National Bank of Serbia

Macroeconomic Developments and Financial Sector Movements in Serbia

May 2025

Sustained Macroeconomic Stability

- Despite the multidimensional crisis, Serbia has shown resilience, as evidenced by cumulative real GDP growth which is over 18% higher at the end of 2024 compared to the pre-pandemic level, record inflows of FDI, continued growth of private sector employment and wages, as well as FX reserves at an adequate level.
- Inflation returned to the target tolerance band in May 2024, and in recent months has stabilized around the upper bound of the target, and in April slowed down to 4.0% y/y. We expect the declining inflation trajectory to continue in the upcoming period. By the end of the year, inflation should approach the central value of the target, where it will remain until the end of the projection period.
- According to our new projection, the GDP growth this year will amount to 3.5%, while for the next two years we project that it will be in the range of 4-5%, while in 2027, due to the realization of the specialized international exhibition “EXPO", we expect it to be closer to the upper limit of the range.
- In 2024, the current account deficit amounted to about EUR 5.2 bn, but it was fully covered by the inflow of FDI (EUR 5.2 bn). The deficit growth was driven by faster growth in imports of goods and services than exports, due to the needs of the investment cycle and higher disposable household income. Similar trends have continued this year, and the current account deficit amounted to EUR 1.4 billion in Q1 2025.
- Due to product and geographic diversification and mostly export-oriented investments, Serbia's exports showed resilience despite the decrease in demand from the EU and the region and in 2024 grew by 4.8% y/y. In Q1 2025 export of good and services rose by 5.1% y/y.
- After last year's growth in formal employment of 0.4%, it stagnated in Q1 2025, with a slight growth in the private sector (0.1% y/y). According to the Labor Force Survey, the unemployment rate in 2024 was 8.6% (0.8 pp lower than in 2023). The real growth in average wages in the period January-February 2025 was 6.2%.
- In 2024, a general government deficit of 2.0% of GDP was realized, while in the first quarter of 2025, a deficit of 28.6 billion dinars was recorded. The share of central government public debt in projected GDP at the end of March 2025 was 44.3% and lower by 2.9 pp compared to the end of 2024.
- In October, the Standard & Poor's agency increased the credit rating of Serbia to the level of investment grade (BBB-), while Fitch rating agency in January confirmed the positive outlook for a rating upgrade.
- In May 2025, the National Bank of Serbia decided to keep the key policy rate at 5.75% emphasizing that caution is still necessary given the current geopolitical tensions, growing protectionism, and uncertain trade policies in the international environment..
- Banking sector stability has been preserved - the NPL indicator in March 2025 was at historical minimum of 2.3%.

Inflation Has Been Moving in Line With our Projection Since the Beginning of the Year

Chart 1 **CPI developments**

(y/y rates, %) and contributions (pp)

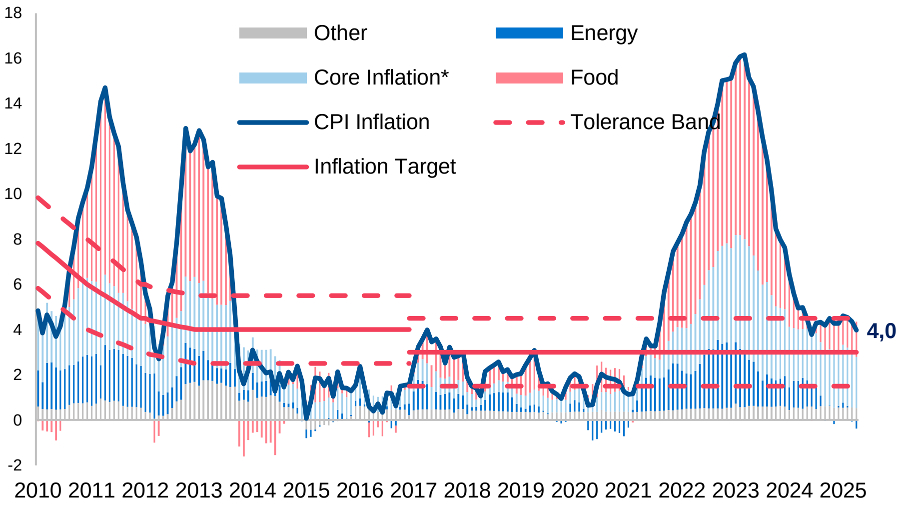
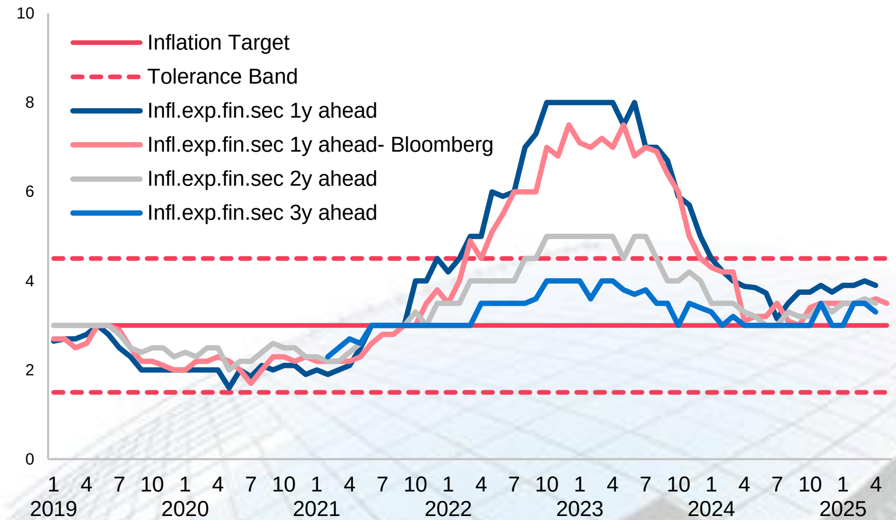


Chart 2 **Inflation expectations of financial sector**

(%)



- In the period before pandemic and energy crisis, inflation averaged around 2%.
- Inflation has been on declining path during H1 2024, and this was driven by a reduction in the contribution of all main components of the CPI.
- In a situation of unfavorable global and domestic weather conditions, inflation stabilized at around 4.3% in the H2 2024.
- In accordance with the NBS projection, inflation in the first months of 2025 moved around the upper bound of the target range, slowing to 4.0% driven by lower prices of oil derivatives and slowing services prices.

- Core inflation continued to move above overall inflation, reaching 5.0% in April which was largely affected by the exclusion from the calculation of last year's increase in the price of mobile telephony.
- One-year ahead inflation expectations of the financial sector are anchored within the target band since the beginning of 2024 and in April amounted to 3.9%, while according to the Bloomberg May survey amounted to 3.5%.
- Medium term expectations of the financial sector have been hovering between 3.0% and 3.5% for a past year.

Expected Slowdown in Inflation Towards the Central Target Value from the Second Half of the Year

Chart 3 **Inflation projection** (May 2025 IR)
(average y/y rates in % per quarter and contributions in pp)

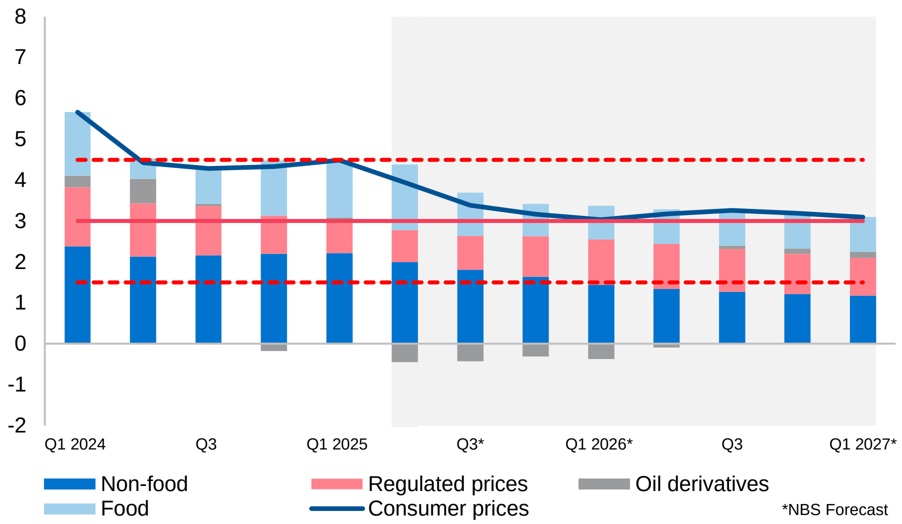
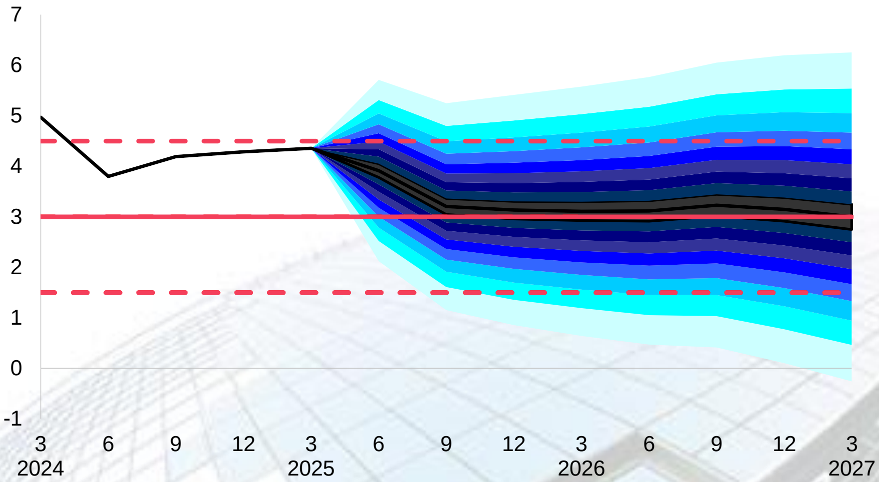


Chart 4 **Inflation projection** (May 2025 IR)
(y/y rates, in %)



- The slowdown in headline inflation will be contributed by still restrictive monetary conditions, the expected lower world energy prices, as well as lower import inflation, and the arrival of the new agricultural season (assuming it is going to be average).
- The downward trajectory of core inflation will also be reflected in the projected movement of real wages in line with productivity growth, which will result in its convergence with overall inflation.

- The key risks to the projection still stem mostly from factors in the international environment, and most from geopolitical tensions, protectionist measures and global growth prospects, as well as their impact on the global prices of energy and primary commodities.
- As for the factors from the domestic environment, the projection risks are mainly associated with to the rate of growth of domestic demand and the effect of new agricultural season.
- Overall, the risks of the inflation projection are assessed as symmetric.

