# 4. Balance of Payments and Foreign Trade

**Current account deficit in Q1 2017 was 746 million euros, i.e. 8.6% of GDP, which is above last year's level. This is primarily because of the increase in trade deficit brought about by the accelerated growth of imports and decelerated growth of exports. In Q1 2017, exports were by 9.8% and imports by 15.4% above the level of Q1 2016, while according to the seasonally adjusted values, exports and imports increased by 2.4% and 8.0%, respectively. April data show a decelerated growth of foreign trade trends, and about the same growth of exports as imports. Such results in foreign trade at the beginning of 2017 are mostly due to deteriorating trade ratio, i.e. rise in energy prices, while decelerated growth of exports is explained by temporary factors. If there were no rise in global energy prices, the growth of imports would have been by around one third lower, and the share of trade and current account deficits in GDP would have been by 2.3 pp below the realised level in Q1. We talked about this scenario in previous issues of *QM*, the one where trade ratio is deteriorating, which is disturbing the favourable trends in current Balance of Payments. The level of foreign trade and current account deficits in 2017 will primarily be determined by trade ratios, i.e. further trends in global prices – primarily of energy, by the dynamic of the recovery of the local demand, as well as by the growth of economic activity in the Eurozone countries. Therefore, in 2017 we expect the trend of decreasing current account deficit to be halted in 2017 and be around 4-4.5% of GDP. During Q1, a net inflow of 49 million euros in capital was recorded, so the forex reserves in this period decreased by 455 million euros. Low net inflow of capital in Q1 was due to the outflow of Portfolio and Other Investments, while FDI were slightly higher than the average quarterly values of 2015 and 2016. In 2017, we expect that FDI will be at the last year's level or slightly above it, i.e. sufficient for covering the current account deficit. Therefore, we estimate a solid inflow of foreign capital for 2017, bearing in mind that foreign investors will see the positive results of fiscal consolidation and macroeconomic stability, as well as decreased risk premium and increased country credit rating.**

***Current account deficit in Q1 2017 was 746 million euros, i.e. 8.6% of GDP and was above the level of Q1 2016***

Data point to a moderate deterioration in the Balance of Payments in the first four months of 2017. Certain circumstances and expectations in the country and the international surroundings suggest that the trend of decreasing current account deficit will stop in 2017, and that it will amount to 4% and 4.5% of GDP this year. As trade balance deteriorated at the begging of 2017, it would be good if the national economic policy (primarily fiscal and forex policies) were designed so they do not contribute additionally to the worsening of foreign trade trends – decrease of exports and increase of imports.

Current account deficit in Q1 2017 was 746 million euros (Table T4-1), and was higher than the realised value of Q1 of the previous year. Share of current account deficit in GDP in the first three months of 2017 was 8.6% of GDP, which is by 3.8 pp of GDP above the level of the same period in 2016. This rise of current account deficit is mostly the result of the growth of trade deficit. The share of Primary Income deficit in GDP has increased (by 1.4 pp), while the lower share of net inflow on the Secondary Income Account in GDP (by 0.2 pp of GDP) was completely offset by the growth of net exports on the Services Account.

***Trade deficit recorded a significant increase compared to the same period last year***

In Q1 2017, exported goods amounted to 3,245 million euros, while the value of imports in this period was 4,271 million euros[1], so the trade deficit in Q1 was 1,026 million euros. Trade deficit, observed in relative terms, made 11.8% of GDP and was by 2.5 percentage points of GDP higher than the realised share in Q1 2016. This growth of trade deficit compared to GDP was exclusively the result of growth of imports, which increased by 2.4 pp of GDP, i.e. 49.0%, while the share of exports in GDP almost remained unchanged (increased by 0.1 pp) and was 37.3%.

1 NBS data for import and export of goods, as well as trade balance, differ from the SORS data (which we use in the sections on Exports and Imports), because they do not include finished goods (see Box 1 on the change of methodology in calculating the Balance of Payments in QM37). That is why there is a certain difference in levels of exports and imports, as well as growth rates, depending on the source of data.

