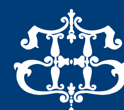

National Bank of Serbia

2026

May

INFLATION REPORT

Introductory note

The Agreement on Inflation Targeting between the Government of the Republic of Serbia and the National Bank of Serbia, effective as of 1 January 2009, marks a formal switch of the National Bank of Serbia to inflation targeting as a monetary policy regime. The main principles and operation of the new regime are defined by the Memorandum on Inflation Targeting as a Monetary Strategy.

Since one of the underlying principles of inflation targeting is strengthening the transparency of monetary policy and improving the efficiency of communication with the public, the National Bank of Serbia prepares and publishes quarterly *Inflation Reports* as its main communication tool. The *Inflation Report* provides key economic facts and figures that shape the Executive Board's decisions and underpin activities of the National Bank of Serbia.

The *Inflation Report* aims to cover information on the current and expected inflation movements and to provide an analysis of underlying macroeconomic developments. It also seeks to explain the reasoning behind the Executive Board's decisions and to provide an assessment of monetary policy effectiveness during the previous quarter. Also integral to this *Report* are the inflation projection for eight quarters ahead, assumptions on which the projection is based and an analysis of key risks to achieving the target.

The information contained in this *Report* will help raise public understanding of monetary policy implemented by the central bank and awareness of its commitment to achieving the inflation target. It will also play a role in containing inflation expectations, as well as in achieving and maintaining price stability, which is the main statutory task of the National Bank of Serbia.

The May *Inflation Report* was considered and adopted by the NBS Executive Board at its meeting of 7 May 2026.

Earlier issues of the *Inflation Report* are available on the National Bank of Serbia's website (http://www.nbs.rs).

Executive Board of the National Bank of Serbia:

Jorgovanka Tabaković, Governor

Željko Jović, Vice Governor

Ana Ivković, Vice Governor

Dragana Stanić, Vice Governor

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ABBREVIATIONS

bp – basis point
CPI – Consumer Price Index
EBRD – European Bank for Reconstruction and Development
ECB – European Central Bank
EIB – European Investment Bank
EMBI – Emerging Markets Bond Index
EU – European Union
FAO – UN Food and Agriculture Organization
FDI – foreign direct investment
Fed – Federal Reserve System
FOMC – Federal Open Market Committee
GDP – gross domestic product
GVA – gross value added
H – half-year
IFEM – Interbank Foreign Exchange Market
IMF – International Monetary Fund
LHS – left hand scale
mn – million
NAVA – non-agricultural value added
NPL – non-performing loan
OFO – other financial organisation
OPEC – Organization of the Petroleum Exporting Countries
pp – percentage point
Q – quarter
q-o-q – quarter-on-quarter
RHS – right hand scale
RMCP – real marginal cost of processed food production
s-a – seasonally-adjusted
SDR – Special Drawing Right
SORS – Statistical Office of the Republic of Serbia
y-o-y – year-on-year

Other generally accepted abbreviations are not cited.

Macroeconomic projections presented in the *Report* were concluded on 30 April.

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I Overview

The outbreak of war in the Middle East has further heightened uncertainty and weakened the outlook for global economic growth, with the economic effects depending primarily on the duration and intensity of the energy shock and its spillover to the prices of other primary commodities, supply chains, financial markets, and investment and consumer confidence.

After demonstrating a considerable degree of resilience to global uncertainty and trade and geopolitical tensions last year, the global economy is now facing a major test following the outbreak of war in the Middle East. Under the IMF reference scenario from April – which is based on a specific set of assumptions and futures prices for primary commodities as of 10 March and which, according to the IMF, cannot be regarded as the baseline scenario – **global economic growth** is projected to slow to 3.1% this year, 0.2 below the January projection, before edging up slightly to 3.2% next year. According to the IMF estimate, in the absence of the war, global economic growth would most likely have been revised upwards in this projection round. The reference scenario also assumes that the situation will stabilise by mid-year, whereas a more prolonged and intense conflict would have more persistent consequences and lead to lower global economic growth, which under the adverse alternative scenario could amount to 2.5%, and under the severe scenario to around 2% this year. Commodity-importing countries and emerging economies with pronounced vulnerabilities would be affected the most and their growth projections have therefore been revised down more substantially.

According to the IMF estimate, global inflation will be higher than previously anticipated.

Due to the energy shock, **global inflation** is projected to exceed previous expectations, reaching 4.4% this year and 3.7% in 2027, while in the event of a more prolonged and intense shock it could rise to 5% or even 6% this year, depending on the severity of the assumed shock. In addition to the direct effects of higher global prices of primary commodities, the inflation trajectory will also depend on second-round effects, which are shaped by inflation expectations that may prove particularly sensitive to rising food and energy prices. Due to elevated inflation risks, central banks have adopted a cautious approach and, at their March and April meetings, generally refrained from further monetary policy easing. Pronounced risks to inflation and economic activity in the US and Europe are also fuelling uncertainty as to future monetary policy decisions by the Fed and the ECB.

The outbreak of war in the Middle East in late February reversed trends in global commodity and financial markets, leading to higher prices of primary commodities, rising yields on government securities and appreciation of the US dollar, which continues to retain its status as a safe-haven currency.

Developments in the Middle East inevitably spilled over to **global commodity and financial markets**. The closure of the Strait of Hormuz, through which around one-fifth of global oil supply passes, together with attacks on energy infrastructure in countries across the region and the associated decline in production, triggered a sharp increase in oil prices, which also fed through to the prices of other energy products and primary commodities. Nevertheless, during April, oil prices exhibited pronounced volatility, in line with developments in the Middle East, further complicating the establishment of a consistent set of assumptions

regarding their future trajectory. Amid heightened uncertainty and stronger inflationary pressures, yields increased and global financial conditions for the private sector tightened, although they may still be considered relatively favourable.

The pronounced rise in geopolitical uncertainty in international financial markets has spilled over to the domestic financial market to a limited extent.

Interest rates on dinar-denominated government securities in both the primary and secondary markets recorded a mild increase, as was also the case with interest rates on new private sector loans. Nonetheless, the average interest rate on dinar cash loans to households remained close to the historical low recorded in the final quarter of 2025, supported by measures enabling more favourable borrowing conditions for lower-income households in line with the NBS supervisory expectations, and stood at 8.3% in March. Y-o-y **lending to the non-monetary sector** continued to accelerate, reaching close to 17% in March, driven by working capital and investment loans in the corporate sector, and by cash and housing loans in the household sector. Together with the preserved quality of bank assets, this helped maintain the share of NPLs in total loans close to its historical low, at 2.1% in March. Under the impact of heightened global uncertainty, as well as seasonally higher demand for foreign exchange by energy importers at the beginning of the year, depreciation pressures prevailed in the **FX market** during Q1. In such circumstances, including net purchases in April, the NBS net sold EUR 1.2 bn in the FX market, while FX reserves, which amounted to EUR 28.2 bn at end-April, remained well above adequacy criteria and continue to serve as an important buffer against external risks.

Responsible fiscal policy and the built-up fiscal buffers enable the government to absorb part of the burden of the energy crisis without significant implications for public finances.

In response to the energy shock, the government adopted measures to contain the rise in domestic petroleum product prices, including a ban on exports of petroleum products, the release of strategic oil reserves, and a reduction in excise duties on fuel, thereby preventing a more pronounced increase in retail petroleum product prices. Nevertheless, total government revenue continued to record solid real growth of 10.6% y-o-y in Q1, driven by higher receipts from personal income tax, value added tax, and corporate income tax. At the same time, primarily due to higher government capital expenditure, and partly owing to spending on public sector wages and pensions, purchases of goods and services, and subsidies, the fiscal deficit amounted to 4.5% of projected GDP, compared to the planned annual deficit of 3%. At end-March, **the share of general government public debt in projected GDP for this year** stood at 42.0% and remained well below the Maastricht threshold.

The current account deficit amounted to only 0.8% of GDP in Q1 2026, while, owing to higher energy prices at the annual level, we estimate that it will reach around 6% of GDP.

Despite still subdued external demand, goods exports in the first three months of this year increased by 7.4% y-o-y, supported by higher manufacturing exports, with the largest contribution coming from branches related to the automotive industry. At the same time, goods imports grew at a slower pace than exports, by 3.0% y-o-y, primarily reflecting lower energy imports. In addition to the lower deficit in trade in goods, the significantly lower **current account deficit** compared

to the same period last year was also driven by a higher surplus in trade in services and an increased secondary income surplus. FDI inflows declined y-o-y, amounting in Q1 to EUR 369 mn, or EUR 192 mn on a net basis.

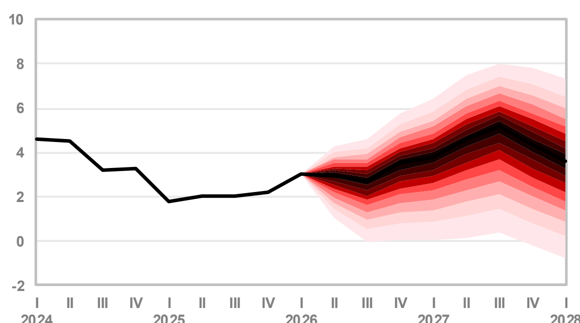
According to the Statistical Office flash estimate, real GDP growth in Serbia amounted to 3.0% in Q1 2026, in line with our February projection.

The acceleration in **GDP growth** relative to the previous year was driven by increased activity in the service sectors, primarily retail trade, as well as recovery in the tourism sector. Industrial production recorded a y-o-y decline, though this mainly reflected lower production of petroleum products in January and the associated weaker activity in the chemical industry. Over the remainder of the quarter, industrial production rebounded, primarily owing to stronger activity in manufacturing. On the expenditure side, GDP growth is estimated to have been driven by domestic demand, with positive contributions from both consumption and fixed investment. Economic growth continued to be supported by lending activity as well.

Under our new projection, GDP growth will amount to 3.0% in 2026 and then strengthen to around 4.5% in 2027 thanks to the hosting of the Expo. For both years, the projected outcome is 0.5 pp lower than forecast in February. This revision reflects the adverse effects of higher global energy prices on income disposable for consumption, primarily in 2026, as well as prolonged global uncertainty, which is weighing on investment sentiment in both years.

Due to the further escalation of geopolitical tensions following the outbreak of war in the Middle East, our **real GDP growth projection** has been revised from 3.5% to 3.0% for 2026 and from 5.0% to 4.5% for 2027 – due to the impact of prolonged global uncertainty on investor confidence since last year. In the medium term, we expect our economy to grow at a stable pace, broadly in line with its potential of around 3.5% p.a. Projected economic growth will be driven by domestic demand, with contributions from both consumption and fixed investment, supported by higher disposable income and the continued implementation of infrastructure projects under the "Leap into the Future – Serbia Expo 2027" programme. In 2026, imports are projected to grow faster than exports amid still subdued external demand and rising consumption and investment activity, resulting in a negative contribution from net exports. By contrast, in 2027, net exports are expected to make a positive contribution to GDP growth, primarily due to an increase in services exports associated with the hosting of the Expo.

GDP growth projection
(y-o-y rates, in %)



Y-o-y inflation remained slightly below the target midpoint of 3% in Q1 2026.

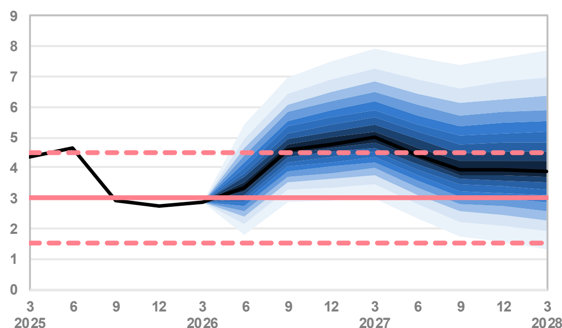
Y-o-y inflation remained below the target midpoint of 3% throughout Q1, which was lower than expected in our previous *Report*. The March level of headline inflation (2.8%), particularly monthly food price dynamics, indicates that the expiry of the decree capping wholesale and retail trade margins has so far had no major impact on food price growth. During Q1, the contribution of petroleum product prices to y-o-y inflation increased as a result of higher global oil prices, while prices of food and non-alcoholic beverages continued to record a y-o-y decline, which amounted to 1.2% in March. Y-o-y core inflation moved somewhat above 4% in Q1, driven primarily by growth in service prices. The significant rise in global energy prices has so far not fed through to **inflation expectations of the financial and corporate sectors** to any significant extent. Since the beginning of the year, one-, two- and three-year ahead expectations of the financial sector have hovered around the target midpoint, while

corporate sector expectations declined to around 4% in February, where they remained in March.

Under our new central projection, inflation will continue to move within the target band in the current and the following quarter, while at the turn of the year it will edge slightly above the upper bound of the target band, partly due to the low base and partly owing to the effects of higher global prices of energy and primary commodities. Thereafter, inflation will gradually decelerate and return within the target band by mid-year, where it will remain until the end of the projection horizon.

A significant increase in global prices of oil and other primary commodities, combined with the low base from September last year due to the implementation of the decree capping wholesale and retail trade margins at 20%, will cause **inflation** to temporarily move above the upper bound of the target towards the end of the current year and at the beginning of the next. On the other hand, the still restrictive monetary policy stance, the expected gradual weakening of cost-push pressures from the international environment, as well as the assumed more favourable agricultural season relative to the previous year, will contain a stronger rise in inflation. Wage growth, and thus the increase in income disposable for consumption, will bolster demand, though no major inflationary pressures are expected on this account, given that wage growth will largely be aligned with productivity gains. Demand is likely to pick up in 2027 due to the hosting of the Expo, though this should not generate pressures that would push inflation outside the target band. Due to pronounced uncertainty, primarily regarding global energy prices, and following the example of other international financial institutions, we have prepared alternative projection scenarios assuming a stronger and more prolonged energy shock, which would result in higher inflation and lower economic growth than in the baseline scenario.

Inflation projection
(y-o-y rates, in %)



The NBS will continue to conduct monetary policy in a cautious manner, taking into account developments in all key economic indicators at home and abroad.

Since the previous *Report*, the NBS Executive Board has kept the **key policy rate** unchanged at 5.75%. In making its decisions, it took into account the need for monetary policy caution, particularly following the escalation of the Middle East conflict, which has led to a significant increase in global prices of energy and other primary commodities, affecting supply chains and capital flows towards emerging economies, including Serbia. Monetary policy decision-making requires particular caution when the economy is faced with a supply-side shock such as the current energy shock, given that inflationary pressures are stronger than previously expected and that the shock is having adverse effects on economic growth. An important criterion in the decision-making process will be the duration and intensity of the global energy shock, as well as the degree of spillover to other prices through inflation expectations. In any case, the NBS Executive Board will continue to conduct a cautious monetary policy and take all necessary measures to ensure price stability over the medium term.

II Monetary policy since the February *Report*

In the period since the February Report, the NBS Executive Board has kept the key policy rate unchanged at 5.75%. In making its decisions, the Executive Board considered that monetary policy caution is needed, particularly following the escalation of the Middle East conflict, which led to a significant increase in global prices of energy and other primary commodities, disrupting supply chains and capital flows to emerging markets, Serbia included, and may generate stronger inflationary pressures than anticipated.

The Executive Board underlines that without prejudice to its main objective – price stability, the NBS continues to support economic growth by maintaining relative stability of the dinar exchange rate against the euro and by ensuring more favourable credit financing conditions.

Rationale for March and April 2026 decisions

At its meetings in March and April 2026, the NBS Executive Board kept the key policy rate unchanged at 5.75%, its level since September 2024. The Executive Board's decision to keep the key policy rate on hold was primarily driven by **heightened global uncertainty stemming from intensified geopolitical tensions**. The outbreak of the Middle East conflict at end-February, as well as disruptions to maritime traffic through the Strait of Hormuz, one of the key routes for global oil and gas trade, led to a sharp increase in global energy prices and heightened volatility in energy markets. These shocks have also spilled over to other segments of the global economy, primarily through higher container transport and mineral fertiliser costs, disrupted supply chains, and deteriorated investment and consumer confidence. At the same time, heightened uncertainty has had an adverse effect on international flows of goods and capital, which had already been under pressure even prior to the escalation of the latest crisis due to pronounced trade tensions and protectionist measures in leading global economies.

In the newly emerged circumstances, net energy importers, Serbia included, **face increased upside risks to inflation and downside risks to economic growth**. Upside risks to inflation relate primarily to the direct effects of higher energy prices, but also to indirect cost-push pressures and potential second-round effects through increased inflation expectations. Downside risks to economic growth stem from reduced real purchasing power and weaker demand, as well as higher production costs, increased uncertainty and subdued consumer and corporate confidence. When considering developments in the international environment, the Executive Board noted that the intensity and duration of these effects largely depend on further geopolitical developments and movements in global energy prices, which are difficult to predict under current circumstances and require particular caution on the part of monetary policy makers.

As regards domestic inflation, the assumption of the medium-term February projection was that y-o-y inflation would move around the target midpoint until September this year, and then around 4% from September, due to the low base effect associated with the implementation of the decree capping trade margins. One of the key assumptions of such a projection was that global prices of oil and other energy products, as well as other primary commodities, would not record a major increase.

However, the outbreak of the conflict in the Middle East at end-February caused **serious disruptions in global energy flows, leading to a rise in energy prices**. Against such backdrop, **economic policy makers in Serbia** implemented coordinated measures to preserve price stability and mitigate the adverse effects of external shocks. The **government** promptly introduced measures aimed at capping the prices of petroleum products in the domestic market – it banned the export of petroleum products and reduced fuel excises, which should also contain the secondary spillover effects onto other prices and thus prevent a more pronounced increase in inflationary

pressures. The **NBS** continued to pursue a cautious monetary policy, while maintaining relative stability of the exchange rate. At the same time, the NBS underlined that it would react with all available instruments if assessed that the increase in global oil prices has strong second-round effects on other prices through inflation expectations, which has not yet materialised.

According to the March survey results, one-year ahead **inflation expectations** of the corporate and financial sectors are within the target band, standing at 4.0% and 3.0%, respectively, similar to the level of medium-term expectations. According to the Bloomberg survey, one-year ahead inflation expectations of the financial sector are somewhat higher than those recorded in the Ninamedia survey, but have declined since the start of the year despite developments in the international environment, to 3.5% in the April survey.

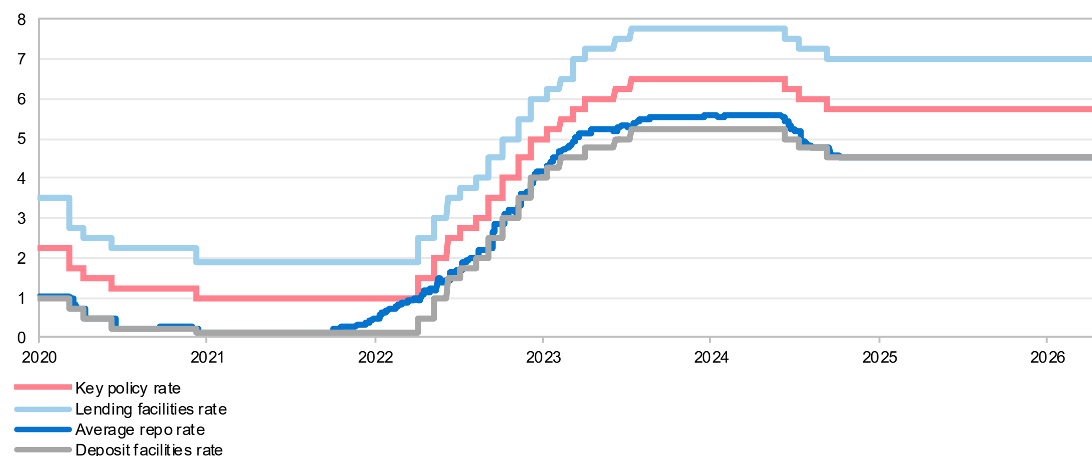
When assessing developments in the **real sector**, the Executive Board noted that, following challenges early in the year, primarily in petroleum products production and chemical industry, February saw more favourable trends, largely supported by the service sector, as well as the relaunching of the operations at the Pančevo refinery at end-January. It is expected that finding a long-term sustainable solution for the smooth operation of NIS will further support economic growth going forward. A positive impetus to GDP growth is expected from consumption and fixed investment. The implementation of investments under the "Leap into the Future – Serbia Expo 2027" programme will play an important part, while in 2027 net exports are also expected to make a positive contribution due to the hosting of the specialised Expo exhibition. During the previous year, growth in lending activity, supported by favourable borrowing conditions, provided significant support to economic growth, and similar trends have continued this year, as lending growth accelerated further in Q1 2026. However, economic activity remains affected by global uncertainty caused by geopolitical and trade tensions and rising energy prices, which may negatively impact investment and consumer confidence and capital flows.

Should it persist, energy price growth will almost certainly **lead to a major weakening of global economic activity**, due to heightened uncertainty, tightened financial conditions and rising production costs. For Serbia, this implies potentially weaker demand from key trade partners, mainly the EU and the region, which may affect the dynamics of goods and services exports. Moreover, increased volatility in international financial markets and a rise in risk premia may affect **capital flows**, further complicating external factors considered in monetary policy decision-making.

In the **euro area**, our key trade partner, **y-o-y inflation** increased above the ECB's target in March (to 2.5%), chiefly due to higher energy prices resulting from the Middle East conflict, while core inflation decelerated (to 2.3%). Meanwhile, **euro area economic activity** has proven more resilient than previously assessed, given geopolitical tensions, strong competition from China and uncertain US trade policy. However, with the outbreak of the Middle East conflict, projections were revised in March, particularly those relating to the short term, primarily due to rising energy prices. The baseline scenario envisages higher inflation, mainly this year (2.6%, compared to 1.9% in the December projection), which will reduce purchasing power and consumption, and accordingly slow GDP growth, most notably this year (to 0.9%, compared to 1.2% in the December projection). Taking all this into account, the ECB has not changed its key rates so far, nor has it signalled their possible path going forward, underlining that decisions will be made on

Chart II.0.1 **Key policy rate and average repo rate**

(in %)



Source: NBS.

a meeting-to-meeting basis, depending on incoming data.

The **Fed** has also kept its federal funds rate range unchanged (at 3.50–3.75% since December), noting that any potential monetary policy easing will depend exclusively on a clear decline in inflation, particularly in the segment of goods prices, which continue to face pressures due to higher tariffs. Further, uncertainty regarding energy price developments due to the conflict in the Middle East has not yet been fully incorporated into assessments, but it has been emphasised that inflationary pressures might persist longer than expected. Although the possibility that the next decision could involve an increase in the policy rate was also considered, the majority of the FOMC members do not view this as the baseline scenario. The latest Fed projection signals somewhat faster economic growth, but also higher expected inflation rates.

Rationale for May 2026 decision

When deciding to keep the key policy rate unchanged at its May meeting, the Executive Board took into account that y-o-y inflation, although moving below the target midpoint during Q1 and amounting to 2.8% in March, would record a moderate increase in the period ahead, primarily due to a significant rise in global oil prices and, consequently, higher petroleum product prices in the domestic market. Towards the end of the year, higher inflation will also be affected by the low base arising from the implementation of the Decree on Special Conditions for Trade in Certain Types of Goods, which led to a notable decline in inflation late last year. The Executive Board pointed out that the final effects of the global energy shock on domestic inflation and economic activity are difficult to estimate as they depend on the duration and intensity of the conflict. The Board expects that the shock will be temporary, as well as the rise in inflation, its peak in the current cycle likely to be recorded towards the end of this year and at the beginning of next.

In line with best global practice, the NBS also prepared alternative scenarios for inflation and GDP projections within the May medium-term projection.[1] Given the uncertainties regarding the course of the conflict and its impact on energy prices, as well as the transmission of the energy shock onto other prices and economic activity, the baseline scenario of the NBS projection was supplemented with alternative scenarios assuming different intensities of the impact of the Middle East conflict on inflation and GDP in Serbia. The analysis of different scenarios contributed to enhancing the transparency and credibility of monetary policy, more efficient management of inflation expectations and the mitigation of second-round effects of external shocks. The Executive Board underscores the importance of this approach in conditions of heightened uncertainty, as it allows for a clearer assessment of risks and possible paths of inflation and economic activity.

The NBS will continue to monitor and analyse trends in the international commodity and financial markets. Monetary policy decisions will be made on a meeting-to-meeting basis, depending on new data and an assessment of the overall impact of the current energy shock on inflation, while caution and gradual and data-driven approach will remain the key principles of action. The priority of monetary policy will remain to ensure price and financial stability in the medium term, while supporting further economic growth, employment and a favourable business and investment environment.

[1] See Text box 5, p. 68.

III Inflation movements

Y-o-y inflation remained below the target midpoint of 3% during Q1, which is slightly lower than expected in the previous Report, and stood at 2.8% in March. The March level of headline inflation, and in particular the monthly dynamics of food prices, indicate that the expiry of the decree capping wholesale and retail trade margins has so far not had any major impact on food price growth. During Q1, the contribution of petroleum product prices to the y-o-y inflation increased, reflecting a rise in global oil prices, while the prices of food and non-alcoholic beverages continued to record a y-o-y decline, which amounted to 1.2% in March. Core inflation moved slightly above 4% y-o-y during Q1, driven primarily by the increase in the prices of services.

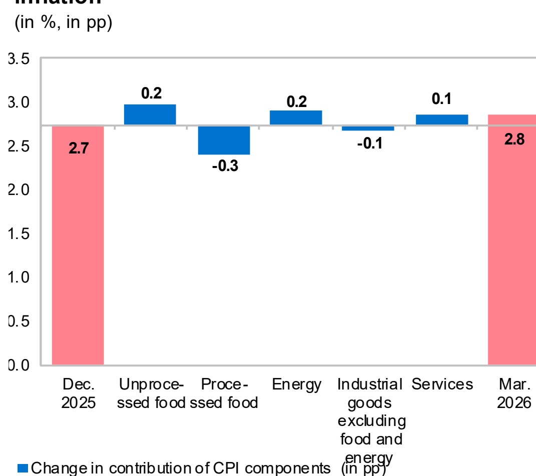
Inflation expectations of the financial sector for one, two and three years ahead continued to move around the 3% target midpoint, while corporate sector expectations for one and two years ahead hovered around 4%, confirming that the NBS monetary policy credibility has been preserved even amid heightened global uncertainty.

Inflation movements in Q1

Compared to end-2026, **y-o-y inflation** first slowed at the beginning of this year to around 2.5% in January and February, before increasing to 2.8% in March, remaining below the 3.0% target midpoint. The higher y-o-y inflation in March compared to December can be put down mainly to the increase in domestic petroleum product prices, reflecting the pass-through of rising global oil prices following the escalation of the conflict in the Middle East. The contribution of **energy prices** to the y-o-y inflation in March increased by 0.2 pp on that account, while the contribution of **unprocessed food prices** rose by the same amount, driven by a higher y-o-y contribution of fresh vegetable prices. On the other hand, **processed food prices** continued to record a y-o-y decline, reducing their contribution to the March y-o-y inflation by 0.3 pp, as a result of the implementation of the Government's decree until the end of February,[2] as well as the absence of more pronounced price hikes for these products after its expiry. Although the contribution of **the prices of services** to the y-o-y inflation in March also increased slightly, by 0.1 pp, this was fully offset by a lower contribution of **industrial product prices (excluding food and energy).**

Measured by the CPI excluding food, energy, alcohol and tobacco, **core inflation** averaged 4.2% y-o-y in Q1, which is slightly above the level recorded at the end of last year. In the structure of core inflation growth, around four-fifths is attributable to higher services prices, which accelerated to 6.3% y-o-y in March (from 5.8% y-o-y in December), while product prices maintained a similar growth dynamics of around 2.0% y-o-y. The **trimmed mean** measure of inflation (calculated upon exclusion of 15% of products and services from the consumer basket whose prices record major changes in both directions)

Chart III.0.1 **Y-o-y inflation and change in the contribution of main CPI components to y-o-y inflation**
(in %, in pp)



Sources: SORS and NBS calculations.

Table III.0.1 **Growth and contributions of CPI components to consumer price growth in Q1 2026**

	Weights	Quarterly		Y-o-y in March	
		Growth rates (in %)	Contributions (in pp)	Growth rates (in %)	Contributions (in pp)
Consumer prices (CPI)	**100.0**	**1.3**	**1.3**	**2.8**	**2.8**
Unprocessed food	10.8	3.5	0.4	1.3	0.1
Processed food	20.9	0.3	0.1	-2.5	-0.5
Industrial products excluding food and energy	28.3	0.6	0.2	2.9	0.8
Energy	15.5	1.7	0.3	5.6	0.9
Services	24.6	1.8	0.4	6.3	1.6
CPI excluding energy, food, alcohol and cigarettes	**45.8**	**1.0**	**0.5**	**4.2**	**1.9**
Administered prices	**18.2**	**2.1**	**0.4**	**7.8**	**1.4**

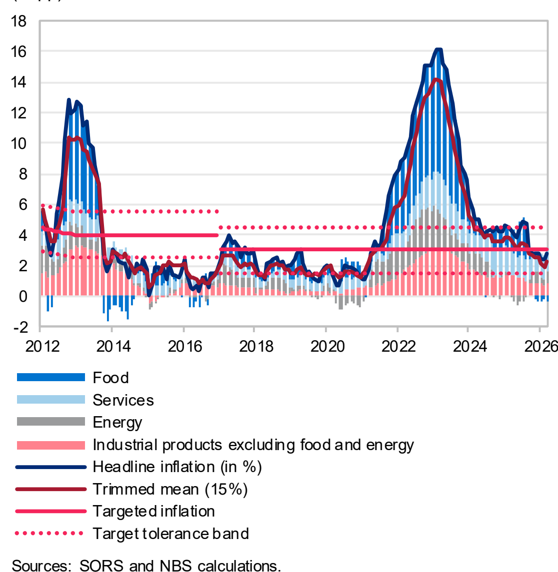
Sources: SORS and NBS calculations.

[2] The decree that capped trade margins at 20% for 23 product categories in the food and household chemicals segments was in force for six months, from the start of its application until 28 February 2026.

continued moving below the headline inflation in Q1, measuring 2.2% y-o-y in March.

At quarterly level, **consumer prices went up by 1.3% in Q1.** This growth was lower than anticipated in the February *Report* (by 0.5 pp) primarily because the expected rise in the prices of industrial food products failed to come about. At the level of the group, **the prices of food and non-alcoholic beverages** rose by 1.4% in Q1, contributing 0.4 pp to quarterly inflation, almost entirely owing to the seasonal growth in the prices of fresh vegetables in January and February. This also pushed up the prices of **unprocessed food** by 3.5% in Q1, considering that the hike in the prices of fresh fruit was entirely offset by the decline in the domestic prices of fresh meat in place since last October. The 0.3% increase in the **processed food** prices during Q1 was largely driven by higher wheat-based product prices, primarily bread, while other products in this category made only a marginal contribution to inflation in Q1, with no significant price adjustments observed even after the decree's expiry.

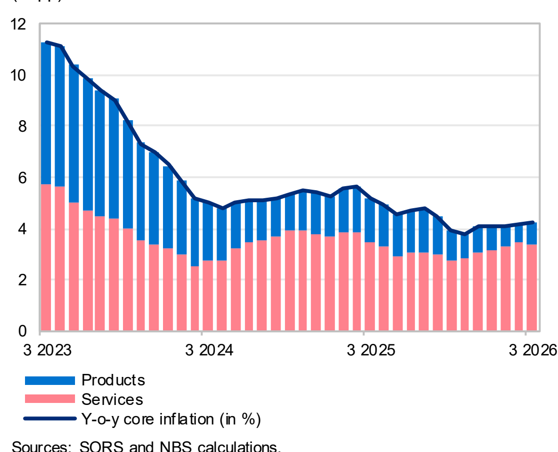
Chart III.0.2 **Contribution of main CPI components to y-o-y inflation**
(in pp)



Sources: SORS and NBS calculations.

Energy prices increased by 1.7% in Q1 (with a 0.3 pp contribution to inflation), mainly due to a 3.5% rise in domestic petroleum product prices recorded in February and March on the back of higher global oil prices following the escalation of the conflict in the Middle East. A larger increase in petroleum product prices was avoided thanks to the decision of the Government of the Republic of Serbia to temporarily reduce excise duties on diesel and unleaded petrol by 20% (subsequently revised to 25%). Firewood prices increased in Q1 (2.5%), which is usual for the season, while the prices of other household energy sources remained stable.

Chart III.0.3 **Contribution of components to y-o-y core inflation**
(in pp)

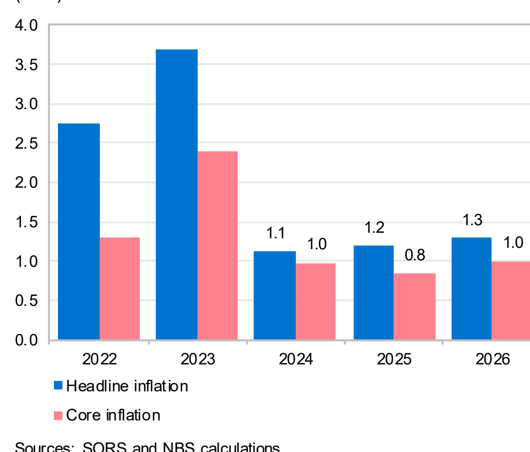


Sources: SORS and NBS calculations.

Industrial product prices excluding food and energy picked up by 0.6% in Q1, contributing 0.2 pp to inflation. This increase was driven mainly by the March adjustment in cigarette prices (2.3%) and a rise in the prices of medicines (2.8% at the level of the pharmaceutical products group). Seasonal lowering of the prices of clothing and footwear by 1.9% worked in the opposite direction.

The **prices of services** increased by 1.8% in Q1, contributing 0.4 pp to inflation, with half of that contribution attributable to the adjustment of prices of utility services (10.6%). Higher rents and the prices of medical, transport and financial services worked in the same direction in Q1 as opposed to the seasonal lowering of the prices of tourist packages in March. Higher services prices, reflecting increased labour costs and growth in households' real disposable income, were the dominant driver of the 1.0% increase in **core inflation** in Q1 (with a 0.5 pp contribution to inflation). At the same time, the quarterly dynamics of core and headline inflation in Q1 this year was similar to that in the same period of 2024 and 2025.

