

Republic of Serbia

Rating report

Rating rationale

Robust medium-term growth prospects and good record of sustained and balanced growth: Serbia's economy has demonstrated improved resilience, bolstered by a well-established macroeconomic policy framework. The medium-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. We expect primary surpluses and a declining debt trajectory.

Political and governance challenges: The EU accession negotiations for Serbia have encountered obstacles due to reluctance to impose sanctions on Russia and persistent tensions with Kosovo. Challenges surrounding the early parliamentary and municipal elections in November 2023 underscore the necessity for tangible improvements and further reforms, particularly in governance aspects, to advance the accession process.

Rating challenges: i) elevated external vulnerabilities due to a structural current account deficit, high external debt, and a prevalence of foreign currency in the financial sector, encompassing public and private debt; and ii) institutional weaknesses and geopolitical complexities associated with Serbia's EU membership aspirations.

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%	bb+	RSD	Serbia	0	BB+
Public finance risk		20%	aaa			1/3	
External economic risk		10%	cc			0	
Financial stability risk		10%	aaa			- 1/3	
ESG risk	Environmental factors	5%	b	[+0]	[-1]	0	
	Social factors	7.5%	b+			0	
	Governance factors	12.5%	b+			0	
Sovereign Quantitative Model		bb+			0		
Additional considerations					0		

*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.

Foreign currency

Long-term issuer rating/Outlook

BB+/Stable

Senior unsecured debt

BB+/Stable

Short-term issuer rating/Outlook

S-3/Stable

Local currency

Long-term issuer rating/Outlook

BB+/Stable

Senior unsecured debt

BB+/Stable

Short-term issuer rating/Outlook

S-3/Stable

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Credit strengths and challenges

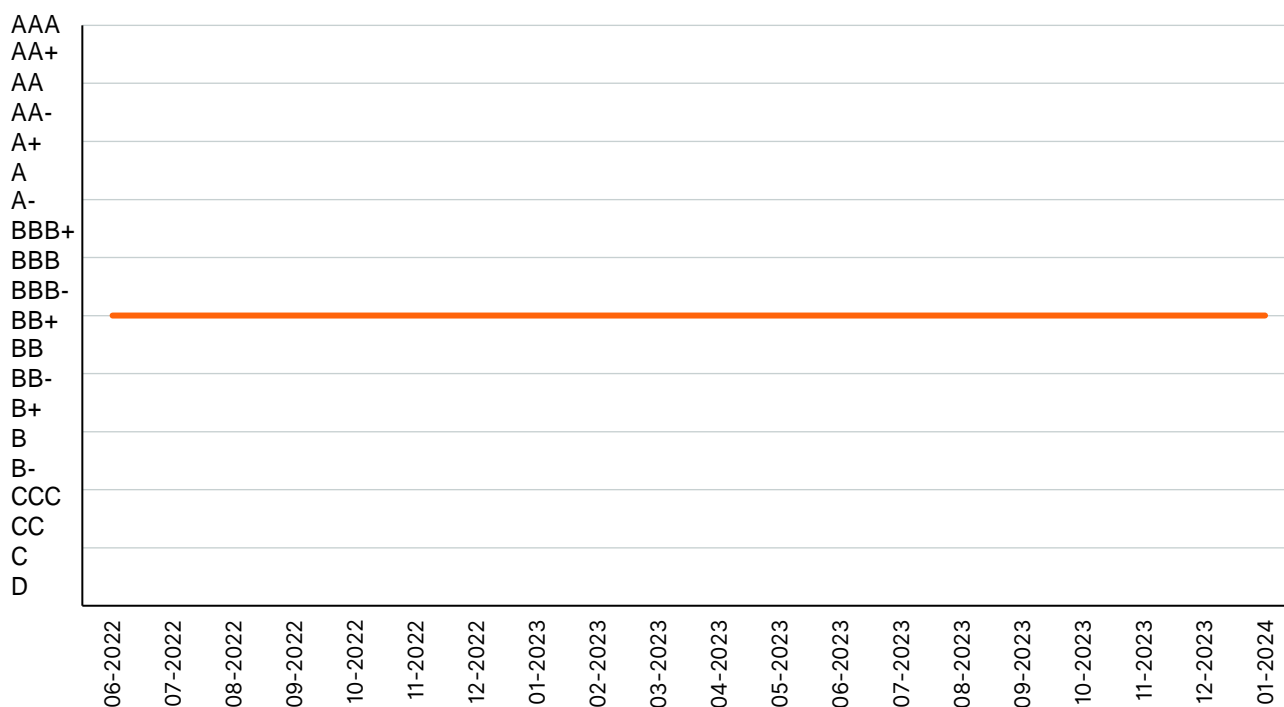
Credit strengths	Credit challenges
<ul style="list-style-type: none"> Well-established macroeconomic policy framework with a good record of sustained and balanced growth rates Moderate public debt, sound fiscal policy 	<ul style="list-style-type: none"> Elevated external vulnerabilities due to a structural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

