



Weekly Briefing

Serbia Economy briefing:
Chinese HBIS Group biggest Serbian exporter
IIPE


China-CEE Institute

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This paper is divided into three parts. In the first part are presented the basic macroeconomic indicators for the first quarter of 2018, and an overview of growth of the Serbian economy and the stability of its finances. Second part deals with Serbian foreign trade. In this part of paper we presented 15 biggest Serbian exporters in the observed period, and explain why Chinese HBIS Group is the biggest Serbian exporter, even though nominally it is on the second place. The third part is dedicated to current issues that emerged in the Serbian economy in May 2018.

1. Macroeconomic developments

According to Ministry of Finance in March 2018, the monthly GDP recorded an annual growth of 5.3% that was led by the strong growth in the services sector and construction. These two sectors have contributed to GDP growth with 2.3% and 1.2%, respectively. According to the Statistical Office of the Republic of Serbia (SORS) flash estimate in the first quarter of 2018 real annual GDP growth of 4.5% was achieved. Since the end of the last year construction is becoming a significant contributor to economic growth in Serbia. It is expected that the growth in 2018, will be driven by the service and industrial sectors with a significantly higher positive impact of construction. Since the beginning of the 2018 an increase of the number of building permits issued of 28.7% was recorded. Observed by types of constructions, the number of permits issued for buildings increased by 37.5%, while permits for other constructions increased by 7.1% and they refer to infrastructure.

Total industrial production in March recorded an increase of 4.1% compared to the same period last year. In the first quarter of 2018, the total industry increased production volumes by 5.9% compared to the same period

last year. This growth in industry production was driven by increasing the production of the manufacturing industry by 5%, which contributed with 3.6 percentage points. A significant contribution, of 2.1 percentage points was also given by the production of electricity, which in this period is higher by 10.9% compared to the same period last year. Mining also recorded growth and with a 3% increase in volume, gives a slight positive contribution.

Development in the services and construction sector was recorded. Retail trade turnover in the first three months of 2018 increased by 3.2%, in real terms. At the same time, Serbia was visited by more than 580 thousand tourists (11.1% more than in the same period 2017), with more than 1.7 million overnight stays. In the first two months of 2018, foreign currency inflow from tourism amounted to EUR 156 million and was 23.7 million higher than in the same period of the previous year.

Public debt in March of 2018 amounted to EUR 23.7 billion, or 59% of GDP. Serbia is still a country with relatively high general government public debt ratio, in comparison with EU countries. However, set of fiscal consolidation measures along with IMF arrangement implementation are reversing these trends. Fiscal surplus was achieved in 2017 and public debt level is gradually stabilizing.

2. Foreign trade

The steady and growing inflow of foreign direct investments during the first quarter of 2018, primarily in export oriented companies, resulted in significant growth in exports and the foreign trade. In the first quarter of 2018, exports is more than doubled compared to the exports in the period before crisis that started in 2008, and it is a driver of the economy recovery. During this quarter of 2018, total value of Serbian export of goods was EUR 3.8 billion, while the total value of import was EUR 5 billion. This is approximately an increase of 9% of export and 12% of import of goods in Serbia, comparing to

the same quarter of previous year. Therefore, trade deficit also increased, and in the first quarter of 2018 was EUR 1.2 billion.

Observed by classification of activities, export growth in the first quarter was mostly determined by higher exports of basic metals, rubber and plastic products and motor vehicles. On the other hand Serbia has decreased export of food products during this period. One half of import was generated by higher import of intermediate goods, and one fifth was generated by higher imports of capital goods. Electrical machinery was one of the most exported goods, with share in total export of goods of 10.8%. Five most exported groups of products were: electrical machinery and apparatus, road vehicles, iron and steel, rubber manufactures and non-ferrous metals. Export of these products in first quarter of 2018, valued EUR 1.3 billion, which was 35.3% of total exports. During this period coverage of imports by the exports of goods amounted to 75.4%.

The total export value of 15 largest exporters in the first four months of 2018 amounted to EUR 1.5 billion. Nominally the largest exporter is still FCA Serbia, followed by HBIS group and Tigar Tyres. FCA Serbia (Fiat Chrysler Automobiles Serbia) is a joint venture between Fiat, which owns 67% of the operation and the Republic of Serbia, which owns the remainder, and it operates in a free customs zone. Considering that the main export product of this company is Fiat 500, which is only assembled in Serbia, and almost all of its components are imported without paying customs duties and VAT, adding to that, this company is subsidized by the state every year in almost double the amount of profits that it generates, we can safely claim that Chinese HBIS is the biggest Serbian exporter and currently biggest FDI contributor to Serbian economic growth. In the first four months of 2018, HBIS group (Smederevo steel mill) export increased by more than two fifths (e.g. EUR 80.6 million) compared to the same period of the previous year.

This is now the most important foreign direct investments in Serbia, and the first major one that came from China. From July 2016 Smederevo steel mill company was replaced by a new company Hesteel Serbia Iron & Steel d.o.o,

which in April 2017 changed name to HBIS GROUP Serbia Iron & Steel d.o.o. After Hesteel took over the loss-making plant, in 2017 revenue rose to \$750 million, from \$433 million a year earlier. The plant has a maximum capacity of 2.2 million tons. The company expects the revenue to rise to \$1 billion (EUR 848 million) in 2018 from \$750 million in 2017, and \$433 million in 2016.

