



Weekly Briefing

Serbia Economy briefing:
SUMMARY OF ECONOMY SERBIA IN 2018
IIPE

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Abstract

Real economic growth of 3.7 percent in the first three quarters and the expected annual GDP growth of 4.4 percent is just one of many positive trends that has been characterized the Serbian economy in 2018. Besides that, Serbia has low inflation, budget surplus, (modest, but surplus) in the amount of 0.6% of GDP. Public debt is 54.1% of GDP, foreign investments 2.2 billion EUR. Export of processing industry has significant growth rate and unemployment has been reduced on level 11.3%.

Nevertheless, despite positive trends, the Serbian economy is still fragile, burdened with a fresh exit from the package of state austerity measures and fiscal consolidation, with the severe inheritance of large state-owned enterprises with poor business results. Economic growth, although significant in percent, is still insufficient to bring more significant "push" for economic development that can raise Serbia to the level of more developed countries in the region. One of the most important 2018 investments, the Belgrade "Nikola Tesla" Airport concession has not yet been realized (December 15th), although it is announced that the French concessionaire should pay a one-time fee in September. From the point of private consumption, important data is that the average salary per capita is still barely enough for a minimum consumer basket.

In 2018, Serbia concluded one arrangement with International Monetary Fund in February, and made the new one in July. State savings measures are no longer applied and pension reductions that were applied till the end of 2014 have been abolished, while public sector employees will successively reach their level of salaries from before fiscal consolidation.

Concluded arrangement with IMF was worth around 1.2 billion euro, and

the new one, that was made on July 18, is so called 30-month Policy Coordination Instrument (PCI - available to all IMF members that do not need Fund financial resources at the time of approval. It is designed for countries seeking to demonstrate commitment to a reform agenda or to unlock and coordinate financing from other official creditors or private investors).

Economic growth

The real GDP growth in the third quarter of 2018, compared to the corresponding period of the previous year amounted 3.8%, according to Statistical Office of the Republic of Serbia - SORS.

GDP increased by 0.5% in the third quarter of 2018, compared to the previous quarter.

Observed by activities, in the third quarter of 2018, compared to the same quarter of the previous year, significant real growth in the gross value added was recorded in the section of agriculture, forestry and fishing – 15.9%, section of construction – 7.0%, and the section of wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage and accommodation and food service activities – 6.1%.

Observed by expenditure aggregates, in the third quarter of 2018, compared to the same quarter of the previous year, real growth was noted as follows: the household final consumption expenditure – 3.3%, the non-profit institutions serving households (NPISH) final consumption expenditure – 3.6%, the general government final consumption expenditure – 4.0%, gross fixed capital formation – 7.0%, the exports of goods and services – 9.1% and the import of goods and services – 11.2%.

In its latest autumn 2018 Economic Forecast, the European Commission revised upward the GDP growth projection for Serbia from 3.3% to 4.1% for 2018 and from 3.5% to 3.8% for 2019, in response to a vigorous investment growth and

rising employment and wages.

The last prediction (estimation) of Serbian Ministry of Finance, that was given during the presentation of the strategic document "Economic Reform Program and Presentation of the Preliminary List of Structural Reforms 2019-2021" in Belgrade was that the "Government of Serbia intends to continue its policy of stimulating growth of GDP in the next three years, which is expected to be 4.4 percent by the end of this year".

Inflation in Serbia is low, and the Key Policy Rate stay unchanged - 3%. At its meeting on December 6th, the NBS Executive Board National Bank of Serbia voted to keep the key policy rate at the same level. In making this decision, the Executive Board took into account primarily the outlook for inflation and its factors, as well as the effects of past monetary policy easing.

Inflation continued to move within the target tolerance band, measuring in October 2.2% year on year. In the coming period too, inflation is expected to remain stable within the target tolerance band ($3.0 \pm 1.5\%$), its movements reflecting mainly the steady rise in aggregate demand. Both the financial and corporate sectors expect that the achieved price stability will be maintained, as signaled by their inflation expectations anchored around the 3% target for both one and two years ahead.

