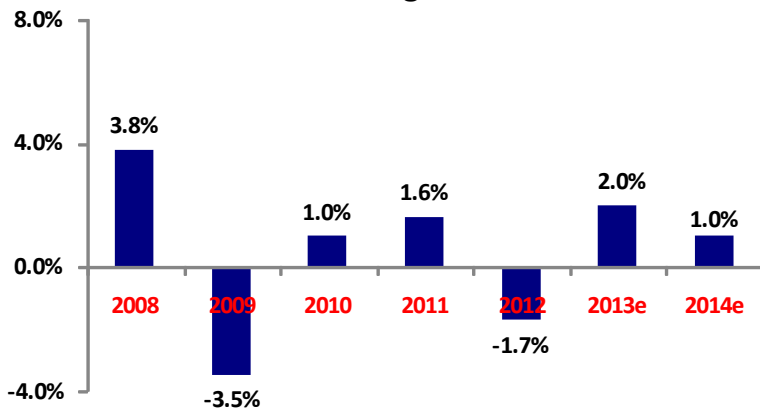


Macroeconomic overview

November 27th, 2013

GDP

Real GDP growth

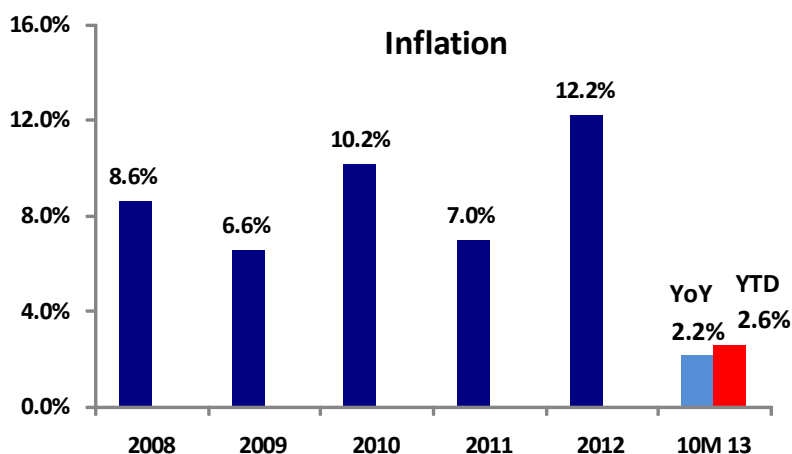


According to the flash estimate, Serbia's Q3 13 GDP was 3.2% higher vs. the same period last year. Next year's growth projection has been trimmed to 1.0% by the Ministry of Finance, on the back of the expected fiscal consolidation that will limit the consumption.

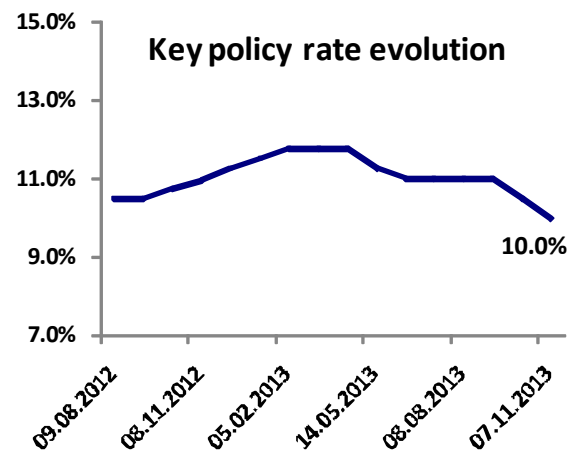
Source: Statistical Office of the Republic of Serbia, National Bank of Serbia (NBS)

Inflation

Prices of goods and services in Serbia recorded a mild 0.2% rise in October. However, due to the high last year's calculation base, YoY inflation kept on sharply declining, to 2.2% (down 270bps vs. the September level). It is expected to return to the targeted range of 4%+/-1.5% in the following months and stabilize within that zone in the longer term. The continuous inflation decrease, along with the low aggregate demand and the FX-rate stability, enabled the Central Bank to trim the key policy rate by another 50bps, to 10.0%. Further relaxation should be expected in the upcoming months.



