4. Balance of Payments and Foreign Trade

In the first nine months of 2011 the current account deficit in the balance of payments stood at 2.1 billion Euro (8.5% of GDP) and registered a slight rise compared to the same period of the previous year. But, the current deficit in the GDP in Q2 and Q3 stood at less than the achieved values in Q1, primarily due to the low foreign trade deficit. Namely, the goods exchange deficit stood at 15.8% of the GDP and indicated that the goods deficit is at an extremely low level bearing in mind the value achieved following the crisis (2009: 17.7% and 2010: 16.8%) and especially prior to the crisis (2008: 26.0%). The crisis in the Eurozone and the slow recovery of domestic economic activity caused a slowing down of the growth of exports and imports which in Q2 and Q3 2011 account for a lower percentage of the GDP than in the same period of 2010. Exports and imports in the first three quarters registered a positive growth rate but – y-o-y growth has dropped from quarter to quarter. Also, negative tendencies have appeared in terms of structure of imports – an evident slowing of the growth of intermediary and capital goods – which just reflects the current problems in economic activity and does not indicate any significant improvement in the medium term. Since the start of the year, the percentage of the current transfers and remittances in the GDP is also below the levels of 2009 and 2010 although it is still at a relatively high level compared to the values prior to the crisis. That drop in the percentage can be explained with the very high base, that is an unusually high inflow of current transfers (including remittances) over the past two years and the current economic problems in Europe which could have a significant effect on the future inflow of funds on that basis. A substantial inflow of capital on the basis of direct and portfolio investments has been achieved. The public sector is significantly in debt while the registered outflow of capital due to companies repaying long-term and banks repaying short-term loans. Foreign transactions resulted in a significant growth of foreign currency reserves in the period which at the end of September stood 1.3 billion Euro higher than at the end of 2010.

The current account deficit is low compared to pre-crisis levels but continues to stand above the long-term sustainable level…

Also, the deficit is slightly higher compared to 2009 and 2010

The cumulative value of the current account deficit in the balance of payments in the first three quarters stood at 2,059 billion Euro which is 8.5% of the value of the achieved GDP in this period. This deficit is still very low compared to its pre-crisis levels (2007: 17.7%, 2008: 21.6%), and is just 1.3 and 1.2 percentage points of the GDP above the levels of 2009 and 2010. The relatively low value of the current deficit compared to the values prior to the crisis could be explained with the relatively low level of foreign trade – the slowing down of the growth of exports and imports (caused primarily by a drop in demand in the countries caught up in the new wave of the crisis and the slow recovery of domestic production)[1] and lower inflow of current transfers.

In Q2 and Q3 a lower current deficit compared to levels early in the year

In Q2 2011 the current account deficit in the balance of payments stood at 621 million Euro (7.3% of the GDP) and is absolutely and relatively[2] below the level of Q1 when it stood at 761 million Euro (10.4% of GDP). However, in Q3 the current deficit is recording a slight rise compared to Q2 values and stands at 677 million Euro (8.1% of the GDP, Table T4-1). Viewed on the basis of y-o-y, the current deficit in Q2 is lower by 1.2 percentage points of the GDP compared to Q2 2010 while in Q3 it is approximately 1 percentage point of the GDP above the deficit in Q3 2010.

The percentage of the goods deficit in the GDP indicates that the goods deficit is at a relatively low level…

The percentage of the goods deficit in the GDP in the first nine months stands at 15.8% and shows that the goods deficit is at a relatively low level bearing in mind the values achieved after the crisis (2009: 17.7% and 2010: 16.8%) and especially prior to the crisis (2008: 26.0%). Still, viewed in absolute terms, in the first three quarters the goods deficit is recording a slight rise compared to the same period of the previous year and stands at 3.8 billion Euro. If we look at quarterly values, the goods exchange deficit in Q2 of 1,230 million Euro (14.5% of GDP) and in Q3 of 1,265 million Euro (15.1% of GDP) is lower than the deficit in Q1 of the current year

1 The latest seasonally adjusted data indicates a stagnation and slight drop in economic activity in the second and third quarter.
2 Compared to the appropriate quarterly value of the GDP in Euro.

