

Regional analysis

Foreign trade of goods

**Foreign and domestic demand still
supporting trade at start-2023**

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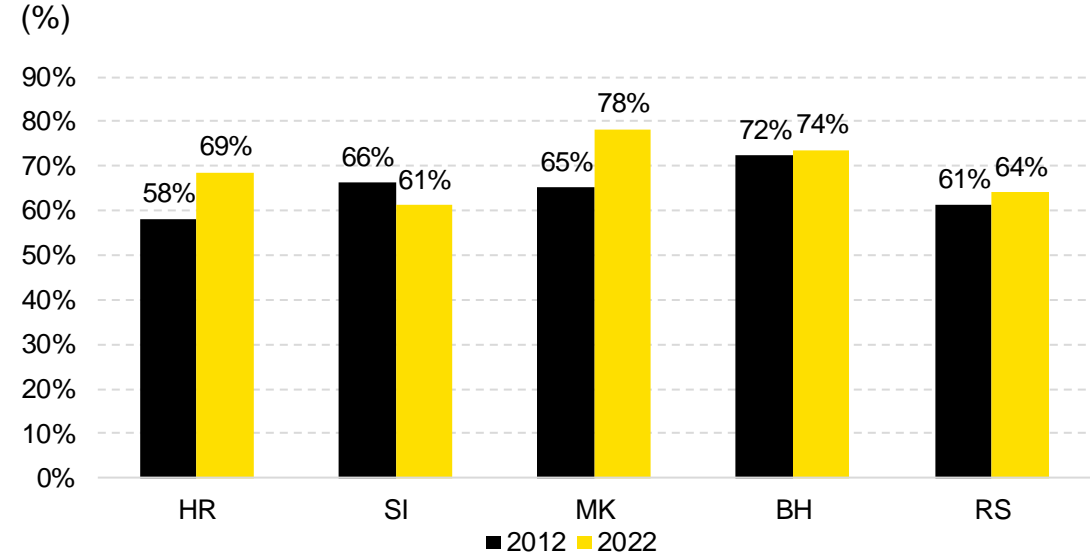
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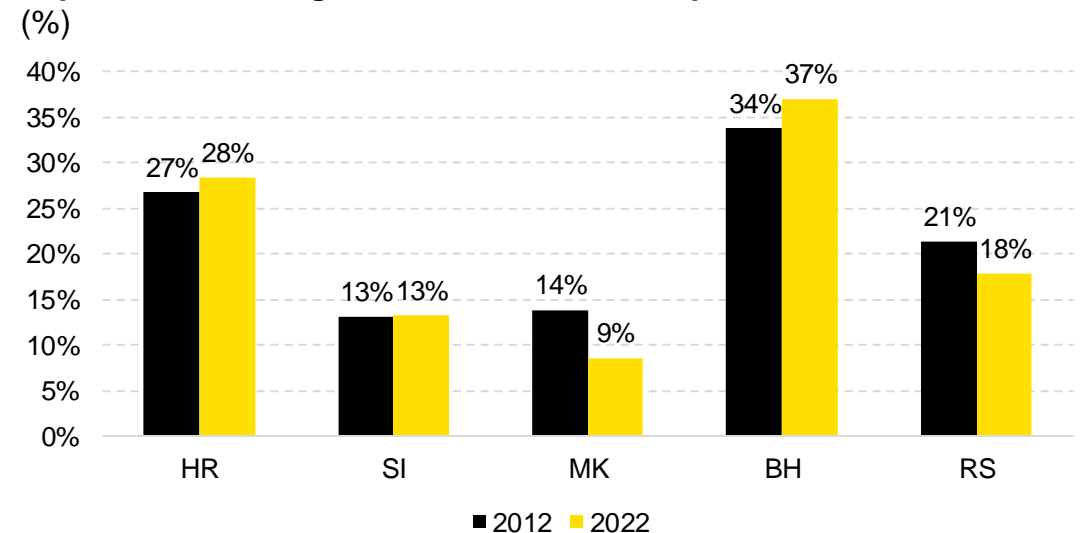
Foreign trade of goods in Adria region was very intensive in 2022, mainly due to surging prices, especially commodities' prices and in the first part of the year. All countries posted deficit in merchandise trade, with the highest one being in Croatia (although mitigated by strong services export). Latest developments (January-2023) show exports still on the upward trend, although rising with slower pace compared to 2022, which is still encouraging given the deteriorated foreign economic outlook. Imports, meanwhile, follow, also backed by still ample domestic demand, namely healthy labour market developments. Further in the analysis we point out the country specifics and give outlook for 2023.

