SERBIA : MACRO OUTLOOK

Serbia: Growth slowdown only temporary?

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Economy Serbia - Analyses and Forecasts | Erste Group Bank AG
June 12, 2025

Spot Rates as of: June 12, 2025
Note: Information on past performance is not a reliable indicator for future performance.
Forecasts are not a reliable indicator for future performance.

Navigating a period of moderated growth

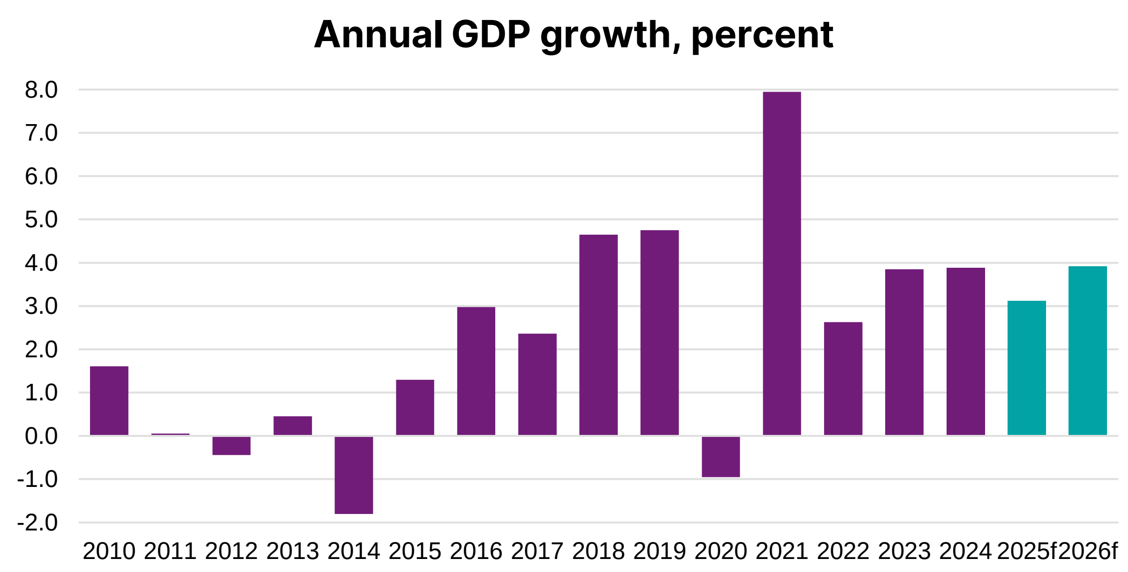
The Serbian economy grew by 2% y/y at the start of 2025. The detailed structure shows largely anticipated momentum, with domestic demand still in the driver's seat, albeit clearly losing steam. Uncertainty remains at very high levels, blurring overall economic outlook. Still, growth momentum in the coming period should be supported by the positive effects of supply-side factors, such as rising production in the automobile industry, as well as the implementation of infrastructure projects planned under the Expo projects. Number-wise, after a disappointing 1Q25 figure, we have cut our FY25 real GDP growth by an additional 0.5pp, after already cutting by 0.7pp earlier in the year, and now expect to see 3.1% y/y average growth in 2025, followed by 3.9% y/y expansion in 2026.

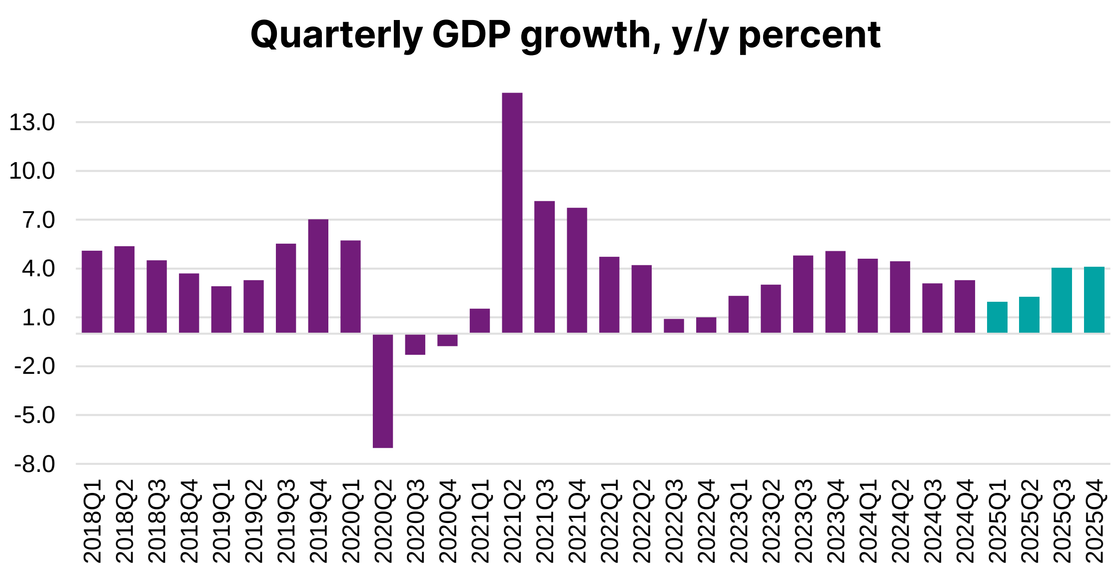
Inflation continues to decline, albeit at a very gradual pace. Inflation was floating around the upper part of the targeted band since October before declining to 4% y/y in April. The decline is almost exclusively related to a decline in oil prices. We expect inflation to keep inching lower, falling towards 3% y/y by the end of the year, and remain stable thereafter. Risks mostly stem from the outcome of the agricultural season. As for monetary policy moves, the NBS remains vigilant, keeping the key rate unchanged so far in 2025. We expect that cuts are to come, a total of three in 2025, and expect the first one next month.

The general government fiscal deficit measured -0.6% of GDP after 4M25. The expenditure side is rising somewhat higher than the revenue side, mostly driven by increased public sector wages and pensions. Consistent with the medium-term fiscal framework set out in the Revised Fiscal Strategy for 2025 with Projections for 2026 and 2027, the mildly expansionary fiscal policy is expected to continue, with deficits around 3% of GDP, propped up by further investment in infrastructure, but without disrupting the relative stability of the public debt-to-GDP ratio.