The drop in the percentage of exports and the pronounced drop in the percentage of imports in Q2 and Q3 compared to the same quarters of 2010

(1,315 million Euro, that is 18.0% of GDP). Also, the goods deficit in Q2 and Q3 is about 2 percentage points of the GDP lower compared to the values in the same quarters of the previous year (Table T4-1). The growth of both imports and exports is slowing and in 2011 they account for a lower percentage of the GDP than in 2010. Exports in Q2 and Q3 is about half a percentage point of the GDP lower than y-o-y while the drop in imports is even more pronounced by about 2.5 percentage points of the GDP (Table T4-1).

Percentage of remittances in GDP lower compared to 2010 but still at high level

In the first nine months the inflow of current transfers stood at 9.3% of the GDP, including remittances which account for 6.6% of the GDP. That level of current transfers and remittances, even though undergoing a visible drop compared to 2010 and 2009, is still more significant than the level prior to the crisis (2008: current transfers 7.8% of GDP, remittances 5.2% of GDP, Table T4-1). The lowering of the percentage of the inflow of funds compared to the previous two years can, on one hand, be explained with the very high base, that is a very high current transfer level (including remittances) in 2009 and 2010 while, on the other hand, current economic problems in Europe, due to the growth of unemployment, can be reflected in a lower future inflow of funds on that basis. If we look at quarterly values, we can see that there was a significant drop in Q3 following the slight drop in current transfers and remittances in the GDP in Q2 2011.

Table T4-1. Serbia: Balance of Payments

				2010				2011		
	2008	2009	2010	Q1	Q2	Q3	Q4	Q1	Q2	Q3
					in millions of euros					
CURRENT ACCOUNT	-7,054	-2,084	-2,082	-760	-615	-519	-189	-761	-621	-677
Goods	-8,501	-5,118	-4,773	-1,186	-1,171	-1,244	-1,173	-1,315	-1,230	-1,265
Export f.o.b[1)]	7,416	5,978	7,403	1,473	1,861	1,938	2,130	1,955	2,163	2,169
Import f.o.b	-15,917	-11,096	-12,176	-2,659	-3,032	-3,182	-3,303	-3,270	-3,392	-3,434
Services	-185	18	5	-19	5	-1	20	28	12	12
Export	2,741	2,500	2,667	537	635	737	758	631	720	816
Import	-2,926	-2,482	-2,662	-555	-629	-739	-738	-604	-708	-803
Income, net	-922	-502	-670	-167	-205	-127	-171	-112	-252	-195
Receipts	558	500	438	107	108	92	131	101	100	101
Payments	-1,480	-1,002	-1,108	-273	-313	-219	-302	-214	-352	-296
Current transfers, net	2,554	3,518	3,356	611	755	854	1,136	638	849	771
o/w grants	163	197	193	29	20	35	109	49	41	39
o/w private remittances, net	1,692	2,618	2,383	415	543	610	815	450	596	546
CAPITAL ACCOUNT	13	2	1	0	0	1	0	-1	0	-1
FINANCIAL ACCOUNT	7,133	2,207	2,032	698	596	488	241	616	578	527
Direct investment, net	1,824	1,372	860	284	136	176	265	307	259	661
Portfolio investment, net	-91	-51	39	38	35	4	-38	520	246	871
Other investments	3,713	3,249	204	10	104	-6	87	-43	105	73
Trade credits	957	654	92	-109	125	249	-182	188	174	153
Loans	3,499	1,414	830	523	-270	93	483	-879	34	226
NBS	0	1,114	341	0	237	50	54	-4	52	-3
Government	98	258	735	167	198	315	55	29	275	297
Commercial banks	125	894	626	525	-396	-123	619	-691	-132	-10
Long-term	-274	492	619	558	-6	33	34	3	10	99
Short-term	399	402	6	-32	-390	-156	585	-694	-142	-109
Other (enterprises)	3,275	-853	-872	-170	-309	-148	-246	-214	-160	-58
Currency and deposits	-713	760	-717	-405	249	-348	-213	648	-104	-306
Other assets and liabilities	-30	0	0	0	0	0	0	0	0	0
Allocation of SDR	0	422	0	0	0	0	0	0	0	0
Reserves Assets (- increase)	1,687	-2,363	929	367	321	313	-73	-168	-33	-1,078
ERRORS AND OMISSIONS, net	-92	-124	49	62	19	31	-53	147	43	151
OVERALL BALANCE	-1,687	2,363	-929	-367	-321	-313	73	168	33	1,078
PRO MEMORIA										
					in % of GDP					
Current account	-21.6	-7.2	-7.3	-11.5	-8.6	-7.1	-2.6	-10.4	-7.3	-8.1
Balance of goods	-26.0	-17.7	-16.8	-18.0	-16.3	-17.1	-16.0	-18.0	-14.5	-15.1
Exports of goods	22.7	20.7	26.1	22.4	25.9	26.7	29.0	26.8	25.5	25.9
Imports of goods	-48.7	-38.4	-42.9	-40.4	-42.3	-43.8	-45.0	-44.8	-40.0	-41.0
Balance of goods and services	-26.6	-17.7	-16.8	-18.3	-16.2	-17.1	-15.7	-17.6	-14.4	-14.9
Current transfers, net	7.8	12.2	11.8	9.3	10.5	11.7	15.5	8.7	10.0	9.2
GDP in euros[2)]	32,690	28,893	28,377	6,589	7,176	7,274	7,338	7,304	8,474	8,379

