

НАРОДНА БАНКА

СРБИЈЕ



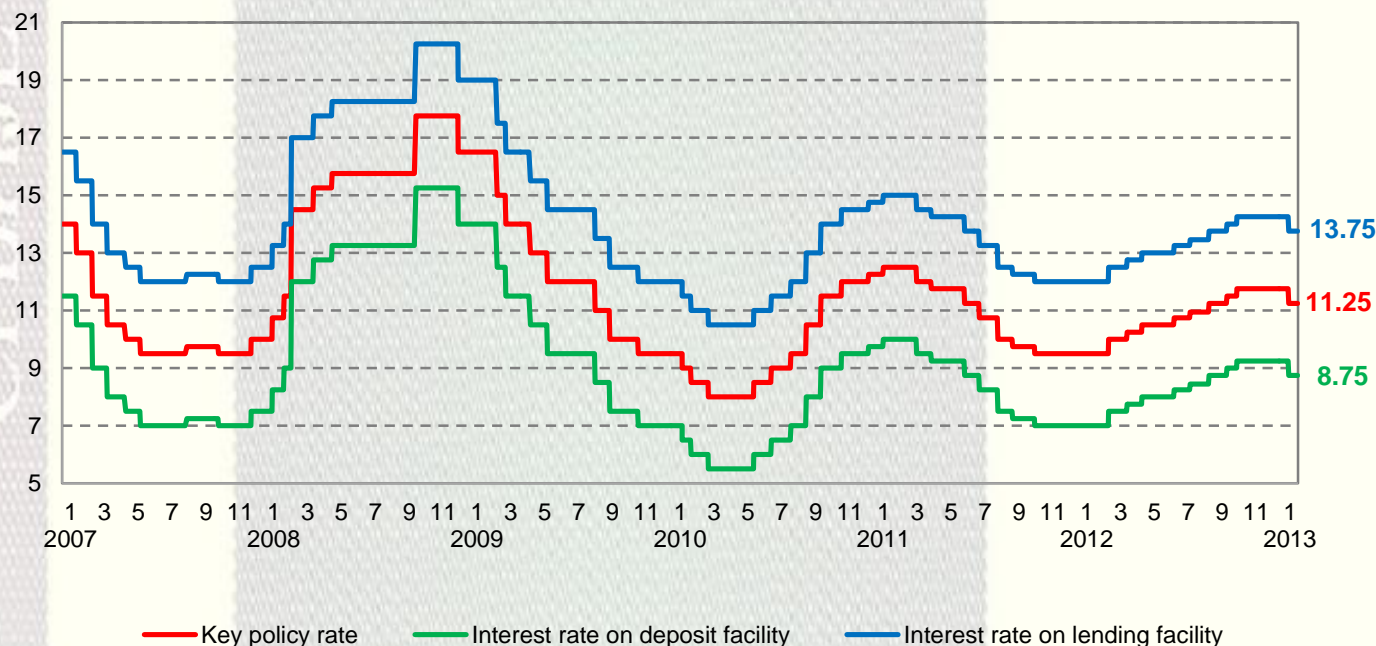
Current macroeconomic developments, May 2013

dr Jorgovanka Tabaković, NBS Governor

Belgrade, 15 May 2013

Key policy rate was cut by 0.5 pp in May

Chart 1 **NBS interest rates corridor**
(daily data, p.a. in %)



- Significant weakening of inflationary pressures was due to past monetary policy measures. Despite somewhat higher inflation in April, monthly inflation rates averaged 0.25% in the last six-month period.
- Low aggregate demand, stable developments in the foreign exchange market and falling risk premium of the country, together with the expected full-blown effect of past monetary policy measures, will contribute to a fall in year-on-year inflation.

A decline in y-o-y inflation was temporarily halted in April

Chart 2 CPI developments

(y-o-y rates, in %)

