

## 2. Economic Activity

Preliminary estimate from the Statistical Office of the Republic of Serbia – SORS indicates year-on-year GDP growth of about 0.7% in Q2. Although the achieved growth seems modest at first sight (in Q1 it was 2.1%), it must be considered that Q2 2012, with which this economic activity is compared, was significantly more successful than all other quarters of 2012. Seasonally adjusted indices indicate that the GDP in Q2 is at the similar level as in Q1, which we interpreted as a continuation of a trend started in Q1, not as a possible beginning of stagnation. The economy in Q2, as in Q1, is driven by the net exports, while domestic demand is in a decline. However, when compared to Q1, there is a certain slowdown in net exports but also a decrease in the fall of domestic demand. Observed by production method, trends, we wrote about in previous editions of QM, are clearly seen – growth is driven by agriculture and only few successful companies (Fiat, NIS) while by far the largest part of the Serbian economy is still in recession. For the entire 2013 we still hold unchanged estimate of GDP growth of 1.5% - 2% which we first expressed at the end of 2012. The estimate is still not completely reliable because there are some unknowns about the real rate of the economy growth, but also certain exogenous factors which may influence changes in GDP in the second half of the year (the risks coming from fiscal policy, drought in August). Milder depreciation of the Dinar that occurred in Q2 has a positive impact on the price competitiveness of the domestic economy, but the euro-ULC indicate that the price competitiveness in Q2 is significantly lower compared to the same period last year.

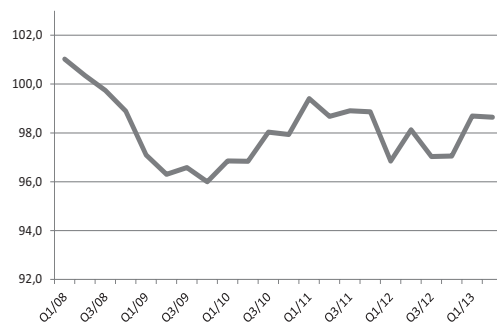
### Gross domestic product

**Year-on-year growth of GDP in Q2 of about 0.7%**

According to the preliminary, flash, SORS estimate, the real y-o-y GDP growth in Q2 was about 0.7%. This y-o-y growth is significantly lower than the 2.1% achieved in Q1, but the main reason for considerable decrease in the y-o-y growth is a comparison with the different bases from the previous year and not the changes in the trend of the economic activity. Namely, GDP in Q2 2012 was higher than in any other quarter of 2012 and therefore the comparison with this quarter gives lower y-o-y growth rate. This could be explained illustratively if we would compare the realized value of economic activity with that of 2011. Thus in Q1 2013, despite the y-o-y growth of 2.1%, the real GDP level from Q1 2011 had not been overhauled yet, as the decline in 2012 was 2.6%. However Q2, despite the lower rate in GDP growth of 0.7%, exceeded the real GDP level from Q2 2011 because the decline in 2012 was only 0.1%.

*Seasonally adjusted data indicate a possible stagnation ...*

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



Source: QM estimates based on SORS data

Graph T2-1 shows seasonally adjusted GDP growth indices which provide better illustration of the changes in economic activity on a quarterly basis. Seasonally adjusted indices of GDP growth suggest that Q2 retained almost unchanged level of economic activity when compared to Q1 (Graph T2-1). This may suggest a possible stagnation of production in Q2, but we ought to be very careful with this conclusion. Namely, 2012 and 2013 are quite irregular years, mainly due to the collapse and then recovery of agriculture, and these fractures affect the reliability of the seasonal adjustment procedures. If we were to use X-12 seasonal adjustment methodology<sup>1</sup> instead tramo/seats methodology which is used

*... but we are still cautiously interpreting the data*

<sup>1</sup> In our country and most other European countries tramo/seats seasonal adjustment methodology is in use but the use of X-12 seasonal adjustment methodology is not uncommon and is used in the statistical bureaus of individual European countries. The European Commission accepts both methodologies as relevant.

**Increase in net exports, domestic demand falling....**

for seasonal adjustment of GDP in Serbia, the result would be totally different and seasonally adjusted GDP in Q2 would be much higher than in Q1. Because of this, as well as the already mentioned data that the real GDP in Q2 exceeded its value from the 2011 (which was not the case for Q1), it is our conclusion that in Q2 there were no essential changes in the trend of economic activity. Finally, we note that the assessment of an annual GDP growth of 0.7% in Q2 is still only preliminary and that SORS will give a more reliable assessment at the end of September.

