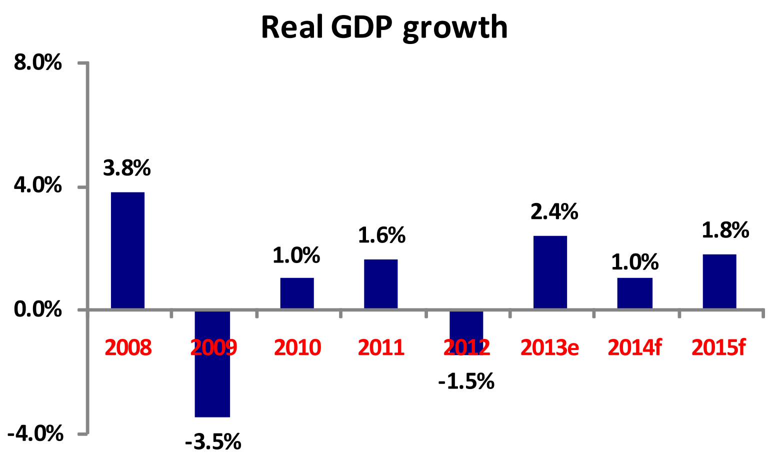
Eurobank Srbija

Macroeconomic overview

January 31st, 2014

GDP

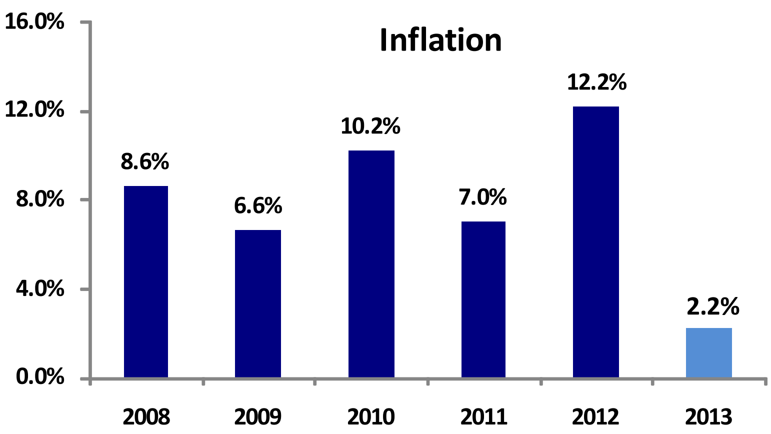


Source: Statistical Office of the Republic of Serbia, National Bank (NBS)

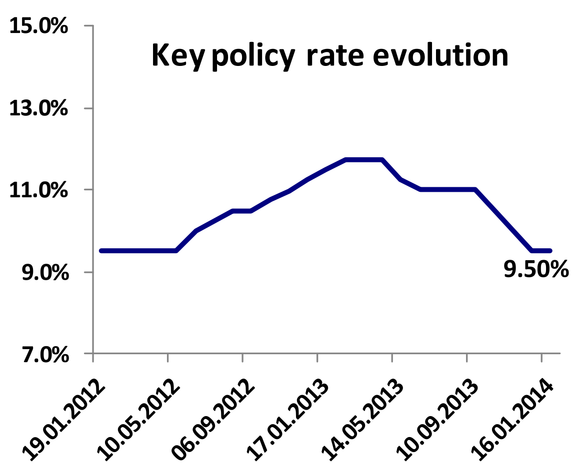
Preliminary statistics show Serbia's GDP growing by **2.4% in 2013.** The growth is mainly driven by strong net exports, namely by manufacturing output from Fiat, NIS, and a few other net exporters. **Agricultural output rose by 18%** YoY, contributing well to the total growth. The result will be **difficult to duplicate in year 2014**, due mainly to the constrained domestic demand and a high base. In addition, early general elections, called for March 16th, generally slow down business activity.

Inflation

Inflation stopped at 2.2% (year end), just below the tolerance band of 4%+/-1.5%, which is the lowest reading in as long as we can remember. The drop is mostly a result of food prices dropping 2.5% for the year. Core inflation was at 4.2%, measured in December. The largest contributor on the upside was the administered prices, which rose 10.4%. We expect inflation to head toward the range, as further hike in price of utilities is expected. Also, the increased "lower" VAT rate will kick in. **Monetary policy relaxation** persisted throughout the year, as inflation pressures ceased. The drop in the key rate for the whole of 2013 was **225bps**, though further significant cuts are not expected, as the CB accentuated the need for caution considering risks stemming form the international financial markets.