Chart III.0.4 **Quarterly dynamics of headline and core inflation in Q1 by year**
(in %)



Sources: SORS and NBS calculations.

Administered prices grew by 2.1% in Q1, contributing 0.4 pp to inflation. The increase recorded in Q1 is owed to the already mentioned adjustments in cigarette and utility service prices, as well as the hike in medicine prices. In y-o-y terms, the growth in administered prices accelerated to 7.8% in March (from 7.0% in December).

Text box 1: Application of the ECOICOP ver. 2 (COICOP 2018) in the calculation of the CPI

In accordance with the EUROSTAT recommendations, as of January 2026, the SORS has started to apply the new European Classification of Individual Consumption according to Purpose – ECOICOP ver. 2 (COICOP 2018) in the calculation of the CPI and internationally comparable HICP. The new classification (COICOP 2018) is an updated version of the prior ECOICOP classification (from 1999) which offers more details and captures more clearly contemporary consumer habits, especially in areas such as digital and communication services. The new classification has also been improved in terms of its alignment with other international classifications.

The difference between the new and the old classification is reflected in the number of divisions, groups and subgroups. Until end-2025, when calculating the CPI, the ECOICOP classification with 12 main divisions was used, with appropriate groups, classes and subclasses. As of January 2026, a newly structured classification is applied to calculate the CPI and HICP, including 13 divisions, with some products and services transferred to another division, group or subgroup.

The new classification introduces most changes in Divisions 07, 08 and 09. Division 07 (Transport), previously focused on passenger transport, now also includes goods transport services (delivery costs). Postal and courier services provide an example, as they now belong to Division 07 (Transport), while they used to belong to Division 08 (Communication) in the old classification. Division 08 (renamed Information and Communication in the new classification) now includes products and services which used to be part of Division 09 (Recreation and culture, renamed to Recreation, sport and culture), such as the products in the group of audio, television and computer devices and equipment, as well as cable and television subscription.

The tables below give a comparative overview of the CPI structure used until 2025 (ECOICOP), and the amended structure applied as of January 2026 (ECOICOP ver. 2).

As Division 12 (Miscellaneous goods and services) in the old classification was too heterogenous, it was split in the ECOICOP ver. 2 into : Division 12 (Insurance and financial services) and Division 13 (Personal care, social protection and miscellaneous goods and services).

Another novelty are two new service groups that did not exist in the index list before, having entered the inflation calculation as of this year: Delivery of goods (within Division 07 – Transport) and Games of chance (within Division 09 – Recreation, sport and culture).

The methodology of CPI calculation remains the same as in the old classification, except that the base year is now 2025, instead of 2006. Consumer price indices published under the old classification will remain available at the SORS website, while the indices calculated according to the new classification will be released pursuant to the 2026 publishing calendar.

Table O.1.1 **Share of products and services in 2025 CPI, COICOP 1999**

	Product and service groups	Share in CPI
00	**Consumer prices (CPI)**	**100.00**
01	Food and non-alcoholic beverages	31.56
02	Alcoholic beverages, tobacco and narcotics	7.10
03	Clothing and footwear	4.53
04	Housing, water, electricity, gas and other fuels	13.58
05	Furnishings, household equipment and routine household maintenance	4.24
06	Health	5.39
07	Transport	12.57
08	Communication	5.60
09	Recreation and culture	5.62
10	Education	1.60
11	Restaurants and hotels	2.94
12	Miscellaneous goods and services	5.27

Source: SORS.

Table O.1.2 **Share of products and services in 2026 CPI, COICOP 2018**

	Product and service groups	Share in CPI
00	**Consumer prices (CPI)**	**100.00**
01	Food and non-alcoholic beverages	31.64
02	Alcoholic beverages, tobacco and narcotics	7.12
03	Clothing and footwear	4.69
04	Housing, water, electricity, gas and other fuels	13.70
05	Furnishings, household equipment and routine household maintenance	4.27
06	Health	5.26
07	Transport	12.74
08	Information and communication	7.77
09	Recreation, sport and culture	3.12
10	Education services	1.52
11	Restaurants and accomodation services	2.92
12	Insurance and financial services	1.69
13	Personal care, social protection and miscellaneous goods and services	3.56

Source: SORS.

The change in the classification will not affect total CPI and HICP indices, because the structure of the overall consumer basket has changed minimally in 2026, while the reclassification of individual products and services has led to negligent changes in division weights.

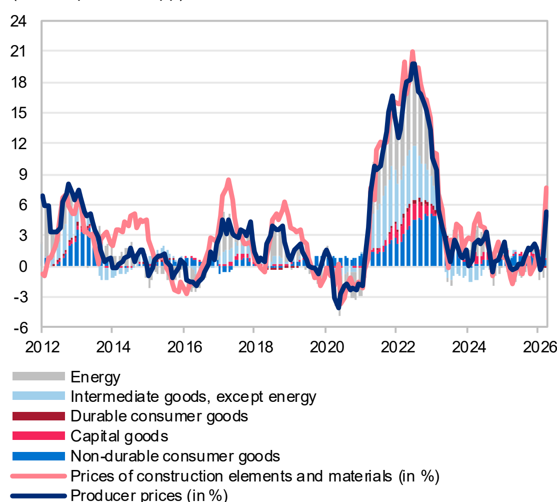
Producer and import prices in Q1

Cost-push pressures in the industrial and construction sectors have intensified since the previous *Report*, **driven by the rise in global prices of primary commodities used as inputs in these sectors' activities.** This is evidenced by the March increase in industrial producer prices in the domestic market and in the prices of elements and materials in construction, recorded on both a m-o-m and y-o-y level.

At quarterly level, **industrial producer prices in the domestic market** recorded a 4.8% increase, led chiefly by the March rise in global oil prices. In y-o-y terms, these prices accelerated significantly, to 5.3% in March (from 1.7% in December), this being their highest growth in the past three years. Such outturn reflects mainly a strong increase in the contribution of **energy production prices** (by 3.5 pp), primarily petroleum products. The contribution of **prices of intermediate goods** to y-o-y growth in industrial producer prices also increased in March (by 0.4 pp), particularly the prices of base metals and metal products, while the **prices of capital goods** and **durable consumer goods** provided a similar y-o-y contribution in March as in December. What worked in the opposite direction was a lower y-o-y contribution of **non-durable consumer goods prices** (by 0.2 pp), primarily due to a further slowdown in the y-o-y growth in the prices of food production. **Prices of elements and materials in construction** recorded a quarterly increase of 7.2%, while on a y-o-y basis they rose by 7.6% in March (compared to 1.0% in December and 1.3% in both January and February).

Imported inflation led to a slight increase in cost-push pressures in Q1. This is evidenced by the y-o-y increase in **import prices expressed in dinars**,[3] which came at 1.2% in March, following negative readings in previous months. The March increase in these prices is almost entirely attributable to a considerable rise in global oil prices, which in March, for the first time since July 2024, provided a positive contribution to the y-o-y growth in import prices. A higher y-o-y contribution also came from the prices of equipment, intermediate goods and other imported goods (approximated by Germany's export prices), as well as from global primary agricultural product prices. On the other hand, the prices of imported services (approximated by core inflation in the euro area) and gas slightly reduced their y-o-y contribution to imported inflation in March compared to December. At quarterly level, prices of imported goods and services increased by 3.7% in Q1.

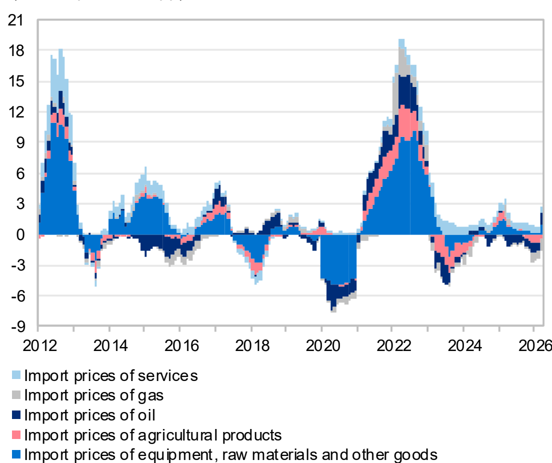
Chart III.0.5 **Contribution by destination groups of consumption to y-o-y producer price dynamics***
(end-of-period, in pp)



Sources: SORS and NBS calculations.

* Industrial producer prices for the domestic market.

Chart III.0.6 **Contributions of selected components to the y-o-y dynamics of import prices in dinars**
(end-of-period, in pp)

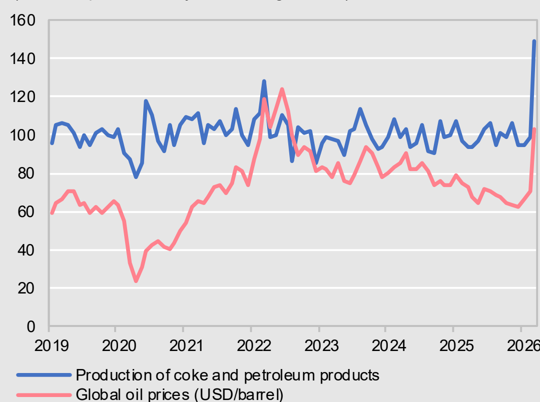


Sources: Destatis, FAO, Bloomberg, Eurostat, SORS and NBS calculation.

[3] Preliminary data. The base year is 2010. The weighted average of several elements is used as an indicator of import prices: the global Brent oil prices, imported gas price, food price index (FAO index), consumer prices within euro area core inflation, and export prices of Germany, one of Serbia's key trade partners. The fixed weights of the components are calculated according to the value of imported goods and services in 2025.

Text box 2: Analysis of the effects of oil price shocks on Serbian prices

Chart O.2.1 **Producer Price Index for coke and petroleum products for the domestic market and global oil prices**
(in index points, last-year average = 100)



Sources: SORS and Bloomberg.

The escalation of the Middle East conflict has led to a sharp rise in global oil prices, which has been directly transmitted to economies worldwide through higher prices of petroleum products and, consequently, increased costs for both households and businesses. According to an IMF estimate, the most pronounced effects are expected in emerging economies that are net importers of energy. It should be noted that, **although Serbia is a net importer of oil, there has thus far been no significant increase in domestic petroleum product prices**, as the government has temporarily reduced excise duties on fuel, thereby precluding any major negative effect on households' purchasing power and corporate sector costs. However, **oil price shocks** also generate indirect effects, some of which materialise almost immediately, while others emerge with a lag, primarily through rising production costs (energy, transport, packaging, etc.). The **prompt effects are primarily manifested in the production of coke and petroleum products**, while the lagged effects are observed in other industrial sectors, including the manufacture of food products and beverages, chemicals and pharmaceuticals, motor vehicles and trailers, as well as the supply of electricity, gas and steam.

According to an ECB estimate, **the indirect effects of the dynamics of commodity prices, such as oil, are difficult to quantify, as they overlap with direct effects and materialise in both the short and the long term**. Moreover, energy costs are not the only costs borne by producers, as cost structures are also shaped by the prices of other raw materials, firms' strategic positioning within their industries, the phase of the economy's business cycle, the degree of competition and market concentration, as well as other relevant factors. To gain a more comprehensive picture of the overall effects, the quantitative analysis was conducted in two stages: (1) an assessment of the impact of changes in global crude oil prices on domestic industrial producer prices, and (2) an assessment of the impact of changes in domestic producer prices of coke and petroleum products on producer prices in sectors where these costs are significant, as well as on the aggregate level of retail prices.

(1) The impact of shocks in global crude oil prices on domestic industrial producer prices

In order to identify the direct and indirect effects of changes in global crude oil prices on production costs in the Serbian industry, an empirical analysis was conducted using monthly data on Brent crude oil prices and base indices of domestic industrial producer prices. Drawing on the theoretical framework and comparable empirical studies[1] addressing the indirect effects of oil price shocks in both the short and the long term, the Nonlinear Autoregressive Distributed Lag (NARDL) model was employed to test for possible asymmetries in the effects of positive and negative changes in global oil prices on domestic producer prices. Given that global oil prices are denominated in US dollars, the real effective exchange rate of the dinar against a currency basket comprising the euro and the US dollar was also included in the analysis.

The results of the estimated econometric specification for the period from January 2012 to February 2026 indicate that, **in the short term, changes in global oil prices affect producer prices across almost all observed industrial sectors**, while **the strongest impact**, as expected, is seen **in the production of coke and petroleum products** (Table O.2.1). Specifically, **a 10% increase in global oil prices leads to a 5.1% rise in producer prices in this sector in the short term**, while a decrease of the same magnitude results in a 4.1% decline. Tests do not indicate a statistically significant asymmetry in the transmission of oil price shocks. The impact of global oil prices on producer prices in other sectors is more moderate and, in some cases, occurs with a lag, reflecting differences in the transmission of cost pressures along production chains, variations in cost structures across sectors, pre-existing pricing arrangements, heterogeneity in adaptation of firms' expectations, and other specific factors. **An exception is the production of food products for the domestic market, where no short-term relationship between producer prices and global oil prices was identified, which may be attributed to the high share of other key inputs, particularly the prices of agricultural raw materials**. The estimated effect of the real effective exchange rate of the dinar is statistically significant and of the expected sign: a depreciation of the domestic currency against the currency basket leads to an increase in domestic industrial producer prices, and vice versa.

[1] European Central Bank. (2014). Box 3: Indirect effects of oil price developments on euro area inflation, Economic Bulletin, December 2014, 54–56. Deng, X. & Xu, F. (2024). Asymmetric effects of international oil prices on China's PPI in different industries – Research based on NARDL model, Energy, 290. Long, S. & Liang, J. (2018). Asymmetric and nonlinear pass-through of global crude oil price to China's PPI and CPI inflation. Economic research, 31 (1), 240–251. Masih, M. (2018). Is the oil price pass-through to domestic inflation symmetric or asymmetric? New evidence from India based on NARDL. MPRA Paper, no. 87569, 1–45.

Across all estimated NARDL models, price adjustment towards long-term equilibrium is slow, which may be attributed to price rigidity, contractual constraints, and the phase transmission of cost pressures along production chains. Price adjustment is most rapid in the production of coke and petroleum products.

Table O.2.1 **Effects of changes in global oil prices on industrial producer prices in Serbia**

	Direct effects in production	**Indirect effects in production**		
Dependent variable: industrial producer prices Δppi_t	Coke and petroleum products	Food products	Chemical products	Motor vehicles and trailers
	Short term			
Lagged dependent variable Δppi_{t-1}	0.01	0.02	0.10*	-0.16***
Real effective exchange rate $\Delta reer_t$	-2.53***	0.02	-0.34*	-0.14*
Real effective exchange rate $\Delta reer_{t-1}$	0.01	0.11	-0.01	0.00
Global oil price (cumulative positive effect) Δoil^{+}_{t}	0.51***	0.03	0.08**	0.03**
Global oil price (cumulative negative effect) Δoil^{-}_{t}	0.41***	0.01	0.05*	-0.02
Global oil price (cumulative positive effect) $\Delta oil_{t}{}^{+}{}_{-1}$	0.21	0.03	0.10***	0.03**
Global oil price (cumulative negative effect) $\Delta oil_{t}{}^{-}{}_{-1}$	0.32**	-0.05**	0.00	0.00
C	5.78***	1.10***	1.22***	0.53**
Speed of adjustment ($CointEq_{t-1}$)	-0.21***	-0.12***	-0.07***	-0.06***
Wald test of (a)symmetry	0.00	6.55**	3.36*	3.42*
	Long term			
Real effective exchange rate $reer_{t-1}$	-5.27***	-1.15***	-3.12***	-0.96***
Global oil price (cumulative positive effect) $oil_{t}{}^{+}{}_{-1}$	0.82***	0.19***	0.62***	0.13**
Global oil price (cumulative negative effect) $oil_{t}{}^{-}{}_{-1}$	0.64***	0.14***	0.50***	0.10**
C	27.74***	9.48***	18.42***	8.72***
F-Bounds test	4.74***	15.24***	4.99***	5.41***
Wald test of (a)symmetry	11.34***	8.01***	13.77***	6.10**
Period analysed:	M1 2012 – M2 2026			

Source: NBS calculations.
*** Indicates statistical significance at the 1% level, ** at 5% * at 10%
Note: The values of all variables were previously logarithmised. Seasonal dummy variables were included in all models. The F-Bounds test in the model indicates the existence of cointegration, i.e. a long-run relationship between the variables, given that the estimated F-statistic is above the upper I(1) bound at all significance levels.

As indicated by the results of the estimated NARDL models, **estimates of the effects of changes in global oil prices on producer prices in the long term are more reliable than in the short term**. Unlike in the short term, in the long term this effect is also statistically significant for producer prices in the food industry, which may be explained by the gradual pass-through of energy price changes along the food supply chain, particularly in primary agricultural production. **The results also point to the presence of asymmetry in the transmission of oil price shocks in the long term across all industrial sectors, as increases in global oil prices are passed through to producer prices to a greater extent than decreases**. This can be explained by the phenomenon of downward nominal price rigidity.

(2) The impact of changes in domestic producer prices of coke and petroleum products on producer prices in other sectors and on the aggregate level of retail prices

Based on data from the input-output tables[2] of the Serbian Statistical Office, the transmission of a price shock in the production of coke and petroleum products throughout the Serbian economy was approximated. More precisely, **the analysis examined the extent to which a 10% increase in prices in this sector, driven by a rise in global crude oil prices, affects total costs and, consequently, prices in individual sectors of the economy, as well as the aggregate level of retail prices**. The results suggest that around 54% of the total estimated effect on the level of overall retail prices stems from higher retail prices of petroleum products. The remaining around 46% reflects indirect effects, namely increases in retail prices of other industrial products resulting from higher production costs, to the extent that these sectors utilise various petroleum products. It should be noted that, in this context, petroleum products do not concern solely motor fuels such as petrol and diesel, but encompass a much broader range of products, including fuel oil, liquefied petroleum gas, bitumen, and various petrochemical inputs, which are primarily used in energy-intensive industries.

When focusing only on the industry and price changes within its production sectors, differences in weighting structures relative to retail prices imply that **direct cost effects arising from higher prices in petroleum product manufacturing dominate, accounting for close to two-thirds of the total effects**, while the remainder is attributable to indirect cost effects.

[2] The structure of input shares in intermediate and final consumption by sector was analysed based on the latest available data of the Serbian Statistical Office for 2020.

The most pronounced indirect effects are observed in the production of food products, chemicals and pharmaceuticals, as well as motor vehicles and trailers. This points to a high degree of dependence of these industrial sectors on petroleum products as intermediate inputs, either directly in the production process or indirectly through the costs of transport, packaging, and other related activities. These channels were also previously examined through an econometric assessment of asymmetric responses to increases and decreases in global oil prices.

Inflation expectations

The outbreak of the Middle East conflict and a hefty rise in global energy prices have so far not had any major impact on inflation expectations, which in both the corporate and the financial sector have remained within the NBS's target band.

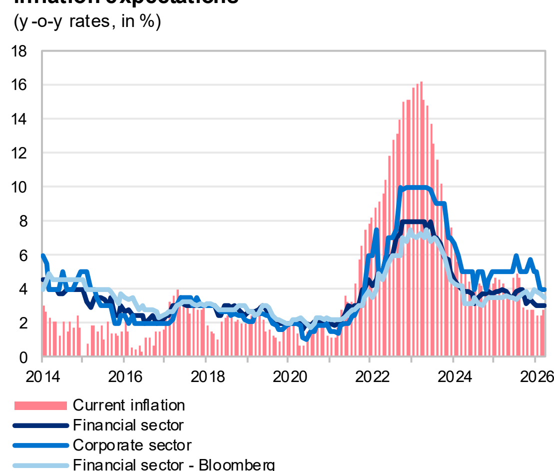
According to the **Ninamedia** survey results, **one-year ahead inflation expectations of the financial sector** have stood at 3.0% since the beginning of the year, which is their lowest level since September 2021. Individual responses of almost all financial institutions regarding expected inflation are within the target band. According to the **Bloomberg** survey data, one-year ahead inflation expectations of this sector recorded a decrease from 3.8% in January to 3.5% in March.

One-year ahead inflation expectations of the corporate sector stood at 4.0% in February and March. According to the results of the March survey, the majority of respondents expect input prices in production, as well as prices of final products and services, to remain unchanged over the next three months. Over the next 12 months, 60% of respondents expect an increase in the prices of final products and services.

Short-term expectations of households stayed at 15.0%. According to the qualitative survey, households expect inflation in the next twelve months to be lower than in the last year. This is indicated by the expected inflation index which equalled 34 points in March 2026 and was below the perceived inflation index (51.5 points).

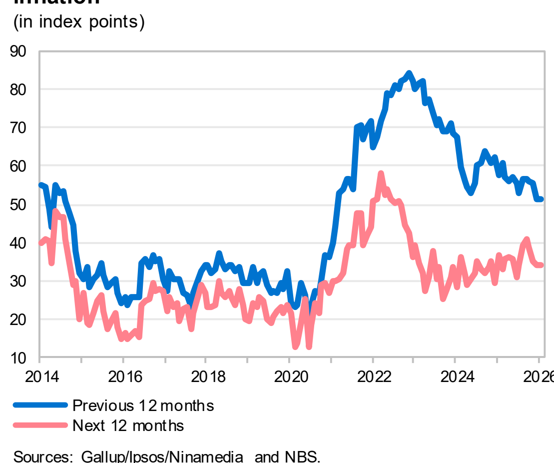
Medium-term inflation expectations of the financial sector are also anchored within the NBS's target band. In March, they stood at 3.3% for two years ahead and 3.0% for three years ahead. A similar pattern applies to the **medium-term expectations of the corporate sector**, which amounted to around 4.0% for both **two and three years in March. Inflation expectations of households** are typically higher than those of other sectors; however, they also declined compared to end-2025, standing at 11.0% for two years and 10.0% for three years ahead in March.

Chart III.0.7 **Current inflation and one-year ahead inflation expectations**
(y-o-y rates, in %)



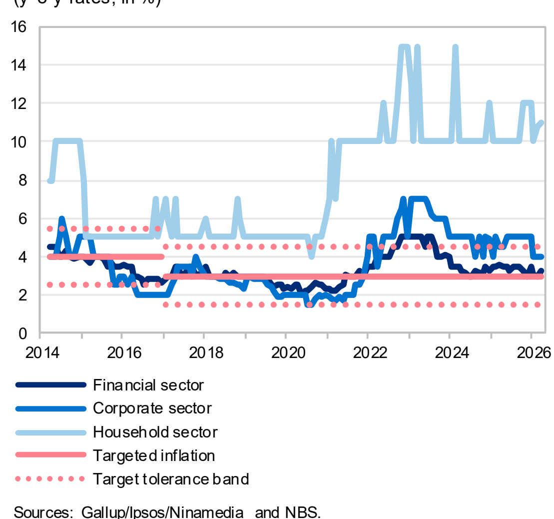
Sources: Gallup/Ipsos/Ninamedia, Bloomberg and NBS.

Chart III.0.8 **Household perceived and expected inflation**
(in index points)



Sources: Gallup/Ipsos/Ninamedia and NBS.

Chart III.0.9 **Two-year ahead inflation expectations**
(y-o-y rates, in %)



Sources: Gallup/Ipsos/Ninamedia and NBS.

IV Inflation determinants

1 Financial market trends

A striking rise in geopolitical uncertainty in the international financial market also reflected on the market of dinar government securities in Q1 2026, which was characterised by lower demand in the primary trading segment and growing yields on bonds with longer remaining maturities in the secondary market.

Despite the elevated uncertainty in the international financial market, on 28 April the Republic of Serbia issued eurobonds in three tranches, for the first time in its history. These were 5Y, 12Y and 10Y eurobonds, at the coupon rates of 4.25%, 4.875% and 4.66%, respectively, reaching a record amount of around EUR 3 bn.

Interest rates on dinar corporate and household loans posted a mild rise in Q1, after the Q4 decline. Household loan rates previously dropped to their minimum in Q4, as banks adhered to the NBS's supervisory expectations regarding more favourable lending for citizens with monthly income of up to RSD 100,000. The price of euro borrowing remained almost unchanged in Q1, consistent with the flatlining of the ECB's interest rates.

Interest rates

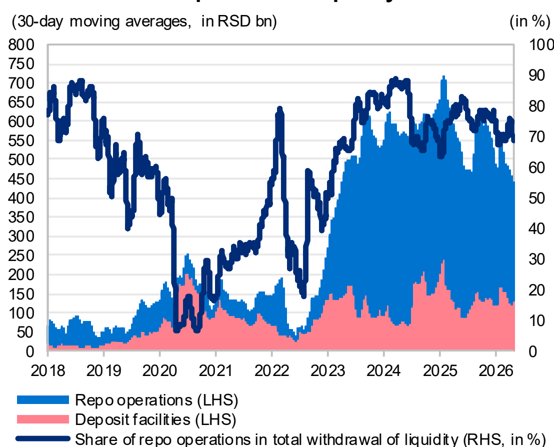
At NBS Executive Board meetings in Q1 2026, **the key policy rate and interest rates on lending and deposit facilities** were kept at 5.75%, 7.00% and 4.50%, respectively, contributing to minimal oscillations of interest rates in the interbank money market.

BEONIA, the interest rate in the **overnight interbank money market**, underwent no major changes in Q1 2026, equalling 4.44% at end-March. BELIBOR rates also displayed minimum oscillations, ranging from 4.51% for the shortest to 4.75% for the six-month maturity. Looking at the average stock of repo securities sold and the excess liquidity of banks deposited overnight with the NBS, banks' excess dinar liquidity on an aggregate basis did not change significantly in March 2026, compared to December. The volume of excess dinar liquidity withdrawal via repo auctions declined in April. The average daily stock of repo sold securities decreased by almost RSD 50 bn relative to March, while the average daily stock of excess deposits increased by around RSD 15 bn.

In the **primary market of dinar government securities** three auctions were held for the sale of 5Y securities and one auction for the sale of 10.5Y securities in Q1 2026. At the first auction in January offering 5Y government securities, bonds in the nominal value of RSD 51.6 bn were sold at the effective rate of 4.49%, and RSD 60.2 bn worth of demand exceeded the planned sale size of RSD 50 bn. At the fifth reopening of the auction of 10.5Y government securities in January, the remaining planned volume of RSD 11.6 bn was sold (demand amounted to

Chart IV.1.1 **NBS operations - liquidity withdrawal**

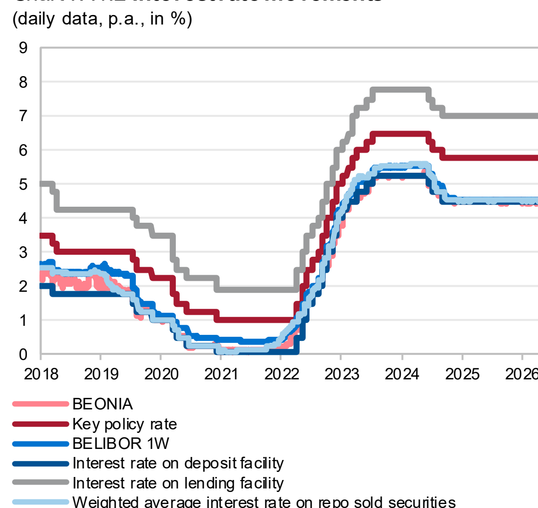
(30-day moving averages, in RSD bn) (in %)



Source: NBS.

Chart IV.1.2 **Interest rate movements**

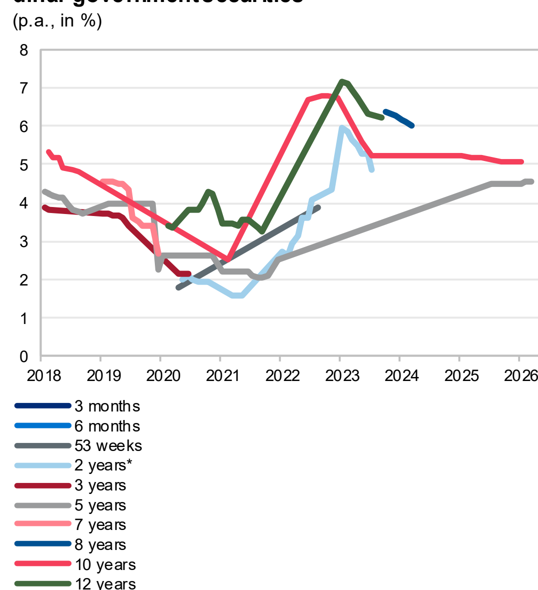
(daily data, p.a., in %)



Sources: Thomson Reuters and NBS.

Chart IV.1.3 **Interest rates in the primary market of dinar government securities**

(p.a., in %)



Source: Ministry of Finance.

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

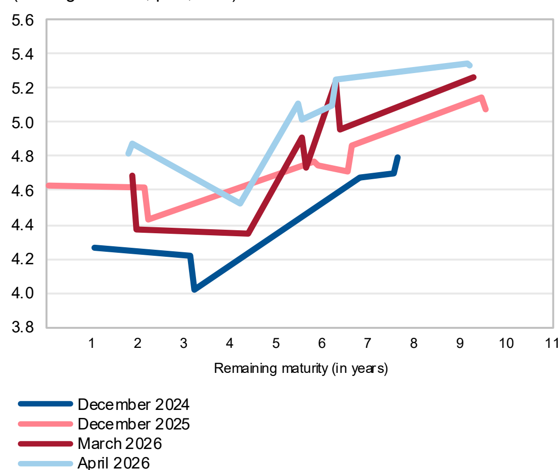
RSD 15.4 bn) at the effective rate of 5.07%, down by 3 bp compared to the previous reopening in November. This was also supported by the reinvestment of part of the funds released by the maturing of 7Y bonds in the amount of RSD 150 bn in the same month. At the subsequent auctions of 5Y securities in February and March, demand was lower than the planned sale volume – bonds nominally worth RSD 16.0 bn and RSD 2.7 bn, respectively, were sold compared to the planned RSD 30 bn and RSD 20 bn, with the effective rate edging up by 6 bp to 4.55%, above the coupon rate of 4.50%. Taking into account the maturing of previously issued 7Y securities, along with the lower realisation of new issues, the outstanding portfolio of dinar securities contracted to RSD 785.4 bn at end-March.

As for **euro-denominated government securities**, 15Y securities were auctioned in February, and the planned nominal amount of EUR 200 mn was sold (at EUR 222.4 mn, the demand outstripped the offer) at the effective rate of 5.00% and the coupon rate of 5.10%. Since previously issued euro-denominated securities of identical maturity in the amount of EUR 144.3 mn matured at the same time, the portfolio of euro-denominated securities increased to EUR 1,846.9 mn at end-March.

During Q1 2026, the turnover in the **secondary market of dinar government securities** decreased by RSD 13.3 bn from Q4 2025, amounting to RSD 38.8 bn. Weighted average yields recorded an increase in March 2026 compared to December 2025, most markedly at the longer end of the yield curve, for securities with remaining maturities of approximately seven and up to nine years (an increase of 35 bp and 19 bp, respectively). These developments took place in an environment of significantly heightened geopolitical uncertainty, reduced demand in the primary market of dinar government securities, and higher sales than purchases of dinar government securities by non-residents in the secondary market. Weighted average yields ranged from 4.53% for the remaining maturity of close to 2Y to 5.26% for the remaining maturity of close to 9Y.

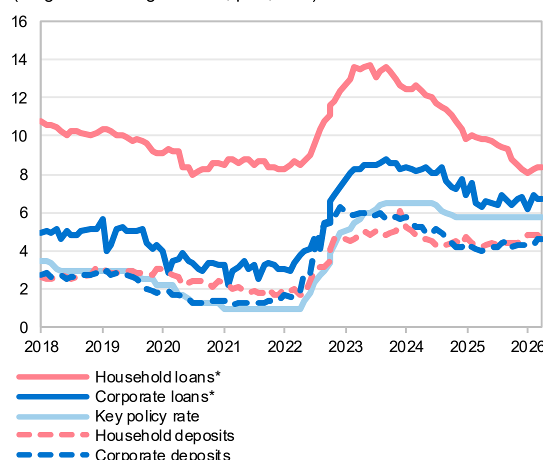
On 28 April, the Republic of Serbia issued eurobonds on the international financial market for the first time in three tranches – two in euros and one in US dollars. This represents the largest issue of domestic government eurobonds ever recorded (with a total value of around EUR 3 bn) and the first multi-currency issue since the escalation of the conflict in the Middle East. Two euro-denominated eurobonds were issued, with maturities of 5Y and 12Y, in amounts of EUR 1.0 bn and EUR 900 mn, respectively, at the coupon rates of 4.25% and 4.875%, respectively. The 12Y eurobond is designated as green, meaning that the sale proceeds will be used to finance or refinance investment aimed at achieving more sustainable growth. The 10Y dollar-denominated eurobond was issued in the amount of USD 1.25 bn. Following the issue, the Republic of Serbia used currency

Chart IV.1.4 **Yield curve in the secondary government securities market**
(average values, p.a., in %)



Source: Central Securities Depository and Clearing House.

Chart IV.1.5 **Interest rates on new dinar loans and deposits**
(weighted average values, p.a., in %)



Source: NBS.

* Excluding revolving loans, current account overdrafts and credit card debt.

risk hedging instruments to convert its dollar-denominated liabilities into euros, thereby achieving a euro coupon rate of 4.66%. Investor demand was significantly higher than the volume of eurobonds sold, exceeding EUR 8.0 bn.

The interest rate on dinar corporate loans edged up in Q1 2026, by 0.5 pp to 6.7% in March, driven by the identical rise in working capital loan interest rate, to 6.6%, with these loans accounting for almost 70% of dinar corporate lending. **The interest rate on new dinar household loans** gained 0.2 pp, rising to 8.3%, the same level as the one recorded for cash loan interest rates. A mild growth was seen after these rates were lowered to their historical minimum in Q4 2025, under the impact of the NBS's supervisory expectations as to more favourable lending to citizens with monthly incomes of up to RSD 100,000. Growth was also boosted by the rise in the interest rate on other non-categorised loans, by 1.0 pp to 9.7%.

