4. Balance of Payments and Foreign Trade

A relatively low quarterly value of current account deficit was recorded in Q2 2015, of 208 million euros, i.e. 2.5% of GDP. This level of current deficit is mostly the result of reduced foreign trade deficit and high inflow on the Secondary Income account. Observed year -on-year, the exports are accelerating and the imports are decelerating growth, while their seasonally adjusted values indicate that actually there has been a certain deceleration of exports since the beginning of the year, while the imports are slightly below the levels of Q1. The growth of exports have been positively influenced by the beginning of economic restructuring of Serbia towards the sector of exchanging of goods, depreciation of dinar from the second half of the previous year, and the recovery of eurozone. Growth of imports was impeded by low prices of energy, low domestic demand due to the effects of fiscal consolidation, as well as the delayed effects of the weakening dinar from the second half of 2014. During Q2 the outflow of capital was almost equal to its inflow. This was the result of a modest net inflow of FDI and almost equal net outflows of portfolio investments, while other investment and financial derivatives accounts were balanced. There will be quite some uncertainty until the end of the year regarding balance of payments trends – export and import trends and deficit levels, as well as regarding the ways of covering it. Still, it is our assessment that the fast growth of exports will continue, as well as the reduction of current balance deficit, value of which for the entire year could be around 4-5% of GDP.

Relatively low current account deficit in Q2 .....

....208 million euros....

....i.e. 2.5% of GDP...

Q2 2015 recorded a low value of current account deficit of 208 million euro, which is only 2.5% of the estimated value of the quarterly GDP (Table T4-1). Current deficit is by 3.9 pp of GDP lower compared to Q2 2014, when it was 6.3% of GDP. Contributing to this decline in the value of current deficit were all its components, with the biggest contribution coming from the reduced foreign trade deficit (46.3% decline in the value of current deficit is due to a lower foreign trade deficit), followed by the increase in Secondary Income (whose contribution was 33.5%), and to a lesser extent the reduced net expenditure on the Primary Income account (contribution of 20.2%). In Q1 2015, current deficit was 7.0% of GDP which, although considerably higher, is partly due to seasonal factors.

...which is mostly due to lower foreign trade deficit

Foreign trade deficit was 760 million euro, which is 9.0% of GDP (Table T4-1). That is a significantly lower value of this deficit compared to last year when it was 10.8% of GDP in Q2 2014, and compared to Q1 2015 when it was as high as 12.15% of GDP. Still, it should be considered that the relatively high deficit in Q2 2014 was partly due to the first effects of flooding and it is typically higher in Q1 2015 due to seasonal effects. Export of goods and services significantly increased in Q2 and was very close to half of the realised quarterly value of GDP. Share of exported goods and services in GDP in the period Q2 2014-Q2 2015 was higher by 4.4 pp (an increase from 42.9% to 47.3%), while imports increased by 2.6 pp (from 53.7% to 56.3%).

In Q2, goods in the amount of 2,986 million euros were exported, which is 35.4% of GDP. Imports of goods were 3,860 million euros, i.e. 45.7% of GDP. These trends have led to a relatively high coverage of imports by exports, which was 77% in Q2. Reduction of trade deficit was positively affected by the depreciation of dinar in H2 2014, a relatively good last year's agricultural season, recovery of the eurozone, low global energy prices, low domestic demand due to the effects of fiscal consolidation, while it was negatively affected by a relatively weaker export results of the automobile industry. In addition, affecting the recorded trends in exports and imports were also improved ratio of exchange of goods since the beginning of the year – values of year-on-year indices were 102.9 in Q1 and 103.4 in Q2 2015. During Q2, a high surplus was realised in the services trade which was 114 million euro. Revenue from services was a billion euro, while expenditures amounted to 890 million euro.

Inflow of current transfers during Q2 was quite high

Inflow of current transfers during Q2 was quite high – 944 million euro net, i.e. 11.2% of GDP. This income was above one billion euro (1,056 million euro). The largest part of this income were workers' remittances which were 605 million euro net in Q2, which is as much as 7.2% of GDP.

Outflows of net income was slightly lower in Q2 2015 compared to the same period in 2014 and was 392 million euro net. Revenue reduced, but the expenditures were significantly lower as well compared to the same period last year (Table T4-1).

