4. Balance of Payments and Foreign Trade

In 2017, the Balance of Payments Current Account deficit was 2.1 billion euros and was 5.7% of GDP. Higher current deficit in 2017 compared to the level of 2016 was mostly due to a considerable growth of trade deficit, because of the faster growth of imports than exports, as well as the high deficit on the Primary Income account. On the other hand, these results have been mitigated by a certain inflow from Secondary Income with almost unchanged surplus on the Services account. The inflow of capital in 2017 was primarily the result of FDI inflow. Inflow of FDI was quite high in 2017 – 2.4 billion euros, i.e. 6.5% of GDP, which is above the share of FDI in GDP in 2015 and 2016, as well as above the level of the countries in the region. High deleveraging was recorded on the Portfolio Investments account, where a large outflow was recorded in November, due to the repayment of Eurobonds 2012. Forex reserves increased in 2017 by 228 million euros, which is a net result of a reduction in Q1 and Q4 and an increase in Q2 and Q3. During Q4 2017, a relatively high level of the current deficit was recorded – 678 million euros, i.e. 7.0% of GDP. The significant increase of the current deficit during 2017 was the result of the growth of trade deficit and Primary Income deficit, which was compensated to a lesser extent by increased inflow from the Secondary Income, as well as the increased surplus on the Services account. In Q4 2017, imports increased significantly, while exports had a more modest increase. Still, the good news is the acceleration of the growth of exports in January, which had the same year-on-year increase as the imports, i.e. 21.6%. The increase in the level of trade deficit during 2017 occurred primarily due to: deteriorated trade ratio, decreased surplus in trade of agricultural products, as well as a significant strengthening of the local currency. As the first two causes of increased deficit are the result of external factors (change in the global price of oil, weather conditions unfavourable for agriculture), which cannot be affected in the coming period, the key is to lead an economic policy that will work toward a reducing external imbalance.

Current deficit in 2017 was at a higher level than in 2016...

In 2017, the Balance of Payments Current Account deficit was 2.1 billion euros, i.e. 5.7 of GDP (Table T4-1 and Graph T4-2). This level of deficit is significantly higher than that of 2016, which was 1.075 billion euros or 3.1% of GDP.

...which is the result of increased trade deficit and Primary Income deficit

Significantly higher current deficit in 2017, compared to 2016 (by 2.6 pp of GDP), is mostly due to the significant growth of trade deficit (by 1.8 pp of GDP), as well as a higher deficit on the Primary Income account[1] (by 1.1 pp of GDP). On the other hand, this was mitigated by a certain increase of inflow from secondary income (by 0.4 pp of GDP), while the share of services in GDP remained almost unchanged.

Although exports continued to record a year-on-year growth at the level of the entire year…

Trade deficit in 2017 was 3.986 billion euros or 10.8% of GDP (see Table T4-1). This deficit expressed as a percentage of GDP was higher than the deficit realised in 2016 by 1.8 pp. Actually, in 2017, there was a higher growth of imports than exports. Exports still recorded a significant year-on-year growth of 10.0%, while at the same time imports grew by 13.4%. The share of exports in GDP in 2017 was higher by 1.2 pp, while in the same period the share of imports in GDP was 3.0 pp of GDP.

...the deficit was higher due to the faster growth of imports

Increased level of foreign trade and trade deficit[2] during 2017 occurred mostly due to: deteriorated trade ratio, decreased surplus in the trade of agricultural products, as well as the strengthening of the local currency. The growth of deficit in 2017 would have been even more pronounced if the fiscal policy had not been so restrictive, limiting the growth of domestic demand and thus contributing to a more moderate growth of deficit.

Trade ratios, after improving in the second half of 2015 and 2016, deteriorated in 2017. Trade ratio index reached its minimum (the worst deterioration) in Q1 2017 and was 93.4 (Graph

1 Primary income includes income from factors of production, such as income from dividends, interest, and other income from capital and labour.

2 Since services were at an almost the same level in 2016 and 2017, the growth of deficit in trade and foreign trade was the same – 1.8 pp of GDP.