Source: NBS

1) Exports f.o.b, based on NBS methodology adjusted to IMF BOPM-5.

2) Quarterly values. Annual GDP converted into euros using the average annual exchange rate (average of official NBS daily mid rates).

In the first two quarters of 2011, the current account deficit is at the level of last year's value for that period. In Q3, there was a y-o-y growth in its value by 30%. The goods deficit was above last year's by 5% in Q2, and by 1.7% in Q3. In Q2, imports and exports recorded a y-o-y growth of 16.2%, that is 11.9%, and in Q3 registered a slight slowing of growth (achieved y-o-y rate 11.9%

and 7.9%, respectively). After the y-o-y growth in the value of current transfers and remittances in Q2 (12.4% and 9.8%, respectively), Q3 saw a y-o-y drop of 9.7% and 10.4%, respectively (Table T4-1).

Significant Capital Influx Registered

A significant inflow of capital was registered in Q2 2011 of 610 million Euro[3], and in Q3 of 1,605 million Euro[4] (Table T4-1). The cumulative growth of foreign currency reserves from the start of the year stands at 1,278 million Euro (including 1,078 growth in Q3). A significant growth of foreign currency reserves in that period came in February (196 million Euro)[5], in April (113 million Euro)[6], in July (296 million Euro[7], and the greatest increase of the foreign currency reserves was registered in September (831.3 million Euro)[8].

...mainly on basis of FDI and portfolio investments

The net inflow of FDI is very high and in the first three quarters of this year it stood at 1,227 million Euro. Most of the foreign investments accounted for the Q3 inflow of 661 million Euro (including 420 million in July thanks to the sale of the Delta Maxi company). Net FDI in Q2 amounted to €306.6mn, the bulk of which arrived in April (113 million Euro)[9]. Also, a significant part of the net inflow from portfolio investments was achieved in Q2 and Q3 of 1,117 million Euro (including 871 million Euro in Q3 from the sale of Eurobonds of the Republic of Serbia see Table T4-1)[10]. A very high inflow of portfolio investments in Q2 and Q3 with a high inflow in Q1 (cumulatively 1,637 million Euro in these three quarters) is not in accord with the very low, and even negative inflow registered in earlier years (Table T4-1), and certainly are not in accord with the current economic uncertainty in Europe and the world.

Intensive debt payment by banks and the enterprises in this period and debts taken by state

Due to intensive payment of debts by banks and the enterprises in this period, in addition to goverment borrowing, on the account "Loans" was registered a low net inflow in Q2 of 34 million euros, followed by higher inflow in Q3 (226 million euros). The government took loans of 275 million Euro[11] in Q2 and an additional 297 million Euro in Q3[12]. Banks paid off their debts totaling 833 million Euro since the start of the year (with 945 million Euro realized on the basis of shot-term loans). Also, a net repayment of debts by the enterprises of 432 million Euro was registered in the first nine months solely on the basis of long-term loans. The repayment of debts by the enterprises is probably the consequence of the inability to refinance loans fallen due which additionally contributes to its financial exhausting. Following the high inflow in Q1, an outflow on the account "Currency and Deposits" was registered in Q2 and Q3 of 104 million Euro, that is 306 million Euro (Table T4-1).

