National Bank of Serbia

2025

January-June

SEMI-ANNUAL

MONETARY POLICY REPORT

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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 *Semi-Annual Monetary Policy Report – January–June 2025* was reviewed and adopted by the National Bank of Serbia's Executive Board on 11 September 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:

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Vice Governor Željko Jović, PhD

Vice Governor Ana Ivković, PhD

Vice Governor Dragana Stanić, MA

Vice Governor Nikola Dragašević, MSQF

[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.

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Overview

Since early 2025, global growth has been overshadowed by heightened uncertainty spurred by escalating trade tensions among leading world economies. Major international institutions revised down their growth projections in April, primarily for the US and China. Global prospects soon turned out to be somewhat better, however, as world trade intensified in Q1 in anticipation of higher tariffs later in the year, and the effective tariff rates were lower than anticipated in April. A positive impulse also came from improved global financing conditions, leading to an upward revision of global growth prospects in the IMF's July projection. Global growth is still expected to slow until the end of the year, reflecting higher tariffs, and to recover gradually from 2026. In July, the IMF placed global growth at 3.0% in 2025 and 3.1% in 2026 (compared to 3.3% in 2024), up by 0.2 pp and 0.1 pp, respectively, from the April projection. In view of the developments in the international environment, **external demand for Serbia's exports remains relatively weak, largely determined by growth in our key trade partner – the euro area**. According to the IMF's July estimate, euro area growth should pick up from 0.7% last year to 1.0% in 2025 and 1.2% in 2026.

Global inflation continued down since early 2025 as energy prices subsided. Global core inflation receded as well, albeit more slowly, reflecting less tight labour markets and restrictive monetary policies still pursued by most central banks. In most countries of the world, however, inflation remained above the multiannual pre-pandemic average. In July, the IMF projected global inflation at 4.2% in 2025 (compared to 5.6% in 2024). Inflation is expected to continue down in the euro area and most countries of the world, with negative demand-side shocks due to the imposed tariffs producing disinflationary effects. For this reason, the NBS expects **imported inflation to recede further, primarily reflecting the lowering of euro area inflation**, from an average of 2.4% last year to 2.0% in 2025 and 1.8% in 2026.

Estimating that the process of disinflation is on a good path, the **ECB continued to ease its monetary policy**, trimming its main rates by 100 basis points in H1 2025. After the June meeting, the interest rates on the deposit facility, the main refinancing operations and the marginal lending facility stood at 2.00%, 2.15% and 2.40% respectively. In July they were kept on hold. According to analysts, the ECB's interest rates are probably in or around the neutral range, possibly heralding a near end to monetary accommodation. Also, the ECB has been reducing its balance sheet as planned since the start of the year, at a moderate pace, which is a measure that dampens the degree of monetary accommodation. By contrast to the euro area, the **Fed** has kept its Fed funds rate range on hold since the start of the year, amid uncertainty surrounding the intensity and duration of the effects of higher US tariffs on inflation growth and lower economic activity and employment. Inflation-targeting **central banks of the CESEE region** have been easing their monetary policies, but at different paces, the same as the leading central banks. The central banks of Poland and the Czech Republic thus trimmed their rates since the start of the year, while the central banks of Hungary and Romania kept their rates on hold.

The NBS kept its key policy rate unchanged since the start of the year – it has measured 5.75% since September 2024. The Executive Board decided to keep the rate on hold taking into account the medium-term inflation projections, lingering elevated geopolitical tensions and rising protectionism, as well as higher-than-anticipated growth in food prices both at home and abroad in the past months. The NBS estimates that the monetary policy remains restrictive, though less than before as a result of key policy rate cuts by a total of 75 bp between June and September last year.

Interest rates on dinar loans declined as a result of cheaper funding sources and interbank competition. **The interest rates on new dinar household loans** dropped by 0.3 pp in H1, to 9.6% in June, reflecting record-high approvals of cash loans at favourable terms. **The interest rate on dinar corporate loans** subsided by 0.5 pp to 6.4% in June, mostly as a result of a lower rate on working capital loans. **Euro loans to households cheapened as well**, by 0.9 pp to 4.6% in June thanks to the capping of rates on housing loans under the Law on the Protection of Financial Service Consumers and the implementation of the subsidised loans programme as part of the Government's "Housing Loans for Young People" programme. **The interest rate on euro-indexed corporate loans** declined by 0.9 pp in the observed period to 4.7% in June as a result of a decrease in euro area money market rates. Interest rates declined across all loan categories, but the cheapening of working capital loans contributed the most.

Lending continued to expand as the cost of borrowing declined and credit standards were eased further. Excluding the exchange rate effect, lending to the non-monetary sector sped up to 10.8% y-o-y in June 2025. Corporate loans picked up to 7.1%, guided by working capital and investment loans, while household loans accelerated to 14%, propped up by faster growth in both cash and housing loans. Thanks to lending activity growth and preserved bank asset quality, the **share of NPLs in total loans fell to an all-time low of 2.3% in June, 0.2 pp below the end-2024 level**. **The capital adequacy ratio** was 21.3% in June, pointing to high capitalisation (the regulatory minimum is 8.0%) and resilience of the banking sector to external and domestic risks. **Household savings have been growing steadily as well to record-high levels** – dinar savings rose to RSD 195.7 bn at end-June and FX savings to EUR 15.7 bn, reflecting confidence in the domestic financial sector and sound sources of future lending activity growth.

The NBS preserved the relative stability of the dinar exchange rate against the euro in the year so far in the face of mounting trade and geopolitical tensions, 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. End-of-period, the dinar weakened by 0.1% in nominal terms against the euro in H1 2025. At the same time, it strengthened notably against the US dollar – by 12.6% – as the euro made substantial gains against the US currency. Though depreciation pressures on the dinar were dominant in the first five months of 2025, they gradually lost steam, and appreciation pressures prevailed in June. To preserve the relative stability of the dinar exchange rate against the euro, the NBS sold EUR 1 bn net in the IFEM in the first five months of the year, and bought EUR 600 mn in June. In H1 2025, it therefore sold EUR 400 mn net.

According to preliminary data, the current account deficit was EUR 2.0 bn in H1 2025 (4.7% of GDP), having increased by EUR 885.6 mn relative to the same period last year. The widening of the current account deficit was influenced by a higher deficit on trade in goods, but also by other key current account categories. The deficit on trade in goods measured EUR 3.4 bn, up by 12.9% relative to H1 2024. Goods exports increased by 11.2% y-o-y to EUR 16.3 bn, and goods imports by 11.5% y-o-y, to EUR 19.7 bn. Export growth was propped up mostly by the rise in manufacturing exports by 11.1% y-o-y, despite reduced external demand caused by problems in the European industry and uncertainties surrounding tariff rates. Mining exports increased as well (by 11.7% y-o-y), as did the exports of electricity (41.8% y-o-y). The last year's drought, on the other hand, resulted in lower inventories and agricultural exports (by 10.1% y-o-y). Import growth was supported primarily by increased imports of intermediate goods, including energy products (9.5% y-o-y), and imports of consumer goods (12.9% y-o-y).

Net capital inflow of EUR 439.4 mn was recorded on the **financial account of the balance of payments**. The bulk of capital inflows came from financial loans and FDIs, while outflows mostly referred to trade loans, portfolio investment and the rise in cash abroad. FDI inflow to Serbia measured EUR 1.55 bn in H1 2025 (42.4% less than in the same period of 2024), with net FDI inflow at EUR 958.6 mn on account of higher resident investment abroad. FDI inflow to Serbia declined from last year due to above-average one-off inflows in 2024 and diminished investment confidence globally, but also because of the deferral of some investments amid protests and blockades in the country. FDIs had a favourable composition, mostly in the form of equity capital and reinvested earnings, and stayed diversified by geography and project. Net inflow under financial loans topped EUR 1.1 bn, almost entirely due to corporate borrowing. Bank borrowing expanded as well, while the government reduced its foreign loan obligations. Net outflow of EUR 538.1 mn was recorded in respect of portfolio investment, mostly on account of higher resident investment abroad. Outflows under trade loans and advances measured EUR 761.4 mn, and banks increased their cash and deposits abroad by EUR 418.5 mn.

As a result of the above flows in the current and financial accounts, Serbia's FX reserves decreased by EUR 1.9 bn in H1 2025. **NBS gross FX reserves measured EUR 27.4 bn at end-June, which is still well above reserve adequacy metrics.** FX reserves covered 162.3% of money supply M1 and 6.5 months' worth of imports of goods and services, more than twice the relevant 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). Therefore, as at 30 June 2025, foreign securities accounted for the highest share of FX reserves (56.4%), followed by FX balances in accounts abroad (21.4%), gold (16.5%), foreign cash (5.5%) and SDRs with the IMF (0.2%).

The consolidated government deficit measured 0.4% of GDP in H1 2025, while the primary balance surplus was 1.3%. Central government public debt was EUR 38.6 bn at end-June 2025 or 43.7% of the projected GDP for 2025, down by 3.5 pp from end-2024 on account of anticipated economic growth, weakening of the dollar and the maturing of previously issued bonds. The share of public debt in GDP is expected to continue down in the medium run as well, despite the implementation of the "Leap into the Future – Serbia Expo 2027" programme.

The synchronisation of monetary and fiscal policies supported macroeconomic stability and helped maintain a favourable outlook for economic growth despite numerous challenges. They are mostly reflected in heightened global trade and geopolitical tensions, and protests and blockades at home. This has driven down investment and consumer confidence, resulting in slower than anticipated economic activity growth. GDP growth measured 2.0% y-o-y in H1. According to the NBS's estimate, **economic growth was led by domestic demand**, especially personal consumption and government investment. In contrast, net exports gave a negative contribution as real imports of goods and services rose faster than exports, primarily on account of investments under the "Leap into the Future – Serbia Expo 2027" programme and the rise in disposable income. We estimate that GDP growth was **supported by the service sectors and manufacturing** on the production side, while activity in construction declined. As regards agricultural production, this year's season is estimated to be below average but still better than the last year's. It is expected to grow by around 2%, providing a mild positive impulse to GDP.

Under the August projection of the NBS, **GDP growth will measure 2.75% this year**, a downward revision from previous projections due to lower-than-anticipated growth in the first half of the year. This mostly reflects subdued activity in construction and some service sectors in the year so far on the production side, and lower-than-anticipated growth in private consumption and investment on the expenditure side. Agricultural production is projected to increase less than we expected in our February and May projections when we assumed this year's agricultural season to be average. Further, as the hydropotential and coal inventories remain low, the energy sector also failed to recover as expected. Activity is nonetheless anticipated to pick up in H2, propped up by the continued rise in automobile industry production and exports, and the implementation of government infrastructure projects. Economic activity is expected to accelerate to the range of 4–5% in 2026 and 2027, but closer to the upper bound of the range in 2027 due to the hosting of "Expo 2027".

Favourable developments in the labour market extended into H1 2025, as evidenced by the further increase in average wages and formal employment and a simultaneous drop in registered unemployment to a new all-time low. **The average nominal net wage** equalled RSD 107,179 in the first six months of the year (EUR 914), up by almost 11% from the same period last year. **Average wages increased slightly more in the private** (11.2%) than in the public sector (10.6%). The total number of **formally employed persons** in H1 2025 averaged 2,37 million, up by 0.1% from the same period last year. At the same time, **registered unemployment continued the multiannual downward trend**, measuring 344,788 persons in June 2025, roughly 26 thousand less than a year earlier and the lowest level on record. As informal employment declined, the **unemployment rate** increased slightly in Q2 (by 0.3 pp) relative to the same period a year earlier, measuring 8.5%, but this is still below the average for 2024.

As a result of the NBS's measures and the easing of global cost-push pressures, inflation in Serbia continued down since the start of 2025, falling to 3.8% y-o-y in May, mostly thanks to lower prices of energy, primarily of petroleum products, and the slowing of core inflation. **However, as unprocessed food prices spiked due to adverse weather conditions** (frost in spring and extremely warm and dry weather in June) **and**

global oil prices increased after the outbreak of the Israel-Iran conflict, **inflation sped up to 4.6% in June and 4.9% in July**.

Short- and medium-term **inflation expectations** of the financial sector stayed within the target band in 2025 as well. They have been within this band since early 2024, confirming the adequacy of the monetary policy measures taken by the NBS. In the first six months, one year-ahead inflation expectations of the financial sector declined from 3.9% to 3.5%, according to the Ninamedia survey, and stayed almost unchanged at 3.5% according to the Bloomberg survey. Two and three-year ahead expectations were lower, measuring 3.2% in June. One year-ahead corporate expectations hovered at 5.0% in H1 this year, which was also their June level for two and three years ahead. As usual, household inflation expectations were higher at 15% for one year ahead and 10% for two and three years ahead.

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 expected effects of past decisions on the inflation profile**. 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

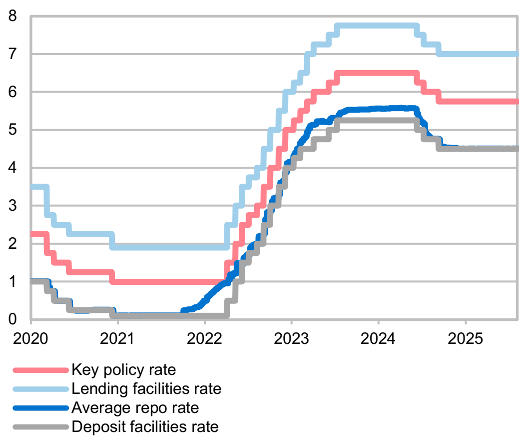
1 Monetary policy since early 2025

The NBS Executive Board has pursued monetary policy in the year so far in accordance with the NBS Monetary Policy Programme in 2025,[2] thereby contributing to the preservation of macroeconomic and financial stability even in the conditions of significant challenges from the international environment. The 2025 Monetary Policy Programme, adopted in December 2024, envisaged that in the decision-making process, the NBS would assess the nature and strength of inflationary pressures and thus maintain the necessary flexibility of monetary policy in terms of the scope of the response and use of instruments in order to ensure price and financial stability in the medium run, but also to further support sustainable economic growth. It also envisaged that macroprudential and microprudential policy measures would be used in a complementary manner so as not to undermine the efficiency of monetary policy.

The conditions prevailing in the domestic and international environment called for continued caution in monetary policy decision-making. **Since the start of 2025, the NBS Executive Board has kept the key policy rate unchanged** at 5.75%, its level from September 2024. Since then, the deposit and lending facility rates were also kept at 4.5% and 7.0%, respectively. The Executive Board decided to keep the key policy rate on hold taking into account the medium-term inflation projections, lingering elevated geopolitical tensions, rising protectionism in the global trade policy, and higher-than-anticipated growth in food prices both at home and abroad in recent months.

Actual **inflation** data were consistent with the Executive Board's expectations until May – y-o-y headline inflation decelerated gradually since early 2025 to 3.8% in May, mostly on the back of lower prices of energy, especially petroleum products, and a slowdown in core inflation. However, owing to a rise in unprocessed food prices due to unfavourable weather (frost in spring, followed by extremely hot and dry weather in June) and higher global oil prices after the outbreak of the conflict between Israel and Iran, inflation accelerated to 4.6% in June and further to 4.9% in July. At its meetings in July and August, the NBS estimated that y-o-y inflation rate in Serbia would likely move around the upper bound of the target tolerance band (3±1.5%) until end-2025, and slow gradually slow in the course of the next year. As regards **core inflation** (measured by CPI excluding food, energy, alcohol and cigarettes), its y-o-y dynamics were similar to headline inflation – it slowed down gradually since the beginning of the year, to 4.6% in May, only to accelerate

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



Source: NBS.

[2] RS Official Gazette, No 99/2024.

slightly to 4.7% in June, where it remained in July, landing below headline inflation for the first time since April last year.

In its monetary policy making during the period observed, the Executive Board took into account that short- and medium-term **inflation expectations** of the financial sector stayed within the target band in the year so far, where they have been since early 2024. Corporate inflation expectations for one year ahead have stayed unchanged at 5.0% since December 2024, and were at the same level for two and three years ahead around mid-year.

When assessing developments in the **real sector**, the Executive Board took into account that global uncertainty, rising protectionism, and problems in the European automobile industry, along with blockades and protests at home, weighed on Serbia's economic growth, mostly through postponed investments and consumption. Thus, according to the SORS estimate, Serbia's GDP posted modest growth of 2% y-o-y in H1 2025. According to the NBS estimate, growth was driven by services and manufacturing, notably by the visible effects of growing serial production of electric vehicles in "Stellantis" in Kragujevac and accelerated growth in tyre production. On the other hand, a negative contribution came from construction and energy.

