Ioannis Gkionis
Research Economist
Eurobank Ergasias
+30 210 3371225
igkionis@eurobank.gr

Galatia Phoka
Research Economist
Eurobank Ergasias
+30 210 3718922
gphoka@eurobank.gr

Ivan Radovic
Head, Strategy & Market
Research Department
Eurobank Serbia
+381 11 30 27 533
ivan.radovic@eurobank.rs

Editor
Dr. Platon Monokroussos
Group Chief Economist
Deputy General Manager
Eurobank Ergasias S.A
pmonokrousos@eurobank.gr

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Trip Notes: Serbia

Key notes from our recent trip to Belgrade: October 19th- 20th

In late October, we traveled to Belgrade where we met with high-level officials from the Central Bank, the Finance Ministry, the Public Debt Management Office, the IMF, the World Bank, as well as market participants from the domestic financial sector. The present trip note attempts to offer our readers a cohesive overview of current conditions in the domestic economy and markets as well as the outlook ahead.

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Domestic political landscape remains stable following recent election

Prime Minister Aleksandar Vucic, a dominant figure in domestic politics for the past four years, decided to call early elections on April 24, 2016, two years ahead of the formal termination of his prior government's tenor, with the aim to renew his mandate and pursue Serbia's path towards EU accession. The move paid off as his party, the Serbian Progressive Party (Srpska Napredna Stranka, SNS), secured a landslide victory, gaining 131 posts in the 250 seat Parliament. The new governing coalition that was crafted several months after the election includes the same partners as the Socialist Party of Serbia (SPS) and minorities (Alliance of Vojvodina Hungarians, the SVM and Bosniak Democratic Union, the BDUS) got on board and the new cabinet features few changes amongst ministers. The structure of the new administration and its operations during the first few months in office all point to a stable government, which continues to put resolute focus on structural reforms, fiscal prudence and convergence towards EU.

Once deemed by the West as the pariah of the Balkans, Serbia is now considered an emerging pillar of stability in the region, despite occasional frictions with neighboring countries. By stifling regional tensions, the Prime Minister appears to have managed to gain the confidence of his European and other foreign counterparties. Yet, although enthusiasm for EU accession remains high among key players in the domestic political establishment Europe's appetite for enlargement is currently at an all-time low, as the Union is now facing increased challenges in the form of e.g. the upcoming Brexit negotiations, a serious immigration crisis and lingering tensions with Russia. The latter represents an especially sensitive issue, as Russia and Serbia have close historical and religious ties and most Serbs consider Russia as their country's closest ally. During the ongoing dispute between the EU and Russia, the Serbian government has avoided taking sides, and also refused to impose sanctions against Moscow, unlike other candidate countries. With the accession process advancing, more pressure will be put on Serbia to align its foreign policy with that of other EU counterparts. Serbia's best hope is that the two foes reconcile as soon as possible. Preserving political stability was a prerequisite for the country's economic recovery. In year 2014, shortly after establishing themselves as the undisputable political force, Vucic's Progressives implemented austerity measures as part of a three year precautionary agreement with the IMF worth EUR 1.2bn.

From triple dip recession to fast growth recovery

After several years of straggling with recession and stagnation, the Serbian economy has embarked on a virtuous cycle. Mirroring a more challenging external environment in the aftermath of the international financial crisis of 2009-2010, the impact of recurring natural catastrophes, the lack of structural reforms and an urgent need for fiscal consolidation, Serbia's economic performance disappointed in recent years, with real GDP averaging -0.1% in 2009-2015. The domestic economy underwent as many as three recessionary cycles in the aforementioned period, with GDP contracting by 3.1% YoY in 2009, 1% in 2012, and 1.8% in 2014. Domestic GDP grew by 2.6% YoY in 2013, but this was mainly due to one-offs, including a robust agricultural output and the initiation of FIAT automobile exports. As a result, the GDP per capita in PPS terms remained broadly unchanged at 36% of the EU-28 average over the aforementioned period.