Foreign Debt

Overall foreign debt is 23,860 million Euro or 72.5% of GDP

The overall foreign debt at the end of September 2011 stood at 23,860 million Euro (Table T4-2). Although the foreign debt registered a modest cumulative growth compared to the end of 2010 of 73.9 million Euro, it was the result of a significant drop in the value of the foreign debt in the first three months (1,114.5 million Euro) and a slight rise during Q2 (62.5 million Euro) and a high rise during Q3 by 1,126.0 million Euro. The speed of that trend in foreign debt since the start of the year is due to the drop in private foreign debts (which were pronounced to a great extent in Q1) on the one hand and higher debts by the public sector (most pronounced in Q3) on the other. The unfavorable trend in foreign debts – where the repayment of debts by the private sector was compensated by the debts by the public sector – led to the foreign debt standing at 44% and the

3 653 million Euro when corrected for the balance of Errors and Omissions.
4 1,756 million Euro when corrected for the balance of Errors and Omissions.
5 When inflow was achieved from the sale of government securities worth 288.6 million Euro, see QM24.
6 When the final installment of 51.7 million Euro of the standby arrangement with the IMF was drawn.
7 Mainly through the issue of government secutities worth 138.4 million Euro and 127.5 million Euro through loans, see http://www.nbs.rs/internet/cirilica/scripts/showContent.html?id=5175&konverzija=no.
8 An inflow of 724.3 million Euro based on the sale of Eurobonds see http://www.nbs.rs/internet/cirilica/scripts/showContent.html?id=5287&konverzija=no.
9 Investments in the processing industry (iron and steel production, textile, food products and beverages and non-metal minerals), trade and financial sector, see. Inflation Report, August 2011, p 17.
10 See footnote 8.
11 The Societe Generale bank approved a loan to the state of 270 million Euro in April. A loan was taken with World Bank guarantees to finance the budget deficit and refinance debts, see Inflation Report August 2011, p 17.
12 Of which 280 million were in July.

private at 56% of the overall foreign debt unlike the start of the year when the public foreign debt stood at 38% and the private sector debt at 62% of the overall foreign debt. The favorable trend is to reduce the short term debt thanks to a drop in the short term indebtedness of banks.

Drop in private foreign debt accompanied by public sector debts

The public sector foreign debt stood at 10,433 million Euro and accounts for 31.7% of the GDP. Compared to the country's foreign debt nine months earlier, a rise has been recorded of 1,357 million Euro (or 1.1 percentage points). Take into account the fact that the public sector lowered its foreign debt during the first quarter of 2011 by about 200 million Euro and the growth of the debt compared to the end of March is close to 1.6 billion Euro, of which 1.3 billion Euro are debts in Q3. Namely, 934 million Euro is the rise of the foreign debt of the public sector in September, predominantly caused by the sale of state Eurobonds on the foreign financial market.[13]

On the other hand, the private sector significantly lowered its debt. Compared to the situation with the private debt at the end of 2010, a drop in debts of 1,283.1 million Euro was registered (from 14.71 to 13.43 billion Euro, Table T4-2). The greatest repayment of debts was registered in Q1 (some 900 million Euro). The long-term debt of the private sector was reduced by about 300 million Euro in the first nine months of 2011, with the banks taking about an additional 200 million Euro in loans while companies repaid a net half a billion Euro (330 million Euro in Q2 and Q3). Compared to the situation in late 2010, the short-term bank and enterprises dues were reduced by about one billion Euro (with the banks lowering their short-term loan debts by about 950 million Euro, especially in the first three months of 2011, Table T4-2).

Table T4-2. Serbia: Foreign Debt by Structure, 2008–2011

			2010				2011		
	2008	2009	Mar	Jun	Sep	Dec	Mar	Jun	Sep
			stocks, in EUR millions, end of the period						
Total foreign debt	21,088	22,487	22,943	23,456	23,115	23,786	22,672	22,734	23,860
(in % of GDP) [2]	*71.6*	*75.2*	*78.1*	*81.7*	*80.1*	*80.2*	*73.5*	*71.4*	*72.5*
Public debt	6,521	7,764	8,122	8,921	8,874	9,076	8,861	9,138	10,433
(in % of GDP) [2]	*22.1*	*26.0*	*27.6*	*31.1*	*30.8*	*30.6*	*28.7*	*28.7*	*31.7*
Long term	6,503	7,762	8,122	8,921	8,874	9,076	8,861	9,138	10,433
o/w: to IMF	0	1,110	1,157	1,483	1,455	1,529	1,475	1,506	1,582
o/w: Government obligation under IMF SDR allocation	0	422	440	469	444	449	434	428	449
Short term	18	1	0	0	0	0	0	0	0
Private debt	14,568	14,724	14,820	14,535	14,241	14,710	13,811	13,597	13,427
(in % of GDP) [2]	*49.5*	*49.2*	*50.4*	*50.6*	*49.4*	*49.6*	*44.8*	*42.7*	*40.8*
Long term	12,442	12,720	12,919	13,076	12,945	12,880	12,696	12,630	12,569
o/w: Banks debt	2,201	2,597	2,867	3,195	3,279	3,362	3,347	3,413	3,551
o/w: Enterprises debt	10,241	10,123	10,052	9,881	9,667	9,518	9,348	9,217	9,018
Short term	2,126	2,003	1,901	1,459	1,295	1,830	1,116	966	858
o/w: Banks debt	1,323	1,713	1,691	1,304	1,146	1,731	1,036	895	785
o/w: Enterprises debt	803	290	210	155	149	100	79	72	73
Foreign debt, net [1], (in% of GDP)[2]	43.9	39.8	42.5	45.1	45.9	46.5	41.3	40.1	38.0

