4. Balance of Payments and Foreign Trade

In Q1 2014 quarterly current account deficit shrank to very low EUR 314 million, or 4.2% of GDP. Small current account deficit and the downwards trend in it mainly came from reduction in trade deficit driven by favorable trends in its components – steep rise in exports (17.7% y-o-y) accompanied by modest rise in imports (1% y-o-y). Thus foreign trade deficit was by 36% smaller in this quarter than in the same quarter last year, and current account deficit narrowed by a half. Worrying trends in the capital account and financial account of the balance of payments continued. Namely, net outflow of capital reached half a billion euros and was caused by net outflow of other investments, continuation of modest inflow of FDI, and almost zero balance of portfolio investments. Forex reserves of the NBS were by EUR 800 million smaller than at the end of 2013 due to this massive net outflow of capital and the current account deficit. Limited rise capacities in car exports and possible decline in exports of food products and agricultural products (caused by floods) will have adverse effects on current account deficit in the following period. On the other hand, economic recovery in the EU and low domestic demand will affect current account deficit favorably. Serbia's foreign debt stood at EUR 25.5 billion (79.8% of GDP) at the end of March 2014, meaning that it was slightly reduced relative to the amount recorded at the end of 2013 thanks to public sector deleveraging (NBS debt repayment to the IMF) and massive debt repayment by commercial banks. Trends in public debt by the end of 2014 will depend on intensity of fiscal consolidation, sources from which fiscal deficit will be funded and borrowing terms and future trends in net borrowing by banks and companies.

Extremely small current account deficit – EUR 314 million, or 4.2% of GDP

The downwards trend in current account deficit detected in the second half of 2012 continued throughout 2013 and at the beginning of 2014. Quarterly current account deficit in Q1 was especially small and stood at EUR 314 million (4.2% of GDP Table T4-1 and Graph T4-2), which becomes obvious when we compare it with its average values in the preceding years: 9.1% of GDP in 2011, 10.8% of GDP in 2012 and 5.0% of GDP in 2013. This trend suggests that 2014 current account deficit will narrow to less than 4% of GDP. However, extraordinary circumstances in the form of floods that hit Serbia in May will have adverse effects on current account deficit in the second half of the year – exports of agricultural products will fall, and imports of durable consumer goods (appliances, used cars) and electricity will rise. Additionally, slowdown in car and petroleum exports, mainly because the current capacities have been reached, and rise in payments in the income account, caused by increased interest payments, will affect the current account deficit adversely. On the other hand, further recovery in Eurozone and implementation of the announced measures for fiscal consolidation, and possible rise in remittances and foreign donations will exert favorable impact on current account.

...mainly comes from reduced trade deficit

Small current account deficit in Q1 2014 and the downwards trend in it mainly came from reduction in foreign trade deficit driven by favorable trends in its components – steep y-o-y rise in exports, accompanied by modest increase in imports (Graph T4-3), and y-o-y rise in surplus in services account, accompanied by y-o-y decline in current transfers.

Trade deficit in Q1 was record-small, as well – it stood at EUR 788 million, or 10.6% of GDP (by 1.8 pp below the average in 2013, and as much as 6.3 and 8.0 pp below the trade deficits recorded in 2011 and 2012 respectively). Thus, for the first time, exports covered more than ¾ of imports. Exports in Q1 reached EUR 2,623 million (35.3% of GDP), while imports totaled EUR 3,411 million (45.9% of GDP). In this quarter services account was in a small surplus by EUR 74 million. Therefore, foreign trade deficit in Q1 2014 ran at EUR 714 million (9.6% of GDP) and was much below its usual quarterly level. However, in spite of the foregoing reductions in these deficits, they are still large. We therefore think that economic policies (exchange rate policy, control of domestic demand) should work towards further reduction in foreign trade deficit.

