4. Balance of Payments and Foreign Trade

In 2014, current deficit was 5.9% of GDP and by 0.2 pp lower than the 2013 deficit of 6.1% of GDP. In the period January-November 2014, the current deficit was 1,857 million euros (6.1% of GDP), which is by 0.7 pp higher compared to realised deficit from the same period in 2013. The realised amount of the trade and, therefore, the current deficit as well in 2014 was negatively impacted by the May floods and the slow recovery of the eurozone countries, while fiscal consolidation measures and the decline in the global price of oil had a positive impact. The total net inflow of capital from January to November was quite low, which is the result of FDI inflow and state borrowing on the one hand, as well as considerable deleveraging of other investments and net outflow on the Cash and Deposit account on the other. In October and November of 2014, the current deficit was 312 million euros, i.e. 5.7% of GDP. During these two months, a considerable outflow of capital was recorded in the amount of 399 million euros, on the basis of a modest inflow of FDI (152 million euros), followed by a high outflow of funds from other investments. Thus, this two-month period recorded a decline of foreign exchange reserves by 671 million euros. In 2015, the balance of payments imbalance will continue to decline, so the share of current deficit is expected to be around 4.5% of GDP. Fiscal consolidation, which reduces the domestic demand, will be the main driver of improvement, and it would be good to use a gradual depreciation of dinar to additionally support the improvement of the current balance. We expect that during 2015, inflow of foreign capital in Serbia will gradually increase, and that private investments will grow in relation to state borrowing. Labour market reforms, simplified administrative procedures, with reduced macroeconomic risks after the signing of the IMF agreement, should have a positive impact on foreign direct investment. However, increase of regional political risks, due to the crisis in Ukraine, and pressures on Serbia to pick between the disputed sides, will have a negative impact on foreign direct investments.

Current account deficit in 2014 was lower than the one realised in 2013

In the period January-November 2014, current deficit was slightly above the previous year's

In the period January-November 2014, current account deficit was 1,857 million euros. Current deficit was 6.1% of GDP (Table T4-1) and at the level of the deficit realised in 2013. According to NBS data (Inflation Report, February 2015), the current deficit in 2014 was 5.9% of GDP and 0.2 pp lower than the 2013 deficit of 6.1%. Compared to the first 11 months of 2013, the current deficit in 2014 was higher by 0.7 pp. This is the result of a mild increase in the deficit on the Primary Income account and a mild decrease in the net inflow of funds from Secondary Income, primarily due to a somewhat lower inflow of remittances, while the level of foreign trade deficit remained unchanged.

Trade deficit was negatively impacted by the May floods and the slow recovery of eurozone countries....

....while fiscal consolidation and drop in the price of oil had a positive impact

Trade deficit realised in the first 11 months of 2014 was 3.66 billion euros (12.0% of GDP, see Table T4-1). This deficit, expressed as a percentage of GDP, is lower than the deficit realised in the first 11 months of 2013 by 0.4 pp. On the one hand, the realised value of the trade deficit in 2014 was negatively impacted by May floods and slow recovery of eurozone countries, while the first initiated measures of fiscal consolidation, drop in the price of oil, and depreciation of dinar as of mid-2014 (effects of which will probably start to impact the deficit value at the end of the year) had a positive impact. Export of road vehicles in 2014 was lower than the previous year. Growth of automobile exports in the first half of the year was followed by a decline in the second half, observed year-on-year. Such a result in the automobile industry exports in the second half of 2014 is on the one hand due to the fact that calculations of the year-on-year growth of exports are now compared to a high base. On the other hand, poor results in the second half of 2014 were the result of a limited global demand for FIAT cars, due to its weakening position compared to other automobile producers, but also due to the still slow economic recovery of many countries (which in 2014 was the case with eurozone countries as well). In addition, it is uncertain how big of an importance FIAT places on the development of automobile industry in Serbia – it is disconcerting that no new investments are being announced, which would raise capacities to the level of 250-300 thousand cars, nor are there any announcements of the production of new models at the existing facilities in Kragujevac.

Ratios in foreign trade exchange during 2014 improved in Q2 compared to Q1 (index 104.2 compared to 102.0, respectively), then worsened again in Q3 (102.1), followed by another improvement in Q4 (index 103.6). Even though the ratios of global prices of products that Serbia imports and exports have varied throughout the previous year, they improved at the level of the entire 2014 by 2.1% and had a positive impact on Serbia's trade balance. Ratios of exchanges by sectors significantly varied – they improved significantly in Oil and Oil Derivatives (where Serbia is a net importer), while they declined in Agricultural Products (where Serbia is a net exporter).