## Table T4-1 Serbia: Balance of Payments

| | 2014 | 2015 | 2016 | 2015 Q1 | 2015 Q2 | 2015 Q3 | 2015 Q4 | 2016 Q1 | 2016 Q2 | 2016 Q3 | 2016 Q4 | 2017 Q1 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | mil. euros | | | | | | |
| **CURRENT ACCOUNT** | -1,985 | -1,577 | -1,370 | -511 | -279 | -343 | -445 | -378 | -309 | -293 | -390 | -746 |
| Goods | -4,111 | -3,993 | -3,476 | -1,046 | -872 | -895 | -1,180 | -745 | -935 | -808 | -988 | -1,026 |
| Credit | 10,641 | 11,357 | 12,732 | 2,601 | 2,997 | 2,882 | 2,877 | 2,956 | 3,294 | 3,131 | 3,351 | 3,245 |
| Debit | 14,752 | 15,350 | 16,209 | 3,648 | 3,869 | 3,777 | 4,057 | 3,701 | 4,230 | 3,939 | 4,339 | 4,271 |
| Services | 465 | 725 | 895 | 136 | 114 | 215 | 260 | 182 | 188 | 273 | 253 | 219 |
| Credit | 3,810 | 4,273 | 4,581 | 927 | 1,004 | 1,167 | 1,175 | 992 | 1,068 | 1,267 | 1,254 | 1,106 |
| Debit | 3,344 | 3,548 | 3,686 | 791 | 890 | 952 | 915 | 810 | 880 | 994 | 1,001 | 887 |
| Primary income | -1,343 | -1,658 | -1,950 | -296 | -468 | -491 | -402 | -486 | -456 | -550 | -458 | -652 |
| Credit | 642 | 682 | 630 | 144 | 203 | 165 | 170 | 142 | 185 | 140 | 164 | 101 |
| Debit | 1,985 | 2,340 | 2,581 | 441 | 671 | 656 | 572 | 628 | 641 | 690 | 623 | 753 |
| Secondary income | 3,003 | 3,349 | 3,161 | 695 | 948 | 828 | 877 | 670 | 895 | 793 | 804 | 713 |
| Credit | 3,400 | 3,795 | 3,637 | 789 | 1,060 | 946 | 1,000 | 772 | 1,010 | 922 | 933 | 849 |
| Debit | 397 | 446 | 476 | 93 | 112 | 117 | 123 | 102 | 115 | 130 | 129 | 135 |
| Personal transfers, net [1)] | 2,442 | 2,671 | 2,510 | 568 | 758 | 665 | 680 | 521 | 735 | 624 | 630 | 564 |
| Of which: Workers' remittances | 1,863 | 2,077 | 1,874 | 437 | 605 | 523 | 512 | 379 | 577 | 458 | 460 | 414 |
| **CAPITAL ACCOUNT - NET** | 7 | -18 | -10 | 4 | -1 | 1 | -22 | 5 | -4 | -1 | -9 | 1 |
| **FINANCIAL ACCOUNT** | -1,705 | -1,205 | -790 | -427 | -139 | -243 | -396 | -184 | -197 | -127 | -282 | -503 |
| Direct investment - net | -1,236 | -1,804 | -1,861 | -339 | -441 | -510 | -514 | -480 | -404 | -492 | -485 | -501 |
| Portfolio investment | -369 | 289 | 916 | -474 | 341 | 105 | 317 | 363 | 331 | -10 | 232 | 219 |
| Financial derivatives | -6 | 2 | 9 | 2 | 4 | -7 | 3 | 0 | 1 | 5 | 3 | -5 |
| Other investment | 1,703 | 141 | 448 | 273 | -11 | -131 | 10 | 770 | 190 | 38 | -550 | 238 |
| Other equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Currency and deposits | 830 | -218 | 220 | 69 | 79 | -133 | -233 | 318 | 20 | -19 | -99 | -79 |
| Loans | 757 | 230 | 326 | 221 | -39 | -48 | 97 | 320 | 273 | -4 | -263 | 332 |
| Central banks | 574 | 153 | 23 | 57 | 55 | 26 | 15 | 12 | 7 | 4 | 0 | 4 |
| Deposit-taking corporations, | 795 | 434 | 279 | 100 | 103 | 10 | 222 | 100 | 197 | 80 | -97 | 271 |
| General government | -728 | -464 | -299 | 63 | -220 | -86 | -221 | 30 | 11 | 5 | -345 | 38 |
| Other sectors | 115 | 107 | 322 | 0 | 23 | 2 | 82 | 179 | 57 | -93 | 179 | 19 |
| Insurance, pension, and standardized | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Trade credit and advances | 116 | 129 | -98 | -17 | -51 | 50 | 146 | 131 | -102 | 61 | -188 | -16 |
| Other accounts receivable/payable | 0 | 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 | 0 |
| **Reserve assets** | -1,797 | 166 | -302 | 111 | -32 | 300 | -213 | -836 | -317 | 332 | 519 | -455 |
| **ERRORS AND OMISSIONS, net** | 273 | 390 | 590 | 80 | 141 | 99 | 70 | 189 | 116 | 167 | 118 | 242 |
| **PRO MEMORIA** | | | | | | in % of GDP | | | | | | |
| Current account | -5.9 | -4.7 | -4.0 | -6.7 | -3.2 | -3.9 | -5.2 | -4.8 | -3.6 | -3.3 | -4.5 | -8.6 |
| Balance of goods | -12.3 | -11.9 | -10.2 | -13.7 | -10.1 | -10.3 | -13.7 | -9.4 | -10.8 | -9.2 | -11.3 | -11.8 |
| Exports of goods | 31.8 | 33.8 | 37.3 | 34.2 | 34.7 | 33.2 | 33.3 | 37.2 | 38.1 | 35.6 | 38.3 | 37.3 |
| Imports of goods | 44.1 | 45.7 | 47.5 | 47.9 | 44.8 | 43.5 | 47.0 | 46.6 | 48.9 | 44.8 | 49.6 | 49.0 |
| Balance of goods and services | -10.9 | -9.7 | -7.6 | -11.9 | -8.8 | -7.8 | -10.7 | -7.1 | -8.6 | -6.1 | -8.4 | -9.3 |
| Personal transfers, net | 7.3 | 8.0 | 7.4 | 7.5 | 8.8 | 7.7 | 7.9 | 6.5 | 8.5 | 7.1 | 7.2 | 6.5 |
| GDP in euros[2)] | 33,420 | 33,564 | 34,131 | 7,617 | 8,632 | 8,689 | 8,627 | 7,948 | 8,644 | 8,795 | 8,744 | 8,708 |

