

SERBIA : MACRO OUTLOOK

Serbia: Resilience meets a harder environment

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Economy Serbia – Analyses and Forecasts | Erste Group Bank AG
June 8, 2026

Note: Information on past performance is not a reliable indicator for future performance.
Forecasts are not a reliable indicator for future performance.

Spot Rates as of: June 8, 2026

Growth resilient, but the risk backdrop has hardened

Three things are worth highlighting since our March outlook. First, the Middle East shock did not de-escalate on the short timeline our baseline assumed. Instead, it continues to run through a prolonged and choppy phase, with Brent posting a record monthly gain in March and only a tentative, still-fragile easing emerging now. Second, the cyclical data came in firmer than expected. 1Q26 real GDP printed 3.2% y/y, with the composition tilted decisively toward consumption while investment surprised to the downside. Third, president Vučić hinted early parliamentary election could be held this autumn. Taking into account solid 1Q26 performance and solid April data, we revised FY26 growth up by 0.3pp to 2.9% y/y, while leaving the 2027 forecast unchanged at 4% y/y. We expect consumption will remain supported by strong wage gains and tightening labour market. Expo related construction pipeline should lead to moderate investment growth while exports are showing better than expected performance due to solid automotive production in the Stelantis factory. Inventories, while currently a drag on growth, could reverse once the NIS situation resolves in 2H26 and stock rebuilding phase begins.

In March we framed our projections on the expectation that the conflict that began in late February would de-escalate over a relatively short period, with oil and gas prices declining gradually over the following months. That assumption has only partly held. The conflict proved more persistent. Brent spiked into triple digits in March, the Strait of Hormuz was functionally disrupted at several points, and a sequence of conditional, short-duration ceasefires repeatedly faltered. As of late May, prices have eased from the peak but remain roughly a third above pre-war levels, and sustainable end of conflict is still not in hand. We now treat the energy environment as the adverse path partially realized rather than avoided, and our forecasts assume only a gradual normalization through 2H26. Inflation worries are not purely energy related. Core inflation rose to 4.4% y/y in April, confirming that services, wages and domestic demand are keeping non-tradable inflation sticky independent of energy. We expect this year's average inflation to land close to 4% y/y, while next year, due to prolonged second round effects, low base for 1Q26 and Expo related service price pressure, we see even slightly higher average CPI.

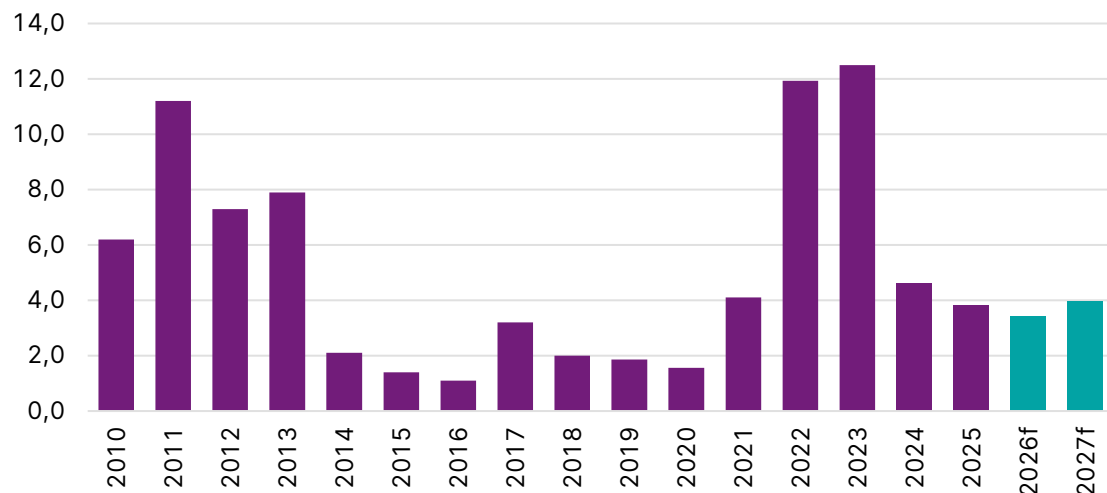
Space for monetary easing has effectively closed

The NBS Executive Board held the key policy rate at 5.75% through March, April and May, alongside the deposit (4.5%) and lending (7.0%) facility rates. The Board continues to argue that inflation should remain within the $3\% \pm 1.5\text{pp}$ band over the medium term, while explicitly acknowledging that higher world oil and energy prices will lift domestic fuel prices. In our read, the bar for near-term easing has risen after the release of 1Q26 GDP data. Household consumption growth at 4.8% y/y, the strongest reading in two years, adds a clear demand-pull dimension to the cost-push case from energy, and is exactly the configuration the central bank cannot look through. We now expect the NBS to remain on hold at 5.75% through end-2027, with the first cut deferred to 2028 and conditional on a durable retreat in energy prices and clear evidence that core inflation and inflation expectations are not drifting higher. Our model keeps inflation at or above 5% y/y from September until the middle of 2027. The risk distribution around the policy path is now two-sided but tilted toward higher for longer.

