

# Weekly *Economic* Bulletin

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## ANALYSIS

### *Economic Trends in Serbia*

#### *(Part IV)*

- The average net wage in Serbia in March 2012 was 40,562 dinars and it was nominally higher by 1.4% and 0.3% larger in real terms than in the preceding month. This mild and positive move at the monthly level was seasonally expected after the drastic drop in January and the slim growth in February. Also, more favorable economic trends were registered in March, which could produce higher earnings than those registered in the preceding month.

Observed at the inter-annual level (March 2012 / March 2011), average net wages were enlarged by as much as 13.4% in nominal terms, i.e. by 9.9% in real terms. This means that wages grew much above the achieved work productivity in the economy and that they were artificially pushed upward to higher points, mostly because of the metastasis of the public sector which produces un-earned salaries in state-owned companies and those which have become state-owned, through their generous subsidizing at the expense of taxpayers and future generations, without clear prospects for further development, and in some cases also without the survival of such companies on the market in general.

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

- dinars-

	Average net wage	<u>III 2012</u> II 2012	<u>III 2012</u> XII 2011	<u>III 2012</u> III 2011
<b>Serbia</b>	<b>40,562</b>	<b>101.1</b>	<b>91.8</b>	<b>113.1</b>
Serbia – north	45,597	101.8	93.3	114.2
<i>Belgrade region</i>	<i>51,029</i>	<i>100.3</i>	<i>94.5</i>	<i>115.0</i>
<i>Vojvodina</i>	<i>39,706</i>	<i>103.7</i>	<i>91.5</i>	<i>112.8</i>
Serbia – south	34,099	100.0	89.7	111.8
<i>Šumadija and Western Serbia</i>	<i>33,410</i>	<i>100.0</i>	<i>87.7</i>	<i>111.4</i>
<i>Southern and Eastern Serbia</i>	<i>34,945</i>	<i>99.8</i>	<i>92.2</i>	<i>112.3</i>

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

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

- managerial activities and consulting (115,821 dinars),
- manufacture of tobacco products (109,488 dinars),
- financial services, except insurance and pension funds (83,982 dinars),
- production of coke and oil products (82,300 dinars),
- advertising and market research (80,740 dinars), etc.

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

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

- protective and investigative activities (16,979 dinars),
- cinematographic, television and music production (17,222 dinars),

- activity of preparing and serving food and beverages (20,398 dinars),
- repair and assemblage of machines and equipment (20,447 dinars),
- manufacture of clothing items (20,608 dinars), etc.

In this case, at issue are predominantly work-intensive activities with less skilled labor, but also activities where the process of restructuring and privatization proceeded in an unplanned manner, 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 amount of 45,597 dinars were registered in the north of Serbia in March, while in the south of Serbia they reached the level of 34,099 dinars. In this regard, in the Belgrade region the average net wage was 51,029 dinars and it was as much as 52.7% higher than the average net wage in the regions of Šumadija and Western Serbia (33,410 dinars).

- **In March, a considerable growth of consumer prices was registered at the monthly level. Thus, the inflation rate in the reporting month was 1.1% compared to February and it was at its highest point since the beginning of the year. For example, in February inflation was 0.8%, and in January it was only 0.1%. Such a major move in the growth of inflationary pressures in the Serbian economy in the course of March 2012 was the result of the growth of consumer prices in the spheres of transport (3.7%) and food (1.4%). Within transport, the primary impulse to the growth of consumer prices was given through the prices of fuels and lubricants for passenger automobiles (6.9%), and in the sphere of food this stimulation came through milk, cheese and eggs (5.8%) and fruit (4.5%).** The increase in the price of fuel is the result of the growth of the price of oil on the world market, as well as the state's excessive excise burdens through oil products, and the growth of the prices of food is more the result of the impact of the season, due to the approaching of the Easter holiday and the appearance of the first spring fruit, mostly imported, which means that the depreciation of the dinar had an additional effect on the growth of consumer prices.

**The strengthening of inflationary tensions in March this year resulted in the growth of consumer prices in the first quarter of 2012 ending at the level of 2%. At the inter-annual level (March 2012 / March 2011), the inflationary thermometer reached the disturbing level of 3.2%. With the further depreciation of the dinar, there is a realistic danger that this year's projected inflation of 5.5% will not be achieved, i.e. that the inflationary dragon will once again exceed this upper projected line.**

#### Consumer price index

	<u>III 2012</u> II 2012	<u>III 2012</u> XII 2011	<u>III 2012</u> III 2011
Total	<b>101.1</b>	<b>102.0</b>	<b>103.2</b>
Food and non-alcoholic beverages	101.4	102.0	97.5
Alcoholic beverages and tobacco	100.1	105.0	101.8
Clothing and footwear	99.8	99.3	104.2
Apartment, water, electricity, gas	100.8	101.5	109.8
Furniture, household appliances, current maintenance	100.8	102.2	109.8
Health care	100.4	100.8	102.2
Transport	103.7	105.7	111.3
Communications	99.7	99.5	104.7
Recreation and culture	98.5	100.4	103.2
Education	100.1	100.5	101.3
Restaurants and hotels	100.4	100.9	103.3
Other goods and services	100.8	101.3	107.2

Source: RZS data

At the annual level, the largest growth of prices was registered in the case of transport (11.3%), apartment, water, electricity, gas and other fuels (9.8%) as well as furniture and household appliances (9.8%). This was largely contributed to by the excise policy of the Serbian government, the trends of the price of oil on the world market and the depreciation of the domestic currency's value, and to a lesser extent of the seasonal factor, as is the case with furniture, household appliances, and current apartment maintenance.

From the above mentioned it is clear that there is the danger of inflation escaping control and ending up outside the projected frameworks for this year. This danger is increasing with the sliding of the value of the domestic currency, 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 the oil price on the world market. Furthermore, one should also not neglect a

possible shortfall in this year's agricultural crop, which could additionally push the prices of agricultural-food products. Also, a realistic option, in conditions of the poor filling of the budget is also for the VAT to increase by the end of 2012, i.e. with the start of its last quarter, which would inevitably push the inflationary trends to higher horizons than planned. However, there are also factors that are mitigating the impact of the stimuli that are intensifying the inflationary tensions, and this is primarily the low domestic demand, i.e. the population's low, eroding purchasing power, additionally weakened by the growing unemployment rate. This means that all the stimuli-intensifiers of inflationary trends cannot be fully realized, but, nevertheless, they can be sufficiently strong to push inflation above the projected 5.5% for this business year.