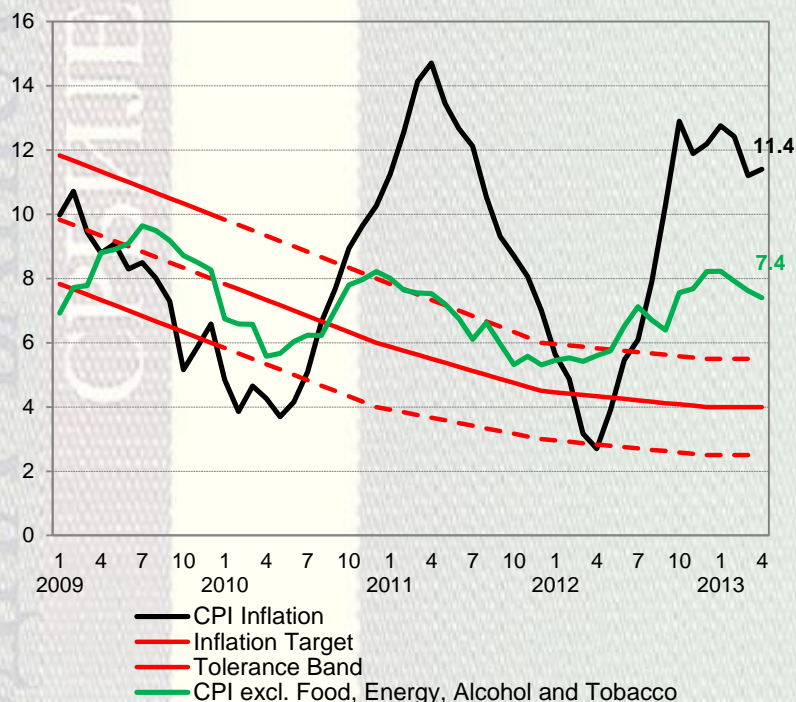
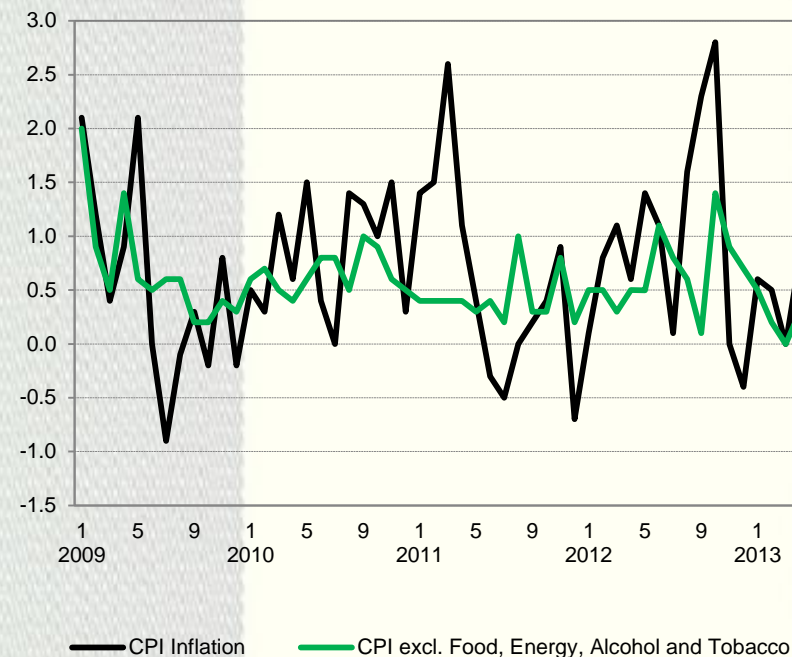


Chart 3 CPI developments

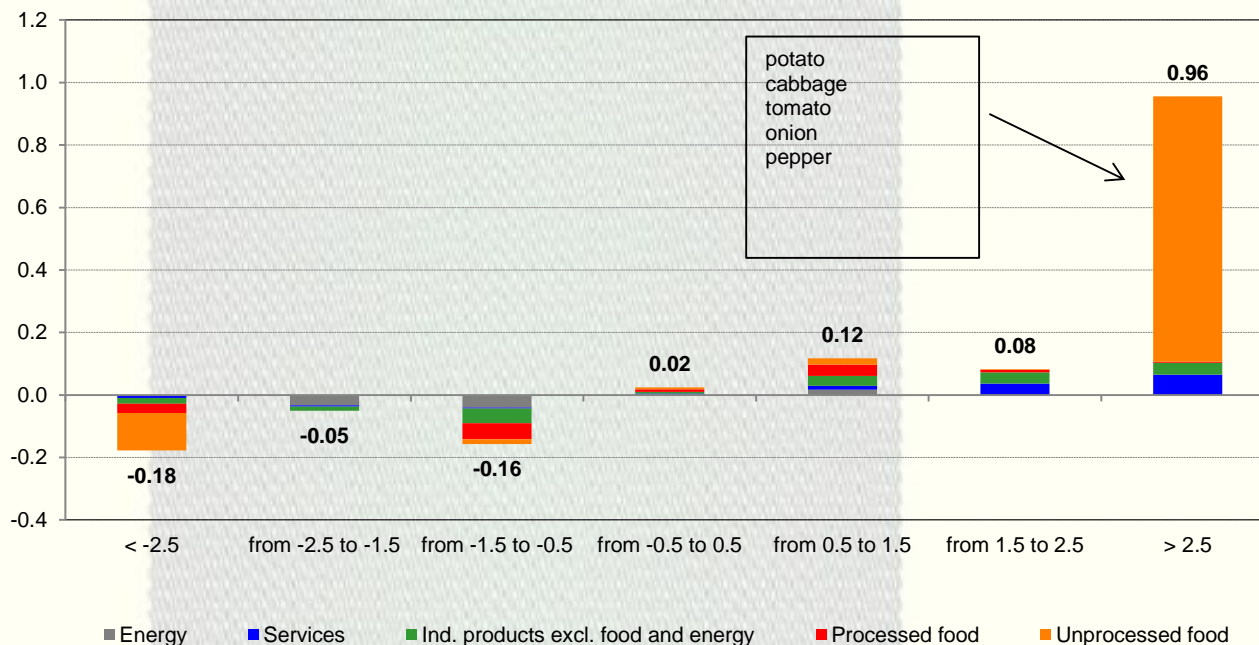
(m-o-m rates, in %)



- In April, consumer prices rose 0.8% and y-o-y inflation reached 11.4%. This implied a temporary halt in its decline.
- High monthly inflation in April was due to the vigorous growth in vegetable prices.
- Still high y-o-y inflation reflects high last year's price hikes (notably from May-October 2012). As these hikes will soon be excluded from calculation, y-o-y inflation will precipitate down.

