

Serbian Economy: State and Prospects

Vladimir Gligorov

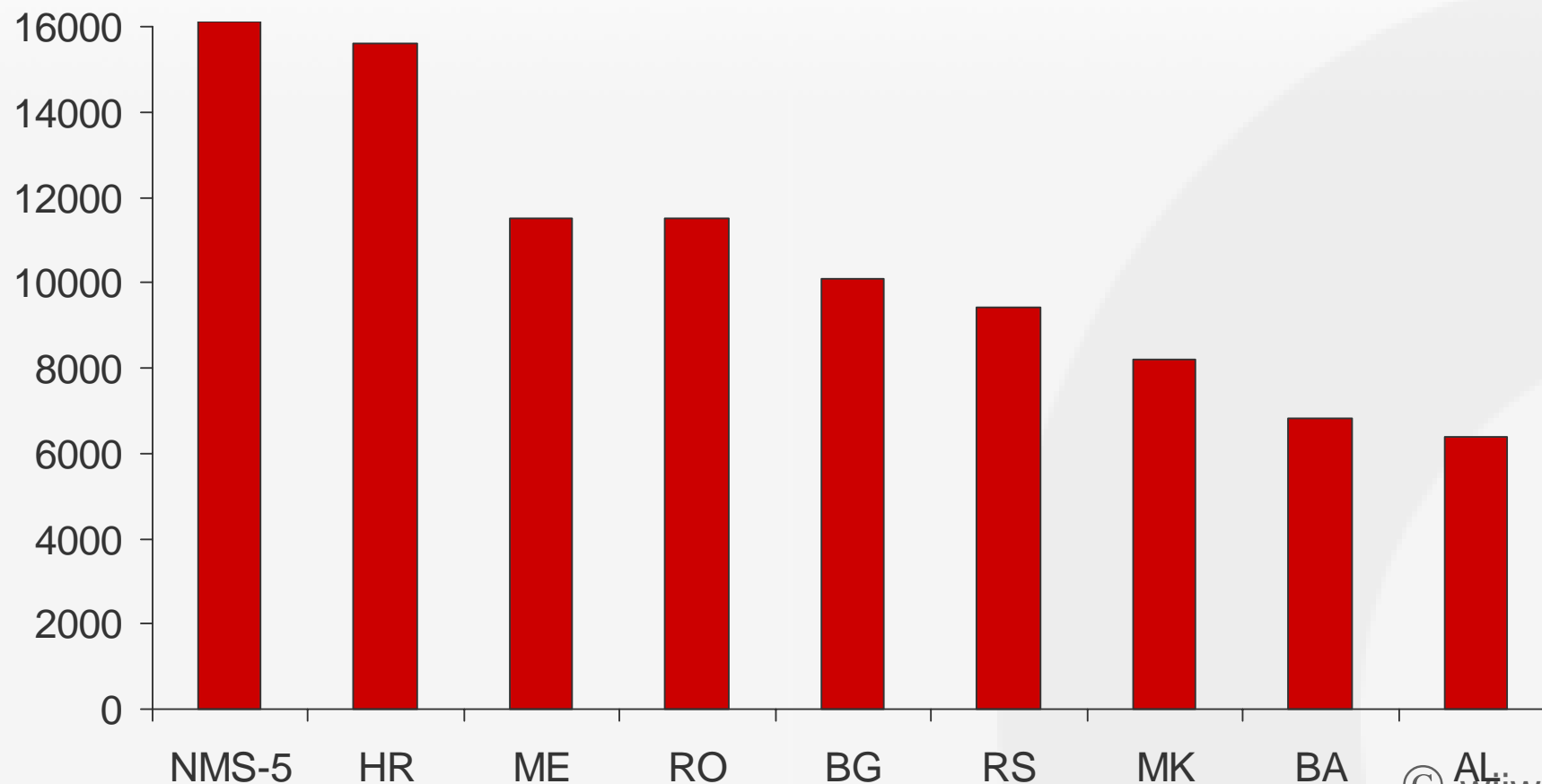
Vienna, March 17, 2010

Contents

- Growth and external imbalances
- Effects of crisis
- Growth prospects
- Regional and EU integration

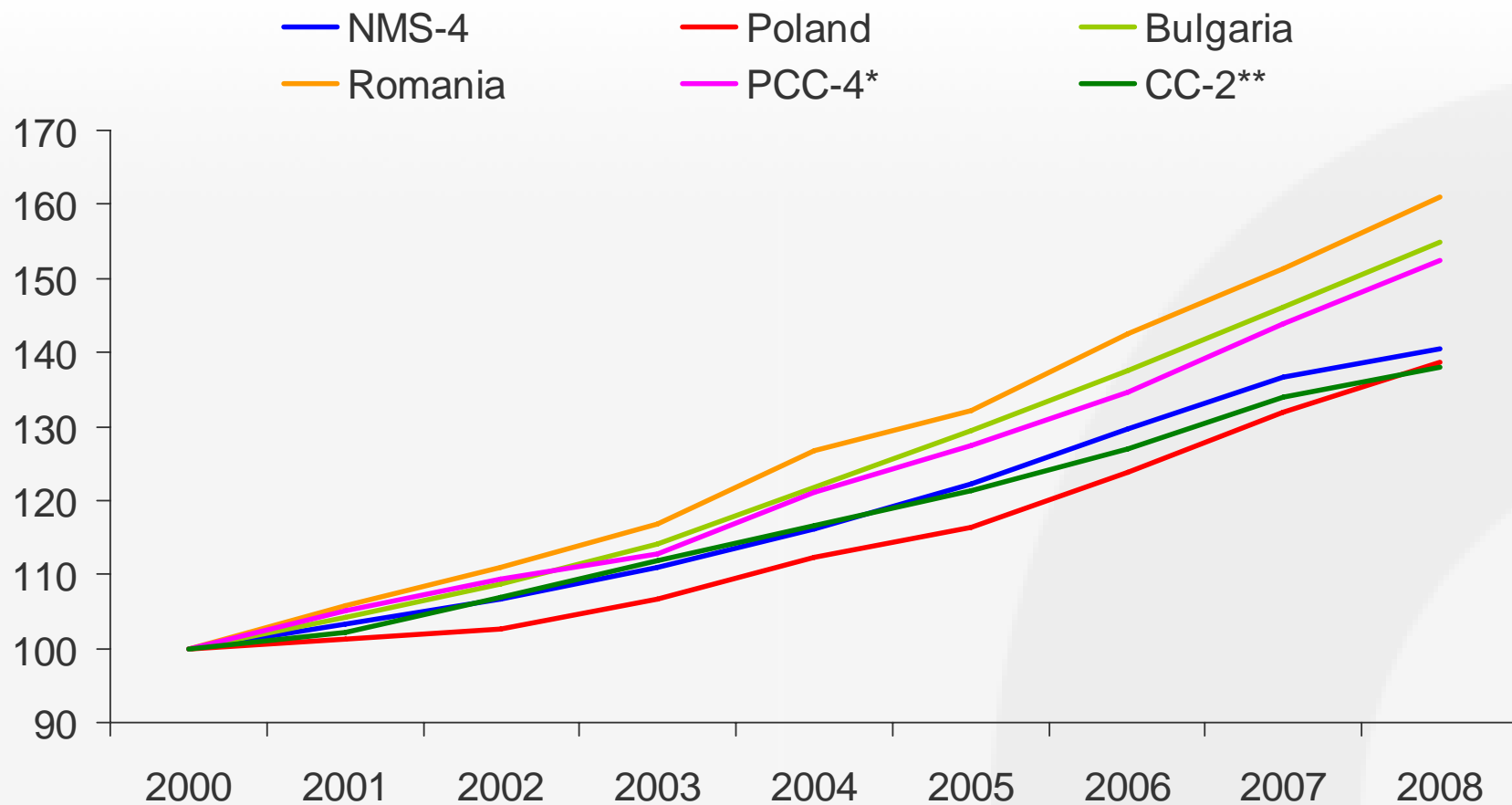
GDP per capita, 2008

EUR at PPPs



Source: wiiw Annual Database incorporating national statistics.

Real GDP growth in CEE and SEE, 2000 = 100

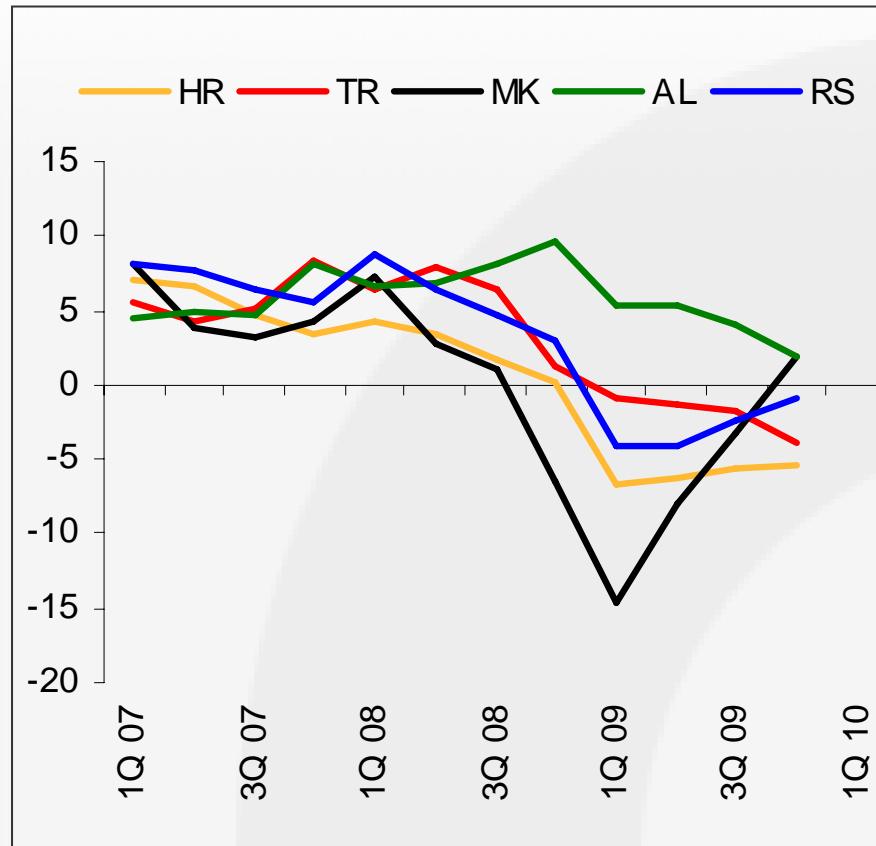
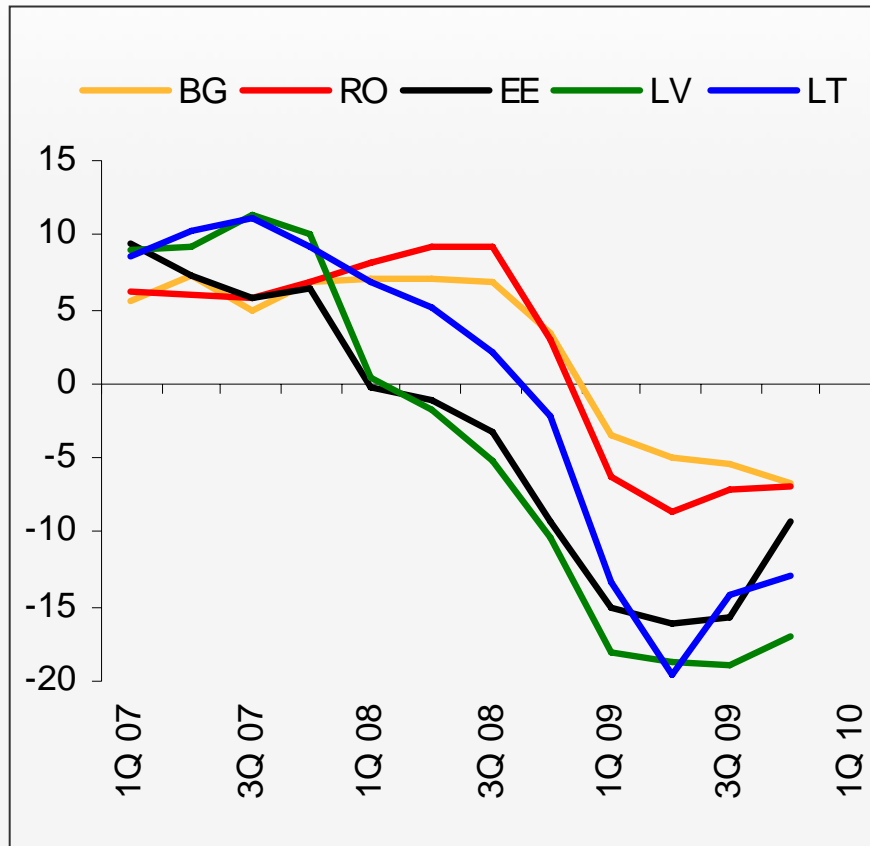


Note: * PCC-4: AL, BA, ME, RS. ** CC-2: HR, MK.

Source: wiiw Annual Database incorporating national statistics.

