



# Weekly Briefing

**Serbia Economy briefing:  
Survey of Economy Serbia in 2017  
IIPE**


## China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Chen Xin

Kiadásért felelős személy: Huang Ping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 [office@china-cee.eu](mailto:office@china-cee.eu)

 [china-cee.eu](http://china-cee.eu)

In 2017 positive trends have been prevailing in Serbian Economy. The main trends were: moderate real growth rate of gross domestic product (GDP), with considerable increase in production of manufacturing industry and construction of the infrastructure; considerable increase in turnover of foreign trade and direct foreign investments; continuity of general financial consolidation with diminishing of public debt, continuity of the stability of prices and appreciation of Dinar; slowing down of rate of unemployment and a real increase of salaries.

Real growth rate of Serbian economy in 2017 is estimated to 2.5%. This is lower than projected. Main reason is a prolonged drought. It had an adverse impact on production in agriculture and in hydro-electric energy. The drop in agriculture production was about 10%. Unfavorable economic developments in countries, that are main buyers of Serbian product, also had adverse impact on domestic economy. It is expected that Serbia, like other small counties, must have high coefficient of dependence on foreign trade.

During the first eight months in 2017, industrial production increased by 3.0% in comparison to the same time period in the previous year. Increase in manufacturing production was about 6.5%. Turnover of internal retail trade increased by 6.5%.

Structure of the GDP is unusual. Agriculture reached 12.7% of GDP, industry reached 23.5% of GDP and services reached 63.8% GDP. High share of agricultural is not result of its high level but of the low level industrial activity.

In economic policy of Serbia, persistence of financial consolidation is of the utmost importance. The law by which salaries and pensions in public sector diminish, that is approved three years ago, remains in vigor. Results are favorable from the point of view of financial consolidation. Instead of chronic deficit in budget over the course of previous years, Serbia reached a surplus. Moreover, growth of public debt was interrupted.

National Bank of Serbia (NBS) persistently watches on stability of prices by targeting rate of inflation (3.0% + - 1.5%). In September 2017 the rate of inflation was about 3.2% on year to year level.

NBS at the same time intervenes in the foreign exchange market with then goal to limit daily fluctuation in exchange rate of the national currency (guided fluctuating exchange rate). This policy resulted in appreciation of national currency. The demand for Dinar has been growing. Present exchange rate of Dinar reflects the achieved financial and political stability. It is speeding up the demand for domestic currency. Supply of the Euro on domestic interbank foreign exchange market became higher than demand. So demand of Dinar has been growing.

The other side of the coin is a certain deflationary pressure. One of the consequences is modest growth in domestic demand and equally in domestic economy. The Government took this seriously. It is endeavoring on cautious speeding up in domestic demand. Salaries and pensions in public sector are moderately increased. NBS, having in mind that there is no danger of inflationary pressure, opted for an expansionary monetary policy. It has been reducing the basic interest rate. In July 2017 the interest rates on new credits in Dinars for enterprises and households were 5.8% and 10.5% respectively. Intention is to speed up general credit activity by stimulating increase in domestic demand, and, therefore, the growth of GDP. In 2017 the relatively high inflow of direct foreign investments and the inflow of liquidity from the European Union stimulated rise in domestic demand too.

Increase in employment in the private sector of economy and increase of the credit activity contributed too to the rise of domestic demand. Slowing down of the interest rates speeded up credit activity. In the meantime, population income increased. In general, increase in domestic demand during the first half of 2017 was result of private consumption.

Labor market conditions have been improving. During the 12 months period prior to June 2017, 120.000 new jobs have been created. For present situation in

Serbian economy this is a success. Unemployment in manpower beyond 15 years of age was reduced to 11.8% in the second quarter of 2017. At the same time the salaries have been growing.

The developments in economic relations with rest of the world are encouraging.

Foreign trade in 2017 increased considerably. Total turnover during the period January – October reached 28,476.0 million of Euros, or it was 13.7% higher than during the same time period from last year. Export of goods reached 12,476.3 million with the increase by 13.5%. The import of goods reached 15,919.7 million with, or it was 13.9% higher than in the same period of last year.

