

Republic of Serbia

Rating Report



Credit strengths

- Well-established macroeconomic policy framework with a good record of sustained and balanced growth rates
- Robust long-term growth outlook
- Moderate public debt, sound fiscal policy

Credit challenges

- Structural current account deficit, high net external debt
- High FX share of public and private debt
- Institutional weaknesses, slow progress on structural reform

Rating rationale:

Solid long-term growth prospects: Serbia's economy has demonstrated improved resilience, bolstered by a credible macroeconomic policy framework. The long-term growth outlook for Serbia's small, open economy is supported by significant FDI and expanded public investments in infrastructure projects.

Moderate public debt and sound fiscal policies: Serbia's budget performance is supported by effective fiscal policies and characterised by pre-pandemic budget surpluses, concurrent with growing public investment.

Rating challenges include: i) a structural current account deficit and substantial external debt; ii) a prevalence of foreign currency within the financial sector, encompassing public and private debt; and iii) Institutional weaknesses in terms of governance metrics (as measured by the World Bank), alongside complexities associated with Serbia's EU membership aspirations.

Serbia's sovereign-rating drivers

Risk pillars	Quantitative		Reserve currency	Qualitative*	Final rating	
	Weight	Indicative rating	Notches	Notches		
Domestic Economic Risk	35%	bb-	RSD [+0]	0	BB+	
Public Finance Risk	20%	aaa		0		
External Economic Risk	10%	cc		-1/3		
Financial Stability Risk	10%	aaa		-1/3		
ESG Risk	Environmental Factors	5%		aa-		-1/3
	Social Factors	7.5%		bb		0
	Governance Factors	12.5%		cc		-1/3
Indicative outcome	bbb-		-1			
Additional considerations			0			

Note: *The reserve-currency adjustment applies to currencies in the IMF's SDR basket. **The qualitative-scorecard 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.

Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced over the next 12-18 months.

Positive rating-change drivers

- Debt/GDP ratio set on a firm downward trajectory over the medium run
- Substantive curtailment of external risks
- More durable resolution of institutional weaknesses and improvement in government capacity to reform

Negative rating-change drivers

- Steady increase in debt/GDP ratio in the medium run
- Increase in external vulnerabilities weighing on reserve adequacy
- External shock or sustained geopolitical risk undermining macro-financial stability

Ratings and Outlook

Foreign currency

Long-term issuer rating	BB+/Stable
Senior unsecured debt	BB+/Stable
Short-term issuer rating	S-3/Stable

Local currency

Long-term issuer rating	BB+/Stable
Senior unsecured debt	BB+/Stable
Short-term issuer rating	S-3/Stable

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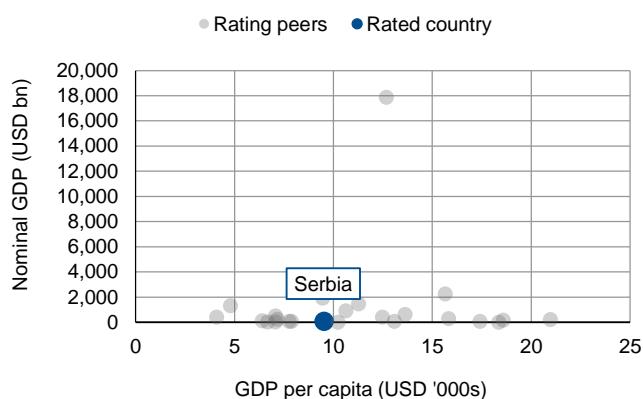
Bloomberg: RESP SCOP

Domestic Economic Risk

Overview of Scope's qualitative assessments for Serbia's *Domestic Economic Risk*

