



National Bank of Serbia

# **Macroeconomic Developments in Serbia**

**March 2024**

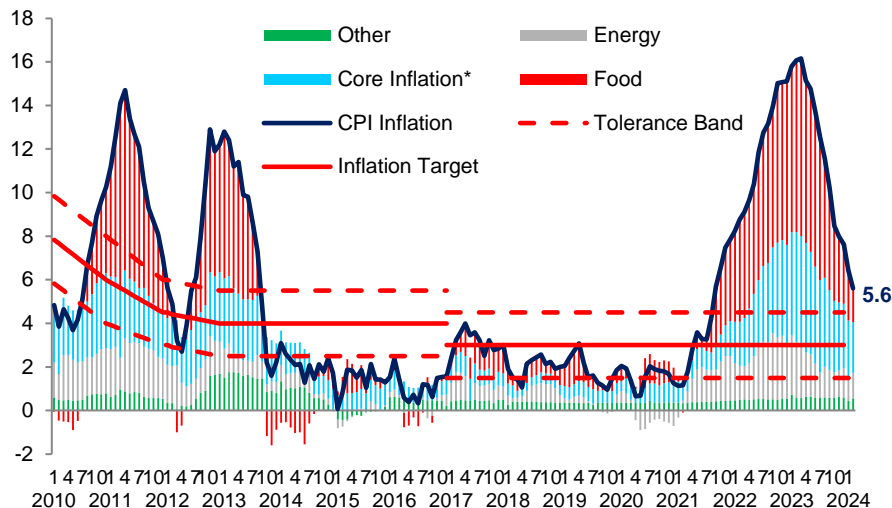
# Sustained Macroeconomic Stability

- Despite the multidimensional crisis that lasts more than 3 years, Serbia has managed to preserve the stability of its economy and the consumers and investors' confidence, as evidenced by cumulative real GDP growth in the period 2020-2023 of around 12%, record inflows of FDI, continued growth of employment and wages in the private sector, as well as a record level of FX reserves.
- Inflation has been on a declining path since April, in October it returned to a single-digit level, while in February it slowed further to 5.6% y/y. Inflation will continue falling through the projection horizon, while the return to the target tolerance band is expected in middle 2024 and approaching to central point of target is expected by the end of 2024.
- According to the SORS data, real GDP growth in Q4 2023 was 3.8% y/y (0.9% s.a.), which further accelerated compared to Q3. Real GDP growth in 2023 was 2.5%.
- Projected GDP growth for 2024 is in the range of 3-4%, and in 2025 and 2026 we expect an additional acceleration to the range of 4-5%, in line with the new investment cycle associated with the project EXPO 2027.
- In 2023 the CAD amounting to EUR 1.8 bn (2.6% of GDP), which represents a record low value of the share of the CAD in GDP. For 2024, we project the CAD of EUR 3.0 bn (4.0% of GDP), due to expected acceleration of investment cycle.
- Due to product and geographic diversification and export-oriented investments, Serbia's exports showed resilience in 2023 despite the decrease in demand from the EU and the region, upon which it relies heavily and managed to achieve a growth of approximately 8% y/y in goods and services exports. Growth of manufacturing exports was also continued in January 2024 (+8.3% y/y).
- According to LFS, the unemployment rate in Q4 2023 was 9.1%, which is 0.3 pp lower than in Q4 2022. This rate for the whole year 2023 is 9.5% on average and is around last year's level. Formal employment stood at 0.5% in January 2024.
- Fiscal developments in 2023 were also better than expected, with a realized deficit of the consolidated budget of RSD 181.1 bn (2.2% of GDP). At the end of January 2024, central government public debt stood at the level of 48.3% of GDP.
- In March 2024, the key policy rate was kept unchanged at 6.5% for the eighth consecutive month, motivated by receding, though still elevated global inflationary pressures and the current medium-term inflation projection according to which inflation is expected to retreat within the NBS target band in mid-2024.
- Banking sector stability has been preserved - the share of NPLs in January was at 3.2%.

# Inflation in February Slowed Down to 5.6% y/y

**In accordance with NBS expectations, inflation followed a declining path since Q2 2023...**

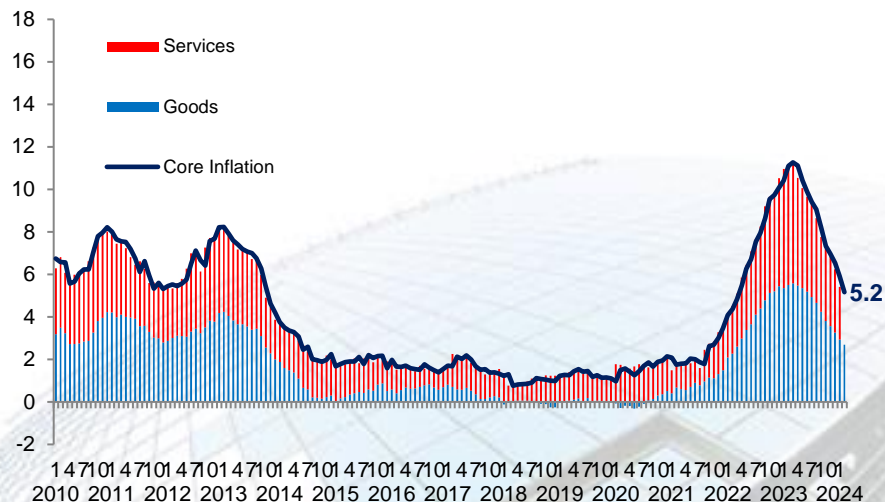
**Chart 1 CPI developments**  
(y/y rates, %) and contributions (pp)



- In the period of seven years prior to the outbreak of the current crisis, inflation averaged around 2%.
- Average annual inflation in 2023 was 12.1% which is close to the average inflation in 2022 (11.9%).
- Inflation has been decreasing since April 2023. Slowdown was especially intensified in H2 2023.
- Since the beginning of the year, inflation has slowed by an additional 2.0 p.p. (5.6% y/y in February).
- As in recent months, the key contribution to inflation slowdown came from the slackening growth in the prices of food and products and services within core inflation.

**...with a lower level of core inflation compared to the headline**

**Chart 2 Contributions to y/y core inflation**  
(pp)

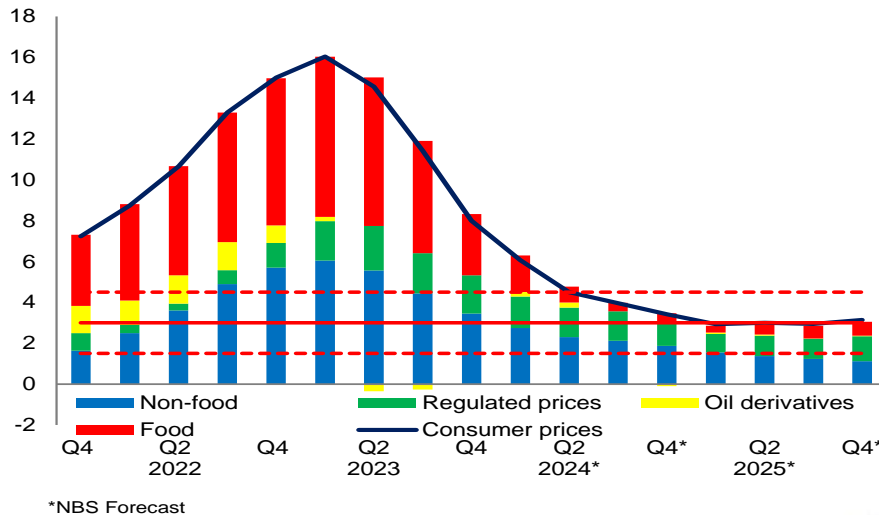


- In the period before the outbreak of the current crisis, core inflation also averaged around 2%.
- In February, core inflation slowed down to 5.2% y/y, which was contributed to by the effects of the tightening of monetary policy, weakening of cost pressures and lower inflation expectations.
- According to the latest results of both surveys (Bloomberg and Ipsos), one-year ahead expectations of the financial sector were within NBS tolerance band and stood at 4.2%.
- Medium term expectations of the financial sector were also within NBS tolerance band.

# Inflation Will Follow Downward Path in the Coming Period

**Inflation should return to the target tolerance band in the middle of the current year...**

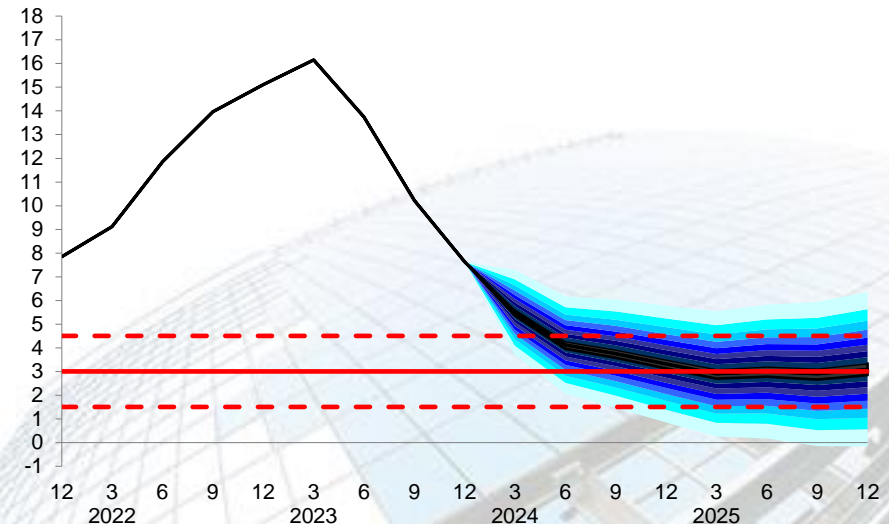
Chart 3 **Inflation projection** (February 2024 IR)  
(average y/y rates in % per quarter and contributions in pp)



- Inflation slowdown is the result of the effects of past monetary tightening, the slower pace of imported inflation, the decrease in inflation expectations, as well as the easing of cost-push pressures.
- Cost-push pressures are weakening due to the fall in prices of primary agricultural commodities and certain industrial raw materials.
- Disinflationary effect also comes from subdued aggregate demand due to slackened global growth.

**... approaching the target midpoint at the end of the year.**

Chart 4 **Inflation projection** (February 2024 IR)  
(y/y rates, in %)



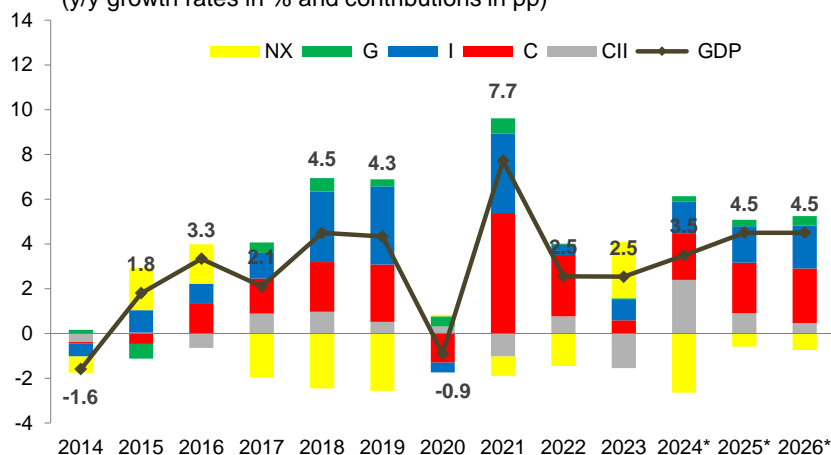
- The key risks to the projection are mostly related to external environment and refer to geopolitical conditions and the outlook for global economic growth, and their impact on global energy and commodity prices.
- As for the factors from the domestic environment, the projection risks are mainly associated with the pace of the recovery of domestic demand and the outcome of this year's agricultural season.
- Overall, the risks of the inflation projection are assessed as symmetric.