Political impasse continued in Serbia throughout 2Q25 and it does not seem that the situation could change in the coming quarter. Student protests and blockades continue, expanded with new actions and themes.

Second half of the year should bring more optimism

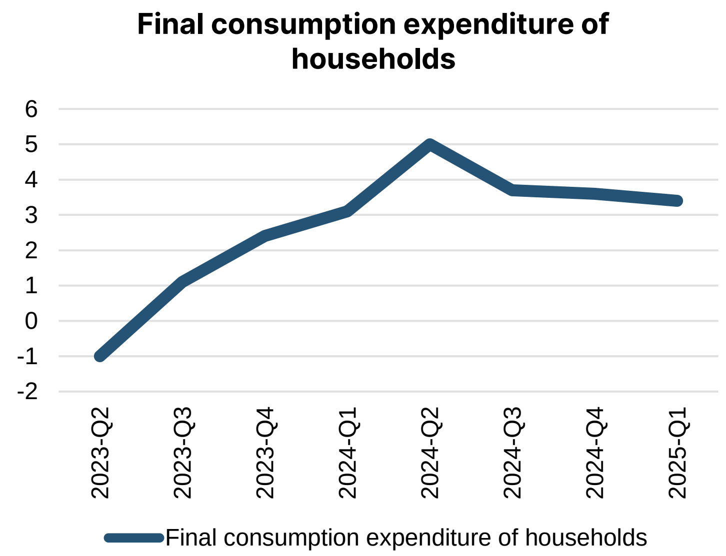


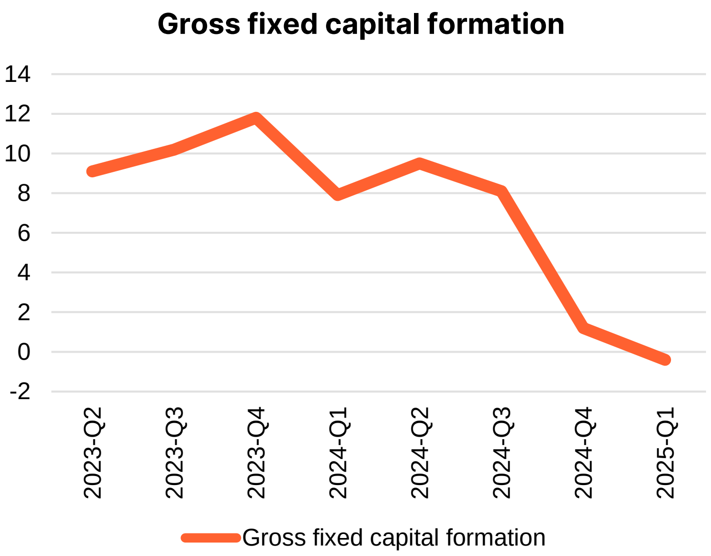


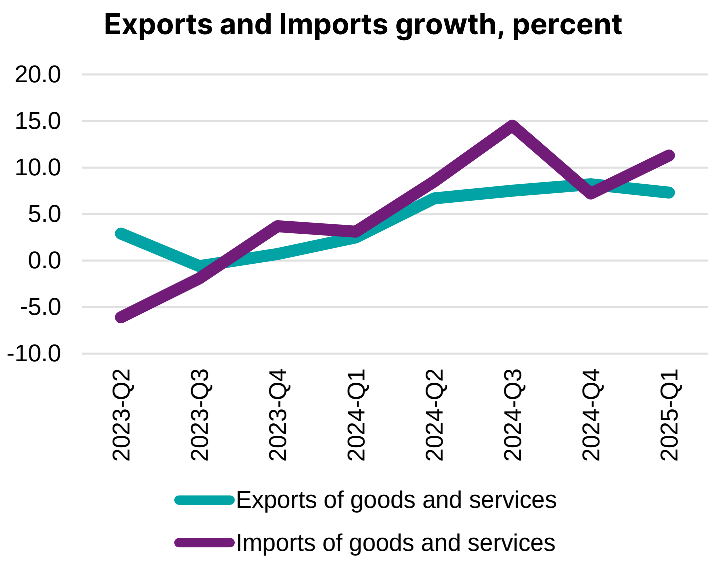
Serbia's economy is currently navigating a phase of moderated growth, shaped by a complex mix of domestic challenges and global uncertainties. While the country has demonstrated resilience in recent years, recent GDP trends and forward-looking projections suggest a more cautious outlook for 2025 and 2026. In 2024, Serbia’s GDP expanded by 3.9% y/y, supported primarily by strong domestic consumption and increased investment. However, net exports slightly detracted from the growth due to weak external demand, especially from the Euro Area, Serbia’s largest trading partner. Momentum has notably slowed in early 2025, with first-quarter GDP growth dropping to 2.0% y/y, down from 3.3% in the previous quarter. This deceleration reflects weakening domestic demand, political uncertainty, and the dampening effect of ongoing anti-government protests on business and consumer confidence. Looking ahead, the outlook for 2025 is mixed. While real incomes are supported by rising wages and moderating inflation, recent declines in consumer confidence could lead to increased precautionary savings, potentially restraining household spending. Investment is expected to gain traction after a subdued 2024, particularly in infrastructure, aided by national investment plans. Externally, Serbia faces headwinds from a slowing European economy.