As Q2 growth surprised on the downside and available SORS data on agriculture, along with relatively adverse weather conditions in the previous months, suggested that this year's agricultural season would be worse than the average we assumed in our May projection, the new GDP growth projection for this year is lower, at 2.75%. Economic activity is nonetheless expected to pick up in H2, propped up by the continued rise in automobile industry production and exports, and the implementation of infrastructure projects planned under the "Leap into the Future – Serbia Expo 2027" programme. Economic growth is further supported by the double-digit y-o-y growth in lending to corporates and households, as a result of the previous monetary policy easing by the NBS and the ECB, as well as more favourable costs of borrowing.

In making monetary policy decisions, the Executive Board paid close attention to international factors, emphasising the need for a continued cautious monetary policy stance, primarily in view of **geopolitical tensions and the escalation of the Middle East conflict, uncertainty surrounding protectionist measures and global market fragmentation**, which raises concerns over a possible simultaneous increase in inflation and a slowdown in global economic activity. Uncertainty surrounding the Middle East conflict primarily reflected on the volatility of global oil and natural gas prices, while the introduction of high tariffs and uncertain trade policies worsened the global growth outlook and weighted down on primary commodity prices. However, rising trade tensions also increased the risk of global supply chains disruptions and price hikes for goods directly affected by tariffs, which could spur global inflation.

In the **euro area**, our key trading partner, inflation stabilised around the 2% target in H1 and inflation expectations were anchored. Inflation is expected to move around the target in 2025 and slow further in 2026, owing to the euro's appreciation against the dollar, lower energy prices and cheaper imports from China. ECB officials noted that rising tariffs could have inflationary effect over the medium term due to higher costs and less efficient supply chains – which has not been included in standard projection models. At the same time, euro area economic activity has proven more resilient than previously assessed, with an expected strong fiscal impulse from rising government expenditure in Germany, improving the EU's economic outlook.

As expected, the **ECB** continued its monetary policy easing. It cut its key interest rates in H1 and kept them on hold in July, assessing that they are close to neutral. Market participants expected another rate cut by the ECB until the year's end. The gradual decline in euro-indexed borrowing costs in the domestic market – due to lower money market rates in the euro area – together with lower costs of dinar lending, as a result of earlier key policy rate cuts by the NBS, contributed to further growth in lending to around 11% y-o-y, indicating that funding sources were not a limiting factor for GDP growth.

Changes in the US trade policy mandated increased caution in the **Fed's** conduct of monetary policy, and the target range for the federal funds rate was kept unchanged at 4.25–4.50%. The Fed assessed that the economic effects of tariffs would include higher inflation and slower growth, but the appropriate monetary policy response remains uncertain until it sees whether tariffs will affect price growth only in the short term or whether their impact on inflation will nevertheless be evident over a longer period.

When considering **external demand**, the NBS Executive Board took into account the projections of relevant international institutions that both advanced and emerging economies will grow at a slower pace, not only due to fundamental challenges but also due to heightened uncertainty amid rising protectionism. The global economy has demonstrated notable resilience to numerous challenges since the beginning of the year, though it is assessed that this was driven by consumers and businesses in the USA, who increased their orders from other countries in anticipation of higher tariffs. This, in turn, bolstered export and economic activity in the euro area and China. In the remainder of the year, global economic growth is expected to slow further, as increasingly suggested by global trade indicators in the wake of rising tariffs. The expected acceleration of economic growth in Germany, our most important trade partner, thanks to a new package of government investments in infrastructure and defence, should have a positive impact on Serbia's growth starting next year.

Uncertain assessments of global supply and demand, along with geopolitical tensions and the conflicts in the Middle East and Ukraine, bring instability to the global market of **crude oil, but also other energy and primary commodities**, causing uncertainty regarding their prices in the period ahead.

Monetary policy caution was also warranted by **global food prices**. The Executive Board had in mind that the recent surge in the prices of certain food commodities on global exchanges (such as cocoa and coffee) would continue to affect food prices for some time, while volatile weather conditions, protectionist measures and trade restrictions could push food prices higher up. In addition, unfavourable weather conditions in spring and early summer brought about lower yields and higher prices of fruit in Serbia, and the absence of the seasonal decline in vegetable prices in June. When making its July and August decisions, the Executive Board considered that lower fruit and vegetable yields would significantly affect y-o-y inflation, which is likely to move around the upper bound of the target tolerance band in the remainder of the year.

The NBS will continue to monitor and analyse trends in the domestic and international markets and make monetary policy decisions on a **meeting-to-meeting basis, depending on the pace of inflation's slowdown**. The priority of monetary policy will remain to ensure price and financial stability in the medium term, while supporting further economic growth, employment and a favourable investment environment.

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**. 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 required reserves and FX market operations.

Open market operations

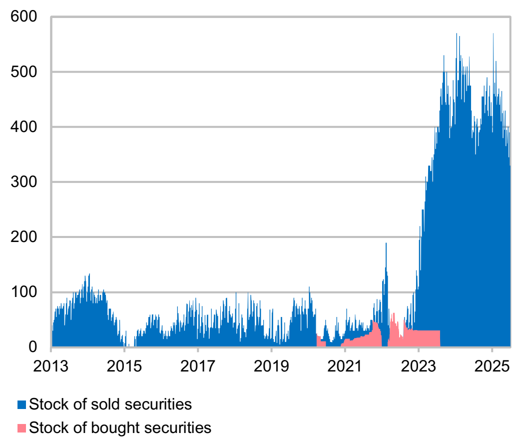
The main open market operations of the NBS in H1 2025 were one-week reverse repo transactions of securities sale (liquidity absorption).

The NBS implemented repo transactions using its own securities, with a buyback obligation. For the needs of repo sale, one series of T-bills was issued in mid-August 2024, in the total amount of RSD 1,000 bn (sufficient amount of market material for the NBS to absorb the highest estimated amount of excess dinar liquidity for a period of one year from the date of issuance).

In H1, 25 repo sale auctions were organised. Auctions were held once a week, applying the variable multiple interest rate model. Total securities sale amounted to RSD 10,735.0 bn, which was lower than in H2 2024 (RSD 11,485.0 bn).

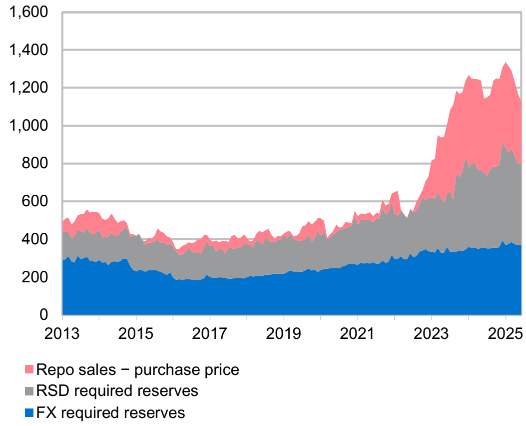
The stock of NBS securities in banks' portfolios averaged RSD 428.4 bn in H1 2025, up by RSD 2.3 bn from H2 2024. At end-June, the stock of these securities measured RSD 330.0 bn, which is a decrease from end-2024 (RSD 390.0 bn).

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.

Deposit and lending facilities

In H1 2025, banks placed overnight deposits with the NBS, which averaged RSD 140.4 bn, down by RSD 44.8 bn from H2 2024. The highest average daily stock was recorded in January (RSD 230.3 bn) and the lowest in May (RSD 89.1 bn).

In H1 2025, one bank used lending facilities in the form of intraday loan in the total amount of RSD 20.0 mn, while overnight loans were not used at all.

Required reserves

In H1 2025, the amount of calculated required reserves allocated in dinars went up by RSD 12.4 bn, reaching RSD 464.0 bn in June. This increase is chiefly a result of the growth in FX required reserves allocated in dinars (by RSD 7.6 bn), and the rise in purely dinar required reserves (RSD 4.8 bn), thanks to the increase in dinar deposits of households.

In the same period, calculated FX required reserves increased by EUR 67.4 mn, to EUR 3,124.9 mn in June. This was driven by the EUR 497.2 mn increase in the FX base, due to greater household FX savings.

Interest rates

At its meetings in June, July and September 2024, the NBS Executive Board decided to lower the key policy rate by 25 bp each, whereafter it was kept on hold at 5.75% in H1 2025. The deposit and lending facility rates were kept at 4.50% and 7.00%, respectively. Concurrently, the weighted average interest rate at reverse repo auctions stood at 4.51% almost throughout the entire H1.

In H1, 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 2025 Monetary Policy Programme, the NBS continued implementing the managed float exchange rate regime, with the possibility to intervene in the FX market to ease excessive short-term volatility of the dinar against the euro and maintain price and financial stability and an adequate level of FX reserves.

In H1, the dinar lost 0.1% against the euro in nominal terms. In the first five months, depreciation pressures prevailed, mostly due to stronger FX demand of energy importers and lower FX supply of some domestic companies, and in part because of lower FX inflows from FDI compared to the same period last year. In the first five months, the NBS net sold EUR 1 bn in the IFEM. Depreciation pressures were strongest in January and February, when the NBS net sold EUR 420 mn and EUR 325 mn, respectively, before gradually easing in the following months.

As of early June, strong appreciation pressures prevailed, chiefly on the back of higher FX supply of domestic corporates. This reflected lower FX demand of energy importers on the one hand, and, on the other, higher FX supply of some domestic companies, usually on the FX sale side, primarily on account of FDI exports. In addition, appreciation pressures were also fuelled by the lengthening of the position on account of the increase in net FX-indexed bank assets. In June, the NBS bought EUR 600 mn in the IFEM. By doing so, already in June the NBS offset 60% of its net FX sales from the first five months of 2025 and net sold EUR 400 mn in H1.

FX swaps

In H1 2025, banks were still able to conclude bilateral transactions of swap purchase and sale of foreign currency (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 H1, NBS bilateral swap transactions amounted to EUR 962 mn (swap purchase and sale worth EUR 481 mn each).

3 Achievement of inflation target since early 2025

In line with our expectations, **y-o-y inflation** was on a mostly downward path since the beginning of 2025, first slowing to 4.4% in March, then further to 4.0% in April and 3.8% in May. However, in June it accelerated to 4.6%, mainly due to higher food prices, driven by adverse weather conditions, and the increase in global oil prices amid the escalation of the Middle East conflict. **Core inflation** (measured by CPI excluding food, energy, alcohol and cigarettes) slowed to 4.7% y-o-y in June, down from 5.3% at end-2024.

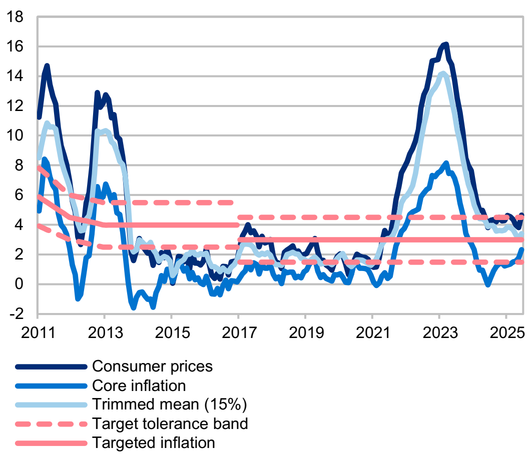
Half of the contribution to y-o-y inflation in June (2.3 pp) stemmed from **the prices of food and non-alcoholic beverages**, whose prices rose by 7.4% y-o-y. The 11.5% y-o-y growth in **unprocessed food prices** in June was the result of higher prices of fresh fruit and vegetables (contributing 0.7 pp and 0.4 pp, respectively), whose supply in the domestic market was noticeably lower due to unfavourable agro-meteorological conditions in Q2. The 5.4% y-o-y increase in **processed food prices** (contributing 1.1 pp to inflation) was predominantly driven by higher prices of non-alcoholic beverages (contributing 0.5 pp to contribution), and, to a lesser extent, by more expensive confectionery, reflecting the recent hike in global prices of coffee and cocoa, as well as higher cereal product prices.

Energy prices have recorded a y-o-y decline since March, led by lower **petroleum product prices** in the domestic market, reflecting lower global oil prices and last year's high base. However, the y-o-y fall in petroleum product prices lost pace in June compared to April and May, to 6.2% (with a 0.4 pp negative contribution), under the impact of renewed growth in global oil prices following the outbreak of the conflict between Israel and Iran. This was the key factor behind the slower y-o-y decline in energy prices, to 1.9% in June (contribution -0.3 pp to inflation). The prices of electricity for households were unchanged in H1.

The **prices of industrial products (excluding food and energy)** slowed down their y-o-y growth dominantly, to 4.3% in June (with a 1.2 pp contribution to inflation). This was driven by the slower y-o-y rise in the prices of cigarettes, alcoholic beverages and household cleaning products, and in Q2 also the prices of clothes and footwear. The slowdown in y-o-y price growth in industrial products in H1 was underpinned by reduced production and transport costs, on account of lower petroleum product and other industrial raw material prices.

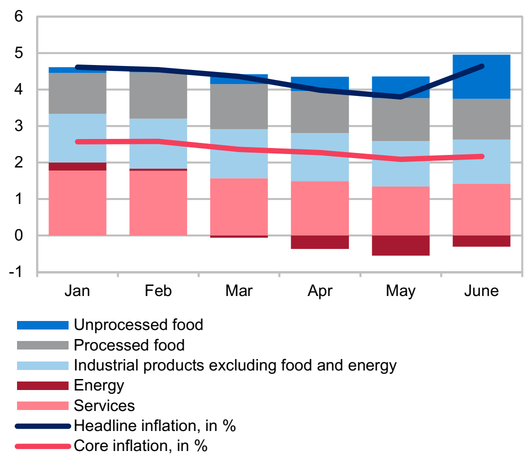
For most of H1, the **prices of services** slowed down their y-o-y growth, which, however, picked up slightly in June to 5.7% (with a 1.4 pp contribution to inflation). The rise in the prices of services is owed primarily to adjustments in the prices of utility and internet services in Q1, as well

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



Sources: SORS and NBS calculation.

Chart II.3.2 **Contribution of CPI components to y-o-y inflation during H1 2025**
(in pp)



Sources: SORS and NBS calculation.

as higher prices of labour intensive services – catering, personal services and crafts. Slower y-o-y dynamic in the prices of services, along with a decreased contribution of industrial product prices, dictated a gradual decline in **y-o-y core inflation** in H1.

Administered prices, which are under government regulation, grew by 4.3% y-o-y in June (with a 0.7 pp contribution to inflation), primarily due to the adjustments in the prices of utility services and cigarettes following excise hikes.

III Macroeconomic environment

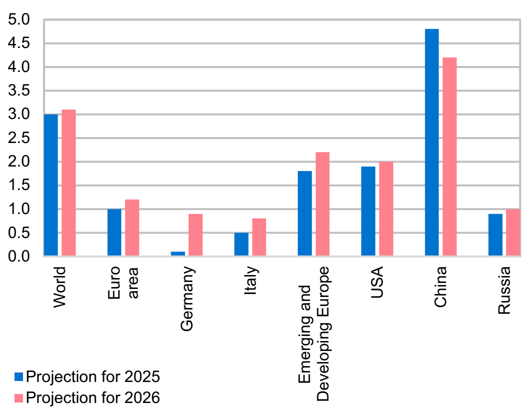
1 International environment

Economic activity and inflation

In the context of geopolitical tensions and the tightening of trade policies by major economies, **global uncertainty reached unprecedented levels in April 2025**, while global economic indicators signalled that it would slow down, primarily in the production sector. Even so, the **global economy** has shown considerable resilience to numerous challenges since the start of the year. The resilience is estimated to have emerged from US consumers and corporates which, **due to the anticipated increase in customs tariffs, stepped up their international orders in advance, thus triggering export and economic activity in the euro area and China**. In the remainder of the year, global economy is expected to decelerate, as increasingly suggested by global trade indicators due to increased tariffs. In July, the IMF projected global economic growth of 3.0% in 2025 (vs. 3.3% in 2024), stating that risks to the projection are still skewed to the downside.