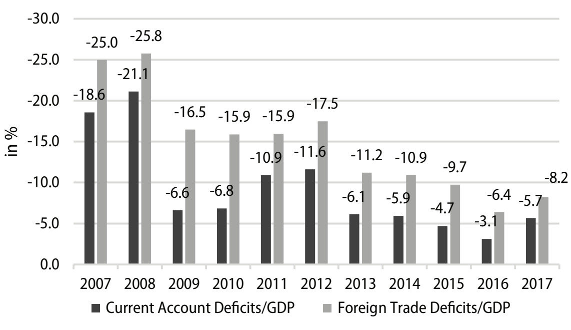
Table T4-1. Serbia: Balance of Payments

	2015	2016	2017	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4
						mil. euros					
CURRENT ACCOUNT	-1,577	-1,075	-2,090	-305	-284	-239	-247	-694	-333	-384	-678
Goods	-3,993	-3,119	-3,986	-662	-849	-718	-890	-927	-883	-824	-1,352
Credit	11,357	12,814	14,090	2,976	3,310	3,160	3,369	3,277	3,693	3,559	3,560
Debit	15,350	15,933	18,076	3,638	4,159	3,878	4,258	4,204	4,576	4,383	4,912
Services	725	907	951	186	196	268	258	220	167	236	327
Credit	4,273	4,571	5,240	993	1,068	1,258	1,252	1,106	1,241	1,424	1,470
Debit	3,548	3,664	4,289	807	872	990	994	886	1,074	1,187	1,143
Primary income	-1,658	-2,022	-2,570	-499	-524	-581	-418	-700	-564	-638	-668
Credit	682	630	568	142	185	140	164	105	153	132	179
Debit	2,340	2,653	3,138	641	709	721	583	805	717	769	847
Secondary income	3,349	3,159	3,516	670	894	792	803	713	946	842	1,015
Credit	3,795	3,635	4,098	771	1,009	921	933	848	1,086	986	1,178
Debit	446	476	583	102	115	130	129	135	139	145	164
Personal transfers, net [1]	2,671	2,510	2,758	521	735	624	630	565	790	630	773
Of which: Workers' remittances	2,077	1,874	2,049	379	577	458	460	414	595	475	565
CAPITAL ACCOUNT - NET	-18	-10	5	5	-4	-1	-9	1	-3	11	-4
FINANCIAL ACCOUNT	-1,205	-535	-1,690	-99	-180	-95	-162	-486	-328	-266	-610
Direct investment - net	-1,804	-1,899	-2,415	-470	-454	-533	-443	-558	-626	-660	-571
Portfolio investment	289	917	827	363	332	-10	232	219	-29	-92	728
Financial derivatives	2	9	-21	0	1	5	3	-5	-2	-9	-5
Other investment	141	740	-310	845	257	110	-473	313	106	-566	-162
Other equity	0	-1	-1	0	-1	-1	0	0	-1	0	0
Currency and deposits	-218	220	-623	318	20	-19	-99	-79	-23	-550	29
Loans	230	303	-203	317	260	-1	-272	316	23	-317	-226
Central banks	153	23	9	12	7	4	0	4	0	4	0
Deposit-taking corporations,	434	279	-272	100	199	80	-99	271	-316	11	-239
General government	-464	-308	30	30	11	5	-355	34	290	-314	20
Other sectors	107	309	31	176	42	-91	182	6	49	-18	-7
Insurance, pension, and standardized	0	8	0	3	7	-6	4	0	0	0	0
Trade credit and advances	129	209	518	207	-29	137	-105	75	106	301	36
Other accounts receivable/payable	0	0	0	0	0	0	0	0	0	0	0
SDR (Net incurrence of liabilities)	0	0	0	0	0	0	0	0	0	0	0
Reserve assets	166	-302	228	-836	-317	332	519	-455	222	1,061	-600
ERRORS AND OMISSIONS, net	390	549	395	201	109	145	94	208	8	107	72
PRO MEMORIA						in % of GDP					
Current account	-4.7	-3.1	-5.7	-3.8	-3.2	-2.7	-2.8	-8.3	-3.6	-4.0	-7.0
Balance of goods	-11.9	-9.0	-10.8	-8.2	-9.7	-8.0	-10.0	-11.1	-9.6	-8.5	-14.0
Exports of goods	33.8	37.0	38.2	36.9	37.7	35.4	38.0	39.4	40.1	36.9	36.8
Imports of goods	45.7	46.0	49.0	45.1	47.4	43.5	48.0	50.5	49.6	45.4	50.7
Balance of goods and services	-9.7	-6.4	-8.2	-5.9	-7.5	-5.0	-7.1	-8.5	-7.8	-6.1	-10.6
Personal transfers, net	8.0	7.2	7.5	6.5	8.4	7.0	7.1	6.8	8.6	6.5	8.0
GDP in euros [2]	33,564	34,619	36,885	8,061	8,768	8,921	8,869	8,324	9,222	9,658	9,680

Note: Balance of Payments of the Republic of Serbia is aligned with the international guidelines stated in the IMF's Balance of Payments Manual no. 6 (BPM6).
Source: NBS
1) Personal transfers present current transfers between the resident and non-resident households.
2) Quarterly values. Conversion of annual GDP to euro was done according to the average annual exchange rate (average of official daily exchange rates of NBS).

