

Weekly Economic Bulletin

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Dear readers, every two weeks, V.I.P. will be publishing, within the Weekly Economic Bulletin, a special supplement devoted to the agriculture policy. The supplement will deal with agricultural issues, it will present the latest data, as well as projections of the trends of agricultural production, i.e. the supply, demand and prices, both in general and in an analytical manner. Each supplement will have a topic of the issue.

Key monthly monetary indicators*

May 2011

Money supply (M1) ** in RSD: 233,426 billion

Money supply (M1) in EUR: 2,407 billion

Extent of money supply in cash: 32.4%

Money supply (M2) in RSD: 387,007 billion

Money supply (M2) in EUR: 3,885 billion

Current foreign currency reserves in the NBS:

EUR 10,064 million

Current foreign currency reserves in the NBS and in commercial bank accounts: **EUR 11,294 million**

Household savings in RSD: **13,617 million**

Foreign currency savings in RSD: **697,144 million**

NBS discount rate: **11.75%** (per annum)

June 2011

Monthly inflation rate: **-0.3%**

* According to the National Bank of Serbia

** Local self-government deposits included

Key economic indicators – Serbia

GDP in Serbia: EUR 28,815 million (2010)¹⁾

GDP per capita: EUR 3,936 (2010)¹⁾

Exports (May 2011): 967.4 USD million

Imports (May 2011): 1,721.5 USD million

Trade balance (Jan - May 2011): - 3,338.3 USD million

Average wage (May 2011): RSD 49,064

Average wage without taxes and contributions (May 2011): RSD 35,362

Serbia	May 2011/ April 2011	May 2011/ May 2010	Jan - May 2011/ Jan - May 2010	2010 / 2009
GDP (constant prices, 2002)	-	-	-	+1.8% ¹⁾
Industrial output (original series)	+4.3%	+6.8%	+5.1%	+2.9%
Average wage without taxes and contributions ³⁾	-10.4%	-6.8%	-3.1%	-2.5%
Exports	-6.5%	+23.3%	+30.5%	+17.4%
Imports	+3.8%	+34.7%	+25.0%	+4.2%
Trade balance	+21.0%	+52.8%	+18.1%	-10.0%

1) NBS estimates

2) Real wage average growth rate.

TOPIC OF THE ISSUE

Two Approaches to Saving

The issue of where saving can be achieved is not a technical, but a political question. A liberal approach implies, among other things, a reduction of subsidies, greater competition and the privatization and commercialization of public enterprises. The traditional socialist approach protects the state sector and subsidies at the cost of reducing social transfers and employees' salaries and the postponement of public investments. This is usually an unsustainable method of fiscal adjustment, so, in the end, it is either taxes that are increased or the reduction of the obligation based on social transfers and salaries is realized through faster inflation, writes Vladimir Gligorov, for the monthly magazine *Business & Finance*.

In Serbia, public spending is somewhere around 44 percent (according to the Fiscal Council's latest report, 46 percent) of the gross domestic product. This is a little less than in the period before the crisis, because public spending was somewhere around 46 percent of the GDP a couple of years before the crisis. It should be said immediately that this means that at the time of the crisis, meaning in the period since 2009, a pro-cyclic fiscal policy was conducted, or in other words, a policy of saving (even if its share in the GDP) has not been reduced.

As it is pointless to speak about spending without taking revenues into account, in 2011 public revenues reached the level of 39 percent of the GDP (according to the Fiscal Council 41%), and they were somewhere around 44 percent in 2008. This means that the fiscal policy was anti-cyclic when speaking of public revenues. The government financed part of the public spending with borrowing, and not an increase in taxes. If both sides of the consolidated budget were to be taken into account, one could say that the fiscal incentive would be somewhere between one and three percentage points of the gross domestic product. Or, if one takes into account the fact that the GDP was somewhere around 30 billion euros on the average over the past three years, that is somewhere between 300 and 900 million euros annually or, in total during the three crisis years, probably a little less than 2 billion euros. Of course, the public debt increased much more since the obligations stemming from the inherited debts have been refinanced. Therefore, at the time of the crisis the fiscal policy that was conducted went in the direction of reducing the tax burden, reducing public spending and increasing the public debt.

When does a public debt become unsustainable?

Such a fiscal policy is strategically meaningful if the fiscal deficit and the accumulated public debt are expected to be consolidated later, in the period of economic recovery, due to accelerated economic growth and with a reform of both public spending and the tax system. The problem occurs if this recovery is lacking or if a prolonged period of stagnation or even a repeated recession takes place. Because, what arises is the need to increase the tax burden or to reform the rights in order to reduce public spending, while on the rise is the risk that it will not be possible regularly to repay the public debt. This latter is true for the

following reason: at the time of a crisis, economic growth is negative or very slow, and the growth rate is quite certainly lower than the interest rate, due to which the public debt grows faster not only than public revenues, but also faster than the GDP. If, however, economic recovery is lacking, the interest rates with which public debts are refinanced will even grow, which will considerably increase the burden of financing the public debt, due to which it will become unsustainable.

What does unsustainable mean? On the one hand, at issue is a permanently faster growth of the public debt than public revenues, which means that the debt simply cannot be repaid. On the other hand, it is not necessary for readiness, political and social, to exist in order for public spending to be reduced as much as it is necessary for the accumulated debts to be repaid. This is an even greater problem if the share of the foreign debt is considerable or if the public debt is indexed in foreign money. In Serbia, there is a significant share of the foreign creditors, and the debt in domestic money is either indexed in euros or it is burdened by extremely high interest rates.

