



**HYPO ALPE ADRIA**  
SA VAMA. UZ VAS. ZA VAS.



March 2013 ▲

February 2013 ▲

January 2013 ▲

December 2012 ▲

November 2012 ▲

October 2012 ▲

September 2012 ▲

August 2012 ▲

# ECONOMIC DIGEST

Finance and Market Trends Guide

8,632,724	7.7%
59,087	0.1%
13,963,095	12.4%
5,266,055	4.7%
10,323,178	9.2%
5,283,470	4.7%
4,330,582	3.8%
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RSD

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## Overview

The economic activity in Q4 2012 dropped by 1.5% yoy (according to the Serbian Statistical Office flash estimate), thus shaping a full 2012 contraction of 1.7% yoy. The Q4 2012 contraction was most probably affected by weakening domestic demand, which was curbed by growth in net exports in the same period up to some extent. During the Q4 2012 industrial production rose, a trend which continued in January 2013 (when it grew by 2.4% yoy). The largest positive contribution to this trend was made by growth in automotive and pharmaceutical sectors, but this effect is somewhat offset by a fall in production of the traditionally important food processing industry (which falters probably on the drastically decreased input production, i.e. of the agricultural products, following the last summer's drought).

The abovementioned trend of growth of industrial production and net exports, the announced investments in several infrastructural objects (such as the road infrastructure at Corridors X and XI and railway infrastructure at several spots), and a better agricultural season this year (after an extraordinary bad last year's season), will all make positive contributions to GDP growth this year. Also, in the Euro zone, which is the most important Serbian trade partner, optimism has been growing in the markets along the late 2012 and early 2013 (as suggested by the surge in the so called ZEW index of sentiment). Hence there may be room for a spill-over of this effect via the channel of export demand onto the domestic economic activity. However, these effects might be curbed by a low domestic demand as an effect of the fiscal consolidation, absence of credit growth and larger inflows of foreign direct investments (FDI). Bearing all the aforementioned in mind, GDP might attain modest growth of app. 1% along 2013.

Export growth rate sped up during the late 2012, while the imports slowed down, hence reversing the trend of rise of goods trade deficit, visible in the first part of the year. Exports thus grew by 4.7% yoy in 2012, while imports grew by 3.7%. Change in trends in foreign trade had an effect on a gradual narrowing of current account deficit in the later part of 2012. In the first eleven months of 2012, the deficit of the current account attained EUR 2.75 billion, i.e. 10.2% of GDP (i.e. it grew by 15% yoy). This deficit's coverage was inadequate in this period, bearing in mind that in that period portfolio investment inflows were at EUR 1.6 billion, net FDI inflows at EUR 140 million and net foreign deleveraging outflows at EUR 110 million, causing FX reserves to fall (it fell by EUR 900 million along 2012). The aforementioned improvement in foreign trade might continue into 2013, although limited by (still) fragile demand in the Euro zone, and by faltering production of agricultural products and foodstuffs. Hence a slight current account deficit in 2013 is possible in comparison with 2012.

Dinar continued strengthening since the 2013 beginning. From the level of 113.7 at the end of 2012, it shifts towards 111.4 at the end of February 2013. The strengthening is probably supported by: (i) elevation of the monetary restrictiveness in that period (REPO rate was hiked by 80 basis points between December 2012 and February 2013), (ii) return to reverse REPO operations in December 2012 (REPO stock grew to RSD 70 billion since its reintroduction until end February), (iii) growth in foreign investors' interest in domestic T-bills and (iv) approval of EUR 190 million loan to Srbijagas at the end of 2012. However, this trend might overturn in midterm, mostly under influence of a still significant current account deficit, hence making dinar lose app. 5% nominally until the end 2013.

Prices resurged in January 2013 by 0.6% mom, after a 0.4% mom deflation in December and stagnation in November. Hence the inflation speeds up to 12.8% yoy in January 2013 (12.2% yoy in December 2012, 11.9% yoy in November 2012), which is 7.3 percentage points above the upper band of the NBS' targeted corridor (of  $4 \pm 1.5\%$ ). During the first half of 2013 one may anticipate inflationary pressures from the surge in some administered prices (gas prices increased by 10% in February and electricity prices, according to announcements, might be increased by 10-12%, possibly in April). Inflation would hence peak at 13% yoy at the beginning of the Q2 2013, and then slow down towards 7% at the end of 2013, driven by low domestic demand and high basis effect from the second half of 2012 (presupposing an absence of a food-price shock).

Despite an inflationary slowdown in the last three months, the NBS hiked the REPO rate in February 2013 too, by 24 basis points to 11.75%. Hence the monetary tightening cycle continues, during which the REPO rate has been increased by a total of 225 basis points between June 2012 and February 2013. In the same time, the scope of RSD liquidity withdrawals via reverse REPO operations grew along 2013, and after the 27th February auction it attained RSD 70 billion (RSD 15 billion more than at the last auction). In any case, the reverse REPO auctions, aiming to mop up excess RSD liquidity from the system, were reintroduced in mid December 2012. The interest rates at these auctions averaged 9.4% in February 2013, i.e. 235 basis points below the REPO rate, pointing to a significant RSD liquidity within the system.

Credit activity has been slowing down since December 2012, and in January 2013 it attained a modest 1% yoy growth (+0.4% yoy with cross border loans included), after a speedup episode between September and November 2012 (when it was growing by an average of 6.3% yoy). The foreign borrowing of the domestic companies amounted to EUR 73 million during the first eleven months of 2012 (EUR 415 million deleveraging along 2011).

Central state fiscal deficit in 2012 was almost by a half larger than in 2011 (it attained RSD 192 billion, or 5.7% of GDP) due to expansive fiscal consumption (related to the last May's elections). The necessary measures of fiscal consolidation (including hikes on VAT, income tax and excise duties) were enacted in October 2012, and owing to these, 2013 budget deficit is planned at 3.3% of GDP (i.e. RSD 122 billion).

State's financing needs in 2013 will be financed via borrowing at (i) foreign debt market (i.e. through Eurobond issuances, o/w the first, USD 1.5 billion worth was issued in February 2013, and the other is announced for the rest of the year), (ii) domestic debt market (i.e. via T-bills issuances, whose stock grew by RSD 3 billion along the first two months of 2013), and (iii) bilateral agreements with foreign governments and international financial institutions (such as the Russia's USD 1 billion loan, currently in discussion). Hence the public debt, which attained app. 62% of GDP at end February 2013, will keep growing along 2013, to a level of app. 65% of GDP.

# Macroeconomic trends

Table 1. Macroeconomic overview

	2009	2010	2011	2012*	2013**	Dec 12	Jan 13	Feb 13
<b>Economic activity</b>								
GDP, RSD billion	2,720	2,882	3,175	3,339	3,714	...	...	...
GDP, EUR billion	29.0	27.8	31.1	29.4	31.7	...	...	...
Real growth of GDP, y-o-y rates	-3.5%	1%	1.6%	-1.7%	1%	...	...	...
GDP per capita, in EUR	4,150	4,230	4,557	4,140.9	4,365.2	...	...	...
Industrial production volume (cumulative), growth rate y-o-y	-12.6%	2.5%	2.1%	-2.9%	0.5%	0.7%	...	...
<b>Prices and exchange rate</b>								
Inflation (CPI), y-o-y (end of period)	6.6%	10.3%	7.0%	12.2%	7.0%	12.2%	12.8%	...
EUR / RSD exchange rate (end of period)	95.89	105.49	104.64	113.72	117	113.72	111.60	...
<b>Labour market</b>								
Unemployment rate, ILO definition	16.6%	19.2%	23.7%	22.4%	25.5%	...	...	...
Average net salary, in EUR	338	332	372	366	366	366	350	...
<b>Foreign trade and balance of payments</b>								
Exports, in EUR billion	6.0	7.4	8.4	8.8	9.4	0.8	...	...
Imports, in EUR billion	11.5	12.6	14.3	14.8	15.2	1.4	...	...
Trade deficit, in EUR billion	-5.5	-5.2	-5.8	-5.9	-5.9	-0.6	...	...
Trade deficit, % GDP	-19.1%	-18.8%	-18.7%	-20.2%	-18.9%	...	...	...
Current account deficit, in EUR billion	-2.1	-2.1	-2.8	-3.0	-2.8	...	...	...
Current account deficit, % GDP	-7.2%	-7.5%	-9.1%	-10.2%	-9.0%	...	...	...
FDI, net, in EUR million	1,113	762	1,514	200	600	...	...	...
<b>Fiscal indices</b>								
Budget revenues of Central state, in RSD billion, cumulatively	651.2	712.2	744.8	788.5	...	69.1	66.4	...
Budget expenditure of Central state, in RSD billion, cumulatively	746.5	820.1	877.3	980.4	...	99.7	73.4	...
Budget deficit of Central state, in RSD billion, cumulatively	-95.3	-107.9	-132.5	-191.9	-150.0	-30.6	-7.0	...
Budget deficit of Central state, in % BDP, cumulatively	-3.5%	-3.7%	-4.2%	-5.7%	-4.0%	...	...	...
Public debt in % GDP	37.4%	44.7%	47.6%	61.0%	65.0%	61.0%	60.0%	...
<b>Monetary indices</b>								
Dinar money supply M2, in RSD billion	437	410	488	481	486	481	449	...
Total money supply M3, in RSD billion	1,206	1,361	1,500	1,642	1,686	1,642	1,580	...
Dinar money supply M2, growth rate y-o-y	10.6%	-6.0%	18.9%	-1.5%	1.0%	-1.5%	-3.2%	...
Total money supply M3, growth rate y-o-y	21.5%	12.9%	10.3%	9.4%	2.7%	9.4%	6.6%	...
Loans to private sector, in EUR billion	13.4	15.4	16.7	16.8	16.7	16.8	16.8	...
Loans to private sector, incl. cross-border, in EUR billion	23.8	25.0	25.7	26.3	26.0	...	...	...
Domestic loans (adjusted by exchange rate change effect), growth rate y-o-y	10.2%	19.6%	8.3%	0.4%	-0.6%	3.5%	1%	...
Domestic and foreign loans (adjusted by exch. rate change effect), growth rate y-o-y	7.7%	7.1%	3.0%	2.3%	-1.0%	3.3%	0.4%	...
FX savings, in EUR billion	5.9	6.9	7.4	8.0	8.7	8.0	8.1	...
Repo rate, end of period	9.50%	11.50%	9.75%	11.25%	9.00%	11.25%	11.50%	11.75%
Belibor 6M, end of period	10.94%	13.80%	11.38%	12.21%	10.50%	12.21%	11.89%	...
<b>International indices</b>								
Real GDP growth in the Eurozone, y-o-y	-4.4%	2.0%	1.4%	-0.5%	0.0%	...	...	...
Unemployment rate in the Eurozone, ILO definition	9.6%	10.1%	10.2%	11.3%	11.8%	...	...	...
Reference int. rate of the European Central Bank, end of period	2.8%	2.0%	2.0%	0.75%	0.75%	0.75%	0.75%	0.75%
EUR / CHF exch. rate (end of period)	1.48	1.25	1.22	1.21	1.23	1.21	1.23	...
EUR / USD exch. rate (end of period)	1.43	1.34	1.30	1.32	1.26	1.32	1.36	...
Real growth of GDP in Bosnia and Herzegovina, y-o-y	-2.9%	0.7%	1.8%	-1.8%	-1.3%	...	...	...
Real growth of GDP in Croatia, y-o-y	-6.9%	-1.4%	0.0%	-2.0%	-1.5%	...	...	...
Real growth of GDP in Hungary, y-o-y	-6.6%	1.2%	1.7%	-1.6%	0.1%	...	...	...
Real growth of GDP in Russia, y-o-y	-7.8%	4.3%	4.3%	3.4%	3.3%	...	...	...
Real growth of GDP in Slovenia, y-o-y	-8.0%	1.4%	-0.2%	-2.5%	-2.2%	...	...	...
Real growth of GDP in Turkey, y-o-y	-4.8%	9.2%	8.5%	3.0%	4.0%	...	...	...

