2. Economic activity

According to the last SORS estimate, economic activity in 2013 recorded a solid growth of 2.4%. Circumstances in Serbia's economy in 2013 are less favorable than the rate of growth itself indicates. The biggest part of the economy is in recession, and the overall growth is the result of a one-time increase in agricultural production, by over 20% (due to a recovery from the drought from 2012), and a strong growth in production of several companies (Fiat, NIS). Therefore, foundations for economic growth in 2014 are not well positioned, as the drivers of economic growth from 2013 will exhaust - and the new ones have not been established. From the standpoint of growth perspective in 2014 the fall in investments of about 10% worries. Without new investments it is difficult to expect that the high growth of net exports will continue (which was the most favorable trend in 2013). State and personal consumption will continue to decrease in real terms, as the government plans to implement fiscal consolidation and reduce pensions and wages in real terms, and the wage mass in the private sector is still under the influence of unfavorable trends on the labor market. As a consequence in 2014 we expect stagnation of the economic activity and the growth rate of about 0%. In the last quarter of 2013 SORS estimated that the year on year growth of GDP was 2.6% but compared to Q3 there was a decrease of seasonally adjusted economic activity – due to a significant fall in industrial production. Price competitiveness of the domestic economy is at a satisfactory level, but a slight depreciation could further improve it.

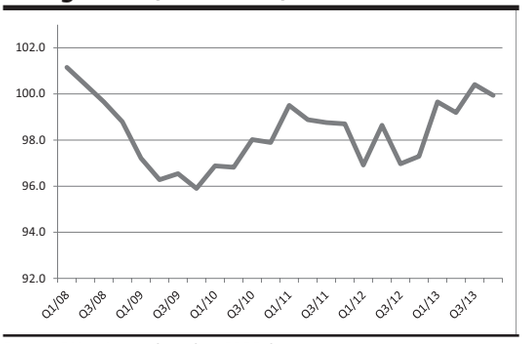
Gross domestic product

Y-o-y GDP growth of 2.6% in Q4

According to the preliminary, flash, SORS estimate, the real y-o-y GDP growth in Q4 was 2.6%. This growth is solid but still slightly lower than the one achieved in Q3 (3.7%) which indicates a slowdown in economic activity. Confirmation for this is seasonally adjusted GDP (Table T2-1) which shows that the value of the seasonally adjusted GDP in Q4 is 0.5% lower than the one from Q3.

Decrease in Q4 consequence of the reduction in industrial production

Graph T2-1. Serbia: Seasonally adjusted GDP growth (2008=100)



Source: *QM* estimates based on SORS data

The reason for the decrease in economic activity in Q4 compared to Q3 is seasonally adjusted decline in industrial production. Industrial production has contributed to the reduction of seasonally adjusted GDP in Q4 compared to Q3 by 0.6 percentage points, while the total decline in GDP stood at 0.5%. We therefore conclude that, except for industrial production, the Serbian economy in Q4 remained at almost unchanged level of economic activity from Q3 - that is, its overall decline is consequence of the reduction in industrial production.

In 2013 growth of GDP of 2.4%

If official statistic confirms preliminary assessment of GDP in Q4, it would mean that in 2013 a real GDP growth of 2.4% was achieved. We could call this a positive surprise since in the previous issue of QM we expected that the GDP growth will be below 2%. Reason for higher growth of GDP than expected, however, is not the acceleration of economic activity in Q4. On the contrary, economic activity slowed down in Q4 compared to Q3. Higher growth than expected was a result of data revision SORS performed for previous three quarters. Growth of GDP in all three quarters of 2013 was increased by about 0.5% through this revision, and so instead of expected growth of 1.9%, at the end growth of 2.4% was achieved. QM redaction is however very reserved towards the most current revisions of national accounts performed by SORS.[1]

1 For more details se Highlight 1 of this issue of *QM*

Pre-crisis level of production reached

It is interesting to note that, after the upward revision of the data for the first three quarters of 2013 GDP now surpassed its pre-crisis value (Graph T2-1). This pre-crisis value we defined as the average quarterly value of GDP in 2008. Recent SORS data indicate that GDP in Q3 was 0.4% higher than before the crisis, which means that the pre-crisis level of production was achieved five years after its outbreak.