GDP growth in Q1 2025 Slowed to 2% y/y

Chart 5 **Contributions to the GDP growth rate, production side**
(y/y rates in % and contributions to growth, in pp)

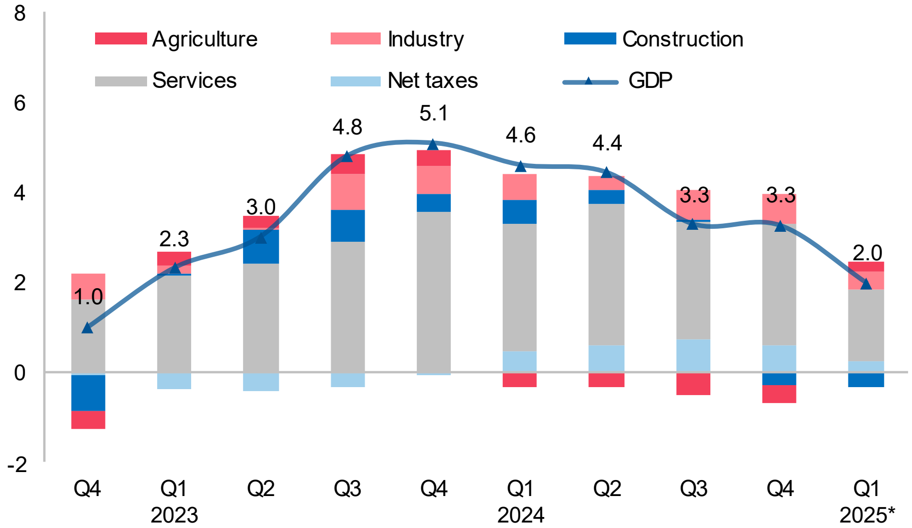
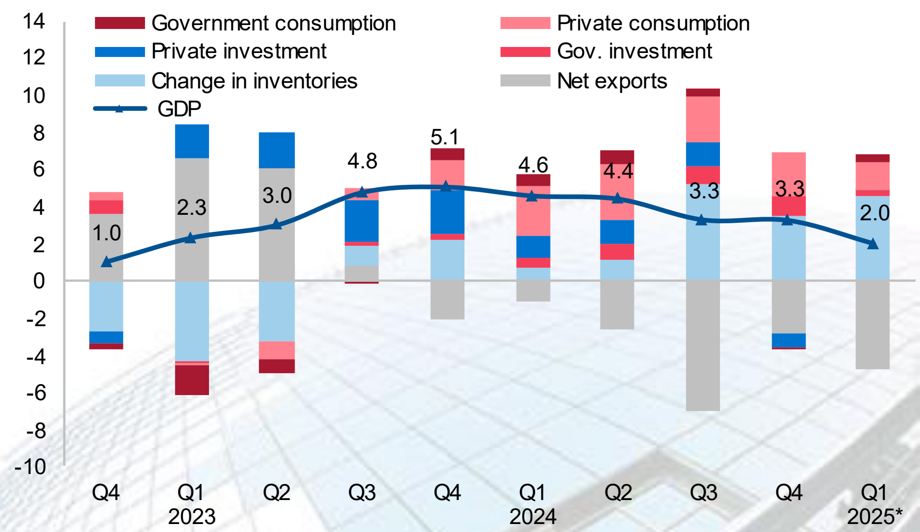


Chart 6 **Contributions to the GDP growth rate, expenditure side**
(y/y rates in % and contributions to growth, in pp)



- In Q1 2025, a real GDP growth of 2% y/y was achieved, according to SORS flash estimate, which is lower compared to our expectation.
- According to our estimate, the largest contribution to GDP growth in Q1 came from the service sectors (1.6 pp). Accordingly, we also estimate a positive contribution from net taxes (0.3 pp).
- Industrial production grew by 2.1% y/y in Q1 (estimated contribution to GDP of 0.4 p.p.), driven by growth in the manufacturing and mining sectors, while electricity production declined on a y-o-y basis (-5.7%). The estimated decline in construction activity was around 5% (-0.3 pp).

- On the expenditure side, we estimate that the largest contribution to growth in Q1 came from household consumption, followed by fixed investment, with a slight positive contribution also coming from government consumption.
- Due to faster growth in imports of goods and services than exports, we estimate that the contribution of net exports was negative.

Projection of GDP Growth in 2025 Amounts to 3.5%, in 2026 and 2027 in the Range of 4% to 5%

Chart 7 **GDP developments**
(y/y growth rates in % and contributions in pp)

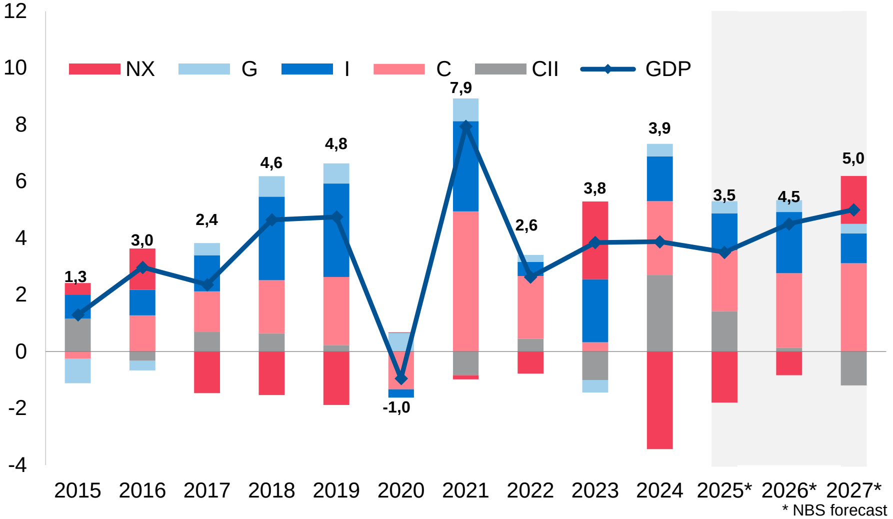
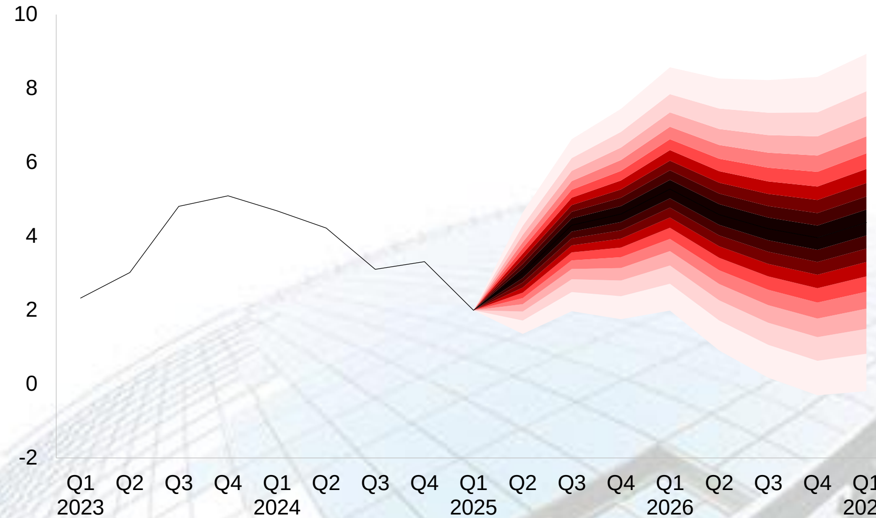


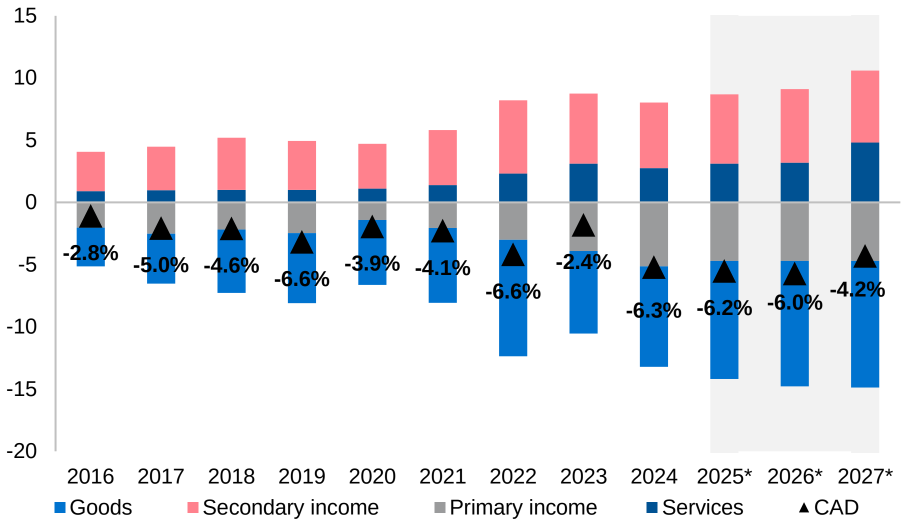
Chart 8 **GDP growth projection** (from May IR)
(y/y growth rates in %)



- Our new GDP growth projection for this year is lower than the February one, which was influenced by the lower economic growth achieved in Q1, problems in the European auto industry, the growth of protectionism in the world, but also unfavorable domestic factors.
- Faster growth in the coming quarters is expected to be driven by positive supply-side factors, namely increased production in the automotive industry and expanded capacities in the energy sector, as well as the implementation of infrastructure projects planned under the program “Leap into the Future”.
- All service and production sectors are expected to contribute positively to GDP growth, assuming that this year’s agricultural season will be average.
- Risks from the international environment concern global economic growth and are more pronounced downwards in the medium term, primarily due to protectionist measures, global uncertainty on this basis, geopolitical tensions, as well as increased uncertainty in financial markets, which could also affect lower investments and consumption.
- Risks to the domestic growth projection also stem from the pace of domestic demand growth and the outcomes of both domestic and global agricultural seasons, with these risks being balanced in both directions.

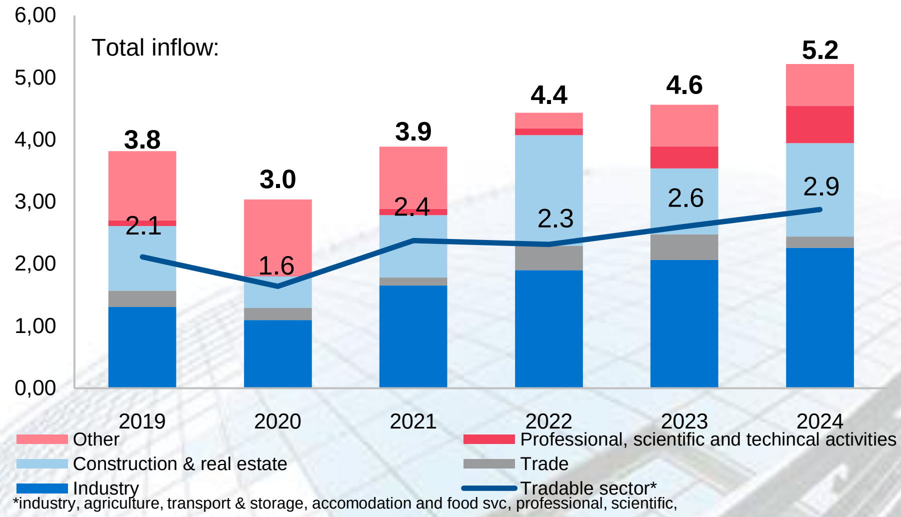
The Current Account Deficit is Expected to Remain at Around 6% of GDP in This and Next Year, Within the Bounds of External Sustainability

Chart 9 **Current account balance by component**
(EUR bn)



- In the first three months of this year, the current account deficit amounted to EUR 1.4 bn, and its growth is a consequence of the increased deficit in the trade account and a slightly lower inflow of remittances.
- We expect CAD to be around 6% of GDP in 2025 and 2026, and then decrease to about 4% of GDP in 2027, influenced by a higher export of services from hosting EXPO exhibition.

Chart 10 **Sector structure of FDI**
(EUR bn)

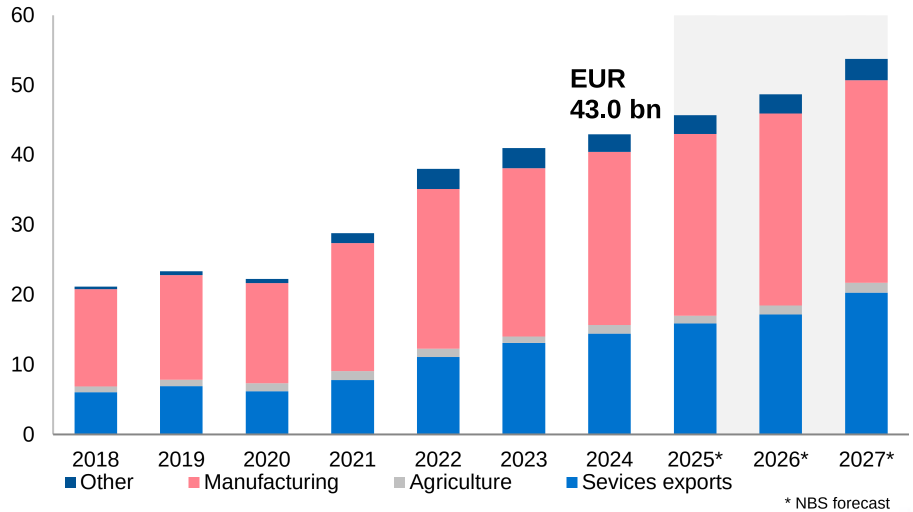


*industry, agriculture, transport & storage, accomodation and food svc, professional, scientific, techincal,inovative, administrative and auxiliary activities .

