



# Serbia 2011-13

Hedge fund view and global comparison



# Serbia 2011

Generous carry

Inflation passed its peak

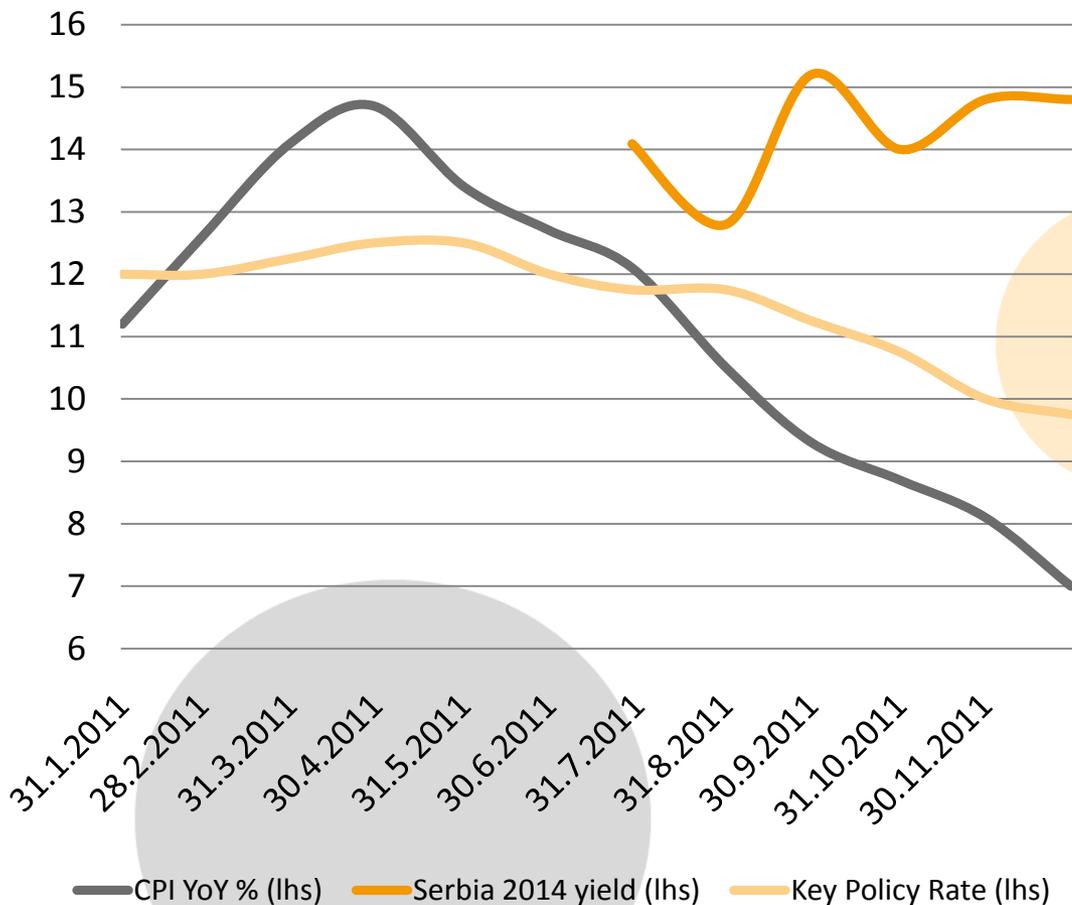
FDI

# Serbia in 2011



- Inflation has peaked in Serbia by 2Q 2011 and was set to decline to single digits.
- NBS started to cut rates
- By 2011 year end the inflation declined by 700bp, however bonds did not react.
- Why?
- Will 2013 be different?