Source: Statistical Office of the Republic of Serbia



Source: National Bank of Serbia

Analysts: Ivan Radovic, ivan.radovic@eurobank.rs,
Dejan Milicevic, dejan.milicevic@eurobank.rs, (tel: +381 11 3027 535)

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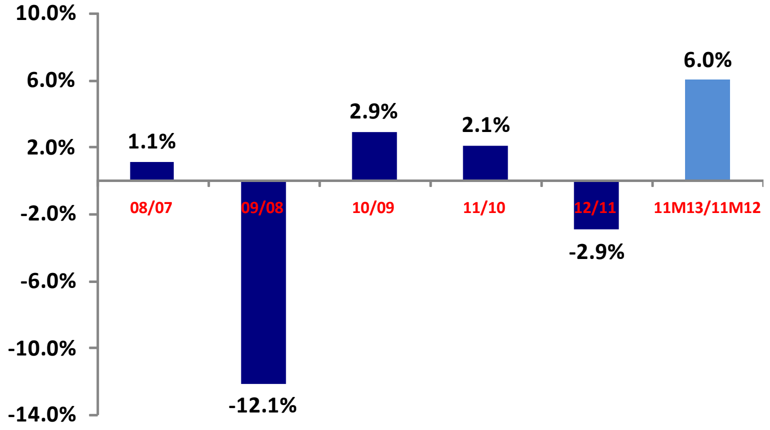
Industrial production

Industrial production evolution



Source: Statistical Office of the Republic of Serbia

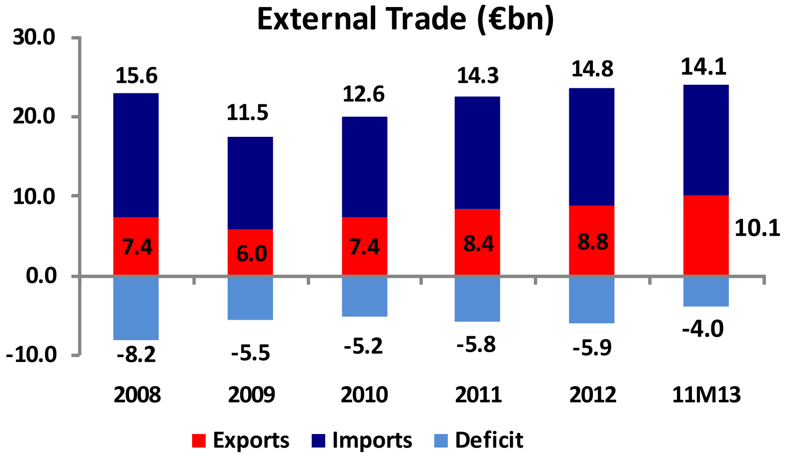
Industrial production grew by **6% in November YoY,** showing signs of deceleration. The impetus was given, as usual, by the automobile industry, refined petroleum products, food and rubber, and plastic goods. **The year end figure** will end at **around 5.6%.**

Balance of payments

External trade of Serbia for the period Jan-Nov totalled €24.2bn, a growth of 13.1% year on year. **Exports of 10.1bn** already surpassed the full year results from 2012 by 1.3 billion €. Imports rose by just 5.2% YoY, stopping at €14.07bn. Consequently, the deficit of €3.97bn was trimmed by 26.3% YoY. Serbia's **11M 13 exports covered 71.9% of the country's imports** (vs. 58.6% for 11M 12). The steep growth in exports is mostly related to **FIAT** cars, a factory working close to full capacity, and contributing for 14% of the total exports. Largest export destinations are Italy (€1.61bn), Germany (€1.19bn), Bosnia (€795m) and Russia (€725m). Similarly, imports come from Italy (€1.60bn), Germany (€1.52) and Russia (€1.18bn).

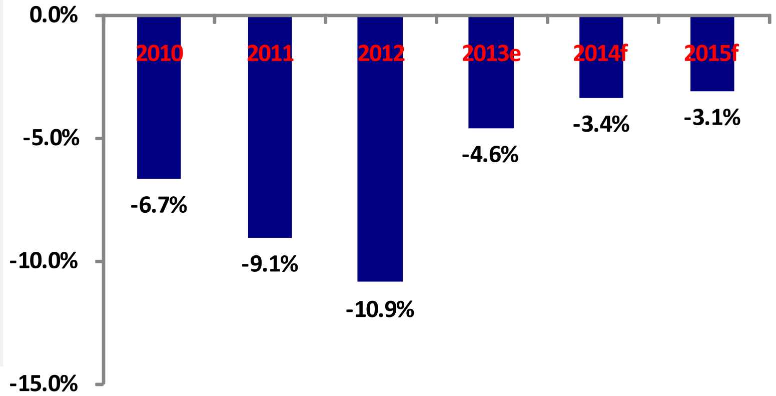
The **Current Account Deficit** is estimated at 4.6% for 2013, driven by the improved trade balance. **FDIs** totalled some €700m in 2013, and are expected to rise to €1bn this year, half of which is earmarked in the energy sector.

