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MONTHLY MACROECONOMIC REPORT

Economic research &
Financial market analysis units

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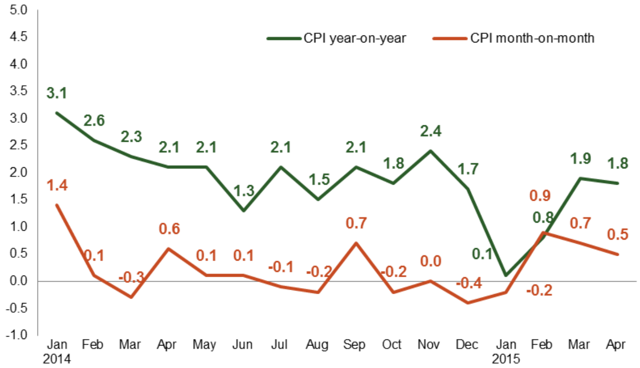
INFLATION

Y-o-y CPI recorded a negligible fall from 1.9% in March to 1.8% in April, staying below the lower bound of the target tolerance band (4%±1.5%) for 14 months.



The undershooting of the inflation target tolerance band is a result of the interplay of muted aggregate demand, low inflation in the international environment, low prices of primary commodities, notably oil, and the absence of the expected administered price adjustment.

Inflation will continue to move below the target in the second quarter of the year mainly due to the postponement of the electricity price hikes.

Under the NBS projection, year-on-year inflation will return within the target tolerance band (4.0±1.5%) in the second half of the year and stay within the band thereafter. Its return towards the target will be led by administered and petroleum product prices as well as non-food prices. On the other hand, food prices (fruit and vegetables especially) will dampen consumer price growth.

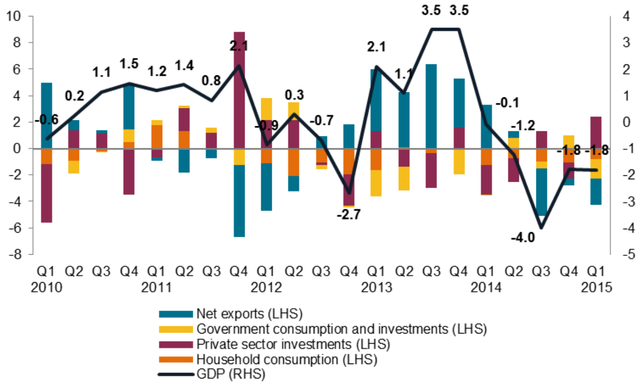
The risks to the projected inflation path are associated primarily with developments in the international environment, including prices of primary commodities, the movement of administered prices in Serbia, and to a certain extent, the outcome of this year's agricultural season.

GDP

Statistical Office revised downward real GDP data for Q1 2015 to -1.8% from 1.9%.

Observed by activities, most significant GVA growth (of 4.8%) was recorded in the section of financial and insurance activities while most significant fall (-4.0%) was noted for the sections of: industry and water supply, sewerage, waste management and remediation and (-3.8%) in the section of public administration and defence; compulsory social security, education and human health and social work activities.

Negative trends recorded in service sectors were partially covered by recovery in manufacturing and continued rehabilitation of the mining-energy complex. The manufacturing sector recorded positive trends, after three consecutive quarters of contraction, and what is particularly encouraging is the fact that recovery in large number of export-oriented sectors was noted. GDP is expected to accelerate gradually in the coming quarters.



According to projections, Serbian economy will slowly emerge from the recession but growth prospects remain fragile.

NBS revised upward real GDP projection for 2015 from -0.5% to 0% as the growth in net exports is likely to be stronger while fall in household consumption lower than expected earlier. Projection of economic growth for 2016 remains unchanged at 1.5%. On the expenditure side, a positive contribution is likely to come from an increase in net exports and to some lesser extent from private investment, whereas final household and government consumption will provide a negative contribution.

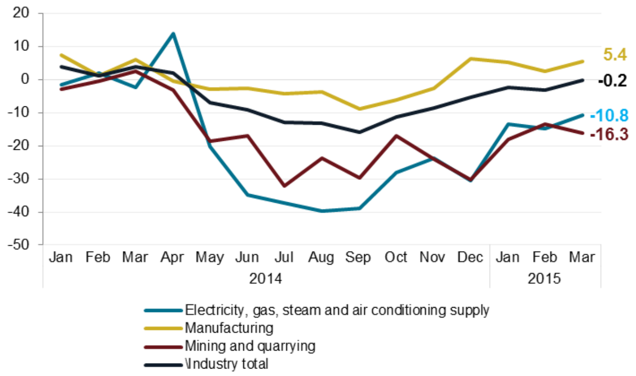
In line with NBS projections, IMF also upgraded its estimate of Serbia's real GDP for 2015 to zero growth, from a 0.5% contraction, to reflect the effects of lower oil prices on domestic demand as well as stronger external demand.

On the other hand, EBRD lowered Serbian GDP growth projection for 2015 from earlier projected 0.5% to 0.3% citing that Serbia will benefit from lower commodity prices and the Eurozone quantitative easing, but domestic factors such as fiscal adjustment will constrain growth. EBRD expects Serbian economy to expand by 1.8% in 2016.

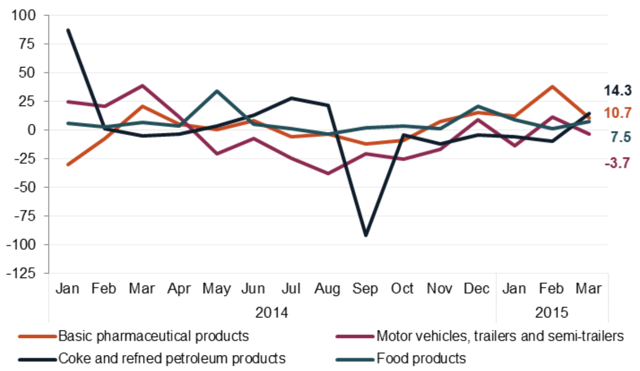
	2015		2016	
	Previous	New	Previous	New
IMF	-0.5	0.0	1,5	1.5
Narodna Banka Srbije	-0.5	0.0	1.5	1.5
EBRD	0.5	0.3	-	1.8

INDUSTRIAL PRODUCTION

Industrial production declined by -0.2% y-o-y in March 2015, which was an improvement compared to -3.3% y-o-y decline in February.



