

# Republic of Serbia

## Rating report

### Rating rationale

**Robust medium-term growth, favourable FDI prospects, and strengthened external metrics:** Serbia's economy has demonstrated improved resilience to external shocks, bolstered by a well-established macroeconomic policy framework. The medium-term growth outlook for Serbia's small, open economy is supported by significant FDI in tradable sectors and expanded public investments in infrastructure projects. This trend facilitates continued reserve accumulation, despite structural current account deficits.

**Moderate public debt and effective fiscal policies:** Serbia's budget performance is characterised by effective budget management, combined with high capital spending. We expect structural reform progress in the state-owned entities sector, and a gradual downward debt trajectory.

**Political and governance challenges:** The EU accession negotiations for Serbia have encountered obstacles due to legislative inefficiencies and durable tensions with Kosovo. Challenges surrounding the early parliamentary elections in December 2023 underscore the necessity for further reforms in governance. However, the lithium deal with the EU signed in July 2024 should boost FDI inflows and support the overall relationship with the EU once it becomes operational.

**Rating challenges:** i) elevated external vulnerabilities due to high external debt and a prevalence of foreign currency in the financial sector, encompassing public and private debt; ii) institutional weaknesses and geopolitical complexities associated with Serbia's EU membership aspirations; and iii) uncertainties about its access to and cost of its energy security following the imposition of US sanctions on Gazprom Neft and its subsidiaries, including Serbia's NIS, majority-owned by Gazprom Neft.

### Foreign currency

Long-term issuer rating/Outlook

**BB+/Positive**

Senior unsecured debt

**BB+/Positive**

Short-term issuer rating/Outlook

**S-3/Positive**

### Local currency

Long-term issuer rating/Outlook

**BB+/Positive**

Senior unsecured debt

**BB+/Positive**

Short-term issuer rating/Outlook

**S-3/Positive**

### Lead Analyst

Jakob Suwalski

+34 919491 663

[j.suwalski@scoperatings.com](mailto:j.suwalski@scoperatings.com)

### Team Leader

Alvise Lennkh-Yunus

+49 69 6677389-85

[a.lennkh@scoperatings.com](mailto:a.lennkh@scoperatings.com)

Figure 1: Serbia's sovereign-rating drivers

Risk pillars	Quantitative		Reserve currency*	Political risk**	Qualitative***	Final rating
	Weight	Indicative rating	Notches	Notches	Notches	
Domestic economic risk	35%	bbb	RSD	Serbia	1/3	BB+
Public finance risk	20%	aa+			0	
External economic risk	10%	cc			- 1/3	
Financial stability risk	10%	aaa			- 1/3	
ESG risk	Environmental factors	5%	[+0]	[-1]	0	
	Social factors	7.5%			0	
	Governance factors	12.5%			- 1/3	
<b>Sovereign Quantitative Model</b>	<b>bbb-</b>				<b>-1</b>	
<b>Additional considerations</b>					<b>0</b>	

\*The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket.

\*\*The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index.