The structure of the GDP growth can be analyzed on the basis of the data on the use of GDP. Table T2-2 shows the official data on the movement of the main components of GDP ending with the latest available data for Q1 2013. Based on data for Q1, adopted policies and expected trends, we can approximately estimate the pattern of GDP growth in Q2 which will probably continue until the end of the year. That is: 1) real decline in investment, private and government consumption, and 2) high growth in net exports. Thus, the growth of the economy in 2013 is therefore the result of the sum of two completely divergent trends - a significant increase in exports and a fall in domestic demand. Exports grows primarily due to the operations of individual companies like Fiat Automobiles Serbia (FAS) and to a smaller extent some other (such as NIS), while the domestic demand declines due to a real reduction of the earnings mass (real reduction in earnings and decrease in the number of employees) and pensions, but also due to very negative trends in investment.

**Table T2-2. Serbia: GDP by expenditure method, 2008-2013**

	Y-o-y indices								
	2009	2010	2011	2012	2012				2013
					Q1	Q2	Q3	Q4	Q1
GDP	96.5	101.0	101.6	98.3	97.4	99.9	97.9	97.9	102.1
Private consumption	97.2	99.1	98.9	98.1	97.1	97.3	99.8	98.1	98.9
State consumption	98.1	100.4	101.0	101.8	103.8	105.9	100.5	97.4	96.8
Investment	77.9	94.5	108.4	96.6	102.8	104.3	97.7	85.5	96.1
Export	92.0	115.3	103.4	104.5	94.9	111.5	105.5	105.8	113.5
Import	80.9	103.1	107.0	104.2	102.2	109.4	103.7	101.9	101.2

Source: SORS

**In Q2 growth of net exports is slowing down**

Since we have no official data on the movement of expenditure components of GDP in Q2 we estimate them through indirect indicators. Based on the data on foreign trade, which are available for Q2, we conclude that net exports in Q2 continued quarterly growth when compared to Q1, but that the growth is already significantly slower than it was in the previous quarter. This is expected<sup>2</sup>, because the company which had most effect on the growth of net exports - FAS - by the end of Q1, practically reached the value of exports of cars that will be common in the next few months and it can no longer generate such fast growth of exports as in recent quarters. In the forthcoming period we could still maybe expect acceleration in net exports due to the expected increase in export of this year's agricultural products.

**...but the real growth of domestic demand is slowing down also**

We can approximately estimate the movement of the domestic demand in Q2 based on the officially released preliminary estimates of GDP and data on net. This way we come to the assessment that the domestic demand slowed down the decline in Q2. We reach the same conclusion when we estimate the domestic demand based on the movement of its components - private consumption, government consumption and investments. Q2 saw significantly slower decline in private consumption due to the increase of pensions and salaries in the public sector by 2% in May (the April salaries and pensions are paid at that time). Nominal increase in salaries and pensions, in the period when inflation was low, resulted in a slowdown of the real decline in private consumption. The other two components of domestic demand (government consumption and investments) accelerated the decline during the second quarter, but the decline in domestic demand slowed down due to a slowdown in the biggest position - private consumption. We do

<sup>2</sup> For more details see Section 2 „Economic activity“ of QM32

not expect that there will be significant changes in the trend of real domestic demand by the end of the year, so the fall which it realizes will be similar to that of Q2. Additional confirmation of this assessment (of moderate real decline of domestic demand by the end of the year) is provided by the inflation trend, which will likely continue to slow down in the future - which will prevent the deepening of the real fall in the domestic demand, even in the circumstances where its sources of funding are to a large measure frozen on the nominal level.

Growth structure that is based on the growth of net exports and decrease of domestic demand is in general favourable for Serbia. Private consumption is still disproportionately high in relation to production and thus, its gradual reduction leads to a reduction of macroeconomic imbalances. Reduction of government spending is undoubtedly good and it is essential for the sustainability of public finances. What we are really most concerned about in this structure of GDP growth is a sharp reduction of investments that decreases the opportunities for a future growth of the economy.