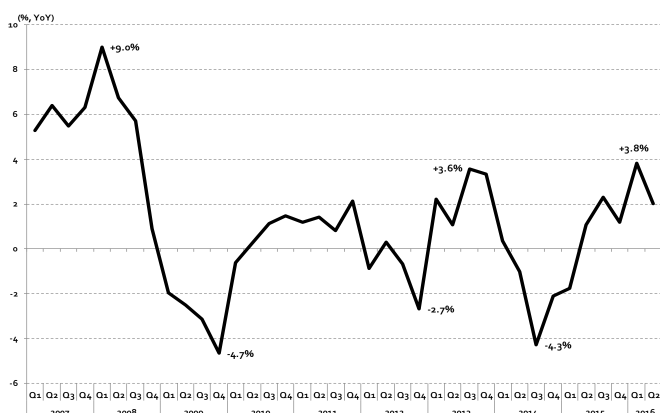
Yet, the economy appears to have turned the corner following the recessionary impact induced by the floods of 2014. After bottoming out in Q3-2014, economic activity gradually started to accelerate, with domestic GDP exhibiting five consecutive quarters of positive growth between Q2-2015 and Q2-2016. Following a strong reading of +3.8% YoY in Q1-2016, real output increased by 2.0% YoY in Q2-2016, bringing overall GDP growth to 2.9% YoY in the first semester of this year. This strong performance was primary driven by investment and net exports. Gross fixed capital formation expanded by 6.5% YoY in 1H-2016 (+4.9% YoY in Q2-2016 vs. +8.4% YoY in Q1-2016), broadly in line with the year-on-year performance experienced in the same period a year earlier. Separately, export growth accelerated to 10.8% YoY in 1H-2016, from 9.2% YoY in 1H-2015. The performance of the rest of expenditure-side components over the same period were: imports +8.6% YoY in 1H 2016 vs. +6.3% YoY in 1H-2015; government consumption:+4.0% YoY in 1H-2016 vs. -3.3% YoY in 1H-2015; private consumption: +1.1% YoY in 1H-2016 vs. -0.7% YoY in 1H-2015. Private consumption recorded the second positive reading in Q2-2016 since Q2-2013, (+1.3% YoY in Q2-2016 up from +0.9% YoY in Q1-2016) vs. -1.2% YoY in Q2-2015. The recent notable improvement in Serbia's macroeconomic environment is rooted in domestic political stability, the front-loaded implementation of a sound fiscal consolidation program (which envisages a structural adjustment worth 4ppts of GDP in 2015-2016) and ongoing efforts to clean up an overgrown and highly inefficient state-owned enterprises sector. In more detail, some of the factors that contributed to the recent growth recovery include:

- **Enhanced political stability**: The elimination of political uncertainty following the last national election and a strong commitment by the new government on economic stabilization policies and EU accession.
- **Sentiment improvement on the back of increased compliance with the IMF precautionary agreement**: the government has completed on time the first five reviews of the 3-year precautionary IMF program (EUR1.2bn), meeting the respective quantitative benchmarks and outpacing the agreed fiscal targets.
- **Substantial monetary policy easing**: lax domestic monetary conditions underpinned by a low inflationary environment led to a decline in lending interest rates (more pronounced in the Dinar loans segment). Consumer inflation has remained below the NBS targeted band (2.5%-5.5%) since February 2014, driven by, among other factors, lower energy and food prices. The NBS's key policy rate has been cut by a cumulative 775bps since May 2013, currently standing at a historic low of 4.00%.

Furthermore, the NBS has lowered the MRRs on FX savings between October2015-February2016 releasing an amount above EUR 700mn since the inception of lowering MRRs.

- **Improving credit dynamics:** following several years of banking-sector deleveraging, bank credit has entered a positive growth territory since Q1-2015 (+5.2% YoY in July 2016 in constant FX prices). The improvement of domestic credit conditions mirrors the strong liquidity and capital position of the domestic banking sector --liquid assets to total assets accounted for ca.36% in the past three years & the industry-wide Tier 1 capital ratio stood at 19.6% in August 2016.
- **Improving labor market**: the improvement of labor market conditions and the decline of unemployment further facilitated the stabilization of domestic macroeconomic conditions. The unemployment rate stood at 15.2% in Q2-2016 compared to 17.3% in Q2-2015 and a peak of 25.5% reached in April 2012. Employment growth was running at an annual rate of ca 2% in Q2-2016, on the back of strong job gains in the private sector.
- **Declining external imbalances**: the current account deficit is expected to narrow further this year, reaching around 4.2% of GDP, from 4.7% of GDP in 2015 and 6.0% in 2014. The said deficit reached a pre-crisis peak of 21.2% in 2008 and stood at 11.6% in 2013. More importantly, this notable improvement has taken place on the back of enriched productive capacity, a broadening of the economy's export base of the economy and further integration into the world export markets.

