Macroeconomic Developments in Serbia

July 2023
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 2020-2022 of around 9%, 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 peaked in Q1 2023 as expected, and since April it has been on a declining path (13.7% y/y in June). The fall in inflation will most certainly intensify in H2, while the return to the target tolerance band is expected in mid-2024. The May projection is fundamentally unchanged compared to the previous one.

- We have kept the projected growth rate of Serbia's GDP for this year at 2.0-3.0%, which is what we expected in February as well. However, we have changed the projected structure of growth compared to expectations from February, which is now more favorable from the point of view of its sustainability – we now expect positive contribution of fixed investment and net export and slower growth of private consumption compared to overall GDP. Projected GDP growth for 2024 ranges from 3% to 4%, and in the medium term we expect a return to pre-crisis growth rates of 4%.

- According to SORS data, real GDP growth in Q1 2023 stood at 0.7% (0.4% s.a. according to our estimate), which is in broadly line with our GDP growth projection for 2023.

- Taking into account significantly more favorable conditions and assumptions compared to February, during the forecasting round in May CAD projection for 2023 was also revised, from EUR 4.7 bn (6.9% of GDP) to (EUR 3.1 bn (4.5% of GDP).

- Owing to product and geographic diversification and export-oriented investments, goods and services exports in 2022 increased by more than 30%, while the y/y growth in Jan-May 2023 stood at around 15%.

- According to LFS, the unemployment rate in 2022 stood at the lowest level 9.6% (revised data according to Census 2022) and in Q1 2023 was 10.1%. Formal employment continued to grow in the period January-May 2023 by 2.8% y/y.

- In May 2023 central government public debt stood at the level of 51.4% of GDP, which is 0.8 pp higher than in April.

- In July, the NBS decided to raise the key policy rate by 25 bp to 6.5%, as it assessed that monetary conditions need to be moderately tightened further to prevent a rise in inflation expectations and ensure that inflation strikes a sustainable downward path and returns within the target tolerance band in the projection horizon.

- Banking sector stability has been preserved and further reinforced. The share of NPLs stood at 3.09% in May 2023.
Inflation Decreased in June to 13.7%; Core Inflation Still Lower than Headline

In accordance with NBS expectations, the peak of inflation was reached in Q1...

• In the period of seven years prior to the outbreak of the current crisis, inflation averaged around 2%.
• Average annual inflation in 2022 was 11.9% and was led by supply-side factors: the global energy crisis, lingering consequences of the pandemic, and the drought that hit our region.
• In June 2023 inflation further slowed down and stood at 13.7% y/y which is in line with NBS expectations. The contribution to decreasing of overall inflation in June mostly came from the decline in the contribution of food and energy prices.

...lower level of core inflation compared to the headline

• In the period before the outbreak of the current crisis, core inflation also averaged around 2%.
• Core inflation also slowed down to a single-digit level of 9.9% y/y in June 2023, which was contributed by the preserved relative stability of the exchange rate and preserved business and consumer confidence.
• Short-term inflation expectations of the financial sector amounted to 8.0% (Ipsos June survey). Expected inflation of the financial sector for two and three years ahead are lower and measured 5.0% for two years ahead and 3.7% for three years ahead.
Inflation Started to Decline and Will Fall Rapidly in the Second Half of 2023

Inflation is on a downward path starting from Q2...

• Inflation is on the decline from Q2, which will be particularly pronounced in the second half of 2023, due to the effect of last year’s high base.
• With the drop in prices of energy and cereals over the past few months, and the resolution of most of the global supply bottlenecks, cost-push pressures have eased substantially.
• Cost pressures should ease further with the new agricultural season.
• The disinflationary effects will also come from the previous tightening of monetary policy, a slowdown of imported inflation, as well as lower external demand.

...returning to the target tolerance band in the middle of 2024

• The key risks to the projection are related to the outlook for global economic growth and its impact on global energy and commodity prices, geopolitical tensions, and the impact of monetary policy tightening by leading central banks.
• The risks from the domestic market are mainly related to the agricultural season.
• Overall, the risks of the inflation projection are assessed as symmetrical and still elevated.
GDP Growth Projection for 2023 Unchanged in the Range of 2% to 3% With a More Favorable Structure

Growth in the 2023 led by private consumption fixed investment and net exports

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

• 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 9.0% in three years of crisis (2020-2022).

