



International Investment Position of Serbia

By Dr. Dragovan Milicevic

Introduction- The International Investment Position (IIP) of the Republic of Serbia is prepared quarterly and represents the state at the end of the period, which is the result of realized balance of payments transactions, currency changes, price changes, and other changes, and represents the balance sheet of its external financial assets and liabilities. The standard components of IIP are structured primarily on assets and liabilities and on a functional basis on direct investments (equity and debt instruments), portfolio investments (equity and debt securities), financial derivatives and other investments (other equity capital, ready money and deposits, loans, insurance and pension programs and standardized guarantee schemes, trade credits and advances, other claims/debts, and SDRs allocation) and foreign exchange reserves (monetary gold, special drawing rights, reserve position with the IMF, other reserve assets, cash and deposits, securities, financial derivatives, and other receivables). The definitions of the standard components of IIP are fully methodologically harmonized with the components of the financial account of the balance of payments. In IIP, the following sectors are shown separately: central banks, states, depository institutions other than the central bank, and other sectors. IIP components (where it makes sense) are also shown according to original maturity, with a division into short-term (up to one year) and long-term (over one year) financial assets and liabilities.

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INTRODUCTION

The International Investment Position (IIP) of the Republic of Serbia is prepared quarterly and represents the state at the end of the period, which is the result of realized balance of payments transactions, currency changes, price changes, and other changes, and represents the balance sheet of its external financial assets and liabilities. The standard components of IIP are structured primarily on assets and liabilities and on a functional basis on direct investments (equity and debt instruments), portfolio investments (equity and debt securities), financial derivatives and other investments (other equity capital, ready money and deposits, loans, insurance and pension programs and standardized guarantee schemes, trade credits and advances, other claims/debts, and SDRs allocation) and foreign exchange reserves (monetary gold, special drawing rights, reserve position with the IMF, other reserve assets, cash and deposits, securities, financial derivatives, and other receivables). The definitions of the standard components of IIP are fully methodologically harmonized with the components of the financial account of the balance of payments. In IIP, the following sectors are shown separately: central banks, states, depository institutions other than the central bank, and other sectors. IIP components (where it makes sense) are also shown according to original maturity, with a division into short-term (up to one year) and long-term (over one year) financial assets and liabilities. The main sources of data for the IIP are reports on credit and financial transactions submitted to the NBS, statistical data on foreign payment transactions carried out through banks and the NBS, direct reports of companies, reports of monetary and financial statistics of the NBS, and management of foreign exchange reserves.

In addition to the balance of payments and external debt, the balance of the international investment position is an integral part of the statistics of economic relations with foreign countries. By definition, it is a balance sheet. The International Investment Position (IIP) includes financial assets and liabilities that have an international character. IIP is the balance sheet of a country's foreign financial assets and liabilities. Foreign financial assets (FIA) include financial claims of residents on non-residents and monetary gold, which is part of the country's reserve assets. Foreign financial

liabilities (FIL) include financial obligations of residents to non-residents. IIP, as a rule, shows the situation at the beginning and at the end of the accounting period (most often a quarter or a year). Changes in financial assets and liabilities at the beginning and end of the period are caused by changes resulting from transactions (covered by the balance of payments) or other changes during the observation period. Other changes include changes based on write-off, revaluation, reclassification, or the creation or disappearance of liabilities and are not the result of transactions between non-residents and residents. As the difference between foreign financial assets and liabilities, IIP clearly shows the difference between the financial assets that an economy has and the assets it owes. Depending on the sign of the IIP, the country can be a net creditor or a net debtor in relation to the rest of the world. The IIP represents the basis for assessing the country's risk exposure in economic relations with other countries since it contains a presentation of the level, sectoral distribution, and maturity of foreign liabilities, especially foreign indebtedness, as well as the volume and structure of claims from non-residents. The IIP is a statistical report that the IMF member countries, in accordance with Article VIII, Section 5 of the Statute of this institution, are obliged to submit to the IMF according to the established dynamics. The IIP is prepared in accordance with the IMF Manual for preparing the balance of payments and international investment position, sixth edition (Balance of Payments and International Investment Position Manual, Sixth Edition, BPM6, 2008), and with the IMF Manual for preparing external debt. In addition to foreign debt, a country with a passive investment position is also a debtor based on the inflow of foreign investments, because these funds are the investor's inalienable right to dispose of them in the home country in accordance with the defined rules and laws of the recipient country. The impact of investment inflows on international liquidity and the country's position is two-sided. In case the inflow of foreign investments into the country's assets increases with the amount of invested funds; foreign exchange liquidity increases and has a positive impact on the balance of payments. The effect of apparent liquidity and positive impact on the balance of payments is created. In the event of an outflow based on the reinvestment of profits, the transfer of part of the capital or, in the last instance, the withdrawal of invested capital, in the case of fragile international liquidity, the country falls into insurmountable difficulties that threaten

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the entire economic and monetary system (excess unemployment, outflow of capital, reduction of economic activity, etc.).

