

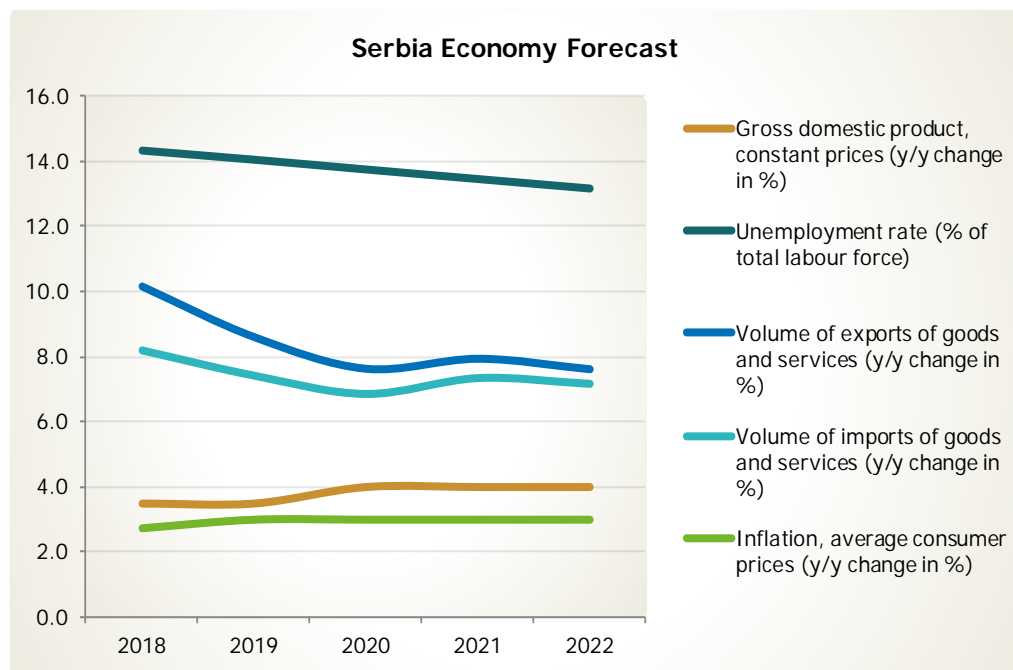
## **SERBIA ECONOMY REPORT** 2017

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

SERBIA – MACROCECONOMIC SNAPSHOT AS OF 2017	
<b>GDP Growth</b>	1.8% y/y
<b>Industrial output</b>	3.5% y/y
<b>Industrial sales</b>	-5.0% y/y
<b>Retail sales</b>	4.3% y/y
<b>Average annual inflation</b>	3.0% y/y
<b>Unemployment rate</b>	14.7% (Q4 2017)
<b>Number of building permits</b>	41.2% y/y
<b>Money supply growth</b>	3.6% y/y
<b>Household loans</b>	7.8% y/y
<b>BELEX15 blue-chip index</b>	15.0% y/y
<b>Gross external debt</b>	EUR 25.736 bln
<b>Current account gap</b>	EUR 2.090 bln
<b>Net FDI inflow</b>	EUR 1.970 bln
<b>Foreign trade deficit</b>	EUR 4.576 bln
<b>Number of foreign tourist overnights</b>	15.9% y/y

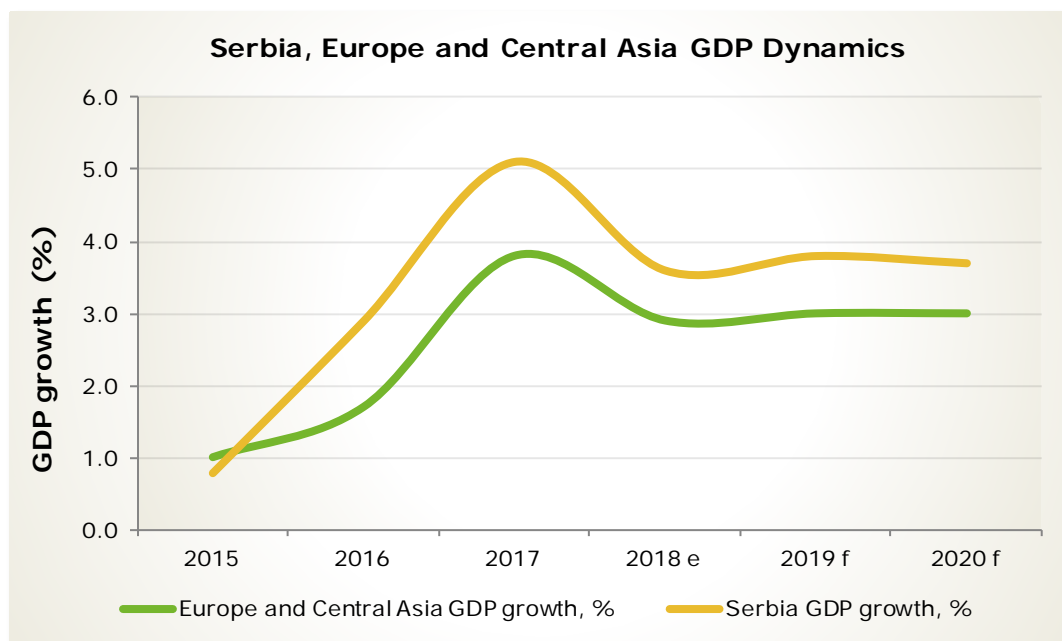


Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2018

Serbia's real GDP growth is expected to accelerate to 3.5% in 2018 from 1.9% in 2017, according to an IMF forecast. The largest contributors to economic growth in 2018 will be government consumption and capital investments. The fund projects inflation to stay unchanged 3.0% in 2018 on account of recovering demand and higher energy prices. The

current account deficit is expected to moderate to 4.2% of GDP in 2018 as one-off effects of drought and electricity production disruption dissipate, and to remain around 4.0% of GDP throughout the medium term.

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 1.8% in 2017 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 2018-2020. As domestic demand gradually recovers, the bank expects inflation to stay unchanged at 3.0% in 2018. The current account gap is expected to expand to 4.9% of GDP in 2018-2019.

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	2017	2018 e	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

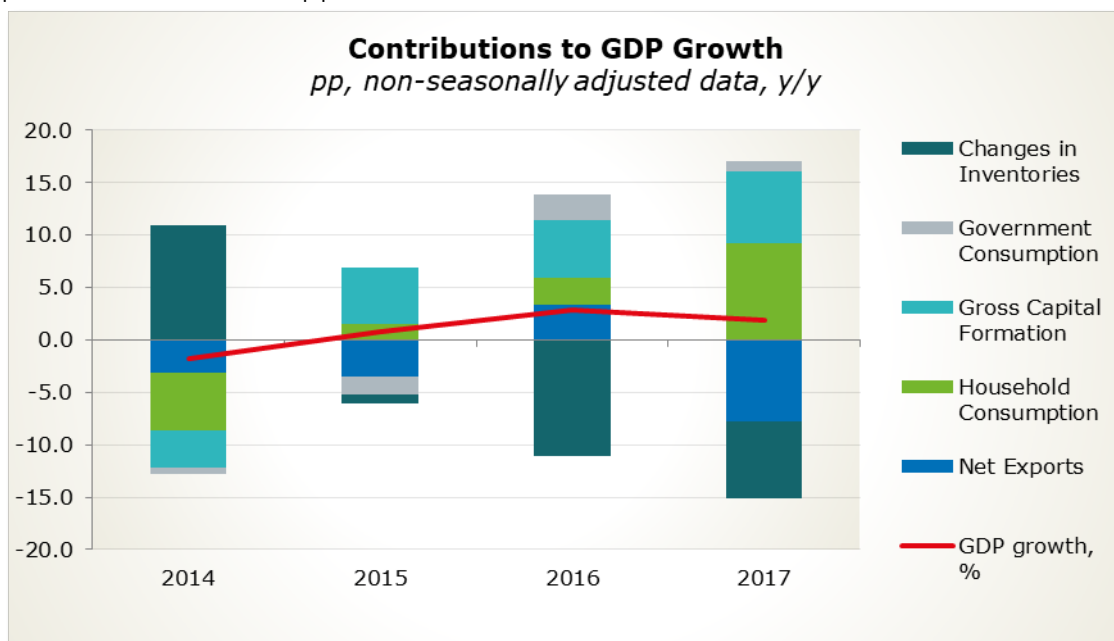
### 2.1. GROSS DOMESTIC PRODUCT (GDP)

#### *GDP growth went down at 1.9% y/y in 2017*

Serbia's GDP, including changes in inventories and net acquisition of valuables, increased by a real 1.9% y/y and totalled RSD 3,271 bln in 2017, according to data of the Statistical Office of the Republic of Serbia (SORS). This is a decrease compared to the GDP growth in 2016, of 2.8% y/y. The economic growth faltered mainly on increased exports which widened the foreign trade gap by 14% y/y to RSD 494 bln.

