# 4. Balance of Payments and Foreign Trade

**In 2013, the current account deficit was significantly reduced – according to the NBS estimates, current deficit in 2013 was 1.6 billion euros (5.1% of GDP), which is two times less than in 2012. The significant reduction of current deficit in 2013 is primarily due to favourable foreign trade trends – expansion of exports with moderate growth of imports. Still, the fast trend of deficit reduction recorded in the first three quarters of 2013 (8.2% of GDP, 3.5% of GDP, and 1.9% of GDP respectively) was interrupted in Q4 when the deficit reached a level of 6.3% of GDP. The higher level of deficit at the end of 2013 is the result of a noticeable deceleration of exports due to decelerated growth of car exports – considering that the possibility of growth in the exports of these products has mostly been exhausted. Capital inflow during 2013 was quite modest and insufficient for covering still high, although reduced, current deficit. This was a result of a very high outflow on Other Investments account due to an intensive deleveraging of banks and the business sector, as well as a modest inflow of FDI despite a more significant inflow of portfolio investments (mostly due to state borrowing). In 2014, the trends indicate the deficit staying at approximately the same level of around 5% of GDP, having in mind the limited possibility of growth of exports and imports. Also, the still existent political and macroeconomic uncertainty and instability will have a great negative impact on foreign investments in the first half of the year, while a continuation of EU accession negotiations and possible new arrangement with IMF would send a positive signal to the investors. Therefore, unless something considerably changes, it is our opinion that there is a big possibility of same modest results in capital inflow repeating in 2014 as well.**

***In 2013, the current account deficit was significantly reduced due to favourable foreign trade trends – expansion of exports and modest growth of imports***

In 2013, a relatively low current account deficit was realised. In the period January-November[1] 2013 the current account balance of payments deficit was 1,247 million euros. The current deficit was 4.2% of GDP and by 6.6 percentage points lower than the deficit realised in 2012. For the entire 2013, NBS estimates that the current deficit was 5% of GDP. Although two times lower than the current deficit realised in 2012, the 5% of GDP deficit is still quite high and probably not sustainable in the long term. Deficit at this level would be sustainable in the long term only with high FDI and high GDP growth, but none of these conditions can be counted on. Most of the improvement of deficit in 2013 can be attributed to the growth of net exports, primarily to the expansion of exports in automobile industry.

***Current deficit in 2014 will remain around 5% of GDP, which is still a high foreign deficit***

NBS estimates that the share of current deficit will be at the level of 5% of GDP in 2014. That is, the growth of exports in the coming period will, on the one hand, be negatively influenced by depleting the growth of exports in the automobile industry, and on the other hand, the expected recovery of eurozone countries will have a positive impact.

***Capital inflow was quite modest and insufficient for covering the current deficit***

Capital inflow in 2013 was quite modest and insufficient for covering the current deficit. Total net inflow of capital from January to November was 873 million euros and is the result of a modest inflow of FDI (643 million euros), a significant inflow of portfolio investments (1,134 million euros – mostly due to state borrowing), and outflow on Other Investments account (due to intensive deleveraging of banks and businesses). In 2014, the still present political and, therefore, macroeconomic uncertainty and instability in the first half of the year will have a negative impact on foreign investments, while the continuation of EU accession negotiations and possible renewal of IMF arrangement would send a positive signal to investors. Still, unless in 2014 something significantly changes, we believe that there is a great possibility of modest results in capital inflow from 2013 repeating this year as well.

***Current deficit in October and November on a slight rise...***

Current account deficit in October and November 2013 was 172 million euros, i.e. 3.1% of GDP (Table T4-1). The realised deficit was by 2.4 pp lower compared to the same period of the previous year (October-November 2012) and significantly lower compared to the quarterly share of

1 At the moment of submitting QM to printing, the data on the current account for 2013 haven't been published yet, but the data on some of its elements (trade balance) have. Therefore, this chapter analyses balance of payments for the period January-November 2013 and gives estimates for entire 2013.

deficit in GDP in 2012 and in Q1 2013. Still, compared to Q3, the realised deficit is on a slight rise (1.2 pp of GDP). Most of the improvement of the current deficit is still the result of reduced foreign trade deficit due to increased exports, while the inflow of current transfers remained unchanged.

