SERBIA : MACRO OUTLOOK

Serbia: Complex environment eroding investor confidence

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Economy Serbia - Analyses and Forecasts | Erste Group Bank AG
September 11, 2025

Spot Rates as of: September 11, 2025
Note: Information on past performance is not a reliable indicator for future performance.
Forecasts are not a reliable indicator for future performance.

Complex environment eroding investor confidence

The Serbian economy grew by 2% y/y in 1H25, with similar performance both in Q1 and Q2. The most recent data shows anticipated momentum, with domestic demand still in the driving seat, although solely due to consumption as investments are losing steam, with the latter painfully obvious in construction numbers. Uncertainty remains high, both due to domestic and external factors, weakening consumer and business sentiment and weighing on FDI. Still, growth momentum in the coming period should be supported by solid real net wage growth and positive effects of supply-side factors, courtesy of production in the automobile industry, as the Stellantis factory in Kragujevac started production of the new electric Fiat Grande Panda. Already after the flash release we have cut our FY25 GDP figure by 0.4pp to 2.7%, followed by an expected rebound to 4.3% y/y in 2026. Risks to our forecast seem balanced.

After a gradual decline of inflation in the first five months of the year, in June inflation accelerated to 4.6% y/y, followed by another print outside the target range in July at 4.9% y/y. While in 1Q25 food contribution to headline CPI was around 30% on average, in July it was almost 50%, thus largely explaining the recent spike. Such developments prompted the Government to limit wholesale and retail margins to 20% for a period of six months. On average, we expect FY25 inflation around last year's level, hence around the upper end of the target band.

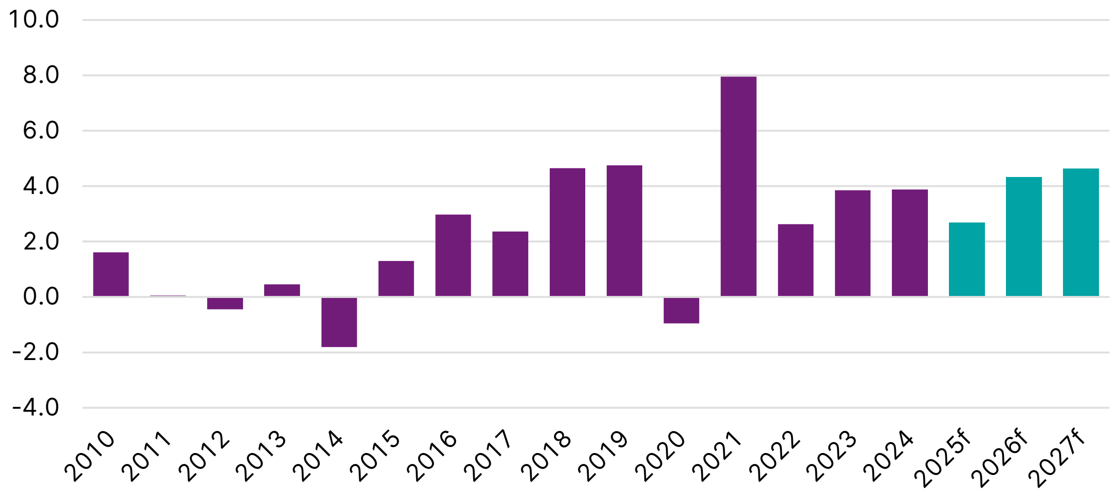
The general government fiscal balance is neutral after 7M25, recording a negligible gap of RSD 6bn. Things will likely take a turn for worst in the last quarter, as it is usually the case. The expenditure side is rising higher than the revenue side (5.8% y/y vs 2.1% y/y in real terms), mostly driven by increased public sector wages and pensions while capex, although up 7% y/y in real terms, is below the FY25 target (2.8% of GDP vs 7.2% GDP). Consistent with the medium-term fiscal framework, the mildly expansionary fiscal policy is expected to continue, with deficits around 3% of GDP until 2028.

Current anti-government protests date to the November 2024 collapse of an outdoor canopy at the newly renovated Novi Sad railway station in northern Serbia, in which 16 people died. Blaming the tragedy on corruption, corner-cutting and state capture, student-led demonstrators have begun demanding elections. On the other hand, the ruling party has been painting the protesters as pawns of foreign powers trying to instigate a 'colour revolution'.

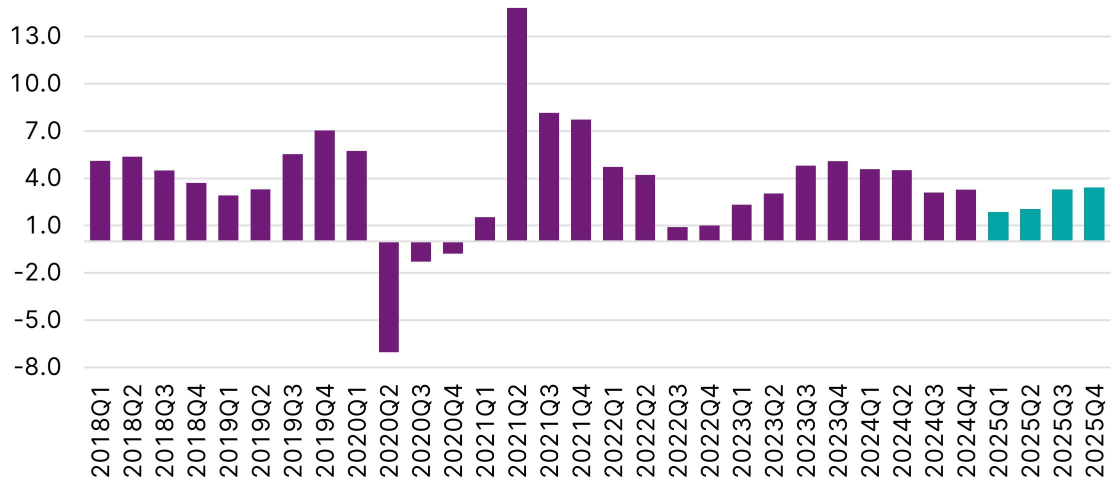
Source: Eurostat, Refinitiv, Erste Group Research

