National Bank of Serbia

2025

August

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 August *Inflation Report* was considered and adopted by the NBS Executive Board at its meeting of 7 August 2025.

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

Nikola Dragašević, Vice Governor

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 31 July.

Contents

I Overview

Global growth prospects have looked up since the previous* Report*, reflecting intensified global trade in Q1 in anticipation of higher tariffs later in the year, but also lower effective tariff rates than assumed in April and improved global financial conditions.

According to the IMF, **global growth prospects** have improved relative to April, by 0.2 pp to 3.0% in 2025 and by 0.1 pp to 3.1% in 2026, but this is still below the 2024 growth (3.3%) and the multiyear average of 3.7%. A more favourable global growth outlook reflects intensified global trade in Q1 this year in anticipation of higher tariffs later in the year, but also lower effective tariff rates than assumed in April and improved global financial conditions. The projection of euro area growth for 2025 has been revised up by 0.2 pp from April, to 1.0%. Like in the previous projection, it is expected to accelerate to 1.2% next year. Economic growth projections for this year have been revised up for Germany and Italy, our key partners within the euro area.

Global inflation will continue down. Inflation will slow more than anticipated in the previous projection, especially in the USA, due to the reduction of effective tariff rates.

Global inflation continued down in 2025, mostly under the impact of subdued energy prices. Core inflation subsided as well, though at a slightly slower pace, due to the easing of the effects of real wage growth and the effects of past monetary policy tightening. In most countries, however, inflation remains above its pre-pandemic multiyear average. Inflation in countries of the Central and Southeast European region mostly stepped up in June, as food prices increased amid adverse weather conditions and petroleum product prices went up after the outbreak of the Israel-Iran conflict. Going forward, global inflation is expected to recede from an average of 4.2% in 2025 to 3.6% in 2026. The prevailing view is that the increase in tariffs will produce inflationary effects in tariff-imposing countries, primarily the USA, and disinflationary effects in tariff-imposed countries, such as the EU, as they will face negative demand-side shocks. In the euro area, average inflation is expected to be at target level this year and slightly below the target in 2026 – at 1.8%.

Uncertainty in global commodity and financial markets receded since the previous* Report *as the effective tariff rates imposed by the new US administration on imports from other countries were lowered.

Uncertainty in international commodity and financial markets abated since the previous *Report*, as the effective tariff rates imposed by the US on imports from other countries were lowered, especially after the deal reached with the EU. Global uncertainty remains elevated, however. In Q2, central banks either continued to ease their monetary policies or kept their policy rates on hold. Though the ECB relaxed its monetary policy further in June with inflation on target, and the Fed, by contrast, kept its rates on hold amid expectations that the tariffs would drive inflation up, the dollar continued its slide against the euro. This was due to reduced US growth expectations, and the downgrade of the US credit rating.

The NBS Executive Board has kept the key policy rate unchanged at 5.75% since September last year, assessing that monetary policy caution is still mandated by pronounced geopolitical tensions, rising protectionism and higher than anticipated

Since the previous *Report,* the NBS Executive Board **has kept the key policy rate on hold at 5.75%.** In making its decisions, the Board took into account that a cautious monetary policy should still be pursued, as inflation at home greatly depends on developments in global commodity and financial markets which are

food price growth over the last months both at home and abroad.

highly volatile due to geopolitical tensions and the escalation of the Middle East conflict, as well as rising protectionism. Moreover, elevated prices of some food inputs in the global exchanges, last year's drought and the consequently reduced inventories of agricultural commodities, as well as adverse weather conditions at the outset of the season, triggered accelerated y-o-y growth in domestic food prices in Q2. As a result, inflation will continue to hover around the upper bound of the target band over the coming months. After the outbreak of the Israel-Iran conflict, petroleum product prices also turned out higher than projected in May.

Double-digit y-o-y growth in lending to the non-monetary sector continued in Q2 propped up by improved borrowing conditions.

Though the interest rate on dinar corporate loans went slightly up in Q2, it is still below its end-2024 level. The rates on dinar household loans continued down mostly due to the cheapening of cash loans. The rates on credit card debt and current account overdraft declined further and were below the caps set by the amendments to the Law on the Protection of Financial Service Consumers. The cost of borrowing in euros subsided amid continued relaxation of the ECB's monetary policy, while lower interest rates in the household sector reflected the approval of subsidised loans on more favourable terms within the government programme of housing loans for young people. Double-digit y-o-y growth in **lending to the non-monetary sector** continued, measuring 10.8% in June, as the costs of borrowing decreased and credit standards were eased. Y-o-y growth in corporate loans was similar as in March (7.1%), guided by working capital and investment loans, while growth in household loans accelerated to 14%, propped up by a faster rise in both cash and housing loans. Lending growth, together with preserved bank asset quality, brought the share of NPLs in total loans to a minimum of 2.3% in June.

Though the fiscal deficit is expected to rise to 3% of GDP in this and the next two years, the public debt-to-GDP ratio is projected to remain on a downward path.

Fiscal trends in H1 2025 were characterised by a government deficit of RSD 21.3 bn (-0.4% of GDP), while the primary balance surplus was RSD 66.2 bn (1.3% of GDP). Total revenue gained 1.9% y-o-y in real terms, mostly guided by higher income tax revenue amid continued positive trends in the labour market. Though the real disposable income went up, VAT revenue was lower than in the same period last year. Corporate profit tax revenue also declined in y-o-y terms as 2024 saw lower profitability than the year before. Nevertheless, corporate profitability remained high, at RSD 866 bn, according to data of the Business Registers Agency. Fiscal expenditure rose 4.8% in real terms, guided by higher outlays for pensions and public sector wages, as well as capital expenditure. The end-June share of public government debt in GDP was 44.0%. The Fiscal Strategy for 2026 with Projections for 2027 and 2028 puts fiscal deficit in this and the next two years at 3% of GDP, propped up by the implementation of capital investment as part of the "Expo 2027" programme. This will make the fiscal policy mildly expansionary. In 2028, the deficit will decline to 2.5%. This should not, however, affect the downward trajectory of the public debt-to-GDP ratio which should slide from 46.8% at end-2025 to 46.2% until the end of 2028.

In the six months of the year, both goods exports and imports posted double-digit y-o-y growth, though import growth was slightly faster.

The current account deficit equalled EUR 2.0 bn in the six months of the year (4.7% of GDP), up by EUR 957 mn y-o-y, with a half of the increase resulting from a higher deficit on trade in goods. Goods exports gained 10.8% in y-o-y terms in the January–June period, guided by increased manufacturing export, with branches associated with the automobile industry providing the strongest impulse. In addition, the revision of data on goods exports for 2024 and Q1 2025 by the SORS by over EUR 2 bn shows that exports demonstrated great resilience to the negative effects of stubbornly low external demand and problems in the European automobile industry. Goods imports rose by 11.4% y-o-y in the six months of the year, reflecting higher imports of intermediate and consumer goods. FDI inflow was EUR 1.5 bn, down by around 40% y-o-y, partly as a consequence of above-average one-off inflows last year, reduced investment confidence globally, and the deferral of some investment due to protests and blockades in the country. Improved balance of payments movements and diminished FX demand of energy importers added to appreciation pressures from April onwards. To preserve the relative stability of the dinar exchange rate against the euro, the NBS mostly participated as the net buyer in the foreign exchange market. Not only was the amount of FX sales from the start of the year entirely offset, but the NBS's interventions in the foreign exchange market also added EUR 130 mn to FX reserves until end-July. The country's FX reserves were thus EUR 28.3 bn at end-July, remaining well above reserve adequacy metrics and representing an important pillar of defence against external risks.

GDP growth had the same dynamics as in Q1 and measured 2% y-o-y, propped up by the effects of investment in the automobile industry. Reduced activity in construction worked in the opposite direction.

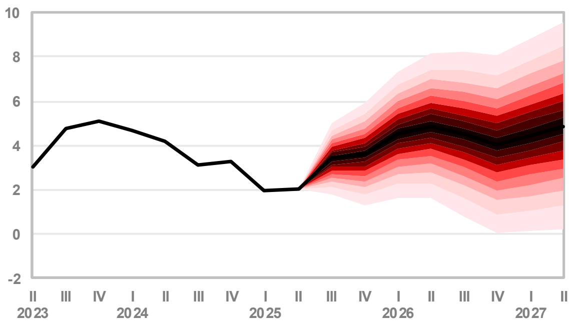
According to the SORS estimate, **economic activity** rose by 2.0% in y-o-y terms in Q2 as well. Investment and consumer confidence declined, reflecting the adverse effect of factors from the international environment, as well as protests and blockades at home. Second-quarter growth was therefore below our expectations stated in the previous *Report.* Similarly as in previous quarters, we estimate that GDP growth was led by the service sectors, followed by manufacturing, where we are beginning to see the effects of expansion of serial production of electric vehicles in Stellantis Kragujevac, and accelerated production of car tyres. Construction and energy sectors produced negative effects. On the expenditure side, economic growth was guided by domestic demand, most notably personal consumption, while net exports provided a negative contribution as goods and services imports were higher than exports, reflecting investment planned under the "Leap into the Future – Serbia Expo 2027" programme and the rise in disposable income.

Under our new projection, GDP growth will measure 2.75% this year, and range between 4% and 5% in 2026 and 2027, though closer to the upper bound of

Our new projection of **GDP growth** for this year is lower than in May, measuring 2.75%. This mostly reflects subdued activity in construction in the year so far on the production side, and lower than anticipated growth in private consumption and investment on the

the projected band in 2027 due to the hosting of "Expo".

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



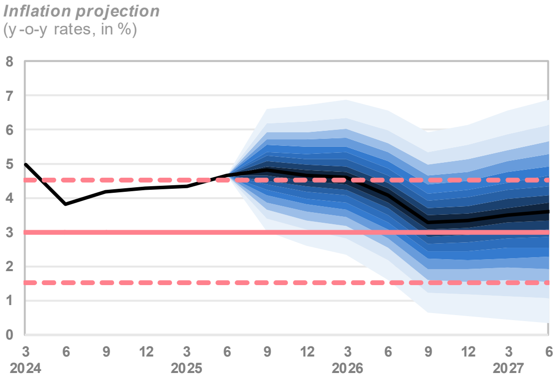
expenditure side. Taking into account the available SORS data on the production of wheat and some fruit cultures, and on sown areas under autumn crops, as well as the relatively unfavourable weather conditions in the past months, we estimate that this year's **agricultural season** will be worse than the average we assumed in our May projection, but still slightly better than last year's. As the hydropotential and coal inventories remain low, the energy sector also failed to recover as expected. Activity is nonetheless anticipated to pick up in H2, propped up by the continued rise in automobile industry production and exports, and the implementation of infrastructure projects under the "Leap into the Future – Serbia Expo 2027" programme. As regards key sources of economic growth, expectations for the next two years are similar. In 2027, we expect a notable rise in the contribution of the service sectors on the production side, and of net exports on the expenditure side, due to the hosting of "Expo". Private consumption growth will be supported by higher disposable income and positive trends in the labour market, while fixed investment growth will be sustained by increased corporate profitability in recent years, continued FDI inflows to equity capital, planned government capital expenditures for projects in transport, energy and utility infrastructure, and improved lending conditions amid the monetary easing so far. As of next year, a positive contribution to export should also come from accelerated economic growth in our key trade partners, but imports will rise faster than exports due to the planned investment and domestic consumption growth, resulting in a negative contribution of net exports. Consistent with this, we expect the **share of the current account deficit in GDP** this year and the next to be in the range of 5–5.5% and largely covered by FDI inflows projected at around 4.5% of GDP. In 2027, as services exports go up, the current account deficit ought to subside to around 4% of GDP and to be fully covered by net FDI inflow.

Y-o-y inflation continued to slow in April and May under the impact of subdued core inflation, but accelerated to 4.6% in June as adverse climate factors drove unprocessed food prices up and global oil prices trended higher.

Y-o-y inflation continued to slow in April and May, consistent with our expectations stated in the previous *Report.* In June, however, it sped up to 4.6%, mostly reflecting robust growth in unprocessed food prices triggered by adverse weather conditions (cold weather followed by frost in the spring and high air temperatures and lack of precipitation in June) and the low base effect from the same period last year. Moreover, the increase in global oil prices in June led to a slower y-o-y decrease in petroleum product prices at home. **Core inflation** (CPI excluding food, energy, alcohol and cigarettes) displayed similar dynamics in Q2 – it slowed slightly in April and May and accelerated moderately in June, to 4.7% y-o-y, approaching headline inflation and declining relative to March. Core inflation's decline was propped up mainly by lower services prices, but the contribution of industrial product prices subsided as well.

Under our new projection, inflation will move around the upper bound of the target band until the end of the year, slowing to 4.0% on average in 2026.

Under our central August projection, **y-o-y inflation** will continue to move around the upper bound of the target band (3±1.5%) until the end of the year, under the impact of adverse weather conditions at the outset of



this year's agricultural season, higher prices of fruit and vegetables, and elevated global price of oil. It will then slow gradually in 2026, averaging 4.0% and approaching the target midpoint late in the year. Inflation's expected slowdown over the projection horizon will continue to reflect tight monetary conditions, high base for prices of food, primarily fruit and vegetables, subdued imported inflation and the dollar's weakening against the euro. The new inflation projection is higher than in May, mostly on account of the impact of adverse weather conditions on fresh fruit and vegetable prices, elevated processed food and global oil prices, and faster than projected real wage growth due to the planned extraordinary minimum wage increase in October this year.

The NBS will continue to pursue a cautious monetary policy, on a meeting-to-meeting basis, taking into account movements in all key economic indicators at home and abroad, and making sure that price stability is preserved in the medium term.

The risks to the inflation and GDP projections mostly stem from the still heightened geopolitical tensions, and partly also from reduced but lingering risks regarding leading economies' trade policies. The risks to the projection are also associated with the outcome of the agricultural season globally and at home and the speed of domestic demand growth and are, overall, equally pronounced in both directions. The NBS will continue to monitor and analyse trends in the domestic and international markets and make future monetary policy decisions on a meeting-to-meeting basis depending on the pace of inflation's slowdown. Delivering price and financial stability in the medium term will remain the monetary policy priority, including support to further economic growth and development, continued rise in employment and preservation of a favourable investment environment.

II Monetary policy since the May *Report*

In the period since the May* Report*, the Executive Board of the National Bank of Serbia has kept the key policy rate unchanged at 5.75%. In making the decisions to keep the rate on hold, the Executive Board primarily took into account that it is still necessary to continue implementing a cautious monetary policy stance, given that domestic inflation largely depends on developments in global commodity and financial markets, which are highly volatile due to geopolitical tensions and the escalation of the Middle East conflict, the effects of rising protectionism and uncertainty surrounding the trade policies of the world's leading economies going forward.

The Executive Board also had in mind that y-o-y growth in food prices in the domestic market accelerated in Q2, driven by the rise in prices of certain food commodities in global stock exchanges, the last year's drought, and the reduced supply of fruits and vegetables from the previous season, as well as adverse weather conditions early in the season (frost and cold weather in April and May, followed by high temperatures and lack of precipitation in June). In addition, following the outbreak of the conflict between Israel and Iran, petroleum product prices rose above the level assumed in the May projection.

Rationale for June and July decision

At its meetings in June and July, the NBS Executive Board kept the key policy rate unchanged at 5.75%. The key policy rate has stood at that level since September 2024, when it was cut for the third time in the current cycle of monetary policy easing.

The basis for the Executive Board's decision in this period was the **May medium-term inflation projection**, which anticipated that inflation would remain within the target tolerance band (3.0±1.5%) throughout the projection horizon (the next two years). This trajectory is expected to be supported primarily by the still restrictive monetary conditions, the expected decline in global energy prices and lower imported inflation, the onset of the new agricultural season, assuming it is average, and the projected path of real wages consistent with productivity growth.

Actual inflation data for April and May were consistent with the Executive Board's expectations. Y-o-y headline inflation decelerated to 4.0% in April and to 3.8% in May, mostly on the back of lower energy prices – primarily those of petroleum products – and a slowdown in core inflation. Compared to May last year, energy prices were down by 3.5%, while core inflation (CPI excluding food, energy, alcohol and cigarettes) approached the upper bound of the target tolerance band, decelerating to 4.6%, its lowest level in the past 12 months. However, due to adverse weather conditions, food price growth accelerated to 5.7% y-o-y in May. This, coupled with the rise in petroleum product prices amid higher global oil price in June, provided the basis for the Executive Board's expectation that y-o-y inflation would likely temporarily accelerate in the coming months and move around the upper bound of the target tolerance band.

When deciding on monetary policy in June and July, the Executive Board took into account that short- and medium-term **inflation expectations** of the financial sector continued to move within the target band in Q2, where they have been since early 2024. It also noted that corporate inflation expectations stayed unchanged at 5% since December 2024, with expectations for two and three years ahead also at that level in June.

When assessing developments in the **real sector**, the Executive Board considered that global uncertainty, the introduction of new tariffs, and problems in the European automobile industry, along with blockades and protests in the domestic market, weighed on Serbia's economic growth, mostly through postponed investments and consumption. According to the SORS estimate, industrial production growth in January–May 2025 period came at 2.5% y-o-y, driven primarily by the pick-up in manufacturing (4.2%), reflecting investment growth in the automobile industry. Goods exports also posted relatively strong y-o-y growth, but goods imports grew even faster due to the implementation of the investment cycle and rising disposable income. Service sector indicators also improved in May relative to April and Q1, as evidenced by the 5.6% y-o-y rise in retail trade turnover in May, after a 0.8% in the first four months of the year. The

Executive Board expected that economic activity would accelerate in the remainder of the year, driven primarily by supply-side factors – most notably, the initiated upturn in automobile production and the implementation of infrastructure projects under the "Leap into the Future – Serbia Expo 2027" programme. Economic growth is also supported by the double-digit y-o-y growth in lending to corporates and households, which is a result of the previous monetary policy easing by the NBS and the ECB, as well as more favourable costs of borrowing.

In making monetary policy decisions, the Executive Board paid particular attention to international developments, emphasising the need for a continued cautious monetary policy stance, given above all the **geopolitical tensions and the escalation of the Middle East conflict, the uncertainty surrounding protectionist measures and global market fragmentation**, which raises concerns over a possible simultaneous increase in inflation and a slowdown in global economic activity. Uncertainty surrounding the Middle East conflict primarily affects the volatility of global oil and natural gas prices, while rising tariffs and uncertain trade policies weigh on global growth prospects and depress the prices of primary commodities. However, rising trade tensions also increase the risk of supply chains disruptions and price hikes for goods directly affected by tariffs, which could spur global inflation.

In the **euro area,** our key trade partner, inflation has stabilised near the 2% target, with inflation expectations well anchored. Inflation is expected to move around the target in 2025 and slow further in 2026, owing to the euro's appreciation against the dollar, lower energy prices and cheaper imports from China. ECB officials noted that rising tariffs could have inflationary effect over the medium term due to higher costs and less efficient supply chains – effects not included in standard projection models. At the same time, euro area economic activity has proven more resilient than previously assessed, with a strong fiscal impulse from rising fiscal expenditure in Germany, improving Europe's economic outlook.

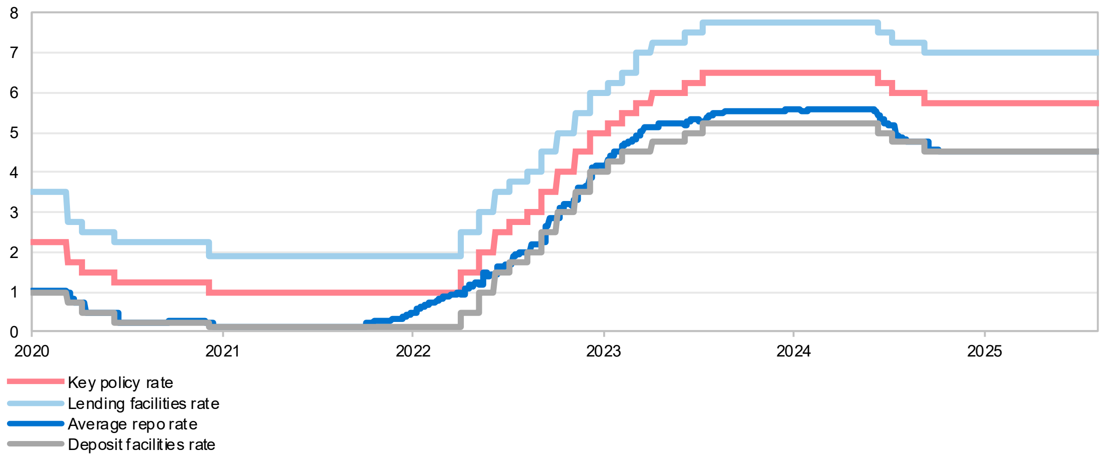
As expected, the **ECB** continued its monetary policy easing, cutting its key interest rates in June, though it assessed that rates are now close to neutral. Market participants expected another rate cut by the ECB until the year's end. The gradual decline in euro-indexed borrowing costs in the domestic market – due to lower money market rates in the euro area – together with lower dinar lending, as a result of the earlier reduction of the key policy rate by the NBS, contributes to further growth in lending to around 11% y-o-y, and hence to GDP growth, but without generating significant inflationary pressures.

Changes in US trade policy necessitated increased caution in the **Fed's** conduct of monetary policy, which left the target range for the federal funds rate unchanged at 4.25–4.50%. The Fed assessed that the economic effects of tariffs would include higher inflation and slower growth, but the appropriate monetary policy response remains uncertain until it sees whether tariffs will only temporarily affect prices or will result in higher inflation in the longer run.

When considering **external demand**, the NBS Executive Board took into account the expectations of relevant international institutions that both advanced and emerging economies will grow at a slower pace, not only due to fundamental challenges but also due to heightened uncertainty amid rising protectionism. The global economy has demonstrated notable resilience to numerous challenges since the beginning of the year, though it is assessed that this was driven by consumers and businesses in the USA, who increased their orders from other countries in anticipation of higher tariffs. This, in turn, bolstered export and economic activity

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

(in %)



Source: NBS.

in the euro area and China. In the remainder of the year, global economic growth is expected to slow further, as suggested increasingly by global trade indicators in the wake of rising tariffs. The expected acceleration of growth in Germany, our most important trade partner, thanks to, among other things, a new package of government investments in infrastructure and defence, should have a positive impact on Serbia's growth starting next year.

Uncertain assessments of global supply and demand, along with the Middle East conflict, geopolitical tensions and the prospect of new sanctions on Russia, bring instability to global markets of **crude oil, but also other energy and primary commodities**.

Monetary policy caution is also warranted with respect to **global food prices**. The Executive Board had in mind that the prices of certain food commodities on global exchanges (such as cocoa and coffee), which recently reached record highs, will continue to exert upward pressure on food prices for some time. Volatile weather conditions, protectionist measures and trade restrictions could drive food prices even further up. In addition, unfavourable weather and frost in April, followed by cold weather in May, adversely affected fruit yields in Serbia, while drought in June led to the absence of the seasonal decline in vegetable prices. Given the adverse weather conditions in June, the yield of other crops will likely be lower than in the May projection. Hence, when making its July decision, the Executive Board considered that inflation will be higher in the short term than than projected in May.

Rationale for August decision

At the August meeting, the Executive Board has kept the key policy rate unchanged, taking into account that the new inflation projection is at a higher level than the previous one. The Executive Board emphasised that geopolitical tensions remain pronounced, protectionism is on the rise, and that the increase in food prices in recent months has been higher than expected, both in the international and domestic markets.

The NBS will continue to monitor and analyse trends in the international commodity and financial markets and, based on this and an assessment of domestic developments and the pace of inflation's slowdown, make monetary policy decisions on a meeting-to-meeting basis. 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.

III Inflation movements

Consistent with our expectations, y-o-y inflation continued to decelerate in April and May, but then picked up to 4.6% in June, primarily because of a sharp increase in the prices of unprocessed food driven by adverse weather conditions (frost during the spring and high temperatures and lack of precipitation in June), as well as the low base effect from the same period last year. In addition, the increase in global oil prices in June led to a slower y-o-y decline in petroleum product prices at home. A similar y-o-y dynamic in Q2 was recorded for core inflation, although its acceleration in June (4.7%) was significantly milder, placing it close to headline inflation.

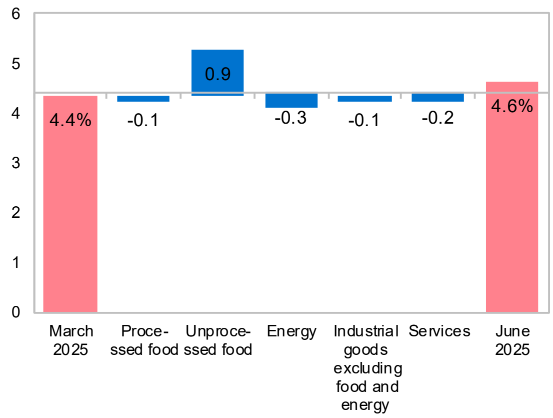
Inflation expectations of the financial sector for one and two years ahead continued to move within the target tolerance band (3±1.5%), confirming the preserved credibility of the NBS's monetary policy.

Inflation movements in Q2

After slowing further to 4.0% and 3.8% in April and May, respectively, **y-o-y inflation** stepped up to 4.6% in June, primarily due to the increased contribution of the prices of food and non-alcoholic beverages, which accounted for nearly half of y-o-y inflation in June, recording a 7.4% y-o-y growth rate. This was largely driven by the accelerated y-o-y growth in fruit and vegetable prices, followed by an increase in the prices of fresh meat under the influence of rising global prices, and, partly, by further hike in the prices of coffee and chocolate, despite the decline in their global counterparts in recent months. A slower y-o-y decline in petroleum product prices in June compared to April and May also worked in the same direction, reflecting the renewed rise in global crude oil prices in June. In the countries of Central and Southeast Europe – the Czech Republic, Romania, Hungary, and Poland – which pursue a similar monetary policy regime as Serbia, y-o-y inflation also accelerated in June, on the back of the faster food price growth and higher prices of petroleum products. The derived measure of headline inflation, the so-called **inflation momentum**,[1] also picked up, rising from below 2% in April and May to 3.6% in June, close to its March level.

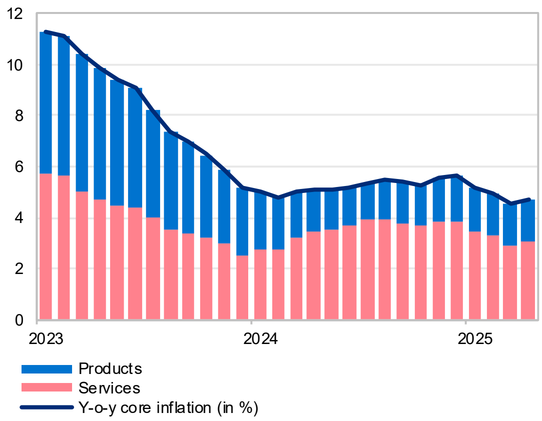
Core inflation (CPI excluding food, energy, alcohol and cigarettes) stood at 4.7% y-o-y in June, lower than in March (5.1% y-o-y), with a lower y-o-y contribution of both goods and service prices. However, service prices picked up their y-o-y growth in June, thereby adding mildly to y-o-y core inflation compared to May. Observing the core inflation dynamics in Q2, as well as its **trimmed mean** rate (calculated upon exclusion of 15% of products and services from the consumer basket whose prices recorded major changes in both directions) and **core inflation momentum,** we can see that they were higher in June than in April and May.

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 calculation.

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

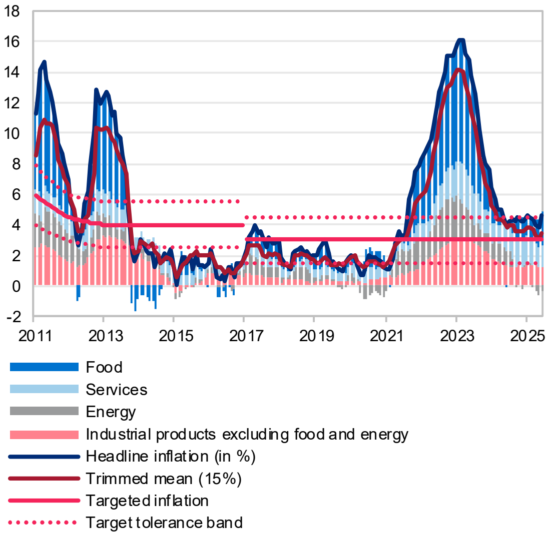


Sources: SORS and NBS calculation.

[1] Inflation momentum is based on quarterly moving averages of annualised s-a monthly inflation rates.

At quarterly level, **consumer prices went up by 1.4% in Q2**, which is a somewhat greater increase than in previous quarters. This is largely due to a higher than expected 3.1% rise in the prices of **food and non-alcoholic beverages** in Q2 (with 1.0 pp contribution to inflation). In particular, the **prices of unprocessed food** recorded accelerated growth, reaching 7.9% in Q2, driven by a sharp rise in fresh fruit prices (28%, with a 0.6 pp contribution) due to significantly reduced domestic supply caused by adverse weather conditions during Q2. The prices of fresh meat also went up in Q2, by 7.1% (adding 0.3 pp to inflation), reflecting a notable price increase across nearly all meat categories in the global market. By contrast, the prices of fresh vegetables declined by 1.1% in Q2, although the drop was lower than expected and below its multi-year average. The **prices of processed food** slowed down significantly their quarterly growth to 0.6% in Q2 (from 1.8% in Q1), on account of slower growth in the prices of non-alcoholic beverages and confectionery products (particularly coffee and cocoa), as well as lower prices in several food categories (wheat-based products, oils and fats, and processed meat products).

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



Sources: SORS and NBS calculation.

Energy prices declined by 1.4% in Q2 (with a -0.2 pp contribution), entirely as a result of a 3.9% drop in petroleum product prices recorded in April and May amid lower global crude oil prices. However, reflecting the rise in global oil prices in the wake of the conflict between Israel and Iran, petroleum product prices increased by 1.4% in June. Other energy prices in the domestic market were stable in Q2.

Table III.0.1 **Growth and contributions of CPI components to consumer price growth in Q2 2025**

	Weights	Quarterly		Y-o-y in June	
		Growth rates (in %)	Contributions (in pp)	Growth rates (in %)	Contributions (in pp)
Consumer prices (CPI)	**100.0**	**1.4**	**1.4**	**4.6**	**4.6**
Unprocessed food	10.7	7.9	0.8	11.5	1.2
Processed food	20.8	0.6	0.1	5.4	1.1
Industrial products excluding food and energy	28.2	1.0	0.3	4.3	1.2
Energy	15.7	-1.4	-0.2	-1.9	-0.3
Services	24.6	1.5	0.4	5.7	1.4
CPI excluding energy, food, alcohol and cigarettes	**45.7**	**1.3**	**0.6**	**4.7**	**2.2**
Administered prices	**18.3**	**0.7**	**0.1**	**4.3**	**0.8**

Sources: SORS and NBS calculation.

Industrial product prices (excluding food and energy) grew by 1.0% in Q2 (with a 0.3 pp contribution to inflation), driven by the May adjustment of cigarette prices (2.4%) due to the excise hike, and a seasonally typical rise in clothing and footwear prices (3.2%). The contribution of the prices of other industrial products to inflation in Q2 was negligible.

Service prices increased by 1.5% in Q2 (contributing 0.4 pp to inflation), led chiefly by the seasonal hike in the prices of travel package arrangements (25.1%). Higher prices of catering, personal, and craft services, which are classified as labour intensive services, worked in the same direction, as did, in part, the prices of "casco" insurance and bank account maintenance fees. The increase in service prices – reflecting higher labour costs and greater disposable income for consumption – dictated the 1.3% growth in the **prices within core inflation** in Q2. This price growth dynamics within core inflation was in line with our expectations presented in the May *Inflation Report*.

