National Bank of Serbia

Introductory speech at the presentation of the *Inflation Report* – August 2025

Dr Jorgovanka Tabaković, Governor

Belgrade, 13 August 2025

Ladies and gentlemen, esteemed members of the press, dear colleagues,

Welcome to the presentation of the August *Inflation Report*, where we will briefly present our view of macroeconomic developments, new macroeconomic projections and monetary policy decisions adopted in the period since the previous *Report*.

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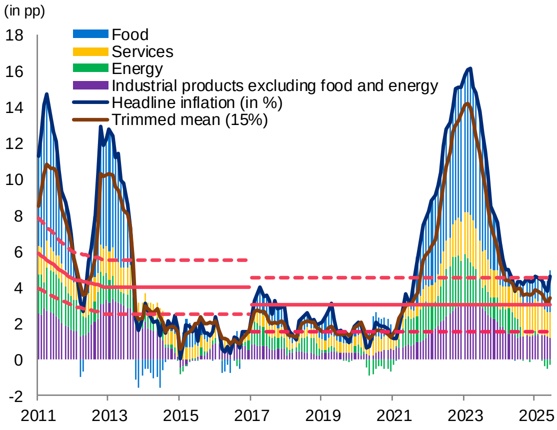
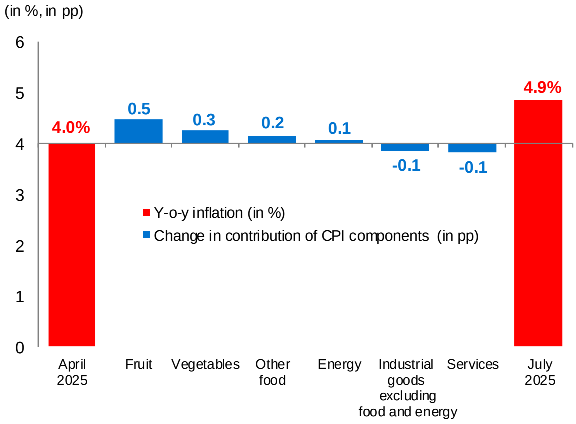
The y-o-y inflation continued to slow down during April and May, consistent with our expectations outlined in the previous *Report*. However, it accelerated again in June, to 4.6%, and then further to 4.9% in July, due to the rise in unprocessed food prices and the increase in global oil prices following the outbreak of the conflict between Israel and Iran. Although I will elaborate on food prices later in my address, I would like to begin by highlighting the movement of fruit prices in recent months, considering their impact on headline inflation. Influenced by adverse weather conditions (first, frost in the spring, followed by extremely hot and dry weather in June), the yields of many fruits turned out considerably lower than usual, which caused a notable increase in their prices. Given that adverse weather conditions are increasingly affecting agricultural seasons, the NBS has undertaken several activities in order to have this issue addressed in a systematic manner. We have had discussions with all relevant stakeholders. We have also approached the Association of Serbian Insurers to explore the possibility for making insurance, as a form of protection, more accessible to agricultural producers. In addition, we have proposed to other institutions concrete measures which, in our view, could help mitigate the negative effects of climate-related

Chart 1 **Contribution of main CPI components to y-o-y inflation**



Sources: SORS and NBS calculation.

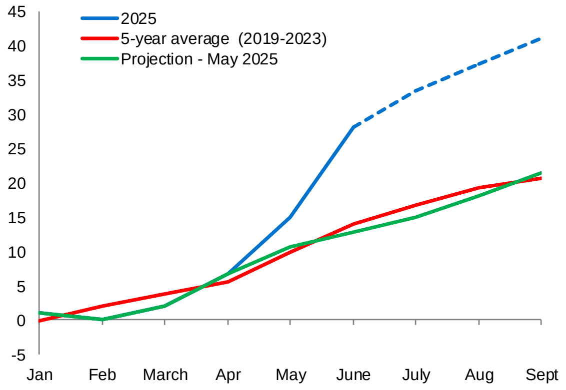
Chart 2 **Y-o-y inflation and change in contribution of main CPI components to y-o-y inflation**



Sources: SORS and NBS calculation.