Low inflow of capital from January to November

Total net inflow of capital from January to November was extremely low: 185 million euros[1]. Such inflow was mainly the result of net inflow of FDI (1.2 billion euros) and state borrowing (592 million euros, net)[2] on the one hand, as well as considerable deleveraging of other investments (primarily banks and the central bank[3]) and net outflow on the Cash and Deposit account on the other. FDI were 1.2 billion euros, which is in line with the inflow realised in the 12 months of 2013. During 2014, inflow of portfolio investments was considerably lower than those of 2013. And the inflow of portfolio investments in 2013 was mostly achieved through state borrowing (Table T4-1).

In 2015, further reduction of balance of payments imbalance is expected

In 2015, NBS estimated the share of current deficit to be at the level of around 4.5% of GDP, i.e. that the balance of payments imbalance will continue to decline. More precisely, we expect a more positive contribution to the net exports in 2015 primarily from the effects of implementing fiscal consolidation measures, low global energy prices, recovery of the domestic energy sector, while at the beginning of the year, the balance of payments will be positively influenced by the depreciation of the local currency realised in the second half of 2014.

Capital inflow in 2015 will be positively impacted by: implemented and announced reforms, reduction of the macroeconomic risks in Serbia, and the monetary expansion in EU, while the possible prolongation of the Ukraine crisis will have a negative impact on the inflow of capital

Since the middle of last year, Serbia has implemented certain reforms which improve the conditions of doing business in Serbia, such as labour market reforms, reduction of administrative barriers in issuing building licenses, improvement of bankruptcy legislation, etc., but it also implemented a series of fiscal consolidation measures, which reduce the macroeconomic risks. At the end of February, the arrangement with IMF came into effect, which increases the probability of implementing the fiscal consolidation and the announced reforms. For now, it is hard to estimate how international environment will affect the inflow of investments in Serbia. It is expected that the ECB programme of "quantitative easing" will increase liquidity, which would have a positive impact on investment trends, but it is still uncertain whether there will be a significant acceleration in the growth of European economies. Prolonged Ukraine crisis will have a negative impact on investments in Serbia, because in that case, there will be increased pressure on Serbia to choose between the disputed sides.

Current account deficit in October and November of 2014 was 312 million euros, i.e. 5.7% of GDP (Table T4-1). Realised deficit was by 12.5% (0.9 pp of GDP) higher compared to the level from the same period of the previous year (October-November 2013), and it is at the deficit level of the first three quarters of 2014 (6.8% in Q1, 5.8% in Q2 and 6.0% in Q3).

In October and November of 2014, current deficit was 312 million euros, i.e. 5.7% of GDP

Trade deficit was 682 million euros, i.e. 12.4% of GDP, which is 0.6 percentage points of GDP higher than the realised share in October and November of 2013 (Table T4-1). During October and November 2014, goods in the amount of 1,794 million euros were exported, which is 8.9% below the values from the same period of the previous year. Exports in the observed two-month period in 2014 were 2,476 million euros, which is by 6.6% below the value realised in the same period in 2013. Thus, for two consecutive years (2013 and 2014), percentages representing exports in GDP, imports in GDP, and coverage of imports by exports, have been relatively stable. In the period October-November 2014, they were 32.6%, 45.0% and 72.4%, respectively. During October and November 2014, share of net inflow on the Secondary Income account was 9.1% of GDP.

1 519 million euros, including the Errors and Omissions account.
2 The biggest part is the loan approved by the UAE for the Republic of Serbia budget needs in Q3.
3 NBS deleveraged mostly the debts toward the IMF.

Net outflow of capital was recorded in October and November

Outflow of capital of 399 million euros[4] was recorded in October and November. A modest FDI inflow (152 million euros) was realised and a high outflow of funds from Other Investments (deleveraging of loans of banks and businesses, as well as reduction of the balance on the Cash and Deposits account, Table T4-1). Inflow of portfolio investment was 126 million euros. Within Other Investments, a modest outflow was realised on the Trade Credit account, as well as at the account of the Central Bank and the state. Therefore, forex reserves in the first two months of the fourth quarter were reduced by 671 million euros.