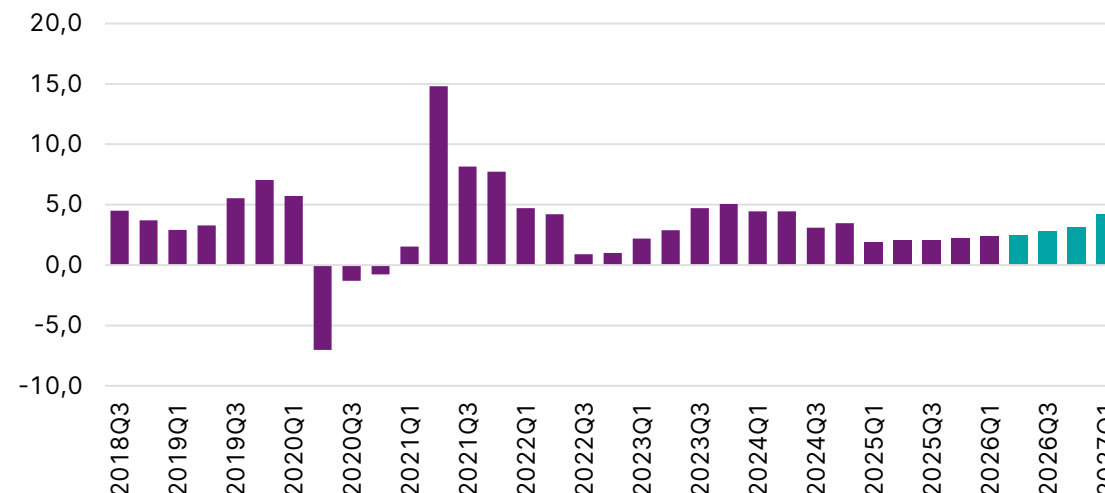
Fiscally, Serbia still looks solid in the near term, but the list of claims on its fiscal space has lengthened. Pre-election spending temptations, Expo-related capex, and the potential cost of energy-sector intervention. The political environment has become a bigger factor now with early elections confirmed for the autumn. The asymmetry we warned about is in play, since it is far easier to add one-off support, accelerate wage and pension measures, or widen subsidies than to claw them back within-year. Our baseline still aligns with the authorities' framework meaning deficits around 3% of GDP in 2026 and 2027 with broadly stable debt. The downside case, in which deficits drift into the 4.5–5.5% of GDP range in 2026 and debt rises is not fully of the table. The NIS resolution, meanwhile, has stalled rather than closed. The MOL transaction has slipped past successive US deadlines and the refinery is operating on a temporary license until middle of this month. The EUR 2.9bn multi-tranche Eurobond launch in late April effectively pre-funds this year's external financing needs removing the pressure to return to markets in 2H26 when inflation-driven spread widening and election related risk premia could mean higher financing cost.

Early year growth firmer than feared

Annual inflation, percent

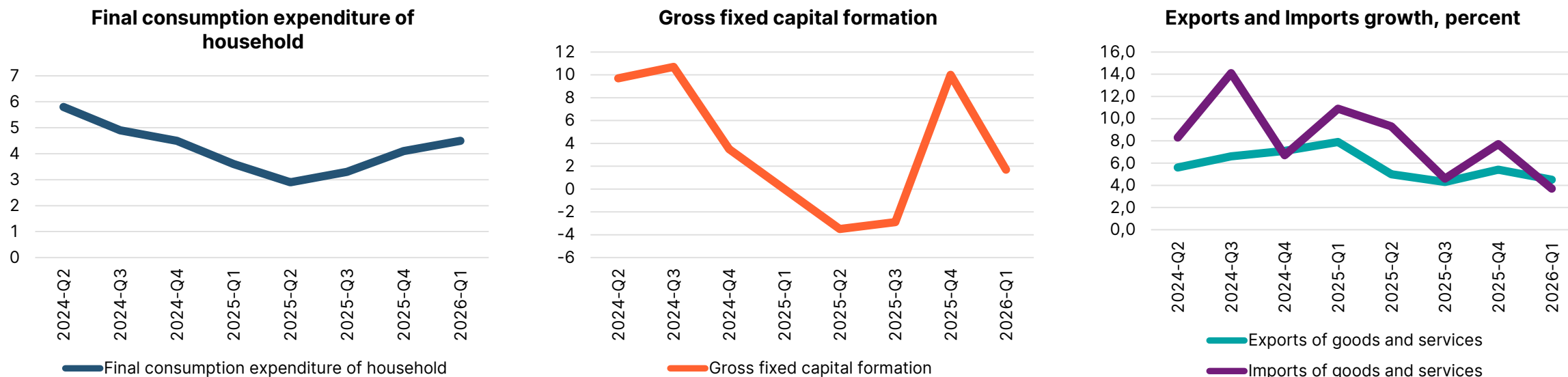


Quarterly GDP growth, y/y percent



Serbia's growth outlook remains anchored in domestic demand, with private consumption now firmly in the lead. Household spending continues to benefit from solid wage dynamics, a tight labour market and firm credit growth. While recognizing that the energy-driven lift in headline inflation will compress real incomes and should cool the pace in 2H26, wage growth is also stronger than forecasted thus offsetting the inflation impact. Large public-infrastructure projects and Expo 2027 linked construction will support investment, with energy and transport projects adding momentum. We also expect inventories could swing back to neutral, or even a positive contribution to growth once the NIS situation resolves and fuel restocking begins. Private investment and FDI will likely stay selective while geopolitics dominates headlines. External trade was the cleanest positive surprise early in the year and should remain modestly supportive in 2026, before tourism inflows lift the services balance further in 2027. The Middle East conflict keeps the risk distribution skewed to the downside, working mainly through higher energy prices and somewhat tighter financial conditions. Bottom line, we have upgraded our expectations for FY26 real GDP growth by 0.3pp to 2.9% y/y while keeping the 2027 figure unchanged at 4.0% y/y.