Resolution of protests needed to improve sentiment

Annual GDP growth, percent



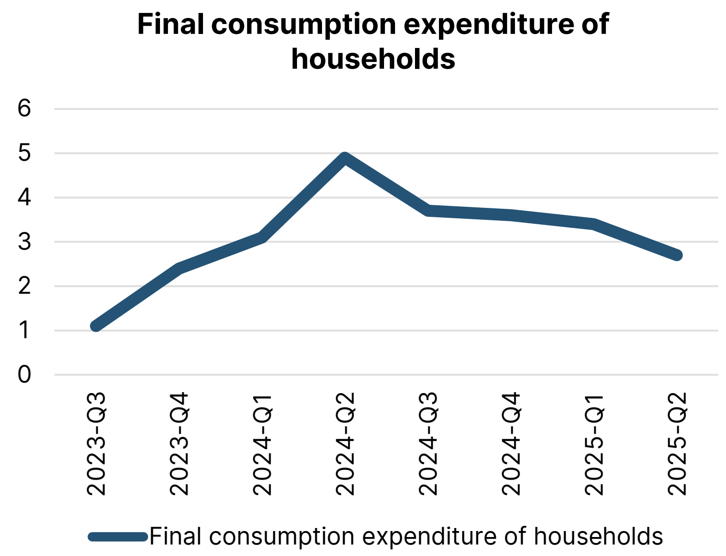
Quarterly GDP growth, y/y percent

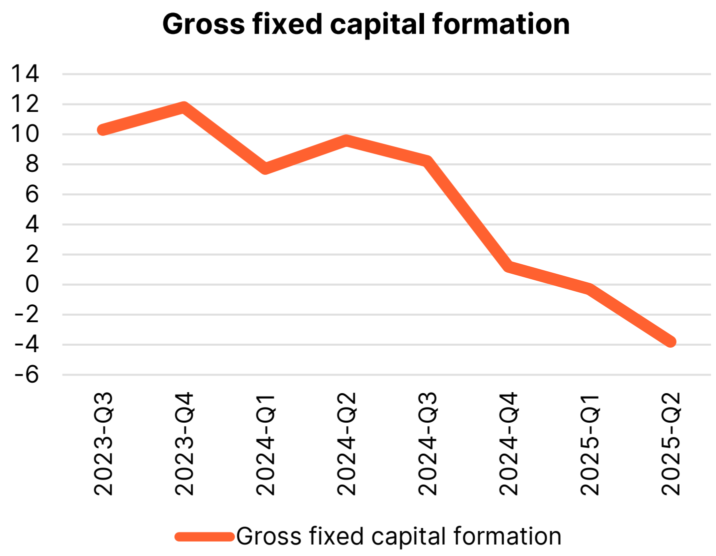


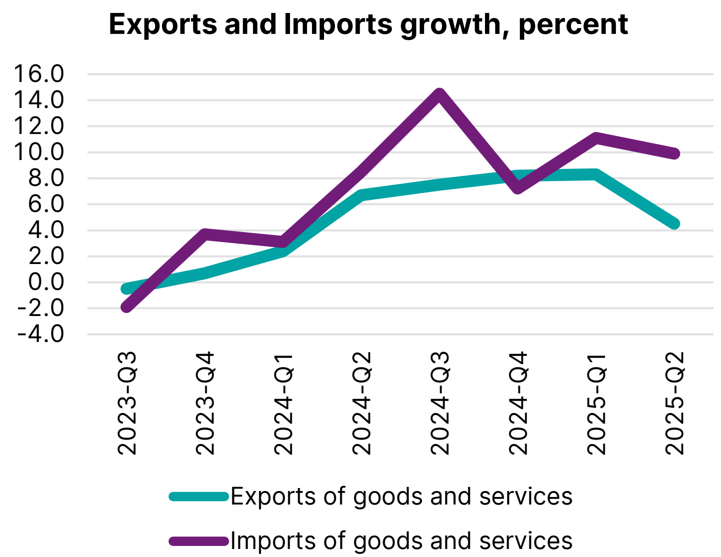
Mounting headwinds are dampening the economy's cyclical upswing. After robust growth in 2024, economic activity slowed to 2% y/y in 1H25, leading to a slightly negative output gap. Weaker business sentiment and soft demand in major export markets have halved FDI inflow thus curbing investment activity, while also driving an accumulation of inventories. Nonetheless, domestic demand has held up relatively well, with imports continuing to rise, supported by a strong labor market, real wage growth, and the government's ambitious investment agenda. Protests triggered by a tragic infrastructure accident in late 2024 have weighed on sentiment. In April 2025, a new government took office, committing to policy continuity, though political tensions at home remain unresolved. U.S. sanctions targeting Serbia's strategically important oil company NIS, linked to its majority Russian ownership, have been announced but repeatedly postponed, posing risks to energy security. Meanwhile, slower growth in the EU, Serbia's largest trading partner, may continue to dampen external demand and FDI, and the proposed yet delayed U.S. tariff on Serbian exports could further undermine confidence. In 2026 and 2027 we expect growth to rebound above 4% y/y, driven by large Expo related investment agenda and expected resolution of the protests which should both support business sentiment.

