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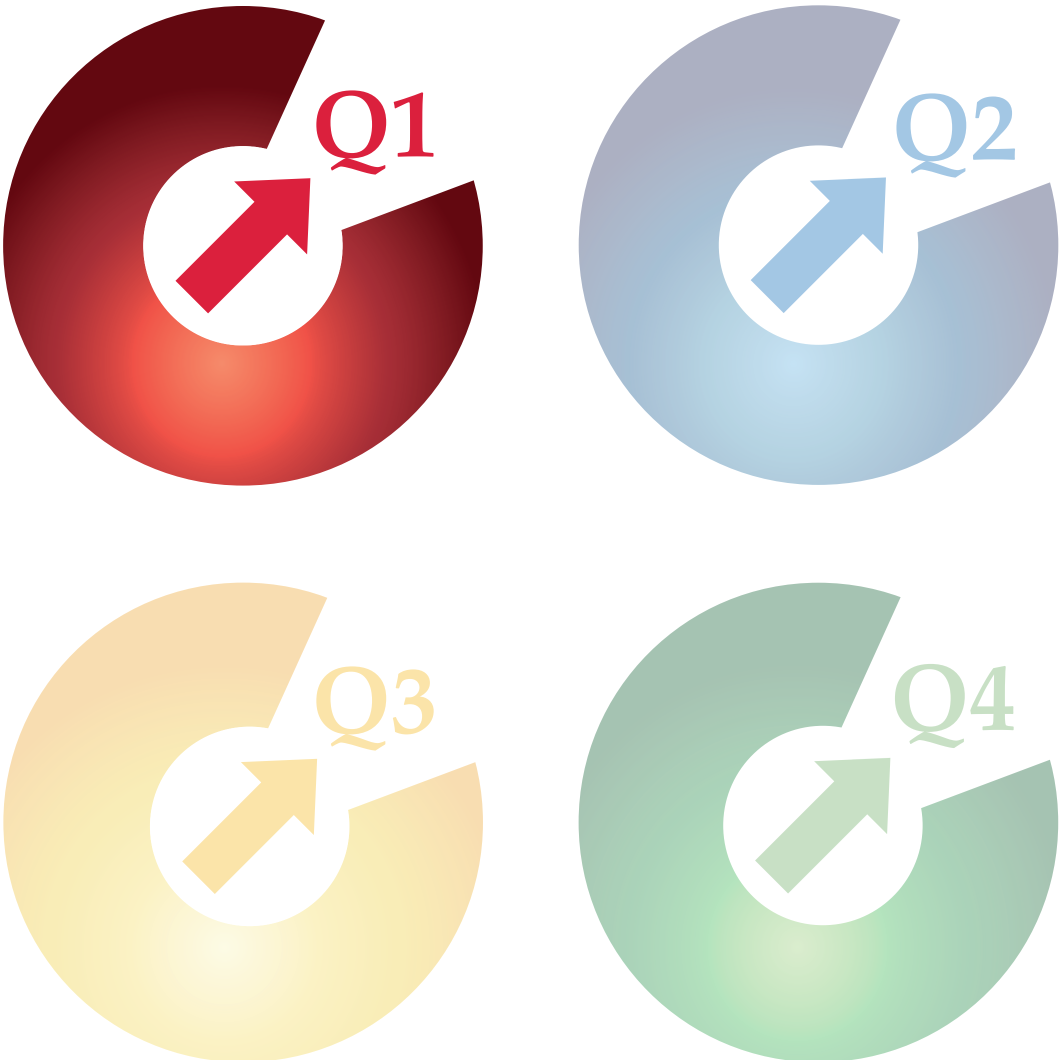

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Introduction

The Statistical Office of the Republic of Serbia, main producer and disseminator of statistics, publishes a large number of releases, indicators, bulletins, etc. A multitude of publications often gives rise to confusion with users who, on the other hand, use data to assess their performances and adapt them to other economic subjects and trends.

As many users, apart from specialists, are statistically and economically illiterate, they may be confused by the diversity of data, unable to understand and prioritize them correctly, which often results in reluctance towards information

Knowing that the statistical system is very complex, generalized and designed to meet subsectors specific needs for information, failure to understand statistics in modern society is a frequent phenomenon. Informing users by releasing “dull” statistics is often insufficient because it renders only a partial picture of macro-economy. Actually, it has appeared that the conventional ways of data presentation (tables, releases, etc.) hampers quick understanding of the socio-economic reality and fails to convey the key message, especially when there is a large number of data

Having in mind all of the above and keeping track of world trends in presenting statistics, as well as the interests of the community of experts, the redesigned “Trends” brings traditionally quarterly and semi-annual data, but through a new concept of presenting major economic signals by means of modern and advanced graphic solutions of presentation and dissemination.

This issue presents trends of major statistical areas in the first quarter of 2019 (Gross domestic product, Industrial production, Construction, External trade, domestic trade, Prices, Labour market, Salaries and wages, Tourism, Household Budget Survey, Economic Sentiment Indicator and Regional economic asymetries). A set of composite leading indicators, which can forecast, with a high level of reliability, cyclical trends and serve short-term forecasts, supplement by a structural model for forecasting the trends in agriculture, is presented in the section Macroeconomic forecasts. In addition to those forecasts, major statistical areas present forecasts of their trends in the next quarter, obtained with ARIMA. The professional paper in this issue, authored by Jasmina Jotev, is about a current problem of demographic trends in our country.

Wishing to encourage youth’s research work, we invite experts dealing with macroeconomy, mathematics and statistics to send their papers, which will be published (or some parts thereof) according to current trends

Since 1999, the Statistical Office of the Republic of Serbia has no available data for AP Kosovo and Metohia, therefore they are not included in the data for the Republic of Serbia (total).

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Regional demographic regression in Serbia

Author: Jasmina Jotev

The demographic picture of Serbia has been characterised for a decade by a marked uneven territorial population distribution. The latter being principally driven by pronounced differences in population fertility rates by areas and being under the influence of various migratory movements as well as of transition process effects. Ethnic population composition in certain parts of the territory of Serbia should be undebtoudly added to this, the demographic consequence of the former being a different birth rate due to the use of different reproduction models.

Demographic emptying and atomization, first of all, of rural settlements, are directly linked to industrialization, urbanization and deagrarization processes in Serbia.

The pronounced demographic heterogeneity of the territory of the Republic of Serbia reflected also on the changes in the total number of population. Data of the last Census 2011 (7 186 862 inhabitants) indicate negative tendencies in the movement of the total population of Serbia, showing a decrease in the number of inhabitants in relation to the previous census, while mid-2017 estimates show a number of 7 020 858. Thus, depopulation trend has been continued in Serbia.

Table 1. Increase-decrease of the population of the Republic of Serbia, 1948–2017

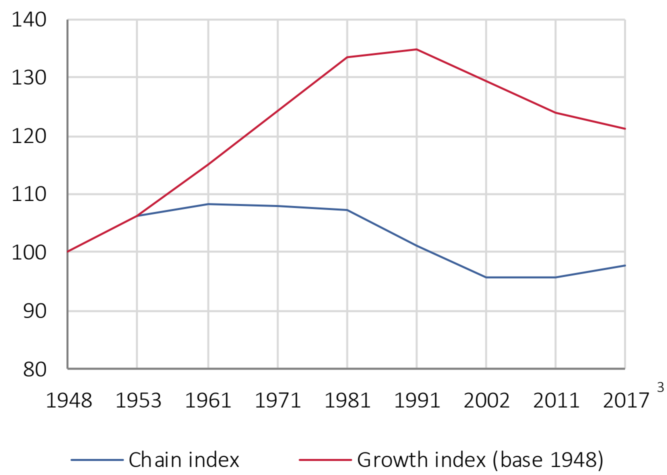
Year	Number of population[1]	Chain index (previous year=100)	Indrease index (1948=100)
1948	5 794 932	-	100.0
1953	6 163 246	106.4	106.4
1961	6 678 239	108.4	115.2
1971	7 202 898	107.9	124.3
1981	7 729 236	107.3	133.4
1991	7 822 795	101.2	135.0
2002	7 498 001	95.8	129.4
2011	7 186 862	95.9	124.0
2017[2]	7 020 858	97.7	121.2

Source: Demographic statistics, 2017, SORS.

[1] Without data for K&M.

[2] Estimated number of mid-year population.

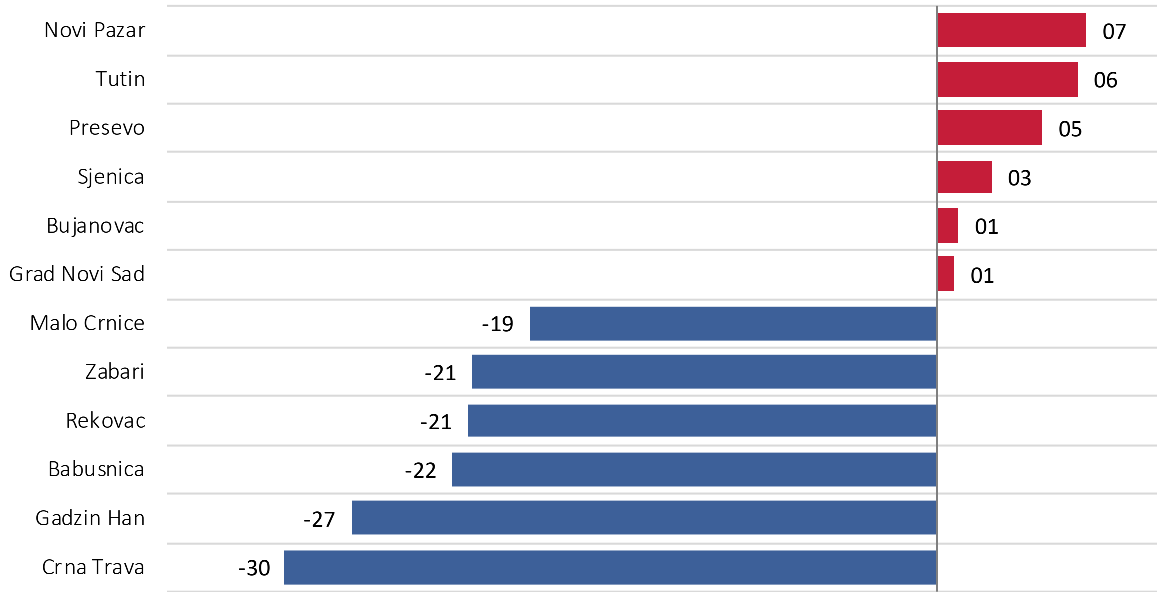
Graph 1. Increase-decrease of the population of the Republic of Serbia, 1948–2017



[3] Estimated number of mid-year population.

The atypical demographic regression in Serbia is a result of a low natural increase for many year, which has a more and more marked decreasing tendency so that simple population reproduction is endangered. Negative biological reproduction has been expanding territorially over time and homogenizing Serbia. Negative natural increase in 1991 afflicted one of two municipalities in Serbia, while in 2017 there were almost an insignificant number of municipalities with positive natural increase (six municipalities). At the same time, negative natural increase has been recorded in the Republic of Serbia for 26 years in a row. Observed relatively per thousand population, the natural increase rate amounted to -5,5‰. The municipalities with the largest negative natural increase are mainly located in economically underdeveloped and emigration areas. Total fertility rate is way under the needs for simple population reproduction, which is ensured with 2.1 child per woman. Nine years in a raw the total number of livebirths per woman of fertility age in Serbia was stabilized on the level between 1.40 and 1.46 and below the average of the European Union (1.59 in 2017).

Graph 2. Natural increase rate, regional extremes, 2017, (‰)

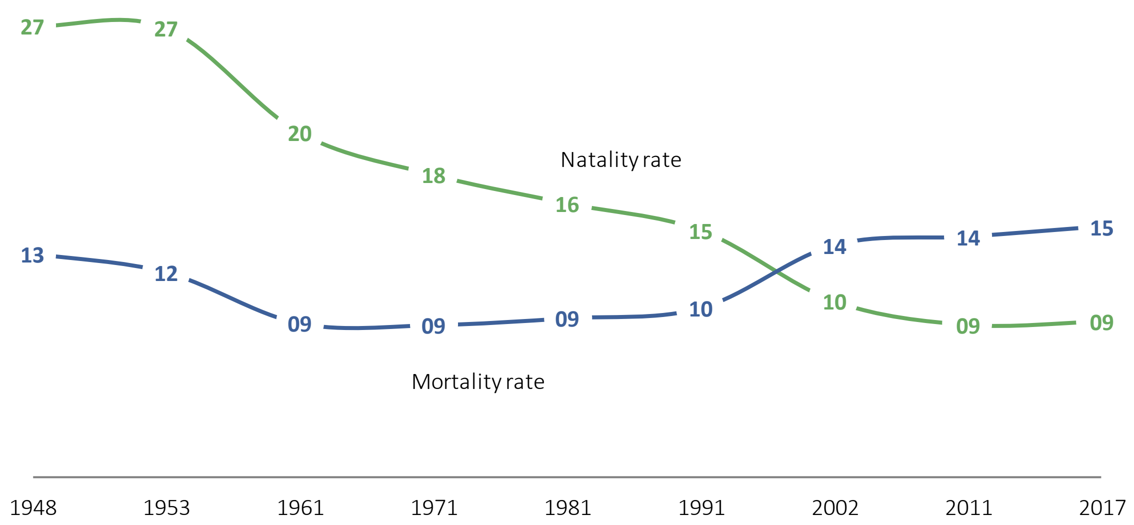


The average age of the total population in Serbia was constantly growing and reached 43 years of age in 2017 (men 41.6 and women 44.4), by 33% more persons aged 65 and over than those under 15. The municipalities of Svrljig, Rekovac, Gadžin Han and Crna Trava are examples of extreme demographic regression, the average age being over 50 years. Looking at the average age, Serbia finds itself in the group of the oldest countries, among which are the countries of the region - Bulgaria (43,9), Slovenia (43,5) and Croatia (43,4).

Demographic implications of Serbian population ageing are very complex, difficult and long lasting. Population ageing in the next period drove to ageing of the fertile contingent, which directly affected the fall of the general natality rate, accelerating the process of demographic ageing.

Population ageing is determined by a rather limiting demographic frame for creating the working contingent, meaning active population (there are 30 seniors per 100 persons of working-age). Namely, the increase in the number of mainly economically inactive population undoubtedly leads to larger individual and public consumption in Serbia, principally in the domain of earmarking money for health, social and pension insurance of seniors. In that context, knowing the determinants and understanding the consequences of population ageing in Serbia is an essential criterion for the policy of economic and social development.

Graph 3. Population natural changes in Serbia – depopulation trend[1] (‰)



[1] Without data for K&M starting from 2002.

Knowing that Serbia falls into the group of countries with the demographically oldest population, the current age structure will undebtoudly reflect on further natality decrease and mortality increase, thus accelerate depopulation. Population decrease is affected not but only by a negative biological component but also by an emigration component that will determine in future the tendencies of the population of the Republic of Serbia.

Given that for valorizing demographic resources one needs to understand as precisely as possible all relevant indicators, it is necessary, therefore, to create synthetic indicators, facilitating greatly this way the analysis of certain complex social occurences and processes. A new methodological approach, based on the index of demographic resources (i_{der}) [1], synthesizes demographic components with the aim to determine demographically threatened or progressive areas, applying the typology of territorial units in the Republic of Serbia.

The index of demographic resources *(i_{der})* has been formed by synthesizing the demographic index *(i_{dem})* and index of education *(i_o)* integrating the correction coefficient k[2]:

$$i_{der} = k \times (i_{dem} + i_o)$$

The demographic index *(i_{dem})* reflects the general direction of demographic changes in the previous period, major indicators of demographic potential as well as the age structure of the population and is based on combining four base demographic subindicators:

$$i_{dem} = \frac{i\mathrm{P}_n}{\mathrm{P}_{(n-1)}} \times \mathrm{p}_{(0-14)} \times \mathrm{p}_{f_{(20-29)}} \times i_{\mathrm{v}}$$

[1] I. Nejašić, R. Mišetić, Synthetic indicator of demographic resources: contribution to the typology of the Croatian space, Croatian Geographic Journal, 72/1, 49-62 (2010)

[2] In order to grasp better regional demographic resources, the influence of demographic mass is also included (number of population of the reference municipality) via a correction coefficient k, which values are defined by standardizing relative changes in the number of population (dynamic coefficient), in line with the methodology Nejašmić I, and Mišetić R. (2010).

$i_{Pn/P(n-1)}$ – relative change in the number of population (dynamic coefficient)

$p_{(0-14)}$ – share of the young prior fertility population aged 0–14 in the total population

$p_{f(20-29)}$ – share of young female fertility population aged 20–29 in the total female population

i_v – *index of vitality,* represents a synthetic indicator of the real and potential population biodynamics. It is based on the synthesis of the indicator of population natural change (general fertility rae [*f*] and genral mortality rate [*m*]), indicator of population age structure (index of ageing [*is*]) and share of the contingent of the population aged 20–39 in the total population ($p_{(20-39)}$). The index of vitality is an indicator of the level of population age and is calculated as follows:

$$iv = \frac{f \times p_{(20-39)}}{m \times is}$$

The demographic index reflects completely the extent of territorial demographic inequalities and thus the values of the index vary so that the areas with favourable demographic characteristis record high (above the average) index values, which sometimes exceed a number of times index values of demographically threatened areas.

The index of education (i_o) includes two subindicators, which reflect the attained population education as well as indications as to the future representation of the educated population:

$$i_o = p_{oIII} \times s_s$$

p_{oIII} – share of the population with completed tertiary education in the total number of population aged 25 and over;

s_s – level of capitalization of the student population contingent as a key holder of development of the reference area. It represents the share of the number of students in the population aged 20–24.

Table 2. Review of variables integrated in the index of demographic resources ***(i_{der})***

Designation	Name of demographic variables
P_n	Total number of population (2017)
P_{n-1}	Total number of population (2011)
P_f	Total number of female population
$P_{(0-14)}$	Number of population aged under 15
$P_{(25+)}$	Number of population aged 25 and over
$P_{(20-24)}$	Numbr of population aged 20–24 (student cohorte)
$P_{(20-39)}$	Number of population aged 20–39 (young mature population)
$P_{f(20-29)}$	Number of female population aged 20–29 (young fertile contingent)
$P_{f(15-49)}$	Number of female population aged 15–49 (female fertile contingent)
$P_{(65+)}$	Number of population aged 65 and over (contingent of senior population)
P_{stud}	Number of students (2017)
P_{oIII}	Number of population with tertiary education (2017)
$\bar{N}$	Average number of livebirths (2011–2017)
$\bar{M}$	Average number of deaths (2011–2017)

Since 95% of municipalities record the value indices of demographic resources between 0 and 85, the methodology of ranking has been performed by taking the value of 85 as the lower limit of the most favourable interval, thus establishing six types of demographic areas (municipalities, divisions) in the Republic of Serbia.

Chart 3. Typology of spatial units (municipalities) of Serbia by index of demographic resources ***(i_{der})***

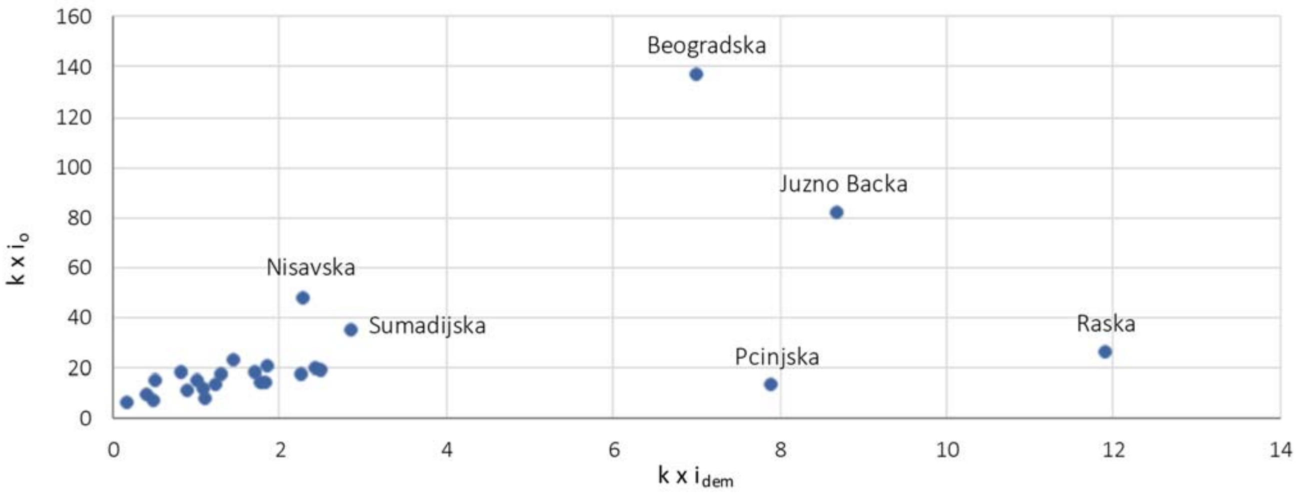
A	Area of particularly favourable demographic resources	Particularly good demographic characteristics and potentials, very high educational level, immigration	≥ 85
B	Area of favourable demographic resources	Very good, stabile demographic characteristics and potentials, high educational level	35.1–85
C	Area of good demographic resources	Mainly good demographic characteristics and potentials, mostly good educational level	25.1–35
D	Area of weak demographic resources	Partially good demographic characteristics and potentials, depopulation, mostly low educational level	15.1–25
E	Area of very weak demographic resources	Very bad/ weak demographic characteristics and potentials, particular depopulation, mostly very low educational level	5.1–15
F	Area of particularly weak demographic resources	Particularly bad/ weak demographic characteristics and potentials, “extinction”, socio-demographic depression, extremely low educational level	≤ 5

Source: According to methodology of Nejašmić, I. and Mišetić, R. (2010), data processing by SORS.

Serbia, as a whole, with the value of 21.6 regarding index of demographic resources (i_{der}) belongs to the type D (Area of bad/ weak demographic resources), characterized by depopulation and relatively low educational level, primarily relating to undeveloped and border area.

Regionally observed, index of demographic resources (i_{der}) involves very wide range of values, from 6.9 (Zajecarska oblast) to 144 (Beogradska oblast). The expressed problem of regional disparities is also confirmed by the fact that Beogradska oblast records almost seven times greater value of demographic resources index relative to the average of Serbia, i.e. its index is even 20 times greater than the one in Zajecarska oblast. Beogradska oblast (144) and Juznobacka oblast (91.2) belong to the type A (Area of particularly favourable demographic resources), as areas with extreme population concentration, primarily caused by internal migrations (local and regional), thus establishing strong population potentials. In favour of this fact also comes the fact that in 2017, 120 355 persons changed their place of residence, meaning that they permanently moved from the previous place of residence to another place in Serbia, and also, the majority came to Belgrade (49 494) and Region Vojvodine (27 362). The greatest number of areas in Serbia belongs to the category D, characterized by bad/ weak demographic resources, requiring special scenario of development support. It is also noticeable that zones of demographically endangered areas are widening and creating two relatively compact and spatially huge depopulation areas in east, west and south-west parts of Serbia, but also in the immediate vicinity of the largest urban agglomerations in the Republic of Serbia.

Graph 4 Positioning of areas by demographic index (i_{dem}) and index of education (i_o)



Beogradska and Južnobačka oblast are distinguished as areas of the most pronounced positive correlation between the demographic and educational index, in contrast to Pcinjska and Raška oblast, where the education index significantly lagged behind the demographic index (Graph 4).

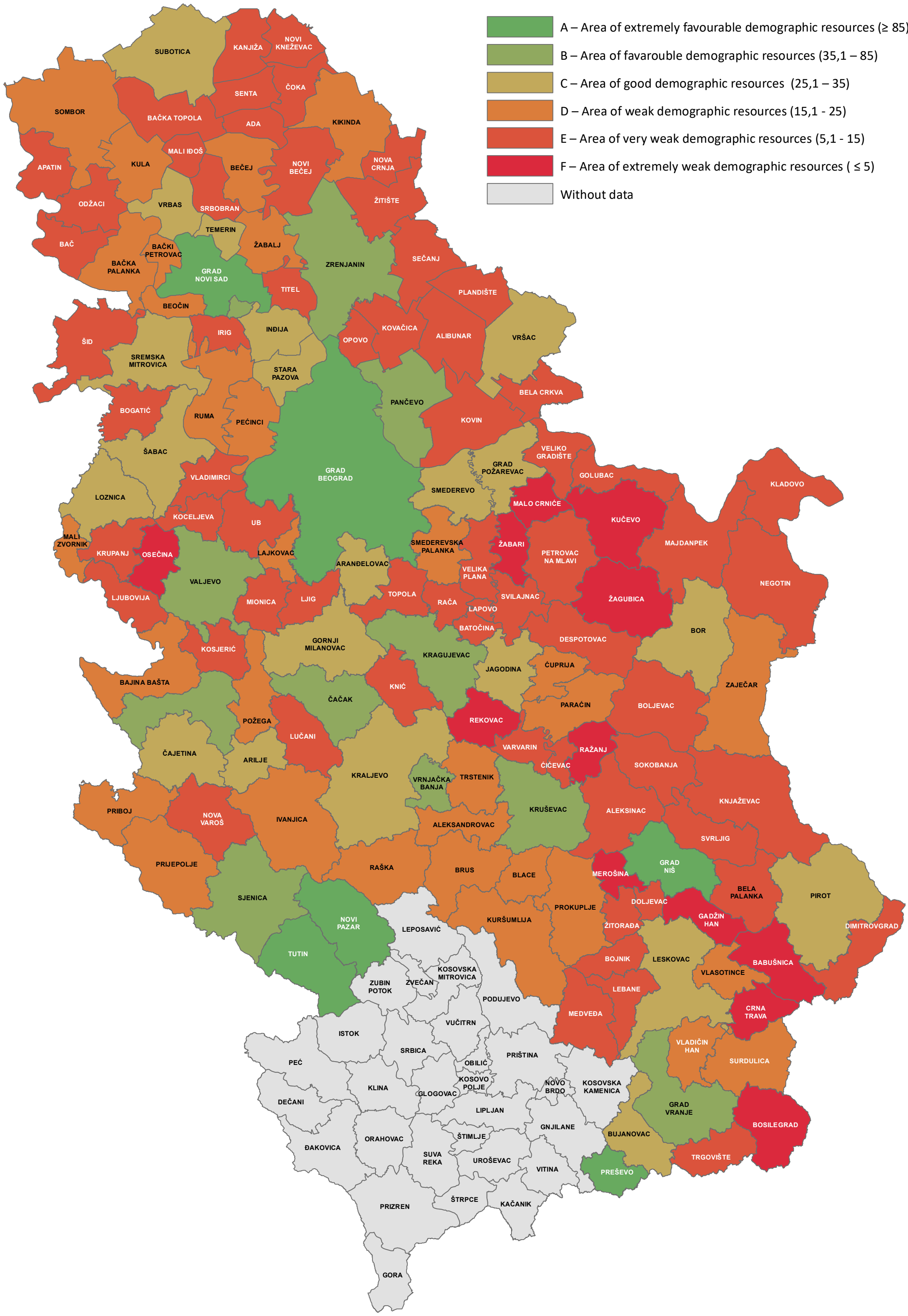
Typology of areas by index of demographic resources (i_{der})

Type A	Type B	Type C	Type D	Type E	Type F
Beogradska Južnobačka	Nišavska Šumadijska Raška	Moravička Zlatiborska Južnobanatska Pčinjska Sremska	Srednjobanatska Severnobačka Rasinska Kolubarska Mačvanska Podunavska Pomoravska Pirotska	Jablanička Toplička Zapadnobačka	Borska Severnobanatska Braničevska Zaječarska

Observed by the level of municipalities, the demographic resource index indicates that as many as 64 municipalities in Serbia belong to a group of very bad/ weak demographic resources (E), and 12 to groups with particularly poor demographic resources (F), with the municipalities of Crna Trava, Gadzin Han, Babušnica and Rekovac already traditionally singled out as demographically most endangered areas.

The developmental consequences of demographic aging in the area of Serbia (107 or 74% of the municipalities belong to the groups D, E and F) are reflected in low economic activity and level of development measured through gross value added - as many as 69 municipalities in 2017 achieved below 30% of average GVA of Serbia. However, the areas belonging to the demographically stable and progressive groups also fail to provide a higher economic effect, as the municipalities of Novi Pazar, Tutin, Sjenica and Presevo make up only 6% to 24% of the average GVA of the Republic. The balance between the volume and the structure of population, educational level and vitality has only been achieved in cities - Belgrade, Novi Sad and Niš, where labour market flexibility, qualification structure and population concentration can provide adequate labour force supply in response to the needs of change and development of the sector of economy and services.

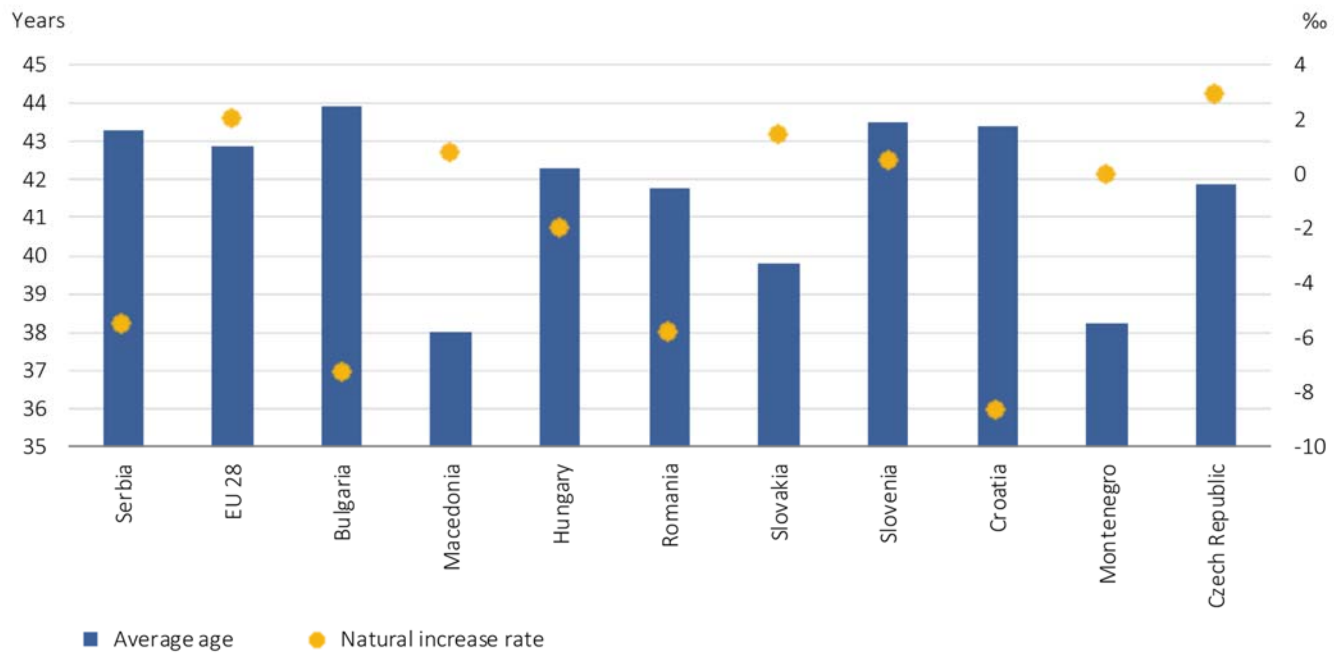
Map 1 Spatial division (typology) of municipalities according to the demographic resource index (ider)



Demographic indicators initiate the conclusion that regional development policy must describe, within the strategic decisions, the measures determining the future demographic potential of Serbia as a whole, and particularly regarding its already endangered areas.

