

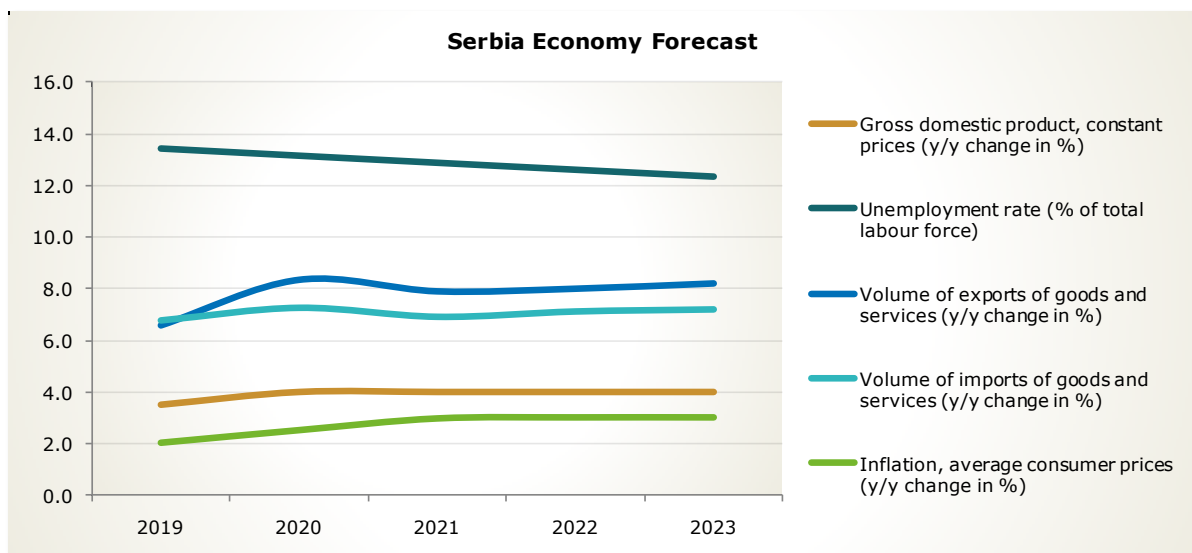
SERBIA ECONOMY REPORT 2018

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1. MACROECONOMIC SNAPSHOT AND FORECAST

SERBIA – MACROECONOMIC SNAPSHOT AS OF 2018	
GDP Growth	4.4 % y/y
Industrial output	1.3% y/y
Industrial sales	-1.8% y/y
Retail sales	4.2% y/y
Average annual inflation	2.0% y/y
Unemployment rate	12.7%
Number of building permits	2.1% y/y
Money supply growth	7.3% y/y
Household loans	12.5% y/y
BELEX15 blue-chip index	2.8% y/y
Gross external debt	EUR 26.901 bln
Current account gap	EUR 2.687 bln
Net FDI inflow	EUR 2.923 bln
Foreign trade deficit	EUR 6.656 bln
Number of foreign tourist overnights	15.2% y/y

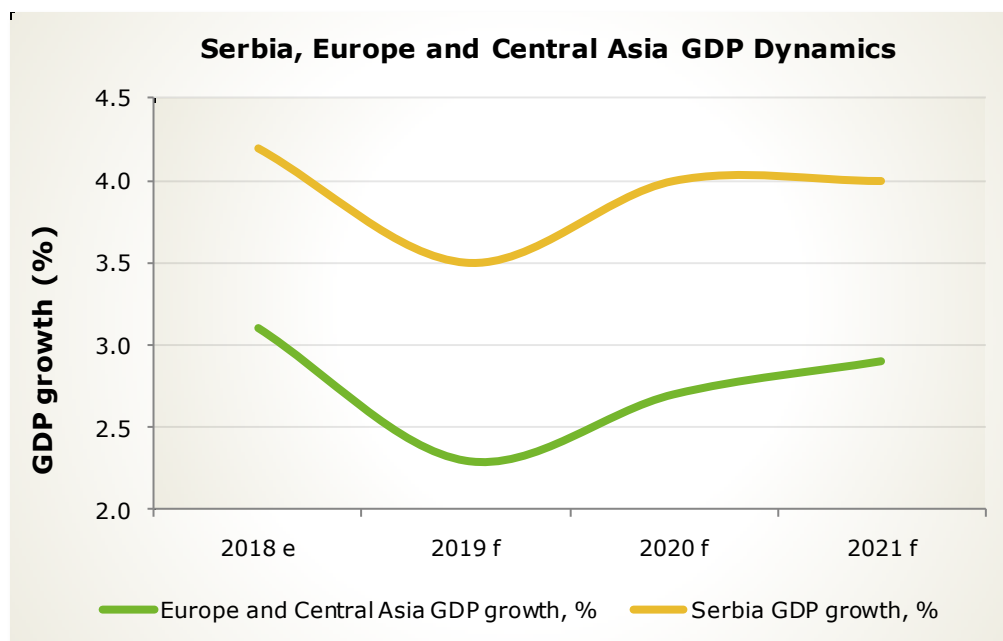


Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2019

IMF expects growth to stand at 3.5% by the end of 2019, 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 2.0% at the end of 2019.

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 4.2% in 2018, up from 2.0% in 2017. This is higher than the projected growth for Europe and Central Asia, of 3.1% in 2018.

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

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices, y/y change in %	3.3	2.0	4.2	3.5	4.0	4.0
Private Consumption	1.3	1.9	3.1	3.0	3.8	3.8
Government Consumption	1.3	3.3	4.6	2.1	1.5	2.3
Gross Fixed Capital Investment	5.4	7.3	12.4	7.5	6.2	5.8
Exports, Goods and Services	11.9	8.2	10.5	9.0	8.7	8.7
Imports, Goods and Services	6.7	11.1	10.8	8.4	8.1	8.0
Real GDP growth, at constant factor prices (by sectors)						
Agriculture	8.3	-11.2	10.0	3.8	3.0	3.0
Industry	4.3	3.4	1.5	4.6	3.5	3.5
Services	3.0	3.3	3.6	3.0	4.3	4.4
Inflation (Consumer Price Index)	1.1	3.1	2.0	2.6	3.0	3.0
Current Account Balance (% of GDP)	-3.3	-6.3	-5.4	-5.1	-5.0	-4.7
Net Foreign Direct Investment (% of GDP)	3.5	4.4	5.8	5.6	5.6	5.2

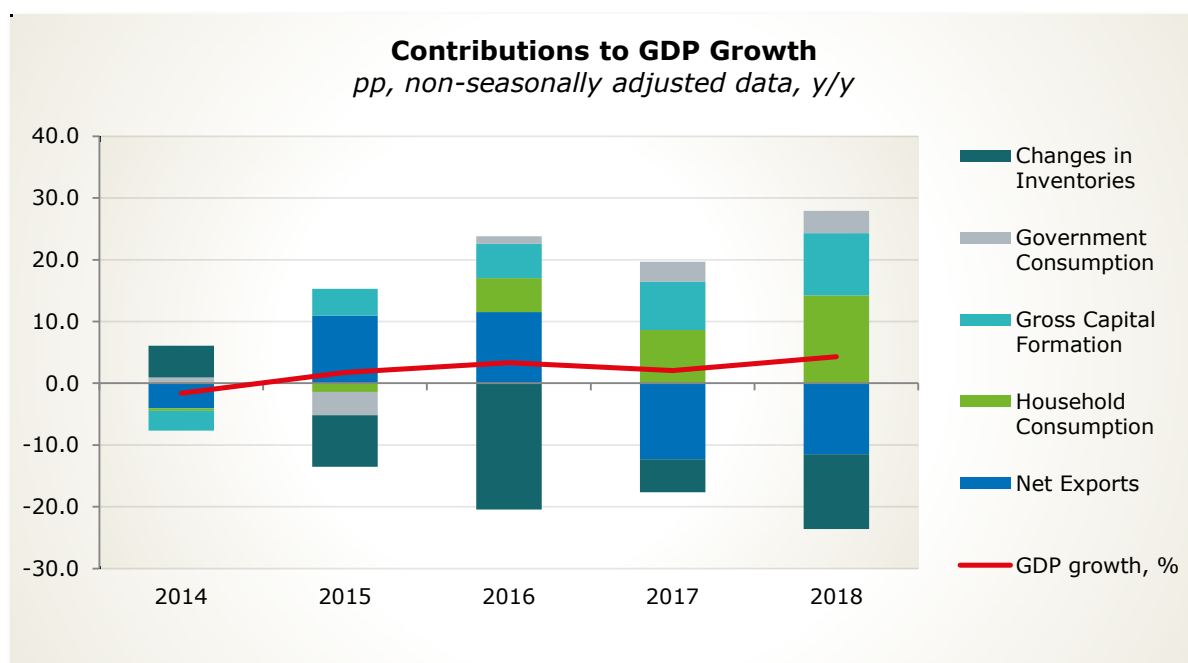
Source: World Bank, *Europe and Central Asia Economic Update*, April 2019

