4. Balance of Payment and Foreign Trade

In Q1 2019, the current account deficit amounted to 937 million euros, i.e. 9.2% of GDP. Thus, the current deficit was at a relatively higher level than the previous quarterly values, due to a more pronounced increase in trade deficit. Since the beginning of the year, both imports and exports have decelerated their growth, with a somewhat faster growth of imports of goods than the growth of exports (yoy 9.9% and 7.9%, respectively). This has led to further growth of trade deficit in the observed period. Seasonally adjusted data for Q1 2019 show an increase in exports and a slight decrease in imports compared to the previous quarter, while the April data show almost unchanged dynamics in the growth in imports as during the first three months, while exports slightly accelerated their growth. Adverse trends in foreign trade, which have lasted for more than two years, initiated by the strengthening of the dinar and excessive growth in domestic demand, at the beginning of this year were further enhanced by the introduction of prohibitive customs duties on the sale of products in Kosovo and Metohija, introducing a steel export quota to the EU and worsening trade relations. In Q1, a net inflow of capital of 850 million euros was recorded, and foreign exchange reserves increased by about 80 million euros in this period. Significant FDI inflows (EUR 797 million, or 7.8% of GDP) were realised with additional borrowing from other investments - growth of government and other sectors' loans. In 2019, we expect additional growth of foreign trade and current deficit due to faster growth of domestic demand than production growth and reduction of price competitiveness of the Serbian economy due to the increase of unit labour costs and strong dinar. The external balance sheets in the past year were adversely affected by the rise in energy prices, as well as the deterioration of the international status of Serbia, which is manifested through introduced customs duties on the sale of goods to Kosovo and Metohija and the introduction of steel export quotas for the EU. Possible introduction of additional protectionist measures by the EU or the retrogression of European economies after the recovery in the first quarter, would adversely affect Serbia's foreign trade results.

Current deficit in Q1 2019 was 937 million euros, i.e. 9.2% of GDP and significantly above previous quarterly values

The current account deficit in Q1 2019 amounted to 937 million euros (Table T4-1), and was significantly higher than the previous quarterly values. The share of the current deficit in GDP in the first three months of 2019 was 9.2% of GDP, which is 1.8 pp of GDP above the level from the same period of 2018. This increase in the current deficit is mainly due to the growth of trade deficit (which was higher by 1.3 pp of GDP compared to the one in Q1 2018). The share of Primary Income account and services deficit[1] in GDP remained at almost unchanged level compared to Q1 of the previous year, while the share of net income on the Secondary Income account[2] in GDP was somewhat lower (by 0.4 pp of GDP).

Trade deficit recorded a significant growth, partially due to extraordinary factors

During Q1 2019, exports amounted to 3.857 million euros, while imports were 5.180 million euros[3], so in Q1, the trade deficit was 1.324 million euros. The trade deficit accounted for 13.0% of GDP, and it was 1.3 percentage points of GDP higher than the share realised in Q1 2018. This percentage increase in the trade deficit was the result of the 2.5 pp increase in the share of imports in GDP (reaching 50.9%) and the 1.2 pp growth of the share of exports in GDP (amounting to 37.9%). The foreign trade deficit also recorded a year-on-year increase to 1.09 billion euros, and in Q1 2019, this deficit was 10.8% of GDP and 1.4 percentage points higher than the reported level in Q1 2018 (Graph T4-2 and Table T4-1).

The deterioration of foreign trade results at the beginning of 2019 was the result of a continued unfavourable trend that has been in place since the beginning of 2017, driven by a faster growth of domestic demand than GDP growth and a reduction in the price competitiveness of the Serbian

1 This item in the balance of payments includes employee benefits, dividends, reinvested earnings, interest and other income from factors of production.

