	Serbian Economic Diagram	Economic Trends
	No 1	January 2010

In Q4 2009 GDP at the level of Q4 2008
 Foreign trade deficit at EUR 5.2bn
 Industrial output dropped by 12.1%
 The minimum rise in average net earnings, of 0.2%
 Real rise in pensions, of 5.1%
 6.6% inflation within the projected framework
 Privatization revenues at EUR 75.6m
 Stimulating development funds increased by 60%

Special analyses:

[Development Degree of Municipalities](#)

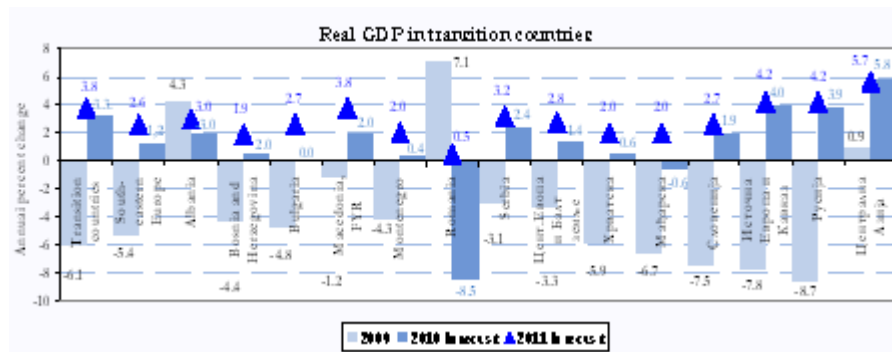
[Poverty in Serbia in 2008](#)

[Coefficient of Export Restructuring](#)

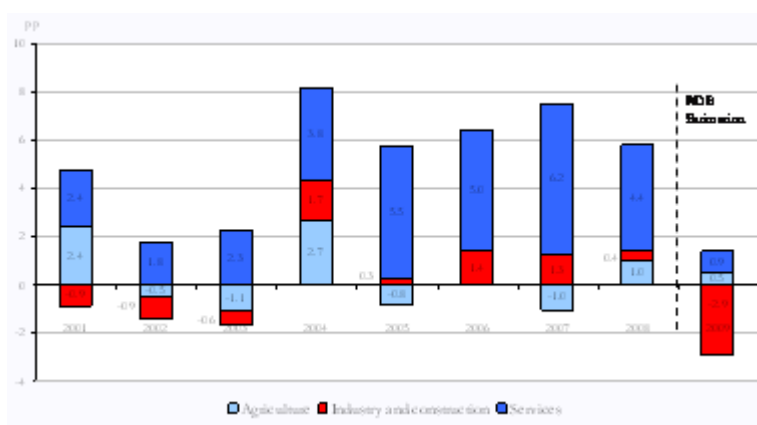
CURRENT TRENDS - SUMMARY

The global economy is going through the deepest crisis over the last 60 years. A drop in domestic and global demand, deceleration of credit activity and foreign direct investments resulted in a decrease in industrial output, exports, imports, employment, and retail trade turnover. Through implementation of the Government set of measures of economic and monetary policy Serbia managed to avert deeper disturbances of the financial and real sector and in this way macroeconomic stability was maintained and recession tendencies kept at bay. On January 14 2010 the Government of the Republic of Serbia adopted the Programme of Measures for Neutralizing Negative Effects of the Global Economic Crisis for 2010. The major objective of the programme is to preserve jobs and create an opportunity for new ones, as well as to achieve economic growth.

International economic developments. EBRD in January revised upward its growth forecast for 2010 relating to transition countries, predicting a somewhat faster economic recovery than anticipated in October 2009 but the prediction varies by regions. Recovery and moderate strengthening are expected in 2011. EBRD anticipates an average growth of transition economic of 3.3% in 2010, compared to 2.5% predicted in October. For 2011 EBRD envisages an average growth of transition countries regions of 3.8%. The estimate of this year's economic growth in Serbia of 2.4% suggests the highest rise among all former Yugoslav republics. **International Monetary Fund** in its latest report on Serbia states that recovery of Serbian economy from the crisis will be gradual. It is estimated that domestic demand in 2010 will stagnate, and growth of exports speed up in 2011 taking into account slow demand forecast for major trade partners of Serbia in 2010. Growth of gross domestic product of Serbia, at the level before the crisis, will continue into 2012.