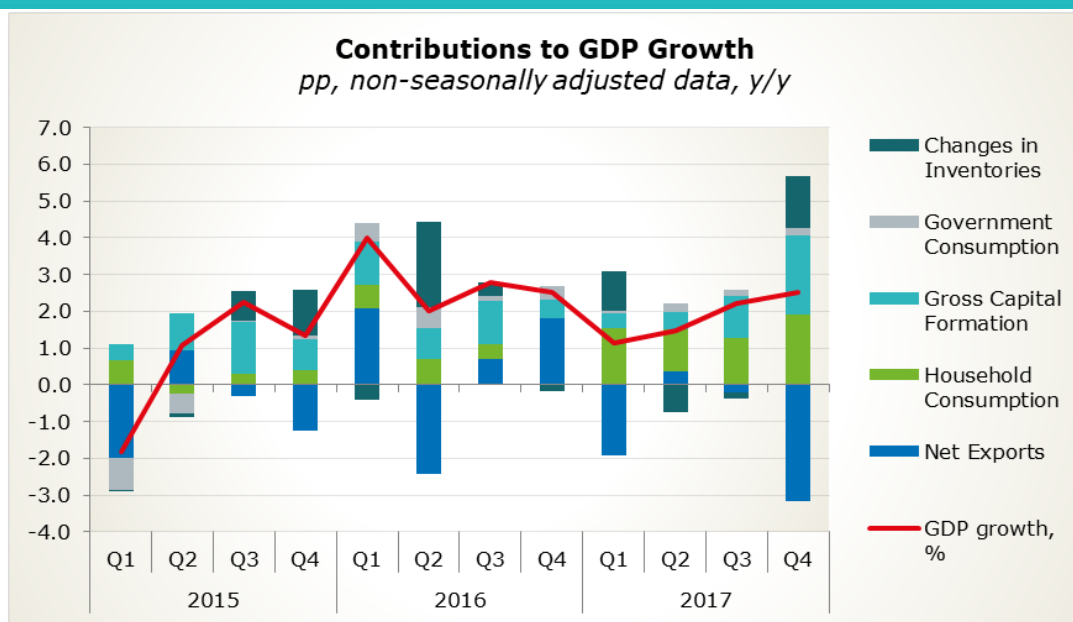
Exports grew by 9.8% y/y to RSD 1,858 bln, while imports increased faster at 10.7% y/y to RSD 2,352 bln. Final consumption inched up by 1.7% y/y to RSD 2,983 bln. Gross capital formation rose by 6.2% on the year to RSD 674.3 bln.

The largest growth contributors in 2017 were household consumption with 9.2 pp and gross capital formation with 6.8 pp.



Source: SORS; SeeNews calculations

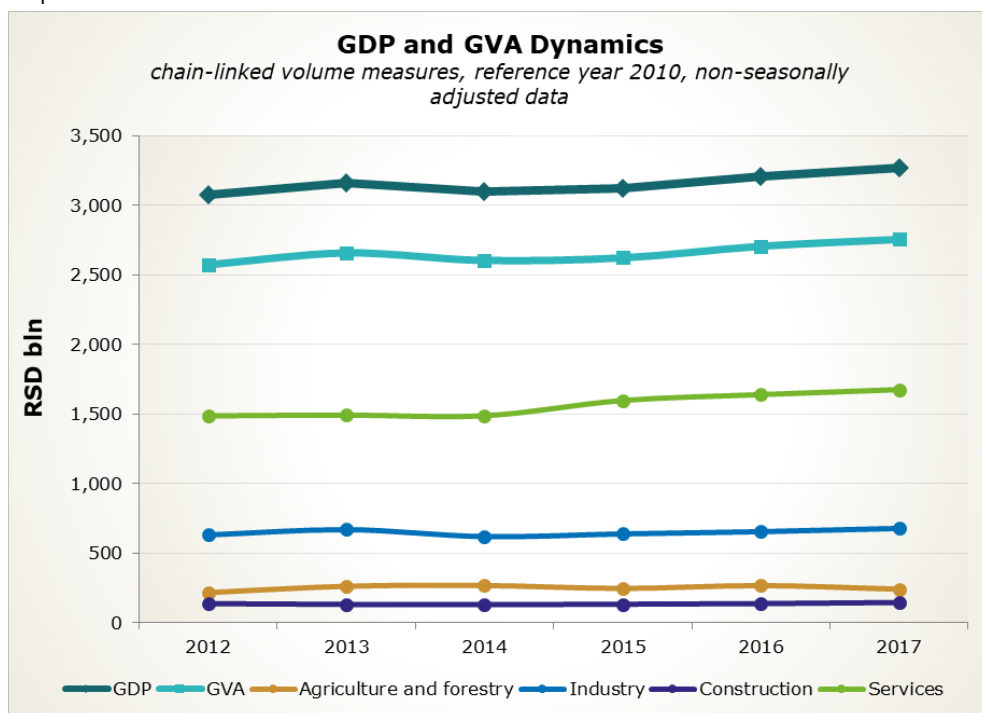
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual



Source: SORS; SeeNews calculations

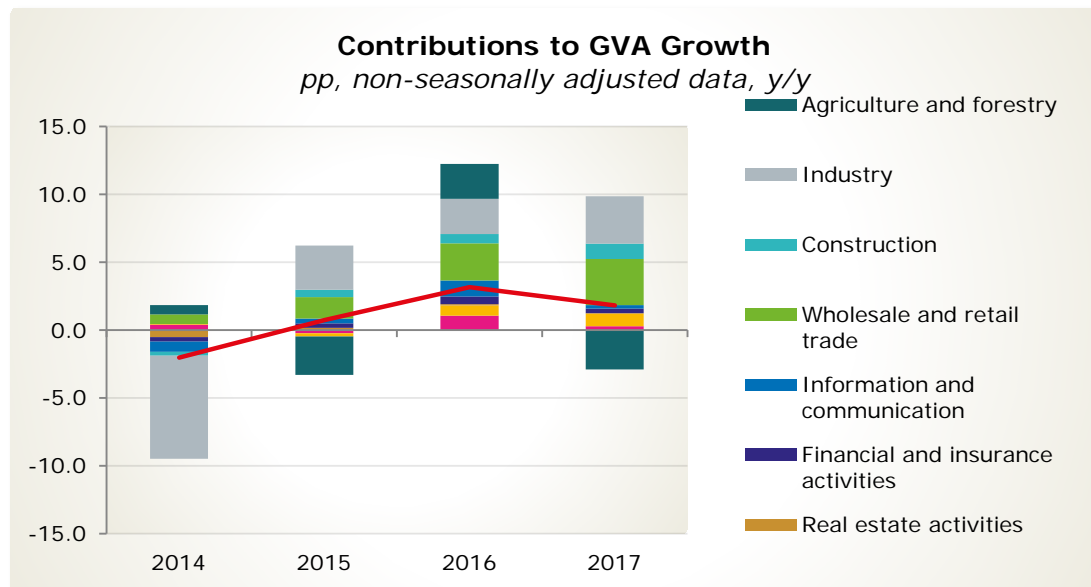
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The gross value added (GVA) generated by the national economy increased by 1.8% y/y in 2017 and totalled RSD 2,756 bln. The industrial sector went up in value by 3.5% y/y and accounted for almost a quarter of the total GVA. The services sector recorded a 2.2% annual increase, slicing a 60.9% share of the total GVA, up from 60.4% in 2016. The construction sector's GVA increased by 5.5% to RSD 147.2 bln, while the agricultural sector registered an annual drop of 9.5%.



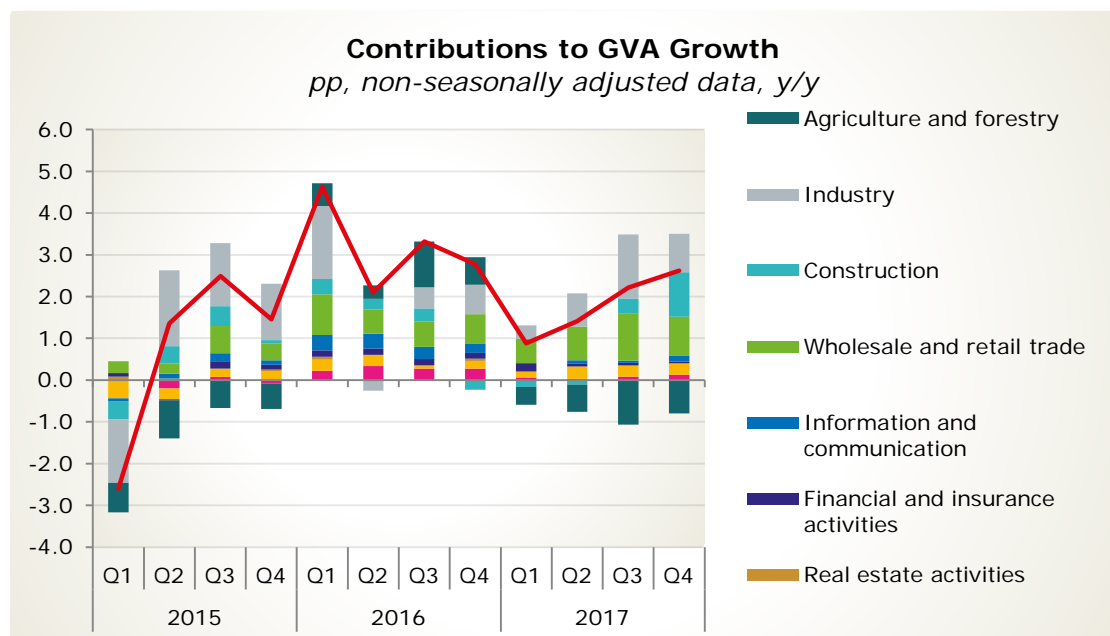
Source: SORS

In terms of sectors, the largest contributor to GVA growth y/y was industry with 3.5 pp in 2017. The wholesale and retail sector contributed by 3.4 pp to the total GVA growth, while the public administration, defence, education and health care sectors added 0.9 pp to the annual growth. Agriculture and forestry took away 2.9 pp from the overall GVA growth.



