

UDK: 519.2 (497.11)

Originalni naučni rad

POSLOVNA EKONOMIJA
BUSINESS ECONOMICS

Godina IX

Broj 1

Str 66 - 79

doi: 10.5937/poseko17-26600

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ANALYSIS OF THE FINANCIAL ACCOUNT OF THE REPUBLIC OF SERBIA IN THE PERIOD FROM 2010-2018.

SUMMARY: A country's balance of payments represents transactions between one country and the rest of the world. The subject of the research is the analysis of the period from 2010 to 2018 and the presentation of the impact of positions of goods, services, primary income and personal transfers on the current account of the balance of payments, as well as covering current balance positions through capital. The aim of the research in this paper is to examine the importance of opening the borders of the Republic of Serbia and enabling the entry of foreign investors. The expected results of the research should indicate the way to reduce the current account deficit, the balance of payments itself, as well as the economic development and stability of the country.

Keywords: Financial balance, current account deficit, investments

INTRODUCTION

The balance of payments can be viewed from the aspect of performing numerous transactions of one state with another state. If the basic items of the current account balance are included, the current position of the country can be considered. In order to define the position of the country in the paper, we will cover the period from 2010. to 2018. and show the impact of the

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positions of goods, services, primary income, secondary income, as well as the impact of personal transfers on the current account. Also, the coverage of current balance positions through capital will be considered, ie. foreign direct investments, portfolio and other investments with their impact on the balance of payments. The financial system enables very crucial decisions to be made in the field of economics (Paoloni, 2019).

The subject of this paper includes the analysis of current account and its coverage through capital inflows, ie foreign direct investments, portfolio investments and foreign exchange reserves, as well as their effects on the balance of payments of the Republic of Serbia, and thus the impact on foreign trade in the observed period. The observed period in this paper shows the trends in the balance of payments, as well as the country's recovery after the outbreak of the global economic crisis.

In accordance with the subject and goal of the research, and based on theoretical and research data, we set the following hypotheses:

The first hypothesis: Export growth is a factor that reduces the current account deficit.

The second hypothesis: Foreign direct investments, portfolio investments and other investments are an element of the current account deficit, but also an important factor in improving the economic development of Serbia, while foreign exchange reserves are an important factor in the stability of Serbia.

The third hypothesis: Legal regulations ensure the opening of the domestic market and the security of investments of foreign investors.

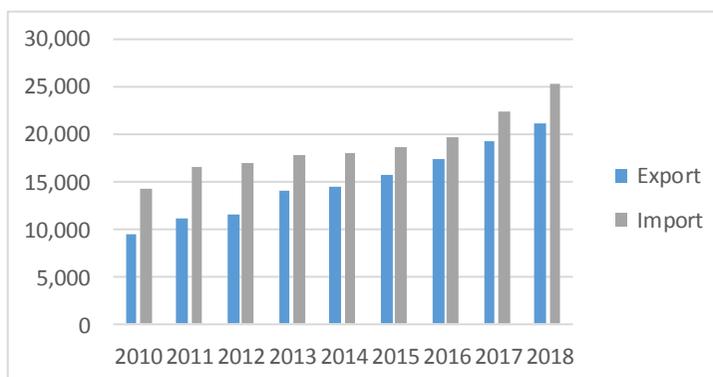
The aim of this paper is to point out the importance of opening the borders of the market of the Republic of Serbia on the basis of relevant literature and available official data and to determine the effects of foreign investors entering the domestic market through their analysis. Further structural reforms are necessary in order to increase the tendency of our country to be included in foreign trade.

Research methods used: Application of qualitative and quantitative research approach, where the dominant influence is the qualitative analysis of the observed data (quantitative), as well as the analysis of available scientific literature and official documents of competent institutional bodies. For easier disclosure, analysis and interpretation of the presented data, quantitative data are presented graphically.

OVERVIEW OF BALANCE OF PAYMENTS OF THE REPUBLIC OF SERBIA

Changes in the balance of payments indicate the state of economic and technological development of a country. The current account balance and its sustainability is a very important determinant for conducting a country's economic policy (Račić, 2014). The short-term character includes the migration of capital from less productive to more productive branches, which cannot be completely characterized as negative (Šojić, 2006). The long-term character includes the growth of the country's borrowing abroad, which is one of the basic factors for the global crisis (Sachs, D. J., 1981). The global financial crisis has ushered in a recession Serbia zone and led to atypical changes in the balance of payments (Jotić, Lovre, 2013). Serbia has a constant current account deficit, i.e. imports are far higher than exports. In relation to other represented economic branches, tourism is a branch where perhaps the most funds are poured abroad (800 million euros annually, or an average of 100 million euros) (Milićević, 2017). The following chart shows the foreign trade exchange in the period from 2010 to 2018.