Source: Statistical Office of the Republic of Serbia

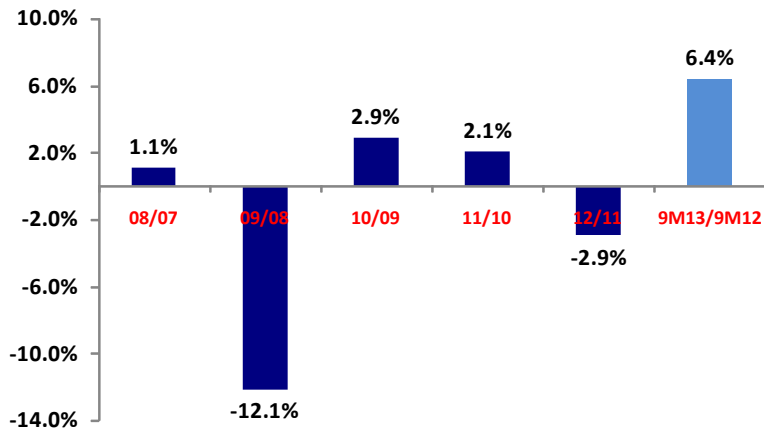


Source: National Bank of Serbia

Macroeconomic overview

Industrial production

Industrial production evolution



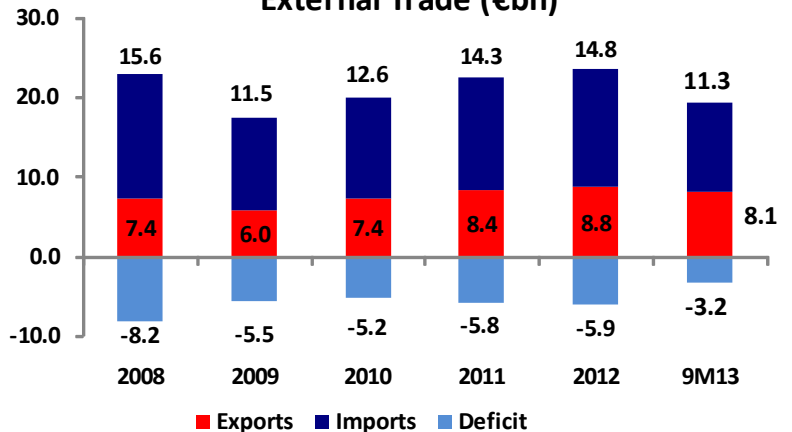
Source: Statistical Office of the Republic of Serbia

Industrial production recorded a strong **13.4%** YoY growth in **September**. Consequently, the **YTD** rise increased to **6.4%**. Last month's climb was generated mostly by oil derivatives, electricity and motor vehicles.

Jan-Sep exports totalled €8.1bn, while imports amounted to €11.3bn. The **trade deficit** is, therefore, at €3.2bn for the first three quarters of 2013. At this pace, we will end up with a deficit of **€4.3bn**, compared to almost €6bn for the past two years. This is **mostly due to increased exports** of FIAT and NIS, but also a consequence of **restrained domestic demand for imported goods**. Our main export targets so far this year have been Italy (€1.29bn), Germany (€947m), Bosnia and Herzegovina (€630m) and Russia (€580m). We imported mostly from Italy (€1.29bn), Germany (€1.22bn), Russia (€849m) and China (€810m). We see as very encouraging the fact that the large chunk of **this year's trade deficit** is likely to be **covered by remittances and FDIs** (expected at €3.0bn and €0.7bn, respectively).

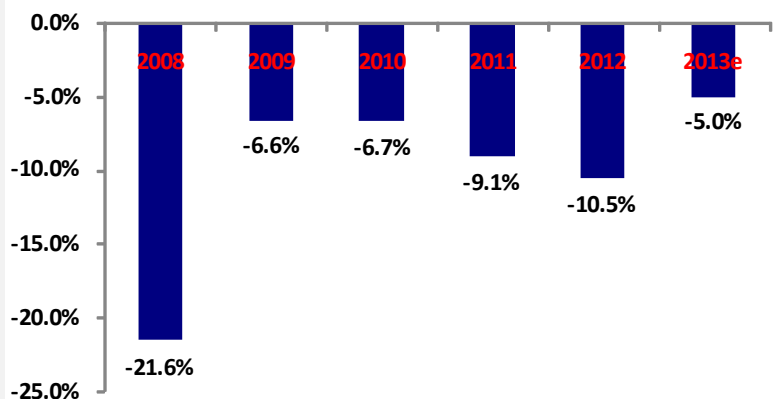
Balance of payments

External Trade (€bn)