Source: Eurostat, Refinitiv, Erste Group Research

Consumption still resilient, but investments tumbled

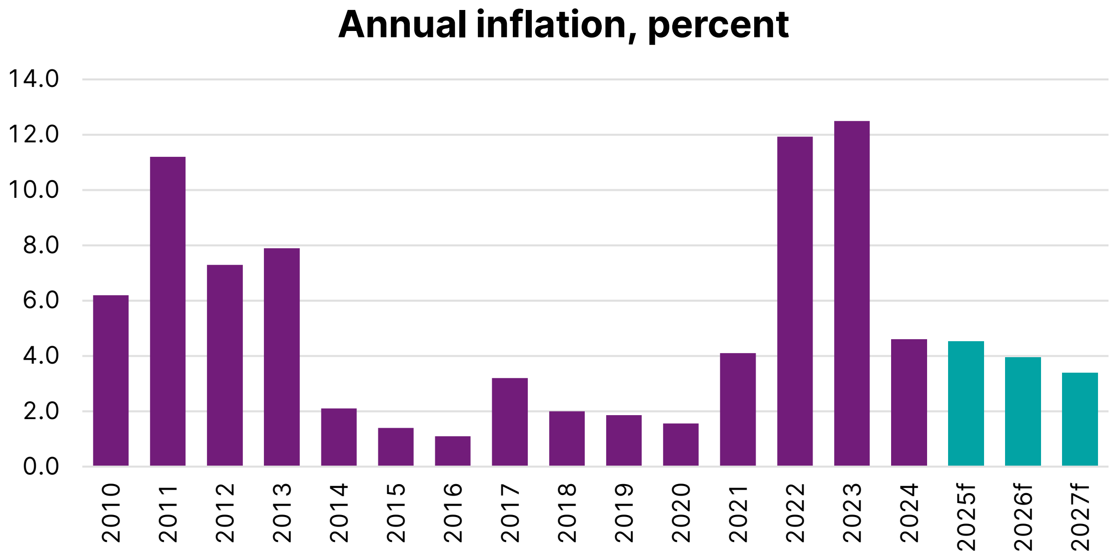


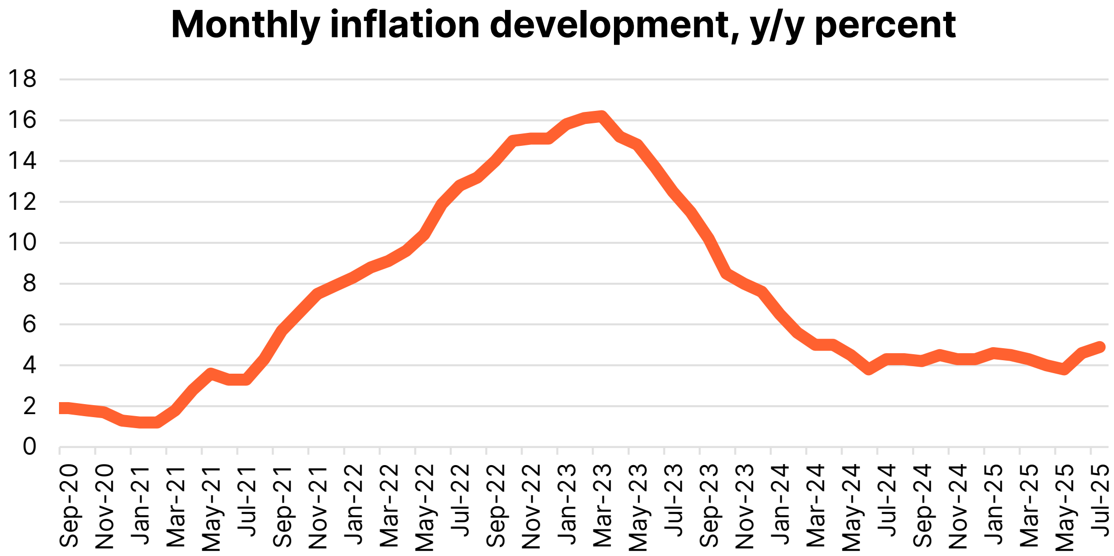




Detailed release only slightly altered previously printed figures about the Serbian economy. Namely, 1Q25 GDP was revised downwards by 0.1pp to 1.9% y/y, while the 2Q25 GDP figure was revised upwards by the same amount, landing at 2.1% y/y. Detailed structure shows largely anticipated momentum, with domestic demand still in the driving seat, although solely due to consumption as investments are clearly losing steam. Household spending, after rather weak growth pace early in the year, shows encouraging 3% y/y growth in 2Q25 driven by 6.4% y/y real net wage growth after 1H25, alongside double-digit growth in cash and consumer loans. Household consumption contribution to the headline figure was 1.9pp while public spending added another 0.6pp as it rose 3.7% y/y. Positive inventory contribution more than offset negative net external contribution. Regarding the later, relatively weaker export figure seems to have been influenced from the service side, as tourism underperformed in 2Q25 with both foreign arrivals and nights spent declined 3% y/y, following domestic uncertainty and repeated protests.

Inflation accelerated again driven by food price pressure





Inflation was decelerating up until May but then abruptly rose above the upper end of the target band in June and remained outside in July. Acceleration is driven by higher unprocessed food prices due to unfavorable weather, a low base effect from last year, and rising global oil prices in June and July. Core inflation, while lower than early in the year when it was above 5% y/y, remains outside the target range as well. We expect inflation will hover around the upper end of the 3±1.5% target band through year-end, reflecting below average agricultural season and conversely higher fruit and vegetable prices. In response, the government has decided to limit wholesale and retail margins in an attempt to block further inflation pressure stemming from food prices. Inflation is expected to ease gradually in 2026, averaging just under 4.0% y/y, supported by stable interest rates, favorable base effects, and a softer dollar. Compared to our previous report in June, the outlook is higher, mainly due to mentioned adverse weather, stronger food and oil prices, and faster wage growth.