Table T4-1. Serbia: Balance of Payments

	2013	2014	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2
	mil. euros							
CURRENT ACCOUNT	-2,098	-1,985	-496	-541	-384	-563	-520	-208
Goods	-4,159	-4,111	-904	-995	-1,076	-1,136	-1,041	-875
Credit	10,515	10,641	2,512	2,767	2,664	2,698	2,602	2,986
Debit	14,674	14,752	3,415	3,762	3,740	3,834	3,643	3,860
Services	313	465	69	73	145	179	137	114
Credit	3,422	3,810	793	887	1,044	1,085	927	1,004
Debit	3,109	3,344	724	814	900	906	791	890
Primary income	-1,419	-1,343	-283	-462	-221	-377	-307	-392
Credit	607	642	125	168	181	168	106	158
Debit	2,025	1,985	407	631	402	545	412	549
Secondary income	3,166	3,003	622	843	768	771	692	944
Credit	3,537	3,400	707	934	875	884	785	1,056
Debit	372	397	85	91	108	113	93	112
Personal transfers, net [1]	2,701	2,442	511	697	618	617	568	758
Of which: Workers'	2,160	1,863	378	547	469	469	437	605
CAPITAL ACCOUNT - NET	15	7	2	2	3	0	4	-1
FINANCIAL ACCOUNT	-1,630	-1,705	-478	-414	-217	-596	-377	-30
Direct investment - net	-1,298	-1,236	-271	-435	-244	-286	-332	-343
Portfolio investment	-1,883	-369	7	-150	-151	-75	-474	341
Financial derivatives	-1	-6	0	-3	1	-5	2	4
Other investment	855	1,703	586	543	-332	906	316	0
Other equity	0	0	0	0	0	0	0	0
Currency and deposits	-228	830	121	141	246	322	69	79
Loans	1,286	757	373	386	-443	441	238	-55
Central banks	657	574	189	186	100	99	57	55
Deposit-taking corporations,	675	795	214	89	197	296	95	63
General government	-434	-728	29	30	-676	-111	70	-204
Other sectors	389	115	-59	80	-64	157	15	31
Insurance, pension, and	0	0	0	0	0	0	0	0
Trade credit and advances	-204	116	92	16	-134	143	9	-24
Other accounts receivable/payable	0	0	0	0	0	0	0	0
SDR (Net incurrence of liabilities)	0	0	0	0	0	0	0	0
Reserve assets	697	-1,797	-800	-370	509	-1,136	110	-32
ERRORS AND OMISSIONS, net	453	273	16	124	165	-32	138	179
PRO MEMORIA	in % of GDP							
Current account	-6.1	-6.0	-6.3	-6.3	-4.5	-6.9	-7.0	-2.5
Balance of goods	-12.1	-12.4	-11.5	-11.7	-12.7	-13.9	-14.0	-10.4
Exports of goods	30.7	32.2	31.9	32.5	31.5	32.9	34.9	35.4
Imports of goods	42.8	44.6	43.3	44.1	44.3	46.8	48.9	45.7
Balance of goods and services	-11.2	-11.0	-10.6	-10.8	-11.0	-11.7	-12.1	-9.0
Personal transfers, net	7.9	7.4	6.5	8.2	7.3	7.5	7.6	9.0
GDP in euros [2]	34,268	33,060	7,881	8,527	8,452	8,200	7,451	8,441

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

Year-on-Year improvement of the current balance is mostly due to better results in the exchange of goods and the increase of net inflows from Secondary Income

In Q2 2015, compared to Q2 2014, current account deficit was lower by 61.5%. In the same period, foreign trade deficit declined by 18%. Such a result is due to reduced trade deficit, which was 12.1% in the observed period, and increased surplus on the services account by 56.2%. Exports recorded a very fast year-on-year growth of 7.9%. On the other hand, the imports are by 2.6% above the last year's. Favourable trends in the exchange of goods with foreign countries are additionally emphasised by the fact that there has been an accelerated growth of export of goods since the beginning of the year, while import of goods has decelerated (recorded year-on-year growth rates of exports and imports in Q1 2015 were 3.6% and 6.7%, respectively). Growth of net inflow from the Secondary Income was 12.0% year-on-year, where a year-on-year growth of remittances of 10.6% was recorded.