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth remained strong in 2018

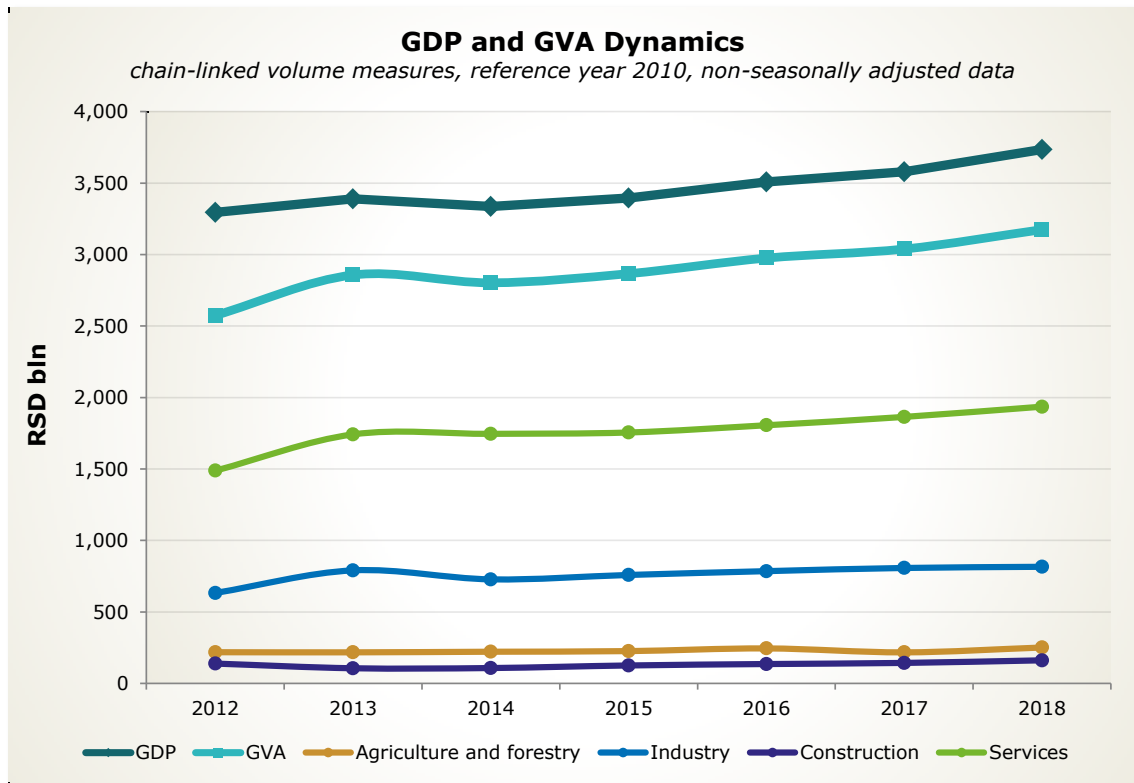
In 2018 the Serbian economy grew by a real 4.4% y/y, data from the Statistical Office of Serbia shows. Due to the solid performance, the growth accelerated significantly from 1.9% in the previous year. The economy was fueled by stronger household consumption and gross capital formation, which contributed by 14.2 pp and 10.1 pp, respectively, to the overall annual GDP growth. Final consumption (household and government) advanced by 3.3% y/y in real terms in 2018, while gross capital formation increased by 9.2% y/y.



Source: SORS; SeeNews calculations

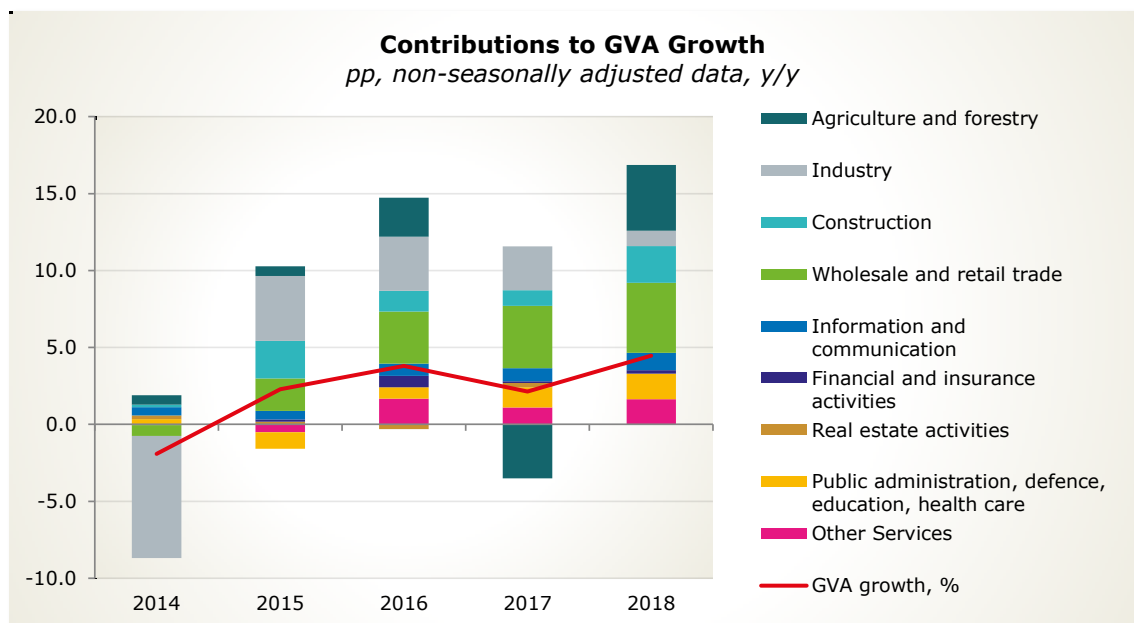
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual

The gross value added (GVA) generated by the national economy increased by 4.5% y/y in 2018 and totalled RSD 3,174.5 bln. The construction sector went up in value by 12.7% y/y and accounted for 5.1% of the total GVA. Agriculture and forestry recorded a 15.6% annual jump, slicing a 7.9% share in the total GVA, compared to 7.2% a year earlier. The services sector's GVA expanded by 3.8% to RSD 1,936.1 bln, while the industry sector registered an annual increase of 1.0% to RSD 815.9 bln.



Source: SORS

Sector wise, the largest contributor to the annual GVA growth was the services industry with 8.9 pp in 2018. Other major contributors were wholesale and retail – 4.6 pp and agriculture and forestry – 4.3 pp.