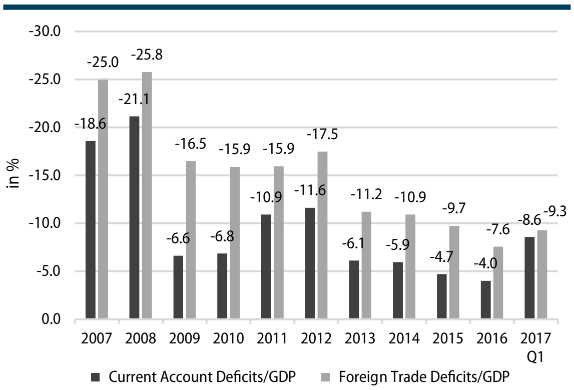
Note: Balance of Payments of the Republic of Serbia is aligned with the international guidelines of the IMF's Balance of Payments Manual no. 6 (BPM6).
Source: NBS
1) Personal transfers are current transfers between resident and non-resident households.
2) Quarterly values. Conversion of the annual GDP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

Foreign trade deficit also recorded a year-on-year growth and was 807.0 million euros in Q1 2017. This deficit makes 9.3% of GDP and was by 2.2 pp higher compared to the recorded level of Q1 2016 (Graph T4-2 and Table T4-1).

*A positive impact on the growth of exports in 2017 will be made due to the forecasted recovery of the Eurozone countries...*

*... imports will grow faster due to the expected recovery of local demand, as well as deteriorating trade ratio*

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




Source: NBS, *QM*

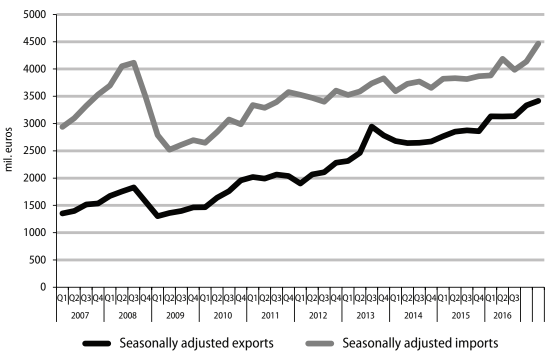
At the beginning of 2017, imports recorded a fast year-on-year growth of 15.4%, while the year-on-year growth of exports of 9.8% is quite solid, causing the trade deficit to increase in the observed period. Seasonally adjusted trade data confirm the faster growth of imports than exports. According to the seasonally adjusted values, exports were by 2.4% and imports by 8.0% higher in Q1 2107 than in Q4 2016 (Graph T4-3). Still, April SORS data indicate that both imports and exports are decelerating their growth, and that the growth rate of exports is slightly below the growth rate of imports of goods (5.1% and 5.3%, respectively). The slowdown of foreign trade flow in April is most likely a result of a lesser number of working days due to the Easter holidays.