Figure 1
Serbia has emerged from a triple dip recession in 2009-2014



Source: National Statistics, Eurobank Research

Outperformance of growth forecasts expected in 2016-2017

The recent rebound of domestic economic activity has outperformed both initial and (upwardly-revised) official forecasts. The growth outlook for 2015-2016 has been upgraded four times since the inception of the IMF program. The real GDP growth forecast for FY2015 was progressively revised higher from -0.5% (February 2015) to 0.0% and, later on, further to 0.5% and 0.8%. The growth forecast for FY2016 was revised from 1.5% to 1.8%, while the latest (September 2016) forecast of the IMF program stood at 2.5%. From our discussions we concluded that the risks to this forecast are currently skewed to the upside given the performance of the 1H-2016. The main drivers behind this strong performance include private investment and net exports. Private investment is forecast to expand by 6.7% YoY this year, contributing ca. 1.1ppts to full-year GDP growth. Net exports of goods and services are also expected to be a positive contributor, adding another 0.6ppts. Separately, public consumption and investment are forecast to contribute ca. 0.5ppts, while private consumption is likely to exert a more timid contribution to the tune of 0.3ppts, after remaining three years in the red.

Prospects for 2017 are even more encouraging. According to official forecasts, GDP growth is expected to accelerate further to 2.8%-3.0% in 2017. On top of private investment and net exports which are expected to repeat their current strong performance, private consumption is expected to accelerate to 1.3% YoY, from 0.4% in FY2016. Private consumption, after several years of acting as a drag on growth, is expected to provide more meaningful support to overall economic activity next year, driven by real wage growth and the positive fiscal impulse emanating from the targeted rise in public wages and pensions. Risks to the next year's growth outlook stem from, inter alia, the potential unforeseen spillovers from Brexit.

Serbia: a potential medium-term outperformer in the region

In the post-Lehman era, the economies of the broader region have relied heavily on EU structural funds and construction works to boost their domestic investment activity. However, the closing of the previous EU structural funding period in 2015 (T+2 rule) and the sluggish kick-off of the new one (2014-2020) has undermined investment performance in these economies. In contrast, the investment cycle in Serbia, currently a candidate for EU accession, has so far been broadly independent from such kind of inflows[1]. Nevertheless, Serbia ranks among those few economies in the region that have accomplished to reverse the declining trend in the investment expenditure to GDP ratio. This is an important development supporting optimism for the sustainability of Serbia's medium-term growth performance. The said ratio is projected to increase to 18.3% of GDP in 2016, from levels around 17.5% in the prior two years and a pre-crisis high of 30.3% reached in 2008. The main driver behind this improving performance is increased inward foreign direct investment (FDI). Net FDI inflows have been incentived by recent improvements in the domestic business environment as well as generous subsidies scheme offered to foreign investors[2]. According to NBS forecasts, net FDI flows are expected to reach EUR1.8bn in FY2016, same as in the prior year. In our view, risks to this forecast are skewed to the upside-related inflows amounted to EUR1.2bn in January-August 2016, up ca. 9% YoY). Net FDI inflows accounted for over 5% of GDP in 2015-16, a

[1] EU has allocated EUR1.5bn in pre-accession funds in the period 2014-2020
[2] http://ras.gov.rs/invest-in-serbia/why-serbia/financial-benefits-and-incentives

high ratio by both regional and international standards, providing more than full coverage to the current account deficit (159.3% of CA in Jan-Aug 2016). More importantly, in contrast to the pre-crisis era, more than one third of these FDI inflows are channeled to tradable sectors e.g. manufacturing.

Good upside potential provided that reform momentum is sustained

The recent improvement in domestic macro fundamentals has not gone unnoticed by the rating agencies. Following a wave of rating downgrades in 2012-2014, Fitch was the first agency to upgrade Serbia's long-term sovereign rating in mid-June 2016, to BB- from B+, with stable outlook. Furthermore, after upgrading the country's outlook to stable in mid-January 2016, S&P affirmed its BB- rating in July 2016. Finally, Moody's changed its outlook to positive in mid-March 2016, affirming the B1 rating. Provided that the current drive for structural reforms and fiscal consolidation is maintained, further credit rating moves should not be excluded in the foreseeable future.

