

4. Balance of payments and foreign trade

In 2022, the current account deficit amounted to 4.14 billion euros (6.9% of GDP), which is significantly above the 2021 level of 2.27 billion euros (4.2% of GDP). Observed by individual quarters of 2022, the level of the current account deficit is the result of high values in the first half and significantly lower values in the second half of the year. The higher current account deficit in 2022 compared to 2021 is dominantly the result of the growth of the goods deficit, and to a lesser extent the growth of the deficit on the primary income account, while at the same time there was an increase in the net inflow on the secondary income account and on the services account. Foreign trade flows, remittances and outflow of income from capital increased due to the world inflation. The high value of the trade deficit is significantly above the average for the last ten years, and the increase is mostly the result of the growth of the deficit in energy trade. Export of goods amounted to 26.9 billion euros, which is 28% higher than last year, while imports reached 36.3 billion euros, which is 34% higher than last year. This increase in the value of exports and imports is largely due to the rise in world prices - the unit value of both exports and imports was higher than last year in all four quarters. The ratio of export and import prices (terms of trade index) was below 100 in all four quarters, indicating worsening trade relations, which acted in the direction of the growth of the foreign trade and current account deficits during 2022. The inflow based on secondary income was significant due to the very high net inflow of personal transfers - 4.6 billion euros, i.e., 7.7% of GDP, of which workers' remittances were 3.7 billion euros, i.e., 6.1% of GDP. In 2022 an extremely high inflow of capital was recorded, which led to a significant growth of foreign exchange reserves. The net inflow of FDI was at a very high level (4.3 billion euros, i.e., 7.1% of GDP) and almost a fifth above last year's. At the same time, there was an increase in foreign indebtedness of the private sector, and to a greater extent of the public sector and the NBS, which was reflected in the accelerated growth of external debt.

In 2022 the current account deficit was EUR 4.14 billion, i.e. 6.9% of GDP...

...significantly above the level recorded in 2021...

...in the second half of the year significantly lower than in the first half of the year

The high value of the goods deficit was above the average in the last ten years...

...exports, imports, remittances and outflow of income from capital increased due to world inflation

The foreign trade and current account recorded high deficits in 2022, although the results were better in the second half of the year. In 2022, a deficit of 4.14 billion euros (6.9% of GDP) was realized on the current account of the balance of payments. Such a level of the current deficit is significantly above the level recorded in 2021 of 2.27 billion euros (4.2% of GDP). Observed by individual quarters of 2022, the realized level of the current account deficit at the level of the year is the result of a relatively high level in the first half (on average 10.5% of GDP) and significantly lower level in the second half of the year (on average 3.8% of GDP).

Such increase of the current account deficit in 2022 compared to 2021 is largely the result of an increase in the goods deficit (by as much as 4.2 pp of GDP, i.e., from 11.3% to 15.5% of GDP), as well as, to a lesser extent, the growth of the deficit on the primary income account¹ (by 1.1 pp of GDP, i.e., from 3.9% to 5.0% of GDP). On the other hand, there was an increase in net inflow on the secondary income account (by 1.5 pp of GDP, i.e., from 8.3% to 9.8% of GDP) and on the services account (by 1.2 pp of GDP, i.e., from 2.6% to 3.8% of GDP, Table T4-1).

During 2022 goods deficit of 9.35 billion euros was recorded, i.e., 15.5% of GDP, while a surplus was realized on the services account of 2.32 billion euros (3.8% of GDP). Thus, in 2022, the foreign trade deficit amounted to 7.04 billion euros, i.e., 11.7% of GDP (Table T4-1 and Graph T4-2).

The high value of the goods deficit is significantly above the average for the last ten years, and the increase is mostly the result of the growth of the deficit in energy trade. The export of goods amounted to 26.9 billion euros (39% of GDP), and was 28% higher than in the previous year. Imports reached 36.3 billion euros (51% of GDP), and were 34% higher than in the previous year. This increase in the value of exports and imports is largely a result of the rise in world prices - the unit value of exports and imports increased by 18.2% and 22.9%, respectively. The ratio

¹ This item in the balance of payments includes compensation for employees, dividends, reinvested profits, interest and other income from factors of production.