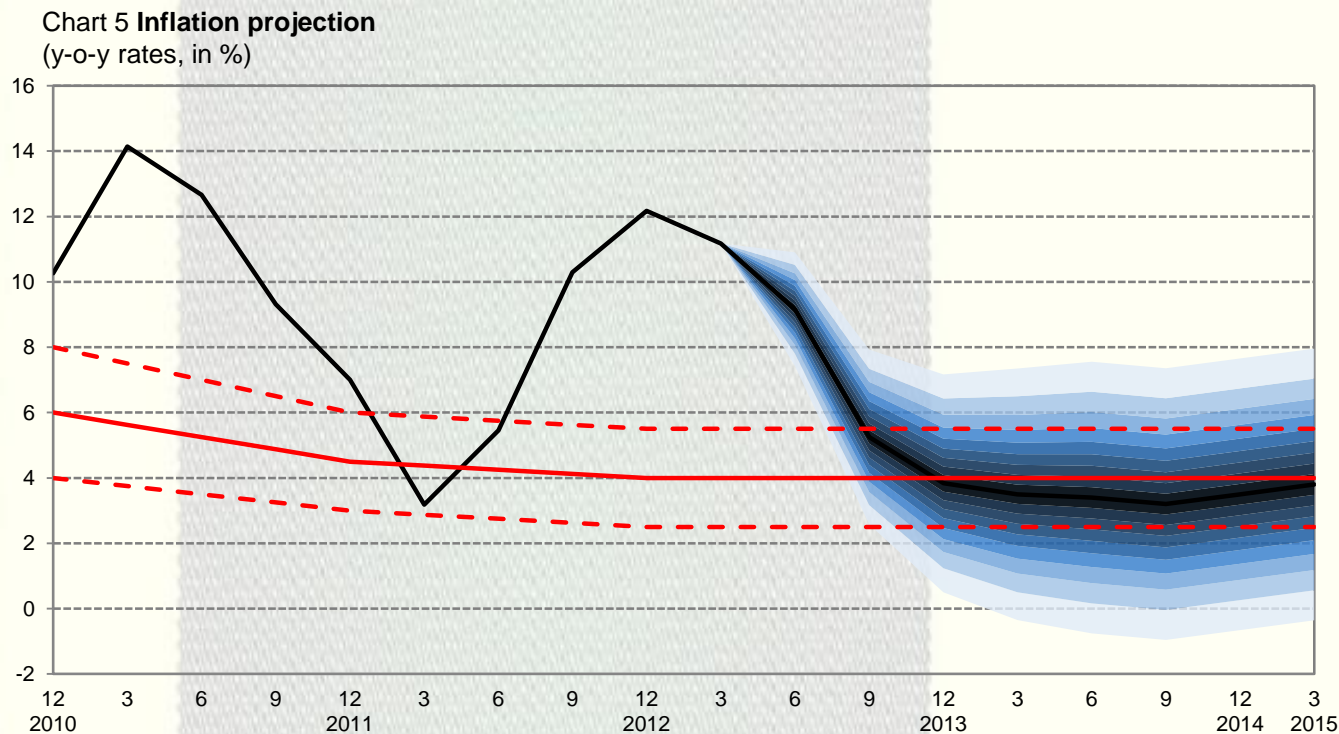
Price growth in April reflects vegetable price hikes

Chart 4 Contributions of CPI components to m-o-m inflation
(in percentage points)



- The April growth in consumer prices is not a reason for concern as core inflation came at 0.3%, which is consistent with the $4 \pm 1.5\%$ target.
- Consumer price growth of 0.8% in April is almost fully determined by vegetable price hikes. Five products from this group (potatoes, cabbage, tomatoes, onion and paprika) added 0.6 pp to CPI growth.
- Given the volatility of vegetable prices, such deviations occur from time to time and are not unusual.

Y-o-y inflation is expected to decline in the coming period



- Y-o-y inflation is expected to return within the target tolerance band by October. The key contribution will come from falling costs in food production, low aggregate demand, stable dinar exchange rate over the past several months, and the full-blown effect of restrictive monetary policy measures taken as of mid-2012.
- To ensure inflation's return within the target tolerance band, the NBS will be cautious in easing monetary policy, taking account of the risks associated with the new agricultural season, external environment and the pace of fiscal consolidation.
- The NBS will not be content until inflation stabilises within the target tolerance band in the long run and until inflation expectations are anchored to the inflation target.

