

# Weekly *Economic* Bulletin

V.I.P. News Services, Cika Ljubina 6/II, 11000 Belgrade, Serbia

Phone: (381 11) 328 23 60, 328 61 40, Fax: (381 11) 328 61 41

Internet: [vipnews@sbb.rs](mailto:vipnews@sbb.rs); [bracavip@eunet.rs](mailto:bracavip@eunet.rs)

Editor-in-chief: Bratislav Grubacic

Editors: Vesna P.Marjanovic, Tanja Jakobi

All rights reserved: all unauthorized copying and redistributing is illegal

Issue No. 800

Friday, February 17, 2012

## ANALYSIS

### *Economic Trends in Serbia*

(Part II)

- Despite a considerable growth at the monthly level by as much as 13.2%, when measured in fixed prices, in cumulative terms, retail trade, nevertheless, ended the year with a big minus of a full 16.7% compared to 2010. This means that the sale of goods in retail trade ended the business year of 2011 in a deep depression, as a result of the population's exceptionally low purchasing power accompanied by a growing unemployment rate, which, at the end of the observed year, reached the point of as much as 23.7%. In conditions of negative expectations for the future period, uncertainty over the further trends of salaries and pensions and, in general, the survival of work places, the population is additionally refraining from buying, which is making complex the negative business conditions of retail trade. This is especially having an effect on small stores which also have higher operating costs and are unable to cope with large retail chains which have an integrated acquisition system and, therefore, lower input costs. Furthermore, the blackmailing potential of large retailers towards suppliers is considerably larger, which also provides additional benefits regarding the very payment conditions, this facilitating their financial position. Unfortunately, small retailers do not have such possibilities and, in view of the dropping sales, they are forced to close down their facilities.

#### Sale of goods in retail trade

Indices

	$\frac{\text{XII 2011}}{\text{XI 2011}}$	$\frac{\text{XII 2011}}{\text{XII 2010}}$	$\frac{\text{I - XII 2011}}{\text{I - XII 2010}}$
Measured in current prices	112.7	90.1	92.7
Measured in fixed prices	113.2	83.5	83.3

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

The monthly growth in the dynamics of retail trade in Serbia, at the end of December 2011, was predominantly the result of the holiday fever and the arrival of our people living abroad, as well as tourists in our country. Paid out were also thirteenth salaries, jubilee awards or advance payments for the following month, which, in the New Year's and Christmas environment, created additional space for intensified acquisitions in stores. Therefore, this significant positive move in the dynamics of retail trade at the monthly level is only the result of the pronounced impact of the season, and by no means of an essential revival of the population's standard of living, so with the start of 2012 one should expect the termination of the established regular trend in the drop of retail trade.

Taking precisely the mentioned premises as a point of departure, the government of the Republic of Serbia adopted, at the end of December 2011, a decree on limiting margins at the point of 10% for some of the basic foodstuffs. Such a decision will quite certainly result in the lowering of the prices of these products (fish, chicken meat, cooking oil, sugar, flour, baby beef, pork), which will make them more affordable for a large part of the domestic population.

Observed regionally, in the north of the country, in 2011 compared to 2010, a real drop in the turnover of goods by 5% was registered, while in the south of the country that drop was extremely dramatic (-31.2%). In this regard, a growth of the retail trade of goods by 2%, measured in fixed prices, was even registered in Vojvodina. This is yet another piece of information confirming the thesis about Serbia's unequal economic development and the concentration of its resources in its northern part, especially around Belgrade. Therefore, the south of the country is badly in need of a planned and long-term support from state institutions towards creating a human and infrastructure logistics needed for the

reindustrialization of that region, but also towards offering technical support through the joining of farmers and their estates so as to achieve higher yields and better income from their work. Without such support there is no growth of the population's standard of living in that region and, therefore, retailers have no major interest in expanding their networks towards those destinations;