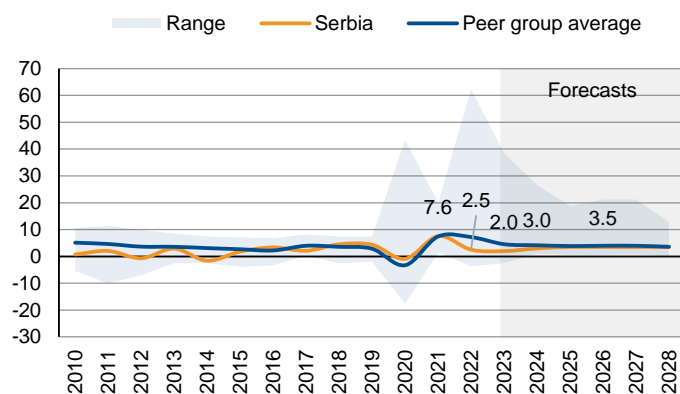
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb-	Growth potential of the economy	Neutral	0	Solid medium-run growth potential of 4.0%, supported by steady net FDI
	Monetary policy framework	Neutral	0	Pre-crisis record of managed inflation, adequate monetary policy
	Macro-economic stability and sustainability	Neutral	0	Improved macro-economic stability, but relatively low domestic savings

Nominal GDP and GDP per capita



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

Real GDP growth, %



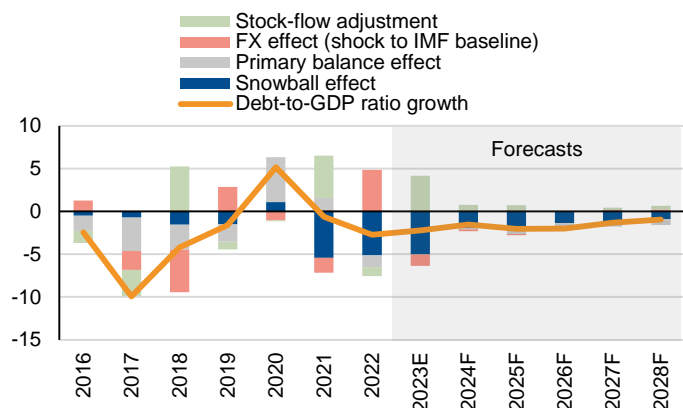
Source: IMF WEO, Scope Ratings forecasts

Public Finance Risk

Overview of Scope's qualitative assessments for Serbia's *Public Finance Risk*

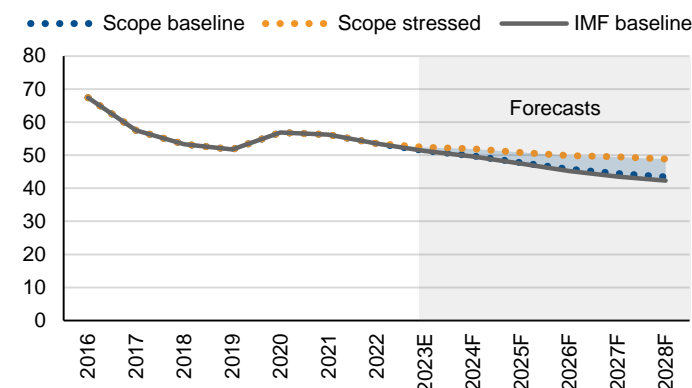
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Fiscal policy framework	Neutral	0	Pre-crisis record of fiscal prudence; development of new fiscal-rules framework and ongoing IMF policy support anchor fiscal discipline
	Debt sustainability	Neutral	0	Gradual decline in debt over medium run, but debt trajectory exposed to significant exchange-rate risk
	Debt profile and market access	Neutral	0	Improved market access; relatively long maturities and high share of multilateral, institutional debtholders but elevated share of FX debt

