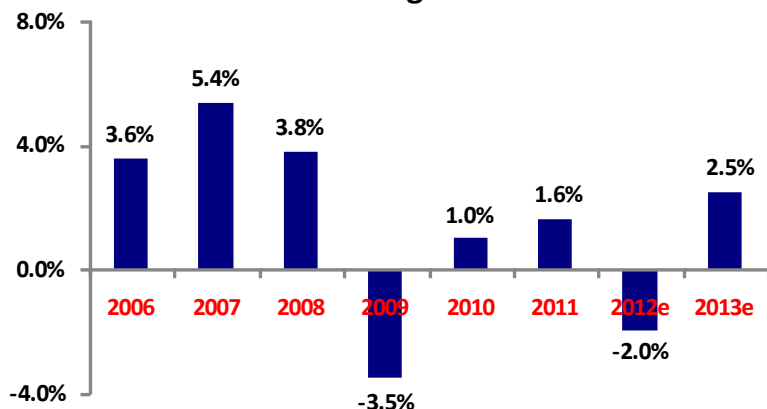


Real GDP growth

GDP



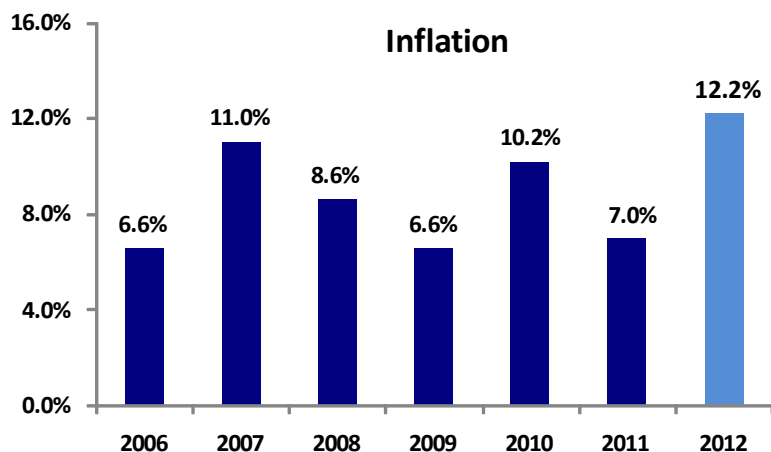
There have been no updates regarding GDP growth projections since our last macro review. Central Bank still expects a **2.5% recovery this year**, following the **decline of 2.0% in 2012**. The revival is expected to be driven mainly by **agriculture and industrial production** (FIAT car factory).

Source: Statistical Office of the Republic of Serbia, National Bank of Serbia

Inflation

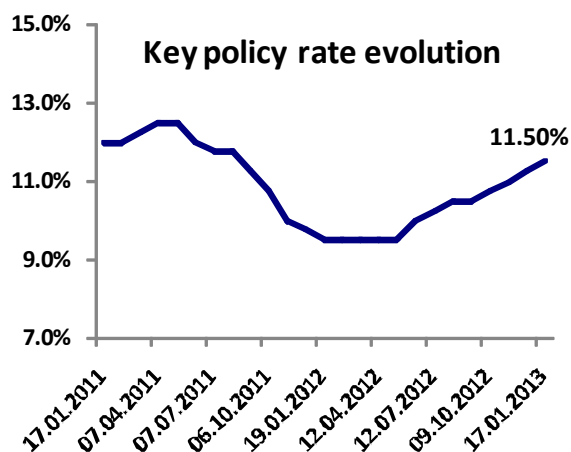
YoY inflation reached **12.2%** at the end of 2012. However, prices of goods and services in Serbia recorded a **MoM decline in December** (down 0.4% compared to the previous month) for the first time in the last 12 months, indicating that we should be nearing the inflation peak. According to the Central Bank projections, YoY inflation ought to keep slowly rising in the next few months, spurred by the growth of regulated and food prices. **Starting Q2 13, a slowdown is expected**, with the year-end 2013 target standing below 5.5%. We are likely to see a sharper inflation decline should the **agricultural season** beat the last year's (not a particularly tough task, bearing in mind the 2012 drought), as the food prices account for 39% of the CPI basket. **Key policy rate** was lifted by another 25bps in January, currently standing at **11.50%**.