Change in the exchange rates still plays a large role in indicated amounts and trends of exports and imports of goods

Table T4-2. Effects of changes in the dollar-euro exchange rates on the value and year-on-year growth rates of exports, imports and trade deficit in Serbia

	Q2 2015	July 2015	Q2 2015/ Q2 2014	July 2015/ July 2014
	mil. dollars	mil. dollars	in %	in %
Export of goods	3,528	1,204	-10.6	-9.2
Import of gods	4,604	1,518	-15.2	-19.7
Goods deficit	1,076	314	-27.3	-44.4
	mil. dollars	mil. dollars	in %	in %
Export of goods	3,183	1,090	10.7	11.6
Import of gods	4,155	1,374	5.1	-1.3
Goods deficit	972	284	-9.7	-31.7

Source: SORS, *QM*

Change in the exchange rates still plays a large role in indicated amounts and trends of exports and imports of goods, as well as their difference (trade deficit)[2]. According to the SORS data from Q2, imports and trade deficit, if expressed in dollars, were at a significantly lower level compared to the same quarter of 2014. On the other hand, if expressed in euro, both foreign trade components record an increase, while the reduction of trade deficit in euro is significantly smaller than the reduction of its dollar value (Table T4-2).

In the coming period, we expect that the growth of exports will be impacted by the growth of foreign investments into processing industry and the increasing demand in the EU countries, while the exports of agricultural products will decline due to this year's drought. Recovery of economy will affect the increase of imports, while stagnation of private and state spending will affect the decline of imports. Maintaining the current favourable relations of the exchange, which are characterised by low prices of energy and mineral resources, will also have a positive effect on foreign trade balance of Serbia. Moderate depreciation of dinar combined with improving the economic environment would have a stimulating effect on the increase of foreign direct investments into the sector of exchangeable goods, which would increase the export potential of the country.

Outflow of capital is almost equal to its inflow

In Q2, the outflow of capital was almost equal to its inflow, so the net inflow was only two million euro despite the expected increased inflow of capital due to the effects of quantitative easing of ECB. Other Investments account was equal to zero and the inflow from financial derivatives was usually low (four million euro), so the reason behind an almost neutral result on the financial account was the fact that the inflow of net FDI was only slightly above the net outflow of capital from portfolio investments. FDI was 343 million euro, out of which 135 million euro net was from reinvested revenue, 116 million euro net from debt instruments, and only 92 million euro from equity. Outflow of portfolio investments during Q2 was 341 million euro – 169 million euro in April, 91 million in May, and 81 million euro in June. This outflow was partially the result of state deleveraging from matured interests and some of the securities[3] (state deleveraged by 251 million euro). Also, a certain investment of deposit institutions beside the central bank was recorded into the debt securities abroad (91 million euro, see Table T4-1).

Inflows and outflows from other investments have become completely equal in these three months of Q2. On the one hand, a very modest net borrowing was recorded in the sense of financial loans (55 million euro) and a low inflow from trade loans (24 million euro), while an equal amount of the sum of these inflows was recorded on the Cash and Deposit account (79 million euro). Regarding financial loans, only the state borrowed, while central bank, other deposit institutions and other sectors recorded a net deleveraging. The Government borrowed an additional 204 million euro through the loans from the International Bank for Reconstruction and development[4] and EIB[5]. NBS is still reducing its obligations to IMF, so the recorded deleveraging during Q2 amounted to 55 million euro. Net deleveraging of banks was 63 million euro, and 31 million euro of the business sector (Table T4-1).

2 NBS data for import and export of goods, as well as for the trade balance, differ from those of SORS which we use in this table and the following segments of the text: *Exports* and *Imports,* as they do not include unfinished goods (see Box 1 about the changed methodology of calculating Balance of Payments in *QM37*). That is why there is a slight difference in levels of exports and imports and growth rates depending on whether the source of data is NBS or SORS.
3 *Inflation Report*, NBS, August 2015.
4 For the remediation of consequences of floods and rebuilding of roads, *Inflation Report*, NBS, August 2015.
5 For Corridor 10 and research and development of the public sector, *Inflation Report*, NBS, August 2015.

Aside from the neutral financial account, foreign reserves have been reduced due to a relatively low value of the current deficit

Even though, on the one hand, a nearly zero inflow of capital was recorded during Q2 due to the relatively low value of the current deficit, forex reserves have been reduced by only 32 million euro[6]. Reduction of forex reserves was actually recorded only in April (157 million euro), while a growth of 50 and 138 million euro was recorded in May and June, respectively. The largest part of foreign currency inflow was realised through NBS interventions on the interbank foreign exchange market (110 million euro in April), use of loans and donations (88.1 million euro in April, 55.3 million euro in May, and 83.8 million euro in June) and sale of state securities on the domestic financial market. Outflow of funds from the forex reserves was realised through the settlement of obligations of the Republic of Serbia toward the foreign creditors and through old savings in foreign currency, payment of matured securities denominated in euro, using the mandatory foreign currency reserves of the banks, as well as through the payment of NBS debt toward IMF.