**Agriculture is the sector with the highest growth in 2013**

Analysis of GDP movement in Q2 and in entire 2013 can be supplemented with the data by the production method which are shown in the Table T2-3. Table shows growth of individual sectors of the economy ending with last official data which refer to Q1. Similarly to the GDP trend analysis by use, in this case we also believe that Q1 is sufficiently representative so that we can show basic trends of individual sectors of the economy in Q2, but also in the entire 2013. Table T2-3 reveals that agricultural sector has the largest increase in 2013 and this growth is the result of comparisons with extremely poor agricultural season from 2012. Second sector that provides the largest contribution to the growth of the economy is the information and communication sector which records multi-annual trend of steady growth. Manufacturing in Q1 moved from negative to positive growth zone (Table T2-3), where it is expected to remain throughout the 2013. On the negative side the massive drop in construction activity and the decline in trade stand out.

**Table T2-3. Serbia: Gross Domestic Product by Activity, 2008-2013<sup>1</sup>**

	Y-o-y indices									
	2009	2010	2011	2012	2012				2013	Share
					Q1	Q2	Q3	Q4	Q1	2012
Total	96.5	101.0	101.6	98.3	97.4	99.9	97.9	97.9	102.1	100.0
Taxes minus subsidies	98.3	100.9	101.6	97.2	95.4	99.5	96.9	96.8	102.7	17.4
Value Added at basic prices	96.1	101.0	101.6	98.5	95.4	99.5	96.9	96.8	102.7	82.6
Non agricultural Value Added	95.8	101.6	101.5	101.0	100.0	102.6	100.7	100.7	101.2	91,1 <sup>2)</sup>
Agriculture	100.8	99.6	100.9	82.9	81.5	83.2	83.4	83.0	116.7	8,9 <sup>2)</sup>
Manufacturing	84.2	100.9	100.6	101.1	96.3	103.3	99.2	104.9	102.4	14,4 <sup>2)</sup>
Construction	80.3	92.9	107.7	92.5	111.2	103.5	91.3	75.3	75.3	3,9 <sup>2)</sup>
Wholesale and retail trade	92.5	101.7	94.5	99.6	97.9	102.7	100.5	97.6	96.0	13,0 <sup>2)</sup>
Transport and storage	90.0	108.2	103.1	100.6	95.1	104.0	100.8	102.6	105.4	5,5 <sup>2)</sup>
Informations and communications	110.0	105.4	108.4	110.3	112.0	113.0	105.2	111.4	108.1	9,6 <sup>2)</sup>
Financial sector and insurance	105.5	107.2	101.0	104.4	100.0	105.1	106.8	105.9	105.2	4,1 <sup>2)</sup>
Other	101.6	100.8	102.0	100.0	99.2	99.6	100.8	100.4	101.9	41,1 <sup>2)</sup>

Source: SORS

1) In the previous year's prices

2) Share in GVA

Based on the available monthly data for Q2 we estimate that only the minor changes will occur in the structure of production growth by sector, compared to Q1. We expect a slightly lower drop in wholesale and retail in Q2 compared to Q1 which is indicated by the monthly data on movements in retail sales, as well as our analysis of the movements in the private consumption. Construction will probably have a deeper decline in Q2 than in Q1, which is indicated by the index value of construction activity, while the financial sector and insurance activities are likely to have a slightly lower growth which is indicated by the movement of deposits and loans. Other sectors will probably have similar growth rates in Q1.

**In 2013 we expect growth of 1.5 to 2%**

The very fact that this is the fourth successful edition of the QM-a in which we retain practically invariable forecast of GDP growth in 2013, indicates that in the previous quarters there were not many surprises. This however does not mean that they cannot happen by the end of the year.

Risk for achieving the anticipated growth may be by the fiscal policy which is being, for a long time now, led in the danger zone from which it can threaten macroeconomic stability. It is also possible that the agricultural season will not be as successful as expected because the drought from the first half of August will have impact on a smaller-than-expected growth of corn and other autumn crops. On the other hand, it can easily turn out that the real growth rate of the economy in Q2 is somewhat higher than that indicated by the seasonal adjustment tramo/seats method, but it is closer to that indicated by the seasonal adjustment X-12 methodology, which could then indicate even a slightly higher growth rate of 2% in 2013. Finally, it should not be forgotten that SORS is prone to the frequent and substantial revisions of the published data on economic activity, even a few quarters back, and we have based all our analysis on these data - which than can significantly influence the growth forecast in 2013. For now, however, as the most probable outcome, we believe that the real GDP growth in 2013 will be between 1.5 and 2%.