Decrease of forex reserves during October and November was 671 million euros

Cumulative decrease of forex reserves during October and November was 671 million euros (Table T4-1). During these two months, the largest outflow of forex reserves occurred in November (490 million euros). The considerable outflow of foreign currency is primarily the result of regulatory change, which reduced the rate of mandatory forex reserve and, at the same time, raised the mandatory forex reserve requirement in dinars (net outflow on these basis amounted to 330 million euros). In addition, the outflow was also the result of the payment obligations of the state for matured securities denominated in euros and toward foreign creditors[5]. In order to prevent excessive daily fluctuations, NBS intervened in Q4 with a net sale of foreign currency on the interbank foreign exchange market in the amount of 765.0 million euros.

Table T4-1 Serbia: Balance of Payments

	2012	2013	Jan-Nov 2014	2013				2014			
				Q1	Q2	Q3	Oct-Nov	Q1	Q2	Q3	Oct-Nov
						mil. euros					
CURRENT ACCOUNT	-3,639	-2,091	-1,857	-661	-382	-377	-278	-540	-496	-508	-312
Goods	-5,634	-4,152	-3,661	-1,190	-1,045	-732	-682	-904	-994	-1,081	-682
Credit	8,394	10,540	9,732	2,151	2,578	2,979	1,969	2,512	2,767	2,660	1,794
Debit	14,028	14,693	13,393	3,341	3,623	3,712	2,651	3,415	3,762	3,740	2,476
Services	139	319	398	30	75	86	65	69	73	145	111
Credit	3,104	3,423	3,391	698	826	948	590	793	887	1,044	667
Debit	2,965	3,103	2,994	668	751	861	525	724	814	900	556
Primary income	-1,091	-1,412	-1,329	-183	-292	-528	-210	-327	-418	-340	-243
Credit	657	617	551	113	168	163	108	122	176	151	102
Debit	1,748	2,029	1,880	296	460	691	318	449	594	491	345
Secondary income	2,947	3,153	2,735	681	879	797	549	622	843	768	502
Credit	3,286	3,523	3,089	768	968	895	611	707	934	875	573
Debit	339	369	354	87	89	98	62	85	91	108	71
Personal transfers, net 1)	2,459	2,701	2,234	581	772	684	465	511	697	618	409
Of which: Workers'	1,934	2,160	1,710	457	630	554	367	378	547	469	316
CAPITAL ACCOUNT - NET	-11	11	6	-2	9	4	0	2	-1	4	0
FINANCIAL ACCOUNT	-3,486	-1,917	-1,517	-612	-356	-277	-335	-533	-372	-341	-272
Direct investment - net	-669	-1,229	-1,210	-171	-264	-446	-216	-320	-392	-346	-152
Portfolio investment	-1,722	-1,916	-425	-1,403	348	122	-201	4	-150	-152	-126
Financial derivatives	2	-1	-1	2	-2	1	-2	0	-3	1	1
Other investment	41	532	1,450	101	446	210	107	583	544	-353	676
Other equity	0	0	0	0	0	0	0	0	0	0	0
Currency and deposits	156	-228	892	-203	165	188	146	121	141	246	385
Loans	574	1,185	563	375	295	67	128	370	386	-459	265
Central banks	219	657	506	150	148	179	122	189	186	100	31
Deposit-taking corporations,	377	682	605	286	67	155	-24	214	89	183	119
General government	-467	-449	-592	-150	-43	-278	-7	29	30	-676	25
Other sectors	444	296	44	89	124	12	37	-61	80	-65	91
Insurance, pension, and	3	0	0	1	0	-2	0	0	0	0	0
Trade credit and advances	-692	-426	-5	-72	-14	-43	-167	92	16	-140	27
Other accounts receivable/payable	0	0	0	0	0	0	0	0	0	0	0
SDR (Net incurrence of liabilities)	0	0	0	0	0	0	0	0	0	0	0
Reserve assets	-1,137	697	-1,332	859	-886	-164	-24	-800	-370	509	-671
ERRORS AND OMISSIONS, net	164	164	334	51	17	95	-58	5	125	163	40
PRO MEMORIA						in % of GDP					
Current account	-11.5	-6.1	-6.1	-8.3	-4.4	-4.3	-4.8	-6.8	-5.8	-6.0	-5.7
Balance of goods	-17.8	-12.1	-12.0	-14.9	-11.9	-8.3	-11.8	-11.4	-11.6	-12.7	-12.4
Exports of goods	26.6	30.8	31.9	26.9	29.4	33.8	34.1	31.6	32.3	31.3	32.6
Imports of goods	44.4	42.9	43.9	41.7	41.3	42.1	45.9	43.0	43.8	44.0	45.0
Balance of goods and services	-17.4	-11.2	-10.7	-14.5	-11.0	-7.3	-10.7	-10.5	-10.7	-11.0	-10.4
Personal transfers, net	7.8	7.9	7.3	7.3	8.8	7.8	8.0	6.4	8.1	7.3	7.4

Note: Balance of Payments of the Republic of Serbia is in line with the international guidelines contained in the Balance of Payments Manual no. 6 (BPM6).
Source: NBS
1) Personal transfers represent current transfers between resident and non-resident households.
2) Quarterly values. Conversion of the annual GDP in euros was done according to the average annual exchange rate (average of official NBS daily middle exchange rates).