It is important to point out, however, that with reaching pre-crisis levels of production the structure of GDP in the past five years has changed significantly. Growth of the economy is no longer based on domestic demand but on the growth of net exports. Private consumption is reduced in real terms compared to its value in 2008 by 7%, government spending (expenditures for salaries in the public sector and purchases of goods and services by the state) is almost unchanged (increased by about 1%), and investments are reduced by 16%. The decline in domestic demand was compensated by growth in net exports, as exports grew by 26% in real terms compared to 2008, while imports decreased by about 10%. The expenditure side of GDP is shown in Table T2-2, with the most recent available data for Q3 2013. Observed from the perspective of long-term sustainable growth of the economy, some changes in aggregate demand can be assessed as positive. The high growth of exports and the decline of imports is probably the most positive trend, which has contributed to reducing the unsustainably high deficit in the current balance of payments which existed in Serbia before the outbreak of the crisis. Reduction in personal consumption, although very unpopular, is part of a necessary process of harmonization of consumption and disposable income. However, the large real decline in investments is not very satisfactory from the standpoint of long-term growth of the economy, and also it is bad that the real decrease in government spending, which is oversized in relation to the possibility of the country, has been absent until now,

Table T2-2. Serbia: GDP by expenditure method, 2009-2013

	Y-o-y indices										
	2009	2010	2011	2012	2012				2013		
					Q1	Q2	Q3	Q4	Q1	Q2	Q3
GDP	96.5	101.0	101.6	98.5	97.4	100.0	98.2	98.3	103.0	100.6	103.7
Private consumption	97.2	99.1	98.9	98.2	100.1	99.9	98.8	94.2	98.2	98.3	97.9
State consumption	98.1	100.4	101.0	101.7	103.9	105.6	100.4	97.5	97.1	95.6	101.8
Investment	77.9	94.5	108.4	114.4	123.8	126.0	117.7	97.4	102.7	83.6	89.7
Export	92.0	115.3	103.4	101.8	95.9	105.1	102.4	103.2	111.4	112.6	126.7
Import	80.9	103.1	107.0	101.9	104.3	105.6	99.4	98.8	97.8	99.8	106.9

Source: SORS

In 2013 economy is driven by net exports while investments decline strongly

Table T2-2 shows that in 2013 similar structure of GDP growth as in the previous five years was achieved. Exports is the only aggregate with strong positive real growth and that growth in 2013 amounted to just over 17% (data for the first three quarters). On the other hand, private and government consumption had almost equal real decline of 1.9%, and investment decline of almost 10%. The decline in investments is particularly worrisome, because its strong reduction, which was already certain in 2013, will have a very negative impact on the economic growth in 2014. Companies invest little because they do not have enough of their own funds, and because of financial problems domestic and foreign banks are not willing to credit them. In addition, relatively low level of foreign direct investment, that will amount to about 700 million in 2013, did not significantly influenced the growth of total investments.

In general, investments in Serbia are low and in 2013 will by all accounts be below 20% of GDP, and for the growth of the economy of 4-5% annually investment of around 25% of GDP are needed. In the short term of one to two years, a significant increase in investments can be achieved primarily on the basis of the growth of foreign and public investments. Increasing foreign investments from 2.2% of GDP to 4-5% of GDP, as well as public investment from 2.5% to 4-5% of GDP would create momentum for the start of long-term growth of the economy. Although in the short term we cannot count on significant growth of domestic private investments, in the medium and long term these investments should become the main driver of growth of the Serbian economy. For the growth of domestic private investments to happen it is crucial to solve

the accumulated financial problems in private companies, as well as to improve the business environment through the reform of the economic system.

Net exports are increasing due to the expansion of production in several companies

Growth of net exports is mostly a consequence of operations in only a few companies, of which the most important are Fiat Automobiles Serbia (FAS) and NIS. Of the total increase in net exports of around 1.5 billion euros in 2013, a half is a consequence of operations in only these two companies. This is, however, the specificity of 2013 and these trends will not continue in 2014. In fact, both of these companies have already reached almost full utilization of existing capacity, so the increase in their production and exports, as the one from 2013, is unlikely in 2014. More investments in 2013 were needed for a similar pace of exports growth to continue in 2014 - much like the increase in investments in 2011 and 2012 (Table T2-2) preceded a strong growth in net exports. As this did not happen, but the investments in 2013 were in decline, it is hard to expect that the unchanged rate of growth of exports can be lasting.