Source: Eurostat, Refinitiv, Erste Group Research

Considerable investment slowdown in early 2025





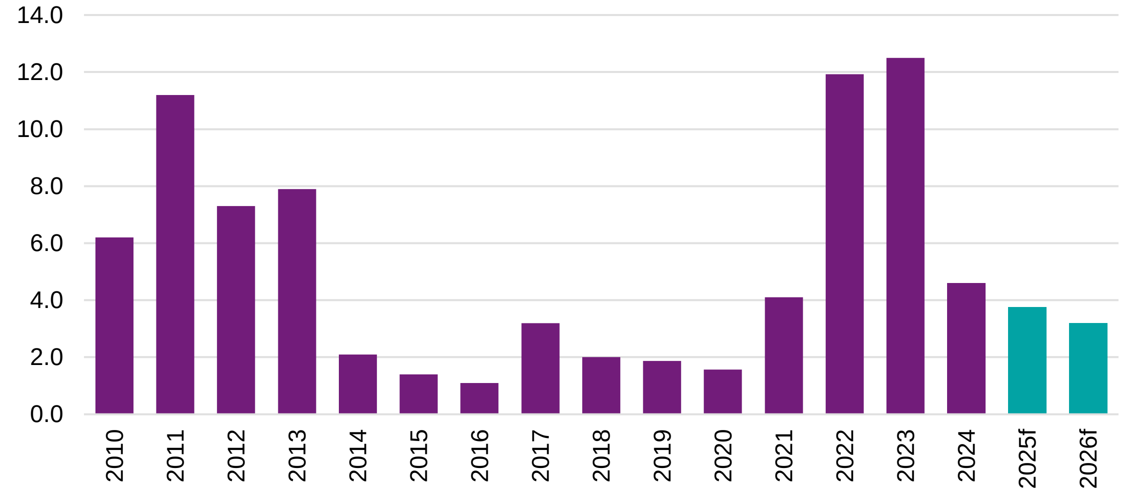


The detailed structure shows largely anticipated momentum, with domestic demand still in the driver's seat, albeit clearly losing steam. Household spending, after growing above 4% y/y in 2024, is slowing early in 2025, despite still solid wage and credit growth. Its contribution to the headline figure was 1pp. Public spending was disappointing, showing barely any real growth (0.1% y/y). Investments were probably the largest negative surprise, as they contracted in 1Q25, hence the first negative output since 4Q20. Replenishment of inventories, and probably weaker than anticipated demand, led to a boost in overall inventory stock, which in the end was the biggest positive contributor to headline growth, adding 4.1pp. On the external side, despite a net negative headline contribution of 3pp, exports surprised to the upside, given what was expected from trade balance data; hence, it is reasonable to assume most of the growth came from the service side. Imports again recorded double-digit growth. In conclusion, while Serbia’s economy is expected to continue growing through 2025 and 2026, the pace will likely remain moderate amid global uncertainties and domestic political challenges.

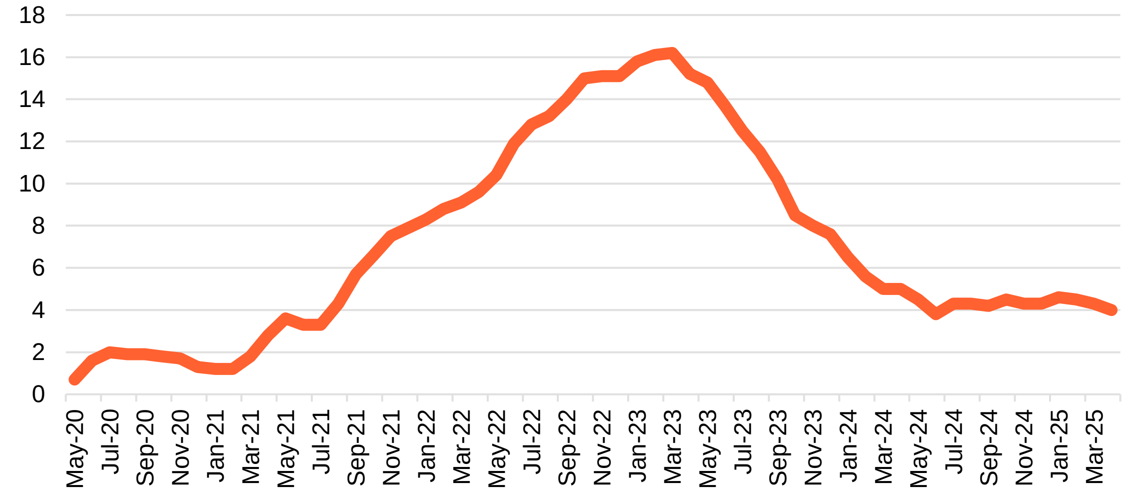
Source: Eurostat, Refinitiv, Erste Group Research

