

Stuck in recession

General Information



| | |
|---------------------------|---|
| GDP | USD45.52 bn (World ranking 87, World Bank 2013) |
| Population | 7.2 mn (World ranking 101, World Bank 2013) |
| Form of state | Republic |
| Head of government | Aleksandar Vučić |
| Next elections | 2017, presidential |



Strengths

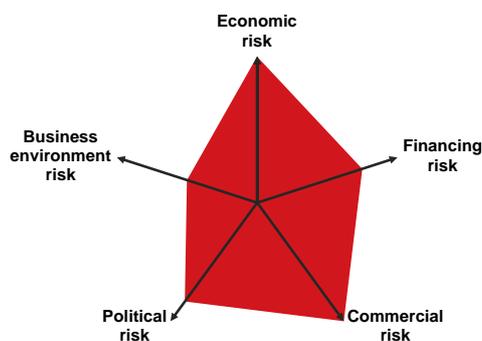
- Foreign exchange reserves are currently comfortable
- Acceptable business environment

Weaknesses

- High systemic political risks: government instability, weak policymaking, unresolved Kosovo conflict
- Poor economic policy track record
- Deteriorating public finances
- Exchange rate risk (exchange rate volatility poses refinancing risk for Serbian businesses and raises payment default risk for exporters to Serbia)
- Ongoing large current account deficits
- High external debt burden

Country Rating

D4



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

| Exports | Rank | Imports |
|------------------------|-------|-------------|
| Germany | 10% 1 | 10% Germany |
| Italy | 9% 2 | 9% Russia |
| Bosnia and Herzegovina | 9% 3 | 8% Italy |
| Russia | 8% 4 | 8% Hungary |
| Romania | 8% 5 | 6% China |

By product (% of total)

| Exports | Rank | Imports |
|----------------------|------|-------------------------------|
| Cereals | 9% 1 | 7% Refined Petroleum Products |
| Non Ferrous Metals | 8% 2 | 5% Natural Gas |
| Electrical Apparatus | 5% 3 | 5% Plastic Articles |
| Iron Steel | 5% 4 | 4% Crude Oil |
| Plastic Articles | 4% 5 | 4% Electrical Apparatus |

Source: Chelem (2013)

Economic Overview

Recession continues in 2015

In 2014, Serbia's economy 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. The misery in exports was compounded by the Russia crisis and the sluggish performance of key European trading partners. Furthermore austerity measures required to secure a new IMF lending agreement have weighed on private consumption as pensions and public-sector wages were cut. The recession has continued in Q1 2015, with GDP down by -1.8% y/y. Private consumption fell by -0.6% y/y and public spending by -3.5% y/y while investment was up by +4.4% on the back of post-flooding reconstruction efforts. Exports rebounded to +9.7% y/y but were outpaced by imports at +11% y/y hence net exports had a negative impact on Q1 growth. Although reconstruction activities as well as lower global commodity prices will provide a boost to the economy in 2015, weak investor sentiment towards higher risk emerging markets and further austerity will weigh on growth. Euler Hermes forecasts full-year GDP to contract by -0.5% in 2015 before recovering to modest growth of +1.5% in 2016.

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. During the 12 months ending May 2015, the RSD fell by -4% against the EUR and by -29% against the USD. Euler Hermes expects occasional downward pressure on the RSD to continue. Any domestic or global bad news could lead to another relatively sharp drop of the exchange rate.

Public finances will continue to deteriorate despite austerity measures. After -6.5% of GDP in 2014, the annual fiscal deficit is forecast at -5.5% in 2015-2016. Public debt has rapidly increased from a low of 33% of GDP in 2008 and will probably exceed 80% of GDP in 2016.

The current account deficit came in at -6% of GDP in 2014 and is forecast to remain at worrisome levels of around -5% of GDP in 2015-2016. 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 29% of export earnings in 2015. FX reserves have broadly moved sideways since 2010. However, current reserves (EUR10bn in April 2015) are still comfortable with regard to import cover (about seven months).

Key economic forecasts

| | 2013 | 2014 | 2015f | 2016f |
|----------------------------|------|------|-------|-------|
| GDP growth (% change) | 2.6 | -1.8 | -0.5 | 1.5 |
| Inflation (% end-year) | 2.2 | 1.7 | 3.0 | 4.0 |
| Fiscal balance (% of GDP) | -5.7 | -6.5 | -5.5 | -5.5 |
| Public debt (% of GDP) | 65.8 | 69.0 | 79.6 | 83.7 |
| Current account (% of GDP) | -5.0 | -6.0 | -5.0 | -4.5 |
| External debt (% of GDP) | 80.8 | 80.0 | 79.0 | 79.0 |

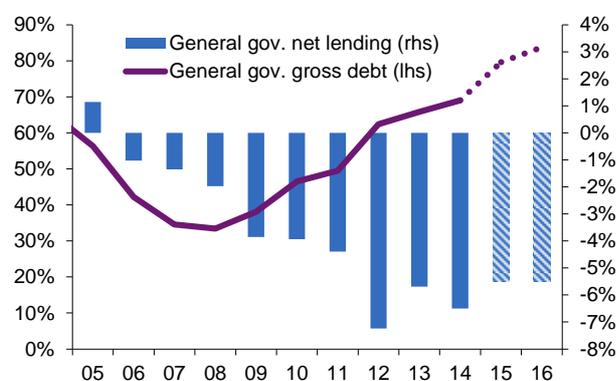
Sources: National sources, IHS, Euler Hermes

Exchange rates



Sources: National Bank of Serbia, Euler Hermes

Public finances (% of GDP)



Sources: IMF, Eurostat, Euler Hermes

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