



# SERBIAN DEBT MARKET

## Macroeconomic and Debt Securities Overview

X CIS and Baltic Region Bond Conference

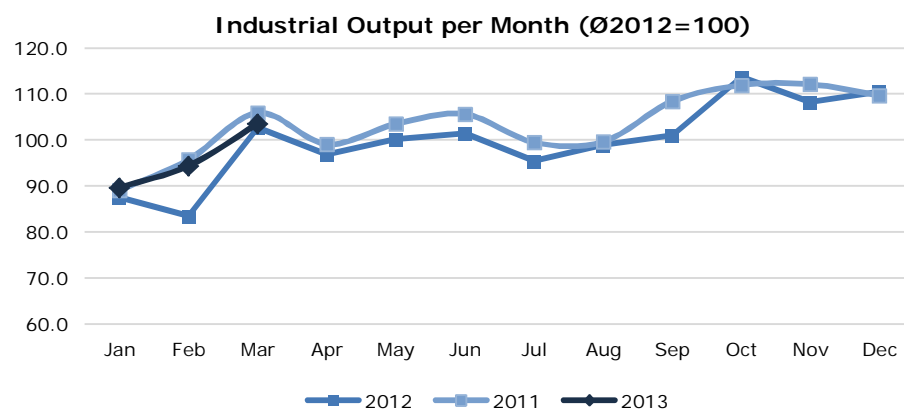
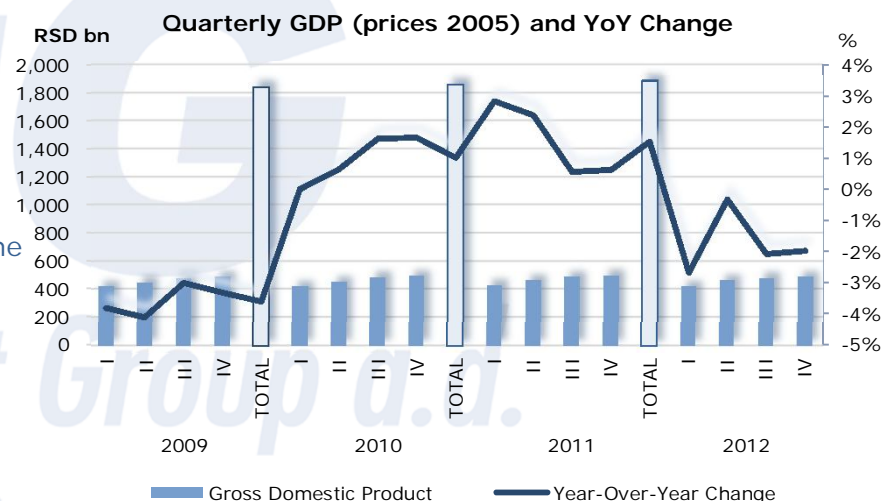
# Macroeconomic Overview

## GDP & INDUSTRIAL PRODUCTION

- Elections and new wave of the crisis that appeared as the debt crisis of some euro-zone countries in 2011 brought slow changes and fall of GDP.
- GDP fell 2% in real terms in 2012 mainly due to
  - natural conditions (agriculture production fell by 20%),
  - fall of export (US Steel)
  - political factors (elections 2012).
- In 2013 the Serbian economy started recovering:
  - agriculture, auto-industry (FIAT) and oil refinery (NIS)
  - economic measures, lower risk, stabile political situation
  - also, lower base line gives real chance for GDP to come back
  - WB estimated 2% growth
- Industrial production fell 2.9% yoy.

Table 1: GDP

	2010	2011	2012	2013E
GDP (m EUR)	28,006	31,141	29,933	33,129
Y-o-Y Change	-3.3%	11.2%	-3.9%	10.7%
Real Growth Rate	1.0%	1.6%	-1.7%	2.0%
GDP per capita	4,528	4,288	4,134	4,593



- GDP in 1Q 2013 rose 1.9% yoy, while 1.5% qoq
- Fully generated by net exports, while domestic demand remains stagnant.

# Macroeconomic Overview

## DEBT

- Total foreign debt at the end of 2012 amounted to EUR 25.7bn, which is an increase of EUR 1,6bn or 6.6% compared to the end of 2011.
- The external debt of the public sector amounted to EUR 12.2bn (13% yoy), while private sector external debt amounted to EUR 13.5bn (EUR 182m up from 2011).
- Total Public debt in 2012 was EUR 17.7bn, a 20% rise yoy and accounted for 61.5% of GDP.

