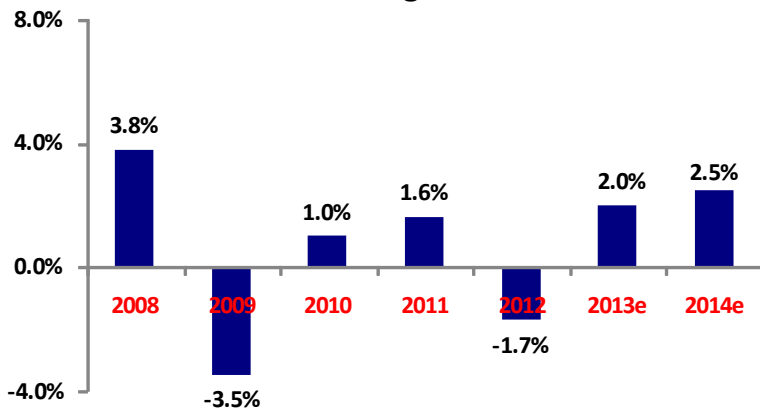


Macroeconomic overview

October 29th, 2013

Real GDP growth

GDP

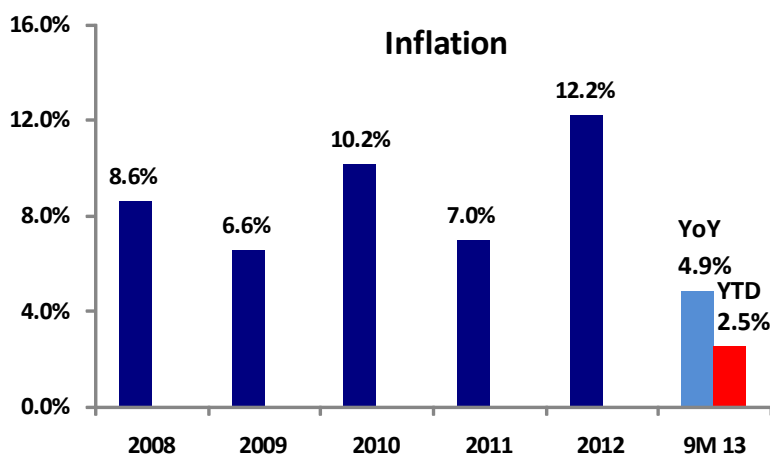


GDP growth of **1.5% YoY** was achieved in Serbia during the **first half of this year**. **Full-year 2013** projection remains at **2.0%**, on the back of the **favourable agricultural season** that should spur the H2 performance.

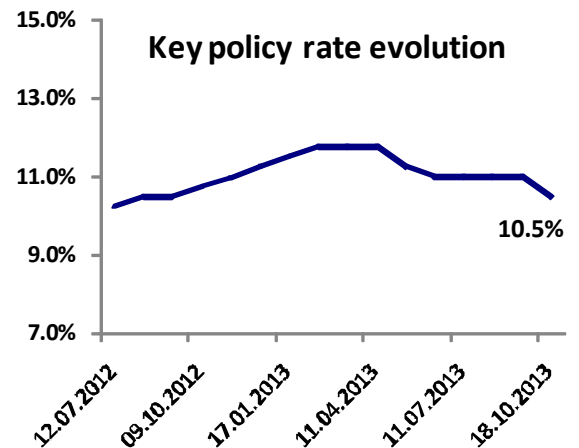
Source: Statistical Office of the Republic of Serbia, National Bank of Serbia (NBS)

Inflation

YoY inflation finally returned to the targeted range of 4% +/- 1.5%, in line with the Central Bank expectations. Prices of goods and services remained flat in **September**. Nevertheless, the YoY inflation plummeted to **4.9%** (down 240bps MoM), driven mostly by the high last year's base. Low aggregate demand, the drop in agricultural goods' prices and the stable dinar also contributed to these developments. The inflation decline enabled **Central Bank** to **cut the key policy rate by 50bps, to 10.5%** (first rate change since early June).