That part of the public obligations and the budgetary burden can be reduced either with a write-off or with the restructuring of the repayment terms – with the payment only of interests over a certain period of time – or with the reduction of the interest rate. The latter is hard to achieve unless economic growth is accelerated and the fiscal deficit reduced, therefore, unless additional borrowing is halted. The problem, of course, lies in the fact that the reduction of public spending or an increase in the tax burden, for the sake of eliminating the fiscal deficit, are inclined to have a negative effect on economic growth. They can be avoided if the periods of recession or economic stagnation are used for reforms of business institutions, so that increased borrowing does not finance only spending, but also increased competition on the domestic markets and competitiveness on foreign markets. If this does not take place, as was the case with Serbia's economic policy over the past three years, then . fiscal consolidation can even be an obstacle to the necessary reforms that should stimulate economic growth. In such circumstances a certain kind of financial and fiscal crisis is almost inevitable, because what will ensue is the inability to service not only the public, but the private debts as well.

Regardless of whether the debts will be regularly settled or not, public spending will quite certainly have to be reduced. The level of 44 percent of the GDP is too high for relatively under-developed countries such as Serbia. This level of public spending is larger than the level in most comparable countries both in the region and in other transition countries (with the exception of Hungary). Also, according to the structure of public spending, Serbia's consolidated budget is more generous when speaking of social transfers and salaries for persons employed in the public sector. Together, these two items account for around 30 percent of the GDP (around 20 percent are social transfers and a little more than 10 percent the salaries of employees). The remaining 10 or so percentage points go for interests, transfers between different budget centers, the purchase of goods and services (public procurements) and subsidies.

On which items is it possible to save?

When spending is compared to revenues, one can see that contributions cover only around half of the expenditures for social transfers. In question here is primarily the difference between contributions to the pension fund and expenditures for pensions. At issue is around 10 percent of the GDP, which is somewhere around 3 billion euros. In the structure of tax revenues, the biggest is the contribution of indirect taxes, i.e. primarily the VAT, and a relatively small and declining contribution is that of the capital income taxes. So, the biggest effect on the side of public spending can be achieved with a reduction of expenditures for social transfers and salaries, and on the side of revenues with an increase in the value added tax rate. Of course, if public expenditures were to be reduced, an increase in taxes would not be necessary. A reduction of public spending should be at least 5 percentage points – around 1.5 billion euros – in order to reach the level of the present tax revenues. An additional reduction would be necessary if a smaller tax burden would be aspired to, which would quite certainly have a stimulating effect on economic growth.

Where is it possible to save? This is not a technical, but a political issue. Two approaches are possible here. One is to aspire towards the liberalization of business operations, but paying attention to the social consequences. Let us call this a neo-liberal fiscal policy. This would require a reduction of subsidies – a little less than 3 percent of the GDP – and a considerable reduction of indirect spending, to the extent to which this includes public procurements and the losses of public enterprises, all of which accounts for a little more than 7 percent of the GDP. Together, this would ensure the necessary fiscal adjustment. If subsidies were to be fully abolished and if the losses of public enterprises

would not be financed, this would probably be sufficient fully to eliminate the fiscal deficit. This would, of course, imply neo-liberal structural reforms – larger competition, and the privatization and commercialization of public enterprises.

The second approach is, conditionally speaking, statist (or traditionally socialist). If the desire is to preserve the state sector and subsidies, it is not possible to avoid a reduction of social transfers and employees' salaries. This includes proposals for salaries to be frozen, and also to reduce the number of employed persons financed by the budget. This is usually also accompanied by a delay of public investing, which now accounts for between 3 and 4 percent of the GDP in Serbia. This is usually an unsustainable method of fiscal adjustment, so, in the end, it is either taxes that are raised or the obligations resulting from social transfers and salaries are reduced through accelerated inflation.

At issue here is only the harmonization of public spending with the current public expenditures. If a reduction of both spending and revenues to the level of around 35 percent of the GDP were to be aspired to, which is the case in countries with a comparable level of development, this would imply not only the abolition of subsidies and the covering of the losses of public enterprises, but also the harmonization of contributions with social transfers and the reduction of expenditures for salaries, for example by some 3 to 4 percentage points. This would imply a type of new social agreement, primarily on inter-generational justice – how much should the young save and the elderly spend – and on the risk that is left to the market and the one insured by the state.

FACTS& FIGURES

Health Insurance Fund Director: Health System About to Go Bankrupt

Revenues of the Health Insurance Fund dropped significantly, so the rights of some groups of patients would be reduced, the fund director Aleksandar Vuksanovic said to Belgrade-based *Danas* daily on Thursday.

“The fund has EUR 400 million less than it had back in 2008. In addition, in 2008 there were 2.1 million people registered for health insurance as employed ones, and the employers were paying in the health insurance for the most of them. Today, there are 1.6 million of employed people, and the employers do not pay in the health insurance for most of them, which have a dramatic impact on the fund's revenues,

which is financed from the contributions that we, as the insurees ourselves, pay in,” Vuksanovic said.

He also pointed out at inequality in performing the rights between various groups of patients.

“Some groups of the patients, which are organized in a better way and who are backed by the trade and the public, have the rights to therapies, aids and generally speaking to medical treatment in line with the most advanced trends of the medicine in the world; we back it naturally, but on the other hand, some other groups of patients, who are poorly organized, do not have such a level of medical care quality,” he said.

“It has resulted in inequality in the insurees who – according to some principles of ethics and laws – should have the same or almost the same rights,” Vuksanovic said.