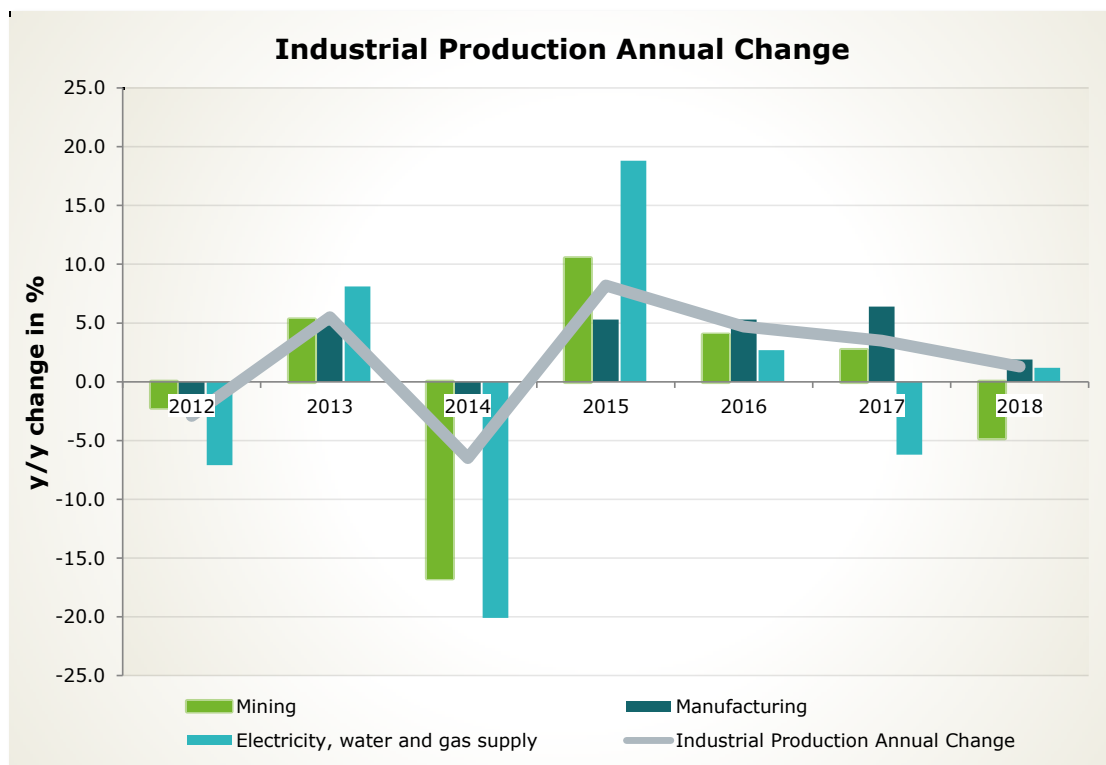
Source: SORS; SeeNews calculations

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

2.2. INDUSTRIAL OUTPUT

Industrial output went up by 1.3% y/y in 2018

The industrial output reported an increase of 1.3%, in 2018, down from 3.5% in 2017, according to data from SORS. In the period under review, the highest annual output rise, of 1.9%, was registered by manufacturing. The output of the electricity, water and gas supply sector went up by 1.2% y/y, while mining output fell by 4.8%.

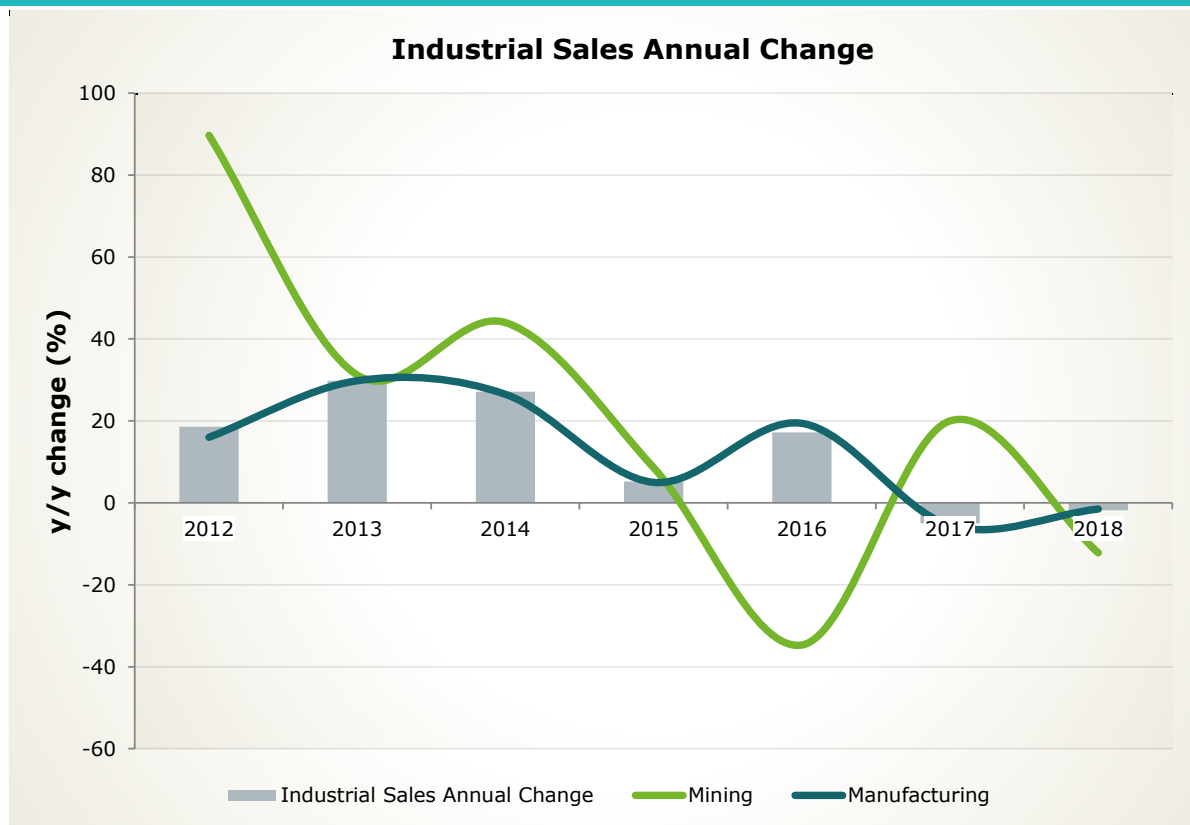


Source: SORS

2.3. INDUSTRIAL SALES

Industrial sales went down by 1.8% y/y in December 2018

The industrial sales decreased in December 2018, by 1.8% y/y, according to SORS. The manufacturing industry recorded a 1.5% annual decrease, while the mining sector posted a 12.2% annual drop. Compared to the same month of 2017, industrial sales stabilized due to the developments in manufacturing, while mining ended its growth and contracted significantly.