\*estimate, \*\* forecast

Source: NBS, Serbian Statistics Office, Ministry of Finance, Bloomberg, Economic Research of Hypo Alpe-Adria-Bank (hereinafter: Hypo Research)

## Economic activity

- GDP fall in Q4 2012 amounted to 1.5% y-o-y (according to flash estimate of the Serbian Statistics Office), after the contraction of 1.8% y-o-y from Q1 to Q3 2012. Should the flash estimate for Q4 2012 materializes, fall of GDP in 2012 would amount to 1.7%.
- Drop in economic activity in the last quarter of 2012 was most probably caused by decrease of the local demand (both final and state consumption), partially compensated by acceleration of growth of net exports in the period.
- In 2013 GDP could grow around 1%, influenced by growth of net exports (from October 2012 visibly stimulated by exports of the car industry), but this influence will most probably be limited by weak domestic demand.

## International environment

- In the key European economies, in Q4 2012 a GDP fall was recorded in Italy, France and Spain, while a slowdown is visible in Germany.

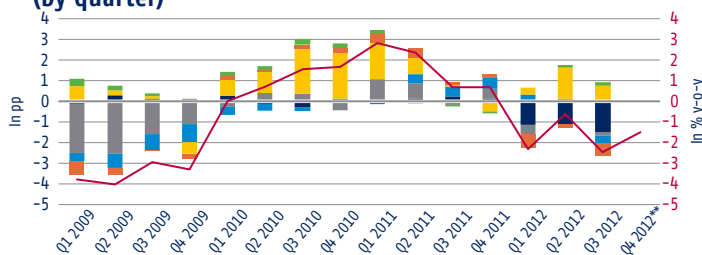
Table 2. Real GDP growth, by sectors

	2010	2011	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	2010	2011	Q1-Q3 2012
	GDP growth by years y-o-y		GDP growth by quarters y-o-y							Share in GDP		
Agriculture, forestry and fishing	-0.4	0.9	-1.6	0.9	2.2	1.3	-18.2	-16.4	-17.1	9.5	9.1	8.2
Mining	2.9	9.0	6.1	15.8	0.5	14.8	-0.6	-7.7	-0.6	1.4	1.8	1.6
Manufacturing industry	0.9	0.6	6.2	1.8	-1.9	-2.3	-3.1	3.2	-0.4	13.9	13.7	13.6
Electricity, gas and steam supply	-4.4	9.7	7.5	13.0	1.5	16.6	-3.4	-14.6	-4.3	2.9	3.5	3.0
Water supply and management	-0.1	1.9	0.0	0.4	0.7	1.3	0.6	1.0	0.9	1.1	1.2	1.2
Construction	-7.8	7.7	-0.3	12.4	12.3	13.2	11.2	3.1	-9.9	4.7	5.1	3.5
Retail and wholesale trade and vehicle repair	1.7	-5.5	-1.5	-6.4	-9.2	-8.1	-2.1	2.0	1.2	9.6	9.3	9.6
Traffic and warehousing	8.3	3.1	8.6	2.9	2.2	-1.3	-5.2	4.1	1.3	4.5	4.3	4.2
Accommodation and catering	-3.3	1.8	5.3	3.8	1.3	-1.2	3.5	-4.4	-3.3	0.9	0.9	0.9
Information and communications	5.7	8.4	8.5	11.1	12.6	10.3	10.9	11.7	3.7	4.1	4.2	4.6
Financial and insurance business	4.9	1.0	4.6	-0.3	-1.6	-2.7	0.1	4.2	5.6	3.1	3.2	3.6
Real estate	3.4	0.5	2.3	1.7	-0.1	-0.9	-0.1	0.2	0.5	10.3	9.6	10.0
Science, innovations and technology	2.6	1.5	4.9	4.8	2.2	-2.8	-3.8	-2.9	-1.8	3.4	3.5	3.9
Administrative and auxiliary services	7.5	-0.2	8.7	3.8	-3.3	-5.2	-10.3	-3.1	1.7	1.4	1.4	1.5
State administration and mandatory social insurance	-1.9	0.8	0.0	0.7	1.1	1.6	2.8	2.4	2.4	3.2	3.1	3.4
Education	1.0	0.7	-3.3	-3.3	-2.9	-1.8	0.2	1.2	1.8	4.0	4.0	4.4
Health and social protection	0.4	-1.8	-0.3	-0.9	-1.2	-1.3	-1.2	-1.2	-1.1	5.0	5.3	5.9
Art, entertainment and recreation	2.2	5.6	6.0	7.4	7.2	3.7	0.5	-1.3	-2.1	1.3	1.2	1.3
Other services	-12.0	14.7	15.3	16.7	13.4	5.1	6.1	4.3	2.0	1.3	1.4	1.5
Housekeeping	3.5	1.9	13.4	11.0	6.2	-1.6	-1.7	-3.9	-5.8	0.1	0.1	0.1
<b>GDP</b>	<b>1.0</b>	<b>1.6</b>	<b>2.8</b>	<b>2.4</b>	<b>0.7</b>	<b>0.7</b>	<b>-2.3</b>	<b>-0.6</b>	<b>-2.5</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Serbian Statistics Office, Hypo Research

- Recession in the Euro zone (EZ) continued into Q4 2012, with the economic growth slowing down in the USA and accelerating in China at the same time, Chart 2
- From the beginning of 2013 one can notice positive signals in the EZ. Sentiment in the Euro zone markets (expressed by ZEW index) recorded a growth trend, and in February 2013 it reached the highest value since April 2010, Chart 3.
- After the fall of around 0.5% in 2012, economic activity in the EZ will, according to the estimate of the European central bank, recover gradually, and zero growth rate will be achieved at 2013 level.
- At the beginning of 2013, negative influence on economic developments opens the possibility of break out of the so called "currency war" i.e. devaluation aiming to boost foreign competitiveness, since in January and first half of February certain currencies significantly weakened (of which the most important is weakening of the yen of around 9% and the US dollar of around 1.3% to the euro in the period).

Chart 1. GDP growth contributions by major activities and y-o-y GDP growth rate (by quarter)

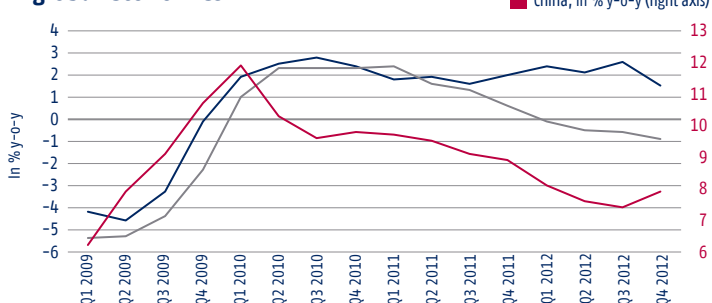


\*Services include: retail and wholesale trade, traffic and storage, accommodation and catering, information and communications, financial activities, real estate, professional activities, administrative activities, state administration, education, health protection, art, entertainment and recreation, other services and housekeeping.

\*\* Flash estimate of SSO

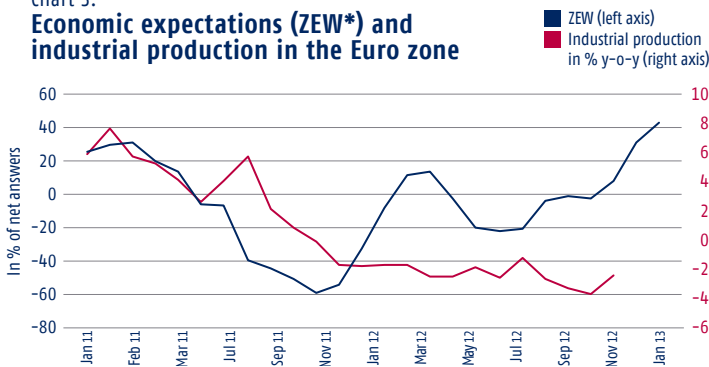
Source: Serbian Statistics Office, Hypo Research

Chart 2. Real GDP growth rates in major global economies



Source: Bloomberg

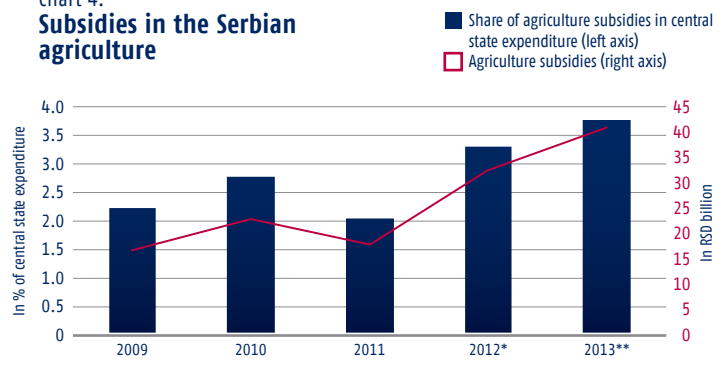
**Chart 3. Economic expectations (ZEW\*) and industrial production in the Euro zone**



\* Economic expectations expressed in ZEW index represent net percentage of positive (or negative) responses given by the poll participants to the question about expectations of economic developments in the next six months. Index 42.4 in February 2013 means that responses containing positive expectations exceeded those with negative expectations by 42.4 percent.

Source: Bloomberg

**Chart 4. Subsidies in the Serbian agriculture**



\* Subsidies for agriculture planned in the rebalance of the 2012 Budget Law.

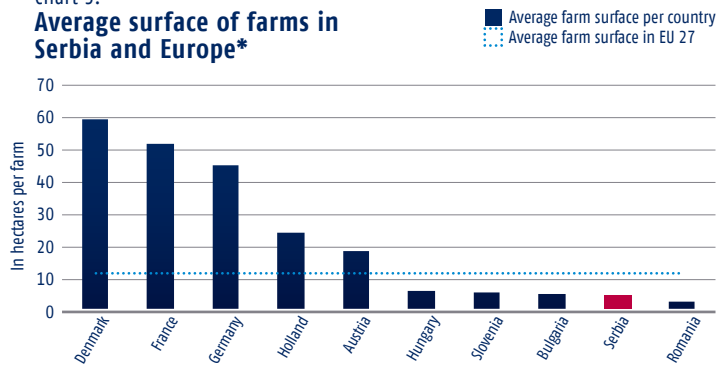
\*\* Subsidies for agriculture planned in the 2013 Budget Law.

Source: Serbian Statistics Office, Bloomberg

**Agriculture**

- Last year the agriculture season was much worse than in 2011 due to very unfavourable weather (primarily spring frost and summer drought), so that corn production dropped by around 45%, soy by 34%, sugar beet by 17.7%, sunflower by 16%, and wheat by 7.5%.
- The Law on agriculture and rural development subsidies, adopted at the end of January 2013, defines guaranteed minimum of budget allowances for agriculture subsidies in the amount of 5% of expenditure of the central state budget. The law also establishes the minimum of direct investments into production of plants and cattle breeding, which will be increased by special decisions of the Government depending on the state of the budget. These measures enable significant increase of agriculture subsidies, with the final goal of increasing productivity of agriculture, Chart 4.
- The first results of the agriculture inventory in 2012 show low average surface of domestic farms (5.3 hectares, twice lower than the EU average), Chart 5.