On October 31, 2018, General Government Debt amounted to EUR 24,614,097,864 out of which Public Debt amounted to EUR 24,294,108,101 and Non-Guaranteed Local Government Debt EUR 319,989,763. Public Debt to GDP ratio is 56,7% on October 31st. According to Ministry of Finance, December ratio is 54,1% GDP.

Trade

The overall external trade in the Republic of Serbia for the period January - October 2018 amounted to EUR 31682.8 million - which was an increase of

11.3% compared to the same period 2017. (in USD it was 37700.4 million USD- which was an increase of 18.3% compared to the same period 2017). The value of exports was EUR 13603.2 million, which was the increase of 8.3%, compared to the same period last year. The value of imports amounted to EUR 18079.6 million, which was 13.7% increase when compared to the same period last year. The deficit was 4476.4 million EUR (33.9% increase, compared to the same period last year). The export - import ratio equaled 75.3% and was lower if compared to the same period last year when it was 79.0%. The external trade in the reference period noted the highest level with the countries with which Serbia have signed agreements on free trade. European Union member countries account for 63.6% of total external trade. SORS data shows that Serbian second major partner refers to the CEFTA countries, since Serbian gained surplus of EUR 1621.9 million of Euros in external trade, resulting mainly from the exports of agricultural products, iron and steel, oil and oil derivatives and metal products.

High growth rates of manufacturing exports endured (9.8% year-over-year), while the rise in imports (13.1% year-over-year) resulted mainly from increased needs of corporates for equipment and intermediate goods, reflecting the current investment cycle ("Inflation report" - National Bank of Serbia).

In the first nine months of 2018, the total industry recorded stable growth of 2.3%, compared to the same period in previous year - announced Ministry of Finance in Macroeconomic and Fiscal Data (published November 2018). As it says, the most significant contribution came from the manufacturing industry, which grew by 2.7%, and contributed positively by 1.9 p.p. In the same period, electricity production has increased by 3.6% which contributes by 0.6 p.p. while mining and quarrying production remains slightly negative.

Growth of goods export in September 2018 amounted 1.5%, followed by

high value of imports (10.7%), but mainly of raw materials and equipment for the needs of the economy, which indicates the continuation of the started investment cycle.

The total export value of 15 largest exporters in the period January-October 2018 amounted to 3.7 billion euros. The largest exporters are FCA Serbia, followed by HBIS group and NIS.

Labor market

During the third quarter of 2018, registered number of the employed reached the level of 2 146 842 persons, and unemployment has been reduced on level 11.3%.

Average gross salaries and wages calculated for September 2018 amounted to 66251 dinars, while average net salaries and wages amounted to 47920 dinars. According to SORS, in the period January - September 2018, average net salaries and wages increased by 6,2% in nominal terms and by 4,2% in real terms compared to the same period last year.

From the point of private consumption, important data is that the average salary per capita is still barely enough for a minimum consumer basket. Data of Ministry of Trade, Tourism, and Telecommunication shows that average consumer basket in September was 70743.37 dinars (or 1.48 average net salary), while the minimum consumer basket for the same month was 36646,12 dinars (or 0,76 average net salary).

EU Chapters

In the first half of December, Serbia opened two new chapters in its accession talks with the EU: Chapter 17 – Economic and monetary policy and Chapter 18 – Statistics (at the Intergovernmental Conference held in Brussels

December 10th). Sixteen chapters, of 35 in total, have now been opened for negotiations, of which two chapters have already been provisionally closed. NBS is the lead institution for Chapter 17 – Economic and monetary policy.

In Serbian central bank consider that investors' perception of Serbia is favorable - net capital inflow in the first nine months of this year was 2.2 billion of Euros, including mostly foreign direct investment (1.8 billion of Euros).

Banking sector

The Serbian banking sector numbered 28 banks, at end of the June 2018, which is one bank less than at end of the March 2018. Now, there are 27 banks in Serbia, and the consolidation is not over yet -at least three banks are waiting for new investors-owners.