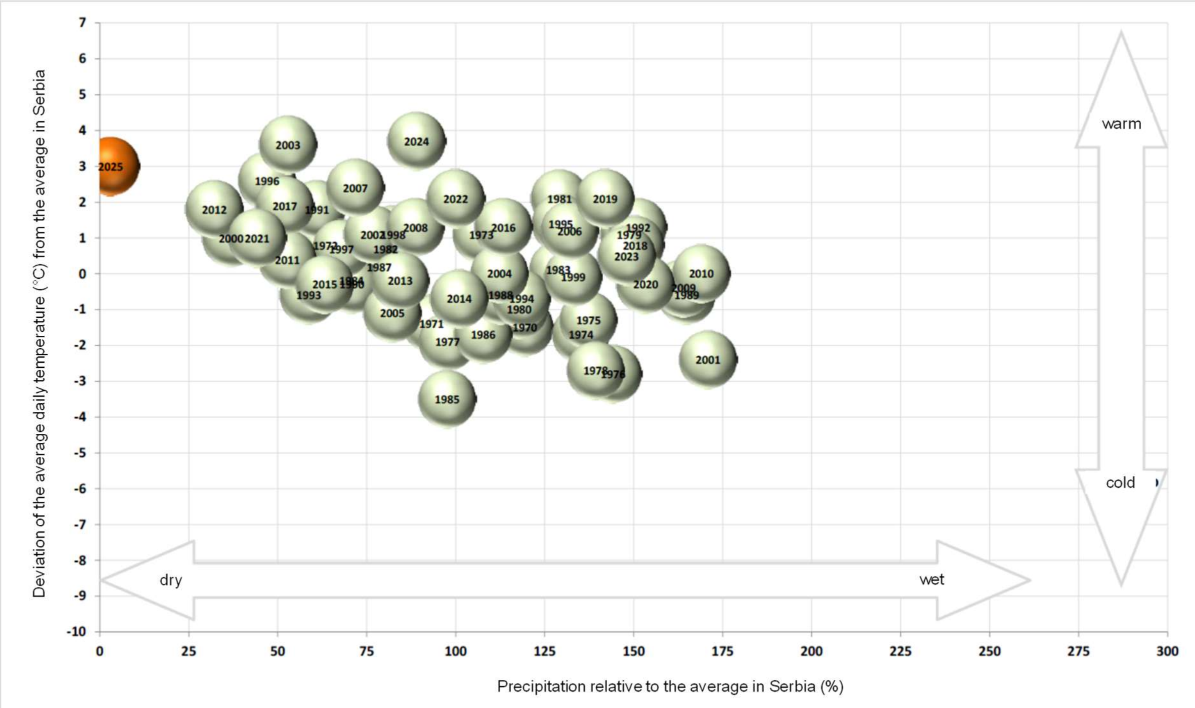
Administered prices, which are directly or indirectly regulated by the Government, posted two times lower growth in Q2 than in Q1 (0.7% vs. 1.4%), with a 0.1 pp contribution to inflation, entirely owing to the aforementioned hike in cigarette prices. Y-o-y, administered prices posted a stable 4.3% growth over the past four months.

Text box 1: Impact of unfavourable weather conditions on fruit supply and prices

The general characteristics of climate change in Serbia, reflected in rising median temperatures (the most pronounced in summer months), changing distribution of annual precipitation, i.e. the prolongation of the dryer season, and a shift of the average monthly precipitation peak towards earlier in the spring, increase the frequency and intensity of droughts. Looking at the structure of our fruit production, almost all fruits are threatened by intense climate change. As weather conditions in Serbia, as well as in the region, have been unfavourable for fruit production in the previous part of the year, this text box will look into their impact on fruit prices.

So far, the unfavourable weather conditions manifested as frost that hit in the period of vegetative development and an extreme dry beginning of summer, with high temperatures. First, a warmer than usual weather spell in March caused earlier blossoming of some fruits (cherries, apricots, plums, peaches), which were then affected by frost in late March and in April. Afterwards, June was marked by very warm and dry weather with extremely low precipitation. Usually, this is the month with the highest precipitation but this year there was almost no rain at all, making it the driest June in the last 55 years.

Chart O.1.1 Precipitation and daily temperatures in June 2025 relative to respective averages in Serbia



Source: Republic Hydrometeorological Service of Serbia.

The analysis of fruit production in Serbia shows that areas under fruit cultivation recorded no major oscillations over a longer observed period, but that the yields of the most dominant fruits (plums, apples, sour cherries, raspberries) decreased, reducing the market supply and exerting upward pressure on prices. The decline in yields is where the negative impact of climate change on the prices of fruits manifests, in addition to the influence of other factors.

The SORS flash estimates indicate a significant fall in the production of raspberries and sour cherries this year relative to the last year (-12.2% and -42.3%, respectively). Bearing in mind the said data and the agro-meteorological conditions so far, we estimate that this year the yields in overall fruit production will be lower than last year.

In H1, the prices of fruits went up by 28%, with a 0.7 pp contribution to headline inflation. This rise is double the five-year average for the same period. The calculation of this average included the year 2020 which was unusual in terms of fruit prices as that is when the coronavirus pandemic struck. In this year's price dynamics, fruit price growth accelerated particularly in Q2, recording a quarterly increase of 25%, which was the driver of almost one half of inflation in this period. It also provided a key contribution (0.5 pp) to y-o-y inflation level in June being higher than in March and exceeding our May projection.

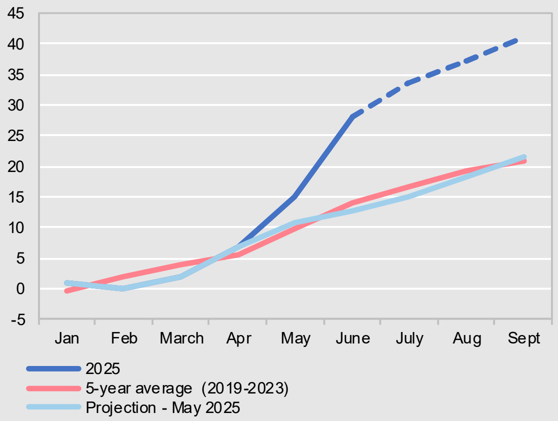
In addition to fruits whose new harvest customarily arrives to the market in Q2 (cherries, strawberries, peaches, apricots, raspberries) and which usually record extremely high monthly growth rates during these months, in June a high rise was also recorded for the prices of apples (17.8% m-o-m and 51% y-o-y), lemon (16.7% m-o-m and 39% y-o-y) and oranges (9.3% m-o-m and 31% y-o-y). With this, the prices of fruits contributed around 0.3 pp to monthly inflation in June, i.e. around a third of headline monthly inflation was caused by the price hikes of this group of products only.

One of the analyses observed the correlation between the yield and the consumer prices of fruits we produce, and which participate more significantly in the consumer basket, in two periods – 2010–2016 and 2017–2024. The results show that in the latter observed period, the negative correlation between the yield and the change in the prices declined (primarily in the case of apples and grapes, to -0.5 and -0.3, from -0.9 and -0.8, respectively), and became positive in the case of some categories such as strawberries and walnuts (to 0.7 and 0.2, from -0.1 and -0.5, respectively). Volatility of prices to changes in production should decrease on this account, which is particularly important in case of unfavourable weather conditions. The reduced intensity of the price response to changes in yields could be linked to the possibility of substituting the missing quantities through imports. The possibility of cheaper substitution nonetheless also depends on the supply volume in the markets of European countries from which we import certain fruits the most.

Available reports of the European Commission on the market situation for specific fruits (apples, citrus fruits, peaches) indicate that the estimated apple production in the EU for 2024 was 10% lower compared to 2023. This decline was even more pronounced in Poland, the largest European producer, where production dropped by 20%. As a result, apple stock levels remain low until the arrival of the new harvest, exerting pressure on prices. The estimated lemon production last year was also lower compared to 2023. In addition, Turkey, one of the world's top lemon exporters and the main source of lemon imports for our market, faced significant losses to the new harvest this spring due to adverse weather conditions. As a result, in early April, the Ministry of Trade even imposed a temporary ban on lemon exports, although the measure was lifted shortly thereafter.

Chart O.1.2 **Cumulative fruit price growth**

(in %)



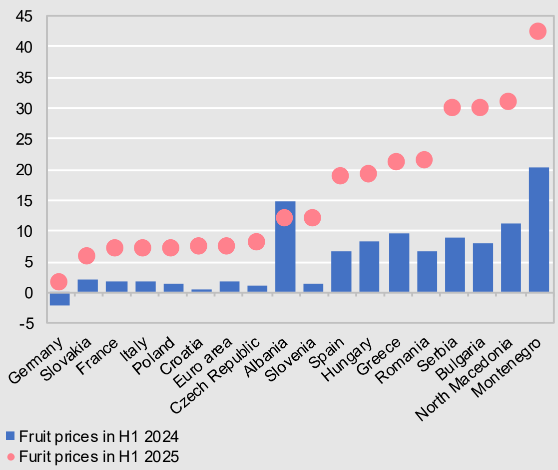
Sources: SORS and NBS calculation.

Such supply developments affected the prices in the European market. The current wholesale prices in Europe went up compared to the same period last year by around 15% for apples, peaches and lemon, and around 30% for oranges, making imports more expensive in our case and possibly explaining high growth rates of the prices of tropical fruit recorded in Q2.

The latest Eurostat data indicate a hike in fruit prices in H1 2025 in almost all observed countries. This growth is significantly higher relative to the same period last year (Chart O.1.3). A higher than 20% increase in fruit prices was also recorded in Greece, Romania, Bulgaria, North Macedonia and Montenegro, highlighting the regional nature of the adverse weather conditions, the reduced fruit supply, and the limited potential for import substitution across the entire region.

Chart O.1.3 **Cumulative fruit price growth rates in H1 2025 and 2024**

(in %)



Sources: Eurostat and NBS calculation.

Elevated prices of fruit driven by lower supply will continue to exert pressure on headline inflation in the remaining part of the year, but the pressure should gradually dampen, considering the relatively high base on account of the drought last year as well. The contribution of fruit prices to headline inflation on this account will recede from around 0.75 pp in June to 0.4 pp late in the year.

It is evident that changed climate conditions greatly affect agriculture and require a response from economic policy makers. For this reason, it is important that government institutions took some measures to alleviate the negative effects of changed climate conditions. Specifically, the Climate Change Adaptation Programme for the period from 2023 to 2030,[1] prepared by the Ministry of Environmental Protection, presents a set of specific measures and activities to be implemented to ensure better adaptability of the agricultural sector to climate changes in the future. Measures and activities directly pertaining to fruit production include boosting irrigation capacity and improving its efficiency, protection of plantations during the growing season from frost, storms, hail and high temperatures, and the potential selection of more resilient varieties and lower-risk locations in the planning process. The aforementioned measures would mitigate the negative impacts of climate change on fruit production and fruit price volatility. However, their implementation and practical application require a longer time span, as well as a planned and organised approach by the government, producers and other participants in the production and supply chains.

[1] https://www.ekologija.gov.rs/dokumenta/klimatske-promene/program

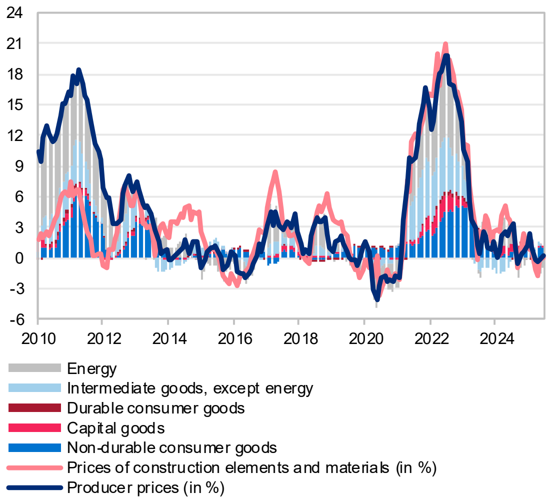
Producer and import prices in Q2

Y-o-y, **industrial producer prices in the domestic market** went slightly up in June (0.3%) after a fall in April and May. The rise was dominantly driven by higher producer **prices of non-durable consumer goods**, especially in food production, and less so by higher prices of capital goods, particularly construction materials and motor vehicles. In contrast, **energy production prices**, particularly of petroleum products, recorded a y-o-y decline in June as well (-2.8%), also registered for **the prices of intermediate goods**, especially metal products. Producer **prices of durable consumer products** stagnated in June. In quarterly terms, industrial producer prices for the domestic market declined by 0.2% in Q2, indicating persistently **low cost-push pressures in the industry sector**.

The prices of construction elements and materials went up by 1.2% in Q2. In y-o-y terms they exited the negative territory, recording slight growth of 0.1%.

Almost all components of **imported inflation expressed in dinars**[2] provided a lower contribution to the y-o-y dynamics of import prices in June relative to March. At the same time, the positive contribution of the prices of imported services (approximated by core inflation in the euro area), and the prices of equipment, intermediate goods and other imported goods (approximated by Germany's export prices), was offset by the negative contribution of global prices of oil and primary agricultural commodities, as well as import gas prices. Import prices therefore declined by 0.2% in June in y-o-y terms. In quarterly terms, import prices expressed in dinars went down by 2.0% in Q2, mostly on account of lower import prices of energy.

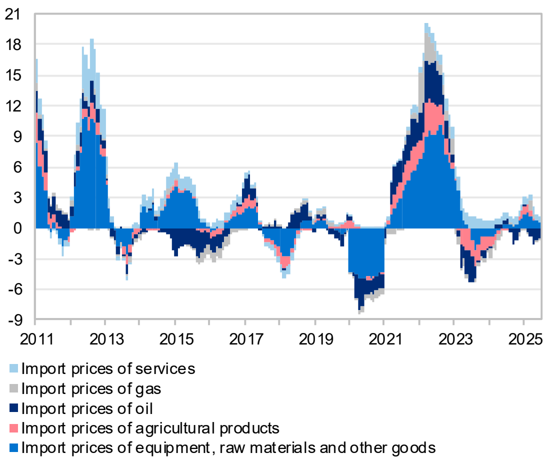
Chart III.0.4 **Contribution by destination groups of consumption to y-o-y producer price dynamics***
(end-of-period, in pp)



Sources: SORS and NBS calculation.

* Industrial producer prices for the domestic market.

Chart III.0.5 **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.

Inflation expectations

Short- and medium-term inflation expectations of the financial sector continued to move within the target band in Q2, where they have lingered since early 2024 as a confirmation of the adequacy of the NBS's monetary policy measures.

According to the June Ninamedia survey, **one-year ahead inflation expectations of the financial sector** stayed at 3.5%, after declining from 3.9% in April to 3.5% in May. This is their lowest level since August 2024. Expectations of all financial institutions are within the NBS's target band. According to the July **Bloomberg** survey results, one-year ahead inflation expectations of this sector went further down to 3.4%.

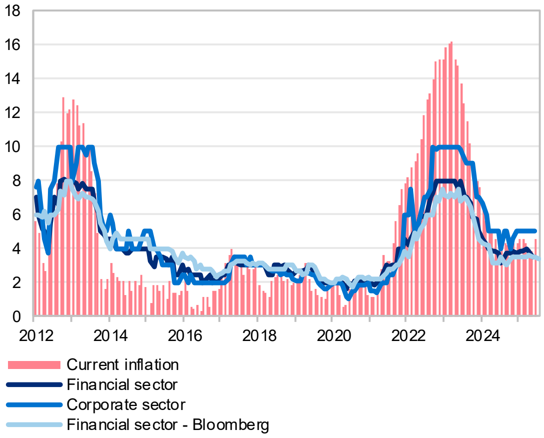
[2] Preliminary data. The base year is 2010. The weighted average of several components is used as an indicator of import prices: the global Brent oil price index, import gas price, food price index (FAO index), consumer prices within euro area core inflation, and export prices of Germany, one of Serbia's key trade partners. The fixed weights of the components are calculated according to the value of imported goods and services in 2024.

One-year ahead corporate expectations stayed unchanged since December 2024, at 5%, which is the level recorded in the June survey as well. The share of respondents expecting a rise in the prices of inputs and final products and services in the next three and twelve months continued down in Q2 and the share of respondents anticipating no change in prices increased.

Short-term household inflation expectations stayed at 15.0% in June. According to the qualitative survey,[3] households expect inflation in the next twelve months to be lower than last year. This is indicated by the index of expected inflation which stood at 36.4 points in June and was below the perceived inflation (55.9 points).

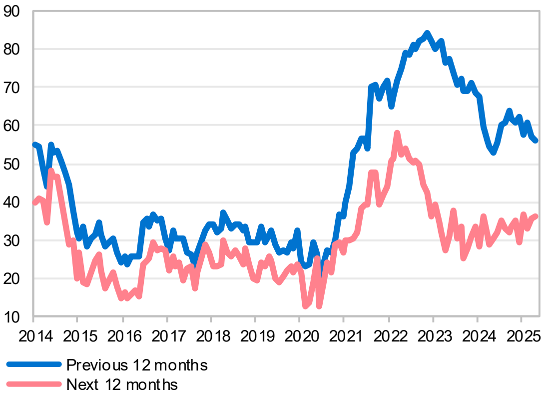
Medium-term inflation expectations of the financial sector dropped in June, to 3.2% for two and three years ahead. **Medium-term inflation expectations of the corporate sector** for two and three years ahead stood at 5.0% in June. Medium-term household expectations are higher than those of other sectors, at 10%.

Chart III.0.6 **Current inflation and one-year ahead inflation expectations**
(y-o-y rates, in %)



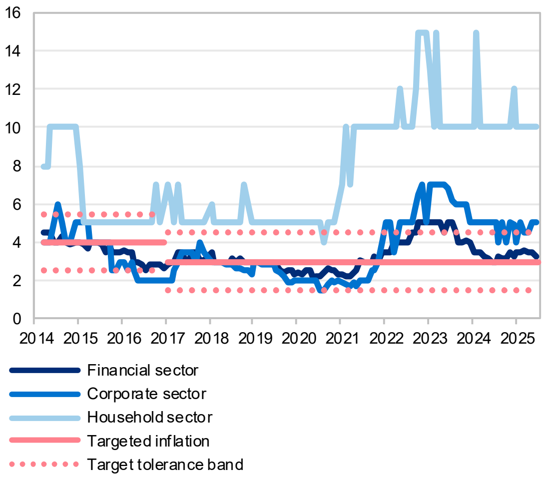
Sources: Gallup/Ipsos/Ninamedia, Bloomberg and NBS.

Chart III.0.7 **Household perceived and expected inflation**
(in index points)



Sources: Gallup/Ipsos/Ninamedia and NBS.

Chart III.0.8 **Two-year ahead inflation expectations**
(y-o-y rates, in %)



Sources: Gallup,/Ipsos/Ninamedia and NBS.

[3] For more details on the qualitative expectations of households, see the *February 2016 Inflation Report* – Text box 2, p. 15.

Text box 2: Food market stability as a precondition for price stability

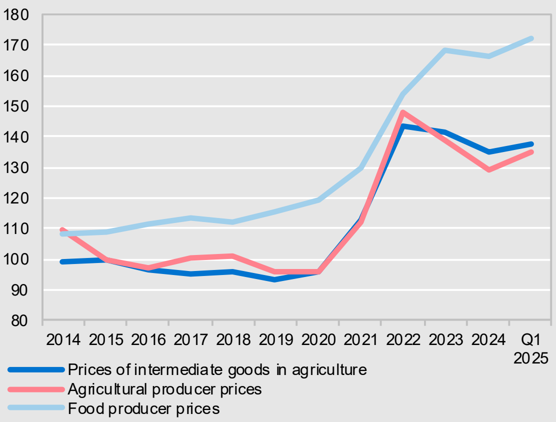
Over the past decades, modern agriculture has become significantly more productive and has successfully addressed the challenges of scarce resources by relying on industry, automation and selection. However, new challenges are gradually emerging in relation to long-term sustainability of agricultural production, among which the most prominent are energy security and the need for additional investments in the protection of resources from excessive depletion. Further, climate changes, now urgently, require the adaptation of the agricultural production structure to new circumstances. The already evident manifestations of these changes in the form of frequent weather disasters are becoming a factor that further complicates the alignment of supply with consumer demands, not only in terms of structure, but volume as well. Overcoming agricultural production risks is at the same time the precondition for sustainable development of higher stages of food processing. Given that the materialisation of these mounting risks could heighten macroeconomic volatility and undermine the financial sector, agricultural production is increasingly in the focus of economic policy makers, especially central banks.

When considering the importance of monitoring climate factors for central banks, one should bear in mind primarily that bad weather conditions may directly impact market supply and food prices, and thus, price stability which is the main objective of most central banks in the world. Namely, while economic theory previously held that the effects of climate-related factors were largely short-term – essentially supply-side shocks beyond the reach of monetary policy, their increasing frequency and intensifying impact have produced more persistent effects on food prices. As a result, climate factors have also become a significant determinant of inflation expectations, thereby increasing the need for a monetary policy response. In addition, climate-related factors may also contribute to lower levels of economic activity, which can reduce borrowers' ability to service their debt adequately. They may also trigger sudden and significant changes in the price of assets used as collateral. Taken together, these effects can weaken the financial sector and impair the monetary policy transmission mechanism through the credit channel, making it harder to assess the monetary policy stance. At the same time, in such circumstances, monetary policy makers are often faced with the need to balance between lower inflation and economic growth. For this reason, an increasing number of central banks consider the impact of climate factors on price and financial stability not only through the so-called alternative scenarios, which observe the impact of climate-related shocks on inflation projections and economic activity, or stress tests of financial system stability, but already in the process of formulating objectives and monetary policy decision-making.

Medium-term price stability is our principal objective, which is why the NBS, directly as an institution, is committed in particular to ensuring that all factors contribute to the low and stable inflation, including those affecting food prices, which still have a relatively high share in the consumer basket and can significantly influence headline inflation. Still, the elimination of market irregularities and structural problems in agricultural production and food processing cannot be resolved by the NBS's monetary policy measures only. The solution should be sought in the wider participation of all government institutions, as well as representatives of the corporate sector, from primary producers, their suppliers and processing companies, to wholesale and retail sale stores.

Bearing all this in mind, this text box looks into the ways to reduce the unfavourable effect of climate factors on food production, and in turn, on market supply and prices, taking into account Serbia's specificities in this area.

Chart O.2.1 **Price indices in the food production chain**
(base indices, 2015=100)



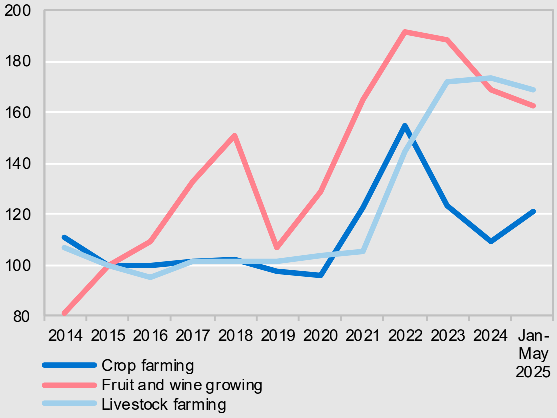
Source: SORS.

Cost-push pressures were not pronounced in the Serbian food production chain in the 2014–2020 period, which reflected on the overall price stability. Since 2021, they have been on the rise caused by the global developments, i.e. disruptions in the production and supply chains in the aftermath of the pandemic with the ensuing energy crisis and the outbreak of the Ukraine conflict. All this induced the cumulative growth of around 50% in the index of prices of intermediate goods, equipment and services in agriculture in 2021 and 2022, driven primarily by the rise in the costs of fertilisers and fuels. This index dropped by around 10% following the gradual waning of pressures in 2023 and 2024, but it is still around 40% higher than before the pandemic (Chart O.2.1). The rising costs of primary agricultural production were followed by an increase in agricultural producer prices at a similar pace across agricultural sector, with different groups recording divergent developments. Unlike crop farming, where the price index mirrored the prices of intermediate goods and fell relatively sharply in 2023 and 2024, the index for fruit and livestock farming producer prices stayed relatively high (Chart O.2.2). The food producer price index followed a similar path in the observed period, indicating that higher costs passed through the entire food production chain. A common feature of all described price indices is their stabilisation in 2023–2024 after a sharp growth in 2021 and 2022, but they stayed at a much higher level than in the period before 2020, which partly explains the higher prices in retail trade relative to the pre-pandemic period.

As for the overall supply, measured by the gross value added at reference year's prices, Serbian agriculture posted an annual trend growth rate of 0.60% in the 2012–2023 period. In principle, this is sufficient for ensuring food security amid developed trade in agricultural and food products and in view of the number of consumers dynamics. Before 2020, this rate even reached 1.55%, but after that it turned negative (-1.72%), clearly signalling the potential consequences of materialisation of the above risks – geopolitical tensions which drove up energy prices and created physical impediments to the free flow of agricultural commodities, but also the increasingly negative effects of unfavourable weather factors (long-term extreme droughts, frequent and devastating storms, floods and fires) affecting the most significant agricultural areas in the world, including Serbia.

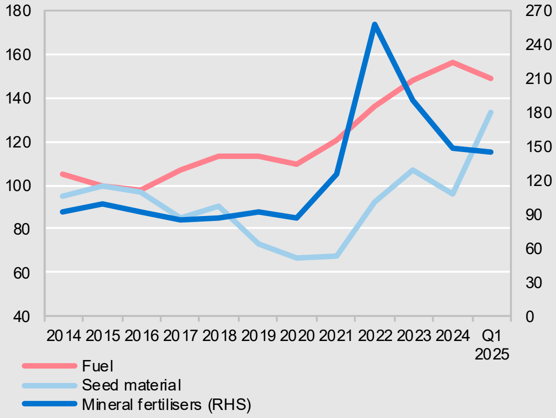
The supply of agricultural products is burdened by rising costs as well. More specifically, energy costs increased considerably in the observed period – both direct costs (which accounted for as much as 18.3% of intermediate consumption in 2021) and indirect costs (primarily through the costs of fertilisers which accounted for a maximum of 13.6% of intermediate consumption in 2022). Bearing in mind the scale of energy price increases (especially of liquid fuels), these costs could have been even higher had they not been rationalised at the expense of agrotechnical measures and using means to improve soil quality, which had a negative impact on yields. As a final consequence, the financial position of the agricultural sector has been further undermined, leading to the conclusion that it will only be possible to mitigate the negative effects of climate change through a broad societal initiative aimed at slowing these changes and adapting to new circumstances, with the goal of providing food to the population at affordable and stable prices. This initiative, which must be long-term in nature, should be launched by government institutions, but it cannot be directed solely at agriculture and must encompass all social and economic activities — from energy to healthcare and demographic policy. Here we focus on agriculture, taking into account its extreme vulnerability to climate conditions, and the specificities of the financial and market position, but the success of the response to climate challenges assumes the involvement of all participants in the chain – food producers, their suppliers, trade, tourism, financial sector, government and individuals.

Chart O.2.2 **Agricultural producer prices by branch**
(base indices, 2015=100)



Source: SORS.

Chart O.2.3 **Costs of intermediate goods in agriculture by type**
(base indices, 2015=100)



Source: SORS.

Recuperation from the negative impacts of climate change requires consistent implementation of measures over a prolonged period, aimed not only at slowing these changes but, above all, at adapting economic activity – particularly in agriculture – to the new climate pattern. In this sense, it is important that as a country we have **a long-term strategy of addressing climate changes in all areas that are or may be hit**. Based on this **a new agricultural and rural development strategy** can be prepared, in order to align long-term, medium-term and short-term measures aimed at ensuring the country's food security.

The strategy will require not only innovative institutional solutions but also enhanced regional cooperation. Further, considerable **investments in the development of adequate infrastructure will be needed, particularly in the areas of water management and supply, use of information technologies for real-time monitoring of plant production and the resulting rationalisation of resources (especially water and fertilisers), as well as the selection of cultures resilient to unstable weather conditions, longer drought periods, high temperatures and pests**. It is also necessary to develop new modalities of organisational integration in order to strengthen connections within the reproduction chains, as well as to educate both producers and consumers about the significance of climate change and the ways in which we can adapt. All these efforts, pursued over a longer period, should contribute to successful and relatively swift adjustment of the structure of agricultural production to the changed circumstances.

In parallel with long-term measures, it is also necessary to continue the activities contributing to the stabilisation of the agricultural and food products market over the medium term. This also pertains to **the system of commodity reserves which should ensure food security at moments of crises by mobilising the available reserves created in conditions of considerably higher domestic supply relative to the demand**, and accordingly, the stabilisation of the agricultural and food products market.

Furthermore, a functional system of public warehouses would enable the use of warehouse receipts as collateral to secure credit sources for financing agricultural production.

In view of its remit, the NBS expects that the financial sector will be actively involved in this process to take preventative measures and contribute to the preservation of financial stability in the coming period. This primarily refers to the banking sector, which must be one of the more generous sources of financing the structural changes in agriculture, and the insurance sector, which can mitigate the financial consequences of weather disasters on agricultural producers. Further, the mitigation of negative effects of climate factors can be aided by a greater use of financial instruments which encourage the preservation of natural resources and energy transition – including green bonds and the use of funds of international financial institutions for financing sustainable energy and climate projects.

Loans to the agricultural sector account for around 5% of total corporate loans. Their stock has declined moderately in the past two years, from RSD 94 bn at end-2022 to around RSD 84 bn at end-2024 and stayed almost unchanged this year. A similar level of loans in the previous years refers to registered agricultural producers in the household sector category. These loans recorded a mild increase of 5.4% y-o-y in June, accelerating from around 2% y-o-y at end-2024. Starting from some agricultural producers' economic situation, the NBS implemented regulatory measures in the past period with a view to supporting agricultural producers by enabling loan rescheduling. In October 2022, the rescheduling of existing liabilities with banks and lessors was enabled, with 30 April 2023 as the deadline for filing the rescheduling application (the measure was extended to include entities engaging in the purchase and cold storage of fruit in January 2023). This measure enabled the rescheduling of 6,238 agricultural loans worth RSD 24.2 bn by June 2023, including loans to entities engaging in the purchase and cold storage of fruit. In addition, since March 2024, banks are required to offer loan repayment facilities to borrowers entered in the register of agricultural estates and persons engaging in the purchase and cold storage of fruit, based on the analysis of their financial position. By end-June this year, 14 banks approved loan repayment facilities worth RSD 5.4 bn on these grounds.

As for agricultural production insurance, the NBS's data for the previous ten years indicate a rising trend in the number of insurance policies in this area before the pandemic, but this trend was temporarily interrupted in 2020. Nevertheless, after recovering in 2021 and 2022, it declined again in the past two years, to slightly more than 40 thousand insurance policies in 2024, accounting for only around 4% of total property insurance policies. At the same time, the number of insured agricultural estates dropped from more than 27 thousand in 2023 to somewhat more than 21 thousand in 2024. Total agricultural insurance premium growth decelerated in the past two years, but it was higher than paid claims in all years, except 2023, when crops in Vojvodina were particularly hit by the effects of supercell storms, indicating that it is in the insurers' interest as well to encourage the taking of insurance in this area. It is important to emphasise that the government, in line with the current regulations, subsidises insurance premia in agriculture in the amount of 40% to 70%, to make the premia more affordable to agricultural producers. Even though the insurance of agricultural production may ease the position of agricultural producers and contribute to their interest in continuing with this activity, it cannot, nevertheless, solve the problem of lower market supply in the year of drought and other unfavourable climate factors.

To sum up, monetary policy measures cannot directly prevent growth in food and energy prices which are frequently and increasingly under the influence of climate factors. Considering the share of food in the consumer basket, this can certainly complicate the achievement of the medium-term price stability objective which is the mandate of the NBS and a precondition for sustainable economic growth. For this reason, central banks advocate a comprehensive, interinstitutional and cross-sectoral response to alleviate the negative effects of climate factors that have become a new normality. Transparent communication regarding their potential impact on sustainable economic growth and development is a part of the NBS's institutional response to climate change as this contributes to raising social awareness of this issue. Further, the NBS's response involves proposing specific measures which, in our estimate, may mitigate the adverse impact of climate factors on food supply and prices, including activities in the financial sector. Finally, the NBS participates actively in the work of the international Network for Greening the Financial System (NGFS), as climate change is not only a local, but primarily a global problem.