**Chart 5. Average surface of farms in Serbia and Europe\***



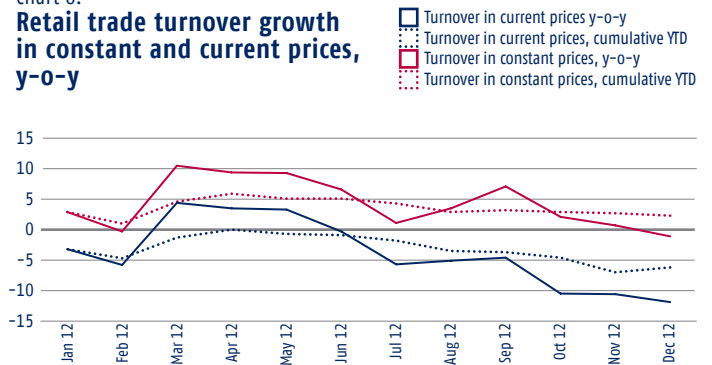
\* Data for Serbia taken from the publication "Agriculture Inventory 2012 in Republic of Serbia – first results" and for other countries from Eurostat website.

Source: Serbian Statistics Office, Eurostat

**Retail trade**

- Growth of retail trade turnover (measured in constant prices), positive in H1 2012, entered into negative zone in June 2012, with the fall being most intensive in Q4 2012 (average monthly fall of 11% y-o-y), Chart 6.
- Retail trade turnover growth in constant prices thus dropped by 6.2% (i.e. by 1.1% in current prices) along 2012.

**Chart 6. Retail trade turnover growth in constant and current prices, y-o-y**

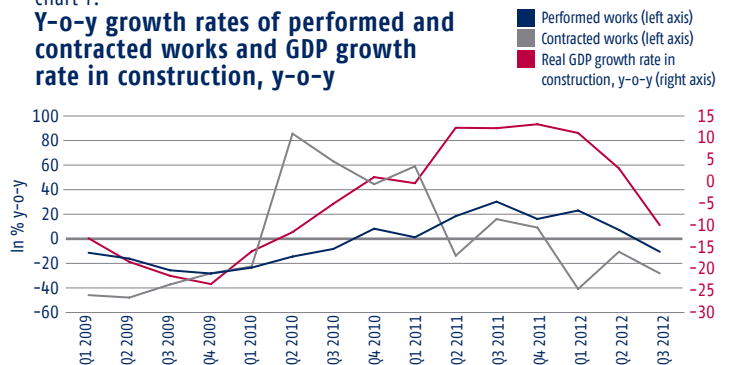


Source: Serbian Statistics Office

**Construction industry**

- Growth in the construction industry was decelerating throughout H1 2012 (+10.3% y-o-y in Q1, +1.2% in Q2), and in the Q3 it continued falling (-10%), Chart 7.
- Value indices of contracted works in Q1-Q3 2012 suggest that in Q4 2012 fall of construction activities continued. At 2012 level construction probably stagnated or mildly fall.
- Construction in 2013 could be positively influenced by potential works in some of the public infrastructure objects (such as construction of access roads for the bridge over Ada, building road infrastructure in corridors 10 and 11, railroad infrastructure in several spots, building the highway Ruma-Novti Sad, etc.).

**Chart 7. Y-o-y growth rates of performed and contracted works and GDP growth rate in construction, y-o-y**



Source: Serbian Statistics Office, Hypo Research

**Industrial production**

- After the fall of as much as 4% y-o-y in Q1-Q3 2012, in Q4 industrial production rose slightly, so that the 2012 level recorded the fall of 2.9%.
- The largest negative contribution to the production volume in 2012 was made by the basic metals industry of as much as 50% y-o-y, due to departure of US Steel (which contributed to total industrial production with 5% in the previous period) from the Smederevo steelworks at the beginning of 2012, as well as total halt of production in this plant since July.

- In Q4 2012 industrial production intensified under the influence of growth in the following sectors: (i) the motor vehicles industry, caused by the start of the serial production in the FIAT factory in September, (ii) oil processing, because of expanded capacity of the Pančevo refinery in November, and (iii) pharmaceutical products (opening of the plant of PharmaS in Zrenjanin in November), Chart 9.
- On the other hand, food production has been falling since November, probably related to the fall of agricultural production due to summer drought.
- Industrial production grew in December 0.7% y-o-y, mostly due to pharmaceutical industry (monthly growth of production 61% y-o-y in December), and the largest negative contribution was made by the food industry (monthly production fall of 11.5% y-o-y in December).
- In 2013 one can expect modest growth of industrial production. The above mentioned positive trends started at the end of 2012 will probably continue into this year as well, but limited by diminishing demand in the Euro zone countries, Chart 10.

Chart 9. Industrial production volume growth y-o-y for oil, pharmaceutical, car and food industry

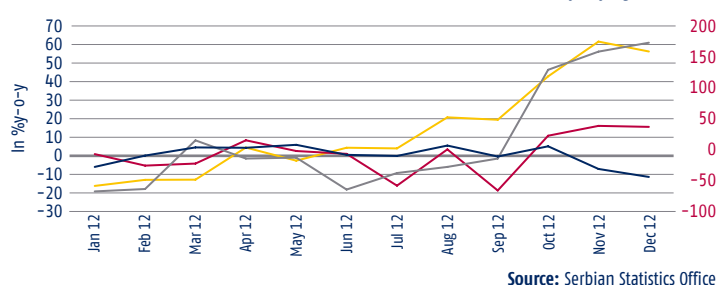


Chart 8. Industrial production in Serbia and Euro zone, growth rate y-o-y

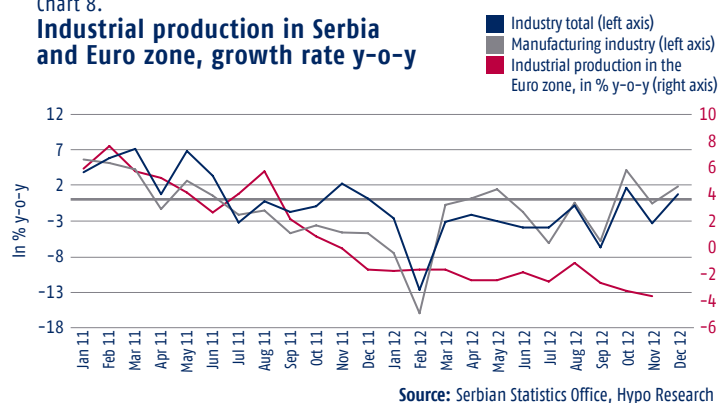


Chart 10. Growth rates of pharmaceutical products and motor vehicles turnover in the Euro zone, y-o-y (3-month moving average)

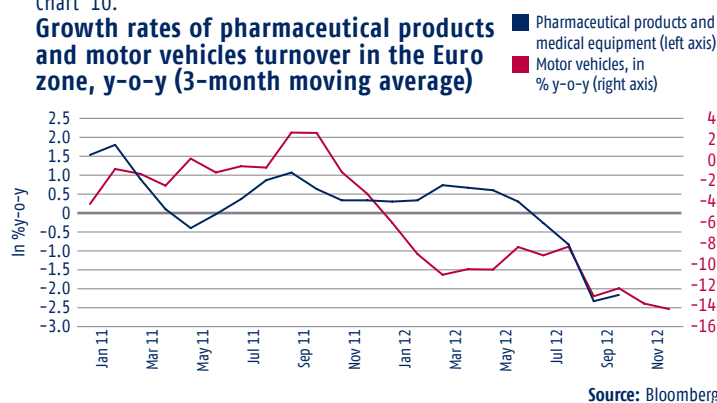


Table 3. Industrial production volume indices, y-o-y, participations and contributions

	2010	2011	2012	2010	2011	2012	2010	2011	2012
	Industrial production volume indices, y-o-y			participations in industrial production in %			contribution to industrial production growth in pp		
<b>TOTAL INDUSTRIAL PRODUCTION</b>	2.5	2.1	-2.9	100.0	100.0	100.0	2.5	2.1	-2.9
<b>Manufacturing industry</b>	3.9	-0.4	-1.8	70.3	68.6	72.1	2.7	-0.3	-1.3
Food production	1.4	-2.8	0.7	19.3	18.4	18.9	0.3	-0.5	0.1
Beverages production	-2.0	2.6	3.4	3.8	3.8	4.1	-0.1	0.1	0.1
Tobacco products	7.6	-8.1	-6.7	2.3	2.1	2.0	0.2	-0.2	-0.1
Textile production	13.1	-11.8	-1.9	1.1	0.9	0.9	0.1	-0.1	0.0
Clothings production	-1.0	4.4	10.4	1.0	1.1	1.2	0.0	0.0	0.1
Production of leather and leather products	-1.8	1.4	-12.3	0.7	0.7	0.6	0.0	0.0	-0.1
Wood process.&wood, cork, straw&brushwood products except furniture	-19.8	13.7	20	0.3	0.4	0.5	-0.1	0.1	0.1
Production of paper and paper products	10.3	12.3	5.2	2.1	2.3	2.5	0.2	0.3	0.1
Printing and reproduction of audio and video recordings	8.7	-5.6	0.8	3.8	3.5	3.6	0.3	-0.2	0.0
Production of coke and oil derivatives	-3.3	-14.3	-4.7	3.2	2.7	2.6	-0.1	-0.4	-0.1
Production of chemicals and chemical products	21.8	-0.2	-18.5	4.6	4.5	3.8	1.0	0.0	-0.7
Production of basic pharmaceutical products and preparations	-1.1	7.2	12.5	5.2	5.4	6.2	-0.1	0.4	0.8
Production of rubber and plastics products	0.8	-1.9	18.4	3.0	2.9	3.5	0.0	-0.1	0.6
Production of products from other non-metal minerals	0.2	4.8	-7	3.3	3.4	3.2	0.0	0.2	-0.2
Production of base metals	21.0	-3.4	-46.7	7.6	7.2	4.0	1.6	-0.2	-1.9
Production of metal products, except machines and devices	7.5	9.3	12.6	2.6	2.8	3.2	0.2	0.3	0.4
Production of computers, electronic and optical products	-28.5	24.2	-2	0.4	0.4	0.4	-0.1	0.1	0.0
Production of electrical equipment	14.6	8.1	-0.7	2.9	3.0	3.1	0.4	0.2	0.0
Production of non-listed machines and non-listed equipment	-11.3	9.1	3.8	2.4	2.5	2.7	-0.3	0.2	0.1
Production of motor vehicles, trailers and semi-trailers	-4.6	24.3	16.5	1.1	1.3	1.6	-0.1	0.3	0.3
Production of other traffic means	-17.2	-46.1	-19.8	0.7	0.3	0.3	-0.1	-0.2	-0.1
Furniture production	2.3	-20.3	3.4	1.8	1.4	1.5	0.0	-0.3	0.1
Other processing activities	-18.9	-7.2	2.3	0.4	0.4	0.4	-0.1	0.0	0.0
Repair and assembly of machines and equipment	-5.6	-20.7	-11	0.2	0.2	0.1	0.0	0.0	0.0
<b>Mining</b>	5.8	10.4	-2.2	7.0	7.6	7.7	0.4	0.8	-0.2
<b>Supply of electric energy, gas, vapour and air conditioning</b>	-4.4	9.7	-7.1	20.0	21.5	20.6	-0.9	2.1	-1.5

Source: Serbian Statistics Office, Hypo Research

## Prices

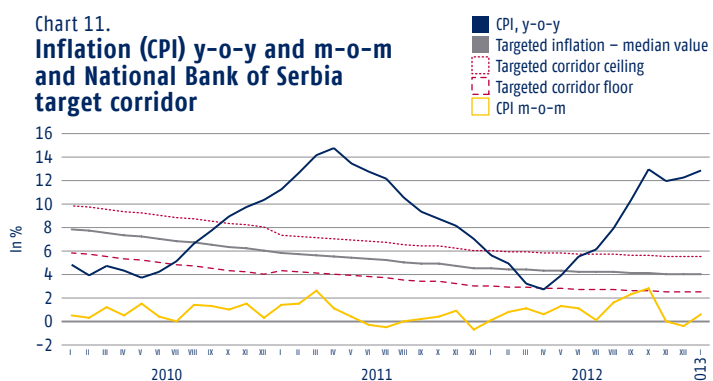
- Last year ended with inflation rate of 12.2% (i.e. 6.7 pp above the upper band of the target corridor of NBS, amounting to 4±1.5% for 2012).
- Inflation was the most intensive in the period from May to October 2012 (when the average monthly growth of prices amounted to 1.6%), after which monthly inflation amounted to zero in November and 0.4% deflation was measured in December.
- In January 2013 prices started growing again, by around 0.6% m-o-m, so that inflation y-o-y reached 12.8%. January inflation was mostly contributed to by the growth of prices of vegetables, pharmaceutical products, telephone services and milk, cheese and eggs, Table 4.
- In the course of H1 2013 one can expect inflationary pressure from increase of some regulated prices (such as increase of the price of gas by 10% in February and potential increase of the price of electricity by 10-12% announced for Q2), all accompanied by the low basis effect from 2012.
- Inflation could peak at app. 13% y-o-y in Q2 2013, and then to slow down towards app. 7% at the end of 2013, due to weak local demand.