High growth of agriculture and deep fall of construction

GDP trend analysis in Q3 and in 2013 can be complimented with the data by the production method which is presented in Table T2-3. The table shows individual sectors growth ending with the last available official data which refer to Q3. Similar to the analysis of GDP trend per use, in this case we also believe that, based on data for the first three quarters of the year, we can show basic trends in individual sectors of the economy in the entire 2013. Table T2-3 reveals that a sector of agriculture has the largest increase in 2013, of over 20% and that this high growth is the result of comparison of the above-average agricultural production in 2013 with the extremely poor agricultural season from 2012. Another sector that contributes the most to the growth of the economy is the information and communication, which is on the multi-year trend of a steady growth. The third sector that significantly contributes positively to GDP growth in 2013 is manufacturing which in the first three quarters of 2013 achieved growth of 5.5%. On the other hand, the most unfavourable trend of all sectors of the economy has construction, which, according to data for the first three quarters of 2013, recorded a decline of as much as 30%, compared to the same period last year. Construction trend confirms worrisome decline in investment, which we have already observed when analysing GDP by use.

Table T2-3. Serbia: Gross Domestic Product by Activity, 2009-2013[1]

	Y-o-y indices											
	2009	2010	2011	2012	2012				2013			Share
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	2012
Total	96.5	101.0	101.6	98.5	97.4	100.0	98.2	98.3	103.0	100.6	103.7	100.0
Taxes minus subsidies	98.3	100.9	101.6	98.6	96.6	100.4	98.1	98.3	103.1	99.7	104.3	17.4
Value Added at basic prices	96.1	101.0	101.6	98.5	97.6	99.9	98.2	98.3	103.0	100.7	103.5	82.6
Non agricultural Value Added	95.8	101.6	101.5	100.6	99.5	102.0	100.5	100.4	101.3	98.8	101.0	91,1[2]
Agriculture	100.8	99.6	100.9	82.7	81.3	82.9	83.2	82.8	122.9	121.0	118.7	8,9[2]
Manufacturing	84.2	100.9	100.6	101.1	96.3	103.3	99.2	104.9	104.4	103.2	108.7	14,4[2]
Construction	80.3	92.9	107.7	99.2	118.2	110.9	98.7	80.9	78.9	62.4	74.0	3,9[2]
Wholesale and retail trade	92.5	101.7	94.5	100.2	98.2	103.1	101.1	98.3	96.8	95.9	98.6	13,0[2]
Transport and storage	90.0	108.2	103.1	100.0	94.5	103.3	100.1	102.1	105.4	100.0	96.5	5,5[2]
Informations and communications	110.0	105.4	108.4	104.8	106.5	106.2	99.3	107.3	111.4	109.9	112.5	9,6[2]
Financial sector and insurance	105.5	107.2	101.0	104.0	99.8	104.8	106.4	104.9	101.8	99.5	97.3	4,1[2]
Other	101.6	100.8	102.0	99.9	99.1	99.4	100.7	100.5	101.5	100.6	101.7	41,1[2]

Source: SORS
1) In the previousyear'sprices
2) Share in GVA

No major changes in Q4, except for the reduction in industrial production

Based on the available monthly data we estimate that in Q4 there will be small changes in the structure of production growth by sector, compared to Q3. Monthly indicators of industrial production trend point to a strong y-o-y decrease in the manufacturing industry – which, we think, is the main reason for the slowdown in overall GDP growth in Q4 compared to Q3. On the other side, from the Announcements on construction activity in Q4, we conclude that there will be some recovery of construction, which, however, due to the lower share of construction in GDP (especially in Q4), will not significantly affect the overall GDP. Other sectors of the economy in Q4 will likely have similar growth rates as in Q3 (Table T2-3).