IV Inflation determinants

1 Financial market trends

The interest rate on dinar corporate loans was adjusted slightly upwards in Q2, while the rates on dinar household loans decreased as cash loans cheapened further. The cost of borrowing in euros subsided amid continued relaxation of the ECB's monetary policy, while lower interest rates in the household sector reflected the approval of subsidised loans under more favourable terms within the government programme of housing loans for young people.

Interest rates on loans to natural persons stayed below the levels prescribed by the Law on the Protection of Financial Service Consumers, while rates on credit card debt and current account overdrafts of natural persons continued down.

Interest rates

At its meetings in Q2, the NBS Executive Board kept **the key policy rate and interest rates on lending and deposit facilities** at 5.75%, 7.00% and 4.50%, respectively, which contributed to minimal interest rate oscillations in the money market.

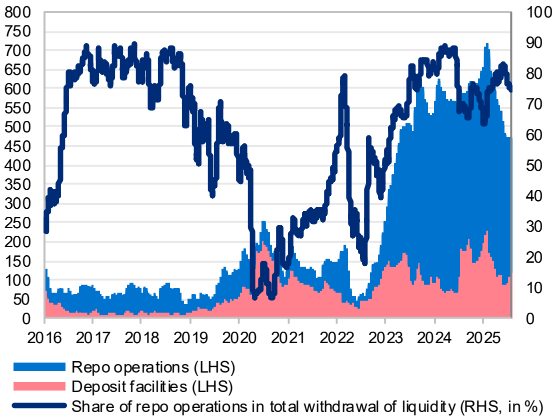
BEONIA, the interest rate in the **overnight interbank money market**, stayed almost unchanged in Q2, measuring 4.46% at end-June, with BELIBOR rates following suit and moving between 4.50% for the shortest and 4.72% for the six-month maturity. As for excess dinar liquidity of banks, the average stock of sold repo securities significantly declined from March, by RSD 79.1 bn to RSD 367.8 bn in June, while the repo rate remained unchanged, at 4.51%. Banks' average overnight deposits with the NBS dropped to a somewhat milder degree, by RSD 23.8 bn to RSD 106.1 bn.

In the **primary market of dinar government securities,** Q2 saw the second reopening of the January auction for the sale of 10.5Y dinar bonds, which were sold in the nominal amount of RSD 15.0 bn (demand reached RSD 22.1 bn), with a mild decrease in the yield rate relative to the first reopening in March, to 5.16% in May. As no previously issued securities matured in the meantime, the stock of the dinar securities portfolio increased to RSD 908.1 bn at end-June.

Government euro securities were not auctioned in Q2, but previously issued 7Y bonds matured in the meantime, in the nominal amount of EUR 65.1 mn, so at end-June the euro securities portfolio decreased to EUR 1,441.2 mn.

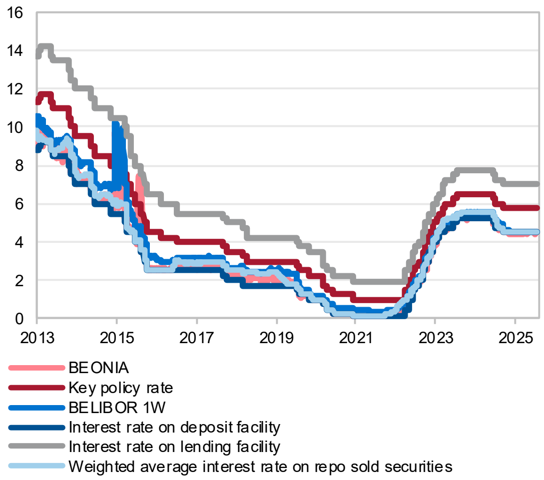
In Q2, in the **secondary market of dinar securities**, trading slumped by 40% relative to Q1, measuring RSD 56.7 bn. The weighted average yields of all maturities edged up slightly, between 6 and 24 bp, moving from

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



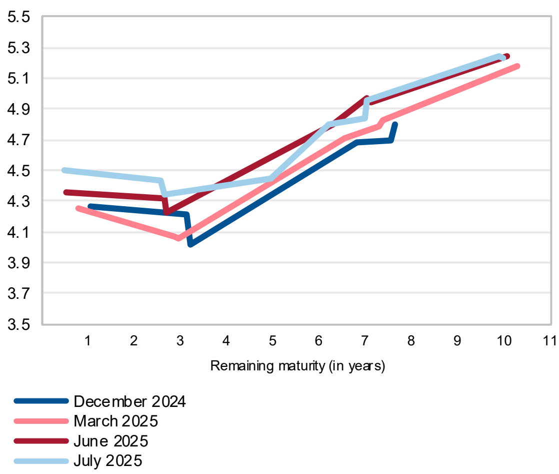
Source: NBS.

Chart IV.1.2 **Interest rate movements**



Sources: Thomson Reuters and NBS.

Chart IV.1.3 **Yield curve in the secondary government securities market**



Source: Central Securities Depository and Clearing House.

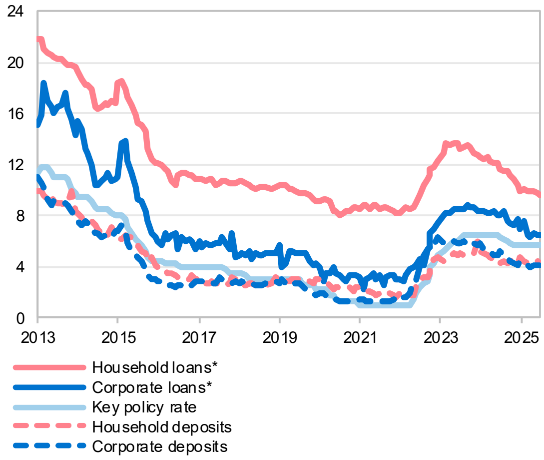
4.36% for the remaining 7-month maturity to 5.24% for bonds with the remaining maturity of up to 10Y.

The interest rate on dinar corporate loans was adjusted slightly upward in Q2, by 0.1 pp to 6.4% in June, while the **interest rate on new dinar household loans** dropped by 0.3 pp to 9.6%, owing to the continued cheapening of cash loans.[4]

In terms of loan purpose, a slight increase in the **weighted average rate on dinar corporate loans** reflected the rise in the interest rate on working capital loans, by 0.2 pp to 6.2% (this loan type accounting for around 79% of dinar corporate lending), and the interest rate on investment loans, by 0.5 pp to 7.5%, which was partly offset by the decline in the interest rate on other non-categorised loans, by 0.1 pp to 6.8%. Within the composition of **dinar household lending**, the predominant effect was that of the decrease in the interest rate on cash loans, by 0.3 pp to 9.6% (the lowest level since June 2022). Making up 86% of dinar household lending, cash loans saw record-high disbursement in April and May, which may be associated with favourable credit standards, the rise in wages and the effects of market competition in this lending segment.

Continued lowering of the ECB's main rate led to a further decline in the **interest rate on euro corporate loans** in Q2, by 0.6 pp to 4.7% in June, which was led by a decrease in interest rates on working capital loans and other non-categorised loans by 0.7 pp each, to 4.5% and 4.7%, respectively. Loosening of monetary conditions in the euro area money market and the implementation of the programme of subsidised housing loans for young people on favourable terms also led to a cheapening of household loans in euros, by 0.8 pp to 4.6% in June. On this account, the interest rate on housing loans dropped by 0.7 pp to 4.3%.

Chart IV.1.4 **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.

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

	Dinar			Euro and euro-indexed		
	2024	2025		2024	2025	
	Q4	Q1	Q2	Q4	Q1	Q2
Total household loans*	9.9	9.9	9.6	5.5	5.4	4.6
Cash loans	10.2	9.9	9.6	2.4	3.6	3.6
Housing loans	10.6	10.3	11.0	4.9	5.0	4.3
Consumer loans	2.5	2.9	2.8	6.2	5.8	5.6
Other loans	8.2	10.0	9.8	8.7	6.6	6.2
Total corporate loans*	6.9	6.3	6.4	5.6	5.3	4.7
Working capital loans	6.9	6.0	6.2	5.4	5.2	4.5
Investment loans	6.9	7.0	7.5	5.7	5.5	5.3
Other loans	7.0	6.9	6.8	5.8	5.4	4.7
Import loans	-	-	-	5.6	4.8	3.4

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.

[4] Interest rates on loans to natural persons continued to move below the level prescribed by the Law on the Protection of Financial Service Consumers, which stipulates a 5.00% cap for dinar and euro housing loans until end-2025, while new caps for other types of loans have been prescribed for the period 1 June – 30 November 2025: 13.75% for dinar and 6.96% for foreign currency loans. The interest rate cap for current account overdrafts stood at 19.75%, and for credit card debt in dinars and foreign currency at 17.75% and 14.40%, respectively, which translated into a significant decrease in interest rates on these categories relative to December 2024: by 7.3 pp to 15.1%, and by 10.0 pp to 17.9% in June, respectively.

Risk premium

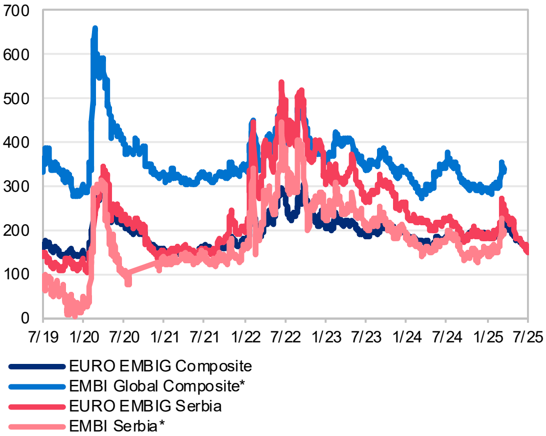
EURO EMBIG Composite dropped by 20 bp in Q2 and by 17 bp in July, to 159 bp at end-July. Despite mounting geopolitical tensions in Q2, risk premiums of emerging economies declined mainly as a result of the ECB's continued monetary relaxation, which encouraged capital inflow to emerging markets. Lower risk premium was also supported by the easing of global trade tensions, as the US reached trade deals with the UK, China, Japan and the EU.

In the countries of the region, the sharpest fall in the risk premium on euro debt in Q2 was seen in Turkey (by 80 bp to 162 bp at end-June), followed by North Macedonia (by 28 bp to 184 bp at end-June) and Hungary (by 22 bp to 165 bp at end-June). Only Montenegro recorded a hike in the risk premium (by 22 bp to 223 bp at end-June).

EURO EMBIG for Serbia lost 36 bp in Q2, dropping to 180 bp at end-June, this being the second largest decrease in the region, right after Turkey's. In July, **EURO EMBIG for Serbia** dipped by 31 bp, to 149 bp at the end of the month.

In July, **Fitch** affirmed Serbia's credit rating at *BB+*, with a positive outlook for investment grade. The agency highlighted the following key rating drivers: sound economic policy mix, primarily responsible public finance management and a rise in FX reserves, as well as a higher level of economic development compared with the 'BB' median. The positive outlook also reflects the investment-led economic growth in the coming period, underpinned by the "Leap into the Future – Serbia Expo 2027" programme, a strengthened external position of the country, declining public debt trajectory and stabilisation of inflation.

Chart IV.1.5 **Risk premium indicator**
(daily data, in bp)



Source: J.P. Morgan.
* After 17 April 2025, JP Morgan stopped publishing data on the dollar risk premium.

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

	2020	2021	2022	2024	
S&P	BB+ /stable[3]	BB+ /positive[7]	BB+ /stable[4]	BB+ /positive[2]	**BBB- /stable[6]**
Fitch				*BB+* /positive[5]	
Moody's		Ba2 /stable[1]		Ba2/positive[5]	

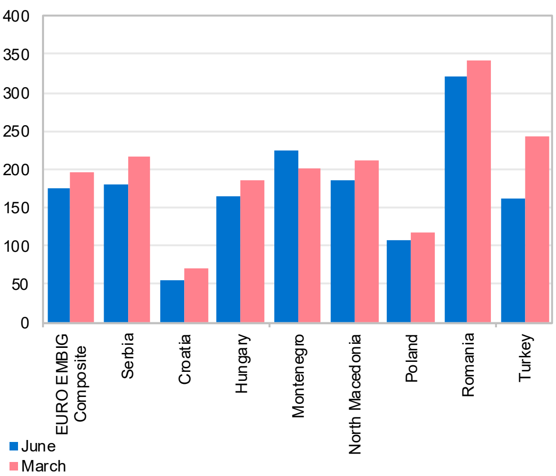
Source: NBS.
[1] March, [2] April, [3] May, [4] June, [5] August, [6] October, [7] December.
Note: There was no change in rating/outlook in 2023.

Foreign capital inflow

FDIs and financial loans made up the bulk of capital inflows to the balance of payments financial account, followed by inflows on account of lower balances in domestic banks' accounts abroad and trade loans. These inflows were higher than the outflows in respect of portfolio investment and reduced balances in non-resident accounts in the country.

FDI inflow in Q2 equalled EUR 813.1 mn. The same as in Q1, the inflow was lower compared to one year ago, when FDIs reached record-high levels, but also compared to the average post-pandemic value. In Q2, residents increased their investments abroad (EUR 446.8 mn), generating a net FDI inflow of EUR 366.3 mn in Q2. Overall in H1, FDI inflow to Serbia topped EUR 1.5 bn and its composition was favourable – mainly equity capital and reinvested earnings, remaining diversified by project and geography.

Chart IV.1.6 **EURO EMBIG for countries in the region**
(end-of-month, in bp)



Source: J.P. Morgan.

In Q2, non-residents reduced their investment in government securities. Concurrently, residents lowered their investment in foreign securities, but this capital inflow was insufficient to cover the outflows generated by reduced non-resident investments, so net capital outflow of EUR 152.4 mn was registered on account of **portfolio investment** in Q2.

A net inflow of EUR 526.7 mn came from **financial loans** in Q2. The inflow was mainly generated by the rise in enterprise borrowing, while banks and the government reduced their foreign credit liabilities. Domestic banks' balances in accounts abroad declined more than the balances in non-resident accounts with domestic banks, resulting in an inflow of EUR 50.8 mn in Q2 on account of **currency and deposits**. **Trade loans and advances** also provided an inflow of EUR 60.4 mn.

Trends in the FX market and exchange rate

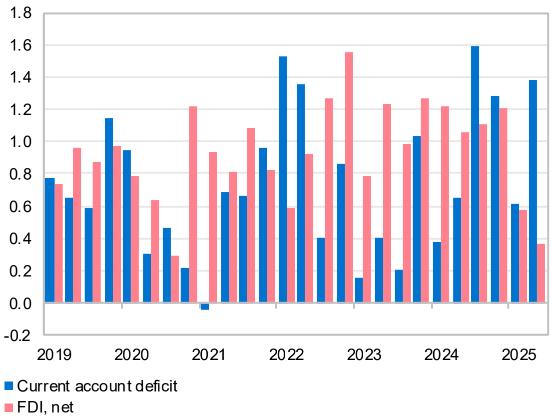
The dinar continued its relatively stable movement against the euro in Q2. In nominal terms, its value relative to the euro at end-June was almost unchanged compared to end-March, while weakening by 0.1% relative to end-2024. At the same time, due to the euro's strengthening against the dollar in the international market, the dinar nominally strengthened against the US currency by 8.3% in Q2, and by 12.6% in H1.

FX supply grew in Q2, while demand contracted, resulting in strengthened appreciation pressures, especially in June. This was mostly due to net FX-indexed bank assets,[5] whose growth in Q2 almost doubled in y-o-y terms. Working on the supply side were also the net FX sale by residents and net purchase of foreign cash. On the other hand, FX demand was mainly generated by non-residents, with the shortening of the banks' FX position in respect of payment cards working in the same direction.

To maintain the relative stability of the EUR/RSD exchange rate, the NBS intervened in the IFEM in April and May by both selling and purchasing foreign currency. In June and July it acted only on the purchase side. Since the start of the year until end-July, the NBS purchased EUR 130 mn net in the IFEM. At end-July, FX reserves equalled EUR 28.3 bn, by far exceeding the adequacy standards – covering more than six months of goods and services imports or 165% of money supply M1.

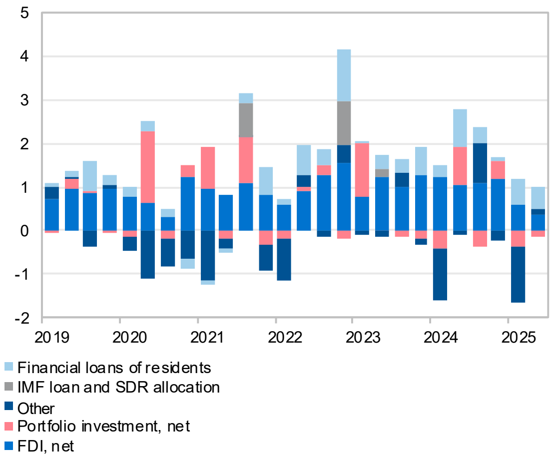
The currencies of regional inflation targeters displayed divergent movements against the euro in Q2. Gaining ground against the euro were the Czech koruna (0.9%) and the Hungarian forint (0.7%), while the Polish zloty (1.4%), Romanian leu (2.0%) and Turkish lira (12.2%) weakened.

Chart IV.1.7 **Current account deficit and net FDI inflow**
(in EUR bn)



Source: NBS.
Note: Preliminary data for Q2 2025.

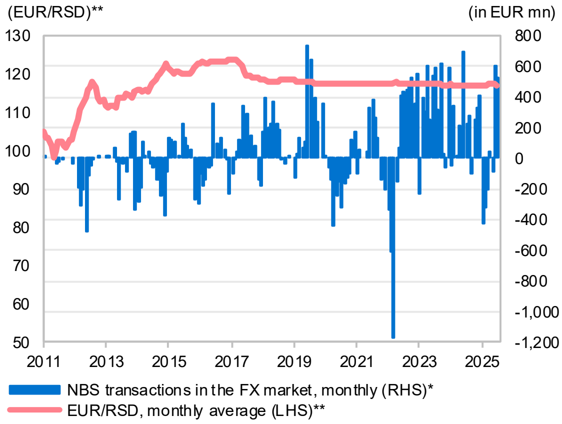
Chart IV.1.8 **Structure of the financial account**
(in EUR bn)



Source: NBS.

Note: Preliminary data for Q2 2025.

Chart IV.1.9 **Dinar exchange rate and NBS transactions in the FX market**



Source: NBS.

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

[5] Aiming to balance their long open FX positions and reduce exposure to FX risk, banks sell foreign currency, which works toward the strengthening of the dinar.

2 Money and loans

The y-o-y growth in the overall money supply M3 decelerated slightly in Q2. Such dynamics were also recorded by individual categories of monetary aggregates. Dinar savings of residents continued up at a more moderate pace than in previous quarters, reaching RSD 192.0 bn at the end of June.

More favourable interest rates and eased credit standards supported continued acceleration of the y-o-y growth in lending to the non-monetary sector which came at 10.8% in June. The NPL share in total loans stayed at the March minimum (2.3%).

Money

The broadest monetary aggregate M3, which in addition to dinar money includes FX deposits of the non-monetary sector, increased by 2.4% in Q2, driven primarily by the rise in the most liquid component – dinar demand deposits of corporates and households, and somewhat less by the increase in household FX savings.

Observed by individual category, dinar **demand deposits** rose by RSD 78.4 bn in Q2 owing to the rise in transaction deposits of households and corporates (primarily wholesale and retail trade and construction). **Dinar time deposits** went up by RSD 3.3 bn, of which household savings increased by RSD 1.7 bn to RSD 192.0 bn at end-June.[6]

FX deposits of the non-monetary sector rose by EUR 282.3 mn in Q2, largely reflecting a EUR 232.4 mn rise in FX household savings (which reached a new maximum level of EUR 14.9 bn), while other sectors did not record any significant changes in the FX account.

The degree of dinarisation of corporate and household deposits increased by 0.8 pp in Q2, to 45.5% in June, largely as a result of the rise in dinar corporate and household deposits, coupled with a simultaneous mild drop in corporate FX deposits.

In y-o-y terms, money supply M3 growth decelerated in Q2 relative to Q1. In June, it stood at 9.5%, driven by a more moderate growth of all categories of monetary aggregates.

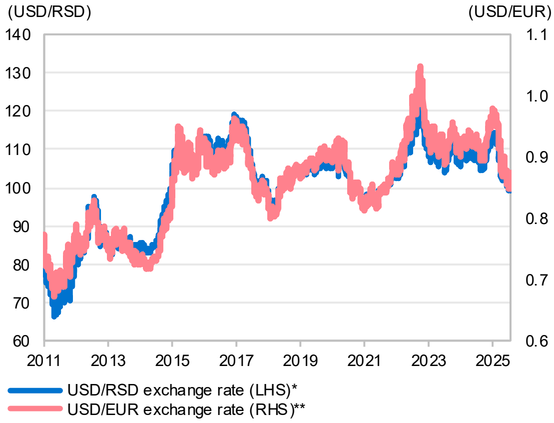
Loans

The y-o-y rise in **total domestic loans to the non-monetary sector** further accelerated in Q2. In June, this growth stood at 10.8%, excluding the exchange rate effect.[7] It was driven by **household lending**, which accelerated to 14.0% in y-o-y terms, followed by **corporate lending**, which went up by 7.1% in June from a year ago.

[6] If the assets of non-residents are included, end-June dinar savings equalled RSD 195.7 bn and FX savings EUR 15.7 bn.

[7] Calculated at the new programme exchange rate, as at 30 September 2024.

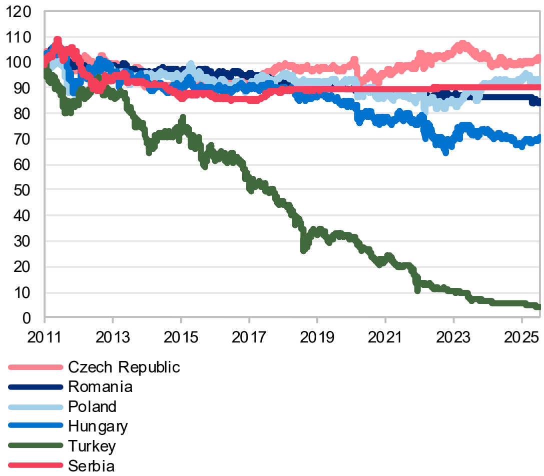
Chart IV.1.10 **Movements in USD/RSD and USD/EUR exchange rates**



Source: NBS.

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

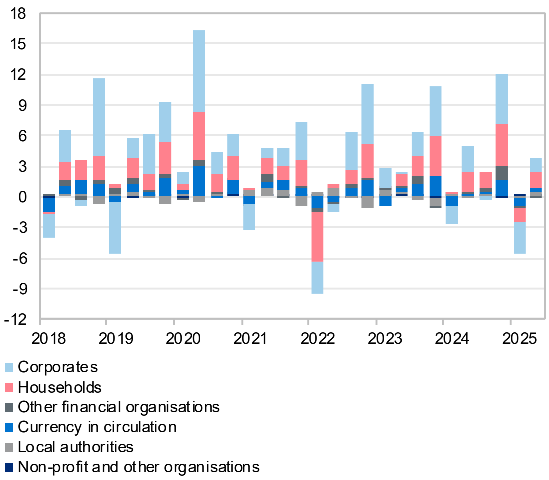
Chart IV.1.11 **Exchange rates of selected national currencies against the euro***
(daily data, 31 December 2010 = 100)



Sources: NBS and websites of central banks.

* Growth indicates appreciation.

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



Source: NBS.

Influenced by ample disbursements in June, **corporate loans** added RSD 65.6 bn in Q2. Loan growth pertained entirely to borrowing by companies (RSD 75.9 bn) and was driven by the approval of liquidity and working capital loans (RSD 42.0 bn) and investment loans (RSD 20.6 bn). Current account borrowing also went up, and after a while, export loans were also approved, while import loan receivables dropped. As a result, the share of liquidity and working capital in total corporate loans went up by 0.6 pp in Q2, to 47.9% in June, while their stock was 8.2% higher than a year ago. At the same time, the share of investment loans declined by 0.4 pp, to 42.1%, while their y-o-y rise accelerated to 11.8% in June. By sector, in Q2, trade companies borrowed the most, followed by companies operating in manufacturing, construction and real estate. Only transport companies reduced their borrowing. A larger portion of the increment in Q2 (around 55%) pertained to loans to large enterprises, which pushed down the share of loans to micro, small and medium-sized enterprises in total corporate loans by 0.6 pp, to 60.3% in June, their y-o-y rise decelerating to 9.0%.

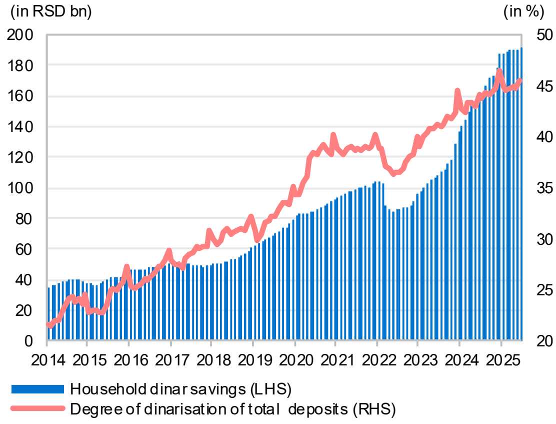
Owing to the rise in dinar loans which accounted for around two-fifths of the increment in Q2, the degree of **dinarisation of corporate receivables** increased by 0.8 pp to 22.0% in June. Dinarisation growth was underpinned by the Decision on Capital Adequacy of Banks, which sets out that starting from 2025, when calculating the capital adequacy ratio, banks are required to reduce their capital if the share of FX-indexed and FX loans in total loans to the non-financial and non-governmental sector approved after 1 July 2023 exceeds a certain threshold (71% in 2025).[8]

The volume of new corporate loans in Q2 amounted to RSD 341.8 bn, down by 7.7% compared to the same period of 2024. Liquidity and working capital loans remained dominant, accounting for two thirds of new corporate loans. More than a half of these loans (54%) was used by micro, small and medium-sized enterprises. Investment loans accounted for 22% of new loans and 72% of them were absorbed by micro, small and medium-sized enterprises.

Household loans increased in Q2, by RSD 90.9 bn, which is the largest quarterly increment since Q3 2008. This was aided by the record high disbursement of cash loans (RSD 46.8 bn), followed by the rise in housing loans (RSD 32.2 bn) supported by the approval of loans under the youth programme which accounted for two-fifths of the increment. Household borrowing under consumer loans, other non-categorised loans and current accounts also went up. The rise in household loans was supported by the eased lending standards, lower interest rates, banks' promotional offers as well as the rise in wages. Such developments boosted the share of cash loans in total household loans in Q2 by 0.3 pp to 46.7%

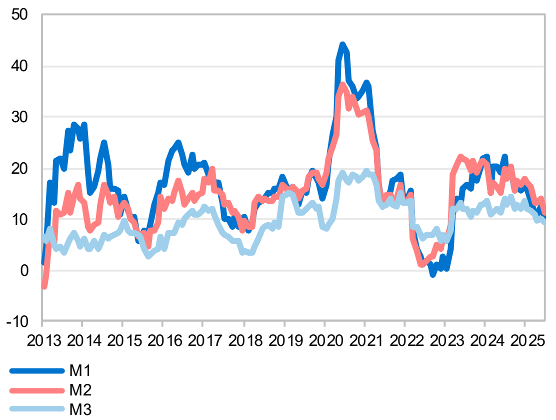
[8] It is prescribed that the threshold will decrease further to 64% in 2026, 57% in 2027, and 50% afterwards.

Chart IV.2.2 **Dinar household savings and degree of dinarisation of total deposits**



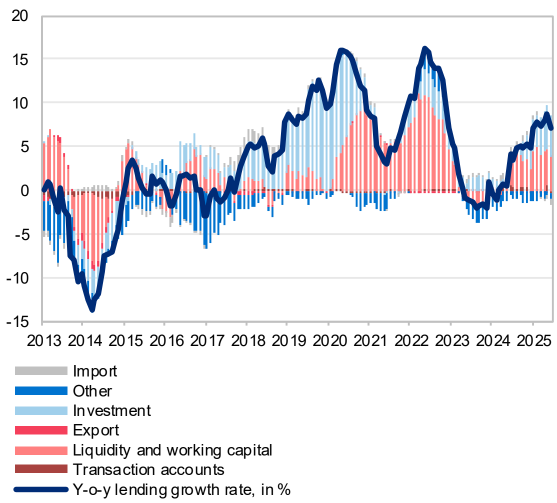
Source: NBS.

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



Source: NBS.

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



Source: NBS.

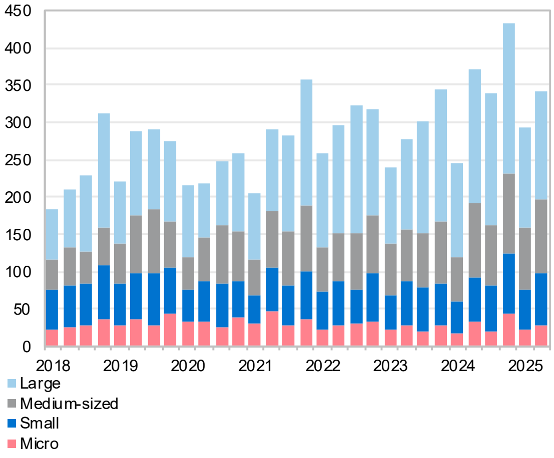
in June. The next dominant category are housing loans with the 38.2% share. Since April this loan category has been recording double-digit y-o-y growth which measured 12.6% in June. Citizens continued to take loans predominantly in dinars, boosting the **dinarisation of household loans** in Q2 by additional 0.3 pp, to 55.8% in June.

The volume of new household loans amounted to RSD 270.6 bn in Q2, up by 42.0% y-o-y owing to a higher amount of new cash and housing loans. Cash loans were dominant, accounting for somewhat more than two thirds of new household loans, followed by housing loans with an 18% share.

The results of the NBS bank lending survey carried out in July show that banks relaxed their credit standards for dinar corporate loans in Q2, while tightening the standards for those FX-indexed. Though most factors worked towards standards tightening, some banks assessed that special campaigns targeting clients and the provision of funds from more favourable sources (within "other factors") worked towards standards easing, which shaped the overall assessment that corporate standards were eased. Household credit standards were additionally relaxed, for FX-indexed housing loans and consumer loans the most, as well as for dinar cash and refinancing loans. Household credit standards easing was driven by cheaper sources of financing and competition, while some banks believe that the programme of subsidised housing loans for youth also provided a contribution. Banks estimated that in Q2 corporate demand for dinar and FX-indexed loans increased almost equally, with the rise in demand driven by the financing of working capital and more pronounced in the segment of small and medium-sized enterprises. Household demand for FX-indexed housing loans went up the most, followed by dinar cash and refinancing loans. Demand for consumer loans increased notably as well. Banks estimate that the rise in demand was driven by the need to refinance existing loans, buy durable consumer goods, purchase real estate, and by higher wages, while some banks stated that the cap on interest rates in line with the Law on the Protection of Financial Service Consumers also pushed the demand up. In Q3, banks expect a further easing of standards and a rise in both corporate and household loan demand.