Agency

Rating

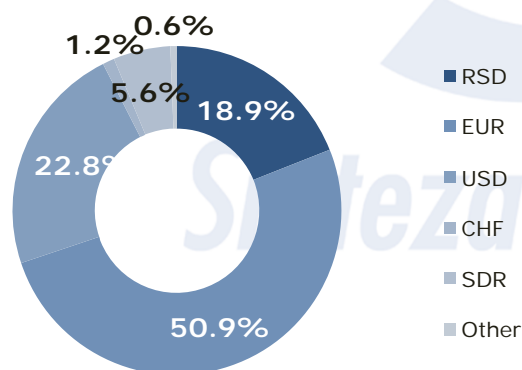
**STANDARD  
& POOR'S**

**BB-**

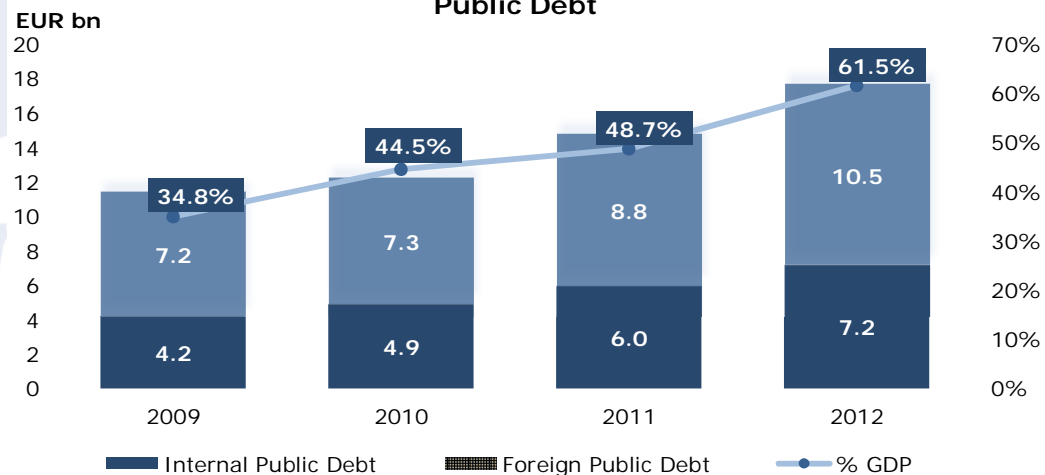
**FitchRatings**

**BB-**

Currency Structure



Public Debt

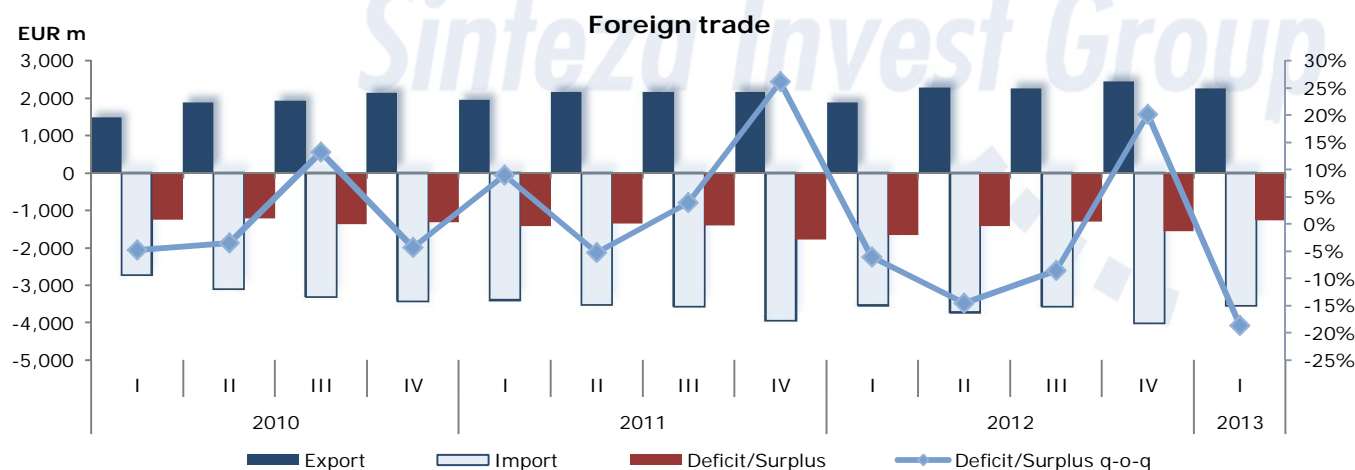
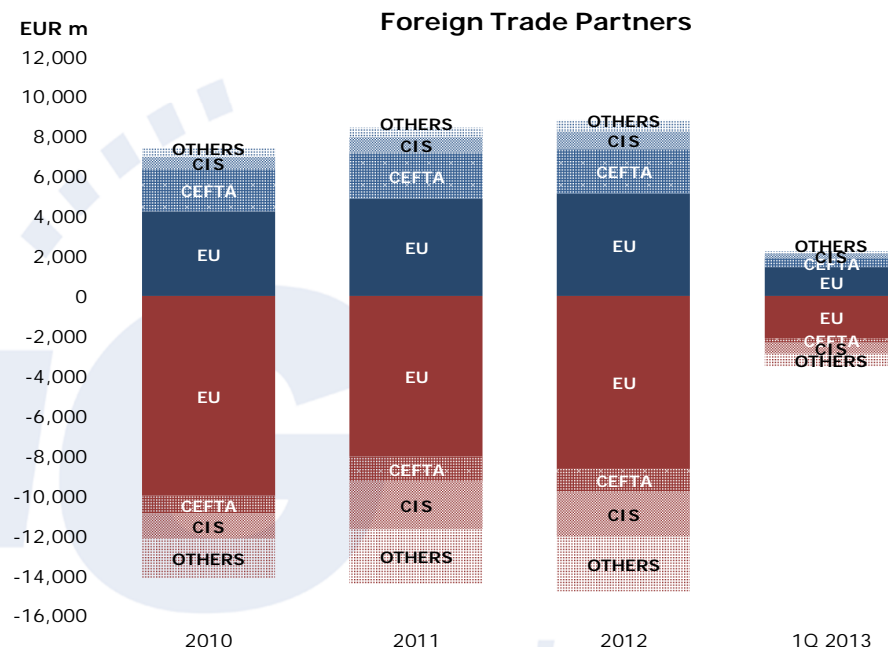


- Planned budget deficit of 3.6% of GDP in 2013 will be exceeded, thus new fiscal consolidation measures are needed (5.5% FC - 7% IMF).

# Macroeconomic Overview

## EXPORT & IMPORT

- Total export in 2012 was EUR 8.8bn, while import was EUR 14.8bn – deficit was EUR 6bn, flat yoy (same with export and import)
- In 1Q 2013 export rose 22% yoy, while import was flat. Deficit was EUR 1.3bn in 1Q 2013 – 19% fall qoq, 24% yoy.
- Export: EU accounted to 58% in 2012, while in 1Q13 made for 64%.
- Import: EU participated with 58% in 2012 while in 1Q13 made for 60%.