Source: Statistical Office of the Republic of Serbia

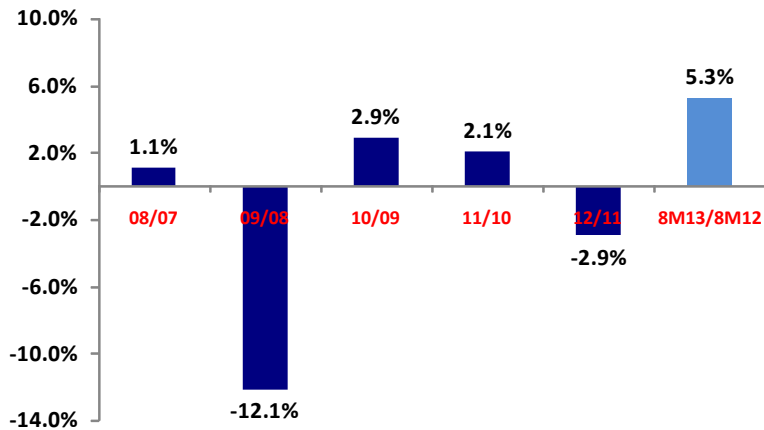


Source: National Bank of Serbia

Macroeconomic overview

Industrial production

Industrial production evolution



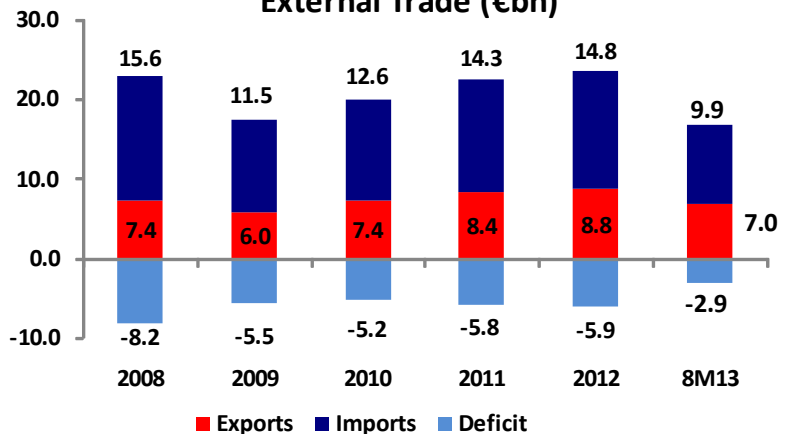
Source: Statistical Office of the Republic of Serbia

August industrial production was **5.7% higher** compared to the same month last year, driven mostly by **electricity (+22%)** and **capital goods (+7%)**. The result for the **first eight months of 2013 is up 5.3%** vs. the 8M12 level.

Balance of payments

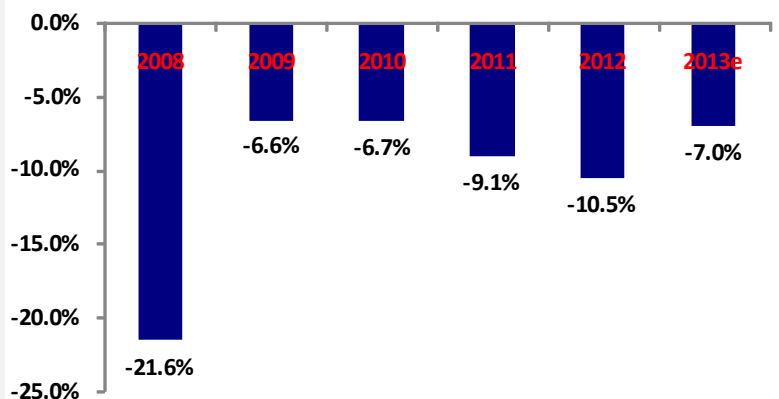
Trade **deficit** for the first 8 months of 2013 amounted to €2.9bn, a fine 27% drop compared to 2012. Exports reached €7.0bn, while imports increased slightly, to €9.9bn. **Export-import ratio** now stands at 70.6%, compared to last year's 58.3%. By the year-end, the deficit should total around €4.4bn. **By product type** for the first 8 months, **Serbia exported** €1.0bn worth of cars (FIAT), €516m worth of electric machinery, €340m worth of non-ferrous metals, €299m of fruits and vegetables. **On the import side**, oil and gas totalled €1.7bn, vehicles and vehicle parts accounted for €1.2bn (FIAT parts account for part of the sum, while the rest is trucks and used cars), electrical machinery for €556m, while medicaments stood at €475m. **Trade with EU countries** accounts for 63% of Serbia's total external trade worth €16.96bn.