Contributions to changes in debt levels, pp of GDP



Source: IMF WEO, Scope Ratings forecasts

Debt-to-GDP forecasts, % of GDP



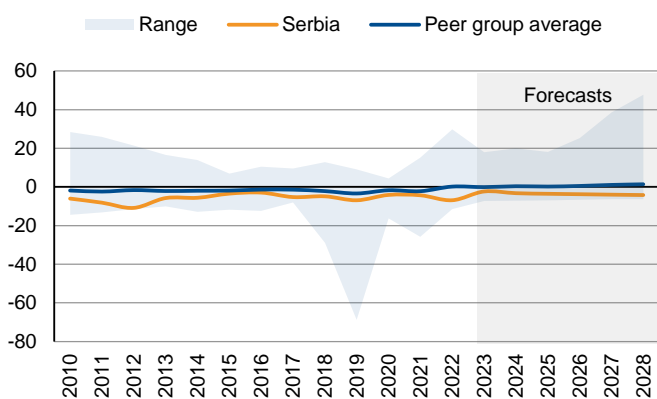
Source: IMF WEO, Scope Ratings forecasts

External Economic Risk

Overview of Scope's qualitative assessments for Serbia's *External Economic Risk*

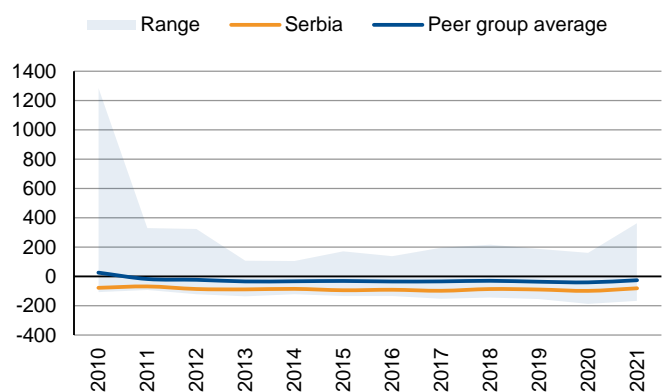
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
cc	Current account resilience	Weak	-1/3	Wide structural current account deficits due to high investment needs with relatively low domestic savings
	External debt structure	Neutral	0	Current account deficits are largely financed by FDI inflows; decreasing risk of money flight during times of global market distress
	Resilience to short-term external shocks	Neutral	0	Good reserve adequacy

Current-account balance, % of GDP



Source: IMF WEO, Scope Ratings

Net international investment position (NIIP), % of GDP



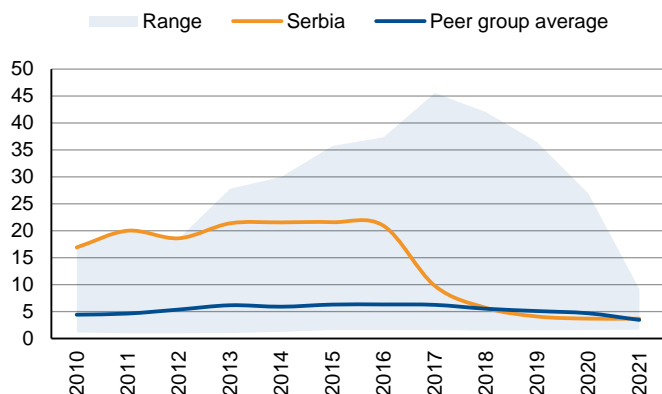
Source: IMF, Scope Ratings

Financial Stability Risk

Overview of Scope's qualitative assessments for Serbia's *Financial Stability Risk*

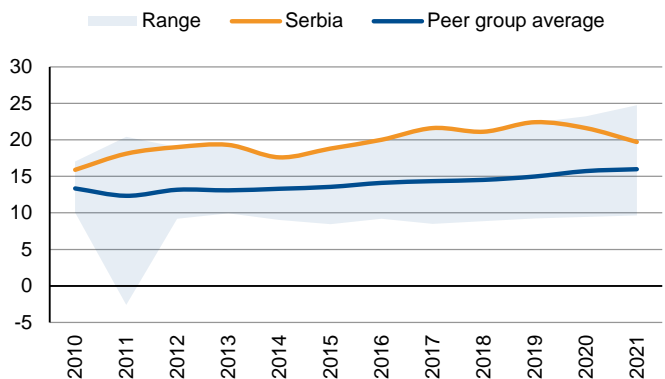
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Mostly foreign-owned, well-capitalised and liquid banking sector; low contingent liability risk to the sovereign balance sheet
	Banking sector oversight	Neutral	0	Conservative banking framework supports overall stability in the system, 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

