



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



**March 2014**



# ECONOMIC DIGEST

Finance and Market Trends Guide

February 2014



January 2014



December 2013



November 2013



October 2013



September 2013



August 2013



359,464	0.3%
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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Hypo Alpe-Adria-Bank a.d. Beograd,  
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Info Center Hypo Alpe Adria bank: 0800 303 303

**Design and prepress:**

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## Overview

GDP rose by 2.4% during last year (according to RZS flash estimate), which is more than it was expected. It was mostly due to a strong rise of exports (mostly cars, car-parts and oil derivatives), while rise of imports, which was limited by weak domestic demand, grew only modestly. However, this positive effect of trade gap narrowing was in the last year largely impeded by a sharp drop of investments and households' consumption. In 2014, a positive contribution to growth might be made by investments (in line with announced projects in infrastructure, energy sector and agriculture), as well as net exports. However, a replicate of last year's rise of net exports (i.e. fall of trade deficit) will not be possible again in 2014. At the other hand, fall of households' demand will probably continue into 2014, hence at the level of this year we might expect a modest GDP growth of app. 1-1.5%.

The previous year in the world was marked by expansionary monetary policy of major central banks, above all of the American Fed, which contributed to a mild economic recovery of key global economies, due to large liquidity injections. The latter also contributed to stability of currencies of emerging countries, including Serbia, due to increased inflows of international portfolio investments into their debt markets. However, due to an increasing US' economic activity, Fed started to taper off its quantitative easing program in January, hence since the year beginning a growth of global risk aversion is visible world-wide. The growing risk-off mood, as it seems, as also contributed to weakening of many emerging countries' free floating currencies, including the dinar, which weakened by 1.1% ytd (by 20<sup>th</sup> February), even with heavy NBS interventions, i.e. net sale of EUR 530 million at interbank market. Along 2013, current account deficit (CAD) reached app. 5% of GDP, and a similar level might, most probably, be attained in 2014. Hence, dinar value might weaken by app. 3-5% at the level of 2014, in line with the still large CAD, as well as with effects from international markets.

In conditions of weak domestic demand, effects of abundant agricultural season on food prices, trend of fall of global prices of commodities, and relative dinar stability, inflationary pressures significantly weakened along 2013, hence the annual inflation at the end of last year reached only 2.2% (vs. 12.2% at the end of 2012). Starting from 1<sup>st</sup> January 2014, excise duties on oil derivatives, tobacco, coffee and alcohol were lifted, as well as the lower VAT rate (which relates mostly to basic foodstuffs) were hiked, which as it seems contributed to relatively strong monthly inflation of 1.4% in January, hence the annual inflation of 3.1% returned to the NBS targeted corridor of 4±1.5%.

Despite relatively low annual inflation, NBS held the REPO rate unchanged at 9.5% in January and February, following a total 1.5pp cut along Q4 2013. Refraining of NBS to continue with monetary easing has probably been a result of caution due to pressures on domestic currency's stability following the aforementioned Fed decision. Inflation will probably remain relatively low in the forthcoming period, which could leave room for monetary loosening in the coming months, but it will probably be conditioned upon a possible easing of global risk aversion pressures. In the meantime, loan stock from the mid 2013 is falling, while this contraction attained 5% at the level of 2013.

Budget deficit of the central state in 2013 was mildly reduced in comparison with 2012, hence due to its relatively high level (of RSD 178 bn, or app. 4.7% of GDP), starting from January 2014 a new wave of measures of fiscal consolidation is in place (which include, among other measures, increase of lower VAT rate, decrease of subsidies, freeze of public sector wages and pensions). In line with these measures, in 2014 it is planned to lift central state's fiscal revenues by 15% in comparison with 2013' execution (mostly due to planned increase of VAT incomes), as well as increase of expenditures by 13% (mostly due to strong planned growth of interest repayments, which will reach as much app. EUR 1 bn), hence the 2014 deficit will remain relatively high (4.7% of GDP at the level of central state, 5.5% at consolidated level, and 7.1% with all off-budget expenses included).

Needs for financing this deficit and maturities of previously issued debt in 2014 amount to EUR 5.5 – 6 billion. These were, to a small extent, were already met via intensive borrowing in late 2013 and early 2014, while the remaining part of these need will be financed through debt emissions at local and international markets, as well as via bilateral agreements with foreign governments and institutions. Bearing these significant needs in mind, as well as the fact that these will be largely met through borrowing, public debt could rise towards the level of 67-68% of GDP at end 2014 (vs. app. 62% of GDP at the end of January 2014).

Due to relatively high level of fiscal deficit and public debt, Fitch rating agency downgraded Serbia's credit rating by one notch to B+ (from stable outlook) from BB- (with negative outlook). In line with this credit rating downgrade, as well as the aforementioned growth of global risk aversion, yields on T-bills and bonds started to rise since mid February, following several months of compression trend.

# Macroeconomic Trends

Table 1. Macroeconomic overview

	2011	2012	Mar 13	Jun 13	Sep 13	Oct 13	Nov 13	Dec 13	2013*	2014*
<b>Economic Activity</b>										
GDP, in RSD billion	3,209	3,348	...	...	...	...	...	...	3,667	3,868
GDP, in EUR billion	31.5	29.6	...	...	...	...	...	...	32.4	32.7
Real growth rates of GDP, yoy growth rates	1.6%	-1.5%	3.0%	0.6%	3.7%	...	...	2.6%	2.4%	1.3%
GDP per capita, EUR	4,336	4,134	...	...	...	...	...	...	4,574	4,636
Industrial production, y-o-y growth rates (cumulative)	2.1%	-2.9%	5.2%	4.2%	6.4%	6.2%	6.0%	5.5%	5.5%	4.1%
<b>Prices and FX Exchange</b>										
Inflation CPI, y-o-y rates (end of period)	7.0%	12.2%	11.2%	9.8%	4.9%	2.2%	1.6%	2.2%	2.2%	6.8%
EUR/RSD rate (end of period)	104.64	113.72	111.96	114.17	114.60	114.01	114.04	114.64	114.64	121.00
<b>Labor Market</b>										
Unemployment rate (ILO definition)	23.7%	22.4%	...	...	...	20.1%	...	...	20.1%	20.1%
Average net wage, in EUR	372	366	371	382	383	383	383	388	380	388
<b>Foreign Trade and Balance of Payments</b>										
Goods exports, in EUR billion (cumulative)	8.4	8.8	2.3	5.0	8.1	9.2	10.1	11.0	11.0	11.5
Goods imports, in EUR billion (cumulative)	14.3	14.8	3.5	7.4	11.3	12.7	14.1	15.5	15.5	16.0
Trade deficit, in EUR billion (cumulative)	-5.8	-5.9	-1.3	-2.4	-3.2	-3.6	-4.0	-4.5	-4.5	-4.4
Trade deficit, in % of GDP	-18.5%	-20.1%	-16.6%	-15.3%	-13.4%	-13.3%	-13.4%	-13.8%	-13.8%	-13.5%
Current account deficit, in EUR billion (cumulative)	-2.9	-3.2	-0.7	-0.9	-1.1	-1.2	-1.3	...	-1.7	-1.7
Current account deficit, in % of GDP (cumulative)	-9.1%	-10.6%	-8.5%	-6.1%	-4.7%	-4.6%	-4.3%	...	-5.2%	-5%
Net FDI, in EUR million (cumulative)	595	230	155	294	518	607	643	...	700	800
<b>Fiscal Data</b>										
Consolidated state budget deficit, in RSD billion (cumulative)	-158.4	-217.4	-36.7	-80.9	-139.6	-145.8	-159.9	-178.7	-178.7	-224.0
Consolidated state budget deficit, in % of GDP (cumulative)	-4.9%	-6.4%	-4.2%	-4.6%	-5.2%	-4.8%	-4.8%	-4.9%	-4.9%	-5.8%
Public debt, in % of GDP	46.0%	59.0%	63.6%	60.7%	60.0%	60.5%	60.3%	62.0%	62.3%	67.5%
<b>Monetary Data</b>										
Monetary mass M3, in RSD billion	1,500	1,642	1,623	1,660	1,706	1,699	1,708	1,719	1,719	1,754
Monetary mass M3, y-o-y growth rates	10.3%	9.4%	8.2%	4.5%	6.1%	7.5%	5.9%	4.7%	4.7%	2.0%
Credit to private sector, in EUR billion	16.7	16.8	16.9	16.5	16.3	16.1	15.9	15.9	15.9	15.6
Credit to private sector, including cross-borders, in EUR billion	25.7	26.3	26.3	25.9	25.6	25.3	25.2	...	25.3	25.4
Household savings, in EUR billion	7.4	8.0	8.1	8.1	8.1	8.1	8.1	8.1	8.4	8.6
REPO rate, end of period	9.75%	11.25%	11.75%	11.00%	11.00%	10.50%	10.00%	9.50%	9.50%	9.75%
<b>International Data</b>										
Eurozone GDP real growth rates y-o-y	1.4%	-0.6%	-1.2%	...	...	...	...	...	-0.4%	1.1%
Unemployment rate in EZ (ILO definition)	10.2%	11.4%	...	...	...	...	...	...	12.1%	12.1%
ECB rate, end of period	1.0%	0.75%	0.75%	0.50%	0.50%	0.50%	0.25%	0.25%	0.25%	0.25%
EUR/CHF rate, end of period	0.89	1.21	1.22	1.23	1.22	1.23	1.23	1.23	1.23	1.26
EUR/USD rate, end of period	26.43	1.32	1.28	1.30	1.35	1.36	1.36	1.37	1.37	1.28
Euribor 3M, end of period	1.36%	0.19%	0.21%	0.22%	0.23%	0.23%	0.23%	0.29%	0.29%	0.30%
Libor 3M, end of period	0.05%	0.01%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.05%
Bosnia and Herzegovina GDP real growth rates y-o-y	1.3%	-0.7%	...	...	...	...	...	...	0.0%	0.8%
Croatia GDP real growth rates y-o-y	0.0%	-2.0%	...	...	...	...	...	...	-1.3%	-0.7%
Hungary GDP real growth rates y-o-y	1.7%	-1.7%	...	...	...	...	...	...	0.0%	1.3%
Russia GDP real growth rates y-o-y	4.3%	3.4%	...	...	...	...	...	...	3.4%	2.7%
Slovenia GDP real growth rates y-o-y	0.6%	-2.3%	...	...	...	...	...	...	-2.8%	-1.4%
Turkey GDP real growth rates y-o-y	8.5%	2.2%	...	...	...	...	...	...	4.0%	4.5%