Source: Eurostat, Refinitiv, Erste Group Research
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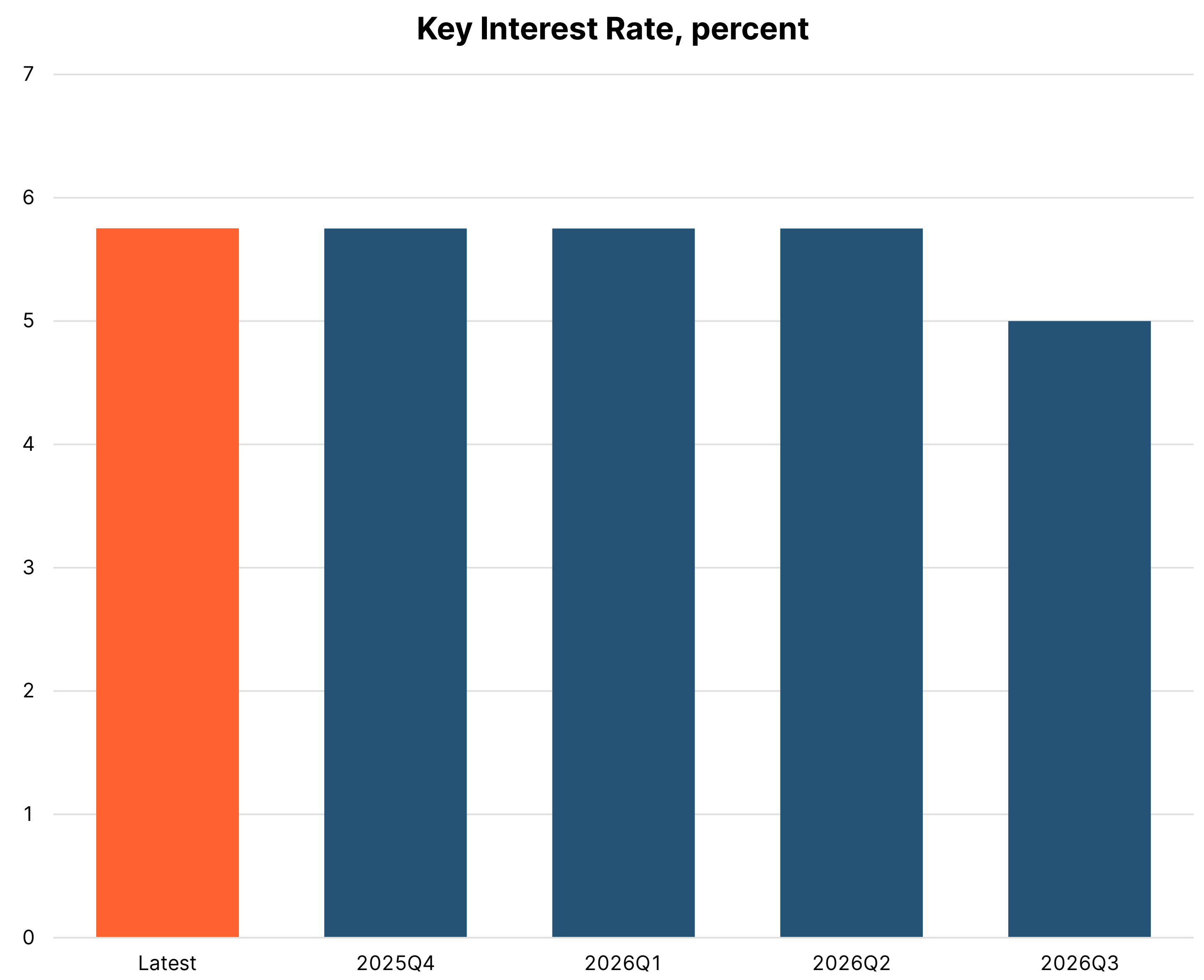

Monetary easing space in 2025 vanished

Unexpected and relatively abrupt inflation pressure has narrowed the space for monetary easing. After easing earlier in the year, headline inflation picked up again to just under 5% this summer, largely due to food prices distorted by poor weather. Core inflation is steady but still elevated, suggesting underlying pressures persist. NBS expects inflation to moderate, helped by government caps on retail margins, easing global cost pressures, and improved agricultural output. We no longer see room for the NBS to cut this year given the new inflation outlook, tense geopolitical setting and already heated domestic credit activity.

Source: Eurostat, Refinitiv, Erste Group Research
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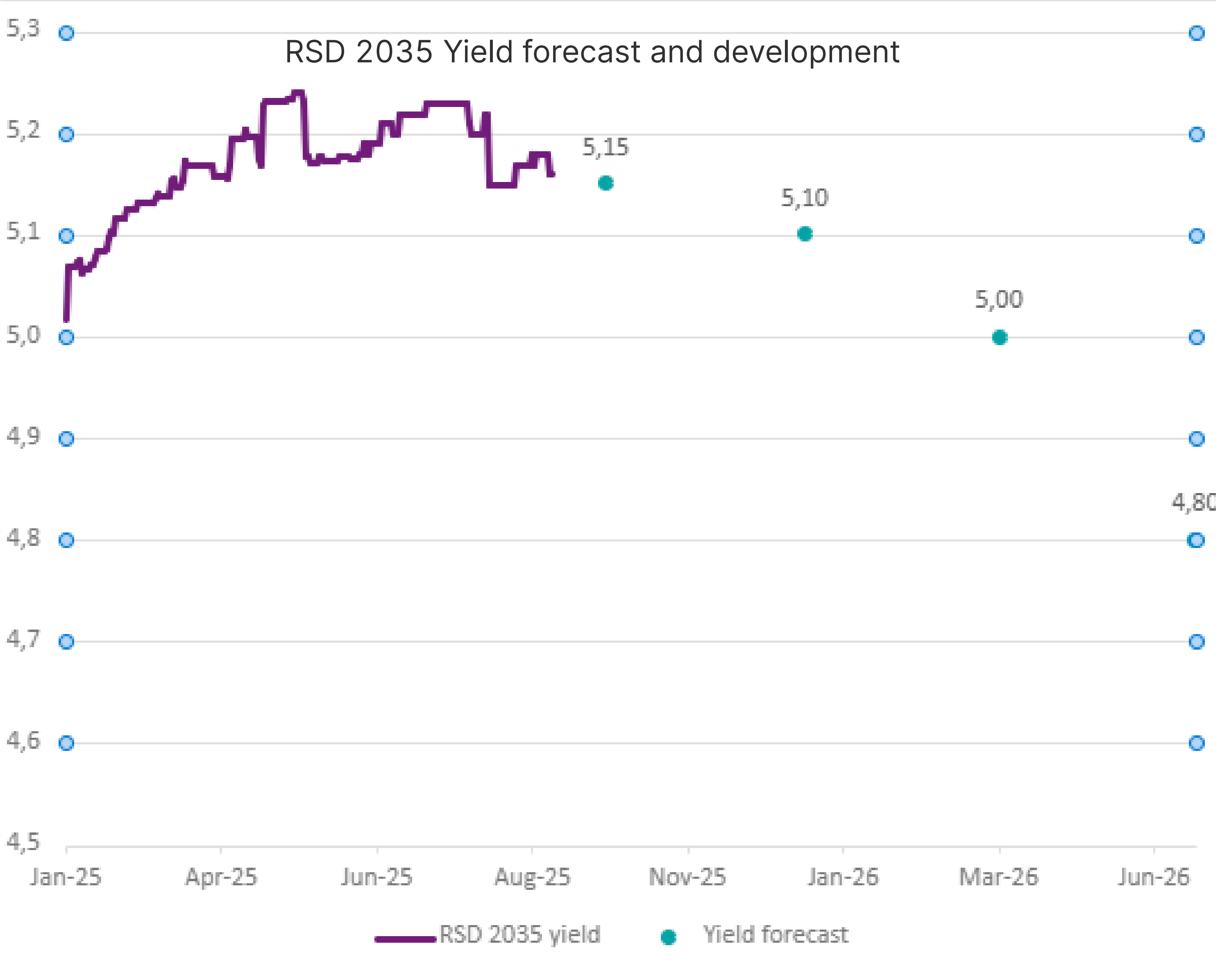
Eurobonds under pressure; local curve stable

