

## 4. Balance of Payments and Foreign Trade

The current accounts deficit in the balance of payments in Q2 was reduced significantly following the high value recorded in Q1. In Q2 it stood at 718 million Euro and accounted for 9.7% of the GDP. The favorable trend in the reduction of the current deficit in Q2 is primarily the consequence of a delayed effect of the depreciation – and somewhat better results of foreign trade activities, as well as a significant inflow of current transfers. Exports are growing, seasonally adjusted value by 8.7%, while imports continue to be high. In Q2 there was a net outflow of capital of 437 million Euro primarily as the result of the outflow of funds on the basis of changes of regulations on the mandatory reserves of banks but also a very modest inflow of the FDI and portfolio investments. That caused the creation of depreciation pressure and led to a drop in foreign currency reserves of 1.1 billion Euro. On one side, the current drought in the country, halt of production at the “Železara Smederevo” steel plant and rise in oil prices on the world market could contribute to the growth of the current deficit while the start of exports of FIAT automobiles, depreciation of the domestic currency and fiscal consolidation should contribute to its reduction. The effect of the rise of food prices will probably not be sufficient to compensate for the drop in exports and the foreign trade surplus in food exports will be lower this and next year. We expect that more than one billion Euro will be required to cover the current deficit in the second half of the year. If, in the next period, the low level of foreign investment inflow and the net outflow in the accounts of financial credits are repeated more foreign loans will be required to prevent the drop in the NBS foreign currency reserves. That solution could be a problem considering the level of foreign debt owed by the economy and the state and even more difficult bearing in mind the recently reduced credit rating of the country.

**Current account deficit of balance of payments in Q2 reduced significantly following high values registered in Q1**

The current account deficit of the balance of payments is once again drawing closer to the balanced level following the very high value registered in Q1. In Q2 it stood at 718 million Euro and accounted for 9.7% of the GDP (Table T4-1 and Graph T4-2). The favorable trend of a repeated reduction of the current deficit in Q2 is primarily the consequence of the delayed effect of depreciation (which is in accord with our expectations in the previous issue of *QM*) and also the somewhat improved results in foreign trade activity as well as a significant inflow of current transfers (Graph T4-3). The Achieved value of the current deficit in Q2 is at the level of the average in 2011 and significantly under the value from Q4 2011 and Q1 2012 (11.3% GDP and 17.0% GDP, respectively). The deficit is 22.3%, that is 2.5 percentage points of the GDP above that of Q2 2011. In the January-June period of 2012, the value of the current accounts deficit was 45.3% above the value in the same period of the previous year. The higher current account deficit coupled with the very low capital inflow in Q1 and net outflow of capital in Q2 in the financial account (Graph T4-7) have a negative effect on the value of the domestic currency.

**Goods deficit in Q2 significantly under Q4 2011 and Q1 2012**

In Q2 the goods deficit stood at 1.27 billion Euro, that is 17.2% of the GDP and was at the level of the average in 2011 (17.4% GDP, Table T4-1 and Graph T4-4). That level of the goods deficit is significantly below the values of Q4 2011 and Q1 2012 when they stood at 21.2% of the GDP and 22.4% of the GDP respectively. Compared to Q2 2011 the goods deficit was higher by 6.4%, that is 2.5 percentage points of the GDP.