2 This item in the balance of payments includes remittances, donations and other types of transfers.

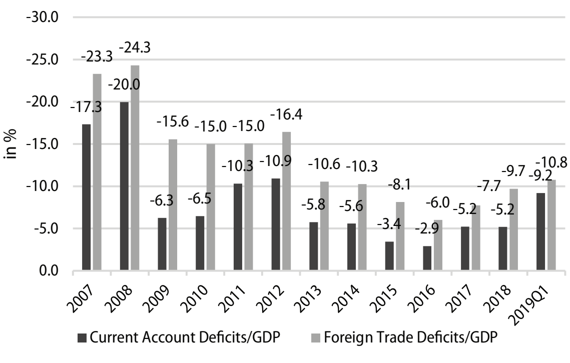
3 NBS data on import and export of goods, as well as on trade balance, differ from SORS data (which we use in the following sections of the article: *Export and Import*) because they do not include finishing goods (see Highlight 1 on changing the calculation methodology of Balance of Payments in *QM*37). Therefore, there is a certain difference in the levels of exports and imports, as well as the growth rates, depending on whether the data source was NBS or SORS.

Table T4-1. Serbia: Balance of Payments

	2016	2017	2018	2018				2019
				Q1	Q2	Q3	Q4	Q1
				mil. euros				
CURRENT ACCOUNT	-1,075	-2,051	-2,223	-724	-354	-556	-589	-937
Goods	-3,119	-3,997	-5,245	-1,138	-1,157	-1,240	-1,710	-1,324
Credit	12,814	14,066	15,238	3,576	3,927	3,850	3,885	3,857
Debit	15,933	18,064	20,483	4,714	5,084	5,090	5,596	5,180
Services	907	966	1,092	226	247	289	329	230
Credit	4,571	5,246	6,000	1,274	1,409	1,659	1,659	1,497
Debit	3,664	4,280	4,909	1,048	1,162	1,370	1,329	1,267
Primary income	-2,022	-2,533	-2,207	-622	-534	-641	-410	-653
Credit	630	568	564	113	159	139	153	125
Debit	2,653	3,101	2,771	736	692	780	563	777
Secondary income	3,159	3,514	4,137	810	1,090	1,036	1,201	810
Credit	3,635	4,097	4,740	951	1,237	1,185	1,368	959
Debit	476	583	602	141	147	149	166	150
Personal transfers, net [1]	2,510	2,758	3,222	633	913	854	823	649
Of which: Workers' remittances	1,874	2,049	2,531	480	741	687	623	470
CAPITAL ACCOUNT - NET	-10	5	-7	6	-3	-7	-2	-2
FINANCIAL ACCOUNT	-535	-1,648	-1,683	-568	-268	-384	-463	-776
Direct investment - net	-1,899	-2,418	-3,188	-723	-682	-598	-1,184	-797
Portfolio investment	917	827	913	-328	181	32	1,028	49
Financial derivatives	9	-21	21	16	-10	12	2	5
Other investment	740	-265	-552	70	-432	64	-254	-111
Other equity	-1	-1	-1	0	-1	-1	1	0
Currency and deposits	220	-623	404	21	-317	79	621	-274
Loans	303	-159	-1,303	30	-359	-202	-772	-112
Central banks	23	9	8	4	0	4	0	4
Deposit-taking corporations,	279	-235	-603	95	-80	-290	-328	272
General government	-308	9	-198	-103	-69	114	-141	-192
Other sectors	309	58	-510	34	-210	-30	-303	-196
Insurance, pension, and standardized	8	15	0	0	0	0	0	0
Trade credit and advances	209	504	347	18	245	188	-104	275
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	-302	228	1,123	398	674	105	-55	79
ERRORS AND OMISSIONS, net	549	398	546	150	89	179	128	163
PRO MEMORIA				in % of GDP				
Current account	-2.9	-5.2	-5.2	-7.4	-3.3	-5.0	-5.2	-9.2
Balance of goods	-8.5	-10.2	-12.3	-11.7	-10.9	-11.3	-15.0	-13.0
Exports of goods	34.9	35.9	35.6	36.8	36.8	35.0	34.1	37.9
Imports of goods	43.4	46.1	47.9	48.5	47.7	46.2	49.2	50.9
Balance of goods and services	-6.0	-7.7	-9.7	-9.4	-8.5	-8.6	-12.1	-10.8
Personal transfers, net	6.8	7.0	7.5	6.5	8.6	7.7	7.2	6.4
GDP in euros [2]	36,724	39,206	42,782	9,726	10,660	11,014	11,383	10,171

Note: Balance of Payments of the Republic of Serbia is in line 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 annual GDP conversion to the euro was made at the average annual rate (average official daily middle exchange rates of the NBS).