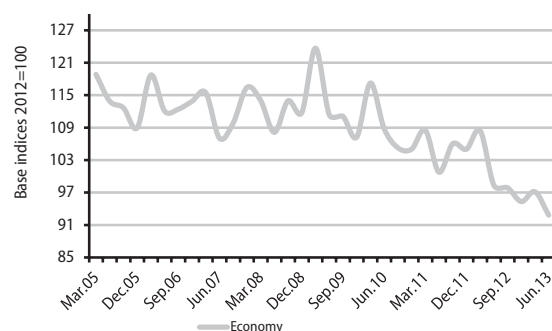
***There are no indications of the growth acceleration in 2014 and in the medium term***

As in previous issues, also in this issue of QM, we draw attention to the fact that most of the Serbian economy is still in recession because the strong growth in production is concentrated in the agriculture and only a few large companies. A very important question is: how will the GDP of Serbia move when its current sources of growth are exhausted? All macroeconomic indicators that describe the future growth of the economy are very bad. Private investments, as well as loans to the nongovernmental sector, were in large decline in Q2. In addition, foreign direct investments (FDI) for almost two years are, for Serbia, on an extremely low level, and state investments in the first seven months of 2013 were almost halved in real terms compared to the same period last year.<sup>3</sup> In addition to all this, it should be mentioned that the economic recovery of the eurozone, to which the Serbian economy is closely linked, is still very weak and uncertain.

***Reforms are essential, but short-term focused stimulants are also necessary***

Fiscal consolidation is a necessary, but not sufficient condition for a sustainable economic growth in the medium and long term. Along with the fiscal consolidation, there is a necessity for broad reforms, but also for short-term incentives to mitigate the negative tendencies in the larger part of the economy. First of all, a nearly common practice that proportionally largest savings are realized in the capital expenditures when it comes to the budget reduction must be stopped, while the current budget spending are less adapted. Also, one of the priorities of economic policy management should be to enhance the business environment - as a condition for the increase in domestic and foreign investments. Improving the economic environment is becoming more urgent, after the reduction of economically inefficient and fiscally unsustainable subsidies for investment and employment has started. Reduction and then elimination of such subsidies is necessary, but if decisive reforms of the economic system are absent, it will further reduce investments and employment. A sharp drop in credit activity of companies indicates that it would probably be useful to continue with the program of state subsidized loans, because with little investment, a considerable impact on the economy is achieved. Finally, in terms of almost completely stopped

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



Source: QM based on SORS and NBS data

***Unit Labour Costs measured in dinars decrease***

inflation, the monetary policy should probably also take part in the responsibility and with the gradual relaxation contribute to the revival of lending activities of the Serbian economy. The question about the appropriate exchange rate of the dinar is somewhat related to this, which will be discussed in the analysis of the price competitiveness of the domestic economy.

Unit Labour Costs<sup>4</sup> (ULC), measured in dinars continue to decrease in Q2. The trend can be easily seen in Graph 4. When we compare ULC with the same quarter of the previous year - we see that they are in

<sup>3</sup> For more details about loans, foreign direct investment and government sections see sections 7: "Monetary Flows and Policy", 4 "Balance of Payments and Foreign Trade" and 6 "Fiscal Flows and Policy" of this edition of QM

<sup>4</sup> UnitLaborCosts in dinars are calculated for the economy (excluding the Agriculture and Public Administration sectors) and industry.

decline of over 5%. ULC indicate the quantity of the labour costs participating in the production unit and whether the productivity is growing faster or slower than the growth of real wages. In the case of Serbia, however, we can conclude that the medium-term productivity growth is faster than wages (and hence implied decline in ULC) mostly due to the reduction in employment, which cannot be seen as a positive trend.

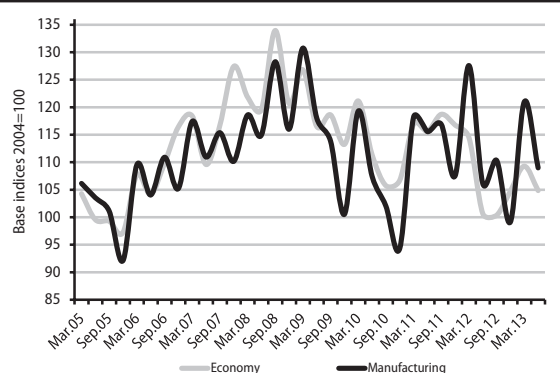
**Appreciation of the dinar lowers the price competitiveness of the economy**

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 (that produces by far the greatest share of tradable goods), and for the economy as a whole<sup>5</sup>, as shown in Graph T2-5).