Table T4-1. Serbia: Balance of Payments

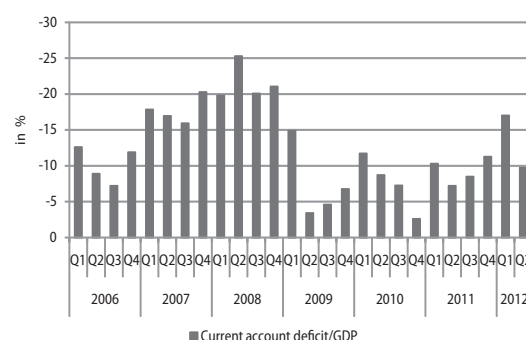
	2009	2010	2011	2011				2012	2012
				Q1	Q2	Q3	Q4	Q1	Q1
				mil. euros					
<b>CURRENT ACCOUNT</b>	-2,084	-2,082	-2,890	-717	-587	-683	-903	-1,177	-718
Goods	-5,118	-4,774	-5,437	-1,271	-1,196	-1,271	-1,699	-1,551	-1,273
Export f.o.b. <sup>1)</sup>	5,978	7,402	8,437	1,955	2,162	2,169	2,151	1,852	2,283
Import f.o.b. <sup>1)</sup>	-11,096	-12,176	-13,874	-3,226	-3,358	-3,440	-3,850	-3,403	-3,556
Services	18	5	162	28	12	12	109	29	1
Export	2,500	2,667	3,032	631	720	816	865	667	747
Import	-2,482	-2,662	-2,871	-603	-708	-803	-756	-638	-746
Income, net	-502	-670	-758	-112	-252	-195	-198	-229	-211
Receipts	500	438	428	101	100	101	126	109	134
Payments	-1,002	-1,108	-1,186	-214	-352	-296	-324	-338	-345
Current transfers, net	3,518	3,356	3,143	638	849	771	885	574	765
o/w grants	197	193	206	49	41	39	77	26	38
o/w private remittances, net	2,618	2,383	2,165	450	596	546	573	359	523
<b>CAPITAL ACCOUNT</b>	2	1	-2	-1	0	-1	0	-3	-4
<b>FINANCIAL ACCOUNT</b>	2,207	1,986	2,674	601	531	642	899	1,017	663
Direct investment, net	1,372	860	1,827	307	259	661	600	-372	234
Portfolio investment, net	-51	39	1,619	520	246	871	-18	76	58
Other investments	3,249	158	1,029	-58	58	188	840	397	-729
Trade credits	654	83	573	90	89	116	277	117	177
Loans	1,414	830	-413	-879	34	226	206	-20	-135
NBS	1,114	341	45	-4	52	-3	0	-4	0
Government	258	735	687	29	275	297	86	18	91
Commercial banks	894	626	-729	-691	-132	-10	104	-150	-358
Long-term	492	619	419	3	10	99	307	-84	-117
Short-term	402	6	-1,148	-694	-142	-109	-203	-66	-241
Other (enterprises)	-853	-872	-416	-214	-160	-58	16	115	132
Currency and deposits	760	-754	870	731	-65	-153	357	300	-770
Other assets and liabilities	0	0	0	0	0	0	0	0	0
Allocation of SDR	422	0	0	0	0	0	0	0	0
<b>Reserves Assets (- increase)</b>	-2,363	929	-1,801	-168	-33	-1,078	-523	916	1,100
<b>ERRORS AND OMISSIONS, net</b>	-124	96	219	117	56	42	4	163	60
<b>OVERALL BALANCE</b>	2,363	-929	1,801	168	33	1,078	523	-916	-1,100
<b>PRO MEMORIA</b>				in % of GDP					
Current account	-7.2	-7.4	-9.3	-10.3	-7.2	-8.5	-11.3	-17.0	-9.7
Balance of goods	-17.7	-17.1	-17.4	-18.2	-14.7	-15.8	-21.2	-22.4	-17.2
Exports of goods	20.6	26.5	27.0	28.0	26.5	26.9	26.8	26.8	30.9
Imports of goods	-38.3	-43.6	-44.5	-46.3	-41.2	-42.7	-48.0	-49.2	-48.1
Balance of goods and services	-17.6	-17.1	-16.9	-17.8	-14.5	-15.6	-19.8	-22.0	-17.2
Current transfers, net	12.1	12.0	10.1	9.1	10.4	9.6	11.0	8.3	10.3
GDP in euros <sup>2)</sup>	28,966	27,956	31,203	6,976	8,155	8,051	8,022	6,919	7,400

Source: NBS

1) exports and imports f.o.b, according to NBS methodology adapted to IMF BOPM-5.

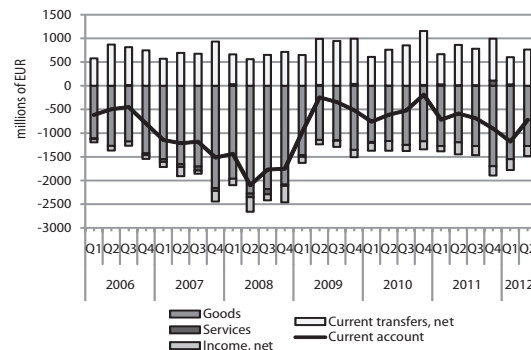
2) Quarterly values. Conversion of annual GDP in Euro based on average annual exchange rate (average of official daily NBS exchange rates).