Coverage of imports by exports was 76% and was below the last year's values of 79%. This is mostly due to a considerable decline in trade ratio, which we pointed out several times in the previous issues of QM[2], primarily because of the trends in the price of oil on the global market. Still, it should be emphasised that this kind of trend in trade ratio is highly variable and that oil prices have fallen considerably already in the second quarter. The trade ratio index (the quotient of export and import prices) reached high values from the second half of 2015 to the first half of 2016, i.e. in the period of low global price of oil. After that, this index started to gradually decline, primarily due to a certain rise in the price of oil derivatives. In Q1 2017, this index was 93.4, which indicates that the quotient of export and import prices was significantly below the level of the beginning of 2016 (see Graph T4-4). As the global prices of energy in euros increased by 61% in this period, if we exclude the effects of growth of these prices, the import of goods would be by 10% above the level of Q1 2016, i.e. the growth of imports would be lower by one third. That means that the trade deficit would be 9.5% of GDP instead of the current 11.8% of GDP. Therefore, deteriorating trade ratio because of the rising global price of energy affected the trade deficit and made it by 2.3 pp higher than if this decline had not happened, i.e. current account deficit in Q1 would have been 6.3% of GDP instead of the current 8.6% of GDP[3].

***We can expect a somewhat higher level of current account deficit in 2017 than in the previous year***

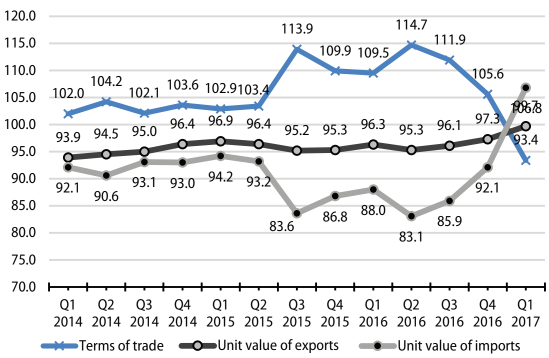
Current internal and external circumstances will probably result in lack of further decrease of current deficit. The higher energy price on the global market than last year's, unfavourable weather conditions, and their potential implications on export results, as well as the expected growth of local demand, are key factors that would lead to an increase in deficit on the Foreign Trade and Current Accounts in 2017. On the other hand, falling energy products prices in the second quarter and persistently high prices of metal, as well as demand growth in the countries of Eurozone will impact deficit reduction. After weak results in the first quarter, it is important not to create additional inputs that would worsen the negative trends in the current account by using the policy of excessive dinar strengthening or extreme strengthening of domestic demand.

**Graph T4-3 Serbia: Seasonally Adjusted Exports and Imports, Quarterly, 2007-2017**




Source: NBS, SORS, *QM*

**Graph T4-4 Year-on-Year Trade Ratio Indices, 2014-2017**




Source: SORS, *QM*

***Inflow on the Secondary Income account was 8.2% of GDP***

Net inflow on the Secondary Income account was 713 million euros in Q1 2017, or 8.2% of GDP. Out of that amount, 564 million euro or 6.5% of GDP was from Personal Transfers. Even though the inflow on the Secondary Income account and Personal Transfers has somewhat increased in absolute terms, when expressed in GDP, it is by 0.2 and 0.1 lower compared to Q1 2016, respectively.

***In Q1, there was a low capital inflow…***

Q1 recorded a lower net inflow of capital of 49 million euros4, which caused forex reserves at the end of Q1 to be lower by 455 million euros compared to the level recorded three months earlier (Table T4-1). On the one hand, there was some deleveraging of Portfolio and Other Investments – 219 and 238 million euros, respectively. In other investments, a net deleveraging of 332 million euros was recorded in loans, where the highest deleveraging was recorded in banks (271

2 See QM44-QM47, *Balance of Payments and Foreign Trade*
3 Also, if we take into account the out of the ordinary increase of imports due to growth of electricity imports by 42 million euros, we get that the growth of imports would be 9% year-on-year. See the chapter on Imports further down.
4 Inflow of 291 million euros, including the *Errors and Omissions* account.