In Brief

Montenegrin Government announces report on effects of saving measures for mid-July. Montenegrin Government would publish a report on the effects of the saving measures, which were introduced by previously determined rebalance of the budget, by the middle of July, it was announced on Saturday. *Beta* news agency reported that Montenegrin public was mostly interested whether the salaries of the directors of state-owned companies were reduced as a part of the saving measures, since some of them, according to the local media,

had extremely high salaries for this part of the Europe, from 4.000 to 10.000 EUR. Rebalance of the budget, which was enacted in the Parliament due to the economic crisis, prescribed that the salaries of the heads of state-owned companies and other officials could not be higher than three average net salaries.

Official number of unemployed stagnates, factually on the rise. There are a total of 762,000 persons without work

according to the National Recruitment Office and this figure remains stable, as it has hardly changed since last year. However, a survey regarding the workforce has revealed that unemployment has actually progressed meanwhile, head of the National Recruitment Office Dejan Jovanovic told news agency *Beta*.

EU supports Serbian Energy Agency. The Serbian Energy Agency (AERS) marked on Tuesday the launching of the EU twinning project aimed at strengthening the Agency's capacity in fulfilling obligations in compliance with the new Law on Energy, the EU accession process and Energy Community Contract. The 2011 Law on Energy has widened AERS authorities, and the EU project worth 1.5 million euros stands as support to these obligations. The project that aims to

further boosting of the overall energy sector in Serbia will last 18 months, and will be jointly carried out by a Slovak-Serbian team of experts.

Minimum consumer basket in Montenegro 789 EUR. The minimum consumer basket in Montenegro is valued at 789 EUR, 2.1% more than in the same period last year, announced the Statistical Office of Montenegro – Monstat. Almost two average Montenegrin salaries are necessary to cover the price of the minimum consumer basket, since the average salary in Montenegro in May amounted to 487 EUR, according to the data of Monstat.

ANALYSIS

Economic Trends in Serbia

(Part I)

1.1. Global Assessment of the Economic Situation

The business climate in the Serbian economy additionally deteriorated at the end of April and the beginning of May 2012. The conditions for doing business deteriorated due to the unstable political situation and the bitter fruits of an irresponsible economic policy over the past 4 years, and which is demonstrated through the high temperature of the dinar's exchange rate and the consumer prices. Therefore, what is reigning in the business environment of the Serbian market is uncertainty and increased nervousness and as the period of the formation of the new government keeps being prolonged, the psychosis on the market will intensify, and the mentioned high temperature will grow, threatening additionally to destroy Serbia's already weak economic organism. The illiquidity in the economy is deteriorating, the trend of the weakening of the domestic and the foreign demand is continuing, unemployment and the country's total public debt are growing, while the utilization of the production capacities is dropping. Credits are expensive and in view of the further sliding of the value of the domestic currency, in the event of the formation of the new government taking long or if the newly formed government does not act in accordance with the needs of the economy or does not react timely, there is a realistic danger that credits will be even more expensive if the National Bank of Serbia (NBS) tightens the present credit and monetary policy for the sake of the mild refreshing of the dinar's exchange rate and at least a small mitigation of the pressure on consumer prices. Therefore, the described business conditions in Serbia have all the characteristics of the Greek crisis of a smaller intensity with the justified danger that this Greek tragedy will be played, in its full capacity, on the Serbian market space as well.

Apart from the mentioned elements, one should also point to those that are not characteristic only of the observed period, but also of the entire transition period to a smaller or larger extent. Thus, since the beginning of the transition, i.e. since the year 2000, we have been witnessing the fact that an alienated bureaucracy and an abundance of procedures and paperwork, as well as para-fiscal burdens are what constantly kept swelling and increasingly becoming an obstacle to business operations in Serbia. This produced corruption by which Serbia is, unfortunately, recognizable both in domestic and in foreign business circles, whereby we have made difficult the access of foreign investments on the Serbian market. This negative branding of Serbia was also contributed to by the non-transformed judiciary. Furthermore, the inefficient state institutions are quite passive in punishing the monopolistic-cartel structures in certain parts of the domestic economy, especially parts of the agricultural-food complex, banks, and so on, which, along with generous state subsidies to companies that have become state-owned or some other private companies, either domestic or foreign, is hindering the possibility of the development of healthy competition and is enabling the creation of extra profit and the spending of money from the state coffer quite arbitrarily in the case of certain state-owned companies, or those that have become state-owned, or in the case of incentives for attracting new investors to the domestic market.

The Serbian economy now needs a crisis management which will start seriously resolving the above described accumulated problems. This requires expertise and devotion to work for the sake of general good, and not petty-politics and the placing of particular interests on a pedestal. As Serbia is not only in an economy crisis, but in a social one as well, it is necessary to put together brains from all fields of life who would propose measures for emerging from the crisis situation. In order for this to come true it is necessary to make a total turnabout from the current economic policy which is based on a neo-liberal concept and from the political capitalism which is the side-effect of this concept. This political capitalism represents a political elite that is alienated from its population and a perception of one's work and existence on the political scene primarily for the sake of realizing one's personal or group interests, and not general interests. The only ideology which is the supreme arbitrator in the milieu of political capitalism is money and until such an ideology is abandoned it will not be possible to expect a change of the climate of trust in the society and its emerging from the crisis which it is in as a whole.

June 21, 2012

At the end of April 2012, negative trends in the Serbian economy were predominantly registered at the monthly level. This is also pointed to by the following indicators: the physical volume of industrial production, total orders, exports, the foreign trade balance, tourist turnover, foreign debt, total foreign currency reserves and consumer prices.