In July, forex reserves significantly increased. The biggest amount of inflow was realised primarily through the NBS intervention on the interbank foreign exchange market (by purchasing 230 million euro), as well as through the sale of state securities denominated in euro on the domestic financial market (145 million euro).

During Q2, NBS intervened with a net purchase of foreign currency on the interbank foreign exchange market in the amount of 120.0 million euro (it sold 30 million euro in April, and bought 140 million euro in April and 10 million euro in June), while there were no interventions of the NBS in May. In July, NBS bought 230 million euro[7].

Exports

In Q2 exports grew significantly observed year-on-year...

....although they are decelerating compared to Q1

Exports recorded a high year-on-year growth of 10.1% in Q2 and reached an amount of 3,183 million euro. Still, the effects of floods had reflected on the exports back in Q2 2014, so the high rate is partially the result of a somewhat lower baseline (Table T4-3). Growth of exports was positively affected by the depreciation of dinar from H2 2014, relatively good last year's agricultural season, and the recovery of eurozone, as well as the entry of new large exporters in the processing industry. Growth of exports was realised due to the growth of all export groups (Table T4-3 shows exports divided into products by purpose) except energy. Decline in the exports of energy is for the most part due to the low price of energy products on the global market. Still, export of energy is only 3.7% of total exports, so the price fluctuation and realised decline in value do not significantly reflect on the overall exports. As the exports of road vehicles recorded a year-on-year decline, exports excluding road vehicles recorded a year-on-year increase of 14.8%.

Table T4-3. Serbia: Exports, Year-on-Year Growth Rates, 2013–2015

	Exports share in 2014	2013	2014	2014		2015		2014		2015	
				Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2
	in %	in mil. euros						in %			
Total	100.0	10,996	11,159	2,636	2,876	2,771	3,183	17.9	6.6	5.1	10.7
Total excluding road vehicles	86.2	9,359	9,621	2,227	2,408	2,359	2,764	14.6	5.7	5.9	14.8
Energy	3.7	519	413	97	128	62	107	3.9	-1.6	-36.5	-16.4
Intermediate products	33.0	3,678	3,687	914	952	920	1,082	14.5	1.7	0.7	13.6
Capital products	25.8	2,979	2,877	719	809	760	834	26.1	6.8	5.8	3.0
Capital products excluding road vehicles	12.0	1,342	1,334	309	341	348	414	11.2	1.5	12.7	21.4
Durable consumer goods	5.2	524	586	122	147	133	169	23.0	8.1	8.6	15.2
Non-durable consumer goods	23.4	2,410	2,614	563	617	634	701	12.4	10.3	12.5	13.5
Other	8.8	886	981	221	222	263	291	27.7	24.2	18.7	30.9

Source: SORS

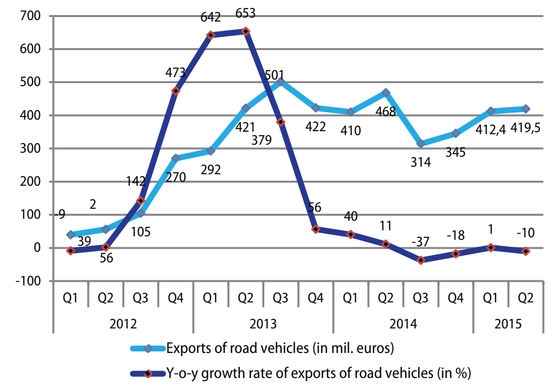
Export of road vehicles below last year's

Export of road vehicles in Q2 was 10.3% below last year's (Graph T4-4), which is partly due to a slightly higher base value recorded in the same quarter of the previous year. Following the

6 Errors and Omissions account was 179 million euro.

7 http://www.nbs.rs/internet/cirilica/scripts/showContent.html?id=8318&konverzija=no http://www.nbs.rs/internet/cirilica/scripts/showContent.html?id=8437&konverzija=no
http://www.nbs.rs/internet/cirilica/scripts/showContent.html?id=8546&konverzija=no
http://www.nbs.rs/internet/cirilica/scripts/showContent.html?id=8641&konverzija=no

