ANNUAL MONETARY POLICY REPORT

National Bank of Serbia

2024

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Introductory note

The National Bank of Serbia is required to submit to the Parliament its annual and semi-annual monetary policy reports, explaining all the factors that affected the implementation of monetary policy in the period under review. The annual report must be submitted by 30 June of the following year and the semi-annual by 30 September of the year under review.[1]

Pursuant to the Statute of the National Bank of Serbia,[2] the above reports must present and analyse the monetary policy strategy, macroeconomic developments (international environment, balance of payments, the country's international investment position, movements in monetary aggregates, prices, wages and employment, and other macroeconomic movements), monetary policy defined and monetary policy implemented (defined vs. achieved monetary policy objectives, monetary policy instruments and measures applied, and other monetary policy-related issues), as well as outline the monetary policy planned.

The *Annual Monetary Policy Report 2024* was reviewed and adopted by the National Bank of Serbia's Executive Board on 12 June 2025.

Monetary policy reports are available on the National Bank of Serbia's website (http://www.nbs.rs).

Executive Board of the National Bank of Serbia:

Governor Jorgovanka Tabaković, PhD

Vice Governor Željko Jović, PhD

Vice Governor Ana Ivković, PhD

Vice Governor Dragana Stanić, MA

Vice Governor Nikola Dragašević

[1] 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 – CC decision, 44/2018 and 19/2025.

[2] RS Official Gazette, Nos 12/2013, 18/2015, 72/2015 and 50/2018.

ABBREVIATIONS

bn – billion
bp – basis point
CPI – Consumer Price Index
ECB – European Central Bank
EMBI – Emerging Markets Bond Index
FAO – Food and Agriculture Organization
FDI – foreign direct investment
Fed – Federal Reserve System
GDP – Gross Domestic Product
H – half-year
IFEM – Interbank Foreign Exchange Market
IMF – International Monetary Fund
mn – million
NPL – non-performing loan
OPEC – Organization of the Petroleum Exporting Countries
pp – percentage point
Q – quarter
q-o-q – quarter-on-quarter
s-a – seasonally-adjusted
SORS – Statistical Office of the Republic of Serbia
y-o-y – year-on-year

Other generally accepted abbreviations are not cited.

Contents

Overview

The international environment in which the NBS conducted monetary policy during 2024 remained fraught with challenges. The **global economy** recovered in early 2024, even somewhat faster than expected, despite the still restrictive monetary conditions. However, in the second half of the year, economic growth weakened in the largest European countries, primarily due to a contraction in the manufacturing sector, while remaining strong in the USA and China. The IMF and the World Bank agree in their assessment that global economic growth in 2024 remained stable, but still significantly below its long-term average. According to the IMF, global economic growth was 3.2%, the same as in 2023. As for our most important trading partner, the **euro area**, its economic growth in 2024 accelerated to 0.9% (from 0.4% in 2023), thanks to growth in the services sector, which offset the slack in the industry, construction and agriculture sectors. **Global inflation continued to decline**, averaging 5.7% in 2024 (compared to 6.7% in 2023). The decline remained driven by factors on both the supply and demand sides. On the supply side, an important factor was the previous decrease in energy and food prices, as well as the improved functioning of global supply chains. On the demand side, a disinflationary effect came from the interest rates of leading central banks, due to the initated easing of monetary conditions. **Inflation in the euro area** also continued to decrease, although at a slower pace than expected, largely due to buoyed price pressures from the labour market, which kept services inflation relatively high.

Despite expecting slightly higher inflation than three months earlier, the **ECB** lowered its key interest rates by 25 bp in June, for the first time since 2019, assessing that the time had come to ease the restrictiveness of its monetary policy. It proceeded with the easing in September, October, and December, emphasising that the disinflation process was on the right track. Unlike the euro area, the **Fed** did not change the fed funds rate range until September. In September, and then at the two remaining meetings in 2024, the Fed narrowed the range, stating that the labour market was not a source of inflationary pressures and that further cooling was not necessary to maintain inflation at its current, low level. The **monetary policies of central banks in Central and Southeastern Europe** operating under inflation-targeting regimes were also eased, but the extent of easing was tailored to the specific characteristics of each of these economies.

The NBS Executive Board also started to ease its monetary policy in 2024 as inflation was on a downward path and expected to stay within the target band throughout the projection horizon, while global inflationary pressures subsided and the monetary policy remained restrictive despite the easing, supported also by reduced inflation expectations. The key policy rate was first trimmed in June, and later also in July and September, by 25 basis points each time, to 5.75%, prompting a decline in interbank money market rates and in the **cost of dinar loans** through the interest rate channel. Interest rates on dinar household loans edged down by 2.6 pp in 2024 to 9.9% in December, their lowest level since July 2022, while rates on corporate loans subsided by 1.4 pp to 6.9%, their lowest level since November 2022. The **price of euro-indexed borrowing** also declined, reflecting lower euro area money market rates due to the ECB's monetary policy easing. Altogether, this should support gradual growth in lending and domestic demand, without compromising inflation's downward path. In early June, the Republic of Serbia **issued 10-year dollar bonds** worth USD 1.5 bn in the international financial market, the proceeds of which will be used for Green Agenda projects and socially responsible activities. Following the hedging transaction, the **final cost of borrowing in euros was 4.75%**, which can be considered favourable, particularly when compared with the financing conditions of some countries in the region which had even earlier been awarded investment-grade rating.

Supported by lower funding costs and eased credit standards, **total lending activity** to the non-monetary sector, excluding the exchange rate effect, accelerated to 8.2% in 2024. Growth in corporate loans sped up to 4.8% and that in household loans – to 10.4%. As dinar lending increased, so did **the dinarisation of receivables** – to 37.4% at end-2024, up by 2.9 pp from a year earlier. Thanks to the robust regulatory framework for banks, and the adopted macroprudential measures synchronised with monetary policy measures, **the share of NPLs in total loans fell to a new all-time low of 2.5% at end-2024. At 21.3%, the capital adequacy ratio** was slightly lower (by 0.1 pp) than at end-2023, signalling high capitalisation (the regulatory minimum is 8.0%) and resilience of the banking sector to external and domestic risks.

The NBS preserved the relative stability of the dinar exchange rate against the euro in 2024 in the face of mounting geopolitical challenges and trade tensions among major world powers, keeping a close eye on factors from the domestic and international environment that impact the trends in the FX market and responding in a timely and measured manner. Following depreciation pressures in early 2024, appreciation pressures resumed in the latter half of January, prevailed over the coming months and peaked in June. To preserve the relative stability of the dinar exchange rate against the euro, the NBS bought EUR 2,725.0 mn net in the IFEM in 2024. It intervened by net FX selling only in January and September, while in all other months it intervened either predominantly or only on the FX purchase side. End-of-period, the dinar strengthened against the euro by 0.1% in nominal terms in 2024. As the euro lost ground against the dollar, the dinar depreciated against the dollar by 5.8%.

The current account deficit measured EUR 3.9 bn in 2024 (4.7% of GDP), having increased from 2023 when it was only EUR 1.8 bn (2.4% of GDP). This was to be expected as investments gathered momentum and households' disposable income went up, but it was also due to low external demand, primarily from the euro area. The main contributing factor was the deficit on the primary income account, and to a lesser extent the narrowing surplus in external services trade and surplus on the secondary income account, while the deficit on trade in goods slightly expanded. Goods exports rose by 6.8% to EUR 29.8 bn, and goods imports by 5.9% to EUR 36.6 bn. As in earlier years, export growth was driven by manufacturing exports (going up by 8.0%), followed by agricultural exports which gained 29.2% thanks to a good agricultural season in 2023. Mining exports also increased (10.7%). In contrast, electricity exports fell by 46.4% y-o-y due to reduced hydropower potential caused by high summer temperatures and low rainfall, and partly to the last year's high base. Import growth was mainly guided by continued investment growth, reflected in higher imports of equipment (by 9.6%) and intermediate goods (by 3.0%). Consumer goods imports also increased, by 10.4%. Energy imports fell by 12.2%, influenced by both reduced import volumes and lower prices. Services exports rose by 10.5%, guided by higher exports of ICT services. As services imports gained 17.2%, the surplus in services trade was lower than in 2023.

The level and structure of capital inflows further strengthened the country's external position. A net capital inflow of EUR 6.1 bn was recorded on the financial account of the balance of payments, primarily owing to FDI as the most desirable capital inflow category, successful eurobond issue in June, and increased credit borrowing by the government and corporates. FDI inflows to Serbia reached EUR 5.2 bn (14.2% more than in 2023), while net FDI inflow measured EUR 4.6 bn. The FDI structure remained favourable, with four-fifths of inflows in the form of equity or reinvested earnings, confirming foreign investors' commitment to continue investing in Serbia.

Thanks to these trends in the current and financial accounts, **Serbia's FX reserves reached their highest level on record (since 2000)**. During 2024, gross FX reserves gained EUR 4,385.4 mn to EUR 29.3 bn at end-2024, their highest end-of-month and end-of-year level on record. FX reserves covered 168.2% of money supply M1 and 7.3 months' worth of imports of goods and services, which is more than twice the level prescribed by the relevant adequacy standard. Consistent with the principles of safety and liquidity, funds were invested in highly liquid securities issued by the world's most advanced economies and international financial institutions, and placed with prime institutions (central banks, international institutions and top-tier foreign banks).

In terms of **fiscal policy**, the **general government deficit** measured 2.0% of GDP in 2024, with a primary balance deficit of only 0.2% of GDP. **Central government public debt** was EUR 38.9 bn at end-2024 or 47.2% of GDP, down by 1.2 pp from end-2023, thanks primarily to economic growth. The share of public debt in GDP is expected to continue down in the medium term, despite the implementation of the “Leap into the Future – Serbia Expo 2027” programme.

The synchronisation of monetary and fiscal policies helped maintain a favourable outlook for economic growth, despite subdued external demand due to economic slackening in the euro area, our most important trade partner, and pronounced geopolitical tensions. **Serbia’s economic activity continued to rise at a stable pace of 3.9% in 2024**, guided by the service sectors, particularly trade, as well as industry and construction. Agricultural production slumped due to the drought. According to the NBS’s estimate, economic activity growth in 2024 was propped up by domestic demand, especially household consumption and gross fixed investment. In contrast, net exports gave a negative contribution as imports rose faster than exports due to the conditions prevailing in the current investment cycle. The NBS expects economic activity to accelerate in the coming period, primarily on account of the investments planned under the “Leap into the Future – Serbia Expo 2027” programme, weaker global inflationary pressures and more favourable financing conditions amid the initiated easing of monetary policies by the NBS and the ECB. Growth should be guided by domestic demand, with all its components providing a positive contribution. Increased private consumption will be propped up by continued wage and employment growth, primarily in the private sector. This will not have major inflationary effects, though, as wage growth is expected to be backed by higher productivity.

Favourable developments in the labour market extended into 2024, as evidenced by the further increase in average wages and formal employment and a simultaneous drop in registered unemployment to its lowest level on record. The **average nominal net wage** equalled RSD 98,143 in 2024, up by almost 15% from 2023. The wage increase was somewhat faster in the private (14.2%) than in the public sector (13.9%), contributing to a moderate narrowing of the gap between public and private sector wages.

The total number of **formally employed** in 2024 increased by 0.4% on average, mostly thanks to private sector employment. At the same time, **registered unemployment continued the multiannual downward trend**, measuring 353,237 persons in December 2024, roughly 35 thousand less than a year earlier and the lowest level on record. The unemployment rate fell to 8.6% in Q4 2024, down by 0.5 pp from a year earlier, and this was also its average annual level.

As a result of the NBS’s measures and the easing of global cost-push pressures, **inflation in Serbia continued to decline and averaged 4.6% in 2024**, a notable decline relative to 2023 (12.1%). Consistent with the NBS’s expectations, y-o-y inflation returned within the target band in May (3±1.5%), falling to 3.8% in June, half of its end-2023 level, primarily because the contribution of food prices shrank considerably (2.8 pp). Inflation’s slowdown was aided by all inflation components, with food prices rising more slowly than headline inflation as of February and their contribution to headline inflation turning neutral in June. Owing to past monetary tightening, core inflation also lost pace since early 2024, becoming equal to headline inflation in March and levelling off at around 5% y-o-y in Q2, half the level recorded a year earlier. However, the temporary increase in the prices of some processed food categories due to higher prices of raw materials in the global market (especially coffee and cocoa), and some services, pushed y-o-y inflation up to 4.3% in July. It remained around this level until end-2024, also fuelled by higher vegetable prices due to the drought in summer months, adjustment in administered prices of utilities and persistent core inflation. Nevertheless, inflationary pressures during 2024 were significantly weaker than in the previous period, which is best evidenced by the shift in the focus of year-on-year inflation distribution – from the group of products and services whose prices recorded double-digit year-on-year growth at the end of 2023 to the group of products and services whose year-on-year price changes ranged between -1.5% and 1.5% at the end of 2024. Domestic inflation’s downward trajectory and its return within target bounds, coupled with the stability of the exchange rate, helped **reduce inflation expectations**. Both short- and medium-term inflation expectations of the financial and corporate sectors declined in 2024, helping inflation slow and signalling high credibility of the NBS’s monetary policy.

Under the NBS’s projections made in 2024, inflation is expected to continue down in 2025, approach the target midpoint towards year-end and stay around that level in 2026.

In view of all the above, we can conclude that in 2024 Serbia’s **medium-term macroeconomic prospects improved and remained supported by the responsible economic policy conduct, advancing of the structural reform agenda and implementation of large infrastructure projects**. The best confirmation of Serbia’s status as a desirable investment destination was the **award of investment-grade rating by Standard & Poor’s**, one of the three leading global rating agencies, for the first time in the country's history. The expected positive effects include more favourable financing conditions for the government and the private sector and Serbia's greater recognizability on the global investment map. The rating decision was supported by the achieved macroeconomic stability and strong growth prospects, declining public debt trajectory and stronger external position, supported by high FDI inflows, exports' resilience to reduced external demand and record-high FX reserves, as well as a resilient and stable financial system. Serbia has also successfully completed a precautionary arrangement with the IMF and agreed on a new non-funding arrangement supported by the Policy Coordination Instrument.

Depending on the movement of key monetary and macroeconomic factors from the domestic and international environment, as well as the global geopolitical situation, the NBS will make monetary policy decisions on a meeting-to-meeting basis, mindful of the effects of past decisions on the inflation profile going forward. The priority of monetary policy remains unchanged – delivering price and financial stability in the medium run, and supporting economic and employment growth, further expansion of the export sector, and the preservation of a favourable investment environment.

I Strategic monetary policy framework

The NBS has been implementing **a fully-fledged inflation targeting regime** since early 2009, with elements of the regime gradually introduced into practice since 2006. In December 2008, the NBS adopted the Memorandum on Inflation Targeting as a Monetary Strategy, defining formal implementation of the inflation targeting regime from 1 January 2009. The Memorandum was drafted along the lines of the Agreement on Inflation Targeting between the NBS and the Government of the Republic of Serbia, adopted at the Government session of 19 December 2008. In the best collective judgement of the NBS and the Government, this was the most appropriate monetary policy regime under the circumstances prevailing at the time.

The inflation targeting regime is pursued by a large number of central banks worldwide as a pragmatic response to the deficiencies of other monetary policy regimes. The choice of the regime was strengthened by the awareness that high rates of inflation dampen economic growth and employment and that the monetary policy focus should therefore be shifted from short-term demand management to medium-term price stability which lies at the core of inflation targeting. More of a framework than a set of rigid monetary policy rules, this regime is based on a numerical target for inflation in the medium term and a discretionary right to respond to economic shocks in the short term.

The NBS inflation target is defined in terms of the headline inflation rate (with a tolerance band) measured as the annual percentage change in the Consumer Price Index (CPI). In order to define the framework for medium-term monetary policy decision-making and to anchor and stabilise inflation expectations, inflation target is set in advance. In the case of Serbia, inflation target is set for three years ahead. As the process of nominal, real and structural convergence to the EU is ongoing, inflation target is slightly above the quantitative definition of price stability and the target inflation level in advanced countries (2.0% or 2.5%). Thus, at end-2024, **inflation target was set at 3.0% until end-2027, with the tolerance band of ±1.5 pp**.[1]

By keeping the midpoint at 3.0%, the NBS reaffirms its **determination to maintain inflation at a low level in the medium run, which is one of the key prerequisites for the preservation of business and consumer confidence**. This reflects a favourable macroeconomic performance, maintained even during the pandemic, and achieved owing to full coordination of monetary and fiscal policies. Moreover, amid changeable prospects of global growth and volatile trends in the international commodity and financial markets, by keeping the target unchanged, monetary policy contributes to a further increase in Serbia's resilience to potentially negative external influences, and thus to the preservation of a solid growth outlook for our economy.

The width of the target tolerance band was kept at ±1.5 pp, which diminishes the need for frequent monetary policy interventions and contributes to greater predictability of monetary conditions. Being a small and open economy, Serbia is exposed to developments in the international commodity and financial markets, which may cause **temporary** volatility of headline inflation. The target band leaves to the NBS broader room to work on its second objective – financial stability, and to support the Government's economic policy, which encourages sustainable economic growth.

The inflation target is a medium-term objective, which means that inflation can deviate from the target in the short term due to exogenous shocks. The NBS will allow

[1] The NBS's Memorandum on Inflation Targets until 2027 was adopted at the meeting of the NBS Executive Board of 12 December 2024.

temporary deviations from the target if bringing inflation back to the target in the short term warrants monetary policy changes that would cause disruptions to macroeconomic processes. This also applies to sudden shocks in primary commodity prices or deviations from the planned growth in prices under direct or indirect government regulation.

The NBS strives to achieve the inflation target **by changing its key policy rate, i.e. the interest rate applied in the main open market operations**. This interest rate is the key monetary policy instrument and the decisions on its level are based on the analysis of economic situation, assessment of future developments and the medium-term inflation projection. Other monetary policy instruments play a supporting role – they contribute to the smooth transmission of the impact of the key policy rate on the market, as well as to the development of the financial market, without jeopardising financial system stability.

The NBS implements **a managed float exchange rate regime**. Interventions in the FX market aim to ease excessive short-term volatility of the exchange rate, safeguard price and financial stability, and maintain an adequate level of FX reserves.

To strengthen the transparency of its monetary policy and the effectiveness of communication with the public, the NBS Executive Board makes monetary policy decisions in line with the agreed schedule of meetings and regularly informs the public about the implementation of inflation targets and measures taken to achieve them. Also, monetary policy decisions and macroeconomic projections are explained in detail when presenting the *Inflation Report.*

II Monetary policy and achievement of the inflation target

1 Monetary policy in 2024

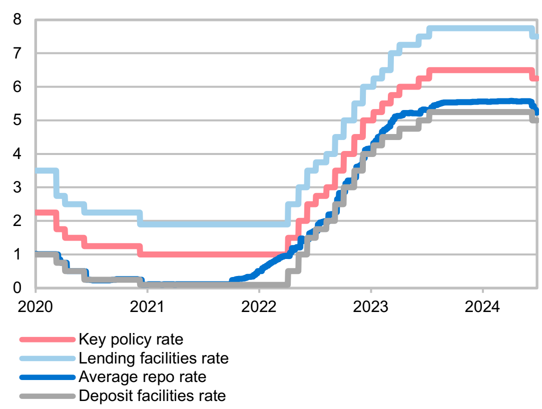
In 2024, the monetary policy was consistent with the **NBS Monetary Policy Programme in 2024**[2] and acted to preserve macroeconomic and financial stability in the face of substantial challenges from the international environment. According to the Monetary Policy Programme, adopted in December 2023, in its decision-making the NBS assesses the nature and strength of inflationary pressures and, consistent with this, maintains the necessary monetary policy flexibility regarding the scope of the response and the use of instruments, so as to deliver price and financial stability in the medium term, while continuing to contribute to sustainable economic growth. Decisions on the key policy rate level were based on the **NBS's projections**, which indicated that inflation would retreat within the target band of 3±1.5% by mid-2024 and stay therein throughout the projection horizon.