Deteriorated trade ratio, decreased surplus in the trade of agricultural products and strengthened local currency are basic determinants of the growth of deficit

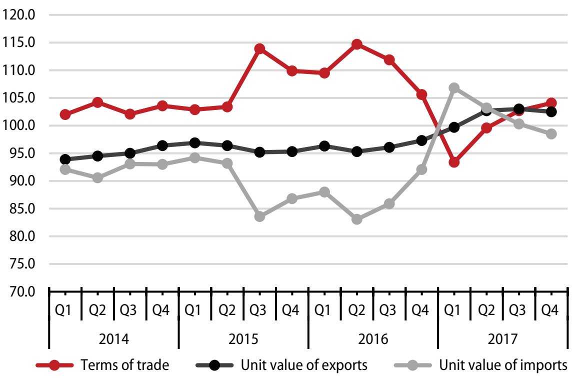
Graph T4-2. Serbia: Current and Foreign Trade Deficits, 2007-2017



Source: NBS, *QM*

T4-3). In Q2, this index was again below 100 (99.6), which indicates a relatively poor trade ratio compared to the same quarter of 2016. It increased again in the second half of the year (above 100 in Q3 and Q4, see Graph T4-3). Recorded trends in the trade ratio index was mostly determined by the trend of global energy prices, as indicated in Graph T4-3 by the trend in the unit value of imports. The decrease in the unit value of imports, observed year-on-year, began in 2015, continued in 2016, and for the most of 2017 (the first three quarters), the unit value of imports was above last year's.

Graph T4-3. Year-on-Year Indices of Trade Ratios, 2014-2017



Source: SORS, *QM*

In 2017, the trade deficit was by around 20% higher compared to the level of 2016, i.e. by 735 million euros[3]. The increase in trade deficit was affected by the deteriorated trade ratio at the level of 2017. Trade ratio index in 2017 was 98.5, which indicates that the quotient of export and import prices was lower by 1.5% compared to 2016. This deterioration increased the trade deficit by around 350 million euros. What also affected the growth of trade deficit was the reduction of surplus in the trade of agricultural goods. In 2017, the realised surplus in the foreign trade in the sector of *Agriculture, Fishery and Forestry* was lower by 40% or 168 million euros. The rest of the growth in deficit in 2017 can be ascribed to the effects of the appreciation of dinar, for which we can give an estimate. As the reduction in surplus in the trade of agricultural products increased the amount of trade deficit by around 170 million euros, and because of the deterioration of the ratio of import and export prices by additional 350 million euros, the rest of the increase of trade deficit by around 210 million euros was probably the result of the effects of the strengthening of the domestic currency on the value of foreign trade trends[4]. Since the deterioration of the trade ratio and the reduction of net value of exports of agricultural products is the result of external factors (change in the global price of oil, weather conditions that are unfavourable to agriculture), which cannot be controlled in the coming period, it is crucial to lead a foreign exchange policy that will work toward reducing the external imbalance.

High primary income deficit

Deficit at the Primary Income account in 2017 was 2.57 billion euros, and was significantly higher compared to 2016 (when it was 2.0 billion euros). Primary deficit reached as much as 7.0% of GDP in 2017. This is a very high amount, which is mostly the result of the outflow of funds from dividends. Therefore, the Primary Income deficit has a growth trend (share of primary deficit in GDP 2013-2017, respectively: Primary deficit reached as much as 7.0% of GDP in 2017. This is a very high amount, which is mostly the result of the outflow of funds from dividends. Therefore, the Primary Income deficit has a growth trend (share of primary deficit in GDP 2013-2017, respectively: 3.5%, 4.1%, 4.0%, 4.9%, 5.8% and 7.0%), which is quite unfavourable considering the tendency to reduce the current deficit, which we already warned about, having in mind the high inflow of FDI[5]. Compared to other countries, Serbia had the share of primary income deficit in GDP in 2016 the same as the Czech Republic (around 6%), but above this account's deficit of other comparable countries, which was: 4% in Macedonia, 3% in Croatia, Slovenia and Romania, 2% in Bulgaria and Hungary (Albania and Montenegro recorded a surplus of around 2%). The outflow of funds from capital income is approximately equal to the inflow of Foreign Direct Investments, but it is still lower than the inflow from remittances and pensions from abroad. However, with increased value of foreign capital in Serbia in the form of equity capital, loans, etc. a growth of this outflow is expected in the future, as was the case in previous years as well. High outflow of funds from capital income can generate an external economic imbalance and, therefore, a macroeconomic instability as well, which usually happens in the crisis. Therefore, in order to maintain a long-term sustainable economic growth, it is necessary to rely more on our own funds from the economy, the citizens and the state.