Graph 1. - Overview of exports and imports in the Republic of Serbia in the period from 2010 to 2018 (in millions of euros)



Source: Author, according to the Foundation for the Development of Economic Science (2018), The World bank (2018).

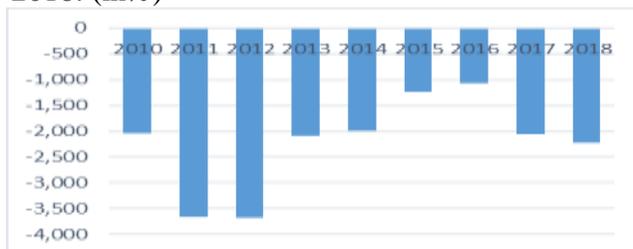
The observed research period records a current account deficit. The reason for such a fact is the impact of the position of goods, which is negative, ie we have higher imports than exports, ie. the position of imports grows from year to year in relation to exports of goods, thus creating a negative position of goods. Imports of equipment have the largest share in the import of goods, which indicates higher investments in our country. Also, the import of industrial raw materials, which implies that we have higher

production, especially in the field of processing industry, which requires higher imports of energy. The largest growth in imports was recorded in energy, raw materials, industrial and propulsion machines, electrical and telecommunications equipment, chemical products and various finished products (National Bank of Serbia, 2018). At the same time, about 89% growth in the value of imports of oil, oil derivatives and gas (449 million euros) is a consequence of the growth of their price on the world market, while the rest is the result of higher imported quantities due to greater needs of the economy.

Faster growth of imports than exports, and consequently growth of foreign trade and current account deficit, is the result of strengthening of the RSD, fast growth of domestic demand, slowing down of growth of external demand, as well as introduction of customs duties on goods in Kosovo and Metohija. Several growing internal imbalances, such as faster growth of domestic demand than GDP, faster growth of real wages than productivity and strengthening of the real value of the RSD (although our productivity is growing faster than with trading partners) directly affect the growth of foreign trade deficit and then current deficit (of balance sheet). Primary income records a negative inflow, ie. higher share of expenditures in relation to revenues in the observed period. While the net inflow of secondary income is in surplus, the majority of this inflow comes from personal transfers. The surplus in trade in services recorded an increase in the observed years. The higher trade deficit was largely offset by a higher trade surplus in services and secondary income, as well as a smaller primary income deficit. The positive balance on the services account was further increased in 2017. (4.8%), to EUR 950.9 million, thanks to the continuation of strong growth in exports of services (14.6%) (National Bank of Serbia, 2017). The largest contribution to this was made by the export of computer and business services, which have recorded a positive net export since 2011, while, to a somewhat lesser extent, transport services also provided a positive contribution. The surplus in the exchange of services with foreign countries additionally increased in 2018. by 13.0%, to 1.1 billion euros, which continued to act in the direction of reducing the current account deficit (National Bank of Serbia, 2018). The increase in the surplus was mostly due to information - communication and business services, whose net exports are increasing from year to year.

The following chart provides an overview of the current account balance in the period from 2010 to 2018. The level of the current account deficit was the highest in 2016 and amounted to -2.93 percent.

Graph 2. - Current account balance of the Republic of Serbia in the period from 2010. to 2018. (in%)



Source: Author, according to the Foundation for the Development of Economic Science (2018), The World bank (2018).

In December 2017, the volume of foreign trade increased. Exports of goods increased by 0.6% and imports by 6.0%. The level of deficit was maintained during 2018. with a slight decrease (Ministry of Finance, 2018). The surplus in the exchange of services with foreign countries additionally increased in 2018, by 13.0%, to 1.1 billion euros, which continued to act in the direction of reducing the current account deficit (National Bank of Serbia, 2017). At the same time, the inflow on the financial account, which consisted mostly of FDI, was more than sufficient to cover the current account deficit.