Trends

Table T4-1. Serbia: Balance of Payments

	2011	2012	2013	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1
				mil. euros				
CURRENT ACCOUNT	-2,870	-3,176	-1,586	-625	-290	-160	-510	-314
Goods	-5,318	-5,480	-3,979	-1,151	-1,005	-685	-1,138	-788
Export f.o.b[1)]	8,440	8,726	10,956	2,235	2,685	3,089	2,946	2,623
Import f.o.b[1)]	-13,758	-14,205	-14,934	-3,386	-3,690	-3,774	-4,084	-3,411
Services	163	156	334	34	79	90	131	74
Export	3,032	3,104	3,423	698	826	948	951	793
Import	-2,869	-2,948	-3,088	-664	-747	-857	-820	-719
Income, net	-758	-799	-1,095	-190	-244	-362	-299	-222
Receipts	428	539	486	102	146	110	128	90
Payments	-1,186	-1,338	-1,580	-291	-389	-472	-427	-312
Current transfers, net	3,043	2,947	3,153	681	879	797	796	623
o/w grants	206	151	131	30	32	30	39	33
o/w private remittances, net	2,065	1,934	2,160	457	630	554	518	378
CAPITAL ACCOUNT	-3	-11	11	-2	9	4	0	2
FINANCIAL ACCOUNT	2,694	3,019	1,395	605	235	62	493	300
Direct investment, net	1,827	242	771	158	139	224	250	146
Portfolio investment, net	1,619	1,720	1,920	1,405	-347	-123	984	-4
Other investments	1,049	-80	-598	-98	-443	-202	145	-642
Trade credits	493	518	401	68	12	39	282	-131
Loans	-413	-442	-1,227	-368	-291	-53	-514	-391
NBS	45	-219	-658	-150	-148	-180	-180	-189
Government	687	209	433	162	42	273	-44	-71
Commercial banks	-729	-475	-714	-308	-43	-169	-194	-210
Long-term	419	-321	-482	-179	-1	-48	-253	-153
Short-term	-1,148	-154	-232	-129	-41	-121	59	-58
Other (enterprises)	-416	43	-288	-72	-142	22	-96	80
Currency and deposits	970	-156	228	203	-165	-188	377	-121
Other assets and liabilities	0	0	0	0	0	0	0	0
Allocation of SDR	0	0	0	0	0	0	0	0
Reserves Assets (- increase)	-1,801	1,137	-697	-859	886	164	-887	800
ERRORS AND OMISSIONS, net	179	168	179	22	46	94	17	12
OVERALL BALANCE	1,801	-1,137	697	859	-886	-164	887	-800
PRO MEMORIA								
				in % of GDP				
Current account	-9.1	-10.8	-5.0	-8.4	-3.5	-1.9	-6.3	-4.2
Balance of goods	-16.9	-18.6	-12.4	-15.4	-12.3	-8.3	-14.1	-10.6
Exports of goods	26.8	29.6	34.3	29.9	32.8	37.5	36.5	35.3
Imports of goods	-43.6	-48.1	-46.7	-45.3	-45.0	-45.8	-50.5	-45.9
Balance of goods and services	-16.3	-18.0	-11.4	-14.9	-11.3	-7.2	-12.5	-9.6
Current transfers, net	9.7	10.0	9.9	9.1	10.7	9.7	9.9	8.4
	31,534	29,516	31,986	7,477	8,195	8,233	8,081	7,439

Source: NBS
1) Exports and imports FOB, according to the NBS methodology adjusted to IMF BOPM-5.
2) Quarterly values. Conversion of annual GDP to euros was done based on average annual exchange rate (average of official daily middle exchange rates of the NBS).

Rise in payments in the income account caused by interest payments

Net outflow of EUR 222 million was recorded in the income account. This considerable net outflow was caused by rise in expenditures on interest payment on portfolio investments and other investments, primarily based on public expenditures. We expect that interest payment will push up expenditures, and consequently widen the income account deficit in the following period.