Graph T4-2. Participation of current deficit in GDP, 2006-2012



Source: NBS, QM

Graph T4-3. Current Account and its Components, 2006-2012

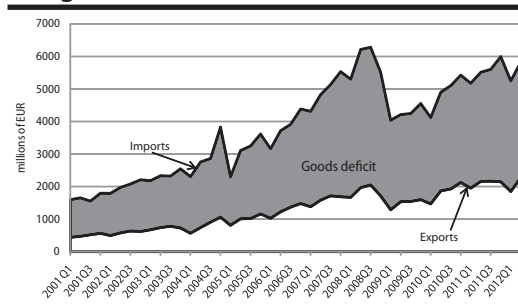


Source: NBS, QM

## 4. Balance of Payments and Foreign Trade

In Q2 goods were exported worth 2,283 million Euro or 30.9% of the GDP. That participation of exports in the GDP is significantly above the previous values of this indicator (2008: 22.7% GDP, 2009: 20.6% GDP, 2010: 26.5% GDP and 2011: 27.0% GDP, see Table T4-1). Bear in mind that to a greater extent the high percentage of the exports in the GDP is the result of the low level of the GDP in Euro due to the depreciation of the Dinar against the Euro. In Q2 a relatively high value of exports was achieved and stood 5.6% above the value of Q2 2011. Also, according to seasonally adjusted data exports are registering a constant growth and the value

**Graph T4-4. Goods imports, goods exports and goods deficit 2001-2012**



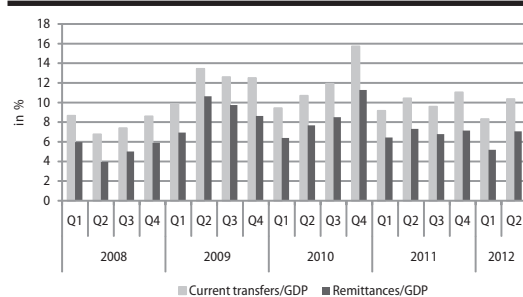
Source: NBS, QM

at the end of Q2 stood at 8.7% above the value achieved in Q1 2012. The recorded growth of exports is explained with the delayed effects of the depreciation of the domestic currency (which started at the end of 2011) and the realization of exports which could not be done during Q1 because of weather conditions<sup>1</sup>. Imports in Q2 stood at 3,556 million Euro or 48.1% of the quarterly achieved value of the GDP. The y-o-y rise of imports is 5.9%. The rise in imports in Q2 – as in the previous quarter – caused the significant fiscal expansion which characterized the first half of the year.

*Inflow of current transfers and remittances approximately at level of 2011 average and are higher than inflow in Q1 2012*

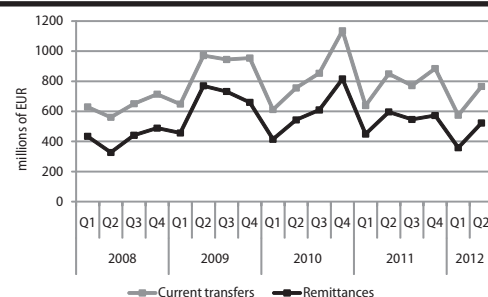
The net inflow of current transfers stands at 765 million Euro (see Graph T4-5 and Graph T4-6). Of that amount 523 million is inflow from remittances. Those values of the current transfers and remittances are slightly higher than the average of 2011 and significantly above the values registered in Q1 2012. The income account saw an outflow of 211 million Euro.

**Graph T4-5. Participation of inflow of current transfers and remittances in GDP, 2008-2012**



Source: NBS, QM

**Graph T4-6. Inflow of current transfers and remittances 2008-2012**



Source: NBS, QM

*On one hand, the current drought, halt to production in "Železara Smederevo" steel plant, recession in the Euro zone and rise of world oil prices could contribute to the growth of the current deficit...*

On the second half of 2012, on one hand we can expect the negative effect on exports in the coming period of bad weather conditions which characterized the current year – as well as the foreign trade and current balance. Namely, the extremely cold weather in February followed by a heat wave and drought in the summer will cause a smaller yield of the main export products: grains, fruit, vegetables and other.<sup>2</sup> Measures to limit exports of some agricultural products will not have any great effect on the balance of payments of Serbia but will affect the redistribution of income from farmers to industrial processing. Also, the further drop in exports can be expected with *steel and iron*, considering the temporary halt to production at the "Železara Smederevo" steel plant announced for the period from July to the end of September<sup>3</sup>. Also, if the trend of rising world fuel prices (as registered in July and August) continues in the coming period, it will contribute to the rise in the value of exports and that will have a negative effect on the Serbian

1 see. *Inflation report*, pp. 31.