Outlook and rating triggers

The Stable Outlook reflects Scope’s view that risks to the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> Debt/GDP ratio set on a firm downward trajectory over the medium-run Medium-term growth prospects materially improved, supported by strengthened external metrics Governance and/or political risks eased, resulting in material progress towards accession to the EU 	<ul style="list-style-type: none"> Steady increase in debt/GDP ratio in the medium-run Increase in external vulnerabilities weighing on reserve adequacy Governance and/or political risks increased, affecting the quality and predictability of policymaking

Figure 2: Rating history¹



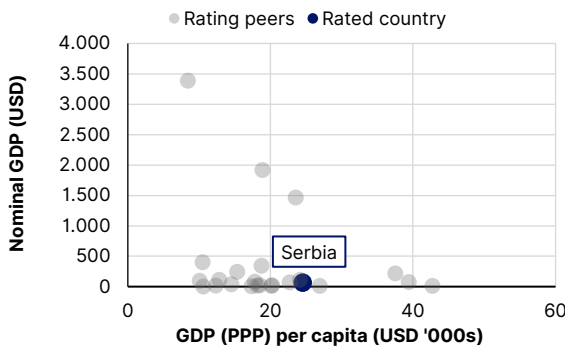
¹Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

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

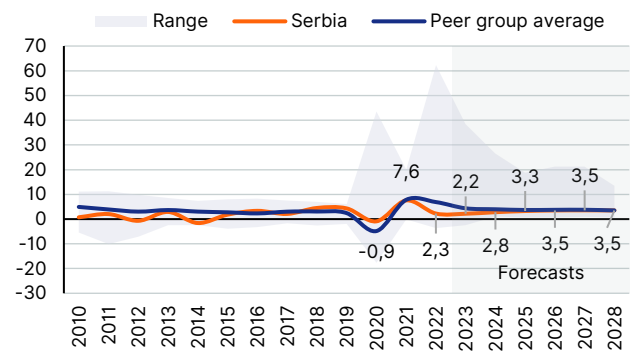
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb+	Growth potential and outlook	Neutral	0	Solid medium-run growth potential of 4.0%
	Monetary policy framework	Neutral	0	Pre-crisis record of managed inflation, adequate monetary policy
	Macro-economic stability and sustainability	Neutral	0	Improved macro-economic stability, supported by steady investment

Figure 3: Nominal GDP and GDP per capita



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

Figure 4: Real GDP growth, %



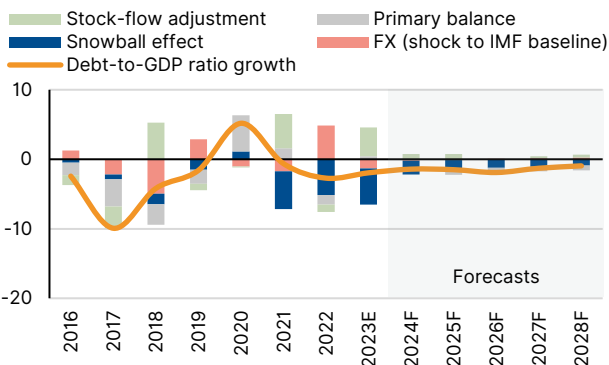
Source: IMF WEO, Scope Ratings forecasts