Graph T4-2. Serbia: Current and Foreign Trade Deficit, 2007- Q1 2019



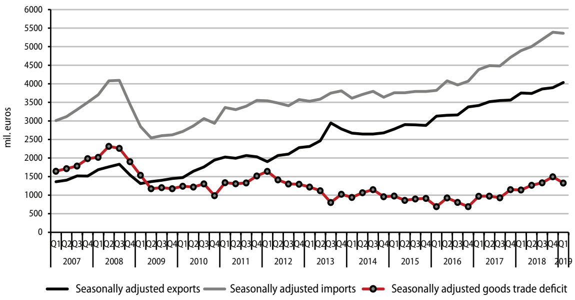
Source: NBS, *QM*

The growth of exports in 2019 will be adversely affected by the possible strengthening of protectionist measures... further growth of domestic demand in the pre-election year or strengthening of the dinar would encourage the acceleration of imports and decelerated growth of exports

economy due to economically unjustified strengthening of the dinar and the increase in unit labour costs. The deterioration of the foreign trade deficit was also affected by the worsening of the trade relations between the previous and the beginning of this year, as well as the deterioration of the international economic position of Serbia, which was manifested through the introduction of taxes on the delivery of products to Kosovo and Metohija and the introduction of steel export quotas for the EU. The decline in FIAT's production, the largest single exporter in Serbia, has further exacerbated the deterioration of the foreign trade balance.

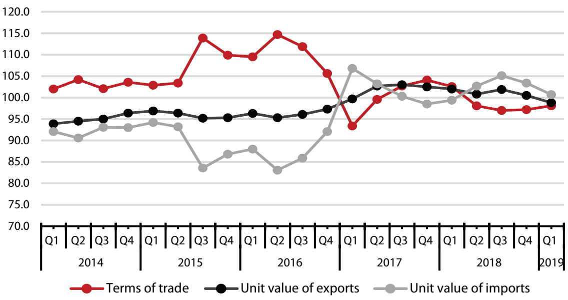
In Q1 2019, the import of goods registered a relatively faster yoy growth (9.9%) than the growth of export of goods (7.9%), which led to further growth of trade deficit in the observed period. On the other hand, according to seasonally adjusted values, exports increased by 3.6% in Q1 2019 compared to Q4 2018, while imports decreased by 0.5% (Graph T4-3). SORS April data indicate that the growth rate of exports was slightly below the growth rate of imports of goods (8.0% and 8.8%, respectively). The possible strengthening of protectionist measures and

Graph T4-3. Serbia: Seasonally Adjusted Exports and Imports, Quarterly, 2007 – Q1 2019



Source: NBS, SORS, *QM*

Graph T4-4. Year-on-Year Trade Ratio Indices, 2014 – Q1 2019



Source: SORS, *QM*

continued prohibitive customs duties on the delivery of products from Serbia to Kosovo and Metohija will adversely affect Serbia's exports. A possible retrogression of European economies, following solid results in the first quarter, would have an adverse impact on exports, while an additional increase in domestic demand and the strengthening of the dinar in the pre-election year would boost imports and slow down exports.

Graph T4-4 shows the exchange rate index, which was 98.1 in Q1 2019. This was slightly above the level from the previous two quarters (in Q3 and Q4 2018 it was about 97). However, the value below 100 indicates that the quotient of export and import prices in Q1 2019 was below the Q1 2018 level. The movement of the exchange ratio was largely influenced by the movement of prices of oil derivatives on the global market (as we have written in previous issues of QM). From the beginning of the year the price of oil has increased again after it declined at the end of 2018. The uncertainty regarding its further movement makes it hard to assess the impact of the exchange ratio on the level of foreign trade and current deficit in 2019.

