

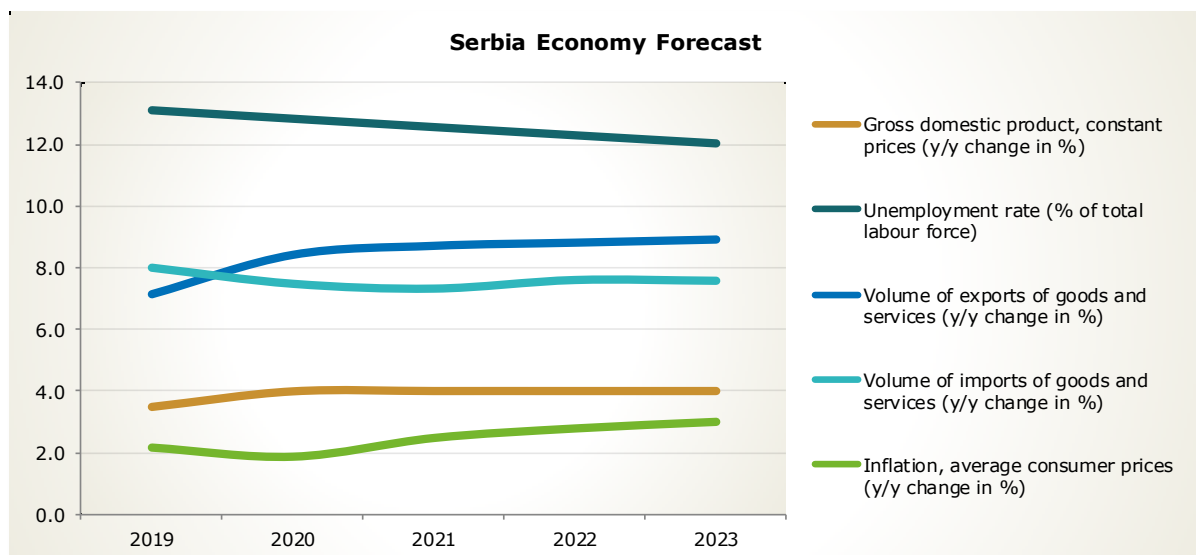
## **SERBIA ECONOMY REPORT** Q3 2019

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

SERBIA – MACROECONOMIC SNAPSHOT AS OF Q3 2019	
<b>GDP Growth</b>	4.8 % y/y
<b>Industrial output</b>	-0.7% y/y
<b>Industrial sales</b>	9.4% y/y
<b>Retail sales</b>	8.6% y/y
<b>Average annual inflation</b>	2.0% y/y
<b>Unemployment rate</b>	9.5%
<b>Number of building permits</b>	18.0% y/y
<b>Money supply growth</b>	13.1% y/y
<b>Household loans</b>	8.4% y/y
<b>BELEX15 blue-chip index</b>	2.1% q/q
<b>Gross external debt</b>	EUR 28.6 bln
<b>Current account gap</b>	EUR 656.0 mln
<b>Net FDI inflow</b>	EUR 911.5 mln
<b>Foreign trade deficit</b>	EUR 1.4 bln
<b>Number of foreign tourist overnights</b>	5.8% y/y

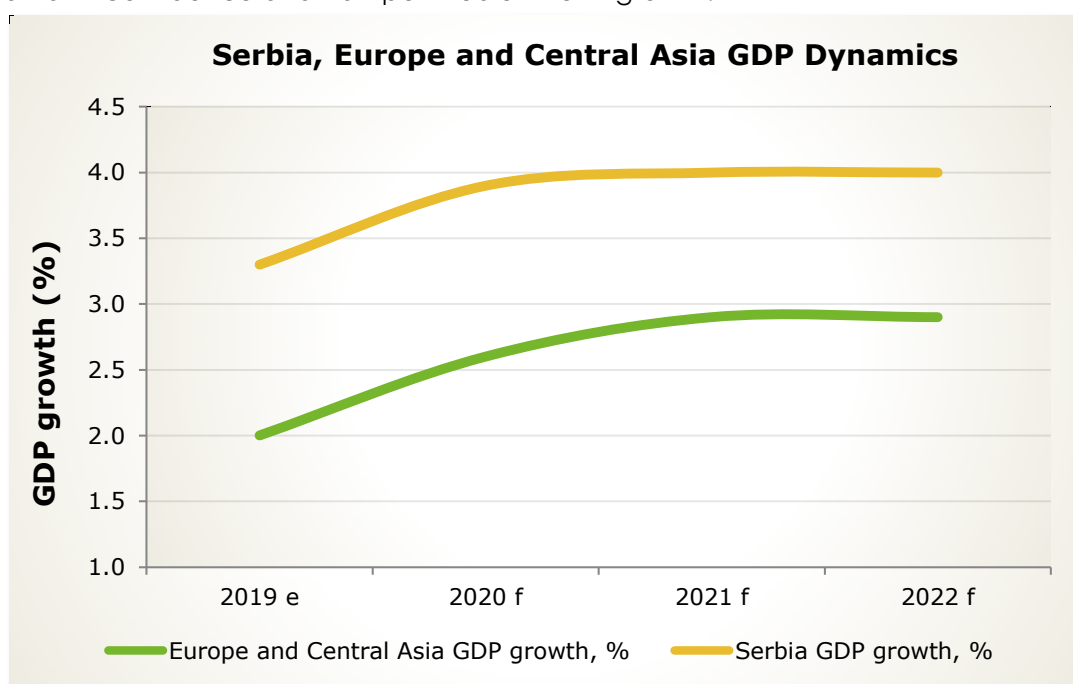


Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2019

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 spill overs 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*, January 2020

According to the World Bank estimates from October 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 2.0%.

#### 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

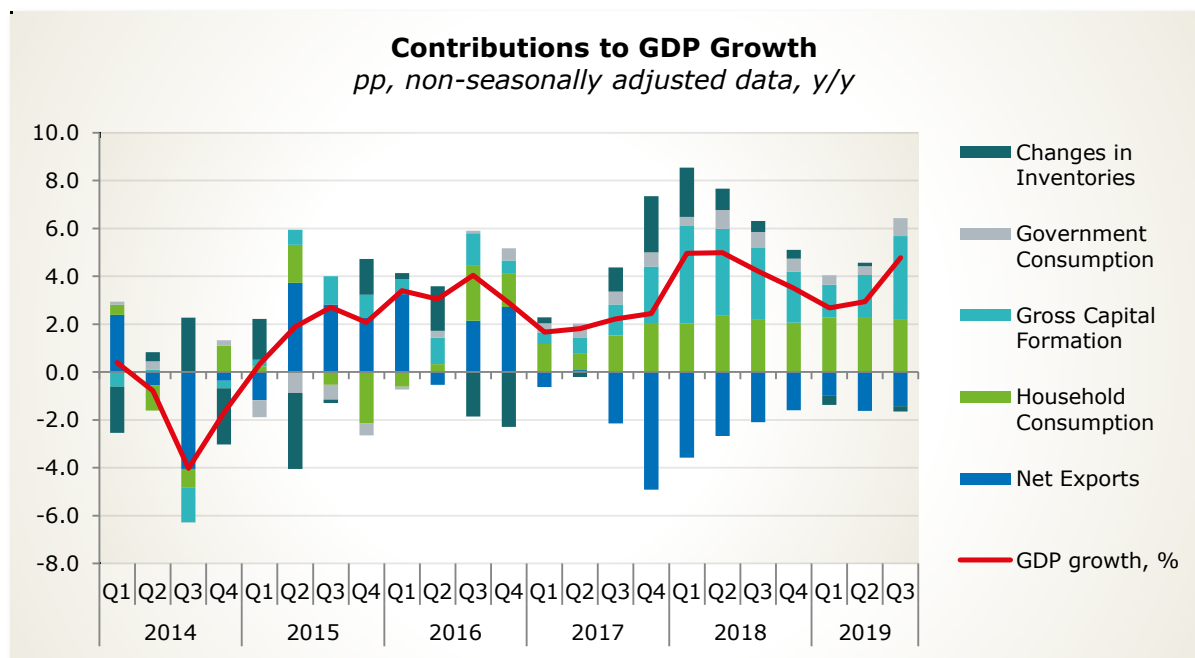
Source: World Bank, *Europe and Central Asia Economic Update*, October 2019

## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

#### GDP growth at 4.8% y/y in Q3 2019

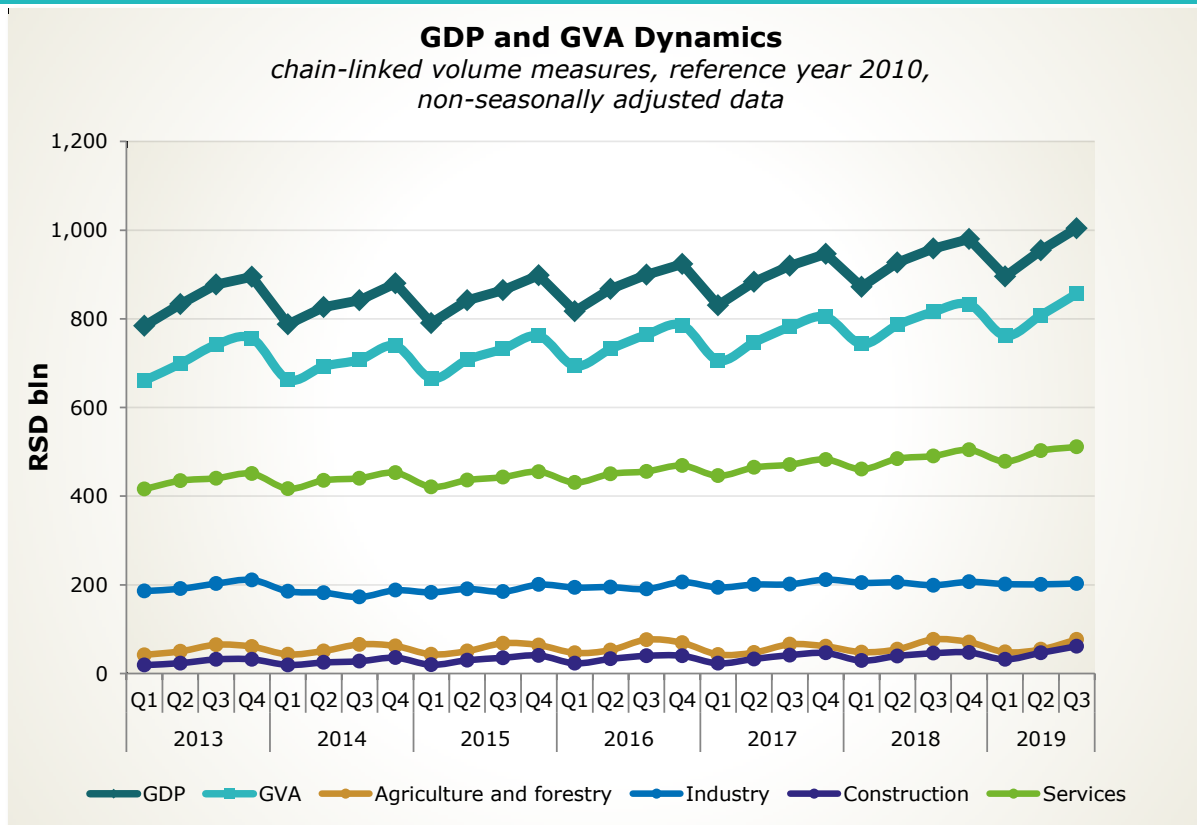
In Q3 2019 the Serbian economy grew by real 4.8% y/y, data by the Statistical Office of Serbia shows. The growth speeded up from 4.2% in the same quarter of the previous year. The economy was fuelled by stronger gross capital formation and household consumption, which contributed by 3.5 pp and 2.2 pp, respectively, to the overall annual GDP growth. Final consumption (household and government) advanced by 3.4% y/y in real terms in Q3 2019, while gross capital formation increased by 17.3% y/y.



Source: SORS; SeeNews calculations

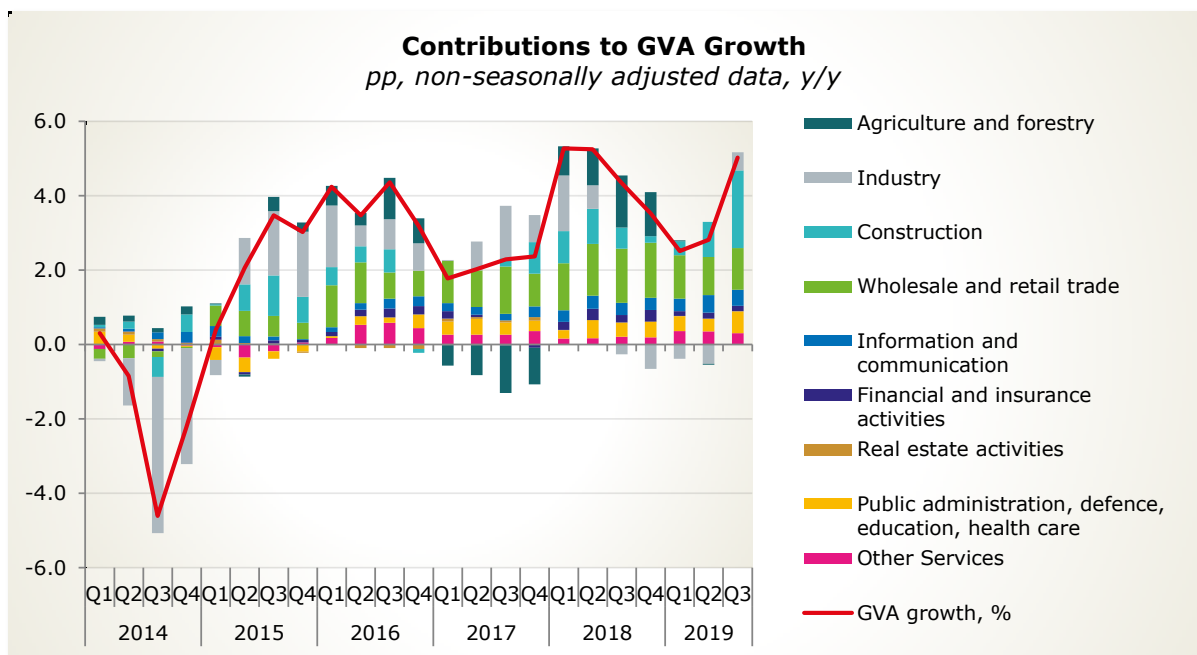
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual

The gross value added (GVA) generated by the national economy increased by 5.0% y/y in Q3 2019 and totalled RSD 856.7 bln. The construction sector surged in value by 34.7% y/y and accounted for 7.2% of the total GVA. Agriculture and forestry recorded a 0.1% annual decline, slicing a 9.0% share in the total GVA, compared to 9.4% a year earlier. The services sector's GVA expanded by 4.2% to RSD 511.1 bln, while the industry sector registered an annual increase of 2.0% to RSD 203.1 bln.



Source: SORS

Sector wise, the largest contributor to the annual GVA growth in Q3 2019 was construction with 2.1 pp, followed by wholesale and retail trade – 1.1 pp.



