

# Weekly *Economic* Bulletin

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## ANALYSIS

### *Economic Trends in Serbia*

(Part IV)

- In February, both a nominal and real growth of average net wages were registered at both the monthly and annual level. An exception is only a comparison with the December average wages when they were artificially inflated because of the extraordinary pre-holiday payments, so the February level of average wages without taxes and contributions is, quite logically, far below the one registered in the last month of 2011, both nominally by 8.9%, and in real terms by 9.7%.

Having reached the figure of 40,033 dinars in the reporting month of this year, average net wages were higher nominally by 9.2%, i.e. by 8.3% in real terms compared to the preceding month. At the annual level (February 2012 / February 2011), registered was a nominal growth by 12.6%, and a real increase at a rate of 7.3%.

Such a large growth of salaries in Serbia, primarily at the annual level, is quite surprising, because the economic dynamics kept registering downfalls during the first two months. At the monthly level this growth in the level of average net wages can, nevertheless, partly also be explained with the impact of the seasonal factor. Namely, the wages paid out in January were much lower than it would have been the case if there had not been advance payments at the end of December for January, so it was expected for the February wages to be higher at the monthly level, true not at such pronounced growth rates. The pushing of the average wages to a higher point in February compared to January was largely contributed to by producers of tobacco products whose wages grew from 34,549 dinars in the first, to 75,976 dinars in the second month of this year, then the sector of the supplying of electricity, gas and steam (a growth of wages from 66,481 dinars to 75,981 dinars), as well as health care activities (a growth of salaries from 28,091 dinars in January, to 42,551 dinars in February).

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

- dinars-

	Average net wage	II 2012 I 2012	II 2012 XII 2011	II 2012 II 2011
<b>Serbia</b>	<b>40,003</b>	<b>109.2</b>	<b>91.1</b>	<b>112.6</b>
Serbia – north	44,581	108.8	91.5	112.5
Belgrade region	50,683	110.2	93.9	115.2
Vojvodina	38,071	107.2	88.3	109.2
Serbia – south	34,118	110.1	90.9	112.9
Šumadija and Western Serbia	33,269	109.3	89.2	110.8
Southern and Eastern Serbia	35,195	111.2	93.0	115.6

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

Observed by regions, in February average net wages were registered in the north of Serbia in the amount of 44,581 dinars, while in the south of Serbia they reached the level of 34,118 dinars. In this regard, the average net wage in the Belgrade region was 50,863 dinars and it was as much as 52.9% higher than the average net wage in the region of Šumadija and Western Serbia (33,269 dinars). This is an indicator pointing to the pronounced uneven regional development of the country.

Observed by activities, the highest average net wages in February 2012 were registered in the following activities:

- financial services, except insurance and pension funds (80,661 dinars),
- air transport (79,558 dinars),

- production of coke and oil products (77,764 dinars),
- supplying of electricity, gas and steam (75,981 dinars),
- production of tobacco products (75,976 dinars), etc.

*It is quite expected for the above mentioned activities to be at the top of the ladder according to achieved average net wages. Namely, at issue are activities which are propulsive or have a monopoly on the market.*

The lowest average net wage in the reporting month of 2012 were registered in the following sectors:

- cinematographic, television and music production (15,958 dinars),
- wood processing and wood products, except furniture (18,268 dinars),
- protective and investigative activities (18,796 dinars),
- accommodation services (19,577 dinars),
- activity of preparing and serving food and beverages (20,674 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;*

- **The level of inflationary trends in the Serbian economy was raised in February to higher points. Thus, at the monthly level consumer prices grew by 0.8%, while, in January, also at the monthly level, the growth of consumer prices was only 0.1%. This means that, since the beginning of 2012, inflation reached the point of 0.9%. At the annual level (February 2012 / February 2011), consumer prices grew by 4.9%, which means that their growth is still within the allowed limit for this year (the upper projected inflation rate is 5.5%).**

#### Consumer price index

	<u>II 2012</u> <u>I 2012</u>	<u>II 2012</u> <u>XII 2011</u>	<u>II 2012</u> <u>II 2011</u>
Total	<b>100.8</b>	<b>100.9</b>	<b>104.9</b>
Food and non-alcoholic beverages	101.4	100.5	101.5
Alcoholic beverages and tobacco	100.6	105.0	107.6
Clothing and footwear	99.5	99.5	104.0
Apartment, water, electricity, gas	100.3	100.7	109.5
Furniture, household appliances, current maintenance	100.7	101.3	109.0
Health care	100.3	100.3	103.3
Transport	101.4	101.9	107.9
Communications	99.9	99.8	105.1
Recreation and culture	100.8	101.8	105.2
Education	100.3	100.4	101.3
Restaurants and hotels	100.2	100.5	103.6
Other goods and services	100.3	100.5	107.4

Source: RZS data

The larger growth of consumer prices at the monthly level was the result of the growth of the prices of food (1.4%) and transport means (1.4%). Among food, the biggest was the growth of the prices of fruit (13.4%) and vegetables (4.7%). The group of transport, transport means (3.7%), automobiles (3.7%), as well as fuels and lubricants for automobiles (1.5%) contains predominantly those factors which pushed consumer prices upwards.

At the annual level, the largest growth of prices was registered in the case of housing, water, electricity, gas and other fuels (9.5%), furniture and household appliances (9%), transport (7.9%) and alcoholic beverages and tobacco (7.6%). This was largely contributed to by the excise policy of the Republic of Serbia, the trends of oil prices on the world market and the depreciation of the domestic currency.

It is clear from the above mentioned that there are threats that inflation could escape control and end up being outside the projected frameworks for this year. These threats are increasing with the sliding of the domestic currency's value, with the risk of the growing of current spending during the election campaign for the parliamentary elections, as well as external shocks, primarily linked to the trends of oil prices on the world market. Furthermore, one should also not neglect a possible shortfall of the agricultural crop this year, which could additionally push the prices of agricultural-food products upwards. Also, in view of the poor filling of the budget, quite realistic is also the option that, by the end of 2012, i.e. with the start of its last quarter, the VAT will increase, which would inevitably push inflationary trends higher than planned.

Nevertheless, there are also factors that mitigate the influence of the stimuli than intensify inflationary tensions, and this is primarily a low domestic demand, i.e. a low eroding purchasing power of the population, additionally weakened by the

growing unemployment rate. This means that all the stimuli-intensifiers of inflationary trends cannot be fully realized, so that businessmen will have to pay attention to the other side of the coin, this being the population's extremely low standard of living, so as to preserve at least the existing level of production, i.e. of the turnover. If the further considerable sliding of the exchange rate continues, it should not be ruled out that the NBS, after loosening the reins in conducting the credit and monetary policy, could tighten these reins once again and tighten the monetary policy, whereby the intention of the anchoring of the exchange rate would be also to have a beneficial effect on inflation trends. However, there will still be uncertainty as to whether the exchange rate will stabilize, because if investors assess that it is a bigger risk for them to do business on our market than is the yield on securities, this will not stop the depreciation of the domestic currency, but possible only its slower erosion, and, therefore, the somewhat mitigated rising of the inflationary tide.