Source: SORS; SeeNews calculations

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



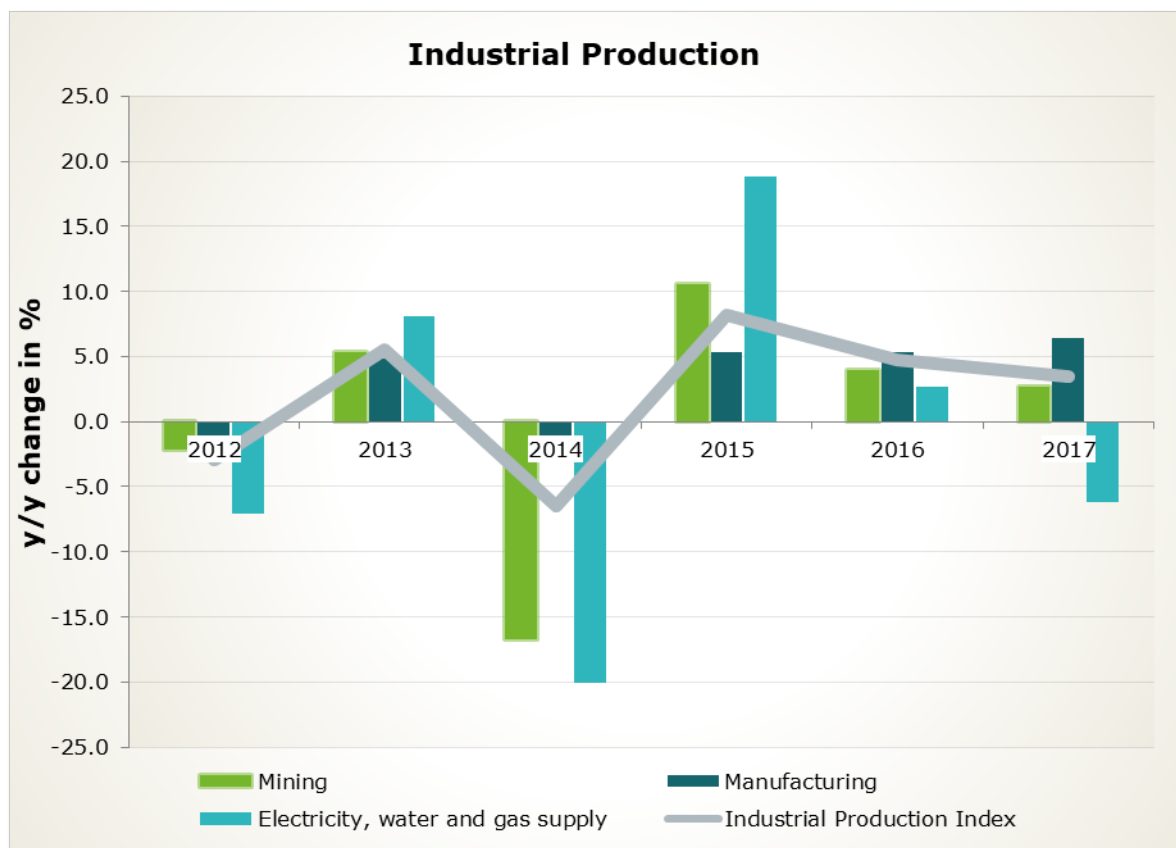
Source: SORS; SeeNews calculations

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

## 2.2. INDUSTRIAL OUTPUT

*Industrial output went up by 3.5% y/y in 2017*

The industrial output reported increase of 3.5%, in 2017, a slowing down from the growth of 4.7% y/y in 2016, according to data from SORS. Industrial output grew modestly on weak electricity, water and gas supply sector, which slumped by 6.2% on the year. The mining sector went up by 2.7% y/y. The manufacturing industry performed the best and its output rose annually by 6.4%.



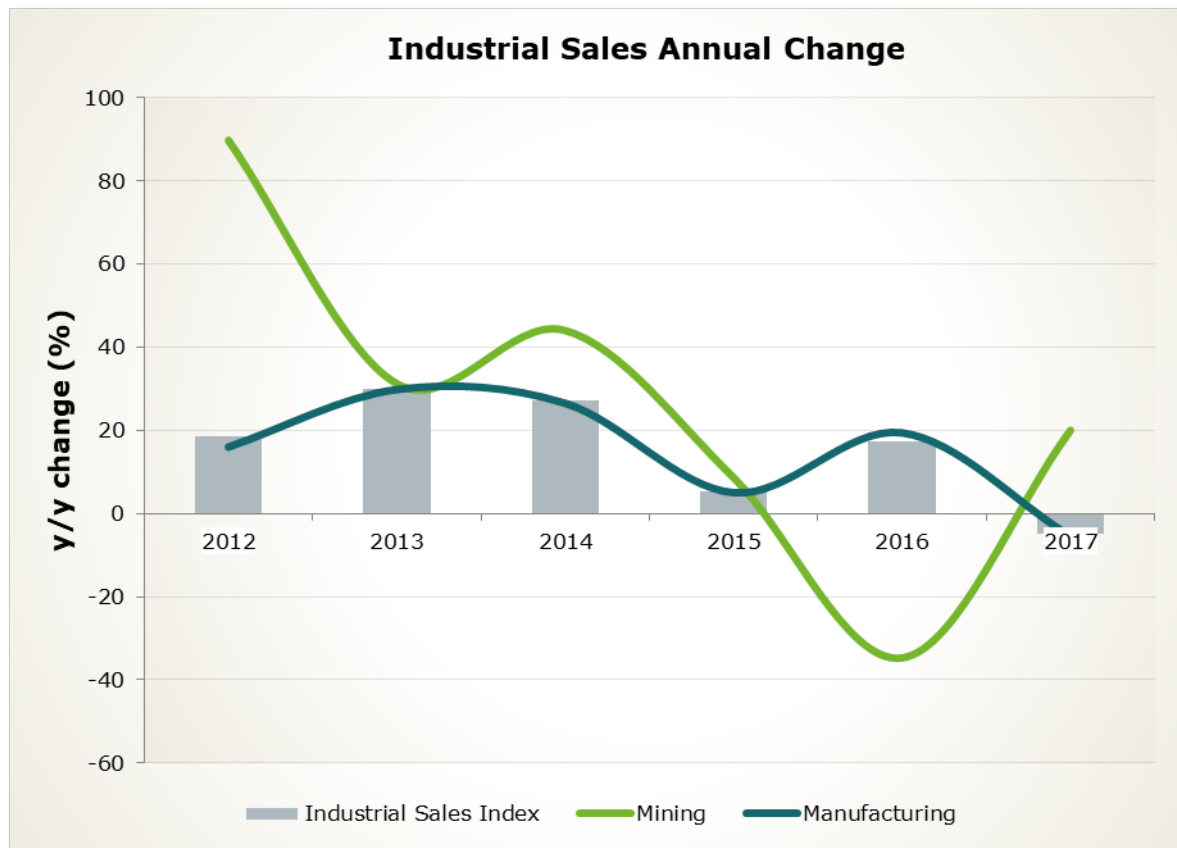
Source: SORS

## 2.3. INDUSTRIAL SALES

*Industrial sales went down by 5.0% y/y in December 2017*

The industrial sales decreased in December 2017, by 5.0% y/y, according to SORS. The manufacturing industry recorded a 5.5% annual decrease in sales, while the mining sector posted a 20.0% annual rise.