Inflow on Secondary Income Account of 8.0% of GDP

The net inflow on Secondary Income account in Q1 2019 was 810 million euros, i.e. 8.0% of GDP. Of that, 649 million euros, i.e. 6.4% of GDP was from personal transfers. Although the inflow on Secondary Income account and Personal Transfers was at last year's level in absolute terms, expressed in GDP, it was 0.4 and 0.1 pp lower than in Q1 2018, respectively (Table T4-1).

Instead of the planned reduction of current account balance of payments deficit, there will be an increase in 2019

Introduction of numerous protectionist measures in the world, specific problems in certain countries, predicted this year's modest growth in the countries that are the most important domestic foreign trade partners, etc. with the expected increase in domestic demand and the retention of strong dinar, will almost certainly lead to further increase in the trade deficit. In 2019, there will be no planned reduction of the current deficit, and it is almost certain that the deficit in relation to GDP will be slightly higher than in the previous year. In a situation where a number of external factors (protectionist measures, high energy prices, customs duties on Kosovo and Metohija, a slowdown in European economy) deteriorated, possible additional growth of domestic demand in the pre-election year would worsen the foreign trade and current balance of payments.

Net inflow of capital in Q1...

A net inflow of capital of 852 million euros was recorded in Q1[4], which resulted in forex reserves at the end of Q1 being by 79 million euros higher compared to the level recorded three months earlier (Table T4-1).

...was thanks to the inflow of FDI and other investments, on the one hand, and smaller outflow of portfolio investments on the other

The FDI inflow remained at a significant level in Q1 2019, but below the level of the current deficit. Net inflow of FDI amounted to 797 million euros, which makes 7.8% of GDP. Also, capital inflows were recorded due to additional borrowing of EUR 111 million from other investments. Within other investments, net borrowing from loans of 112 million euros was recorded, where the state and other sectors increased borrowing, while the banks deleveraged by 272 million euros. At the same time, there was an increase by the same amount on the *Cash and Deposit* account, while *Trade Loans and Advances* account had a decrease by the same amount.

4 Inflow of 1.015 million euros, including the *Errors and Omittances* account.

Highlight 1. The level of current account balance of payments in Serbia compared to the European countries in transition

Based on the latest NBS data, the current account deficit in Serbia is on the rise. The lowest level of the current deficit was recorded in 2016, when it was 2.9%. After that, for two consecutive years the current deficit was at the level of 5.2%, and from the beginning of 2019 it was as high as 9.2%. Such a trend suggests that at the level of 2019 there will be no desirable reduction of the current account deficit, i.e. that the external imbalance, despite the desirable reduction, will be maintained at a significant level.

Table T4-4 shows the share of deficit in GDP in Central and Eastern European countries, together with some countries in the region, for the last four years. According to the levels shown, Albania had a high and negative current account balance, which was above the deficit in Serbia. Compared to all other selected countries, Serbia is significantly ahead of the deficit level in relation to Romania, Slovakia and North Macedonia, which also had a deficit in all four years observed. Romania also recorded a certain increase in the level of deficit in GDP, but in 2018 it was 4.5%, which was below the level achieved in Serbia in the same year (5.2%). Slovakia has recorded a negative outcome in the current balance over the past four years, but it has been at a stable level of about 2% of GDP all the time. Northern Macedonia, in addition to Albania, Serbia, Romania and Slovakia, also recorded a deficit in the observed four-year period, but it has a declining trend, so that in 2018 it was only 0.3% of GDP.

Poland, Latvia and Lithuania periodically realised current account deficits, but they were at a much lower level and very close to equilibrium (0). Other observed countries have had a positive balance on the current account over the past four years. Particularly high levels were achieved by Slovenia, which in 2018 recorded a current surplus of 7% of GDP. We should particularly mention the result in this field recorded by Bulgaria. According to the data, there was a rapid trend of surplus growth in Bulgaria. Namely, Bulgaria had a balanced current account in 2015. In 2016 and 2017, its surplus reached and surpassed 3% of GDP, and in 2018 it was as high as 4.6% of GDP (Table T4-4).

