

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; 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.802

Friday, March 2, 2012

ANALYSIS

Economic Trends in Serbia

(Part IV)

- At the end of December 2011, average net wages in Serbia were 43,887 dinars and they were higher by as much as 14.4% in nominal terms, i.e. by 15.2% in real terms compared to the preceding month. Such a precipitate both nominal and real growth at the monthly level was the result of the pronounced impact of the season which is expressed through the payment of the thirteenth salary, holiday cash grants, jubilee awards or advance payments for the following month. Furthermore, in the observed period of comparison, deflation at a rate of 0.7% was registered, which resulted in a somewhat larger real than nominal growth rate of the average net wages. At the annual level (December 2011 / December 2010), average net wages nominally grew by 10.9%, and by only 3.6% in real terms. Therefore, noticeable is only a mild growth of the population's purchasing power in 2011, primarily thanks to the calming down of the inflationary dragon in the second half of the reporting year.

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

- dinars-

	Average net wage	<u>XII 2011</u> XI 2011	<u>XII 2011</u> XII 2010	<u>XI 2011</u> e 2010
Serbia	43,887	114.8	111.2	128.8
Serbia – north	48,734	114.4	108.6	127.5
Belgrade region	53,979	113.7	108.0	126.7
Vojvodina	43,119	115.5	109.7	128.9
Serbia – south	37,553	115.5	116.0	131.1
Šumadija and Western Serbia	37,315	116.6	117.6	132.4
Southern and Eastern Serbia	37,852	114.2	114.2	129.6

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

In December, due to the traditional payment of jubilee awards, the thirteenth salary or advance payments for the following month, one should expect a precipitate increase in the average net wages. This will only be a short-term, very noticeable positive excess which will, nevertheless, not disrupt the picture of a crawling real growth of the average net wages in Serbia in 2011. However, already in 2012, the most we can expect is the maintenance of the present purchasing power of average net wages, and there is also the danger of its undermining if the Serbian economy goes into recession under the blows of the debtor crisis in the euro zone. This means that, in 2012, it is not possible to expect a growth of the population's standard of living.

The highest average net wage in December 2011 were registered in the following activities:

- activities of associations (115,095 dinars),
- manufacture of tobacco products (107,751 dinars),
- managerial activities and consulting (103,638 dinars),
- financial services, except insurance and pension funds (91,076 dinars),
- production of coke and oil products (80,128 dinars), etc.

It is quite expected for the above mentioned activities to be at the top of the ladder according to the achieved average net wages. Namely, at issue are activities that are propulsive or which have a monopoly on the market. Also, after the privatization of the NIS oil company, significant have been the investments in the exploitation of black gold and of the

refinery in Pančevo, which also raised the work productivity in these activities, and, therefore, also the level of the average wages in them. It could only be said for the activities of associations that their place at the very top of this ladder is unjustified. At issue here are mostly chamber associations, and as chambers of commerce should provide the logistics for businessmen and, in a way, also be lobbyists for their business operations in a more favorable environment, it can be concluded, in view of the continued poor business performances, the salaries in such associations are far above the result of their work. True, there is a reservation in the sense that, in the observed month, advance payments for the following month were made in the observed month, which artificially inflated the average level of the wages without taxes and contributions in this activity.

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

- protection and research activities (18,918 dinars),
- wood processing and wood products, except furniture (20,133 dinars),
- activity of preparing and serving food and beverages (20,674 dinars),
- auxiliary activities in financial services and insurance (21,259 dinars),
- leather production and leather items (21,740 dinars), etc.

In this case, at issue are predominantly 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.