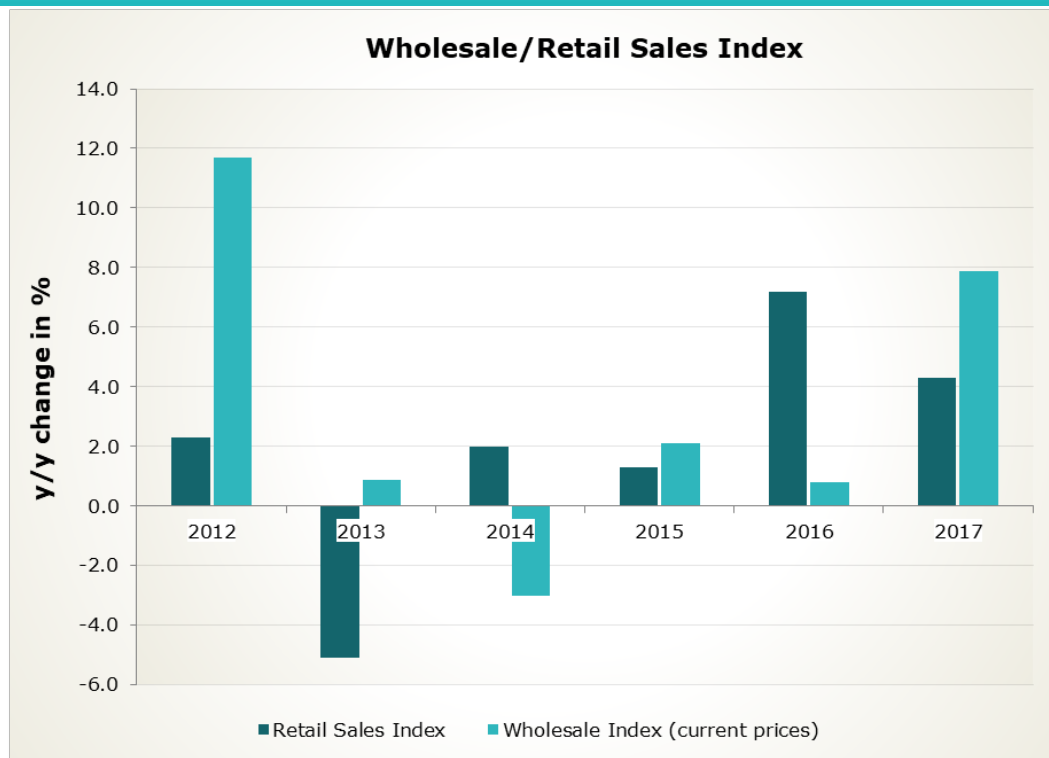
Source: SORS

## 2.4. WHOLESALE/RETAIL

### *Retail sales grew by 4.3% y/y in constant prices in 2017*

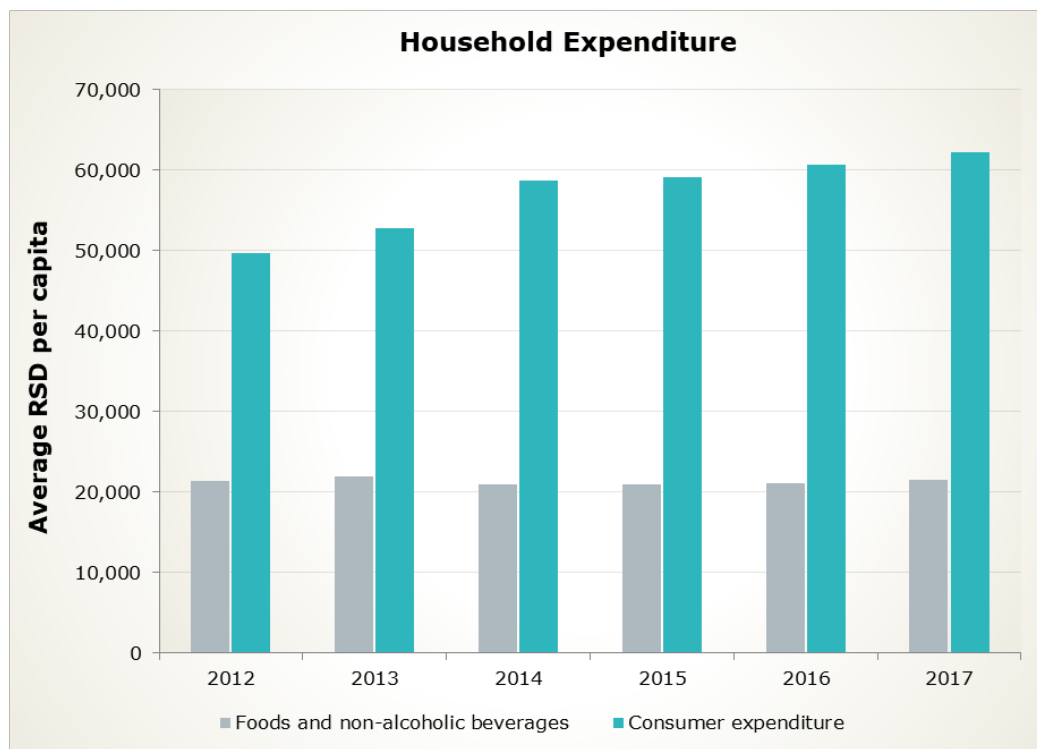
In 2017, retail sales in Serbia rose by 4.3% y/y, down from 7.2% y/y in 2016. In December 2017 alone, Serbia's retail sales grew by 1.5% y/y in constant prices, according to data from SORS. In current prices, retail sales went up by 5.1% y/y with sales of food, beverage and tobacco increasing by 4.4% y/y, non-food products, except motor fuels rising by 8.1% y/y and motor fuels achieving 1.3% growth.

The data for 2017 indicates that the total value of sales and purchase of agricultural, forestry and fishing products in the country decreased by 5.7% at current prices and by 10.2% at constant prices.



Source: SORS

In 2017, consumer expenditure increased by 2.6% y/y to an average of RSD 62,275 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 1.7% y/y to RSD 21,472 per household.



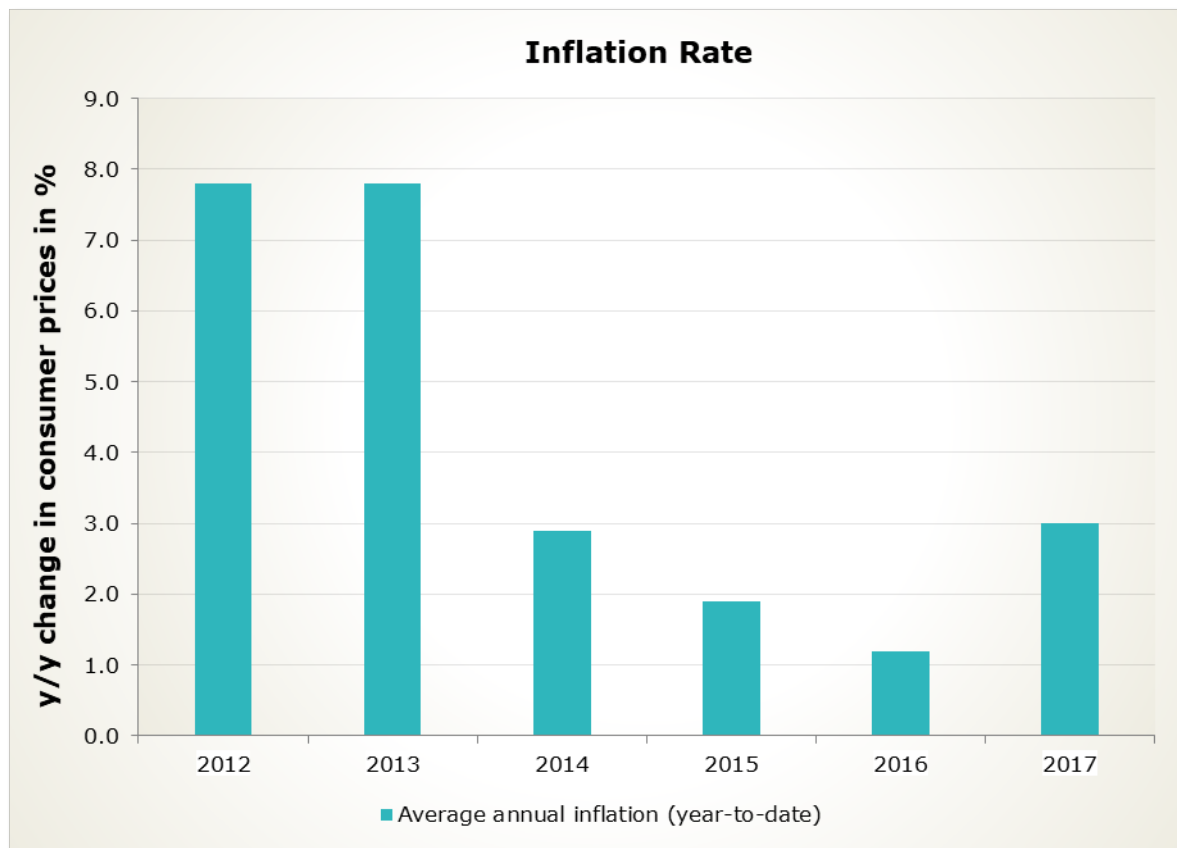
Source: SORS

## 2.5. INFLATION

### *Average annual inflation of 3.0% in 2017*

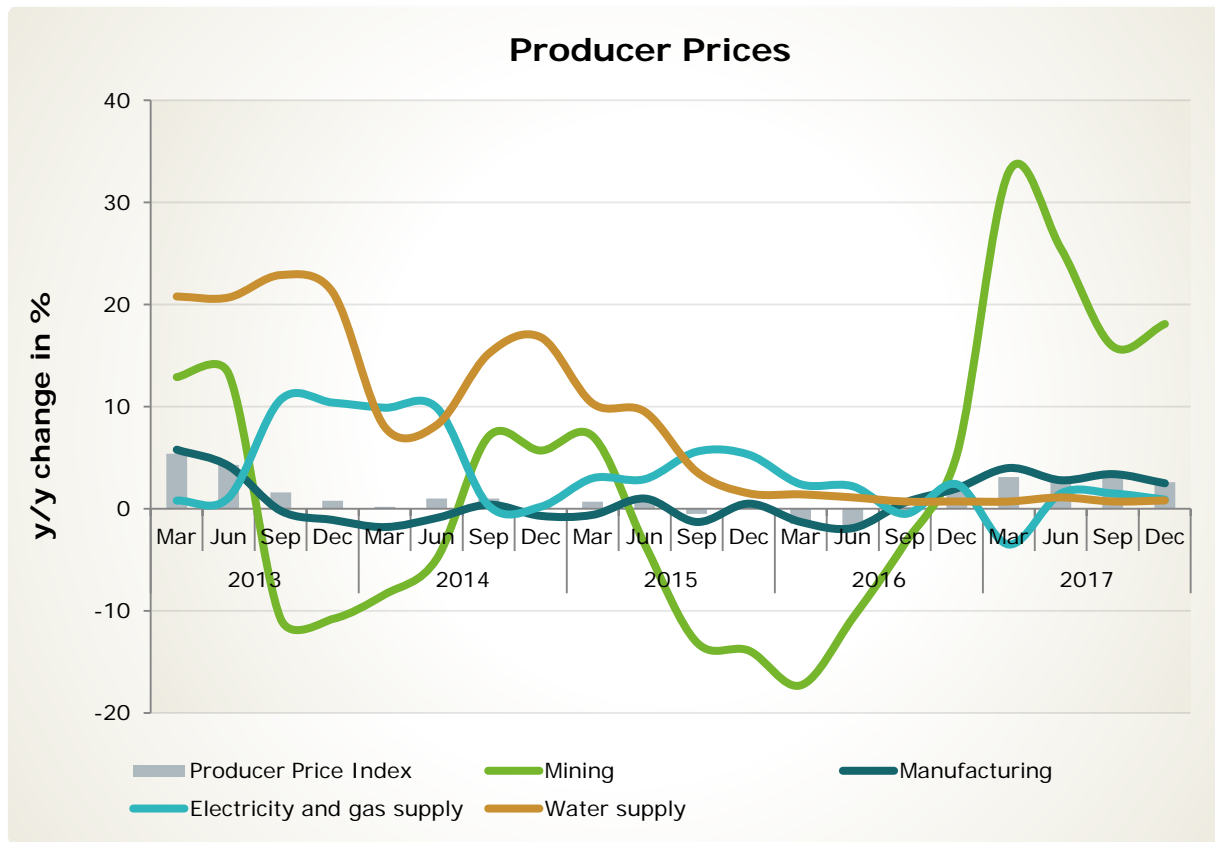
The average annual inflation increased to 3.0% in 2017 from 1.2% in 2016, according to SORS data. Headline inflation also went up, to 3.0% at the end of the year, compared to 1.6% in the previous year.

