

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, 70/2025, 101/2025 and 104/2025 – correction, hereinafter: Decision on Capital Adequacy), the NBS Executive Board, at its meeting of 11 June 2026 decided to keep the countercyclical capital buffer (CCyB) rate for the Republic of Serbia at 0.5% of a bank's risk-weighted assets. By keeping the CCyB rate on hold, the NBS acts with a view to strengthening financial stability, especially against the background of heightened global uncertainty. The maintenance of the CCyB creates an additional layer of capital which may be released if certain risks materialise, thereby helping to preserve Serbia's banking sector resilience.

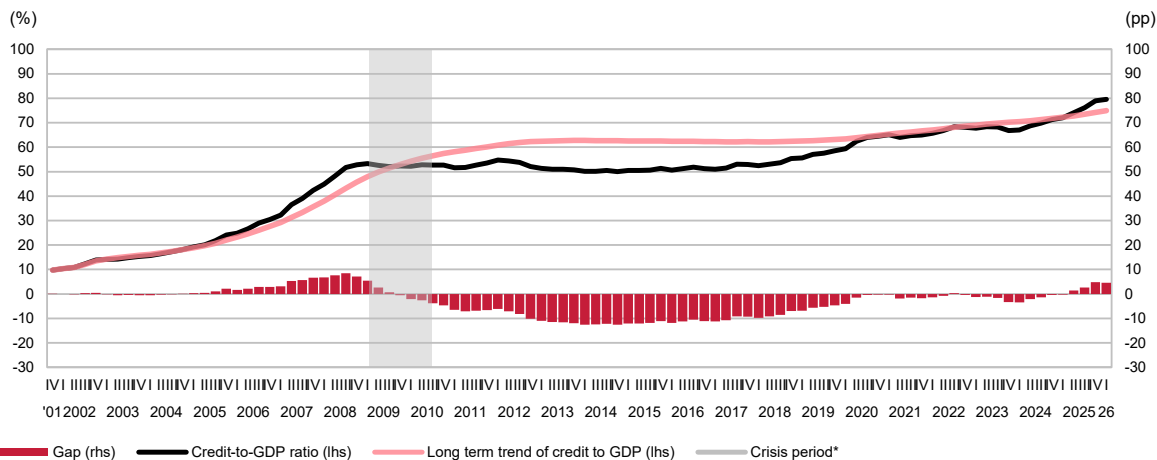
The CCyB is additional Common Equity Tier 1 capital that banks are required to maintain above the prescribed regulatory minimum in the amount equal to their risk-weighted assets multiplied by the specific CCyB rate. This instrument mitigates the cyclical dimension of systemic risk, creating an additional buffer of Common Equity Tier 1 capital during periods of 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 buffer 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. Vibrant lending growth in place since 2024 brought the share of total loans in GDP above its long-term trend. Taking that into account, at its meeting of 11 December 2025, NBS Executive Board set the CCyB rate at 0.5%, applicable as of 15 December 2026. According to March 2026 data,

the credit-to-GDP gap is 4.6 pp. In Q1 2026, the gap expanded by 4.8 pp in y-o-y terms, while q-o-q it decreased by 0.2 pp.

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



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 in the Republic of Serbia continued to rise moderately y-o-y in Q4 2025. The y-o-y growth rate in flat prices in Serbia in Q4 2025 equalled 5.7%.¹

Chart 2 Apartment price index (Q1 2019 = 100)

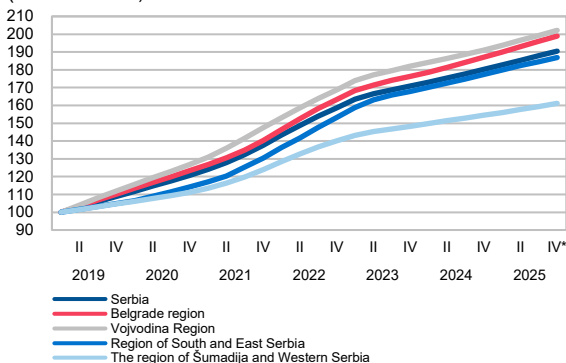
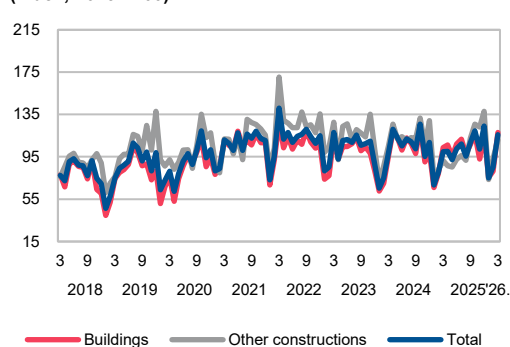


Chart 3 Indices of the number of newly issued building permits (index, 2025= 100)



¹ Republic Geodetic Authority – Report on the Apartment Price Index for Q4 2025 (the latest available data).