***Exports recorded a significant increase during 2013, reaching at the end of the year ¾ of import value***

Trade deficit was 651 million euros, i.e. 11.9% of GDP, which is 4.0 pp of GDP lower than the realised share in October and November 2012. Reduction of the trade deficit is the result of a fast growth of exports, accompanied by a modest growth of imports. During October and November 2013, goods in the value of 2,049 million euros were exported. So the exports in this period were higher by almost ¼ of the value realised in the same period of the previous year. In the observed two month period of 2013, the imports were 2,700 million euros, which is by 7.9% above the value realised in the same period of 2012.

***In order for the foreign trade deficit to continue its reduction in 2014, the exports need to record a growth at a rate at least a third higher than the growth rate of imports***

Share of exports in GDP has been at a high level of around 37% of GDP since mid 2013, which is high compared to historical data for Serbia, but still lower than in small open economies in the region[2]. In the observed two month period (October-November 2013), it reached 37.3% of GDP. That is 5.6 pp above the realised share in the same period of 2012. Share of imports in GDP was 49.1%, which is just one pp above the recorded value from the same period in 2012 (Table T4-1). Even though the coverage of imports by exports was significantly higher at the end of 2013, the exports are still by ¼ higher than the value of imports. Therefore, in order for the foreign trade deficit to continue its reduction in 2014, the exports should record a growth at a rate that is at least one third higher than the growth rate of imports.

***Constant inflow of current transfers and remittances***

During October and November 2013, the share of net inflow of current transfers was 10.0% of GDP. So this share has been very stable at a level of 10% of GDP since 2011.

Remittances in October and November, as well as in 2012 and 2013, were around 7% of GDP. This confirms that in Serbia, as well as other developing countries, there is a dominant inflow of remittances and current transfers and stable inflow of foreign capital. This also confirms, as stated in economic literature, that these inflows are considerably less sensitive to economic cycles and shocks than Foreign Direct Investments and other private and state flows of capital. Having this in mind, Serbia should influence more heavily directing them to savings and investments, in order to secure, in addition to their direct impact that these inflows have on current spending, that redirecting them to more productive purposes would contribute to the economic growth and development of the country in the long term.

***Low capital inflow is the result of a modest net inflow of FDI and portfolio investments, with net outflow of other investments***

From January to November, the net capital inflow was 873 million euros and it was enough to cover the current deficit in the same period, causing the foreign reserves to drop by 214 million euros. Net FDI inflow was 643 million euros (2.2% of GDP). At the same time, the net outflow of other investments was quite high in the amount of 905 million euros. In addition, the portfolio investments were quite unstable (see Table T4-1).

October and November recorded a capital inflow of 158 million euros. Therefore, despite the extremely reduced value of the current deficit, the realised capital inflow was not enough to cover it, which caused a reduction of foreign reserves by 24 million euros (Table T4-1). The low capital inflow is the result of a modest net inflow of FDI and portfolio investments, with a net outflow of other investments. Portfolio investment inflow in October and November was 202 million euros and it was mostly due to the slightly increased interest of the foreign investors in investing into dinar state (NBS and treasury) bonds (see the section on Monetary Policy), because of the external factors – FED decision in September on delaying the reduction of quantitative reliefs, as much as the internal factors – high dinar interest rate with a credible NBS policy of preventing a sudden depreciation of dinar. FDI is still low in the amount of 125 million euros, while the recorded net outflow on Other Investments account was 169 million euros. Within other investments there was a modest inflow on the Trade Loans account, accompanied by an outflow for financial loans on the Cash and Deposits account.

2 See previous issue of *QM*.

***Negative balance of net financial loans are predominantly the result of NBS deleveraging the IMF debt***

Negative balance of net financial loans of 177 million euros is mostly due to the deleveraging of the National Bank of Serbia for the purpose of repaying the loan to IMF (122 million euros were paid from foreign reserves for these purposes). The banks had a net borrowing of 17 million euros, with recorded borrowing of short-term loans (45 million euros), and deleveraging of short-term loans (28 million euros). The business sector deleveraged 64 million euros net. The Cash and Deposits account recorded a reduction of 146 million euros net.

