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Overview

After Q1 2012 it is obvious that the US economy is recovering from the crisis, and should experience balanced growth of 2-2.5%. EU economies, however, with the exception of Germany, will not recover, although their outlook seems less bad after release of large liquidity facilities through long term repo operations of the European Central Bank, releasing around EUR 1 trillion at the rate of 1% and 3-year period.

In Q1 2012 Serbia recorded weak economic growth (if any at all), as shown by some available statistics, although there are still no official results of developments of the total gross domestic product. Industrial production in January is smaller by 2.7% y-o-y. Also, very cold weather in February was accompanied by electricity restrictions in some large industrial plants and their temporary halt in production and trade. In the same period the steel plant in Smederevo was in "hibernation", but that was caused, aside from the excessive cold, by an attempt to override the departure of US Steel and the plant's takeover by the Republic of Serbia. To continue with the Serbian economy, at the beginning of 2012 one recorded continued fall of real retail trade turnover, -3.2% (milder fall than in Q4 2011, when it was as much as 16% y-o-y), in witness of continued drop of final consumption.

On the other hand, in the car plant in Kragujevac and a dozen of cooperative new plants investments into production lines are getting into the final stage, expecting the serial production to begin in H2 2012, according to announcements. Fiat also announced that total production of the new model Fiat 500l is entirely intended for exports, in the expected volume of around 20 thousand vehicles in 2012.

Commodity exports slowed down from two-digit growth rates in mid 2011 to only 2% growth y-o-y in Q4 2011, as opposed to 14.5% in 2011, while in January 2012 the trend of exports growth slowdown continued with 2.2% y-o-y. Imports growth, which accelerated at 2011 end, to reach 16.7% in Q4 2011, as opposed to 14.1% at annual level, dropped to 6% y-o-y in January. As the year continues, as the result of previously listed trends in the industrial production, assuming stable agricultural production, one can expect exports similar to last year's, as well as smaller imports than last year's, dominated by equipment and reproduction assets in the large investment cycle related to construction of the car and car parts plants.

Dinar exchange rate experienced constant depreciation pressure in February and March 2012. In spite of interventions of the NBS in the total amount of EUR 368.5 million in February and March 2012, the dinar lost around 7% of its strongest this year's value of 103.6922 in mid January 2012, breaching several times the record level of 111.1992, reached on 27th March, the date this overview is written. Accelerated weakening of the local currency was partially caused by intensified imports of energy-generating products in the period of extraordinarily low temperatures. Psychological factors added up, intensified by freezing the arrangement with the IMF, and some large corporate FX payments and activation of the so called stop-loss clause of speculating investors in FX arbitrages holding the dinar, because of expectations it would be stable or even stronger, as well as yield from interest rates differentials in Serbia and the country of origin of capital. In other words, it is obvious that aside from structural trade deficit, only partially covered by remittances, the total, so called current deficit, unlike in 2011, was not covered by inflow from financial and capital part of the balance of payments i.e. from direct and portfolio investments and net external debt flows in Q1 2012. According to intensity of pressure on weakening of the dinar, this non-coverage was extraordinarily high. In the rest of the year one can expect incomplete financing of the current deficit and further pressure on weakening of the local currency, however, with smaller probability of pressure being equally intensive as in Q1.

Reason for these expectations partially lies in development (acceleration) of inflation and monetary policy goal implying its reining. Namely, with 4.9% growth of prices in February y-o-y inflation return to the borders of targeted corridor for the period of $4\% \pm 1.5\%$, while in March it can even reach bottom limit of the corridor. Low aggregate demand, limiting margins for basic foodstuffs (to be effective from July 2012), high basis in the same period last year, all factors of low and quick-falling inflation in the upcoming period. On the other hand, after zero growth of prices in seven consecutive months i.e. in H2 2011 and January 2012, growth of prices in February of 0.8% m-o-m showed a change of trend, and apparently sharp acceleration of inflation. Namely, there are already two new inflationary factors in effect – growth of global oil prices (15% YTD), depreciation of local currency, which shall probably remain active, and in H2 those will be joined by margin cuts for basic foodstuffs, possible corrections of regulated prices after the elections, as well as purely calculation-wise, but not less expressed, effect of low basis from H2 2011. Starting from May one will witness inflation acceleration as months pass, and its reaching the level of 8-9% by year's end, all in spite of very weak demand. All of the above indicates that there would be no further drops of the repo rate lower than 9.5%, i.e. that the monetary policy relaxation cycle through lowering of the reference RSD rate that started in June 2011 could end. This is also confirmed by the central bank failing to change the rate in February and March. On the other hand, weak demand for final products, economic recovery outlook not good, slowdown of retail and corporate crediting activities, would justify further loosening of monetary conditions. Intentions of the central bank to lower a bit the rate of mandatory reserve for FX deposits, but increase slightly the portion of FX reserve kept in RSD in the April session of the Executive Board was probably motivated by the previous opinion of the state in the real sector (first part of the considered modification of mandatory reserve), but also the intention to neutralize pressure on the exchange rate by decreasing the offer of dinars i.e. create potential demand for that currency in banks (the second part of discussed modification is related to the dinar part of FX reserve).

Crediting activities measured by growth of corporate and retail loans y-o-y continued slowing down in Q4 2011 continued slowing down to 8% at 2011 end, but in January 2012 already accelerated up to 10% y-o-y. Still, this acceleration is owed to a large syndicated loan to Telekom Srbije in total amount of EUR 470 million, out of which as much as EUR 227 million in the first tranche in January was disbursed by the local banking sector (for comparison, growth of corporate loans in the entire Q4 2012 amounted to EUR 190 million). Since the money disbursed to Telekom is out of the system, i.e. it was used to pay takeover of a share in equity from the Greek OTE, this transaction will decrease potential of local banks for placements in Serbia in the upcoming period.

Budget deficit in the first two months amounted to RSD 41 billion, as much as 33% of the planned deficit for the whole year according to the Budget law. Reason for deepening the deficit lies mostly in collection of revenues weaker than planned, mostly from VAT and excises. Fiscal imbalance and public debt that reached the upper limit of 45% of GDP set by the Law on budget system, aside from freezing the precautionary arrangement with the IMF at the beginning of February, led the Fiscal Council to issue a warning in mid February that with trends of budget revenues and expenditure from the 2011 end and beginning of 2012, consolidated fiscal deficit in 2012 could even reach 5.25% of GDP. The idea of necessity of fiscal consolidation i.e. tax reform and law is getting stronger in the public, and could get onto the agenda after forming the new Government, in H2. Raising VAT seems to be an inevitable component of this reform.

A significant portion of the state deposit was used to cover the budget deficit, as well as financing due state debts from the previous period at the end of 2011, i.e. as much as EUR 380 million, EUR 6 million were spent in January, so that the state FX deposit was left with around EUR 920 million collected through earlier borrowing at January end. In January total realization of t-bill auctions was sufficient to cover maturities of bills issued earlier as well as the entire January deficit. In February, in spite of large-volume auctions, due to big February maturities and a bit smaller interest (reflected in incomplete realization of most auctions) renewal of earlier maturities was secured, but enough debt to finance February deficit. Weak auction realization continued in the first half of March, but in the second half of the month there were a couple of fully realized auctions with solid interest of investors. However, needs for financing the state by the year's end will probably not be settled by borrowing in the local market, so that the government announced a second issue of the Euro bond in the amount of EUR 1 billion by September 2012 at the latest.

Macroeconomic Trends

Table 1 Macroeconomic overview

	2009	2010	2011	Jan 12	Feb 12	2012**	2013**
Real GDP growth. y-o-y	-3.5%	1.0%	1.9%*			-1.0%	2.0%
GDP per capita. EUR	4.150	4.230	4,635*			4.506	4.869
Industrial production volume. growth rates. y-o-y	-12.1%	2.9%	2.1%	-2.7%		-2.5%	3.4%
Inflation (CPI). y-o-y	6.6%	10.3%	7.0%	5.6%	4.9%	9.6%	4.8%
Exchange rate EUR RSD (end of period)	95.89	105.49	104.64	106.06	110.19	114.00	110.00
Budget revenues. in RSD billion	615.0	712.2	744.8	61.4		750.0	802.7
Budget expenditure. in RSD billion	719.9	812.5	877.3	71.8		874.0	933.6
Budget surplus. in RSD billion	-104.9	-100.3	-132.5	-10.4		-124.0	-130.9
Consolidated public deficit. in pp GDP	-4.1%	-4.5%	-4.8%*			-5.0%	-4.2%
Exports. in EUR million	5,962	7,393	8,439	552		11,094	11,882
Imports. in EUR million	11,157	12,622	14,450	1,029		-15,941	-16,810
Trade deficit. in EUR million	-5,196	-5,229	-6,010	-476		-4,796	-4,928
Current account deficit. pp GDP	-5.7%	-8.0%	-8.6%*			-7.0%	-6.5%
Current account deficit. cumulatively. in EUR million	1,743	-2,081.9	-2,961.2			-2,298.0	-2,312.0
FDI. net. cumulatively. in EUR million	1,373	860.1	1,826.9			900.0	1,400.0
FX savings. in EUR million	5,895	6,928	7,412	7,430		8,415	9,481
Unemployment rate. ILO definition	16.6%	19.2%	23.7%			24.5%	23.4%
Average net salary in EUR	383	330	372	349		380	388
Loans to private sector. in EUR million	13,422	15,454	16,689	16,944		17,011	18,432
Loans to private sector. including cross-borders. in EUR million	24,292	25,071	26,376			26,011	26,620

* estimate, ** forecast

Source: NBS, Serbian Statistical Office, Ministry of Finance, Hypo Research

Economic activity

- Gross domestic product (GDP) achieved growth of 1.9% in 2011 (flash estimate of achieved growth of 0.8% y-o-y in Q4, 0.5% in Q3, 2.5% Q2 and 3.7% Q1), Chart 1.
- Growth of GDP in 2011 was mostly contributed to by investment aggregate, while net exports aggregate made mildly negative contribution to economic growth, and final consumption aggregate made significant negative contribution.

tribution to economic growth, and final consumption aggregate made significant negative contribution.

- Slowdown of economic growth in H2 was connected to deepening of the Euro zone crisis, whose effects have overflow through investment channels and net exports.
- In 2012 we expect economic activities to contract by around 1%. Key risks include continued outflow of cross border loans, decrease in external demand (first of all in Euro zone countries), political uncertainty due to general elections and no growth of final consumption as the effect of high unemployment.

