

Weekly *Economic* Bulletin

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ANALYSIS

Economic Trends in Serbia

(Part III)

Russia's large share (13.2%) in Serbia acquisitions from the foreign market is the result of Serbia's dependence on energy from that market. Germany (10.8%) and Italy (8.9%) are, already by tradition at the top of the ladder of countries from which the Serbian economy imports the most, for example equipment or durable consumer goods. Due to considerable imports of both durable and non-durable consumer goods, China holds fourth place with a share of 7.6%.

In 2011, the Serbian economy had the least favorable foreign trade balance with the Russian market (-1.865 billion USD). This accounted for as much as 22.3% of Serbia's total negative foreign trade balance. China is second according to its impact on the creation of the Serbian economy's foreign trade deficit. Thus, a deficit in the amount of 1.514 billion USD was registered with this country, which accounted for 18.1% of Serbia's total foreign trade deficit in 2011. Third according to the size of the registered negative balance in foreign commodity trade with Serbia is Germany (-847 million USD). The share of the German economy in the creation of Serbian foreign trade deficit is 10.1%. These three countries accounted for as much as 50.4 of the total negative foreign trade balance of the Serbian economy in 2011.

Already by tradition, Serbia registered, in 2011 again, a foreign trade surplus in commodity trade with Montenegro (759 million USD), Bosnia-Herzegovina (520 million USD) and Macedonia (195 million USD). However, unlike Montenegro with which the positive foreign trade balance of 18.8% was additionally enlarged compared to 2010, in trade with the economies of Bosnia-Herzegovina and Macedonia the foreign trade surplus was reduced by 2.4%, i.e. by 4.7%. Not even in 2012 should one expect a growth of the foreign trade surplus with these countries either, not even with Montenegro, since quite certainly to be expected is the drop in the purchasing power of these countries' populations, as well as the drop in investment spending, which will inevitably also result in a continuation of the process of reducing the positive foreign trade balance which the Serbian economy is registering with these neighboring countries;

- **According to the available NBS data, at the end of November 2011, Serbia's foreign debt was 23.8 billion euros. This was 0.3% more than in the preceding month, i.e. 0.2% more compared to the end of December 2010. The further growth of the country's total foreign debt was primarily the result of the public sector's constant borrowing. Thus, in November 2011, the state owed foreign creditors 10.6 billion euros or 1.8% more than in the preceding month, i.e. as much as 16.9% more compared to the end of 2010.** One should bare in mind the fact that, since 2008, i.e. since the first wave of the world economic crisis appeared and when the incumbent republican government took office, the public sector's foreign debt grew from 6.5 billion euros to 10.6 billion euros, which is its amount in the reporting month, with a tendency towards further borrowing so as to service the current budget needs and to settle the obligations towards creditors. Therefore, in the period between 2008 and November 2011, the total foreign debt of the public sector grew by as much as a little more than 4 billion euros. Contrary to this, the private sector's foreign debt, with the reached amount of around 13.2 billion euros in the reporting month, was lower by 0.9% at the monthly level, i.e. by as much as 10% compared to the end of December 2010. From almost 14.6 billion euros, it was reduced to 13.2 billion euros in November, which was a drop by around 1,3 billion euros.

Foreign debt by type of debtor

- in millions of euros -

	Period		
	31. 12. 2010	31. 10. 2011	30. 11. 2011
Public sector	9,076.4	10,422.9	10,607.1
Private sector	14,710.0	13,351.5	13,236.3

Total	23,786.4	23,774.4	23,843.4
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Source: NBS data