Economic development. After a major impact of the crisis on Serbian economy in early 2009, the second half of the year saw a moderate recovery of economic activity. **Macroeconomic developments in the fourth quarter of 2009 were characterized by positive trends.** For Q4 2009 the Republic Development Bureau estimates a minimum drop of GDP of -0.1%, while for 2009 an estimated drop in GDP is -2.7%.

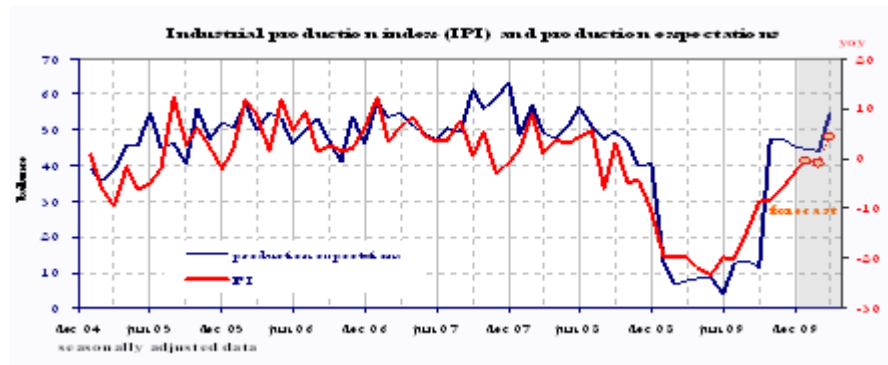


Foreign trade activity is under the impact of deceleration of demand on markets of most significant trade partners of Serbia, and in amounted to EUR 17.2bn which is by 25.3% less than in 2008. The export of goods was down by 19.7% and the import by 28 %. Foreign trade deficit equaled EUR 5.2bn and was by 35.6% down on 2008. Trade surplus was realized with: Montenegro, Bosnia and Herzegovina, Iraq, and Macedonia. The largest negative balance was registered in trading with Russian Federation and it was caused by the import of oil, gas, and deficient reproduction materials. The EU is a dominant foreign trade destination of Serbia and this economic integration accounted for 54.5% of turnover pf goods in 2009. Export in the EU was down by 20.7% and totaled EUR 3.2bn. Import was down by 25.6% and totaled EUR 6.1bn. Deficit of EUR 2.9bn reached 69.7% of the negative balance of Jan-Nov 2008.

The physical volume of industrial output in 2009 on fell by 12.1%. The largest influence on the fall of industrial output was made by: manufacture of basic metals, manufacture of chemicals and chemical products, manufacture of food products, and manufacture of furniture. A steep fall of industrial activity over the first six months of 2009 (in Jan-Jun 2009 on Jan-Jun 2008 total industrial output dropped by 17.4% and manufacturing industry dropped by 22.1%) was largely caused by a drop in demand, both domestic and export one. Industrial production in the second half of 2009 registered more favourable performances – a drop that in the second half-year stood at -7.0% and in manufacturing industry at -9.8% was smoothed. This is the result of measures undertaken by the Government of the Republic of Serbia aimed at smoothing the effects of the global economic and financial crisis in the course of 2009 and a humble beginning of recovery of global economy.

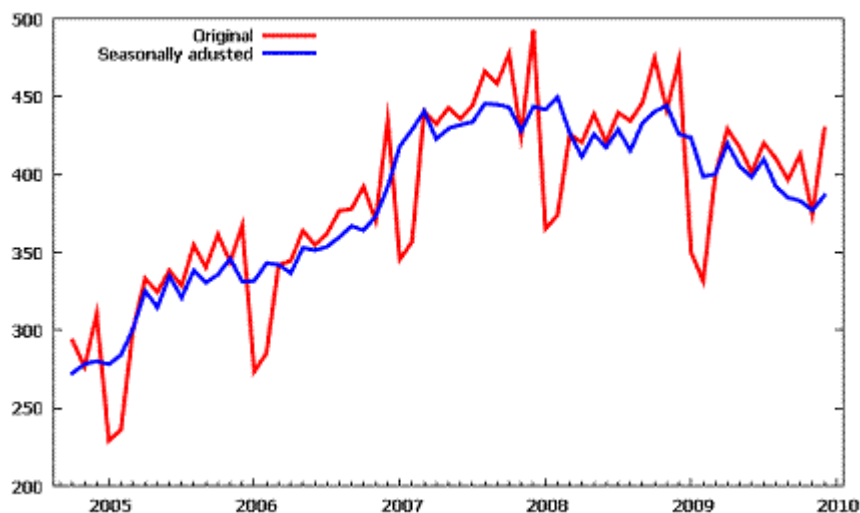
According to results of the RDB research on business climate (regular monthly surveys conducted by RDB), **BCI – Business Climate Indicator** of

manufacturing industry continued to go up moderately in December 2009 but it was still below the long-term average. The rising trend of BCI was determined by better assessments of output, stocks of finished products, and greater business expectations, and its decreased value in relation to November 2009 was registered with export order books, and to a smaller extent with total order books.