### CPI, Key Policy Rate, SERBGB 2014





# Serbia 2012

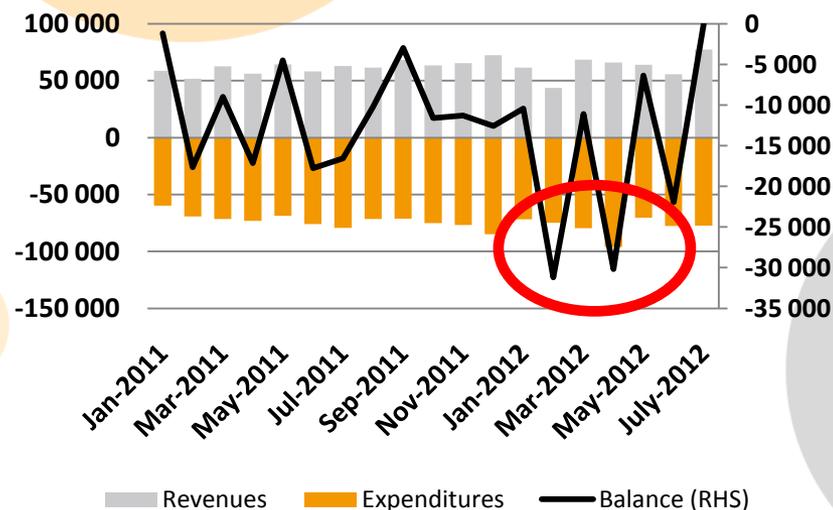
Year of two halves

# Q1 2012 – Tragic first half

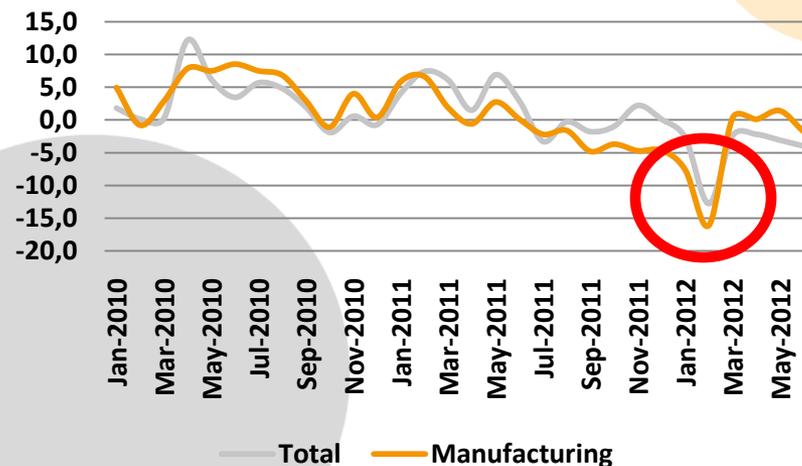


- A lot of negatives acted in same negative direction in Q1 2012.
- Manufacturing took a -15% dive in Winter, Smeredvevo steel works stopped working.
- Main export partner, the EU turned recession.
- Harsh winter period brought some industries to temporary halt and imports of energy commodities up thus pressured FX rate.