The population of the EU has been constantly growing, and projections show that growth will continue until 2035. The most important factor for this growth is the mechanical movement of population, because the population aging process is largely present throughout Europe. The response of most EU countries to this process is a major investment in population policy measures, which is why positive natural increase has been recorded, while the situation in the newer EU member states is similar to that in Serbia.

Graph 5 Natural increase and average age by countries, 2017



With the aim of achieving sustainable demographic development of Serbia, the increase in natural growth is a priority. However, in order for the population to reach the predicted stage of the stationary (the population in which the following generations will be the same size as the existing ones), and in order to compensate the losses so far, the level of reproduction would initially have to be above the level necessary for the simple restoration of the population and it should be kept in mind that changes in this area do not happen suddenly and spontaneously. The role of the state at all levels in solving these problems is significant. Observing the case of some European countries, it can be seen that the most effective measures are financial support to the families and assistance in aligning business and parental responsibilities.

The population policy measures in Serbia, targeting the phenomenon of insufficient childbearing and its consequences, are based on strategic documents, such as the Strategy for Birth Promotion and the National Strategy for Gender Equality. Also, two direct measures of the population policy important for encouraging birth in Serbia are related to the parental allowance and the parental/ family. These measures are prescribed by the Law on Financial Support to the Family with Children ("Official Gazette of RS", No. 50/18) and the Labour Law ("Official Gazette of RS", No. 95/18).

1. Macroeconomic forecasts

1.1. Leading indicators

For better diagnosis, selection and evaluation of macroeconomic indicators that best depict the national macro-economic system, a macro-econometric system of composite leading indicators of the economic activity of Serbia has been built based on the original analytical and research work of the Statistical Office of the Republic of Serbia. Leading composite indicators are an analytical tool for forecasting cyclical movements of economic activity. They include detection of turning cyclical points, minimum and maximum to result in anticipating the phase of the economic cycle of the national economy in the next period.

Every developed SORS composite indicator by sectors is made of a large number of weighted indicators of each sector. When detecting the variables that are included in the presented composite indicators, all macroeconomic areas and business expectations surveys in the Serbian economy, conducted according to the Eurostat methodology, have been analysed. The developed SORS system of composite leading indicators precedes the cycles of the economic activity, on average, by about six months, and combined with econometric models, makes possible quantitative evaluation of the dynamics of economic activity growth rate in the short term on quarterly and annual level with a high reliability level. The text below presents the family of leading indicators by sector and adequate forecasts.

1.1.1. Construction indicator of the economic activity of Serbia – GRIPAS

The composite indicator GRIPAS precedes the cycle of the gross added value (GVA) of construction, on average, for about two quarters, and its main task is to detect GVA cyclical trends in construction in the forthcoming period. As it is highly correlated with the movement of the total number of approved building permits, total hours of work on building sites and workers on building sites, GRIPAS includes also information about production and purchase of building materials and equipment, as well as the anticipated value of works, reflecting all relevant influences on construction activity.

Based on the movement of this indicator, a growth of the construction activity of about 6.5% is expected in the second quarter of 2019 and of about 8.0% in the whole 2019.

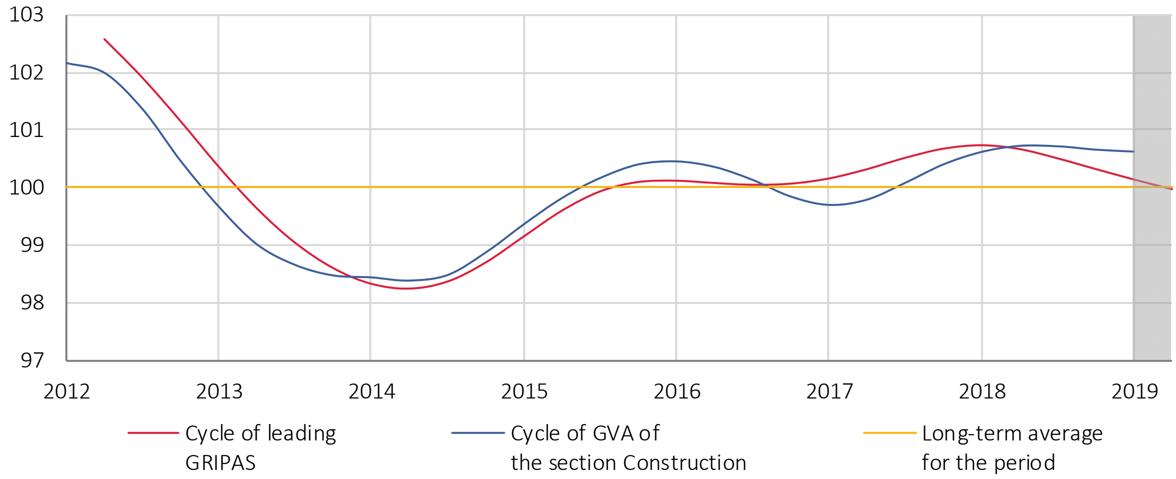
Having in mind the pronounced dynamics and stochastic nature of the construction activity in Serbia and high variances in growth rates (even after having excluded the seasonal factor from the data), when calibrating the model the scenario of high GVA growth rates of the construction sector of about 15.0% in the second quarter of 2019 as well as of 17.0% for the whole year has been applied alternatively, bearing in mind the recently announced outputs of the new investment impulse, which could not have been anticipated by the construction GRIPAS on the basis of currently available data but exclusively by calibrating this model.

Consequently, the first scenario is the main one and the second is an *ex ante* scenario for which attempts have been made to add some additional pieces of information, i.e. assumed outputs of the beginning of building (e.g. pipeline infrastructure "Turkish Stream", further realization of fast railways projects Belgrade-Budapest, etc.). The second scenario is in fact an attempt of including the expectations for the realization of each phase on time; otherwise the effect of announced expectations is lost. These pieces of information about expectations could not have been covered by the leading indicator; therefore the second scenario is a complementary model with growth calibration.

Further analytical and research activity, considerably intensified in the SORS, in terms of forecasts of all the manifestations of construction activity, will allow timely anticipation of such *ex ante* effects also through the prism of the leading construction indicator GRIPAS, which will be presented in one of the next issues of Trends.

1. Macroeconomic forecasts

Graph 1.1. GRIPAS and GVA construction cycles (Q1 2012 – Q2 2019), standardized data

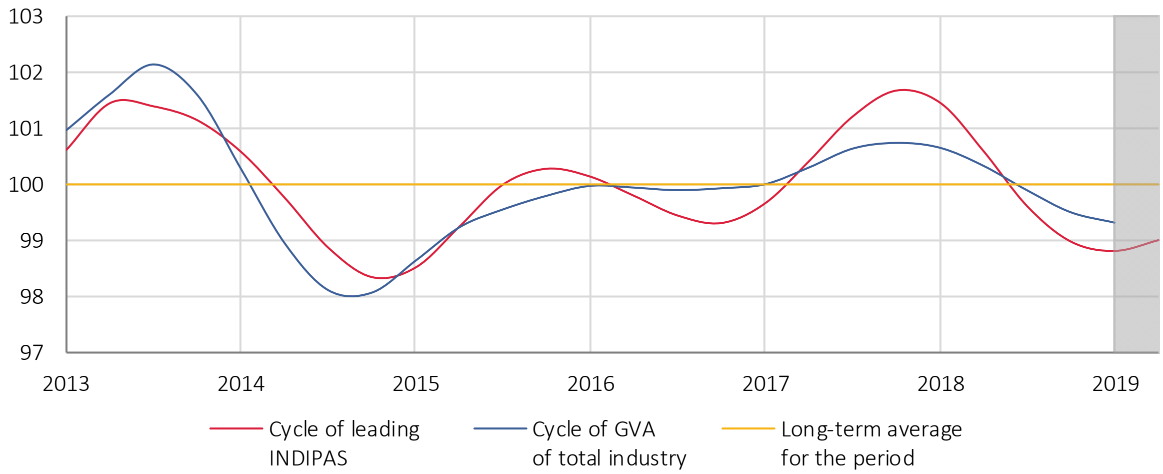


1.1.2. Industry indicator of the economic activity of Serbia – INDIPAS

The leading indicator of industrial production – INDIPAS – is aimed at forecasting the total industry GVA for the whole year and enables anticipating GVA trends in the industrial section for 1-2 quarter ahead.

Based on the movements of this indicator it is estimated that from the second quarter of 2019 the beginning of an accelerated growth of total industry is to be expected. According to the leading indicator INDIPAS, an annual GVA growth for total industry of about 0.8% is foreseen in the second quarter of 2019. By applying further the model a forecast of GVA growth rate for total industry has been made for 2019 of about 2.6%, which contribution to the total GVA growth rate would amount to 0.6 pp.

Graph 1.2. Comparison of the cycles of the leading INDIPAS and GVA of total industry, standardized data (Q1 2013 – Q2 2019)



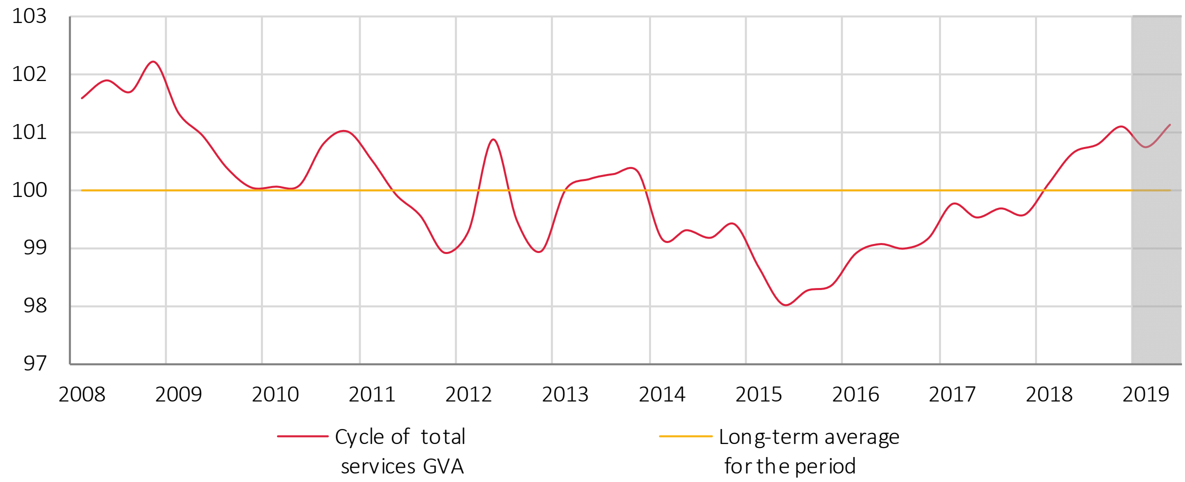
1.1.3. Trade indicator of the economic activity of Serbia – TIPAS

Based on the structural model of the leading INDIPAS indicator, a year-on-year GVA growth rate in wholesale and retail trade of about 6.1% has been forecast, while year-on-year growth of 3.4% has been predicted based on the model of total services. Such progressive impulse of GVA growth in the sections wholesale and retail trade, transportation, storage, accommodation and food services has been furthermore conditioned by a positive fiscal shock from the first quarter of 2019 due to the increase in salaries and wages in the public sector, and which has also reflected indirectly on the increase of salaries and wages in the private sector (so-called demonstration effect[3]).

The results of the model in the second quarter of 2019 the expected growth in the section of wholesale and retail trade GVA would contribute to the increase of the GVA rate by about 1.0 pp. (and to the GVA rate in total services by about 2.0 pp.), while on the other hand, GVA in total services would contribute to GDP rate increase by about 1.7 pp.

Further use of the model has also made possible the forecast for the whole 2019 where for total services a year-on-year growth of about 3.3% is expected, and consequently a contribution to the total GDP rate of about 1.7 pp.

Graph 1.3. Cycle of total services GVA, standardized data (Q1 2008 – Q2 2019)



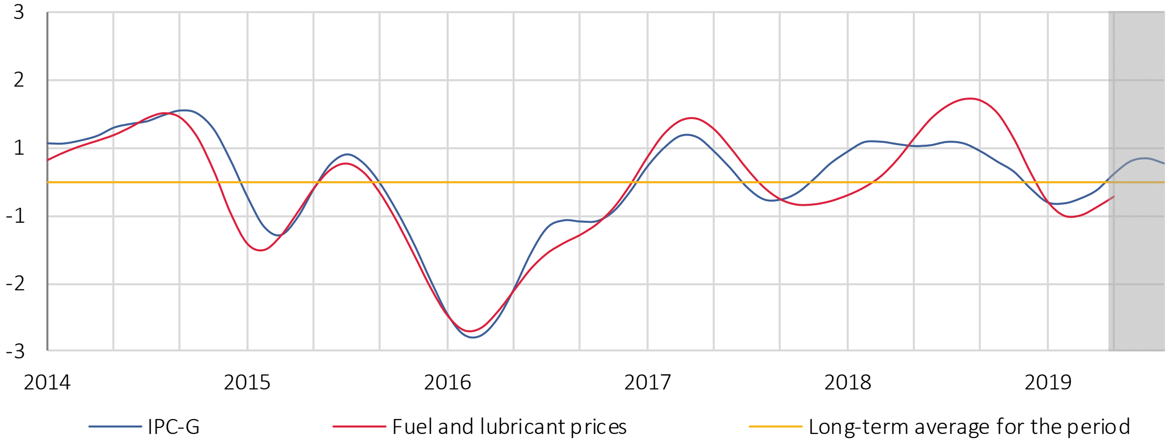
1.1.4. Forecast of fuel prices in Serbia based on the model of leading indicator (IPC-G)

Forecast of fuel prices in Serbia has been done using the model of leading indicator for forecasting fuel and lubricant prices in Serbia (IPC-G), which was methodologically presented in the previous issue of Trends. The indicator itself is a weighted composite indicator that contains information about the movements of the most relevant indicators[4] relative to fuel prices in Serbia, and precedes in its trends fuel and lubricant prices in Serbia by 2-3 months at most. The model of leading indicator of fuel prices in Serbia (IPC-G) is a result of an original analytical and research work by the SORS.

[3] Growth concept of nominal salaries and wages in the public sector (acounting for 30% of variabilitz of total net salaries and wages in Serbia) as a trigger of the consumption impulse od domestic demand and demand for imported consumer goods, Stančić, K, Katić, G., „Concept of „Demonstration effect“ of the growth of nominal net salaries and wages in the public sector on the growth of total nominal net average salaries and wages“, magazine Macroeconomic Analysis and Trends, May 2019

[4] The indicator includes: world price of BRENT crude oil, the value of futures crude oil WTI (type Cushing Oklahooma), average price of American crude oil WTI at first purchase at oil fields, currencz ratio Dollar to Euro, stocks in production of crude oil in the territory of Serbiy and import of petroleum and refined petroleum products.

Graph 1.4. Leading indicator (IPC-G) and consumer price index for fuels and lubricants in Serbia, deviation from long-term trends for the period (%), standardized data (January 2014 – August 2019)



Diagnosis of the balance up to the second quarter of 2019:

- In May 2019, after four months of successive fall, prices of crude petroleum went up on the world market, which remained also at a higher level in June with a considerably marked instability. The main causes of a greater volatility of prices of crude petroleum on the world market were the US-China trade war as well as tensions between the USA and Mexico. On the other hand, the decrease in the value of industrial production in a large number of countries led furthermore to announcement of deceleration of economic activity and its influence on a minor demand for petroleum than was expected. Smaller production of crude petroleum in Venezuela and Iran as well as the agreement with Saudi Arabia about crude petroleum production cuts at the end of 2018 drove in May 2019 the Organization of Petroleum Exporting Countries to have the smallest production since July 2014. At the same time, the contamination of the Russian oil pipeline "Druzhba" also affected the decrease in petroleum deliveries to the world market and activation of larger production on North Sea platforms that can be substitutes to smaller dispatch of Russian petroleum *URAL*.
- After the first five months of 2019 (as of mid-June), the American Dollar appreciated by 0.8% to the Euro.
- In the second quarter of 2019, according to the model, the index of fuel and lubricant prices in Serbia is expected to reach a year-on-year growth of about 2.3%, contributing to the total inflation of consumer prices with approximately 0.14 pp.

Forecast of the balance for the third quarter of 2019:

- Expert expectations for fuel price in the second half of 2019 tell that it will slightly grow in relation to the current level (in mid-June the price was 63.3 Dollars per barrel) due to the OPEC production that has decreased so far as well as to decreased stocks in summer months. Consequently, the price of world *BRENT* crude oil in the third quarter of 2019 will reach the level of about 67.0 Dollars per barrel and in the fourth approximately 68.0 Dollars per barrel.
- Taking into account the tendencies of all of the above mentioned exogenous variables, grouped and weighted in the composite leading indicator of fuel price (IPC-G) in the third quarter of 2019, a year-on-year increase in fuel and lubricant price of about 0.2% is expected. Therefore, the price of fuels is expected to remain relatively stable, on an insignificantly higher level than in the second quarter of 2019. This would mean a cumulative year-on-year growth of the price of fuels and lubricants of about 1.6% in the first three quarters of 2019.
- As a result of using the model of leading indicator (IPC-G) and forecast of fuel and lubricant prices for the third quarter of 2019, it is possible to derive also the forecast value of retail prices of a litre of euro-diesel and unleaded gasoline. So, in the third quarter of 2019 the price per litre of euro-diesel is expected to be about 165 dinars in the third quarter of 2019, and of europremium unleaded gasoline about 153 dinars.

1.2. The model of agriculture forecast – AGRIPAS system

The forecast of trends in agriculture section, based on AGRIPAS system, is based on two mutually integrated main models: model of crop production and model of livestock production, which main task is to predict GVA for the total agricultural production and its influence on GDP. The structural model for forecasting agricultural production AGRIPAS is the result of an original research and analytical work by the SORS.

The model of crop production includes separate modelling of wheat and maize production taking into account the factors of precipitations in sowing periods as well as in periods of generative phases – from tillering, accelerated growth till the phase of grain filling of stubble cereals and maize, estimates of harvesting areas, variables of drought years for crops, indicators of soil humidity (standardized index of precipitations and Palmer Z index), etc. The results of the estimates of agriculture trends, based on the model of crop production, will be provided in May and September, when it is globally possible to obtain the final result for agriculture and its quantitative influence on the GDP rate in the current year.

The model of livestock is based on the structural model of livestock increase and model of primary livestock products (which depends the most on the results of the model of milk production).

Diagnosis of the current phase of the production cycle from the beginning of the sowing and forecast for 2019:

1) As to the total wheat production it is worth mentioning that the small quantity of precipitations in the sowing period and wheat grain filling phase has reflected in more difficult land cultivation and smaller sown area in relation to winter wheat from the previous production cycle and high risk of slower and irregular seed sprouting.

2) This year low level of winter humidity and insufficient precipitations in the stage of tillering and stem elongation and intense growth of wheat and other stubble cereals over March-April compromised further high yield in this year season. It is expected that heavy rainfalls that started at the end of April and beginning of May of this year will partially repair wheat kernel that missed water for a longer period of time. On the other hand, too heavy rainfalls are not good either for wheat stem development because they can cause plant diseases and stem lying flat.

3) The record growth rate value should also be mentioned for wheat production in tons in 2018 (by 29.8% more than in 2018) in the last 14 years. All of these were the most important factors that restricted forecasting this year crop of stubble cereals, which were approximated within the forecasting system for agricultural production AGRIPAS.

4) On the other hand, such scenario with May precipitations has been favourable so far to sown maize and its initial stem development stages (V3, V6). As for maize, according to the situation in May, starting from the sowing period in April, precipitation temperature was the most important factor because the hotter the weather is the plant growth is faster.

5) Based on the developed model of precipitations as well as on average precipitations in the stages of tasseling, silking and maize grain fill, the expected maize yields will not achieve last year level (which was the highest in the last 14 years) but a level slightly under long-term average. Similarly to stubble cereals, the growth rate of maize harvest of 73.3% in 2018 is a record one in the last 17 years and therefore represents a bigger challenge for this year crop to repeat such a result.

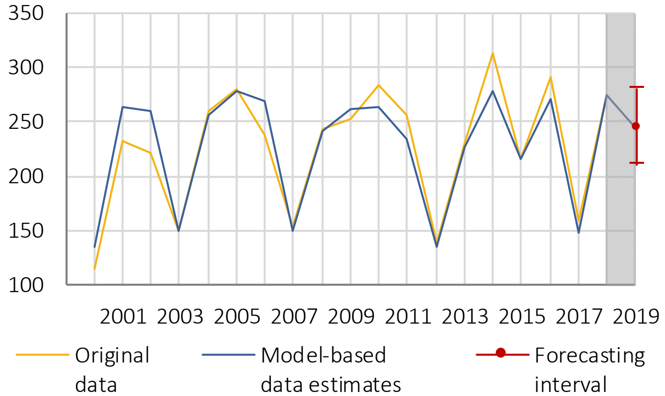
6) Having in mind all of the above mentioned, in 2019 crop production GVA is expected to fall, compared to 2018, by approximately -6,6%. According to the model of livestock an annual GVA growth of livestock production of about 1.7% is expected.

7) Globally observed, it is estimated that the negative contribution of plant production to GDP rate of the total agricultural production will amount to -4.4 pp., and the contribution of livestock production about 0.5 pp., resulting in the whole by an annual fall of GVA for agricultural production in 2019 of about -3.8%.

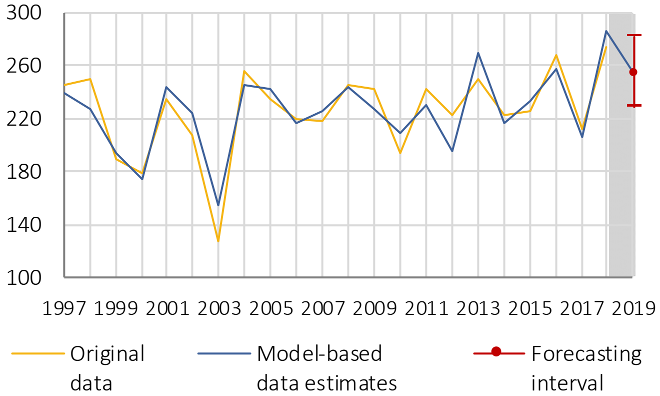
8) In 2019, the contribution to the annual GVA growth rate for the agriculture section would be negative and amount to about -0.2 pp.

9) The final GVA projection of agricultural production in 2019 will be finalized in September 2019 when AGRIPAS results will be published, based on realized model input, when we will form also the interval of agricultural production and its final approximate influence on GDP. At that time we will check also efficacy of forecasting assumptions and results based on the initial forecast presented in this chapter.

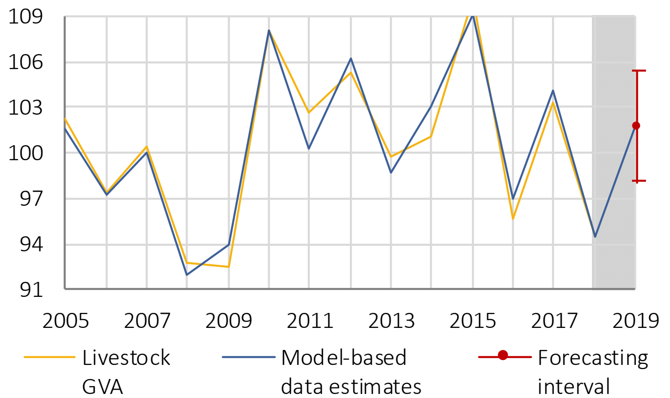
Graph 4. Actual and model-based estimates of maize production in tons, base indices (average 1947 = 100)



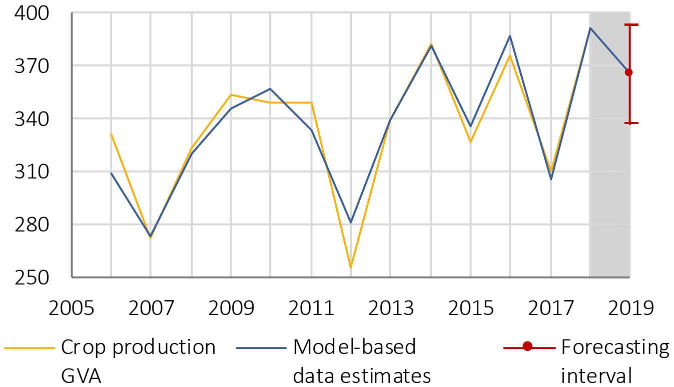
Graph 5. Actual and model-based estimates of wheat production in tons, base indices (average 1947 = 100)



Graph 6. Actual and model-based estimates of livestock GVA, chain indices (year to previous year)



Graph 7. Actual and model-based estimates of crop production GVA, base indices (average 1947 = 100)



1.3. Summary of obtained results of the leading indicators by GVA sections, for the second quarter of 2019 and the whole year

Table 1. Forecasts of GVA of selected sections and their estimated contribution to GDP

	Agriculture	Taxes and contributions	Industry	Construction	Services
Q2 - 2019					
Annual growth rates, %	-0.8	2.4	0.8	6.5 (15.0)[1]	3.4
Contributions to GDP growth (in pp.)	-0.1	0.4	0.2	0.3 (0.7)[1]	1.7
2019					
Annual growth rates, %	-3.8	2.5	2.6	8.0 (17.0)[1]	3.3
Contributions to GDP growth (in pp.)	-0.2	0.4	0.6	0.4 (0.8)[1]	1.7

[1] Applied is alternatively the already described scenario of high GVA rates of the construction section of about 15.0% in the second quarter of 2019 as well as of 17.0% for the whole year, having in mind the announced realization of a new investment impulse of "Turkish Stream".

2. Gross domestic product

2.1. GDP trend

In the first quarter of 2019, GDP increase of 2.5% was recorded relative to the same period 2018. Apart from the service section, which is still dominant growth carrier (2.0 percentage points) significant increase was provided by construction activity (0.4 p.p.) due to intensified realization of significant infrastructure projects.

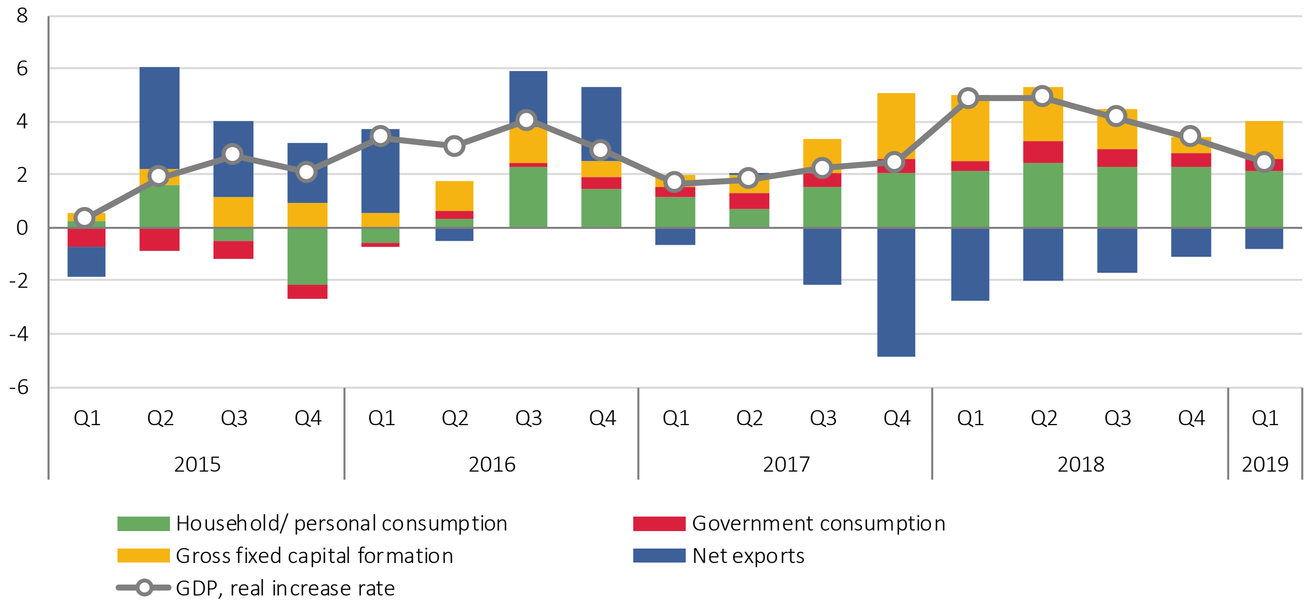
Observed by expenditure aggregates, GDP increase in the first quarter 2019, relative to the same period 2018, was mostly contributed by household consumption (2.2 p.p.), with realized real growth of 3.2%. The dynamics of investments in the first quarter of the year was accelerated, thus resulting in positive contribution of this aggregate to real GDP increase (1.4 p.p.) (Table 2.1).

Table 2.1 **GDP – expenditure aggregates, real inter-annual growth rates, Q1 2017 – Q1 2019 (%)**
(comparison with the same period of the previous year)

	2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
GDP	1.7	1.8	2.2	2.4	4.9	4.9	4.1	3.4	2.5
Household consumption	1.7	1.0	2.1	2.9	3.1	3.4	3.3	3.2	3.2
Government consumption	2.3	3.6	3.5	3.6	2.1	4.8	4.0	3.3	2.5
Gross fixed capital formation	3.1	3.8	7.5	13.5	16.3	11.6	8.3	3.2	8.4
Exports	7.8	9.3	9.9	5.7	9.2	6.6	9.3	10.6	9.3
Imports	8.4	8.2	13.4	14.4	13.2	9.4	11.4	10.9	9.4

Continuous decreasing of negative contribution of net exports to GDP increase from 2018 (observed by quarters – 2.7, -2.0, -1.7 and -1.1 p.p.) is still present in the first quarter 2019 (-0.8 p.p.).