Table 2. Realni rast BDP-a, po delatnostima

	2010.	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011
	in %							
Agriculture, forestry and fishing	-0.4	3.5	-1.0	-2.9	0.2	1.0	0.6	1.2
Mining	2.9	2.3	8.2	4.7	-2.3	5.5	17.5	1.5
Processing industry	0.9	-1.2	2.4	3.4	-1.2	7.8	2.4	-1.6
Electricity, gas and steam supply	-4.4	-4.2	1.6	-4.3	-9.2	7.5	13.0	1.5
Water supply and management	-0.1	-2.5	-2.6	-2.5	-1.7	1.3	2.1	2.5
Construction	-7.8	-15.2	-11.7	-4.3	0.2	-0.9	10.2	9.2
Retail and wholesale trade and vehicle repair	1.7	-3.3	-0.8	4.6	6.0	1.1	-4.5	-7.7
Traffic and warehousing	8.3	4.4	8.2	9.5	10.7	8.9	3.1	2.4
Accommodation and catering	-3.3	-14.7	-3.6	0.3	4.2	5.9	0.2	1.7
Information and communications	5.7	5.2	2.6	7.3	6.5	5.4	8.9	9.3
Financial and insurance business	4.9	5.1	6.1	8.1	7.5	6.3	1.4	0.6
Real estate	3.4	2.1	3.3	5.0	2.8	1.0	0.4	-0.2
Science, innovations and technology	2.6	2.5	3.2	4.5	3.3	5.0	4.9	3.8
Administrative and auxiliary services	7.5	8.7	7.1	9.0	5.4	3.9	-1.0	-7.6
State administration and mandatory social insurance	-1.9	-1.9	-2.0	-1.9	-1.7	0.0	0.7	1.1
Education	1.0	0.9	1.1	1.1	0.9	0.6	0.2	0.1
Health and social protection	0.4	0.9	1.2	0.8	0.1	-1.1	-1.8	-2.0
Art, entertainment and recreation	2.2	2.2	0.2	1.3	3.9	5.6	6.9	7.1
Other services	-12.0	-18.1	-19.4	-15.1	7.1	14.6	16.4	13.3
Housekeeping	3.5	-0.8	-0.1	1.9	13.3	7.4	4.5	1.0
GDP	1.0	-0.2	0.5	1.6	1.7	3.7	2.5	0.5

Source: Serbian Statistical Office, Hypo Research

- Chief positive effect on expectations in view of stability of economic environment will be exerted by the fact that Serbia became an EU candidate in March 2012, with the date of beginning of negotiations still unknown.
- Parliamentary and local elections will be held on 6th May 2012.

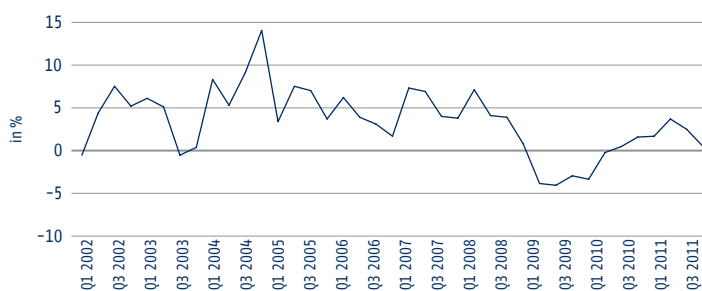
Agriculture

- Snowfall in February was favourable for development of agriculture crops (especially wheat, in danger of freezing due to January frost), because the snow cover serves as thermal insulation and protection from vermin.
- Snowfall and low temperature were not good for growth of fruit, especially for stone fruit and grape vine, because of freezing of flower buds. One can expect a drop in crop of as much as 30% in grape vine (up to 50% with table varieties), crop of peach and apricot could be even cut in half, while apples and sour cherries remained mostly undamaged, according to preliminary estimations of the Institute for protection of plants and environment.
- Melting of the snow cover provides appropriate water resources in the eve of spring vegetation, since after precipitation in February water falls deeper into the ground, partly compensating for long deficiency of humidity from last year's draught.

Table 3 Overview of production, by year

		2009	2010	2011	2012
		Serbian Statistical Office			Ministry of agriculture estimate
Wheat	Harvested, in ha	567,654	484,205	493,006	471,000
	Produced, in t	2,067,555	1,630,404	2,076,237	1,836,900
	Crop by ha, kg	3,642	3,367	4,211	3,900
Corn	Harvested, in ha	1,208,640	1,229,573	1,258,437	1,258,000
	Produced, in t	6,396,262	7,207,191	6,479,564	6,480,000
	Crop by ha, kg	5,292	5,862	5,149	5,100
Soy	Harvested, in ha	144,386	170,255	165,253	165,000
	Produced, in t	349,193	540,859	440,847	441,000
	Crop by ha, kg	2,418	3,177	2,668	2,670
Sunflower	Harvested, in ha	157,337	169,384	174,270	174,000
	Produced, in t	377,549	378,409	432,020	415,000
	Crop by ha, kg	2,400	2,234	2,479	2,400
Sugar beet	Harvested, in ha	61,399	66,446	55,627	63,018
	Produced, in t	2,797,596	3,324,847	2,821,919	3,195,000
	Crop by ha, kg	45,564	50,038	50,729	50,700

Chart 1 GDP growth rate by quarters



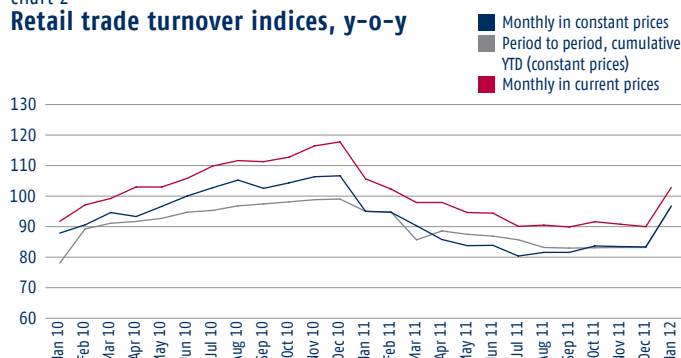
Source: Serbian Statistical Office

Retail trade

- Negative trend in retail trade turnover continued in January, with negative growth rates less prominent, from -3.2% y-o-y in permanent prices (-16.5% y-o-y in December 2011 and -16.4% in November 2011). On the other hand, turnover grew in current prices from 2.9% (-9.9% in December 2011 and -9.1% in November 2011), Chart 2.
- Although in January fall was a bit smaller in permanent prices, and growth was recorded in current prices, it is early to speak of recovery of the retail trade. One expects final consumption to be low, due to high unemployment, so that retail trade turnover volume in 2012 is expected to remain at the 2011 level.

Source: Serbian Statistical Office, Ministry of Agriculture, balance of agriculture and food products

Chart 2 Retail trade turnover indices, y-o-y

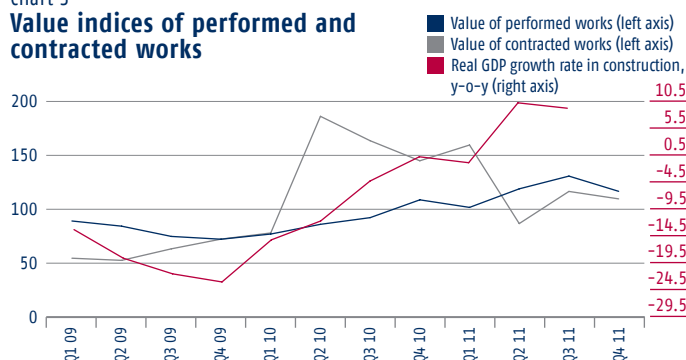


Source: Serbian Statistical Office

Construction industry

- In construction industry made solid growth (6.2% average growth in Q1-Q3 2011), after two years of continual contraction, Chart 3.
- Value indices of performed and contracted works were positive in Q4 2011, still recovering. Performed works index grew by as much as 16.5% in Q4 2011 (30.6% in Q3, 18.8% in Q2, 1.6% in Q1), while contracted works index showed growth of 9.5% y-o-y (16.4% in Q3, -13.4% in Q2 and 59.4% in Q1).
- Construction industry growth was stimulated by a certain number of large infrastructure projects (bridge over the Ada, Beska bridge, Corridor 10), as well as intensive investments into the automobile plant in Kragujevac.
- Growth of the contracted works index, as well as news of recently concluded agreements on several new investments and infrastructure projects (such as construction of the refinery in Smederevo, loans from the Azerbaijan government and the Russian government for construction of road and railway infrastructure) suggest that activities in 2012 will remain at last years' level.

Chart 3 Value indices of performed and contracted works



Source: Serbian Statistical Office, Hypo Research

Industrial production

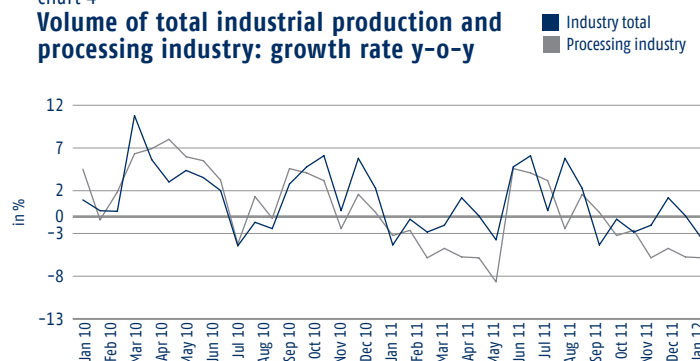
- In January industrial production kept its negative trend, falling by 2.7% y-o-y (growth of 0.1% in December 2011, 2.2% growth in November 2011), chart 4.
- The largest positive contribution to growth of industrial production in January was made by the mining sector, and within the processing industry production of metal products and production of other traffic equipment.
- Within the mining sector, the most dynamic area is that of crude oil and natural gas exploitation (trend present since mid 2009), resulting, among other things, from opening of new oil and natural gas rigs (opened rigs near Majdan and Banatski dvor), as well as beginning of work of the underground gas storage in Banatski dvor in second half of November 2011.
- Production of base metals made the largest negative contribution to industrial production growth in January, followed by food industry and tobacco industry.
- Dropdown in production of base metals was caused, first of all, by problems in the steelworks in Smederevo. As the effect of decreased external and local demand, production capacity of this plant was cut in half in Q1 2011, and in February production was completely halted because of extremely low temperature (electricity supply restrictions in February and raw material detained in Burgas port because of the ice on the Danube).
- In January the food industry dropped 6.1% y-o-y, continuing the 2011 trend. Reason for this development in the food industry is the high food industry basis effect, especially in the period from July 2010 to January 2011, at the time when food industry exports were both stimulated by high food prices globally and weakening of the dinar exchange rate to the euro.
- In February industrial production is expected to fall further due to electricity restrictions for industrial energy consumers. During 2012 one expects industrial production to keep falling (around 2.5%) as the result of weakening of the local and foreign demand.
- Energy generating sector has a large growth potential, due to numerous announced new investments in the area (announced beginning of construction of Comico Oil Refinery in Smederevo, announced NIS exploitation of geothermal springs in Vojvodina, performed expansion of capacities of the refinery in Pancevo, and a bit further into the future, announced construction of the solar park in vicinity of Leskovac).
- One expects full capacity of car production in FIAT plant, of 300,000 vehicles a year, to be achieved starting from 2013, while the currently installed equipment allows capacity of 200,000 vehicles. Aside from direct effect on growth of production volume of the motor vehicles and trailers sector, start of work of the car plant in Kragujevac should also have positive influence on production volume of related car parts industry, especially in the electronic equipment and other traffic equipment sectors, witnessing delocalization of companies such as Yura, Leoni or Magna Seating to Serbia.
- Effect of intensification of car industry production should also be seen in exports, through exports of cars (planned to export as much as 80% of production), and exports of car parts (at the moment car parts manufacturers export almost the entire production)

Prices

- Inflation keeps falling. In February it stood at 4.9% y-o-y (5.6% in January, 7% in December), Chart 8. In February prices grew 0.8% m-o-m (0.1% in January, -0.7% in December), Chart 7. February CPI accelerated significantly after seven months of zero growth.