Source: Statistical Office of the Republic of Serbia

Current Account (% of GDP)



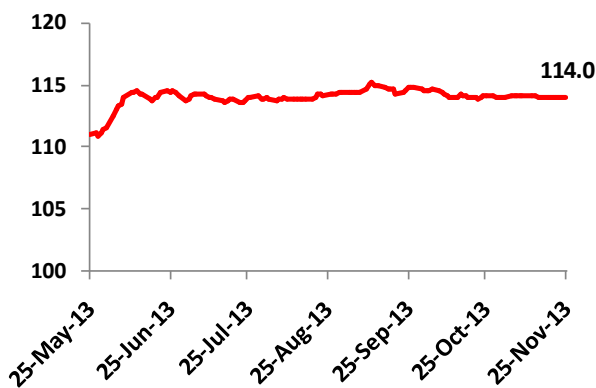
Source: National Bank of Serbia

Macroeconomic overview

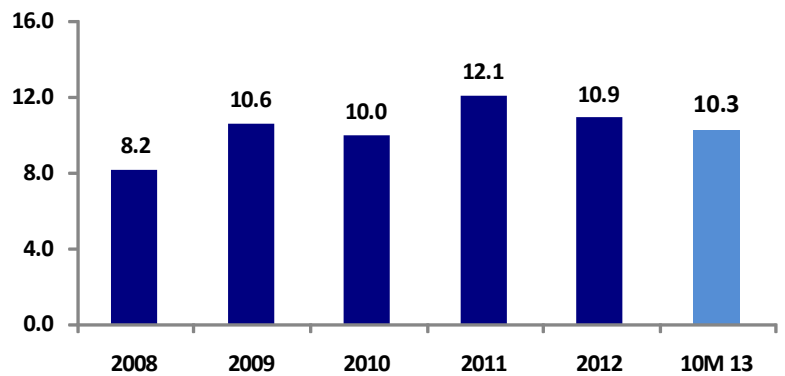
FX-rate and reserves

Since our last macro review, Central Bank (NBS) bought 210m Euros on the inter-banking FX market, in order to prevent major rate oscillations. As a result, the **EUR/RSD rate kept on moving sideways** (currently at **114.0**). Investors' interest for the local currency goes hand-in-hand with the strong demand for Dinar state securities, indicating an **improved sentiment**. **FX reserves** decreased by €146m in October, amounting to **€10.3bn** at the end of the month. The decline was driven mainly by the commercial banks' withdrawal of the excess mandatory reserves placed at the NBS.

EUR/RSD rate evolution



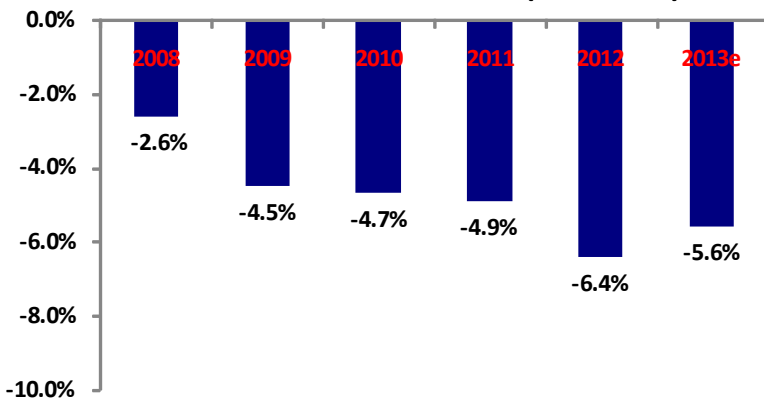
Central Bank's FX reserves (€bn)



Source: National Bank of Serbia

Fiscal deficit

Consolidated fiscal result (% of GDP)



Source: Ministry of Finance

Official consolidated fiscal deficit is expected to reach **5.6% of Serbia's GDP** this year. However, if "**below the line**" items are included (subsidies for public companies and troubled state-owned banks), the ratio rises to **6.5%**. Furthermore, it is likely to grow to 7.1% in 2014, before gradually declining to 3.2% in 2016, on the back of the fiscal consolidation and the announced change in approach towards public companies. We welcome the government's focus on the long-term budget sustainability, although we do believe that **sharper savings should be introduced** as soon as 2014.