• According to the SORS data, GDP recorded real growth of 0.7% y/y in Q1 2023 (0.4% s.a. according to our estimate), which is in line with our growth projection for 2023.

• On the production side, growth in Q1 was driven by the service sector (0.7 p.p.), industry (0.5 p.p.) and agriculture (0.2 p.p.). The negative contribution to growth came from the net taxes (-0.2 p.p.) and construction sector (-0.1 p.p.).

• We have kept the projected growth rate of Serbia’s GDP for this year in the range of 2.0-3.0%, as we expected in February. However, we have changed the projected structure of growth compared to expectations from February, which is now more favorable from the point of view of its sustainability – positive contribution of fixed investment and net export and slower growth of private consumption than overall GDP.

• From the production side, according to our estimates, growth will primarily be driven by the growth of service sectors, while we expect a positive contribution to growth to come from construction and agriculture, as well as from the industry, unlike the February projection when we projected stagnation. We have kept the growth projection for 2024 in the range of 3.0% to 4.0%.
Investments Remain at a High Level

Preceded by achieved macroeconomic stability, new investment cycle began in 2015…

…supported by diversified financing sources

- In 2015-2019, fixed investments cumulative real growth was about 64%. The share of fixed investment in GDP increased to 22.5% in 2019. Despite pandemic, fixed investments cumulatively increased in real terms during 2020 and 2021 for around 14%.
- According to our estimate, the share of fixed investments in nominal GDP in 2022 has reached the level of around 23%. Government investments reached level of over 7% of GDP in 2021 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 ten years, we expect share of investment in GDP to stay high.
- In earlier years, investments have largely relied on FDI.
- Owing to maintained macroeconomic and financial stability, exchange rate stability, 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 7% of GDP.
Macroeconomic and financial stability combined with structural reforms has created a favourable climate for FDIs…

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

- Out of an inflow of EUR 18.6 bn in past five years (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).

- In the first five months of 2023, FDI inflow amounted to EUR 1.8 bn (net inflow EUR 1.7 bn), increased by around 60% compared to the same period last year.

- FDI inflows are diversified by region of origin as well, with a greater share of countries from the Asia Pacific, alongside Serbia’s major trading partner - the European Union.
In 2022 CAD Was Under the Influence of the Energy Crisis, In Medium Term Under the New Investment Cycle

CAD projection for 2023 decreased to 4.5% of GDP due to lower energy import prices and robust export growth

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).
- In 2022, CAD amounted to EUR 4.1 bn (6.9% of GDP), with about half of total value realized in first four months of the year, due to high energy import prices.
- However, more favourable conditions in relation to energy prices starting from May, contributed to lower CAD than projected in 2022.
- During Jan-May of 2023., a current account deficit was lower than EUR 200 mln, which represents a reduction of as much as EUR 2.3 bn compared to the same period in 2022.

CAD increase will be driven by new investment cycle and increase in inventories

Chart 12 Savings and investment balance (% of GDP)

- The share of private sector savings increased in 2020 due to reduced domestic consumption and lower energy prices, and them rebounded during 2021 and 2022.
- The share of gross domestic investment in GDP increased during 2022, after a slight decrease in 2020 and stagnation in 2021, primarily due to the growing share of gross private sector investment.
- Due to that, in 2022 there was a deepening of the S-I gap, driven by global energy price increases.
- It is expected that the S-I gap in 2023 will record a certain decrease compared to the previous year.
Demonstrated Exports Resilience During the Pandemic and the Crisis in Ukraine; Import Growth Led by Energy Import

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

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

- In 2022, there was an intensive growth of exports of goods of 28.0%, driven by the strong growth of exports of the manufacturing and mining sectors, which represents a continuation of favorable trends from 2021.

- The growth of exports of services in 2022 amounted to 42.1% and was driven by exports of tourism and ICT services. A total of more than EUR 11 bn was recorded in the export of services.