Chart 4

Volume of total industrial production and processing industry: growth rate y-o-y



Source: Serbian Statistical Office

Table 4 Industry, production volume indices y-o-y

	10/09	11/10	Jan 12/11
Total Industrial Production	102.5	102.1	97.3
Mining	105.8	110.4	110.9
Manufacturing industry	103.9	99.6	92.4
Food industry	101.4	97.2	93.9
Beverage production	98.0	102.6	94.4
Tobacco products	107.6	91.9	48.2
Textile production	113.1	88.2	115.6
Clothings production	99.0	104.4	103.4
Production of leather and leather products	98.2	101.4	90.8
Wood processing & wood, cork, straw & brushwood products, except furniture	80.2	113.7	119.5
Production of paper and paper products	110.3	112.3	103.6
Printing and reproduction of audio and video recordings	108.7	94.4	99.9
Production of coke and petroleum products	96.7	85.7	92.4
Production of chemicals and chemical products	121.8	99.8	99.1
Production of basic pharmaceutical products and preparations	98.9	107.2	80.7
Production of rubber and plastics products	100.8	98.1	104.7
Production of products of from other non-metal minerals	100.2	104.8	92.5
Production of base metals	121.0	96.6	70.1
Production of metal products, except machines and devices	107.5	109.3	125.0
Production of computers, electronic and optical products	71.5	124.2	78.8
Production of electrical equipment	114.6	108.1	99.6
Production of non-listed machines and non-listed equipment	88.7	109.1	89.1
Production of motor vehicles, trailers and semi-trailers	95.4	124.3	41.0
Production of other traffic means	82.8	53.9	150.6
Furniture production	102.3	79.7	85.6
Other manufacturing branches	81.1	92.8	115.3
Repair and assembly of machines and equipment	94.4	79.3	84.1
Electricity, gas and vapour supply and air-conditioning	95.6	109.7	106.2

Source: Serbian Statistical Office

- In February growth of CPI was mostly contributed to by prices of fruit and vegetables (probably related to cold, difficult supply, growth of energy costs and fuel prices).
- Price of fuel in the local market kept growing in March (10% ytd), because of growth of prices in global stock exchanges, i.e. growth of imports price in US dollars in combination with weakening of the dinar. Price of crude oil in the global market rose almost 15% ytd, mostly as an effect of the sharp turn in the Near East political situation, Chart 5.

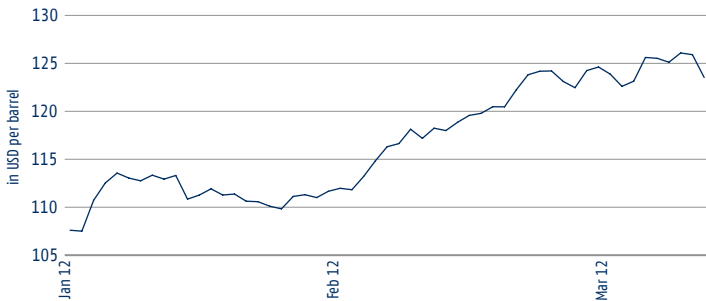
- One expects depreciation to be transferred to prices by 6%, probably starting from March, but softened by opposite disinflationary effect of weak demand/consumption.
- Inflation reached the bottom limit of the targeted corridor of 3% in March.
- However, a turn in inflation developments can be expected in May already, and more accelerated growth in H2 due to growth of regulated prices, low basis and decrease of margins for basic foodstuffs, to reach 8-9% y-o-y at 2102 end. The above changes can also cause raising of the repo rate in H2.

Table 5 Products with the highest price growth contribution in 2012

	February 2012 / December 2011	
	Inflation (CPI) in %	Contribution in bp
Total	0.9	0.9
Products with the highest price growth		
Fruit	14.93	0.34
Tobacco	5.78	0.22
Vegetables	3.60	0.14
Cars	7.29	0.14
Apartment rent	7.46	0.08
Products with the highest price fall		
Milk, cheese and eggs	-1.43	-0.09
Bread and cereals	-1.15	-0.08
Sugar, jam, honey and chocolate	-2.53	-0.05
Meat	-0.41	-0.04
Clothing	-1.07	-0.04

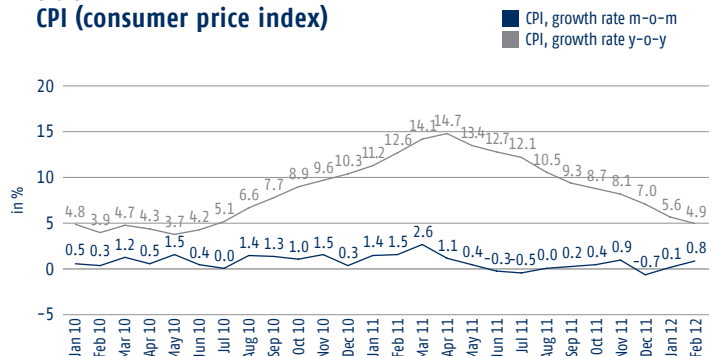
Source: Serbian Statistical Office, Hypo Research

Chart 5 Crude oil price developments (Brent) in the global market



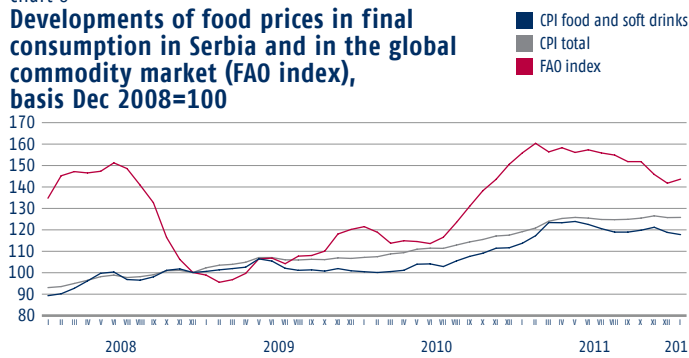
Source: Bloomberg

Chart 7 CPI (consumer price index)



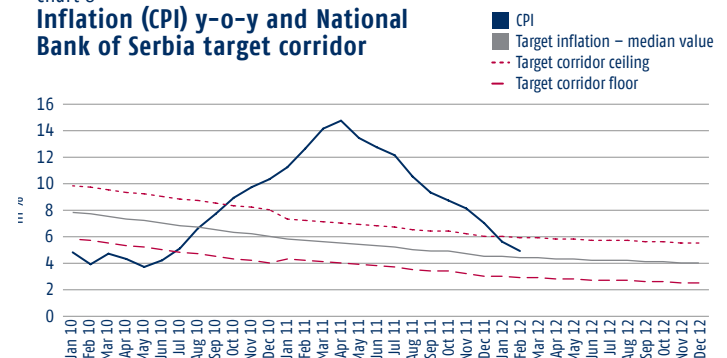
Source: Serbian Statistical Office

Chart 6 Developments of food prices in final consumption in Serbia and in the global commodity market (FAO index), basis Dec 2008=100



Source: Serbian Statistical Office, Bloomberg, Hypo Research

Chart 8 Inflation (CPI) y-o-y and National Bank of Serbia target corridor

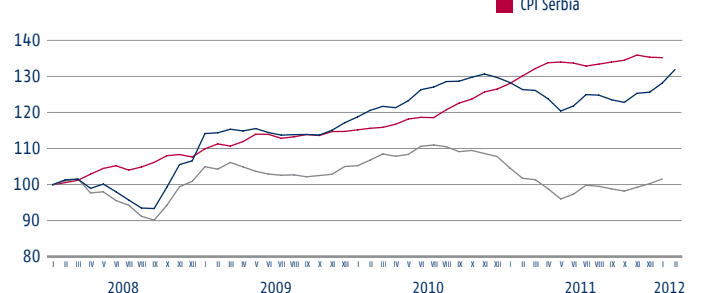


Source: Serbian Statistical Office, NBS, Hypo Research

Exchange rate

- The dinar exchange rate has been weakening intensively to the euro since beginning of 2012, especially in February, when it lost 6.6% from 11 January 2012 (the highest value of RSD to EUR this year of 103.6322) to 14 March 2012 (historically the lowest value of 111.0286 to EUR), Chart 8.
- Weakening of the local currency in first months of 2012 was initially, but only a bit, influenced by imports of electric energy (because of large cold in February)
- It was then followed by psychological factors, most of all non-resident speculators abandoning the dinar, massively closing dinar positions by activating stop-loss clauses.
- In February and the first half of March the National Bank of Serbia sold the total of EUR 288.5 million in order to mitigate the current depreciation episode, Chart 10.

Chart 9 Developments* of nominal exchange rate and real EUR/RSD index (basis: 2008=100)



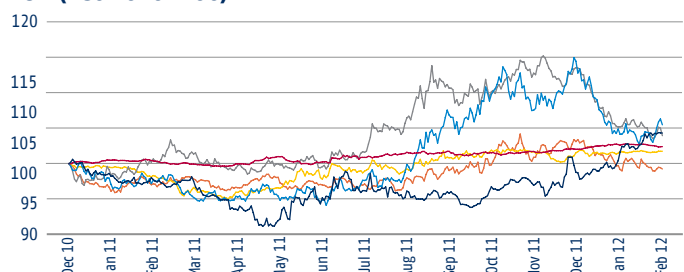
* Index growth indicates dinar depreciation

Source: NBS

- As the year continues, one can expect further depreciation pressure, but less intensive and influenced by foreign trade exchange and repayment of cross border loans.
- Decision on freezing the IMF arrangement made in January 2012 contributed to the investors' sentiment towards to dinar.

