China-CEE Institute
中国—中东欧研究院

ISSN: 2560-1601

Vol. 4, No. 2 (RS)

February 2018

Weekly Briefing

Serbia Economy briefing:

Economy Development in Serbia

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
china-cee.eu

1. Macroeconomic developments

Following the growth of 2.8% in 2016, the economic activity continues positive trends in 2017 too, which were somewhat slowed down by extremely unfavorable agro-weather conditions and consequently the decline in agricultural production as well as unfavorable trends in the electricity sector's production at the beginning of the year. The indicator of the economic activity of Serbia (IPAS) indicates that in December 2017 the monthly GDP recorded an annual growth of 2.1%, led by the growth in construction and the services. On the other side, agricultural sector records significant fall, and continues to contribute negatively to the economic growth.

According to the Statistical Office of the Republic of Serbia (SORS) flash estimate, in the last quarter of 2017 real annual GDP growth of 2.5% was achieved. According to Ministry of Finance estimates, on the production side, growth is driven by the service sector and supported by industrial production and construction activity. Agricultural production continued to have a negative impact. Observed from the expenditure side, the dominant source of growth is investment activity with a significant contribution to personal consumption, while the impact of net exports is negative. In Q4 2017, domestic demand growth has accelerated driven by the increase in the household consumption and private investments. That is confirmed by increase in the wages and employment in the private sector, growth of the newly approved credits (cash and housing), increase in retail trade turnover and the estimated value of construction works done. Public investments recorded also positive contribution.

Improving the competitive position of the economy, the steady and growing inflow of foreign direct investments, primarily in export oriented companies, resulted in significant growth in exports and the foreign trade. In Q4 2017 exports is more than doubled compared to the exports in period before crisis (Q4 2008) and it is a driver of the economic recovery.

Total industrial production in December recorded annual increase of 0.5%. Positive trends were also achieved in manufacturing industry and mining, 0.4% and 3.3% respectively, while electricity production decreased by 0.1%. The most significant growth in December was achieved by the chemical industry, 27.1%. Also, the role of growth bearers is maintained by the machinery and electrical equipment production, 19.8% and 14.0% respectively, while the metal industry and the production of tobacco products have registered a stable growth and significant positive contribution.

According to the Labor Force Survey developments on the labor market in Q3 2017 marked improvements. The unemployment rate in Q3 2017 compared to the same period of the previous year decreased by 0.9 p.p. (percentage points) and amounted to 12.9%. In Q3 2017 total number of employed persons increased by 2.4%, in comparison with the same period in 2016. This was mostly influenced by the increase of employment in the industry and services sector. On the other hand, labor productivity in 2017 decreased, primarily as a result of significant decrease of production of agriculture and energy sector, which was caused by the unfavorable meteorological conditions.

Average net salary in December 2017 decreased by 1.3%, in real terms, comparing with December 2016. Decrease of average net salary on yearly basis was mostly influenced by the decrease of salaries in the area of health and transportation. Real average net salary in the public sector decreased in December by 6.2%. At the same time average net salary in the private sector increased by 0.9% in real terms.

Annual inflation in December 2017 was within the limit of the National Bank of Serbia (NBS) target tolerance band (3%±1.5 p.p.). In this period inflation totaled 3%, which was mainly influenced by the price increase of tobacco, vegetables and fruits, oil derivatives, firewood and mobile phone services. As a result of still present low inflationary pressures NBS in January kept key interest rate at the level of 3.50%.

Consumer prices in December 2017 remained the same compared to previous month. Regulated prices in December compared to the previous month were unchanged. Compared to the same month of the previous year regulated prices increased, driven by the price increase of tobacco and electrical energy.

In order to mitigate excessive short-term fluctuations of the exchange rate in December, NBS intervened on the foreign exchange market, by net selling foreign currency in amount of EUR 135 million, net.

Public debt in December of 2017 amounted to EUR 23.2billion, or 61.5% of GDP. The European Commission's report concludes that Serbia's state debt, at the end of November 2017, amounted to 23.4 billion euros or 62.6% of the estimated annual GDP, which is a decrease from 71.9% from the end of 2016.

2. Trade

In December 2017, foreign trade volume increased. Export of goods increased by 0.6%, comparing with the same period previous year and the growth rate of import by 6.0% which led to trade deficit increase by one fifth y-o-y. Export of goods in December 2017 amounted to EUR 1,179.5 million, while import amounted to EUR 1,724.6 million. Deficit was EUR 545.1 million and it has increased by EUR 90.7 million comparing to the same period previous year. The growth of export in December 2017 was mostly determined by growth in exports of base metals, metal products and coke and refined petroleum products (up by 20.8%, 25.6% and 49.2%). Growth of imports was determined by imports of electrical machinery, general industrial machinery and gas. In December 2017 about 68.4% of the imports was covered by export.