As a very important source of information for domestic and foreign investors and creators of economic policy of a country, the current account balance can be singled out, which is part of the balance of payments of the state. By considering and analyzing the current account balance, analysis of inflows and outflows of funds based on the exchange of goods, services, transfers, the result of the previous policy of a country can be determined (Kilibarda, 2011).

FINANCING OF THE CURRENT BALANCE SHEET OF THE REPUBLIC OF SERBIA

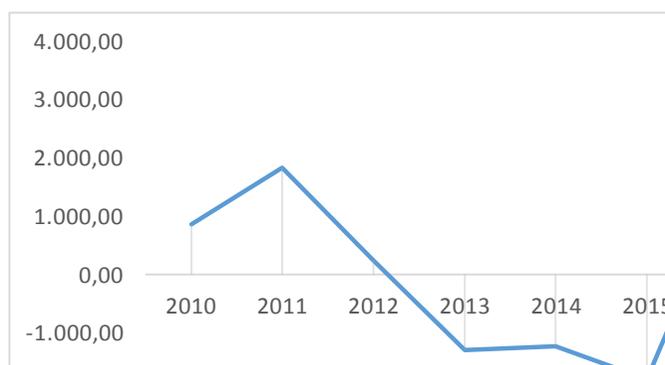
Foreign direct investment

Foreign direct investment is an extremely high-quality way of financing the current account deficit. Foreign direct investments in relation to portfolio investments provide a stable financial flow, because it is much more difficult to withdraw those investments that are invested in fixed assets compared to those that are invested in debt securities. Foreign direct investments provide both ownership and management opportunities, while portfolio investments provide only ownership, without management authorizations (Drobnjak, 2013).

If we look at the financial account of the balance of payments during 2010 and 2011 we can see the existence of a balance of payments deficit that has a tendency to grow, and consequently due to the growth of the trade deficit. The positive characteristics of the impact of foreign direct investment inflows are reflected in the possibility of financing the current account deficit. The inflow of foreign direct investments in 2010 amounted to 860 million euros, while in 2011 the inflow amounted to 1,827 million euros, which is an increase of 967 million euros. The trend of foreign direct investment, within the financial account, is changing at the beginning of 2012. It is reflected in the state purchase of 20% of "Telekom Srbija" from the Greek company "OTE" and partly the withdrawal of the capital of "Telenor". These government activities resulted in an inflow of foreign direct investment of € 231.9 million. During 2013 the financial account of the balance of payments recorded an inflow of 2.1 billion euros. Compared to 2012 there is a significant increase of 228.4 million euros. If we look at the inflow based on foreign direct investment, we can conclude that it amounts to 768.5 million euros. During 2014 the inflow of foreign direct investments was slightly lower than in the previous 2013 in the amount of 1.2 billion euros. During 2015 the movement of foreign direct investments recorded a favorable impact on the financial account of the balance of payments and the inflow amounted to 1.8 billion euros, which is 0.6 billion euros more than in the previous 2014.

The following chart shows the impact of the inflow of foreign direct investments on the movement of the financial account of the balance of payments in the period from 2010 to 2018.

Graph 3. - Impact of FDI inflows on the movement of the financial account of the balance of payments in the period from 2010 to 2018. (in millions of euros, in%)

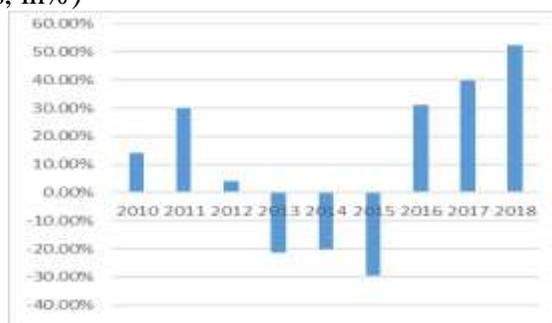


Source: Author, according to the National Bank of Serbia (2018).

Favorable tendencies were recorded in the financial account of the balance of payments. Thanks to the improvement of the business

environment, the net inflow of FDI from 2016 is growing and spilling over into 2017 and 2018. The creation of a more stimulating business environment, the fall of the risk premium to the lowest level, as well as the improvement of the country's credit rating contributed to the higher inflow of FDI. During 2016 the movement of foreign direct investments has an extremely favorable impact on the financial account of the balance of payments, and an inflow of EUR 1,860.9 million was realized, which is 3.2% more than in the previous 2015. The realized inflow enabled slightly more than full coverage of the current deficit with 135.8%. During 2017 positive effects of inflow of foreign direct investments were recorded.