- Out of a total FDI of EUR 28.4 bn in the period 2018–2024, nearly 60% was directed toward manufacturing sectors, including approximately EUR 7.7 bn into the manufacturing
- In 2023 and 2024, there was also strong growth in FDI in scientific, technical, and innovative activities, which are high value-added sectors.
- In Q1 2025, gross FDI inflow amounted to EUR 704 mln, while net inflow reached EUR 556 mln.
- FDI are geographically diversified, with the largest share coming from the EU, as well as an increasing share from Asian countries.

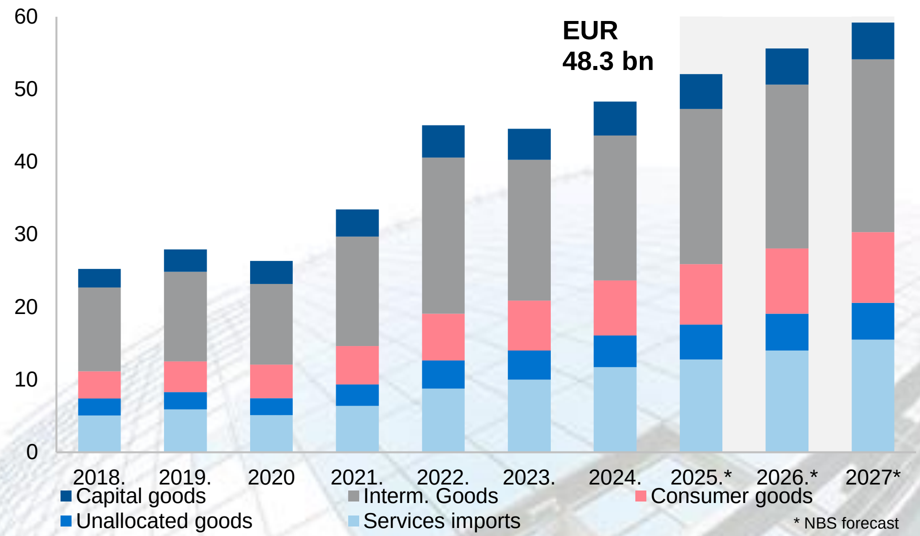
Export Growth will be Driven by Investments From Previous Years and the Recovery of External Demand; the Investment Cycle and Higher Disposable Income will Influence Import Growth

Chart 11 **Exports of goods and services**
(EUR bn)



- Goods exports in 2024. increased by 2.1% y/y, driven by the growth of manufacturing, agriculture and mining sector exports, while the opposite effect was exerted by the decrease in electricity exports, partly due to the high base, and partly due to reduced hydro potential.
- In Q1 2025, goods exports recorded growth of 2.9%, despite weak external demand and problems in the automotive industry in Europe.
- Services exports continued to record high growth rates in Q1 2025 as well (9.8%), driven by the increase in the export of ICT services.

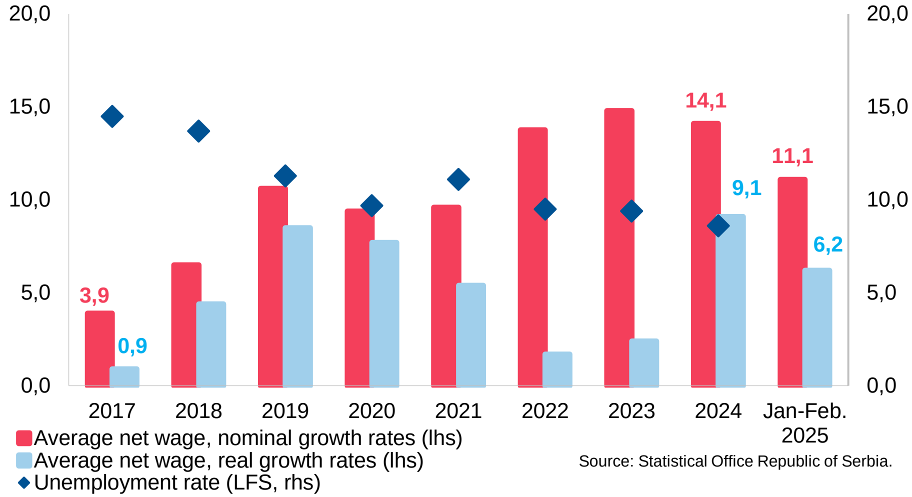
Chart 12 **Imports of goods and services**
(EUR bn)



- In 2024, goods imports increased by 5.9% year-on-year, driven by higher imports of equipment, intermediate products, and consumer goods, while energy imports recorded a decline.
- In Q1 2025, goods imports were 14.5% higher compared to the same period in the previous year, with the largest contribution coming from imports of machinery and consumer goods.
- Service imports in Q1 grew by 8.6% y/y, mainly due to higher tourism and transport services, while, on the other hand, business services imports decreased slightly.

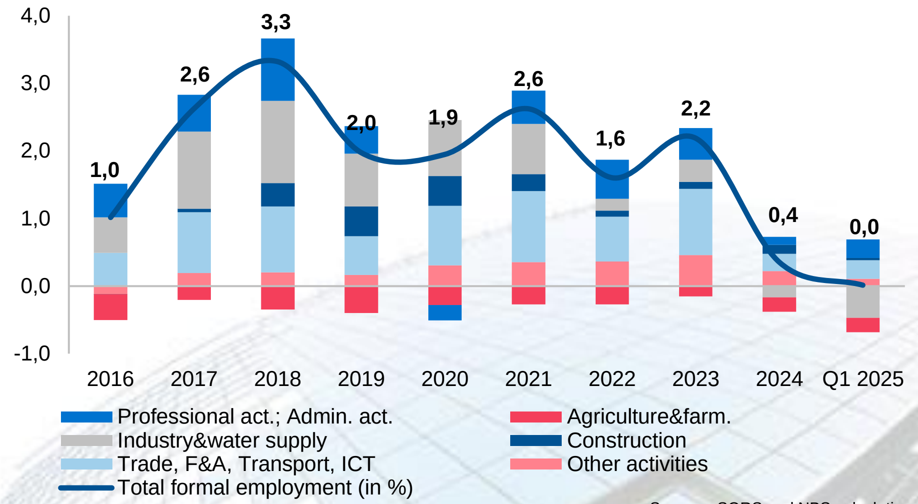
Wage Growth Slowed at the Beginning of the Year, while Formal Employment Stagnated in Q1 2025.

Chart 13 **Nominal net wages by sector, unemployment rate (LFS)**



Source: Statistical Office Republic of Serbia.

Chart 14 **Contribution to y-o-y growth in total formal employment by economic sector** (period average, in pp)



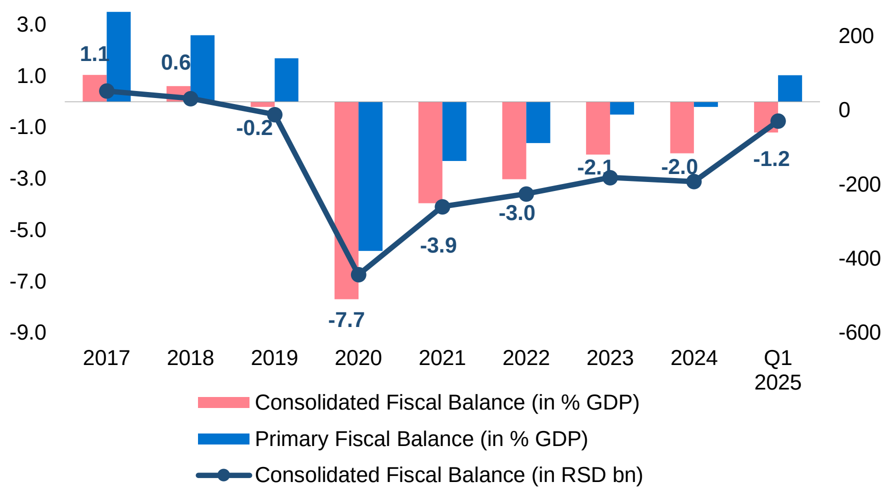
Sources: SORS and NBS calculation.

- The average nominal net wage in January and February 2025 was 105,499 dinars (901 euros), with the growth slowing to 11.1% y/y (real growth to 6.2% y/y).
- The average wage in the private sector was 103,562 dinars (884 euros) and the average wage in the public sector was 110,364 dinars (942 euros).
- According to the Labor Force Survey, the unemployment rate in 2024 was 8.6% (0.8 pp lower than in 2023).

- According to CROSO data, the total number of employees in Q1 2025 was 2,36 mln persons and was almost unchanged compared to the same quarter of the previous year. The number of formally employed persons in the private sector was 1,75 mln persons and increased by about 2 thousand persons (i.e. 0.1% y/y).
- Y/y employment growth is present in 11 out of 19 activities.
- We estimate that productivity growth continued in Q1 2025 due to faster growth of economic activity than employment.

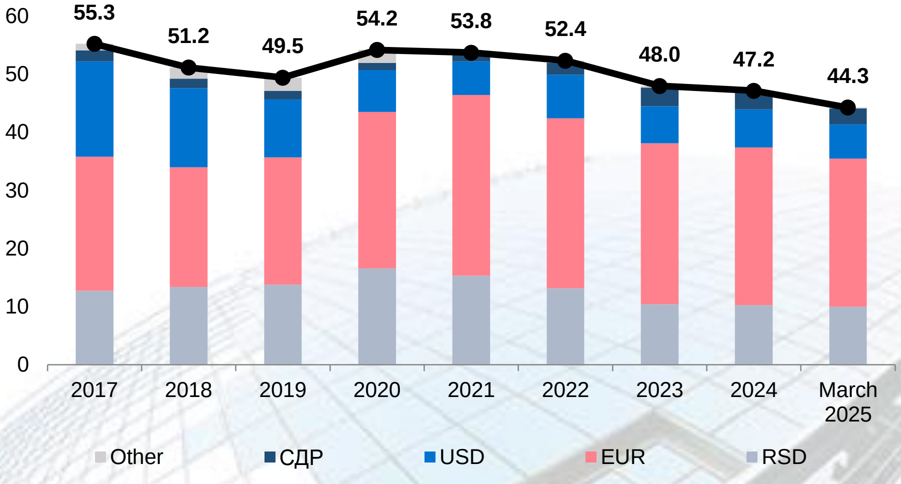
Fiscal Deficit of the State Sector in Q1 2025. 1.2% of GDP

Chart 15 **General government fiscal balance and primary fiscal balance**
(in % of GDP and in RSD bn)



- The fiscal deficit in 2024 amounted to RSD 191.9 billion (2% of GDP), while the primary deficit stood at RSD 23.7 billion.
- In the first quarter of 2025, a fiscal deficit of RSD 28.6 billion was recorded (-1.2% of GDP), along with the primary surplus (1% of GDP).
- Capital expenditures in Q1 2025 amounted to RSD 92.3 billion, slightly lower compared to the same period in 2024.

Chart 16 **Public debt (central government)**
(% share in GDP)



- The share of central government public debt in GDP is on a declining path and is within the Maastricht criteria.
- At the end of March 2025, the share of central government public debt was 44.3% (general government public debt 44.6%).