In 2014 zero growth rate probable

In the previous, December, issue of QM we gave a forecast of zero GDP growth rate in 2014, which we will not correct in this QM. Other institutions which forecast GDP growth in Serbia have similar forecasts. The government forecasts economic growth of 1%, as the NBS, which in the February issue of Report on inflation downgraded its initial assessment of the growth in 2014 from 1.5% to 1%. We do not exclude that in 2014 GDP growth of 1% will be achieved, but we are in somewhat conservative our forecasts (as usual).

Stagnation in 2014 is in fact not a derogation compared to 2013

First we must clarify that stagnation, i.e. zero economic growth in 2014 does not mean the essential worsening of trends compared to 2013. Namely, if we excluded the results of agriculture and companies FAS and NIS from the economic activity, the remaining part of the economy would record a fall of at least 0.5% in 2013. As we cannot expect the similar growth of agriculture in the following year, and FAS and NIS will contribute less to the growth because they came close to their full production capacity –we enter 2014 with a recession, not with growth. Therefore, even the stagnation in 2014 would represent a positive shift in relation to a hidden, but real, trend that exists in a large part of the economy.

Private consumption will record a real fall, and net exports growth

In the previous issue of QM we gave a detailed overview of the basic components of GDP for 2014 which indicate the overall stagnation of economic activity, and so we will now only repeat the main thesis. Private consumption trend we estimated on the basis of the assessment of the components' trend from which the consumption is financed – wages, pensions, social assistance, consumer loans, remittances and other – and came to the conclusion that in 2014 it will record a real decline of about 1.7%. Based on the data from the Fiscal strategy we concluded that the government spending in 2014 will reduce in real terms by 2.3%, and any additional austerity measures to reduce the fiscal deficit would also affect the decline in government spending. Further, we expect a modest increase in investments of 3-4%, which will not be sufficient to compensate their decline of about 10% from 2013. Finally, we assess that net exports will have a smaller positive contribution to growth in the economy in 2014, compared to 2013 - which in the aggregate would result in the maintenance of zero growth rate of the economy, despite the decline of state and private consumption and weak investment growth.

Low investments are the main problem

The investments are of the utmost importance for a high and sustainable economic growth. Investments are important for two reasons, first because they directly increase economic growth, and second because they create preconditions for growth in production after their completion. Therefore, we point out the decline in investment in 2013 as the most unfavorable trend and also the limiting factor for the potential growth in 2014. Economic policy should therefore pay special attention to increasing investments in the coming years. The healthiest way to achieve this is to improve the business environment and political stability, and the state could offer further help by increasing public investment. As a consequence of the low state efficiency in improving the business environment the past practice has been to facilitate the arrival of the investors, through direct negotiations with investors and/or through direct subsidizing. In 2014, however, it will be very hard to achieve a significant increase in investment on any basis: 1) relevant research (WEF, World Bank) do not indicate the improvement of business environment in recent years, 2) although some increase in public investments, compared to 2013, is planned, the question is to what extent it will be achieved, and 3) there are no reliable information that negotiations with any large strategic investor are brought to an end, which would result in the beginning of a major investment project in 2014[2]. Although 2014 is probably lost from the perspective of increasing investment activity in Serbia, attracting investments and especially improving the business environment must be priorities of economic policy in the following years.

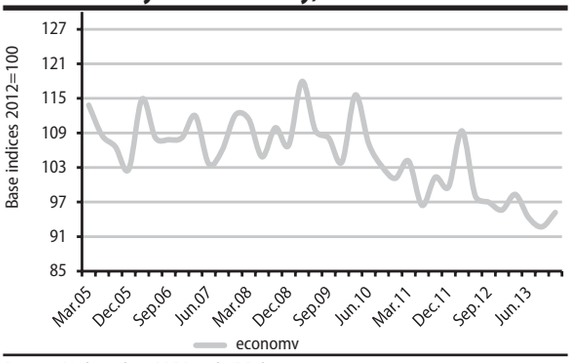
Unit Labour Costs are temporarily increasing

Unit Labour Costs[3] (ULC), measured in dinars, are increasing in Q4 when compared to Q3 (Graph T2-4). In comparison with the same period of the previous year ULC are still lower in

2 It is still not certain how high will be the investments in connection with, in public frequently mentioned, plans of realization of projects "South Stream" and "Belgrade on the water." It is our assessment that in best case these investments will begin to be implemented at the end of the year, so that the total foreign investment will not exceed the planned amount of billion euros. If some of these investments are to be postponed for the next year, the total foreign investment, including the possible privatization revenues, will likely be lower than one billion euros.