\*\*\*The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

### Credit strengths and challenges

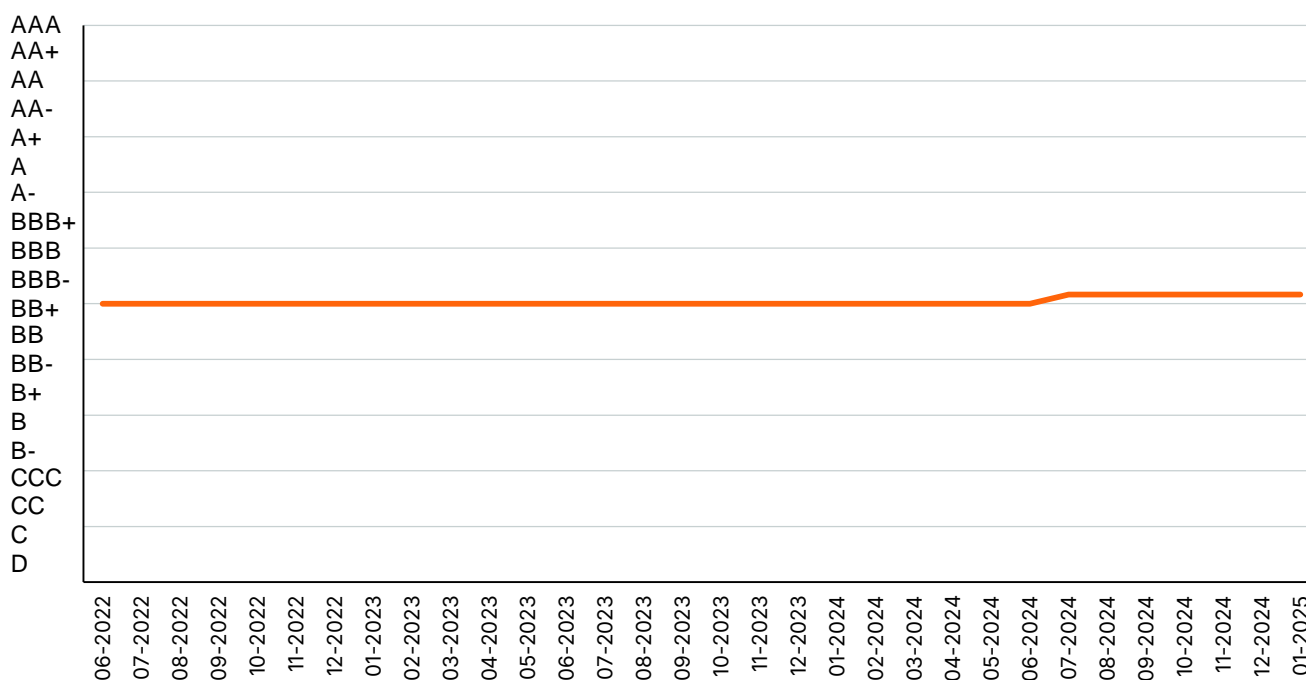
Credit strengths	Credit challenges
<ul style="list-style-type: none"> <li>Well-established macroeconomic policy framework with a good record of sustained and balanced growth rates</li> <li>Moderate public debt, effective budget management</li> </ul>	<ul style="list-style-type: none"> <li>Elevated external vulnerabilities due to high external debt and high FX share of debt</li> <li>Institutional weaknesses, slow progress on structural reforms</li> </ul>

### Outlook and rating triggers

The Positive Outlook reflects Scope’s view that risks to the ratings are skewed to the upside over the coming 12 to 18 months.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> <li>Governance and/or political risks eased, resulting in material progress towards accession to the EU</li> <li>External position further strengthened, due to robust exports or increased net FDI inflows</li> <li>Debt/GDP ratio set on a firm downward trajectory over the medium run</li> </ul>	<ul style="list-style-type: none"> <li>Governance and/or political risks increased, affecting the quality and predictability of policymaking</li> <li>Increase in external vulnerabilities, weighing on reserve adequacy</li> <li>Steady increase in debt/GDP ratio in the medium run</li> </ul>

Figure 2: Rating history



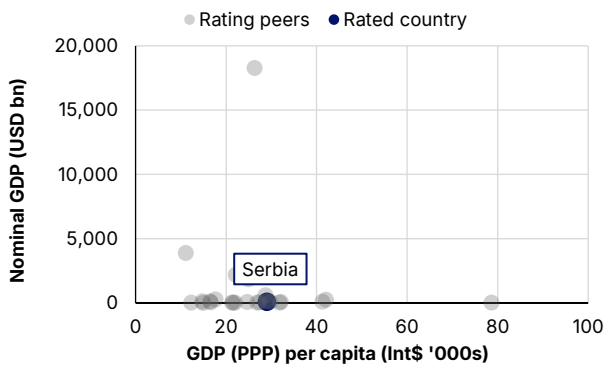
Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

## Domestic economic risk

### Overview of Scope's assessments of Serbia's Domestic Economic Risk

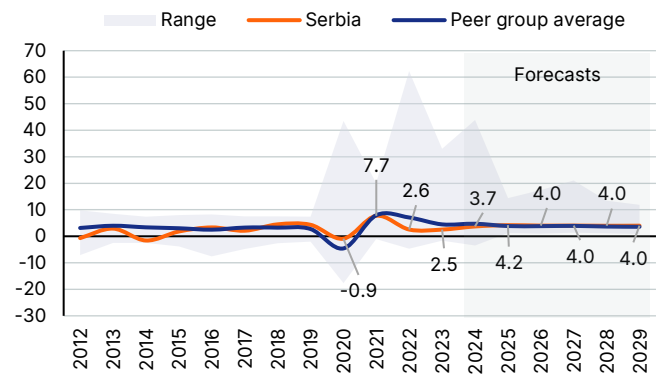
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb	Growth potential and outlook	Strong	+1/3	Solid medium-run growth potential of 4.0%, supported by steady net FDI
	Monetary policy framework	Neutral	0	Pre-crisis record of managed inflation, adequate monetary policy
	Macroeconomic stability and sustainability	Neutral	0	Improved macro-economic stability, but relatively low domestic savings