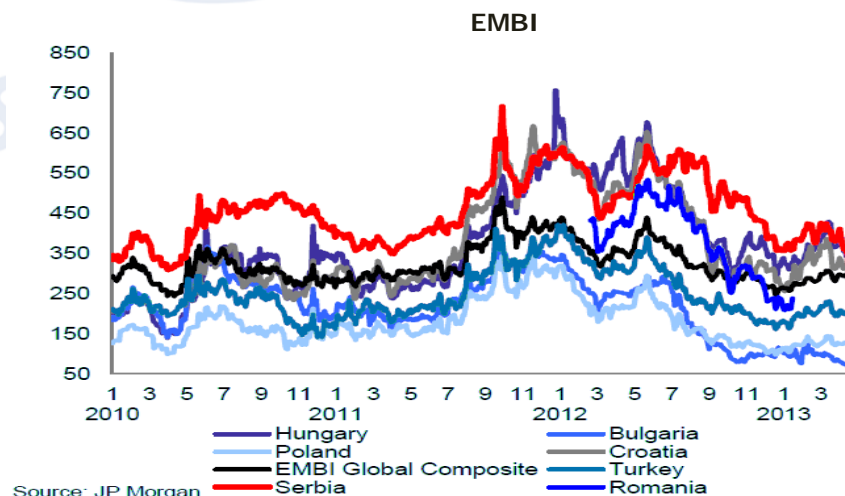
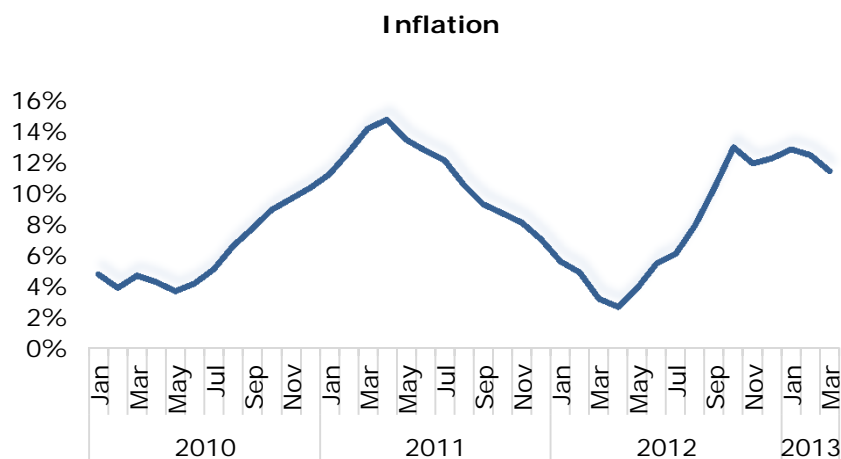


- Export/import ratio equaled to 60% in 2012 (59% in 2011) while in 1Q 2013 was 64% (53% in 1Q 2012)
- A rise in exports over the last two quarters was driven primarily by automobile exports.

# Macroeconomic Background

## INFLATION

- During 2012 inflation continued to rise and the main inflation pressures were seen in food prices and regulated prices, as well as in international developments.
- 12.2% in 2012, more than aimed -  $4\% \pm 1.5\%$ . The aim for 2013 stays the same.
- Inflation should see decline in mid-2013, so it is expected to be within the target of 4% (plus/minus 1.5%) by its end. Low aggregate demand, lower prices of primary commodities (agricultural commodities fell by 20% from August peak), stable foreign exchange market and the decline in risk premium will contribute to inflation decline yoy.
- Lower risk aversion in the global financial market, together with economic policy measures and political movements brought about a vigorous decline in the country risk. EMBI stands at around 330 p.p. down by around 270 p.p. from August 2012.
- National Bank of Serbia in the next three years will maintain the existing monetary policy of controlled inflation and flexible FX rate.