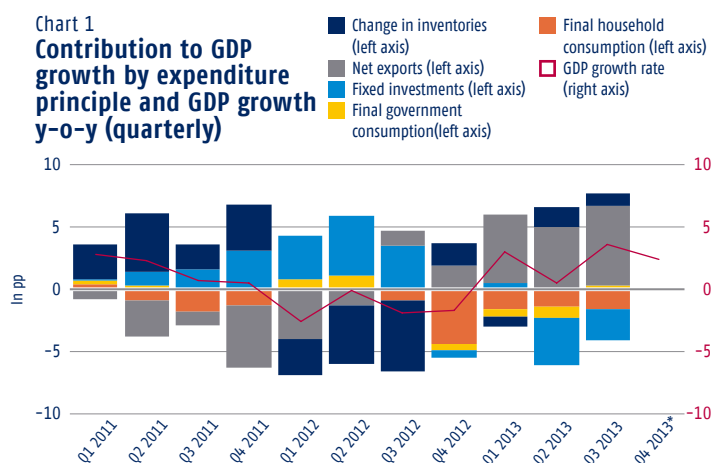
\* forecasts, flash estimate

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

## Economic activity

- Last year, the economic activity grew by 2.4% in real terms according to a flash estimate of the Serbian Statistics Office.
- This growth was incited by a slump in the trade deficit, whereas investments and household and government consumption made negative contributions, Chart 1.
- Observed by the production principle, the major positive contribution to the GDP growth was made by the agriculture and processing industry, with the major negative contribution being made by the construction industry, Table 2.
- As a result of announced projects in the segments of infrastructure, energy and agriculture, investments could make the major positive contribution to the economic growth in 2014.
- On the other side, the effect of an extreme fall of the trade deficit such as the one recorded in 2013 will not be possible this year, whereas the domestic demand decrease will most likely continue, so that we may expect only a mild growth of the GDP of app. 1-1.5% in 2014.

Chart 1  
Contribution to GDP growth by expenditure principle and GDP growth y-o-y (quarterly)



\* Serbian Statistics Office flash estimate

Source: Serbian Statistics Office, Hypo Research

Table 2 Real GDP growth, by sector

	2012	Q1 2013	Q2 2013	Q3 2013	2012	Q1 2013	Q2 2013	Q3 2013	2012	Q1 2013	Q2 2013	Q3 2013
	GDP growth y-o-y				Share in GDP				Contribution to GDP growth			
	In %				In pp							
Agriculture, forestry and fishing	-17.3	22.9	21.0	18.7	9.1	8.5	8.8	9.1	-1.5	1.4	1.3	1.6
Mining and quarrying	-1.8	7.0	2.3	8.3	1.8	1.9	1.5	1.7	0.0	0.1	0.0	0.1
Manufacturing	1.1	4.4	3.2	8.7	15.1	13.2	15.5	15.0	0.2	0.6	0.5	1.2
Electricity, gas and steam supply	-7.1	3.2	3.2	20.5	3.4	4.1	2.7	3.4	-0.2	0.1	0.1	0.6
Water supply, sewerage, waste management and remediation activities	1.3	2.7	2.2	2.3	1.2	1.4	1.4	1.3	0.0	0.0	0.0	0.0
Construction	-0.8	-21.1	-37.6	-26.0	4.0	2.1	2.3	3.2	0.0	-0.8	-1.8	-1.2
Wholesale and retail trade; repair of motor vehicles and motorcycles	0.2	-3.2	-4.1	-1.4	9.2	8.6	9.0	8.8	0.0	-0.3	-0.4	-0.1
Transportation and storage	0.0	5.4	0.0	-3.5	4.7	5.1	5.0	4.3	0.0	0.3	0.0	-0.2
Accommodation and food service activities	-2.0	0.7	0.7	0.3	1.0	1.0	1.1	1.0	0.0	0.0	0.0	0.0
Information and communication	4.8	11.4	9.9	12.5	4.3	5.2	5.0	4.7	0.2	0.6	0.5	0.6
Financial and insurance activities	4.0	1.8	-0.5	-2.7	3.0	3.4	3.2	3.0	0.1	0.1	0.0	-0.1
Real estate activities	0.1	-0.7	-0.5	-0.4	9.1	10.3	9.7	9.0	0.0	-0.1	-0.1	0.0
Professional, scientific and technical activities	3.7	10.7	6.7	4.0	3.7	4.2	4.1	3.9	0.1	0.4	0.2	0.1
Administrative and support service activities	2.0	6.2	8.3	7.8	1.5	1.7	1.7	1.6	0.0	0.1	0.1	0.1
Public administration and defence; compulsory social security	3.1	3.6	2.8	1.8	3.6	4.0	3.7	3.5	0.1	0.1	0.1	0.1
Education	0.1	1.2	1.4	1.1	3.8	4.3	4.1	3.9	0.0	0.1	0.1	0.0
Human health and social work activities	-1.2	-0.8	-0.6	-0.5	5.1	5.7	5.5	5.2	-0.1	0.0	0.0	0.0
Arts, entertainment and recreation	0.7	4.9	5.2	2.9	1.0	1.2	1.2	1.2	0.0	0.1	0.1	0.0
Other service activities	1.5	-17.8	-28.4	-28.0	1.1	1.0	0.8	0.8	0.0	-0.3	-0.4	-0.4
Activities of households as employers	0.0	-8.2	-17.2	-17.4	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
<b>GDP</b>	<b>-1.5</b>	<b>3.0</b>	<b>0.6</b>	<b>3.7</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>-1.5</b>	<b>3.0</b>	<b>0.6</b>	<b>3.7</b>

Source: Serbian Statistics Office

**International environment**

- Last year featured highly expansionary monetary policies of major world central banks (primarily the American Fed) which made a contribution to the mild economic recovery of key world economies, indicated by the GDP growth acceleration in the USA and by Eurozone's recession slowing down along 2013.
- Relying on the rise of the economic activity in the USA, the American central bank Fed reduced the volume of its securities buying program (so-called quantitative easing) in January and February 2014 by the total of USD 20 billion to USD 65 billion per month.
- This decision of the Fed obviously boosted the global risk aversion, evidenced by the fall of indices at major stock exchanges at 2013 end and 2014 beginning, Chart 2.
- Despite the said risk aversion intensification, the acceleration of the economic activity at global level is likely to continue in the forthcoming period, indicated by a several-month growth trend of the index of the processing industry purchasing managers' sentiment (PMI), Chart 3.

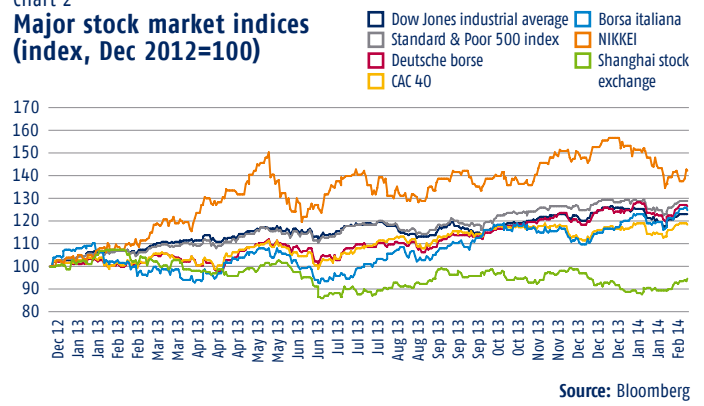
**Agriculture**

- Autumn crops sowing (wheat being the most important) was finished mostly in the optimum period, i.e. October end and November beginning of 2013.
- At 2014 beginning, the weather was mostly warm and relatively dry for this period, which could adversely affect the growth and development of autumn field crops and fruits. But also, possibly, cause postponement of sowing activities for certain spring crops (such as sugar beet).

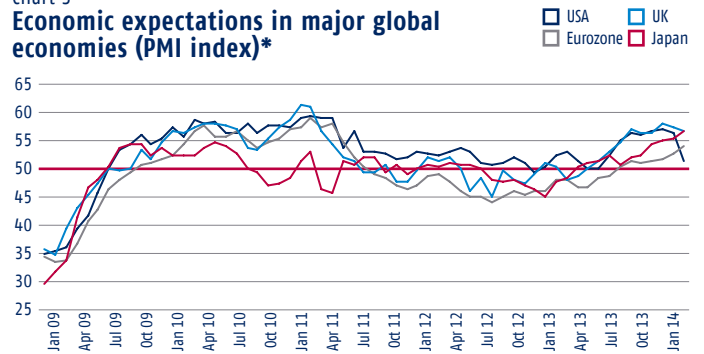
**Retail trade**

- The downward trend of the retail trade turnover which started at mid-2012 continued throughout 2013 when the contraction in real terms stood at 5.1% y-o-y, Chart 5.
- A mild real growth of the retail trade turnover y-o-y achieved at 2013 end, was not, seemingly, indicative of the recovery of the household demand but it resulted, most probably, from the very low basis in Q4 2012.

**Chart 2**  
Major stock market indices (index, Dec 2012=100)

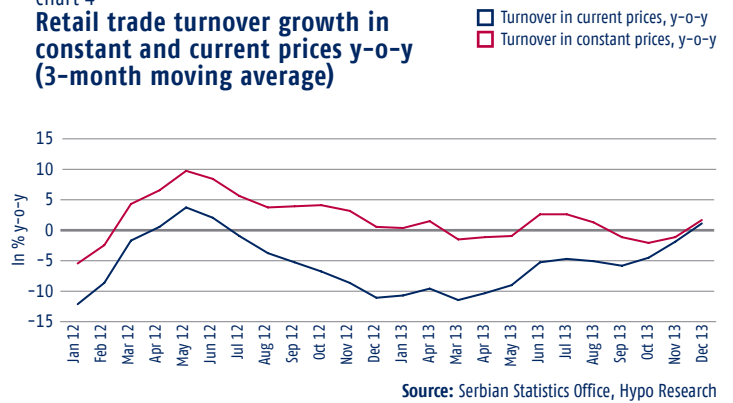


**Chart 3**  
Economic expectations in major global economies (PMI index)\*



\* PMI (Purchasing Managers' Index) is a monthly index of the processing industry purchasing managers' sentiment who report in surveys whether their operation is (i) improved, (ii) deteriorated, or (iii) unchanged m-o-m. The index ranges 0≤x≤100, where the values 0≤x<50 represent deterioration, x=50 represents no change and 50<x≤100 represents improvement.