3 NBS data for import and export of goods, as well as trade balance, differ from the SORS data, because they do not include processing goods. Therefore, there is a certain difference in the levels of exports and imports, as well as growth rates, depending on the source (NBS or SORS). For example, according to NBS the trade deficit in 2017 was higher by 867 million euros, i.e. by 28% compared to the previous year (see Table T4-1). Data source used in this part of the text (Balance of Payments) is NBS, while in the following sections (Export and Import) it is SORS. Still, only in this paragraph of the Balance of Payments section, we used the SORS data in order to estimate the effects of local currency on foreign trade trends.

4 The estimate made with the data of the Statistical Office of the Republic of Serbia for the period January-December, according to SORS December press release for foreign trade of goods.

5 See previous issues of *QM*.

Significant level of inflow on the Secondary Income account

Inflow on the Secondary Income account was 3.5 billion euros, which is around 9.5% of the annual GDP. This is a slightly higher inflow than that of 2016, but still within the standard frame of its share in GDP: 9-10%.

Capital inflow in 2017 primarily the result of FDI inflow

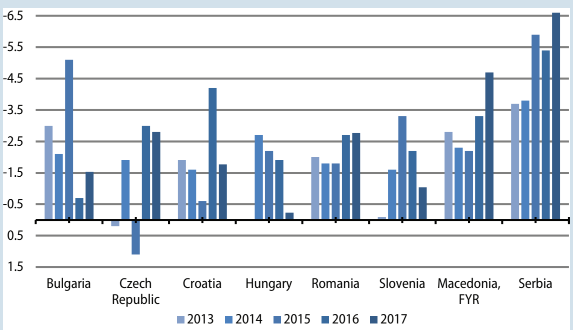
Inflow of capital in 2017 was primarily the result of FDI inflow. Capital inflow was very high in 2017 and was 2,415 million euros or 6.5% of GDP. This is by 1 pp of GDP above the share of FDI in the GDP of 2015 and 2016. There was a significant increase in Other Investments (by 310 million euros net), because of the increase in balance on the *Cash and Deposit* account and net deleveraging of loans (as a result of additional borrowing of the banks), while a significant net deleveraging of trade loans was recorded. At the Portfolio Investment account, a deleveraging of 827 million euros net was recorded in 2017. From May to October, a net inflow was realised, primarily because of the investments of foreign investors in the seven-year government securities, while the biggest outflow was recorded in November (698.8 million euros) due to repayment of Eurobonds 2012[6]. Forex reserves at the level of 2017 increased by 228 million euros (Table T4-1).

Box 1. Significant inflow of FDI in Serbia

In the last few years, Serbia recorded a significant inflow of Foreign Direct Investments. Graph T4-4 shows data for the net FDI inflow in the period 2013-2017 (data for 2017 shows an average of first three quarters, except in the case of Macedonia where the Q1 value is stated due to the availability of data). Compared to other selected countries, Serbia has a very high net annual inflow of foreign investments.

Annual FDI inflow in Serbia in 2013 and 2014 was around 4% of GDP, while in the following two years it was 5.9% and 5.4% respectively, reaching 7% of GDP in 2017.

Graph T4-4. Net FDI inflow in Serbia and selected countries



Source: Eurostat, *QM*
Note: 1) 2017 value presents the average of the share of first three quarters, 2) For Macedonia, 2017 data show the value of net inflows in Q1 2017.

According to Eurostat data, in the first nine months of 2017, the net FDI inflow in Serbia was around 6.6% of GDP. That is a considerable amount of inflow of funds, especially considering that it is significantly above the level recorded in other countries. The net FDI inflow recorded in % of GDP in the first three quarters of 2017 was 0.2% in Hungary, 1% in Slovenia, 1.5% in Bulgaria, 1.8% in Croatia, 2.8% in the Czech Republic and Romania, 4.7% in Macedonia, and 6.6% in Serbia (Graph T4-4).

It is interesting to note that Serbia has a higher FDI inflow compared to the countries in the region, even though it is lagging behind most of them in conditions of doing business according to the ranking of the Global Economic Forum, quality of governance according to the World Bank's ranking, transition progress according to EBRD, while it is ahead by the level of corruption according to Transparency International. Higher foreign investments, despite significantly poorer investment environment, can be explained by the special benefits enjoyed by foreign investors, which are not available to most domestic companies, such as large subsidies, protection from bureaucratic barriers, extortion and racketeering, protection from unfair competition, etc.

In Q4 2017, the current deficit was relatively high – 7.0% of GDP...

Current account deficit in Q4 2017 was 678 million euros, i.e. 7.0% of GDP (Table T4-1). Share of current deficit in GDP was as much as 4.2 pp higher compared to the level of Q4 and by 3 pp compared to the level of Q3 2017. Therefore, current deficit in 2017 was at a relatively low level in the two quarters: 3.6% in Q2 and 4.0% in Q3, while it was quite high in other two quarters: 8.3% in Q1 and 7.0% in Q4.

