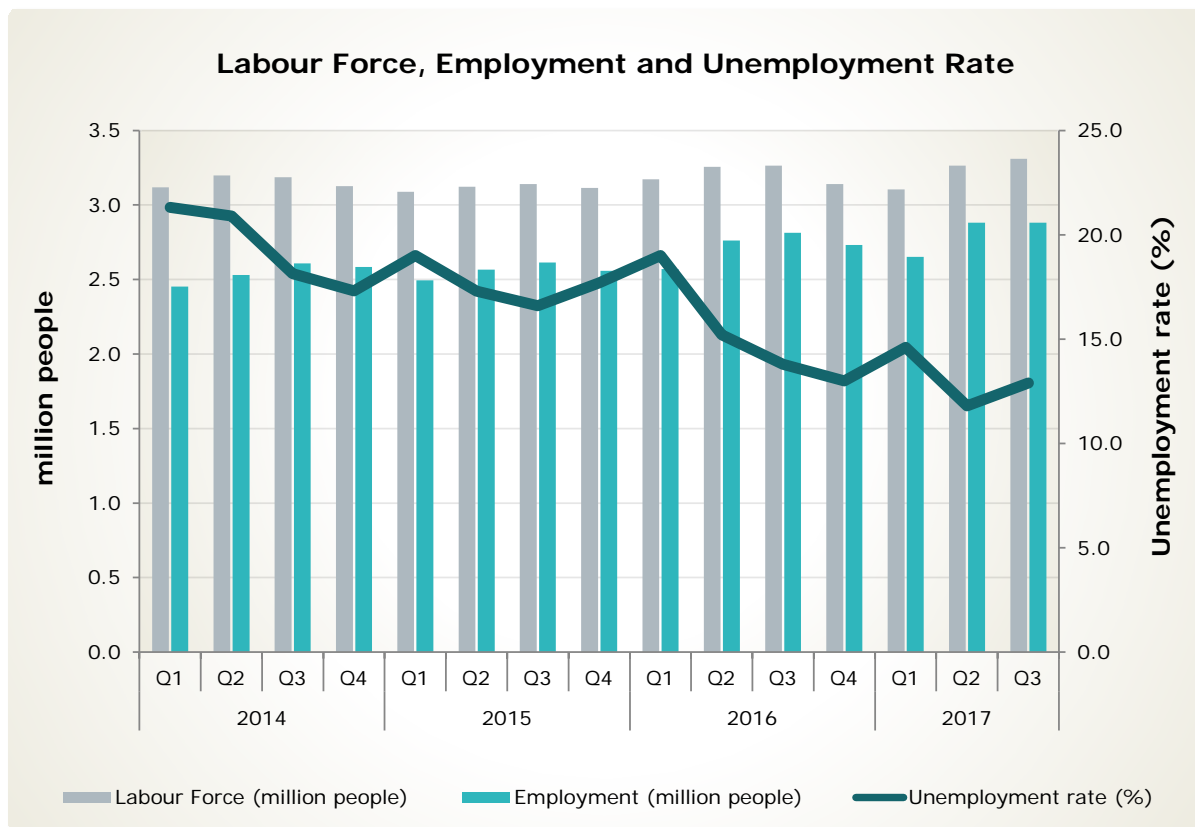
#### *Unemployment rate went down y/y to 12.9% in Q3 2017*

Unemployment rate in Serbia decreased to 12.9% of the total labour force in Q3 2017 from 13.8% in Q3 2016, according to data of SORS. On a quarterly basis, the unemployment rate increased from 11.8% in Q2 2017.

The employed population aged 15 years and older was 2.882 million, up by 2.4% y/y. The rise in employment on an annual basis is due to continued economic growth and stepped-up activities aiming to cope with the grey economy, according to NBS.

Youth (population aged 15-24) unemployment rate also went down, to 28.8%, compared to 28.9% as of June 2017, but was higher than the 28.5% in September 2016.

The average monthly net salary in Q3 2017 was RSD 47,844, up by 3.9% y/y.



## 4. CONSTRUCTION AND REAL ESTATE

### *The number of building permits went up by 32.3% y/y in Q3 2017*

The number of permits for new buildings in Serbia was 1,745 in Q3 2017, including 924 for housing projects and 40 for office buildings, according to SORS data.

The total number of permits for new buildings issued in the period under review increased by 32.3% compared to Q3 2016. Permits for housing projects went up by 22.5%, while permits for office buildings rose by 14.3%.

The total built-up area of office units, covered by the permits, was 61,792 sq m, down by 44.8% on the year. The total built-up area of new housing was 597,837 sq m in Q3 2017, or an increase of 34.4% compared to the same period of the previous year.

## 5. MONEY SUPPLY AND BANKING SYSTEM

### 5.1. RSD EXCHANGE RATE

The average exchange rate of the EUR against RSD inched down to RSD 119.8 in Q3 2017 from RSD 123.3 a year earlier, according to National Bank of Serbia (NBS).