# Projected GDP Growth in 2024 in the Range of 3-4%, in a Medium Term Revised Upwards to 4-5%

## Growth in the 2024 led by private consumption and fixed investments

Chart 5 GDP developments  
(y/y growth rates in % and contributions in pp)



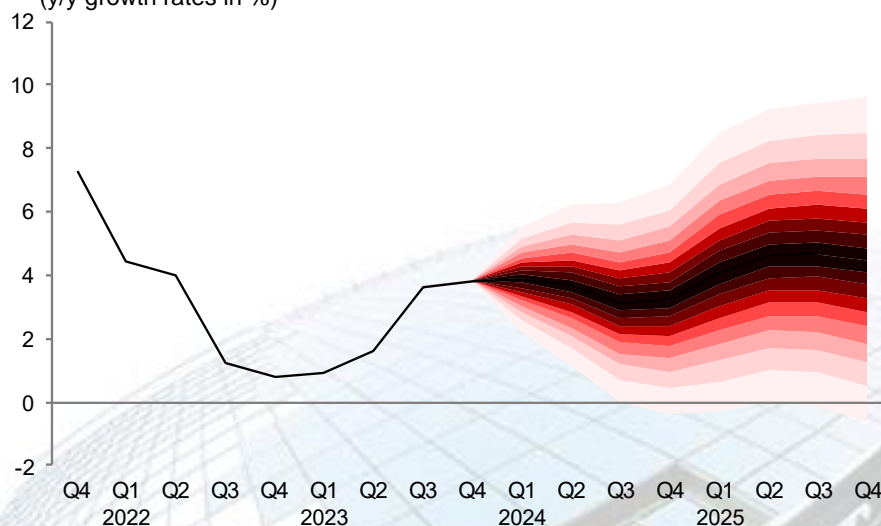
\*NBS forecast

- Thanks to the preserved macroeconomic and financial stability and the timely and comprehensive package of economic measures adopted by the National Bank of Serbia and the RS Government, Serbia recorded a cumulative growth of real GDP of 9.5% in three years of crisis (2020-2022).
- According to the SORS data, real GDP growth in Q4 2023 was 3.8% y/y, making real growth at the level of the whole of 2023 equal to 2.5%.
- According to our new projection, we expect the acceleration of the growth of the real GDP of Serbia this year to the range of 3.0-4.0%, with the central value of the projection of 3.5%.

## In the coming years Serbia will maintain a strong, sustainable and broad-based growth

Chart 6 GDP growth projection (from February IR)

(y/y growth rates in %)

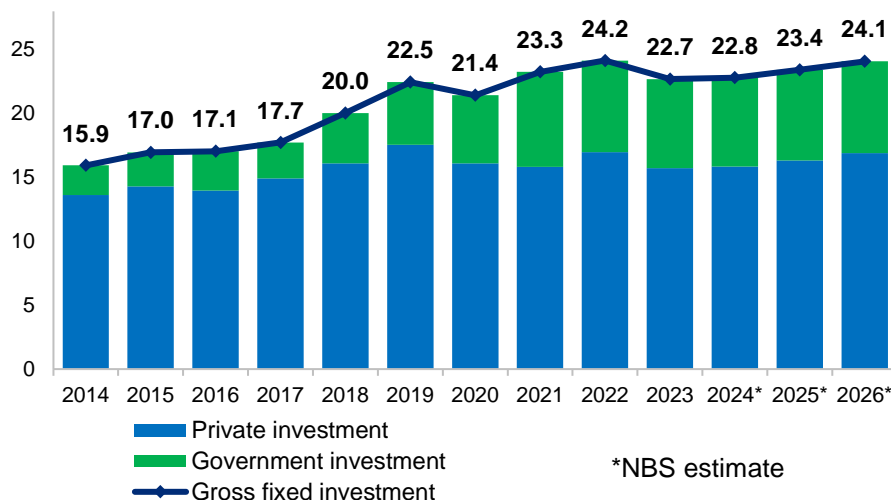


- In 2024, growth will be driven by domestic demand, where higher private consumption will be contributed to by continued growth in employment and wages, and to investment growth by the implementation of projects in transport, energy and communal infrastructure. Due to the expected acceleration of investments and personal consumption, we project that imports will grow faster than exports, which will result in a negative contribution to net exports.
- We have revised the projection of growth in 2025 and 2026 upwards, to a range of 4%-5%, taking into account the realization of the investments planned for organizing the specialized exhibition EXPO 2027.

# Investments Remain at a High Level

**Preceded by achieved macroeconomic stability, investment cycle began in 2015...**

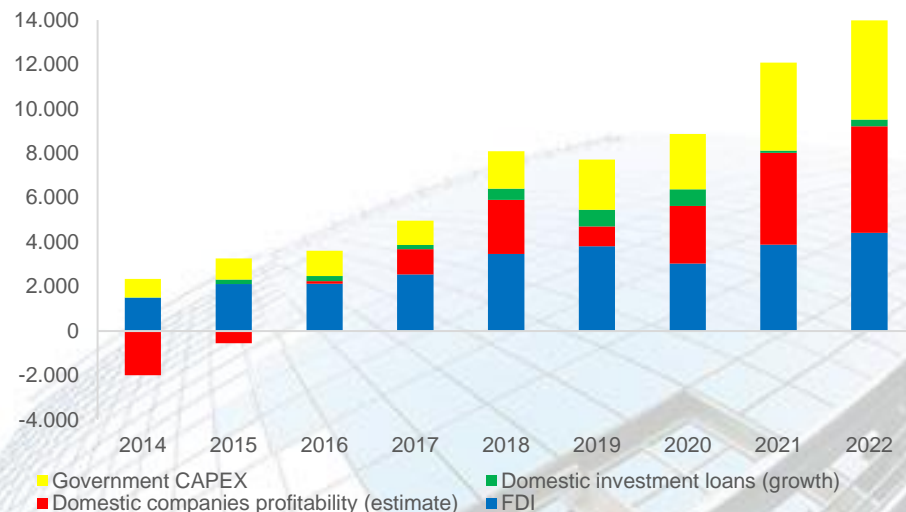
**Chart 7 Fixed investment share in GDP**  
(nominal terms, in % of GDP)



- According to SORS data, the share of fixed investments in nominal GDP in 2023 has reached the level of close to 23%. Government investments reached level of about 7% in 2023 and should remain around that level in the medium term.
- Starting from the analysis of the planned capital projects in the infrastructure in the next 3 years and the EXPO 2027 project, in the medium term we expect that the share of investments in GDP will increase further.

**...supported by diversified financing sources**

**Chart 8 Key sources of investment financing**  
(in EUR mln)

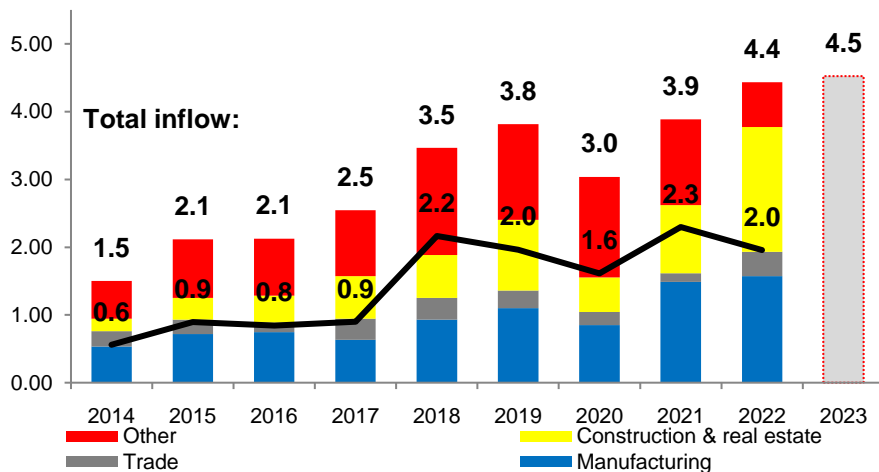


- In earlier years, investments have largely relied on FDI.
- Owing to maintained macroeconomic and financial stability, relative stability of exchange rate, as well as fiscal consolidation, in recent years three more strong pillars for financing investments have been established: multiplied profitability of the economy, investment loans and doubled government investments.
- On top of that, FDI inflow reached record levels of around EUR 4.4 bn and 4.5 bn in 2022-2023.

# Macroeconomic and Financial Stability Supported High FDI Inflow

**Macroeconomic and financial stability combined with structural reforms has created a favourable climate for FDIs...**

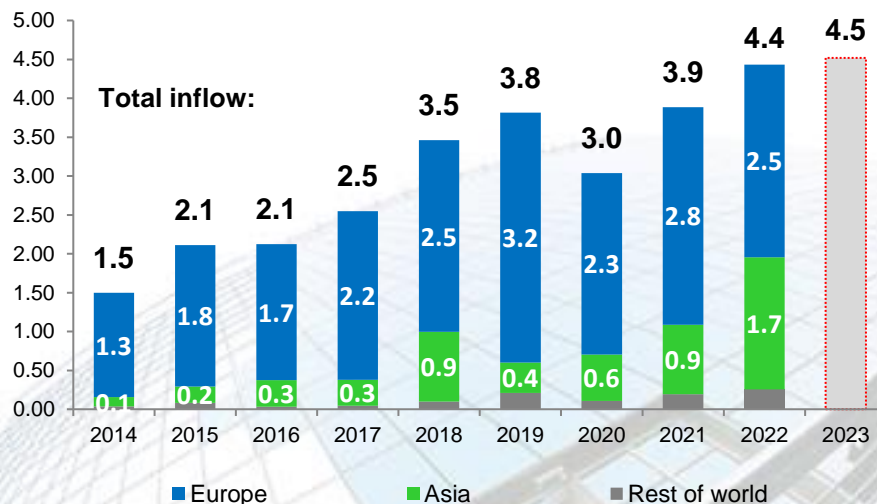
Chart 9 FDI composition by sector  
(EUR bn)



\*industry, agriculture, transport & storage, accommodation and food svc.

**...which are diversified by sector and origin and contributing to the employment growth and country's export potential**

Chart 10 FDI composition by geographic origin  
(EUR bn)



- Out of an inflow of EUR 18.6 bn in the period 2018-2022, over EUR 10.0 bn has been directed into tradable sectors, most notably manufacturing (almost EUR 6.0 bn).
- Manufacturing sectors with the highest FDI inflows (metals, autos, food, rubber and plastic) recorded a high growth in employment, output and exports.
- Serbia has attracted more than half of total FDI to the Western Balkans region in the 2018-2022.

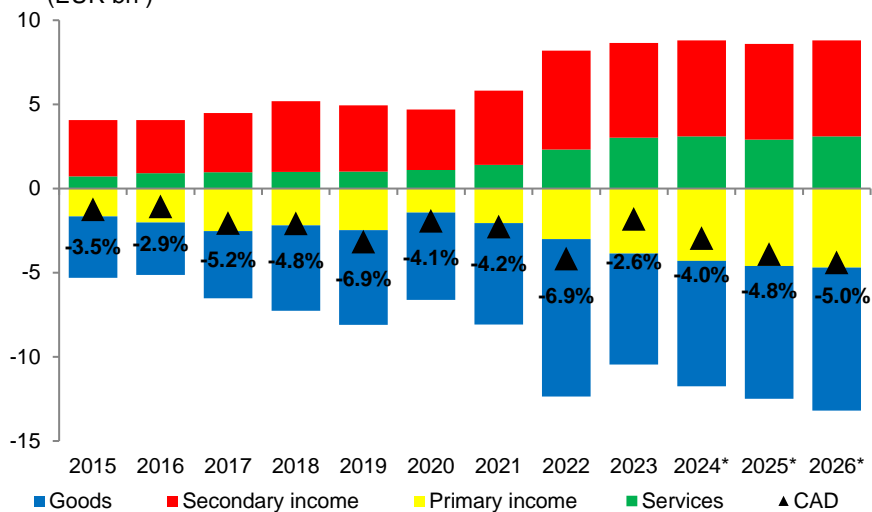
- In 2022, FDI inflow amounted to EUR 4.4 bn (net inflow EUR 4.3 bn), and in 2023, a new record level of FDI inflow of EUR 4.5 bn (net EUR 4.2 bn) was recorded.
- FDI inflows are diversified by region of origin as well, with a greater share of countries from the Asia, alongside Serbia's major trading partner - the European Union.