2 According to initial assessments the corn and soy crop will be halved compared to last year's yield, while the sunflower and sugar beet harvest will be 20-40% lower than last year.

3 <http://www.zelsd.rs/index.php?link=news-view/1211/privremeno-zaustavljanje-proizvodnje-u-zelezari-smederevo>

**...while start of export of FIAT automobiles, depreciation of domestic currency and fiscal consolidation should contribute to its reduction**

balance of payments. The assessment is that the Euro zone will again fall into recession in Q4 which will probably significantly slow down domestic exports and lead to a rise in the foreign trade and current account deficit.

On the other hand, the lowering of the foreign trade (current) deficit will be influenced primarily by the export of FIAT automobiles. Also, we expect the depreciation of the Dinar – topical this year and late last year – will be reflected in the lowering of the foreign trade (including the current) deficit in the second half of 2012. Additionally, the coming budget amendments should bring some measures of fiscal consolidation which would lead to a drop in imports through a lowering of domestic demand and would help lower the balance of payments imbalance. The net effect of the global rise in food prices on the current deficit is unclear considering that the rise in food prices will be reflected in both export and import products of the domestic economy<sup>4</sup>.

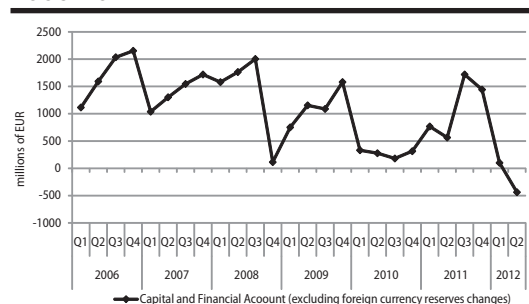
Based on the above, we expect the current deficit by the end of the year to stand at about 3 billion Euro, that is about 10% of the GDP. That means that – bearing in mind that the current deficit was 1.9 billion Euro in the first six months – the monthly amount need to finance the current deficit in the first half of 2012 will be between 150 and 200 million Euro. Bearing in mind also that the first half of the year saw a modest inflow of investments and a negative balance in financial credits, if there are no significant changes by the end of the year, the drop in foreign currency reserves used to cover the deficit could exceed a billion Euros. In that case, the lack of any significant inflow of funds in investments and commercial credits would mean that the alternative to the lowering of the NBS foreign currency reserves is more state debt abroad or a further depreciation of the domestic currency (which is less likely). The solution could be problematic considering the high level of foreign debt of the domestic economy (the foreign debt of the public sector at the end of Q2 reached 55% of the GDP and the level of Serbia's total foreign debt at 79% of the GDP<sup>5</sup>), and is made additionally difficult because of unfavorable conditions considering the recent lowering of Serbia's credit rating.

**Q2 2012 sees net outflow of capital 437 million Euro**

Q2 2012 saw a net outflow of capital of 437 million Euro<sup>6</sup> (Table T4-1 and Graph T4-7). The outflow of capital is the consequence of a high negative value of Other investments (-729 million Euro, Table T4-1). The FDI stands at 234 million Euro, while portfolio investments in Q2 are modest and stand at 58 million Euro.

**...primarily consequence of withdrawal of funds in Currency and deposits accounts and the net repayment of debts on the basis of financial credits due to the net repayment by banks**

**Graph T4-7. Capital and financial account, 2006-2012**



Source: NBS, QM

The negative balance of other investments is primarily the consequence of the withdrawal of funds from *Currency and deposits* accounts to the value of 770 million Euro with the withdrawal of 627 million Euro in April alone. Of that amount, the largest part is the lowering of bank funds with the NBS due to the change of NBS regulations on mandatory foreign currency reserves introduced in April. Additionally, there has been a repayment of debts on the basis of financial loans due to bank repayments.

The net inflow on the basis of trade credits in Q2 stood at 177 million Euro. The net financial credits are negative (135 million Euro). Banks repaid debts to the value of 358 million Euro (117 million in long-term and 241 million Euro in short-term loans). On the other hand, the economy took out 132 million Euro in loans, including net debts in long-term loans totaling 130 million Euro.

