

SERBIA ECONOMY REPORT 2016

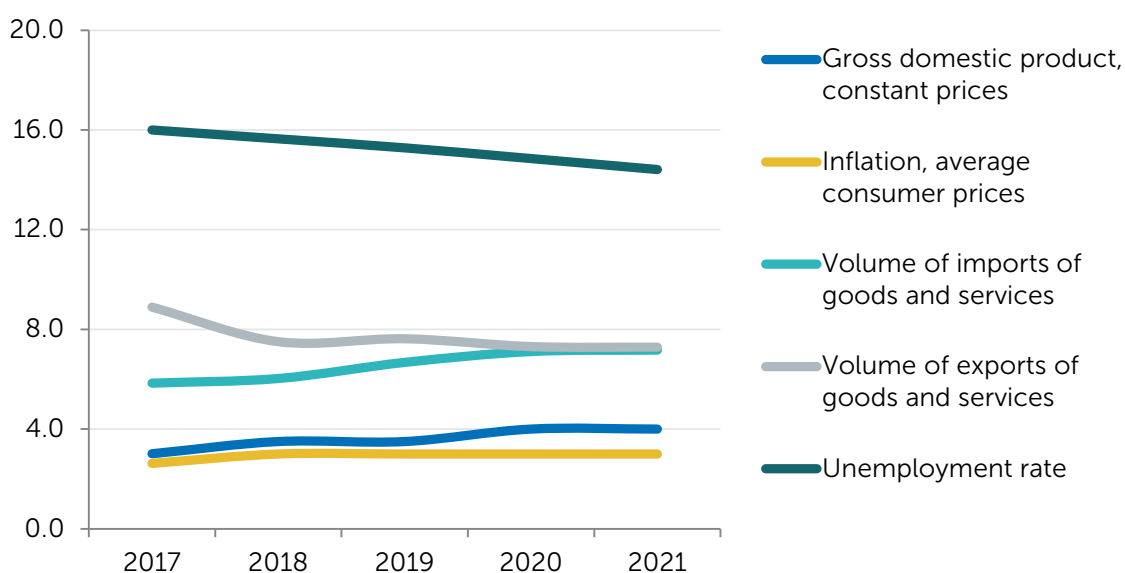
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1. MACROECONOMIC SNAPSHOT AND FORECAST

SERBIA – MACROECONOMIC SNAPSHOT AS OF 2016	
GDP Growth	2.8% y/y
Industrial output	4.7% y/y
Industrial sales	17.2% y/y
Retail sales	7.2% y/y
Average annual inflation	1.2%
Unemployment rate	13.0% (Q4 2016)
Number of building permits	4,140
Money supply growth	11.6% y/y
Household loans	10.5% y/y
BELEX15 blue-chip index	-4.0% y/y
Gross external debt	EUR 26.185 bln
Current account gap	EUR 1.370 bln
FDI inflow	EUR 2.080 bln
Foreign trade deficit	EUR 3.960 bln
Number of foreign tourist overnights	13.7% y/y

Serbia Economy Forecast



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

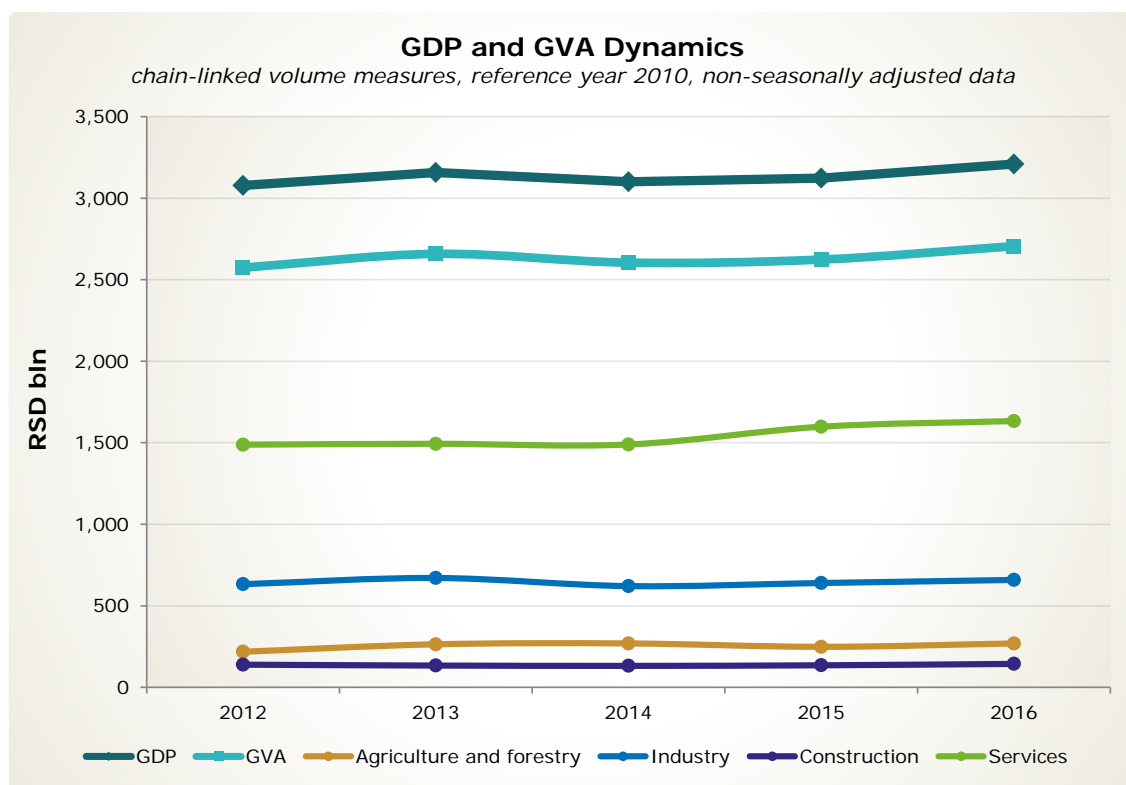
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by 2.8% y/y in 2016

Serbia's GDP, including changes in inventories and net acquisition of valuables, increased by a real 2.8% y/y and totalled RSD 3,210 bln in 2016, according to preliminary data of the Statistical Office of the Republic of Serbia (SORS).

Final consumption inched up by 1.1% y/y to RSD 2,931 bln. Gross capital formation rose by 4.9% on the year to RSD 634.3 bln. Exports and imports also grew, by 11.9% and 6.8% y/y, respectively.



Source: SORS

The gross value added (GVA) generated by the national economy increased by 3.1% y/y in 2016 and totalled RSD 2,706 bln. The industrial sector inched up in value by 2.9% y/y, but its share in the GVA structure decreased to 24.3% from 24.4%. The services sector recorded a 2.2% annual increase, slicing a 60.4% share in the GVA, up from 60.9% in 2015. Construction sector's GVA grew by 6.4% to RSD 143.7 bln and accounted for 5.3% of the total GVA, up from 5.2% a year earlier. The agricultural sector registered an annual rise of 8.3% and its share in the GVA grew to 9.9%, from 9.5%.