# A Record-Low Current Account Deficit was Recorded in 2023

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The current account deficit in 2023 amounts to 2.6% of GDP due to strong export growth and lower import

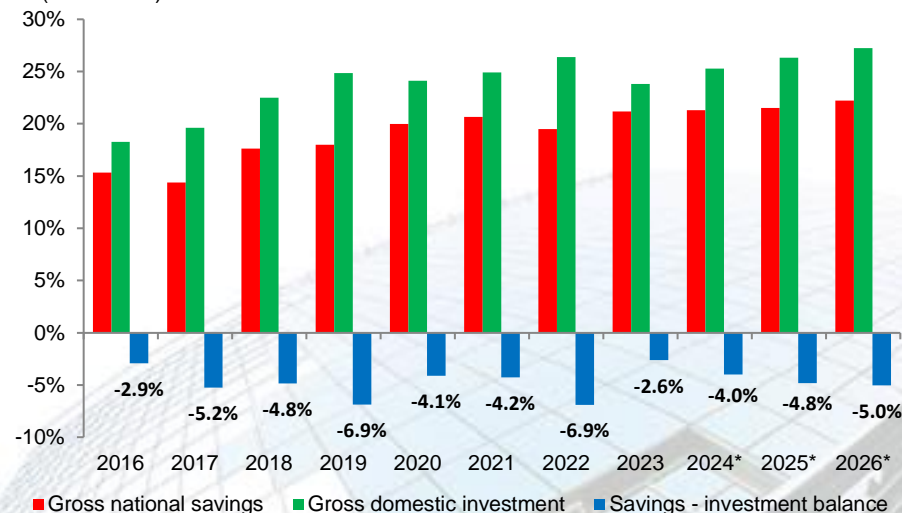
Chart 11 Current account balance by component  
(EUR bn)



- In 2015-2022 Serbia's current account deficit has been fully financed by FDI, which is mostly expected in the following years as well (projected net FDI inflow of around 5% of GDP).
- Lower prices of energy, as well as the growth of exports of manufacturing, electricity and services contributed to a **significant CAD reduction in 2023**, from EUR 4.2 bn (6.9% of GDP) in 2022 to **EUR 1.8 bn (2.6% of GDP) in 2023**.
- CAD projection for 2024 has been revised upwards to **4.0% GDP**, and in the medium term, it should approach the level of 5% of GDP, which is within the bounds of external sustainability.

Speed-up of investment cycle will be followed by stabilization in share of gross national savings

Chart 12 Savings and investment balance  
(% of GDP)



- The S-I gap narrowed in 2023 as a result of increase of gross national savings.
- Over the intermediate period, expected stabilization of the gross national savings share will be accompanied by a gradual speed-up of investments in transport, energy and communal infrastructure, as well as in projects related to the international world exhibition EXPO 2027.

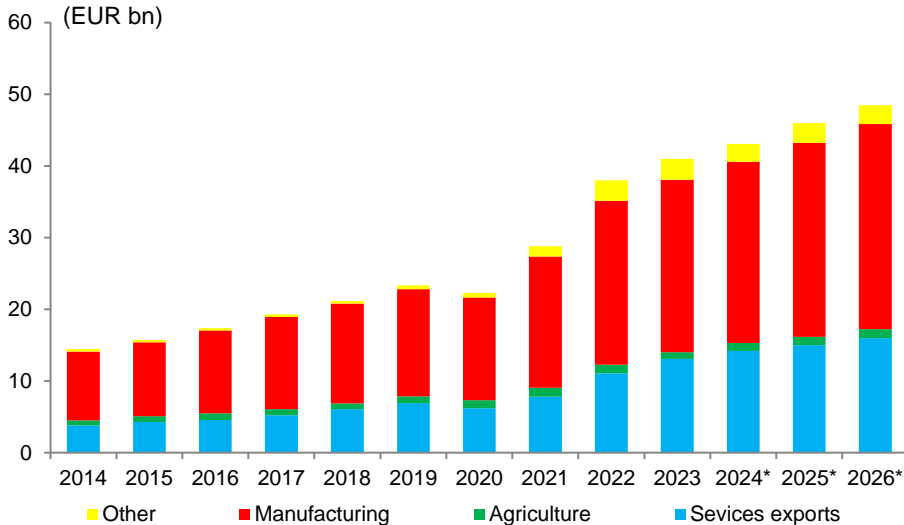


# Revealed Exports Resilience During the Crisis; Lower Imports Led by a Better Situation in the Energy Market

New investments and continued expansion of the export capacities will ensure high growth of exports in the medium term

Chart 13 Exports of goods and services

(EUR bn)



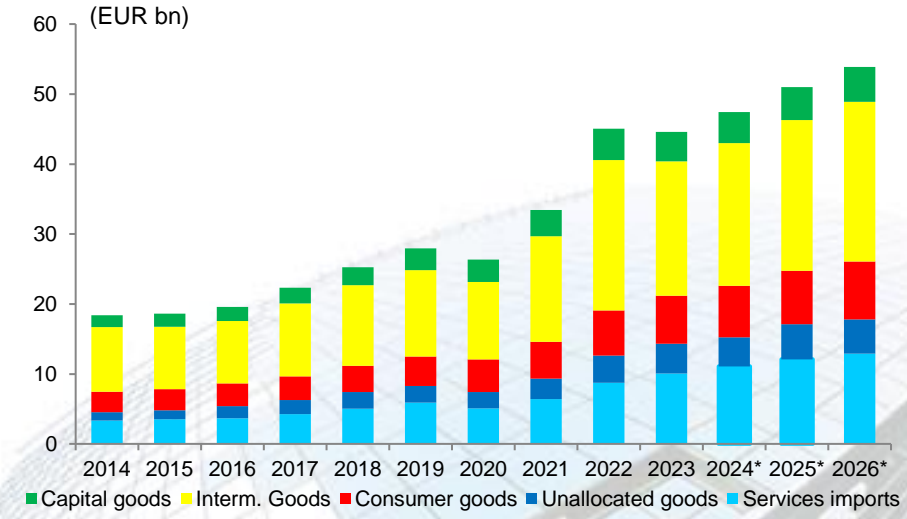
\*NBS Forecast

- **Goods exports continued to grow in 2023 and recorded increase of 3.7%, while exports of services were higher by 18.1%.**
- **In January 2024**, goods exports were decreased by 2.4% y/y, due to lower exports in mining and electricity sectors.
- **Manufacturing exports continues to grow (8.3% y/y in January)**, with 15 out of 23 branches recorded growth.
- **The recovery of agricultural exports was also recorded** at the beginning of 2024, with a growth of 24.9% y/y in January.

The projection reflects that the new investment cycle will result in the increased imports of equipment and intermediate good

Chart 14 Imports of goods and services

(EUR bn)



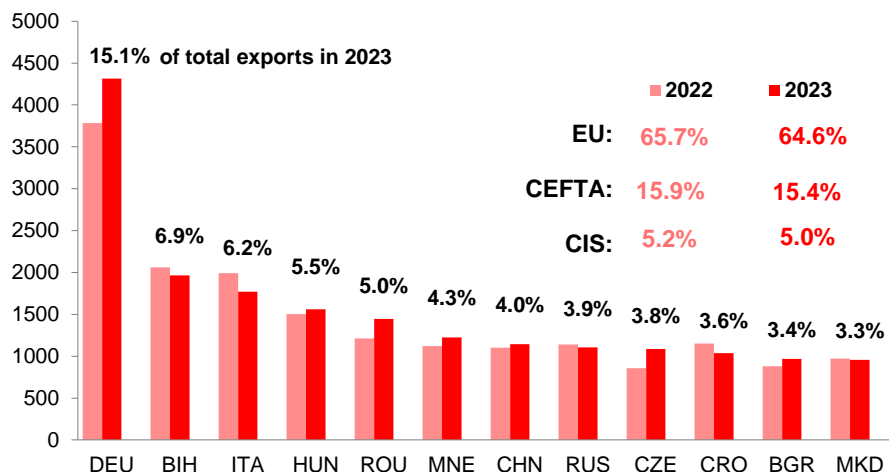
\*NBS Forecast

- **Imports of goods decreased by 4.8% in 2023**, with the largest contribution to the decrease coming from reduced intermediates imports, which includes energy (a decrease in energy imports by EUR 1.7 bn compared to 2022).
- **On the other hand, the imports of services increased by 15%.**
- **Imports of goods were also lower in January 2024 by 7.5% y/y**, primarily driven by lower imports of energy and intermediate goods, while an increase in imports of capital goods was recorded.

# Geographic Diversification Helped Export Resilience During the Period of Multidimensional Crisis

**Significant increase in exports to Germany of 14% was recorded in 2023...**

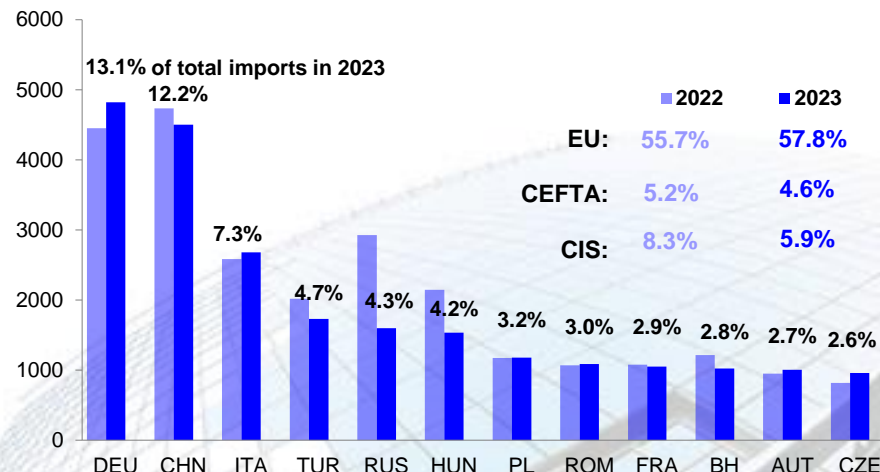
Chart 15 **Goods exports by country in 2023 / 2022**  
(EUR mn and % of total )



- Serbia's exports showed resistance in 2023, despite the decrease in demand from the EU and the region, on which it relies the most. In this period, most of Serbian exports went to the EU, followed by CEFTA and CIS.
- By country, the largest share of exports went to Germany (15.1%), followed by Bosnia and Herzegovina (6.9%), Italy (6.2%), Hungary (5.5%) Romania (5.0%) and Montenegro (4.3%).

**...which was followed by the growth of imports from Germany**

Chart 16 **Goods imports by country in 2023 / 2022**  
(EUR mn and % of total )

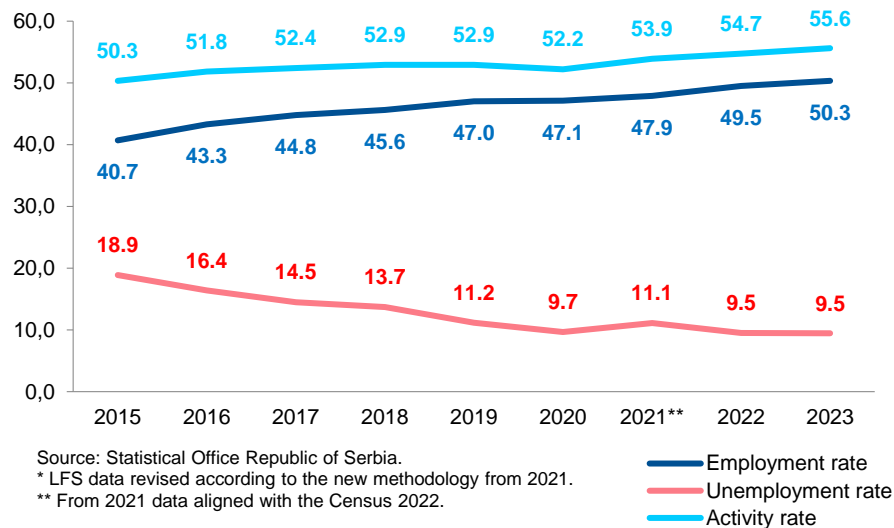


- Majority of imports in 2023 come from the EU (around 58%), followed by CIS and CEFTA.
- Compared to the 2022, the volume of imports from Germany in 2023 overtook the volume of imports from China, making Germany the largest importing country again (with a share of 13.1%).