Serbia's international investment position in millions of euros

(mill EUR)									
ITEM		Position as of	Position as of	Position as of	Position as of	Position as of	Position as of	Position as of	Position as of
		31.12.2017	31.12.2018	31.12.2019	31.12.2020	31.12.2021	31.12.2022	31.12.2023	31.3.2024
1.	Assets	21.112	24.037	26.681	28.539	33.403	37.484	44.785	46.426
1.1	Direct investment	3.014	3.339	3.641	3.723	4.014	4.279	4.593	4.784
1.1.1	Equity and investment fund shares	2.608	2.925	3.218	3.277	3.569	3.667	3.908	4.090
1.1.1.1	Equity other than reinvestment of earnings	1.758	2.028	2.251	2.310	2.519	2.594	2.723	2.899
1.1.1.2	Reinvestment of earnings	850	897	967	967	1.049	1.074	1.185	1.191
1.1.2	Debt instruments	406	415	422	446	446	611	685	694
1.2	Portfolio investment	237	249	290	438	618	580	727	1.003
1.2.1	Equity and investment fund shares	82	101	154	223	270	152	206	251
1.2.1.4	Other sectors	31	41	58	86	116	137	206	251
1.2.2	Debt securities	155	147	136	215	348	428	521	752
1.2.2.2	Deposit-taking corporations, except central bank	149	143	127	208	338	422	490	723
1.2.2.2.1	Short-term	0	0	0	0	0	0	34	171
1.2.2.2.2	Long-term	149	143	127	208	338	422	456	552
1.3	Financial derivatives (other than reserves) and employee stock options	29	50	51	54	54	54	54	54
1.4	Other investment	7.870	9.137	9.321	10.832	12.262	13.156	14.502	15.644
1.4.2	Currency and deposits	4.423	4.999	4.774	5.374	6.304	6.887	7.238	8.128
1.4.2.2	Deposit-taking corporations, except central bank	1.234	1.781	1.561	2.176	3.083	2.947	3.248	4.164
1.4.2.4	Other sectors	3.189	3.217	3.213	3.197	3.220	3.940	3.990	3.964
1.4.3	Loans	265	399	447	470	521	547	566	516
1.4.3.2	Deposit-taking corporations, except central bank	252	386	436	462	513	542	561	511
1.4.3.2.1	Short-term	23	21	33	26	45	35	23	7
1.4.3.2.2	Long-term	230	365	403	436	467	507	537	504
1.4.3.3	General government	10	10	10	7	6	5	5	5
1.4.4	Insurance, pension, and standardized guarantee schemes (F60)	30	114	88	56	59	50	85	85
1.4.5	Trade credit and advances	3.143	3.617	4.006	4.930	5.375	5.667	6.602	6.905
1.4.5.4	Other sectors	3.143	3.617	4.006	4.930	5.375	5.667	6.602	6.905
1.4.5.4.1	Short-term	3.105	3.578	3.977	4.901	5.346	5.638	6.474	6.777
1.4.5.4.2	Long-term	39	39	28	28	28	28	128	128
1.4.6	Other accounts receivable/payable	8	8	6	3	3	5	10	10
1.5	Reserve assets	9.962	11.262	13.378	13.492	16.455	19.416	24.909	24.942
1.5.1	Monetary gold	675	736	1.337	1.760	1.931	2.105	2.393	2.687
1.5.4	Other reserve assets	9.219	10.457	11.973	11.666	13.678	17.241	22.448	22.185
1.5.4.1	Currency and deposits	3.078	3.949	4.543	4.956	6.384	8.782	9.958	8.070
1.5.4.2	Securities	6.140	6.509	7.430	6.710	7.294	8.459	12.490	14.115
1.5.4.2.1	Debt securities	6.140	6.509	7.430	6.710	7.294	8.459	12.490	14.115
1.5.4.2.1.1	Short-term	2.278	2.915	3.161	2.812	2.531	4.049	3.436	4.297
1.5.4.2.1.2	Long-term	3.862	3.593	4.269	3.898	4.762	4.410	9.054	9.818

Source: nbs.rs/statistics of economic relations with foreign countries/international financial position

Serbia is a net debtor based on foreign investments for more than 50 billion euros, namely, liabilities based on the inflow of foreign investments are 96.5 billion, while the funds invested by Serbia cumulatively as of 31.03.2024 amount to 46.4 billion.

On the asset side, other investments dominate 15.6, and of course foreign exchange reserves of over 24.9 billion euros. Other investments consist mainly of trade and commercial loans and cash on accounts abroad. In terms of liabilities based on foreign investments, the positions of reinvestment of profits of

over 10 billion and debt instruments of over 11.8 billion are particularly sensitive. Practically, in the scenario that for various reasons investors decide to withdraw funds from Serbia, the foreign exchange reserves would be completely canceled and the country would end up in a chaotic scenario of maintaining external liquidity. Economic and social life is practically maintained through a very fragile and unstable environment of accumulation of public debt of the state, external debt of the state and the economy, and ownership of the economy and financial system by non-resident owners.