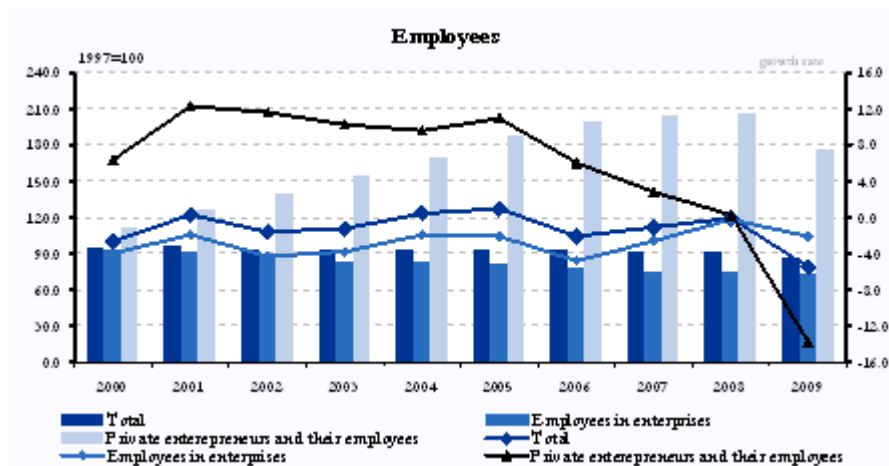


In 2009 labour productivity of industry went down by 2.2%. The greatest contribution to a decline in productivity of overall industry was that of: manufacture of basic metals (-13.1%) and manufacture of chemicals and chemical products (-11.9%). Some of the areas that recorded a rise in productivity and thus partly neutralized the total fall were: manufacture of food products and beverages, publishing, printing and reproduction of recorded media, and electricity, gas and water supply.

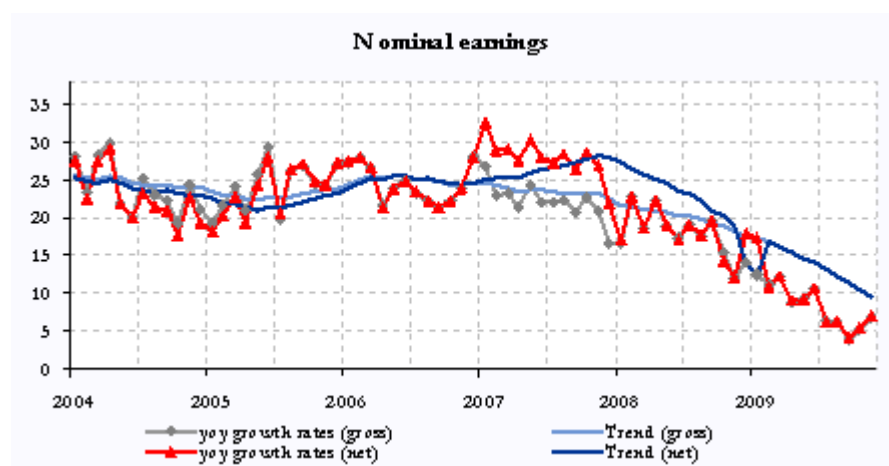
In 2009 **retail trade turnover** dropped in real terms on an inter-annual level by 12.3% and in nominal terms by 5.4%. What is positive is that after a four-month decline retail trade turnover in December 2009 on November increased both in real and nominal terms by 14.7%, while the real increase in the seasonally adjusted series stands at 2.5%.