- During Jan-May of 2023, an increase in goods exports of around 10% y/y was recorded, while the exports of services increased by around 30% y/y.
Geographic Diversification Helped Foreign Trade Resilience During Pandemic and Ukraine Crisis

Exports to most significant partners increases in the 2022 compared to the previous year

Chart 15 Goods exports by country in 2021 / 2022
(EUR mn and % of total)

Chart 16 Goods imports by country in 2021 / 2022
(EUR mn and % of total)

- Serbia’s exports are largely directed towards EU and countries of the region, and reliant on demand in those countries, which remained strong in 2022. In 2022, most of Serbian exports went to the EU, followed by CEFTA and CIS.

- By country, the largest share of exports went to Germany (13.7%), followed by Bosnia and Herzegovina (7.5%), Italy (7.2%), Hungary (5.4%) Romania (4.4%) and Croatia (4.2%).

- Exports to China in 2022 accounted for 4.0% of all exports. Growth was recorded in the last three years, including even 2020, so China is highly positioned and rising on the list of Serbian export partners.

- Majority of imports (around 58% in 2022) come from the EU, followed by CIS and CEFTA.

- In 2022, imports in absolute terms (as well as exports) increased in most significant countries.

- By country, the largest shares of imports came from China (12.1%), whereas the share of imports from Germany stood at 11.4% in 2022. The countries that follow are Russia (7.5%), Italy (6.6%) and Hungary (5.5%).
Favourable Developments in the Labour Market and Productivity Growth

Unemployment rate for Q1 2023 is 10.1%

- According to data from the Labour Force Survey, revised according to Census 2022, the average unemployment rate for 2022 is 9.6%, its lowest level ever.
- In Q1 2023, the unemployment rate was 10.1% and y/y was reduced by 0.8 p.p.
- In the same period, the employment rate approached the level of 50% and amounted to 49.6%, which represents y/y growth by 1.1 p.p. in Q1 2023. The rate of informal employment in Q1 was 12.2% (y/y decrease of 0.6 p.p.).
- The activity rate in Q1 2023 amounted to 55.2%, thus reaching a record level, and by 0.8 p.p. is y/y higher than in Q1 2022.

Significant contribution of total factor productivity and capital to GDP growth

- 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.
- In 2021, productivity increased again and was the main driver of growth, along with investment.
- GDP growth slowed during 2022. Nevertheless, this growth is still driven by productivity and investment growth.
- In the medium term, we expect productivity and capital to be the main drivers of GDP growth, while the contribution of labour will be low.
Nominal Growth in Wages and Employment During 2023

Real wage growth in the private sector in the period January - April 2023

In the period January-April 2023, the nominal average net wage was 83,360 dinars (711 EUR) and is higher by 15.3% y/y. Nominal growth was driven by faster wage growth in the private sector (17.1% y/y) than in the public sector (11.5% y/y).

During 2023, a double-digit y/y growth of average wages was achieved in almost all activities, and the most pronounced was in trade (16.8%), manufacturing (16.4%) and professional and scientific activities (16.2%).

During the four months of 2023, nominal net wages grew slower than inflation (15.8%), so a slight real drop in wage was achieved by 0.4% y/y, while growth in the private sector was 1.5% y/y and in the public sector a real drop of 3.4% y/y.

Total formal employment in the period January - May 2023 was 2.4 million persons and is higher by 2.8% y/y, i.e. it has increased by about 64 thousand persons. This growth was led by private sector growth of 3.5% y/y (an increase of about 59 thousand persons), with a high level of the number of employees in the private sector of about 1.7 million persons. The growth coming from the public sector is 0.8% y/y during five months in 2023 (an increase of about 5 thousand persons).

Y/y growth is present in almost all activities (except agriculture). Growth stands out in the manufacturing and in all service activities of the private sector (especially in ICT, and in professional and scientific activities).
Reduction of the deficit in 2022, despite the challenges from the international environment

In the years before pandemic, Serbia eliminated fiscal deficit, with government investments reaching near 5% of GDP. Higher deficit in 2020 (8.0% of GDP) was a consequence of high expenditures for support measures and purchase of medical equipment. In 2021 a fiscal deficit was RSD 4.1% of GDP, mostly influenced by the new stimulus package in the amount of 4.2% of GDP.

In 2022, a fiscal deficit was recorded in the amount of RSD 221.2 bn (3.1% of GDP), which continued the trend of reducing the fiscal deficit. In addition, the realized deficit is significantly lower than planned (3.8% of GDP). In medium run, we expect its return to the level of around 1% of GDP.