Table 4. Products with the highest contribution to growth of prices in January 2013.

Total	January 2013 / December 2012	
	Inflation (CPI) in % 0.60	Contribution in pp 0.60
Products with the highest contribution to price rise		
Vegetables	7.40	0.37
Pharmaceuticals	4.30	0.17
Telephone services	4.20	0.17
Milk, cheese and eggs	0.60	0.03
Products with the highest contribution to price fall		
Package holidays	-20.30	-0.15
Fuels and lubricants for cars	-2.50	-0.13
Cars	-1.60	-0.04
Fruit	-1.40	-0.04

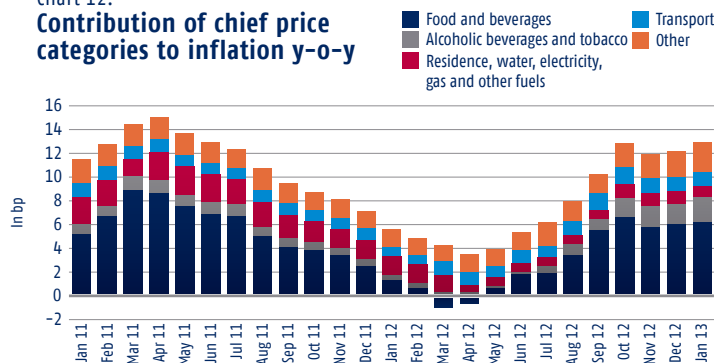
Source: Serbian Statistics Office, Hypo Research

Chart 11. Inflation (CPI) y-o-y and m-o-m and National Bank of Serbia target corridor



Source: Serbian Statistics Office, Hypo Research

Chart 12. Contribution of chief price categories to inflation y-o-y

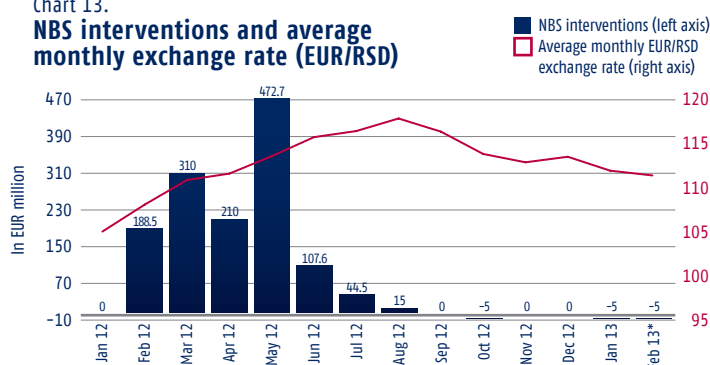


Source: Serbian Statistics Office, Hypo Research

## Exchange rate

- Dinar reversed the trend and started strengthening at the beginning of December 2012, so that in the period from 7<sup>th</sup> December 2012 (level of 114.2) and 14<sup>th</sup> February 2013 (reaching 111.2), its value grew by app. 2.4% (from 2012 end to mid February it strengthened by app. 2%, while in 2012 it weakened by app. 8.7%).
- To prevent excessive strengthening of the dinar NBS intervened from beginning of 2013 by purchasing EUR 10 million at the interbank market, Chart 13.
- The above mentioned appreciation was most probably caused by: (i) increasing restrictiveness of the monetary policy (through total increase of the repo rate by 80bp between December 2012 and February 2013), (ii) withdrawal of dinar liquidity from the system after a shift from direct to reverse repo operations in December (repo stock reached app. RSD 55 billion from 20<sup>th</sup> February), (iii) big interest of investors into domestic t-bills, as well as (iv) approval of the loan of app. EUR 190 million to Srbijagas at the end of 2012.
- Still, weakening of the dinar is possible at mid term, first of all due to fundamentals, i.e. significant current account deficit uncovered by adequate capital inflow, so that by 2013 end the dinar could oscillate towards 117 for one EUR.

Chart 13. NBS interventions and average monthly exchange rate (EUR/RSD)



\* balance as of 19<sup>th</sup> February 2013

Source: NBS



## Unemployment and wages

- The unemployment rate decreased to 22.4% in October 2012 (25.5% in April 2012, 23.7% in October 2011), Table 5.
- Fall of unemployment occurred because of increase in seasonal employment in agriculture census activities and temporary construction, agriculture and state administration jobs, but also from the calculation point of view, inclusion of a part of the unemployed in the group of the informally employed.
- In the course of 2012, wages (expressed in dinars) grew by 9% nominally relative to 2011 end, while the real growth amounted to 3%. In the same period, wages expressed in euros dropped by 1.8%.

Table 5. Labour force indices

	Oct 08	Oct 09	Oct 10	Oct 11	Oct 12
1. Total population	7.528.262	7.528.262	7.468.619	7.423.941	7.389.107
2. Population aged 15 and over	6.350.328	6.350.328	6.317.887	6.293.860	6.272.286
3. Active population (labour force)*	3.262.512	3.107.557	2.949.027	2.916.350	2.964.542
4. Employed	2.805.307	2.590.188	2.382.307	2.224.508	2.299.068
5. Unemployed**	457.205	517.369	566.720	691.841	665.474
6. Inactive population	3.087.816	3.242.771	3.368.860	3.377.510	3.307.744
7. Population aged below 15	1.177.934	1.177.934	1.150.732	1.130.081	1.116.821
	In %				
8. Share of population aged 15 and over (2:1)	84.4	84.4	84.6	84.8	84.9
9. Activity rate (labour force participation) (3:2)	51.4	48.9	46.7	46.3	47.3
10. Employment rate (4:2)	44.2	40.8	37.7	35.3	36.7
<b>11. Unemployment rate (5:3)</b>	<b>14.0</b>	<b>16.6</b>	<b>19.2</b>	<b>23.7</b>	<b>22.4</b>
12. Inactivity rate (6:2)	48.6	51.1	53.3	53.7	52.7
13. Share of population aged below 15 (7:1)	15.6	15.6	15.4	15.2	15.1
19. Persons 15 to 24 years old					
<b>PRO MEMORIA</b>					
Unemployment rate	In %				
Croatia		8.7	12.4	12.6	
Slovenia		6.4	7.6	11.9	
Hungary		10.6	10.9	11.0	
EU (17 countries)		9.3	9.6	9.7	

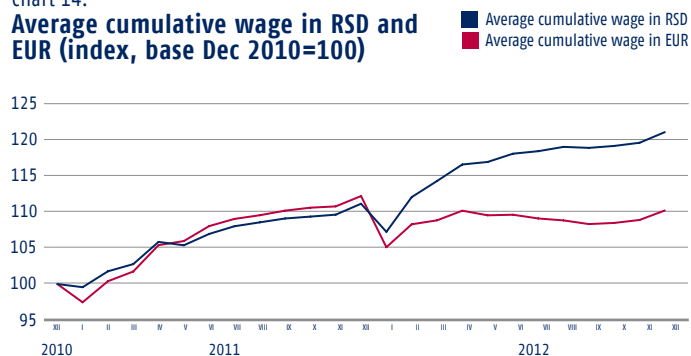
\* Active population comprises of all employed and unemployed persons aged 15 and over .

\*\* The unemployed, according to the International Labour Organization (ILO) definition, are persons who, in the observed week (of the labour force survey), did not do any paid job or had a job from which they took a leave and could return after the leave, provided they fulfilled the following criteria: (1) taking active steps for finding a job in the previous 4 weeks and being able, in case a job was offered, to start working within 2 weeks; (2) not actively looking for a job in the previous 4 weeks, since they found a job where they should have started working after the expiration of the observed week and within 3 months at the latest.

Source: Serbian Statistics Office, Labour Force Survey, statistical offices of individual countries, Hypo Research

Chart 14.

### Average cumulative wage in RSD and EUR (index, base Dec 2010=100)



Source: Serbian Statistics Office, Hypo Research

Table 6. Average cumulative wage in Serbia

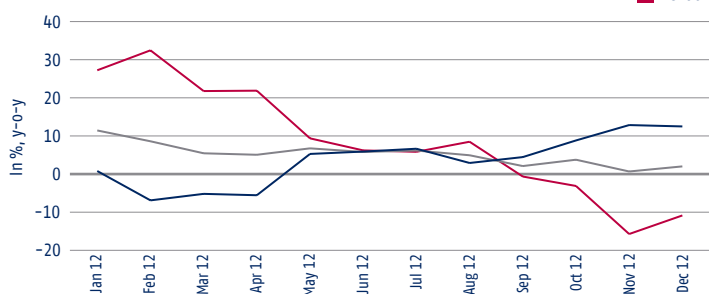
	2009	2010	2011	2012
Average cumulative wage in RSD	31,758	34,159	37,976	41,377
Average cumulative wage in EUR	338	332	372	366

Source: Serbian Statistics Office

## Foreign trade and balance of payments

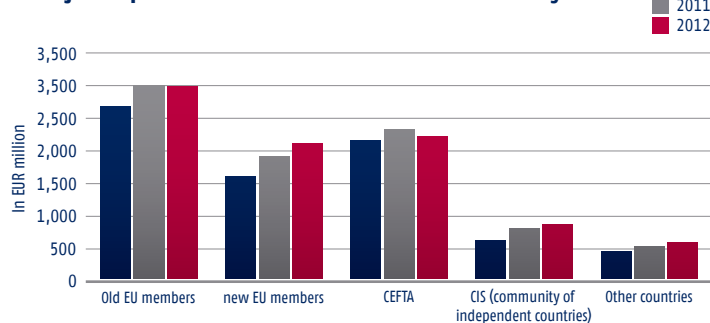
- Along 2012 exports amounted to EUR 8.8 billion (4.7% growth y-o-y), and imports 14.8 billion (+3.7%), so that deficit reached 5.9 billion (+2.4%), Chart 15.
- Last year chief exports market for Serbian goods were the old EU members (primarily Germany and Italy), while the largest growth was recorded y-o-y in trade with the new EU members (mostly due to growth of exports to Romania by app. 25% y-o-y), Chart 16.
- In parallel with the beginning of serial production in the FIAT plant net exports recovered at the end of 2012.
- Namely, after modest growth of exports of 1.1% -o-y in the first eight months of 2012 (accompanied by growth of imports of 5.7% and growth of deficit of 12.8%), since September exports growth speed up and imports growth slowed down, Chart 16.