Inflation pickup was determined mainly by the increase of alcoholic beverages and tobacco by 6.3%, followed by communications with 4.8% and transport with 4.5%. Clothing and footwear was the only category to post a decrease in consumer prices in 2017, of 1.2% on the year.



Source: SORS

Producer prices index (PPI) increased by 2.6% y/y in December 2017, according to SORS data. The mining and quarrying sector reported the sharpest increase in producer prices, of 18.1%. The manufacturing sector showed increase of the prices by 2.5%, while electricity and gas supply and water supply sectors prices notched up by 0.9% and 0.8%, respectively.



Source: SORS

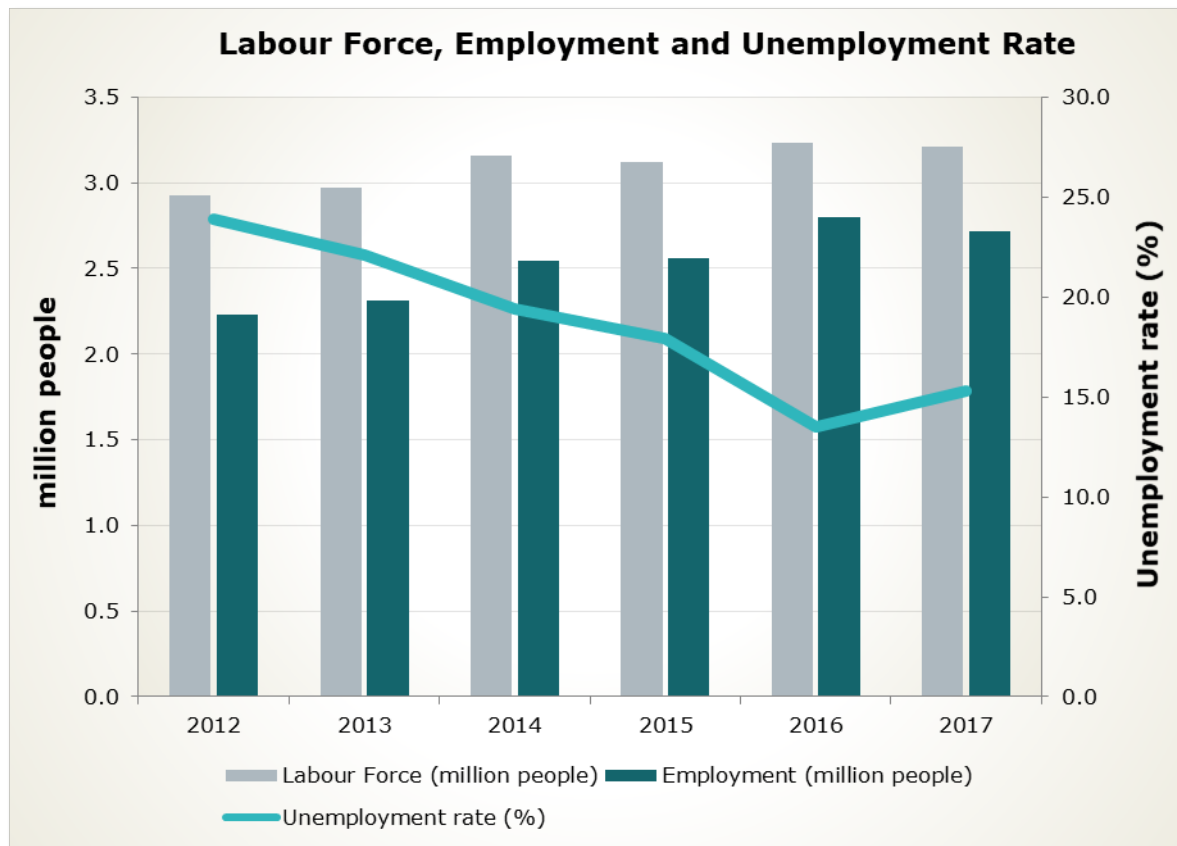
### 3. LABOUR MARKET

#### *Unemployment rate increased to 15.3% in 2017, up 1.8 pp compared to 2016*

Unemployment rate in Serbia increased to 15.3% of the total labour force in 2017, up from 13.5% in 2016, according to data of SORS. 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.

The employed population aged 15 years and older was 2.719 million, down by 2.7% y/y. Youth (population aged 15-24) unemployment rate also went up, to 34.9%, compared to 31.2% a year earlier.

The average monthly net salary in 2017 was RSD 47,893, up by 3.9% y/y. The rise was due to inflation pressure, despite the rising unemployment rate in the country.



Source: SORS

## 4. CONSTRUCTION AND REAL ESTATE

### *The number of building permits went up by 41.2% y/y in 2017*

The number of permits for new buildings in Serbia was 5,844 in 2017, including 3,147 for housing projects and 141 for office buildings, according to SORS data.

The total number of permits for new buildings issued in the period under review increased by 41.2% compared to 2016. Permits for housing projects went up by 34.1%, while permits for office buildings rose by 24.8%.

The total built-up area of office units, covered by the permits, was 266,004 sq m, up by 27.7% on the year. The total built-up area of new housing was 1,946,946 sq m in 2017, or an increase of 37.6% 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 121.3 in 2017 from RSD 123.1 a year earlier, according to National Bank of Serbia (NBS).

Average Annual RSD Exchange Rate			
Foreign Currency	2017	2016	2015
EUR	121.337	123.118	120.733
USD	107.499	111.290	108.854
GBP	138.378	150.428	166.422
CHF	109.188	112.906	113.128

### 5.2. MONETARY POLICY

*The national bank decreased the policy rate to 3.5%*

The NBS Executive Board lowered the key policy rate to 3.5% in December 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.

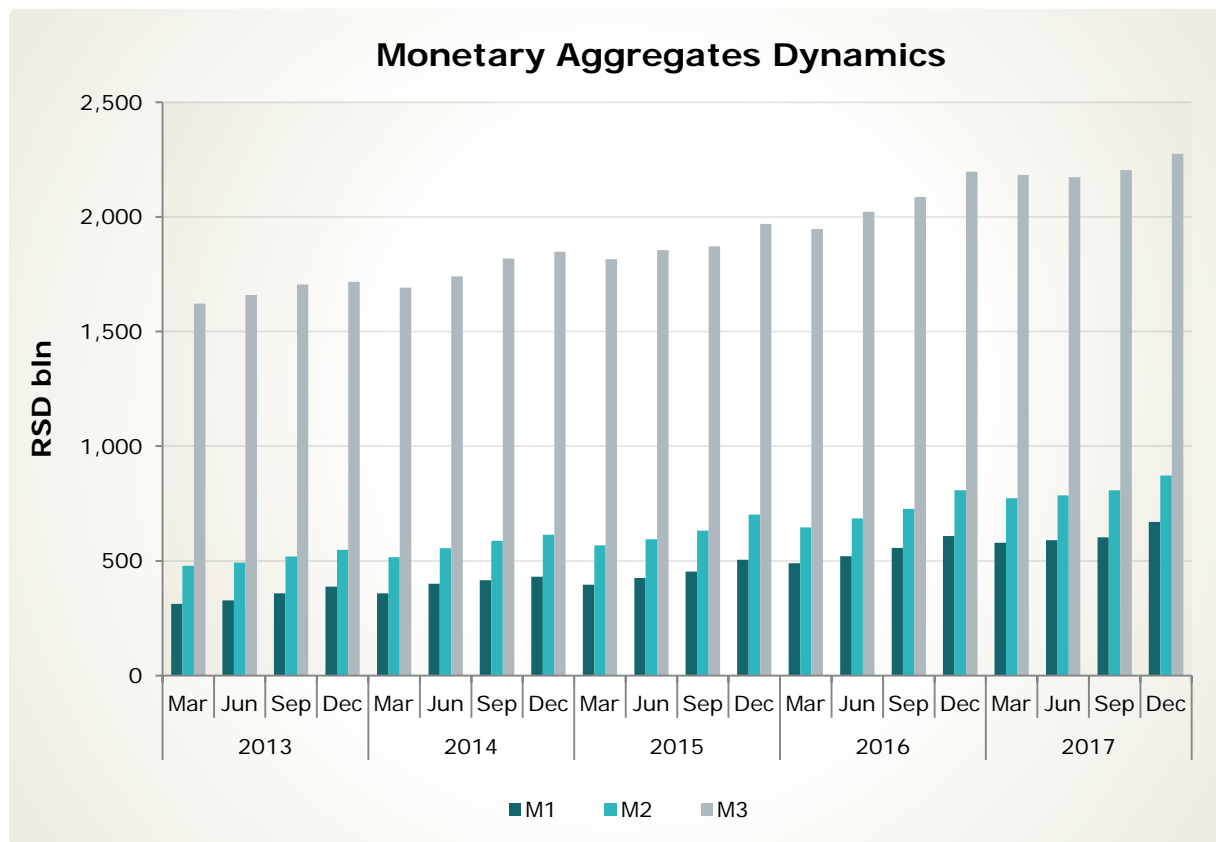
### 5.3. MONETARY AGGREGATES

*Money supply growth was 3.6% y/y at the end of December 2017*

Broad money (money aggregate M3) increased by 3.6% y/y and reached RSD 2,275.4 bln as of December 2017, according to data provided by NBS.