In Q1 2026, the interest rates on **new euro corporate loans remained unchanged,** at 4.8% **in March.** A mild increase in the interest rate on working capital loans, by 0.1 pp to 4.6%, was offset by a drop in the interest rate on other non-categorised loans, by 0.4 pp to 4.7%. Interest rates on **euro and euro-indexed household loans edged up slightly in Q1 2026, by 0.1 pp to 4.7%,** due to the rise in the interest rate on other non-categorised loans, by 0.4 pp to 6.1%, while the interest rate on housing loans remained unchanged at 4.5%.

Interest rates on **current account overdrafts and credit card debt**[4] remained unchanged in March at 17.1% and 14.7%, respectively. Relative to end-2024, the interest rates on these most expensive types of borrowing dropped considerably, by 10.7 pp and 7.6 pp, respectively, owing to the implementation of interest rate caps in accordance with the Law on the Protection Financial Service Consumers.

Interest rate on dinar household savings dropped in Q1 2026, by 0.2 pp to 4.6%, while the interest rate **on euro savings** remained unchanged at 3.3%.

Risk premium

After declining moderately early in the year, global risk premium took on an upward path following the outbreak of a direct conflict in the Middle East. Conflict escalation triggered a sharp rise in energy prices, fuelling market participants' concerns over future movement of inflation and interest rates of leading central banks. **EMBI Composite, a benchmark for US dollar-denominated emerging market debt,** equalled 261 bp at end-March, rising by 30 bp since end-2025. Concurrently, Serbia's dollar risk premium increased by

[4] According to the interest rate statistics methodology, interest rates on revolving loans, current account overdrafts and credit card debt are not included in the calculation of the average interest rate on household loans.

Table IV.1.1 **Interest rates on new loans – by type and currency**
(in %)

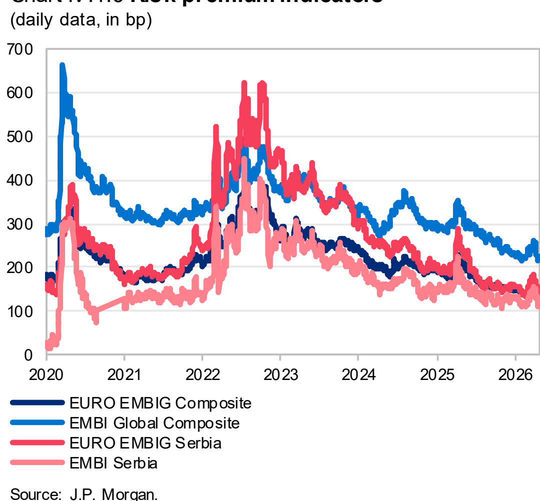
	Dinar			Euro and euro-indexed		
	2024	2025	2026	2024	2025	2026
	Q4	Q4	Q1	Q4	Q4	Q1
Total household loans*	9.9	8.1	8.3	5.5	4.6	4.7
Cash loans	10.2	8.2	8.3	2.4	3.4	3.2
Housing loans	10.6	10.0	11.8	4.9	4.5	4.5
Consumer loans	2.5	2.0	3.3	6.2	5.5	5.3
Other loans	8.2	8.7	9.7	8.7	5.7	6.1
Total corporate loans*	6.9	6.2	6.7	5.6	4.8	4.8
Working capital loans	6.9	6.1	6.6	5.4	4.5	4.6
Investment loans	6.9	7.2	8.8	5.7	5.1	5.1
Other loans	7.0	6.1	6.2	5.8	5.1	4.7
Import loans	-	-	-	5.6	3.9	3.7

Source: NBS.

Note: Data relate to average values on the last day of the month in the quarter observed.

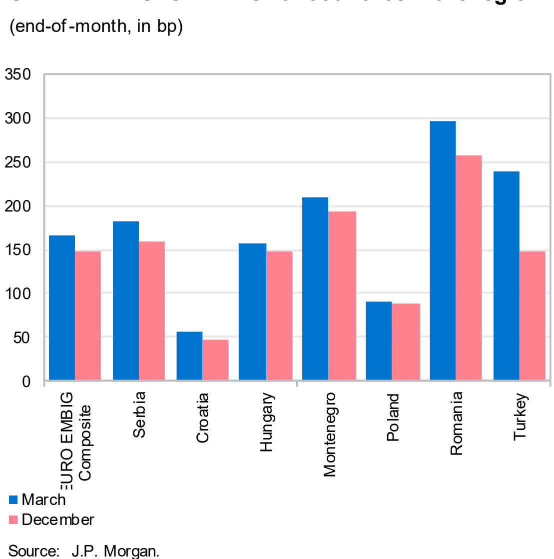
* Excluding revolving loans, current account overdrafts and credit card debt.

Chart IV.1.6 **Risk premium indicators**
(daily data, in bp)



Source: J.P. Morgan.

Chart IV.1.7 **EURO EMBIG for countries in the region**
(end-of-month, in bp)



Source: J.P. Morgan.

27 bp to 158 bp, remaining considerably below the composite risk measure for emerging economies. Conversely, April saw a strong decline in the risk premium owing to reduced global uncertainty and more favourable expectations regarding the de-escalation of the Middle East conflict, with the composite measure dropping by 37 bp to 224 bp at month end and the dollar risk premium for Serbia by 39 bp to 119 bp.

EURO EMBIG Composite, a benchmark for euro-denominated emerging market debt, increased by 18 bp in Q1, but decreased to the same degree in April, to 149 bp at month end. In Q1, **Serbia's risk premium for euro debt** gained 24 bp, but lost 39 bp in April, measuring 144 bp at month end. Observing regional peers in Q1, risk premia rose across the board, most notably in Turkey (by 91 bp to 239 bp) and Romania (by 40 bp to 296 bp).

In January 2026, **Fitch Ratings** maintained Serbia's credit rating at BB+, affirming a positive outlook for investment grade rating. According to the agency's assessment, the key factor behind this decision is a sound economic policy – primarily prudent fiscal management and high FX reserves, as well as a higher GDP per capita compared to the average for countries with the same credit rating. A positive rating outlook is also underpinned by the expected investment-led economic growth in the context of "Leap into the Future – Serbia Expo 2027" programme, the continued declining path of public debt and strengthening of the country's external position.

In early March, **Moody's Ratings** affirmed Serbia's rating at Ba2, changing the outlook from positive to stable. The affirmation reflects the agency's view about Serbia's strong fiscal position and declining public debt, as well diminished fiscal risks from state-owned enterprises, largely owing to energy sector reforms. The agency also underscores that the arrangement with the IMF contributes to the maintenance of the country's overall macroeconomic stability. While elevated political and geopolitical risks have led to the change in outlook from positive to stable, in its press release the agency states that Serbia's economic fundamentals have been preserved, while fiscal and financial position have been strengthened further.

Foreign capital inflow

Unfavourable investment sentiment due to global geopolitical and trade tensions also weighed down on foreign investments to Serbia. The major part of capital inflows to the financial account in Q1 originated from financial loans and FDIs, but they did not suffice to fully cover the outflows under trade loans, increased bank assets in accounts abroad and portfolio investments.

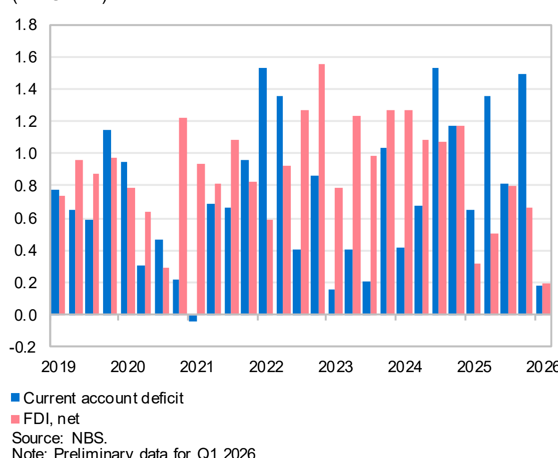
FDI inflow to Serbia came at EUR 369.3 mn in Q1 (1.7% of GDP), which is half the amount recorded in the same

Table IV.1.2 **Credit rating**
(change of rating and outlook)

	2021	2022	2024		2026
S&P	BB+ /positive[7)]	BB+ /stable[4)]	BB+ /positive[3)]	**BBB- /stable[6)]**	
Fitch			BB+ /positive[5)]		
Moody's	Ba2 /stable[2)]		Ba2 /positive[5)]		Ba2 /stable[1)]

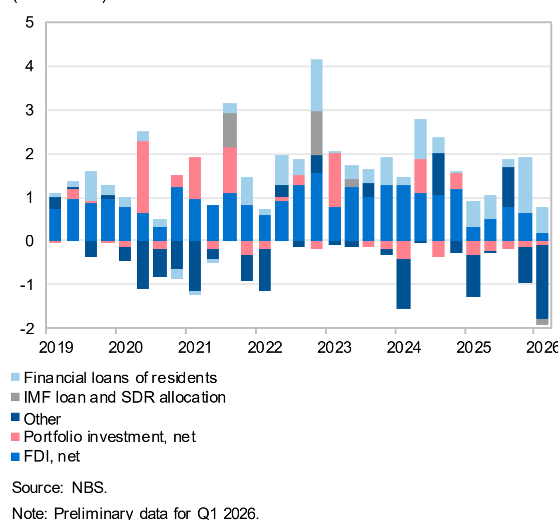
Source: NBS.
[1)] February, [2)] March, [3)] April, [4)] June, [5)] August, [6)] October, [7)] December.
Note: There was no change in rating/outlook in 2023 and 2025.

Chart IV.1.8 **Current account deficit and net FDI inflow**
(in EUR bn)



Source: NBS.
Note: Preliminary data for Q1 2026.

Chart IV.1.9 **Structure of the financial account**
(in EUR bn)



Source: NBS.
Note: Preliminary data for Q1 2026.

period last year. Resident investments abroad also declined in y-o-y terms, resulting in a smaller difference between net FDI inflows, which in Q1 equalled EUR 192.4 mn. The inflow fully referred to reinvested earnings and equity capital. FDIs remained diversified by project and geography.

Portfolio investment saw a net capital outflow of EUR 76.3 mn in Q1, since the contraction in non-resident investment in domestic securities was sharper than the reduction of assets which residents (banks) held in foreign securities. Non-residents bought domestic securities in the primary market, but the amount of these investments was lower than the amount of matured securities held by them and net securities sale in the secondary market.

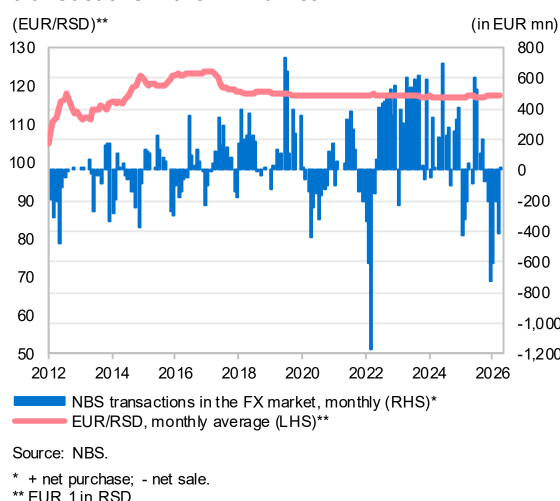
Financial loans provided a net inflow of EUR 699.2 mn in Q1, half of which referred to government net borrowing. Enterprises and banks also increased their foreign credit liabilities. March saw the repayment of the first instalment of debt principal under the standby arrangement with the **IMF** (EUR 115.4 mn). **Trade loans and advances** registered an outflow of EUR 1,095.7 mn. At the same time, domestic banks increased their assets in accounts abroad, which, coupled with lower balances in non-resident accounts with domestic banks, led to an outflow of EUR 613.0 mn under currency and deposits.

Trends in the FX market and exchange rate

Although depreciation pressures extended into Q1, the dinar continued its relatively stable movement against the euro, supported by the NBS's interventions in the IFEM. End-of-period, the dinar nominally weakened against the euro by 0.1% in Q1, while due to the euro's depreciation against the dollar in the international market, the Serbian currency lost 2.4% against the dollar.

As in the previous quarter, FX demand outstripped the supply by multiple times in Q1, most notably in January, at the peak of depreciation pressures. The strongest contributors were seasonal factors, such as higher FX demand of energy importers and net FX demand of other domestic companies, partly due to the reduced FX supply of some domestic companies which usually appear as net FX sellers in the FX market. While early in the year one of the factors on the demand side were natural persons, thanks to the NBS's measures[5] this factor lost much of its steam compared to December 2025. Also, net indexed assets of banks, which exerted a weaker impact on the FX supply side[6] in the beginning of the year, grew in strength

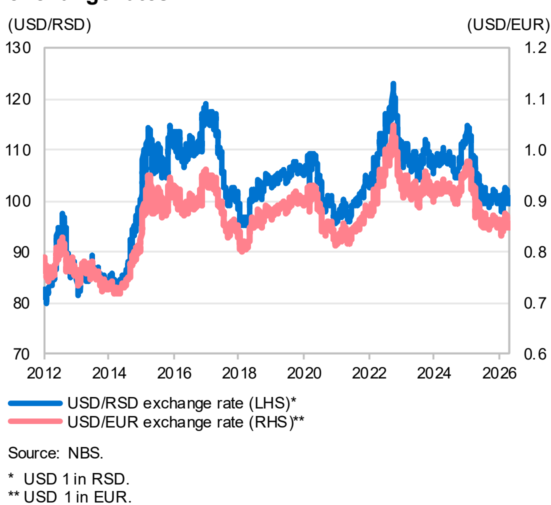
Chart IV.1.10 **Dinar exchange rate and NBS transactions in the FX market**



Source: NBS.

* + net purchase; - net sale.
** EUR 1 in RSD.

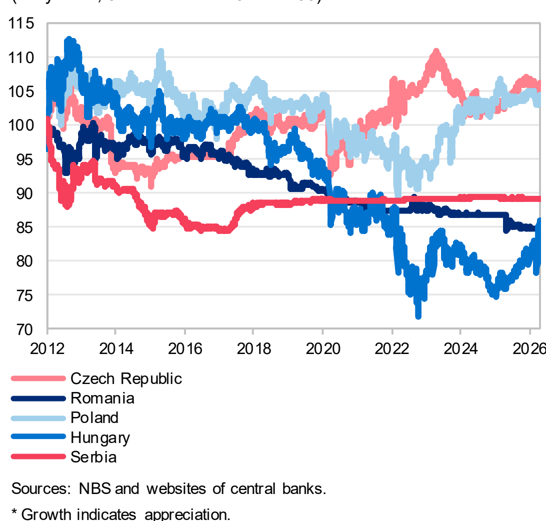
Chart IV.1.11 **Movements in USD/RSD and USD/EUR exchange rates**



Source: NBS.

* USD 1 in RSD.
** USD 1 in EUR.

Chart IV.1.12 **Exchange rates of selected national currencies against the euro***
(daily data, 31 December 2011 = 100)



Sources: NBS and websites of central banks.

* Growth indicates appreciation.

[5] For more information on trends in the IFEM in 2025 and measures supprting smooth functioning of the exchange market, see the *Inflation Report* – February 2026, Text box 3.

[6] Aiming to balance their open long FX position and reduce exposure to FX risk, banks sell foregn currency, thus contributing to the strengthening of the dinar.

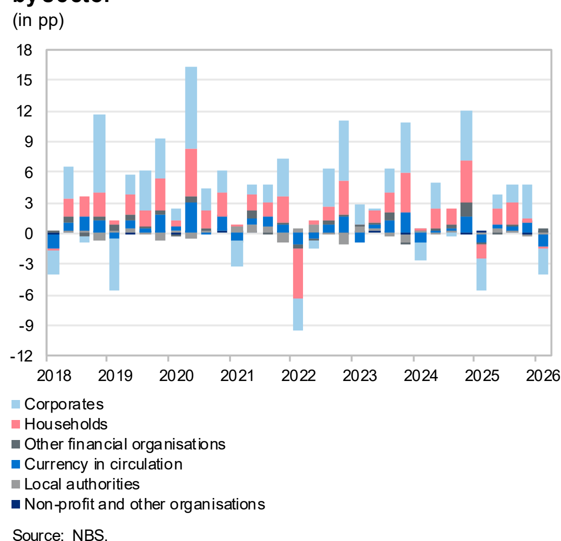
in the following months, but not enough to meet FX demand.

To maintain the relative stability of the dinar exchange rate against the euro, the NBS net sold EUR 1,220.0 mn in the IFEM in Q1, half of which in January. The NBS's interventions in the IFEM contributed to a decline in FX reserves which amounted to EUR 28.5 bn at end-March. Nevertheless, FX reserves remain considerably above the relevant adequacy standards, as they cover a little less than seven months' worth of goods and services imports and 162% of M1 money supply.

FX demand and supply were balanced in April, in monthly terms, and the NBS net bought EUR 15.0 mn in the IFEM.

Global factors and uncertainty stemming from the escalation of the Middle East conflict led to the weakening of the majority of currencies of regional inflation-targeting peers in March. Currencies losing ground in Q1 were the Polish zloty – by 1.5%, the Czech koruna by 1.1% and the Hungarian forint by 0.1%, while the Romanian leu did not change its value.

Chart IV.2.1 **Contributions to quarterly growth in M2, by sector**
(in pp)



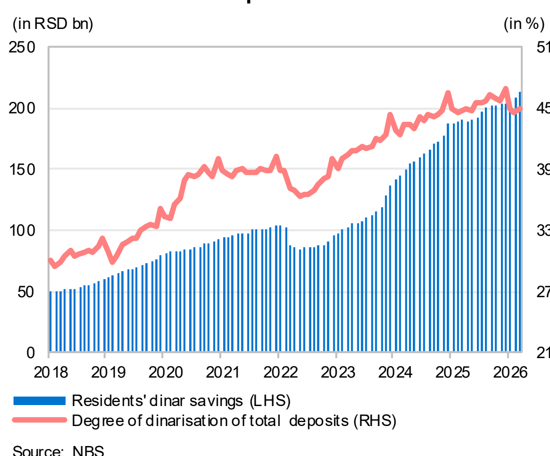
Source: NBS.

2 Money and loans

Total money supply M3 accelerated its y-o-y growth in Q1 2026, largely reflecting a strong increase in FX deposits of corporates, as well as in FX savings of households. Resident dinar savings continued to touch new record levels and measured RSD 213.5 bn at end-March.

Lending growth sped up further y-o-y in Q1, to 16.9% in March, supported by favourable terms of borrowing and softened credit standards for households. At the same time, the NPL share in total loans was close to minimum and equalled 2.1% in March. Owing to more pronounced borrowing in dinars, the degree of dinarisation of corporate and household receivables increased to 39.7%..

Chart IV.2.2 **Residents' dinar savings and degree of dinarisation of total deposits**



Source: NBS.

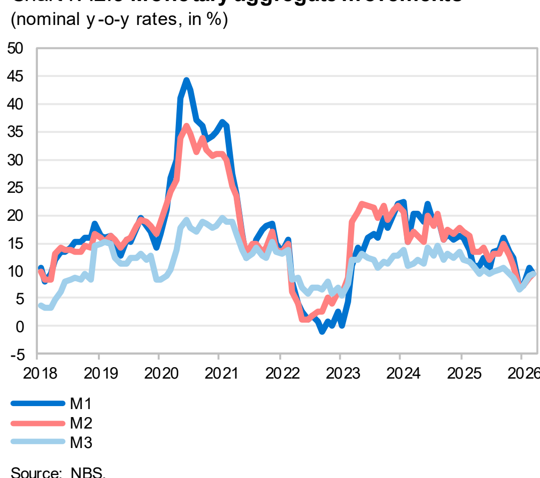
Money

The broadest monetary aggregate M3, which in addition to dinar money also includes FX deposits of non-monetary sectors, increased by 0.4% in Q1 2026. Growth was driven by the rise in FX deposits of corporates, followed by those of households, alongside a moderate growth in dinar time deposits, which more than offset the decline in the most liquid component – dinar demand deposits and currency in circulation.

By individual category, dinar **demand deposits** dipped by RSD 79.5 bn in Q1 2026, chiefly due to a seasonal fall in transaction deposits of corporates, and to a lesser extent, lower balances in household current accounts.

Dinar time and savings deposits added RSD 7.5 bn, on the back of resident savings increase (RSD 10.0 bn) and deposits of other financial organisations and local self-governments (by RSD 4.6 bn and RSD 3.3 bn, respectively), while corporate time deposits contracted

Chart IV.2.3 **Monetary aggregate movements**
(nominal y-o-y rates, in %)



Source: NBS.

by RSD 11.3 bn. Resident dinar savings reached a new all-time high of RSD 213.5 bn[7] at end-March.

FX deposits of non-monetary sectors went up by as much as EUR 1.0 bn in Q1 2026, with 60% of this rise relating to corporate FX deposits, while the rest is a result of an increase in resident household FX savings, which reached a new record of EUR 15.7 bn.

The degree of dinarisation of corporate and household deposits decreased by 1.9 pp in Q1, from the record level at end-2025 to 45.0% in March, owing to a relatively faster growth in FX (mostly corporate) deposits, alongside a seasonal decline in dinar transaction deposits.

Money supply M3 accelerated its y-o-y growth to 9.3% in March, primarily as a result of faster increase in corporate FX deposits. The contribution of the most liquid dinar components was much more moderate, chiefly due to a decline in currency in circulation.

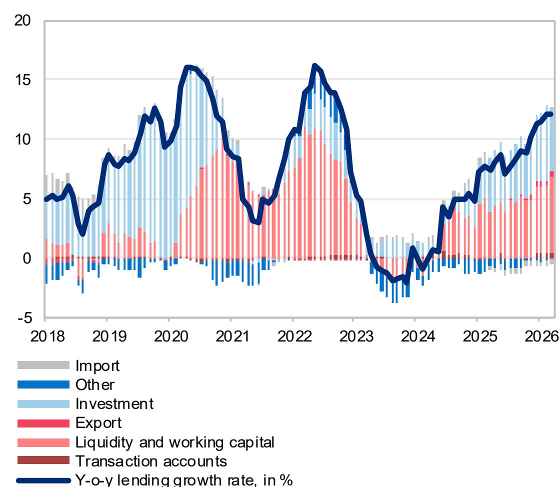
Loans

Total domestic loans to the non-monetary sector stepped up further y-o-y in Q1, to 16.9% in March, excluding the exchange rate effect.[8] This growth was led by **household lending**, which accelerated its y-o-y growth to 20.9%, followed by **corporate lending**, which also picked up to 12.0% y-o-y.

Corporate loans went up by RSD 27.0 bn in Q1, primarily owing to higher company borrowing. Companies mostly used liquidity and working capital loans, which rose by RSD 24.6 bn, while liabilities under other non-categorised loans and current account overdrafts also increased. Such trends pushed the share of liquidity and working capital loans in total corporate loans up by 0.6 pp in Q1, to 47.9% in March, with the acceleration of y-o-y growth to 13.5%. At the same time, the share of investment loans contracted by 0.7 pp to 42.7%, while their y-o-y growth slowed to 12.5%.

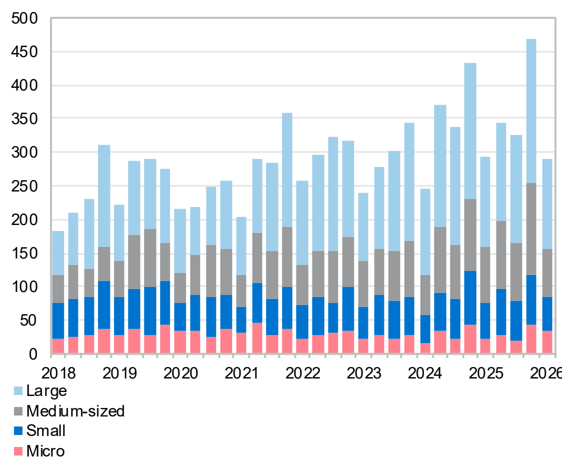
Sector-wise, companies in transport, construction and trade borrowed the most in Q1, while only those in manufacturing and agriculture recorded a decline in borrowing. The share of loans approved to the segment of micro, small and medium-sized enterprises in total corporate loans stood at 60.6% in March, unchanged from end-2025, while their y-o-y growth sped up to 11.6%. Dinar and FX-indexed loans increased almost equally in Q1, but, under the impact of a decline in other dinar receivables, the degree of **dinarisation** of corporate receivables edged down slightly from end-2025, to 22.8% in March.

Chart IV.2.4 **Contributions to y-o-y corporate lending growth**
(in pp, excluding the exchange rate effect)



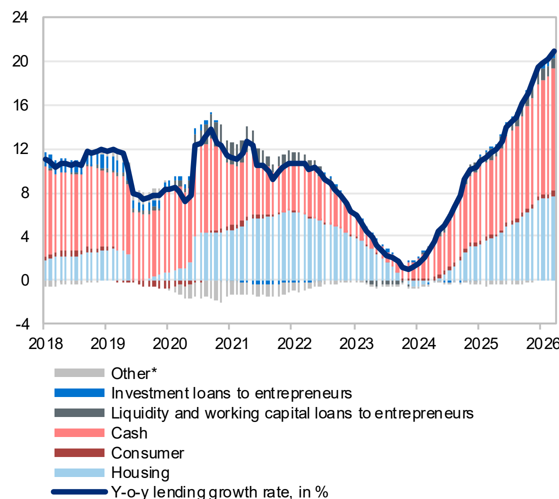
Source: NBS.

Chart IV.2.5 **Structure of new corporate loans, by enterprise size**
(in RSD bn)



Source: NBS.

Chart IV.2.6 **Contributions to y-o-y household lending growth**
(in pp, excluding the exchange rate effect)



Source: NBS.

[7] If the assets of non-residents are included, end-March dinar savings equalled around RSD 215.9 bn and FX savings EUR 16.5 bn.

[8] Calculated by applying the new programme exchange rate as at 30 September 2024.

The volume of new corporate loans in Q1 equalled RSD 289.1 bn, down by 1.1% compared to the same period of 2025. Liquidity and working capital loans remained dominant, making up two-thirds of new corporate loans, being used almost equally by large enterprises and micro, small and medium-sized enterprises. Investment loans accounted for 21% of new loans, with 74% being used by micro, small and medium-sized enterprises.

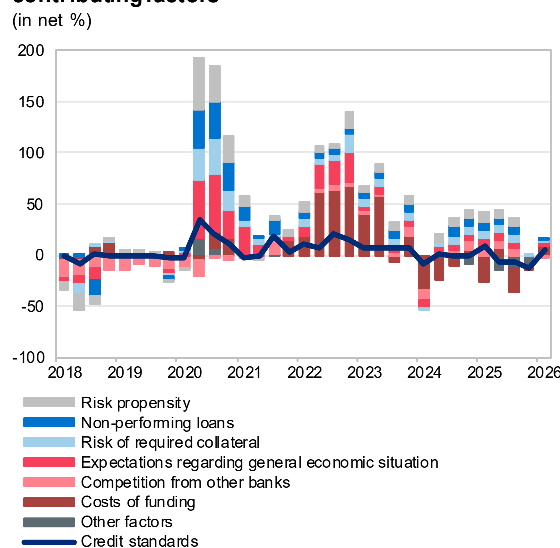
Household loans added RSD 72.3 bn in Q1, led by the rise in cash loans (RSD 40.0 bn) and housing loans (RSD 25.9 bn). Household borrowing under current accounts and consumer loans went up, while only borrowing under credit cards subsided. In addition to eased credit standards and relatively favourable interest rates, strong household lending was underpinned by measures enabling more favourable terms of borrowing for lower-income citizens. Housing loan growth was also supported by the housing loan programme for youth, which accounted for slightly less than a half of the housing loan increase in Q1. High disbursement of cash loans led to a 0.3 pp increase in their share in total household loans in Q1, to 47.7% in March, while the share of the next largest category – housing loans decreased by 0.1 pp, to 38.1%. At the same time, all loan categories stepped up y-o-y in Q1, with cash and housing loans reaching 24.0% and 20.2%, respectively, in March. Dinar loans accounted for nearly two-thirds of the increase in Q1, which contributed to the rise in **dinarisation of household receivables** by 0.3 pp, to 56.5% in March.

The volume of new household loans in Q1 came at RSD 285.3 bn, up by 31.9% y-o-y, mostly owing to a higher volume of new cash and housing loans.

The **results of the April NBS bank lending survey** indicate that banks tightened credit standards for long-term corporate loans in Q1, while standards for short-term corporate loans stayed unchanged. Banks assessed that the tightening was driven by higher cost of financing and less favourable assessment of the overall economic situation. Competition acted in the opposite direction, easing credit standards in the household segment for dinar cash loans and refinancing loans. In banks' view, corporate demand for dinar and short-term FX-indexed loans decreased in Q1, while demand for long-term FX-indexed loans rose. Weaker demand reflected a reduced need for investment financing, while financing of working capital acted in the opposite direction. In Q1, households upped their demand mainly for dinar cash loans and refinancing loans, and also for consumer loans and FX-indexed housing loans.

Gross **NPL ratio** stood at 2.1% in March, unchanged from end-2025. NPL ratio for the corporate sector (1.4%)[9] and for the household sector (2.7%)[10] also stayed

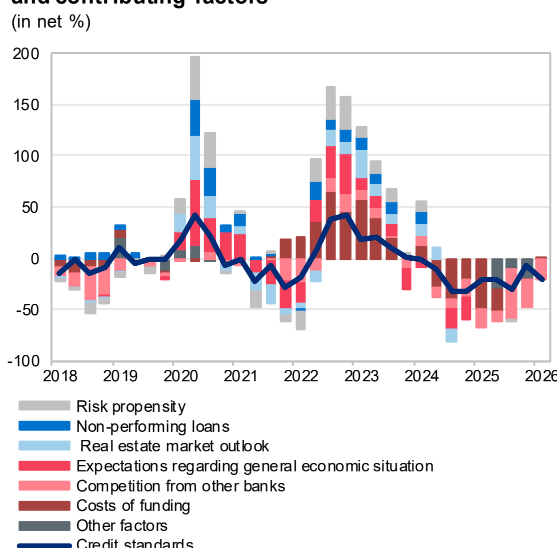
Chart IV.2.7 **Change in corporate credit standards and contributing factors**
(in net %)



Source: NBS.

Note: Growth indicates the tightening and decline indicates the easing of credit standards.

Chart IV.2.8 **Change in household credit standards and contributing factors**
(in net %)



Source: NBS.

Note: Growth indicates the tightening and decline indicates the easing of credit standards.

[9] Includes companies and public enterprises. Looking at companies only, the share of NPLs in total loans is also unchanged, and measured 1.6% in March.

[10] Includes natural persons, entrepreneurs and private households.

unchanged relative to end-2025. NPL coverage remained high as allowances for impairment of total loans measured 109.2% of NPLs in March and allowances for impairment of NPLs – 60.3% of NPLs.

Capital adequacy ratio equalled 19.5% at end-Q1, indicating high capitalisation (regulatory minimum – 8.0%) and resilience of the banking sector to external and domestic risks.

3 Aggregate demand

GDP growth amounted to 3.0% y-o-y in Q1 and was driven, in our estimate, by domestic demand, with a positive contribution coming from both consumption and fixed investments. A positive contribution also stemmed from net exports as real exports of goods and services rose faster than imports.

Domestic demand

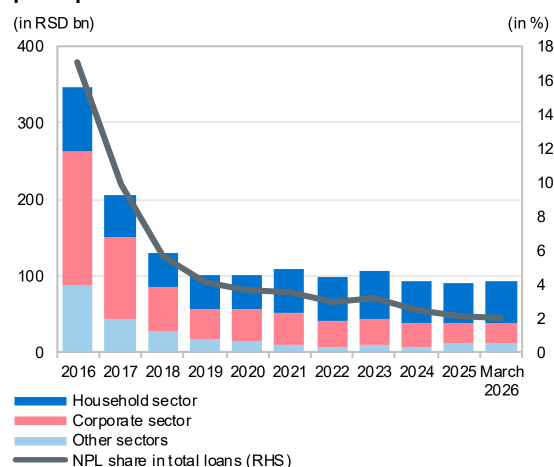
We estimate that the rise in **household consumption** accelerated in Q1, to 4.3% y-o-y, providing 2.6 pp to GDP growth. Continued growth in private consumption is indicated by the data on retail trade that increased by 8.3% y-o-y in Q1. Tourism data also show that in Q1, the number of domestic tourist arrivals and overnight stays went up by 8.2% and 6.3%, respectively.

Looking at the sources of personal consumption, as in the previous period, the wage bill, as its main source, continued to record almost double-digit nominal y-o-y growth (10.5% in January–February), while the real wage bill growth stood at 7.7% y-o-y. At the same time, in Q1, pensions grew by 12.2% in nominal, and 9.3% y-o-y in real terms. More favourable borrowing terms, resulting from the past NBS and ECB monetary policy easing, and since September 2025 also the supervisory measures aimed at ensuring more favourable borrowing terms for lower-income population groups, provided additional support to household consumption through the rise in loans intended for consumption whose y-o-y growth accelerated to a double-digit level. The inflow of remittances in Q1 amounted to EUR 1,279 mn, up by 22.4% from the same period last year.

In our estimate, **government consumption** edged up by 3.6% y-o-y in Q1, continuing to positively contribute to GDP growth (0.6 pp in Q1), driven by the higher expenditure for public sector employees and the procurement of goods and services. As a result, **total consumption** increased by 4.1% y-o-y in Q1.