Manufacturing activity has been recovering in the past few months (5.4%y-o-y growth in March) while mining and quarrying, and electricity production – the sectors most heavily damaged by the floods, have not recovered yet, still posting double-digit contractions in March (-16.3% and -10.8% respectively). Within manufacturing, production of machinery and equipment, tobacco and other transport equipment were particularly strong.



Seasonally-adjusted, total industrial output increased by 2.0% m-o-m in March from a decline of -2.6% m-o-m in February, driven by an increase in manufacturing, which went up by 2.5% s-a. Within manufacturing, the largest positive contribution came from the production of petroleum products, while a key drag originated from production of motor vehicles. It is very likely that a robust growth in industrial production will persist as the flood related impact from last year unwinds from the middle of this year.

Overall industrial production declined by -2.0% y-o-y in the first quarter the year. Negative contribution came from Electricity and gas (-2.9pp) and Mining (-1.78pp). The only counterbalance originated from recovered Manufacturing sector, which contributed positively with 2.75pp.

BALANCE OF PAYMENTS

In the first two months of 2015, overall balance of payments was positive due to recuperation of the current accounts driven by improvement in service balance and primary income.

According to National Bank of Serbia projections, the current account deficit was estimated at 6.2% of GDP in first quarter of 2015. However, it is expected to decline to 4.2% of GDP in 2015 driven primarily by the recovery of the euro area and Serbia's other major trade partners, as well as by fall in oil prices and recovery of the mining and energy sectors. Positive impact on the foreign trade balance may be expected if oil prices stay entrenched at low levels over an extended period of time.

	I-II 2014	I-II 2015	Absolute change
Current account	**-252**	**-185**	**67**
1. Goods and services	**-557**	**-516**	**42**
1.1. Goods	-604	-606	-2
Export	1,519	1,585	66
Import	2,123	2,191	68
1.2. Services	46	90	44
Export	515	589	74
Import	469	499	30
2. Primary income	**-123**	**-86**	**37**
3. Secondary income	**428**	**417**	**-11**
Of which: Workers' remittances	263	249	-14
Capital account	**-1**	**-4**	**-3**
Financial account	**232**	**84**	**-148**
1. Direct investment	**173**	**144**	**-28**
2. Portfolio investment	**41**	**197**	**157**
3. Financial derivatives	**0**	**0**	**0**
4. Other investment	**-412**	**-194**	**218**
4.1. Other equity	0	0	0
4.2. Currency and deposits	-6	-81	-75
4.3. Loans	-324	-34	290
4.1. Central bank	-124	-35	89
4.2. Banks	-202	29	232
4.3. General government	8	-50	-58
4.4. Other sectors	-5	22	27
4.4. Others	-83	-79	4
5. Reserve assets	**431**	**-64**	**-495**
Net errors and omissions	**-18**	**-97**	**-78**
Overall balance	**-431**	**64**	**495**

The net capital inflow was more than sufficient to cover the current account deficit in the Jan-Feb period. The net capital inflow was due to portfolio investment, notably in government securities driven not only by the conclusion of the arrangement with the IMF, but also to stronger monetary policy accommodation of the ECB.

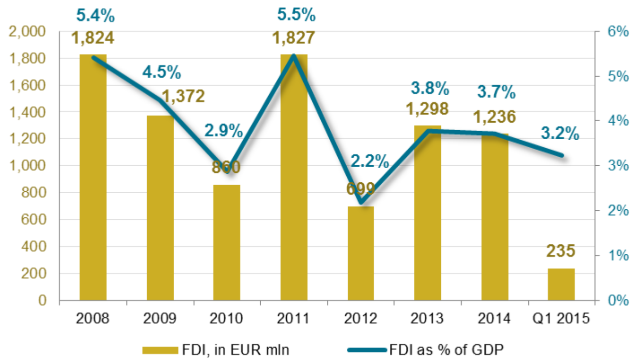
Regarding net loan position, banks and companies continue deleveraging trend while central bank and government were net borrowers in the first two months of 2015.

FOREIGN DIRECT INVESTMENT

According to central bank's preliminary data, net FDI inflow amounted to EUR 235mln in first quarter of 2015 or 3.2% of GDP.

Regarding FDI structure, the greatest portion went into equity (EUR 205mln), followed by EUR 15mln in each, reinvested earnings and debt instruments. At the same time, net outflows of EUR 12.7mln went to collected dividends and EUR 11.7mln to interest payments.

NBS projects FDI of around EUR 1.3bln in 2015, approximately the same level as in the last two years. Manufacturing, trade and financial sectors will remain the most attractive for investment.



The Serbian government and the UAE-based real estate developer Eagle Hills signed an agreement on joint investment in the Belgrade waterfront development project which will be worth EUR 3.5bln. The agreement envisages that the project should last up to 30 years, but that 50% must be completed in the first 20 years.

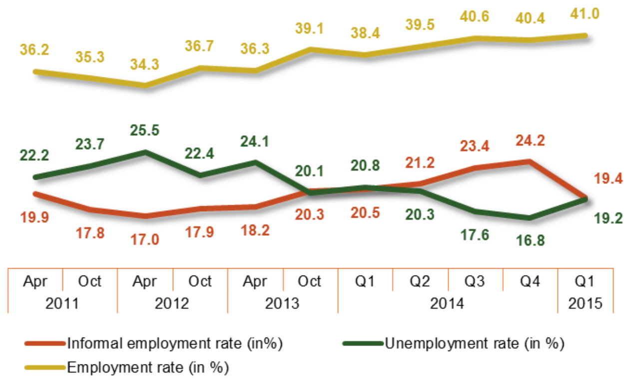
The planned sale of Telekom Srbija could bring in up to EUR 3bln. The Telekom privatization receipts would be spent mainly on infrastructure projects, such as the Belgrade-Budapest railroad and highways, and the repayment of expensive loans drawn in the past, with interest rates of 7.5% and 7.8%.

LABOR MARKET

The average net salaries in January-April of 2015 amounted to RSD 42,714 and were by 0.3% lower in nominal terms and by 1.4% lower in real terms. The highest average net salaries were paid in Mining support service activities (RSD 163,841) and Computer programing (RSD 148,821) while the lowest wages were paid in Travel agencies, tour operators and other reservation services (RSD 16,648).