Chart 10

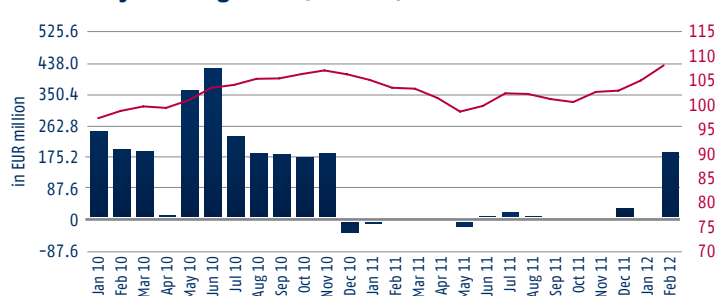
Developments of the value of the dinar and a selected group of currencies relative to EUR (Dec 2010=100)



Source: Bloomberg

Chart 11

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



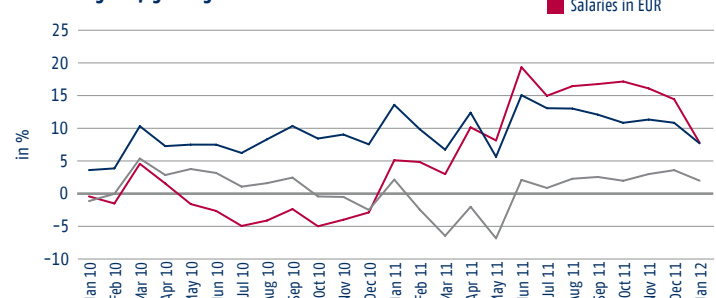
Source: Bloomberg

Unemployment and salaries

- The October 2011 unemployment rate increased again to 23.7% (691,841 people), according to the Labour Force Survey, from the already high April 2011 level of 22.2% (near to 650,000) and 19.2% (560,720) in October 2010, Table 6. Labour force indices.
- In the upcoming period one can even expect continued growth of unemployment in accordance with lack of production growth.

Chart 12

Average monthly net salary in, y-o-y



Source: Serbian Statistical Office, Hypo Research

Table 6 Labour force indices

	Apr 08	Oct 08	Oct 09	Apr 10	Oct 10	Apr 11	Oct 11
Total population	7,528,262	7,528,262	7,528,262	7,482,722	7,468,619	7,439,248	7,423,941
Population aged 15 and over	6,350,328	6,350,328	6,350,328	6,326,511	6,317,887	6,301,261	6,293,860
Active population (labour force)*	3,271,703	3,262,512	3,107,557	2,985,453	2,949,027	2,932,354	2,916,350
Employed	2,838,140	2,805,307	2,590,188	2,412,106	2,382,307	2,281,909	2,224,508
Unemployed**	433,562	457,205	517,369	573,348	566,720	650,445	691,841
Inactive population	3,078,625	3,087,816	3,242,771	3,341,058	3,368,860	3,368,907	3,377,510
Population aged below 15	1,177,934	1,177,934	1,177,934	1,156,211	1,150,732	1,137,987	1,130,081
	in %						
Share of population aged 15 and over (2:1)	84.4	84.4	84.4	84.5	84.6	84.7	84.8
Activity rate (labour force participation) (3:2)	51.5	51.4	48.9	47.2	46.7	46.5	46.3
Employment rate (4:2)	44.7	44.2	40.8	38.1	37.7	36.2	35.3
Unemployment rate (5:3)	13.3	14.0	16.6	19.2	19.2	22.2	23.7
Inactivity rate (6:2)	48.5	48.6	51.1	52.8	53.3	53.5	53.7
Share of population aged below 15 (7:1)	15.6	15.6	15.6	15.5	15.4	15.3	15.2
PRO MEMORIA							
Unemployment rate	in %						
Croatia			8.7	11.2	12.4	14.3	12.6
Slovenia			6.4	7.2	7.6	8.5	11.9
Hungary			10.6	11.4	10.9	11.0	11.0
European Union (17 countries)			9.3	9.7	9.6	9.5	9.7

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

** The unemployed 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 Statistical Office, Labour Force Survey, statistical offices of individual countries, Hypo Research

Table 7 Labour force indices by age groups in October 2011

	15-24	25-34	35-44	45-54	55-64	65+	Total: 15+
Total	818,838	766,427	829,509	1,047,934	1,268,414	1,562,738	6,293,860
Active population	235,831	620,181	713,097	800,902	462,692	83,647	2,916,350
Employed	113,508	421,545	568,443	645,687	392,738	82,588	2,224,509
Unemployed	122,323	198,636	144,654	155,215	69,954	1,060	691,842
Inactive population	583,007	146,246	116,412	247,032	805,722	1,479,091	3,377,510
in %							
Activity rate (participation of labour force) (2:1)	28.8	80.9	86.0	76.4	36.5	5.4	46.3
Unemployment rate (3:1)	13.9	55.0	68.5	61.6	31.0	5.3	35.3
Unemployment rate (4:2)	51.9	32.0	20.3	19.4	15.1	1.3	23.7
Inactivity rate (5.1)	71.2	19.1	14.0	23.6	63.5	94.6	53.7

Source: RZS. Anкета o radnoj snazi

Table 8 Average monthly net salary in Serbia

	Jan 11	Nov 11	Dec 11	Jan 12
Average net salary in RSD	34,009	38,363	43,887	36,639
Average net salary in EUR	323	374	426	349

Source: Serbian Statistical Office

Foreign trade and balance of payments

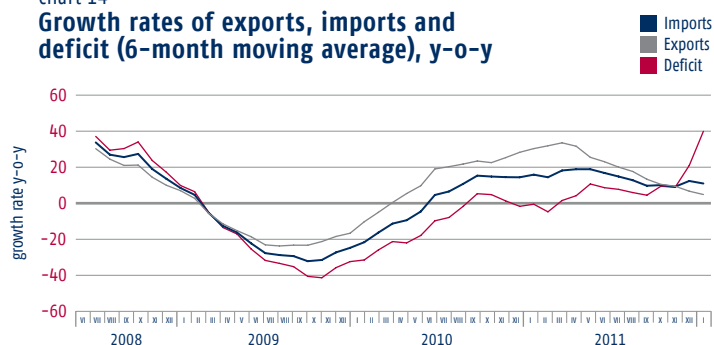
- Growth rate of exports has been slowing down y-o-y from Q4 2011. In January this trend continued, with growth of only 2.2% (-3.1% in December, 3.4% in November), Chart 14.
- Total commodity exports stood at EUR 552 million in January 2012.
- Largest positive contribution to the growth of exports in January 2012 was made by motor vehicles and trailers sector (growth of 17.2% y-o-y), electrical equipment (12.6%) and production of coke and oil derivatives (27.6%), Table 9. Sectors of motor vehicles and electrical equipment recorded solid exports growth rates, as well as growth of share in total exports, mostly caused by growth of car parts companies in the car industry, such as Yura or Leoni. Base metal industry made the largest negative contribution, as expected (fall of 17.3% y-o-y), because US Steel left the Smederevo steel plant.
- In 2012 we expect smaller growth of exports than in 2011, or even stagnation, because of decreased external demand in the Euro zone.
- Imports recorded acceleration of growth rates in Q4 2011, as an effect of intensive imports of equipment (for FIAT plant and their co-operators). January imports slowed down to 6% (18.7% in December, 13.1% in November), this trend (slowdown of growth, or even stagnation) expected to continue till year-end.
- Total imports of commodities in January stood at EUR 1,028 million, so that the deficit stands at EUR 476 million.
- Largest growth was recorded in imports of chemicals, pharmaceutical products and other traffic equipment in January 2012. Fall was hardest in imports of crude oil and natural gas exploitation sector, Table 10.
- Last year deficit of EUR 3.17 billion was realized with the EU (out of which deficit of 2.13 billion with "old members" and one billion with the "new" EU members), and deficit of 1.6 billion with the Community of independent countries (with the Russian Federation as the most important partner), and surplus of around one billion with the CEFTA agreement countries. With the rest of the world deficit of EUR 2.3 billion was realized, Chart 12.
- The current account deficit of the Serbian balance of payments in 2011 stood at EUR 2.96 billion, larger by 42.2% (more by EUR 880 million) y-o-y, Table 11.
- On the capital and financial side of the 2011 balance of payments, income from FDIs (EUR 1.8 billion), portfolio investments (EUR 1.6 billion) and net borrowing of the state, banks and companies (EUR 975 million) was higher than the above deficit by around EUR 1.8 billion, influencing on increase of FX reserve in 2011.

Chart 13 Total imports and exports in 2011, by economic zones



Source: Serbian Statistical Office, Hypo Research

Chart 14 Growth rates of exports, imports and deficit (6-month moving average), y-o-y



Source: Serbian Statistical Office, Hypo Research

FX reserve

- FX reserve of the National Bank of Serbia at February end amounted to EUR 11.17 billion (11.6 billion in January, 12.06 in December). Decrease of FX reserve in February was mostly connected with maturity of government securities denominated in euros in the amount of EUR 204.5 million, as well as interventions of the NBS standing at EUR 188.5 million in February, chart 15.
- FX reserves of banks in January 2012 amounted to EUR 760 million (810 million in December 2011, 1.1 billion in November 2011).