Average Annual RSD Exchange Rate			
Foreign Currency	Q3 2017	Q2 2017	Q3 2016
EUR	119.8	122.9	123.3
USD	102.0	111.8	110.5
GBP	133.4	142.8	145.2
CHF	105.9	113.4	113.2

### 5.2. MONETARY POLICY

*The national bank decreased the policy rate to 3.75%*

The NBS Executive Board lowered the key policy rate to 3.75% in September 2017 from the previous 4.0% rate as the bank projects inflation to move within the new target band of 1.5%-4.5% around the bank's target inflation of 3.0%. The NBS expected that the gradual increase in domestic aggregate demand and inflation in the euro area would have a more inflationary impact in the period ahead, while the high base effect of petroleum product prices would act as a damper.

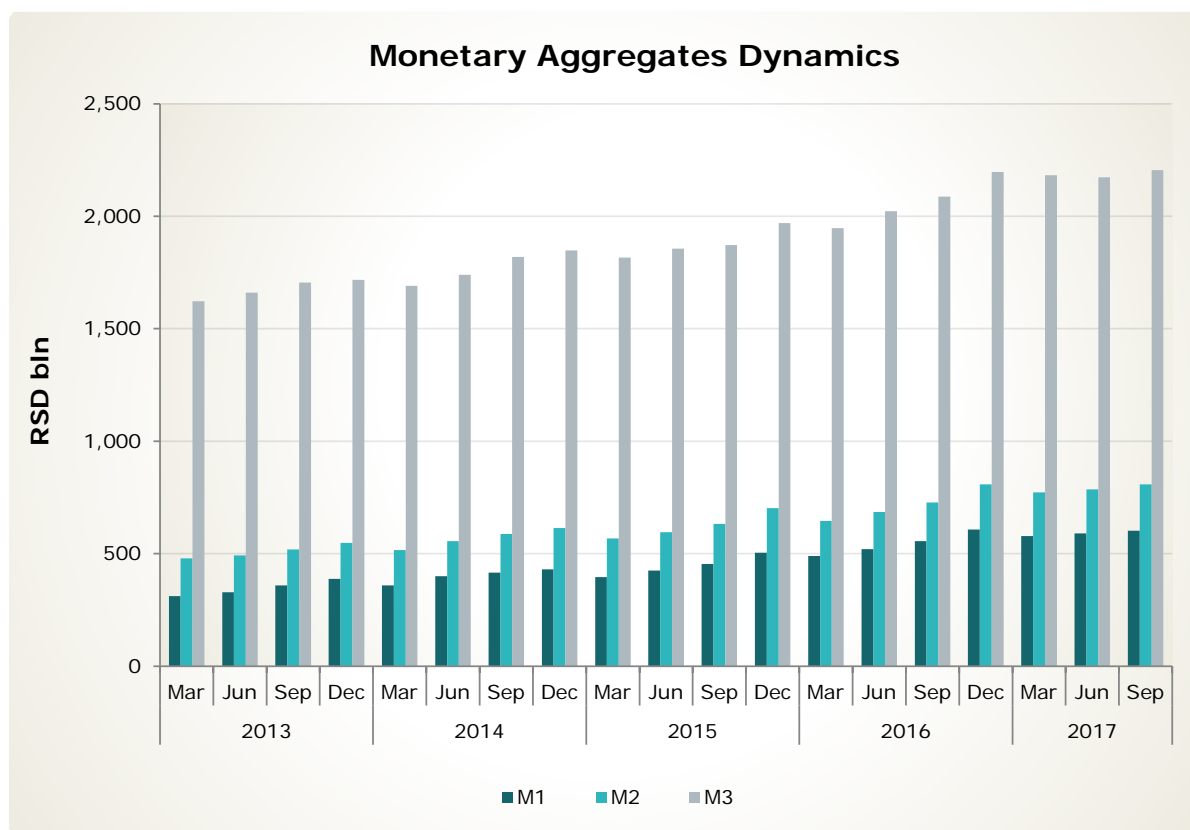
### 5.3. MONETARY AGGREGATES

*Money supply growth was 5.6% y/y at the end of September 2017*

Broad money (money aggregate M3) increased by 5.6% y/y and reached RSD 2,204.5 bln as of September 2017, according to data provided by NBS. Growth in monetary aggregate M3 was driven by high growth in RSD and FX deposits of corporates and households, resulting from the economic growth and at the same time signals future economic strength.

The M2 money supply also grew, by 11.2% y/y, to RSD 808.3 bln.

Money aggregate M1, or narrow money, jumped by 8.3% to RSD 602.7 bln.