The NBS kept the key policy rate at 6.5% (its level since July 2023) **from early 2024 until June**. The deposit and lending facility rates were kept at 5.25% and 7.75%, respectively. The Executive Board's decisions to keep the key policy rate on hold were made in consideration of the medium-term inflation projection, but also of the fact that **global inflationary pressures, albeit declining, were still elevated**. Further, there was considerable uncertainty regarding global prices of energy and other primary commodities.

In particular, the Executive Board kept a close eye on the **declining, but still elevated imported inflation.** Headline inflation continued down in the euro area, our key trade partner, but core inflation still caused concern, remaining above headline inflation, the same as in the USA. This was due primarily to the still tight labour market conditions and nominal wage growth, which is why the ECB and the Fed postponed embarking on the cycle of monetary policy easing.

Among the challenges from the international environment, the Executive Board **highlighted geopolitical conflicts and the consequent risk of rising global prices of oil and other primary commodities**. The prices of most primary commodities in the global market were on the rise since early 2024, spurred by supply-side factors and the rebound in global industrial activity. **Global oil prices were particularly volatile**, chiefly under the impact of geopolitical tensions in the Middle East, but also the decisions of OPEC+ countries, volatile global growth prospects, oil inventories, etc.

Chart II.1.1 **Movement in the key policy rate and average repo rate**
(in %)



Source: NBS.

[2] RS Official Gazette, No 110/2023.

Global food prices, on the other hand, declined from their 2022 peak, but caution was still mandated by the **world food price index (FAO) which increased in the March–June 2024 period after declining for seven months in a row**. Volatile weather conditions were also a cause of concern, as were new protectionist measures and trade restrictions which could drive food prices up.

Still, the domestic and international conditions in which monetary policy in Serbia, and most other countries, was pursued **triggered debate on when to start easing the monetary policy, to what extent and at what pace**. To this end, it was necessary to carefully consider all available information and data and analyse inflation trends and monetary transmission to ensure that monetary easing is not premature and does not threaten the sustainability of inflation's convergence to the target. Over time, most central banks predicted with increasing certainty that inflation in their countries would retreat within the target band in H2 2024 or H1 2025. It was therefore reasonable to expect the prices of imported goods and services to slow further. In Serbia, inflation expectations of the financial and corporate sectors declined, reflecting past monetary policy tightening and signalling a more restrictive monetary policy stance even without further key policy rate hikes. Together with slower imported inflation and persistently subdued external demand, this helped establish a sustainable downward inflation trajectory at home and motivated the Executive Board's decision to embark on monetary policy easing in June.

In June, the NBS Executive Board began, and in July and September continued with, monetary policy accommodation by trimming the key policy rate by 25 bp each time, to 5.75% – its end-of-year level. At the same time, deposit and lending facility rates were cut to 4.50% and 7.00%, respectively.

In accordance with the Executive Board's announcements, **y-o-y inflation in Serbia retreated within the target tolerance band (3±1.5%) in May**, measuring 4.5%. It stayed within these bounds and finished the year at 4.3%. Inflation was set on a downward path mostly by slower food inflation and lower energy price growth, but also by reduced core inflation (CPI excluding food, energy, alcohol and cigarettes). Core inflation has been higher than headline since May 2024, the same as in other countries of the region and the euro area, measuring slightly above 5% y-o-y. This is one of the reasons why the NBS did not trim its key policy rate after September.

Under the NBS's projections made in 2024, inflation is expected to continue down in 2025, approach the target midpoint towards year-end and stay around that level in 2026. Such inflation movements should be propped up by the still tight monetary conditions, subdued imported inflation and the anticipated real wage growth in line with productivity.

In its monetary policy making, the Executive Board took into account the decline in **inflation expectations**. One-year ahead inflation expectations of the financial sector returned within target band early in the year and remained there. Two-year ahead expectations of the financial sector were also within the target band, falling to 3.3% in December, while expectations for three years ahead were at the target midpoint of 3%. Short-term corporate expectations measured 5.0% for most of 2024, while medium-term expectations were lower (4.9% for two and 4% for three years ahead).

In particular, it should be noted that the decline in inflation in Serbia went hand in hand with positive trends in the **real sector**. According to the SORS estimate, real GDP growth measured 3.9% in 2024. This is more than 18% above the pre-pandemic level. Economic growth in 2024 resulted from activity growth in industry, construction and the service sectors. Within industry, manufacturing expanded by 4.7% despite low external demand, particularly from the euro area. Positive trends in the labour market persisted, with employment continuing up, unemployment down and wages rising in real terms. This helped preserve the households' purchasing power without threatening the achievement of the inflation target in the medium term. **Record-high FDI inflow to Serbia**, measuring EUR 5.2 bn in 2024, and record-high government expenditure of around EUR 6 bn, support favourable growth prospects. Domestic private investment is also propped up by more favourable financing conditions as the country's risk premium declined after **Serbia was awarded investment grade rating** by Standard & Poor's. Though demand by our key trade partners is still recovering slowly, its rebound is expected to gather speed gradually which, together with the implementation of investments planned under the "Expo 2027" programme and other infrastructure projects, will contribute to a gradual acceleration of economic activity growth.

In its monetary policy making, the Executive Board was particularly mindful of the **factors from the international environment, notably imported inflation, which is also expected to subside in the period ahead**. Its decline will, however, be somewhat more gradual, prompting central banks in both developed and emerging economies to adopt a **more cautious approach to monetary policy easing** than expected in early 2024.

In the **euro area**, our key trade partner, inflation fell to just 1.7% in September, only to accelerate to 2.4% in December. Due to the base effect for energy prices, i.e. their sharp downturn a year earlier, such acceleration was largely expected. As for our key trade partners, inflation sped up more than anticipated in Germany (to 2.8% y-o-y, measured by the CPI) since food prices increased more and energy prices decreased less than expected. In Italy, inflation accelerated less than anticipated (1.4% y-o-y).

As expected, the **ECB** trimmed its key interest rates by 25 bp in June, for the first time since 2019, assessing that disinflation was making good headway and that it was time to ease its monetary policy. In three more meetings until the end of the year, the ECB cut its key interest rates by 25 bp each. Hence in December its deposit facility rate was 3.0%, main refinancing rate 3.15% and marginal lending facility rate 3.40%. The NBS Executive Board took into consideration that the gradual decrease in the price of euro-indexed loans at home, based on lower euro area money market rates due to the ECB's monetary policy easing and the reduction of the NBS key policy rate in 2024, should provide impetus to further lending and domestic demand growth and, by extension, GDP growth, without compromising the declining inflation trajectory.

By contrast to the euro area, the **Fed** kept its federal funds rate unchanged in June and July. In September, it cut its range for the federal funds rate by 50 bp, two times more than the markets expected. The range was cut further in November and December to 4.25–4.50%, or by a total of 100 bp in 2024. However, almost all Fed officials assessed in December that upside risks to inflation were elevated due to higher-than-expected inflation in late 2024 and the announced changes in the USA's fiscal and foreign trade policies.

Considering **external demand**, the NBS Executive Board took account of the fact that both developed and emerging economies would grow at a slower pace in the 2024–2026 period than in the pre-pandemic decade. In addition to the fundamental challenges, another reason is the increased uncertainty which has become the key characteristic of global economic developments. Though it accelerated gradually, spurred by trade and rising household consumption, euro area economic growth continued to be weak, particularly in Germany. On the other hand, GDP growth was stronger in the USA, while China still faced challenges in the real estate sector and uncertainty regarding global trade flows, though monetary and fiscal policy were used for stimulating the still relatively high economic growth. Gradual global growth and, especially, the economic rebound in the euro area will gradually push up external demand for our exports, though at a slower pace compared to the long-term pre-pandemic average.

In particular, the Executive Board highlighted that a cautious monetary policy stance is necessary given the uncertainty caused by **geopolitical risks, announced protectionist measures and global market fragmentation**. Such trends may impact the global macroeconomic environment, trade flows and supply chains, with implications for inflation, economic activity and central banks' monetary policies. Monetary policy caution is also mandated by the unpredictable macroeconomic situation in the world that may impact the **global prices of energy and other primary commodities**. Although the global crude oil price flatlined in mid-October 2024 at a lower level than earlier in the year, owing primarily to the expected weak oil demand from China and solid inventories in the global market, its future movement remains uncertain due the potential escalation of the Middle East conflict, longer transport routes and higher logistics costs. Uncertainty also surrounded the global gas prices, as Ukraine banned the transit of gas from Russia to the EU through its territory following the expiration of the earlier agreement.

Global food prices also mandated monetary policy caution. Record-high prices of some agricultural commodities on global stock exchanges – due to adverse weather conditions in leading producer countries (cocoa in West Africa and coffee in Brazil) – also fuelled concerns about world food prices. The **reduced supply of agricultural commodities in the domestic market, caused by the drought during summer months**, added to these worries. Changeable weather conditions, protectionist measures and trade restrictions could push food prices further up. Global prices of food and other commodities will also be affected by global growth which is still below the trend, but is expected to speed up gradually in the coming period.

As the main risks to inflation and other economic developments still come from the international environment, the NBS will continue to monitor and analyse trends in the international commodity and financial markets and make future monetary policy decisions based on that and the analysis of trends at home and the pace of domestic inflation's slowdown, on a meeting-by-meeting basis. Going forward, delivering price and financial stability in the medium term will remain the monetary policy priority, along with supporting continued growth and development of our economy, a further rise in employment and preservation of the living standard.

2 Monetary policy instruments

The main monetary policy instrument of the NBS is the **key policy rate, i.e. the interest rate on the main open market operations**[3]. The role of the key policy rate is supported by the **corridor of interest rates on deposit and lending facilities and by other open market operations**. In addition to the key policy rate, the NBS uses other instruments of monetary regulation, notably **reserve requirements and operations in the FX market**.

Open market operations

The main open market operations of the NBS in 2024 were one-week reverse repo transactions of securities sale (liquidity absorption).

The NBS implemented repo transactions using its own securities. For the needs of repo sale, one series of T-bills was issued in 2024, in the total nominal value of RSD 1,000.0 bn. The issuance of a larger volume of T-bills is a result of the need to provide a sufficient amount of market material for smooth conduct of repo transactions in an environment of pronounced excess dinar liquidity in the banking system. The increase in excess dinar liquidity was mostly facilitated by the NBS's FX net purchase interventions in the IFEM amid appreciation pressures on the dinar.

In 2024, 53 repo sale auctions were organised. Auctions were held once a week, applying the variable multiple interest rate model. Total securities sale in 2024 amounted to RSD 24,047.8 bn, which was higher than in 2023 (RSD 19,252.9 bn) amid rising excess dinar liquidity.

The stock of NBS securities in banks' portfolios averaged RSD 454.5 bn in 2024, which is an increase relative to 2023 (RSD 367.9 bn). Relative to end-2023, the stock of these securities decreased by RSD 15.0 bn, to RSD 390.0 bn at end-2024.

Deposit and lending facilities

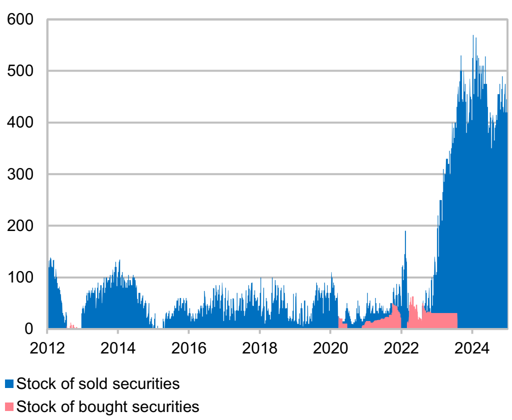
In 2024, banks continued to place overnight deposits within the NBS (deposit facilities), which averaged RSD 139.8 bn, up by RSD 8.6 bn from 2023. In monthly terms, banks deposited the highest average amount of funds in December (RSD 214.9 bn) and the lowest in May (RSD 68.2 bn).

In 2024, four banks used lending facilities exclusively as intraday loans in the total amount of RSD 21.9 bn, while overnight loans were not used at all.

Required reserves

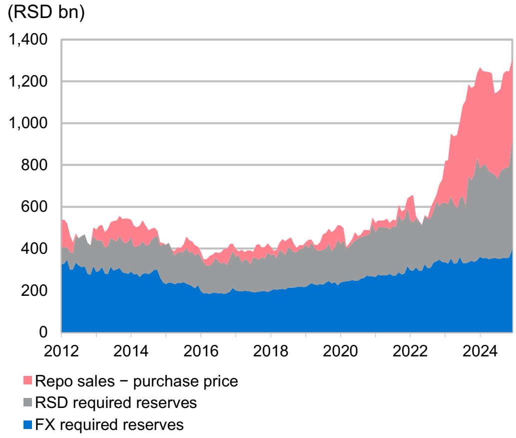
In 2024, the amount of calculated required reserves allocated in dinars increased by RSD 42.0 bn (10.3%), reaching RSD 451.6 bn at end-2024. This increase is chiefly a result of the growth in purely dinar required reserves (by RSD 24.0 bn), which is associated with the increase in dinar deposits of corporates and households

Chart II.2.1 **Stock of repo sold/bought NBS securities**
(RSD bn)



Source: NBS.

Chart II.2.2 **Volume of sterilisation by monetary policy instruments**
(RSD bn)



Source: NBS.

[3] Key policy rate is the maximum, i.e. the highest rate applied in the conduct of repo transactions of sale of securities.

with banks. The increase in required reserves allocated in dinars also reflects the rise in FX required reserves (RSD 18.0 bn), as one part is allocated in dinars.

Calculated FX required reserve increased by EUR 194.9 mn (6.8%) in the same period, to EUR 3.1 bn at end-2024. This was driven by the rise in FX savings and FX deposits of corporates, mostly with the maturity of up to two years.

Interest rates

In an environment of the continuous downward trajectory of inflation at home and its retreat within the target band in May 2024, as well as the projected movement of inflation and other macroeconomic indicators from both the domestic and international environment, in June 2024 the Executive Board decided to lower the key policy rate by 25 bp to 6.25%, marking the first change in the NBS key policy rate since August 2023. In the July and September meetings, the key policy rate was lowered by additional 25 bp, to 5.75%. Concurrently, the deposit and lending facility rates were trimmed to 4.50% and 7.00%, respectively in 2024.

The said decisions on the key policy rate dictated the dynamics of the weighted average repo rate, which was almost unchanged in the first five months of 2024, moving within a very narrow range (5.55%–5.58%). Making use of the full flexibility of its monetary framework, the NBS further eased monetary conditions by scaling down the supply ratio at repo auctions relative to the estimated demand from banks.

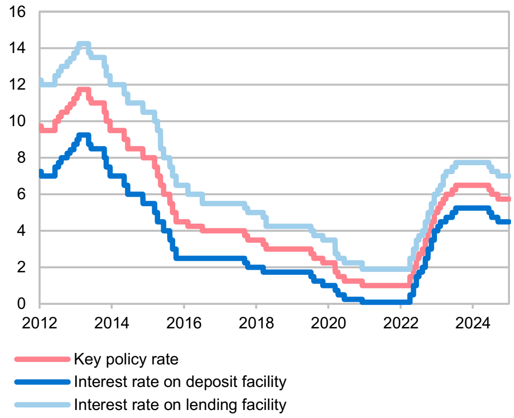
The decision, along with the cut in the NBS key policy rate, led to a decline in the weighted average repo rate to 4.50% at end-2024. The weighted average repo rate in 2024 was cut by 106 bp, to a larger extent than the key policy rate (by 75 bp). In contrast, in 2023, it had increased by 140 bp.

In 2024, the interest rate at which the NBS calculates and pays interest on the average daily balance of allocated dinar required reserves was kept at 0.75%.

FX market operations

Under the 2024 Monetary Policy Programme, the NBS continued implementing the managed float exchange rate regime, with the possibility to intervene in the FX market with a view to easing excessive short-term volatility of the dinar against the euro and maintain price and financial stability and an adequate level of FX reserves.

Chart II.2.3 **Key policy rate and interest rate corridor**
(daily data, p.a, in %)



Source: NBS.

In 2024, the dinar gained 0.1% against the euro in nominal terms. Amid strong appreciation pressures on the dinar, in 2024 the NBS net bought EUR 2,725.0 mn in the IFEM.

Appreciation pressures were chiefly generated by record high FX inflow from FDIs, as well as exports, tourism and remittances, etc. As a result of these developments, residents were net FX sellers for the second consecutive year. Also, appreciation pressures in 2024 prevailed on the back of other FX supply-side factors – banks' net foreign cash purchase from exchange dealers and natural persons, increase in net indexed bank assets and the lengthening of the FX position of banks on account of the use of foreign (non-resident) payment cards. FX supply-side pressures were the strongest in June, when the NBS net bought EUR 695.0 mn in the IFEM.

FX swaps

In 2024, banks were still able to conclude bilateral transactions of swap purchase and sale of FX (euros) with the NBS. By introducing bilateral swap transactions, the NBS sought to provide not only assistance to banks in their liquidity management, helping them overcome the problem of insufficient limits for concluding interbank transactions, but also greater flexibility regarding the moment of concluding transactions and their maturity.

In 2024, NBS bilateral swap transactions amounted to EUR 2,514.0 mn (swap purchase and sale worth EUR 1,257.0 mn each).

3 Achievement of inflation target in 2024

Average inflation in 2024 fell to 4.6% (from 12.1% in 2023). In accordance with the Executive Board's expectations, y-o-y inflation in Serbia retreated within the target band (3±1.5%) in May, staying there until the end of the year. Weaker inflationary pressures in 2024 are also confirmed by the shift in the distribution of y-o-y inflation, from a group of products and services whose prices recorded double-digit y-o-y growth at end-2023, to a group of products and services whose y-o-y price changes ranged between -1.5% and 1.5% at end-2024. **Core inflation** (measured by CPI change excluding energy, food, alcohol and cigarettes) has trended above headline inflation since May, ranging between 5.0% and 5.5% y-o-y. The **trimmed mean** measure of inflation (measured by CPI change excluding 15% of products and services whose prices recorded the largest changes in both directions) moved below the headline inflation throughout 2024, averaging 4.0% y-o-y.

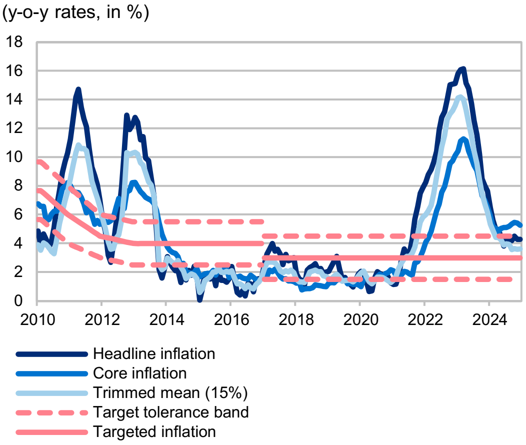
Y-o-y inflation continued dominantly on a downward path in Q1, falling to 3.8% in June, half the level recorded at end-2023, chiefly due to significantly lower contribution of food prices (by 2.8 pp). However, the price increase in certain categories of processed food, reflecting the hike in global prices of raw materials (especially coffee and cocoa), and some services, drove y-o-y inflation up to 4.3% in July. Y-o-y inflation hovered around this level until end-2024, also facilitated by higher prices of vegetables due to drought in the summer months, adjustments in administered prices of utility services and the persistency of core inflation.