	Gross salaries and wages		Net salaries and wages	
	April	I-IV	April	I-IV
REPUBLIC OF SERBIA	**62,532**	**58,748**	**45,605**	**42,714**
SERBIA – NORTH	**70,614**	**65,470**	**51,716**	**47,697**
City of Belgrade	77,920	72,642	57,064	52,966
Region of Vojvodina	62,610	57,552	45,857	41,880
SERBIA – SOUTH	**51,577**	**49,687**	**37,323**	**35,998**
Region of Sumadija and Western Serbia	50,650	48,849	36,738	35,484
Region of Southern and Eastern Serbia	52,691	50,698	38,026	36,617

Unemployment rate in Serbia in Q1 of 2015 stood at 19.2%, up from 16.8% recorded in Q4 of 2014, as per the latest Labour Force Survey. At the same time, the employment increased to 41% from 40.4% while the informal employment rate fell to 19.4% from 24.2% in Q4 2014.



A bill on public administration employees at the provincial and local levels might be sent to the parliament by July after which the government will start reducing the number of surplus employees. The public administration has an estimated 9,000 surplus employees, 4,600 of whom in the executive government bodies and 4,478 in local governments. Even though government was counting on attrition in administration, it stands at only 1% since the beginning of the year (below the levels seen in previous years).

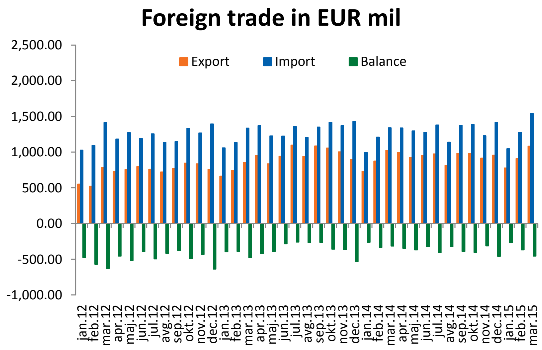
According to the National Employment Service data for end-March 2015, total number of the employed stood at 1,697,853 while the total number of the unemployed amounted to 766,500, up by 0.8% compared to previous month.

FOREIGN TRADE

According to official data from Statistical Office of Republic of Serbia overall external trade in the Republic of Serbia for March 2015 was EUR 6641.3 million - which was a 7.1% increase compared to the same period in 2014.

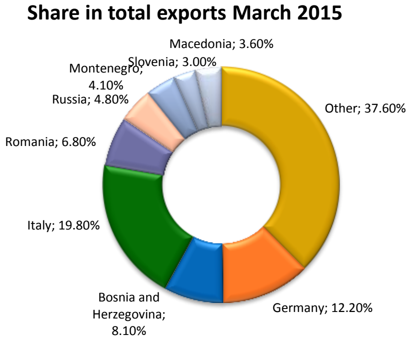
The value of exports amounted to EUR 2773.1 million, which was the increase of 5.2%, compared to the same period last year. The value of imports amounted to EUR 3868.2 million, which was an 8.5% increase when compared to the same period last year. The deficit amounted to 1095.1 million, which was an increase of 18.0% compared to the same period last year.

The export - import ratio equaled 71.7% and was lower if compared to the same period last year when it was 73.9%

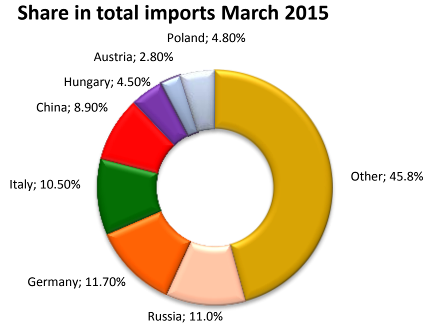


The major foreign trade partners in exports in the reference period were: Italy (EUR 576 million), Germany (EUR 356 million), Bosnia and Herzegovina (EUR 236 million), Romania (EUR 199 million) and the Russian Federation (EUR 139 million).

The major foreign trade partners in imports in the reference period were: Germany (EUR 474 million), the Russian Federation (EUR 451 million), Italy (EUR 427 million), China (EUR 359 million) and Poland (EUR 193 million).



Our second major partner refers to the CEFTA countries, since our gained surplus in external trade amounted to EUR 321.03 million, resulting mainly from the exports of agricultural products (cereals and produces thereof and various sorts of drinks), as well as exports of footwear and various finished products. Regarding imports, items mainly related to iron and steel, hard coal and briquettes, as well as electricity. Our exports in the referent period amounted to EUR 481.5 million, while the imports were EUR 160.4 million. The export–import ratio equaled 300.1 %.



On the list of the first 5 products in exports, the first item refers to diesel cars up to 1500 cm 3 (EUR 73.6 million), followed by maize (EUR 40 million) and diesel cars over 1500 cm 3and below 2500 cm 3 (EUR 36.3 million); the next items on the list refer to cars, candle burning, over 1000 cm 3and below 1500 cm 3 (EUR 30 million) and ignition wiring sets for planes, vehicles and ships (EUR 30 million).

March list of the first 5 imported products shows that parts and accessories of motor vehicles (EUR 116.4 million) were the first imported product, followed by natural gas (EUR 63.4 million). On the third place on the list was crude oil (EUR 51.25 million). The next item related to retail trade medicaments (EUR 33.5 million), followed by gaseous oils (EUR 19.5 million)

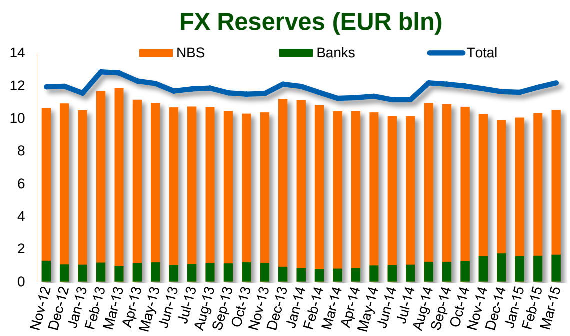
FX RESERVES and FX RATE

After March 2015 elections until end-June dinar was relatively stable, ranging from 115-116 dinars per one euro. At the same time, Fed was decreasing its bond-buying program at a regular pace, by USD 10 billion every month, putting it to an end by the end-October.

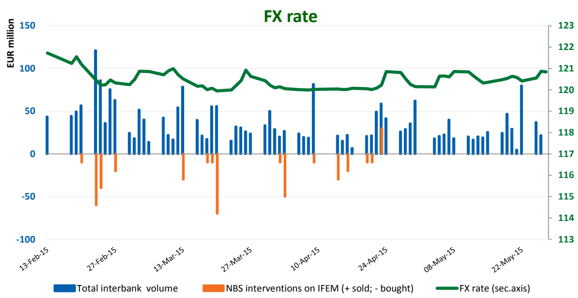
Since July dinar was under strong depreciation pressures, most probably due to few key factors: fiscal consolidation measures delay, Fed assets buying program end and geopolitical tensions in Ukraine. During July FX rate breached 117 dinars per one euro and it was followed with slight NBS interventions. Furthermore, in August and September, FX rate continued to increase.