In Q1 2026, the total number of issued permits for new construction increased by 11.0% relative to the same quarter the year before.

The LtV ratio, measured by the ratio of housing loans for which flats were mortgaged and the estimated value of those flats, measured 64.8% in Q1 2026 (63.8% in Q4 2025).²

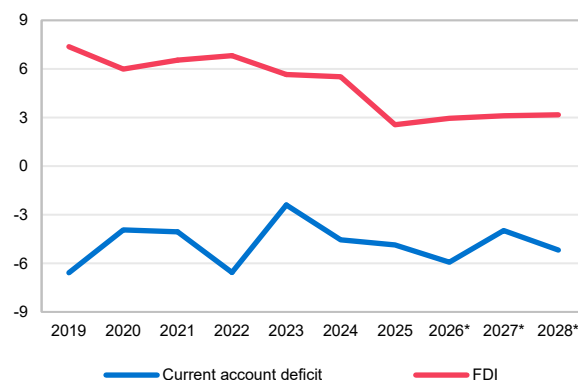
The April NBS bank lending survey shows that, in Q1 2026, banks slightly tightened credit standards for corporate loans, while simultaneously easing the standards for household lending, primarily owing to the loosened standards for dinar cash and refinancing loans. Competition in the banking sector worked in favour of mitigating standards, as did banks' increased risk appetite, while the costs of funding had the opposite effect. Banks estimated that in Q1 2026 corporate demand contracted under the impact of reduced needs for financing capital investments, while financing working capital had the opposite effect. In Q1 2026, households upped demand for loans, mostly dinar cash ones, followed by consumer and FX-indexed housing loans. This was underpinned by refinancing needs, the purchase of durable consumer goods, as well as real estate purchase, alongside wage growth. Banks expect loan demand of both corporates and households to continue up in Q2 2026.³

Indicators of external imbalance

The current account deficit measured EUR 179 mn (0.8% of GDP) in Q1 2026, down by as much as 72% from the same period a year ago. Taking into account the rise in global energy prices spurred by the Middle east conflict, elevated uncertainty in the international environment as well as subdued external demand, the current account deficit is expected to measure around 6% of GDP in 2026, and then edge down to around 4% of GDP in 2027 under the impact of higher services export due to the hosting of the specialised exhibition "Leap into Future – Serbia Expo 2027."⁴

FDI inflow measured EUR 369 mn or 1.7% of GDP in Q1 2026. At the same time, net FDI inflow equalled EUR 192 mn. FDI inflow almost entirely related to reinvested earnings and equity capital. FDIs stayed highly diversified in terms of geography and project and are expected to remain so

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



* NBS projection, May 2026
Source: NBS.

² Source: NBS Real Estate Database.

³ Report on the Bank Lending Survey, Q1 2026.

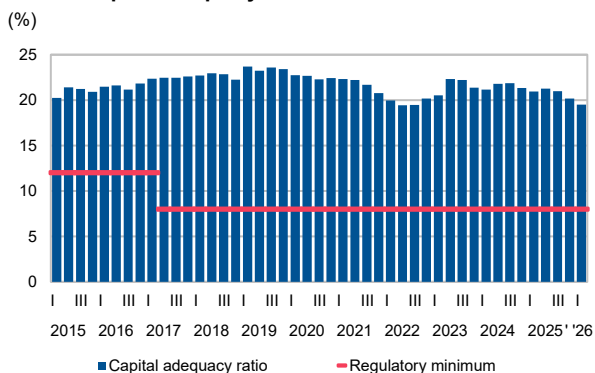
⁴ Inflation Report, May 2026.

going forward. Also, the bulk of FDIs will likely continue to be channelled to export-oriented sectors. Estimates place FDIs at around 3% of GDP in the coming years.⁵