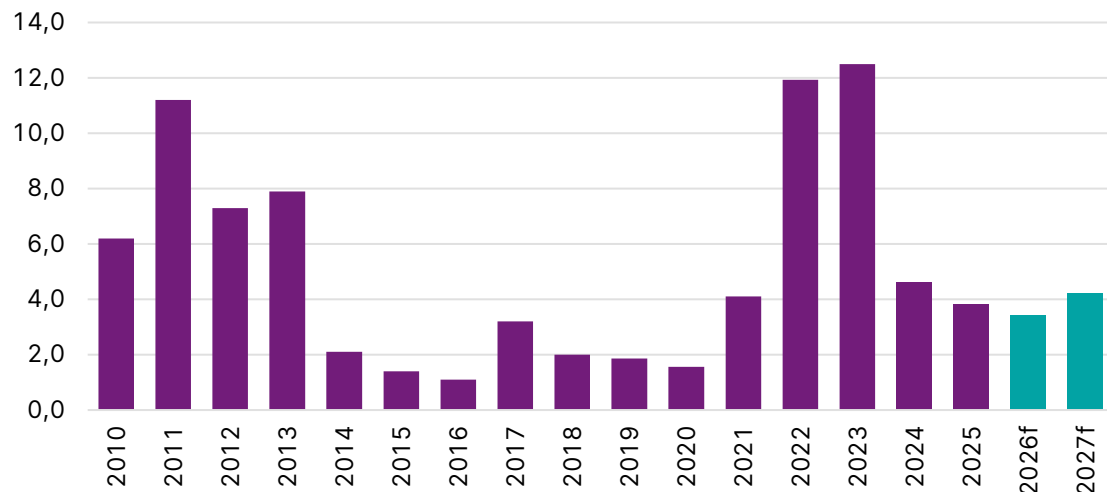
Strong consumption pattern



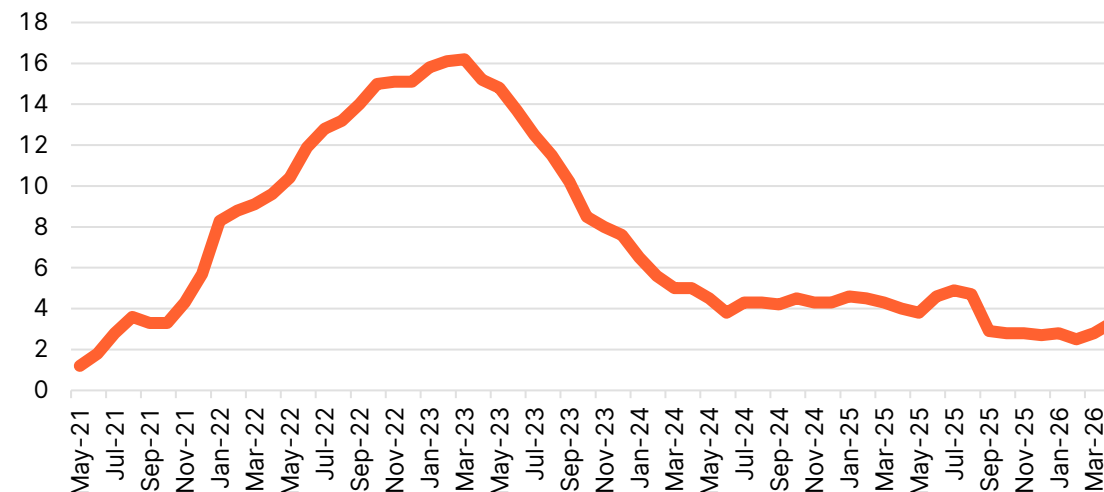
The detailed 1Q26 release printed real GDP growth at 3.2% y/y, a small upward revision from the 3.0% flash and the firmest reading since 4Q24. The composition is what matters. Household consumption rose 4.8% y/y, the strongest pace since 2022 and a clear step up from the 3.7% trajectory of 4Q25, contributing 2.9pp to growth on its own. Government consumption added another 0.9pp, also accelerating to 5.1% y/y as the pre-election fiscal calendar started to show through. Investment was the surprise on the downside. Gross fixed capital formation came in at just 1.4% y/y, decelerating sharply from the 8.9% 4Q25 rebound and adding only 0.3pp. The clean positive surprise came from the external side, where goods exports rose 5.9% y/y in real terms while goods imports rose 4.9%, narrowing the gap and turning net exports into a +0.4pp contribution, thus the first positive contribution from net trade in over a year, reflecting the unwinding of the NIS-related import bulge. Inventories were a residual drag of around 1.3pp, consistent with strong fuel-stock drawdown during the winter shutdown. Consumption is expected to remain a firm driver, as are investments, net exports are likely to return to the red in 2H26 as imports recover but a swing in inventories could counter that.