**Cumulative drop in foreign currency reserves since start of year 2 billion Euro**

The cumulative drop in foreign currency reserves in Q2 is 1.1 billion Euro and the level of NBS foreign currency reserves is 2 billion Euro lower than the level at the end of 2011. The foreign

<sup>4</sup> The world price of wheat late in July according to IMF figures stood 25.2% higher than at the end of June, while the price of corn rose 24.6% in the same period. Those prices are expected to rise further because of the drought in the USA and Eastern Europ as well as the price of corn used for the production of bioethanol.

<sup>5</sup> see section *Foreign Debt* below.

<sup>6</sup> Outflow stands at 377 million Euro with adjustment of account *Errors and Omissions*.

## 4. Balance of Payments and Foreign Trade

currency reserves were reduced by 725 million Euro in April, 402 million Euro in May, and in June a slight increase of 28 million Euro was registered. In April the drop in foreign currency reserves was mainly due to the changes in NBS regulations (lower rate used by banks to calculate the mandatory foreign currency reserve accompanied by an increase in rates for the mandatory foreign currency reserves of banks in Dinars). The bank withdrew 470 million Euro on that basis. Additionally, early in April banks withdrew the amount they voluntarily kept in March. In April, 210 million Euro of the foreign currency reserves were used to defend the value of the domestic currency. In May, the drop in foreign currency reserves was owed mainly to NBS interventions on the foreign currency market to defend the currency when it spent 473 million Euro. Interventions to defend the exchange rate in June were significantly lower than in April and May and stood at 107 million Euro<sup>7</sup>.

## Exports

**Exports in Q2 2012 stood at 2.28 billion Euro and recorded a rise of 5.8% y-o-y**

Exports in Q2 2012 stood at 2.28 billion Euro. Viewed y-o-y exports recorded a rise of 5.8% following a y-o-y drop in the first quarter (- 5.2%, see Table T4-8). A positive contribution to the rise in exports came from *Capital products, durable and non-durable consumer goods* and products classed as *Other exports*. The y-o-y drop in value was recorded with *Intermediate products* and *Energy* (Table T4-8).

**Table T4-8. Serbia: Exports, Y-o-y growth rates, 2010–2012**

	Exports share in 2011	2010 <sup>1)</sup>	2011 <sup>1)</sup>	2011		2012		2012	
				Q1	Q2	Q1	Q2	Q1	Q2
	in %			mil. euros				in %	
Total	100.0	7,393	8,441	1,964	2,157	1,863	2,282	-5.2	5.8
Energy	3.7	344	309	63	117	64	86	1.5	-26.7
Intermediate products	47.5	3,399	4,009	986	1,071	833	995	-15.6	-7.1
Capital products	11.7	873	990	198	245	217	308	9.8	25.5
Durable consumer goods	4.1	320	347	75	90	79	101	5.6	12.3
Non-durable consumer goods	25.2	1,933	2,128	466	499	501	565	7.5	13.2
Other	7.8	525	658	177	135	169	228	-4.6	69.3

Source: SORS

1) data in millions of Euro, and y-o-y growth rate based on data from Statistical Office of the Republic of Serbia (SORS) calculated using new methodology. For details see QM 20, Box1. "Changes to foreign trade methodology used by the Statistical Office of the Republic of Serbia".

**Value of exports 4,144 million Euro in first half of year**

The value of exports in the first half of the year stood at 4,144 million Euro, which is 0.57% more than the value in the first half of the previous year. The greatest part of domestic exports – approximately a third of overall export activities – consists of: *Grains and grain based products, Electrical appliances, Iron and steel, Ferrous metals and Metal products*. The export of *Grains and grain based products* saw a significant y-o-y rise of 32.7% which is the result of last year's harvest and will probably, due to this year's unfavorable weather conditions, not be repeated next year. Also, a significant growth of exports in the same period was recorded in *Sugar, sugar based products* (21.3%) and *Cattle feed* (28.7%). On the other hand the exports of *Iron and steel* and *Ferrous metals* is significantly below last year's values standing at 54.8% and 26.0% respectively. The continued y-o-y drop in exports of these products is almost certain to the end of the year since even if a foreign investor appears soon, the first results can be expected next year at the earliest.