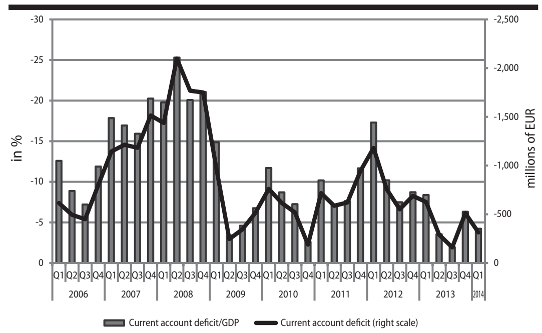
Slight decrease in remittances and current transfers, probably caused by seasonal variations

Net inflow of current transfers stood at EUR 623 million, or 8.4% of GDP in Q1 2014. Remittances accounted for EUR 378 million of this amount. Remittances and current transfers were slightly below their average amounts partly due to a real drop in inflow of these items, and partly due to seasonal variations – which cause a decline in inflow of remittances and current transfers at the beginning of every year (Graph T4-5). Taking into account the *insurance hypothesis* [1](defined in Kapur, 2003), we expect that the flood consequences will push up the inflow of funds

1 The fact that remittances represent a kind of “insurance” to citizens, because under macroeconomic shocks in a country, inflow of remittances rises, for more detail see Kapur, D. “Remittances: the New Development Mantra? ”, paper from G-24 Technical Group Meeting, August 2003.

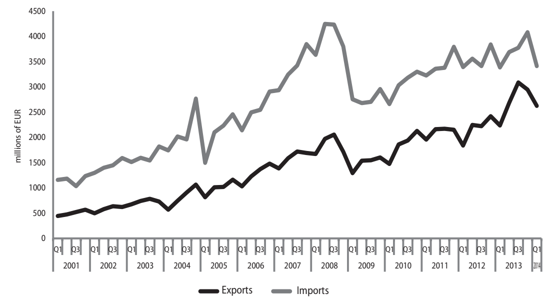
sent by the Serbian diaspora in the following period[2]. Therefore, 2014 remittances will probably be somewhat above its average annual amount.

Graph T4-2. Current account deficit, 2006-2014



Source: NBS, *QM*

Graph T4-3. Imports and exports of goods, 2001-2014

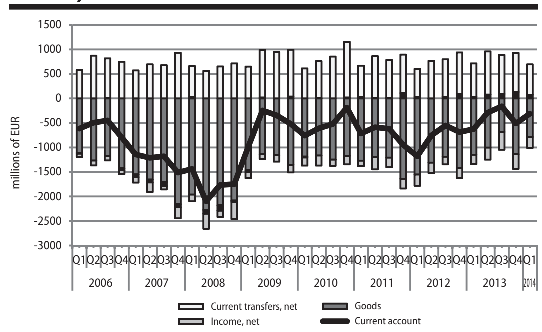


Source: NBS, *QM*

Current account deficit in Q1 2014 by 50% smaller than in Q1 2013

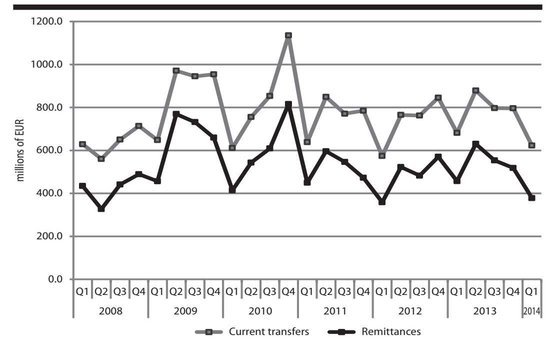
Current account deficit in Q1 2014 narrowed by ½ compared with the same period last year. This primarily came from the continuation of the downwards trend in foreign trade deficit driven by a very small trade deficit. Foreign trade deficit and trade deficit in Q1 were below the last year's level by 36% and 32% respectively. Exports grew by 17% and imports rose by only 1% in the same period. Exports of road vehicles take a small share of the total rise in exports in the analyzed period, meaning that the total exports were primarily driven by exports of other goods (rise in exports excluding road vehicles stands at 14.6%)[3]. Remittances suffered a y-o-y drop of 17%, which caused 9% decrease in current transfers.

Graph T4-4. Current account and its components, 2006-2014



Source: NBS, *QM*

Graph T4-5. Inflow of current transfers and remittances 2008-2014



Source: NBS, *QM*

Net outflow of capital in Q1 stands at half a billion euros

Favorable trends in current account deficit were accompanied by adverse developments in the capital account and financial account of the balance of payments. Namely, net outflow of capital reached EUR 499 in Q1, which is the fourth in a row quarterly capital account deficit from the beginning of 2012 (see Graph T4-6). We therefore think that this is not a one-off decline but a trend driven by adverse developments in international environment, growing risks and absence of reforms in Serbia. To reverse this trend, the Government must adopt and then properly implement a sustainable fiscal consolidation program, and carry out sweeping economic reforms. Massive net outflow of capital and current account deficit pushed down the forex reserves of the NBS by EUR 800 million relative to the amount recorded at the end of 2013 (Table T4-1).