Source: NBS

## 5.4. BANKING AND INSURANCE

### *Household loans increased by 8.4% y/y in September 2017*

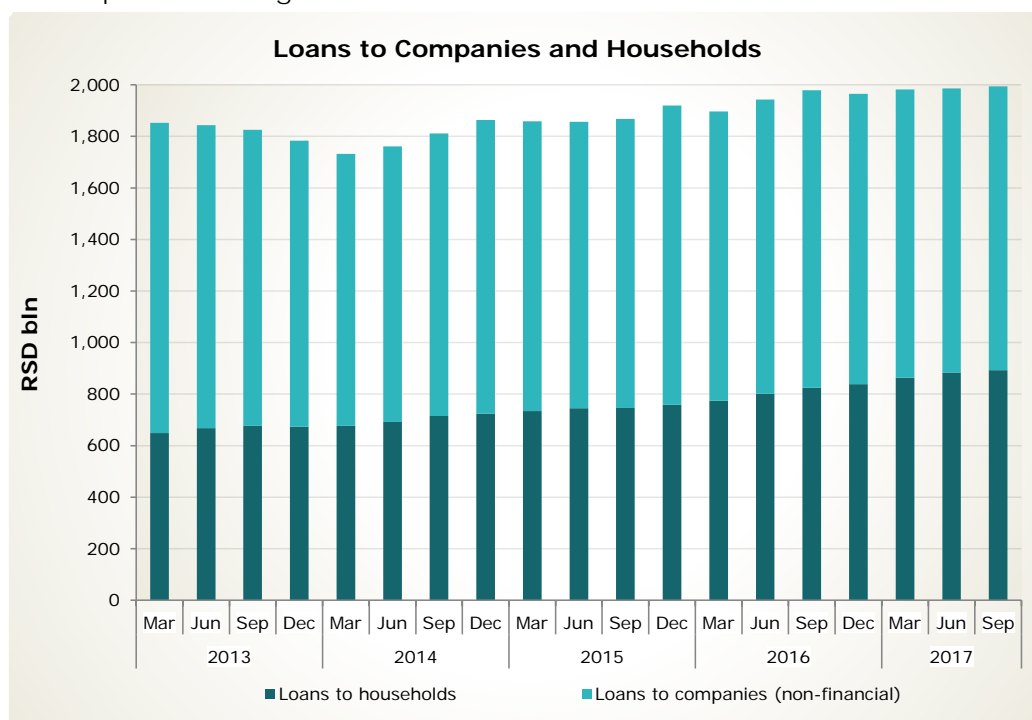
Loans to the non-government sector totalled RSD 1,994.2 bln as of September 2017, up from RSD 1,978.9 bln a year earlier, according to NBS. Loans to non-financial corporations went down by 4.6% y/y to RSD 1,101.2 bln.

According to the December 2017 NBS survey, banks relaxed credit standards for newly approved corporate and household loans in Q3 2017 primarily due to strong interbank competition, lower costs of funding and higher risk propensity, which, together with further growth in economic activity, should contribute to the easing of standards that is also expected in Q4 2017.

Household loans rose by 8.4% y/y to RSD 893.0 bln in September 2017, predominantly supported by cash loans, and increasingly more by elevated housing lending, according to NBS data. House purchasing loans decreased by 0.2% to RSD 355.2 bln on higher refinancing of existing housing loans.

Consumer loans increased by 4.1% on the year and stood at RSD 20.8 bln. According to the December 2017 bank survey of NBS, the easing of credit standards for households continued in Q3 2017. There was a considerable increase in demand, primarily for those loans for which

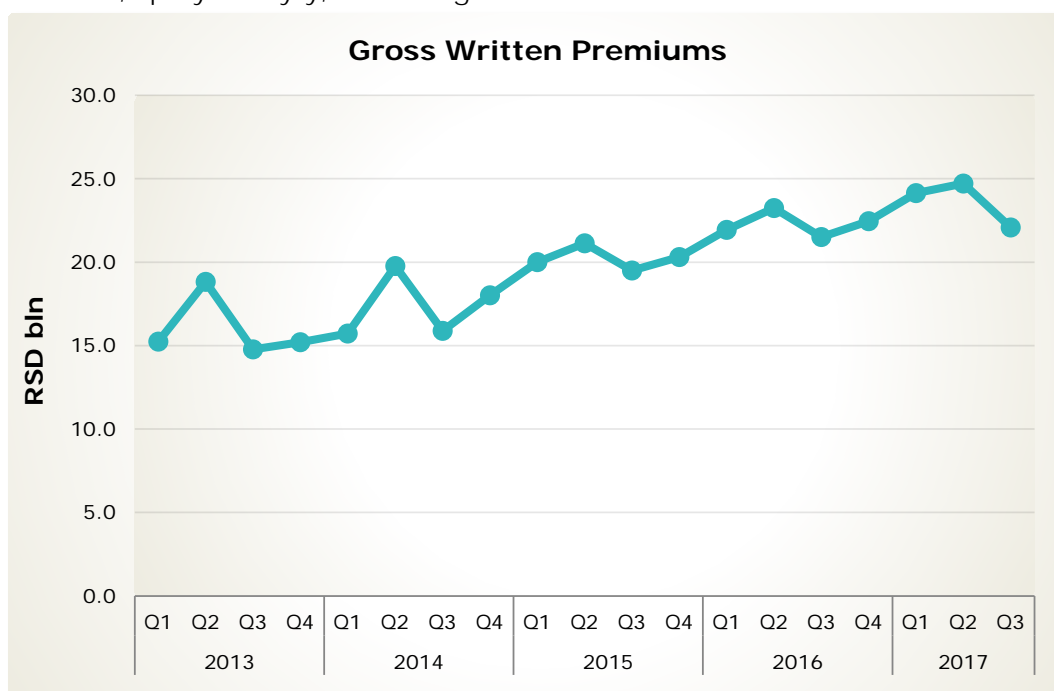
standards were relaxed the most – cash loans and refinancing loans, as well as FX-indexed housing loans. Loan demand was pushed up mostly by the improved general economic situation and positive changes in the real estate market.