Graph 2.1 **Contributions to inter-annual GDP growth rate – expenditure aggregates**

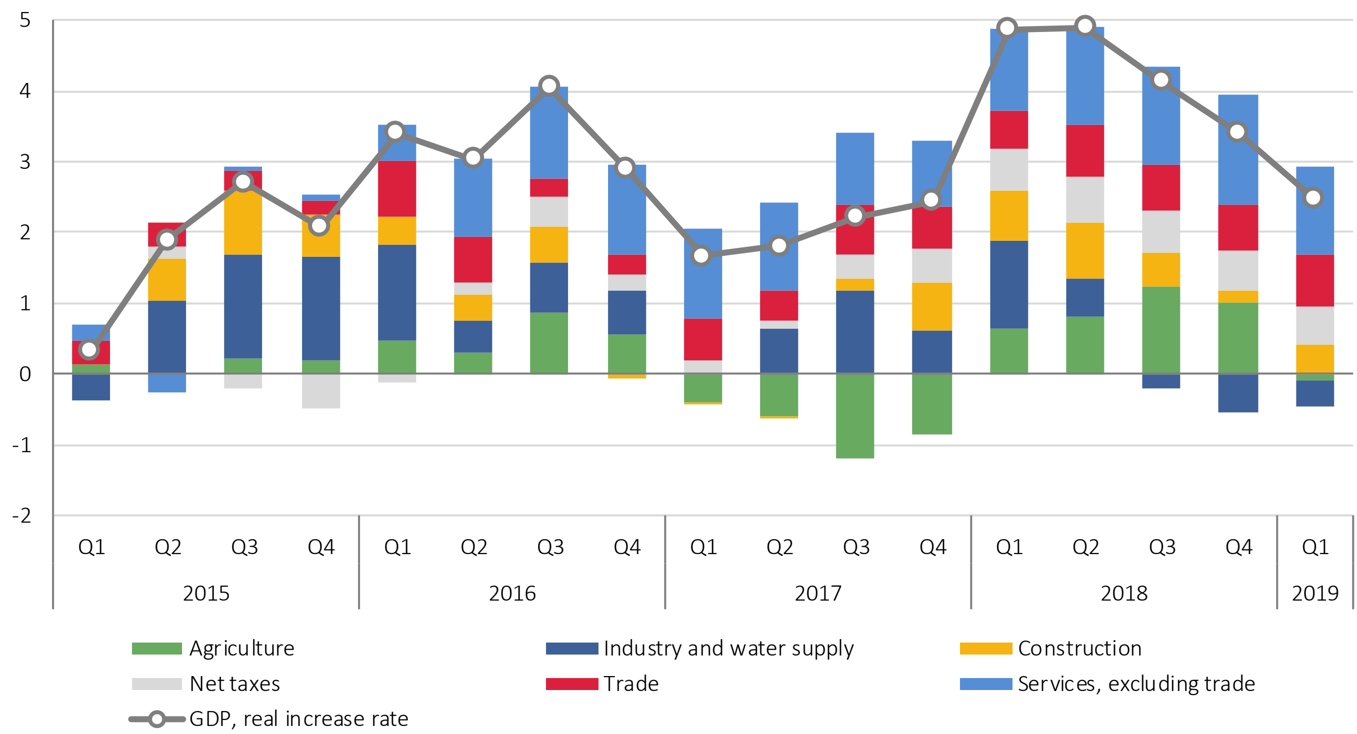


Observed from the production side, the greatest positive contribution to GDP increase in Q1 of 2019 resulted from increased activity in service section – services, excluding trade, 1.2 p.p. and trade 0.7 p.p. Moreover, section of construction, with realized two-digit growth of 12.3%, also significantly contributed to GDP increase with 0.4 p.p. (Table 2.2).

Table 2.2 GDP – production side, real inter-annual growth rates in Q1 2017 – Q1 2019 (%)

(Changes, relative to the same period of the previous year)	2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
GDP	1.7	1.8	2.2	2.4	4.9	4.9	4.1	3.4	2.5
Agriculture	-7.7	-10.6	-13.7	-11.4	12.6	15.9	17.2	15.6	-3.1
Industry and water supply	0.1	2.9	5.6	2.8	5.5	2.4	-1.0	-2.5	-1.6
Construction	-0.5	-0.4	4.1	16.0	26.7	20.4	9.9	2.7	12.3
Trade	5.4	3.8	6.4	5.2	4.9	6.6	5.8	5.5	6.7
Services, excl. trade	3.2	3.1	2.6	2.4	2.8	3.4	3.6	4.1	3.0
Net taxes	1.2	0.6	1.9	2.9	3.4	3.7	3.5	3.4	3.3

Graph 2.2 Contributions to inter – annual GDP growth rate – production side

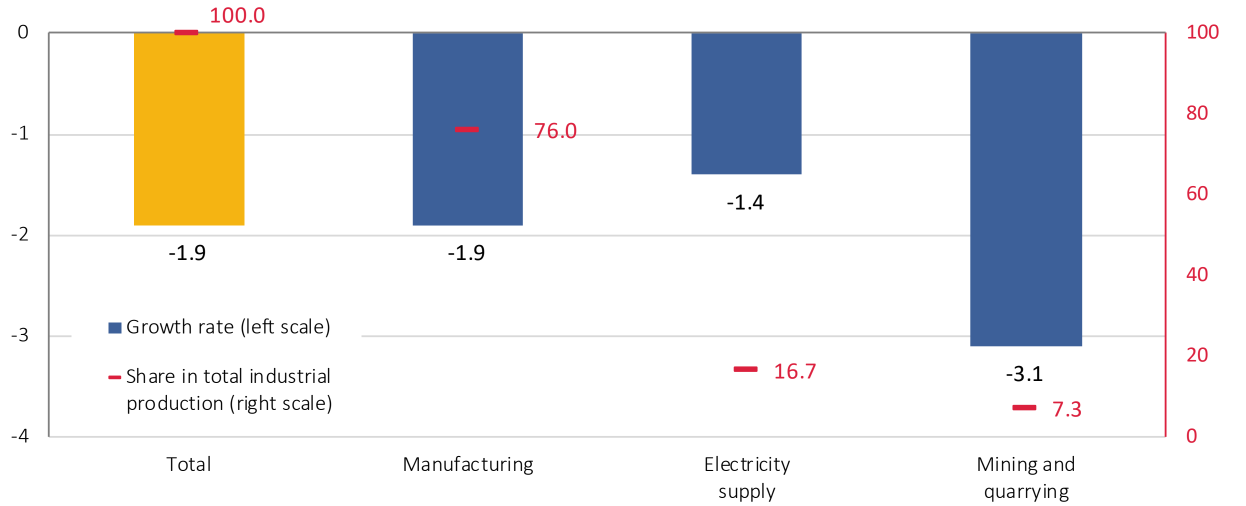


3. Industrial production

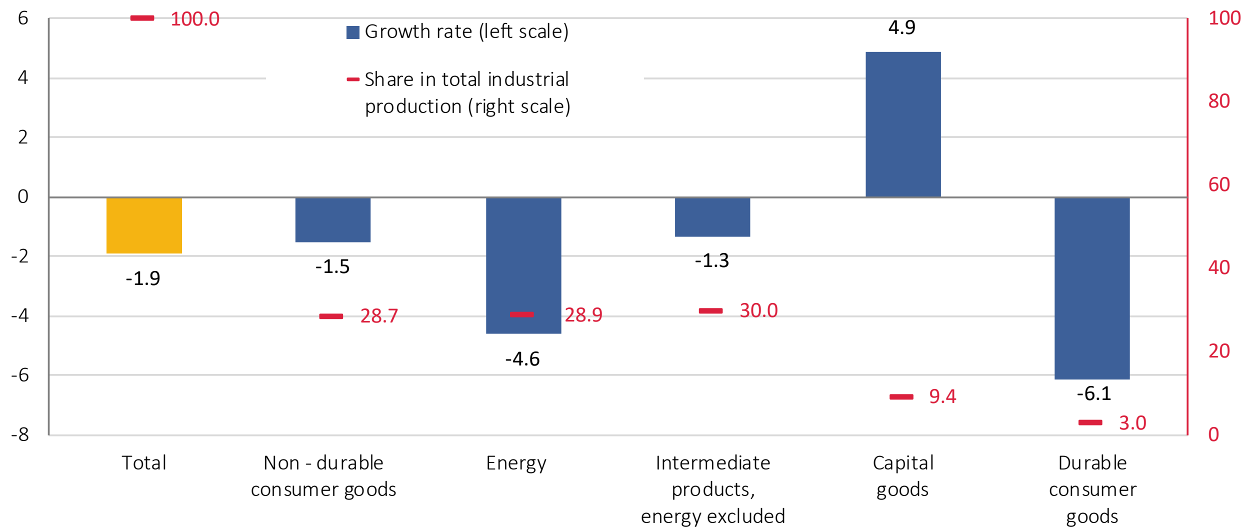
3.1. Total industrial production

Total industrial production in Serbia in the first quarter 2019 decreased by 1.9% relative to the same period 2018. Fall was noted in all sections: Manufacturing (-1.9%), Electricity, gas, steam and air conditioning supply (-1.4%) and Mining and quarrying, (-3.1%).

Graph 3.1 Cumulative trends of total industry and its sections (%)
(Q1 2019 relative to Q1 2018)



Graph 3.2 Industrial production growth rates, by MIGS (%)
(Q1 2019 relative to Q1 2018)



Manufacturing, with fall of 1.9% mostly contributed to negative increase of total industrial production: -1.5 p.p.

The sections of Electricity, gas, steam and air conditioning supply and Mining and quarrying contributed to total industrial production increase with -0.2 p.p., each section.

Table 3.1 Industrial production, quarterly indices (%)
(comparison with the same period of the previous year)

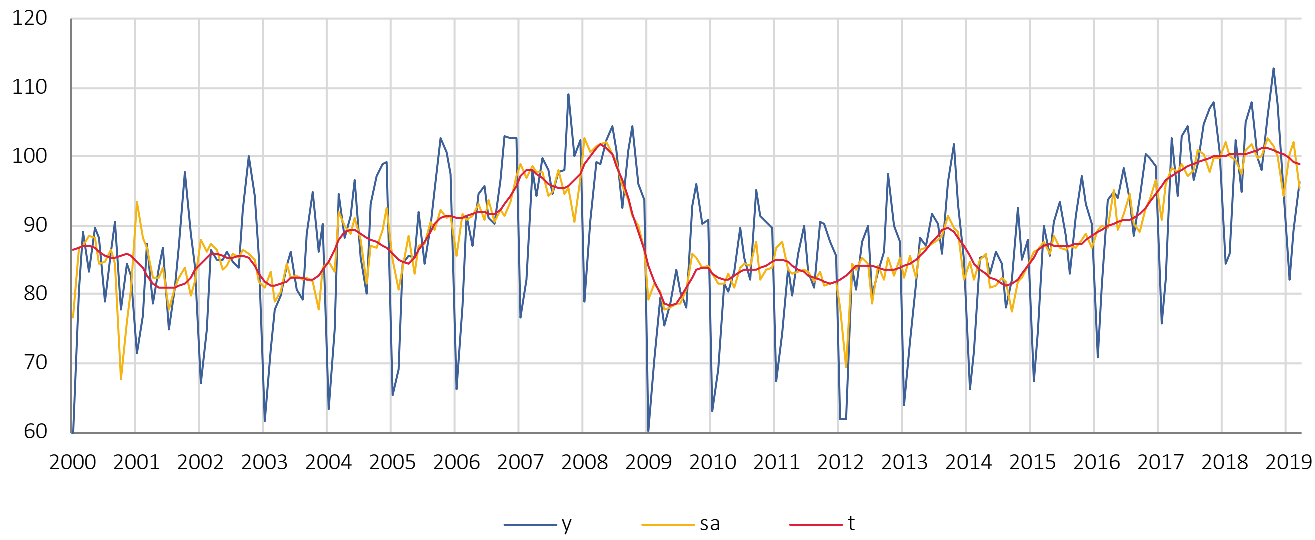
	2017				2018				2019	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q1+Q2[1]
Industrial production – total	101.1	103.1	107.0	104.1	105.9	102.3	98.6	98.7	98.1	98.5
Manufacturing	105.9	105.0	108.7	105.7	104.9	102.1	101.0	100.0	98.1	100.0
Electricity, gas, steam and air conditioning supply	85.8	93.8	100.5	97.3	110.9	105.7	93.1	94.6	98.6	...
Mining and quarrying	94.2	105.4	105.1	104.3	102.9	97.9	87.0	94.5	96.9	...

[1)] Prognoses

3.2. Manufacturing (C)

(share of 76.01% in total Industrial production index)

Graph 3.3 Components of Manufacturing time series, indices
(u – original series, sa – series with excluded seasonal component, t – trend cycle component, average 2018 = 100)



Negative tendencies in Manufacturing trend were also confirmed by trend cycle components of manufacturing which changed the direction trend after more than three years (graph 3.3).

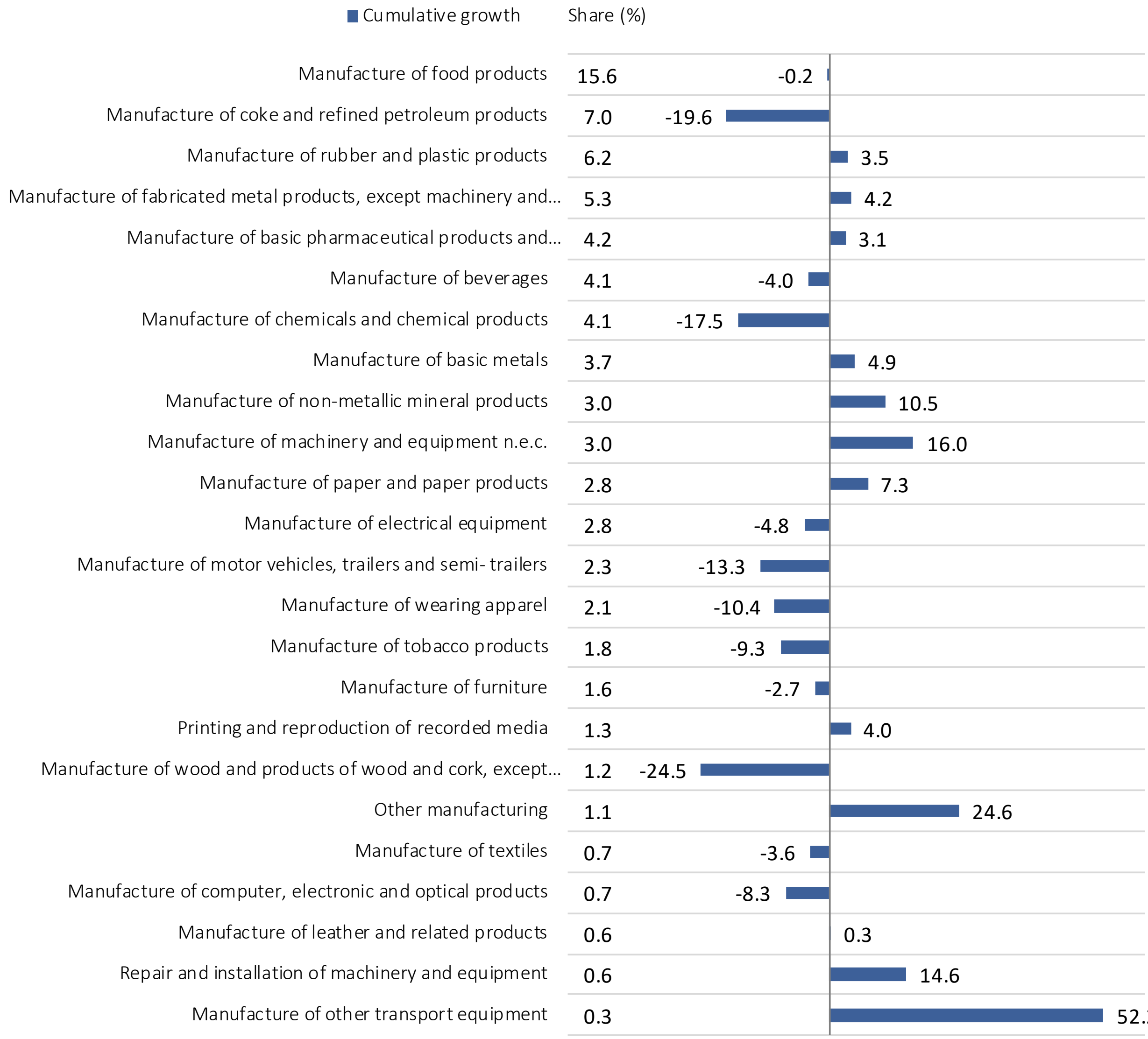
3. Industrial production

In the first quarter 2018, observed by divisions, manufacturing increased in 12 out of 24 divisions, in cumulative comparison. Decrease was recorded in 12 divisions, out of which six do not have significant share in total industrial production index (Manufacture of computers, wood, tobacco, textile, wearing apparel and furniture – together participate with 8% in total industrial production).

Six divisions with high share (participating together with 36%) in total industry recorded decrease in the first three months of 2019 relative to the same period 2018 and they are the following: Manufacture of food products (fall of 0.2%), Manufacture of coke and refined petroleum products (fall of 19.6%), Manufacture of beverages (fall of 4.1%), Manufacture of chemicals and chemical products (fall of 17.4%), Manufacture of electrical equipment (fall of 4.8%) and Manufacture of motor vehicles, and trailers and semi-trailers (fall of 13.3%).

Graph 3.4 **Manufacturing by divisions, cumulative growth rates (%)**

(Q1 2019 relative to Q1 2018; divisions presented in descending order according to shares in total industrial production)

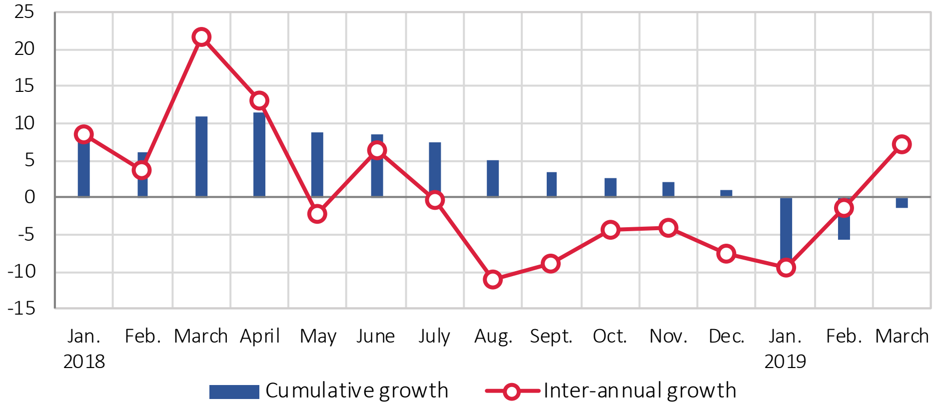


3.3. Electricity, gas, steam and air conditioning supply (D)

(share of 16.7% in total Industrial production index)

Graph 3.5 Cumulative and inter – annual growth rates in energy section (%)

(cumulative – Q1 2019, relative to Q1 2018; Inter - annual – month 2019, relative to same month 2018)



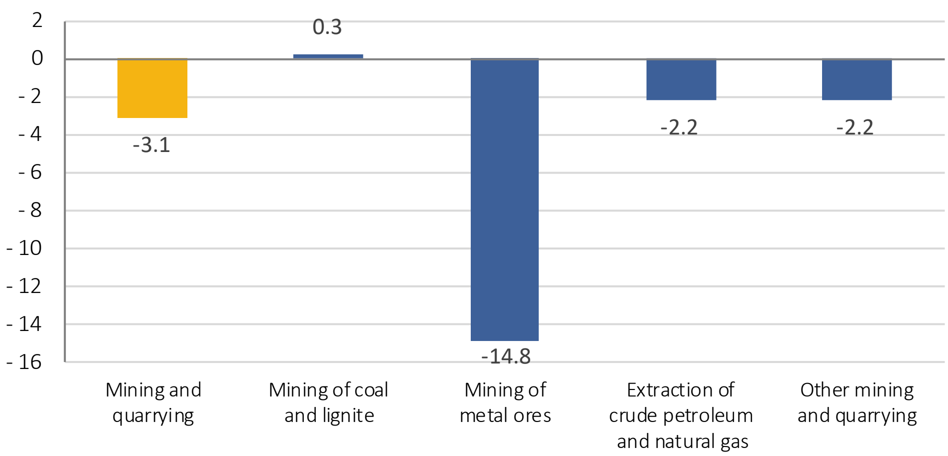
Energy section in the first three months of 2019 recorded fall of 1.4%. Observed by months, the greatest contraction was in January (-9.5%), somewhat smaller in February (-1.3%), and it finally reached positive value of 7.3% in March.

3.4. Mining and quarrying (B)

(share of 7.28% in total Industrial production index)

Graph 3.6 Cumulative growth rates in the section of Mining and quarrying (%)

(Q1 2019 relative to Q1 2018)



Production in the section of Mining and quarrying in the first quarter 2019 noted fall of 3.1%. Observed by months, contraction was noted in January (-11%) and in February (-1.4%), while in March, growth of 3.2% was noted.

How to interpret the time series?

Seasonal effects can provoke distortions in time series trend, and in such way camouflaging its "real" nature and significant characteristics necessary for precise and detail analysis of the phenomena. When selecting the indicators that will be used for analysis (original, seasonally adjusted or trend), the nature of the observed series and point of the performed analysis should be taken into account. Three separate components (obtained by series' disaggregation), together with the original series, describe various aspects of a single phenomenon and are used for versatile analytic purposes – depending on the researcher's interest. Seasonally adjusted values are used for comparison of the consecutive periods and for estimation of potential value of a series when calendar effects and season effects would not exist, as is the case with industrial production.

4. Construction

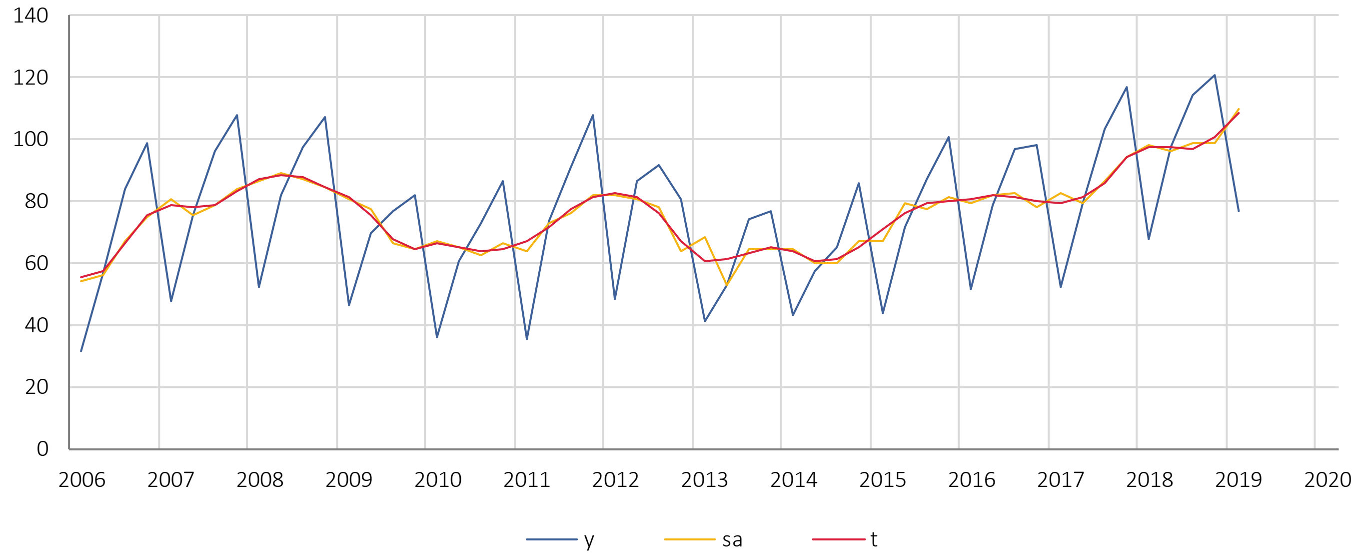
4.1. Construction activity

After a short delay of construction activity in the first half of 2017, value indices of the performed works on the territory of the Republic of Serbia in the second half of 2017, during 2018 and in the first quarter of 2019 have recorded growth.

In Q1 2019, construction activity in the Republic of Serbia increased by 13.6% at constant prices, relative to the same period 2018.

Such increase was mostly influenced by particularly intensified construction of residential and non-residential buildings on the whole territory of the Republic of Serbia (increase of 21.6%). The most significant works on civil engineering were performed on infrastructure constructions (increase of 8.7%).

Graph 4.1 **Components of time series of Indices of performed construction works on the territory of the Republic of Serbia, at constant process, indices**
(u – original series, sa – series with excluded seasonal component, t – trend cycle component average 2017 = 100)



Regional indicators show that value of performed works in Beogradski region was constantly increasing in whole 2018 and in the first quarter of 2019. In Region Juzne I Istocne Srbije in the first three quarters of 2018 recorded was increase of construction activity, while in the fourth quarter, as well as in the first quarter 2019, decreasing trend was noted. In Region Sumadije i Zapadne Srbije, during whole 2018, and in the first quarter 2019, value of performed construction activity significantly increased.

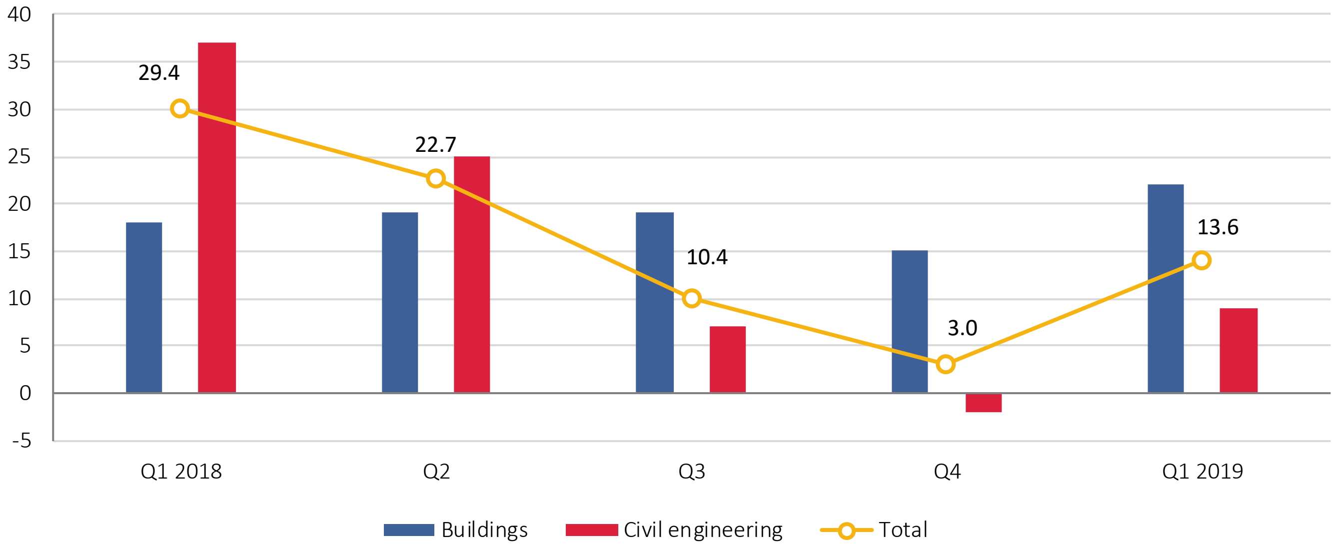
4.2 Trend in the first quarter 2019

Table 3.1 Value of performed construction works, quarterly indices (%)
(comparison with the same period of the previous year)

	2017				2018				2019	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q1+Q2[1]
Current prices	104.4	105.7	112.8	124.8	140.1	135.1	123.5	118.7	117.6	113.0
Constant prices	95.1	96.0	106.1	118.7	129.4	122.7	110.4	103.0	113.6	109.2

[1] Prognosis

Graph 4.2 Value of performed construction works at constant prices, quarterly growth (%)
(quarter relative to the same quarter of the previous year)



Increase of construction activity in the first quarter 2019 was the most noted in Region Šumadije i Zapadne Srbije (increase of even 38.8% at constant prices). Increased value of performed construction works was mostly influenced by construction of highway Obrenovac – Ub, as well as construction of several trade and shopping centres.

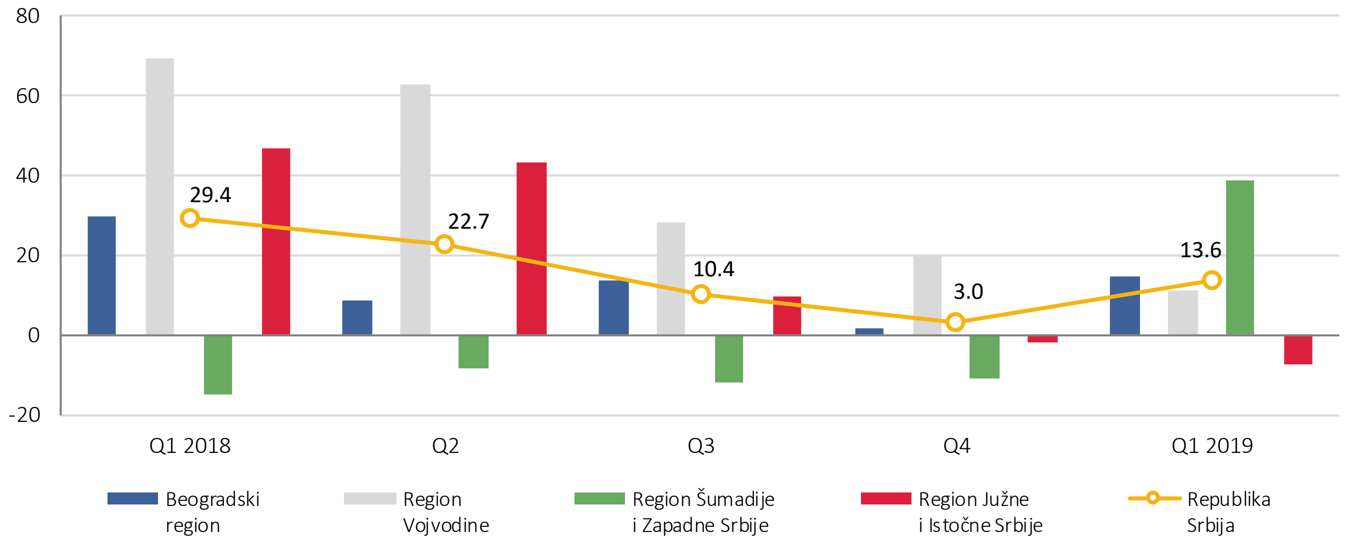
In Beogradski region, construction activity increased by 14.6% at constant prices. Works were performed on non-residential buildings and shopping centres, also including construction of several residential - business complexes. Referring to other constructions, highway and gas network are to be noted.

Increase of construction activity was also noted in Region Vojvodine (increase of 11.4% at constant prices). It was mostly influenced by performed works on modernization of the railway line Beograd – Stara Pazova.

Construction activity in the first quarter 2019 decreased only in Region Južne i Istočne Srbije, by 7.3% at constant prices. Decrease of values was caused by decreased intensity of works on Corridor 10.