Inflation



Source: Statistical Office of the Republic of Serbia, Eurobank Brokerage

Key policy rate evolution

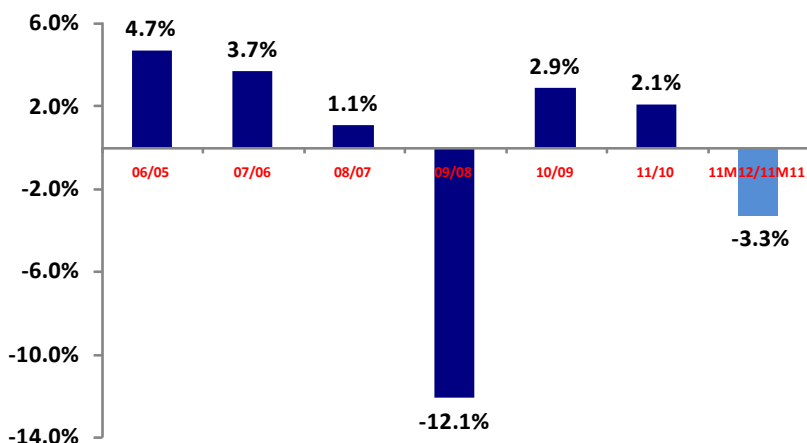


Source: National Bank of Serbia, Eurobank Brokerage

## Serbia Macroeconomic Overview

### Industrial production

Industrial production evolution



Source: Statistical Office of the Republic of Serbia, Eurobank Brokerage

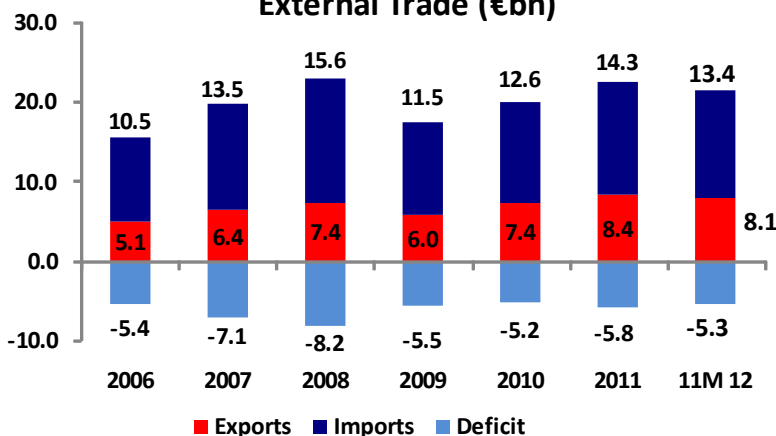
Industrial production generated in Serbia in the period **Jan-Nov 2012** was **3.3% lower** compared to the 11M11 level. As for the **MoM** comparison, November result is **down 0.5%** weighted against the October performance.

**External trade** of goods achieved in Serbia during the first eleven months of 2012 amounted to €21.5bn, a 4% rise compared to the same period last year. **Exports** recorded a 4% YoY growth, to €8.1bn, while the **imports** reached €13.4bn (+4% YoY). Consequently, the country's 11M12 **trade deficit** stood at €5.3bn, up 4% YoY.

After having lingered between €0.9bn and €1.8bn per year in the period 2008-2011, net **FDIs** in Serbia amounted to less than €100m during the first ten months of 2012, partially affected by the €380m outflow created by Telekom Srbija for the buyout of own shares from Greek OTE. Apart from further investments in companies like FIAT and NIS, there are numerous candidates that could improve Serbia's FDI balance in 2013 – agricultural investment from UAE, giants like IKEA and Lidl that are expected to enter the Serbian market, potential investment into Smederevo steel plant, etc.

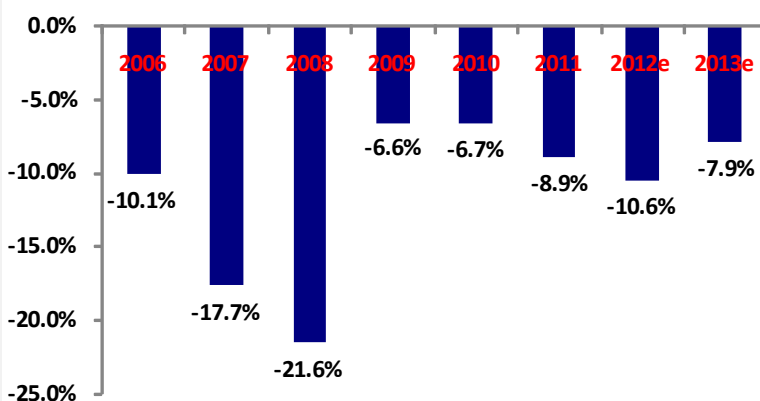
### Balance of payments

External Trade (€bn)