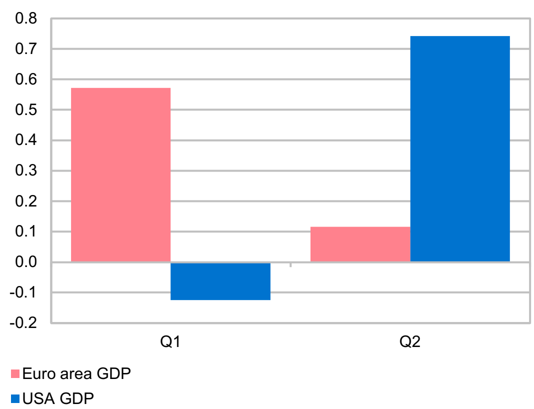
Under the impact of lower global prices of energy, **since the start of 2025, global inflation continued trending down**. Although at a slower pace, core inflation also retreated globally, amid the less tight conditions in labour markets, as well as the effects of past monetary policy tightening. However, in most countries, inflation is still trending above the pre-pandemic multiyear average. In July, the IMF projected global inflation at 4.2% in 2025 (vs. 5.6% in 2024), with the expected continuation of the downward inflation trajectory in the euro area and the majority of economies. Due to the introduced tariffs, these economies are facing a negative shock on the demand side which is having a disinflationary effect.

Chart III.1.1 **Projections of real GDP growth in 2025 and 2026**
(in %)



Source: IMF WEO Update (July 2025).

Chart III.1.2 **Real GDP growth in the euro area and the USA during H1 2025**
(s-a, in %)



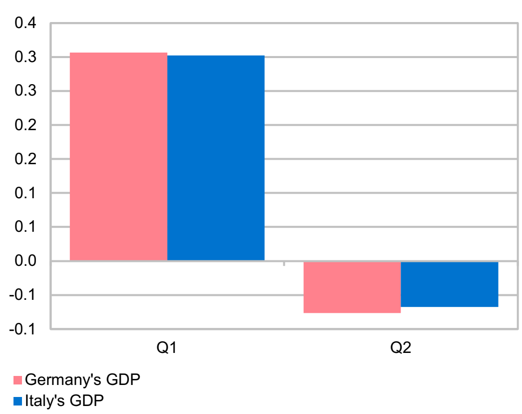
Sources: Eurostat, U.S. BEA and NBS calculation.

In Q1, the **euro area economy** grew 0.6% s-a, dominantly driven by an increase in fixed investments and net export, and to a lesser extent by the rise in household consumption. Depleting goods inventories worked in the opposite direction. The recorded GDP growth was well above expectations primarily due to the accelerated activity in manufacturing in order to avoid the negative effects of the announced tariffs, while activity in the services sector rose slightly. According to Eurostat's preliminary estimate, in Q2, the euro area economic growth slowed to 0.1% s-a, primarily due to another contraction in the manufacturing industry. Our key trade partners in the euro area, **Germany** and **Italy**, recorded GDP growth of 0.3% s-a each in Q1, which was succeeded by a fall of 0.1% s-a each in Q2. **The euro area labour market** is characterised by the record low unemployment rate of 6.2% in June. The ECB's June forecast of GDP growth in 2025 stood at 0.9%, the same as in 2024, with a slight pick-up to 1.1% in 2026. The ECB noted that risks to the projection are skewed to the downside amid the possible escalation of trade and geopolitical tensions. In July, the IMF forecast the euro area's GDP growth rate in 2025 at 1.0%, and a mild acceleration to 1.2% in 2026.

Mostly owing to the fall in energy prices, **headline inflation in the euro area** slowed to 2.2% y-o-y in March, and then to 2.0% y-o-y in June, thus reaching the target level. In contrast, food inflation in the euro area rose dominantly during H1 under the impact of adverse weather and the summer draught. **Core inflation in the euro area** (measured by the change in the HCPI excluding food, energy, alcohol and cigarettes) also slowed in H1, notably thanks to slower y-o-y growth in services prices. It edged down to 2.3% y-o-y in June, its lowest level since the start of 2022. Measured by the change in the HCPI at the y-o-y level, **inflation in Germany** trended down in H1, hitting the target 2.0% in June, while **inflation in Italy** retreated to 1.8%. At the level of 2025, the ECB projected in June that the average headline inflation in the euro area will measure 2.0%, and core inflation 2.4% (both figures 0.4 pp lower than in 2024), noting the dominant risks to the upside.

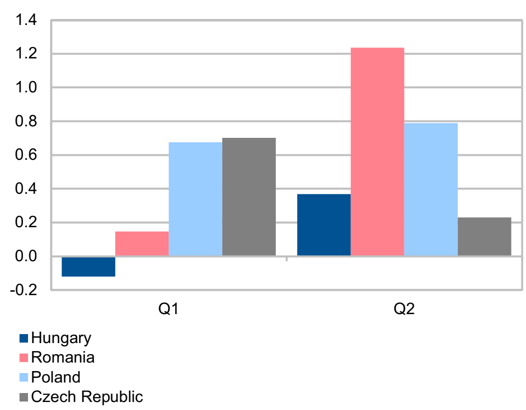
In the **Central and Southeast European region**,[3] GDP rose by 0.4% s-a in Q1, largely as a result of the increased fixed investments and higher household consumption. On the other hand, goods inventories and net exports decreased in Q1, as did government spending, though to a lesser extent. With the exception of Slovenia and Hungary, where GDP decreased in Q1, GDP grew in other countries of the region. Based on Eurostat's preliminary data, in Q2 the region's GDP stood at 0.7% s-a. Analysts of the Consensus Economics and the World Bank assessed that domestic demand is still the key driver of economic growth in countries of the region, while external demand in the euro area, notably Germany, remains subdued. At the level of 2025, in July the Consensus Economics forecast GDP growth in Central European countries at 2.4%, and in Southeast European countries at 1.9% (compared to 2.1% in each of the two groups of countries in 2024).

Chart III.1.3 **Real GDP growth in Germany and Italy in H1 2025**
(s-a, in %)



Source: Eurostat.

Chart III.1.4 **Real GDP growth in CESEE countries in H1 2025**
(s-a, in %)



Source: Eurostat.

[3] The Central and Southeast European region includes Romania, Hungary, the Czech Republic, Slovenia, Bulgaria, Croatia, Slovakia and Poland.

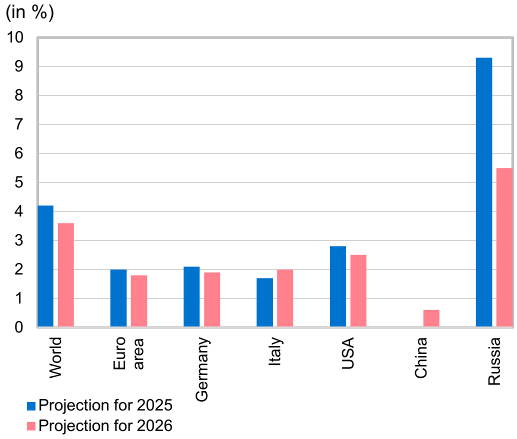
On account of lower energy prices, **inflation in Central and Southeast European countries** with a similar monetary framework as that of the National Bank of Serbia decelerated during Q1. By the end of H1, y-o-y inflation picked up in **Romania** and the **Czech Republic**, to 5.7% and 2.9%, respectively, amid higher food and energy prices, where the base effect also played out. Y-o-y inflation in **Poland** and **Hungary** in June slowed to 4.1% and 4.6%, respectively, owing to lower prices within core inflation. In July, Consensus Economics' analysts projected a slowdown in y-o-y inflation by the year's end in almost all countries in the region, except Romania, where inflation is expected to pick up once the measures capping electricity price are revoked, as well as amid increased VAT rates and excise taxes, as of August. A common denominator for all countries is the expectation that average inflation in 2025 will remain above the level in 2024.

Looking at the **Western Balkan region**,[4] domestic demand remained the key driver behind economic growth in H1, supported by the rise in real wages and remittances, as well as the positive effects of fiscal stimuli in European countries. In contrast, poor economic performance in the euro area, especially Germany, coupled with elevated uncertainty in terms of trade policies and political developments in some countries of the region, are having a negative impact on import, as well as on investment and consumer confidence. In June, the World Bank projected the region's GDP growth at 3.2% in 2025 (vs. 3.6% in 2024). In all countries of the Western Balkans, y-o-y inflation in June was higher than in March owing to elevated food prices caused by adverse weather, as well as the increased prices of petroleum products amid higher global oil prices and low last year's base. In July, the Consensus Economics' analysts projected higher inflation across the region in 2025 compared to 2024.

For the first time in almost three years, the **US economic activity** contracted in Q1 (by 0.1% s-a.), dominantly due to the fall in net exports, given that US companies accelerated import in order to avoid higher tariffs. On the other hand, domestic demand continued up in Q1. As the introduction of new customs tariffs was postponed, external demand noticeably recovered in Q2 and gave a key contribution to GDP growth of 0.7% s-a. Household consumption also contributed to economic growth in Q2, while the fall in goods inventories was the only factor working in the opposite direction. The **US labour market** remained stable, with a 4.1% unemployment rate in June, the same as at end-2024. In June, the Fed projected a 1.4% growth in US GDP in 2025 (vs. 2.8% in 2024), noting that risks to the projection are skewed to the downside. The average unemployment rate was projected at 4.5% in 2025 (vs. 4.0% in 2024).

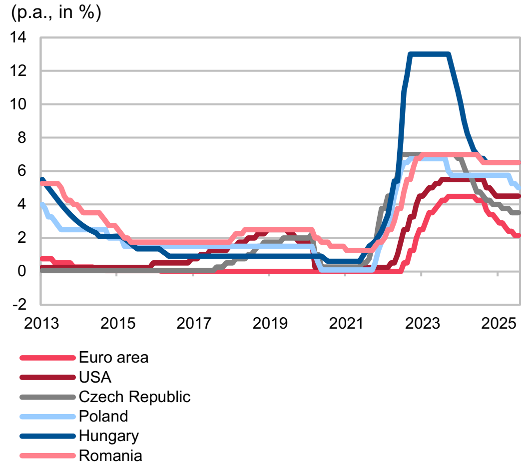
Headline inflation in the US, measured by the change in the CPI, initially slowed to 2.4% y-o-y in Q1, largely owing to the faster y-o-y fall in the prices of petroleum products and gas, after which it picked up to 2.7% y-o-y in Q2, on account of slower y-o-y fall in energy prices and

Chart III.1.5 **Projection of average inflation in 2025 and 2026**
(in %)



Source: IMF WEO (July and April 2025).

Chart III.1.6 **Policy rates across selected countries**
(p.a., in %)



Sources: Central banks of selected countries.

[4] Besides Serbia, the Western Balkan region includes Albania, Bosnia and Herzegovina, North Macedonia and Montenegro.

higher prices of industrial products (excluding energy and food). Food inflation trended at a similar level in Q2 as in Q1. Core inflation in the US, measured by the change in the CPI excluding food and energy, stood at 2.9% y-o-y in Q2, slightly higher than in Q1. Derived inflation measures, monitored and projected by the **Fed** – personal consumption indices total and excluding food and energy prices – recorded similar dynamics as the CPI in H1, measuring 2.6% and 2.8%, respectively, in Q2, i.e. trending at higher levels than in Q1. In June, the Fed projected these measures for 2025 at the average level of 3.0% and 2.4%, respectively, noting that risks to the projection are tilted to the upside.

The Chinese economy rose 1.2% s-a in Q1, thanks to stepped-up exports, notably on account of an increase in orders from the US in anticipation of higher customs tariffs going forward and the depreciation of the yuan. Increased consumption worked in the same direction, supported by fiscal stimuli. Coupled with monetary incentives, these measures resulted in 1.1% s-a growth in China's GDP in Q2. In July, the IMF projected China's economic growth to measure 4.8% in 2025 (vs. 5.0% in 2024). In H1, the **Russian economy** lost significant breath, slowing from 4.5% y-o-y in Q4 2024 to 1.4% in Q1 and 1.1% in Q2 2025, in response to a contraction in mining, trade and real estate business. The IMF's July projection of Russia's economic growth for 2025 equalled 0.9% (vs. 4.3% in 2024).

Monetary policy

Central banks' monetary policy decisions made since the start of the year still differ depending on the specific factors and estimates of the effects of uncertain trade policies by leading economies, as well as geopolitical tensions.

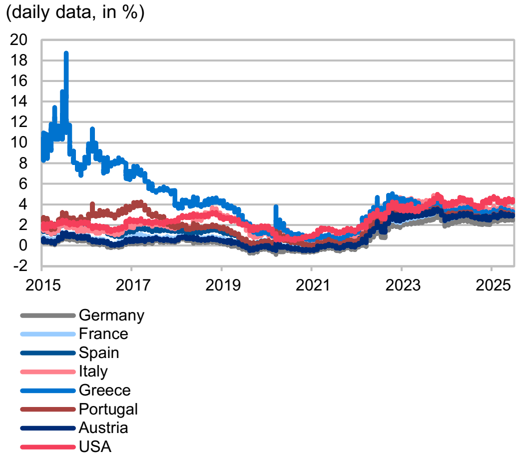
As expected, the **ECB** continued with monetary policy accommodation, trimming the main interest rates by 100 bp during H1, therefore after the June meeting, the deposit facility rate measured 2.00%, the main refinancing operations rate 2.15% and the credit facility rate 2.40%. However, they were kept on hold at the July meeting. With the rates remaining unchanged in July, analysts and markets are more inclined toward the estimate that the ECB is almost done trimming its rates, noting that they are most likely either in the neutral zone or close to it. At the same time, since the start of the year, the ECB continued to downsize its balance sheet as planned, at moderate dynamics.

The ECB underlined that the disinflation process is on a sound path and, as expected, both headline and core inflation have decreased since the start of 2025. Around mid-year, headline inflation retreated to the medium-term goal, and June projection indicated that inflation will be somewhat lower than projected in March, by 0.3 pp this and the following year, primarily because of the assumption of lower energy prices, as well as because of the euro gaining on the dollar more than was expected three months ago. Wage growth is still elevated, but continues to moderate, and its impact on inflation is partially absorbed by lower corporate profits. As for the real sector, prospects for investment and export, and by extension euro area growth, are deteriorating in light of the uncertain trade policies at a global level, notably in the near term, however, the rising government investments in defence and infrastructure will lend a hand to economic growth in the medium term.

The agreement to halve the initially proposed level of customs tariffs, which the EU signed with the new US administration at the end of July, has likely averted a larger trade war that would have affected nearly a third of global trade. By extension, this should help reduce uncertainty. The ECB announced that going forward it will continue making monetary policy decisions based on the assessments of inflation prospects in light of the incoming economic and financial data, inflation dynamics and the strength of the monetary policy transmission, while not necessarily adhering to any particular path of the main interest rate.

Unlike the ECB, the **Fed** did not change its federal funds rate range of 4.25–4.50%, anticipating more data to clarify the image of inflation movements and economic activity. The increased US import tariffs were expected

Chart III.1.7 **Yields on ten-year bonds of euro area countries**
(daily data, in %)



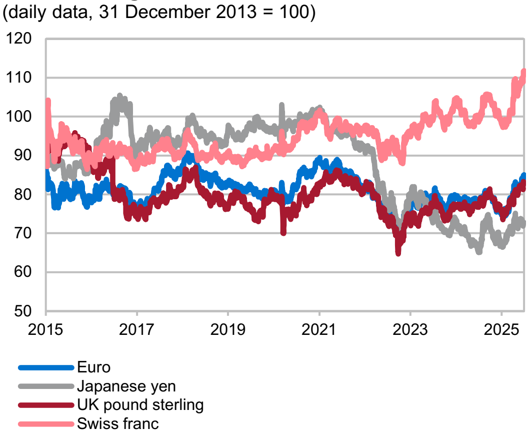
Sources: Central banks of selected countries.

to drive inflation up and employment down, but there was significant uncertainty as to the strength and duration of these effects. After the July meeting, the Fed came out with the expectation that inflation in the services sector will continue to recede, while elevated tariffs will drive up prices for some categories of goods. Fed officials noted that their monetary policy decisions were driven by the dual mandate and that the new administration is implementing major changes across four areas: trade, migration policy, fiscal policy and regulation. The net effect of changes in these four areas remains uncertain, and movements in the federal funds rate are critical to the economy.

According to June projections, the Fed expected weaker economic growth, higher inflation and a mild increase in unemployment in the coming period. Inflation could reach 3% by end-2025, which is more than previously projected. At the same time, GDP growth was revised down. The Fed's June projections indicate that by end-year we could expect two cuts in the federal funds rate range (by a total of 50 bp), given that the median projection of FOMC members for the end of 2025 is 3.9%, as was expected in March. For the end of 2026 and 2027, the median projection is slightly higher than in March, equalling 3.6% and 3.4%, respectively.