In terms of **individual CPI components**, after giving a neutral contribution to y-o-y inflation in mid-2024, food prices picked up their y-o-y growth in the remainder of the year, driven by the mentioned increase in processed food and vegetable prices. At end-2024, the prices of food and non-alcoholic beverages grew by 4.0% y-o-y, almost entirely due to the rise in processed food prices (5.4% y-o-y, 1.1 pp contribution to inflation), and to a lesser extent, the prices of unprocessed food (1.2% y-o-y, 0.1 pp contribution to inflation). Regardless, food inflation slowed down significantly in the previous year, as cumulative contribution of food prices, both processed and unprocessed, to y-o-y inflation at end-2024 was 1.5 pp lower than at end-2023.

Lower y-o-y inflation at end-2024 (by 1.3 pp) was significantly supported by the absence of increases in the prices of electricity and gas for households, while the prices of solid fuels decreased by 5.7% y-o-y in December due to lower prices of firewood. In contrast, a December increase of 1.2% y-o-y in the prices of petroleum products in the domestic market entirely dictated the rise in **energy prices** (by 0.5% y-o-y, 0.1 pp contribution to inflation).

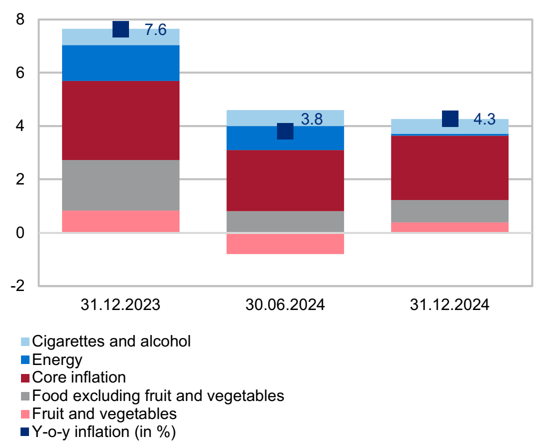
The prices of industrial products (excluding food and energy) posted a 4.6% y-o-y increase in December (with a 1.3 pp contribution to inflation), due to the cigarette

Chart II.3.1 **Headline, core and trimmed mean inflation**
(y-o-y rates, in %)



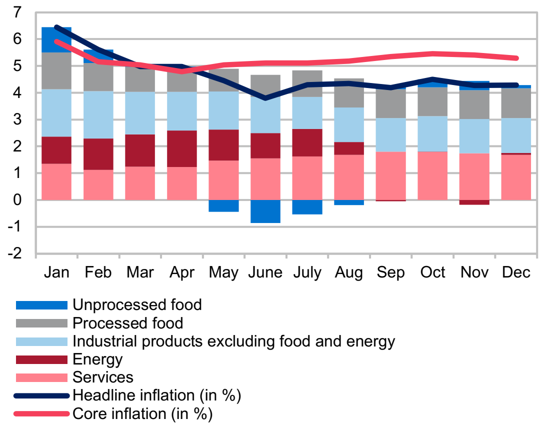
Sources: SORS and NBS calculation.

Chart II.3.2 **Contributions to headline inflation**
(in pp)



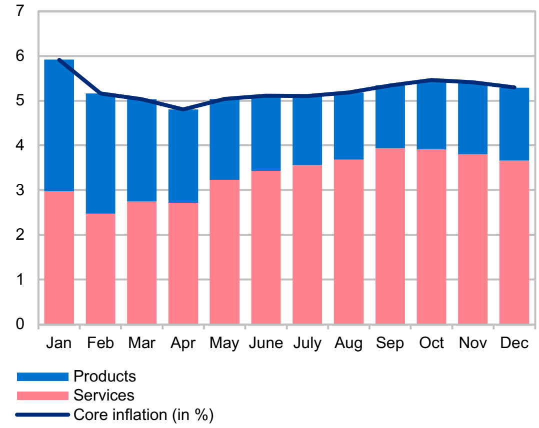
Sources: SORS and NBS.

Chart II.3.3 **Contribution of CPI components to y-o-y inflation in 2024**
(in pp)



Sources: SORS and NBS calculation.

Chart II.3.4 **Contribution of CPI components to y-o-y core inflation in 2024**
(in pp)



Sources: SORS and NBS calculation.

price adjustments, the rise in the prices of clothes and footwear, as well as the higher prices of alcoholic beverages and household chemicals.

The prices of services rose by 6.8% y-o-y at end-2024 (with a 1.7 pp contribution to inflation). This was led primarily by the higher prices of personal, catering and tourism services, and also utility prices, whose increase had been avoided during the period of the strongest cost-push pressures. The rise in the prices of services was also affected by demand-side factors, primarily higher household consumption, as well as supply-side factors – mainly higher wages of employees in the services sector. As in most other countries, it was the prices of services that primarily dictated the dynamics of core inflation in 2024, which measured 5.3% y-o-y at the year-end (with a 2.4 pp contribution to inflation).

Administered prices, which are under direct or indirect government regulation, grew by 4.2% y-o-y at end-2024 (adding 0.8 pp to inflation). This reflects the mentioned adjustments in utility services and cigarette prices.

III Macroeconomic environment

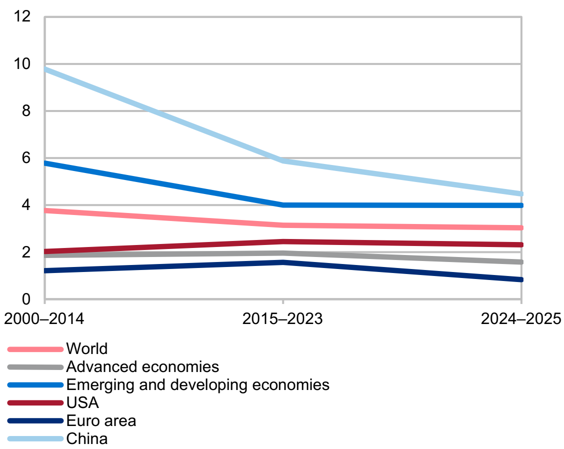
1 International environment

Economic activity and inflation

Despite intensive and synchronised monetary policy tightening in the prior period and pronounced geopolitical tensions, the global economy showed unusual resilience and ensured a soft-landing. In early 2024, the global economy and trade strengthened on the back of elevated exports from Asian countries, especially in the technological sector. The dissipation of negative effects of cyclical factors and better alignment of activities with large economies' potential contributed somewhat to the narrowing of the gap between different economic regions. Still, during H2 economic growth weakened in the largest European countries, primarily due to the contraction in the production sector, while disruptions in supply, along with conflicts and extreme weather conditions, undermined the economic prospects in the regions of Middle East, Middle Asia and Sub-Saharan Africa. In contrast, prospects look brighter for the USA and emerging Asian economies, supported by considerable public investments in China and India. The leading international financial institutions, the IMF and the World Bank, are unanimous in assessing that the **global economic growth remained stable in 2024 as well**, estimated by the IMF at 3.2% (the same as in 2023), though it is still well below its long-term average.

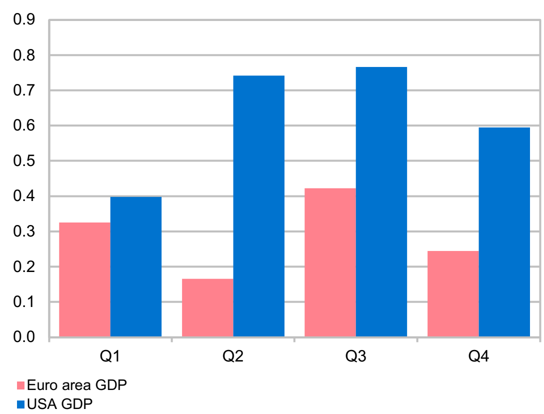
In 2024 the euro area's economic growth equalled 0.9% (compared to 0.4% in 2023) thanks to activity growth in the services sector offsetting the slack in industry, construction and agriculture. On the expenditure side, growth in euro area GDP in 2024 is the result of stepped-up household and government consumption (aggregate contribution of 1.2 pp to GDP), and to a lesser extent of higher net exports (0.4 pp contribution to GDP). In contrast, fixed investments and inventories declined in 2024 (0.7 pp negative contribution to GDP). The unemployment rate in the euro area trended down in

Chart III.1.1 **Economic activity**
(in %)



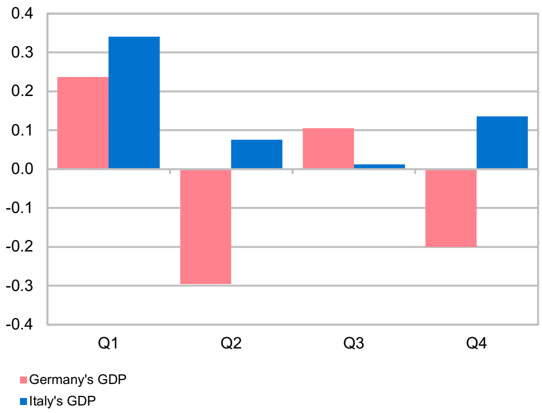
Source: IMF WEO (April 2025).

Chart III.1.2 **Real GDP growth in the euro area and the USA in 2024**
(s-a, in %)



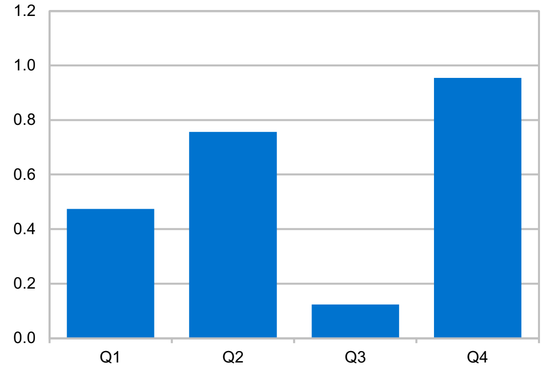
Sources: Eurostat, U.S. BEA and NBS calculation.

Chart III.1.3 **Real GDP growth in Germany and Italy in 2024**
(s-a, in %)



Source: Eurostat.

Chart III.1.4 **Real GDP growth at the level of CESEE* in 2024**
(s-a, in %)



* Romania, Hungary, Czech Republic, Slovenia, Bulgaria, Croatia, Slovakia and Poland.
Source: Eurostat.

2024, landing at 6.2% at end-2024, while the rise in overall employment in 2024 slowed down to 1.0% (from 1.4% in 2023), parallel with the dampened demand for workforce, signalling the relaxation of tight conditions in the European labour market.

Germany's GDP edged down 0.2% in 2024, on account of the contracted fixed investments and net exports, whereas growth in total consumption acted in the opposite direction. The economy of **Italy**, Serbia's key foreign trade partner within the euro area along with Germany, recorded growth of 0.7% in 2024, with a positive contribution of almost all components of GDP (except goods inventories, which depleted).

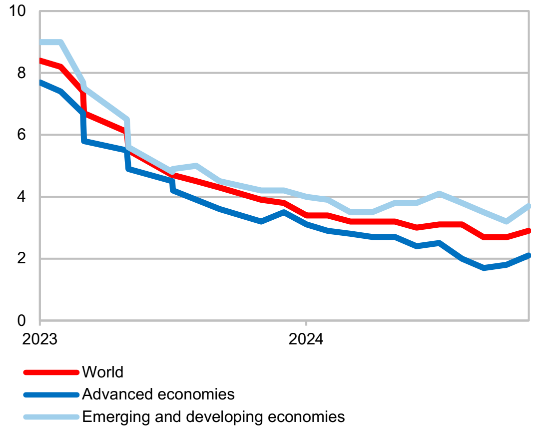
The CESEE region[4] saw GDP growth of 2.0% in 2024 (compared to 0.7% in 2023), dominantly arising from increased household and government consumption (2.8 pp), as well as investments in goods inventories (0.6 pp). Conversely, a negative contribution to GDP growth in 2024 came from the reduced net exports (-1.1 pp) and fixed investments (-0.2 pp). Leading Consensus Economics analysts estimated that in Southeast Europe, GDP rose by 2.0% in 2024 (2.4% in 2023), and in the Central Europe subregion by 1.9% (0.2% in 2023). During 2024 economic dynamics was uneven across the countries of region, yet all of them recorded GDP growth, which was most pronounced in Croatia, Poland, Bulgaria and Slovakia. After contracting in 2023, the Hungarian and Czech economies posted growth in 2024. The nascent economic recovery in Central and Southeast Europe was undermined by subpar economic performance in the euro area, notably Germany, as well as elevated uncertainty over exacerbated geopolitical tensions, trade fragmentation and growth in USA–EU–China protectionism.

In 2024, the **US economy** edged up 2.8% (2.9% in 2023), notably thanks to stepped-up household and government consumption (aggregate contribution to GDP of 2.4 pp), as well as fixed investments (0.7 pp contribution), while net exports declined (0.4 pp negative contribution). Economic growth picked up during most of 2024, driven by the rising household consumption on the back of higher real disposable income. At end-2024 GDP growth slowed due to a contraction in fixed investment. Favourable trends continued in the labour market in 2024 as well, with the labour force demand and supply gap narrowing further. The employment rate stabilised at 60.0%, while the unemployment rate measured 4.1% at end-2024.

According to the assessments of the National Bureau of Statistics, **China's** GDP rose by 5.0% in 2024 (5.2% in 2023), which is the same as the target level. The recorded economic growth was driven by strong exports and investments in the technological sector, supported by the government's fiscal stimuli, while eroded consumer confidence and demographic issues were the main structural challenges.

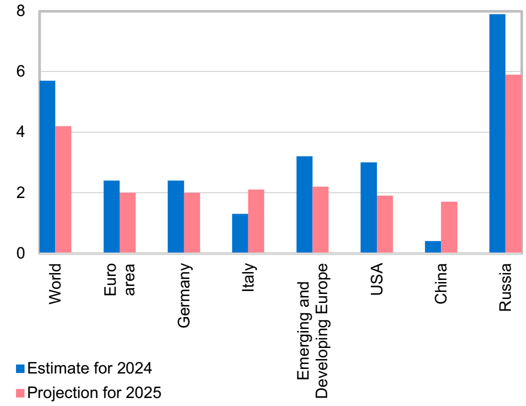
[4] The region includes Romania, Hungary, the Czech Republic, Slovenia, Bulgaria, Croatia, Slovakia and Poland.

Chart III.1.5 **Dynamics of headline inflation**
(y-o-y rates, in %)



Source: World Bank, Global Economic Prospects (January 2025).

Chart III.1.6 **Estimate of average inflation for 2024 and projection for 2025**
(in %)



Source: IMF WEO Update (January 2025) and IMF WEO (October 2024).

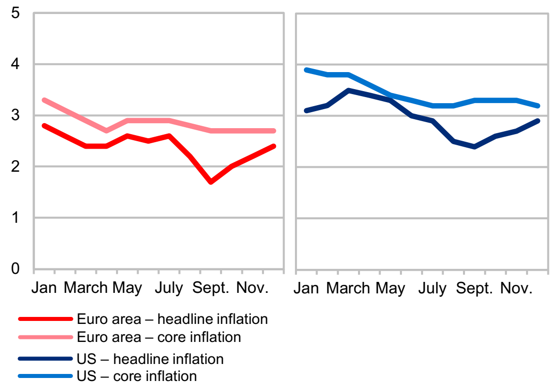
With the falling global prices of primary commodities and the effects of prior monetary policy tightening, **global inflation was also on the downward track in 2024**, averaging 5.7% (versus 6.7% in 2023). In line with expectations of leading financial institutions, headline inflation in 2024 retreated much faster in advanced economies (by 2.0 pp, to 4.6%) than in emerging and developing ones (by 0.2 pp, to 7.8%). The gradual removal of cyclical imbalances since the start of the year and the narrowing of the output gap in large economies drove global inflation down, resulting in the convergence of inflation rates in different countries. Still, in mid-2024 the IMF estimated that signals warning of disinflation slowing down appeared already in H1 owing to a steady core inflation. Services prices within core inflation remained elevated in many countries, while goods prices came close to their pre-crisis trend. The anticipated further fall in energy prices, as well as the normalisation of labour market conditions, should help keep global inflation on its downward path, with the majority of countries not anticipating the return of inflation within the target tolerance band before end-2025.

At the level of 2024, euro area inflation retreated to 2.4% on average (from 5.4% in 2023), recording diverging y-o-y dynamics during the year. After slowing to 2.4% in Q1, y-o-y inflation edged up to 2.5% in Q2. In Q3, y-o-y inflation slowed again, descending to 1.7% in September, at the time its lowest level since April 2021. However, in December y-o-y inflation returned to 2.4%, mirroring the hike in processed food prices and a slight increase in energy prices, where the base effect played out in both directions throughout the year. **Core inflation in the euro area** (HICP excluding energy, food alcohol and cigarettes) trended above headline inflation during 2024, mostly due to elevated services prices, and stabilised at 2.7% y-o-y from September to December.

Measured by the change in harmonised CPI, **inflation in Germany** slowed significantly in 2024 (to 2.5% on average, from 6.0% in 2023), as did **inflation in Italy** (to 1.1% from 5.9% in 2023). In both countries, y-o-y inflation fluctuated during the year. Having reached a multi-year minimum in September, y-o-y inflation rose by the end of the year, measuring 2.8% in Germany and 1.4% in Italy in December. In both countries core inflation trended above headline throughout the year amid elevated prices of services.

In the countries of Central and Southeast Europe running the inflation targeting regime **y-o-y inflation also posted diverging movements in 2024**. In Q1, y-o-y inflation in all countries slowed, dominantly due to the deceleration in food inflation, thus returning within the bounds of the target tolerance band in Hungary, the Czech Republic and Poland. In the remainder of 2024, y-o-y inflation displayed varying movements across countries, rising in most of them by year end – to 5.1% in Romania (due to elevated non-food product prices), 4.7% in Poland (due to higher energy prices), 4.6% in Hungary (due to elevated food and energy prices) and 3.0% in the Czech Republic (due to higher administered prices of utility services and energy). In January this year, Consensus Economics analysts came out with an assessment of average annual inflation for 2024 of 4.3% in the group of Southeast European countries and 3.2% for Central European ones.

Chart III.1.7 **Inflation in the euro area measured by HICP and inflation in the USA measured by CPI in 2024**
(y-o-y rates, in %)

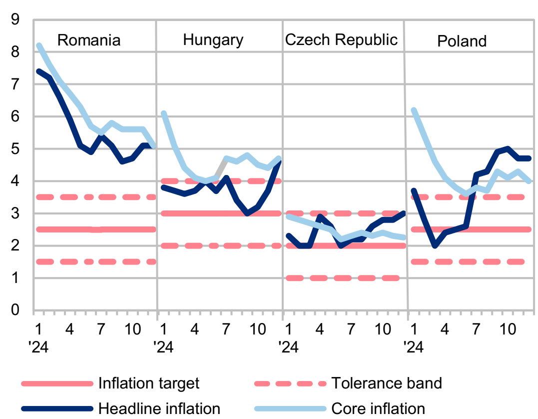


Sources: Eurostat and Bureau of Labor Statistics.

In **Western Balkan** countries y-o-y inflation mostly trended down during 2024, its dynamics dominantly shaped by food and energy prices. A common feature in countries of this region is a significant slowdown in y-o-y inflation in Q3 amid falling energy prices, after which y-o-y inflation went back up in Q4 on rising food prices amid subdued supply in the wake of the summer draught. In December, y-o-y inflation reached 4.4% in North Macedonia, 2.2% in Bosnia and Herzegovina, and 2.1% in Montenegro and Albania.