Croatia posted the **highest trade deficit in 2022**, driven by **46.4% yoy growth in imports vs 30.4% yoy growth in exports**. Both sides of the trade were influenced by higher energy prices copying to Mineral fuels and lubricants segment (disproportionally, as imports are significantly higher than exports). According to the latest data, **imports slowed down increasing 19.8% yoy, while exports posted 13.1% yoy growth in January-2023**. Export of Manufactured goods classified chiefly by material and Machinery and transport equipment (amongst top manufacturing exporting areas in Croatia) posted strong growth in 2022 (21.1% and 14% yoy, respectively), indicating still strong external demand. Croatian main trade partners are EU countries (mostly Italy, Germany, Slovenia and Hungary), with ties growing stronger with becoming Eurozone and Schengen member. This step will somewhat facilitate trade with Eurozone countries, as any currency issues are disregarded, and operationally improves as well (e.g. faster transport). Even though it has high deficit when it comes to trade of goods, Croatia is a country of tourism, so current account is balanced with services posting surplus. Tourist inflow also impacts Croatian trade balance via increased demand for goods during the season, lifting imports of Food products, beverages and tobacco products. All in all, high 2022 base and commodity prices calming down will support lower import and export pace during 2023, with export impacted by lower external demand coming from main trading partners and import by lower domestic demand amidst stagnation.