Key Policy Rate Maintained at 5.75% in May

Chart 17 **Interest rates**
(in %)

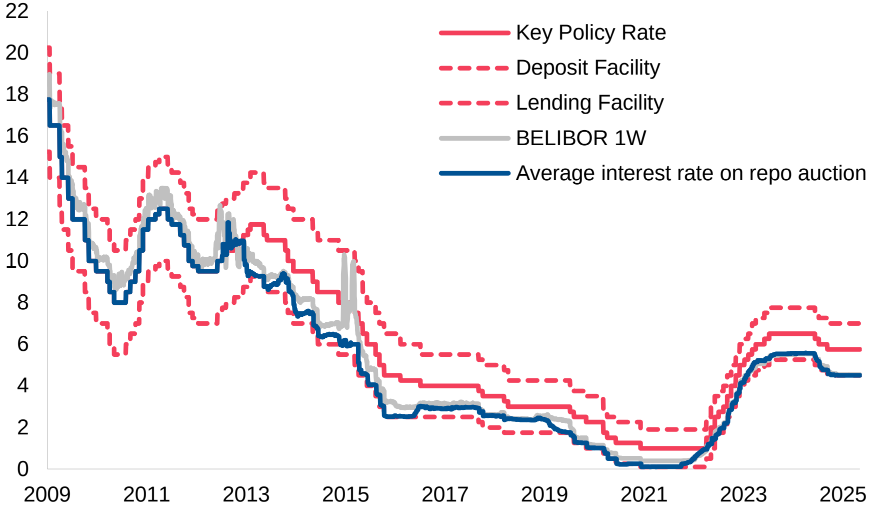
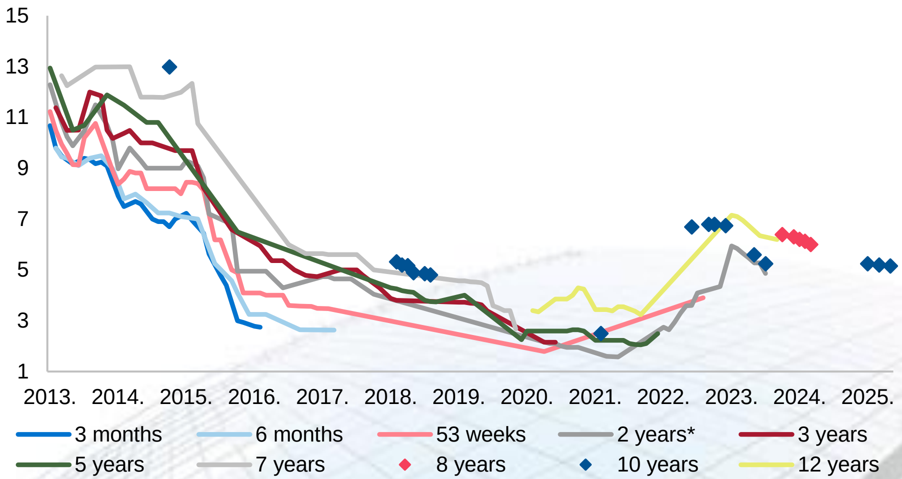


Chart 18 **Interest rates in the primary market of government securities**
(p.a. in %)



Source: Ministry of Finance.
* Excluding coupon securities with the rate linked to the NBS key policy rate.

In making such decision, the Executive Board primarily took into account the following factors:

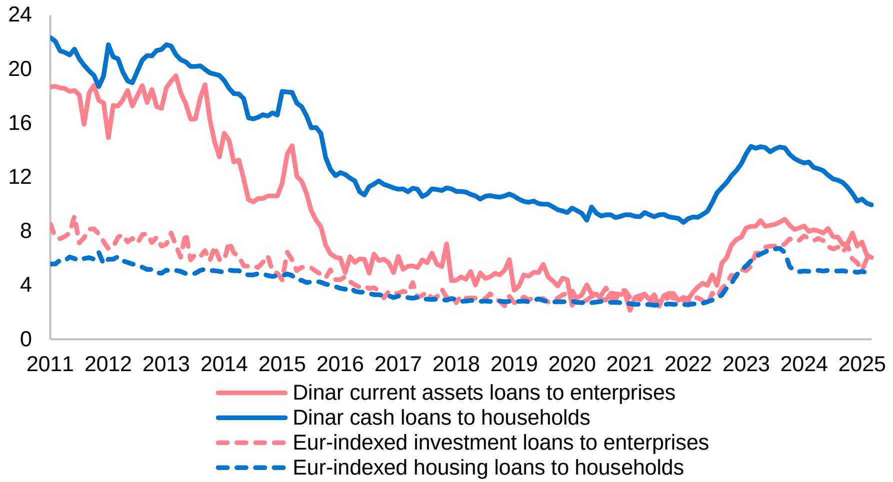
- that though inflation retreated significantly and is moving within target bounds, a cautious momentary policy should still be pursued. Inflation at home greatly depends on developments in global commodity and financial markets which are currently highly volatile amid uncertainty related to trade policies of leading global economies,
- market participants' expectations that the ECB will probably continue to ease its monetary policy, resulting in more favorable terms of euro-indexed borrowing at home.

- The entire portfolio of dinar government securities consists of long-term securities (5+ years).
- In January 2025, the first auction after receiving the investment credit rating was held, for sale, which was the most successful auction to date, based on record sales volume and demand (111.3 billion dinars and 158 billion dinars, respectively). The coupon and execution rates were equalized at 5.25%.
- At the auctions of 10.5-year dinar bonds in March and May, securities were sold in the amount of 40.1 billion dinars at nominal value, with the yield reduced to 5.16%.

Decline in Interest Rates and Credit Activity Acceleration

Chart 19 **Interest rates on loans – new business**

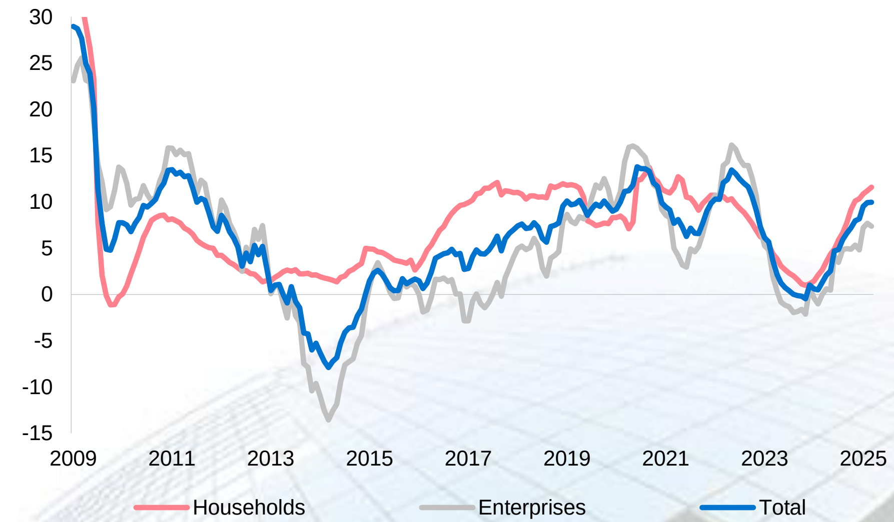
(p.a. in %)



* From September 2010 to December 2014, "Other loans" of the household sector included cash loans and other loans, From January 2015, "Cash loans" are shown separately.

Chart 20 **Bank lending to enterprises and households**

(y/y rates, constant exchange rate 30 September 2024, in %)



- The easing of monetary policy by the NBS and the ECB is reflected in lower interest rates on **new loans** to corporates and households:
  - The interest rate on dinar loans to the corporates in March 2025 equaled to 6.3% (6.9% at end-2024 and 8.3% at end- 2023);
  - The interest rate on dinar loans to households in March 2025 equaled to 9.9% (9.9% at end-2024 and 12.5% at end-2023).
- Interest rates on housing loans have been capped at 5% this year, and restrictions have been introduced on interest rates on other types of loans to households.

- In 2024 total domestic loans increased by 8.2% y-o-y, led by household and corporate lending. That growth was supported by eased credit standards and lower costs of financing. In 2024 and lending to corporates increased by 4.8% and loans to households by 10.4%, with pronounced growth of dinar loans.
- In Q1 2025 total domestic loans accelerated y-o-y growth further to 10.0% in March, with loans to households accelerating to 11.4% while loans to corporates increased by 7.4% y-o-y.

Serbia Received an Investment Grade Rating in October 2024, as a Result of Strengthening Macroeconomic Fundamentals

Table 1. **Changes in Credit Ratings and Outlooks**

	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)]	

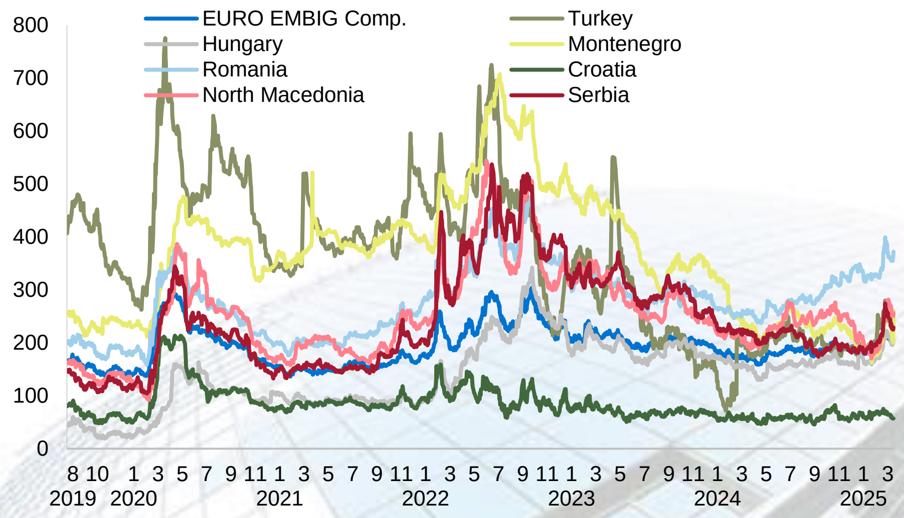
Source: NBS.

[1)] March, [2)] April, [3)] May, [4)] June, [5)] August, [6)] Октобар, [7)] December.

Note: There was no change in rating/outlook in 2023.

Chart 21 **Risk premium indicator for euro-denominated debt - EURO EMBIG**

(basis points, daily values)



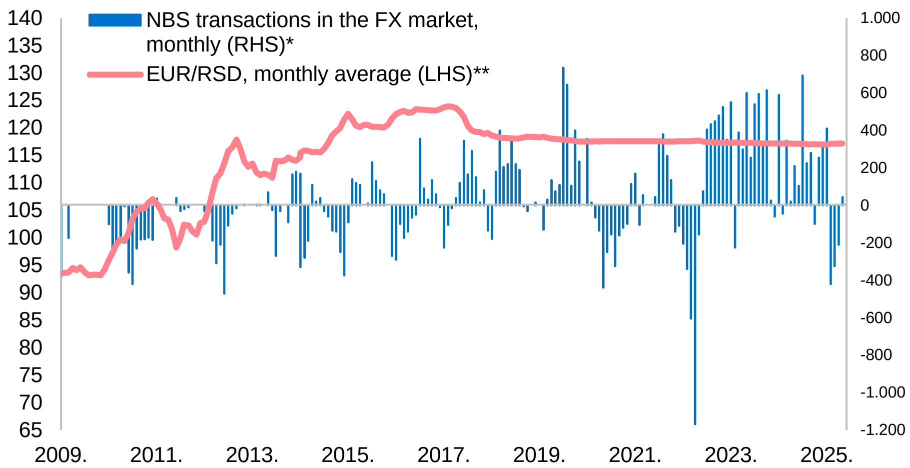
- **In October, the rating agency Standard & Poor's upgraded Serbia's credit rating to investment grade (BBB-)**. Additionally, the agency Fitch confirmed Serbia's credit rating at BB**+** in January 2025, with a positive outlook, while the agency Moody's maintained Serbia's credit rating at Ba2 in August 2024, with an improved outlook to positive.
- Key factors contributing to the favorable credit rating include high real GDP growth compared to the pre-pandemic level, doubled foreign exchange reserves, a significant reduction in the share of public debt in GDP, as well as the responsible management of monetary and fiscal policies.