Graph T4-4. Export of Road Vehicles



Source: SORS, *QM*

fast growth of production and exports during 2012 and 2013 and reaching of maximum export value of half a billion euro in Q3 2013, export of road vehicles has stabilised between 400 and 500 million euro in the following three quarter. Still, in Q3 and Q4 2014, exported value declined to 314 and 345 million euro, respectively. Since the beginning of 2015, exports again exceeded the level of 400 million euro. As we emphasised in the past[8], in current circumstances, growth of exports of FIAT automobiles has for the most part been exhausted, i.e. the current value is at best expected in the following quarters, and the contribution of road vehicles to the total growth of exports can at best be mildly positive (a mild growth can be expected in the next two quarters due to a lower base in H2 2014). Still, certain, relatively modest results are possible if there are some changes in the tax-free exports to the Russian market – which has been previously announced, but for which there are currently no possibilities, and especially if a new model is introduced.

Growth of exports was realised due to growth of all export groups except Energy

Following the negative year-on-year growth rates from Q3 and Q4 2014, exports recorded a recovery in the first half of 2015. Lower level from H2 2014 compared to the same period in 2013 was the result of reduced exports of automobiles, floods, as well as the decline in prices of energy and agricultural products on the global market. Thus, in the second half of the previous year, decline in value was recorded in Energy, Intermediate Goods, Capital Goods excluding road vehicles, and in Q3 2014 even in other goods as well. Since the beginning of 2015, exports started to increase thanks to the recovery of all stated groups except Energy. Export of *Intermediate Goods* accelerated growth and in Q2 grew at a rate of 13.6% year-on-year. *Capital Goods* after excluding road vehicles had a considerable year-on-year growth of 21.4%. Durable and Non-Durable Consumer Goods recorded a growth during 2014, albeit at somewhat lower rates. These goods have accelerated growth since the beginning of the year and in Q2 recorded the rates of 15.2% and 13.5%, respectively. Unclassified exports (Table T4-3 group *Other*) also accelerated growth and in Q2 2015 was by 30.9% above the same quarter of the previous year.

More realistic view of export recovery trend can be obtained when seasonally adjusted values are observed...

....which indicate that exports have been decelerating since the beginning of the year

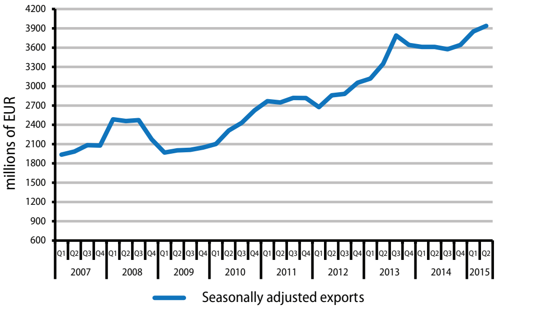
Having in mind that the floods had their first negative effects on exports in Q2 2014, a more realistic view of the export recovery trend can be obtained when its seasonally adjusted values are observed (Graph T4-5 and Graph T4-6). Seasonally adjusted data indicate that exports, after a significant accelerated growth in Q1 2015 (growth of 5.8% compared to Q4 2014), decelerated growth in Q2 2015, i.e. it was 2.2% above the value from the previous quarter. The graphs show that after the accelerated growth of seasonally adjusted export during 2012 and 2013, it reached a significant amount in Q3 2014 only to record deceleration and stagnation after that, and that again growth as of Q4 2014. It is also important to note that its level from Q2 2015 was as much as 59% above the "peak" that was achieved before the crisis, in Q1 2008, and by 4% above the second "peak" achieved more recently, in Q3 2013.

Recorded growth of exports during Q2 presents a good turn. It should be the main driver of growth in the future and that is why we feel it should be supported by all economic policies, especially the policy of mild weakening of dinar. On the other hand, the speed of recovery of EU countries, our biggest export territory, will considerably determine the course of further trend of domestic exports.

In the coming period, new drivers of export growth are needed, because the effects of investments in the automobile industry have been depleted, while this year's drought will affect the reduction of exports of agricultural products in the next year. A more significant growth of exports in the coming years could be generated by new larger investments into the sector of exchangeable goods, primarily processing industry and agriculture.