Exports to EU countries to total exports



Exports to Adria region countries to total exports

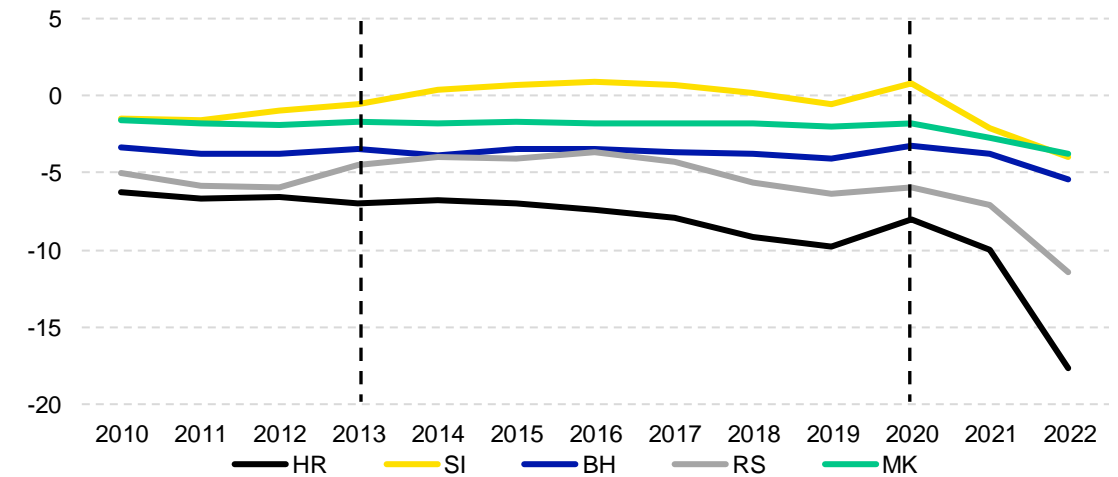


Source: National statistical offices, BBA calculations

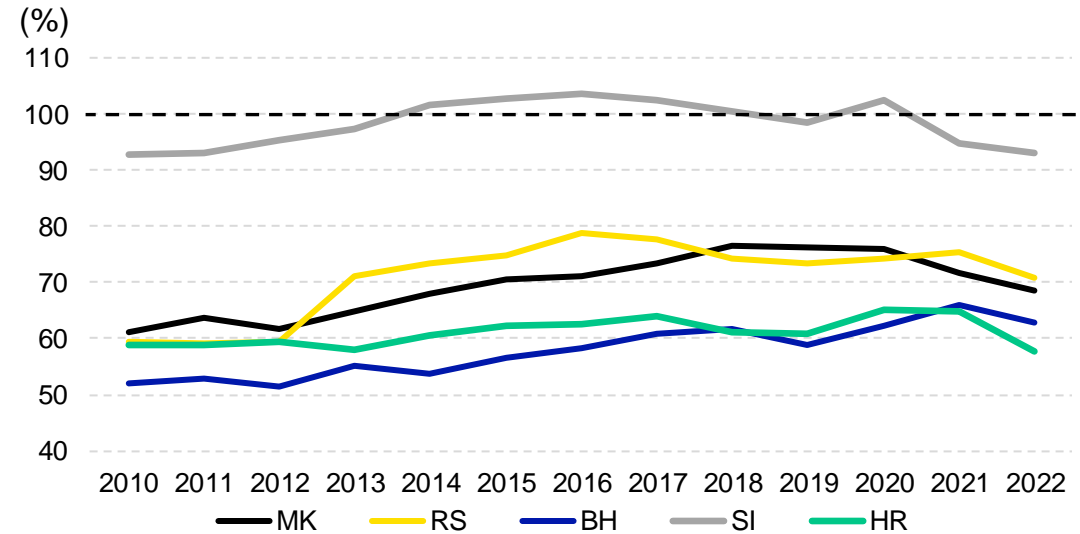
During 2022 Bosnia and Herzegovina posted 32.6% yoy increase in imports and 25.9% yoy increase in exports, widening the trade deficit. Both sides of international trade were elevated during 2022, impacted by higher general but also higher commodity prices. Prices surging in the commodity market during 2022 boosted exports, as aluminium, iron and steel and articles thereof accounted for cca a fifth of the exports in 2022, and mineral fuels have significant part on the import side. **January-2023 data** show that the pace of external trade is calming down, **as import rose 7.6% yoy, and exports 5.9% yoy**, as commodity market prices dropped, and significant base effect kicked in. Bosnia and Herzegovina have the highest share of exports within the region, as it has the best position (being relatively far only from North Macedonia), exporting mostly to Croatia and Serbia. We see a somewhat better foreign trade prospects vs rest of the region, mostly given the (hopeful) Gov't forming in the near time, which will provide political support to much needed economic development.

Slovenia is the most extensive exporter in the region, as its industry is dominantly export oriented (and the domestic 2mn population market is relatively small). Due to high exports (EUR 53bn), Slovenia ran the smallest deficit in 2022 in the Adria region. Foreign trade was quite fluent **in 2022, with imports adding 36.6% yoy and exports 33.8% yoy**. **January-2023 data** shows somewhat lower growth rates or **27.2% yoy increase in imports, and 31.1% yoy increase in exports**. Slovenian imports were influenced by energy, as imports of coal, lignite, gas and crude petroleum spiked (accounting also for the price surge during 2022). On the other hand, exports were dominantly driven by chemicals and pharmaceutical products, especially pronounced in the second half of 2022. If we take a look to the export markets, we see Slovenia as the only country in the region that have reduced its share of exports to EU countries in a 10y period. This was especially pronounced in the recent years, as exports to Switzerland surged on the back of pharmaceutical industry connections. Aside from that, second largest export segment – Machinery and transport equipment rose 8.9% in 2022, showing still solid growth. All in all, export perspectives for Slovenia are mixed. Pharmaceutical industry shows signs of further investments which will boost exports, especially as pharmaceuticals are considered a defensive industry. On the other side, exports tied to EU production chains will certainly feel the slowdown in the EU economies, reflecting on lower external demand.

Deficit/surplus in foreign trade (exports - imports)
(EUR bn)



Coverage ratio (exports to imports)
(%)



Source: National statistical offices

North Macedonia also **experienced higher import growth in 2022 (25.8% yoy) in comparison to export (19.9% yoy)**, switching this trend during 4Q2022, with most recent data showing **5% yoy increase in imports and 13.7% yoy increase in exports in January-2023** (strong base-effect present). Chemical industry had a very lucrative period in 2021 and 2022, as demand for chemicals was pushed by the pandemic. Exports followed, and after posting 51.4% yoy increase in 2022, slowed down to 3.8% yoy in January-2023. Exports of Machinery and transport equipment have had a rough patch during 2022 (posting -9.5% yoy), showing signs of recovery from 4Q2022, posting 22.7% yoy growth in January-2023. Support in this segment comes from Kemet Electronics opening second plant during 4Q2022, focused on producing parts for the automotive industry. North Macedonia has the smallest share of exports within the Adria region (half of which refers to neighbouring Serbia), but the highest share of exports to EU (aside from Germany which is one of the main trading partners in the overall region, noteworthy exports are directed to Bulgaria and Greece).

External trade growth in **Serbia** showed some signs of calming down, after a period of surging imports (and to a lesser extent exports) in 1H2022. **During 2022 imports gained 34.8% yoy, while exports rose only 26.3%, widening the trade deficit.** From November-2022, exports started to grow faster, with **January-2023 data showing imports adding 12.5% yoy, while exports increased 21.1% in the same period.** Metalliferous ores and metal scrap show high expansion in exports during 2021 and 2022, connected to higher mining and quarrying activity seen from mid-2021 (with Chinese investors resuming copper mining). Two-digit increase in exports during 2022 is seen also in the dominant product categories - Machinery and transport equipment (26.7% yoy) and Manufactured goods classified chiefly by material (20.8% yoy). Dominant trade partner for Serbia are EU countries, with cca. 60% exports in 2022 directed to them (mostly Germany, Italy and Hungary). Aside of that, China is becoming more and more important for Serbia in terms of international trade, as in recent years China has been one of the top direct investors in Serbia (predominantly in mining). Slowdown in EU economies will spill over to external demand, pushing imports (especially imports of input materials) and exports down. On the other hand, high FDIs and trade relations with China will support future external trade.