Inflation sliding towards 3% by year-end

Annual inflation, percent

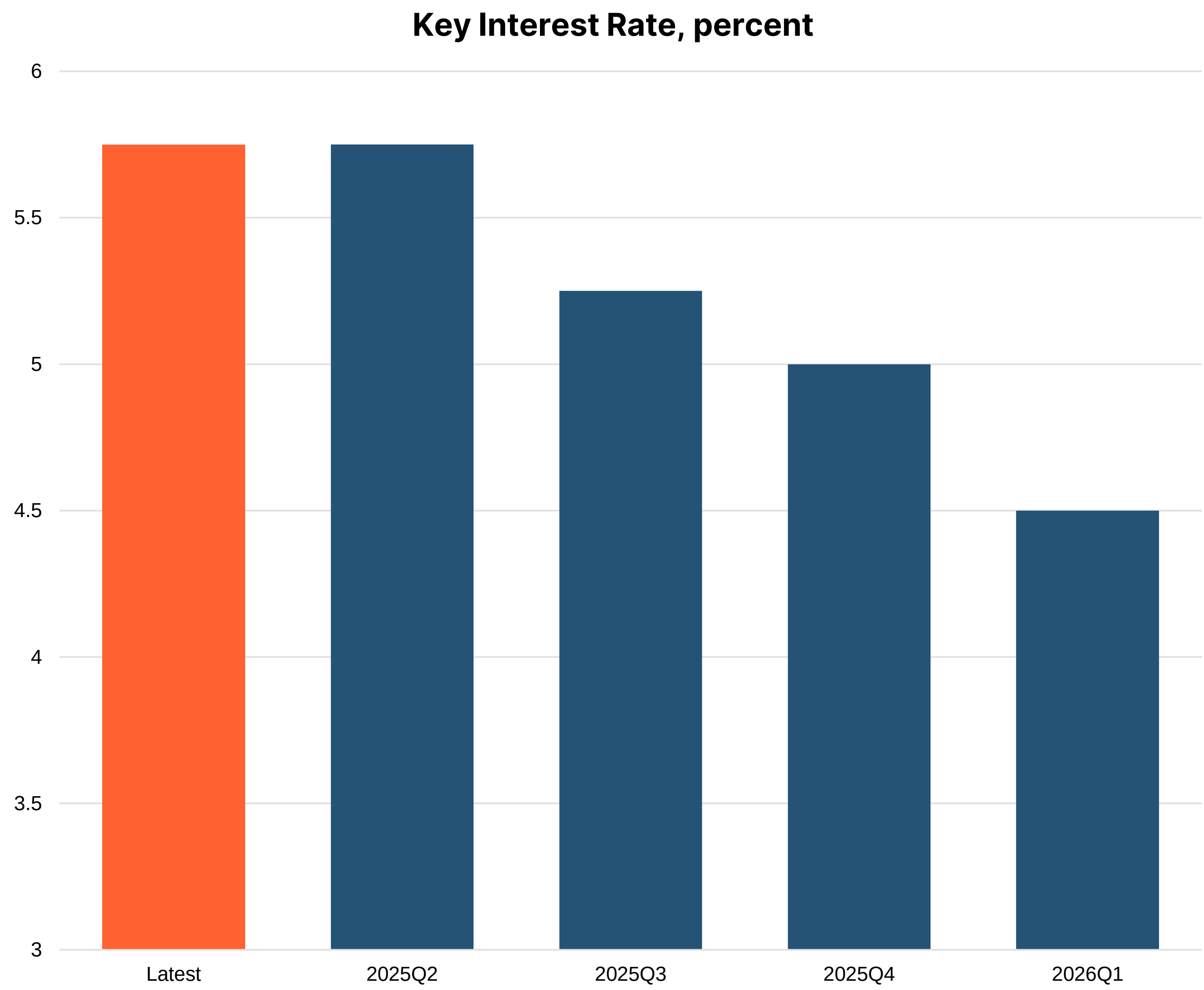


Monthly inflation development, y/y percent



In May, inflation landed at 3.8% y/y, thus falling below 4% y/y for the first time in four years. Recent easing stems almost exclusively from lower oil prices, while food and housing costs remain sticky. Looking ahead, inflation is expected to continue on a downward path, reaching 3% y/y by year-end and stabilizing thereafter. These projections are underpinned by several positive developments. The monetary policy grip should ease, which could allow for repricing of inflation expectations, while the global environment is contributing to disinflation, particularly through declining energy and raw material prices. As import price inflation fades, domestic cost pressures are expected to ease accordingly. Domestic factors are also playing a role in stabilizing prices, but ultimately it will come down to agricultural output, which is difficult to predict at the moment. Despite this favorable outlook, several risks remain. Food prices, especially for unprocessed items, are vulnerable to weather-related shocks and could lead to short-term volatility. The ongoing consumer protests and retail boycotts in response to perceived price gouging underscore public sensitivity to inflation and could influence price-setting behavior. In conclusion, Serbia is entering a phase of inflation normalization, supported by a consistent monetary policy, improving global conditions, and stable domestic fundamentals.

Cuts are coming

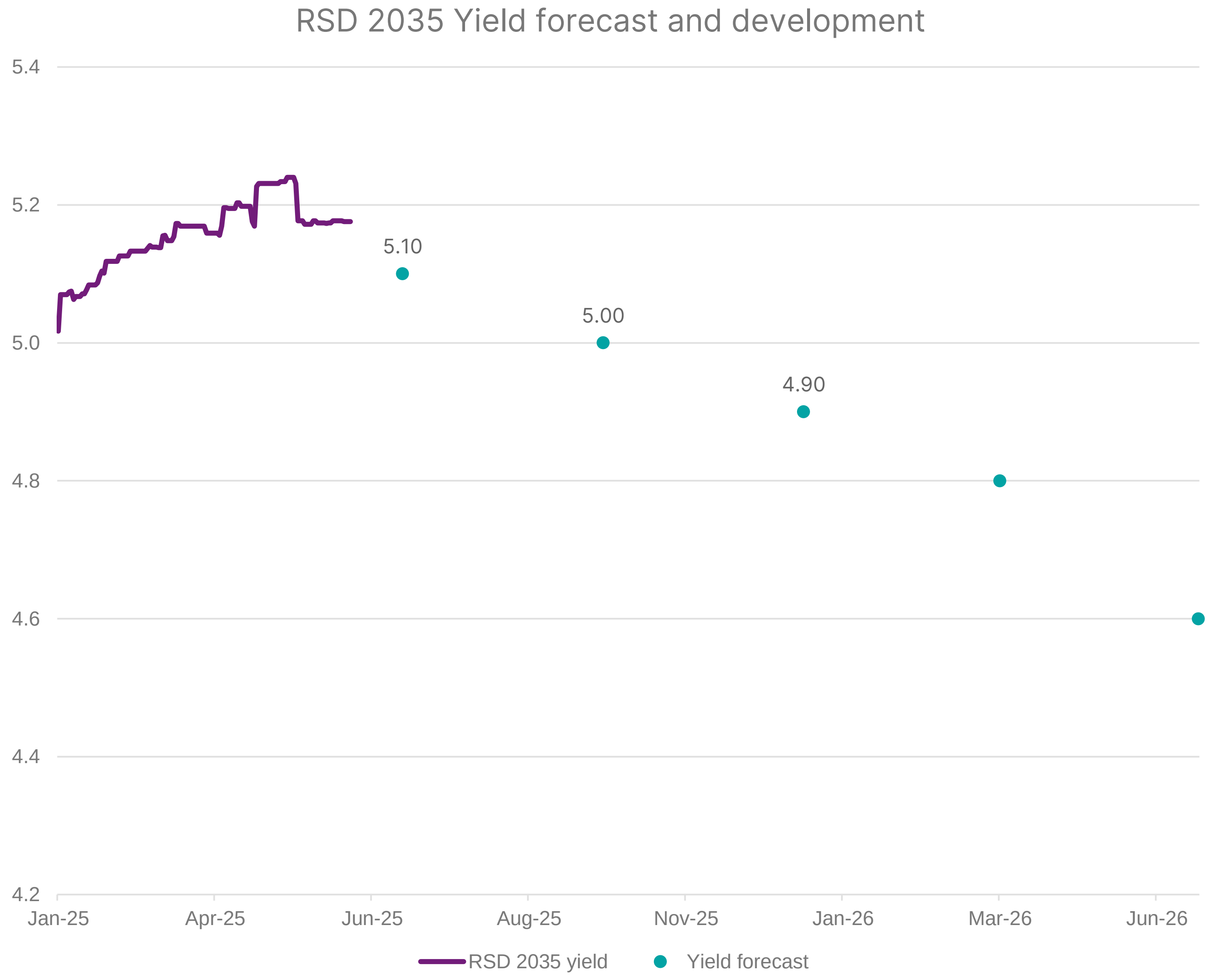


The monetary policy stance is likely to turn a bit more supportive going forward. However, the pace and scale of any further rate cuts will likely be gradual, as core inflation remains slightly elevated, and wage growth could pose upside risks if not aligned with productivity gains. Moreover, the government's planned public investment programs could add to demand-side pressures, requiring close coordination between fiscal and monetary authorities. We expect to see the first cut in July, followed by two more 25bp cuts by the end of the year.