- After following a predominantly downward trend over the past two years, driven by the easing of global financial conditions and the strengthening of domestic macroeconomic fundamentals, Serbia's risk premium has moderately increased since the beginning of the year.
- The increase in Serbia's risk premium is primarily the result of heightened global uncertainty due to rising protectionism. Compared to the end-2024, Serbia's euro-denominated bond risk premium was higher by 35 basis points at the end of April, reaching 229 basis points.

Relative Stability of Exchange Rate Has Been preserved, With FX Reserves at High Levels

Chart 22 **Exchange rate developments and NBS transactions in the FX market**

(EUR/RSD lhs, in mm EUR rhs)

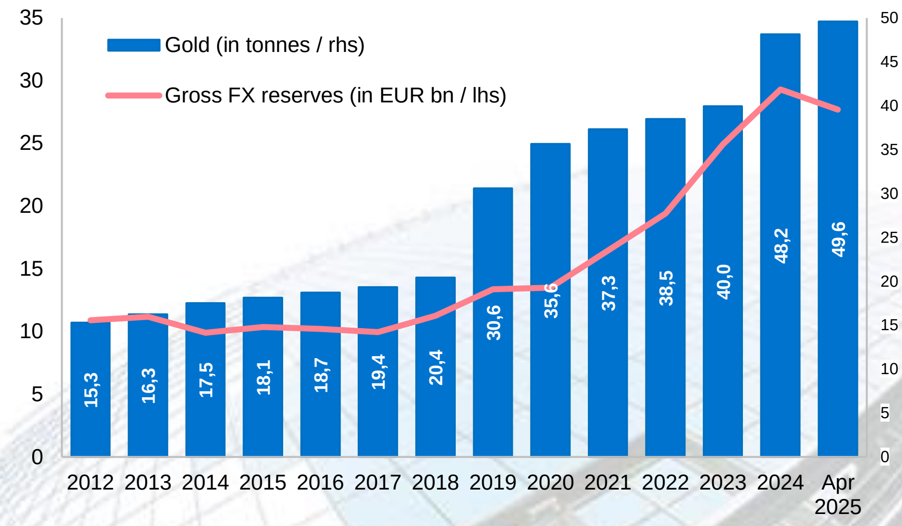


* + net purchase; - net sale.

** EUR 1 in RSD.

Chart 23 **NBS FX reserves**

(in EUR bn, in tonnes)



- The dinar gained 0.1% against the euro in 2024, while NBS net purchased EUR 2.725 bn in the IFEM.
- The depreciation pressures on the dinar prevailed throughout Q1 2025, mainly fuelled by seasonal hike in FX demand, mostly by domestic companies in the energy sector. Those pressures weakened gradually over Q1, while in April appreciation pressures gained ground.
- Over four months of 2025, the dinar lost 0.2% against the euro, while the NBS in that period (including the net purchase in April) net sold EUR 910.0 mn in the IFEM.
- After reaching record high of EUR 29.3 bn in end-2024, gross NBS FX reserves declined in four months of 2025 and amounted to EUR 27.7 bn in April.
- Such level of FX reserves covers around seven months' worth of goods and services imports and around 170% of M1 money supply, which is far above the adequacy standards.
- Since 2012 the quantity of gold has been increased by over three times.

Dinarisation of the Financial System on an Upward Trajectory

Chart 24 **Reserve requirement ratios**
(in %)

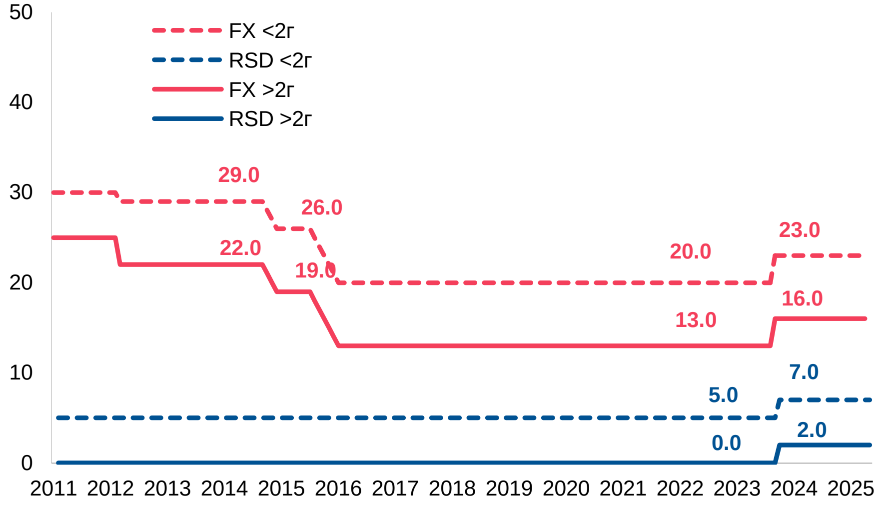
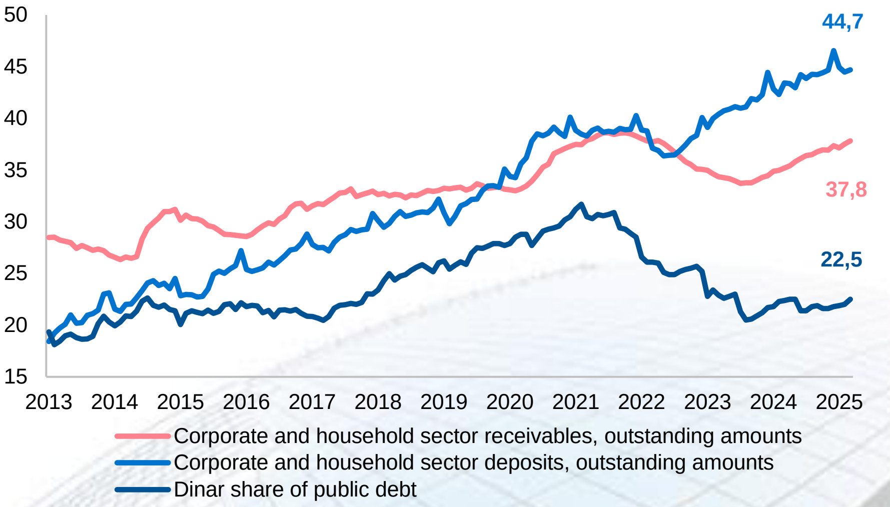


Chart 25 **Dinarisation of the corporate and household sector receivables and deposits, and dinar share of public debt**
(in %)



NBS stimulates the dinarisation process by delivering low and stable inflation in medium-term, preserving relative exchange rate stability and using other measures to stimulate dinar source of finance.

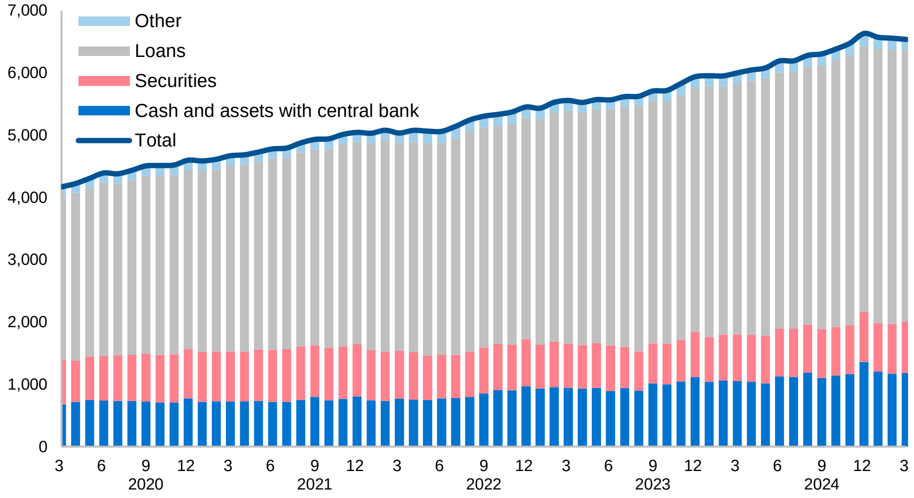
NBS increased required reserves (RR) in September 2023:

- FX RR rates by 3 pp (to 23%/16% for liabilities with the contracted maturity of below and over 2Y, respectively), while increasing dinar allocations of FX RR by 8 pp (to 46%/38%, depending on maturity of liabilities).
- the RSD RR rate by 2 pp each (to 7% and 2%, depending on maturity of liabilities).

- The dinarisation of households' receivables had a marked growth trend - from 35.1% (2012) to 55.5% (March 2025). This resulted in an increase of dinarisation of corporates and households' receivables to 37.8% in March (by 9.8 p.p. more compared to the end of 2012).
- Dinar savings have increased by almost 40% during 2024, and rising trend continued in 2025 as well, as it amounted RSD 192.7 end-April. With the share of dinar deposits with the corporates of close to 61%, the dinarisation of the deposits of the corporates and households increased by 25.4 p.p. compared to the end of 2012 and in March 2025, it was 44.7%.

Traditional Banking
Mostly Financed by Domestic Deposits

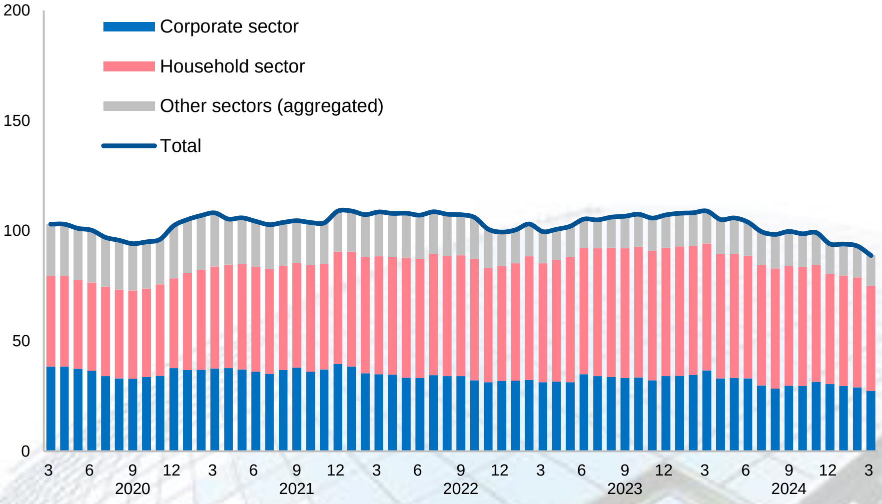
Chart 26 **Structure of banking sector assets**
(RSD bn)



Source: NBS

- Risk aversion during the earlier periods' crisis led to intensified banks' investments in low-risk government securities. The share of securities in total net assets of the banking sector stabilized since 2015 and was 12.6% at the end of March 2025.
- Retail and corporate deposits dominate the liabilities' structure and at the end of March 2025 were 45% and 32%, respectively.
- There is currency matching of assets and liabilities, given that the net open foreign exchange position accounts for only 1.5% of regulatory capital at the end of March 2025.