Table 9 Growth rates of exports of individual categories by sector and by purpose

	2010	2011	Jan 12	Share in total imports in Jan 2012 in %
Exports by segment	growth rate y-o-y in %			
Agriculture	40.5	23.6	-8.6	10.6
Energy and ore	23.5	-8.9	-14.3	2.2
Food products	16.9	10.6	2.3	12.7
Coke and oil derivatives	37.4	10.4	27.6	2.7
Chemicals and chemical products	45.4	11.8	-18.2	5.8
Rubber and plastics products	21.0	22.1	8.6	6.9
Base metals	53.2	7.4	-17.3	14.2
Electrical equipment	49.4	13.0	12.6	6.0
Motor vehicles and trailers	50.7	43.0	17.2	4.9
Other segments	6.0	15.6	17.1	33.9
Total exports	24.0	14.1	2.2	100.0
Exports by purpose	growth rate y-o-y in %			
Reproduction products	35.92	16.38	-1.07	68.62
Fast moving consumer goods	7.30	7.93	8.44	24.90
Equipment	4.2	16.8	7.9	6.0

Source: Serbian Statistical Office, Hypo Research

Table 10 Growth rates of imports of individual product categories by segment

	2010	2011	Jan 12	Share in total imports in Jan 2012 in %
Imports by segment	growth rate y-o-y in %			
Energy and ore	15.8	8.1	-25.6	17.1
Food products	15.4	27.3	21.1	3.2
Coke and oil derivatives	112.6	71.7	21.5	7.0
Chemicals and chemical products	9.3	23.7	38.3	11.6
Basic pharmaceutical products	19.6	74.7	125.0	3.4
Rubber and plastics	10.3	23.2	9.7	2.2
Base metals	41.1	13.0	-20.4	5.2
Electrical equipment	257.4	24.9	50.3	4.2
Motor vehicles and trailers	-13.0	74.6	57.2	4.9
Other traffic equipment	-36.4	2.6	411.1	0.9
Other activities	19.3	-3.5	2.9	36.5
Total exports	9.7	14.5	6.0	100.0
Imports by purpose	growth rate y-o-y in %			
Reproduction products	7.5	25.1	2.1	59.7
Fast moving consumer goods	-26.8	31.5	38.0	17.9
Equipment	-21.4	47.6	30.3	10.3
Unclassified	-3.1	-58.5	-19.4	12.0

Source: Serbian Statistical Office, Hypo Research

Table 11 Serbian balance of payments

in EUR million

	Monthly		Cumulative YTD	
	Dec 10	Dec 11	Dec 10	Dec 11
I CURRENT ACCOUNT	-241.9	-494.8	-2,082.8	-2,961.2
1. Goods	-434.0	-666.7	-4,774.2	-5,507.3
Export of goods	726.0	703.9	7,400.9	8,437.8
Import of goods	-1,160.0	-1,370.7	-12,175.0	-13,945.0
2. Services	-9.5	41.0	5.3	160.8
Receipts	285.7	321.0	2,667.1	3,032.3
Expenditure	-295.2	-279.9	-2,661.8	-2,871.5
3. Income	-95.2	-122.6	-669.9	-757.9
4. Current transfers - net	296.8	253.5	3,356.0	3,143.1
o/w: Private remittances	145.7	153.4	2,421.9	2,210.5
II CAPITAL ACCOUNT - net	-0.1	-0.1	0.9	-2.5
III FINANCIAL ACCOUNT	299.2	500.6	1,999.2	2,619.4
1. Direct investment - net	98.0	312.8	860.1	1,826.9
2. Portfolio investment - net	-59.0	1.5	45.7	1,619.1
3. Other investments	646.4	753.6	164.8	974.9
3.1. Trade credits - net	-91.4	113.0	89.6	792.3
3.2. Loans - net*	563.4	127.6	829.5	-413.1
National bank of Serbia	54.4	0.0	341.0	44.8
General government	51.0	21.0	735.3	687.5
Banks	596.8	81.0	625.7	-729.2
Other sectors	-138.7	25.5	-872.4	-416.1
3.3. Currency and deposits	174.4	513.0	-754.3	595.6
3.4. Other assets and liabilities	0.0	0.0	0.0	0.0
3.5. Allocation of SDRs	0.0	0.0	0.0	0.0
4. FX reserves (- increase)**	-386.1	-567.3	928.7	-1,801.5
IV ERRORS AND OMISSIONS - net	-57.3	-5.7	82.6	344.3
V OVERALL BALANCE, without FX reserves changes	386.1	567.3	-928.7	1,801.5

* Includes use and repayment of loans from IMF

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

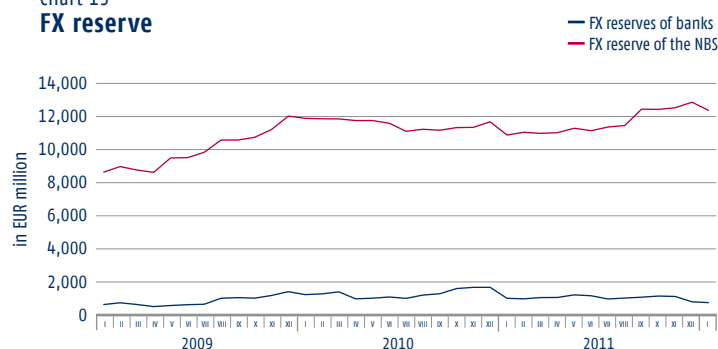
Source: NBS, Hypo Research

Table 12 Net own reserves of NBS

	Dec 10	Nov 10	Dec 11	Jan 12
FX reserve of banks	1.684	1.134	809	762
Gross reserves ("FX reserve of NBS")	10.077	11.474	12.135	11.680
Liabilities	-1.615	-1.669	-1.705	-1.686
IMF	-1.532	-1.594	-1.626	-1.613
Other liabilities	-82	-75	-79	-73
Structure of Net Reserves of NBS				
1. National Bank of Serbia, net	8.462	9.806	10.430	9.994
1.1 Deposits of commercial banks	-3.310	-3.112	-3.686	-3.211
1.2 Deposits of the state	-509	-1.369	-945	-919
1.3 NBS own reserve (1.3 = 1+1.1+1.2)	4.643	5.325	5.799	5.864

Source: NBS, Hypo Research

Chart 15 FX reserve



Source: Serbian Statistical Office, Hypo Research

- Net own reserve of NBS at January 2012 end stood at EUR 5.86 billion (in December 2011 EUR 5.8 billion, in November 5.3 billion), Table 12. Their growth in January 2012 was caused primarily by the state buying off FX.

Serbian external debt

- In December 2011 the total Serbian external debt stood at EUR 24.1 billion (23.8 billion in December 2010), i.e. around 70% of GDP, Table 13.
- In 2011 the state debt increased substantially from issuing Eurobonds of around 740 million EUR in September, and the World Bank loan of 240 million USD intended for financing the budget deficit.
- New agreed and announced loans for public projects will additionally increase the external, and thus public debt (such as interstate agreements with governments of Azerbaijan, Russia, Germany, Japan and with international financial institutions (EBRD, ECN), directed at energy efficiency, protecting the environment and developing infrastructure.
- At the same time, one can expect international repayment of the private sector to continue in 2012.

Table 13 Serbian external debt, private and public*

	Dec 08	Dec 09	Dec 10	Jun 11	Nov 11	Dec 11
in EUR million						
State	6,521	7,764	9,076	9,138	10,607	10,773
out of which: IMF	0	1,532	1,978	1,934	2,049	2,077
Private sector	14,568	14,724	14,710	13,597	13,236	13,352
Banks	3,524	4,310	5,093	4,308	4,290	4,364
Companies	11,043	10,414	9,617	9,289	8,946	8,988
Total Serbian external debt	21,088	22,487	23,786	22,734	23,843	24,125
in GDP %						
State	19.6	26.7	30.5	29.1	31.5	31.2
Private sector	43.7	50.7	49.4	43.3	39.3	38.7
Banks	10.6	14.8	17.1	13.7	12.7	12.6
Companies	33.2	35.8	32.3	29.6	26.6	26.0
Total Serbian external debt	63.3	77.4	79.8	72.4	70.8	69.9

* 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 (438.8 million EUR) used in December 2009 and the capitalised interest to the Paris Club creditors (85.5 million EUR), whereas the private external debt does not include loans concluded prior to 20th December 2000 where payments are not made (856.5 million EUR, out of which sum domestic banks take 391.4 million EUR and domestic companies take 465.1 million EUR).

Source: NBS, Hypo Research

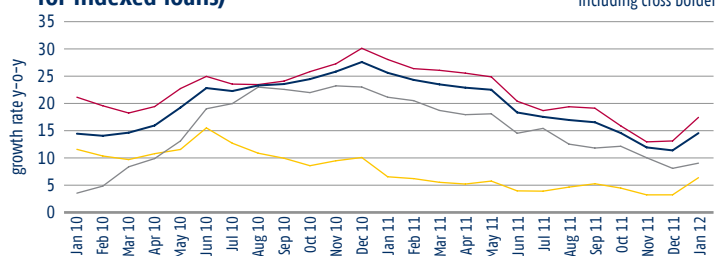
Monetary sector

- Money supply that started in June 2011 is expected to continue, Chart 16.
- Basic factor of acceleration of growth of money supply in the period from May to August was growth of net FX assets from FDI inflow (Delhaize, Fiat), while at 2011 end acceleration repeated due to consumption of FX deposits from conversion into RSD with the NBS.
- Throughout 2011 bank loans to non-government sector slowed down

growth from around 20% at 2010 end to below 8% at 2011 end (2.2% together with cross border loans). Crediting activities were the weakest in Q4 2011, when growth of retail loans was negative, and growth of corporate loans was 2.5 times smaller than in Q3 2011, Chart 21. Mild recovery of crediting activities was noticed in January 2012 (10.3% growth of loans to non-government sector y-o-y corrected by the effect of change of exchange rate for indexed loans), chart 20.

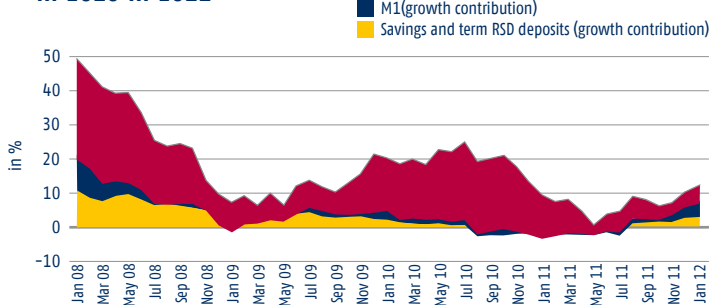
- Recovery of crediting activities was mostly influenced by the loan approved to Telekom a.d. Srbija in total amount of EUR 470 million, out of which EUR 227 million in January from the local banking sector.