Table T4-1 Serbia: Balance of Payments

	2020	2021	2022	2022			
				Q1	Q2	Q3	Q4
	mil. euros						
CURRENT ACCOUNT	-1,929	-2,266	-4,139	-1,532	-1,366	-404	-837
Goods	-5,201	-6,020	-9,353	-2,579	-2,739	-1,884	-2,152
Credit	16,079	21,018	26,913	6,150	6,822	6,816	7,126
Debit	21,280	27,038	36,266	8,728	9,560	8,700	9,278
Services	1,102	1,398	2,316	489	408	531	888
Credit	6,191	7,800	11,087	2,167	2,549	3,117	3,253
Debit	5,090	6,402	8,771	1,679	2,141	2,586	2,365
Primary income	-1,425	-2,058	-3,013	-522	-687	-753	-1,052
Credit	571	536	654	137	167	160	191
Debit	1,996	2,594	3,667	658	854	913	1,243
Secondary income	3,595	4,414	5,912	1,079	1,652	1,702	1,479
Credit	4,346	5,294	7,189	1,349	1,943	2,099	1,799
Debit	751	880	1,277	269	291	397	320
Personal transfers, net ¹⁾	2,859	3,310	4,622	807	1,247	1,423	1,145
Of which: Workers' remittances	2,121	2,511	3,669	618	1,012	1,217	821
CAPITAL ACCOUNT - NET	-30	-25	-25	-3	-8	-6	-9
FINANCIAL ACCOUNT	-2,079	-2,122	-3,783	-1,611	-1,411	-156	-606
Direct investment - net	-2,938	-3,657	-4,306	-562	-935	-1,284	-1,525
Portfolio investment	-1,624	-1,556	64	185	-98	-205	183
Financial derivatives	87	32	-99	11	-36	-56	-17
Other investment	2,125	440	-2,362	1,011	-658	-270	-2,446
Other equity	1	-2	-2	-2	0	2	-2
Currency and deposits	718	678	285	785	-437	-12	-51
Loans	-454	-776	-3,369	-145	-652	-413	-2,159
Central banks	8	4	-986	0	0	0	-986
Deposit-taking corporations,	-477	-135	-112	161	-311	-144	182
General government	295	-484	-1,629	-118	-256	-155	-1,099
Other sectors	-280	-161	-642	-187	-85	-113	-256
Insurance, pension, and standardized	4	-30	0	0	0	0	0
Trade credit and advances	1,856	1,329	724	374	431	153	-234
Other accounts receivable/payable	0	0	0	0	0	0	0
SDR (Net incurrence of liabilities)	0	760	0	0	0	0	0
Reserve assets	270	2,619	2,919	-2,256	316	1,659	3,200
ERRORS AND OMISSIONS, net	-121	169	381	-76	-37	255	240
	in % of GDP						
Current account	-4.1	-4.2	-6.9	-11.8	-9.1	-2.6	-5.0
Balance of goods	-11.1	-11.3	-15.5	-19.9	-18.3	-12.0	-12.8
Exports of goods	34.4	39.4	44.6	47.4	45.7	43.4	42.5
Imports of goods	45.5	50.7	60.1	67.3	64.0	55.4	55.3
Balance of goods and services	-8.8	-8.7	-11.7	-16.1	-15.6	-8.6	-7.5
Personal transfers, net	6.1	6.2	7.7	6.2	8.4	9.1	6.8
GDP in euros ²⁾	46,796	53,329	60,371	12,973	14,929	15,702	16,767

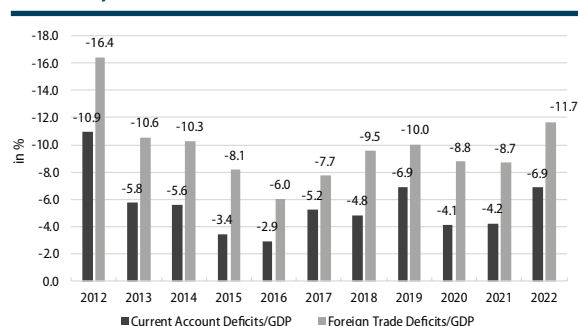
Note: The balance of payments of the Republic of Serbia is aligned with the international guidelines contained in the IMF Balance of Payments Manual no.6 (BPM6).

Source: NBS

1) Personal transfers represent current transfers between resident and non-resident households.

2) Quarterly values. The conversion of annual GDP into euros was done at the average annual exchange rate (average of the NBS official daily average exchange rates).

