

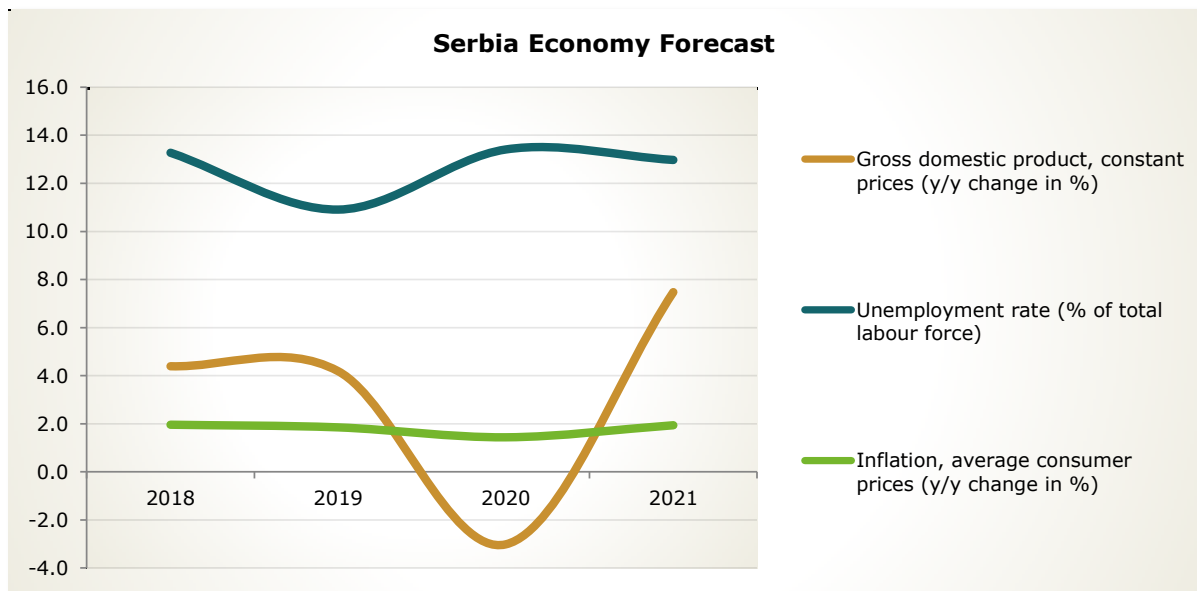
SERBIA ECONOMY REPORT 2019

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1. MACROECONOMIC SNAPSHOT AND FORECAST

SERBIA – MACROECONOMIC SNAPSHOT AS OF 2019	
GDP Growth	4.2 % y/y
Industrial output	0.3% y/y
Industrial sales	9.0% y/y
Retail sales	9.7% y/y
Average annual inflation	1.7% y/y
Unemployment rate	10.4%
Number of building permits	6.3% y/y
Money supply growth	8.4% y/y
Household loans	9.2% y/y
BELEX15 blue-chip index	-0.9% y/y
Gross external debt	EUR 28.4 bln
Current account gap	EUR 3.2 bln
Net FDI inflow	EUR 3.6 bln
Foreign trade deficit	EUR 6.3 bln
Number of foreign tourist overnights	9.6% y/y



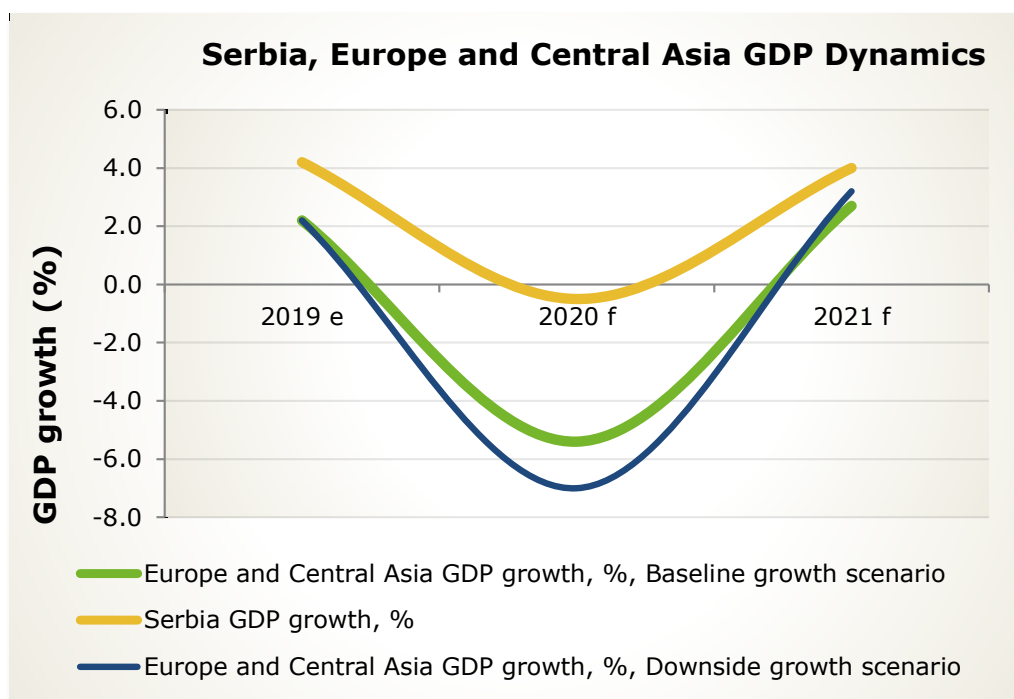
Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2020

IMF expects the COVID-19 pandemic to put an abrupt end to the sound growth of Serbian economy and bring real GDP down by 3.0% in 2020. In 2021 however, unlike in most SEE countries, a sharp GDP growth of 7.5% is expected to thoroughly offset the effects of the global pandemic. Given the high uncertainty regarding the future development of the COVID-19 outbreak, these forecasts may be subject to downward revision.

Supported by appropriate monetary policy of the National Bank of Serbia, paired by the diminishing internal demand for most product groups, inflation will further decrease to an average of 1.4% in 2020.

Unemployment will jump to 13.4% in 2020, following complete lockdown of the economy for two months and the persisting supply chain issues in industry and the expected double-digit slump in travel and tourism. The labour market will need more time to recover back to the 2019 levels and in 2021 unemployment rate will stay high, at about 13.0%.

In domestic aspect, delay in delivering on structural reforms and erosion of fiscal discipline could further harm medium-term growth prospects.



Source: World Bank, Europe and Central Asia Economic Update, Spring 2020

According to the World Bank estimates from April 2020, GDP growth of Serbia is likely to be negative at 0.5% in 2020, far above the projected pandemic-related slump in Europe and Central Asia, of -5.4% according to the baseline scenario and -7.0%, shown by the downside scenario.

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

	2017	2018	2019 e	2020 f	2021 f	2022 f
Real GDP growth, at constant market prices, y/y change	2.0	4.4	4.2	-0.5	4.0	4.0
Private Consumption	1.9	3.1	3.1	-0.4	3.9	3.8
Government Consumption	3.3	3.7	8.7	1.1	0.3	3.0
Gross Fixed Capital Investment	7.3	17.8	11.2	-2.3	7.1	4.3
Exports, Goods and Services	8.2	8.3	8.5	-0.5	8.3	8.7
Imports, Goods and Services	11.1	11.6	9.5	-0.8	7.3	7.3
Real GDP growth, at constant factor prices (by sectors)						
Agriculture	-11.2	15.2	0.0	2.0	3.0	3.0
Industry	3.3	2.8	0.2	0.0	3.5	3.5
Services	3.2	4.1	6.8	-1.1	4.3	4.3
Inflation (Consumer Price Index)	3.1	2.0	2.2	1.9	2.5	2.8
Current Account Balance (% of GDP)	-5.3	-5.2	-6.9	-7.9	-7.3	-6.2
Net Foreign Direct Investment (% of GDP)	4.4	3.8	6.3	4.7	5.0	5.6

