Weekly *Economic* Bulletin

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ANALYSIS

Economic Trends in Serbia

(Part III)

- **From around 24.1 billion euros, which was Serbia's total foreign debt at the end of February 2012, it is smaller by 1% at the monthly level, while it is at the same level as at the end of December 2011. The fact that there had been no further growth of the foreign debt in the course of February, despite the state's borrowing of around 1.3 billion euros at the end of February, is the result of the fact that this amount has still not been calculated for February and it will appear successively, as the credit funds start arriving in the country, as of March.**

In February, the public sector induced a foreign debt in the amount of around 10.6 billion euros or by 0.8% less than in the preceding month, i.e. by 1.5% less than in December 2011. On the other hand, the private sector's foreign debt was almost 13.5 billion euros and by 1.1% smaller than in January, but, nevertheless, 1.1% larger than in December last year.

Foreign debt by type of debtor

- in millions of euros –

	Period		
	31. 12. 2008	31. 12. 2011	29. 2. 2012
Public sector	6,520.7	10,773.3	10,607.5
Private sector	14,567.7	13,352.1	13,497.6
Total	**21,088.4**	**24,125.4**	**24,105.1**

Source: Data of the National Bank of Serbia (NBS)

In the structure of the total foreign debt there were no major changes compared to the preceding month. Thus, in February, the share of the public sector in the total foreign debt was 44%, and of the private sector 56%. In December 2011, the share of the public sector was 44.7%, and of the private sector (banks and companies) it was 55.3%. However, as the March results on Serbia's total foreign debt will also show the state's debt of 1.3 billion euros, there will be a considerable increase in the share of the public sector in creating the total foreign debt, with a certain trend of establishing a balance between the private and public foreign debt by the end of the year.

Compared to 2008, the total foreign debt grew by 14.3%, whereby the growth rate of the public sector's foreign debt was as much as 62.7%, while the foreign debt of the private sector was reduced by 7.3%. Therefore, it is the state that has a predominant impact on the growth of the total foreign debt and, taking as a point of departure the poor export results in this year, as well as the increasingly broad budget holes, one should expect these unfavorable trends, which started in 2008, to continue throughout the year of 2012. Therefore, with a GDP which could have a zero growth rate in a more optimistic version, but it is more realistic for it to be in the minus zone, Serbia will unequivocally officially enter the zone of highly indebted countries.

For this reason, it will be badly needed to make a new arrangement with the IMF so that, with their support, essential reforms would be undertaken in the public sector and a drop of the country's credit rating would be prevented. This is all the more so since the total public debt at the end of 2012 reached the amount of 14.467 billion euros, which is a full 19% more than in 2010. At the end of February 2012, this public debt was somewhat reduced and it was 14.348 billion euros, but it is still far above the one in 2010 with a much higher growth rate compared to the country's economic growth (the GDP growth in 2011 was 1.6%). This is a sufficient indicator pointing to Serbia's high indebtedness, far above its possibilities regularly to service the undertaken obligations towards creditors in the existing business environment. Compared to 2008, Serbia's total public debt increased by the fantastic 5.685 billion euros. In 2008, the ratio between the public debt and the GDP was 29.2%, only for it to reach the proportion of 45.1% according to the finance ministry's methodology. These indicators show that Serbia's is borrowing at galloping pace without any clear plan which would also incorporate the sustainable sources for repaying credit funds. For this reason it will be necessary to form, as soon as possible, a compact government with a clear authority and goal, so that it would have the capacity to start, with the support of the IMF, essential, painful reform processes;

- **The Republic of Serbia's total foreign currency reserves at the end of March 2012 reached the amount of around 11.7 billion euros. This was as much as 8.7% less compared to December last year, and a 1.5% smaller level of foreign currency reserves compared to the preceding month.**

  The drop in the total foreign currency reserves was the result of the reduction of the foreign currency reserves in the NBS portfolio, but also of those in the portfolio of commercial banks. The reduction of the foreign currency reserves of commercial banks is the result of the restrictive course in conducting the central bank's credit and monetary policy. Namely, in the reporting month, on the basis of the allocation of the reserve requirement, commercial banks had to place 96 million euros in the NBS. If there had not been for this inflow in the NBS coffer, as well as the inflow based on credits and donations of 66.2 million euros, and from the sale of securities worth almost 50 million euros, there would quite certainly be even less foreign currency funds in the NBS portfolio than is the case now. These inflows have partly absorbed the negative dynamics of the volume of the foreign currency reserves of the central bank which was created through direct interventions on the inter-bank market and the settling of obligations towards foreign creditors. Thus, based on the former example 310 million euros poured out from the NBS, and on the basis of the latter example 112.5 million euros.

  Based on the mentioned dynamics of the inflow and outpour of the foreign currency funds in the NBS, at the end of March in portfolio contained foreign currency reserves in the value of 11.073 billion euros or 0.9% less than in the preceding month, i.e. 8.2% less than at the end of December 2011. In commercial banks the level of foreign currency reserves was reduced from 809 million euros in December 2011 and 752 million euros in February, to 673 million euros in March 2012. Therefore, an absolute drop of their foreign currency reserves by 10.5% at the monthly level, i.e. by 16.9% compared to the last month of 2011.

Foreign currency reserves

- in mill. euros -

	Foreign currency reserves		
	NBS	Commercial banks	**Total**
Year 2010			
December	10,001.6	1,684.3	**11,685.9**
Year 2011			
December	12,057.7	809.1	**12,866.8**
Year 2012			
January	11,603.7	761.8	**12,365.5**
February	11,174.6	752.0	**11,926.6**
March	11,073.1	672.8	**11,745.9**

Source: NBS data

- **After the appreciation of the dinar against the euro in 2011 (at the end of 2010 the euro was worth 105.5 dinars, and at the end of 2011 its value was 104.64 dinars), without this being the result of the improvement of the domestic economy's export performances, but rather primarily of the sale of lucrative securities, in 2012 such a monetary policy, along with an irresponsible policy, has come up for payment, which is illustrated by the loss of the domestic currency's value. Thus, at the end of March 2012, the euro was worth 111.36 dinars and, at the monthly level, it nominally appreciated by 1.1%, while in real terms it remained at the same level. However, compared to December 2011, the domestic currency depreciated by 6.4% nominally or by 4.3% in real terms.**

Exchange rate trends

	EUR value against the dinar
Year 2010	

December	105.50
Year 2011	
December	104.64
Year 2012	
January	106.06
February	110.19
March	111.36

Source: NBS data

In April, the further sliding of the domestic currency continued, which indicates that the government's avoiding to face the key economic challenges during its term-in-office and the lost time obtained on the basis of the stand by arrangement with the IMF at the very start of this government's tenure, brought to the surface all the bitter fruits of the work of the current economic policy creators, which is manifested in the form of a fever through the dinar's exchange rate. Also one should bear in mind the fact that, in the first quarter of this year there was a considerable drop of export activities, which is, again, the result, not only of the drop in the foreign demand, but also of the non-transformed public sector and the lack of new investments in Serbia's real sector. And the restructuring of the public sector is of crucial importance, because, apart from the savings in the budget, it would obtain investments in certain parts of the public sector, especially in the sector of the electric power industry and would, thus, both directly and indirectly lead to the further attracting of investments in the country and the strengthening of production and export performances.

(to be continued)