Graph T4-2 Serbia: Current and Foreign Trade Deficits, 2012- 2022



Source: NBS, QM

of export and import prices (terms of trade index) was below 100 in 2022, indicating worsening terms of trade. The relatively high surplus on the services account was favorably influenced primarily by the rapid growth of tourism, information and communication services and business services². In 2022 the export of goods and services was at the level of 38 billion euros (63% of GDP), and the import of goods and services reached 45 billion euros (74% of GDP), which represents an increase of, respectively, 32% (9 pp of GDP) and 35% (12 pp of GDP), compared to the corresponding values in 2021.

² See Inflation report, February 2023, page 43

In 2022 the net inflow on the secondary income account reached 5.91 billion euros (9.8% of GDP), of which the net inflow on the personal transfers account was 4.62 billion euros (7.7% of GDP), where EUR 3.7 billion, i.e., 6.1% of GDP, was a net inflow from workers' remittances. Therefore, their share in GDP was approximately 1.5 pp of GDP above the respective levels from the previous year, and at the level of record high values from 2018 (Table T4-1). Remittances usually have a counter-cyclical character - in periods of global crises, the inflow of these funds in recipient countries usually increases, as we wrote in previous issues of QM. Additionally, inflation had such effect that the value of remittances, as well as all key macroeconomic indicators, was nominally higher. In addition, the value of remittances was certainly influenced by the immigration of the population, which was stimulated by the conflict in Ukraine. A net outflow based on primary income of 3.01 billion euros (5.0% of GDP) was recorded, which was 1.1 percentage points higher than previous year's net outflow on this basis. The dominant reason for this increase in the primary income deficit was higher expenditures based on income from FDI, i.e., more significant outflows based on the withdrawal of dividends abroad.

High inflow of capital due to the inflow of FDI and borrowing based on financial loans...

The total net inflow of capital during 2022 was 6.68 billion euros³. The high inflow of capital is the result of a significant net inflow based on FDI and other investments, on the one hand, as well as a net outflow based on portfolio investments (purchase of Serbian government bonds by foreigners), on the other hand (Table T4-1). During 2022, the net FDI inflow amounted to 4.3 billion euros, which was 7.1% of the value of the annual GDP. Compared to the previous year, the net inflow of FDI in 2022 was higher by almost 650 million euros (by 0.3 pp of GDP). Thus, the current account deficit was covered by a net inflow based on FDI, which has been the case since 2015. Borrowing on the basis of other investments of 2.36 billion euros, net, was largely the result of borrowing on the basis of financial loans (3.37 billion euros⁴, due to borrowing of: the state 1.63 billion euros, NBS 1 billion euros, businesses 642 million euros and banks 112 million euros). The net outflow was recorded on the account *of Trade credits and advances* (of 724 million euros) and *Cash and deposits* (285 million euros). During 2022 foreign exchange reserves were increased by 2.92 billion euros.

...high growth of foreign exchange reserves

In Q4 2022 the current account deficit was EUR 837 million, i.e. 5.0% of GDP...

During Q4 2022 the current account deficit amounted to 837 million euros, i.e., 5.0% of GDP. Thus, the current account deficit was 119 million euros, i.e., 1.5 pp of GDP below the level in Q4 2021 (when it amounted to 6.4% of GDP, Table T4-1). The lower level of the current account deficit in Q4 2022 compared to Q4 2021 was primarily a result of the increase in the surplus based on services (by 2.4 pp of GDP) and, to a lesser extent, the reduction of the trade deficit (by 0.5 pp of GDP). At the same time, there was an increase in the deficit on the primary income account (by 1.4 pp of GDP), while the share of the secondary income surplus in GDP remained almost unchanged.

... at a lower level observed year-on-year and compared to the first half of 2022...

In Q4 2022 the current account deficit of 5.0% of GDP was higher than in the quarter before, but was below the level from the first half of the year (Q1: 11.8%, Q2: 9.1%, Q3: 2.6 %). The foreign trade deficit in Q4 amounted to 1.26 billion euros, i.e., 7.5% of GDP and was 2.9 pp of GDP below the value from Q4 2021. The goods deficit amounted to 2.15 billion euros, i.e., 12.8 % of GDP. This was in absolute value by around 170 million euros higher, but relatively by 0.5 pp of GDP above the level from Q4 2021. The surplus on the services account in Q4 reached 888 million euros (5.3% of GDP) and was significantly higher than previous year's value from Q4 - by 462 million euros, i.e., by 2.4 pp of GDP.