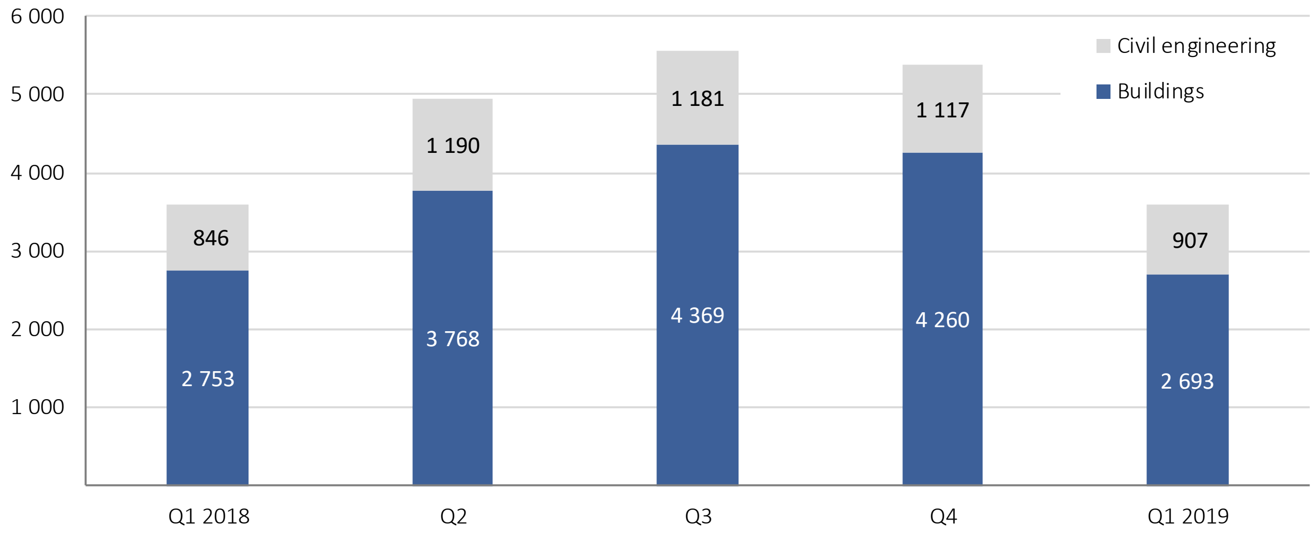
4. Construction

Graph 4.3 Value of performed construction works by regions, at constant prices, quarterly growth (%)
(quarter relative to the same quarter of the previous year)



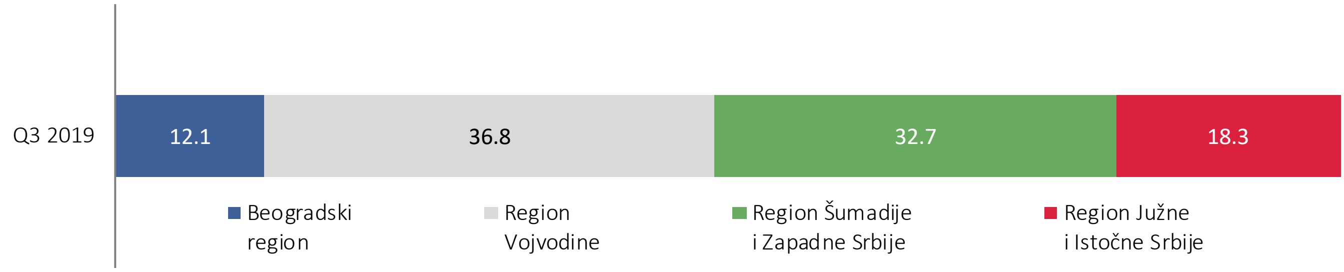
In the first quarter 2019, 3 600 building permits were issued. The greatest part of permits (2 693) related to construction works on buildings, while the rest related to transport infrastructure works, pipelines, complex industrial structures, etc. Out of total number of issued permits in the first quarter 2019, 48.4% related to new construction, while other permits were issued for adaptation, recovery, reconstruction and maintenance works.

Graph 4.4 Number of issued building permits for buildings and civil engineering in Q1 2019



Observed by regions, in the first quarter 2019, the greatest number of permits was issued in Region Vojvodine (1 326), followed by Region Šumadije i Zapadne Srbije (1 178), Region Južne i Istočne Srbije (659), while the smallest number of issued permits was recorded in Beogradski Region (437).

Graph 4.5. Share of issued permits by regions, Q1 2019 (%)



Glossary

Value of performed construction works – the most significant indicator of construction activity trend in Serbia. It presents the value of performed works on construction that the reporting unit performed with workers directly engaged for execution of works.

Value of performed works includes: value of work, value of built in material and finished products for incorporating, consumed energy commodities and other expenditures related to performing works on construction. Value of performed works excludes: value of subcontractors' works, expenditures of land purchase, design, supervision and VAT.

According to Classification of Types of Constructions, applied since 2004, which is completely harmonized with the same Classification of Eurostat, all constructions can be classified into: buildings and civil engineering.

Value on buildings includes value of performed works, both on residential and non-residential buildings.

Civil engineering, besides transport infrastructure (roads, railways, bridges, etc.) involves also works carried out on pipelines, complex industrial structures and other civil engineering n.e.c. (e.g. sport constructions).

5. External trade

5.1. Total value of goods export[5]

Total value of goods export from Serbia increased by 6.9% in the first quarter 2019 relative to the same period 2018. Observed by time series' components, slightly increasing trend, recorded during the previous years, shows the trend of continuation in the following period.

Total exports results were mostly influenced by increase of 4.4% in the section of Manufacturing[6], as it presents 91.2% of total exports, and increase of 48.7% in the section of Agriculture, forestry and fishing, which encompass 6.6% of total exports in the first quarter 2019.

Graph 5.1 Components of export's time series, indices
(u – original series, sa – series with excluded seasonal component, t – trend cycle component, average 2017 = 100)

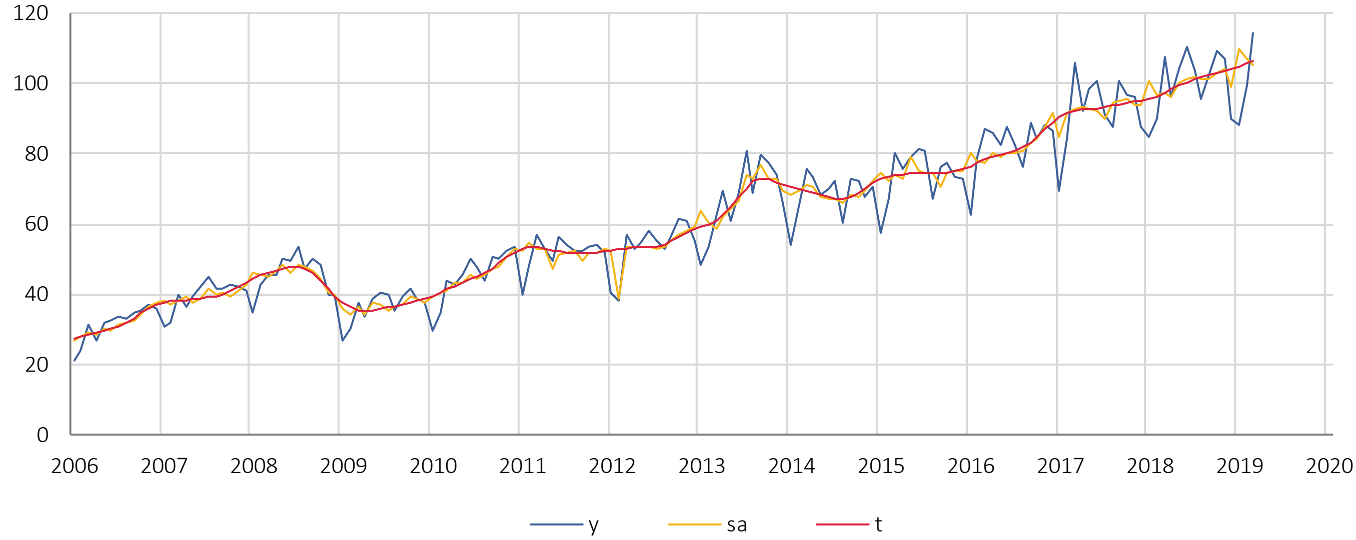


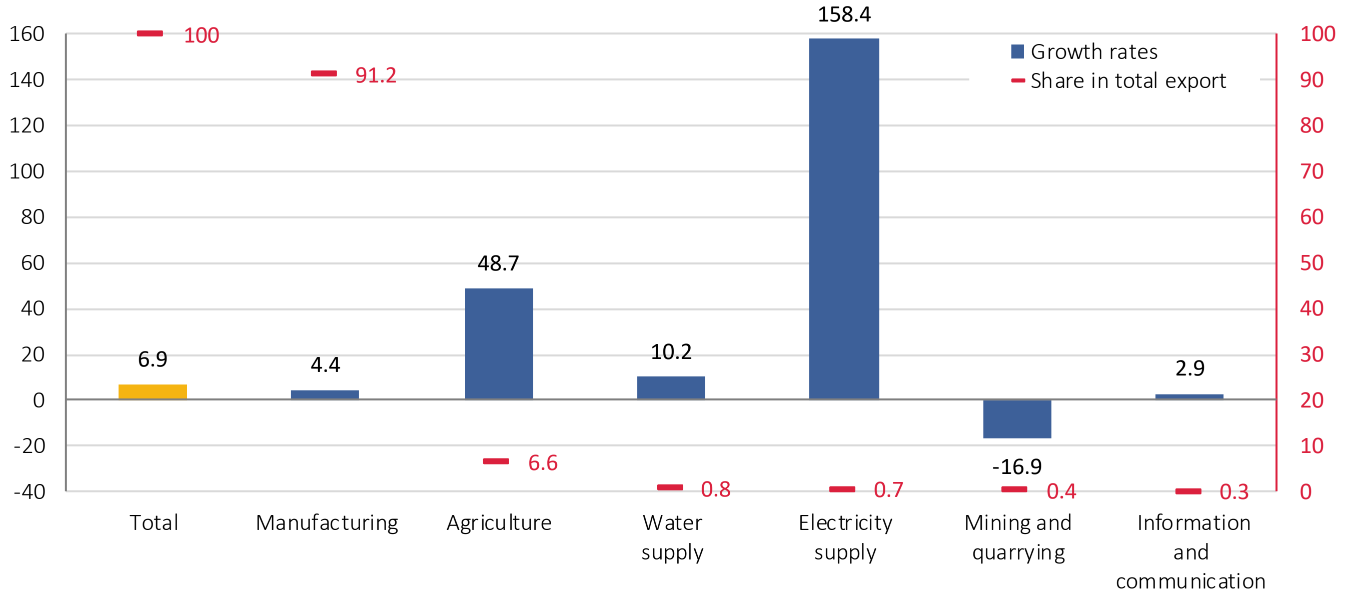
Table 5.1 Export of goods by CA (2010) sections, quarterly indices (%)
(comparison with the same period of the previous year)

	2017				2018				2019	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q1+Q2[1]
Export – total	113.7	113.7	112.9	108.2	108.9	106.6	108.1	109.0	106.9	107.5
Manufacturing	113.7	112.8	114.3	113.8	112.5	109.2	107.8	107.1	104.4	…
Agriculture, forestry and fishing	123.4	125.9	90.5	43.4	70.0	78.6	118.8	180.6	148.7	…
Mining and quarrying	137.1	137.7	137.0	133.5	121.9	91.2	91.0	90.2	83.1	…

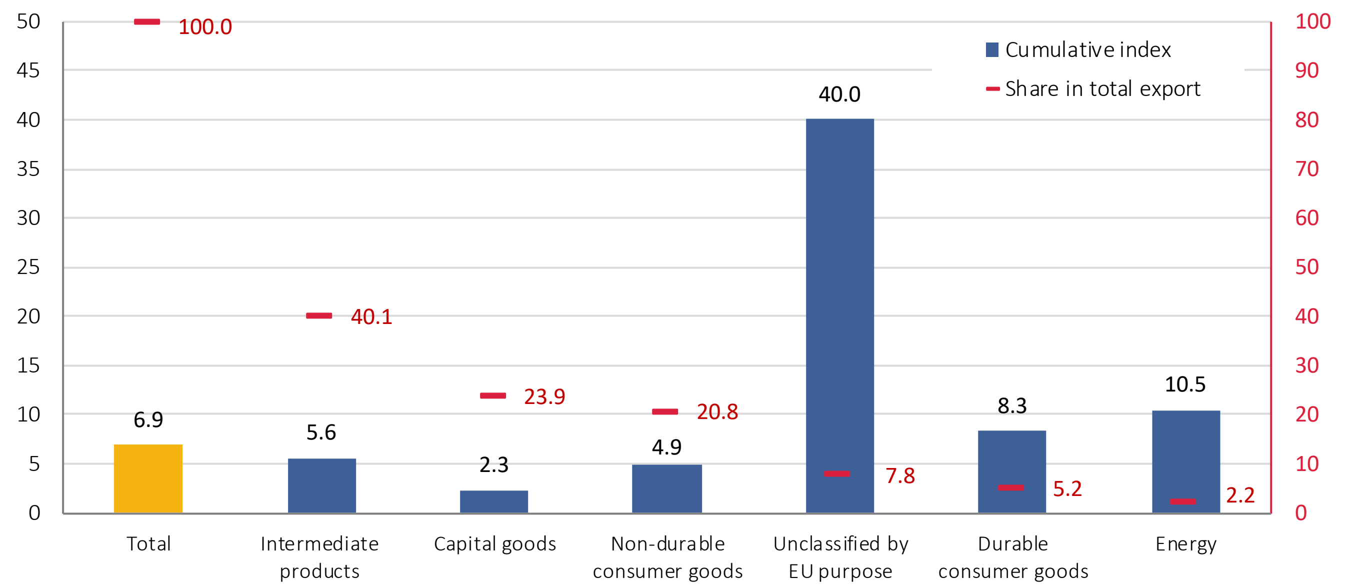
[1] Prognosis

[5] Current exchange rate, EUR
[6] Classification of Activities (2010)

Graph 5.2 Cumulative growth rates of exports by CA (2010) sections and share of sections in in exports (%)
(Q1 2019 relative to the same period 2018)



Graph 5.3 Cumulative growth rates of exports according to the economic purpose of the European Union (%)
(Q1 2019 relative to the same period 2018)



5. External trade

5.2. Total value of goods import [7]

Total value of goods import in Serbia in the first quarter 2019 increased by 9.0% relative to the same period 2018. Total import results were mostly influenced by manufacturing increase of 6.3%, as it presents 74.5% of total import, 22.8% increase in import of unclassified goods, which encompassed 11.8% of total import and 12.1% in the section of mining and quarrying which presents 9.3% of total import in the first quarter 2019.

Graph 5.4 Components of import's time series, indices
(u – original series, sa – series with excluded seasonal component, t – trend cycle component, average 2017 = 100)

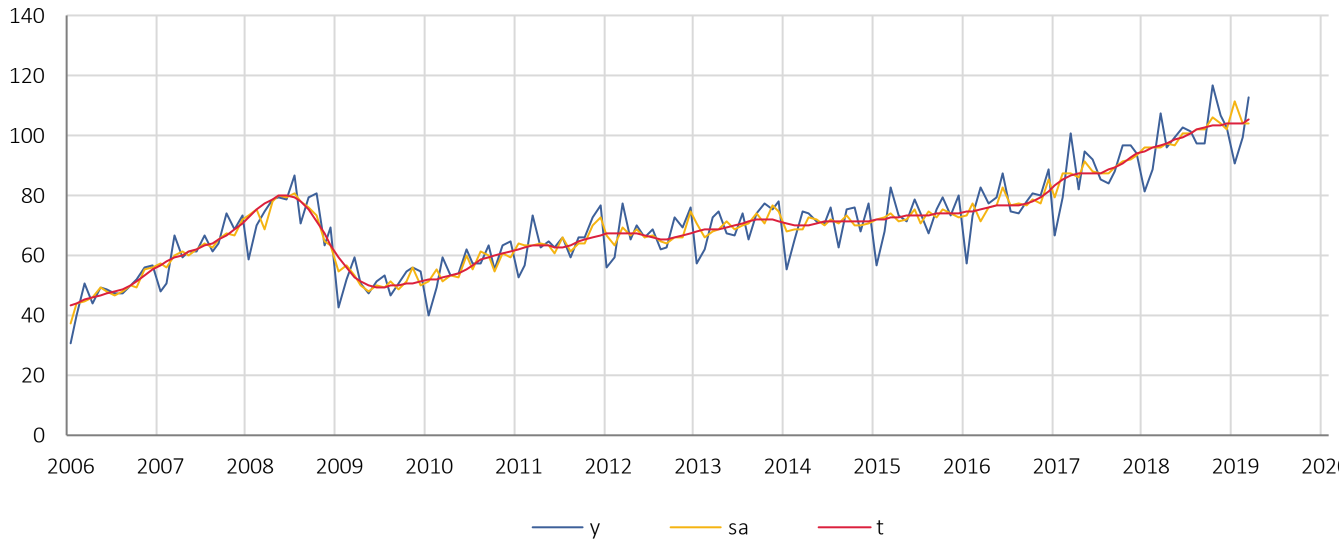


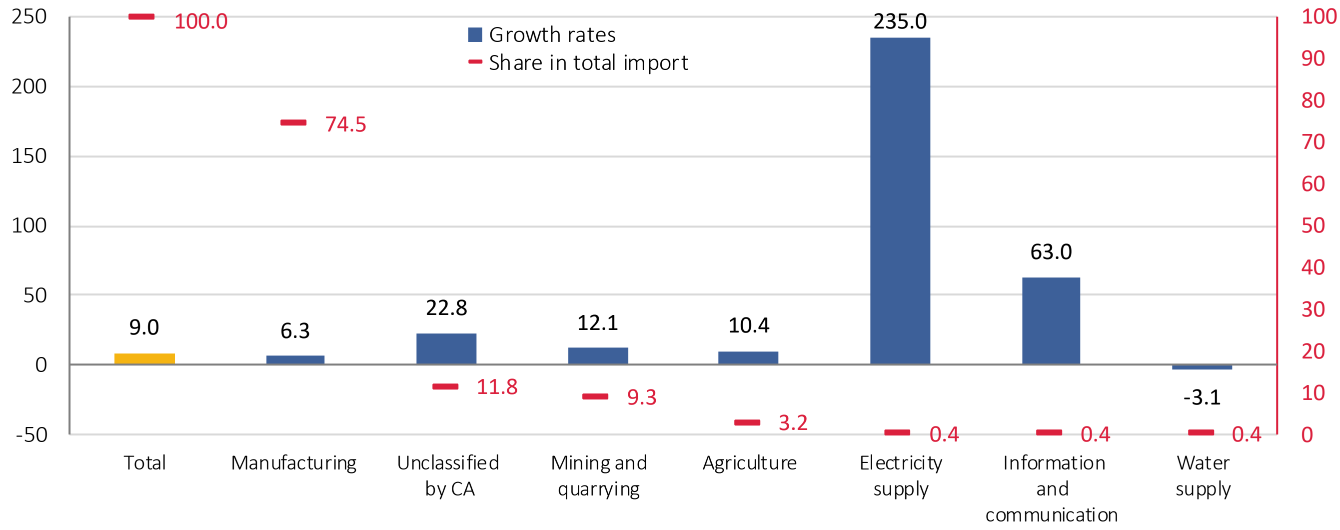
Table 5.2 Import of goods by CA (2010) sections, quarterly indices (%)
(comparison with the same period of the previous year)

	2017				2018				2019	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q1+Q2[1)]
Import – total	115.6	110.3	113.5	115.4	112.5	110.9	115.1	113.4	109.0	110.5
Manufacturing	110.1	108.5	111.2	114.8	118.6	109.9	110.6	109.3	106.3	...
Agriculture, forestry and fishing	108.6	121.4	125.7	126.1	99.7	90.9	85.1	78.2	110.4	...
Mining and quarrying	154.6	123.0	133.5	127.8	100.9	118.2	141.3	147.2	112.1	...

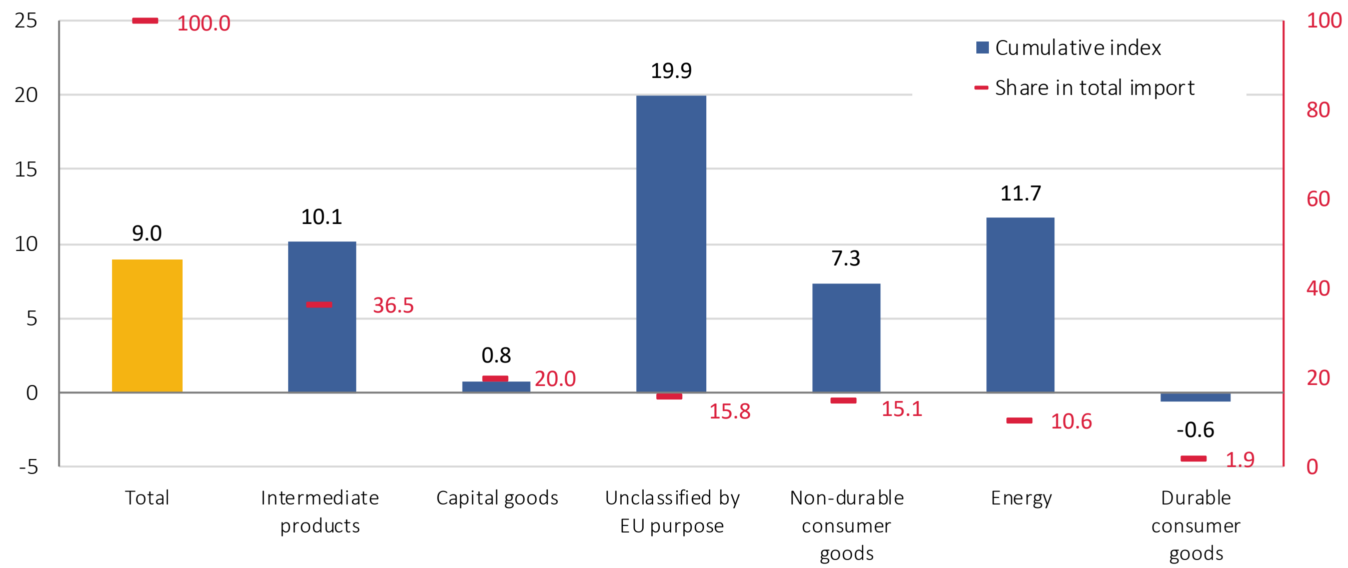
[1] Prognosis

[7] Current exchange rate, EUR

Graph 5.5 Cumulative growth rates of import by CA (2010) sections and sections' share in import (%)
(Q1 2019 relative to the same period 2018)



Graph 5.6 Cumulative growth rates of imports according to the economic purpose of the European Union



5.3. The most significant external trade partners

The most significant external trade partners in the first quarter 2019 were the countries with which Serbia has signed agreements on free trade. European Union member countries account for 63.8% of total external trade and the second major partner refers to the CEFTA countries. The major external trade partners are separately presented in table 5.3.

5. External trade

Table 5.3 The major external trade partners

Export	EUR mill
Germany	528.5
Italy	468.2
Bosnia and Herzegovina	304.4
Romania	234.3
Russian Federation	210.0

Import	EUR mill
Germany	695.9
Russian Federation	539.1
China	499.2
Italy	449.4
Hungary	266.5

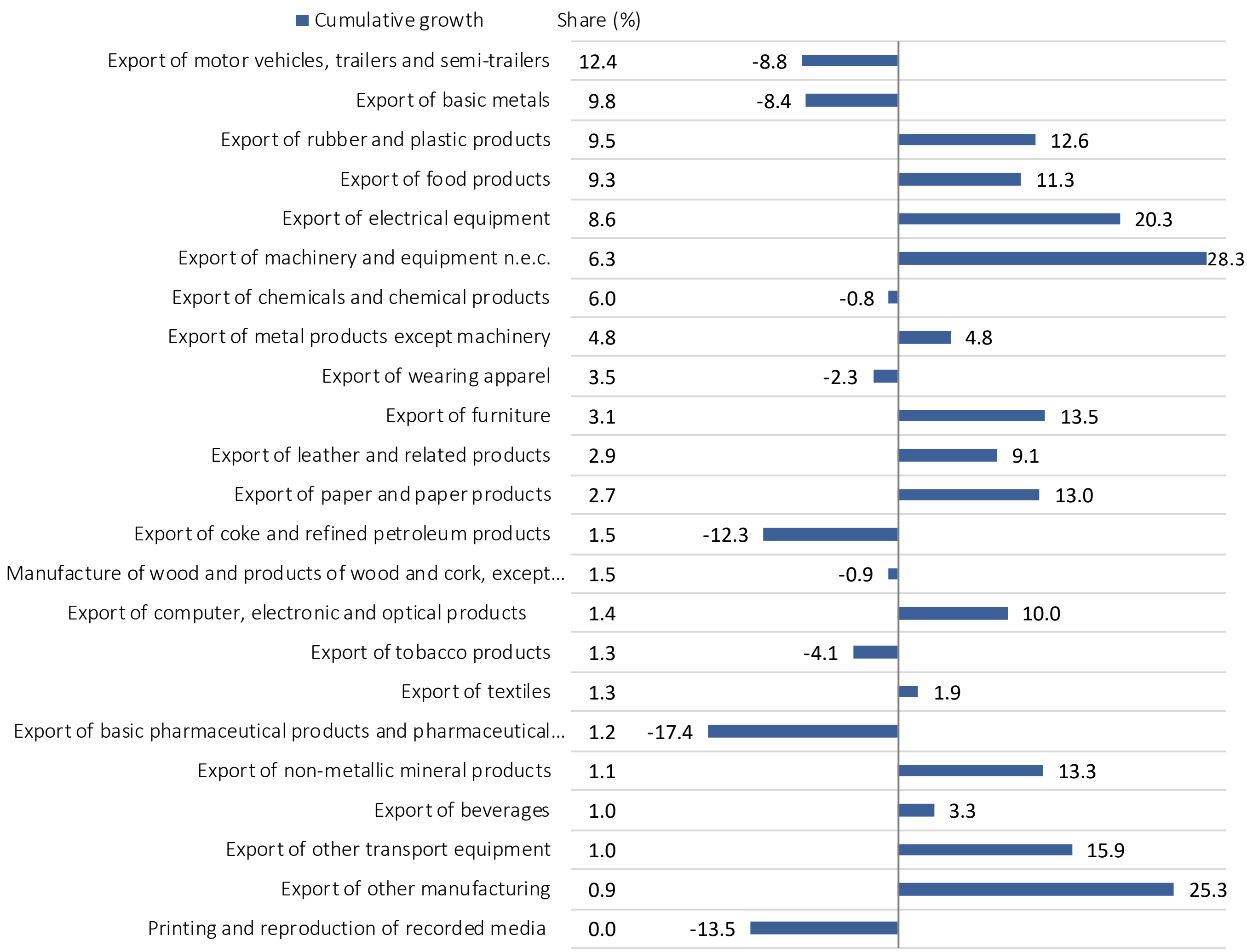
5.4 Manufacturing (C)

(share of 91.2% in total export and 74.5% in total import)

Export of manufacturing recorded growth of 4.4%, relative to the first quarter 2018. Out of 23 divisions, cumulative decrease was noted in nine divisions, including the two with the highest shares - export of motor vehicles and trailers and semi-trailers and export of basic metals.

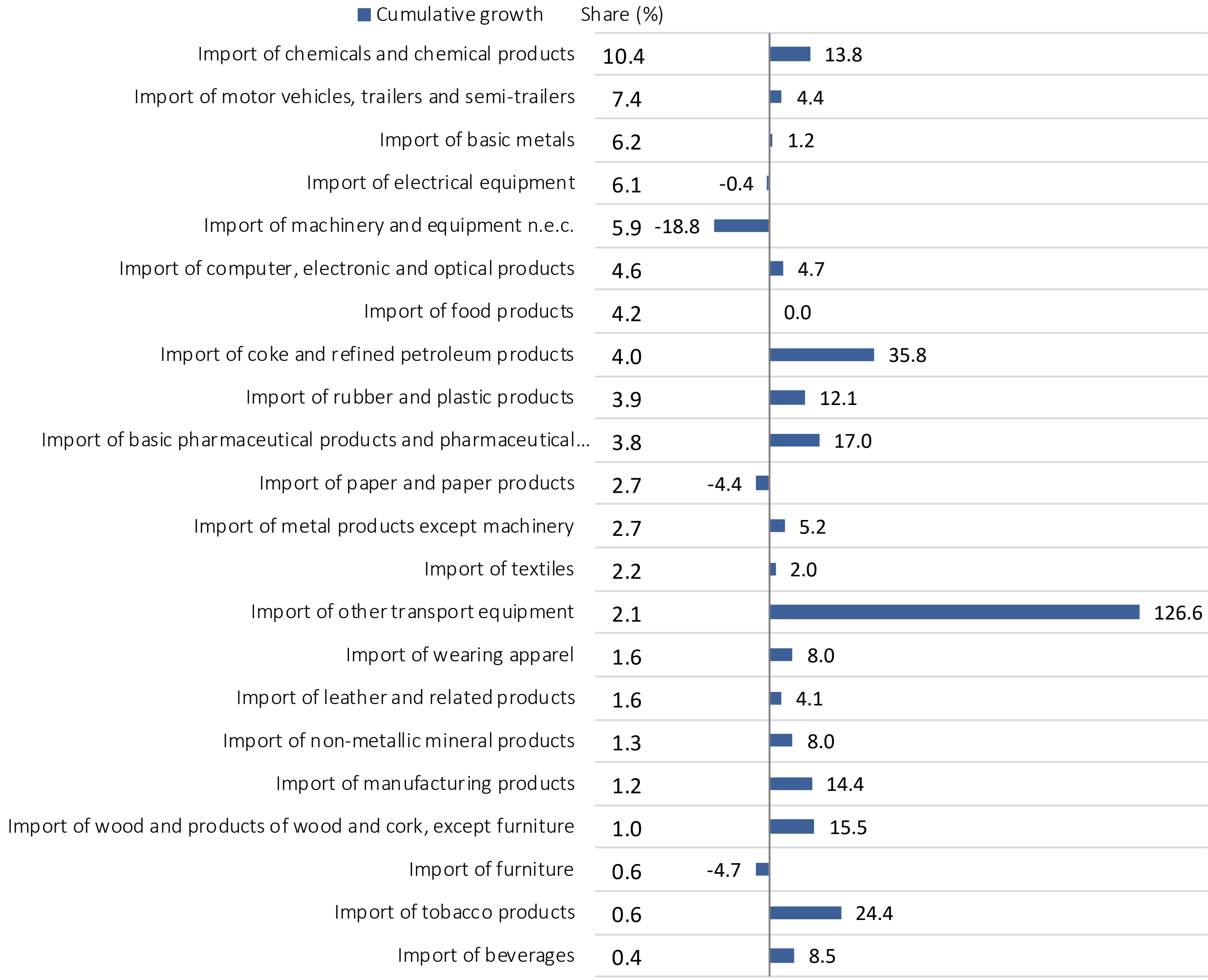
Graph 5.7 Export of manufacturing by divisions, cumulative growth (%)

(Q1 2019 relative to the same period 2018, by descending share in total export)



Import of manufacturing in the first quarter 2019 relative to the first quarter 2018 recorded increase of 6.3%. Such result was mostly influenced by increased import of chemicals and chemical products, machinery and equipment, n.e.c., basic metals and computer, electronic and optical products.