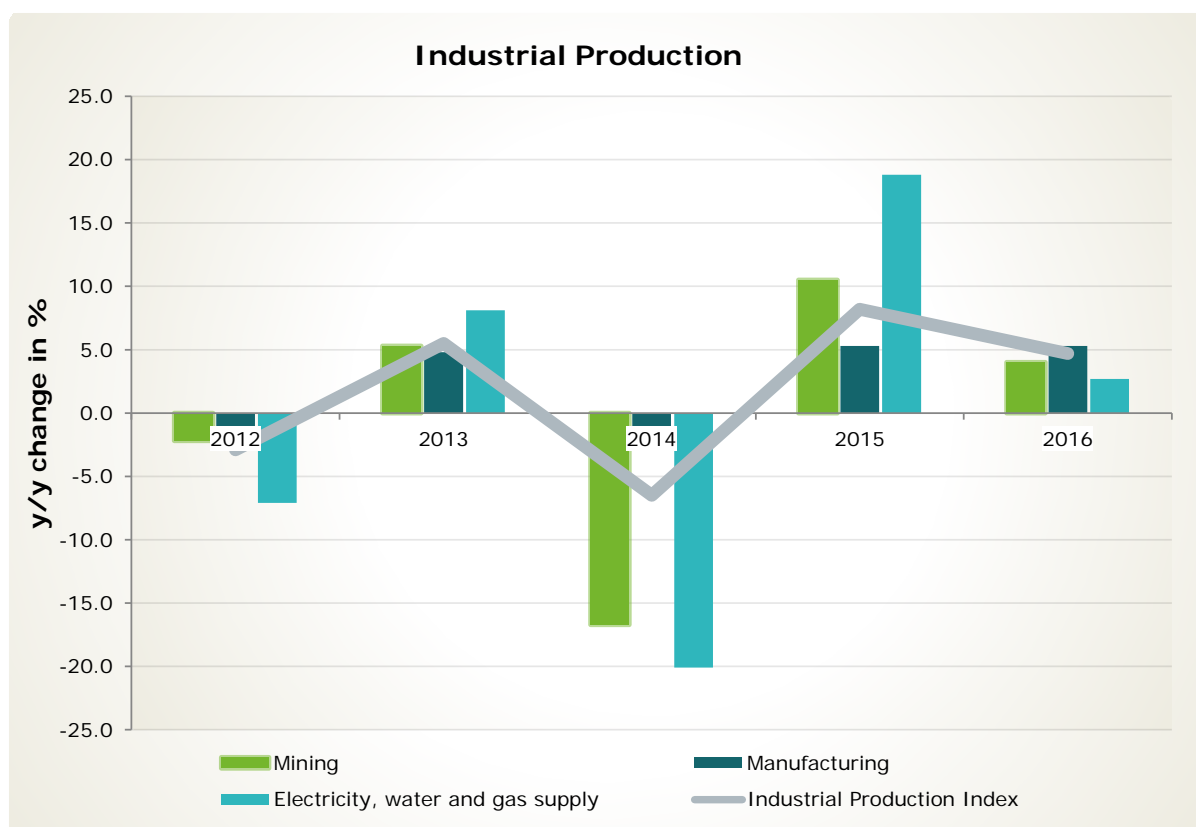
2.2. INDUSTRIAL OUTPUT

Industrial output went up by 4.7% y/y in 2016

The industrial output grew by 4.7% on the year in 2016, according to SORS. The manufacturing sector reported the highest annual increase, of 5.3%, followed by the mining and quarrying, and electricity, water and gas supply sectors, where production rose by 4.0% and 2.7%, respectively.

Manufacture of other transport equipment was the segment with the highest annual production growth, of 52.4%, followed by manufacture of tobacco products with 22.6%, and manufacture of chemicals and chemical products, up by 15.8% y/y.

On the other end was manufacture of textiles, which reported an annual drop of 15.2%. The extraction of crude petroleum and natural gas dropped by 7.8%, while the output in manufacture of motor vehicles, trailers and semi-trailers fell by 7.6%.

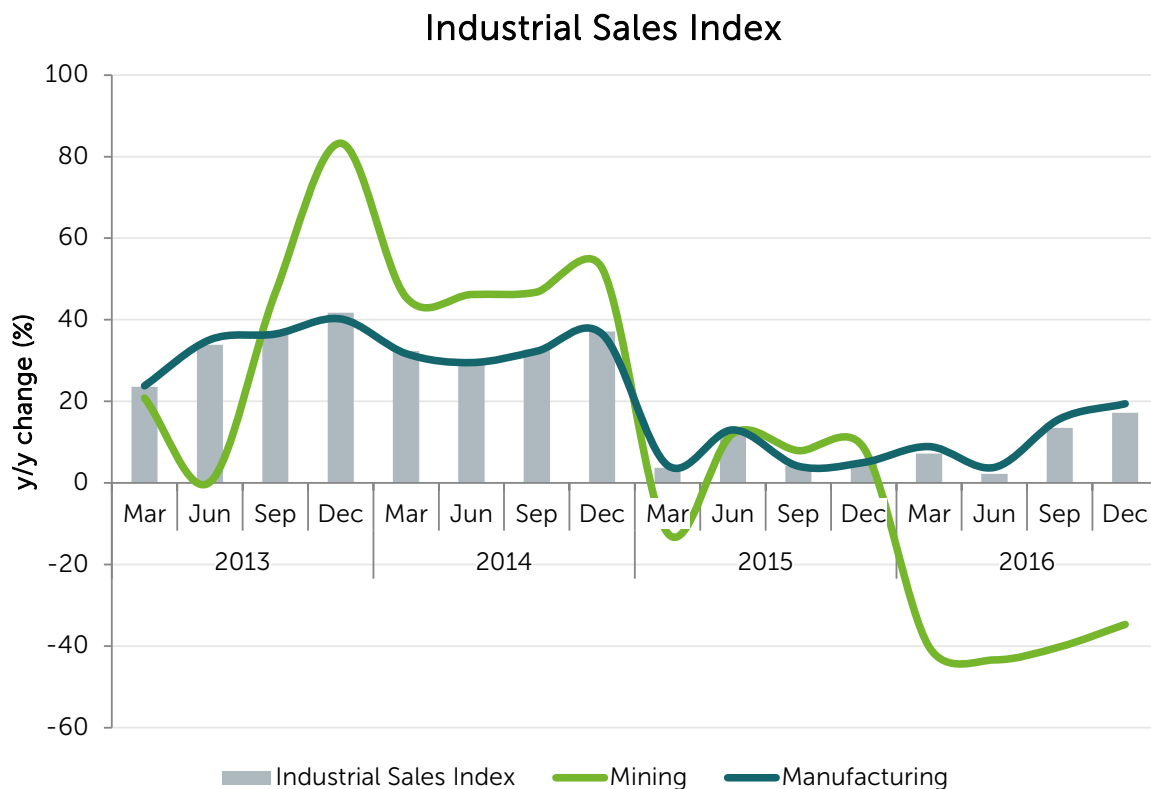


Source: SORS

2.3. INDUSTRIAL SALES

Industrial sales grew by 17.2% y/y in December 2016

The industrial sales jumped by 17.2% on the year in December 2016, according to SORS. The manufacturing industry recorded a 19.4% annual increase, while the mining sector posted a 34.7% decrease.