As for the monetary policy of the inflation targeting central banks in the **Central and Southeast European region**, in the observed period the **central bank of Poland** trimmed its policy rate the most. Having kept it unchanged for an extended period (since October 2023), it lowered the policy rate by 50 bp in May, and then again in July by 25 bp, to 5.0%. The key reasons for monetary

Chart III.1.8 **Exchange rates of selected national currencies against the dollar***
(daily data, 31 December 2013 = 100)



Source: IMF database.
* Growth indicates appreciation.

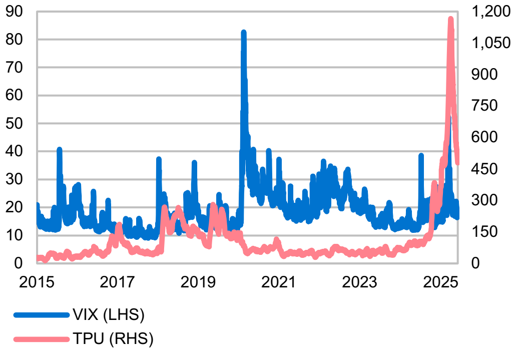
policy accommodation are the revised projections which indicated weaker inflation going forward relative to the projection from March, primarily this year – by almost 1 pp to 4% y-o-y – as well as somewhat slower economic growth. In February and May, the **central bank of the Czech Republic** trimmed its policy rate by 25 bp each time, to 3.5%, thereafter keeping it on hold due to the still significant wage growth, as well as the effects of global trade tensions and international geopolitical conflicts. According to estimates, inflation risks are still present and mandate the continuation of slightly restrictive monetary policy. In accordance with expectations, the **central banks of Romania and Hungary** did not change their policy rates since August and September 2024, and they currently measure 6.5%. The central bank of **Romania** is pursuing a cautious monetary policy, expecting inflation to continue up in the near term due to the planned increase in the VAT and excise tax as of August, as well as the removal of the cap on electricity price increase. The central bank of **Hungary** is seeking to anchor inflation expectations in an environment of rising inflation. A cautious approach to monetary policy is expected to prevail given the considerable growth in wages and consumer demand, as well as the rising trade barriers and global uncertainty.

Financial and commodity markets

Yields on ten-year government bonds of advanced European countries rose during H1 by around 14 bp on average, recording diverging movements. The start of the year was marked by growth in the yields triggered by expectations of a pick-up in German economy in the wake of the announced plan on significant increase in government spending. In Q2, the yields recorded a fall amid the further loosening of the ECB's monetary policy and stepped-up demand for bonds as a safe haven at a time when the conflict between Israel and Iran was escalating. In contrast, the **yields on ten-year US Treasuries** were trimmed by 34 bp, amid market participants' concerns about a possible slowdown in the US economy due to increased customs tariffs, which could drive the Fed towards monetary policy accommodation sooner.

During H1, the euro and the majority of leading currencies gained against the dollar in the international financial market. Initially, this came about due to uncertainties as to decisions of the US administration in the realm of trade policy, and later due to the dampened investor confidence in the US dollar after Moody's lowered the credit rating of the US in May 2025, as well as on account of published data on subdued activity in the US economy in Q1.

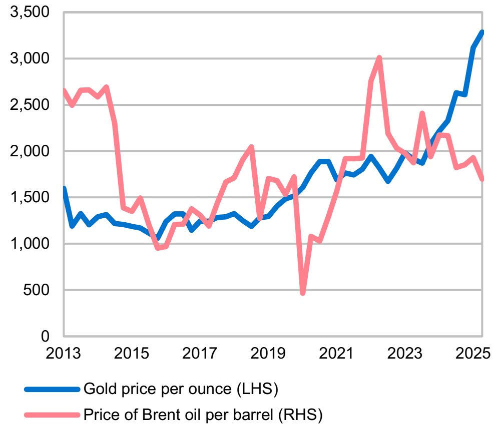
Chart III.1.9 **Measures of volatility and uncertainty in the international financial market***



Source: Bloomberg, Caldara et. al. (2022).

* VIX (Chicago Board Options Exchange Market Volatility Index) is a measure of implicit volatility of a S&P 500 stock option; TPU – Trade Policy Uncertainty Index) is the index of trade policy uncertainty.

Chart III.1.10 **World gold and oil price movements**
(end quarter, in USD)



Source: Bloomberg.

The announced tightening of the US trade policy has left financial markets significantly shaken, as seen by the rise of the **implicit measure of financial market volatility (VIX)**. After China announced the introduction of countermeasures on 4 April, in response to the US customs, VIX reached the highest value in five years (52.3 on 8 April, compared to 17.4 at end-2024). This coincided with a sudden sale of shares, resulting in S&P500 index recording the sharpest daily drop since 2020 (5.97%). Due to increased concerns, investors redirected funds toward safer assets – gold and other safe haven currencies, such as the Japanese yen and the Swiss franc. The Trade Policy Uncertainty Index (TPU)[5] also pointed to elevated global uncertainty, and in April it stood at the highest levels since 2015, when data were first available.

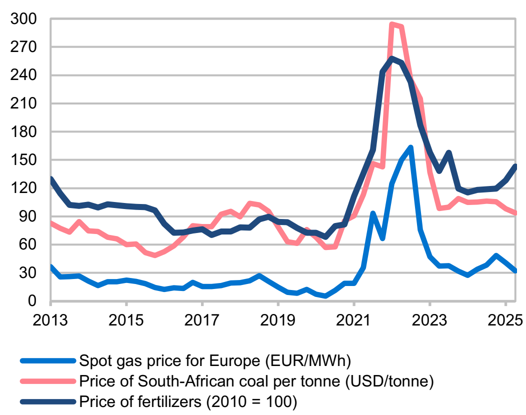
Following the turmoil in the US financial markets, a 90-day pause on the application of tariffs was introduced, along with an announcement of bilateral negotiations on tariffs. This led to an almost immediate stabilisation and a reduction in uncertainty in the financial markets, resulting in a drop in both VIX and the TPU.

The **global price of gold** continued up during H1, measuring around USD 3,290 per ounce at end-June, up by 26.0% from end-2024. The price of gold went up spurred by elevated demand for safe assets amid growing trade protectionism and geopolitical tensions on a global scale, as well as the stepped-up gold purchases by the central bank of China.

Global Brent oil price moved dominantly down in H1, amid expectations of a slowdown in global economic growth due to escalating trade tensions and increased output by OPEC+ members. At end-June it measured around USD 68 per barrel, or 8.3% lower than at end-2024. Occasional deviations and the increase in oil price, notably in June, reflected the exacerbated geopolitical conflicts in the Middle East.

Having climbed during January and February (amid increased demand due to colder weather, low inventories

Chart III.1.11 **Movement in prices of natural gas, thermal coal and mineral fertilisers**
(end quarter)



Sources: Refinitiv and World Bank.

[5] Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo (2020). "The Economic Effects of Trade Policy Uncertainty," *Journal of Monetary Economics*, 109, pp. 38–59.

and lower supply from Russia after the termination of the gas Transit Agreement through Ukraine at end-2024), the **benchmark price of natural gas for Europe (Dutch TTF hub)** edged down by the end of H1, as usual for the season. At end-June, the natural gas price measured around EUR 32 per MWh (equivalent to the price of around USD 390 per 1,000m3 of gas),[6] which is 33.8% lower than at end-2024.

The **thermal coal price** continued down in H1 under the impact of growing supply by leading global producers, notably China and Indonesia, and elevated inventories. In June, the price averaged around USD 95 per tonne, and was 11.1% lower than in December 2024. Concurrently, despite lower prices of natural gas, one of the key production inputs, the **global prices of mineral fertilisers** largely trended upward during H1, and in June stood 19.5% above the level from end-2024.

Global prices of most metals and minerals trended up during Q1, mostly under the impact of elevated demand of market participants before the anticipated rise in prices amid higher customs tariffs on these products. The prices retreated in April, notably amid concerns regarding the slowdown in global demand caused by the rising customs tariffs and trade barriers. Even so, by end-June the prices bounced back thanks to the achieved trade arrangements.

After contracting in January, **global food prices**, measured by the FAO index, moved dominantly up until end-H1, and in June stood 0.4% above the level from end-2024, while in y-o-y terms they rose 5.8%. They rose relative to end-2024 under the impact of higher prices of dairy products (8.8%) and meat (5.4%), while the lower prices of sugar (13.0%), cereals (3.9%) and plant oils (3.6%) worked in the opposite direction.

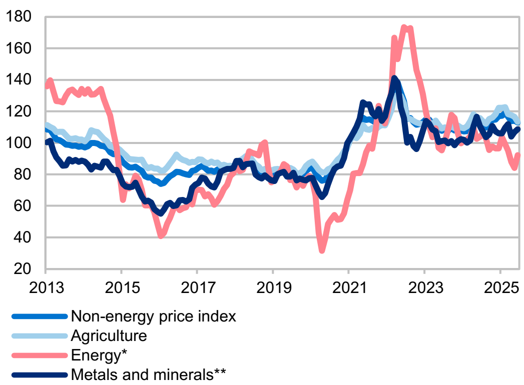
2 International transactions

Balance of payments and FX reserves

According to preliminary data, **the current account deficit** measured EUR 2.0 bn in H1 2025 (4.7% of GDP), having increased by EUR 885.6 mn relative to H1 2024. More than two-fifths of the increase resulted from a higher deficit on trade in goods.

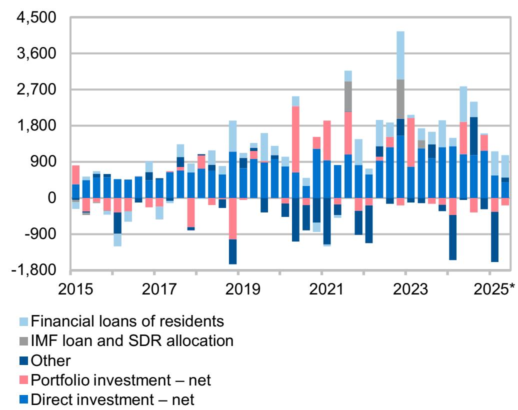
The deficit on trade in goods equalled EUR 3.4 bn in H1, up by 12.9% y-o-y. **Goods exports** rose by 11.2% y-o-y to EUR 16.3 bn, guided by manufacturing exports which gained 11.1% y-o-y despite low external demand caused by problems in the European industry and the uncertainty surrounding tariffs. Exports increased in 19 out of 23 branches of manufacturing, particularly in those associated with the automobile industry – exports of rubber and plastic products and motor vehicles, followed by exports of metal products, base metals and food products. Mining exports also went up in H1 (11.7% y-o-y), as did the exports of electricity (41.8% y-o-y). In

Chart III.1.12 **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.

Chart III.2.1 **Structure of the financial account***
(EUR mn)



Source: NBS.
* Preliminary data.

[6] The price expressed in dollars per 1,000 cubic metres of gas was calculated based on the production price of gas expressed in MWh, the EUR/USD exchange rate and an appropriate coefficient (10.55 MWh ≡ 1,000 m³).

contrast, the last year's drought resulted in lower inventories and agricultural exports (by 10.1% y-o-y). **Goods imports** increased by 11.5% y-o-y to EUR 19.7 bn, reflecting higher imports of intermediate goods (9.5% y-o-y), including energy products, and of consumer goods (12.9% y-o-y). Imports of equipment decreased by 5.0% y-o-y. Energy imports, according to SITC classification, gained 14.6% y-o-y (EUR 311.2 mn) due to higher imports of electricity and gas.

The surplus on trade in services contracted by 14.2% y-o-y to EUR 1.3 bn, as services imports rose faster than exports (10.8% y-o-y and 5.4% y-o-y, respectively). Services exports reached close to EUR 7.2 bn, guided by rising exports of ICT and business services. Services imports climbed to EUR 5.9 bn, sustained mostly by imports of tourism services.

The deficit on the primary income account measured EUR 2.2 bn and was almost unchanged from the same period last year. FDI expenditures increased, which was expected given the steady inflow and growth in the FDI stock entailing increased dividend payments. Expenditure in respect of interest on intercompany loans and portfolio investment increased as well, while expenditure in respect of foreign workers' wages and other investment decreased.

The **surplus on the secondary income account** narrowed by 10.4% y-o-y (to EUR 2.4 bn) as foreign remittances inflow shrank by 15.1% y-o-y to EUR 2.0 bn. Other foreign transfers (EUR 439.4 mn) were higher than in the same period last year, while, in contrast to H1 2024, net outflows were recorded in respect of official government assistance (EUR 16.1 mn).

Net capital inflow of EUR 439.4 mn[7] was recorded on the **financial account of the balance of payments**. The bulk of inflows in H1 came from financial loans and FDI, while outflows mostly referred to trade loans, portfolio investment and increase in banks' cash and deposits abroad.

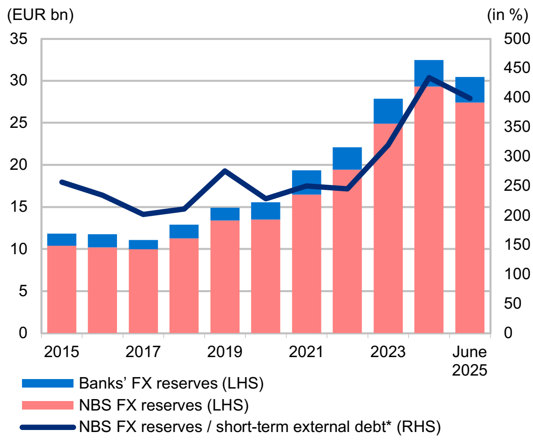
According to preliminary data, **FDI inflow to Serbia** equalled EUR 1.55 bn in H1. It declined by 42.4% from H1 2024 due to above-average one-off inflows last year and diminished investor confidence globally, but also because of the deferral of some investments amid protests and blockades in the country. FDIs had a favourable composition, mostly in the form of equity capital and reinvested earnings, and remained diversified by geography and project. Investments were mostly channelled to professional, scientific, innovation and technical activities, manufacturing, construction and

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

	H1 2024	H1 2025*
I CURRENT ACCOUNT	-1,082.8	-1,968.4
1. Goods	-3,042.0	-3,435.8
1.1. Credit	14,624.1	16,255.2
1.2. Debit	-17,666.1	-19,691.0
2. Services	1,486.8	1,275.9
2.1. Credit	6,834.1	7,201.4
2.2. Debit	-5,347.4	-5,925.5
3.Goods and services	-1,555.2	-2,159.9
3.1. Credit	21,458.2	23,456.6
3.2. Debit	-23,013.4	-25,616.5
4. Primary income	-2,217.8	-2,219.6
5. Secondary income	2,690.3	2,411.1
II CAPITAL ACCOUNT	45.7	149.0
III FINANCIAL ACCOUNT (excluding reserve assets)	2,672.3	439.4
1. Direct investment, net	2,377.1	958.6
2. Portfolio investment, net	380.0	-538.1
3. Financial derivates, net	31.7	14.7
4. Other investment, net	-116.5	4.2
4.1. Trade credit and advances, net	-269.6	-761.4
4.2. Financial loans, net	1,090.3	1,151.0
4.3.Currency and deposits, net	-957.9	-418.5
4.4. Other, net	20.7	33.2
IV Reserve assets	1,976.4	-1,699.2
V NET ERRORS AND OMISSIONS	341.2	-319.3
VI OVERALL BALANCE	1,976.4	-1,699.2

Source: NBS.
* Preliminary data.
1) BPM6 methodology, except sign convention.

Chart III.2.2 **FX reserves and coverage of short-term external debt**



Source: NBS.
* Short-term debt by remaining maturity, the latest figure is for March 2025.

[7] Excluding change in FX reserves.

financial activities and insurance. Net FDI inflow measured EUR 958.6 mn in H1, reflecting increased resident investment abroad.

Higher resident investment in foreign securities and somewhat reduced non-resident investment in government securities in the domestic market resulted in a net capital outflow of EUR 538.1 mn in respect of **portfolio investment** in H1.

Inflow of EUR 4.2 mn was recorded under **other investment** in H1. Inflow in respect of **financial loans** topped EUR 1.1 bn, mostly due to corporate borrowing. Bank borrowing expanded as well, while the government reduced its foreign loan obligations. Domestic banks increased their balances in accounts abroad which, together with the reduction of balances in non-resident accounts with domestic banks, resulted in an outflow of EUR 418.5 mn in respect of **cash and deposits** in H1. Outflow of EUR 761.4 mn was recorded under **trade loans and advances** as well.