Inflation set to reaccelerate sharply from autumn

Annual inflation, percent

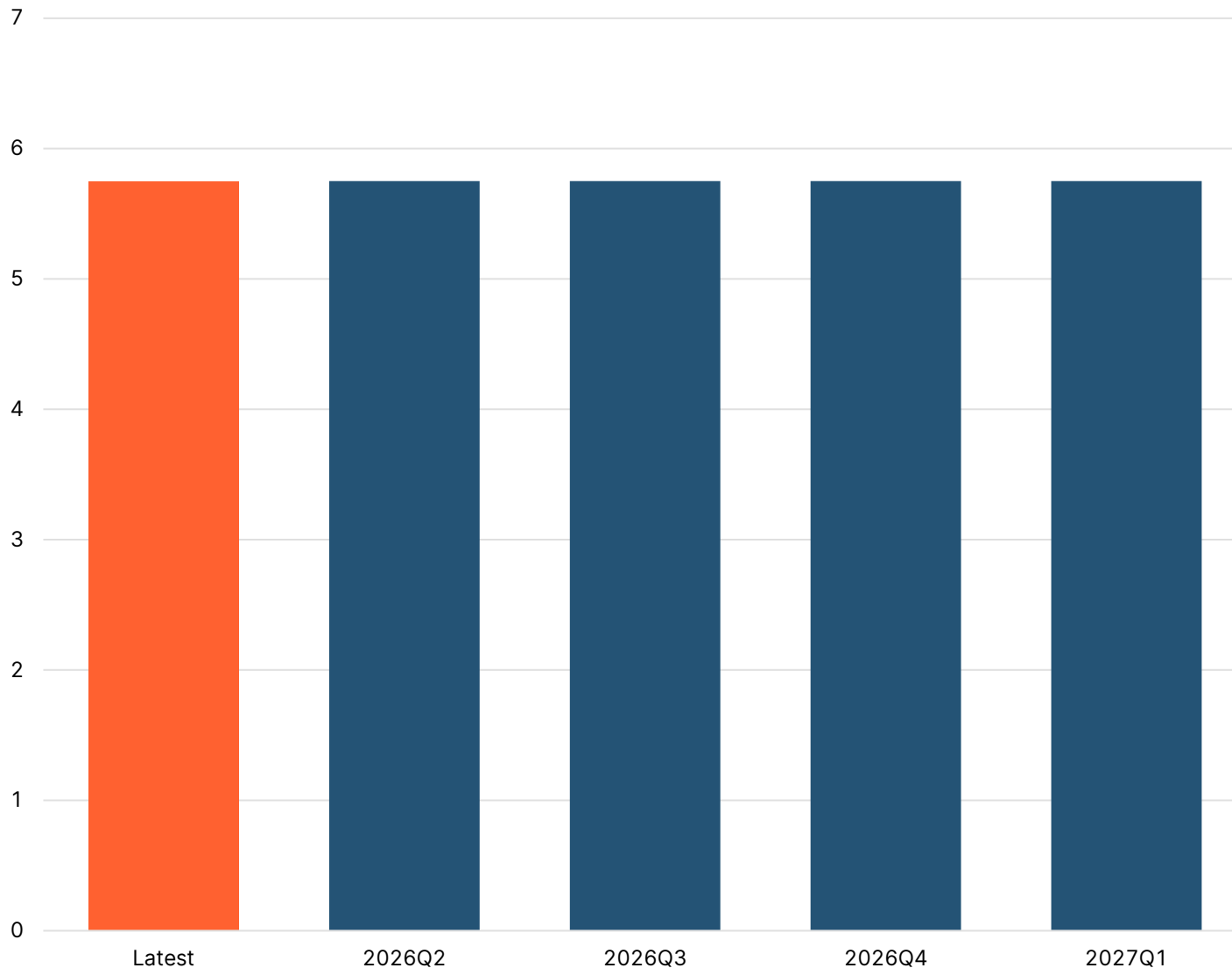


Monthly inflation development, y/y percent



Headline CPI was comfortably below the NBS target midpoint in 1Q26, but April showed the first clearer turn upward. This is not yet a broad inflation relapse as food is still in y/y deflation, inflation expectations remain broadly anchored, and monetary policy is still restrictive. The risk is that a global energy shock, food base effects, administered prices and still-firm services inflation push headline inflation above the NBS tolerance band in 2H26. The inflation story has shifted to energy-led reacceleration, partly masked by food deflation. There is also a base-effect problem ahead. The decree capping wholesale and retail trade margins from September 2025 lowered the price level of some food and household essentials, creating a low base for y/y figures from autumn 2026 onward. As a result, our forecasted inflation acceleration is not linear. We expect it will stay within the target band until September, the move abruptly higher and stay between 5%-6% until the middle of 2027 when it should finally return inside the target band. Given the low inflation start this year, lumpy path ahead, and sticky core prices as well likely pro-inflationary Expo event we expect inflation will be higher on average in 2027, moving from expected 3.9% y/y in 2026 to 4.5% y/y next year.