Source: Eurostat, Refinitiv, Erste Group Research

We expect RSD curve will decline

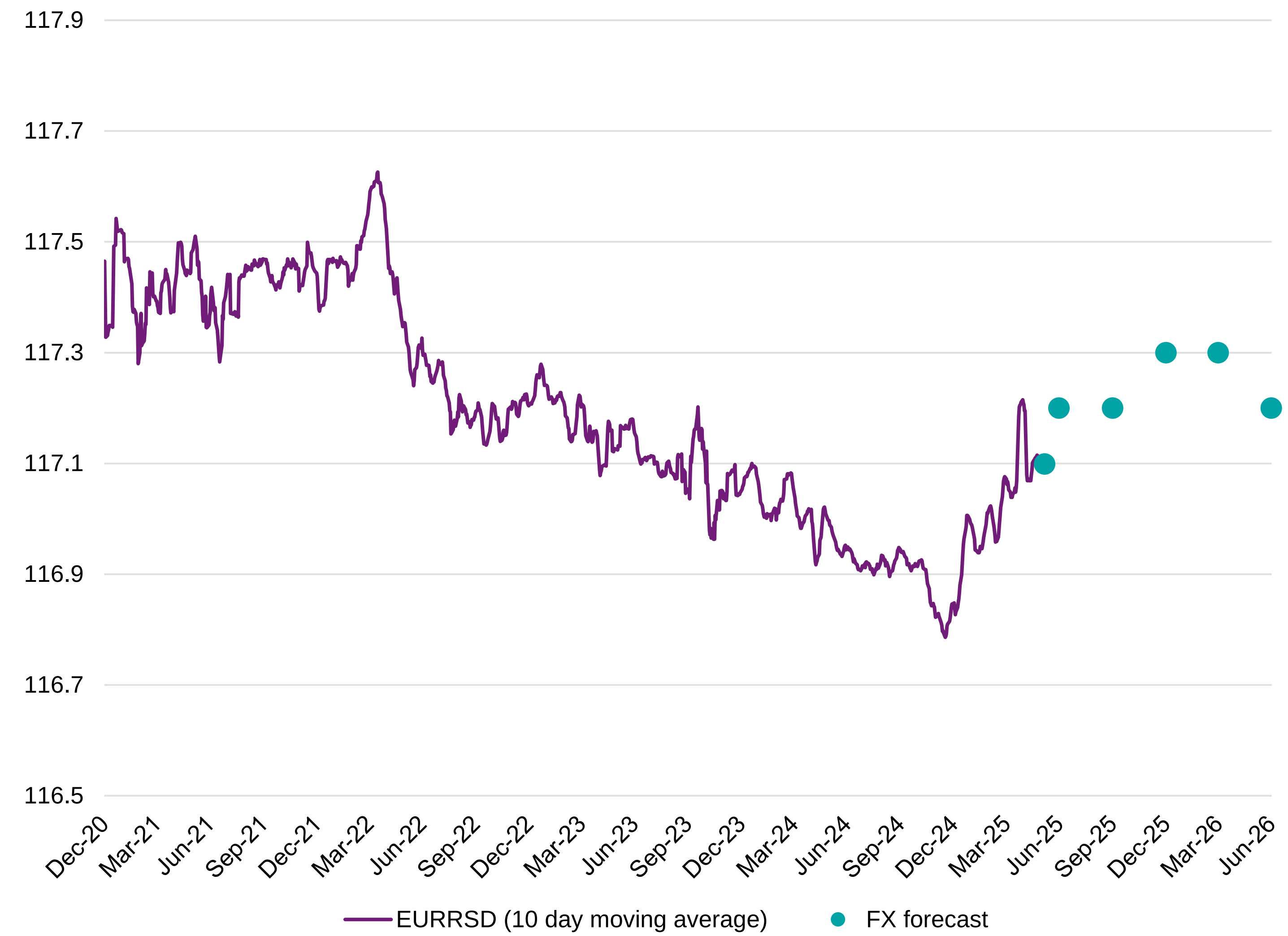
While Serbian eurobonds posted solid gains in recent weeks, outshining regional peers in a month when many research desks were dialing back their optimism, and are on track to converge further with core markets, the local curve remains out of the spotlight. Since our last report in March, the 10Y benchmark yield rose by roughly 10bp, reflecting local political jitters. Looking ahead, we see potential for yields to decline, as we expect inflation to ease, and monetary policy to follow with several cuts. Caution is warranted, however, given the still relatively low liquidity and flows, meaning sometimes price monitors can differ from real liquid quotes.