ITEM		Position as of 31.12.2017	Position as of 31.12.2018	Position as of 31.12.2019	Position as of 31.12.2020	Position as of 31.12.2021	Position as of 31.12.2022	Position as of 31.12.2023	Position as of 31.3.2024
2.	Liabilities	56.691	61.591	67.158	70.813	77.713	86.874	94.790	96.589
2.1	Direct investment	31.524	35.208	39.029	42.572	46.126	50.207	54.784	56.258
2.1.1	Equity and investment fund shares	26.248	29.507	32.944	35.009	37.226	39.848	43.415	44.456
2.1.1.1	Equity other than reinvestment of earnings	21.725	23.841	26.092	27.776	29.287	31.098	33.484	34.267
2.1.1.2	Reinvestment of earnings	4.523	5.665	6.852	7.233	7.939	8.750	9.931	10.189
2.1.2	Debt instruments	5.275	5.701	6.085	7.563	8.900	10.359	11.369	11.802
2.2	Portfolio investment	5.421	4.749	5.126	6.955	8.796	8.789	9.860	9.778
2.2.1	Equity and investment fund shares	29	19	20	23	33	26	38	35
2.2.1.4	Other sectors	29	19	14	14	12	21	33	30
2.2.2	Debt securities	5.393	4.729	5.106	6.932	8.763	8.764	9.821	9.743
2.2.2.3	General government	5.393	4.729	5.101	6.927	8.763	8.757	9.810	9.731
2.2.2.3.2	Long-term	5.393	4.729	5.101	6.927	8.763	8.757	9.810	9.731
2.3	Financial derivatives (other than reserves) and employee stock options	1	1	1	1	25	144	217	213
2.4	Other investment	19.745	21.634	23.002	21.284	22.766	27.733	29.929	30.340
2.4.1	Other equity	2	3	3	3	4	6	21	25
2.4.2	Currency and deposits	996	1.029	1.086	984	1.256	1.839	2.101	2.248
2.4.2.2	Deposit-taking corporations, except central bank	996	1.029	1.086	984	1.256	1.839	2.101	2.248
2.4.3	Loans	15.885	17.439	18.579	17.908	19.138	23.027	24.147	24.296
2.4.3.2	Deposit-taking corporations, except central bank	2.336	3.063	3.404	3.821	3.985	4.328	3.681	3.457
2.4.3.2.1	Short-term	817	1.346	1.445	1.473	1.356	1.672	343	213
2.4.3.2.2	Long-term	1.519	1.717	1.959	2.348	2.629	2.657	3.338	3.245
2.4.3.3	General government	9.686	10.053	10.426	9.751	10.825	12.719	14.927	15.027
2.4.3.3.3	Other Long-term	9.686	10.053	10.426	9.751	10.825	12.719	14.927	15.027
2.4.3.4	Other sectors	3.836	4.302	4.736	4.332	4.328	4.998	5.540	5.811
2.4.3.4.1	Short-term	13	23	52	28	101	398	108	49
2.4.3.4.2	Long-term	3.823	4.278	4.684	4.304	4.227	4.600	5.431	5.763
2.4.4	Insurance, pension, and standardized guarantee schemes (F60)	19	26	17	23	48	59	76	76
2.4.5	Trade credit and advances	2.297	2.572	2.741	1.810	951	1.428	2.250	2.344
2.4.5.4	Other sectors	2.297	2.572	2.741	1.810	951	1.428	2.250	2.344
2.4.5.4.1	Short-term	2.127	2.400	2.579	1.718	820	1.343	2.169	2.259
2.4.5.4.2	Long-term	169	171	162	92	131	86	81	85
2.4.6	Other accounts receivable/payable	18	25	26	36	42	34	34	34
2.4.7	Special drawing rights	529	541	549	521	1.327	1.340	1.300	1.317
NET IIP		-35.579	-37.555	-40.478	-42.274	-44.310	-49.390	-50.005	-50.163
Source: NBS									
NOTE: The presentation of IIP is, as far as possible, in line with the guidelines contained in the sixth edition of the IMF Balance of Payments and International Investment Position Manual, 2009 (BPM6). Data are subject to corrections in line with the official data sources. Table is in accordance with data available until June 28,									

When the total debt on all bases is added up, the state (24 billion), the economy and the population (24) are indebted over 110 billion euros through internal public debt (10 billion), external debt of the economy and population of 21 billion and debt based on incoming foreign investments that is, property that non-residents dispose of. If we add to that the liabilities of banks that are almost 100% foreign-owned, i.e. cash reserves at the NBS in the amount of over 1,000 billion dinars or 9 billion euros, foreign liabilities of 643 billion and capital and reserves of 804 billion, the total open position of banks is 21 billion euros. Certainly, a part of foreign investments in the international investment position refers to the banking sector. Be that as it may, this position makes the state very vulnerable to external shocks and the possibility of "capital flight", which in the extreme case significantly affects the overall sovereignty of the state and its international, first of all, political and, consequently, economic position.