- In December, Serbia's total foreign currency reserves reached the amount of 12.867 billion euros, which was 2.7% more than in the preceding month. This was predominantly the result of the growth of the foreign currency reserves in the NBS portfolio from 11.398 billion euros in November, to 12.058 billion euros in the last month of 2011, i.e. by 5.8%. Compared to December 2010, the NBS foreign currency reserves grew considerably, by as much as 20.6%. Owing to such a dynamics of the growth of the NBS foreign currency reserves, the total foreign currency reserves also increased by 10.1% compared to the end of 2010. Namely, they grew from 11.686 billion euros at the end of 2010 and 12.532 billion euros in November to 12.867 billion euros in December 2011. Contrary to this, the foreign currency reserves owned by commercial banks were reduced from 1.684 billion euros in December 2010 and 1.133 billion euros in November, to 809 million euros in the last month of 2011. Observed in relative terms, the foreign currency reserves of commercial banks were reduced by 39.3% at the monthly level, i.e. by a full 52% relative to the end of 2010. This shows that commercial banks borrowed less abroad from their mother banks in 2011, but also that such a large drop in the foreign currency reserves of commercial banks was also the result of the restrictive credit and monetary policy of the NBS. It is thanks to this rigorous attitude that the central banks' foreign currency reserves were filled in December by a full 555.4 million euros from allocations for the banks' foreign currency reserve requirements. It is 31.8 million euros that arrived from credits and donations. However, when the foreign currency funds from the banks' reserve requirements and the funds drawn from the IMF during the reporting year are excluded, the net foreign currency reserves at the end of 2011 were 6.660 billion euros, which means almost two times less than when these elements are included in the calculation.

Foreign currency reserves			
- in mill. euros -			
Foreign currency reserves			
	NBS	Commercial banks	Total
Year 2010			
December	10,001.6	1,684.3	11,685.9
Year 2011			
January	9,859.8	1,021.7	10,881.5
February	10,061.0	990.5	11,051.5
March	9,918.9	1,066.1	10,985.0
April	9,951.9	1,073.3	11,025.2
May	10,064.2	1,230.0	11,294.2
June	9,966.8	1,176.9	11,143.7
July	10,383.8	983.0	11,366.8
August	10,420.0	1,036.7	11,456.7
September	11,358.2	1,088.9	12,447.1
October	11,272.3	1,158.4	12,430.7
November	11,398.3	1,133.5	12,531.8
December	12,057.7	809.1	12,866.8

Source: NBS data

In 2012, due to the need for resolving the debtor crisis in the euro zone and the recapitalization of commercial banks, foreign sources of financing will be limited, so that it is high time to start with the sharp cuts of the public sector's transformation and the reduction of public spending, and to present to the public, without cloaking the ugly picture of the economic reality, the only possible directions for emerging from the economic crisis which Serbia is in, and which would not be based on constant credits and verbal surface reforms. This primarily presumes that persons employed in the public sector, especially in the administration, are faced with the need for their more efficient work, this also meaning the sacking of redundant labor. Therefore, the public sector must adapt to the needs and possibilities of the Serbian economy and to demonstrate solidarity in resolving the economic crisis in the country for the purpose of preventing Serbia from moving from the entrance hall to the main hall of a Greek tragedy. Furthermore, with the transformation of public enterprises, conditions would be created not only for saving in the budget in the future, but also for new investments in those companies, especially in the energy sector and, therefore, also space for the additional filling of the budget;

- At the end of 2011, for one euro one could get 104.64 dinars. This means that, at the annual level, the dinar appreciated nominally by 0.3%, and in real terms by a full 4.4%. As the exchange rate is the reflection of an economy, one would say that the appreciation of the domestic currency was the result of the improvement of the country's production and export performances. Unfortunately, this is not the case. The restrictive credit and monetary policy of the NBS and the state's need for a constant financial infusion from someone else's sources of financing are still the key factors of pumping the domestic currency's muscles. It is through the issuing of NBS securities with high yields and treasury bonds of the Serbian government, with attractive interest rates, that commercial banks and other investors were stimulated to obtain them, thus increasing the demand for the domestic currency. This

means that, mostly through short-term financing transactions, a semblance of macroeconomic stability, at the center of which is the artificially over-estimated dinar against the euro, was created. That is why its stability is conditional and it primarily depends on the risk assessment of investors when investing their capital on the domestic financial market.