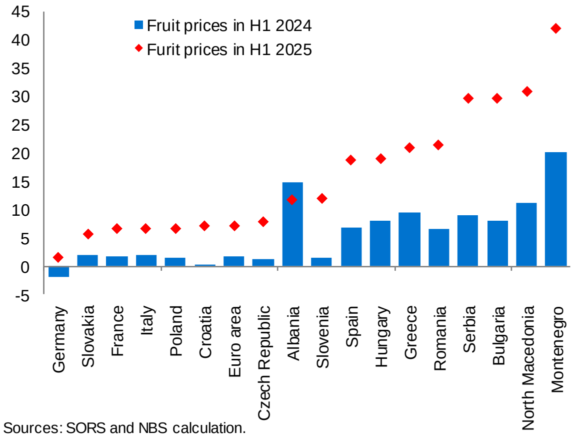
factors on food supply and prices. More details on the measures aimed at ensuring food market stability can be found in one of our text boxes.

Chart 3 **Cumulative fruit price growth**
(in %)



Sources: SORS and NBS calculation.

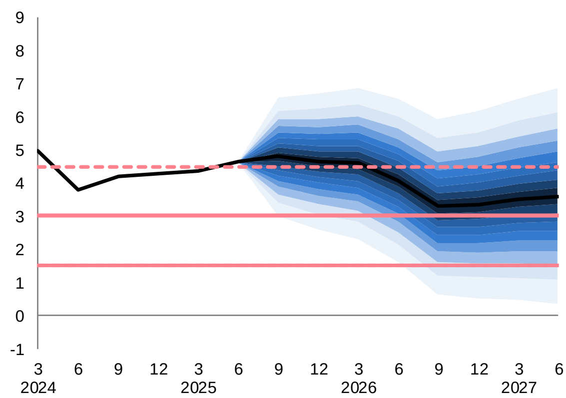
Chart 4 **Cumulative fruit price growth rates in H1 2025 and 2024**
(in %)



Sources: SORS and NBS calculation.

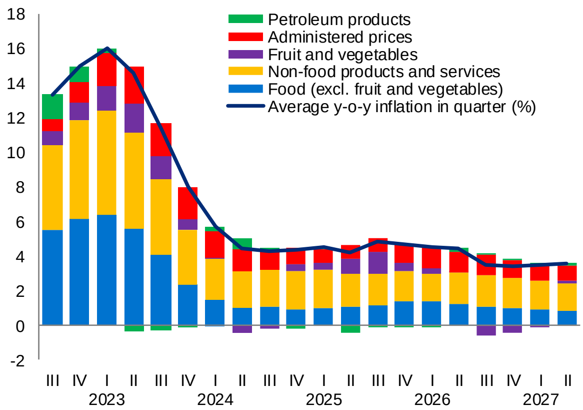
Core inflation (CPI excluding food, energy, alcohol and cigarettes) exhibited similar y-o-y dynamics as headline inflation. It slowed down in April and May, then slightly accelerated in June, to 4.7%, where it stayed in July. This was the first time since April last year that core inflation fell below the level of headline inflation. In one of the text boxes, you can read about the impact of climate-related factors on fruit supply and prices in the domestic market and in Europe as well. Now I will share only one fact: the y-o-y rise in fruit prices measured around 36% in July and on that account only, y-o-y inflation in July was 0.5 pp higher than in April. Most other countries of the region also recorded inflation growth in June due to the hike in the prices of food and energy.

Chart 5 **Inflation projection**
(y-o-y rates, in %)



Source: NBS.

Chart 6 **Contributions to y-o-y inflation by component**
(average y-o-y rates, in pp)



Source: NBS.