Chart 15. Y-o-y growth rates of exports, imports and deficit, 3M moving average



Source: NBS, Hypo Research

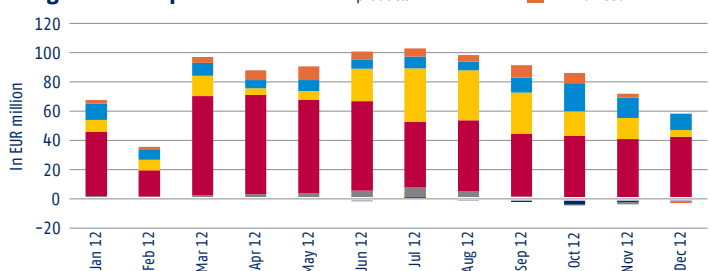
Chart 16. Major exports markets for the Serbian economy



Source: NBS, Hypo Research

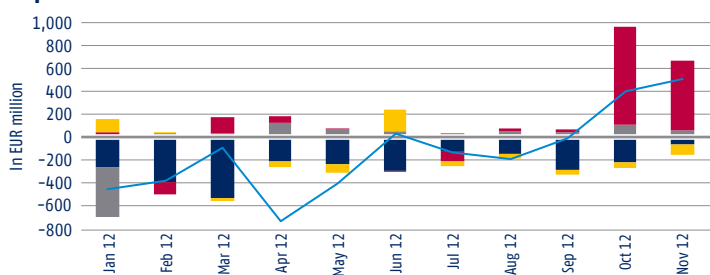
- Acceleration of exports growth at the end of 2012 is related to the beginning of serial production and exports of FIAT cars, but also with exports of oil derivatives from the overhauled refinery in Pančevo. On the other hand, growth of imports decelerated in the same period, in accordance with the drop of domestic consumption.
- Agricultural and food product trade surplus has been dropping in along of H2 2012, probably as the effect of decreased agricultural production (due to drought), and subsequent fall of the production volume of the food industry,
- Decrease of the trade deficit that started at the end of 2012 could continue into 2013, under the influence of (i) growing exports of motor vehicles and oil derivatives, (ii) limited imports growth caused by weak domestic demand, all with (iii) the assumption of an average agricultural season. Still, these effects will most probably be somewhat limited by weak external demand, primarily in the Euro zone.
- The current account deficit of the balance of payments in the first eleven months of 2012 reached EUR 2.75 billion, representing 15% more than in the same period of 2011, Table 8.
- On the other hand, on the capital and financial side of the balance of payments in the first eleven months of 2012, the net inflow from portfolio investments of app. EUR 1.6 billion (mostly from issues of Eurobonds and t-bills) and the net inflow of FDIs (being EUR140 million), with net outflow for foreign repayments of app. EUR 110 million. Summed up, these inflows could not cover the current account deficit, causing the foreign exchange reserve to diminish by as much as EUR 1.5 billion.
- In October and November exceptionally high net inflow of portfolio investments was recorded, primarily as the result of two Euro bond issues in total value of USD 1.75 billion (issued on 27<sup>th</sup> September and 14<sup>th</sup> November), Chart 18.

Chart 17. Monthly surplus of major categories of food and agricultural products



Source: Serbian Statistics Office

Chart 18. Current account deficit, FDI, net borrowing, and net portfolio inflows



Source: NBS, Hypo Research

Table 7. Growth rates of exports of individual categories by sector

Export by segment	2010	2011	2012	Share in total in 2010	Share in total in 2011	Share in total in 2012
	y-o-y growth rate, in %			In %		
Agriculture	40.5	23.6	11.9	7.4	8.0	8.5
Food products	16.9	10.6	6.7	13.5	13.1	13.3
Chemicals and chemical products	48.9	11.9	-21.8	6.7	6.6	4.9
Rubber and plastics products	21.0	22.2	13.6	6.1	6.5	7.1
Base metals	53.2	7.4	-38.8	17.0	16.0	9.4
Electrical equipment	49.4	13.1	14.7	6.3	6.2	6.8
Motor vehicles and trailers	50.7	43.0	109.5	3.1	3.9	7.9
Other segments	8.1	13.6	11.1	39.9	39.7	42.1
<b>Total exports</b>	<b>24.0</b>	<b>14.2</b>	<b>4.7</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Serbian Statistics Office, Hypo Research

Table 8. Serbian balance of payments

In EUR million

	Monthly		Cumulative ytd		Yearly
	Nov 11	Nov 12	Nov 11	Nov 12	Dec 11
<b>I CURRENT TRANSACTIONS</b>	<b>-236.8</b>	<b>-62.4</b>	<b>-2,395.2</b>	<b>-2,747.0</b>	<b>-2,890.1</b>
1. Goods	-554.5	-387.0	-4,671.5	-4,858.2	-5,338.2
Exports of goods	725.9	836.1	7,735.2	8,065.2	8,439.1
Imports of goods	-1,280.3	-1,223.1	-12,406.7	-12,923.4	-13,777.3
2. Services	46.9	43.5	121.9	120.2	163.0
Exports of services	292.7	266.5	2,711.3	2,785.1	3,032.3
Imports of services	-245.8	-223.0	-2,589.4	-2,664.9	-2,869.3
3. Revenues (net)	-33.5	-44.4	-635.3	-717.9	-757.9
4. Current transfers	304.2	325.6	2,789.7	2,708.9	3,043.1
of which inflow of remittances	214.9	249.9	1,957.1	1,841.7	2,110.5
<b>II CAPITAL TRANSACTIONS (net)</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-2.4</b>	<b>-9.4</b>	<b>-2.5</b>
<b>III FINANCIAL ACCOUNT</b>	<b>264.2</b>	<b>77.1</b>	<b>2,193.2</b>	<b>2,430.4</b>	<b>2,693.8</b>
1. Direct investments (net)	-61.0	55.7	1,514.1	136.9	1,826.9
2. Portfolio investments (net)	-19.0	604.5	1,617.6	1,546.2	1,619.1
3. Other investments	301.1	-87.8	295.6	-718.4	1,049.2
3.1. Trade loans (net)	206.7	22.9	379.6	297.4	492.7
3.2. Financial loans (net)*	-42.2	-117.8	-540.6	-409.1	-413.1
NBS	0.0	-104.9	44.8	-219.3	44.8
Government	-6.5	82.1	666.4	215.9	687.5
Banks	-30.8	-104.1	-810.2	-478.9	-729.2
Other sectors	-4.9	9.0	-441.7	73.2	-416.1
3.3. Cash and deposits (net)	136.6	7.1	456.6	-606.6	969.6
3.4. Other	0.0	0.0	0.0	0.0	0.0
3.5. Allocation of SDR	0.0	0.0	0.0	0.0	0.0
4. Reserve with NBS**	43.1	-495.2	-1,234.2	1,465.7	-1,801.5
<b>IV ERRORS AND OMISSIONS (net)</b>	<b>-27.2</b>	<b>-14.6</b>	<b>204.5</b>	<b>326.0</b>	<b>198.8</b>
<b>V TOTAL BALANCE without reserve with NBS</b>	<b>-43.1</b>	<b>495.2</b>	<b>1,234.2</b>	<b>-1,465.7</b>	<b>1,801.5</b>

\* Including use and repayment of IMF loans.

\*\* Reserve of NBS (reserve funds) and banks (cash and deposits); without inter-currency changes.

Source: NBS, Hypo Research

## FX reserves

- In the first three quarters of 2012 net FX reserves of National Bank of Serbia diminished by app. EUR 2.1 billion, and increased by app. EUR 1.2 billion mostly from portfolio inflows in Q4 2012 (in 2012 they dropped by app. EUR 0.9 billion), Table 9.
- In the structure of net FX reserves of NBS, the largest decrease was recorded in bank deposits (by app. EUR 800 million), own FX reserves of NBS (75 million) and deposits of the state with the NBS (by EUR 15 million).

Table 9. Net own reserves of NBS

In EUR million

	Dec 10	Dec 11	Jun 12	Dec 12
FX reserve of banks	1.684	809	1.130	1.056
Gross reserves ("FX reserve of NBS")	10.077	12.135	10.242	10.995
Liabilities	-1.615	-1.705	-1.730	-1.458
IMF	-1.532	-1.626	-1.659	-1.392
Other liabilities	-82	-79	-71	-66
Structure of net reserves of NBS				
1. National Bank of Serbia, net	8.462	10.429	8.512	9.537
1.1 Deposits of commercial banks	-3.310	-3.638	-3.006	-2.835
1.2 Deposits of the state	-509	-945	-472	-930
1.3 NBS own reserve (1.3 = 1+1.1+1.2)	4.643	5.847	5.035	5.772

Source: NBS

## Serbian external debt

- Serbian external debt increased by app. EUR 1.6 billion in 2012, of which state debt increased by EUR 1.4 billion, and the private sector debt by EUR 180 million (banks repaying EUR 260 million, and companies EUR 450 million), Table 10.
- Growth was especially intense in October and November 2012, mostly stemming from issuance of the Eurobonds, enlarging the external debt total by EUR 1.3 billion.

Table 10. Serbian external debt, private and public\*

	Dec 09	Dec 10	Dec 11	Dec 12
In EUR million				
State	7,764	9,076	10,773	12,187
out of which: IMF	1,532	1,978	2,077	1,841
Private sector	14,724	14,710	13,352	13,534
Banks	4,310	5,093	4,364	4,100
Companies	10,414	9,617	8,988	9,434
Total Serbian external debt	22,487	23,786	24,125	25,721
In % of GDP				
State	26.8	32.6	34.6	41.6
Private sector	50.8	52.8	42.9	46.2
Banks	14.9	18.3	14.0	14.0
Companies	36.0	34.5	28.9	32.2
Total Serbian external debt	77.7	85.4	77.5	87.8

\* Note: Since September 2010, the methodology of the external debt statistics has been changed so that the public external debt includes liabilities for IMF SDR allocation (EUR 438.8 million) used in December 2009 and the capitalised interest to the Paris Club creditors (EUR 85.5 million), whereas the private external debt does not include loans concluded prior to 20<sup>th</sup> December 2000 where payments are not made (EUR 856.5 million, out of which sum domestic banks take EUR 391.4 million and domestic companies take EUR 465.1 million).

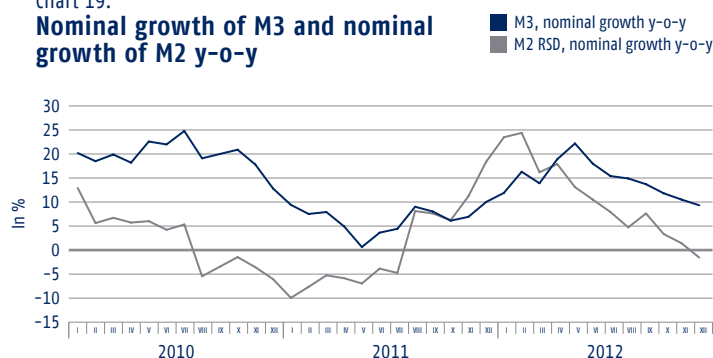
Source: NBS, Hypo Research

## Monetary sector

- The nominal growth of the M3 money supply stood at 9.4% y-o-y in December (+10.6% in November). Money supply has been growing throughout 2012, mostly affected by: (i) dinar depreciation for the first eight months of 2012, (ii) expansive fiscal consumption in H1 2012, (iii) credit activity growth acceleration from September to November (being the effect of the introduction of the Government's program of corporate subsidised loans), Chart 19.
- On the other hand, M3 growth has been slowing down in H2 2012, possibly under the influence of dinar appreciation from the period.
- At the February session of the Executive Board of the National Bank of Serbia reached the decision to raise the repo rate by 25 bp to 11.75%, in order to mitigate current inflationary pressures. This continued the monetary policy tightening cycle, raising the repo rate by 225 bp from June 2012 to February 2013 (total increase in 2013 amounting to 50 bp).
- After the 20<sup>th</sup> February auction the REPO stock dropped by RSD 15 billion to RSD 55 billion (after continued growth in 2013 ytd).
- After the acceleration episode from September and November growth rate of crediting activities (corrected by the effect of change of the dinar exchange rate for indexed loans) slowed down to 3.5% y-o-y in December 2012 (from 6.2% on November), Chart 20.
- Retail savings in 2012 grew by app. 560 million, to EUR 8.1 billion, representing growth of app. 7.5% y-o-y, Table 12.
- In November 2012, when Savings month is organized, retail savings grew by app. EUR 190 million, i.e. app. 2.5% relative to the October end 2012.