After rising in Q1, **headline inflation in the USA** (CPI) slowed in Q2 and Q3, measuring 2.4% y-o-y in September, under the dominant impact of a pronounced y-o-y fall in energy prices (notably fuel prices in Q3, where the effect of the high base played out). Still, during Q4 the base effect from energy prices, coupled with higher food prices in the US market, helped speed up headline inflation to 2.9% y-o-y in December. Core inflation (CPI excluding food and energy) was dominantly on a downward path in 2024, stabilising at around 3.2–3.3% between June and December, primarily owing to a slower y-o-y rise in services prices. Personal consumption indices – total and excluding food and energy prices, which the Fed monitors as a measure of price increases – recorded similar y-o-y dynamics in 2024. In December, the indices equalled 2.6% and 2.9% y-o-y, respectively.

Chart III.1.8 **CPI movements in selected CESEE countries in 2024**
(y-o-y rates, in %)



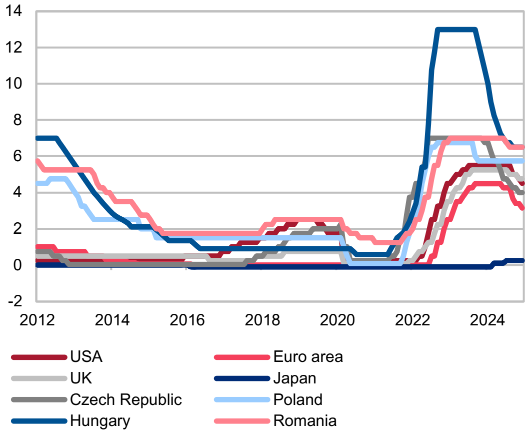
Sources: Central banks of selected countries.

Monetary policy

Since ending the cycle of main interest rates hikes in September 2023, the **ECB** kept the main rates unchanged until the meeting in June 2024, emphasising that inflation was slowing, but that inflationary pressures at home remain elevated. This primarily referred to the stronger cost-push pressures from the labour market which kept inflation in the services sector relatively high. At the same time, since the start of the year the ECB continued downsizing its balance sheet as planned, at a moderate pace. It continued downsizing the portfolio of securities purchased under the **APP programme** because it is no longer reinvesting the principal payments from maturing securities. As for the **Pandemic Emergency Purchase Programme (PEPP)**, the ECB fully reinvested the principal payments from maturing securities during H1 2024, only to gradually downsize the portfolio in H2 and discontinue reinvestments entirely by end-2024. In addition, the impact of the return of funds borrowed within **targeted long-term refinancing operations (TLTROs)** on monetary conditions is regularly monitored.

In June 2024 the ECB decided to start with monetary policy easing, continuing the accommodation in September, October and December. Thus the deposit facility rate stood at 3.0% in December, the main refinancing operations rate at 3.15% and the lending facility rate at 3.40%. The ECB opted for trimming the main rates primarily in view of the weakening of cost-push pressures, which was greatly facilitated by the past monetary policy tightening and the resulting tight financial conditions. The ECB emphasised that the disinflation process is well on track, announcing that the last quarter will see inflation rates somewhat higher than the target band, which is attributable to the base effect from energy prices and the fact that in certain sectors,

Chart III.1.9 **Policy rates across selected countries**
(p.a., in %)



Sources: Central banks of selected countries.

notably services, wages and prices are still adjusting to past inflation surge with a substantial delay. According to the ECB's December projection, inflation will be within the target tolerance band as of Q2 2025, though economic growth will most likely be slower than anticipated, with risks still skewed to the downside. Financing conditions will be rosier thanks to the recent cuts of ECB rates, though they will remain in the restrictive zone. Over the projection horizon, the effects of the restrictive monetary policy should gradually dissipate, and increased domestic demand should be supported by the monetary policy which should gradually become more expansive.

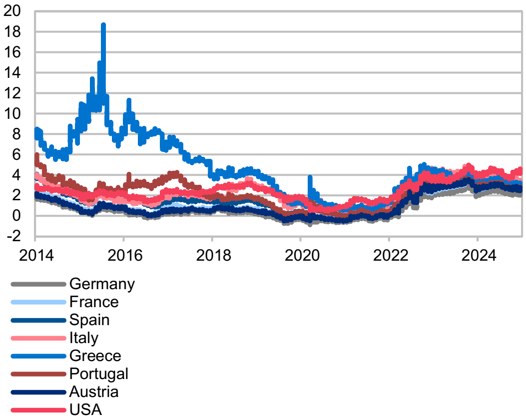
Unlike the ECB, the **Fed kept the federal funds rate unchanged (5.25–5.50%) until September**, which means the rate had not been touched since July 2023. It also proceeded with the downsizing of its balance sheet assets. In the observed period, the Fed underlined that the sound economic growth in the USA continued, employment numbers remained strong and the unemployment rate low, while inflation was moderated, though it remains elevated. **As expected, in September the Fed began narrowing the federal funds rate range**, however, the 50 bp cut (to the range of 4.75–5.00%) was twice higher than market expectations. In the two remaining meetings in 2024, the Fed trimmed the federal funds rate by a total 50 bp (to 4.25–4.50%). It noted that tight conditions in the labour market are noticeably loosening, underlining that this market is not a source of inflationary pressures, and its further cooling is not a prerequisite for inflation to be kept at the current low level. Relative to the previous assessments, the risks to inflation projection and employment are almost balanced. The Fed will continue monitoring economic data and stands ready to adjust its monetary policy stance, in necessary.

As for the monetary policy of the inflation targeting central banks in the **Central and Southeast European region, the central bank of Hungary** trimmed its policy rate the most in 2024, by a total of 425 bp, to 6.5% in September. Since monetary accommodation began in October 2023, the pace of monetary policy easing slowed gradually and is expected to continue in the same fashion going forward considering the statements by the central bank officials that there is very little room for policy rate cuts in the remainder of the year. The **central bank of the Czech Republic** also conducted significant monetary accommodation during 2024, by a total of 275 bp. The central bank underlined the slowdown of inflation and subdued economic activity as the main reasons behind such decisions. Considering the risks to inflation movements amid price growth in the services sector, the pace of monetary policy accommodation was somewhat slower at year end. The **central bank of Romania** also trimmed its policy rate in July and August, for the first time since January 2021, by 25 bp each time to 6.5%, keeping the rate unchanged during the other months of the year. Uncertainty as to the character of the fiscal policy, dynamics of public sector wages and effects of the new pension law mandate caution. After the cut in October 2023 to 5.75%, the **central bank of Poland** kept its policy rate on hold, in line with expectations. Though inflation trended within the bounds of the target tolerance band, the central bank anticipated a pick-up in price growth in H2 2024, triggered by the strong labour market, and dismissed the possibility of further policy rate cuts during 2024.

Financial and commodity markets

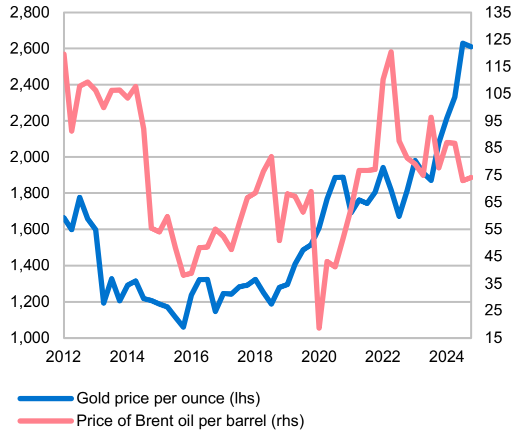
Yields on ten-year government bonds of advanced countries rose in 2024, despite the fact that the year was marked by cycles of monetary easing by the majority of central banks in those countries. The year kicked in amid general uncertainty as to the intensity with which the policy rates will be cut, with the beginning of this cycle being more certain. However, the slow dynamic of decelerating inflation and the resilience of core inflation solidified the expectations of market participants that the reductions in the ECB and Fed rates will unfold at a more moderate pace going forward, which was the case during 2024. Accordingly, the yield rates on ten-year bonds of advanced European countries increased on average by 21

Chart III.1.10 **Yields on ten-year bonds of euro area countries**
(daily data, in %)



Sources: Central banks of selected countries.

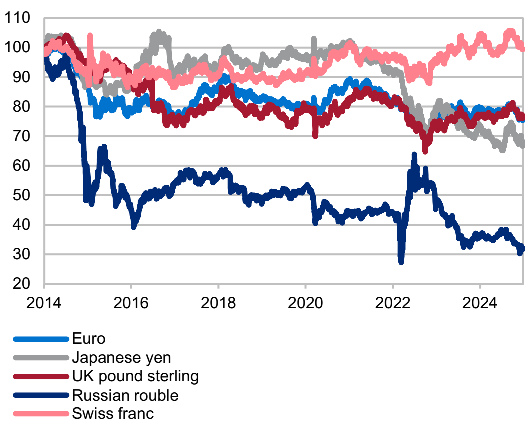
Chart III.1.12 **World gold and oil price movements**
(end quarter, in USD)



Source: Bloomberg.

bp, while yields on ten-year US Treasuries rose considerably more, by 69 bp, as a result of the US economy's more successful performance, especially in comparison with the slower pace of the euro area's economic recovery. Hence, financial market players expected the Fed to take a more cautious stance in monetary policy pursuit in the coming period, which Fed officials confirmed in their addresses. The expectations that the Fed's monetary policy easing will be slower, especially relative to other leading central banks, reflected on the **dollar strengthening vis-à-vis other currencies** during 2024.

Chart III.1.11 **Exchange rates of selected national currencies against the dollar***
(daily data, 31 December 2013 = 100)



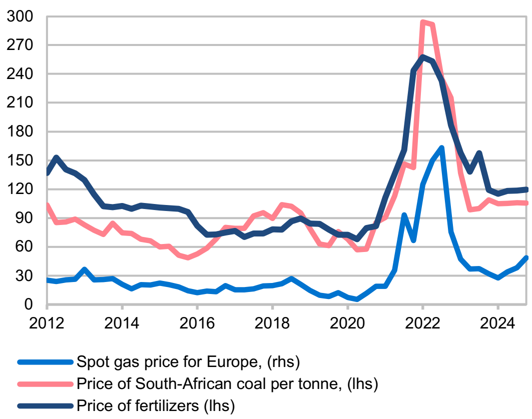
Source: IMF database.
* Growth indicates appreciation.

The global price of gold moved dominantly up during 2024, notably under the impact of exacerbated geopolitical conflicts, elevated demand by central banks and the incipient process of monetary accommodation by leading central banks. In contrast, the price of gold occasionally deviated and dropped under the impact of the appreciation of the US dollar, growth in yields on US Treasuries and diminished tensions in the Middle East around the end of the year. At the annual level, the **global price of gold rose by 25.5%**, equalling around USD 2,610 per ounce at end-December 2024.

Due to elevated geopolitical risks, forecasts of the OPEC and the International Energy Agency as to oil demand growth in 2024 and 2025, as well as the OPEC's decision to cap oil production, the **global oil price** trended up until mid-April 2024 when it measured around USD 93 per barrel. In the remainder of the year, the Brent oil price trended dominantly down due to weak demand in China, the world's largest importer, as well as increased supply from non-OPEC+ countries, OPEC+ announcement of the phasing out of production cap and expectations that the Fed could keep interest rates high for a longer period than what was forecast earlier. Exacerbated geopolitical relations triggered occasional deviations from the downward path. At end-2024, the price of Brent oil dropped to around USD 74 per barrel, 4.5% lower than at end-2023.

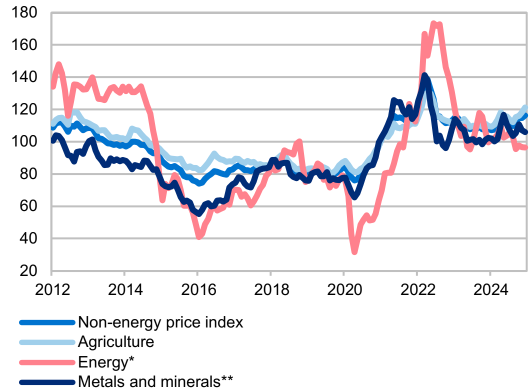
Having dipped to around EUR 23 per MWh at end-February amid dampened demand due to favourable weather conditions and high filling levels at storage facilities, **the benchmark price of natural gas for**

Chart III.1.13 **Natural gas and thermal coal price movements and index of metals and minerals**
(end quarter)



Sources: Refinitiv and World Bank.

Chart III.1.14 **World primary commodity price index**
(2010 = 100)



Source: World Bank.

* Crude oil, natural gas and coal.

** Copper, aluminium, iron ore, lead, nickel, zinc and tin.

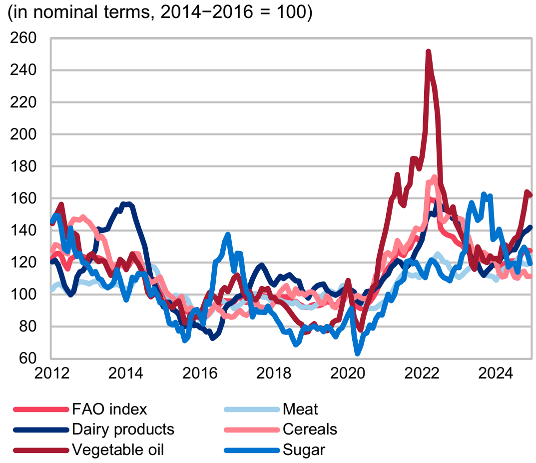
Europe (Dutch TTF hub) rose to around EUR 50 per MWh at end-December 2024, which is 52.4% higher than a year earlier. The factors underpinning the natural gas price growth included elevated geopolitical uncertainty, the seasonal maintenance of refineries and the unexpected disruptions of the Norway terminal, as well as the seasonally usual elevated demand around year end. **The benchmark price of electricity for Europe** (German stock exchange) had similar dynamics as the natural gas price and in December 2024 it averaged around EUR 120 per MWh, i.e. 62.7% higher than in the same period in 2023. The higher price of natural gas, a strong boost in demand in the summer months due to high temperatures and subdued power production from renewable sources drove up the price of electricity.

The global price of thermal coal remained relatively stable during 2024, moving within a narrow range and averaging around USD 105 per tonne in December, meaning it dropped by 3.1% y-o-y. Increased production and lower imports to China drove the coal price down, while stricter US sanctions on Russian coal import acted in the opposite direction. **The prices of mineral fertilisers** displayed stable movements during 2024 and remained broadly unchanged in December relative to the same period a year earlier.

After contracting in January and February primarily due to dampened industrial activity in China, the **prices of metals and minerals** trended dominantly up for the remainder of 2024. The major impact on their price growth came from the EU and USA's stricter sanctions on the import of metals from Russia, the start of the monetary policy accommodation by leading central banks and the announced fiscal stimuli in China. In contrast, the subdued industrial activity in China and the appreciation of the US dollar around year end reflected on occasional deviations and a fall in the prices of metals and minerals. In annual terms, according to the World Bank index, the prices of metals and minerals at end-2024 were 3.5% higher than a year before.

The global food prices, measured by the FAO index, struck a downward trajectory in Q1 2024, thereafter trending dominantly up in the remainder of the year, measuring 7.0% higher in y-o-y terms in December. As for individual categories, the prices of vegetable oils rose the

Chart III.1.15 **World food price index**
(in nominal terms, 2014−2016 = 100)



Source: FAO, UN.

most (32.5%), followed by dairy (19.6%) and meat (7.6%), while the prices of sugar and cereals retreated during the year, and were lower by 11.1% and 9.3% y-o-y, respectively, in December. Also, the **global prices of cocoa and coffee** touched record-high levels in 2024 under the impact of adverse weather in Brazil and West Africa. The price of cocoa was around USD 11,000 per tonne at end-December, a stunning 162.2% more than a year earlier, while the composite indicator price for coffee, published by the International Coffee Organisation, was 68.9% higher in y-o-y terms at end-December.

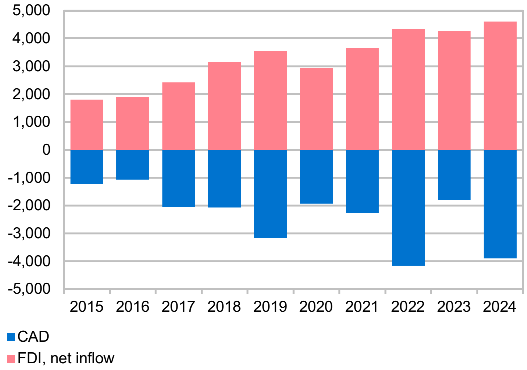
2 International transactions

Balance of payments and FX reserves

According to preliminary data, **the current account deficit** measured EUR 3.9 bn in 2024 (4.7% of GDP), having increased from 2023 when it was only EUR 1.8 bn and its share in GDP was record-low (2.4%). This was to be expected as investments gathered momentum and households' disposable income went up, but it was also due to low external demand, primarily from the euro area. The current account deficit was, however, fully covered by FDI inflows which touched a new record high of EUR 5.2 bn. This led to an increase in FX reserves to their highest end-of-year level to date – EUR 29.3 bn, significantly exceeding all adequacy metrics and confirming the economy's resilience to external shocks.

The deficit on trade in goods in 2024 was EUR 6.8 bn, up by 2.3% from 2023. **Goods exports** rose by 6.8% to EUR 29.8 bn, and **goods imports** by 5.9% to EUR 36.6 bn. As in earlier years, export growth was driven by manufacturing exports (2.7%), primarily as a result of past investment and the consequent increase in export capacities. Within manufacturing, export growth was recorded in 13 out of 23 branches, particularly in the export of base metals, other transport equipment, computers and other electronic products, and metal products. Export growth would have been even higher if not for the slowdown in industrial production in Germany (which accounts for around 14% of Serbia's exports) and the euro area in general, resulting in lower external demand for products of Serbian companies integrated into European value chains. Thanks to an excellent agricultural season in 2023, a strong export base was created, leading to a 29.2% increase in agricultural exports in 2024, while mining exports also grew (13.2%) due to higher copper exploitation. In contrast, electricity exports fell by 46.4% due to reduced hydropower potential caused by high summer temperatures and low rainfall, and partly to the last year's high base. Import growth was guided by higher imports of equipment (by 9.6%) and intermediate goods (by 3.0%) to support the new investment cycle, as well as rising private consumption, as evidenced by a 10.4% increase in consumer goods imports. By product group (SITC), the largest import growth was recorded for power-generating machinery, general-purpose industrial machinery, metal ores, road vehicles, and other transport equipment. On the other hand, energy imports fell by 12.2%, influenced by both reduced import volumes and

Chart III.2.1 **FDI/CAD coverage***
(EUR mn)



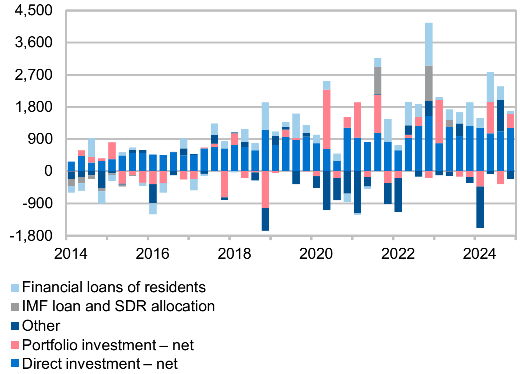
Sources: SORS and NBS.
* Preliminary data.