Graph 4. - Influence of FDI inflows on the movement of the financial account of the balance of payments in the period from 2010 to 2018 (in millions of euros, in%)



Source: Author, according to the National Bank of Serbia (2018).

Based on the inflow, a better competitive advantage of our country was achieved. Namely, foreign direct investments in 2017 amounted to 2.4 billion euros, or 27.1% more than in 2016. If we observe the impact of foreign direct investments on the financial account of the balance of payments, we can conclude that in the previous four years, full coverage of the current account deficit in 2018 was provided, with 143%. In the investment in export sectors, which will consequently have an effect on the growth trend of our country's exports. The inflow of fixed direct investments in 2018 amounted to around 3.2 billion euros. The inflow on the financial account of the balance of payments in 2018 was 769.8 million euros higher than in 2017. which was primarily contributed by the high inflow of FDI. The largest share of foreign direct investment inflows in the total inflow of foreign direct investments in the observed period was recorded in 2018 with 52.3%, then in 2017 with 39.7%, while in 2016 a share of 31.2% was recorded.

We conclude that one of the most important preconditions for a country's progress is the improvement of its technological capacities. Foreign

direct investment enables the expansion and introduction of innovative production capacities. Foreign companies, ie foreign investors, through the introduction of foreign capital on the domestic market, can replace technological capacities, as well as improve the existing ones (Bucifal, S. and others, 2008).

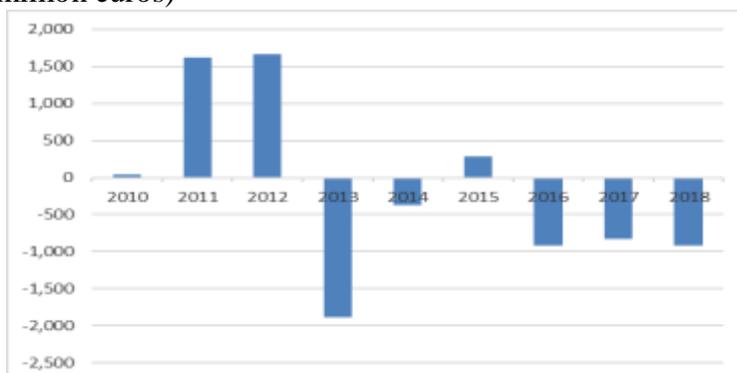
Portfolio investments and other investments

Portfolio investments may include capital inflows received from abroad that allow a foreign investor to own 10% or less of 10% in the domestic entity. Namely, portfolio investments also include capital outflow from the domestic market through which the purchase of a foreign entity is performed, with an ownership share of 10% or less than 10%. The purchase of government and corporate bonds abroad, as well as shares that do not allow the acquisition of ownership in the company over 10% is a portfolio investment (Kovačević, 2010).

The following chart shows the portfolio of investments in net worth, based on official data available on the website of the National Bank of Serbia, in the period from 2010 to 2018 in millions of euros. Looking at Chart 5, we can conclude that portfolio investments in 2010 compared to 2009 recorded a net inflow of EUR 39 million, as a result of the interrupted negative trend of foreign capital withdrawal (National Bank of Serbia, 2010). In 2011 on the basis of portfolio investments, an inflow of EUR 1,619.1 million was realized, primarily on the basis of the sale of bonds of the Republic of Serbia (National Bank of Serbia, 2011). In 2012 net inflow based on portfolio investment recorded 1,666 million euros, or 2.9% compared to the previous year (National Bank of Serbia, 2012). In 2013 the net inflow on the basis of portfolio investments recorded 1.9 billion euros, and refers to the issuance of Eurobonds on the international market. Portfolio investments primarily relate to government borrowing in the form of sales of seven-year and five-year Eurobonds on the international financial market (November and December) (National Bank of Serbia, 2013). In 2014 the net inflow based on portfolio investments amounted to EUR 368.9 million, and refers to the sale of long-term government securities to non-residents on the domestic market, which is much less than in 2013. (National Bank of Serbia, 2014). In 2015 a net outflow of EUR 289.2 million was recorded (National Bank of Serbia, 2015). In 2016 a net outflow of EUR 916 million was recorded, which is the result of domestic banks' investments in foreign securities, and domestic banks were buyers of domestic bonds issued by the EBRD (National Bank of Serbia, 2016). Almost the entire amount of reduction in liabilities based on portfolio investments relates to government liabilities to non-residents based on debt securities, largely due to the payment of matured Eurobonds to non-residents.

