11 September 2025

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

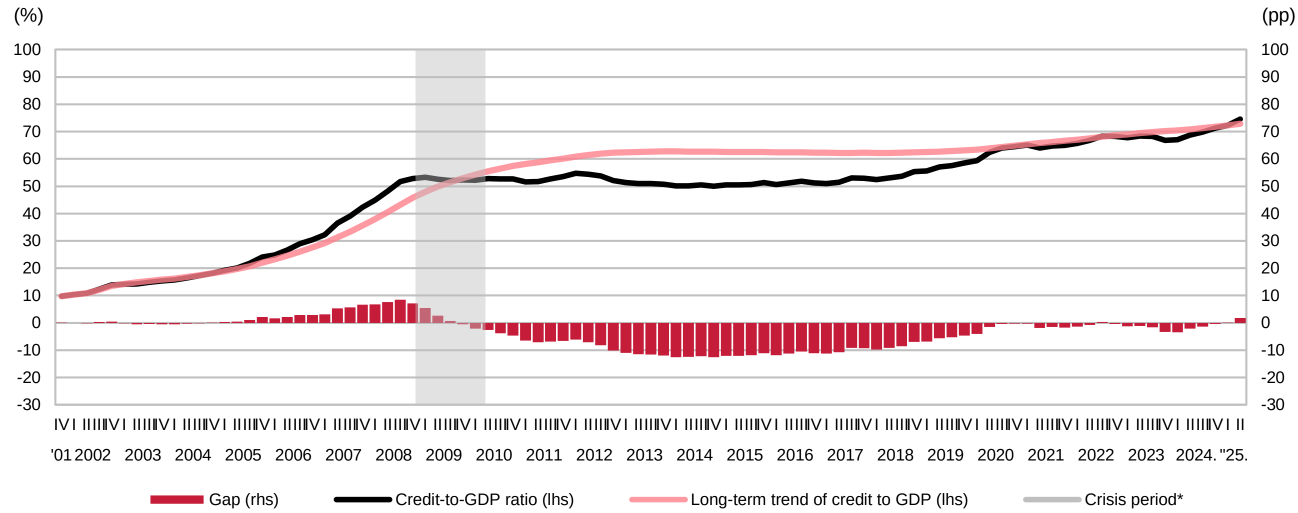
Pursuant to Article 14, paragraph 1, item 11) of the Law on the National Bank of Serbia (RS Official Gazette, Nos 72/2003, 55/2004, 85/2005 – other law, 44/2010, 76/2012, 106/2012, 14/2015, 40/2015 – CC decision, 44/2018 and 19/2025) and Section 436 of the Decision on Capital Adequacy of Banks (RS Official 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, 41/2025 and 70/2025, hereinafter: Decision on Capital Adequacy), the NBS Executive Board, at its meeting of 11 September 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 persistent uncertainty in the international environment.

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, 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 oscillated around its long-term trend. According to June 2025 data, the credit-to-GDP ratio is above its long-term trend, with an estimated gap of 1.7 pp. The gap widened by 3.9 pp y-o-y and by 1.7 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 measured 0%.

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



Source: NBS
*Based on SSI.

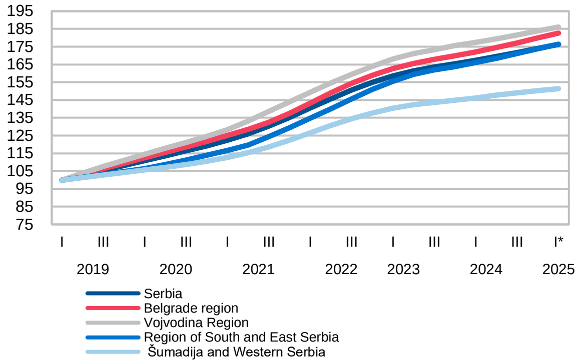
In addition to the credit-to-GDP gap, other optional indicators were also taken into account when setting the CCyB rate for the Republic of Serbia, in accordance with Section 436, paragraph 4 of the Decision on Capital Adequacy. The optional indicators used relate to the real estate market, external 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 and stably up in y-o-y terms in Q1 2025. Flat prices increased by 5.3% y-o-y and by 1.3% q-o-q in Q1 2025 (preliminary data).[1]

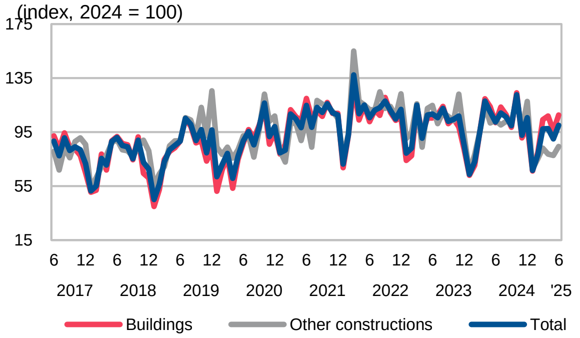
[1] Republic Geodetic Authority – Report on the Apartment Price Index for Q1 2025 (latest available data).