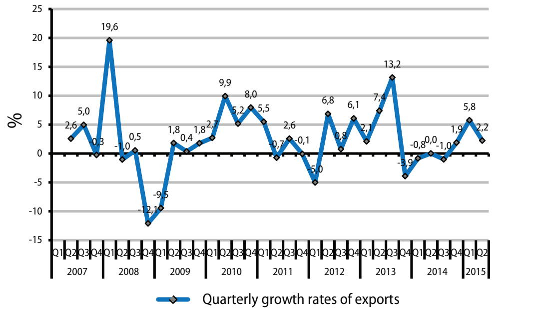
8 See previous issues of *QM*.

Graph T4-5. Serbia: Seasonally Adjusted Exports, quarterly, 2007-2015



Source: NBS, SORS, *QM*

Graph T4-6. Serbia: Growth Rates of Seasonally Adjusted Exports, quarterly, 2007-2015



Source: NBS, SORS, *QM*

Imports

Decelerated growth of imports in Q2

During Q2 2015, trade imports were 4,155 million euro and recorded a decelerated growth (year-on-year increase in value in Q2 was 5.1% compared to 8.3% in Q1, Table T4-7). The growth of domestic imports was impeded by low global energy prices, low domestic demand due to the effects of fiscal consolidation, as well as delayed effects of weakening dinar in H2 of the previous year. Import groups whose value was at a lower level than last year's, i.e. those that had a negative contribution to the value of imports, are *Energy* and *Capital Goods,* while all other groups realised a year-on-year increase. Imports excluding energy also decelerated since the beginning of 2015 – after 10.6% in Q1, their year-on-year growth rate was 7.1% in Q2.

Decline in Energy imports was due to low prices

Energy imports were as much as 8.8% below the value of Q2 2014, which indicates a considerable year-on-year decline from the one recorded in Q1 2015 (4.9%, see Table T4-7). Very low energy prices on the global market affected this trend of imports of energy products. According to IMF data, global price of energy in dollars in Q2 2015 was 42% below the price from the same period last year. When the data is expressed in euro, this decline is lower due to a significant depreciation of euro against dollar recorded in the same period (Q2 2014-Q2 2015) and is 28%.

Except for** Capital Goods, **all other groups realised a year-on-year increase

Capital Goods recorded a smaller decline in value in Q2 (6.6%) than in Q1 2015 (17.1%). Still, reduction of imports in this group of products in the structure of overall imports is the least favourable, because it reflects the production activity (large part of imports of production components for the automobile industry is in this group). Import of *Intermediate Goods,* after four quarters of consecutive year-on-year decline in value (from Q2 2014 to Q1 2015), in Q2 2015 recorded a year-on-year growth of 5.3%. This can be attributed to the certain recovery in the industrial production[9]. Year-on-year growth in Q2 2015 was also realised in *Durable and Non-Durable Consumer Goods* of 28.0% and 0.5%, respectively. Despite the high growth rate of imports of Durable Goods, they only make 2% of total imports, so their considerable growth did not reflect significantly on the overall imports. Also, the non-durable goods didn't make a significant contribution to the growth of overall imports either, because even though these products make 15% of imports, their growth was modest. Still, unlike previous two quarters, they recorded recovery in Q2, i.e. their contribution to the growth of imports was positive. *Other Imports* recorded a year-on-year growth at a rate of 43.9% (Table T4-7).

Seasonally adjusted values indicate a mild decline of imports

In Q2 2015, seasonally adjusted imports were lower by 0.3% compared to the previous quarter. Graphs T4-8 and T4-9 show that after the decline in two consecutive quarters in the second half of 2014, the imported values recorded a significant recovery in Q1 2015 and certain deceleration in Q2. The slow recovery of imports is primarily due to the low level of domestic demand in Serbia, which has been particularly limited by certain measures of fiscal consolidation as of 2014. In the coming period, no significant increase of energy prices is expected, which will maintain for a while the value of imports of these products at a low level. Still, it remains to be seen whether the

9 See section "Economic Activity" in this issue of *QM*.

announced increase of salaries will be implemented, which would certainly affect the increase of domestic demand and imports.