### Government Budget, RSD mn.



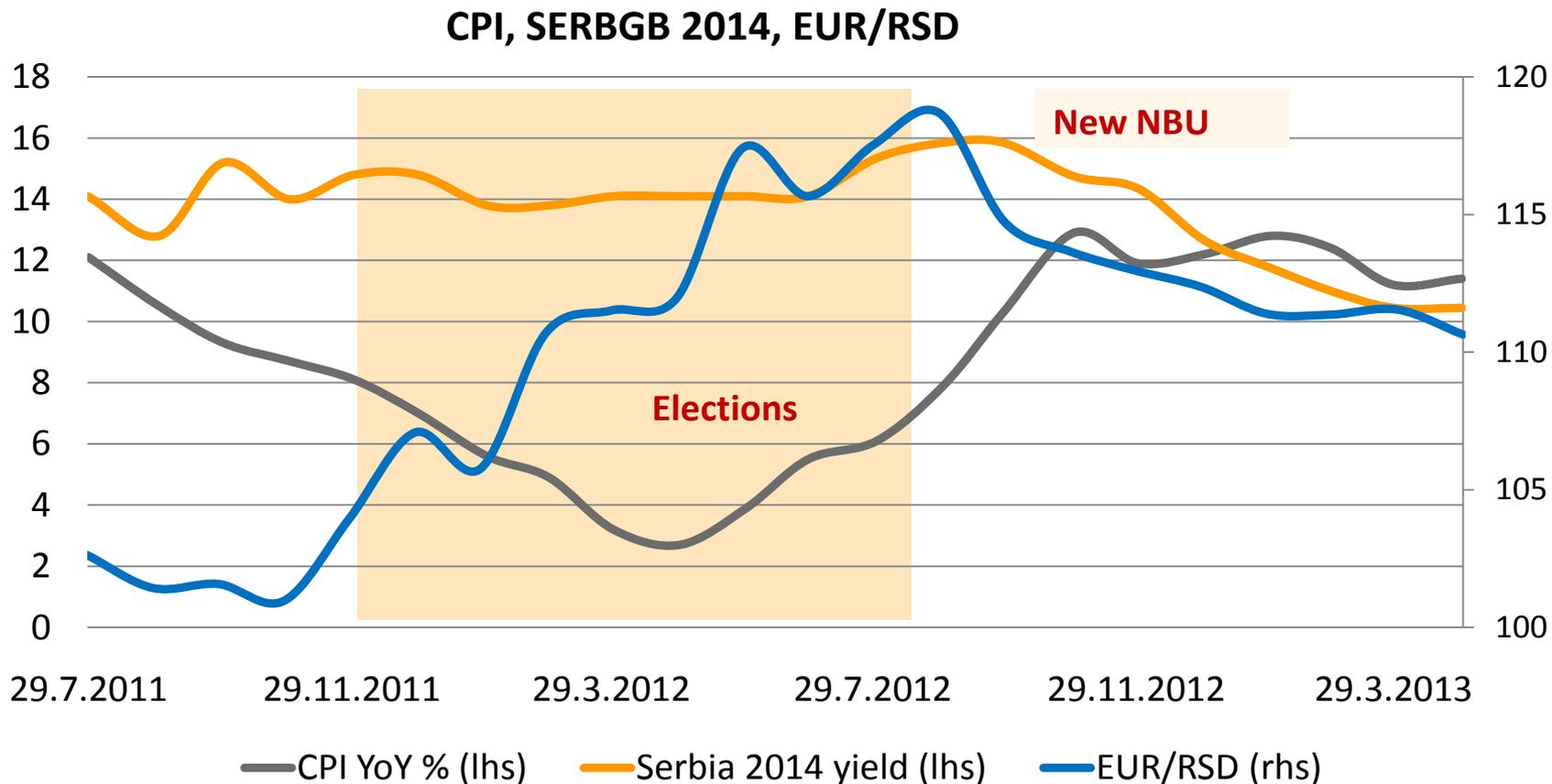
### Industrial Production, YoY %



# Q1 2012 – Tragic first half



- 15% loss to RSD; return of double digit inflation





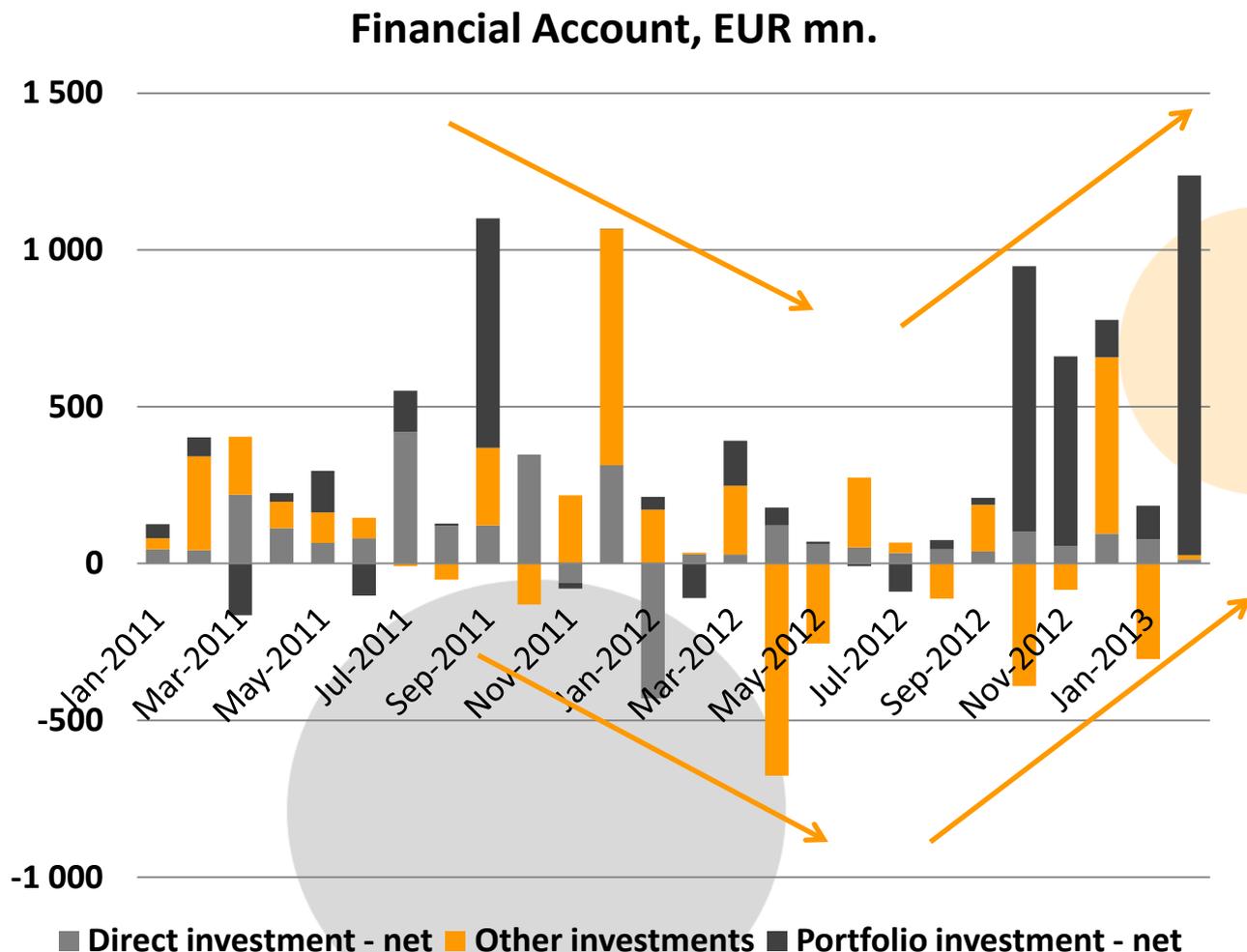
# Serbia 2013

versus recent past

# FDI and foreign RSD bond demand



- In 2012 FDI and portfolio investments took a pause ahead of elections.
- 2013, portfolio investment is back in unprecedented sizes.
- Will FDI come?