Source: NBS

## Insurance premium income up 2.6% y/y in Q3 2017

The total gross written premiums of the non-life and life insurance companies were RSD 22.069 bln in Q3 2017, up by 2.6% y/y, according to NBS data.



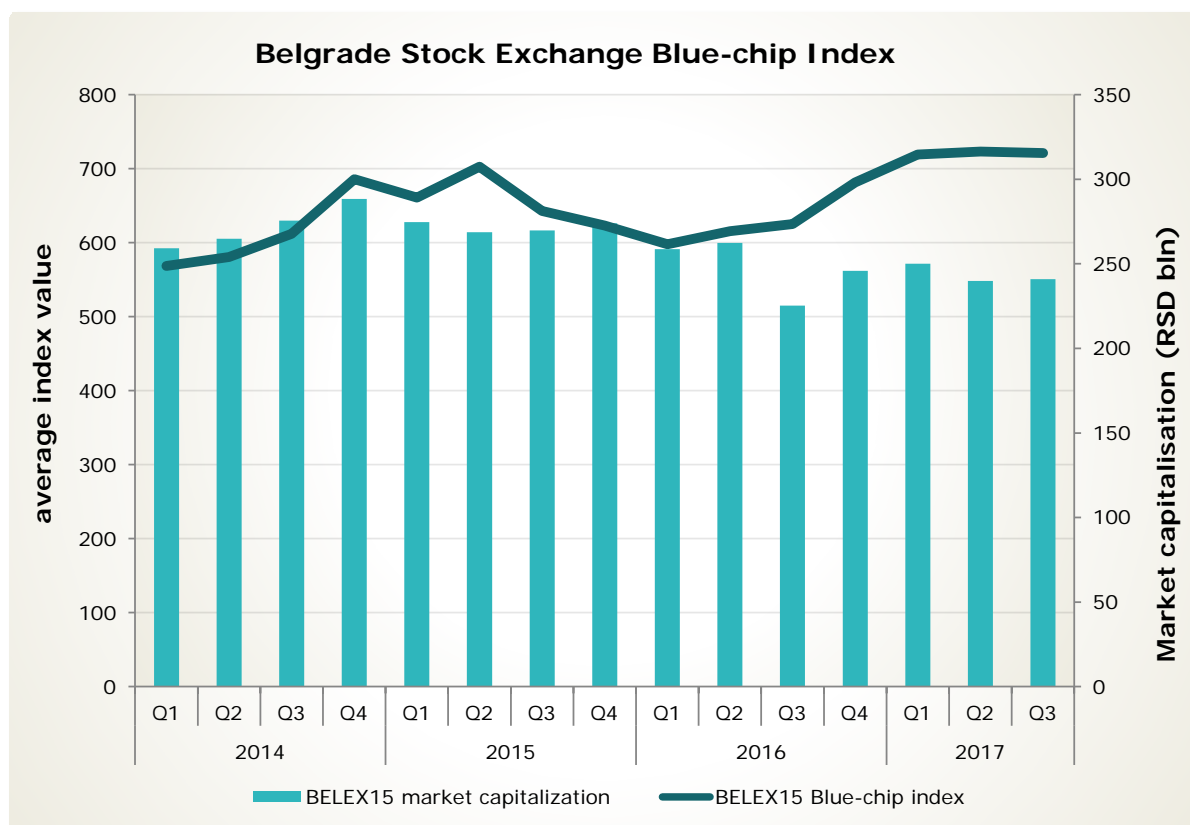
Source: NBS

## 6. CAPITAL MARKETS

*Blue-chip index BELEX15 went down by 0.3% q/q in Q3 2017*

The average value of BELEX15, the blue-chip index of the Belgrade Stock Exchange (BELEX), decreased by 0.3% q/q to 721 points in the third quarter of 2017.

The total turnover of BELEX increased by 11.9% q/q to RSD 16.763 bln in Q3 2017. The number of transactions was 15,732 versus 23,109 a quarter ago.