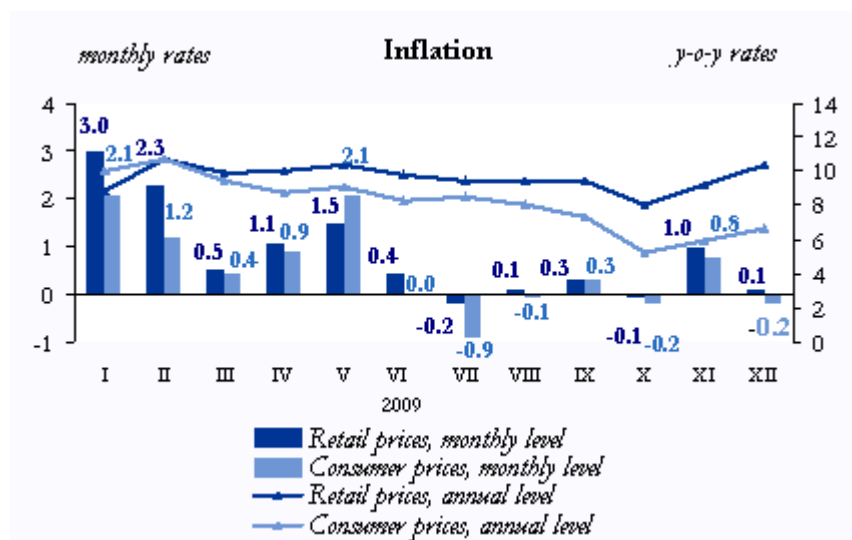
Labour market. The total number of employees in 2009 stood at 1,889,085 persons, which was by 5.5% down on 2008. The largest decrease in employment was registered with manufacturing industry (30,926 persons or -8.4%). The number of unemployed – active persons in December was 730,372 persons (i.e. 89.9% of the total number of persons seeking employment), which was by 0.4% more on December 2008.



2009 saw a positive tendency of a slower growth that began in 2007. **Average net earnings in 2009 amounted to 31,733 dinars** and nominally it rose by 8.8% and in real terms by 0.2%. In December earnings rose despite being kept at bay since employers during the last month paid out increments, bonuses, etc. and on November were up by 16.6%. **Average pension** in Jan-Nov 2009 amounted to 19,786 dinars, up in real terms by 5.1% on the same period 2008 and accounted for 63% of average net earnings.



Prices. Headline inflation, measured by the Consumer Price Index, in December 2009 in relation to December 2008, measured by the Consumer Price Index, stood at 6.6% (within the projected framework) and for the most part was a result of the rise in regulated prices (15.5%) whereas the average annual rise in consumer prices stood at 8.4%. December 2009 saw a fall in consumer prices of 0.2%.



Monetary developments. In 2009 the NBS was pursuing a relaxed monetary policy. There was room to loose the monetary policy due to low aggregate demand and diminished inflationary pressures. In the course of 2009 the NBS lowered the *key interest rate* from 17.75% at the beginning of the year to 9.5% at the end of December 2009. Bank loans at the end of December 2009 (1,306.2bn dinars) increased by 16.1% in comparison with the end of December 2008 (1,124.9bn dinars). In 2009 loans to industry rose more (19.8%) than loans to households (9.5%). **The total household savings** at the end of December 2009 reached 577.1bn dinars (foreign savings equaled 565.3bn dinars and dinar savings 11.8bn dinars) and in relation to end December 2008 went up by 36.3% (foreign currency by 36.7% and the dinar by 20.1%).

Balance of payments. Current account deficit in November 2009 reached only 28.7% of the value of 2008 and it amounted to EUR 1.6bn, i.e. EUR 1.7bn without one-side transfers. Foreign direct investments – net amounted to EUR 1.1bn and on January-November 2008 were down by 37.8%. **External debt** in November 2009 amounted to USD 22.0bn and in relation to December 2008 it was up by 1.0%. Long-term liabilities were up by EUR 462.0m (2.4%) and reached EUR 19.8bn. **Total foreign exchange reserves** in December 2009 reached the highest monthly level in the previous transition period and amounted to EUR 12.1bn (USD 17.3bn). In comparison with December 2008 foreign exchange reserves were up by EUR 2.8bn (30.8%). In early Q4 the foreign exchange market was stable. At the end of the period, however, the foreign currency market was destabilized and the dinar exchange rate against EUR and USD in December oscillated in the range of 95.03-96.57 RSD/EUR and 63.09-65.72 RSD/USD. The nominal and real effective exchange rate depreciated in December 2009 by 75.2% and 2.3%.

Budget finance. Budget revenues in 2009 amounted to 651.2bn dinars, expenditure 746.4bn dinars, and budget deficit 95.2bn dinars. In comparison with 2008, budget revenues in real terms were down by -7.3%, and budget expenditure by -1.9%.