Key Interest Rate, percent

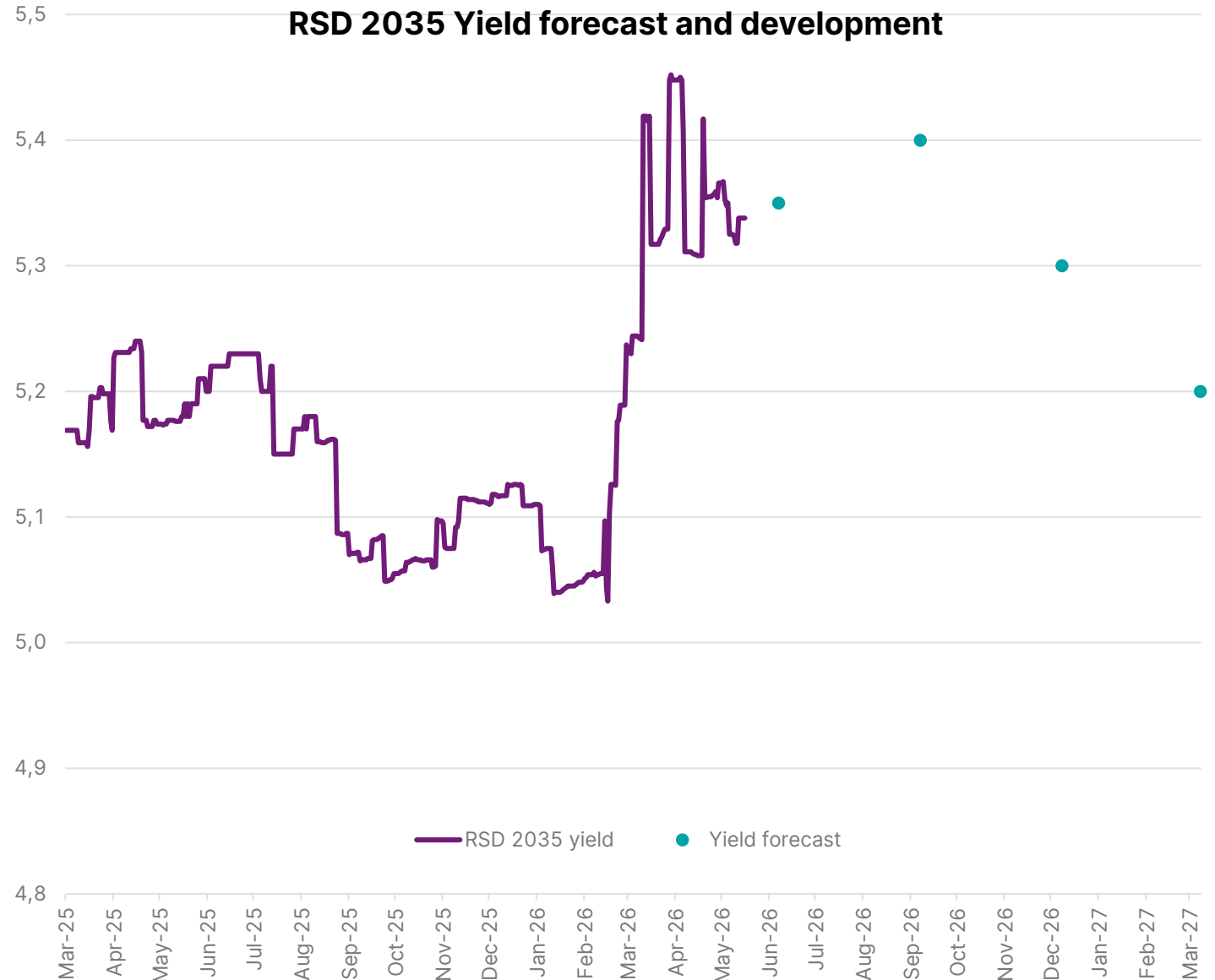


Inflation risks compress easing space

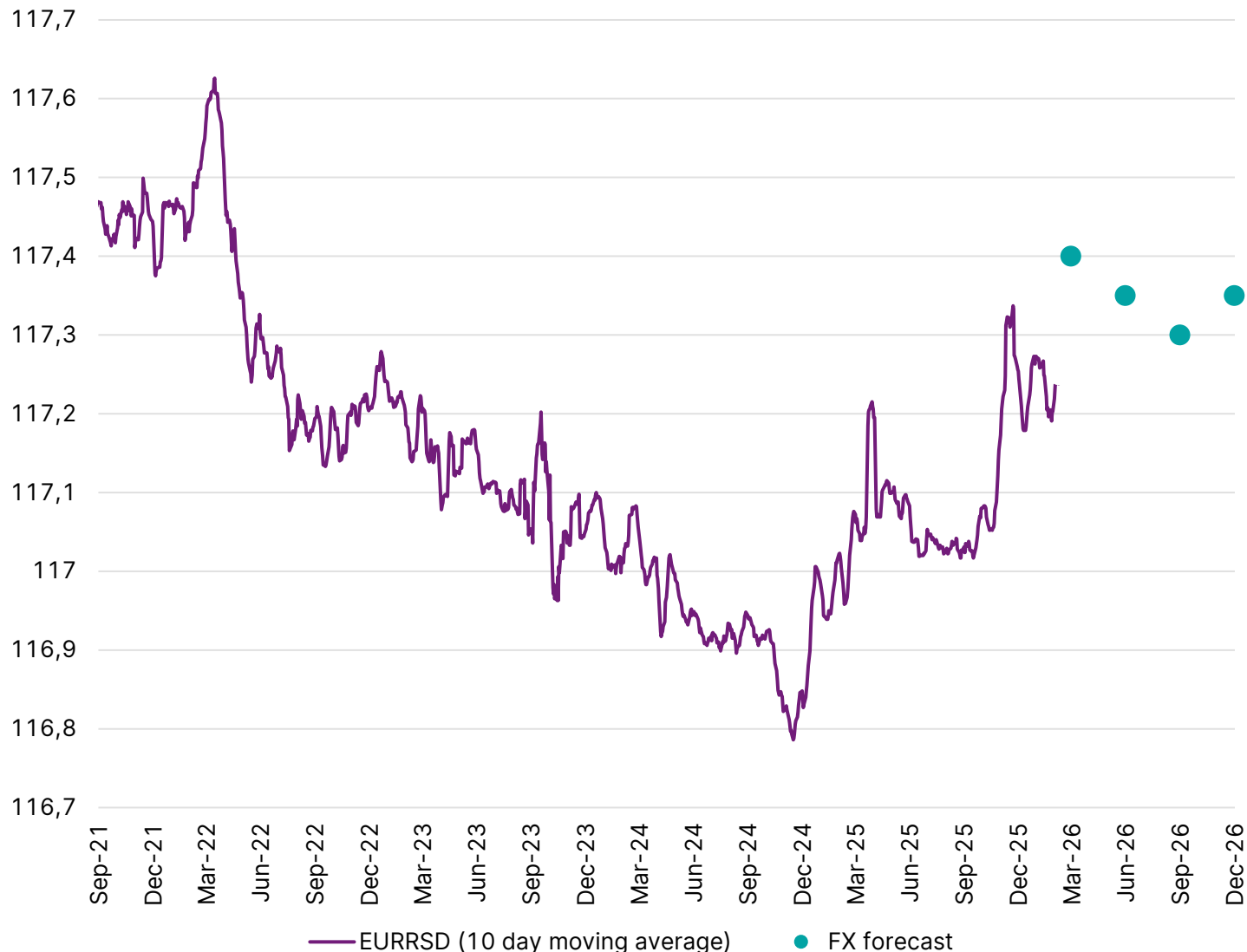
The NBS held the key policy rate at 5.75% through March, April and May. They argue that inflation should remain within the $3\% \pm 1.5\text{pp}$ band over the medium term, while explicitly acknowledging that higher world oil and energy prices will lift domestic fuel prices, an effect they characterize as temporary and limited, but standing ready to counter with all available instruments should second-round effects prove more pronounced. That is a more cautious stance than the March statement. In our read, the space for monetary easing has effectively closed for 2026, and given that we see slightly higher inflation than the NBS in 2027, we therefore rule out monetary easing in 2027 as well.

Local curve repriced but MoF not chasing

On the local dinar primary market the picture deteriorated meaningfully through spring. 5Y auction underperformed showing just a 17% take up, suggesting buyers are asking for a higher yield as the market repriced the energy shock. The treasury's decision to allocate small rather than chase yield higher was the right one. With the Eurobond pre-funding done and the 1Q26 fiscal performance stronger than budgeted, the Ministry of Finance has no functional pressure to issue at higher yields. As for the secondary market, the long end has sold off roughly 20–25bp (the July 2035 was trading near 5.10% then) and the belly by similar magnitude, broadly tracking the global rates move and the layered domestic overlays. Our base case keeps the dinar curve range-bound through the remainder of 2026. Post-election, assuming a clean outcome and visible energy normalization, there is space for a 15–25bp rally across the curve.