As a result of the above flows in the current and financial accounts, **the NBS FX reserves** decreased by EUR 1.9 bn in nominal terms in H1 2025 (including asset price and exchange rate changes). Gross FX reserves measured EUR 27,403.6 mn as at 30 June 2025 and covered 162.3% of money supply M1 and 6.5 months' worth of imports of goods and services, more than twice the relevant standard. Net FX reserves measured EUR 23,076.4 mn, down by EUR 1.6 bn from end-2024.

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). Therefore, as at 30 June 2025, foreign securities accounted for the highest share of FX reserves (56.4%), followed by FX balances in accounts abroad (21.4%), gold (16.5%), foreign cash (5.5%) and SDRs with the IMF (0.2%).

The bulk of FX inflows in H1 came from interest and coupons on bonds in the amount of EUR 250.5 mn. Substantial inflow also came from payment transactions with Kosovo and Metohija[8] worth EUR 210.4 mn and grants – EUR 124.3 mn.

By end-June 2025, the largest outflow from the NBS FX reserves came from the settlement of the government's FX liabilities and net repayment of Serbia's debt to foreign creditors, totalling EUR 1,825.1 mn. Other major outflows included net FX sales by the NBS in the IFEM[9] worth EUR 465.0 mn and banks' FX required reserves – EUR 132.0 mn net.

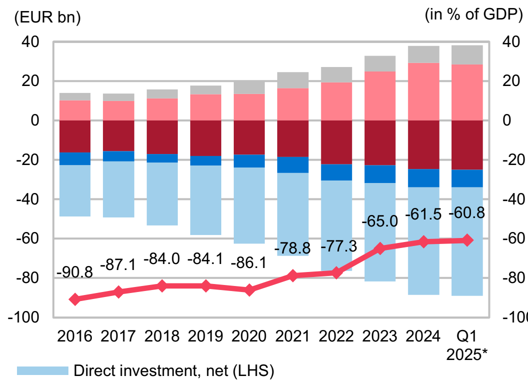
International investment position

Serbia's net international investment position, i.e. the difference between Serbian residents' foreign assets and liabilities, was negative and came at **EUR 52.2 bn** at end-Q2 2025, up by EUR 1.2 bn compared to end-2024. **Thanks to economic activity growth in H1**, however, **the share of the negative international investment position in estimated GDP dipped by 0.4 pp to 61.5%**.

Within foreign financial assets, which amounted to EUR 51.8 bn at end-Q2 2025, **direct investment abroad and corporate trade loans increased the most. FX reserves continue to account for more than a half of total assets (53%)**.

Within financial liabilities, which amounted to EUR 104.0 bn at end-Q2 2025, it is positive that **FDIs**, as the most favourable, long-term type of foreign investment, well exceeded a half of total foreign liabilities **(58.9%)**, while **financial loans** and **portfolio investment** made up a smaller share: 24.6% and 10.4%, respectively.

Chart III.2.3 **International investment position**



Source: NBS.
* Preliminary data.

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

[9] 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.

3 Financial market trends

Interest rates

In line with the unchanged level of the NBS's key policy rate, interest rates in the **interbank money market** stayed almost unchanged in H1 2025. The interest rate in the overnight interbank money market, BEONIA, stood at 4.46%, while BELIBOR rates ranged from 4.50% for the shortest to 4.72% for six-month maturity at end-June.

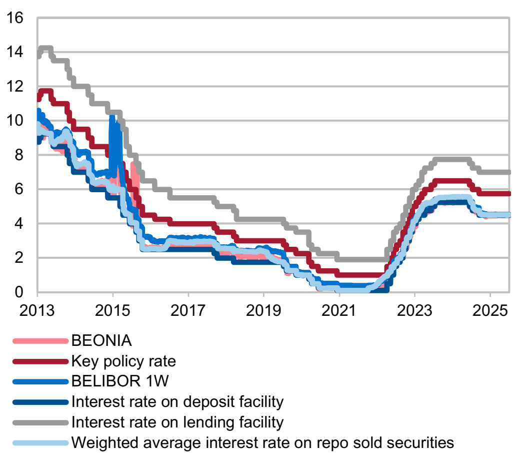
In the **primary market of dinar government securities**, three auctions of 10.5Y government bonds were organised in H1. At the January auction, the first after Standard & Poor's assigned Serbia an investment grade credit rating, a record sale of dinar government securities was registered, almost four times higher than planned, in the nominal amount of RSD 111.3 bn, with demand reaching as much as RSD 158 bn, making this auction the most successful so far. The coupon and effective rates were equalised at 5.25%. These securities attracted strong interest from foreign investors also in the secondary market. As the planned issue of RSD 120 bn was almost fully realised already at the first auction, the Public Debt Administration issued another RSD 60 bn in February, raising the total volume of the 10.5Y dinar securities issue to RSD 180 bn. At auction reopening in March and May, RSD 40.2 bn was sold at nominal value (demand stood at RSD 55.2 bn), with the yield rate declining to 5.16% at the last auction. As the previously issued RSD 100 bn-worth of 2Y dinar securities fell due at the same time, the stock of dinar government securities increased by RSD 51.5 bn, to RSD 908.1 bn at end-June.

In H1, there were no auctions for the sale of **government euro securities**. As previously issued securities worth EUR 107.2 mn matured at the same time, the stock of sold euro securities decreased relative to end-2024, to EUR 1,441.2 mn at end-June.

In H1 2025, the turnover **in the secondary market of dinar securities** upped slightly compared to H2 2024, reaching RSD 150.8 bn. The weighted average yield rates on government securities increased despite the reduction in their remaining maturities, which can be associated with heightened investor risk aversion amid elevated global uncertainty due to intensified trade tensions, as well as the escalation of the Middle East conflict. The average yields in June ranged between 4.36% for the remaining seven-month maturity and 5.24% for the remaining maturity of around 10Y.

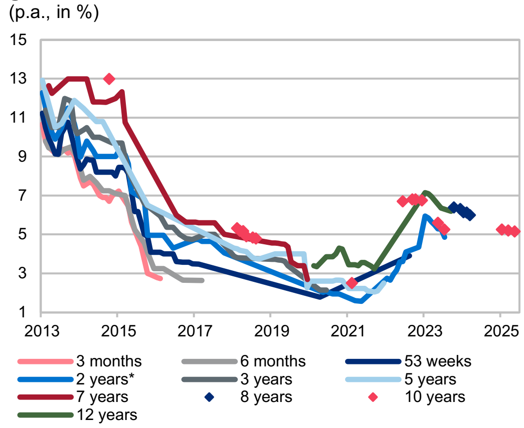
More favourable sources of financing and bank competition led to the cheapening of dinar loans in H1 2025. The interest rate on new **dinar household loans** edged down by 0.3 pp in H1, to 9.6% in June, driven by record disbursement of cash loans under more favourable conditions (by 0.6 pp, at the rate of 9.6%). The interest rate on **dinar corporate loans** lost 0.5 pp, coming at 6.4% in June, primarily as the result of lower rates on

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.

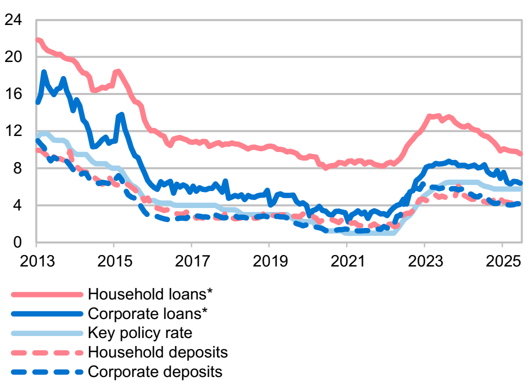
working capital loans (by 0.7 pp, to 6.2%), whose share in dinar corporate lending increased from 58% at end-2024 to 79% in June. The drop in the overall rate was also supported by a decrease in rates on other non-categorised loans, by 0.2 pp, to 6.8%, which account for around 13%. **Continued monetary policy easing by the ECB and a decline in interest rates in the euro area money market led to further cheapening of euro-indexed domestic loans during H1 2025.** The interest rate on **euro-indexed household loans** edged down by 0.9 pp, to 4.6% in June. The decline is largely attributable to the capping of interest rates on housing loans, in line with the Law on the Protection of Financial Service Consumers, at a maximum of 5%, and the implementation of the **subsidised loan programme under the government's "Housing Loans for Young People" programme**, which led to a reduction in the housing loan interest rate by 0.7 pp, to 4.3%. The overall rate decline was also supported by the decrease in interest rates on consumer and other non-categorised loans, by 0.6 pp, to 5.6%, and by 2.5 pp, to 6.2%, respectively. These two categories together make up around 19% of household euro lending. The interest rate on **euro-indexed corporate loans** declined in H1 by 0.9 pp, to 4.7% in June. Rates fell across all loan categories, with the largest contribution coming from lower rates on working capital loans, by 0.9 pp, to 4.5% and investment loans, by 0.4 pp, to 5.3%, which together account for around 91% of euro corporate lending.

The measure on housing loan interest rate caps, introduced in September 2023, expired in December 2024. Therefore, the NBS adopted a Decision on Temporary Interest Rate Cap to ensure the application of caps defined by the Law on the Protection of Financial Service Consumers until its entry into force on 14 March 2025.[10] This Decision extended the cap on interest rates for existing variable-rate housing loans, as well as for new variable- and fixed-rate housing loans, in dinars and euros, until end-2025, with the maximum rate set at 5%. In the transitional period, during 2026 and 2027, the maximum rate on housing loans will equal the weighted average rate plus one-fifth of that rate. As of 2028, this increase will equal one-quarter of the average rate.

The new Law on the Protection of Financial Service Consumers also introduced caps on nominal interest rates on dinar cash and consumer loans, as well as on other loans to natural persons. In January, caps were set at 14.08% for dinar loans and 6.98% for FX loans, valid until end-May, after which rates for the period 1 June–30 November 2025 were lowered to 13.75% and 6.96%, respectively, i.e. equal to the average March rates plus one-quarter.

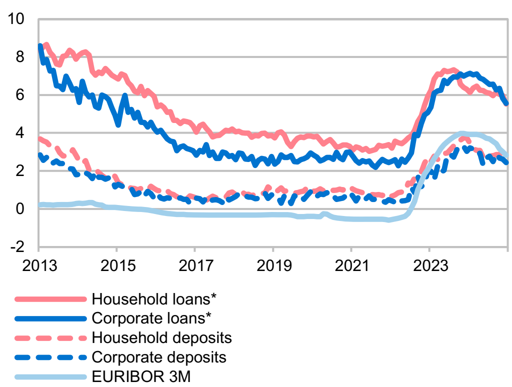
The Law also introduced a special, lower statutory default interest on overdue consumer's liabilities, 2 pp below the general statutory default rate prescribed by the Law on Default Interest Rate. It is calculated as the

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.

[10] For more details on the Law on the Protection of Financial Service Consumers, see *Inflation Report – May 2025*, Text box 1, p. 20.

NBS's key policy rate, or the reference rate of other central banks for their currencies, increased by 6 pp.

The caps on interest rates on credit card debt and current account overdrafts are calculated as the default rate under the Law increased by 6 pp and 8 pp, respectively. Accordingly, caps on current account overdrafts amounted to 19.75%, while those for credit card debt in dinars and in foreign currency were set at 17.75% and 14.40%[11], respectively. **This reflected in a significant decline in interest rates in June relative to December 2024 – by 7.3 pp, to 15.1%, for credit card debt and by 10.0 pp, to 17.9%, for current account overdrafts.**

Country risk premium and credit rating

Global risk premium predominantly trended up until mid-April, reflecting market participants' concerns that the rising tariffs and trade barriers could slow down global growth and generate new inflationary pressures. After that, the global risk premium declined until end-H1, as trade tensions subsided and the ECB continued monetary policy easing. **EURO EMBIG Composite** dropped by 16 bp in H1, to 176 bp at end-June.

Observed by countries of the region, in H1 risk premia on euro-denominated debt declined in North Macedonia (by 69 bp, to 184 bp at end-June) and Turkey (by 33 bp, to 162 bp at end-June). At the same time, risk premia on euro-denominated debt stayed almost unchanged in Croatia, Hungary, Romania and Montenegro. **Serbia's EURO EMBIG** lost 14 bp in H1, coming to 180 bp at end-June.

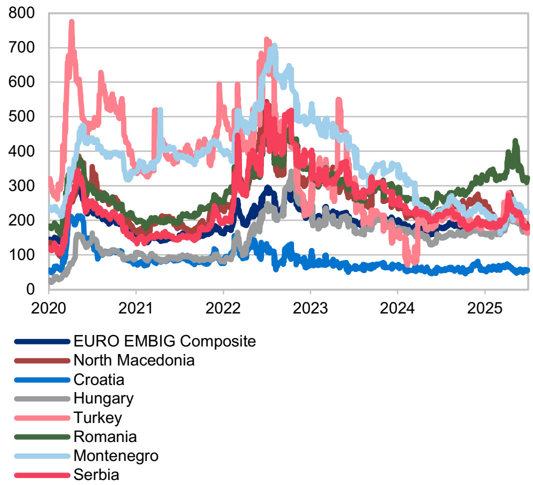
In January and July, **Fitch** kept Serbia's credit rating at BB+, with a positive outlook. The agency highlighted the following key rating drivers: sound economic policy mix, notably prudent public finance management and rising FX reserves, and a higher level of economic development compared with the 'BB' median. The positive outlook also reflects the investment-led economic growth in the coming period, underpinned by the "Leap into the Future – Serbia Expo 2027" programme, a strengthened external position, declining public debt trajectory, and stabilisation of inflation.

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 euro debt – EURO EMBIG**
(daily data, in bp)



Source: JP Morgan.

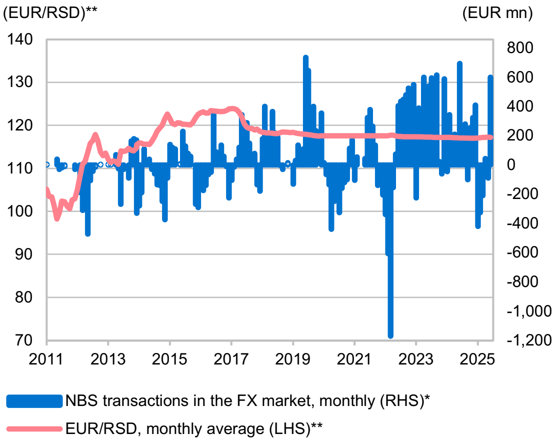
Trends in the FX market and exchange rate

The dinar continued its relatively stable movement against the euro in H1. End-of-period, the dinar weakened 0.1% against the euro in nominal terms. At the same time, affected by the euro's appreciation against the dollar in the international market, the dinar gained 12.6% in nominal terms against the dollar.

Depreciation pressures on the dinar prevailed during the first five months of 2025, but gradually weakened. The main cause of these pressures in Q1 was the seasonally elevated FX demand, primarily by domestic energy sector companies. Save for energy companies, FX supply of other residents was lower compared to the same period last year, partly due to reduced FX supply from FDI. On the demand side, up to April FX demand was also driven by net sale of foreign cash by banks. In addition, non-

[11] By 25 June, when the 14.15% cap was applied, following the ECB's key policy rate cut.

Chart III.3.6 **Dinar exchange rate and NBS transactions in the FX market**

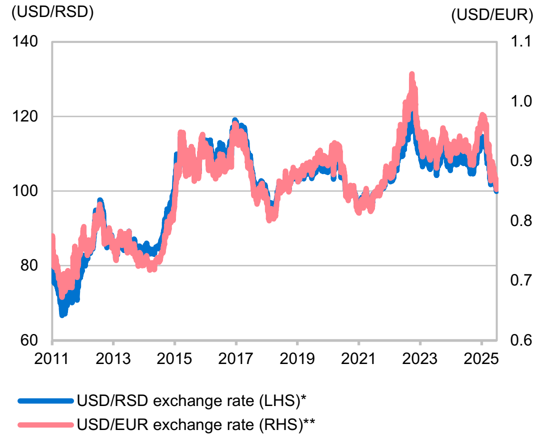


Source: NBS.

* + net purchase; - net sale.

** EUR 1 in RSD.

Chart III.3.7 **Movements in USD/RSD and USD/EUR exchange rates**



Source: NBS.

* 1 USD in RSD.

** 1 USD in EUR.

residents created FX demand throughout H1, and the shortening of the banks' FX position under payment cards worked in the same direction. In Q2, FX demand declined, while FX supply rose, with strong appreciation pressures prevailing since early June. This was primarily due to the net indexed bank assets, which were on the rise since April.[12] Working in the same direction were the net sale of foreign cash by residents and the net purchase of foreign cash.