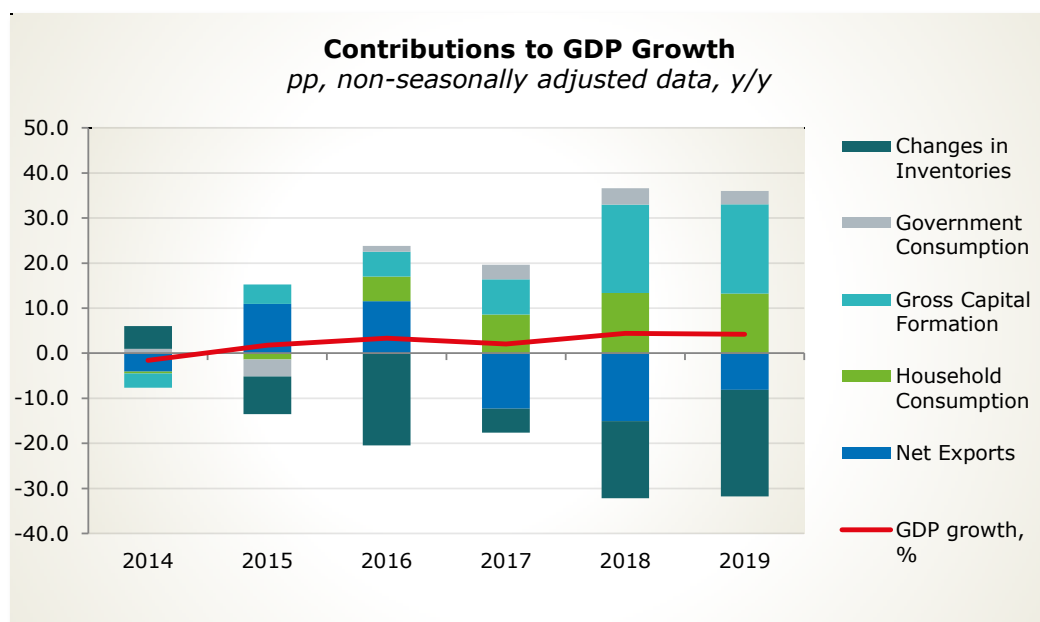
Source: World Bank, Europe and Central Asia Economic Update, Spring 2020

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth at 4.2% y/y in 2019

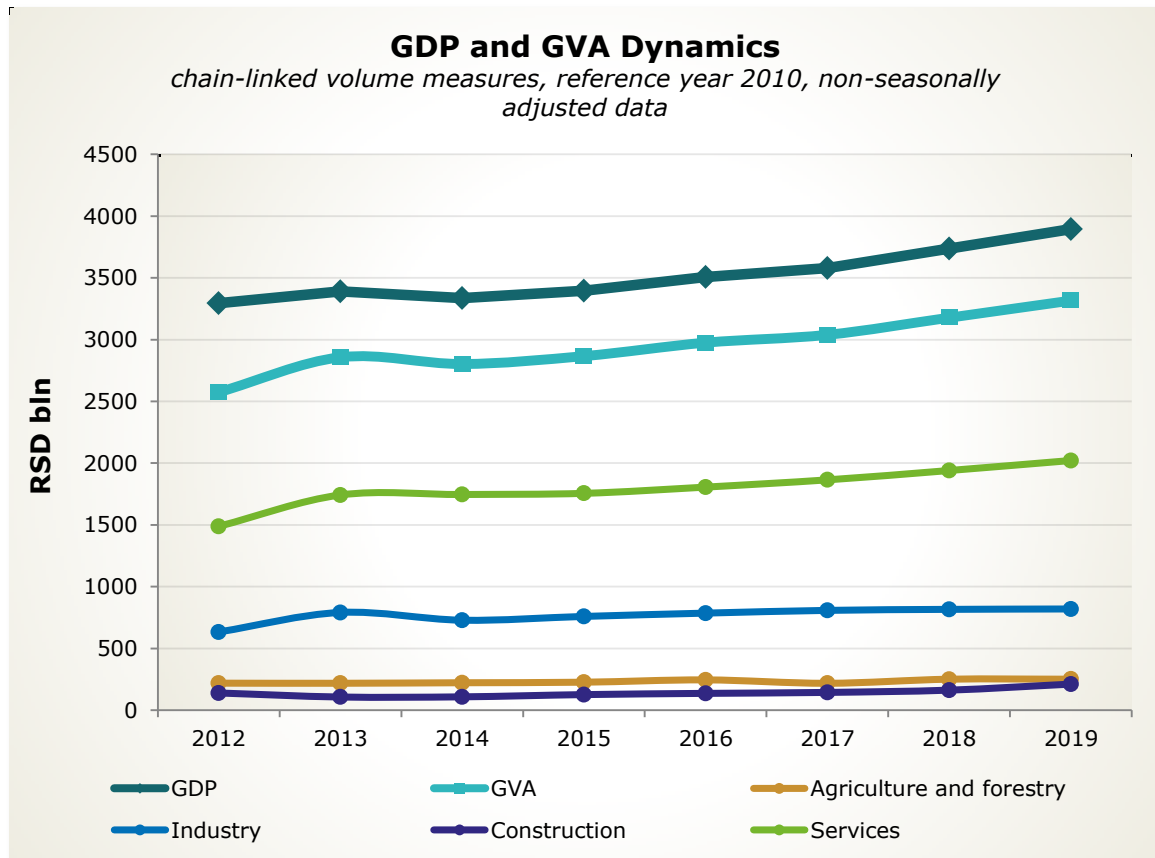
In 2019 the Serbian economy grew by real 4.2% y/y, data by the Statistical Office of Serbia shows. The growth slowed down from 4.4% in the previous year. The economy was fuelled by stronger gross capital formation and household consumption, both with double-digit contribution to the country's annual GDP growth. Final consumption (household and government) advanced by 3.1% y/y in real terms in 2019.



Source: SORS; SeeNews calculations

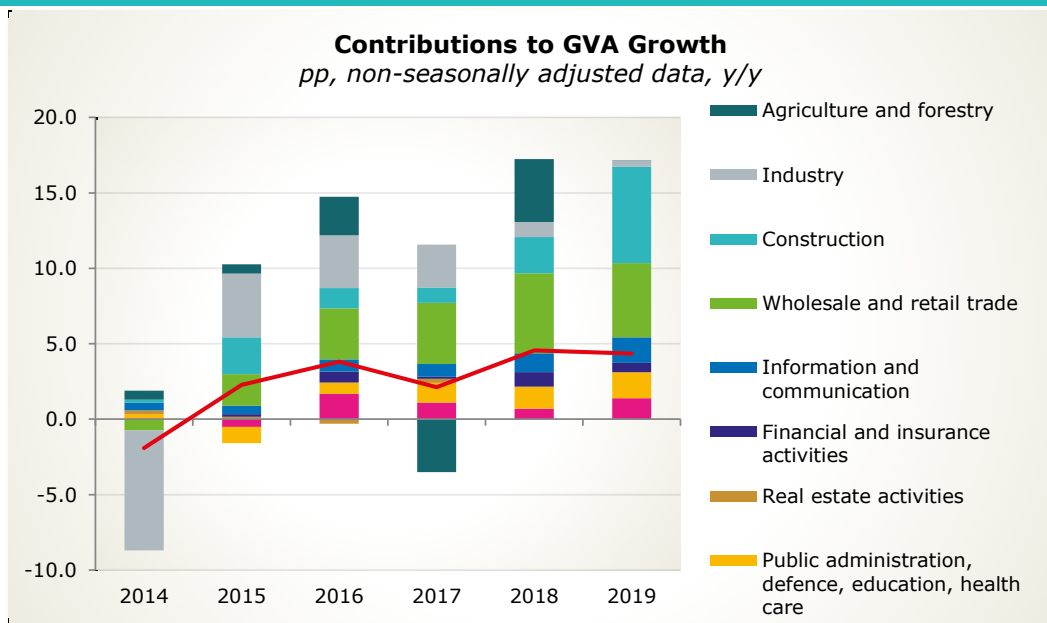
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual

The gross value added (GVA) generated by the national economy increased by 4.4% y/y in 2019 and totalled RSD 3,315.8 bln. The construction sector surged in value by 30.2% y/y and accounted for 6.4% of the total GVA. Agriculture and forestry remained flat, slicing a 7.6% share in the total GVA, compared to 7.9% a year earlier. The services sector's GVA expanded by 4.2% to RSD 2,021.2 bln, while the industry sector registered an annual increase of 0.4% to RSD 819.2 bln.



Source: SORS

Sector wise, the largest contributor to the annual GVA growth in 2019 was construction with 6.4 pp, followed by wholesale and retail trade – 4.9 pp.