In conclusion, the country has gone through a rather prolonged transition from central planning to a market based economy in the 2000s, which left key competitiveness problems unaddressed. Until recently, Serbia was ranking consistently lower than regional peers in terms of indicators measuring business climate, competitiveness and economic transition[3]. Overall, the country has made progress in most recent years in removing some important competitiveness bottlenecks. Among others, this is reflected in the evolution of Serbia's *World Bank Doing Business Distance to Frontier score*[4], which improved from 60.63 in 2013 to 68.41 in 2016.

This has been facilitated by improvements and simplifications in the procedure for issuing building permits and in resolving insolvency. The adoption of laws on planning and construction (March 2015) and the new investment law (October 2015) were important steps towards this direction. Moreover, a major overhaul of the labor market in mid-2014 has been instrumental in removing hiring disincentives and making wage bargaining and employment procedures more flexible.

In our view, Serbia still has substantial, unrealized upside potential. It has a key geostrategic position and features significant comparative advantages relative to other competitor economies in the region in areas including, inter alia, education, technological readiness and agribusiness. During our macro investigation trip, we identified the following areas which deserve increased attention by the authorities:

- **NPLs resolution**: Although in a downward trend, the total stock of non-performing loans-related primarily to private sector lending- remains relatively high by regional standards. The NPLs ratio stood at 19.6% in August 2016, having declined by 2.6% relative to the same month a year earlier. Even though the provisions coverage is significant (more than 100% according to local standards and 66% according to IFRS standards), it is of outmost importance to deal with the issue in a more resolute manner so as to free up resources currently trapped in unproductive sectors of the domestic economy. To deal with the issue, a strategy for NPL resolution is currently underway. The strategy aims to strengthen domestic banks' capacities to deal with bad loans and enable the development of a functional market for NPLs, while, at the same time, improve in court-debt resolution and promote out-of-court debt restructuring.
- **Investment climate:** While certain amendments to the bankruptcy law to enhance creditors' rights are underway, further steps are needed to enhance access to the judicial system and improve its operational efficiency. More efforts are also required to address red tape, inefficient and unnecessary bureaucracy that generates high operating costs for doing business and investments.
- **Contingent liabilities:** Additional efforts are also needed (in line with the IMF program conditionalities) to reduce the liabilities and the debt servicing capacity of commercial state-owned enterprises (SOEs) and to push for a thorough restructuring of the energy sector.

Aggressive fiscal adjustment strengthens investor confidence towards the outlook of the domestic economy

Following a structural adjustment equivalent to 2.6ppts of GDP in 2015, when the consolidated deficit was reduced to 3.7% of GDP from 6.7% in the prior year, the strong fiscal performance continued unabated in the first three quarters of 2016. As of end-September, a small surplus in the budget was recorded, an unseen feat over the prior decade, while most quantitative IMF program targets were exceeded. However, it is expected that the full-year consolidated balance will show a deficit of ca. 2% of GDP, driven by seasonal year-end over-spending and certain one-offs in Q4. Still, this would represent an overachievement of nearly 2ppts of GDP relative to both the consolidated budget target for 2016 agreed with the IMF and the respective target stipulated in the Budget Act of 2016. The sound fiscal performance over the first nine months of this year was driven by strong revenue growth, with tax receipts exceeding the respective budget target by nearly EUR 480mn (or ca. 1.5% of projected GDP). A clampdown on the grey economy contributed to increased collection of excise taxes (especially, from petrol products), with stronger than expected GDP growth

[3] IMF Third Review (Dec2015, page 14): http://www.imf.org/external/pubs/ft/scr/2015/cr15347.pdf