Since the beginning of 2015, NBS bought EUR 400 million and sold EUR 120 million of FX reserves to defend dinar from stronger depreciation. In April only, the NBS bought EUR 140 million on the forex market and sold EUR 30 million to prevent sharp one-day increases of the dinar against the euro. In April the FX rate oscillated between 119.9925 and 120.8553.

Since the start of 2015, the basic characteristic of economic trends has been deflationary pressure, which is slowing down the growth of prices, a moderate recovery of industrial production, the relative stability of the dinar exchange rate and monetary policy relaxation. The deflationary pressure in Serbia had been mitigated by the monetary measures taken by the NBS and controlled weakening of the dinar in the second half of 2014.



The National Bank of Serbia's foreign exchange reserves stood at EUR 10.5 billion at the end of April, according to a news release on the central bank's website. The biggest inflow in April, of EUR 110 million, came from the NBS' purchases on the forex market, as EUR 88.1 million came from loans and donations, and EUR 41.1 million from the sale of the euro-denominated state securities on the domestic financial market. At the same time, the biggest outflow, of EUR 71.9 million, was due to banks' withdrawals of reserve requirements, with EUR 56.9 million paid to service obligations to foreign creditors and EUR 32.8 million to service the debt to the International Monetary Fund (IMF) under the 2009 stand-by arrangement. Net forex reserves, a figure excluding banks' forex reserves and money drawn from the IMF under the 2009 stand-by arrangement, stood at EUR 8.37 billion in April. In January-April, trading on the forex market stood at EUR 3.1 billion.



Recent NBS interventions were geared towards the objective of smoothing such volatility and preserving financial stability. In moving forward, the NBS interventions will continue to be aimed at smoothing excess volatility and providing liquidity to the market, without targeting a specific level of dinar exchange rate. The level of NBS international reserves remains high by standard metrics.

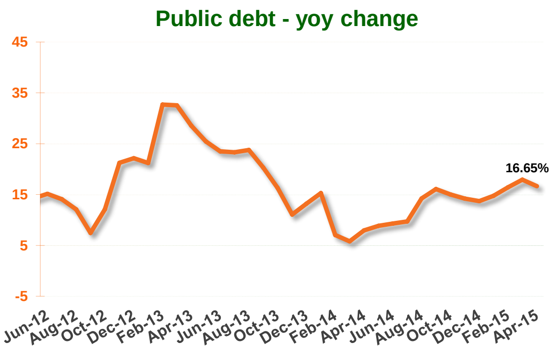
DEBT

Public debt

Public debt at the central government level stood at somewhat over EUR 24 billion, or 72.3% of GDP, at the end of April, compared with around EUR 24.2 billion, or 73.3% of GDP, at end-March. At end-April, the state's direct debt stood at EUR 21.5 billion, EUR 12.8 billion of which was external debt and some EUR 8.71 billion internal debt. The state's indirect debt was at EUR 2.54 billion at end-April.

Biggest creditors of Serbia include the European Investment Bank and the European Bank for Reconstruction and Development.

The state guarantees dropped 8.63% yoy to EUR 2.54 billion at end-April. The major share of public debt is still in foreign currency out of which in EUR is 40.6%, USD 32.7%, RSD 21.3%, SDR 4.1%, CHF 0.8% and other 0.5% (GBP, JPY, DKK, SEC, NOK).



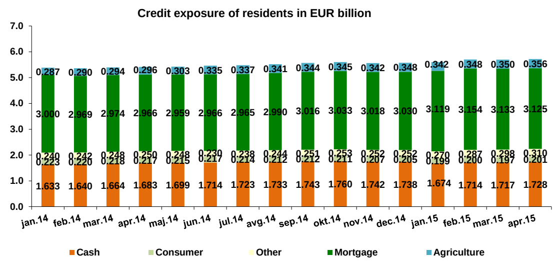
Owners of Serbian government securities, and therefore a large part of the public debt of Serbia are (local) domestic banks, their "mother" abroad and foreign companies. Data from the Ministry of Finance of Serbia show that this year were sold securities in the amount of RSD 180.25 billion and EUR 508.4 million. The leading group of investors in the course of this year, as indicated in the Ministry of Finance, make domestic legal entities with a share of 60 percent.

Having in mind Serbia's high solvency, the operations with the public debt on the local market are aimed at ensuring funds for funding the matured securities and reduction of the dinar-based debt with the maturity date of up to two years, whereby the public debt will not increase in the course of the year.

Serbia public debt is growing in absolute terms and in percentage of GDP. It threatens the country's credit rating, which is the first direct and visible effects of the ECB measures. Also visible effect is strengthening dollar against the euro.

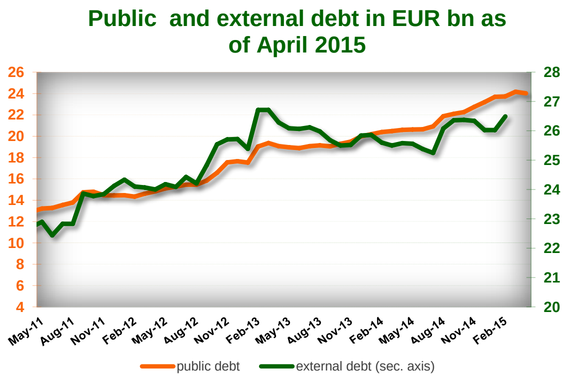
External debt

According to data from National Bank of Serbia total external debt by the end of Febryary 2015 amounted to EUR 26.49 billion.



Public sector borrowing increased in February by EUR 81 milion from a month earlier and amounted EUR 14.8 billion at end-January 2015, making over 50% of total external debt.

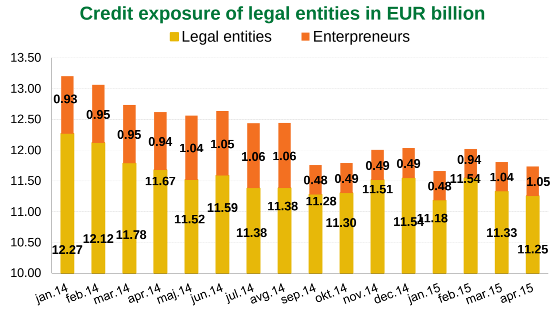
External debt of enterprises decreased by EUR 15 million, amounting to EUR 9.128 million. Regarding banks, in total external debt they owed EUR 2.559 million, which is EUR 25 million lower than in January 2015.



