

# Weekly *Economic* Bulletin

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## ANALYSIS

### *Economic Trends in Serbia*

#### *(Part I)*

#### 1.1. Global Assessment of the Economic Situation

The business climate on the Serbian market was extremely bad in February. Apart from the unfavorable legal and economic preconditions, the extremely rough weather conditions in the mentioned month did not play into the hands of businessmen in Serbia either. The non-developed legal infrastructure, i.e. the insufficient transparency of the mechanisms of its work, as well as the excessively large state administration, along with an abundance of paperwork and invisible cabinet hands are the characteristics of the business environment in Serbia, not only in February, but for a longer number of years, whereby, with the further swelling of the administration and the clumsily carried out reform of the judiciary, instead of being reduced, these obstacles in the business operations of businessmen became even more pronounced with the passage of the transition period.

In February 2012, predominantly negative trends were registered among most of the analyzed economic indicators: industrial output, overall orders, the tourist turnover, retail trade, exports, the foreign trade balance, foreign debt, total foreign currency reserves and consumer prices.

A positive move was registered only in the case of average net wages. This is strange, because extremely negative economic trends were registered in the first two months, which indicates that the growth of salaries in Serbia is above the achieved work productivity and that more is spent than is earned. This conclusion is all the more important if one bears in mind the fact that it was precisely the public sector that had primarily opted for a positive dynamics in the size of average net wages in the reporting month. For this reason this positive move is more likely to be categorized as conditionally positive, as it is not based on the economy's true strength, i.e. on its production and export performances.

#### 1.2. Analytical Assessment of Economic Trends

*Observed by certain economic and monetary indicators, at the end of February 2012, the following trends were registered in the Serbian economy:*

- The physical volume of industrial production registered, in February 2012, a steep drop by 5% at the monthly level. When the seasonal factor is excluded from the analysis, a negative growth rate of industrial production is also obtained, but at a rate of as much as 13%. Therefore, the season only had a smaller impact on the negative trends in the dynamics of the physical volume of industrial production. This negative move is predominantly the result of the lack of new investments, the steep drop of the inflow of both domestic and export orders, as well as the non-transformed public sector, which should through the restructuring process, bring more new investments and provide conditions for the unhindered functioning of the private sector. How badly needed the transformation of the public sector is, is also attested to by the example of the domestic electric power industry which, during the two-week wave of freezing weather, was unable regularly to supply domestic industrial capacities with electricity, which suffered losses because of this. The question being asked is what would have then happened if there had been no devastation of industrial capacities during the unplanned privatization process.

Industrial output was lower in February this year by a full 12.8% compared to the same month in 2011. Also, due to the further sharp drop of production activities in the reporting month, when observed cumulatively through the first two months of 2012 compared to the same period in 2011, the physical volume of industrial production was reduced by as much as 7.9%.

### Dynamics of industrial production by commodity groups in Serbia

-Indices-

	<u>II 2012</u> I 2012	<u>II 2012</u> II 2011	<u>I - II 2012</u> I - II 2011
Energy	85.4	92.6	98.9
Intermediary products, except energy	91.3	77.7	86.4
Capital goods	133.7	76.0	77.5
Durable consumer goods	118.9	98.4	96.2
Non-durable consumer goods	104.1	92.3	92.2
<b>Industrial production - total</b>	<b>95.0</b>	<b>87.2</b>	<b>92.1</b>

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

Observed by sectors, in February 2012 compared to the same month in 2011, the biggest drop of production activities was registered among the producers of the following:

- basic metals (-62.9%),
- computers, electronic and optical products (-53.3%),
- motor vehicles and trailers (-49.2%),
- machines and equipment (-40.6%), and in the sector of
- repair and assemblage of machines and equipment (-15.6%), etc.

Contrary to this, in the same period of comparison, a growth of production activities was registered only in the following sectors:

- manufacture of transportation facilities, except motor vehicles and trailers (+149.1%),
- manufacture of clothing items (+17.3%),
- exploitation of crude oil and natural gas (+15.9%),
- manufacture of electrical equipment (+4.5%),
- production of metal products, except machines (+4%),
- manufacture of furniture (+3.2%),
- wood processing and wood products, except furniture (+2.6%) and
- production of rubber products and plastics (+1.2%).