To maintain relative stability of the dinar exchange rate against the euro, the NBS net sold EUR 400.0 mn in the IFEM in H1. In January, it intervened by selling foreign currency and in June by buying foreign currency only, while in all other months it intervened both by selling and buying foreign currency.

Interbank trading in the IFEM[13] in H1 averaged EUR 34.6 mn daily, down by EUR 2.2 mn y-o-y. The turnover peaked in February (EUR 43.1 mn on average per day).

The currencies of regional inflation-targeting peers recorded divergent movement relative to the euro in H1. End-of-period, gaining ground were the Hungarian forint (2.7%), the Czech koruna (1.8%) and the Polish zloty (0.7%), while the Romanian leu and the Turkish lira weakened by 2.0% and 21.1%, respectively.

4 Money and loans

Monetary aggregates M1, M2 and M3

The broadest monetary aggregate M3, which in addition to dinar money includes FX deposits of the non-monetary sector, increased mildly in H1 2025 (0.3%). The growth was almost entirely driven by the FX component. In contrast, the most liquid, dinar demand deposits dropped on account of economic slowdown, and partly on account of seasonal factors which were present at the beginning of the year.

In terms of individual categories, **demand deposits** went down by RSD 47.6 bn, which is almost entirely associated with a fall in corporate deposits, primarily in the areas of construction, wholesale and retail trade, real estates, and somewhat less, manufacturing. Transaction deposits of the remaining sectors recorded no significant changes.

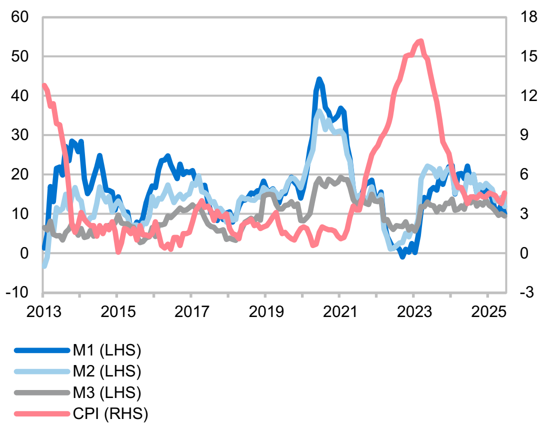
In H1, **time dinar deposits** stayed almost unchanged, as the decline in corporate time dinar deposits was offset by a mild rise in dinar household savings and local government deposits. Dinar household savings rose more moderately in H1 2025 than in the previous period and stood at RSD 192.0 bn at end-June.[14]

[12] Aiming to balance their long open FX positions and reduce exposure to FX risk, banks sell foreign currency, which works toward the strengthening of the dinar.

[13] Excluding the NBS.

[14] Money supplies include only resident assets. Including the assets of non-residents, dinar savings amounted to RSD 195.7 bn at end-June.

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



Sources: SORS and NBS.

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

	2024	June 2025	Changes in H1 2025
Net foreign assets	**3,293,136**	**3,117,856**	**-175,280**
Bank net foreign assets	-151,062	-108,709	42,353
Net domestic assets of the banking sector	**1,870,101**	**2,060,168**	**190,067**
Net domestic loans	3,536,595	3,788,565	251,970
Net claims on government	-27,094	25,517	52,611
Government loans	917,144	972,616	55,473
Government deposits	-944,238	-947,099	-2,861
Loans to other resident sectors	3,563,689	3,763,048	199,359
Loans to households	1,625,247	1,759,202	133,955
Loans to the corporate sector	1,830,615	1,889,569	58,954
Loans to other financial corporations	72,707	73,357	650
Loans to local authorities	34,680	40,110	5,430
Loans to non-profit and other organisations	441	811	370
Other net assets	-1,666,494	-1,728,397	-61,903
Money supply M3	**5,163,237**	**5,178,024**	**14,787**
Money supply M2	2,685,365	2,625,013	-60,352
Money supply M1	2,038,281	1,978,404	-59,877
Currency in circulation	399,640	387,335	-12,305
Sight deposits	1,638,641	1,591,069	-47,572
Dinar savings and term deposits	647,084	646,609	-474
FX deposits	2,477,872	2,553,011	75,139

Source: NBS.

FX deposits rose by EUR 612.5 mn in H1, primarily as a result of the increase in FX household savings, by EUR 524.8 mn (to a new record high level of EUR 14.9 bn in June[15]), and, somewhat less, in the deposits of other financial organisations, by RSD 210.3 bn. In contrast, corporate deposits dropped by EUR 133.7 mn, which can be attributed to the economic slack and lower FDI inflow.

In y-o-y terms, monetary aggregates slowed down in H1 relative to end-2024, across all individual categories of monetary aggregates. In June, the y-o-y growth in M1, M2 and M3 stood at 10.0%, 11.9% and 9.5%, respectively.

Bank loans

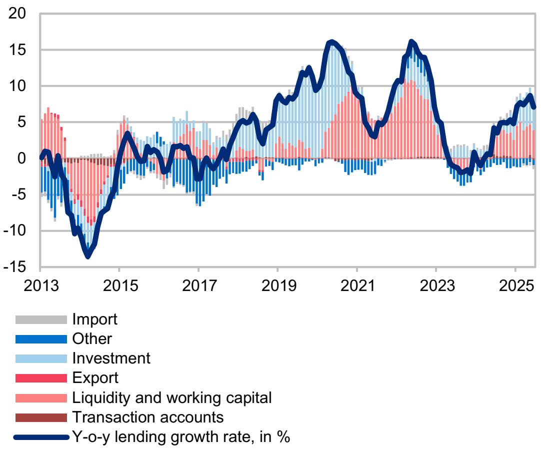
Y-o-y growth in **total domestic loans to the non-monetary sector** accelerated further in H1. In June, this growth stood at 10.8% (vs. 8.2% in December 2024), excluding the exchange rate effect[16]. It was driven by **household lending**, the y-o-y growth of which accelerated to 14.0%, followed by **corporate lending**, which went up by 7.1% in June from a year ago.

Primarily influenced by ample disbursements in June, **corporate loans** added RSD 78.5 bn in H1, excluding the exchange rate effect. The rise in lending was driven primarily by corporate borrowing (RSD 68.1 bn), specifically liquidity and working capital loans (RSD 52.1 bn), followed by investment loans (RSD 21.8 bn). Current account borrowing as well as borrowing under other non-categorised loans also went up. After a longer period of time, June saw the approval of export loans, while liabilities under import loans declined. As a result, the share of liquidity and working capital loans in total corporate loans rose to 47.9% in June (from 47.1% at end-2024), while their y-o-y growth accelerated to 8.2%. At the same time, the share of investment loans declined by 0.7 pp in H1, to 42.1%, while their y-o-y rise accelerated to 11.8% in June. By industry, trade companies borrowed the most, followed by companies in the real estate, energy, construction and transport sectors. Borrowing by companies in the manufacturing sector was the only to decline. Banks' lending to large enterprises was somewhat higher, pushing down the share of loans to micro, small and medium-sized enterprises in total corporate loans by 0.5 pp, to 60.3% in June, while their y-o-y rise accelerated to 9.0%.

[15] Including non-resident assets, FX savings equalled EUR 15.7 bn at end-June.

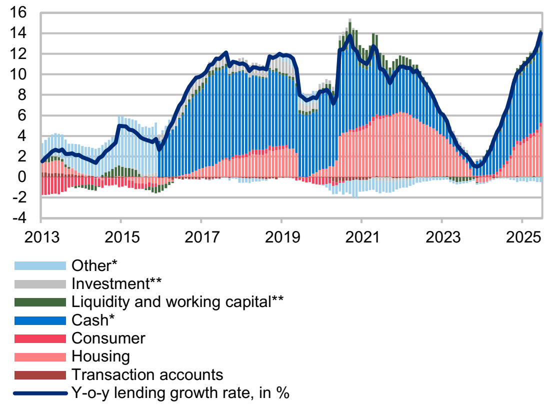
[16] Calculated at the new programme exchange rate, as at 30 September 2024.

Chart III.4.2 **Contributions to y-o-y corporate lending growth**
(in pp, excluding the exchange rate effect)



Source: NBS.

Chart III.4.3 **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.

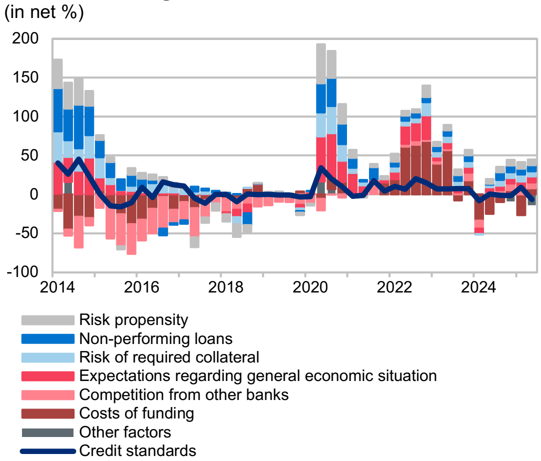
The volume of new corporate loans in H1 amounted to RSD 634.2 bn, up by 3.2% compared to the same period of 2024. Liquidity and working capital loans remained dominant, accounting for 64% of new corporate loans. The amount of these loans increased by 7.2% y-o-y. Micro, small, medium-sized and large enterprises used them almost equally. Investment loans accounted for 24% of new loans and three quarters of them were absorbed by micro, small and medium-sized enterprises.

Household loans, excluding the exchange rate effect, increased in H1, by RSD 132.4 bn, which is the highest semi-annual increment since we have comparable data. This was aided by the record high disbursement of cash loans (RSD 68.8 bn), followed by housing loans (RSD 47.4 bn) supported by the approval of loans under the government youth housing loans programme which accounted for somewhat more than a quarter of the increment. Household borrowing under consumer loans and current accounts increased, while credit card borrowing went slightly down. The rise in household loans was supported by eased lending standards, lower interest rates, banks' promotional offers as well as the rise in wages and employment. Such developments boosted the share of cash loans in total household loans in H1, by 0.4 pp to 46.7% in June. The next dominant category are housing loans with the 38.2% share. Since April this loan category has been recording double-digit y-o-y growth which measured 12.6% in June.

The volume of new household loans amounted to RSD 486.9 bn in Q2, up by 39.8% y-o-y owing primarily to a higher amount of new cash and housing loans. Cash loans were the most dominant, accounting for 69% of new household loans, followed by housing loans with the 17% share.

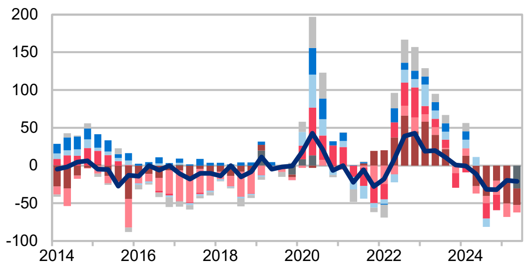
The results of the NBS bank lending survey show that, following the tightening of corporate credit standards in Q1, banks relaxed their credit standards for dinar loans in Q2, while tightening standards for FX-indexed loans. Though most factors worked towards a tightening of standards, some banks assessed that special campaigns targeting clients and the provision of funds from more favourable sources (covered by *other factors*) worked

Chart III.4.4 **Change in corporate credit standards and contributing factors**
(in net %)



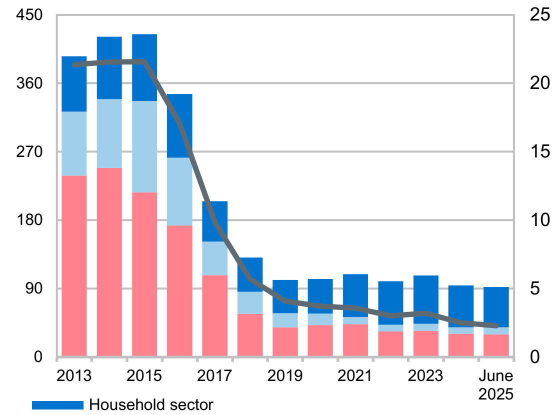
Source: NBS.
Note: Growth indicates the tightening, and decline indicates the easing of credit standards.

Chart III.4.5 **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.

Chart III.4.6 **NPL share in total loans, gross principle**



Source: NBS.

towards standards easing. This influenced the overall assessment that corporate standards were eased in Q2. Banks estimated that the decline in corporate loan demand in Q1 pertained primarily to long-term loans and was conditioned by lower demand of large enterprises. In contrast, corporate demand for dinar and FX-indexed loans increased almost equally in Q2, with the rise being driven by financing of working capital and more pronounced in the segment of small and medium-sized enterprises. As for the household sector, credit standards were further relaxed in H1, for dinar cash and refinancing loans as well as for FX-indexed housing and consumer loans. The easing of standards for household loans was influenced by cheaper sources of funding and competition. According to some banks, in Q2 this was also aided by the subsidised youth housing loans programme.

In H1, household loan demand increased, specifically for dinar cash and refinancing loans as well as for FX-indexed housing loans. In Q2, the demand for consumer loans also went up. In banks' view, demand expansion reflected the need to refinance existing loans, purchase durable consumer goods, rising wages, and in Q2, the need to purchase real estate. In addition, some banks indicated that higher demand for loans in H1 reflected the cap on interest rates.

Gross **NPL ratio** declined to a new low of 2.3% in March (from 2.5% at end-2024), where it stayed in Q2 as well. Gross NPL ratio of the corporate sector[17] dropped by 0.1 pp in H1, to 1.7% in June, while this ratio for the household sector[18] decreased by 0.4 pp, to a new low of 3.0%. NPL coverage remained high as allowances for impairment of total loans measured 112.4% of NPLs in June and allowances for impairment of NPLs – 61.0% of NPLs.

The capital adequacy ratio at end-H1 equalled 21.3%, indicating high capitalisation (regulatory minimum – 8.0%) and resilience of the banking sector to external and domestic risks.

5 Dinarisation

The NBS remains committed to preserving low and stable inflation, relative stability of the exchange rate, and financial system stability, as well as to implementing measures and activities contributing to the strengthening of confidence in the dinar and greater use of the dinar in the domestic financial system.

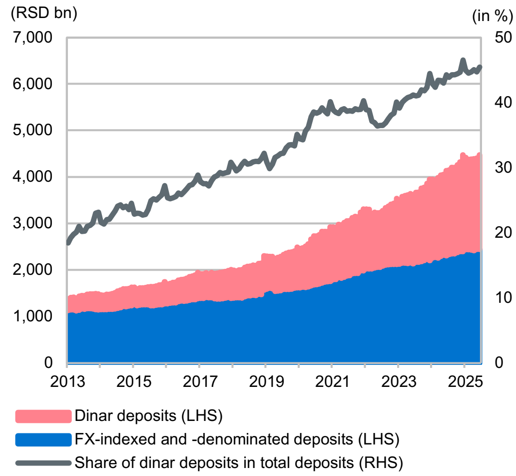
As for specific NBS measures in favour of greater dinarisation of the financial system, monetary policy accommodation in the past period contributed to lower interest rates on dinar loans and enabled users to borrow in dinars and avoid currency risk exposure.

Also, the NBS's measure requiring banks to reduce the amount of their capital when calculating capital adequacy if the share of FX-indexed and FX loans approved to the

[17] Including companies and public enterprises. Looking at companies only, the share of NPLs in total loans also decreased, by 0.1 pp to 1.9% in June.

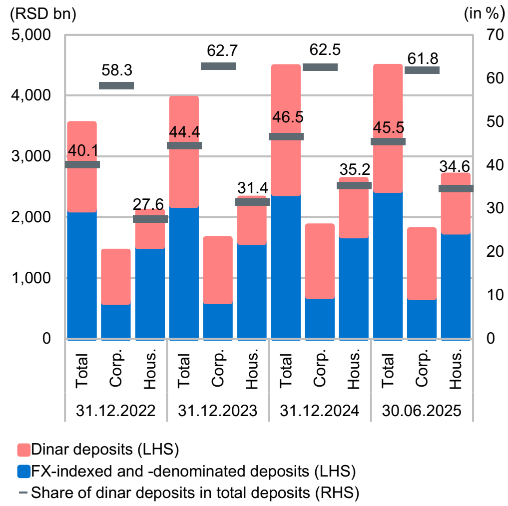
[18] Includes natural persons, entrepreneurs and private households.

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



Source: NBS.

Chart III.5.2 **Deposits by sector**



Source: NBS.

non-financial and non-government sector after 1 July 2023, as well as of FX or FX-indexed dinar debt securities, exceeds the specified threshold (71% in 2025, 64% in 2026, 57% in 2027, and 50% thereafter), has been implemented since early 2025.[19] This is an incentive for banks to approve more dinar loans to the non-financial and non-government sector and invest in dinar securities of these sectors which will reflect positively on the dinarisation process in the period to come.