***…it is due to Portfolio and Other Investments, from one side, as well as inflow of FDI, from another side***

million euro) and in the state (38 million euros), while in other sectors it was lower (19 million euros net, see Table T4-1). On the other hand, there was an increase on the Cash and Deposit account of 79 million euros, and 16 million euros on Commercial Loans and Advances. Inflow of FDI was 501 million euros (5.8% of GDP), which is slightly above the usual quarterly inflows of 2015 and 2016 (on average around 5.4% of GDP). Therefore, we expect inflow of FDI in 2017 to be solid and sufficient for covering current account deficit. We expect a solid inflow of capital, having in mind that investors will see the positive results realised in fiscal consolidation and macroeconomic stability, as well as the reduction in the risk premium and increased credit rating of Serbia by certain rating agencies. The precondition is that the Government perseveres in its fiscal consolidation policy and launches structural reforms which have been delayed for a long time.

***A reduction in NBS forex reserves has been recorded***

Net reduction in the level of forex reserves in Q1 2017 was 455 million euros. The biggest reduction in forex reserves was recorded in January (315 million euros), followed by a smaller decline (160 million euros) in February. A modest growth in the level of forex reserves of 21 million euro was recorded in March. The majority of the forex outflow since the beginning of the year has been the result of seasonal factors, i.e. outflow in January was linked with an increase of forex reserves in December. In April, there was a more considerable reduction of forex reserves by 263 million euros, as a consequence of a significant deleveraging of the state in the amount of 333 million euros of loans, i.e. regular servicing of commitments to foreign creditors[5]. Therefore, NBS forex reserves at the end of April were 9.41 billion euros, covering 200% of the M1 money supply and a six-month value of import of goods and services. During Q1, NBS intervened on the Interbank Foreign Exchange Market with the aim of mitigating excessive short-term fluctuations of the exchange rate by selling 345 million euros, and in April by buying 40 million euros[6].

## Exports

***A considerable growth of exports was recorded during Q1 2017…***

In the first three months, the exports were 3,504 million euros, which is by 13.4% higher than the value of exports in Q1 of the previous year (Table T4-5). Thus, exports decelerated their growth slightly compared to the previous quarter (year-on-year growth rate of exports in Q1 2017 was 15.7%), but it is still estimated as positive. The primary reason behind this deceleration are unfavourable weather conditions[7].

***During Q1, most of the export components realised a solid growth…***

***… with the exception of Energy, growth of which has considerably declined.***

Although the energy prices in Q1 were above last year's, the export value of energy products declined by 15.2%. The decline of these products continued in April and was 36.2% compared to the value of export in the same month of 2016. Still, as energy exports make only 2.4% of total exports, trends in the value of exports of energy products do not significantly affect the dynamic of total exports.

***Export results in April were somewhat weaker***

**Table T4-5 Serbia: Export, Year-on-Year Growth Rates, 2014-2017**

| | Exports share in 2016 | 2014 | 2015 | 2016 | 2017 | | 2016 | | 2017 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Q1 | April | Q3 | Q4 | Q1 | April |
| | in % | in mil. euros | | | | | in % | | | |
| Total | 100.0 | 11,159 | 12,041 | 13,430 | 3,504 | 1,242 | 9.8 | 15.7 | 13.4 | 6.7 |
| Total excluding road vehicles | 89.8 | 9,621 | 10,630 | 12,055 | 3,143 | 1,112 | 10.7 | 18.7 | 16.7 | 8.9 |
| Energy | 2.4 | 414 | 342 | 328 | 67 | 20 | -17.5 | 15.9 | -15.2 | -36.2 |
| Intermediate products | 34.8 | 3,687 | 4,084 | 4,668 | 1,297 | 484 | 11.9 | 19.5 | 23.3 | 19.0 |
| Capital products | 25.0 | 2,877 | 3,064 | 3,352 | 872 | 307 | 11.6 | 7.3 | 4.3 | -0.6 |
| Capital products excluding road vehicles | 14.7 | 1,340 | 1,653 | 1,977 | 511 | 178 | 18.7 | 19.2 | 16.5 | 6.5 |
| Durable consumer goods | 5.5 | 586 | 664 | 739 | 186 | 66 | 6.6 | 11.6 | 19.1 | 7.1 |
| Non-durable consumer goods | 23.8 | 2,614 | 2,848 | 3,198 | 774 | 256 | 9.6 | 12.1 | 7.4 | -3.5 |
| Other | 8.5 | 981 | 1,040 | 1,144 | 307 | 109 | 9.8 | 41.5 | 24.4 | 20.6 |