6 Source: Ministry of Finance.

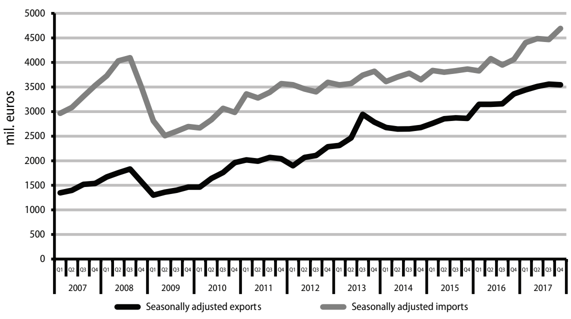
...which was primarily the result of a significant increase of trade deficit, as well as the increase in primary income deficit

Realised increase in current deficit in the last quarter of 2017, compared to the same period in 2016, was the result of the significant increase of trade deficit (by 3.9 pp of GDP), as well as a higher deficit on the Primary Income account (by 2.2 pp of GDP). At the same time, there was a certain increase of inflow from secondary income in GDP (by 1.4 pp), and to a lesser extent, an increase in surplus on the Services account in GDP (by 0.5 pp).

In Q4, imports had a high two-figure year-on-year increase, while exports recorded a moderate growth

Trade deficit was 1,352 million euros, i.e. 14% of GDP. In Q4 2017, goods in the value of 3560 million euros were exported, which was 36.8% of GDP. Imports in the last quarter of 2017 were 4912 million euros, which is more than a half of the estimated quarterly value of GDP (50.7%, see Table T4-1). In Q4 2017, imports had a high two-figure year -on-year increase (15.4%), while exports recorded a more modest y-o-y increase of 5.7%, even though trade ratios improved again at the end of 2017 (Graph T4-3). Seasonally adjusted value indicate that exports in Q4 were lower by 0.4% compared to the value of Q3 2017, while imports in the same period recorded an increase of 5.0% (Graph T4-5). These trends affected the growth of trade and foreign trade deficits, as well as the reduction of coverage of imports by exports (which went from 81% in Q3 to 72% in Q4 2017).

Graph T4-5. Serbia: Seasonally Adjusted Exports and Imports, Quarterly, 2007-2017



Source: NBS, SORS, *QM*

The share of net inflow on the Secondary Income account during Q4 was 1,015 million euros and was 10.5% of GDP. Out of that, the inflow from Personal Transfers was 773 million euros (8.0% of GDP).

During Q4, high FDI inflow and outflow of Portfolio Investments

Decline of forex reserves by 600 million euros

Capital of inflow of 78 million euros[7] was recorded in Q4 (Table T4-1). There was an inflow of FDI (571 million euros), lower inflow from other investments (162 million euros), as well as a significant outflow of portfolio investments (728 million euros, primarily the result of repaying matured Eurbonds 2012 on the international market). In other investments, there was a significant increase in borrowing of the banks (by 239 million euros) and a smaller increase in the balance of the Cash and Deposit account by 29 million euros, as well as deleveraging of the public sector (by 20 million euros). Deleveraging was also recorded in the Trade Loans and Advances account by 36 million euros. Forex reserves in Q4 2017 were lower by 600 million euros.

Exports

Export of goods in 2017 was 15.05 billion euros….

….by 12.0% above the level of 2016

During 2017, goods in the value of 15,047 million euros were exported, which is a significant growth of 12.0% year-on-year. Growth of exports was positively influenced by the fast growth of economic activity in the Eurozone countries and most other important foreign trade partners. In addition, there were some favourable circumstances in 2017, such as the increase in the price of metal and energy on the global market. On the other hand, bad agricultural season and the real appreciation of dinar compared to the euro recorded in 2017 has negatively contributed to the growth of exports. And so did the further reduction in the value of automobile exports[8].

An unfavourable trend of decelerating year-on-year growth was recorded in Q4

In Q4 2017, exports were 3,786 million euros, i.e. they recorded an increase of 7.8% compared to Q4 2016.

Year-on-year growth of exports in Q4 2017 was 7.8% - less than the growth in the previous quarters

Compared to all the previous quarters of 2017, exports decelerated their growth – the year-on -year growth in the first three quarters was 13.4%, 13.2% and 12.7%, respectively (Table T4-6). In Q4, as in the entire 2017, the value of exports recorded a faster growth after excluding the export of road vehicles. The year-on-year growth of exports excluding road vehicles was 8.6% in the last quarter.

7 6 million euros including the Errors and Omittances account.

8 According to the data from the Ministry of Finance, despite this negative trend in the exports of road vehicles, FIAT is still the largest domestic exporter.