[4] World Bank (Doing Business, Distance to Frontier definition): The distance to frontier score aids in assessing the absolute level of regulatory performance and how it improves over time. This measure shows the distance of each economy to the "frontier," which represents the best performance observed on each of the indicators across all economies in the *Doing Business* sample since 2005. This allows users both to see the gap between a particular economy's performance and the best performance at any point in time and to assess the absolute change in the economy's regulatory environment over time as measured by Doing Business. An economy's distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier

providing a strong boost to both VAT revenue and social services contributions. In addition, a series of non-tax revenues, including a sale of G4 telecom frequency licenses and some "premature" dividend payments by a few profit making SOEs contributed another EUR 200mn. On the expenditure side, capital investment outlays appears to be exceeding program targets (estimated rise of EUR 130mn in 2016), while current expenditure are expected to come in broadly in line with what has been envisaged in the budget: some increase in spending on goods and services will be largely offset by savings from lower severance payments due to downsizing of the public administration.

While all quantitative goals have been met in regards to the budget gap and current primary spending, more needs to be done in structural measures to preserve fiscal improvements and ensure public debt sustainability.

State owned enterprises (SOEs) still a source of fiscal risks, though efforts are being made to mitigate them

The lengthy process in forming a new government after the spring 2016 elections and resistance from vested interests have somewhat slowed down the envisaged restructuring and resolution plans for State owned enterprises (SOEs). Yet, the situation has considerably been improved in comparison to what was the state of affairs a couple of years earlier. At the end of 2014, several hundred such entities used to rely on state financing (either through soft lending, payments of guarantees or through direct subsidies) costing the state budget between 2% to 2.5% of GDP per annum. By the end of H1 2016, the total number of SOEs had been reduced to around forty, with only four of them posing a material risk to the budget. These are: Galenika, with 1,300 workers, once the largest generic medicine maker is in the process of finding a strategic partner through a recapitalization process; Petrohemija, the petrochemical plant with questionable commercial viability, 1,500 employees and two mining companies; copper mine smelter Bor; and the Resavica coal mine. Note that the latter two are practically the sole employer in their respective regions, employing around 5 and 4 thousand workers, respectively.

In addition, four large utility systems currently present a source of potential fiscal risk, especially taking into account their sheer size. These arise in the form of indirect subsidies, state guarantees on debts assumed (though starting in 2015 such guarantees are only granted for borrowing to boost capital expenditures) as well as limited accountability and transparency. Thus, it comes as no surprise that the situation with these utilities represents one of the key issues to be addressed in the context of the current IMF precautionary arrangement with Serbia. Elektroprivreda Srbije (EPS), the producer and distributor of electric energy, has been implementing a restructuring plan that consists of: streamlining operations, reducing operational costs, enhancing bill collections and implementing a 3.8% tariff increase to be applied before year end. After months of stalling, the company is about to execute an optimization plan including a net staff reduction of 1,900. In year 2017, EPS should alter its legal status to a joint stock company, with a goal to attract minority private investment participation and consequently enhance corporate governance and introduce expert management. EPS is the largest Serbian company by revenue, assets and headcount (ca. 32 thousand).

Srbijagas, the major gas supplier, has implemented a new organizational structure, divested non-core assets, introduced healthier bill collection systems and enhanced financial discipline by and large. Nevertheless, the company has accumulated an enormous debt burden to the tune of EUR 1.6bn that cannot be serviced without digging deep into state coffers. For the time being, the bleeding has stopped but the government will need to continue with the financial clean-up of the company for years to come. Railroads of Serbia (Zeleznice Srbije), which currently employs 16 thousand workers, has already done a serious restructuring effort including its unbundling into separate entities for passenger, freight, infrastructure and a holding company, while a voluntary lay-off plan for 2 thousand people has also been implemented. For now, only the entity dealing with freight is deemed viable without subsidies, while the others continue to depend on state support to the tune of ca. EUR 100mn per year. Streamlining efforts will certainly fill some gaps, but in current economic settings autonomous viability may be a bit too much to ask. Finally, the Roads of Serbia (Putevi Srbija) adopted a plan for removing rigid formalities in pricing road maintenance contracts to be implemented on 1,000 km of roads; the program has not been proven yet in practice. The state routinely subsidizes Putevi Srbija by ca. EUR 60mn per annum.