**Chart 4**  
Retail trade turnover growth in constant and current prices y-o-y (3-month moving average)



## Construction industry

- Slumping of the construction activity volume, which started at mid-2012, continued throughout 2013 as well, most likely caused by weak domestic demand.
- Thus, the value of performed works in 2013 fell by 15% y-o-y and this intense fall most likely continued in first months of 2014, if we consider the plummeting trend of the value of contracted works (-43% in Q3 2013 y-o-y; -33% in Q4 2013 y-o-y), Chart 5.

## Industrial production

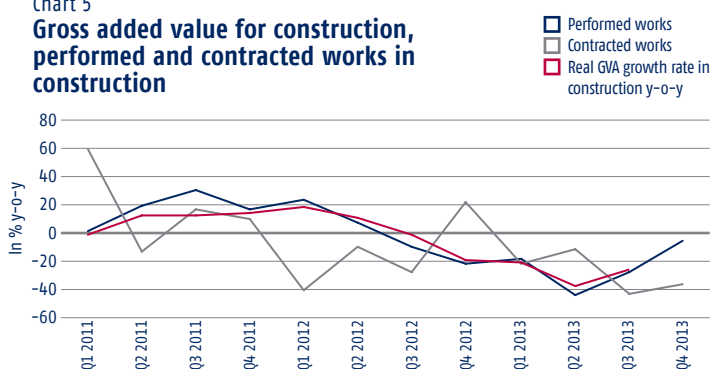
- The upward trend of the industrial production volume, starting at 2012 end, continued throughout last year, when this growth stood at 5.5%, Chart 6.
- This recovery was primarily contributed by intense growth of the production of motor vehicles (2013 figure: +140% y-o-y) and oil derivatives (+50%), reflecting the start of the mass production of FIAT cars and enhancement of capacities and modernisation of the NIS refinery in Pančevo.
- In late 2013, motor vehicles production volume growth slows down, mainly due to diluting of low basis effect (given that the FIAT' plant started serial production in late 2012), but also due to temporary shut down of production in FIAT plant in second half of December 2013, due to holidays.
- Q4 2013 featured mild recovery of the food industry production, after a contraction occurring at 2012 end and for the major part of 2013. This recovery was most likely a result of the large agricultural production following the previous year's season, as well as the low basis effect from late 2012.
- On the other side, during ending months of 2013, the production of pharmaceuticals decreased, most probably due to the effect of the very high basis from Q4 2012, as well as the production of non-metal minerals, seemingly due to the slump of the local construction activity.

Table 3 Industrial production growth, in % y-o-y

	2012	2013	Dec 12	Dec 13
	In %			
<b>INDUSTRY TOTAL</b>	-2.9	5.5	0.7	0.5
<b>Manufacturing industry</b>	-1.8	4.8	1.8	-1.9
Food products	0.7	-4.6	-11.5	12.6
Beverages	3.4	-7.3	0.6	-2.1
Tobacco products	-6.7	-7.3	4.9	30.5
Textiles	-1.9	-2.3	-9.1	-21.8
Clothing	10.4	-5.0	26.5	-20.6
Leather and related products	-12.3	-5.8	3.1	-18.7
Wood and products of wood, except furniture	20.0	-0.3	-23.2	47.8
Paper and paper products	5.2	-0.1	-1.4	15.3
Printing and reproduction of recorded media	0.8	-3.4	-17.7	-3.7
Coke and refined petroleum products	-4.7	48.2	36.4	-9.7
Chemicals and chemical products	-18.5	23.9	-7.2	7.6
Basic pharmaceutical products	12.5	4.7	60.8	-49.0
Rubber and plastic products	18.4	-7.9	18.7	26.1
Other non-metallic mineral products	-7.0	-13.7	-12.8	-19.1
Basic metals	-46.7	-7.8	-50.7	-7.5
Fabricated metal products, except machinery	12.6	5.3	11.6	-22.9
Computer, electronic and optical products	-2.0	-44.4	-30.1	-5.6
Electrical equipment	-0.7	11.2	-11.4	2.6
Machinery and equipment n.e.c.	3.8	-34.4	25.7	-29.8
Motor vehicles, trailers and semi-trailers	16.5	139.3	158.2	27.0
Other transport equipment	-19.8	-33.5	-75.7	63.3
Furniture	3.4	-1.4	-26.9	-0.6
Other manufacturing	2.3	19.9	-9.3	150.2
Repair and installation of machinery and equipment	-11.0	0.4	-9.3	-4.4
<b>Mining and quarrying</b>	-2.2	5.3	-4.7	5.7
<b>Electricity, gas, steam and air conditioning supply</b>	-7.1	8.1	-1.6	5.9

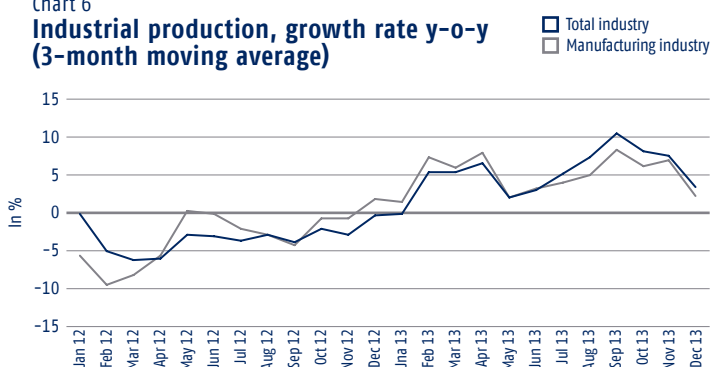
Source: Serbian Statistics Office, Hypo Research

Chart 5  
Gross added value for construction, performed and contracted works in construction



Source: Serbian Statistics Office, Hypo Research

Chart 6  
Industrial production, growth rate y-o-y (3-month moving average)



Source: Serbian Statistics Office, Hypo Research

## Prices

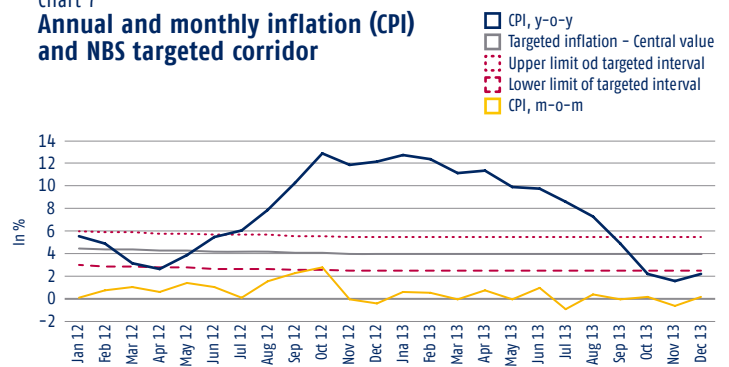
- The year 2013 and beginning of 2014 featured weakening of inflationary pressures primarily due to small domestic demand, effects of favourable last year's agricultural season to food prices, lowering of international prices of raw materials, as well as relative dinar stability for the largest part of 2013.
- Thus, the average monthly inflation in 2013 stood at only 0.2% (cf. 1% in 2012), and at the year end, the annual inflation stood at 2.2% (cf. 12.2% in 2012).
- From 1<sup>st</sup> January 2014, excise duties (on oil derivatives, tobacco, coffee and alcohol) and lower VAT rate (mostly on basic foodstuffs) are hiked.
- The latter has as it seems contributed to a relatively strong monthly inflation of 1.4% in January, so annual inflation of 3.1% in this month returned to the NBS targeted corridor of 4±1.5%.
- However, in the forthcoming period only a mild inflationary speedup is probable, bearing in mind, above all, the weak domestic demand.

Table 4 **Products with the highest contribution to inflation in 2013**

Total	December 2013 / December 2012	
	inflation (cpi) in % 2.20	contributions in pp 2.20
<b>Products with largest contribution to growth of prices</b>		
Electric energy for households	10.8	0.8
Tobacco	15.6	0.6
Pharmaceuticals	12.2	0.4
<b>Products with largest contribution to fall of prices</b>		
Fruit	-17.9	-0.4
Bread and cereals	-2.8	-0.2
Fuels and oils for passenger vehicles	-3.9	-0.2

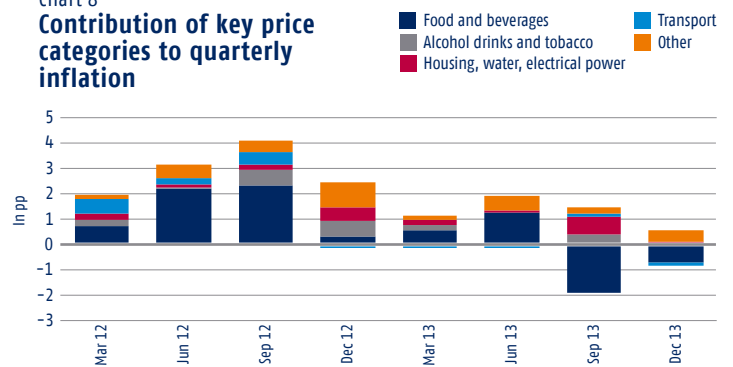
Source: Serbian Statistics Office, Hypo Research

Chart 7 **Annual and monthly inflation (CPI) and NBS targeted corridor**



Source: Serbian Statistics Office, NBS, Hypo Research

Chart 8 **Contribution of key price categories to quarterly inflation**



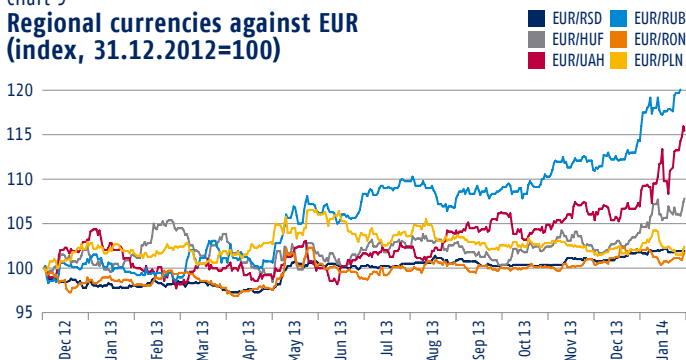
Source: Serbian Statistics Office, Hypo Research

## Exchange rate

- The decision of the American Fed to start reducing the volume of quantitative easing caused the growth of the global risk aversion from the year beginning, most likely contributing also to weakening of dinar, as well as other regional currencies with the free-floating exchange rate regime.
- Thus, from the year beginning (until 20<sup>th</sup> February), dinar fell by 1.1%, whereas the Russian ruble depreciated by 8.3% relative to euro, the Ukrainian hryvnia depreciated by 7.9%, the Hungarian forint depreciated by 5.6%, the Turkish lira depreciated by 2.3%, the Romanian leu depreciated by 1.1% and the Polish zloty depreciated by 0.6%, Chart 9.