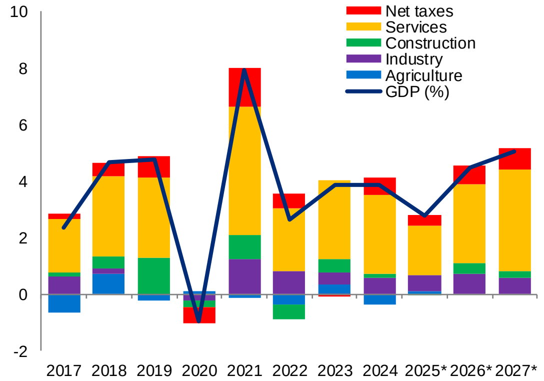
The mentioned factors – adverse weather conditions at the start of this year's agricultural season and higher global oil prices – are the main reason why, according to our new central projection, in the remainder of the year the y-o-y inflation rate is expected to hover around the upper bound of the target tolerance band (3±1.5%), which is higher than envisaged by our May projection. Thereafter, inflation will gradually slow down over the course of next year, averaging 4.0%, and approaching the target midpoint at the end of 2026. Factors contributing to the anticipated inflation slowdown over the projection horizon include the continued restrictive monetary conditions, a high base effect for food prices – particularly fruit and vegetables, lower imported inflation, and the weakening of the US dollar against the euro.

As a consequence of heightened uncertainty surrounding the trade policies of leading global economies and pronounced geopolitical tensions, as well as protests and blockades at home, both investment and consumer confidence have weakened. This reflected on Serbia's economic growth in Q2, which, according to the Statistical Office of the Republic of Serbia, maintained the same y-o-y dynamics as in Q1, measuring 2%. Similar to previous quarters, the growth was, in our assessment, driven by services, followed by manufacturing – where the effects of increased serial production of electric vehicles at Stellantis in Kragujevac and the acceleration of tyre production have become evident. In contrast, construction and energy declined, exerting a dampening effect on GDP.

Lower than expected growth in Q2 and the available data of the Statistical Office of the Republic of Serbia on the production of wheat, certain fruit cultures, and the areas under autumn crops – along with relatively unfavourable weather conditions in the past few months – indicate that this year's agricultural season will be weaker than the average assumed in our May projection. Accordingly, the new GDP growth projection for this year has been revised down to 2.75%. Nonetheless, we still expect economic activity to accelerate in the second half of the year, supported by the continued growth in automobile production and exports, as well as the implementation of infrastructure projects planned under the "Leap into the Future – Serbia Expo 2027" programme.

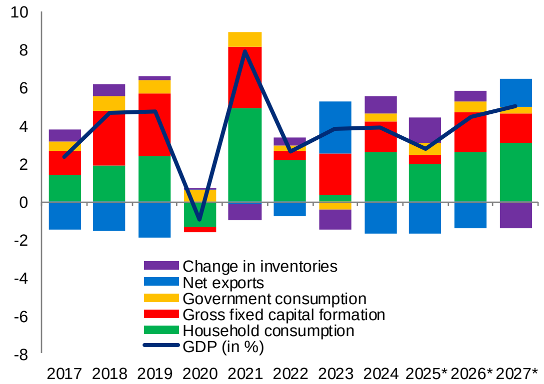
GDP growth projection for the next two years is still in the 4–5% range. However, owing to the specialised international exhibition Expo 2027, in 2027, we expect a growth rate closer to the upper bound of the projected band, as a more notable rise in contribution is likely from services, on the production side, and from net exports, on the expenditure side. Private consumption will be boosted by higher disposable income and positive labour market trends. Growth in fixed investments will be driven by corporate profitability in previous years, continued inflows of FDIs in equity capital, planned public capital expenditures on projects in transport, energy and utility infrastructure, as well as more favourable borrowing conditions on account of the past monetary policy easing. From next year, export growth is also expected to receive a push from the anticipated acceleration of economic growth of our most important trading partners. However, due to the planned investments and rising domestic consumption, imports are projected to grow faster than exports next year as well, which will result in a negative contribution of net exports. Serbia's stepped-up growth in the medium run, underpinned by the preserved favourable fundamentals and a planned rise in investments and productivity, should push up potential output and accelerate the process of Serbia's real convergence towards advanced countries.