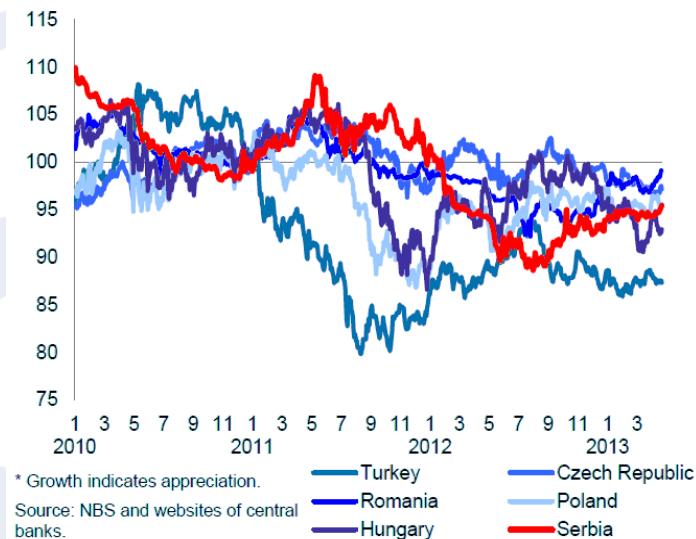


# Macroeconomic Overview

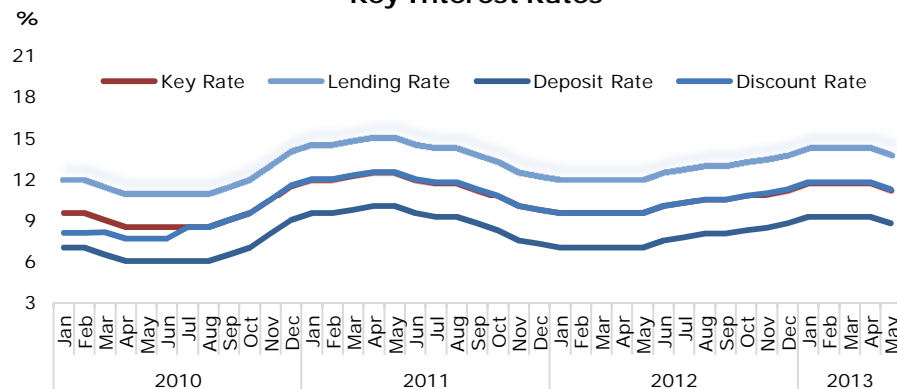
## FX & KEY RATES

- The weakening of the dinar in the first half of 2012 - increase of the effects of monetary financing of the state, freezing arrangement with IMF and reduced inflow of foreign investment.
- In 2H 2012, the FX rate was much more stable - decline in risk premiums, restrictive monetary policy measures (key rate and reserve requirements) and approval of subsidized loans to businesses.
- Trend continued in 2013 - increase of investments in government securities and reduce the current account deficit.
- Dinar in the first four months appreciated against euro by 2.9%.
- The Government estimated RSD/EUR exchange rate at 120 for 2013 budget.
- NBS lower key rate from 11.75% to 11.25% in May.
- Currency reserves in May 2013 amounted to EUR 11.2bn (coverage about 8 months of imports - appropriate level of liquidity and financial risk).

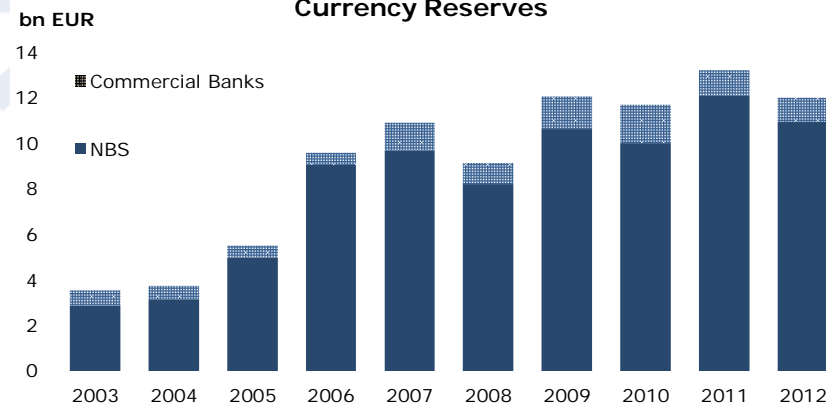
Currencies vs. EUR



Key Interest Rates



Currency Reserves



# Macroeconomic Overview

## SWOT

### STRENGTHS

- EU member candidate,
- Satisfied level of currency reserves,
- Approaching EU law, policies and practices,
- Cheap labor force,
- Government subventions,

### WEAKNESSES

- Decreased credit rating with negative outlook,
- High external financing needs,
- Large foreign currency exposure,
- High unemployment,
- Foreign trade deficit,
- Domestic demand,
- Misbalanced country development,

### OPPORTUNITIES

- A lot of opportunities for mergers and acquisitions,
- Starting the negotiations talks for EU membership,
- Export to emerging markets (BRIC...),
- Strong long-term growth potential,
- Industrial zones,
- Agriculture,
- Good cooperation with West and East,
- South Europe gas stream,
- Privatization of the public companies.

### TREATHS

- Slow privatization,
- Increase of budget deficit,
- Export to EU that records a slowdown of economy,
- FX volatility,
- Still high inflation,
- Termination of the EU membership candidate.