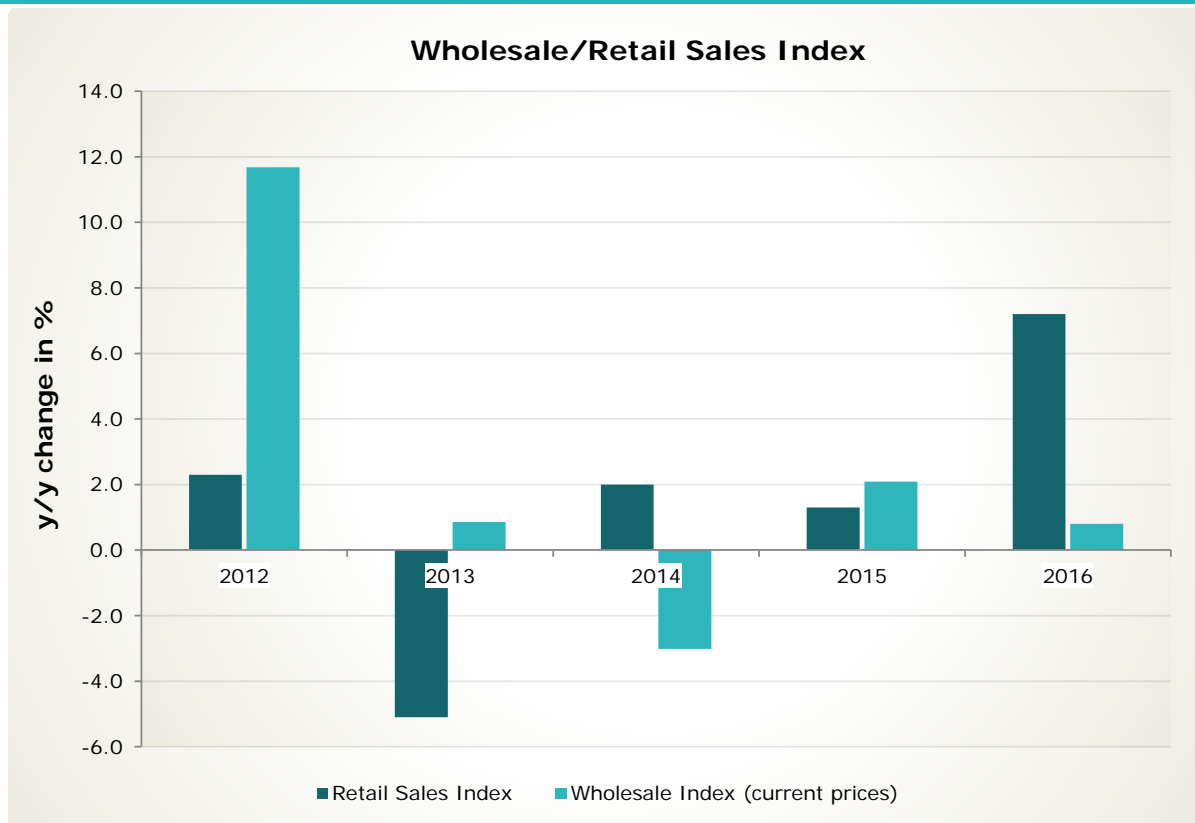


Source: SORS

2.4. WHOLESALE/RETAIL

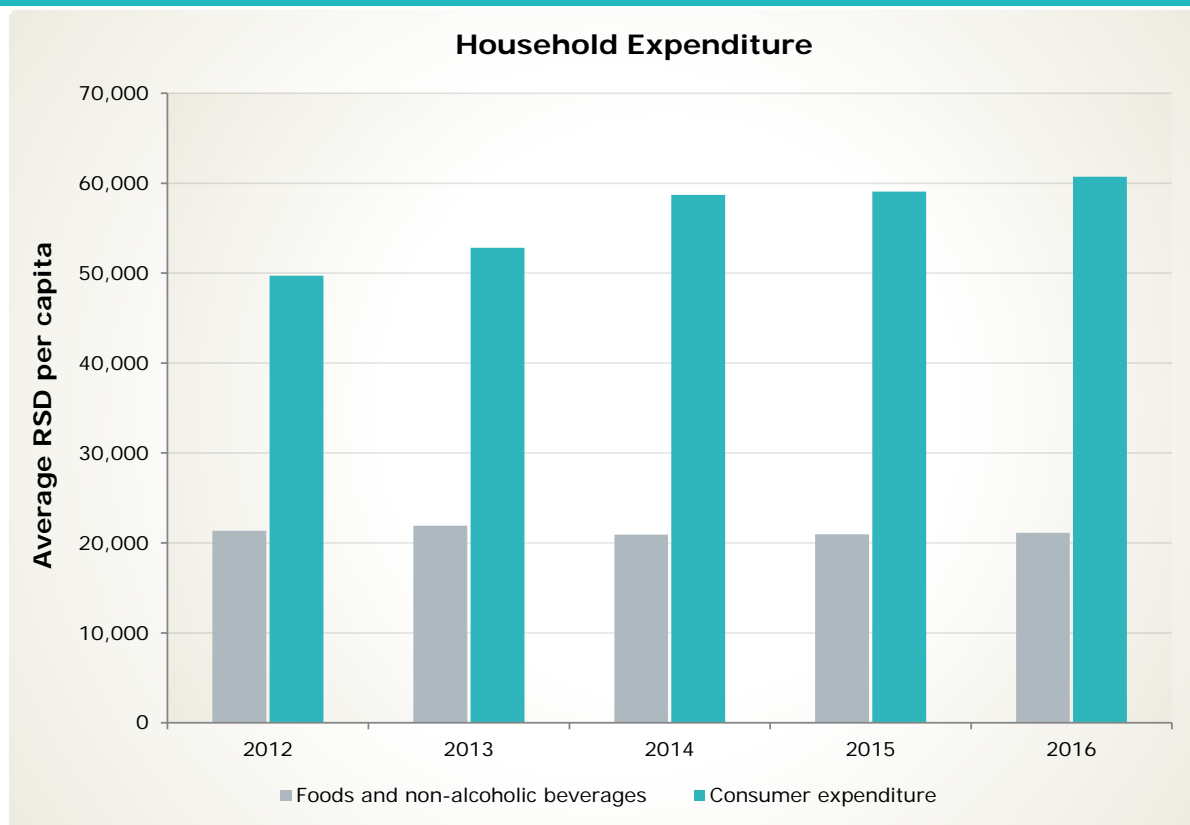
Wholesale and retail sale grew y/y in 2016

In 2016 the retail sector grew by 7.2% y/y, according to SORS. During the months in the period, the sharpest annual rise in retail sales was registered in March – 11.2%, followed by 9.8% in April and by 9.4% in September. There was no month with an annual drop in retail sales. The wholesale sector in 2016 increased by 0.8% y/y.