# Favourable Developments in the Labour Market and Productivity Growth

## Single-digit unemployment rate in the whole 2023 (9.5%)

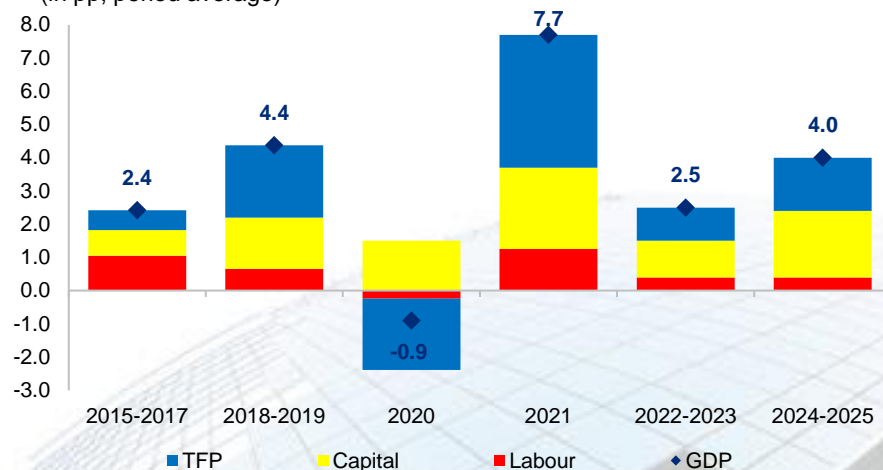
Chart 17 Labour market indicators according to the LFS\*, (in %)



- According to data from the Labour Force Survey, the unemployment rate was on a single-digit level in 2023 and amounted to 9.5% (same as the level in 2022), while the employment rate amounted to 50.3%, which is an increase of 0.8 p.p. compared to 2022. In 2023, the rate of informal employment was 12.5% (-0.5 p.p. compared to 2022).
- The activity rate (persons 15+) in 2023 amounted to 55.6%, which is 0.9 p.p. higher compared to 2022.

## Significant contribution of total factor productivity and capital to GDP growth

Chart 18 Contribution of factors of production to GDP\* (in pp, period average)

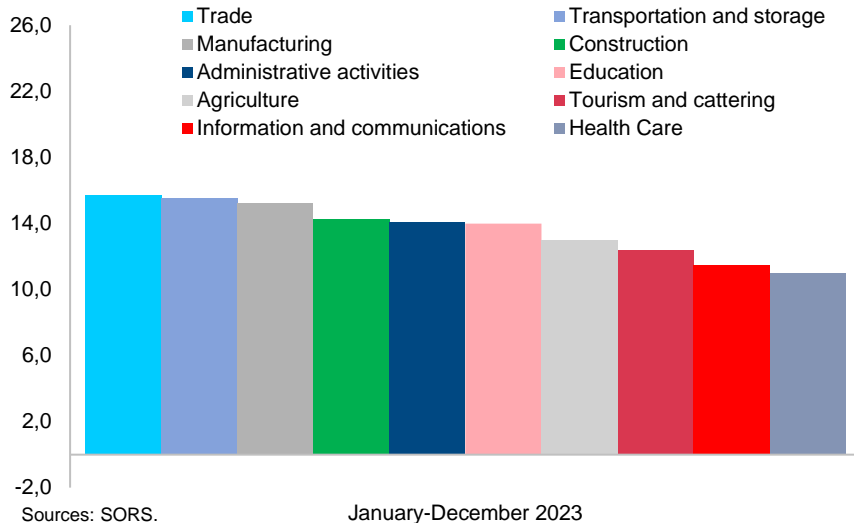


- Acceleration of economic growth in the period 2018-2019 was driven mainly by faster productivity growth.
- In 2020, similar to other countries, there was a temporary drop in productivity and a negative labour contribution due to reduction in the participation rate due to the pandemic.
- From 2021 productivity was the main driver of growth, along with investment.
- In the medium term, we also expect from productivity and investment to be the main drivers of GDP growth, while the contribution of labour will be lower.

# Growth in Wages During 2023 and Employment in January 2024

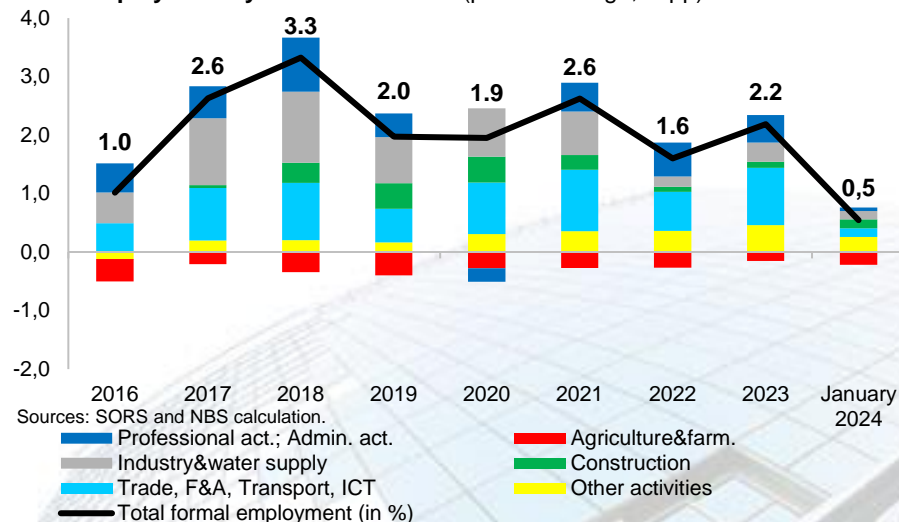
## Real wage growth in the private sector during 2023 (2.6% y/y)

Chart 19 **Nominal net wages by economic sector** (y/y growth, in %)



## High level of formal employment in the private sector in January 2024

Chart 20 **Contribution to y-o-y growth in total formal employment by economic sector** (period average, in pp)



- In the period January-December 2023, the nominal average net wage was 86,007 dinars (734 euros) and is higher by 14.8%. The growth was driven by a faster growth of wages in the private sector (15.5% y/y) than in the public sector (13.3% y/y).
- During 2023, a double-digit growth of average wages was achieved in all activities, and it is most pronounced in trade and transportation and storage.
- During the 2023, nominal net wages grew slightly faster than inflation, but still there is no significant inflationary pressures induced from the labour market.

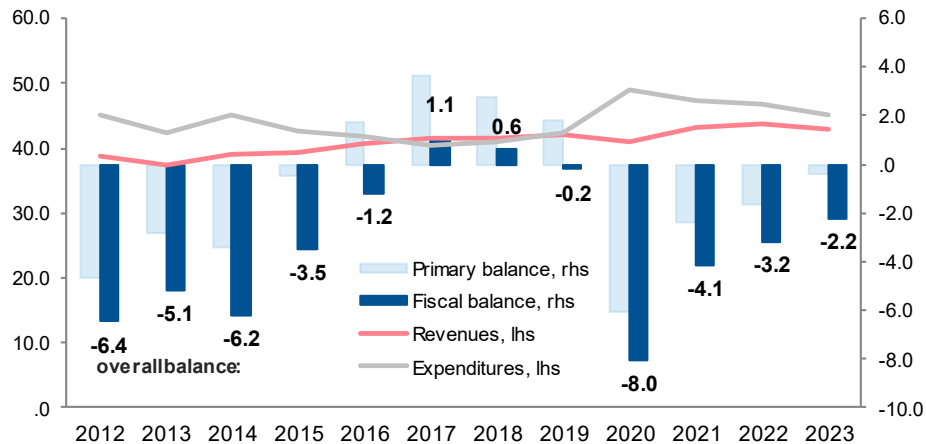
- Total formal employment in January 2024 amounted to 2.36 million persons and is higher by 0.5% y/y (13 thousand persons). This growth was led by private sector growth of 0.7% y/y (about 12 thousand persons), with a high level of employment in the private sector of about 1.74 million persons.
- Employment growth is present in most activities. Growth stands out in professional and scientific activities (employment at a level of about 141 thousand persons in January) and in health care (the number of employees at the record level of 176 thousand persons), as well as in ICT sector (employment at a level of 110 thousand persons).



# Fiscal Developments in 2023 were Better Than Expected

**In 2023, the consolidated deficit was RSD 181.1 bn (-2.2% of GDP)**

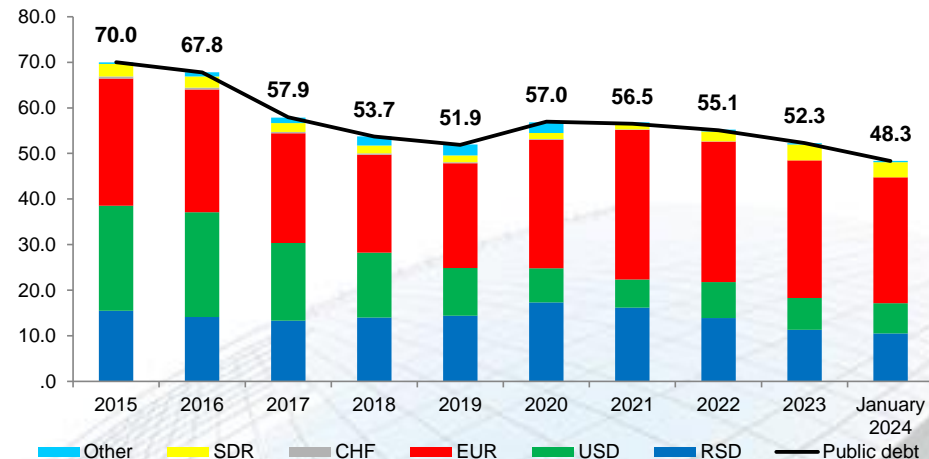
Chart 21 **General government revenues, expenditures and outcome** (% share in GDP)



- In the years before pandemic, Serbia eliminated fiscal deficit, with government investments reaching near 5% of GDP.
- Higher deficit in 2020-2022. arose as a result of higher expenditures due to the pandemic and a package of measures to support the economy and the population, and in 2022, support to companies from the energy sector.
- In 2023, the general government budget deficit amounted to RSD 181.1 bn (-2.2% of GDP) and was thus lower compared to the plan from the revised Fiscal Strategy (-2.8% of GDP) as a result of lower current expenses. Share of capital expenditures was kept at around 7% of GDP.
- In medium term, we expect its return to the level of around 1.5% of GDP.