Tabela T4-5. Share of Current Balance in GDP, 2015-2018

	2015	2016	2017	2018
Slovenia	4.5	5.5	7.2	7.0
Bulgaria	0.0	2.6	3.1	4.6
Croatia	4.4	2.5	3.9	2.6
Estonia	1.8	2.0	3.2	1.7
Lithuania	-2.3	-0.8	0.9	1.6
Hungary	2.7	6.1	2.8	0.4
Czechia	0.2	1.6	1.7	0.3
North Macedonia	-2.0	-2.9	-1.0	-0.3
Poland	-0.6	-0.5	0.2	-0.7
Latvia	-0.5	1.6	0.7	-1.0
Slovakia	-1.7	-2.2	-2.0	-2.5
Romania	-1.2	-2.1	-3.2	-4.5
Serbia*	-3.4	-2.9	-5.2	-5.2
Albania	-8.6	-7.6	-7.5	-

Source: Eurostat; NBS and *QM* for Serbia

In fact, based on these data, we can conclude that in other countries there is no trend of deteriorating the external balance, and that the trend of the current account deficit in Serbia is largely a systemic problem. Also, the observed decrease in the current deficit in Serbia in certain years in the previous period is not the result of any permanent improvement. Therefore, all this indicates that the problem of the external imbalance of the domestic economy in previous years was only mitigated at a certain time by favourable external circumstances (improving trade ratios) and certain temporary political measures (fiscal consolidation), but that it still exists.

Exports

Exports decelerated growth during Q1 2019, only to slightly accelerate again in April

In the first three months, exports amounted to 4.08 billion euros, which was by 6.5% above the value of exports from Q1 of the previous year (Table T4-6). Thus, exports slowed down their growth compared to the previous quarter (yoy growth rate of exports in Q4 2018 was 8.8%). The primary reasons for this slowdown in exports were the slow growth of the Serbian economy (supply) and weakening of its price competitiveness (strong dinar, increase in unit labour costs). Contributing factors were also the slow growth of Italy and Germany, which are our most important trading partners, as well as taxes on products delivered to Kosovo and Metohija and the introduction of steel export quotas. In April, there was a slight acceleration of exports, when

Table T4-6. Serbia: Exports, Year-on-Year Growth Rates, 2017 – April 2019

	Exports share in 2018	2017	2018	2018		2019		2018		2019	
				Q3	Q4	Q1	April	Q3	Q4	Q1	April
	in %	in mil. euros						in %			
Total	100.0	15,051	16,271	4,068	4,132	4,083	1,412	7.5	8.8	6.6	8.0
Total excluding road vehicles	93.4	13,801	15,203	3,857	3,932	3,869	1,099	8.8	11.6	10.1	9.6
Energy	3.0	382	485	161	118	90	20	49.9	-1.7	8.6	-43.1
Intermediate products	39.4	5,743	6,410	1,598	1,612	1,640	563	6.9	11.3	5.4	10.5
Capital products	24.2	3,633	3,933	910	1,011	977	348	10.8	3.3	2.3	3.8
Capital products excluding road vehicles	17.6	2,383	2,864	699	811	762	250	20.7	15.3	18.8	9.8
Durable consumer goods	5.3	811	857	210	224	213	79	3.3	8.1	8.3	9.1
Non-durable consumer goods	21.4	3,358	3,480	897	889	852	301	0.9	3.4	4.8	11.8
Other	6.8	1,124	1,107	293	278	312	100	8.2	49.3	37.6	18.7

Source: SORS

yoy growth of 8.0% was recorded. The value of road vehicle exports was 32% below last year's level in Q1 2019 and 9% in April. Thus, the yoy growth of total exports, after excluding road vehicles, in Q1 was 10.1%, and in April, 9.6%, which is a solid result.