... net outflow of other investments, modest inflow of FDI and zero balance of portfolio investments

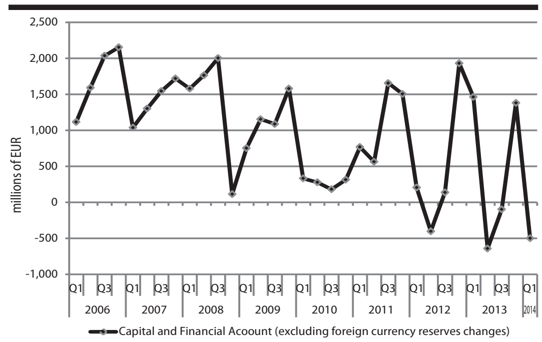
Capital outflow was driven by outflow of other investments, still modest inflow of FDI, and almost zero balance of portfolio investments (net outflow of EUR 4 million). Such developments

2 Increased inflow of remittances to Serbia during the recession caused by the global crisis in 2009 and 2010 supports this hypothesis, for more detail see Janković, I. and M. Gligorić: "The remittance inflows' impact on savings in the Serbian economy", in the forthcoming edition of Journal of Economic and Social Development, Vol.1 No.2, 2014.

3 See the next chapter in this text.

in portfolio investments can be attributed to the Fed's tapering of quantitative easing. Although Serbia's credit rating was downgraded, country risk premium did not increase – it even fell in Q1 (measured by EMBI index), and went up slightly in April[4] - because investors had positive expectations about the new Government and the announced measures for fiscal consolidation. Reforms and fiscal consolidation are therefore necessary to raise this initial confidence. Otherwise, the confidence will be lost. FDIs are still low and stand at EUR 146 million. Taking into account the trends detected in 2013 and 2014 and Ukraine crisis, as a direct cause of the delay in construction of the South Stream pipeline, it is quite reasonable to expect that FDI in 2014 will fall below the last year's level (EUR 771 million, or 2.4% of GDP). Fiscal consolidation measures and economic reforms, even if implemented strongly this year, will have lag effect on FDI. Net outflow of other investments amounted to EUR 642 million. This was caused by negative balance of its all components. There was a net outflow in trade credits of EUR 131 million, net outflow in loans of EUR -391 million and net outflow in *Currency and Deposits* of EUR 121 million.

Graph T4-6. Capital and financial account, 2006-2014



Source: NBS, *QM*

The largest capital outflow comes from repayment of financial loans, primarily repayment of NBS debt and banking sector debt

Data shows that the largest net capital outflow came from repayment of financial loans. The Loan account has been showing negative balance since Q1 2012. The largest net outflow in Q1 2014 was recorded on Commercial banks account, for both long-term and short-term debt repayment. Additionally, the NBS forex reserves fell by EUR 189 million on account of debt repayment to the IMF. Furthermore, public sector debt was reduced by EUR 71 million, which is a net outcome of settlement of due liabilities arising from the old and new loans (loan for Corridor 10 and loan from EIB for development[5]). Business sector net borrowing from foreign creditors stood at EUR 80 million in the analyzed quarter.

Forex reserves fell by EUR 800 million at the end of March relative to the end of preceding quarter

Forex reserves fell by EUR 800 million at the end of March relative to the amount recorded at the end of 2013. Forex reserves fell by EUR 149 million in January, EUR 281.8 million in February and EUR 369.4 in March. April[6] saw a slight rise in the NBS forex reserves of EUR 19.3 million. The National Bank of Serbia intervened in the forex market intensively by selling securities worth EUR 800 million in the first three months of 2014 and by purchasing them in April. A part of forex reserves outflow came from repayment of the foreign debt of the NBS and commercial banks, meaning that their net asset position did not deteriorate. However, unlike the NBS whose deleveraging is desirable, deleveraging of commercial banks is not welcome because it implies reduction in credits to enterprises (see chapter on monetary policy).