4 359 including the Errors and Omissions account.
5 http://www.nbs.rs/internet/cirilica/scripts/showContent.html?id=7811&konverzija=no

Export

Year-on-year export growth in 2014 was 1.2%, which is a considerable deceleration compared to 25.8% in 2013...

In the first half of 2014, export decelerated growth (year-on-year growth of 17.7% in Q1 and 6.4% in Q2), and in the second half, it recorded a lower value compared to the same period of the previous year (-10.9% in Q3 and -3.4% in Q4). Realised export value in 2014 was 11.13 billion euros, which is by only 1.2% above the value realised in 2013. This is a very modest growth considering that the export in 2013 was by 25.8% higher compared to the recorded value in 2012. The main reason for modest export results in 2014 is the lack of larger new investments during 2013-2014, which would have built an export-oriented industry. May floods additionally deteriorated export possibilities, but their effect is temporary and will probably be exhausted in the first half of 2015. Slow recovery of the eurozone and worsening economic conditions in Russia have caused a drop in demand for Serbian products.

...in the first half of 2014, export decelerated growth, and in second half recorded a decline

Table T4-2 Serbia: Exports, Year-on-Year Growth Rates, 2012–2014

	Exports share in 2014	2012	2013	2014	2013		2014		2013		2014	
					Q3	Q4	Q3	Q4	Q3	Q4	Q3	Q4
	in %	in mil. euros							in %			
Total	100.0	8,739	10,997	11,130	3,110	2,954	2,771	2,854	37.9	22.0	-10.9	-3.4
Total excluding road vehicles	86.2	8,269	9,360	9,593	2,608	2,531	2,457	2,509	21.3	17.6	-5.8	-0.9
Energy	3.7	303	519	414	145	150	102	85	124.8	67.5	-29.4	-43.2
Intermediate products	33.0	3,126	3,633	3,678	1,002	897	942	875	23.3	18.4	-6.0	-2.4
Capital products	25.8	1,667	2,979	2,875	859	793	643	700	109.4	27.2	-25.1	-11.7
Capital products excluding road vehicles	12.0	1,197	1,342	1,337	358	370	329	355	17.0	4.9	-8.1	-4.2
Durable consumer goods	5.3	395	523	586	142	147	150	167	33.6	32.5	5.8	13.9
Non-durable consumer goods	23.5	2,224	2,410	2,614	675	674	717	717	12.8	10.3	6.2	6.3
Other	8.7	1,025	932	963	287	293	217	310	9.0	28.0	-24.6	5.8

Source: SORS

During 2014, year-on-year decline in the exports of Energy and Capital Goods was recorded

In 2014, observed year-on-year, Energy exports dropped by 20.2% and Capital Goods exorts by 3.5%. That is a big trend change, considering that both export groups recorded an extremely high year-on-year growth in 2013, at the rates of 71.2% and 78.8%, respectively. Also, year-on--year growth of exports of Intermediate Goods has also decelerated considerably – from 16.2% in 2013 to 1.2% in 2014 – and of Durable Consumer Goods – from 32.6% in 2013 to 11.9% in 2014, while the export growth rate of Non-Durable Consumer Goods during these two years remained unchanged. Exports of the so-called Other Products, after the year-on-year decline of 9% in 2013, recorded a growth of 3.3%. For the trends in overall exports, the growth dynamic of exports of Intermediate Goods, Capital Goods and Non-Durable Goods is especially important, as all together, they make up 82.4% of total exports, or individually: 33.0%, 25.8% and 23.5%, respectively (Table T4-2).