**Public debt remains on a downward trajectory and within the Maastricht criteria**

Chart 22 **Public debt (central government)** (% share in GDP)

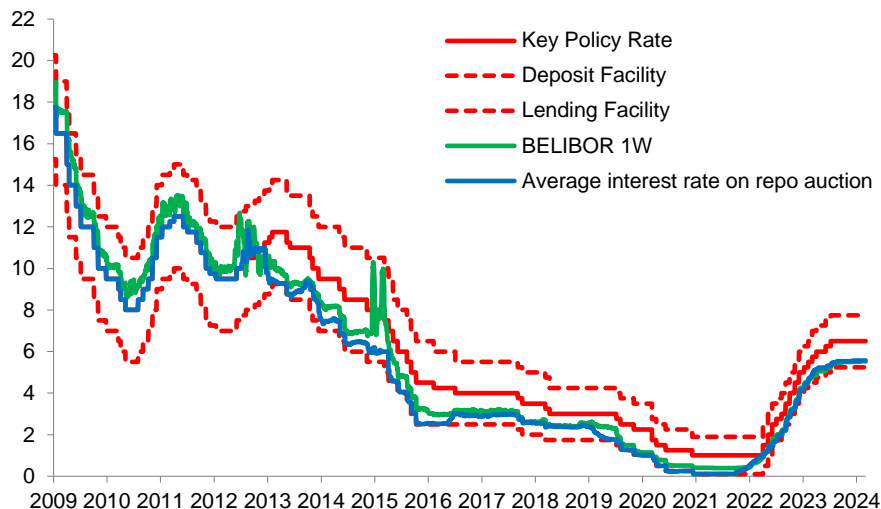


- As of 2021, the share of public debt in GDP is on a downward trajectory, despite the impact of the international energy crisis on the growth of budget expenditures and energy procurement. At the end of 2023, the share of central government public debt in GDP amounted to 52.3% (general government public debt 52.7%) and decreased by 2.8 pp relative to 2022.
- At the end of January 2024, the share of the public debt of the central government amounted to 48.3% and thus further decreased compared to the end of 2023, mostly due to the higher projected nominal GDP for 2024.
- We expect that as a result of the lower deficit, the public debt will continue its downward trajectory in the coming years.

# Monetary Conditions were tightened in the Previous Months Through the Key Policy Rate and Required Reserve Ratio

In March 2024, the key policy rate remained unchanged at 6.5%

Chart 23 Interest rates  
(in %)

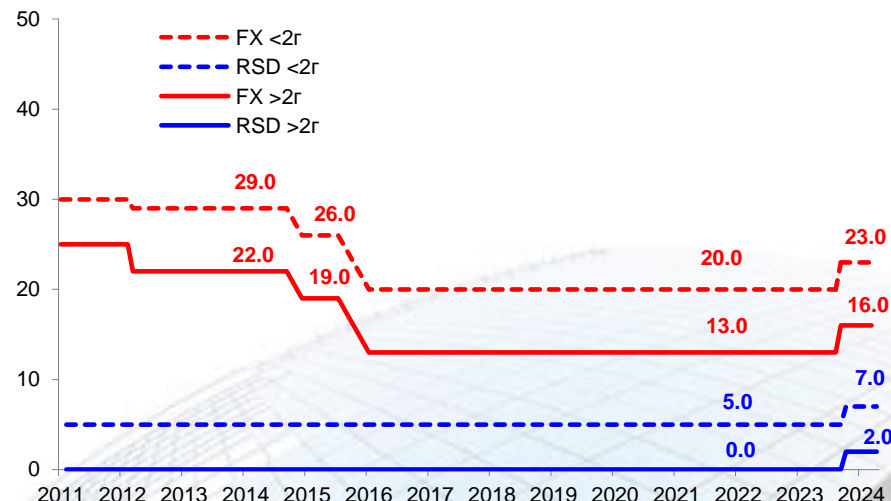


In making such decision, the Executive Board primarily took into account the following factors:

- receding, though still elevated global inflationary pressures and the current medium-term inflation projection according to which inflation is expected to retreat within the NBS target band in mid-2024,
- the pass-through of past monetary tightening on interest rates in the markets of money, loans and savings, and the fall in one-year-ahead financial and corporate sector inflation expectations signal the efficiency of the monetary policy transmission mechanism through all channels.

The required reserve ratio was increased in September 2023

Chart 24 Reserve requirement ratios  
(in %)



NBS increased required reserves (RR) in September:

- FX RR rates by 3 pp (to 23%/16% for liabilities with the contracted maturity of below and over 2Y, respectively), while increasing dinar allocations of FX RR by 8 pp (to 46%/38%, depending on maturity of liabilities).
- the RSD RR rate by 2 pp each (to 7% and 2%, depending on maturity of liabilities).

Major effects:

- withdrawal of excess dinar liquidity by RSD 114 bn (around 20%).
  - the turnover on O/N Interbank market has increased.
- FX RR currently stands at EUR 2,905.4 mn, while RSD RR is RSD 419.6 bn.

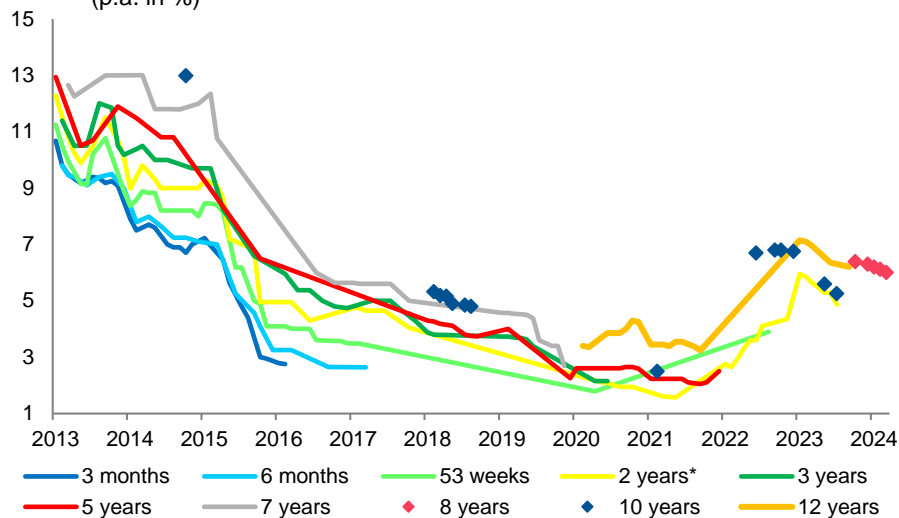


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# Monetary Conditions Determine Financing Conditions of the Private Sector

## Interest rates on dinar government securities are on a decline over the last few months

Chart 25 Interest rates in the primary market of government securities (p.a. in %)



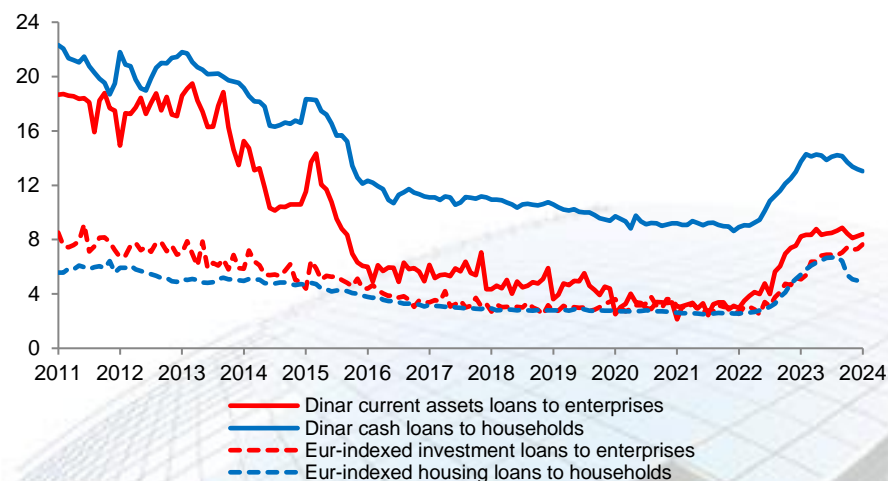
Source: Ministry of Finance.

\* Excluding coupon securities with the rate linked to the NBS key policy rate.

- The share of long-term dinar securities (5+ year maturity) increased from 2% in 2012 to almost 90% in 2024, with the extension of the dinar yield curve to 12 years in February 2020.
- Yield rates continued to decline as a result of lower government financing needs, declining global yield rates, as well as lower country's risk premium. The January and February auctions in this year, for the sale of 8y dinar government securities, saw record-high performances of a dinar securities auctions, with a significant participation of non-residents.
- Serbia's dinar-denominated bonds were included in renowned J.P. Morgan GBI-EM family of indices as of 30 June 2021.

## Interest rates on private sector loans declined mildly in Q4 2023 and some declined further in January

Chart 26 Interest rates on loans – new business (p.a. in %)



\* From September 2010 to December 2014, "Other loans" of the household sector included cash loans and other loans. From January 2015, "Cash loans" are shown separately.

- In line with monetary tightening cycle that had a moderate pace last year, interest rates on new dinar loans to the corporates and households stabilized in recent months and some slightly declined in Q4 2023 and in January 2024. In January interest rates:
  - for current assets loans to corporates equalled to 8.4%
  - for cash loans to households declined to 13.1%.
- After the implementation of the NBS decision to cap housing loan rates, that will remain in force until end-2024, the average rate on housing loans is on decline since October, and equalled to 5.0% in January.



# In Line With the Higher Borrowing Costs, Credit Activity Slowed Down in 2023 and in the Beginning of 2024

Credit activity lost pace in the beginning of 2024....

... due to lower corporate lending in January

Chart 27 **Bank lending to enterprises and households**  
(y/y rates, constant exchange rate 31 October 2022, in %)

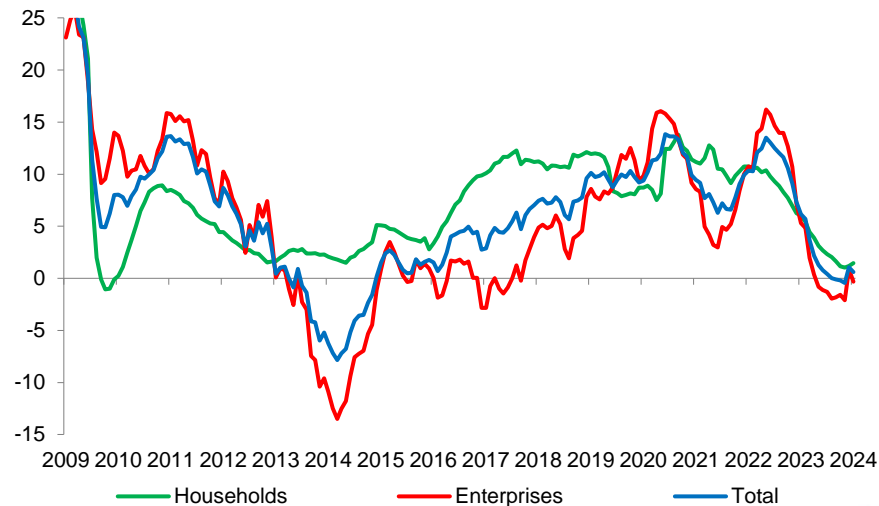
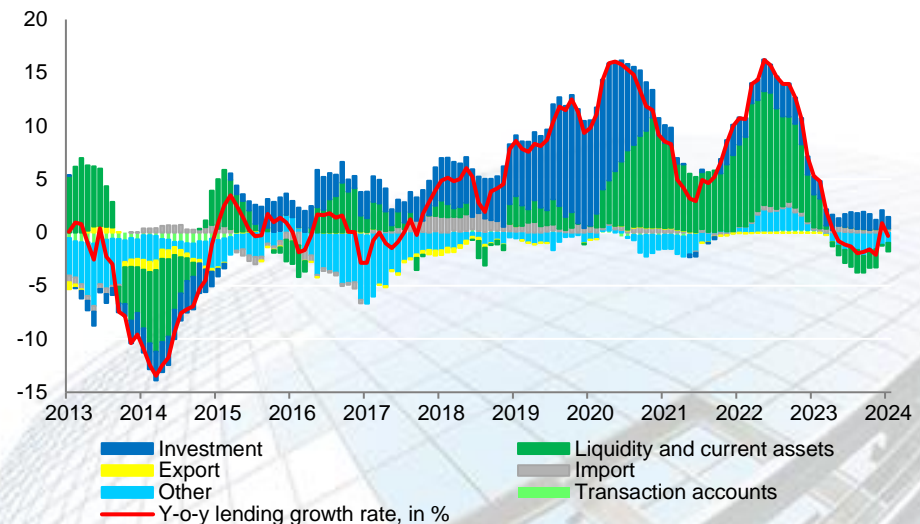


Chart 28 **Contributions to y-o-y corporate lending growth**  
(in pp, constant exchange rate 31 October 2022)



- In January total domestic loans slowed down to 0.6% y-o-y (from 1.1% y-o-y in December 2023). Lending activity dynamics reflected tightening of the monetary policy of the NBS and the ECB, the maturing of guarantee scheme loans, the and tightened bank lending standards.
- In January loans to households accelerated y-o-y growth to 1.5% (from 1.2% in December 2023), while corporate loans declined by 0.3% y-o-y (after increasing by 0.9% y-o-y in December 2023).