The reduction of these liabilities was influenced by currency and other changes in the international financial market.

Graph 5. - Overview of portfolio investments - net in the period from 2010 to 2018 (in million euros)

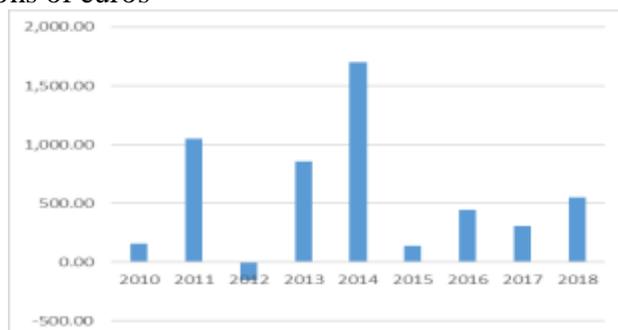


Source: Author, according to the National Bank of Serbia (2018), World bank (2018).

The portfolio investment account in 2017 recorded an outflow of 827.1 million euros, primarily due to the payment of Eurobonds to non-residents. Based on portfolio investments, an outflow of 913.0 million euros was registered in 2018 which was primarily affected by the maturity of Eurobonds in December, and on that basis 787.8 million euros were paid to non-residents (National Bank of Serbia, 2017). This further reduced the share of public debt in GDP. The outflow was also recorded on the basis of (mostly early) repayment of the debt to the London Club of 141 million euros in April, which fully settled the obligations of RS towards this group of creditors (National Bank of Serbia, 2017).

Other investments consist of various forms of short - and long-term trade credits, various cross - border loans from various financial institutions, currency and bank deposits, other lawsuitable securities and payments related to international trade, as well as IMF loans.

Graph 6. - Overview of other investments - net in the period from 2010 to 2018, in millions of euros



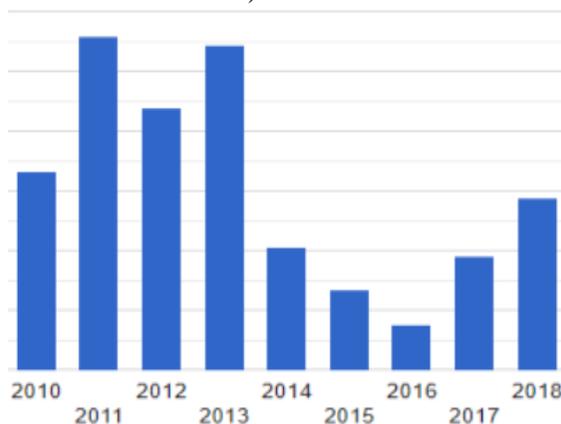
Source: Author, according to the National Bank of Serbia (2018).

The previous chart shows other investments - net in the period from 2010 to 2018. Based on other investments, a net inflow of EUR 309.7 million was realized, unlike the outflow in 2016. Residents borrowed abroad on the basis of financial loans by EUR 203.3 million, of which banks borrowed net by EUR 272 million, while other sectors reduced their liabilities abroad. Net borrowing by banks on the basis of financial loans in 2017 was recorded for the first time since 2010 when there was a process of reducing the financial exposure of parent companies to their subsidiaries in the region. Based on other investments, an inflow of 552.4 million euros was realized in 2018 which is twice as much as in 2017. During 2018 the indebtedness of residents to foreign creditors increased significantly, and on the basis of financial loans, a net inflow of 1.3 billion euros was recorded. For the second year in a row, bank borrowing increased (by 603.2 million euros), which confirms that the process of reducing the exposure of parent companies to subsidiaries in Serbia has ended.

Foreign exchange reserves

The following chart provides an overview of the foreign exchange reserves of the Republic of Serbia in the period from 2010 to 2018. Looking at the following chart, we can conclude that foreign exchange reserves reached their minimum during 2016. At the end of 2016 a trend of growth in Serbia's foreign exchange reserves was recorded. The growth trend of foreign exchange reserves continued in 2019 so gross foreign exchange reserves amounted to around 13 billion euros. According to official data from the National Bank of Serbia, foreign exchange reserves experienced the highest level compared to 2000 when they recorded the lowest level.