The low value of exports in Q1 can be explained primarily with the low foreign demand and unfavorable events in the Euro zone, unfavorable weather conditions in the country (extreme cold) and delayed effect of the real appreciation of the Dinar – recorded in mid-2011<sup>8</sup>. The certain recovery of exports in Q2 can be explained to a great extent with the effect of the depreciation of the Dinar and the realization of exports which could not be realized in Q1 because of the weather.

<sup>7</sup> <http://www.nbs.rs/internet/cirilica/scripts/showContent.html?id=5897&konverzija=no>

<sup>8</sup> see QM 28.

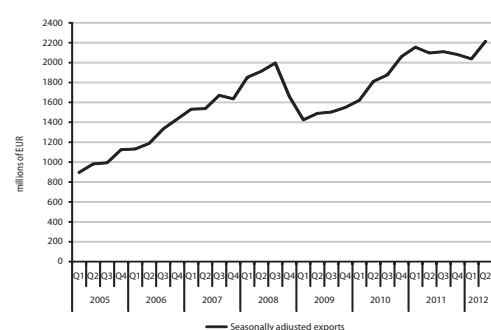


In the second half of the year we expect to see a rise in export values based on the export of FIAT automobiles, the further positive effects of the current depreciation of the domestic currency on exports and a rise in world prices of some important export products for the domestic economy (corn, wheat ...). On the other hand, a negative effect on exports could be the result of this year's drought which could limit the potentials of the domestic economy to exporting food products. Also we expect a negative effect of the inactivity of the Smederevo steel plant on exports – which was felt in the first half of the year – and which will be especially evident in Q3 and Q4 bearing in mind the current halt to production.

**In July, exports were 3.3% above the values in the same month of 2011**

In July, exports stood at 761 million Euro and were 3.3% above the value in the same month of 2011. In the first seven months of 2012, goods were exported to the value of 4.9 billion Euro which is 1% more than the exports in the same period of the previous year. Exports to six countries – Germany, Italy, Bosnia-Herzegovina, Romania, Montenegro and Russia – totaled 2.66 billion Euro of domestic goods (about 55% of the total value of exports in that period).

**Graph T4-9. Serbia: Seasonally adjusted exports, quarterly, 2005-2012**



Source: NBS, SORS, QM

Seasonally adjusted values indicate a significant recovery of exports in Q2 2012. (Graph T4-9). Namely, following the big drop in 2008, exports began recovering from Q1 2009. This growing trend in exports was halted and turned around early in 2011 and the seasonally adjusted value of exports, with some oscillations, recorded a negative trend in 2011 and in Q1 2012. In Q2, the value of seasonally adjusted exports reached 2,213 million Euro, which is 8.7% above the values of Q1 2012.

**Seasonally adjusted values show significant recovery of exports**

## Imports

**Imports in Q2 5.9% higher than in Q2 2011**

Imports of goods in Q2 stood at 3,682 million Euro. That is 5.9% higher than in Q2 2011. Energy imports were 12.9% lower than last year while other products saw a y-o-y growth. Imports without energy saw a more pronounced growth – at a rate of 10.1% y-o-y (Table T4-10). Although energy prices in Dollars in Q2 2012 were significantly lower than prices at the start of the year and stood 5.3% under Q2 2011 levels, a significant weakening of the Euro against the Dollar led to energy prices expressed in Euro standing 6.2% higher than last year. The y-o-y drop in value of energy imports in Q2 were solely due to a drop in amounts imported. That could be the consequence of higher oil exploitation in the country which in Q2 was significantly greater than exploitation the previous year (growth indexes compared to the average in 2011: in April 102.0, in May 110.1, in June 110.2)<sup>9</sup>. July and August saw rises in the prices of fuels which could have an unfavorable effect on the value of imports in Q3.

**Table T4-10. Serbia: Imports, Y-o-y growth rates, 2010–2012**

	Imports share 2011	2010 <sup>1)</sup>	2011 <sup>1)</sup>	2011		2011		2012	
				Q1	Q2	Q1	Q2	Q1	Q2
	in %			in mill. euros				in %	
Total	100.0	12,622	14,250	3,341	3,476	3,524	3,682	5.5	5.9
Energy	20.0	2,453	2,846	767	626	817	546	6.4	-12.9
Intermediate products	35.3	4,390	5,037	1,130	1,354	1,174	1,364	3.9	0.7
Capital products	19.7	2,336	2,807	664	671	608	684	-8.5	2.0
Durable consumer goods	2.3	373	321	69	75	79	86	15.2	15.0
Non-durable consumer goods	15.3	2,024	2,185	476	519	517	537	8.8	3.5
Other	7.4	1,046	1,053	235	231	329	465	39.8	101.2
Imports excluding energy	80.0	10169	11404	2,574	2,850	2,708	3,137	5.2	10.1

Source: SORS

1) date in millions of Euro, as well as y-o-y growth rate based on data from Statistical Office of the Republic of Serbia (SORS) calculated using new methodology. For details see QM 20, Box 1. "Changes to foreign trade methodology used by the Statistical Office of the Republic of Serbia".