Credit exposure and non-performing loans

According to data from Association of Serbian Banks total indebtedness of households and legal entities in Serbia decreased to RSD 2.096.9 billion in April 2015 from RSD 2.103 million in March 2015. In EUR terms, total indebtedness decreased in April ending at EUR 17.45 billion.

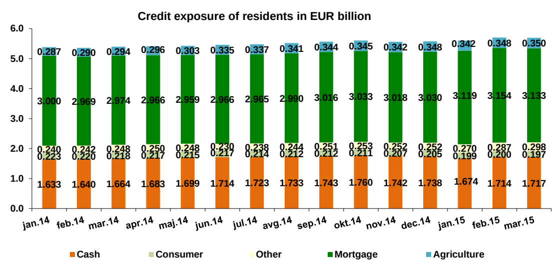
In April corporate (companies and entrepreneurs) indebtedness ended at EUR 11.73 billion vs. EUR 11.80 billion in the previous month.



Regarding credit exposure to residents, total indebtedness increase against last month, ended at EUR 5.72 billion.

Default rate of companies in April increased to 20.7%. Default rate of households increased to 7.3% while entrepreneurs were 16%.

Outstanding cash loans in April increased to EUR 1.73 billion while total consumer loans slightly increase to value of EUR 201 million. Housing and home improvement loans amounted to EUR 3.43 billion, while agriculture loans noted rise to EUR 356 million.



FISCAL AND MONETARY POLICY

Fiscal policy

In the January-April of 2015, budget deficit stood at RSD 19.3bln and was by 79% lower compared to the previous year. This favorable results were consequence of decrease in expenditures for employees (-12.3%) and transfers to social security funds (-21.2%) and increase in excises (8.8%).

Consolidated budget deficit amounted to 2.4% of GDP in first quarter of 2015. Interest costs remained high at 4.6% of GDP, partly as a result of appreciation of the US dollar. If positive trends from the first quarter continue, it is possible that consolidated fiscal deficit will be lower than initially projected 5.9% of GDP at end-2015.

The IMF mission and the Serbian government reached agreement on concluding the first review of the stand-by arrangement for Serbia (IMF Board of Directors should approve the review agreement in June).

The completion of the review will make available additional EUR 146 million, although the Serbian authorities have indicated that they do not intend to draw on the resources available under the arrangement

IMF confirmed that all quantitative criteria were met. Fiscal deficit was 2.5 times lower then the maximum limit imposed, mainly due to higher one-off inflows of revenues and lower-than-planned capital expenditures.

IMF urged Serbian government to address delays in structural reforms, including restructuring of state-owned companies. Serbian government commented that it will respect the deadline for privatization, but it will also allow postponement of this process for certain companies up to one year. Currently, the privatization process in Serbia is slowed down because ownership issues have been unsolved.

Budget revenues and expenditures	Jan-Apr 2014	Jan-Apr 2015	Nominal growth rate	Absolute growth
I BUDGET REVENUES	**261,058**	**300,157**	**15.0%**	**39,099**
1.Tax revenues	**232,860**	**239,233**	**2.7%**	**6,373**
Personal income tax	12,622	12,836	1.7%	214
Corporate income tax	18,709	16,661	-10.9%	-2,048
Value added tax	128,887	131,032	1.7%	2,146
Excises	59,997	65,288	8.8%	5,292
Customs	9,882	10,633	7.6%	752
Other tax revenues	2,764	2,783	0.7%	19
2.Non-tax revenues	**27,584**	**60,108**	**117.9%**	**32,524**
3.Grants	**614**	**816**	**32.9%**	**202**
II BUDGET EXPENDITURES	**352,822**	**319,469**	**-9.5%**	**-33,353**
1.Current expenditures	**338,727**	**306,477**	**-9.5%**	**-32,250**
Expenditure for employees	86,086	75,513	-12.3%	-10,574
Purchase of goods and services	22,659	18,815	-17.0%	-3,844
Interest payment	43,816	50,914	16.2%	7,097
Subsidies	20,524	18,829	-8.3%	-1,695
Grants to international organizations	434	1,444	232.7%	1,010
Transfers to other levels of government	23,327	21,788	-6.6%	-1,539
Transfers to social security funds	98,552	77,631	-21.2%	-20,921
Social assistance from the budget	35,872	36,494	1.7%	622
Other current expenditures	7,456	5,049	-32.3%	-2,407
2. Capital expenditures	**5,853**	**3,070**	**-47.5%**	**-2,782**
3. Net lending	**8,242**	**627**	**-92.4%**	**-7,615**
4. Activated guarantees*	**0**	**9,295**		**9,295**
III BALANCE (I - II)	**-91,764**	**-19,312**	**-79.0%**	**72,452**

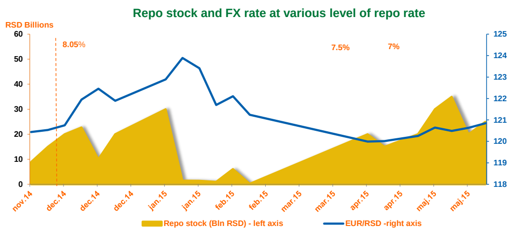
	2008	2009	2010	2011	2012	2013	2014	1Q15
RS budget deficit/surplus (in % of GDP)	-1.7	-3.2	-3.4	-4.0	-5.9	-5.2	-6.4	-2.4
Consolidated fiscal result (in % of GDP)	-2.6	-4.4	-4.6	-4.8	-6.8	-5.5	-6.7	-2.4

Monetary policy

Serbia's central bank lowered borrowing costs to a record 6.5% to help spur inflation and end a recession as the government pursues spending cuts demanded by the International Monetary Fund. Reasons for the rate reduction included below-target inflation and still low inflationary pres. Trends in the international environment are more favorable, with global liquidity growing thanks to the European Central Bank's (ECB) quantitative easing and the US Federal Reserves' (Fed) delayed rate hike, which, along with more favorable commodity and energy prices, contributes to a more certain recovery of Serbia's main foreign trade partners and mitigates risks that may emerge from the international environment. The positive effects of Serbia's fiscal consolidation measures, alongside the arrangement with the International Monetary Fund (IMF), confirm economic policy makers' commitment to strengthening public finances and securing a sustainable economic recovery, while at the same time improving investor perception and interest in investing in Serbia. The board also adopted changes to the decision on the NBS' interest rates, narrowing the rate corridor from plus or minus 2.5 percentage points to plus or minus two percentage points around the key policy rate, in what should stabilize interest rates on the interbank money market.

