

Weekly *Economic* Bulletin

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ANALYSIS

Economic Trends in Serbia

- Average net wages are following the dynamics of overall economic trends in Serbia. This means that, due to the weakening of the economic activities and the turbulent business environment, also present is the trend of the lowering of the ladder in the size of the average net wages. Thus, in October 2011, average net wages without taxes and contributions were 38,167 dinars, and they were nominally lower by 1.5% and smaller in real terms by 1.9% compared to the preceding month. However, when observed at the annual level (October 2011 / October 2010), average wages without taxes and contributions grew in Serbia by as much as 10.9% in nominal terms. Nevertheless, in view of the fact that the growth of wages in September, compared to the same month in 2010, was 12.1%, obvious is the trend of the slowing down of the growth of average net wages at the annual level. The trends are the same when their growth is analyzed within a realistic perspective. In this case, instead of 2.6%, which was the growth of the average net wages in September 2011 compared to September 2010, the growth rate of average net wages dropped to 2%.

Average net wages and indices of nominal wages without taxes and contributions

- dinars-

	Average net wage	X 2011 IX 2011	X 2011 XII 2010	X 2011 X 2010
Serbia	38,167	98.5	96.4	110.9
Serbia – north	42,467	99.3	94.6	111.3
Belgrade region	47,068	97.3	94.2	111.0
Vojvodina	37,542	101.8	95.5	112.0
Serbia – south	32,610	97.4	99.9	110.6
Šumadija and Western Serbia	32,370	97.5	100.4	110.9
Southern and Eastern Serbia	32,906	97.3	99.4	110.3

Source: Data of the Republic Office of Statistics (RZS)

In November as well, one should expect the further lowering of the ladder in the size of average net wages, which will also lead to the weakening of the intensity of their growth at the annual level as well, only for December to see a precipitate growth of the average net wage, due to the traditional payment of jubilee awards, the thirteenth salary or advance payments for the following month, which will be only one short-lived positive excess, and this will not disrupt the picture of the negative tendencies in the size of the average net wages in Serbia.

In October this year, compared to December last year, average net wages were reduced by 3.6% in nominal terms, i.e. by 9.7% in real terms. This was to be expected precisely because of the pronounced seasonal effect in the last month of each business year when various extraordinary payments are made. It is only December 2011 that will show how large or less large payments will be compared to the last month in 2010, but at issue is quite certainly a month that is not a true indicator of the size of the average net wage, but only a signal of how businessmen, and especially those working in parastate institutions and in the financial sector, assess the reality not only of their business operations, but also the general business climate and the need to save more and to invest in the real sector or in spending.

The highest average net wages in October 2011 were registered in the following activities:

- managerial activities and consulting (91,577 dinars),
- exploitation of crude oil and natural gas (86,471 dinars),

- production of coke and oil products (85,342 dinars),
- air transport (76,968 dinars),
- financial services, except insurance and pension funds (75,890 dinars), etc.

It is quite expected for the above mentioned activities to be at the top of the ladder according to the received average net wages. Namely, at issue are activities which are propulsive or which have a monopoly on the market. Also, after the privatization of the NIS oil company, considerable have been the investments in the exploitation of the black gold at the refinery in Pančevo as well, which also raised the work productivity in these activities and, therefore, the level of the average wages in them as well.

The lowest average net wages in the reporting month of 2011 were registered in the following sectors:

- cinematographic, television and music production (15,852 dinars),
- wood processing and wood products, except furniture (18,581 dinars),
- manufacture of textile (19,871 dinars),
- manufacture of clothing items (19,879 dinars),
- protective and investigative activities (19,903 dinars), etc.

In this case, at issue are mostly work-intensive activities with less qualified labor, but also activities where the process of restructuring and privatization proceeded without any plan, accompanied by unfair competition and the neglect of the state through the excessively fast and broad liberalization of the market.

The unfavorable demographic picture of Serbia which points to around 370 thousand inhabitants less than 9 years ago when the last population census was held is the result of Serbia's floating on the rough waves of the global surroundings. The lack of a clear compass with a clear vision and a strategy for the overall social, and even economic development, with an orientation towards short visions and the giving of precedence to personal and group relations as compared to general and national interests is threatening with the maintenance of such unfavorable trends in Serbia's demographic picture. Such a picture is not only the result of the white plague, but also of the population's migration towards more developed western countries, as well as with their gradual assimilation, because at issue are increasingly educated people seeking salvation for their existence and their further prosperity in countries of the Western hemisphere. Apart from this migration, also present is migration within the country itself, or better to say from the south towards Belgrade or northwards from Belgrade. That this is so is also confirmed by the preliminary data from the population census, according to which the number of inhabitants has been reduced in the region of Šumadija and Western Serbia by around 123 thousand, in the region of Southern and Eastern Serbia by almost 202 thousand inhabitants. It is only the Belgrade region that is richer by almost another 63 thousand inhabitants compared to the population census in 2002. Such migrations can create long-term negative political repercussions, but already now, they are quite certainly impoverishing the potentials of these southern regions to create stronger economic prospects for development. This is all the more so because most of the educated people are leaving towards the north of the country or outside the country's borders. For this reason it is urgently necessary to establish a compass for the development of this country which would be based on European values, with full state support in the realization of national or regional infrastructure projects and the presentation of businessmen on unconquered or insufficiently conquered markets of the Commonwealth of Independent States, India and the Middle East. All this rules out a patriotic ruling of the country based on short-term goals, as well as semi-guided judiciaries and an excessively large administration.