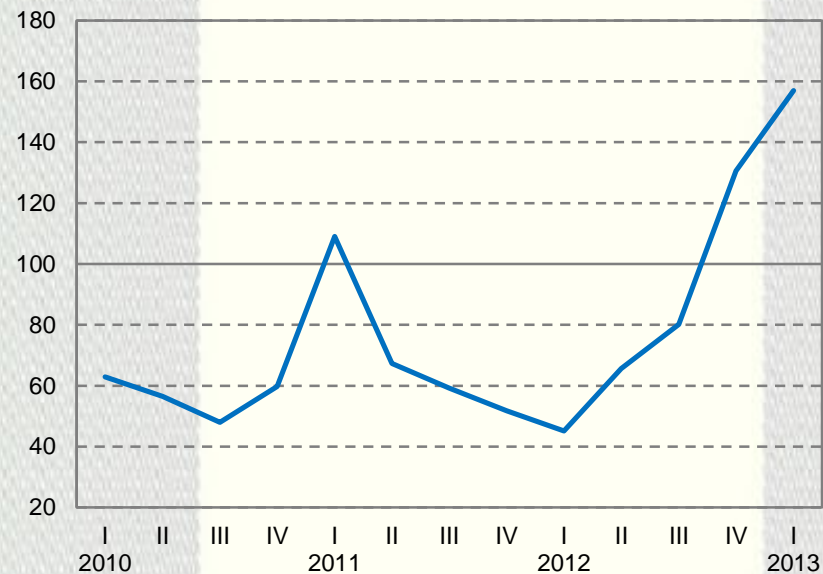
Positive trends in industry, manifest by end-2012, continued into Q1

Chart 6 **Industrial output**
(seasonally-adjusted data, 2008 = 100)



Source: Serbian Statistical Office.

Chart 7 **Manufacture of motor vehicles**
(seasonally-adjusted data, 2008 = 100)



Source: Serbian Statistical Office.

- Relative to Q4 2012, total industrial production grew 0.9% s-a in Q1, or 5.1% y-o-y.
- The main impetus was provided by the production of motor vehicles (20.2% s-a relative to Q4).
- We expect the production of motor vehicles and oil industry to lend a major boost to total industry.

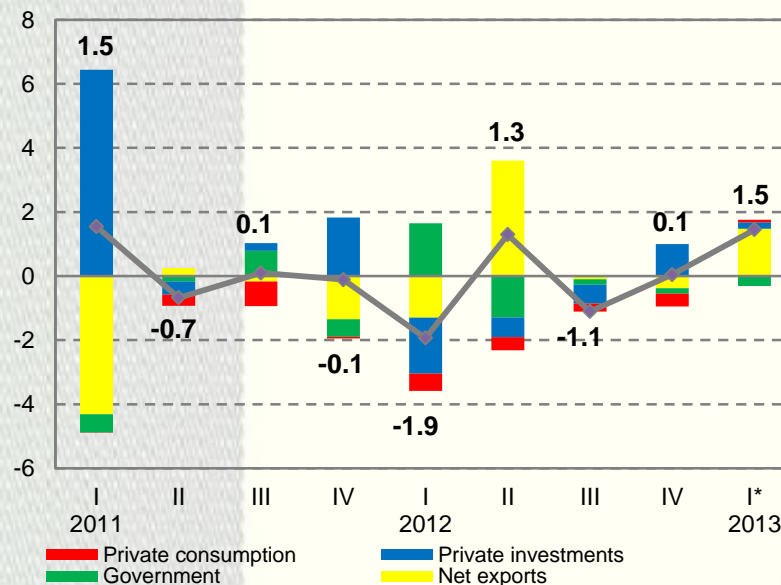
Economic recovery continued into Q1

Chart 8 **Export of motor vehicles**
(seasonally-adjusted data, 2008 = 100)



Source: Serbian Statistical Office.

Chart 9 **Contributions to quarterly GDP movements, expenditure side** (in percentage points)

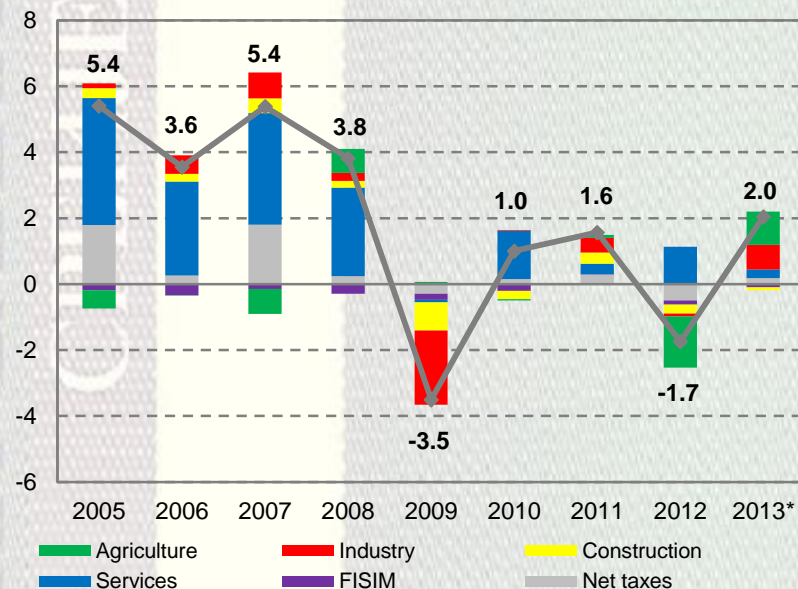


* NBS estimate.
Source: Serbian Statistical Office.