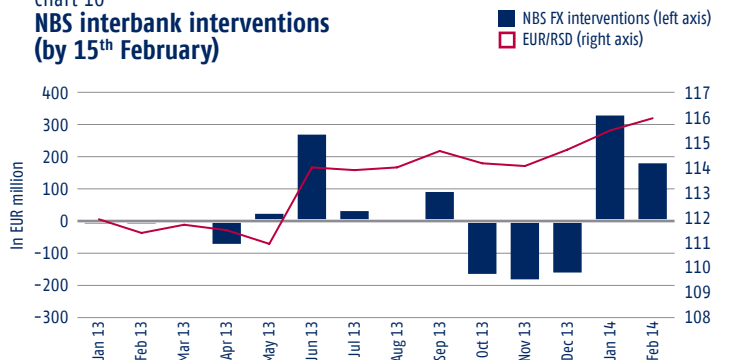
- In order to mitigate the said depreciation pressures, the NBS intervened by selling EUR 510 million from the year beginning (until 20<sup>th</sup> February), Chart 10.
- On mid-term, the value of dinar could continue its gradual weakening, primarily in line with fundamentals, i.e. substantial current account deficit coupled by cross-border deleveraging of the private sector, so that the dinar may nominally depreciate by 3-5% at the 2014 level.

Chart 9 **Regional currencies against EUR (index, 31.12.2012=100)**



Source: Bloomberg, NBS, Hypo Research

Chart 10 **NBS interbank interventions (by 15<sup>th</sup> February)**



Source: NBS, Hypo Research



## Unemployment and wages

- The number of unemployed persons in Serbia, according to the Labour Force Survey of the Serbian Statistics Office, decreased by as much as app. 100,000 between April 2013 and October 2013, i.e. from 24.1% to 20.1% of the total active population, Table 5.
- On the other side, the data of the National Employment Service indicate the fall of the number of the unemployed by app. 30,000 in the same period.
- In 2013, average wages increased by 8.3% nominally in dinars, while their real growth stood at 5.9% and wages expressed in euros grew by 7.2%, Chart 11.

Table 5 Labour force indices

	Oct 08	Oct 09	Oct 10	Oct 11	Oct 12	Apr 13	Oct 13
1. Total population	7,528,262	7,528,262	7,468,619	7,423,941	7,389,107	7,151,162	7,137,605
2. Population aged 15 and over	6,350,328	6,350,328	6,317,887	6,293,860	6,272,286	6,130,371	6,117,563
3. Labour force*	3,262,512	3,107,557	2,949,027	2,916,350	2,964,542	2,936,120	2,997,556
4. Employed	2,805,307	2,590,188	2,382,307	2,224,508	2,299,068	2,227,432	2,394,004
5. Unemployed**	457,205	517,369	566,720	691,841	665,474	708,688	603,553
	In %						
6. Activity rate (labour force participation) (3:2)	51.4	48.9	46.7	46.3	47.3	47.9	49.0
7. Employment rate (4:2)	44.2	40.8	37.7	35.3	36.7	36.3	39.1
<b>8. 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>	<b>24.1</b>	<b>20.1</b>
9. Youth unemployment	37.4	42.5	46.1	51.9	51.2	49.7	49.1
<b>PRO MEMORIA</b>							
	In %						
Unemployment rate							
Croatia	8.5	9	11.9	13.5	17.0	21.7	21.7
Slovenia	4.2	6.4	7.6	8.6	10.1	13	13
Euro area	7.7	9.9	10.2	10.3	11.7	12.1	12.1

\* 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

Table 6 Average cumulative\* wage in Serbia

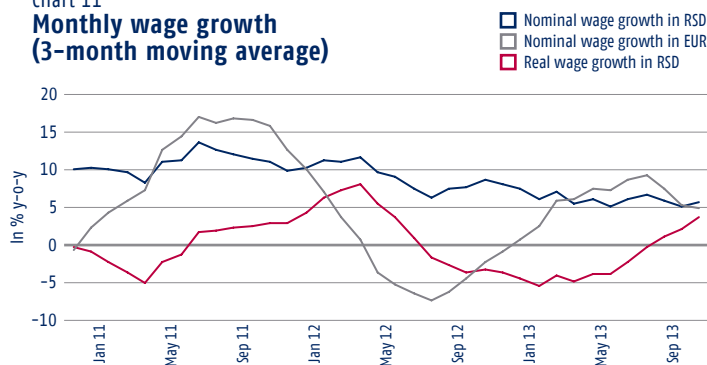
	2011	2012	Mar 13	Jun 13	Sep 13	Nov 13	Dec 13
Average cumulative wage in RSD	37,976	41,377	41,403	42,817	43,188	44,120	50,820
Average cumulative wage in EUR	372	366	371	382	383	387	443

\* Cumulative wage is an average of monthly wages in all previous months of the year.

Source: Serbian Statistics Office, Hypo Research

Chart 11

### Monthly wage growth (3-month moving average)

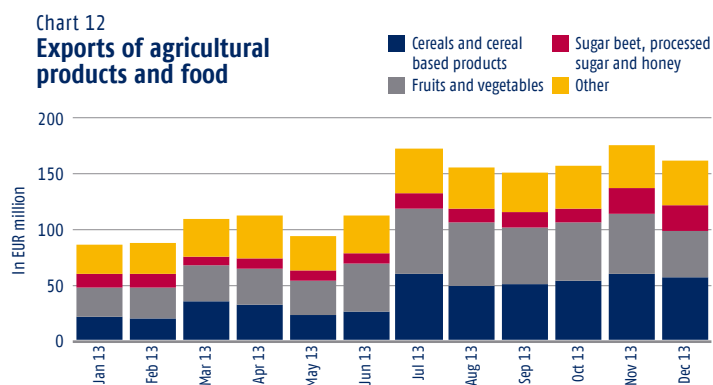


Source: Serbian Statistics Office, Hypo Research

## Foreign trade and balance of payments

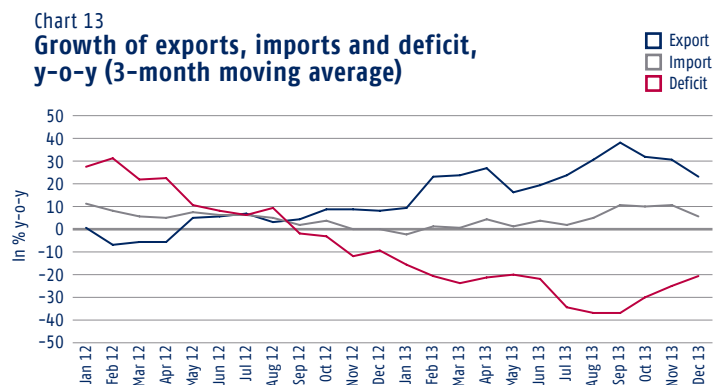
- Last year featured an intense growth of exports, predominantly contributed by the mass production and exports of FIAT cars (in 2013, the exports stood at EUR 1.5 billion, as opposed to the 2012 figure of EUR 300 million), as well as the growth of exports of chemicals, rubber and plastics, electrical equipment and coke and oil derivatives to much smaller extent.
- In late 2013, growth rate of export has been slowing down, mainly due to diluting low basis effect in the automobile sector (given that the serial production and exports of FIAT cars started in late 2012).
- In H1 2013, the exports of food and agricultural products made a slump of as much as 23% y-o-y, predominantly due to small supplies resulting from the bad 2012 season and extreme last year's fall of global prices of these commodities relative to 2012.
- Still, as a result of the good last year's season, H2 2013 recorded recovery of the exports of food and agricultural products, Chart 12.
- Thus, the total exports of goods in 2013 reached EUR 11 billion, being approximately a quarter higher than the 2012 figure.
- On the other side, the growth of imports was very limited last year most probably due to small domestic demand and lower international prices of raw materials.
- Thus, the 2013 imports increased by 5.1% y-o-y and reached EUR 15.5 billion, whereas the trade deficit stood at EUR 4.5 billion, being 25% smaller than the 2012 result, Chart 13.
- As a result of smaller trade deficit and larger remittance inflow, the current account deficit stood at EUR 1.3 billion (4.3% of GDP) for the first eleven months of 2013, which is 55% smaller y-o-y, Table 8.

Chart 12  
Exports of agricultural products and food



Source: NBS, Hypo Research

Chart 13  
Growth of exports, imports and deficit, y-o-y (3-month moving average)



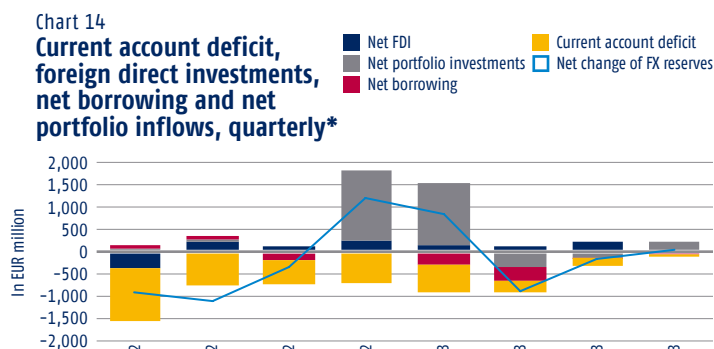
Source: NBS, Hypo Research

Table 7 Growth rates of exports of individual categories by sector

Export by segment	Growth rate in 2012	Growth rate in 2013	Share in 2012	Share in 2013	Contribution to total growth in 2012	Contribution to total growth in 2013	Total exports in 2012	Total exports in 2013
	In % y-o-y		In %		In pp		In EUR million	
Agricultural and food products	8.1	-1.0	22.0	17.3	1.7	-0.2	1,920.2	1,900.2
Energy and ores	-19.0	73.2	1.8	2.5	-0.4	1.3	156.5	271.1
Coke and oil derivatives	13.6	52.0	2.3	2.8	0.3	1.2	201.1	305.7
Chemicals and chemical products	-25.4	59.3	4.7	6.0	-1.7	2.8	412.9	657.8
Rubber and plastics products	12.7	22.9	7.1	6.9	0.8	1.6	619.4	761.1
Base metals	-38.8	-1.4	9.5	7.4	-6.2	-0.1	827.4	816.0
Electrical equipment	14.7	23.6	6.9	6.8	0.9	1.6	602.3	744.5
Motor vehicles and trailers	109.5	181.7	8.0	17.8	4.3	14.5	696.1	1,960.7
Other segments	10.8	8.4	37.8	32.6	3.8	3.2	3,304.2	3,581.9
<b>Total exports</b>	<b>3.5</b>	<b>25.8</b>	<b>100.0</b>	<b>100.0</b>	<b>3.5</b>	<b>25.8</b>	<b>8,740.1</b>	<b>10,999.0</b>

Source: Serbian Statistics Office, Hypo Research

- At the same time, net capital inflows (mostly to portfolio investments and somewhat less to FDIs and bilateral government borrowing) exceeded net outflows by EUR 900 million (predominantly on the basis of deleveraging of banks, the NBS and companies), so that FX reserves fell by app. EUR 215 million for the first eleven months of 2013, Chart 14.