Main banking sector indicators

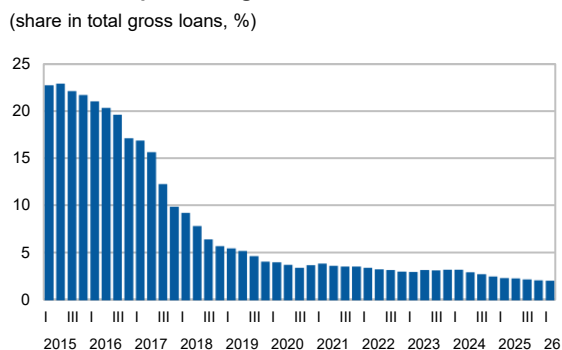
The banking sector is stable, well capitalised, highly liquid and profitable. At end-Q1 2026, the capital adequacy ratio at the banking sector level was 19.5%, well above the regulatory minimum.⁶

Chart 5 Capital adequacy ratio



Source: NBS.

Chart 6 Non-performing loans



Source: NBS.

At end-Q1 2026, the loan-to-deposit ratio (LtD) measured 0.86. The sustained value of this indicator at levels below 1 means that banks largely rely on domestic, stable sources of funding, such as deposits.

The share of NPLs in total banking sector loans continued to subside despite the polycrisis in the previous period, and in March 2026 it contracted to an all-time low (2.1%). Since August 2015, when the NPL Resolution Strategy was adopted and numerous measures were taken to reduce NPLs, the share of NPLs decreased by 20.2 pp. At end-Q1 2026, the share of NPLs in total loans remained unchanged q-o-q, while in y-o-y terms it decreased by 0.2 pp. The share of NPLs in total loans dropping to a record low indicates that the previous tightening of financial conditions did not have a major negative effect on the quality of bank assets and that the NBS measures were timely and adequate.

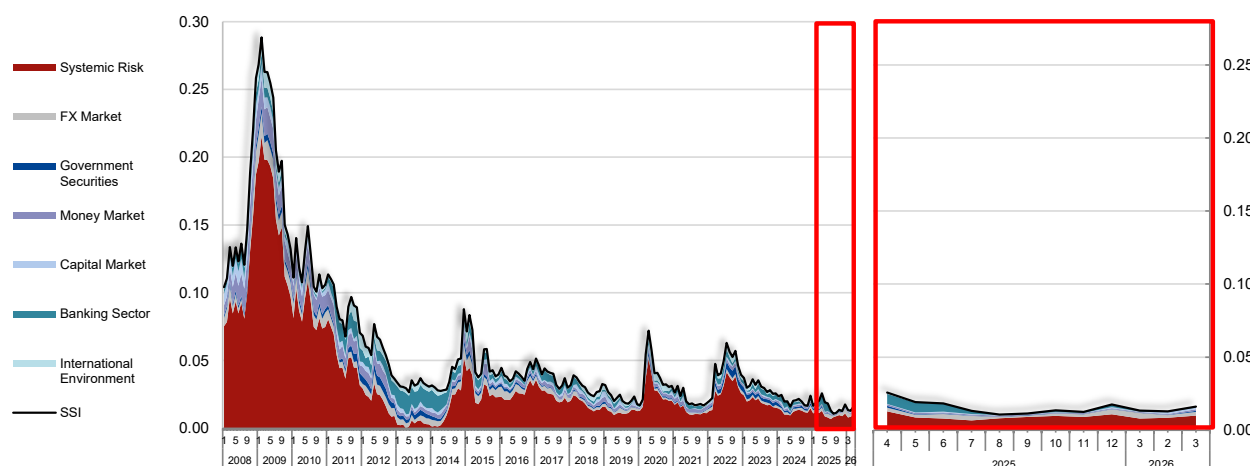
⁵ *Inflation Report*, May 2026.

⁶ Since 30 June 2017, the minimum CAR is 8% (minimum core capital ratio is 6% and minimum Common Equity Tier 1 capital ratio 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.

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 2026, the SSI was slightly lower than at end-Q4 2025.

In late January 2026, Fitch Ratings affirmed Serbia's rating at BB+, with a positive outlook for investment-grade rating. In late February 2026, Moody's affirmed Serbia's credit rating at Ba2, with a stable outlook. In mid-March 2026, Standard&Poor's published its periodic review for Serbia's credit rating, which has been at BBB- investment grade with a stable outlook since October 2024, for the first time in Serbia's history. The report underscored the solid medium-term GDP growth prospects despite geopolitical uncertainties in the international environment and the oil price hike, as well as improved external and fiscal position and the built-up buffers providing a strong backstop against potential shocks.

The NBS will remain cautious and will make timely decisions with a view to preserving and strengthening the 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 solvency and liquidity macroprudential stress tests.