Chart 7 **Contributions to real GDP growth, production side**
(in pp)



Sources: SORS and NBS calculation.
* NBS estimate.

Chart 8 **Contributions to real GDP growth, expenditure side**
(in pp)



Sources: SORS and NBS calculation.
* NBS estimate.

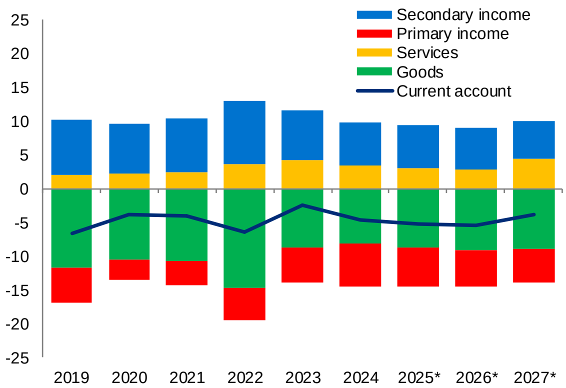
Higher imports of goods and services compared to exports contributed to a current account deficit of approximately EUR 2 bn (4.7% of GDP) in the first half of the year. The export of goods increased by 10.8% y-o-y during the January–June period, propped up by higher manufacturing exports, with the largest contribution coming from industries related to the automobile sector. Additionally, the revision of goods exports data for the last year and the first quarter of this year by the Statistical Office of the Republic of Serbia, amounting to over EUR 2 bn, indicates that exports have shown strong resilience to the negative effects of persistently low external demand and problems in the European automobile industry. Goods imports increased by 11.4%, driven primarily by higher imports of intermediate and consumer goods.

FDI inflow in the first six months came at EUR 1.5 bn, down by around 40% from the same period in 2024, partly reflecting the above average one-off inflows last year, eroded investment confidence globally, and the postponement of some investments due to protests and blockades at home. However, in the past two months, it was observed that the dynamics of FDI inflows approached the average monthly levels recorded last year. Hence, higher inflows in the remainder of the year relative to the first half of the year can be realistically expected. This trend will also be influenced by the alleviated global uncertainty following the agreement on tariffs, although numerous questions regarding the implementation of these agreements remain open.

Taking all of the above into account, we project that the current account deficit as a share of GDP will range between 5.0% and 5.5% this year and the next, and that it will be largely covered by net FDI inflows, which are projected at around 4.5% of GDP. Subsequently, in 2027, due to higher export of services, the current account deficit is expected to fall to around 4% of GDP and to be fully covered by net FDI inflows.

Chart 9 **Current account and FDI projection**

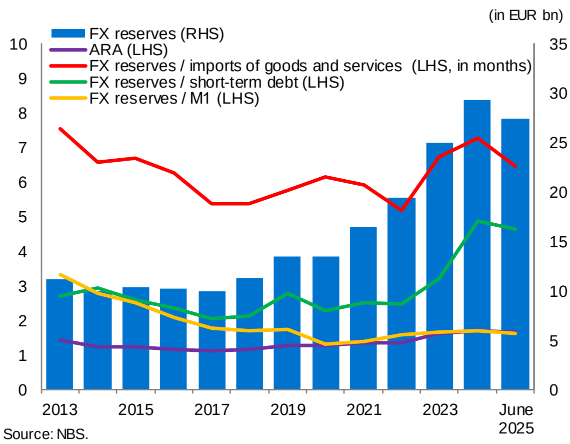
(in % of GDP)



Source: NBS.

* NBS projection.

Chart 10 **FX reserves and relevant adequacy indicators**

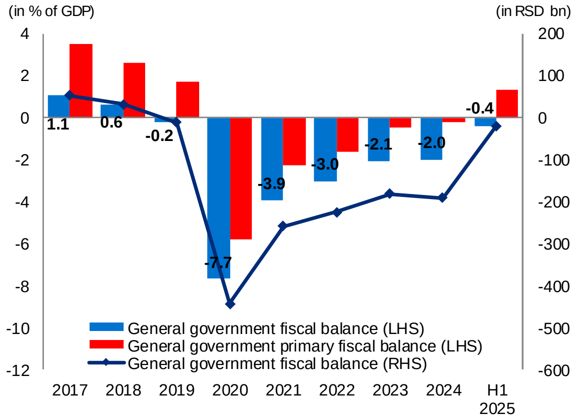


Source: NBS.