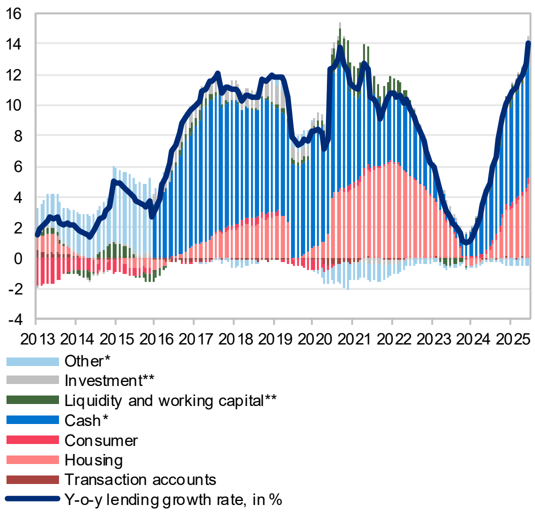
In Q2, gross **NPL ratio** stayed at the March minimum of 2.3%. Gross NPL ratio of the corporate sector[9] increased by 0.1 pp, to 1.7%, while this ratio for the household sector[10] dropped by 0.2 pp, to a new low of 3.0% in June. NPL coverage remained high – allowances for impairment of total loans stood at 112.4% of NPLs in June, while allowances for impairment of NPLs reached 61.0% of NPLs.

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.
* Until December 2015, the contribution of cash loans is shown within the contribution of other loans.
** Loans extended to entrepreneurs.

[9] Including companies and public enterprises. Looking at companies only, the share of NPLs in total loans also increased, by 0.1 pp, to 1.9% in June.

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

The capital adequacy ratio at end-Q2 equalled 21.3%, indicating high capitalisation (regulatory minimum – 8.0%) and resilience of the banking sector to external and domestic risks.

3 Aggregate demand

We estimate that, as in previous quarters, the 2.0% y-o-y GDP growth in Q2 was driven by domestic demand, primarily personal consumption, with public investments providing a positive contribution as well. Net exports provided a negative contribution to economic growth in Q2, owing to the faster rise in imports than in exports amid the current investment cycle and the growth in personal consumption on account of higher disposable income.

Domestic demand

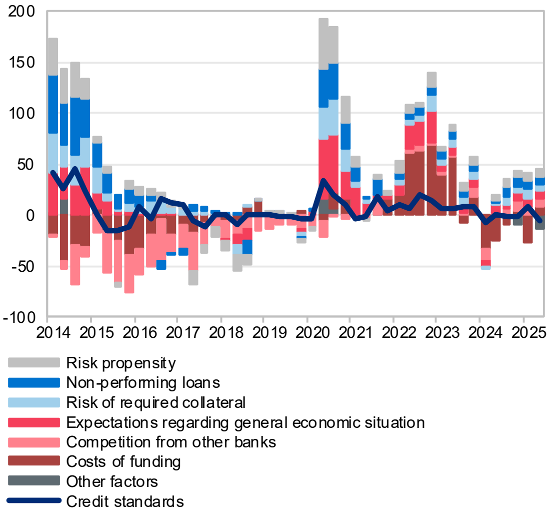
We estimate that **household consumption** growth accelerated mildly in Q2, rising by 2.5% y-o-y and providing a 1.6 pp contribution to GDP. A further rise in private consumption is indicated by retail trade turnover, which went up by 3.4% y-o-y in Q2, as well as higher imports of consumer goods by 8.4% y-o-y supported by the rise in household disposable income. On the other hand, in Q2, the number of arrivals and overnight stays of domestic tourists declined further by 5.7% and 8.7% y-o-y, respectively.

Looking at the sources of personal consumption, as in the previous period, household consumption growth in Q2 was led by its main source, the wage bill, which continued to record double-digit nominal y-o-y growth (10.3% in April–May), while thanks to a deceleration in inflation, the real wage bill growth reached 6.1% y-o-y in the same period. At the same time, in Q2, pensions grew by 10.8% in nominal, and 6.6% y-o-y in real terms. Favourable borrowing conditions, owing to the past monetary policy easing by the NBS and the ECB, provided additional support to household consumption through elevated consumer lending, which continued to record double-digit y-o-y growth (15.8% in Q2). On the other hand, household remittances continued down and were 14.5% lower in Q2 than a year earlier which can be associated with the economic slowdown in Europe, from where, as a rule, the highest inflow of remittances to our country originates.

In our estimate, **government consumption** edged up by 3.6% y-o-y in Q2, continuing to positively contribute to GDP growth (0.6 pp in Q2), driven by higher expenditures for public sector employees and the procurement of goods and services. As a result, **total consumption** increased by 2.8% y-o-y in Q2.

We estimate that private investments declined by 2.7% y-o-y in Q2, providing a 0.5 pp negative contribution to GDP growth. This drop in private investments is indicated primarily by the construction data since the number of issued construction permits went down by 12.3% y-o-y in April and May, while the import of

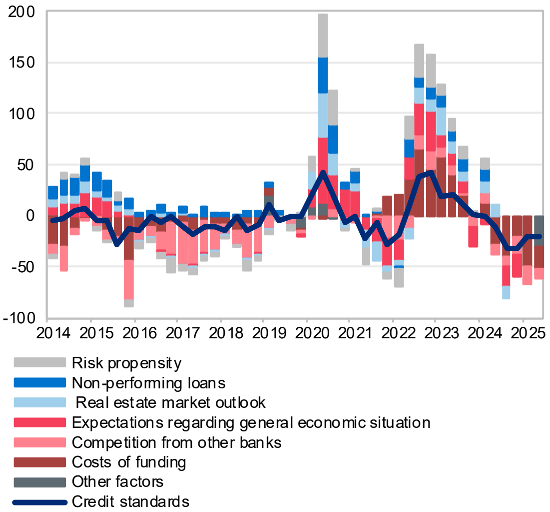
Chart IV.2.7 **Change in corporate credit standards and contributing factors**
(in net %)



Source: NBS.

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

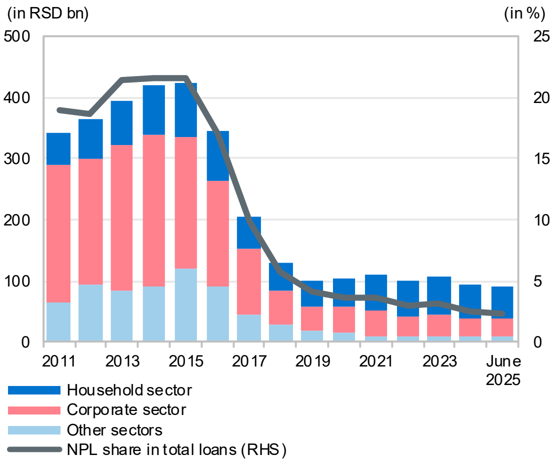
Chart IV.2.8 **Change in household credit standards and contributing factors**
(in net %)



Source: NBS.

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

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



Source: NBS.

equipment decreased by 3.6% and the production of domestic machinery and equipment by 16.9%.

As for the sources of investment financing, we estimate that the bulk of private investments was financed from own sources owing to high corporate profitability recorded in previous years (RSD 866 bn in 2024). Also, Q2 saw an FDI inflow of EUR 813 mn, while investment loans recorded a y-o-y rise of 13.5%.

Owing to the continued implementation of significant government-financed infrastructure projects, the contribution of **government investments** to GDP growth in Q2 is estimated at 0.3 pp, while the y-o-y growth in these investments measured 4.5%. Accordingly, the **total fixed investments** decrease is estimated at 1.0% y-o-y, with a negative contribution of 0.2 pp to GDP growth in Q2.

Increased inventories of industrial products provided a positive contribution to GDP growth in Q2 (1.5 pp), in our estimate.

Net external demand

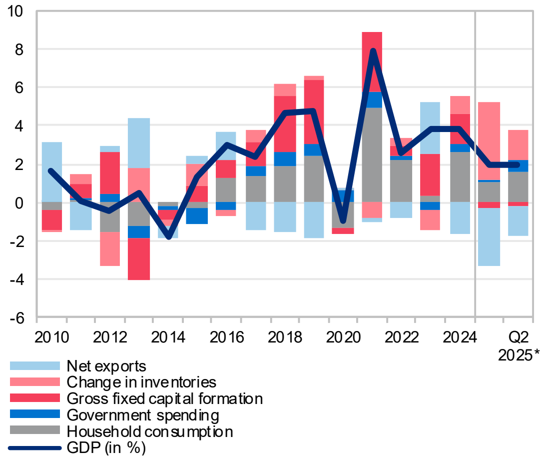
Real growth in goods and services exports of Serbia in Q2 is estimated at 5.2% y-o-y. At the same time, **imports** went up by 7.1% y-o-y in real terms, producing the negative contribution of **net exports** to GDP growth in Q2 (-1.5 pp). A faster rise in imports than in exports is expected and in line with our projections amid the current investment cycle and higher household disposable income.

Goods exports in euro terms went up by 8.7% y-o-y in Q2. Exports growth largely reflects an increase in the export of **manufacturing** (12.1% y-o-y), where growth was recorded in 19 out of 23 branches owing to the product and geographical diversification of exports supply and past investments. The growth in the export of motor vehicles and rubber and plastic products is particularly pronounced as a result of higher investments in the automobile industry. Electricity exports also went up (23.5% y-o-y) which can be associated with the launch of a new B3 unit in the Kostolac power plant and also partly with the base effect due to the reduced hydropower potential last year. On the other hand, the last year's draught resulted in lower inventories and a decline in agricultural exports in Q2 (-20.3% y-o-y). Mining exports also dropped, by 14.4% y-o-y.

Goods imports in euro terms went up by 8.9% y-o-y in Q2. According to BEC classification, intermediate goods contributed 2.7 pp and consumer goods 1.8 pp to this growth.

Foreign trade in services maintained the positive dynamics in Q2, recording a surplus of EUR 543 mn. However, unlike the previous periods when services exports increased robustly, this growth decelerated in Q2

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



Sources: SORS and NBS calculation.
Note: NBS estimate for Q2 2025.

Table IV.3.1 **Movement in key indicators and sources of household consumption**
(real y-o-y growth rates, in %)

	2024		2025	
	Q3	Q4	Q1	Q2
Household consumption	**3.9**	**3.8**	**1.8**	**2.5***
Indicators				
Retail trade	4.8	1.9	0.9	3.4
Catering turnover	-2.3	-5.3	-6.8	
Number of domestic tourists	-11.8	1.9	-3.7	-5.7
Number of overnight stays of domestic tourists	-17.1	-4.3	-8.4	-8.7
Consumer goods import (BEC classification), nominal	13.5	10.5	17.1	8.4
Sources				
Total wage bill, nominal	14.65	13.6	11.4	10.3**
Net remittances inflow, nominal	-16.5	4.6	-16.0	-14.5
Stock of loans intended for consumption, nominal	10.3	13.1	14.7	15.8

Sources: SORS and NBS calculation.
* NBS estimate.
** April-May.

Table IV.3.2 **Investment indicators**

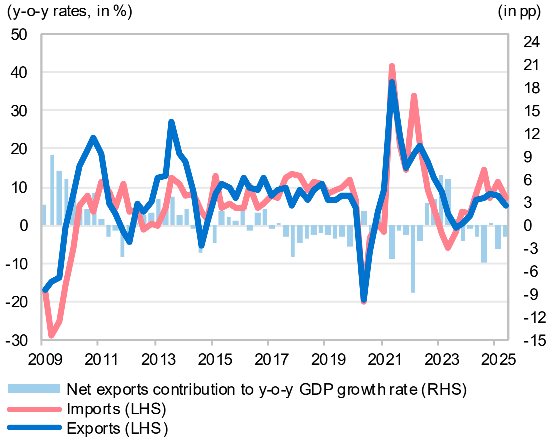
	2024		2025	
	Q3	Q4	Q1	Q2
Real y-o-y growth rates (%)				
Fixed investment (national accounts)	8.4	1.1	-1.0	-1.0*
Construction (national accounts)	-0.3	-5.8	-5.6	-5.8*
Government investment	17.7	19.4	5.0	4.5*
Number of issued construction permits	-6.8	-5.7	-2.8	-12.3**
Production of construction material	-6.6	-0.1	1.9	0.8
Value of works performed	-1.4	-6.8	-5.6	
Equipment imports, nominal	13.2	-2.6	-2.3	-3.6
Production of domestic machinery and equipment	4.0	-11.3	-11.4	-16.9

Sources: SORS and NBS calculation.
* NBS estimate.
** April-May.

to 1.5% y-o-y. This is primarily a reflection of reduced export of tourist and transport services, while export of ICT and business services continues to rise on a stable path. At the same time, the import of services rose by 11.6% y-o-y in Q2 largely on account of tourist and business services.

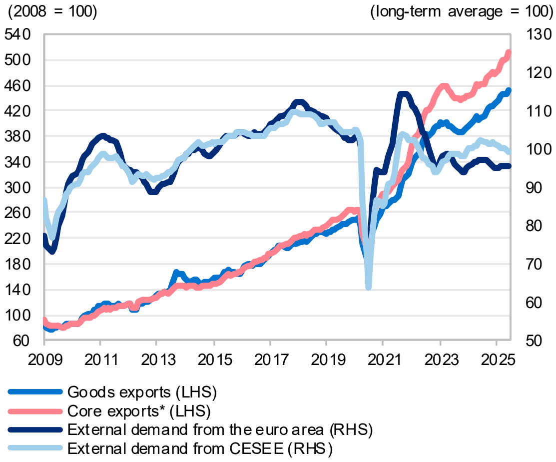
The coverage of goods imports with exports stayed unchanged from Q1. In June,[11] it stood at 78.9%, or 89.1% including services.

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



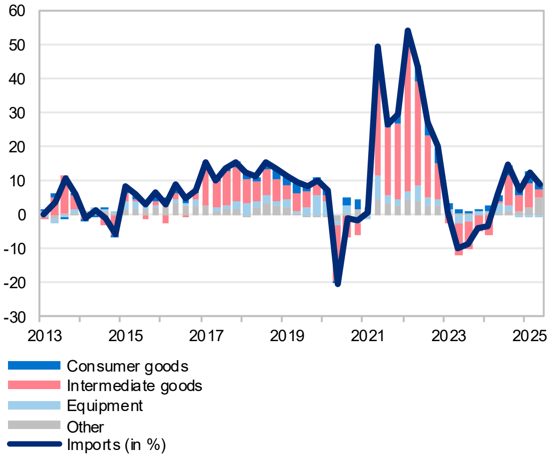
Sources: SORS and NBS calculation.
Note: NBS estimate for Q2 2025.

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.

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



Sources: SORS and NBS calculation.

[11] Measured by the 12-month moving average.

Text box 3: Revision of data on goods exports and external debt

This text box will look into the reasons behind the revisions of data on goods exports and external debt and their effects on macroeconomic indicators and projections.

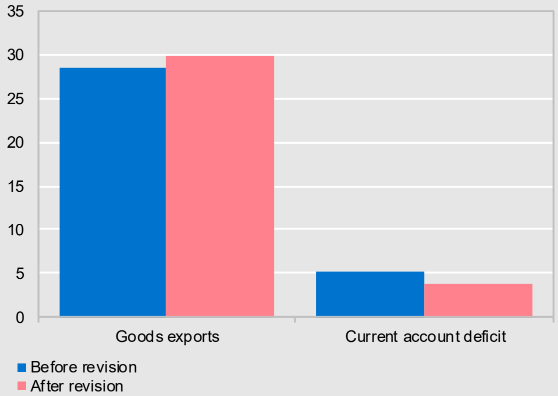
Revision of data on goods exports

When publishing the April data on foreign trade, the SORS performed a revision of previously published data on goods exports for 2024 and Q1 2025. In the explanation to the data revision, the SORS stated that regular checks and analyses have established that the preliminary results from February 2025 did not fully cover data on exports of goods from free zones. This is due to the introduction of two new customs procedures, which have reflected on the recording of data in the customs system. After the revision, the value of goods exports is higher by EUR 1.3 bn in 2024 and by EUR 801 mn in Q1 2025.

According to the balance of payments methodology, total goods exports in 2024 measured EUR 29.8 bn (instead of the originally published EUR 28.5 bn). Total exports of goods and services in 2024 therefore came at EUR 44.3 bn (instead of EUR 43.0 bn), i.e. export growth in 2024 was 8.0% instead of 4.8%. The effects of the data revision for Q1 2025 refer to the increase in total goods exports according to the balance of payments methodology from EUR 7.2 to EUR 8.0 bn, while total exports of goods and services measured EUR 11.6 bn (instead of EUR 10.8 bn), up by 11.9% y-o-y (instead of 5.1% y-o-y). The revision of foreign trade statistics also reflected on trade loans (assets and liabilities), a category within the financial account of the balance of payments, so, overall, there were no changes in FX reserves relative to the originally published data.

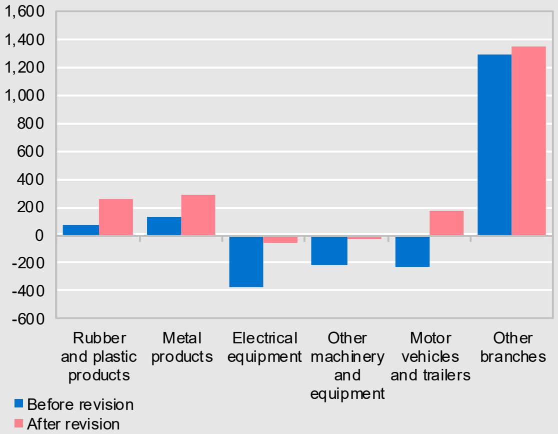
By sector, revisions of 2024 data refer to manufacturing exports which gained 8.0% relative to 2023, i.e. close to EUR 2 bn (instead of the originally published increase by 2.7% or close to EUR 700 mn). This confirms, among other things, that Serbian exports demonstrated great resilience and continued rising in 2024 despite low external demand. More specifically, 93% of the total revision referred to the export of five (out of 23) manufacturing branches – exports of motor vehicles, electrical equipment, other machines and equipment, rubber and plastic products, and metal products, which were EUR 1.2 bn higher than originally published. The largest revisions of goods exports for Q1 2025 (around 86%, or around EUR 687 mn) referred to the same manufacturing branches. Companies from the automobile cluster operate in these branches (manufacturers of electric conductors, parts and equipment for motor vehicles, tyres, accumulators, etc.). These companies exported goods worth EUR 3.8 bn in 2024 or over EUR 3.9 bn including the export of automobiles. In 2024, automobile cluster exports gained EUR 365 mn, demonstrating relative resilience despite the crisis in the global automobile industry, while in H1 2025 they gained EUR 433 mn.

Chart O.3.1 **Goods exports and current account deficit in 2024, before and after revision**
(in EUR bn)



Source: NBS.

Chart O.3.2 **Manufacturing export growth in 2024, by branch, before and after**
(in EUR mn)



Sources: SORS and NBS calculation.

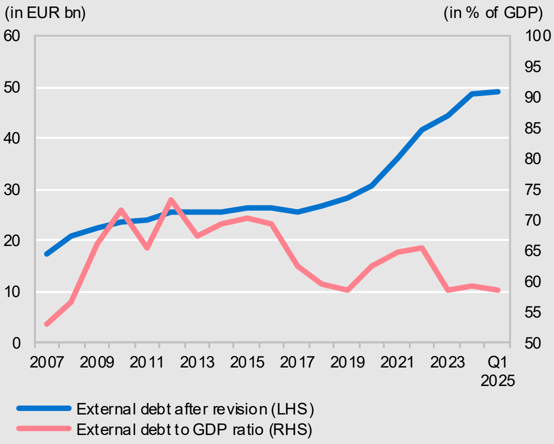
The revision also led to an adjustment of macroeconomic indicators calculated based on data on goods exports – total exports of goods and services, current account deficit – and affected the projection of these indicators for the coming period. The revision of export data led to a narrowing of the current account deficit in 2024 from EUR 5.2 bn (6.3% of GDP) to EUR 3.9 bn (4.7% of GDP). When it comes to Q1 2025, the current account deficit was EUR 609 mn or 3.0% of GDP (instead of EUR 1.4 bn or 7.0% of GDP). Given the lower values of the current account deficit, the projections for the coming period were revised down as well. The current account deficit in this year and the next is therefore expected at slightly more than 5% of GDP (compared to the previously expected around 6% of GDP), only to subside to around 4% of GDP in 2027.

That this is a more realistic assessment of the recorded movements is indirectly confirmed by the fact that appreciation pressures prevailed for most of 2024, which is more consistent with a much lower current account deficit than initially estimated. This better explains movements in the IFEM where the NBS bought more than EUR 2.7 bn net in 2024 to maintain the relative stability of the dinar exchange rate against the euro. The rise in FX supply was mostly due to residents (domestic companies) which sold more than EUR 1.3 bn net to banks.

Revision of data on Serbia's external debt

According to the international methodology, Serbia's external debt includes the amount of debt in respect of principal and the amount of accrued interest which is not paid in the observed period. It comprises public and private sector debt. Public sector debt includes the debt of the central government, the NBS, local governments, funds and agencies established by the state, and debt backed by a state guarantee. Private sector debt includes the debt of banks, enterprises and natural persons (other sectors).

Chart O.3.3 **External debt between end-2007 and Q1 2025**



Source: NBS.

The revision of data on external debt is a regular procedure consistent with international statistical standards and recommendations. By conducting a detailed comparative analysis of all available data sources, including administrative sources, the NBS performed the revision of data on Serbia's external debt by the amount of corporate arrears (including companies deleted from the Business Registers Agency database, and companies in bankruptcy or liquidation) in respect of foreign loans under which obligations have been found to no longer exist, for the period from end-2007 until Q1 2025. Also, a certain number of companies failed to inform the NBS on time of the settlement of their foreign liabilities, so these liabilities remained in the NBS's database on foreign credit relations. According to the balance of external debt as at 31 March 2025, **the reduction of principal and interest due because of the write-off of foreign liabilities that have been found to no longer exist measured EUR 1.1 bn.**

After the revision, the total stock of Serbia's external debt as at 31 March 2025 measured EUR 49.0 bn (58.6% of GDP). Of this amount, public sector debt accounts for EUR 26.4 bn or 53.8% of total debt. The remaining EUR 22.6 bn or 46.2% refers to private sector external debt. Within the private sector, the banking sector accounts for EUR 3.5 bn (7.2% of total external debt), while companies and other borrowers account for EUR 19.1 bn or 39.0% of total debt.

The bulk of public sector external debt is debt in respect of the issued eurobonds of the Republic of Serbia in the international market, which measures close to EUR 9 bn. This is followed by debt to international financial institutions worth EUR 7.8 bn (including debt to the IMF of EUR 2.4 bn). Also, a significant part of debt are liabilities to foreign governments, development banks and foreign government agencies, worth a total of EUR 7.2 bn. Government debt to the IMF makes up 9% of the total government external debt. Half of this amount refers to IMF funds in respect of SDR allocation and the other half to funds drawn under the Stand-by Arrangement (SBA) from 2022. It is important to note that the NBS has no debt to the IMF. The funds planned under the SBA from 2022, totalling SDR 1.9 bn (around EUR 2.4 bn) and intended to support macroeconomic stability amid the global energy crisis, were not fully drawn – one half of the planned funds was drawn through two tranches. It also important to emphasise that SDR allocations by the IMF do not require repayment of the principal – only interest is paid on a quarterly basis. These allocations are intended to contribute to the strengthening of a country's reserves and resilience to external risks.

By remaining maturity, total public sector external debt (comprising the general government and the NBS) is long-term, and around 60.2% is contracted at a fixed interest rate. Two currencies dominate the public external debt – the euro (70.6%) and the dollar (19.7%). It is also important to note that the currency composition of FX reserves is broadly matched with the currency composition of public external debt, thereby greatly mitigating the currency risk.

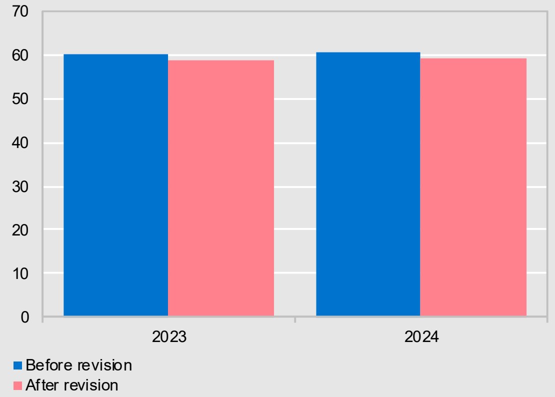
The bulk of private sector external debt refers to corporate debt (about 83.7%). Over 88% of corporate debt is euro-denominated. As around 82% of export payments are made in euros, the currency risk of external corporate debt is low. Moreover, 51.5% of the debt is contracted at a fixed interest rate. Observed by the remaining maturity, almost 95% of corporate external debt is long-term. As for the external debt of banks, around 97% is denominated in euros and around 91.2% is contracted at a variable interest rate. Observed by the remaining maturity, almost 91% of banking sector external debt (excluding deposits) is long-term.

The revision of external debt data has led to an improvement in the indicators of external position and external debt sustainability (share in GDP, ratio to the export of goods and services, external debt servicing). Chart O.3.4 shows comparable data on the external debt to GDP ratio before and after the revision for 2023 and 2024. In both cases, this ratio decreased after the revision, from 60.4% to 58.7% for 2023 and from 60.5% to 59.2% for 2024. Analysis of data from 2007 until Q1 2025 shows that, after rising robustly until 2012, the external debt to GDP ratio displayed a trend of decline and stabilisation in recent years as GDP grew relatively faster than debt.

External debt to goods and services export ratio also declined between 2007 and Q1 2025. This ratio was very high at the start of this period, peaking around 2009 when it exceeded 250%. In that period, the volume of exports was not sufficient to support the level of debt. After 2011, there has been a constant trend of decline in this ratio and its stabilisation at around 100% (2022 – Q1 2025), which is a notable improvement of sustainability of the external position.

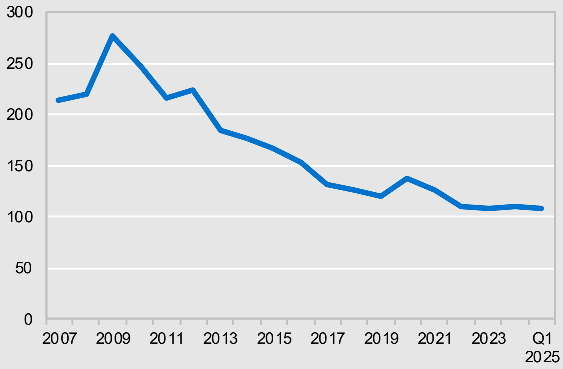
In its latest analysis of external debt sustainability, the IMF[1] assessed Serbia's external debt to GDP ratio as sustainable over the medium term. Despite a current account deterioration, it is projected to remain on a downward path. As the IMF analysis was based on data before the revision covered by this text box, it can be concluded that their assessments would have been even more favourable if the new revised data were taken into account.

Chart O.3.4 **Comparative overview of external debt to GDP ratio in 2023 and 2024 before and after revision**
(in %)



Source: NBS.

Chart O.3.5 **External debt to goods and services export ratio, after revision**
(in %)



Source: NBS.

[1] IMF Country Report No 25/176, July 2025.

4 Economic activity

According to the SORS estimate, economic activity in Q2 recorded y-o-y growth of 2.0%. As in previous quarters, GDP growth is estimated to have been driven by services, but less so than expected in May. At the same time, a positive contribution to GDP growth also stemmed from industry and agriculture, while construction recorded a decline.

Services growth, collectively, accelerated slightly in Q2 relative to Q1, in our estimate. They recorded a 2.9% y-o-y increase, providing 1.6 pp to GDP growth. This is indicated primarily by trade data, as the real retail trade turnover went up by 3.4% y-o-y in Q2. The rise in the ICT sector is also indicated by the further increase in the export of this group of products which came at 9.4% y-o-y in Q2. On the other hand, the data on the reduction in the number of tourist arrivals and overnight stays by 4.3% and 6.1% y-o-y, respectively, point to a decrease in tourist turnover in Q2, though high last year's base should be taken into account.

We estimate that the growth in **industrial production** measured 3.0% y-o-y in Q2, providing a 0.6 pp contribution to GDP growth. **Manufacturing** provided the key contribution to GDP growth, followed by mining, while energy recorded a mild decline in production. The volume of production in **manufacturing** continued up for the eighth quarter in a row. In Q2, it was 3.7% higher y-o-y. Production increased in 16 out of 24 branches of manufacturing, with the highest positive contribution stemming from the rise in the production of motor vehicles (28.7% y-o-y rise and 1.1 pp contribution) and rubber and plastic products (19.6% y-o-y rise in production and 1.0 pp contribution to industrial production growth) which can be associated with the launch of serial production of electric vehicles in Kragujevac and automobile tyres in Zrenjanin. Manufacturing growth received a substantial contribution from the production of coke and petroleum products, partly owing to the last year's low base due to the overhaul of the oil refinery in Pančevo. The greatest negative contribution originated from the decline in the production of machinery and clothing.

We estimate that Q2 saw a decrease in the volume of activity in **construction** (5.8%) y-o-y, which provided 0.3 pp negative contribution to GDP growth. This is indicated by the data on the number of issued construction permits which went down by 12.3% y-o-y in the April–May period. On the other hand, the production of construction materials recorded a modest rise of 0.8% y-o-y in Q2, while the activity in the "other mining" category mainly composed of exploitation of construction materials, went up by 1.3%.

We estimate that, in Q2, **net taxes** increased by 2.3% y-o-y, adding 0.4 pp to GDP growth. The increase reflected higher consumption and better collection of tax revenues.

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

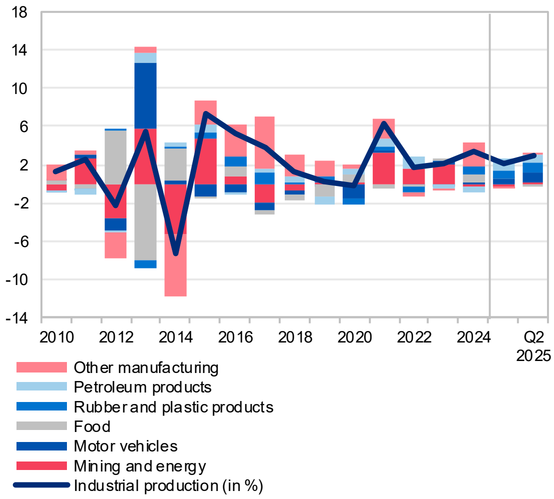
	2024			2025	
	Q2	Q3	Q4	Q1	Q2*
GDP (in %, y-o-y)	**4.5**	**3.2**	**3.3**	**2.0**	**2.0**
Agriculture	-0.3	-0.5	-0.4	0.1	0.1
Industry	0.3	0.7	0.7	0.5	0.6
Construction	0.4	0.0	-0.3	-0.3	-0.3
Services	3.1	2.6	2.7	1.2	1.6
Net taxes	0.6	0.8	0.6	0.4	0.4

Sources: SORS and NBS calculation.
* NBS estimate.

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

Sources: SORS and NBS calculation.

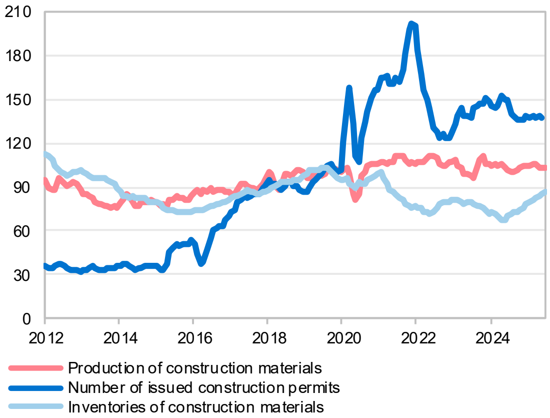
Chart IV.4.2 **Contributions to y-o-y industry growth rate**
(in pp)



Sources: SORS and NBS calculation.

Taking into account available SORS data about the production of wheat and some fruit cultures, as well as areas under autumn crops, and bearing in mind the weather conditions (frost during spring, high temperatures in June with low precipitation), we estimate that this year's **agricultural season** will be worse than average, but still a little better than the last year's. Specifically, in 2025, the SORS expects a decline in the production of sour cherries by 42.3% and raspberries by 12.2% relative to a year earlier. At the same time, there was a reduction of areas under corn (by 2.7%), sugar cane (by 26.6%), sunflower (by 2.5%) and soybean (by 5.8%). It is estimated that wheat production went up by 24.3% from 2024. The rise in agricultural production in Q2, and at the level of the entire 2025, is estimated at around 2% y-o-y, providing a contribution of around 0.1 pp to GDP growth.