Exports

Steep rise in exports continues at the beginning of 2014

Steep rise in exports continues at the beginning of 2014. Export totaled EUR 2.63 billion in Q1 and was by 17.7% higher than in the same period last year (Table T4-7). However, unlike the preceding quarters, rise in exports in Q1 2014 was not driven by rise in car and energy exports, but mainly by increase in exports of other goods. As expected, export of FIAT cars and petroleum products has been quite exhausted, i.e. it probably reached its full capacity. Graph T4-8 shows the exhausted growth in road vehicle exports – export value is steady at EUR 400-500 million, and y-o-y growth rate is very close to a single digit percentage.

4 Inflation report, p. 18 and 19.
5 Inflation Report, NBS, May 2014.
6 http://www.nbs.rs/internet/cirilica/scripts/showContent.html?id=7089&konverzija=no http://www.nbs.rs/internet/cirilica/scripts/showContent.html?id=7181&konverzija=no http://www.nbs.rs/internet/cirilica/scripts/showContent.html?id=7250&konverzija=no http://www.nbs.rs/internet/cirilica/scripts/showContent.html?id=7301&konverzija=no

Increasing variety of goods for export

Y-o-y rise in exports excluding road vehicles reached 14.6%. It started in the second half of 2013 and was driven by good agricultural yields and low base for comparison (2012 draught pushed down the exports of these goods to a quite modest level), as well as gradual recovery in the EU, as Serbia's major export partner.

Cars and petroleum products are no longer the drivers of export growth

Rise in *Energy* exports slowed considerably relative to the preceding quarters. This probably indicates that the effects of investments previously made by NIS have been exhausted. Slight slowdown in exports of *Intermediate goods* detected in the mid 2013 continued. Likewise, exports of *Capital products* slowed slightly relative to the preceding quarter, and when compared with the first three quarters of 2013, the slowdown is considerable, because car production reached its full capacity, and its limited contribution to total exports was exhausted.

Recovery in Eurozone has favorable impact on exports, while floods and Ukraine crisis affect it adversely

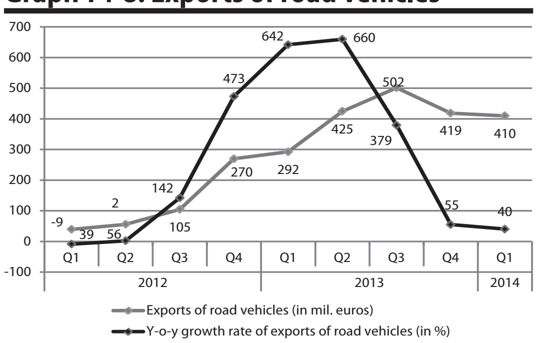
Exports of *Capital products* excluding road vehicles rose in Q1 2014 relative to the preceding quarter, and y-o-y rise reached 11.50%. Additionally, rise in exports of *Non-durable Consumer Goods* in this quarter was steeper than in the preceding one (y-o-y rise of 12.4% in Q1 2014, relative to 10.3% in Q4 2013). On the other hand, rise in exports of *Durable Consumer Goods* was slower than in each individual quarter of 2013 and stood at 22.9%. Although exports of goods classified under *Other exports* fell slightly, its y-o-y growth rate is still high and stands at 25.7%. This is especially important if we take into account a large y-o-y decrease in exports of these goods in the first two quarters of 2013 (Table T4-7). Recovery in Eurozone will boost exports of the foregoing groups of products in the following period, and on the other hand, floods and Ukraine crisis will have adverse but limited impact on them.