Year-on-year decrease of exports of road vehicles

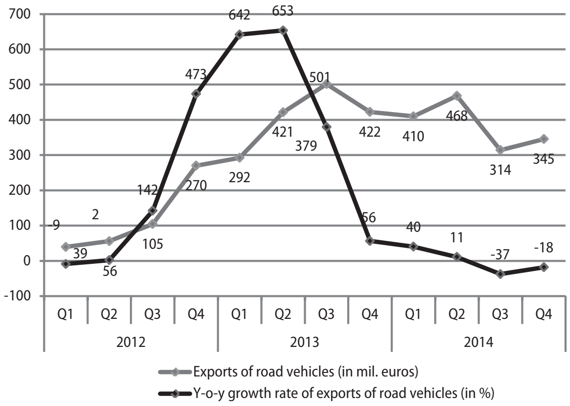
SORS data on exports of road vehicles indicate that in 2014, it was by 6.1% lower than in 2013, i.e. it dropped from 1.64 million euros in 2013 to 1.54 million euros in 2014. In the first half of 2014, a growth in automobile industry exports was recorded, followed by lower exports in the second half of the year compared to the same period in 2013. In Q4 2014, exports of road vehicles continued their year-on-year decline, which had started in Q3 (although at a somewhat lower rate of 18% in Q4, compared to 37% in Q3, see Graph T4-3). Decline of automobile exports in the second half of the year occurred as the result of exhausting the past growth (high base of the previous year) on the one hand, as well as limited room for growth on the other – due to a deteriorated competitive position of FIAT models produced in Serbia, but also due to the slow recovery of buyer countries. In the coming period, a positive contribution of the automobile industry to the total export growth will only be possible if there are some significant investments which would increase the capacities of FIAT in Serbia to 250-300 thousand cars, but for now, this is highly unlikely. If no new models are introduced in the production this year, it will be hard to maintain even the current level of production.

Exports in Q4 2014 were by 3.4% below the realised exports in Q4 2013. Even though the exports are lower, observed year-on-year, it is still a smaller decrease than the one realised in the previous quarter (decline of 10.9% y-o-y in Q3). Such a result is still for the most part the result of the May floods – shown by the fact that year-on-year decline of energy exports in

Year-on-year decline in exports in Q4...

...although smaller than in the previous quarter

Graph T4-3 Exports of Road Vehicles



Source: SORS, *QM*

Q4 was 43.2%. Also, recorded year-on-year decline of car exports contributed to overall exports in the Capital Goods category to be below the previous year's by 11.7%. It is still a smaller year-on-year decline of exports in this category than in Q3 2014, when the exported value was by a quarter lower compared to Q3 2013 (Table T4-2).

Aside from the year-on-year decline in the value of exports of Energy and Capital Goods, the level of exports of Intermediate Goods in Q4 was lower than the previous year's by 2.4%. On the other hand, Durable and Non-Durable Consumer Goods recorded a year-on-year growth of exported value of 13.9% and 6.3%, respectively. Also, Other Products exports in Q4, after a high year-on-year decline realised in the previous quarter, were by 5.8% above the levels of Q4 2013 (Table T4-2).

Half of the realised export value in 2014 was realised through exports to five countries

Table T4-4 Export Structure by Countries

	2013	2014	2014/2013
	in mil. EUR		in %
European Union	6899	7204	4.4
Italy	1791	1932	7.9
Germany	1307	1330	1.8
Rep. of Bosnia and Herzegovina	904	993	9.9
Russian Federation	800	775	-3.2
Romania	591	628	6.2
Republic of Montenegro	642	568	-11.5
Republic of Macedonia	434	454	4.6
Republic of Slovenia	360	354	-1.7
Republic of Croatia	313	345	10.0
France	264	314	18.6
Bulgaria	253	288	14.0
Hungary	302	284	-5.9
Czech Republic	241	268	11.3
Austria	279	265	-5.0
USA	369	235	-36.1
Poland	204	222	8.7
Turkey, Republic of	165	173	5.2
Other countries	1780	1731	-2.8

Source: SORS & *QM*

During 2014 (January-December) exports to EU grew by 4.4% year-on-year, despite its relatively slow recovery (Table T4-4). The largest exports in 2014 were to Italy, Germany, Bosnia and Herzegovina, Russia, and Romania. Exactly one half of the total exported value was realised through exports to these five countries. However, observed year-on-year, while exported value to Italy, Germany, BiH and Romania was bigger in 2014, exports to Russia were lower than previous year's. Such export results to Russian market are contrary to all expectations. That is, export value to Russia in 2014 was lower by 3.2% than in 2013, and as much as 4.3% in Q4 2014 compared to the same period in 2013. The reason behind this export result could be the reduced demand for import goods due to the declining value of the Russian Ruble in 2014, which significantly depreciated in the second half of the year. Therefore, the effects of declining purchasing power of the Russian market was dominant compared to the absence of competition from EU producers on certain product markets. There was a noticeable decline of exports to USA, which could be the result of lower exports of FIAT cars to the US market in 2014 compared to 2013.