Contrary to this, a positive move was registered only in the dynamics of retail trade and the size of average net wages.

1.2. Analytical Assessment of Economic Trends

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

- The physical volume of industrial production was reduced by as much as 6.2% in April compared to March this year. However, when the pronounced seasonal factor is excluded from the analysis, a positive move by 1.1% is, nevertheless, registered. However, this is not sufficient for the dynamics of industrial production to step over into the positive growth zone at the annual level. Namely, in April this year compared to the same month in 2011, the level of production activities in Serbia was reduced by 2.2%, and when observed cumulatively through the first four months of 2012 compared to the corresponding period in 2011, the observed indicator was reduced by as much as 4.7%. Therefore, the Serbian industry is in a deep recession, with prospects for the further reduction of production at the former Sartid and the increasingly weak impulses from the foreign market, in the existing unfavorable domestic business environment, one cannot expect the present negative trends to be halted. They can now be mitigated with the launching of Fiat's production in Kragujevac, but they can quite certainly not be turned around towards a positive growth zone. Due to the expected considerable real drop of the population's purchasing power in the upcoming period, the domestic personal demand will additionally weaken, which will also reduce the consumption of food products and will, quite certainly lead to the smaller utilization of the production capacities in this sector. The growing erosion of the population's purchasing power and the growth of unemployment will have an especially negative effect on the dynamics of the production of durable consumer goods, primarily furniture. Therefore, a negative dynamics of the physical volume of industrial production will become a certainty in Serbia by the end of 2012.

Dynamics of industrial production by commodity groups in Serbia

	-Indices-		
	IV 2012 III 2012	IV 2012 IV 2011	I - IV 2012 I - IV 2011
Energy	95.2	92.9	95.2
Intermediary products, except energy	97.8	95.0	91.1
Capital goods	63.8	95.6	92.8
Durable consumer goods	96.1	112.5	99.9
Non-durable consumer goods	96.0	104.9	100.2
Industrial production – total	93.8	97.8	95.3

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

As there are no new investments, and the macroeconomic situation in the country has deteriorated, while unfavorable winds are blowing from the international environment, one should expect the negative trends in the dynamics of production activities in Serbia to continue until the end of the year;

- **The dynamics of the inflow of both domestic and export orders registered a drop in April 2012 as well.** This negative dynamics in the reporting month was somewhat more pronounced than in March, which primarily refers to the dynamics of the foreign demand, due to which there was a drop in export activities at the monthly level. A negative dynamics of the demand from the domestic and foreign market is present at all the commodity groups (means of labor, intermediary products and consumer goods).

(to be continued)

BANKING SECTOR

Banks Agree to Monitor Salaries

As of July, commercial banks will have to start supervising the payment of taxes and contributions on the salaries of employees, writes *Dnevnik*.

Fortunately for those who work and receive salaries, even if the employer does not pay in all the obligations he has under the law, bankers will be able to pay out the money to the

employees or clients will be able to dispose of it through payment cards, checks or money orders.

When it was announced half a year ago that commercial banks would have to monitor the payment of taxes and contributions on salaries, those responsible at the Serbian Tax Administration explained that **the employees whose employer had not paid in everything he had been obliged to pay along with the salary – would be left without their salaries**. Namely, it was explained at the time that, before the payment is made, banks will have to check whether all the obligations resulting from taxes and contributions had been fulfilled.

If it turns out that this is not the case, they will not be able to place incompletely paid money at the employee's disposal. The future regulation provoked a storm of protests already when first mentioned. Employers complained about the fact that **in the midst of the financial crisis they could not pay all at once the salaries, the burdens and the obligations accompanying them**, accounting agencies said this would make life complicated for them, because companies had accounts in several banks, which would make the supervision extremely complicated for both them and for the clients.

Employees whose employers do not pay out the entire salary with contributions became afraid that they would not receive their salary. **Estimates show that, in that case, around half a million employees would be left without a single dinar**, because a third of the employers do not pay in the taxes and contributions. They were the most direct at the Association of Banks. Nowhere in the world are banks entrusted with this type of supervision, so they will not do so in Serbia either. The collection of taxes is a state job *par excellence* and this should be done by tax collectors.

From the first idea to the implementation, which is to start in some fifteen days' time, **it seems that everyone will give in a little**. At the Serbian Tax Administration they have become aware of the fact that such a system of comprehensive supervision cannot be developed overnight. They are now working on a system that is to start functioning next year. Apart from banks and tax collectors, it will also include the Treasury administration and the Central Register of obligatory social insurance.

Tax collectors will monitor the payment of taxes and contributions, and through unified supervision, bankers will be able to follow information of tax collectors. A supervision system conceived in such a manner is expected to simplify the collection and to increase the recoverability of the mentioned state revenues. Employers will have one account for the payment of taxes and contributions, tax collectors will book this money through an order which the commercial bank will have insight into

As of July 1, banks will be sending the Tax Administration information about paid salaries each day, so that this state institution will be able to control, on a daily basis, whether employers are paying taxes and contributions, said the secretary general of the Serbian Bank Association, Veroljub Dugalić.

Banks used to send such reports on a monthly basis, but once this starts being done every day the Tax administration will be able to react much faster even in situations when taxes and contributions are not paid.

According to him, it has been agreed with the Finance Ministry and the Tax Administration for this administration to prepare, in the course of the year, a mechanism for monitoring taxes and contributions, so that banks will be able to check out whether the employer had made the payment and whether he is paying out salaries after that.