Source: BELEX

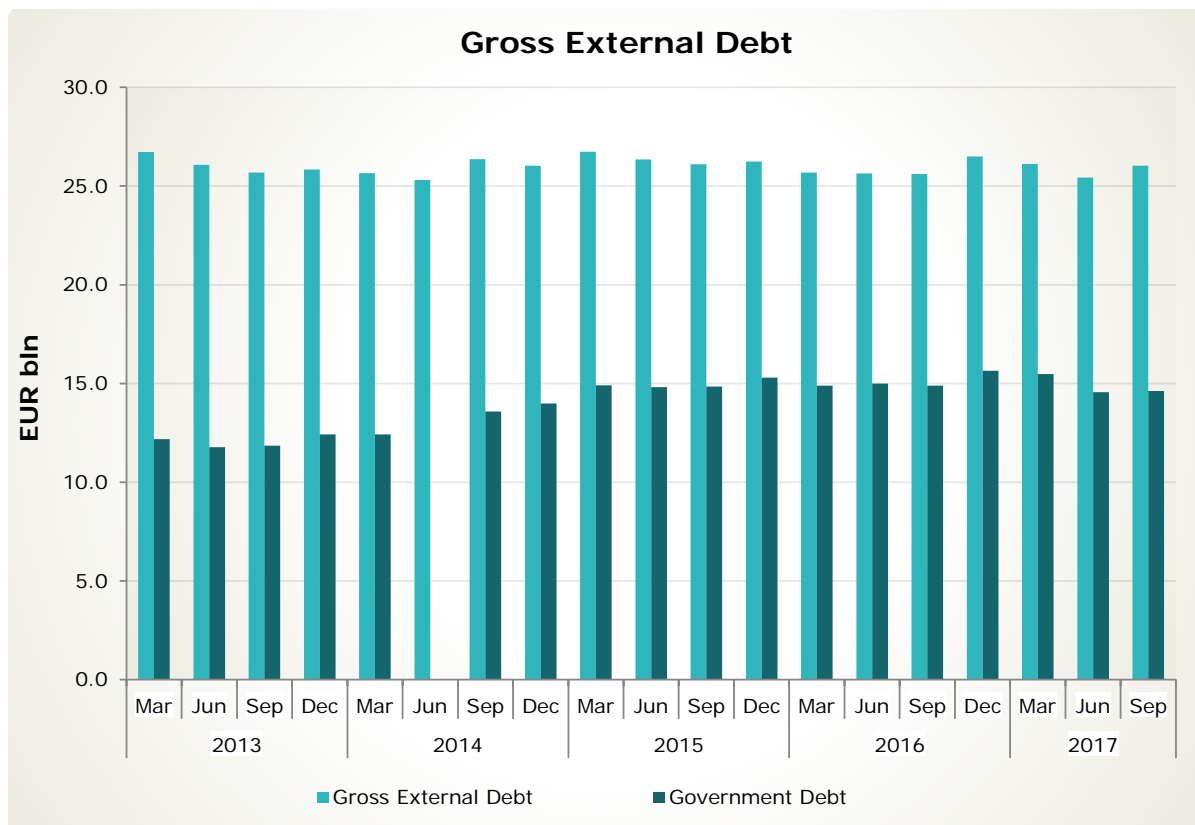
## 7. EXTERNAL SECTOR

### 7.1. FOREIGN DEBT

*The gross external debt went up 1.6% y/y to EUR 26.033 bln at end-September 2017*

The gross external debt increased by 1.6% y/y, totalling EUR 26.033 bln at the end of September 2017, according to NBS. In comparison to June 2017 the gross external debt inched up by EUR 0.608 bln.





