

## **SERBIA ECONOMY REPORT**

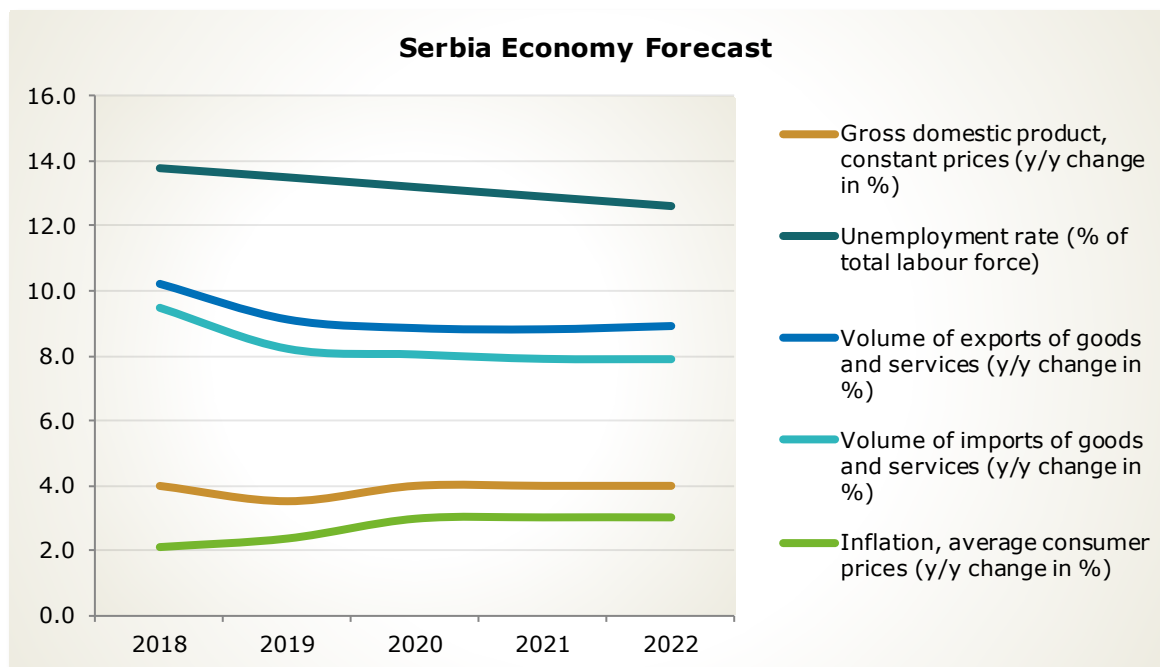
### Q3 2018

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

SERBIA – MACROECONOMIC SNAPSHOT AS OF Q3 2018	
<b>GDP Growth</b>	3.8 % y/y
<b>Industrial output</b>	2.3% y/y
<b>Industrial sales</b>	2.3% y/y
<b>Retail sales</b>	4.0% y/y
<b>Average annual inflation</b>	1.9% y/y
<b>Unemployment rate</b>	11.3%
<b>Number of building permits</b>	-5.4% y/y
<b>Money supply growth</b>	8.2% y/y
<b>Household loans</b>	11.7% y/y
<b>BELEX15 blue-chip index</b>	-0.7% q/q
<b>Gross external debt</b>	EUR 26.517 bln
<b>Current account gap</b>	EUR 459.2 mln
<b>Net FDI inflow</b>	EUR 503.2 mln
<b>Foreign trade deficit</b>	EUR 1.328 bln
<b>Number of foreign tourist overnights</b>	18.6% y/y



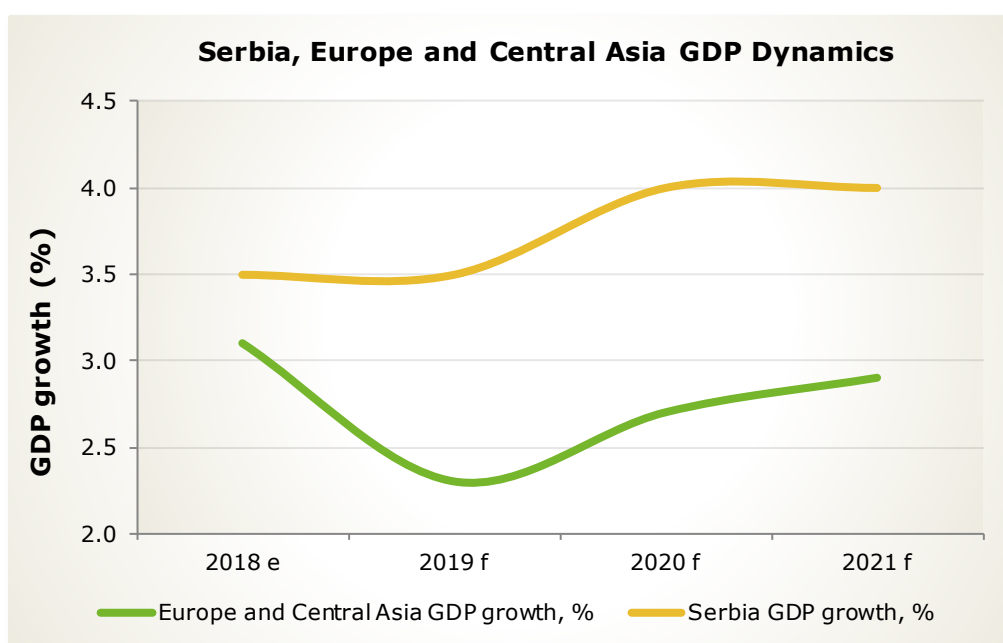
Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2018

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, *Global Economic Prospects*, January 2019

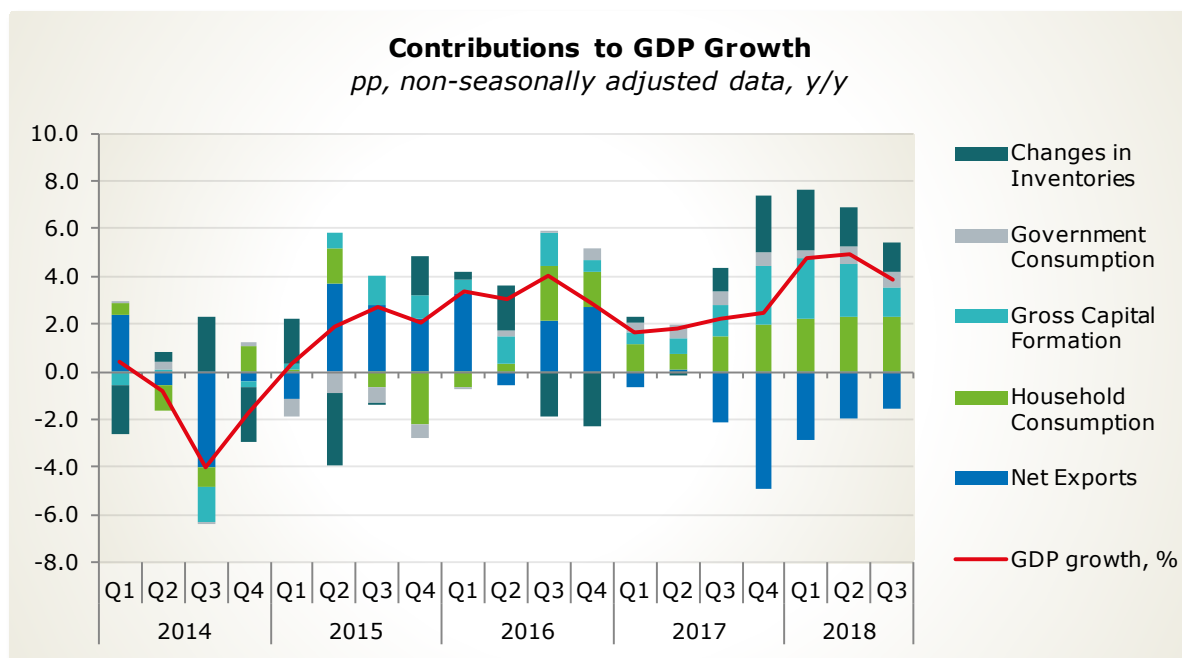
According to the World Bank estimates from January 2019, GDP growth of Serbia is likely to come in at 3.5% in 2018, up from 1.9% in 2017. This is higher than the projected growth for Europe and Central Asia, of 3.1% in 2018.

## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

#### *GDP growth remained strong in Q3 2018*

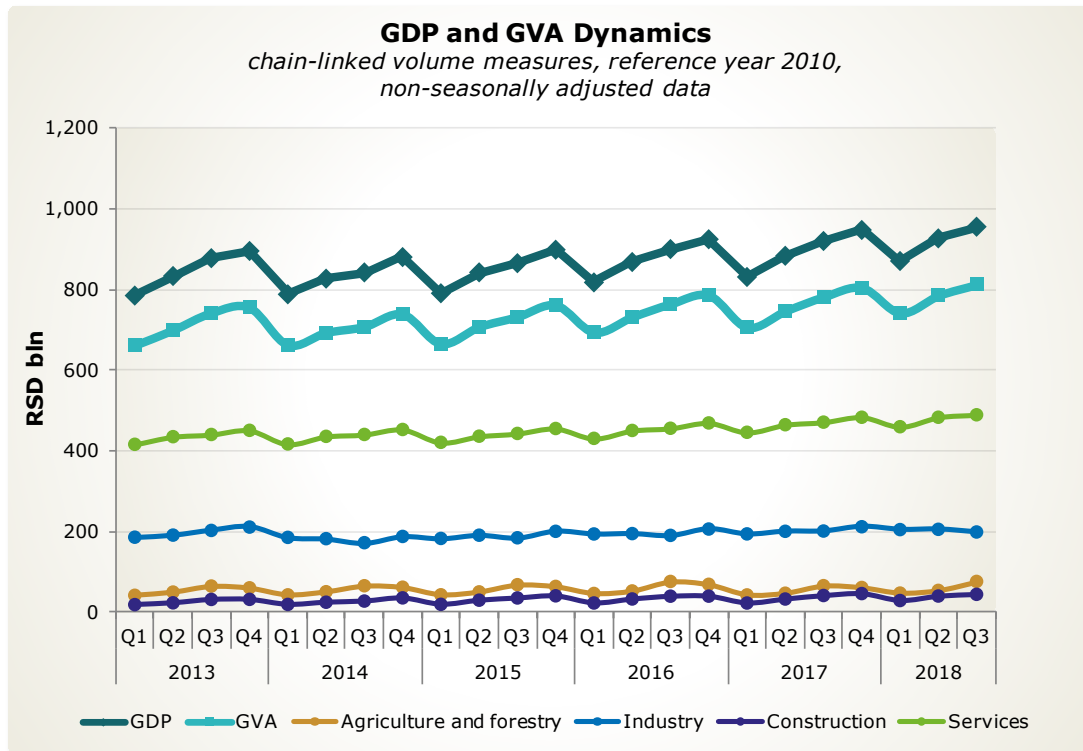
In Q3 2018, the Serbian economy grew by a real 3.8% y/y, data from the National Statistics showed. Despite the solid performance, the growth decelerated from 4.9% in the previous quarter. In Q3 2018, the economy was fueled by stronger export of goods and services and household consumption, which contributed by 4.6 pp and 2.3 pp, respectively, to the overall annual GDP growth. Final consumption (household and government) advanced by 3.3% y/y in real terms in Q3 2018, while gross capital formation increased by 7.0% y/y.



Source: SORS; SeeNews calculations

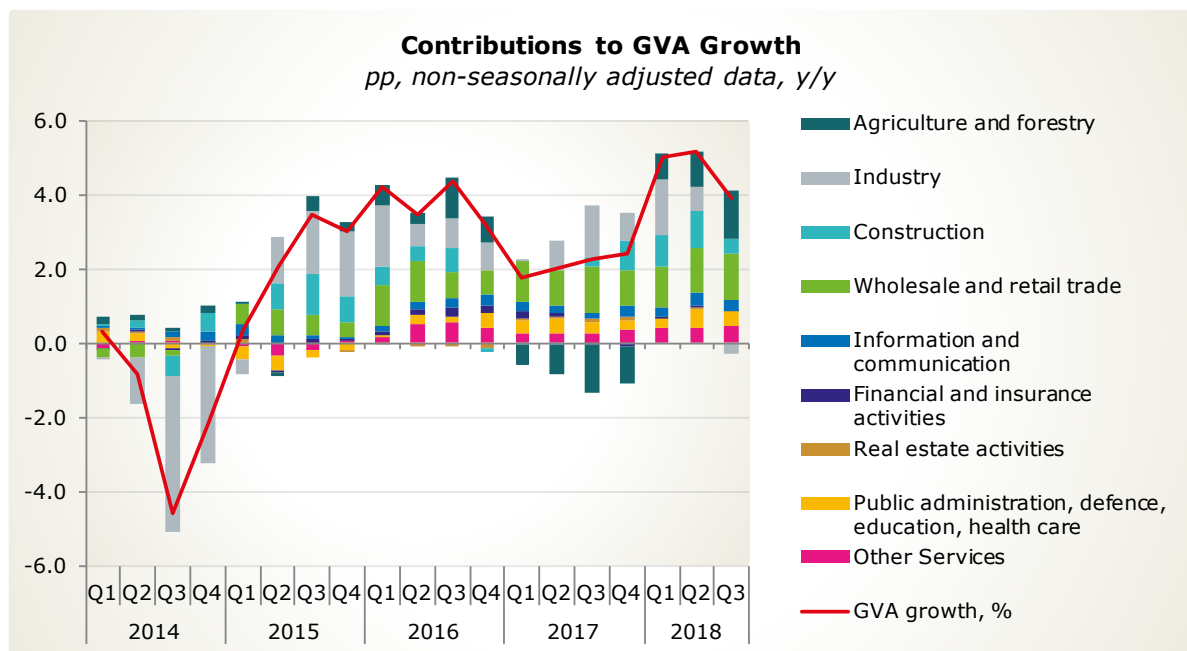
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual

The gross value added (GVA) generated by the national economy increased by 3.9% y/y in Q3 2018 and totalled RSD 812.2 bln. The construction sector went up in value by 7.0% y/y and accounted for 5.5% of the total GVA. The agriculture and forestry sector recorded a 15.9% annual increase, slicing a 9.4% share in the total GVA. The services sector's GVA increased by 3.9% to RSD 489.2 bln, while the industry sector registered an annual decline of 1.2% to RSD 198.8 bln.



Source: SORS

Sector wise, the largest contributor to the annual GVA growth was the services industry with 2.3 pp in Q3 2018. Other major contributors were agriculture and forestry – 1.3 pp, and wholesale and retail – 1.2 pp.



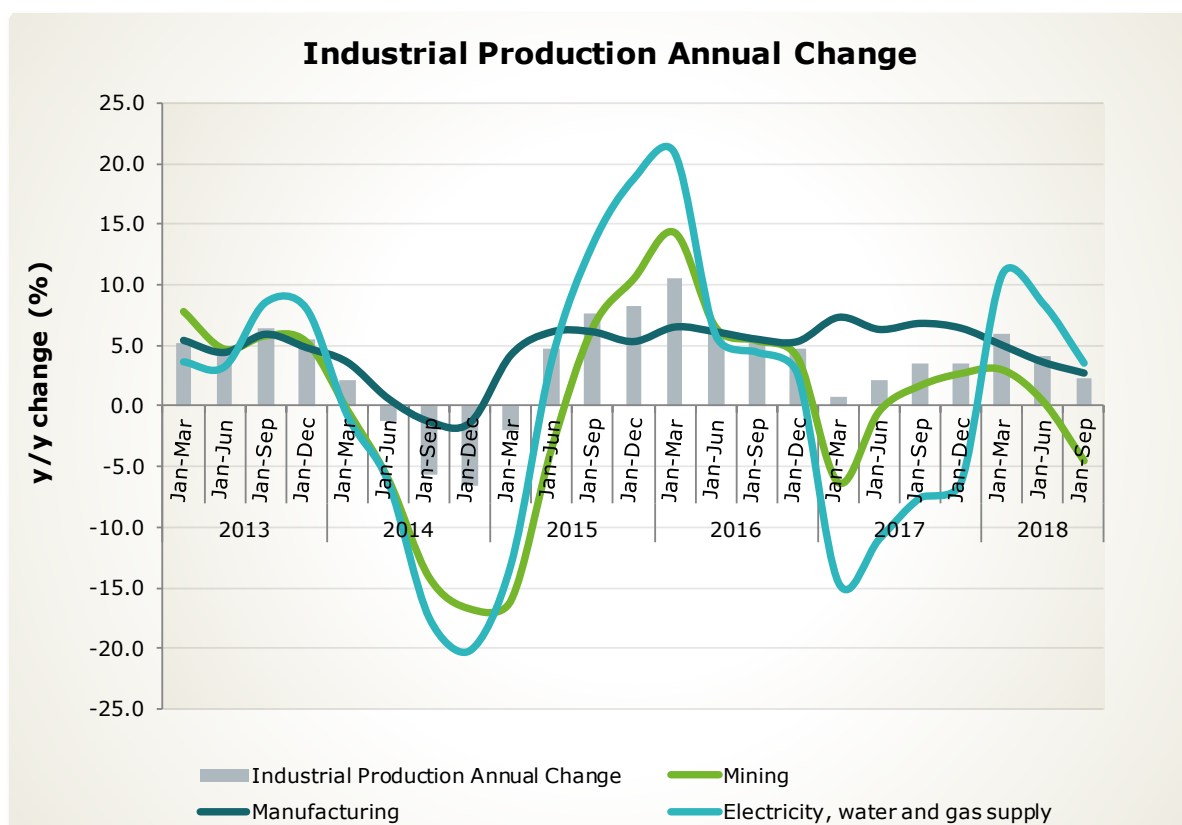
Source: SORS; SeeNews calculations

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

## 2.2. INDUSTRIAL OUTPUT

*Industrial output growth slowed down to 2.3% y/y in Jan-Sept 2018, from 4.2% y/y in H1 2018*