In H1 2023, central government budget surplus was recorded at the level of 0.4% of GDP, due to a double increase in revenues compared to expenditures.

In 2021 public debt was reduced to 56.5% of GDP, despite the issuance of three Eurobonds, which were intended to cover the growing financial needs due to the pandemic. In 2022 public was reduced to 55.1% of GDP, despite the impact of the global energy crisis on the growth of budget expenditures and the procurement of energy sources.

At the end of May 2023, the share of public debt in GDP amounted to 51.4% and increased by 0.8 pp relative to April, partly due to an increase in debt in RSD and EUR, and partly due to negative exchange rate differences.

Public debt is expected to remain on a downward trajectory in the coming years with further reduction of currency risk.
In July 2023, the key policy rate is raised by 0.25 p.p. to 6.5%.

The decision takes into account the following factors:

• necessity to continue to moderately tighten monetary conditions to prevent a rise in inflation expectations and ensure that inflation strikes a sustainable downward path and returns within the target tolerance band in the projection horizon,

• that inflation at the global level is showing signs of greater resilience than anticipated and caution is also mandated by core inflation, which is receding at a slower pace than headline in many countries, due to the elevated inflation expectations and labor market factors, most of all further wage growth,

• the need to pursue a cautious approach to monetary policy conduct due to the uncertainty regarding the duration of the conflict in Ukraine, as well as the availability of energy resources and their prices in the coming period.

- Last time FX RR ratio was cut in 2016 aiming to support lending activity (to 20%/13%, for liabilities up to/over 2Y).

- RR is an important monetary policy tool (in April 2023 RR amounted to EUR 2.8 bn and RSD 280.4 bn), as well as an important macroprudential tool within dinarisation strategy:
  - by applying lower RR ratio on dinar vs FX sources,
  - by applying remuneration on dinar RR (i.e. „standard“ rate 0.75% and „beneficial“ rate of 1.25% under predefined conditions, on amount on dinar lending in line with state loan guarantee schemes), while no remuneration is applied on FX RR.
Monetary Conditions Determined Financing Conditions of the Government and Private Sector

Interest rates on dinar government securities are on higher level...

- The share of long-term securities (5+ year maturity) increased from 2% in 2012 to 80% in 2023, supported by the extension of the dinar yield rate curve up to 12 years in February 2020.
- Serbia’s dinar-denominated bonds are included in renowned J.P. Morgan GBI-EM family of indices as of 30 June 2021, which contribute to even greater recognition of Serbia as a safe and favorable investment destination.
- Dollar-denominated bonds issued in January 2023 ($750 million, 5y, coupon rate 6.25%; and $1 billion, 10y, coupon rate 6.5% - which are relatively favorable financing conditions, especially if compared to countries that already have investment rating), were included on January 31, 2023 in J.P. Morgan's risk premium indicator EMBI Global.

... as well as interest rates on private sector loans

- The tightening of monetary conditions from October 2021 was accompanied by an increase in interest rates on new dinar loans to the corporates and households, which in May 2023 amounted to:
  - 6.5% for corporates,
  - 13.7% for households.
- Interest rates on euro-indexed loans on the domestic market also recorded an increase due to the tightening of the ECB's monetary policy.
In Line With the Higher Borrowing Costs, Credit Activity is Slowing Down

Credit activity continues to slow its growth…

... due to slowdown of corporate loans (because of maturing of guarantee scheme loans)…

- Total domestic loans recorded y/y growth rate of 1.3% in May, as a slowing of growth reflects the high base from the previous year, the maturing of guarantee scheme loans, as well as the tightening of the monetary policy of the NBS and the ECB.

- Structure of loans remained a favourable in terms of the contribution to economic recovery, as growth was led by
  - investment loans within corporate loans,
  - housing loans within household loans.

- In May, investment loans amounted to 40.6% of total corporate loans, while the share of liquidity and current assets loans equaled to 46.7%.