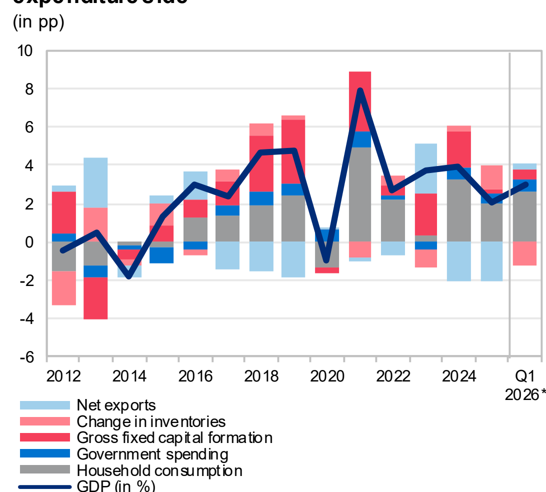
We estimate that the recovery of **private investments**, which started late last year, continued and that they increased by 2.4% y-o-y in Q1, owing partly to the low last year's base, and provided a 0.4 pp contribution to GDP growth. A further rise in investment activity is indicated by the number of issued construction permits which rose by 2.0% y-o-y in January–February, the production of capital goods by 12.9% y-o-y and the volume of production of domestic machinery and

Chart IV.2.9 **NPL level and share in total loans, gross principle**



Source: NBS.

Chart IV.3.1 **Contributions to y-o-y GDP growth rate, expenditure side**



Sources: SORS and NBS calculations.

* NBS estimate.

Table IV.3.1 **Movement in key indicators and sources of household consumption**

(real y-o-y growth rates, in %)

	2025			2026
	Q2	Q3	Q4	Q1
Household consumption	**3.2**	**3.5**	**3.7**	**4.3**
Indicators				
Retail trade turnover	3.8	3.2	8.0	8.3
Catering turnover	2.4	4.8	1.7	
Number of domestic tourists	-5.7	0.1	-0.2	8.2
Number of domestic tourist overnight stays	-8.7	-1.0	-4.5	6.3
Consumer goods imports (BEC classification), nominal	9.3	9.2	1.7	-2.4
Sources				
Total wage bill, nominal	10.9	11.5	12.0	10.5**
Remittances inflow, nominal	-6.5	25.9	26.2	22.4
Stock of loans intended for consumption, nominal	15.8	18.2	21.0	22.5

Sources: SORS and NBS calculations.

* NBS estimate.

** January-February.

equipment by 4.6% y-o-y. In Q1, the production and import of construction materials declined though one should bear in mind that throughout almost entire last year inventories of construction materials were built up.

Continued implementation of significant government-financed infrastructure projects helped sustain the growth in **government investments**, which amounted to 2.8% y-o-y in Q1 in our estimate. Accordingly, **total fixed investment** increase is estimated at 2.5% y-o-y, with a 0.6 pp contribution to GDP growth in Q1.

As for the sources of investment financing, we estimate that the bulk of private investments was financed from own sources thanks to high corporate profitability recorded in previous years. Also, Q1 saw an FDI inflow of almost EUR 370 mn, while investment loans recorded a y-o-y rise of 14.5%. Government capital expenditures went up by over 35% y-o-y in nominal terms in January–February.

Lower inventories are estimated to have provided a negative contribution to GDP growth in Q1 (-1.2 pp).

Net external demand

The NBS estimates that the **real growth in goods and services exports** measured 1.2% y-o-y in Q1, preserving the positive dynamics despite persistently low external demand, while the real rise in **imports** amounted to 0.6%, which resulted in a positive **net exports'** contribution to GDP growth (0.3 pp).

Goods exports in euro terms went up by 7.4% y-o-y in Q1, led chiefly by **manufacturing exports** (9.1% y-o-y), where growth was recorded in 13 out of 23 branches, with the largest contribution stemming from branches linked with the automotive industry. The export of motor vehicles stood out in particular, reflecting stronger investments in the automotive industry and the acceleration of serial production of electric automobiles. In addition, the export of base metals, machinery and equipment, as well as automobile tyres increased. At the same time, mining exports expanded as well (25.4% y-o-y). On the other hand, last year's drought weighed down on inventories and exports of agricultural products in Q1 (-20.0% y-o-y). Electricity exports also declined (-48.4% y-o-y), partly on account of the Carbon Border Adjustment Mechanism (CBAM) which started to apply fully for electricity.

Commodity imports in euro terms grew at a slower pace than exports, at the rate of 3.0% y-o-y, reflecting primarily lower import of consumer goods and energy due to a halt in oil industry which, was, nonetheless, largely offset in March.

Foreign trade in services maintained the positive dynamics in Q1, recording a surplus of EUR 778 mn. Both import and export of services recorded growth in y-

Table IV.3.2 **Investment indicators**

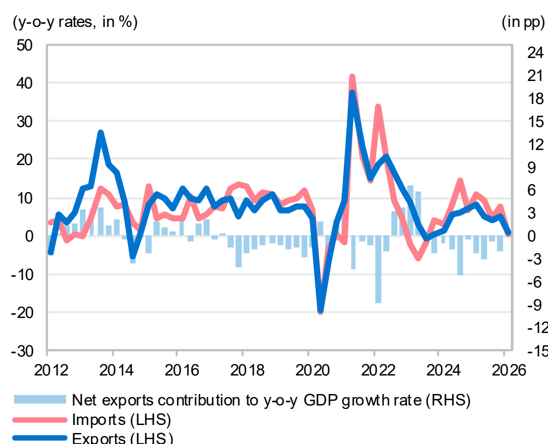
	2025			2026
	Q2	Q3	Q4	Q1
Real y-o-y growth rates (in %)				
Total investment (national accounts)	-3.9	-2.2	8.9	2.5
Construction (national accounts)	-15.8	-12.2	10.6	-2.0
Government investment, nominal	23.4	-11.0	-0.5	35.1**
Number of issued construction permits	-7.9	-0.8	1.0	2.0**
Production of construction material	0.8	2.2	-3.2	-6.0
Value of works performed	-16.1	-12.3	10.6	
Equipment imports, nominal	-6.9	4.4	14.9	1.5
Production of domestic machinery and equipment	-17.5	-13.8	0.6	4.6

Sources: SORS and NBS calculations.

* NBS estimate.

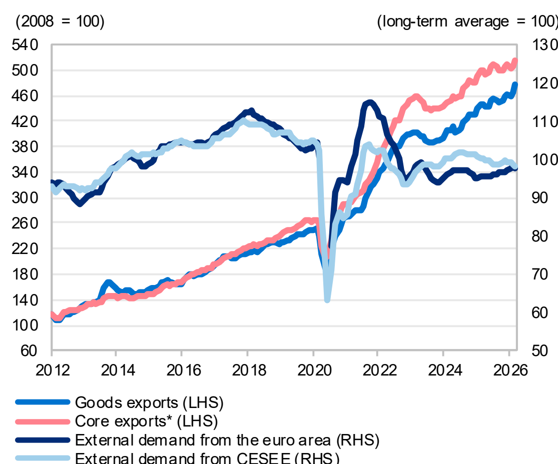
** January-February.

Chart IV.3.2 **Exports and imports of goods and services**
(in previous-year constant prices, ref. 2021)



Sources: SORS and NBS calculations.
Note: NBS estimate for Q1 2026.

Chart IV.3.3 **Movement in external demand indicators for Serbian exports**
(3M moving average, s-a)



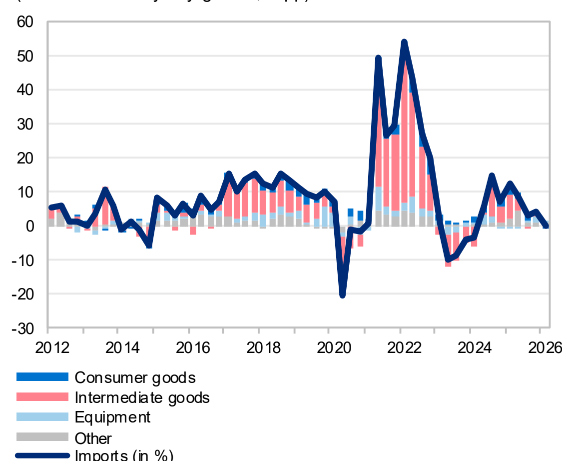
Sources: European Commission, SORS and NBS.

* Core exports are total exports excluding the export of agricultural products, base metals, motor vehicles, petroleum products and electricity.

o-y terms. Services exports picked up in Q1 by 4.0% and imports by 1.1% y-o-y.

Commodity export/import coverage ratio increased by 1.1 pp in Q1, measuring 84.6% in March[11] (with services included, the value of the ratio in March stood at 93.2%, up by 1.1 pp from end-2025).

Chart IV.3.4 **Movement of key import components**
(contributions to y-o-y growth, in pp)



Sources: SORS and NBS calculations.

4 Economic activity

According to the SORS estimate, economic activity accelerated in Q1 relative to the end of last year, recording a 3.0% y-o-y growth. Services were the drivers of GDP growth, in our estimate, while industrial production, despite considerable recovery in March, recorded a quarterly decline. The decrease reflected lower production in oil industry and related branches.

Services, collectively, accelerated from 2.9% in Q4 to 4.3% y-o-y in Q1, in our estimate, contributing 2.5 pp to GDP growth. This is confirmed primarily by the data on trade and tourism, given the y-o-y growth in retail trade turnover and the increase in the number of tourist arrivals and overnight stays in Q1. A pick-up was also recorded in the ICT sector, as indicated by the further increase in the export of this group of products despite the high last year's base.

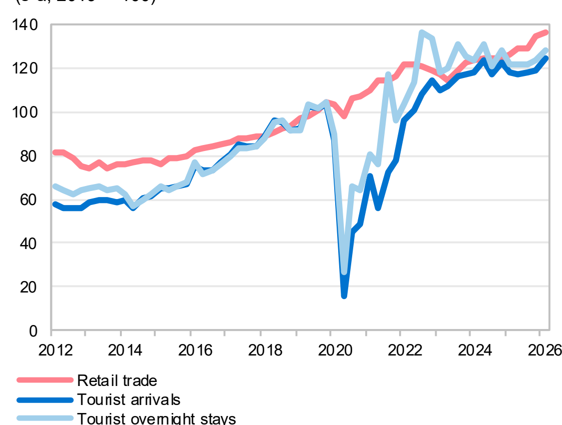
Table IV.4.1 **Contributions to y-o-y GDP growth**
(in pp)

	2025				2026
	Q1	Q2	Q3	Q4	Q1*
GDP (in %, y-o-y)	**1.7**	**2.0**	**2.0**	**2.2**	**3.0**
Agriculture	0.0	0.0	0.0	0.0	0.1
Industry	0.4	0.6	0.6	-0.6	-0.2
Construction	-0.3	-0.8	-0.6	0.5	-0.1
Services	1.3	1.6	1.7	1.6	2.5
Net taxes	0.4	0.6	0.5	0.6	0.7

Sources: SORS and NBS calculations.
* NBS estimate.

We estimate that **industrial production** dropped by 0.8% y-o-y in Q1, providing a negative, 0.2 pp contribution to GDP growth. The drop was largely caused by problems in the oil industry because of the sanctions imposed on NIS due to its majority Russian ownership and the consequently dampened activity in the chemical industry during January and February. Industrial production recovered considerably in March, mostly owing to an upturn in its manufacturing segment. As a result, the volume of production in manufacturing declined by only 0.4% in Q1 compared to the same period last year. The production dropped in 15 out of 24 branches of **manufacturing**, with the most significant negative contribution coming from the production of coke and petroleum products, followed by clothing and computers. On the other hand, robust growth was recorded in the production of motor vehicles (by 51.4% y-o-y in Q1) and rubber and plastic products (5.3% y-o-y), which can be associated with the acceleration of the serial production of electric vehicles in Kragujevac, continued growth in the production of automobile tyres, and the production of domestic machinery and equipment (4.6% y-o-y). **Electricity production** declined by 0.9% and **mining** by 3.2% on account of the Carbon Border Adjustment Mechanism (CBAM) which started to apply for electricity.

Chart IV.4.1 **Service sector indicators**
(s-a, 2019 = 100)



Sources: SORS and NBS calculations.

We estimate that in Q1, **construction** provided a slight negative contribution to economic activity (-0.1 pp). This is primarily indicated by the data on the production of construction materials which dropped by 6.0% y-o-y in

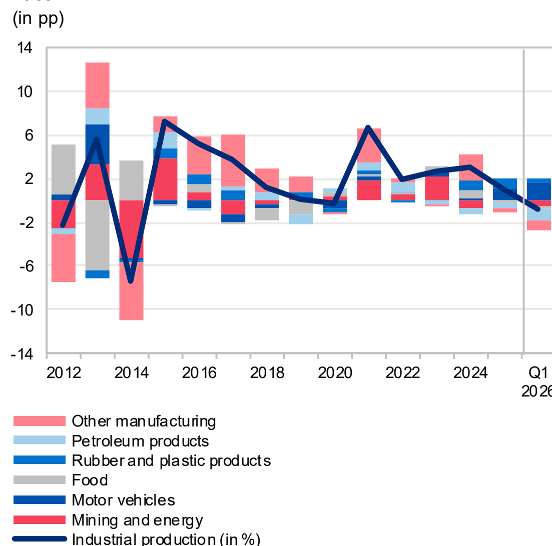
[11] Measured by 12-month moving average.

Q1, and the activity in the "other mining" area which includes gravel, sand and stone exploitation (-6.1% y-o-y). The import of construction materials also dropped. In contrast, the number of issued construction permits increased in the first two months of 2026 by 2.0% y-o-y.

In our estimate, **net taxes** went up in Q1 by 4.5% y-o-y, providing a 0.7 pp contribution to GDP growth. Their increase reflects a rise in consumption and a better collection of tax revenues.

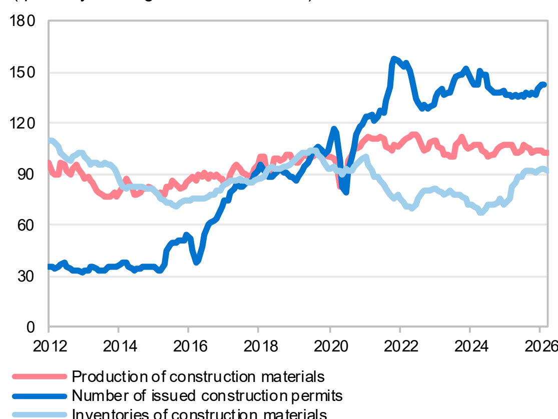
Assuming that **this year's agricultural season** will be average, the rise in agricultural production in Q1 is estimated at 3.0% and its contribution to GDP growth at 0.1 pp.

Chart IV.4.2 **Contributions to y-o-y industry growth rate**
(in pp)



Sources: SORS and NBS calculations.

Chart IV.4.3 **Construction activity indicators**
(quarterly averages s-a, 2019 = 100)



Sources: SORS and NBS calculations.

Text box 3: Opportunities and challenges of the Fiat Grande Panda model on the European car market

Motor vehicle production in Serbia in 2025 recorded a 35.4% increase in the physical volume and was the main driver of total industrial output growth, contributing to real GDP growth with around 0.2 pp. Also, the manufactured cars were almost entirely intended for foreign markets, therefore last year's car export nominally rose almost six times relative to 2024. Output growth in this branch of industry in the past two years is largely attributable to an increase in the serial production of automobiles in the Stellantis-owned Kragujevac factory, where two B-segment car models are manufactured – Fiat Grande Panda and, in fewer quantity, Citroën C3. Due to the importance of this factory for the growth of the overall industry, and thus of economic activity, this text box analyses the European car market in the given segment, the market position of the Grande Panda model, as well as its key opportunities and challenges for success, using a SWOT analysis.

In 2025, Fiat sold a total of 271,000 cars in the EU, EFTA countries, and the UK, which represents a decline of over 10% compared to the previous year, thereby reducing that brand's share of the European market from 2.3% to 2.0%. In 2024 as well, a decline in the physical volume of sales of over 20% was recorded (382,000 cars were sold in 2023, representing 3% of the European market).

The intention to target the small car segment – the B-segment – with the Grande Panda model is entirely rational, as it is one of the largest and most competitive segments of the European market. Of the total 13.3 mn newly registered cars in Europe in 2025, nearly 15% were B-segment cars, with an increase in the sales volume of approximately 8% compared to 2024. Together with the A-segment (small city cars), the B-segment accounts for about one-fifth of the European car market. Almost every car brand present in the European market has at least one model in this segment, hence today over 20 direct competitors to the Grande Panda model can be singled out.

For two consecutive years, the best-selling B-segment model in Europe has been the Dacia Sandero, with around 244,000 units sold in 2025, followed by a similar model, the Renault Clio, with 230,000. Over 100,000 units sold last year were also achieved by the Toyota Yaris, Opel Corsa, Citroën C3, Škoda Fabia, and Volkswagen Polo, while the electric Renault 5 also recorded significant sales, with over 80,000 units sold in its second year of production. Chinese competitors accounted for only about 5% of sales in this segment in 2025, but posted strong growth. For instance, the MG3 model sold over 60,000 units (almost double the amount in 2024). The BYD Dolphin Surf achieved 22,000 registrations in its first sales year, while the Leapmotor T03 and Dongfeng Nammi 01 collectively sold a similar volume, also in their first sales year. Compared to these models, the Fiat Grande Panda's sales in its first year (24,000 units) can be assessed as satisfactory, given that its main competitors have been present on the market for years. Particularly encouraging is the recent announcement by Stellantis that the Grande Panda sold as many as 21,000 units in Q1 of this year, thereby breaking into third place among the best-selling cars in Italy since the beginning of the year. This is also indicted by data on Serbia's commodity export to Italy, which amounted to EUR 790 mn in the first three months of the year, while in the same period a year ago it measured EUR 436 mn.

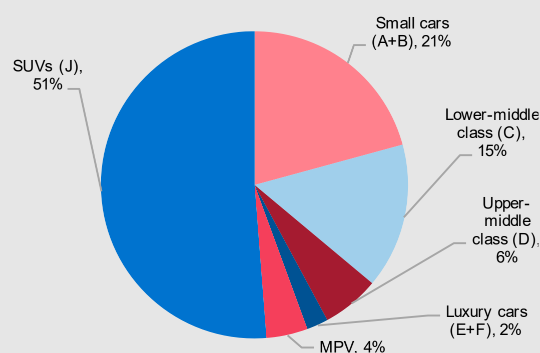
In order to assess the potential of this model for success in the European market, we have identified its key strengths, weaknesses, opportunities, and threats below, which we have presented in a SWOT analysis.

Table O.3.1 **Sales volume of B segment cars in Europe, 2024–2025***

	2024	2025
Dacia Sandero	270,786	244,382
Renault Clio	217,473	230,686
Peugeot 208	199,906	185,535
Toyota Yaris	181,192	166,030
Opel Corsa	162,686	165,546
Citroen C3	162,080	161,905
Skoda Fabia	107,178	108,380
VW Polo	135,353	108,271
Renault 5 E-Tech	13,150	81,832
SEAT Ibiza	85,690	76,978
Suzuki Swift	58,853	71,835
Hyundai i20	75,759	69,329
MG 3	31,322	61,688
Hyundai Inster	134	33,323
Fiat Grande Panda	104	24,477
BYD Dolphin Surf	-	22,376
Honda Jazz	10,800	20,765
Leapmotor T03	942	20,263
Dongfeng Nammi 01	222	2,193
Nissan Micra	42	653
Kia EV2	-	8
Total	**1,713,672**	**1,856,455**

Sources: Dataforce and ACEA.
*The data relate to the markets of the EU, EFTA (Iceland, Norway and Switzerland) and UK.

Chart O.3.1. **European car market by segment, 2023**



Sources: Dataforce and ACEA.
*The data relate to the EU market.

As for characteristics that can be termed as the model's strengths, together with the similar models Citroën C3 and Peugeot 208, Fiat Grande Panda is the only B-segment model in Europe offered in three different powertrain versions: fully electric, hybrid, and petrol engine. Other brands in the market offer one or two versions, while only the two aforementioned Stellantis models offer simultaneously both hybrid and electric versions. This is an important fact bearing in mind two groups of buyers in this segment: more affluent buyers, who want a second or third car in the family and who will rather opt for hybrid and electric models, and buyers for whom the low price is the most important determinant, who will most often opt for fully petrol models because they are the cheapest. Fiat's reputation that has been established in the small and small city cars market is very important, because for decades the Italian brand has been recognised for its smallest models, starting from the Fiat Uno, through Punto, Grande Punto, to Fiat 500 and Panda, thus providing significant support to the new model. The potentially greatest strength of the Grande Panda model lies in its price advantage over competitors, as in all three powertrain versions it is among the cheapest models on the market.

As for weaknesses, there are a number of competitors in the market, and hybrid and electric models in particular offer stronger engines and faster gearboxes compared to the Grande Panda model. Customer loyalty to a certain brand or model is not a characteristic of the small car market, as is the case in higher segments, which can present a great **opportunity** for the Grande Panda model, especially with a good price policy. Spreading onto other markets where Fiat is also present is also a significant opportunity and primarily pertains to the Brazil market, where Fiat accounts for almost 50% of its total sale, while the markets of Turkey and Algeria are also important. Fiat's strategy to develop an entire family of Panda models is seen as another opportunity for the successful breakthrough of the Grande Panda on the European market, which would also include the Giga Panda model, whose debut is expected at the Paris Motor Show in October this year. This could be important for Serbia, because the expansion of the Panda model family could contribute to a larger production volume in Kragujevac, the opening of new jobs, and the strengthening of the role of the domestic automotive industry.

The biggest **threat** to the success of the Grande panda model lies in the high saturation of the market. There are 20 direct competitors in the market (with the exception of SUV models), to which we can also add A-segment cars, as well as smaller J-segment cars which are indirect competitors. An additional threat comes from the potential entrance of new, Chinese competitors in the European market.

Figure O.3.1 **SWOT matrix for the Fiat Grande Panda model**

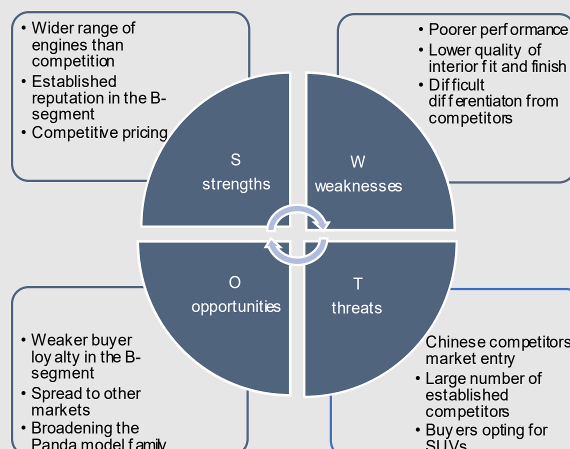


Table O.3.2 **Initial prices (VAT included) of competitors in the small car market in Serbia** (in EUR)

	Petrol	Hybrid (HEV/PHEV)	Electric (BEV)
Fiat Grande Panda	15,750	17,750	23,990
Citroen C3	17,440	20,990	28,190
Suzuki Swift	-	16,390	-
Renault 5	-	-	28,990
Dacia Sandero	14,990	-	-
KIA EV2	-	-	26,600
Škoda Fabia	17,364	-	-
SEAT Ibiza	17,364	-	-
Toyota Yaris	-	20,990	-
Leapmotor T03	-	-	20,690
Peugeot 208	21,490	22,090	38,390
MG3	14,990	18,990	-
BYD Dolphin Surf	-	-	21,990
Dongfeng Nammi 01	-	-	26,400
Hyundai i20	15,990	-	-
Nissan Micra	-	-	28,990
Honda Jazz	-	26,990	-
Volkswagen Polo	-	-	-
Volkswagen ID.Polo	-	-	25,000
Opel Corsa	18,890	22,790	-
Renault Clio	18,990	27,590	-
Hyundai Inster	-	-	26,990

Source: Prices available on car brands' websites.

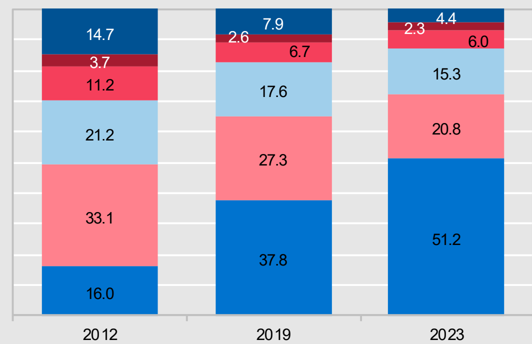
Table O.3.3 **Key markets for Fiat, based on the number of cars sold and market share, 2024**

	Sale	Market share of the specific country
Brazil	521,000	21%
Italy	190,000	11%
Turkey	139,000	11%
Algeria	64,000	62%
EU, except Italy	70,181	2%

Sources: Stellantis press release and ACEA.

Based on the SWOT analysis, we can conclude that the Fiat Grande Panda has significant opportunities for successful positioning in the European B-segment, as indicated by the strong sales growth in Q1 of this year. The model's success is of particular importance because it is manufactured in our country, which contributes to the development of the domestic automotive industry, export growth, and economic growth. For every additional 10,000 vehicles produced, about 0.1 pp is contributed to GDP growth.

Chart O.3.2 **Car sales in the EU, by segment, 2012, 2019 and 2023**
(in %)



Source: ACEA.

5 Labour market developments

In y-o-y terms, Q1 saw a deceleration of wage growth and a decline in formal employment and registered unemployment.

Wages

In the January–February period, the average nominal net wage amounted to RSD 117,276 (almost EUR 1,000), its y-o-y growth slowing to 11.2%, from 12.7% in Q4. The real y-o-y growth in average net wages in the same period came at 8.5% (9.8% in Q4). In the January–February period, the median net wage amounted to RSD 92,035, up by 12.4% from the same period last year. When the minimum labour cost was raised to RSD 371 per hour, the minimum wage amounted to around RSD 65,300 in January, exceeding for the first time the level of EUR 550.

The rise in the average nominal net wages was more pronounced in **the public** (12.7% y-o-y) than **in the private sector** (10.4% y-o-y). Double-digit growth was recorded in most **economic branches.** The highest y-o-y growth was posted by education, transport, catering, and water supply, ranging between 13.3% and 19.0%.

In the January–February period, the nominal net wage bill, as the main source of consumer demand, increased by 10.5% y-o-y entirely on account of a continued rise in wages.

According to preliminary data, **overall economic productivity** rose by 3.4% y-o-y in Q1 as a result of economic growth amid somewhat lower employment.

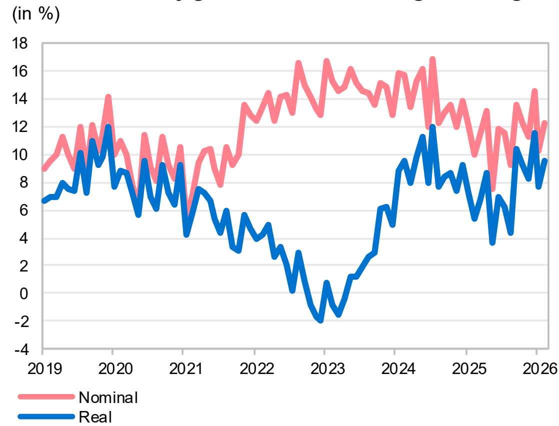
Employment

According to SORS data, **total formal employment** in Q1 averaged around 2.36 mn, which is around nine thousand employed people less compared to the same period last year, with the y-o-y decrease decelerating to 0.4% (from 0.9% in Q4). In Q1, employment with entrepreneurs increased, while the number of registered farmers and employment with legal persons dropped.

Private sector formal employment averaged 1.74 mn persons in Q1. In y-o-y terms, it went down by 0.5% (following the 0.9% y-o-y decline in Q4). **Public sector formal employment** dropped by 0.2% y-o-y following a 1.1% decrease in Q4, primarily as a result of reduction in public administration employment. Observing dominantly private sector activities, in Q1, registered employment rose the most in administrative and auxiliary services, as well as in professional, scientific, innovation and technical services, while declining the most in manufacturing and trade.

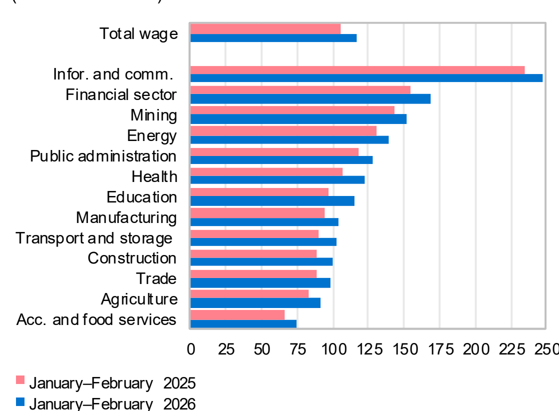
According to the National Employment Service, **registered unemployment** went up traditionally at the beginning of the year, to 345,711 at end-March, though

Chart IV.5.1 **Y-o-y growth rates of average net wage**
(in %)



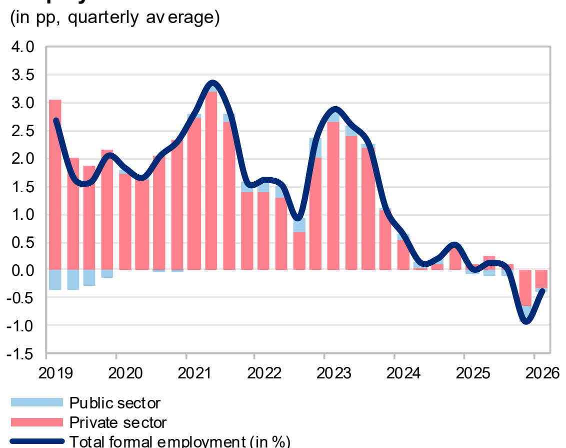
Source: SORS.

Chart IV.5.2 **Nominal net wage by economic sector**
(in RSD thousand)



Source: SORS.

Chart IV.5.3 **Structure of y-o-y growth in total formal employment**
(in pp, quarterly average)

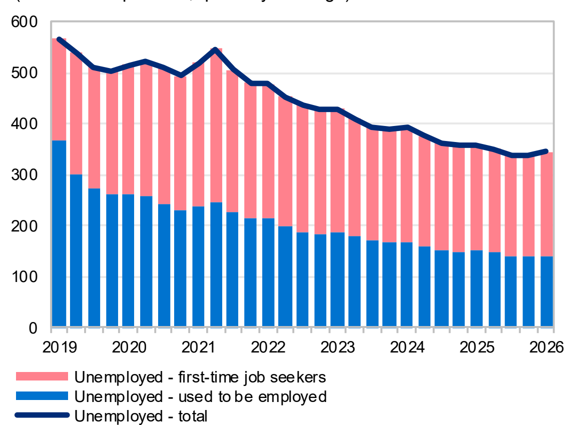


Sources: SORS and NBS calculations.

still being lower by around 13 thousand compared to the same period a year earlier.

According to the **LFS**, covering both formal and informal labour market segments, the participation rate of the working age population (15–64) stood at 72.7% in Q4, while the activity rate (15+) measured 55.5%. The employment rate went down by 0.9 pp, to 50.5% in Q4, while the unemployment rate increased by 0.3 pp, to 8.9%.

Chart IV.5.4 **Movement of registered unemployment**
(in thousand persons, quarterly average)



Source: National Employment Service.

V Projection

Since the previous Inflation Report, geopolitical tensions have intensified further, and a war in the Middle East has broken out, triggering a hefty rise in energy prices and dampening investment and consumer confidence. As a result, our GDP growth projection has been revised down from 3.5% to 3.0% for 2026 and from 5.0% to 4.5% for 2027, reflecting prolonged global uncertainty. In the medium term, we expect the economy to grow at a stable pace, broadly in line with its potential of around 3.5% p.a. Economic growth will be driven by domestic demand, with contributions from both consumption and fixed investment, supported by higher disposable income and the continued implementation of infrastructure projects under the "Leap into the Future – Serbia Expo 2027" programme. In 2026, imports are projected to grow faster than exports amid still subdued external demand and rising consumption and investment activity, resulting in a negative contribution from net exports. By contrast, in 2027, net exports are expected to make a positive contribution to GDP growth, primarily due to an increase in services exports associated with the hosting of the Expo.

Under our new central projection, inflation will remain within the target band in the current and the following quarter. However, a significant increase in global prices of oil and other primary commodities, combined with a low base effect from September last year – stemming from the decree capping wholesale and retail trade margins at 20% – will cause inflation to temporarily move above the upper bound of the target towards the end of this year and at the beginning of next year. Thereafter, inflation will gradually decelerate and return within the target band by mid-2027, remaining within it until the end of the projection horizon. Inflation's deceleration in the course of next year will be supported by the still restrictive monetary policy stance, the expected gradual weakening of cost-push pressures from the international environment, and the anticipated slowdown in real wage growth as wage dynamics become more closely aligned with productivity gains. Further rallying of demand expected in 2027, due to the hosting of the Expo, is not likely to generate pressures that would push inflation outside the target band.

As in previous projections, the key risk to both the inflation and GDP projections stems from pronounced geopolitical tensions and their impact on global economic growth and inflation, with this risk being significantly more pronounced in the current projection due to the escalation of the conflict in the Middle East. Additional risks relate to the new agricultural season, both globally and at home.

External assumptions

Economic activity

After showing relative resilience to elevated uncertainty during 2025 due to geopolitical and trade tensions, the global economy is facing the consequences of the escalation of the Middle East conflict, visible in all economies across the world, especially net energy importers. **In April, the IMF trimmed its January projection of global economic growth in 2026 by 0.2 pp to 3.1%**, while the 3.2% projection for 2027 remained unchanged. The April global growth projections for this and the following year are lower than the 3.4% recorded in the 2024–2025 period and also below the long-term average of 3.7% in 2000–2019. These projections are the so-called reference scenario, which the IMF drafted along with alternative scenarios due to the unstable and hard-to-predict environment, in which it is assumed that the duration and intensity of the Middle East conflict will be limited and that global disruptions will dissipate by mid-2026. In the event of a prolonged conflict, alternative scenarios predict that in 2026 global growth could slow to 2.5% (adverse scenario) or to 2.0% (severe scenario). The IMF estimated that **risks to the April projection of global growth are still skewed to the**

Table V.0.1 **Real GDP growth projections**
(in %)

	2026		2027	
	April (reference scenario)	Departure from January	April (reference scenario)	Departure from January
World	3.1	-0.2	3.2	0.0
Advanced economies	1.8	0.0	1.7	0.0
Euro area	1.1	-0.2	1.2	-0.2
USA	2.3	-0.1	2.1	0.1
Emerging and developing economies	3.9	-0.3	4.2	0.1
Russia	1.1	0.3	1.1	0.1
China	4.4	-0.1	4.0	0.0

Source: IMF WEO (April 2026).

downside, notably amid the potential escalation of geopolitical tensions, especially in the Middle East, and yields on investments in AI turning out to be weaker than initially expected.