The industrial output reported an increase of 2.3%, in the first nine months of 2018, down from 4.2% in the half-year period, according to data from SORS. In comparison to January-September 2017, the output growth rate dropped by 1.2 pp. In the period under review, the highest annual output rise, of 3.6%, was registered by electricity, water and gas supply. The output of the manufacturing sector went up by 2.7% y/y, while mining output fell by 4.5%.

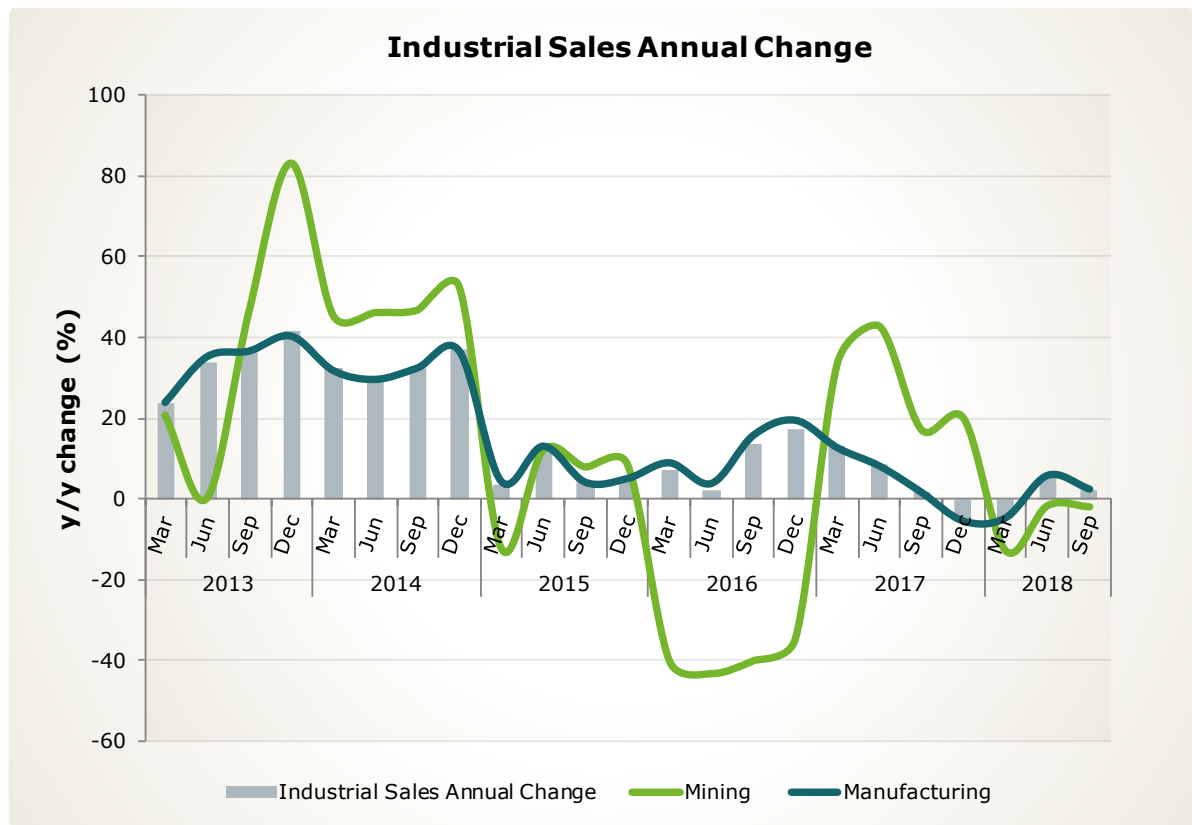


Source: SORS

## 2.3. INDUSTRIAL SALES

*Industrial sales went up by 2.3% y/y in September 2018*

The industrial sales increased in September 2018, by 2.3% y/y, according to SORS. The manufacturing industry recorded a 2.4% annual increase, while the mining sector posted a 2.0% annual drop. In August 2018, industrial sales growth was much stronger – 4.0%, while in July it was even sharper – 6.8%.