In 2017 five most exported groups of products were: electrical machinery and apparatus, road vehicles, vegetables and fruit, unbound metals and rubber products, valued EUR 4,797.0 million (31.8% of total exports). On the other hand, Serbia mostly imported unclassified goods (army goods, goods in storage and goods in free zones), road vehicles and petroleum and petroleum based products, which makes 26.4% of total import in 2017.

The total export value of 15 largest exporters in January 2018 amounted to 347.5 million euros. The largest exporter was HBIS group with export of 70.4 million euros. This company exports iron and steel products. In January 2017, Smederevo steel mill export increased by 70.4% (e.g. EUR 31.1 mill) compared to the same month in the previous year. Second biggest exporter in January 2018 was FIAT, with export of 64.1 million euros. The main exporting product of this company was model 500L.

A new Serbia-Turkey Free Trade Agreement was signed on January 30, 2018. Deputy Prime Minister and Minister of Trade, Tourism and Telecommunications Rasim Ljajic signed an agreement on free trade between the two countries, as well as an Agreement on Stimulating and Protecting Investments, with Turkey's Minister of Economy Nihat Zeybeki. Thanks to this new Free Trade Agreement between the two countries, free exports of Serbian beef will be enabled to 5,000 tons per year. Trade in goods between the two countries in the first 11 months of last year went beyond the record of one billion USD, that is by 21 per cent higher than in 2016. Same Ministry declared in December 2017, that "Cooperation between Chinese company Alibaba and the Ministry of Trade, Tourism and Telecommunications in the fields of online tourism, e-commerce and logistics has been agreed," What exactly this means for Serbian economy stays unclear, but there is a lot of talk from Serbian officials about Alibaba coming to Serbia.

3. Current Issues

The Republic of Serbia has successfully completed the implementation of the three-year fiscal consolidation program through the Precautionary Agreement with the International Monetary Fund (IMF). In December 2017 IMF approved the eighth revision of the arrangement with Serbia, which expired on February 22, 2018. The Board of Executive Directors of the IMF estimated that during the implementation of the agreed economic program, Serbia made significant progress, increased confidence in the market, investment and economic activity. According to IMF estimates, the business environment in Serbia has been improved in conditions of macroeconomic stability and a better regulatory framework, and the continuation of reforms will improve public administration and contribute to more efficient provision of public services.

In January 2018, Serbian news magazine Politika wrote that the US investment fund Kolberg Kravis Roberts (KKR) is definitely the buyer of Telenor mobile network in Serbia and the region. Telenor is biggest FDI in Serbia, with three million subscribers, and in 2006 it was Norwegian investment of 1.9 billion EUR. Considering that KKR has already taken over several cable operators in Serbia, and has a television N1, US capital in the Serbian telecommunications and information market will be a significant factor in the near future.

In January 2018, director of the National Employment Service Zoran Martinovic said that 618,827 citizens are currently unemployed, which is the lowest unemployment in the last 25 years. He stressed that in recent years there has been a huge demand for experts from the IT sector.

A number of state companies, including some who accumulate losses in the Serbian budget, are due for privatization. In January 2018, Serbian Government declared that is preparing a tender for Mining-Smelter Basin (RTB) Bor, a biggest mining company in Serbia. Although several Chinese executives have visited the mines in 2017, it is still a secret which one of them is actually interested in acquiring a share in the Smelting and Mining Basin Bor (RTB Bor). The media have been speculating that that could be the biggest Chinese state-owned copper company, Jiangxi Copper Corporation. RTB Bor is among the strategic firms whose protection from creditors' claims expired at end-May 2016. A local court approved a reorganization plan (UPPR) in July 2016 that prevented the bankruptcy of the company. The UPPR, that covers the parent company and the three subsidiaries, foresees restructuring of EUR 1.2 billion debt so that 90% of the debt will be written off, while the company shall start repaying the remainder after one-year grace period. The plan also foresees reduction of the number of employees by 1,500 over a five-year period starting from 2017.

Serbian Government is preparing a new bill on the production and trade of weapons and military equipment which allows the privatization of factories in the field of defense and defense industries that are of strategic importance to the state. Union of Industry, Energy and Mining is strongly against this Government decision, stating that this Bill should be withdrawn from the parliamentary procedure. Serbia is net exporter of weapons and military equipment, and the production and export of weapons have always been strongly controlled and planned by the state.

In January 2018, The World Bank officials in Belgrade said that Serbia should sell many state-owned companies. In their opinion Serbia has around 600 state-owned companies, which is too much for any country. The World Bank claims that in some sectors, the largest state-owned companies are destroying these sectors, being either subsidized or otherwise protected. They said that last year subsidies of the state amounted to 2.6% of GDP, and that in 2018 it would be 2.5%. This is a much smaller amount than before like in 2012 it was 4.1% of GDP.