External Trade (€bn)



Source: Statistical Office of the Republic of Serbia

Current Account (% of GDP)

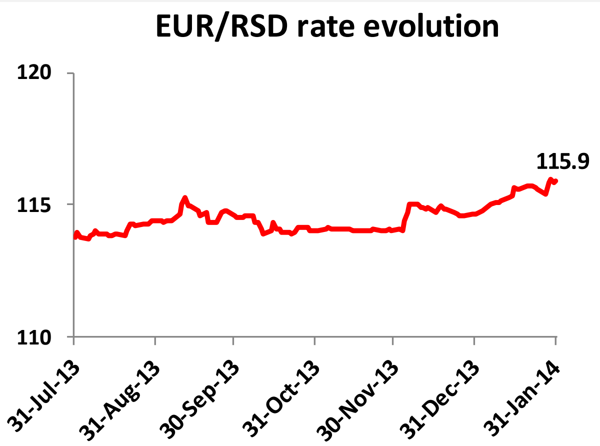


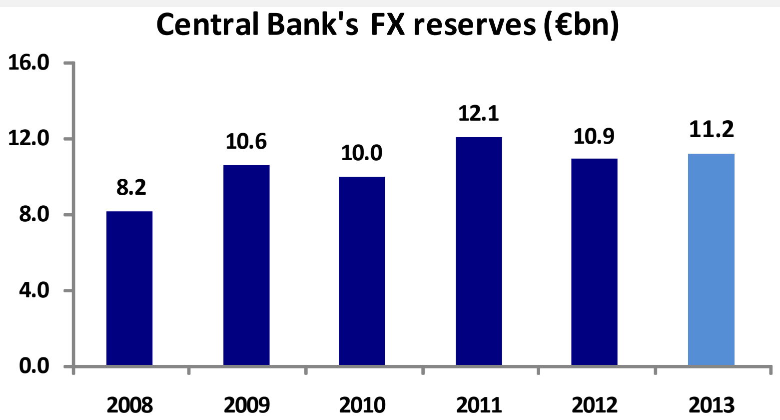
Source: National Bank of Serbia

Macroeconomic overview

FX-rate and reserves

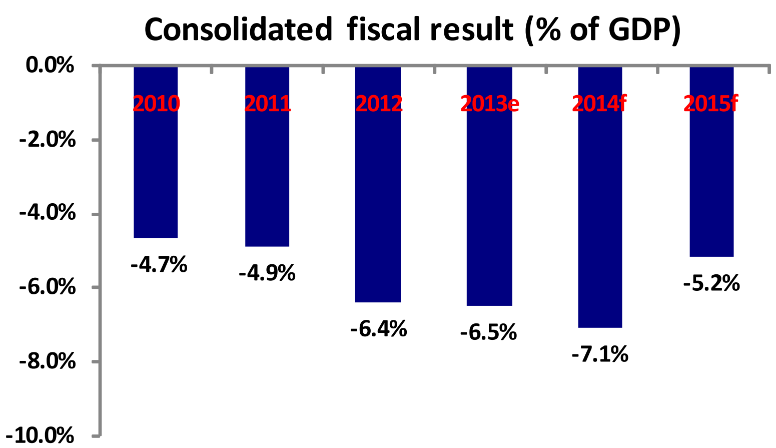
Dinar depreciated slightly (1.1%) against the EUR year to date by Jan 30th, mostly as a consequence of rising political concerns, in the expectations of the March 16th elections. Also, US Fed's anticipated tapering of the monetary stimulus drove most currencies in the region lower. To prevent a steeper drop, the CB has sold €320 million on the market during the month of January. Just a reminder, throughout all of last year, the CB was a net buyer in the amount of €170 million. **FX reserves** amounted to **€11.2bn** at the end of the year, a growth of €300 million from the year before, derived mostly from borrowing on international markets. This covers for approximately seven months of the country's imports.





Source: National Bank of Serbia

Fiscal deficit



Source: Ministry of Finance

Fixing public finances remains Serbia's most challenging task. Despite the rationalization and consolidation measures imposed late last year, the projected **consolidated government deficit** is set at **7.1%, in 2014**, the highest in the region. This is a rise compared to **last year's end figure of 6.5%**. Both these figures now include the "below the line" items (subsidies for public companies and troubled state-owned banks). **Actions taken are not nearly enough**, as there is no quick fix in this matter. A new government, possibly without the left wing parties, is seen by analysts as a chance to embark on an overall structural reforms road. This is yet to be seen.