Public Finance Risk

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

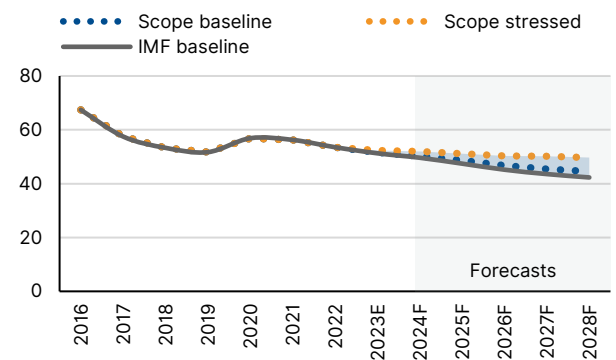
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Fiscal policy framework	Strong	+1/3	Pre-crisis record of fiscal prudence, development of new fiscal-rules framework and IMF policy support anchor fiscal discipline; high public investments
	Long-term debt trajectory	Neutral	0	Gradual decline in debt over medium run; debt-to-GDP trajectory exposed to significant exchange-rate risk
	Debt profile and market access	Neutral	0	Long maturities and high share of multilateral, institutional debtholders; 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

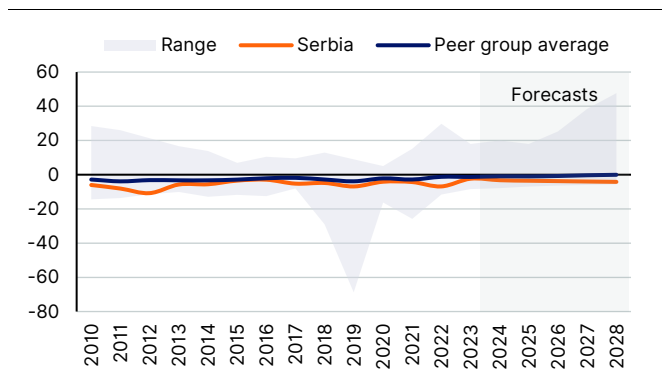
*Sovereign Quantitative Model.

External economic risk

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

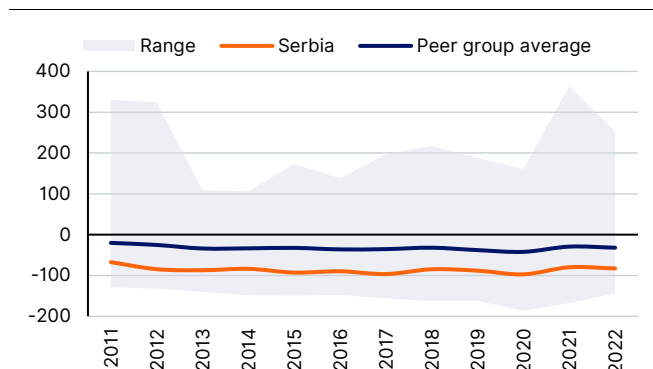
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
CC	Current account resilience	Neutral	0	High investment needs with low domestic savings
	External debt structure	Neutral	0	Current account deficits are largely financed by FDI inflows
	Resilience to short-term external shocks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