Note: Since September 2010 methodology for the external debt statistics has been changed so that the external public debt includes obligations under the IMF SDR allocation (443.5 million Euro), which was used in December 2009, as well as capitalized interest to Paris Club creditors (86.4 million Euro), while the loans concluded before December 20, 2000, under which the payments have not been effected, are excluded from the external debt of the private sector (875.4 million Euro of which 397 million Euro relate to domestic banks and 478.4 million Euro to domestic enterprises). Foreign debt data provided in the Table follow the new methodology.
Source: NBS, QM
1) Total foreign debt less NBS currency reserves.
2) The values used are seasonally- and cyclically-adjusted quarterly GDP figures, multiplied by four.

The pronounced drop in foreign debt in the GDP is primarily the consequence of a drop in the debt of the private sector and the high appreciation of the Dinar in real terms which is about 9% from the start of the year to September

If we look at the participation of the foreign debt in the GDP, there is an evident great drop compared to the end of the previous year. Compared to the end of December 2011 when the foreign debt accounted for 80.2% of the GDP, the participation of the foreign debt in the GDP is 7.7 percentage points lower and stands at 72.5%[14]. The pronounced participation drop is the consequence of the drop in private sector debts and the accounting effect (the high real appreciation of the Dinar against the Euro from the start of the year to September is about 9%). The participation of the private sector foreign debt is 8.8 percentage points of the GDP lower (from 49.6% to 40.8% of the GDP). The reduction of the debts based on long-term loans to the

13 Serbia in September sold 10 year Eurobonds worth one billion Dollars with an annual interest rate of 7.25%.
14 QM assessment.

private sector is 5.2 percentage points of the GDP with the majority being the repayment of debts by enterprises. The reduction of the short-term debts by 3.6 percentage points of the GDP since the start of the year is almost entirely owed to banks. The public sector debt increased its participation in the GDP by 1.1 percentage point. If the same denominator had been used as for the calculation of the participation at the end of 2010 to calculate the value of the debt in the GDP, the reduction of the overall debt would be just three percentage points of the GDP (the overall foreign debt would be 77.1% of the GDP) with the reduction of the private sector foreign debt standing at 6.2 percentage points of the GDP and the growth of the participation of the public sector debt 3.0 percentage points of the GDP.

Exports

Slowing of exports growth...

Viewed from the start of the year, exports have significantly slowed in growth (Table T4-3). Following the high y-o-y growth in Q1 of 33.7%, exports recorded a significant slowing in Q2 (14.5% y-o-y), to stand in Q3 at just 11.7% over the value in Q3 2010. The crisis in the Eurozone primarily led to weak exports results in Q2 and Q3, both directly because of the fact that the countries of the Eurozone are the most important export area for Serbia[15] and indirectly due to the drop in prices of metals, food and other products which account for a large part of domestic exports on the world market.

In the past period, domestic exports and the foreign trade balance were influenced negatively by the drop in demand in the world – because of the crisis and real appreciation of the Dinar (because of which domestic goods became relatively more expensive). This is a significantly unfavorable situation compared to the first wave of the crisis when the drop in demand in the world was neutralized by a real depreciation of the Dinar.

...and its components...

...primarily bulky exports....

