12 June 2025

EXPLANATION FOR THE COUNTERCYCLICAL CAPITAL BUFFER RATE FOR THE REPUBLIC OF SERBIA

Pursuant to Article 14, paragraph 1, item 11) of the Law on the National Bank of Serbia (RS Official Gazette, Nos 72/2003, 55/2004, 85/2005 – other law, 44/2010, 76/2012, 106/2012, 14/2015 and 40/2015 – CC decision, 44/2018 and 19/2025) and Section 436 of the Decision on Capital Adequacy of Banks (RS Official Gazette, Nos 103/2016, 103/2018, 88/2019, 67/2020, 98/2020, 137/2020, 59/2021, 67/2022, 137/2022, 48/2023, 110/2023, 102/2024 and 41/2025, hereinafter: Decision on Capital Adequacy), the NBS Executive Board, at its meeting of 12 June 2025, decided to keep the countercyclical capital buffer (CCyB) rate for the Republic of Serbia at 0%, having in mind that the credit-to-GDP gap is below the lower threshold of 2 pp. By keeping the CCyB at 0%, the NBS continues to support the lending market amid the persistent uncertainty in the international environment and global market fragmentation.

The CCyB is additional Common Equity Tier 1 capital that banks are required to maintain above the prescribed regulatory minimum in the amount equal to their risk-weighted assets multiplied by the specific countercyclical buffer rate. This instrument mitigates the cyclical dimension of systemic risk, creating an additional buffer of Common Equity Tier 1 capital during periods of pronounced credit growth, which can be released when systemic risks materialise.

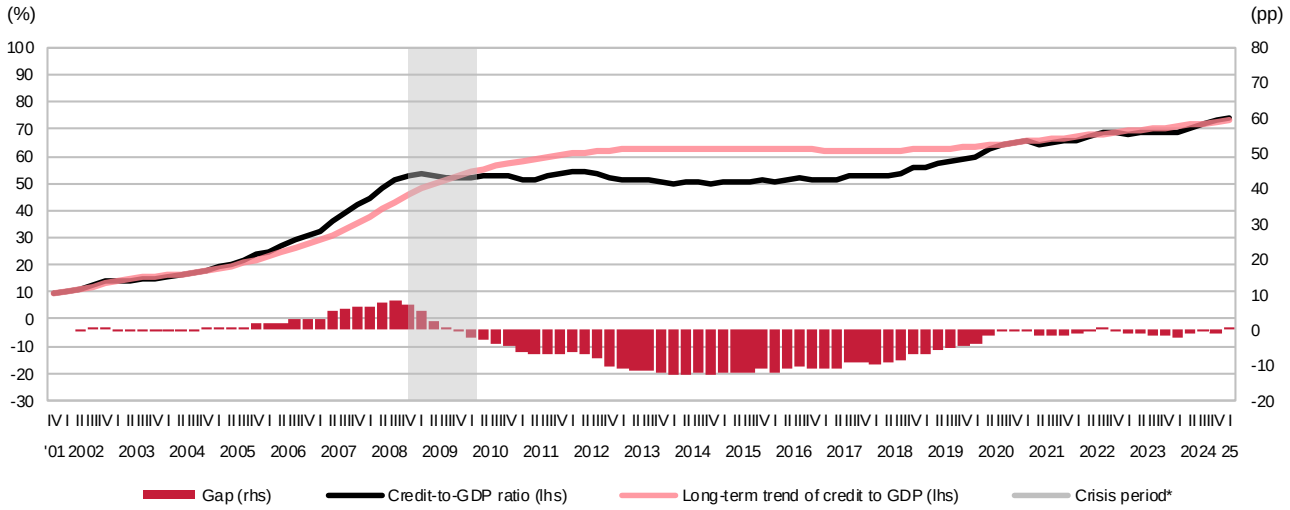
The NBS sets the CCyB rate for the Republic of Serbia on a quarterly basis, taking into account the reference guide, applicable guidelines and recommendations of the European Systemic Risk Board and other variables it considers relevant for monitoring the cyclical dimension of systemic risk. In accordance with Section 436, paragraphs 2 and 3 of the Decision on Capital Adequacy, the guide for setting the CCyB rate is the deviation of the share of loans in GDP from long-term trend (credit-to-GDP gap). The CCyB rate for the Republic of Serbia is set in line with the recommendation for setting the CCyB rate of the European Systemic Risk Board (ESRB/2014/1).