During Q1 all export components except Energy, Durable and Non-Durable Consumer Goods decelerated their growth

During Q1, exports of the two biggest export groups: *Intermediate* and *Capital Goods* decelerated their growth. Exports of these two product groups combined make 2/3 of total export value (see Table T4-6). The export value of *Intermediate Goods* in Q1 recorded a yoy increase of 5.4%, after a yoy growth rate of 11.3% in Q4 2018. On the other hand, consumer goods (durable and non-durable) slightly accelerated their yoy growth in Q1 2019 compared to the growth from the previous quarter.

Export value of energy products varies significantly. In Q3 2018, it had a yoy increase of around 50%. In Q4 2018, it was by 1.7% below the value of Q4 2017, and in Q1 2019, it recorded a yoy growth of 8.6%, only to be 43% ahead of the last year's value in April. The movements in export value significantly reflects the movements of global oil prices, which increased since the beginning of 2018, then slightly declined in Q4 2018, only to record growth again in the beginning of 2019[5]. Still, as the energy exports make only 3% of total exports, the trends in the value of energy exports, despite its pronounced fluctuations, do not have a considerable impact on the total export dynamic.

In April, accelerated exports were mostly the result of accelerated growth of *Intermediate Goods, Capital Goods* and *Non-Durable Consumer Goods* (which also represent the biggest export groups, with a share of 2/5, 1/4 and 1/5, respectively, see Table T4-6), while *Energy* exports are significantly below last year's. In addition to the pronounced decline of *Energy* export value, in April there was an accelerated growth of exports in all export components, except in non-classified exports (group *Other* decelerated its growth from 37.6% in Q1 to 18.7% in April, Table T4-6).

We expect a solid growth of exports in 2019 despite certain unfavourable circumstances

In the coming period, we can expect a negative impact on the growth of exports due to the downward trend in the economic activity of the eurozone countries and the delayed effect of real appreciation of the domestic currency. The dynamics of export growth in the coming period will also be determined by further local and global moves regarding the barrier to foreign trade, to what extent the adverse weather conditions to date will be reflected in agricultural production in the country, as well as the movement of prices of primary goods on the global market.

Imports

Total imports in Q1 2019 amounted to 5.529 million euros. Thus, imports decelerated growth and in Q1 recorded a year-on-year growth rate of 8.9%, followed by 8.8% in April, after 13.3% in Q4 2018 (see Table T4-7). The slowdown in imports growth during Q1 was due to the slowdown in the growth of all import components (even negative rates in Durable Consumer Goods), with the exception of unclassified imports (*Other*[6] in Table T4-7).

5 In the analysis, we used World Bank data on the price of oil, type Brent.
6 This group includes predominantly warehoused goods.

Since the beginning of 2019, there has been a decelerated growth of imports…

Imports of energy products recorded significant variation in the levels and thus in yoy growth rates as well. In the second half of 2018 (Table T4-6), there was a very high yoy increase in *Energy* imports (predominantly due to the high growth of energy prices since mid-2018), followed by a slowdown in growth in the first quarter of 2019, only to achieve a year-on-year decrease in the value of imports in April 2019.

...and in the coming period, the level of imports will be determined by the global energy prices and domestic demand

The highest growth rate of imports during Q1 was recorded in products classified in the group *Other* - which grew by 20% yoy, followed by *Energy* goods (11.2%) and *Intermediate Goods* (10.1%). Other imports accelerated compared to the previous quarter (yoy growth of 20% in Q1 2019 and 13.4% in Q4 2018), while imports of *Energy* and *Intermediate Goods* decelerated (the yoy growth in Q4 2018 of 41.1% and 12, 0%, respectively).

At the same time, imports of *Non-Durable Consumer Goods* decelerated their growth in Q1 and accelerate in April. *Capital Goods* in Q1 recorded a very low growth of 0.7% yoy, and slightly faster growth of 1.5% yoy in April. On the other hand, *Durable Consumer Goods*, following a year-on-year decline in imports of 0.6% in Q1, recorded a significant recovery and yoy growth of 11.0% in April. However, the movement of imports of *Durable Consumer Goods* does not significantly affect total imports, as they make only 2% of the total imported value.