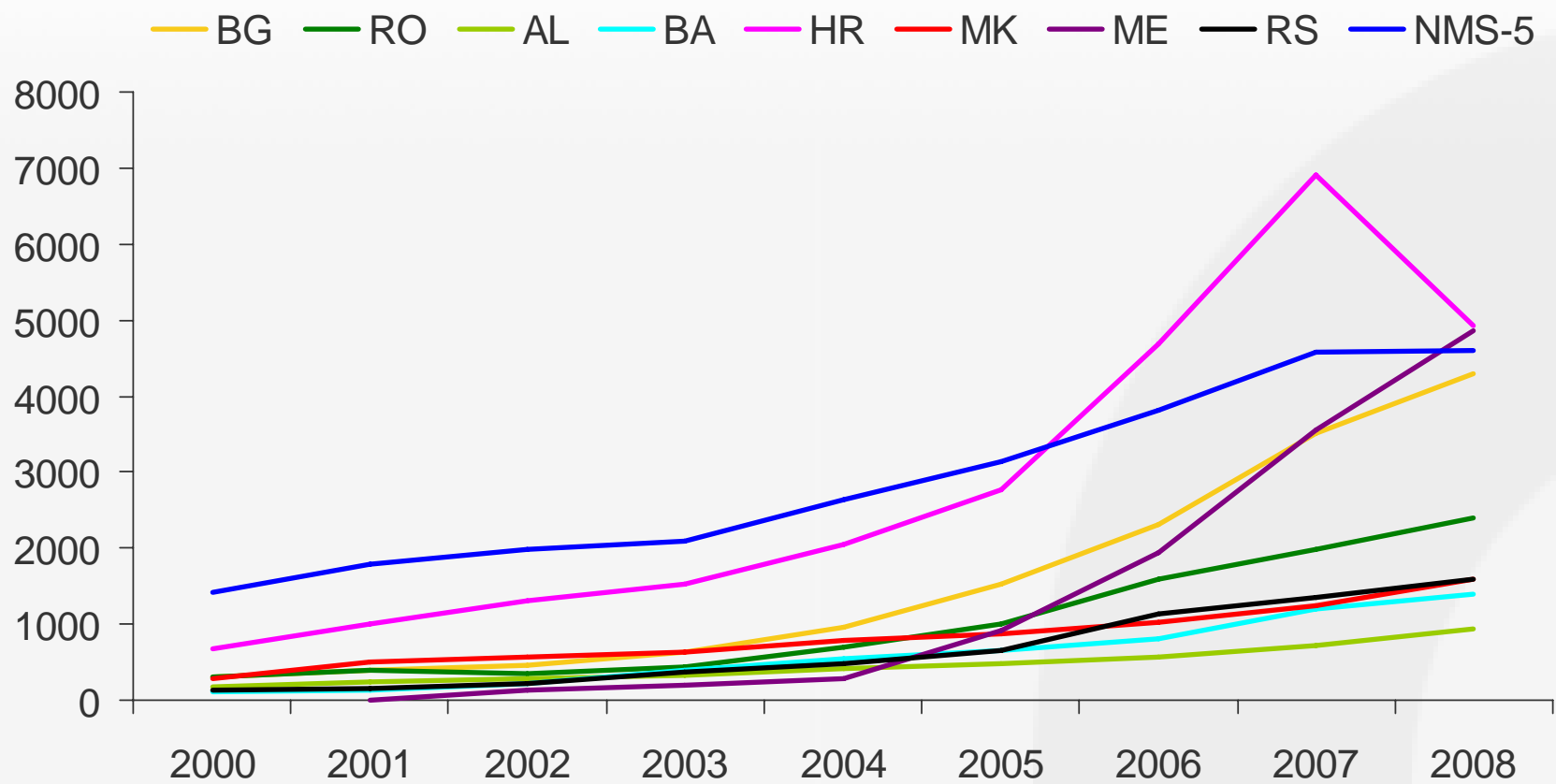
GDP, 2007-2009

annual changes in %



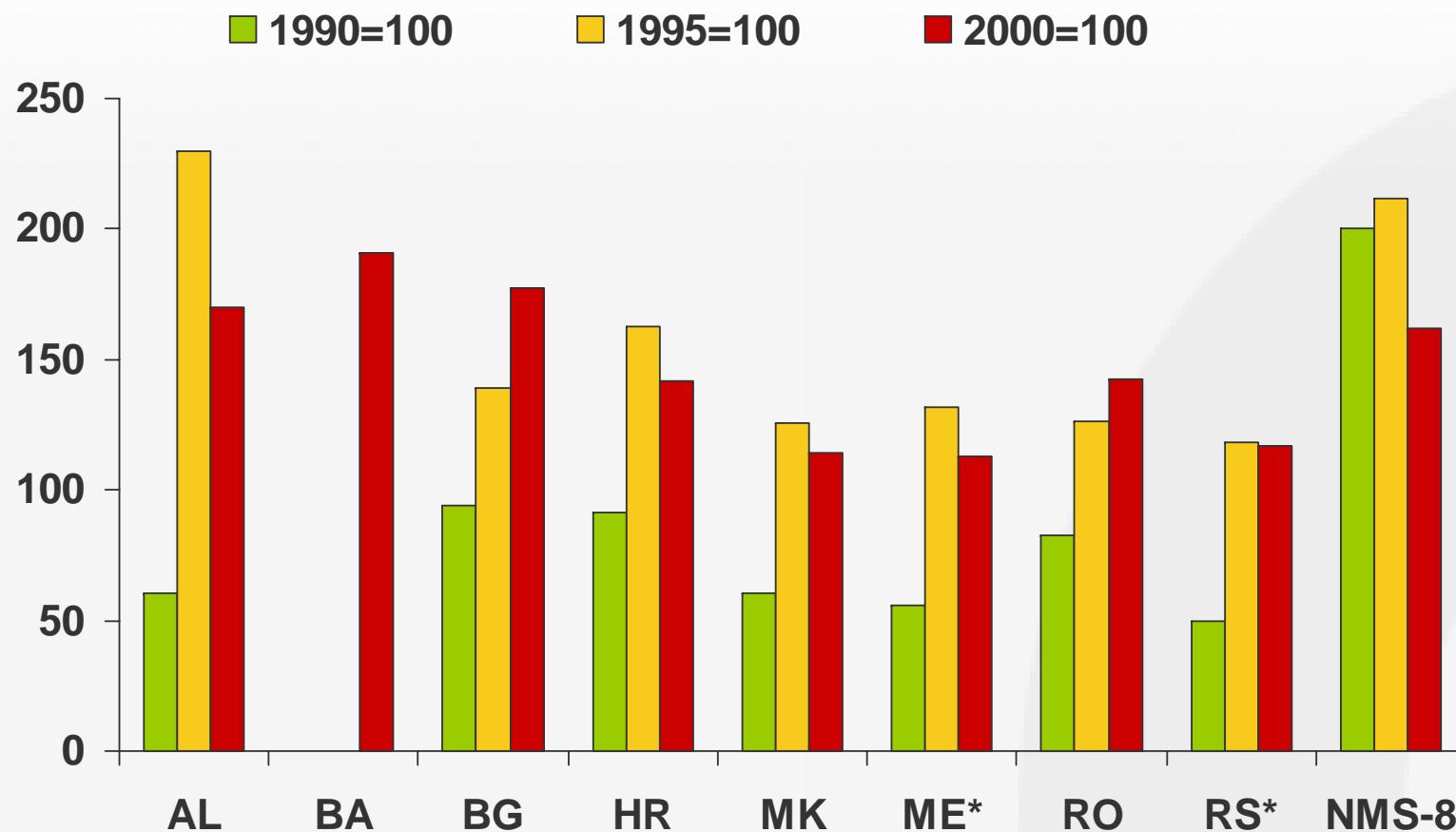
Source: Eurostat and national statistics.

FDI stock, per capita, in NMS and SEEC, 2000-2008, EUR



Source: wiiw Annual Database incorporating national statistics.

Industrial production, 2008

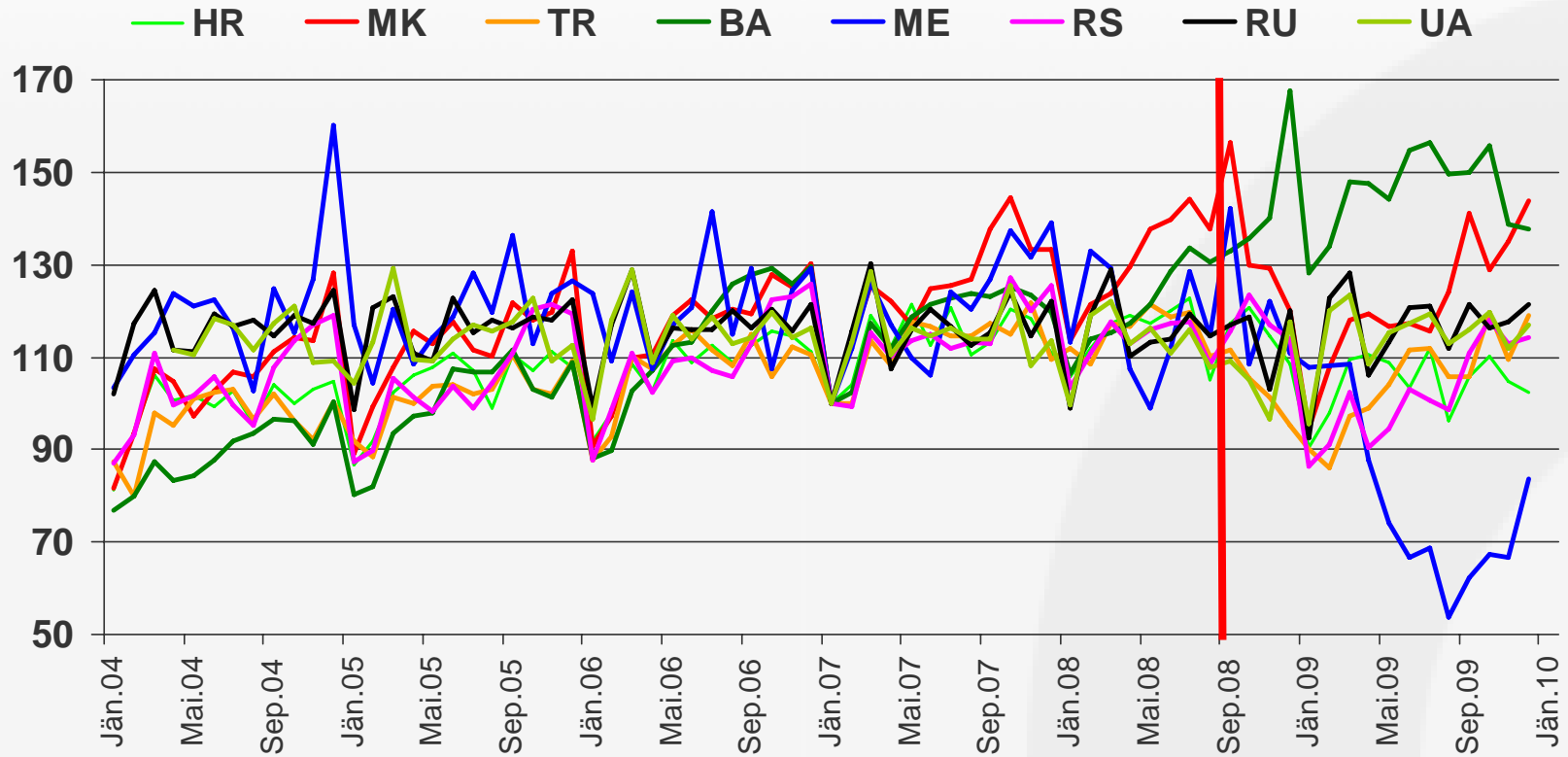


Note: Until 1998 data refer to Serbia and Montenegro.

Source: wiiw Annual Database incorporating national statistics.

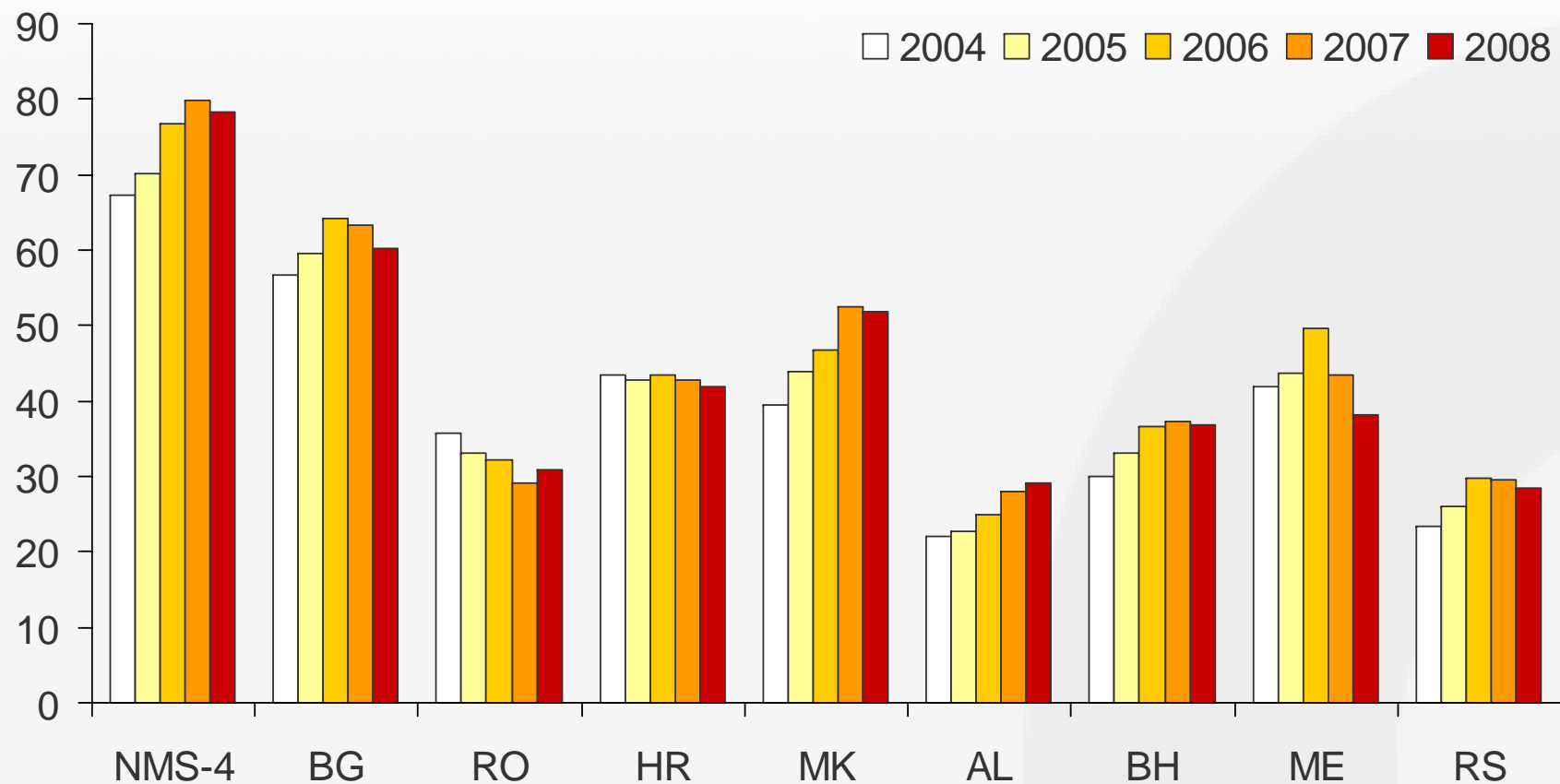
Collapsing industry (with a 2-month lag) ...