Figure 7: Current-account balance, % of GDP



Source: IMF WEO, Scope Ratings

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



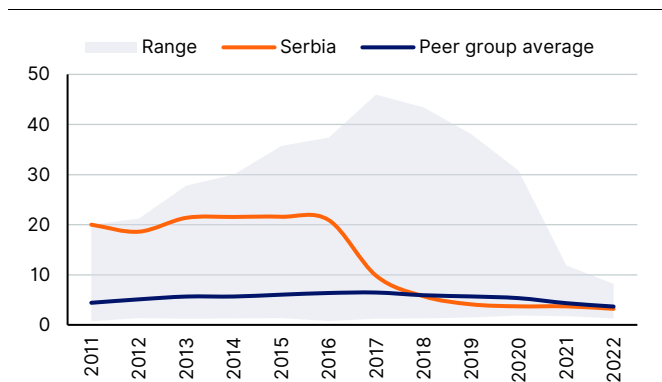
Source: IMF, Scope Ratings

Financial stability risk

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

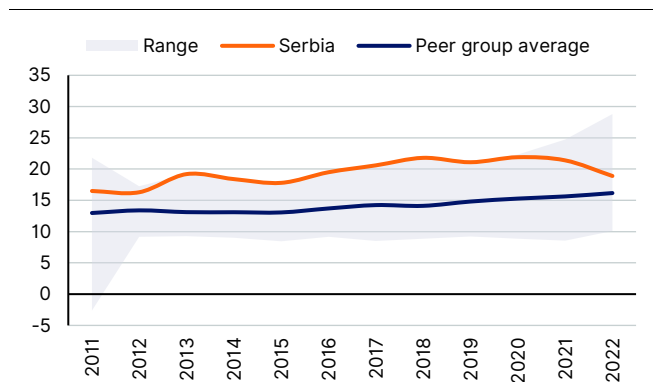
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Mostly foreign-owned, well-capitalised and liquid banking sector; low contingent liability risk to the sovereign balance sheet
	Financial sector oversight and governance	Neutral	0	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: Non-performing loans, % of total loans



Source: World Bank (WB), Scope Ratings

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



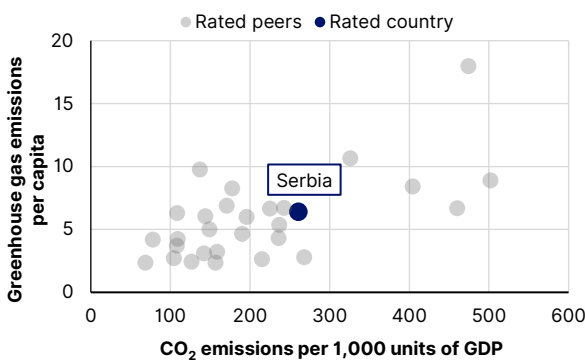
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

Overview of Scope's assessments of Serbia's ESG risk

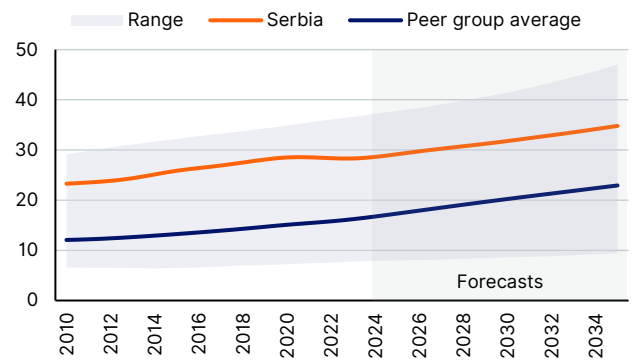
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b+	Environmental factors	Neutral	0	Increasing reliance on renewable energy sources; still elevated energy reliance on coal
	Social factors	Neutral	0	An ageing population and elevated youth unemployment constrain labour supply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

Figure 11: CO₂ emissions per GDP, mtCO₂e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

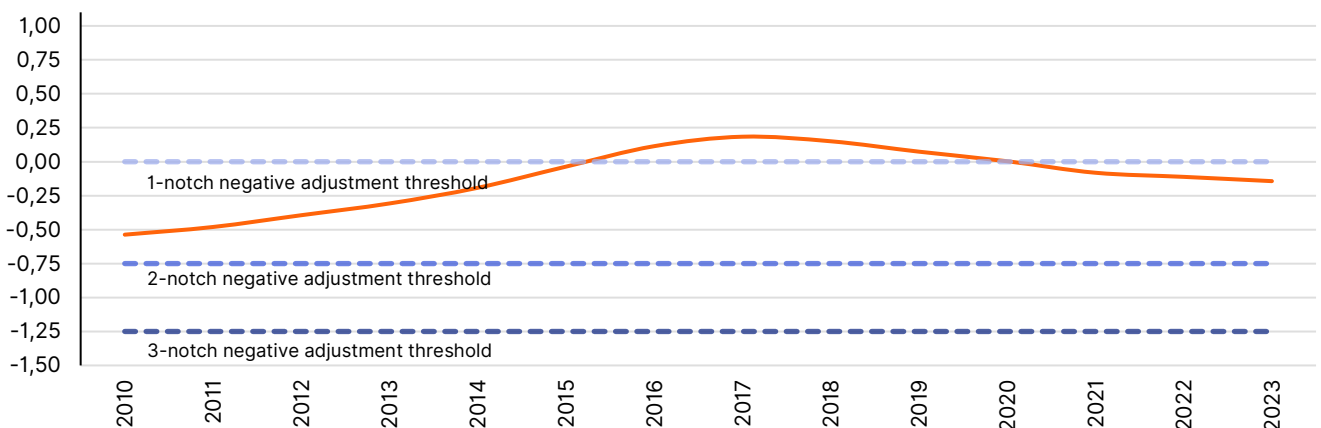
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