In Brief

Nova Agrobanka included in BSE. Nova Agrobanka announced on Wednesday that it had taken over equity securities accounts from all clients of Agrobanka, whose work license had been revoked. Agrobanka had its work license revoked in May due to its failure to consolidate its operations even after receivership had been introduced to it. Agrobanka's former clients can now continue to trade in securities through nova Agrobanka or they can, free of charge, choose another investment company with which they would sign a contract on equity accounts, since the Belgrade Stock Exchange had issued a decision to Nova Agrobanka on acquiring BSE membership status. Nova Agrobanka's owner is Deposit Insurance Agency. Agrobanka's accumulated losses are estimated to almost EUR 290 mln.

NBS on outflow of investments in first trimester: Only current situation. The outflow of direct foreign investments from Serbia in the first trimester of this year amounted to 371.6 million EUR, which is only the current balance reflecting the withdrawal of the Greek telecommunications

company OTE from Telekom, *euraactiv.rs* reported on Monday, quoting the National Bank of Serbia (NBS). The government purchased 20% of Telekom shares from OTE for 380 million EUR, and now owns 100% of shares of this company.

Danube Foods Group considers a possibility to appear at LSE. Salford Investment Fund considers a possibility to appear at the London Stock Exchange with one of Serbian companies which operate as a part of Salford's Danube Foods Group, Salford CEO Slobodan Petrovic said. "We have not yet decided whether these will only be dairy producers Imlek and Suboticka mlekar, or whether it will be both foods and beverages, i.e. a mineral water factory Knjaz Milos and a confectionery industry Bambi-Banat", Petrovic told the monthly *Magazin Biznis*.

Number of leasing contracts drops by 11.9%. The number of leasing contracts of the citizens was decreased by 11.9% in the first five months this year from 9.182 to 8.809, the figures from Serbian Association of Banks (UBS) showed.

Also, the number of users of leasing contracts dropped by 12.5% during the same period.

Poll: Banca Intesa most successful bank, Dunav osiguranje top insurance company. Banca Intesa is the first on the list of largest banks in Serbia by assets, whereas Dunav osiguranje leads the chart of insurance houses, a poll conducted by magazine *Biznis i finansije* revealed. Banca Intesa is first both by assets and by gains. Seen by the same criteria, Komercijalna banka is second on the list, followed by UniCredit, Raiffeisen and Societe Generale. By profit amount, Raiffeisen is second, followed by UniCredit, Komercijalna and AIK bank. Of the side of insurance companies, the second strongest by assets is delta Generali, followed by DDOR Novi Sad, Wiener Stadtische and Grawe osiguranje. Taken by the criteria of profit, Delta Generali is first, followed by Dunav Osiguranje, DDOR Novi Sad, Dunav-RE and Wiener Stadtische. The ranking of banks and insurance companies has been elaborated on the basis of

data from the balance assets sheet on January 31, 2011 and figures of the National Bank of Serbia for the first quarter of 2012.

Only around 10% of employees invest in pension funds. Only 58,000 citizens, or around 10% of the total number of citizens employed, invest monthly into one of the nine voluntary pensions funds working in Serbia, shows the data of the National Bank of Serbia. The participation of users of pension funds in the entire population is only around 2.4%, but is constantly increasing, NBS announced.

Public Debt Directorate sells off 14.73% of two-year treasury bills. The Public Debt Directorate of the Ministry of Finance has auctioned off 14,73% of the two-year treasury bills on Wednesday. The bills have been sold at discounted 14.45% rate per year, and become due for payment in May of 2014.

FUNDS

New Era for Investment Funds in Serbia

(Part II)

The opening of the possibility for Funds to invest in gold on the world market, the global share index, and growing sectors such as new technologies and in regions such as Asia, have also opened up new possibilities for domestic investors who have so far been tied to trends in the Serbian economy and the prices of real estate in the country. At this moment, the Funds investing in shares and bonds account for a little more than 6 million euros or less than 1 EUR per capita, far less than in neighboring countries, writes Igor Popović, the main portfolio manager of Ilirika DZU in the magazine *Business & Finance*.

There are several things that can set in motion the investment fund industry in Serbia. In order to restore the trust of investors that was shaken during the financial crisis, funds need to show, through yields, that they are better than alternative forms of investing, this being, in Serbia, saving in euros, which accounts for over 7 billion euros. In view of the much greater diversity of the placements and the experience which this industry has acquired, these yields are possible in the upcoming years.

For balanced funds, the development of the bonds market, as well as municipal bonds, would represent the necessary additional instruments in which funds can develop. For their part, for the companies that issue their bonds on the Belgrade stock exchange, funds represent a source of liquidity. They can, thus, help reduce the illiquidity of the economy if, in the upcoming period, the funds reach the level of the countries in the region from the previous examples.

Also, the financial system in Serbia is, like in some other European states, focused on banks, so funds and other participants in the capital market are frequently faced with regulations that is making their position more difficult. One of such example is the exclusive possibility of investing in

dinars for residents of Serbia. This in practice represents a problem for many investors who do not wish to convert their foreign currency savings two times from one currency to another, which raises their transaction expenses and, for many, represents a psychological barrier for investing in funds. The possibility of investing in euros exists for non-residents and they use it to a large extent, while, on the basis of contacts and remarks by potential domestic investors, we

presume that they too would use it to a large extent if this were to be made possible.

