Serbia

CRT-4

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Region: Europe

Country Risk Criteria Procedures

Guide to Best's Country Risk Tiers

• The Country Risk Tier (CRT) reflects AM 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 4.4% in 2018 with medium-term growth forecast at around 4.0%, with domestic demand being the main driver. Inflation is forecast to remain between 2% and 3% over the medium term.
• AM Best categorizes the majority of countries in Eastern Europe as CRT-1 and CRT-2. Notable exceptions include Bosnia and Herzegovina, Belarus, Romania, and Ukraine.

Regional Summary: Eastern Europe

• Economic growth in Eastern Europe is likely to expand in 2019 driven by strong domestic demand supported by higher wages and low unemployment. However, the region will be challenged by labor shortages, lower global growth, and high levels of corruption. Additional risks include currency volatility, an increase in government influence on state-run institutions (potentially undermining their independence), and unfavorable demographic trends.
• The Eastern European countries are at different stages of bringing their legal, economic, and political frameworks to be in more line with EU standards. Eastern Europe has a great deal of 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.
• Although many Eastern European countries are classified as emerging or frontier markets, reforms have enhanced economic stability and regional political power. However, the region’s standards of living vary greatly by country.
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.

- Consumer spending will drive growth in 2019, supported by labor market improvements, including rising wages (the minimum wage was raised by almost 10% in January 2019) and lower unemployment levels.

- Downside risks for the economy include a slowdown in the EU, the country’s main export destination, and an escalation in regional trade protectionist policies.

- Serbia benefits from a qualified and educated workforce as well as proximity to the European market. Unemployment, while declining, remains high, with the current rate above 10%.

Political Risk: Moderate

- In March 2018, the Serbian Progressive Party (SNS), led by President Aleksandar Vučić, consolidated power, winning local elections in the capital city of Belgrade by a large majority.

- 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 country’s overall business climate.

- In the 2019 World Bank’s Ease of Doing Business survey, Serbia ranked high, 48 out of 190 countries; however, access to electricity and the ease of paying taxes remain obstacles.

- Labor market reforms implemented in 2014 have helped raise both labor market participation rates and 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.

- On July 2018, Serbia entered into a new 30 month non-financial policy coordination with the IMF. The program will help the country implement further reform measures aimed at achieving EU membership.

Financial System Risk: High

- The National Bank of Serbia supervises and regulates the insurance industry.

- On March 18, 2018, Serbia adopted the Solvency II regime to assess the preparedness of the insurance and reinsurance industry.

- The banking sector remains profitable. Non-performing loans have dropped to 5.5% in the first quarter of 2019—the lowest level since 2008. The IMF recommends further improvement in the financial sector. Completing the privatization of the largest state-owned bank will improve efficiency.