The lower level of the year-on-year current account deficit was the result of an increase in the surplus on the basis of services

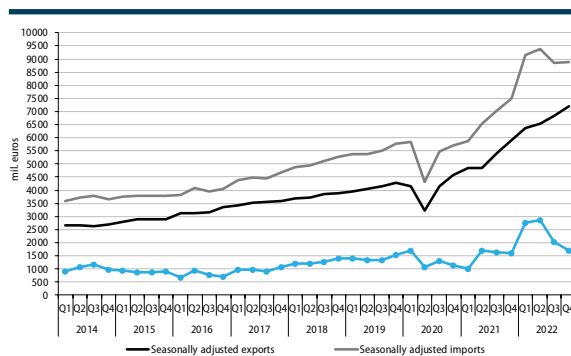
During Q4, goods worth 7.13 billion euros were exported, while imports in this period amounted to 9.28 billion euros. This is, respectively, higher than the values from the same period of the previous year by 21.5% and 18.2%⁵. However, at the end of 2022 both import and export flows were

³ 7.06 billion euros with the account of Errors and omissions.

⁴ Part of the additional borrowing was a loan from the United Arab Emirates, as well as the withdrawal of part of the funds approved under the standby arrangement with the IMF, see Inflation Report, February 2023, page 44.

⁵ NBS data for import and export of goods differ from SORSs data (in the following sections Exports and Imports, below) because they do not include goods undergoing processing (see Box 1 on the change in the methodology for calculating the Balance of Payments in QM37). Therefore, there is a certain difference in the levels of exports and imports, as well as growth rates, depending on whether the data source is NBS or SORS.

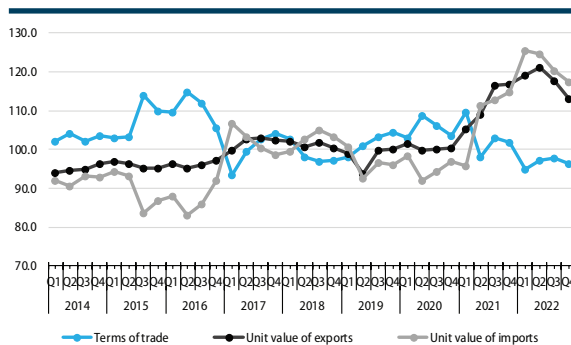
Graph T4-3 Serbia: Seasonally Adjusted Exports and Imports, quarterly values, 2014- 2022



Source: NBS, SORS, QM

Deterioration of terms of trade, as in the previous quarters of 2022

Graph T4-4 Year-on-Year Trade Ratio Indices, 2014- 2022



Source: SORS, QM

value of both exports and imports was higher than in the previous year, which is the case in all four quarters.

Very high inflow of capital and a noticeable increase in foreign exchange reserves

The net inflow on the secondary income account was 1.48 billion euros in Q4, i.e., 8.8% of GDP. Thus, the share of net inflows in GDP was almost unchanged compared to the share a year earlier (Table T4-1). Within this inflow, the inflow based on personal transfers accounted for 6.8% of GDP. A deficit of 1.05 billion euros (6.3% of GDP) was recorded on the primary income account. The realized deficit significantly exceeded the level from Q4 2021 - by 327 million euros, i.e., by 1.4 pp of GDP.

In Q4 2022 a very high capital inflow of 3.80 billion euros⁷ was recorded (Table T4-1). There was a significant inflow of FDI (1.53 billion euros, net, i.e., 9.1% of GDP), and an extremely high inflow from other investments (2.45 billion euros, net - of which 2.2 billion euros is net borrowing on the basis of financial loans, of which EUR 1 billion is state borrowing). On the other hand, there was a net outflow of capital in the portfolio investment account of 183 million euros. During Q4, a noticeable increase in foreign exchange reserves of the NBS of 3.2 billion euros was recorded.

Exports

Exports in 2022 amounted to 27.6 billion euros, 26.3% more than in 2021.