For now, investment funds in Serbia can invest part of their property in closed investment funds which are exposed to fast growing developing markets, such as, for example, Asia, or in the shares of companies like Apple, for instance, which has most of its production in China, and whose product market is of a global nature. We hope that in the further improvement of regulations it will be made possible for funds in Serbia to invest directly in shares on fast growing, developing markets, as is being done by funds in the EU countries and states in the region.

The further development of the investment fund industry and the regulations accompanying them will offer investors a form of investing which, in developed countries, represents a significant part of the financial market. In general, investment funds can play a positive role in the financial system and the economy in several ways. On the other hand, through professional management they should offer a large number of citizens, as well as small and medium-sized enterprises, the yields that used to be accessible only to financial institutions and big businessmen. On the other hand, through their placements in shares and bonds that are presented on the stock exchange they carry out the allocation of capital and finance the activity of successful companies which form the domestic economy. In order for funds to be able to perform their activity like in developed countries they have to achieve much larger yields in the upcoming years and to enlarge their property to a bigger share in Serbia's financial system.

Igor Popović is the main portfolio manager of Ilirika DZU Belgrade, a company managing investment funds. Ilirika DZU manages 5 out of a total of 15 open investment funds in Serbia, including the Ilirika Gold funds, which follow the price trends of gold on the world market, and the Ilirika Dynamic fund, which invests in the leading world companies engaged in information technologies, the internet, biotechnologies and green energy. Open investment funds for the growth of the value of property are intended

for investors with a longer horizon of investments and a greater tolerance to risks, and, accordingly, they expect a higher long-term profit. The Ilirika Group manages over thirty funds in Slovenia, Croatia, Serbia, Bosnia-Herzegovina and Macedonia and with over 50 million EUR worth of property it represents one of the biggest fund groups in the region.

BUSINESS

In Brief

Serbia's energy efficiency is two to three times lower than the EU one. Serbia spends two to three times more energy in relation to GDP than the EU average, Acting Director of the Energy Efficiency Agency Bojan Kovacic said on Wednesday. In total quantities, Serbia does not spend much energy, when compared to the region and the EU, per capita either, but the problem is bad energy efficiency, he told the journalists. This is indicated by a relation between the energy consumption and the added value unit, i.e. GDP: Serbia's energy intensity was 0.80 in 2002, 0.63 in 2006, and it is now around 0.50, compared to, say, Germany, whose energy intensity is around 0.16, Kovacic said.

Djilas: PKB will this year reach a EUR 10 mln profit. PKB Corporation Belgrade will terminate 2012 with about EUR 10 mln profit, the Mayor of Belgrade Dragan Djilas said on Wednesday. Anniversary of this agricultural company's transfer to the City of Belgrade's ownership was marked on Wednesday.

Possible discontinuation of raspberry harvesting if there is no agreement on purchase price. Should the agreement on purchase price fail to be reached, all associations in the Morava and Zlatibor regions will discontinue raspberry harvest, representative of the Srpska malina producers association Milan Djukic said. The purchase price offered to producers is "shameful", he told *Tanjug*, stating that the purchase price should be EUR 1.60 per kilogram. Purchasers, however, offered at this region on Tuesday only RSD 55 per kilogram for purchase on the field, and RSD 100 for raspberries transported to refrigerators. This year's raspberry's yield will, according to the Statistical Office's estimations, be 94,600 tons.

Raspberries harvest expected to yield 94,600 t. This year's raspberry harvest should yield 94,600 tons, according to estimates, up by 5,000 tons from 2011, representative of the Serbian Chamber of Commerce Vojislav Stankovic declared. He told news agency *Tanjug* that the raspberry buyout price presently amounts to 100 dinars per kilo, underlying that producers asked 1.22 euros for the buyout during the initial stage and are now asking for 1.44 euros the kilo and "this year again demand that the government grants them a 20% export subsidy". According to estimates of the Office of Statistics, the area under raspberries amounts to 15,332 hectares, and the expected yield is 6.17 tons.

Ministry: Excess wheat bound for export. Following the forthcoming harvest, Serbia will garner enough wheat to stratify domestic needs, whereas certain quantities will be allocated to export, deputy agricultural minister Milos Milovanovic declared. Based on the sown area (around 472,000 hectares) and on yield estimates, experts expect 1.8 million tons of fresh wheat harvest, much more than the country's needs, Milovanovic told reporters in Novi Sad.

A.T. Kearney: Serbia in the escalating consumer income group. Serbia is currently in the escalating consumer income group of countries, with a potential to upgrade to the status of an established consumer income country, according to A.T. Kearney's Global Consumer Institute. Institute's Consumer Wealth and Spending Study - a study of worldwide spending patterns that addresses how people in different markets spend their money and how their spending changes over time - is based on a detailed statistical and economic analysis of 70 consumption categories in 86 countries. About 600 million people fall into the escalating consumer income group and they spend about USD 2.5 trillion a year. In 2020, the population of this group will be roughly the same, but spending will increase by USD 1.1 trillion, or roughly 10 percent of spending growth worldwide, the study claims. Beside Serbia, countries in the escalating consumer income group are Argentina, Bosnia-Herzegovina, Bulgaria, Croatia, Estonia, Guatemala, Hungary, Iran, Latvia, Lithuania, Macedonia, Mexico, Poland, Romania, Russia, Slovakia, Turkey, Turkmenistan, and Uruguay.