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



Sources: SORS and NBS calculation.

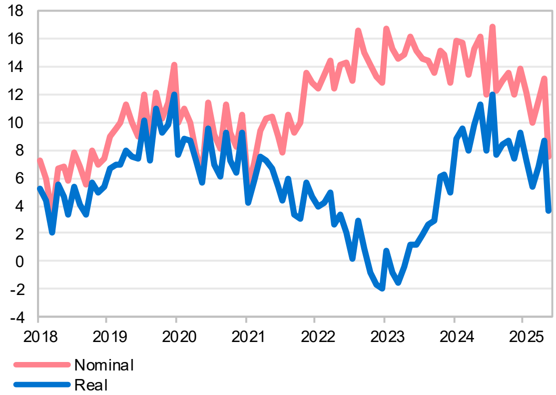
5 Labour market developments

Q2 saw a y-o-y deceleration of wage growth and a mild rise in formal employment, along with the reduction in registered unemployment to the lowest level so far.

Wages

In the April–May period, the average nominal net wage amounted to RSD 108,489 (EUR 926), recording a y-o-y growth deceleration to 10.3% (or to 6.1% in real terms). The rise was somewhat faster in the private than in the public sector (10.5% vs. 9.9%). At the same time, the median net wage increased by 11.1% y-o-y, to RSD 84,191. The following data also speak in favour of improved living standard: in the first four months of the year the coverage of the average consumer basket by the average wage and the coverage of the minimum basket by the minimum wage increased to 100.3% and 95.6%, respectively, which is their highest level so far.

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



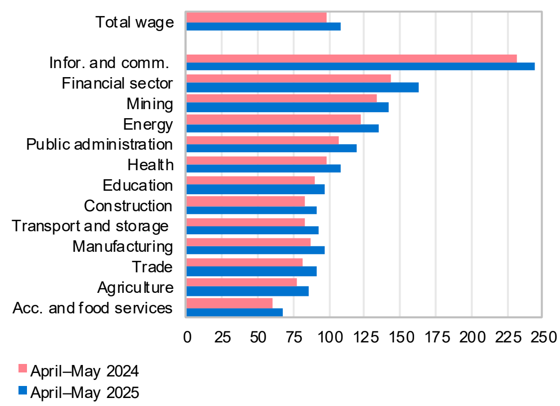
Source: SORS.

In all **economic sectors**, April and May saw a continuation of the y-o-y growth in average wages, with double-digit growth recorded in most sectors but particularly pronounced in the financial sector, art, entertainment and recreation, as well as administrative and auxiliary services (13.9%, 13.2% and 12.5%, respectively).

As a result of further wage and formal employment increases, the total nominal **net wage bill,** as the main source of consumer demand, went up by 10.3% y-o-y in April and May.

According to preliminary data, the **overall economic productivity** rose by 1.9% y-o-y in Q2 on account of a faster rise in economic activity than in employment.

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



Source: SORS.

Employment

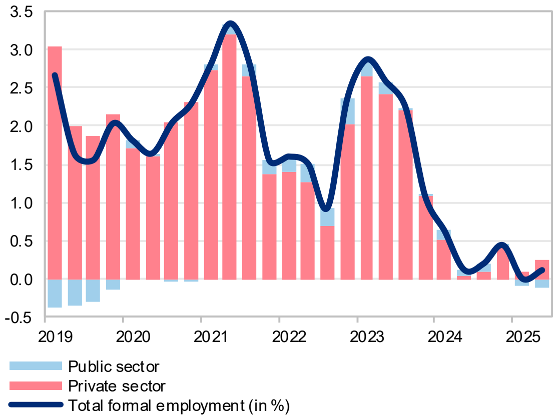
According to SORS data, **total formal employment** in Q2 averaged 2.37 mn, up by 0.1% from the same period last year (following stagnation in Q1). Employment with entrepreneurs kept rising, employment with legal entities is almost unchanged, while the number of registered farmers stayed on a downward path.

Private sector formal employment averaged 1.76 mn persons in Q2, with the y-o-y growth accelerating to 0.3% (0.1% y-o-y in Q1). In contrast, **formal employment in the public sector dropped** by 0.5% y-o-y (after the 0.3% fall in Q1), entirely as a result of the reduction in public administration employment, while formal employment increased in health and education areas. Observing dominantly private sector activities in Q2, registered employment rose the most in administrative and auxiliary services, ICT services and catering, while decreasing the most in manufacturing and professional, scientific, innovation and technical services.

According to the National Employment Service's records, **registered unemployment** dropped to a new low (344,788) in June, with around 26 thousand unemployed people less than in the same period last year.

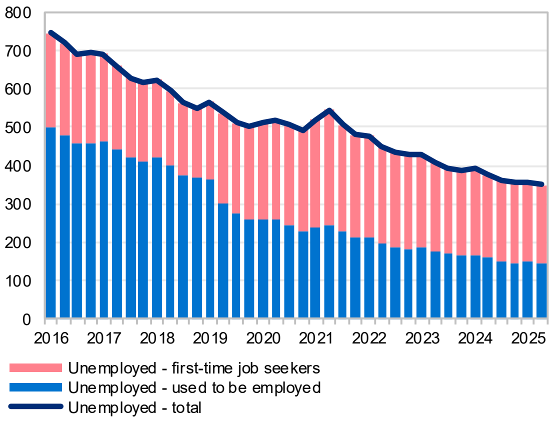
According to the **Labour Force Survey**, inclusive of both formal and informal labour market segments, the working age (15–64) participation rate in Q1 2024 stood at 73.2%, while the activity rate (15+) measured 56.6%, having increased by 0.7 pp and 0.4 pp, respectively, relative to the same period last year. The employment rate went up by 0.5 pp y-o-y, to 51.4% in Q1, while the unemployment rate decreased by 0.3 pp, to 9.1%.

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



Sources: SORS and NBS calculation.

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



Source: National Employment Service.

V Projection

Our new GDP growth projection for 2025 is 2.75%, down from May when it measured 3.5%. Agricultural production growth surprised on the downside, and activity outturns in Q2 were lower than anticipated (mostly in construction and energy). Activity is nonetheless expected to pick up in H2, propped up by the continued rise in automobile industry production and exports, and the implementation of infrastructure projects under the "Leap into the Future – Serbia Expo 2027" programme. GDP growth projection for 2026 and 2027 remains in the range of 4.0–5.0%, probably closer to the upper bound of the range in 2027 due to the hosting of "Expo 2027". Private consumption growth will be supported by higher disposable income and positive trends in the labour market, while fixed investment growth will be sustained by increased corporate profitability in recent years, continued FDI inflows to equity capital, planned government capital expenditures for projects in transport, energy and utility infrastructure, and improved lending conditions amid the monetary easing so far. Net exports are expected to provide a positive contribution in 2027, reflecting higher exports of tourism and business services.

Under our new central projection, y-o-y inflation will continue to move around the upper bound of the target band until the end of the year due to the impact of adverse weather conditions at the outset of this year's agricultural season, higher prices of fruit and vegetables, and elevated global oil prices. It will slow gradually over the next year, averaging 4.0% and approaching the target midpoint towards the year end. Inflation's slowdown over the projection horizon will continue to reflect tight monetary conditions, this year's high base for prices of fruit and vegetables, subdued imported inflation and the dollar's weakening against the euro. The new inflation projection is higher than in May, mostly on account of the impact of adverse weather conditions on fresh fruit and vegetable prices, elevated processed food and global oil prices, and faster than projected real wage growth due to the planned extraordinary minimum wage increase in October this year.

The risks to the inflation and GDP projections are mostly associated with the still heightened geopolitical tensions and risks surrounding future trade policies, though they have been mitigated by the recent trade deals among leading world economies. The risks to the inflation and GDP projections also stem from the outcome of the agricultural season globally and at home and the speed of domestic demand growth and are, overall, equally pronounced in both directions.

External assumptions

Economic activity

Taking into account the surge in trade activity in Q1 in anticipation of higher tariffs, lower effective tariff rates than those published in April, improved financial conditions partly supported by the dollar's weakening, and fiscal stimuli in certain major economies, in July the **IMF revised up its April projections of global economic growth in 2025 and 2026** by 0.2 and 0.1 pp, to 3.0% and 3.1%, respectively. Moreover, economic growth projections for this year and next were revised up for both **advanced economies** – by 0.1 pp each to 1.5% and 1.6%, respectively, and for **emerging and developing economies** – by 0.4 pp and 0.1 pp to 4.1% and 4.0%, respectively. Although the projected global growth in July is higher than in April, it is still below the 2024 outcome (3.3%) and the pre-pandemic average (3.7%). The July projection continues to be dominated by downside risks, primarily due to the persistent uncertainty surrounding major economies' trade policies.

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

	2025		2026	
	July projection	Deviation from January	July projection	Deviation from January
World	3.0	0.2	3.1	0.1
Advanced economies	1.5	0.1	1.6	0.1
Euro area	1.0	0.2	1.2	0.0
USA	1.9	0.1	2.0	0.3
Emerging and developing economies	4.1	0.4	4.0	0.1
Russia	0.9	-0.6	1.0	0.1
China	4.8	0.8	4.2	0.2

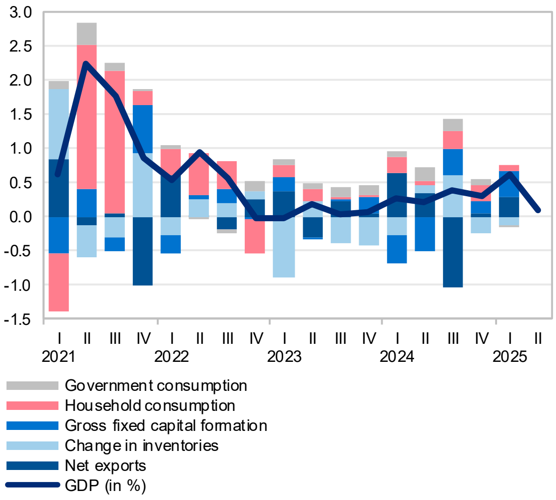
Source: IMF WEO Update (July 2025).

The euro area economy grew by 0.6% s-a (1.5% y-o-y) in Q1, mostly as a result of an increase in fixed investment and net exports, and, to a lesser extent, in household consumption. The only negative contribution came from a decline in inventories. Euro area GDP growth in Q1 was twice as high as initially estimated by the ECB as manufacturing activity sped up markedly, driven by increased demand for capital goods ahead of the implementation of new tariff measures. At the same time, growth in the euro area's service sector was modest. In **Germany** and **Italy**, our key foreign trade partners in the euro area, GDP grew by 0.3% s-a each in Q1. According to preliminary Eurostat data, GDP growth will slow notably in Q2, to 0.1% s-a, which was also signalled by the early economic activity indicators – PMI and ESI. At the same time, GDP in both Germany and Italy is estimated to have declined by 0.1% s-a each.

Given the better than expected outturns in Q1 and, on the other hand, the anticipated slackening of economic activity in the remainder of the year, **the ECB did not revise its March projection of euro area GDP growth for 2025 in June, keeping it at 0.9%**. It slightly revised down the projection for 2026 – by 0.1 pp to 1.1%, keeping the 2027 projection at 1.3%. The projected medium-term GDP growth ought to be supported by higher disposable income, more favourable loans (partly due to previous interest rate cuts), a recovery in external demand alongside declining uncertainty, and increased infrastructure and defence investments by European countries. **The risks in the June projection remain tilted to the downside** due to potential escalations in trade and geopolitical tensions. GDP growth could surprise on the upside if these tensions de-escalate. Further increase in defence and infrastructure spending, together with productivity-enhancing reforms, would also add to growth. In June, the ECB also developed **two alternative scenarios** – a mild scenario which foresees the removal of bilateral tariffs between the United States and the EU, with a GDP growth rate of 1.2% in 2025, and a severe scenario which foresees a further increase in global protectionism and uncertainty, with a GDP growth rate of 0.5%. The labour market in the euro area remains stable, with an unemployment rate of 6.2% in Q2 – its lowest level on record.

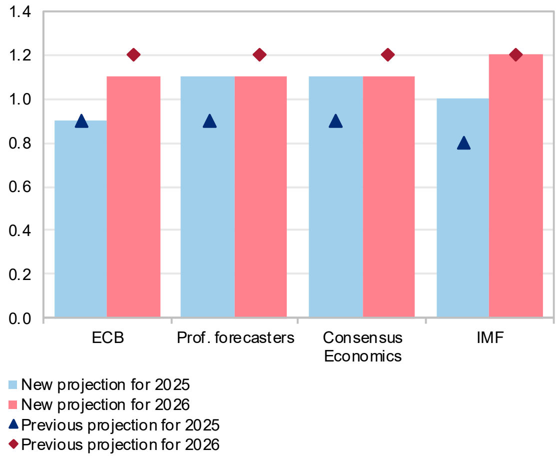
In July, **Consensus Economics** revised its April projection of 2025 euro area growth up by 0.2 pp to 1.1%, and its 2026 projection down by 0.1 pp, also to 1.1%, which are the assumptions that we used in our new projection. It was assessed that economic activity in the euro area remains weak, despite the more favourable outturns in Q1, primarily due to elevated uncertainty surrounding EU and US trade policies and geopolitical tensions, as well as the decline in external competitiveness resulting from the appreciation of the euro. These factors, along with increased financial market volatility and weaker external demand, led the World Bank in June to significantly downgrade its January GDP growth projections for the euro area for both this year and the next – by 0.3 pp to 0.7% for 2025, and by 0.4 pp to 0.8% for 2026, figures that are lower even than the ECB's projections in its baseline scenario.

Chart V.0.1 **Contribution of components to the real GDP growth rate in the euro area**
(s-a, quarterly, in pp)



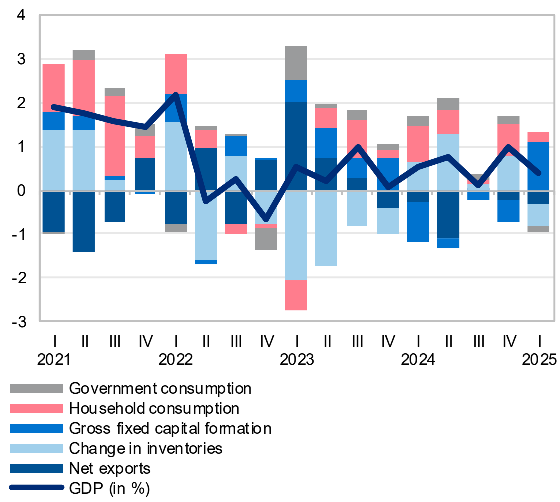
Source: Eurostat.

Chart V.0.2 **Euro area GDP growth projection for 2025 and 2026**
(in %)



Sources: ECB (March and June 2025), Consensus Economics (April and July 2025) and IMF WEO (April and July 2025).

Chart V.0.3 **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.

In the Central and Southeast European region, GDP gained 0.4% s-a (i.e. 2.3% y-o-y) in Q1, mainly on account of fixed investment growth and, to a lesser extent, of higher household consumption. On the other hand, inventories, net exports and government consumption declined across the region. In all countries of the region, GDP growth was lower in Q1 than in Q4 2024, with GDP contracting in Slovenia and Hungary and remaining flat in Romania.

In July, Consensus Economics revised down its GDP growth projections for 2025 by 0.2 pp for Central European countries and by 0.6 pp for Southeast European countries, to 1.9% and 2.4%, respectively. **GDP growth projections for 2026 were also lowered compared to April**, from 2.9% for both groups of countries to 2.8% for Central Europe and 2.5% for Southeastern Europe. The downgrade in projections was attributed to rising global uncertainty, which is undermining market confidence, persistent problems in the industrial sector, and greater caution among international investors. In addition, energy supply to the region has become more difficult due to the Middle East crisis, while external demand from the euro area remains weak. The World Bank highlighted the same factors and, in June, revised down its January projections for 2025 GDP growth by 0.4 pp to 2.4 for Central Europe, and by 0.5 pp to 3.2% for the **Western Balkans,** assessing that **domestic demand**, driven by higher real wages, remains the key driver of economic growth. A positive contribution, though smaller than in previous periods, is still expected from tourism services and remittances, as well as from substantial fiscal stimuli in Germany, the main foreign trade partner of the countries of the region.

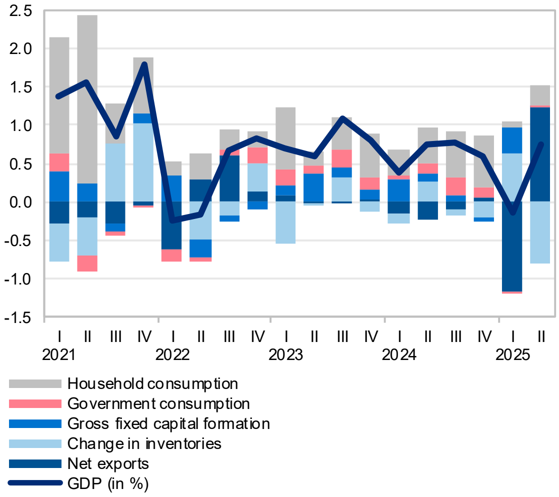
The US economy dipped slightly by 0.1% s-a in Q1 (0.5% annualised), entering negative territory for the first time in nearly three years. A positive contribution to GDP growth from total investment and household consumption in Q1 was offset by a slump in net exports mainly due to a surge in imports by US companies aiming to avoid high tariff rates. In June, the **Fed** announced that available data point to a return to positive GDP growth in Q2, driven by an increase in domestic demand. This is also supported by survey responses from US purchasing managers in both the manufacturing and service sectors, as reported by ISM. According to a preliminary estimate by the US Bureau of Economic Analysis**,** GDP increased by 0.7% s-a in Q2, primarily due to a recovery in net exports. The US labour market remains stable, with an unemployment rate of 4.1% in June – the same as a year ago and at end-2024. Heightened uncertainty surrounding trade and fiscal policies, as well as the effects of regulatory and immigration policies on economic activity, led the Fed in June to revise down its March GDP growth projection by 0.3 pp to 1.4% for 2025, and by 0.2 pp to 1.6% for 2026. The Fed also noted that the risks to the projection remain tilted to the downside.

Table V.0.2 **Consensus Economics projections of real GDP growth in countries of the region**
(in %)

	2025		2026	
	July projection	Deviation from April	July projection	Deviation from April
Poland	3.3	0.0	3.3	0.1
Czech Republic	2.0	0.1	2.0	-0.2
Hungary	0.9	-0.9	2.8	-0.4
Romania	1.0	-0.9	2.1	-0.5
Slovakia	1.3	-0.5	1.9	-0.3
Slovenia	1.4	-0.8	2.3	0.0
Croatia	2.8	-0.2	2.6	-0.1
Bulgaria	2.7	-0.1	2.6	-0.2
Albania	3.6	-0.1	3.6	-0.1
Bosnia and Herzegovina	2.4	-0.3	2.9	-0.2
North Macedonia	3.0	0.0	3.2	0.0
Montenegro	3.1	-1.4	3.2	-0.3

Source: Consensus Economics (April and July 2025).

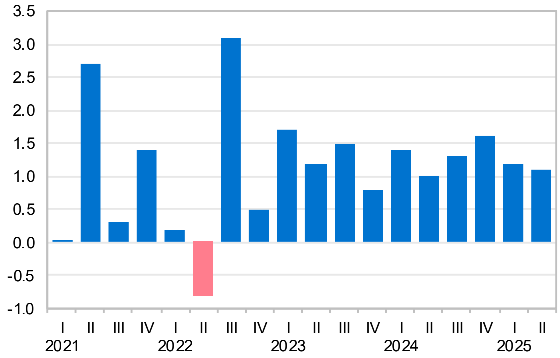
Chart V.0.4 **Contribution of components to the real GDP growth rate in the USA**
(s-a, quarterly, in pp)



Sources: U.S. BEA and NBS calculation.

Compared to last year, the World Bank projects slower economic growth for both **China and Russia** in this year and the next. The January projections of China's economic growth – 4.5% in 2025 and 4.0% in 2026 – were unchanged in June, as the negative effects of the tariff measures will be offset by expansionary fiscal policies. Due to weak performance in Q1, the World Bank revised Russia's 2025 growth projection down by 0.2 pp, to 1.4%, while the 2026 projection was raised slightly – by 0.1 pp, to 1.2%.

Chart V.0.5 **China's GDP growth dynamics**
(s-a, quarterly, in %)

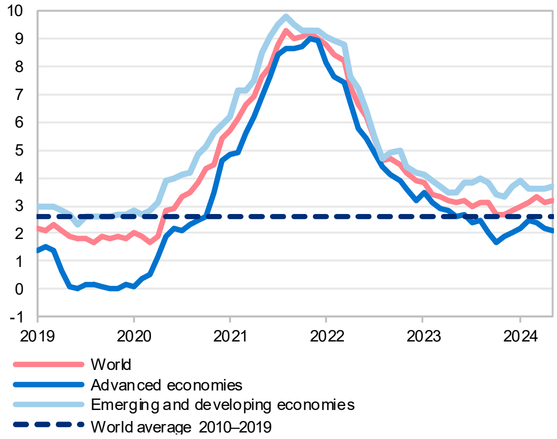


Source: National Bureau of Statistics of China.

Inflation

In July, the IMF slightly lowered its April projection for global inflation in 2025 by 0.1 pp to 4.2%, while the 2026 projection was kept at 3.6%. The IMF noted that the gradual decline in inflation from 5.6% in 2024 continues to be supported by weaker demand and lower global energy prices. The IMF expects inflation to continue decreasing in most countries of the world, where the negative demand shock caused by newly imposed tariffs is passed through to lower consumer prices.

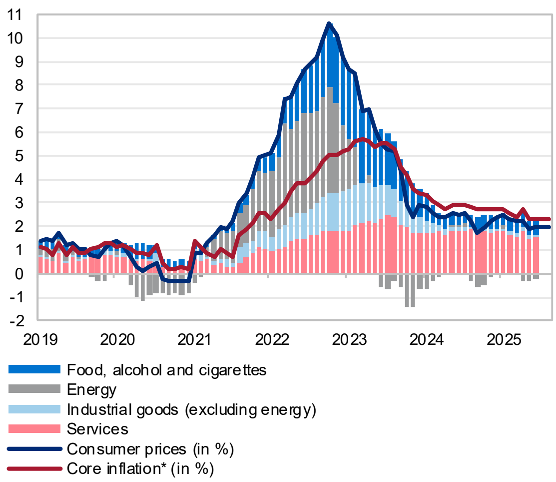
Chart V.0.6 **Headline inflation dynamics**
(in %)



Source: World Bank, Global Economic Prospects (June 2025).
Note: Data are aggregated on a sample of 36 advanced economies and 99 emerging and developing economies.

Y-o-y inflation in the euro area hovered around the target level in Q2, **reaching the 2.0% target in June,** primarily as a result of reduced energy prices, although their y-o-y decline slowed in June due to the low base from the previous year. Y-o-y growth in services and industrial product prices was lower in June than in March, bringing **core inflation in the euro area** down to 2.3% y-o-y, its lowest level since January 2022. Food inflation has been rising since early 2025 and is higher than headline inflation, averaging 3.0%. Measured as the change in the harmonised CPI, **y-o-y inflation in Germany** eased in Q2 to 2.0% in June, influenced by slower food price growth and a decline in energy prices. These were also the factors behind **lower y-o-y inflation in Italy** of 1.8% in June. According to preliminary Eurostat data, y-o-y inflation in July measured 2.0% in the euro area, 1.8% in Germany, and 1.7% in Italy.

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



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

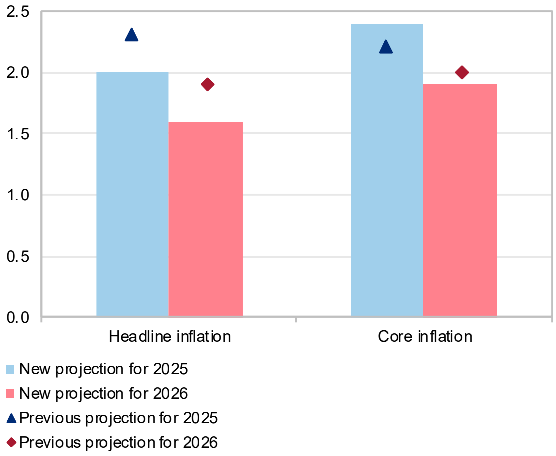
Due to the euro's strengthening against the dollar and assuming lower energy prices until the end of the year, **in June the ECB lowered its March projections of headline inflation in the euro area in 2025 and 2026** by 0.3 pp each, to 2.0% and 1.6%, respectively**.** The inflation projection of 2.0% for 2027 was not changed, indicating its expected stabilisation around the target level of 2% in the medium term. **In June, the ECB also lowered the projection for core inflation** – by 0.2 pp to 2.2% in 2025, and by 0.1 pp to 1.9% in 2026, as services prices rose more slowly due to eased labour market pressures, and industrial product prices declined reflecting subdued energy prices. **The risks to the June inflation projection are more pronounced than before** amid heightened global uncertainty, especially regarding trade policies, and remain skewed to the upside.

Y-o-y inflation was divergent across **the countries of the Central and Southeast European region** in Q2. It was higher in June than in May in all countries as food prices went up due to adverse weather conditions in the region, and current prices of petroleum products increased as well. Y-o-y inflation in the **Czech Republic** accelerated to 2.9% in June, approaching the upper bound of the target band, driven by higher prices of both food and energy, which also reflected the base effect. The same factors contributed to the acceleration of y-o-y inflation in Romania to 5.7% in June. Compared to March, y-o-y inflation in **Poland** eased to 4.1% in June thanks to slower growth in food prices and prices within core inflation, while in **Hungary**, y-o-y inflation in June was slightly lower than in March (4.6% compared to 4.7%), primarily due to subdued prices of services and the resulting decline in core inflation. In July, Consensus Economics lowered its April projections for average annual inflation in 2025 and 2026 for almost all EU member countries in the region, except Romania, where inflation is expected to speed up going forward after the lifting of the electricity price cap, as well as the increase in VAT rates and excise duties as of August. A common upside risk to the projected inflation throughout the region is the disrupted energy supply through main Middle Eastern routes due to heightened geopolitical tensions, as well as persistent cost-push pressures in the service sector.

In all **Western Balkan countries**, y-o-y inflation was higher in June than in March as food prices went up and petroleum product prices increased due to the rise in the global price of oil and low last year's base. In June, y-o-y inflation amounted to 4.6% in Bosnia and Herzegovina, 4.5% in North Macedonia, 4.2% in Montenegro, and 2.4% in Albania. In July, Consensus Economics revised up its April projection of average annual inflation for 2025 for all countries of the region, except Albania.

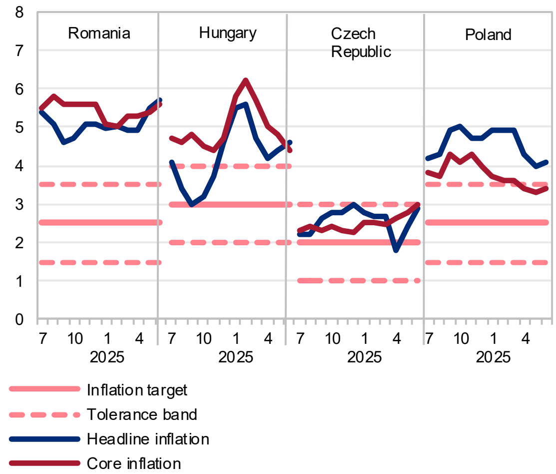
Measured by the change in the CPI, **headline inflation in the US** trended up in Q2 to 2.7% y-o-y in June, reflecting slower y-o-y decline in energy prices and elevated prices of industrial products (excluding energy and food), particularly of used vehicles. Food inflation in June remained at the March level. Elevated inflation in Q2 is also indicated by derived inflation measures monitored by the **Fed** – the Personal Consumption Expenditures (PCE) index, both overall and excluding food and energy, which stood at 2.6% and 2.8% y-o-y, respectively in June, above the March levels. In June, the Fed revised up its March projections of these measures by 0.3 pp to 3.0%, and by 0.2 pp to 2.4%, respectively, primarily due to higher tariffs on imported goods. At the same time, the risks to the June projection remain tilted to the upside, as inflation could prove more persistent than expected.

Chart V.0.8 **Projections of headline and core inflation in the euro area**
(in %)



Source: ECB (March and June 2025).

Chart V.0.9 **Y-o-y inflation in selected CESEE countries in the previous year (until June 2025)**
(y-o-y rates, in %)



Sources: Central banks of selected countries.

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

	2025		2026	
	July projection	Deviation from April	July projection	Deviation from April
Poland	3.6	0.0	2.7	0.0
Czech Republic	2.4	0.0	2.1	-0.1
Hungary	4.6	-0.2	3.8	0.1
Romania	5.9	1.1	5.0	1.3
Slovakia	3.9	-0.2	3.0	0.0
Slovenia	2.2	-0.1	2.0	-0.1
Croatia	3.4	0.2	2.6	0.1
Bulgaria	3.6	0.0	2.7	0.0
Albania	2.3	-0.2	2.6	-0.1
Bosnia and Herzegovina	3.1	0.9	2.5	0.5
North Macedonia	3.5	0.3	2.9	0.5
Montenegro	3.4	-0.1	2.9	0.0

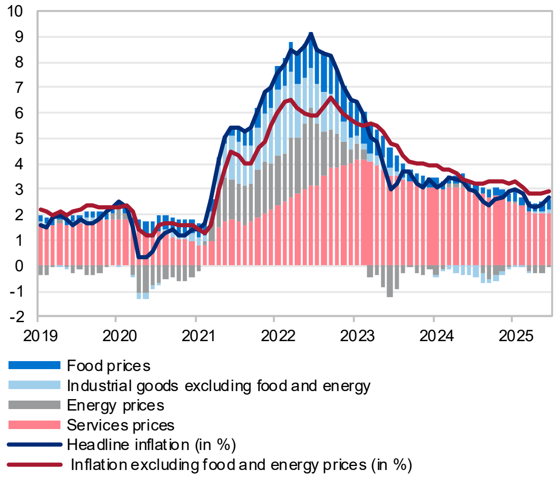
Source: Consensus Economics (April and July 2025).

Monetary policy

Since the previous *Report*, central banks' monetary policy decisions have continued to diverge, depending on specific factors and the assessment of the effects of uncertain trade policies of leading economies and geopolitical tensions. As expected, the **ECB** continued to ease its monetary policy in June, trimming its interest rates by 25 bp. It kept them on hold in July; hence the rates on deposit facility, main refinancing operations and credit facilities are 2.00%, 2.15%, and 2.40%, respectively. The ECB stated that inflation is around the medium-term target and that the downward revisions in the July projection compared with March, by 0.3 pp for both 2025 and 2026, mainly reflect lower assumptions for energy prices and a stronger euro against the dollar than assumed three months ago. Wage growth is still elevated but continues to moderate visibly, and profits are partially buffering its impact on inflation. When it comes to the real sector, the ECB noted that, while the uncertainty surrounding trade policies is likely to weigh on investment and exports, as well as on euro area's economic growth, especially in the short term, rising government investment in defence and infrastructure will support growth over the medium term. The late-July deal with the new US administration on a tariff that is half the initially announced level ought to have prevented a major trade war over nearly one-third of global trade, which is the volume of their mutual exchange. This will help reduce uncertainty. The ECB stressed that its future monetary policy decisions will continue to be based on an assessment of the inflation outlook in light of incoming economic and financial data, the dynamics of inflation, and the strength of monetary policy transmission – without pre-committing to a particular interest rate path. After it kept its main interest rates on hold in July, analysts and markets are increasingly inclined to assess that the ECB's rate-cutting cycle is nearing its end, estimating that rates are likely in or near the neutral zone.