Figure 3: Nominal GDP and GDP per capita (2024E)



Source: IMF World Economic Outlook (WEO), Scope Ratings

Figure 4: Real GDP growth, %



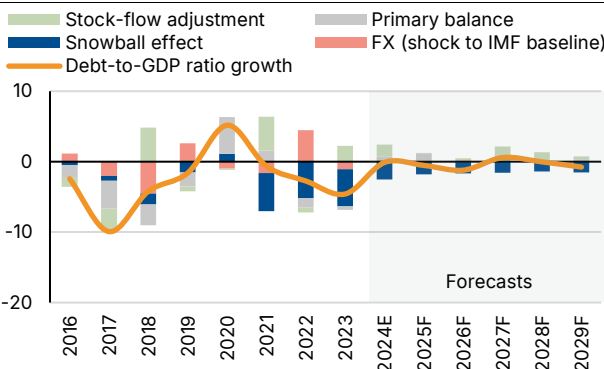
Source: IMF WEO, Scope Ratings forecasts

## Public finance risk

### Overview of Scope's assessments of Serbia's Public Finance Risk

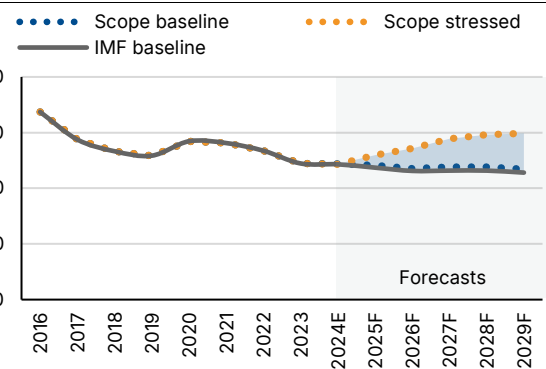
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Fiscal policy framework	Neutral	0	Pre-crisis record of fiscal prudence; development of new fiscal-rules framework and ongoing IMF policy support anchor fiscal discipline; high public investments
	Long-term debt trajectory	Neutral	0	Stable debt trajectory over medium run, but exposure to significant exchange-rate risk
	Debt profile and market access	Neutral	0	Long maturities and high share of multilateral, institutional debtholders but elevated share of FX debt

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



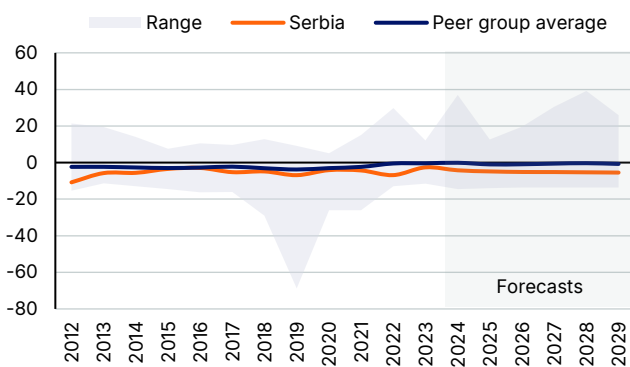
Source: IMF WEO, Scope Ratings forecasts