3 UnitLabor Costs in dinars are calculated for the economy (excluding the Agriculture and Public Administration sectors) and industry.

Graph T2-4. Serbia: Real Unit Labor Costs in the Economy and Industry, 2005-2013



Source: *QM* based on SORS and NBS data

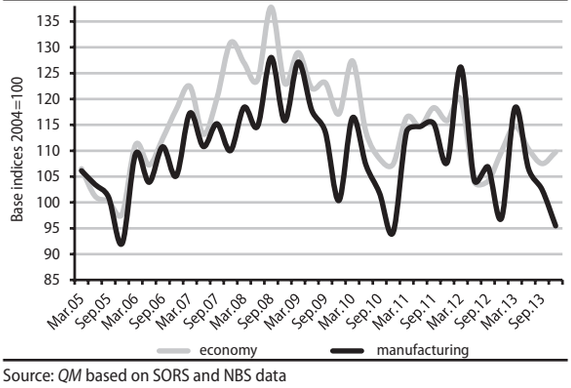
Q4, but this decrease is no longer as great as in the first three quarters of 2013. We believe, however, that the increase in ULC in Q4 is temporary in nature, and that the actual trend in the movement of ULC is still declining. The reason for the slightly higher ULC in Q4 is slowdown in inflation rather than growth in nominal wages (see chapter on employment and wages). Due to less elasticity of nominal wages to inflation, the real reduction in wages in Q4 was considerably lower than in all other quarters of 2013, which is then reflected in somewhat higher ULC.

Unit labour costs measured in euros (euro-ULC) are an indicator of the price competitiveness of the Serbian economy as they define the greatest national cost component (labour costs) in relation to the added value. We calculate euro-ULC for the manufacturing sector (which produces by far the greatest share of tradable goods), and for the economy as a whole[4], as shown in Graph T2-5).

Price competitiveness of the economy in Q4 same as a year ago

Graph T2-5 shows at first glance two divergent trends in the movement of the euro-ULC in Q4 in the economy and the manufacturing industry. In fact, it looks as if the euro-ULC in the economy is increasing, and reducing in the manufacturing industry. This is however only an illusion, caused by the strong seasonality in the movement of ULC in the manufacturing industry in Q4, when they are seasonally very low. The real measure for assessing trends of euro-ULC would therefore be their comparison with the same period last year, and in this way it can be seen that in the case of the manufacturing industry and in the case of the total economy, euro-ULC are almost unchanged.

Graph T2-5. Serbia: Real Unit Labor Costs in the Economy and Industry, 2005-2013



Source: *QM* based on SORS and NBS data
Note: the growth of euro-ULC on the graph represents the decline in price competitiveness

The Graph shows that the price competitiveness of the domestic economy is still 5-10% lower than in 2005, indicating that a slight real depreciation of the dinar would be desirable from the standpoint of the price competitiveness of the domestic economy. We chose the 2005 as a benchmark year because it is a year before the beginning of strong capital inflows, the enormous increase in wages and pensions (period 2006-2008), a sharp real appreciation of the dinar and the deterioration in the competitiveness of the domestic economy. All this has resulted in the huge and unsustainable deterioration in the balance of current payments, with which Serbia entered the crisis. An additional argument for controlled depreciation of the dinar is the fact that the economic growth in 2014, but also in the coming years, will crucially depend on the trend of exports, because the space for the growth of domestic demand is limited.

Therefore, we believe that there is room for a gradual depreciation of the dinar, because: 1) price competitiveness the domestic economy had under "normal" circumstances has not yet been achieved, and 2) exports (alongside investments) is the only possible source of sustainable growth in the coming years, and it should be also encouraged through monetary policy. In this regard, we think that the last NBS interventions in the foreign exchange market, which are aimed at

4 Excluding the Public Administration and Agriculture sectors.

preventing the depreciation of the dinar, are too expensive, and economically not fully justified. Allowing a moderate depreciation of a few percent would not affect the growth of the inflation over the target corridor, it would moderate to worsen the balance of enterprises and banks, but it would be very stimulating for export growth, and a slowdown in imports.