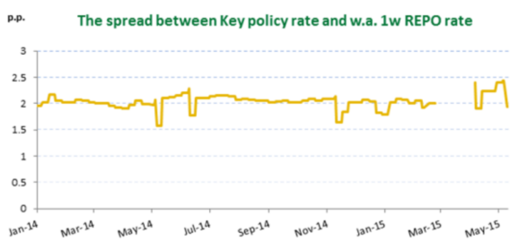
Yields on Serbia's dollar bonds maturing in 2021 rose to 4.53 percent. Finance Minister Dusan Vujovic said the central bank may be able to ease policy further, provided such moves don't undermine the exchange rate and jeopardize economic stability. Room for monetary policy relaxation has been created and what's more important, it will support economic growth and help create jobs.The IMF, which approved a stand-by loan to Serbia in February, has called on rate setters to gradually relax policy to support domestic demand during the fiscal tightening.

Interbank rates react immediately on every change in monetary policy, liquidity and any other change on the market. Thus, every change (in this case decrease) in NBS key rate usually results in almost identical decline in interbank interest rates and 1week REPO rate. However, recent cases of dinar liquidity shortages in December and February lead to sharp increases in interbank interest rates which also had (though limited and short-term) effects on increase in short-term government borrowing costs on one side and decrease in demand for these securities.

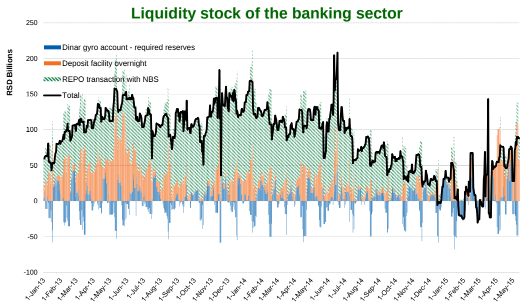


However, by and of April and May, dinar liquidity improved which pushed interbank interest rates to its historic lows. So, Beonia's historic low was recorded on 17th April, amounting to 4.66%. In May Beonia stagnated and was around 4.6%. Similar happened with Belibor rates which are currently at historical minimum levels: Belibor 1m 5.96%, Belibor 3m 6.43% and Belibor 6m 6.89%.

The local currency liquidity of the banking sector in April dramatically improved compared to previous 3-4 months. Heavy NBS interventions in the FX market by selling euros (and partially 3 changes in required reserves) sterilized huge amounts of dinars out of the system in the last quarter of 2014, which caused low liquidity and sharp rise of dinar interest rates on the interbank market twice, in December and in February/March. Furthermore, the decrease in dinar liquidity was most likely caused by huge dinar T-bonds sales of RSD 40 billion. Finally, the most recent cuts in the key policy rates actually resulted in plunging interbank interest rates which are on its historical minimum.



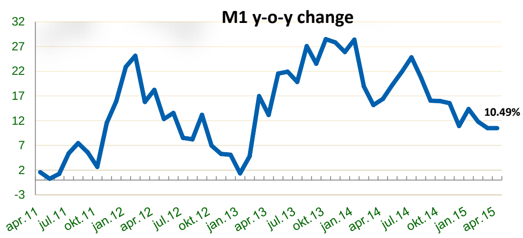
Furthermore, since mid-Febrary until mid-April NBS didn't hold REPO operations. By mid-March the situation calmed with NBS appearing on buy side on IFEM, providing the system with dinars, and interest rates returned to normal levels. Finally, the most recent cuts in the key policy rates actually resulted in plunging interbank interest rates which are on its historical minimum. On 08th April NBS restarted REPO operations with interest rates slightly above deposit facility.In last auction 1 week repo rate amounted 4.56%



Monetary aggregates

During April 2015, all aggregates increased in dinar terms compared to the previous month and previous year, but decreased year to date.

M1 money supply noted year on year increase by 10.49% ending at RSD 401 billion. (EUR 3.3 billion). Since the first Eurobond issue M2 increased by 56.9%.



Money supply M2 in April 2015 increased 9.29% against last year, amounting to RSD 570 billion (EUR 4.75 billion). Since the first Eurobond issue M2 increased by 30%.

M3 money supply ended at RSD 1.846 billion (EUR 15.369 billion in April), which is 8.76% increase compared to April 2014. Around 70% of M3 are FX deposits.

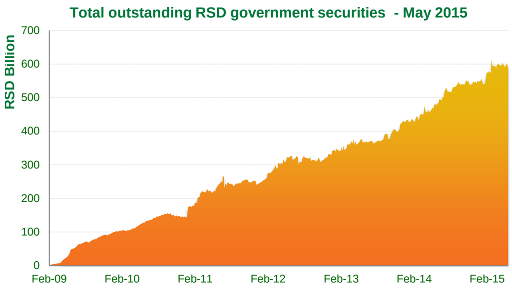
FIXED INCOME SECURITIES

T-bills

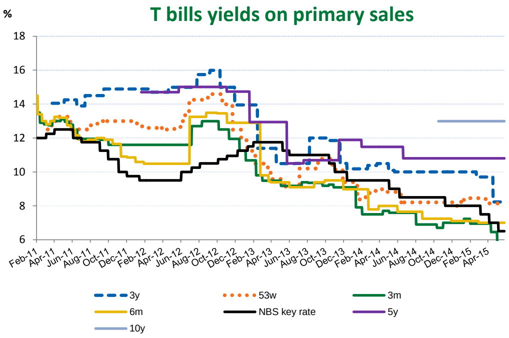
In the past months the movements on the domestic market were impacted by the both external and internal factors. Moreover, the increased activity of foreign investors was recorded while at the same time we've seen lower activity of domestic banks.

The key external factors were related to Fed and ECB decisions. Also, positive signal was obviously recognized after deal on IMF 3-year precautionary agreement, which is already giving results in terms of return of confidence, higher demand and lower yields. The possible delay of Fed interest rate hike (which might happen in autumn rather than in June) on one side and successful ECB QE program created positive momentum on Serbian FI market. This was also additionally fuelled by monetary policy easing cycle by NBS which is pushing dinar government borrowing costs down. Current yields on government bonds record historic lows and the anticipation of further cuts of the key rate motivates investors to buy now rather than later, in order to achieve higher yields. In such circumstances, the combination of inflation moving below the lower target bound and stable exchange rate, might encourage central bank to continue monetary policy loosening in the coming months.