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 14: WB Political Stability & Absence of Violence/Terrorism index, Serbia, 3-year moving average



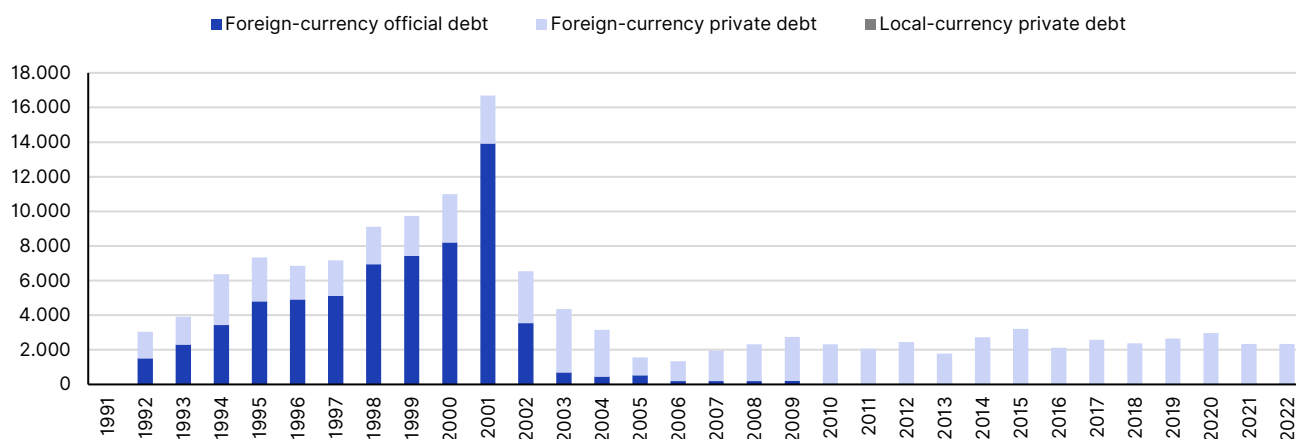
Source: WB, Scope Ratings

Additional considerations

No adjustment was applied to the rating from additional considerations.

Appendix I. Sovereign default history

Figure 15: 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 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 sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Georgia
Greece
South Africa
Turkey

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

Appendix III. Economic development and default indicators

IMF Development Classification	Emerging market and developing economy
5y USD CDS spread (bp) as of 26 January 2024	207

Appendix IV. 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	2018	2019	2020	2021	2022	2023E
Domestic Economic	GDP per capita (PPP), USD '000s	IMF	17.9	19.1	19.3	21.9	24.6	26.1
	Nominal GDP, USD bn	IMF	51	52	53	63	64	75
	Real growth, %	IMF	4.5	4.3	-0.9	7.6	2.3	2.0
	CPI inflation, %	IMF	2.0	1.8	1.6	4.1	12.0	12.4
	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	51.3
	Net interest payments, % of government revenue	IMF	5.2	4.8	4.9	4.0	3.5	4.2
	Primary balance, % of GDP	IMF	3.0	2.0	-5.2	-1.6	1.4	0.0
External Economic	Current-account balance, % of GDP	IMF	-4.8	-6.9	-4.1	-4.3	-6.9	-2.3
	Total reserves, months of imports	IMF	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	CO₂ per EUR 1,000 of GDP, mtCO₂e	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	28.3
	Composite governance indicators*	WB	-0.1	-0.1	-0.1	-0.1	-0.1	-
	Political stability, index	WB	0.0	-0.1	-0.2	-0.1	-0.2	-

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

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