Observed by regions, average net wages in the north of Serbia are way above those in the south of Serbia. Thus, the region of Vojvodina and the Belgrade region registered an average net wage of 48,734 dinars, and the regions of Šumadija and Western Serbia, as well as the regions of Southern and Eastern Serbia, 37,553 dinars. Analytically speaking, the Belgrade region has the highest (53,979 dinars), and the regions of Šumadija and Western Serbia the lowest average net wage (37,315 dinars). Therefore, the difference between these two regions is almost 1.5 times to the benefit of Belgrade. These data unequivocally confirm the uneven economic development of Serbia and the excessive concentration of human and financial resources in Belgrade. That this is so is also confirmed by the preliminary data of the population census, according to which there has been a drop in the number of the inhabitants in the region of Šumadija and Western Serbia by around 123 thousand, and in the regions of Southern and Eastern Serbia by almost 202 thousand inhabitants. It is only the Belgrade region that is richer by almost 63 thousand new inhabitants compared to the populations census in 2002. Such migrations within the country from the south towards the richer north, by Serbian standards, and then also further outside the national borders, along with the white plague, can have, on a long-term basis, negative political repercussions. However, already now, they are quite certainly weakening the potentials of these southern region to create better economic prospects for development. For this reason it is necessary promptly to establish a compass for this country's development which would find its foundations in European values, with the full state support in the realization of national or regional infrastructure projects and the presentation of businessmen on the non-conquered or insufficiently conquered markets of the Commonwealth of Independent States, India and the Middle East. All this rules out the partocratic managing of the country based on short-term goals, as well as a semi-guided judiciary and an excessively large administration.

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

- Vračar (63,807 dinars),
- Stari Grad (62,964 dinars),
- New Belgrade (61,613 dinars),
- Surčin (57,228 dinars),
- Savski Venac (56,348 dinars), etc.

Therefore, at issue are predominantly Belgrade municipalities, which corroborates the previously set out thesis about the uneven regional economic development of Serbia and the full concentration of financial and human resources in Belgrade and partly somewhat northwards from it.

At the bottom of the ladder according to registered average net wages in the reporting month in 2011 are:

- Doljevac (23,557 dinars),
- Rača (25,710 dinars),
- Malo Crniće (25,813 dinars),
- Knjaževac (25,975 dinars),
- Crna Trava (26,333 dinars), etc.

Therefore, at issue are predominantly under-developed municipalities in the south of Serbia, which, without a clearer and more systematic support from the state have no prospects for development. This implies not only the building of a transport infrastructure, but also the educating of personnel in those regions, granting tax benefits and so on. Furthermore, the modernization of educational and health care institutions represents yet another condition which the development of these regions would be based on. Otherwise, the shades of the picture of the country's uneven economic development and the accumulation of human and financial resources around Belgrade will be additionally darkened, due to which not only the economic, but also the strategic political position of the country will deteriorate;

- **In December 2011, the prices of the producers of industrial products stagnated at the monthly level. Thus, the annual growth rate of producer prices (December 2011 / December 2010) remained at the achieved point of 7.4%. Observed by the purpose of spending, at the annual level, the biggest growth was that of the prices of non-durable consumer goods (8.2%), and, at a mild dynamics, also the prices of energy (0.7%) and durable consumer goods (0.3%). It is only the prices of capital goods that registered a slight drop at the annual level at the rate of 0.2%.**

Producer price index

	<u>XII 2011</u> <u>XI 2010</u>	<u>XII 2011</u> <u>ø 2010</u>	<u>XII 2011</u> <u>XII 2010</u>
Total	100.0	113.9	107.4
Mining	100.3	133.5	121.0
Processing industry	99.9	111.2	104.7
Supplying with electricity, gas and steam	100.9	121.3	118.7
Water supplying, waste water management	100.0	113.0	105.8

Source: RZS data

Such a dynamics of producer prices points to the calming down of the inflationary dragon, because producer prices are one of the important elements on the inflationary dragon's menu. As food starts lacking on this side (the prices of primary products also registered a drop on the world market, with uncertainty over the price of oil due to the Iranian crisis, and it has also been stated that the price of electricity will not be raised in 2012), there is no doubt that the trend of the calming down of inflationary trends in the Serbian economy is something which can be expected in the upcoming period as well, with certain higher seasonal fluctuations.

