

Weekly *Economic* Bulletin

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ANALYSIS

Economic Trends in Serbia

(Part I I)

- **In February again, after the steep drop in January, a considerable reduction of retail trade was registered at the monthly level. Thus, the turnover of goods in retail trade dropped in the reporting month by 5.8% in fixed prices compared to the preceding month.** Therefore, the already low retail trade in the first month of this year was additionally reduced in February, which attests to the population's low purchasing power and an atmosphere of uncertainty reigning on the Serbian market. This atmosphere is raising the caution of the population when spending their modest earnings, this also indirectly affecting the negative dynamics of retail trade through poorer personal spending. True, a real growth of average net wages was registered in February, but primarily thanks to the public sector, which means that the present level of salaries is above the achieved work productivity in the economy and that it represents only a mimicry of the gloomy economic picture in Serbia. And not even did that growth of salaries, which was also partly the result of the season after the January bursting of the over-inflated December balloon, manage to shake the turnover of goods in retail trade. This is explained precisely with the uncertainty of the environment, but also by the freezing days in February, which quite certainly led to the much weaker mobility of the population and its focusing on the purchase of the basic products without any purchases of a broader specter of products.

At the annual level as well (February 2012 / February 2011), retail trade registered a negative dynamics at a rate of 6.2%. Observed cumulatively through the first two months of this year compared to the same period in 2011, the turnover of goods in retail trade dropped by 4.7%.

Turnover of goods in retail trade

	$\frac{\text{II 2012}}{\text{I 2012}}$	$\frac{\text{II 2012}}{\text{II 2011}}$	$\frac{\text{I - II 2012}}{\text{I - II 2011}}$
Measured in current prices	94.6	99.7	101.0
Measured in fixed prices	93.8	94.2	95.3

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

- **As exports from the Serbian to the foreign market dropped from 713 million USD in January to around 689 million USD in February this year, i.e. by 3.4%, while imports grew from 1.327 billion to nearly 1.441 billion USD or by 7.9%, in cumulative terms, when observed through the first two months of this year compared to the corresponding period in 2011, registered was a steep drop of export activities, and a mild growth of imports. Thus, in the cumulative period of comparison, the sale of goods on the foreign market was reduced from around 1.6 billion US to 1.4 billion USD, i.e. by as much as 12.89%, while imports grew from 2.744 billion USD to around 2.770 billion USD or by 1%. Due to the pronounced negative trends in exports, as well as the mild improvement of imports, Serbia's total foreign trade in the January – February period of 2012 was around 4.173 billion USD and it was 4.2% smaller than in the same period last year.**

Such unfavorable trends in the volume of export and import activities is the result of the further weakening of the domestic economy's production performances. Namely, in that period the one-time Sartid worked at its minimum or stopped working, Petrohemija halted production for the purpose of repairing its production plants, and due to the freezing

days in February and the inability of domestic electricity capacities to meet the needs of the economy, production was reduced, and, thus, also the exports of those producers who had agreed on orders.

Due to the considerable drop in the sale of goods on the foreign market, and an extremely mild growth of import activities after all, the foreign trade balance of the Serbian economy's foreign trade deteriorated in the first two months of this year compared to the same period in 2011. Thus, in the mentioned period of 2012, the foreign trade deficit was 1.368 billion USD and it was larger by as much as 20.7% than in the first two months of 2011. At the same time, the export-import ratio deteriorated from 58.7% to 50.6%.

Dynamics of exports and imports by the level of the countries' development
-in millions of USD-

	January – February					
	Exports		Index	Imports		Index
	2011	2012		2011	2012	
Industrialized countries	846.5	762.6	90.1	1,361.6	1,432.4	105.2
Developing countries	763.8	639.5	83.7	1,382.5	1,338.1	96.8
Total	1,610.3	1,402.1	87.1	2,744.1	2,770.5	101.0

Source: RZD data

How poor the export performances of the Serbian economy are is attested to by the fact that as much as a little more than two thirds of the placements of goods on the foreign market are products of a lower unit value. Such a high share of this group of products in Serbian exports was present even when the sale of intermediary products on the foreign market dropped from around 1.141 billion USD in the first two months of 2011 to around 939 million USD in the same period of 2012, or by as much as 17.8%.

On the side of imports also dominant are intermediary products, which were imported in the first two months of 2012 in the value of 1.487 billion USD or by 1.2% more than at the same time last year. Thus, the share of this commodity group in total imports of the Serbian economy in the observed year was as much as 53.7%. Encouraging is the fact that, in the mentioned period of this year, capital goods were imported in the value of almost 238 million USD or by as much as 49% more than in the first two months of 2011. This is signaling increased acquisitions of new equipment and technology for the purpose of redesigning the existing production capacities. However, the question is whether at issue here are certain broad investments or a narrow circle of the acquisitions of certain companies. We are of the opinion that at issue are, nevertheless, only individual larger purchases of some of the existing large investors. In any case, the intensification of equipment imports is positive, because this is the only way to have prospects for the sustainable economic development of the country based on more sophisticated products of a high unit value, whereby the country's export performances are improved. Due to this precipitate growth of the imports of capital goods, their share in total Serbian acquisitions from the foreign market increased from 5.8% in the January – February 2011 period to 8.6% in the same period of 2012.