# SERBIAN DEBT MARKET

## Debt Securities

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# Debt Securities

## GOVERNMENT FOREIGN SAVINGS BONDS – FSB

Description	Zero-coupon bonds, denominated in EUR, issued by the Republic of Serbia to settle obligations arising from citizens' foreign currency savings. Nominal value is 1 EUR.
Trading	Bonds are traded both on the stock exchange and OTC, with a majority of trading carried out OTC. As these bonds represent settlements of past obligations of the Republic vis-à-vis Serbian citizens, there are no new issues, and all trading is on the secondary market. Continuous trading method.
Maturity	<b>Bonds mature on the 31st May every year, until 2016. A2014, A2015, A2016</b>
Coupon	Zero-coupon, pure discount bonds.
Taxes	Free
Trading expenses	If trading takes place on the <b>stock exchange, it charges a 0.1% commission with a cap of RSD 3,500</b> ; 0.05% for block trading is paid by the sell-side. The <b>CDS's commission is 0.1% with a cap of RSD 1,500</b> (for trades on stock exchange), and RSD 5,000 (for OTC trades). Bank and broker charges apply.
ISIN	RSMFRSD73810; RSMFRSD79726; RSMFRSD70279
Outstanding vol.	EUR 1,270,856,394
Settlement	Default settlement is set at T+3, other arrangements subject to parties' consent are also possible.
Foreign ownership restrictions	None.

# Debt Securities

## DINAR T - BILLS

<b>Description</b>	Short-term securities issued by the Republic of Serbia. Securities are usually denominated in RSD, with nominal value of RSD 10,000.00.
<b>Primary market</b>	<p>Securities are issued in an auction, which can be a single or multiple price one. PDA, has used only the single price auction method. Auctions are carried out according to the pre-announced <b>auction calendar</b>, using a special trading platform of the PDA. Only <b>licensed participants</b> can directly participate in auctions.</p> <p>Minimum amount that can be purchased in an auction is RSD 200,000.00, whilst the maximum amount is set at 30% of the issue volume.</p> <p>PDA publishes the auction results and statistics on its web page and via its trading platform.</p>
<b>Secondary market</b>	Trades are conducted OTC, with post-trade information available. Trade platform will be available soon at the BSE.
<b>Maturity</b>	<b>3m, 6m, and 12m.</b>
<b>Coupon</b>	Zero-coupon, pure discount instruments.
<b>Trading expenses</b>	<b>CSD charges 0.1% with a RSD 5,000 cap</b> , both for primary and secondary market transactions. Bank and broker charges apply.
<b>Reopening</b>	No.
<b>Settlement</b>	In the primary auction trades can be settled between T+0 and T+3 – in accordance with the Act of T-bills issuance. Trades on secondary market (OTC) can be settled anywhere between T+0 and T+3.
<b>Foreign ownership restrictions</b>	Yes. Non-residents can only purchase securities on primary market with maturities with 12m and longer.

# Debt Securities

## DINAR T-BONDS

<b>Description</b>	Medium and long-term securities issued by the Republic of Serbia denominated in RSD, with nominal value of RSD 10,000.00.
<b>Primary market</b>	<p>Securities are issued in an auction, which can be a single or multiple price one. PDA has used only the single price auction method. Auctions are carried out according to the pre-announced auction calendar, using a special trading platform of the PDA. Only licensed participants can directly participate in auctions.</p> <p>Minimum amount that can be purchased in an auction is RSD 200,000.00, while the maximum amount is set at 30% of the issue volume.</p> <p>PDA publishes the auction results and statistics on its web page and via its trading platform.</p>
<b>Secondary market</b>	There is no platform for secondary trading. Trades are conducted OTC, with post-trade information available on the NBS and Ministry of Finance web sites. Trade platform will be available soon at the BSE.
<b>Maturity</b>	<b>1y, 18m, 2y, 3y, and 5y.</b>
<b>Floating coupon rate</b>	2y amortizing T-bonds (floating coupon rate = reference interest rate of the NBS + fixed spread. The first issuance was in August 2012).
<b>Fixed coupon rate</b>	3y and 5y T-bonds carry a 10% p.a. coupon, annual payment. All other issues are zero-coupon instruments.
<b>Trading expenses</b>	<b>CSD charges 0.1% with a RSD 5,000 cap</b> , both for primary and secondary market transactions. Bank and broker charges apply.
<b>Reopening</b>	Yes.
<b>Settlement</b>	In the primary auction, trades can be settled between T+0 and T+3 – in accordance with the Act of T-bills issuance. Settlement for maturities longer than 12-month are set at T+2. Trades on secondary market (OTC) can be settled anywhere between T+0 and T+3.
<b>Foreign ownership restrictions</b>	No. Non-residents can purchase a T-bond on secondary market which matures within a year if it was originally issued with a maturity longer than 1y.