Source: SORS

5 https://www.nbs.rs/internet/cirilica/scripts/showContent.html?id=11388&konverzija=no

6 NBS.

7 Due to the frozen Danube in January and beginning of February, there was a reduced export of steel and agricultural products (especially corn and wheat), see *Inflation Report*, May 2017.

*The value of exports of road vehicles during Q1 was 9% below last year's*

The value of exports of road vehicles was 9% below the last year's level (361 million euros in Q1 2017, compared to 397 million euros in Q1 2016). Year-on-year growth of total exports after excluding road vehicles was 16.7%. Still, even though the company "Fiat Automobiles Serbia" has not significantly contributed to the growth of exports since 2014, total automobile industry (a lot of small companies) is a branch that records the highest value of exports and is significantly contributing to the total export results of the national economy[8]. The declining trend of automobile exports could possibly decelerate in the coming period because of the start in production of a redesigned model of FIAT.

In addition to Energy exports, the export of all other goods recorded a growth in Q1 2017 (Table T4-5). What is especially important is the accelerated growth, as well as the high growth rate of export of Intermediate Goods (23.3% y-o-y), because the export value of these goods make more than a third of the value of total exports. In addition, the exported value of Durable Consumer Goods accelerated and is by almost one fifth higher than last year's. Export of other export components decelerated, although it still recorded quite high export growth rates of Capital Goods after Excluding Road Vehicles (16.5% y-o-y), Non-Durable Consumer Goods (7.4% y-o-y) and so-called Other Exports (24.4% y-o-y).

In addition to a more pronounced decline of Energy exports, a year-on-year decrease of exports was recorded in April in *Capital Goods* and *Non-Durable Consumer Goods,* as well as decelerated growth in other export components. Weaker export results in April are probably the result of a smaller number of working days, as the non-working days around Easter Holiday were all in April.

*Important for the exports of 2017 will be the economic activity of the Eurozone countries*

In the coming period, we can expect further growth of exports because of the growth of economic activity and imports of the Eurozone countries. The dynamic of the export growth in the coming period will also be determined by trends in the prices of primary goods on the global market, primarily cereals and basic metals, important export products of Serbia. The importance of the production of the new FIAT model on export, and especially net export results is still uncertain.

## Import

*Fast growth of imports recorded in Q1 …*

*…while their growth decelerated in April*

Total imports in Q1 2017 were 4,587 million euros. This value of imports was considerably higher than last year's – a 15.4% increase, and it significantly accelerated the growth compared to the previous quarters (year-on-year growth rates in 2016: in Q1 2.6%, in Q2 8.7%, in Q3 5.0%, and in Q4 7.2%, see Table T4-6). This growth of import value is the result of a year-on-year growth of the value of all import components, except Capital Goods. The significant recovery of imports since the beginning of the year happened mostly because of the significantly higher level of energy prices compared to the level from the beginning of 2016. So, the value of energy imports was by 55.2% above the last year's. We expect the abovementioned trends – growth of energy prices, growth of local demand – will determine the dynamic of import recovery in the coming period, acting in the direction of accelerating its growth.

Still, imports decelerated their growth in April. The value of imports in this month increased by 5.9% year-on-year. This was primarily due to the significant deceleration of imports of *Durable and Non-Durable Consumer Goods.* In addition, the growth of Intermediate Goods and Energy decelerated. After a year-on-year growth of 22.7% in Q1 2017, the so-called Other Imports in April 2017 were by 1.3% below the value of April 2016. Similar to exports, the decelerated growth of imports in April was the result of a smaller number of working days in that month.

*...due to a much higher price of energy*

Growth of imports in Q1 was recorded in all components except in the import of *Capital Goods.* Import of energy products in Q1 was higher by 55.2% (in April by 38.8%) compared to the same period of the previous year, which was exclusively due to the increase of global energy prices. According to IMF data, the price of energy expressed in dollars in Q1 2017 was by as much as 56%

8 NBS, *Inflation Report,* May 2017.

above the price of Q1 2016, while expressed in euros, the rise in price was 61%. When we exclude the impact of price on the year-on-year growth of energy values, we get that the import of energy during the first three months of the current year was by 4% below the last year's imports.