Chart 27 **Asset quality – Non-performing loans (NPL)**
(RSD bn)

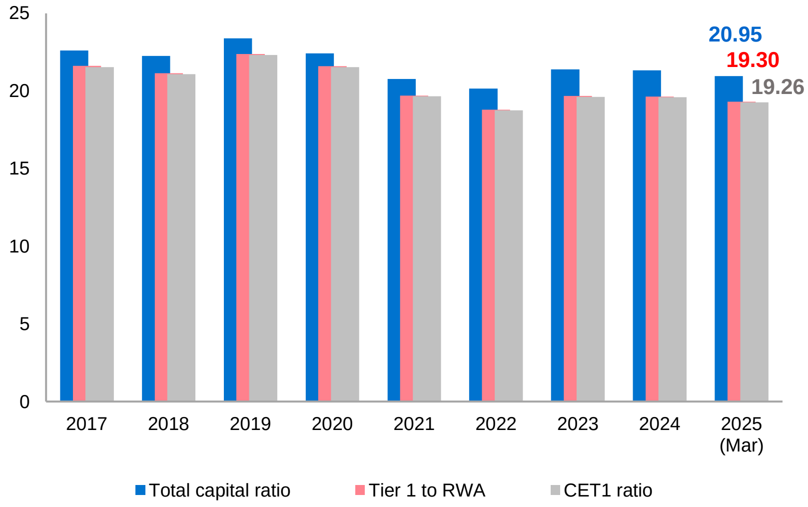


Source: NBS

- Successful implementation of NPL Resolution Strategy and other measures led to a significant decrease of NPL stock in bank's portfolios and reduced NPL ratio to its historical minimum of 2.3% at the end of March 2025.
- At the end of March 2025, the largest portion of outstanding gross NPLs related to the household sector (53.6%) and corporate sector (30.8%).
- The main channels of NPLs' reduction are repayments, write-offs, and transfer (sale) to third parties.

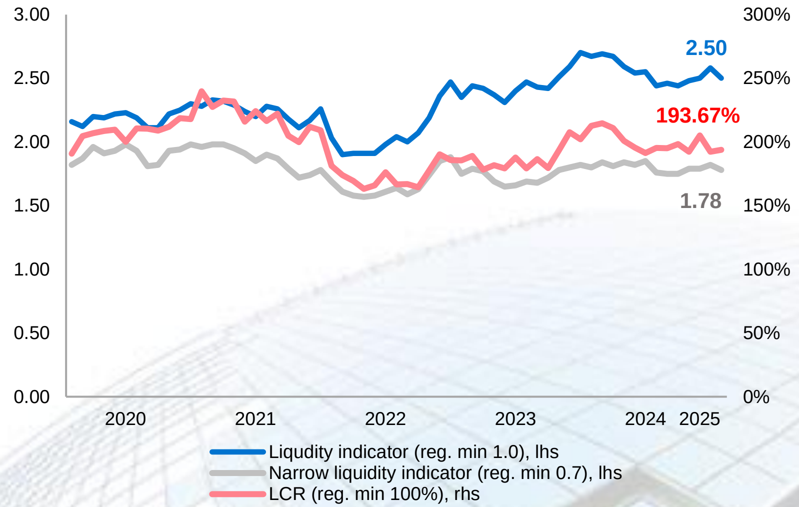
Conservative Framework Contributed to the Banking Sector Resilience to Shocks

Chart 28 **Capitalization of the Serbian banking sector**
(%)



Source: NBS

Chart 29 **Liquidity indicators of the Serbian banking sector**



Source: NBS

- High banking sector capitalization is a result of strong prudential measures.
- Banks have built significant capital reserves which enable them to successfully cover risks even in the case of worst-case stress scenario.
- The highest quality CET1 capital makes more than 90% of total banking sector regulatory capital.
- The high solvency of the banking sector is also indicated by the leverage ratio which was 10.0% at the end of March 2025.

- Serbian banking sector is highly liquid - all relevant liquidity indicators are at levels significantly higher than the prescribed minimums.
- Liquid assets made 44.1% of the total net assets of the banking sector in March 2025.
- The loan to deposit ratio for non-financial customers was 76.1% at the end of March 2025, which is another indicator of the stable funding structure and banking sector's liquidity.

Structural slides

National Bank of Serbia

Capital, Labour and TFP

Chart 30. **Fixed investment share in GDP**
(nominal terms, in % of GDP)

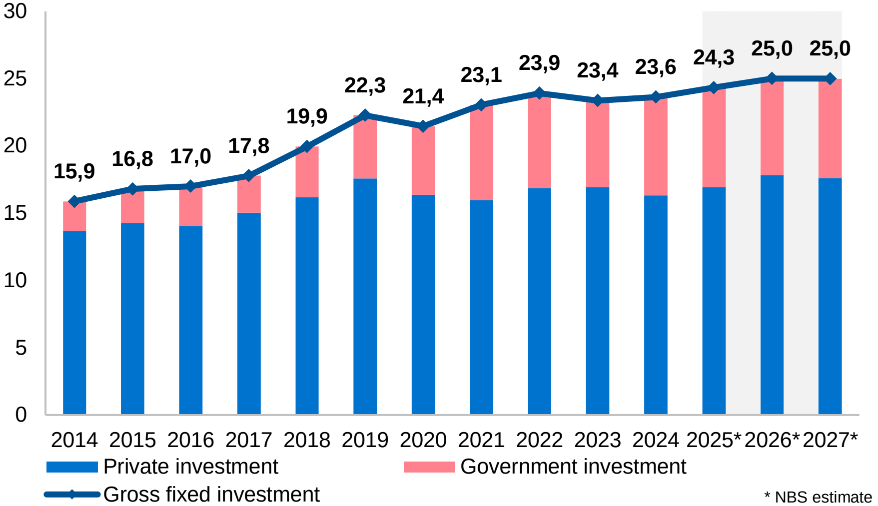


Chart 31. **Key sources of investment financing**
(in EUR mln)

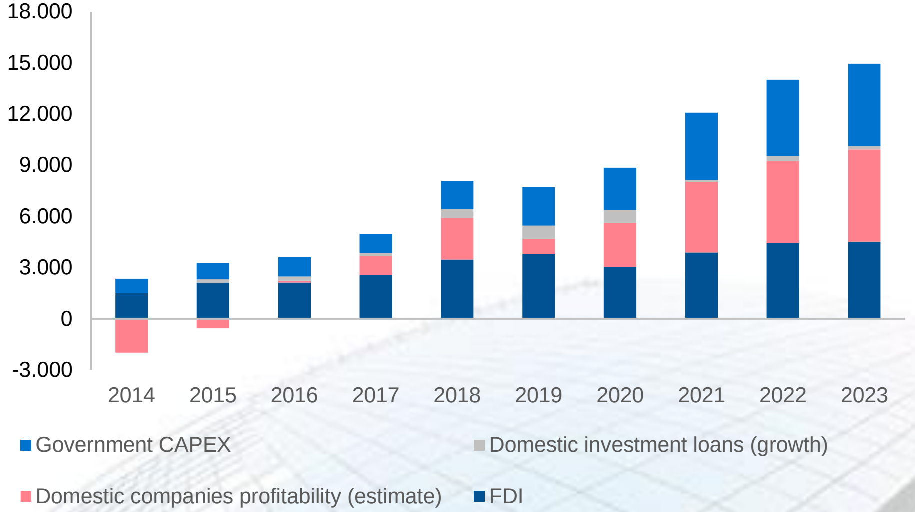
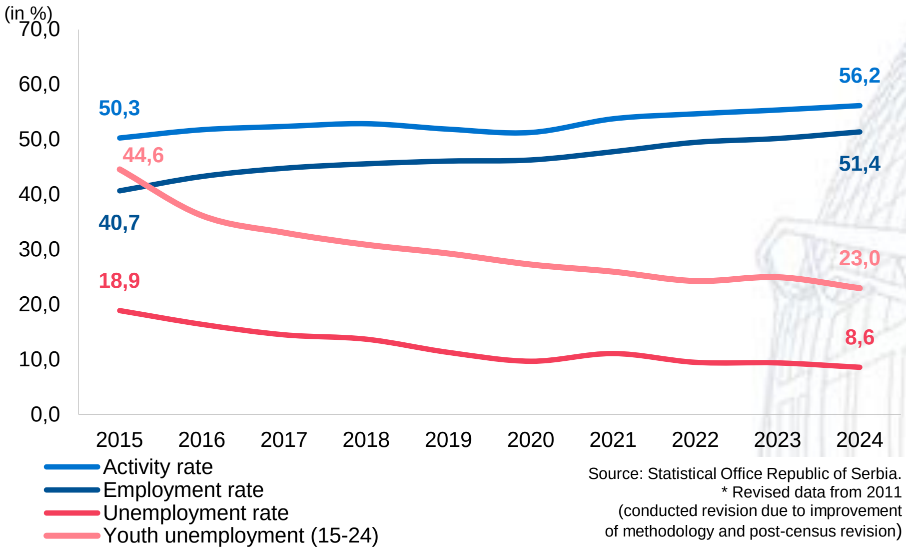
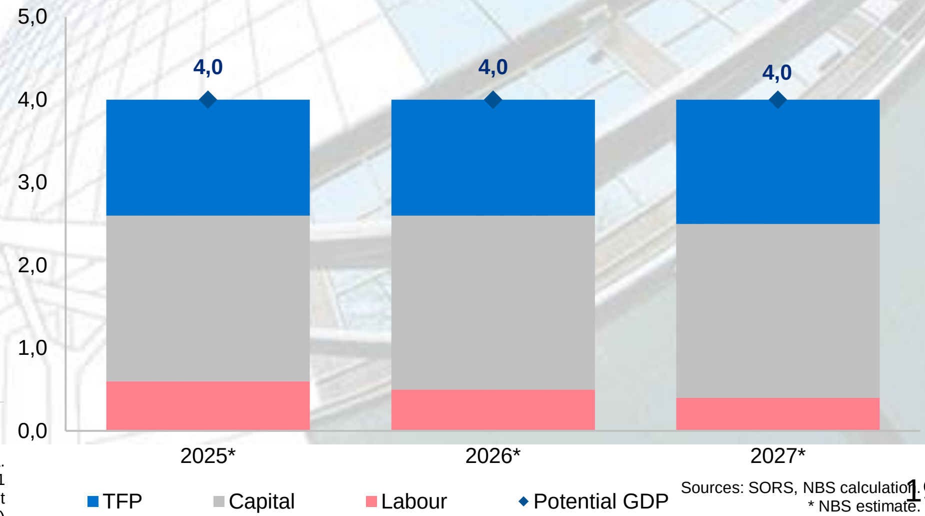


Chart 32. **Labour market indicators according to the Labour Force Survey***



Source: Statistical Office Republic of Serbia.
* Revised data from 2011
(conducted revision due to improvement
of methodology and post-census revision)

Chart 33. **Contribution of factors of production to GDP***
(in pp, period average)



Sources: SORS, NBS calculation.
* NBS estimate.