\* Q4 data include only October and November 2013.

Source: NBS, Hypo Research

Table 8 Serbian balance of payments

	Monthly		Cumulative YTD		
	Nov 12	Nov 13	Nov 12	Dec 12	Nov 13
<b>I CURRENT TRANSACTIONS</b>	<b>-69.4</b>	<b>-53.5</b>	<b>-2,826.4</b>	<b>-3,155.8</b>	<b>-1,280.6</b>
1. Goods	-394.1	-321.1	-4,937.7	-5,450.4	-3,525.1
Exports of goods	827.4	1,002.1	7,974.6	8,822.3	10,056.8
Imports of goods	-1,221.5	-1,323.2	-12,912.3	-14,272.7	-13,581.9
2. Services	42.8	42.7	119.7	152.3	270.6
Exports of services	265.8	279.9	2,784.4	3,091.1	3,061.3
Imports of services	-223.0	-237.2	-2,664.7	-2,938.8	-2,790.8
3. Revenues (net)	-43.8	-54.3	-717.3	-798.5	-932.0
Receipts	27.5	45.6	458.7	547.3	436.0
Expenditure	-71.3	-99.9	-1,175.9	-1,345.7	-1,368.0
4. Current transfers	325.6	279.1	2,708.9	2,940.8	2,905.9
of which inflow of remittances	249.9	199.3	1,841.7	1,989.1	2,058.5
<b>II CAPITAL TRANSACTIONS (net)</b>	<b>-0.2</b>	<b>-1.6</b>	<b>-9.4</b>	<b>-10.8</b>	<b>11.0</b>
<b>III FINANCIAL ACCOUNT</b>	<b>84.3</b>	<b>92.2</b>	<b>2,597.4</b>	<b>2,883.9</b>	<b>1,120.5</b>
1. Direct investments (net)	55.7	35.8	146.9	241.9	642.8
2. Portfolio investments (net)	604.5	206.5	1,600.8	1,665.9	1,134.4
3. Other investments	-80.7	-87.5	-616.0	-161.0	-871.0
3.1. Trade loans (net)	26.9	74.8	406.0	449.5	311.6
3.2. Financial loans (net)**	-114.6	-119.2	-415.4	-438.1	-887.3
NBS	-104.9	-99.3	-219.3	-219.3	-600.2
Government	82.1	20.8	215.9	261.0	468.7
Banks	-95.1	-29.3	-419.7	-503.3	-502.6
Other sectors	3.3	-11.3	7.7	23.6	-253.2
3.3. Cash and deposits (net)	7.1	-43.0	-606.6	-172.5	-295.3
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**	-495.2	-62.7	1,465.7	1,137.2	214.3
<b>IV ERRORS AND OMISSIONS (net)</b>	<b>-14.7</b>	<b>-37.0</b>	<b>238.5</b>	<b>282.6</b>	<b>149.1</b>
<b>V TOTAL BALANCE without reserve with NBS</b>	<b>495.2</b>	<b>62.7</b>	<b>-1,465.7</b>	<b>-1,137.2</b>	<b>-214.3</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 2013, FX reserves increased by app. EUR 260 million (the difference in relation to the balance of payments implies currency changes and changes of market values of reserves of certain components of FX reserves).
- In this period, net own reserves of the NBS increased by almost EUR 970 million, the state deposit with the NBS increased by EUR 360 million, while commercial bank deposits decreased by app. EUR 230 million, Table 9.

Table 9 NBS FX reserves

	In EUR million				
	Dec 11	Dec 12	Jun 13	Sep 13	Dec 13
Commercial banks foreign exchange reserves	809	1,056	1,006	1,116	913
Gross Foreign Exchange Reserves	12,135	10,995	10,746	10,518	11,259
Foreign Liabilities	-1,705	-1,458	-1,147	-953	-757
IMF	-1,626	-1,392	-1,083	-893	-699
Other Liabilities	-79	-66	-64	-59	-58
<b>Structure of NBS net foreign exchange reserves</b>					
1. National Bank of Serbia, net	10,429	9,537	9,599	9,565	10,502
1.1 Commercial banks deposits	-3,638	-2,835	-2,777	-2,690	-2,601
1.2 Government deposits	-945	-930	-912	-751	-1,292
1.3 Net own reserves of NBS (1.3 = 1+1.1+1.2)	5,847	5,772	5,910	6,124	6,609

Source: NBS

## Serbian external debt

In 2013, the total Serbian external debt decreased by app. EUR 600 million to close to EUR 25.1 billion. Out of this amount, the state external debt increased by EUR 270 million, while the private sector

debt decreased by EUR 870 million (i.e. the bank debt decreased by EUR 700 million and the corporate debt decreased by EUR 170 million), Table 10.

Table 10 Serbian external debt, private and public\*

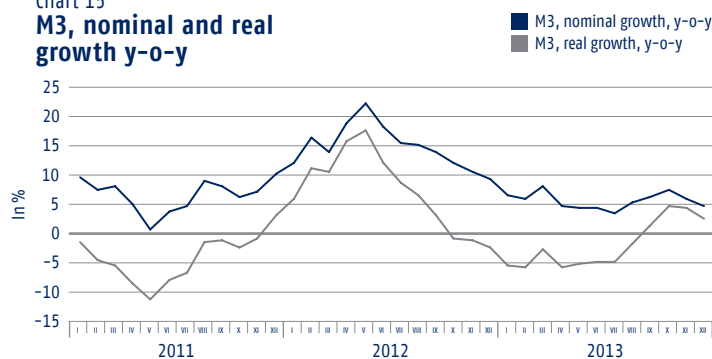
	Dec 09	Dec 10	Dec 11	Dec 12	Mar 13	Jun 13	Sep 13	Dec 13
In EUR million								
State	7,764	9,076	10,773	12,187	13,483	12,914	12,786	12,457
out of that: IMF	1,532	1,978	2,077	1,841	1,700	1,526	1,330	1,131
Private sector	14,724	14,710	13,352	13,534	13,239	13,156	12,899	12,667
Banks	4,310	5,093	4,364	4,100	3,833	3,773	3,598	3,400
Companies	10,414	9,617	8,988	9,434	9,405	9,383	9,300	9,267
<b>Total Serbian foreign debt</b>	<b>22,487</b>	<b>23,786</b>	<b>24,125</b>	<b>25,721</b>	<b>26,721</b>	<b>26,070</b>	<b>25,684</b>	<b>25,124</b>
In % GDP								
State	26.8	32.4	34.2	40.7	44.2	41.5	40.2	38.4
Private sector	50.9	52.5	42.4	45.2	43.4	42.2	40.6	39.1
Banks	14.9	18.2	13.9	13.7	12.6	12.1	11.3	10.5
Companies	36.0	34.3	28.6	31.5	30.9	30.1	29.2	28.6
<b>Total Serbian foreign debt</b>	<b>77.7</b>	<b>84.9</b>	<b>76.7</b>	<b>85.8</b>	<b>87.7</b>	<b>83.7</b>	<b>80.8</b>	<b>77.5</b>

\* 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

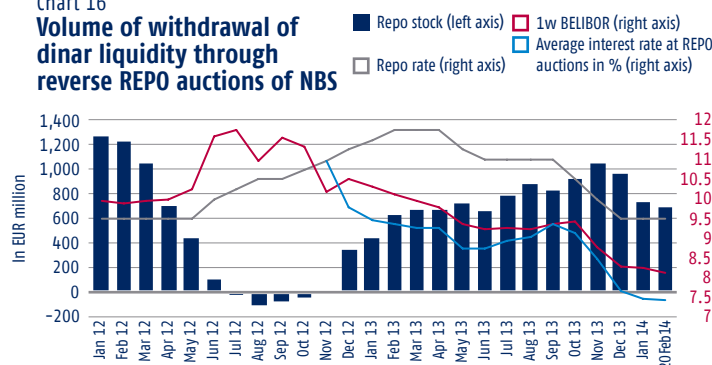
- After a year-long contraction, the money supply M3 (representing cash in circulation and transactional, dinar and FX deposits) started making real growth y-o-y since September, being seemingly a result of financing the fiscal deficit through foreign borrowing. Thus, the growth of the M3 money supply in 2013 reached 2.5% (following the fall of 2.5% in 2012), Chart 15.
- In spite of very weak inflationary pressures, the NBS retained the repo rate unchanged in January and February, standing at 9.5%, following the decrease by the total of 150 bp in Q4 2013.
- The two-month pausing in changing the level of monetary restrictiveness was possibly a consequence of higher external risks after the said FED decision to reduce the volume of the quantitative easing program.
- Although inflation will probably remain relatively low in coming months, which could leave room for loosening, a return to monetary easing cycle will probably be conditioned upon easing of the ongoing global surge in risk aversion.
- In February, the NBS mildly lowered the volume of withdrawing dinar liquidity through reverse repo operations to the average of app. RSD 100 billion (until 20<sup>th</sup> February), following the average withdrawal of app. RSD 112 billion at January auctions, Chart 16.
- The credit growth (adjusted by the effect of the change of the RSD exchange rate for indexed loans) was decelerating from 2013 beginning, entering the negative zone in July. Thus, the credit activity in 2013 fell by 5% (following the growth of 3.5% in 2012), Chart 17.
- In 2013, retail savings increased by 3.5%, i.e. by app. EUR 280 million, to EUR 8.44 billion, Table 12.
- At January 2014 end, Univerzal banka was withdrawn its operating licence and all deposit-related obligations were taken by the Deposit Insurance Agency.