Exchange rate trends

EUR value against the dinar	
<i>Year 2010</i>	
December	105.50
<i>Year 2011</i>	
January	104.60
February	103.22
March	103.60
April	99.63
May	96.98
June	102.46
July	102.13
August	101.58
September	101.17
October	100.48
November	103.97
December	104.6409

Source: NBS data

The year 2012 started off with the sliding of the domestic currency's value. This was the result of the intensified need of businessmen to repay the previously assumed cross-border credit obligations, and also because of the loosening of the restrictive course in conducting the credit and monetary policy. Thus, from 9.75% in December, in January the reference interest rate of the NBS was reduced to 9.5%. All these are indications that, in the upcoming period as well, one should be faced with a trend of dinar's depreciation, but, quite certainly, without more precipitate sliding and nervousness, because, for now, the NBS possesses foreign currency reserves that can prevent major disturbances on the Serbian financial market. In any case, in an unchanged economic environment, Serbia is quite certainly heading towards the need for a new stand by arrangement with the IMF, falling into an even deeper coma of an addict's dependence on foreign sources of financing;

- In accordance with the Labor Force Survey conducted in 8,000 households on the territory of Serbia in November 2011, the unemployment rate reached the point of 23.7%. For example, at the end of 2009, that rate was 16.6%, only for it to grow to 19.2%, and in April 2011 to 22.2%.** Evident is the pronounced growing trend of an increase in the number of unemployed persons, as a result of internal economic weaknesses stimulated by the virus of the world economic crisis. This percentage of unemployment would have been even larger had certain large companies such as the Petrohemija, the Azotara fertilizer factory and others not become state-owned. However, the question being asked is what kind of a market future do some of these companies that have become state-owned have, especially the Staklara glass factory in Paraćin, because in the case of some of them, business operations are still in the negative growth zone. Therefore, only a semblance of employment has been created, but some future time could unmask this semblance, whereby budgetary funds were spent in vein for preserving social peace. For this reason, the new government must make a serious business analysis of each company that has become state-owned so as to help those who have a market future and to find them a strategic partner, and to abandon those companies with no chance on the market. In this manner the state would also gain, because borrowing for the needs of these companies would stop, and conditions would be created for the freed budget funds to be placed more towards the economy or certain infrastructure projects, either in the sphere of energy or transport routes, which would stimulate employment in these sectors. Furthermore, with the transformation of the state administration and the entire public sector, conditions would also be created for a tax relaxation of domestic businessmen, which would improve their liquidity and the possibility of employing new labor.

The smallest unemployment rate at the end of 2011 was registered in the Belgrade region (20.8%), and the highest in the regions of Southern and Eastern Serbia (26.6%). This fact also confirms the thesis about Serbia's uneven economic development.

Out of the total number of unemployed persons (691,841), almost a third of them said the termination of employment was the result of sacking, i.e. the liquidation of the company. This points to a poorly conceived privatization and the process of de-industrialization which has still not been halted. Of course, the deterioration of the economic situation on the international scene is only additionally hindering business operations on the Serbian market and forcing employers to initiate the process of the sacking of workers, for the purpose of reducing the costs, and in the worst of cases it also leads to the closing down of the production plants themselves or certain service companies.

In the total number of unemployed persons the share of long-term unemployment is as much as 74%. At issue is unemployment of a year and longer, this spreading an atmosphere of hopelessness and darkening the population's prospects for life.

Unfortunately, in 2012, which is also election year, one should expect no reform processes, so that the priority will remain the preservation of the semblance of the present employment. However, in conditions of the declining economic dynamics in the euro zone, with the existing internal weaknesses of the domestic economy, the number of unemployed persons will increase in the current year.

(to be continued)