Source: Eurostat, Refinitiv, Erste Group Research

June 12, 2025

FX market development and forecast



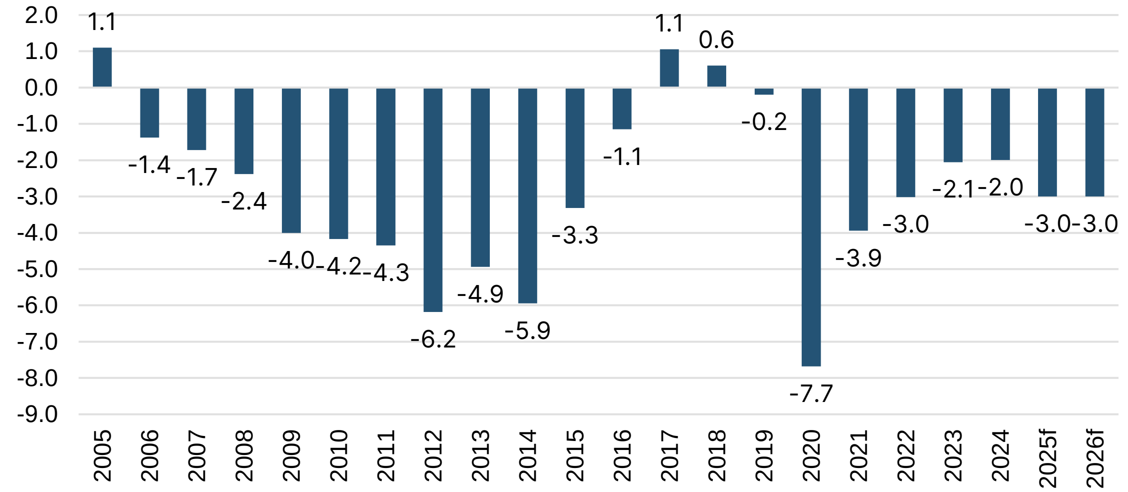
Mild depreciation pressures in 1Q25

So far in 2025, notably in 1Q25, mild depreciation pressures on the dinar prevailed. The main source of these pressures was a seasonal hike in FX demand, mostly by domestic companies in the energy sector. In addition, FX supply by other residents, excluding energy companies, contracted in y/y terms, in part due to the lower FX supply from FDI. The exchange rate was kept stable throughout the observed period, due to NBS interbank transactions. The NBS sold EUR 955mn net in 1Q25 and bought EUR 45mn net in April to keep the rate more or less unchanged. We expect an unchanged pattern going forward.

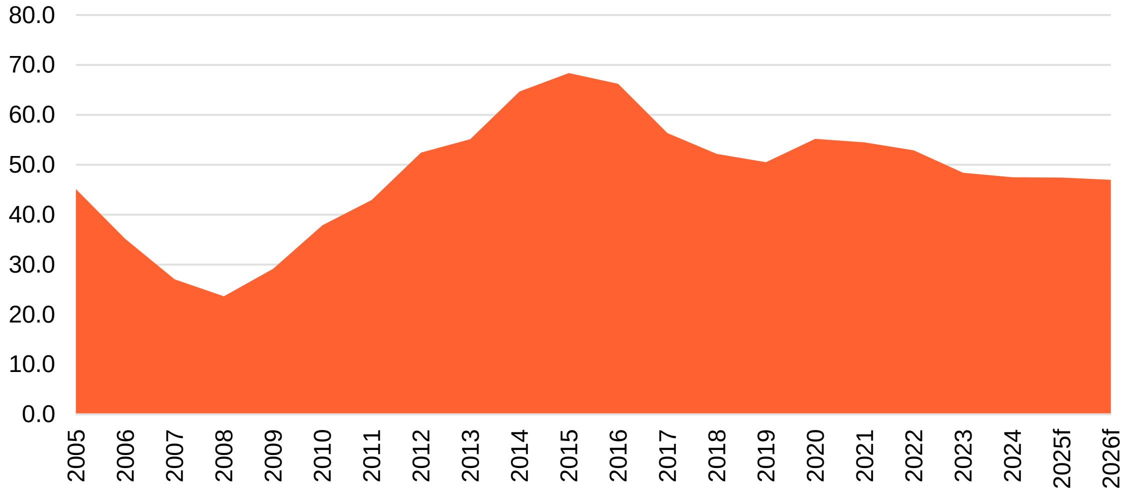
Source: Eurostat, Refinitiv, Erste Group Research

Fiscal loosening as the country prepares for Expo 2027

Budget balance, percent of GDP



Public debt, percent of GDP



As for fiscal results, the general government fiscal deficit measured RSD 62.6bn (-0.6% of GDP) after 4M25. The expenditure side is rising roughly at double the pace compared to the revenue side, primarily driven by increased pensions, which are up 13% y/y after 4M25. Additionally, capital investments are up 26% y/y in the same period, with notable acceleration as of April. The latter is consistent with the medium-term fiscal framework set out in the Revised Fiscal Strategy for 2025 with Projections for 2026 and 2027. The mildly expansionary fiscal policy is expected to continue with deficits around 3% of GDP, propped up by further investment in infrastructure as part of the “Leap into the Future – Serbia Expo 2027” program in 2H25, but without disrupting the relative stability of the public debt-to-GDP ratio.