Table III.2.1 **Serbia's balance of payments**
(EUR mn)

	2023	2024
I CURRENT ACCOUNT	-1,803.7	-3,900.6
1. Goods	-6,628.5	-6,779.0
1.1. Credit	27,931.7	29,819.0
1.2. Debit	-34,560.1	-36,598.0
2. Services	3,103.7	2,758.9
2.1. Credit	13,086.1	14,462.0
2.2. Debit	-9,982.4	-11,703.1
3.Goods and services	-3,524.8	-4,020.1
3.1. Credit	41,017.7	44,281.0
3.2. Debit	-44,542.5	-48,301.1
4. Primary income	-3,917.5	-5,150.3
5. Secondary income	5,638.6	5,269.7
II CAPITAL ACCOUNT	1.3	120.4
III FINANCIAL ACCOUNT (excluding reserve assets)	6,663.6	6,077.5
1. Direct investment, net	4,261.6	4,600.4
2. Portfolio investment, net	884.3	481.8
3. Financial derivates, net	73.5	35.5
4. Other investment, net	1,444.2	959.8
4.1. Trade credit and advances, net	-107.9	-67.9
4.2. Financial loans, net	1,563.7	1,555.3
4.3.Currency and deposits, net	-39.3	-570.2
4.4. Other, net	27.6	42.7
IV Reserve assets	5,104.3	2,834.5
V NET ERRORS AND OMISSIONS	243.2	537.1
VI OVERALL BALANCE	5,104.3	2,834.5

Source: NBS.
Note: Preliminary data.
[1)] BPM6 methodology, except sign convention.

Chart III.2.2 **Structure of the financial account***
(EUR mn)



Source: NBS.
* Preliminary data.

lower prices. The imported quantities of crude oil were significantly lower than in 2023, as were the imports of gas, while the quantity of petroleum product imports increased, likely associated with the overhaul of the Pančevo oil refinery. The average import price of gas and petroleum products declined compared to 2023, while the price of crude oil went up. Overall, the **energy balance** improved slightly compared to 2023, with the deficit amounting to just under EUR 3.4 bn.

External trade in services also contributed to the widening of the current account deficit. The surplus in services trade decreased by 11.1% in 2024, to EUR 2.8 bn, primarily due to higher imports of tourist services, further confirming the growth in household disposable income. A negative balance was also recorded in the trade in transport services, while a significant one-off outflow was registered for compensation for the use of intellectual property rights. At the same time, the surplus in ICT services trade continued to grow, with exports of these services exceeding EUR 4.1 bn, while a high surplus, similar to last year's, was also recorded in other business services.

The deficit on the primary income account increased by 31.5%, to EUR 5.2 bn, driven mostly by higher FDI expenditures. This was expected given the steady inflow and growth in FDI stock, which stood at EUR 60.3 bn at end-2024, as well as improved corporate profitability which also entails increased dividend payments. Expenditure in respect of interest on financial loans and portfolio investment increased as well, reflecting past tightening of global financial conditions amid restrictive monetary policies of central banks.

The reduction in the s**urplus on the secondary income account** by 6.5% (to EUR 5.3 bn) was primarily due to lower official transfers to the government, as well as a somewhat lower net inflow of remittances. Nonetheless, despite this decline, the inflow of remittances continued to record relatively high levels (EUR 4.9 bn gross, EUR 4.5 bn net).

A net capital inflow of EUR 6.1 bn[5] was recorded (vs. EUR 6.7 bn in 2023) on the **financial account of the balance of payments**, primarily owing to FDI, successful eurobond issues in the international market, and increased credit borrowing by the government and corporates.

According to preliminary data, **FDI inflows to Serbia** reached EUR 5.2 bn (14.2% more than in 2023), while net FDI inflow measured EUR 4.6 bn. The FDI structure remained favourable, with four-fifths of inflows in the form of equity or reinvested earnings, confirming foreign investors' commitment to continue investing in Serbia. As in earlier years, FDIs were diversified by geography and project, and mostly channelled to construction, mining, manufacturing, and professional, scientific, innovation and technical activities. Diversification was also evident in terms of sources – while the majority of FDIs still originate from European countries, the share of investment from Asia is rising, boosting resilience to potential negative impacts of a slowdown in the euro area.

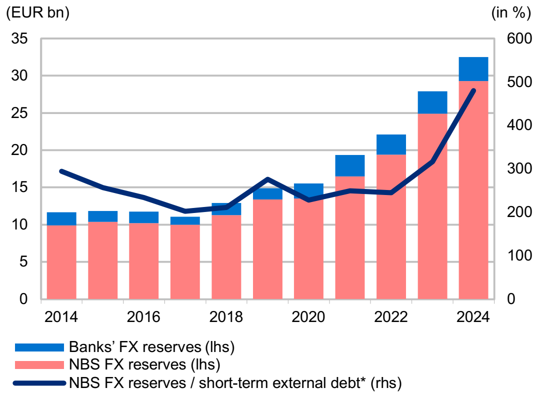
On the **portfolio investment** account, a net capital inflow of EUR 481.8 mn was recorded in 2024, with the largest inflows resulting from eurobonds issued by the government in June (USD 1.5 bn) and corporate bonds issued by Telekom in October (USD 900 mn). Investor demand at these auctions by far exceeded supply, enabling the government and Telekom to further reduce borrowing costs during the auctions. On the other hand, outflows were driven by the maturing and early buyback[6] of government securities sold to non-residents, as well as sales in the secondary market, with residents, primarily banks, also purchasing foreign securities.

Other investment provided an inflow of EUR 959.8 mn in 2024. **Financial loans** generated a net inflow of EUR 1.6 bn, the bulk of which relating to corporate and government borrowing. Banks reduced their foreign credit obligations. Domestic banks also increased their balances on accounts abroad which exceeded the rise in non-resident account balances with domestic banks, resulting in a net outflow of EUR 570.2 mn

[5] Excluding change in FX reserves.

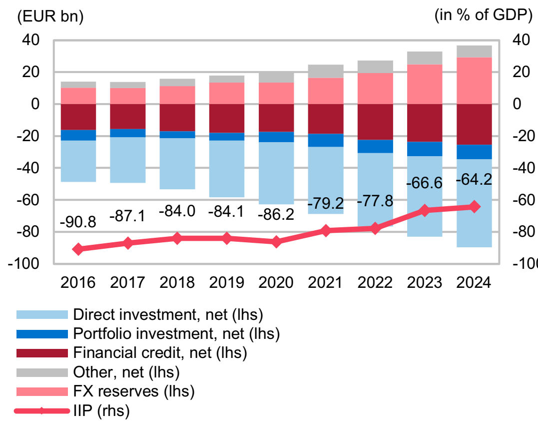
[6] Government securities issued in the international market through private placement in 2022.

Chart III.2.3 **FX reserves and coverage of short-term external debt**



Source: NBS.
* Short-term debt by remaining maturity.

Chart III.2.4 **International investment position**



Source: NBS.
* Preliminary data.

under currency and deposits. An outflow of EUR 67.9 mn was recorded under **trade loans and advances**.

During 2024, **NBS gross FX reserves** gained EUR 4,385.4 mn and measured EUR 29,294.5 mn as at 31 December 2024, their highest end-of-month and end-of-year level on record. FX reserves covered 168.2% of money supply M1 and 7.3 months' worth of imports of goods and services, which is more than twice the level prescribed by the relevant adequacy standard. Net FX reserves also hit their end-of-month and end-of-year high of EUR 24,693.3 mn, up by EUR 3,908.1 mn from end-2023.

Consistent with the principles of safety and liquidity, funds were invested in highly liquid securities issued by the world's most advanced economies and international financial institutions, and placed with prime institutions (central banks, international institutions and top-tier foreign banks). As at 31 December 2024, foreign securities accounted for the highest share of FX reserves (59.2%), followed by FX balances in accounts abroad (22.0%), gold (13.3%), foreign cash (5.3%) and SDRs with the IMF (0.2%).

The bulk of FX inflows in 2024 came from the NBS's net FX purchases in the IFEM[7] (net inflow of EUR 2,715.0 mn, or 61.9% of the total increase in gross FX reserves). Total net inflow of EUR 986.4 mn came from the issue of FX securities of the Republic of Serbia at home and abroad, of which USD 1.5 bn refers to the issue of 10Y dollar sustainability bonds in the international market, the proceeds from which are intended for green projects and socially responsible activities. A substantial inflow of EUR 838.0 mn net also came from banks' FX required reserves. Further, inflow was generated from interest and coupon payments worth EUR 550.9 mn, payment transactions with Kosovo and Metohija[8] worth EUR 366.2 mn and grants – EUR 278.0 mn.

The largest outflow from the NBS FX reserves referred to the settlement of the government's FX liabilities and net repayment of Serbia's debt to foreign creditors, totalling EUR 2,817.0 mn.

International investment position

Serbia's net international investment position, i.e. the difference between Serbian residents' foreign assets and liabilities, was negative and came at **EUR 52.9 bn** at end-2024, up by EUR 2.8 bn from end-2023 in absolute terms. **Thanks to economic growth**, however, and relative to the strength of the economy, **the share of the negative international investment position in estimated GDP decreased for the fourth year in a row by 2.4 pp to 64.2%**.

Within foreign financial assets, which amounted to EUR 51.5 bn at end-2024, **FX reserves increased the most**, with their share in total assets climbing to 56.9%. Portfolio investment also increased notably, as did its share in total assets – to 4.0% at end-2024.

[7] In accordance with accounting rules, transactions in respect of NBS interventions in the IFEM are disclosed on the execution day and not on the trading day.

[8] Under the Law on Temporary Execution of Certain Payment Operations in the Territory of the FRY (FRY Official Journal, No 9/01).

Within financial liabilities, which amounted to EUR 104.3 bn at end-2024, it is positive that **FDIs** continued to increase the most during the observed period. As the most favourable, long-term type of foreign investment, they still significantly exceed a half of total foreign liabilities **(57.8%)**, while **financial loans and portfolio investment** make up a smaller share of liabilities: 24.8% and 10.8%, respectively.

3 Financial market trends

Interest rates

At Executive Board meetings in June, July and September 2024, the NBS trimmed the key policy rate and rates on deposit and lending facilities by a total of 75 bp, to 5.75%, 4.50% and 7.00%, respectively, which passed through, via the interest rates channel, to the interbank money market rates and, by extension, to the cheapening of dinar loans. The average repo rate dropped by 106 bp, levelling off with the deposit facility rate at the last auction in December.

Interest rates in the **interbank money market** dropped somewhat more sharply than the key policy rate. Thus, the interest rate in the overnight interbank market, BEONIA, went down by 78 bp, to 4.45% and end-2024, while BELIBOR rates of all maturities declined between 74 and 106 bp in the same period, moving at end-December from 4.51% for the shortest to 4.74% for six-month maturity.

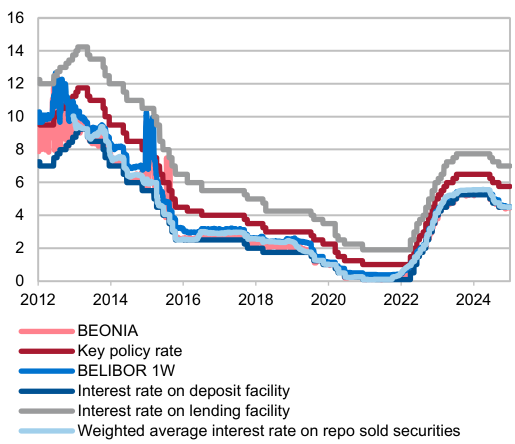
On 5 June 2024, the Republic of Serbia successfully issued for the first time 10Y sustainability dollar bonds in the international financial market. It sold securities in the total amount of USD 1.5 bn, at the coupon rate of 6.00%. In order to efficiently manage public debt, a hedging transaction was concurrently concluded, whereby the government converted these liabilities into euros, reducing the cost of borrowing to 4.750% after the transaction.

In Q1, three auctions were organised for the sale of 8Y government bonds in the **primary market of dinar government securities**. January and February auctions attracted high investor demand, recording securities sales worth RSD 104.7 bn nominally, with a significant share of non-residents (around 43%). The remaining RSD 2.9 bn was sold subsequently in the March auction, whereby the total volume of this issue (initiated in October 2023) was sold, amounting to RSD 150 bn. Compared to the auction from end-2023, the yield rate at the last auction in March edged down by 30 bp, to 6.00%, significantly below the coupon rate of 7.00%.

Since earlier issued dinar government securities worth RSD 90.7 bn fell due during the year, the stock of dinar securities increased by RSD 16.9 bn to RSD 856.6 bn at end-December.

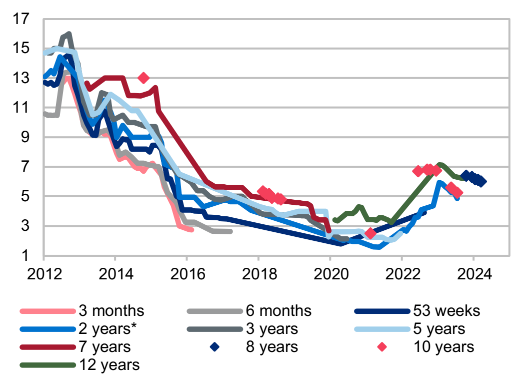
Early in the year, **non-residents participated in auctions for the sale of 8Y dinar securities** and bought bonds in the nominal value of RSD 45.7 bn. However, since they participated in the secondary market as net sellers and 2Y

Chart III.3.1 **Interest rate movements**
(daily data, p.a., in %)



Sources: Thomson Reuters and NBS.

Chart III.3.2 **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.

and 5Y dinar securities fell due at the same time, the stock of dinar government securities in their ownership increased by RSD 1.0 bn relative to end-2023, to RSD 135.6 bn at end-December, or around 16% of the total portfolio of dinar government securities.

In January, April and May 2024, three **auctions** were organised for the sale of 3Y **euro securities**, achieving the nominal sales volume of EUR 220.7 mn and the yield rate of 4.00%, below the coupon rate of 4.25%. However, as previously issued securities nominally worth EUR 591.9 mn matured at the same time, the stock of euro securities decreased to EUR 1,548.4 mn at end-December.

The weighted average yields in the **domestic secondary market of dinar government securities** went down in 2024, mirroring the movements of the key policy rate and interest rates in the interbank market, pulled down also by the lower country risk premium. Concurrently, the turnover in the secondary market increased substantially, by RSD 122.0 bn (or 65%), to RSD 309.2 bn annualised, receiving an impetus from the issue of 8Y dinar bonds and their inclusion in the renowned J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) as of 1 March 2024. The weighted average yield rates at year end moved from 4.27% for the remaining around 1Y maturity to 4.78% for the remaining 8Y maturity, which is a decrease of 63 bp and 148 bp, respectively, compared to yield rates of bonds with comparable remaining maturities from end-2023.

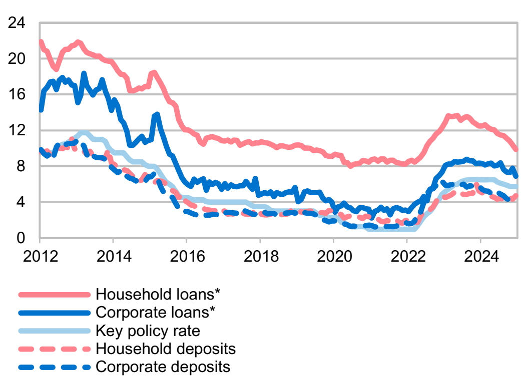
The NBS's monetary easing induced a continuous decline in rates on new dinar loans in 2024. In December 2024, interest rates on dinar loans dropped by 2.6 pp to 9.9% for household loans, the lowest level since July 2022, while the rates on corporate loans lost 1.4 pp, coming to 6.9%, their lowest level since November 2022.

A decline in the interest rate on dinar household loans was seen in all loan categories, but was predominantly driven by the cheapening of cash loans, by 3.0 pp from December 2023, to 10.2% (these loans have a dominant share of around 87% in dinar lending to this sector), and also by the drop in the interest rate on other non-categorised loans, by 2.3 pp to 8.2%, with this category accounting for almost all remaining dinar lending to households.

The weighted average interest rate on new dinar corporate loans subsided for all loan types in December, but the fall was mainly led by the cheapening of working capital and investment loans, by 1.4 pp and 2.5 pp, to 6.9%, while the decline in the interest rate on other non-categorised loans contributed to a somewhat lesser degree, by 1.3 pp to 7.0%.

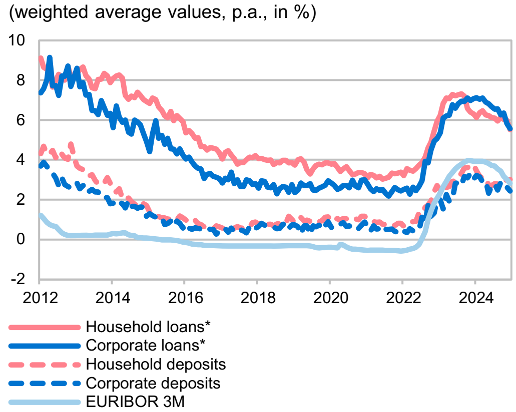
Cautious loosening of ECB's monetary policy in 2024 reflected on a **decline in interest rates on new euro-indexed loans** relative to end-2023. The interest rate on euro-indexed household loans edged down by 0.8 pp, to 5.5% in December 2024, led by the interest rate decline in other non-categorised loans and cash loans, by 1.2 pp and 0.8 pp to 8.7% and 2.4%, respectively. Another contributor were housing loans, with their share increasing by 10 pp to 78% and the interest rate remaining on a below-average level (4.9%), thanks to the application of NBS's decision on capping the interest rates on housing loans approved to natural persons.

Chart III.3.3 **Interest rates on new dinar loans and deposits**
(weighted average values, p.a., in %)



Source: NBS.
* Excluding revolving loans, current account overdrafts and credit card debt.

Chart III.3.4 **Interest rates on new euro and euro-indexed loans and deposits**
(weighted average values, p.a., in %)



Sources: NBS and European Banking Federation.
* Excluding revolving loans, current account overdrafts and credit card debt.

The average interest rate on new euro-indexed corporate loans dropped in 2024 by 1.5 pp to 5.6%, as a consequence of the interest rate decline across all loan categories, with working capital and investment loans being the strongest contributors as they accounted for almost 93% of corporate lending in euros and their rates went down by around 1.5 pp to 5.4% and 5.7%, respectively.

Consistent with the NBS and ECB monetary policy easing, interest rates on **household time deposits in dinars and euros** edged down in 2024 by around 0.6 pp, to 4.7% and 3.0%, respectively in December, while interest rates on **dinar and euro-indexed time corporate deposits** dropped by 1.4 pp and 0.6 pp, to 4.4% and 2.4%, respectively.

Country risk premium and credit rating

In 2024, global risk premium and risk premiums of observed European emerging economies (including Serbia) were mainly under the sway of developments in the international environment. Disinflation, achieved amid soft landing, enabled global monetary accommodation, resulting in a decline of the global risk premium. Conversely, geopolitical tensions, protectionist measures and statements of leading central bankers worldwide on slower than initially anticipated interest rate cuts spurred occasional hikes in the global risk premium.

EURO EMBIG Composite dropped by 8 bp in 2024, to 192 bp at year end. At the same time, Serbia's EURO EMBIG lost 53 bp, coming to 194 bp. Serbia's dollar risk premium also edged down during the year (by 41 bp to 147 bp), continuing to move considerably below **EMBI Composite**, which in 2024 declined by 22 bp, to 297 bp.

After raising Serbia's outlook for investment grade credit rating from stable to positive in April, **Standard & Poor's upgraded Serbia's rating to BBB- in October. This was Serbia's first ever investment grade rating**. It was also the first time a non-EU SEE country was awarded an investment grade, which is a confirmation of responsible conduct of monetary and fiscal policies in the prior period and the country's higher resilience to external shocks. The agency cited as key factors behind the investment grade award the 18% real GDP growth relative to the pre-pandemic level, doubled FX reserves, substantial lowering of external and fiscal imbalances, along with sectorally dispersed FDI inflows and a sound and stable banking sector.