- Micro, small and medium-size enterprises loans amounted to 60% of total corporate loans in May.
Relative Stability of Exchange Rate is Maintained Even in the Circumstances of Intensified Global Uncertainty

Serbia's risk premium is influenced by factors from international environment

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

- Serbia's risk premium for debt denominated in euro was reduced in the six months of 2023 by 82 bp, and for debt in dollars by 30 bp.
- Fitch and S&P confirmed Serbia rating at BB+, with a stable outlook (Fitch in February 2023, S&P in April 2023)
- As factors that determine the retention of the credit rating despite unfavorable developments in the international environment, the agencies point out: a credible framework of macroeconomic policy, especially monetary policy, an adequate level of foreign exchange reserves, preservation of a moderate level of public debt, and strengthening financial stability, with the level of non-performing loans at a historically low level.

- The dinar remained broadly unchanged against the euro in 2022 (0.2% appreciation in 2022) and in 2023 (0.1% appreciation in H1 2023).
- Appreciation pressures, present since May to the end of 2022, are gaining ground again since February this year.
- In June FX supply strongly outstripped demand on IFEM, mostly thanks to FX sales from domestic companies and the purchases of foreign cash. The NBS intervened mostly on FX purchase side, bringing the amount of net purchases in the IFEM to EUR 1860 mn in H1 2023.
- FX reserves reached new record of € 22.6 bn in June 2023 and are well above the standard for determining their adequacy.
Since the Adoption of the Strategy, Significant Progress Has Been Made in the Field of Dinarization

Macroeconomic stability contributing to dinarisation process

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

Households are predominantly indebted in dinars and dinar savings records higher volumes

• NBS stimulates the dinarisation process by delivering low and stable inflation in medium-term, preserving relative exchange rate stability, enhancing management of FX risks and exposures in the private sector, and using other measures.

• The Government contributes to dinarisation through tax policy, by developing the dinar securities market - dinar debt share rose from 2.5% in 2008 to 22.8% in May 2023.

• Dinarisation of corporate and household sector deposits rose by 21.6 pp compared to end-2012 to 40.9% (May 2023). Dinarisation of corporate and household sector claims amounted to 34.2% in May 2023 (up by 6.2 pp compared to end-2012).

• Over the past years, dinarisation of household receivables had a firm upward trend as a result of a sharp drop in dinar interest rates, low and stable inflation as well as NBS measures aimed to support dinarisation – an upsurge from 35.1% (2012) to 52.9% (May 2023).

• Dinar savings of households (residents) recorded strong growth in past four years (22% in 2018, 31% in 2019, 17% in 2020, and 12.0% in 2021).

• The temporary reduction of dinar savings at the beginning of 2022 in conditions of growing uncertainty caused by the escalation of geopolitical tensions at the international level was interrupted in June 2022, since when dinar savings is on the rise again reaching new maximum levels.
Traditional Banking
Mostly Financed by Domestic Deposits

Adequate structure of banking sector assets

Chart 33 Structure of banking sector assets
(RSD bn)

- 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 12.9% of the total net banking sector assets at the end of May 2023.

- Stability of retail and corporate deposits in funding mix is present, with share in total liabilities of 43% and 32%, respectively at the end of May 2023.

- Despite high loan portfolio euroization, currency matching of assets and liabilities is present, with net open position of 2.0% of regulatory capital at end of May 2023.

Improving the quality of the banking sector assets

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

- Successful implementation of NPLs resolution activities, led to a record low level of NPL amounts. The amounts of NPL for the first quarter 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 May 2023, the largest share in non-performing loans was made by the household sectors (55.6%) and corporate (30.6%).
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

Serbian banking sector is highly liquid

Chart 36 Liquidity indicators of the Serbian banking sector

- 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 March 2023 amounted to 10.3%.

- Liquidity ratios are constantly at levels significantly higher than the regulatory minimum.
- Liquid assets account for around 42.4% of the total assets of the banking sector in May 2023.
- The loan to deposit ratio that at the end of May 2023 amounted 79.6%, 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

Key reform areas in the previous period:

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

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

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


Undertaken measures and activities – response to current crisis events

1. **Moratorium and reliefs in repayment for households and corporate affected by the pandemic**
   ✓ Two moratoriums in 2020: in March (90 days) and in July (60 days)
   ✓ Six-month grace period provided for the households and corporate most affected by the COVID-19 (December 2020, applications were submitted until the end of April 2021)