Industrial production

Industrial production decreases growth

Industrial production in Q4 recorded a high year-on-year growth of 3.3% (Table T2-6). Within the industrial production, the highest growth of 6.8%, was achieved by the supply of electricity, while the mining and manufacturing industry recorded a growth of 4.1% and 2.2%. The y-o-y growth of electricity production in Q4 is short term event, and it is the result of a comparison with the very low level of production in 2012, when as a consequence of the drought hydroelectric plants worked on a minimum. Table T2-3 shows that the achieved growth in Q4 represents a significant decline in the y-o-y growth when compared to Q3.

Table T2-6. Serbia: Industrial Production Indices, 2009-2013

	Y-o-y indices												Share
	2009	2010	2011	2012	2013	2012				2013				2012
						Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Total	87.4	102.5	102.2	97.1	105.5	94.5	97.2	96.4	99.4	105.2	103.0	110.8	103.3	100.0
Mining and quarrying	96.2	105.8	110.4	97.8	105.3	100.2	94.2	100.1	96.3	107.8	102.2	107.6	104.1	9.8
Manufacturing	83.9	103.9	99.6	98.2	104.8	93.3	100.2	96.2	101.5	105.4	103.2	108.8	102.2	74.3
Electricity, gas, and water supply	100.8	95.6	109.7	92.9	108.1	96.6	85.4	95.8	93.0	103.7	103.7	120.5	106.8	15.9

Source: SORS

Seasonally adjusted indices confirm decline in industrial production in Q4

Graph T2-7. Serbia: Seasonally Adjusted Industrial Production Indices, 2008-2013

Source: SORS

Graph T2-7 shows seasonally adjusted production indices of total industry and manufacturing. We immediately notice that the seasonally adjusted data indicate quite strong downward trend in industrial production, which began in September 2013, i.e. seasonally adjusted decline in industrial production in Q4 compared to Q3 for almost 3%. This decline has reversed the largest share of the achieved growth of industrial production in 2013, and so we enter 2014 with the level of industrial production which is only slightly larger than the one whit which we entered 2013 (Graph T2-7).

We estimate that a good part of the fall in industrial production in Q4 was not permanent in nature, but there are still some worrying fundamental trends that will continue in 2014. The decline in production in Q4 is mostly a consequence of a fall in production of motor vehicles, which is associated with the business policy of the company FAS. This decline we basically evaluate as temporary. Car production at the company FAS will probably increase again from January, but undoubtedly the results will oscillate around their values in the second half of 2013, and will no longer be able to maintain relatively high growth rate of the total industry. For additional lasting increase in car production in FIAT major new investments are required. Therefore, we believe that Serbia should enter into negotiations with FAIT about a further expansion of FAS capacities in Serbia.

We estimate that in the eventual negotiations Serbia could offer certain tax breaks and subsidies, but that they will have to be lower than those granted in the past. Among other industrial areas, in 2014 we expect solid growth in the food industry due to a better agricultural season and the occasional (unsustainable) advances in the field of industrial production, which are basically

subsidized - such as the production of other motor vehicles (Ikarbus) and basic metals (Steal Plant Smederevo). The largest part of industrial production, however, is in a very unfavorable situation and we do not expect that in 2014 it will have positive growth rates.

In Q4 consistent growth rates of industrial production by purpose

Observed by purpose (Table T2-8), we notice that in Q4 divergent trends of growth in industrial production, which were present in the first three quarters, were not continued. On the one hand the growth in production of capital goods (already mentioned decrease in production of FAS) and energy production strongly slowed down. On the other hand, due to the increase in production in the food industry there has been a recovery in food production, and stable growth rates of production of intermediate goods are largely a consequence of subsidizing production in Steal Plant Smederevo.