- **In the last month of 2011, exports were registered in the amount of 932.5 million USD. This was 7.1% less than in the preceding month or 3.1% less compared to December 2010. Therefore, it is evident that, due to the deterioration of the economic crisis in countries of the euro zone and, consequently, a drop in the arrival of foreign orders, there was also a drop in the dynamics of the sale of goods on the foreign market. Contrary to this, with almost 1.9 billion USD in December, imports grew by 2.6% at the monthly level, i.e. by as much as 18.1% compared to the last month in 2010. These data unequivocally point to the conclusion that the broadening of the foreign trade deficit in the commodity trade of Serbian businessmen with the world is inevitable and that this pace is accelerating. This is also confirmed by the analysis of foreign trade in cumulative terms at the level of the entire year of 2011. While exports were larger by a full 32.1% in the first quarter of the observed year compared to the corresponding period in 2010, i.e. 31.7% larger in the first half of the year than in the first six months of 2010, and by 28.1% higher in the first three quarters of 2011 than in the same period of 2010, one notices the presence of a trend of the slowing down of the Serbian economy's export activities, which was especially pronounced at the end of the third and the beginning of the last quarter of 2011. Thus, at the end of the year, exports were worth around 11.8 billion USD and they were higher by 20.1% than in 2010. Imports did not follow such trends of Serbian exports. Thus, in the first quarter, imports were larger by 21.4% than in the first three months of 2010, in the first half of the year they were larger by 17.4%, and in the first three quarters of 2011 by 22% compared to the corresponding period in 2010, only for total acquisitions of the Serbian economy from the foreign market, whose value reached the point of around 20.1 billion USD at the end of 2011, to grow by 20.3% compared to 2010. Therefore, unlike exports which have continually been registering a growth dynamics of increasingly low intensity, imports have a discontinuity in this dynamics, whereby the growth rate of imports in 2011, compared to the same period in 2010 was larger than in the first six-month period. This points to the further broadening of the Serbian economy's foreign trade deficit in commodity trade with other countries. Thus, in 2011, the negative foreign trade balance reached the amount of around 8.4 billion USD, which was 20.5% more than in 2010.**

The Serbian economy's total foreign trade grew from 26.5 billion USD in 2010 to 31.9 billion USD in 2011, or by 20.3%.

#### Dynamics of exports and imports by the level of the countries' development

-in millions of USD-

	January- December					
	Exports		Index	Imports		Index
	2010	2011		2010	2011	
Industrialized countries	4,880.1	5,841.4	119.7	8,914.6	10,640.0	119.3
Developing countries	4,914.4	5,935.3	120.8	7,819.9	9,499.4	121.5
<b>Total</b>	<b>9,794.5</b>	<b>11,776.7</b>	<b>120.2</b>	<b>16,734.5</b>	<b>20,139.4</b>	<b>120.3</b>

Source: RZS data

Due to the further weakening of signals from the foreign market, with the present production plants which launch onto the market around two thirds of the products of a lower processing stage, as well as the declining price of primary products on the world market, in 2012 one should expect a negative dynamics of exports. This is all the more so if one bears in mind the fact that the American owner of the former Sartid has left the company because of unfavorable winds from the market, and at issue is a company whose share in Serbian exports is around 15%. Therefore, the volume of the Serbian economy's export activities in 2012 will not be at a level that will enable the narrowing down, but on the contrary, an environment will be created for the further broadening of Serbia's negative foreign trade balance, which will also additionally aggravate its balance of payments position. This means that, in view of the state's high indebtedness, without new borrowings or the selling of the remaining state "silver" it will not be possible to service the due obligations. Thus, Serbia is increasingly drawing closer to a performance which is being played according to the Greek scenario.

How poor the Serbian economy's export performances are is attested to by the fact that two thirds of the sale of goods on the foreign market are products of a lower unit value. Thus, in 2011, these products were sold outside the national borders in the value of around 7.8 billion USD or by 22.6% more than in 2010. Contrary to this, capital goods were exported the least, only in the value of 986 million USD, which accounted for 8.4% of Serbia's total exports. As long as there are no investments that bring more sophisticated technologies and produce higher unit values, the gloomy picture of Serbia's exports can only be painted in even darker colors, especially as the debtor crisis in the euro zone is picking up steam. This picture can be somewhat improved by the launching of the automobile industry, but quite certainly not to a significant degree in 2012, because it is only the launching of the production capacities of the Italian Fiat that is expected that year. How poor the export performances of the Serbian economy are is also attested to by the

information in last year's report of the World Economic Forum, according to which, from the standpoint of the quality of exports, Serbia is 136<sup>th</sup> among 142 analyzed countries.