The realized value of exports in 2022 was 27.6 billion euros, which is 26.3% above the value recorded in 2021. In 2022 year-on-year exports and imports slowed down the growth in second half of the year compared to the first half of the year, although the slowdown in imports was

affected by the slowdown in external demand (due to the slowdown in economic activity in EU countries), the slowdown in domestic economic activity and drop in world prices⁶. The share of export of goods in GDP was 3.0 pp above the level in Q4 a year earlier, while the share of imports in GDP increased by 2.5 pp at the same time. At the same time, the coverage of imports by exports was still at the usual level of 77%. Seasonally adjusted data in Q4 compared to Q3 2022 indicate that exports were 5% higher, while imports were stagnant (Graph T4-3). Compared to Q2 2022, exports were higher by 10% and imports were lower by 5%.

Export and import prices, expressed in euros, achieved high growth during 2022. Import prices increased by 22.9%, while export prices increased by 18.2%, but it is relevant to note that export and import prices decreased after the first quarter (see Graph T4.4). The ratio of export and import prices (terms of trade index) was below 100 in Q4 2022, as well as in the previous three quarters of 2022 - indicating a worsening of the terms of trade. The index in Q4 of 96.4 indicates that terms of trade were 3.6% less favourable than in the same period of 2021 (see Graph T4-4). Moreover, in Q4 the unit

⁶ See section "Economic Activity" of this issue of QM

⁷ 4.04 billion euros with the Errors and omissions account.

much more pronounced. After the growth of exports in Q1 of 29%, and in Q2 of 32%, exports recorded growth of 23% in Q3 and 19% in Q4 (Table T4-5). The slowdown in the growth of the value of exports, and especially of imports, during the second half of the previous year is largely the result of the drop in global product prices. At the beginning of 2023, exports slightly accelerated the growth again compared to the end of 2022, because in January 2023 exports were 21% above the value in January 2022. This dynamic of the growth of domestic exports in 2022 can be directly linked to the slowdown in the economic activity of our most important foreign trade partners - EU countries and the region.

Slowing growth of Intermediate and Non-durable products

In Q4 2022 year-on-year growth in the value of exports was recorded for all product groups, with the exception of Other (unclassified) exports. In fact, the growth dynamics of total exports is largely determined by the dynamics of three product groups (with the largest share in total exports): Intermediate products, Non-durable consumer products and Capital products. The exports of Intermediate products had a significant slowdown in growth from quarter to quarter (respectively from Q1 to Q4: 51%, 43%, 21% and 15%). The slowdown in Q4 was also noticeable in Non-durable consumer goods compared to growth from the previous quarters of 2022 (in Q4 growth of 14% year-on-year, after stable growth of around 25%-28% in the previous three quarters). The exports of capital products continued to record a significant increase of 30% year-on-year, which is at the level of growth from Q3, but faster than in the first half of the year (Table T4-5).

The stable growth of exports of Capital products of 30% year-on-year continues in January 2023

Energy exports accelerates growth

In 2022 Energy exports recorded growth rates of 67% in Q1 and 88% in Q2, then slowed down in Q3 (14% year-on-year growth) and again accelerated the growth in Q4 (58% year-on-year growth), and in January 2023 the growth was by 127% above the one from January 2022. Bearing in mind the year-on-year growth in the price of energy in euros per quarter (76%, 86%, 59% and 24% respectively), the exported amount of energy products compared to the same period in 2021 was 5% lower in Q1, unchanged in Q2, lower by 28% in Q3 and higher by 27% in Q4.

Table T4-5 Serbia: Exports, Year-on-Year Growth Rates, 2021– 2022

	Exports share in 2022	2021	2022	2022			2022		
				in mil. euros			in %		
				Q2	Q3	Q4	Q2	Q3	Q4
Total	100.0	21,858	27,605	6,914	6,823	7,148	32.0	22.7	18.7
Total excluding road vehicles	96.9	21,076	26,758	6,679	6,625	6,915	33.1	23.0	18.7
Energy	5.5	864	1,506	270	212	343	87.7	13.8	57.6
Intermediate products	43.8	9,265	12,095	3,197	2,994	3,008	42.8	20.7	14.6
Capital products	19.8	4,455	5,462	1,325	1,343	1,610	17.1	30.3	30.5
Capital products excluding road vehicles	16.7	3,672	4,615	1,090	1,145	1,376	19.4	33.9	32.5
Durable consumer goods	4.7	1,044	1,309	327	345	362	20.2	37.8	32.0
Non-durable consumer goods	20.5	4,612	5,673	1,359	1,523	1,499	26.0	28.5	13.6
Other	5.7	1,619	1,560	437	406	327	17.2	-5.1	-7.3

Source: SORS

In 2023 we expect that exports will continue to be dominantly determined by the movement of prices on the world market, as well as by the movement of economic activity in European countries.