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 Q2 2025, the total number of issued permits for new construction decreased by 13.0% y-o-y.

The LtV ratio, measured by the ratio of mortgage-backed housing loans and the estimated value of the flats mortgaged, posted a q-o-q increase in Q2 2025 and measured 65.5% (61.5% in Q1 2025).[2]

The results of the July NBS bank lending survey show that banks eased their corporate and household credit standards in Q2 2025. Standards for FX-indexed housing loans to households were eased the most. The relaxation of household credit standards was due to lower costs of funding and the effects of competition, as well as the programme of subsidised housing loans for young people. Both corporate and household loan demand increased in Q2 2025. Household demand for FX-indexed housing and consumer loans went up in particular, as did the demand for dinar cash and consumer loans and refinancing loans. According to banks, demand growth was underpinned by the need to refinance existing loans, purchase consumer durables and buy real estate, as well as by higher wages. Demand was also propped up by the introduction of a new model of housing loans for young people, backed by a guarantee of the Republic of Serbia. Banks expect standards to be eased further in Q3 2025 and both corporate and household loan demand to expand.[3]

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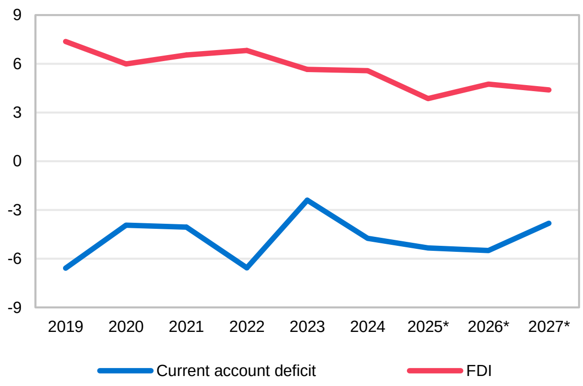
[2] Source: NBS Real Estate Database.
[3] Report on the Bank Lending Survey, Q2 2025.

Indicators of external imbalance

The current account deficit measured EUR 2.0 bn in the first six months of 2025 (up by EUR 957 mn y-o-y). It is projected at around 5.3% of GDP in 2025, which is slightly higher than last year and close to the average equilibrium rate. In 2026, it is anticipated to measure around 5.5% of GDP, subsiding to roughly 4% of GDP in 2027 supported by higher exports of tourism services due to the hosting of "Expo 2027". Going forward, the current account deficit is expected to be largely covered by FDI inflows.[4]

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



* NBS projection, August 2025
Source: NBS.

In the first six months of 2025, FDI inflow measured EUR 1.5 bn (EUR 0.9 bn net). FDIs declined relative to a year earlier partly on account of one-off inflows last year and reduced investment confidence globally, but also due to the deferral of some investments at home amid protests and blockades. FDIs are expected to stay broadly diversified by geography and project, with the bulk of inflows channelled to export-oriented sectors. Estimates place FDIs at around 4–5 % of GDP.[5]

Main banking sector indicators

The banking sector is stable, well capitalised and highly liquid. At end-Q2 2025, the capital adequacy ratio at the banking sector level equalled 21.3%, well above the regulatory minimum.[6]

At end-Q2 2025, the loan-to-deposit ratio (LtD) measured 0.83. The sustained value of this indicator at levels below 1 means that banks largely rely on domestic, stable sources of funding, such as deposits.