FX market development and forecast

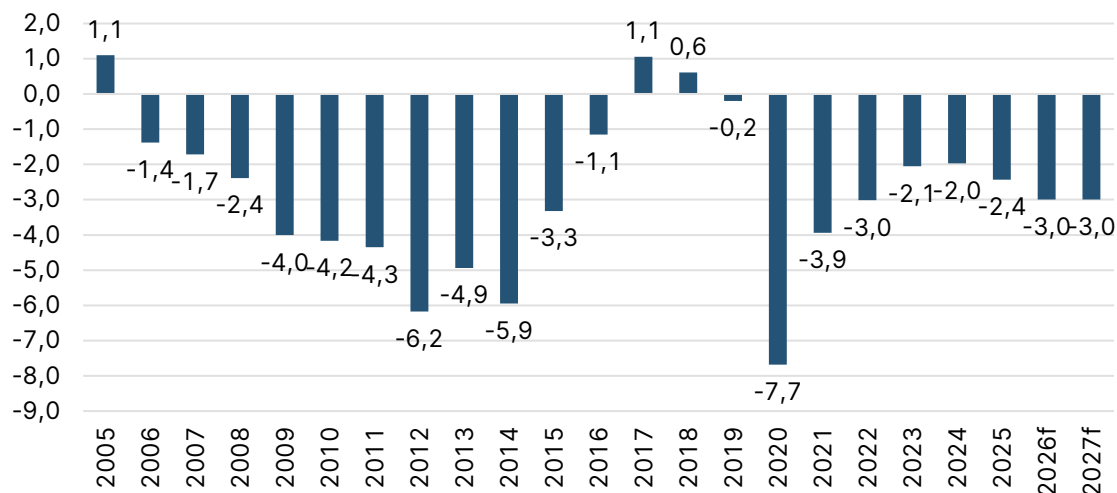


NBS will continue to safeguard stability

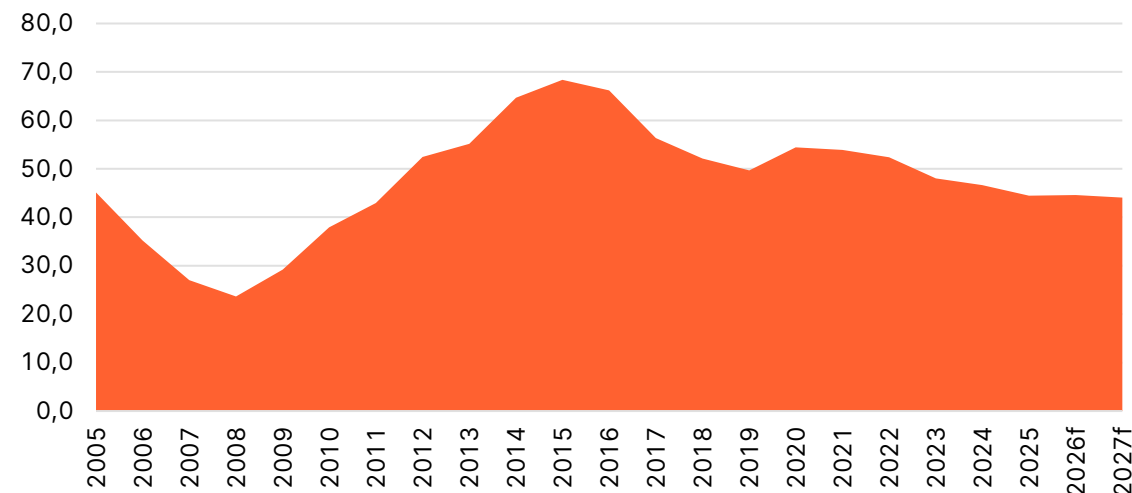
FX story has been remarkably uneventful as the EUR/RSD continues to show stability, currently trading around 117.40. The more informative variable is what has been happening with FX reserves. They have drifted from EUR 29.8bn at end-February to EUR 28.2bn at end-April, a EUR 1.6bn drawdown over two months. In other words, the corridor has held because the NBS has been actively absorbing the importer FX demand the energy shock generated, supplemented by regular two-week and three-month EUR/RSD swap auctions that pull liquidity out of the market without spending reserves outright. The roughly EUR 2.0bn of net external inflows from the Eurobond issuance in late April will land in the May reserves data, where we expect a rebuild back toward EUR 29.5–30bn. Our baseline keeps EUR/RSD pinned in a 117.20–117.50 corridor through the remainder of 2026, with the NBS smoothing seasonal and energy-related importer demand