In April 2019, the growth rate of imports remained almost unchanged as in Q1. In April, imports of all production components slightly accelerated growth. The exception was *Other Imports* that slowed down and *Energy* - where a year-on-year drop in the imported value of 15% was recorded. Significant yoy growth in April was recorded in *Intermediate Goods*, as well as in *Durable* and *Non-Durable Consumer Goods*.

Table T4-7. Serbia: Imports, Year-on-Year Growth Rates, 2017 - April 2019

	Imports share in 2018	2017	2018	2018		2019		2018		2019	
				Q3	Q4	Q1	April	Q3	Q4	Q1	April
	in %	in mil. euros						in %			
Total	100.0	19,396	21,918	5,402	5,961	5,529	1,912	14.8	13.3	8.9	8.8
Energy	11.6	2,026	2,541	655	777	586	171	34.3	41.1	11.2	-15.0
Intermediate products	35.6	6,913	7,810	1,929	2,050	2,021	724	9.5	12.0	10.1	16.3
Capital products	21.0	4,186	4,593	1,099	1,199	1,107	384	14.7	3.3	0.7	1.5
Durable consumer goods	2.0	405	436	102	127	103	38	3.1	10.9	-0.6	11.0
Non-durable consumer goods	14.9	2,930	3,269	786	925	836	300	8.5	11.7	7.3	15.4
Other	14.9	2,936	3,269	832	882	875	297	23.0	13.4	19.8	13.2
Imports excluding energy	88.4	17,370	19,377	4,747	5,184	4,942	1,742	12.5	10.0	8.7	11.9

Source: SORS

Accelerated growth of imports in the coming period will be affected by the expected increase in domestic demand, as well as the delayed effect of real appreciation of the dinar. In addition, the growth dynamics of imports will in part be determined by the trend of global energy prices.

Foreign Debt

Foreign debt at the end of 2018 was 26.9 billion euros

At the end of 2018, Serbia's foreign debt was 26.901 million euros, i.e. 62.9% of GDP (Table T4-8)[7].

During Q4 2018, the foreign debt increased by 377 million euros and during entire 2018, it increased by 1.3 billion euros

During Q4 2018, the foreign debt increased by 377 million euros. Expressed as a share of GDP (due to GDP growth), the foreign debt at the end of December was at the same level as three months earlier (62.9% of GDP). In Q4 2018, private sector borrowing significantly increased, so private debt grew by 951 million euros, while at the same time public sector's debt fell by 574 million euros. The increase in the private sector's foreign debt was due to the increase in the long-term debt (primarily of the business sector) and the higher level of short-term debt (primarily due to increased short-term debt of banks). Banks increased their short-term debt by 279 million euros, and the business sector by 45 million euros. Additional borrowing on the business sector's long-term foreign debt amounted to 545 million euros, while banks borrowed on this basis another 82 million euros (see Table T4-8).

7 The source of data for foreign debt and international investment position is NBS, and the latest available data refer to the end of 2018.