Source: SORS

Consumer expenditure increased by 2.8% y/y to an average of RSD 60,720 per household in 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 16.7% share and transport expenditure, which sliced a 9.3% share.



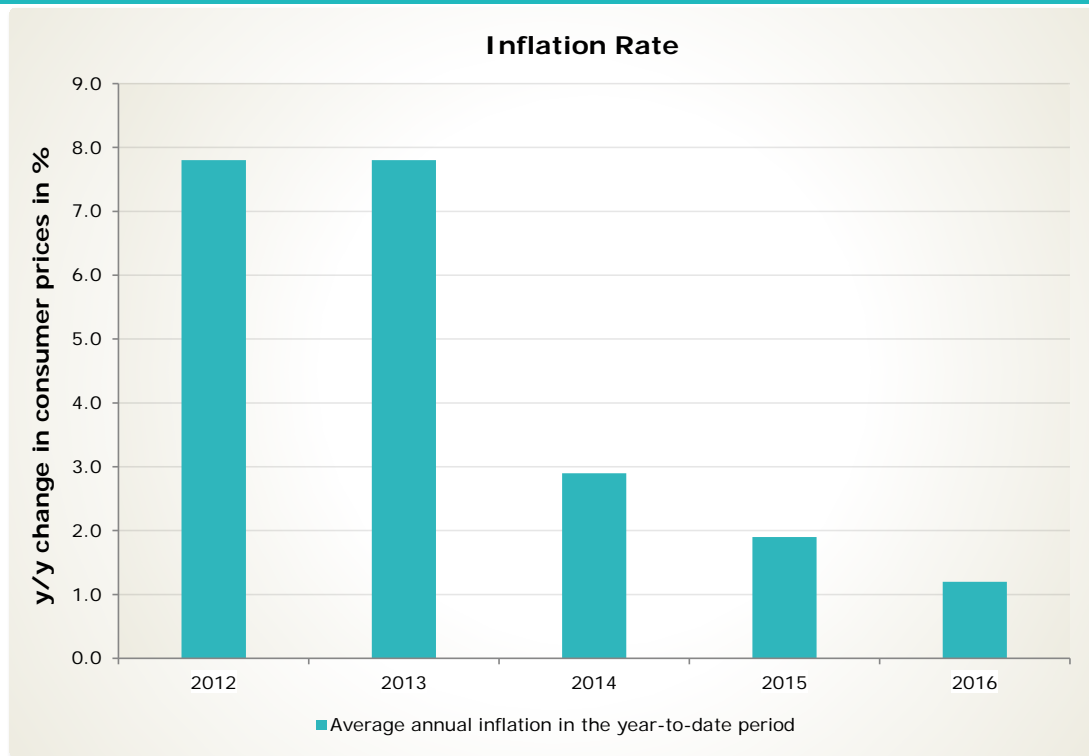
Source: SORS

2.5. INFLATION

Average annual inflation of 1.2% in 2016

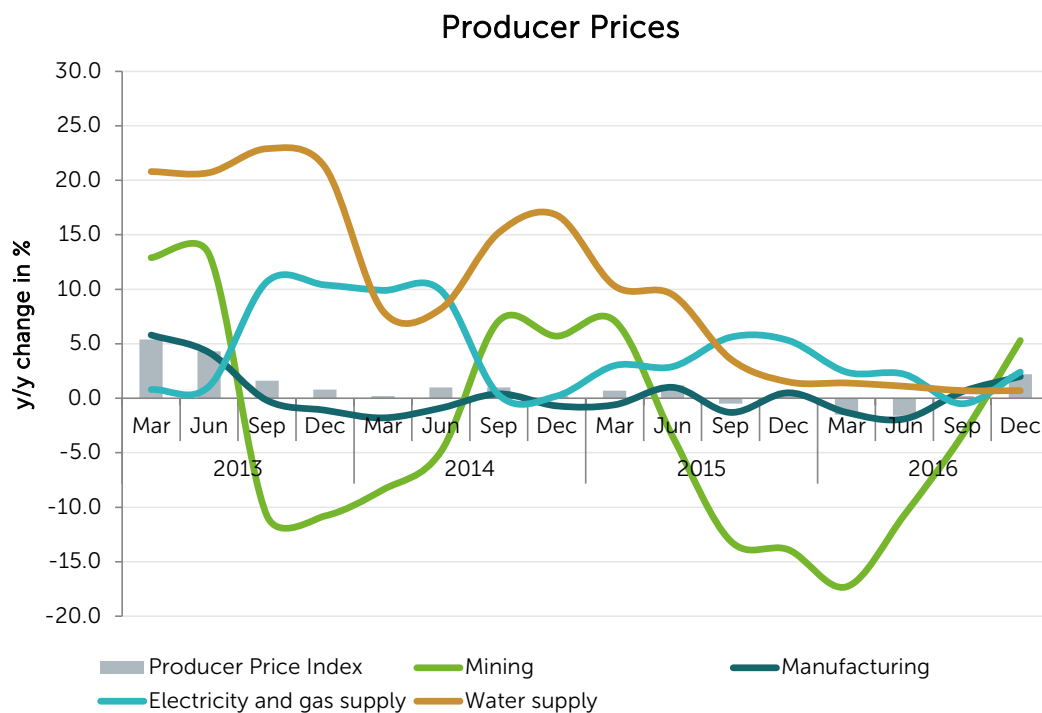
The average annual inflation slowed down to 1.2% in 2016, compared to a 1.9% average annual inflation a year ago, according to SORS data.

The highest annual increase in consumer prices in 2016, of 6.5% was registered in alcoholic beverages and tobacco, while prices of transport services dropped the most, by 1.5%.



Source: SORS

Producer prices increased by 2.2% y/y in December 2016. The mining and quarrying sector reported the sharpest growth in producer prices, of 5.3%, followed by the electricity and gas supply sector with 2.4%, manufacturing with 2.0% and water supply with 0.7%.