Chart 19.

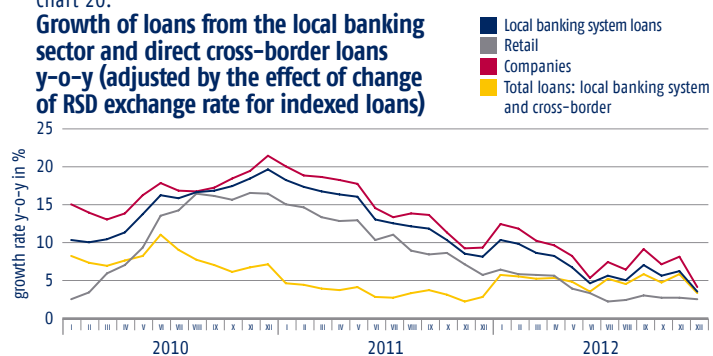
### Nominal growth of M3 and nominal growth of M2 y-o-y



Source: NBS, Hypo Research

Chart 20.

### Growth of loans from the local banking sector and direct cross-border loans y-o-y (adjusted by the effect of change of RSD exchange rate for indexed loans)



Source: NBS, Hypo Research

Table 12. Total retail savings

	In EUR million					
	Dec 10	Dec 11	Sep 12	Oct 12	Nov 12	Dec 12
<b>Total retail savings</b>	<b>7.066</b>	<b>7.597</b>	<b>7.899</b>	<b>7.951</b>	<b>8.139</b>	<b>8.157</b>
Total RSD savings	127	185	155	150	156	155
short term	92	156	140	138	143	143
long term	35	29	15	12	13	12
total FX savings	6.939	7.412	7.744	7.801	7.984	8.001
short term	5.823	5.455	5.938	5.920	6.394	6.430
long term	1.116	1.957	1.806	1.881	1.590	1.572

Source: NBS, Hypo Research

Table 11. Consolidated balance sheet of commercial banks

	End of period balance (in EUR mil)			Growth rate y-o-y (in %)			Share in total assets/liabilities (in %)		
	Dec 10	Dec 11	Dec 12	Dec 10	Dec 11	Dec 12	Dec 10	Dec 11	Dec 12
<b>TOTAL ASSETS</b>	<b>26,040</b>	<b>27,732</b>	<b>27,821</b>	<b>6.6</b>	<b>6.5</b>	<b>0.3</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Liquid assets</b>	<b>8,121</b>	<b>8,228</b>	<b>7,798</b>	<b>-6.9</b>	<b>1.3</b>	<b>-5.2</b>	<b>31.2</b>	<b>29.7</b>	<b>28.0</b>
Cash and deposits with NBS	4,139	4,635	4,431	-7.8	12.0	-4.4	15.9	16.7	15.9
of witch: mandatory reserve (allocated FX reserve+calculated RSD reserve)	3,935	4,319	4,036	-3.8	9.8	-6.5	15.1	15.6	14.5
FX liquid assets	2,126	1,208	1,487	25.4	-43.2	23.1	8.2	4.4	5.3
Placements to repo, NBS and RS t-bills	1,857	2,384	1,879	-26.8	28.4	-21.2	7.1	8.6	6.8
<b>Placements</b>	<b>16,083</b>	<b>17,677</b>	<b>18,190</b>	<b>17.1</b>	<b>9.9</b>	<b>2.9</b>	<b>61.8</b>	<b>63.7</b>	<b>65.4</b>
Corporate	10,196	10,644	10,775	15.1	4.4	1.2	39.2	38.4	38.7
Retail	5,000	5,751	5,740	14.6	15.0	-0.2	19.2	20.7	20.6
Other	887	1,282	1,674	73.4	44.5	30.6	3.4	4.6	6.0
<b>Fixed and other assets</b>	<b>1,836</b>	<b>1,827</b>	<b>1,834</b>	<b>-6.8</b>	<b>-0.4</b>	<b>0.4</b>	<b>7.0</b>	<b>6.6</b>	<b>6.6</b>
<b>TOTAL LIABILITIES</b>	<b>26,040</b>	<b>27,732</b>	<b>27,821</b>	<b>6.6</b>	<b>6.5</b>	<b>0.3</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Deposits</b>	<b>12,092</b>	<b>13,301</b>	<b>13,623</b>	<b>4.6</b>	<b>10.0</b>	<b>2.4</b>	<b>46.4</b>	<b>48.0</b>	<b>49.0</b>
State deposits	199	201	315	69.1	1.2	56.5	0.8	0.7	1.1
Transaction deposits	1,446	1,637	1,631	-10.7	13.2	-0.3	5.6	5.9	5.9
Dinar term deposits	1,487	1,856	1,511	-20.1	24.8	-18.6	5.7	6.7	5.4
FX term deposits	8,961	9,607	10,166	12.6	7.2	5.8	34.4	34.6	36.5
<b>Cross-border liabilities</b>	<b>5,781</b>	<b>5,234</b>	<b>5,108</b>	<b>10.8</b>	<b>-9.5</b>	<b>-2.4</b>	<b>22.2</b>	<b>18.9</b>	<b>18.4</b>
<b>Provisions for potential losses</b>	<b>1,573</b>	<b>2,059</b>	<b>1,978</b>	<b>11.9</b>	<b>30.9</b>	<b>-3.9</b>	<b>6.0</b>	<b>7.4</b>	<b>7.1</b>
<b>Equity and reserves</b>	<b>4,967</b>	<b>5,447</b>	<b>5,437</b>	<b>2.0</b>	<b>9.7</b>	<b>-0.2</b>	<b>19.1</b>	<b>19.6</b>	<b>19.5</b>
<b>Other liabilities</b>	<b>1,626</b>	<b>1,692</b>	<b>1,676</b>	<b>18.9</b>	<b>4.0</b>	<b>-1.0</b>	<b>6.2</b>	<b>6.1</b>	<b>6.0</b>

Source: NBS, Hypo Research

## Fiscal flows

- The budget deficit of the central state in 2012 reached 5.8% of GDP (i.e. RSD 192 billion), which was, although 45% higher than in 2011, within the limits of the plan from the budget rebalance for 2012, Table 13.
- On the other hand, budget deficit of consolidated state in 2012 reached 6.5% of GDP (app. RSD 217 billion), app. 37% more than in 2011.
- Expansion of the central state deficit in 2012 y-o-y comes as the result of quicker growth of expenditures compared to revenues, mostly contributed to by growth of subsidies (growth of expenses of 54% y-o-y), interest repayments (+57%) and wages of employees (+11%).
- In January 2013 central state deficit was app. RSD 7 billion, by a third smaller than in January 2012. Relatively low deficit in January 2013 most probably comes as the effect of increase of revenues from taxes and excises (after introducing measures of fiscal consolidation in October 2013), but also the significantly smaller allowances for subsidies, typical for this month.
- Deficit of the central state in the current year was planned by the Budget Law at app. 3.3% of GDP (app. RSD 122 billion), 37% less than realized in 2012. This decrease should be primarily influenced by better collection of VAT, profit tax and excises.
- Talks about the new arrangement with the IMF are expected in May.

Table 13. Central state budget realization

	Budget realized in 2011	Budget realized in 2012	Budget realized in January 2013	2013 Budget Law	Growth rate yoy 2012/2011	Percentage difference 2013 budget and 2012 realized budget
	1	2	3	4	2:1	4:2
	In RSD million				In %	
<b>I TOTAL REVENUES</b>	<b>744,761</b>	<b>788,505</b>	<b>66,368</b>	<b>965,699</b>	<b>5.9</b>	<b>22.5</b>
<b>1. Tax revenues</b>	<b>646,598</b>	<b>686,828</b>	<b>61,397</b>	<b>837,100</b>	<b>6.2</b>	<b>21.9</b>
Individual income tax	70,285	46,432	3,038	55,121	-33.9	18.7
Corporate profit tax	34,209	48,803	2,976	70,415	42.7	44.3
VAT	342,446	367,472	36,407	434,281	7.3	18.2
Excises	152,425	180,628	16,364	233,317	18.5	29.2
Customs duties	38,805	35,783	1,963	35,558	-7.8	-0.6
Other tax income	8,429	7,711	650	8,409	-8.5	9.1
<b>2. Non-tax revenues</b>	<b>96,222</b>	<b>99,289</b>	<b>4,497</b>	<b>127,400</b>	<b>3.2</b>	<b>28.3</b>
<b>3. Donations</b>	<b>1,941</b>	<b>2,388</b>	<b>474</b>	<b>1,200</b>	<b>23.0</b>	<b>-49.8</b>
<b>II TOTAL EXPENSES</b>	<b>877,295</b>	<b>980,382</b>	<b>73,356</b>	<b>1,087,572</b>	<b>11.8</b>	<b>10.9</b>
<b>1. Current expenses</b>	<b>824,061</b>	<b>930,789</b>	<b>71,841</b>	<b>1,031,335</b>	<b>13.0</b>	<b>10.8</b>
Employee expenses	215,077	238,672	21,379	266,226	11.0	11.5
Expenses for buying goods and services	64,658	68,657	5,286	87,980	6.2	28.1
Interest repayment expenses	40,337	63,146	5,484	90,130	56.5	42.7
Subsidies	56,278	86,598	2,771	91,703	53.9	5.9
Donations to international organizations	642	913	95	1,153	42.2	26.3
Transfers to other government levels	67,315	73,315	5,991	75,531	8.9	3.0
Transfers to mand.soc. insurance org.	277,404	288,784	22,031	302,871	4.1	4.9
Social protection from the budget	86,592	92,362	8,056	101,868	6.7	10.3
Other current expenses	15,757	18,343	749	12,439	16.4	-32.2
<b>2. Capital expenditure</b>	<b>28,585</b>	<b>34,457</b>	<b>1,333</b>	<b>46,802</b>	<b>20.5</b>	<b>35.8</b>
Capital expenditure	21,797	29,359	1,333	41,106	34.7	40.0
National investment plan	6,788	5,097	0	5,696	-24.9	11.7
<b>3. Net budget loans</b>	<b>24,649</b>	<b>15,136</b>	<b>182</b>	<b>9,736</b>	<b>-38.6</b>	<b>-35.7</b>
<b>III BUDGET SURPLUS/DEFICIT (I - II)</b>	<b>-132,534</b>	<b>-191,876</b>	<b>-6,988</b>	<b>-121,873</b>	<b>44.8</b>	<b>-36.5</b>

Source: Ministry of Finance, Hypo Research

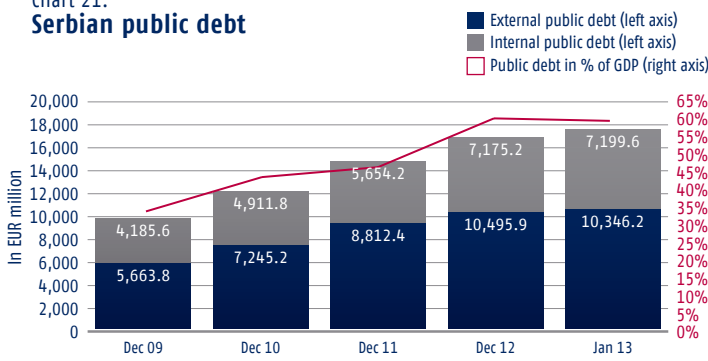
## Public debt

- In January 2013 the public debt dropped by app. EUR 125 million, after growing by app. EUR 3.2 billion in 2012. Thus public debt dropped to app. 60% of GDP at January 2013 end (from app. 61% at 2012 end, and app. 47% at 2011 end).
- Fall of the public debt in January 2013 most probably occurred due to repayment in the local debt market (stock of t-bills fell by app. RSD 11 billion in the month).
- On the other hand, public debt started growing again in February to app. 62% of GDP, mostly due to the new Eurobond issue in mid February (when a seven-year bond was issued in the value of USD 1.5 billion, with yield rate of 5.15%).
- In the rest of 2013 a continued growth of public debt is possible, mostly because of new Eurobond issues (as announced, in the rest of 2013 a 10-year bond could be issued in the amount of USD 1 billion),

borrowing through bilateral agreements with foreign governments and international financial institutions (such as the agreement with the Russian Federation about the loan in the amount of one billion dollars, currently negotiated), and through t-bill issues in the local debt market.