- **Investment loans** which rose by 4.4% in 2023, slowed growth to 2.7% y-o-y and made 42.0% of total corporate loans in January. **Liquidity and current assets loans** declined by 1.8% y-o-y and made 46.2% of total corporate loans in January.
- **Micro, small and medium-size enterprises loans** increased their share total corporate loans to 59.4% of in January.

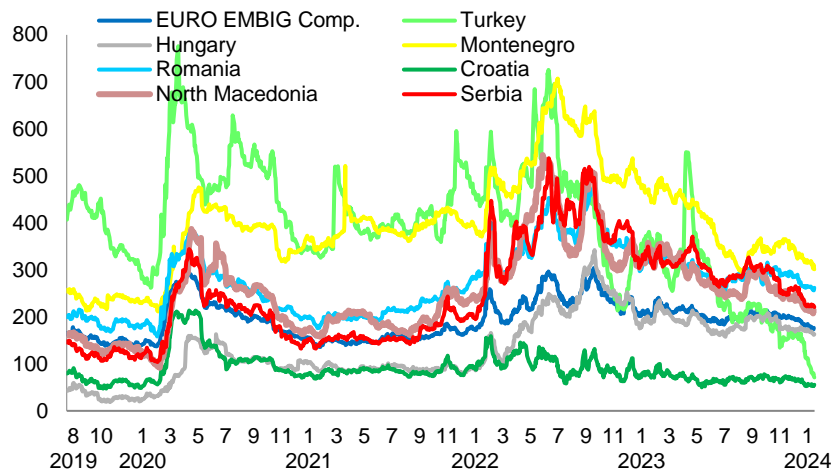


# Relative Stability of Exchange Rate and Credit Rating are Preserved Even in the Period of Crises

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## Downward trend of the risk premium of Serbia

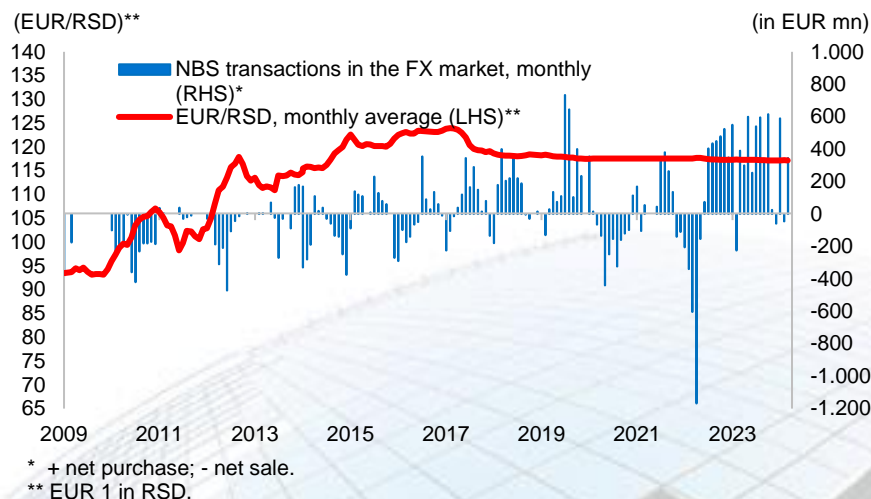
Chart 29 Risk premium indicator for euro-denominated debt - EURO EMBIG (basis points, daily values)



- Due to the reduction in global uncertainty and favorable domestic macroeconomic prospects, Serbia's risk premium decreased in 2023, and its decline continued in 2024 - for debt in euro decreased by 25 bp in the first two months of 2024, while for debt in dollars it decreased by 21 bp.
- Fitch (in February 2024) and S&P (in October 2023) **confirmed Serbia credit rating at BB+, with a stable outlook**. Moody's has affirmed Serbia's Ba2 ratings with stable outlook (September 2023).
- As factors that determine the retention of the credit rating, the agencies point out: sound medium-term growth prospects, FDI inflow, credible monetary policy, economic resilience to a challenging external environment, stable public finance, and structural reform progress.

## The stability of the exchange rate is maintained, while FX reserves are at record level

Chart 30 Exchange rate developments and NBS transactions in the FX market



\* + net purchase; - net sale.

\*\* EUR 1 in RSD.

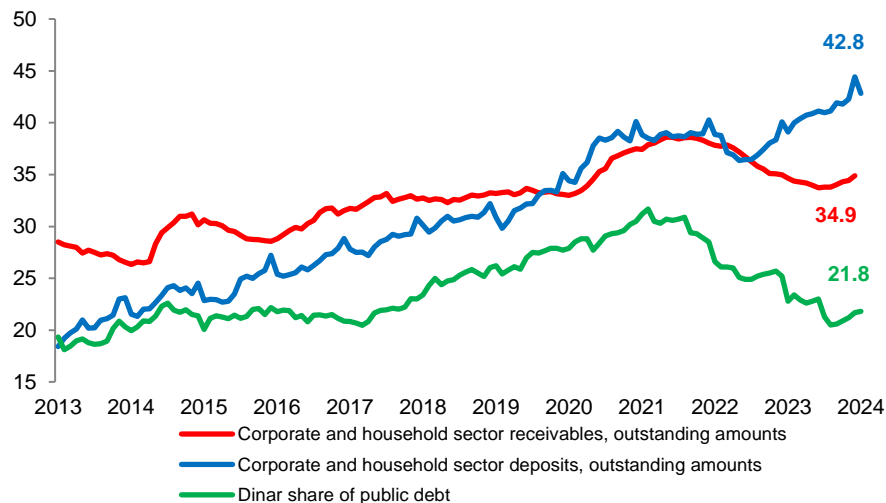
- The dinar gained 0.1% against the euro in 2023, while in 2024 dinar remained unchanged against the euro. Appreciation pressures reflect favourable BoP developments, high purchases of foreign cash and inflows from payment card operations.
- The net FX purchases in the IFEM amounted to EUR 3.94 bn in 2023, while in two months of 2024 the NBS net bought EUR 300 mn.
- FX reserves amounted to EUR 25.0 bn in end-February, which is their record high, and are well above the standards for determining their adequacy.

# Since the Adoption of the Strategy, Significant Progress Has Been Made in the Field of Dinarization

National Bank of Serbia

## Macroeconomic stability contributing to dinarisation process

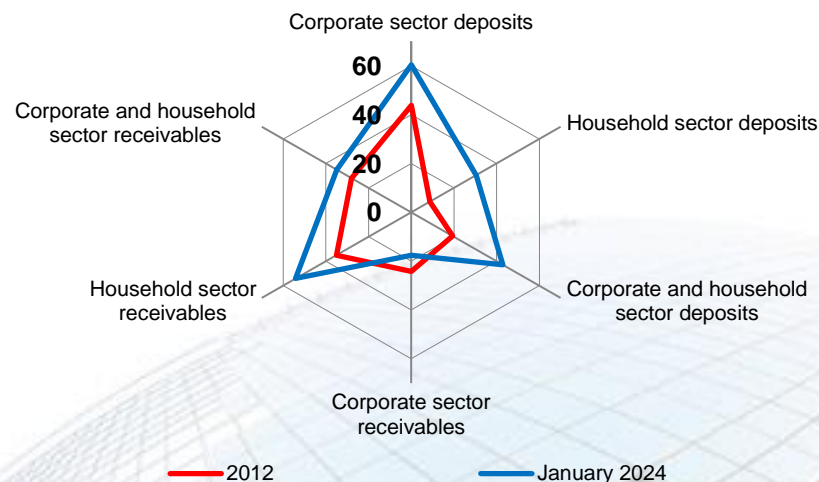
Chart 31 Dinarisation of the corporate and household sector receivables and deposits, and dinar share of public debt (in %)



- NBS stimulates the dinarisation process by delivering low and stable inflation in medium-term, preserving relative exchange rate stability and using other measures to stimulate dinar source of finance.
- The Government contributes to dinarisation through tax policy, by developing the dinar securities market - dinar debt share rose from 2.5% in 2008 to 21.8% in January 2024.
- Dinarisation of corporate and household sector deposits rose by 23.5 pp compared to end-2012 to 42.8% in January 2024. Dinarisation of corporate and household sector claims amounted to 34.9% in January 2024 (up by 6.9 pp compared to end-2012).

## Households are predominantly indebted in dinars and dinar savings records maximum level

Chart 32 Dinarisation of corporate and household sector (outstanding amounts, in %)



- Over the past years, dinarisation of household receivables had a firm upward trend as a result of NBS measures aimed to support dinarisation – an upsurge from 35.1% (2012) to 54.2% (January 2024).
- Dinar savings of households (residents) recorded double-digit annual growth in period 2018-2021, while its temporary reduction in the beginning of 2022 was the consequence of growing uncertainty caused by the escalation of geopolitical tensions at the international level.
- During 2023 it has increased by 43.2%, while in first two months of 2024, dinar savings grew by RSD 8.2 bn, to RSD 146.1 bn end-February.

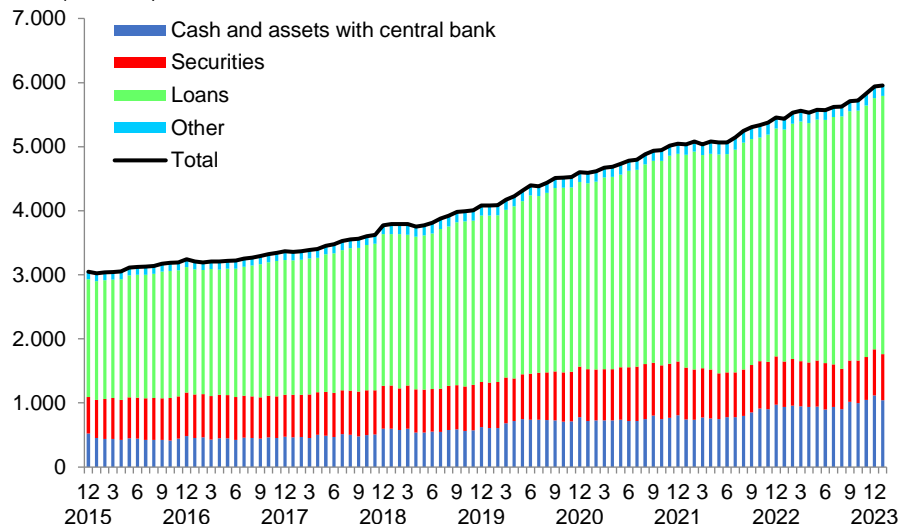
# Traditional Banking

## Mostly Financed by Domestic Deposits

### Adequate structure of banking sector assets

Chart 33 Structure of banking sector assets

(RSD bn)



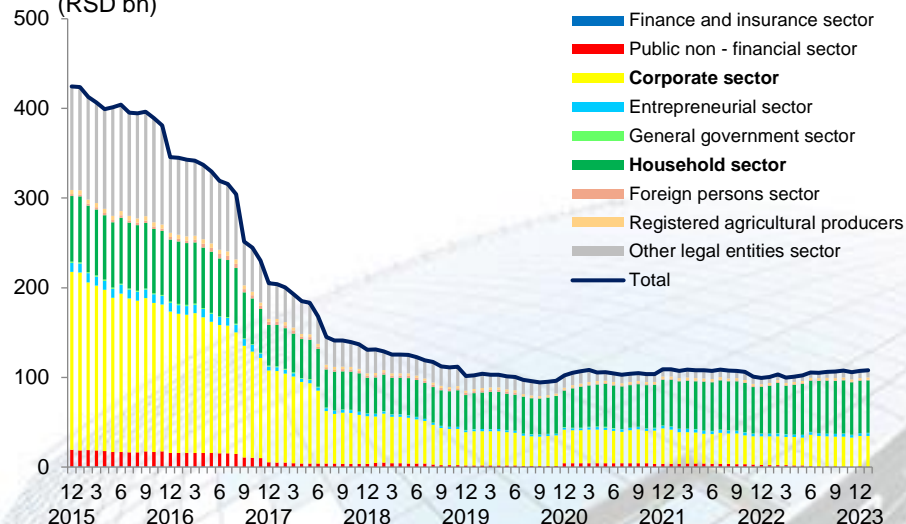
Source: NBS

- Risk aversion during the crisis led to intensified banks' investments in securities (predominantly low-risk government securities), the share of which stabilized since 2015 and amounts 12.0% of the total net banking sector assets at the end of January 2024.
- Stability of retail and corporate deposits in funding mix is present, with share in total liabilities of 44% and 32%, respectively at the end of January 2024.
- Despite high loan portfolio euroization, currency matching of assets and liabilities is present, with net open position of 1.4% of regulatory capital at end of January 2024.