Non-performing loans (NPLs), % of total loans



Source: World Bank, Scope Ratings

Tier 1 capital, % of risk-weighted assets



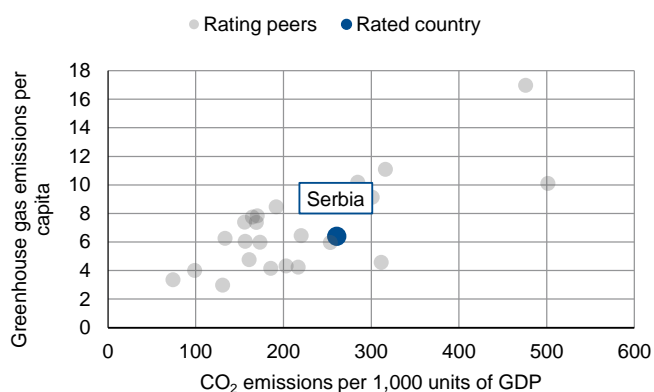
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) Risk

Overview of Scope's qualitative assessments for Serbia's ESG Risk

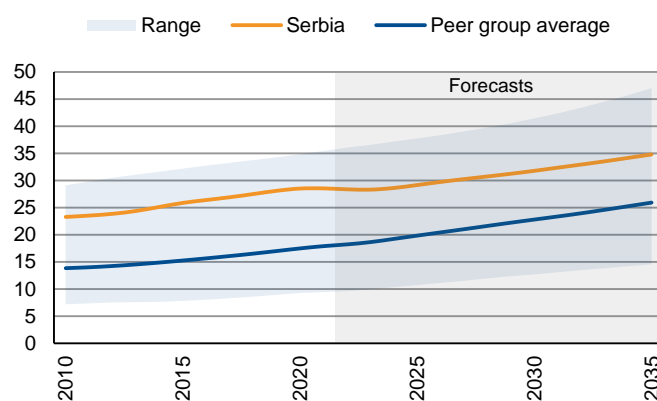
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b	Environmental factors	Weak	-1/3	Diversification of energy sources via EU funding and green issuances, but elevated energy reliance on coal
	Social factors	Neutral	0	An ageing population and emigration constrain labour supply; elevated youth unemployment rate
	Governance factors	Weak	-1/3	Lack of tangible progress towards a sustainable settlement with Kosovo