2. **Reliefs for housing loan users (2020, valid until the end of 2023)**
   ✓ The amount of housing loan that can be granted to first-home buyer increased to 90% of the value of the mortgaged real estate
   ✓ Reduced minimal level of completion for a building to be financed by a housing loan
   ✓ The possibility of extending the repayment period for five years

3. **Facilitated access to financing and other reliefs for cash, consumer and other non-purpose loans users**
   ✓ Facilitated approval of consumer loans up to 90,000 RSD, (in 2020 when cash loans were included, valid only for consumer loans until 2023)
   ✓ Extending the repayment and refinancing to households who entered loan contracts before the start of pandemic, without affecting capital
   ✓ Enabled one restructuring of cash, consumer and other non-purpose loans for households without affecting capital

4. **Mitigating the effects of changes in securities prices on the financial market**
   ✓ Banks are not required to deduct 70% of unrealized losses on securities issued by the Republic of Serbia, valued at fair value through other comprehensive income from CET-1 capital (adopted in August 2022, valid until the end of 2023)

5. **Precisely defined framework regarding fees related to payment account**
   ✓ Minimum package of payment account services (basic package) is defined
   ✓ The fee that bank can charge for this account is limited to 150 RSD

6. **Temporary reliefs for agricultural producers**
   ✓ Possibility to reprogram obligations for registered agricultural producers (October 2022, applications were submitted until the end of April 2023)
   ✓ Relief is extended to debtors engaged in fruit purchasing and storage in cold storage facilities (January 2023, applications were submitted until the end of April 2023)
Successful Implementation of Measures and Sustainability of Achieved Results - NPL Indicator

• 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*)


  Source: NBS
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.
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<td>0.9</td>
<td>-3.7</td>
<td>0.0</td>
<td>2.9</td>
<td>3.8</td>
<td>2.0</td>
<td>2.9</td>
<td>4.3</td>
<td>0.0</td>
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<td>Government investment, in %</td>
<td>7.6</td>
<td>-35.8</td>
<td>13.6</td>
<td>14.0</td>
<td>21.2</td>
<td>-6.3</td>
<td>45.3</td>
<td>30.7</td>
<td>11.0</td>
<td>32.4</td>
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<tr>
<td>Exports, in %</td>
<td>2.9</td>
<td>18.0</td>
<td>4.3</td>
<td>9.3</td>
<td>12.0</td>
<td>8.2</td>
<td>7.5</td>
<td>7.7</td>
<td>-4.2</td>
<td>19.5</td>
<td>17.6</td>
<td>7.8</td>
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<tr>
<td>Imports, in %</td>
<td>-0.6</td>
<td>6.5</td>
<td>5.1</td>
<td>4.0</td>
<td>7.0</td>
<td>11.1</td>
<td>10.8</td>
<td>10.7</td>
<td>-3.6</td>
<td>17.7</td>
<td>17.8</td>
<td>5.6</td>
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<tr>
<td>Unemployment Rate, in %⁴</td>
<td>25.9</td>
<td>24.0</td>
<td>20.6</td>
<td>18.9</td>
<td>16.4</td>
<td>14.5</td>
<td>13.7</td>
<td>11.2</td>
<td>9.7</td>
<td>11.0</td>
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<tr>
<td>Nominal Wages, in %⁵</td>
<td>9.0</td>
<td>6.2</td>
<td>1.4</td>
<td>-0.2</td>
<td>3.7</td>
<td>3.9</td>
<td>6.5</td>
<td>10.6</td>
<td>9.4</td>
<td>9.6</td>
<td>13.8</td>
<td>15.3</td>
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<tr>
<td>Money Supply (M3), in %</td>
<td>9.4</td>
<td>4.6</td>
<td>7.6</td>
<td>6.6</td>
<td>11.6</td>
<td>3.6</td>
<td>14.5</td>
<td>8.4</td>
<td>18.1</td>
<td>13.3</td>
<td>6.9</td>
<td></td>
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<tr>
<td>CPI,² in %</td>
<td>7.3</td>
<td>7.9</td>
<td>2.1</td>
<td>1.4</td>
<td>1.1</td>
<td>3.2</td>
<td>2.0</td>
<td>1.9</td>
<td>1.6</td>
<td>4.0</td>
<td>11.9</td>
<td>12.7</td>
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<td>National Bank of Serbia Key Policy Rate,³ in %</td>
<td>11.25</td>
<td>9.5</td>
<td>8.00</td>
<td>4.50</td>
<td>4.00</td>
<td>3.50</td>
<td>3.00</td>
<td>2.25</td>
<td>1.00</td>
<td>1.00</td>
<td>5.00</td>
<td>6.50</td>
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<tr>
<td>Current Account Deficit BPM-6 (% of GDP)</td>
<td>-10.9</td>
<td>-5.8</td>
<td>-5.6</td>
<td>-3.5</td>
<td>-2.9</td>
<td>-5.2</td>
<td>-4.8</td>
<td>-6.9</td>
<td>-4.1</td>
<td>-4.2</td>
<td>-6.9</td>
<td>-4.5</td>
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</tbody>
</table>