***During 2013, the foreign reserves increased by 274 million euros***

From January to November, the NBS foreign reserves were reduced by 214 million euros (Table T4-1), while at the annual level they increased by 274 million euros[3] (primarily due to additional state borrowing in December). Despite the fact that during 2013 there was a considerably higher deleveraging of other investments than in 2012 (by November, the deleveraging of other investments amounted to 905 million euros – nine times higher than in 2012), the significantly lower current deficit, as well as somewhat higher FDI inflow than in 2012 together with cumulatively high inflow of portfolio investments (primarily as a result of state borrowing), contributed to the recorded increase of foreign reserves in 2013.

**Table T4-1 Serbia: Balance of Payments**

| | 2011 | 2012 | Jan-Nov 2013 | 2012 | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Q3 | Oct-Nov | Q1 | Q2 | Q3 | Oct-Nov |
| | | | | mil. euros | | | | | |
| **CURRENT ACCOUNT** | -2,870 | -3,185 | -1,247 | -551 | -291 | -625 | -290 | -160 | -172 |
| Goods | -5,318 | -5,480 | -3,492 | -1,191 | -834 | -1,151 | -1,005 | -685 | -651 |
| Export f.o.b[1)] | 8,440 | 8,732 | 10,058 | 2,221 | 1,669 | 2,235 | 2,685 | 3,089 | 2,049 |
| Import f.o.b[1)] | -13,758 | -14,212 | -13,551 | -3,412 | -2,503 | -3,386 | -3,690 | -3,774 | -2,700 |
| Services | 163 | 152 | 271 | 34 | 57 | 34 | 79 | 90 | 68 |
| Export | 3,032 | 3,090 | 3,061 | 839 | 532 | 698 | 826 | 948 | 590 |
| Import | -2,869 | -2,938 | -2,790 | -805 | -475 | -664 | -747 | -857 | -522 |
| Income, net | -758 | -798 | -932 | -156 | -121 | -190 | -244 | -362 | -137 |
| Receipts | 428 | 548 | 436 | 138 | 78 | 102 | 146 | 110 | 79 |
| Payments | -1,186 | -1,346 | -1,368 | -293 | -200 | -291 | -389 | -472 | -215 |
| Current transfers, net | 3,043 | 2,941 | 2,906 | 762 | 607 | 681 | 879 | 797 | 549 |
| o/w grants | 206 | 144 | 111 | 43 | 26 | 30 | 32 | 30 | 18 |
| o/w private remittances, net | 2,065 | 1,934 | 2,008 | 483 | 428 | 457 | 630 | 554 | 367 |
| **CAPITAL ACCOUNT** | -3 | -11 | 11 | -1 | -1 | -2 | 9 | 4 | 0 |
| **FINANCIAL ACCOUNT** | 2,694 | 2,999 | 1,087 | 479 | 245 | 602 | 235 | 62 | 187 |
| Direct investment, net | 1,827 | 242 | 643 | 117 | 158 | 155 | 139 | 224 | 125 |
| Portfolio investment, net | 1,619 | 1,720 | 1,134 | -37 | 1,450 | 1,402 | -347 | -123 | 202 |
| Other investments | 1,049 | -101 | -905 | 60 | -474 | -95 | -443 | -202 | -164 |
| Trade credits | 493 | 506 | 278 | 16 | -42 | 68 | 12 | 39 | 159 |
| Loans | -413 | -434 | -887 | -160 | -91 | -366 | -291 | -53 | -177 |
| NBS | 45 | -219 | -600 | -111 | -105 | -150 | -148 | -180 | -122 |
| Government | 687 | 261 | 469 | 86 | 20 | 162 | 42 | 273 | -8 |
| Commercial banks | -729 | -476 | -503 | -28 | 102 | -308 | -43 | -169 | 17 |
| Long-term | 419 | -323 | -256 | -46 | -37 | -179 | -1 | -48 | -28 |
| Short-term | -1,148 | -154 | -246 | 18 | 139 | -129 | -41 | -121 | 45 |
| Other (enterprises) | -416 | 0 | -253 | -108 | -109 | -70 | -142 | 22 | -64 |
| Currency and deposits | 970 | -172 | -295 | 204 | -341 | 203 | -165 | -188 | -146 |
| Other assets and liabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Allocation of SDR | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Reserves Assets (- increase)** | -1,801 | 1,137 | 214 | 340 | -890 | -859 | 886 | 164 | 24 |
| **ERRORS AND OMISSIONS, net** | 179 | 197 | 149 | 73 | 47 | 25 | 46 | 94 | -16 |
| **OVERALL BALANCE** | 1,801 | -1,137 | -214 | -340 | 890 | 859 | -886 | -164 | -24 |
| **PRO MEMORIA** | | | | | | | | | |
| | | | | | in % of GDP | | | | |
| Current account | -9.1 | -10.8 | -4.2 | -7.5 | -5.5 | -8.2 | -3.5 | -1.9 | -3.1 |
| Balance of goods | -16.9 | -18.6 | -11.7 | -16.2 | -15.9 | -15.1 | -12.0 | -8.2 | -11.9 |
| Exports of goods | 26.8 | 29.6 | 33.6 | 30.2 | 31.7 | 29.3 | 32.1 | 36.8 | 37.3 |
| Imports of goods | -43.6 | -48.2 | -45.3 | -46.3 | -47.6 | -44.4 | -44.1 | -45.0 | -49.2 |
| Balance of goods and services | -16.3 | -18.1 | -10.8 | -15.7 | -14.8 | -14.6 | -11.1 | -7.1 | -10.6 |
| Current transfers, net | 9.7 | 10.0 | 9.7 | 10.3 | 11.5 | 8.9 | 10.5 | 9.5 | 10.0 |