Chart 15  
M3, nominal and real growth y-o-y



Source: NBS, Hypo Research

Chart 16  
Volume of withdrawal of dinar liquidity through reverse REPO auctions of NBS



Source: NBS, Hypo Research

Table 11 Consolidated balance of commercial banks

In EUR million

	End of period balance					
	Dec 11	Dec 12	Mar 13	Jun 13	Sep 13	Dec 13
<b>TOTAL ASSETS</b>	<b>27,732</b>	<b>27,775</b>	<b>28,043</b>	<b>27,675</b>	<b>27,840</b>	<b>27,835</b>
<b>Liquid assets</b>	<b>8,228</b>	<b>7,799</b>	<b>7,851</b>	<b>8,004</b>	<b>8,361</b>	<b>8,683</b>
Cash and deposits with NBS	4,635	4,431	4,468	4,465	4,311	4,042
of which: mandatory reserve (allocated fx reserve+calculated RSD reserve)	4,319	4,036	4,061	4,033	3,947	3,747
FX liquid assets	1,208	1,489	1,209	1,383	1,571	1,692
Placements to repo, NBS and RS t-bills	2,384	1,879	2,173	2,156	2,479	2,949
<b>Placements (gross)</b>	<b>17,677</b>	<b>18,176</b>	<b>18,240</b>	<b>17,902</b>	<b>17,672</b>	<b>17,346</b>
Companies	10,644	10,762	10,745	10,295	10,020	9,708
Households	5,751	5,739	5,799	5,852	5,911	5,909
Other	1,282	1,674	1,696	1,755	1,740	1,729
<b>Fixed and other assets</b>	<b>1,827</b>	<b>1,800</b>	<b>1,952</b>	<b>1,768</b>	<b>1,807</b>	<b>1,805</b>
<b>TOTAL LIABILITIES</b>	<b>27,732</b>	<b>27,775</b>	<b>28,043</b>	<b>27,675</b>	<b>27,840</b>	<b>27,835</b>
<b>Deposits</b>	<b>13,301</b>	<b>13,623</b>	<b>13,784</b>	<b>13,845</b>	<b>14,117</b>	<b>14,187</b>
Liabilities to Government	201	313	379	433	460	451
Transaction deposits	1,637	1,632	1,744	1,794	1,982	1,939
Dinar term deposits	1,856	1,513	1,494	1,441	1,405	1,582
FX term deposits	9,607	10,166	10,167	10,176	10,271	10,216
<b>Foreign liabilities (foreign borrowing + non. res.)</b>	<b>5,234</b>	<b>5,109</b>	<b>4,750</b>	<b>4,701</b>	<b>4,519</b>	<b>4,424</b>
<b>Reserves for potential losses</b>	<b>2,059</b>	<b>1,986</b>	<b>2,052</b>	<b>1,945</b>	<b>2,000</b>	<b>1,967</b>
<b>Equity and reserves</b>	<b>5,447</b>	<b>5,377</b>	<b>5,689</b>	<b>5,446</b>	<b>5,487</b>	<b>5,545</b>
<b>Other liabilities</b>	<b>1,692</b>	<b>1,680</b>	<b>1,767</b>	<b>1,737</b>	<b>1,717</b>	<b>1,713</b>

Source: NBS, Hypo Research

Table 12 Total retail savings

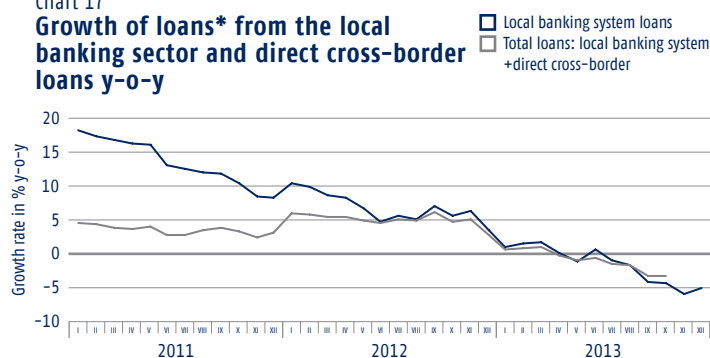
In EUR million

	Dec 11	Dec 12	Mar 13	Jun 13	Sep 13	Dec 13
<b>Total retail savings</b>	<b>7,597</b>	<b>8,156</b>	<b>8,271</b>	<b>8,280</b>	<b>8,346</b>	<b>8,439</b>
Total dinar savings	185	155	167	181	204	294
Short term	156	143	156	169	191	269
Long term	29	12	11	12	13	24
Total FX savings	7,412	8,001	8,104	8,099	8,143	8,146
Short term	5,455	6,432	6,583	6,592	6,625	6,612
Long term	1,957	1,569	1,521	1,507	1,517	1,527

Source: NBS, Hypo Research

Chart 17

### Growth of loans\* from the local banking sector and direct cross-border loans y-o-y



\* Adjusted by the effect of the change of the RSD exchange rate for indexed loans and the amount of NPL of Razvojna banka Vojvodine and Nova Agrobanka.

Source: NBS, Hypo Research

## Fiscal flows

- The budget revenues of the central government increased by 3% in 2013, predominantly from the improved collection of excises and the VAT, whereas the expenditures made the more modest growth of 0.5% (mostly contributed by the increase of income expenditures), so that the budget deficit decreased by app. 10% in 2013 (and reached app. RSD 174 billion or app. 4.7% of GDP). At the same time, the consolidated government deficit stood at app. RSD 180 billion (app. 5% of GDP), Table 13.
- Since such deficit was relatively large, from January 2014, the Government initiated a new cycle of fiscal consolidation measures which included, among other issues, increase of the lower VAT rate, decrease of subsidies, and freeze of pensions and wages in the public sector.
- In January 2014, the fiscal deficit of the central government was relatively low, standing at RSD 7 billion, contributed by solid budget inflows in this month.
- The increase of the budget revenues was primarily a result of larger inflow from excises, resulting in turn from increasing excises for oil derivatives, tobacco products, alcohol and coffee from 1<sup>st</sup> January.
- January 2014 featured a favourable inflow from VAT as well (due to quarterly payments of large taxpayers), but it was almost 5% smaller y-o-y, despite the increase of the lower VAT rate which started on 1<sup>st</sup> January 2014.
- At the level of the current year, revenues of the central government were planned to increase by 15%, whereas its expenditures were planned to increase by 13% relative to the budget realisation in 2013.
- The said revenues growth would, as planned, be mostly contributed by the increase of VAT revenues, while the expenditures increase in 2014 would be mostly contributed by the growth of interest repayment expenses which will reach as much as RSD 114 billion this year (28% more y-o-y).
- Thus, the central government deficit would reach 4.7% of GDP, the consolidated government deficit would reach app. 5.5% of GDP, whereas the deficit with including off-budget financial transactions (one-off expenditures for liabilities taken from previous years and expenditures for finalising the process of restructuring state-owned enterprises) would reach app. 7.1% of GDP.
- The government needs for financing the budget deficit and maturity of previously issued debt in the period February-December stand at app. EUR 5-5.5 billion and they will be, according to the 2014 Budget Law, serviced through borrowing at the local and international market and through bilateral agreements with foreign governments and institutions (such as the announced loan for budget support from the Government of the United Arab Emirates).
- At February end and March beginning, as announced, an IMF mission will visit Serbia for the purpose of negotiating a new precautionary arrangement.