Table T4-7. Serbia: exports, y-o-y growth rates, 2011–2014

	Exports share in 2013	2011	2012	2013	2013				2014	2013				2014
					Q1	Q2	Q3	Q4	Q1	Q1	Q2	Q3	Q4	Q1
	in %				in mil. euros					in %				
Total	100.0	8,441	8,822	11,047	2,236	2,728	3,125	2,958	2,632	20.1	19.5	38.5	22.2	17.7
Total excluding road vehicles	85.2	8,253	8,352	9,410	1,943	2,304	2,623	2,540	2,227	6.6	3.4	22.0	18.0	14.6
Energy	4.7	310	303	521	94	131	145	151	98	47.0	53.6	125.3	68.2	4.8
Intermediate products	33.4	3,980	3,187	3,691	798	981	1,012	901	911	8.0	11.7	24.5	18.8	14.2
Capital products	27.0	1,001	1,667	2,983	570	761	859	793	720	112.8	108.3	109.4	27.2	26.3
Capital products excluding road vehicles	12.2	813	1,197	1,346	278	337	358	374	310	21.6	8.7	17.0	5.9	11.5
Durable consumer goods	4.7	347	395	524	99	136	142	147	122	26.9	35.9	33.8	32.5	22.9
Non-durable consumer goods	21.8	2,118	2,230	2,410	501	560	675	674	564	4.9	3.1	12.8	10.3	12.4
Other	8.3	686	1,039	917	173	160	292	293	218	-26.2	-48.8	10.7	28.0	25.7

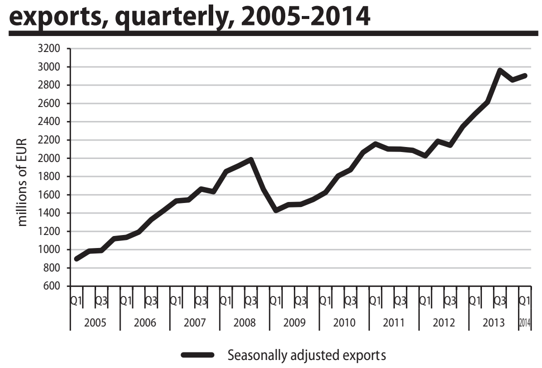
Source: SORS

Graph T4-8. Exports of road vehicles



Source: SORS, *QM*

Graph T4-9. Serbia: seasonally adjusted exports, quarterly, 2005-2014



Source: NBS, SORS, *QM*

Seasonally adjusted values confirm highly favorable trends in exports

Analysis of seasonally adjusted export values confirms the strong rise in exports (Graph T4-9). Analyzed from this aspect, exports grew by 1.7% relative to the preceding quarter, or by 7% annually. This quarterly seasonally adjusted export exceeded its highest value recorded just before the crisis (Q3 2008) by almost a half – it was by 46.3% above the pre-crisis level.

If the growth rate of exports and imports remained unchanged by the end of the year (quarterly rise in exports of 17.7% and quarterly rise in imports of 1%), export would amount to EUR

13.1 billion, and imports would total EUR 16.5 billion. Coverage of imports by exports would thus increase to 83%. However, flood consequences could temporarily stop the rise in this ratio, because exports of agricultural products will fall and imports of durable consumer goods and electricity will increase.

Imports

Q1 saw a modest y-o-y rise in imports of 1%

Imports of goods in Q1 2014 grew by extremely modest 1% y-o-y and totaled EUR 3.54 billion (Table T4-10). This modest rise mainly came from declining domestic demand and stagnant economic activity. Import value of all individual components of imports, excluding *Other imports*, fell compared with Q1 2013. The sharpest drop was detected in imports of *Durable Consumer Goods* (-10.7% y-o-y) and *Energy* (-7.6% y-o-y).