## External economic risk

### Overview of Scope's assessments of Serbia's External Economic Risk

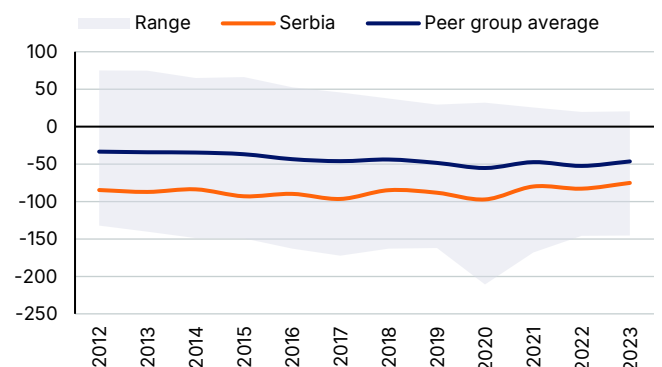
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
CC	Current account resilience	Neutral	0	High investment needs with low domestic savings
	External debt structure	Neutral	0	Current account deficits are largely financed by FDI inflows
	Resilience to short-term external shocks	Weak	-1/3	Good reserve adequacy; small, open economy

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



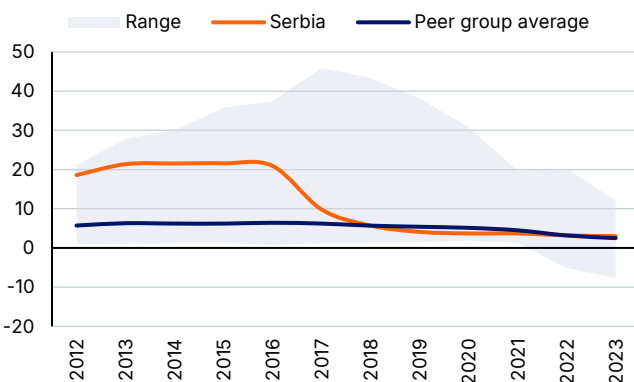
Source: IMF, Scope Ratings

## Financial stability risk

### Overview of Scope's assessments of Serbia's Financial Stability Risk

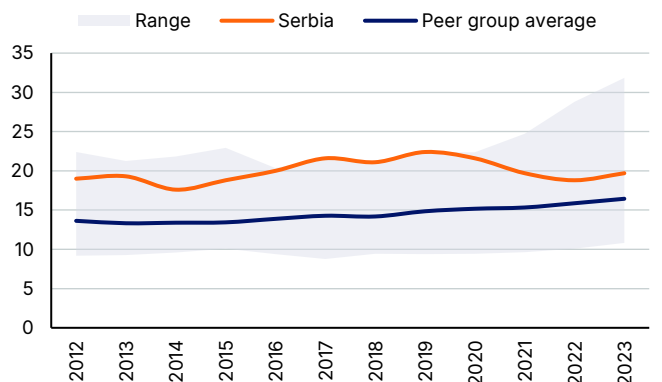
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Mostly foreign-owned, well-capitalised and liquid banking sector; low contingent liability risk to the sovereign balance sheet
	Financial sector oversight and governance	Neutral	0	Conservative banking framework, macroprudential tools framework regarded as 'equivalent' to the EU one
	Financial imbalances	Weak	-1/3	High euroization of deposits and loans (at around 50% of the total) represents a financial stability concern