January 2007 = 100



Source: wiiw Monthly Database.

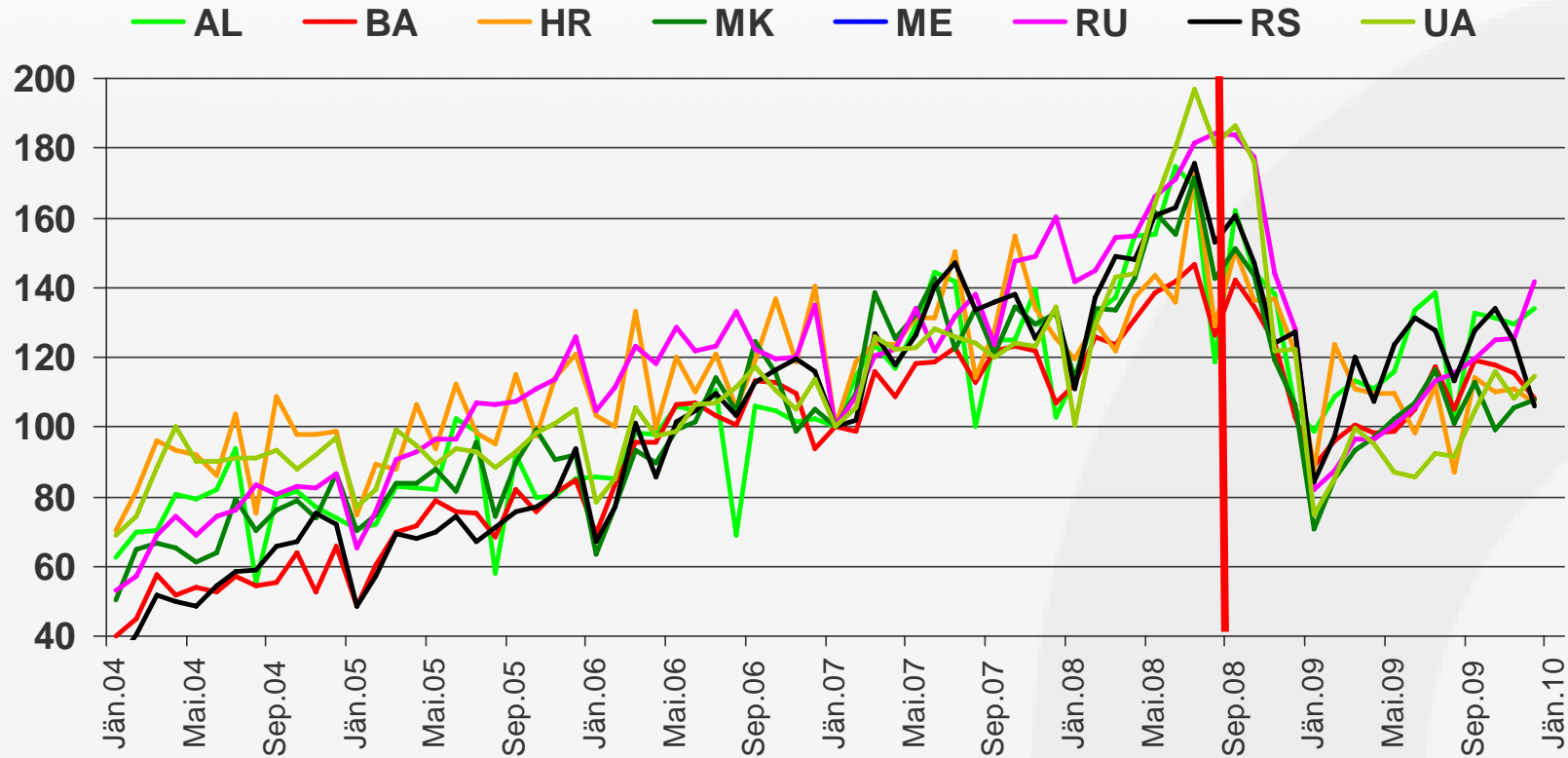
Exports of goods and services (BOP) in % of GDP



Source: wiiw Annual Database incorporating national statistics.

Collapsing exports after September 2008 ...

January 2007 = 100

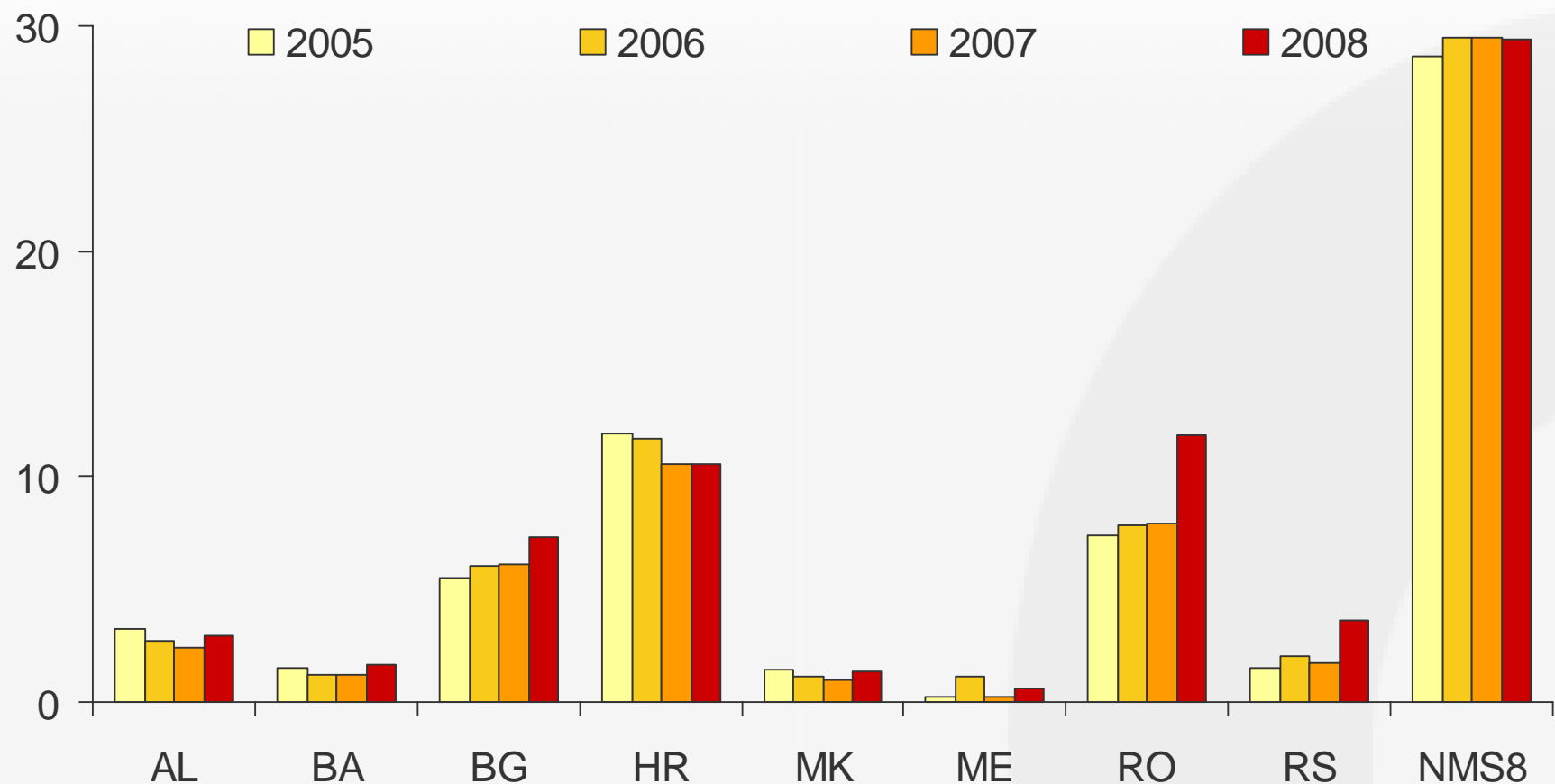


Source: wiiw Monthly Database.

Exports of goods and services (BOP) in % of GDP

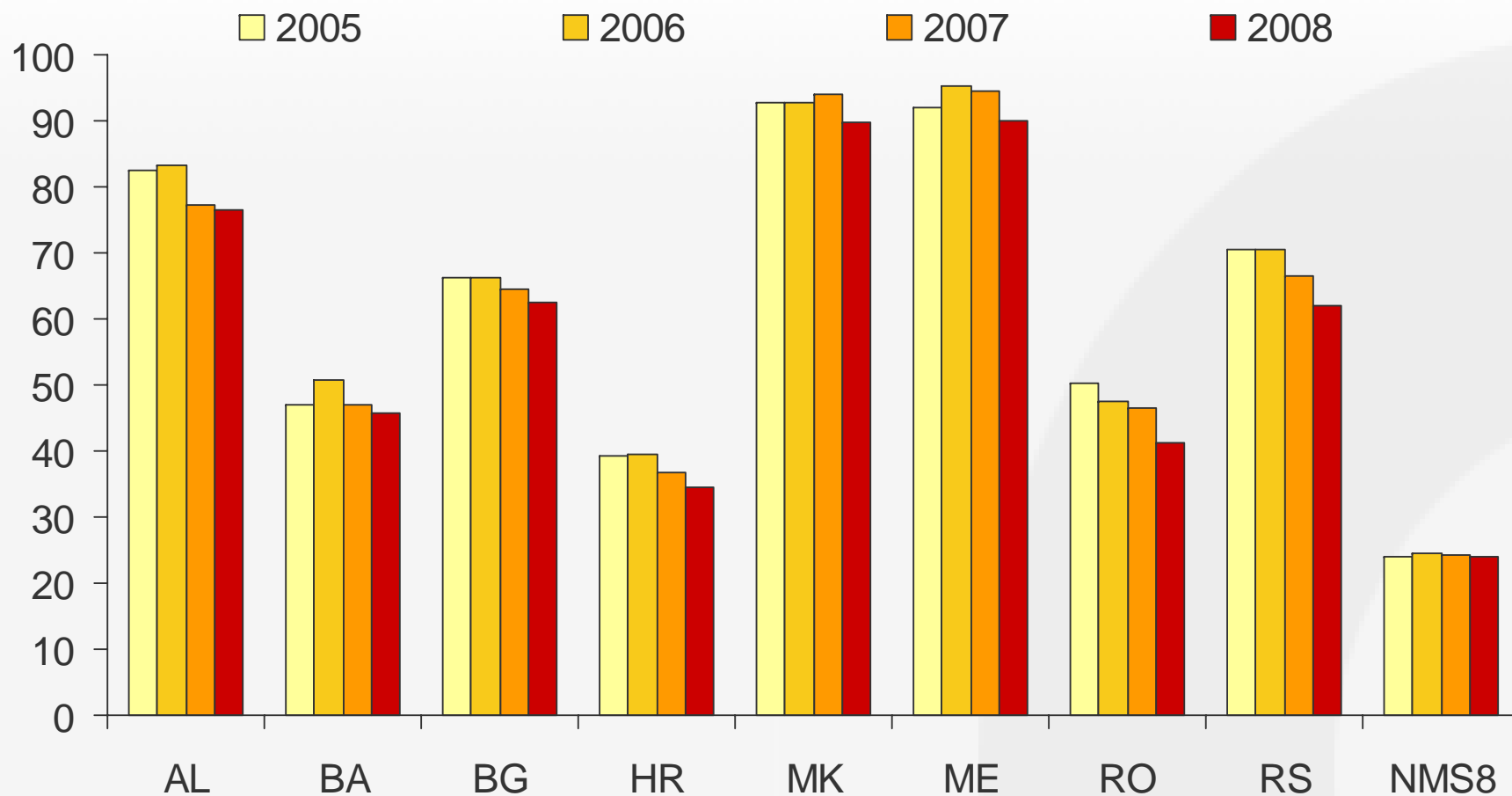
	2004	2005	2006	2007	2008
Bulgaria	56.6	59.5	64.2	63.2	60.3
Romania	35.8	33.0	32.3	29.2	30.9
Croatia	43.5	42.8	43.5	42.8	41.9
Macedonia	39.5	44.0	46.8	52.4	51.8
Albania	22.0	22.8	24.9	28.0	29.1
Boania and Herzegovina	29.4	33.0	36.7	37.3	36.8
Montenegro	42.0	43.6	49.6	43.4	38.1
Serbia	23.4	26.1	29.7	29.5	28.5