Energy 'shielding' could lead to fiscal slippage

Budget balance, percent of GDP



Public debt, percent of GDP



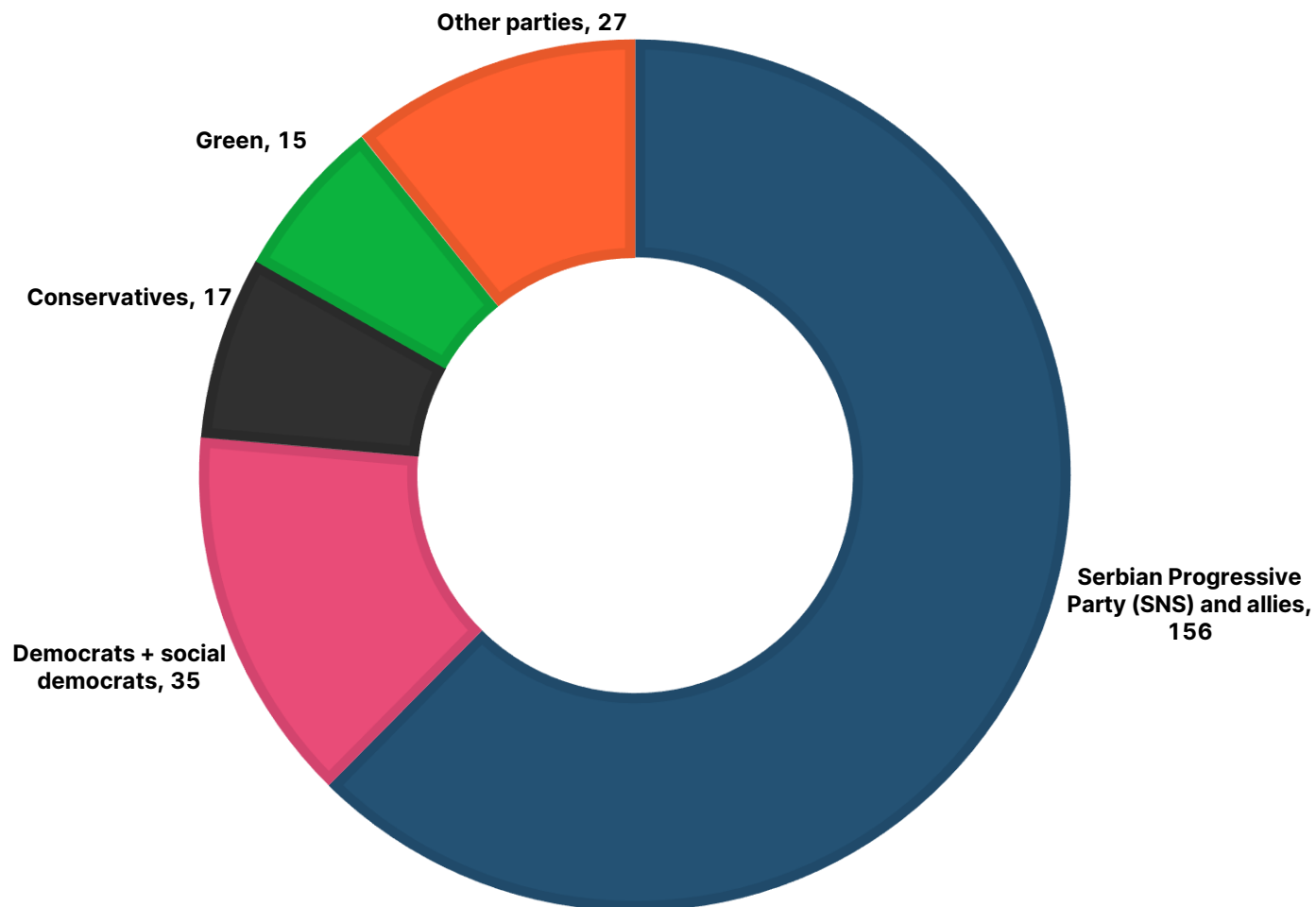
Serbia entered 2026 from a stronger fiscal starting point than many peers as the 2025 general government deficit came in at 2.4% of GDP, below the revised fiscal-strategy plan, while the public-debt ratio fell to 44.8% of GDP. The key swing factor is no longer the normal cyclical revenue story, but the interaction between geopolitics, energy pricing, and Serbia's preference for fiscal shields. The fiscal impact depends on whether the state absorbs the shock through fuel excise/VAT adjustments, direct transfers to energy SOEs, or quasi-fiscal pressure on corporate margins. Up-to-date official costings remain limited, so for 2026 we treat the 'energy shield' as a downside risk rather than a baseline assumption. Our baseline remains the authorities' framework meaning deficits around 3% of GDP in both 2026 and 2027 and broadly stable public debt. The risk distribution is skewed to the downside if energy prices stay elevated and the political cycle triggers additional current spending. In that case, deficits could drift into the 4.5–5.5% of GDP range in 2026, with public debt rising toward 50% of GDP by 2027 but that is not our base case.

Tense status quo

The situation in Serbian political arena remains complex. The large gathering in May reminded once again that the protests are very much alive and that the calls for the early elections remain strong. However, a sense of indecisiveness among the opposition (political) parties allows for the incumbent authorities to float a possibility of early elections, but also keep the status quo in order not to risk for major political changes during the intensive investment processes in the preparation for EXPO 2027.

External pressure is manifested through the looming US sanctions over the Serbian sole crude oil refiner NIS. From the EU side, the political developments in past 18 months with protests in Serbia and continued rejections of Serbian authorities to fully align with EU's foreign policies have led to another harsh report by the EU Parliament. Meanwhile, the latest polls indicate that the EU approval rate remains visibly below 50%, but in case of immediate referendum the citizen who would vote are split 38% in favor and 26% against EU membership.

Parliamentary seats



Serbia: Forecasts

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026f | 2027f |
|--------------------------------|--------|--------|--------|-----------------------|--------|--------|--------|--------|--------|
| Percent | | | | Annual average | | | | | |
| Real GDP growth | 4,8 | -1,0 | 7,9 | 2,7 | 3,7 | 3,9 | 2,0 | 2,9 | 4,0 |
| Private consumption growth | 3,6 | -2,0 | 7,6 | 3,5 | 0,5 | 5,2 | 3,1 | 3,5 | 4,2 |
| Fixed capital formation growth | 16,9 | -1,4 | 14,7 | 2,2 | 9,7 | 7,7 | 0,8 | 7,4 | 2,0 |
| Inflation | 1,9 | 1,6 | 4,1 | 11,9 | 12,5 | 4,6 | 3,8 | 3,9 | 4,5 |
| Unemployment rate | 11,2 | 9,7 | 11,1 | 9,5 | 9,4 | 8,6 | 8,7 | 8,7 | 8,6 |
| Percent of GDP | | | | | | | | | |
| Budget balance | -0,2 | -7,7 | -3,9 | -3,0 | -2,1 | -2,0 | -2,4 | -3,0 | -3,0 |
| Public debt | 49,7 | 54,4 | 53,9 | 52,4 | 48,0 | 46,7 | 44,5 | 44,1 | 43,6 |
| Current account balance | -6,6 | -3,9 | -4,1 | -6,6 | -2,4 | -4,5 | -4,9 | -4,4 | -3,0 |
| | | | | End of year | | | | | |
| EURLCY | 117,60 | 117,60 | 117,58 | 117,32 | 117,17 | 116,95 | 117,29 | 117,35 | 117,20 |
| Central bank policy rate | 2,25 | 1,00 | 1,00 | 5,00 | 6,50 | 5,75 | 5,75 | 5,75 | 5,75 |
| 3M interbank offer rate | 1,64 | 0,90 | 0,94 | 4,95 | 5,70 | 4,70 | 4,68 | 4,70 | 4,70 |
| 2Y Yield | 2,11 | 1,80 | 2,60 | 5,29 | 5,05 | 4,20 | 4,50 | 4,50 | 4,20 |
| 5Y Yield | 2,68 | 2,62 | 3,50 | 6,80 | 5,40 | 4,30 | 4,80 | 4,90 | 4,60 |
| 10Y Yield | | | | 7,20 | 6,15 | 4,90 | 5,20 | 5,15 | 4,90 |