### Improving the quality of the banking sector assets

Chart 34 Asset quality – Non-performing loans (NPL)

(RSD bn)



Source: NBS

- Successful implementation of NPLs resolution activities, led to a record low level of NPL amounts. The amounts of NPL throughout 2023 continued to stand still, and are well below its pre-crisis level.
- The main channels for the NPLs reduction were repayments, write-offs, and transfer (sale) to third parties.
- At the end of January 2024, the largest share in non-performing loans was made by the household sectors (54.4%) and corporate (31.7%).

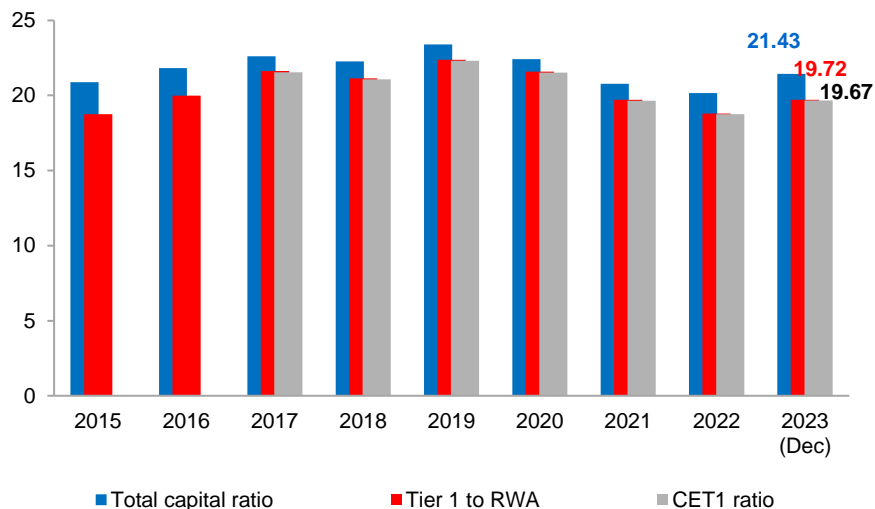


# Conservative Framework Contributed to the Banking Sector Resilience to Shocks

## High banking sector capitalisation as a result of strong prudential measures

Chart 35 Capitalization of the Serbian banking sector

(%)

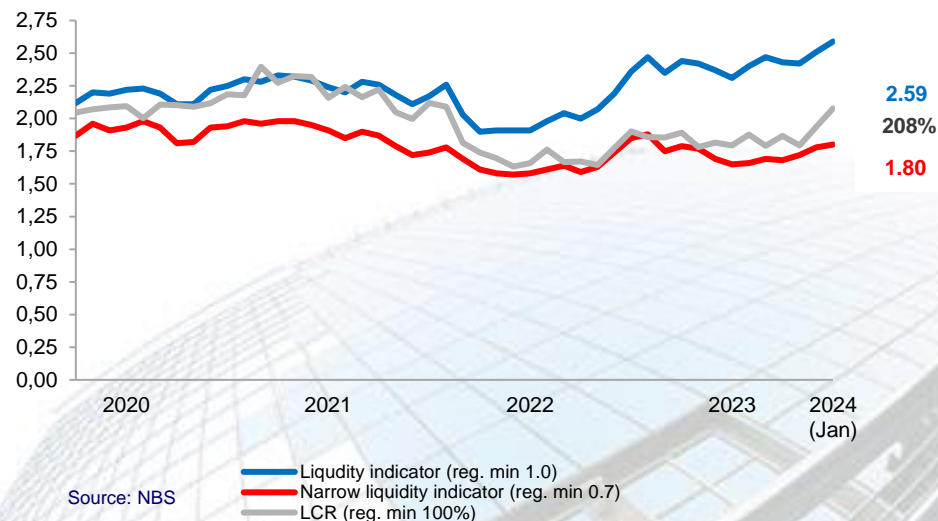


Source: NBS

- Banks possess significant capital reserves, which enable them to successfully deal with credit risk even in the case of worst-case stress scenario.
- In addition to the high level, the capitalization of the banking sector is characterized by a good structure, with CET1 around 95% of total capital.
- The high solvency of the banking sector is also indicated by the leverage ratio, introduced in regulatory framework of the Republic of Serbia with Basel III implementation, which at the end of December 2023 amounted to 10.4%.

## Serbian banking sector is highly liquid

Chart 36 Liquidity indicators of the Serbian banking sector



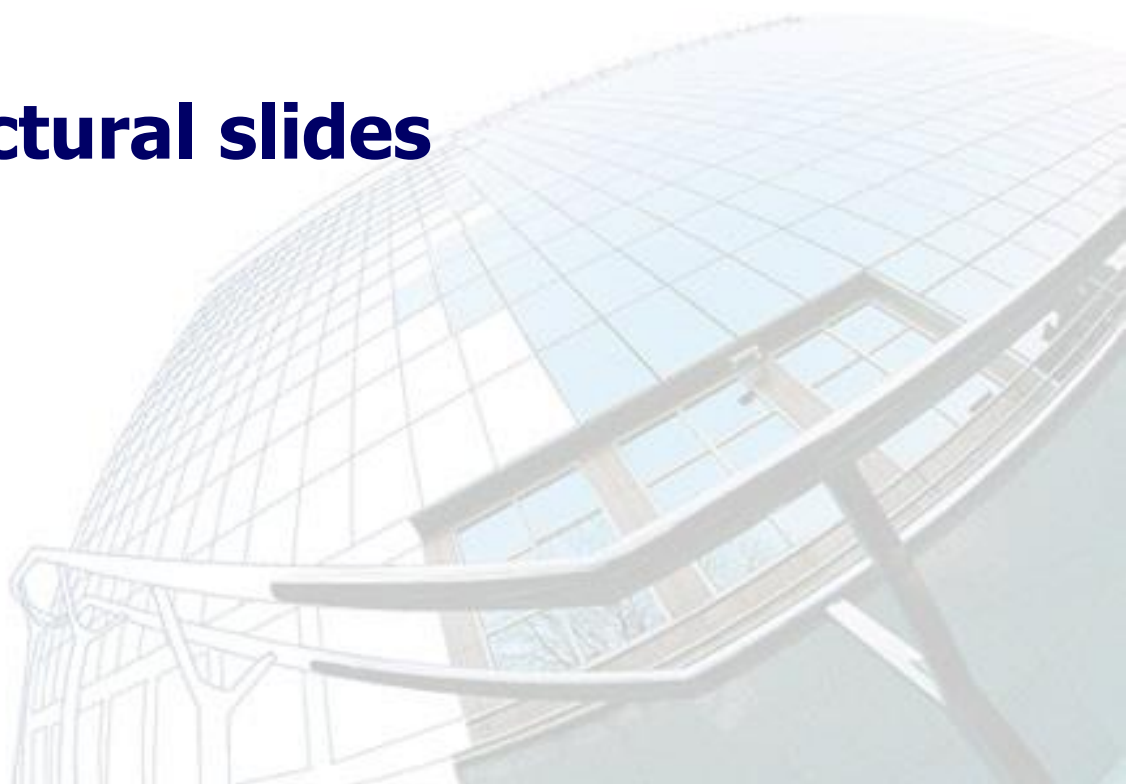
Source: NBS

- Liquidity ratios are constantly at levels significantly higher than the regulatory minimum.
- Liquid assets account for around 45.2% of the total assets of the banking sector in January 2024.
- The loan to deposit ratio that at the end of January 2024 amounted 74.6%, indicates stability of funding and in general the liquidity of the banking sector.



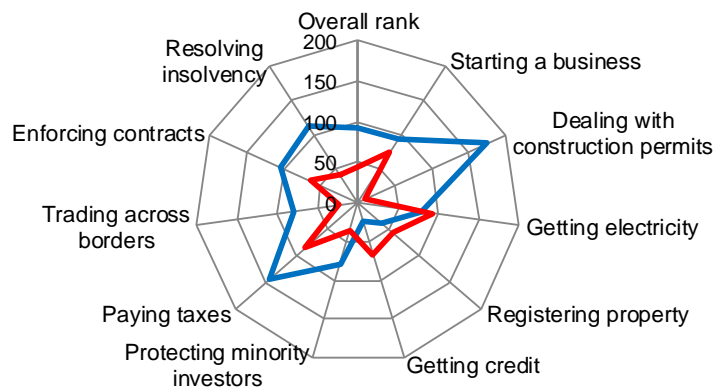


# Structural slides



# Improved Structural Competitiveness Provided Additional Boost to Overall Macroeconomic Performance

Chart 37 Indicators on business regulation, Doing Business  
(rank, lower value means rank improvement)



Source: World bank, *Doing Business Report*.

— 2012 — 2020

Chart 38 Global competitiveness indicators, WEF  
(rank, lower value means rank improvement)



Source: World Economic Forum.

— 2012 — 2019

## Key reform areas in the previous period:

- ☐ Construction sector;
- ☐ Labor market;
- ☐ Tax administration;
- ☐ Financial sector;
- ☐ Contract enforcement and resolving insolvency.