In Graph T2-5, we see that the euro-ULC oscillate a lot by quarters. They are lower in Q2 than in Q1, which is not only attributed to seasonal factors but also to observed real reduction in dinar-ULC, with a certain depreciation of the dinar. Observed on the y-o-y basis euro-ULC are still higher in Q2 than in the same period last year, because then, the dinar value was lower than it is now. Something we want to draw attention to in this issue of QM is that euro-ULC in the medium term don't have pronounced downward trend as the dinar-ULC have (Graphs T2-4 and

T2-5). This means that despite a significant increase in productivity and reduction in real wages—there was no significant increase in price competitiveness of the domestic economy. The reason for this is the strong real appreciation of the dinar throughout all period of 2005 (with some fluctuations) which has overruled the effects of the dinar-ULC reduction<sup>6</sup>. Although strong dinar affects slowing down in inflation and temporary rises consumer's consumption, we believe that the impact it has on the competitiveness of the economy, balance of payments disequilibrium, employment and sustainable growth of the economy - which can be based only on the growth of net exports, should be taken into consideration.

**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

**Industrial production**

**Industrial production rose by about 3% in Q2**

Industrial production in Q2 recorded year-on-year growth of 3% (Table T2-6). Within the industrial production, all three sectors (mining, manufacturing and supply of electricity) had positive and approximately equal growth rates that ranged from 2.2% to 3.7%. Unlike in Q1, when an annual growth of over 5% was achieved mostly as the consequence of a comparison with a low base from 2012 (then due to extraordinary weather conditions there was a temporary deep fall) - industrial production growth of 3% is evaluated much more favourably, because it is sustainable above all.

<sup>5</sup> Excluding the Public Administration and Agriculture sectors.  
<sup>6</sup> For more details see section 5 „Prices and Exchange rate“ of this issue of QM

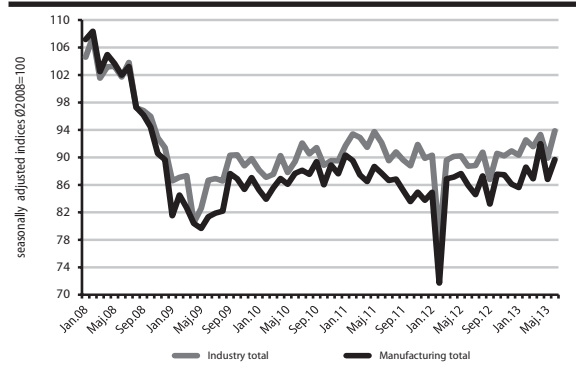
**Table T2-6. Serbia: Industrial Production Indices, 2009-2013**

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

Source: SORS

*Seasonally adjusted indices in Q2 indicate growth when compared to Q1*

Graph T2-7 shows seasonally adjusted production indices of total industry and manufacturing. Seasonally adjusted data indicate that, particularly manufacturing, in Q2 recorded solid growth compared to Q1. Seasonally adjusted total industrial production is higher in Q2 compared to Q1 by about 1%, and manufacturing, which best describes the essential trends of the domestic industry,

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

Source: SORS

by as much as 2.8%. We draw attention to the fact that large fluctuations in industrial production (and manufacturing) in April and May were the result of an unusual schedule of holidays (Easter, which was in May and usually falls in April), and the usual “linking” of non-working days. Because of that the seasonally adjusted values of industrial production in April were significantly above the trend (because of the absence of formal and informal non-working days), but then in May seasonally adjusted indices of industrial production and manufacturing were significantly below the trend (Graph T2-7).

*Only three sectors power growth*

We announced in the previous issue of QM seasonally adjusted growth of manufacturing industry in Q2, among others things, because the production in Smederevo Steelworks was launched in this quarter.<sup>7</sup> Seasonally adjusted index of base metals production in Q2 recorder a growth which slightly raised overall industry growth in Q2, but it still was not crucial. Production of basic metals is now at a much lower level than it was several years ago and the changes that are now occurring in this area in fact were not so large so they could significantly affect the general trends. For industrial production growth in Q2, but also for its recovery throughout 2013, three other areas are much more deserving: 1) the production of motor vehicles (FAS), 2) the production of petroleum products (NIS), and 3) the pharmaceutical industry. All three areas have unusually high rates of growth in 2013 in relation to 2012. Thus, the pharmaceutical industry in the first half of 2013 was by 35% higher than in the same period of 2012, production of petroleum products by 42%, and the production of motor vehicles three times higher than in the first half of 2012. What is disturbing is that without these three areas industrial production in 2013 would be considerably decreasing. Particularly poor results were recorded by the food industry and the areas of industrial production which are directly linked to the investments (production of non-metallic minerals, for example).

