

quarterly monitor

OF ECONOMIC TRENDS AND POLICIES IN SERBIA

Issue 20 • January–March 2010

Belgrade, June 2010

PUBLISHER

The Foundation for the Advancement of Economics (FREN)
Kamenička 6, Beograd
Tel/Fax: 011 3021 069
E-mail: office@fren.org.rs
<http://www.fren.org.rs>

EDITORIAL COUNCIL

Mihail Arandarenko (for the Publisher)
Jurij Bajec
Pavle Petrović
Branko Urošević
Boško Živković

EDITORIAL BOARD

Pavle Petrović (Editor-in-Chief)
Maja Jandrić (Editor: *Trends*)
Milojko Arsić
Sonja Avlijaš
Danko Brčerević
Vuk Đoković
Mirjana Gligorić
Srđan Kokotović
Duško Vasiljević
Katarina Bojić (Executive Editor)

ASSOCIATES IN THIS ISSUE

Ivan Kalafatić
Tatjana Karaulac
Aleksa Nenadović
Saša Randelović
Svetozar Tanasković
Vukan Vujić

TRANSLATION

Gordana Filipović
Duška Tomanović
Uroš Vasiljević

DESIGN OF INNER PAGES

Stefan Ignjatović

PRINTING PREPARATION

Maja Tomić

COVER DESIGN

Nikola Drinčić

PRINTING OFFICE

Alta Nova

VOLUME

250 copies

© 2008 Kori Udovički

This publication is made possible by the support of the American People through the United States Agency for International Development (USAID). The contents of this publication are the sole responsibility of FREN and do not necessarily reflect the views of USAID or the United States Government.

The data published in this issue can be used freely and without the copyright holder's written permission, but only if the source is specified.

Table of Contents

From the Editor	5
----------------------------------	---

TRENDS

1. Review

Selected Indicators: Table.	7
-------------------------------------	---

2. Economic Activity

Slow economic recovery – with year-on-year growth of 0.9% – at this pace, 2008 GDP to be reached only in 2011; export demand drives economic growth	10
---	----

3. Employment and Wages

Employment at record low – unemployment rate set to exceed 19%; real wages see slight growth	17
--	----

4. Balance of Payments and Foreign Trade

Current account deficit at 9.8% of GDP in Q1; exports on the rise, imports slowing.	22
---	----

5. Prices and the Exchange Rate

Inflation accelerates – 1.9% in Q1 – but remains within NBS target band; exchange rate depreciates by 4% – is dinar approaching its real value?	30
---	----

6. Fiscal Flows and Policy

Unplanned real tax revenue drop continues; consolidated deficit at 4.8% of GDP in 2010 – agreement reached with IMF; Q1 sees public debt rise by 1.3% of GDP.	35
---	----

7. Monetary Flows and Policy

Continuing relaxation of monetary policy – reference interest rate at 8%; lending on the rise, but share of bad loans remains high	41
--	----

8. Financial Markets

Belgrade Stock Exchange indexes rise, with turnover and number of transactions falling.	50
---	----

9. International Environment

Global recovery quicker than expected, albeit with major regional differences – China leads growth, Eastern Europe brings up the rear	54
---	----

HIGHLIGHTS:

<i>Highlights 1.</i> Comparative Analysis of Alternative Tax Reform Proposals	60
---	----

<i>Highlights 2.</i> Political Economy of Employment Cuts in Local Administrations	63
--	----

<i>Highlights 3.</i> First Serbian Tax-Benefit Microsimulation Model – SRMOD	66
--	----

SPOTLIGHT ON

Spotlight On 1:

Mapping Serbia's Growth

Lazar Šestović

This text analyzes Serbian economic growth, emphasizing its regional variations, and offers possible options for economic policy makers. Belgrade, Novi Sad, Niš and Kragujevac, Serbia's four largest cities, contributed some 60% from 2001 to 2008 to the increase in added value in the economy. Geographically unbalanced growth has caused variations in the standard of living. . . 67

Spotlight On 2:

Impact of the Economic Crisis on Vulnerable Groups in Serbia's Labor Market

Gorana Krstić, Mihail Arandarenko

This article presents the results of an analysis of the impact of the economic crisis in changes to relative positions of vulnerable groups in Serbia's labor market in relation to total working-age population. The results show that the position of the young and South-Eastern Serbian rural population worsened substantially in 2009 in relation to 2008; other demographic categories have in the meantime seen either a minor improvement, or a slight worsening, in their position in the labor market. . . 86

Analytical and Notation Conventions

Values

The data is shown in the currency we believe best reflects relevant economic processes, regardless of the currency in which it is published or is in official use in the cited transactions. For example, the balance of payments is shown in euros as most flows in Serbia's international trade are valued in euros and because this comes closest to the measurement of real flows. Banks' credit activity is also shown in euros as it is thus indexed in the majority of cases, but is shown in dinars in analyses of monetary flows as the aim is to describe the generation of dinar aggregates.

Definitions of Aggregates and Indices

When local use and international conventions differ, we attempt to use international definitions wherever applicable to facilitate comparison.

Flows – In monetary accounts, the original data is stocks. Flows are taken as balance changes between two periods.

New Economy – Enterprises formed through private initiative

Traditional Economy - Enterprises that are/were state-owned or public companies

Y-O-Y Indices – We are more inclined to use this index (growth rate) than is the case in local practice. Comparison with the same period in the previous year informs about the process absorbing the effect of all seasonal variations which occurred over the previous year, especially in the observed seasons, and raises the change measure to the annual level.

Notations

CPI – Consumer Price Index

Cumulative – Refers to incremental changes of an aggregate in several periods within one year, from the beginning of that year.

H – Primary money (high-powered money)

IPPI – Industrial Producers Price Index

M1 – Cash in circulation and dinar sight deposits

M2 in dinars – In accordance with IMF definition: cash in circulation, sight and time deposits in both dinars and foreign currency. The same as M2 in the accepted methodology in Serbia

M2 – Cash in circulation, sight and time deposits in both dinars and foreign currency (in accordance with

the IMF definition; the same as M3 in accepted methodology in Serbia)

NDA – Net Domestic Assets

NFA – Net Foreign Assets

RPI – Retail Price Index

y-o-y - Index or growth relative to the same period of the previous year

Abbreviations

CEFTA – Central European Free Trade Agreement

EU – European Union

FDI – Foreign Direct Investment

FFCD – Frozen Foreign Currency Deposit

FREN – Foundation for the Advancement of Economics

GDP – Gross Domestic Product

GVA – Gross Value Added

IMF – International Monetary Fund

LRS – Loan for the Rebirth of Serbia

MAT – *Macroeconomic Analyses and Trends*, publication of the Belgrade Institute of Economics

NES - National Employment Service

NIP – National Investment Plan

NBS – National Bank of Serbia

OECD – Organization for Economic Cooperation and Development

PRO – Public Revenue Office

Q1, Q2, Q3, Q4 – 1st, 2nd, 3rd, and 4th quarters of the year

QM – *Quarterly Monitor*

SORS – Statistical Office of the Republic of Serbia

SDF – Serbian Development Fund

SEE – South East Europe

SEPC – Serbian Electric Power Company

SITC – Standard International Trade Classification

SME – Small and Medium Enterprise

VAT – Value Added Tax