- We estimate economic growth of 1.5% s-a in Q1.
- On the expenditure side, GDP growth will be led by elevated exports, notably of automobiles. Private investment and private consumption will also give a boost.
- Government consumption and investment will give a negative contribution.

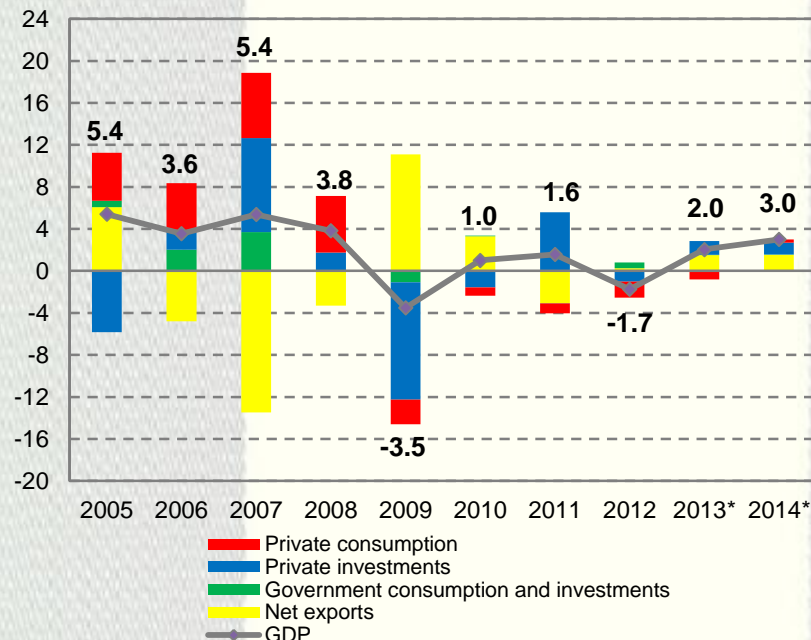
GDP growth is expected at c. 2.0% this year

Chart 10 Contributions to annual GDP growth, production side (in percentage points)



* NBS estimate.
Source: Serbian Statistical Office.

Chart 11 Contributions to annual GDP growth, expenditure side (in percentage points)

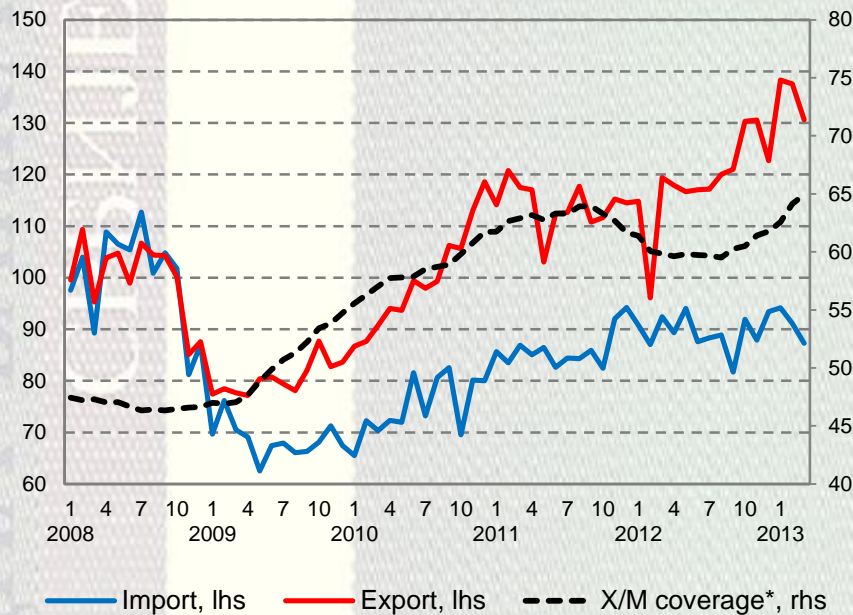


* NBS estimate.
Source: Serbian Statistical Office.

- GDP is expected at c. 2.0% in 2013, on account of agricultural recovery (1.0 pp) and industrial growth (0.7 pp), driven by the expansion in automobile and oil industries.
- On the expenditure side, GDP growth will be led by rising exports (1.5 pp) given the planned exports of automobiles and petroleum products. A positive impulse will also stem from private and government investment (1.3 pp and 0.5 pp respectively).
- A negative contribution to GDP growth will come from final government (-0.5 pp) and private consumption (-0.8 pp).

External imbalance narrowed further in early 2013

Chart 12 **Trade in goods**
(seasonally-adjusted data, 2008 = 100)



* 12M moving average.

Chart 13 **Current account deficit**
(in % of GDP)



* NBS estimate.

- Q1 saw a relatively small current account deficit resulting from a lower trade deficit, sharp inflow of remittances and weaker interest outflows.
- Exports rose 22.2% y-o-y in Q1, while imports almost stagnated (0.2%). Exports are currently 28.1% and imports 14.4% below the pre-crisis level.
- We expect the current account deficit to decline in 2013 (8.5% of GDP) on the back of further expansion in automobile and oil industries, as well as fiscal consolidation measures.