Table T4-10. Serbia: imports, y-o-y growht rates, 2011-2014

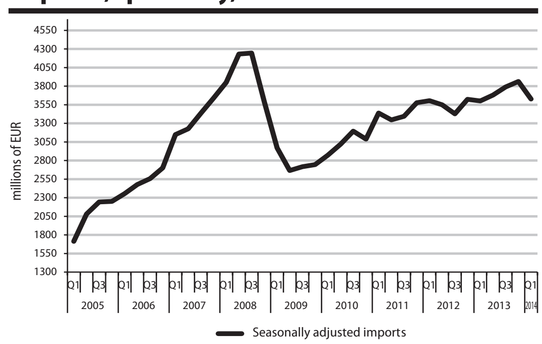
	Imports share in 2013	2011	2012	2013	2013				2014	2013				2014
					Q1	Q2	Q3	Q4	Q1	Q1	Q2	Q3	Q4	Q1
	in %				in mil. euros							in %		
Total	100.0	14,250	14,771	15,459	3,509	3,822	3,913	4,215	3,543	-0.4	3.2	10.1	5.6	1.0
Energy	15.0	2,846	2,583	2,323	532	485	563	742	491	-34.9	-12.3	5.3	9.5	-7.6
Intermediate products	32.5	5,030	5,131	5,031	1,164	1,292	1,321	1,254	1,145	0.6	-6.5	1.5	-2.9	-1.6
Capital products	23.4	2,812	2,994	3,624	799	931	913	982	790	25.4	25.2	25.7	10.7	-1.0
Durable consumer goods	2.0	320	322	303	77	77	70	79	69	-0.1	-7.0	-12.9	-3.4	-10.7
Non-durable consumer goods	14.3	2,176	2,168	2,206	510	539	558	599	494	7.4	4.1	1.3	-4.1	-3.2
Other	12.8	1,066	1,573	1,972	428	498	489	558	554	18.6	17.2	35.7	30.5	29.4
Imports excluding energy	85.0	11,404	12,189	13,136	2,978	3,336	3,350	3,472	3,052	10.0	5.9	11.0	4.8	2.5

Source: SORS

Import value of all individual components of imports, excluding Other imports, is lower than in Q1 2013

Energy imports are at a very low level as of mid 2012, when domestic capacities were renewed, i.e. when considerable investments in Serbian oil production were made. Consequently, rise in imports exclusive of energy has been much faster than rise in total imports for almost two years. Accordingly, imports excluding energy rose by 2.5% in Q1 2014 relative to Q1 2013.

Graph T4-11. Serbia: Seasonally adjusted imports, quarterly, 2005-2014



Source: NBS, SORS, *QM*

Imports of *Intermediate products* are still low, and by 1.6% below the last year's level. This can be attributed to continuation of modest recovery in domestic production. Y-o-y decline in imports of *Capital Products* by 1% can be attributed to large base for comparison and the fact that car production reached its full capacity. Fall in imports of *Durable* and *Non-durable Consumer Goods* is in accordance with the projected low domestic demand which is not showing signs of recovery. Only imports of products classified under *Other Imports* grew by 29.4% y-o-y.

Seasonally adjusted values indicate a fall in imports

Seasonally adjusted values indicate a fall in imports. Imports in Q1 2014 fell by 6.1% compared with Q4 2013. Graph T4-11 shows that the post-crisis rise in imports value is very modest compared with the steep rise recorded before the crisis. Such trends in imports still keep imports value much below the level reached just before the crisis – it is by as much as 14.5% below its highest value recorded in Q3 2008. Low level of domestic demand is the major cause of a slow recovery in imports after 2008.

Foreign debt

Serbia's foreign debt at the end of March 2014 stood at EUR 25.5 billion, or 79.8%

Serbia's foreign debt at the end of March 2014 stood at EUR 25.5 billion (Table T4-12). It was reduced by EUR 338 million compared with the amount recorded at the end of 2013. However, this reduction is temporary, bearing in mind the expected financial needs of the country and further borrowing in the following period. Foreign debt-to-GDP ratio stands at 79.8%, which is by 1 pp below the level recorded three months ago. This reduction in foreign debt in Q1 came from public and private sector deleveraging (by EUR 198 million, or 0.6 pp, and EUR 140 million, or 0.4 pp respectively).

Reduction in public sector foreign debt is temporary

The NBS debt repayment to the IMF contributed to reduction in foreign debt of the public sector. Reduction in private sector foreign debt in Q1 is a net effect of continuation of banking sector deleveraging (repayment of both long-term and short-term loans), on one hand, and enterprises' borrowing, on the other.