We expect that an important factor in the value of domestic exports in 2023 - as was the case in 2022 - will be the movement of product prices on the world market. In addition, the domestic exports result will be determined by achievements in the field of economic activity in the countries of the eurozone and surrounding areas. If the current slowdown in economic activity in the EU continues, it may adversely affect the domestic exports result in the coming quarters. Additionally, the real appreciation of the dinar against the euro from the previous period will have a negative impact on the value of exports in the upcoming period as well.

Imports

In 2022, goods worth 39.0 billion euros were imported (Table T4-6), which was 34.8% more than the realized imports in 2021. In the first half of the year, imports recorded a very high year-on-year growth (48% in Q1 and 40% in Q2), while growth slowed down in the second half of the year, although it was still significantly above previous year's levels (23.8% in Q3 and 18.9%

Imports of 39.0 billion euros in 2022...

... a significant year-on-year growth of 34.8%, largely due to the rise in world prices

The evident slowdown in imports growth during 2022 continues in January 2023...

...slowdown in imports for most production groups, especially Energy

in Q4). The slowdown in imports growth in the second half of the year was largely due to the slowdown in energy imports value growth (after year-on-year growth rates of energy imports of 291% in Q1 and 147% in Q2, followed by year-on-year growth of 52% in Q3 and 45% in Q4), due to the drop in energy prices, but also lower electricity imports. In addition, the slowdown in domestic economic activity acts in the direction of slowing down the growth of imports. In January 2023, the slowdown in imports growth continued, and it was 12.5% above the value from January 2022, largely due to a significant slowdown in the growth of the value of energy products (year-on-year growth of 5.5%). Since exports were at an unchanged level, while imports were recording such pronounced growth, at the beginning of 2023 the goods deficit decreased.

Imports in Q4 2022 amounted to 9.87 billion euros, which was 18.9% higher than the value from Q4 2021. Compared to the previous quarter, but also to the first half of the year, all production groups (with the exception of non-durable consumer goods) recorded a slowdown in import growth (Table T4-6). During Q4 energy imports grew at a rate of 45% year-on-year. The import of intermediate products recorded a year-on-year increase of 10.7% (after higher year-on-year growth in Q3, and especially in the first half of the year). In Q4 2022 the import of capital goods was 8.1% higher than the value from Q4 of the previous year, while at the same time the import of durable consumer goods increased by 6.2%, and other imports by 29.5%. In contrast to the noticeable slowdown in the growth of these mentioned production groups, the only exception is the import of non-durable consumer goods. The import of these products recorded an acceleration of growth of 24% year-on-year, after year-on-year growth of 21%-22% in the previous three quarters (Table T4-6).

Table T4-6 Serbia: Imports, Year-on-Year Growth Rates, 2021- 2022

	Imports share in 2022	2021	2022	2022			2022					
				in mil. euros			Q2	Q3	Q4	Q2	Q3	Q4
				in %			in %			in %		
Total	100.0	28,935	39,009	9,924	9,036	9,866	40.0	23.8	18.9			
Energy	17.5	2,914	6,823	1,518	1,116	1,335	147.3	51.7	44.8			
Intermediate products	34.7	10,864	13,547	3,568	3,248	3,368	32.0	16.8	10.7			
Capital products	17.1	5,778	6,687	1,854	1,609	1,703	23.5	9.9	8.1			
Durable consumer goods	1.8	614	693	166	158	189	14.5	10.3	6.2			
Non-durable consumer goods	14.9	4,677	5,825	1,390	1,378	1,701	21.6	21.6	24.1			
Other	13.9	4,088	5,434	1,428	1,527	1,570	45.3	47.1	29.5			
Imports excluding energy	82.5	26,021	32,186	8,406	7,920	8,531	29.8	20.7	15.6			

Source: SORS

The value of imported energy in Q4 was 45% higher year-on-year, which represents a continuation of the slowdown in growth from the previous two quarters. The growth in price of oil derivatives in euros in Q4 2022 was 24% year-on-year⁸, an important part of the realized growth in value of energy imports was the rise in price levels. In fact, when the increase in energy prices is excluded, the calculation indicates that the imported quantities of these products are 16% higher than last year. This is a much more “rational” increase in the imported quantities of these products, in contrast to the first half of the year, where, excluding price growth (by an average of 80% year-on-year), the imported quantities of energy products were 123% more in Q1 and 33% more in Q2 compared to the same quarters in 2021.