¹ Excluding the effect of change in inventories
² Average inflation in corresponding year.
³ Latest data
⁴ Labour Force Survey. Data are revised according to the new LFS methodology from 2021. From 2022 data are aligned with the Census 2022. Data for 2023 are Q1 2023 data.
⁵ Since 2018, nominal wages published according to the new methodology. Data for 2023 is data for the period January-April 2023.
## Banking Sector Overview

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Number of banks</strong>¹</td>
<td>29</td>
<td>30</td>
<td>31</td>
<td>29</td>
<td>27</td>
<td>26</td>
<td>26</td>
<td>23</td>
<td>21</td>
<td>20</td>
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<tr>
<td><strong>Employees</strong></td>
<td>25,106</td>
<td>24,257</td>
<td>23,847</td>
<td>23,055</td>
<td>22,830</td>
<td>23,087</td>
<td>22,823</td>
<td>22,550</td>
<td>21,995</td>
<td>21,998</td>
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<tr>
<td><strong>Branches</strong></td>
<td>1,787</td>
<td>1,730</td>
<td>1,719</td>
<td>1,627</td>
<td>1,598</td>
<td>1,576</td>
<td>1,515</td>
<td>1,371</td>
<td>1,360</td>
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<tr>
<td><strong>HHI Assets</strong></td>
<td>794</td>
<td>796</td>
<td>813</td>
<td>813</td>
<td>779</td>
<td>800</td>
<td>786</td>
<td>867</td>
<td>936</td>
<td>993</td>
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<tr>
<td><strong>Share of foreign banks, %</strong></td>
<td>74.5</td>
<td>76.1</td>
<td>76.7</td>
<td>76.9</td>
<td>75.4</td>
<td>75.7</td>
<td>86.0</td>
<td>87.0</td>
<td>83.6</td>
<td>82.4</td>
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<tr>
<td><strong>Assets (net), EUR m</strong></td>
<td>24,545</td>
<td>25,059</td>
<td>26,253</td>
<td>28,440</td>
<td>34,731</td>
<td>39,177</td>
<td>42,943</td>
<td>46,525</td>
<td>47,532</td>
<td>47,532</td>
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<tr>
<td><strong>Capital, EUR m</strong></td>
<td>5,074</td>
<td>5,090</td>
<td>5,122</td>
<td>5,631</td>
<td>5,725</td>
<td>6,002</td>
<td>6,098</td>
<td>6,121</td>
<td>6,138</td>
<td>6,239</td>
</tr>
<tr>
<td><strong>Loans (gross), EUR m</strong></td>
<td>16,170</td>
<td>16,175</td>
<td>16,442</td>
<td>17,565</td>
<td>19,406</td>
<td>21,111</td>
<td>23,439</td>
<td>25,939</td>
<td>28,142</td>
<td>28,188</td>
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<tr>
<td>Of which gross NPL, EUR m</td>
<td>3,483</td>
<td>3,491</td>
<td>2,800</td>
<td>1,730</td>
<td>1,105</td>
<td>897</td>
<td>927</td>
<td>848</td>
<td>871</td>
<td>871</td>
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<tr>
<td><strong>Gross NPL ratio, %</strong></td>
<td>21.5</td>
<td>21.6</td>
<td>17.0</td>
<td>9.8</td>
<td>5.7</td>
<td>4.1</td>
<td>3.6</td>
<td>3.0</td>
<td>3.1</td>
<td>3.1</td>
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<tr>
<td><strong>IFRS impairment of NPLs</strong></td>
<td>54.9</td>
<td>62.3</td>
<td>62.9</td>
<td>58.1</td>
<td>60.2</td>
<td>59.0</td>
<td>56.3</td>
<td>58.1</td>
<td>58.5</td>
<td>58.5</td>
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<tr>
<td><strong>Deposits, EUR m</strong></td>
<td>15,637</td>
<td>16,523</td>
<td>18,242</td>
<td>19,926</td>
<td>23,115</td>
<td>25,197</td>
<td>28,984</td>
<td>32,483</td>
<td>35,506</td>
<td>36,311</td>