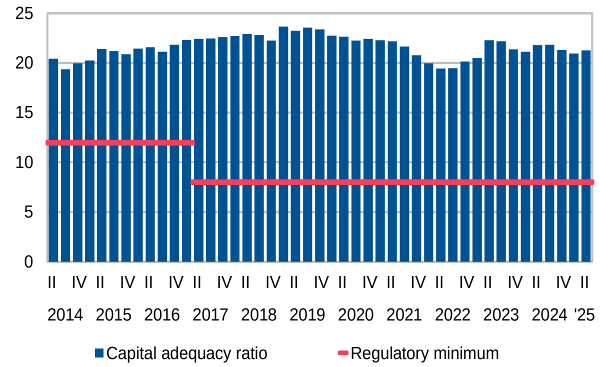
Despite the multidimensional crisis we have been facing over the past five years, the share of NPLs in total banking sector loans decreased notably to an all-time low. This is mostly the result of implementation of the NPL Resolution Strategy from 2015, and other regulatory activities of the NBS throughout the

[4] Inflation Report, August 2025.
[5] Inflation Report, August 2025.
[6] 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.

preceding period. In June 2025, the share of NPLs stayed at a record low of 2.3%. At end-Q2 2025, the share of NPLs in total loans stayed almost unchanged q-o-q and declined by 0.6 pp y-o-y. The fact that the NPL ratio has stayed at a record-low level indicates that past financial tightening did not have major negative effects on banks' asset quality.

Chart 5 **Capital adequacy ratio**

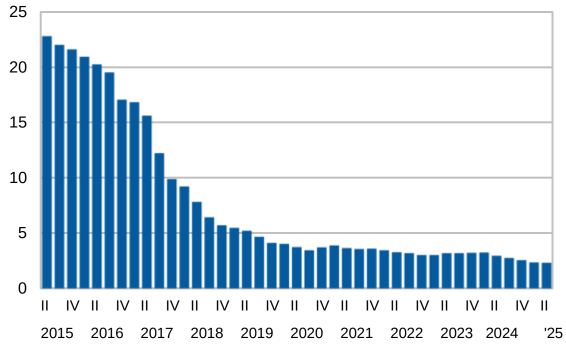
(%)



Source: NBS.

Chart 6 **Non-performing loans**

(share in total gross loans, %)

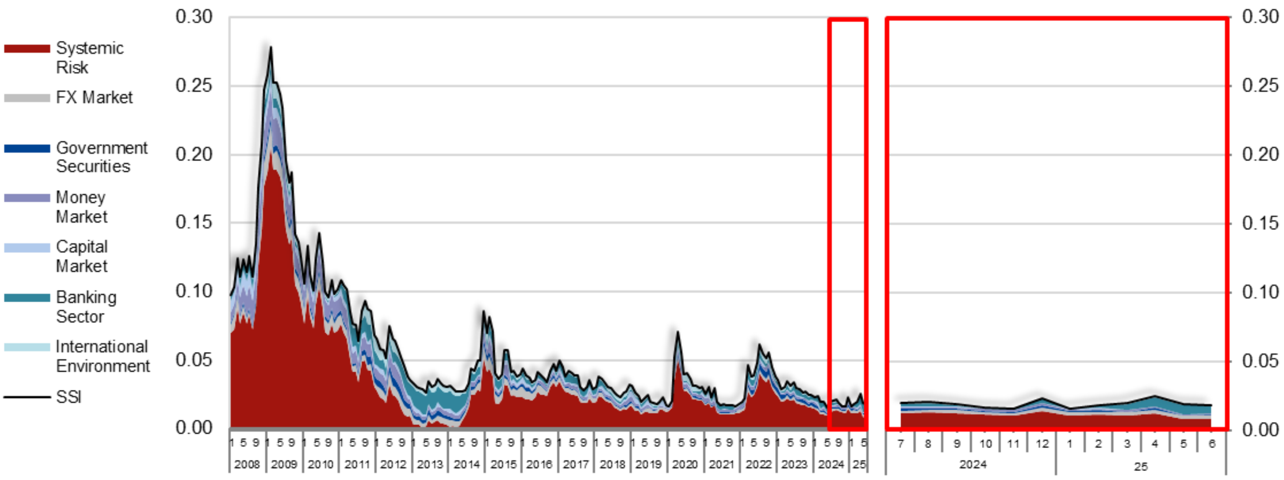


Source: NBS.

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-Q2 2025, the SSI dropped slightly relative to end-Q1 2025. The decrease in the SSI was mostly due to the low and stable systemic risk component.

In late July 2025, Fitch Ratings affirmed Serbia's credit rating at BB+, with a positive outlook. This decision was supported by a sound policy mix, responsible public finance management, high FX reserves and stronger economic development compared with the 'BB' median. The positive outlook reflects the expected investment-led economic growth, underpinned by the "Leap into the Future – Serbia Expo 2027" project, strengthening of the country's external position, continued public debt reduction and stabilisation of inflation.

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 to the banking regulatory framework helped to maintain a stable, well-capitalised and highly liquid banking sector. The stability of the banking system is also confirmed by the results of the latest quarterly solvency and liquidity macroprudential stress tests.