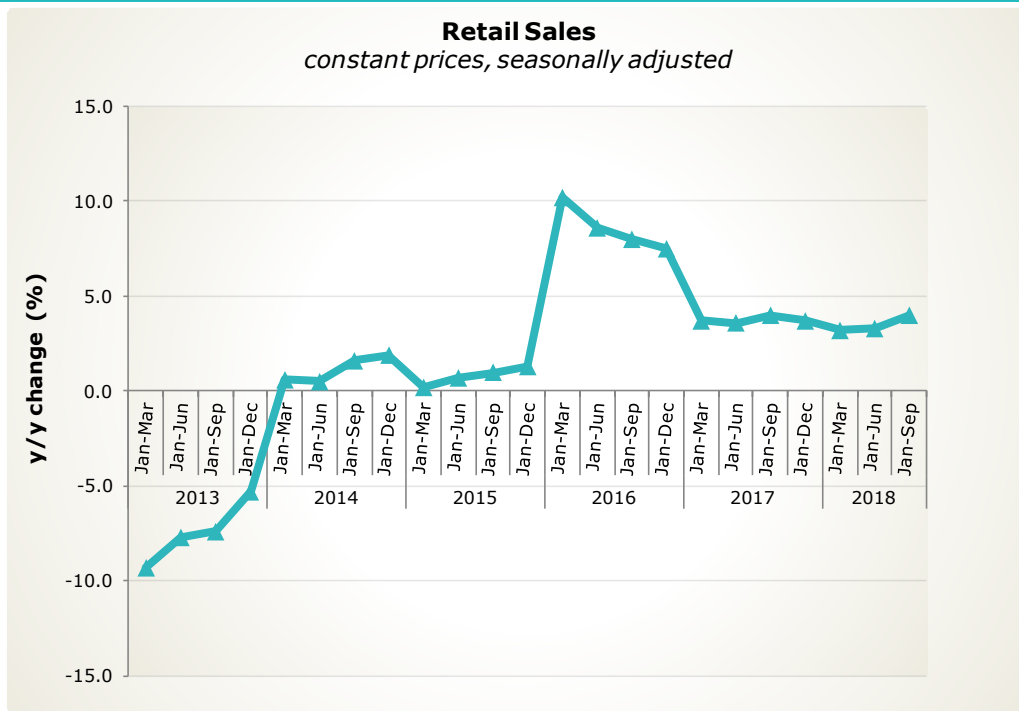
Source: SORS

## 2.4. WHOLESALE/RETAIL

### *Retail sales grew by 4.0% y/y in constant prices in Jan-Sept 2018*

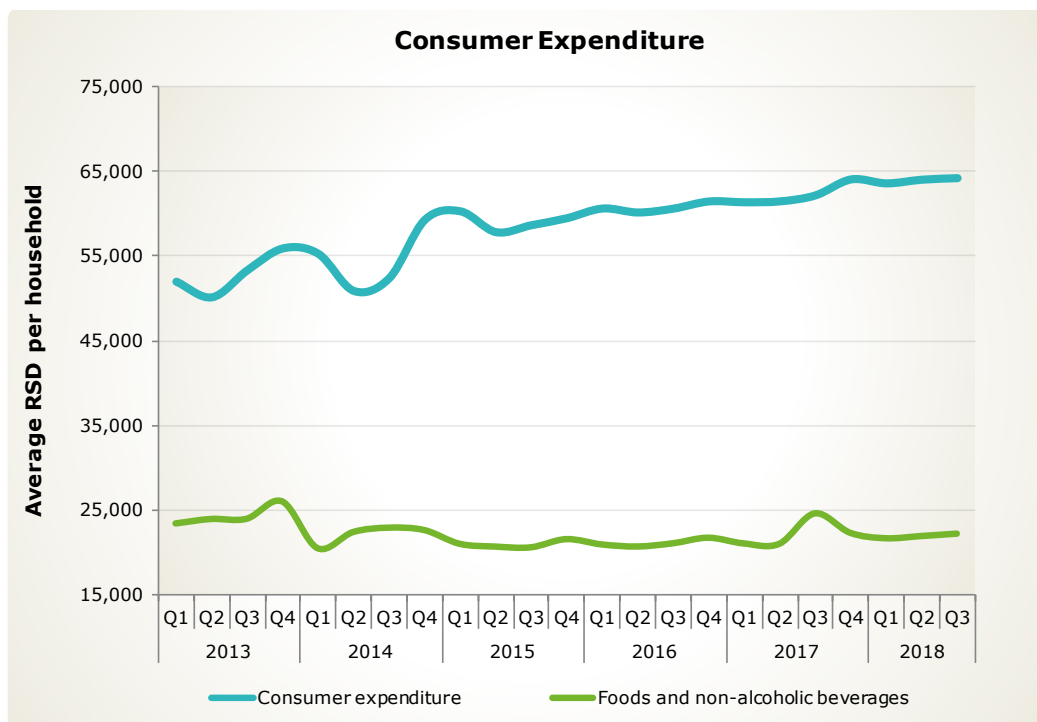
In the first nine months of 2018, retail sales in Serbia rose by 4.0% y/y in constant prices, up from 3.3% y/y rise in the first half of the year, according to SORS. In current prices the annual growth in January-September 2018 was higher – 6.5%, up from 5.2% in January-June 2018.

In terms of constant prices, the highest annual rise in retail trade in the first nine months of 2018 was registered by non-food products – 5.4%, followed by automotive fuel – 4.1%, and food, beverages and tobacco – 2.8%.



Source: SORS

In Q3 2018, consumer expenditure increased by 3.3% y/y to an average of RSD 64,237 per household. Expenditure on food and non-alcoholic beverages had the highest share in the total consumer expenditure, of 34.5%. The latter decreased by 9.6% y/y to RSD 22,189 per household.



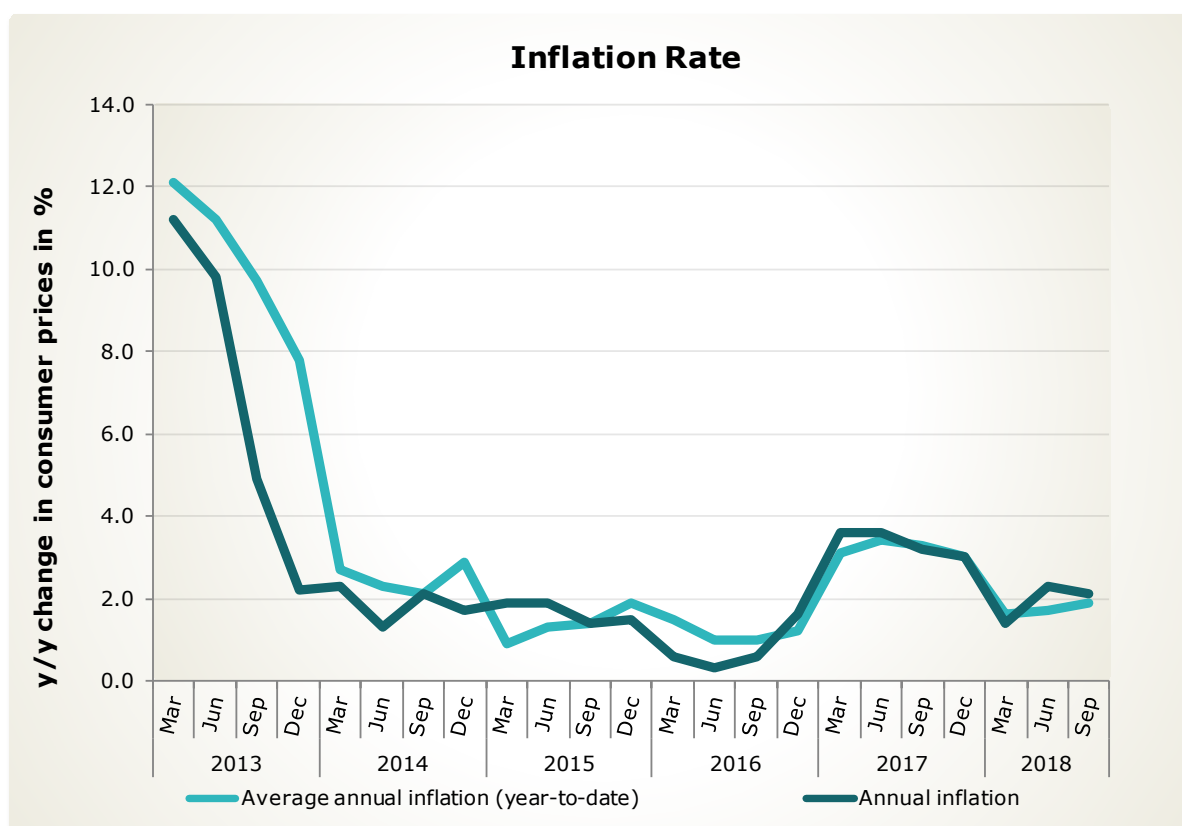
Source: SORS

## 2.5. INFLATION

### Average annual inflation of 1.9% as of September 2018

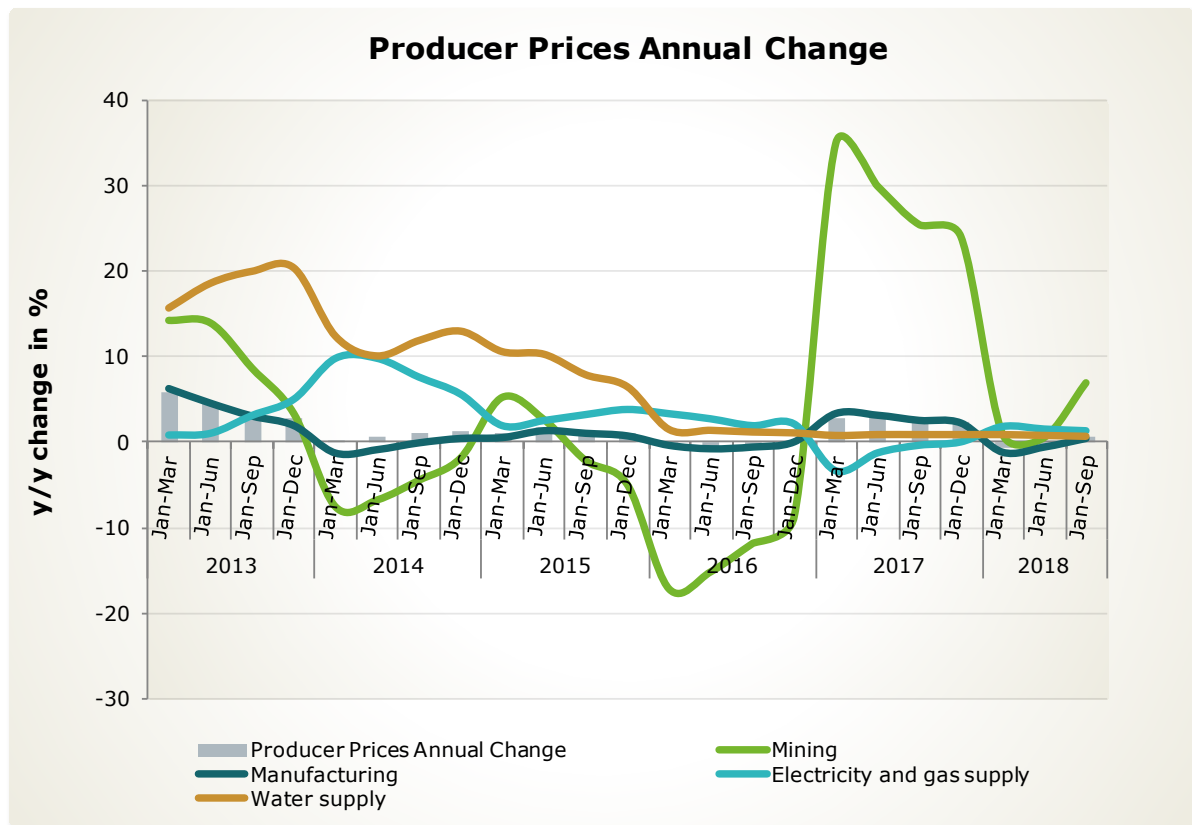
The average annual consumer inflation amounted to 1.9% in the first nine months of 2018, up from 1.7% inflation in the first half of 2018, according to SORS data.