According to SORS data, the import value of energy products in Q1 2017 was 526 million euros, which represents a year-on-year growth in energy imports of 55.2%. However, had there not been the out of the ordinary import of electricity in the amount of 42 million euros in Q1 2017, the growth of energy imports would have been 484 million euros, i.e. by 42.8% above the last year's level, while the total imports would have recorded a year-on-year growth at a rate of 14.4% instead of the current 15.4%. As the global energy prices in euro increased by 61% in this period, after we exclude the effects of the growth of these prices, the imports would have been by 10% above the level of Q1 2016. If we add to that the mentioned effects of out of the ordinary increase of electricity imports, we get that the year-on-year growth of imports in Q1 2017 would have been 9.0%. This means that the year-on-year growth of energy prices contributed to the recorded growth rate of total imports (15.4%) by around one third, i.e. by around 5.4 pp, while the unusual import of electricity contributed by 1 pp.

High year-on-year growth was also realised by the import of goods classified under Other[9] - which recorded a year-on-year growth of 22.7%, although it recorded a decelerated growth compared to the previous quarters, and even a year-on-year decline in value in April. On the other hand, a fast growth and a considerable acceleration of imports during Q1 was recorded in all other import groups, except Capital Goods: Non-Durable Consumer Goods (17.7%), Intermediate Goods (16.8%), and Durable Consumer Goods (after having negative growth rates in all quarters of 2016, in Q1 2017 they recorded a year-on-year growth of 14.9%, see Table T4-6). The exception was the import of Capital Goods, which was by 9.3% below the last year's level. Decline in the import of capital goods is one of a few unfavourable tendencies, which put into question the possibility of a fast growth of Serbian economy in the future. In April, the import of Durable and Non-Durable Consumer Goods decelerated considerably, as well as the growth of Intermediate Goods and Energy.

***In the coming period, the level of import will be determined by the global price of energy and local demand***

The factor that could also affect the acceleration of import growth in the coming period is the expected growth of local demand. Additionally, a faster growth of imports are expected because of the rise in global energy prices. As the growth of current spending reflects on the growth of imports quite quickly, if the local demand in 2017 would grow faster than the growth of GDP, with the anticipated effects of exogenous factors on the growth of imports this year, it would be good if the national economic policy (fiscal policy and foreign exchange policy) would be designed in a way that would not additionally contribute to the growth of local demand and deterioration of the foreign trade trends.

**Table T4-6 Serbia: Imports, Year-on-Year Growth Rates, 2014-2017**

| | Imports share in 2016 | 2014 | 2015 | 2016 | 2017 | | 2016 | | 2017 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Q1 | April | Q3 | Q4 | Q1 | April |
| | in % | in mil. euros | | | | | in % | | | |
| Total | 100.0 | 15,490 | 16,388 | 17,390 | 4,587 | 1,526 | 5.0 | 7.2 | 15.4 | 5.9 |
| Energy | 8.8 | 2,180 | 1,873 | 1,533 | 526 | 139 | -20.2 | -3.6 | 55.2 | 38.8 |
| Intermediate products | 32.8 | 5,156 | 5,526 | 5,712 | 1,513 | 532 | 2.4 | 3.0 | 16.8 | 10.7 |
| Capital products | 22.2 | 3,757 | 4,024 | 3,864 | 821 | 330 | -5.2 | -4.9 | -9.3 | -0.8 |
| Durable consumer goods | 2.2 | 328 | 416 | 377 | 93 | 31 | -6.7 | -8.4 | 14.9 | 0.6 |
| Non-durable consumer goods | 14.4 | 2,360 | 2,512 | 2,511 | 648 | 214 | 0.5 | -1.1 | 17.7 | 1.0 |
| Other | 19.5 | 1,709 | 2,037 | 3,393 | 987 | 281 | 65.4 | 61.4 | 22.7 | -1.3 |
| Imports excluding energy | 91.2 | 13,311 | 14,514 | 15,857 | 4,061 | 1,387 | 8.2 | 8.5 | 11.7 | 3.5 |

Source: SORS

9 Classified in this group are mainly storaged goods.

## Foreign Debt

*Foreign debt at the end of 2016 was 26.6 billion euros*

At the end of 2016, Serbia's foreign debt was 26,592 million euros, i.e. 78.2% of GDP (Table T4-7). During Q4 2016, the foreign debt increased by 918 million euros, and during the entire 2016 it increased by 358 million euros. The level of foreign debt expressed in euros for the most part increased because of the foreign exchange fluctuations – primarily the depreciation of euro against the dollar (around one quarter of the foreign debt is in dollars).