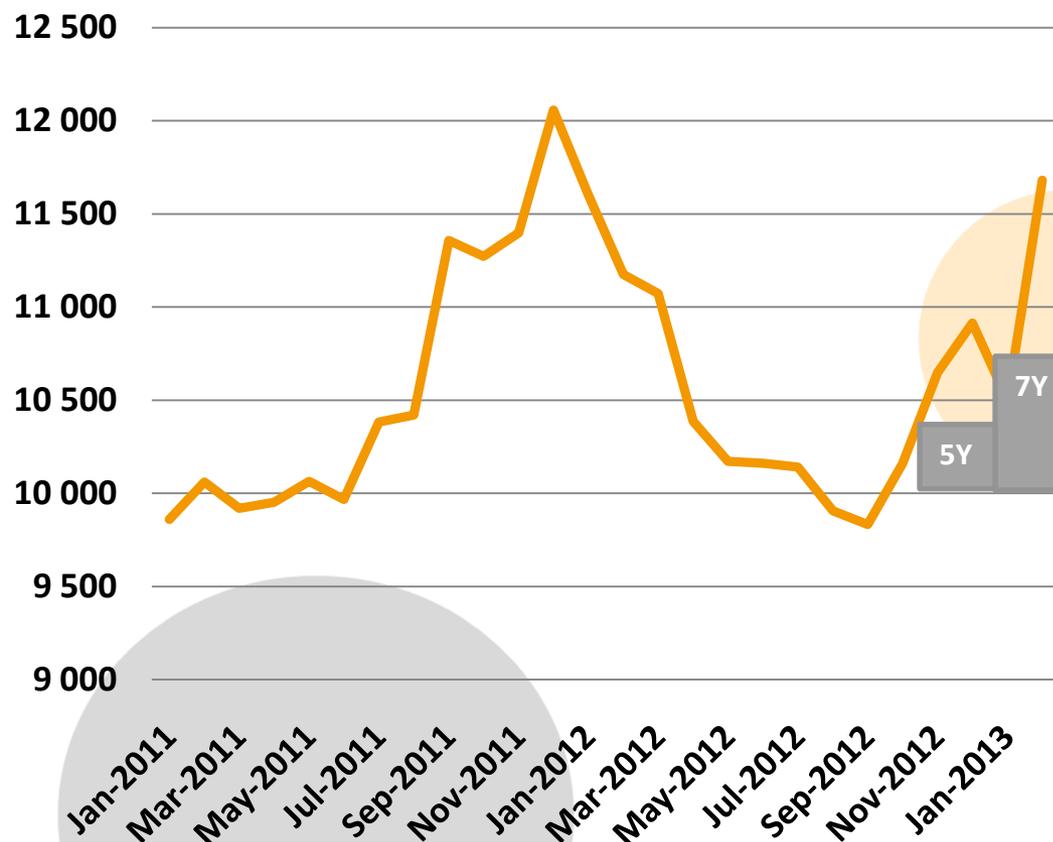


# Interventions and reserves



- In the early 2012 NBS first followed its policy of inflation targeting and intervened only in small sizes to “smooth excessive moves”
- Market players took a notice and pushed EUR/RSD towards 120 mark.
- NBS later stepped up interventions. Reserves decreased by 2 bln Euro Dec ‘11 to July ‘12.
- “New NBS” took steps to strengthen RSD.
- Reserves re-built mainly thanks to external borrowing