Inflation in January-September 2018 was determined mainly by the increase in prices of alcoholic beverages and tobacco - 5.5%. Other consumer groups to report increase in prices included recreation and culture – 3.6%, and transportation – 2.2%. Clothing and footwear was the only group to post a decrease in prices, of 0.9%.



Source: SORS

Producer prices inched up by 0.7% y/y in the first nine months of 2018, according to SORS data. All sectors reported a rise, ranging from 0.5% for manufacturing to 6.9% for mining.



Source: SORS

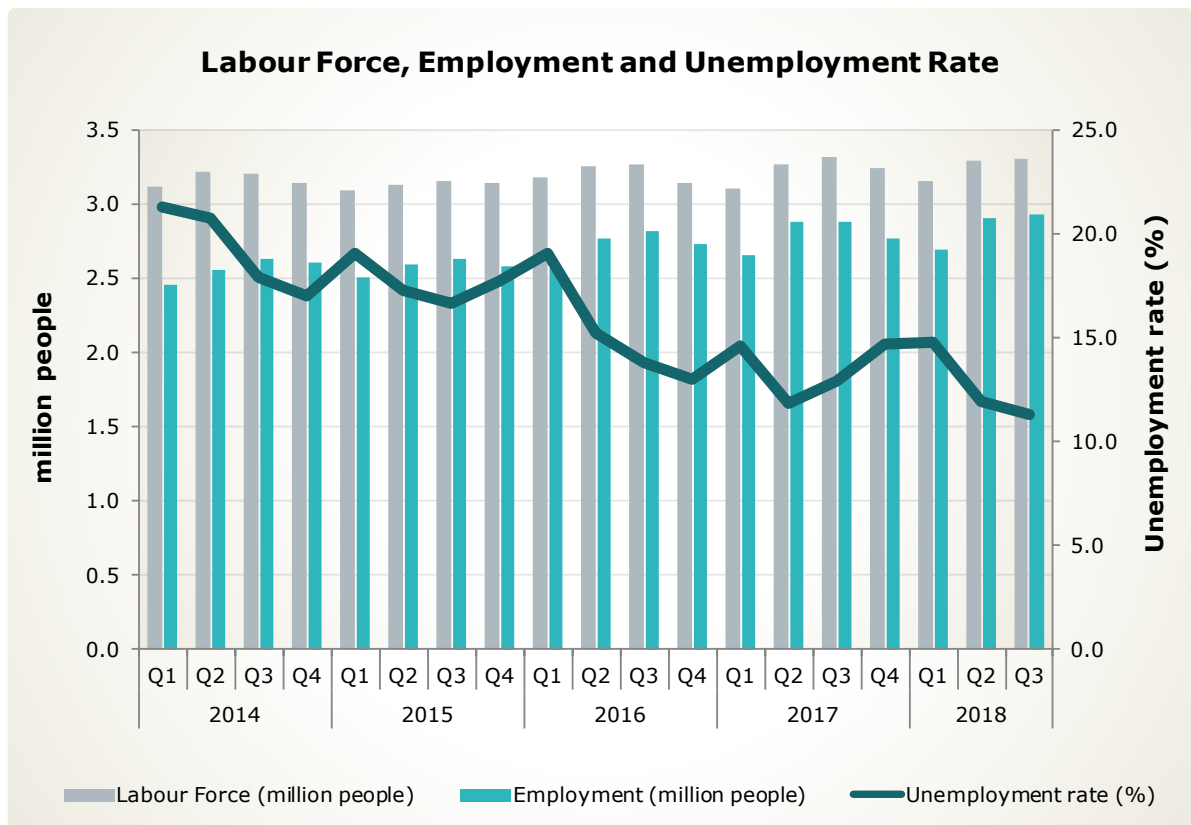
### 3. LABOUR MARKET

#### *Unemployment rate continues to decline*

Unemployment rate in Serbia continued to ease, reaching 11.3% in Q3 2018, down from 11.9% in Q2 2018 and 12.9% in Q3 2017, according to SORS. Youth (population aged 15-24) unemployment rate also improved, averaging 25.3% in Q3 2018, compared to 27.5% in the previous quarter and 28.8% in Q3 2017.

The employed population aged 15 years and older was 2.929 million, up by 1.6% y/y.

The average monthly net salary in Q3 2018 was RSD 48,965, up 2.3% y/y.



Source: SORS

## 4. CONSTRUCTION AND REAL ESTATE

### *The number of building permits went down by 5.4% y/y in Q3 2018*

The number of permits for new buildings in Serbia was 1,651 in Q3 2018, including 837 for residential projects and 24 for office buildings, according to SORS data.

The total number of permits for new buildings issued in the period under review decreased by 5.4% compared to Q3 2017. Permits for residential projects dropped by 9.4%, while permits for office buildings fell to 24 from 40.

Along with the drop in office permits number, the total built-up area of the office units, covered by the permits, slumped to 10,048 from 61,792.

The total built-up area of new housing was 533,157 sq m in Q3 2018, a 10.8% drop 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 118.1 in Q3 2018 from RSD 119.8 a year earlier, according to National Bank of Serbia (NBS).

Average Annual RSD Exchange Rate			
Foreign Currency	Q3 2018	Q2 2018	Q3 2017
EUR	118.143	118.172	119.763
USD	101.574	99.126	101.966
GBP	132.366	134.871	133.416
CHF	103.233	100.592	105.938

### 5.2. MONETARY POLICY

#### *The national bank kept the policy rate at 3.0%*

At its meeting in January 2019, the NBS Executive Board kept the key policy rate at 3.0%.

Inflation is expected to remain stable and within the targeted range - 3.0%±1.5%.

Despite the positive factors, NBS remains cautious in its monetary policy, primary because of external risks. Among them are the higher oil prices on international markets, 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 improved local macroeconomic environment.