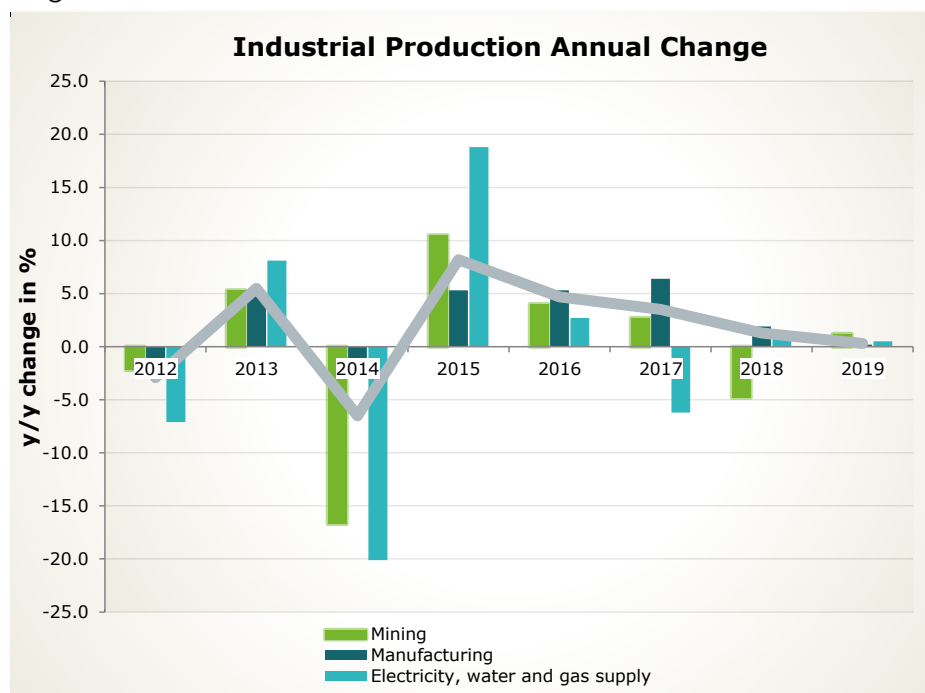
Source: SORS; SeeNews calculations

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

2.2. INDUSTRIAL OUTPUT

Industrial output inched up by 0.3% y/y in 2019

The industrial output reported a slight rise of 0.3%, in 2019, compared to a 1.3% increase in the previous year, according to data from SORS. In the period under review, all sectors reported growth, of 1.2% for mining, 0.5% for electricity, water and gas supply and 0.2% for manufacturing.

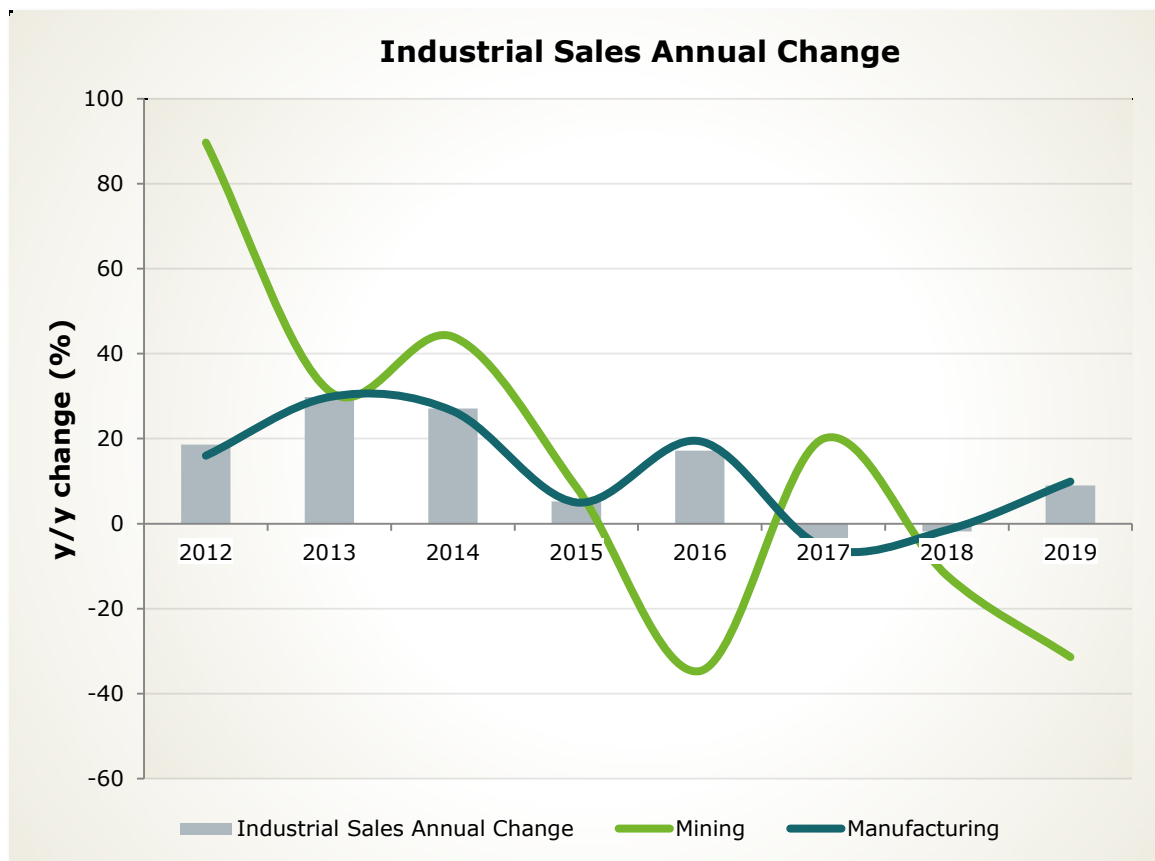


Source: SORS

2.3. INDUSTRIAL SALES

Industrial sales went up by 9.0% y/y in December 2019

The industrial sales increased in December 2019, by 9.0% y/y, according to SORS. The manufacturing industry recorded a 9.9% annual increase, while the mining sector posted a 31.4% 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 sank.

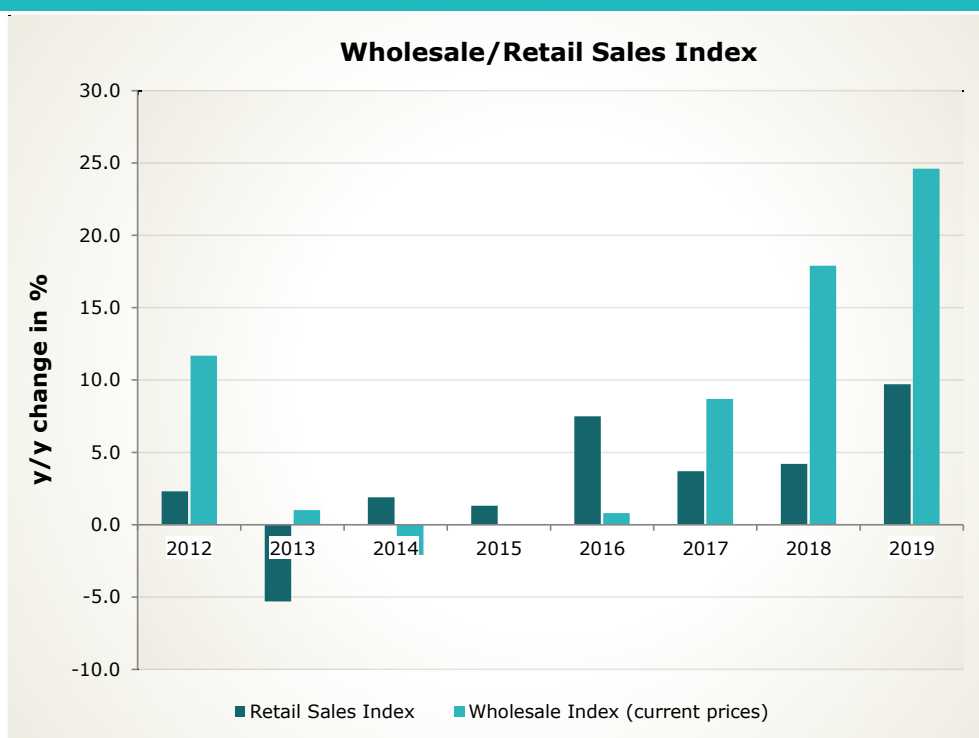


Source: SORS

2.4. WHOLESALE/RETAIL

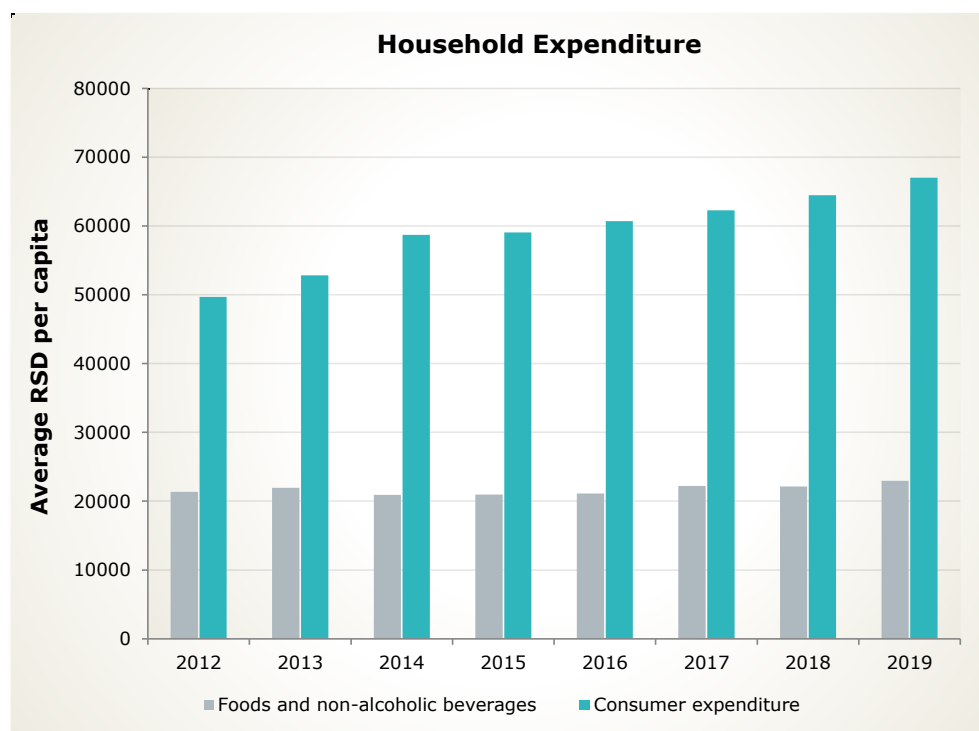
Retail sales grew by 9.7% y/y in constant prices in 2019