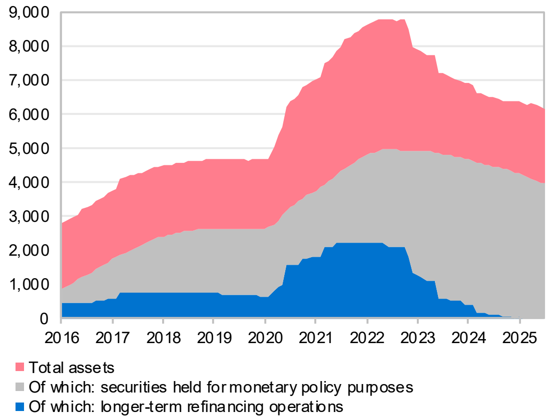
Unlike the ECB, the **Fed** has not changed its Fed funds rate range (4.25–4.50%), opting to wait for more data to clarify the outlook for inflation and economic activity. According to the June projections, the Fed expects weaker economic growth, higher inflation, and a slight increase in unemployment in the upcoming period. Inflation could reach 3% by the end of 2025, which is higher than previously anticipated. At the same time, GDP growth has been revised down. These changes are attributed to tariffs and uncertainty in global trade flows. After its meeting in July, the Fed stated its expectations that services inflation will continue to ease, while increased tariffs will push up prices in some categories of goods. Fed officials have highlighted that their monetary policy actions are guided by their dual mandate and the majority believe that the reduction of the Fed funds rate range would be desirable at some point during the year, as the tariff-induced pressure on inflation could be temporary or moderate whereas economic activity might

Chart V.0.10 **Contributions of CPI components to y-o-y inflation in the USA**
(in pp)



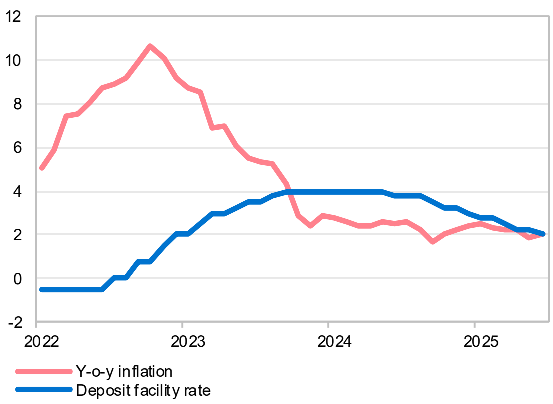
Sources: U.S. Bureau of Labor Statistics and NBS calculation.

Chart V.0.11 **Consolidated Eurosystem balance sheet**
(end-of-month, in EUR bn)



Source: ECB.

Chart V.0.12 **Deposit facility rate and inflation in the euro area**
(in %)



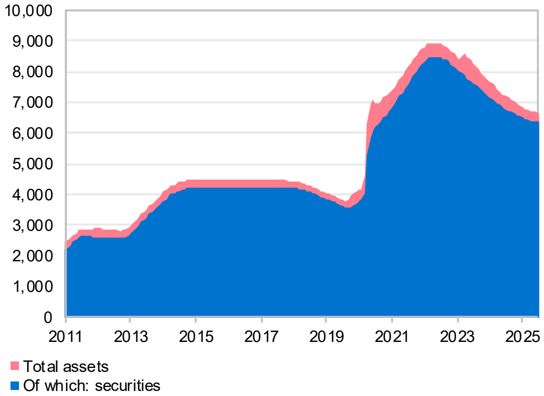
Sources: ECB and Eurostat.

weaken considerably. Medium and longer-term inflation expectations are stable. Based on the Fed's June projections, two cuts in the Fed funds rate range could be expected before the end of this year (by a total of 50 bp), as the FOMC's median projection for the Fed funds rate by the year end remains at 3.9%, unchanged from the March projection. The median projections for end-2026 and end-2027 are slightly higher than in March, at 3.6% and 3.4%, respectively.

Inflation-targeting central banks of **Central and Southeast European** countries pursued cautious monetary policies in the period since the previous *Report*. The **Czech National Bank** reduced its policy rate by 25 bp in May – for the second time this year – to 3.5%, and has kept it unchanged since, due to continued significant wage growth and the effects of global trade tensions and geopolitical conflicts. The **National Bank of Poland** cut its policy rate in May and July, by 50 bp and 25 bp respectively, to 5.0%, after keeping it on hold for a long time (since October 2023). The key reasons for monetary policy easing were the revised projections which indicated a decline in inflation relative to March – particularly for this year – by nearly 1 pp, to 4% y-o-y, as well as slightly lower economic activity growth.

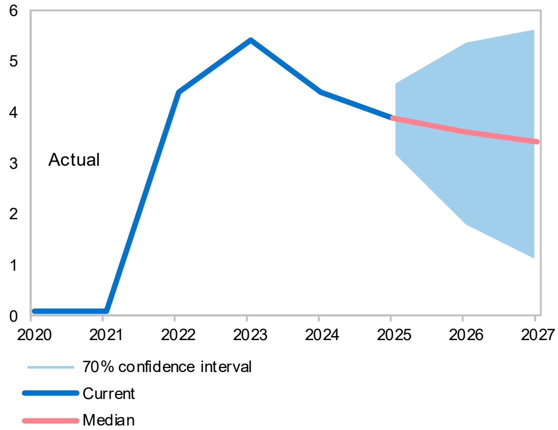
As expected, the **central banks of Romania and Hungary** have not changed their policy rates since August and September 2024, respectively, and they currently stand at 6.5%. The National Bank of Romania is pursuing a cautious monetary policy, anticipating a further rise in inflation in the short term due to the planned increase in VAT and excise duties starting in August, and the lifting of electricity price caps. The **National Bank of Hungary** is striving to anchor inflation expectations amid rising inflation. A cautious approach to monetary policy is expected to prevail, given the significant rise in wages and consumer demand, as well as mounting trade barriers and global uncertainty.

Chart V.0.13 **Fed's total assets**
(monthly average, in USD bn)



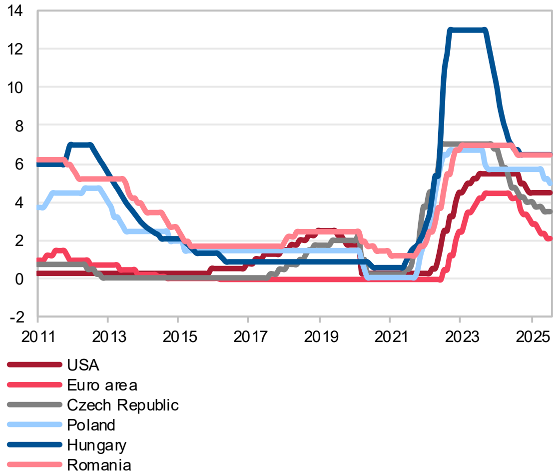
Source: Fed.

Chart V.0.14 **Uncertainty and risks to the projection of the Fed funds rate**
(in %)



Source: Fed, Summary of Economic Projections (June 2025).

Chart V.0.15 **Policy rates across selected countries**
(p.a., in %)



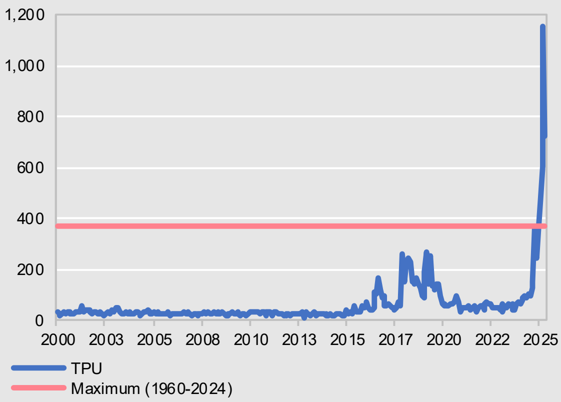
Sources: Central banks of selected countries.

Text box 4: What kind of monetary policies will central banks pursue in the coming period?

As the pursuit of monetary policies by central banks is currently plagued by extreme uncertainty and it is important to manage inflation expectations, the question arises regarding the future level of central banks' interest rates. Will central banks continue to trim their key rates or is the cycle of monetary accommodation by almost all central banks almost over?

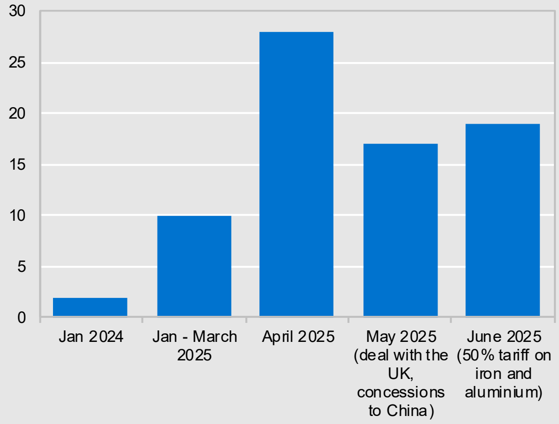
This is not an easy question to answer. Today, central banks are not as explicit with regard to their intended monetary policy path as they used to be. Up until the pandemic, central banks almost competed over which one would be the most transparent. The strategy of communication with the public, markets, investors and the corporate sector is vital and, in the case of central banks, words matter almost as much as the taking of specific measures. Most inflation-targeting central banks informed the public of their intentions regarding the policy rate path by publishing (or describing) the rate trajectory underlying the inflation and GDP projections or by providing forward guidance, as the ECB since July 2013.

Chart O.4.1 **Global trade policy uncertainty (TPU)**
(index)



Source: Global Monthly, World Bank, June 2025.

Chart O.4.2 **Average effective US tariff rate restored to the 1930s level**
(in %)



Source: Richmond FED, S&P Ratings Economics.

The world around us, however, is getting more and more complex, and the external shocks are gaining in frequency and strength. Though monetary policy makers have always had to contend with uncertainty, it has peaked in the past years to levels unprecedented in recent history. We faced the pandemic, conflicts in Europe and the Middle East, the worst energy shock since the 1970s. In the meantime, mounting geopolitical tensions have reshaped the global economic and trade flows, bringing about new rules, though the strategic picture of the world is yet to be fully defined. In addition, the climate and ecological crises, which represent an existential threat as well, compromise the stability and resilience of our economic system. Technological changes and digitalisation of our economies do not only imply immense possibilities for development and advancement, but also complex challenges.

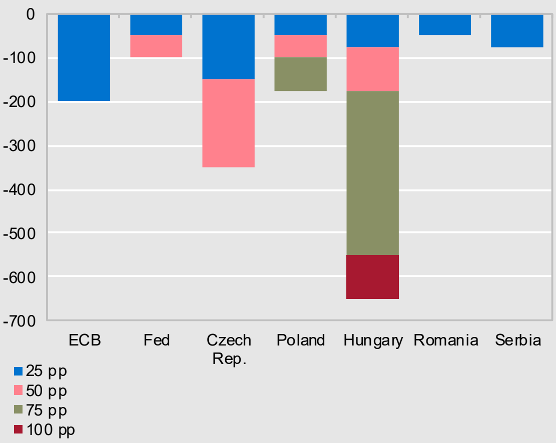
In such an environment, central banks seek to ensure that the monetary policy is appropriate for achieving low and stable inflation, encouraging economic growth and preserving financial stability. An important lesson for central banks learned in the prior years is that **inflation growth can occur suddenly due to supply-side constraints, not only due to powerful aggregate demand**. Structural changes and increasing supply-side rigidity have amplified the risk of occurrence of such events. Also, the sudden surge in global inflation during the pandemic has made **inflation expectations more sensitive.** For this reason, central banks must take quick and decisive action as soon as signs of de-anchoring of inflation expectations emerge, thereby preventing temporary price growth from translating into stubborn inflation.

Central banks today therefore stress that their decisions will be taken on a meeting-to-meeting basis, depending on the incoming economic data, without committing to any specific key rate trajectory. Extreme uncertainty mandates flexibility and giving priority to easily adjusted tools, with clear exit strategies, in order to be able to contend with sudden economic changes. Central banks must avoid excessive reliance on the baseline projection scenario and use the alternative scenarios to facilitate communication with the public and clarify how the central bank would respond to certain events. This is the practice applied by the NBS which develops alternative projection scenarios, taking into account different inflation outcomes caused by, for instance, a sudden increase or decrease in global energy prices, escalation of geopolitical and trade tensions, success of the agricultural season, etc.

Almost all central banks are now in the policy easing cycle, which the majority began in 2024. Some central banks continued with monetary policy easing in 2025 as well, mostly the ECB, while others, like the Fed, opted for a pause. The Swiss central bank trimmed its rate to zero in June this year, for the first time since end-2022 when it was negative. Emerging economies reduced their rates less, but from higher levels.

Common for all central banks is that geopolitical and trade tensions are at the centre of global macroeconomic challenges. The new US administration first imposed high tariffs on imports from a large number of countries. The tariffs were then suddenly suspended and negotiations ensued. These shocks come hand in hand with the redistribution of supply chains and the industrial policy amid high trade tensions. Producers, suppliers and financial markets are finding it difficult to adapt. **Is there still scope for further rate cuts by central banks or are monetary easing cycles nearing their end?**

Chart O.4.3 **Total reduction of policy rates in the current monetary policy easing cycle**
(in pp)



Sources: central banks of the above countries.

In most countries, inflation subsided notably from the relatively high post-pandemic levels. There are, however, **some variations of inflation across countries, underpinning the diverging monetary policies.** The analysis of leading central banks is mostly shaped by the tariff situation. After reducing its funds rate range three times in a row in H2 last year, the **Fed** adopted a "wait and see" strategy precisely because of the uncertainty surrounding tariffs and their effect on inflation. Though this is not visible in data on consumer prices until May, the June data revealed some effects, with sudden increases in several core inflation categories by contrast to most other leading economies. For this reason, it is reasonable to expect the **Fed to keep the Fed funds rate range on hold up until the end of the year, though early signs are emerging that the range could be trimmed sooner**.

On the other hand, estimates are that the **ECB has neared the end of its monetary policy accommodation cycle.** After cutting its main rates eight times since June 2024, the ECB, which is the monetary authority of 20 European countries, kept them on hold in July, providing a mildly optimistic assessment of the euro area growth outlook despite US tariffs. ECB President Christine Lagarde said that euro area growth is in line with projections or "a little bit better", while expressing a cautious stance with regard to the possibility of future rate cuts. This has bolstered market bets that the ECB may be done with cutting rates altogether. The financial markets, which before the July meeting expected the ECB's deposit rate to be trimmed to 1.75% until the end of the year (most probably in September), now believe such move to be less likely, since data point to robust private sector balance sheets, rising loan demand and faster economic activity, spearheaded by solid service sector recovery and signs of rebound in production. Substantial fiscal expansion is expected as well. Most estimates place the neutral interest rate for the euro area at around 2%.

Euro area inflation could, however, be lower than the ECB expects, while economic activity during the summer could surprise on the downside, leading to further monetary easing in the coming period. Namely, the EU and US have agreed on a 15% tariff for European exports, including cars, which was the key request of the German automobile industry (50% tariffs still apply to steel and aluminium, while pharmaceutical products will remain duty free). The 15% tariffs would be roughly halfway between the baseline and severe scenarios in the ECB's June projections, which indicate that higher US tariffs would lead to weaker growth and lower inflation in the euro area. Under the baseline scenario from the ECB's June projections, with tariffs of 10%, inflation would be below 2% over the next 18 months. This means that it should be even lower with tariffs of 15%, possibly creating scope for further monetary policy accommodation by the ECB.

The direct effect of the change in US trade policies on inflation and economic growth of **emerging economies** has so far been relatively small, as the effective tariff levels were lower than feared. The indirect effect of uncertainty in the global trade policy – such as the slowing of global demand and weaker investments – could gain strength going forward. There is a significant risk that the crude oil price could go up due to the recent conflict between Israel and Iran. Among the inflation-targeting banks of the region, the **Czech National Bank** has stated that all options are open in the coming period. The key rate could be raised if inflationary pressures escalate, particularly if inflation in the service sector continues or inflation expectations deteriorate. According to this central bank, the battle against inflation is not yet over, and the monetary policy must stay restrictive to prevent a return of high inflation. The key rates of the **central banks of Hungary and Romania** are the highest in the EU (6.5%) and are expected to stay so while inflation remains above the target. In addition to the potential impact of the trade war, another risk to inflation in Hungary is the weakening of the forint. The key policy rate is expected to be trimmed only once inflation has sustainably returned to the target. Similarly, the National Bank of Romania is expected to embark on some monetary policy easing in mid-2026 once inflation has receded.

The NBS pursues its monetary policy in line with the best global practices. Thanks to this, and to open communication with the public and a stable exchange rate policy, the NBS has managed to topple the double-digit inflation from 2022–2023. Going forward, the **NBS will do everything within its remit to stop high inflation from returning.** The current economic situation in the world is marked by a high degree of uncertainty – along with geopolitical tensions and the resulting energy price volatility, as well as the still relatively high inflation compared to the pre-pandemic period, challenges and risks arising from heightened protectionism and further global market fragmentation have also amplified. There is no need to emphasise that, in such circumstances, the pursuit of monetary policy is extremely complex, mandating caution, especially in a small and open economy such as Serbia.

For this reason, the NBS takes its monetary policy decisions cautiously, on a meeting-to-meeting basis, depending on the pace of inflation's slowdown and movements in its key underlying factors at home and abroad, while also taking into account the effects on financial stability and economic growth. The key policy rate is the main monetary policy instrument. It is the highest interest rate at which the NBS can withdraw excess dinar liquidity of the banking sector through main open market operations – one-week reverse repo operations. **Reverse repo, i.e. repo securities sale transactions,** are an instrument used to mop up from the banking system structural excess dinar liquidity that contributes to inflationary pressures, and are by no means applied because of the NBS's need to borrow, as misrepresented in the public over the past weeks.

Financial and commodity markets

The yields on ten-year government securities of advanced European economies decreased in Q2 by 20 bp on average, primarily due to continued monetary policy easing by the ECB, but also to increased demand for government bonds as a safe haven amid the escalation of the conflict between Israel and Iran. By contrast, **the yields on ten-year US government securities** remained almost unchanged in Q2, although they displayed divergent movements almost throughout the period: the periods of increase were marked by high levels of economic and political uncertainty regarding future decisions of the US administration, while periods of decrease were driven by the stabilisation of inflation. This, coupled with a slowdown in economic activity, creates scope for earlier monetary policy easing by the Fed.

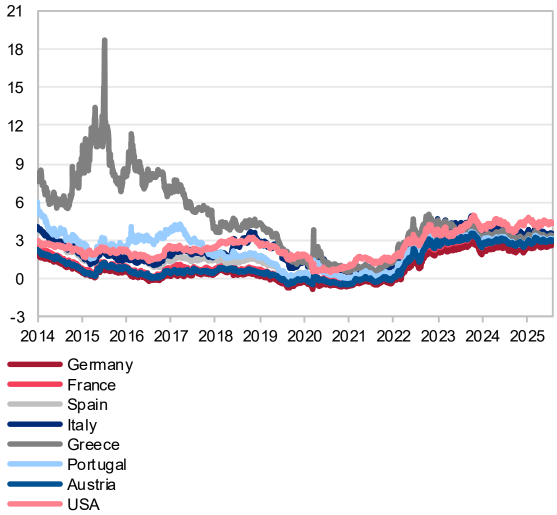
During Q2, **the euro and most major currencies** appreciated **against the US dollar** in the international financial market as investor confidence in the dollar slid after the downgrade of the US credit rating by Moody's in May 2025 and the weakening of the US economy.

Uncertainty in financial markets has decreased somewhat since the previous *Report*, as evidenced by the decline of the **stock market's implied volatility index** (VIX) during Q2. This can be linked to expectations of a de-escalation in the trade war, leading to a significant reduction in the Trade Policy Uncertainty Index (TPU)[12].

Driven by increased demand from market participants for safe-haven assets due to rising trade protectionism and geopolitical tensions globally, as well as increased gold purchases by central banks, the **global price of gold** continued its upward trend during Q2, averaging around USD 3,280 per ounce — 14.7% higher than in Q1. By contrast, the price of gold declined slightly in July as global uncertainty receded with the easing of geopolitical tensions and the trade deals reached by the US with Japan and the EU.

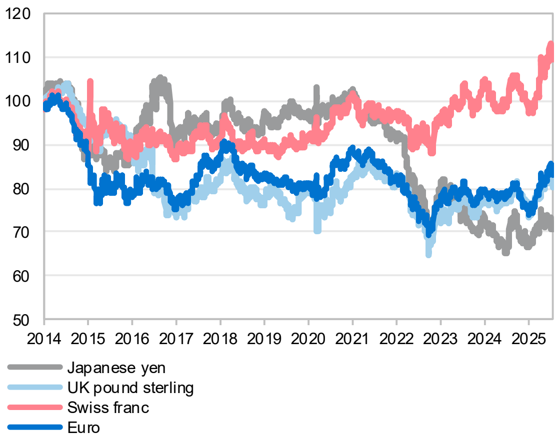
The global Brent oil price mostly followed a downward trend in Q2 and in July, due to increased production by OPEC+ member countries, expectations of tariff-induced global growth slowdown, and rising oil inventories in the US. Temporary deviations from this trend, particularly in June, stemmed primarily from escalating geopolitical conflicts in the Middle East. In July, the average oil price was around USD 71 per barrel, which is 16.9% lower y-o-y. According to relevant institutions, this price is expected to continue on a downward path in the coming period, mainly due to excess supply in the market. The US Energy Information Administration (EIA) expects the oil price to be around USD 63 and USD 57 per barrel in late 2025 and 2026, respectively. Consensus Economics

Chart V.0.16 **Yields on ten-year bonds of euro area countries**
(daily data, in %)



Source: Bloomberg.

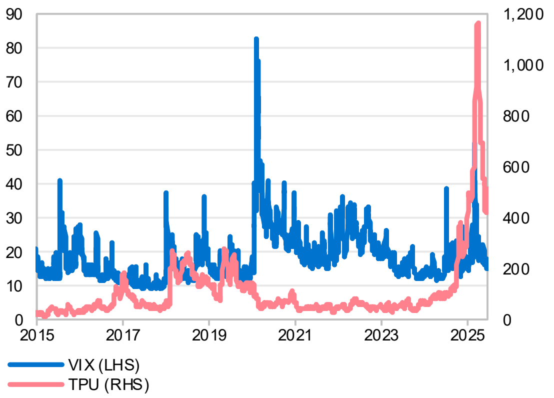
Chart V.0.17 **Exchange rates of selected national currencies against the dollar***
(daily data, 31 December 2013 = 100)



Source: IMF.

* Growth indicates appreciation.

Chart V.0.18 **Measures of volatility and uncertainty in the international financial market***



Sources: Bloomberg, Caldara et. al. (2022).

* VIX (Chicago Board Options Exchange Market Volatility Index) is a measure of implicit volatility of a S&P 500 stock option; TPU – Trade Policy Uncertainty Index) is the index of trade policy uncertainty.

[12] Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo (2020). "The Economic Effects of Trade Policy Uncertainty", *Journal of Monetary Economics*, 109, pp. 38–59.

projects the price at USD 63 per barrel by the end of 2025 and anticipates a similar level next year. According to our projection, based on market futures, the price will average around USD 67 per barrel in late 2025 and remain at a similar level throughout 2026.

The benchmark price of natural gas for Europe at the Dutch TTF hub was mostly on a decline in Q2 and July, as demand slumped with the end of the heating season in Europe and North America. However, reduced supply from Norway, increased demand in June and July due to warmer weather, and heightened geopolitical tensions triggered occasional deviations. In July, the average gas price was around EUR 34 per megawatt hour (equivalent to around USD 410 per thousand cubic meters), having risen by 4.1% y-o-y[13]. Going forward, gas prices will largely be influenced by seasonal fluctuations. According to market futures, the gas price will be 20.8% lower y-o-y at end-2025, and 6.0% lower y-o-y in December 2026. Consensus Economics forecasts that the gas price will be 13.7% and 9.8% lower y-o-y at end-2025 and end-2026, respectively.

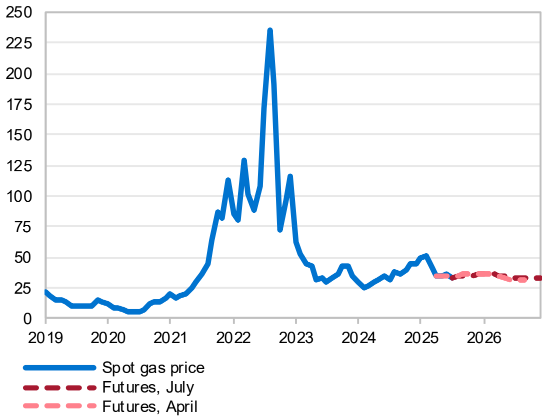
The benchmark price of electricity for Europe (German stock exchange) was on a decline in April and May due to reduced demand, increased production from renewable sources, and lower natural gas prices, while in June and July it increased moderately under the influence of rising demand caused by high temperatures and increased natural gas prices. The price of electricity in the German stock exchange averaged around EUR 87 per megawatt hour in July, up by 17.6% from the same period last year. The price of electricity in the Hungarian stock exchange followed a similar path, although it was somewhat higher (averaging around EUR 104 per megawatt hour in July). According to market futures, the price of electricity in the German stock exchange is expected to see a seasonal increase to around EUR 93 per megawatt hour by end-2025, and stay at a similar level in 2026 with some seasonal oscillations.

Under the influence of lower demand usual for the season, increased production in China and Indonesia and built-up inventories, the **thermal coal price** continued down in April, averaging around USD 100 per tonne, its lowest level in the past four years. In contrast, thermal coal price moved on an upward path until July, when it averaged around USD 113 per tonne, up by 8.6% from March, primarily due to increased demand of Chinese power plants in order to replenish stocks. Consensus Economics does not expect significant changes in coal prices in the coming period. They should remain stable at around USD 110 per tonne until end-2026. According to World Bank projections, the thermal coal price will on average be 27% lower in 2025 than in 2024, and will decrease by 5% in 2026.

Chart V.0.19 **Assumption for Brent oil prices**
(USD/barrel)

Source: Bloomberg.

Chart V.0.20 **European price of natural gas**
(EUR/MWh)



Source: Refinitiv.

Chart V.0.21 **European price of electricity**
(EUR/MWh)

Source: Refinitiv.

[13] The price expressed in dollars per 1,000 cubic metres of gas was calculated based on the production price of gas expressed in EUR/MWh, the EUR/USD exchange rate and an appropriate coefficient (10.55 MWh ≡ 1,000 m^3).

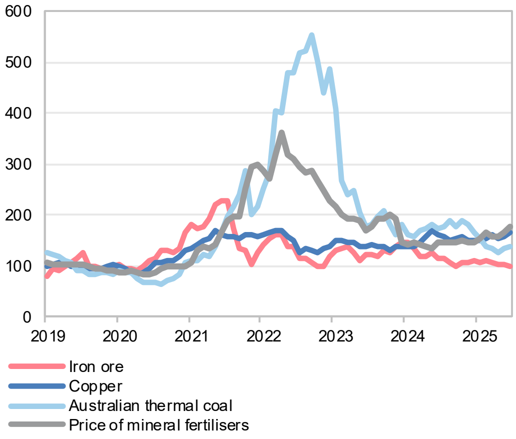
Global prices of mineral fertilisers continued to rise in Q2 and July when they were on average 20.4% higher compared to March. The increase in mineral fertiliser prices reflected strong demand and limited supply from major exporting countries, given China's export restrictions and sanctions imposed on Belarus.

Though **global prices of most metals and minerals** decreased in April, mostly over concerns regarding global demand slowdown caused by rising tariffs and trade barriers, especially between the US and China, they recovered by the end of July as trade deals were reached. Consensus Economics expects a slight decline in metal prices in the coming period, with the index of global prices of basic metals[14] expected to be 0.4% lower at end-December than at end-2024, and by 1.1% lower in December 2026 than at end-2025.

Global food prices, measured by the FAO index, rose slightly in Q2. They were 0.6% higher in June compared to March and 5.8% higher in y-o-y terms. In Q2, prices of meat (6.5%) and dairy products (3.8%) went up, while prices of sugar (11.3%), vegetable oils (3.7%), and cereals (2.1%) subsided. Additionally, the **global price of coffee** mostly declined in Q2 and in July, with the composite indicator price published by the International Coffee Organization 24.0% lower at end-July compared to end-March. The global price of cocoa moved up until mid-May, but fell to around USD 7,300 per tonne by end-July, 2.8% below its end-March level. The decline in coffee and cocoa prices resulted mostly from weaker demand caused by record-high prices in the previous period.

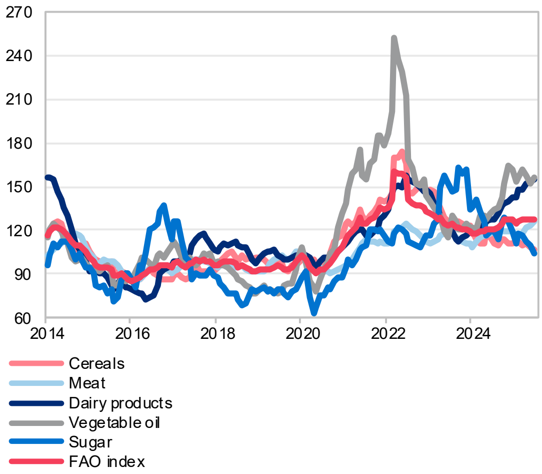
Global prices of primary agricultural commodities (wheat, corn and soybean) were mostly on a declining path in Q2, influenced by the new wheat harvest in the Northern Hemisphere and heightened uncertainty over rising protectionism globally, which in turn weakened the outlook for global economic growth. In contrast, prices of primary agricultural commodities, especially of corn, rose moderately in July, mostly due to unfavourable weather conditions in Europe. According to our projection, which is based on market futures, prices of primary agricultural commodities will continue to edge up in the coming period. They are expected to be 4.4% higher by end-2025 than at end-2024, and 5.9% higher by end-2026 than at end-2025.

Chart V.0.22 **Selected commodity prices in the global market**
(index, 2019 = 100)



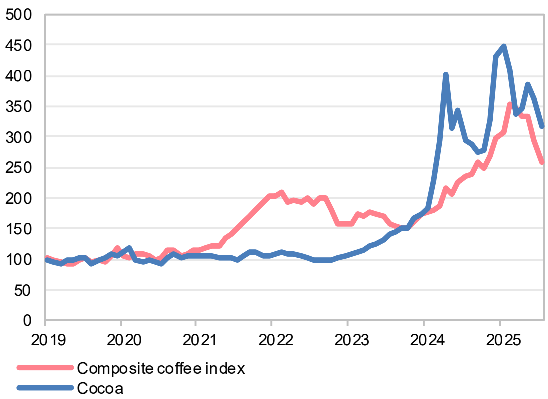
Source: Commodity Prices, World Bank.

Chart V.0.23 **World Food Price Index**
(in nominal terms, 2014−2016 = 100)



Source: UN FAO.

Chart V.0.24 **Coffee and cocoa prices in the global market**
(index, 2019 = 100)



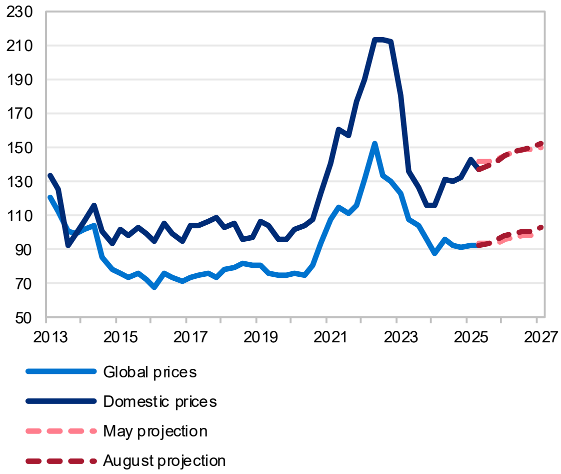
Source: Refinitiv.