Source: NBS

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

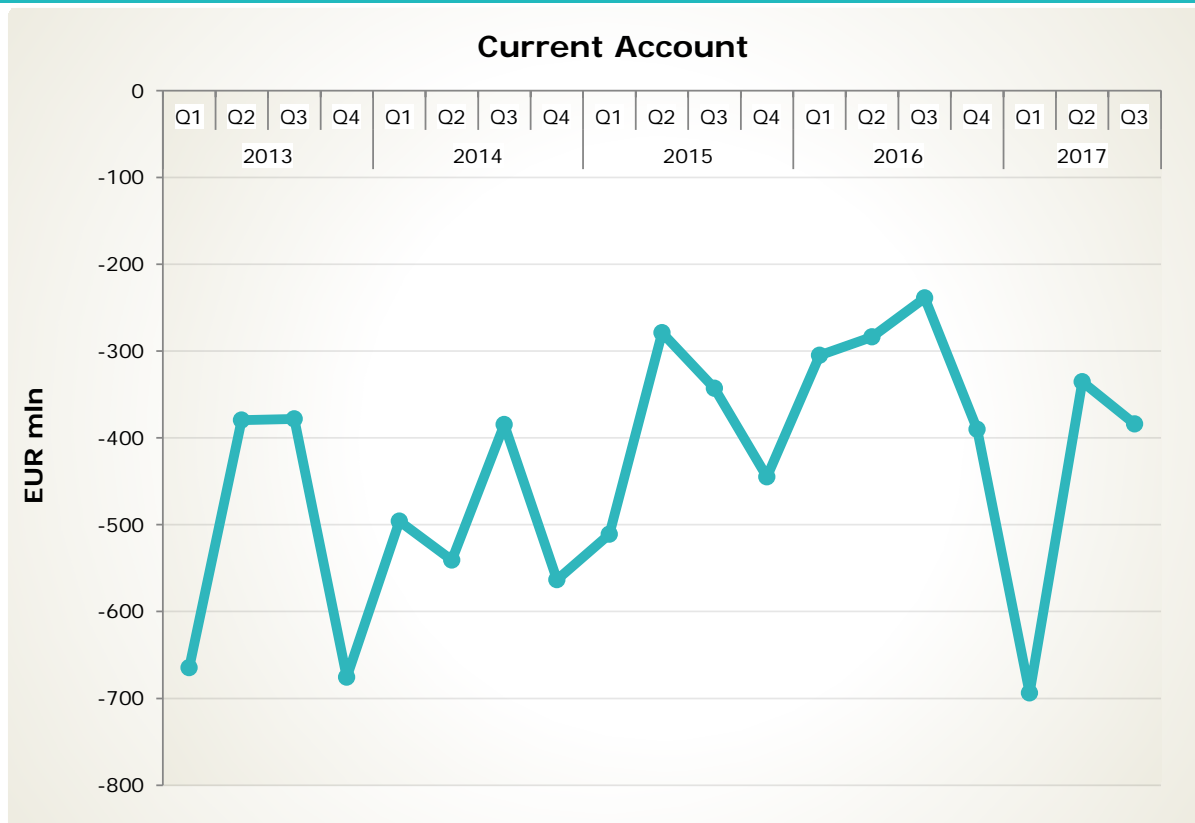
## 7.2. BALANCE OF PAYMENTS

### Current account gap expanded y/y in Q3 2017 on worsening trade balance

For the third quarter of 2017, the current account deficit came in at EUR 384.0 mln, according to central bank data. The increasing current account gap was a result of the worsening trade deficit.

According to a World Bank forecast, the current account gap is expected to worsen to 3.9% of GDP in 2017 and 4.9% of GDP in 2019 from 3.2% in 2016.

Secondary income in Q3 2017 amounted to EUR 841.6 mln, up from EUR 791.6 bln in Q3 2016, or a 6.3% increase on annual basis.



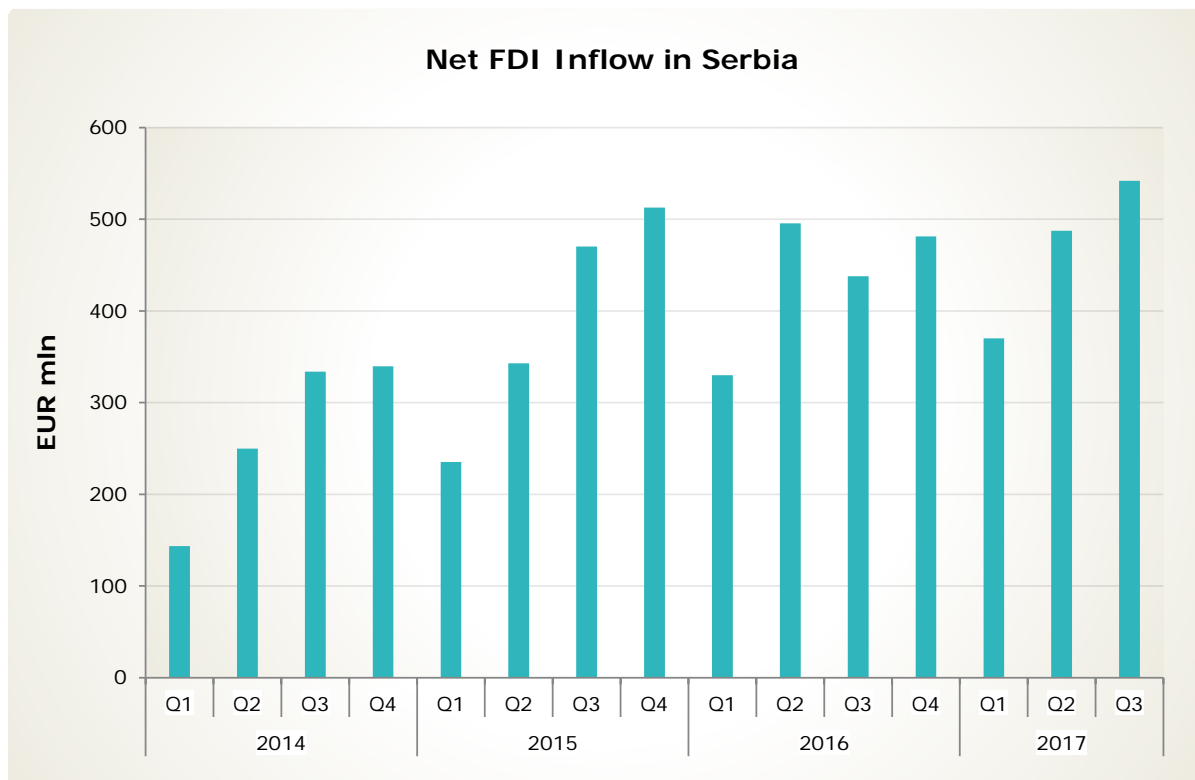
Source: NBS

### 7.3. FDI

#### Net FDI inflow stood at EUR 542.0 mln in Q3 2017

The net Foreign Direct Investments (FDI) inflow in Serbia in Q3 2017 totalled EUR 542.0 mln, according to NBS. The bulk or 75% of the investments came from EU members, primarily the Netherlands, Italy and Germany, and 12% from Asian countries, such as China, Taiwan, Hong Kong and UAE. The largest amounts were invested in manufacturing, construction, real estate and the financial sector.