In the coming period, we expect a positive contribution to increasing exports from the effects of dinar depreciation (which will affect the first half of the year compared to other currencies, and possibly in the second half, if depreciation continues) and from the recovery of exports in the energy sector (which will affect the second half of 2015). EU demand trends are still quite uncertain, as it is still unsure if and when the ECB programme of quantitative easing will boost the eurozone economies.

Import

In 2014, goods in the value of 15,381 million euros were imported

During 2014, goods in the value of 15.4 billion euros were imported (Table T4-5), which is only slightly below the realised imports in 2013 (year-on-year drop of 0.52%). Imported value in the first half of 2014 was above the previous year's (1.0% in Q1 and 2.4% in Q2), while the year-on--year decline occurred only in the second half of the year (-0.3% in Q3 and -4.6% in Q4). This import dynamic is due to the decline in domestic demand, due to the effects of the initiated measures of fiscal consolidation, significant decline of global energy prices since the middle of the year, lower production in the automobile industry in the second half of the year (which affected the lower imports of production components), and dinar depreciation, effects of which, due to the time lag, might overflow to imports at the end of the year. Therefore, in 2014, year-on-year growth of exports accompanied by a slight decline in imports, affected the coverage of imports by exports to grow by 1pp – from 71% in 2013 to 72% in 2014, which is a much more modest increase compared to the one realised during 2013, when this indicator increased by 12pp – from 59% in 2012 to 71% in 2013.

Year-on-year drop of imports in Q4 was 4.6%

Imports in Q4 were 4.03 billion euros, which is by 4.6% below the values of Q4 2013. Recorded year-on-year decline in the import value is significantly higher than the decline in 2013 (0.3%). The biggest contributor to the decline of overall imports was the decline in imported values of capital goods and energy (Table T4-5).

A decline recorded in all components except the so-called other products

Imported value during Q4 2014 of all import components was lower than the value from the same period of the previous year (Table T4-5), except in products categorised under Other, which recorded a significant year-on-year growth of 64.6%.

Imports of Capital Goods in Q4 2014 were lower by 18.6% compared to Q4 2013, which could be in part the result of imports of production components for the automobile industry, due to a slightly lower production and exports in the second half of the year. Also, continued lack of significant investments in increasing the production capacities is affecting the low import of capital goods.

Year-on-year decrease of imports of Intermediate Goods in Q4 was slightly lower than in the previous quarter, which could possibly be the result of certain smaller changes in economic activity, primarily in industrial production, which, observed seasonally, are increasing compared to the previous quarter. Initiated measures of fiscal consolidation are reflected in the still low domestic demand, which leads to a year-on-year reduction of imports of consumer goods – durable by 8.4% and non-durable by 1.8% (Table T4-5).

Q4 recorded a drop in energy imports, even after excluding effects of decreased global prices

High year-on-year decline in the Energy import values during Q4 were predominantly the result of decreased global energy prices, but also partly due to lower imported quantity compared to the last quarter of the previous year. Imported value of energy in Q4 was lower by one quarter than the import value of these products in the same quarter of 2013. This is mostly due to the decline in global prices – in euros, energy prices dropped 19% year-on-year in Q4[6]. After excluding the effects of decreased prices, we get that the quantity of imported energy is by 8% below the previous year's. Extremely low energy prices will affect the continuation of reduced value of energy imports in the coming period. In addition, recovery of the domestic energy production will additionally contribute to the year-on-year reduction of energy imports, but this effect will not show before the middle of the year, due to the higher base from the previous year.

Numerous factors in 2015 will act toward decreased growth of domestic demand and imports

In 2015, we expect that lower imports will be affected by lower domestic demand as a side effect of fiscal consolidation, renewed production in the energy sector, as well as possible keeping of global energy prices on a low level. In addition, at the beginning of the year, another contributing factor to reduced imports could be the delayed effects of dinar depreciation from the end of 2014.

6 Drop of energy prices in dollars in Q4 was as high as 26% year-on-year. Due to high euro depreciation against the dollar, drop in energy prices expressed in euros is lower and is 19%.