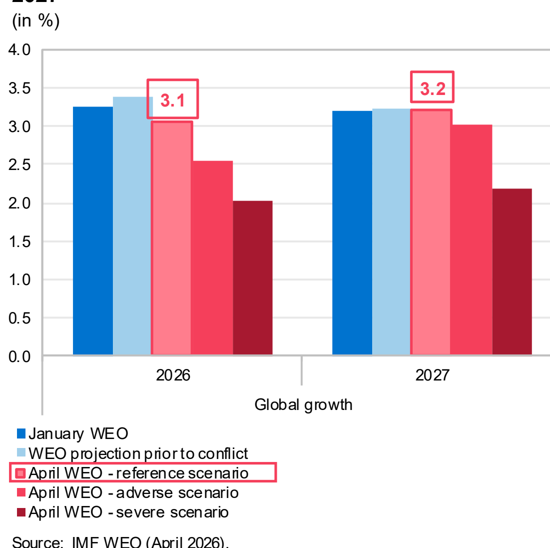
In Q4, **the euro area economy** grew 0.2% s-a (1.4% y-o-y) as a result of stepped-up overall consumption and fixed investments, while a fall in net exports acted in the opposite direction. By sector, the services sector underpinned the achieved GDP growth in Q4, while activity in the manufacturing industry remains weak due to higher tariffs and geopolitical tensions. **Germany** and **Italy**, our main foreign trade partners in the euro area, recorded GDP growth of 0.2% and 0.3% s-a in Q4. The dynamics of early economic activity indicators for the euro area, the PMI and ESI, indicates a slowdown of economic growth in Q1. According to Eurostat's preliminary data, this growth measured 0.1% in the euro area, while in Germany and Italy it stood at 0.3% and 0.2%, respectively.

Taking into account the consequences of the Middle East conflict on global commodity markets, income and market participants' confidence, **in March the ECB lowered its December GDP growth projection for the euro area in 2026** – by 0.3 pp to 0.9%. The projection for 2027 was trimmed less, by 0.1 pp to 1.3%, while the one for 2028 was kept at 1.4%. The ECB assessed that the economic growth of the euro area will continue to be supported by the low unemployment rate, which stood at 6.2% in March, sound private sector balances, and public investment in defence and infrastructure. **Risks to the March projection remained tilted to the downside**, primarily near-term, and mostly due to the pronounced uncertainty in relation to the situation in the Middle East and the potential exacerbation of geopolitical tensions. In this regard, **in March the ECB drafted two alternative scenarios as well** – the adverse and the severe, both of which assume that the prolonged halts in gas and oil supply would result in lower GDP growth this and the following year than the levels projected in the baseline scenario.

Since the onset of the Middle East conflict, halts in energy supply have resulted in a contraction in orders in the euro area's production and services sector and, in turn, weaker business activity, therefore in April the **Consensus Economics** revised down the euro area's GDP growth projection for this and the following year – by 0.2 pp to 0.9% in 2026, and by 0.1 pp to 1.3% in 2027 (the same as in the ECB's March forecast). Even so, stepped-up activity in the tourism sector, especially in South European countries, as well as substantial fiscal incentives in Germany, should continue to be conducive to economic activity in the euro area.

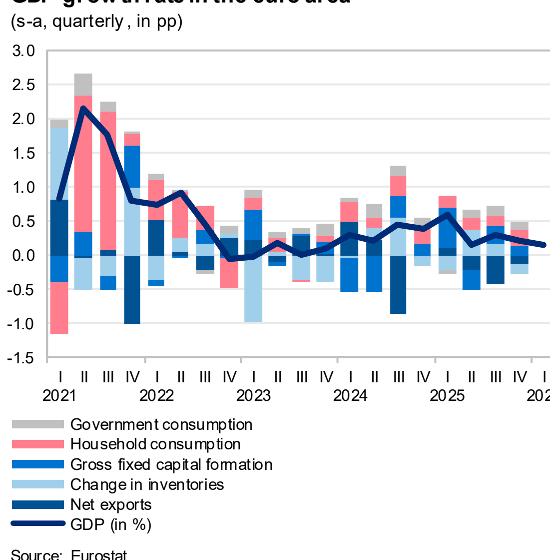
Economic growth in **Central and Southeastern Europe** in Q4 amounted to 0.5% s-a (2.5% y-o-y). On the expenditure side, almost all GDP components – primarily consumption – gave a positive contribution to the

Chart V.0.1 **Global growth projections for 2026 and 2027**
(in %)



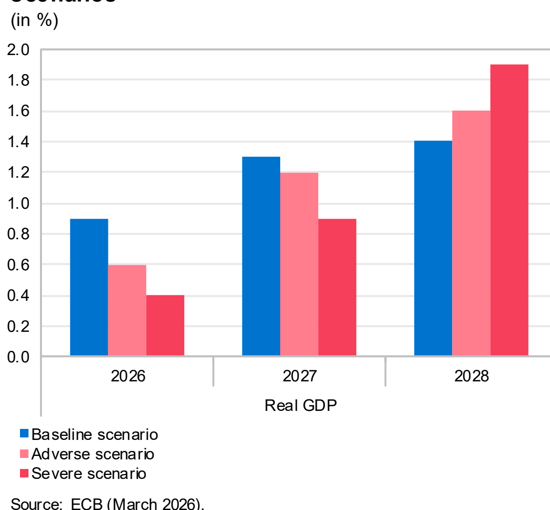
Source: IMF WEO (April 2026).

Chart V.0.2 **Contribution of components to the real GDP growth rate in the euro area**
(s-a, quarterly, in pp)



Source: Eurostat.

Chart V.0.3 **GDP projections in the euro area in three scenarios**
(in %)



Source: ECB (March 2026).

achieved economic growth in Q4, while goods inventories were the only to record a contraction. Though not all countries in the region are exposed to the consequences of the Middle East conflict to the same extent, the Consensus Economics estimated that higher prices of petroleum products and gas are having a dampening effect on economic prospects across the region. Therefore in April, it lowered its January economic growth forecasts for the Southeast European group of countries – by 0.6 pp to 1.6% for 2026, and by 0.1 pp to 2.6% for 2027. In the Central European group of countries, economic growth of 2.7% was projected in April for both this year and next year, which is 0.2 pp and 0.1 pp, respectively, lower than the January forecasts.

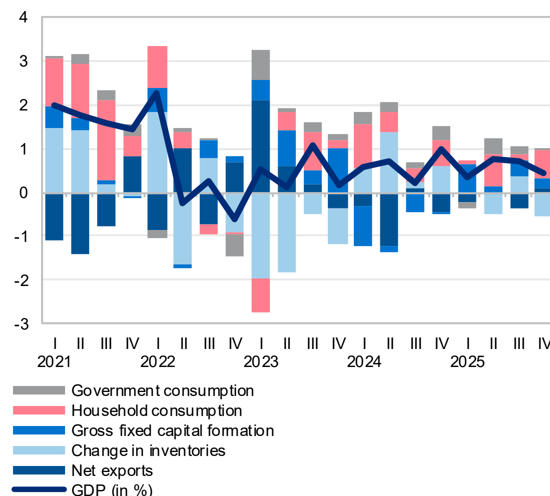
The **US economy** slowed significantly in s-a terms – from 1.1% in Q3 to 0.1% in Q4, or to 0.5% when the s-a growth rate is annualised. A positive contribution to economic growth in Q4 came from increased private consumption and fixed investments, with the fall in government consumption and net exports working in the opposite direction. In March, the **Fed** estimated that the pace of the US economic growth would remain sound in the remainder of 2026, and would still be propped by investments in AI, favourable financial conditions and fiscal and regulatory measures. Based on this, March projection of GDP growth for this and the following year has been revised up from December – by 0.1 pp to 2.4% in 2026, and by 0.3 pp to 2.3% in 2027, assessing that risks to the projection are still tilted to the downside. The 4.3% unemployment rate in March was slightly below the December level, while its projection for 2026 remained unchanged at 4.4%.

In April the IMF estimated that **China's economic growth** since the start of the year has exceeded expectations, driven primarily by the rising exports, which offset the subdued domestic demand. Because of the global energy shock, the January projection of China's GDP growth in April was revised slightly down, by 0.1 pp to 4.4%. A bigger adjustment was avoided thanks to stimulative fiscal and monetary measures, as well as lower effective customs tariffs which the US applies on Chinese imports. The GDP forecast for 2027 was kept at 4.0%.

Inflation

Against the backdrop of elevated geopolitical tensions, which were exacerbated additionally with the outbreak of the Middle East conflict, **in April the IMF revised up its January projection of global inflation for 2026** by 0.6 pp – to 4.4%, and by 0.3 pp **for 2027** – to 3.7%. Under the reference scenario, the expected level of the global oil price is USD 82 per barrel in 2026, and USD 76 per barrel in 2027. Under the adverse scenario, the IMF forecast stronger and more stable energy price growth, which would result in global inflation accelerating to 5.4% in 2026, while in the severe scenario, implying large-scale damages to energy infrastructure, global inflation is

Chart V.0.4 **Contribution of components to the real GDP growth rate in the CESEE region***
(s-a, quarterly, in pp)



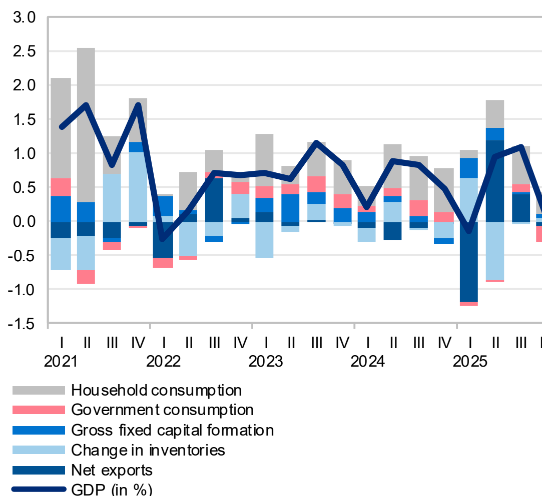
Source: Eurostat.
* Including Bulgaria, Czech Republic, Croatia, Hungary, Poland, Romania, Slovenia and Slovakia.

Table V.0.2 **Real GDP growth projections across CESEE countries**
(in %)

	2026		2027	
	April projection	Departure from January	April projection	Departure from January
Poland	3.5	-0.1	3.1	0.0
Czech Republ	2.3	-0.1	2.5	-0.1
Hungary	1.7	-0.5	2.5	-0.1
Romania	0.5	-0.9	2.3	-0.1
Slovakia	1.0	-0.4	1.8	-0.2
Slovenia	2.0	-0.2	2.1	-0.1
Croatia	2.6	-0.2	2.5	-0.1
Bulgaria	2.5	-0.4	2.7	-0.1

Source: Consensus Economics (April and January 2026).

Chart V.0.5 **Contribution of components to the real GDP growth rate in the USA**
(s-a, quarterly, in pp)



Sources: U.S. BEA and NBS calculations.

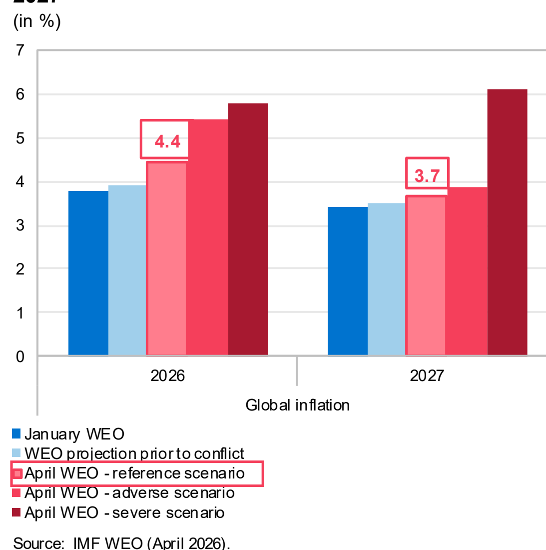
forecast at around 6% by 2027. Inflation projections diverge greatly across countries under the increasing impact of specific factors, as well as the persistent services inflation. Therefore, in both adverse scenarios in the emerging and developing countries, the IMF forecast inflation at levels double than the ones in advanced countries.

Y-o-y inflation in the euro area picked up to 2.6% in March, its highest level since July 2024, driven by the energy price hike in the wake of the onset of the Middle East conflict. A year later, the prices of energy, notably petroleum products, went up 5.1% y-o-y in March, which is their highest y-o-y growth rate since February 2023. In contrast, the prices of other HICP components[12] slowed their y-o-y growth in March, with a similar contribution to y-o-y inflation as in December last year. **Core inflation in the euro area** was kept at 2.3% y-o-y in March. Measured as a change in HICP, **inflation in Germany** accelerated to 2.7% y-o-y in March, its highest level since January 2024, and is dominantly attributed to the major hike in the prices of fuel and heating oil, while **inflation in Italy** rose to 1.7% y-o-y in March as both administered and non-administered process slowed their y-o-y drop. According to Eurostat's preliminary data, y-o-y inflation in the euro area stood at 3.0% in April, and in Germany and Italy at 2.9%.

As prices soared due to the Middle East conflict, **in March the ECB made major upward revisions to euro area headline inflation projections – by 0.7 pp to 2.6% in 2026, and by 0.2 pp to 2.0% in 2027**. The baseline scenario assumed that after reaching their maximum prices of around USD 90 per barrel and EUR 50 per MWh in Q2, the average oil and gas prices will contract relatively quickly in the coming period. In March, the ECB also raised its euro area core inflation projections – by 0.1 pp to 2.3% in 2026, and by 0.3 pp to 2.2% in 2027. For 2028, core inflation has been forecast at 2.1%, the same as headline inflation projection, which is 0.1 pp above their December projections. Risks to the projections in the baseline scenario are skewed to the upside, especially in the near term. Under the adverse scenario, inflation in 2026 was forecast at 3.5% (0.9 pp higher than in the baseline scenario), assuming that the price of oil in Q2 climbs to almost USD 120 per barrel, and the price of gas to almost EUR 90 per MWh. Under the severe scenario, 4.4% inflation has been forecast for 2026 (1.8 pp higher than under the baseline scenario) assuming that oil and gas prices go up in Q2 to almost USD 150 per barrel and EUR 110 per MWh, respectively.

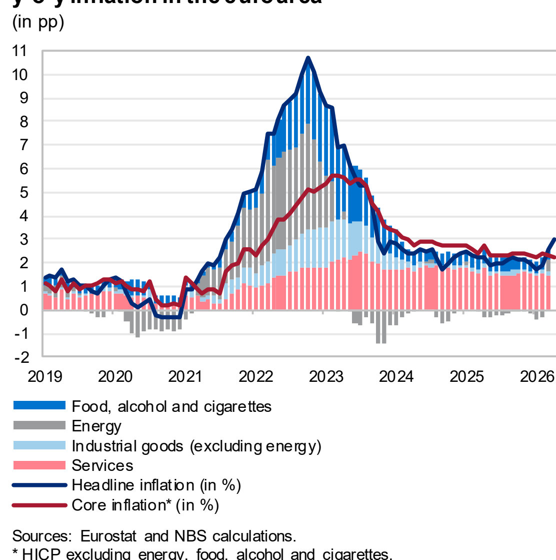
In all countries of Central and Southeast Europe (with a monetary framework similar to Serbia's), after slowing in January and February, **y-o-y inflation picked up in March**, dominantly driven by energy prices going up

Chart V.0.6 **Global inflation projections for 2026 and 2027**
(in %)



Source: IMF WEO (April 2026).

Chart V.0.7 **Contributions of HICP components to y-o-y inflation in the euro area**
(in pp)



Sources: Eurostat and NBS calculations.
* HICP excluding energy, food, alcohol and cigarettes.

[12] The HICP is compiled according to the new ECOICOP (version 2), which is aligned with the UN's 2018 COICOP.

after the outbreak of the Middle East conflict. The highest y-o-y inflation in March – 9.9% – was recorded in **Romania**, on account of a significant rise in fuel prices which also lead to higher y-o-y inflation in **Poland**, of 3.0% in March, though it remained within the target band. Relative to the beginning of the year, y-o-y inflation in the **Czech Republic** and **Hungary** also went up in March, to 1.9% and 1.8%, respectively. This was primarily due to the slower y-o-y fall in the prices of petroleum products, and in both countries March inflation remained below the December level as well as within the bounds of the target tolerance band. Also, the Hungarian government decided to cap petrol and diesel prices, trimming the excise taxes to the lowest levels in the EU and banning the export of oil and its derivatives.

In all **Western Balkan countries** y-o-y inflation trended down from the start of the year until March, when it turned up after the escalation of the Middle East conflict and the ensuing hike in petroleum product prices. The highest y-o-y inflation in March was recorded in **Bosnia and Herzegovina** (5.1%), followed by **North Macedonia** (4.9%) and **Montenegro** (3.1%), while the lowest level was recorded in **Albania** (2.6%).

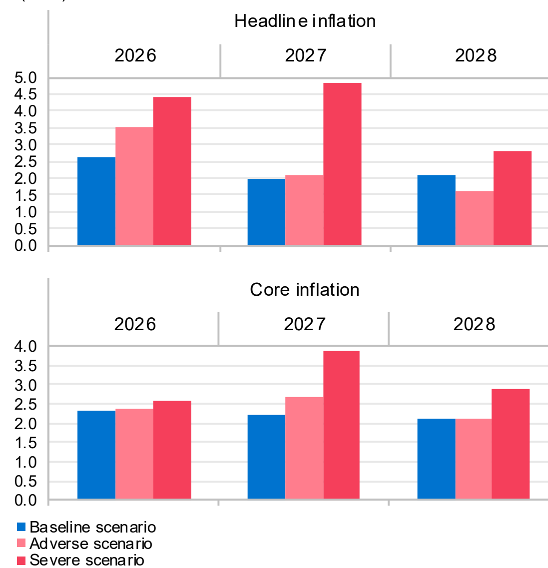
Measured by the change in the CPI, **headline inflation in the US** picked up to 3.3% y-o-y in March, its highest level since May 2024, dominantly as a consequence of the considerable increase in fuel prices after the US engaged in the conflict with Iran, and partly due to last year's low base for energy prices. In contrast, the prices of used and new vehicles posted a y-o-y fall in March, while the prices of housing and other services kept a similar y-o-y growth pace in March as in December, resulting in an unchanged level of core inflation – 2.6% y-o-y in March. Moreover, food inflation in the US in March further slowed its y-o-y growth. Taking into account the rise in energy prices, in March the **Fed** revised up its December projections for the growth of the personal consumption expenditures price index (total and excluding food and energy), to 2.7% in 2026, 2.2% in 2027, and 2.0% in 2028. Expectations that inflation would return to the 2% target in the medium term still stand, assuming that the consequences of the Middle East conflict and the previously introduced tariffs will dissipate by the end of the year, with risks to the March projection still skewed to the upside.

Monetary policy

The **ECB** kept the rates unchanged in the March and April meetings, underlining that monetary policy still depends solely on the incoming data. The deposit facility, main refinancing operations and lending facility rates have measured 2.00%, 2.15% and 2.40%, respectively, since June 2025.

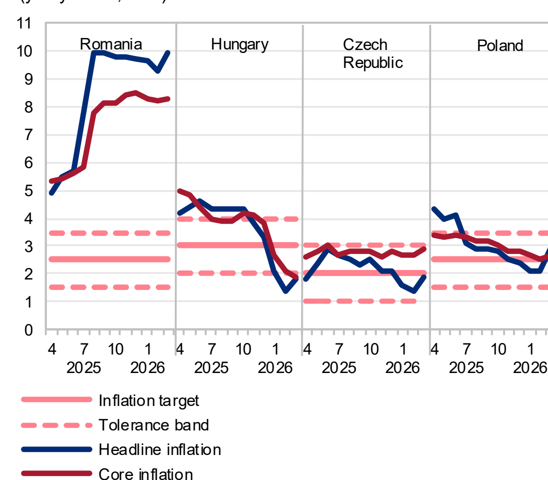
The main reason for the cautious stance of the ECB, as well as other central banks, was the sharp rise in uncertainty due to the escalation of the Middle East

Chart V.0.8 **Inflation projections in the euro area in three scenarios**
(in %)



Source: ECB (March 2026).

Chart V.0.9 **Y-o-y inflation in selected CESEE countries in the previous year (until March 2026)**
(y-o-y rates, in %)



Sources: Central banks of selected countries.

Table V.0.3 **Inflation projections across CESEE countries**
(in %)

	2026		2027	
	April projection	Departure from January	April projection	Departure from January
Poland	2.6	-0.3	2.8	-
Czech Republ	2.0	-0.2	2.4	-
Hungary	3.5	-0.4	3.7	-
Romania	6.5	0.2	3.4	-
Slovakia	3.5	0.2	2.7	-
Slovenia	2.2	0.0	2.1	-
Croatia	3.1	0.2	2.6	-
Bulgaria	3.5	0.3	3.0	-

Source: Consensus Economics (April and January 2026).

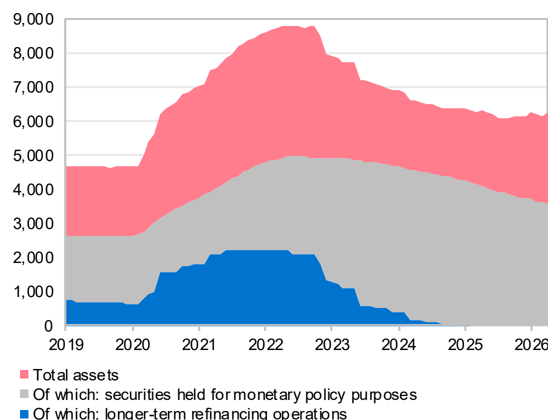
conflict at end-February, which caused a spike in energy prices and **fundamentally changed the outlook for economic developments**. Short-term inflation risks increased, while at the same time economic growth was jeopardized by more expensive energy and a decline in real income. Accordingly, the ECB adjusted its projections in March, mainly in the short term. The energy shock had a significant impact on short-term inflation expectations in the euro area, while long-term inflation expectations remained relatively stable, reflecting confidence in the ECB's monetary policy. The future path of the ECB's interest rates will critically depend on whether inflationary pressures from the energy sector remain temporary or spill over into the broader economy through wages and services prices.

Although the US economy is less exposed to the energy shock, the **Fed's monetary policy** is also markedly cautious, with emphasized dependence on current data. In the March and April meetings, the Fed kept the federal funds rate range unchanged (3.50–3.75%) in the complex macroeconomic environment where inflation is trending above the target, with the concurrent signals of weakening in the labour market and increased geopolitical risks. The Fed's latest projections from March indicate a somewhat faster economic growth, as well as higher inflation rates compared to the December projections. As for the federal funds rate range, FOMC members' median from March stood at 3.4% for end-2026 and 3.1% for end-2027, unchanged from December.

The Fed stated that last year, the federal funds rate was lowered by 0.75 pp in the period from September to December, thus coming closer to the estimated neutral level. This monetary policy normalisation was intended to help stabilise the labour market, while further reducing inflation toward the 2% target. However, the impact of the developments in the Middle East on the US economy remains uncertain. In the short term, higher energy prices will increase headline inflation, but it is too early to assess the magnitude and duration of these effects. The Fed continues to monitor risks in terms of both aspects of its mandate – achieving maximum employment and price stability.

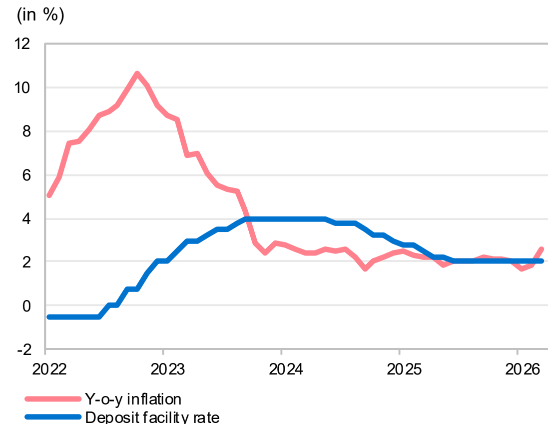
After the reductions in policy rates by the central banks of Poland and Hungary, which were implemented based on economic data prior to the outbreak of the Middle East conflict, a period of more cautious monetary policy ensued among all central banks in the region pursuing an inflation targeting regime. After a pause in the first two months of this year, the central bank of Poland again cut its policy rate in March, by 25 bp to 3.75%. In April, the rate remained unchanged due to a sharp rise in fuel prices and the low probability of inflation returning to the target before the end of next year. As previously signalled, the central bank of Hungary cut its policy rate in February, but left it unchanged in March and April, because the disruption in the global energy market has changed expectations regarding inflation in the coming period. In

Chart V.0.10 **Consolidated Eurosystem balance sheet**
(end-of-month, in EUR bn)



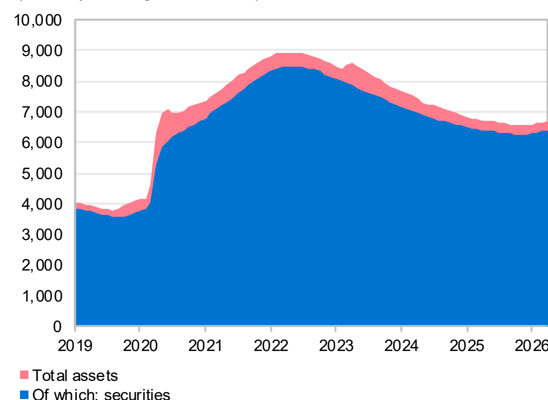
Source: ECB.

Chart V.0.11 **Deposit facility rate and inflation in the euro area**
(in %)



Sources: ECB and Eurostat.

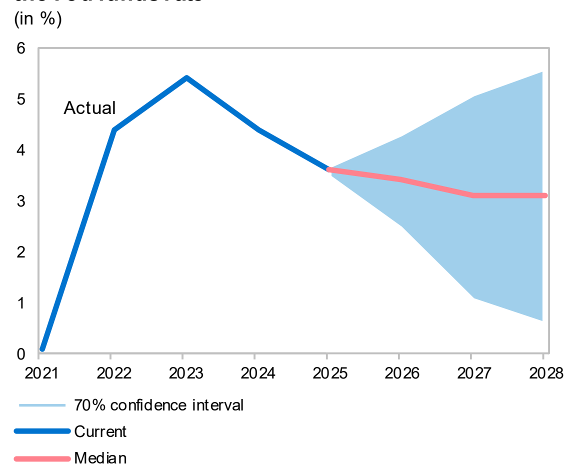
Chart V.0.12 **Fed's total assets**
(monthly average, in USD bn)



Source: Fed.

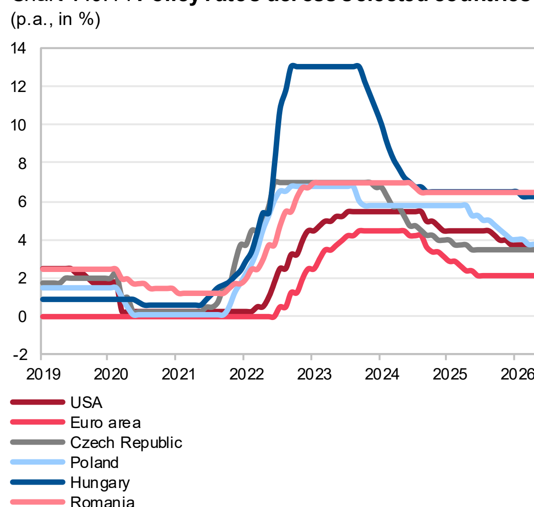
line with expectations, the central banks of the Czech Republic and Romania kept their policy rates unchanged. In the Czech Republic, the rate has been at 3.50% since last May, amid reduced headline and core inflation. Central bank officials stressed that uncertain inflation forecasts under the new circumstances require openness to different monetary policy options. Amid relatively high inflation, the central bank of Romania kept its policy rate unchanged at 6.50%, where it has stood since August 2024.

Chart V.0.13 **Uncertainty and risks to the projection of the Fed funds rate**
(in %)



Source: Fed, Summary of Economic Projections (March 2026).

Chart V.0.14 **Policy rates across selected countries**
(p.a., in %)

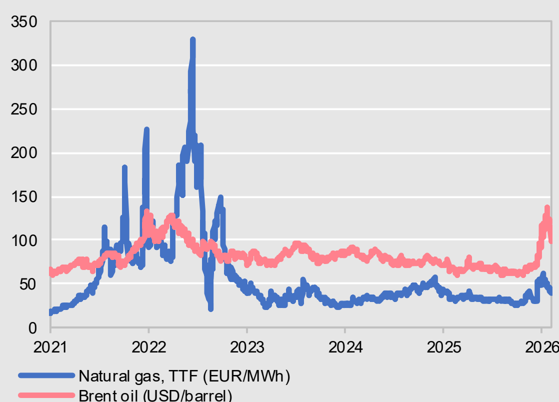


Sources: Central banks of selected countries.

Text box 4: Energy shock – implications, comparison with 2022 and optimal central bank response

Historically, movements in the world prices of energy, notably oil, indicate that their sharp increase was mostly associated with periods of tightening in geopolitical tensions and flare-up of war conflicts.[1] Experience from previous crises shows that after the initial shock, global oil prices mostly bounced back to pre-crisis levels relatively quickly, except in cases of prolonged production caps, when they stabilised at an elevated level for longer periods of time. With the outbreak of the latest conflict in the Middle East, a question arises as to **whether the elevated level of energy prices will be short-lived or more permanent, that is, how long will the caps on the supply side be present, in which scope and how much time will it be needed to normalise energy production and transport once the conflict is ended**. The strength of the effects on global economy and inflation will depend on this.

Chart O.4.1 **Energy price movements**



Source: Refinitiv.

Energy crises are one of the key sources of macroeconomic instability across the globe. The question also arises as to the **similarities and differences in relation to the energy crisis of 2022**, given the most recent experiences, and especially the effects that can be expected on the European economy, which was affected the most during the 2022 crisis.

The 2022 crisis was caused by the outbreak of the armed conflicts in Ukraine and was a sudden and intensive supply-side shock, especially in Europe, given that it relies heavily on Russian gas and that the supply was cut off abruptly, with no possibilities for replacement from other sources. The situation was further aggravated by problems in electricity production from hydro and nuclear sources due to the overhaul of the largest nuclear power plant in France. The consequence of the crisis was inflation growth in Europe – a classic example of a shock, i.e. a contraction in aggregate supply, with strong inflationary pressure on almost all prices. In 2026, global energy prices also rose under the impact of heightened geopolitical tensions (especially once the war in the Middle East broke out), but are still lower than in 2022 – global oil and gas prices remain below the maximum levels recorded during the Ukraine conflict. Thus, the global price of oil in 2022 reached the peak of USD 123 per barrel. Adjusted for inflation, this would be equivalent to today's level of around USD 140 per barrel.

A common trait of both energy crises is that they were caused by geopolitical conflicts, but the market structure and macroeconomic environment in which they came about differ significantly. Namely, unlike in 2022, when the biggest problem was the sudden supply contraction, **the crisis from 2026 is characterised largely by pronounced market uncertainty and volatility** given the potential implications of a further escalation of the Middle East conflict for global transport routes (around 25% and 20% of world seaborne oil and LNG trade passes through the Strait of Hormuz).

Even so, **Europe faced this crisis better prepared than when the previous one broke out**. In the aftermath of 2022, there was accelerated diversification of energy sources and energy transition. This improved the resilience of Europe's energy system to external shocks, though the dependence on fossil fuels, especially in the transport industry, still remains.

There is also a difference in the condition of the global economy, i.e. the current phase of the economic cycle. During 2022, the world was in a state of 'overheating,' labour markets were tight, inflation expectations elevated, and the inflationary cycle itself began in the second half of 2021, before the start of the conflict. All of this contributed to a faster pass-through of rising energy costs to inflation. On the other hand, **in 2026, labour markets are relatively softer, while inflation expectations are lower**. In such conditions, the price pass-through should be weaker, and thus the impact of the energy shock more limited.

The **initial monetary policy positions** should also be noted. During the previous crisis, interest rates were near or below zero, while real interest rates were deep in the negative territory. In such circumstances, central banks were compelled to resort to aggressive monetary policy tightening. The situation is quite different at the moment, given that interest rates are at a neutral or restrictive level, meaning that there is no need for a sharp turn in monetary policy. If the conflict in the Middle East had not escalated, most central banks would still be contemplating a further reduction in interest rates because the shock hit the majority of economies in conditions of lower inflation and sluggish economic recovery.

[1] The Arab-Israeli War of 1973, the Iranian Revolution of 1979, the Iran-Iraq War of 1980–1988, the Gulf War of 1990, the Libyan Civil War of 2011, and the war in Ukraine of 2022.

However, an abrupt increase in uncertainty over the escalation of the Middle East conflict at end-February triggered global energy market volatility and a sharp rise in energy prices, which essentially **changed the perspective of economic movements and triggered a re-examination of the trajectories of central bank interest rates**. On the one hand, short-term inflation risks spiked, while at the same time the adverse effect on economic growth increased, especially for European and Asian economies due to more expensive energy sources and a contraction in real income. In such circumstances, relevant international institutions, as well as central banks, emphasize that the ongoing energy shock should not be underestimated.