Graph 7. - Overview of Serbia's foreign exchange reserves in the period from 2010 to 2018 (in millions of dollars)



Source: World bank (2018).

Based on the previous analysis, we can conclude that the Republic of Serbia has ensured economic stability by keeping inflation low, stable foreign exchange reserves, which has resulted in continuous growth of FDI, and a tendency to grow gross domestic product.

CONCLUSION

Changes in the balance of payments indicate the state of economic and technological development of a country. It allows economic policy makers to define the current position of the country in terms of results achieved in the past few years.

Despite the growth of imports based on the growth of production and investments, as well as higher world oil prices, the share of the current account deficit in the gross domestic product in 2018 remained at the level of 2017 and amounted to 5.2%. More favorable trends than in 2017 were recorded in the exchange of services and secondary income, where surpluses increased, and the deficit of primary income decreased, which largely compensated for the higher trade deficit. Compared to 2017 the movements on the financial account were more favorable, especially on the basis of foreign direct investments, more than full coverage of the current deficit was provided, and considering that it increases the export capacities of the Serbian economy, foreign direct investments will contribute to reducing the deficit of current account. Also, thanks to the high inflow of foreign direct investments as the most desirable source of financing, their net balance exceeded 80% of Serbia's net international investment position, which also increases resilience

to external shocks. Movements in portfolio investments in the observed period recorded outflows mostly due to the payment of Eurobonds to non-residents and the payment of debt to the London Club. Trends in other investments - net in the observed period recorded inflows mostly on the basis of residents' borrowing from foreign creditors, while foreign exchange reserves are characterized by a stable level, which speaks of the stability of Serbia's economic policy. If we look at the subject of research, the paper proves the hypotheses that are defined. The first hypothesis defined by this paper is the creation of conditions for reducing the current account deficit of the balance of payments through the growth of net exports. This hypothesis is considered proven given that Serbia in the observed period recorded a negative position of goods, ie the position of imports is growing faster than exports of goods, which results in a current account deficit. The second hypothesis defined by this paper is considered proven given that the increase or decrease of foreign direct investments, portfolio investments, other investments and foreign exchange reserves affect the current account deficit, ie the balance of payments, but also contribute to the country's economic development. The third hypothesis is considered to be proven considering the movement of balance of payments positions in the observed period in which the positive effects of the regulatory state role can be seen.

At the end of the paper, the author, based on a detailed theoretical and quantitative analysis within the methodological basis of the paper, points to certain guidelines that will lead to strengthening international relations of the Serbian economic sector, ie that will enable its attractiveness to future investors. One of the most important segments of the development of the Republic of Serbia is reflected in the definition of a clear strategic framework as an umbrella document in the context of economic growth. The procedure for entering foreign investors and organizing their business on the domestic market should be shortened and simplified. It is necessary to adopt appropriate regulations and regulatory measures in the area of the range of powers of the competent control bodies and institutions, and to expand them, in order to supervise the procedure of entry of foreign investors into the domestic market. Economic development imposes an adequate management structure that is ready for continuous adjustment and education. Survival of an economic entity in a competitive market of conditioning specializations in a certain segment of business activities. Enable the promotion of domestic companies in foreign markets through various subsidies for the implementation of these activities, in order to strengthen them and increase exports.

REZIME
ANALIZA FINANSIJSKOG BILANSA REPUBLIKE SRBIJE U
PERIODU 2010-2018.

Platni bilans jedne zemlje predstavlja realizovanje transakcija između dve zemlje. Predmet istraživanja odnosi se na analizu perioda od 2010. do 2018. godine i prikaz uticaja pozicija roba, usluga, primarnog dohotka i ličnih transfera na tekući račun platnog bilansa, kao i pokrivanje pozicija tekućeg bilansa putem kapitala. Cilj istraživanja ovog rada obuhvata ispitivanje važnosti otvaranja granica Republike Srbije i omogućavanje ulaska stranih investitora. Očekivani rezultati istraživanja treba da ukažu na način smanjenja deficita tekućeg računa platnog bilansa, samog platnog bilansa, kao i privrednog razvoja i stabilnosti zemlje.

Ključne reči: Finansijski bilans, deficit tekućeg računa, investicije

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Ovaj rad je primljen **16.05.2020.**, a na sastanku redakcije časopisa prihvaćen za štampu **13.08.2020.** godine.