During the monitored six month period (Q2 and Q3) *bulky and underlying exports* (and within that *the core group*) registered a lower growth rate (Table T4-3) compared to Q1 2011. The deceleration was present in the *Bulky Exports* component due to the y-o-y drop in exports of *iron and steel* and a significant slowing of the exports of *non-ferrous metals*. Also, the export of *cereal and cereal products* contributed to that rate of the *bulky exports*, bearing in mind the slow growth of exports of those products in Q2 (when there was a ban on their exports which lasted through most of Q2[16]), which continued into Q3 despite the lifting of the ban. The export of *fruits and vegetables* slowed down in Q2 and slightly speeded up in Q3.

…due to a significant deceleration of exports of non-ferrous metals ...

The y-o-y rise in the export of *non-ferrous metals* stood at 34.9% in Q2 and at 3.7% in Q3. The prices of metals on the world market in Q2 and Q3 – although registering drops compared to the start of the year – continued to stand above last year's values monitored at quarterly level. The prices of metals in Euro in Q2 stood at 6.4% (20.4% in Dollars[17]) and in Q3 at 10.1% (20.7% in Dollars) over the average prices in the appropriate quarters of 2010. The exported quantities of metals in Q2 were 26.8% over and in Q3 by 5.8% below the appropriate quarterly values of 2010. An unfavorable circumstance is that the prices of metals on the world market are continuing to drop and in October they were 7.1% below the prices of October the previous year and 10% below prices in September and 20% below prices in Q1 of the current year (monitored in Dollars).

…and the y-o-y drop in exports of iron and steel

The trend of a quick recovery of the exports of *iron and steel* after the crisis and at the start of the current year was completely stopped and turned around in Q2 and Q3. Namely, the export of *iron and steel* in the second and third quarter of 2011 saw a drop compared to the same period of the previous year (4.8% and about 19.4% respectively). The downward trend in the export of those products – which make up one tenth of overall domestic exports – is the result of unfavorable circumstances on the world market in regard to those products. Primarily, the grave economic situation in Europe and the drop in demand caused a drop in the demand for those products and consequently a drop in prices. That led to lower domestic production and one of the furnaces at

15 57.3% of the overall value of exports in 2010 were to the EU. Italy was the country to which the most domestic products were exported in 2010 and accounted for 11.5% of overall exports.
16 From mid-March to mid-June.
17 Due to the depreciation of the Dollar against the Euro in this period.

the *US Steel Serbia* company was idled which caused further unfavorable results in the company which is also the biggest domestic exporter. If there is no significant change on the world market, that blast furnace will remain on idle in Q4 which will have a significant unfavorable effect on the value of exports of *iron and steel* and overall exports in the last quarter and in all of 2011.

Lower y-o-y growth rates of underlying exports in Q2 and Q3 compared to start of year

Underlying exports are also registering lower y-o-y growth rates in Q2 and Q3 compared to the start of the year (Table T4-3). Within the *underlying exports* the *core group* component significantly decelerates growth from quarter to quarter (y-o-y rates: Q1 31.7%, Q2 21.3% and July-August 15.4%). The y-o-y growth rate of products in the *group other* showed a slight growth in Q3 (Table T4-3) following a slowing down in Q2 compared to Q1. The achieved growth of the export of *other* is modest and insufficient from the point of view of overall exports, since that group of products makes up 43% of overall exports in 2010.

Table T4-3. Serbia: Exports, Y-o-y Growth Rates, 2010–2011

	Exports share in 2010	2011[1)] Q1	2011[1)] Q2	2011[1)] Q3	2010[1)] Q1	2010[1)] Q2	2010[1)] Q3	2011[1)] Q1	2011[1)] Q2	2011[1)] Q3
	in %	mil.euros			y-o-y growth rate (%)					
Total	100.0	1,961	2,157	2,157	14.9	23.2	24.6	33.7	14.5	11.7
Bulky exports	28.1	649	574	566	42.3	41.6	39.3	53.9	15.7	5.5
Iron and steel	9.8	239	186	147	60.2	130.4	39.0	47.4	-4.8	-19.4
Non ferrous metals	7.1	164	178	158	68.3	75.0	69.3	50.5	34.9	3.7
Fruits and vegetables	5.4	92	92	147	21.6	-4.8	16.2	22.4	15.4	29.0
Cereal and cereal products	5.9	154	117	114	10.0	-16.6	33.7	104.1	32.4	29.5
Underlying exports	71.9	1,312	1,583	1,591	6.7	17.8	19.7	25.5	14.0	14.1
Core	28.8	577	632	673	2.1	11.8	32.1	31.7	21.3	15.4
Clothes	4.1	82	80	96	-37.7	-36.4	2.2	13.5	15.3	18.2
Miscellaneous manufactured articles, n.e.s.	3.5	60	74	77	-5.8	6.3	9.5	27.2	13.6	5.6
Manufactures of metals, n.e.s.	3.5	68	97	100	-8.0	2.2	9.2	52.6	45.6	47.0
Rubber products	2.9	76	65	65	23.6	33.6	27.0	40.0	25.9	18.4
Electrical machinery, apparatus and appliances	6.0	124	134	141	25.5	46.8	58.7	58.9	24.1	15.7
Organic chemicals	1.4	12	12	11	261.5	357.9	501.2	-58.7	-56.3	-61.3
Plastics in primary forms	1.8	43	42	41	47.1	69.9	753.8	48.5	30.7	10.4
Footwear	2.1	51	45	55	0.8	2.4	14.8	35.0	34.7	23.1
Paper, paperboard and articles of paper pulp	2.2	45	52	50	12.1	11.4	11.4	26.5	25.4	24.6
Non-metal mineral produce	1.3	17	32	38	-9.4	12.2	17.9	47.2	17.1	8.7
Other	43.0	735	951	918	10.2	21.7	12.1	21.0	9.7	13.1