External Trade (€bn)



Source: Statistical Office of the Republic of Serbia

Current Account (% of GDP)



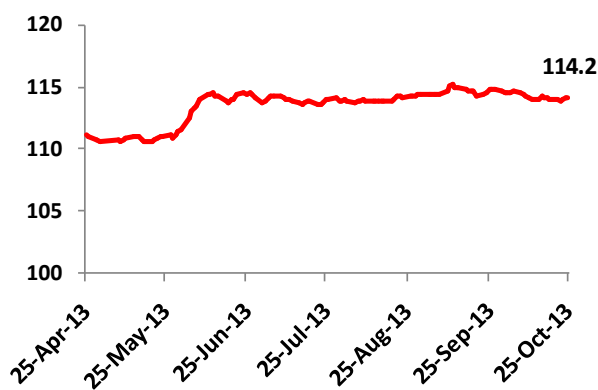
Source: National Bank of Serbia

Macroeconomic overview

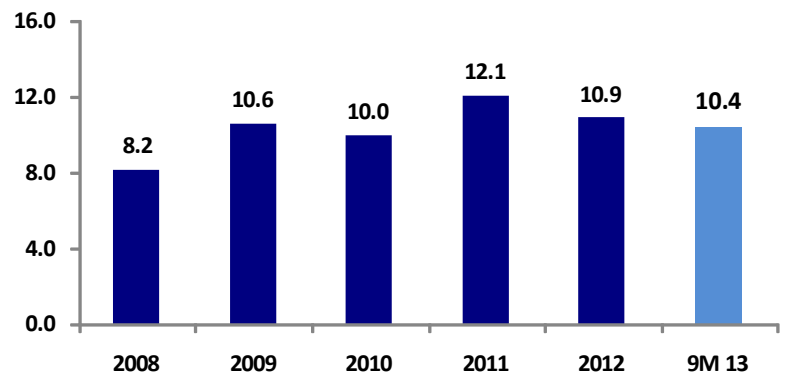
FX-rate and reserves

EUR/RSD rate kept on moving mostly sideways since our last review, currently standing at **114.2**. Although **Central Bank's interventions**, intended to prevent major daily FX-rate oscillations, usually involve selling of the Euro currency, this regulatory body was **on the buy-side** during the last 30 days. Some **€95m was acquired** during this period, offsetting the previous month's activity performed in the opposite direction. FX reserves decreased by €245m MoM in September, to €10.4bn, driven mostly by the settlement of liabilities towards foreign creditors and the IMF.

EUR/RSD rate evolution



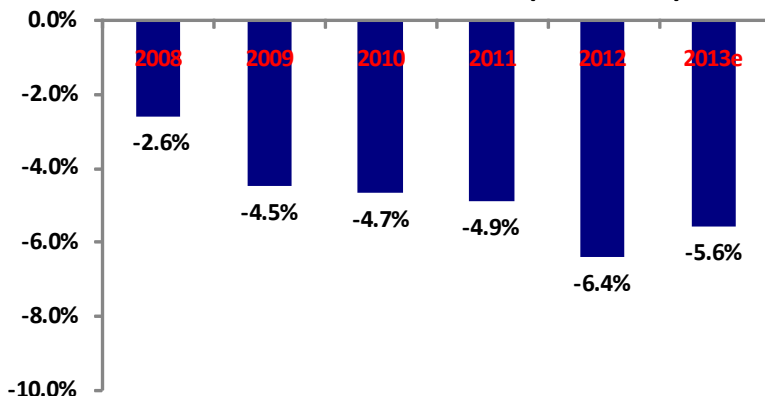
Central Bank's FX reserves (€bn)



Source: National Bank of Serbia

Fiscal deficit

Consolidated fiscal result (% of GDP)



Source: Ministry of Finance

Budget deficit of the Republic of Serbia amounted to **RSD158.4bn during the first three quarters of 2013**. At this pace, it would reach RSD211bn by the year-end, **5.6% of the officially projected GDP**. Consolidated 9M13 state deficit was slightly lower (at RSD139.6bn), due to surpluses achieved at municipality and city levels. The **fiscal measures** recently introduced by the Serbian government are supposed to improve the budget balance starting 2014. Nevertheless, bearing in mind the severity of the situation, we believe that **more radical steps should have been considered**.