The M2 money supply also grew, by 7.9% to RSD 872.0 bln.

Money aggregate M1, or narrow money, jumped by 10.2% to RSD 669.7 bln.



Source: NBS

#### 5.4. BANKING AND INSURANCE

##### *Household loans increased by 7.8% y/y in December 2017*

Loans to the non-government sector totalled RSD 2,006.5 bln as of December 2017, up from RSD 1,994.2 bln a year earlier, according to NBS. Loans to non-financial corporations went down by 2.1% y/y to RSD 1,102.3 bln.

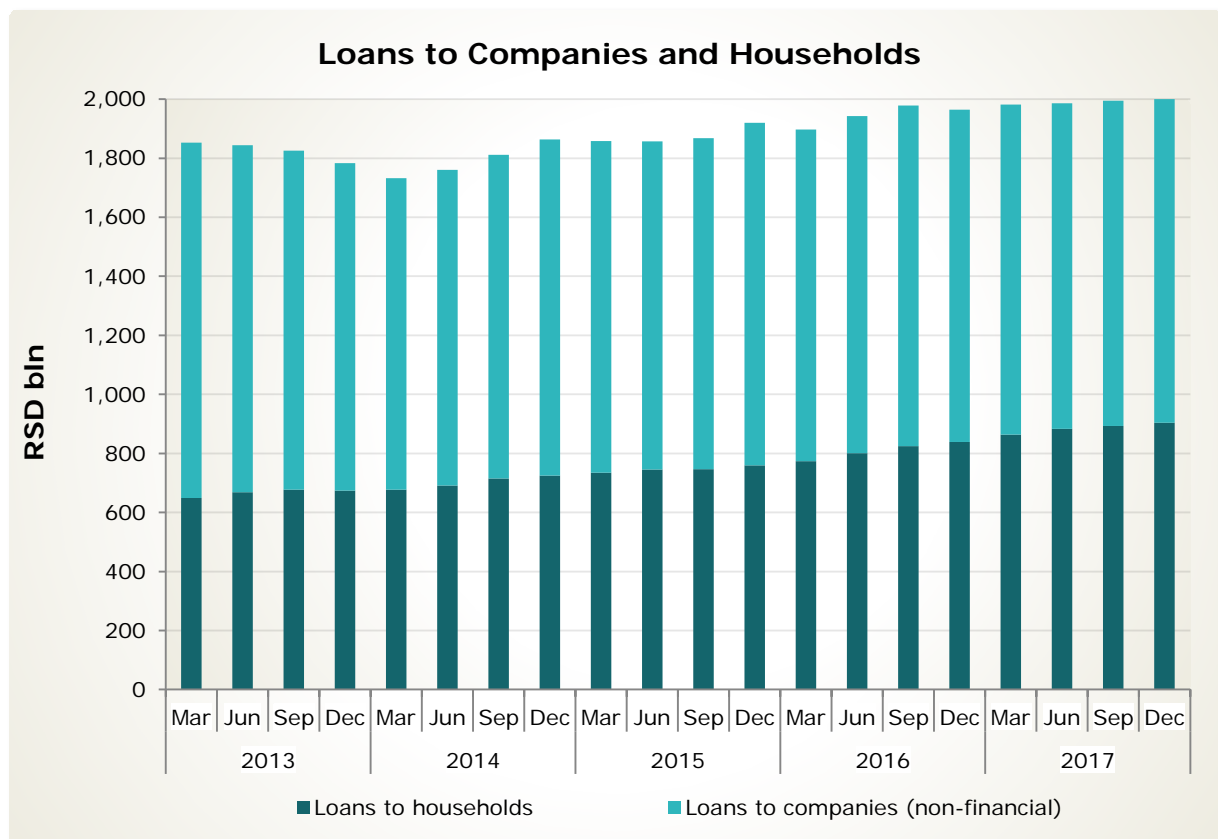
According to the December 2017 NBS survey, banks relaxed credit standards for newly approved corporate and household loans in 2017 primarily due to strong interbank competition, lower costs of funding and higher risk propensity, which, together with further growth in economic activity, contributed to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

Household loans rose by 7.8% y/y to RSD 904.2 bln in December 2017, predominantly supported by cash loans, and increasingly more by elevated housing lending, according to NBS data. House purchasing loans decreased by 1.1% to RSD 355.9 bln on higher refinancing of existing housing loans.

Consumer loans increased by 10.9% on the year and stood at RSD 21.7 bln. According to the December 2017 bank survey of NBS, the easing of credit standards for households continued

in Q4 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.



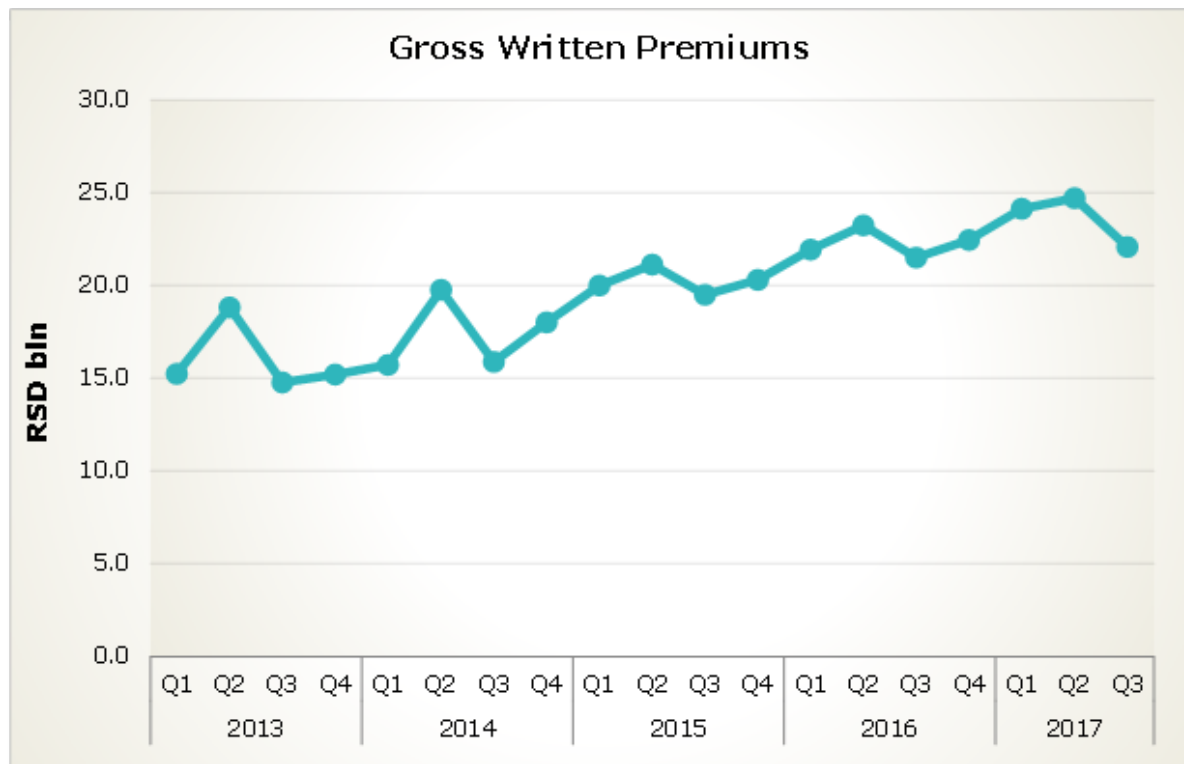
Source: NBS

## Insurance premium income up 2.6% y/y in Q3 2017<sup>1</sup>

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.

<sup>1</sup> Data for Q4 2017/December 2017 was not available as of the date of the preparation of the report.