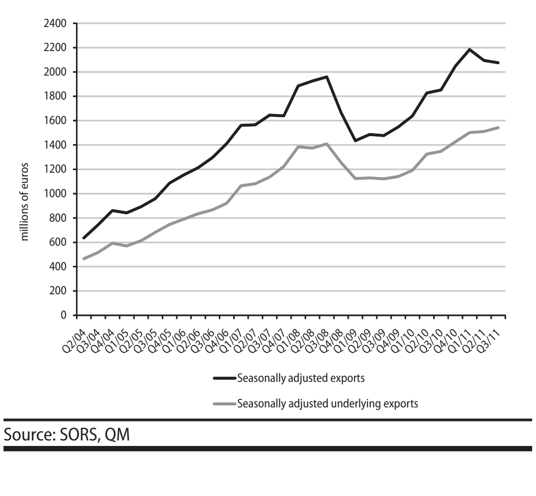
Source: SORS

1) Figures that are in millions of euros and y-o-y growth rates were obtained based on the data from Statistical Office of the Republic of Serbia calculated using new methodology. For details see *QM 20*, "Changes to foreign trade methodology used by the Statistical Office of the Republic of Serbia".

Seasonally-adjusted values confirmed that the deceleration of exports in Q2 and Q3 are to a great measure the consequence of the deceleration of bulky exports

Graph T4-4 shows an evident drop in the value of seasonally-adjusted exports from the start of the year. The seasonally-adjusted exports in Q2 compared to Q1 are lower by 4.1% (15.4% at annual level), while in Q3 0.9% below the value of Q2 (3.6% at annual level). The seasonally-adjusted value of *underlying exports* (overall exports after the exclusion of the *bulky exports* component) are showing a slight rise from quarter to quarter (Graph T4-4). Namely, the value of exports monitored in this way in Q2 is 0.6% over Q1 (2.4% at annual level), while in Q3 it was 2.1% above Q2 (8.5% at annual level). The seasonally-adjusted values confirm the fact that the deceleration of exports in Q2 and Q3 are to a great extent the consequence of the deceleration of *bulky exports*.

Graph T4-4. Serbia: Seasonally-Adjusted Exports and Seasonally-Adjusted Underlying Exports, by Quarter 2004–2011



Source: SORS, QM

Current problems in Europe do not leave room for better forecasts for Q4

The current problems in Europe do not leave room for better forecasts in terms of domestic exports. Namely, if there is a further slowing down of economic activity and even a recession in certain EU countries and a deceleration of economic activities in neighboring countries, the consequence could be a pronounced drop in demand which would have an unfavorable effect on domestic export results at the end of this and the start of next year.

Imports

Imports of goods significantly slows down since start of year

The import of goods significantly slowed down since the start of the year (Table T4-5). In Q2 goods worth 3,502 million Euro were imported which is 14.2% more than in the same period a year earlier. In Q3 overall imports stood at 3,538 million Euro and 7.7% higher than in the same period of a year earlier.