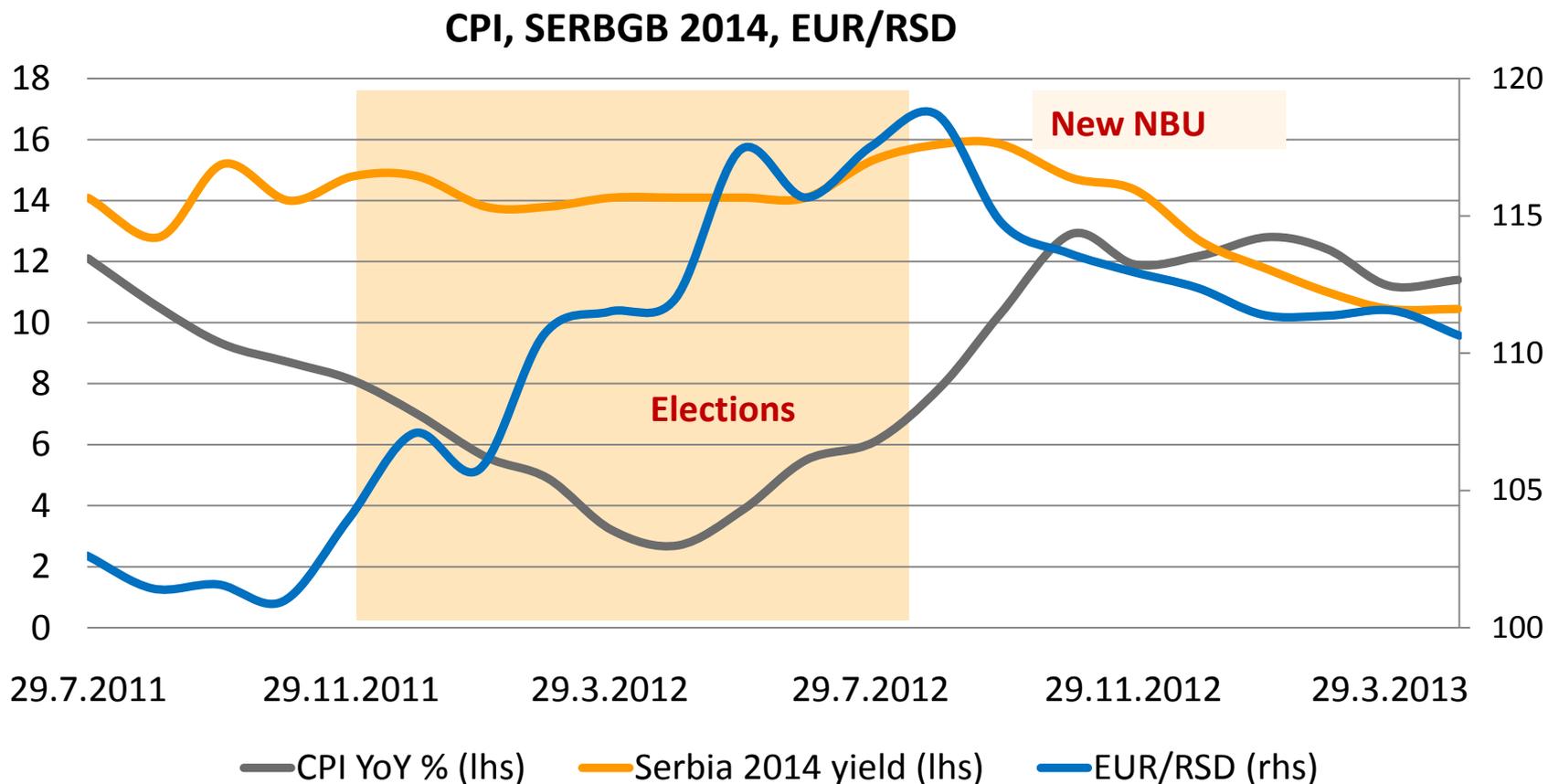
Foreign exchange reserves of NBS, Euro mn.