Source: NBS
1) FOB exports, according to the NBS methodology adjusted to the IMF BOPM-5.
2) Quarterly values. Conversion of annual GDP to euro was done by average annual exchange rate (average of official daily NBS exchange rates).

3 NBS, with cross-currency changes – current exchange rate.

Only in Q1 of entire 2013 was there an increase of foreign reserves as a result of a considerable state borrowing in February. Otherwise, if the state hadn't increased its debt in February by selling state bonds in the value of 1,165 million euros, the decline of forex reserves during 2013 would have amounted to 1.38 billion euros by November. In the period from Q2 to November, the foreign reserves were reduced by 1.1 billion euros. Cumulative reduction of foreign reserves during October and November was 24 million euros. In these two months, the largest outflow of foreign reserves was created due to the withdrawal of the higher mandatory bank reserves for the payment of matured euro-denominated RS state bonds, settling of obligations towards foreign creditors, and debt repayment towards IMF. Significant inflow of foreign currency was the result of the sale of euro and dinar denominated RS state bonds[4] on the domestic financial market. In October, dinar nominally appreciated, while in November it kept an almost unchanged value towards the euro. In order to maintain the stability of the exchange rate, NBS started intervening heavily since mid-2013 by buying and selling foreign currency at the interbank foreign exchange market.

## Exports

*Exports still recorded a significant y-o-y growth in Q4, even though they decelerated compared to Q3*

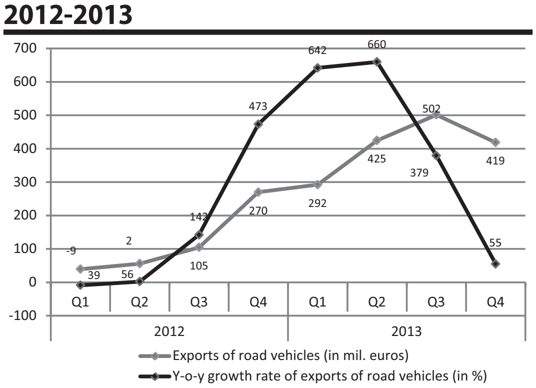
According to the data from the Statistical Office of the Republic of Serbia (SORS), during Q4 exports amounted to 2,958 million euros, i.e. they recorded a year-on-year growth of 22.2%. Thus, after a strong growth of exports in the previous quarter (38.5% y-o-y), the exports have decelerated their growth in Q4 (Table T4-2). In Q4, as in entire 2013, the main driver of exports growth was the automobile industry's export. Besides automobiles, the high growth of exports in 2013 was also the result of the effects of previous investments in oil industry. In addition to that, a relatively good agricultural season and the resulting increased exports of these products had a favourable impact on the growth of total exports in the second half of 2013.