The dinar has strengthened and the risk premium declined since early 2013

Chart 14 **Movements in exchange rates of national currencies against the euro**

(31.12.2010 = 100, increase represents appreciation)

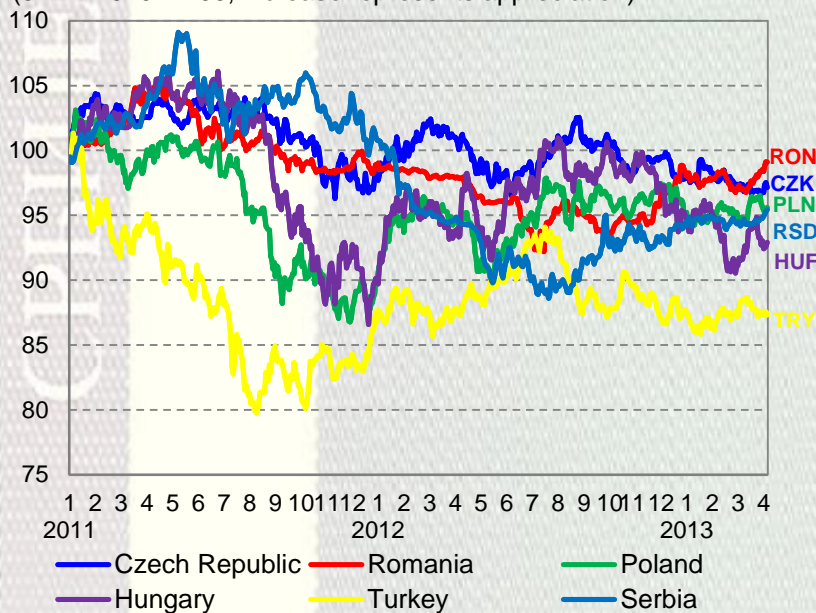
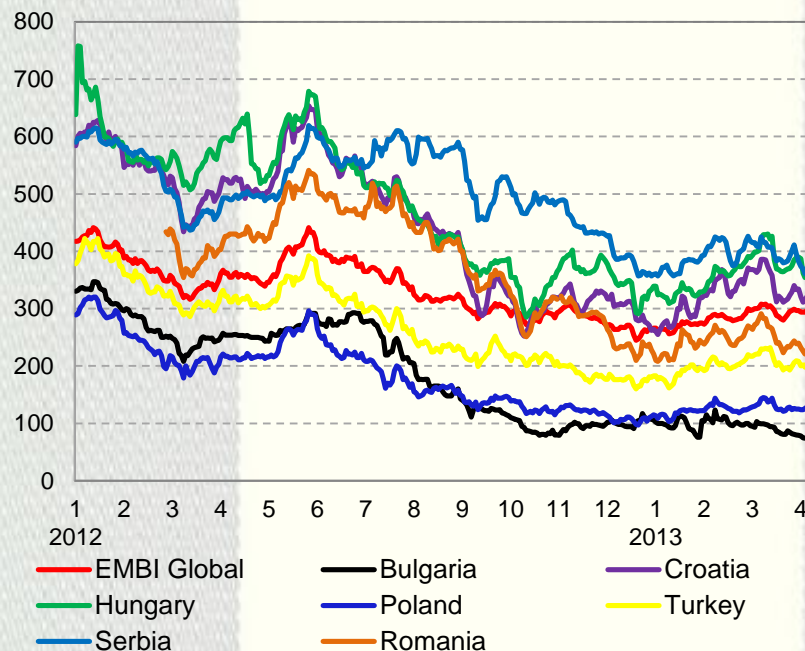


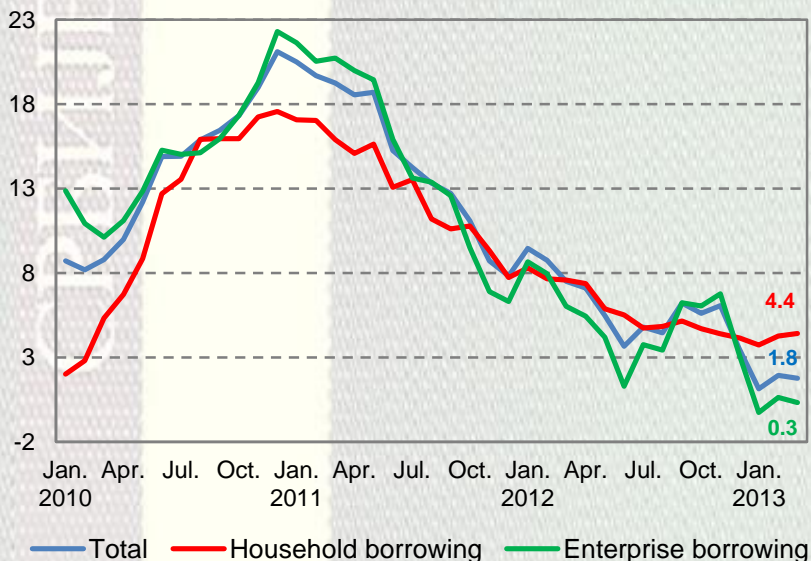
Chart 15 **EMBI indices (basis points)**