The National bank of Serbia expects net FDI flows into the country in 2017 to amount to EUR 1.7 bln, encouraged by the macroeconomic stability, continued structural reforms and the improvement in the investment climate.



Source: NBS

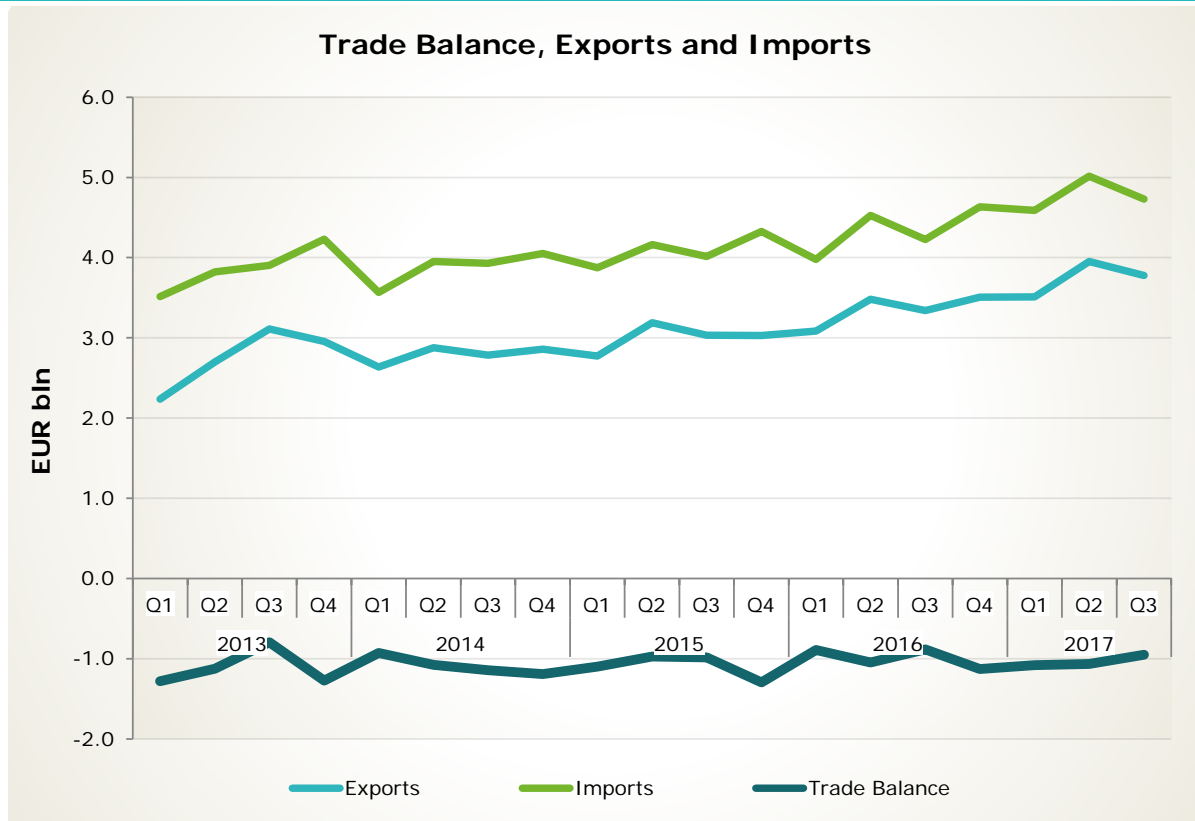
## 7.4. FOREIGN TRADE

### *Foreign trade deficit rose by 7.7% y/y in Q3 2017*

The trade deficit stood at EUR 0.952 bln in Q3 2017, up by 7.7% compared to the same quarter of the previous year, according to SORS.

In the period July – September 2017, exports totalled EUR 3.778 bln, up from EUR 3.340 bln a year earlier, while imports expanded by EUR 505.6 mln to EUR 4.730 bln.

Exports grew by 13.1% y/y in Q3 2017, almost at the same pace as the 13.6% y/y in Q2 2017. Imports also increased the pace of growth to 12.0% y/y from 10.8% y/y in the previous quarter.