The significant news in banking sector is also Instant Payments System - IPS, operated by the NBS, starting October 22. "This is a state-of-the-art system, operational 24/7, 365 days a year, enabling transfers within a few seconds only" - says in NBS.

The IPS system enables dinar transfers of up to 300,000 dinars per transaction within a few seconds only. NBS announced that initially, banks will be obligated to provide clients with at least one channel for instant credit transfers (e.g. a mobile phone or e-banking app), and by 1 April 2019 they will have to enable instant payments through all available channels for initiating payment transactions. By no later than 1 April 2019, banks which allow the issuance and acceptance of payment instruments to clients at points-of-sale will also have to enable the instant payment service at all brick-and-mortar and virtual points-of-sale. Buyers will be able to make the payment using the QR code. Besides that, the IPS system also enables the use of the central address scheme and invoice data download.

In June 2018, it was announced that Serbian Postal Saving Bank (Banka

Poštanska štedionica) started to accept Union Pay International cards. The launch of Union Pay operations allows Chinese citizens to use their bank cards for withdrawing cash at the ATMs of Postal Saving Bank.

Airport concession

The concession contract of the Belgrade airport Nikola Tesla for 25 years was signed on March 22th 2018, with the French company Vinci Airports. Total value of transaction is around 1,46 billion Euros, which includes one/off fee, minimum annual concession fees and capital investment. Although it was announced that the financial closing of a transaction will be in September, with EUR 501 million onetime concession fee (Republic of Serbia EUR 417 mil, and small shareholders EUR 84 mil) it didn't happen yet (December 15th 2018). In October media published that the European Bank for Reconstruction and Development is considering approving a loan of up to 100 million euros for the Nikola Tesla airport concessionaire in Belgrade this year...

Chinese investments

Serbia is the biggest partner of China in the Balkans. It is the part of the biggest project in the world - "One Belt and One Road" , which gives chance to Serbian companies to work together with Chinese ones. September 2018 was a record-breaking month for Chinese investments in Serbia. China so far invested around USD 6 billion and new agreements are worth USD 3 billion. Two main projects worth 2.3 billion dollars are the part of this deal: new tire factory that will be built by Shandong Linglong Tire Co. in city of Zrenjanin (worth USD 900 millions), and the strategic investment of Zijin Mining Group in mining Bor worth 1,46 billion dollars. There are also 100 million for building a factory for fabrication of zinc in Zrenjanin (probably Shandong Linglong Tire Co in cooperation with their business partners); agreement for preferential credits for

high speed road Preljina – Pozega and detour around Belgrade from Ostruznica to Bujanj Potok (Sinohydro); Ikarbus company from Serbia (production of busses) will have a partner from China – deal worth 2.6 million dollars.

Privatization

The Chinese company Zijin Mining Group Co. Ltd. has won the Serbian state tender for strategic partner for RTB Bor - Serbia's mining and smelting Combine Bor. Privatization of this large state-owned company will be officially finalized early next year by Zijin taking a 63% of RTB Bor. It is expecting that this company become the key force in the development of Serbia's industrial sector.

Belgrade Agriculture Corporation (PKB) is being sold to Al Dahra Company from the United Arab Emirates. Company has its three subordinate companies – Eko Lab, PKB Agroekonomik and PKB Veterinary Station. Serbia's Commission to Protect Competition allowed this sale, announced that it will not upset competitiveness on the Serbian market in the production and sale of milk, grain, seed and apples, cattle production, laboratory and veterinary services because Al Dahra is only involved in the production and sale of apples in Serbia. The price is 105.05 million of Euros. Media says - the estimated value of PKB assets, according to the audit company Deloitte, is about 208 million euros, and the starting price was 104.5 million euros...

Conclusion

Serbian economy grows, and mark positive trends, but it is still fragile, not completely recovered from transition periods. It is expecting GDP grow 4,4% for 2018, but for the next year the projection is lower - Ministry of finance is planning GDP growth of 3.5 percent, which is not enough to rise Serbia economy to the level of more developed countries in the region.