Political jitters, coupled with slowing growth and rising inflation, seems to have spooked investors as spreads on hard currency bonds widened by roughly 25bps in the last month. Selling interest persists across both EUR and USD denominated paper. In the local market, dinar bonds are seeing a calmer tone. Activity is muted, with sporadic bids coming in, mostly small in size and opportunistic rather than directional. Looking ahead, we expect relatively flattish dinar curve performance until we get more clarity regarding both domestic and global geopolitics.



Source: Eurostat, Refinitiv, Erste Group Research
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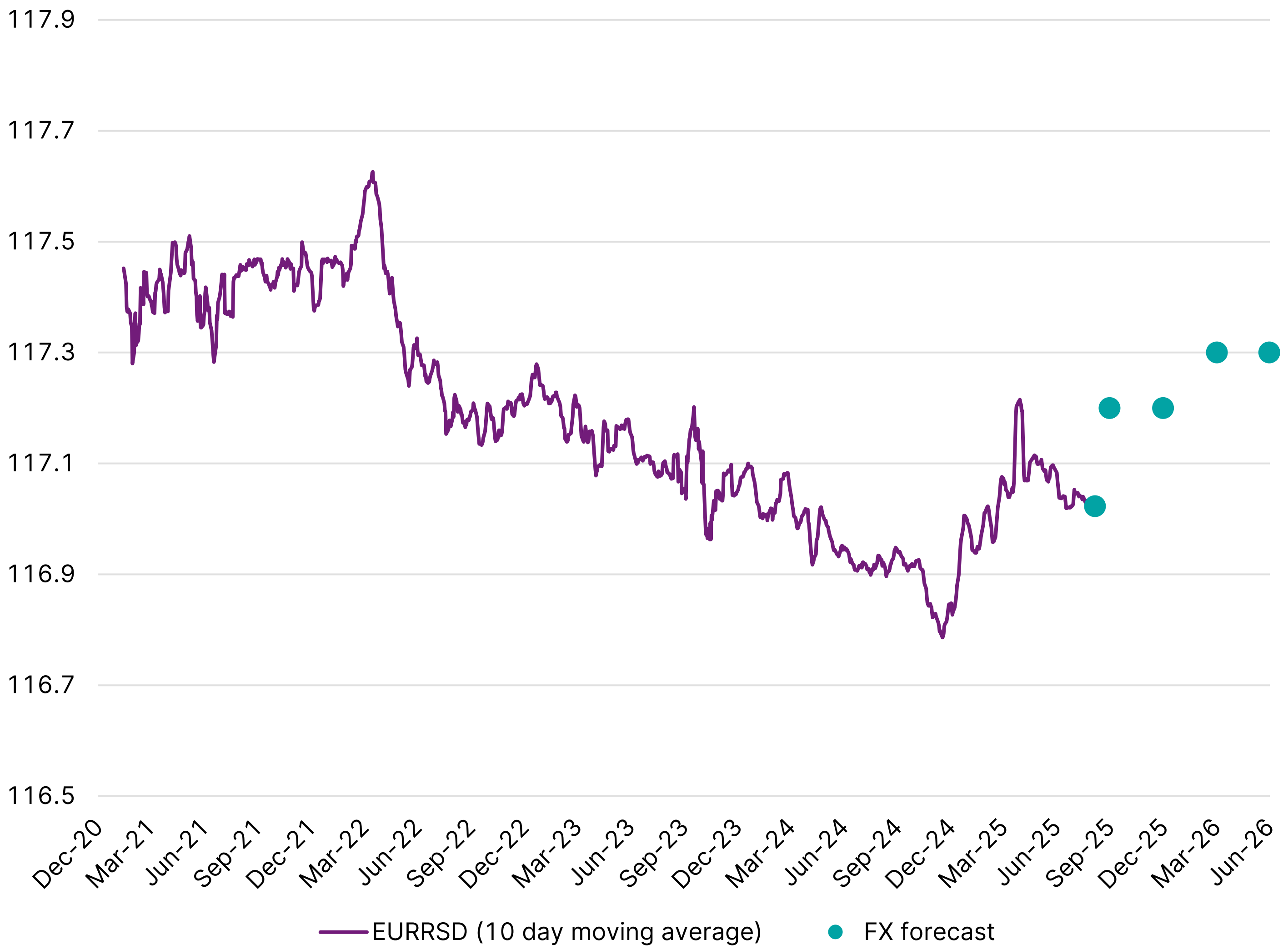
EUR/RSD remained stable

FX market development and forecast



There were no surprises on the FX market, as the dinar remains stable against the euro. Relative to end-2024 dinar is weaker by just 0.1%. FX supply grew in Q2, while demand contracted, resulting in strengthened appreciation pressures, especially in June. This was mostly due to net FX-indexed bank assets, whose growth in Q2 almost doubled in y/y terms. On the other hand, FX demand was mainly generated by non-residents. To preserve the relative stability of the EUR/RSD exchange rate, the NBS intervened in the market during April and May through both sales and purchases of foreign currency. In June and July, its activity was limited to purchases only. From the beginning of the year through the end of July, the NBS recorded net purchases totaling EUR 130mn. We expect EUR/RSD will remain in a narrow range, with NBS ready to smooth out occasional potential volatility.