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<td><strong>Pretax Income, EUR m</strong></td>
<td>29.0</td>
<td>80.0</td>
<td>172.0</td>
<td>579.8</td>
<td>595.8</td>
<td>543.5</td>
<td>357.5</td>
<td>419.7</td>
<td>748.1</td>
<td>522.1</td>
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<tr>
<td><strong>CAR² , %</strong></td>
<td>20.0</td>
<td>20.9</td>
<td>21.8</td>
<td>22.6</td>
<td>22.3</td>
<td>23.4</td>
<td>22.4</td>
<td>20.8</td>
<td>20.2</td>
<td>20.6</td>
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<tr>
<td><strong>CET1 ratio %²,³</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>21.5</td>
<td>21.1</td>
<td>22.3</td>
<td>21.6</td>
<td>19.7</td>
<td>18.8</td>
<td>19.2</td>
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<tr>
<td><strong>Leverage%²,³</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>11.1</td>
<td>12.6</td>
<td>13.6</td>
<td>12.4</td>
<td>11.1</td>
<td>10.3</td>
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<tr>
<td><strong>Liquidity ratio</strong></td>
<td>2.2</td>
<td>2.1</td>
<td>2.1</td>
<td>2.0</td>
<td>2.0</td>
<td>2.2</td>
<td>2.2</td>
<td>2.1</td>
<td>2.2</td>
<td>2.4</td>
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<tr>
<td><strong>Liquidity coverage ratio %³</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>239.5</td>
<td>213.3</td>
<td>199.3</td>
<td>211.8</td>
<td>199.8</td>
<td>177.5</td>
<td>178.3</td>
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<tr>
<td><strong>FX ratio, %</strong></td>
<td>3.9</td>
<td>4.4</td>
<td>4.2</td>
<td>2.9</td>
<td>4.5</td>
<td>1.5</td>
<td>1.0</td>
<td>1.8</td>
<td>1.8</td>
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<tr>
<td><strong>ROA, %</strong></td>
<td>0.1</td>
<td>0.3</td>
<td>0.7</td>
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<td>2.1</td>
<td>1.7</td>
<td>1.1</td>
<td>1.1</td>
<td>1.9</td>
<td>2.7</td>
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<tr>
<td><strong>ROE, %</strong></td>
<td>0.6</td>
<td>1.6</td>
<td>3.4</td>
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<td>11.3</td>
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<td>7.5</td>
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<td><strong>Net interest margin %⁴</strong></td>
<td>4.3</td>
<td>4.3</td>
<td>3.9</td>
<td>3.7</td>
<td>3.6</td>
<td>3.3</td>
<td>3.0</td>
<td>2.7</td>
<td>2.9</td>
<td>3.7</td>
</tr>
</tbody>
</table>

¹ 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 was merged to Direktna bank on 1 July, 2017. Jubanka ad Beograd was merged to AIK bank on 23 December, 2017. Preamus bank was merged to Direktna bank on 26 October, 2018. Vojvodanska banka was merged to OTP bank 25, April, 2019 (consolidated under Vojvodanska brand). OTP bank was merged into Vojvodanska banka 29, April, 2021 (consolidated under OTP brand). mts bank was merged to Banka Poštanska Štedionica on 30 June 2021. Direktna bank was merged into Eurobank Direktna on 10 December 2021. NLB bank was merged into Komercijalna bank on 29 April 2022 under the NLB - Komercijalna banka name. Naša AIK bank was merged into AIK bank on 01 December 2022. RBA bank was merged into Raiffeisen bank on 29 April 2023.

² The last available data of 31.03.2023

³ Introduced by the implementation of Basel 3 and monitored from 30 June 2017

⁴ Net interest margin to average total asset