Deficit in trade of goods reached 3,363.4 million of Euros, or 15.4% more than in the same period of last year. The covering of the imports by exports was 78.9%, a little bit lower than last year – 79.2%. Surplus in trade of services during the 8 month of 2017 was 454.2 million while during the same period of last year was 455.3 million Euros.

In the structure of exports the biggest share belongs to raw materials and intermediary goods – 55.6%, consumption goods – 33.7%, and equipment – 10.7%. In the structure of import prevailed the raw materials and intermediary goods – 57.3%, consumption goods – 18.7%, and equipment 12.1%.

The bulk of trade of goods has been realized with countries that concluded agreements for free trade with Serbia. About 64.2% of trade is realized with members of the European Union. Main individual foreign trade partners were: (a) on the side of exports Italy, Germany, Bosnia and Herzegovina, Russia, and Hungary, (b) on the side of imports Germany, Italy, China, Russia and Hungary.

The highest surplus is achieved in trade with neighbors: Bosnia and Herzegovina, Montenegro and Macedonia. But Serbia realized surplus in trade with Romania, Bulgaria, Italy, Croatia, Slovakia, Great Britain, and Moldavia too. The highest deficit Serbia had in the trade with China, Russia, Turkey, Iraq, Hungary, Belgium, Austria, Czech Republic, and Ukraine.

The inflow of foreign direct investments reached 2.1 billion in 2017. They will be equal to 5.5% of the GDP. Serbia considerably advanced on the list where countries are ranked by favorable conditions for doing business primarily owing to monetary policy – low and stable rate of inflation and improving the credit rating of Serbia and therefore improving the access to financial markets with lower interest rates. The volume of non-performing credits is reduced to 12.2%, lowest in the last nine years.

However, the inflow of foreign investments is not satisfactory, having in mind the level of subsidies and other advantages given to foreign investors. In general, weakest point in Serbian economy is low share of aggregate investments in the GDP. It is below 20% for many years. For higher economic growth minimum is about 25%.

Serbian Government pays special attention to the qualitative side: improving the condition for doing business and of the investment environment, building the infrastructure, reform of the legislation of building, labor market, financial stabilization.

Economic relations of Serbia with China have a positive trend. Serbia is biggest partner of China in the Balkans. China is for Serbia especially important as source of capital and technology. Up to now total value of contracts for building the infrastructure is about \$2.5 billion. This value, after the signature of all pending contracts will reach about \$6 billion.

Serbia is on a way to take part in the biggest project in the World – “One Belt and One Road”. Serbia will do whatever is possible to contribute to success of this project. In November 2017 Serbia undertook modernization of the railway Belgrade – Budapest, section Stara Pazova – Novi Sad. Fifteen Chinese engineers participated in planning the modernization of the railway system together with a group of Serbian engineers. The railway Belgrade - Budapest is being designed for a speed of 200 km/h. For Serbia of the utmost importance is also project for modernization of the railway Belgrade – Piraeus.

By cooperating with China, Serbia has an additional advantage. In realization of Chinese projects, 49% of goods and services could be non-Chinese. This means that our enterprises will work together with Chinese ones. Cooperation is highly developed in the energy sector as well.

The weakest point in Serbian cooperation with China is our inability to profit with the gigantic Chinese market. That is why our trade with China is in chronic disequilibrium. This calamity could be overcome by founding Chinese free industrial zones in Serbia.

Instead of a conclusion, there are two notes.

At first, Serbia should achieve a growth rate of at least 5% or 6% yearly. Otherwise she cannot expect improvement in the living standard of her population. She should have in mind the experience of China. How this country has been succeeding to preserve growth rate of her economy between 7% and 12% for 40 years incessantly?

Second, in trying to speed up economic growth, Serbia must preserve macroeconomic achievements, persistently improve business environment and competitiveness of domestic economy.