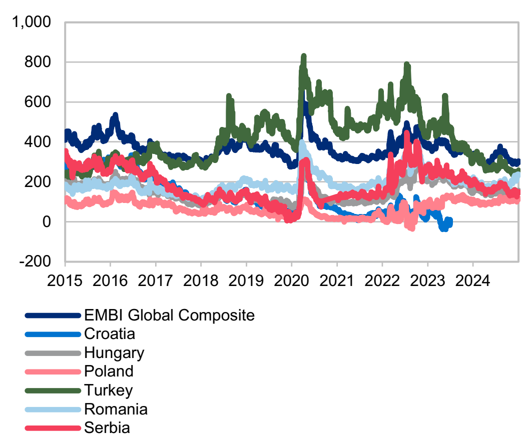
In February, **Fitch** maintained Serbia's credit rating at one notch below investment grade – BB+, with a stable outlook, while **in August it upgraded the outlook from**

Table III.3.1 **Credit rating**
(change of rating and outlook)

	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]	

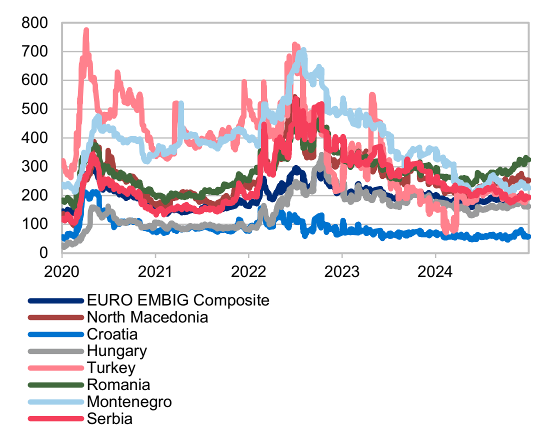
Source: NBS.
[1] March, [2] April, [3] May, [4] June, [5] August, [6] October, [7] December.
Note: There was no change in rating/outlook in 2023.

Chart III.3.5 **Risk premium indicator for dollar debt – EMBI**
(daily data, in bp)



Source: JP Morgan.

Chart III.3.6 **Risk premium indicator for euro debt – EURO EMBIG**
(daily data, in bp)



Source: JP Morgan.

stable to positive and affirmed the credit rating. The key factors corroborating such decision were the expected acceleration of economic growth, inflation which retreated within the target band, financial stability with a reduced NPL ratio, continued strengthening of external position and a declining trajectory of public debt.

In August, **Moody's upgraded Serbia's outlook from stable to positive**, while keeping Serbia's credit rating at Ba2. As the key factors behind Serbia's outlook upgrade, the agency cited sound medium-term growth prospects, the economy's strengthened resilience to exogenous shocks, bolstered public finance and an adequately capitalised and liquid banking sector.

Trends in the FX market and dinar exchange rate

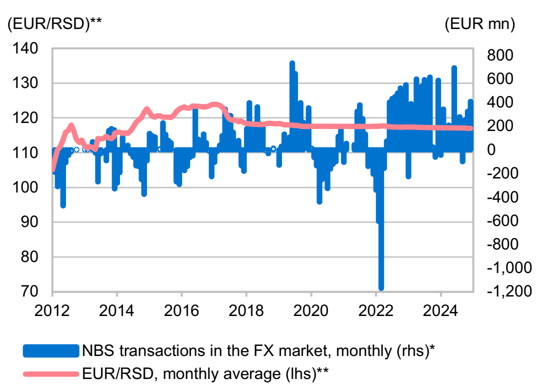
The dinar continued its relatively stable movement against the euro in 2024, strengthening by 0.1% end-of-period. At the same time, since the euro continued to lose ground against the dollar in the international market, the dinar depreciated against the dollar by 5.8%.

The very beginning of 2024 witnessed depreciation pressures, while appreciation pressures reemerged from the second half of January and prevailed in the following months, reaching their strongest in June. Throughout 2024, FX supply was mainly spurred by residents, which thanks to continually rising exports and FDI inflows turned out as net FX sellers even early in the year – this being unusual, given the rising FX demand of energy importers. Residents turned out as net FX buyers only in August, due to the higher import of equipment for investment purposes. FX supply rose all year round also thanks to the purchase of foreign cash and FX inflows from payment card transactions. FX supply growth in the second half of January and early February was also boosted by non-residents, who bought dinar government securities. In the ensuing months (except July and August) non-residents created FX demand which was fully covered by FX inflows on other grounds. In some months, especially in January, FX demand was also spurred by the decrease in FX-indexed bank assets.[9] Nevertheless, during major part of the year, especially in summer, the growth in FX-indexed bank assets worked to boost FX supply.

To maintain relative stability of the dinar exchange rate against the euro, the NBS net bought EUR 2,725.0 mn in the IFEM in 2024. Only in January and September it intervened by selling foreign currency, while in all other months it acted predominantly or solely on the buying side.

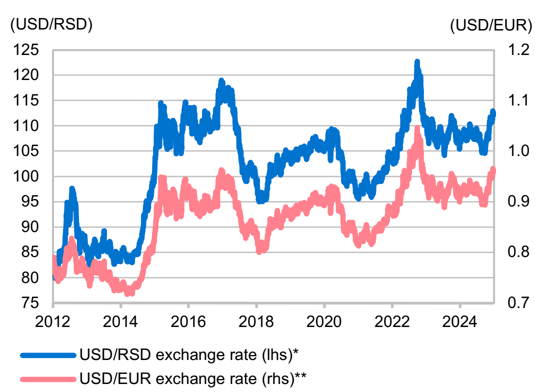
Interbank trading turnover in the IFEM[10] in 2024 averaged EUR 34.0 mn daily, up by EUR 2.5 mn y-o-y. The turnover peaked in April (EUR 38.0 mn on average per day).

Chart III.3.7 **Dinar exchange rate and NBS transactions in the FX market**



Source: NBS.
* + net purchase; - net sale.
** EUR 1 in RSD.

Chart III.3.8 **Movements in USD/RSD and USD/EUR exchange rates**

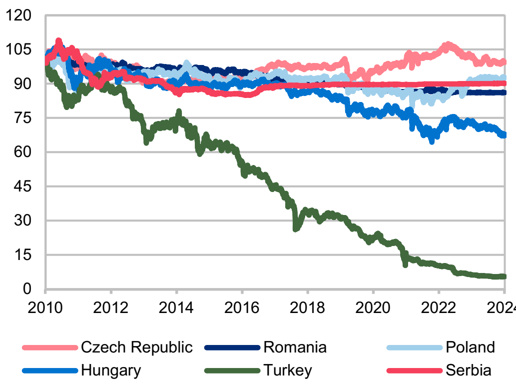


Source: NBS.
* 1 USD in RSD.
** 1 USD in EUR.

[9] Aiming to balance their short open FX positions and reduce exposure to FX risk, banks buy foreign currency, which works toward the weakening of the dinar.

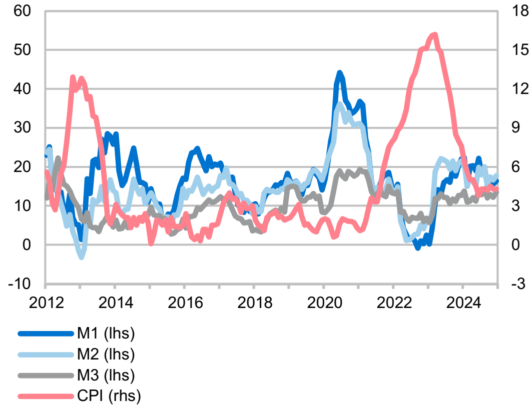
[10] Excluding the NBS.

Chart III.3.9 **Movements in exchange rates of national currencies against the euro***
(daily data, 31 December 2010 = 100)



Sources: NBS and websites of central banks.
* Growth indicates appreciation.

Chart III.4.1 **Monetary aggregates and consumer prices**
(y-o-y rates, in %)



Sources: SORS and NBS.

The currencies of regional inflation-targeting peers recorded divergent movements against the euro in 2024. The Polish zloty was the only currency that strengthened against the euro (1.8%), the Romanian leu did not change its value, while the depreciation was seen in the Czech koruna (1.8%), Hungarian forint (6.7%) and the Turkish lira (11.0%).

4 Money and loans

Monetary aggregates M1, M2 and M3

Monetary aggregates rose moderately y-o-y in 2024, largely on the back of the most liquid dinar component M1 and FX deposits, while the growth of dinar time deposits provided a smaller contribution, consistent with the relaxation of monetary conditions and lowering of interest rates. In December, M1, M2 and M3 recorded y-o-y growth rates of 16.4%, 17.7% and 13.5%, respectively.

In terms of individual categories, **demand deposits** gained RSD 256.5 bn in 2024, driven mainly by higher balances in household transaction accounts, by RSD 140.4 bn, while corporate deposits went up by RSD 90.8 bn (mainly in real estate and construction).

Time dinar deposits increased by RSD 123.9 bn, led chiefly by the rise in household dinar savings, (by RSD 51.0 bn), owing to which they climbed to new record levels (RSD 187.5 bn in December)[11] and also on the back

Table III.4.1 **Monetary survey**
(RSD bn)

	2023	2024	Changes in 2024
Net foreign assets	**2,700,494**	**3,293,136**	**592,642**
Bank net foreign assets	-232,725	-151,343	81,382
Net domestic assets of the banking sector	**1,847,733**	**1,870,101**	**22,369**
Net domestic loans	3,220,815	3,536,595	315,780
Net claims on government	-56,107	-27,094	29,013
Government loans	790,096	917,144	127,048
Government deposits	-846,203	-944,238	-98,035
Loans to other resident sectors	3,276,922	3,563,689	286,767
Loans to households	1,474,361	1,625,247	150,885
Loans to the corporate sector	1,732,911	1,830,615	97,704
Loans to other financial corporations	46,484	72,707	26,222
Loans to local authorities	22,798	34,680	11,882
Loans to non-profit and other organisations	368	441	74
Other net assets	-1,373,082	-1,666,494	-293,412
Money supply M3	**4,548,227**	**5,163,237**	**615,010**
Money supply M2	2,280,993	2,685,365	404,372
Money supply M1	1,751,528	2,038,281	286,754
Currency in circulation	369,368	399,640	30,272
Sight deposits	1,382,160	1,638,641	256,482
Dinar savings and term deposits	529,466	647,084	117,618
FX deposits	2,267,234	2,477,872	210,638

Source: NBS.

[11] Including only resident assets. With non-resident assets included, dinar savings at end-2024 came to RSD 191.2 bn.

of the rise in corporate deposits (by RSD 35.5 bn), primarily in construction, and other sectors (by RSD 32.7 bn), mainly other financial organisations. Dinar savings increased thanks to their higher attractiveness as a result of higher interest rates and a more favourable tax treatment of dinar compared to FX savings and the preserved financial stability and relative stability of the RSD/EUR exchange rate in periods of heightened global uncertainty.

FX deposits went up by EUR 1.8 bn in 2024, driven almost equally by the rise in household FX deposits, by EUR 945.2 mn to the new high of EUR 14.3 bn,[12] and in corporate FX deposits, up by EUR 734.8 mn, mainly in mining and manufacturing, which can be associated with the relatively high inflow of FDIs to these sectors and their higher exports.

Bank loans

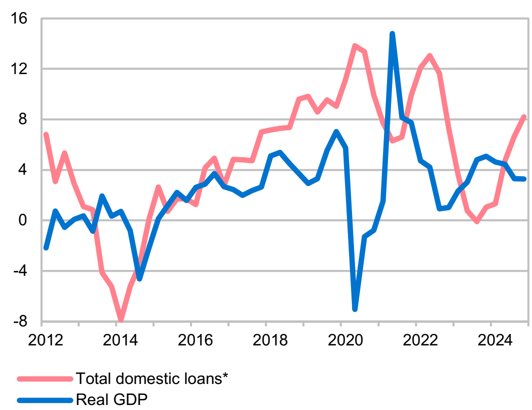
Supported by softened credit standards and lower cost of financing, **total domestic loans** to the non-monetary sector rose by 8.2% in 2024, excluding the exchange rate effect.[13] This growth was led by household lending, which rose at a double-digit rate in 2024 (10.4%), and corporate lending, going up by 4.8%. Apart from that, lending growth was supported by lending to other financial organisations and local self-governments.

Excluding the exchange rate effect, **corporate loans** added RSD 77.7 bn in 2024, thanks to the rise in company borrowing, while public enterprise debt went down. A more pronounced growth in dinar loans (dinar loans accounted for almost four-fifths of loan growth in 2024) was supported by the provisions of the Decision on Capital Adequacy of Banks, which sets out that starting from 2025, when calculating capital adequacy ratios, banks are required to reduce capital if the share of FX-indexed and FX loans in total loans to the non-financial and non-government sector approved after 1 July 2023 exceeds a certain threshold (71% in 2025).[14]

By purpose, the rise in corporate loans was led by investment lending (RSD 47.6 bn), which can be associated with the new investment cycle and approval of liquidity and working capital loans (RSD 41.1 bn). Import loans also went up, while company borrowing under other types of loans decreased. Such trends pushed the share of investment in total corporate loans up by 0.9 pp to 42.8%, and that of liquidity and working capital loans by 0.3 pp to 47.1%. Sector-wise, the companies in real estate, manufacturing, trade and construction stepped up their borrowing the most, while those in transport and agriculture reduced their credit liabilities to banks. As bank lending was channelled to micro, small and medium-sized enterprises more than to large enterprises, the share of loans approved to this segment in total corporate loans increased by 1.7 pp in 2024, to 60.8% in December, while their stock went up by 7.7%.

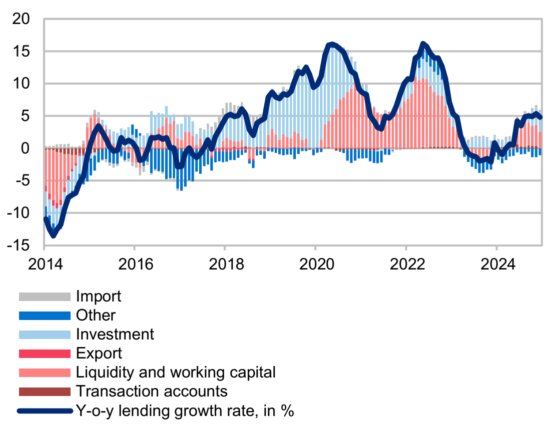
The volume of new corporate loans in 2024 (RSD 1,386.5 bn) increased by 19.2% y-o-y. Liquidity and

Chart III.4.2 **Lending activity and GDP**
(y-o-y rates, in %)



Sources: NBS and SORS.
* Excluding the exchange rate effect.

Chart III.4.3 **Contributions to y-o-y corporate lending growth**
(in pp, excluding the exchange rate effect)



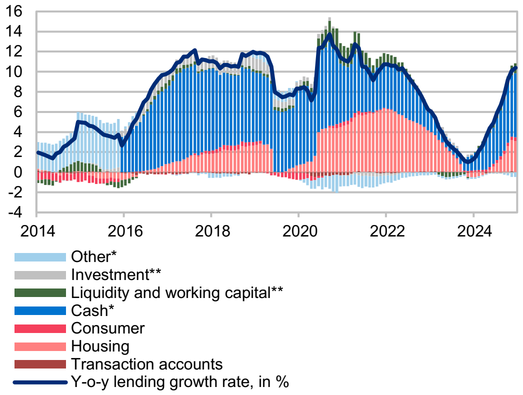
Source: NBS.

[12] With non-resident assets included, to EUR 15.4 bn.

[13] Calculated at the new exchange rate on 30 September 2024.

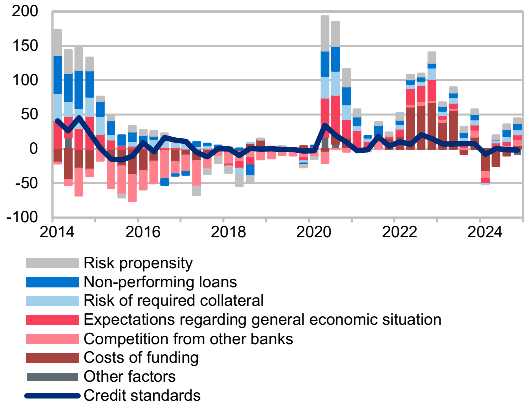
[14] It is stipulated that the threshold will go further down, to 64% in 2026 and 57% in 2027.

Chart III.4.4 **Contributions to y-o-y household lending growth**
(in pp, excluding the exchange rate effect)



Source: NBS.
* Until December 2015, the contribution of cash loans is shown within the contribution of other loans.
** Loans extended to entrepreneurs.

Chart III.4.5 **Change in corporate credit standards and contributing factors**
(in net %)



Source: NBS.
Note: Growth indicates the tightening, and decline indicates the easing of credit standards.

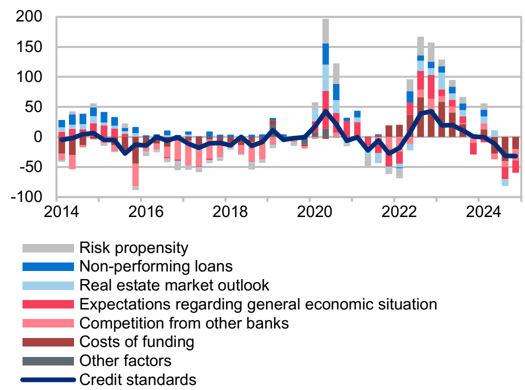
working capital loans remained dominant, accounting for almost three-fifths of new corporate loans and going up by 13.5%, with half of these loans being channelled to the segment of micro, small and medium-sized enterprises. Investment loans accounted for 28% of new loans, with 62% of this type of loans being approved to micro, small and medium-sized enterprises.

Excluding the exchange rate effect, **household loans** rose RSD 152.1 bn in 2024. This growth was supported by softened credit standards, banks' promotional offers, lower interest rates, as well as wage growth. Cash loans accounted for more than three-fifths of the increase in household loans, and next came housing loans which, in banks' view, attracted rising demand all year round. Consumer loans also extended their moderate growth. Such trends pushed the share of cash in total household loans to 46.3% at end-2024, while housing loans accounted for 38.4%. Within lending to entrepreneurs, liquidity and working capital loans went up by RSD 14.5 bn. Conversely, investment loans subsided by RSD 0.5 bn.

The volume of new household loans in 2024 amounted to RSD 782.1 bn, up by 46.1% from 2023. The main contributor were cash loans, which made up little more than two-thirds of new household loans. The next largest category were housing loans, accounting for 16% of new household loans.

The results of the NBS Bank Lending Survey[15] show that for the first time after a longer period of tightening, banks eased corporate and household credit standards in 2024. The easing chiefly concerned dinar loans, while in H2, banks softened credit standards also for euro-indexed housing loans. The easing was mainly motivated by less expensive sources of funding thanks to the NBS and ECB monetary policy accommodation. In the household loan segment, the contributing factors were competition and a positive economic outlook, and in the corporate segment, also the shortening of the underwriting procedure in Q4. Banks assessed that corporate demand for dinar loans was on the rise for the most part of 2024, while the demand for

Chart III.4.6 **Change in household credit standards and contributing factors**
(in net %)



Source: NBS.
Note: Growth indicates the tightening, and decline indicates the easing of credit standards.

[15] The NBS conducts the survey since the beginning of 2014.