# Lot of optimism after too much pessimism



- 8-9% gains to RSD; inflation about to go down



# Budget deficit.

# Again?

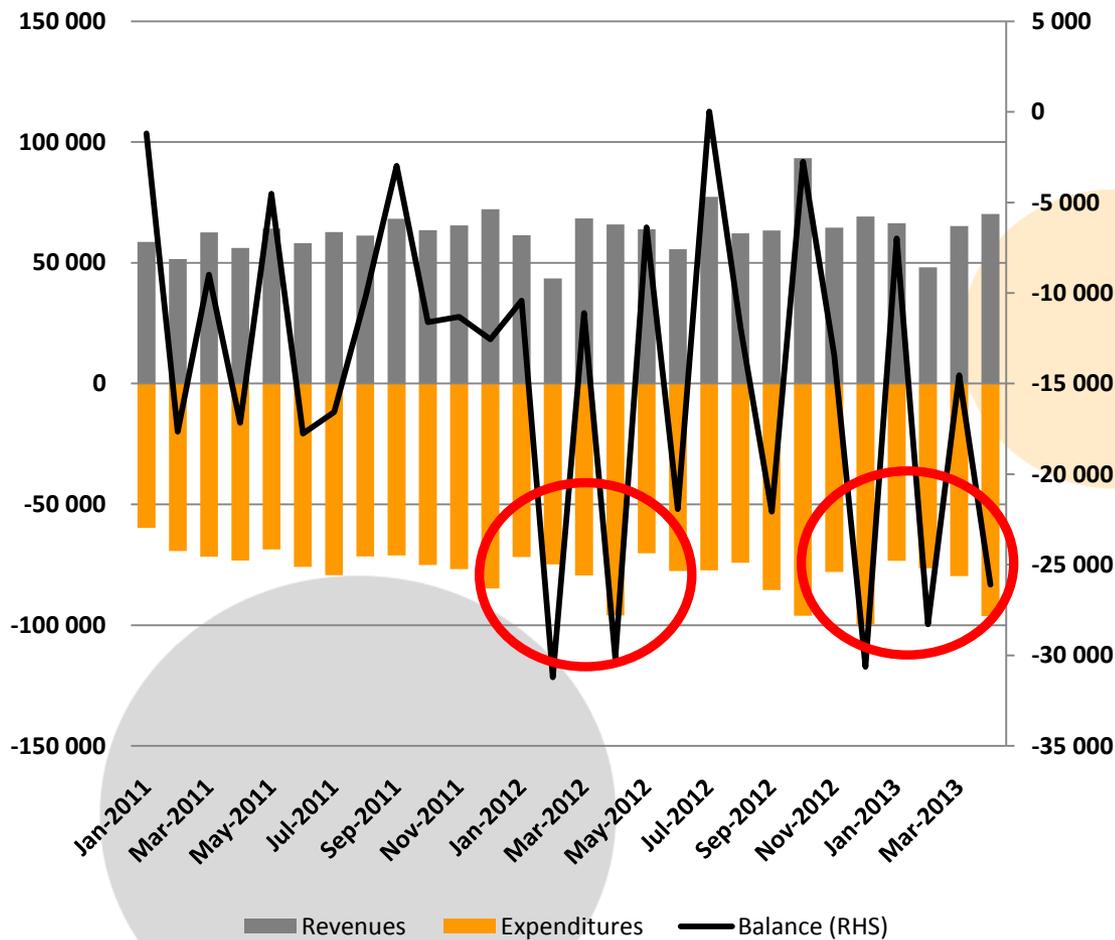


- Budget deficit got out of control in early 2012 pre election time, resulting in breach of self imposed 45% debt/gdp ceiling

- Who said things are better now? ;)

Budget deficit		RSD mn. (Min Fin)		
Last 6 month balance	Last 6 month year ago			Change
- 119 975	- 106 765			12%
Last 4 month balance	Last 4 month year ago			Change
- 75 912	- 82 903			-8%

Government Budget, RSD mn.

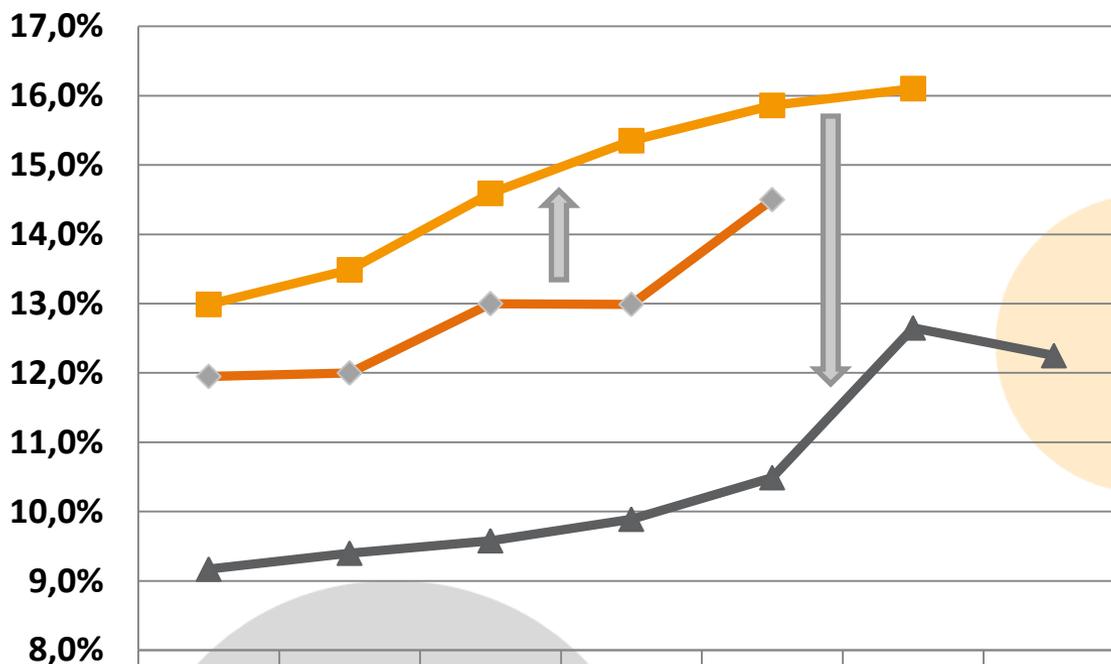


# RSD Yield curve. Pricing in too much?



- 2012 troubles shifted the whole curve up.
- 2013 today, is market pricing in too much?

Serbia RSD Yield Curve



	3M	6M	12M	2Y	3Y	5Y	7Y
5.9.2011	11,95%	12,00%	13,00%	12,99%	14,50%		
5.9.2012	12,99%	13,49%	14,59%	15,35%	15,86%	16,10%	
14.5.2013	9,17%	9,40%	9,58%	9,89%	10,49%	12,65%	12,25%



# Serbia

Comparison with high yielding  
local currency world

+conclusion (?)