Source: SORS

2.4. WHOLESALE/RETAIL

Retail sales grew by 4.2% y/y in constant prices in 2018

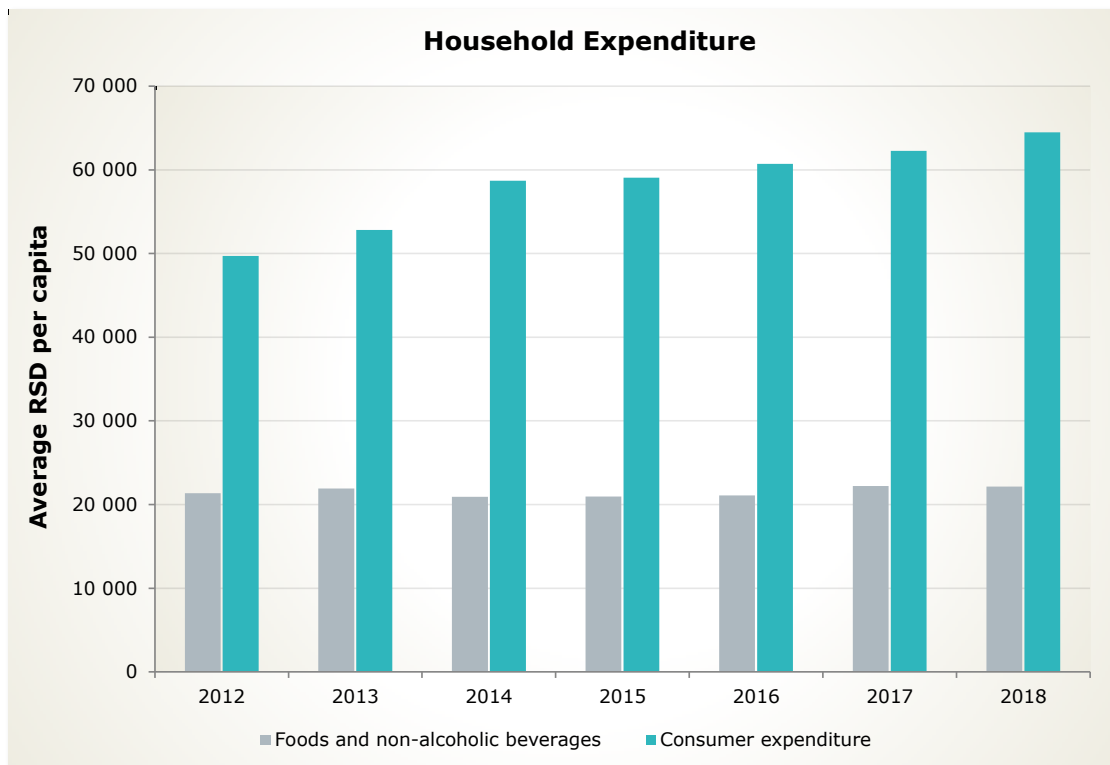
In 2018, retail sales in Serbia rose by 4.2% y/y in constant prices, up from 3.7% y/y rise in the previous year, according to SORS. The highest annual rise in retail trade in 2018 was registered by non-food products – 7.0%, followed by automotive fuel – 3.8%, and food, beverages and tobacco – 2.3%.

The annual growth of wholesale in current prices in 2018 was higher – 8.5%, up from 7.8% in 2017.



Source: SORS

In 2018, consumer expenditure increased by 3.5% y/y to a monthly average of RSD 64,481 per household. Expenditure on food and non-alcoholic beverages had the highest share in the total consumer expenditure, of 34.3%. The latter decreased by 0.4% y/y to RSD 22,135 per household.



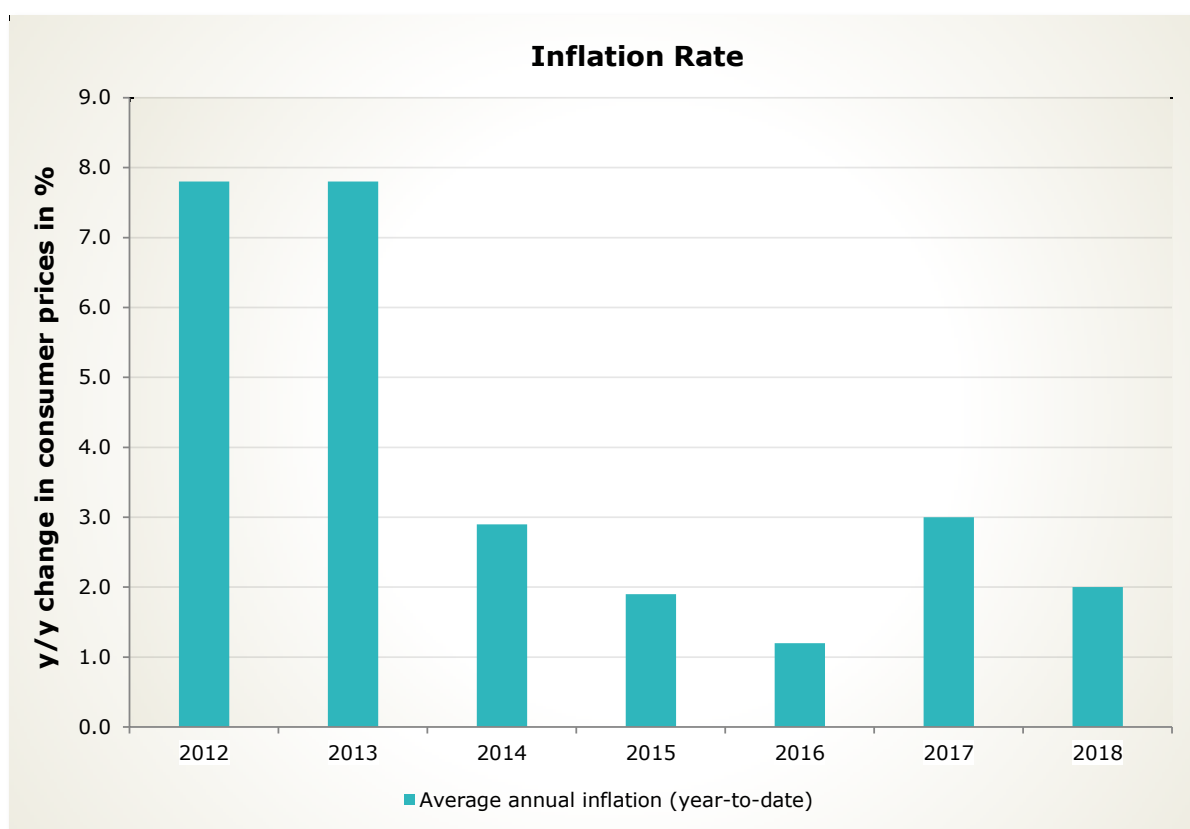
Source: SORS

2.5. INFLATION

Average annual inflation of 2.0% in 2018

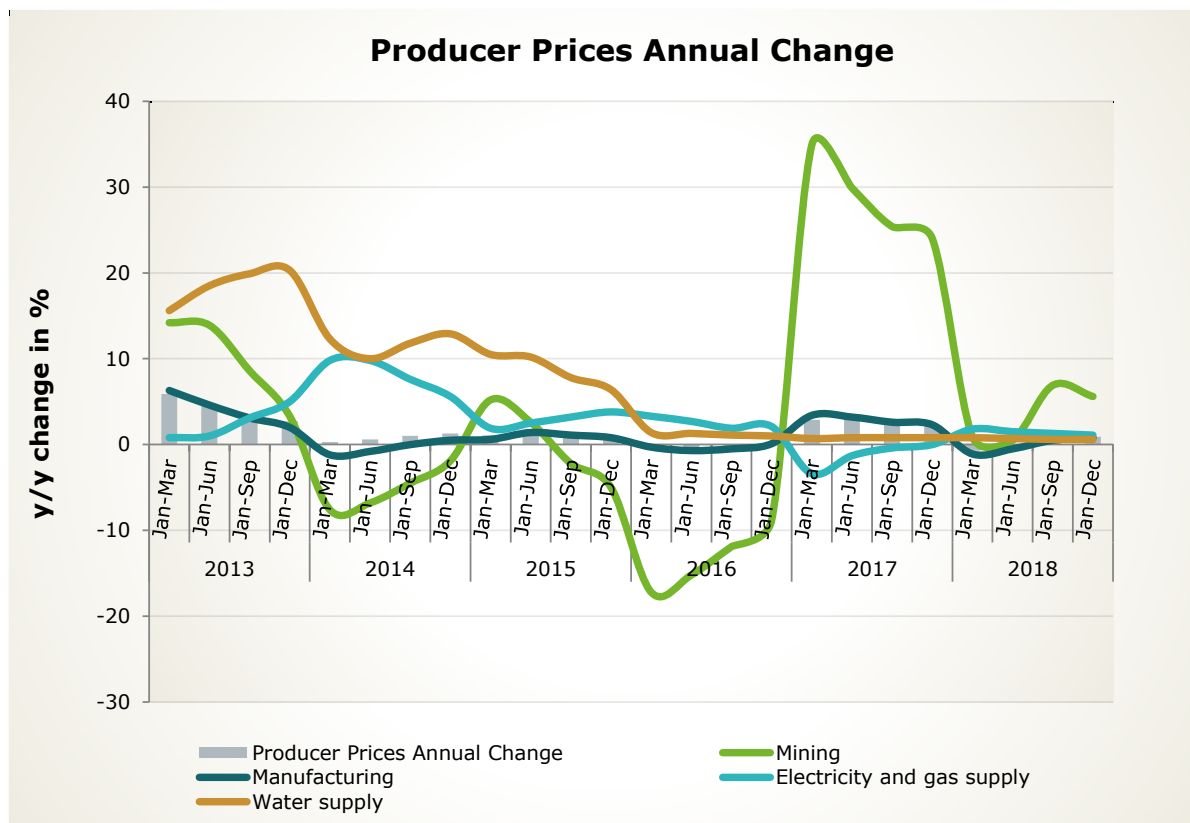
The average annual consumer inflation amounted to 2.0% in 2018, down from 3.0% in 2017, according to SORS data.