Table 1- 15 BIGGEST SERBIAN EXPORTERS IN PERIOD JANUARY-APRIL 2018

NAME OF THE EXPORTER	LOCATION	Export (EUR mill)
FCA SRBIJA D.O.O.	KRAGUJEVA C	303.3
HBIS GROUP SERBIA IRON & STEEL D.O.O. BEOGRAD	BEOGRAD	263.8
TIGAR TYRES	PIROT	135.4
NAFTNA INDUSTRIJA SRBIJE	NOVI SAD	114.0
DRUSTVO ZA TRGOVINU ROBERT BOCH	BEOGRAD	82.7
TETRA PAK PRODUCTION	BEOGRAD	70.2
HIP -PETROHEMIJA	PANČEVO	68.7
GRUNDFOS SRBIJA	INĐIJA	61.6
HEMOFARM	VRŠAC	58.9
LEONI WIRING SYSTEMS SOUTHEAST	PROKUPLJE	57.6
RTB BOR -GRUPA RUDARSKO-TOPIONIČARSKI BASEN BOR	BOR	55.2
YURA CORPORATION	RAČA	54.2
HENKEL SRBIJA	BEOGRAD	54.0
AIR SERBIA	BEOGRAD	50.2
GORENJE	VALJEVO, STARA PAZOVA	44.4

Source: Ministry of Finance, Republic of Serbia

The overall external trade of Serbia in the first quarter of 2018 amounted EUR 8.9 billion, which is increase of 10.7% comparing to the same period last year. The largest trading partners are still Italy and Germany. Exports to these

countries accounted for 27% of total exports and import from Italy and Germany represents 22.7% of total imports. During this period Serbia had foreign trade surplus with CEFTA members (Bosnia and Herzegovina, Montenegro, Macedonia, Moldova, Albania, and UNMIK Kosovo). With EU countries comes about two-thirds of foreign trade, but Serbia had trade surplus only with some EU countries: Bulgaria, Croatia, Romania, Slovenia, Italy, Slovakia, Great Britain and Sweden. In the first quarter in 2018, Serbia recorded a surplus of EUR 597.8 million in goods trade with these countries. In the first quarter in 2018 export to EU was increased by around EUR 200 million compared to the same period last year.

3. Current Issues

At the beginning of May 2018, Serbian Finance Minister Dusan Vujovic, who lead the Serbian economy through a three-year austerity program, stepped down, citing personal reasons. Vujovic took office in August 2014 in the government of then-Prime Minister Vucic, leading the country through an International Monetary Fund program that cut state spending and turned the biggest budget gap in Europe of 8.7% of economic output in 2014 to a surplus in 2017. The newly-appointed finance minister Sinisa Mali, said that he would continue working on economic reforms and preserving the financial discipline, underlining that he would actively work on accelerating economic growth and improving the economic environment in Serbia. Sinisa Mali said he will continue the cooperation with IMF and government's responsible fiscal policy which supports macro-economic stability. Serbia's new Finance Minister Sinisa Mali told that his goal is not just to keep the treasury safe but also to secure money for development projects, adding that money has to be found for infrastructure investments, new factories and new jobs. Mali said the most important thing is for the public debt to drop below the level of 50 percent of the GDP. He also added that there is room to raise salaries and pensions this year.

In February 2018, the IMF said Serbia exited a successful \$1.32 billion (1.08 billion euro) three-year stand-by program. After three years of effort under the program, Serbia's economy has turned around, as fiscal accounts recorded a surplus in 2017, economic confidence improved with stronger investment both from foreign and domestic sources, while unemployment is near historic lows, and falling, banks are solid, and non-performing loans are now below their pre-crisis levels, the IMF said. In February 2015, the IMF approved a 36-month stand-by arrangement (SBA) aimed at helping Serbia restore public finances' health, increase the stability and resilience of the financial sector and implement comprehensive structural reforms.

Probably the biggest economic issue in Serbia in May was the gas prices. During that month, the petrol price went up 4.8% and diesel fuel 6.2%. At the same time, average net wage growth in Serbia was 3.3%, while the real net wage went up 3.2%. The discrepancy made consumers planning a protest, but Serbia's government reacted promptly by saying it was considering to lower the prices. Aleksandar Antic, Mining and Energy Minister, said that he hoped that the world oil price would go down, what in turn could reduce the fuel cost in Serbia and even if that did not happen, the government could take some measures to lower the fuel prices. The cost for 95 octane petrol is about EUR 1.3 Euros per litre, while for a litre of diesel one has to pay over EUR 1.3. State's part (that includes tax, excises and the VAT) in the petrol price goes up to 55.2%, while in the cost of the diesel fuel it reaches 53.8%.

Another economic issue was related to agriculture. At the beginning of June, hundreds of Serbian raspberry producers blocked a main road to neighboring Montenegro for a couple days pressing for higher wholesale prices. Serbia is a major producer of fresh and frozen raspberries, behind Russia, the United States, Poland and Mexico. The protesters wanted the state to intervene against wholesale buyers, which also own refrigerating facilities, and impose a price rise. According to official statistics, total production of raspberries was

109 thousand tons last year and Serbia exported almost 100 thousand tons, worth EUR 241.1 million.

Conclusion

Watching the first quarter of 2018, and the development of Serbia's economy, the overall conclusion is that Serbia is at the steady road to economic recovery, led by the strong growth in the services sector and especially construction. Construction is becoming an increasingly important factor in the development of the Serbian economy. There is a significant increase in the permits granted for the construction, especially for residential and office buildings, but also for infrastructure. Considering the foreign trade of goods in observed period, Serbian trade deficit increased, and in the first quarter of 2018 was EUR 1.2 billion. This is consequence of an increase of 12% of import and only 9% of export of goods, comparing to the same quarter of previous year. The most important conclusion is that biggest Chinese FDI in Serbia, HBIS group that controls Smederevo steel mill, is also the biggest exporter of Serbian products and therefore, currently the biggest FDI contributor to Serbian economic growth.