

Growth picks up but challenges remain

General Information



GDP	USD43.9bn (World ranking 90, World Bank 2014)
Population	7.1mn (World ranking 101, World Bank 2014)
Form of state	Republic
Head of government	Aleksandar VUCIC (prime minister)
Next elections	2017, presidential



Strengths

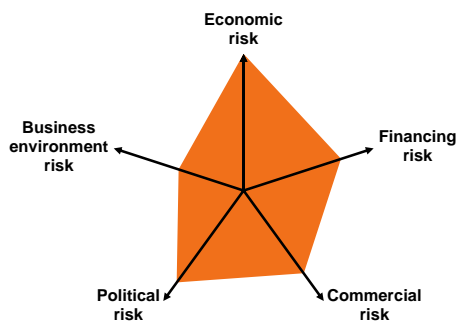
- Currently comfortable foreign exchange reserves
- Adequate business environment

Weaknesses

- High systemic political risks: history of government instability and weak policymaking; unresolved Kosovo conflict
- Poor economic policy track record
- Weak public finances
- Exchange rate volatility and vulnerability to shocks
- Ongoing large current account deficits
- High external debt burden

Country Rating

D3



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
Germany	12% 1	11% Russian Federation
Italy	11% 2	11% Germany
Bosnia and Herzegovina	10% 3	10% Italy
Romania	8% 4	7% China
Russian Federation	8% 5	5% Hungary

By product (% of total)

Exports	Rank	Imports
Cereals and cereal preparations	7% 1	10% Petroleum & petroleum products
Electrical machinery & appliances	7% 2	6% Road vehicles
Non-ferrous metals	6% 3	6% Gas, natural and manufactured
Road vehicles	5% 4	4% Electrical machinery & appliances
Vegetables and fruits	5% 5	4% Medicinal, pharmaceutical products

Source: Unctad



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Economic Overview

Moderate recovery to continue in 2016-2017

Serbia's economy is vulnerable to natural disasters. In 2014, it entered its third recession in six years. Real GDP contracted by -1.8% as a result of severe floods in May 2014 that decimated both industrial and agricultural output and exports.

A modest recovery started in Q2 2015 and the economy grew by +0.7% in 2015 as a whole, driven by a rebound in exports which increased by +7.8%, outpacing imports at +5.5%, and fixed investment which was up by +8.2% on the back of post-flooding reconstruction efforts. Private consumption continued to shrink by -0.6%, however, held back by cuts in pensions and public-sector wages which are part of austerity measures required by a 36-month IMF lending agreement from February 2015. Public spending fell as well by -1.2% in 2015.

In Q1 2016, real GDP growth accelerated to +3.5% y/y, according to a preliminary estimate, driven by strong increases in investment and exports and a modest recovery of consumer spending, though base effects also played a role. Euler Hermes forecasts full-year GDP growth of +2.2% in 2016 and +2% in 2017. Natural disasters continue to pose a downside risk.

Currency risk remains on the cards amid weak macroeconomic fundamentals

The RSD has weakened steadily since the onset of the 2008-2009 global financial crisis and the subsequent domestic triple-dip recession. Although the RSD has stabilised in the first months of 2016, Euler Hermes expects occasional downward pressure on it to continue. Any domestic or global bad news could lead to another relatively sharp drop in the exchange rate.

Public finances will remain weak despite austerity measures that have helped to reduce the annual fiscal deficit to a still elevated -3.8% of GDP in 2015. The forecast is -4% in 2016. Public debt has rapidly increased from a low of 32% of GDP in 2008 and will probably reach 80% of GDP in 2016.

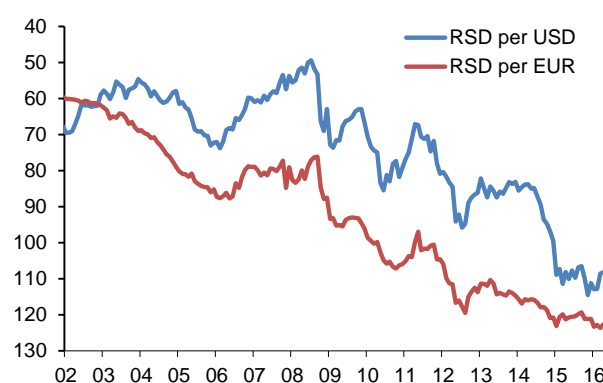
The current account deficit came in at -4.8% of GDP in 2015 and is forecast to remain at worrisome levels of around -4.5% of GDP in 2016-2017. Gross external debt remains large in relation to GDP (around 80%) or annual export earnings (above 180%). The annual debt service on medium- and long-term debt is forecast at a relatively high 28% of export earnings in 2016. Foreign exchange reserves have broadly moved sideward since 2010 but fell to a 7-year low of EUR8.9bn in March 2016. Nonetheless, they are still comfortable with regard to import cover (currently about 5.5 months, though down from over 6 months a year ago).

Key economic forecasts

	2014	2015	2016f	2017f
GDP growth (% change)	-1.8	0.7	2.2	2.0
Inflation (% end-year)	1.7	1.5	2.5	3.0
Fiscal balance (% of GDP)	-6.6	-3.8	-4.0	-4.0
Public debt (% of GDP)	70.4	75.6	80.0	82.0
Current account (% of GDP)	-6.0	-4.8	-4.5	-4.3
External debt (% of GDP)	79.7	80.5	80.8	81.0

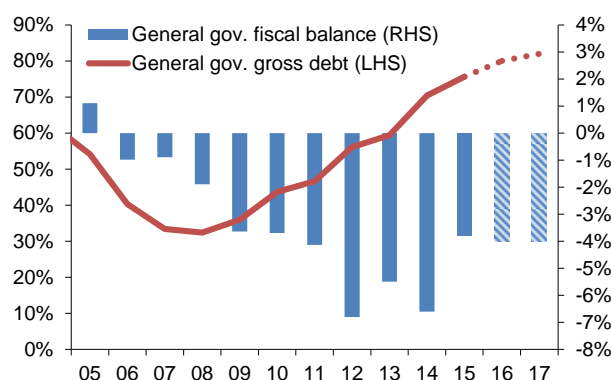
Sources: National sources, IHS, Euler Hermes

Exchange rates



Sources: National Bank of Serbia, Euler Hermes

Public finances (% of GDP)



Sources: IMF, Eurostat, Euler Hermes

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