Macroeconomic overview

T-bill auctions

Despite Fitch downgrading Serbia's long term foreign and local currency IDS's rating from BB- to B+ on January 15th, **interest rates** achieved at state t-bill and euro nominated bond auctions held in the last 30 days **showed a downward trend** for all maturities (for Dinars, as well as Euros). This indicates improved investors' sentiment but alse an abundance of liquidity on international markets. At the same time, success rates remained high.

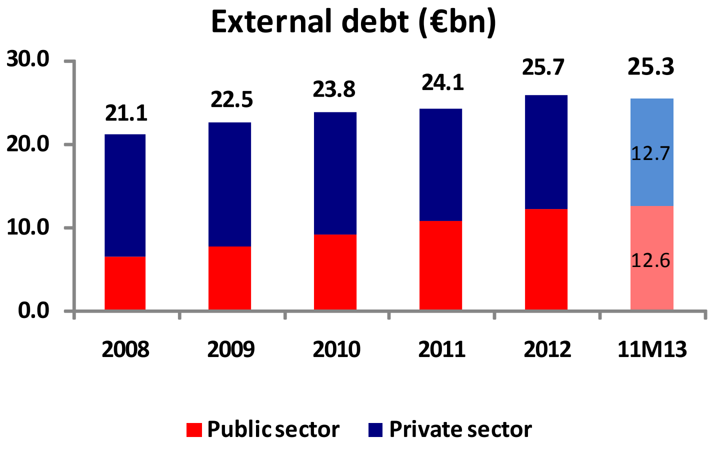
T-bill auctions in the last 30 days

Date	Issue Volume (RSD)	Maturity (m)	Interest rate	Success rate
*29.1.2014**	*50,000,000*	*60*	*5.10%*	*97.1%*
28.1.2014	10,000,000,000	24	8.98%	100.0%
21.1.2014	10,000,000,000	12	8.37%	97.4%
16.1.2014	3,000,000,000	3	7.91%	100.0%
*31.12.2013**	*23,300,000*	*60*	*5.15%*	*82.2%*
30.12.2013	10,000,000,000	12	8.89%	100.0%

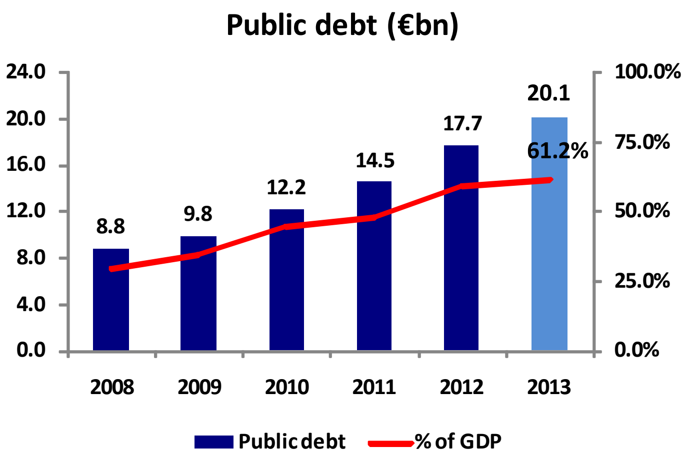
**Securities issued in EUR*
Source: Ministry of Finance, Eurobank Brokerage

External and public debt

Serbia's public debt stands at **61.2%** at 2013 year end. This is a hike of €2.4 billion for the year, for a total standing figure of **€20.1 billion**. With the fiscal consolidation measures introduced in the fall of 2013, and with the fiscal strategy drafted by the current Finance Ministry, the debt burden is expected to continue rising until it hits some 68% of GDP at the end of 2015. Only then will it begin to fall. Contributions of the private and public sector are approximately equal at the moment.



Source: National Bank of Serbia



Source: Ministry of Finance, Eurobank Brokerage

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Eurobank Brokerage		www.eurobank.rs
Head of Brokerage		
Ivan Radovic	ivan.radovic@eurobank.rs	+381 11 30 27 533
Research		
Dejan Milicevic	dejan.milicevic@eurobank.rs	+381 11 30 27 535
Trading		
Vojislav Nevenic	vojislav.nevenic@eurobank.rs	+381 11 30 27 539
Marija Andric	marija.andric@eurobank.rs	+381 11 30 27 537
Belgrade Central		
Address:		Vuka Karadzica 10, 11000 Belgrade, Serbia
Fax no:		+381 11 26 24 933