

## Growth picks up but challenges remain

### General Information



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



### Strengths

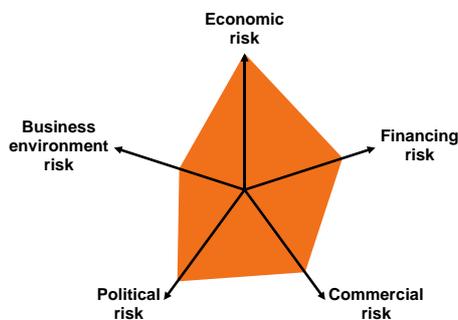
- Currently comfortable foreign exchange reserves
- Adequate business environment

### 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.

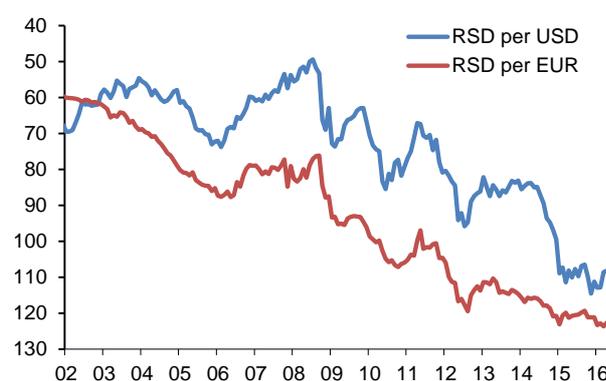
The current account deficit came in at -4.8% of GDP in 2015 and is forecast to remain at worrisome levels of around -4.5% of GDP in 2016-2017. Gross external debt remains large in relation to GDP (around 80%) or annual export earnings (above 180%). The annual debt service on medium- and long-term debt 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  |

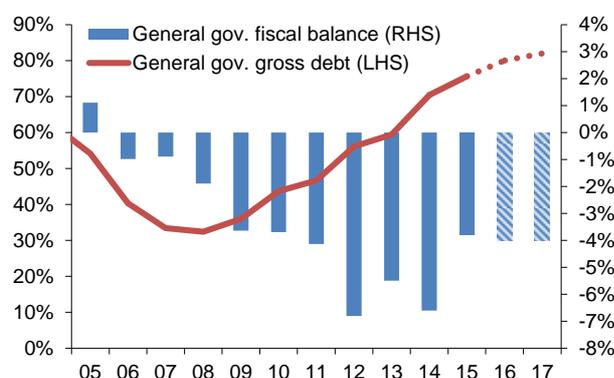
Sources: National sources, IHS, Euler Hermes

### Exchange rates



Sources: National Bank of Serbia, Euler Hermes

### Public finances (% of GDP)



Sources: IMF, Eurostat, Euler Hermes

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Contact Euler Hermes Economic Research Team

[research@eulerhermes.com](mailto:research@eulerhermes.com)

Last review: 2016-06-01  
Country Risk Analyst:

Manfred Stamer  
[manfred.stamer@eulerhermes.com](mailto:manfred.stamer@eulerhermes.com)