In 2019, retail sales in Serbia rose by 9.7% y/y in constant prices, up from a 4.2% y/y increase in the year-ago period, according to SORS. The highest annual rise in retail trade during the calendar year was registered by non-food products, except motor fuels with 11.0%, followed by food, beverages and tobacco with 9.5% and motor fuels with 7.8%.



Source: SORS

In 2019, consumer expenditure increased by 3.9% y/y to a monthly average of RSD 67,009 per household. Expenditure on food and non-alcoholic beverages had the highest share in the total consumer expenditure, of 34.3%. The latter increased by 3.8% y/y to RSD 22,977 per household.



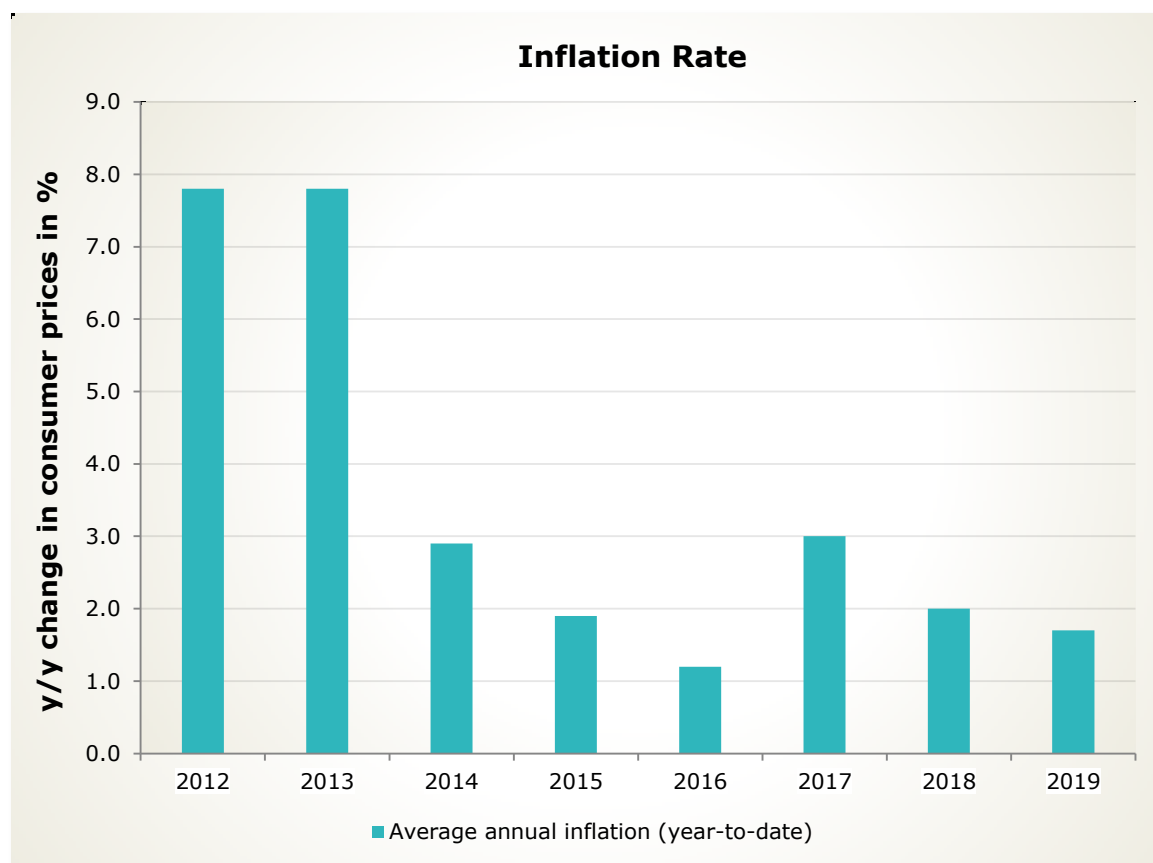
Source: SORS

2.5. INFLATION

Average annual inflation of 1.7% in 2019

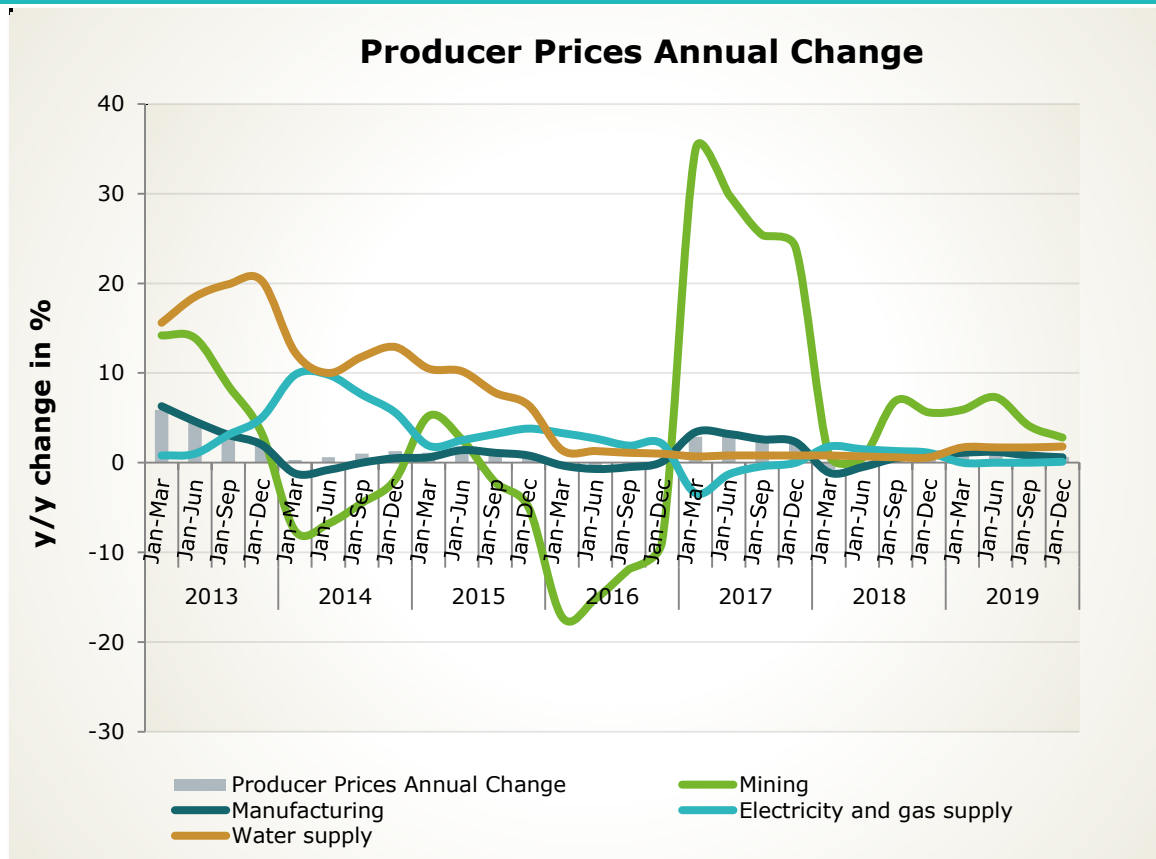
The average annual inflation amounted to 1.7% in 2019, down from 2.0% in the previous year, according to SORS data.

Inflation in the period was determined mainly by the increase in prices of alcoholic beverages and tobacco – 4.9%. Other consumer groups with an increase in prices included food and non-alcoholic beverages – 2.2%, health services – 2.1% and housing, water, electricity, gas and other fuels – 1.6%. Clothing and footwear was the only product group to post a deflation – 1.4%.



Source: SORS

Producer prices inched up by 0.6% y/y in 2019, according to SORS data. All sectors reported a rise, ranging from 0.1% for electricity and gas supply to 2.8% for mining.