# Comparing with local currency high yielders

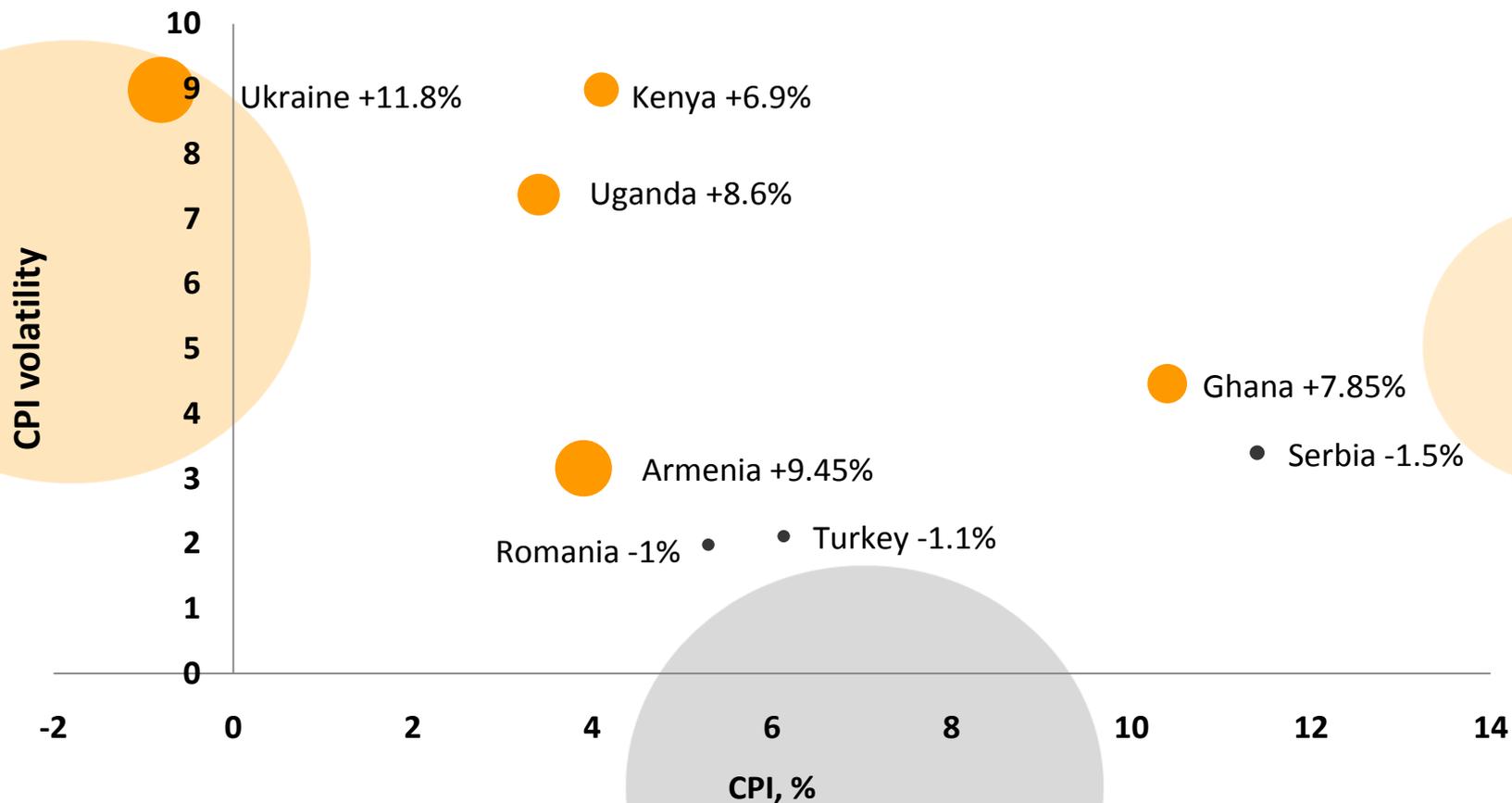


	5Y; Monthly rolling YoY			2-3Y where applicable		
	C/A as % of GDP, 2011	CPI weights - Food (%)	Last CPI YoY (%)	CPI stdev (perc.p.)	Nominal yield gov't bonds %	Real yield %
Armenia	-10,9%	54	3,9	3,2	13,4	9,5
Ghana	-9,2%	45	10,4	4,5	18,3	7,9
Kenya	-9,7%	36	4,1	9,0	11,0	6,9
Romania	-4,5%	35	5,3	2,0	4,3	-1,0
Serbia	<b>-9,2%</b>	<b>39</b>	<b>11,4</b>	<b>3,4</b>	<b>9,9</b>	<b>-1,5</b>
Turkey	-9,7%	24	6,1	2,1	5,0	-1,1
Uganda	-11,5%	49	3,4	7,4	12,0	8,6
Ukraine	-6,3%	50	-0,8	9,0	11,0	11,8

# High local currencies yields



## Local currency real yield vs. CPI



# Should I stay or should I go?



## Positives

- Kosovo
- EU
- Fiat
- Exports are up 22% YoY; C/A is improving (March '13)
- Fiscal consolidation package
- Investors keep hearing good news

## Negatives

- Political - The Serbian Progressive party, riding high in opinion polls, may trigger an early election to strengthen its position.
- Sovereign - The budget deficit is large. Public debt/GDP ~60% and rising interest payments.
- Currency – Dinar vulnerable to negative fallout from Greece and wider EU debt crises as well as crisis in Slovenia.

## Threat

- Currency – High foreign involvement in local RSD paper.