FX-indexed loans increased in Q2 and Q4. Demand growth mainly referred to small and medium-sized enterprises and was chiefly driven by investment and working capital financing, less so by debt restructuring. At the same time, internal financing of enterprises, loans of other banks and non-bank institutions, worked in the opposite direction. In 2024, households stepped up their demand for dinar cash and refinancing loans, and, after a longer pause, also for FX-indexed housing loans. In banks' view, demand growth was powered by the refinancing of existing loans, purchase of durable consumer goods and real estate, with a positive impact of higher wages.

Lending growth, coupled with the lower share of non-performing receivables, drove the **NPL ratio** down by 0.7 pp in 2024, to the new low of 2.5% in December. Gross NPL ratio in the corporate sector[16] edged down by 0.3 pp to 1.8%, and in the household sector[17] by 0.9 pp to 3.4%. NPL coverage remained high – allowances for impairment of total loans stood at 109.6% of NPLs, while allowances for impairment of NPLs measured 62.3% of NPLs in December.

The capital adequacy ratio at end-Q4 2024 equalled 21.3%, down by merely 0.1 pp from end-2023, indicating high capitalisation (regulatory minimum – 8.0%) and resilience of the banking sector to external and domestic risks.

5 Dinarisation

In 2024, the NBS continued to implement activities aimed at the greater use of the dinar in the domestic financial system.

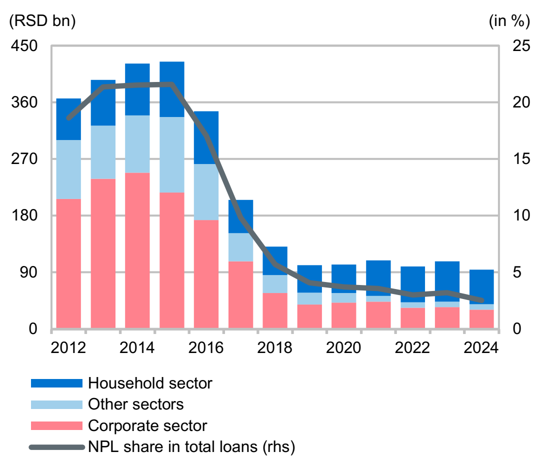
Monetary policy measures implemented by the NBS contribute to preserving macroeconomic stability, relative stability of the RSD/EUR exchange rate, as well as the stability of the financial system, which is the main precondition for strengthening the confidence in the local currency.

In 2024, with the required reserve policy, the NBS kept encouraging banks to use dinar sources of funding. The required reserve ratios on dinar sources of funding are still lower than those on FX sources, and the NBS pays remuneration on required reserves in dinars only, and not in foreign currency.

Dinar government securities and dinar bonds of companies with acceptable creditworthiness, unlike FX securities, are included in the list of eligible collateral for NBS monetary operations, which, in the long run, contributes to the capital market development through incentives to banks to hold dinar securities in their portfolios.

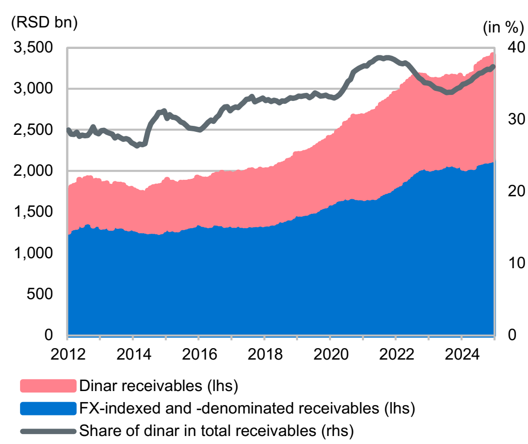
Also conducive to the dinarisation process is a measure applied since early 2025, reducing the capital of banks

Chart III.4.7 **NPL share in total loans, gross principle**



Source: NBS.

Chart III.5.1 **Share of dinar receivables in total corporate and household receivables**

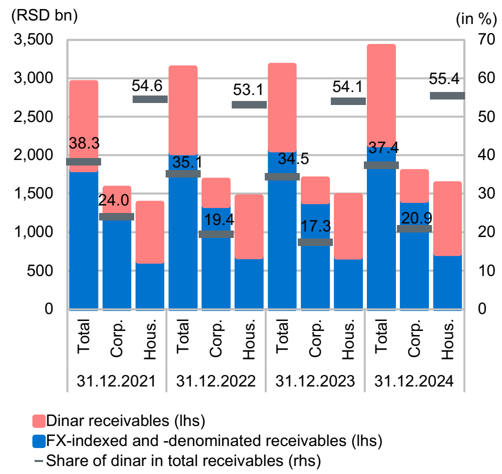


Source: NBS.

[16] Includes companies and public enterprises. Looking at companies only, the NPL share in total loans decreased by 0.4 pp to 2.0%.

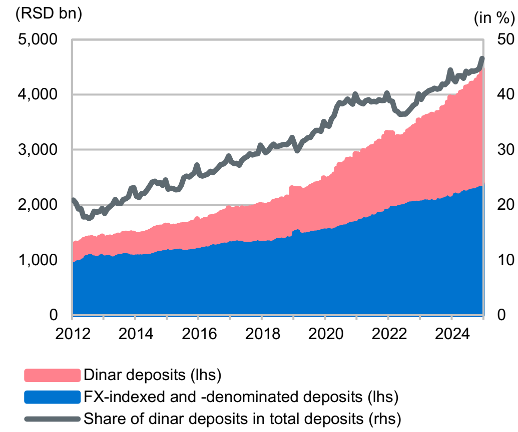
[17] With natural persons, entrepreneurs and private households included.

Chart III.5.2 **Receivables by sector**



Source: NBS.

Chart III.5.3 **Share of dinar deposits in total corporate and household deposits**



Source: NBS.

whose new FX and FX-indexed loans approved to the non-financial and non-government sector since 1 July 2023 exceed the 71% threshold.[18] This limit is planned to go gradually down (64% in 2026, 57% in 2027, and 50% thereafter), which is expected to boost dinarisation.

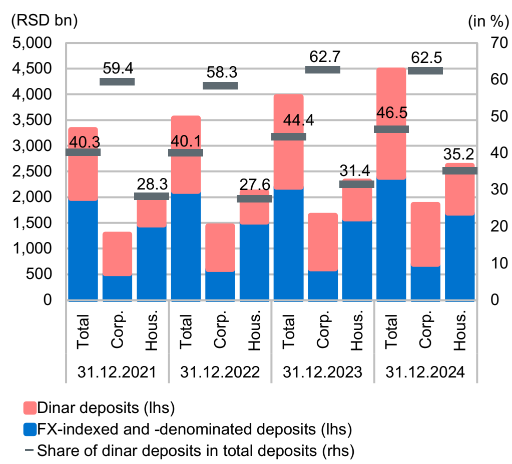
The degree of dinarisation, **measured by the share of dinar in total bank corporate and household receivables** measured 37.4% at end-2024, up by 2.9 pp from the end of last year.

Sector-wise, a decrease in corporate loan dinarisation in 2022 and 2023, on account of maturing of a substantial amount of dinar loans approved under guarantee schemes of the Republic of Serbia (1st and 2nd scheme) to support the economy amid COVID-19, largely dissipated. This, along with a marked rise in dinar receivables, contributed to a gradual increase in this indicator throughout 2024. Thus, the degree of dinarisation of corporate receivables edged up by 3.6 pp in this period, climbing to 20.9% at year end.

The degree of dinarisation of household receivables continued up in 2024 (by 1.3 pp), to 55.4% at year end. A gradual increase in this indicator was recorded all year round, owing to the rise in cash loans that are predominantly approved in dinars. FX-indexed loans grew moderately, driven by a further rise in housing loans.

Corporate and household deposits dinarisation continued its long-term upward trend, reaching the record-high 46.5% at year end (up by 2.1 pp relative to end-2023). The growth in this indicator was driven by higher dinarisation of household deposits (by 3.8 pp), to also record-high 35.2% at year end, which is associated with the continued vibrant rise in dinar household deposits (by 27%). Of special importance for the

Chart III.5.4 **Deposits by sector**



Source: NBS.

[18] 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 and 102/2024), Article 13a.

dinarisation process is the continued rise in dinar savings,[19] which in 2024 posted the highest nominal growth since the data are monitored (by RSD 53.3 bn), thus reaching the record level of RSD 191.2 bn at the end of the year.

Same as in previous years, dynamic growth in dinar savings in 2024 was underpinned by their greater profitability compared to FX savings. According to the analyses that are regularly carried out and published by the NBS, thanks to the relative stability of the RSD/EUR exchange rate, higher interest rates on dinar than on FX savings, and the more favourable tax treatment of the interest on dinar savings (given that the interest on dinar savings is non-taxable), saving in dinars was more profitable than saving in euros, regardless of the terms, i.e. both in the short and long term, and the longer the term, the more remunerative dinar savings.

At end-2024, the degree of corporate deposit dinarisation measured 62.5%, slightly lower than at end-2023 (62.7%), when a record-high level of that indicator was recorded.

6 Real estate market

The year 2024 saw both a rise in sale/purchase transactions and price growth in the real estate market.

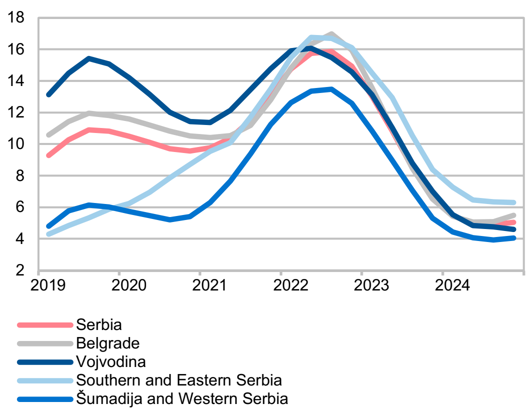
Data of the Republic Geodetic Authority about **real estate prices** indicate further growth in apartment prices in 2024, though at a more moderate pace than in 2023 (the apartment price growth rate in Serbia in Q4 2024 equalled 5.05% y-o-y, marking a moderate and stable growth and a slight deceleration relative to 6.62% y-o-y in Q4 2023). Activity in the real estate market, measured by the number of purchase/sale transactions and their total value, picked up in 2024. The number of apartment purchase/sale agreements (46,813) increased by 11.8% y-o-y and the total market value (EUR 4.1 bn) by 20.8%. The prices of newly built apartments remain relatively higher than of those in older buildings in all Serbian cities.

The number of loan-financed real estate purchases also went up – around 25% of apartments bought in Q4 2024 were financed in this way (up by 8 pp from Q4 2023).

According to Eurostat data for Q4 2024, apartment prices in countries of the region and the entire EU also maintained an upward trend. Y-o-y, out of 27 countries, prices edged down only in France and Finland (1.9% each), while the sharpest growth was seen in Bulgaria (18.3%) and Hungary (13.0%).

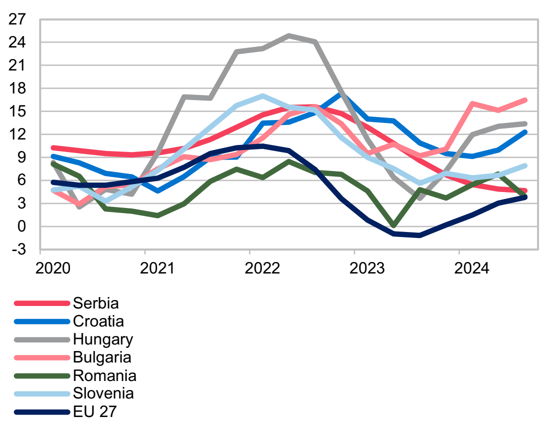
According to SORS data, the total **number of construction permits issued** in 2024 was 30,437, down by 2.5% from the year before. The number of issued

Chart III.6.1 **Apartment price movements in Serbia measured by the Apartment Price Index**
(y-o-y rates, in %)



Source: Republic Geodetic Authority.
Note: Preliminary data for Q3 2024.

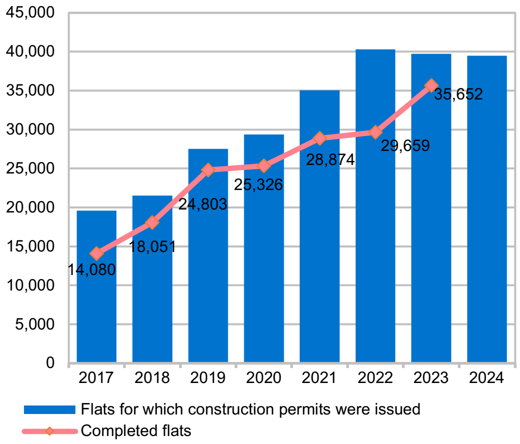
Chart III.6.2 **Apartment price movements measured by the Apartment Price Index, in countries of the region**
(y-o-y rates, in %)



Sources: Eurostat and Republic Geodetic Authority.

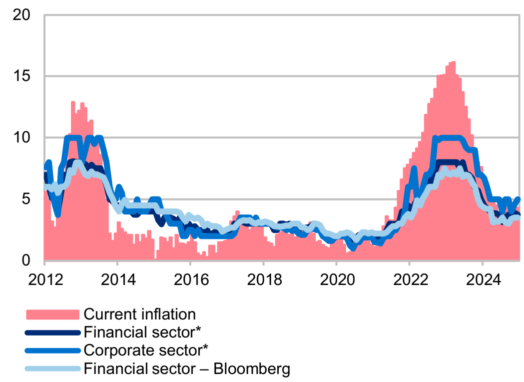
[19] Including non-resident savings.

Chart III.6.3 **Number of issued construction permits and completed apartments**



Source: SORS.

Chart III.7.1 **Current inflation and one-year ahead inflation expectations***
(y-o-y rates, in %)



Sources: Gallup/Ipsos/Ninamedia, Bloomberg and NBS.
* Ipsos and Gallup agencies until December 2014, Ninamedia since December 2014, and Ipsos since January 2018.

construction permits for other constructed facilities[20] declined (-6.2% y-o-y), followed by buildings (-1.7% y-o-y) and apartment permits (-0.6% y-o-y).

7 Inflation expectations

Short- and medium-term inflation expectations of the financial and corporate sectors recorded a downward trend in 2024, in line with actual inflation movements.

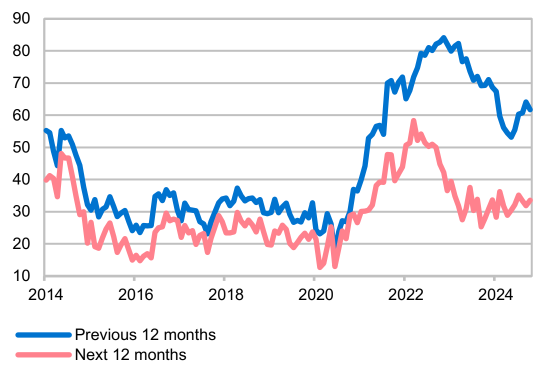
One-year ahead inflation expectations of the financial sector in 2024 moved within the NBS target tolerance band, which speaks in favour of the confidence of this sector in the NBS's monetary measures. According to the Ipsos survey, these expectations went down from 4.5% in January, to 3.8% in December. Their H2 average was 0.4 pp lower than in H1. According to the Bloomberg survey results, these expectations were within the target band, touching the 3.0% target midpoint in some months (3.5% in December).

One-year ahead inflation expectations of the corporate sector moved on a downward path in 2024, declining from 6.7% in January to 5.0% in December. This was supported by the downward trajectory of inflation at home and its retreat within the target band, as well as the stability of the exchange rate.

Household inflation expectations, typically higher than those of other sectors, stayed at 15.0% for the most part of the year, despite occasional fluctuations. According to the results of the qualitative survey, the index of expected inflation was lower than the index of perceived inflation, indicating that households expected that inflation would be lower in the coming 12 months than in the year before.

Two- and three-year ahead inflation expectations of the financial sector moved within the NBS target

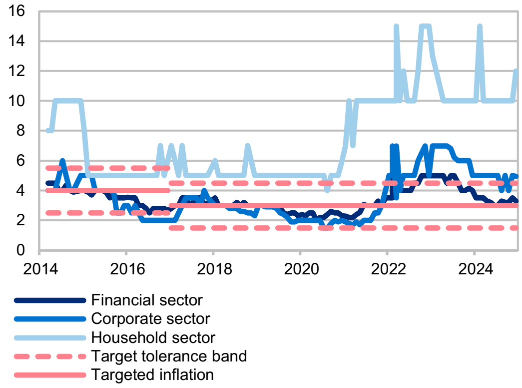
Chart III.7.2 **Inflation perceived and expected by households***
(in index points)



Sources: Gallup/Ipsos/Ninamedia and NBS.
* Ipsos until December 2014, Ninamedia since December 2014, and Ipsos since January 2018.

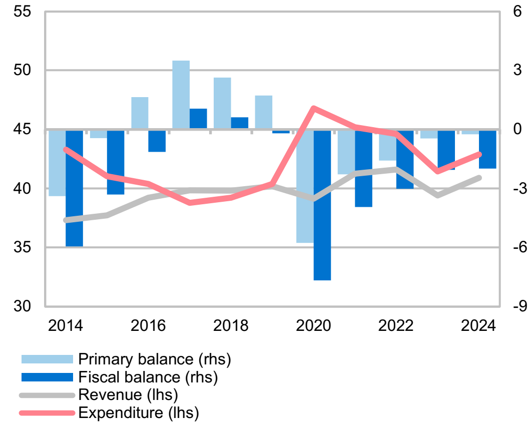
[20] Transport infrastructure; pipelines, communication and electrical lines; complex industrial structures; structures for sports and recreation and other structures (except buildings) not elsewhere classified.

Chart III.7.3 **Two-year ahead inflation expectations***
(y-o-y rates, in %)



Sources: Ipsos/Ninamedia and NBS.
* Ipsos until December 2014, Ninamedia since December 2014, and Ipsos since January 2018.

Chart III.8.1 **Fiscal and primary balance of general government budget**
(in % of GDP)



Source: Ministry of Finance.

tolerance band, in the range of 3.0–3.5%. **Two-year ahead corporate expectations** stood at 5.0% for the most part of year (4.94% in December), while **three-year ahead** expectations stayed within the target tolerance band (4.0% in December). **Two- and three-year ahead household inflation expectations** were stable at 10.0% until December, when they measured 12.0%.

8 Fiscal trends

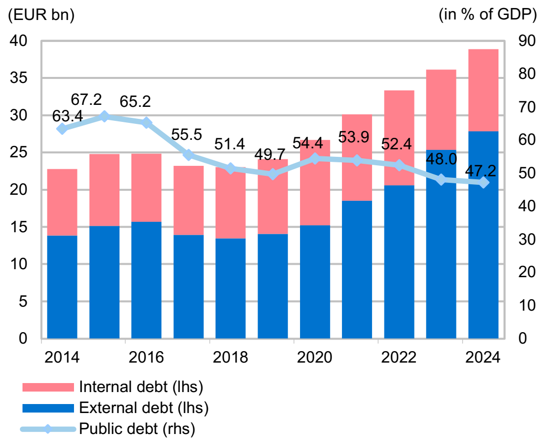
In 2024, the **general government deficit measured RSD 191.9 bn** (2.0% of GDP). At the same time, the **primary balance recorded a deficit of RSD 23.7 bn** (0.2% of GDP). The actual deficit was much lower than planned by the **supplementary budget from September 2024**, when the deficit expanded to RSD 263 bn (2.7% of GDP). An increase in the deficit was in line with the **medium-term fiscal framework** from the Revised Fiscal Strategy for 2025 with Projections for 2026 and 2027, envisaging the intensification of public investment in infrastructure (primarily road and rail) within the "Leap into the Future – Serbia Expo 2027" programme. The fiscal deficit was lower than planned on account of lesser current government expenditure than projected (expenditure for goods and services), and partly higher-than-planned tax revenues due to improved collection of excise duties and corporate income tax.