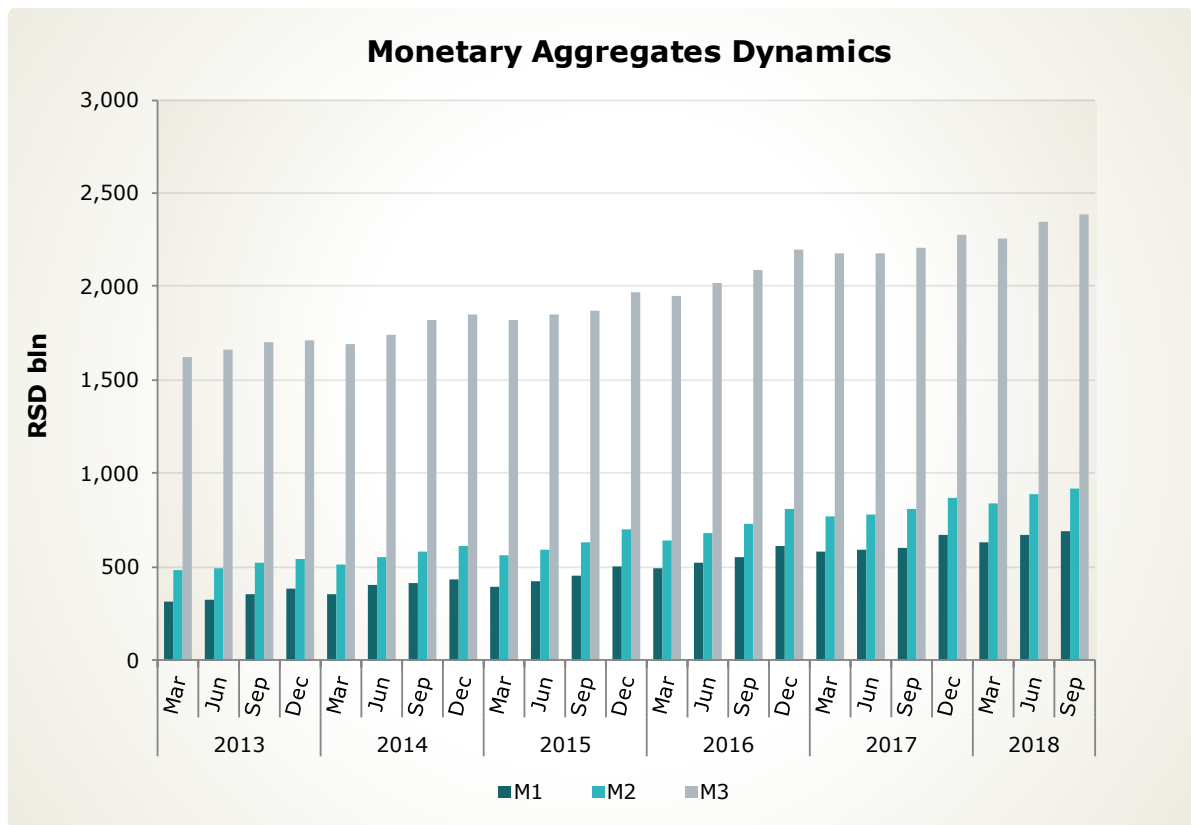
### 5.3. MONETARY AGGREGATES

#### *Money supply growth was 8.2% y/y at the end of September 2018*

Broad money (money aggregate M3) increased by 8.2% y/y and reached RSD 2,386.2 bln as of September 2018, according to data provided by NBS.

The M2 money supply also grew, by 13.5% to RSD 917.2 bln.

Money aggregate M1, or narrow money, jumped by 15.1% to RSD 693.6 bln.



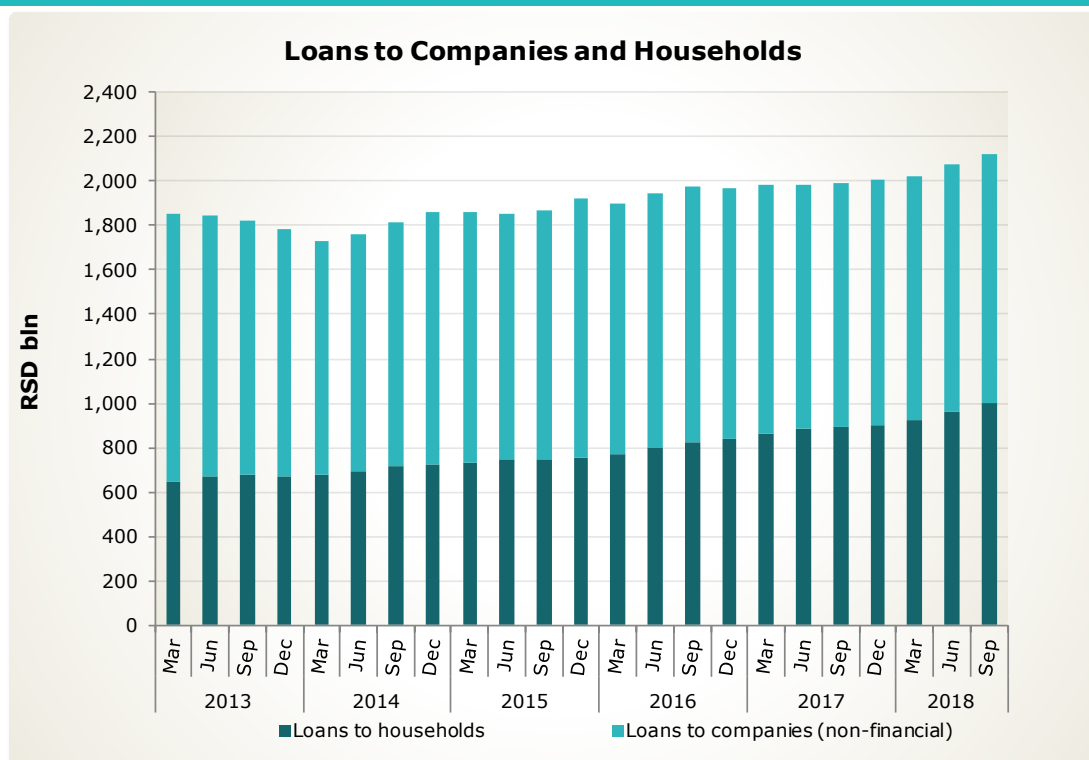
Source: NBS

## 5.4. BANKING AND INSURANCE

### *Household loans increased by 11.7% y/y in September 2018*

Loans to the non-government sector totalled RSD 2,121.8 bln as of September 2018, up from RSD 1,994.2 bln a year earlier, according to NBS. Loans to non-financial corporations grew by 2.1% y/y to RSD 1,123.8 bln.

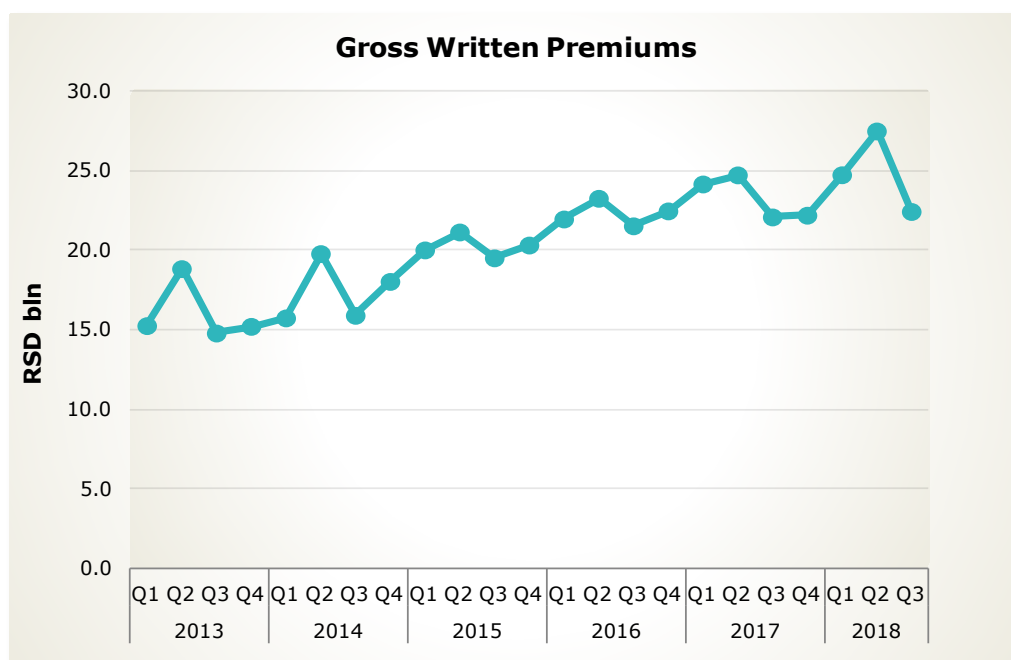
Household loans rose by 11.7% y/y to RSD 997.9 bln in September 2018, supported by the 20.8% jump in consumer loans. House purchase loans grew much slower, by 6.4%, reaching RSD 377.9 bln on higher refinancing of existing housing loans.



Source: NBS

### Insurance premium income up 1.6% y/y in Q3 2018

The total gross written premiums of the non-life and life insurance companies were RSD 22.411 bln in Q3 2018, up by 1.6% y/y, according to NBS data. In comparison to Q2 2018, the insurance market dropped by RSD 5.056 bln.