Problems in the operations of domestic public companies from the energy sector are an important factor in the high growth of the value of imports

The global energy crisis led to an increase in prices of energy products, on the one hand, while the present problems in domestic power system led to an increase in imported quantities at very high prices in the first half of the year, on the other hand. In fact, at the end of 2021 and first half of 2022, there was an increased import of gas (for the purposes of electricity generation), coal and electricity, as well as the formation of strategic energy stocks. Thus, the mentioned problems in the operations of domestic public companies from the energy sector represent an important factor in high growth of imported value, and consequently the growth of the foreign trade and current account deficit in 2022, which we wrote about in previous issues of QM.

⁸ Author's calculation, based on World Bank data on Brent oil prices. Prices in dollars increased year-on-year by 11%.

Prices and domestic economic activity are important factors of domestic imports in 2023

The energy crisis and rise in energy prices had a dominant impact on the high value of domestic imports in 2023. In addition, domestic problems related to public companies from the energy sector affected significant quantitative imports in the first half of 2022, and the total imported value in this year. In 2023, one of the main factors of the value of imports will definitely be the price movement of imported products, as well as the level of domestic economic activity. At the beginning of the year, energy prices are slightly below last year's (9% in dollars, 5% in euros according to World Bank data and author's calculations). Furthermore, geopolitical circumstances will significantly determine the price of energy, i.e., whether it will be formed at last year's high level or above/below it. If the trends of falling energy prices continue (i.e., if in 2023 they are below last year's highs), as well as if the slowdown in economic activity from Q4 2022 continues⁹, this would be reflected in the slowdown in import growth in 2023. The effect of the real appreciation of the dinar against the euro will be positive on the value of imports, i.e., it will act in the direction of its increase in the future period.

Foreign debt

Foreign debt amounted to 39.98 billion euros, i.e., 68.4% of GDP

At the end of Q3 2022, foreign debt amounted to 39.98 billion euros and makes up 68.4% of GDP¹⁰. Thus, during the period January–September the foreign debt increased by around 3.5 billion euros, although its share in GDP remained unchanged (Table T4-7).

Table T4-7 Serbia: Foreign Debt Trend Dynamic, 2020 – 2022

	2018	2019	2020	2021	2022		
					Mar.	June	Sep.
stocks, in EUR millions, end of the period							
Total foreign debt	26,662	28,254	30,787	36,488	36,947	38,295	39,976
(in % of GDP) ⁴⁾	62.2	61.5	65.8	68.4	67.6	67.7	68.4
Public debt ¹⁾	13,425	13,866	14,978	19,144	19,232	19,734	20,487
(in % of GDP) ⁴⁾	31.3	30.2	32.0	35.9	35.2	34.9	35.1
Long term	13,425	13,866	14,978	19,144	19,232	19,734	20,487
o/w: to IMF	0	0	0	0	0	0	0
o/w: Government obligation under IMF SDR allocation	472	479	455	480	1,181	1,215	1,239
Short term	0	0	0	0	0	0	0
Private debt ²⁾	13,238	14,387	15,809	17,345	17,715	18,561	19,489
(in % of GDP) ⁴⁾	30.9	31.3	33.8	32.5	32.4	32.8	33.3
Long term	11,836	12,462	14,223	15,732	15,981	16,554	17,123
o/w: Banks debt	1,717	1,959	2,348	2,629	2,625	2,641	2,702
o/w: Enterprises debt	10,109	10,490	11,859	13,082	13,334	13,890	14,399
o/w: Others	11	14	17	21	22	23	22
Short term	1,401	1,925	1,585	1,612	1,734	2,007	2,366
o/w: Banks debt	1,346	1,445	1,473	1,356	1,416	1,676	1,760
o/w: Enterprises debt	55	479	112	256	317	331	606
Foreign debt, net 3), (in% of GDP) ⁴⁾	35.9	32.4	37.0	37.6	41.4	41.6	40.2

Note: Republic of Serbia's foreign debt is calculated according to the principle of "maturing debt", which includes the amount of debt per principal and the amount of accrued interest not paid at the moment of the agreed maturity.