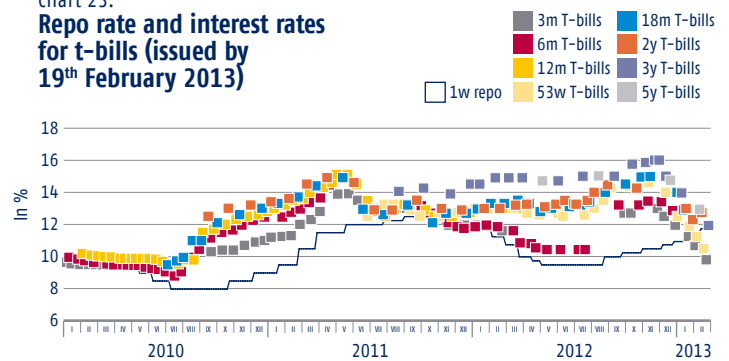
- From the end of 2012 to 19<sup>th</sup> February t-bill stock dropped by app. RSD 5 billion, Chart 22.
- Yield from t-bills has been diminishing since end of September 2012, the trend continuing into 2013. In February 2013 yield for issues in the local debt market dropped below 10% for the first time since December 2008 (3M T-bills were sold at 9.8% yield on 14<sup>th</sup> February), Chart 23.
- In 2013 RSD 207 billion debt is coming due, from issued t-bills as of 19<sup>th</sup> February 2013, Chart 24.

Chart 21. Serbian public debt



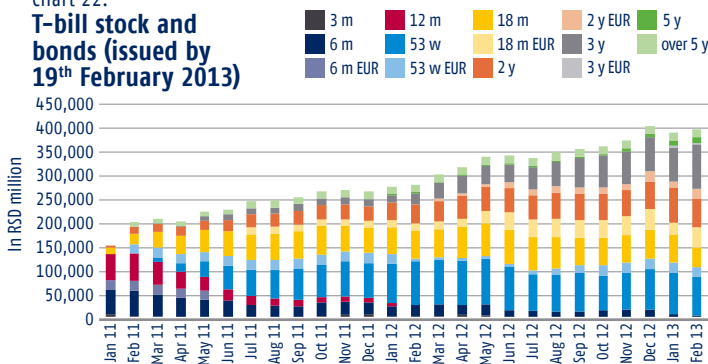
Source: Ministry of Finance, Hypo Research

Chart 23. Repo rate and interest rates for t-bills (issued by 19<sup>th</sup> February 2013)



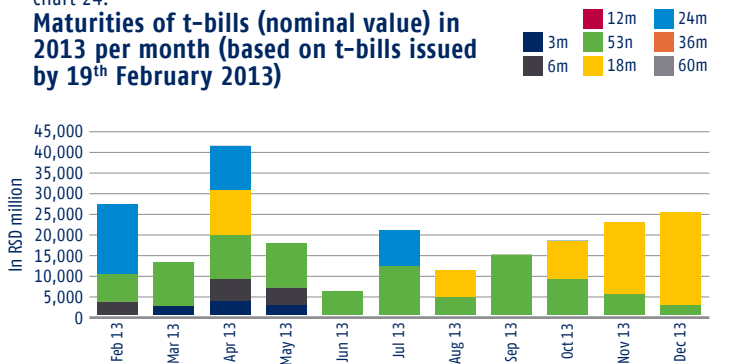
Source: Ministry of Finance, Hypo Research

Chart 22. T-bill stock and bonds (issued by 19<sup>th</sup> February 2013)



Source: Ministry of Finance, Hypo Research

Chart 24. Maturities of t-bills (nominal value) in 2013 per month (based on t-bills issued by 19<sup>th</sup> February 2013)



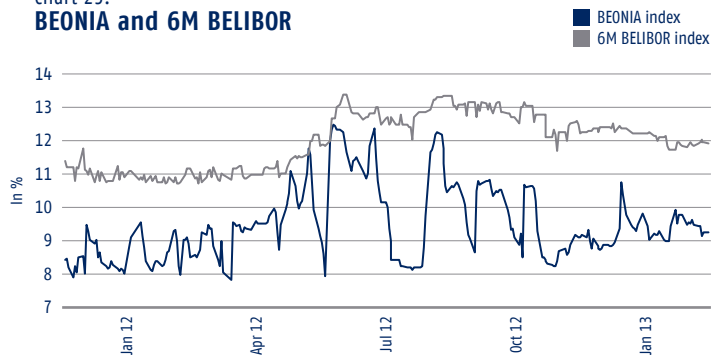
Source: Ministry of Finance, Hypo Research

# Money Market

## Local money market

- In January and first half of February interest rates in the interbank market were relatively stable in spite of the increase of the repo rate in the period by the total of one half of percent point, coming as the effect of still high liquidity of the banking sector.

Chart 25.  
**BEONIA and 6M BELIBOR**

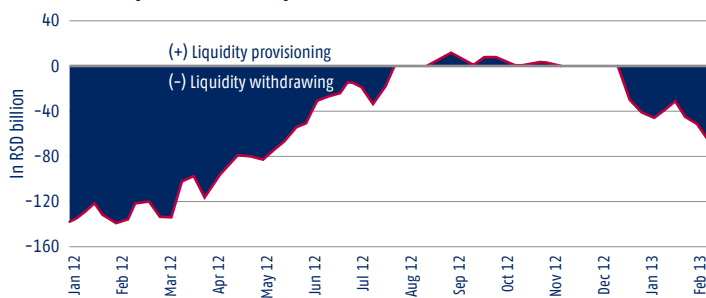


Source: Bloomberg

## NBS Open market operations and t-bills overview

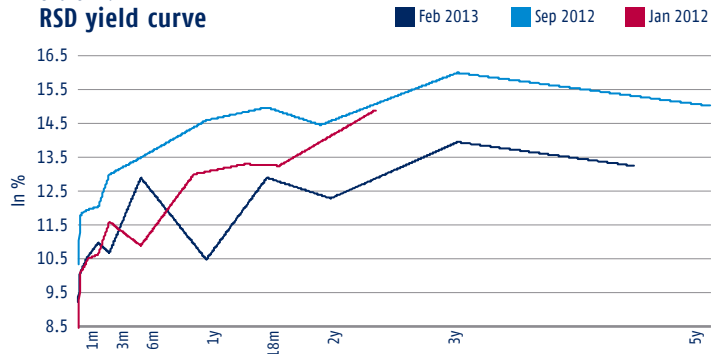
- NBS has been continuously withdrawing liquidity from the system since 2013 beginning.
- Interest rates for t-bills continued their plummeting trend, stemming from satisfied financing needs of the state, but also by high liquidity of domestic financial institutions in combination with a shortage of investment alternatives.

Chart 26.  
**Overview of auction trade of securities used by NBS for open market operations**



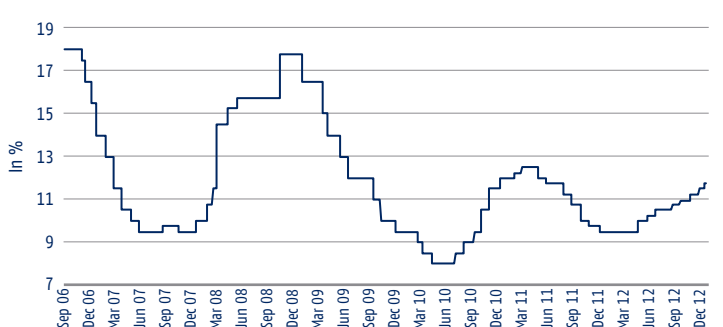
Source: NBS

Chart 27.  
**RSD yield curve**



Source: NBS, Ministry of Finance, Hypo Research

Chart 28.  
**NBS reference interest rate**



Source: NBS

## EMBI Global

- EMBI GLOBAL (Emerging Market Bond Index Global) monitors the total yield for USD-denominated debt instruments issued by developing countries, such as Brady bonds and Eurobonds.
- All observed countries except for Turkey corrected lower risk premiums measured by EMBI spread.
- Risk premium (measured by EMBI spread through the yield for US t-bills) for Serbia dropped by 1.29% from the beginning of 2013 to mid February, which was one of the worse results in the group of observed countries. Observed in absolute amounts, Serbia still has the highest risk premium in the group.

Chart 29. **EMBI Strip Spread**

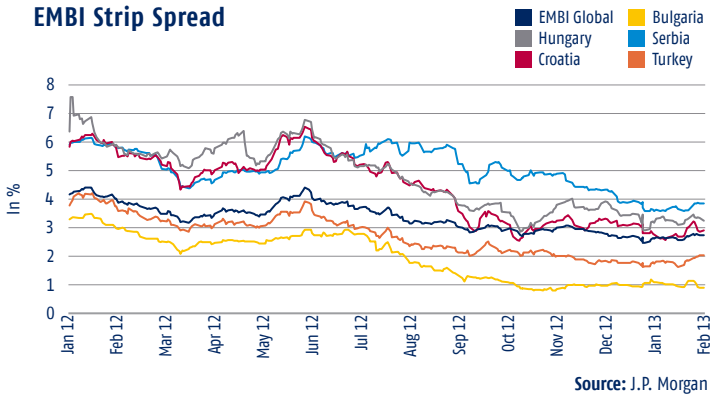


Table 15. **EMBI Strip Spread monthly change of value**

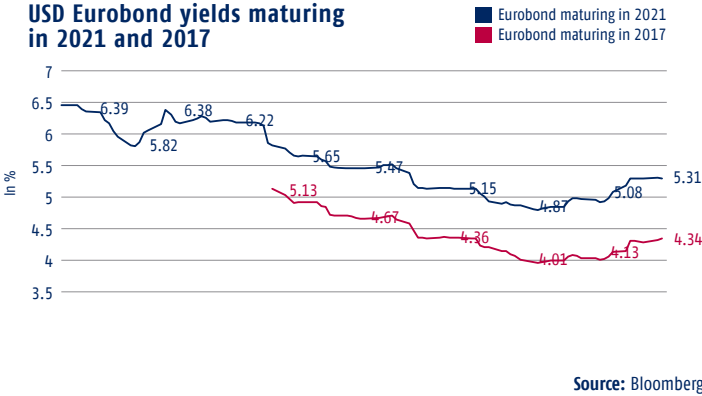
	Serbia Strip Spread	Croatia Strip Spread	Bulgaria Strip Spread	Hungary Strip Spread	Turkey Strip Spread	EMBI Global Strip Spread
	In %					
01/01/13	3.9053	3.1073	0.9410	3.4461	1.7672	2.6578
02/11/13	3.8549	2.8891	0.8816	3.2426	2.0215	2.7281
<b>% Change</b>	<b>-1.29%</b>	<b>-7.02%</b>	<b>-6.31%</b>	<b>-5.91%</b>	<b>14.39%</b>	<b>2.65%</b>
Max	3.9053	3.2173	1.1693	3.4549	2.0215	2.7692
Min	3.5675	2.5522	0.8816	2.9074	1.6025	2.4543
Average	3.6306	2.7939	1.0086	3.2426	1.7808	2.6420
Median	3.6871	2.8227	1.0117	3.2333	1.7913	2.6367

Source: J.P. Morgan

## Eurobond

- After falling for several months in a row, Eurobond started bringing higher yields since beginning of February.