Chart 15 Growth of loans from the banking sector and direct cross border y-o-y (corrected by the effect of change of exchange rate for indexed loans)



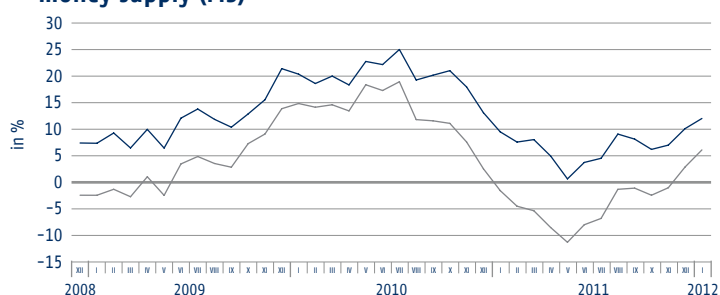
Source: NBS, Hypo Research

Chart 17 Money and its components in 2010 in 2011



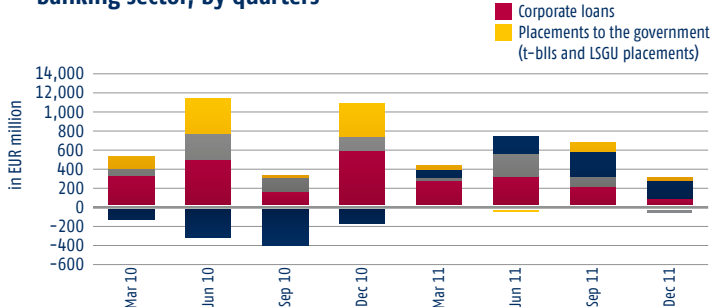
Source: NBS, Hypo Research

Chart 16 Nominal and real growth of money supply (M3)

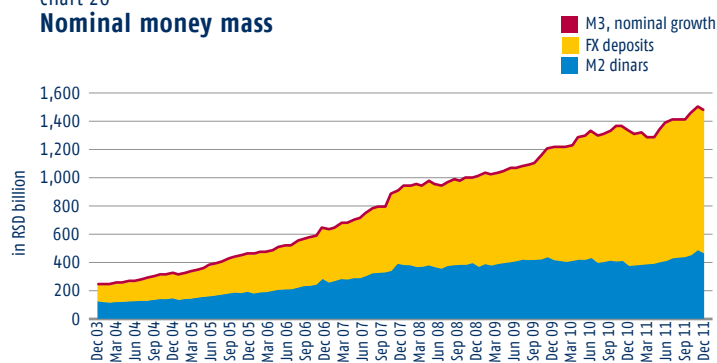


Source: NBS, Hypo Research

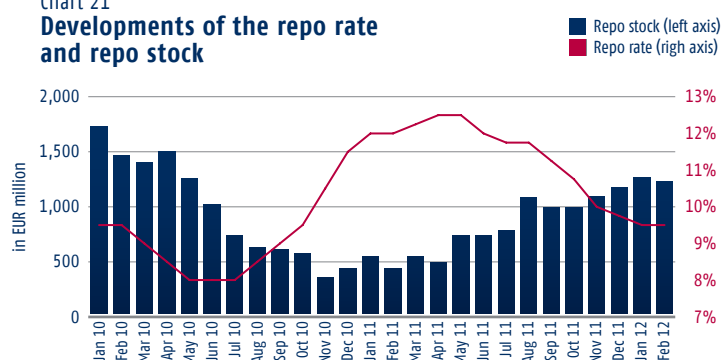
Chart 19 Growth of placements of the banking sector, by quarters



Source: NBS, Hypo Research

Chart 20
Nominal money mass

Source: NBS, Hypo Research

Chart 21
Developments of the repo rate and repo stock

Source: NBS

Table 14 Total retail savings

	in EUR million			growth rate y-o-y in %		
	Dec 10	Dec 11	Jan 12	Dec 10	Dec 11	Jan 12
Total retail savings	7,066	7,597	7,636	17.4	7.5	7.1
Total RSD savings	127	185	205	2.5	46.1	61.7
Short term	92	156	176	-20.8	70.7	92.5
Long term	35	29	29	341.6	-18.2	-17.7
Total FX savings	6,939	7,412	7,430	17.7	6.8	6.1
Short term	5,823	5,453	5,449	11.8	-6.3	-7.4
Long term	1,116	1,959	1,981	62.9	75.5	77.4

Source: NBS, Hypo Research

- In February and March repo rate was kept at its January level (9.5%), thus stopping the wave of decreasing restriction of monetary policy by lowering key policy rate (temporarily?).
- In February repo stock is at the same level as in January, at around EUR 1.2 billion, representing stagnation after continued growth in the course of 2011. From February end to 15 March repo stock dropped by around EUR 285 million.
- One can expect monetary policy to continue loosening its restrictiveness in conditions of fall of inflation and worsened growth conditions. Still, risk of FX outflow due to decrease of interest differential could divert NBS from further decreases of the key policy rate.

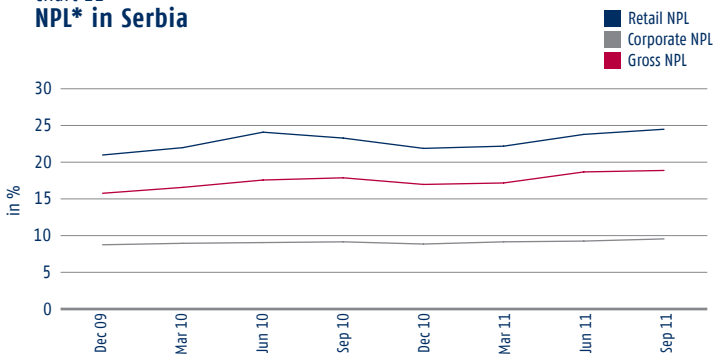
Table 15 Consolidated balance sheet of commercial banks

	End of period balance (in EUR mil)			Growth rate (in %, y-o-y)			Share in total assets / liabilities (in %)		
	Dec 10	Dec 11	Jan 12	Dec 10	Dec 11	Jan 12	Dec 10	Dec 11	Jan 12
TOTAL ASSETS	26,040	27,799	27,628	6.6	6.8	8.2	100.0	100.0	100.0
Liquid assets	8,121	8,244	7,796	-6.9	1.5	4.3	31.2	29.7	28.2
Cash and deposits with NBS	4,139	4,637	4,102	-7.8	12.0	-0.7	15.9	16.7	14.8
of which: mandatory reserve (allocated f/x reserve+calculated RSD reserve)	3,935	4,319	3,844	-3.8	9.8	-1.9	15.1	15.5	13.9
FX liquid assets	2,126	1,204	1,210	25.4	-43.4	-12.8	8.2	4.3	4.4
Placements to repo, NBS and RS t-bills	1,857	2,404	2,485	-26.8	29.5	27.0	7.1	8.6	9.0
Placements	16,083	17,638	17,889	17.1	9.7	11.3	61.8	63.5	64.7
Corporate	10,196	10,607	10,866	15.1	4.0	6.8	39.2	38.2	39.3
Retail	5,000	5,749	5,733	14.6	15.0	14.8	19.2	20.7	20.8
Other	887	1,282	1,290	73.4	44.5	43.4	3.4	4.6	4.7
Fixed and other assets	1,836	1,916	1,943	-6.8	4.4	-2.5	7.0	6.9	7.0
TOTAL LIABILITIES	26,040	27,799	27,628	6.6	6.8	8.2	100.0	100.0	100.0
Deposits	12,092	13,299	13,014	4.6	10.0	8.6	46.4	47.8	47.1
State deposits	199	221	195	69.1	11.3	1.9	0.8	0.8	0.7
Transaction deposits	1,446	1,635	1,503	-10.7	13.1	14.2	5.6	5.9	5.4
Dinar term deposits	1,487	1,846	1,777	-20.1	24.1	22.9	5.7	6.6	6.4
FX term deposits	8,961	9,597	9,539	12.6	7.1	5.7	34.4	34.5	34.5
Cross-border liabilities	5,781	5,235	5,276	10.8	-9.4	1.5	22.2	18.8	19.1
Provisions for potential losses	1,573	2,078	2,098	11.9	32.1	33.7	6.0	7.5	7.6
Equity and reserves	4,967	5,385	5,075	2.0	8.4	3.3	19.1	19.4	18.4
Other liabilities	1,626	1,802	2,166	18.9	10.8	15.4	6.2	6.5	7.8

Source: NBS, Hypo Research

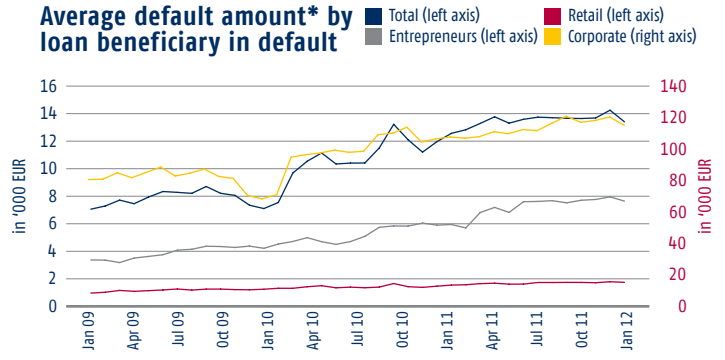
Non-performing loans (NPL)

Chart 22
NPL* in Serbia



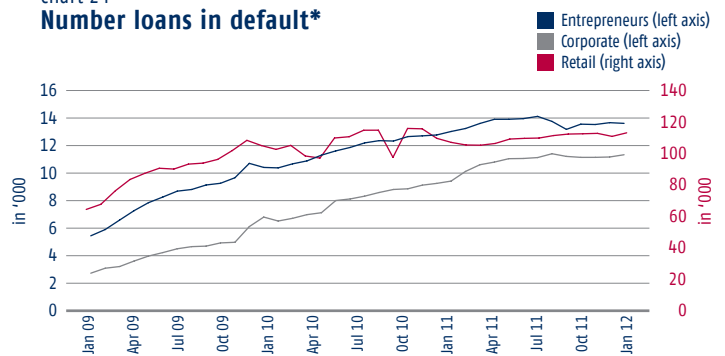
* Share of loans in default for 90 or more days in total loans. Loan amount includes future interest.
Source: NBS, Credit Bureau, Banks' Association and Hypo Research

Chart 23
Average default amount* by loan beneficiary in default



* Loans in default for 90 or more days.
Source: NBS, Credit Bureau, Banks' Association and Hypo Research

Chart 24
Number loans in default*

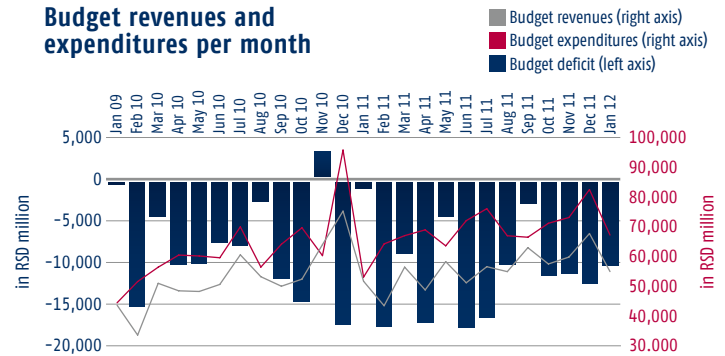


* Loans in default for 90 or more days.
Source: NBS, Credit Bureau, Banks' Association and Hypo Research

Fiscal flows

- In January budget deficit stood at RSD 10.4 billion, ten times more than the usually low deficit in January (RSD 1.1 billion in 2011 and RSD 696 million in 2010.).
- Budget deficit is planned to be financed in 2012 by the issue of t-bills, and there is a possibility of issuing another Euro bond in the amount of one billion US dollars in H2 2012.
- One can expect budget rebalance as a condition to continue negotiations with the IMF about the precautionary arrangement, that can happen after the elections.