Source: SORS

3. LABOUR MARKET

Unemployment rate went down y/y to 13.0% in Q4 2016

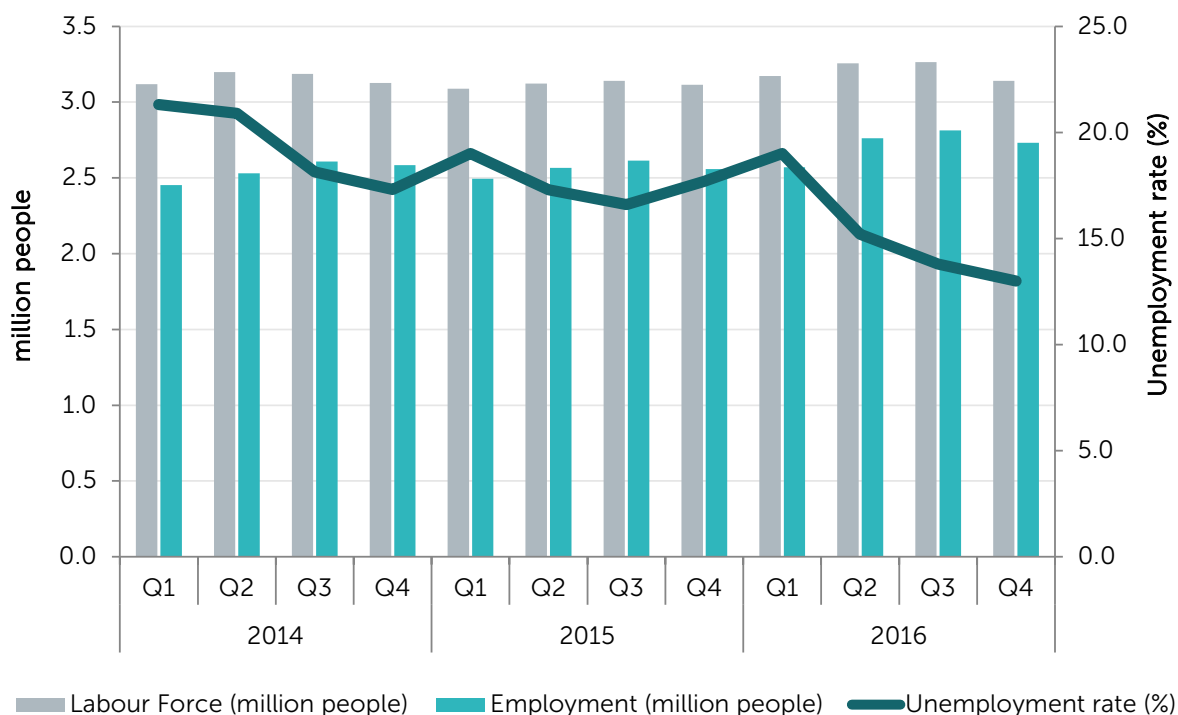
Unemployment in Serbia decreased to 13.0% of the total labour force in Q4 2016 from 17.7% a year earlier, according to data of SORS.

The employed population aged 15 years and older was 2.731 million, up by 6.8% y/y.

The youth (population aged 15-24) unemployment rate also went down, to 31.2%, compared to 43.8% a year earlier.

The average monthly net salary in 2016 was RSD 46,087, up by 3.7% y/y.

Labour Force, Employment and Unemployment Rate



Source: SORS

4. CONSTRUCTION AND REAL ESTATE

The number of building permits grew by 7.6% y/y in 2016

The number of permits for new buildings in Serbia stood at 4,140 in 2016, including 2,347 for housing projects and 113 for office buildings, according to SORS data.

The total number of permits for new buildings issued in the period under review increased by 7.6% y/y. Permits for housing projects went down by 3.1%, while permits for office buildings rose to 113 from 99.

The total built-up area of office units, covered by the permits, jumped to 208,274 sq m from 148,298 sq m. The total built-up area of new housing went up to 1,415,258 sq m from 1,175,406 sq m.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. RSD EXCHANGE RATE

The average exchange rate of the EUR against RSD increased to RSD 123.1179 in 2016 from RSD 120.7328 a year earlier, according to National Bank of Serbia (NBS).

Average Annual RSD Exchange Rate			
Foreign Currency	2016	2015	2014
EUR	123.1179	120.7328	117.3060
USD	111.2903	108.8543	88.5408
GBP	150.4277	166.4218	145.6441
CHF	112.9060	113.1283	96.5738

5.2. MONETARY AGGREGATES

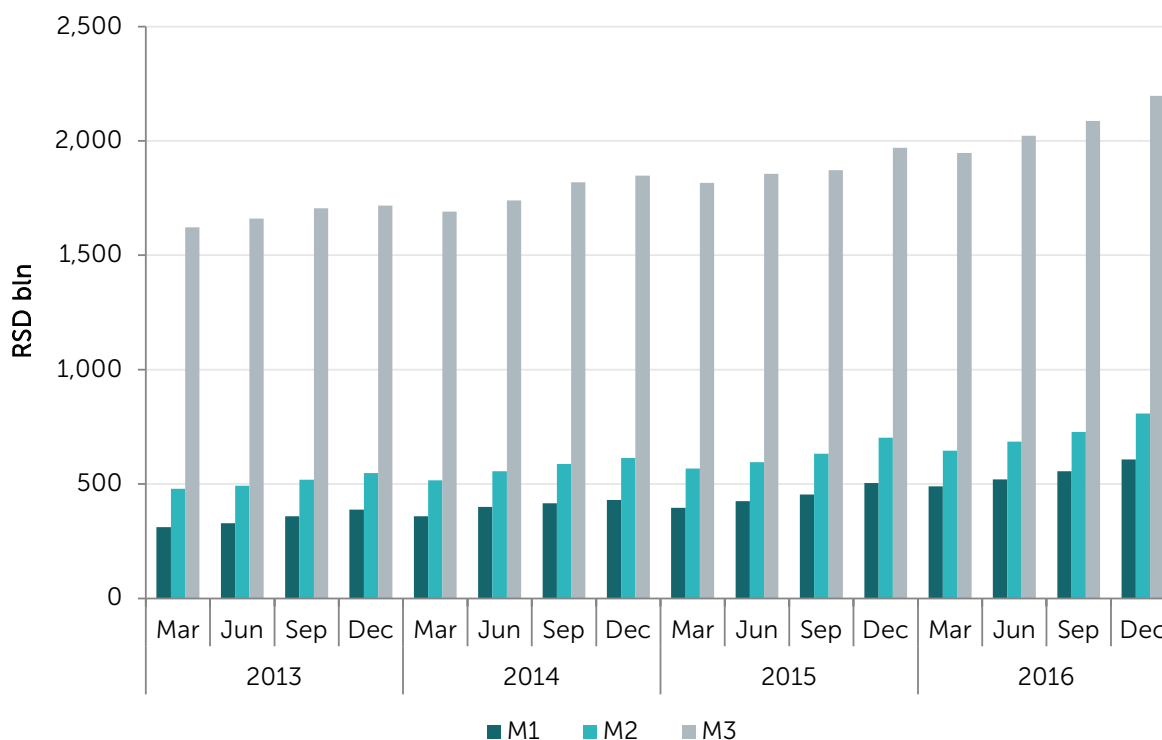
Money supply growth was 11.6% y/y at end-December 2016

Broad money (money aggregate M3) increased by 11.6% y/y and reached RSD 2,197.1 bln as of December 2016, according to data provided by NBS.

The M2 money supply also grew, by 15.1% to RSD 808.3 bln.

Money aggregate M1, or narrow money, jumped by 20.5% to RSD 607.9 bln.