Technology-driven industries, as % of total manufacturing exports to the EU



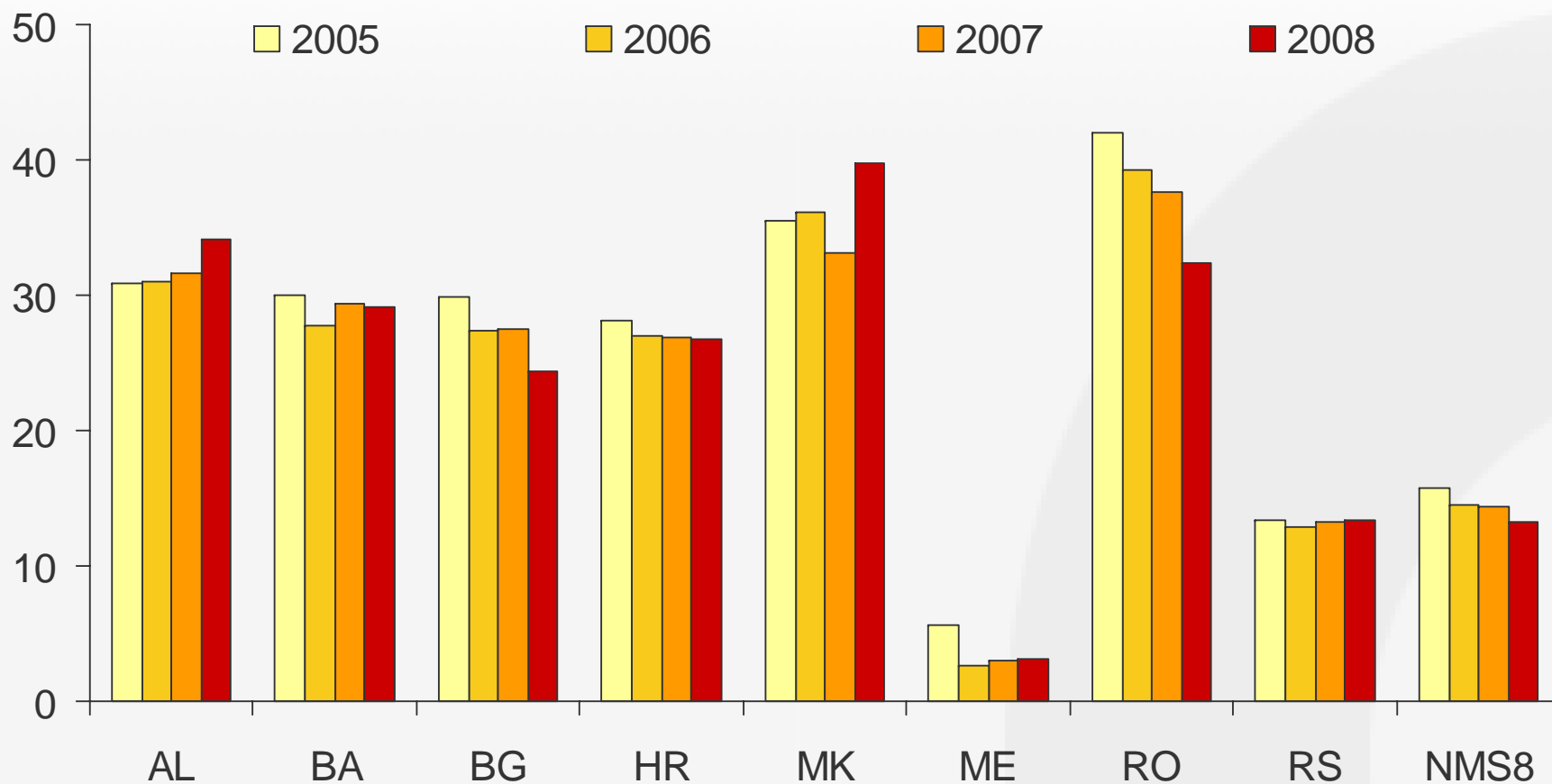
Source: Comext.

Low-skill industries, as % of total manufacturing exports to the EU



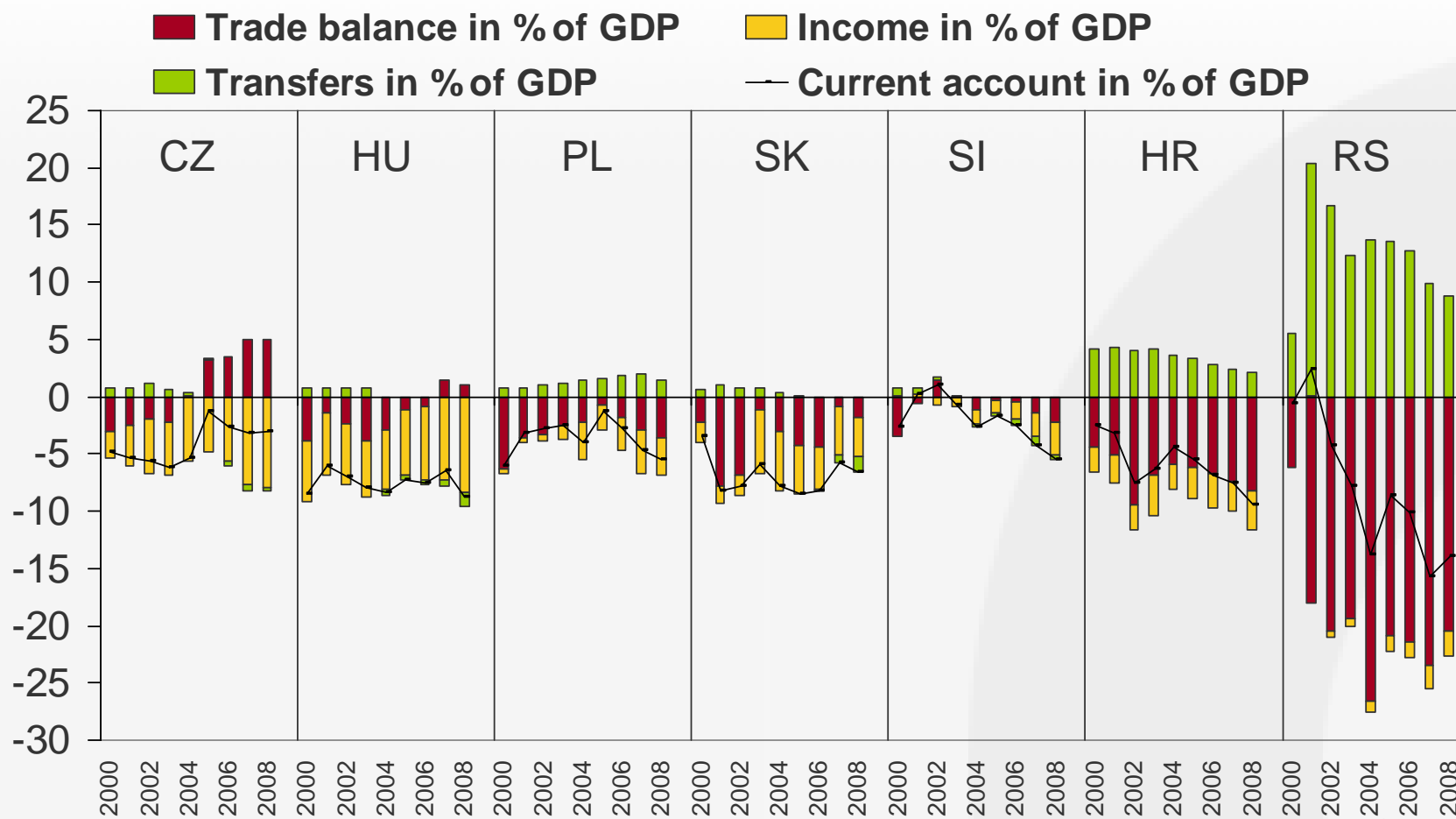
Source: Comext.

Labour-intensive industries, as % of total manufacturing exports to the EU



Source: Comext.

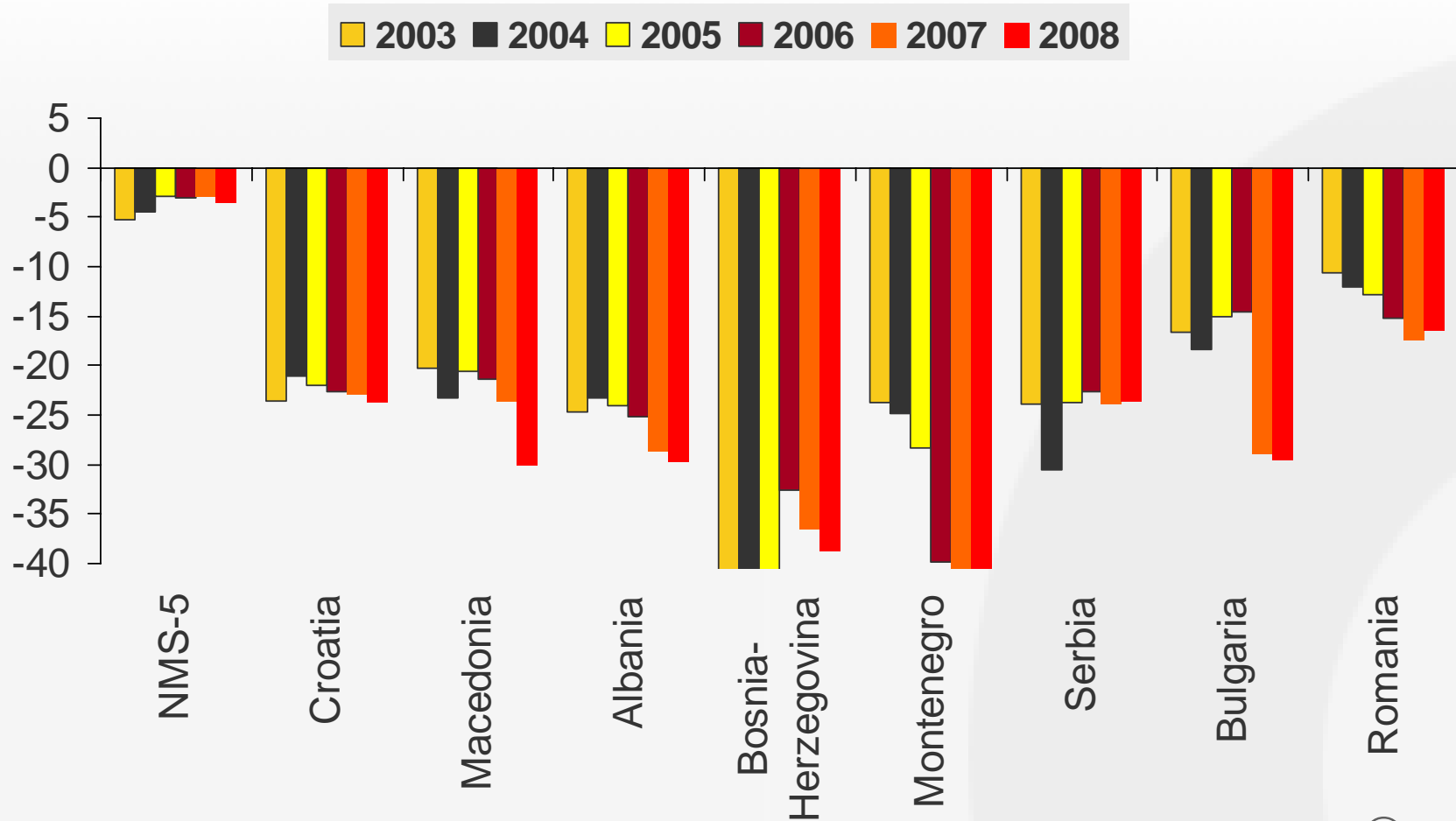
Trade balances of goods and services and income balances 2000-2008, in % of GDP



Source: wiiw Annual Database incorporating national statistics, Eurostat.