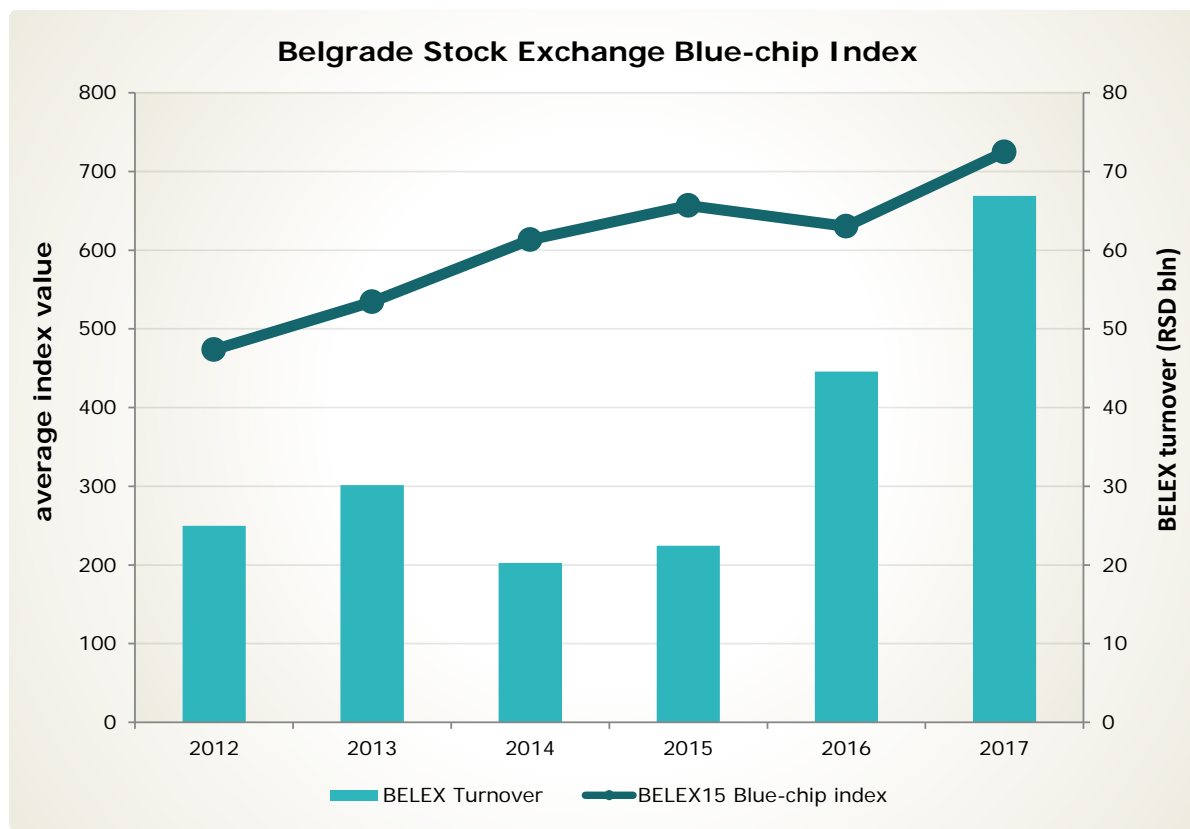
Source: NBS

## 6. CAPITAL MARKETS

### *Blue-chip index BELEX15 went up by 15.0% y/y in 2017*

The average value of BELEX15, the blue-chip index of the Belgrade Stock Exchange (BELEX), increased by 15.0% y/y to 724.8 points in 2017.

The total turnover of BELEX increased by 50.1% y/y to RSD 66.907 bln in 2017. The number of transactions was 66,952 versus 87,893 a year ago.



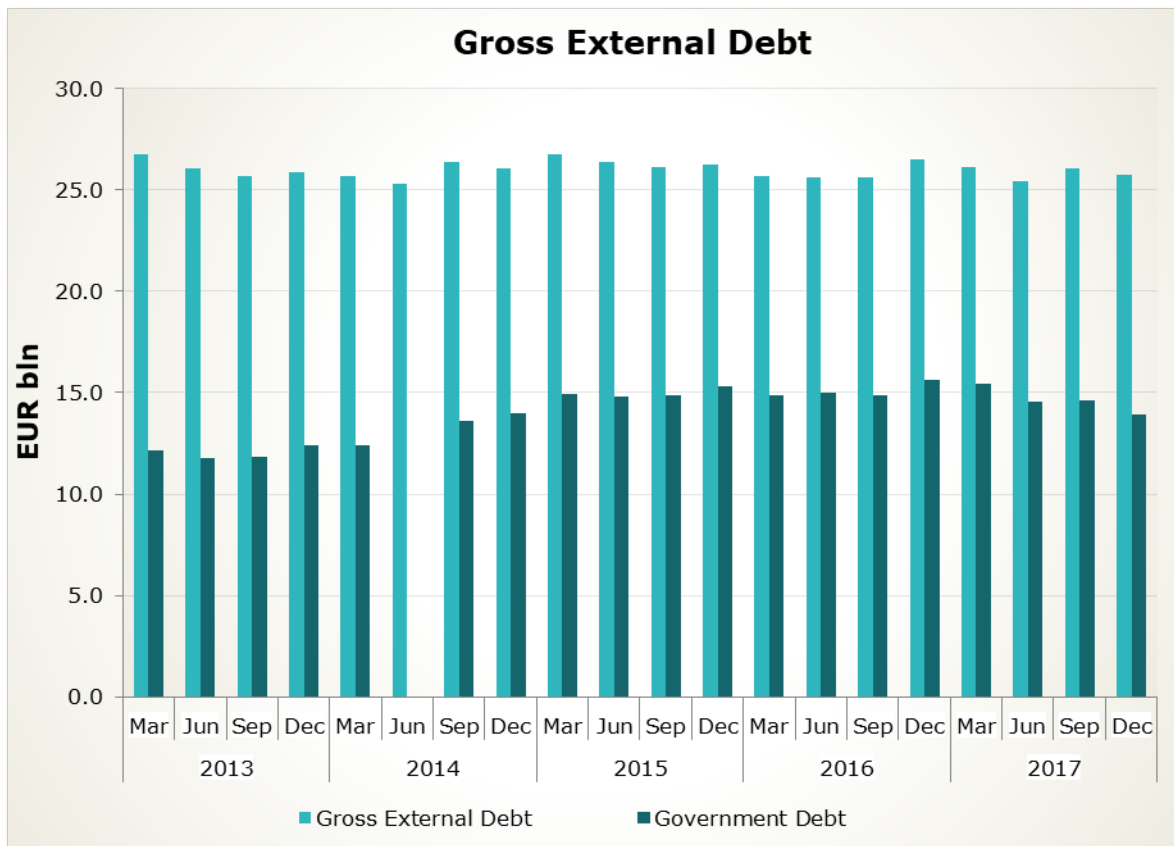
Source: BELEX

## 7. EXTERNAL SECTOR

### 7.1. FOREIGN DEBT

*The gross external debt went down 2.9% y/y to EUR 25.736 bln at end-December 2017*

The gross external debt decreased by 2.9% y/y, totalling EUR 25.736 bln at the end of December 2017, according to NBS. In comparison to September 2017 the gross external debt inched up by EUR 297 mln.



Source: NBS

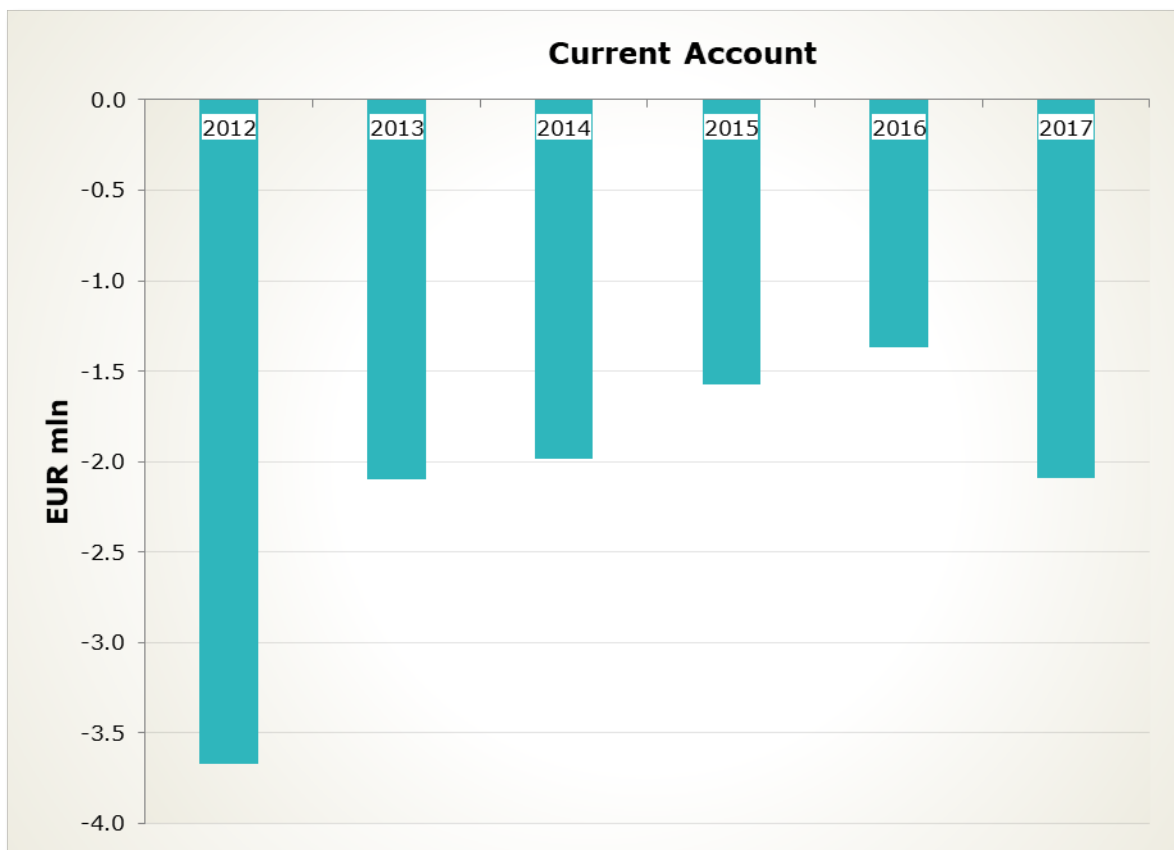
Editor's note: No data is available for gross external government debt for June 2014

## 7.2. BALANCE OF PAYMENTS

*Current account gap increased by 50% y/y at EUR 2.090 bln in 2017*

The current account gap swelled to EUR 2.090 bln from EUR 1.370 bln a year earlier, according to central bank data. The increasing current account gap mainly was a result of the worsening trade deficit. According to a World Bank forecast, the current account gap is expected to worsen to 4.9% of GDP in 2019.

Secondary income in 2017 amounted to EUR 3.516 bln, up from EUR 3.161 bln in 2016, or an 11.2% increase on annual basis.