Domestic banks' reluctance in the first three months vanished as both dinar and euro liquidity remained extremely high and in combination with limited investment options banks started to buy govies more aggressively. On the other hand government tried to lower borrowing costs as much as possible and didn't accept all demanded amounts, but only necessary for financing budget, which resulted in lower realization rates for some issues. Moreover, extremely high demand from foreign investors pushes yields to fall sharply, especially in the past few weeks.



In April the most successful debt sale was reopening of 2Y dinar bond, which was sold at 100% realization rate and was oversubscribed 1.7 times. Furthermore, the yield on that auction was 46 bps lower than previous 2Y sale.



On the other side, the excess supply of euros in the banking sector and extremely low (and negative) yields in Europe created increased demand for euro denominated issues in Serbia. However, in April PDA held only one auction, with solid realization rate at 84%, and with demand exceeding the tendered amount. However, PDA accepted less bids in order to cut yields as much as possible.

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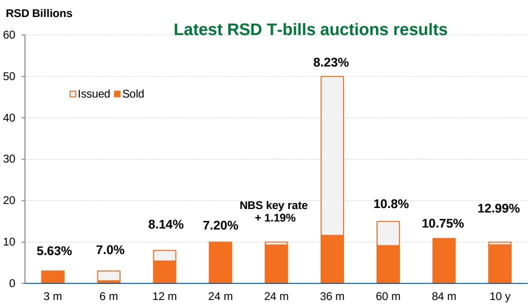
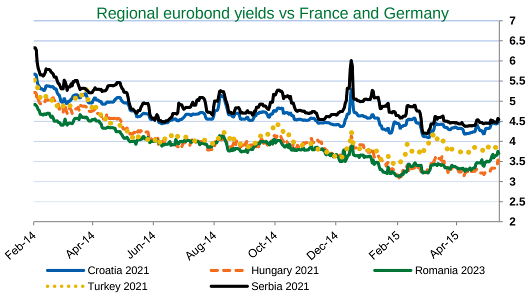


Current dinar T-bills yields are significantly lower The total face value of sold T-bills in April amounted to RSD 38.8 billion (tendered RSD 80.9 billion) and EUR 41.9 million (tendered EUR 50 million). Currently (end-May), total stock of Serbian government securities issued on domestic market, amounts to RSD 591 billion and EUR 2.2 billion. Observed year over year, the RSD stock increased by 25%, and EUR stock by 52%.

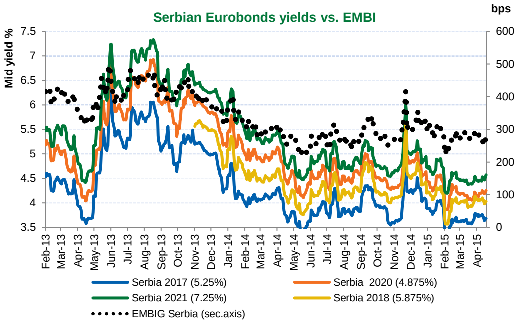
Eurobonds

The divergent monetary policies of leading central banks in the world put emerging markets in both difficult and position in which they might benefit from. Financial markets in South-eastern Europe remain under impact from decisions of Fed as the timing of potential increase of interest rates remains fairly uncertain, even though the time frame for the first hike slowly shifts from June to September-October. On the other hand, the era of extremely low interest rates in the euro-zone continues supported by ECB QE programme, which brought all yields hitting all-time lows.

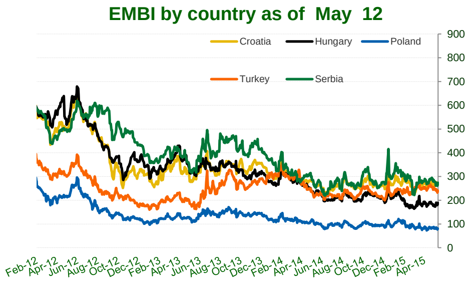
In these circumstances, developing nation sovereigns are seeking to take advantage of the European Central Bank's bond-buying program (and before US rises rate), which is feeding demand for higher-yielding assets by selling longer-maturity debt. In our neighbourhood, Slovenia, Bulgaria, Croatia and Montenegro sold debt so far this year.



Regarding Serbian Eurobonds, yields were hightly volatile in the past few months due to uncertainty of Fed rate hikes and approval of IMF deal with Serbia. After the deal was approved by IMF board, yields remained stable.



Consequently, Serbian country-risk measured by JPMorgan's EMBI dropped to almost historic low after positive news regarding IMF deal. In the past 30-40 days EMBI oscilates between 260 and 280, which is satisfactory.

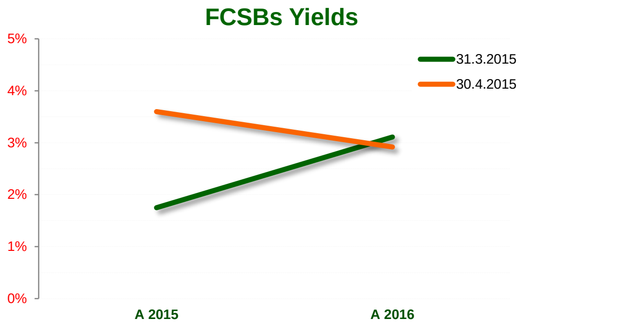


After Serbia 279, the highest EMBI spread at the end of April had Croatia 257 and Turkey 244. On the other hand the lowest spread still has Poland with 83.

FCS Bonds

Total turnover of the Republic of Serbia bonds in April amounted to EUR 459 hundred. Most traded single series was A2015 which had a turnover of EUR 417 hundred. Turnover of the A2016 series was EUR 44 hundred.

At the end of April 2015, the annual yields for these securities were 3.60% for the series maturing in 2015 and 2.92% for the series maturing in 2016.

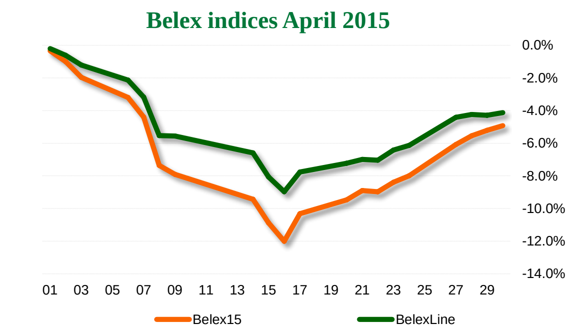


The participation of foreign investors in the RS bonds trading in April was 0%.