**Table T4-2 Serbia: Exports, y-o-y growth rates, 2011–2013**

| | Exports share in 2013 | 2011 | 2012 | 2013 | 2012 | | 2013 | | 2012 | | 2013 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Q3 | Q4 | Q3 | Q4 | Q3 | Q4 | Q3 | Q4 |
| | in % | | | in mil. euros | | | | | | in % | | |
| Total | 100.0 | 8,441 | 8,822 | 11,076 | 2,255 | 2,422 | 3,125 | 2,958 | 4.5 | 11.9 | 38.5 | 22.2 |
| Total excluding road vehicles | 85.2 | 8,253 | 8,352 | 9,439 | 2,151 | 2,152 | 2,623 | 2,540 | 1.7 | 1.7 | 22.0 | 18.0 |
| Energy | 4.7 | 310 | 303 | 523 | 65 | 90 | 145 | 151 | -6.0 | 48.2 | 125.3 | 68.2 |
| Intermediate products | 33.7 | 3,980 | 3,187 | 3,731 | 812 | 758 | 1,012 | 901 | -19.8 | -16.7 | 24.5 | 18.8 |
| Capital products | 26.9 | 1,001 | 1,667 | 2,983 | 410 | 623 | 859 | 793 | 63.9 | 102.1 | 109.4 | 27.2 |
| Capital products excluding road vehicles | 12.2 | 813 | 1,197 | 1,346 | 306 | 353 | 358 | 374 | 47.9 | 35.2 | 17.0 | 5.9 |
| Durable consumer goods | 4.8 | 347 | 395 | 529 | 106 | 111 | 142 | 147 | 18.5 | 19.1 | 33.8 | 32.5 |
| Non-durable consumer goods | 21.8 | 2,118 | 2,230 | 2,412 | 598 | 611 | 675 | 674 | 4.6 | 5.2 | 12.8 | 10.3 |
| Other | 8.1 | 686 | 1,039 | 898 | 264 | 229 | 292 | 293 | 60.6 | 8.8 | 10.7 | 28.0 |

Source: SORS

**Graph T4-3 Exports of road vehicles, 2012-2013**




Source: SORS

Exports of road vehicles began a sudden growth during 2012 (Graph T4-3). In Q2 and Q3 2013 these exports reached a very high level, only to slightly drop in Q4. Therefore, after an extremely high year-on-year growth rates in the first half of 2013, the growth slowed down in Q3 and was almost entirely exhausted in Q4 (due to including Q4 2012 exports as a high base). Therefore, as the growth has been exhausted, the most we can expect in the coming period is a stagnation in the exports of these products.

Still, the exports after excluding road vehicles slightly decelerated their growth (18.0% in Q4

4 Part of the investors are bringing foreign currency into Serbia and selling them at the foreign exchange market in order to obtain dinars to buy NBS and Treasury securities. This investors' behaviour indicates that they expect the interest rates on dinar securities to be (considerably) higher than the sum of interest rates at the global market and expected dinar depreciation.

compared to 22.0% in Q3), despite the favourable impact of the moderate real appreciation of the domestic currency at the beginning of 2013. This was primarily a consequence of economic activity and industrial production slowing down in Q4, as well as a very slow recovery of the eurozone. Economic activity of the eurozone countries is expected to recover in 2014, which will have a positive impact on the domestic exports. On the other hand, exhausted potential of the automobile industry and lack of new large exporters will significantly reduce the overall export results.