During Q4 2016, the foreign debt increased by 918 million euros or by 2.5 pp of GDP (from 75.7% of GDP to 78.2% of GDP), mostly due to currency fluctuations. Increase of net borrowing during Q4 2016 was predominantly the result of increased foreign debt of the public sector – by 757 million euros (i.e. by 2.1 pp of GDP). To a lesser extent, the growth of total foreign debt was also affected by the increase in the foreign debt of the private sector – by 161 million euros (0.4 pp of GDP). The growth of public debt in the private sector is exclusively due to the higher level of short-term debt compared to the level recorded during Q3. Banks increased their short-term debt by 181 million euros, and the business sector by 47 million euros. At the same time, deleveraging of long-term foreign debt was recorded in the private sector by 66 million euros – the banks deleveraged 111 million euros, while the business sector deleveraged by 45 million euros (see Table T4-7).

*Foreign debt of the public sector increased in 2016*

At the end of 2016, compared to the end of 2015, total foreign debt was by 358 million euros higher. In that period, the public sector increased its borrowing abroad by 384 million euros, while the total deleveraging of the private sector was 27 million euros.

During 2016, banks deleveraged long-term loans by 654 million euros, while the business sector borrowed additional 239 million euros. Short-term loans of banks in the observed period were higher by 400 million euros, while short-term debts of the business sector recorded a decrease by 14 million euros (Table T4-7).

### Table T4-7 Serbia: Foreign Debt Trend Dynamic, 2013–2016

| | 2013 | 2014 | 2015 | 2016 | | | |
|---|---|---|---|---|---|---|---|
| | | | | Mar. | Jun | Sep. | Dec. |
| | stocks, in EUR millions, end of the period | | | | | | |
| Total foreign debt | 25,644 | 25,679 | 26,234 | 25,731 | 25,695 | 25,674 | 26,592 |
| *(in % of GDP)* 4) | *74.8* | *76.8* | *78.2* | *76.7* | *75.8* | *75.7* | *78.2* |
| Public debt1) | 13,120 | 14,145 | 15,295 | 14,934 | 15,031 | 14,923 | 15,680 |
| (in % of GDP)4) | *38.3* | *42.3* | *45.6* | *44.5* | *44.3* | *44.0* | *46.1* |
| Long term | 13,120 | 14,140 | 15,295 | 14,934 | 15,031 | 14,923 | 15,680 |
| o/w: to IMF | 697 | 152 | 15 | 7 | 0 | 0 | 0 |
| o/w: Government obligation under IMF SDR allocation | 434 | 463 | 493 | 483 | 488 | 484 | 494 |
| Short term | 0 | 5 | 0 | 0 | 0 | 0 | 0 |
| Private debt2) | 12,525 | 11,534 | 10,939 | 10,798 | 10,664 | 10,751 | 10,912 |
| *(in % of GDP)* 4) | *36.5* | *34.5* | *32.6* | *32.2* | *31.5* | *31.7* | *32.1* |
| Long term | 12,328 | 11,441 | 10,636 | 10,476 | 10,378 | 10,289 | 10,223 |
| o/w: Banks debt | 3,219 | 2,503 | 2,057 | 1,912 | 1,730 | 1,514 | 1,403 |
| o/w: Enterprises debt | 9,108 | 8,935 | 8,575 | 8,560 | 8,644 | 8,769 | 8,814 |
| o/w: Others | 1 | 3 | 4 | 4 | 4 | 6 | 6 |
| Short term | 196 | 94 | 303 | 322 | 286 | 462 | 690 |
| o/w: Banks debt | 171 | 57 | 186 | 237 | 222 | 406 | 587 |
| o/w: Enterprises debt | 25 | 37 | 117 | 85 | 64 | 56 | 103 |
| Foreign debt, net 3), (in% of GDP)4) | 42.2 | 47.2 | 47.2 | 48.4 | 48.4 | 47.5 | 48.2 |

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 (1,030 million euros, out of which 449 million euro is from domestic banks, and 581 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.