Source: Eurostat, Refinitiv, Erste Group Research
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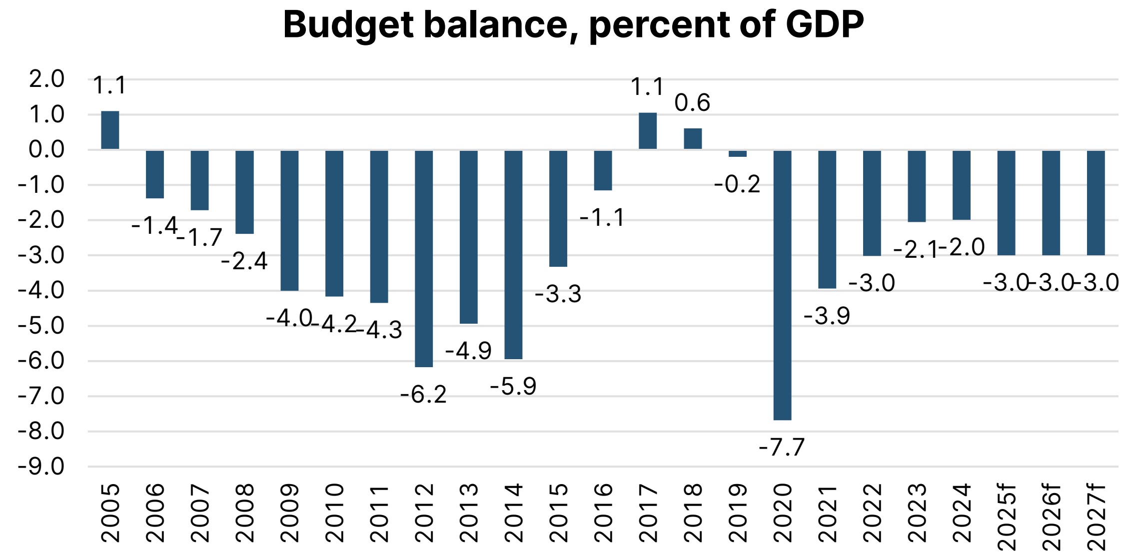
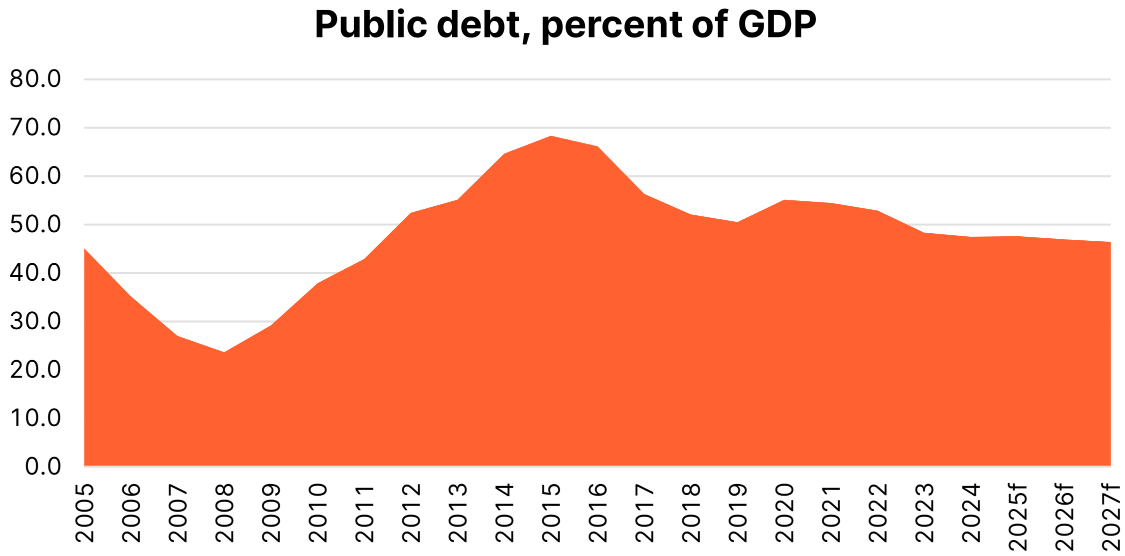
Budget developments stable but end of year usually brings deterioration





The general government fiscal balance was broadly neutral in the first seven months of 2025, posting only a modest deficit of RSD 6bn. Still, the outlook points to a deterioration in the final quarter—echoing 2024, when a surplus after 9M24 ultimately turned into a 2% of GDP deficit by year-end. Current trends suggest a similar trajectory. Expenditure growth continues to outpace revenues (5.8% y/y vs. 2.1% y/y in real terms), largely due to higher public sector wages and pensions, a dynamic that is expected to persist. Although capital spending rose 7% y/y in real terms, it remains well below the FY25 target (2.8% of GDP versus the planned 7.2% of GDP for the FY25). Consistent with the medium-term fiscal framework outlined in the Fiscal Strategy for 2026, with projections through 2027 and 2028, fiscal policy is set to remain mildly expansionary, with deficits near 3% of GDP until 2028 before a gradual narrowing to 2.5% of GDP. Nevertheless, public debt ratio is expected to remain stable.