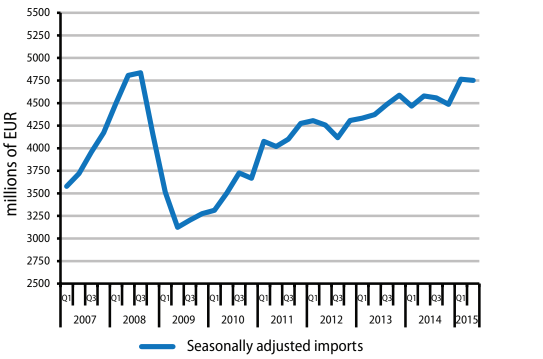
Table T4-7. Serbia: Imports, Year-on-Year Growth Rates, 2013-2015

	Imports share in 2014	2013	2014	2014		2015		2014		2015	
				Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2
	in %	in mil. euros						in %			
Total	100.0	15,469	15,497	3,565	3,952	3,862	4,155	1.6	3.5	8.3	5.1
Energy	14.1	2,336	2,180	511	498	486	454	-3.8	4.5	-4.9	-8.8
Intermediate products	33.0	5,169	5,118	1,173	1,297	1,127	1,365	0.8	-1.0	-3.9	5.3
Capital products	23.7	3,801	3,678	820	1,014	679	947	2.7	3.9	-17.1	-6.6
Durable consumer goods	2.0	328	317	74	74	79	94	-3.3	-7.5	6.0	28.0
Non-durable consumer goods	15.1	2,281	2,347	513	565	481	568	0.6	1.9	-6.4	0.5
Other	12.0	1,554	1,858	473	506	1,010	728	10.4	19.1	113.7	43.9
Imports excluding energy	85.9	13,134	13,317	3,053	3,455	3,376	3,702	2.5	3.3	10.6	7.1

Source: SORS

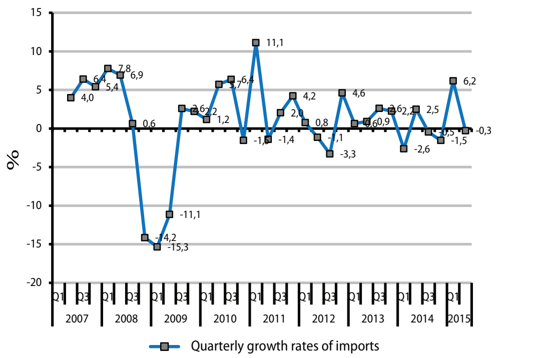
Unlike the exports which were by 60% higher in Q2 2015 than before the crisis, the imports are still 2% below the highest pre-crisis level. This speaks to strong changes in foreign trade that Serbia has had since the beginning of the crisis, which occurred as the result of an inevitable adjustment to new circumstances, due to which it was impossible to continue financing very high pre-crisis deficits.

Graph T4-8. Serbia: Seasonally Adjusted Imports, Quarterly, 2007-2015



Source: NBS, SORS, *QM*

Graph T4-9. Serbia: Growth Rates of Seasonally Adjusted Imports, Quarterly, 2007-2015



Source: NBS, SORS, *QM*

In the following period we expect the low domestic demand to affect the deceleration of imports, while economic recovery will impact the growth of imports.

Foreign Debt

Serbia's foreign debt at the end of March 2015 was 26,735 million euro, i.e. 81.9%

Serbia's foreign debt at the end of March 2015 was 26,735 million euro (Table T4-10). During Q1 2015, growth of foreign debt was 906 million euro. Depreciation of euro against other currencies, especially against dollar – as one quarter of total foreign debt is in dollars – had a significant impact on the growth level of foreign debt expressed in euro. Foreign debt expressed as a percentage of GDP was 81.9% and by 3.8 pp of GDP higher than the value recorded three months earlier. From that increase of share, growth of one pp is owed to the somewhat lower value of quarterly GDP which is used as a denominator.

Expressed level and trend of foreign debt growth is largely due to the changes in the currency ratio

As we have written in the previous issue of *QM*, increase of foreign debt and changes in the state of its components since the beginning of 2015 is for the most part due to the changes in the currency ratios. Out of the total growth of foreign debt of 906 million euro during Q1, the biggest part is the result of an increase in public sector borrowing abroad of 883 million euro, i.e. by 3.3 pp of GDP. Increase in foreign debt of the private sector in Q1 was very modest and amounted to 23 million euro net (from 35.2% of GDP to 35.7% of GDP – a growth of 0.5 pp

Compared to the situation from one year ago, total foreign debt has increased by 1.13 billion euro...

...due to public sector borrowing...