Table T4-5 Serbia: Imports, Year-on-Year Growth Rates, 2012-2014

	Učešće u uvozu 2014	2012	2013	2014	2013		2014		2013		2014	
					Q3	Q4	Q3	Q4	Q3	Q4	Q3	Q4
	in %	in mil. euros							in %			
Total	100.0	14,717	15,462	15,381	3,904	4,228	3,893	4,032	9.9	6.0	-0.3	-4.6
Energy	13.7	2,570	2,325	2,100	563	755	558	567	5.1	11.3	-0.8	-24.9
Intermediate products	31.9	5,132	5,130	4,902	1,357	1,300	1,257	1,245	4.3	0.7	-7.3	-4.2
Capital products	21.9	2,996	3,779	3,368	967	1,038	787	832	33.2	16.9	-18.6	-19.8
Durable consumer goods	1.9	323	324	299	76	91	74	83	-5.6	10.8	-2.2	-8.4
Non-durable consumer goods	14.6	2,175	2,264	2,240	573	626	579	615	4.0	0.2	1.0	-1.8
Other	16.1	1,520	1,640	2,472	369	419	638	689	2.4	-1.6	72.7	64.6
Imports excluding energy	86.3	12,147	13,137	13,281	3,342	3,474	3,335	3,466	10.7	4.9	-0.2	-0.2

Source: SORS

Foreign Debt

Foreign debt at the end of December was 26.03 billion euros, i.e. 78.2% of GDP...

...as a net result of continuing trend of public sector borrowing and private sector deleveraging

At the end of December 2014, Serbia's foreign debt was 26,030 million euros, i.e. 78.2% of GDP (Table T4-6). During 2014, foreign debt was increased by 3.1 pp of GDP. Rising share of debt in GDP was partially (284 million euros, which is below 1% of GDP) the result of additional borrowing, while for the most part, it was the result of foreign exchange differences – moderate real depreciation of dinar against the euro, and relatively high depreciation of dinar against the dollar. Finally, drop of GDP in 2014 caused an increase in the share of debt in GDP. Share of foreign debt in GDP was by 2.2 pp of GDP higher than if there were not any decline in the value of GDP, which is used as a denominator, i.e. foreign debt at the end of December would have been 76% of GDP. Still, share of foreign debt in GDP (and its components) would have been higher if it were not for the increase in the value of GDP due to changed methodology of SORS[7].

Net borrowing during 2014 of 284 million euros was the result of, on the one hand, public sector borrowing of 1.02 billion euros (4.2 pp of GDP) and, on the other, deleveraging of the private sector by 736 million euros (1.1 pp of GDP).

Significant growth of public sector's foreign debt during 2014 was realised despite the fact that NBS considerably decreased its debt toward IMF by 545 million euros in this period. After deleveraging part of its foreign debt in the first half of the year, the state borrowed again in the second half of 2014. Primarily, state borrowing occurred during Q3 (when public sector's foreign debt increased by 1.08 billion euros – primarily due to taking a loan from UAE for the purposes of securing funds for the state budget, but partly due to withdrawing several tranches of loans taken from the Council of Europe Development Bank, EIB and IBRD[8]). During Q4, public sector additionally borrowed 308 million euros[9].

In Q4, foreign debt was reduced by 315 million euros...

...the result of high deleveraging of the private sector...

...while public sector's debt increased

On the other hand, the private sector deleveraged part of its debt in 2014, which is completely due to the deleveraging of banks. The banks deleveraged their long-term debt by 700 million euros, while the business sector borrowed 50 million euro net. The amount of short-term debt of the banks at the end of 2014 was lower by 114 million euros, while the short-term debt of the business sector increased by 27 million euros. Thus, at the end of 2014, the share of public sector's foreign debt reached 55%, while the share of private sector's foreign debt was 45%.

During Q4, total foreign debt was reduced by 315 million euros (Table T4-6). The reason of this reduction in the amount of foreign debt is high deleveraging of the private sector – both banks and businesses – by 623 million euros. On the other hand, public sector's foreign debt increased by 380 million euros, primarily due to taking out loans from IBRD and EIB.

7 See the previous issue of *QM*.
8 Inflation Report, NBS, 2014.
9 During Q4, the state took out loans in the amount of 288 million euros, which mostly includes IBRD loans attended for the Deposit Insurance Agency, and EIB loans for Corridor 10 and the development of regional and municipal infrastructure (Inflation Report, February 2015, p.18).