In addition to the above measures, by means of its required reserves policy, the NBS continued encouraging banks to rely more on dinar sources of funding. Namely, the required reserve rates on dinar sources are still significantly below those on FX sources, and the NBS offers remuneration on required reserves in dinars only, and not in foreign currency.

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

As for hedging instruments development, the NBS continued concluding bilateral foreign currency swap purchase and sale transactions.

According to most relevant indicators, the NBS's measures and activities resulted in a considerably higher degree of dinarisation relative to 2012 when the implementation of the Dinarisation Strategy started.

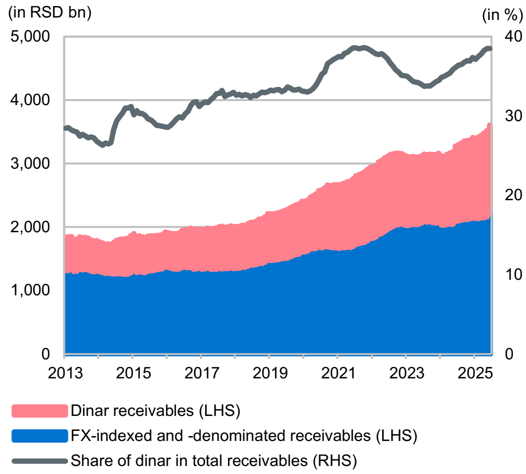
The most significant progress was made in the area of dinarisation of household and corporate deposits. At end-June 2025, this indicator stood at 45.5%, which, though somewhat lower than the record high level from end-2024 (46.5%), is still higher relative to the same month of 2024 (by 1.3 pp) and end-2012 (by 26.2 pp).

In view of the importance of household deposits as an extremely significant source of lending activity of the banking sector, **the rising long-term trend of the degree of dinarisation is particularly important. At end-June 2025, this indicator stood at 34.6%**, which is somewhat less than the record high 35.2% at end-2024. Still, a considerable y-o-y rise (by 2.5 pp) was recorded and the growth is even more pronounced if compared to end-2012 (by 25.8 pp).

Increased dinarisation of household deposits was also sustained by the continued rise in dinar savings. Though their growth in H1 2025 was more moderate than in the previous period, **dinar savings continued to post record high levels – at end-June they stood at RSD 195.7 bn**, up by RSD 4.6 bn (2.4%) from end-2024, and eleven times more (i.e. by RSD 177.8 bn) relative to end-2012.

[19] Decision on Capital Adequacy of Banks (RS Official Gazette, Nos 103/2016, 103/2018, 88/2019, 67/2020, 98/2020, 137/2020, 59/2021, 67/2022, 137/2022, 48/2023, 110/2023, 102/2024 and 41/2025).

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



Source: NBS.

The degree of dinarisation of corporate deposits stood at 61.8% at end-H1 2025, which is somewhat lower relative to end-2024 (by 0.7 pp), but still higher compared to June 2024 (by 0.1 pp), and particularly compared to end-2012 (by 17.9 pp). The decrease in this indicator in H1 is attributable to a decline in corporate deposits which was more pronounced for dinar than for FX deposits.

The dinarisation of corporate and household deposits gradually increased in H1 2025, continuing the growth trend of this indicator present for the past two years. At end-June, this indicator measured 38.5%, up by 1.1 pp from end-2024. The growth is more pronounced if compared to June 2024 (2.4 pp) and end-2012 (10.5 pp). The dinarisation of both corporate and household receivables increased. In H1, this indicator rose by 1.1 pp, to 22.0% for corporates, which is the highest level in the past three years. The rise in this indicator is associated with a significant increase in dinar corporate lending relative to FX loans.

The degree of dinarisation of household receivables recorded a gradual rise – in H1 it went up by 0.4 pp, to 55.8%, reflecting a continuation of the increase in cash loans (approved in dinars as a rule).

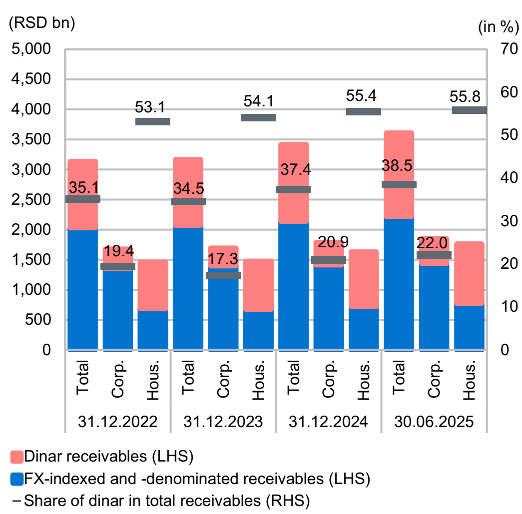
6 Real estate market

According to the Republic Geodetic Authority, the total number of purchase/sale agreements in the real estate market equalled 28,705 in Q1 2025, down by 2.4% from Q1 2024, while the **number of apartment purchase/sale transactions** grew by 7.2% y-o-y (11,293 agreements).

The total value of turnover in the real estate market stood at EUR 1.7 bn in Q1, of which **the turnover of apartments** accounted for EUR 1.0 bn, up by 21.8% from Q1 2024.

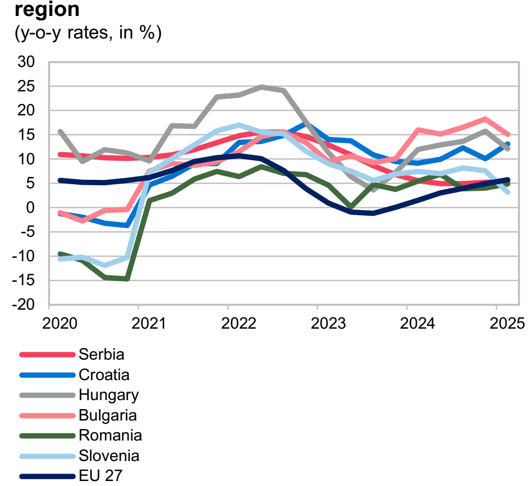
The Republic Geodetic Authority data indicate the continuation of a **moderate rise in the prices of apartments** since Q3 2022. In Q1 2025, the y-o-y rate of the rise in apartment prices, measured by the apartment

Chart III.5.4 **Receivables by sector**



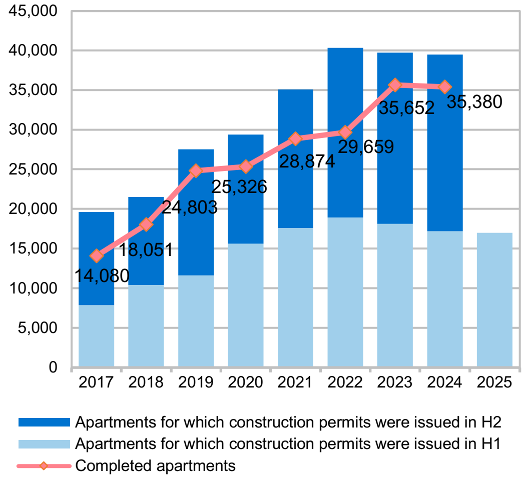
Source: NBS.

Chart III.6.1 **Apartment price movements measured by the Apartment Price Index, in countries of the region**



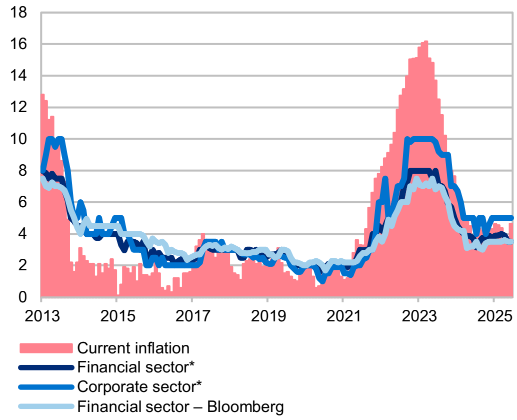
Sources: Eurostat and Republic Geodetic Authority.

Chart III.6.2 **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.

price index, stood at 5.3% for the Republic of Serbia. In Belgrade, the prices grew 6.2% y-o-y. The prices of old flats grew by 5.2% y-o-y at the level of entire Serbia, and new flats, purchased from investors, by 5.6% y-o-y. Data for Q1 show that 25% of apartments were bought using loans, up by 7 pp y-o-y.

According to Eurostat, apartment prices in the countries of the region also continued up in Q1 2025. They increased the most in Bulgaria (15.1% y-o-y) and Croatia (13.1% y-o-y). At the level of the entire European Union, these prices increased by 5.7% y-o-y.

According to the SORS, the total number of issued construction permits for buildings decreased by 2.7% in H1 2025 and **the number of apartment permits** – by 1.2% y-o-y. On the other hand, the value of total construction works performed in the Republic of Serbia for buildings increased by 5.5% y-o-y in H1.

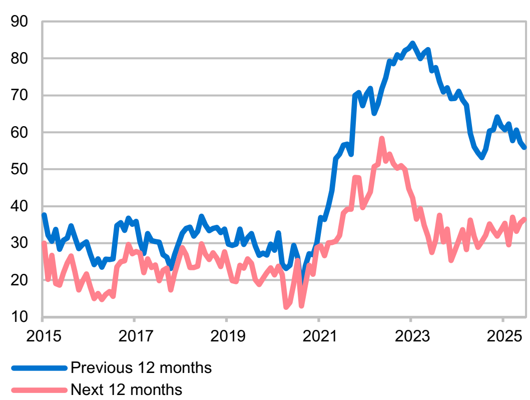
7 Inflation expectations

Short- and medium-term inflation expectations of the financial sector continued to move within the target band in 2025, where they have lingered since early 2024 as a confirmation of the adequacy of monetary policy measures implemented by the NBS.

According to the Ninamedia surveys, **one-year ahead inflation expectations of the financial sector** went down from 3.9% to 3.5% since the beginning of the year, which is the lowest level since August 2024. Expectations of almost all financial institutions were within the NBS target band throughout the period. According to the **Bloomberg** survey, one-year ahead inflation expectations stayed almost unchanged throughout six months (except April, 3.6%), at 3.5%.

One-year ahead inflation expectations of the corporate sector moved at the level of 5.0% in H1. Since the beginning of the year, the share of corporates expecting a rise in the prices of inputs in the next three and twelve months dropped by 19.8 pp and 12.9 pp, respectively. Also, in June, 25.5% of corporates expected

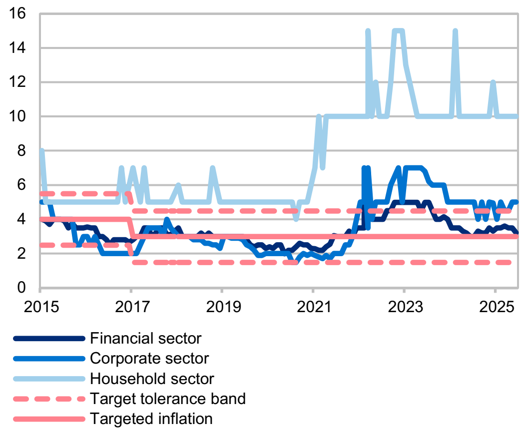
Chart III.7.2 **Inflation perceived and expected by households***
(in index points)



Sources: Gallup/Ipsos/Ninamedia and NBS.

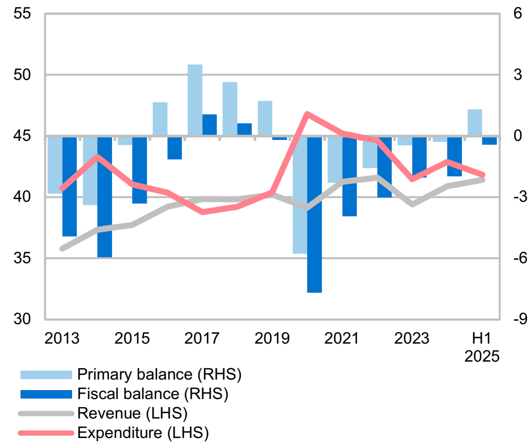
* Ipsos until December 2014, Ninamedia since December 2014, and Ipsos since January 2018.

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.

a rise in the prices of final products and services in the next three months and 53.6% – in the next twelve months, down by 15.5% from January.

Short-term expectations of households stayed at 15.0% in H1. Still, according to the qualitative survey,[20] households expect lower inflation in the next twelve months relative to the previous year as indicated by the expected inflation index. In June, this index stood at 36.4 points and was below the perceived inflation index (55.9 points).

Two- and three-year ahead inflation expectations of the financial sector moved within the NBS target tolerance band. Two-year ahead expectations of this sector stood at 3.5%, while three-year ahead expectations moved between 3.0% and 3.5%. In June, both indicators stood at 3.2%. **In H1, two- and three-year ahead expectations of the corporate sector** ranged between 4.0% and 5.0%, and, in June, they stood at 5.0% for both periods. **Inflation expectations of households** for two and three years ahead measured 10.0%.

8 Fiscal trends

In H1 2025, a **general government deficit** of RSD 21.3 bn (-0.4% of GDP) was recorded, while the **primary balance surplus** stood at RSD 66.2 bn (1.3% of GDP).

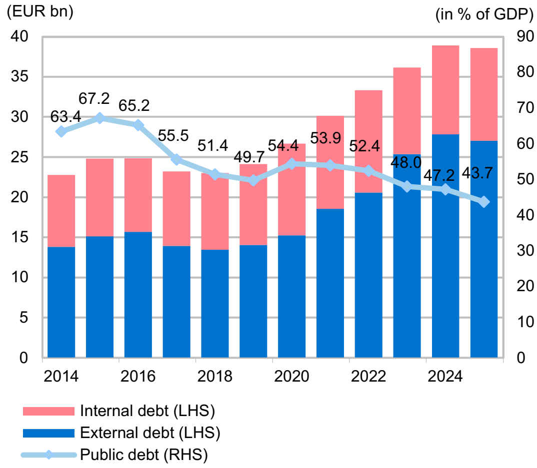
In H1 2025, **public revenues** rose by 1.9% y-o-y in real terms. The growth was primarily encouraged by higher labour-related tax revenues, i.e. social contributions and income taxes, which resulted from favourable labour market trends. Despite the increase in real disposable income, private household consumption recorded more moderate growth amid mounting social and political tensions which reflected on the mild negative contribution of VAT receipts, in real terms. Corporate profit tax revenues provided a negative contribution amid a fall in corporate profitability in 2024 relative to the year before. Nevertheless, corporate profitability was still high, equalling RSD 866 bn according to the Business Registers Agency.

In H1, **public revenues** rose by 4.8% y-o-y in real terms, largely driven by higher pensions and capital expenditures within the current investment cycle and a somewhat smaller contribution of higher expenditures for the public sector wages, goods and services, as well as subsidies.

At end-June 2025, **central government public debt** measured EUR 38.6 bn or 43.7% of the projected GDP for 2025. It went down by 3.5 pp from end-2024 as a result of the higher projected nominal GDP in 2025, the dollar's depreciation and the maturing of previously issued bonds. As for the public debt currency composition, the dinar

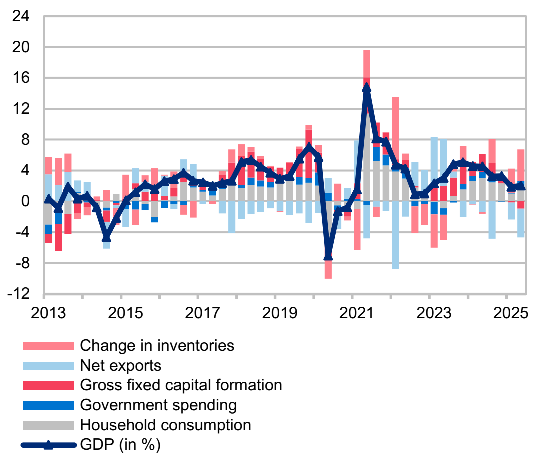
[20] For details on qualitative expectations of households, see *Inflation Report – February 2016*, Text box 2, p 15.

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.