...while the private sector has been decreasing its debts

of GDP). This additional private sector borrowing was the result of deleveraging of long-term loans in the amount of 54 million euro on the one hand, and on the other, of the increase in short-term borrowing of 77 million euro. The banks are continuing the trend of deleveraging long-term loans and in the first three months deleveraged a net of 107 million euro. On the other hand, the business sector slightly borrowed on this same basis, another 53 million euro. Banks and companies are slightly increasing the amount of short-term borrowing, by 53 million and 24 million euro, respectively.

Compared to the levels from March 2014, total foreign debt is higher by 1.13 billion euro. Still, we should bear in mind that differences in the foreign exchange rates significantly impacted the amount of foreign debt and its components.

Table T4-10. Serbia: Foreign Debt Structure, 2013–2015

	2013	2014				2015
		Mar.	Jun	Sep.	Dec.	Mar.
	stocks, in EUR millions, end of the period					
Total foreign debt	25,747	25,605	25,261	26,301	25,829	26,735
(in % of GDP) 4)	*75.1*	*75.0*	*74.5*	*78.5*	*78.1*	*81.9*
Public debt 1)	13,166	12,969	12,796	13,878	14,189	15,072
(in % of GDP) 4)	*38.4*	*38.0*	*37.8*	*41.4*	*42.9*	*46.2*
Long term	13,166	12,969	12,796	13,878	14,184	15,067
o/w: to IMF	697	515	333	247	152	108
o/w: Government obligation under IMF SDR allocation	434	436	439	455	463	498
Short term	0	0	0	0	5	5
Private debt 2)	12,581	12,636	12,465	12,423	11,640	11,663
(in % of GDP) 4)	*36.7*	*37.0*	*36.8*	*37.1*	*35.2*	*35.7*
Long term	12,384	12,497	12,312	12,302	11,538	11,484
o/w: Banks debt	3,228	3,028	2,925	2,769	2,509	2,402
o/w: Enterprises debt	9,154	9,467	9,385	9,532	9,026	9,080
o/w: Others	1	2	2	2	3	3
Short term	196	139	153	121	101	178
o/w: Banks debt	171	115	128	89	57	110
o/w: Enterprises debt	25	25	25	32	44	69
Foreign debt, net 3), (in% of GDP) 4)	42.5	44.5	44.7	46.0	48.2	49.7

Note: Republic of Serbia's foreign debt is calculated on the principle of "matured debt", which includes the amount of debt from the principle and the amount of calculated interest unpaid at the moment of the agreed maturity.
Source: NBS, QM
Republic of Serbia public sector's foreign debt includes the debt of the state (including the debt of Kosovo and Metohija from the loans concluded before the arrival of KFOR mission, unregulated debt toward Libya, and clearing debt toward the former Czechoslovakia), of the National Bank of Serbia, local self-government, funds and agencies founded by the state, and debts for which state guarantee had been issued.
Republic of Serbia private sector's foreign debt includes the debt of banks, companies, and other sectors for which no state guarantee had been issued. Private sector's foreign debt does not include loans concluded before December 20, 2000 which are free from payment (972.3 million euros, out of which 438.4 million euros relates to domestic banks, and 533.8 million euros relates to domestic companies).
Total foreign debt less NBS forex reserves.
Sum of GDP values of the observed quarter and GDP values of the previous three quarters are used. Since March data is not available yet, in order to calculate the share of foreign debt values and their components in GDP, we divided the data related to the end of February 2015 with the GDP values for Q1 2015.

The value of public sector's foreign debt was by 2.1 billion euro higher than last year's. Such an increase in foreign debt is partially mitigated by private sector deleveraging by 974 million euro. As we have written in previous issues of QM, public sector, after deleveraging in the first half of 2014, has significantly borrowed in the second half of the year due to getting the loan from UAE (for the purposes of securing funds for the state budget), a loan from IBRD and EIB[10], as well as due to using a part of the loan from the Council of Europe Development Bank. NBS has significantly reduced the amount of its debt toward IMF – by 407 million euro.

Reduction of private sector's foreign debt compared to the end of March 2014 of 974 million euro has occurred primarily due to the deleveraging trend of the banking sector. In this period, the banks reduced their debt by 626 million euro for long-term loans and five million euro for short-term loans. Companies reduced their long-term debt by 378 million euro, while slightly increasing the short-term one by 44 million euro compared to March 2014.

10 See *QM* 39.