Trade balance (commodities)

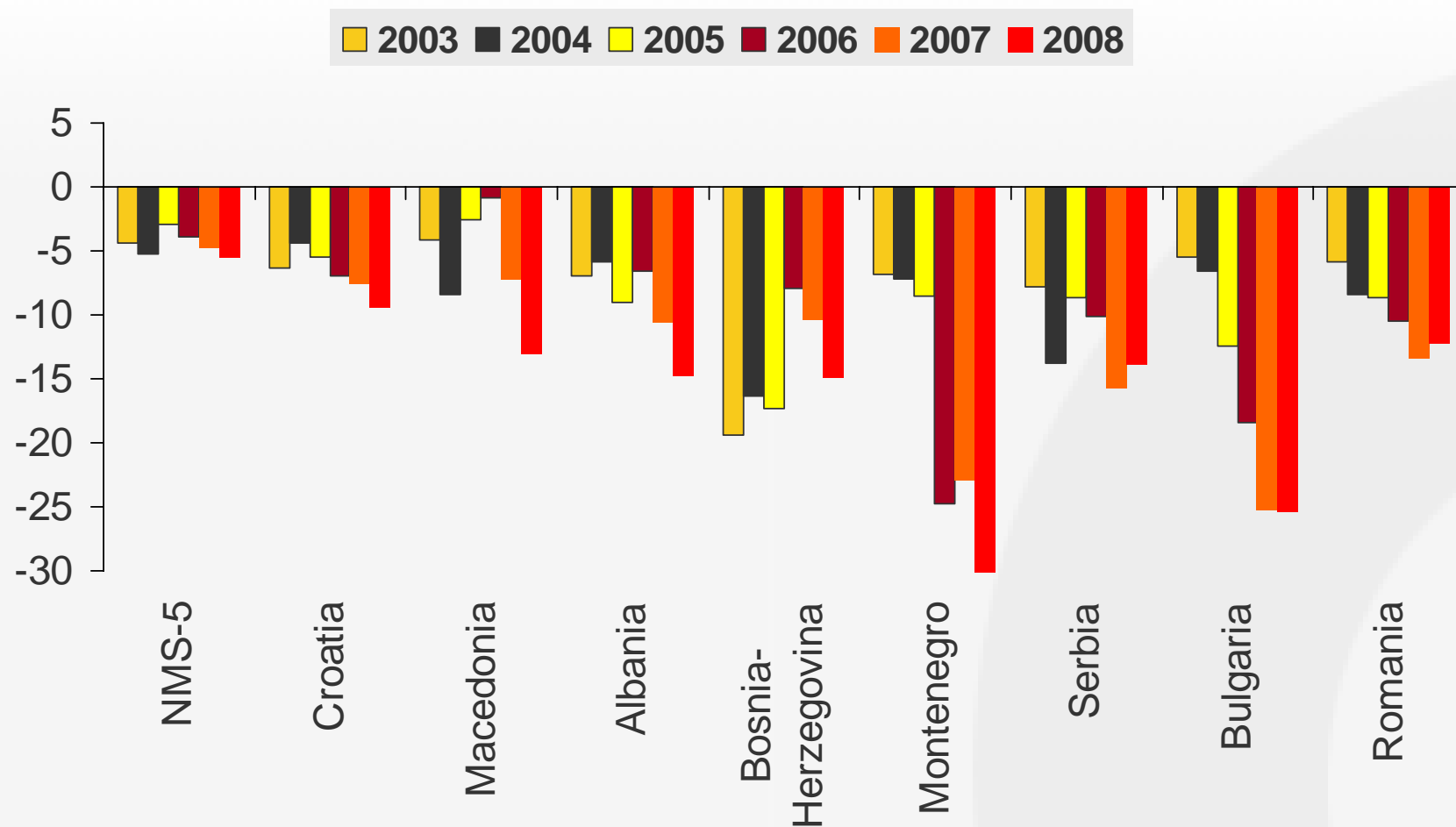
in % of GDP in SEE and CEE



Source: wiiw Annual Database incorporating national statistics.

Current account

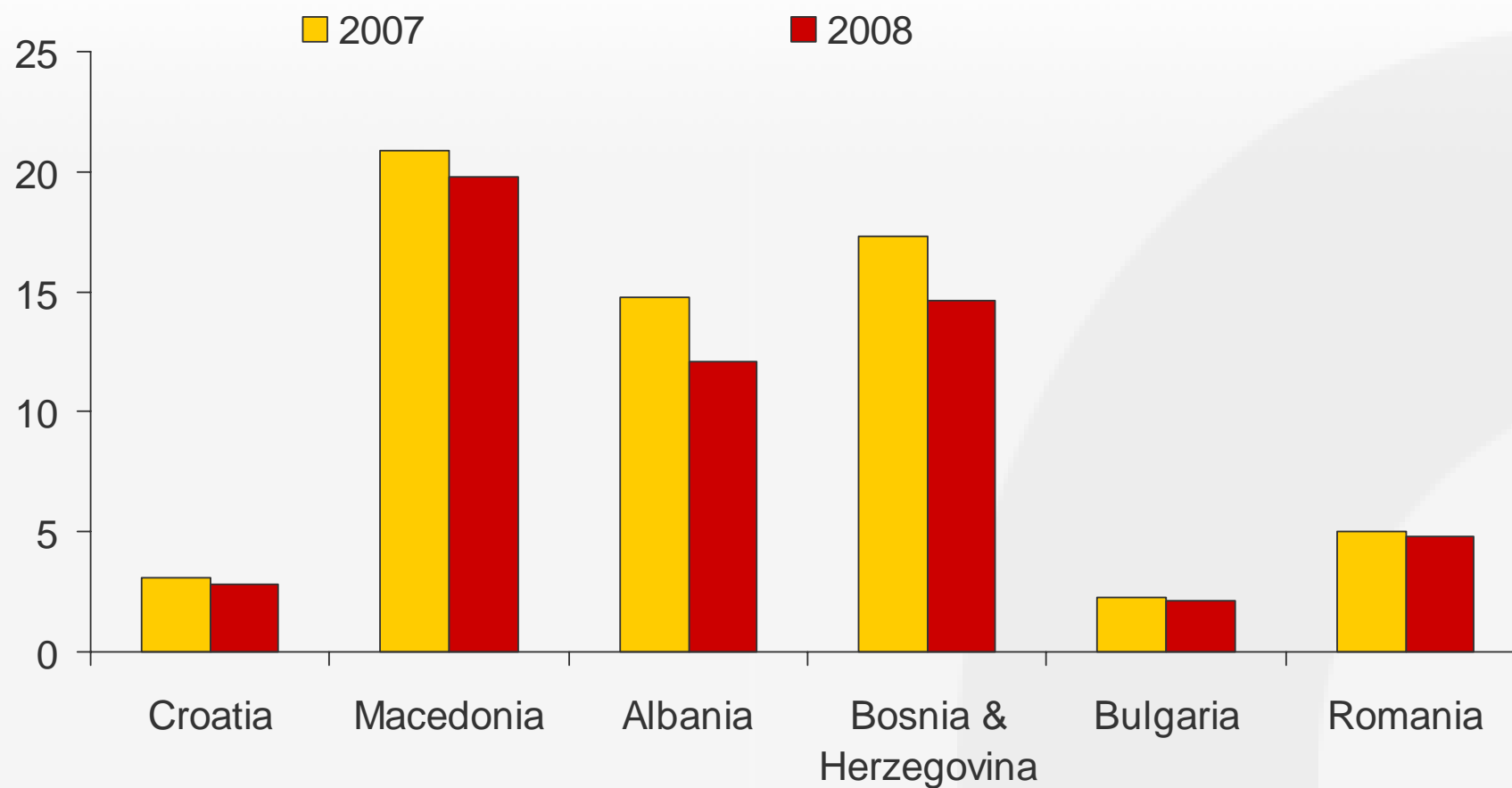
in % of GDP in SEE and CEE



Source: wiiw Annual Database incorporating national statistics.

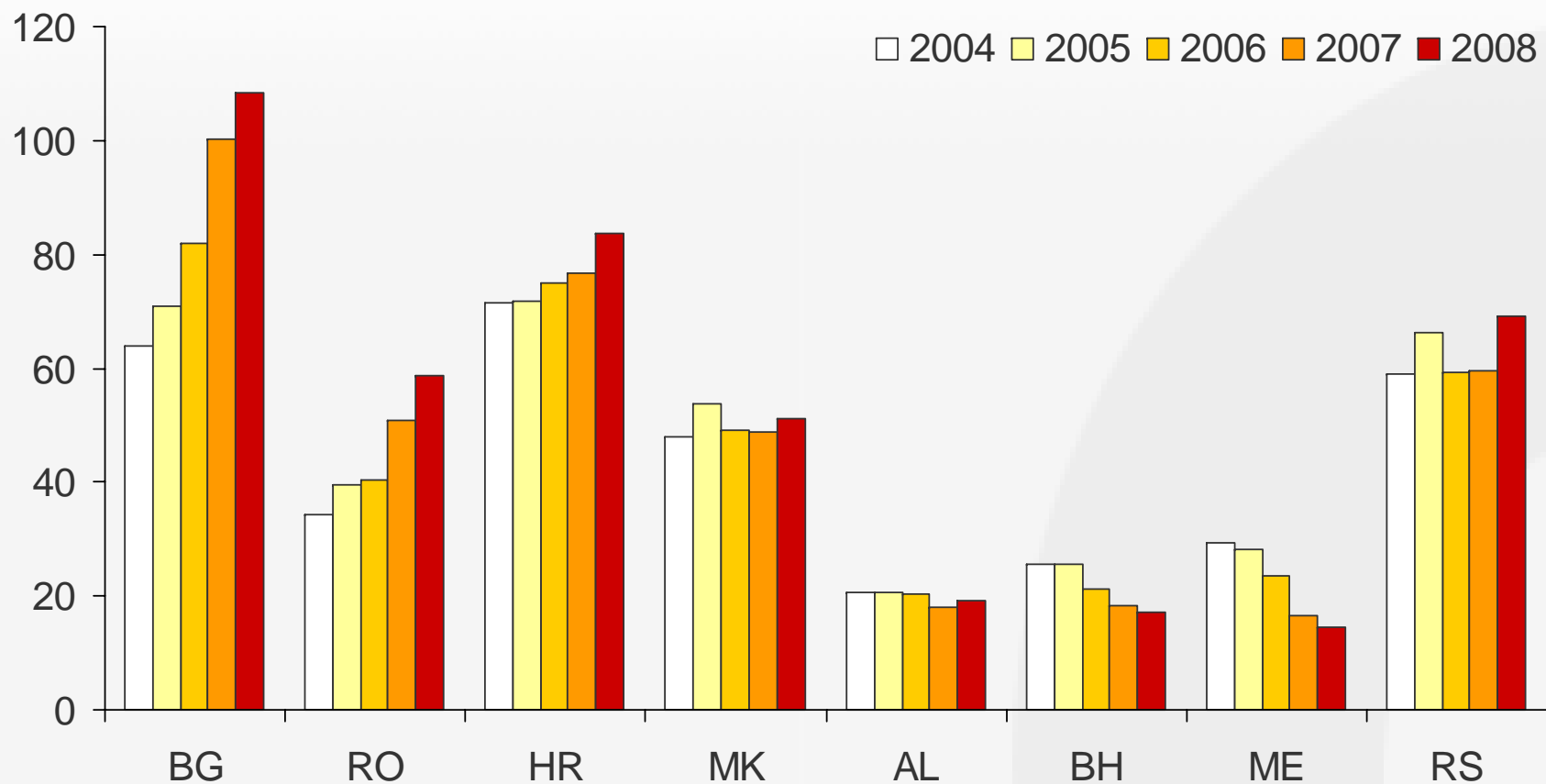
Private transfers in SEE

in % of GDP



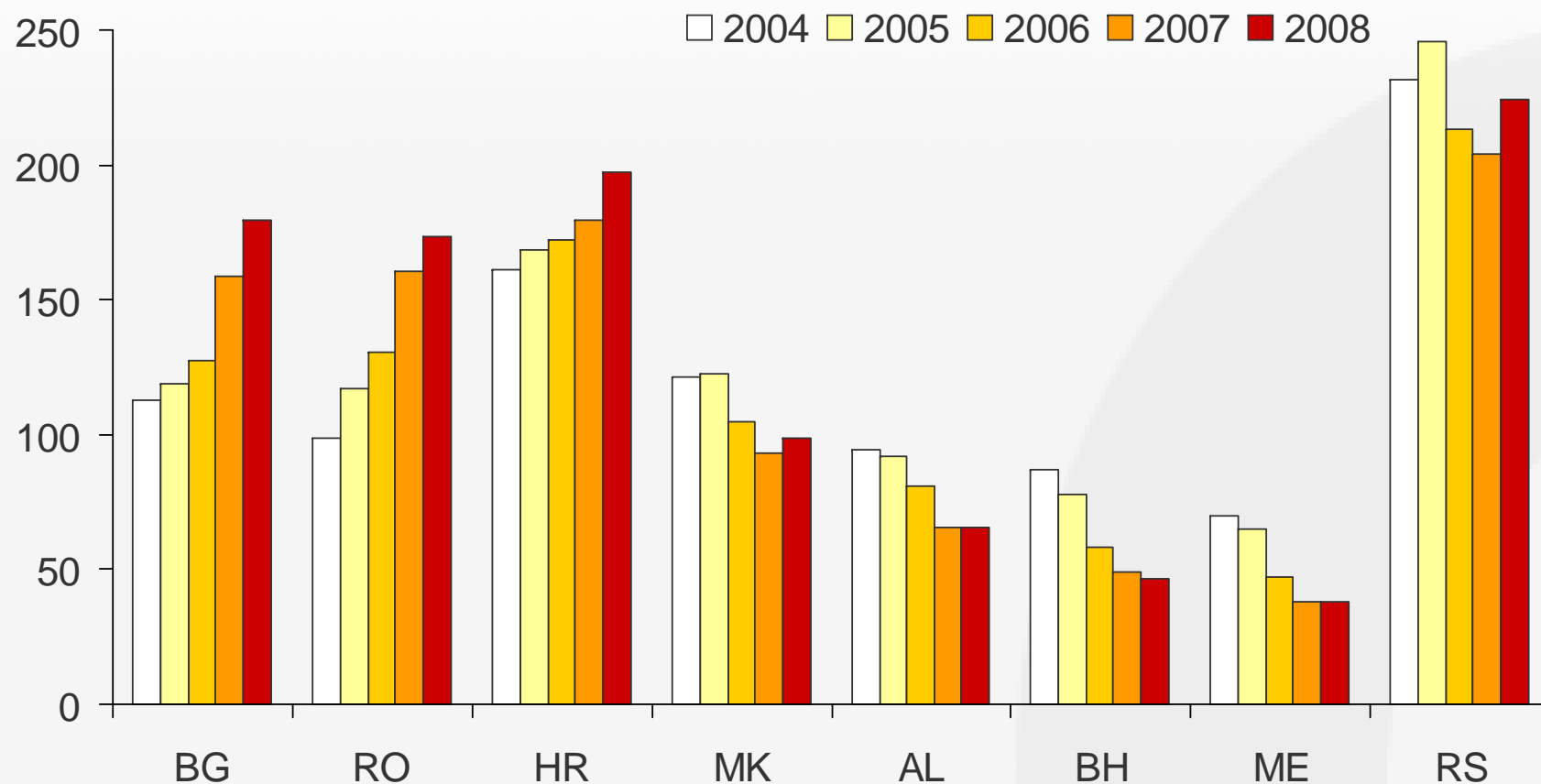
Source: wiiw Annual Database incorporating national statistics.