Source: Statistical Office of the Republic of Serbia, Eurobank Brokerage

Current Account (% of GDP)



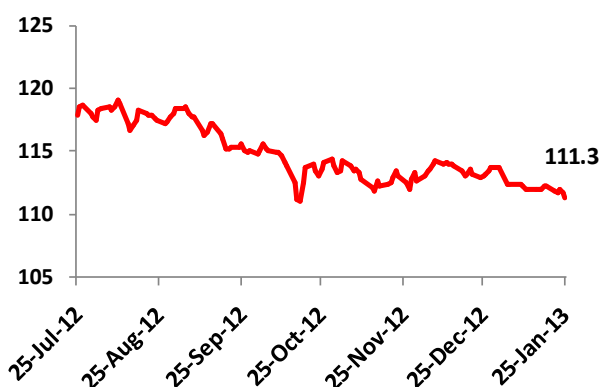
Source: National Bank of Serbia, Eurobank Brokerage

## Serbia Macroeconomic Overview

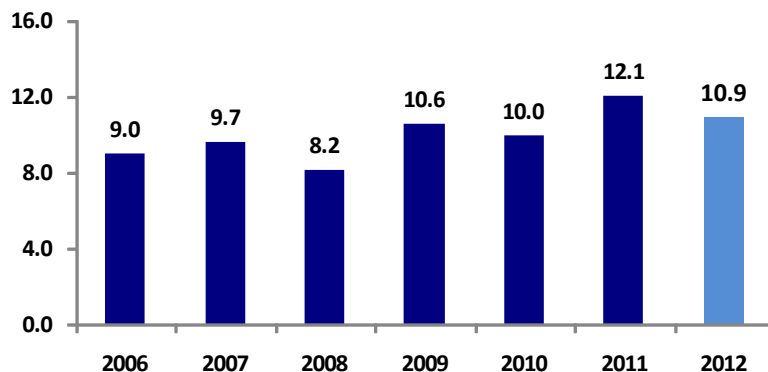
### FX - rate

**Dinar appreciated** against the Euro by 1.6% since our last macro review, with the **EUR/RSD** rate currently standing at **111.3**. During 2012, Central Bank sold some €1.3bn on the inter-banking FX market, in order to prevent major oscillations. This affected the **FX reserves**, but they are still rather sufficient (**€10.9bn** at the end of the year). It is important to stress that vast majority of these interventions was performed in the first half of 2012, with no activity recorded during the last few months. Recent **Dinar stability** was partially generated by the **strong investors' interest in state's local currency securities**.

EUR/RSD rate evolution

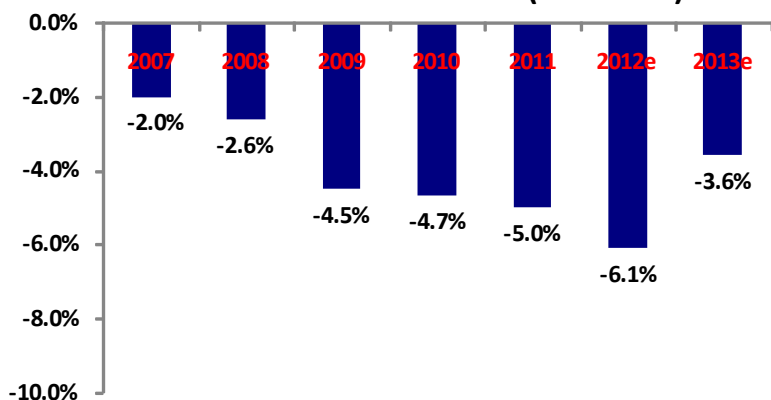


Central Bank's FX reserves (€bn)



Source: National Bank of Serbia, Eurobank Brokerage

Consolidated fiscal result (% of GDP)



Source: Ministry of Finance, Eurobank Brokerage

### Fiscal deficit

Serbia's **consolidated fiscal deficit** amounted to RSD173bn during the first eleven months of 2012, in line with projections. As a reminder, full-year 2012 estimate stipulates a deficit of **6.1% of the GDP** that is, according to the government plan, supposed to be trimmed to **3.6% this year**. Negotiations with the **IMF**, set for this spring, will certainly depend on the successful implementation of this task.