Source: SORS

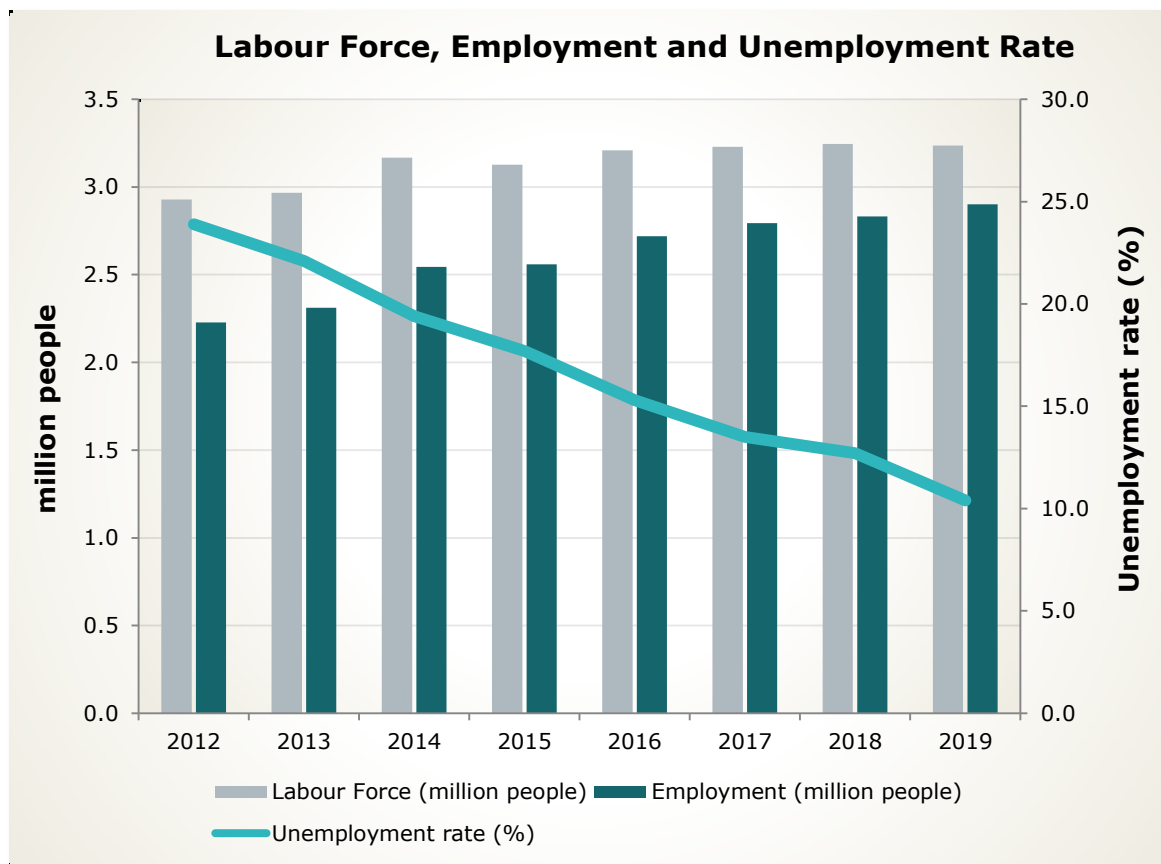
3. LABOUR MARKET

Unemployment rate continued to fall

Unemployment rate in Serbia continued its fall, reaching 10.4% on average in 2019, down from 12.7% in 2018 and 13.5% in 2017, according to SORS. Youth (population aged 15-24) unemployment rate also decreased, but still remained high, averaging 27.5% in 2019, compared to 29.7% in the previous year and 31.9% in 2017.

The employed population aged 15 years and older was 2.9 million, up by 2.4% y/y.

The average monthly net salary in 2019 was RSD 54,919, up 10.6% y/y.



Source: SORS

4. CONSTRUCTION AND REAL ESTATE

The number of building permits went up by 6.3% y/y in 2019

The number of permits for new buildings in Serbia was 6,345 in 2019, including 3,386 for residential projects and 109 for office buildings, according to SORS data.

The total number of permits for new buildings issued in the period under review increased by 6.3% compared to 2018. Permits for residential projects rose by 9.0%, while permits for office buildings grew to 109 from 88.

The total built-up area of the office units, covered by the permits, went up by 18.5% y/y to 227,387 sq m from 191,957 sq m.

The total built-up area of new housing was 2.872 million sq m in 2019, a 29.9% increase compared to 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 117.852 in 2019 from RSD 118.272 a year earlier, according to National Bank of Serbia (NBS).

Average Annual RSD Exchange Rate			
Foreign Currency	2019	2018	2017
EUR	117.852	118.272	121.337
USD	105.276	100.278	107.499
GBP	134.344	133.640	138.378
CHF	105.962	102.422	109.188

5.2. MONETARY POLICY

The national bank kept the policy rate at 2.25%

At its meeting in May 2020, the NBS Executive Board kept the key policy rate unchanged at 1.5%.

Inflation is expected to move within the lower bound of the targeted range - 3.5%±1.5%.

The conducted monetary policy is aimed at mitigating the negative effects of the COVID-19 outbreak, which will be felt upon the resumption of economic activity from May 2020 onwards.

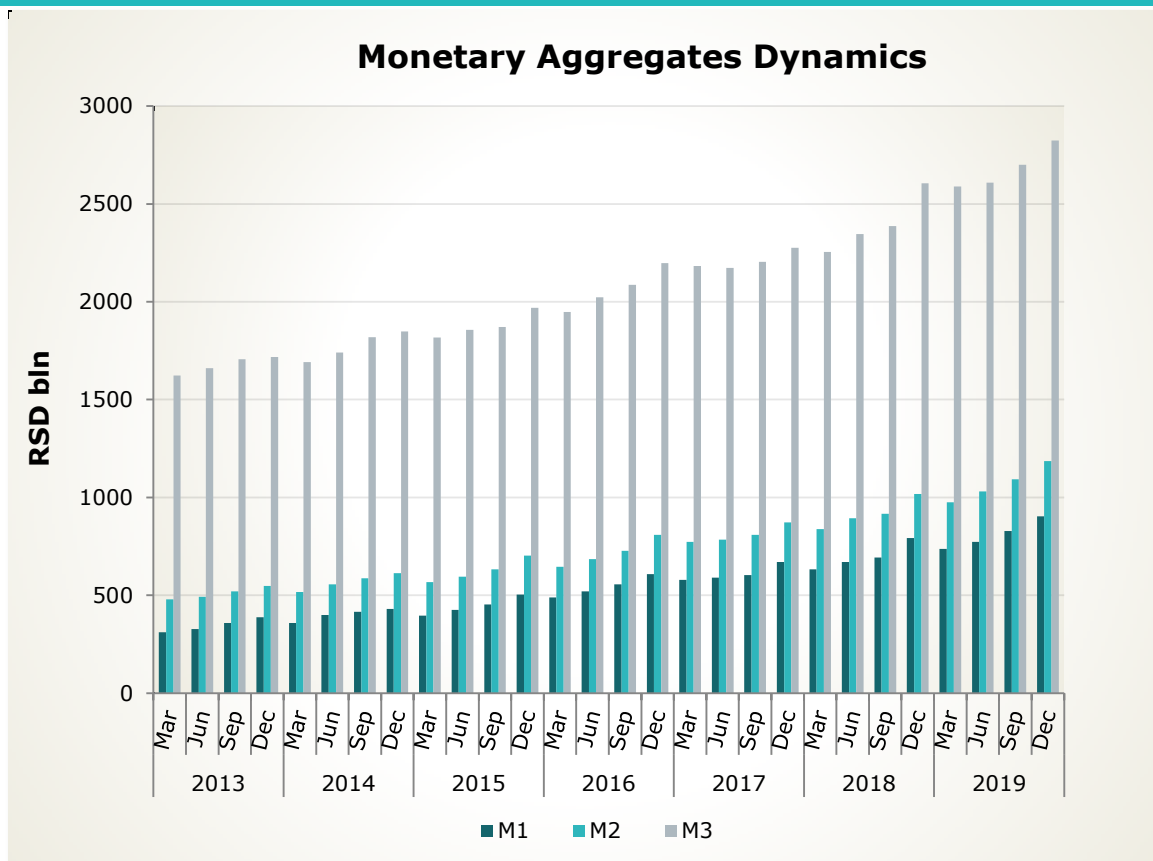
5.3. MONETARY AGGREGATES

Money supply growth was 8.4% y/y at the end of December 2019

Broad money (money aggregate M3) increased by 8.4% y/y and reached RSD 2,823.6 bln as of end-2019, according to data provided by NBS.