Monetary Aggregates Dynamics



Source: NBS

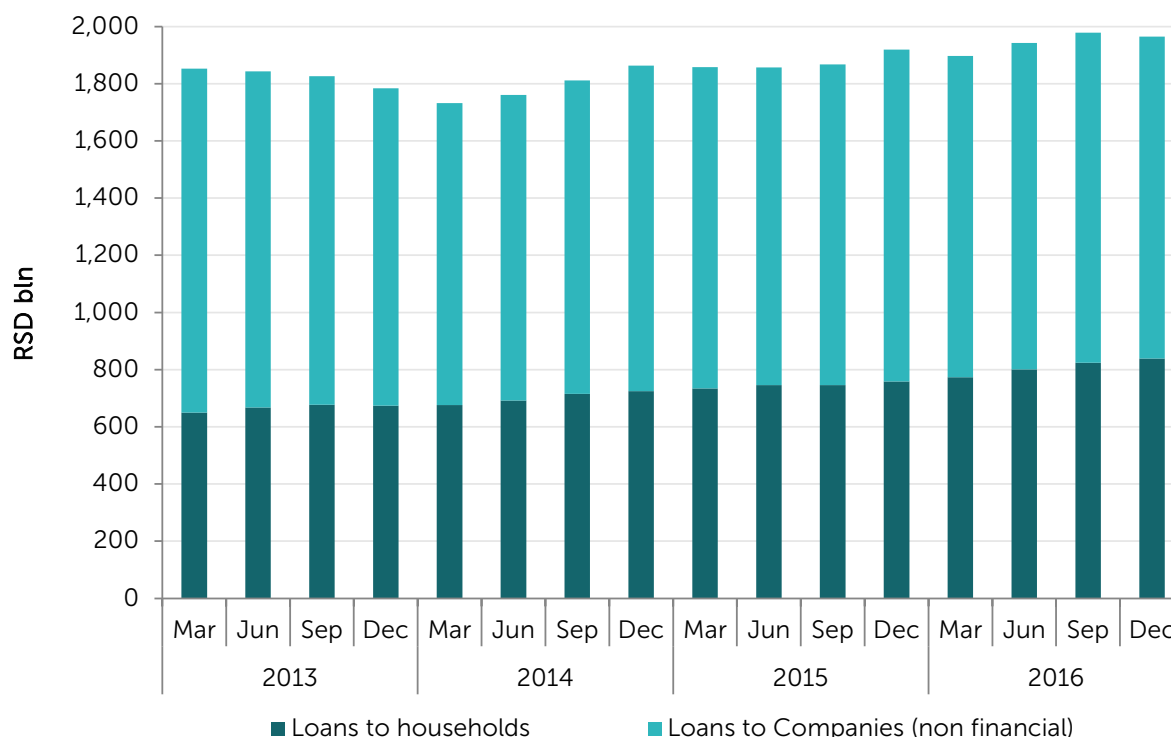
5.3. BANKING AND INSURANCE

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

Loans to the non-government sector totalled RSD 1,964.7 bln as of December 2016, up by 2.3% y/y, according to NBS.

Loans to non-financial corporations went down by 3.0% y/y to RSD 1,126.1 bln, while household loans rose by 10.5% to RSD 838.6 bln. House purchasing loans grew by 3.8% to RSD 359.8 bln, while consumer loans inched down by 1.2% to RSD 19.587 bln.

Loans to Companies and Households



Source: NBS

At the end of September 2016¹, 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.

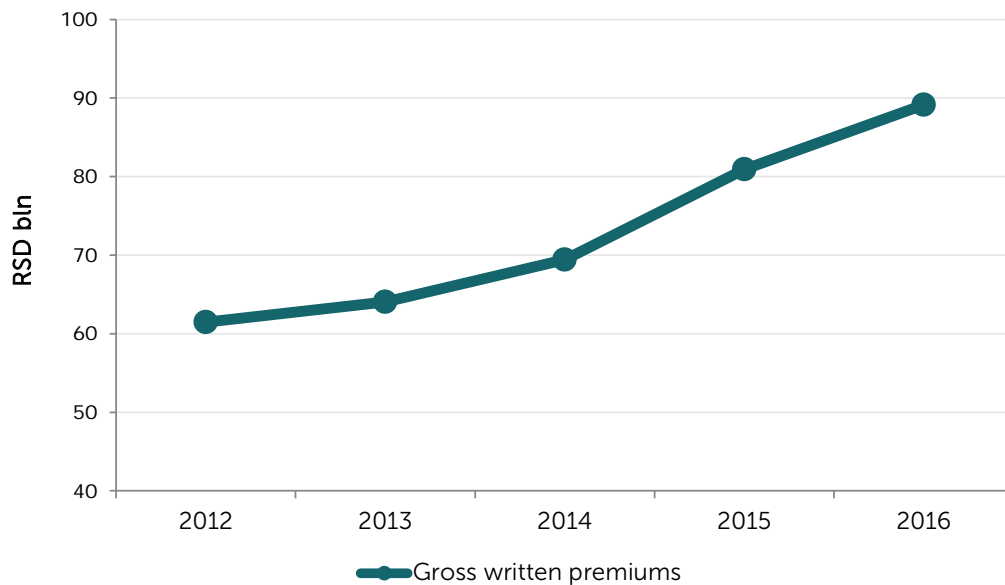
The total deposits amounted to RSD 2,161.7 bln at end-September 2016, or by 12.5% more than at the end of September 2015. Deposits of households accounted for the bulk, or 54.5% of the total deposits, while the corporate sector had a 27.7% share.

Premium income up 10.1% y/y in 2016

The total gross written premiums of the non-life and life insurance companies stood at RSD 89.138 bln, up by 10.1% y/y in 2016, according to NBS data.

¹ Data for Q4 2016/December 2016 was not available as of the date of the preparation of the report