Inflation in 2018 was determined mainly by the increase in prices of alcoholic beverages and tobacco - 5.4%. Other consumer groups to report increase in prices included recreation and culture - 3.4%, and transportation - 3.0%. Clothing and footwear was the only group to post a decrease in prices, of 1.1%.



Source: SORS

Producer prices inched up by 0.9% y/y in 2018, according to SORS data. All sectors reported a rise, ranging from 5.6% for mining to 0.6% for water supply.



Source: SORS

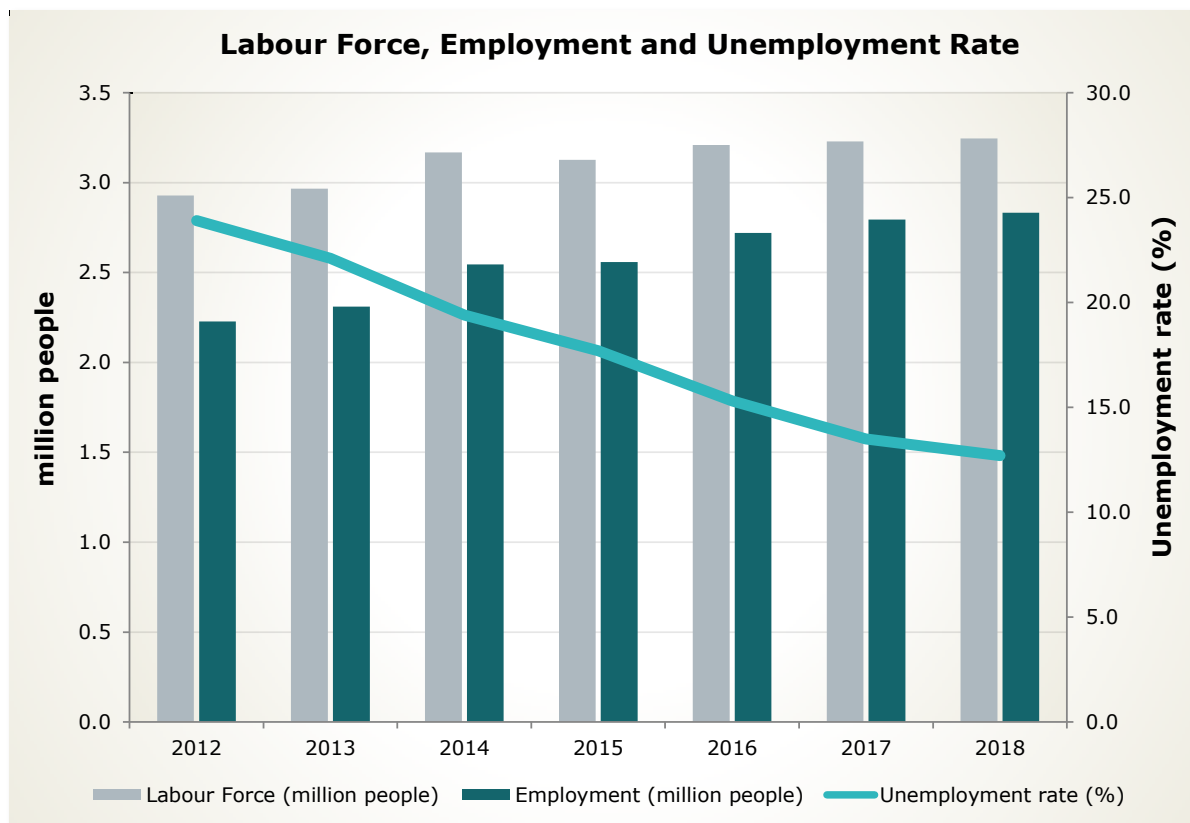
3. LABOUR MARKET

Unemployment rate continues to decline

Unemployment rate in Serbia continued to ease, reaching 12.7% in 2018, down from 13.5% in 2017 and 15.3% in 2016, according to SORS. Youth (population aged 15-24) unemployment rate also improved, averaging 29.7% in 2018, compared to 31.9% in the previous year and 34.9% in 2016.

The employed population aged 15 years and older was 2.833 million, up by 1.4% y/y.

The average monthly net salary in 2018 was RSD 49,643, up 3.7% y/y.



Source: SORS

4. CONSTRUCTION AND REAL ESTATE

The number of building permits went up by 2.1% y/y in 2018

The number of permits for new buildings in Serbia was 5,968 in 2018, including 3,106 for residential projects and 88 for office buildings, according to SORS data.

The total number of permits for new buildings issued in the period under review increased by 2.1% compared to 2017. Permits for residential projects dropped by 1.3%, while permits for office buildings fell to 88 from 141 in the previous year.

Along with the drop in office permits number, the total built-up area of the office units, covered by the permits, slumped to 191,957 sq m from 266,004 sq m.

The total built-up area of new housing was 2,210,437 sq m in 2018, a 13.5% increase compared to 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 118.3 in 2018 from RSD 121.3 a year earlier, according to National Bank of Serbia (NBS).

Average Annual RSD Exchange Rate			
Foreign Currency	2018	2017	2016
EUR	118.272	121.337	123.118
USD	100.278	107.499	111.290
GBP	133.640	138.378	150.428
CHF	102.422	109.188	112.906

5.2. MONETARY POLICY

The national bank kept the policy rate at 3.0%

At its meeting in April 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 risks in the international environment. Among them are the slowdown in global economic growth, 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 internal macroeconomic outlook.