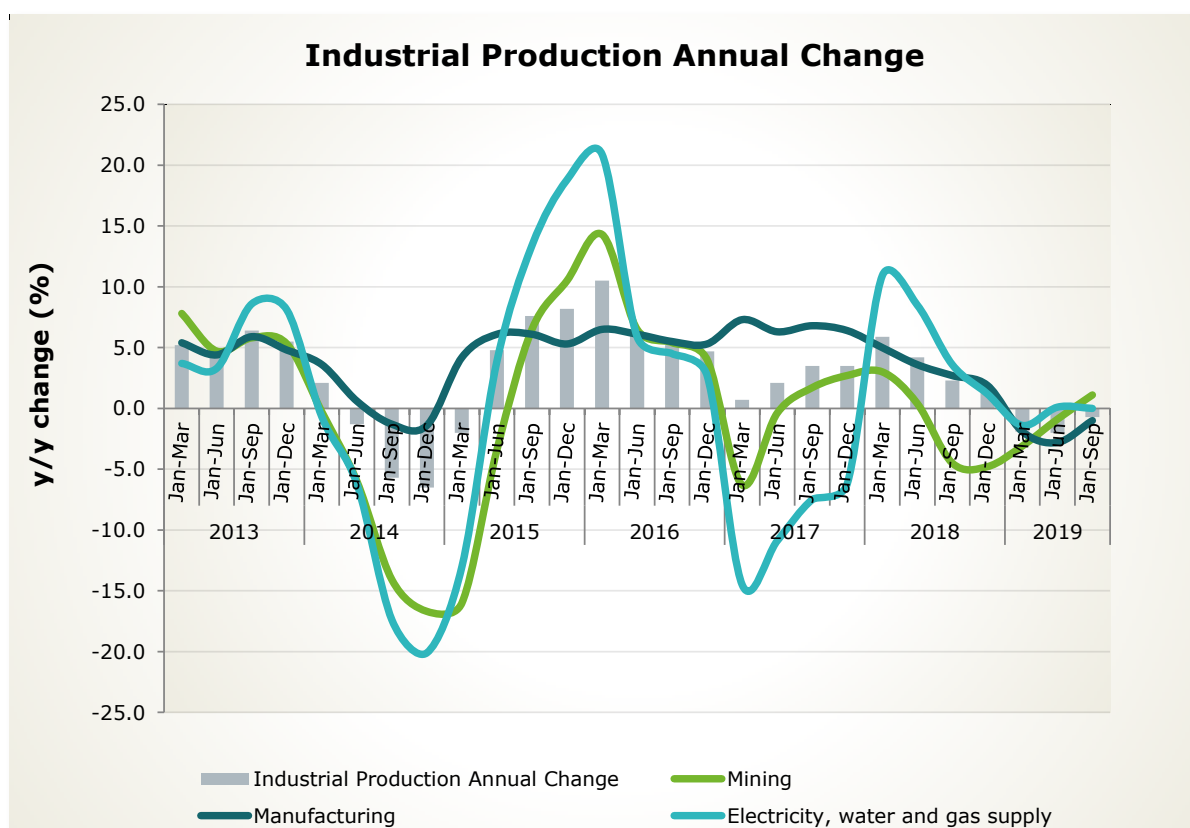
Source: SORS; SeeNews calculations

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

## 2.2. INDUSTRIAL OUTPUT

*Industrial output went down by 0.7% y/y in Jan-September 2019*

The industrial output reported a decrease of 0.7%, in the first nine months of 2019, compared to a 2.3% rise in the same period of 2018, according to data from SORS. In the period under review, only the manufacturing sector reported an annual drop, of 1.0%. Mining output grew by 1.1%, while the production of electricity, water and gas supply stood unchanged.

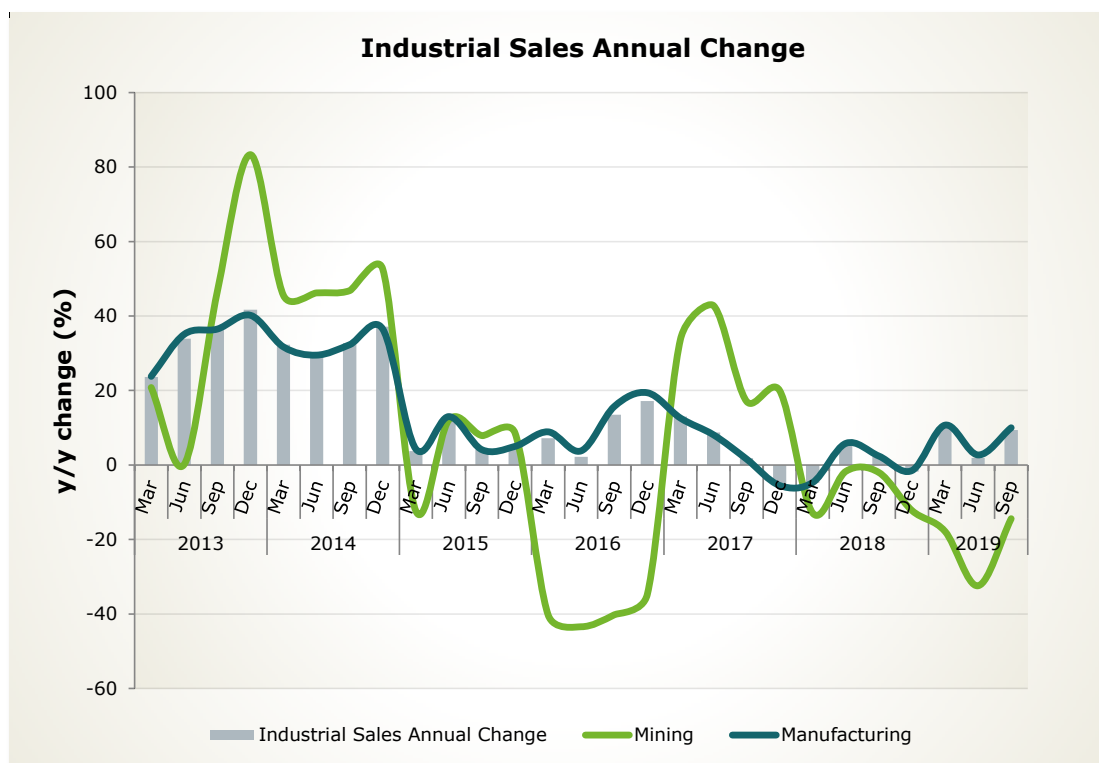


Source: SORS

## 2.3. INDUSTRIAL SALES

*Industrial sales went up by 9.4% y/y in September 2019*

The industrial sales increased in September 2019, by 9.4% y/y, according to SORS. The manufacturing industry recorded a 10.0% annual increase, while the mining sector posted a 14.4% drop. Compared to the same month of 2018, industrial sales growth was stronger due to the uptrend in manufacturing, while sales in the mining sector continue to shrink.



Source: SORS

## 2.4. WHOLESALE/RETAIL

### Retail sales grew by 8.6% y/y in constant prices in Jan-Sept 2019

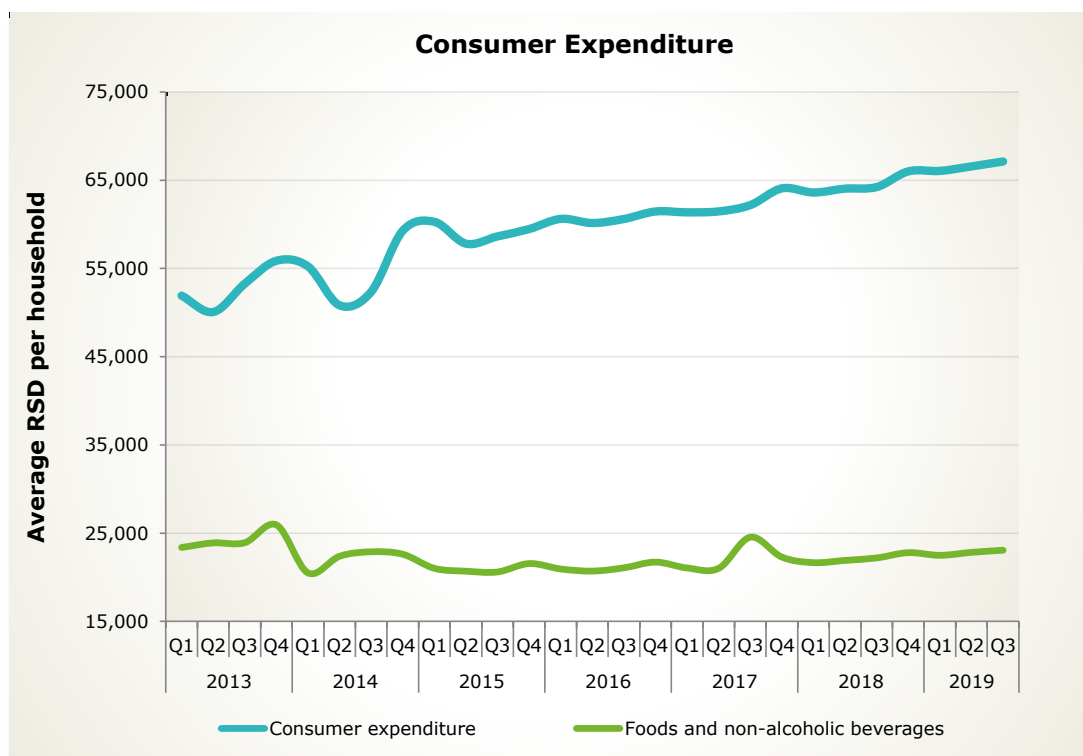
In January-September 2019, retail sales in Serbia rose by 8.6% y/y in constant prices, up from a 4.0% y/y increase in the year-ago period, according to SORS. The highest annual rise in retail trade in the first nine months of 2019 was registered by non-food products, except motor fuels with 10.3%, followed by motor fuels with 7.7% and food, beverages and tobacco with 7.6%.





Source: SORS

In Q3 2019, consumer expenditure increased by 4.5% y/y to a monthly average of RSD 67,131 per household. Expenditure on food and non-alcoholic beverages had the highest share in the total consumer expenditure, of 34.4%. The latter increased by 3.9% y/y to RSD 23,063 per household.