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Source: Eurostat, Refinitiv, Erste Group Research
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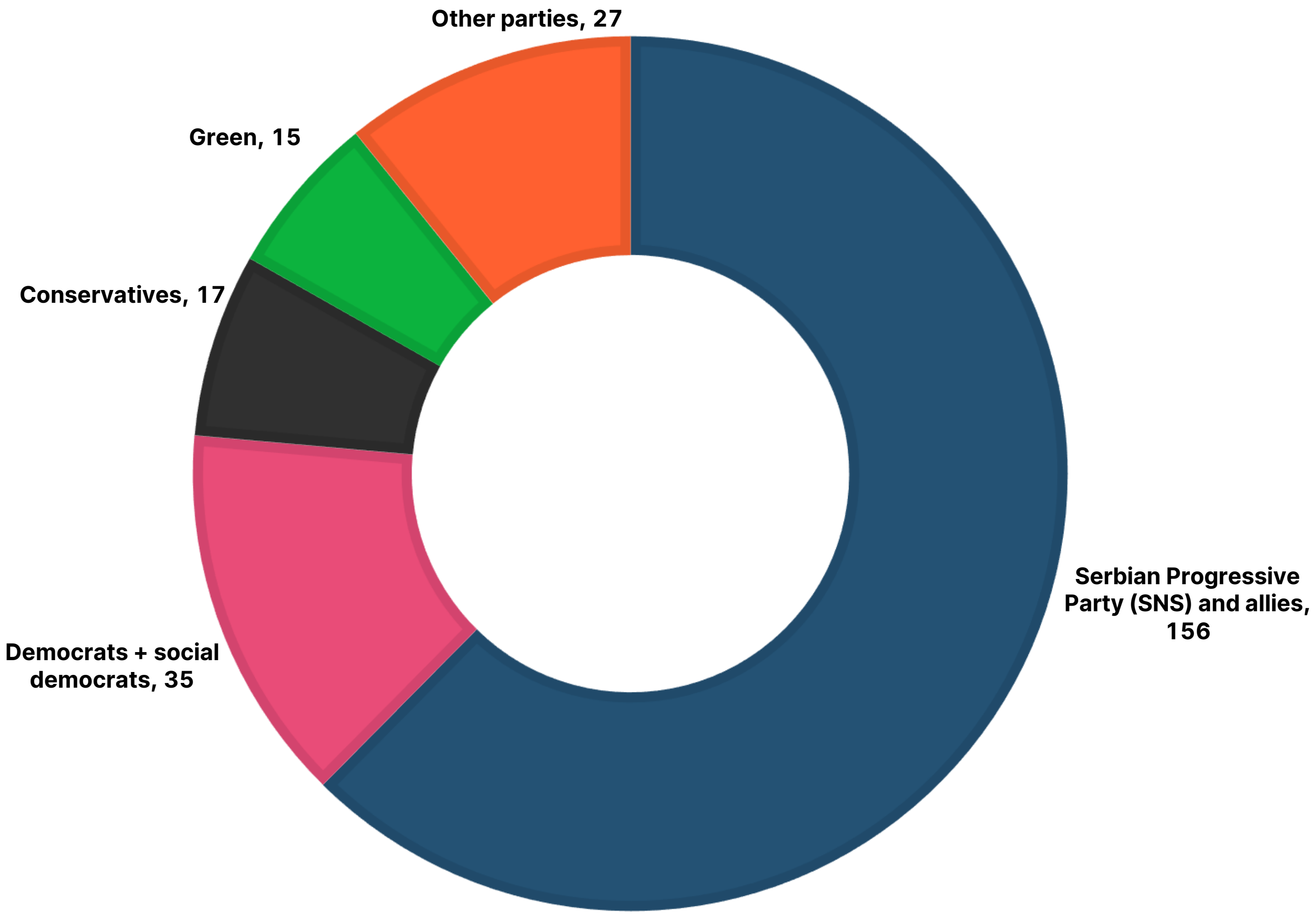
Calendar season shifts but tensions hold

Summer brought a brief lull in Serbia's political tensions, as protests slowed during vacations and school recess. But with the school year approaching and snap elections unlikely, demonstrations gained intensity. Protests follow a pattern: each month begins with remembrance of the 16 victims of the Novi Sad tragedy. The start of September saw fresh unrest, and tensions are expected to rise further around October and especially the November 1 anniversary. There is no sign of emergency measures, but also no sign the ruling coalition will agree to early elections.

Meanwhile, EU reactions are growing sharper. European Parliament members now argue that simple calls for calm are ineffective, urging stronger measures such as a ground presence, sanctions, or financial aid reviews. Polls from Eurobarometer and local think tanks show rising pessimism toward the EU, with support for membership falling to just one-third.

Parliamentary seats



Source: Eurostat, Refinitiv, Erste Group Research

Serbia: Forecasts

	2019	2020	2021	2022	2023	2024	2025f	2026f	2027f
Percent					**Annual average**				
Real GDP growth	4.8	-1.0	7.9	2.6	3.8	3.9	2.7	4.3	4.6
Private consumption growth	3.6	-2.0	7.6	3.5	0.6	4.2	2.7	3.5	4.3
Fixed capital formation growth	16.9	-1.4	14.7	2.2	9.7	6.5	1.0	8.7	6.0
Inflation	1.9	1.6	4.1	11.9	12.5	4.6	4.5	3.9	3.4
Unemployment rate	11.2	9.7	11.0	9.4	9.5	8.6	8.7	8.4	8.1
Percent of GDP									
Budget balance	-0.2	-7.7	-3.9	-3.0	-2.1	-2.0	-3.0	-3.0	-3.0
Public debt	50.5	55.2	54.5	52.9	48.4	47.5	47.6	47.0	46.4
Current account balance	-6.6	-3.9	-4.1	-6.6	-2.4	-6.3	-5.8	-5.6	-3.9
					End of year				
EURLCY	117.60	117.60	117.58	117.32	117.17	116.95	117.30	117.10	117.00
Central bank policy rate	2.25	1.00	1.00	5.00	6.50	5.75	5.75	5.00	4.25
3M interbank offer rate	1.64	0.90	0.94	4.95	5.70	4.70	4.67	4.04	3.41
2Y Yield	2.11	1.80	2.60	5.29	5.05	4.20	4.20	3.40	3.00
5Y Yield	2.68	2.62	3.50	6.80	5.40	4.30	4.50	3.80	3.30
10Y Yield				7.20	6.15	4.90	5.10	4.40	3.80

Source: Eurostat, Refinitiv, Erste Group Research
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Serbia: Country overview

Official EU language: Serbian

Capital: Belgrade

Geographical size: 88 499 km2

Population: 6.6mn

GDP per capita (PPS; EU27=100): 51, below EU average

Currency: Serbian Dinar RSD

Credit Ratings:

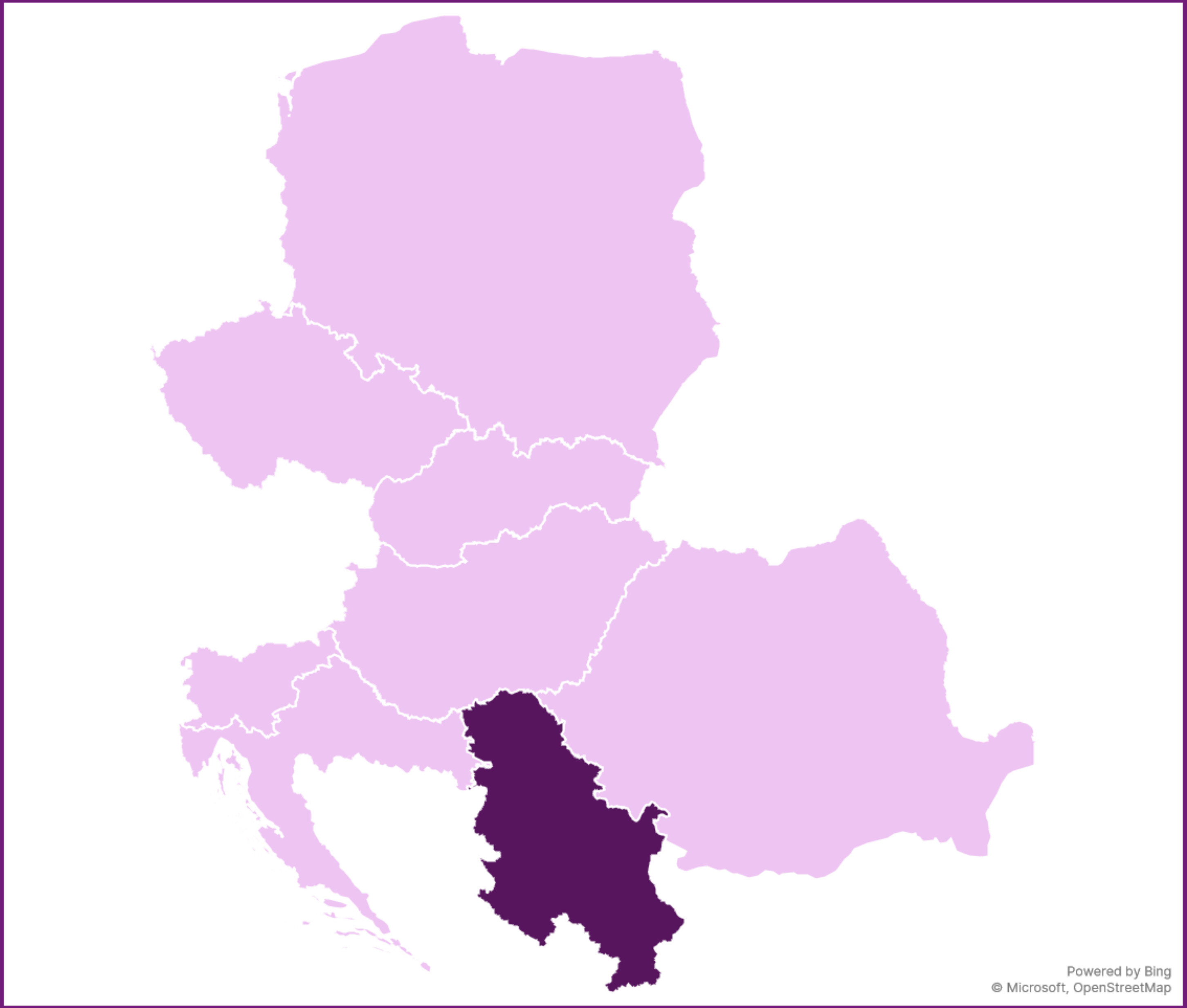
Moody's: Ba2, outlook positive

S&P: BBB-, outlook stable

Fitch: BB+, outlook positive

EU member state: candidate for membership since 2012

Schengen: No



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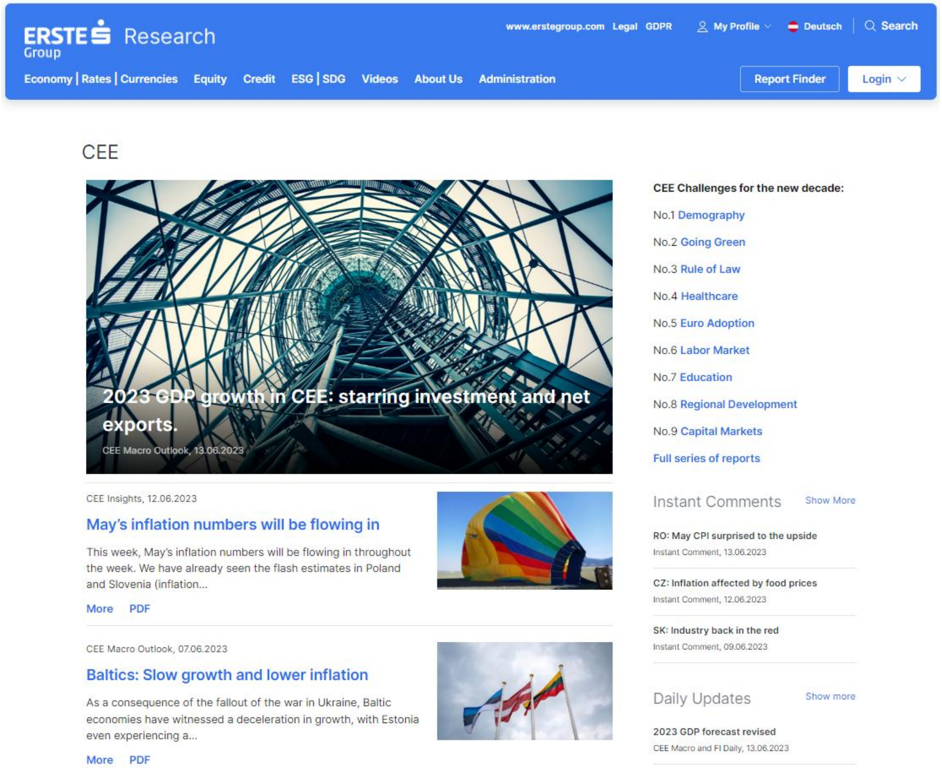

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