Chart 25
Budget revenues and expenditures per month

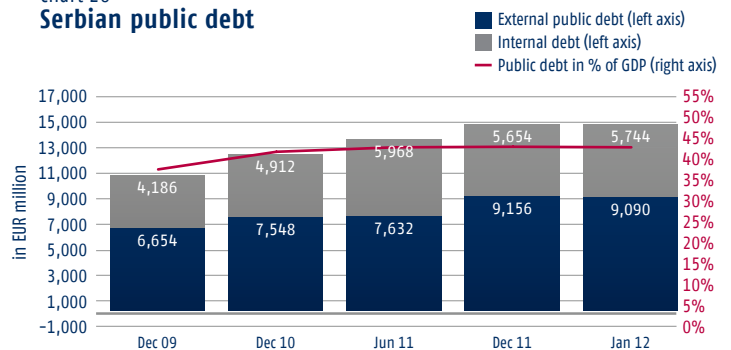


Source: Ministry of Finance, Hypo Research

Public debt

- At 2011 end public debt stood at 45.1% of GDP, according to the official announcement of the Ministry of Finance, while it was 43% of GDP according to calculations of Hypo Research.
- In January 2012 public debt in absolute amount remained at the level from December 2011, at 43% of GDP, (43.2% of GDP according to the Ministry of Finance).
- Decrease of stock of undue t-bills at the end of February is a bit higher than in January 2012, after noticeable fall since October 2011, chart 27.
- Continuation of mild growth of spread between interest rates for t-bills and repo rate for bills with longer term, while bills with shorter terms have been having constant spread since October 2011, Chart 28.

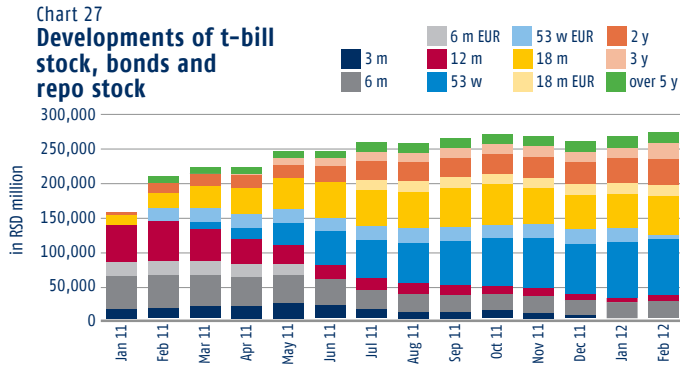
Chart 26
Serbian public debt



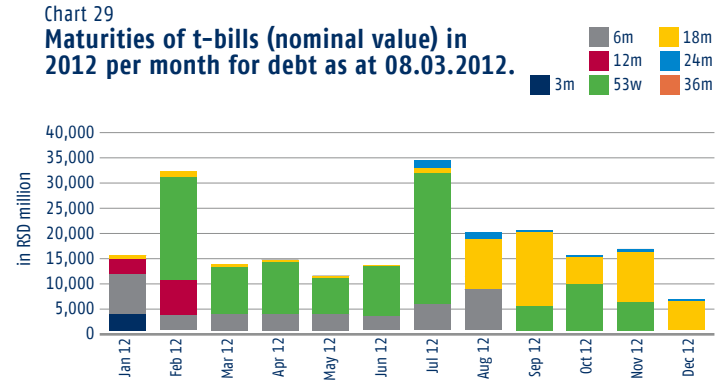
Source: NBS, Ministry of Finance, Hypo Research

- By 2012 end around RSD 170 billion of debt for issued t-bills issued since 8 March 2012 is coming due, chart 29.
- Interest in t-bills, measured by the ratio of subscribed and offered amounts of t-bills, in February and the first half of March, decreased relative to January.

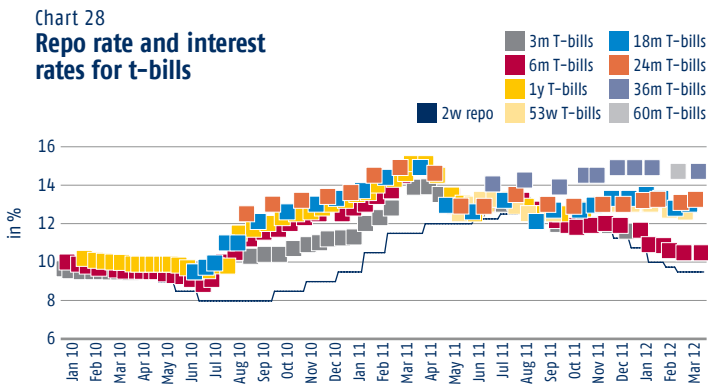
- One can notice that in February and march realized amounts were a bit smaller than subscribed ones, as well as that realized amounts are still much bigger than maturity.



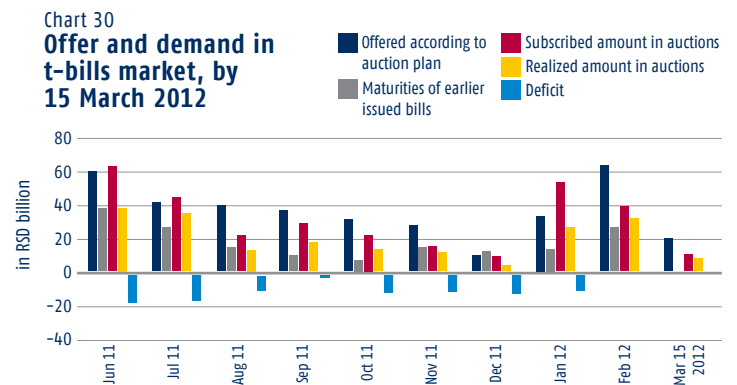
Source: Ministry of Finance, NBS, Hypo Research



Source: Ministry of Finance, Hypo Research



Source: Ministry of Finance, Hypo Research



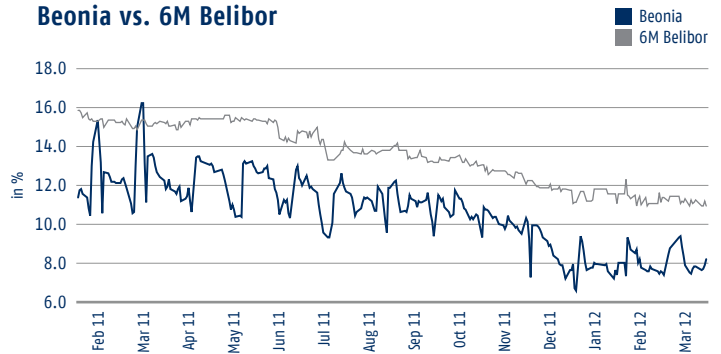
Source: Ministry of Finance and Bloomberg

Money Market

Local Money Market

- Interest rates in the interbank market were stable in February and beginning of March, following the unchanged key policy rate of NBS.

Chart 31
Beonia vs. 6M Belibor



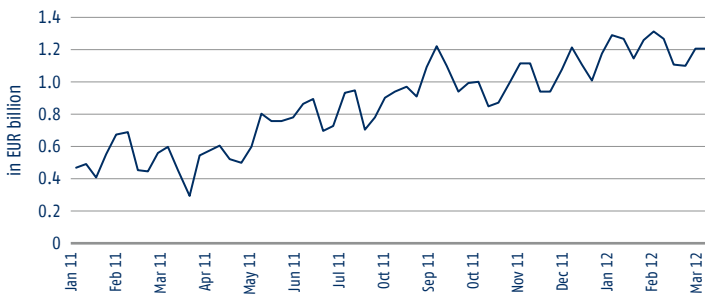
Source: Bloomberg

NBS 2W Repo and T-Bills Overview

- Repo stock kept its high level.
- Repo rate stayed at 9.5% after the March session of the Executive Board of NBS
- Fall of yield for t-bills in January was stopped.
- Interest rates for short term t-bills unchanged, for longer maturities correction upwards.

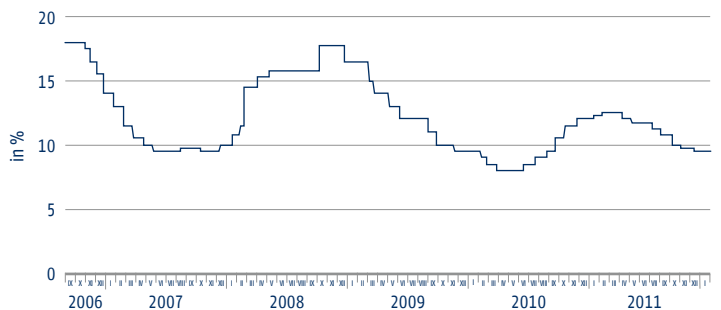
- Low rate of success of t-bills with longer maturities and correction of the interest rate upwards in line with growing risk in view of performance of the local economy and public debt at mid term and long term.

Chart 32
Total banking sector investments in NBS 2W repo YTD



Source: NBS

Chart 33
Developments of the NBS reference interest rate



Source: NBS

CDS values for Serbia

- CDS for Serbia still stable.
- CDS of countries in the region dropping, after Greece won its second bail-out at February end 2012.

Table 16 Developments of CDS values for Serbia

	CDS Srbija		
	2y	5y	10y
08/31/2009	465	478	428
09/30/2009	380	380	380
10/30/2009	380	380	380
11/30/2009	380	380	380
12/31/2009	380	380	380
01/31/2010	270	270	270
02/26/2010	290	290	290
03/31/2010	250	250	250
04/30/2010	180	255	255
05/31/2010	210	255	255
06/30/2010	245	290	290
07/31/2010	235	280	280
08/31/2010	210	320	320
10/31/2010	170	260	285
11/30/2010	171	260	285
12/31/2010	184	285	310
01/31/2011	184	285	310
02/28/2011	169	270	295
03/31/2011	159	260	285
06/10/2011	169	265	290
07/12/2011	194	290	315
08/10/2011	249	360	385
09/09/2011	249	360	385
10/07/2011	249	360	385
11/09/2011	249	360	385
12/09/2011	249	360	385
01/16/2012	249	360	385
02/08/2012	249	360	385
03/09/2012	249	360	385

Source: Bloomberg, JP MorganMarkets

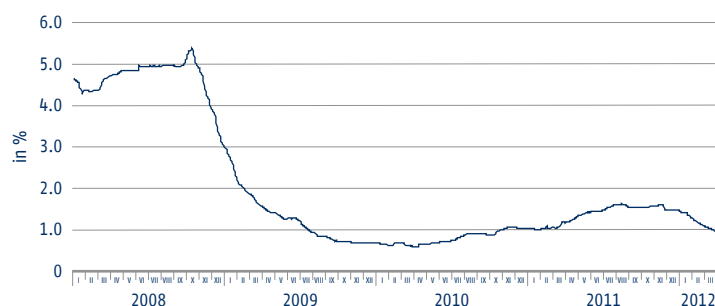
Table 17 CDS in the region, 9 March 2011

	CDS CEE Region		
	2y	5y	10y
Serbia	249	360	385
Croatia	342	430	459
Slovenia	320.5	350.95	376.55
Romania	237	325	352
Greece	7,310	3,706	2,294

Source: Bloomberg, JP MorganMarkets

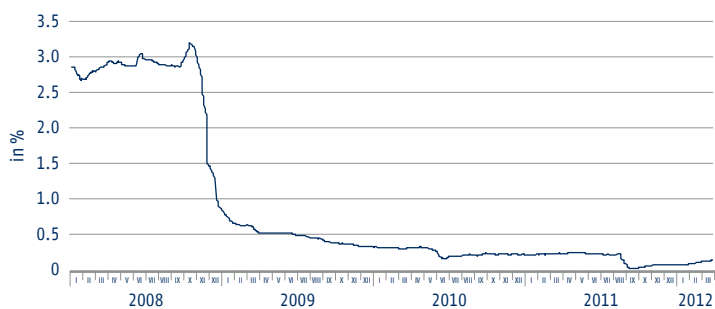
International money market

- Interest rates of leading currencies relatively stable, if one considers longer series of historical data.
- While observed at monthly level, on the other hand, one can notice further correction of 3M EURIBOR downwards.