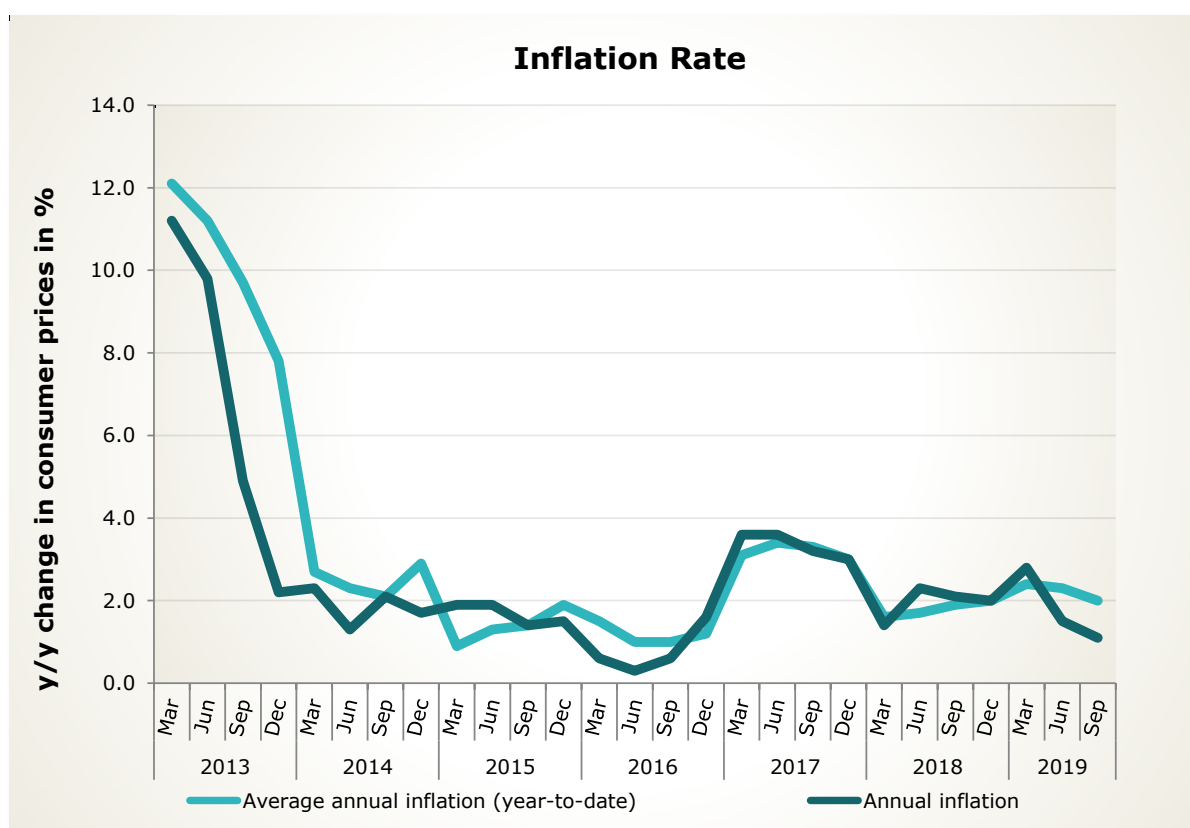
Source: SORS

## 2.5. INFLATION

### Average annual inflation of 2.0% in January-September 2019

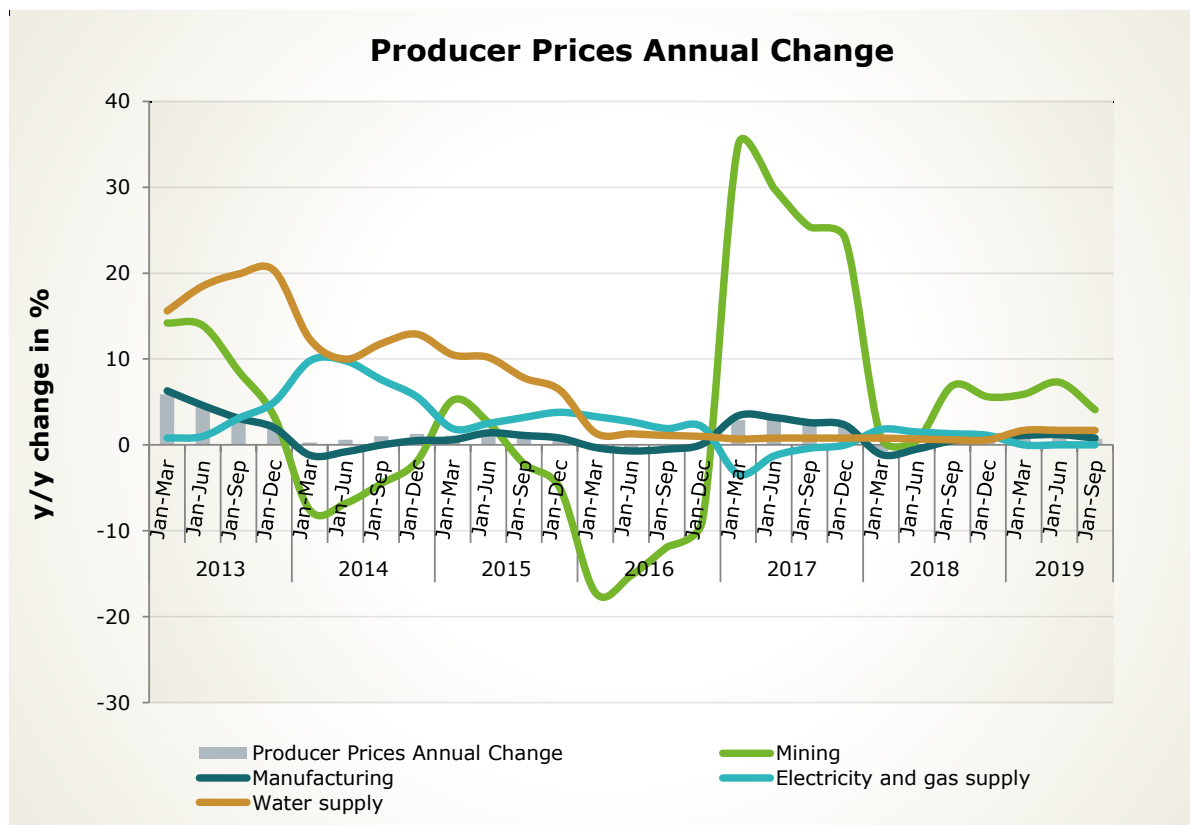
The average annual inflation amounted to 2.0% in the first nine months of 2019, up from 1.9% in the corresponding period of the previous year, according to SORS data.

Inflation in the nine-month period was determined mainly by the increase in prices of alcoholic beverages and tobacco - 5.0%. Other consumer groups with an increase in prices included food and non-alcoholic beverages - 2.9%, health services - 2.3% and transport - 1.9%, housing, water, electricity, gas and other fuels - 1.5%, household maintenance - 0.7%. Clothing and footwear was the only product group to post a deflation - 1.4%. Prices of communication services remained unchanged.



Source: SORS

Producer prices inched up by 0.7% y/y in January-September 2019, according to SORS data. Almost all sectors reported a rise, ranging from 0.8% for manufacturing to 4.1% for mining. Producer prices in electricity and gas supply remained unchanged.