Serbia: Country overview

Official EU language: Serbian

Capital: Belgrade

Geographical size: 88 499 km²

Population: 6.6mn

GDP per capita (PPS; EU27 = 100): 52, below EU average

Currency: Serbian Dinar RSD

Credit Ratings:

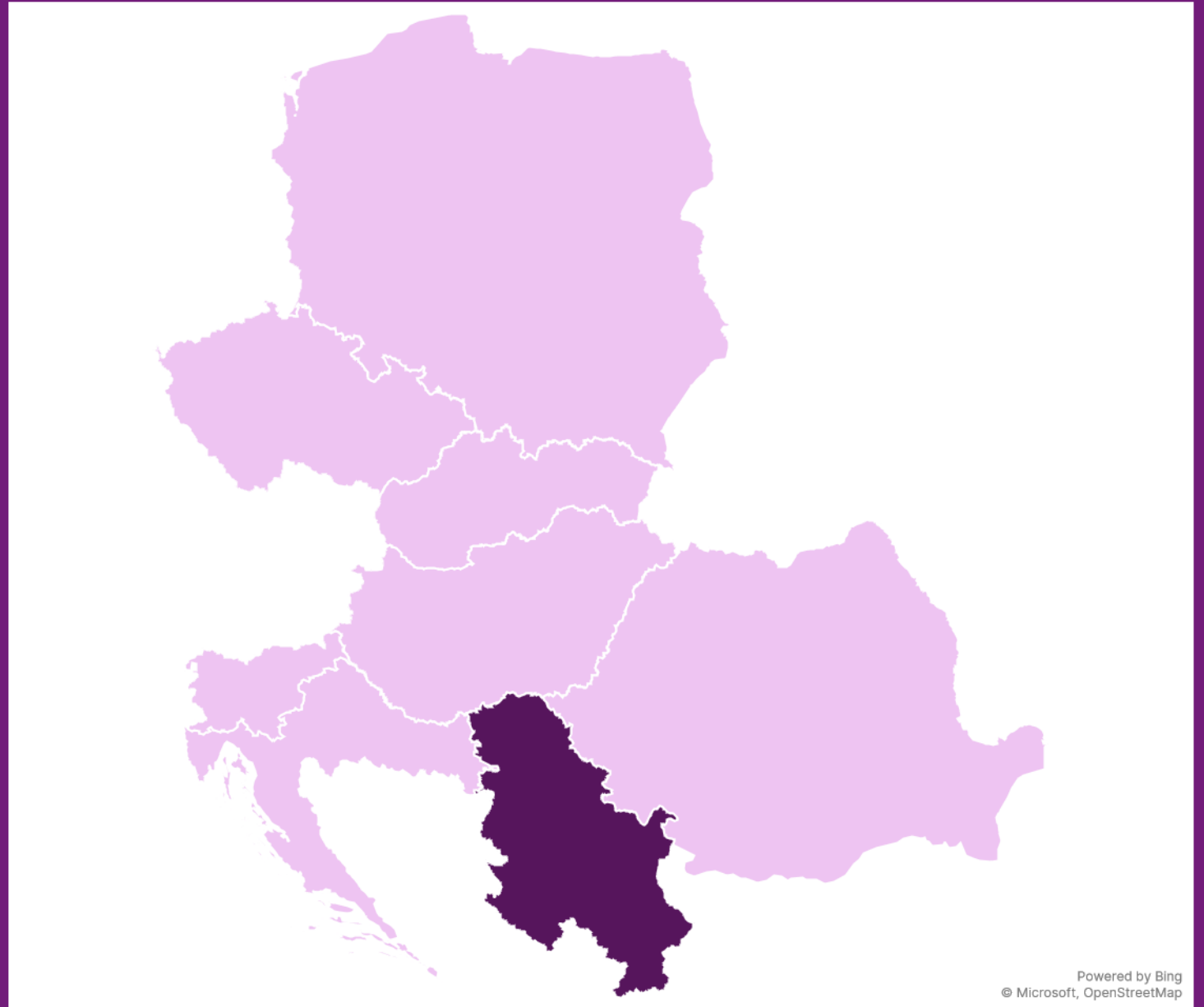
Moody's: Ba2, outlook stable

S&P: BBB-, outlook stable

Fitch: BB+, outlook positive

EU member state: candidate for membership since 2012

Schengen: No



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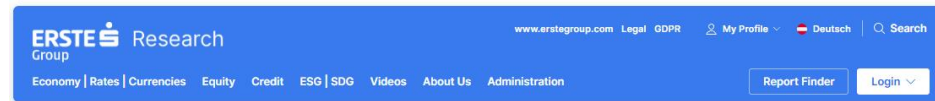


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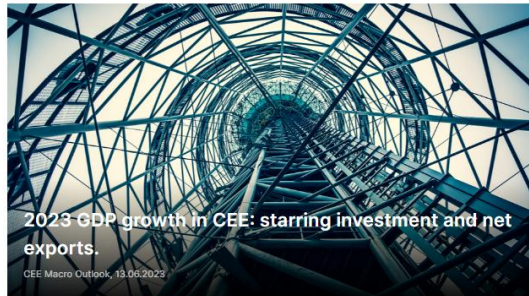


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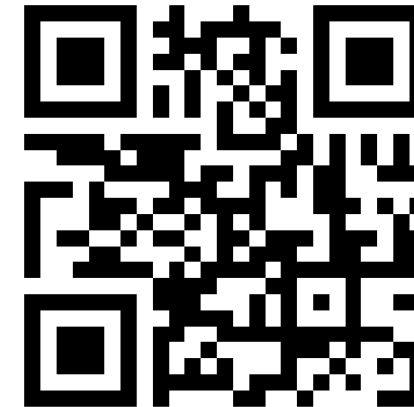
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