Macroeconomic overview

T-bill auctions

Investors have shown a considerable interest in state securities issued during the last 30 days. **5-year Euro-notes** were issued at **5.75%**, 50bps above the level achieved two months ago. Interest rate on **12-month Euro-bills** was slightly higher compared to the previous issue in early June (**3.33%** vs. 3.15%). There was no clear trend in terms of interest rate movement for local currency securities in the last few weeks. Ministry of Finance plans to issue some **€360m** worth of securities in **November**.

T-bill auctions in the last 30 days				
Date	Issue Volume (RSD)	Maturity (m)	Interest rate	Success rate
23.10.2013*	44,898,000	12	3.3%	96.4%
22.10.2013	10,000,000,000	24	KP rate + 2.7%	94.3%
17.10.2013	3,000,000,000	3	9.3%	100.0%
09.10.2013	10,000,000,000	12	10.0%	100.0%
08.10.2013*	50,000,000	60	5.8%	36.1%
26.09.2013	3,000,000,000	3	9.2%	100.0%

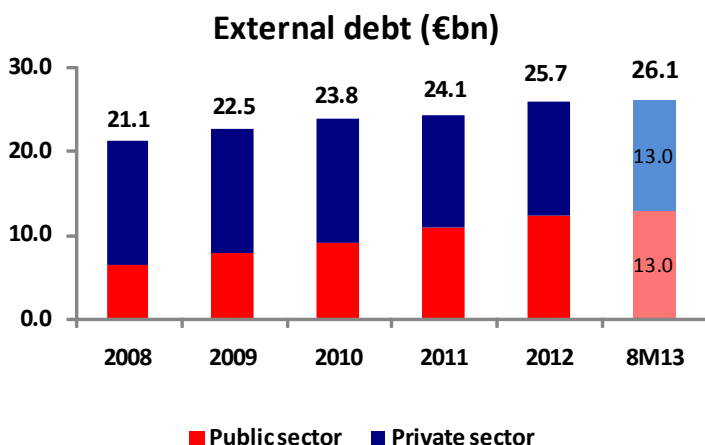
*Securities issued in EUR

Source: Ministry of Finance, Eurobank Brokerage

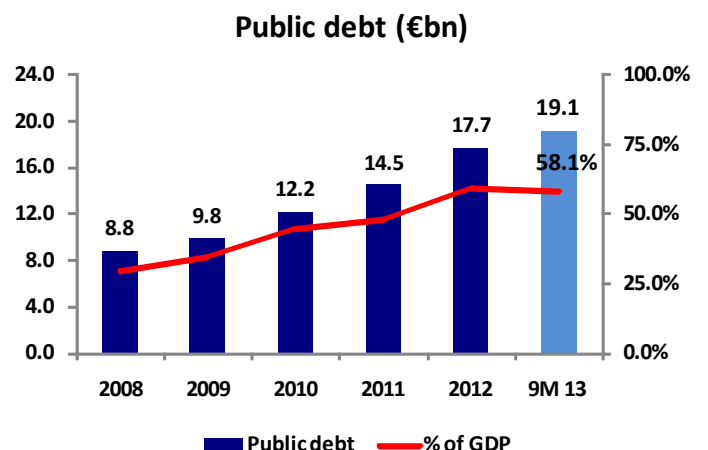
External and public debt

Serbia's **external debt** decreased by **€136m** in August, to **€26.1bn**, as both public and private sector recorded decreases vs. the previous month (€78m and €58m, respectively).

The country's **public debt** was trimmed by €76m in September, offsetting the August rise. At this level (**€19.1bn**) it accounts for **58.1%** of Serbia's projected 2013 GDP.



Source: National Bank of Serbia



Source: Ministry of Finance, Eurobank Brokerage



Macroeconomic overview

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