Gross external debt in % of GDP



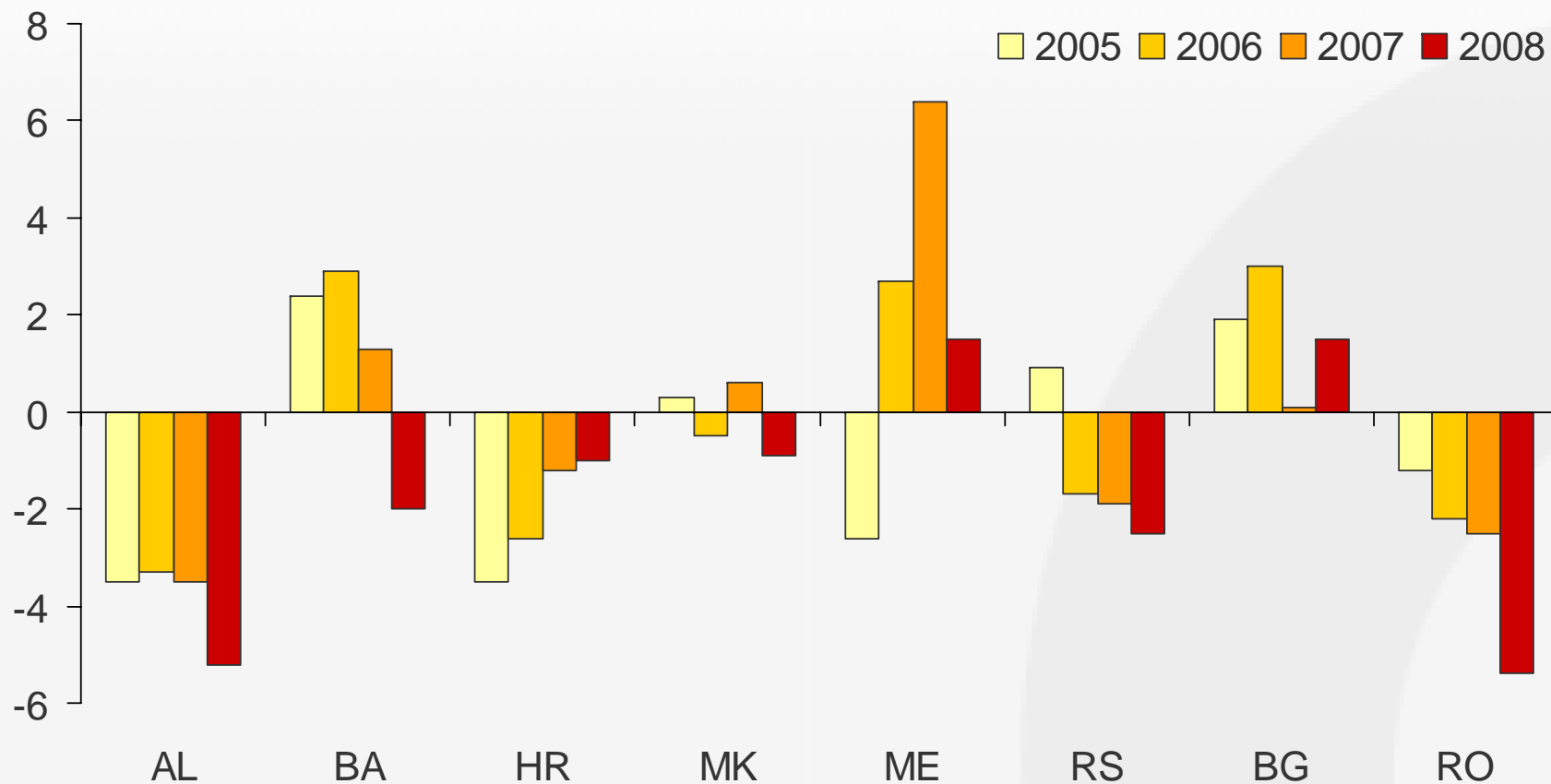
Source: wiiw Annual Database incorporating national statistics.

Gross external debt in % of exports of goods and services (BOP)



Source: wiiw Annual Database incorporating national statistics.

General government budget balance, in % of GDP



Source: wiiw Annual Database incorporating national statistics.

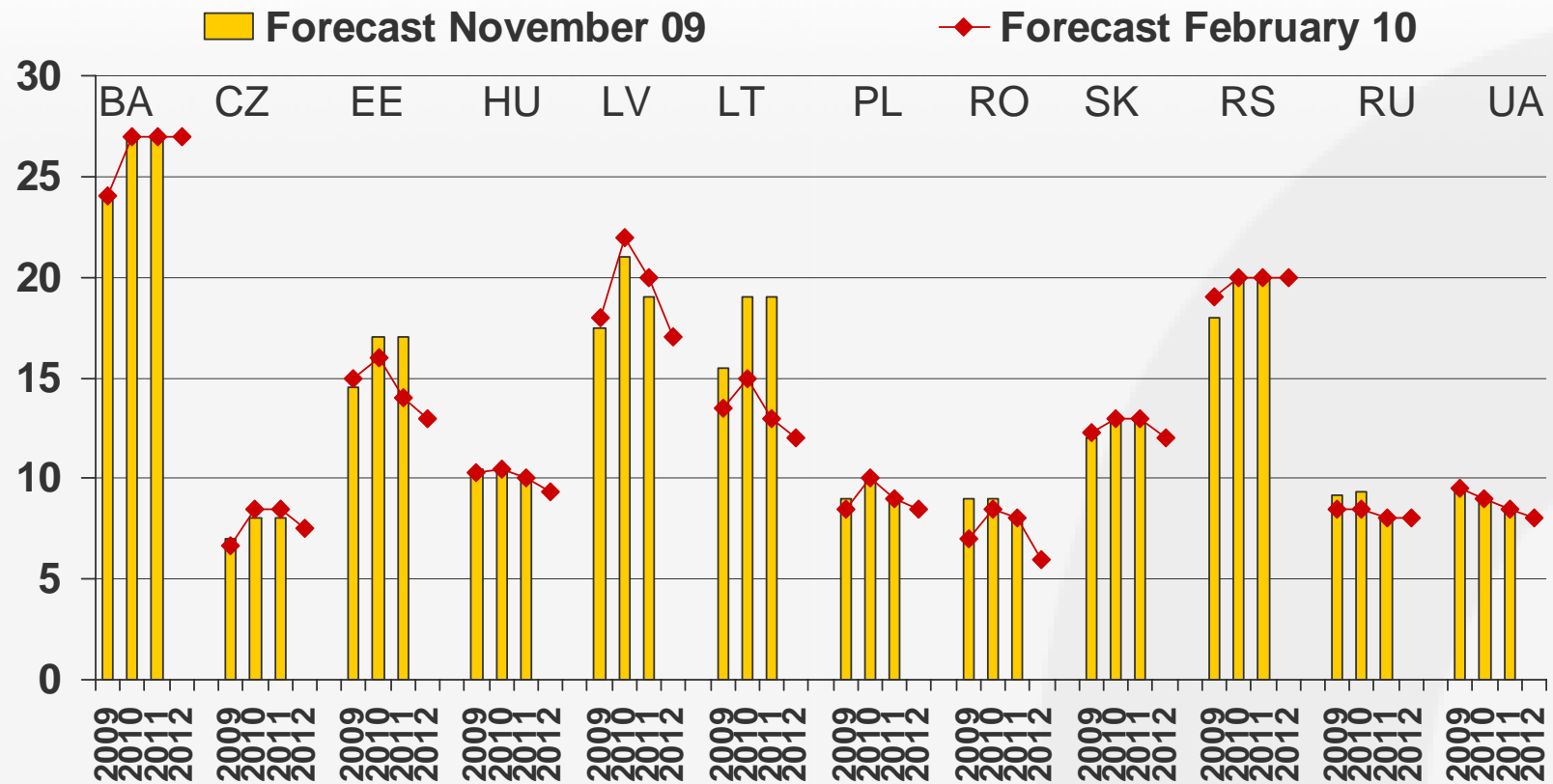
Labour market indicators 2008

LFS, in % average

	<i>Employment rate</i>	<i>Unemployment rate</i>
Albania	53.8	13.1
Bosnia and Herzegovina	33.6	23.4
Croatia	44.4	8.4
Macedonia	37.3	33.8
Montenegro	42.3	17.2
Serbia	44.4	13.6
Bulgaria	50.8	5.6
Romania	51.4	5.8

Unemployment rates, annual average, in %

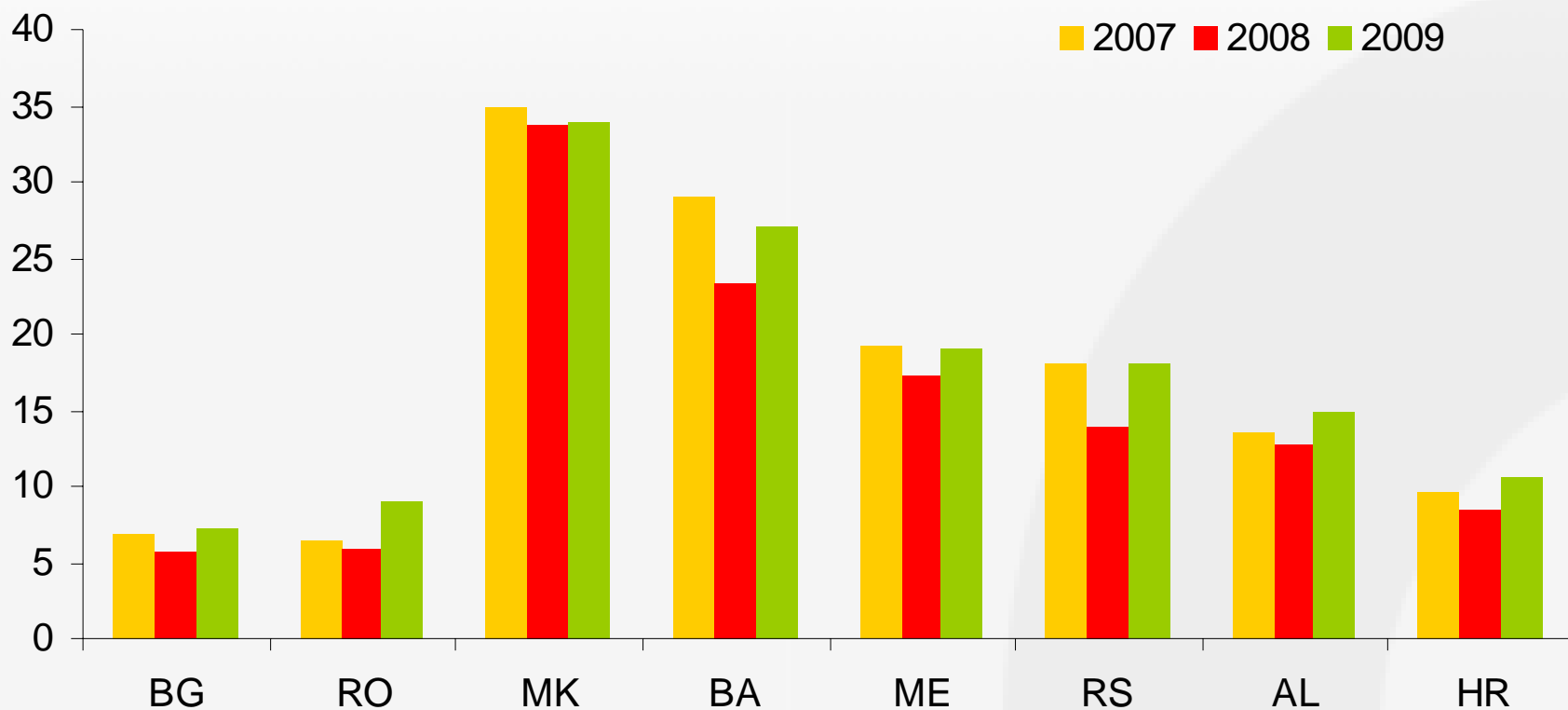
wiiw forecasts for 2009-2012



Source: wiiw forecasts November 2009 and February 2010.