Chart 34
Developments of the value of 3M Euribor

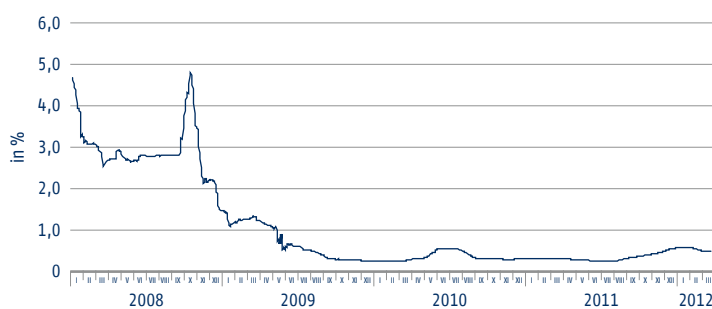
Source: Bloomberg

Chart 35
Kretanje vrednosti 6M CHF Libor-a



Source: Bloomberg

Chart 36
Developments of the value of 3M USD Libor



Source: Bloomberg

Overview of major world currencies

- EURUSD strengthened mildly while observing the beginning and end of observed period, but inside the period it had big oscillations (to more than 1.34 and below 1.31).
- Reason for such developments is first of all uncertainty in view of Greek bail-out, then uncertainty in view of Greek arrangement with private creditors (PSI). As the situation stands at the moment, Greece managed to get the second bail out, and open the process of the largest restructuring in history.
- When it comes to the exchange rate EURUSD, one should not forget the fact that American economy has been catching pace and improving employment (unemployment rate, non-farm payrolls).
- SNB is strongly determined not to allow EURCHF to fall below 1.2%.

Table 17 Developments of exchange rates

	EUR / USD	EUR / CHF
02 / 01 / 2012	1.3184	1.2050
03 / 09 / 2012	1.3214	1.2055
% of change	0.23%	0.05%
Maximum	1.3453	1.2109
Minimum	1.3061	1.2050
Average value	1.3233	1.2069
Middle value	1.3234	1.2063

Izvor: Bloomberg

Chart 37
EUR/USD



Source: Bloomberg

Chart 38
EUR/CHF



Source: Bloomberg

Forecast for Reference Rates, Interest Rates and Exchange Rates

- Change of expectations in view of ECB key policy rate. Instead of another correction downwards everyone now expects ECB not to change the rate in the following four quarters.
- SNB remains at the targeted key policy rate of 0%, while forecasts for 3M CHF Libor gravitate to zero.

Table 20 Forecast of market interest rates

	Q2 12	Q3 12	Q4 12	Q1 13
3M Euribor	0.93	0.91	0.93	0.97
3M USD Libor	0.42	1.40	0.41	0.49
3M CHF Libor	0.06	0.09	0.15	0.05

Source: Bloomberg contributor composite

- No significant change in projections of other observed interest rates and exchange rates.

Table 19 Forecast of central bank interest rates

	Q2 12	Q3 12	Q4 12	Q1 13
ECB	1.00	1.00	1.00	1.00
FED	0.25	0.25	0.25	0.25
SNB	0.00	0.00	0.00	0.00

Source: Bloomberg contributor composite

Table 21 Forecast of exchange rate developments

	Q2 12	Q3 12	Q4 12	Q1 13
EUR / USD	1.28	1.29	1.30	1.29
EUR / CHF	1.23	1.24	1.26	1.28

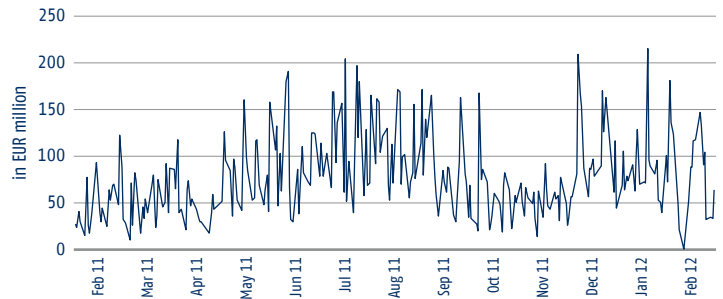
Source: Bloomberg contributor composite

FX Market

Volume of Trading in the Interbank FX Market

- Fall of total turnover in February m-o-m (less trading days).
- Average daily turnover almost unchanged.
- Average daily turnover in the first days of March announced further fall of total turnover, unless something changes by the end of the month.

Chart 39
Daily turnover in the interbank FX market



Source: NBS

Dinar exchange rate

- Dinar weakened significantly to EUR, USD and CHF in February and March.
- NBS intervened by selling the total of EUR 288.5 million on several occasions in February and first half of March.
- Key risks coming from worsening of economic outlook for the local economy, imbalance of the balance of payments, uncertainty of refinancing of the government debt, freezing the IMF arrangement.

Chart 40
EUR/RSD



Source: NBS, Bloomberg

Table 22
Developments of the dinar exchange rate to major currencies

	EUR / RSD	USD / RSD	CHF / RSD
02/01/2012	105.7162	80.9776	87.8531
03/09/2012	110.6685	83.5360	91.7878
% of change	4.68%	3.16%	4.60%
Maximum	110.8235	84.1081	91.8655
Minimum	105.2939	79.9073	87.2822
Average value	108.8782	82.0608	90.0348
Middle value	108.7923	82.1605	90.1209

Source: NBS

Chart 41
USD/RSD



Source: NBS, Bloomberg

Chart 42
CHF/RSD



Source: NBS, Bloomberg

Capital Market

- Total turnover realised in trading all market instruments in the Belgrade Stock Exchange in February 2012 amounted to RSD 1.3 billion, i.e. EUR 12.2 million, by around 36% less than realized turnover in January 2012.
- Attention of investors in February 2012 was mostly directed at shares of NIS a.d. Novi Sad.
- Belgrade Stock Exchange indices recorded higher values m-o-m, Belex15 at February end was 9.77% higher than in January (0.19% growth in January), while BelexLine was 6.73% higher (after dropping 0.7% in January).
- Number of transactions in February 2012 (53,289) was 50% higher than in December 2011.
- Share of foreign investors in total turnover in February 2012 stood at 36.5%.
- Expectations of SE developments expressed through BelexSentiment for March we positive (111.39 index points), expecting more turnover m-o-m.
- Tigar Pirot sold its corporate bonds in value of RSD 32 million and 26.82% yield p.a. with 3-month maturity, on 8th March 2012.
- Aside from Tigar, companies Farmakom, Galenika and Graditeljare returning to the local debt market, since commercial banks increased their restrictiveness because of the crisis in the Euro zone. Since 29th February 2012 five companies issued bods in total value of RSD 380 million, according to data from the Central Securities Depository.

Bond market

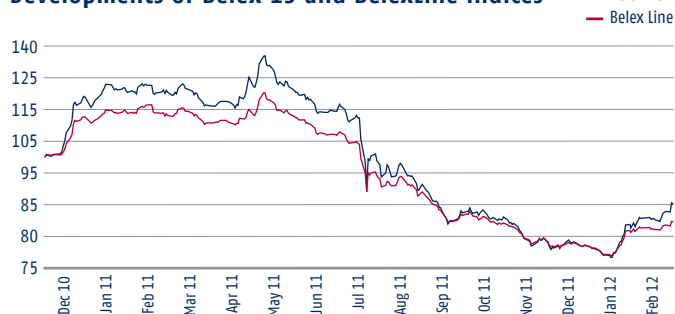
Table 23 Overview of trade in RS bonds in February 2012

Symbol	Last price	Yield	Top price	Bottom price	Volume	Turnover in EUR
A2012	98.33	6.91%	99	98	174,057	170,947
A2013	92.76	6.19%	94	92.12	198,064	183,418
A2014	87.9	5.89%	89.9	87	241,591	211,558
A2015	83.01	5.89%	86	81.72	1,693,962	1,416,050
A2016	78.84	5.75%	80.9	77.15	1,535,714	1,224,400

Source: Belgrade Stock Exchange

Stock market

Chart 43 Developments of Belex 15 and BelexLine indices



Source: Belgrade Stock Exchange

Table 24 Belex15 and BelexLine in February 2012

	BELEX 15	BELEX LINE
Index value (02 / 29 / 2012):	548.85	1,035.28
monthly change of value	9.77%	6.73%
top monthly value	548.85	1,035.28
bottom monthly value	508.33	983.28
historically top value	3,335.20	5,007.34
historically bottom value	347.46	841.99

Source: Belgrade Stock Exchange

Table 25 The most traded shares in February 2012

Symbol	Name	Change	Turnover in EUR
NIIS	NIS A.D. NOVI SAD	▲ 27.08%	3,232,218
AIKB	AIK BANKA A.D. NIŠ	▲ 8.11%	1,185,953
IMLK	IMLEK A.D. BEOGRAD	▲ 13.64%	814,571
UNBN	UNIVERZAL BANKA A.D. BEOGRAD	▲ 0.53%	520,384
AERO	AERODROM NIKOLA TESLA A.D. BEOGRAD	▲ 3.48%	360,835
AGBN	AGROBANKA A.D. BEOGRAD	▲ 22.13%	220,984
ENHL	ENERGOPROJEKT HOLDING A.D. BEOGRAD	▲ 1.00%	207,355
SJPT	SOJA PROTEIN A.D. BEČEJ	▼ -2.84%	201,256
KMBN	KOMERCIJALNA BANKA A.D. BEOGRAD	▲ 8.11%	145,644
MTLC	METALAC A.D. GORNJI MILANOVAC	▲ 6.50%	124,314

Source: Belgrade Stock Exchange