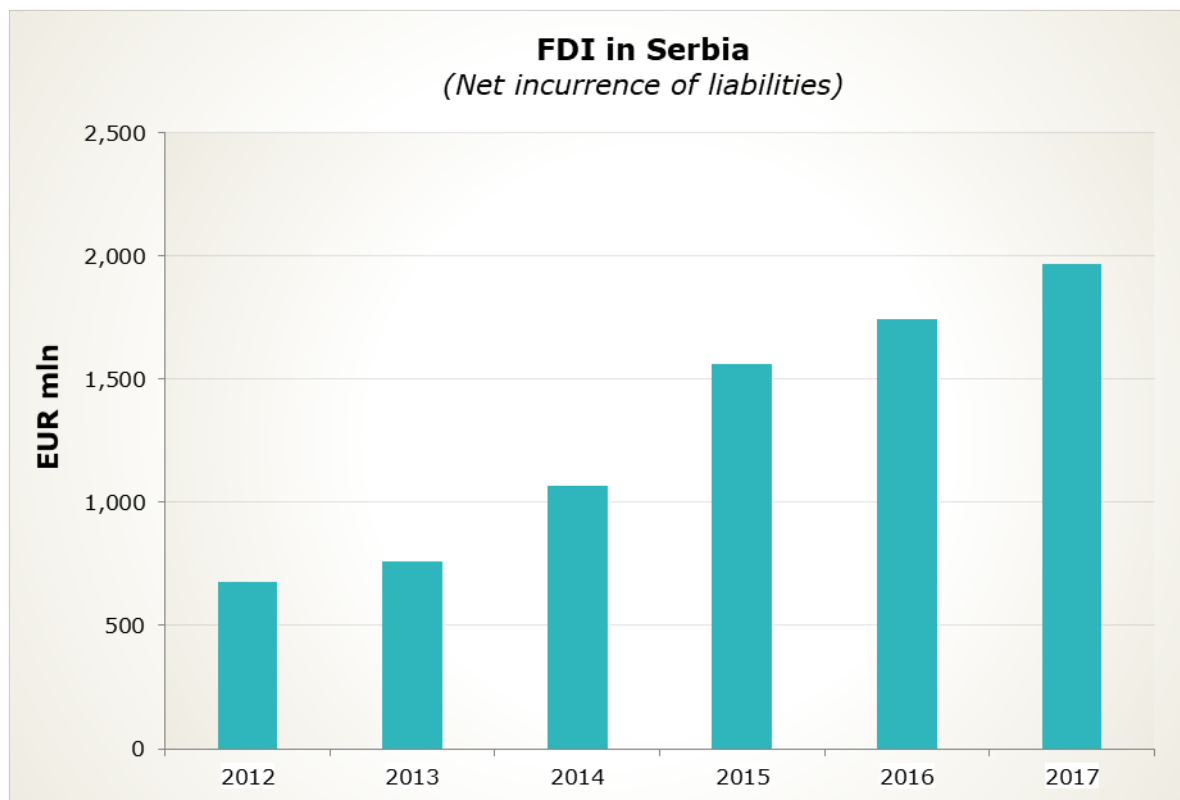


Source: NBS

### 7.3. FDI

*Net FDI inflow stood at EUR 1.970 bln in 2017, up 12.9% y/y.*

The net Foreign Direct Investments (FDI) inflow in Serbia in 2017 totalled EUR 1.970 bln, according to NBS. The bulk or 72% of the investments came from EU members, primarily the Netherlands, Italy and Germany, and 14% from Asian countries, such as China, Taiwan, Hong Kong and UAE. The largest amounts were invested in manufacturing, construction, trade and the financial sector.



Source: NBS

#### 7.4. FOREIGN TRADE

##### *Foreign trade deficit increased by 15.8% y/y in 2017*

The trade deficit stood at EUR 4.576 bln in 2017, up by 15.8% compared to the previous year, according to SORS.

In 2017 exports totalled EUR 15.025 bln, up from EUR 13.409 bln a year earlier, while imports grew by EUR 2.240 bln to EUR 19.601 bln.

Exports grew by 12.1% y/y in 2017, almost at the same pace as the 11.5% y/y in 2017. Imports increased the pace of growth to 12.9% y/y from 6.0% y/y in the previous year.



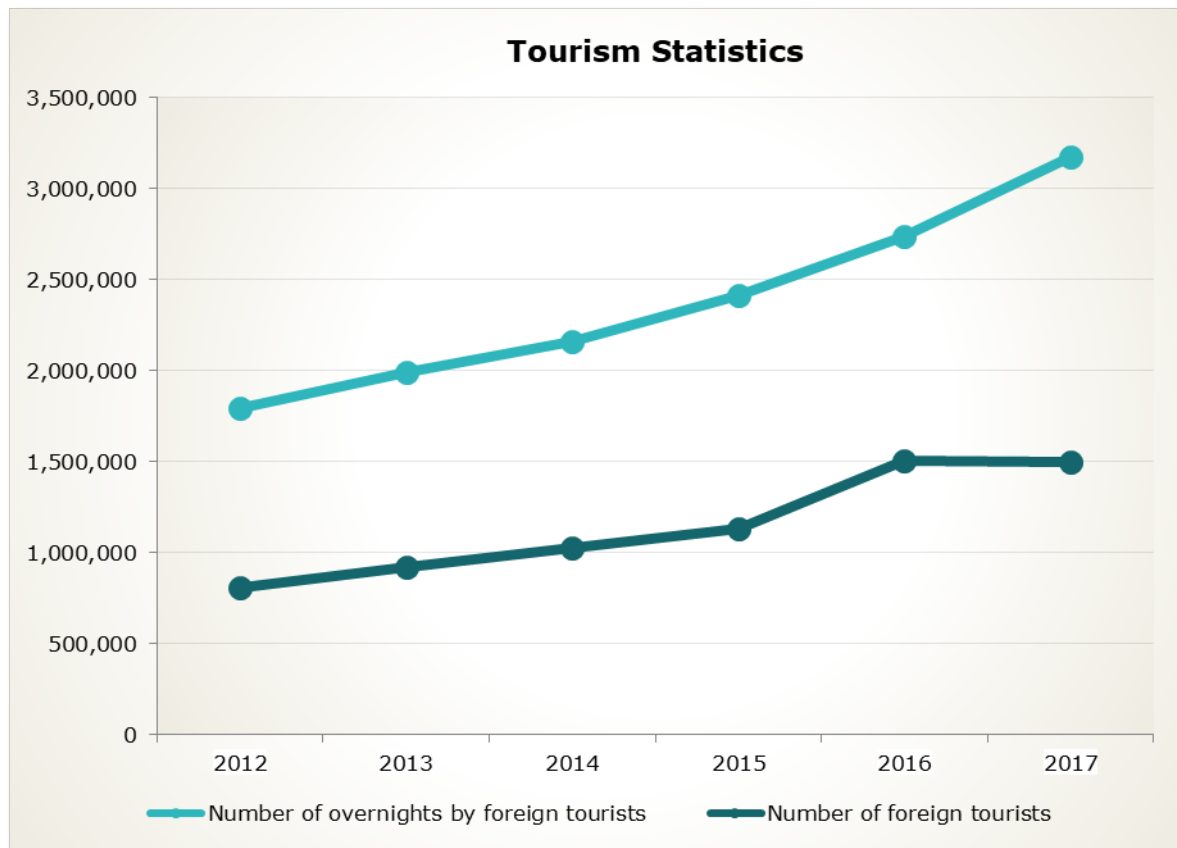
Source: NBS

## 7.5. TOURSIM

### *Number of foreign tourist overnights rose by 15.9% y/y in 2017*

Tourist overnights of foreigners increased by an annual 15.9% to 3,175,127 in 2017, slicing a 38.1% share of the total number of tourist overnights in the country, according to SORS data. The total number of tourist overnights jumped by 10.5% on the year to 8,325,144.

The number of foreign tourists went down by 0.4% y/y to 1,497,173. Most foreign tourists visiting Serbia in 2017 came from Bosnia and Herzegovina - 108,058, followed by tourists from Bulgaria - 91,233, and Turkey – 99,500.



Source: SORS

## 8. MAJOR DEVELOPMENTS

### ***Serbia to keep budget gap below 1.0% of GDP in 2018, 2019***

Dec 21, 2017

Erste Group expects Serbia's budget gap to widen but stay at acceptable levels of below 1.0% of gross domestic product (GDP) in 2018 and 2019 as it sees economic growth picking up to around 3.0% in the period.

[Read the full story here](#)

### ***Serbia needs to increase predictability in SME sector***

Nov 24, 2017

Serbia needs to increase predictability in the small and medium-sized enterprise (SME) business and administrative environment by developing performance measurements for policy-making activities, according to the European Commission (EC).

[Read the full story here](#)

### ***Serbia sets up working group to improve ease of doing business***

Nov 2, 2017

According to the Serbia's infrastructure minister Zorana Mihajlovic, the government has set up a working group to carry out reforms recommended in the World Bank's report Doing Business 2018: Reforming to Create Jobs.

*Read the full story [here](#)*

### ***EIB lends EUR 110 mln to two Serbian banks***

Oct 18, 2017

The European Investment Bank (EIB) signed four loans totalling EUR 110 mln in Serbia with two local banks. The loans will support projects by SMEs and infrastructure schemes by local authorities.

*Read the full story [here](#)*

### ***Serbia, CRBC plan to invest EUR 300 mln in industrial park in Belgrade***

Oct 10, 2017

Serbia's government and China Road and Bridge Corporation (CRBC) plan to invest some EUR 300 mln in the construction of an industrial park in Belgrade, according to the Serbian minister without portfolio in charge of innovation Nenad Popovic.

*Read the full story [here](#)*

### ***Serbia aims to close all chapters in EU accession talks by 2022 - PM***

Oct 4, 2017

Serbia aims to close all chapters in its membership negotiations with the European Union by 2022, according to Serbia's prime minister

*Read the full story [here](#)*



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