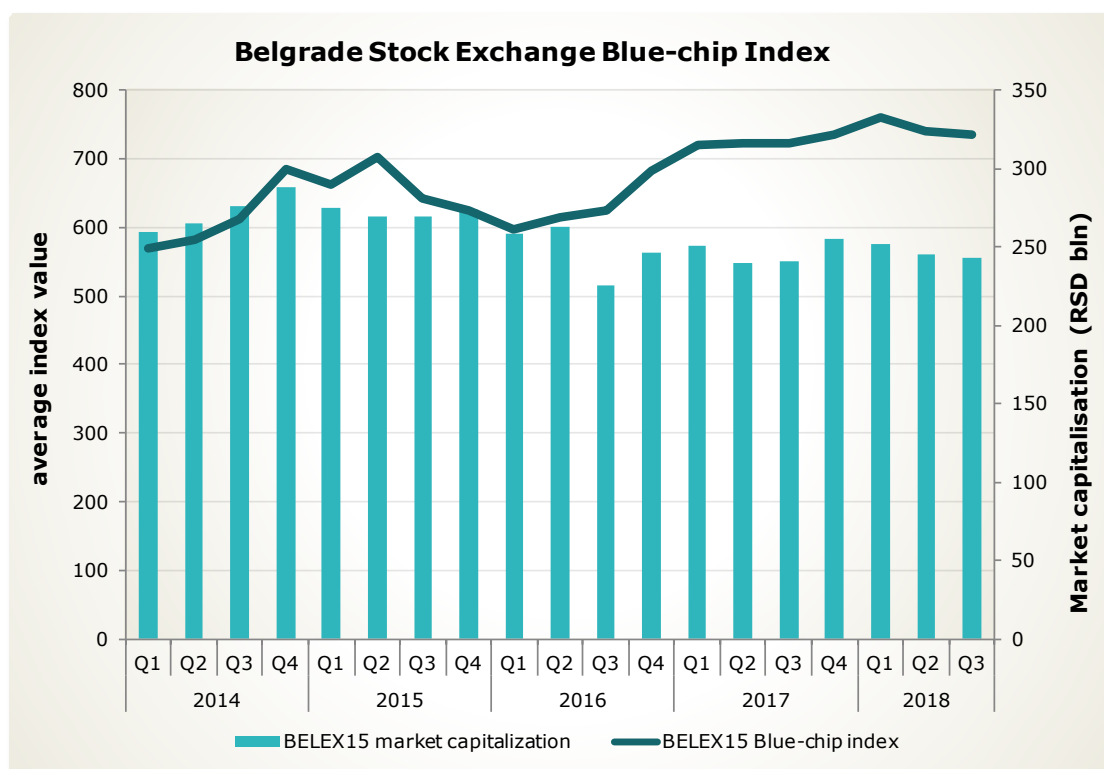
Source: NBS

## 6. CAPITAL MARKETS

### Blue-chip index BELEX15 went down by 0.7% q/q in Q3 2018

The average value of BELEX15, the blue-chip index of the Belgrade Stock Exchange (BELEX), inched down by 0.7% q/q, to 733.9 points in Q3 2018.

The total turnover of BELEX dropped by 28.5% q/q to RSD 10.524 bln in Q3 2018. The number of transactions was 10,976 versus 13,159 in the previous quarter.



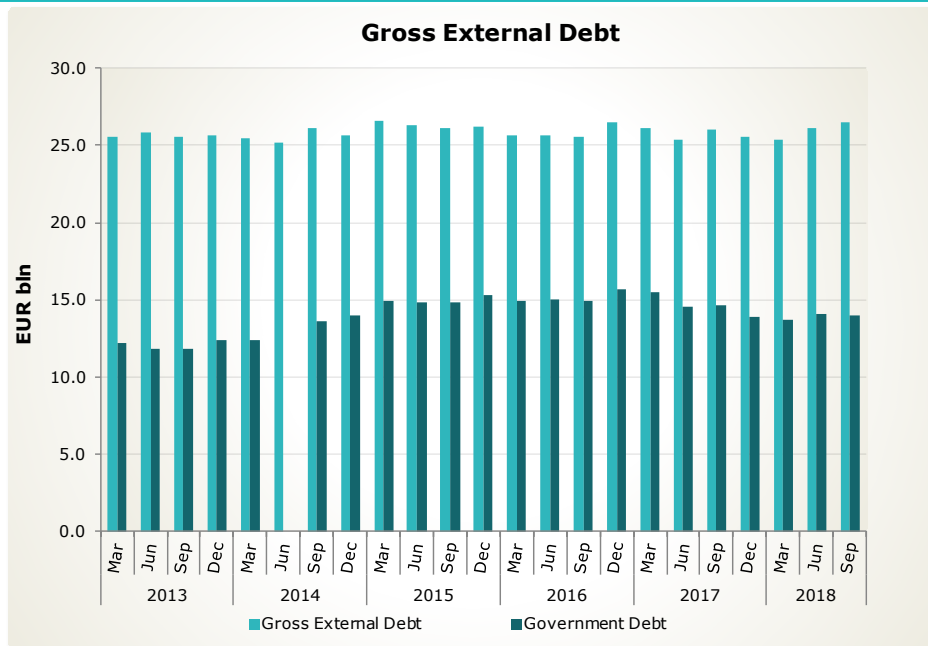
Source: BELEX

## 7. EXTERNAL SECTOR

### 7.1. FOREIGN DEBT

#### The gross external debt went up 1.9% y/y to EUR 26.517 bln at end-September 2018

The gross external debt increased by 1.9% y/y, totalling EUR 26.517 bln at the end of September 2018, according to NBS. In comparison to June 2018, the gross external debt expanded by EUR 409.5 mln.



Source: NBS

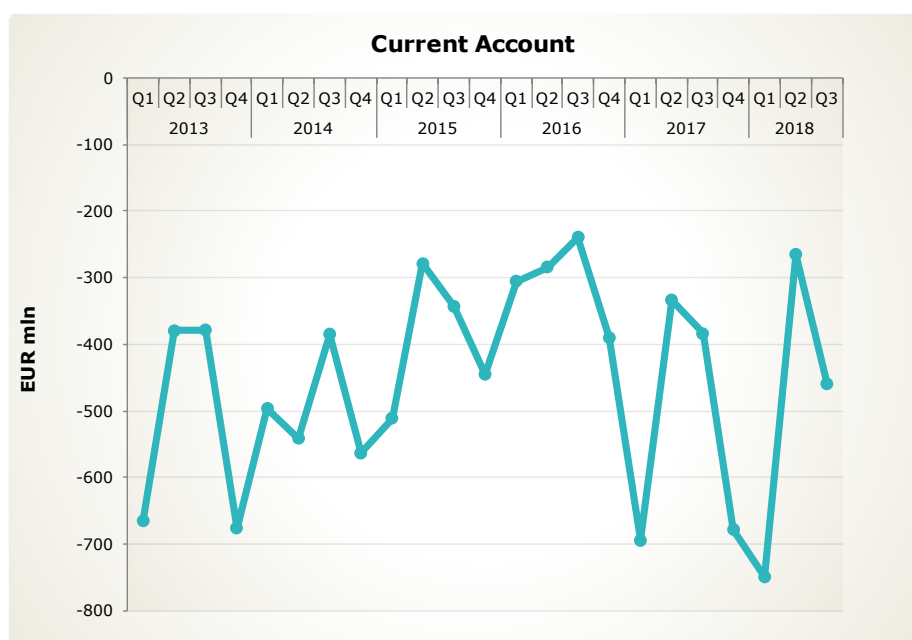
Editor's note: No data is available for gross external government debt for June 2014

## 7.2. BALANCE OF PAYMENTS

### Current account gap widened by 19.6% y/y to EUR 459.2 mln in Q3 2018

The current account gap expanded to EUR 459.2 mln from EUR 383.9 mln a year earlier, according to central bank data.

Secondary income in Q3 2018 amounted to EUR 1.036 bln, up from EUR 841.6 mln in Q3 2017, or a 23.2% increase.