Observed by purpose, all export groups except the unclassified exports (Other) positively contributed to this growth

Still, the good news is the accelerated exports in January. Year-on-year growth of total exports in January was quite high – 21.6%. Therefore, the exports in January recorded the same growth as imports.

The pronounced year-on-year increase in exports is the result of the growth of all export groups by purpose, except unclassified/other exports. In fact, the fast growth of total exports was primarily the result of the fast growth of exports of *Intermediate Goods* (32.9%), *Capital Goods* (20.5%) and *Non-Durable Consumer Goods* (13.3%), which also have the highest share in total exports (in 2017: 38%, 24% and 22%, respectively).

Table T4-6. Serbia: Exports, Year-on-Year Growth Rates, 2016–2017

	Exports share in 2017	2016	2017	2017				2016		2017			
				Q1	Q2	Q3	Q4	Q3	Q4	Q1	Q2	Q3	Q4
	in %	in mil. euros						in %					
Total	100.0	13,432	15,047	3,504	3,933	3,778	3,786	10.2	15.9	13.4	13.2	12.7	7.8
Total excluding road vehicles	91.7	12,057	13,797	3,143	3,562	3,536	3,511	11.2	18.9	16.7	16.9	14.6	8.6
Energy	2.5	329	379	67	81	107	117	-15.0	7.0	-15.2	-6.8	24.0	55.7
Intermediate products	38.2	4,669	5,743	1,297	1,496	1,496	1,445	12.3	19.8	23.3	24.4	24.7	18.8
Capital products	24.1	3,352	3,633	872	961	821	979	11.5	7.3	4.3	4.3	7.8	17.4
Capital products excluding road vehicles	15.8	1,977	2,383	511	589	579	703	18.6	19.1	16.5	20.0	17.5	26.8
Durable consumer goods	5.4	739	811	186	214	204	207	6.6	11.6	19.1	14.3	6.5	1.2
Non-durable consumer goods	22.3	3,198	3,358	774	835	888	860	9.6	12.2	7.4	4.6	6.2	2.0
Other	7.5	1,145	1,124	307	347	262	179	12.7	45.5	24.4	23.7	-5.8	-47.2

Source: SORS

In Q4 2017, exports of *Capital Goods* accelerated their growth. After the year-on-year growth of 7.8% in Q3, exports of these products in Q4 were by 17.4% above the value realised in Q4 2016. At the same time, export of capital goods after excluding road vehicles recorded a high and accelerated growth. After a year-on-year growth of 17.5% in Q3 2017, export of *Capital Goods without Road Vehicles* realized a 26.8% growth in Q4 (Table T4-6).

The value of exports of *Intermediate Goods* in Q4 was by 18.8% above the value realised in the same quarter of the previous year, recording a certain decelerated growth. As the value of exports of Intermediate Goods makes the biggest part of the total value of exports (38.2%), the growth dynamic of export of these goods is very significant since it determines the trend of total exports. Together with *Capital Goods, Intermediate Goods* make almost two thirds of the total value of domestic exports (Table T4-6).

Export of *Durable Consumer Goods* in Q4 2017 decelerated its growth and was by 1.4% above the value realised in the same period of 2016. In fact, the exports of these goods has a considerably lower growth compared to that of the previous quarters of 2017. Export of *Non-Durable Consumer Goods* also decelerated its growth compared to Q3, and in Q4 recorded an annual increase of 2%. The so-called *Other Exports* were by 47.2% below the exported value of Q4 2016 (Table T4-6).

Continued good forecast of the economic growth of the Eurozone countries and acceleration of the growth of the countries in the region, together with investments from the previous period, will have a positive effect on the growth of domestic exports in 2018. On the other hand, delayed effect of real appreciation of the local currency against the euro will have a negative effect, i.e. it will decelerate the growth of exports. That is why it is important to pay attention to the effects that the strengthening of the local currency has on exports, which, together with investments, should be the main driver of economic growth in the coming period.

Imports

The value of imported goods in 2017 was 19.4 billion euros…

Imports in 2017 were 19,419 million euros, i.e. they had a year-on-year growth of 13.8%. Quarterly data shows that, after a certain deceleration of growth in Q2, imports accelerated their growth in the second half of 2017 (Table T4-7). The growth of imports in 2017 was affected by the increase of global price of energy and the strengthening of the dinar, as well as the growth of domestic demand.

…which is by 13.8% above the value of 2016. In the second half of 2017, the growth of imports accelerated

In the last quarter of 2017, the value of imported goods was 5,265 million euros, which is 15.5% above the value of Q4 2016 (Table T4-7). The year-on-year growth of imports recorded in January was the same as the growth of exports and was 21.6%. Growth of imports in January was mostly because of the fast growth of imports of Intermediate Goods and unclassified (other) imports and Non-Durable Consumer Goods.