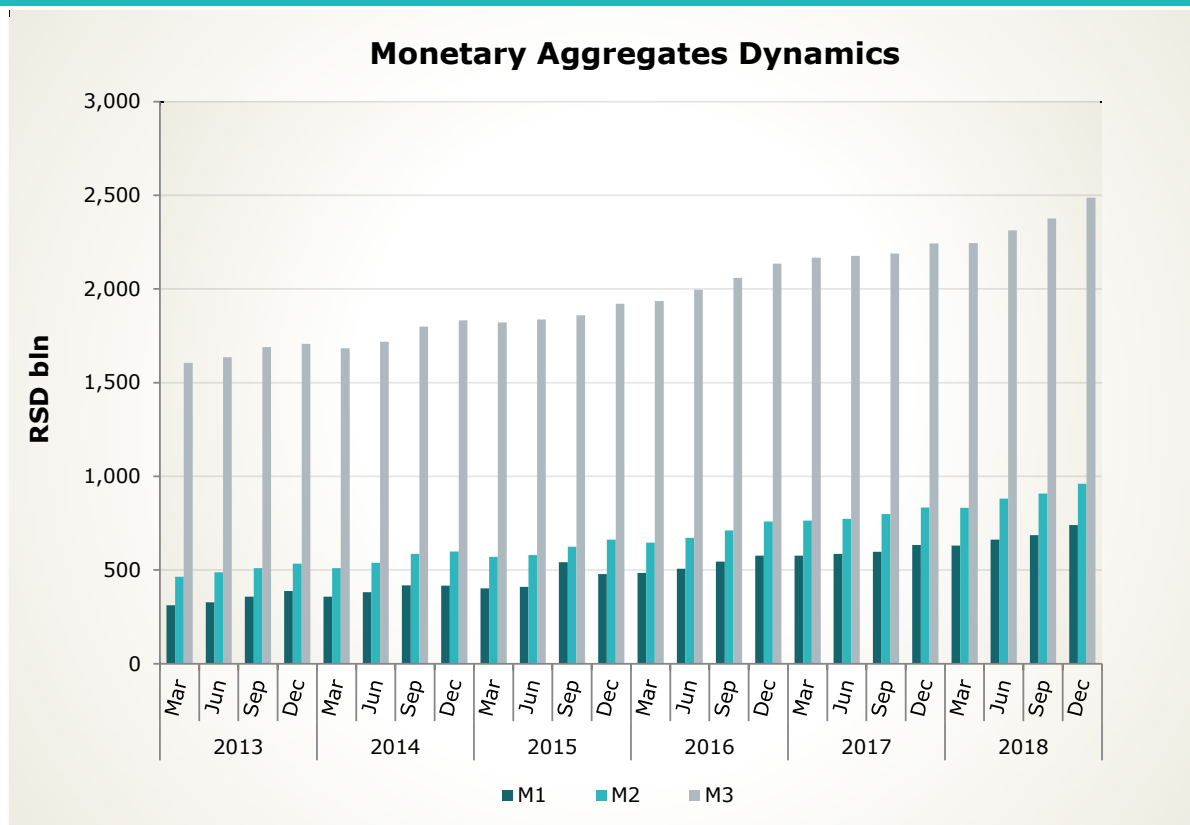
5.3. MONETARY AGGREGATES

Money supply growth was 7.3% y/y at the end of December 2018

Broad money (money aggregate M3) increased by 7.3% y/y and reached RSD 2,355.1 bln as of December 2018, according to data provided by NBS.

The M2 money supply also grew, by 12.9% to RSD 895.0 bln.

Money aggregate M1, or narrow money, jumped by 13.6% to RSD 679.7 bln.



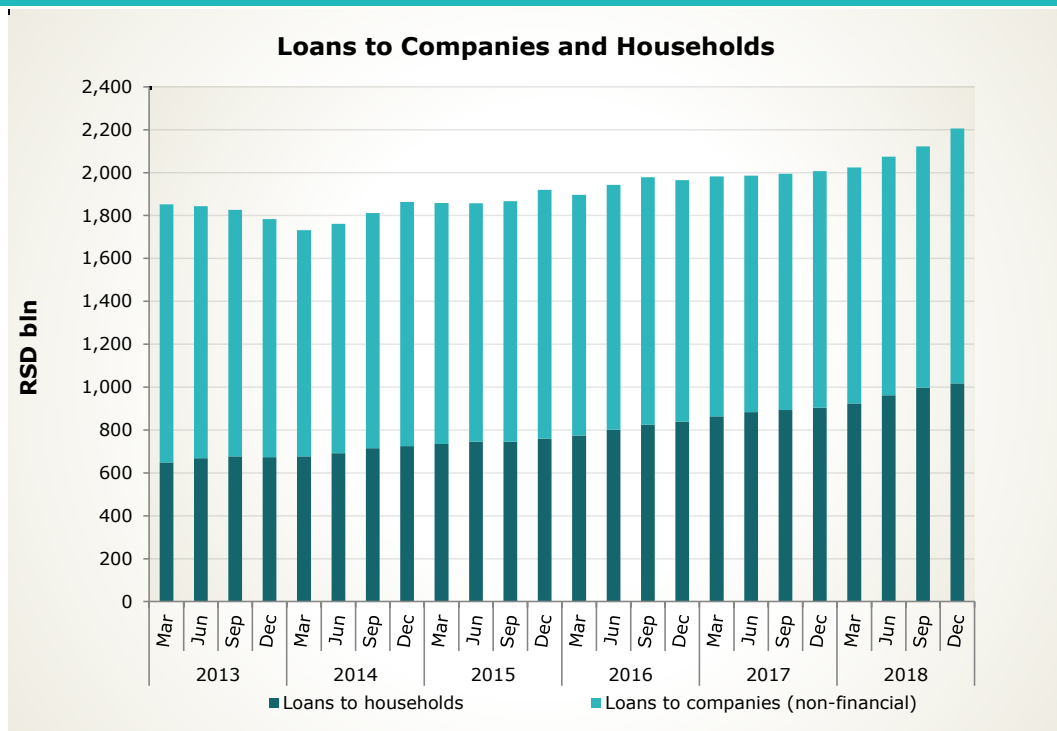
Source: NBS

5.4. BANKING AND INSURANCE

Household loans increased by 12.5% y/y in December 2018

Loans to the non-government sector totalled RSD 2,205.3 bln as of December 2018, up from RSD 2,006.5 bln a year earlier, according to NBS. Loans to non-financial corporations grew by 7.8% y/y to RSD 1,188.1 bln.

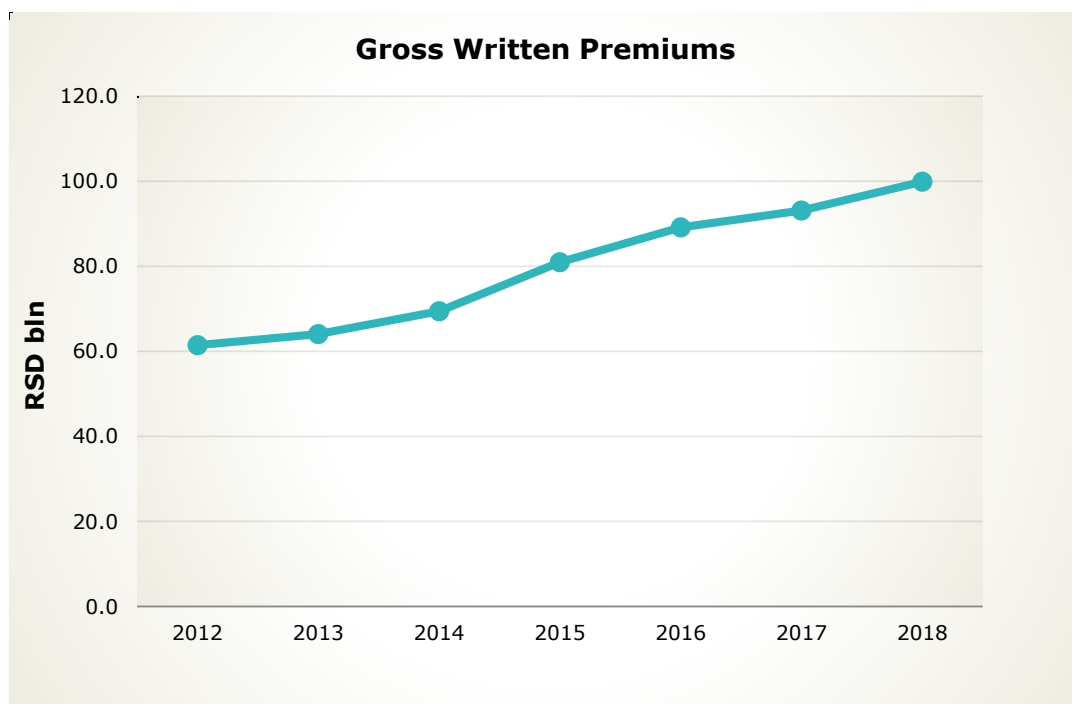
Household loans rose by 12.5% y/y to RSD 1,017.3 bln in December 2018, supported by the 15.0% jump in consumer loans. House purchase loans also expanded, by 7.9%, reaching RSD 383.9 bln on higher refinancing of existing housing loans.



Source: NBS

Insurance premium income up 7.3% y/y in 2018

The total gross written premiums of the non-life and life insurance companies were RSD 99.910 bln in 2018, up by 7.3% y/y, according to NBS data. In comparison to 2017, the insurance market grew by RSD 6.816 bln.