# Debt Securities

## EURO T-BONDS

Definition	Medium and long-term securities issued by the Republic of Serbia, denominated in EUR. Nominal value is EUR 1000.
Primary market	<p>Auctions are carried out according to the pre-announced auction calendar, using a special trading platform of the Public Debt Administration (PDA). Only licensed participants can directly participate in auctions.</p> <p>Minimum amount that can be purchased in an auction is EUR 20,000.00, whilst the maximum amount is set at 30% of the issue volume.</p> <p>PDA publishes the auction results and statistics on its web page and via its trading platform.</p>
Secondary market	Trades are conducted OTC, with post-trade information available. Trade platform will be available soon at the BSE.
Maturity	<b>1y, 18m, 2y, 3y and 15y.</b>
Coupon	2y and 3y T-bonds carry a 4.50% and 4.875% annual coupon, respectively. Annual payment. 15y T-bonds have a 5.85% annual coupon, annual payment. All other issues are zero-coupon instruments.
Reopening	Yes.
Trading expenses	<b>CSD charges 0.1% with a RSD 5,000 cap</b> , both for primary and secondary market transactions. Bank and broker charges apply.
Settlement	In the primary auction, trades can be settled between T+0 and T+3 – in accordance with the Act of T-bills issuance. Settlement for maturities longer than 12-month are set at T+2. Trades on secondary market (OTC) can be settled anywhere between T+0 and T+3.
Foreign ownership restrictions	No.



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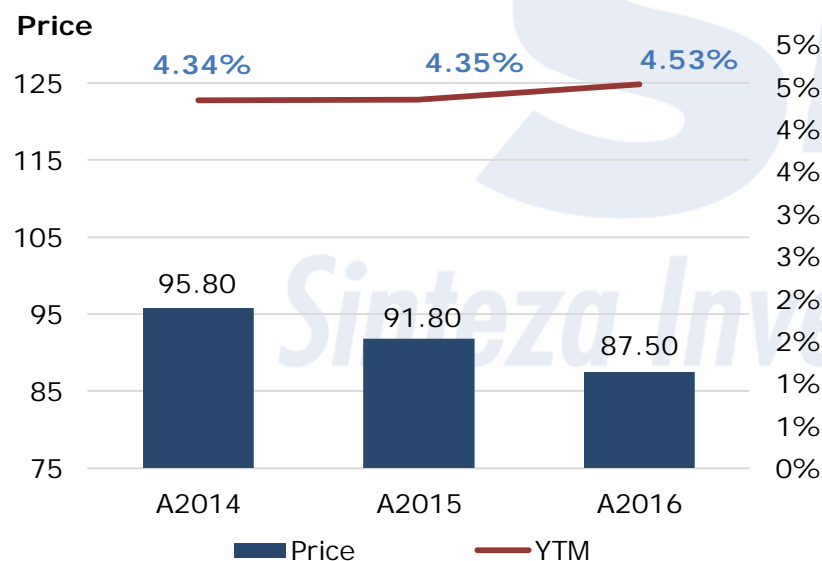
## Market Overview

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# Market Overview

## FSB

Symbol	YTM	Price	Weekly change	Montly change	3-month change	YTD	Yearly change
A2014	4.34%	95.80	0.04%	0.28%	1.84%	2.52%	8.13%
A2015	4.35%	91.80	-0.03%	0.27%	2.28%	2.01%	9.30%
A2016	4.53%	87.50	0.00%	0.19%	2.21%	1.74%	10.76%



Turnover (EUR)	A2014	A2015	A2016
Last	26,763	18,994	18,185
Week	59,514	65,344	41,613
Month	2,141,366	388,921	91,541
3-month	2,532,163	1,068,332	564,082
Average YTD	27,188	26,673	6,949

# Market Overview

## T-BONDS & T-BILLS

### Treasury Auction (RSD)

Maturity (month)	Date of the last auction	Principal (bn RSD)	Realization	MMY	Average MMY in last 12 months
3	09-May-13	3	100.00%	9.17%	11.47%
6	04-Apr-13	3	100.00%	9.39%	11.49%
12	21-May-13	10	100.00%	9.14%	10.48%
18	11-dec-12	10	93.65%	12.90%	13.71%
24	14-May-13	10	100.00%	9.89%	11.43%
36	23-Apr-13	10	100.00%	10.49%	14.17%
60	28-May-13	5	25.31%	10.50%	13.44%