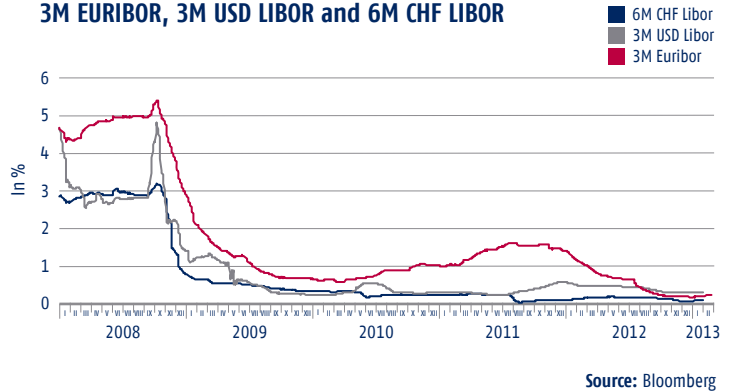
Chart 30. **USD Eurobond yields maturing in 2021 and 2017**



## International money market

- EUR, USD and CHF exchange rates were still stable and low in compliance with unchanged monetary policies of central banks of respective countries.

Chart 31. **3M EURIBOR, 3M USD LIBOR and 6M CHF LIBOR**



## Major global currencies

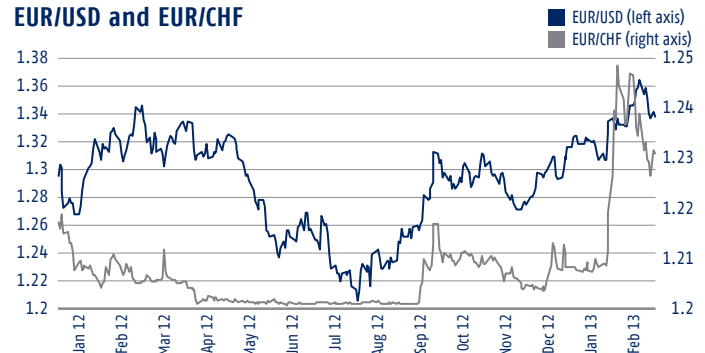
- Strengthening of the euro to US dollar and CHF continued into 2013.

Table 15. **Exchange rates**

	EUR / USD	EUR / CHF
01/01/13	1.3205	1.2078
02/12/13	1.3376	1.2308
<b>% Change</b>	<b>1.29%</b>	<b>1.91%</b>
Max	1.3640	1.2484
Min	1.3069	1.2078
Average	1.3344	1.2288
Median	1.3353	1.2317

Source: Bloomberg

Chart 32. **EUR/USD and EUR/CHF**





## Forecasts of reference rate, interest rate and exchange rate developments

- No changes occurred in trends of observed interest rates and exchange rates in February m-o-m.

Table 16. Forecast of central bank interest rates, in %

	Q1 13	Q2 13	Q3 13	Q4 13
ECB	0.75	0.75	0.75	0.75
FED	0.25	0.25	0.25	0.25
SNB	0.00	0.00	0.00	0.00

Source: Bloomberg contributor composite

Table 17. Forecast of market interest rates, in %

	Q1 13	Q2 13	Q3 13	Q4 13
3M Euribor	0.23	0.23	0.26	0.30
3M USD Libor	0.32	0.31	0.35	0.36
3M CHF Libor	0.02	0.03	0.08	0.06

Source: Bloomberg contributor composite

Table 18. Forecast of exchange rates

	Q1 13	Q2 13	Q3 13	Q4 13
EUR / USD	1.32	1.31	1.30	1.30
EUR / CHF	1.23	1.23	1.24	1.24

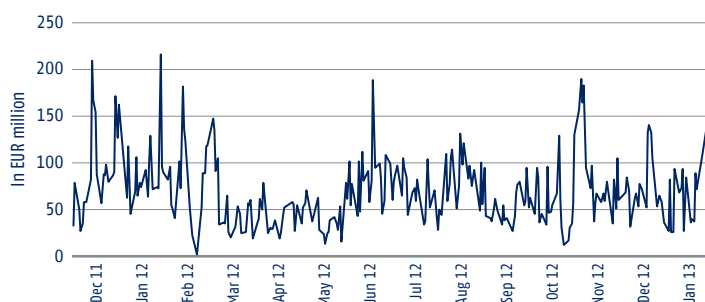
Source: Bloomberg contributor composite

## FX Market

### Volume of trading in the interbank FX market

- The total daily turnover in the interbank FX market in January 2013 was weak with EUR 1.15 billion (1.27 billion in December 2012). Data from the first half of February show the falling trend could be continuing.

Chart 33. Daily turnover in the interbank FX market

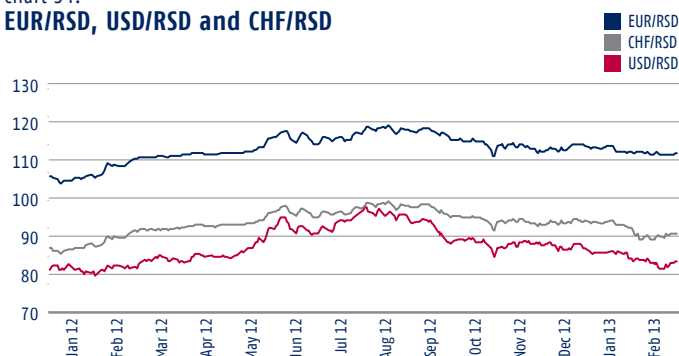


Source: NBS

### Dinar exchange rate developments

- Dinar has been appreciating since mid December due to factors explained in the exchange rate section.

Chart 34. EUR/RSD, USD/RSD and CHF/RSD



Source: NBS, Bloomberg

Table 19. RSD exchange rate to leading currencies

	EUR / RSD	USD / RSD	CHF / RSD
01/01/13	113.7183	86.1763	94.1922
02/12/13	111.6702	83.4356	90.6340
<b>% Change</b>	<b>-1.80%</b>	<b>-3.18%</b>	<b>-3.78%</b>
Max	113.7183	86.1763	94.1922
Min	111.2567	81.6520	89.3120
Average	111.9175	83.7539	90.5738
Median	111.8716	83.8429	90.9024

Source: Bloomberg

# Capital Market

- The total turnover achieved in trading in all market materials in the Belgrade Stock Exchange in January 2013 amounted to RSD 12.4 billion (app. EUR 111 million), about five times more m-o-m.
- In January the attention of investors was mostly focused on shares of the company NIS.
- Prices of shares of this company continued growing, reaching RSD 870 in mid February (736 at 2012 end, 605 at 2011 end).
- Belgrade Stock Exchange indices recorded higher values at the end of January 2013 m-o-m, Belex15 was higher by 8.8% (growth of 10.5% in December 2012), and BelexLine by 6% (+9.7% in December 2012).
- Number of transactions in January 2013 was around 41 thousand, by a third lower m-o-m.
- The share of foreign investors in the total turnover in January 2013 stood at 94.3% (28.3% in 2011).
- Expectations of SE developments shown through BelexSentiment were optimistic for the seven months in a row, standing at 123.3 index points in February (102.5 in January).

## Bond market

Table 20. RS bonds trade in January 2013

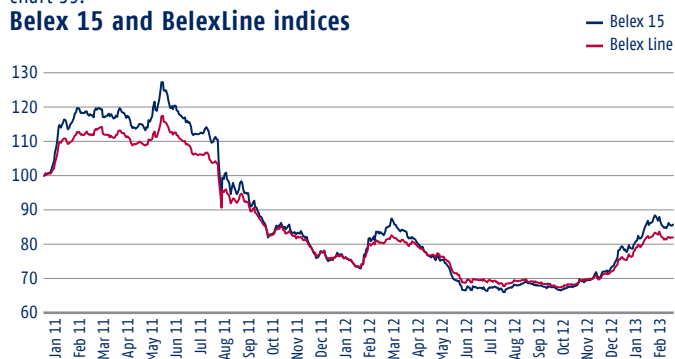
Symbol	Last price	Yield	Top price	Bottom price	Volume	EUR turnover
A2013	98.28	5.42%	98.28	98	35,103	34,441
A2014	94.00	4.77%	94.00	93.41	93,604	87,751
A2015	89.97	4.64%	90	89.01	1,500,230	1,339,306
A2016	85.30	4.89%	86	84.69	56,835	48,391
<b>Total:</b>						<b>1,509,889</b>

Source: Belgrade Stock Exchange

## Stock market

Chart 35.

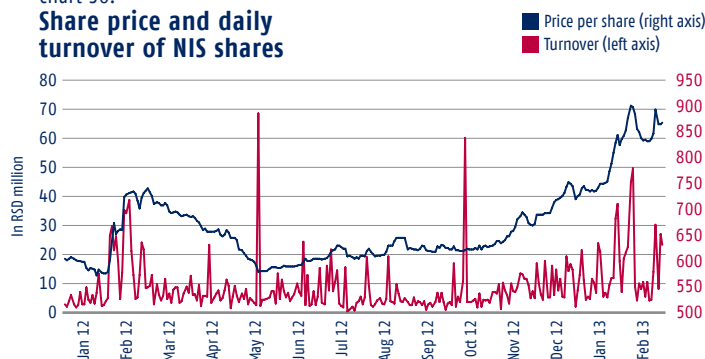
### Belex 15 and BelexLine indices



Source: Belgrade Stock Exchange

Chart 36.

### Share price and daily turnover of NIS shares



Source: Belgrade Stock Exchange

Table 21. Belex15 and BelexLine in January 2013

	BELEX 15	BELEX LINE
Index value (01 / 31 / 2013):	569.86	1,065.28
Monthly change of value:	8.77%	5.94%
Top monthly value:	572.47	1,065.28
Bottom monthly value:	524.98	1,007.26
Top historical value:	3,335.20	5,007.34
Lowest historical value:	347.46	841.99

Source: Belgrade Stock Exchange

Table 22. Most traded shares in January 2013

Symbol	Issuer	Share price change m-o-m	Turnover in RSD	Turnover in EUR
NIIS	NIS A.D. NOVI SAD	▼ -4.98%	369,385,197	3,299,260
SJPT	SOJA PROTEIN A.D. BEČEJ	▼ -21.65%	232,833,782	2,079,616
AERO	AERODROM NIKOLA TESLA A.D. BEOGRAD	▲ 30.09%	86,096,274	768,991
KMBN	KOMERCIJALNA BANKA A.D. BEOGRAD	▲ 35.19%	73,738,948	658,619
BMBI	BAMBI BANAT A.D. BEOGRAD	▲ 54.34%	53,996,600	482,285
AIKB	AIK BANKA A.D. NIŠ	▼ -17.71%	50,835,023	454,046
BBMN	BB MINAQUA A.D. NOVI SAD	▼ -10.04%	39,270,600	350,756
ENHL	ENERGOPROJEKT HOLDING A.D. BEOGRAD	▼ -55.65%	25,519,249	227,932
IMLK	IMLEK A.D. BEOGRAD	▲ 8.44%	18,591,153	166,052
FITO	GALENKA FITOFARMACIJA A.D. ZEMUN	▲ 16.00%	18,034,012	161,075

Source: Belgrade Stock Exchange