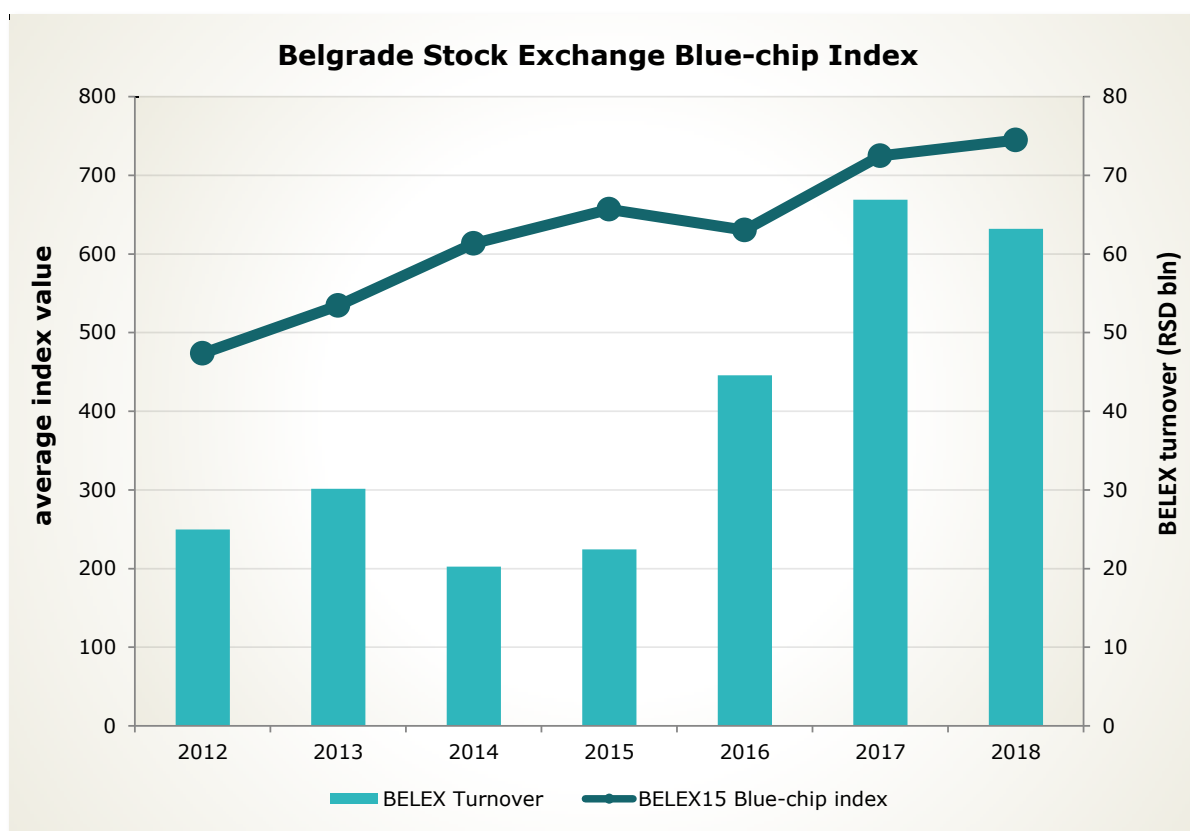
Source: NBS

6. CAPITAL MARKETS

Blue-chip index BELEX15 went up by 2.8% y/y in 2018

The average value of BELEX15, the blue-chip index of the Belgrade Stock Exchange (BELEX), inched up by 2.8% q/q, to 744.8 points in 2018.

The total turnover of BELEX dropped by 5.6% y/y to RSD 63.188 bln in 2018. The number of transactions came to 60,744 versus 66,952 in the previous year.



Source: BELEX

7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt went up 5.1% y/y to EUR 26.901 bln at end-December 2018

The gross external debt increased by 5.1% y/y, totalling EUR 26.901 bln at the end of December 2018, according to NBS. In comparison to December 2017, the gross external debt expanded by EUR 1.302 bln.



Source: NBS

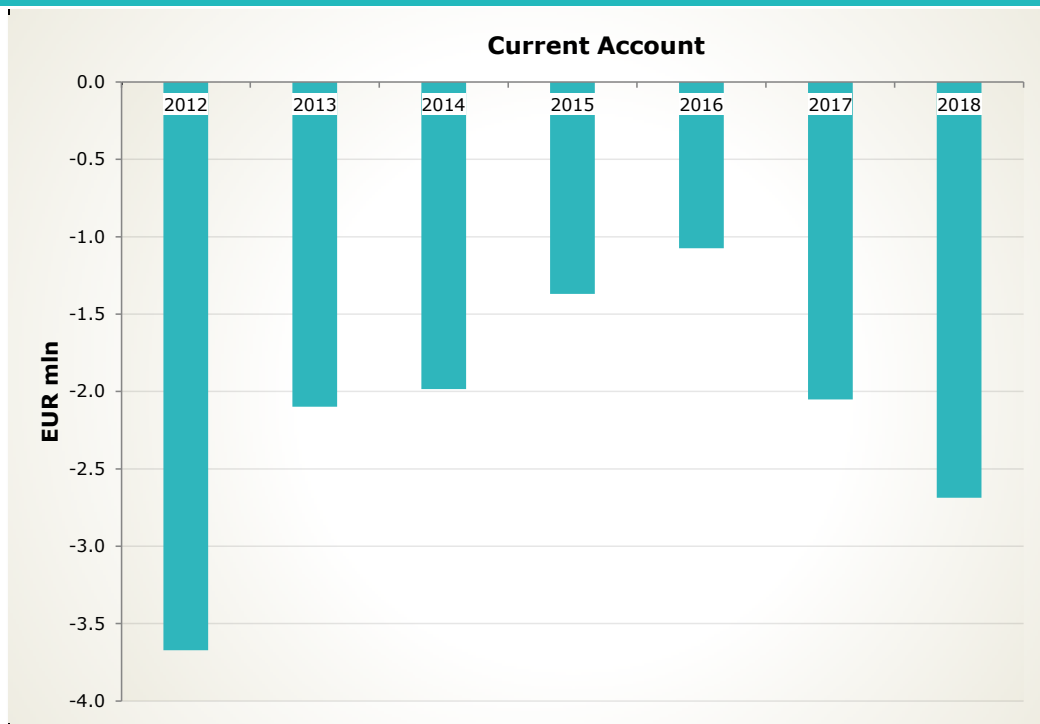
Editor's note: No data is available for gross external government debt for June 2014

7.2. BALANCE OF PAYMENTS

Current account gap widened by 31.0% y/y to EUR 2.687 bln in 2018

The current account gap expanded to EUR 2.687 bln from EUR 2.051 bln a year earlier, according to central bank data.

Secondary income in 2018 amounted to EUR 4.841 bln, up from EUR 3.514 bln in 2017, or a 37.8% increase.