[14] 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%).

Internal assumptions

Whereas our previous projection assumed this year's **domestic agricultural season** to be at the level of the multiyear average due to a lack of data at the outset of the season, our new projection assumes that it will be worse. Now, based on the available SORS data on the production of wheat and some fruit cultures, and on sown areas under autumn crops, and taking into account the weather conditions – warm weather followed by frost during spring, high temperatures in June with almost no precipitation making it the dryest June in the past 55 years – we estimate that agricultural production growth will measure 2% this year and be similar next year as well. In the coming years, agricultural production growth will be supported by equipment modernisation and broader application of agrotechnical measures, helped by higher government subsidies to agriculture, but climate factors will continue to have a major impact on agriculture, especially since in recent years summers have often been marked by extremely high air temperatures and periods of drought.

Chart V.0.25 **Assumption for prices of primary agricultural commodities***
(Q4 2013 = 100)



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

After rising by 4.2% in 2024, **administered prices** will increase by 5.8% this year, mainly on account of the rise in the prices of utilities, electricity and cigarettes. We have assumed slightly lower administered price growth of around 5.0% in the next two years.

As for the factors influencing **domestic consumption**, we expect **wages** to remain a key source of consumer demand, mainly reflecting further wage growth in the public and private sector, and the rise in the minimum labour cost by 9.4% in October this year and 10% in January next year. The increase in the minimum labour cost is expected to produce some wage-growth pressures in the coming period. As inflationary pressures recede, real wage growth should slow during the projection horizon, approaching productivity growth. Specifically, we assume that real wage growth will measure around 7% this year, compared to 9% last year, and be slightly lower in 2026.

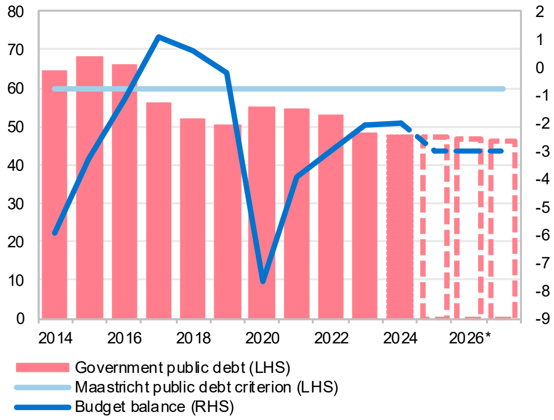
Consumer demand will also be propped up by rising **pensions**, though their share in GDP should stay below 10%, as well as by **foreign remittances,** expected to be at a similar level as last year. The easing of credit standards, and lower interest rates on both dinar and euro-denominated loans thanks to the NBS and ECB monetary policy accommodation, have already resulted in greater disposable income for consumption. We therefore expect lending activity to expand further going forward.

With regard to the **US sanctions on NIS** because it is mainly Russian-owned, in our baseline scenario for the inflation and GDP projections, we assumed that the sanctions would be delayed until a final solution is reached. This was confirmed in late July, when they were deferred by another month – the fifth deferral so far. If the sanctions are imposed, however, the negative implications would be more pronounced in the short term, involving reduced production and export of petroleum products, and higher prices. We also took into account that Serbia has sufficient oil and petroleum product reserves to last three months, and they could be used to overcome any potential problems with imports of crude oil and its processing. Moreover, in that case the Republic of Serbia would take activities to ensure continued production.

Fiscal trends in H1 2025 were characterised by a government deficit of RSD 21.3 bn (-0.4% of GDP), while the primary balance surplus was RSD 66.2 bn (1.3% of GDP). **Fiscal revenue** gained 1.9% y-o-y in real terms in the six months of 2025, mostly guided by higher revenue from personal income tax amid continued positive trends in the labour market. Though the real disposable income went up, household private consumption growth was more moderate, reflecting heightened social and political tensions and resulting in a negative contribution of VAT revenue. Corporate profit tax revenue also declined in y-o-y terms as 2024 saw lower profitability than the year before. Nevertheless, corporate profitability remained high, at RSD 866 bn, according to data of the Business Registers Agency. **Fiscal expenditure** rose 4.8% in real terms, mostly driven by higher pensions and capital expenditure within the current investment cycle. Increased outlays for public sector wages, goods and services and subsidies provided a slightly smaller contribution.

Consistent with the **medium-term fiscal framework** set out in the Fiscal Strategy for 2026 with Projections for 2027 and 2028, the fiscal policy will be moderately expansionary in the medium term, propped up by further investment in infrastructure as part of the "Leap into the Future" programme and Expo 2027. Changes relative to the previous framework refer to slight downward revisions of expected VAT revenues and capital expenditure, in line with the outturns recorded since the start of the year. Based on the current investment cycle, the share of capital expenditure has been defined at around 7.0% of GDP in this year and beyond. The fiscal deficit will be capped at 3% of GDP until the end of 2027, after which the level of the deficit will adapt to the fiscal rule to be applied as of 2029. The share of government public debt in GDP has been planned at 46.8% in 2025. Given the planned fiscal deficit dynamics, the share of the debt is expected to subside to 46.2% of GDP by end-2028.

Chart V.0.26 **Budget balance and government public debt**
(in % of GDP)



Source: Ministry of Finance.

* * Projection from the Revised Fiscal Strategy for 2025 with Projections for 2026 and 2027.

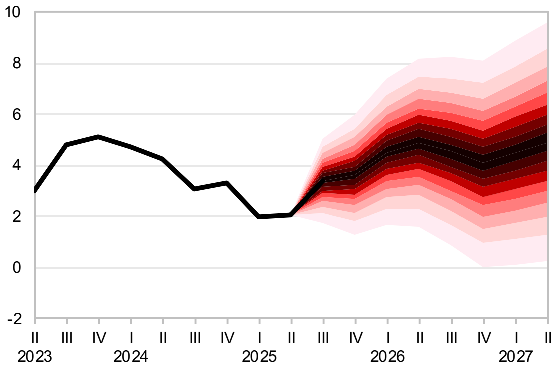
GDP projection

Our new **GDP growth projection** for this year is lower than in May, measuring 2.75%. Firstly, agricultural production increased less than we anticipated in May, when we assumed this year's season to be average. Now, taking into account the available SORS data on the production of wheat and some fruit cultures, and on sown areas under autumn crops, as well as the relatively unfavourable weather conditions in the past months, we estimate that this year's agricultural season will be worse than average, but still slightly better than last year's. Moreover, subdued y-o-y growth in FDI inflows continued in Q2, signalling lower than anticipated growth in private investment and, in part, construction activity. As the hydropotential and coal inventories remain low, the energy sector also failed to recover as expected. Activity is nonetheless expected to pick up in H2, propped up by the continued rise in automobile industry production and exports, and the implementation of infrastructure projects under the "Leap into the Future – Serbia Expo 2027" programme. GDP growth projection for 2026 and 2027 remains in the range of 4.0–5.0%, though it is expected to be closer to the upper bound of the range in 2027 due to the hosting of "Expo 2027".

Economic activity growth will be guided by **domestic demand** in 2025 and the next two years. Its contribution in 2025 has been revised slightly down from the previous projection, and up for 2026 and 2027. Within domestic demand, the strongest positive impulse is expected to come from household consumption, followed by government consumption. Growth will also be supported by gross fixed investment, with positive contributions coming from both private and government investment aided by the implementation of projects planned under the "Expo 2027" programme and other infrastructure projects. The acceleration of Serbia's economic growth over the medium term, driven by investment and productivity growth, should certainly speed up Serbia's real convergence to the EU. At the same time, we expect real imports in the current year and the next to rise faster than exports as investment and personal consumption accelerate, resulting in a negative contribution of **net exports** to GDP growth in these two years. We estimate that this contribution will decrease gradually and turn positive in 2027 thanks to rising exports, especially of tourism and business services, due to the hosting of "Expo 2027".

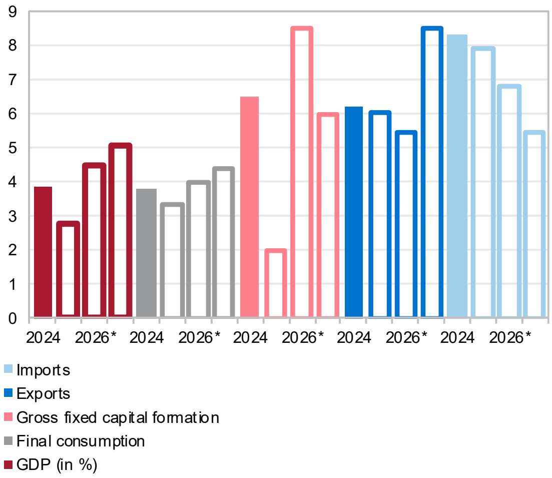
In terms of individual categories, under the August projection the strongest positive impulse of 2.0 pp is expected to come from **private consumption,** which also has the largest share in the GDP structure. Its contribution in the next two years is expected to rise gradually to 2.6 pp in 2026 and 3.1 pp in 2027. Private consumption growth will be supported by higher disposable income reflecting positive trends in the labour market, i.e. the anticipated further rise in wages and employment, as well as in pensions in line with the fiscal rules. It is important

Chart V.0.27 **GDP growth projection**
(y-o-y rates, in %)



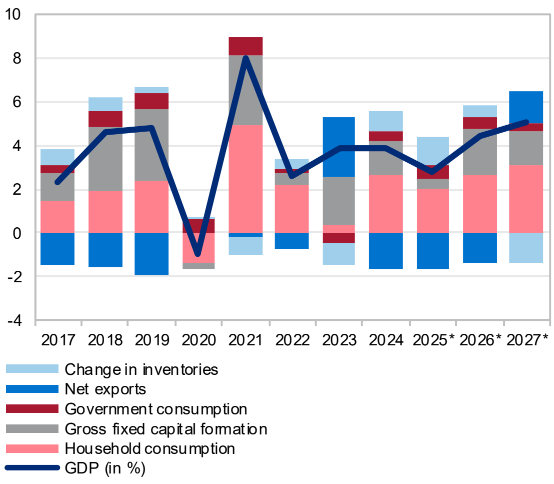
Source: NBS.

Chart V.0.28 **Real growth in GDP and its components, expenditure side**
(in %)



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

Chart V.0.29 **Contributions to real GDP growth**
(in pp)



Sources: SORS and NBS.
* NBS estimate.

to note that we expect no major inflationary pressures from the wage growth anticipated in the medium term, as it will largely result from increased labour productivity. Also, the average projected private consumption growth rate in the 2025–2027 period is equal to the average projected GDP growth in this period, contributing to medium-term price stability. At the same time, the real disposable income will be supported more favourable lending conditions and further lending growth, thanks to the effects of the monetary policy easing by the NBS and the ECB so far.

Under the August projection, **government consumption** will continue to provide a positive contribution of 0.6 pp to GDP growth this year. Its contribution will be the same in 2026 and dip to 0.4 pp in 2027. The projection of government consumption growth takes into account the planned wage expenditure and rising outlays for goods and services for the purpose of implementing the "Expo 2027" programme.

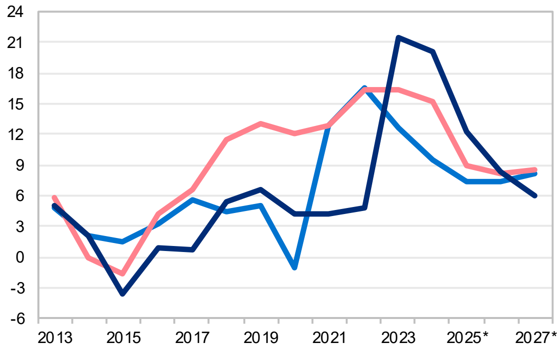
Private investment will continue to provide a positive contribution to economic activity growth in the current (0.1 pp) and the next two years (1.3 pp and 1.1 pp). Own capital will remain the main source of private investment financing as a result of high corporate profitability in the prior years (RSD 866 bn in 2024), which is another proof of our economy's resilience to negative external and domestic shocks. In addition, FDIs will continue to provide a robust impulse to investment, as will the more favourable terms of borrowing and the resulting lending activity growth thanks to the NBS and ECB monetary policy easing so far.

We expect further growth in **government investment**, contributing 0.4 pp to overall GDP growth in 2025. This growth will be two times faster in 2026, contributing 0.8 pp to GDP growth, aided by the implementation of significant government-financed projects in transport infrastructure and energy. Thanks to the "Expo 2027" programme, we may also expect to see additional significant investment in other public infrastructure. The contribution of government investment is expected to stay positive in 2027 as well (0.4 pp). This is confirmed by the medium-term plan defined by the Fiscal Strategy for 2026 with Projections for 2027 and 2028, which envisages a further rise in capital expenditure and its stable share of GDP at around 7% in the medium term.

The August projection also assumes a further gradual recovery of **inventories** in 2025 and 2026, given the still relatively low external demand.

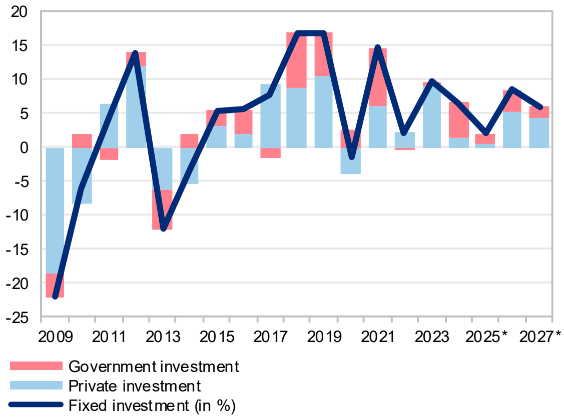
A positive contribution to GDP growth this year is also expected to come from **exports of goods and services** thanks primarily to growth in manufacturing industry exports propped up by the start of serial production in the automobile industry and associated branches, assuming unhindered continuation of production in NIS and the

Chart V.0.30 **Rate of growth in private consumption and its sources**
(nominal y-o-y rates, in %)



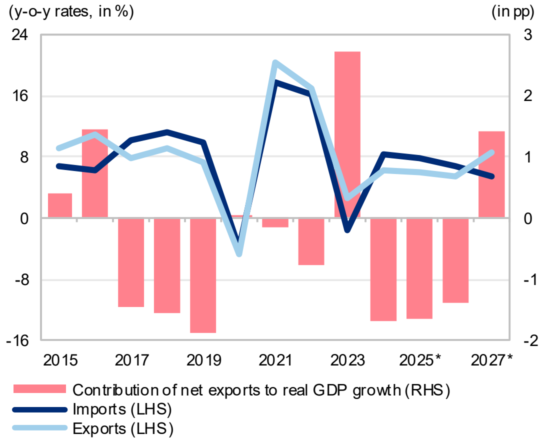
Sources: SORS and NBS calculation.
* NBS estimate.

Chart V.0.31 **Fixed investment**
(y-o-y growth, in pp)



Sources: SORS and NBS calculation.
* NBS estimate.

Chart V.0.32 **Real export and import growth**
(y-o-y rates, in %) (in pp)



Sources: SORS and NBS.
* 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	393	392	405	0	0	0	1,191
2. Transport infrastructure; construction of highways, expressways, bridges, tunnels, etc.	4,635	1,179	1,032	539	340	1,316	9,041
3. Railway infrastructure; Hungarian-Serbian railway project, reconstruction and modernisation of the Belgrade-Niš railway, etc.	1,461	505	529	490	491	1,322	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.	151	75	112	94	92	131	656
5. Utility infrastructure	360	143	147	147	153	2,497	3,447
6. Other projects; modernisation of public sector infrastructure, education, science, health, sport, etc.	932	369	451	138	27	11	1,927
TOTAL	7,933	2,664	2,676	1,408	1,103	5,277	21,061

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

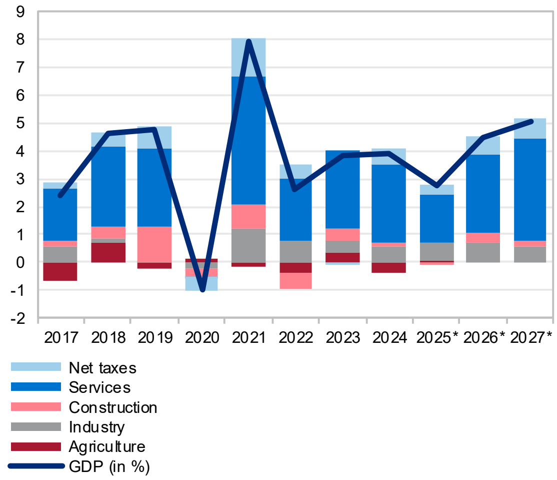
activation of new capacities in the energy sector. Next year, growth will also be supported by the anticipated gradual rebound in external demand. Export growth will further be sustained by the effects of past investment in export-oriented sectors and the hosting of "Expo 2027", which is why we projected export to accelerate gradually to 9% in 2027. A significant impulse to this will come from positive trends in foreign trade in services which should continue in 2025 and beyond, backed by broad-based growth in the export of various types of services, especially ICT and business services, tourism and air transport services (despite the anticipated rise in the imports of, primarily, tourism services amid rising personal consumption). Our projection assumes that the tariffs announced by the US administration will be applied to all countries with which bilateral negotiations fail. The direct effects of the tariffs would not be large, though, as Serbia's exports to the USA make up less than 2% of total exports. Indirect effects would not be avoided, however, through the impact on the euro area, as well as due to the fact that the tariffs would apply to the automobile industry where we are highly integrated in global production chains. Taking into account the investment activities planned for the coming period and private consumption growth, we projected **imports of goods and services** to rise faster than exports in 2025 and 2026. This will result in a negative contribution of **net exports** in this year and the next, but it will diminish gradually from -1.7 pp in 2025 to -1.4 pp in 2006. This contribution is expected to turn positive in 2027 (1.4 pp), aided, among other things, by a large number of visitors to "Expo 2027" (according to our current estimate, around 3 million foreign tourists will visit our country during the three months of the exhibition).

On the production side, like the previous one, the August projection assumes that GDP growth in 2025 and beyond will continue to be guided by the **service sectors**, though to a smaller extent than we expected in May. Their contribution to overall economic activity growth will rise from 1.7 pp in 2025 to 3.6 pp in 2027. This will be aided by private consumption growth, supported by positive trends in the labour market, growth in wages and disposable income, and rising lending activity. The expected arrival of numerous visitors to "Expo 2027" will also positively affect activity growth in the service sectors. In line with consumption and service sector growth, which will also improve tax revenue collection, the projection assumes that **net taxes** will provide a positive contribution of around 0.6 pp per annum to GDP growth on average.

Growth in production sectors has been projected, though at a lower level than in the previous projection. Their combined contribution to GDP growth will be 0.7 pp in 2025, 1.1 pp in 2026, and then slightly decelerate to 0.8 pp in 2027. The strongest positive contribution is anticipated from **manufacturing** (0.6 pp on average per annum), where we expect the activation of new and expansion of existing capacities in the automobile industry with the start of production of electric vehicles in Kragujevac and car tyres in Zrenjanin. When it comes to the production of electric vehicles, we estimate that the contribution to GDP would be around 0.1 pp for every 10,000 vehicles produced, but that the total effect would depend on the actual volume of production. After the stagnation this year, a positive contribution, though slightly lower than in the previous projection, ought to come from **construction** (0.3 pp on average in the next two years) owing to the planned implementation of infrastructure projects in transport, energy and utility infrastructure. **Mining** is also anticipated to provide a positive impulse (0.1 pp) thanks to greater metal ore exploitation (particularly of copper) and higher production in the "other mining" category which includes construction material. The contribution of **energy** is expected to be mildly positive as of the next year, as a result of the planned structural reforms in line with the IMF arrangement, the launch of a new unit in the Kostolac thermal power plant and the opening of new renewable energy capacities.

As regards **agriculture,** according to our estimate and taking into account the available SORS data on the production of wheat and some fruit cultures, and on sown areas under autumn crops, and taking into account the weather conditions (frost during spring, high temperatures in June with low precipitation), we estimate that this year's **agricultural season** will be worse than average, but still slightly better than last year's. Specifically, in 2025, the SORS expects a decline in the production of sour cherries by 42.3% and raspberries by 12.2% relative to a year earlier. At the same time, there was a reduction of areas under corn (by 2.7%), sugar cane (by 26.6%), sunflower (by 2.5%) and soybean (by 5.8%). It is estimated that wheat production went up by 24.3% from 2024. Taking all this into account, we estimate that the agricultural production will grow by 2.0% in 2025, contributing 0.1 pp to overall GDP growth. In the coming years, agricultural production growth will be supported by equipment modernisation and broader application of agrotechnical measures, helped by higher government subsidies to agriculture, but the effect on agriculture will

Chart V.0.33 **Contributions to real GDP growth, production side**
(in pp)



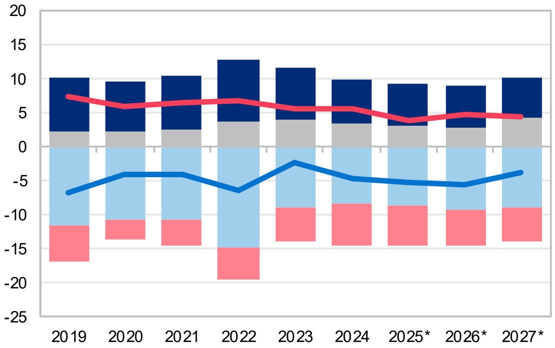
Sources: SORS and NBS.
* NBS estimate.

continue to depend greatly on climate factors, especially since in recent years summers have often been marked by low precipitation and air temperatures exceeding multiyear averages.

Projection of Serbia's external position

As the SORS has revised data on Serbia's goods exports for 2024 and Q1 2025, our new **current account deficit projection** for 2025 has been accordingly revised to EUR 4.7 bn or 5.3% of GDP, slightly above the last year's share of 4.7% of GDP and close to the average equilibrium rate. Our projection takes into account the expected acceleration in the exports of goods and services in the coming years, propped up by past investment in export-oriented sectors and the activation of new capacities in the automobile industry, but also by a gradual rallying in external demand. At the same time, we expect imports of goods and services to continue up, primarily on account of increased imports of equipment and intermediate goods for the purpose of investment cycle continuation, as well as greater government expenditure for implementing the "Expo 2027" programme and rising imports of consumer goods and tourism services reflecting increased disposable income of households. This will result in a slightly higher current account deficit in 2026 of around 5.5% of GDP. In 2027, the year of hosting "Expo 2027", the current account deficit is expected to subside to around 4% of GDP reflecting a rise in the exports of tourism services. During the projection horizon, we expect a positive effect of the terms of trade, i.e. higher anticipated growth in export than in import prices, though it will decrease and become almost neutral towards the end of the projection horizon.

Chart V.0.34 **Current account and FDI projection**
(in % of GDP)



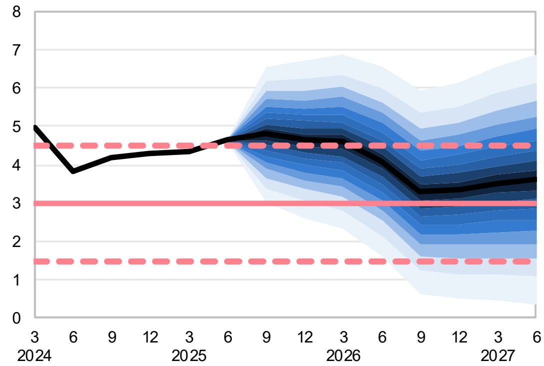
Source: NBS.
* NBS projection.

As for other current account components, the projection assumes that the secondary income surplus will be around 6% of GDP, entirely offsetting the deficit in income from factors of production (primarily income from FDI and labour) estimated at around 6% of GDP in 2025, 5.4% in 2026 and 5.0% in 2027. **FDI inflows** are expected to stay highly diversified by geography and project and channelled mainly to export-oriented sectors, ranging between 4% and 5% of GDP in our estimate.

Inflation projection

Under our August central projection, **we expect y-o-y inflation to continue to move around the upper bound of the target band (3±1.5%) until the end of the year due to the impact of adverse weather conditions at the outset of this year's agricultural season, higher prices of fruit and vegetables, and elevated global oil prices. It will slow gradually over the next year, averaging 3.8% and approaching target midpoint towards the end of the year. By the end of the projection horizon, i.e. H1 2027, inflation will average around 3.5%.** Inflation's slowdown over the projection horizon will continue to reflect tight monetary conditions, high base for prices of food, primarily fruit and vegetables, subdued

Chart V.0.35 **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%.

imported inflation and the dollar's weakening against the euro. The new inflation projection is higher than in May, mostly on account of the impact of adverse weather conditions on fresh fruit and vegetable prices, elevated processed food and global oil prices, and faster than projected real wage growth due to the planned extraordinary minimum wage increase in October this year.

In our assessment, the **monetary policy stance remains restrictive**, even if the degree of its restrictiveness has gradually diminished over the past year as the NBS trimmed its key policy rate by a total of 75 bp amid weaker inflationary pressures. The degree of restrictiveness changed negligibly relative to Q1. This is reflected in the **one-week BELIBOR which measured 1.0% in real terms in Q2 2025, down by 0.1 pp from Q1.** Monetary policies of most other central banks which have begun to trim their policy rates remain tight, though less than before.

The NBS Executive Board carefully calibrated its measures, aiming, first of all, to impact **inflation expectations of market agents**, i.e. to ensure their anchoring within the target band. One year-ahead expectations of the financial sector have been within the NBS target tolerance band since the start of last year, and medium-term expectations have been anchored within this band for quite some time, confirming the preserved credibility of the NBS's monetary policy. As current inflation declines, inflation expectations of other sectors are likely to subside as well.

As in the previous projections, continued decrease in **imported inflation** remains a key assumption underpinning the anticipated downward inflation trajectory in Serbia, even more than expected in the previous projection thanks to lower anticipated inflation in the euro area. The decline in global inflation, and in euro area inflation, will be guided by the fall in core inflation (as consumer demand growth slackens amid the anticipated wage growth slowdown), though core inflation will remain higher than headline in most countries.

In our new projection, we expect **external demand** to be somewhat higher than we anticipated three months ago, as US tariffs have generally been lower than announced in April, financial conditions have improved (among other things, also due to a weaker dollar) and larger economies, including Germany, witness fiscal expansion. External demand will nonetheless be quite weak, primarily from the euro area which is our key trade partner. Fiscal stimuli and the effects of the ECB's monetary policy easing give ground to expectations that the euro area could start rallying gradually as of mid-2025. **Domestic demand** is propped up mainly by higher income disposable for consumption, corporate profitability, FDI inflows, and growing government capital expenditure which will provide a positive fiscal impulse in the coming period. Disposable income growth

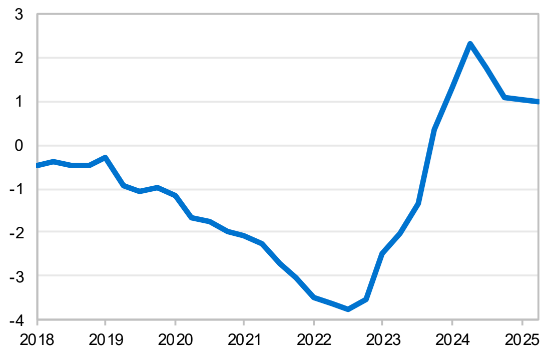
Table V.0.5 **Key projection assumptions**

	2025		2026		2027	
External assumptions	May	Aug	May	Aug	May	Aug
Euro area GDP growth	0.8%	1.1%	1.2%	1.1%	1.3%	1.3%
Euro area inflation (average)	2.1%	2.0%	1.9%	1.8%	2.0%	1.9%
3M EURIBOR (December)	1.6%	1.8%	1.8%	1.9%	2.1%	2.2%
International prices of primary agricult. commodities (Q4 to Q4)*	3.0%	4.4%	4.1%	5.9%	-1.0%	-0.3%
Brent oil price per barrel (end of year, USD)	64	68	65	67	66	67
Internal assumptions						
Administered prices (Dec. to Dec.)	5.5%	5.8%	5.3%	5.3%	5.3%	5.0%

* Composite index of soybean, wheat and corn prices.

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

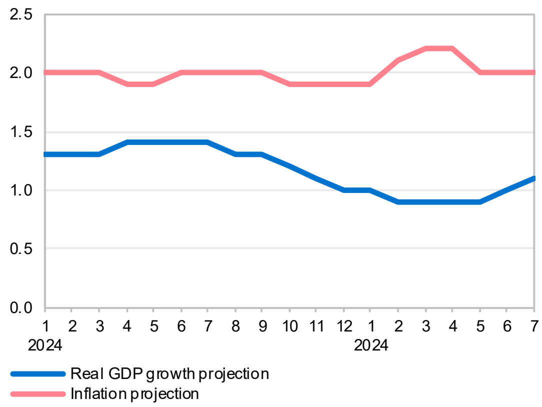
Chart V.0.36 **Real interest rate**
(in %)



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 **GDP and inflation projections of the euro area for 2025**
(in %)



Source: Consensus Economics.

will be supported by the anticipated real wage rise due to the minimum wage increase. Still, **real wage growth should slow during the projection horizon to productivity growth level** as pressures on further wage growth weaken. Also, lending conditions are better than last year, likely leading to further lending activity growth. In view of this, the **output gap** is estimated to have been negative in Q2 2025, but it should decrease to neutral level by end-2025 and remain mildly positive until the end of the projection horizon.

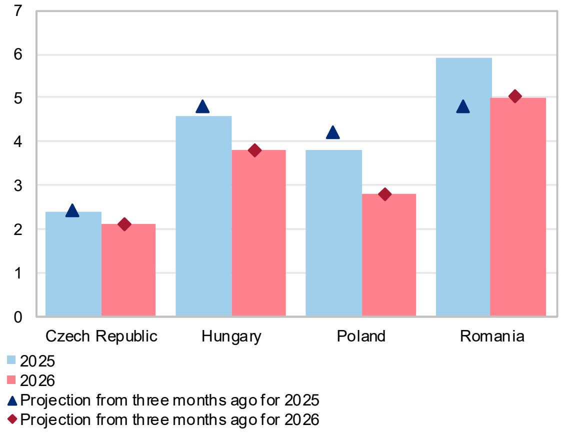
The contribution of **almost all individual components**, especially of prices of fruit and vegetables and processed food, to y-o-y inflation is expected to subside during the projection horizon due to this year's high base.

Adverse weather conditions, especially high air temperatures and lack of precipitation in June, slashed the supply of **fruit and vegetables** in the market, driving up fruit prices and preventing the decline in vegetable prices usual for the season. We assume that fruit and vegetable prices will gradually return to their long-term trend from their current high levels. They are therefore the inflation component that will contribute the most to inflation's decline in the next year and move in the negative zone from Q3 2026.

The contribution of **food prices (excluding fruit and vegetables)** to y-o-y inflation is expected to subside gradually from 1.4 pp at in late 2025 and early 2026 to 0.9 pp at the end of the projection horizon. On the one hand, the real marginal costs gap (measured by the deviation from trend of the ratio of input prices to prices of final food products) points to inflationary pressures on food prices on account of input costs. This pressure will gradually wane, approaching neutral level by the end of the projection horizon. Aside from that, the increase in food prices will be underpinned by high labour costs. On the other hand, a more notable increase in food prices during the projection horizon will be contained by lower imported inflation and inflation expectations.