Gross Written Premiums



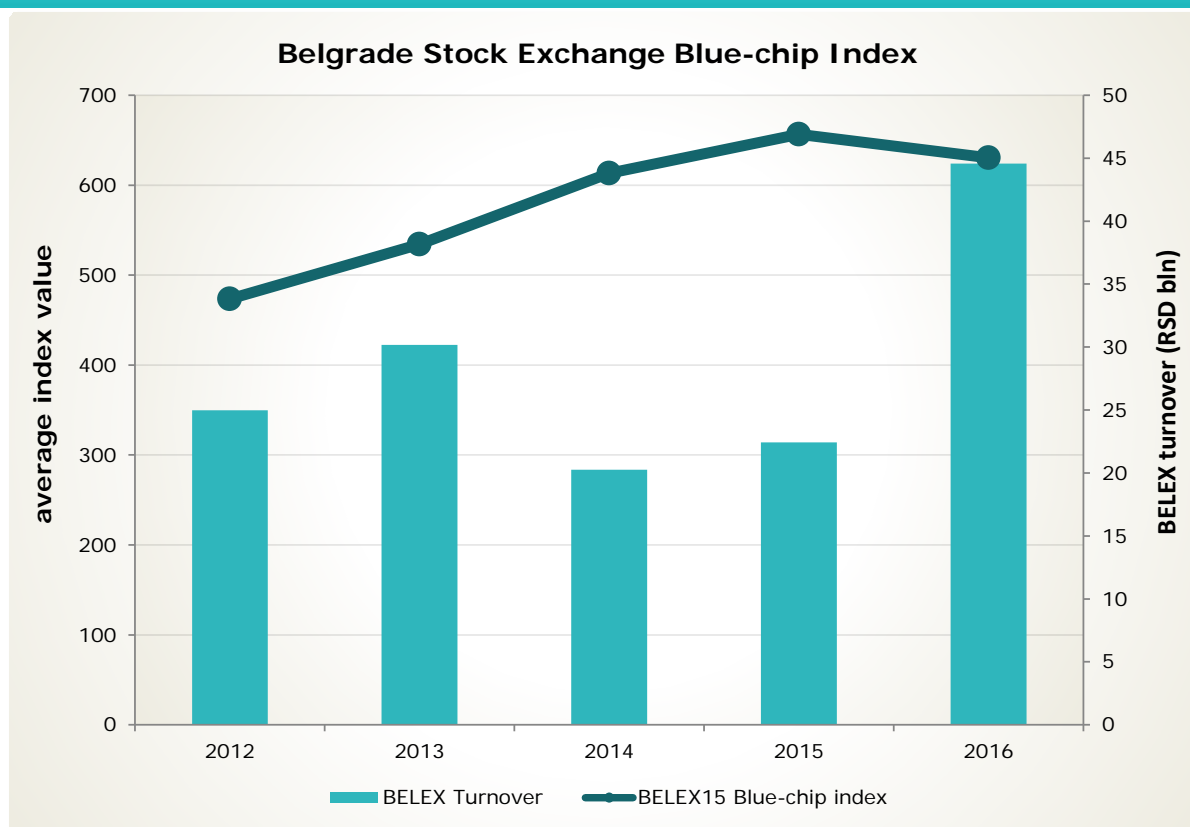
Source: NBS

6. CAPITAL MARKETS

Blue-chip index BELEX15 went down by 4.0% y/y in 2016

The average value of BELEX15, the blue-chip index of the Belgrade Stock Exchange (BELEX), decreased by 4.0% y/y to 630.3 points in 2016.

The total turnover on BELEX jumped nearly twofold on the year to RSD 44.574 bln in 2016. The number of transactions was 87,893 versus 146,232 a year ago.



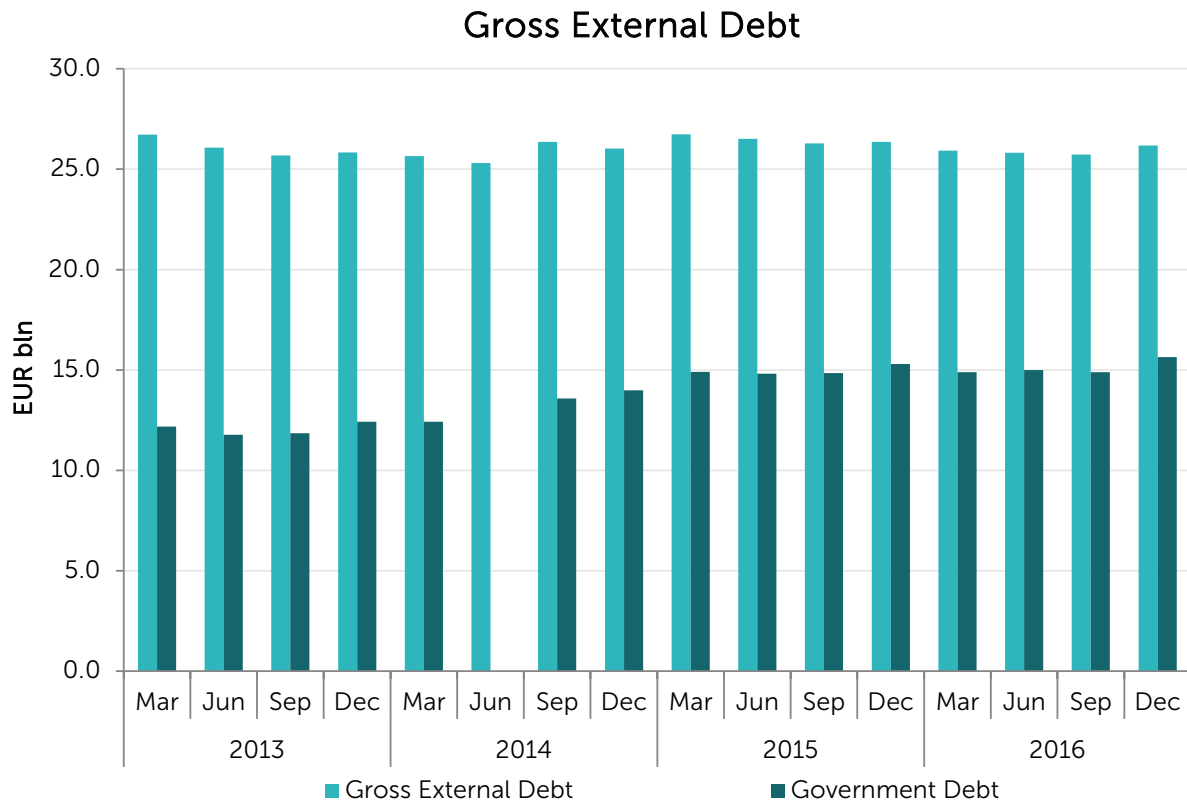
Source: BELEX

7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt shrank y/y to EUR 26.185 bln at end-December 2016

The gross external debt decreased by 0.7% y/y, totalling EUR 26.185 bln at the end of December 2016, according to NBS. In comparison to September 2016 the gross external debt expanded by 1.8% or EUR 458.3 mln.



Source: NBS

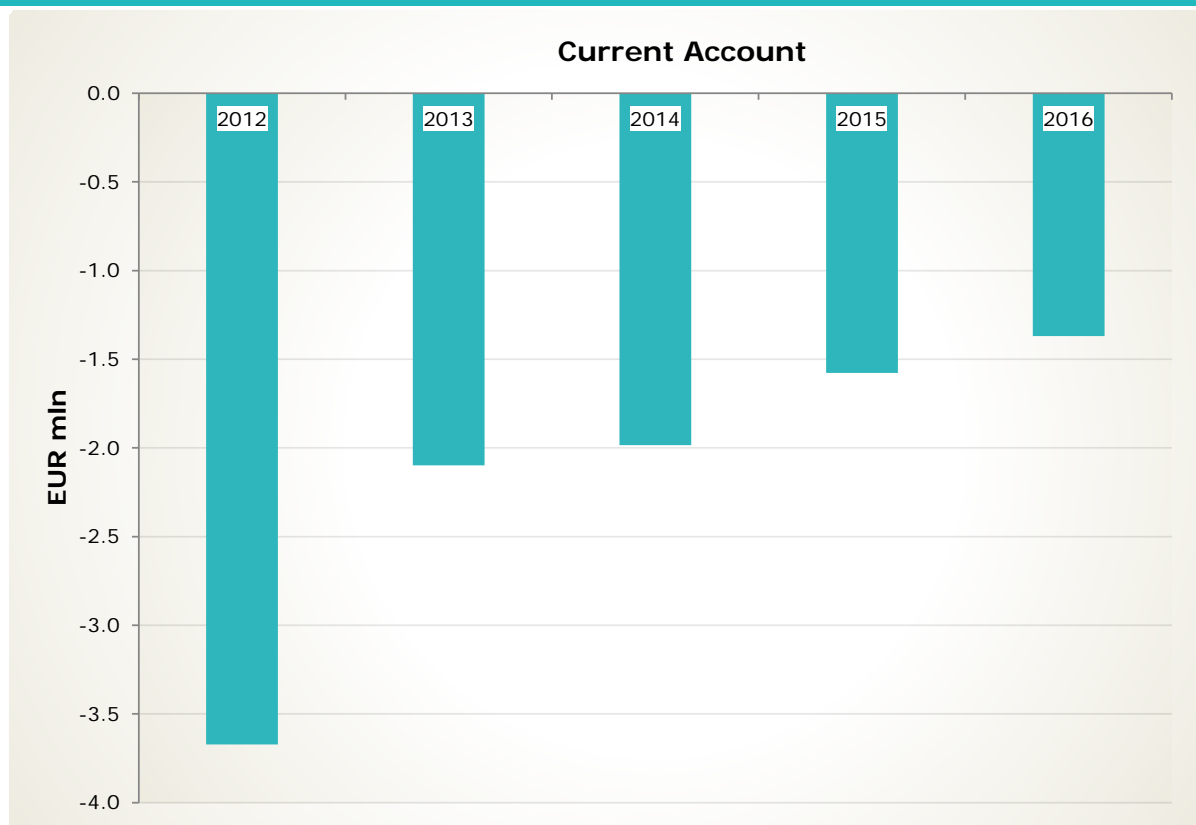
Editor's note: No data is available for gross external government debt for June 2014