EQUITIES

In April, Belgrade Stock Exchange indices recorded their best performance this year, and Belex15 increased value for 4.93% and Belex line 11.04%, with slightly below-average turnover and number of transactions. Increased liquidity in the market had happened due to the completion of the takeover bid of Imlek and Bambi, which positively influenced at the stock prices. The biggest price increase was recorded by the shares of Airport Nikola Tesla of 22%, with the largest turnover of RSD 145 million. In addition most of the money went to the NIS shares and Komercijalna Banka. Moreover, other securities were felt increased demand, and 10 shares of the Belex 15 registered price growth.

Belex sentiment for May is slightly negative with 97.7 points. Investors may be under the influence of the negative trend from the second half of last month, where we had 10 days with falling values and only one positive. Additional impetus at liquidity may arise in the mid of the month, after closure of the takeover offer of AIK Bank. For the movement of stock prices in the longer term, more important are the results of companies for the first quarter of 2015. Given that the shares of these companies have the greatest impact on the index value, positive or negative results will determine the market trends.



Serbian sugar maker Sunoko, part of vertically-integrated agro-industrial conglomerate MK Group, and partners Agroglobe and M&V Investment have raised their stake in local lender AIK Banka to 77.93% from 71.14% following a successful buyout process. Sunoko and its partners now own a total of 7,048,954 AIK Banka shares, following the buyout launched in April, AIK Banka.The offered price was 1,800 dinars for each regular and 954 dinars for each preferred share that was targeted by the takeover bid.The requirement to publish a takeover bid was triggered after in March Sunoko raised its stake in AIK Banka to 69.7% from 49.35%.

Serbian oil and gas firm NIS plans to pay a gross dividend of 46.85 dinars per share from its 2014 earnings.NIS, 56.15%-owned by Russia's Gazprom Neft, will pay out as dividend 7.64 billion dinars from last year's net profit of 30.6 billion dinars.The company plans to leave the remainder of its 2014 net profit, in the amount of 22.9 billion dinars, unallocated.NIS paid a gross dividend of 80.22 dinars per share for 2013, distributing a total of 13.08 billion dinars.The decision on the dividend payment will be made at a shareholders’ assembly scheduled for June 23.Gazprom Neft acquired from the Serbian state a majority stake in NIS in 2009.NIS, still 29.9%-owned by the Serbian state, is one of the largest vertically integrated oil and gas companies in Southeast Europe. Its main activities include the exploration, production and processing of oil and gas, as well as the production and retail of a wide range of petroleum products.

Top ten companies by turnover in April 2015
Open Market

Issuer	Symbol	Price on 30 April	Price Change in April in %	Monthly Turnover in 000 RSD
Aerodrom Nikola Tesla a.d Beograd	AERO	1,269 Din.	22.85%	102,328
NIS a.d. Novi Sad	NIIS	678 Din.	6.94%	97,492
Komercijalna banka a.d Beograd	KMBN	2,007 Din.	-2.05%	86,194
Masser Tehnogas a.d Beograd	TGAS	6,649 Din.	20.89%	61,485
Energoprojekt holding a.d Beograd	ENHL	1,131 Din.	2.26%	49,548
Galenika Fitofarmacija a.d Zemun	FITO	4,076 Din.	8.69%	38,397
AiK banka a.d Niš	AIK	1,785 Din.	2.00%	37,858
Jedinstvo a.d Sevojno	JESV	5,300 Din.	1.30%	23,638
AiK banka a.d Niš	AIKBPB	926 Din.	-2.94%	21,831
Sojaprotein a.d Bečej	SJPT	616 Din.	0.82%	20,321

MACROECONOMIC INDICATORS

	2013	2014	Q1 2015	2015 Jan	2015 Feb	2015 Mar	2015 Apr	2015 projection by the IMF
Real economy								
Real GDP growth, in %	2.6	-1.8	-1.8	/	/	/	/	0.0
Memorandum GDP, EUR mln	34,263	33,075	7,265	/	/	/	/	/
NBS foreign exchange reserves, EUR mln	11,189	9,907	10,515	10,049	10,313	10,515	10,534	/
Prices								
Consumer prices, end of period, in % y-o-y	2.2	1.7	1.9	0.1	0.8	1.9	1.8	4.2
Goods balance								
Exports, EUR mln	10,997	11,157	2,773	777	910	1,084	1,010	/
- growth rate, in % y/y	25.3	1.4	5.2	6.3	3.7	5.6	1.4	/
Imports, EUR mln	15,469	15,526	3,868	1,046	1,277	1,539	1,359	/
- growth rate, in % y/y	4.6	0.4	8.5	5.3	6.7	13.1	0.2	/
External trade balance	-4,472	-4,369	-1,095	-269	-368	-455	-349	/
Current account balance								
EUR mln	-2,098	-1,985	-450	/	/	/	/	/
as % of GDP	-6.1	-6.0	-6.2	/	/	/	/	-4.7
Labour market								
Wages, average for a period in EUR	389	379	344	318	355	359	380	/
Unemployment according to the Survey, in %	22.1	18.9	19.2	/	/	/	/	20.7
Fiscal policy								
RS budget deficit/surplus, in % of GDP	-5.2	-6.4	-2.4	/	/	/	/	/
Consolidated fiscal result, in % of GDP	-5.5	-6.7	-2.4	/	/	/	/	/
Debt								
RS public debt, in EUR mln	20,141	22,762	24,193	23,219	23,738	24,193	24,030	/
RS public debt, in % of GDP	63.8	70.9	73.3	/	/	/	/	76.4
External debt, in EUR mln	25,764	26,455	26,735	26,455	26,497	26,735	/	/
External debt, in % of GDP	75.2	78.4	81.8	/	/	/	/	/
Exchange rates								
RSD/USD average, in the period	113.14	117.31	121.50	122.62	121.58	120.47	120.17	/
RSD/USD, end of a period	114.64	120.96	120.22	123.55	120.33	120.22	120.15	/
RSD/EUR average, in the period	85.17	88.54	108.15	105.72	107.00	111.18	111.19	/
RSD/EUR, end of a period	83.13	99.46	111.42	108.91	107.29	111.42	108.14	/

Authors:

Goran Poznanovic - CPI, GDP, Industrial production, BoP, Fiscal policy, Labor market
Vladimir Gavovic: Eurobonds, T bills, Monetary policy
Olivera Glisic: Foreign trade, FCS Bonds, Equities, Credit exposure, EMBIG spread, Monetary aggregates, FX rate

Sources:

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