FORECASTS	Real GDP growth, % YoY		Consumer Prices, avg, % YoY		Budget Deficit, % GDP	
	2013	2014	2013	2014	2013	2014
Raffaisen	1,0	2,0	8,5	6,0	-4,5	-4,0
Hypo Alpe Adria	0,7	1,5	9,7	7,7	-5,3	-4,2
IMF	2,0	2,0	9,6	5,4	-5,5	-4,7
Erste	0,5	2,5	10,0	4,1	-5,0	-4,5
EU Commission	1,7	1,9	8,4	5,7	-4,5	-4,1
<b>Average</b>	<b>1,2</b>	<b>2,0</b>	<b>9,2</b>	<b>5,8</b>	<b>-5,0</b>	<b>-4,3</b>

# 2 years history of what has Metatron done

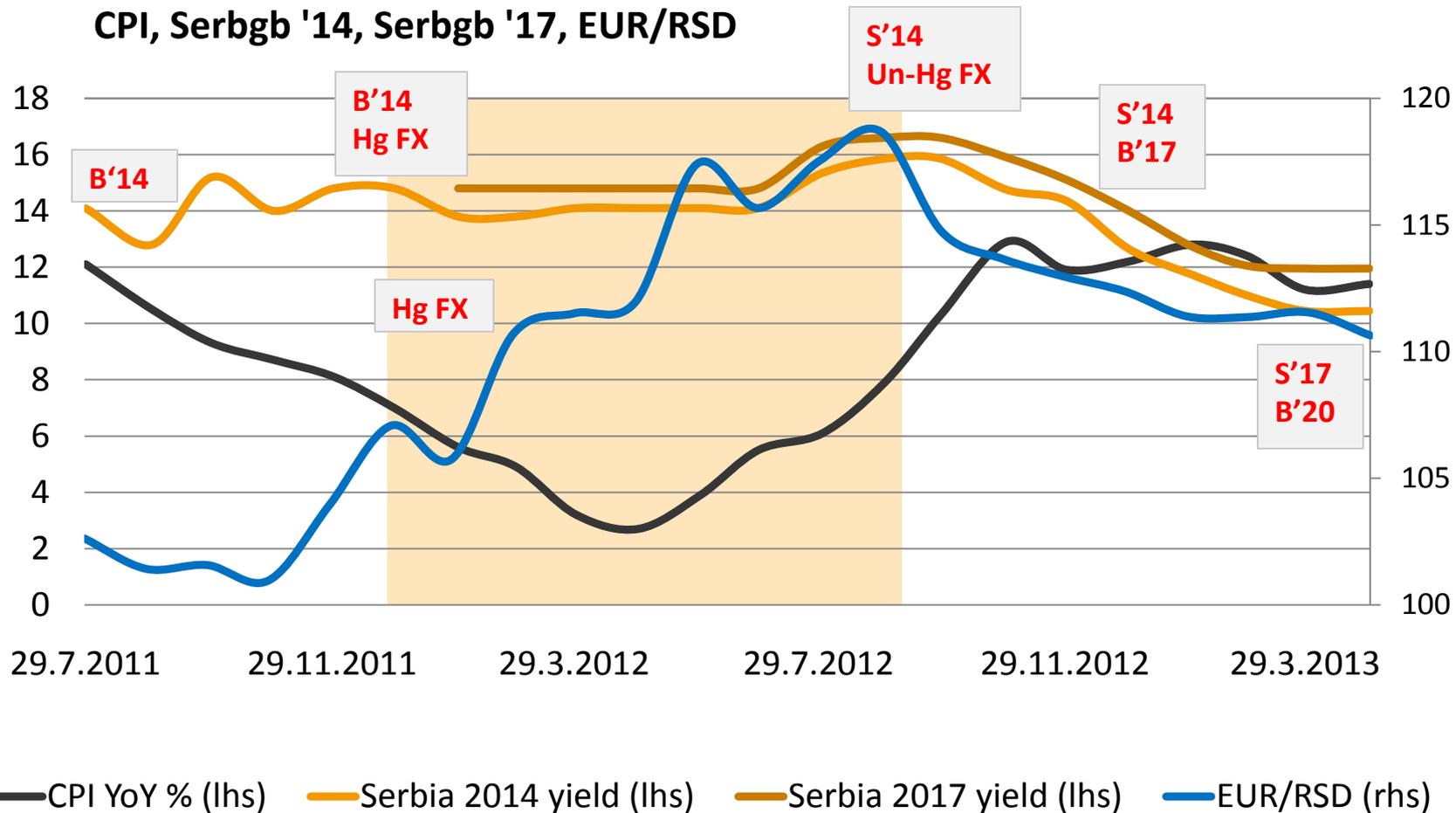


**B=buy;**

**S=sell;**

**Hg=hedge;**

**Un-Hg = Un-hedge**



# Information sources



- National Bank of Serbia
- Statistical Office of the Republic of Serbia
- Bloomberg
- IMF
- World Bank
- OECD
- Ghana Statistical Service
- Kenya National Bureau of Statistics
- Uganda Bureau of Statistics
- State Statistical service of Ukraine
- European Commission



**Thank you for your attention.**

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