CO₂ emissions per GDP, mtCO₂e



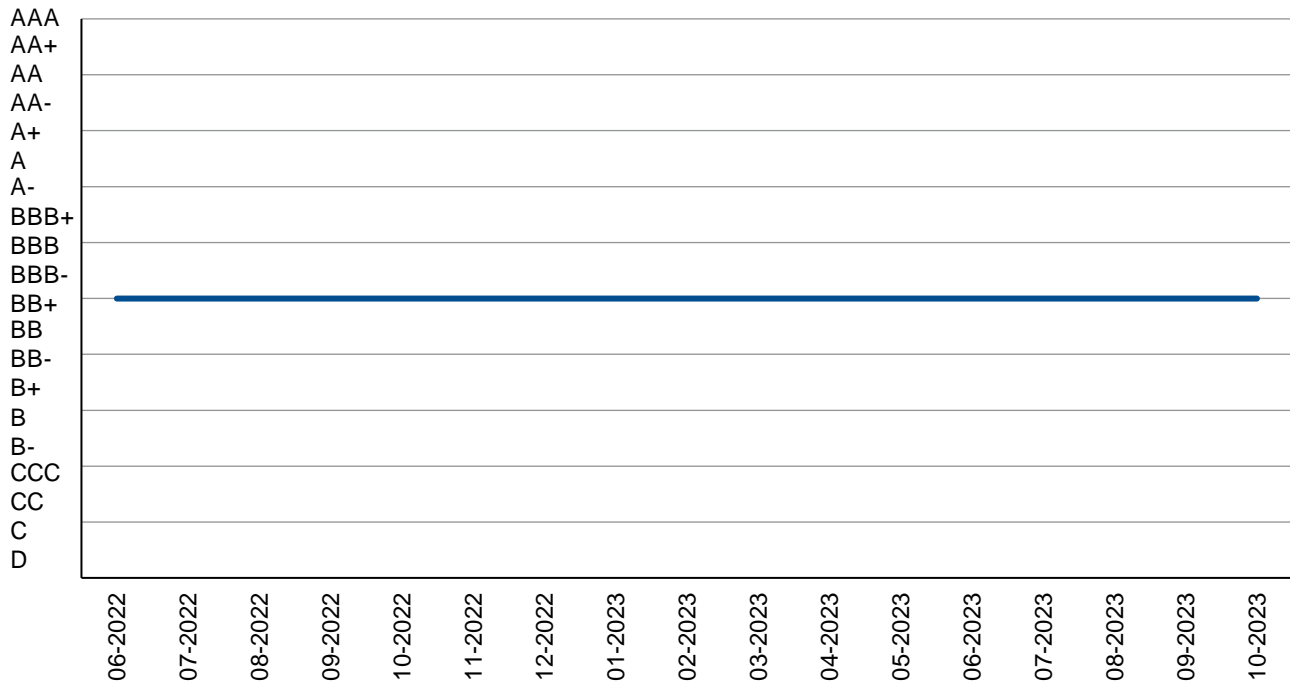
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

Appendix I. Rating history (foreign-currency long-term issuer rating)



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

Appendix II. 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 core variable scorecard after accounting for a methodological reserve-currency adjustment.

Peer group*
China
Georgia
Greece
Hungary
Romania
Turkey

Publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the core variable scorecard, 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	2018	2019	2020	2021	2022
Domestic Economic	GDP per capita, USD '000s	IMF	7.3	7.4	7.7	9.2	9.5
	Nominal GDP, USD bn	IMF	50.6	51.5	53.4	62.8	63.5
	Real growth, %	IMF	4.5	4.3	-0.9	7.6	2.3
	CPI inflation, %	IMF	2.0	1.8	1.6	4.1	12.0
	Unemployment rate, %	WB	12.7	10.4	9.0	10.1	9.5
Public Finance	Public debt, % of GDP	IMF	53.3	51.7	56.9	56.3	53.5
	Net interest payment, % of revenue	IMF	5.2	4.8	4.9	4.0	3.5
	Primary balance, % of GDP	IMF	3.0	2.0	-5.2	-1.6	1.4
External Economic	Current-account balance, % of GDP	IMF	-4.8	-6.9	-4.1	-4.3	-6.9
	Total reserves, months of imports	WB	4.7	5.2	6.1	5.3	4.8
	NIIP, % of GDP	IMF	-84.9	-88.3	-97.2	-79.9	-82.4
Financial Stability	NPL ratio, % of total loans	IMF	5.7	4.1	3.7	3.7	3.2
	Tier 1 ratio, % of risk-weighted assets	IMF	21.8	21.1	21.9	21.4	18.9
	Credit to the private sector, % of GDP	WB	41.4	42.0	45.5	43.5	40.4
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	365.1	355.4	346.2	261.0	-
	Income share of bottom 50%, %	WID	17.2	17.1	16.9	16.9	-
	Labour-force participation rate, %	WB	68.2	68.4	68.0	70.0	-
	Old-age dependency ratio, %	UN	27.5	28.1	28.5	28.5	28.4
	Composite governance indicators*	WB	-0.1	-0.1	-0.1	-0.1	-0.1

* Average of the six World Bank Worldwide Governance Indicators.

Appendix IV. Economic development and default indicators

IMF Development Classification

5y USD CDS spread (bps) as of 25 October 2023

Emerging market and developing economy

250



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