When it comes to public administration reform, a reduction in direct state employment has been implemented, resulting in a total headcount reduction of 16,000 (80% of which came through attrition). The plan had been more aggressive (by a third at least) relative to what has been agreed with the IMF. Public sector salaries and pensions have remained frozen since the introduction of austerity measures, with some exceptions in healthcare and education sectors. However, the Ministry of Finance is trying to negotiate with the IMF mission a "small but meaningful" rise in both pensions and wages in the context of the sixth program review, which is currently underway. As of 1H-2016, total expenditures for pensions and wages amounted to 12.1% and 8.8% of GDP, respectively. Although still below targets, one must admit that progress has been made in reducing the aforementioned expenditures, as just three and a half years ago (Dec 2012) these pending aggregates stood at 13.5% and 10.2%, respectively.

Public debt to GDP ratio has apparently peaked, one year ahead of schedule

The public debt/GDP ratio is expected to end this year at around current levels (ca. 74% or EUR 24.7bn). However, the debt composition involves significant FX risk, as 33% of it is USD denominated, whereas the Serbian economy is largely "euroized", with two thirds of its external trade being conducted with EU

countries. In addition, a bulk of debt bearing an interest cost between 6 and 7 percent was amassed over the period 2010-2012. As a result, present interest payments amount to as much as 3.5% of GDP, or EUR 1.2bn. Naturally, the Ministry of Finance is working hard to restructure these "old" debts by borrowing at lower interest rates prevailing currently. Nonetheless, as noted already, the improved fiscal prospects have already triggered rating upgrades from major rating agencies, while Serbia's CDS has been brought down to just below 200 bps, from a peak of 490 recorded in July of 2012. Recently, a new credit line has been agreed with the Abu Dhabi government worth USD 1bn (to be used when needed), while a Eurobond issue worth EUR 1bn may be in the works early next year.

Inflation anticipated to gradually move within target by mid-2017

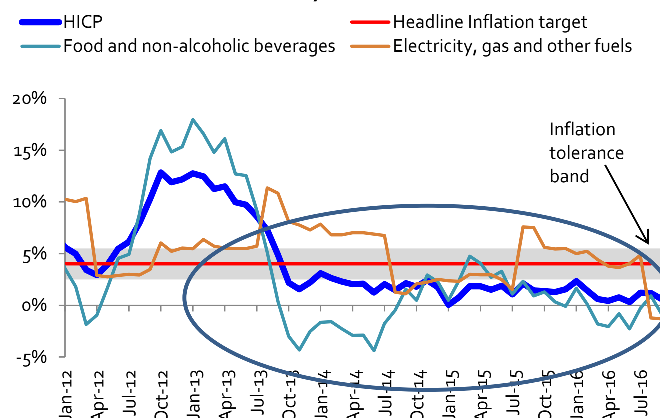
Inflation has fallen dramatically since mid-2013. Since early 2014, the headline consumer price index has remained firmly below the 4.0±1.5% Central Bank (NBS) tolerance band. Both internal and external factors have been at play behind the steep disinflation trend. From an external perspective, this has been a consequence of lower global prices of oil and primary commodities which, despite some recovery this year, continue to stand at relatively low levels. Internally, a good harvest season, the ongoing fiscal consolidation, that has weighed on domestic expenditure, well-anchored inflation expectations and a relatively stable dinar since early 2015 have also kept price pressures at bay.

The most recent data available showed CPI at 0.6%YoY in September, remaining below the lower bound of the Central Bank's target tolerance band for the 31st month running, while the year-to-date reading stood at 1.1%. In order to portray the steepness of the earlier explained disinflation trend it is worth comparing these two numbers with a 1 ½ year peak of 12.9%YoY registered in October 2012 and an average annual reading of 7.7% in 2013, the last year inflation stood above target. The breakdown of the data showed that food and non-alcoholic prices, which account for ca 32% of the headline index, remained a primary drag having declined by 0.9%YoY mostly on the back of hefty drops in the prices of fruit (-14.4%YoY) and vegetables (-5.6%YoY). Utilities costs (-0.9%YoY) and transport (-0.7%YoY), which come second and third in terms of weights on the headline index, also moved in the same direction, as did prices for clothing and footwear (-1.1%YoY). Looking ahead, inflation will most certainly remain below target for the remainder of the year, appearing poised to return within the band by mid-2017 assisted by increasing aggregate demand, the impact of past monetary easing and base effects. Administered price hikes, such as a 3.8% increase in retail electricity prices – in line with the IMF program - that came into effect on October 1st, are also expected to lift CPI in the coming months.