APR: NIS Most Successful Company in 2011. The most successful company in the country last year was the Oil Industry of Serbia (NIS), the Business Registers Agency (APR) announced on Friday. The hundred most profitable companies recorded almost half the net profit of the local economy and accounted for 23.5% of the basic financial performance, and with 11.2% of the employees. NIS recorded an earning of 192 bln dinars in 2011, with a net profit of 41 bln dinars, which is an increase of 146.3%. NIS was followed by the Serbian Electrical Power Company (EPS), with 126 bln dinars in revenue, and Telekom Srbija with 87 bln in revenue.

U.S. Steel records largest net loss in 2011. The U.S Steel company recorded the largest net loss, 16 bln dinars, in 2011, the Business Registers Agency reported. It is followed by the Galenika pharmaceutical company with a loss of 12

bln dinars. The companies with the greatest losses account for half the net losses, and employ 7.4% of the total number of employees in Serbia.

Serbian Railway Company has largest cumulative losses. The largest cumulative losses in 2011 were recorded by the Serbian Railway Company – 134 bln dinars, but at the same time the company is ranked fourth among the companies with the greatest losses, the Business Registers Agency announced on Friday. The hundred companies with the largest cumulative losses account for half the cumulative losses of the entire Serbian economy, and they employ 13.8% of the total number of employees in the country.

Serbian Road Company, EPS have greatest capital. The list of the 100 companies with the greatest capital in 2011 the top ranked were the Serbian Road Company and the Serbian Electrical Power Company, accounting for 15.9 percent of the resources and 19.1 percent of the capital of the Serbian economy. These companies have at their disposal three-fifths of the capital at the level of the economy and employ 15% of all employees, the Business Registers Agency announced on Friday.

Konuzin: Serbian companies fail to use advantages of export to Russia. Serbian economy lacked a systematic approach to become present in Russia and the companies were not cooperating in order to arrange a joint appearance at the Russian market, Russian Ambassador to Serbia Alexandr Konuzin said on Friday. He said at the Serbian Chamber of Commerce that Serbia companies should cooperate in order to facilitate their business at the Russian market and in order to use better the advantages of non-customs trade. "Russia is interested in agricultural products from Serbia because the quality is good, but Serbian producers fail to respond to these needs", he said.

APR: Almost the same number of newly opened companies and those that closed down. The Business Registers Agency (APR) announced that in the first trimester of this year, 2800 new companies opened, while 2700 were deleted from APR, *Beta* reports. The largest number of companies was deleted due to automatic bankruptcy, which is implemented when a company account has been blocked for a period longer than a year (earlier: two years).

RTS: New problems related to refinery in Smederevo. Dutch-American consortium Comico Oil, to which the Smederevo authorities gave the land for construction of the oil refinery, will be late with payment of the land rental price; the payment should be made before 26 June, and the company leaders have offered the interest in arrears for every day of delay, *Radio-Television of Serbia (RTS)* reported on Wednesday. However, the contract does not

provide for delay of the payment, so that the town assembly should declare its opinion on the matter. The situation is even more complicated by the fact that the new local authorities have not yet formed after the last month's election. According to the contract it signed with the town, Comico Oil should pay 625 million RSD for rent of the land in the industrial zone of the town. The consortium said they would pay the rental amount in the next 10 to 15 days. According to earlier announcements, Comico Oil should build the refinery, worth 250 million USD and where about 700 people would be employed, in three years.

Molson Coors completes acquisition of StarBev, incl. Apatinska pivara. Molson Coors Brewing Company announced on Monday that it has completed its previously announced acquisition of StarBev for approximately EUR 2.65 billion. Mark Hunter, the CEO of Molson Coors UK & Ireland business, will serve as Chief Executive Officer of the new business unit, which has been renamed Molson Coors Central Europe. Molson Coors Central Europe employs approximately 4,100 people, operates nine breweries and sells its market-leading brands in the Czech Republic, Serbia, Croatia, Romania, Bulgaria, Hungary, Montenegro, Bosnia-Herzegovina and Slovakia. In Serbia, Molson Coors now owns Apatinska pivara in Apatin, Vojvodina.

Pilot trade union requests review of property disposal in Jat Airways. Independent trade union of civilian pilots of Serbia sent an appeal to the President and Government on Sunday and requested a special review of property disposal of the national Jat Airways airline. The trade union emphasized in the announcement that "almost everything that the company acquired through profit for years" was either separated without any compensation or sold for inadequate price by the Government in the last ten years. While airlines were forbidden to receive aid from the state throughout Europe, Serbia was taking from the airline and even supporting other airline to take over Serbian market, the announcement said.

Belgrade Arena will be Kombank Arena from now on. Komercijalna banka and Belgrade Arena, the country's largest sports and concert hall, signed an agreement on the right to use the name Kombank Arena in the following five years, it was announced on Wednesday. Komercijalna banka won the right to have the name Koombank Arena used by the Belgrade Arena as the best bidder at the public bidding for the choice of the head sponsor of this sports hall, whose founder was the city of Belgrade. Money which Arena will get on the basis of the contract will be used for "revitalization and functional improvements of the sports hall", it was stated in the announcement.