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 participated in the foreign exchange market mostly as the net buyer. 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. The structure of FX reserves shows that the share of gold is currently almost 17% and that its quantity has reached 50.9 tonnes. In one of our text boxes, you can find detailed information about the mentioned revision of data on exports, but also on external debt, and you will see that our exports demonstrated even greater resilience to reduced external demand and that our external position is even stronger than indicated by previous data, i.e. data before the revision.

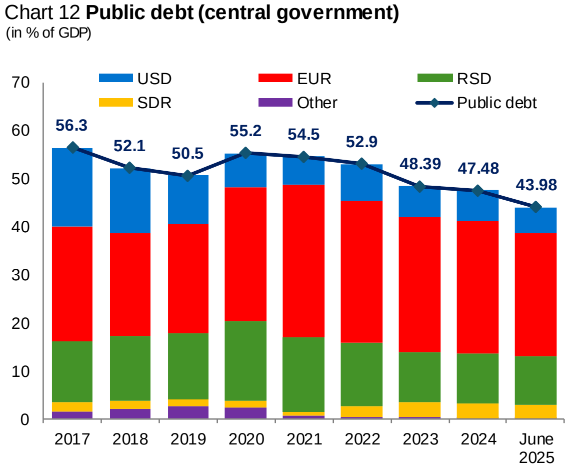
The first half of the year saw a fiscal deficit of 0.4% of GDP and a primary balance surplus of 1.3% of GDP. Total revenue gained 1.9% y-o-y in real terms, mostly guided by higher income tax revenue amid continued positive trends in the labour market, while VAT revenue declined from the same period last year even though disposable income went up. At the same time, fiscal expenditure rose 4.8% in real terms, guided by higher outlays for pensions and public sector wages, as well as capital expenditure. Even though the medium-term fiscal framework plans a more expansionary fiscal policy to accommodate the implementation of investments under the “Leap into the Future – Serbia Expo 2027” programme, we think this will not generate any major inflationary effects given that most of the expenditure growth relates to government capital expenditure which boosts potential output at the same time. Furthermore, the planned deficit of 3% of GDP will not undermine the downward trajectory of the share of public debt in GDP, which equalled 44% at end-June (according to the national definition) and was well below the 60% Maastricht criterion.

Chart 11 **Fiscal and primary balance of the general government budget**



Source: Ministry of Finance.

Chart 12 **Public debt (central government)**



Source: Public Debt Administration.

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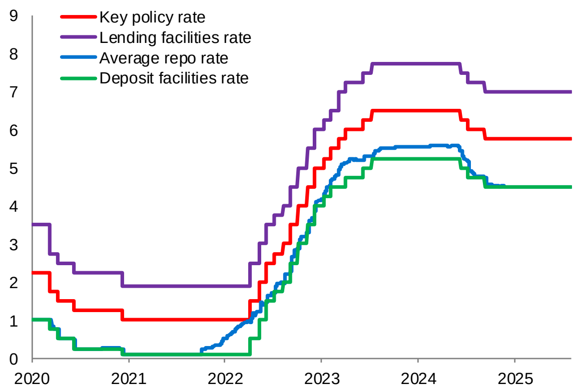
In the period since the previous *Report*, we have not changed the level of the key policy rate, which has stood at 5.75% since last September. When making such decisions, we assessed that a cautious monetary policy remains necessary due to pronounced geopolitical tensions, rising protectionism, and a higher-than-expected increase in food prices in recent months, both in the international and domestic markets.

Here, I would like to emphasise that the key policy rate is not the rate at which the NBS borrows from other banks for a one-week period to satisfy the need for liquidity, as was mistakenly interpreted in the public in recent weeks. On the contrary, by conducting reverse repo operations, we are mopping up structural liquidity surpluses from the market and preventing them from having an inflationary impact.