Chart 1 shows the share of credit to the non-government sector in GDP[1], the long-term trend and the estimated credit-to-GDP gap. After a period of credit expansion between 2000 and 2008, in late 2009 the credit-to-GDP gap entered the negative territory. Lending growth in place since 2014 brought the share of credit in GDP close to its long-term trend. Since 2020, the share has

[1] https://www.stat.gov.rs/en-US/vesti/statisticalrelease/?p=16869&a=09&s=090202.

oscillated around its long-term trend. According to March 2025 data, the credit-to-GDP ratio is above its long-term trend, with a gap of 1.0 pp. The gap widened by 3.1 pp y-o-y and narrowed by 0.4 pp q-o-q. As the estimated gap value is below the threshold of 2 pp, which would potentially indicate excessive lending activity, the CCyB rate reference guide in Q1 2025 measured 0%.

Chart 1 **Credit-to-GDP ratio and its long-run trend**



Source: NBS
*Based on SSI.

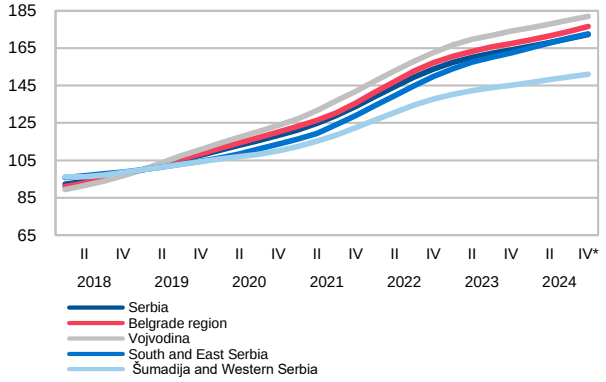
In addition to the credit-to-GDP gap, other optional indicators were also taken into account when setting the CCyB rate for the Republic of Serbia, in accordance with Section 436, paragraph 4 of the Decision on Capital Adequacy. The optional indicators used relate to the real estate market, external imbalance and banking sector developments.

Real estate market

The latest available data of the Republic Geodetic Authority and the Apartment Price Index (Chart 2) indicate that flat prices continued moderately up in y-o-y terms in Q4 2024. Flat prices increased by 5.05% per annum at end-Q4 2024 (preliminary data), and by 1.3% relative to the previous quarter. [2]

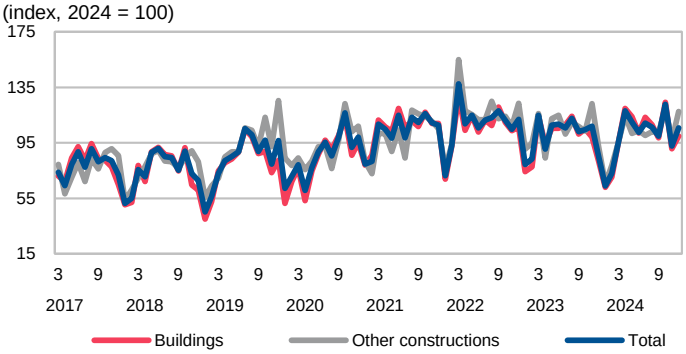
[2] Republic Geodetic Authority – Report on the Apartment Price Index for Q4 2024 (latest available data).

Chart 2 **Apartment price index**
(Q1 2019 = 100)



* The latest data available
Source: Republic Geodetic Authority

Chart 3 **Indices of the number of newly issued building permits**
(index, 2024 = 100)



Source: Statistical Office of the Republic of Serbia.

In Q1 2025, the total number of issued permits for new construction increased by 4.1% y-o-y.

The LtV ratio, measured by the ratio of mortgage-backed housing loans for which a flat was mortgaged and the estimated value of the flats, posted a q-o-q decline in Q1 2025 and measured 61.6% (62.6% in Q4 2024).[3]

The results of the April NBS bank lending survey show that banks tightened their corporate credit standards moderately in Q1 2025, and continued easing their household credit standards. The relaxation of household standards was due to reduced costs of funding, reflecting past monetary policy easing by the NBS and the ECB, and the effects of competition. Corporate demand for loans decreased in Q1 2025 as there was less need to finance capital investment and working capital. Households, on the other hand, ramped up their loan demand. According to banks, this was due to the need to refinance and buy durable consumer goods, improvement of the overall economic situation (rising wages, lower unemployment and an improved situation in the real estate market) and the NBS's measures temporarily capping interest rates on housing loans. Banks expect standards to be eased and loan demand to go up in both sectors in Q2 2025. Household loan demand will be influenced, among other things, by the introduction of a new model of subsidised housing loans for young people.[4]