**On the side of imports, also dominant are intermediary products, which were imported in 2011 in the value of around 10.6 billion USD or 15.2% more than last year. Thus, the share of this commodity group in the Serbian economy's total imports in the observed year was as much as 52.8%.** It is quite logical for products of a lower processing stage to hold the leading position in Serbian acquisitions from abroad, because the domestic production is dependant for raw material on foreign suppliers, and also, at least the first part of the year saw tendencies of the awakening of the foreign demand for Serbian products, which also required increased acquisitions from abroad so as to meet that intensified foreign demand. Encouraging is the fact that, in 2011, capital goods were imported in the value of almost 1.6 billion USD or as much as 94.3% more than in 2010. This is signaling increased purchases of new equipment and technology for the purpose of redesigning the present production capacities. However, the question is whether at issue here are certain broader investments or a narrow circle of the acquisitions of certain companies. We are of the opinion that at issue are, nevertheless, only individual larger acquisitions by some of the present bigger investors, such as Fiat. However, in any case, it is positive to intensify imports of equipment, with the expectation that at issue is production equipment, because only in this manner do there exist prospects for the country's sustainable economic development based on sophisticated products of a high unit value, this improving the country's export performances. Due to this precipitate growth of the imports of capital products, their share in total Serbian acquisitions from the foreign market increased from 4.4% in 2010 to 7.7% in 2011.

**Serbia registered the largest volume of foreign trade in 2011 with Germany (3.506 billion USD) followed by Russia (3,449 billion USD) and Italy (around 3.1 billion USD).** In this regard, compared to 2010, the volume of commodity trade with Germany increased by 26.3%, with the Russian economy by 28.1%, and with Italy 21.9%. The share of the German economy in Serbia's export-import activities during the reporting year was 11%, of Russia 10.8%, and of Italy 9.7%. This means that the share of these three countries in Serbia's total foreign trade was 31.5% in 2011.

#### Countries ranked by volume of foreign trade with Serbia

-in millions of USD-

Country	January – December					
	Exports		Imports		Foreign trade balance	
	2010	2011	2010	2011	2010	2011
Germany	1,008.2	1,329.7	1,767.7	2,176.3	-759.5	-846.6
Russian Federation	534.7	792.2	2,157.1	2,657.1	-1,622.4	-1,864.9
Italy	1,118.5	1,307.5	1,431.7	1,801.7	-313.2	-494.2
Bosnia-Herzegovina	1,089.0	1,191.2	556.3	671.1	+532.7	+520.1
Romania	650.7	812.5	596.6	888.2	+54.1	-75.7
China	7.3	15.3	1,202.5	1,529.7	-1,195.2	-1,514.4
Hungary	303.4	346.4	808.0	927.9	-504.6	-581.5
Slovenia	425.9	526.1	508.5	595.5	-82.6	-69.4
Austria	338.4	371.3	511.6	710.9	-173.2	-339.6
Montenegro	803.8	890.7	164.8	131.4	+639.0	+759.3
<b>Total 10 countries</b>	<b>6,279.9</b>	<b>7,582.9</b>	<b>9,704.8</b>	<b>12,089.8</b>	<b>-3,424.9</b>	<b>-4,506.9</b>
<b>Total – all countries</b>	<b>9,794.5</b>	<b>11,776.7</b>	<b>16,734.5</b>	<b>20,139.4</b>	<b>-6,940.0</b>	<b>-8,362.7</b>

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

From the standpoint of exports, Serbia's most important foreign trade partners in the mentioned period were: Germany (1.330 billion USD), Italy (1.307 billion USD), and Bosnia-Herzegovina (1.191 billion USD). The share of these three countries in the total sale of Serbian goods on the foreign market in the mentioned period of observation was almost a third.

From the stand point of imports, Serbia's most important foreign trade partners in 2011 were: Russia (2.657 billion USD), Germany (2.176 billion USD) and Italy (1.802 billion USD). One should also add China to this group, because this is yet another country from which goods were imported in the value of around 1 billion USD, or more precisely 1.530 billion USD. The share of these countries in total Serbian acquisitions from the foreign market in the observed year was as much as 40.5%.

(to be continued)