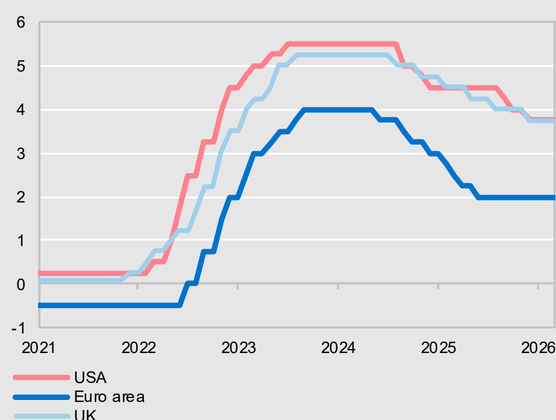
The IMF[2] underlined that **a global energy shock could impact economies through three channels**. The first is the **direct hike in the prices of raw materials**, which is a textbook negative supply shock. It raises the costs of all energy-intensive goods and services – including mineral fertilisers, chemicals, food, transport and heating – and disrupts supply chains, feeding into headline inflation and reducing the purchasing power. This direct shock could be amplified by second-round **effects** if workers strive to offset the anticipated losses through higher wages and firms through higher prices of their products and services. The risk of such wage-price spirals is higher in countries where inflation expectations are poorly anchored, requiring a more forceful monetary policy tightening, at greater cost to the economy. **The third channel is the financial markets' reaction**, as a classic risk-off episode could occur due to macroeconomic instability. This would negatively affect asset valuations, increase the risk premium, trigger capital outflows and a strengthening of the dollar due to a flight to a safe-haven reserve currency, and reduce aggregate demand.

The majority of central banks, including the NBS, took a cautious stance and kept their interest rates on hold. It is a matter of reduced supply, not an increase in demand, which from the central banks' perspective would be easier to address. There is also a concern that data could soon indicate a risk of stagflation, i.e. a combination of sharp price increases and stagnating economic growth, as in the 1970s, primarily in Europe. Besides, the 2022 energy shock episode left scars in the form of heightened sensitivity of inflation expectations to energy price movements, because it is still fresh in people's minds.

For central banks, this means **re-examining existing macroeconomic projections**, which form the basis for monetary policy decisions, because in the new circumstances, inflation – due to more expensive oil and transportation costs – is likely at a higher level, while economic growth is lower due to the weakening external demand and falling investment confidence. To better view the impact of large oscillations in the global price of crude oil, including gas and fertiliser prices, the monetary authorities now **rely more on short-term indicators and alternative projection scenarios** in their policy-making and communication with the public. Thus, in March, the **ECB** revised its inflation and economic activity projections, mostly near-term ones, and complimented the baseline scenario (with the maximum oil price of USD 90 per barrel in Q2 2026) with two downside alternative scenarios. The energy shock had a major impact on short-term inflation expectations in the euro area, while long-term inflation expectations remained relatively stable, reflecting confidence in the ECB's monetary policy. In line with the best world practice, the **NBS** has been drafting alternative projection scenarios for quite some time now, and has done so within the May projection as well, assuming different degrees of the gravity of the impact of the Middle East conflict on Serbia's inflation and GDP.[3]

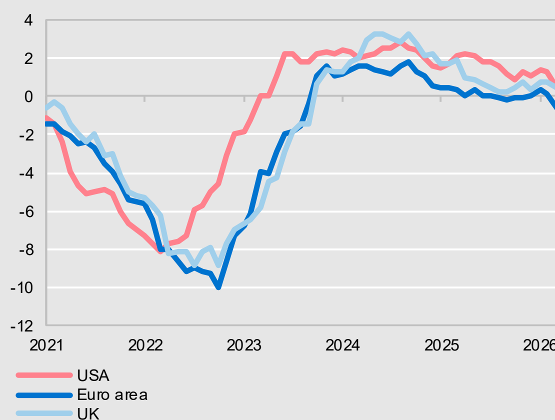
How should monetary policy makers react in such conditions? The theoretical framework and practice of the majority of central banks imply that there should be no reaction to hikes in energy prices; rather, that **the "wait and see" approach should be taken for as long as inflation expectations remained anchored**. The key focus becomes assessing whether the initial

Chart O.4.2 **Policy rate movements**
(in %)



Sources: central banks of selected countries.

Chart O.4.3 **Real interest rate movements**
(in %, policy rate minus CPI inflation)



Sources: central banks of selected countries and NBS calculations.

[2] IMF, World Economic Outlook, April 2026.
[3] See Text box 5, p. 68.

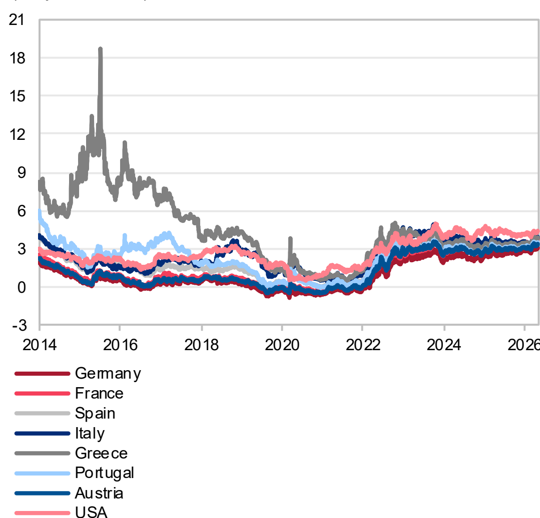
energy shock remains temporary or has second-round effects, i.e. whether it spills over onto other prices through inflation expectations. It is the risk of second-round effects that becomes the central determinant in central banks' decisions on interest rates. Simultaneously, deciding to tighten monetary policy is complex as it increases the risk of a slowdown in conditions when energy price hike is already having a restrictive effect on economic growth. Still, **when inflation expectations start to rise more markedly, this is usually a signal that central banks need to respond by raising interest rates** in order to bring expectations back to the inflation target.

Economic policy makers in Serbia are implementing coordinated measures to preserve price stability and mitigate the negative effects of external shocks. The **government** immediately undertook measures aimed at curbing the rise in petroleum product prices on the domestic market – by banning the export of petroleum products and reducing excise duties on fuel, which should also limit secondary spillover effects onto other prices, thereby preventing a more significant rise in inflationary pressures. The **NBS** continued to pursue a cautious monetary policy, maintaining the relative stability of the exchange rate and **emphasizing in public communication that, if it assesses that the rise in global oil prices is causing more pronounced second-round effects on other prices through inflation expectations, it will respond with all available instruments**. So far, such effects have not been detected, as inflation expectations remain relatively stable.

Financial and commodity markets

At end-Q1 2026, **yields on ten-year government bonds of advanced European countries and the US** were higher than at end-2025. For advanced European countries, yield growth measured 26 bp on average in the stated period, while for US treasuries it equalled 15 bp. However, for most of the quarter – in January and February, yields mostly contracted. In the case of ten-year US Treasuries, this was conditioned by inflation data being more favourable than anticipated, which in turn raised market expectations about the continuation of Fed's monetary policy accommodation. The yields also declined due to increased demand for safe assets. Yields on ten-year government bonds of advanced European countries followed these movements with a decline, amid market expectations that the ECB's key interest rates would remain unchanged due to inflation trending below target. However, these movements were reversed after the outbreak of the war between the US and Iran at end-February. Until the end of the quarter, yields recorded growth in view of elevated uncertainty and altered circumstances for the Fed and ECB's further decision-making on interest rates. Market participants no longer expect a reduction of the Fed and ECB's interest rates in the short-term. As for the ECB, they are more inclined to anticipate monetary tightening in the event of stepped-up inflationary pressures driven by the rising prices of energy. Therefore, a more pronounced yield growth in the euro area was recorded amid a sharper revision of inflation expectations and the altered expected path of the ECB's monetary policy.

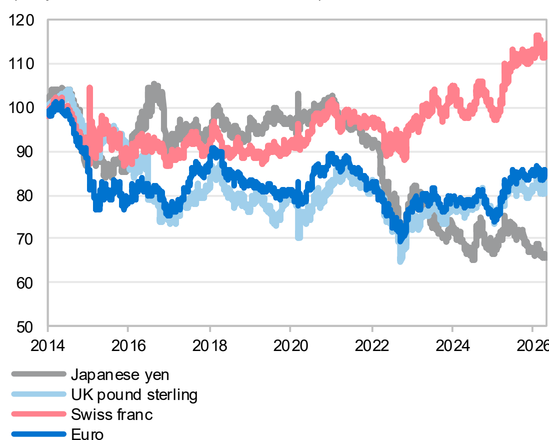
Chart V.0.15 **Yields on ten-year bonds of euro area countries and the USA**
(daily data, in %)



Source: Bloomberg.

Similarly to the reversal recorded in the market of government bonds, a turnaround was also recorded in **movements of leading world currencies**. In January and February, the euro gained on the dollar, touching the highest levels in four years owing to expectations that the Fed would ease its monetary policy more than the ECB, along with positive expectations regarding the euro area's economic prospects. However, a reversal at end-February left the euro significantly weakened amid market concerns about a bigger impact of energy price hike on inflation and economic activity in the euro area bearing in mind how much these economies depend on energy import. Therefore, at end-Q1 the euro weakened against the dollar compared to end-2025.

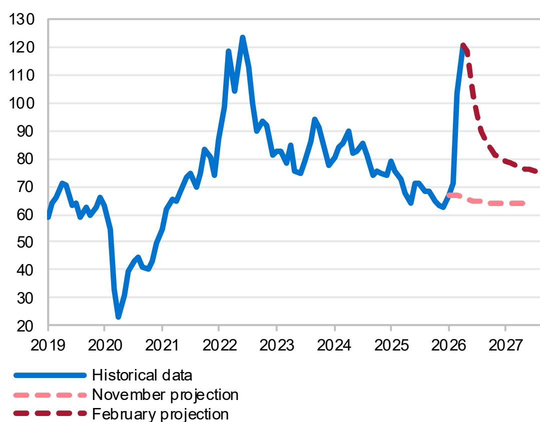
Chart V.0.16 **Exchange rates of selected national currencies against the dollar***
(daily data, 31 December 2013 = 100)



Source: IMF.
* Growth indicates appreciation.

Under the impact of stepped-up demand for safe assets amid geopolitical tensions, as well as stepped-up purchases by central banks, **the global price of gold** continued on the upward path in early 2026, exceeding USD 5,400 per fine ounce at end-January, its highest level on record. Even so, in the wake of the escalation of the Middle East conflict, the price of gold dropped under the impact of a stronger US dollar, rising yields on US treasuries, expectations that leading central banks would not lower their interest rates any time soon, as well as investors' elevated liquidity needs. Looking at quarterly averages, the price of gold in Q1 2026 equalled around

Chart V.0.17 **Assumption for Brent oil prices**
(USD/barrel)



Source: Bloomberg.

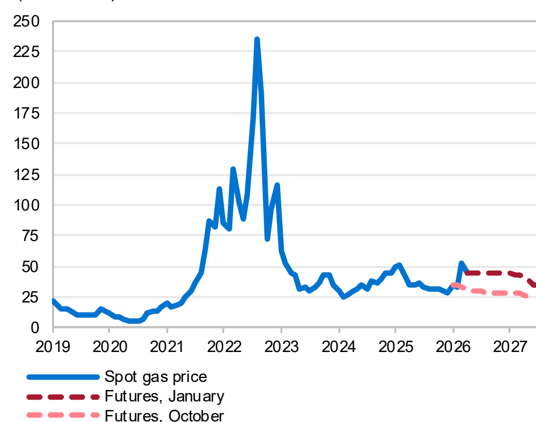
USD 4,880 per fine ounce (as much as 70.6% higher than in the same period a year ago), while in April it contracted, averaging around USD 4,725 per fine ounce.

After posting moderate growth in January and February, the rise in **global oil prices** was much more pronounced in March due to the outbreak of a direct conflict between the US and Israel against Iran. The closure of the Strait of Hormuz, through which about a fifth of global oil supply passes, as well as attacks on energy infrastructure in countries of that region and the resulting reduction in production, was reflected as a strong increase in oil prices, which at end-March exceeded USD 120 per barrel – its highest level since July 2022. This is a 73% rise compared to the period before the conflict. In April, oil prices posted volatile movements, depending on the developments in the Middle East. The relevant institutions estimate that the price of oil will move downward in the coming period, assuming that geopolitical tensions deescalate and the global oil supply gradually normalises. The Consensus Economics expects the oil price to descend to around USD 82 per barrel by end-2026, and then to around USD 74 per barrel by end-2027. According to our projection, which is based on market futures, the global oil price will average around USD 80 per barrel at end-2026 and then retreat to around USD 74 per barrel by end-2027.

The benchmark price of natural gas for Europe (Dutch TTF hub) trended up at the onset of the year, as is usual for the season, amid rising demand due to colder weather. Also, increased uncertainty and disruptions in energy supply resulted in robust gas price growth in March, when the price averaged around EUR 53 per MWh, 33.2% higher than in the corresponding period last year, though still lower than the record high levels from 2022. In April, the natural gas price edged down moderately to around EUR 45 per MWh. According to market futures, it is expected to hover around that level until the end of the year, with futures still being around 52% higher than the January level. The Consensus Economics expects a mild increase in the price of natural gas, to around EUR 49 per MWh at end-2026, after which it should retreat to around EUR 36 per MWh by end-2027.

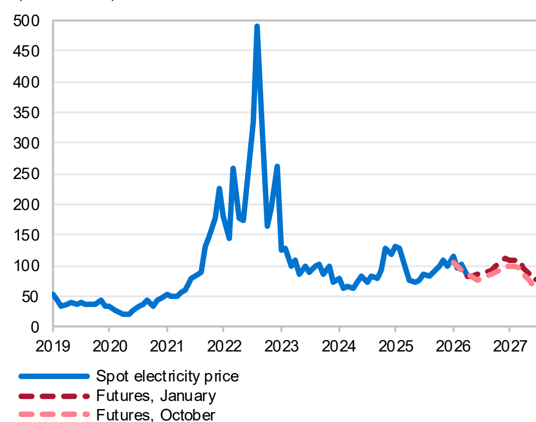
The benchmark price of electricity for Europe (German stock exchange) recorded volatile movements during Q1, averaging around EUR 106 per MWh, which is 12.5% lower than in the same period a year ago. The power price in Q1 went up on the back of increased demand due to colder weather at the star of the year and higher prices of alternative energy sources, while favourable weather conditions and increased output from renewable sources worked in the opposite direction. Electricity prices on the Hungarian exchange exhibited a similar dynamic, but at a higher level, therefore in Q1 they averaged around EUR 128 per MWh. In April, electricity prices on the German and Hungarian stock exchanges decreased to about EUR 82 per MWh and

Chart V.0.18 **European price of natural gas**
(EUR/MWh)



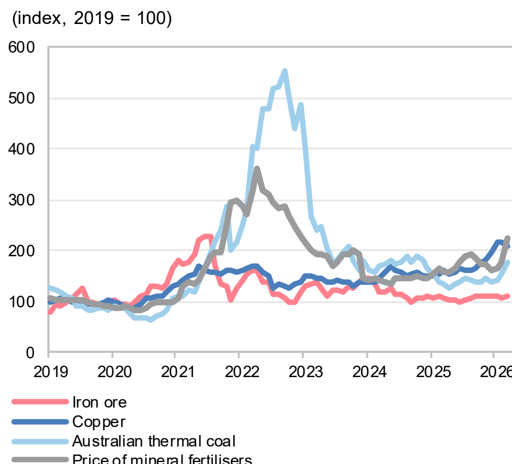
Source: Refinitiv.

Chart V.0.19 **European price of electricity**
(EUR/MWh)



Source: Refinitiv.

Chart V.0.20 **Selected commodity prices in the global market**
(index, 2019 = 100)



Source: Commodity Prices, World Bank.

EUR 98 per MWh, respectively. According to market futures, the price of electricity on the German stock exchange will move at a similar level in the coming period, with certain seasonal fluctuations.

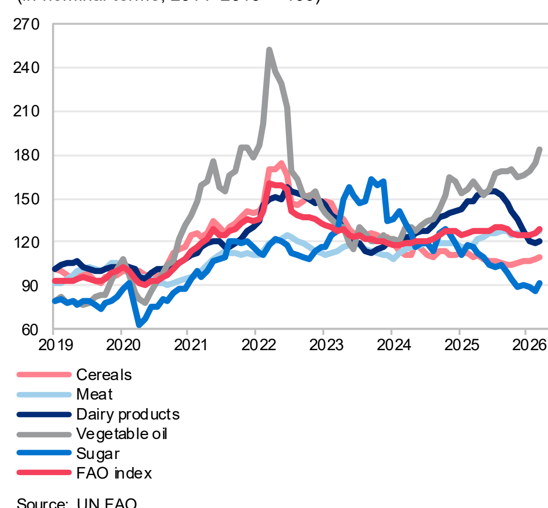
The **global price of thermal coal** followed an upward trajectory in Q1, driven predominantly by increased demand from Asian countries due to reduced availability of other energy sources following the closure of the Strait of Hormuz. In March, the price of Australian thermal coal averaged around USD 140 per tonne, which is 33.3% more than in the same period a year ago and its highest level since November 2024. The Consensus Economics expects a decline in the coal price going forward, to around USD 135 per tonne at end-2026, and then to around USD 124 per tonne at end-2027.

Under the influence of higher gas prices, **mineral fertiliser prices** increased sharply in Q1 2026. The price of urea rose the most, averaging around USD 725 per tonne in March, which is over 50% higher compared to the onset of the Middle East conflict, while in y-o-y terms it was 83.9% higher. In the coming period, high mineral fertiliser prices may be reflected in rising prices of primary agricultural commodities, especially considering that their increase was recorded just before the planting season in the northern hemisphere.

Having risen at the start of the year, **the prices of most metals and minerals** recorded diverging movements after the onset of the Middle East conflict. While the price of aluminium rose to around USD 3,370 per tonne in March amid supply disruptions (10.0% monthly growth), the price of copper decreased to around USD 12,530 per tonne (3.3% monthly growth) due to market participants' concern over the global economic growth outlook. The Consensus Economics expects a mild fall in metal prices going forward, though the index of all basic metals[13] will still be 8.0% higher at end-2026 compared to end-2025, whereas at the end of 2027 it will be 2.2% lower than at the end of 2026.

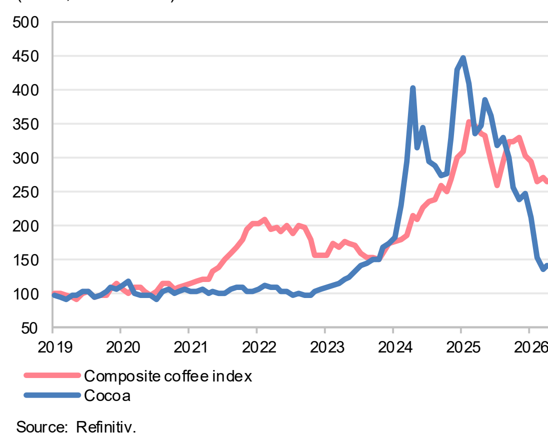
After a period of relative stability in January and February, **the global food prices, measured by the FAO index**, increased moderately in March, and were 3.2% higher than in December 2025, while in y-o-y terms they rose 1.0%. The prices of plant oils rose the most, followed by the prices of cereals, meat and sugar. In contrast, the prices of dairy products were 5.7% lower in March than in December. Having contracted at the start of the year, the **global price of coffee** rose moderately in March, only to turn down again in April, measuring 20.6% lower than in the same period a year ago. **The global price of cocoa** moved down until end-Q1, but then rose in April, to around USD 3,410 per tonne. Even

Chart V.0.21 **World Food Price Index**
(in nominal terms, 2014–2016 = 100)



Source: UN FAO.

Chart V.0.22 **Coffee and cocoa prices in the global market**
(index, 2019 = 100)



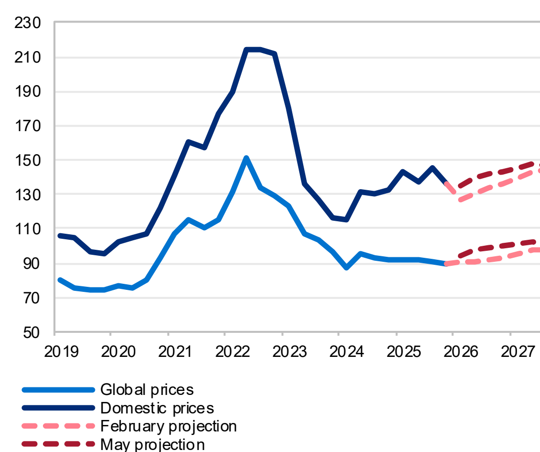
Source: Refinitiv.

[13] This index has been calculated by The Economist, and the shares of individual metals reflect their respective shares in world metal trade: iron ore (49.3%), copper (21.7%), aluminium (14.8%), silver (6.4%), zinc (3.4%), nickel (2.9%), and lead (1.5%).

so it was 59.1% lower than at in the corresponding period last year.

Global prices of primary agricultural commodities (wheat, corn and soybean) trended up in Q1, dominantly under the impact of rising geopolitical uncertainty, as well as higher energy and mineral fertiliser prices, while in April they were mostly unchanged. According to our projection, based on market futures, the prices of primary agricultural commodities will trend upward in the coming period, therefore at end-2026 they should be 10.5% higher than at end-2025, and then climb by 1.6% during 2027.

Chart V.0.23 **Assumption for prices of primary agricultural commodities***
(Q4 2013 = 100)



Sources: Novi Sad Commodity Exchange, CBOT, Euronext and NBS calculations.
* Measured by the composite index of wheat, corn and soybean prices.

Internal assumptions

Like in our previous projection, we have assumed that this year's **domestic agricultural season** will be better than the preceding two below-average seasons. The production and supply of fruit and vegetables will be important for inflation, and cereal yields – for GDP. Climate factors will remain a challenge going forward, particularly given the increasing frequency in recent years of frosts during the fruit blossoming period, as well as extremely high summer temperatures and drought conditions. Weather conditions to date support our assumption of a more favourable agricultural season, as the moisture deficit has been lower than in the previous two years. Nevertheless, for reasons of caution, we have assumed that this year's season will be at the level of the multi-year average, which takes into account the preceding two below-average seasons.

After reaching 7.0% in 2025, we assume that **administered price growth** will slow to 5.7% this year, which is slightly lower than in our previous projection (5.9%), reflecting somewhat weaker-than-expected increases in administered prices at the beginning of the year. As in the previous projection, we expect administered price dynamics this year to be driven primarily by increases in the prices of utilities, electricity and cigarettes. In the following two years, we expect administered price growth to slow further to around 5.0%.

As for the factors influencing **domestic consumption**, we expect **wages** to remain a key source of consumer demand. Wage growth has been largely supported by the increase in the minimum labour cost by 9.4% in October last year and by 10% in January this year. However, we expect labour market pressures to ease over the projection horizon, with real wage growth slackening and becoming more aligned with productivity gains. Specifically, we assume that average real wage growth in the private sector, after measuring 7% last year, will slow to around 5.5% this year and further to 4.5% next year.

Consumer demand will also be supported by rising **pensions**, whose share in GDP is expected to remain within the 10–10.6% range, as well as by **remittances**,

which we project at over EUR 5 bn in both this and next year. The rise in income disposable for consumption will also be underpinned by the expected continued **growth in household lending**, reflecting more favourable borrowing conditions and eased credit standards.

As in the previous projection, we assume that NIS will continue to operate and supply the market with petroleum products without major disruptions to production processes. This assumption is based on ongoing negotiations with the Hungarian energy company MOL regarding the acquisition of the Russian stake in NIS. The US Office of Foreign Assets Control (OFAC) has extended the deadline for completing this transaction until 22 May this year, while the operating licence has been extended until mid-June.

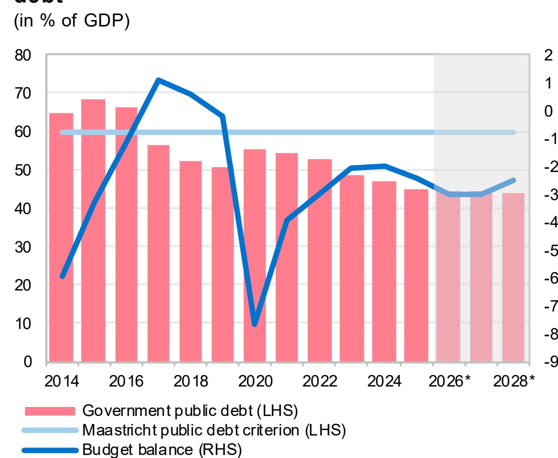
The production of base metals may face challenges in the coming period **due to the agreement reached in the EU on tightening conditions for steel imports** from non-EU countries. The new measures are expected to enter into force on 1 July this year, upon the expiry of the current safeguard mechanism, which already limits imports through quotas and tariffs on volumes exceeding those quotas. Under the new regulatory framework, the annual quota for tariff-free steel imports into the EU will be reduced by 47% compared to the current level, while imports outside the quota will be subject to a 50% tariff, twice as high as under the existing regime. At the same time, the EU will strengthen control mechanisms for monitoring the origin of steel throughout the production chain. These measures aim to protect the European industry from the effects of global overcapacity in the steel sector.

The Carbon Border Adjustment Mechanism (CBAM) entered into force at the beginning of this year, and its application could increase production and export costs in certain industrial sectors covered by the regulation (iron and steel, aluminium, cement, fertilisers, hydrogen and electricity). These industrial products accounted for 11.3% of total goods exports to the EU in 2025, with the largest share held by iron and steel (around 5%), followed by electricity and aluminium (around 3% each). As a result, price competitiveness in these sectors could decline to some extent as of next year, although electricity production has already been adjusting to the introduction of this levy, which is why no electricity exports to the EU have been recorded since the beginning of the year. In response to CBAM introduction, Serbia adopted the Law on the Greenhouse Gas Emissions Tax, which stipulates the taxing of carbon dioxide emissions in the above sectors, thereby creating conditions for reducing domestic producers' costs through lower tariffs and mitigating the negative effects on exports. In addition, revenues collected under this tax will remain in Serbia's budget, providing additional support to domestic demand.

In Q1 2026, the government fiscal deficit amounted to RSD 112.9 bn (c. 4.5% of projected GDP), up by around RSD 84 bn y-o-y. The increase largely reflects higher capital expenditure. The primary government deficit amounted to RSD 66.1 bn.

Public revenue in Q1 2026 increased by 10.6% in real y-o-y terms, driven by higher personal income tax amid continued real wage growth, supported by increases in public sector wages and the minimum wage. A somewhat smaller contribution came from VAT and corporate income tax revenue. **Public expenditure** recorded a significant real increase of 18.8%, mainly due to higher capital outlays (by around RSD 63 bn), intended for equipment procurement in the security sector and investments under the "Leap into the Future – Serbia Expo 2027" programme. Public expenditure growth also reflected the increases in public sector wages and pensions, as well as the expansion of wage expenditure coverage in the government sector.[14] Also contributing to the growth in public expenditure, to a somewhat lesser extent and with an equal effect, were expenditures on the purchase of goods and services and subsidies. In Q2, the reduction in excise duties on petroleum products will have a dampening effect on public revenue, though this need not result in a higher deficit, projected at around 3% of GDP this year. This reflects our assessment that revenues have been projected on a relatively conservative basis, as well as the possibility of savings on certain expenditure categories, primarily goods and services, although the effect will depend on the intensity and duration of the energy crisis. According to the Revised Fiscal Strategy and the Budget for 2026, fiscal policy is expected to be moderately expansionary, with a planned deficit of around 3% of GDP in both 2026 and 2027, after which it will gradually converge towards the fiscal rule to be applied as of 2029. Capital expenditure is projected to remain relatively high, at around 6–7% of GDP annually, propped up by the implementation of investment projects under the "Leap into the Future – Serbia Expo 2027" programme.

Chart V.0.24 **Budget balance and government public debt**
(in % of GDP)



Source: Ministry of Finance.

** Projection from the Revised Fiscal Strategy for 2026 with Projections for 2027 and 2028.

The share of general government public debt in GDP stood at 42.0% in March 2026, down by 2.7 pp from end-2025. In addition to projected nominal GDP growth, this decline was supported by a reduction in the debt stock, reflecting higher maturities of government securities compared to new issuances in the domestic market. At the end of April, eurobonds with different maturities were issued in the international financial market in a total amount of EUR 3 bn, securing financing not only for this year but also enabling the early repayment of part of the eurobond debt maturing in 2027.

Provided the energy crisis does not intensify significantly, we do not expect the fiscal deficit this year

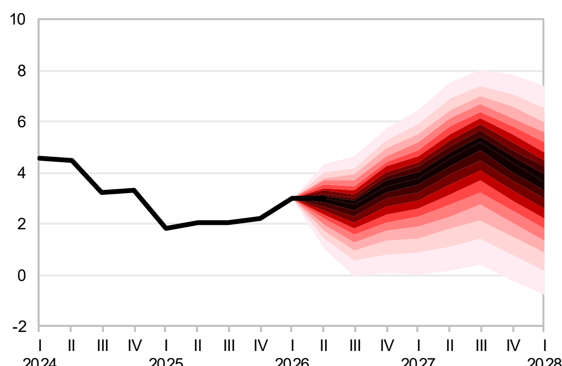
[14] As of 1 January 2026, the revenues and expenditures of higher and tertiary education institutions have been included in the general government budget, which has raised the ceiling on wage expenditure in the general government budget to 10.6% of GDP.

to exceed the planned level, nor a more pronounced increase in the public debt-to-GDP ratio.

GDP projection

Due to the further escalation of geopolitical tensions following the outbreak of the Middle East conflict, our projection of real GDP growth for this year has been revised down from 3.5% to 3.0%. At the same time, reflecting the impact of prolonged global uncertainty on investment confidence since last year, we have revised the growth projection for 2027 from 5.0% to 4.5%, while in the medium term we expect the economy to expand at a stable pace, broadly in line with its potential of around 3.5% p.a.

Chart V.0.25 **GDP growth projection**
(y-o-y rates, in %)

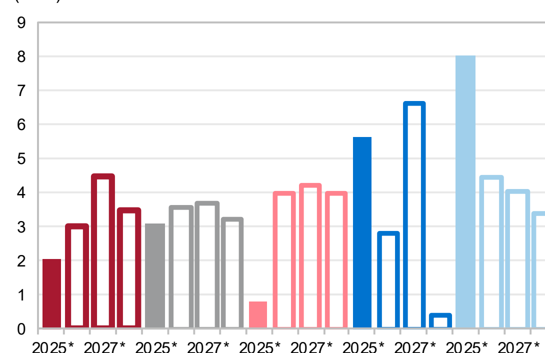


Source: NBS.

Domestic demand will remain the key driver of economic growth in the period ahead. Within it, the strongest positive contribution is expected from household consumption, alongside a positive contribution from government consumption. A higher contribution to GDP growth than in the previous year is also expected from gross fixed investment, supported by the implementation of infrastructure projects planned under the “Leap into the Future – Serbia Expo 2027” programme. In the current year, we expect real imports to grow faster than exports, reflecting higher personal consumption and increased corporate demand for imported inputs, as well as still subdued external demand, which will result in a negative contribution of **net exports** to GDP growth. By contrast, in 2027 we expect a positive contribution from net exports, primarily driven by accelerated export growth, especially in tourism and business services, supported by the hosting of the Expo.

Observed by individual component, under the May projection, **private consumption**, which accounts for the largest share of GDP, is expected to be the main driver of economic growth. Its contribution is projected at 2.6 pp in both 2026 and 2027, and 2.2 pp in 2028. Compared to the previous projection, this contribution has been revised slightly down. Personal consumption growth will continue to be supported by rising disposable income, primarily due to growth in its key sources – wages, pensions, remittances and loans intended for consumption – though to a somewhat lesser extent than in earlier projections, reflecting the increase in global inflationary pressures amid a significant rise in energy prices.

Chart V.0.26 **Real growth in GDP and its components, expenditure side**
(in %)



Sources: SORS and NBS.
* NBS estimate and projections.

Government consumption will continue to make a positive contribution to GDP growth, amounting to around 0.4 pp in the current year and the following two years under the May projection. Compared to the previous projection, this represents a marginal revision – down by 0.1 pp in 2026 and up by 0.1 pp in 2027. The projection of government consumption growth takes into account planned wage expenditures and higher outlays for goods and services, primarily related to the implementation of the “Expo 2027” programme, while

assuming that the reduction in excise duties on petroleum products this year will likely result in somewhat lower spending on goods and services than anticipated by the previous projection.

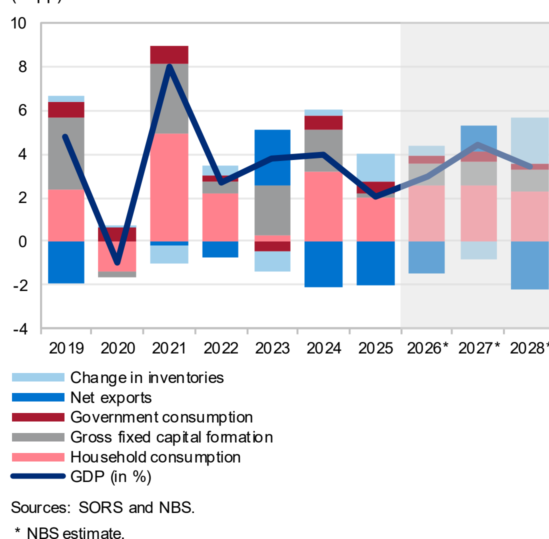
The May projection assumes a gradual recovery in investment activity in the current and the next year. Following the slowdown recorded last year due to both external and internal factors, **private investment** is expected to grow by around 4.2% in 2026 (contributing 0.7 pp to GDP growth) and somewhat more strongly in 2027 (0.8 pp contribution), also supported by the continued implementation of planned infrastructure projects. Similar growth in private investment is expected in 2028. Nevertheless, the projected pace of investment growth is lower compared to the previous projection, which envisaged contributions of 1.0 pp in 2026 and 1.3 pp in 2027, primarily reflecting more cautious assumptions regarding the external environment amid heightened uncertainty and geopolitical tensions. Further growth in private investment, even under such conditions, will be supported by the preserved relatively high profitability of the corporate sector in earlier years, the expected continuation of FDI inflows, and still relatively favourable financing conditions, owing to past monetary policy easing by the NBS and the ECB, as well as the anticipated continued growth in lending.