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Statistical Survey

Table 1
Basic economic indicators in Serbia

	Nov 09	Dec 09	Jan 10	Feb 10	Mar 10	Apr 10	May 10	June 10	June 10	June 10	
1	Deseasonalized industrial output (previous year = 100)	102.7	102.4	99.8	98.4	98.3	101.8	99.8	99.9	99.9	99.9
2	Exports (in millions of USD)	784.4	751.1	570.0	648.4	808.2	779.8	785.2	841.4	841.4	841.4
3	Imports (in millions of USD)	1,508.9	1,457.1	1,058.3	1,253.6	1,440.8	1,294.7	1,279.1	1,339.5	1,339.5	1,339.5
4	Consumer prices (previous month = 100)	101.0	100.1	100.5	100.3	101.2	100.6	101.5	100.4	100.4	100.4
5	Manufacturing prices (previous month = 100)	101.3	100.1	101.8	100.8	102.7	101.9	100.6	101.2	101.2	101.2
6	Average wages without taxes and contributions (in RSD) a)	31,576	36,789	29,929	32,336	33,508	34,952	33,463	34,161	34,161	34,161
7	Official RSD/EUR exchange rate (last week in month)	94.76	95.88	98.46	99.63	99.76	99.27	102.73	104.37	104.37	104.37
8	Money supply (M1)(millions of RSD) * a) b)	229,382	258,442	237,036	234,301	225,609	229,446	232,808	234,003	234,003	234,003
9	NBS discount rate (in %, annual level)	8.5	8.08	8.08	8.08	8.10	8.5	8.5	8.5	8.5	8.5
10	Serbia budget revenues (in millions of RSD, end of period)	59,794.7	38,896.5	49,306.3	40,546.1	54,421.2	51,558.9	52,315.3	53,468.0	53,468.0	53,468.0
11	Serbia budget expenditures (in millions of RSD, end of period)	63,007.4	49,637.3	50,797.1	56,103.3	58,933.4	64,150.9	63,530.0	62,715.9	62,715.9	62,715.9
		Sept 10	Oct 10	Nov 10	Dec 10	Jan 11	Feb 11	Mar 11	Apr 11	May 11	June 11
1	Deseasonalized industrial output (previous year = 100)	102.0	99.1	98.6	99.4	103.3	104.7	103.9	103.0	106.6	
2	Exports (in millions of USD)	885.5	946.0	977.9	962.1	721.7	884.8	1,076.8	1,034.7	967.4	
3	Imports (in millions of USD)	1,515.2	1,432.6	1,629.2	1,594.3	1,296.8	1,436.3	1,885.3	1,657.9	1,721.5	
4	Consumer prices (previous month = 100)	101.3	101.0	101.5	100.3	101.4	101.5	102.6	101.1	100.4	99.7
5	Manufacturing prices (previous month = 100)	101.4	100.5	101.3	101.2	102.5	102.3	101.9	101.9	99.4	
6	Average wages without taxes and contributions (in RSD) a)	34,570	34,422	34,444	39,580	34,009	35,538	35,777	39,298	35,362	39,322
7	Official RSD/EUR exchange rate (last week in month)	106.17	107.43	107.20	105.50	104.60	103.22	103.59	99.63	96.98	
8	Money supply (M1) (millions of RSD)* a) b)	242,870	248,944	234,461	253,331	223,930	228,810	230,039	233,023	233,426	
9	NBS discount rate (in %, annual level)	8.5	8.5	8.5	8.5	8.5	12.25	12.25	12.25	12.00	11.75
10	Serbia budget revenues (in millions of RSD, end of period)	53,752.6	55,518.9	64,080.3	73,915.2	55,448.8	47,923.6	57,882.1	52,495.6	59,953.3	54,258.2
11	Serbia budget expenditures (in millions of RSD, end of period)	65,880.1	69,530.9	61,286.3	85,888.9	57,779.3	66,912.7	67,318.2	70,124.0	65,643.4	71,885.7

Previous month = 100;

** Deposits of local-self government included.

Sources: *Statistical Bulletin*, National Bank of Serbia; Republic Office for Informatics and Statistics - Republic of Serbia.

a) By the decision of the National Bank of Serbia, the dinar's official designation is RSD.

b) Given that the account – government transactions deposits in banks against Serbian Finance Ministry dinar assets, which included assets of the Serbian Public Payments Administration, was not a transaction account, in December 2004 assets were withdrawn from this account and entered in savings and term deposit accounts. Because M1 includes local self-government assets, this monetary aggregate decreased, but M2 remained unchanged. (Source: *Statistical Bulletin*, National Bank of Serbia).

CONSTRUCTION INDUSTRY

- The value of the works performed in Serbia in the first quarter of 2012 was by as much as 56.8% smaller than in the last quarter of 2011. In this regard, there was a larger drop in the value of the works performed on other building structures – railways, roads, bridges, highways, airport runways, swimming pools, etc. (-59.3%) than on buildings (-51.9%). Such a dynamics of construction works in the observed period of comparison is usual due to the pronounced impact of the season and the extremely unfavorable weather conditions in February.
- In the first quarter of 2012, compared to the same period in 2011, the level of construction activities, nevertheless, increased by 23.4%. The largest number of activities were directed towards the construction of buildings – apartment buildings, for the performing of a certain activity or for accommodating and keeping animals, goods, equipment, which led to a growth of the value of the performed works on buildings by as much as 41.3% compared to the first quarter of 2011. The level of construction activities on other building structures grew by 14.5%.

Table 1

Value of works performed and contracted by subcontractors from the Republic of Serbia

	I 2012 I 2011	I 2012 IV 2011
Value of performed works – total	123.4	43.2
- Buildings	141.3	48.1
- Other building structures	114.5	40.7
Value of works performed abroad	86.1	55.1
Value of contracted works	59.5	44.0

Source: RZS data

- The value of the works performed abroad in the first quarter of 2012 was reduced by 13.9% compared to the same quarter in 2011.
- The value of the contracted works was reduced by a full 40.5% compared the first quarter in 2011. This indicates that 2012 could bring negative results in the construction industry.