Source: SORS

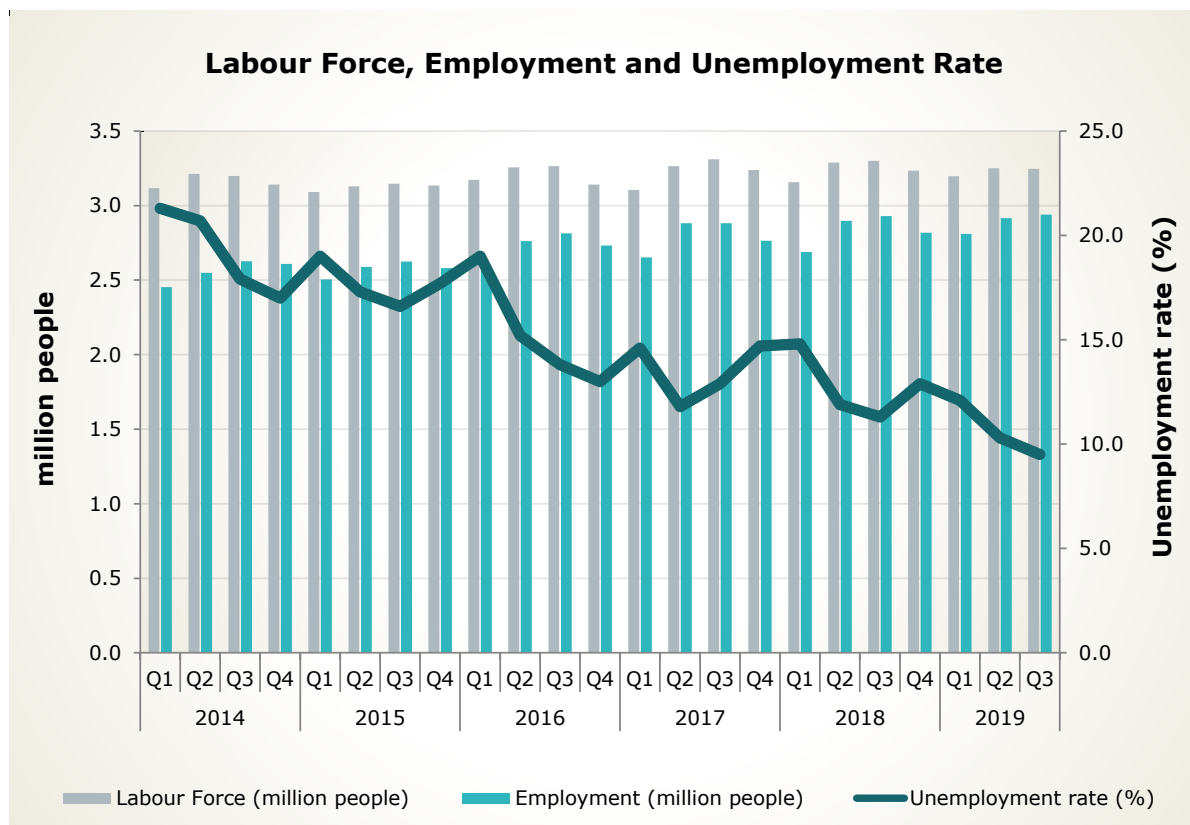
### 3. LABOUR MARKET

#### *Unemployment rate continued to fall*

Unemployment rate in Serbia continued its fall, reaching 9.5% in Q3 2019, down from 10.3% in Q2 2019 and 11.3% in Q3 2018, according to SORS. Youth (population aged 15-24) unemployment rate slightly increased, averaging 26.0% in Q3 2019, compared to 24.4% in the previous quarter and 25.3% in Q3 2018.

The employed population aged 15 years and older was 2.9 million, up by 0.3% y/y.

The average monthly net salary in Q3 2019 was RSD 54,285, up 10.9% y/y.



Source: SORS

## 4. CONSTRUCTION AND REAL ESTATE

### *The number of building permits went up by 18.0% y/y in Q3 2019*

The number of permits for new buildings in Serbia was 1,949 in Q3 2019, including 1,038 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 increased by 18.0% compared to Q3 2018. Permits for residential projects rose by 24.0%, while permits for office buildings grew to 30 from 24.

The total built-up area of the office units, covered by the permits, went up by 35.7% y/y to 13,640 sq m from 10,048 sq m.

The total built-up area of new housing was 861,590 sq m in Q3 2019, a 61.6% 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 117.719 in Q3 2019 from RSD 118.143 a year earlier, according to National Bank of Serbia (NBS).

Average Annual RSD Exchange Rate			
Foreign Currency	Q3 2019	Q2 2019	Q3 2018
EUR	117.719	117.965	118.143
USD	105.852	104.941	101.574
GBP	130.453	134.885	132.366
CHF	107.351	104.725	103.233

### 5.2. MONETARY POLICY

#### *The national bank kept the policy rate at 2.25%*

At its meeting in January 2020, the NBS Executive Board kept the key policy rate unchanged at 2.25%.

Inflation is expected to grow within the targeted range - 3.5%±1.5%.

Despite the positive factors, caution in monetary policy conduct is still mandated, mainly due to developments in the international financial and commodity markets. Movements in the global prices of oil and primary agricultural commodities are also uncertain, given the intricate impact of numerous factors on the demand and supply side, according to NBS.

Nevertheless, according to NBS the resilience of the Serbian economy to potential negative effects on international markets has increased, thanks to the favourable internal macroeconomic outlook.

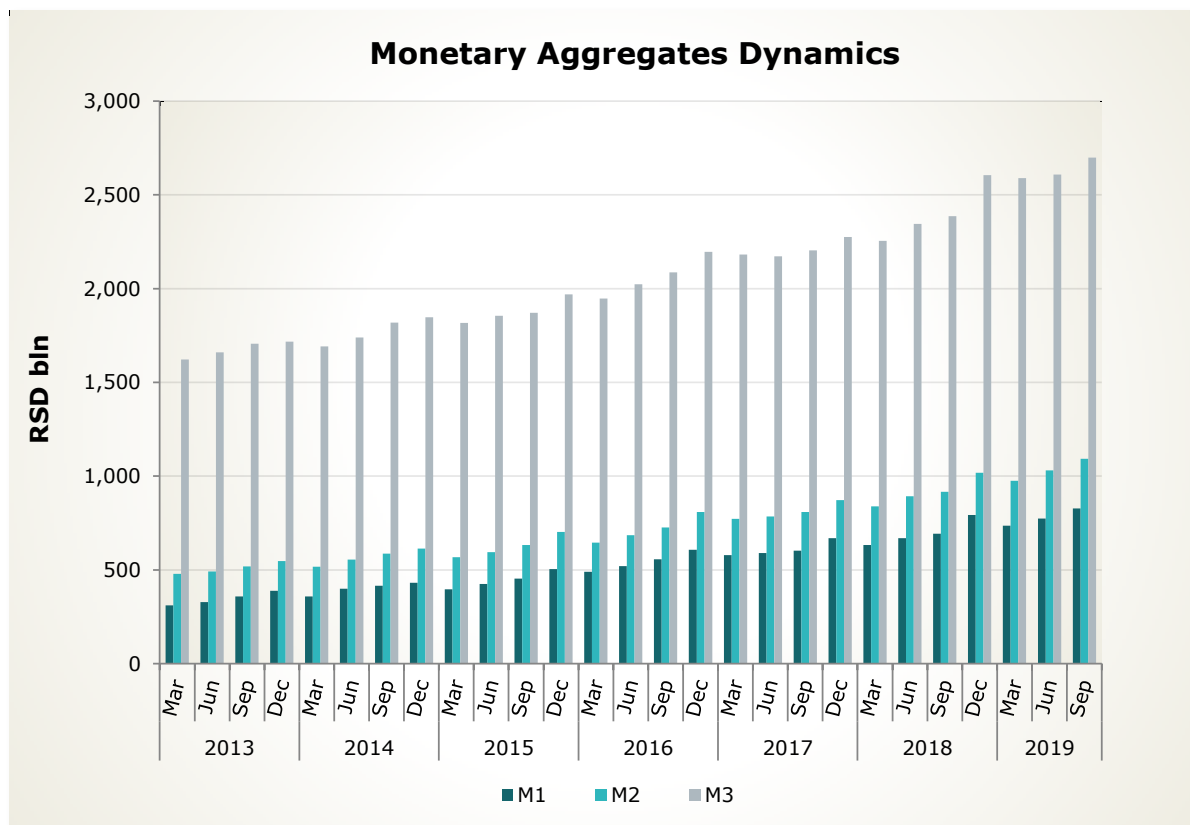
### 5.3. MONETARY AGGREGATES

#### *Money supply growth was 13.1% y/y at the end of September 2019*

Broad money (money aggregate M3) increased by 13.1% y/y and reached RSD 2,699.4 bln as of September 2019, according to data provided by NBS.

The M2 money supply also grew, by 19.2% to RSD 1,093.0 bln.

Money aggregate M1, or narrow money, jumped by 19.3% to RSD 827.8 bln.



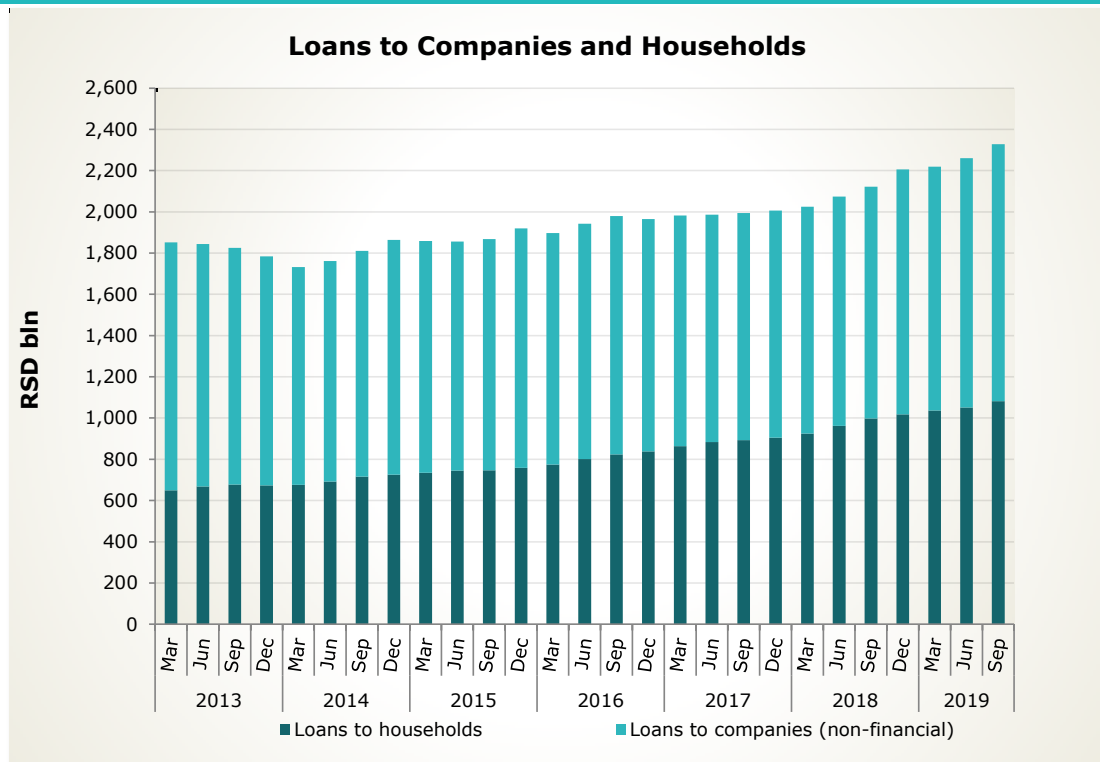
Source: NBS

## 5.4. BANKING AND INSURANCE

### *Household loans increased by 8.4% y/y in September 2019*

Loans to the non-government sector totalled RSD 2,327.8 bln as of September 2019, up from RSD 2,121.8 bln a year earlier, according to NBS. Loans to non-financial corporations grew by 10.9% y/y to RSD 1,246.4 bln.