Figure 9: NPLs, % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



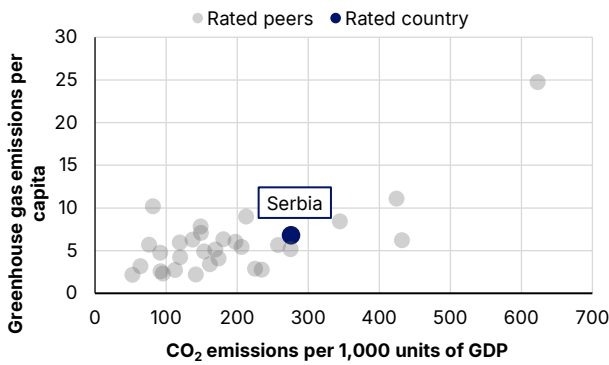
Source: IMF, Scope Ratings

## Environmental, Social and Governance (ESG) risk

### Overview of Scope's assessments of Serbia's ESG Risk

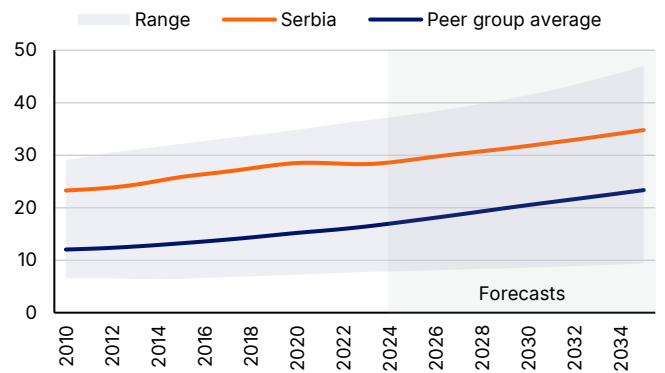
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b+	Environmental factors	Neutral	0	Increasing reliance on renewable energy sources; still elevated energy reliance on coal
	Social factors	Neutral	0	An ageing population and elevated youth unemployment constrain labour supply
	Governance factors	Weak	-1/3	Serbia advances slowly EU accession reforms; lack of tangible progress towards a sustainable settlement with Kosovo

Figure 11: CO<sub>2</sub> emissions per GDP, mtCO<sub>2</sub>e (2023)



Source: European Commission (EC), CEIC, Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

## Reserve-currency adjustment

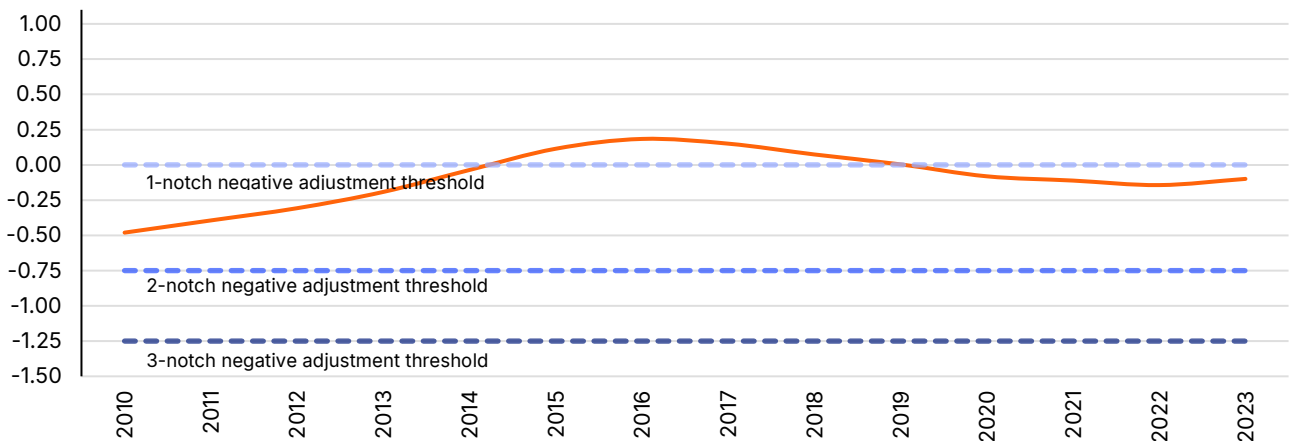
### IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

## Political-risk adjustment

Figure 13: WB Political Stability & Absence of Violence/Terrorism index, Serbia, three-year moving average