In Q4, year-on-year growth of imports was 15.5%, while imports excluding energy were 14.8%

The rise of global energy prices during 2017 contributed to the value of *Energy* imports being considerably higher in all quarters of 2017 compared to the quarterly values of 2016. Energy imports in Q4 was 21.2% above the value of imports of these goods recorded in the same quarter of the previous year. Imports excluding Energy recorded a year-on-year growth of 14.8%, and the quarterly growth rates in 2017 (Table T4-7) indicate an accelerated growth of thus observed imports.

Table T4-7. Serbia: Imports, Year-on-Year Growth Rates, 2016-2017

	Imports share in 2017	2016	2017	2017				2016		2017			
				Q1	Q2	Q3	Q4	Q3	Q4	Q1	Q2	Q3	Q4
	in %			in mil. euros						in %			
Total	100.0	17,068	19,419	4,587	5,004	4,730	5,265	3.7	5.5	15.4	10.2	13.3	15.5
Energy	10.4	1,544	2,025	526	462	485	549	-19.0	-1.6	55.2	19.2	32.2	21.2
Intermediate products	35.3	5,880	6,862	1,513	1,734	1,737	1,779	5.5	5.8	16.8	15.9	16.2	14.0
Capital products	21.2	4,128	4,120	821	1,086	909	1,087	2.6	2.5	-9.3	-3.8	-6.9	4.5
Durable consumer goods	2.1	380	411	93	104	100	115	-3.9	-3.7	14.9	4.2	10.7	4.1
Non-durable consumer goods	15.0	2,595	2,906	648	686	709	796	4.0	4.5	17.7	6.5	7.3	10.3
Other	15.9	2,541	3,095	987	932	790	940	23.8	18.4	22.7	19.1	34.7	39.2
Imports excluding energy	89.6	15,524	17,393	4,061	4,542	4,245	4,716	6.6	6.3	11.7	9.4	11.5	14.8

Source: SORS

Import of *Intermediate Goods and Durable Consumer Goods* recorded a decelerated growth (Table T4-7). On the other hand, *Non-Durable Consumer Goods and Other Imports* accelerated their imports.

A very important change was recorded in the growth trend of imports of *Capital Goods*. Imports of these goods recorded lower levels in the first three quarters of 2017 compared to the same period of the previous year, only to record a year-on-year increase of 4.5% in Q4. The level and dynamic of growth of Capital Goods is especially significant as it indicates the level of country's production activity, as well as the production potential in the coming period. Therefore, it is good that the year-on-year growth of Capital Goods imports in Q4 continued in January as well at a rate of 5.2%.

Non-Durable Consumer Goods had a year-on-year increase of 10.3% in Q4. This is an acceleration of growth compared to the previous quarter (when a 7.4% year-on-year growth was recorded). *Intermediate Goods* recorded a year-on-year growth of 14.0% in Q4. Therefore, the growth of these goods decelerated (year-on-year growth in the previous three quarters was 16-17%). High growth of these goods' import value in 2017 was mostly determined by the recovery of industrial production, which is estimated as positive[9]. Import of *Durable Consumer Goods* recorded a more pronounced deceleration of growth (year-on-year growth of 10.7% in Q3 and 4.1% in Q4 2017). However, since they make only 2%, it did not have a significant impact on the total import value. Import of goods classified under *Other* in Q4 2017 was by 39.2% above the level of Q4 2016, which indicates a certain acceleration of growth (year-on-year growth in Q3 was 34.7%, see Table T4-7).

In 2018, we expect the growth of imports to be influenced by the delayed effects of the appreciation of dinar, as well as the further gradual recovery of domestic demand. The value of imports in 2018 will greatly depend on the prices of importable goods on the global market, primarily global price of oil and other energy products, as well as agricultural products.

9 See the section Economic Activity in this issue, as well as a few previous issues of QM.

Foreign Debt

Foreign debt at the end of September 2017 was 26.0 billion euros, i.e. 72.2% of GDP Compared to the end of 2016, the foreign debt was lower by 455 million euros…

The state of foreign debt in Serbia at the end of September 2017 was 26.0 billion euros, i.e. 72.2% of GDP (Table T4-8). In the first nine months of 2017, total foreign debts was reduced by 455 million euros, or expressed in percentage of GDP, by 4.3 pp. This reduction of total foreign debt is exclusively due to the reduction of the public sector's foreign debt, but also of the weakening of the dinar against the euro.