The largest volume of Serbia's foreign trade in 2011 was registered with Russia (529 million USD), Germany (466 million USD) and Italy (366 million USD). However, while commodity trade with the Russian and German economies was additionally increased by 3.2% in the former case, i.e. 9.9% in the latter case, it dropped with Italy by as much as 13%. The share of these three countries in the Serbian economy's total exports in the first two months of 2012 was 31.7%. Russia is currently ranked first because of the pronounced impact of the season and imports of energy sources from that market.

From the standpoint of exports, Serbia's most important foreign trade in the mentioned period were: Germany (192 million USD), Italy (154 million USD) and Bosnia-Herzegovina (119 million USD). The share of these three countries in the total sale of Serbian goods on the foreign market in the mentioned period was a third.

Countries ranked by volume of foreign trade with Serbia

-in millions of USD-

Country	January – February					
	Exports		Imports		Foreign trade balance	
	2011	2012	2011	2012	2011	2012
Russian Federation	94.3	97.9	418.5	431.3	-324.2	-333.4
Germany	177.8	191.9	245.9	273.8	-68.1	-81.9
Italy	202.0	154.4	218.1	211.2	-16.1	-56.8
China	1.3	2.8	202.7	214.5	-201.4	-211.7
Romania	147.7	98.5	154.7	112.3	-7.0	-13.8
Bosnia-Herzegovina	139.5	119.3	70.7	56.7	+68.8	+62.6
Hungary	50.1	38.6	127.2	131.2	-77.1	-92.6

Slovenia	73.4	67.4	71.0	83.9	+2.4	-16.5
Austria	54.1	40.3	105.0	100.6	-50.9	-60.3
Croatia	53.1	46.4	61.6	79.2	-8.5	-32.8
Total 10 countries	993.3	857.5	1,675.4	1,694.7	-682.1	-837.2
Total – all countries	1,610.3	1,402.1	2,744.1	2,770.5	-1,133.8	-1,368.4

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

Exports to Italy and Bosnia-Herzegovina were considerably reduced compared to the first two months of 2011. In Italy, it was reduced by a full 23.6%, and on the market of Bosnia-Herzegovina by as much as 14.6%. The reasons for this should be sought both in the difficulties in transporting goods in February, and in the drop of the foreign demand, especially from the Italian market which is in the zone of recession.

From the standpoint of imports, Serbia's most important foreign trade partners in the January – February period of 2012 were: Russia (431 million USD), Germany (274 million USD) and China (215 million USD). Italy fell to fourth place with exports to our country in the value of 211 million USD. The share of these four countries in total Serbian acquisitions from the foreign market in the observed year was as much as 40.8%. Imports from Germany increased by 11.3%, China by 5.8%, and Russia by 3.1% compared to the first two months of 2011. It is only imports from Italy that were reduced by 3.2%.

In the January – February period of 2012, the Serbian economy registered the most favorable foreign trade balance with the Russian market (-333 million USD). This accounted for as much as 24.4% of Serbia's total negative foreign trade balance. China is second according to its impact on creating the Serbian economy's foreign trade deficit. Thus, a deficit was registered with this country in the value of 212 million USD, which accounted for 15.5% of Serbia's total foreign trade deficit in the January – February period of 2012. Third according to the size of the registered negative balance in Serbia's foreign commodity trade in the mentioned period is Hungary (-93 million USD). The share of the Hungarian economy in creating Serbia's foreign trade deficit is 6.8%. Hungary is followed by Germany with which the negative foreign trade balance is 82 million USD or 6% of Serbia's total foreign trade deficit in the first two months of 2012. The share of these four countries was as much as 56.7 percent of the Serbian economy's total foreign trade balance in the January – February period of 2012.

Already by tradition, in the observed period of 2012 as well, Serbia registered a foreign trade surplus in commodity trade with Montenegro (64.5 million USD), Bosnia-Herzegovina (63 million USD) and Macedonia (27 million USD). However, what is disturbing is that a reduction of the positive foreign trade balance was registered with all the mentioned countries compared to the first two months of 2011. Thus, this drop was the mildest with the Montenegrin economy (0.6%), it was larger with the economy of Bosnia-Herzegovina (-9%), and more drastic with the Macedonian market (-42.3%). This is the result of the unfavorable weather conditions in February and the inability to meet the needs of consumers on these markets, but also of the drop in the arrival of orders.

(to be continued)