Geographic Structure of Foreign Trade

Chart 34 **Goods exports by country in 2024 / 2023**
(EUR mn and % of total)

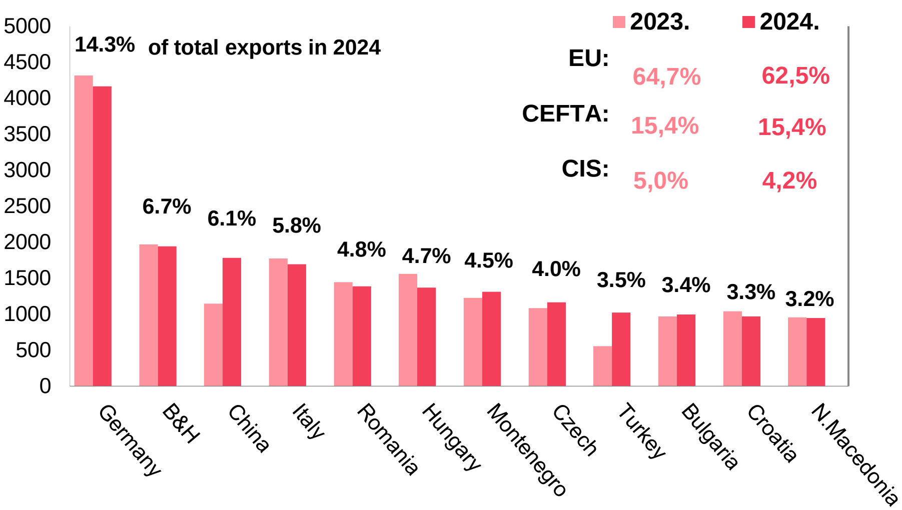


Chart 35 **Goods imports by country in 2024 / 2023**
(EUR mn and % of total)

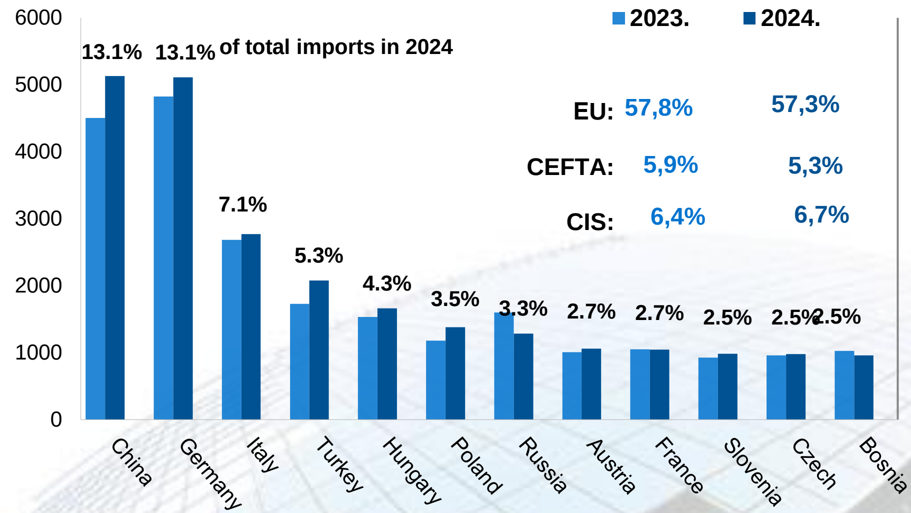


Chart 36 **Services exports by country in 2024 / 2023**
(EUR mn and % of total)

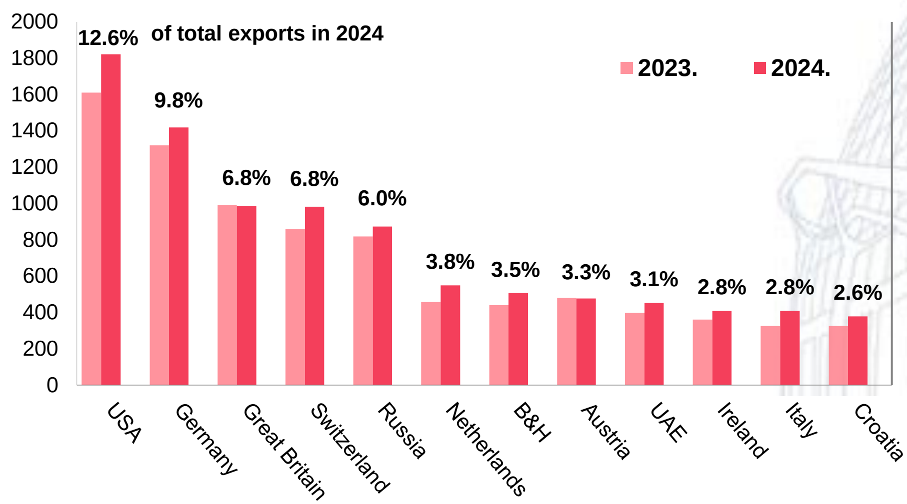
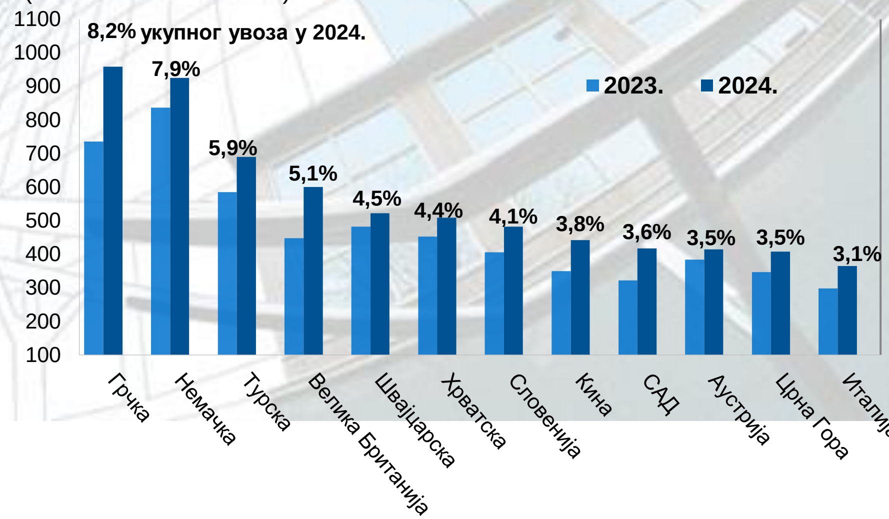
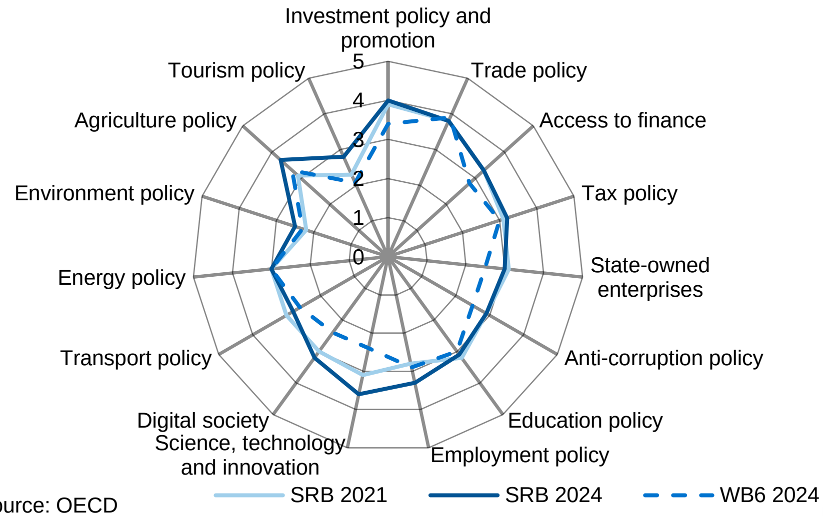


Chart 37 **Services imports by country in 2024 / 2023**
(EUR mn and % of total)



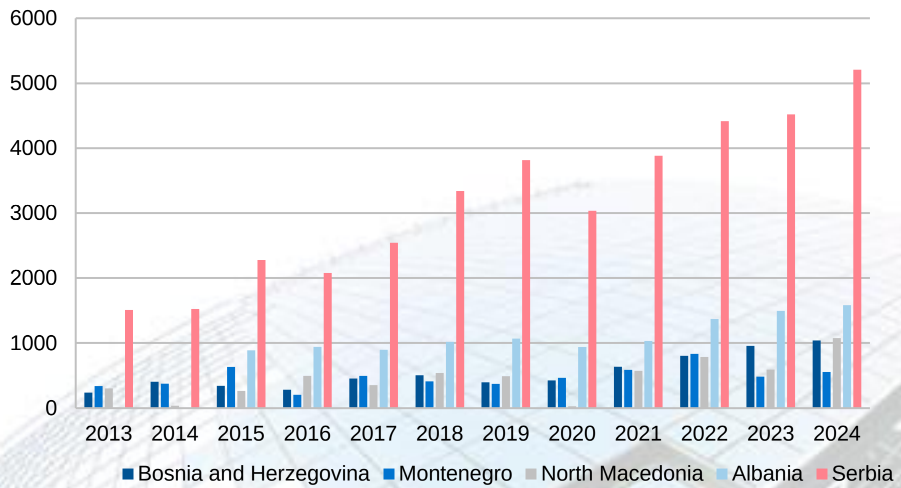
Competitiveness and FDI

Chart 38. **Serbia's Competitiveness Outlook performance**
(scores, 5 is the highest)



Source: OECD

Chart 39. **FDI inflow, by country**
(in EUR mn)



Source: Eurostat

- The rise in Serbia's competitiveness is confirmed by OECD Western Balkans Competitiveness Outlook 2024.
- Comparing to 2021 report Serbia made progress in 8 out of 15 policy dimensions
- Serbia made the biggest improvements in policy dimensions of agriculture, science, technology and innovation and employment.
- Serbia is outperforming the average of Western Balkans across 13 policy dimensions.

- Some of the main achievements:

– strong progress in improving transport infrastructure, particularly for rail transport, increased broadband connectivity, established an intraday electricity market;

– reginal leader in attracting FDI and in trade, with increasing high-value-added exports, efficient tax administration;

– significant advancement in digital transformation (i.e. expanding e-government services, national open data portal is the most advanced platform, introduction of new technologies including AI).

New Law on the Protection of Financial Service Consumers limited interest rates on loans to natural persons

- ***Housing loans:***
  - **until 31 December 2025:** A nominal interest rate higher than 5% may not be **applied** to **existing** and **new** housing loans with a **variable** interest rate, and a nominal interest rate higher than 5% may not be **contracted** for **new** housing loans with a **fixed** interest rate.
  - **from 1 January 2026 to 31 December 2027:** A nominal interest rate higher than the **weighted average** interest rate for **existing** housing loan agreements with a **variable** interest rate in the same currency (indexation) **increased by 1/5** may not be **applied** to housing loans with a **variable** interest rate. A nominal interest rate higher than the **weighted average** interest rate for **new** housing loan agreements with a **fixed** interest rate in the same currency (indexation) **increased by 1/5** may not be **contracted** with respect to housing loans with a **fixed** interest rate.
  - **as of 1 January 2028:** A nominal interest rate higher than the **weighted average** interest rate for **existing** housing loan agreements with a **variable** interest rate in the same currency (indexation) **increased by 1/4** may not be **applied** to housing loans with a **variable** interest rate. A nominal interest rate higher than the **weighted average** interest rate for **new** housing loan agreements with a **fixed** interest rate in the same currency (indexation) **increased by 1/4** may not be **contracted** with respect to housing loans with a **fixed** interest rate in the same currency (indexation).
  - At the time of **concluding** the housing loan agreement, the **EIR** may not exceed the **default interest rate referred to in Art. 11** of the Law **reduced by 2.5** p.p.
- ***Other loans:*** In the case of loans with a **variable** interest rate, a nominal interest rate higher than the **weighted average** interest rate for **existing** contracts of the same type, in the same currency (indexation) **increased by 1/4** may not be **applied**. At the time of **concluding** these agreements, the **EIR** may not exceed the **default interest rate referred to in Art. 11** of the Law **increased by 4** p.p.
- ***Credit cards:*** At the time of **concluding** the contract, the **EIR** may not exceed the **default interest rate referred to in Art. 11** of the Law **increased by 6** p.p., while the **nominal** interest rate on contracts **concluded before the beginning of the application of Art. 76** of the Law may not exceed the **default interest rate referred to in Art. 11** of the Law **increased by 6** p.p.
- ***Overdrafts:*** At the time of **concluding** the contract, the **EIR** may not exceed the **default interest rate referred to in Art. 11** of the Law **increased by 8** p.p., while the **nominal** interest rate on contracts **concluded before the beginning of the application of Art. 76** of the Law may not exceed the **default interest rate referred to in Art. 11** of the Law **increased by 8** p.p.

Regulatory Assumptions for Numerous Repayment Reliefs

- **Amendments to the regulations under the jurisdiction of the NBS enable the implementation of the state housing loan program for young people**

  - ✓ When approving loans under this program, banks can apply an LTV (loan to value) limit of 99% (when financing the purchase of a residential property from the loan, the client’s participation can be 1%), as well as a lower risk weight of 35% to housing loans for the purchase of first residential property approved under the state support program for young people.