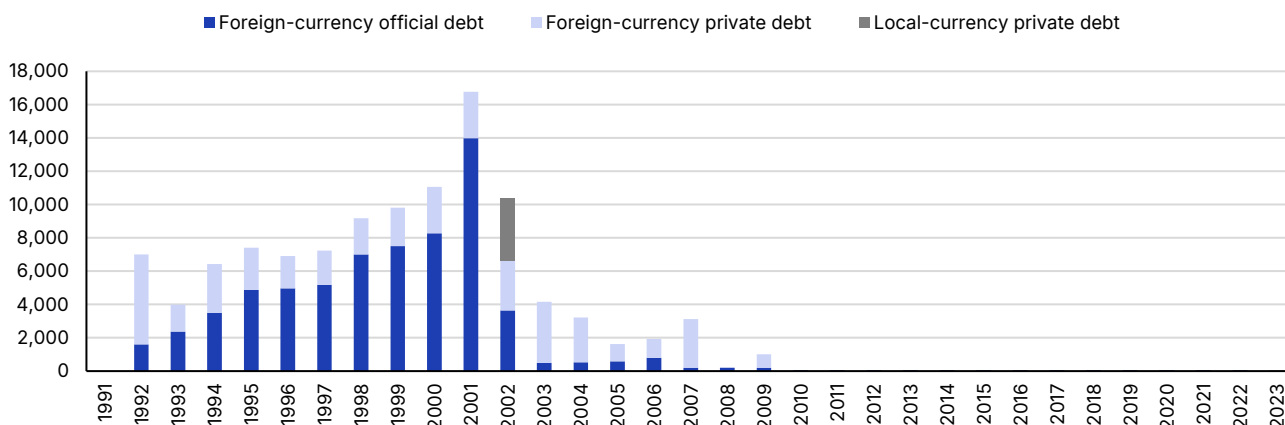
Source: WB, Scope Ratings

### Additional considerations

No adjustment was applied to the rating from additional considerations.

## Appendix 1. Sovereign default history

Sovereign default history, USD m



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).  
 Source: [Bank of Canada-Bank of England Sovereign Default Database](#), Scope Ratings.

## Appendix 2. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
China
Georgia
Greece
Turkey

\*Select publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

## Appendix 3. Economic development and default indicators

IMF Development Classification

Emerging market and developing economy

5y USD CDS spread (bps) as of 15 January 2025

172

#### Appendix 4. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2019	2020	2021	2022	2023	2024E
Domestic Economic	GDP per capita (PPP), Int\$ '000s	IMF	19.7	20.1	22.6	25.4	27.2	29.0
	Nominal GDP, USD bn	IMF	52	53	63	64	75	83
	Real growth, %	IMF	4.3	-0.9	7.7	2.6	2.5	3.9
	CPI inflation, %	IMF	1.8	1.6	4.1	12.0	12.4	4.5
	Unemployment rate, %	WB	10.4	9.0	10.1	8.7	8.7	-
Public Finance	Public debt, % of GDP	IMF	51.7	56.9	56.2	53.5	48.9	48.6
	Net interest payment, % of government revenue	IMF	4.8	4.9	4.0	3.5	4.3	4.5
	Primary balance, % of GDP	IMF	2.0	-5.2	-1.6	1.4	0.5	-0.6
External Economic	Current-account balance, % of GDP	IMF	-6.9	-4.1	-4.3	-6.9	-2.6	-4.2
	Total reserves, months of imports	WB	5.2	6.1	5.3	4.8	-	-
	NIIP, % of GDP	IMF	-88.3	-97.2	-79.9	-82.9	-	-
Financial Stability	NPL ratio, % of total loans	IMF	4.1	3.7	3.7	3.2	3.0	-
	Tier 1 ratio, % of risk-weighted assets	IMF	21.1	21.9	21.4	18.9	19.2	19.7
	Credit to the private sector, % of GDP	WB	42.0	45.5	43.4	40.3	35.8	-
ESG	CO <sub>2</sub> per EUR 1,000 of GDP, mtCO <sub>2</sub> e	EC	300.8	297.5	283.9	280.9	275.7	-
	Income share of bottom 50%, %	WID	17.1	16.9	18.2	18.1	-	-
	Labour-force participation rate, %	WB	68.4	68.0	72.0	73.2	-	-
	Old-age dependency ratio, %	UN	28.1	28.5	28.5	28.4	28.3	28.6
	Composite governance indicators*	WB	-0.1	-0.1	-0.1	-0.1	-0.1	-
	Political stability, index	WB	0.0	-0.1	-0.1	-0.1	-0.1	-

\*Average of the following five World Bank Worldwide Governance Indicators: Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality.

**Analyst**

Jakob Suwalski  
+34 919491 663  
[j.suwalski@scoperatings.com](mailto:j.suwalski@scoperatings.com)

**Associate Analyst**

Elena Klare  
+49 69 6677389-21  
[e.klare@scoperatings.com](mailto:e.klare@scoperatings.com)

**Team Leader**

Alvise Lennkh-Yunus  
+49 69 6677389-85  
[a.lennkh@scoperatings.com](mailto:a.lennkh@scoperatings.com)

**Applied methodologies**

[Sovereign Rating Methodology](#), January 2024

**Scope Ratings GmbH**

Lennéstraße 5, D-10785 Berlin  
Phone: +49 30 27891-0  
Fax: +49 30 27891-100  
[info@scoperatings.com](mailto:info@scoperatings.com)



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[Scope contacts](#)  
[scoperatings.com](https://scoperatings.com)

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