The M2 money supply also grew, by 16.6% to RSD 1,186.6 bln.

Money aggregate M1, or narrow money, jumped by 14.0% to RSD 903.6 bln.



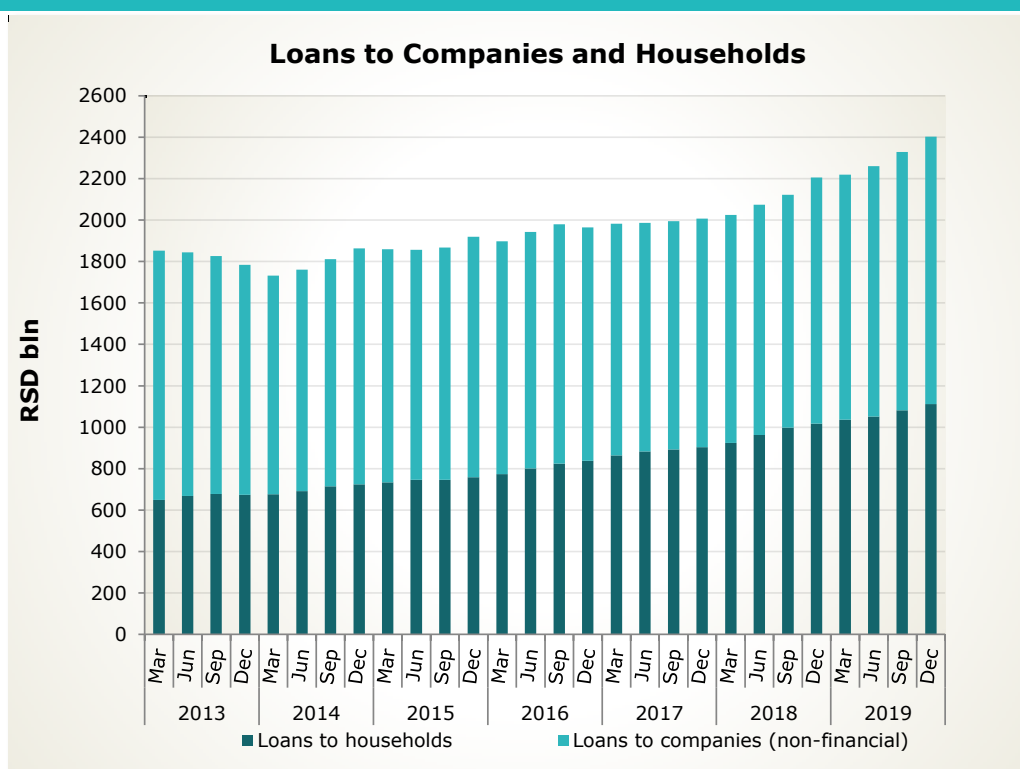
Source: NBS

5.4. BANKING AND INSURANCE

Household loans increased by 9.2% y/y in December 2019

Loans to the non-government sector totalled RSD 2,402.3 bln as of December 2019, up from RSD 2,205.3 bln a year earlier, according to NBS. Loans to non-financial corporations grew by 10.9% y/y to RSD 1,246.4 bln.

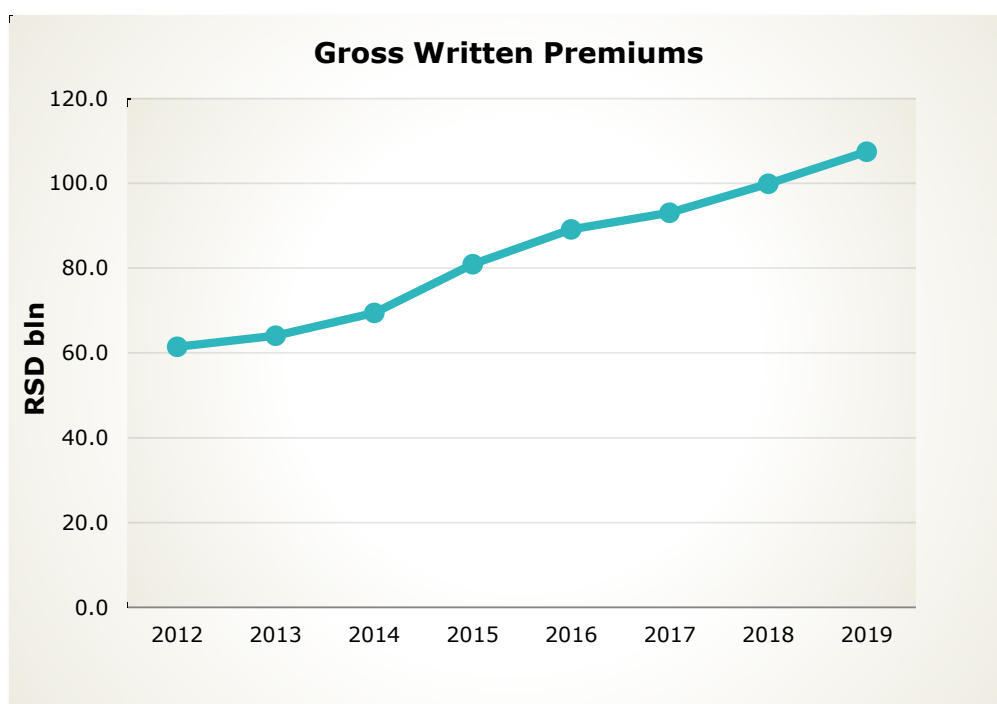
Household loans rose by 8.7% y/y to RSD 1,291.0 bln in December 2019, while house purchase loans expanded by 4.3%, reaching RSD 400.6 bln on higher refinancing of existing housing loans. Consumer loans went down by 28.8%, to RSD 17.8 bln.



Source: NBS

Insurance premium income up 7.5% y/y in 2019

The total gross written premiums of the non-life and life insurance companies were RSD 107.4 bln in 2019, up by 7.5% y/y, according to NBS data.



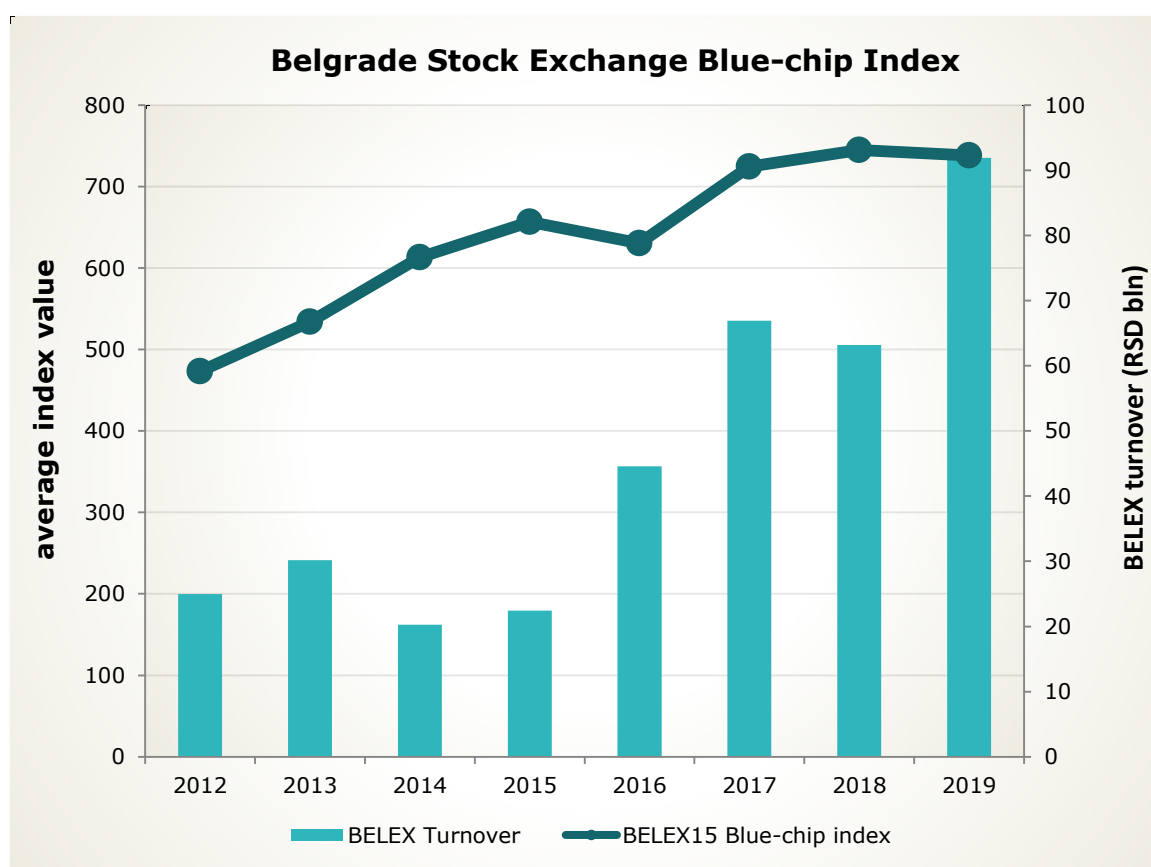
Source: NBS

6. CAPITAL MARKETS

Blue-chip index BELEX15 notched down by 0.9% y/y in 2019

The average value of BELEX15, the blue-chip index of the Belgrade Stock Exchange (BELEX), decreased by 0.9% y/y, to 738.1 points in 2019.