***Exports of all export groups, with the exception of exports of Other Products, decelerated growth compared to the previous quarter***

Exports of Capital Products are suddenly decelerating their growth. After the year-on-year growth of over 100% for four consecutive quarters, in Q4 2013 the y-o-y growth was 27%. Exports of *Capital Products* after excluding road vehicles recorded a y-o-y growth at a rate of 5.9%. This means a decelerated growth compared to the previous quarter, but also to the growth recorded in the first two quarters of 2013. Exports of *Intermediary Products,* after a year-on-year growth of 24.5% in Q3, recorded a growth of 18.8% in Q4.

Exports of *Non-durable Consumer Goods* also decelerated compared to Q3, although they are accelerating compared to the first half of the year. Growth of exports of *Durable Consumer Goods* is still high at 32.5%.

Exports of products classified under *Other Exports* recorded a significantly accelerated growth. That is, exports of products in this group was higher by 28.0% in Q4 compared to the Q4 2012 values.

***In 2013, the foreign trade deficit was significantly reduced, and coverage of imports by exports reached 72%***

At the annual level, a much faster growth of exports was recorded than of imports, which significantly increased the coverage of imports by exports and reduced the current deficit. Exports in 2013 were 11,076 million euros, which is a 25.6% growth compared to the exports realised during 2012. At the same time, imports were 15,478 million euros (y-o-y growth of 4.8%). Thus, the coverage of imports by exports increased: from 60% in 2012 to 72% in 2013. This is the biggest coverage of imports by exports in the recent period, but additional improvement is needed, because the current balance deficit of 5% of GDP is still high. Foreign trade deficit in 2013 was by a quarter (i.e. 1.55 billion euros) below the one from 2012.

## Imports

***In Q4 2013 y-o-y growth of imports was 5.6%...***

Imports in Q4 were 4,215 million euros, which is 5.6% above the Q4 2012 values (Table T4-4). After the accelerated growth recorded in the first three quarters of 2013, imports decelerated their growth in Q4. The main reason is the continuing low domestic demand, which is the result of the fiscal consolidation measures taken so far.

***....which will be significantly limited in the coming period***

We believe that the growth of imports in 2014 will be, on the one hand, limited by a low domestic demand due to decelerated growth of production in the automobile industry, which will manifest through a decelerated growth of imports of car components. Low (even negative)[5] credit activity will have the same impact on imports, if it continues in 2014. In addition, private and state spending will drop and this will decelerate the growth of imports[6].

***Energy imports are accelerating growth***

The period of year-on-year reduction of Energy imports ended in Q3 2013, when the import of energy recorded a 5.3% growth and accelerated towards the end of the year. The imports of these products in Q4 were 9.5% above the Q4 2012 values. This can be explained by the fact that the effects of earlier investments in oil industry have been mostly depleted and that Q4 2013 is being compared to a low last year's base. Therefore, the imports excluding energy recorded a y-o-y growth of 4.8%, which is an expressed deceleration of growth of thus observed imports compared to the growth from the previous quarter.

5 See the section on Monetary trends and policy.
6 See the section on Economic activity and the section on Fiscal trends and policy.

**Table T4-4 Serbia: Imports, y-o-y growth rates, 2011–2013**

| | Imports share in 2013 | 2011 | 2012 | 2013 | 2012 | | 2013 | | 2012 | | 2013 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Q3 | Q4 | Q3 | Q4 | Q3 | Q4 | Q3 | Q4 |
| | in % | in mil. euros | | | | | | | in % | | | |
| Total | 100.0 | 14,250 | 14,771 | 15,478 | 3,554 | 3,990 | 3,913 | 4,215 | 1.6 | 1.4 | 10.1 | 5.6 |
| Energy | 15.1 | 2,846 | 2,583 | 2,339 | 535 | 678 | 563 | 742 | -10.6 | -20.7 | 5.3 | 9.5 |
| Intermediate products | 32.4 | 5,030 | 5,131 | 5,010 | 1,301 | 1,291 | 1,321 | 1,254 | -0.7 | 4.5 | 1.5 | -2.9 |
| Capital products | 23.3 | 2,812 | 2,994 | 3,600 | 726 | 887 | 913 | 982 | 5.8 | 12.4 | 25.7 | 10.7 |
| Durable consumer goods | 1.9 | 320 | 322 | 301 | 80 | 82 | 70 | 79 | 0.5 | -15.0 | -12.9 | -3.4 |
| Non-durable consumer goods | 14.2 | 2,176 | 2,168 | 2,197 | 551 | 625 | 558 | 599 | -5.0 | 3.7 | 1.3 | -4.1 |
| Other | 13.1 | 1,066 | 1,573 | 2,031 | 360 | 427 | 489 | 558 | 47.6 | 20.3 | 35.7 | 30.5 |
| Imports excluding energy | 84.9 | 11,404 | 12,189 | 13,139 | 3,019 | 3,312 | 3,350 | 3,472 | 4.1 | 7.6 | 11.0 | 4.8 |

