Best's Country Risk Report

Serbia

CRT-4

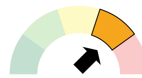
August 22, 2018

Region: Europe

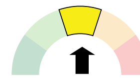
Country Risk Criteria Procedures

Guide to Best's Country Risk Tiers

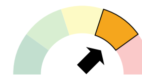
- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Serbia is a CRT-4 country, with a moderate level of political risk and high levels of economic and financial system risk. Real GDP growth was 3.0% in 2017 and is expected to remain between 3% and 3.5% over the near term, supported by rises in consumption and foreign direct investment. Inflation is forecast to remain between 2% and 3% over the medium term.
- A.M. Best categorizes the majority of countries pictured in the map as CRT-1 and CRT-2. Notable exceptions include many of the Eastern European countries such as Bosnia and Herzegovina, Belarus, Romania, and Ukraine.



Economic Risk



Political Risk



Financial System Risk

Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk

Country Risk Tier 2 (CRT-2) Low Level of Country Risk

Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk

Country Risk Tier 4 (CRT-4) High Level of Country Risk

Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

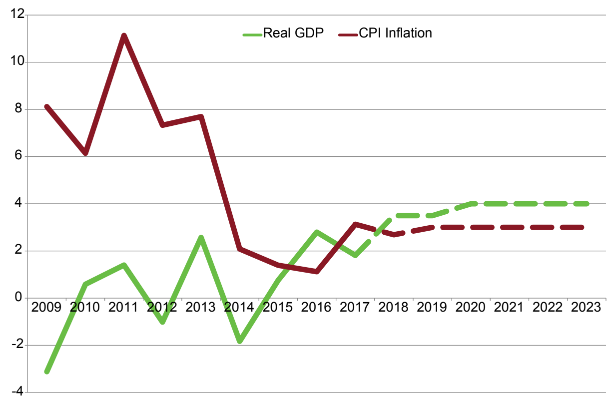
Vital Statistics 2017		
Nominal GDP	USD bn	41.47
Population	mil	7.0
GDP Per Capita	USD	5,899
Real GDP Growth	%	1.8
Inflation Rate	%	3.1
United Nations Estimates		
Literacy Rate	%	98.8
Urbanization	%	55.8
Dependency Ratio	%	49.2
Life Expectancy	Years	75.7
Median Age	Years	42.6
Insurance Statistics		
Insurance Regulator	National Bank of Serbia	
Premiums Written (Life)	USD mil	198
Premiums Written (Non-Life)	USD mil	665
Premiums Growth (2016 - 2017)	%	1.3
Regional Comparison		
	Country Risk Tier	
Serbia	CRT-4	
Bosnia and Herzegovina	CRT-5	
Bulgaria	CRT-4	
Poland	CRT-2	
Romania	CRT-3	
Slovenia	CRT-2	

Source: IMF, UN, Swiss Re, Axco and A.M. Best

Regional Summary: Eastern Europe

- The Eastern European countries are at various stages of bringing their legal, economic, and political frameworks to be more in line with European Union standards. The region has economic potential, as it further integrates with the global markets of the European Union, but all of its countries would ultimately benefit from more transparent and less cumbersome regulatory environments.
- Economic growth in 2017 was robust and is expected to continue in 2018 on growing domestic consumption, fueled by rising wage and falling unemployment rates. Additionally, funds provided by the EU's Structural and Investment Funds will continue to drive public spending.
- Although many Eastern European countries are classified as emerging markets or frontier markets, reforms have enhanced economic stability and regional political power.
- Risks for the region include the potential for tightening global financial conditions, currency volatility, an increase in government influence on state-run institutions potentially undermining independence, and high levels of corruption.

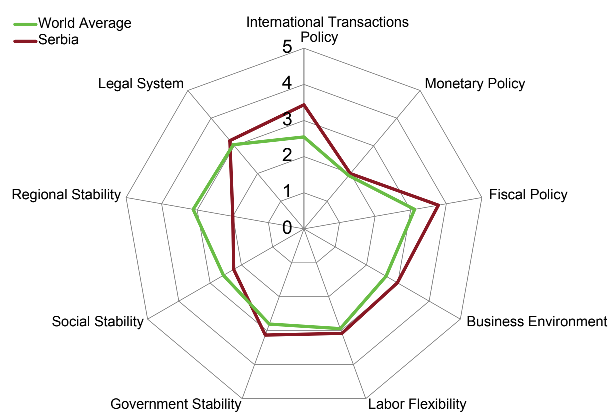
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

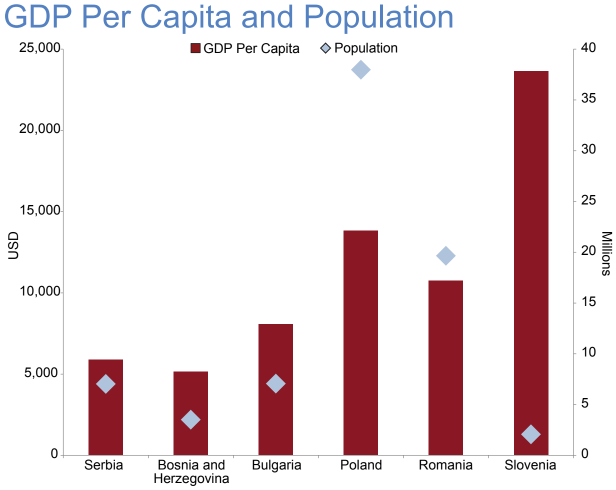
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: High

- Serbia's economy is driven largely by manufacturing, exports, and foreign direct investment. The government continues to work on implementing market reforms, including privatization and trade liberalization.
- The country entered into a 36-month Stand-By Agreement with the IMF in February 2015. The agreement ended in February 2018 with all of the performance criteria met, some by a large margin. The program framework remains in place, as precautionary support for the country.
- Serbia benefits from a qualified and educated workforce as well as the proximity to the European market. Unemployment, however, remains high—16% in 2017.

Political Risk: Moderate

- In March 2018, the Serbian Progressive Party (SNS), led by President Aleksandar Vučić, consolidated power, winning local elections by a large majority in the capital city of Belgrade.
- President Vučić formerly served two full terms as prime minister and remains the most powerful political figure in Serbia.
- The government remains focused on fiscal reforms, to lower its overall debt burden. Public administration reform and the restructuring of inefficient, state-owned entities remain two key objectives. Longer term, the government will need to focus on improving the overall business climate in the country.
- In the 2017 World Bank's Ease of Doing Business survey, Serbia ranked high, 43 out of 190 countries; however, access to electricity and paying taxes remain obstacles.
- Labor market reforms implemented in 2014 have helped raise labor market participation rates, increase private sector employment rates, and lower unemployment. The improved labor market has led to a rise in private consumption, which has driven stronger GDP growth.

Financial System Risk: High

- The National Bank of Serbia supervises and regulates the insurance industry.
- On March 18, 2018, Serbia adopted changes to the Solvency II regime to assess the preparedness of the insurance and reinsurance industry.
- The resolution of non-performing loans (NPLs) has accelerated. As of September 2017, NPLs stood at 12.2%, down from over 23% in 2015. The decline is due largely to write-offs of fully provisioned bad assets. State-owned banks, however, have been slower to write down bad assets.
- The banking sector remains profitable, on deposit growth and a rise in household loans as a result of positive economic conditions. Corporate loans contracted slightly in 2017.