Graph 5.8 Import of manufacturing by divisions, cumulative growth (%)
(Q1 2019 relative to the same period 2018, by descending share in total import)



5.5. Agriculture, forestry and fishing (A)

(share of 6,6% in total export and 3.2% in total import)

Export in this section in the first three months of 2019 realized increase of 48.7%, as well as increased share in export from 4.7% to 6.6% relative to the first quarter 2018. This result was mostly influenced by recovery and cumulative growth of 94.6% regarding cereals (except rice), leguminous crops and oil seeds, i.e. the group that presents 72.0% of export of the whole section in the first quarter 2019. On the other hand, realized was cumulative fall of 13.9% regarding export of pome and stone fruit that is the second important class of this section, and that is still not in the recovery phase.

Import recorded increase of 10.4%, while the share in total import remained unchanged (3.2%) relative to the same period 2018. Registered was increase in tobacco imports of 82.3%, vegetables, root and carotid plants' imports of 45.0% and citrus imports of 0.5%, as well as decreased cereals import (except rice), leguminous crops and oil seeds of 31.0%. As these classes of CA (2010) make even 61% of total import of the whole section, it can be said that structure of import in this section has been significantly changed relative to the previous year.

5.6 Mining and quarrying (B)

(share of 0.4% in total export and 9.3% in total import)

The section of Mining and quarrying noticed cumulative export decrease of 16.9% relative to the same period 2018. Trend values are in continuous decrease from the beginning of 2018. Decreased export in this section was mostly caused by decreased export of metal ores (19.5%) as it presents 77.3% of export of the whole section of Mining and quarrying.

Import of this section recorded growth of 12.1%, mostly caused by increased import (67.1%) of metal ores.

Glossary

Unclassified goods by CA (2010), involves storage goods, goods in free zone, as well as goods for which customs tariff is not entered/ filled.

6. Domestic trade

6.1. Retail trade turnover

(Division 47 of the Classification of Activities)

Retail trade turnover in the first quarter 2019, relative to the same period 2018, increased by 12.4% at current and by 9.7% at constant prices.

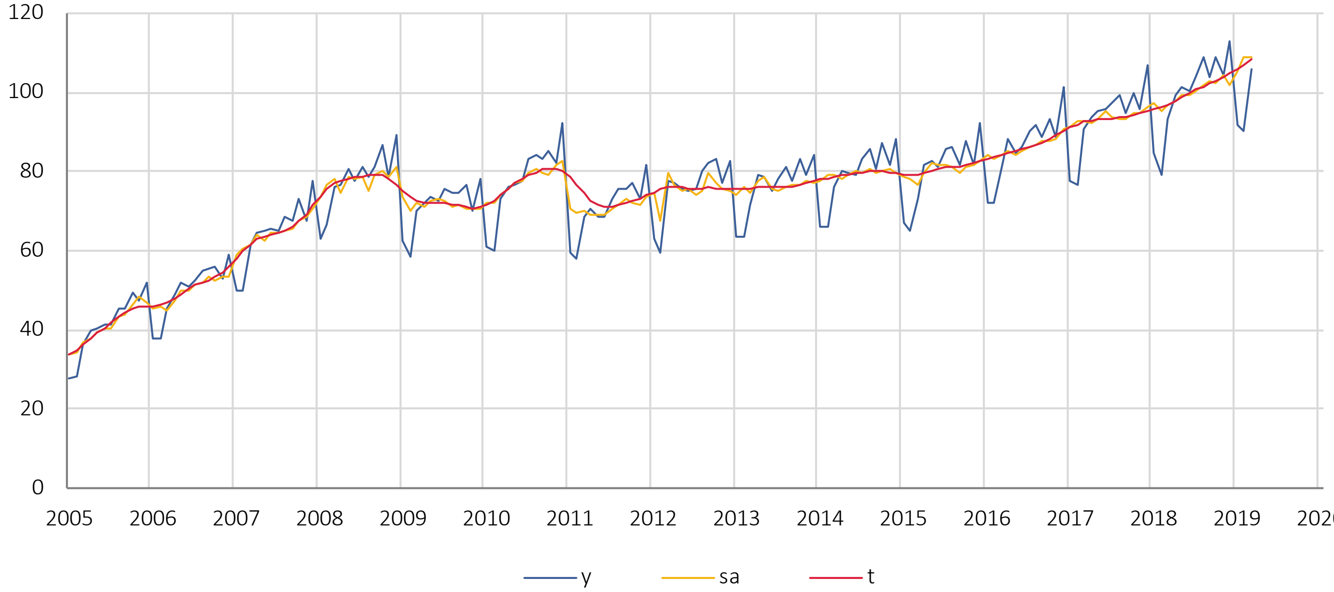
Table 6.1 Retail trade turnover, quarterly indices (%)
(comparison with the same period of the previous year)

	2017				2018				2019	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q1+Q2[1]
Current prices	108.7	109.8	107.5	106.5	104.7	105.8	108.5	107.9	112.4	109.5
Constant prices[2]	104.0	104.7	104.0	103.0	103.5	103.6	105.1	105.0	109.7	107.5

[1] Prognosis
[2] Indices are recalculated through monthly indices at constant prices

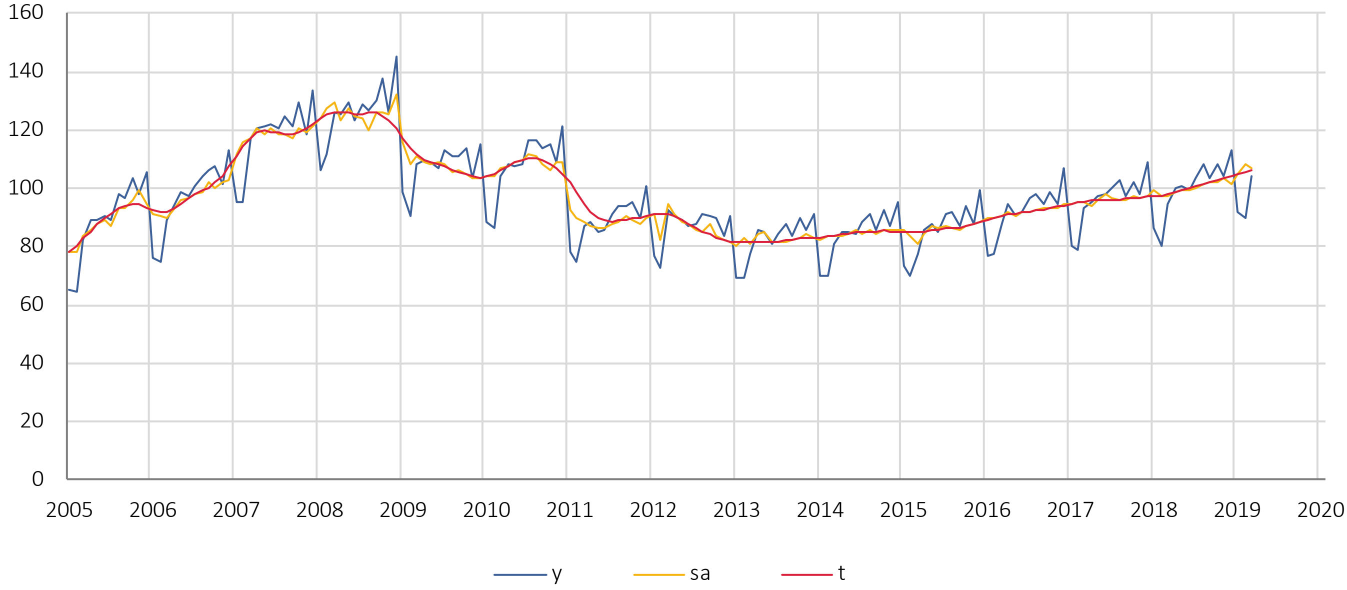
Observed relative to 2018 average, in the first three months 2019, noted were expected seasonal fluctuations in retail trade, both at current and at constant prices. However, the long-term trend is constant and slightly increasing and in the first quarter 2019, it was above the last year's average (on average, by 7.1% at current, i.e. by 5.7% at constant prices).

Graph 6.1 Components of time series of retail trade turnover at current prices, indices
(u – original series, sa – series with excluded seasonal component, t – trend cycle component, average 2017 = 100)



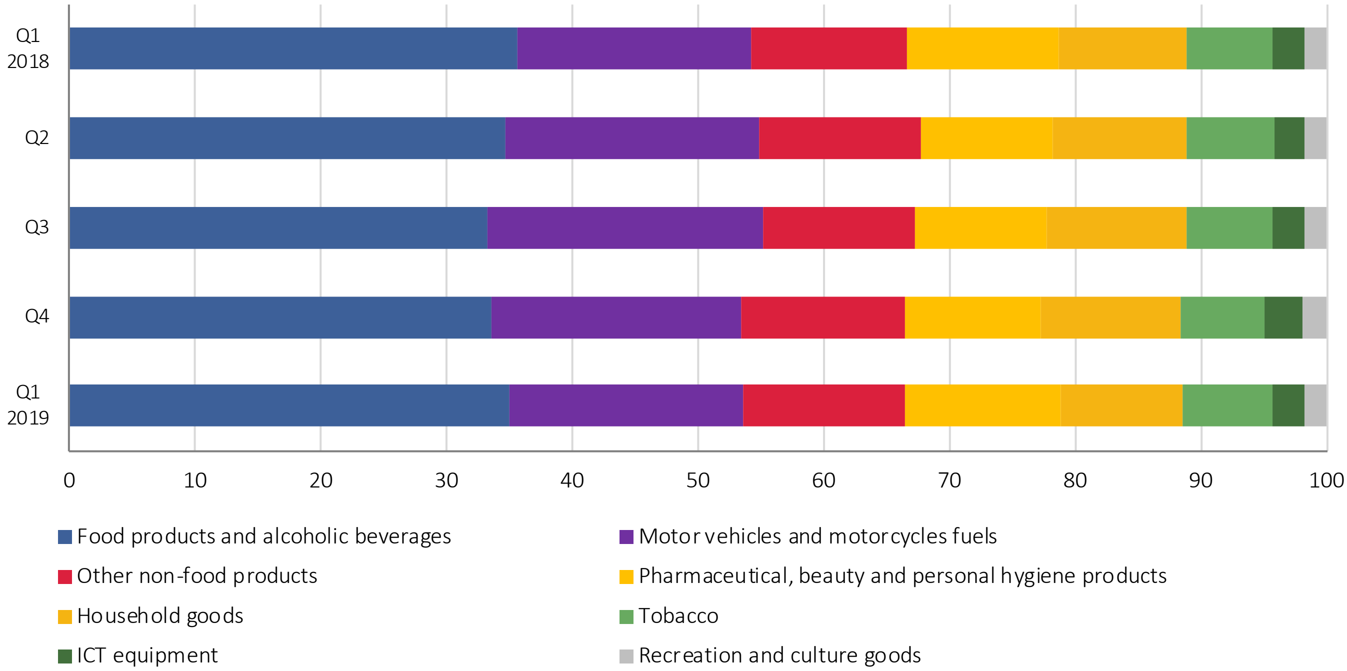
Graph 6.2 Components of time series of retail trade turnover at constant prices, indices

(u – original series, sa – series with excluded seasonal component, t – trend cycle component, average 2017 = 100)



Observed by commodity groups, in the first quarter 2019, relative to the fourth quarter 2018, there were no significant changes in retail trade turnover structure. The most notable were food products and alcoholic beverages (35%), followed by motor vehicles and motorcycles fuels (18.6%) and other non-food products (12.8%).

Graph 6.3 Structure of retail trade turnover by commodity groups (%)



6.2 Wholesale trade turnover

(Division 46 of the Classification of Activities)

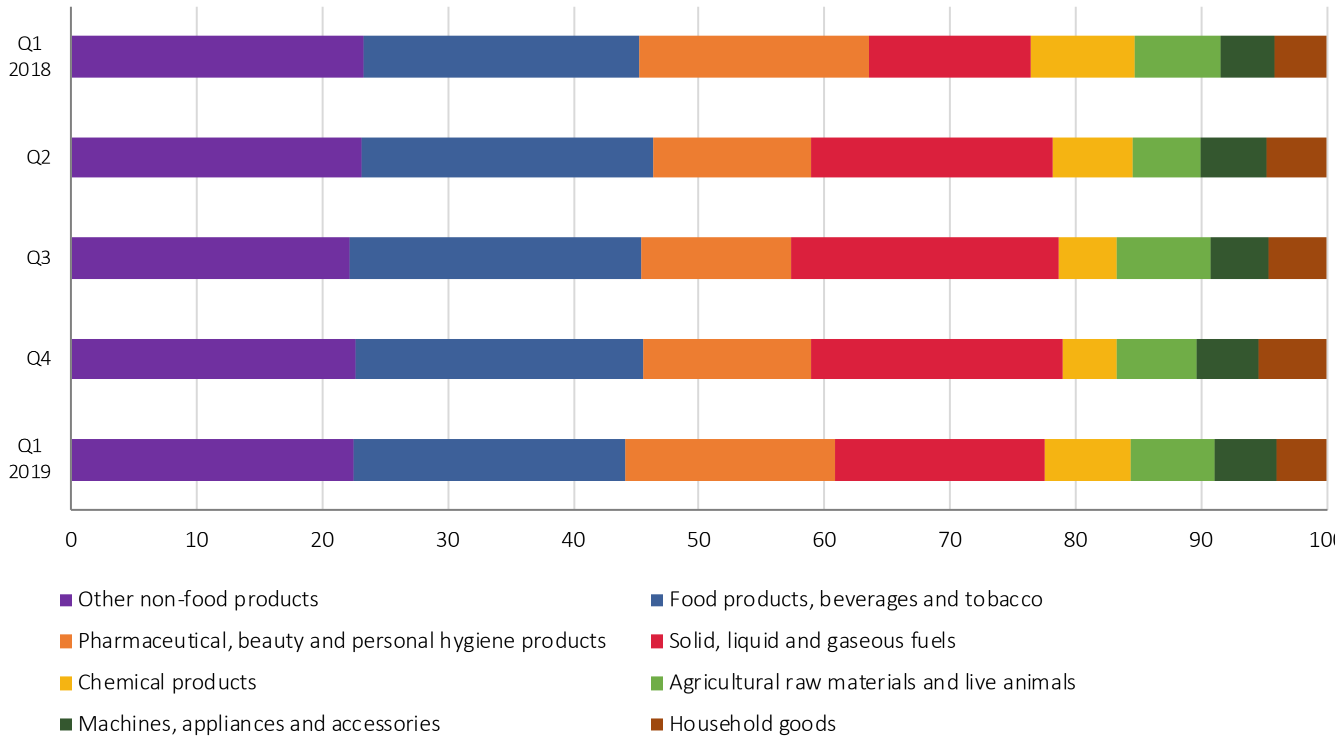
Wholesale trade turnover in the first quarter 2019, compared with the same quarter 2018 noted increase of 7.8% at current prices.

Table 6.2 Wholesale trade turnover, quarterly indices (%)
(comparison with the same period of the previous year)

	2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Current prices	109.7	106.1	108.2	107.7	104.3	110.2	111.5	107.6	107.8

Observed by commodity groups, in wholesale trade turnover, in the first quarter 2019, the most notable were other non - food products (22.5%), followed by food products, beverages and tobacco (21.7%), p**harmaceutical, beauty and personal hygiene products** and solid, liquid and gaseous fuels, 16.7%, and 16.6%, respectively.

Graph 6.4 Structure of wholesale trade turnover by commodity groups (%)



6.3 Turnover in wholesale and retail trade and motor vehicles repair

(Division 45 of the Classification of Activities)

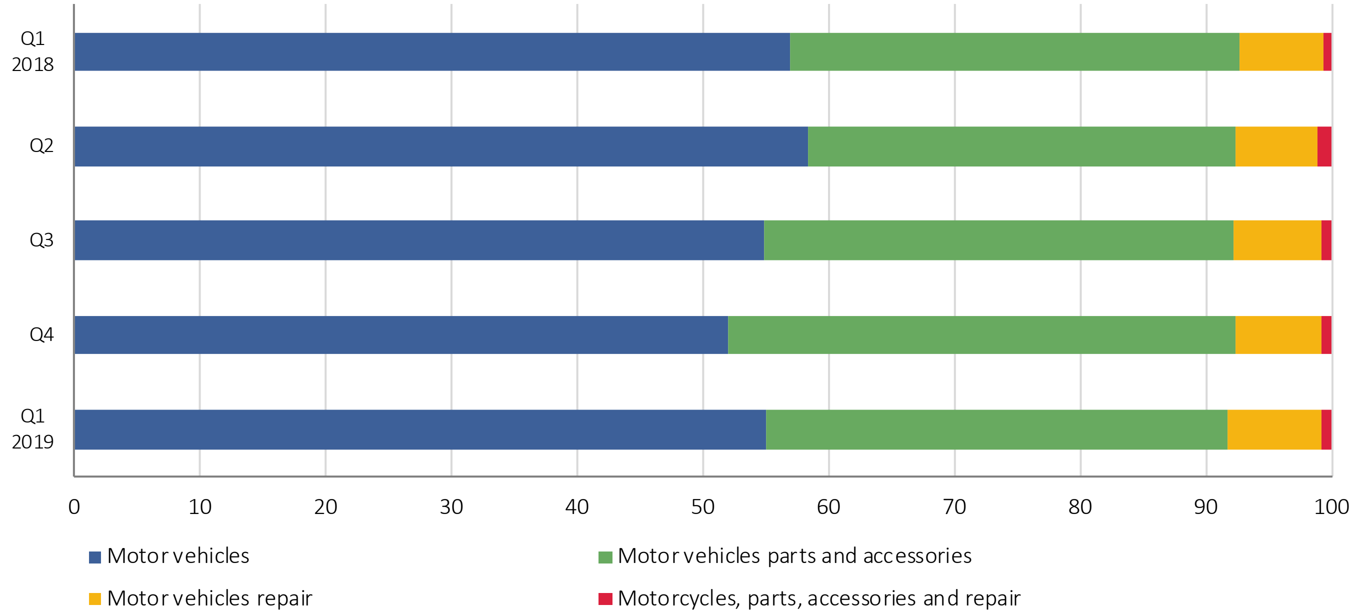
Turnover of goods in wholesale and retail trade and repair of motor vehicles in the first quarter 2019, relative to the same quarter 2018 recorded increase of 13.3% at current prices.

Table 6.3 Turnover in wholesale and retail trade and motor vehicles repair, quarterly indices (%)
(comparison with the same period of the previous year)

	2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Current prices	121.3	113.2	114.2	109.5	104.1	108.4	113.4	112.2	113.3

Observed by commodity groups, similarly as in the previous quarters regarding wholesale and retail trade turnover and motor vehicles repair, in the first quarter 2019, the most notable were motor vehicles (55%), followed by motor vehicles parts and accessories (36.7%).

Graph 6.5 Structure of wholesale and retail trade turnover and motor vehicles repair by commodity groups (%)



Note:

Goods turnover indices of retail trade at constant prices are obtained by deflating the indices at current prices with appropriate consumer price indices, which exclude: water (from public utilities systems), electricity and motor vehicles, motorcycles and parts thereof.

In the first quarter of 2019 consumer prices saw an average annual increase of 2.4%, compared with the first quarter of 2018, which is above the lower limit of the inflation targeted by the National Bank of Serbia for 2019, amounting to 3%±1.5 p.p.

Graph 7.1. Inflation rate measured by consumer price indices, March 2018 – March 2019. (%)

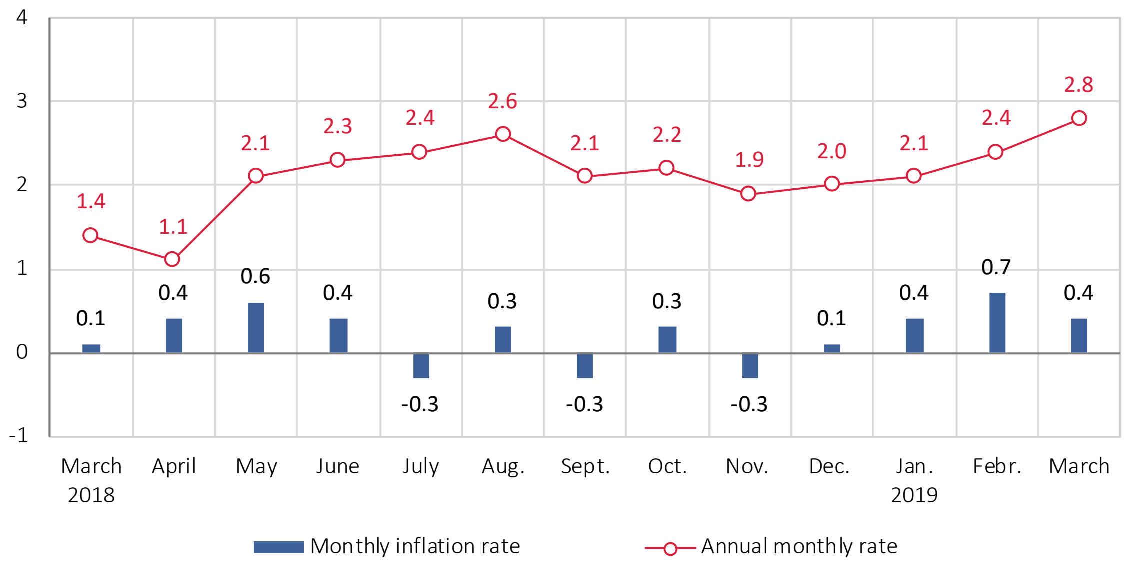
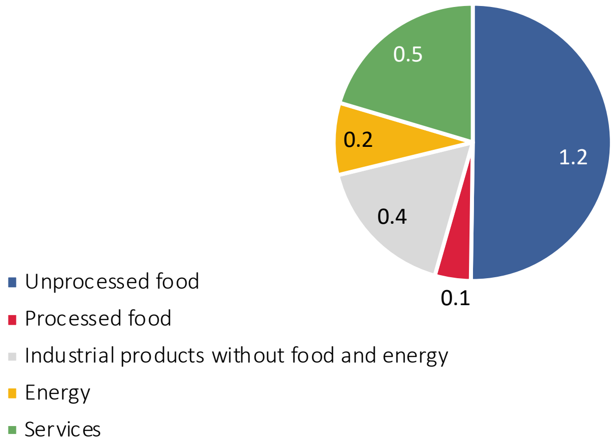


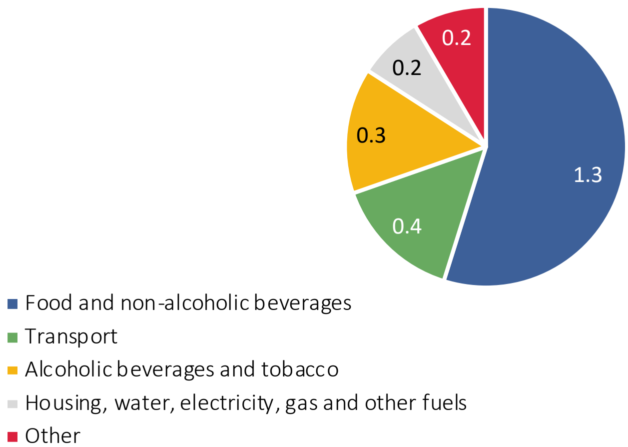
Table 7.1. Consumer prices, quarterly inflation rate (%)
(quarter to the same quarter of the previous year)

	2018				2019	
	Q1	Q2	Q3	Q4	Q1	Q1+Q2[1]
Consumer prices (CPI)	1.6	1.8	2.4	2.0	2.4	2.6

[1] Forecast.

Graph 7.2. Contributions to the quarterly consumer price growth rate, by purpose and main divisions of products (pp.)





7. Prices

Observed by main divisions of consumption, the year on year growth of 2.4% in the first quarter was mostly due to the contribution of the increase in the following groups of products:

7.1. Food and non-alcoholic beverages (contribution to year on year growth rate of 1.3 p.p.)

In 2019 the share of food and non-alcoholic beverages price in the total structure of consumer prices saw a decrease of 31.3% (from 31.7% in 2018). This fall is expressive, on average, of smaller amounts earmarked from the available monthly income for food and beverages, on account of recorded larger expenses for services – telephone services, housing services, road transport services, for culture, sports and recreation – which is, to a certain amount, justified by a slight improvement of living standard in the growth of the volume of real net salaries and wages in 2018.

Within this group, after the first three months of 2019, the following products contributed the most to the year on year index: vegetable (1.4 pp.), bread and cereals (0.1 p.p.) and non-alcoholic beverages (0.1 p.p.), while, on the other hand, the prices of fruits (-0.2 p.p.) and oils and fats (-0.1 p.p.) had a deflationary contribution to the price of food.

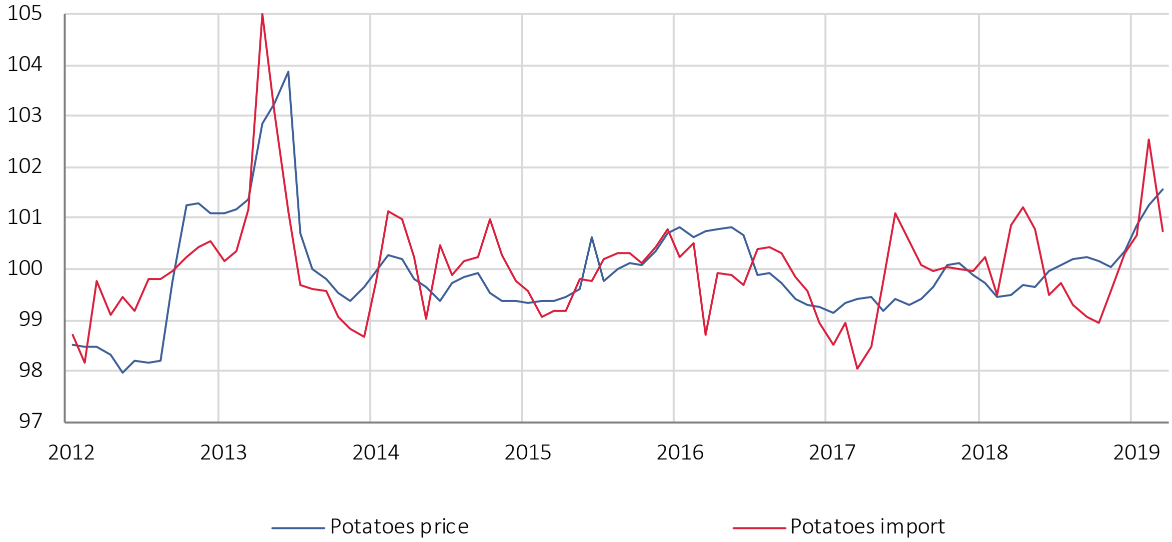
Vegetables – In the first quarter of 2019 vegetable prices saw the largest year on year growth (31.6%) in the last six years, behind the first quarter of 2013 and first quarter of 2008 (when a record growth of vegetable prices was noted). In this way, vegetable prices participated with 58.3% in the whole variability of year on year CPI growth (2.4%) in the first quarter of 2019, being the largest when compared with the other groups of products.

The total variability of the year on year growth of vegetable prices in the first quarter of 2019 was principally the result of price growth of potatoes (which share in the total vegetable price was 28.8%), onions (with a share of 23.4%), then cabbage (with a share of 22.4%) and paprika (with a share of 14.6%). A fall was recorded only in beans, garlic and cucumbers, which have started to manifest constantly their deflationary effects since the first quarter of 2018. However, the total sum of the contributions of the cited “deflationary types of vegetables” amounted to -1.0 p.p., which was insignificant in contrast to such a large rise of prices of the whole basket of vegetables. The average purchase price of the whole basket of vegetables (the prices of which are measured) in the first quarter of 2019 saw a record year on year growth of 130.8%.

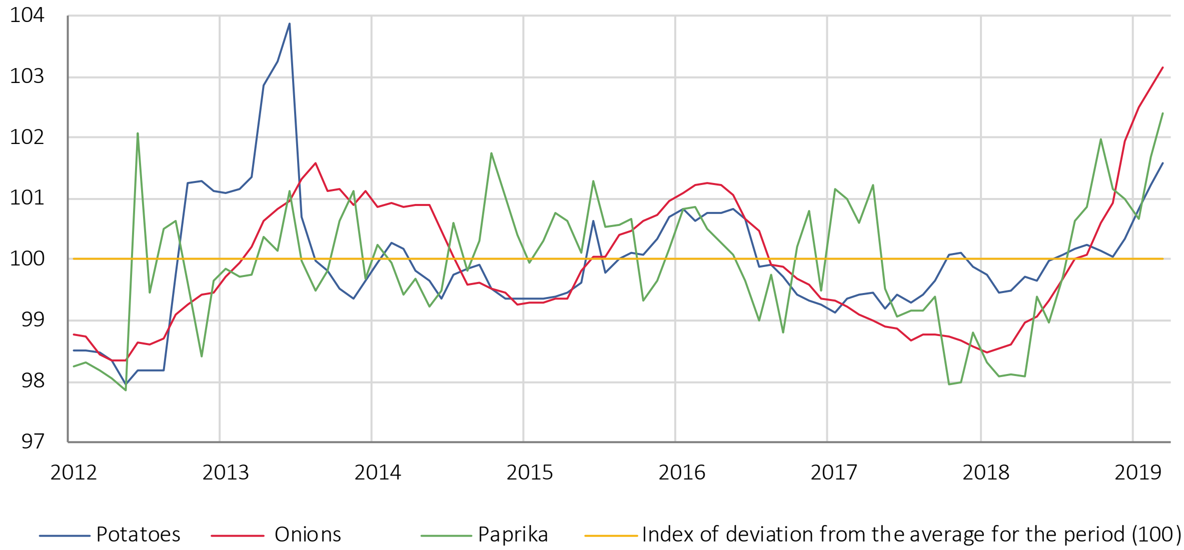
The main problem with the increase in potatoes prices, particularly at the end of 2018, was an insufficient offer on the domestic market, on one hand due to smaller production of potatoes in 2019, and on the other hand, due to larger exports to surrounding countries (Albania, Bulgaria, Macedonia, B&H) and their profitability. In 2018, imports of domestic potatoes preceded in fact larger imports of potatoes, on average, by about one month. Thus, larger demand to offer was compensated with more expensive potatoes from imports (Belgium, the Netherlands and Germany), which would have been even more expensive if imports of less expensive potatoes from Russia, Belarus and Lithuania had not been intensified, because smaller demand drove to the increase in potatoes prices in EU countries too. All this indicates that speculative operations of big potatoes producers in Europe caused turbulences also on smaller markets of other countries because, according to a number of reports, big European producers had already sown large surfaces with potatoes on account of their favourable and high price for producers, which, owing to machinery of better quality but also to more suitable subsidies in their countries, have a big competitive advantage to domestic Serbian producers. Hence, potatoes arrived also from Belgium, Germany, the Netherlands and France.