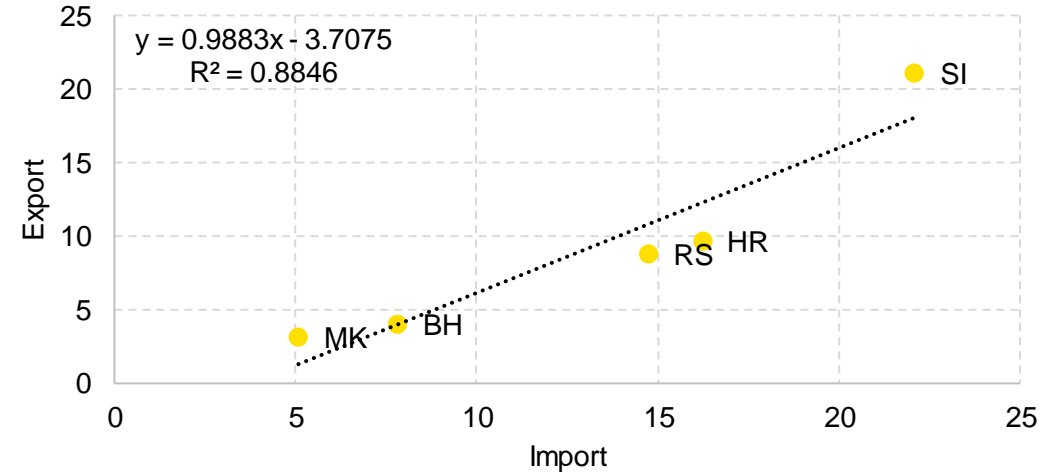
Special topic – import/export dependence

In this part we examine relation of imports and exports in the Adria region, comparing 2022 and 2012, using univariate linear regression to estimate general tendencies. Exports are tied to imports for several reasons:

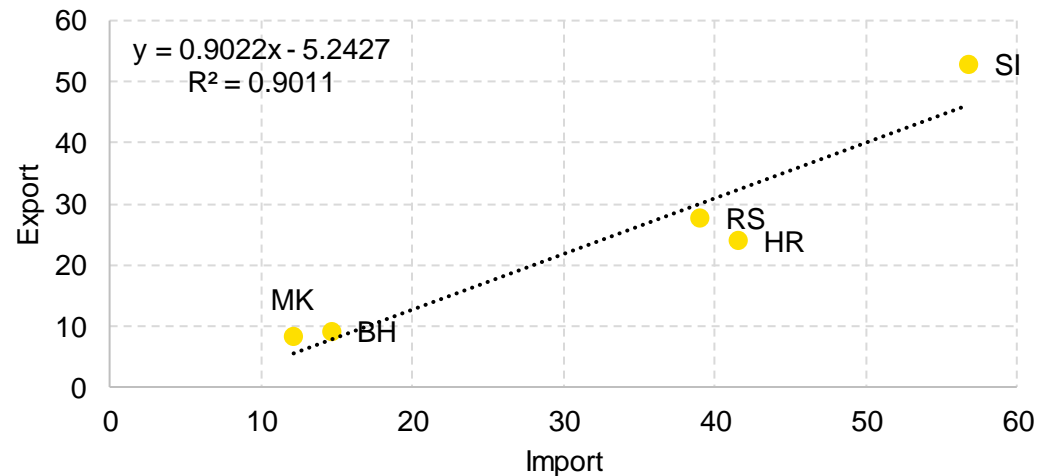
- Exports assume production within the domestic country, with producers importing bulk of inputs. This is more pronounced when it comes to relatively small economies as in the Adria region, which have scarce domestic sources.
- Higher production and export do increase domestic demand, reflecting on elevated domestic consumption satisfied by domestic and foreign supply, pushing up imports.
- More pronounced in developing countries, imports of capital goods mirrors investments which later reflects on higher production and exports.

