

Research Announcement: Moody's - Serbia's credit profile supported by relatively high wealth, robust growth potential and fiscal consolidation

London, September 03, 2020 --

- » Serbia has executed a strong fiscal consolidation drive which provides a degree of resilience to the expected deterioration in public finances in the context of the pandemic.
- » The economy benefits from a generally more stable macroeconomic environment that will support robust growth potential after the coronavirus-induced recession.

The credit profile of [Serbia](#) (Ba3 positive) is supported by its relatively high income compared to peers alongside a relatively large and diverse manufacturing sector which helps to attract sizeable foreign investment, Moody's Investors Service said in a new report.

Relatively low and stable inflation as well as enhancements to the monetary policy framework have also led to a more stable macroeconomic environment, while the [European Union](#) (Aaa stable) accession process will continue to drive gradual institutional improvements.

"The Serbian authorities' budgetary consolidation since 2015 has led to a marked improvement in fiscal metrics, with primary surpluses achieved in every year since 2016," said Evan Wohlmann, a Moody's Vice President - Senior Credit Officer and the report's author. "There has been a marked reduction in the government debt burden to 52.9% of GDP at the end of 2019, which provides a degree of fiscal space to absorb the coronavirus-induced deterioration in public finances in 2020."

Nevertheless, a challenging business environment arising from weaknesses in the rule of law and a still sizeable informal sector weighs on growth potential. Furthermore, the large, albeit gradually declining, share of foreign-currency government debt and the banking sector's high degree of euroisation also pose credit risks. Contingent liabilities from the state-owned enterprise sector still remain significant and the pace of reforms to contain these risks remains slow.

The positive rating outlook reflects recent improvements to debt metrics and Serbia's robust medium-term growth outlook. Upward pressure on Serbia's rating could arise if Moody's concludes that, over the medium-term, the government's policy stance will continue to support a downward trend in government debt.

Conversely, the outlook could be stabilised if Moody's concludes that Serbia's fiscal strength would be materially eroded over the medium-term, or from the emergence of a large and sustained current-account deficit which would be increasingly difficult to finance.

Subscribers can access the report at: http://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_1237594

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