The total turnover of BELEX soared by 45.5% y/y to RSD 91.9 bln in 2019. The number of transactions nearly halved and came to 31,115 versus 60,744 in 2018.



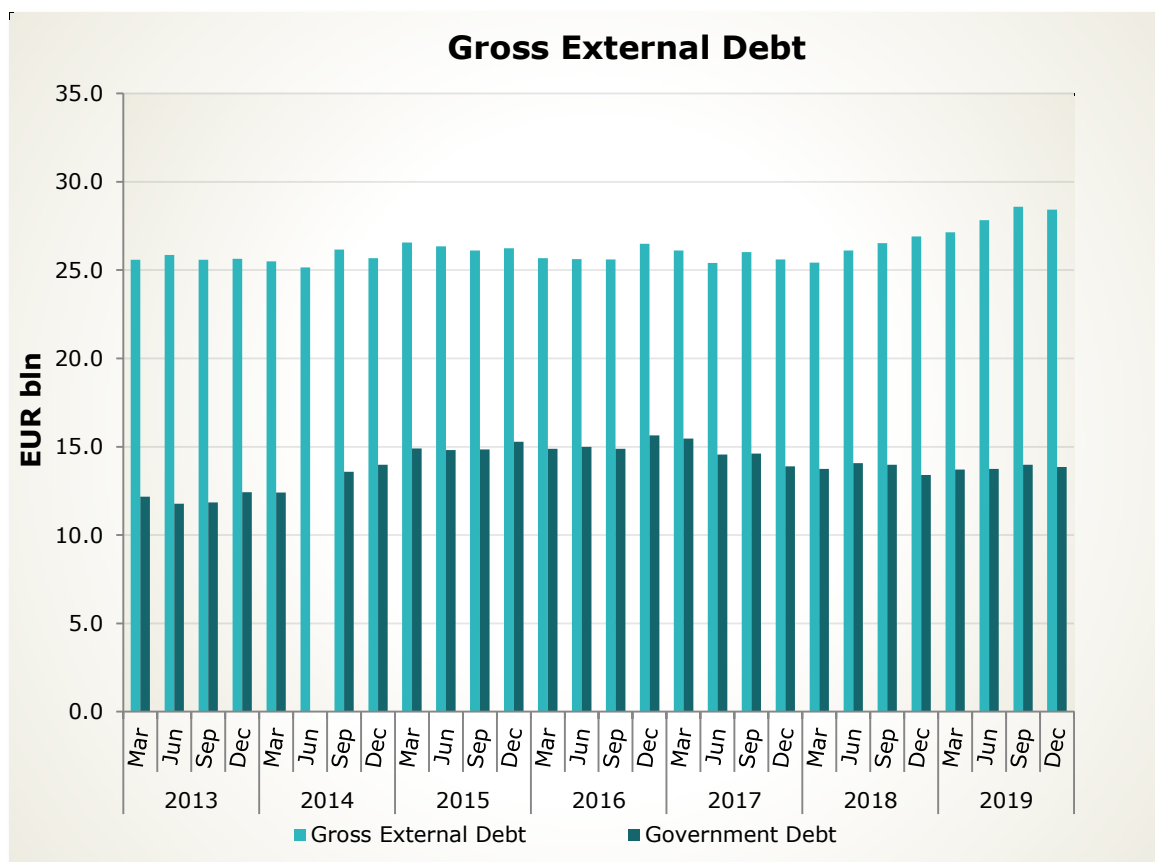
Source: BELEX

7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt went up by 5.6% y/y to EUR 28.4 bln as of end-2019

The gross external debt increased by 5.6% y/y, totalling EUR 28.4 bln at the end of December 2019, according to NBS. In comparison to end-2018, the gross external debt expanded by EUR 1.5 bln.



Source: NBS

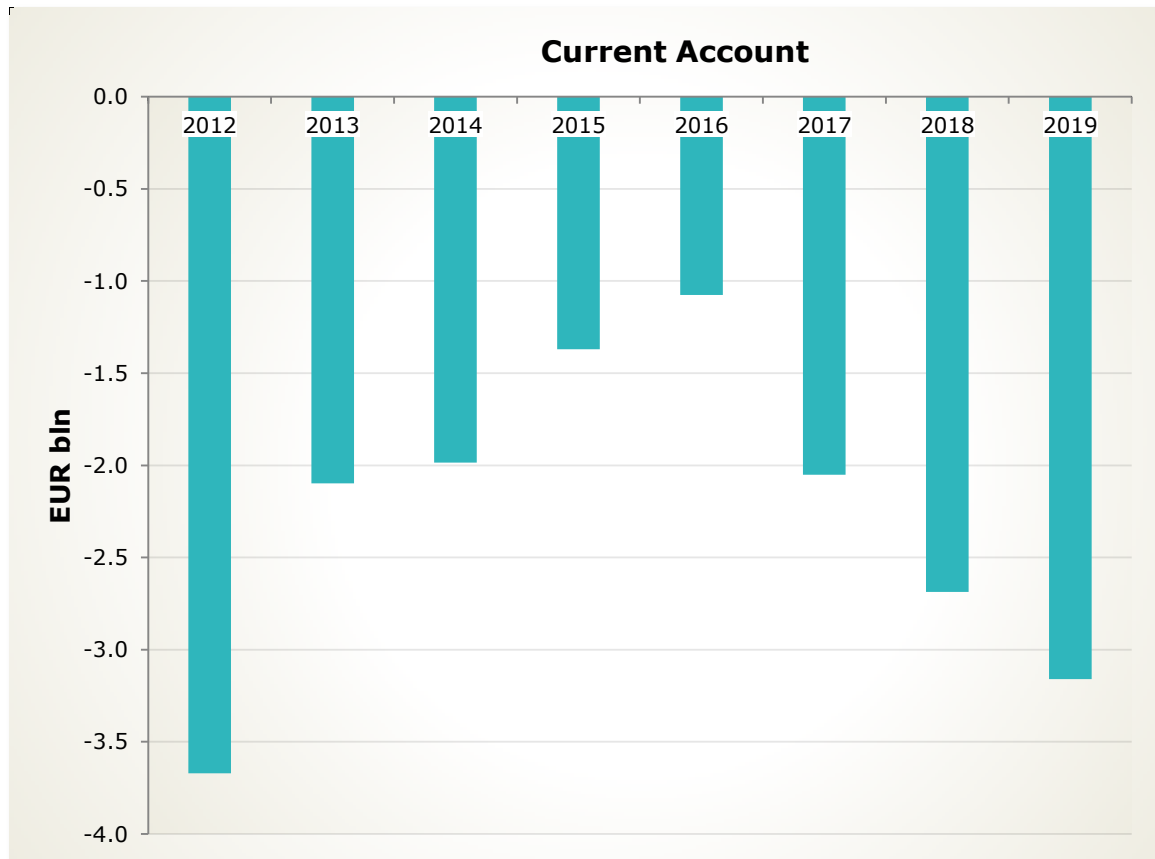
Editor's note: No data is available for gross external government debt for June 2014

7.2. BALANCE OF PAYMENTS

Current account gap widened 18.0% y/y to EUR 3.159 bln in 2019

The current account gap expanded to EUR 3.159 bln from EUR 2.687 bln a year earlier, according to central bank data.

Secondary income in 2019 amounted to EUR 3.884 bln, down from EUR 4.841 bln in 2018, or a 19.8% decrease.

