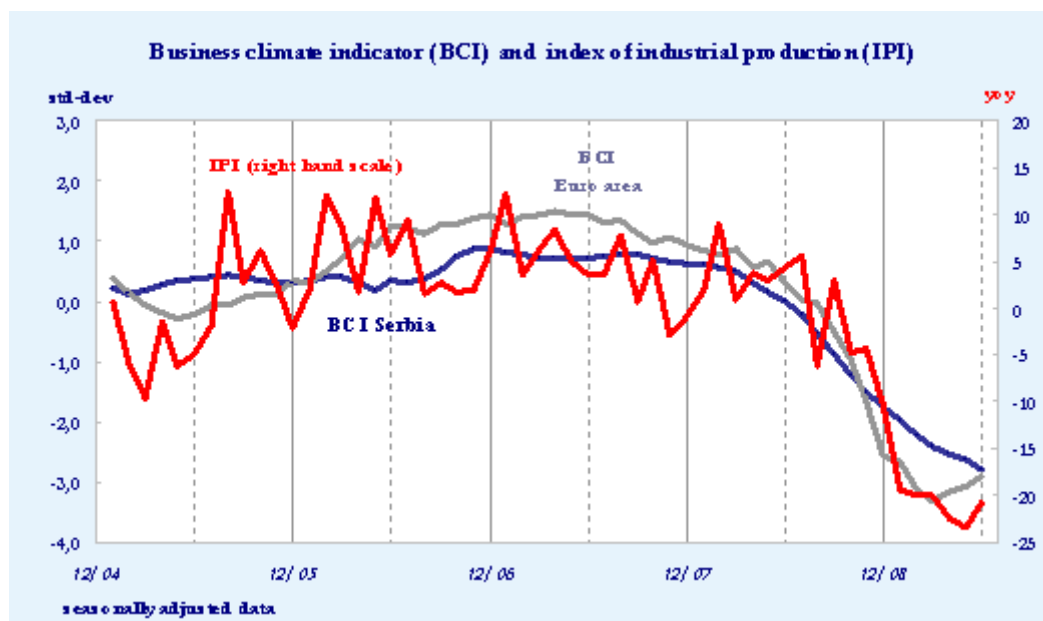


BUSINESS CLIMATE INDICATOR - BCI

In the second quarter of 2009 effects of the global economic crisis on deterioration of **overall business climate in manufacturing industry** were most pronounced, which is also confirmed by negative developments of major macroeconomic indicators (a decline in industrial production, slowing down of the rise in real earnings, inflation, export and import as well as high fiscal deficit). Most qualitative assessments obtained on the basis of Survey results are negative and below the long-term average, but there are signs of improvement of the current business situation and main indicators in June 2009.



Source: BCI – RDB Survey, Eurostat;
IPI – RSO

Continual deterioration in assessment of business conditions is illustrated through a constant fall in the **Business Climate Indicator – BCI** since the second half of 2008, and in Q2 2009 the lowest assessments were registered since October 2004 when the research started. Having said that, a somewhat less sharp fall of the BCI curve in Q2 relating to Q1 2009 might be interpreted as a sign of the beginning of recovery of Serbian economy. Statistical data show that the physical volume of manufacturing industry in Q2 2009 relative to Q2 2008 fell by 21.6%. A fall in industrial activity is in the first place a consequence of decreased demand, both domestic and export. Diminished foreign demand was caused by recession in developed economies, while domestic industry was particularly hit through reduced demand for basic metals, rubber and plastic products, and chemical industry products, which has been reflected in the fall in output in these sections that over the previous period have been the largest exporters and drivers of development and growth of overall industrial output. In addition, apart from the fall in export demand, decelerated growth of earnings and reduced credit activity of commercial banks led to reduction in domestic demand, which caused a fall in output in industrial sections that are not directly or dominantly dependant on exports. In the course of 2009 problems of payment of debts among national companies have been more prominent and, moreover, there were also problems of diminished domestic and foreign demand, which has all led to the generation of non-liquidity within national economy itself. In addition, national credit activity was also reduced due to precaution and caution of economic entities (credits extended to companies have been rising at a minimum rate, but much slower than in the previous year).

In the EU countries the trend of declining Business Climate Indicator has been

stopped. Higher BCI reflects overall a more favourable business situation, so one could expect that positive impulses coming from markets of European countries spill over to operations of Serbian companies in the next period (in June 26% of surveyed entrepreneurs expected an increase in export demand in the next quarter, and so 39% of them expected boosted production activity as well). Similarity between trends of BCI of Serbia and the EU is shown in the comparative line chart.