Our new GDP projection also assumes a similar positive contribution of **government investment** to economic growth (0.3 pp in the current year and the following two years). The projection takes into account planned government capital expenditure as set out in the Revised Fiscal Strategy for 2026 with Projections for 2027 and 2028, as well as the expected implementation of Expo-related infrastructure projects.

The May projection assumes an increase in **inventories** during 2026, reflecting still subdued external demand and the need to ensure energy security until the completion of acquisition of majority ownership in NIS. In 2027, inventories are expected to decline in line with the gradual recovery in external demand and reduced uncertainty, while in 2028 a renewed increase is projected.

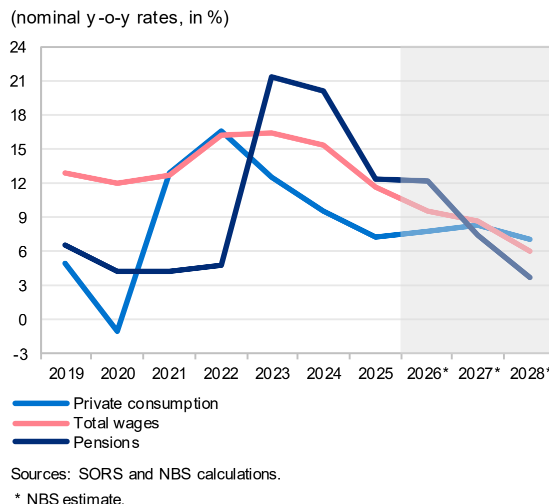
The new projection assumes continued growth in **exports of goods and services** in 2026, albeit at a more moderate pace than in the February projection, reflecting heightened global uncertainty, including geopolitical tensions and the Middle East conflict, which may affect economic growth in our main trading partners, energy prices and international trade flows. Nevertheless, owing to the resilience of the domestic export sector – primarily underpinned by its geographical and product diversification – exports are expected to continue expanding, driven by manufacturing exports, with a significant contribution still anticipated from serial production in the automotive industry and related branches. Additional support to export growth stems

Chart V.0.27 **Contributions to real GDP growth**
(in pp)



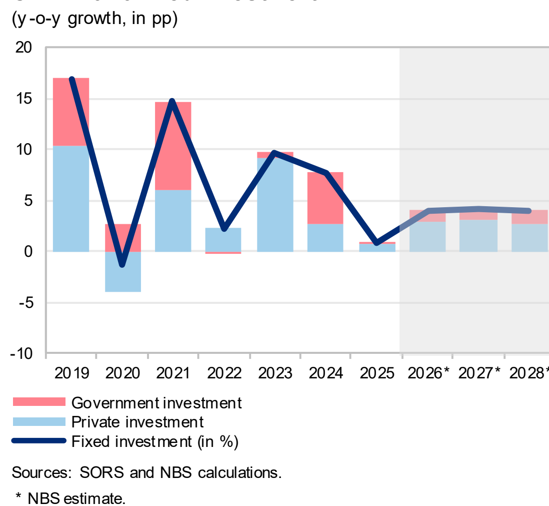
Sources: SORS and NBS.
* NBS estimate.

Chart V.0.28 **Rate of growth in private consumption and its sources**
(nominal y-o-y rates, in %)



Sources: SORS and NBS calculations.
* NBS estimate.

Chart V.0.29 **Fixed investment**
(y-o-y growth, in pp)



Sources: SORS and NBS calculations.
* NBS estimate.

Table V.0.4 **Planned capital projects within the "Leap into the Future – Serbia Expo 2027" programme**
(in EUR mn)

Project	Until 2024	2025	2026	2027	2028	After 2028	Total value
1. Expo	401	326	363	123	0	0	1,214
2. Transport infrastructure; construction of highways, expressways, bridges, tunnels, etc.	4,635	1,442	1,006	620	439	1,387	9,529
3. Railway infrastructure; Hungarian-Serbian railway project, reconstruction and modernisation of the Belgrade-Niš railway, etc.	1,461	396	579	498	335	1,529	4,799
4. Air and water transport and hydropower; Đerdap 1 and 2, "Arilje" dam, construction of a new port in Belgrade, extension of capacity of the existing ports, etc.	121	77	22	66	46	195	529
5. Utility infrastructure	426	143	86	68	51	2,729	3,504
6. Other projects; modernisation of public sector infrastructure, education, science, health, sport, etc.	764	280	447	329	183	41	2,044
TOTAL	7,810	2,665	2,503	1,705	1,053	5,882	21,618

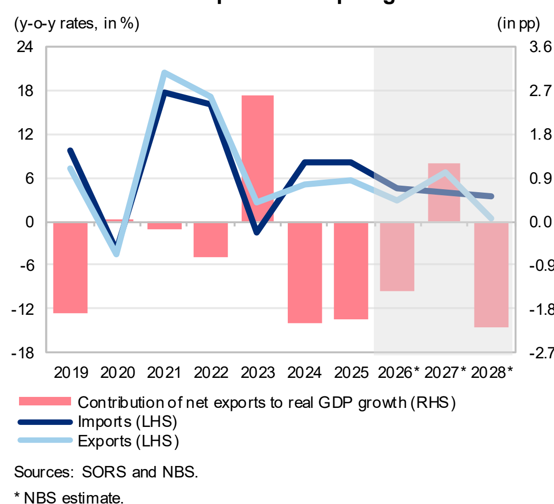
Source: Revised Fiscal Strategy for 2026 with Projections for 2027 and 2028.

from past investment in export-oriented sectors and the expected effects of the Expo, which are incorporated into the projected acceleration of goods and services export growth to around 6.6% in 2027. In line with the needs of planned investment activities and growth in personal consumption, real **imports of goods and services** are projected to grow faster than exports in 2026. However, compared to the February projection, import growth has also been revised down, resulting in a smaller negative contribution of net exports in 2026 (-1.4 pp) than previously projected. For 2027, we project a positive contribution of net exports (1.2 pp), supported, among other factors, by the expected large number of foreign visitors to the Expo.

On the production side, the May projection assumes that GDP growth in 2026 and the following two years will continue to be driven by **service sectors**, albeit with a somewhat smaller positive contribution than in the February projection (by around 0.3 pp). This revision reflects the potential impact of current global developments on real disposable income and the propensity to consume. The contribution of service sectors in 2027 will also be supported by the effects of hosting the Expo – it is expected to increase from 2.0 pp in 2026 to around 3.2 pp in 2027, and to equal 2.2 pp in 2028. At the same time, in line with consumption growth and the expansion of service sectors, higher tax revenue collection is anticipated, with **net taxes** projected to contribute around 0.6 pp to GDP growth on average p.a.

Growth in production sectors is also projected, albeit at a slower pace than in the February projection. Under the May projection, their combined contribution to GDP growth will amount to 0.6 pp in 2026 and 2027, and 0.7 pp in 2028. This revision primarily reflects heightened global uncertainty and less favourable prospects for external demand. At the same time, the projection takes into account the preliminary agreement on the acquisition of majority ownership in NIS by the Hungarian company MOL, which should help stabilise production and reduce uncertainty regarding energy supply. It is also assumed that the announced tariffs on steel exports to the EU will

Chart V.0.30 **Real export and import growth**



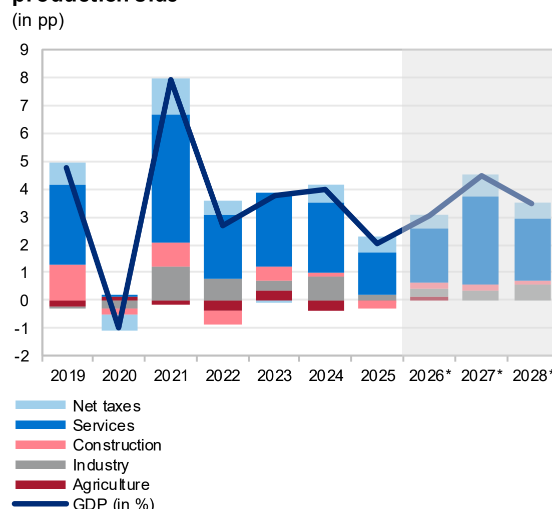
Sources: SORS and NBS.
* NBS estimate.

be applied, though not in full. Within the production sectors, the largest positive contribution is still expected from **manufacturing** (0.2 pp in 2026, 0.3 pp in 2027 and 0.4 pp in 2028), reflecting past investment, particularly in the automotive industry. A positive contribution is also expected from **mining** (around 0.1 pp on average in 2026–2028), driven by increased exploitation of coal and metal ores, especially copper. A moderate pick-up is anticipated in the energy sector, reflecting planned structural reforms in line with the IMF arrangement, the commissioning of a new unit at the Kostolac thermal power plant and the expansion of renewable energy capacities.

After a decline in **construction** of over 5% in 2025, a positive contribution from this sector is expected (0.2 pp in the current and the following year each, and 0.1 pp in 2028), supported by the planned implementation of infrastructure projects in transport, energy, utility and digital infrastructure, as well as the "Leap into the Future – Serbia Expo 2027" programme and continued residential construction.

As for **agriculture**, assuming that this year's agricultural season is at the level of a five-year average – taking into account the negative effects of climate factors on agricultural production in previous years – we expect a modest positive contribution from agriculture in the current year. Over the longer term, the strategy for addressing climate change should also support growth in agricultural production.

Chart V.0.31 **Contributions to real GDP growth, production side**
(in pp)

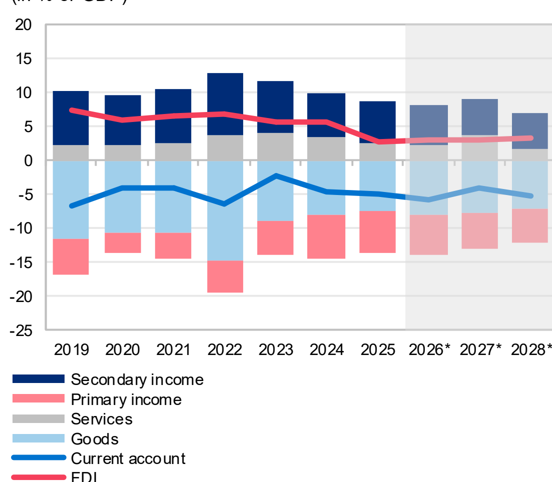


Sources: SORS and NBS.
* NBS estimate.

Projection of Serbia's external position

Taking into account the rise in global energy prices, heightened uncertainty in the international environment and weaker external demand – all of which affect the dynamics of foreign trade flows – the new projection envisages a somewhat higher **share of the current account deficit in GDP** this year compared to the February projection, at around 6%. The increase in the deficit is primarily driven by faster growth in imports of goods and services, reflecting higher energy imports in value terms due to elevated global prices of crude oil and gas. Compared to the previous projection, we also expect somewhat lower export growth, partly due to reduced electricity exports following the introduction of the CBAM, and partly due to weaker external demand. The projection for 2027 remains unchanged at around 4.0% of GDP, with the deficit expected to decline under the impact of higher services exports related to the hosting of the Expo, while in 2028 it is expected to move around its equilibrium level of approximately 5.0% of GDP. The projection also assumes continued growth in exports of goods and services, supported by investment in export-oriented sectors, the activation of new capacities in the automotive industry, and the gradual recovery of external demand.

Chart V.0.32 **Current account and FDI projection**
(in % of GDP)



Source: NBS.
* NBS projection.

As for other current account components, the projection assumes that the secondary income surplus will remain slightly below 6% of GDP, fully offsetting the deficit in income from factors of production (primarily income from FDI and labour). **FDI inflows** are expected to stay highly diversified by geography and project, and to be channelled primarily into export-oriented sectors, moving at around 3% of GDP in the coming years.

Table V.0.5 **Key projection assumptions**

	2026		2027		2028
External assumptions	Feb.	May	Feb.	May	May
Euro area GDP growth	1.2%	0.9%	1.4%	1.3%	1.5%
Euro area inflation (average)	1.8%	2.8%	1.9%	2.1%	1.9%
3M EURIBOR (December)	2.1%	2.8%	2.3%	2.7%	2.8%
International prices of primary agricult. commodities (Q4 to Q4)*	3.5%	10.5%	4.6%	1.6%	-3.0%
Brent oil price per barrel (end of year, USD)	64	80	64	74	72
Internal assumptions					
Administered prices (Dec. to Dec.)	5.9%	5.7%	5.0%	5.1%	5.0%

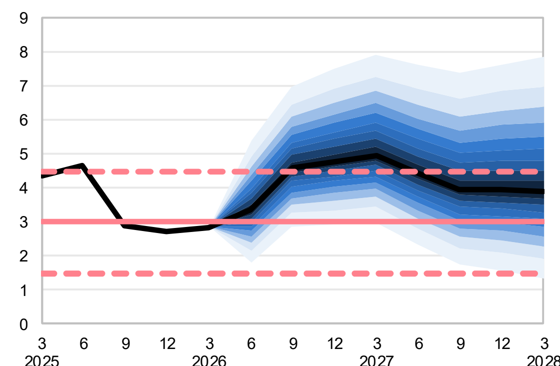
* Composite index of soybean, wheat and corn prices.

Sources: ECB, Consensus Economics, Euronext, CBOT, Bloomberg and NBS.

Inflation projection

Under our new central projection, we expect **inflation to remain within the target band in Q2 and Q3. Towards the end of this year and at the beginning of the next it will temporarily edge slightly above the upper bound of the target**, partly due to the low base and partly as a result of rising global prices of energy and primary commodities. **Thereafter, inflation will gradually decelerate and return to the target band by mid-year, where it will remain until the end of the projection horizon**. In line with this trajectory, average inflation is projected at 3.6% in 2026 and 4.4% in 2027.

Chart V.0.33 **Inflation projection**
(y-o-y rates, in %)

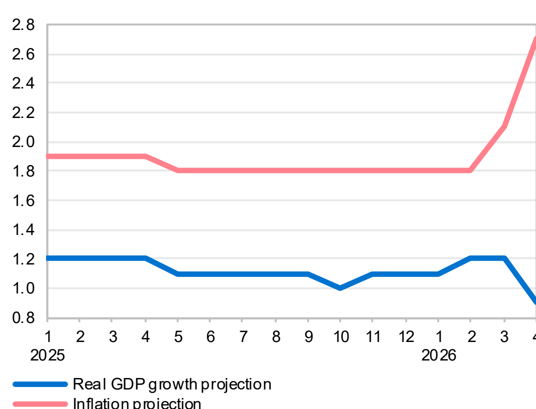


Source: NBS.

The fan chart depicts the probability of various inflation outcomes in the next eight quarters. The central projection is within the darkest central band and the probability that inflation would lie in it is 10%. Each following shade includes 10% probability, which means that outturns of inflation somewhere within the entire fan chart are expected with probability of 90%. In other words, the probability that inflation in the next eight quarters would lie somewhere outside the band in the chart is 10%.

The projected inflation path in the baseline scenario will be shaped primarily by **several factors**. A surge in global oil prices following the escalation of the Middle East conflict, combined with a low base from September last year due to the decree capping wholesale and retail trade margins at 20%, will cause inflation to temporarily move above the target band towards the end of the current year and at the beginning of the next. On the other hand, the still restrictive monetary policy stance, the expected gradual easing of cost-push pressures from the international environment, and the assumed more favourable agricultural season relative to the previous year, will help contain a stronger rise in inflation. Real wage growth – and thus the increase in income disposable for consumption – will prop up demand, albeit to a lesser extent than in the previous period, as wage growth is expected to slow and remain broadly aligned with productivity gains. Demand is likely to strengthen in 2027 due to the hosting of the Expo, though this should not generate pressures that would push inflation outside the target band.

Chart V.0.34 **GDP and average inflation projections of the euro area for 2026**
(in %)



Source: Consensus Economics.

The **decree** capping trade margins for a six-month period from September last year led to a slowdown in inflation, primarily in food prices, and created a low base for y-o-y inflation calculations. As assumed in our previous projection, the decree was not extended upon its expiry at end-February; however, a recently adopted set of laws is expected to improve market regulation and prevent unfair trade practices. In this way, a return of trade margins to their pre-decree levels will be effectively precluded, as these laws regulate areas that previously influenced the structure of consumer prices of certain products, particularly in the segment governing relations between suppliers and retailers.

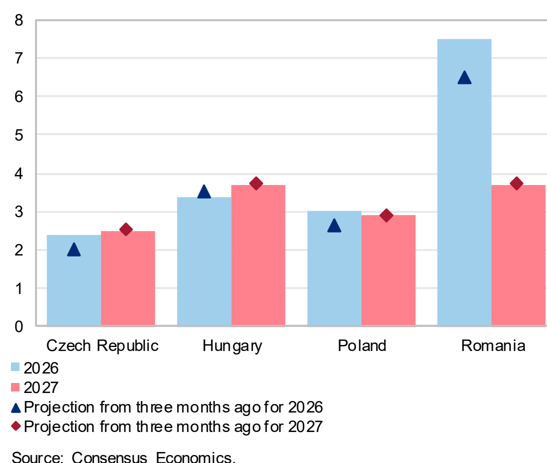
In our new projection, **the sharp increase in global oil prices** has been the main factor behind differences in the projected inflation path relative to the previous projection. The escalation of the Middle East conflict in late February disrupted global crude oil supply, resulting in a net loss of around 13 mn barrels per day, or roughly 13% of global consumption, despite the release of strategic reserves and pipeline transfers. The situation has been further exacerbated by the blockade of Iranian ports by the United States. Surging global oil prices not only raise domestic petroleum product prices – and, indirectly, the prices of other goods and services – but also lead to a more pronounced **increase in the prices of imported goods and services**. Current global developments and rising global energy prices are also adversely affecting the prices of mineral fertilisers, container transport and supply chains. As a result of higher input costs, we expect stronger cost-push pressures from global prices of primary agricultural commodities. However, although these pressures will continue to feed through to inflation in the short term, they are expected to gradually subside over the projection horizon. This will gradually curb inflationary pressures from the external environment and support the return of domestic inflation towards the target.

In our assessment, **the monetary policy stance remains restrictive**, although the degree of restrictiveness has eased since Q2 2024 as the NBS trimmed its key policy rate by a total of 75 bp in June–September 2024. **One-week BELIBOR stood at 0.9% in real terms in Q1 2026 (calculated based on one-year ahead inflation expectations of the financial sector)**, remaining broadly unchanged relative to the previous quarter.

By carefully calibrating its measures, the NBS Executive Board sought primarily to impact **market agents' inflation expectations**, ensuring they remain anchored within the target band. One-, two- and three-year ahead expectations of the financial sector continued to hover around the target midpoint of 3%, while corporate sector expectations for one and two years ahead remain at around 4%, confirming the preserved credibility of the NBS monetary policy despite heightened global uncertainty.

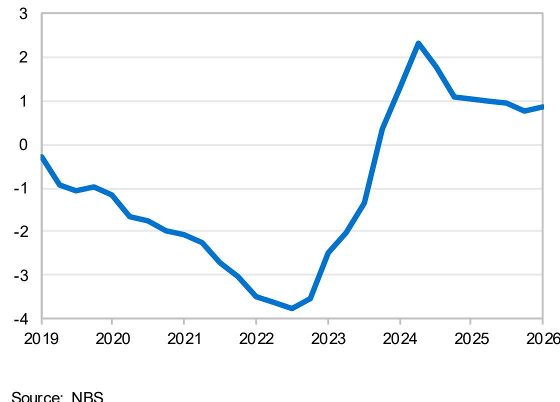
We expect domestic factors, primarily **wage growth, fiscal policy and administered prices**, to generate no major inflationary pressures. As regards **aggregate demand**, we estimate that **the output gap will remain negative**, also reflecting the negative output gap in the euro area. We expect the negative output gap to narrow gradually during this year and to turn positive in Q2 next year, after which it is projected to remain slightly above zero until the end of the projection horizon. A positive contribution to the output gap estimate comes from the rise in real wages over the projection horizon, as well as from the fiscal impulse, while weak external demand and tight monetary conditions work in the opposite direction. The increase in income disposable for consumption will

Chart V.0.35 **Projection of average inflation**
(in %)



Source: Consensus Economics.

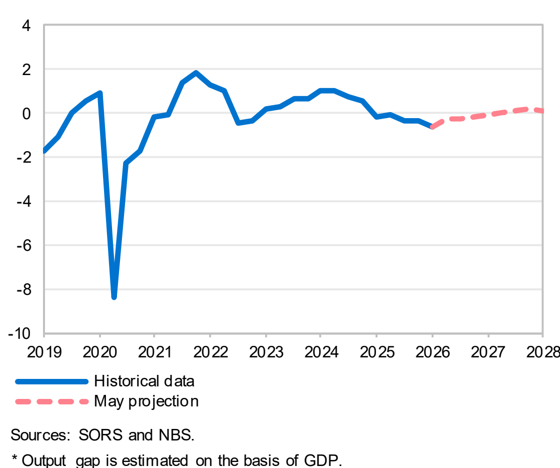
Chart V.0.36 **Real interest rate**
(in %)



Source: NBS.

Note: The real interest rate is obtained as the difference between 1W BELIBOR and one-year ahead inflation expectations of the financial sector, according to the Bloomberg survey.

Chart V.0.37 **Output gap projection***
(in % of potential output)



Sources: SORS and NBS.

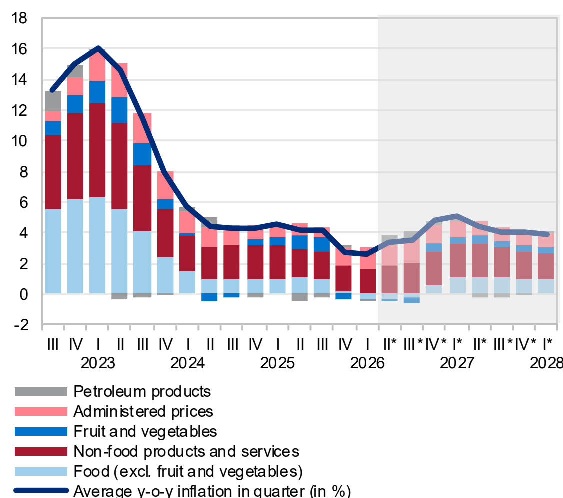
* Output gap is estimated on the basis of GDP.

be supported mostly by anticipated real wage growth driven by the increase in the minimum wage. Following the increases in the minimum labour cost in October last and January this year, real wages will rise faster than their long-term trend, resulting in a positive wage gap throughout the projection horizon. However, as pressures on further wage growth gradually ease, **real wage growth ought to slacken over the projection horizon and converge towards productivity growth**. Favourable lending conditions should also support further growth in lending activity. As for **external demand**, expectations have deteriorated relative to three months ago, as the Middle East conflict and the resulting uncertainty weigh on global economic growth. We therefore expect external demand to remain weak in the short term, under the impact of the energy shock and global instability, and to recover more substantially over the medium term.

Observed by individual component, we expect the contribution of **food prices (excluding fruit and vegetables)** to y-o-y inflation to be influenced by rising global prices of primary agricultural commodities, indirect effects of higher petroleum product prices and the low base effect during the implementation of the decree. The contribution of food prices is currently negative, but owing to these factors it is expected to gradually increase and turn positive in the final quarter of this year. After reaching a peak of 1.2 pp in Q2 next year, we expect this component's contribution to stabilise at around 1 pp until the end of the projection horizon. Based on the futures prices for primary agricultural commodities, we expect input costs in food production (excluding fruit and vegetables) to remain below their neutral level, and therefore anticipate no inflationary effects on food prices from this source. Food price growth will be affected by indirect effects of higher petroleum product prices and, to some extent, by higher labour costs. On the other hand, as in the previous projection, we assume that margins will not return to their pre-decree levels following the expiry of the decree in March. This is expected to be supported by the recently adopted set of laws aimed at improving market regulation and preventing unfair trade practices, with the objective of preserving price stability and ensuring consumer protection.

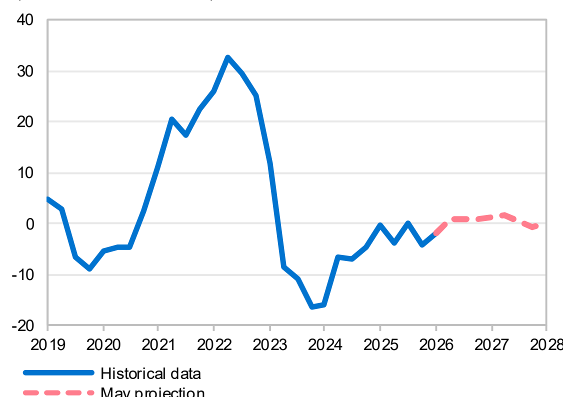
We assume that **fruit and vegetable prices**, which recorded a significant decline in Q4 last year partly due to the implementation of the decree, will gradually return to their long-term trend, assuming a better agricultural season than last year. Accordingly, their contribution to y-o-y inflation is expected to be mildly negative until Q3 this year, after which it will turn positive (0.3–0.6 pp) due to the base effect.

Chart V.0.38 **Contributions to y-o-y inflation by component**
(average y-o-y rates, in pp)



Source: NBS.
* NBS projection.

Chart V.0.39 **Real marginal costs gap in food production**
(% deviation from trend)



Source: NBS.

We expect the contribution of prices of **non-food products and services** to inflation to gradually increase to 2.2 pp towards the end of this year and in the first half of next year, before declining to 1.7 pp towards the end of the projection horizon. Movements in these prices largely depend on the prices of a broad range of imported products; accordingly, the increase in their contribution will primarily reflect higher imported inflation and indirect effects of rising petroleum product prices. In addition, the Global Supply Chain Pressure Index has been rising gradually and is now at its highest level since early 2023. Although signs of more severe disruptions remain limited, strains persist in global supply and the flow of goods, alongside higher international transport costs (e.g. the price of aviation fuel has roughly doubled and rationing has been introduced at some airports since early April). A positive contribution to the non-food inflation component will also stem from the increase in the minimum labour cost from January this year, which is partly reflected in higher service sector costs and greater income disposable for consumption. No significant inflationary effects are expected from this channel, as wage growth is projected to moderate.

Chart V.0.40 **Global supply-chain pressures**
(index, in standard deviations)

Source: Federal Reserve Bank of New York.

In line with the assumed global oil price path in the baseline scenario, we expect the contribution of **petroleum product prices to y-o-y inflation** to rise to 0.7 pp in Q2 this year, before gradually declining and turning negative within a year (due to the high base effect from this year), and then moving around zero towards the end of the projection horizon, assuming that, in line with futures prices, global oil prices decline from Q3 this year. We also assume that NIS will maintain full production and ensure a stable supply of petroleum products to the domestic market.

In the new projection, **administered prices** are expected to increase by 5.7% this year (5.9% in the previous projection), while their growth in 2027 is projected at 5.1% (5.0% in the previous projection). This will result in a gradual decline in their contribution to y-o-y inflation from 1.4–1.5 pp at the beginning of the projection horizon to 0.9 pp at its end.

Risks to the projection

The risks to our new inflation and GDP projections are largely associated with developments in the international environment.

As in previous projections, the most significant risk to our inflation and GDP projections stems from pronounced **geopolitical tensions**, which in the current projection are considerably higher due to the escalation of the Middle East conflict. The rise in geopolitical risk is clearly indicated by the relevant index, which in March reached its highest level since March 2022. Given the nature of the conflict (armed actions, ceasefires and their breaches, port blockades, etc.), it is very difficult to assess the duration of the energy shock and the scope of

its economic consequences. A prolonged conflict exacerbates the imbalance between global energy supply and demand, amplifying its effects. Moreover, the consequences extend beyond higher energy prices to include the availability of critical raw materials and the emergence of structural pressures across multiple sectors. For instance, around one-third of global maritime trade in artificial fertilisers passes through the Strait of Hormuz, indicating a significant risk to global food prices. Risks also extend to helium production, used in high-technology industries, as well as methanol production, with implications for the chemical and plastics sectors. In the event of prolonged disruptions, the adjustment mechanism tends to shift from prices to quantities, implying greater rationing of consumption and potentially more far-reaching economic consequences. While higher prices generate inflationary pressures, consumption rationing has a direct negative impact on economic growth. Abrupt political decisions affect not only global commodity markets but also financial markets, with exchange rates being particularly sensitive. It is more challenging for monetary policy to achieve price stability in the presence of supply-side shocks that simultaneously drive up prices and depress GDP; accordingly, heightened caution is warranted.

On the other hand, global economic fundamentals remain relatively resilient, supported by fiscal stimulus and monetary policy easing in major economies. Although global oil prices have risen significantly, they have not yet reached the levels assumed in adverse scenarios by central banks and international institutions. The increase in natural gas prices in Europe has so far been limited, and signs of more severe disruptions in global supply chains remain contained. If the conflict is resolved in the near term, its economic effects may prove less pronounced than currently anticipated. In addition, global economic activity is expected to receive further support from the application of artificial intelligence, alongside strong productivity gains and enhanced business dynamics. Overall, however, the situation remains highly uncertain, with risks that are asymmetric – skewed upside for inflation and downside for economic growth.

The expected agreement on the acquisition of a majority stake in NIS by the Hungarian company MOL should ensure **uninterrupted production and supply of petroleum products to the market**. Accordingly, as in the previous projection, we assess the associated risks to both GDP and inflation to be significantly lower than in the November 2025 projection, when US OFAC sanctions came into effect.

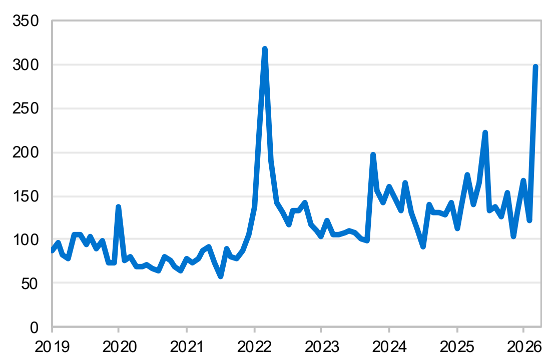
Though mitigated somewhat by deals among leading global economies, **heightened protectionism and uncertain global trade policies** continue to pose risks to the projection, particularly for GDP. The IMF[15] expects global trade volume growth to slow from 5.1% in 2025

Table V.0.6 **Key risks to the GDP and inflation projection**

Risk	Estimate of the risk effect on GDP relative to the baseline scenario	Estimate of the risk effect on inflation relative to the baseline scenario
Geopolitical tensions and their impact, primarily on the prices of oil, gas and electricity in the global market (Serbia is a net energy importer), as well as on prices of other products	↕	↕
Global trade tensions	↓	↓
Global agricultural season and world prices of primary agricultural commodities (Serbia is a net exporter)	↕	↕
Speed of domestic demand growth	↕	↕
Domestic agricultural season	↕	↕

Note: ↑ means a more inflationary effect relative to the baseline scenario, ↓ lower economic growth, ↑ higher economic growth, ↓ a more disinflationary effect, and ↕ that the risks to the projection are symmetric relative to the baseline scenario.

Chart V.0.41 **Global Geopolitical Risk Index**
(in pp)



Source: Caldara and Iacoviello (2022); data downloaded from https://www.matteoiacoviello.com/gpr.htm.

[15] IMF WEO, April 2026.

to 2.8% in 2026, before picking up to 3.8% in 2027, reflecting the impact of higher tariffs, which should gradually ease through adjustments in trade linkages and production chains. The reconfiguration of trade flows and global supply chains is already underway. US imports from China have declined sharply and have been offset by imports from Taiwan, Vietnam and partly Mexico, while Chinese exports have been redirected from the US market to other Asian economies and Europe. At the same time, weaker export growth in many sectors has been offset by robust expansion in technology-related exports – particularly semiconductors and other equipment from Asian economies – driven by strong demand associated with accelerated investment in digital technologies and artificial intelligence. The IMF assesses that this emerging equilibrium remains fragile and could be disrupted by additional tariffs, which would weigh on global economic growth. Moreover, sector-specific tariffs could create supply bottlenecks and exert a disproportionately large impact on prices and economic activity. Conversely, progress in trade relations and the conclusion of new regional trade agreements could help reduce trade costs and facilitate adjustment to recent shifts in trade policies among major economies. This would enhance the predictability of economic policies, support more efficient investment planning, and have a positive effect on economic growth. In this context, we assess the risks stemming from global protectionist measures as broadly balanced.

Depending on the global agricultural season, and taking into account risks arising from geopolitical and trade tensions on the one hand, and risks to global economic growth on the other, **global prices of primary agricultural commodities** may deviate from those assumed in the baseline scenario.

Another risk to the inflation and GDP projections relates to the **domestic agricultural season**, for which we have maintained the assumption from the previous projection – namely, that it will be at the level of the multi-year average, i.e. better than the preceding two below-average seasons. The production and supply of fruit and vegetables are important for inflation, while cereal yields are key for GDP. Weather conditions to date support the assumption of a more favourable agricultural season; however, they remain uncertain and it is still too early to draw firm conclusions. Accordingly, deviations in either direction are possible.

The risks to the projection are also associated with **the pace of domestic demand growth**. Faster-than-expected growth would amplify inflationary pressures while at the same time supporting stronger economic activity, and vice versa. These risks primarily relate to **real wage growth**, which could be either higher or lower than assumed, thereby affecting personal consumption and imports. Moreover, prolonged **social and political tensions in the country** could adversely affect economic expectations and confidence, leading to lower-than-

expected growth in investment and personal consumption. Conversely, their full easing would improve the overall economic environment and accelerate economic growth. If global economic growth were weaker than expected and if the energy shock had a stronger-than-assumed negative impact on disposable income in the domestic market, the number of visitors to the Expo could also be lower than expected.

The same as in the previous projections, another risk to the GDP projection, particularly for the next year, is associated with **how many electric vehicles will be produced in the Kragujevac plant**, and what their cost and the share of domestic value added will be. Our estimates are that the contribution to GDP will be around 0.1 pp for every 10,000 vehicles. Departures are possible in both directions and will depend on the demand for these vehicles, particularly in European countries.