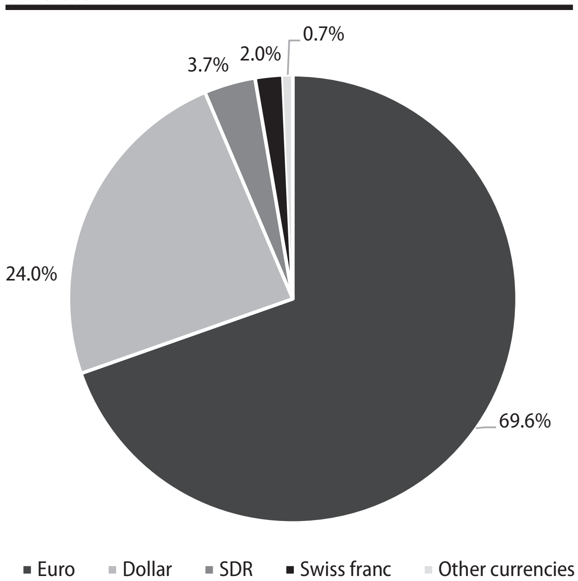
Table T4-6 Serbia: Foreign Debt Structure, 2011–2014

	2011	2012	2013	2014			
				Mar.	Jun	Sep.	Dec.
	stocks, in EUR millions, end of the period						
Total foreign debt	24,123	25,645	25,746	25,632	25,299	26,345	26,030
(in % of GDP) 4)	*72.0*	*81.2*	*75.1*	*74.9*	*74.4*	*78.2*	*78.2*
Public debt 1)	10,800	12,185	13,166	12,969	12,796	13,878	14,186
(in % of GDP) 4)	*32.2*	*39*	*38.4*	*37.9*	*37.6*	*41.2*	*42.6*
Long term	10,800	12,185	13,166	12,969	12,796	13,878	14,181
o/w: to IMF	1,618	1,389	697	515	333	247	152
o/w: Government obligation under IMF SDR allocation	459	452	434	436	439	455	463
Short term	0	0	0	0	0	0	5
Private debt 2)	13,323	13,460	12,580	12,663	12,502	12,467	11,844
(in % of GDP) 4)	*39.8*	*43*	*36.7*	*37.0*	*36.8*	*37.0*	*35.6*
Long term	12,722	13,005	12,383	12,523	12,347	12,337	11,733
o/w: Banks debt	3,869	3,722	3,228	3,035	2,932	2,776	2,528
o/w: Enterprises debt	8,854	9,283	9,153	9,487	9,414	9,559	9,203
o/w: Others			1	2	2	2	2
Short term	601	455	197	140	155	130	110
o/w: Banks debt	582	428	171	115	128	89	57
o/w: Enterprises debt	19	27	26	25	28	41	53
Foreign debt, net 3), (in% of GDP) 4)	36.0	47	42.5	44.5	44.6	45.9	-

Note: Republic of Serbia's foreign debt is calculated on the principle of "matured debt", which includes the amount of debt from the principle and the amount of calculated interest unpaid at the moment of the agreed maturity.
Source: NBS, *QM*
1) Republic of Serbia public sector's foreign debt includes the debt of the state (including the debt of Kosovo and Metohija from the loans concluded before the arrival of KFOR mission, unregulated debt toward Libya, and clearing debt toward the former Czechoslovakia), of the National Bank of Serbia, local self-government, funds and agencies founded by the state, and debts for which state guarantee had been issued.
2) Republic of Serbia private sector's foreign debt includes the debt of banks, companies, and other sectors for which no state guarantee had been issued. Private sector's foreign debt does not include loans concluded before December 20, 2000 which are free from payment (884.2 million euros, out of which 393.7 million euros relates to domestic banks, and 490.5 million euros relates to domestic companies).
3) Total foreign debt less NBS forex reserves.
4) Sum of GDP values of the observed quarter and GDP values of the previous three quarters are used.

Out of the total deleveraging of the private sector in Q4 in the amount of 623 million euros, 603 million was deleveraged from long-term debt. The banks deleveraged 247 million euros on this basis. Companies in these three months also reduced the level of foreign long-term debt by 357 million euros. The amount of short-term debt at the end of December was lower by 20 million euros than tree months before. The banks reduced the amount of short-term debt by 32 million euros, while at the same time, businesses increased this amount by 13 million euros.

Graph T4-7 Serbia: Foreign Debt Currency Structure



Source: NBS, *QM*

Foreign debt currency structure is dominated by the euro

According to NBS data from March 2014[10], foreign debt currency structure was significantly dominated by the euro (69.6%). Around one quarter (24.0%) of the debt was denominated in dollars (Graph T4-7). Special withdrawing rights make 3.7% of total foreign debt, Swiss Frank 2.0%, while other currencies make 0.7%. Therefore, the level of foreign debt was increased on the basis of increased value of foreign debt expressed in euros, primarily due to the euro depreciation against the dollar (because around one quarter of the foreign debt is in dollars).

10 Debt Analysis of the Republic of Serbia, March 2014.