Table T4-5. Serbia: Imports, Y-o-y Growth Rates, 2010–2011

	Imports share 2010	2011[1)] Q1	2011[1)] Q2	2011[1)] Q3	2010[1)] Q1	2010[1)] Q2	2010[1)] Q3	2011[1)] Q1	2011[1)] Q2	2011[1)] Q3
	in%	mil.euros			y-o-y growth rate (%)					
Total	100.0	3,374	3,502	3,538	-5.0	10.4	17.2	24.3	14.2	7.7
Energy	17.8	729	583	545	1.6	61.1	66.6	32.5	7.0	-10.7
Intermediate products	31.1	1,023	1,240	1,197	1.5	15.3	23.2	38.9	29.3	9.8
Capital products	15.8	521	550	573	-22.2	-6.1	1.6	35.0	12.2	8.5
Durable consumer goods	2.8	72	78	83	-7.1	0.3	7.9	-12.7	-4.7	-2.2
Non-durable consumer goods	12.7	370	411	444	-2.3	5.7	5.8	7.7	9.4	13.9
Other	19.7	659	640	695	-5.7	-5.2	-0.6	7.2	4.0	19.6
Imports excluding energy	82.2	2,645	2,919	2,992	-6.5	3.4	9.7	22.3	15.8	11.9

Source: SORS

1) Figures that are in millions of euros and y-o-y growth rates were obtained based on the data from Statistical Office of the Republic of Serbia calculated using new methodology. For details see *QM 20*, "Changes to foreign trade methodology used by the Statistical Office of the Republic of Serbia".

Significant deceleration of energy export growth

There is a significant deceleration of the growth of exports of *energy* in Q2 and a y-o-y drop in Q3 of 10.7%. Energy prices on the world market are showing a slight drop over the past few months but are still at high level. In Q2 and Q3 energy prices in Euro were 23.1% and 25.3%[18] higher than in Q2 and Q3 2010, respectively. The reason for the downward trend in the export of *energy* is solely the drop in imported quantities by 13% in Q2 and almost 30% in Q3, monitored y-o-y. Because of that the deceleration of *energy* exports is less pronounced.

...intermediate and capital products

The import of *intermediary* products significantly slows growth, leading to the conclusion that a significant recovery of industrial production should not be expected in Q4. The imports of *capital* products in the first three quarters, viewed as a whole, is high. There is an obvious deceleration of growth of this group of products and that explains the real growth of investments which has decelerated rapidly during the year. In addition that, there has been a drop in the imports of *durable consumer goods* in Q2 and Q3, of 4.7%, and 2.2% (Table T4-5).

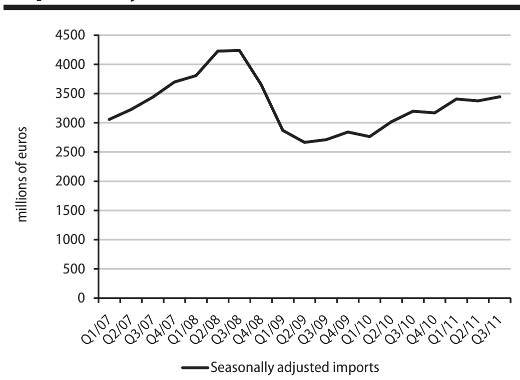
Imports of non-durable and other products speed up growth

A significant y-o-y growth of imports was registered in non-durable consumer goods and other imports (Table T4-5). Namely, the import of those products is growing. Despite the weak economic activity and negative trends in industrial production, private spending in Q2 and Q3 was at a solid level.

Seasonally-adjusted values indicate slow recovery of imports

The graph of seasonally-adjusted import values (Graph T4-6) shows that the recovery of imports is volatile and slow. Namely, since Q2 2009 – when imports first registered growth after the crisis – positive and negative inter-quarterly changes in import values have traded places virtually all the time. In 2010 following the drop in value of imports in Q4, a growth was registered in Q1 2011, followed by a drop in value in Q2 and growth in Q3 (compared to previous quarters). That broken up recovery of imports led to its seasonally adjusted value in Q3 2011 is just 29.3% higher than the minimum value on the graph (Q2 2009). Also, the seasonally-adjusted imports still have not reached the levels at the start of the crisis and are 18.7% lower than the highest pre-crisis values in Q3 2008. (Graph T4-6).

Graph T4-6. Serbia: Seasonally-Adjusted Imports, by Quarter, 2007–2011



Source: NBS, SORS, QM

18 The rise in energy prices in Euro was eased compared to the growth in Dollars because of the weaker Dollar against the Euro. Prices in Dollars, viewed on y-o-y basis, are higher by 39.3% in Q2, and 37.3% in Q3.