7.2. BALANCE OF PAYMENTS

Current account gap at EUR 1.370 bln in 2016

The current account gap shrank to EUR 1.370 bln from EUR 1.577 bln a year earlier, according to central bank data.

Secondary income in 2016 amounted to EUR 3.161 bln, down from EUR 3.349 bln in 2015, or a 5.6% drop on annual basis.



Source: NBS

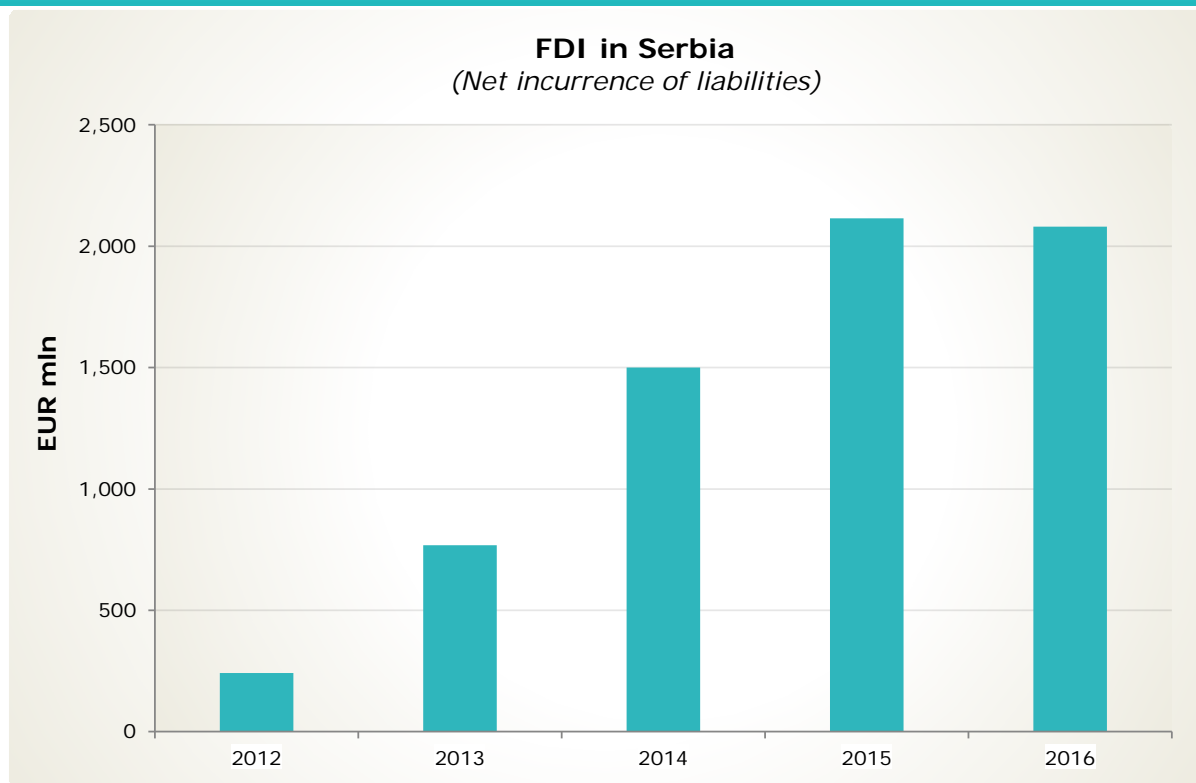
7.3. FDI

FDI at EUR 2.080 bln in 2016

Foreign Direct Investments (FDI) in Serbia totalled EUR 2.082 bln in 2016, according to NBS data. In comparison to the previous year the FDI inflow shrank by 1.6%, or EUR 34.0 mln.

Netherlands was the largest foreign investor in Serbia in 2016 with FDI inflow of EUR 276.1 mln, followed by Austria with EUR 257.9 mln and Luxembourg with EUR 233.2 mln.

A breakdown by industries shows that the leading sector in terms of attracted FDI was financial intermediation, except insurance and pension funding, accounting for 20.0% of the total FDI inflow. Construction came second with a 12.5% share and manufacturing of basic metals and fabricated metal products was the third most attractive sector for foreign investors with an 11.7% share.



Source: NBS

7.4. FOREIGN TRADE

Foreign trade deficit shrank by 8.9% y/y in 2016

The trade deficit stood at EUR 3.960 bln in 2016, down by 8.9% compared to the previous year, according to SORS.

In 2016 exports totalled EUR 13.430 bln, up from EUR 12.041 bln a year earlier, while imports grew by EUR 1.002 bln to EUR 17.390 bln.

In 2016 Serbia's leading sectors in terms of exports were manufacture of motor vehicles, trailers and semi-trailers, which accounted for 14.3% of the total exports, followed by manufacture of food products with an 11.1% share, and manufacture of electrical equipment with 8.4%.

In terms of imports, the main sectors were not else classified goods, which made up 15.9% of the total, followed by manufacture of motor vehicles, trailers and semi-trailers, slicing a 10.0% share, and manufacture of chemicals and chemical products, which had a 9.9% share.



Source: NBS

7.5. TOURSIM

Number of foreign tourist overnights rose by 13.7% y/y in 2016

Tourist overnights of foreigners increased by an annual 13.7% to 2,738,998 in 2016, slicing a 36.4% share of the total number of tourist overnights in the country, according to SORS data. The total number of tourist overnights jumped by 13.3% on the year to 7,533,739.

The number of foreign tourists also went up - by 13.2% y/y to 1,281,426. Most foreign tourists visiting Serbia in 2016 came from Bosnia and Herzegovina - 100,579, followed by tourists from Bulgaria - 88,089, and Turkey - 83,676.



Source: SORS

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