- The strengthening of the dinar from H2 2012 continued into 2013, primarily on the back of increased non-residents' interest in government securities and narrowed current account deficit. In the year to April, the dinar appreciated against the euro by 2.9%.
- In the last eight months, Serbia enjoyed the sharpest drop in risk premium in the region. In addition to global factors, the drop was aided by economic policy measures and progress in terms of EU integration. This led to a fall in Serbia's costs of borrowing in the international market. Risk premium currently stands at around 330 bp.
- In the year to date, the NBS intervened in the IFEM by buying EUR 90.0 mln in order to ease excessive daily volatility of the dinar, but also to boost FX reserves and thus improve resilience to potential negative shocks from the external environment.

Credit growth slowed significantly

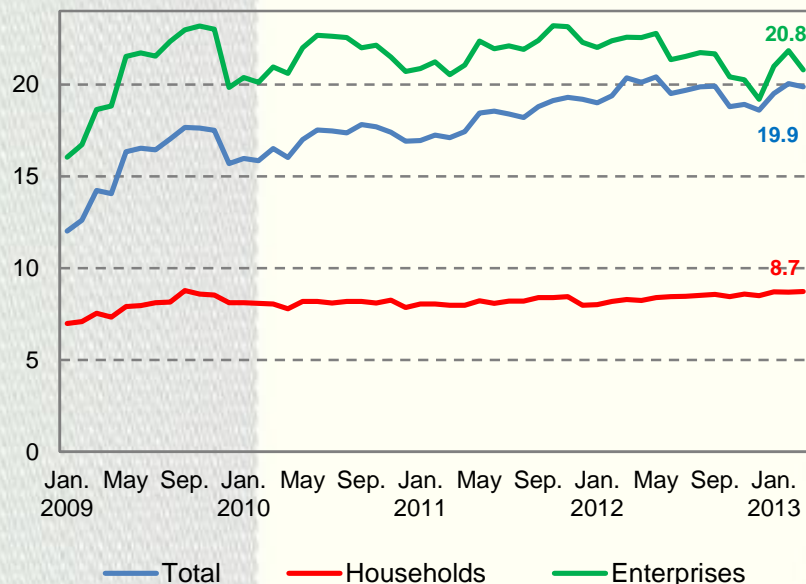
Chart 16 **Real bank loan receivables***
(y-o-y growth rate in %)



*After exchange rate adjustment.

**Based on preliminary data.

Chart 17 **Gross NPL ratio (in %)**



- Early 2013 saw a further slowdown in y-o-y credit growth.
- By contrast to the previous year (September-November 2012), in Q1 2013 the granting of subsidised loans to the corporate sector did not accelerate total corporate credit growth. Quite to the contrary, corporate credit growth lost significant pace in Q1, while household credit growth stepped up mildly.
- The share of NPLs in total loans (gross principle) was 19.9% in March (8.7% for households and 20.8% for corporates). Though high, NPLs are fully covered by regulatory provisions (117.3%). Allowances for loan impairment (in accordance with IFRS) cover half of gross NPLs (53.7%).

Capital adequacy ratio of the banking sector is satisfactory

Chart 18 Regulatory capital and CAR* (RSD bln, CAR in %)

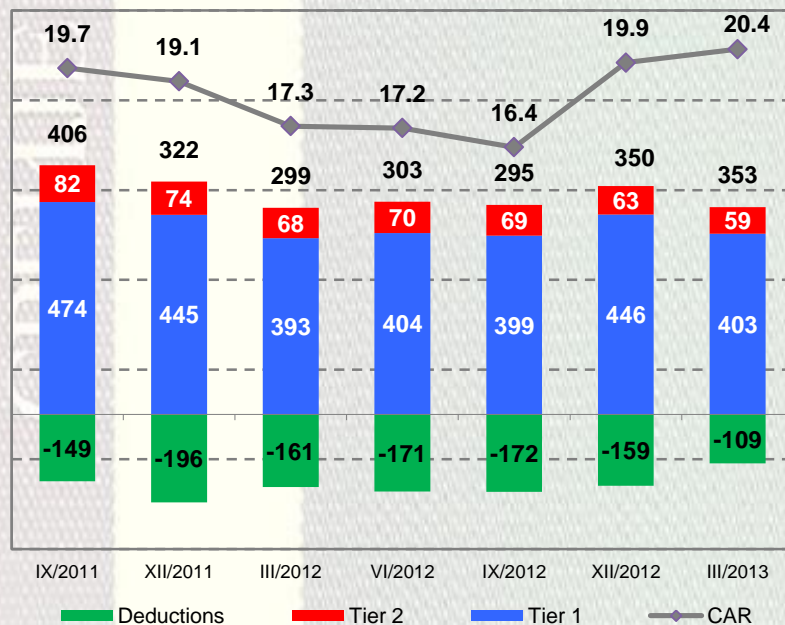
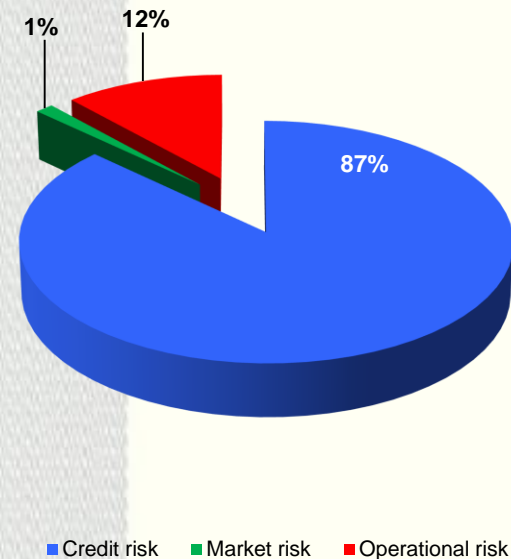