…primarily the result of reduced public sector debt, but also the depreciation of dinar against the euro

Public sector's foreign debt since the end of 2016 has been lower by 1.04 billion euros net (by 4.7 pp of GDP). At the same time, the private sector recorded a net increase in foreign debt by 581 million euros, i.e. by 0.4 pp of GDP. Long-term foreign debt of the private sector was higher by 524 million euros, short term by 57 million euros, compared to end of December 2016. Almost entire amount of the private sector's increase of long term debt in the period January-September 2017 was the result of private sector's borrowing (519 million euros), while at the same time, the same type of the debt of the banks increased by 2 million euros. Compared to the end of previous year, the amount of short-term debt of the banks is higher by 51 million euros, and of the business sector by 6 million euros (see Table T4-8). Increased borrowing of the private sector, considering that its entire debt is not that large, could indicate a growth of private investments and also of employment and production in this sector.

During Q3 2017, there was an increase of foreign debt by 597 million euros, i.e. by 0.2 pp of GDP. This increase was the result of the fact that the private sector additionally borrowed 543 million euros, while the public sector borrowed 55 million euros net.

Foreign debt during Q3 increased by 597 million euros, which is mostly the result of the private sector's borrowing

The recorded increase of private sector's debt in Q3 (543 million euros) was mostly the result of additional long-term borrowing (by 503 million euros), primarily the growth of borrowing abroad of companies (by 484 million euros). At the same time, the banks increased their long-term debt by 18 million euros. The state of short-term debt at the end of September was by 41 million euros higher that at the end of June. Most of that amount was the increased amount of 40 million euros of the short-term debt of the banks. Contrary to that, the short-term debt of the business sector at the end of Q3 was by one million euros above the amount recorded three months earlier (Table T4-8).

Table T4-8 Serbia: Foreign Debt Trend Dynamic, 2013–2017

	2013	2014	2015	2016				2017		
				Mar.	Jun	Sep.	Dec.	Mar.	Jun	Sep.
	stocks, in EUR millions, end of the period									
Total foreign debt	25,644	25,679	26,234	25,682	25,622	25,601	26,488	26,135	25,435	26,033
(in % of GDP) [4]	*74.8*	*76.8*	*78.2*	*75.5*	*75.0*	*74.5*	*76.5*	*74.9*	*72.0*	*72.2*
Public debt[1]	13,120	14,145	15,295	14,934	15,031	14,923	15,680	15,508	14,589	14,644
(in % of GDP)[4]	*38.3*	*42.3*	*45.6*	*43.9*	*44.0*	*43.4*	*45.3*	*44.5*	*41.3*	*40.6*
Long term	13,120	14,140	15,295	14,934	15,031	14,923	15,680	15,508	14,589	14,644
o/w: to IMF	697	152	15	7	0	0	0	0	0	0
o/w: Government obligation under IMF SDR allocation	434	463	493	483	488	484	494	495	472	465
Short term	0	5	0	0	0	0	0	0	0	0
Private debt[2]	12,525	11,534	10,939	10,748	10,591	10,678	10,808	10,628	10,846	11,389
(in % of GDP) [4]	*36.5*	*34.5*	*32.6*	*31.6*	*31.0*	*31.1*	*31.2*	*30.5*	*30.7*	*31.6*
Long term	12,328	11,441	10,636	10,436	10,316	10,229	10,132	10,101	10,154	10,656
o/w: Banks debt	3,219	2,503	2,057	1,912	1,730	1,514	1,403	1,342	1,387	1,405
o/w: Enterprises debt	9,108	8,935	8,576	8,520	8,582	8,709	8,723	8,751	8,759	9,242
o/w: Others	1	3	4	4	4	6	6	7	7	8
Short term	196	94	303	312	275	450	676	527	693	733
o/w: Banks debt	171	57	186	237	220	404	590	382	602	641
o/w: Enterprises debt	25	37	116	75	55	46	86	145	91	92
Foreign debt, net 3), (in% of GDP)[4]	42.2	47.2	47.2	47.6	47.8	46.7	47.0	47.0	44.6	42.7

Note: Foreign debt of the Republic of Serbia is calculated according to the "matured debt" principle, which includes amounts of debt from capital and amounts of calculated interest not paid in the moment of agreed maturity.
Source: NBS, *QM*
1) Foreign debt of the Republic of Serbia's public sector includes the debt of the state (not including the debt of Kosovo and Metohija, for loans concluded before the arrival of KFOR, unregulated debt toward Libya and the clearing debt toward former Czechoslovakia), National Bank of Serbia, local self-governments, funds and agencies formed by the state, and the debt for which state guarantee was issued.
2) Foreign debt of Republic of Serbia's private sector includes the debt of banks, companies and other sectors for which no state guarantee has been issued. Foreign debt of the private sector does not include loans concluded before December 20, 2000 for which no payments are done (945.7 million euro, out of which 407.4 million euro is from domestic banks, and 538.3 million euro is from domestic companies).
3) Total foreign debt reduced by NBS forex reserves.
4) Sum value of GDP of the observed quarter and previous three quarterly values of GDP.