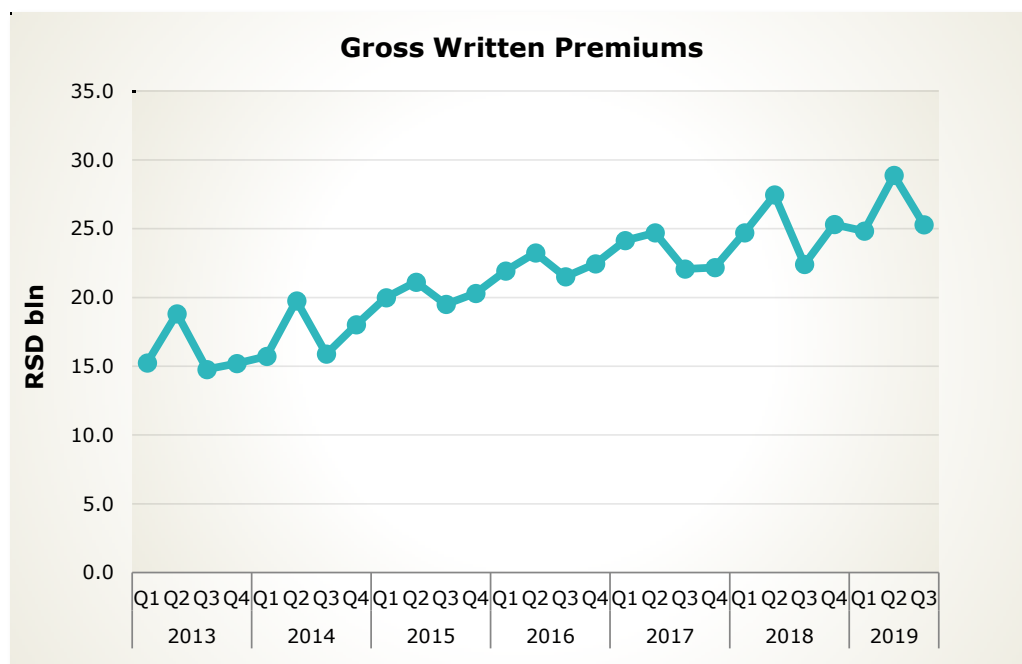
Household loans rose by 8.4% y/y to RSD 1,081.4 bln in September 2019, while house purchase loans expanded by 3.0%, reaching RSD 389.1 bln on higher refinancing of existing housing loans. Consumer loans went down by 20.4%, to RSD 20.0 bln.



Source: NBS

### Insurance premium income up 12.9% y/y in Q3 2019

The total gross written premiums of the non-life and life insurance companies were RSD 25.3 bln in Q3 2019, up by 12.9% y/y, according to NBS data. In comparison to Q2 2019, however, the insurance market fell by RSD 3.6 bln.



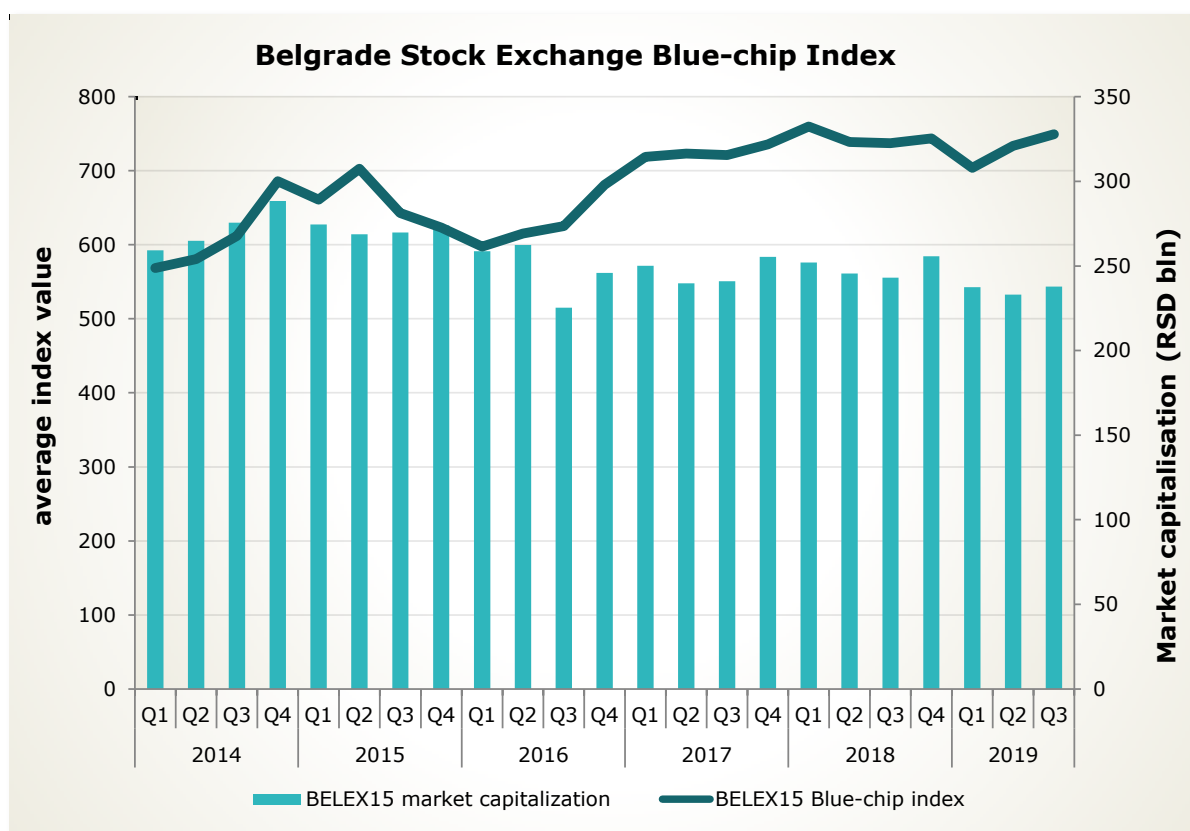
Source: NBS

## 6. CAPITAL MARKETS

### Blue-chip index BELEX15 went up by 2.1% q/q in Q3 2019

The average value of BELEX15, the blue-chip index of the Belgrade Stock Exchange (BELEX), increased by 2.1% q/q, to 749.3 points in Q3 2019.

The total turnover of BELEX rose by 1.6% q/q to RSD 19.5 bln in Q3 2019. The number of transactions came to 6,198 versus 8,716 in Q2 2019.