Observed by industrial branches, at the annual level, the largest growth of producer prices was registered in mining (21%) and supplying with electricity, gas and steam (18.7%). In the processing industry producer prices grew in the observed period by 4.7%;

- **In December 2011, deflation was registered at the monthly level. Namely, there was a drop in consumer prices by 0.7% compared to November.** This was primarily the result of the drop in the prices of food and non-alcoholic beverages by as much as 2%. Within this group, the biggest drop was registered in the consumer prices of vegetables (-14.7%) and fruit (-6.9%). A drop of consumer prices was also registered in health care (0.2%) and the services of housing, water, electricity, gas and other fuels (-0.1%). The prices of alcoholic beverages and tobacco, transport, recreation, as well as culture and education stagnated. Owing to the slowing down of inflationary trends since the middle of 2011, due to the more favorable agricultural crop than in 2010, as well as the declining dynamics of the prices of primary products on the world market and the low domestic aggregate demand, along with a restrictive credit and monetary policy of the NBS and the exchange rate as the stabilizational anti-inflation anchor, at the end of 2011 inflation dropped to the point of 7%. For example, in April, the inter-annual inflation rate was a full 14.7%. This indicates that the state, i.e. the Serbian government, was the main generator of inflationary trends in the Serbian economy, because, in the first and the beginning of the second quarter of 2011, inflation fed on the government's excise policy and on its decisions to raise the prices of the products or services under its jurisdiction, as well as the transferred negative effects of the poor agricultural crop in 2010.

Consumer price index

	<u>XII 2011</u> <u>XI 2011</u>	<u>XII 2011</u> <u>XII 2010</u>	<u>XII 2011</u> <u>ø 2010</u>
Total	99.3	107.0	112.2
Food and non-alcoholic beverages	98.0	106.4	113.3
Alcoholic beverages and tobacco	100.0	111.1	114.9
Clothing and footwear	100.8	103.3	107.6
Apartment, water, electricity, gas	99.9	109.6	115.7
Furniture, household appliance, current maintenance	100.4	108.0	112.1
Health care	99.8	104.6	108.7

Transport	100.0	109.4	112.5
Communications	100.2	103.5	104.5
Recreation and culture	100.0	104.0	107.1
Education	100.0	102.3	107.0
Restaurants and hotels	100.8	104.3	108.0
Other goods and services	100.7	107.6	111.4

Source: RZS data

That it was the economic policy creators who had a dominant impact on the swelling of inflationary trends, is unequivocally pointed to by the fact that the largest price growth at the annual level was registered in the case of alcoholic beverages and tobacco (11.1%), the services of housing, water, electricity, gas and other fuels (9.6%) and transport (9.4%). At issue are excise products (in the case of transport the largest share in the growth of the prices in this segment was that of fuel) or services whose prices are directly controlled by the government or units of local self-government.

Nevertheless, in 2012, one can expect the further alleviating of inflationary pressures in the Serbian economy. This will be the result of the extremely low domestic demand, i.e. the weak potential for the recovery of personal spending. Therefore, the low standard of living, which will most probably remain at the level from 2011, will be its characteristic in the business year of 2012 as well. Furthermore, the unfavorable economic winds in the countries of the euro zone, which point to the weakening of both personal and investment spending, will induce the further drop in the prices of primary products on the world market, which means that the external factor will also contribute to the additional calming down of inflation in Serbia. For this reason, the NBS has started the process of lowering its reference interest rate from 12.25% as it was at the beginning of 2011 to 10% in November, i.e. 9.75% in December. This provides for the gradual loosening of the restrictive credit and monetary policy, which is creating conditions for more favorable dinar credits, but also for the discouraging of the investing of commercial banks' free assets into NBS securities, this opening up space for investing free capital in the real sector.