Indicators of external imbalance

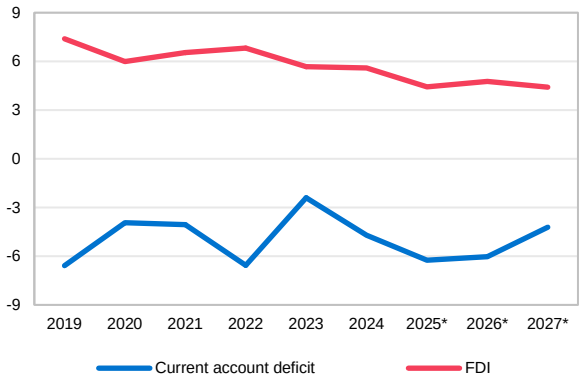
Q1 2025 saw a current account deficit of EUR 1.4 bn (EUR 0.5 bn in Q1 2024). According to the latest available projection, the current account deficit

[3] Source: NBS Real Estate Database.
[4] Report on the Bank Lending Survey, Q1 2025.

will be somewhat higher in 2025 than in 2024, due to the expected rise in goods and services imports, primarily on account of higher equipment import feeding into the continued investment cycle, increased government expenditure for implementing Serbia Expo 2027, as well as growth in the import of consumer goods and tourist services thanks to higher disposable income of households.[5]

In Q1 2025, FDI measured EUR 704 mn (EUR 556 mn net), a decrease from the same period a year earlier, which saw an above-average inflow for that part of the year (EUR 1,423 mn). FDI composition remained favourable – 87% was in the form of equity capital and reinvested earnings, while geographic and sectoral diversification was preserved. FDI will likely remain channelled mainly to export-oriented sectors, and average around 4.5% of GDP.[6]

Chart 4 **Current account deficit and FDI**
(in % of GDP)

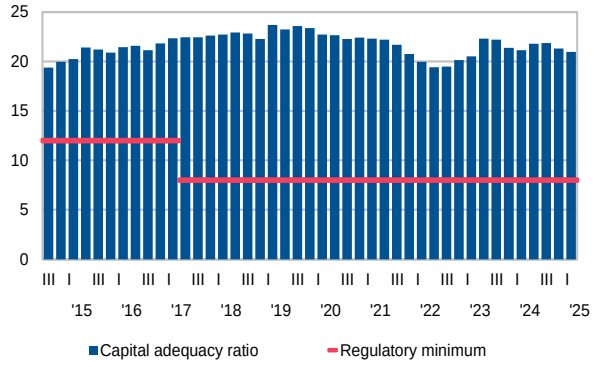


* NBS projection, May 2025
Source: NBS.

Main banking sector indicators

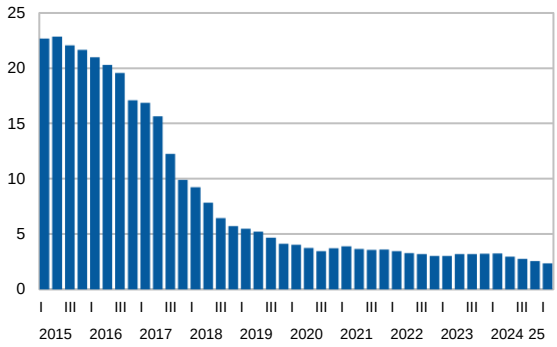
The banking sector is stable, well capitalised and highly liquid. At end-Q1 2025, the capital adequacy ratio at the banking sector level equalled 21.0%, well above the regulatory minimum.[7]

Chart 5 **Capital adequacy ratio**
(%)



Source: NBS.

Chart 6 **Non-performing loans**
(share in total gross loans, %)



Source: NBS.

[5] *Inflation Report*, May 2025.
[6] *Inflation Report*, May 2025.
[7] Since 30 June 2017, the minimum CAR is 8% (minimum Tier 1 capital is 6% and minimum Common Equity Tier 1 capital is 4.5%). Also, in addition to meeting these conditions, a bank shall maintain its capital at all times at the level necessary for the coverage of all risks to which the bank is or may be exposed in its operation, i.e. at least in the amount necessary for maintaining the increased capital adequacy ratios – if the National Bank of Serbia, in accordance with Section 5 of this Decision, has set capital adequacy ratios for a bank higher than the prescribed ones.