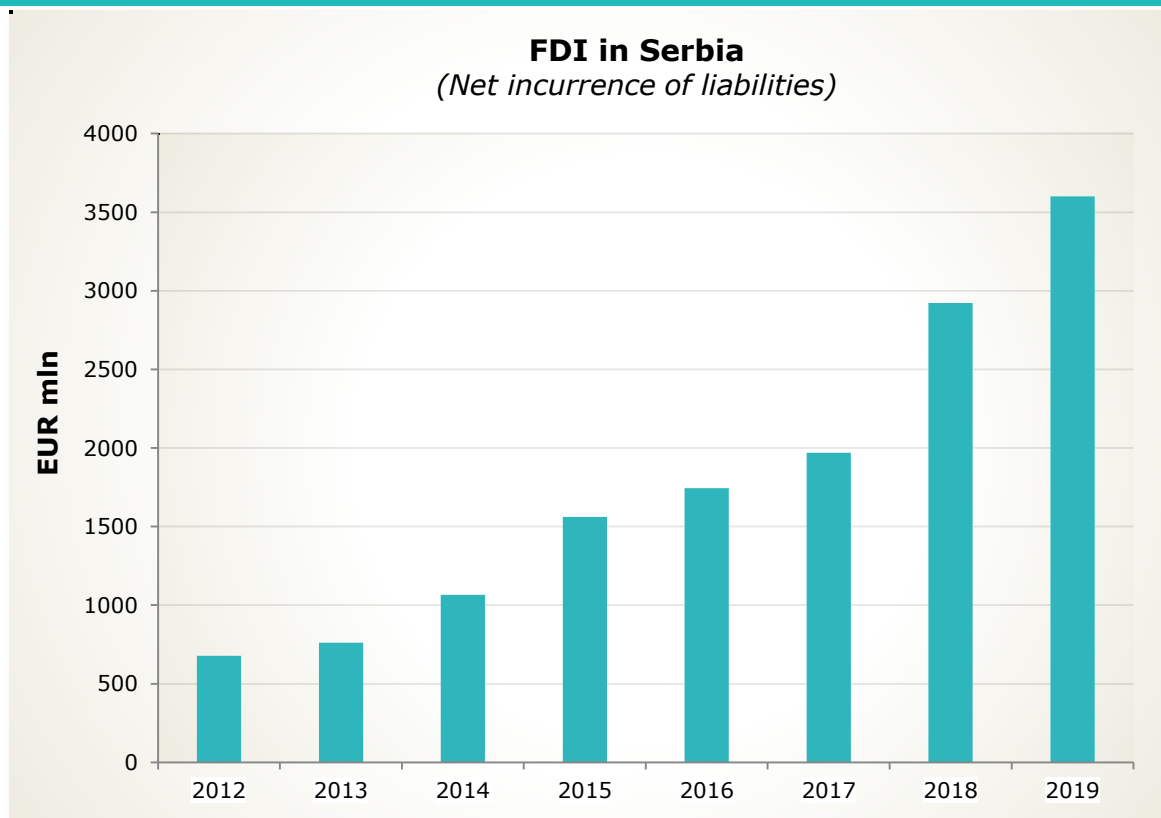


Source: NBS

7.3. FDI

Net FDI inflow stood at EUR 3.6 bln in 2019, up 23.2% y/y.

The net Foreign Direct Investments (FDI) inflow in Serbia in 2019 reached record-high EUR 3.6 bln, according to NBS. This is up by 23.2% compared to a year ago when the FDIs were EUR 2.9 bln.



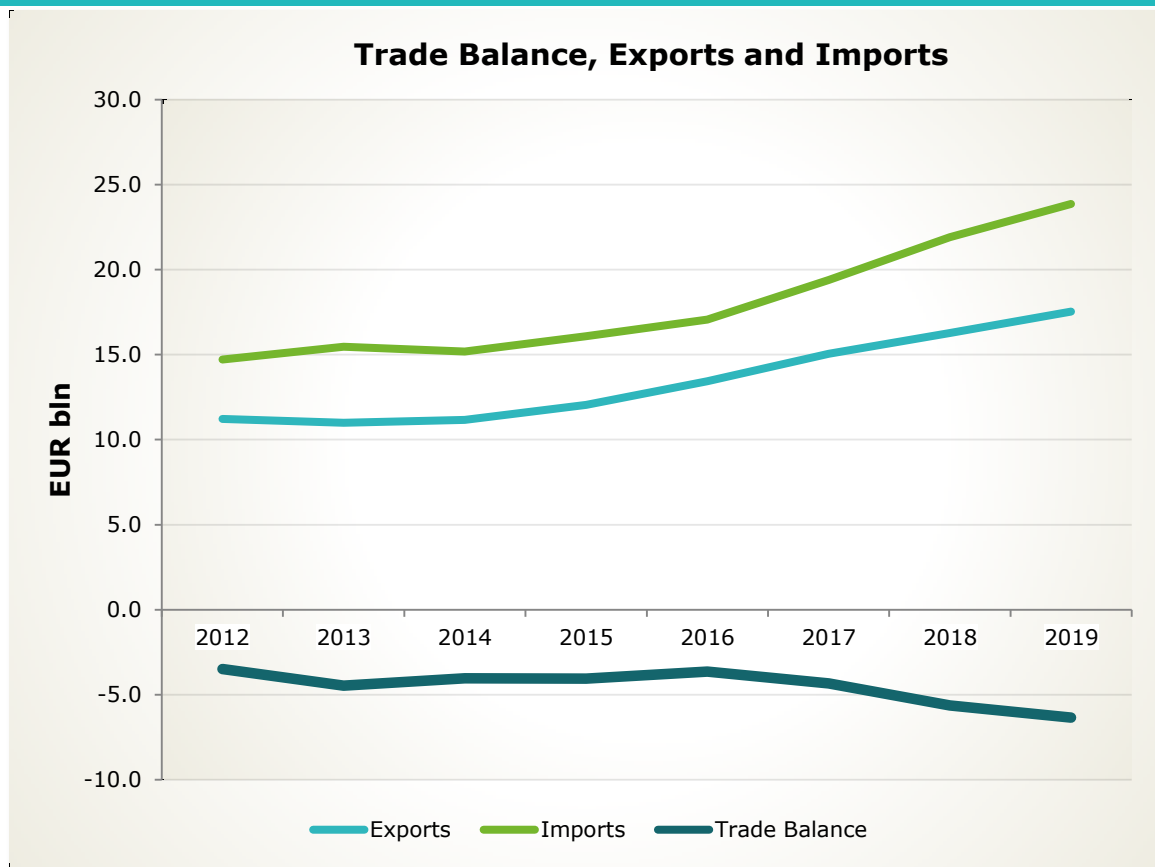
Source: NBS

7.4. FOREIGN TRADE

Foreign trade deficit widened by 12.5% y/y in 2019

The trade deficit stood at EUR 6.3 bln in 2019, up by 12.5% compared to the previous year, due to faster growth of imports over exports, according to SORS data.

In 2019, exports totalled EUR 17.5 bln, up 7.7% y/y, while imports went up by 8.9% to EUR 23.9 bln.



Source: NBS

7.5. TOURSIM

Number of foreign tourist overnights rose by 9.6% y/y in 2019

Tourist overnights of foreigners increased by an annual 9.6% to 4.0 million in 2019, slicing a 39.8% share of the total number of tourist overnights in the country, according to SORS data. The total number of tourist overnights went up by 7.9% y/y to 10.0 million.

The number of foreign tourists grew by 8.0% y/y to 1,846,551.



Source: SORS

8. MAJOR DEVELOPMENTS

Serbia to invest EUR 14 bln to stimulate growth by 2025 - PM

Dec 30, 2019

Serbia's government plans to make investments worth EUR 14 bln to stimulate the country's economic growth by 2025, prime minister Ana Brnabic has said.

[Read the full story here](#)

EIB lends EUR 30 mln to back SMEs, mid-cap companies in Serbia

Dec 24, 2019

The European Investment Bank (EIB) said it has signed a EUR 30 mln financing contract with the Serbian unit of French banking group Credit Agricole intended to back local small and medium-sized enterprises (SMEs) and mid-caps.

[Read the full story here](#)

World Bank to back innovation projects in Serbia with USD 48 mln loan

Dec 17, 2019

The World Bank said it has approved the extension of a USD 48 mln loan to Serbia, to be used to support economic development based on knowledge and innovation.

[Read the full story here](#)

World Bank approves USD 50 mln financing of Serbian farmers

Dec 5, 2019

The World Bank has approved a USD 50 mln loan to support Serbian farmers on small and medium-sized farms, it said.

[Read the full story here](#)

Serbia, China to invest EUR 247 mln in industrial park project

Nov 27, 2019

Serbia and China plan to invest EUR 247 mln in the construction of an industrial park in Belgrade, the Serbian government has said.

[Read the full story here](#)

Serbia plans to build 359 wastewater treatment systems worth EUR 5.6 bln - env min

Nov 20, 2019

Serbia plans to build 359 wastewater treatment systems worth EUR 5.6 bln in the following 20 to 25 years, environment minister Goran Trivan said in November.

[Read the full story here](#)

Serbia to borrow EUR 580 mln for Belgrade metro project in 2020

Nov 5, 2019

Serbia plans to borrow up to EUR 580 mln next year to finance the construction of the Belgrade metro network, the government's 2020 draft budget shows.

[Read the full story here](#)

Russia lending EUR 230 mln to Serbia for railway overhaul projects

Oct 21, 2019

Serbia's government has signed a contract to receive a EUR 172.5 mln loan from Russia for three railway overhaul projects, the Serbian infrastructure ministry said.

[Read the full story here](#)

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