Source: SORS

***Imports were reduced in as many as three categories***

Observed year-on-year, in as many as three categories – Intermediary Products, as well as Durable and Non-durable Consumer Goods – the imports have been reduced (Table T4-4). Decrease of imports of Intermediary Products could indicate a decelerated production in the coming period. Capital products are increasing at a y-o-y rate of 10.7%. It is still a decelerated growth compared to the previous quarters. This deceleration is owed to the reduced imports of components for the production of cars, as well as to the fact that Q4 is being compared to a high base.

***Products classified under Other Imports still have a significant growth***

Still, products classified under Other Imports still have a significant y-o-y growth of 30.5%. As mentioned in previous issues of QM, in addition to Capital Products, components for the production of FIAT automobiles are also classified in this group.

## Foreign debt

***Serbia's foreign debt at the end of December was 25.8 billion euros, i.e. 79.2% of GDP***

At the end of December 2013, Serbia's foreign debt amounted to 25.8 billion euros, i.e. 79.2% of GDP[7].

***Increase of foreign debt in 2013 is due to the increase in public sector's foreign debt...***

***...mostly realised during Q1 …***

***while the private sector has been deleveraging its debt***

During 2013, the total foreign debt increased by 121 million euros net, where public sector's foreign debt increased by 986 million euros, while private sector's decreased by 865 million euros. Therefore, the growth of country's foreign debt in 2013 is exclusively the result of the growth of public sector's foreign debt. Private sector, banks and companies, have reduced the amount of their foreign debt from both long-term and short-term loans.

Long-term foreign debt of the private sector was reduced by 584 million euros, out of which the highest reduction was due to the deleveraging of the banking sector (which in 2013 deleveraged 443 million euros). The business sector reduced the amount of its long term foreign debt by 142 million euros. Compared to 2012, the level of short-term borrowing is quite lower for both banks (by 257 million euros) and businesses (by 25 million euros).

***Increase of foreign debt during Q4 was exclusively due to the growth of public sector's foreign debt***

During Q4, total foreign debt increased by 156 million euros, i.e. by 0.4 pp of GDP. This growth was exclusively due to the increase in public sector's foreign debt (a growth of 387 million euros, i.e. 0.8 pp). On the one hand, this net increase is the result of inflow of funds from the sale of 845 million euros of RS state bonds in December at the international and domestic financial markets, which in turn was reduced by the outflow of funds for the repayment of debt on matured securities and deleveraging of NBS toward IMF. At the same time, the private sector reduced its foreign debt by 231 million euros, out of which 263 million euros were long-term borrowing, while short-term borrowing slightly increased. Banks deleveraged its long-term loans by 234 million euros, and the business sector by 29 million euros. Banks' short-term borrowing increased by 34 million euros, while the business sector's slightly decreased - by 5 million euros, compared to Q3 (Table T4-5).