As a result of the past easing of our monetary policy and the continued monetary policy easing by the ECB this year, borrowing costs in both dinars and euros have decreased for businesses and citizens. I would especially like to underline that interest rates on housing loans, credit card debt, and current account overdrafts for households are aligned with the limits set by the amendments to the Law on the Protection of Financial Service Consumers, which contributes to the growth in households' disposable income. In addition, the approval of subsidised loans under more favourable conditions under the government's youth housing loan programme has helped bring down the interest rate on new housing loans to 4.3% in June.

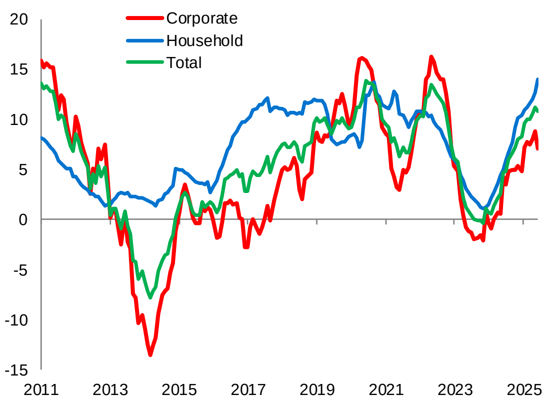
More favourable borrowing costs and continued easing of credit standards have contributed to the continued double-digit y-o-y growth in lending to the non-monetary sector, which reached 10.8% in June. Corporate lending growth was similar to that in March (7.1%), driven by working capital and investment loans, while lending to households accelerated to 14%, supported by faster growth in both cash and housing loans. The growth in lending activity, along with the preservation of banks' asset quality, helped keep the share of NPLs in total loans at a minimal 2.3% in June.

Chart 13 **Key policy rate and average repo rate**
(in %)



Source: NBS.

Chart 14 **Corporate and household lending**
(y-o-y growth rates, in %, at constant exchange rate, 30 September 2024)



Source: NBS.

Household savings continue to grow steadily – over the past 13 years, dinar savings have increased elevenfold, reaching over RSD 200 bn at the end of July. At the same time, FX savings have nearly doubled, from EUR 8.3 bn to EUR 15.8 bn. This reflects confidence in the domestic financial sector and indicates healthy sources of credit growth, both now and in the future.

Decisions on future monetary policy will also be made cautiously, on a meeting-by-meeting basis, depending on the pace of inflation slowdown and the movement of its key drivers from both domestic and international environments, while also taking into account the effects on financial stability and economic growth.

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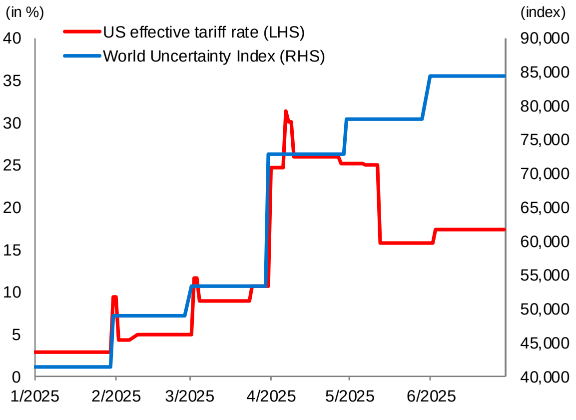
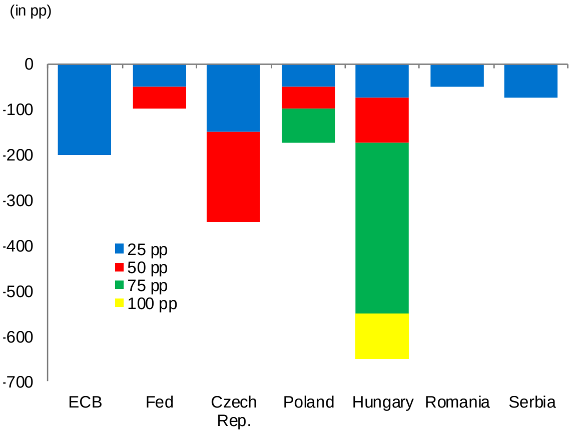
What is common to all central banks around the world today is that geopolitical and trade tensions are at the heart of global macroeconomic challenges – and, consequently, at the centre of their decision-making. Another shared reality for us, the monetary policymakers, is that in an environment of frequent and significant shocks, we cannot be too explicit about our future intentions regarding monetary policy. However, we must be ready to respond swiftly and decisively. That is why the answer to the question of what kind of monetary policy central banks will pursue in the coming period is highly complex. The same is true for the answers to the questions whether they will continue to lower their key rates or whether the monetary easing cycle, in which nearly all central banks currently are, is nearing its end. You can read more about this in one of our text boxes.