On the other hand, when observing a longer period in the past, except for the first quarter of 2019, such a scenario of increase in potatoes prices in Serbia already happened also in the first quarter of 2013. In both cases, larger exports drove to larger imports in the next month (logically, due to the great importance that potatoes take in the nutrition of Serbian citizens), which in turn led to an increase in retail prices of potatoes. In this way, larger potatoes exports reflected on the rise of retail prices of potatoes with a delay of about two months. Further analysis indicated that this same mechanism of offer-demand imbalance in the price of potatoes, through the export impulse (particularly from the beginning of 2018), applied also for trends of the prices of onions and paprika with a similar movement cycle as potatoes, which is noticeable in the second chart.

Graph 7.3. Retail prices of potatoes and import of potatoes, index of deviation from the average for the period, standardized data



Graph 7.4. Retail prices of potatoes, onions and paprika, index of deviation from the average for the period (100), standardized data



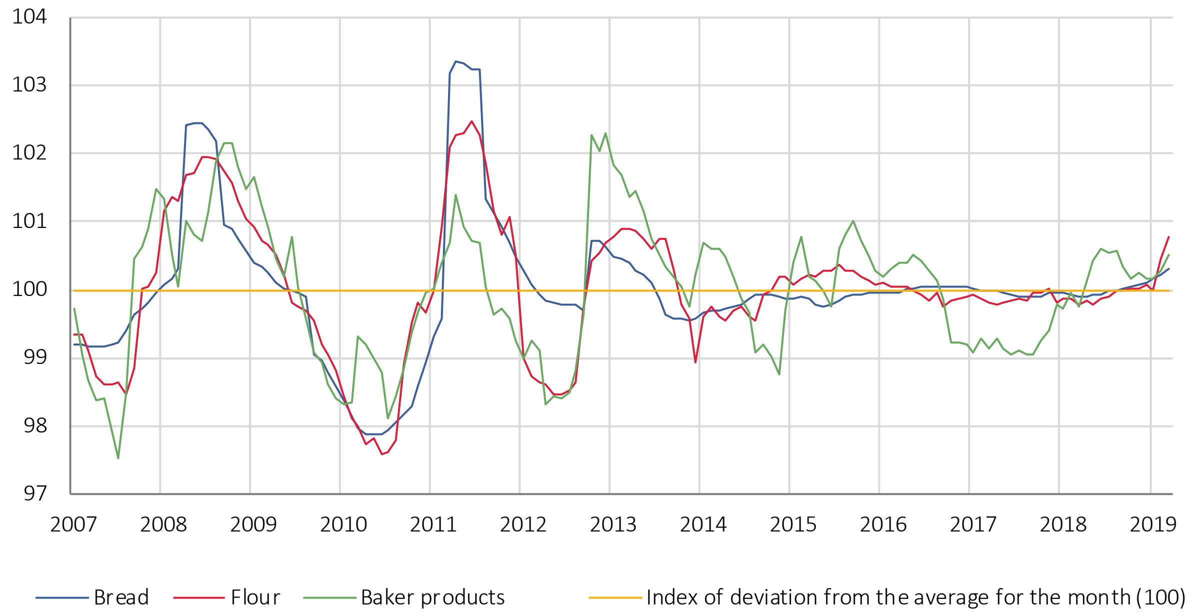
Fruit – Observed by first quarter years backwards, in the first quarter of 2019 fruit had, for the third time since 2007, a deflationary effect on the total price of food, and considering the high rate of 18.1% in the first quarter of 2018 such a result was somehow expected. The largest influence on the year on year fall of fruit prices of 10.7% was that of apples (-5.5 p.p.), bananas (-3.2 p.p.), nuts (-1.5 p.p.) and lemons (-1.0 p.p.). Prices rose only for watermelons, melons, peaches, apricots and oranges. On the other hand, their drastic fall is indicative of an ever more visible influence of big retail chains on fruit price, which realize a favourable marketing through their suppliers.

Bread and cereals – The year on year prices of this group of products in the first quarter of 2019 amounted to 2.2%, the largest shares having been recorded in their variability structure were those of bread (principally of white wheat flour), 40.9%, bakery products, 27.3%, and flour and other cereals, 22.7%.

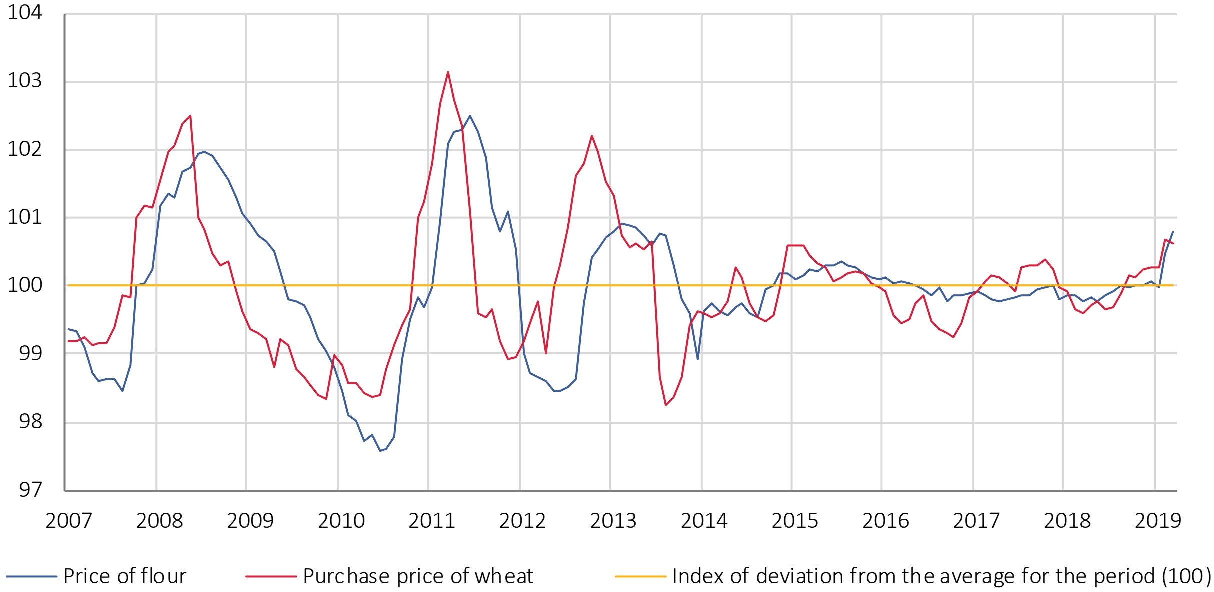
As already seen in the previous issue of Trends, wheat trading saw at the end of 2018 a constant increase in prices because the wheat price on the domestic market depended on wheat price increase on international markets, which served Serbian producers. An analysis confirmed that the main trigger of price mechanism for bread and cereals was the purchase price of wheat that preceded the price of wheat by about three months. As the purchase price of wheat recorded a progressive year on year growth in all the months of 2018, the growth amounted at the end to 5.7%, on average, for the fourth quarter of 2018. This reflected on the year on year increase in the price of wheat flour in the first quarter of 2019 by 4.9%. After the first quarter of 2019 the production of wheat flour saw a year on year fall of -4.6 %, while the production of white wheat bread recorded a fall of 1.6%. Production of maize bread grew by 57.1% and that of other types of bread by 5.8%. As for pastries, having in mind the increase in the production of dry baker instant yeast of 35.5% in relation to the first quarter of 2018, the production of special types of pastries, frozen baker products and cakes also went up.

Consequently, in the first quarter of 2019, growth was recorded in year on year prices of bread by 2.1% and baker products by 2.0%, participating altogether in the total growth rate of the price of the sub-group of bread and cereals by about 91.0%.

Graph 7.5. Retail price of bread, wheat flour and baker products, index of deviation from the average for the period (100), Standardized data



Graph 7.6. Purchase price of wheat and retail price of flour, index of deviation from the average for the period (100), standardized data



Observed by groups of products of processed and unprocessed food, in the structure of food and non-alcoholic beverages the largest contribution to growth was that of unprocessed food (1.2 p.p.), while the influence of processed food was many times smaller (0.2 p.p.).

7.2. Transport (0.3 p.p.)

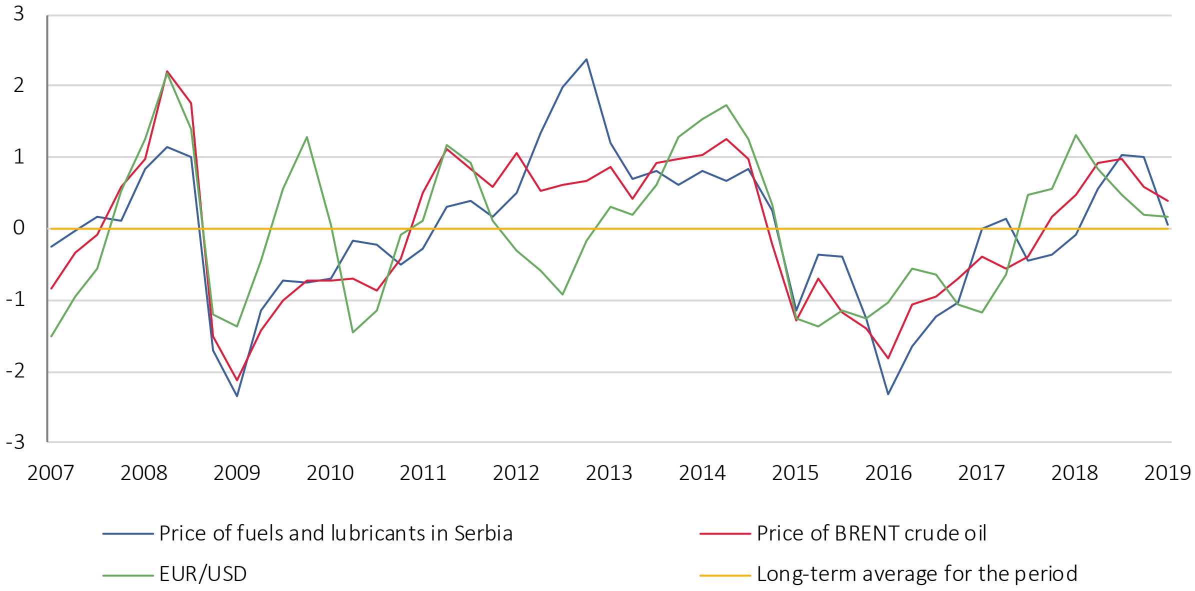
The prices of the group of products Transport saw in the first quarter of 2019 a year on year increase of 2.9%, which was principally caused by the growth of fuels and lubricants for automobiles (0.14 p.p.), other services related to transport means (0.12 p.p.) and of prices of road transport services (0.1 p.p.).

As for the price of fuels and lubricants in Serbia, it is worth mentioning that in the first quarter of 2019 the contribution of this group to the total inflation of consumer price was not so marked as in the previous quarters because the price of *BRENT* crude oil started to go down in the months of the fourth quarter of 2018, which was reflected in Serbia only after 2-3 months, as also pointed out by the leading indicator of fuel prices (IPC-G), even though *BRENT* crude oil prices went up by 6.6% in the first quarter of 2019 in relation to the fourth quarter of 2018, which would affect the price of fuel in Serbia only in the second quarter of 2019. Also, in the first quarter of 2019 (compared with the first quarter of 2018) the exchange rate of the US Dollar to Euro grew stronger by 7.6%, which complies with the already mentioned increase in the world price of crude oil.

Besides crude oil price on the world market and exchange rate of the US Dollar as the main factors, the price of fuel in Serbia in the first quarter of 2019 was additionally affected by government levies due to raise of excises (and consequently because of a higher VAT because of a higher base). In February 2019, government levies, in relation to 2018, increased by RSD 1.1 (RSD 56.04 per litre) per litre of gasoline and of diesel by RSD 1.13 (RSD 57.63 per litre), at average retail price.

In the first quarter of 2019, in Serbia the retail price of euro diesel, compared with the fourth quarter of 2018, on average, fell by RSD 5.8 per litre, and unleaded premium gasoline of 95 octanes by RSD 8.7 per litre, resulting in a year on year increase in overall prices of fuels and lubricants in the first quarter of 2019 by 2.4%, and in a price of road (3.6%).

Graph 7.5. Movement of prices of fuels and lubricants according to the price of *BRENT* crude oil and exchange rate EUR to USD, deviations from the average for the period (%)



7.3. Alcoholic beverages and tobacco (contribution 0.3 p.p.)

Tobacco price is a direct consequence of a harmonized excise policy according to which, by the excise calendar 2018–2020, every January and June the specific excise on cigarettes rises by RSD 1.5, with the charged and proportional excise of 33% on cigarettes and added VAT. In this way government levies, from 1 January to 30 June 2019, for one pack of cigarettes increased by RSD 1.5, amounting to RSD 70.7. Consequently, the year on year growth of tobacco prices in the first quarter of 2019 was 8.0%.

It is worth mentioning that the prices of tobacco products in the structure of total prices (of 4.3%) have been constantly slightly declining in the last several years as a result of smaller consumption, i.e. money earmarked by consumers. When compared with 2018, the share of tobacco in the structure of total consumer prices fell by 0.1 p.p.

Glossary

Annual inflation rate is a change in prices in the current month in relation to the same month of the previous year, in percentages.

Monthly inflation rate is a change in prices in the current month in relation to the previous month, in percentages.

8. Labour market

In Serbia in the first quarter of 2019 there were 2.8 million employed persons and 387 thousand unemployed persons aged over 15[8].

When compared with the previous, fourth quarter of 2018, the unemployment rate was lower and was 12.1% (after 12.9% in the fourth quarter of 2018), and the number of unemployed persons fell by 29.4 thousand.

The unemployment rate was the same as in the fourth quarter of 2018 only in Beogradski region (10%), while it fell in the other regions: in Vojvodina (10.3%), Region Šumadije i Zapadne Srbije (13.8%) and Region Južne i Istočne Srbije (14.8%).

Although unemployment rate movements had a falling tendency, they contained a seasonal component which, due to the insufficiently long series, cannot be eliminated for the time being.

Graph 8.1. Unemployment rate movement for persons aged 15 and over, Q1 2014 – Q4 2019
(quarterly frequency)

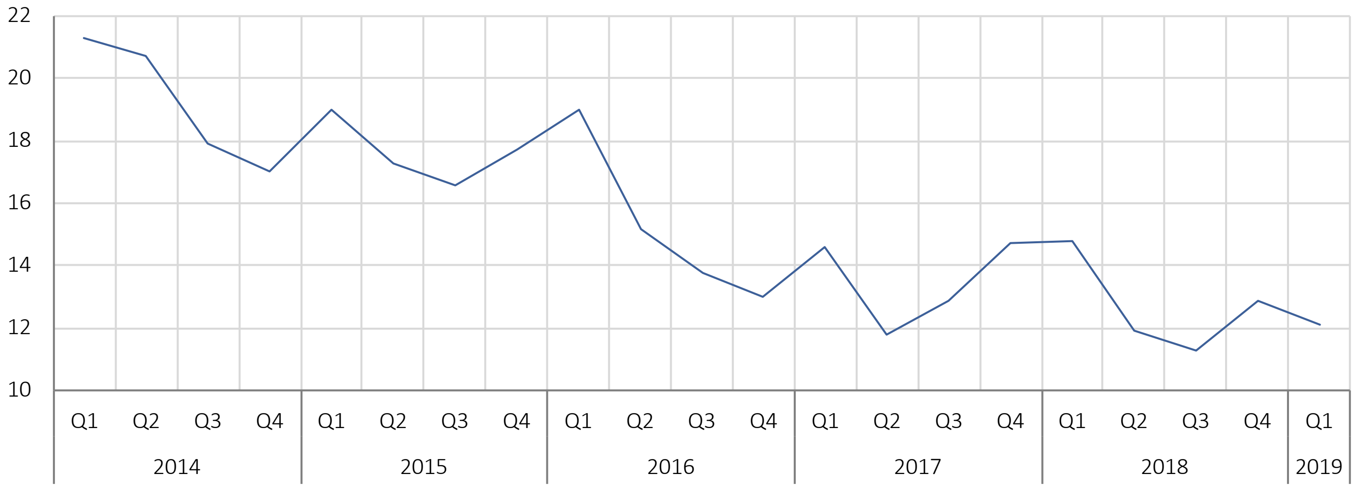


Table 8.1. Labour market – persons aged 15 and over
(quarterly frequency)

	Current quarter	Previous quarter		Same quarter of the same year	
	Q1 2019 (in thousands)	Q4 2018 (in thousands)	change, %	Q1 2018 (in thousands)	change, %
Unemployment	387.1	416.6	-7.1	468.7	-17.4
Employment	2 810.5	2 817.4	-0.2	2 688.3	4.6
	%	%	change, %	%	change in %
Unemployment rate	12.1	12.9	-6.2	14.8	-18.2
Employment rate	47.4	47.4	0	45.1	5.1

[8] All data are taken from the Labour Force Survey.

8. Labour market

8.1. Comparison with the same quarter of the previous year

When compared with the same quarter of the previous year, the number of unemployed persons decreased by 17.4% (from 468.7 thousand to 387.1 thousand). At the same time, the number of employed persons grew by 4.5% (from 2.7 million in Q1 2018 to 2.8 million in the Q1 2019).

The unemployment rate (persons aged from 15 to 24) in Q1 2019 was 30.7%, being lower by 11.2% than that in Q1 2018 when it was 34.6%. The highest youth unemployment rate was recorded in the Region Južne i Istočne Srbije (35.3%) and the lowest in Beogradski region (23.9%).

Long-term unemployment (proportion of persons being unemployed for more than a year among active population aged 15 and over) was 7.1%, lower by 19.3% than that in the first quarter of 2018 (when it was 8.8%).

Observed by sex, the unemployment of men decreased in all regions, compared with Q1 2018: in Beogradski region, from 12.2% to 9.6%, in Region Vojvodine, from 12.7% to 10.6%, in Region Šumadije i Zapadne Srbije, from 13.6% to 13.3%, and in Region Južne i Istočne Srbije, with 18.6% to 15.0%.

Similar trends were recorded with the female population: the unemployment rate decreased in all regions – in Beogradski region, from 14.5% to 10.3%, in Region Vojvodine, from 13.2% to 9.8%, in Region Južne i Istočne Srbije, from 18.2% to 14.3%, and in Region Šumadije i Zapadne Srbije 17.8% to 14.6%.

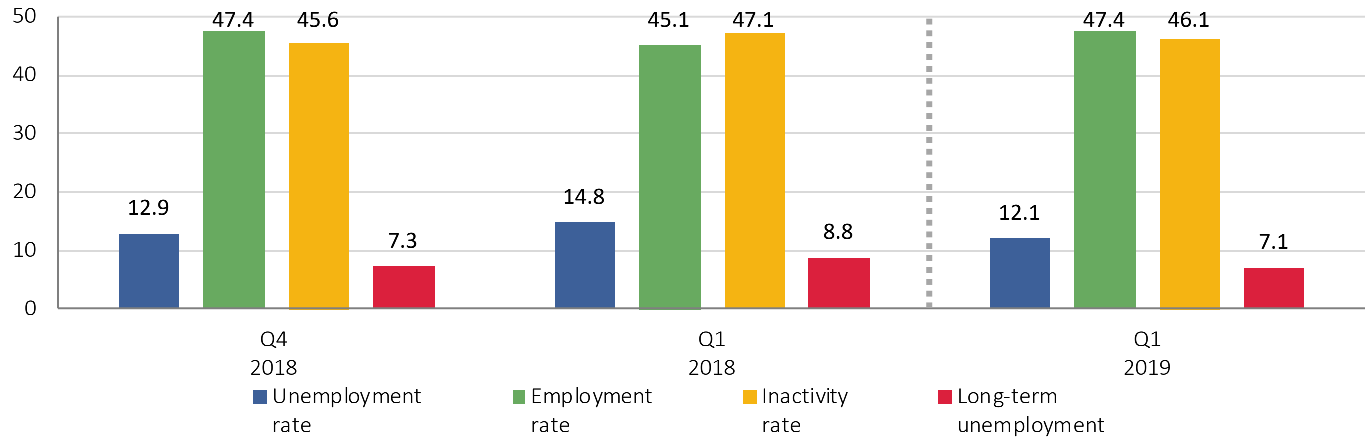
Observed by professional status and compared with the same quarter of 2018, the number of employed persons increased in all categories – self-employed (by 6.9%), employed (by 4.1%) and contributing family workers (by 1%).

Table 8.2. Employment by professional status, comparison Q1 2018 – Q1 2019

	Q1 2018 (in thousands)	Q1 2019 (in thousands)	Change in %
Employment – total	2 688.3	2 810.5	4.6
Self-employed	590.3	630.5	6.9
Employed persons	1 957.7	2 038.1	4.1
Contributing family workers	140.2	141.9	1.3

Even though changing and under the influence of seasonal trends, labour force indicators show a decreasing tendency in unemployment and an increase in employment and activity.

Graph 8.2. Labour market – major indicators for the previous quarter, same quarter of the previous year and current quarter (%)



8.2. Comparison with the previous quarter

When compared with the previous, fourth, quarter of 2018, the number of the unemployed fell by 29.4 thousand, and the number of persons employed by 6.9 thousand.

The youth unemployment rate (from 15 to 24) in Q4 2019 amounted to 30.7%, by 4% lower than in the previous quarter (32%). Long-term unemployment rate (7.1%) was lower by 2.7% than in the previous quarter, when it amounted to 7.3%.

Observed by sex, the unemployment rate in Q1 2019 was the same in both sexes, reaching 12.1%. Compared with Q4 2018, the unemployment rate among men increased by 1.7%, and among women it decreased by 14.7%. Unemployment rates in the male population went up in three regions: in Beogradski region, from 9.5% to 9.6%, in Region Vojvodine, from 10% to 10.6%, in Region Šumadije i Zapadne Srbije, from 13.2% to 13.3%, and in Region Južne i Istočne Srbije the unemployment rate remained unchanged, compared with the previous quarter and amounted to 15%.

Women unemployment rate went down in all regions – in Beogradski region, from 10.6% to 10.3%, in Region Vojvodine, from 12.8% to 9.8%, in Region Šumadije i Zapadne Srbije, from 16.8% to 14.3%, and in Region Južne i Istočne Srbije from 17% to 14.6%.

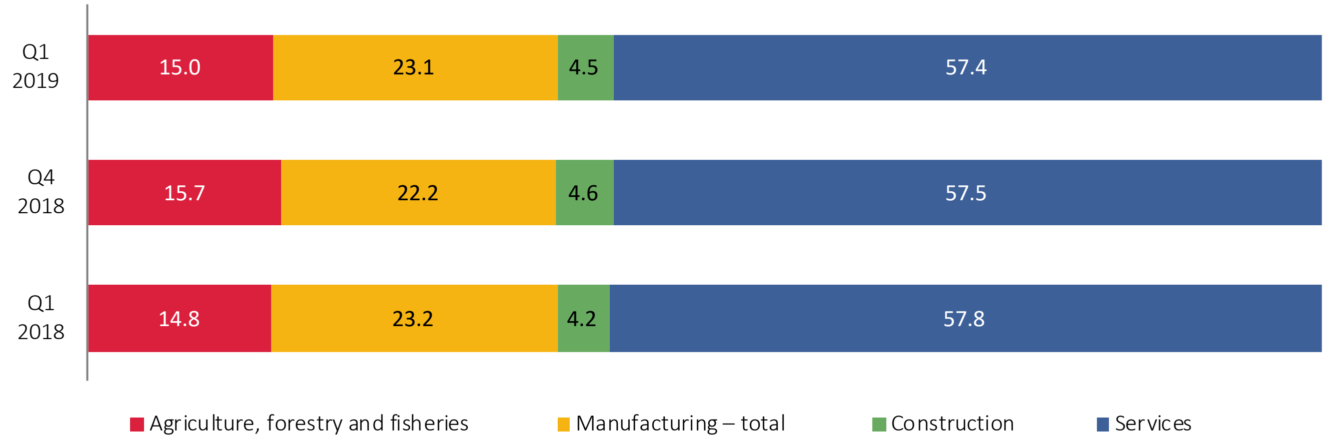
Observed by professional, compared with the previous quarter, the number of persons employment decreased in the categories of the self-employed (by 1.1%) and contributing family workers (by 7.2%), while the category of persons employed saw a slight (0.6%).

Table 8.3. Employment by professional status, comparison Q4 2018 – Q1 2019

	Q4 2018 (in thousands)	Q1 2019 (in thousands)	Change in %
Employed persons – total	2 817.4	2 810.5	-0.2
Self-employed	638.0	630.5	-1.1
Employed persons	2 026.4	2 038.1	0.6
Contributing family workers	153.0	141.9	-7.2

The largest number of the employed in the fourth quarter of 2018 was recorded in the service section (57.4%), then in industry (23.1%), agriculture (15%) and the smallest in construction (4.5%). Such tendencies – increase of the employed in service section, and fall in the other sections – are present also in the global economy in our country, according to ten-year trends.

Graph 8.3. Share of employed persons sections (%)



Glossary

Unemployed persons are persons aged 15 and over who did not perform any paid job in the reference week, sought actively a job during four weeks preceding the reference week, and who were ready to start working within two weeks after the reference week.

Employed persons are persons aged 15 and over who performed a paid job for at least one hour in the reference week (in cash or in kind), as well as persons who had an employment but who were absent from work in that week.

Active population (labour force) includes employed and unemployed persons aged 15 and over.

Employment rate is the share of employed persons in the total population aged 15 and over.

Unemployment rate is the share of unemployed persons in the total number of active population aged 15 and over.

Activity rate is the share of active population in the total population aged 15 and over.

9.1. Net average salaries and wages

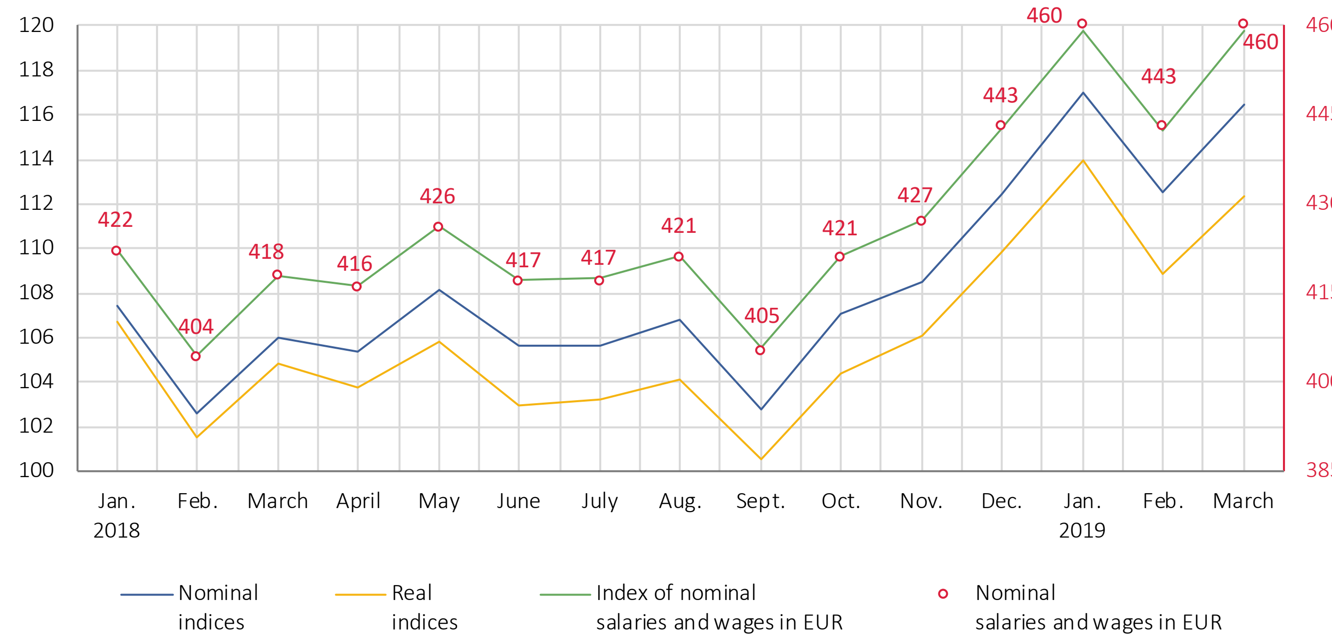
Average net salaries and wages calculated in the Republic of Serbia for the first quarter of 2019 amounted to RSD 53 739. When compared with the same period of the previous year, i.e. the first quarter of 2018, it increased nominally by 9.5%, and in real terms by 6.9%.

Compared with the previous quarter, i.e. the fourth quarter of 2018, it grew by 5.5% nominally and by 4.6% in real terms.

Table 9.1. Real and nominal indices of net salaries and wages
(comparison with the same period of the previous year)

	2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Real indices	101.1	100.8	100.9	100.1	103.8	104.5	104.2	105.3	106.9
Nominal indices	104.2	104.6	103.9	103.0	105.5	106.4	106.7	107.5	109.5

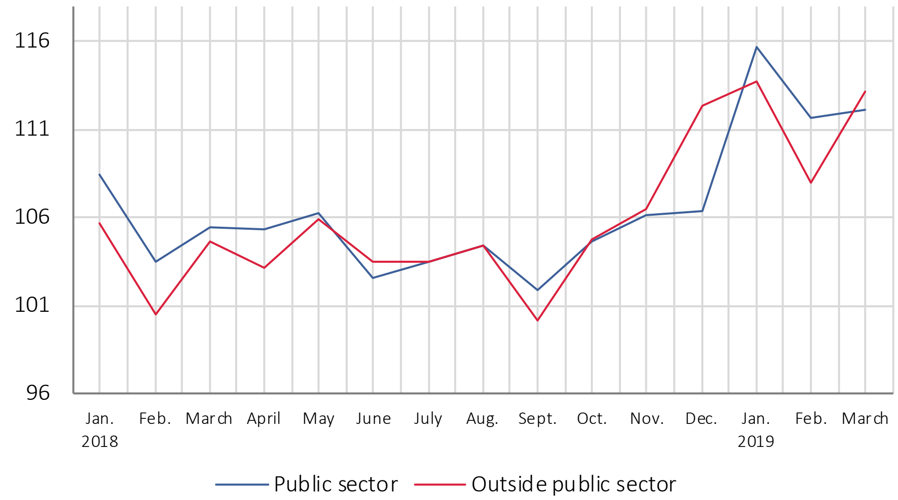
Graph 9.1. Net salaries and wages, movements of nominal and real indices
(average 2017 = 100)



In the observed period, from the beginning of 2018 nominal prices followed inflation and real trends.

Expressed in Euros, average net salaries and wages in December 2017 exceeded for the first time 400 Euros and during the whole 2018 were above 400 Euros. In January 2019 they reached 450 Euros, the highest value recorded in the observed period.