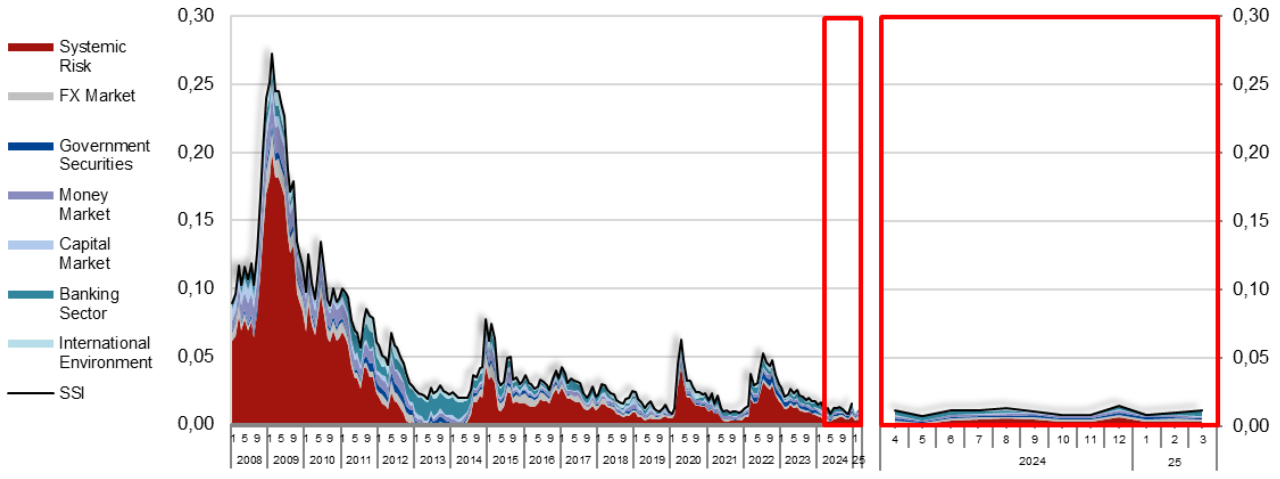
At end-Q1 2025, the loan-to-deposit ratio (LtD) measured 0.83. Keeping this indicator at levels below 1 means that banks largely rely on domestic, stable sources of funding, such as deposits.

Despite the multidimensional crisis we have been facing over the past five years, the share of NPLs in total banking sector loans decreased, touching a new minimum in March and April 2025 (2.3%). Since August 2015, when the NPL Resolution Strategy was adopted, engendering numerous measures aimed at curbing NPLs, the NPL share dropped by 19.9 pp. At end-Q1 2025, the share of NPLs in total loans decreased by 0.2 pp q-o-q and by 0.9 pp y-o-y. The decline in the NPL ratio to a new historical low indicates that past financial tightening did not have any major negative effect on banks' asset quality.

Assessment of systemic risk of the Serbian financial system

The Systemic Stress Indicator (hereinafter: SSI) was developed with a view to identifying periods of elevated stress and the level of systemic risk in the financial system of the Republic of Serbia. The SSI covers a series of indicators which capture the level of financial stress in six key segments of the Serbian financial system: FX market, government securities market, money market, capital market, banking sector and the international environment.

Chart 7. **Systemic stress indicator dynamics and contribution of the most important factors to the Systemic stress indicator**



Source: NBS.

At end-Q1 2025, the SSI dropped slightly relative to end-2024. SSI decrease in quarterly terms was mostly supported by the low and stable systemic risk component, and positive effects of Serbia's credit rating upgrade to investment grade by Standard & Poor's.

At end-January 2025, Fitch Ratings kept the positive outlook for investment grade, while affirming the rating at BB+. The decision to keep the positive outlook was underpinned by an adequate economic policy mix, including the sound fiscal management results to date, robust economic growth outlook, high FX reserves and higher GDP per capita compared to the median for countries with the same credit rating.

The NBS will remain cautious and make timely decisions with a view to preserving and strengthening the achieved financial system stability. Improvement of the domestic macroeconomic environment in the past period and continuous upgrades in the banking regulatory framework helped to maintain a stable, well-capitalised and highly liquid banking sector. The latest results of quarterly solvency and liquidity macroprudential stress tests have also confirmed the stability of the banking system.