Privatization. In 2009 through tender and auction privatization **74 companies were sold, generating EUR 75.6m of revenues and providing EUR 43.0m for investment.** In 2002-2009 (by January 25) through tender and auction privatization 1,784 companies were sold, generating EUR 2.2bn of revenues and providing EUR 1.4bn for investment and EUR 276.6m for social programmes. Of the total number of companies offered for sale (2,652) 67% was sold (109 through tender and 1,675 companies through auction privatization). Non-compliance with contractual obligations (non-payment of installments, social programmes not being fulfilled, discontinuity of operations and legal-labour relations) resulted in the breaking of sales contracts for 478 companies (23 tenders, 455 auctions).

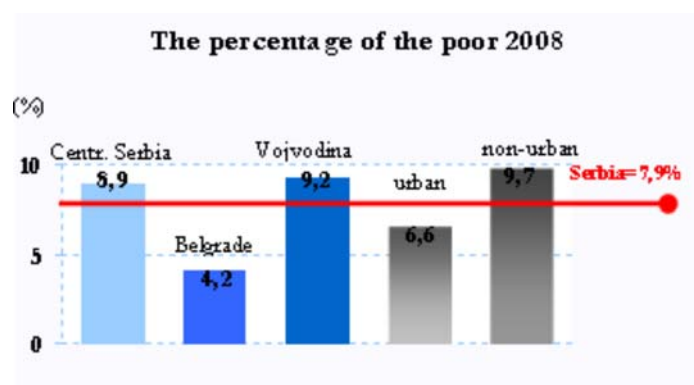
In 2009 from the **Share Fund** portfolio minority share packages of 228 companies were sold for EUR 7.7m. Through the sale of shares of 1,589 companies from the Share Fund portfolio over the period 2002-2009 EUR 708.7m of privatization revenues was generated.

Fund for Development. Total credit resources of the Fund earmarked for economic and regional development over the period 2001-2009 amounted to 1.3bn euros. During this period the amount of resources was continually rising and in 2009 (295.9m euros) it was ten times higher than the amount of funds extended in 2001 (27.8m euros). As the volume of credit funds rose, the share in GDP also rose from 0.22% in 2001 to 0.94% in 2009.

Results of special research and analyses done by the Republic Development Bureau:

Development Degree of Municipalities. The process of transformation of economy and society of Serbia accentuated regional disparities that are manifested as major economic inter-regional disparities, especially with regard to the level of the rise in unemployment and earnings per capita, as well as privatization effects and the volume of foreign investment. Given that the ratio between the most developed and the least developed municipality by the level of earnings is 12:1, Serbia belongs to the group of European countries with the largest regional disparities.

Poverty in Serbia in 2008. A scarcity of job opportunities, low income, poor housing conditions, inadequate health care, and an unequal access to education, culture, and sports triggered the process of marginalization of individuals and social groups and deprived them of chances to take part in regular social activities. One of the key components of the above mentioned processes (apart from unemployment and social isolation) is the concept of poverty. In Serbia the official poverty limit in 2009 equaled to 7,937 dinars per individual while a relative poverty line shows that 13.2% of Serbian population was poor. A multi-annual trend of poverty reduction was for the first time halted in 2008 when 7.9% of the total population lived below the absolute poverty line. Such a trend in 2008 meant that the combat against poverty heavily stagnated given that over the period before 2008 a marked progress had been made. On the regional level the portion of the poor increased – in Belgrade (from 2% to 4.2%) and in Central Serbia by 0.6 percentage points (to 8.9% of the population), whereas only in Vojvodina the portion of the poor people decreased from 11.3% to 9.2% (by 2.1%). The number of the poor went up in cities while in the rest of Serbia the number of the poor continues to go down. The rise in prices of food affects consumption in cities most, while population in small urban areas, and particularly in rural areas, can rely on their own production or more favourable prices of agricultural products.



Coefficient of Export Restructuring. Since 2000 investments of large multinational companies have influenced qualitative promotion of export structure and creating room for more comprehensive and diverse foreign trade cooperation. However, by the coefficient of restructuring dynamics of structural changes of

exports was not intensive enough as first traditional and basic industrial sectors were renewed. Investments needed for innovative and technological production were not available or were insufficient, and so Serbian products were not adjusted to import structure of the EU, our most significant foreign trade partner, and were easily replaced.