Chart 15 **Tariffs and Global Uncertainty**



Sources: World Economic Outlook, July 2025 Update.

Chart 16 **Total reduction of policy rates in the current monetary policy easing cycle**



Sources: central banks of the above countries.

An important lesson from the past years of strong shocks is that inflation can rise suddenly due to supply-side constraints, and not just due to robust aggregate demand. It is also important to always be aware of these constraints and recognise that we cannot ignore them regardless of the fact that monetary policy measures cannot directly address them. The most illustrative example of this is climate factors. Their increasing frequency and intensifying effects have led to a more persistent impact on food prices, making these factors a significant determinant of inflation expectations, which in turn increases the need for a monetary policy response. For this reason, central banks advocate for a comprehensive, interinstitutional and cross-sectoral approach aimed at mitigating the negative effects of climate factors, which have become the new normal. A part of the NBS's institutional response to climate change is transparent communication about its potential impact on ensuring sustainable economic growth and development, as this helps raise public awareness of the issue.

Ladies and gentlemen, dear colleagues,

Let us conclude. The world we live in is becoming increasingly complex, with external shocks growing more frequent and severe. Although monetary policymakers have always had to deal with uncertainty, in recent years it has reached levels not seen in modern history. We have faced a pandemic, conflicts in Europe and the Middle East, and the worst energy shock since the 1970s. Meanwhile, rising geopolitical tensions are reshaping global economic and trade flows, introducing new rules, and demanding rapid responses and adaptation to emerging circumstances. In addition, climate and environmental crises are increasingly posing existential threats and challenging the stability and resilience of the entire economic system. Technological changes, such as digitalisation and artificial intelligence, bring enormous opportunities for development and progress, but also complex challenges.

Therefore, overcoming current global challenges requires a unified, proactive and strategic approach from economic policymakers. I would like to reiterate that we have taken concrete steps aimed at mitigating the effects of climate factors. Of course, the NBS, in coordination with other economic policymakers in the country, will strive to further strengthen domestic fundamentals and our resilience to external risks, enhance the ability to respond quickly and adequately, and maintain stability in every sense – the stability of prices, financial system, exchange rate, and thus overall macroeconomic stability. These are not empty promises but a reality confirmed and documented by concrete data, recognised and highlighted by all relevant international institutions, including Fitch, which in July maintained our positive outlook for an upgrade to investment-grade credit rating.

Finally, it is always important to keep in mind that the good results from previous years oblige us to continue working in the same way in the future – in the best general interest and to ensure that Serbia remains an attractive destination for investment and business. The period of the past 13 years, during which I have been at the helm of the NBS, has been marked by a wide range of challenges, some of which were unprecedented. Yet even under such circumstances, in cooperation with the President and the government of the Republic of Serbia, we managed to maintain stability, which has become the first thing that comes to mind when the NBS is mentioned. We will continue in the same way going forward, because nothing is a given forever, and the challenges ahead require dedicated work and maximum engagement of all those responsible for economic policy.

In the remainder of the conference, my colleagues from the Economic Research and Statistics Department will present our projections in more detail. After that, we will be happy to answer any questions you may have.