Table T4-12. Serbia: foreign debt structure, 2010–2014

	2010	2011	2012	2013				2014
				Mar.	Jun	Sep.	Dec.	Mar.
	stocks, in EUR millions, end of the period							
Total foreign debt	23,786	24,125	25,721	26,722	26,072	25,686	25,842	25,504
(in % of GDP) [4]	*85.1*	*76.5*	*87.1*	*88.6*	*84.3*	*80.8*	*80.8*	*79.8*
Public debt[1]	9,076	10,773	12,187	13,483	12,914	12,786	13,173	12,975
(in % of GDP)[4]	*32.5*	*34.2*	*41.3*	*44.7*	*41.8*	*40.2*	*41.2*	*40.6*
Long term	9,076	10,773	12,187	13,483	12,914	12,786	13,173	12,975
o/w: to IMF	1,529	1,618	1,389	1,245	1,079	890	697	515
o/w: Government obligation unc	449	459	452	454	447	441	434	436
Short term	0	0	0	0	0	0	0	0
Private debt[2]	14,710	13,352	13,534	13,240	13,158	12,900	12,669	12,529
(in % of GDP) [4]	*52.6*	*42.3*	*45.9*	*43.9*	*42.5*	*40.6*	*39.6*	*39.2*
Long term	12,880	12,704	13,040	12,879	12,849	12,719	12,457	12,377
o/w: Banks debt	3,362	3,782	3,672	3,530	3,511	3,463	3,229	3,021
o/w: Enterprises debt	9,518	8,922	9,369	9,348	9,336	9,255	9,227	9,355
o/w: Others	0	0		1	1	1	1	1
Short term	1,830	648	493	361	309	180	212	152
o/w: Banks debt	1,731	582	428	303	261	135	171	115
o/w: Enterprises debt	100	66	65	58	47	45	41	37
Foreign debt, net 3), (in% of GDP)[4]	49.3	38.3	50.2	49.3	49.8	47.9	45.8	47.2

Note: Foreign debt of the Republic of Serbia is calculated on a due-for-payment basis and includes the amount of debt under principal and the amount of accrued interest which is not paid on the agreed due date.
Source: NBS, QM
Foreign debt of the public sector of the Republic of Serbia comprises government debt (including debt of Kosovo and Metohija under loan agreements concluded before the arrival of the KFOR mission, non-regulated debt towards Libya and clearing debt towards former Czechoslovakia), debt of the National Bank of Serbia, local governments, state funds and agencies, and government-guaranteed debt.
Foreign debt of the private sector of the Republic of Serbia comprises debt of banks, enterprises and other sectors which is not government-guaranteed. Foreign debt of the private sector does not include loan agreements concluded before 20 December 2000 in respect of which no payments are made (EUR 838.8 million, of which EUR 384.7 million relating to domestic banks and EUR 454.1 million to domestic enterprises).
Total foreign debt reduced by NBS forex reserves.
Sum of the GDP value in the analyzed quarter and quarterly GDP values in three preceding quarters is used.

Overall foreign debt reduced by EUR 1.22 billion relative to the same period last year

Overall foreign debt was reduced by EUR 1.22 billion relative to the same period last year (the end of March 2013). This reduction is temporary, bearing in mind the expected financial needs of the country and further borrowing (primarily by public sector) in the following period. The reduction was mainly driven by private sector deleveraging – 58% of reduction in the overall foreign debt came from private sector deleveraging, and the rest came from public sector deleveraging (42%). Private sector foreign debt was reduced by EUR 711 million compared with its amount at the end of March 2013 primarily due to banking sector deleveraging (totaling EUR 698 million of which: EUR 509 million on long-term debt repayment and EUR 188 million on short-term debt repayment), while the enterprises deleveraging totaled only EUR 14 million (EUR 21 million reduction in short-term debt, and a slight increase of EUR 7 million in long-term debt). Public sector foreign debt was reduced by half a billion euros at the end of March 2014 relative to the same period last year. This reduction exclusively came from the NBS debt repayment to the IMF (in the amount of EUR 730 million in this period).

Foreign debt dynamics will depend on fiscal deficit funding and net borrowing by banks and enterprises

Rise in overall foreign debt in the following period will depend on rise in public sector foreign debt through which the fiscal deficit will be funded. However, further borrowing will depend on how persistently the Government will implement the announced fiscal consolidation measures, but also on borrowing conditions, restructuring and possibly privatization of some state-owned companies. Additionally, continuation of the upwards trend in enterprises' borrowing abroad could cause rise in overall foreign debt. On the other hand, further NBS debt repayment to the IMF and continuation of the current trends in banking sector deleveraging will reduce the amount of foreign debt.