Therefore, broad is the list of those activities which registered a negative dynamics of production activities in February this year compared to the same month last year, while quite small is the number of those who registered positive moves.

Nevertheless, in March one should expect a growth of the physical volume of industrial production at the monthly level, due to the lighting up of one of Sartid's furnaces and the renewed engagement of Petrohemija after the reanimation of its capacities, as well as the stabilization in the supplying of electricity. However, if no major revival of the foreign demand occurs, the present business environment does not offer hope that the volume of production activities this year will be at least at last year's level;

- **The dynamics of the inflow of both domestic and export orders registered a drop in February 2012 as well.** This should mean that one should expect a declining dynamics of production and export activities, as well as the further growth of the number of unemployed persons. The negative dynamics of the demand from the domestic and foreign markets is present in all the commodity groups (means of labor, intermediary products and consumer goods);
- A steep drop of the tourist turnover by as much as 12.8% was registered in February compared to the same month in 2011. The reasons for this should be sought in the extremely unfavorable weather conditions which, in conditions of a non-developed transport infrastructure, did not suit even the arrival of domestic guests, not to mention foreign ones. If a growth of the tourist turnover by as much as 8.1% had not been registered in January compared to the same month last year, primarily thanks to the European Handball Championship, when observed cumulatively through the first two months of this year compared to the corresponding period in 2011, the tourist turnover would have suffered far greater damage than was the case. Namely, in the mentioned cumulative period, a drop of the tourist turnover by only 2% was registered. In the first two months of this year, around 811 thousand guests spent the night in Serbia. Out of this number, almost 74% of the tourists were domestic ones, while only a little more than 26% were foreign guests. If the number of overnight stays by foreign guests had not increased in the first two months of 2012 compared to the same cumulative period in 2011, by

as much as 25%, the negative dynamics of the tourist turnover in Serbia would have been even more pronounced. Namely, in the observed period, domestic guests registered a drop in the number of overnight stays by a full 9%.

### Tourist turnover in the Republic of Serbia – number of overnight stays

	Total		Domestic		Foreign	
	I- II 2012	$\frac{\text{I - II 2012}}{\text{I - II 2011}}$	I-II 2012	$\frac{\text{I - II 2012}}{\text{I - II 2011}}$	I- II 2012	$\frac{\text{I - II 2012}}{\text{I - II 2011}}$
<b>Republic of Serbia</b>	<b>811,238</b>	<b>98.0</b>	<b>597,604</b>	<b>91.0</b>	<b>213,634</b>	<b>125.0</b>
Belgrade	150,127	122.8	44,252	117.5	105,875	125.2
Novi Sad	21,900	97.5	6,765	100.3	15,135	96.2
Spa resorts	163,082	80.5	152,854	78.5	10,228	130.1
Mountain resorts	346,695	102.0	311,409	101.3	35,286	108.8
Other tourist places	114,758	96.3	71,769	76.4	42,989	170.2
Other places	14,676	68.7	10,555	64.7	4,121	81.8

Source: RZS data

The largest number of overnight stays by tourists was achieved in mountain centers, which is logical, as this was the peak of the winter tourist season. Thus, in the first two months of 2012, nearly 347 thousand guests stayed on Serbian mountains, or 2% more than last year at the same time. Apart from mountain centers, it is only Belgrade that registered a growth of the number of overnight stays by tourists, at a rate of as much as 22.8% in the first two months of this year compared to the same period in 2011. For such a high growth rate of the tourist turnover Belgrade should primarily thank the dynamics of the tourist turnover in January, since a drop of the overnight stays in this city by 6.4% was registered in February compared to the same month in 2011. In the first two months of this year, a total of around 150 thousand tourists spent the night in the Serbian capital. At issue are mostly businesspeople who came to Belgrade, and to a lesser extent real tourist tours.

As no recovery of the population's purchasing power can be expected this year, the basic legal and economic preconditions have not been created for the arrival of foreign tourists in continuity and Serbia is not recognizable as a tourist destination, in the upcoming period one should quite certainly expect, with certain positive seasonal oscillations, a regular trend of the drop in Serbia's tourist turnover.

*(to be continued)*