Source: BELEX

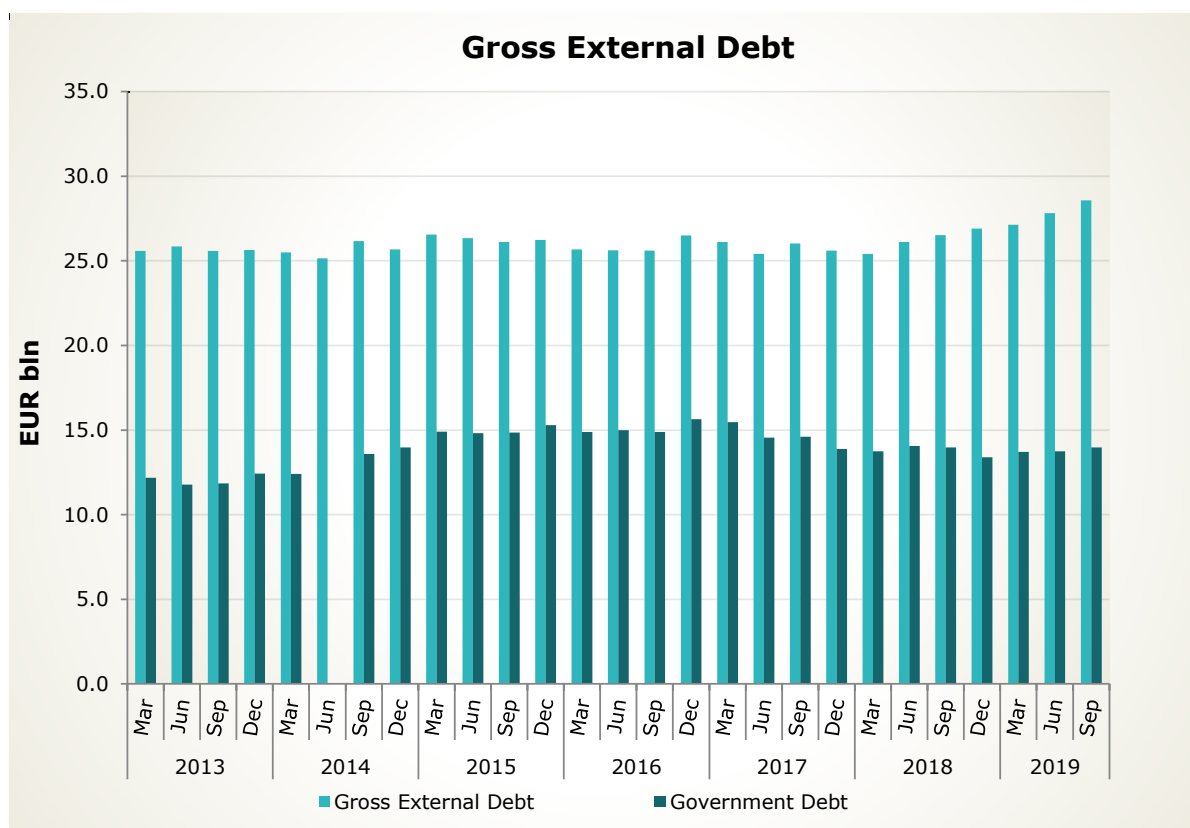


## 7. EXTERNAL SECTOR

### 7.1. FOREIGN DEBT

*The gross external debt went up by 7.8% y/y to EUR 28.6 bln as of end-September 2019*

The gross external debt increased by 7.8% y/y, totalling EUR 28.6 bln at the end of September 2019, according to NBS. In comparison to September 2018, the gross external debt expanded by EUR 2.1 bln.



Source: NBS

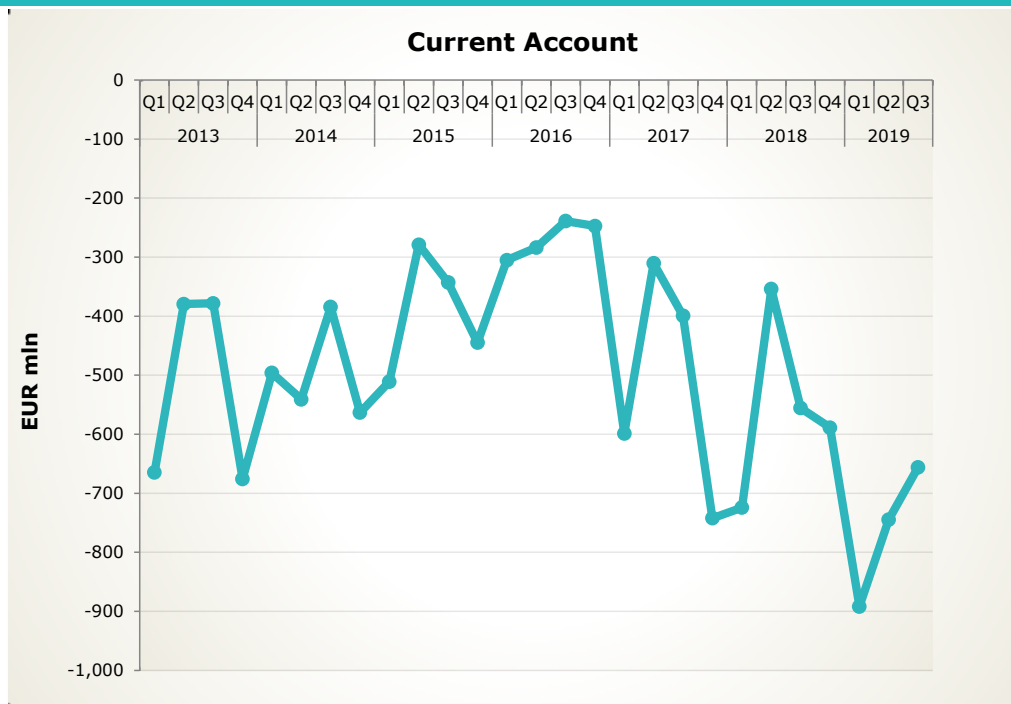
Editor's note: No data is available for gross external government debt for June 2014

### 7.2. BALANCE OF PAYMENTS

*Current account gap widened 18.0% y/y to EUR 656.0 mln in Q3 2019*

The current account gap expanded to EUR 656.0 mln from EUR 555.7 mln a year earlier, according to central bank data.

Secondary income in Q3 2019 amounted to EUR 990.0 mln, down from EUR 1.0 bln in Q3 2018, or a 4.5% decrease.

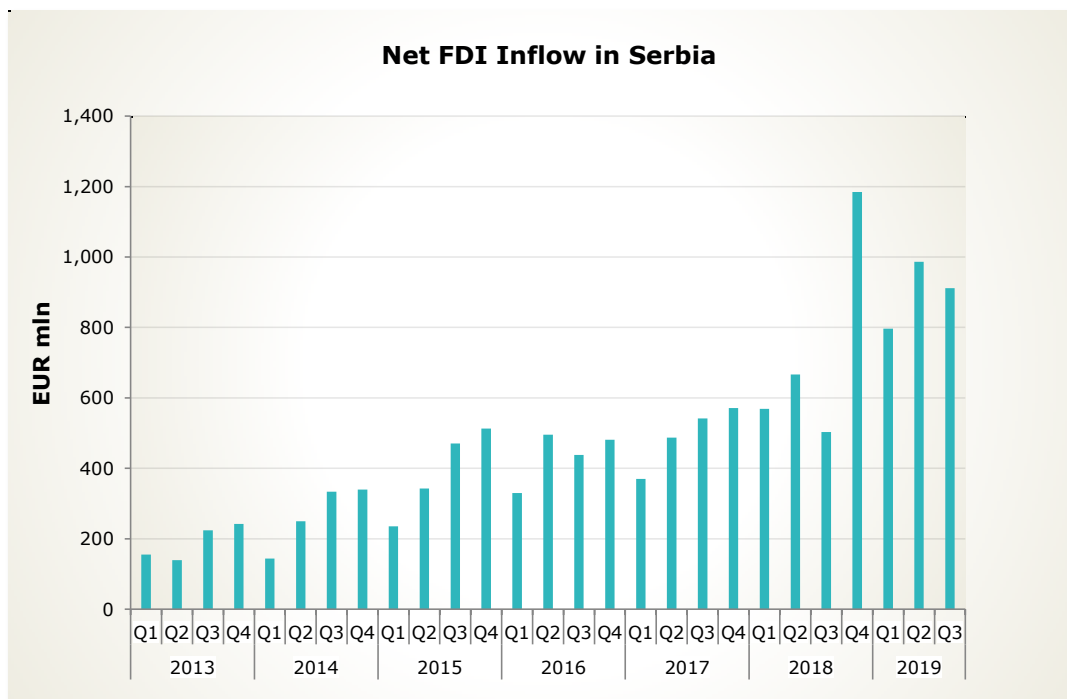


Source: NBS

### 7.3. FDI

*Net FDI inflow stood at EUR 911.5 mln in Q3 2019, up 81.1% y/y.*

The net Foreign Direct Investments (FDI) inflow in Serbia in Q3 2019 totalled EUR 911.5 mln, according to NBS. This is up by 81.1% compared to a year ago when the FDIs were EUR 503.2 mln.