# Regulatory Assumptions were Created for Numerous Repayment Reliefs

## **1. Decision on temporary measures for banks related to housing loans to natural persons (until the end of 2024)**

- ✓ ***For housing loans approved until the Decision came into force:*** for the first housing loan, with variable rate, up to EUR 200,000 gross amount, nominal part of interest rate is capped at 4.08%, that is, nominal part of interest rate from original repayment plan if the loan is approved after 31 July 2022.
- ✓ ***For housing loans approved since the measure came into force:*** for loans with variable interest rate, bank margin is capped at 1.1%, and loans with fixed interest rate are capped via limit to nominal part of interest rate at 5.03%.
- ✓ ***For all housing loans:*** early repayment enabled without penalties

## **2. Reliefs for first time home buyers (permanent measure)**

- ✓ The bank may approve loan in amount of up to 90% value of mortgaged real estate, with lower weighted risk of such exposures, which encourages banks to approve loans with lower client participation

## **3. Relief for clients of cash, consumer and other non-purpose loans**

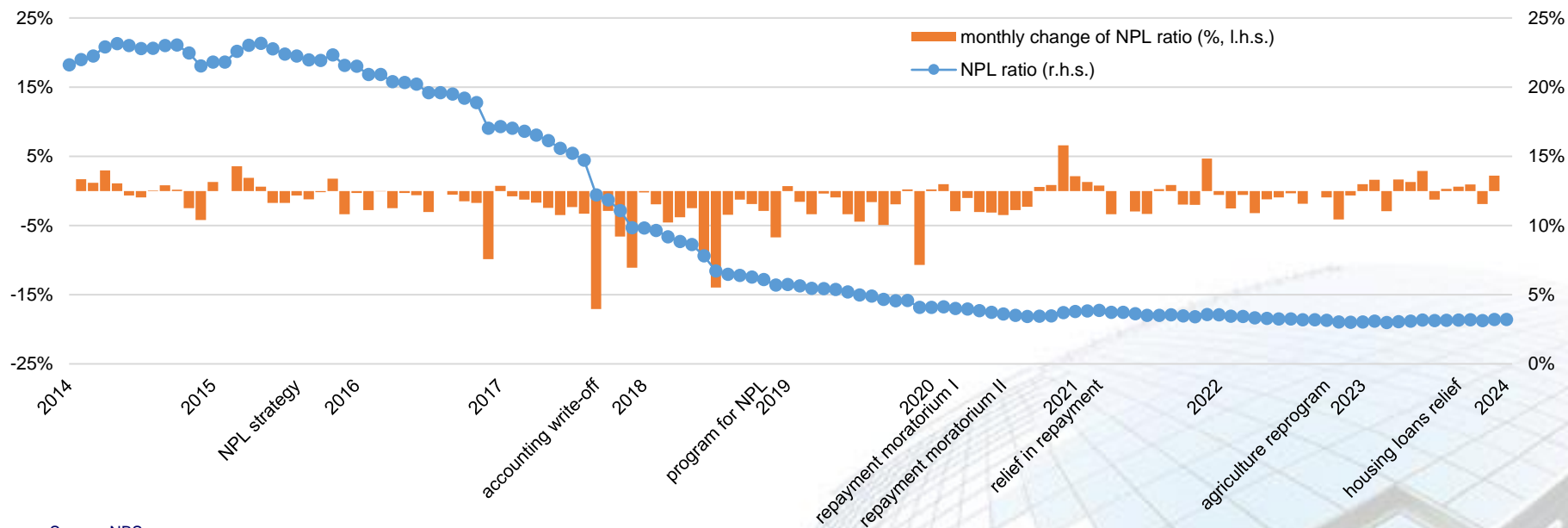
- ✓ Facilitated simplified approval of consumer loans up to 90.000 RSD (measure is extended until the end of 2024)
- ✓ Enabled one restructuring of cash, consumer and other non-purpose loans for natural person without affecting bank capital (adopted in December 2022 as permanent measure)

## **4. Decision on a temporary measure related to the calculation of the bank's capital**

- ✓ From March 2024, the banks are not required to deduct 50% of unrealized (25% from 30 September 2024) losses on government securities issued by the Republic of Serbia, valued at fair value through other comprehensive income, from CET-1 capital (this measure is to be phased-out by 31 December 2024 with gradually decreasing the percentage of deduction)

# Successful Implementation of Measures and Sustainability of Achieved Results - NPL Indicator

Chart 39 NPL Ratio (%)



Source: NBS

- The decrease in NPL ratio by 20.18 p. p., from inherited-post-crisis period record levels (23.18%; May 2015) to as low as 3.00% (March 2023), is the result of a systematic approach to problem solving, timely implementation of adequate measures and sustainability of achieved results.
- The most prominent implemented regulations in terms of results are:
  - Decision on accounting write-off of the bank's balance sheet assets* (Official Gazette of RS 77/2017; in force since September 2017; abb. **accounting write-off**)
  - Strategy for resolving problem loans* (for the period 2015-2018; Government session on August 13, 2015; abb. **NPL strategy**) and its successor *Program for resolving problem loans* (for the period 2018-2020; Government session on December 27, 2018; abb. **program for NPL**)



# Capital Buffers – Implementation of Macroprudential Policy Measures

- Capital buffers increase the resilience of banks to losses, reduce excessive or underestimated exposures and restrict the distribution of capital.
- These macroprudential instruments should limit systemic risks in the financial system, which can be cyclical (capital conservation buffer and countercyclical capital buffer) or structural (capital buffer for a systemically important bank and systemic risk buffer).
- The following capital buffers are used in the Republic of Serbia:
  - Capital conservation buffer;
  - Countercyclical capital buffer, in order to mitigate and prevent excessive credit growth;
  - Capital buffer for a systemically important bank, with the objective to limit the systemic impact of misaligned incentives in terms of favoring certain financial institutions;
  - Systemic risk buffer, introduced to limit the risk of euroisation, one of the key structural non-cyclical systemic risks to the stability of the financial system of the Republic of Serbia.
- The capital conservation buffers may consist only of Common Equity Tier 1 capital equal to 2.5% risk-weighted assets for capital conservation buffer, 1% or 2% risk-weighted assets for capital buffer for systemically important banks, depending on the systemic importance level and 3% of total foreign currency and foreign currency-indexed placements of a bank approved to corporates and households in the Republic of Serbia for systemic risk buffer. Countercyclical buffer rate is set at 0%.
- Capital buffers apply as of 30 June 2017.

\*NBS projection

Serbia	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024*	2025*
<b>Real GDP, y-o-y %</b>	-0,7	2,9	-1,6	1,8	3,3	2,1	4,5	4,3	-0,9	7,7	2,5	2,5	3,5	4,5
<b>Private consumption, in %</b>	-1,7	-1,7	-0,1	-0,6	1,9	2,2	3,1	3,7	-1,9	7,8	4,0	0,8	3,0	3,3
<b>Private investment,<sup>1</sup> in %</b>	14,9	-8,4	-5,2	5,2	2,1	9,5	12,3	13,9	-5,5	10,2	4,0	3,3	5,6	6,1
<b>Government consumption, in %</b>	0,4	-2,1	0,9	-3,7	0,0	2,9	3,8	2,0	2,9	4,3	0,4	0,3	1,5	2,0
<b>Government investment, in %</b>	7,6	-35,8	13,6	14,0	21,2	-6,3	45,3	30,7	11,0	32,4	-3,4	5,4	7,0	7,5
<b>Exports, in %</b>	2,9	18,0	4,3	9,3	12,0	8,2	7,5	7,7	-4,2	20,5	16,6	2,4	4,2	4,8
<b>Imports, in %</b>	-0,6	6,5	5,1	4,0	7,0	11,1	10,8	10,7	-3,6	18,3	16,1	-1,1	7,1	4,9
<b>Unemployment Rate, in %<sup>4</sup></b>	25,9	24,0	20,6	18,9	16,4	14,5	13,7	11,2	9,7	11,1	9,5	9,5		
<b>Nominal Wages, in %<sup>5</sup></b>	9,0	6,2	1,4	-0,2	3,7	3,9	6,5	10,6	9,4	9,6	13,8	14,8		
<b>Money Supply (M3), in %</b>	9,4	4,6	7,6	6,6	11,6	3,6	14,5	8,4	18,1	13,3	6,9	12,4		
<b>CPI,<sup>2</sup> in %</b>	7,3	7,9	2,1	1,4	1,1	3,2	2,0	1,9	1,6	4,0	11,9	12,1	4,5	3,0
<b>National Bank of Serbia Key Policy Rate,<sup>3</sup> in %</b>	11,25	9,5	8,00	4,50	4,00	3,50	3,00	2,25	1,00	1,00	5,00	6,50	6,50	
<b>Current Account Deficit BPM-6 (% of GDP)</b>	-10,9	-5,8	-5,6	-3,5	-2,9	-5,2	-4,8	-6,9	-4,1	-4,2	-6,9	-2,6	-4,0	-4,8

<sup>1</sup> Excluding the effect of change in inventories

<sup>2</sup> Average inflation in corresponding year.

<sup>3</sup> Latest data

<sup>4</sup> Labour Force Survey. Data are revised according to the LFS methodology from 2021. From 2021 data are aligned with the Census 2022. Data for 2023 is average of four quarters 2023 data.

<sup>5</sup> Since 2018, nominal wages published according to the new methodology. Data for 2023 is data for the period January-December 2023.

# Banking Sector Overview

Serbia	2015	2016	2017	2018	2019	2020	2021	2022	2023	January 2024
Number of banks <sup>1</sup>	30	31	29	27	26	26	23	21	20	20
Employees	24,257	23,847	23,055	22,830	23,087	22,823	22,550	21,995	21,899	21,933
Branches	1,730	1,719	1,627	1,598	1,598	1,576	1,515	1,371	1,341	1,343
HHI Assets	796	813	813	779	800	786	867	936	986	976
Share of foreign banks, %	76.1	76.7	76.9	75.4	75.7	86.0	87.0	83.6	76,9	76.5
Assets (net), EUR m	25,059	26,253	28,440	31,931	34,731	39,177	42,943	46,525	50,705	50,836
Capital, EUR m	5,090	5,122	5,631	5,725	6,002	6,098	6,121	6,138	6,981	7,119
Loans (gross), EUR m	16,175	16,442	17,565	19,406	21,111	23,439	25,939	28,142	28,534	28,763
Of which gross NPL, EUR m	3,491	2,800	1,730	1,105	862	871	927	848	916	922
Gross NPL ratio, %	21.6	17.0	9.8	5.7	4.1	3.7	3.6	3.0	3,2	3.2
IFRS impairment of NPLs	62.3	67.8	58.1	60.2	61.5	59.0	56.3	58.1	60,5	60.6
Deposits, EUR m	16,523	18,242	19,926	23,115	25,197	28,984	32,483	35,506	38,389	38,446
Pretax Income, EUR m	80.0	172.0	579.8	595.8	543.5	357.5	419.7	748.1	1179,1	135.5
CAR <sup>2</sup> , %	20.9	21.8	22.6	22.3	23.4	22.4	20.8	20.2	21.4	21.4
CET1 ratio % <sup>2,3</sup>	-	-	21.5	21.1	22.3	21.6	19.7	18.8	19.7	19.7
Leverage% <sup>2,3</sup>	-	-	11.1	12.6	13.6	12.4	11.1	10.3	10.4	10.4
Liquidity ratio	2.1	2.1	2.0	2.0	2.2	2.2	2.1	2.2	2.5	2.6
Liquidity coverage ratio <sup>3</sup> , %	-	-	239.5	213.3	199.3	211.8	199.8	177.5	193.7	207.7
FX ratio, %	4.4	2.7	2.9	4.5	1.5	1.0	1.0	1.8	1.2	1.4
ROA, %	0.3	0.7	2.1	2.1	1.7	1.1	1.1	1.9	2.4	3.2
ROE, %	1.6	3.4	10.6	11.3	9.8	6.5	7.5	13.8	18.0	23.1
Net interest margin <sup>4</sup> , %	4.3	3.9	3.7	3.6	3.3	3.0	2.7	2.9	4.0	4.2

<sup>1</sup> The NBS revoked operating licence from Univerzal banka Beograd on 31 January 2014 and from Jugobank Jugbank Kosovska Mitrovica on 2 April 2018. The NBS issued operating licence to Mirabank on 16 December 2014 and the bank started its operations in April 2015. The NBS issued operating licence to Bank of China Srbija on 20 December 2016. The Findomestic bank w as merged to Direktna bank on 1 July, 2017. Jubanka ad Beograd w as merged to AIK bank on 23 Decembar, 2017. Pireaus bank w as merged to Direktna bank on 26 October, 2018. Vojvođanska bank w as merged to OTP bank 25. April, 2019 (consolidated under Vojvođanska brand). OTP bank w as merged into Vojvođanska banka 29. April, 2021 (consolidated under OTP brand). mts bank w as merged to Banka Poštanska Štedionica on 30 Jun 2021. Direktna bank w as merged into Eurobank Direktna on 10 December 2021. NLB bank w as merged into Komercijalna bank on 29 April 2022 under the NLB - Komercijalna banka name. Naša AIK bank w as merged into AIK bank on 01 December 2022. RBA bank w as merged into Raiffeisen bank on 29 April 2023.

<sup>2</sup> The last available data of 31.12.2023

<sup>3</sup> Introduced by the implementation of Basel 3 and monitored from 30 June 2017

<sup>4</sup> Net interest margin to average total asset