- **Reliefs to other housing loans clients that are purchasing their first residential property (permanent relief)**

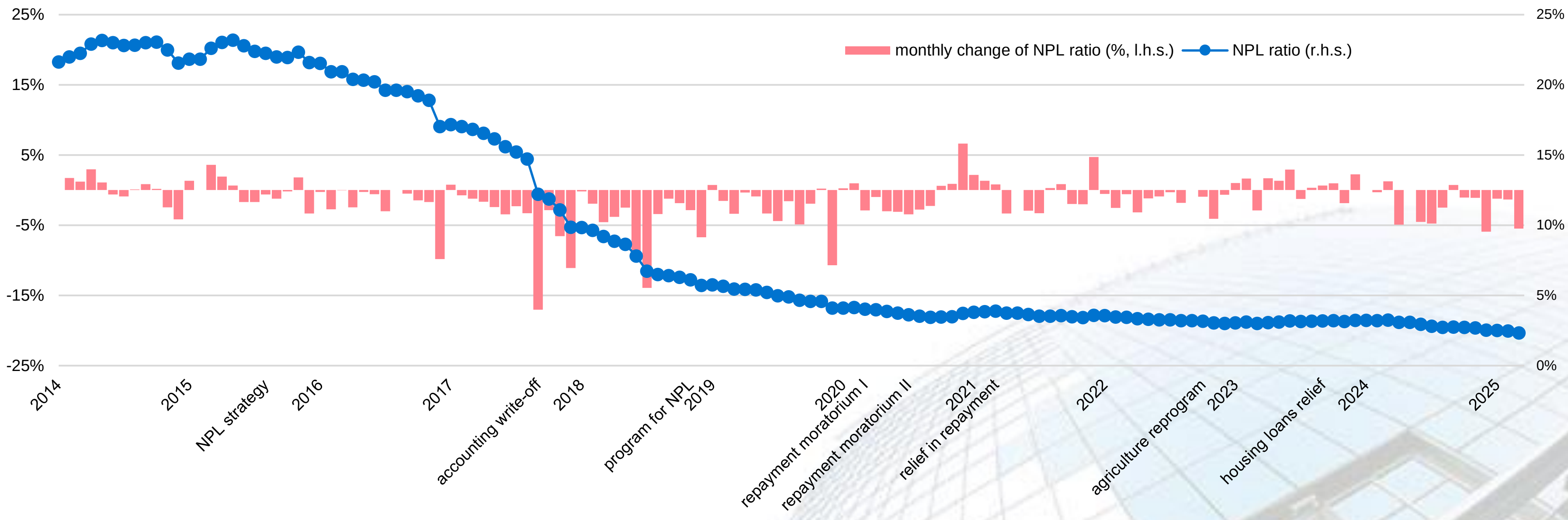
  - ✓ Lower risk weight can be attributed to exposures to natural persons secured by residential property where the amount of loan is up to 90% of the value of mortgaged residential property, which encourages banks to approve housing loans with a lower participation.

- **Reliefs for cash, consumer and other general-purpose loans**

  - ✓ Approval of consumer loans up to 90,000 dinars under the simplified procedure (validity of the measure extended until the end of June 2025)
  - ✓ One restructuring of cash, consumer and other general-purpose loans to individuals enabled without consequences for the bank's capital (introduced in December 2022 as a permanent measure)

Successful Implementation of Measures and Sustainability of Achieved Results - NPL Indicator

Chart 40 **NPL Ratio** (%)



Source: NBS

- The decrease in NPL ratio by 20.85 p. p., from record high of 23.18% in May 2015 to record low of 2.33% in March 2025 is the result of a systematic approach, timely implementation of adequate measures and sustainability of achieved results.

- The most prominent measures and regulations that contributed to NPL reduction were:
  - *Strategy for NPL Resolution* (for the period 2015-2018)
  - *Decision on accounting write-off of the bank's balance sheet assets* (in force since September 2017)
  - *Program for NPL Resolution* (for the period 2018-2020)

Capital Buffers – Implementation of Macroprudential Policy Measures

- Capital buffers increase the resilience of banks to losses, reduce excessive or underestimated exposures and restrict the distribution of capital.
- These macroprudential instruments should limit systemic risks in the financial system, which can be cyclical (capital conservation buffer and countercyclical capital buffer) or structural (capital buffer for a systemically important bank and systemic risk buffer).
- The following capital buffers are used in the Republic of Serbia:
  - Capital conservation buffer;
  - Countercyclical capital buffer, in order to mitigate and prevent excessive credit growth;
  - Capital buffer for a systemically important bank, with the objective to limit the systemic impact of misaligned incentives in terms of favoring certain financial institutions;
  - Systemic risk buffer, introduced to limit the risk of euroisation, one of the key structural non-cyclical systemic risks to the stability of the financial system of the Republic of Serbia.
- The capital conservation buffers may consist only of Common Equity Tier 1 capital equal to 2.5% risk-weighted assets for capital conservation buffer, 1% or 2% risk-weighted assets for capital buffer for systemically important banks, depending on the systemic importance level and 3% of total foreign currency and foreign currency-indexed placements of a bank approved to corporates and households in the Republic of Serbia for systemic risk buffer. Countercyclical buffer rate is set at 0%.
- Capital buffers apply as of 30 June 2017.

Serbia's Economic Outlook

*NBS projection

Serbia	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025*	2026*
Real GDP, y-o-y %	-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	3.5	4.5
Private consumption, in %	-2.2	-1.8	-0.3	-0.4	1.9	2.1	2.8	3.7	-2.1	7.7	3.5	0.5	4.2	3.4	4.2
Government consumption, in %	2.0	-2.7	-0.9	-4.2	-1.7	2.3	3.8	3.7	3.4	4.1	1.3	-2.4	2.5	2.5	2.5
Gross fixed investment, in %	13.9	-12.1	-3.5	5.4	5.5	7.6	16.8	16.9	-1.4	14.7	2.2	9.7	6.5	5.2	8.5
Exports, in %	2.9	18.0	4.3	9.0	10.9	7.9	9.0	7.3	-4.6	20.4	17.0	2.7	3.2	3.9	5.0
Imports, in %	1.5	7.2	5.1	6.8	6.4	10.3	11.1	9.8	-4.0	17.7	16.2	-1.6	8.3	6.1	5.5
Unemployment Rate, in %[4]	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		
Nominal Wages, in %[5]	9.0	6.2	1.4	-0.2	3.7	3.9	6.5	10.6	9.4	9.6	13.8	14.8	14.1	11.1	
Money Supply (M3), in %	9.4	4.6	7.6	6.6	11.6	3.6	14.5	8.4	18.1	13.3	6.9	12.7	13.5		
CPI,[2] in %	7.3	7.9	2.1	1.4	1.1	3.2	2.0	1.9	1.6	4.0	11.9	12.1	4.6	3.7	3.2
National Bank of Serbia Key Policy Rate,[3] in %	11.25	9.5	8.00	4.50	4.00	3.50	3.00	2.25	1.00	1.00	5.00	6.50	5.75	5.75	
Current Account Deficit BPM-6 (% of GDP)	-10.5	-5.5	-5.4	-3.3	-2.8	-5.0	-4.6	-6.6	-3.9	-4.1	-6.6	-2.4	-6.3	-6.2	-6.0
General Government Deficit (% of GDP)	-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 Excluding the effect of change in inventories

² Average inflation in corresponding year.

³ Latest data

⁴ Labour Force Survey. Revised data from 2011.

⁵ Since 2018, nominal w ages published according to the new methodology.The estimate for 2025 is data for the period January-February 2025.

National Bank of Serbia

Banking Sector Overview

Serbia	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	March 2025
Number of banks[1]	30	31	29	27	26	26	23	21	20	20	19
Employees	24,257	23,847	23,055	22,830	23,087	22,823	22,550	21,995	21,899	22,286	21,886
Branches	1,730	1,719	1,627	1,598	1,598	1,576	1,515	1,371	1,341	1,337	1,316
HHI Assets	796	813	813	779	800	786	867	936	986	983	1,047
Share of foreign banks, %	76.1	76.7	76.9	75.4	75.7	86.0	87.0	83.6	76.9	77.5	78.0
Assets (net), EUR m	25,059	26,253	28,440	31,931	34,731	39,132	42,931	46,500	50,705	56,705	55,795
Capital, EUR m	5,090	5,122	5,631	5,725	6,002	6,098	6,120	6,138	6,981	7,890	7,546
Loans (gross), EUR m	16,175	16,442	17,565	19,406	21,111	23,439	25,938	28,142	28,534	31,787	32,515
Of which gross NPL, EUR m	3,491	2,800	1,730	1,105	862	871	927	848	916	804	758
Gross NPL ratio, %	21.6	17.0	9.8	5.7	4.1	3.7	3.6	3.0	3.2	2.5	2.3
IFRS impairment of NPLs	62.3	67.8	58.1	60.2	61.5	59.0	56.3	58.1	60.5	62.3	61.7
Deposits, EUR m	16,523	18,242	19,924	23,115	25,197	28,984	32,483	35,504	38,389	43,555	42,736
Pretax Income, EUR m	79.9	172.5	579.8	640.6	575.6	391.9	458.1	849.1	1,179	1,507	430
CAR , %	20.9	21.8	22.6	22.3	23.4	22.4	20.8	20.2	21.4	21.3	21.0
CET1 ratio , %	-	-	21.5	21.1	22.3	21.5	19.7	18.8	19.6	19.6	19.3
Leverage , %	-	-	11.1	12.6	13.6	12.4	11.1	10.3	10.3	9.9	10.0
Liquidity ratio	2.1	2.1	2.0	2.0	2.2	2.2	2.1	2.2	2.5	2.5	2.5
Liquidity coverage ratio, %	-	-	239.5	213.3	199.3	211.8	199.8	177.5	193.7	192.4	193.7
FX ratio, %	4.4	2.7	2.9	4.5	1.5	1.0	1.0	1.8	1.2	1.8	1.5
ROA, %	0.3	0.7	2.1	2.1	1.7	1.1	1.1	1.9	2.4	2.8	3.1
ROE, %	1.6	3.4	10.6	11.3	9.8	6.5	7.5	13.8	18.0	20.3	22.3
Net interest margin[2], %	4.3	3.9	3.7	3.6	3.3	3.0	2.7	2.9	4.0	4.1	3.6

[1] The NBS revoked operating licence from Univerzal banka Beograd on 31 January 2014 and from Jugobanka Jugbanka Kosovska Mitrovica on 2 April 2018. The NBS issued operating licence to Mirabank on 16 December 2014 and the bank started its operations in April 2015. The NBS issued operating licence to Bank of China Srbija on 20 December 2016. The Findomestic banka was merged to Direktna banka on 1 July, 2017. Jubanka ad Beograd was merged to AIK banka on 23 Decembar, 2017. Piraeus bank was merged to Direktna banka on 26 October 2018. Vojvođanska banka was merged to OTP banka on 25 April 2019 (under Vojvođanska business name). OTP banka was merged into Vojvođanska banka on 29 April 2021 (under OTP business name). Mts bank was merged to Banka Poštanska Štedionica on 30 June 2021. Direktna banka was merged to Eurobank under the Eurobank Direktna business name on 10 December 2021. NLB banka was merged to Komercijalna banka on 29 April 2022 under the NLB - Komercijalna banka business name. Naša AIK banka was merged to AIK banka on 01 December 2022. RBA banka was merged to Raiffeisen banka on 29 April 2023. On 28 March 2025, Eurobank Direktna akcionarsko društvo Beograd was merged with AIK banka a.d. Beograd (which changed its business name to AikBank akcionarsko društvo Beograd), as of which date there are 19 banks operating in the banking sector of the Republic of Serbia.

[2] Net interest margin to average total asset