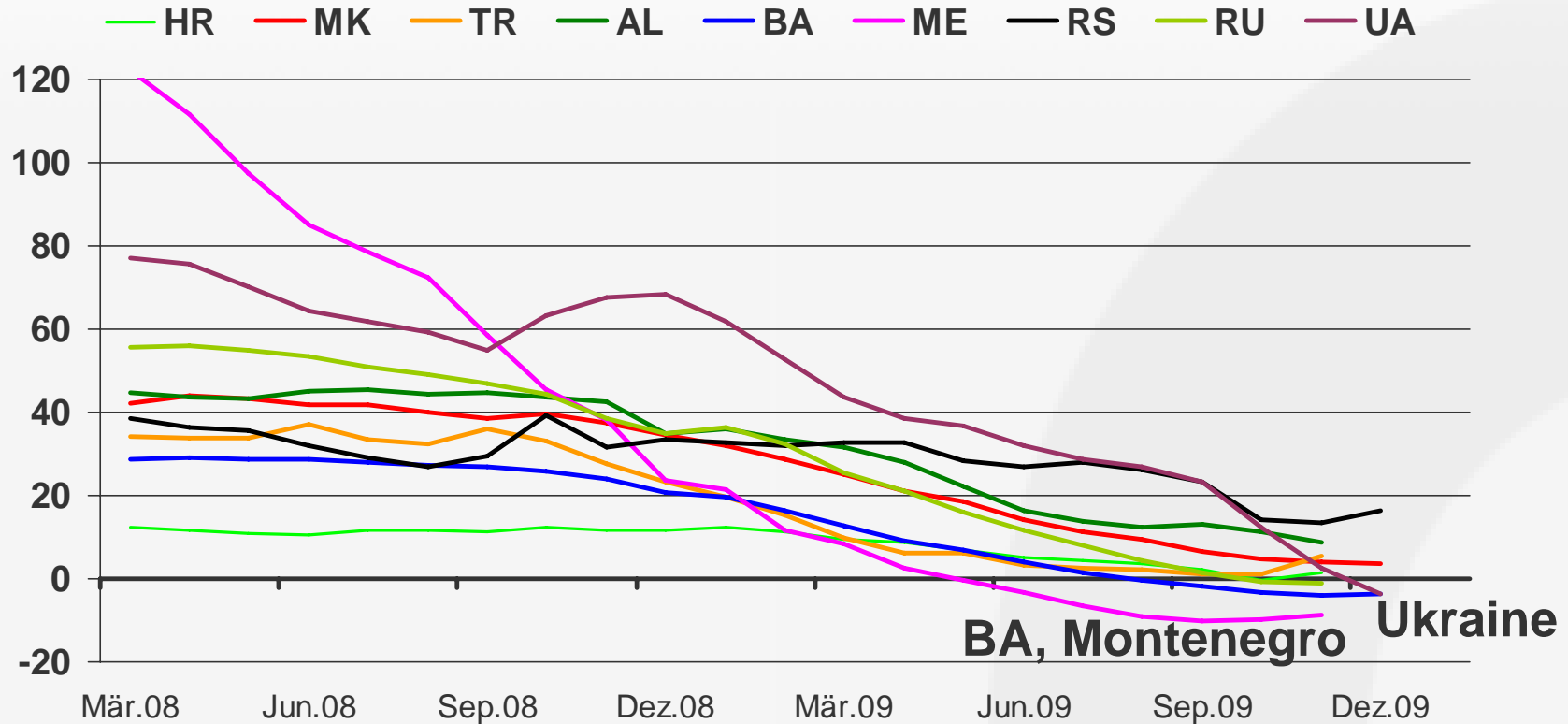
Unemployment rates, 2007-2009

in %, annual average, LFS



Source: wiiw Database.

Bank loans to non-financial private sector annual changes in %



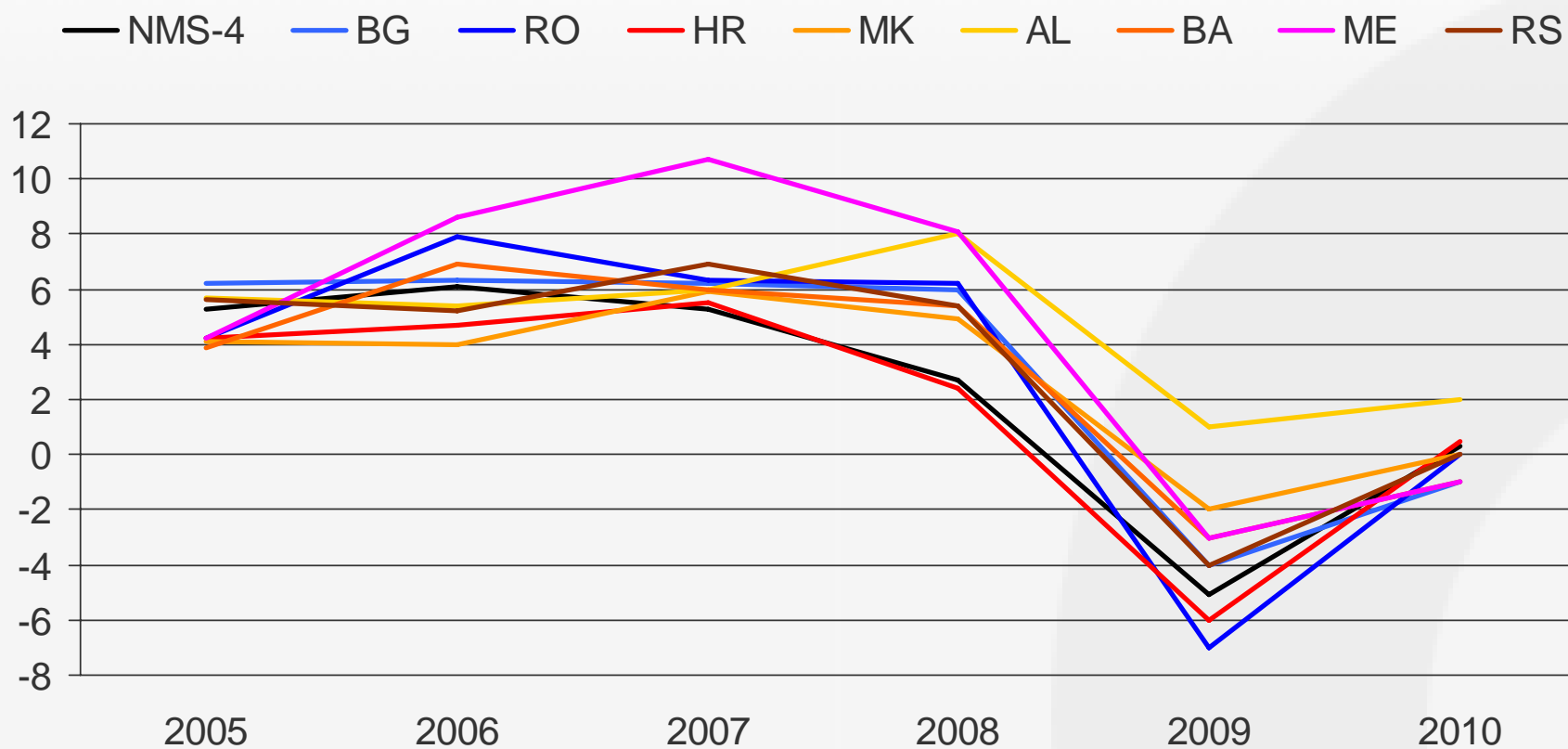
Source: National Bank of the respective country, wiiw calculation.

The main problem

- Weak tradeable sector
- External imbalances
- Low domestic savings

GDP growth rates, 2005-2010

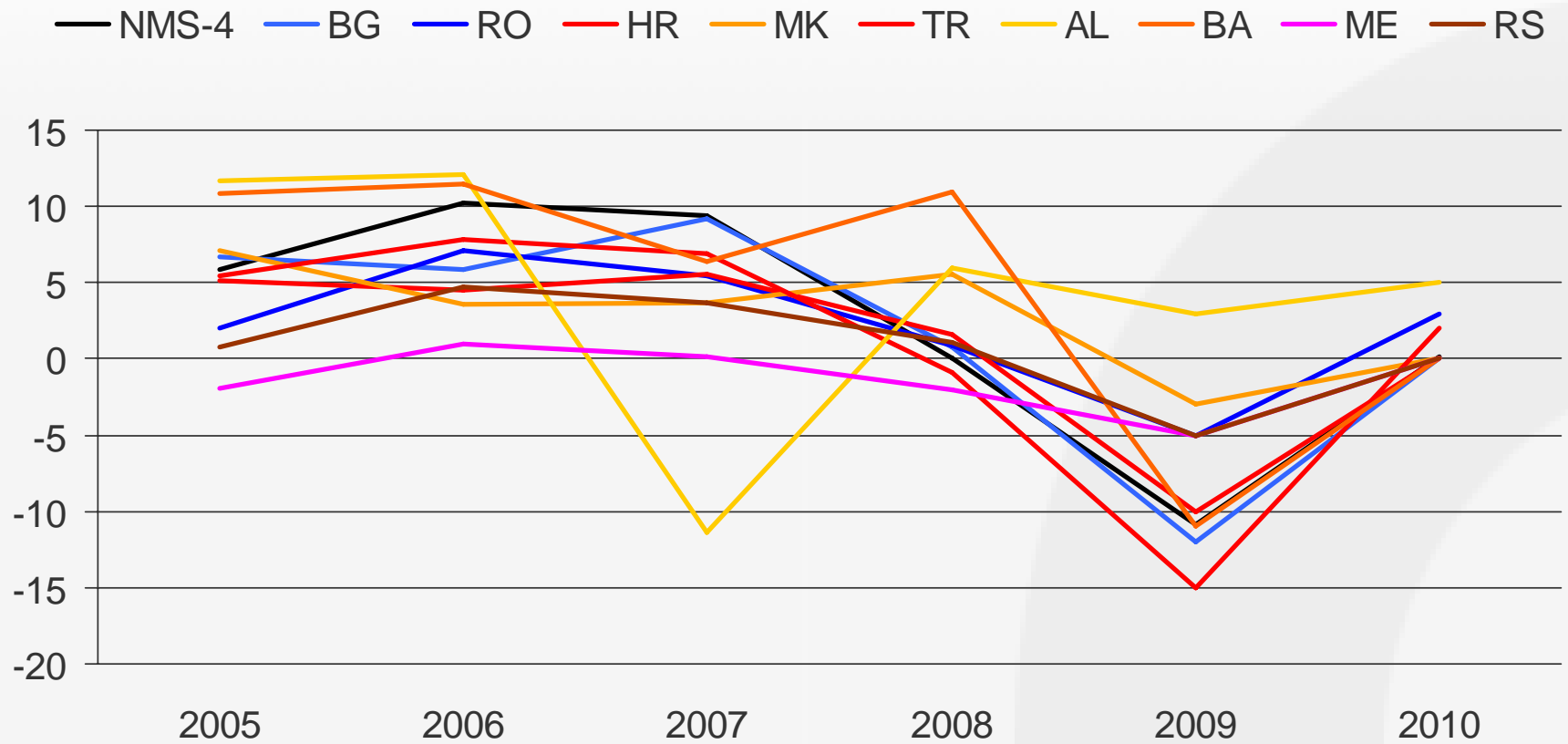
year-on-year, growth in %



Source: wiiw Annual Database incorporating national statistics.

Industrial production growth, 2005-2010

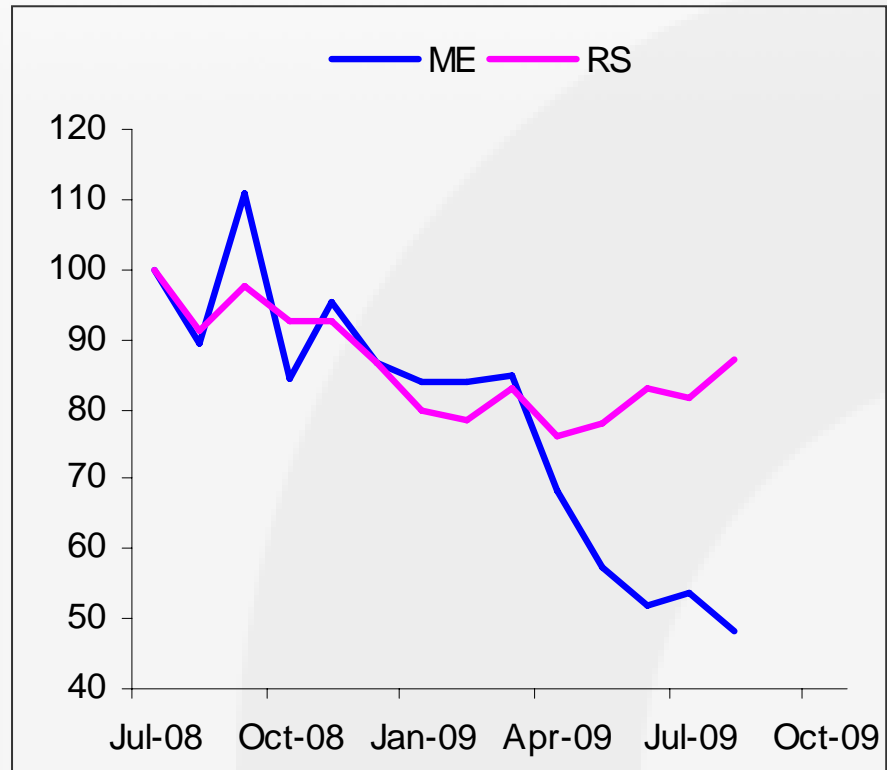
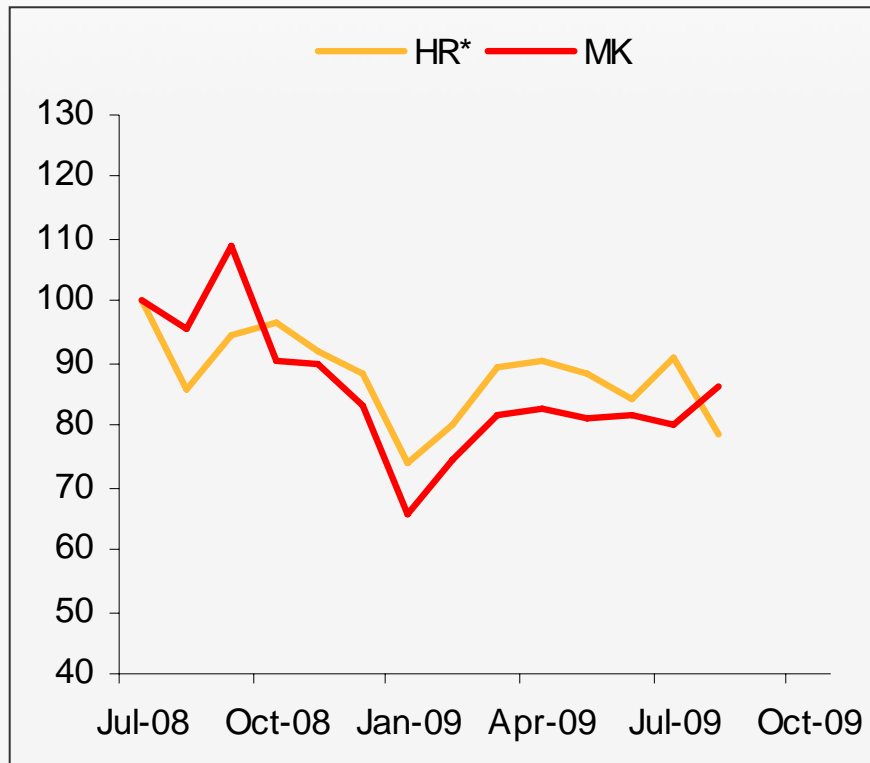
year-on-year, growth in %



Source: wiiw Annual Database incorporating national statistics.