Macroeconomic overview

T-bill auctions

Success rates achieved at state t-bill auctions **remained very high** in the last 30 days. We see as encouraging that investors' interest for Serbian bonds is substantial. On the other hand, the €440m collected from this source since our last review, although in line with the government plan, do provide additional boost to the country's already sizeable **public debt**. During the last 30 days, interest rates moved in mixed directions for different maturities. Latest **2Y Eurobond** issue was priced at **4.68%**.

T-bill auctions in the last 30 days				
Date	Issue Volume (RSD)	Maturity (m)	Interest rate	Success rate
26.11.2013	10,000,000,000	24	KP rate + 2.19%	48.6%
25.11.2013	10,000,000,000	36	10.5%	99.6%
20.11.2013*	100,000,000	24	4.7%	88.3%
19.11.2013	5,000,000,000	60	11.9%	99.0%
12.11.2013*	50,000,000	12	3.8%	99.1%
07.11.2013	4,000,000,000	3	9.1%	78.3%
06.11.2013	5,000,000,000	24	10.7%	99.6%
29.10.2013	10,000,000,000	12	10.1%	100.0%

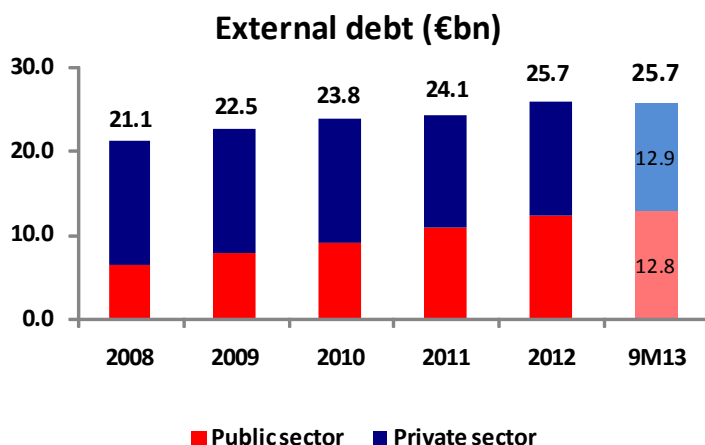
*Securities issued in EUR

Source: Ministry of Finance, Eurobank Brokerage

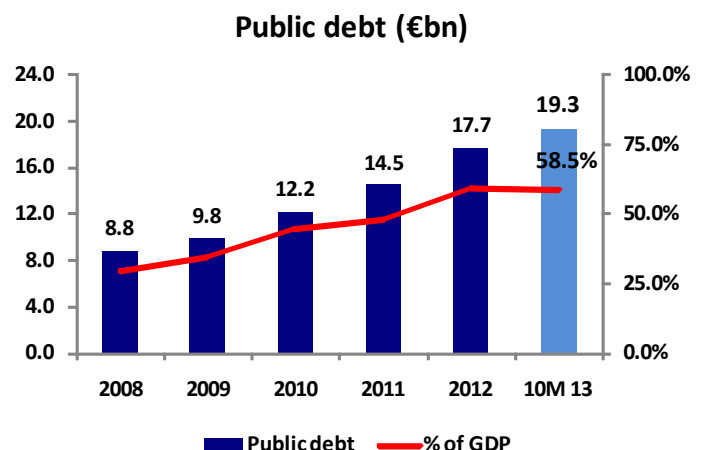
External and public debt

Serbia's **external debt dropped** by another €294m in September, returning to the year-end 2012 level of **€25.7bn**. The majority of the country's recent debt expansion is obviously internal.

Public debt grew by €227m in October, reaching **€19.3bn** at the end of the month, **58.5% of the** projected 2013 **GDP**. This ratio will likely rise to **64% by the end of this year**.



Source: National Bank of Serbia



Source: Ministry of Finance, Eurobank Brokerage



Macroeconomic overview

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