Strong correlation between imports and exports is seen in both used samples as showed by R² around 90%. On the other hand, the coefficient determining the degree to which imports reflect on exports is lower in 2022 vs 2012. **On average in 2012 for EUR 1 of imports, we saw EUR 0.99 of exports.** This proportion shows different picture in 2022, when on average EUR 1 of imports resulted with EUR 0.9 of exports, and this regardless of rising value added in exports as implied by multiple indicators suggesting that foreign trade structure has indeed changed in its core. **Firstly, higher domestic demand and evolving consumerism. Imports flowing to exports to a lesser extent suggests that larger part of the import is pulled by domestic demand.** This is pronounced especially if we bear in mind that countries in the region developed economically during observed 10y period (although not at the same pace) lifting domestic demand. In addition, the supply side recognized this, so the presence of well-known retail chains has increased significantly during the timespan providing more imported final products. **Second, as we already mentioned, capital goods imports do reflect on exports but as soon as they are put in force in actual plants, which causes a time delay to production and export.** We can see in the case for Serbia that in comparison to 2012 an increase in exports brought her closer to Adria region average in 2022. On the other hand, Croatia is still below, given the excess foreign trade deficit of goods, also enforced by highly developed services sector, i.e., tourism, meaning imports are reflecting on exports to a lower degree as compared to Adria region average.

Exports dependence on imports
(2012, bn EUR)



Exports dependence on imports
(2022, bn EUR)



Source: National statistical offices, BBA calculations

As regards 2023 outlook, we see foreign trade of goods following downtrend across the Adria region, with the single strongest factor being high base effect. Other factors contributing to deteriorated outlook regarding trade include slowdown in overall economic growth of the region's main trading partners, followed by weaker domestic demand compared to 2022. Additionally, we still see high influence of commodities' prices, in both imports and exports, as the global stabilisation of those prices will obviously have to wait for more geopolitically stable times.

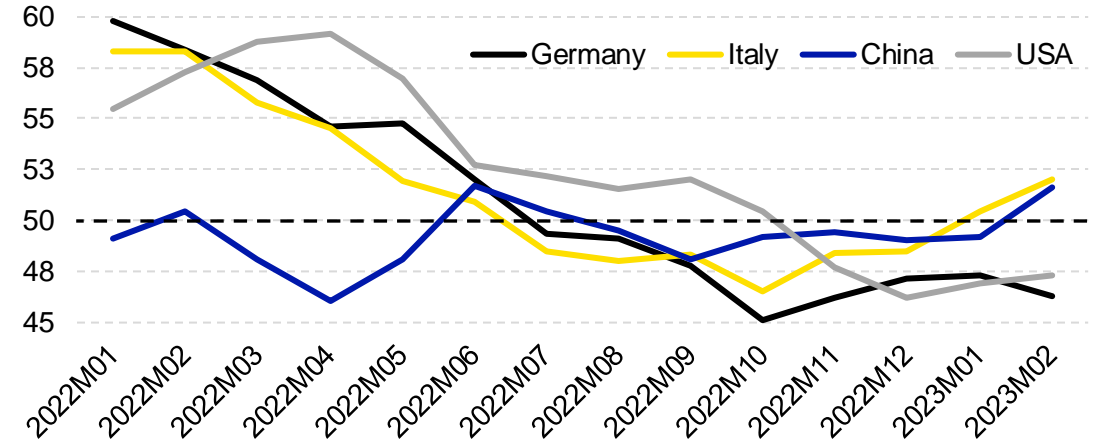
Both exports and imports are going to develop bearing some „nominal“ issues – high base inherited from 2022 and still rising prices, with inflationary environment expected further in 2023. While the base effect will tend to calm down imports and exports pace, increasing prices will have opposite effect, nominally elevating real flows.

As regards exports, we see the economic slowdown in the main trade partners as a leading driver. PMI Manufacturing for Germany is in the contracting zone, posting 46.3 in February-2023, dipping compared with December-2022 and January-2023 readings, suggesting that expectations for the manufacturing sector are deteriorating. Expectations of the manufacturers in the Adria region regarding export order-book levels are also pessimistic, posting negative yoy levels in February-2023 (except in the case of North Macedonia showing slight increase), indicating deteriorating exports outlook.

As regards imports, first we see slowing import pace tied to weaker export outlook for 2023 (as we examined strong connection in the special topic). **Second, we expect deterioration in domestic consumption all over the region** (bitten by high inflation and financing costs), decreasing demand for imports for final consumption in 2023.

Positive risks are associated with foreign investments in the region indicating further production and export potential, especially in the non-EU countries which are still in the transitional phase and have higher unemployed pools which can be engaged (at a competitive wages). Reopening of China's economy is one example of positive risk given the demand/investment potential.

PMI Manufacturing
(seasonally adjusted indices)



Source: Bloomberg

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