Table T4-8. Serbia: Foreign Debt Trend Dynamic, 2015–2018

	2015	2016	2017 Mar.	2017 Jun	2017 Sep.	2017 Dec.	2018 Mar.	2018 Jun	2018 Sep.	2018 Dec.
	stocks, in EUR millions, end of the period									
Total foreign debt	26,234	26,494	26,091	25,389	25,999	25,578	25,392	26,101	26,524	26,901
(in % of GDP) [4)]	*73.3*	*72.1*	*70.4*	*67.6*	*67.8*	*65.2*	*63.1*	*63.2*	*62.9*	*62.9*
Public debt[1)]	15,295	15,680	15,508	14,592	14,653	13,910	13,767	14,096	13,997	13,423
(in % of GDP)[4)]	*42.7*	*42.7*	*41.8*	*38.9*	*38.2*	*35.5*	*34.2*	*34.1*	*33.2*	*31.4*
Long term	15,295	15,680	15,508	14,592	14,653	13,910	13,767	14,096	13,997	13,423
o/w: to IMF	15	0	0	0	0	0	0	0	0	0
o/w: Government obligation under IMF SDR allocation	493	494	495	472	465	462	458	468	468	472
Short term	0	0	0	0	0	0	0	0	0	0
Private debt[2)]	10,939	10,815	10,584	10,797	11,346	11,667	11,625	12,005	12,527	13,478
(in % of GDP) [4)]	*30.6*	*29.4*	*28.5*	*28.8*	*29.6*	*29.8*	*28.9*	*29.1*	*29.7*	*31.5*
Long term	10,636	10,138	10,067	10,114	10,622	10,769	10,779	11,074	11,351	11,978
o/w: Banks debt	2,057	1,408	1,345	1,390	1,412	1,519	1,506	1,555	1,639	1,721
o/w: Enterprises debt	8,576	8,725	8,714	8,717	9,200	9,241	9,263	9,510	9,701	10,246
o/w: Others	4	6	7	8	9	9	10	10	11	11
Short term	303	676	517	683	724	898	846	931	1,176	1,500
o/w: Banks debt	186	590	382	602	641	817	761	833	1,067	1,346
o/w: Enterprises debt	116	86	135	81	82	81	85	98	109	153
Foreign debt, net [3)], (in% of GDP) [4)]	44.3	44.4	44.1	41.9	40.1	39.8	37.7	36.3	36.4	36.6

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
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.
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 968.8 million, of which EUR 419.3 million refers to domestic banks, and EUR 549.5 million to domestic enterprises).
Total foreign debt reduced by NBS forex reserves.
The sum of the GDP of the observed quarter and the previous three quarterly GDP values is used.

During 2018, private sector borrowing abroad had a fast growth

At the end of 2018, compared to the end of 2015, total foreign debt was higher by 1.323 million euros, but at the same time, its share in GDP was reduced (from 65.2% to 62.9%). During this period, the private sector significantly increased its foreign borrowing by 1.8 billion euros, while the total public sector debt was 487 million euros. In 2018, banks borrowed EUR 202 million for long-term debt, and the business sector borrowed as much as one billion euros. Short-term debt of banks in the observed period was higher by 530 million euros, while the short-term debt of the business sector recorded an increase of 72 million euros (Table T4-7).

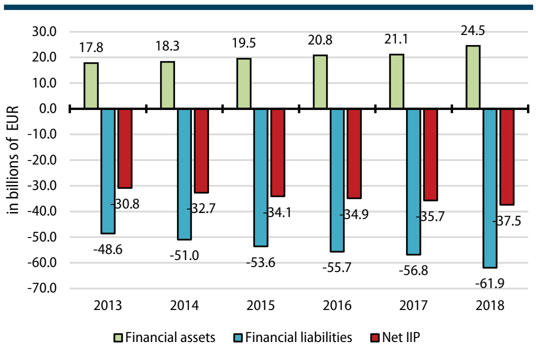
International Investment Position

In 2018, Serbia's IIP recorded a 1.7 billion euro increase…

…At the end of the year, it was 37.5 billion euros

At the end of 2018, Serbia's International Investment Position (IIP)[8] was 37.5 billion euros, where Serbia's receivables abroad were 24.5 billion euros, and liabilities were 61.9 billion euros (Graph T4-9).

Graph T4-9. Serbia: Net International Investment Position, in billions of EUR



Source: NBS
Note: Net financial liabilities are expressed as negative values in the graph.

During 2018, there was a growth in both financial assets - by 3.4 billion euros, and financial liabilities - by 5.1 billion euros. Thus, during this period, IIP increased by 1.7 billion euros.

A more detailed analysis of the position of net financial liabilities indicates that at the end of 2018, FDI reached 34.8 billion euros, that the loans were at the level of 17.75 billion euros, and that the level of portfolio investments was 4.75 billion euros. Thus, during 2018, there was a significant increase in FDI liabilities of 3.5 billion euros, as well as loans of 1.6 billion euros, while on the other hand there was a decrease in liabilities from portfolio investments of 0.7 billion euros.

8 The International Investment Position of the country (MIP) 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.