Graph 9.2. Net salaries and wages in and outside the public sector, real indices
(average 2017 = 100)



Average net salaries and wages calculated for Q1 2019 amounted to RSD 60 528 in the public sector, and to RSD 50 519 outside it.

Over the largest portion of 2018, salaries and wages in the public sector were at a higher level than were salaries and wages outside the public sector. In Q4 quarter this ratio changes and salaries and wages grew faster outside the public sector. Starting from 2019, salaries and wages are again at a higher level outside the public sector.

Graph 9.3. Average net salaries and wages, per employee, in the public sector,
(Q1 2019)

Public sector – total	RSD 60 528
Public and state-owned enterprises	RSD 74 226
Public local enterprises	RSD 51 780
Administration – all levels	RSD 64 851
Government level	RSD 67 485
Level of autonomous province	RSD 71 864
Level of local authorities	RSD 51 479
Human health and social work activities	RSD 55 163
Education and culture	RSD 56 858

9. Salaries and wages

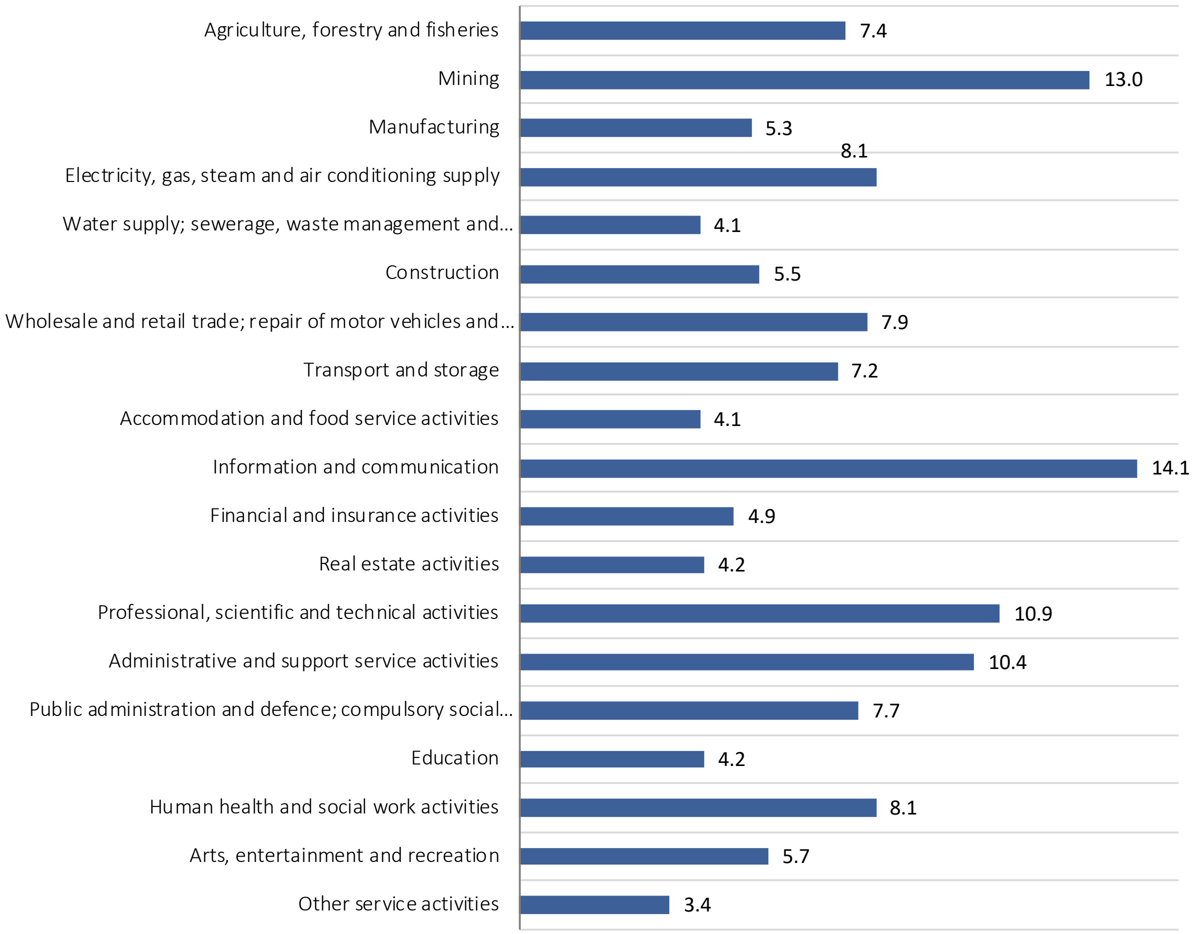
When comparing net salaries and wages by sections of the Classification of Activities (2010), the largest real increase in the first quarter of 2019, compared with the first quarter of 2018, is evident in the sections Information and communication (14.1%), Mining and quarrying (13%), Professional, scientific and technical activities (10.9%) and Administrative and support service activities (10.4%).

The highest net salaries and wages in the first quarter of 2019 was calculated in the following divisions: Extraction of crude petroleum and natural gas (RSD 143 821), Mining support service activities (RSD 140 714), Computer programming, consultancy and related activities (RSD 128 337), Financial services, excluding insurance and pension funding (RSD 110 091), Manufacture of coke and refined petroleum products (RSD 107 432) and Manufacture of tobacco products (RSD 106 960).

In all other divisions salaries and wages were under RSD 100 000 and ranged from RSD 30 916 (Food and beverage service activities) to RSD 98 407 (Scientific research and development).

Observed by regions, the highest average net salaries and wages in the first quarter of 2019 were calculated in Beogradski region, RSD 66 914. In Region Vojvodine they amounted to RSD 50 560, while in all other regions they were under RSD 50 000 – in Region Južne i Istočne Srbije they totaled RSD 47 251, and in Region Šumadije i Zapadne Srbije RSD 45 690.

Graph 9.4. Movement of real net salaries and wages, sections of CA (2010)
(Q1 2019 to Q1 2018)



10. Tourism

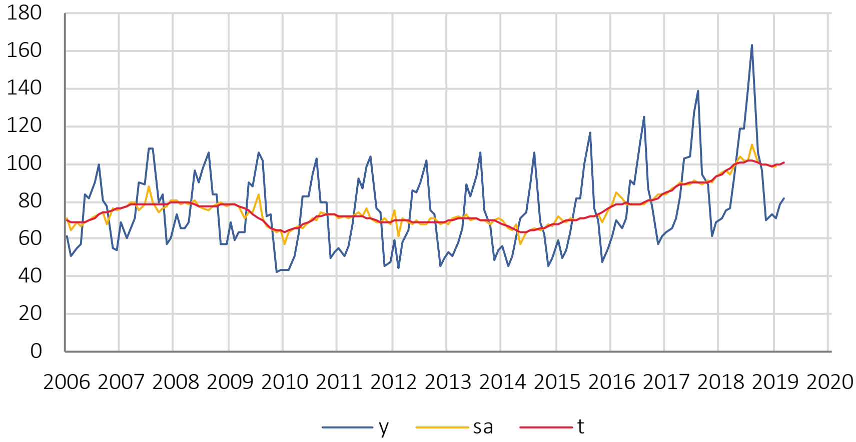
From mid-2014, the tourist activity in Serbia has been recording growth. This positive movement persisted also in the first quarter of 2019.

10.1. Tourist overnight stays

Measured by the number of overnight stays, tourism in Serbia first went through the phase of turnover growth over 2005–2008. The year 2009 brought a phase of contraction, which persisted also in the following year, and from 2011 to 2013 there was a period of stagnation, when the average number of tourist overnight stays was about 6.6 million per year. In 2014, due to natural disasters in May, as the number of overnight stays fell by 7.3% compared with 2013, tourism turnover experienced another strong contraction. However, in spite of bad meteorological conditions at the very beginning of the season, 2014 was the year when an expansive growth of the tourism activity in Serbia started.

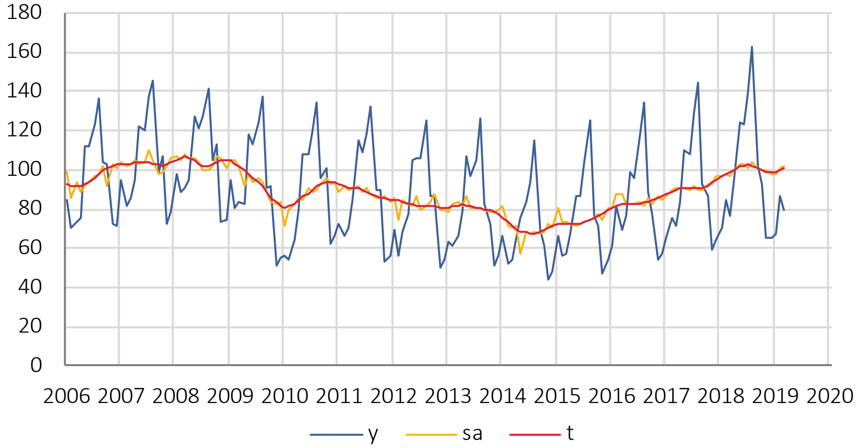
The time series of tourist overnight stays contains very marked fluctuations, reaching the highest values in summer and January.

Graph 10.1. **Components of time series of total tourist overnights, indices**
(y – original series, sa – series with seasonal component excluded,
t – trend-cycle component, average 2018 = 100)



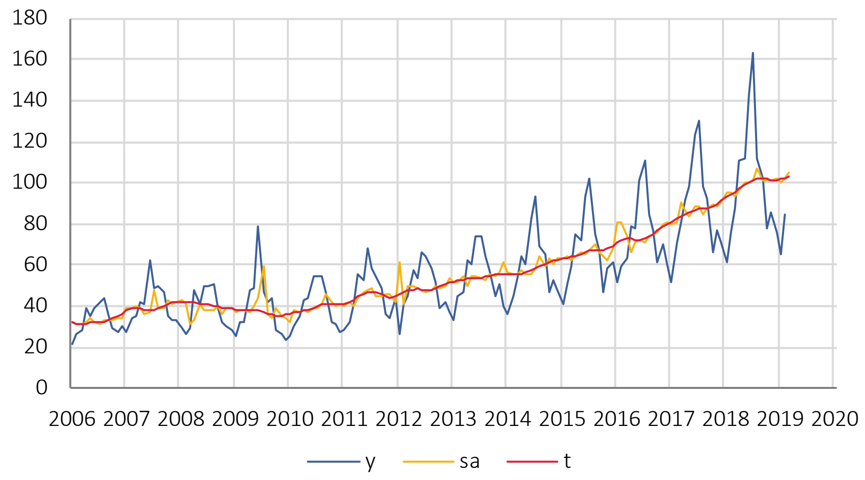
In the first quarter of 2019, there were 1.8 million overnight stays, by 3.9% more than in the same period in 2018.
The growth is stable from mid-2014 so good results are expected also in the following period.

Graph 10.2. **Components of time series of tourist overnight stays, indices**
(y – original series, sa – series with seasonal component excluded,
t – trend-cycle component, average 2018 = 100)



In the first quarter of 2019, domestic tourists spent 1.1 million nights, by 1.3% more than in the first quarter of the previous year. This group of tourists still represents the majority of visitors in Serbia, i.e. 61.7% of the total number of overnight stays.
As domestic tourists had a dominant influence on the whole tourism activity in the past, their movement is similar to that of the total number of overnight stays.

Graph 10.3. Components of time series of tourist overnight stays, indices
(y – original series, sa – series with seasonal component excluded, t – trend-cycle component, average 2018 = 100)



The number of tourist overnight stays records stronger growth: 8.3% compared with the first quarter of 2018, i.e. 686 000 overnight stays in this period.
Growth trend has been evident since the beginning of 2000 and is growing stronger, which indicates that foreign tourists will have a bigger influence on total results in Serbia in the following period.

Table 10.1. Tourist overnight stays, quarterly indices (%)
(comparison with the same period of the previous year)

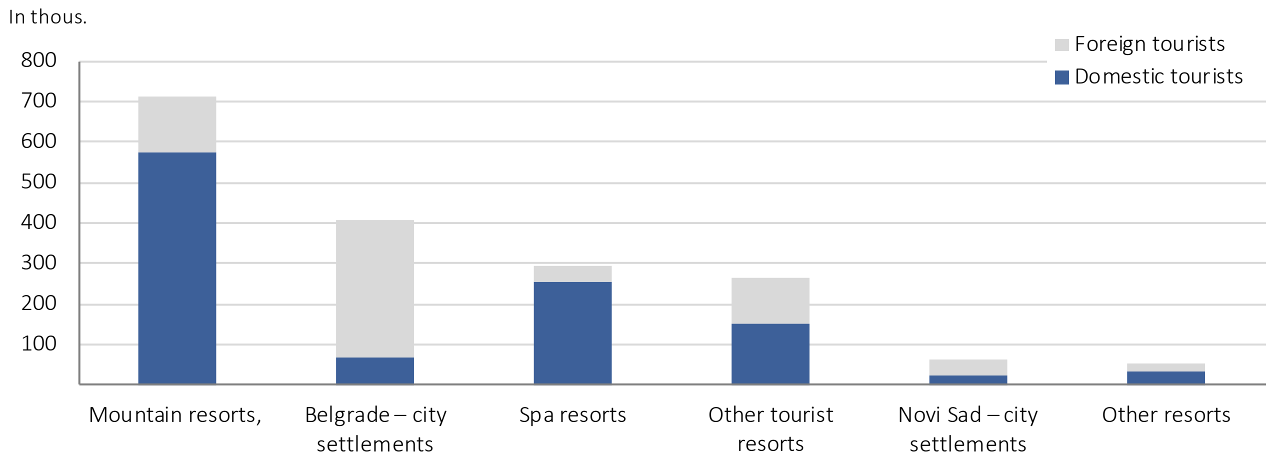
	2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Total	101.7	115.0	111.5	112.1	110.8	113.9	113.4	109.0	103.9
Domestic tourists	99.4	110.8	107.6	111.3	109.2	113.5	110.2	106.6	101.3
Foreign tourists	105.9	123.1	118.5	113.1	113.4	114.5	118.7	112.2	108.3

10.2. Major tourist resorts

Expressed in number of tourist overnight stays, the most frequently visited tourist resorts in the first quarter of 2019 were mountain resorts, with about 710 000 nights spent, accounting for 39.6% of the total overnight stays in the Republic of Serbia, of which 483 000 nights were spent in the largest winter tourism centres – Kopaonik and Zlatibor. Visitors of mountains are mostly domestic tourists (81.2% of the total number of overnight stays).

The City of Belgrade and spa resorts are the next most visited destinations with 407, i.e. 296 000 overnight stays. Belgrade accommodated mostly foreign tourists (83.5% of the total number of overnight stays), while 86.0% nights were spent in spa resorts by domestic tourists. The most-visited spas were Vrnjačka banja (84 000 overnight stays) and Sokobanja (41 000 overnight stays).

Graph 10.4. Tourist overnight stays by selected tourist resorts, Q1 2019

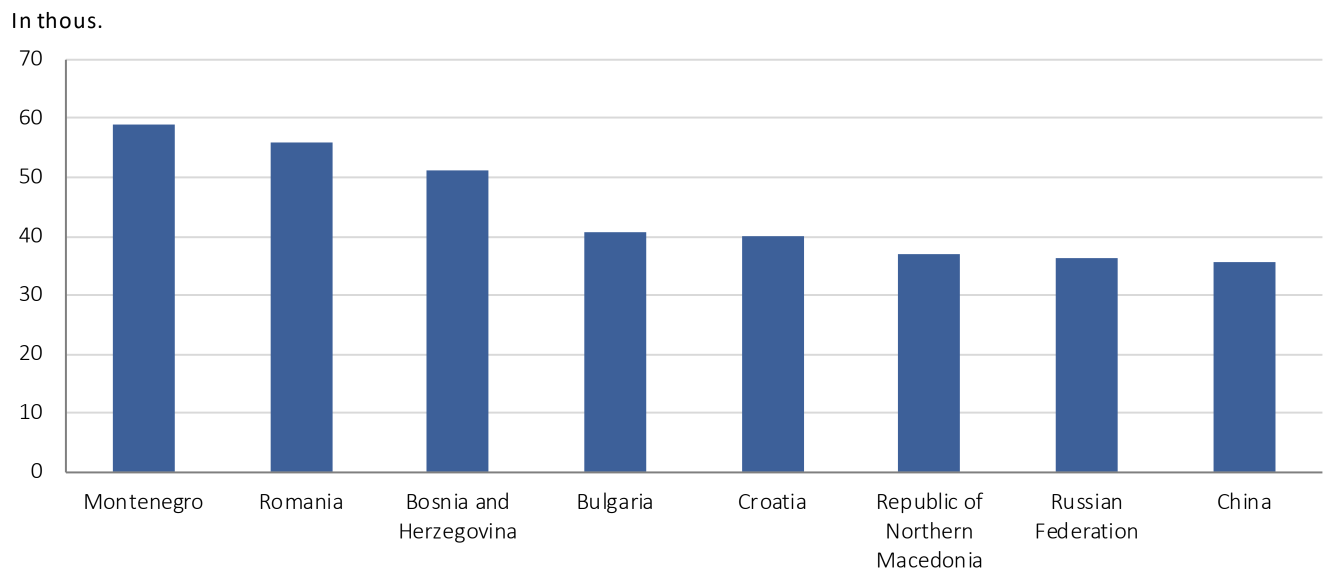


10.3. Country of origin of foreign tourists

In 2019, foreign tourists from about fifty different countries visited Serbia.

Most nights were spent by visitors from the following countries – Montenegro, Romania, Bosnia and Herzegovina, Bulgaria, Croatia, Republic of Northern Macedonia, Russian Federation and China. The visitors from these countries spent 51.8% nights, out of the total number of foreign tourist overnight stays in the first three months of 2019 (of which visitors from the countries of the former SFRY, 27.3%).

Graph 10.5. Tourist overnight stays by countries from which they came, Q1 2019



11. Household Budget Survey

The total income in cash and in kind in the first quarter of 2019 increased by 5.4%, compared with the same quarter of the previous year, while the total household consumption in the same period was 3.8%.

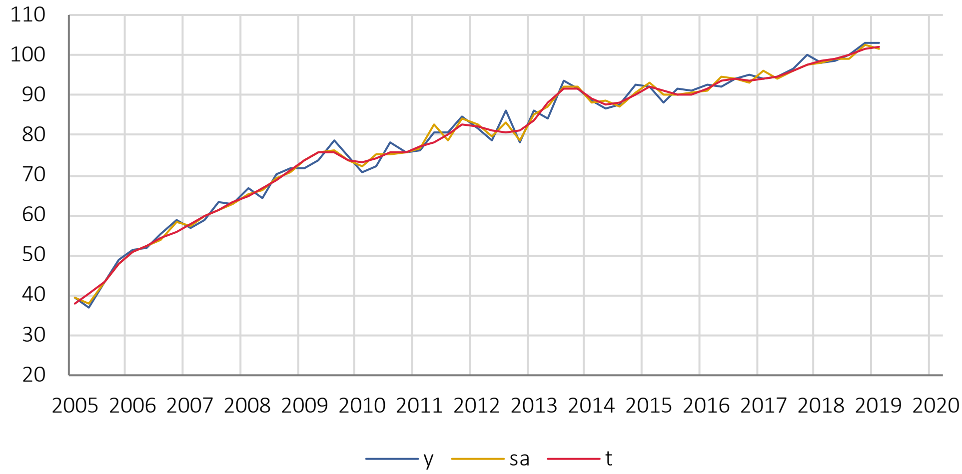
In relation to the previous quarter, Q4 2018, the total income in cash and in kind as well as the total household consumption was up by 0.1%.

Table 11.1. Value of income in cash and in kind and individual household consumption, quarterly indices (%)
(comparisons with the same period of the previous year)

	2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Income in cash and in kind	101.5	102.6	102.9	105.0	104.0	104.4	103.4	103.3	105.4
Individual household consumption	101.2	102.2	102.6	104.3	103.7	104.2	103.3	103.0	103.8

11.1. Income in cash and in kind

Graph 11.1. Components of time series of income in cash and in kind, indices
(y – original series, sa – series with seasonal component excluded,
t – trend-cycle component, average 2017 = 100)

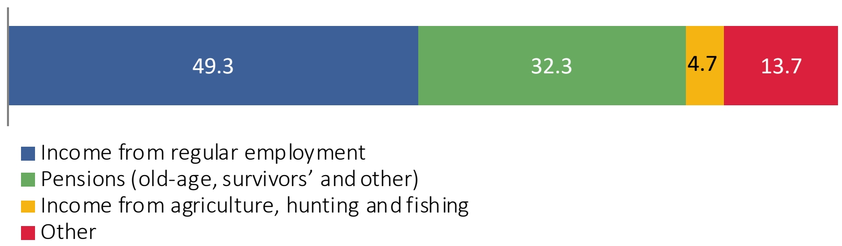


Income in cash and in kind shows an increasing tendency – in Q1 2019 the trend component was by about 2% about the average of the previous year. In the short-term, a fall of 1.0% of the seasonally adjusted index was registered, compared with the previous quarter.

In the first quarter of 2019, the average monthly income in cash and in kind per household amounted to RSD 65 872 and, compared with the previous, fourth quarter of 2018, it saw a nominal increase of 0.1%, while in relation to the same quarter of the previous year (Q1 2018) a nominal increase of 5.4%.

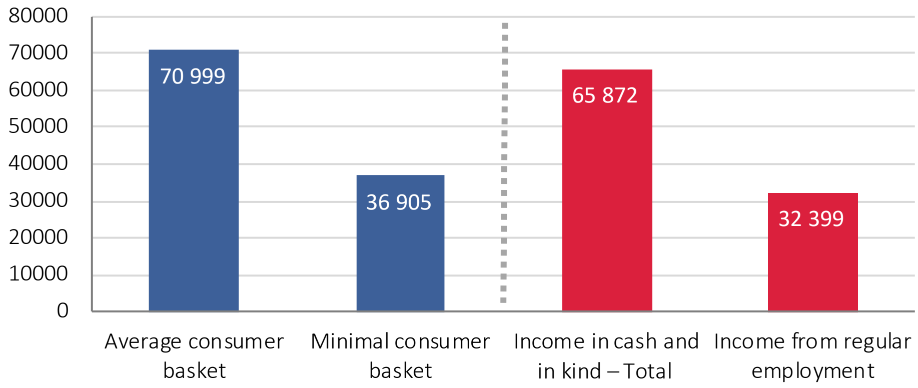
11. Household Budget Survey

Graph 11.2. Structure of income of households (%)



In the structure of income that household had available in the first quarter of 2019, income from regular employment registered the highest share (49.3%), followed by income from pensions 32.3% and income from agriculture (4.7%). Other categories (eight) participate altogether with 13.7%.

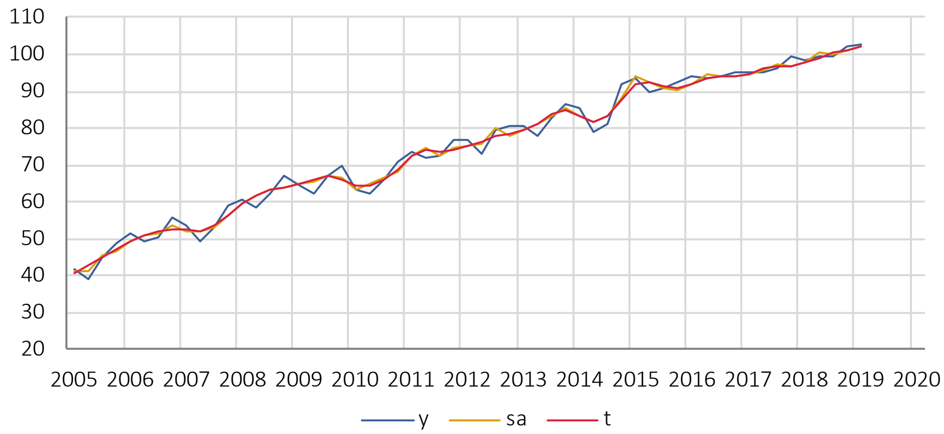
Graph 11.3. Ratio of the average and minimal consumer basket and the income in cash and in kind (RSD)



Realised income in cash and in kind in the first quarter of 2019, (RSD 65 872) covers the minimal consumer basket with 178.5%, and the average consumer basket with 92.8%.
Income from regular employment (RSD 32 399) that a household had available could cover the minimal consumer basket with 87.8%, and the average one with 45.6%.

11.2. Individual consumption expenditure of households

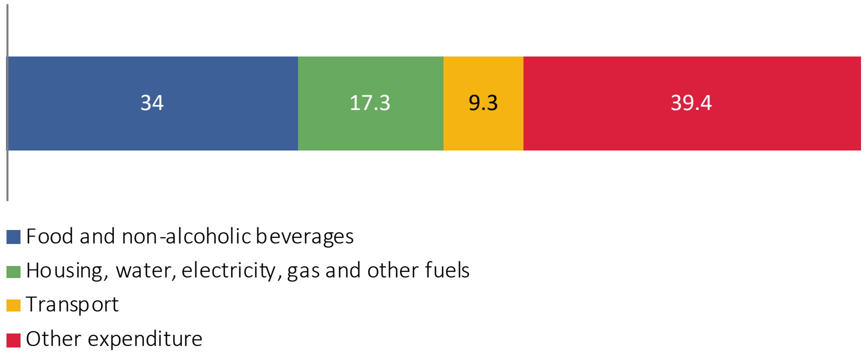
Graph 11.4. Components of time series of individual household consumption, indices
(y – original series, sa – series with seasonal component excluded,
t – trend-cycle component, average 2017 = 100)



With the increasing tendency of about 2% above the average of the previous year, individual household consumption in Q1 2019, keeps going up. In addition to the increasing long-term trend there is also a short-term growth of 0.8% of the seasonally adjusted index, compared with the previous quarter.

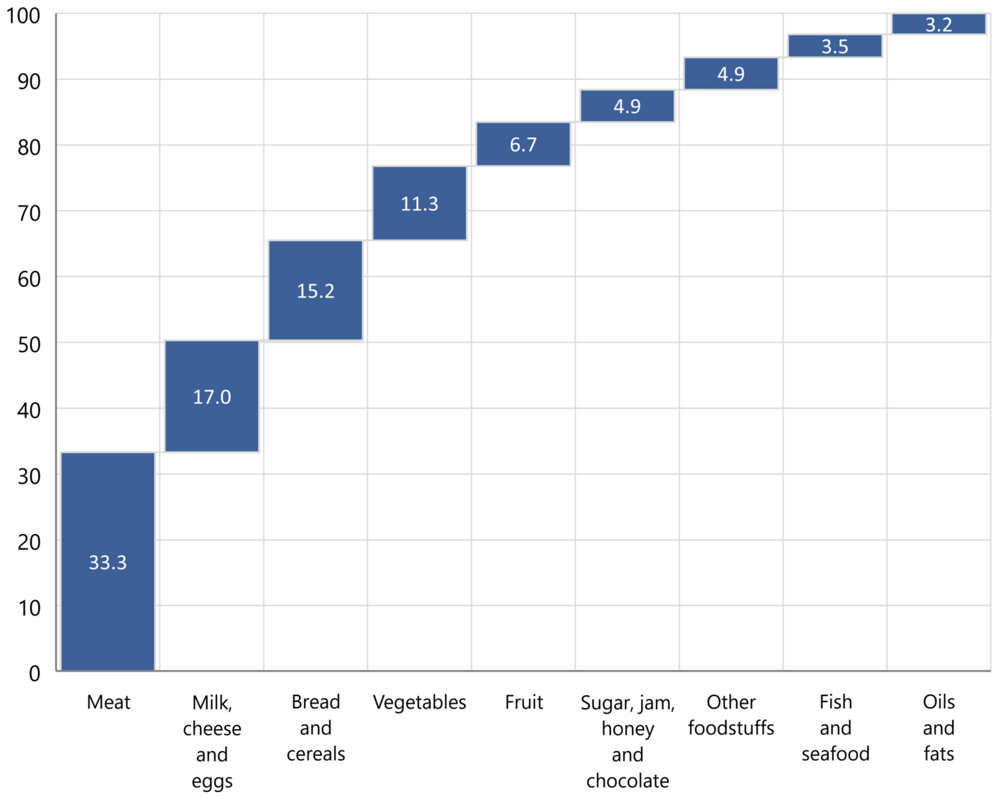
Individual consumption expenditure of households in the first quarter of 2019 amounted to RSD 66 064, and, when compared with the previous, fourth quarter of, it saw a nominal increase of 0,1%, and in relation to the same quarter of the previous year (Q1 2018) a nominal increase of 3.8%.

Graph 11.5. Structure of expenditure for food for households (%)



In the structure of individual consumption in Q1 2019 expenditure for Food and non-alcoholic beverages was the largest (34.0% of family budget), followed by Housing, water, electricity, gas and other fuels, with a share of 17.3% and expenditure for Transport, 9.3%. The other categories (nine) constitute the remnant 39.4% of consumption and participate with less than 10% in the total household consumption.

Graph 11.6. Structure of expenditure for food for households (%)



Within the division food and non-alcoholic beverages, an average household spends most for (33.3%), milk, cheese and eggs (17.0%) and bread and cereals (15.2%).

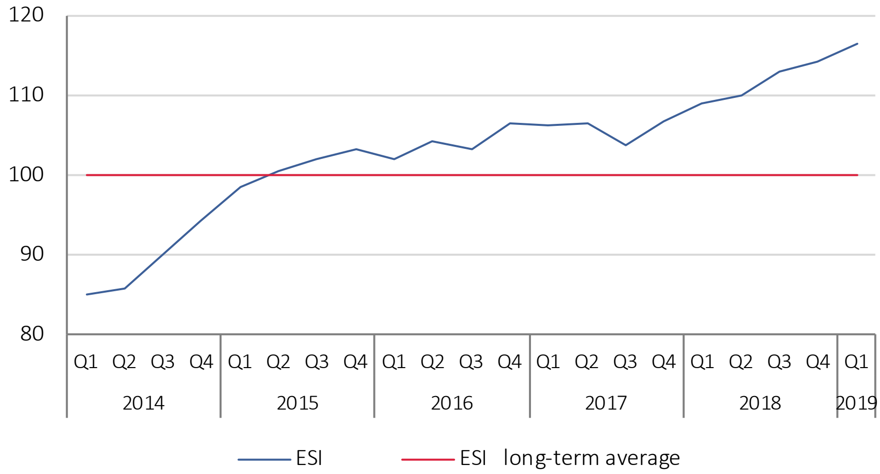
12. Economic sentiment indicator

12.1. Economic sentiment indicator

Economic Sentiment Indicator – *ESI*[9] is a composite indicator which purpose is to present producers' and consumers' attitudes towards economic movements and economic stability. This indicator is used to assess economic situations, make flash estimates, for scientific and analytical use, as well as for international comparisons. Consequently, economic subjects' expectations are indicative of changes in economic movements, which contribute considerably to creating economic policies.