Public revenues increased by 13.5% (RSD 467.6 bn) in 2024, with all categories of tax revenues recording growth. The greatest contribution to revenues in nominal terms came from the categories whose growth was driven by higher wage bill, that is, social contributions, which grew by RSD 164.2 bn (4.7 pp contribution) and income tax, which recorded an increase of RSD 55.3 bn (1.6 pp contribution). VAT contributions in 2024 went up by RSD 108.9 bn (giving a 3.1 pp contribution to tax income), as a result of rising consumption. Within this fiscal category, VAT on domestic goods recorded an increase of RSD 61.6 bn (1.8 pp contribution), and VAT from imports – RSD 46.6 bn (1.6 pp contribution). This is a reflection of higher imports of goods and intermediate goods for the ongoing investment cycle, but also of goods for private consumption. Collected excise revenues provided a 1.4 pp contribution (mostly from petroleum products), while income tax revenues provided a 0.7 pp contribution. In 2024, taxpayers paid corporate income tax based on profits generated in 2023, a year marked by exceptionally strong business performance (profits amounted to RSD 972 bn, which is 12.3% higher compared to 2022).

Public expenditures in 2024 were 13.1% or RSD 478.4 bn higher than in 2023. The greatest individual contribution came from the increase in pensions, providing 4.3 pp, followed by capital expenditures with 3.7 pp. Their planned realisation was fully achieved, amounting to RSD 704.6 bn (7.3% of GDP), which is an increase of RSD 136.0 bn relative to 2023. A similar contribution came from the increase in public sector wages (3.6 pp). Budget lending, which in the previous year included significant funds allocated to support the energy sector, was significantly reduced in 2024 – by RSD 52.4 bn, or 71%.

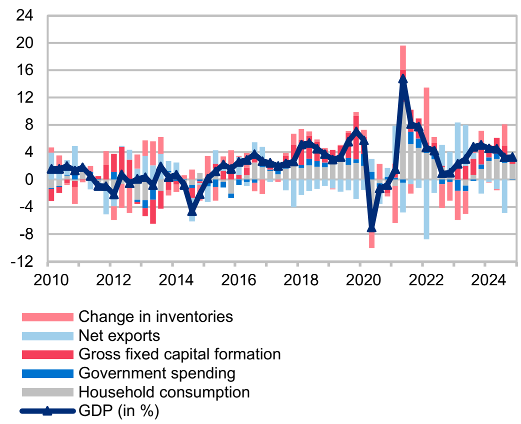
At end-2024, **central government public debt** equalled EUR 38.9 bn and its share in GDP was 47.2%. Compared to end-2023, the share of public debt in GDP was trimmed by 1.2 pp at end-2024, almost entirely reflecting higher nominal GDP in 2024.

Chart III.8.2 **Public debt***



Source: Ministry of Finance.
* Central government.

Chart III.9.1 **Contributions to y-o-y GDP growth rate – expenditure side**
(in pp)



Sources: SORS and NBS calculation.

9 Aggregate demand

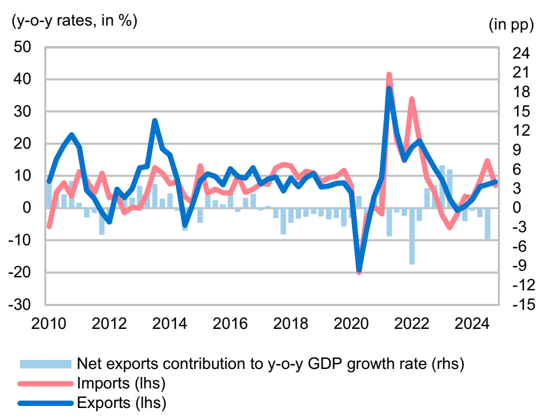
Real GDP growth came at 3.9% in 2024, driven by domestic demand, with a positive contribution coming from all its components. On the other hand, net exports provided a negative contribution to economic growth in 2024, as imports rose faster than exports amid the ongoing investment cycle and elevated imports of necessary raw materials, equipment and intermediate goods, and also consumer goods and tourist services, reflecting higher disposable income.

Private consumption rose by 4.2% in 2024 (2.6 pp contribution to GDP growth), continuing its upward trend which started in H2 2023. Private consumption growth is indicated by the retail trade turnover, which picked up to 5.4%, following the easing of inflationary pressures and inflation's retreat within the target tolerance band, as well as by real turnover in catering, which went up by 6.6% in 2024. The increase in household consumption is also indicated by the 10.4% increase in consumer goods imports in 2024, underpinned by the rise in disposable income. Looking at the sources, private consumption growth in 2024 was driven by its main source – the wage bill, which recorded double-digit growth of 14.9% in nominal terms, while the real wage bill growth reached 9.9% in 2024 owing to the slowdown in inflation. At the same time, in 2024 pensions grew by 20.4% in nominal, and 15.1% in real terms. Also, owing to past monetary policy easing by the NBS and the ECB, favourable financing conditions provided additional support to household consumption through elevated consumer lending, which increased by 8.8% in 2024. Conversely, remittances posted a slight decline in 2024 (by 2.9%), largely as a result of economic slowdown and growing costs of living in Western Europe where the bulk of remittances come from.

Government consumption went up by 2.5% in 2024 (with a 0.4 pp contribution to GDP), led by higher expenditures for public sector employees and procurement of goods and services. Accordingly, total domestic consumption increased by 3.8% y-o-y, providing a 3.0 pp contribution to GDP growth.

Private investment kept the positive dynamics despite pronounced geopolitical tensions, and rose by 3.3% in 2024. Investment growth is suggested by the 11.1% increase in the production of capital goods, as well as the

Chart III.9.2 **Exports and imports of goods and services**
(in previous-year constant prices, ref. 2010)



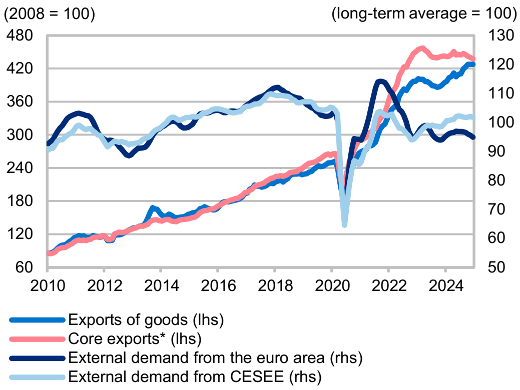
Sources: SORS and NBS calculation.

9.6% rise in equipment imports in 2024. At the same time, growth was also recorded in the value of executed works, which were 5.5% higher in 2024. The major part of investment is estimated to have been financed from own sources, as indicated chiefly by achieved corporate profitability in the past years. According to preliminary data of the Business Registers Agency, net corporate profit in 2023 equalled RSD 972 bn, up by 12.3% y-o-y. Also, a significant part of investment was financed by FDI inflow, which posted a new record high of EUR 5.2 bn in 2024. A part of this growth was supported by investment loans, which went up by 3.2% in 2024. Continued implementation of government-financed infrastructure projects scaled **up government investments** by 18.0% in 2024. Accordingly, total fixed investments went up by 6.5% in 2024, adding 1.6 pp to GDP growth.

We estimate that the rise in inventories positively contributed to GDP growth in 2024, largely reflecting the low last year's base, given that their large portion from previous years was spent for domestic consumption and exports in 2023.

On the other hand, **net exports** made a negative contribution to GDP growth in 2024 (-1.7 pp), which was expected given that real import growth (8.3%) outpaced that of exports (6.2%) in conditions of acceleration in the investment cycle and, consequently, increased imports of equipment, as well as higher disposable income and increased imports of consumer goods and tourism services. Export growth was mainly driven by previous investments in tradable sectors, which significantly increased the export supply of the manufacturing industry.

Chart III.9.3 **Movement of indicators of external demand for Serbian exports**
(3M moving average, s-a)



Sources: European Commission, SORS and NBS.
* Core exports are exports excluding the exports of agricultural products, base metals, motor vehicles, petroleum products and electricity.

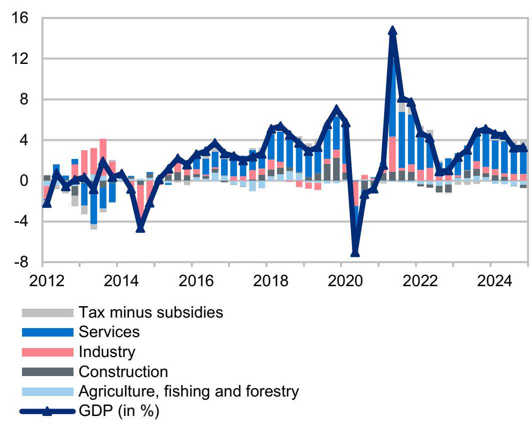
10 Economic activity

Economic activity in Serbia stayed on a stable growth path. In 2024, the growth measured 3.9% despite the dampened external demand caused by economic slowdown in the euro area, our major trade partner, and pronounced geopolitical tensions. Economic growth was driven by service sectors, particularly trade, as well as industry and construction, whereas agricultural production declined due to the drought.

Service sectors, collectively, went up by 5.1% in 2024, with 2.8 pp GDP growth contribution. This is indicated primarily by trade data, as retail trade turnover went up by 5.4% in 2024. Real turnover in catering also recorded growth of 6.6% in 2024. Growth in service sectors is also confirmed by tourism indicators, as the tourism turnover, measured by the number of arrivals and overnight stays, increased by 5.7% and 1.8%, respectively. At the same time, the ICT sector growth is indicated by the 20.3% rise in exports of this group of services in 2024.

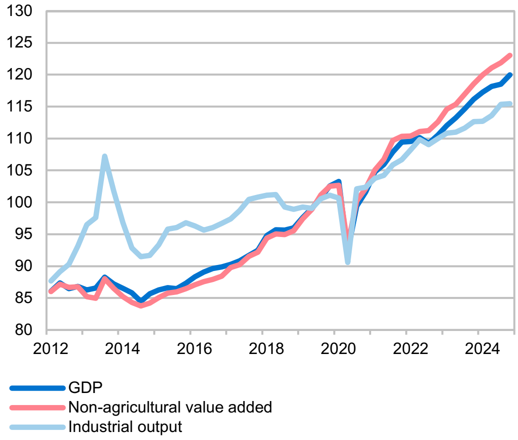
Industrial production growth stood at 2.9% in 2024 and was driven by the rise in manufacturing and mining, while the volume of production in the **electric power sector** dropped by 7.1%, mainly as a result of the drought and dampened hydropower potential. **Manufacturing** rose by 4.7%, as confirmed by the data on the manufacturing volume of production (5.1%). The rise in the volume of production was posted by 15 out of 24 manufacturing branches, with the highest positive contribution coming from the production of metal products, rubber and plastic products, as well as computers and food. On the other hand, the highest

Chart III.10.1 **Contributions to y-o-y GDP growth rate – production side**
(in pp)



Sources: SORS and NBS calculation.

Chart III.10.2 **Economic activity indicators**
(s-a data, 2019 = 100)



Sources: SORS and NBS calculation.

negative contribution to the manufacturing growth stemmed from the reduced volume of production of coke and petroleum products due to the overhaul in the oil industry, production of machines and clothing. The volume of **mining** production increased by 8.0% in 2024, owing to the intensified exploitation of metal ore and production in the "other mining" category (which mainly includes construction materials, such as gravel, sand, etc.).

In 2024, the **construction** sector growth measured 2.9% owing partly to the rise in government capital expenditures. The value of executed construction works, which went up by 5.5% in 2024, also points to the rise in the construction sector.

Agricultural production in 2024 witnessed a decline of over 8% as the consequence of the drought during the summer months, providing an estimated negative contribution of 0.4 pp to GDP.

Owing to the consumption and tax revenues growth, **net taxes** rose by 3.8%, contributing to the GDP growth with 0.6 pp.

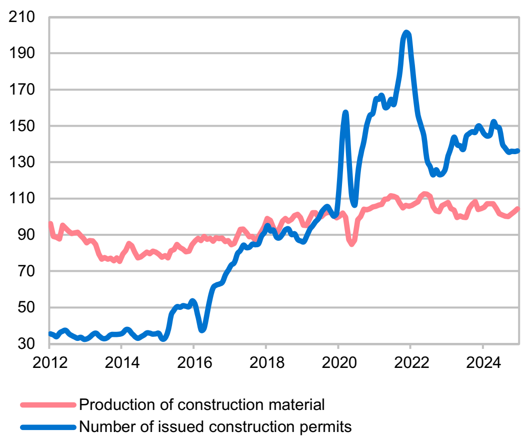
11 Wages and employment

Favourable labour market trends continued into 2024 as testified by a further increase in employment, a reduction in unemployment to a new low, and a double-digit y-o-y rise in wages.

At the level of entire 2024, the average **nominal net wage** amounted to RSD 98,143, increasing by 14.1% y-o-y. Private sector wage growth (14.2%) was somewhat faster than that of the public sector (13.9%), which narrowed the gap between public and private sector wages mildly (1.04 at the level of the year). The minimum cost of labour was raised to RSD 271 per hour at the beginning of the year, while the median net wage in 2024 averaged RSD 75,533. In December 2024, for the first time since comparable data are available, the average wage covered the entire value of the average consumer basket (102.4%), speaking in favour of the improved living standard.

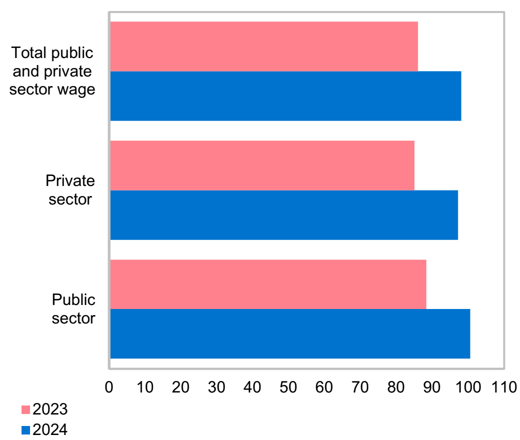
In 2024, the y-o-y growth in wages remained broadly distributed, with a double digit increase in almost all sectors, except for energy (9.2%). The sharpest increase

Chart III.10.3 **Construction activity indicators**
(quarterly averages s-a, 2019 = 100)



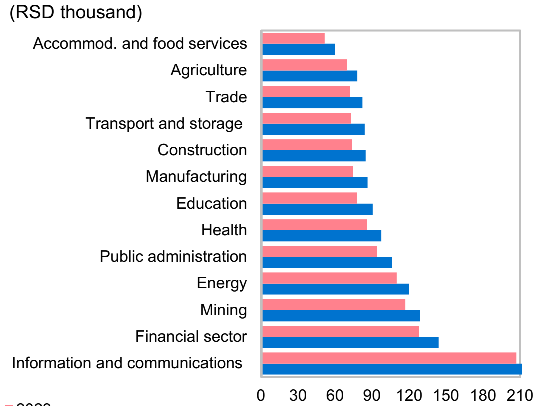
Sources: SORS and NBS calculation.

Chart III.11.1 **Average nominal net wage**
(RSD thousand)



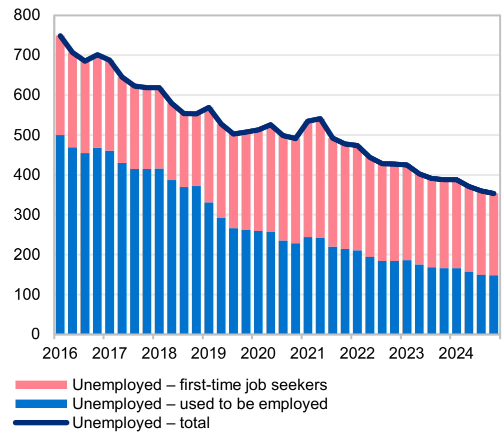
Source: SORS.

Chart III.11.2 **Average nominal net wage by economic sector**
(RSD thousand)



Source: SORS.

Chart III.11.4 **Registered unemployment**
(in thousand of persons, end-of-quarter)



Source: NES.

was registered for wages in catering (16.3%), education (16.3%) and manufacturing (16.1%).

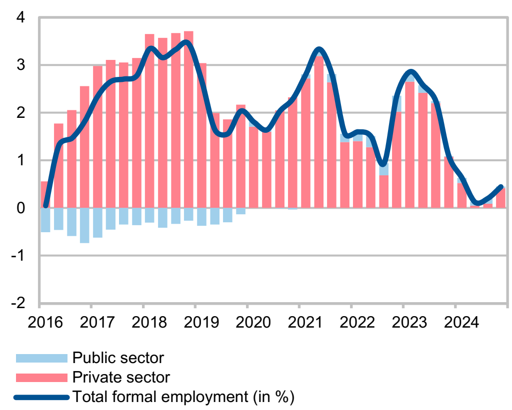
As the dominant source of consumer demand, the total nominal **net wage bill** rose 14.9% in 2024, owing to the nominal wage growth in all sectors and formal employment gains.

We estimated that **overall economic productivity** accelerated from 1.6% in 2023 to 3.5% in 2024, as economic activity growth outpaced that of employment.

Total **formal employment** in 2024 increased by around eight thousand on average (0.4%) on account of growth in employment with legal entities (by around six thousand) and entrepreneurs (by around six thousand), while the number of individual farmers went down (by around four thousand). Private sector employment was the main driver of formal employment increase and it stood at around 1.77 mn at end-2024, which is around 15 thousand persons more y-o-y. At the same time, public sector employment increased by around two thousand, to approximately 613 thousand in December.

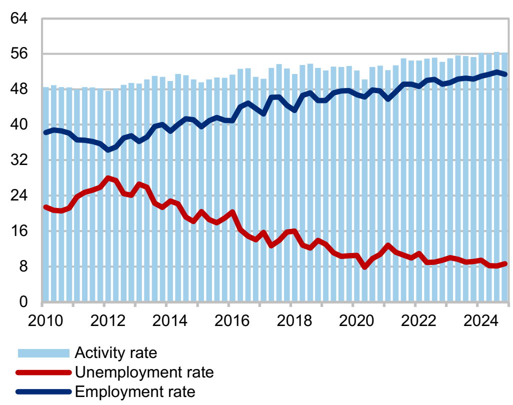
In 2024, the highest number of new recruits was recorded in professional, scientific, innovation and technical services on average, as well as in the ICT sector (by around eight and four thousand, respectively), followed by

Chart III.11.3 **Composition of y-o-y growth in formal employment**
(in pp, quarterly average)



Sources: SORS and NBS calculation.

Chart III.11.5 **Labour market indicators under the Labour Force Survey***
(in %)



* Data since 2021 are in accordance with the 2022 census.
Source: SORS.

construction (by around three thousand). In contrast, when observing dominantly private sector activities, it can be concluded that in 2024, registered employment witnessed the sharpest y-o-y decrease in administrative and service activities as well as manufacturing (by around five and four thousand, respectively). In 2024, public sector employment also rose, entirely as a result of employment growth in the health sector (by around 10 thousand), while employment in education and public administration declined (by around six and one thousand, respectively).

The multiannual downward trend of **registered unemployment** continued into 2024. Registered unemployment touched a new low of 353,237 in December, down by around 35 thousand from the year before, according to the National Employment Service.

According to the LFS, inclusive of both formal and informal labour market segments, the working age (15–64) participation rate in Q4 2024 stood at 72.9%, while the activity rate of population older than 15 measured 56.3%, both rates marking a 1.4 pp and 1.0 pp increase relative to the same period last year, respectively. The unemployment rate of 8.6% in Q4 2024 went down by 0.5 pp y-o-y, while the employment rate went up by 1.1 pp in the same period, to 51.4%.

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