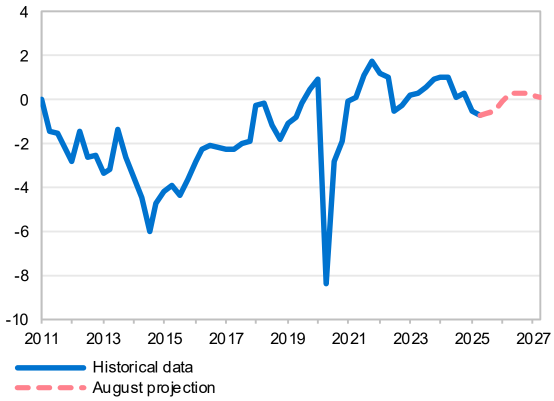
The contribution of prices of **non-food products and services** to inflation is expected to decline, from 2.1 pp on average in H1 2025 to 1.6 pp in H1 2027, i.e. towards the end of the projection horizon. Similarly as in our previous projection, we expect the decline in non-food inflation over the medium term to be aided by several factors. The prices of this product category greatly depend on the prices of a number of imported products, primarily from the euro area. As in the prior projections, imported inflation will have a disinflationary effect during the projection horizon. Also, more anchored inflation expectations and the projected slowing of real wage growth from H2 2026 until the end of the projection horizon will relieve pressures on domestic prices of non-food products. The index of pressures in global supply chains has been hovering around zero for months, so we expect no pressures on non-food inflation on this account. Also, trade tensions have eased, as have fears that they could cause global supply bottlenecks. The

Chart V.0.38 **Projection of consumer price growth**
(in %)



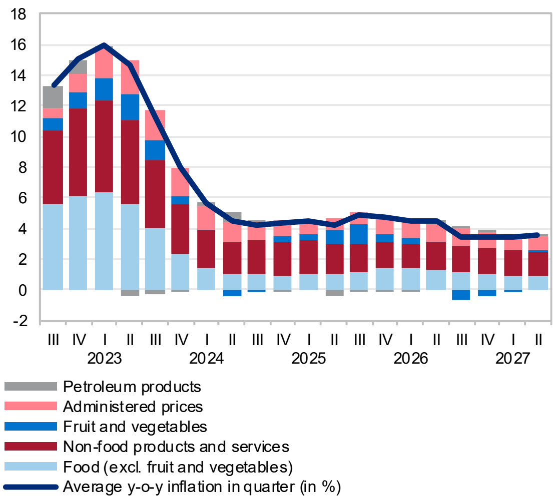
Source: Consensus Economics.

Chart V.0.39 **Output gap projection***
(in % of potential output)



Sources: SORS and NBS.
* Output gap is estimated on the basis of GDP.

Chart V.0.40 **Contributions to y-o-y inflation by component**
(average y-o-y rates, in pp)



Source: NBS.

indicators of costs of international container transport are also low.

In our new projection, we expect the contribution **of petroleum product prices to y-o-y inflation** to hover around zero over the next year and level off at 0.1 pp thereafter until the end of the projection horizon, by contrast to our previous projection when we expected this contribution to be negative. The reason for this is the assumed slightly higher global oil price according to futures in global stock exchanges, while a weaker US dollar against the euro and, hence, against the dinar is working in the opposite direction.

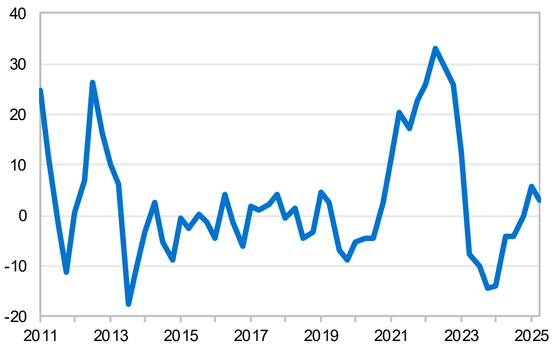
Our new projection assumes somewhat higher **administered price** growth this year of 5.8%, instead of 5.5% in May, as electricity prices have increased slightly more. Our projection of 2026 administered price growth has stayed the same (5.3%). As a result, the contribution of administered prices to y-o-y inflation will abate slightly from an average of 1.2 pp in 2024 to 1.0 pp in 2025 and a similar level in 2026.

Risks to the projection

The risks to our new inflation and GDP projections associated with **factors from the international environment** are less pronounced than in our previous projection, but still refer primarily to geopolitical tensions which largely determine movements in global energy prices. Though they have been mitigated by the recent deals among leading global economies, risks to the projection continue to stem from uncertain trade policies in the medium term. Global prices of primary agricultural commodities and other inputs in food production also depend on the character of the global agricultural season. **At home**, the risks are associated with the speed of domestic demand growth. **Overall, we judge the risks to the inflation and GDP projections to be symmetric during the projection horizon.**

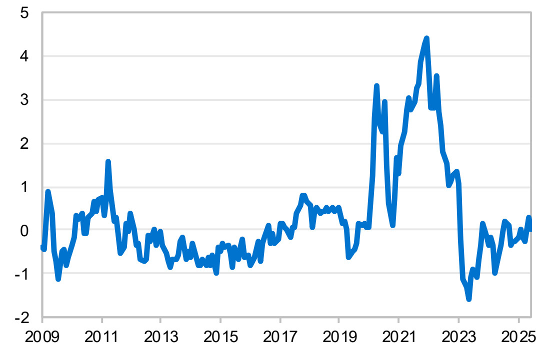
The **geopolitical risk** is still a major risk to our inflation and GDP projections. This refers primarily to conflicts in the Middle East and between Israel and Iran, as well as the Ukraine conflict which still persists, triggering volatility in global commodity prices and limiting trade and investment among countries. The escalation of geopolitical tensions would strain supply and drive up global prices of oil and other primary commodities. It is always more difficult for monetary policy to achieve price stability in case of supply-side shocks which push prices up and drag GDP down at the same time, so greater caution is warranted. On the other hand, peace talks and the possibility of peace negotiations in the Middle East and between Russia and Ukraine give rise to hopes that the geopolitical situation could greatly improve, even in the short term. For this reason, we judge the **risks to the inflation and GDP projections on account of geopolitical tensions to be symmetric.**

Chart V.0.41 **Real marginal costs gap in food production**
(% deviation from trend)



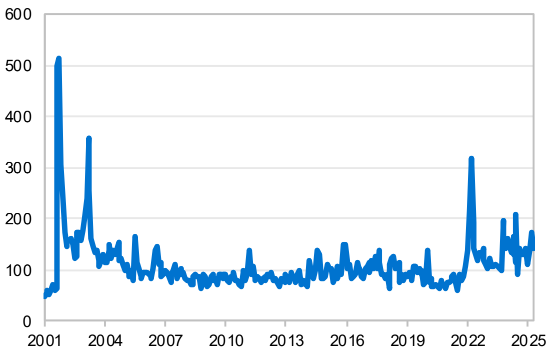
Source: NBS.

Chart V.0.42 **Global supply-chain pressures**
(index, in standard deviations)



Source: Federal Reserve Bank of New York.

Chart V.0.43 **Global Geopolitical Risk Index**
(in pp)



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

Global trade tensions represent a risk to our inflation and GDP projections as there is uncertainty regarding future trade policies of leading global economies and the extent to which they could translate to price growth and weakening of economic activity at home. The tariff deals reached among leading world economies eliminate a part but not all of the extreme risks. Some points in the deals remain unclear, prompting instability and giving rise to numerous questions regarding their implementation. For instance, the EU's pledge to purchase EUR 750 bn in US energy products appears overly ambitious, even if distributed over three years, as the current volume of purchases is under EUR 100 bn. This could rekindle trade tensions in the future. There are also concerns that the extended effect of global trade uncertainty on the global economy could be stronger than anticipated, leading to lasting weaknesses in key drivers of growth, such as investment and foreign trade. By contrast, the global economy has so far demonstrated substantial resilience to extreme uncertainty, which, together with the deals reached by leading global economies, gives rise to expectations that trade policy uncertainty could be smaller than anticipated, as could its effects on investor confidence, investment, capital flows and economic growth. Heightened global tariffs could cause a redirecting of trade flows not only across regions and countries, but across sectors as well, with some sectors inundated with cheap imports and others exposed to shortages, producing either disinflationary or inflationary effects. With this in mind, we judge the **risks to the inflation and GDP projections on account of global trade tensions to be symmetric.**

Another risk to the inflation and GDP projections are the **sanctions imposed by the US administration on NIS** because it is mainly Russian-owned. In our baseline scenario, we assumed that these sanctions would again be deferred until a final solution is reached. Our assumption has been confirmed in late July by an additional deferral of sanctions on NIS by one more month, which is the fifth deferral of full application so far. If the sanctions are imposed, however, the negative implications would be more pronounced in the short term, involving reduced production and export of petroleum products, and higher prices. This could lead to higher costs for companies and lower disposable income of households. Serbia has sufficient oil and petroleum product reserves to last three months, and they could be used to overcome difficulties in case of potential problems with imports of crude oil and its processing until a final agreement is reached. **We judge the risks to the GDP projection on account of US sanctions on NIS to be tilted slightly to the downside, and to the inflation projection – to the upside.** Still, we estimate that the **energy sector** could rally more than we anticipated in our baseline scenario this year and the next, given the expansion of production capacities and renewable energy sources. Hence, overall, **the risks in respect of total energy production are symmetric.**

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	↕	↕
Total energy production and US administration's sanctions on NIS due to majority Russian ownership	↕	↕
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.

Depending on the global agricultural season, and considering the risks from geopolitical and trade tensions on the one hand and the risks for global economic growth on the other, we judge the **risks of departure of global primary agricultural commodity prices in either direction to be symmetric.**

At home, the risks to the projection are associated with the **speed of growth in domestic demand**, especially investment demand. On the one hand, **protest and blockades in our country** could result in lower than anticipated investment and personal consumption growth. On the other hand, **real wage growth** amid the planned extraordinary minimum wage increase in October this year could be even higher than assumed in our new projection. The same is true for personal consumption and imports. Also, faster than anticipated domestic demand growth would add to inflationary pressures and vice versa. With this in mind, we judge the **risks to the GDP and inflation projections on account of domestic demand to be symmetric.**

The same as in our May projection, 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 domestic agricultural season is also a risk to our **inflation and GDP projections.** In our new projection, we have assumed it to be worse than average, but still slightly better than last year's as weather conditions in July this year were better than in 2024 and wheat production increased from last year. As the effect of weather on the supply and prices of fruits and vegetables is important for inflation, and its impact on autumn crops for GDP, we judge the **risks on this account to be symmetric.**

The NBS will continue to follow and analyse trends in the domestic and international market and **make monetary policy decisions on a meeting-to-meeting basis depending on the pace of inflation's slowdow**n. Delivering price stability and preserving financial stability in the medium term will remain the monetary policy priority, along with support to further economic growth, a continued rise in employment and the preservation of a favourable investment environment.

Text box 5: Alternative projection scenarios

We estimate that the still pronounced geopolitical tensions, and the character of the agricultural season, both globally and at home, currently represent the highest risks to our GDP and inflation projections. This text box therefore looks into two alternative projection scenarios assuming a materialisation of these risks. Specifically, in the first alternative scenario we varied our assumptions of global prices of oil and natural gas, depending on how the global geopolitical situation unfolds – a tightening of tensions would drive prices up and their easing would abate cost-push pressures relative to the baseline scenario. The pessimistic scenario also analysed the potential effects of the application of US sanctions on NIS after the one-month deferral. The second alternative scenario is based on different assumptions regarding the character of the agricultural season at home and abroad, which mostly affects global prices of primary agricultural commodities and domestic prices of fresh fruit and vegetables.

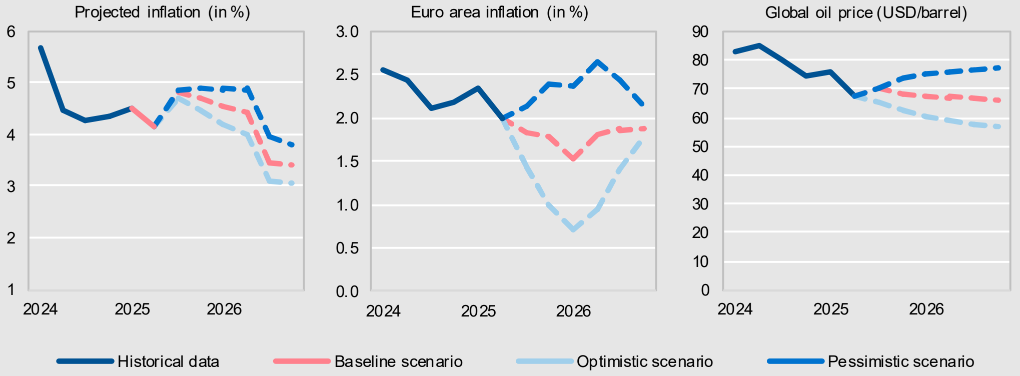
Scenario with different assumptions regarding the global geopolitical situation

In the baseline scenario, we assume no major deterioration of global geopolitical relations in the coming period and a moderately declining path of global energy prices in the projection horizon, with some seasonal oscillation. This is consistent with the estimates of relevant financial institutions. Moreover, **we expect NIS to continue operating smoothly even after the expiry of the sanctions deferral period.**

Given the complexity of the current geopolitical situation, the **pessimistic scenario assumes that tensions will flare in the coming period and that US sanctions on NIS will be applied.** The effects of geopolitical conflicts on the global economy are reflected in the heightened volatility in financial and commodity markets during the direct conflict between Israel and Iran in June. In mid-June, the oil price reached around USD 81 per barrel, up by 26.1% from end-May. Further heightening of Middle East tensions or worsening of US-Russia relations due to the Ukraine war, with potential involvement of countries of the region, could produce supply-side shocks given the significant participation of this region in global oil and natural gas production and exports. Higher energy prices and supply chain bottlenecks would in that case amplify inflationary pressures and dampen global GDP growth. Higher inflation could slow monetary accommodation by leading central banks, straining access to capital and pushing up costs of funding, particularly for emerging economies. With regard to the domestic environment, this scenario assumes that the sanctions on NIS will become effective after the expiry of the deferral period, on 27 August. This would result in lower exports and higher imports of petroleum products, and in a reduced contribution of manufacturing to overall GDP growth, but no major effect on inflation is anticipated.

In view of the above, we have assumed that the oil price would rise to USD 73 per barrel by end-2025, and to USD 78 per barrel by end-2026. In that case, the price of natural gas in the Dutch TTF hub, which is broadly correlated with the oil price, would average around EUR 43 per megawatt hour in 2025 and stay at a similar level in 2026. Average inflation in the euro area, our key foreign trade partner, would in these conditions be 0.2 pp and 0.6 pp higher in 2025 and 2026 than in the baseline scenario, respectively. As we already have the outturns for six months, **this scenario would not have major consequences on average inflation in Serbia in 2025, while average inflation in 2026 would be 0.4 pp higher than in the baseline scenario.** The direct effect would come from higher prices of petroleum products in the domestic market, and the indirect – from increased costs in food production and elevated euro area inflation, via import prices. The effect would result entirely from global developments, as we expect no major impact of NIS sanctions on inflation at home. We base our assumptions on the fact that the government would, in that case, probably intervene to prevent excessive growth in petroleum product prices, the same as in previous periods of crises (by trimming excise duties, capping retail prices of petroleum products, etc.). At the same time, **GDP growth would be somewhat lower in this relative to the baseline scenario, by 0.2 pp in 2025 and 2026,** under the impact of tight financial conditions, rising risk premium, lower exports and higher imports of petroleum products, and a reduced contribution of manufacturing. We expect the effect of NIS sanctions to be around 0.1 pp this year, as in that case the Republic of Serbia would try to find a solution for the oil company to continue its production next year, while other things are a consequence of global developments.

Chart O.5.1 **Different assumptions regarding geopolitical tensions and their impact on inflation at home**

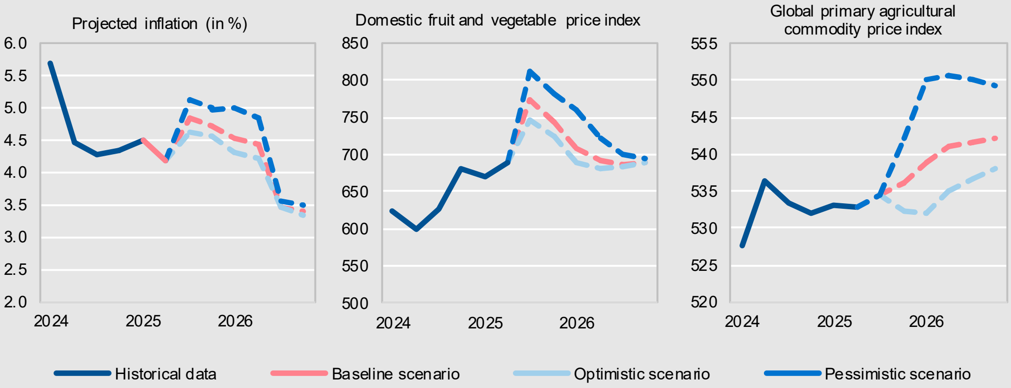


Source: NBS.

By contrast, the **optimistic scenario assumes that the conflict will be gradually resolved in the coming period, easing geopolitical tensions.** Energy prices would in that case be lower than anticipated and transport costs would go down, spurring global trade and economic activity growth. We assumed a reduction in the global oil price to around USD 63 per barrel until the end of the year, and further to USD 56 per barrel in late 2026. At the same time, the natural gas price in the Dutch TTF hub would average around EUR 36 per megawatt hour in 2025 and around EUR 30 per megawatt hour in 2026. This scenario also assumes that euro area inflation will slow faster than anticipated to an average of 1.7% in 2025 and 1.2% in 2026. **The consequences of this optimistic scenario would be lower average inflation in Serbia by 0.1 pp and 0.4 pp in 2025 and 2026, respectively, relative to the baseline scenario.** This would be underpinned be reduced petroleum product prices at home and subdued imported inflation due to weaker euro area inflation. Lower euro area inflation would lead to faster than anticipated monetary policy accommodation which would support economic growth through improved terms of financing and reduced global uncertainty. According to our assumption, higher external demand, lower inflationary pressures and reduced risk premium would lead to **stronger domestic GDP growth, by around 0.1 pp in 2025 and by 0.2 pp in 2026 relative to the baseline scenario.**

Scenario with different assumptions regarding the character of the agricultural season

Chart O.5.2 **Different assumptions regarding the agricultural season and their effect on inflation at home**



Source: NBS.

In our baseline scenario, we assumed that activity growth in agriculture would be around 2% in the current year. Under this scenario, fruit and vegetable prices at home will be roughly 10% higher at end-2025 than a year ago, as a consequence of the outturns so far. At the same time, our baseline scenario assumes moderate growth in global prices of primary agricultural commodities to a level roughly 4% higher at end-2025 relative to end-2024, and a further increase by around 6% in 2026. Weather conditions are a major risk for autumn crops production, however, primarily of cereals and vegetables, so the season can be either better or worse than anticipated.

In the pessimistic scenario, we assumed that global prices of primary agricultural commodities will be higher than in the baseline scenario, exceeding their end-2024 level towards year end by around 10% and rising further in 2026 by another 7%. At the same time, fresh fruit and vegetable prices would be around 15% higher y-o-y in Q4 on account of adverse agrometeorological conditions in Serbia, only to decline by around 11% next year. **The consequences of this scenario would be higher average inflation by 0.1 pp in 2025 and by 0.3 pp in 2026 relative to the baseline.** In addition, due to the assumed stagnation of activity in agriculture, **GDP growth in 2025 would be 0.1 pp lower than in the baseline scenario.**

Chart O.5.3 **Effects of different assumptions of alternative scenarios on average inflation and GDP in 2026**
(in pp)

Source: NBS.

By contrast, the optimistic scenario assumes improved weather conditions until the end of the year, especially globally, leading to ampler supply and lower prices of primary agricultural commodities. Their end-2025 level would therefore be unchanged from end-2024 and would increase by around 6% in 2026. If the agricultural season is better at home as well, end-of-year fruit and vegetable prices would be roughly 6% higher than a year earlier, falling by the same amount in 2026. **The consequences of this scenario would be 0.1 pp and 0.2 pp lower average inflation in 2025 and 2026, respectively, than in the baseline scenario** due to reduced costs in processed food production and lower non-processed food prices due to higher supply. At the same time, we expect a slightly positive effect on **GDP growth relative to the baseline scenario (around 0.1 pp),** which would also be propped up by higher net export as Serbia is a net exporter of cereals.

Table A Indicators of Serbia's external position

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Q1 2025	Q2 2025
EXTERNAL LIQUIDITY INDICATORS (in %)																
FX reserves/imports of goods and services (in months)	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	6.9	6.5
FX reserves/short-term debt	299.9	237.3	268.6	294.0	256.4	234.0	202.1	210.9	275.6	228.1	249.6	244.7	319.3	486.1	462.9	
FX reserves /GDP	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	35.6	34.1	32.3
Debt repayment/GDP	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	10.9	8.0	
Debt repayment/exports of goods and services	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	20.3	14.0	
EXTERNAL SOLVENCY INDICATORS (in %)																
External debt/GDP	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	59.2	58.6	
Short-term debt/GDP	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	7.3	7.4	
External debt/exports of goods and services	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	107.7	
FINANCIAL RISK EXPOSURE INDICATORS (in %)																
FX reserves/M1	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	176.8	162.3
FX reserves/reserve money	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	218.7	211.0
OPENNESS OF ECONOMY (EXPORTS + IMPORTS)/GDP	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	112.5	119.5	114.2
MEMORANDUM: (in EUR million)																
GDP[1)]	36,865	35,074	37,978	37,014	37,220	38,165	40,828	44,711	48,105	49,024	55,931	63,501	75,204	82,321	20,205	21,739
External debt	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	48,774	49,026	
External debt servicing	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	8,983	1,623	
Central bank foreign exchange reserves	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	28,527	27,404
Short-term debt[2)]	612	455	196	99	303	672	844	1,401	1,925	1,585	1,612	2,405	662	999	1,195	
Current account balance	-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	-3,899	-609	-1,382

CREDIT RATING (change of rating and outlook)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2024
	March	Aug	July	Jan	Dec	Jan/March/ June/Dec	March/Dec	Dec	Sept/Dec	May	March/Dec	June	Aug/Oct
S&P	BB /stable	BB- /negative				BB- /positive	BB /stable	BB /positive	BB+ /positive	BB+ /stable	BB+ /positive	BB+ /stable	BBB- /stable
Fitch		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

Methodological notes:

Foreign exchange reserves/imports of goods and services (in months) - ratio of end-of-period foreign exchange reserves to average
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
Debt repayment/exports (in %) - ratio of debt repayment (excl. early repayment of a part of debt to London Club creditors) to
External debt/GDP – 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 Q1and Q2 2025 are 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	Q1 2025	Q2 2025
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	2.6	3.8	3.9	2.0	2.0
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	4.4	4.6
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	28,527	27,404
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	44,282	11,591	11,807
- 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	11.9	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	48,301	12,558	13,023
- 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	12.8	9.5
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	-3,899	-609	-1,382
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	-4.7	-3.0	-6.4
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	9.1	
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	907.7	925.5
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	-1.2	-0.3
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	-1.2	0.3
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	47.2	44.3	43.7
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	111.35	103.44
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	108.18	99.88
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	117.14	117.21
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	117.21	117.17
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	63,501	75,204	82,321	20,205	21,739

[1)] At constant prices of previous year. Data for Q2 2025 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 BPM 6. 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 Q1and Q2 2025 are 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 Q2 2025 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

2024

Date	Key policy rate (p.a, in %)	Change (in basis points)
11 January	6.50	0
8 February	6.50	0
7 March	6.50	0
11 April	6.50	0
10 May	6.50	0
13 June	6.25	-25
11 July	6.00	-25
8 August	6.00	0
12 September	5.75	-25
10 October	5.75	0
7 November	5.75	0
12 December	5.75	0

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		
9 October		
13 November		
11 December		

Press releases from NBS Executive Board meetings

Press release from Executive Board meeting held on 12 June 2025

At its meeting today, the NBS Executive Board voted to keep the key policy rate on hold, at 5.75%. It did not change the deposit (4.5%) and lending facility (7.0%) rates either.

When making the decision, the Board noted that central banks worldwide, including the NBS, continue to face marked uncertainty regarding protectionist measures of leading world economies and their impact on inflation and economic growth. Estimates prevail that, in such circumstances, the pace of decline in global inflation remains uncertain, while economic growth will most probably be subdued due to disruptions in trade flows and production chains, as well as the globally heightened risk aversion which will negatively affect investment and consumption. Inflation at home also depends on the still highly volatile movements in international commodity and financial markets. Though global prices of primary commodities, especially oil, have receded due to expectations of slower global growth, caution is needed as increased production costs amid higher tariffs could produce inflationary effects.

The Board also took into account the ECB's continued accommodative stance in June, which should reflect on more favourable euro-indexed lending in Serbia, while the current announcements suggest that the Fed will be more cautious in monetary policy easing going forward. Such Fed's decisions could be prompted by the emergence of heightened inflationary pressures due to additional tariffs imposed, which could also affect capital flows toward emerging economies. The prices of some food inputs in the global exchanges (cocoa and coffee) that recently reached their maximum levels, as well as the effects of last year's drought, affected domestic food prices over the past months, but the situation will likely stabilise with the onset of the new agricultural season.

Consistent with the NBS's expectations, y-o-y inflation continued to move within the target band, having slowed to 3.8% in May. Inflation slowdown since the beginning of the year resulted from lower contributions of energy and services prices, while the contribution of food prices increased. The easing of inflationary pressures is also signalled by core inflation, having decelerated to 4.6% y-o-y in May, and by other inflation measures. Inflation will likely remain at a similar level by mid-year, slow down thereafter and approach the target midpoint of 3% by year end, hovering around that level until the end of the projection horizon. Such inflation trends will be mostly determined by the still tight monetary conditions, lower import inflation, reduced global energy prices and the new agricultural season, assuming an average outturn. Factors exerting downward pressures on inflation will be the expected movements in real wages consistent with productivity growth, which should contribute to a further slowdown of core inflation and its convergence to headline inflation.

According to SORS estimates, GDP grew 2.0% y-o-y in Q1 2025. Its slower-than-expected growth was due to international factors, but also those domestic, which primarily weighed down on the services sector. Based on available data for trade and tourism, the situation did not improve in April either. In contrast, when it comes to industry, a y-o-y growth of 2.4% was driven by manufacturing, where the effects of increased investment in the automotive industry are becoming visible. The Executive Board expects economic activity to gather pace in the remainder of the year, primarily on the back of the ongoing upturn in automotive industry production, the activation of new capacities in the energy sector, and the implementation of infrastructure projects planned under the Serbia Expo 2027 programme. Support to economic growth, which is projected at 3.5% for this year, is also coming from the y-o-y increase of over 10% in lending activity to corporates and households, a result of the earlier monetary policy easing by the NBS and the ECB.

The NBS 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 adopted 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 be held on 10 July.

Press release from Executive Board meeting held on 10 July 2025

At its meeting today, the NBS Executive Board voted to keep the key policy rate on hold, at 5.75%. It did not change the deposit (4.5%) and lending facility (7.0%) rates either.

The prices of some food inputs in the global exchanges (cocoa and coffee) that recently reached their maximum levels, as well as the effects of the last year's drought and reduced supply of fruit and vegetables, triggered accelerated y-o-y growth in domestic food prices over the past months. Due to high air temperatures, there is a risk that this year's season could be below average as well, and the data released by the SORS indicate that this year's yields of some early fruit cultures are lower than last year. When making the decision, the Board noted that central banks worldwide, including the NBS, continue to face marked uncertainty regarding protectionist measures of leading world economies and their impact on inflation and economic growth. The conflict in the Middle East has flared up further, introducing a new risk dimension with regard to global prices of oil and natural gas, though these prices subsided once the truce was announced. In such uncertain global circumstances, there is high volatility in global commodity and financial markets, mandating caution in the conduct of monetary policy. The Board also took into account the ECB's continued accommodative stance in June, which should reflect on more favourable euro-indexed lending in Serbia, while the current announcements suggest that the Fed will be more cautious in monetary policy easing going forward. Such Fed's decisions could be prompted by the emergence of heightened inflationary pressures due to additional tariffs imposed, which could also affect capital flows toward emerging economies.

Y-o-y headline inflation slowed to 3.8% in May, and core inflation to 4.6%. However, as the prices of petroleum products rose on the back of elevated global oil prices in June and the anticipated effects of adverse weather on food prices, y-o-y inflation will most likely post a temporary pick-up in the coming months, trending around the upper bound of the target tolerance band.

According to SORS estimates, in the January–May 2025 period y-o-y growth in industrial production equalled 2.5%, driven primarily by intensified activity in manufacturing (4.2%), where the effects of increased investments in the car industry played out. Goods export also recorded a relatively high y-o-y growth on this account (10.2% in the five months), while goods import rose faster (11.5% in the five months) due to the ongoing investment cycle and the rising disposable income. Looking at May alone, y-o-y growth in goods export considerably outshone goods import (17.3% vs. 6.8%). Activity indicators in the services sector were also more favourable in May than in April and during Q1, which is primarily indicated by the stepped-up turnover in retail trade – 5.6% y-o-y in May, after 0.8% in the first four months of the year. The Executive Board expects economic activity to pick up in the remainder of the year, notably thanks to the already evident production increase in the car industry, as well as the realisation of infrastructure projects envisaged within the Serbia Expo 2027 programme. Support to economic growth also comes from corporate and household lending growth of more than 11% y-o-y in May, attributable to the past monetary policy accommodation by the NBS and the ECB, and more favourable borrowing conditions.

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 adopted monetary policy measures. In making its decisions, the Board will remain mindful of the preservation of financial stability and a favourable growth outlook.

On 7 August 2025 the Executive Board will hold the next rate-setting meeting at which current economic developments will be considered and the August Inflation Report adopted with the latest macroeconomic projections.

Press release from Executive Board meeting held on 7 August 2025

At its meeting today, the NBS Executive Board voted to keep the key policy rate on hold, at 5.75%. It did not change the deposit (4.5%) and lending facility (7.0%) rates either.

When making the decision, the Executive Board took into account the fact that several factors together triggered accelerated growth in domestic prices of food, especially non-processed food, over the past months. This refers primarily to prices of some food inputs in the global market and adverse weather conditions so far in the year, together with depleted inventories of agricultural commodities from the previous year due to the last year's drought. Petroleum product prices also increased in June, as the global oil price went up after the outbreak of the Middle East conflict. Mostly as a result of the above factors, headline y-o-y inflation in Serbia stepped up to 4.6% in June, after slowing to 3.8% in May. The NBS estimates that y-o-y inflation could continue moving around the upper bound of the target band (3±1.5%) until the end of the year and slow gradually in 2026.

In explaining its decision, the Executive Board emphasised that caution is necessary in monetary policy conduct. Though less intense, uncertainty in the international environment remains pronounced. This primarily pertains to future trade policies of leading world economies and geopolitical tensions. Though some countries reached tariff agreements with the USA, numerous issues still surround their implementation. Following declaration of ceasefire in the Middle East, the global prices of oil and natural gas went down. However, geopolitical tensions still pose a significant upside risk in this respect. The stance of leading central banks, the ECB and the Fed, was also cautious and they did not change their rates.

As estimated by the SORS, GDP growth in Q2 exhibited the same dynamics as in Q1 and amounted to 2% y-o-y, falling short of the NBS's expectations. Dented investment and consumer confidence, as a consequence of unfavourable factors from the international environment, but also protests and blockades at home, had a greater impact on economic growth than initially anticipated. Similar to previous quarters, GDP growth, according to our estimate, was driven by the service sectors, followed by the manufacturing industry, where the effects of investments in the automobile industry are visible, while reduced activity in construction and energy worked in the opposite direction. However, the Executive Board expects that economic activity will gather pace in the remainder of the year, primarily driven by the ongoing acceleration of production in the automobile industry, as well as the implementation of infrastructure projects under the "Serbia Expo 2027" programme. In addition, the Executive Board assesses that monetary policy measures – the maintained relative stability of the exchange rate and more favourable credit financing conditions, which resulted in double-digit growth in lending to corporates and households (10.8% y-o-year in June) – provide support that enables the acceleration of economic growth.

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 adopted monetary policy measures. In making its decisions, the Board will remain mindful of the preservation of financial stability and a favourable growth outlook.

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

The next rate-setting meeting where economic developments will be considered is scheduled for 11 September.