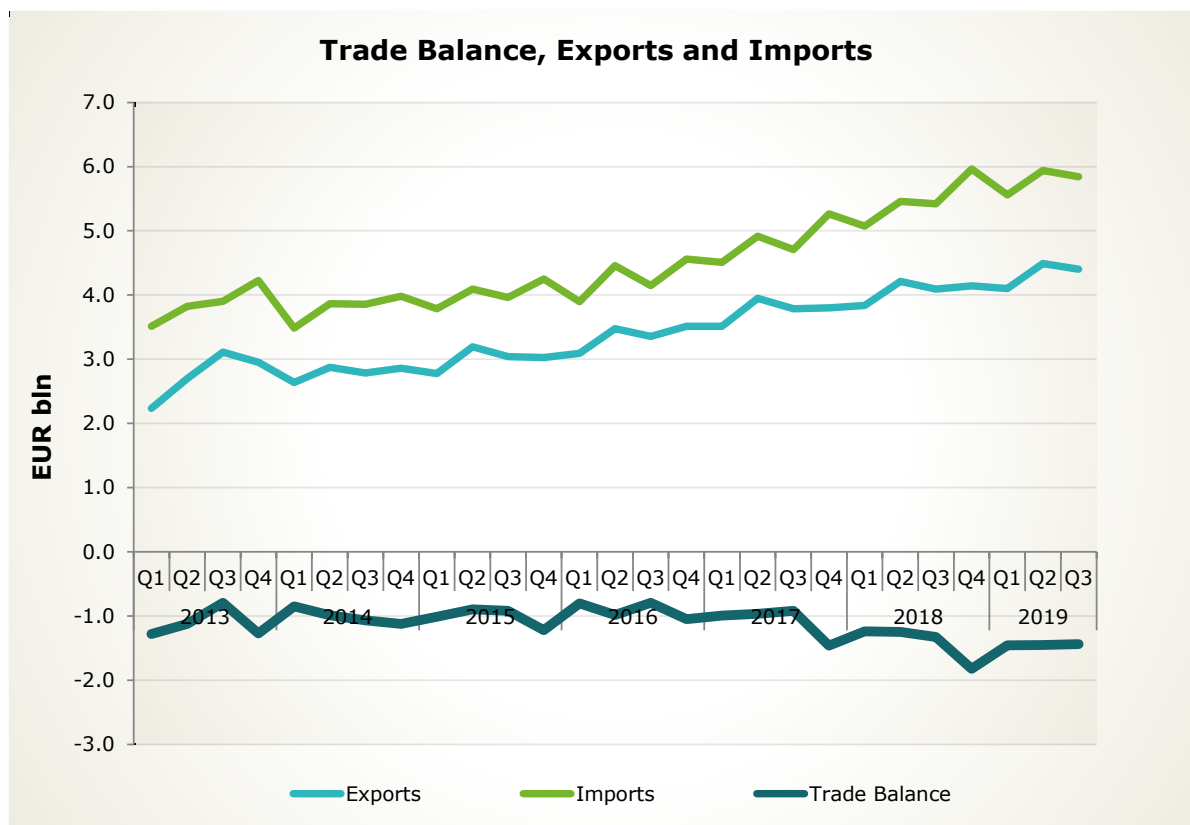
Source: NBS

## 7.4. FOREIGN TRADE

### Foreign trade deficit widened by 8.4% y/y in Q3 2019

The trade deficit stood at EUR 1.4 bln in Q3 2019, up by 8.4% compared to the previous year, due to faster growth of imports over exports, according to SORS data.

In Q3 2019, exports totalled EUR 4.4 bln, up 7.6% y/y, while imports went up by 7.8% to EUR 5.8 bln.



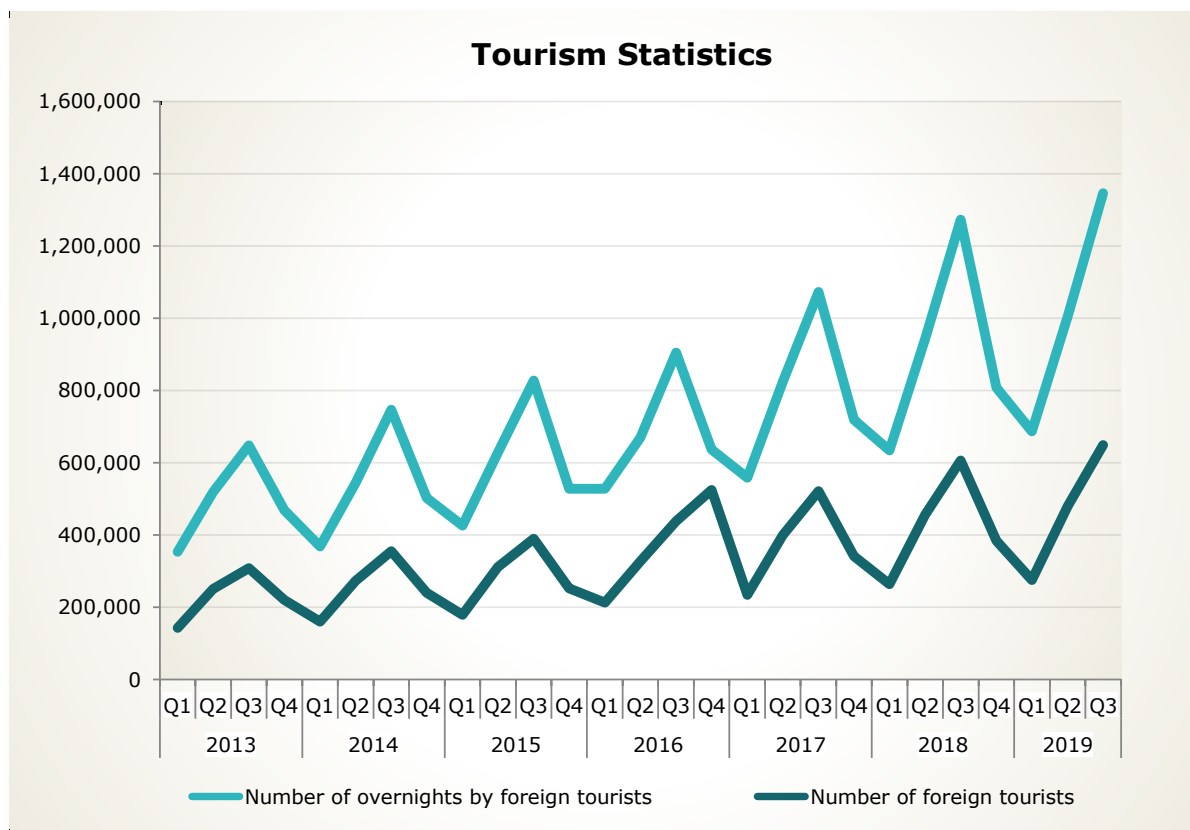
Source: NBS

## 7.5. TOURSIM

### Number of foreign tourist overnights rose by 5.8% y/y in Q3 2019

Tourist overnights of foreigners increased by an annual 5.8% to 1.3 million in Q3 2019, slicing a 40.1% share of the total number of tourist overnights in the country, according to SORS data. The total number of tourist overnights went up by 5.6% y/y to 3.4 million.

The number of foreign tourists grew by 7.0% y/y to 648,840.



Source: SORS

## 8. MAJOR DEVELOPMENTS

### **Serbia, China launch freight rail service**

Sep 30, 2019

Serbia and China have launched a freight rail service linking the two countries, infrastructure minister Zorana Mihajlovic has said.

[Read the full story here](#)

### **Serbia preparing documentation for 2nd section of Belgrade-Sarajevo motorway**

Sep 27, 2019

Serbia has started preparing the project documentation for the Pozega-Kotroman section of a motorway connecting Serbia's capital Belgrade to Bosnia's Sarajevo, infrastructure minister Zorana Mihajlovic said.

[Read the full story here](#)

### **EIB lends EUR 100 mln to support Serbian motorway project**

Sep 13, 2019

Serbia has signed EUR 100 mln loan deal with the European Investment Bank (EIB) to finance the construction of the Nis-Merdare motorway in Serbia, the bank said.

[Read the full story here](#)

***Serbia to invest EUR 150 mln in Kragujevac-Morava Corridor road link***

*Sep 3, 2019*

Serbia plans to invest EUR 150 mln in the construction of a high-speed road that will link Kragujevac to the Moravski Corridor motorway, infrastructure minister Zorana Mihajlovic has said.

[Read the full story here](#)

***Serbia will need to withdraw from EAEU before joining EU***

*Aug 29, 2019*

A member of the European Parliament has said that Serbia will need to withdraw from its potential free trade agreement with the Eurasian Economic Union (EAEU) before joining the European Union (EU), news portal EU Observer quoted.

[Read the full story here](#)

***Serbia to launch EUR 30 mln energy efficiency fund in 2020***

*Jul 25, 2019*

Serbia's government plans to launch a EUR 30 mln energy efficiency fund in 2020, a government official said.

[Read the full story here](#)

***EBRD to back 130 Serbian firms under advisory programme's new cycle***

*Jul 9, 2019*

The European Bank for Reconstruction and Development (EBRD) plans to help at least 130 Serbian companies increase competitiveness under the new project cycle of its advisory programme, an EU official has said.

[Read the full story here](#)

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