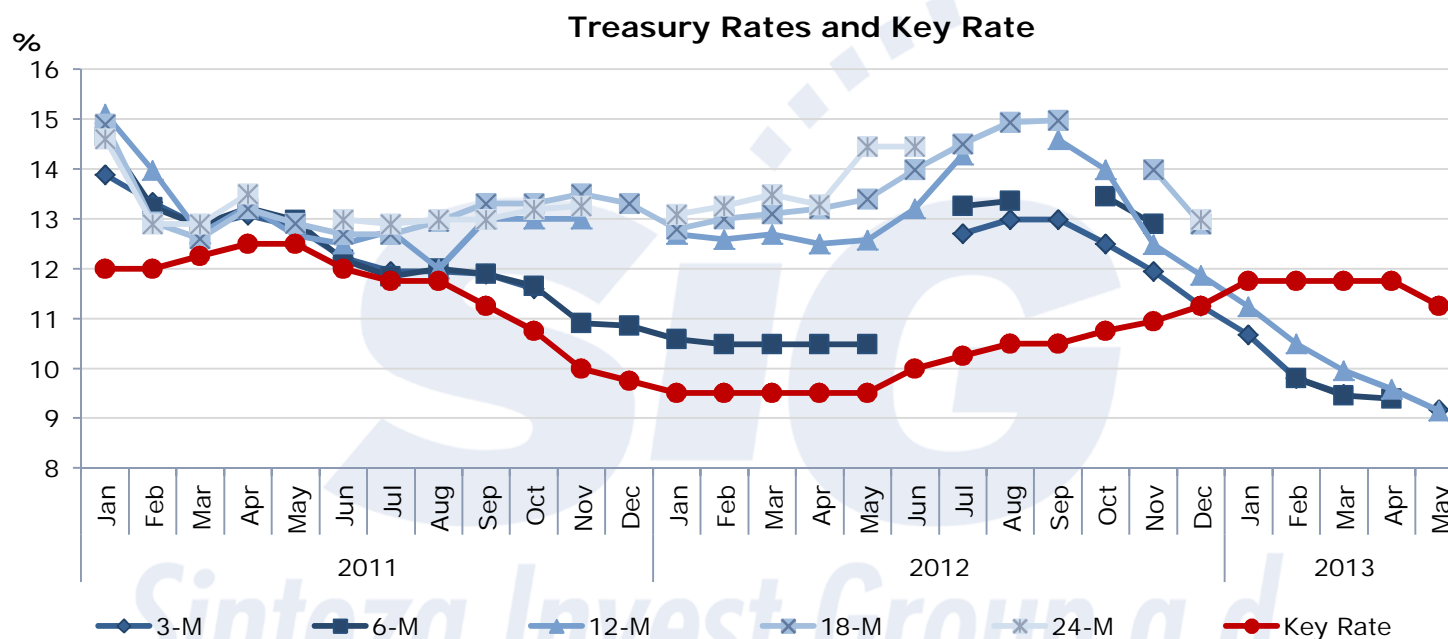
### Treasury Auction (EUR)

Maturity (month)	Date of the last auction	Principal (m EUR)	Realization	MMY	Average MMY in last 12 months
12	25-Feb-13	50	100.00%	3.93%	5.68%
18	12-Dec-12	40	90.30%	5.05%	5.85%
24	22-May-13	50	100.00%	4.18%	5.32%
36	23-Jan-13	30	100.00%	4.88%	4.88%
60	-	-	-	-	-

- The strong pace of government borrowing by issuing treasury bills and bonds was seen in 2012 and continued during first months in 2013.
- Treasury bills with maturities up to three and six months had a very high realization while the T-bills with a maturity up to one year experienced a decrease in the realization in the second half of 2012.

# Market Overview

## T-BONDS & T-BILLS



- During the end of 2012 the executive rates on treasury bills up to one year maturity during were in decline while realization was high. Rates of return on government bonds with maturity longer than one year may not have followed a downward trend, although there has been an increase in the volume of emissions.
- T-bill rates started this year with fall compared to the end of 2012 primarily due to improved foreign market conditions and better investment climate on domestic capital market. The rates of T-bills and NBS key rate come almost to be equal as NBS lifted its key rate to fight the inflation.





**THANK YOU FOR YOUR ATTENTION!**

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