Table 13 Realisation of the central government budget

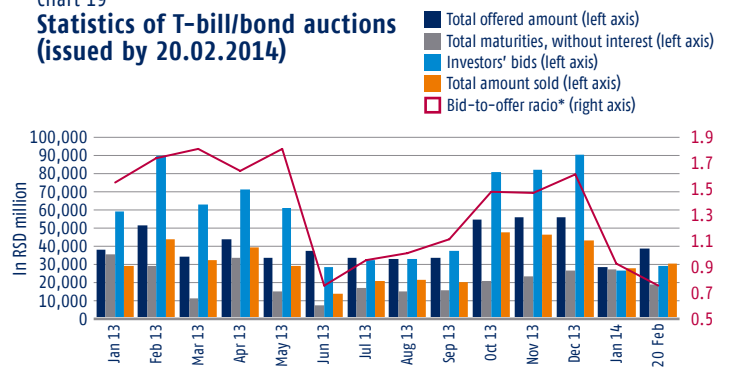
	Realized budget in 2012	Realized budget in 2013	Realized budget in January 2013	Realized budget in January 2014	Law on 2014 Budget (from December 13 <sup>th</sup> 2013)	Percentage difference between realization of 2013 budget and plan on 2014 budget	Nominal growth rate 2013/2012	Nominal growth rate Jan 2014/ Jan 2013	Contribution to 2013 nominal growth rate	Contribution to January 2014 nominal growth rate
	(1)	(2)	(3)	(4)	(5)	(5:2)	(2:1)	(4:3)		
	In RSD million					In %			In pp	
<b>I TOTAL REVENUES</b>	<b>788,505</b>	<b>812,080</b>	<b>66,368</b>	<b>72,250</b>	<b>929,902</b>	<b>14.5</b>	<b>3.0</b>	<b>8.9</b>	<b>3.0</b>	<b>8.9</b>
<b>1. Tax revenues</b>	<b>686,828</b>	<b>723,390</b>	<b>61,397</b>	<b>65,769</b>	<b>802,400</b>	<b>10.9</b>	<b>5.3</b>	<b>7.1</b>	<b>4.6</b>	<b>6.6</b>
Individual income tax	46,432	43,377	3,038	2,598	47,800	10.2	-6.6	-14.5	-0.4	-0.7
Corporate profit tax	48,803	53,214	2,976	4,028	58,000	9.0	9.0	35.4	0.6	1.6
VAT	367,472	380,624	36,407	34,750	430,000	13.0	3.6	-4.6	1.7	-2.5
Excises	180,628	204,761	16,364	21,884	227,600	11.2	13.4	33.7	3.1	8.3
Customs duties	35,783	32,504	1,963	1,975	29,500	-9.2	-9.2	0.6	-0.4	0.0
Other tax income	7,711	8,910	650	534	9,500	6.6	15.6	-17.7	0.2	-0.2
<b>2. Non-tax revenues</b>	<b>99,289</b>	<b>87,338</b>	<b>4,497</b>	<b>6,290</b>	<b>122,342</b>	<b>40.1</b>	<b>-12.0</b>	<b>39.9</b>	<b>-1.5</b>	<b>2.7</b>
<b>3. Donations</b>	<b>2,388</b>	<b>1,353</b>	<b>474</b>	<b>191</b>	<b>5,160</b>	<b>281.4</b>	<b>-43.4</b>	<b>-59.8</b>	<b>-0.1</b>	<b>-0.4</b>
<b>II TOTAL EXPENSES</b>	<b>980,382</b>	<b>985,750</b>	<b>73,356</b>	<b>79,254</b>	<b>1,112,460</b>	<b>12.9</b>	<b>0.5</b>	<b>8.0</b>	<b>0.5</b>	<b>8.0</b>
<b>1. Current expenses</b>	<b>930,789</b>	<b>952,376</b>	<b>71,841</b>	<b>78,871</b>	<b>1,043,175</b>	<b>9.5</b>	<b>2.3</b>	<b>9.8</b>	<b>2.2</b>	<b>9.6</b>
Employee expenses	238,672	250,151	21,379	21,180	271,594	8.6	4.8	-0.9	1.2	-0.3
Expenses for buying foods and services	68,657	65,921	5,286	4,734	96,834	46.9	-4.0	-10.4	-0.3	-0.8
Interest repayment expenses	63,146	89,262	5,484	7,012	113,884	27.6	41.4	27.9	2.7	2.1
Subsidies	86,598	74,286	2,771	3,085	80,936	9.0	-14.2	11.3	-1.3	0.4
Donations to international organizations	913	984	95	130	2,523	156.3	7.9	36.9	0.0	0.0
Transfers to other government levels	73,315	73,043	5,991	5,739	71,913	-1.5	-0.4	-4.2	0.0	-0.3
Transfers to mand. soc. insurance org.	288,784	275,589	22,031	26,605	283,237	2.8	-4.6	20.8	-1.3	6.2
Social protection from the budget	92,362	108,397	8,056	9,603	107,054	-1.2	17.4	19.2	1.6	2.1
Other current expenses	18,343	14,742	749	783	13,655	-7.4	-19.6	4.6	-0.4	0.0
<b>2. Capital expenditure</b>	<b>34,457</b>	<b>21,170</b>	<b>1,333</b>	<b>379</b>	<b>50,511</b>	<b>138.6</b>	<b>-38.6</b>	<b>-71.6</b>	<b>-1.4</b>	<b>-1.3</b>
Capital expenditure	29,359	19,116	1,333	379	46,599	143.8	-34.9	-71.6	-1.0	-1.3
National investment plan	5,097	2,054	0	0	3,912	90.4	-59.7	0.0	-0.3	0.0
<b>3. Net budget loans</b>	<b>15,136</b>	<b>12,203</b>	<b>182</b>	<b>4</b>	<b>18,773</b>	<b>53.8</b>	<b>-19.4</b>	<b>-97.7</b>	<b>-0.3</b>	<b>-0.2</b>
<b>III BUDGET SURPLUS / DEFICIT (I - II)</b>	<b>-191,876</b>	<b>-173,669</b>	<b>-6,988</b>	<b>-7,005</b>	<b>-182,558</b>	<b>5.1</b>	<b>-9.5</b>	<b>0.2</b>		

Source: Ministry of Finance, Hypo Research

## Public debt

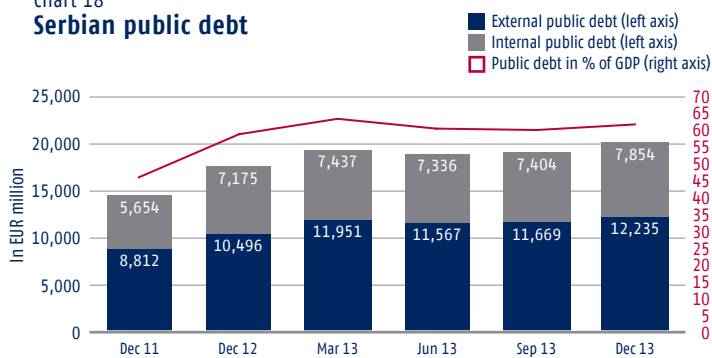
- In 2013, the public debt increased by EUR 2.4 billion, reaching EUR 20.1 billion or app. 62% of GDP.
- Having in mind the substantial need for financing government needs which will be, most probably, predominantly fulfilled through borrowing, there is space for the growth of the public debt to the level of 67-68% of GDP in the upcoming year.
- The interest of investors at the domestic debt market has been falling from the year beginning, apparently in line with the intensification of the global risk aversion following the Fed's decision to lower the volume of quantitative easing program in January, Chart 19.
- In spite of the decreased investor interest, from the year beginning (until 20<sup>th</sup> February), the volume of issued new T-bills and bonds was sufficient to cover maturities in the same period, so that the stock of these securities increased by app. RSD 10 billion, Chart 20.

Chart 19  
Statistics of T-bill/bond auctions  
(issued by 20.02.2014)



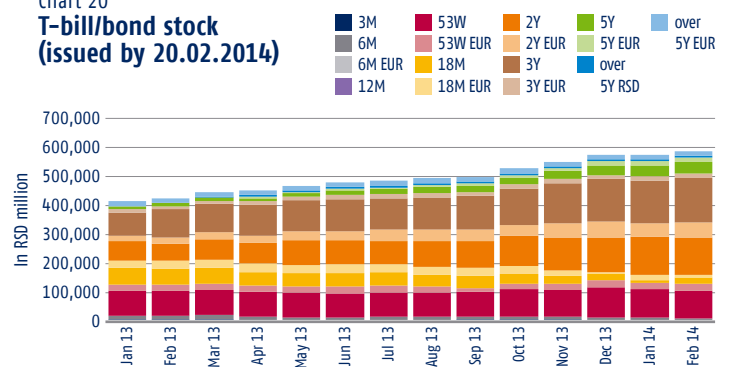
\* Calculated as a ratio of subscribed bids at auctions and offered amount according to auction schedule  
Source: Ministry of Finance, Hypo Research

Chart 18  
Serbian public debt



Source: Ministry of Finance, Hypo Research

Chart 20  
T-bill/bond stock  
(issued by 20.02.2014)



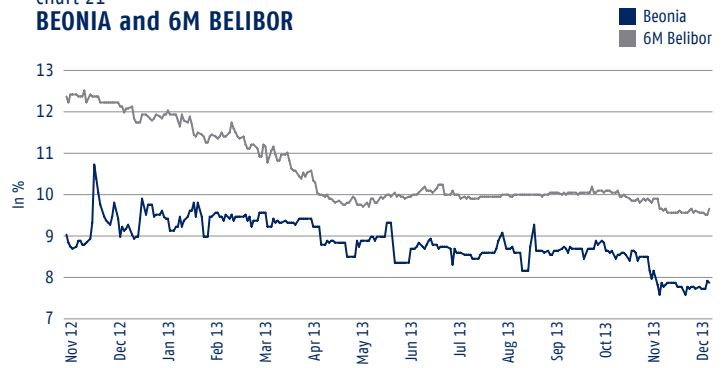
Source: Ministry of Finance, Hypo Research

# Money Market

## Local money market

- Interest rates in the interbank market were stable in January and February, in line with the unchanged level of restrictiveness of the monetary policy of the NBS at 2014 beginning.

Chart 21  
**BEONIA and 6M BELIBOR**

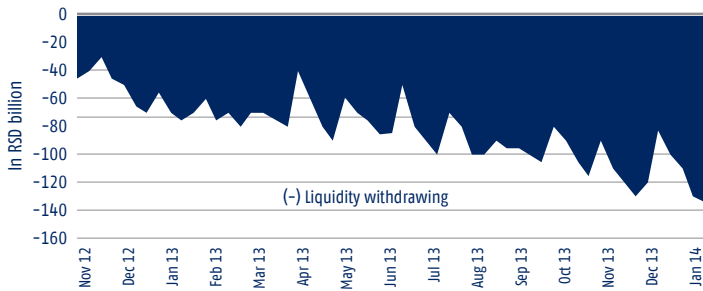


Source: Bloomberg

## NBS Open market operations, and T-bill / bond auction overview

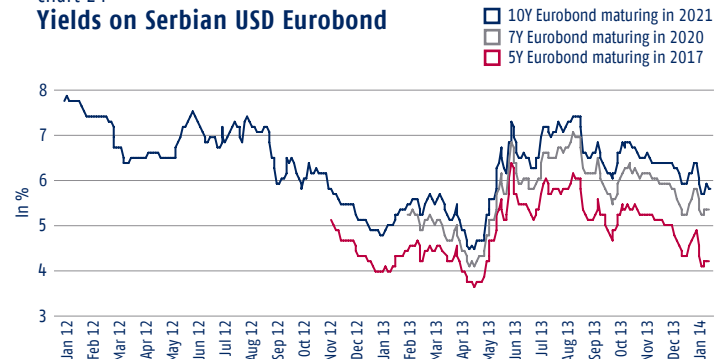
- Influenced by the growing global risk aversion and, possibly, the January decision of the Fitch rating agency to lower the credit rating of Serbia to B+ (with stable outlook) from BB- (with negative outlook), yields at auctions of T-bills and bonds have been increasing since mid-February after several months of recording a downward trend.
- Still, the growth pressure to yields from T-bills and bonds could be lowered to a certain extent in the forthcoming period since currently, after intense borrowing at the local and international markets at 2013 end and 2014 beginning, the Ministry of Finance has space for refusing best bids at auctions of T-bills and bonds.