## Serbia Macroeconomic Overview

### T-bill auctions

The trend of **high success rates** at the state's t-bill auctions continued during the last 30 days, in spite of the persisted **interest rates' decline**. This shows strong investors' interest in local currency securities that also positively affects the abovementioned FX-rate stability. The state gathered over **€400m** since our last review (including two Eur-bond issues), with the interest rates for Dinar securities lingering between 10.68% (3-month) and 12.94% (5-year).

T-bill auctions in the last 30 days				
Date	Issue Volume (RSD)	Maturity (m)	Interest rate	Success rate
23.01.2013*	30,000,000	36	4.9%	100.0%
22.01.2013	5,000,000,000	60	12.9%	100.0%
15.01.2013	10,000,000,000	12	11.2%	100.0%
10.01.2013	10,000,000,000	3	10.7%	39.0%
08.01.2013	10,000,000,000	24	12.3%	87.3%
31.12.2012*	100,000,000	24	4.9%	70.9%
26.12.2012	10,000,000,000	12	11.9%	100.0%

\*Securities issued in EUR

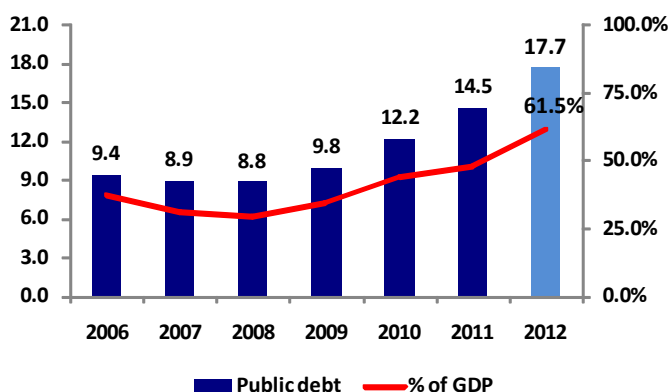
Source: Ministry of Finance, Eurobank Brokerage

### Public and external debt

**Public debt** of the Republic of Serbia recorded a mild €110m rise in December, amounting to €17.7bn at the end of 2012. At this level, Serbia's **Debt/GDP** ratio stands at **61.5%**. Recently introduced government's macroeconomic plan stipulates the **reduction of the above ratio** in the coming years.

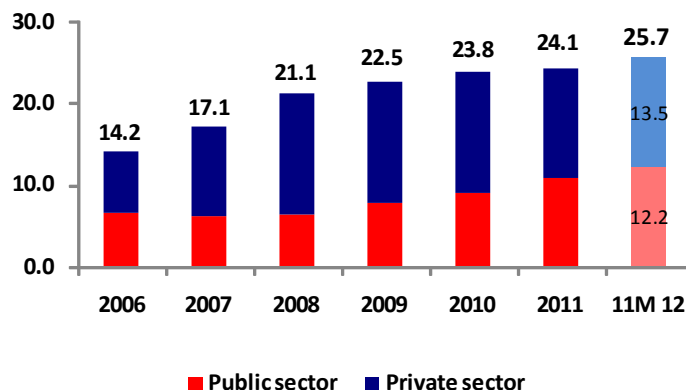
Latest available **external debt** figures are from November. **Private sector** debt was trimmed by €423m MoM, to **€13.5bn**. On the other hand, external debt of the **public sector** increased by €592m from the October level (to **€12.2bn**), lifting **Serbia's total external debt** to **€25.7bn** (89% of the GDP).

Public debt (€bn)



Source: Ministry of Finance, Eurobank Brokerage

External debt (€bn)



Source: National Bank of Serbia, Eurobank Brokerage

## Serbia Macroeconomic Overview

### Eurobank Brokerage

[www.eurobank.rs](http://www.eurobank.rs)

#### Head of Brokerage

Ivan Radovic [ivan.radovic@eurobank.rs](mailto:ivan.radovic@eurobank.rs) +381 11 30 27 533

#### Research

Nanuk Madjer [nanuk.madjer@eurobank.rs](mailto:nanuk.madjer@eurobank.rs) +381 11 30 27 535

Dejan Milicevic [dejan.milicevic@eurobank.rs](mailto:dejan.milicevic@eurobank.rs) +381 11 30 27 535

#### Trading

Vojislav Nevenic [vojislav.nevenic@eurobank.rs](mailto:vojislav.nevenic@eurobank.rs) +381 11 30 27 539

Marija Andric [marija.andric@eurobank.rs](mailto:marija.andric@eurobank.rs) +381 11 30 27 537

#### Belgrade Central

Address: Vuka Karadzica 10, 11000 Belgrade, Serbia

Fax no: +381 11 26 24 933

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