Source: Eurostat, Refinitiv, Erste Group Research

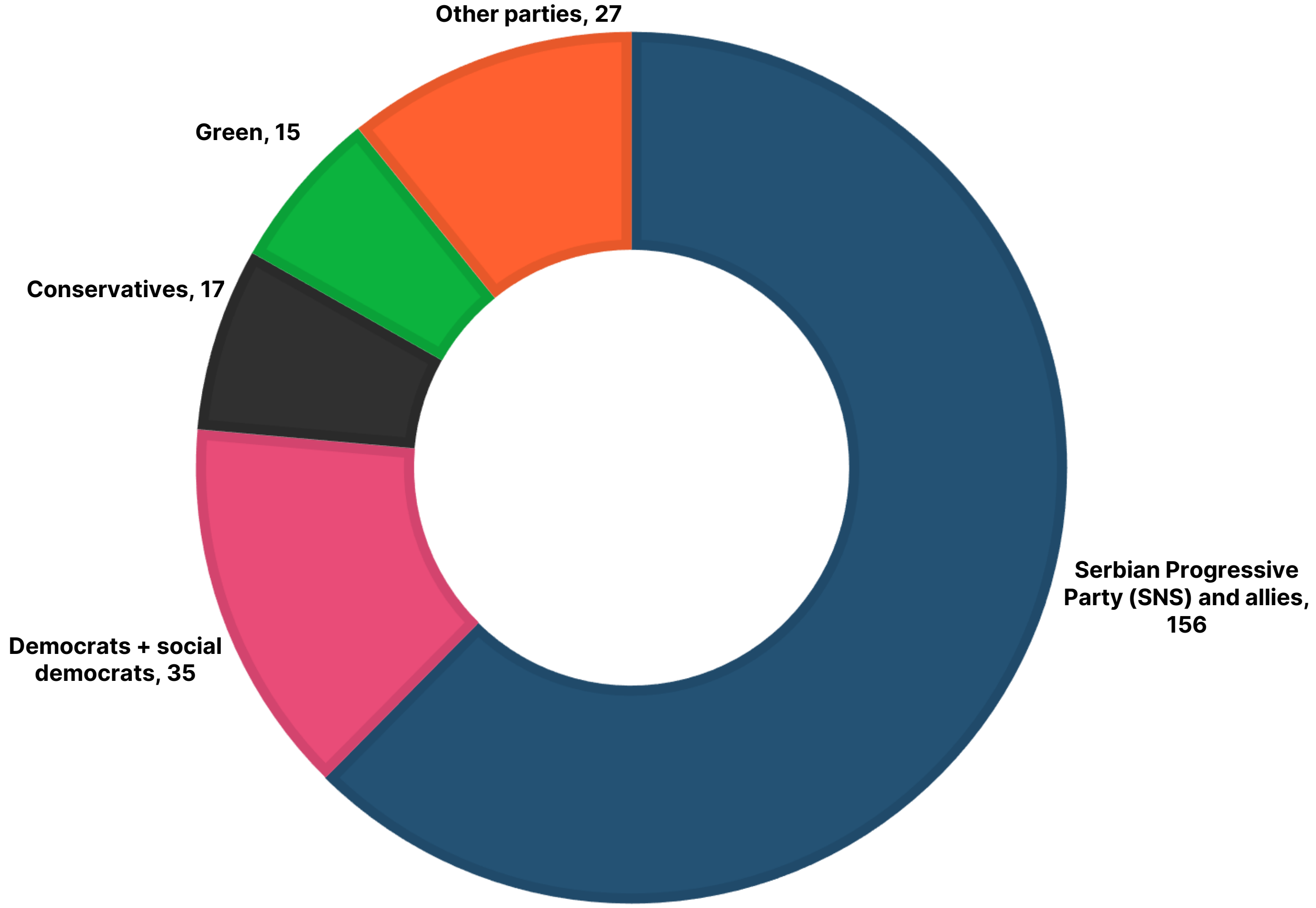
June 12, 2025

Stalemate persists

Political impasse continued in Serbia throughout 2Q25, and it does not seem as though the situation could change in the coming quarter. Student protests and blockades continue, expanded with new actions and themes. Mirroring the incumbent authorities' move to set a ‘camp’ in front of the presidency and parliament, students now have their own ‘base’ in one of the busiest junctions in Belgrade, making the inner-city traffic a small nightmare.

More and more voices are pointing out that snap elections mat be the only solution to this stalemate. While students are forming the lists and calling for elections, both the incumbent coalition and major opposition parties seem to be reluctant to go for it. Recent local elections in two smaller cities have revealed a deep division in society with differences between lists measured in a “couple of votes”.

Parliamentary seats



Source: Eurostat, Refinitiv, Erste Group Research

Serbia: Forecasts

	2018	2019	2020	2021	2022	2023	2024e	2025f	2026f
Percent					**Annual average**				
Real GDP growth	4.6	4.8	-1.0	7.9	2.6	3.8	3.9	3.1	3.9
Private consumption growth	2.8	3.6	-2.0	7.6	3.5	0.6	4.2	2.8	3.3
Fixed capital formation growth	16.8	16.9	-1.4	14.7	2.2	9.7	6.5	4.5	8.3
Inflation	2.0	1.9	1.6	4.1	11.9	12.5	4.6	3.8	3.2
Unemployment rate	13.7	11.2	9.7	11.0	9.4	9.5	8.6	8.7	8.4
Percent of GDP									
Budget balance	0.6	-0.2	-7.7	-3.9	-3.0	-2.1	-2.0	-3.0	-3.0
Public debt	51.5	50.5	55.2	54.5	52.9	48.4	47.5	47.4	47.0
Current account balance	-4.6	-6.6	-3.9	-4.1	-6.6	-2.4	-6.3	-6.9	-6.5
					End of year				
EURLCY	118.33	117.60	117.60	117.58	117.32	117.17	116.95	117.30	117.10
Central bank policy rate	3.00	2.25	1.00	1.00	5.00	6.50	5.75	5.00	4.00
3M interbank offer rate	3.03	1.64	0.90	0.94	4.95	5.70	4.70	3.99	3.15
2Y Yield		2.11	1.80	2.60	5.29	5.05	4.20	4.00	3.40
5Y Yield	3.62	2.68	2.62	3.50	6.80	5.40	4.30	4.20	3.70
10Y Yield					7.20	6.15	4.90	5.00	4.30

Source: Eurostat, Refinitiv, Erste Group Research

June 12, 2025

Serbia: Country overview

Official EU language: Serbian

Capital: Belgrade

Geographical size: 88 499 km2

Population: 6.6mn

GDP per capita (PPS): EUR 12 510, below EU average

Currency: Serbian Dinar RSD

Credit Ratings:

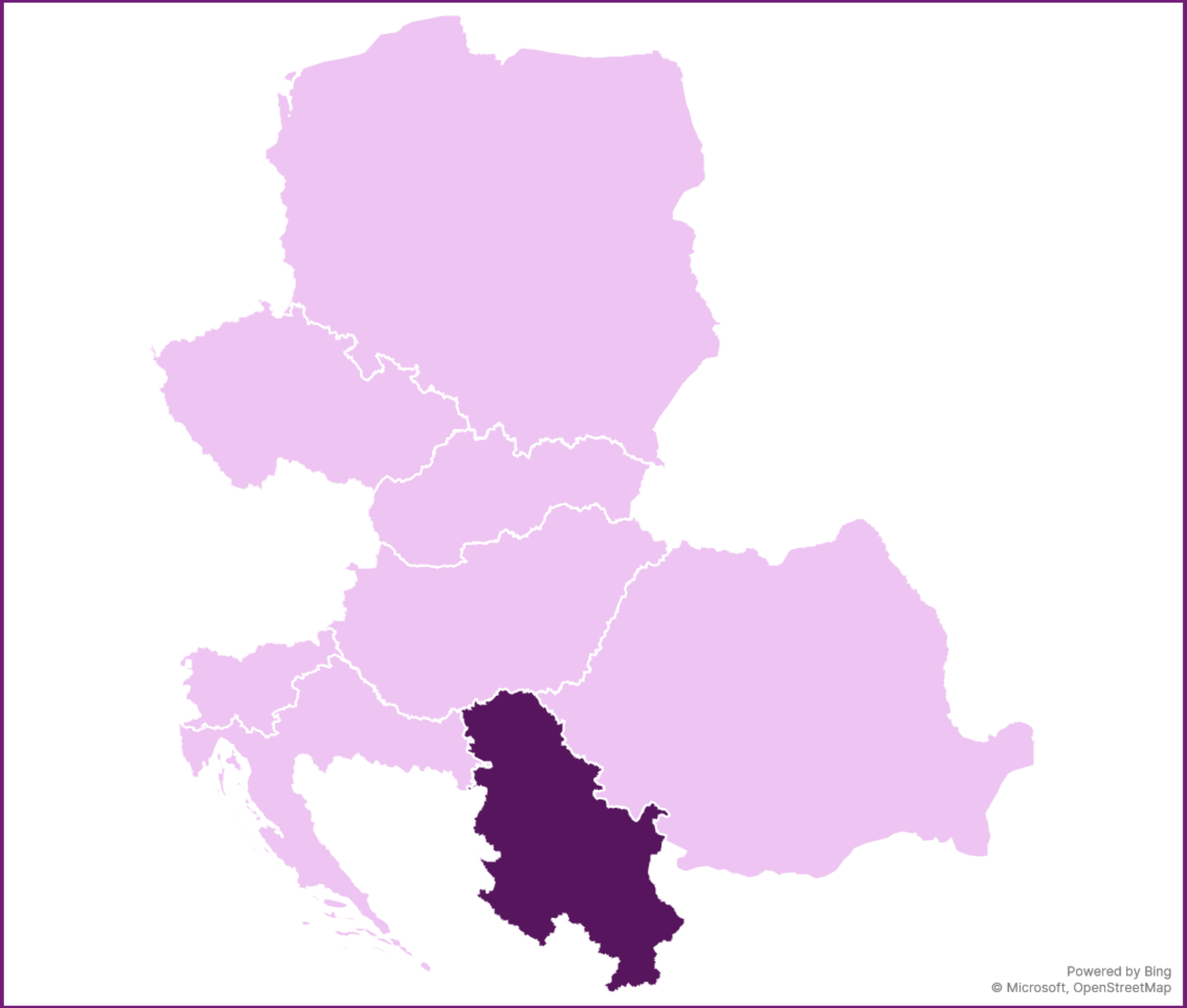
Moody's: Ba2, outlook positive

S&P: BBB-, outlook stable

Fitch: BB+, outlook positive

EU member state: candidate for membership since 2012

Schengen: No



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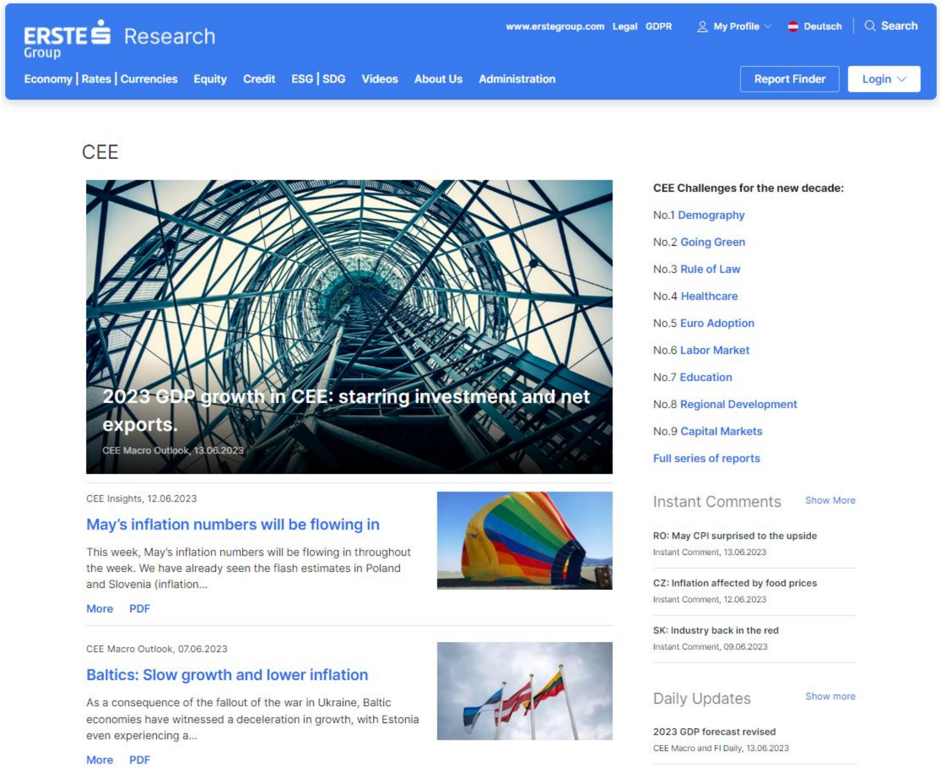

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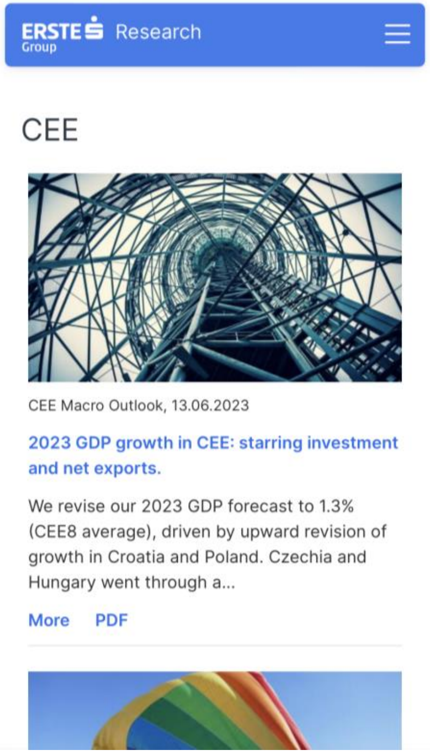

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