Source: NBS, QM

1) The foreign debt of the Republic of Serbia's public sector includes the debt of the state (which includes the debt of Kosovo and Metohija for loans concluded before the arrival of the KFOR mission, unregulated debt to Libya and clearing debt to the former Czechoslovakia), of the National Bank of Serbia, local self-government units, funds and agencies founded by the state and the debt for which the state guarantee was issued.

2) The foreign debt of the Republic of Serbia's private sector includes the debt of banks, enterprises and other sectors, for which a state guarantee has not been issued. Private sector's foreign debt does not include loans concluded before December 20, 2000 for which no payments are made (EUR 1040.5 million, of which EUR 470.8 million refers to domestic banks, and EUR 569.7 million to domestic enterprises).

3) Total foreign debt reduced by NBS foreign reserves.

4) The sum of the GDP of the observed quarter and the previous three quarterly GDP values is used.

The growth of foreign debt during the first nine months of 2022 is a consequence of private and public sector borrowing. Additional public sector borrowing in this period amounted to 1.34 billion euros. At the same time, the private sector increased its foreign debt by an additional 2.14 billion euros. The increase in the long-term debt of the private sector (growth of 2.14 billion euros) is mostly the result of additional borrowing by the economy (of 1.39 billion euros) and

⁹ See section "Economic Activity" of this issue of QM

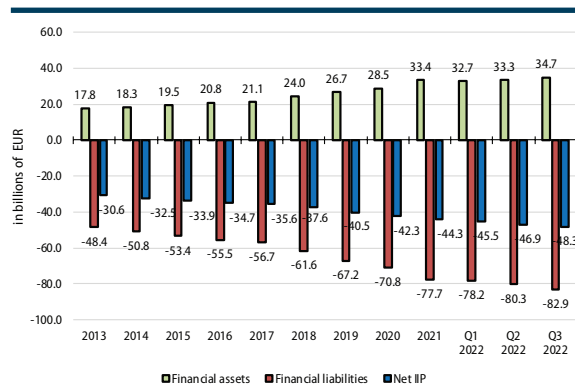
¹⁰ The source of data for external debt and international investment position is the NBS, and the latest available data refer to the end of September 2022.

only a small part by banks (only 72 million euros). The level of short-term debt at the end of Q3 2022 was higher by 754 million euros compared to the situation nine months earlier. Within this amount, the level of short-term debt of the economy and banks increased from the beginning of January to the end of September by 350 and 404 million euros, respectively.

In the period from June to September (in Q3), the foreign debt increased by 1.68 billion euros. The increase in public debt amounted to 753 million euros, while at the same time an increase in private debt by 928 million euros was recorded. Out of the recorded increase in external debt of the private sector, EUR 569 million was an increase based on long-term debt, while short-term debt was 359 million euros higher at the end of Q3 than three months earlier. The increase in long-term bank debt was 61 million euros, while the increase in short-term debt was 84 million euros from the end of June to the end of September (Table T4-7).

The international investment position amounted to 48.3 billion euros at the end of Q3 2022

Graph T4-8 Serbia: Net International Investment Position, in billions of euros



Source: NBS

Note: Net financial liabilities are shown as a negative value on the graph

International Investment Position

At the end of September 2022, the international investment position (IIP)¹¹ in Serbia amounted to 48.3 billion euros, as a net result of financial liabilities of 82.95 billion euros and financial assets of 34.68 billion euros (Graph T4-8). Compared to the end of 2021, IIP increased by 1.33 billion euros, due to an increase in assets by 1.36 billion euros and liabilities by 2.69 billion euros.

The basic items of financial liabilities side at the end of September 2022 were : FDI 48.92 billion euros, portfolio investments

8.90 billion euros and loans 21.15 billion euros. Thus, during the first nine months of 2022, an increase in FDI of 1.47 billion euros, investment portfolio of 239 million euros and loans of 692 million euros was recorded.

¹¹ The International Investment Position of the country (IIP) includes financial assets and liabilities of international character. It represents the difference between foreign financial assets in our possession (foreign reserves, our direct and portfolio investments abroad, approved loans abroad, etc.) and foreign financial liabilities in Serbia (foreign direct and portfolio investments, debts abroad, etc.). The country is a net creditor if its claims and assets abroad are higher than foreign assets in the country and its foreign debts