Monetary easing cycle near trough

Subdued inflation pressures and consistent fiscal consolidation, that has strengthened resilience towards external shocks, have provided a significant leeway to the National Bank of Serbia (NBS) to proceed with substantial easing of monetary policy conditions in an effort to underpin the domestic economic activity. Since May 2013 the NBS has cut the key policy rate by a cumulative amount of 775bps to the current record low of 4.00%. Furthermore, the Central Bank narrowed in February the interest rate corridor relative to the key policy rate from ±2.0 percentage points to ±1.75 percentage points aiming to strengthen the monetary policy transmission through the interest rate channel. Foreign exchange reserve requirement ratios were also repeatedly reduced since September 2015, in order to further support domestic credit activity. That said, in its latest meeting in October, the MPC stayed put on its monetary policy maintaining the key policy rate unchanged for the third month running. The decision was broadly anticipated by market participants as despite weak inflationary pressures and persistently below-target inflation, CPI is anticipated to gradually edge higher in the coming months, while uncertainties remain elevated on the international backdrop. On the latter, the Executive Board highlighted uncertainty in the international financial markets in the face of future Fed and ECB monetary policy paths and their potential impact on global capital flows. Against this backdrop, the key policy rate seems to be near a trough. One more 25bps cut cannot be ruled out entirely, but it will likely be highly correlated by looming Fed decisions.

Figure 2
Inflation pressures have remained subdued over the last three years



Source: National authorities, Eurobank Research

Market Overview & Investment Strategy

The EUR/RSD rate has entered a period of extreme stability, with the National Bank of Serbia continuing to counterweigh any attempts to break outside the 123.00-124.00 range. This strong preference for exchange rate stability is a legacy of the double digit inflation environment prevailing in the early 2010's. Back then, even

minor slippages in the RSD exchange rates prompted producers to pump up their prices in an effort to hedge against FX risk, especially the ones with heavy share of imported raw materials. Such expectations routinely pushed RSD lower and CPI higher, causing a quite unstable domestic business environment. This legacy may help to partially explain the CB's obsession with FX stability. That being said, the only prosperous trade that could currently be taken in RSD relates to carry-trade positioning. But, in our opinion, entering such a trade at current levels would probably require increased conviction about Serbia's longer term outlook. For the time being, things do look sound enough. Interest rates have been declining for a few years now, testing new lows time and again. For instance, compared to just two years ago, RSD three year paper yields more than halved, declining by c.490bps to 4.79% at the time of writing. In a similar vein, 1 year yields declined from 8.20% to 3.58%, currently. It appears though the new tested limits on yield contraction are hitting the trough, and that further decrease will pose unjustified risk taking for foreign investors in local currency paper.

Eurobank Economic Analysis and Financial Markets Research

Dr. Platon Monokroussos: *Group Chief Economist*
pmonokrousos@eurobank.gr, + 30 210 37 18 903

Dr. Tassos Anastasatos: *Deputy Chief Economist*
tanastasatos@eurobank.gr, + 30 210 33 71 178

Research Team

Anna Dimitriadou: *Economic Analyst*
andimitriadou@eurobank.gr, + 30 210 3718 793

Ioannis Gkionis: *Research Economist*
igkionis@eurobank.gr + 30 210 33 71 225

Dr. Stylianos Gogos: *Economic Analyst*
sgogos@eurobank.gr + 30 210 33 71 226

Olga Kosma: *Economic Analyst*
okosma@eurobank.gr + 30 210 33 71 227

Arkadia Konstantopoulou: *Research Assistant*
arkonstantopoulou@eurobank.gr + 30 210 33 71 224

Paraskevi Petropoulou: *G10 Markets Analyst*
ppetropoulou@eurobank.gr, + 30 210 37 18 991

Galatia Phoka: *Research Economist*
gphoka@eurobank.gr, + 30 210 37 18 922

Dr. Theodoros Stamatiou: *Senior Economist*
tstamatiou@eurobank.gr, + 30 210 3371228

Eurobank Ergasias S.A, 8 Othonos Str, 105 57 Athens, tel: +30 210 33 37 000, fax: +30 210 33 37 190, email: EurobankGlobalMarketsResearch@eurobank.gr

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