9 Monthly statements by SORS (IH10).

## 4. Balance of Payments and Foreign Trade

Despite the fact that imports rose in Q2 – viewed y-o-y, the seasonally adjusted value of imports indicates a significant drop in the value of imports compared to the previous two quarters (Graph T4-11). Imports were 4.4% lower than the level of Q4 2011 and Q1 2012. Additionally, the Graph shows that imports continue to be significantly below pre-crisis values.

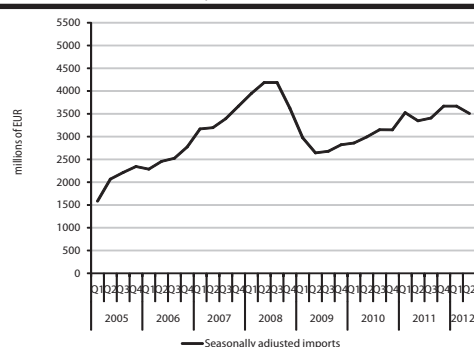
**The high value and speeding up of imports early in 2012 was primarily influenced by high domestic demand stimulated by an expansive fiscal policy**

**We expect fiscal consolidation to act in the direction of lowering domestic demand and imports in the coming period**

The value of imports since the start of the year stood at 7.2 billion Euro which is 5.7% over last year's value in the same period. The highest imports were of *Oil, oil derivatives and related products* and *Natural gas, Electrical appliances* as well as *Road vehicles*. The high value and speeding up of imports early in 2012 was primarily influenced by high domestic demand stimulated by an expansive fiscal policy. Additionally, the value of imports in Q1 was caused by last year's appreciation of the Dinar and the increased import of fuels due to extremely cold weather and relatively high prices of fuels in that period.

By the end of this year we expect the current rise in world prices (oil, food...) to be reflected on the rise in domestic imports. On the other hand, we expect certain desirable measures of fiscal consolidation to act in the direction of lowering domestic demand which would lead to a slowing down of imports and easing of the foreign trade imbalance. We also expect the current depreciation of the Dinar to de-stimulate domestic import demand in the coming period.

**Graph T4-11. Serbia: Seasonally adjusted imports, quarterly, 2005-2012**



Source: NBS, SORS, QM

In July, imports saw a rise of 4.2% y-o-y to stand at 1,255 million Euro. In the January to June period, goods worth a total of almost 8.5 billion Euro were imported or 5.7% more than in the same period of last year. Imports from Russia, Germany and Italy account for almost a third of the overall value of imports in that period.

## Foreign Debt

**Serbia's foreign debt at end of June 24.1 billion Euro, or 79.3% of GDP**

Serbia's foreign debt at the end of June stood at 24.1 billion Euro or 79.3% of the GDP (Table T4-12). Compared to March 2012, the foreign debt was higher by two percentage points of the GDP (rising from 77.3% to 79.3% of the GDP) bringing it very close to the limit of 80% of the GDP. The rise in foreign debt in Q2 is solely the consequence of the growth of the foreign debt of the public sector (rose from 34.2% to 36.3% of the GDP). The foreign debt on the basis of the depreciation of the Dinar against other currencies in the structure of the foreign debt was 278.2 million Euro higher.

**Although level of foreign debt in GDP did not vary significantly since the end of 2009, its structure changed significantly in favor of the public sector foreign debt**

The level of the foreign debt has been at the same level close to 80% of the GDP for several years. More precisely, in December 2009 the foreign debt reached the level of 78% of the GDP, and after reaching the level of 85% of the GDP in December 2010 it dropped to 77% of the GDP at the end of 2011. Although the level of the foreign debt in the GDP did not vary significantly since the end of 2009, its structure changed significantly in favor of the public sector foreign debt. Namely, the public sector foreign debt at the end of 2009 stood at 34.5% of the overall foreign debt and at the end of June 2012 it rose to 45.8%. The public sector foreign debt in that period increased by 3.3 billion Euro (almost 10 percentage points of the GDP) while at the same time the private sector decreased its foreign debt by 1.7 billion Euro (8 percentage points of the GDP).