Having in mind the planned level of fiscal deficit, it is estimated that in 2014 the growth of public sector's debt will continue. It will be accompanied by a reduction of private sector's debt, if the

7 With the latest revision of the statistics, the data on nominal GDP have been adjusted downward, which caused an increase in the share of all macroeconomic variables in GDP. Considering that the GDP revision was published just before QM went to printing, this issue uses old unadjusted GDP data.

recent trend of intense bank and private sector deleveraging is continued. Even though private sector deleveraging will mostly compensate for the increase of public sector's debt, the unfavourable structure of the total debt in favour of public sector's debt will be expressed even more in 2014. Therefore, the right measure of risk in Serbia in the coming period is not the mere level of foreign debt, but its structure, which reflects the unfavourable state of economy – a relative inactivity of the private sector for a long time, which is giving no signs of a potential recovery or a more significant activity, large and growing needs of the public sector, which in absence of activity in other parts of the economy tend to become unsustainably se lf-generating.

**Table T4-5 Serbia: Foreign debt structure, 2010–2013**

| | 2010 | 2011 | 2012 | 2013 | | | |
|---|---|---|---|---|---|---|---|
| | | | | Mar. | Jun | Sep. | Dec. |
| | stocks, in EUR millions, end of the period | | | | | | |
| Total foreign debt | 23,786 | 24,125 | 25,721 | 26,722 | 26,072 | 25,686 | 25,842 |
| *(in % of GDP)* [4] | *85.1* | *76.5* | *87.1* | *88.1* | *83.4* | *79.6* | *79.2* |
| Public debt[1] | 9,076 | 10,773 | 12,187 | 13,483 | 12,914 | 12,786 | 13,173 |
| (in % of GDP)[4] | *32.5* | *34.2* | *41.3* | *44.5* | *41.3* | *39.6* | *40.4* |
| Long term | 9,076 | 10,773 | 12,187 | 13,483 | 12,914 | 12,786 | 13,173 |
| o/w: to IMF | 1,529 | 1,618 | 1,389 | 1,245 | 1,079 | 890 | 697 |
| o/w: Government obligation under IMF SDR allocation | 449 | 459 | 452 | 454 | 447 | 441 | 434 |
| Short term | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Private debt[2] | 14,710 | 13,352 | 13,534 | 13,240 | 13,158 | 12,900 | 12,669 |
| *(in % of GDP)* [4] | *52.6* | *42.3* | *45.9* | *43.7* | *42.1* | *40.0* | *38.8* |
| Long term | 12,880 | 12,704 | 13,040 | 12,879 | 12,849 | 12,719 | 12,457 |
| o/w: Banks debt | 3,362 | 3,782 | 3,672 | 3,530 | 3,511 | 3,463 | 3,229 |
| o/w: Enterprises debt | 9,518 | 8,922 | 9,369 | 9,348 | 9,336 | 9,255 | 9,227 |
| o/w: Others | 0 | 0 | | 1 | 1 | 1 | 1 |
| Short term | 1,830 | 648 | 493 | 361 | 309 | 180 | 212 |
| o/w: Banks debt | 1,731 | 582 | 428 | 303 | 261 | 135 | 171 |
| o/w: Enterprises debt | 100 | 66 | 65 | 58 | 47 | 45 | 41 |
| Foreign debt, net [3], (in% of GDP)[4] | 49.3 | 38.3 | 50.2 | 49.1 | 49.3 | 47.2 | 44.9 |

NOTE: External debt of the Republic of Serbia is calculated on a due-for-payment basis and includes the amount of debt under principal and the amount of accrued interest which is not paid at the agreed due date.
Source: NBS, QM
1) External debt of the public sector of the Republic of Serbia comprises government debt (including debt of Kosovo&Metohija under loans concluded before the arrival of the KFOR mission, non-regulated debt towards Libya and clearing debt towards former Czechoslovakia), debt of the National Bank of Serbia, local governments, state funds and agencies, and government-guaranteed debt.
2) External debt of the private sector of the Republic of Serbia comprises debt of banks, enterprises and other sectors which is not government-guaranteed. External debt of the private sector does not include loans concluded before 20 December 2000 in respect of which no payments are made (EUR 836.3 million, of which EUR 383.2 million relating to domestic banks and EUR 453.1 million to domestic enterprises).
3) Total foreign debt minus NBS forex reserves.
4) Uses the sum value of GDP of the observed quarter and previous three quarterly values of GDP.