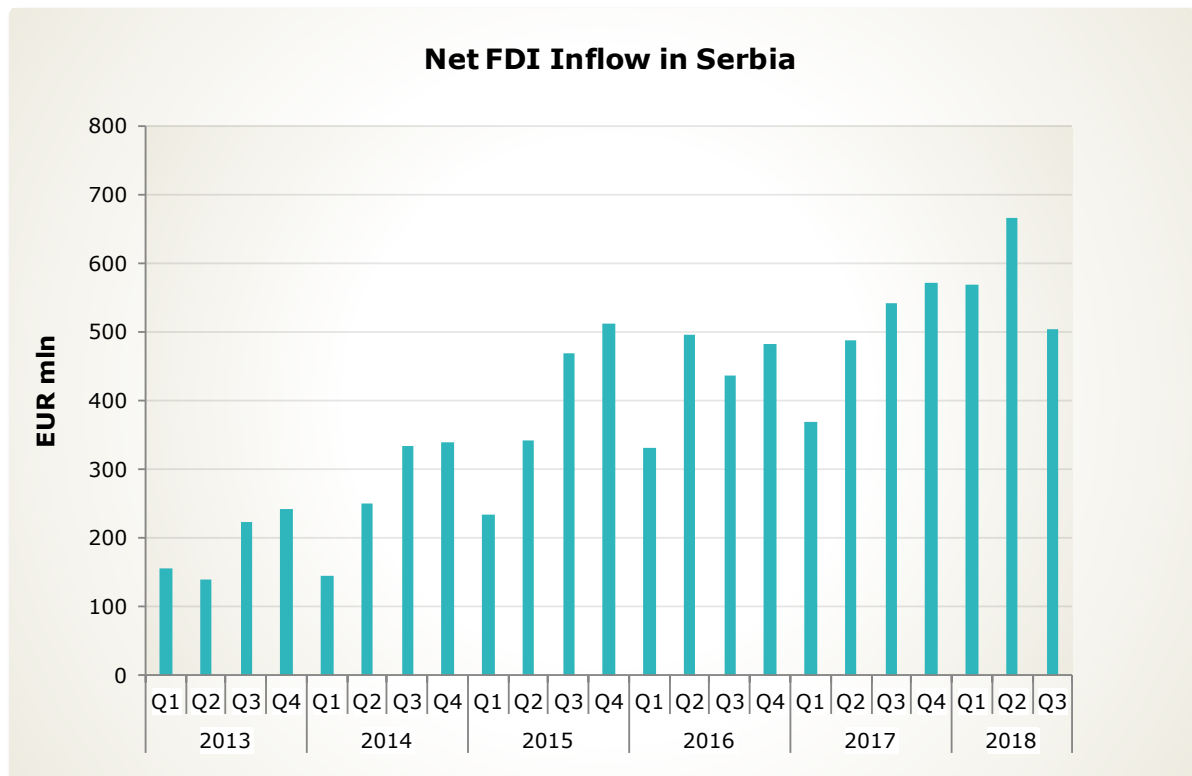


Source: NBS

## 7.3. FDI

*Net FDI inflow stood at EUR 503.2 mln in Q3 2018, down 7.2% y/y.*

The net Foreign Direct Investments (FDI) inflow in Serbia in Q3 2018 totalled EUR 503.2 mln, according to NBS. This is down by 7.2% compared to a year ago when the FDIs were EUR 542.0 mln.



Source: NBS

## 7.4. FOREIGN TRADE

*Foreign trade deficit widened by 44.0% y/y in Q3 2018*

The trade deficit stood at EUR 1.328 bln in Q3 2018, up by 44.0% compared to the corresponding quarter of the previous year, due to faster growth of imports over exports, according to SORS data.

In the third quarter of 2018, exports totalled EUR 4.091 bln, up 8.1% y/y, while imports went up by 15.1% to EUR 5.419 bln.



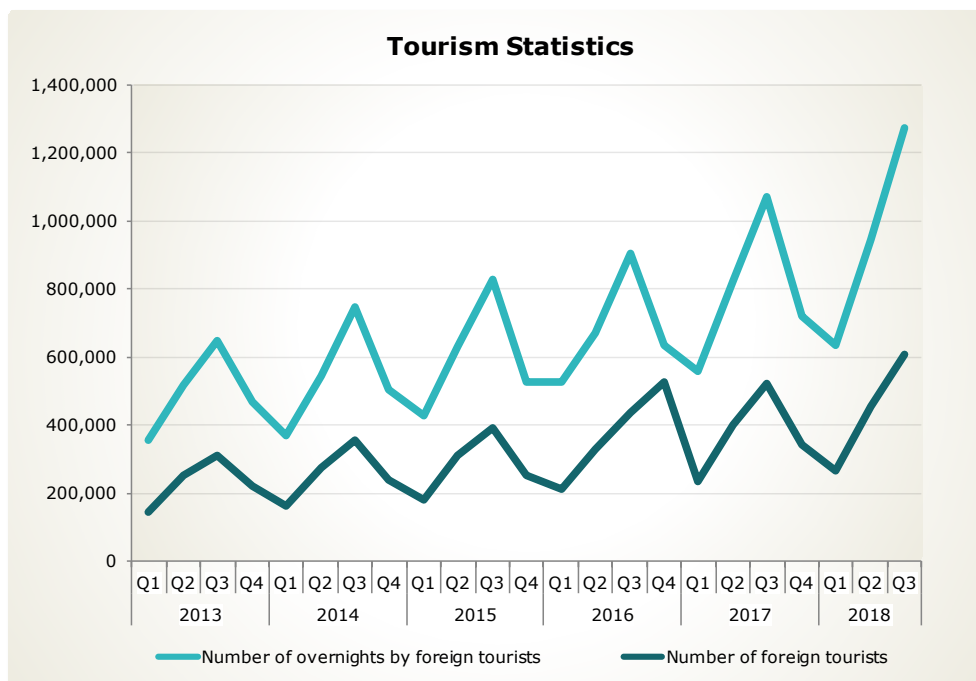
Source: NBS

## 7.5. TOURSIM

### Number of foreign tourist overnights rose by 18.6% y/y in Q3 2018

Tourist overnights of foreigners jumped by an annual 18.6% to 1.273 million in Q3 2018, slicing a 40.0% share of the total number of tourist overnights in the country, according to SORS data. The total number of tourist overnights went up by 13.4% y/y to 3.182 million.

The number of foreign tourists grew by 16.3% y/y to 606,404.



Source: SORS

## 8. MAJOR DEVELOPMENTS

### ***Serbia to triple oil, petroleum products reserves by 2023***

Sep 26, 2018

Serbia plans to triple its reserves of oil and petroleum products by 2023 to meet the goals of the Energy Community, the country's energy minister announced in September 2018. Serbia currently has reserves for 20 days of average consumption and will expand reserves to cover 61 days of consumption by 2023, according to the minister.

[Read the full story here](#)

### ***Serbia needs to improve social policies to tackle inequality - World Bank***

Sep 25, 2018

Serbia needs to improve its labour market, tax and social policies in order to limit the growth of inequality, the World Bank announced in September 2018. Inequality across regions is relatively strong in Serbia as the country is in the top third of the countries with most spatial inequality in Europe and Central Asia.

[Read the full story here](#)

### ***DPM detects 46.9 million t of mineral resources at Serbian gold project***

Sep 24, 2018

Canada's Dundee Precious Metals (DPM) announced in September 2018 it detected total indicated mineral resources of 46.9 million tonnes at its Timok Gold Project in Serbia. The updated Mineral Resource estimate at Timok Gold Project in Serbia shows a total indicated mineral resources of 46.9 million tonnes at 1.32 g/t of gold for 1.996 million ounces, according to DPM.

[Read the full story here](#)

### ***Serbia's govt hikes minimum wage***

Sep 17, 2018

Serbia's government decided in September 2018 to increase the minimum hourly net wage by 8.6% as of January 1, 2019. The minimum net wage will be increased to RSD 155.3 from RON 143.

[Read the full story here](#)

### ***Azerbaijan approves EUR 210 mln road project loan to Serbia***

Sep 4, 2018

Azerbaijan's government approved in September 2018 the extension of a EUR 210 mln loan to Serbia for the construction of a motorway and expressway linking Ruma to Loznica. The project envisages the construction of a 25 km-long motorway linking Ruma to Sabac and a 55 km-long Sabac-Loznica expressway.

[Read the full story here](#)

### ***Serbia aims to sell EUR 145 mln of bad assets by end-2018***

Jul 25, 2018

Serbia's government announced in September 2018 it plans to complete the sale of a EUR 145 mln portfolio of bad assets managed by the country's Deposit Insurance Agency (DIA) by the end of 2018.

[Read the full story here](#)

### ***Serbia remains global leader in job creation relative to population – IBM***

*Jul 19, 2018*

Serbia is the global leader in terms of the number of jobs created in 2017 relative to population size for the second year in a row, according to the Global Location Trends 2018 annual report of US technology company IBM.

[Read the full story here](#)

### ***IMF approves 30-month economic reform programme for Serbia***

*Jul 19, 2018*

The International Monetary Fund (IMF) announced in September 2018 its executive board approved a new economic reform programme for Serbia that will build on the precautionary stand-by arrangement successfully completed in February 2018. The 30-month Policy Coordination Instrument-supported programme aims at maintaining macroeconomic and financial stability and advancing an ambitious structural and institutional reform agenda to foster rapid and inclusive growth, job creation and improved living standards in Serbia, according to IMF.

[Read the full story here](#)

### ***Serbia signs EUR 943 mln railway deal with China's CRI, CCCC***

*Jul 19, 2018*

Serbia signed a EUR 943 mln deal with China Railway International (CRI) and China Communications Construction Company (CCCC) for the overhaul of the Novi Sad-Subotica section of the railway linking Belgrade with Hungary's capital Budapest. The modernisation of the 108.1 kilometre-long section is expected to start in 2019.

[Read the full story here](#)

### ***Serbia agrees EUR 175 mln of EU grants under IPARD***

*Jul 2, 2018*

Serbia stands to receive EUR 175 mln of EU grants in support of rural development for the period 2014-2020 under an agreement signed with the European Commission in July 2018.

[Read the full story here](#)

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