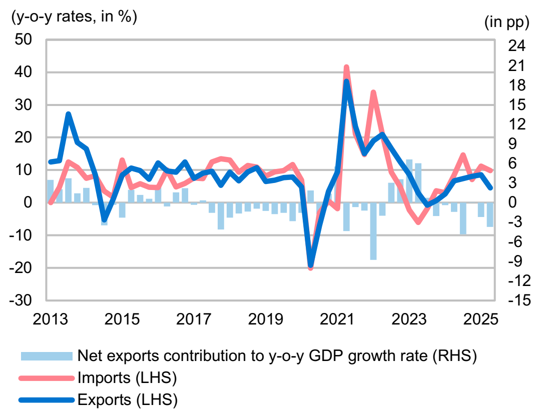
share of debt increased by 1.6 pp from end-2024, to 23.4%, and the euro debt by 0.3 pp, to 57.9%. In contrast, the dollar share of debt declined by 1.5 pp, to 12.4%, and the share of debt in SDR by 0.4 pp, to 6.0% at end-June.

The new **medium-term fiscal framework**, in the Fiscal Strategy for 2026 with Projections for 2027 and 2028, envisages a moderately accommodative medium-term fiscal policy on account of future investments in infrastructure under the "Leap into the Future – Serbia Expo 2027" programme. Compared to the previous framework, the changes imply mild downward adjustments of expected VAT revenues and capital expenditures, based on their dynamics since the beginning of the year. In view of the current investment cycle, the share of capital expenditures is projected at around 7% of GDP in the current year and beyond, with a fiscal deficit of 3% of GDP until the end of 2027. Afterwards, the deficit level will adjust to the fiscal rule which will start to be implemented in 2029. The share of government public debt in GDP was planned at 46.8% for end-2025. Given the planned fiscal deficit dynamics, the share of public sector debt is expected to decline to 46.2% of GDP by end-2028.

9 Aggregate demand

Economic growth stood at 2.0% in H1 2025 (having posted almost the same dynamics in both quarters). Slower-than-expected GDP growth reflects unfavourable effects of factors from the international environment, as well as protests and blockades at home which eroded

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



Sources: SORS and NBS calculation.

investor and consumer confidence. On the expenditure side, economic growth was driven by domestic demand where personal consumption provided the greatest contribution. On the other hand, net exports gave a negative contribution as imports of goods and services rose faster than exports in real terms, reflecting investments planned under the "Leap into the Future – Serbia Expo 2027" programme and a rise in income disposable for consumption.

Private consumption rose by 2.4% y-o-y in H1 (providing a 1.5 pp contribution to GDP growth in H1), driven by its main source – the wage bill, which rose by

11.1% y-o-y in nominal terms in H1. At the same time, pensions increased by 10.8% y-o-y in nominal terms (6.4% y-o-y in real terms). Owing to the past monetary policy easing by the NBS, favourable borrowing conditions provided additional support to household consumption through elevated consumer lending, which recorded double-digit y-o-y growth in H1 (15.9%). On the other hand, household remittances dropped by 15.1% y-o-y which can be associated with economic slowdown in Europe, from where the highest inflow of remittances to our country originates. A further rise in private consumption is indicated by the retail trade turnover which went up by 2.2% y-o-y in H1 and an increase in the import of consumer goods by 12.9% y-o-y, supported by the rise in household disposable income. In contrast, in H1 the number of domestic tourists' arrivals declined by 4.9% and the number of overnight stays by 8.6% y-o-y.

Government consumption edged up by 2.2% y-o-y in H1, continuing to positively contribute to GDP growth (0.4 pp in H1), driven by the higher expenditures for public sector employees and the procurement of goods and services. As a result, total consumption increased by 2.4% y-o-y in H1.

According to the NBS, **private investment** went down by 4.8% y-o-y in H1, providing a negative contribution of 0.9 pp to GDP growth. A fall in private investments in H1 is indicated primarily by the construction data, since the number of issued construction permits went down by 5.7% y-o-y, and the value of executed works by 11.6%. As for the sources of investment funding, we estimate that the bulk of private investments was financed from own sources owing to corporate profitability recorded in previous years (RSD 866 bn in 2024). Also, H1 saw FDI inflow of over EUR 1.5 bn, while investment loans recorded a y-o-y rise of 10.7%.

Owing to the continued implementation of significant government-financed infrastructure projects, the contribution of **government investments** to GDP growth in H1 is estimated at 0.3 pp, while their y-o-y growth measured 4.7% y-o-y. Aggregately, **total fixed investments** decreased by 2.5% y-o-y, dampening GDP growth in H1 by 0.6 pp.

Increased inventories of industrial products provided a positive contribution to GDP growth in H1 (3.6 pp).

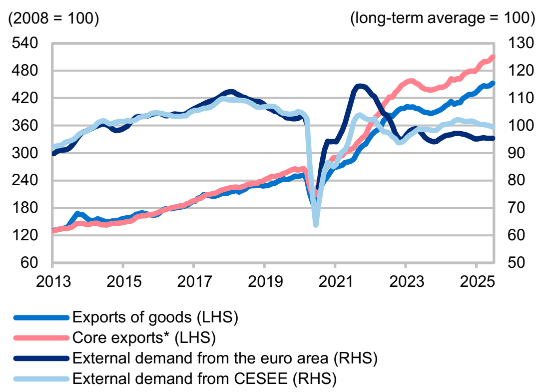
Real growth in exports of goods and services equalled 6.5% y-o-y in H1. At the same time, due to the current investment cycle and higher disposable income, imports increased by 10.5% y-o-y in real terms. For this reason, the contribution of net exports to economic growth was negative, at 3.0 pp in H1.

10 Economic activity

Economic growth measured 2.0% y-o-y in H1. As in the previous period, GDP growth was driven by services. Positive contributions to GDP growth also stemmed from industry and agriculture, while construction declined.

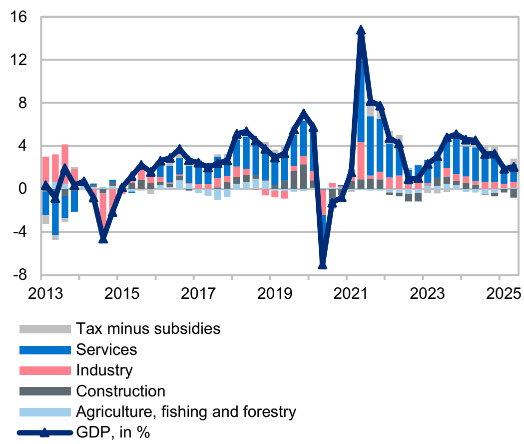
Services, collectively, decelerated to 2.5% y-o-y in H1 (from 4.8% in H2 2024), contributing 1.4 pp to GDP growth. This is indicated primarily by trade data, as retail trade turnover went up by 2.2% y-o-y in real terms in H1.

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.

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



Sources: SORS and NBS calculation.

The rise in the ICT sector is also indicated by the continued increase in the export of this group of products, which came at 14.1% y-o-y in H1. In contrast, data on the decrease in the number of arrivals and overnight stays, by 2.7% and 4.1% y-o-y, respectively, point to a decline in tourist turnover in H1.

Industrial production growth measured 2.5% y-o-y in H1, driven by manufacturing and mining, while electricity production recorded a y-o-y decline. The volume of manufacturing has been on the rise for the past eight quarters. In H1 it measured 3.8%. Production increased in 14 out of 24 branches of manufacturing. The greatest positive contribution originated from higher production of petroleum products (20.7% y-o-y growth) partly on account of the last year's low base, when the overhaul in the Pančevo refinery took place. A significant contribution to growth also came from the production of rubber and plastic products (19.6% y-o-y rise in H1) and motor vehicles (20.0% y-o-y in H1), which can be associated with the launch of serial production of car tyres in Zrenjanin and electric vehicles in Kragujevac. The greatest negative contribution originated from the decline in the production of machinery and clothing. Production in the mining sector gained 4.0% y-o-y in H1, owing primarily to accelerated growth in the exploitation of metal ore.

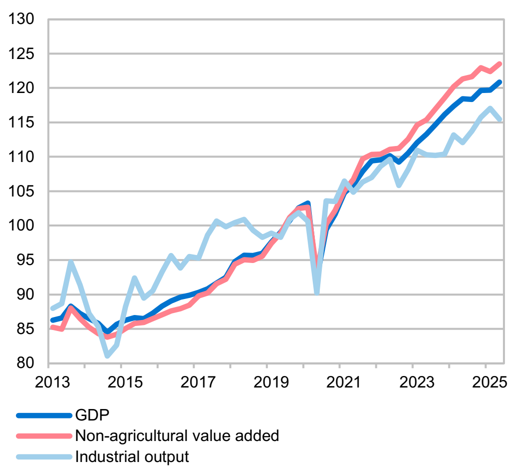
In **construction**, the volume of activity decreased by 11.3% y-o-y in H1, causing a negative 0.5 pp contribution to GDP growth. This is indicated by the number of issued construction permits which declined by 5.7% y-o-y and by the value of executed works which also dropped by 11.6% y-o-y in H1. On the other hand, H1 saw a modest rise in the production of construction materials by 1.3% y-o-y, while the activity in the "other mining" category, mainly comprising exploitation of construction materials, increased by 0.1%.

Net taxes went up by 2.9% y-o-y in H1, contributing 0.4 pp to GDP growth.

Taking into account the SORS data on the production of wheat and some fruit cultures, and on sown areas under autumn crops, and bearing in mind the weather conditions (frost during spring, high temperatures in June with low precipitation), in our August projection we estimated that this year's **agricultural season** will be worse than average, but still slightly better than last year's. Agricultural production growth stood at 2.5% y-o-y in H1, contributing around 0.1 pp to GDP growth.

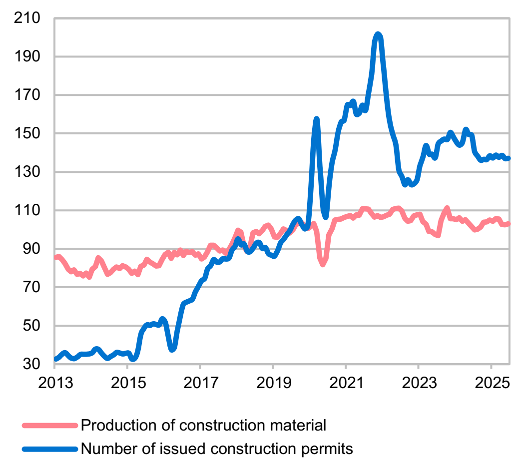
Under **our August projection, GDP growth will measure 2.75% this year**, which is a downward adjustment relative to previous projections and primarily reflects subdued activity in construction and some service sectors so far in the year on the production side, and lower-than-expected growth in private consumption and investment on the expenditure side. In addition, we estimate that this year's agricultural season will be below average, by contrast to our February and May projections when we expected average yields. Further, as the hydropotential remained low and coal inventories declined, the energy sector also failed to recover as expected. **Activity is nonetheless anticipated to pick up in H2**, propped up by the continued rise in automobile industry production and exports, and the implementation of infrastructure projects planned under the "Leap into the

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



Sources: SORS and NBS calculation.

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



Sources: SORS and NBS calculation.

Future – Serbia Expo 2027" programme. GDP growth projections for 2026 and 2027 stay in the range of 4.0–5.0%, but closer to the upper bound of the range in 2027 due to the hosting of "Expo 2027".

11 Wages and employment

In H1 2025, favourable trends in the domestic labour market continued as testified by the further increase in average wages and formal employment coupled with the simultaneous reduction in registered unemployment to a new all-time low.

Nominal net wage in H1 averaged RSD 107,179 (EUR 914), which is a 11.0% y-o-y increase. Private sector wages rose by 11.2%, and public sector wages by 10.6%. Median and minimum wage rose by 11.7% and 12.8% y-o-y, respectively, averaging RSD 82,911 and RSD 52,976, respectively.

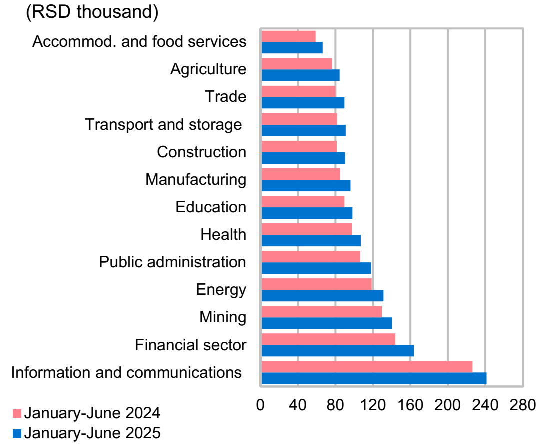
By sector, average nominal wages in H1 increased the most in y-o-y terms in the financial sector (13.8%), in arts, entertainment and recreation, as well as in administrative and auxiliary services (by 13.3% each).

The total nominal net wage bill, which is the main source of consumer demand, recorded an 11.1% y-o-y increase primarily on account of the rise in average wages. According to the NBS's estimate, **overall economic productivity** rose by 1.9% y-o-y in H1, as economic growth outpaced employment growth.

According to SORS data obtained from the Central Registry of Mandatory Social Insurance and the Statistical Business Register, **total formal employment** in H1 averaged around 2.37 mn persons, up by 0.1% y-o-y. In H1, formal employment was higher by around 2 thousand on average y-o-y, entirely a result of rising employment with entrepreneurs (by around six thousand persons), while a decline in employment with legal entities (by around one thousand) and individual farmers (by around four thousand) worked in the opposite direction.

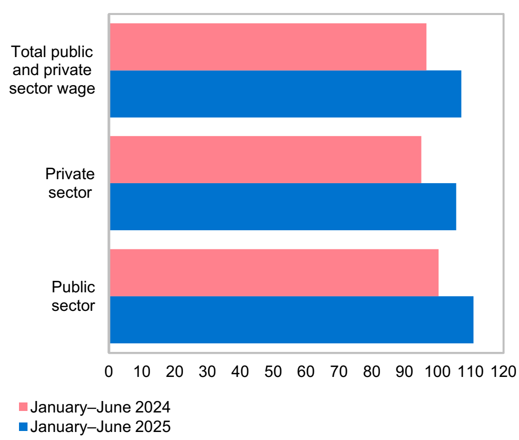
As in the previous period, the bulk of new jobs created in H1 were in the private sector and **private sector** formal employment measured 1.76 mn in H1, up by around 4 thousand y-o-y. Observing dominantly private sector activities in H1, registered employment rose the most in administrative and auxiliary services, ICT services and

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



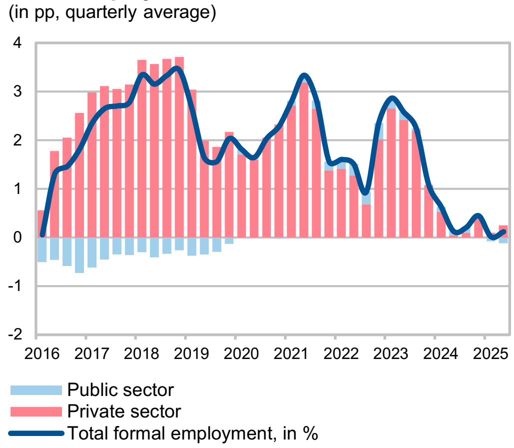
Source: SORS.

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



Source: SORS.

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



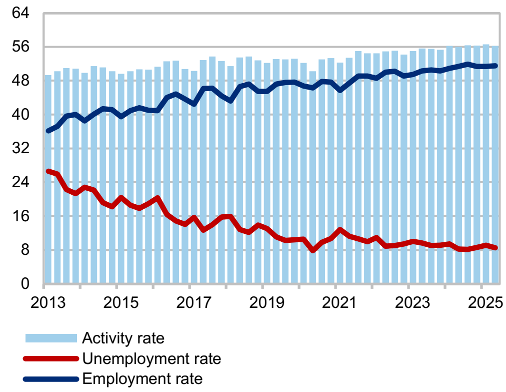
Source: SORS and NBS calculation.

catering, while decreasing the most in manufacturing and professional, scientific, innovation and technical activities. In contrast, **public sector employment** dropped by around two thousand on average y-o-y in H1.

According to the National Employment Service, **registered unemployment** declined in H1, to 344,788 persons in June, down by around 26 thousand from a year earlier which is its lowest level on record.

According to the available data from the revised **Labour Force Survey** covering both formal and informal labour market segments, the activity rate came at 56.2% in Q2 2025 and the participation rate (working age population activity rate) at 73.2%, up by 0.2 pp and 0.7, respectively from a year earlier. The employment rate rose to 51.5% in Q2 (y-o-y rise of 0.1 pp) and the unemployment rate to 8.5% (y-o-y rise of 0.3 pp) due to a decrease in informal employment.

Chart III.11.4 **Labour market indicators under the Labour Force Survey***
(in %)



* Data from 2021 in accordance with the 2022 Census.
Source: SORS.

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