Industrial production: very slow recovery

Industrial production, July 2008 = 100



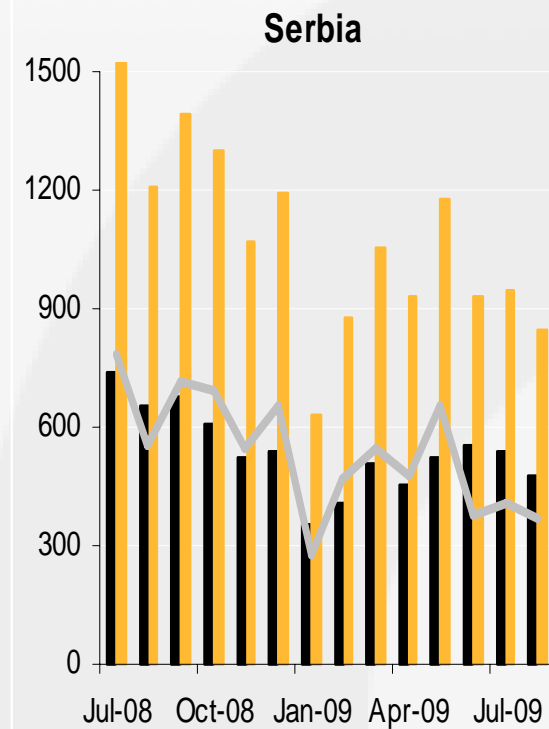
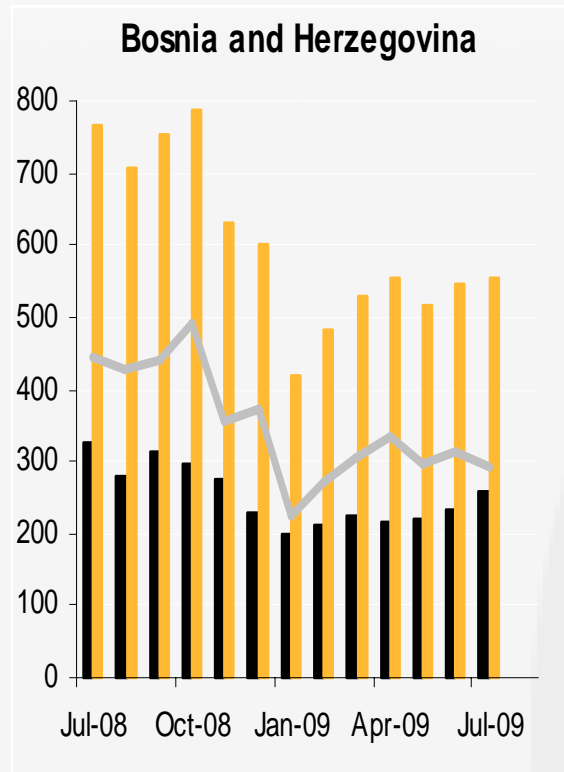
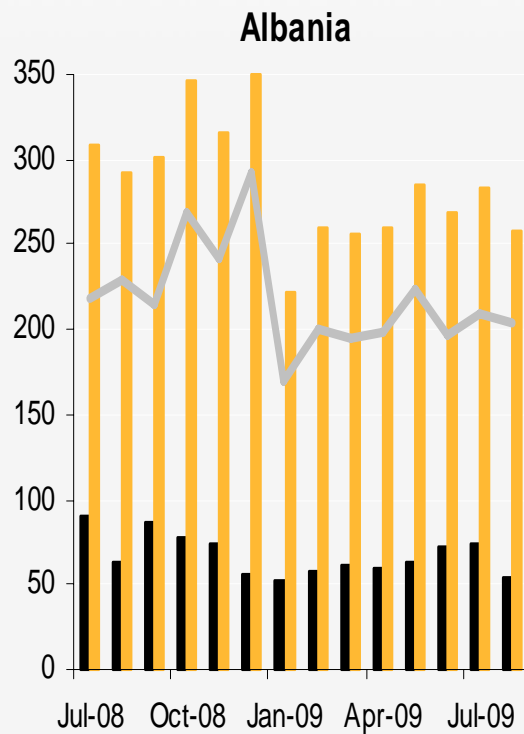
* not seasonally adjusted.

Source: wiiw Database.

Foreign trade: exports flat

EUR million, 2008-2009

Imports Exports Deficit

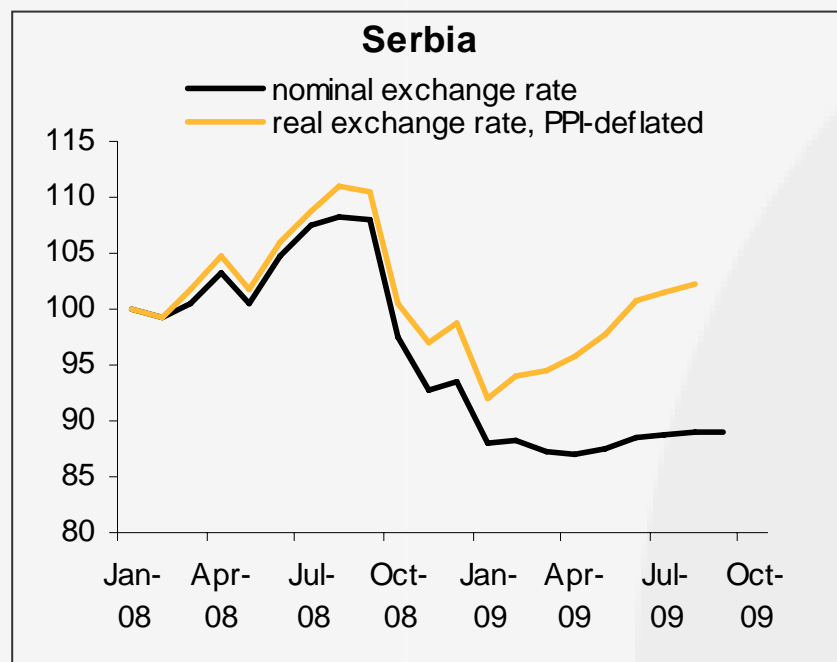


Source: wiiw Database, Eurostat.

Exchange rates*

Flexible exchange rate: drastic real depreciation after September 2008

2008-2009, EUR NCU, Jan. 2008 = 100

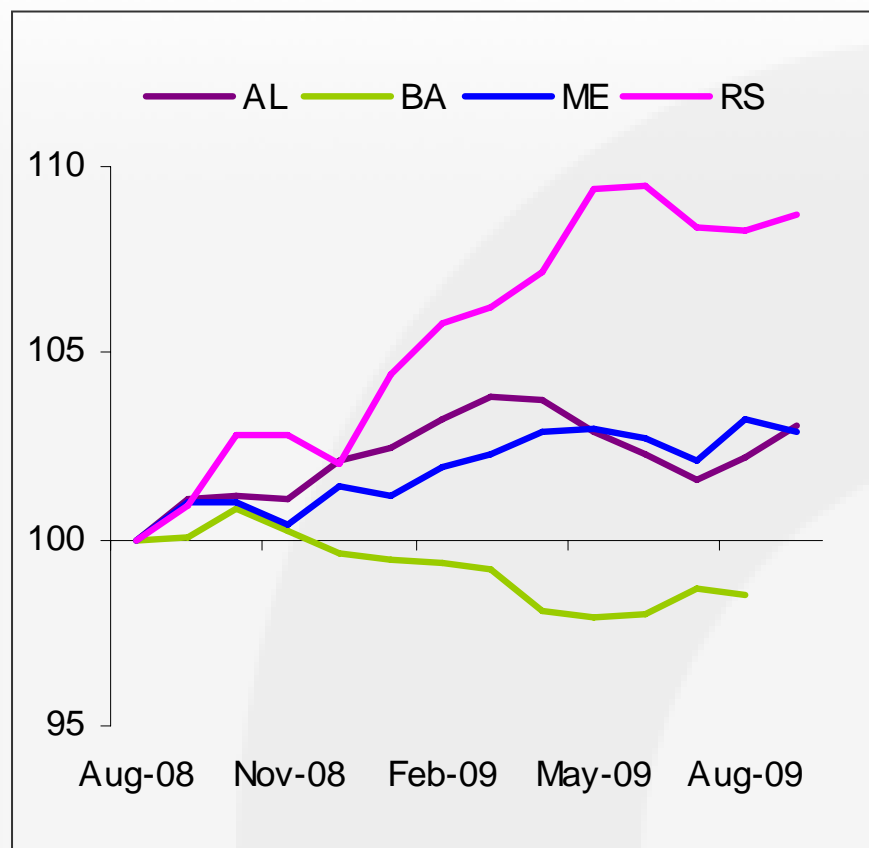
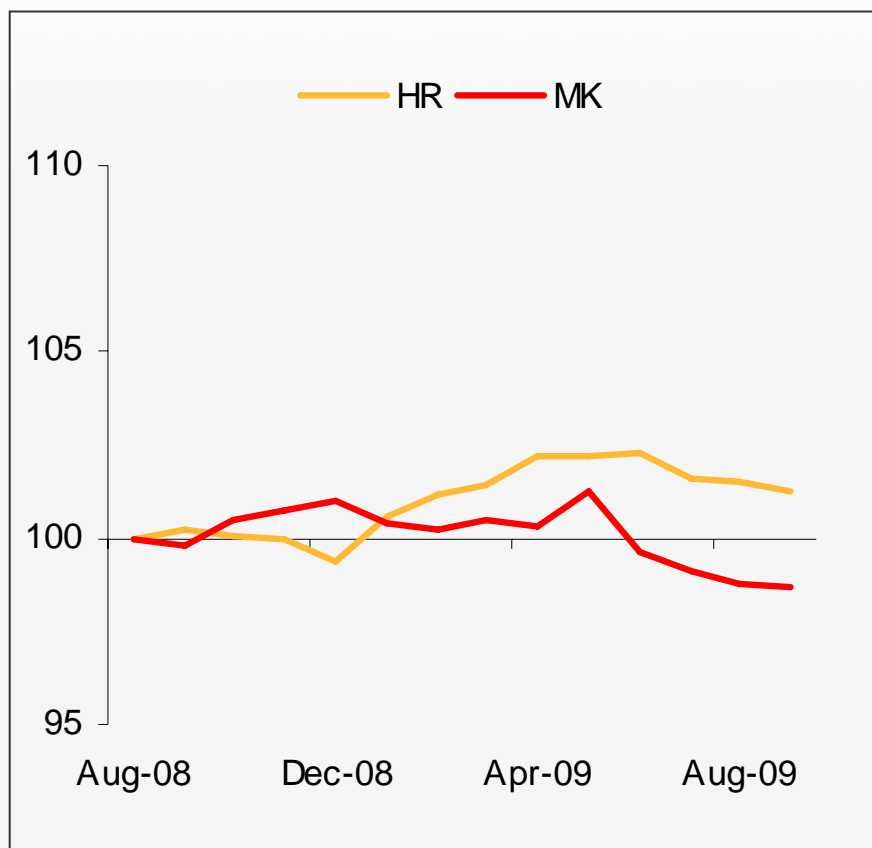


*Values over 100 indicate appreciation over January 2008.

Source: wiiw Database, Eurostat.

Consumer prices, 2008-2009

August 2008 = 100



wiiw growth forecasts for the region

GDP growth, in %

	2008	2009	2010	2011	2012
	Forecast				
Croatia	2.4	-6	-1	2	2.5
Macedonia	4.8	-2	0	2	3
Turkey	0.9	-6	4	3	5
Albania	7.8	4.2	1	4	5
Bosnia & Herzegovina	5.4	-3	-1	1	3
Montenegro	6.9	-5	-1	2	3
Serbia	5.5	-2.9	0	2	3
Kazakhstan	3.3	0.5	3	5	4.5
Russia	5.6	-7.9	3.4	4	4.3
Ukraine	2.1	-15.0	3	4.5	6
<i>NMS-10</i>	<i>4.2</i>	<i>-3.5</i>	<i>1.0</i>	<i>2.8</i>	<i>3.5</i>
<i>EU-15</i>	<i>0.5</i>	<i>-4.3</i>	<i>0.7</i>	<i>1.5</i>	<i>.</i>
<i>EU-27</i>	<i>1.0</i>	<i>-4.2</i>	<i>0.7</i>	<i>1.7</i>	<i>.</i>

Source: wiiw forecast, February 2010.

Short term prospect

- Preserving stability: lower inflation, gradual depreciation, some positive growth, some structural reforms
- Also: dealing with liquidity problems and social challenges

Medium Term Prospects

- Changing the strategy for growth in the sense of developing the tradable sector
- The key being increase of industrial production
- But also further reliance on agriculture, and
- Investments in infrastructure and services connected with transportation

Long run prospects

- Potential growth rate between 4 and 5% per year
- Some locational advantages
- Comparative advantages in industrial production (land-locked country)

Integration

- Regional cooperation – trade and investment – Resenstein-Rodan big push policies – wider region
- European Union perspective – key for stability and also regional cooperation

Conclusions

- The key strategic assumption is that foreign investments will not be as plentiful as in the last ten years or so
- So, policies will have to be designed with exports in mind, which means that wages and other costs will have to be kept at competitive levels
- That requires significant structural reforms on practically all markets