*By the end of the year we expect industrial production to continue its growth*

Probably by the end of the year certain changes in the structure of industrial production growth will occur, but we expect that this growth will continue. The growth of production in the production of motor vehicles and manufacture of petroleum products will probably soon slow down, as the companies behind this growth are slowly approaching full employment capacity. As the contributions of these areas to the overall growth weaken, we expect that probably already in Q3, and almost certainly in Q4, a solid recovery of the food industry will occur, since the agricultural production in 2013 is much better than in the previous year.

<sup>7</sup> For more details see section „Economic Activity“ QM32

**2014 should already be considered**

We believe that there are serious reasons for concern in terms of not only the present but also the future trends of industrial production in Serbia. Primary reason is that, despite the overall growth, most of the industry for a longer period of time is in a decline - without showing signs of improvement. This then raises the question of what will happen when, though limited, sources of growth of industrial production are exhausted, which is no longer a matter of a distant future. Not only the trends of the largest part of the production, but also a very low level of investment are disturbing - which can be seen from the trends in imports of capital goods and construction activity - and investments are supposed to enable future growth in industrial production. At the beginning of 2014 the recovery of food industry will probably still maintain a positive overall growth rate, but if this recovery is not joined by some other sector, already in the second half of 2014 the actual negative trends of the majority of domestic companies will be discovered. Until then, there is still plenty of time to reverse the negative trends, with combination of focused stimulation and acceleration of reforms, but this should be already seriously considered.

**Dynamics of industrial products production differ significantly by purposes**

A breakdown by use (Table T2-8) shows that in Q2 production of most intermediate product groups recorded y-o-y growth, while only production of intermediate goods was in a decline. Intermediate product groups are also heavily influenced by individual production companies, so the production of investment goods (which includes the manufacture of motor vehicles) recorded an increase of as much as 30%. Once again we note that despite the high growth in production of capital goods level of investment in Serbia in Q2 was very low. Next in line, measured by the level of y-o-y increase (10%) is the production of energy, which was influenced by the production in the company NIS.

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

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

Source: SORS

**Construction****Construction is in deep decline in Q1 ...**

Latest construction statistics made available by SORS indicate deep year-on-year decline in this part of the economy of about 45.7%. Unlike Q1, which due to seasonally low construction activity, is not very suitable for giving qualitative assessments - a deep decline in construction activity in Q2 gives us an undoubted confirmation that the construction industry is in big crisis. Observing the official reports for several quarters back we notice that this crisis of the construction activity is deepening from one quarter to another. And so from Q2 2012 when the index value of construction works performed was positive and pointed to an annual increase in construction activity of 6%, already in Q3 a year on year decline of 10% was recorded, which gradually deepened and in Q2 2013 reached almost incredible 45%.

Cement production index, which we use as an additional indicator of the construction industry trends<sup>8</sup> (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 not sufficiently precise, are a good additional indication of an actual state and future trends in construction.

<sup>8</sup> 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.

*Low cement production confirms deep decline in construction activity*

**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			

Source: SORS

*Thoughtfully designed economic policy measures could help the construction industry*

of all it should finally solve the problems and administrative barriers that lead to the slow issuance of building permits. This would not only have a broad and non-selective positive impact on construction, but it would be the cheapest thing to do for the country. Public investment would also have to be increased. In Q2, their level was a record low (only 1.8% of GDP) and for the country at the Serbia's development level, the optimum would be that the level of public investment is about 5%. With all this, the amount of the costs and benefits of large state housing projects should be analyzed (such as building settlements Vojvode Stepe in Belgrade). If possible, the key weaknesses of these and similar projects should be removed, and perhaps the possibility of their re-launch considered.

Cement production in Q2 was by 21% lower than in the same period last year. This drop is high but still smaller than the decline in the index value of construction activity. This data gives us confirmation that the construction activity is in deep decline, but it seems that the decline is deeper when it comes to large construction works and companies (which are better covered by the official statistics). Indirectly we conclude that the construction activity of small and medium enterprises is somewhat more resistant to the crisis, in which undoubtedly this sector of the economy is.

There are several ways in which the state could help the construction activity. First