At the end of June the public sector foreign debt was 376.4 million Euro higher compared to the end of March 2012 while the private foreign debt was lowered by 358.4 million Euro in the same period. Of the total repayment of debt by the private sector 122 million Euro is repayment of long-term debts while the rest (237 million Euro) was repayment of short-term dues. The smaller amount of the short-term debt is solely the consequence of the decrease of short-term debts by banks.

That speed shows that the structure of the foreign debt continued changing in 2012 and the percentage of public sector foreign debt increased in the overall foreign debt. Additionally, those trends show that the structure of the foreign debt according to the original due date continues to improve thanks to the current short-term repayments that is a significant reduction of the short-term debts of banks.

By the end of the year the foreign debt could rise while maintaining the trend of growth in the public sector debt and repayments of the private sector. If the state takes out foreign loans to finance the deficit, the foreign debt could reach the level of 85% of the GDP at the end of 2012.

**Table T4-12. Serbia: Structure of foreign debt, 2009–2012**

			2011				2012	
	2009	2010	Mar.	Jun	Sep.	Dec.	Mar.	Jun
			stocks, in EUR millions, end of the period					
Total foreign debt	22,487	23,786	22,672	22,734	23,860	24,125	24,068	24,086
(in % of GDP) <sup>2)</sup>	77.6	85.1	79.7	77.0	78.5	77.3	77.3	79.3
Public debt	7,764	9,076	8,861	9,138	10,433	10,773	10,655	11,032
(in % of GDP) <sup>2)</sup>	26.8	32.5	31.2	30.9	34.3	34.5	34.2	36.3
Long term	7,762	9,076	8,861	9,138	10,433	10,773	10,655	11,032
o/w: to IMF	1,110	1,529	1,475	1,506	1,582	1,618	1,581	1,644
o/w: Government obligation under IMF SDR allocation	422	449	434	428	449	459	449	467
Short term	1	0	0	0	0	0	0	0
Private debt	14,724	14,710	13,811	13,597	13,427	13,352	13,412	13,054
(in % of GDP) <sup>2)</sup>	51.0	52.6	48.6	46.0	44.2	42.8	43.1	43.0
Long term	12,720	12,880	12,696	12,630	12,569	12,704	12,834	12,712
o/w: Banks debt	2,597	3,362	3,347	3,413	3,551	3,782	3,784	3,754
o/w: Enterprises debt	10,123	9,518	9,348	9,217	9,018	8,922	9,050	8,958
Short term	2,003	1,830	1,116	966	858	648	578	342
o/w: Banks debt	1,713	1,731	1,036	895	785	582	515	275
o/w: Enterprises debt	290	100	79	72	73	66	63	67
Foreign debt, net <sup>1)</sup> , (in% of GDP) <sup>2)</sup>	41.0	49.3	44.8	43.2	41.1	38.7	41.7	45.8

Remark: Since September 2010, the methodology of statistics of the foreign debt has changed so that the public sector foreign debt include dues on the allocation of IMF SDR (466.8 million Euro), were used in December 2009 as well as the capitalized interest towards the Paris Club of creditors (50.9 million Euro) while the private sector foreign debt did not include loans taken prior to December 20, 2000 which are not paid (909.3 million Euro, including 426.3 million Euro with domestic banks, and 483.0 million Euro with domestic companies). Data on the foreign debt in the Table are based on the new methodology.

Source: NBS, QM

1) Overall foreign debt reduced by NBS foreign debt.

2) The sum of the values of the GDP of the monitored quarter and GDP values of previous three quarters was used.

The lowering of Serbia's credit rating early in August brought harder conditions in terms of foreign loans. The lowering of the credit rating of a state causes an increase in the expenses in taking foreign loans and limits the accessibility of new loans and foreign investments. The financing of domestic foreign and public deficits through non-commercial loans (for example from other states and similar) is not sustainable in the long term and should serve only as a temporary solution until favorable commercial conditions for loans are in place (which could happen after the signing of an agreement with the IMF and raising of the credit rating).