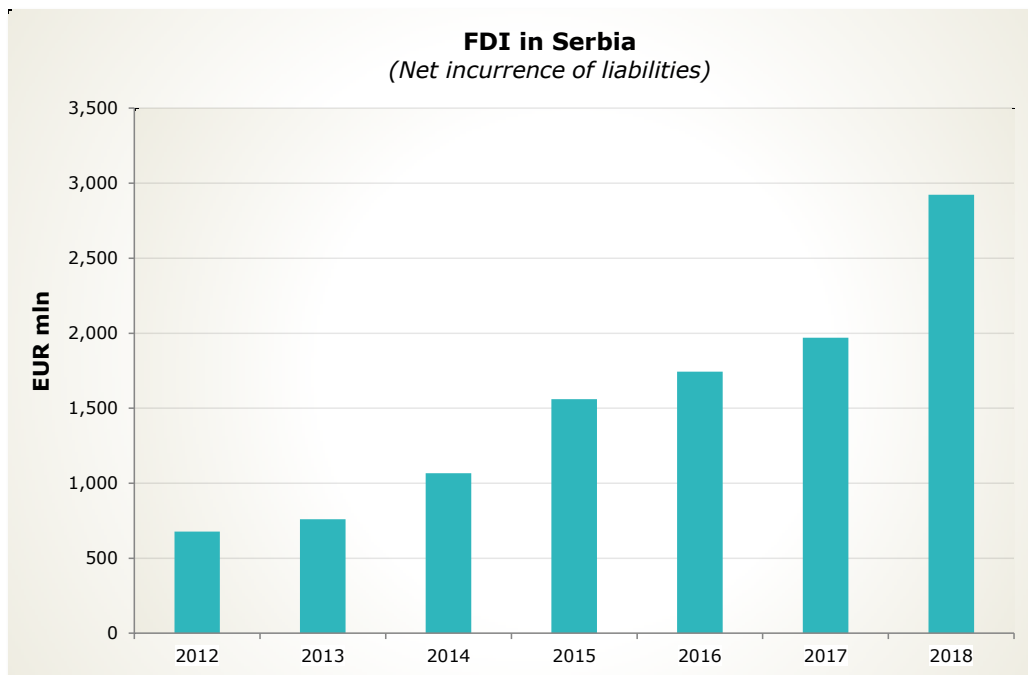


Source: NBS

7.3. FDI

Net FDI inflow stood at EUR 2.923 bln in 2018, up 48.4% y/y.

The net Foreign Direct Investments (FDI) inflow in Serbia in 2018 totalled EUR 2.923 bln, according to NBS. This is up by 48.4% compared to a year ago when the FDIs were EUR 1.970 bln.



Source: NBS

7.4. FOREIGN TRADE

Foreign trade deficit widened by 35.2% y/y in 2018

The trade deficit stood at EUR 6.656 bln in 2018, up by 35.2% compared to the previous year, due to faster growth of imports over exports, according to SORS data.

In 2018, exports totalled EUR 19.227 bln, up 13.1% y/y, while imports went up by 18.1% to EUR 25.883 bln.



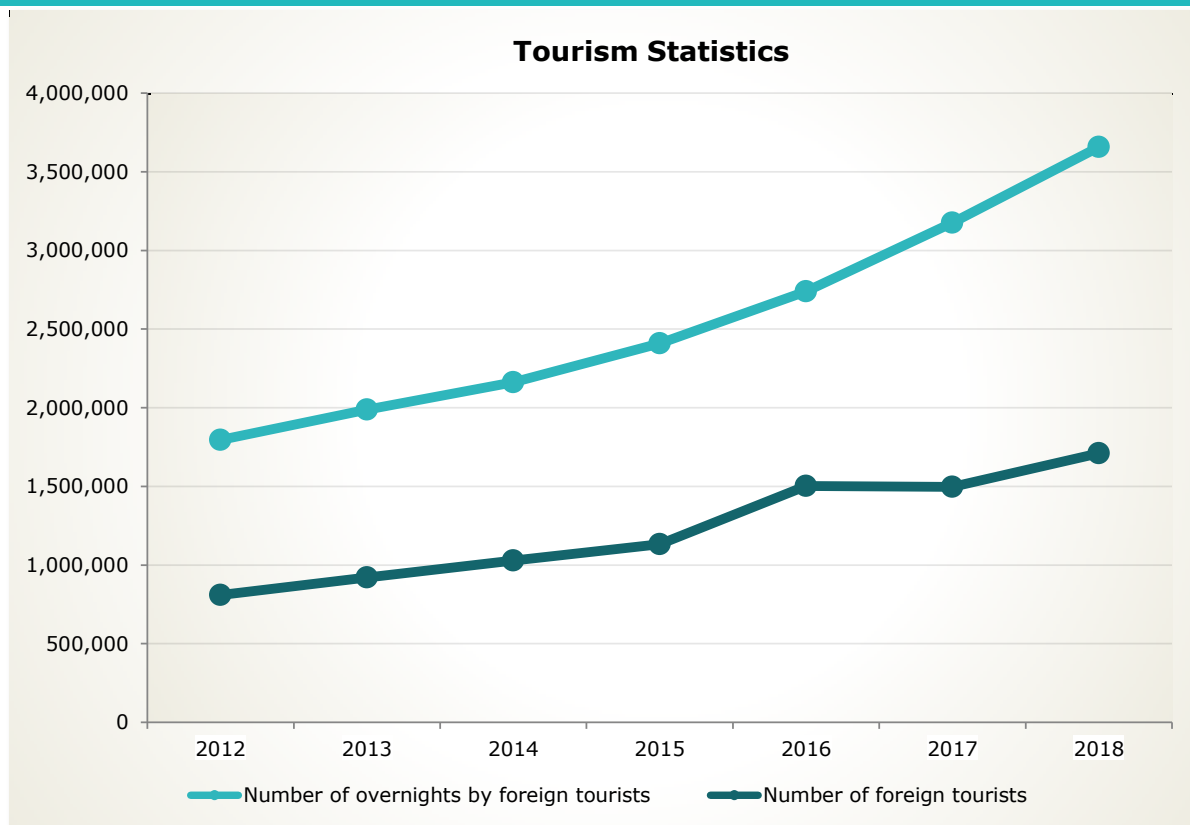
Source: NBS

7.5. TOURSIM

Number of foreign tourist overnights rose by 15.2% y/y in 2018

Tourist overnights of foreigners jumped by an annual 15.2% to 3,657,868 in 2018, slicing a 39.2% share of the total number of tourist overnights in the country, according to SORS data. The total number of tourist overnights went up by 12.1% y/y to 9,336,103.

The number of foreign tourists grew by 14.2% y/y to 1,710,514.



Source: SORS

8. MAJOR DEVELOPMENTS

EBRD ready to support environmental projects in Serbia

Dec 21, 2018

The European Bank for Reconstruction and Development (EBRD) is ready to invest in environmental projects in Serbia, the bank's director for the Western Balkans, Zsuzsanna Hargitai, said.

[Read the full story here](#)

Serbia signs EUR 250 mln motorway deal with Turkey's Tasyapi

Dec 20, 2018

Serbia signed a EUR 250 mln commercial contract for the construction of the first section of a motorway connecting Belgrade to Bosnia's capital Sarajevo with Turkish civil engineering company Tasyapi, the Serbian infrastructure ministry said.

[Read the full story here](#)

Serbia opens two new chapters in EU accession talks

Dec 11, 2018

Serbia opened two new chapters in its EU accession talks during an intergovernmental conference in Brussels in December, the government said

[Read the full story here](#)

EAEU to finalise preferential trade agreement talks with Serbia soon

Dec 7, 2018

The Eurasian Economic Union (EAEU) expects to complete soon its negotiations on concluding a preferential trade agreement with Serbia, Russian president Vladimir Putin has said.

[Read the full story here](#)

World Bank preparing to invest up to EUR 300 mln in 4 projects in Serbia in 2019

Dec 3, 2018

The World Bank plans to invest up to EUR 300 mln in four projects in Serbia next year - in agriculture, trade, tax administration and digitalisation, the lender's, Stephen Ndegwa, has said.

[Read the full story here](#)

Serbia to borrow EUR 250 mln from EIB to build national stadium

Nov 27, 2018

Serbia plans to take out a EUR 250 mln loan from the European Investment Bank (EIB) next year in order to finance the construction of a national stadium in Belgrade, the government's 2019 draft budget shows.

[Read the full story here](#)

EIB lending Serbia EUR 100 mln for inland waterway improvements

Nov 23, 2018

The European Investment Bank (EIB) has agreed to provide a EUR 100 mln loan to Serbia to improve navigation on the inland waterways along the Danube and Sava rivers, the lender said in November.

[Read the full story here](#)

CEB approves EUR 200 mln health infrastructure loan to Serbia

Nov 19, 2018

The Council of Europe Development Bank (CEB) has approved a EUR 200 mln loan to the Serbian government to support investments in health infrastructure, the lender said in November.

[Read the full story here](#)

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