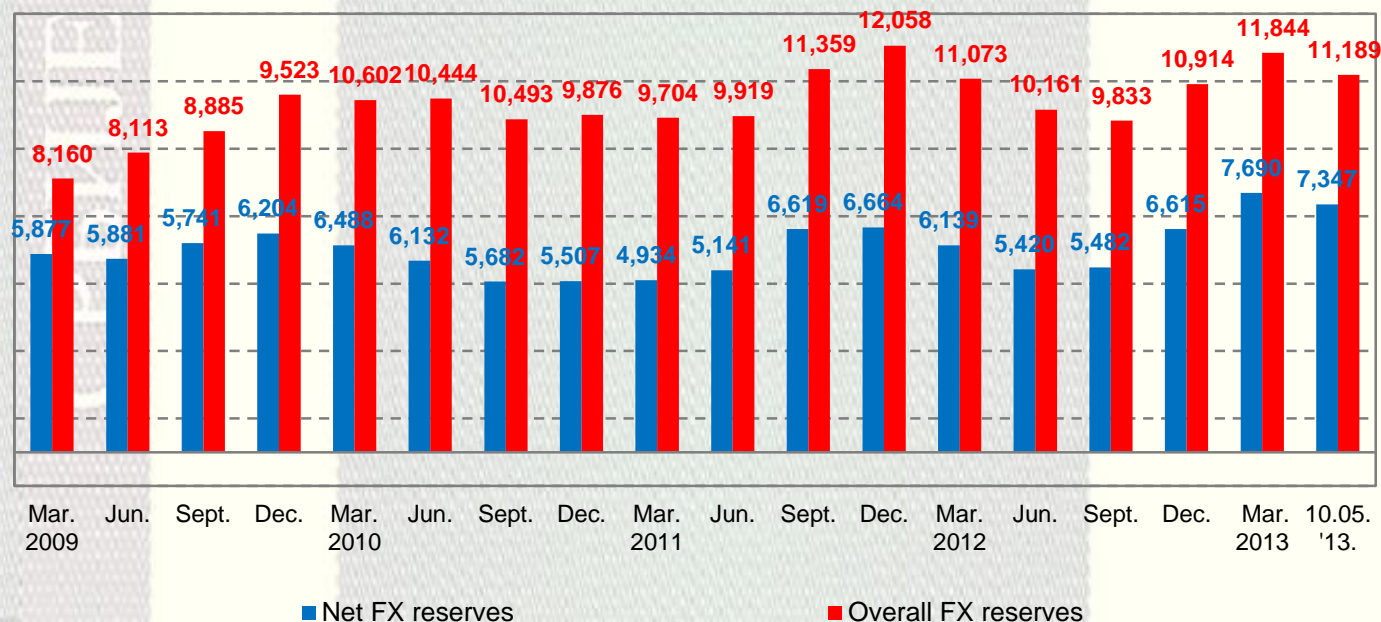
Chart 19 Capital requirements (March 2013)



- The upward trend in the capital adequacy ratio (CAR), started in late 2012, continued into 2013 (20.4%). CAR is currently above the prescribed minimum of 12% and significantly above the international minimum of 8%.
- Higher CAR is due mainly to new recapitalisations (worth EUR 416 mln in 2012 and EUR 40 mln in Q1 2013), higher revenue reserves and lower credit risk-weighted assets.
- The structure of capital requirements shows that credit risk is by far the most important.

NBS FX reserves are at a satisfactory level

Chart 20 **NBS FX reserves**
(in EUR mln)



Net FX reserves

=

FX assets

(monetary gold, foreign currency cash, NBS claims on accounts abroad and securities)

-

FX liabilities

(IMF loans, required reserves, other external loans)

- NBS FX reserves stood at EUR 11.2 bln on 10 May 2013 (covering around eight months of imports and exports, or 383% of M1), which is an adequate level under the criteria of external liquidity and financial risk exposure.
- Net NBS FX reserves equal EUR 7.3 bln.
- NBS FX reserves increased in Q1 2013 on account of FX inflows from the sale of eurobonds in February. A decline in NBS FX reserves in April was prompted by the early repayment of a half of Serbia's debt to the London Club creditors by end-April.