The NBS will continue to make monetary policy decisions on a meeting-to-meeting basis depending on movements in inflation and its key factors at home and abroad. Delivering price and financial stability in the medium term will remain the monetary policy priority, along with support to further economic growth and development, a continued rise in employment and the preservation of a favourable investment environment.

Text box 5: Alternative projection scenarios

Global uncertainty has risen strikingly since our last *Report*, mostly due to the escalation of geopolitical tensions and outbreak of a direct conflict between the USA and Iran. Responding to the US and Israeli attacks, Iran used its geostrategic position to block the Strait of Hormuz, the lifeline to around one-fifth of global crude oil supply and a substantial quantity of other primary commodities, including natural gas, aluminium and mineral fertilisers. In such conditions, **the global price of Brent crude oil spiralled upwards to over USD 120 per barrel at end-March, reaching its highest level since May 2022**. High oil prices, coupled with a contraction in supply, caused a significant rise in the prices of other primary commodities.

The baseline scenario of our May projection assumes that the conflict would resolve in Q2, entailing no severe consequences to the global supply chains, owing to which primary commodity prices would gradually normalise and move downward until end-2026. These assumptions are aligned with the expectations of relevant international financial institutions and market participants, as reflected in the dynamics of futures of oil and other primary commodities, which are expected to be lower by the end of this year than they are now.

However, in light of ongoing developments in the Middle East – where, despite a ceasefire agreement, there are still no clear indications of a lasting truce, and military activity and the blockade of the Strait of Hormuz persist – **risks to the projection remain elevated, driven primarily by the future course of US–Iran geopolitical relations**. In this context, and consistent with the approach of relevant international institutions, particularly the IMF and the ECB, this analysis considers two alternative downside scenarios – adverse and severe – depending on the further evolution of the situation in the Middle East and its impact on global primary commodity prices.

Table O.5.1 **External assumptions of baseline and alternative scenarios**

	2025	2026	2027
Euro area inflation, y-o-y average, in % (baseline scenario)	**2.1**	**2.8**	**2.1**
Adverse scenario		3.5	2.1
Severe scenario		4.4	4.8
Euro area GDP growth, quarterly, in % (baseline scenario)	**1.5**	**0.9**	**1.3**
Adverse scenario		0.6	1.2
Severe scenario		0.4	0.9
Oil price, average, in USD/barrel (baseline scenario)	**68.0**	**90.7**	**76.2**
Adverse scenario		100.1	76.2
Severe scenario		115.0	125.0
Gas price, average, in EUR/1000m3 (baseline scenario)	**####**	**437.5**	**366.2**
Adverse scenario		500.0	366.2
Severe scenario		1,109.0	1,098.7
Global prices of primary agricult.commodities, USD, average % y-o-y growth (baseline scenario)	**-0.3**	**6.9**	**3.9**
Adverse scenario		8.5	3.8
Severe scenario		10.0	10.0

Source: NBS calculations.

<u>Adverse scenario</u>

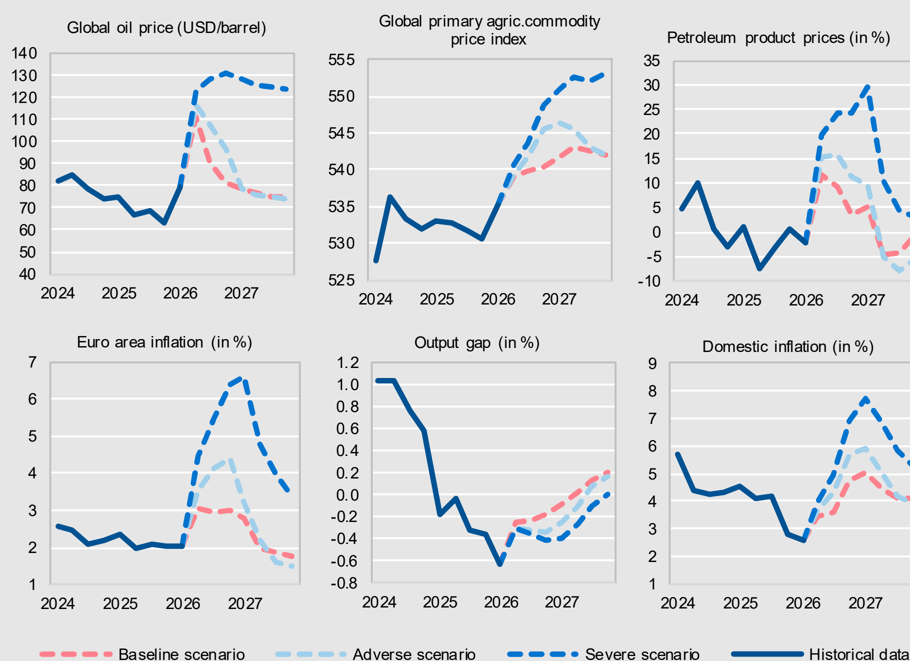
The adverse scenario assumes that the conflict in the Middle East, including the blockade of the Strait of Hormuz, will last longer than in the baseline scenario. In such circumstances, disruptions in the global supply of energy and other primary commodities would be more severe and prolonged, resulting in their elevated prices throughout most of this year. Under this scenario, Q3 would witness gradual soothing of tensions and conflict resolution, which would usher in step-by-step normalisation in the supply of oil, natural gas, mineral fertilisers and other primary commodities. Accordingly, the prices of these commodities would follow a downward trajectory from Q4 onward. On average, the price of Brent crude oil in 2026 would amount to around USD 100 per barrel (compared to USD 92 per barrel in the baseline scenario), before continuing its downward trend in 2027 and falling to around USD 76 per barrel, which is also the level projected under the baseline scenario. Under such conditions, economic growth in the euro area, our most important trading partner, would be somewhat lower in 2026 than in the baseline scenario (by 0.3 pp), while inflation would be higher by around 0.7 pp. At the same time, the prices of other energy and primary commodities would remain elevated, so that the average price of natural gas would amount to around USD 500 per thousand cubic meters, while the prices of primary agricultural commodities would be about 8.5% higher compared to 2025. **The assumptions for 2027 in this scenario do not differ significantly from the baseline**, given that, following conflict resolution, a relatively rapid normalisation of global market flows is expected.

According to our assessment, the consequences of the adverse scenario for Serbia would be a **higher average inflation compared to the baseline scenario, by 0.5 pp in 2026 and by 0.4 pp in 2027**. Direct effects would ensue from the rise in

petroleum product prices, while second-round effects would pass through via higher prices of other industrial products and food due to the rising production costs. Additional inflationary pressures would also stem from higher euro area inflation, spilling over to domestic prices via rising prices of import products.

As for adverse scenario effects on **domestic GDP, in our estimate, real growth would be lower than in the baseline scenario, by 0.4 pp in 2026 and 0.5 pp in 2027**. In 2026, such trends would reflect primarily lower domestic demand, i.e. slower growth in personal consumption, due to the contraction in disposable income amid the price increase and dented investment growth reflecting mounting investor's risk aversion. At the same time, as inflationary pressures build up, leading central banks are expected to tighten monetary conditions, which, together with elevated cost-push pressures, supply chain disruptions and rising risk premiums, would contribute to a slowdown in global economic activity and, consequently, to weaker external demand. On the other hand, lower disposable income and a slowdown in domestic demand would dampen import growth, resulting in a smaller negative contribution of net exports compared to the baseline scenario. In 2027, slower growth would also reflect weaker increases in consumption and investment, as well as a smaller positive carryover effect from this year's trends than in the baseline scenario. On the production side, slower GDP growth would be caused by lower growth in industry and services, amid the dented external demand and lower disposable income for consumption and investment. Apart from this, we assumed a certain fall in agricultural yields in 2027, due to reduced use of mineral fertilisers in the next sowing season, as a result of their higher prices and lower availability.

Chart O.5.1 **Alternative scenario assumptions and their effect on domestic inflation**



Source: NBS.

Severe scenario

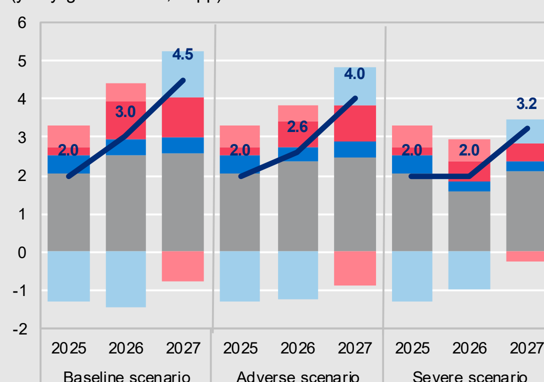
Under the severe scenario, we assume that the conflict in the Middle East will last until the end of 2026, including the continued blockade of the Strait of Hormuz and a significant damage to energy infrastructure in the Middle East region. In such conditions, the global supply of oil, natural gas and other primary commodities would be more persistently constrained, which would keep their prices at elevated levels not only in this year but also in the following year, unlike in the previous scenario, where a relatively faster normalisation is expected following the end of the conflict. Accordingly, the global price of Brent crude oil would amount to around USD 125 per barrel at the end of 2026 and would remain at a similar level throughout 2027, due to continued supply constraints caused by disruptions in supply chains and limited production. At the same time, prices of other primary commodities would also remain elevated, with the average price of natural gas amounting to around USD 1,100 per cubic meter in 2026 and remaining at a similar level throughout 2027. In addition, rising prices and reduced availability of mineral fertilisers, as an important input in agricultural production, could result in their lower use and reduced yields at the global level, which would be reflected in a stronger increase in the prices of primary agricultural commodities compared to the previous scenario, so that they would be about 10% higher by the end of this year compared to the year before, with a similar increase also persisting in 2027. In such circumstances, second-round effects would also intensify through rising inflation expectations and broader spillovers of cost-push pressures, which would put an upward pressure on prices in other

sectors of the economy. As a consequence, in the euro area, GDP growth would underperform the baseline scenario by around 0.5 pp in 2026 and 0.4 pp in 2027, while inflation would overshoot the baseline figure by around 1.6 pp in 2026, and even more so in 2027 – by 2.7 pp.

According to our estimate, the consequences of the severe scenario for Serbia would be **higher average inflation compared to the baseline figure, by 1.0 pp in 2026 and 2.1 pp in 2027.** Apart from higher prices of petroleum products, food and import prices, an additional pressure on domestic inflation in this scenario would stem from elevated inflation expectations, lower yields of domestic agricultural products due to reduced use of mineral fertilisers, as well as reduced capital inflows in conditions of heightened global uncertainty.

The severe scenario effects on economic activity would amount to slower GDP growth, by 1.0 pp in 2026 and by 1.3 pp in 2027, compared to the baseline. In 2026, growth slackening would mainly stem from lower domestic demand, with a slower rise in personal consumption and a deceleration of private investment amid heightened uncertainty. Slower growth in 2027 would be a consequence of lower domestic and external demand, including fewer visitors to the Expo.

Chart O.5.2 **Contributions to y-o-y GDP growth rate, expenditure side**
(y-o-y growth rates, in pp)



Personal consumption
Government consumption
Fixed investment
Change in inventories
Net exports
GDP (in %)

Source: NBS.

Table A Indicators of Serbia's external position

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Q1 2026
EXTERNAL LIQUIDITY INDICATORS (in %)																	
FX reserves/imports of goods and services (in months)	8.4	8.8	7.7	7.6	6.6	6.7	6.2	5.4	5.4	5.7	6.1	5.9	5.2	6.7	7.3	6.7	6.6
FX reserves/short-term debt	191.2	299.9	237.3	268.6	294.0	256.4	234.3	202.1	210.9	275.6	228.1	249.6	244.7	319.3	414.1	305.8	
FX reserves /GDP	30.5	32.7	31.1	29.5	26.8	27.9	26.7	24.4	25.2	27.8	27.5	29.4	30.6	33.1	35.2	32.7	31.7
Debt repayment/GDP	10.9	11.3	11.8	12.1	12.8	10.6	11.8	10.5	10.8	9.5	5.5	8.7	9.1	9.0	10.8	8.9	
Debt repayment/exports of goods and services	37.5	37.3	36.0	33.0	32.7	25.2	25.9	22.2	22.9	19.7	12.2	17.0	15.3	16.4	20.4	16.6	
EXTERNAL SOLVENCY INDICATORS (in %)																	
External debt/GDP	71.6	65.4	73.1	67.5	69.4	70.4	69.4	62.4	59.5	58.4	62.4	64.8	65.5	58.7	58.6	57.6	
Short-term debt/GDP	15.9	10.9	13.1	11.0	9.1	10.9	11.4	12.1	11.9	10.1	12.1	11.8	12.5	10.4	8.5	10.7	
External debt/exports of goods and services	247.0	216.4	223.5	183.9	177.6	166.7	152.3	132.0	125.6	120.4	137.4	125.8	109.5	107.7	110.1	107.1	
FINANCIAL RISK EXPOSURE INDICATORS (in %)																	
FX reserves/M1	416.6	429.6	402.1	330.4	278.1	250.2	207.3	176.2	168.0	174.1	130.0	138.1	158.7	166.6	168.2	156.1	161.7
FX reserves/reserve money	196.4	207.6	197.9	199.9	196.6	193.7	196.6	185.0	171.4	194.1	157.1	180.0	180.2	201.0	199.6	199.9	200.4
OPENNESS OF ECONOMY (EXPORTS + IMPORTS)/GDP	72.3	75.0	81.1	83.5	87.9	92.3	96.9	102.0	103.8	106.7	99.2	111.3	130.8	113.8	111.2	112.2	117.1
MEMORANDUM: (in EUR million)																	
GDP [1]	32,841	36,865	35,074	37,978	37,014	37,220	38,165	40,828	44,711	48,105	49,024	55,931	63,513	75,205	83,258	88,674	21,430
External debt	23,505	24,120	25,638	25,636	25,666	26,220	26,469	25,490	26,594	28,117	30,600	36,266	41,621	44,173	48,771	51,091	
External debt servicing	3,564	4,154	4,130	4,595	4,728	3,960	4,508	4,285	4,849	4,592	2,710	4,886	5,801	6,735	9,032	7,900	
Central bank foreign exchange reserves	10,002	12,058	10,915	11,189	9,907	10,378	10,205	9,962	11,262	13,378	13,492	16,455	19,416	24,909	29,295	29,008	28,486
Short-term debt [2]	1,758	612	455	196	99	303	672	844	1,401	1,925	1,585	1,612	2,405	662	974	1,937	
Current account balance	-2,037	-3,656	-3,671	-2,098	-1,985	-1,234	-1,075	-2,051	-2,076	-3,161	-1,929	-2,266	-4,162	-1,804	-3,788	-4,302	-179

CREDIT RATING (change of rating and outlook)	2010 Nov	2011 March	2012 Aug	2013 July	2014 Jan	2015 Dec	2016 Jan/March/ June/Dec	2017 March/Dec	2018 Dec	2019 Sept/Dec	2020 May	2021 March/Dec	2022 June	2024 Aug/Oct	2026 Feb
S&P		BB /stable	BB- /negative				BB- /positive	BB /stable	BB /positive	BB+ /positive	BB+ /stable	BB+ /positive	BB+ /stable	BBB- /stable	
Fitch	BB- /stable		BB- /negative		B+ /stable	B+ /positive	BB-/stable	BB /stable		BB+ /stable				BB+ /positive	
Moody's				B1 /stable			B1 /positive	Ba3 /stable		Ba3 /positive		Ba2 /stable		Ba2 /positive	Ba2 /stable

Methodological notes:

Foreign exchange reserves/imports of goods and services (in months) - ratio of end-of-period foreign exchange reserves to average monthly imports of goods and services during last 12 months.
Foreign exchange reserves/short-term debt (in %) - ratio of foreign exchange reserves to stock of short-term debt at remaining maturity at end-of-period.
Foreign exchange reserves/GDP (in %) - ratio of end-of-period foreign exchange reserves to GDP.
Debt repayment/GDP (in %) - ratio of debt repayment (excl. early repayment of a part of debt to London Club creditors) to GDP during period under review.
Debt repayment/exports (in %) - ratio of debt repayment (excl. early repayment of a part of debt to London Club creditors) to exports of goods and services during period under review.
External debt/GDP (in %) – ratio of end-of-period outstanding debt to GDP.
Short-term debt/GDP – ratio of end-of-period short-term debt at remaining maturity to GDP.
External debt/exports (in %) – ratio of end-of-period outstanding debt to annual value of exports of goods and services.
Foreign exchange reserves/M1(in %) - ratio of foreign exchange reserves to money supply at end-of-period.
(Exports + imports)/GDP (in %) - ratio of value of exports and imports of goods and services to GDP during period under review.

[1] According to ESA 2010. Data for Q1 2026 is NBS estimate.

[2] At original maturity.

Notes:

1. SORS revised GDP data for the period 1995-2023, which led to a change in the share of macroeconomic indicators in GDP.
2. Data are subject to corrections in line with the official data sources.
3. Starting from 2007 data on exports and imports of goods and services are shown in accordance with BPM6. Data for 2005 and 2006 are shown according to previous methodology.
4. Starting from 2007 the general trade system of registration of exports and imports of goods is applied. This is a broader concept and includes all goods entering/exiting country's economic territory, apart from goods in transit. Data for 2005 and 2006 are disseminated using the special trade system.
5. External debt servicing does not include advance debt repayments.
6. The Statistical Office revised data for export of goods for 2024 and Q1 2025.
7. The NBS revised external debt data for the period 2007-Q1 2025.

Table B Key macroeconomic indicators

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Q1 2026
Real GDP growth (in %)[1)]	1.6	0.1	-0.4	0.5	-1.8	1.3	3.0	2.4	4.6	4.8	-1.0	7.9	2.7	3.7	3.9	2.0	3.0
Consumer prices (in %, relative to the same month a year earlier)[2)]	10.3	7.0	12.2	2.2	1.7	1.5	1.6	3.0	2.0	1.9	1.3	7.9	15.1	7.6	4.3	2.7	2.8
NBS foreign exchange reserves (in EUR million)	10,002	12,058	10,915	11,189	9,907	10,378	10,205	9,962	11,262	13,378	13,492	16,455	19,416	24,909	29,295	29,008	28,486
Exports (in EUR million)[3)]	9,515	11,145	11,469	13,937	14,451	15,728	17,385	19,312	21,166	23,349	22,271	28,818	38,004	41,018	44,317	47,686	12,288
- growth rate in % compared to a year earlier	18.3	17.1	2.9	21.5	3.7	8.8	10.5	11.1	9.6	10.3	-4.6	29.4	31.9	7.9	8.0	7.6	6.4
Imports (in EUR million)[3)]	14,244	16,487	16,992	17,782	18,096	18,643	19,597	22,343	25,257	27,960	26,370	33,439	45,054	44,543	48,267	51,850	12,797
- growth rate in % compared to a year earlier	8.7	15.7	3.1	4.7	1.8	3.0	5.1	14.0	13.0	10.7	-5.7	26.8	34.7	-1.1	8.4	7.4	2.5
Current account balance[3)]																	
(in EUR million)	-2,037	-3,656	-3,671	-2,098	-1,985	-1,234	-1,075	-2,051	-2,076	-3,161	-1,929	-2,266	-4,162	-1,804	-3,788	-4,302	-179
as % of GDP	-6.2	-9.9	-10.5	-5.5	-5.4	-3.3	-2.8	-5.0	-4.6	-6.6	-3.9	-4.1	-6.6	-2.4	-4.5	-4.9	-0.8
Unemployment according to the Survey (in %)[6)]		24.9	25.9	24.0	20.6	18.9	16.4	14.5	13.7	11.3	9.7	11.1	9.5	9.4	8.6	8.7	
Wages (average for the period, in EUR)[7)]	331.8	372.5	366.1	388.5	379.8	367.9	374.5	394.5	419.8	466.0	510.9	560.2	637.9	733.5	838.2	934.0	999.1
RS budget deficit / surplus (in % of GDP)[4)]	-3.0	-3.6	-5.4	-4.7	-5.7	-2.6	-0.2	0.7	0.6	0.2	-8.0	-4.4	-3.2	-2.0	-2.2	-2.6	-3.9
Consolidated fiscal result (in % of GDP)[4)]	-4.2	-4.3	-6.2	-4.9	-5.9	-3.3	-1.1	1.1	0.6	-0.2	-7.7	-3.9	-3.0	-2.1	-2.0	-2.4	-4.5
RS public debt, (central government, in % of GDP)[8)]	37.9	41.2	50.8	53.7	63.4	67.2	65.2	55.5	51.4	49.7	54.4	53.9	52.4	48.0	46.7	44.4	41.7
RSD/USD exchange rate (period average)	77.91	73.34	88.12	85.17	88.54	108.85	111.29	107.50	100.28	105.28	103.03	99.49	111.86	108.41	108.20	103.79	100.34
RSD/USD exchange rate (end of period)	79.28	80.87	86.18	83.13	99.46	111.25	117.14	99.12	103.39	104.92	95.66	103.93	110.15	105.87	112.44	99.92	102.36
RSD/EUR exchange rate (period average)	103.04	101.95	113.13	113.14	117.31	120.73	123.12	121.34	118.27	117.85	117.58	117.57	117.46	117.25	117.09	117.20	117.39
RSD/EUR exchange rate (end of period)	105.50	104.64	113.72	114.64	120.96	121.63	123.47	118.47	118.19	117.59	117.58	117.58	117.32	117.17	117.01	117.28	117.42
MEMORANDUM:																	
GDP (in EUR million)[5)]	32,841	36,865	35,074	37,978	37,014	37,220	38,165	40,828	44,711	48,105	49,024	55,931	63,513	75,205	83,258	88,674	21,430

[1)] At constant prices of previous year. Data for Q12026 is SORS flash estimate.

[2)] Retail prices until 2006.

[3)] Starting from 2007 data on balance of payments (current account, exports and imports of goods and services) are shown in accordance with BPM6. Data for 2005 and 2006 are shown according to the previous methodology. Due to the break in the series for 2007, exports and imports growth rates are not shown. Starting 2007 the general trade system of registration of exports and imports is applied. This is a broader concept and includes all goods entering/exiting country's economic territory, apart from goods in transit. Data for 2005 and 2006 are disseminated using the special trade system.

[4)] Includes below-the-line items (payment of called guarantees, bank recapitalisations and debt takeover) in line with IMF methodology, as of 2008 on RS budget level and as of 2005 on consolidated level.

[5)] According to ESA 2010. Data for Q12026 is NBS estimate.

[6)] Revised data from 2011 (two revisions were carried out - a revision due to the improvement of the methodology and a post-census revision).

[7)] Until 2018, wages are shown according to the old methodology. Since 2018, wages are shown according to the new methodology and data are based on Tax Administration evidence. For conversion of wages from RSD to EUR, we used the average of the period RSD/EUR exchange rate. Data for Q12026 is average of two months.

[8)] Data on the share of public debt in GDP were downloaded from the website of the Ministry of Finance.

Notes:

1. SORS revised GDP data for the period 1995-2023, which led to a change in the share of macroeconomic indicators in GDP.
2. Data are subject to corrections in line with official data sources.
3. Source for the data on unemployment: Labour Force Survey, Statistical Office.
4. Source for public debt: MoF.
5. The Statistical Office revised data for export of goods for 2024 and Q1 2025.

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Executive Board meetings and changes in the key policy rate

2025

Date	Key policy rate (p.a, in %)	Change (in basis points)
10 January	5.75	0
13 February	5.75	0
13 March	5.75	0
10 April	5.75	0
9 May	5.75	0
12 June	5.75	0
10 July	5.75	0
7 August	5.75	0
11 September	5.75	0
9 October	5.75	0
13 November	5.75	0
11 December	5.75	0

2026

Date	Key policy rate (p.a, in %)	Change (in basis points)
12 January	5.75	0
12 February	5.75	0
12 March	5.75	0
9 April	5.75	0
7 May	5.75	0
11 June		
9 July		
13 August		
10 September		
8 October		
12 November		
10 December		

Press releases from NBS Executive Board meetings

Press release from Executive Board meeting held on 12 March 2026

At its meeting today, the NBS Executive Board voted to keep the key policy rate at 5.75%. It also kept the deposit facility (4.5%) and lending facility (7.0%) rates unchanged.

The Board made the decision primarily in view of actual and expected inflation, as well as factors from the domestic and international environment affecting its movements. Consistent with the Board's expectations, y-o-y inflation continued to slow early in the year, to 2.4% in January, with the prices of food and non-alcoholic beverages declining by 1.0% on average from January 2025. Such price movement was largely driven by the application of the Decree on Special Conditions for Trade in Certain Types of Goods – which caps wholesale and retail trade margins. Inflation is expected to continue moving within the 3±1.5% target tolerance band even after the expiry of the Decree, until end-2026 and in the medium run. This should be facilitated by a cautious monetary policy, the announced adoption of systemic laws that will curb unfair merchant practices, as well as by the onset of a new agricultural season, assuming that it turns out better than last year's. The increase in disposable income – mainly due to wage growth – and the low base from September 2025 (when the implementation of the Decree began) will work in the opposite direction. However, we do not anticipate any major inflationary pressures from wage growth as it will be accompanied by gains in productivity. Furthermore, the NBS measures to stimulate lending to lower-income citizens are calibrated to avoid excessive credit growth, which could negatively affect price and financial stability.

As for developments in the international environment, the Executive Board emphasizes that it will continue to pursue a cautious monetary policy, primarily bearing in mind geopolitical tensions and the conflict in the Middle East, the impact of these events on growth in global prices of energy and other primary commodities, as well as on uncertainty indicators. The scale and length of this supply-side shock are hard to predict, as are its effects on global inflation. What can be assumed at the moment is that the major hike in international crude oil prices will also be reflected in the movement of petroleum product prices at home. Also, current global developments may additionally affect supply chains, investment and consumer confidence, and goods and capital flows because they were experiencing pressure even before the latest crisis broke out, due to the rising protectionism in the world's largest economies. As for monetary policy decisions by leading central banks, the Middle East conflict has increased uncertainty regarding the outlook for the US and European inflation and economic activity, and hampered the assessment of future monetary policy decisions by the Fed and the ECB.

At the beginning of this year, economic activity in Serbia was also exposed to significant challenges, primarily due to reduced production at the Pančevo oil refinery, which was reflected in a decline in industrial production in January. Nevertheless, a long-term sustainable solution for the smooth operation of NIS is looming large, which should also contribute to the acceleration of economic growth in the remainder of the year. A positive contribution to GDP growth this year is anticipated from consumption and fixed investment, supported by the implementation of investments under the Leap into the Future – Serbia Expo 2027 programme. In 2027, net exports are also likely to be a positive contributor to growth due to the holding of the specialised Expo exhibition.

The Executive Board will continue to follow and analyse developments in the domestic and international markets and make monetary policy decisions on a meeting-to-meeting basis depending on the incoming data, the outlook for inflation and its key factors, and the assessment of the effects of past monetary policy measures. In making its decisions, the Board will remain mindful of the preservation of financial stability and a favourable growth outlook.

The next rate-setting meeting will take place on 9 April.

Press release from Executive Board meeting held on 9 April 2026

The NBS Executive Board decided in today's meeting to keep the key policy rate unchanged at 5.75%, including the deposit and lending facility rates (4.5% and 7.0%, respectively).

When making the decision, the Executive Board was mainly guided by actual and expected inflation movements, as well as risks from the international environment which could impact inflation trajectory.

In line with the Board's expectations, at the start of the year y-o-y inflation continued to move below the target midpoint, measuring 2.5% in February. The prices of food and non-alcoholic beverages continued to post a y-o-y fall, which equalled 0.7% in February. This was largely a result of the implementation of the Decree on Special Conditions for Trade in Certain Goods, which capped wholesale and retail trade margins in the period from September 2025 until March this year.

The February projection assumed that trade margins would not return to their pre-Decree levels thanks to the adoption of systemic laws aiming to prevent unfair trading practices, but that inflation would move around 4% from September this year due to the low base from 2025 resulting from the implementation of the Decree. The projection also assumed no major rise in global prices of oil, other energy products and primary commodities. Flaring geopolitical tensions and the outbreak of the Middle East conflict have, however, given a strong upward push to oil prices in the past month and a half, reflecting on other energy prices as well. Given that Serbia is a net importer of energy, oil price growth will lead to higher petroleum product prices at home, but the effects on headline inflation will depend on the duration and intensity of the conflict. Current global developments and rising world oil prices may also affect the prices of container transport, mineral fertilisers, value chains, investment and consumer confidence, as well as the flows of goods and capital, which had already been under some pressure even before the outbreak of the latest crisis due to rising protectionism in leading world economies. When it comes to monetary policy decisions of leading central banks, the Middle East conflict has added to uncertainty regarding the outlooks for US and European inflation and economic activity, and made it more difficult to estimate what the Fed and the ECB's next move may be.

Against such background, economic policymakers in Serbia are implementing coordinated measures aimed at preserving price stability and mitigating the adverse effects of external shocks. The government has already taken measures to limit the rise in petroleum product prices in the domestic market – it has banned the export of petroleum products and reduced excise duties on fuel, which should help contain second-round effects on other prices and thereby prevent a more pronounced build-up of inflationary pressures. The NBS continues to pursue a cautious monetary policy, while maintaining relative stability of the exchange rate. Should it assess that the increase in global oil prices is generating more pronounced second-round effects on other prices via inflation expectations, the NBS will respond using all available instruments. At the same time, the results of the March surveys indicate that short- and medium-term inflation expectations of the financial sector remain around the target midpoint and corporate sector expectations within the target band.

As regards economic activity, following the challenges at the beginning of the year – primarily in the petroleum products manufacturing and chemical industry – conditions improved in February, largely owing to the services sector, as well as the restarting of production at the Pančevo Oil Refinery in late January. It is expected that securing a long-term sustainable solution for the smooth operations of the Oil Industry of Serbia (NIS) will provide additional support to economic growth over the remainder of the year. A positive contribution to GDP growth is expected from consumption and fixed investment, with investment projects under the "Leap into the Future – Serbia Expo 2027" programme playing a significant role, while in 2027 net exports are also projected to contribute positively, owing to "Expo". In the previous year, credit growth induced by favourable terms of borrowing acted as a strong tailwind to economic growth. Similar trends extended into 2026, in view of the lending acceleration to 16.4% y-o-y in February. Nevertheless, economic activity remains under the shadow of global uncertainty triggered by geopolitical and trade tensions and a rise in energy prices, which might negatively affect investment and consumer confidence and capital flows.

The Executive Board will continue to monitor and analyse trends in the domestic and international markets, making future monetary policy decisions on a meeting-by-meeting basis, informed by the incoming data.

Amid the significantly changed circumstances relative to the previous, February, inflation and GDP projections, the NBS currently weighs the sustainability of the current projections and develops different scenarios, to better grasp potential risks and ensure timely and adequate monetary policy response, should that be deemed necessary for the maintenance of medium-term price stability.

The next rate-setting meeting is scheduled for 7 May 2026.

Press release from Executive Board meeting held on 7 May 2026

At its meeting today, the NBS Executive Board voted to keep the key policy rate at 5.75%. It also kept the deposit facility (4.5%) and lending facility (7.0%) rates unchanged.

In making this decision, the Executive Board primarily took into account actual and expected inflation, as well as risks from the international environment that could affect its trajectory.

Although y-o-y inflation remained below the target midpoint during Q1 and amounted to 2.8% in March, the NBS Executive Board expects it to record a moderate increase in the period ahead, primarily due to a significant rise in global oil prices and, consequently, higher petroleum product prices in the domestic market. Towards the end of the year, higher inflation will also be affected by the low base arising from the implementation of the Decree on Special Conditions for Trade in Certain Types of Goods, which led to a notable decline in inflation late last year. However, despite the increase in global prices of primary commodities and energy, the Board expects the rise in inflation to be temporary, with the peak in the current cycle likely to be recorded towards the end of this year and at the beginning of next. As anticipated by the Executive Board, the expiry of the Decree in February this year did not lead to any major increase in trade margins or their return to pre-decree levels, as reflected in food prices, which in March were still lower than in the same period last year.

Current global developments, notably the situation in the Middle East, could have a negative effect on container shipping prices, mineral fertilisers, value chains, investment and consumer confidence, as well as goods and capital flows. Also, as Serbia is a net energy importer, an increase in the global price of oil is directly mirrored by a rise in petroleum products in the local market, and can indirectly impact the prices of food, as well as of industrial products and services. On the other hand, higher costs and the consequently lower disposable income of households have an adverse effect on economic growth prospects. The final effects of the global energy shock on domestic inflation and economic activity are difficult to estimate as they depend on the duration and intensity of the conflict.

According to the flash estimate of the Statistical Office of the Republic of Serbia, real GDP growth in Q1 amounted to 3% y-o-y. After challenges in January, primarily in petroleum product manufacturing and the chemical industry, February and March saw a pick-up in activity within the manufacturing industry, accompanied by an increase in its exports. At the same time, growth in retail trade and tourism stepped up significantly, indicating that the largest positive contribution to economic growth in Q1 came from services. In the coming period, positive contributions to GDP growth are expected from consumption and investments, with a significant role played by the implementation of investment projects within the "Leap into the Future – Serbia Expo 2027" programme. In 2027, a positive contribution is also expected from net exports as a result of hosting the Expo. Growth in lending activity to businesses and households, which accelerated to nearly 17% y-o-y in March, supported by favourable borrowing conditions, is providing significant support to economic growth. Nevertheless, economic activity remains affected by global uncertainty caused by geopolitical tensions and rising energy prices, which may negatively impact investment and consumer confidence, as well as capital flows.

In such circumstances, the NBS continues to pursue a cautious monetary policy while maintaining relative stability of the exchange rate. If assessed that the increase in global oil prices is having more pronounced second-round effects on other prices through inflation expectations, the NBS will respond using all available instruments.

At today's meeting, the Executive Board adopted the May Inflation Report with the latest macroeconomic projections that have factored in the ongoing energy shock. The Report will be presented to the public in more detail at a press conference on 13 May, along with additional explanations of monetary policy decisions.

The next rate-setting meeting will take place on 11 June.