How large a capital is concentrated in the north of the country can also be seen on the basis of an insight into average net wages by regions. Thus, in October 2011, the average net wages in the north of Serbia used to reach the amount of 42,467 dinars, and in the south 32,610 dinars. In this regard, the Belgrade region is the most developed with an average net wage of as much as 47,068 dinars, followed by the region of Vojvodina (37,542 dinars). Within the southern region, the lowest average net wages were registered in Šumadija and Western Serbia (32,370 dinars), followed by the regions of Southern and Eastern Serbia (32,906 dinars).

These data indicate that, in the Belgrade region, the average net wage is around 1.3 times higher than in the regions of Šumadija and Western Serbia where the lowest wages without taxes and contributions were registered. For this reason, not surprising is the larger concentration of human resources in Belgrade or around Belgrade and somewhat northwards from it, which is endangering Serbia's demographic picture from its border regions. True, the balance of forces to the benefit of Belgrade would be even higher if, in the mentioned month, a reduction of wages had not been registered in this region by 2.7% nominally, i.e. by 3% in real terms.

Observed by municipalities, the highest average net wages in October 2011 were registered in:

- New Belgrade (58,376 dinars),
- Lazarevac (55,160 dinars),
- Kostolac (53,798 dinars),
- Surčin (53,531 dinars),

- Lajkovac (52,915 dinars), etc.

Therefore, at issue are Belgrade municipalities or those where certain energy capacities are located, primarily thermo-electric power plants.

At the bottom of the ladder according to the received net wages in October 2011 were:

- Gadžin Han (21,162 dinars),
- Bela Palanka (21,462 dinars),
- the Niš municipality of Pantelej (22,694 dinars),
- Crna Trava (23,144 dinars),
- Kuršumljija (23,256 dinars), etc.

Therefore, at issue are underdeveloped municipalities in the south of Serbia, which, without a clearer and more systematic support of the state have no prospects for development. This implies, not only the development of a transport infrastructure, but also the education of personnel from that region, the offering of tax benefits and so on. Furthermore, the modernization of educational and health care institutions represents yet another condition on which the development of these areas would be based. Otherwise, the colors of the picture of the country's uneven economic development and the accumulation of human and financial resources in and around Belgrade will be additionally darkened, whereby not only the economic, but also the country's strategic political position will deteriorate;

- **In October, a mild growth of consumer prices was registered at the rate of 0.4% at the monthly level. However, in Serbian terms, this is still a low inflation rate within monthly frameworks, which indicates that, since May, when the monthly inflation rate also stood at 0.4%, the inflationary dragon has been calming down. In July, deflation of 0.5% was even registered. For this reason, the National Bank of Serbia (NBS) has started the process of lowering its reference interest rate from 12.25%, which was its size at the beginning of this year, to 9.75% in December. This is providing for the gradual loosening of the restrictive credit and monetary policy, whereby conditions are being created for more favorable dinar credits, but also for discouraging the investing of the free assets of commercial banks in NBS securities, thus opening space for the investment of free capital in the real sector. However, it should be emphasized that the inflationary dragon was not put to sleep because of the Serbian government's measures, but rather because of this year's more favorable agricultural crop, as well as the declining economic dynamics in global frameworks which led to the lowering of the prices of raw material on the world market. True, through the reference interest rate, the NBS also helped anchor inflation at lower points that it would have reached if these measures had not been taken.**

Consumer price index

	<u>X 2011</u> IX 2011	<u>X 2011</u> XII 2010	<u>X 2011</u> X 2010
Total	100,4	106,8	108,7
Food and non-alcoholic beverages	100.7	107.3	109.9
Alcoholic beverages and tobacco	100.0	112.1	112.7
Clothing and footwear	101.3	101.4	103.6
Apartment, water, electricity, gas	100.2	108.2	111.1
Furniture, household appliances, current maintenance	101.0	107.0	108.1
Health care	100.1	104.6	106.8
Transport	99.8	108.1	108.8
Communications	100.0	103.3	104.1
Recreation and culture	100.1	103.9	104.4
Education	99.9	102.2	102.2
Restaurants and hotels	100.3	103.1	104.2
Other goods and services	100.2	106.2	107.9

Source: Data of the Republic Office of Statistics (RZS)

At the annual level (October 2011 / October 2010), consumer prices grew by 8.7%. The biggest generators of the growth of inflationary trends in the mentioned period of observation are alcoholic beverages and tobacco (12.7%), apartment, water, electricity, gas and other fuels (11.1%), as well as food a non-alcoholic beverages (9.9%). Therefore, at issue at products whose prices are predominantly regulated by the sate, such as excise products or overhead costs. An exception is food, but with a lack of a strategy for agricultural development, the government has created an environment in which the prices of these products were high in the first months of 2011, due to the insufficient supply of agricultural food. Furthermore, the cartel-monopolistic structures in certain sectors of the food industry additionally made use of such a situation to achieve a greater profit than it would be if healthy competitive relations existed.

Since the beginning of 2011, ending with October, inflation reached the point of 6.8%. This means that the projection of 6% for this year has been surpassed. Nevertheless, after a somewhat more intensive growth in November due to the increase in the price of gas, inflation will remain within single-digit frameworks (around 8%) in the business year of 2011, only for the present trend of the drop in inflationary trends in the Serbian economy to continue in 2012, provided that there are no external shocks.

However, without the resolution of structural problems, inflation will continue to loom like a boogiemer over the Serbian economy, introducing unease and nervousness among businessmen and potential investors, because it is through this boogiemer that it is creating an unfavorable credit and monetary policy with a higher price of money, causing illiquidity in the economy and the population's poorer purchasing power and, consequently, a poorer domestic demand.