Chart 22  
**Overview of auction trade of securities used by NBS for open market operations**



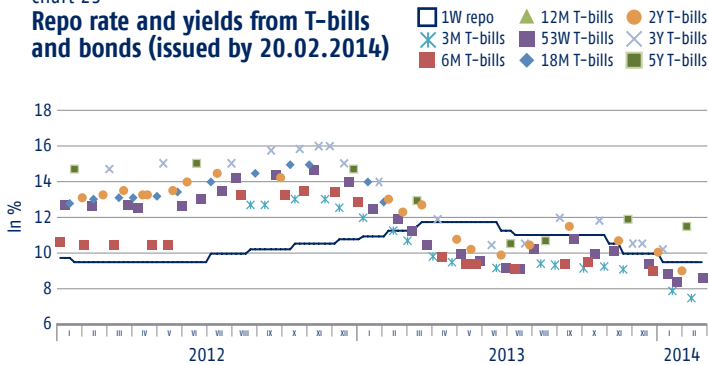
Source: NBS

Chart 24  
**Yields on Serbian USD Eurobond**



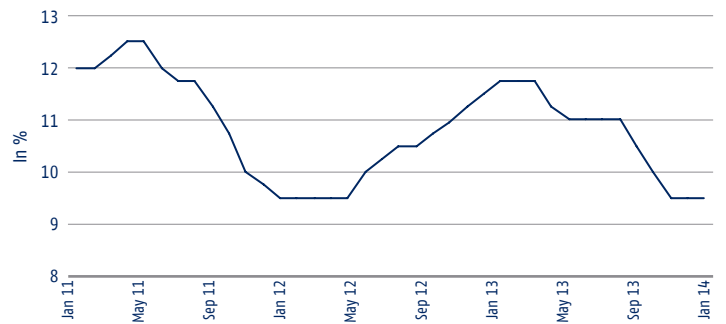
Source: Bloomberg

Chart 23  
**Repo rate and yields from T-bills and bonds (issued by 20.02.2014)**



Source: Ministry of Finance, Hypo Research

Chart 25  
**NBS repo rate**



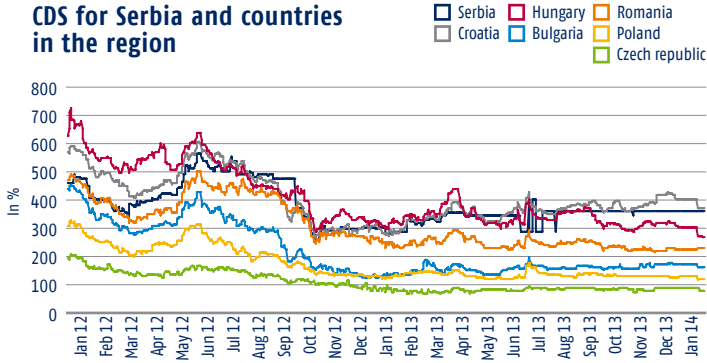
Source: NBS



## CDS for countries in the region

- The risk premium (expressed by the Credit Default Swap – CDS) for the countries in the region grew very mildly in the first two months of 2014, in line with the intensification of the global risk aversion.

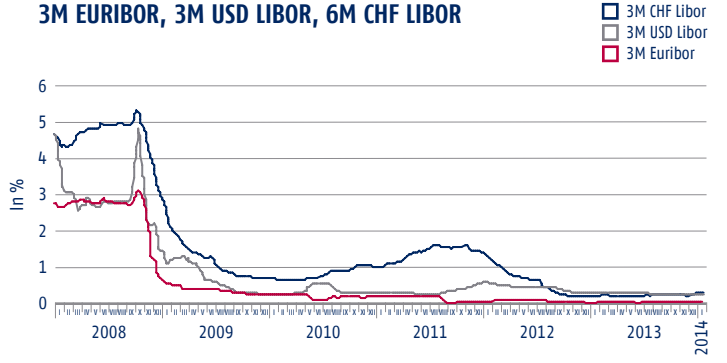
Chart 26  
CDS for Serbia and countries in the region



## International money market

- Observed rates for EUR, USD and CHF are still relatively stable and low, in line with expansive monetary policies of central banks of these countries.

Chart 27  
3M EURIBOR, 3M USD LIBOR, 6M CHF LIBOR



## Major world currencies overview

- US dollar grew mildly relative to euro since the year beginning due to favourable information from the American labour market and lowering of the volume of the quantitative easing program from the year beginning.

Table 14 Exchange rates

	EUR / USD	EUR / CHF
12 / 31 / 2013	1.3789	1.2253
02 / 20 / 2014	1.3697	1.2191
<b>% Change</b>	<b>-0.67%</b>	<b>-0.51%</b>
Maximum	1.3789	1.2372
Minimum	1.3486	1.2191
Average	1.3626	1.2273
Median	1.3637	1.2248

Source: Bloomberg

Chart 28  
EUR/USD and EUR/CHF (index, 31.12.2012=100)

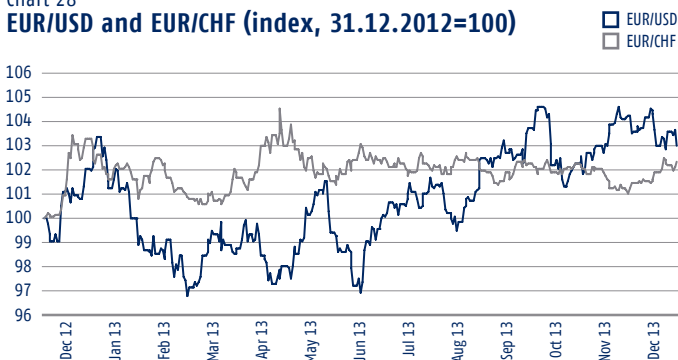


Table 15 Forecast of central bank interest rates, in %

	Q1 14	Q2 14	Q3 14	Q4 14
ECB	0.25	0.25	0.25	0.25
FED	0.25	0.25	0.25	0.25
SNB	0.00	0.00	0.00	0.00

Source: Bloomberg contributor composite

Table 16 Forecast of exchange rates

	Q1 14	Q2 14	Q3 14	Q4 14
3M Euribor	0.25	0.25	0.28	0.31
3M USD Libor	0.27	0.30	0.36	0.43
3M CHF Libor	0.03	0.05	0.06	0.09

Source: Bloomberg contributor composite

Table 17 Forecast of market interest rates, in %

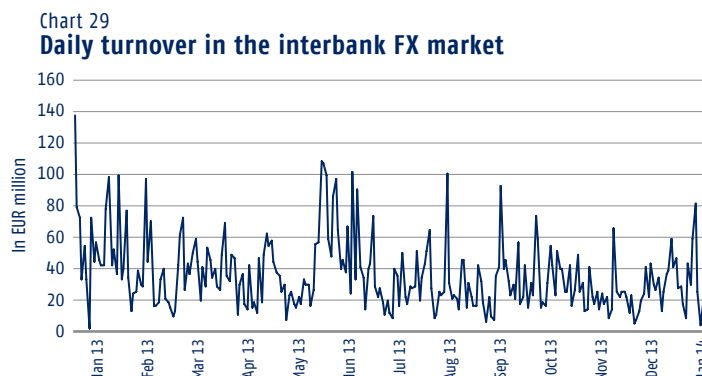
	Q1 14	Q2 14	Q3 14	Q4 14
EUR / USD	1.34	1.32	1.30	1.28
EUR / CHF	1.23	1.24	1.25	1.26

Source: Bloomberg contributor composite

# FX Market

## Volume of trading in the interbank FX market

- The turnover in the interbank market has been growing since mid-December, in line with the fall of the RSD exchange rate in this period.



Source: NBS

# Capital Market

- The total turnover achieved in trading in all market materials in the Belgrade Stock Exchange during January 2014 stood at RSD 4.5 billion (app. EUR 39.3 million), being four times higher m-o-m.
- In January 2014, Belgrade SE indices increased m-o-m. Thus, Belex 15 increased by 2.84% (cf. 3.02% growth in December 2013 and 3.55% growth in November 2013) and Belex line increased by 2.47% (cf. 2.80% growth in December 2013 and 3.69% growth in November 2013).
- The number of transactions in January 2014 of app. 21 tsd was app. 17% lower m-o-m.
- The share of foreign investors in the total turnover in January 2014 stood at 62.1% (cf. 40.75% share in December 2013).
- Expectations of SE developments shown through BelexSentiment were negative after six consecutive months, being 96.36 bp in February (January figure: 115.53 bp)

## Bond market

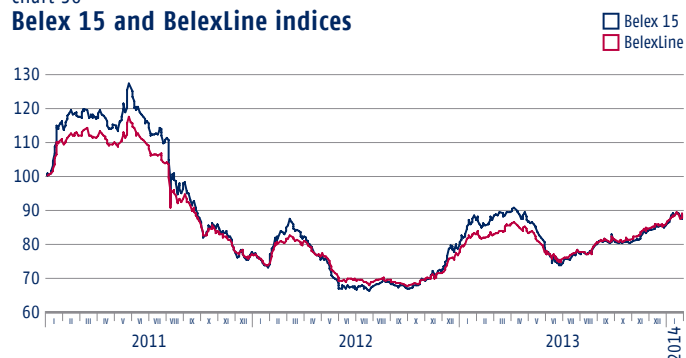
Table 18. RS bond trade in January 2014

Symbol	Last price, RSD	Yield	Maximum price, RSD	Minimum price, RSD	Volume	Turnover, EUR
A2014	97.54	7.87%	98.70	97.10	74,976	76,951
A2015	95.01	3.93%	95.28	95.00	57,525	54,656
A2016	91.70	3.79%	91.80	91.33	58,617	54,473
<b>Total:</b>						<b>186,081</b>

Source: Belgrade Stock Exchange

## Stock market

Chart 30  
Belex 15 and BelexLine indices



Source: Belgrade Stock Exchange

Table 19 Belex 15 and BelexLine in January 2014

	BELEX 15	BELEXLINE
Indice value (01 / 31 / 2014):	573.79	1,132.26
Yearly change of value:	2.84%	2.47%
Top yearly value:	578.12	1,135.67
Bottom yearly value:	557.38	1,104.64
Top historical value:	3,335.20	5,007.34
Lowest historical value:	347.46	841.99

Source: Belgrade Stock Exchange

Table 20 Most traded shares in January 2014

Symbol	Issuer	Last price, RSD	Monthly change	Turnover, EUR
AIKB	AIK banka a.d. Niš	1,642	7.1%	19,333,696
BMBI	Bambi a.d. Požarevac	35,150	21.2%	11,843,352
KMBN	Komercijalna banka a.d. Beograd	1,650	9.5%	3,427,259
NIIS	NIS a.d. Novi Sad	900	-2.9%	1,625,088
AERO	Aerodrom Nikola Tesla a.d. Beograd	499	2.0%	657,412
ENHL	Energoprojekt holding a.d. Beograd	746	3.6%	423,890
ZVHE	Zvezda - Helios hemijska industrija a.d. Gornji Milanovac	8,894	2.1%	415,445
IMLK	Imlek a.d. Beograd	3,250	8.8%	372,244
MTLC	Metalac a.d. Gornji Milanovac	2,400	-1.0%	151,705
UNBN	Univerzal banka a.d. Beograd	550	-8.3%	135,123

Source: Belgrade Stock Exchange