Table T2-8. Serbia: Components of Industrial Production by use, 2009-2013

	Y-o-y indices												
	2009	2010	2011	2012	2013	2012				2013			
						Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total	87.4	102.5	102.1	97.1	105.5	94.5	97.2	96.4	99.4	105.2	103.0	110.8	103.3
Energy	98.8	97.7	106.2	93.6	113.2	95.8	88.3	91.4	98.7	108.6	109.7	131.6	107.7
Investment goods	79.3	93.6	103.2	103.8	127.6	92.0	105.4	113.7	104.2	132.3	130.2	140.5	104.2
Intermediate goods	78.4	109.2	102.2	91.2	99.0	89.4	96.3	89.1	90.0	94.7	93.1	101.9	104.8
Consumer goods	86.8	102.1	95.4	103.2	100.7	97.8	104.5	104.6	106.1	107.0	101.5	97.4	100.0

Source: SORS

In Q4 lower growth rate of industrial production

Since the seasonally adjusted fall in the industrial production in Q4 was under great influence of some temporary trends, we expect a recovery in Q1 2014. How high will be the growth rate of industrial production in 2014 is still quite uncertain. We expect that it will be slightly positive, mainly due to the expected growth of the food industry, which has the largest share of industrial production. Manufacture of motor vehicles will also have an increase in production compared to 2013, but this increase will not be particularly high. Energy production will likely remain at the same level as in 2013, because we expect that NIS continues to positively contribute to the growth of this area (less than in 2013) , but also that electricity production will be lower than in 2013 due to a warmer winter and probably somewhat less favorable hydrological situation . What will be the total industrial production growth will depend on the developments in the rest of the industry, which was not favorable in 2013 either. If the decline in the rest of the industry remains the same as in 2013 the total growth rate of the food industry and the production of motor vehicles will probably remain slightly positive. If the decline in the rest of the industry further deepens, which is not excluded, it is possible that the total industrial production in 2014 stagnates or perhaps even achieves a smaller decline.

Construction

Construction is in crisis...

...but the results for Q4 are however slightly better than those from the rest of 2013

Latest construction statistics made available by SORS indicate year-on-year decline in this part of the economy in Q4 of 8.5%. This decline, however, represents an improvement when compared to the results from Q3, when the official construction statistics recorded a decrease of over 20%. Data for Q4 we take with some reserve, because construction activity, due to the seasonal factors, is in Q4 (as in Q1) lower than in Q2 and Q3. Data for the entire 2013 indicate an indisputable high decline in construction activity.

Because of the difficulties in monitoring the construction activity, we use cement production index[5] as additional indicator (Table T2-9). Namely, the construction sector comprises a large number of a small and medium-sized enterprises, whose statistical monitoring is very unreliable and often outside the sight of the official statistics. Therefore, as an additional indicator for monitoring this sector of the economy we use cement production which is easy to monitor and cement is used in almost all construction works. We believe that data obtained this way, although

5 Cement consumption would be the most appropriate indicator, but data on cement consumption are not available at the quarterly level. Studies have shown that cement production approximates consumption with relative reliability

Table T2-9. Serbia: Cement Production, 2001-2013

	Y-o-y indices				
	Q1	Q2	Q3	Q4	Total
2001	89.5	103.5	126.9	148.1	114.2
2002	83.6	107.9	115.6	81.6	99.1
2003	51.1	94.4	92.7	94.4	86.6
2004	118.8	107.4	98.5	120.1	108.0
2005	66.1	105.0	105.8	107.4	101.6
2006	136.0	102.7	112.2	120.2	112.7
2007	193.8	108.9	93.1	85.0	104.4
2008	100.1	103.7	108.1	110.1	105.9
2009	34.1	81.4	86.0	75.3	74.4
2010	160.7	96.9	96.0	97.4	101.1
2011	97.7	101.3	96.2	97.7	98.3
2012	107.9	88.3	58.2	84.9	79.6
2013	83.5	78.7	127.6	93.5	94.9

Source: SORS

Cement production confirms the decline in construction...

…but indicates that it is lower than the official statistics is showing

not sufficiently precise, are a good additional indication of an actual state and future trends in construction.

Cement production in Q4 was by 6.5% lower than in the same period last year, (Table T2-9) which is in line with the official estimate of the construction activity trend in Q4. Observed at the level of the entire 2013 we notice that the cement production was by only 5% lower than in 2012, which indicates a smaller decline in construction from the one official statistics indicates. Therefore, to detect the actual trend in construction activity we combine both methods and concluded that the construction activity in 2013 undoubtedly recorded a big decline, but that this decline was probably not greater than 20% (which is indicated by the official statistics) - but maybe about 10%.