ESI has been developed by the General Directorate for Economic and Financial Affairs of the European Commission. It is obtained through five different surveys of producers and consumers, which attitudes provide a reliable indication of economic movements, based on which confidence indicators are created. Confidence indicators of the analysed sections are weighted in order to reflect the best way possible their influence on economic activity – manufacturing 40%, service activities 30%, household consumption 20%, construction 5% and retail trade 5%. A value of *ESI* index exceeding 100 indicates an improvement of economic activity, while that below 100 suggests decline.[10]

Graph 12.1. Economic Sentiment Indicator (%)
(seasonally adjusted data)



Economic Sentiment Indicator in Serbia in the first quarter of 2019 reached a value of 116.5, which is an increase of 2.3 pp, compared with the previous quarter. The value of the indicator reflects on optimistic expectations in almost all the sections, first of all in services where an increase of 2.9 pp, then in the sectors of consumption with an increase of 1.7 pp, construction 1 pp. and retail trade where the growth was 0.5 pp. The expectations deteriorated only in the section of manufacturing (-1.2 pp.).

Table 12.1. Confidence indicators by sections and Economic Sentiment Indicator – increase in relation to long-term average (%)[11]

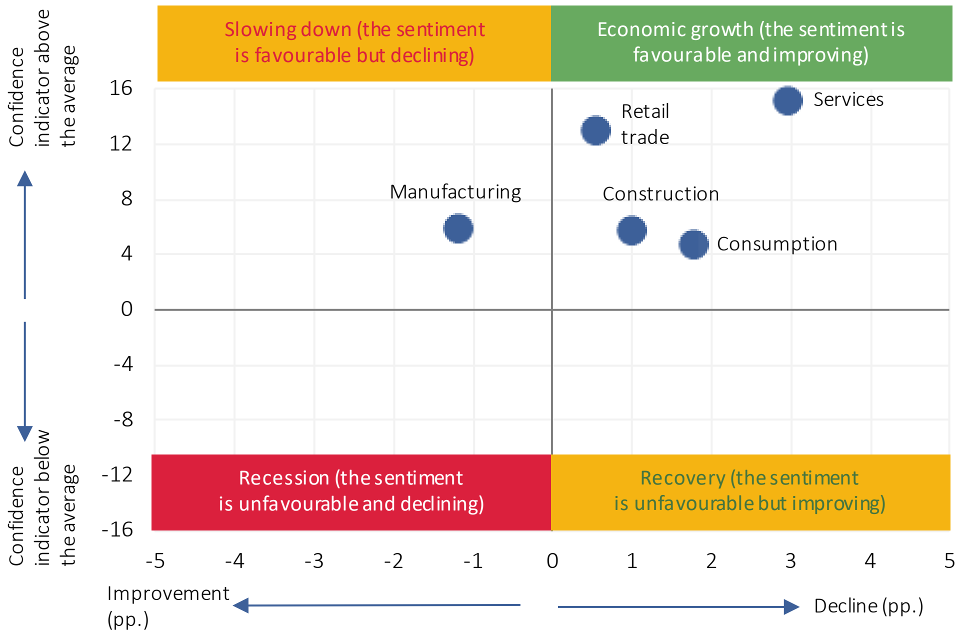
Confidence indicators	Minimum		Average	Maximum		2018				2019
	Date	Value		Date	Value	Q1	Q2	Q3	Q4	Q1
Manufacturing	Q1 2014	0.3	5.1	Q1 2015	7.6	5.7	6.9	7.3	7.1	5.9
Services	Q4 2013	-4.8	9.2	Q2 2016	16.5	13.1	11.8	10.9	12.3	15.2
Retail trade	Q2 2014	2.0	9.2	Q2 2018	14.1	10.7	14.1	12.8	12.5	13.0
Construction	Q3 2013	-41.4	-16.5	Q1 2019	5.8	-4.4	0.3	0.7	4.8	5.8
Consumption	Q4 2014	-19.7	-9.4	Q1 2019	4.8	-0.7	-1.1	3.6	3.1	4.8
Economic Sentiment Indicator	Q4 2013	82.5	100.0	Q1 2019	116.5	109.0	109.9	113.0	114.2	116.5

[9] Source: European Commission, processing: Statistical Office of the Republic of Serbia.

[10] More on the methodology at: https://ec.europa.eu/info/sites/info/files/bcs_user_guide_en_0.pdf

[11] Quarterly data represent quarterly average.

Graph 12.2. Economic climate tracer

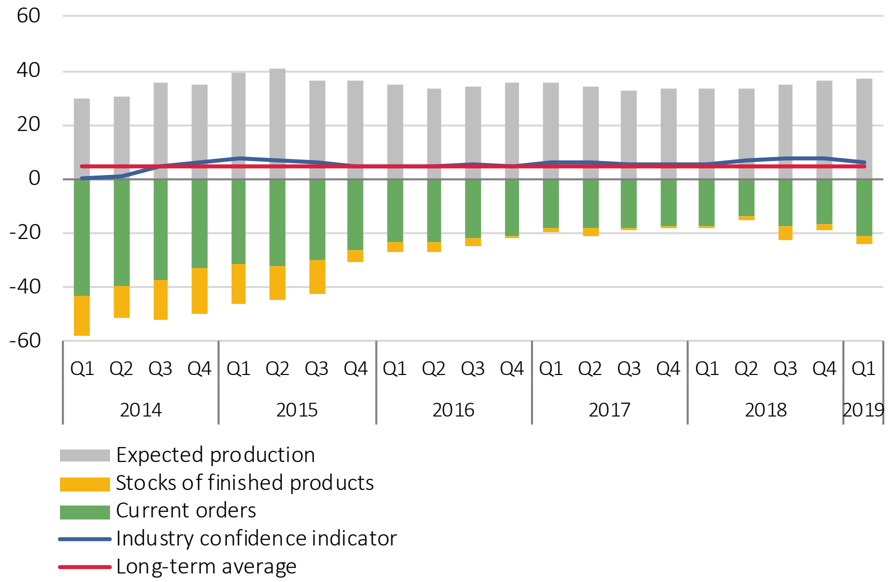


Economic climate tracer, created on the basis of seasonally adjusted confidence indicators, indicates that except for the section of manufacturing, which is in the phase of slowing down, where the economic climate is favorable but with a declining tendency, the other sections record economic growth (expansion), with an economic climate above the average and improving tendency.

12.2. Industry confidence indicator

Industry confidence indicator includes the responses of economic subjects for contracted orders, expected production and stocks of finished products.

Graph 12.3. Industry confidence indicator (%)
(seasonally adjusted data)



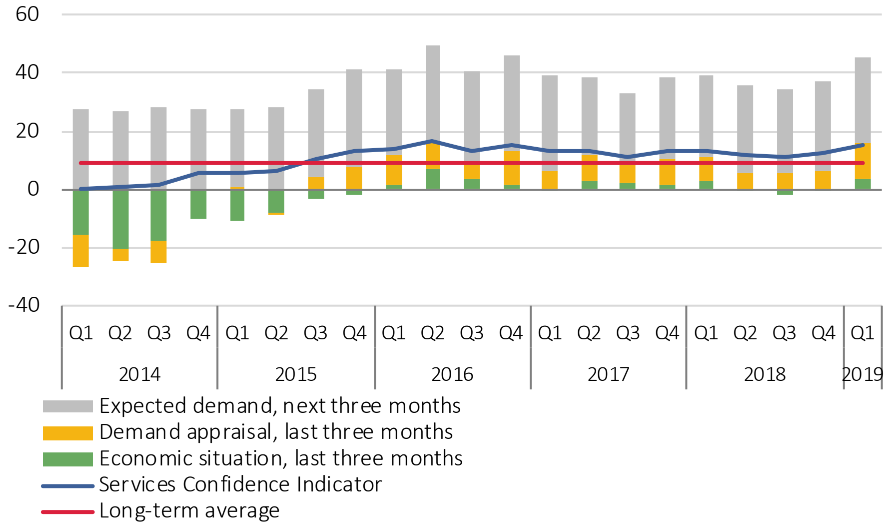
Industry confidence indicator - ICI, after reaching the maximum value in the first quarter of 2015 (7.6%), varied around the lowest values and fell to 5.9%, or 1.2 ппр. less than in the previous quarter, but still at the level of long-term average. Despite optimistic expectations of businessmen as to the movements of expected production (growth by 1 ппр.), the appraisal of the growth of stocks of finished products and current orders is still negative.

12. Economic sentiment indicator

12.3. Services confidence indicator

The survey in services is made of questions on the economic situation, current and expected demand for services.

Graph 12.4. Services confidence indicator (%)
(seasonally adjusted data)

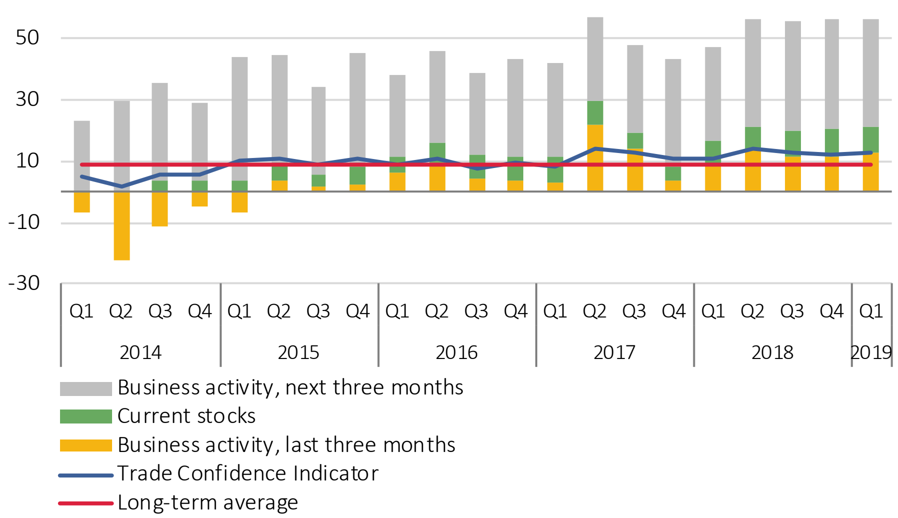


Services Confidence Indicator - SCI still has an increasing trend from the beginning of last year and the first quarter of 2019 and with a value of 15.2% exceeds by 3.3 pp. the value from the previous quarter, which is by 6.2 pp. above the long-term average. all three components of this indicator see a growth, and the growth of consumption expectations is dominant as to demand in the last three months (6,4 pp.). It can be seen that the increase in salaries and wages in the public sector influenced to a certain extent the expectations within the section of services.

12.4. Trade confidence indicator

The survey in retail trade is made of questions on the current business activity of enterprises and stocks.

Graph 12.5. Trade confidence indicator (%)
(seasonally adjusted data)

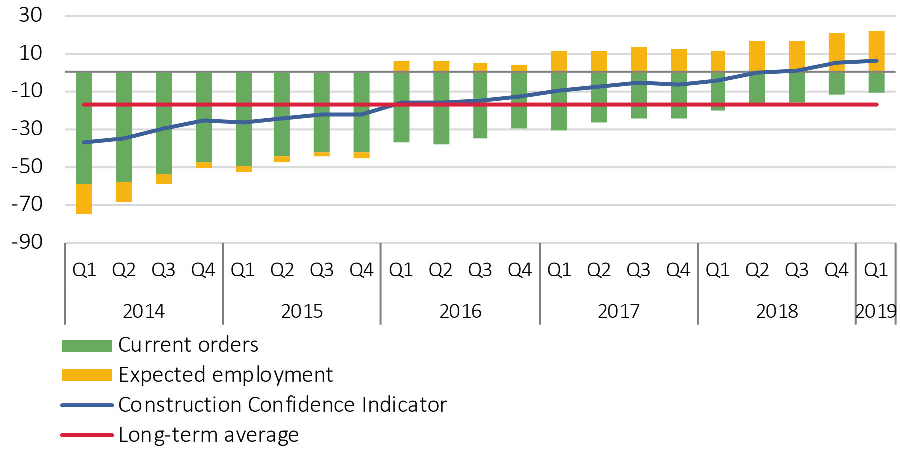


Trade confidence indicator _ TCI in the first quarter of 2019 grew by 0.3 pp., by 3.8 pp. above long-term average. While the attitudes are optimistic as to the current business activity and record a growth of 1.3 pp., a slight fall of expectations is evident regarding the trends of the business activity in the next three months (- 0.4 pp.), as well as regarding stocks (- 0.6 pp.).

12.5. Construction confidence indicator

The survey in construction is made of questions on contracted orders and expected employment.

Graph 12.6. Confidence construction indicator (%)
(seasonally adjusted data)

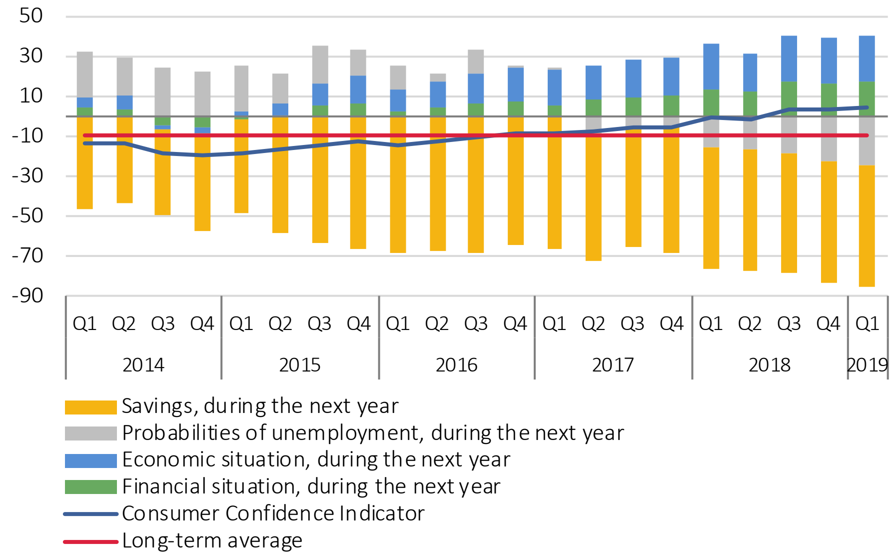


Construction confidence indicator – CCI in the first quarter of 2019 recorded a growth of + 1 pp., exceeding long-term average by 22.3 pp. Both components of the indicator resulted in an increase in relation to the previous quarter – expectations towards employment went up by 1.1 pp., as wall as current orders, which saw a growth of 1 pp. – despite their constant negative appraisal.

12.6. Consumer Confidence Indicator[12]

The survey on household consumption is made of questions on household financial situation, overall economic situation, expectations as to the movement of the number of unemployed persons and household savings.

Graph 12.7. Consumer Confidence indicator (%)
(seasonally adjusted data)



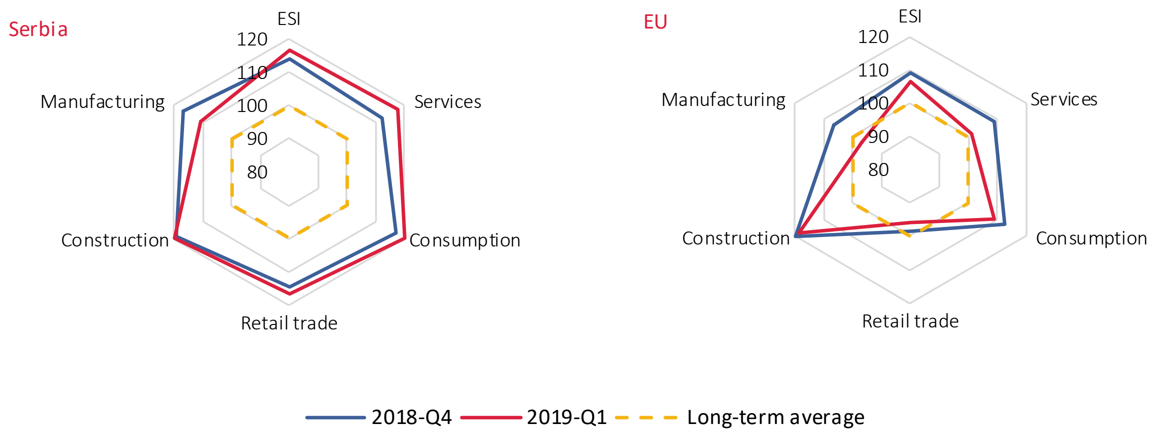
Consumer confidence indicator - CCI in the first quarter of 2019 grew by 2 pp. in relation to the previous quarter, exceeding by 14 pp. long-term average. Expectation growth of 1 pp. as to economic and financial situations was recorded, while those towards savings and unemployment are still negative.

[12] The methodology for the calculation of the Consumer Confidence Indicator has been modified by the European Commission, and consequently the data have been revised.

12.7. Economic Sentiment Indicator in the European Union

Most of the EU countries recorded a decline of economic sentiment in the first quarter of 2019 (compared with the previous quarter), thus ESI saw a fall (from 106.5) by 2.5 pp. The biggest fall of expectations in the EU was seen in the sections of manufacturing (9.9 pp.) and services (7.6 pp.).

Graph 12.8. Economic sentiment indicators



How to interpret the tracer?

The tracer scale of the graph ranges from 80 to 120 (average = 100). The most recent quarterly outcomes (Q1 2019) are compared with the previous quarterly outcomes (Q4 2018) and long-term average (= 100) of the corresponding series of confidence indicators. Developments far from the centre reflect confidence indicator improvement, and close to the centre a decline.

13. Regional economic asymmetries

The starting point in realizing various aspects of regional asymmetries is the status of cities and municipalities of Serbia according to Regulation on establishing List of Regional Development and Local Government Units for 2014 (Official Gazette of RS, no 104/2014). In compliance with the Regulation, excluding Beogradski region that comprises no municipality with the status of undeveloped area, in other three regions, number and size of undeveloped municipalities varies – Region Vojvodine has only one municipality in the group of extremely underdeveloped (out of 46 municipalities), Region Južne i Istočne Srbije has even 30 (out of total of 53), and in Region Šumadije i Zapadne Srbije, such status is recorded in 13, out of 53 municipalities. On the other hand, there is no municipality in Region Vojvodine with the status of devastated municipality (devastated means that development level is below 50% of the Republic average – see Glossary), while in Region Šumadije i Zapadne Srbije, the mentioned status is recorded in three municipalities, and in Region Južne i Istočne Srbije, even 16 municipalities.

Unequal economic development in Serbia in the last several decades has contributed to deeper, already existing territorial inequalities. Regional polarization is apparent at several levels – undeveloped area, developed centre and insufficiently developed periphery. Regional disproportions – expressed in economic, social, demographic and infrastructure indicators – reflect characteristics of economic and social system of the country.

- Gross domestic product

Regional gross domestic product presents primary statistical indicator for estimating economic performances of the region and effectiveness of regional policies and programs directed to decreasing the gap among the regions.

Out of total GDP in 2017, observed by level of NSTU 2 regions, the greatest realized GDP was in Beogradski region (40%), followed by Region Vojvodine (27%), Region Šumadije i Zapadne Srbije (19%) and Region Južne i Istočne Srbije (14%).

Knowing that Beogradski region covers 3.7% of the area inhabited by 24% of the population of Serbia, it is clear that it is also the region with the highest GDP per capita (1 139 000 RSD / per capita, i.e. 68.1 % above the republic average or almost three times higher than in Region Južne i Istočne Srbije). Other regions record GDP per capita under the average, i.e. Region Vojvodine -0.5%, Region Šumadije i Zapadne Srbije -30.5% and Region Južne i Istočne Srbije -36.3%.

- Average salaries and wages

Level of regions' development, measured by average net salaries and wages varies in ratio 1.5:1, i.e. the highest salaries and wages are recorded in Beogradski region, and lowest ones in Region Šumadije i Zapadne Srbije. Average net salaries and wages in the first quarter 2019 in Beogradski region amounted to RSD 66 914, or 124.5% of RS average (RSD 53 739), in Region Vojvodine, they were insignificantly below RS average (RSD 50 560, or 94.1% of RS average), while in Region Južne i Istočne Srbije and Region Šumadije i Zapadne Srbije, they were about 87% of the Republic average (RSD 45 690 and RSD 47 251, respectively).

In 57 municipalities, average net salaries and wages were below 80% of the Republic average, i.e. in particular Belgrade municipalities, average salaries and wages were double relative to municipality of Svrljig (with the lowest average salaries and wages of RSD 35 394).

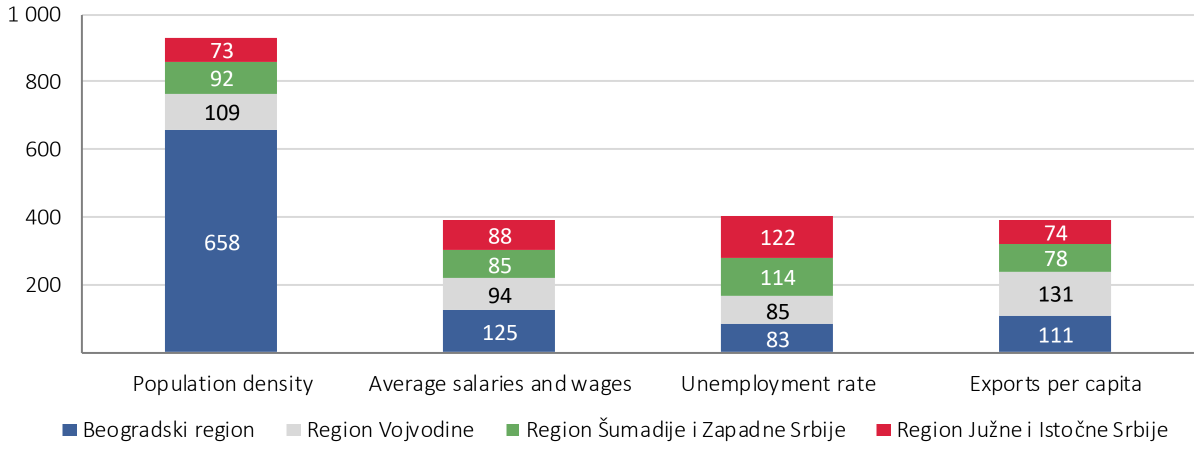
- Labour market

The correlation of unemployment rate and development level of the region is very high, and in accordance with the mentioned, Region Juzne I Istocne Srbije, with unemployment rate of 14.8% in the first quarter 2019, almost 22% exceeds the average of Serbia (12.1%). On the other hand, in Beogradski Region, unemployment rate was the lowest, 10%, i.e. 17% below the national average. Referring to employment rate, it is the highest in Beogradski region (50.3% or 6.1% above the average of Serbia), while in Region Južne i Istočne Srbije, noted was the lowest employment rate of 44.3%, or 7% below the Republic average.

13. Regional economic asymmetries

In the first quarter 2019, Region Vojvodine participated with 27% in total employment and 22% in total unemployment (according to Labour Force Survey), while Beogradski region had the share of almost 26% in total employment and 21% in total unemployment. In Region Šumadije i Zapadne Srbije, there was about 28% of employed in total number of the employed, also recording almost a third part of total unemployed population. Region Južne i Istočne Srbije participated with 20% in total employment of Serbia and with almost 25% in total unemployment. The greatest absolute increase in the number of the employed relative to the same period 2018 were recorded in Region Vojvodine (38 500), as well as in Beogradski Region (35 300).

Graph 13.1. Disproportions at the level of regions in Serbia (%), level of RS = 100%
(January – March 2019)



- Export activity

In contrast to other indicators, in the first quarter 2019, Beogradski region was not on the first place regarding total export of Serbia (share of 27%), primarily due to dominant services in Belgrade economy (most of services is provided for domestic and not for foreign markets). Region Vojvodine is on the first place with the share of 34.9% in export, followed by Region Šumadije i Zapadne Srbije (21.4%) and region Južne i Istočne Srbije (16.9%). Export per capita reflects regional asymmetries – Region Vojvodine records the export of EUR 764 per capita and it is by 31% above the Republic average and it is almost double value if compared with the export value per capita in region Južne i Istočne Srbije (EUR 433), which is by 26% below the average of the Republic.

- Demographic structure[13]

According to the last available data, population density in Beogradski region is by 6.5 times greater than average population density in Serbia, while in Region Južne i Istočne Srbije, population density was the lowest – 27% below the Republic average. Although all regions participate relatively equally in total population of Serbia, interregional differences are particularly apparent. For example, in six towns in Region Vojvodine, lives even 47% of population. However, the most obvious population inequality is in other two regions: Region Šumadije i Zapadne Srbije comprises 8 towns in that 45% of total population of the Region lives, while in 13 undeveloped municipalities, only 13 % of population lives. This ratio is even more noticeable in Region Južne i Istočne Srbije, as 56% of population lives in 9 cities, and only 31% of population lives in even 30 undeveloped municipalities. Additionally, due to economic migrations, number of population in Beogradski region is constantly increasing (by 1.7% between 2011 and 2017), while the number of population in other three regions is constantly decreasing. Simultaneously, it means that differences in population density will be even greater as population in Region Južne i Istočne Srbije is becoming more and more fragmented, while population density in Beogradski region becomes increasingly denser.

[13] Based on estimated population number for 2017.

13. Regional economic asymmetries

- Transport infrastructure

In the Republic of Serbia, there are huge regional and interregional differences regarding infrastructure equipment (transport, telecommunication and water management, i.e., accompanying supra structures). In roads' quality, telecommunication and modern living conditions, differences are, first of all, manifested in underdeveloped south area and more developed north area of Serbia. The unsatisfactory condition of the road network is particularly evident in the municipal (local) roads, necessary for the daily functioning, development and activation of municipalities and settlements. This is clearly indicated by the fact that 41 municipalities have an out-of-band participation of local roads with a modern roadway, while 12 municipalities account for less than 20%, which are actually undeveloped and devastated areas facing the biggest developmental problems. Also, *the car renewal rate* (the number of cars registered for the first time in relation to the total number of registered cars) as an indicator of socio-economic inequalities at the regional level varies in 2018 from 6.5 in Region Južne i Istočne Srbije to 7.6 in the Beogradski region. The number of first-time registered cars compared to the number of inhabitants in the first quarter 2019 reflects a similar ratio, with Beogradski region leading up to 37% above the average of the Republic of Serbia versus Region Južne i Istočne Srbije, with only 72% of the national average.

Regional asymmetry is seen through the relation between the extreme (the highest and the lowest) values of the key indicators. For example, the highest density of population is recorded in Belgrade and exceeds 9 times the population density in Region Južne i Istočne Srbije, where it is the lowest (Table 13.1).

Table 13.1. Extreme values of regional asymmetry indicators

Indicators	Population density km^2, 2017	GDP/per capita 2017	Average net salaries and wages	Unemployment rate	Export per capita	Demographic emptying 2011–2017
Extreme values (the highest : the lowest)	9 : 1	2.6 : 1	1.5 : 1	1.5 : 1	1.8 : 1	(-5.7) : (+1.7)
	Beogradski region : Region Južne i Istočne Srbije	Beogradski region : Region Južne i Istočne Srbije	Beogradski region: Region Šumadije i Zapadne Srbije	Region Južne i Istočne Srbije : Beogradski region	Region Vojvodine : Region Južne i Istočne Srbije	Region Južne i Istočne Srbije : Beogradski region

Table 13.2. Indicators of regional development of Serbia (NSTU-2), level of RS=100%

	2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Beogradski region									
Average salaries and wages, RSD	126.5	125.5	125.7	124.7	122.0	121.6	122.3	123.1	124.5
Employment rate	105.4	103.1	101.7	104.3	106.0	106.0	103.3	106.1	106.1
Unemployment rate	90.4	102.5	105.4	97.3	89.9	84.9	90.3	77.5	82.6
Exports per capita, EUR	108.0	111.4	110.2	109.0	109.7	111.2	111.1	111.1	111.0
Number of first time registered passengers cars per 1000 inhabitants	123.1	146.3	131.7	133.3	134.4	147.6	133.2	134.4	136.5
Region Vojvodine									
Average salaries and wages, RSD	94.6	96.9	96.1	98.2	94.7	94.8	94.9	94.9	94.1
Employment rate	98.4	98.8	99.0	98.5	99.1	99.0	99.6	99.8	100.0
Unemployment rate	93.2	86.4	90.7	89.8	87.2	84.0	69.9	86.8	85.1
Exports per capita, EUR	126.4	122.5	123.6	123.7	125.8	127.7	132.4	136.4	130.9
Number of first time registered passengers cars per 1000 inhabitants	109.7	95.9	95.3	98.5	96.8	91.9	94.1	98.4	97.6

[1] Data refer to 2017.

Table 13.2. Indicators of regional development of Serbia (NSTU-2), level of RS=100% (continued)

	2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Region Šumadije i Zapadne Srbije									
Average salaries and wages, RSD	84.2	83.0	83.7	83.3	86.6	86.9	86.6	86.0	85.0
Employment rate	103.4	102.1	103.1	102.8	101.3	101.0	103.7	100.4	99.4
Unemployment rate	100.7	100.0	98.4	102.7	105.4	105.9	110.6	114.7	114.0
Exports per capita. EUR	93.9	90.8	85.3	86.4	84.8	86.6	79.1	76.5	77.5
Number of first time registered passengers cars per 1000 inhabitants	89.7	87.9	106.4	94.6	94.1	88.5	93.7	93.4	91.4
Region Južne i Istočne Srbije									
Average salaries and wages, RSD	86.9	86.7	87.0	85.3	89.0	89.5	88.8	88.2	87.9
Employment rate	92.1	95.6	95.2	93.1	92.0	93.2	92.3	92.8	93.5
Unemployment rate	117.8	112.7	109.3	111.6	123.6	131.1	134.5	123.3	122.3
Exports per capita, EUR	66.1	71.1	78.2	77.9	76.6	70.2	74.2	73.4	74.1
Number of first time registered passengers cars per 1000 inhabitants	74.4	68.1	61.1	70.5	72.0	70.7	77.5	72.1	71.9

Glossary

Classification of regions and local government units (municipalities) – according to the Regulation. The Regulation establishes the unique list of *regions*' development (that are by development levels classified as developed and insufficiently developed regions) and *municipalities,* classified in four groups and devastated areas. In the first group are municipalities with the development level above the Republic average; in the second group are municipalities with the development level of 80% - 100% of the Republic average, the third group comprises municipalities with the level of development of 60% - 80% of the average, while in the fourth group are extremely insufficiently developed municipalities, with the development level below 60% of the Republic average.

Devastated areas are municipalities from the fourth group with the development level below 50% of the Republic average (according to the data of the authority competent for statistics and finances tasks). Classification of the regions is performed on the basis of GDP value per capita in the observed region compared to Republic average, for the referent period. Developed regions are the regions that realize gross domestic product value above the Republic average, i.e.: 1) Beogradski Region; 2) Region Vojvodine. Insufficiently developed regions are the ones in which GDP value is below the Republic average, i.e.: 1) Region Šumadije i Zapadne Srbije; 2) Region Južne i Istočne Srbije. Additionally, status of insufficiently developed region refers to Region Kosovo I Metohija.

Demographic emptying is the term that depicts natural and mechanical population outflow in the specific geographic and administrative area.

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