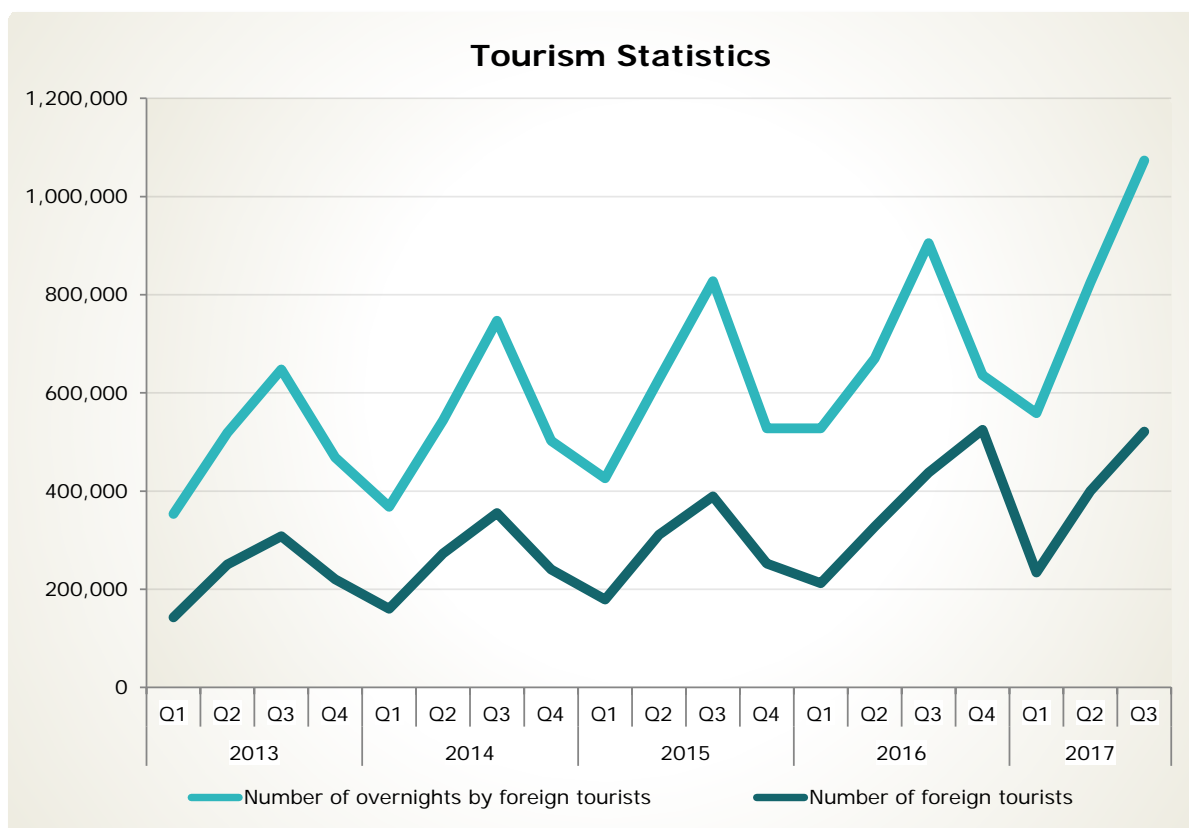
Source: NBS

## 7.5. TOURSIM

### *Number of foreign tourist overnights rose by 18.6% y/y in Q3 2017*

Tourist overnights of foreigners increased by an annual 18.6% y/y to 1,073,050 during the third quarter of 2017, slicing a 38.2% share of the total number of tourist overnights in the country, according to SORS data. The total number of tourist overnights jumped by 11.5% on the year to 2,805,693.

The number of foreign tourists also went up by 19.1% y/y to 521,434. Most foreign tourists visiting Serbia in Q3 2017 came from Turkey – 9.1% of the total, followed by tourists from Germany, which accounted for 6.3% and Bosnia and Herzegovina with a 5.9% share.



Source: SORS

## 8. MAJOR DEVELOPMENTS

### ***Serbia's GDP growth could reach 4% next year***

September 27, 2017

Serbia's economy is expected to expand by 2.3% this year, before reaching a growth rate of between 3.5% and 4.0% next year, the country's finance minister Dusan Vujovic said.

[Read the full story here](#)

### ***EC to target accession of Serbia, Montenegro with 2025 perspective***

September 15, 2017

The European Commission (EC) said it plans to prepare a strategy for the accession of Serbia and Montenegro to the European Union (EU) with a 2025 perspective.

[Read the full story here](#)

### ***IFC lending EUR 19.1 mln for Serbian wind farm***

September 12, 2017

The International Finance Corporation (IFC) said it is lending EUR 19.1 mln to Belgian renewable energy firm Elicio for the construction of the 42 MW Alibunar wind farm in Serbia.

[Read the full story here](#)

***Serbia, Romania to sign roadmap on gas link soon***

August 30, 2017

Serbian energy minister Aleksandar Antic said the government expects to sign a roadmap with Romania on the construction of the Mokrin-Arad natural gas interconnection project in the short term.

[Read the full story here](#)

***Serbia has access to EUR 1.5 bln IPA grants in 2014-2020***

August 29, 2017

The government uses the IPA grants to build sewerage and water processing systems, schools, hospitals, roads, helping the country to recover from the floods in 2015.

[Read the full story here](#)

***Serbia's economy ministry to co-finance infrastructure projects worth total RSD 3.0 bln***

July 17, 2017

Serbia's economy ministry said it will co-finance the implementation of 78 infrastructure projects worth a total RSD 3.0 bln this year.

[Read the full story here](#)

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