National Bank of Serbia

2026

January-June

SEMI-ANNUAL

MONETARY POLICY REPORT

2026

January-June

SEMI-ANNUAL

MONETARY POLICY REPORT

NATIONAL BANK OF SERBIA
Belgrade, Kralja Petra 12

Tel: 011/3027-100

Tel: 011/333-8000

www.nbs.rs

Number of copies: 50
ISSN 2787-3315

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 2026* was reviewed and adopted by the National Bank of Serbia's Executive Board on 10 September 2026.

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:

Jorgovanka Tabaković Governor, PhD

Željko Jović, Vice-Governor, PhD

Ana Ivković, Vice-Governor, PhD

Dragana Stanić, Vice-Governor, MA

Nikola Dragašević, Vice-Governor, 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.

Contents

Overview 1

I Strategic monetary policy framework 5

II Monetary policy and achievement of the inflation target 7

1 Monetary policy since early 2026 7
Open market operations 9
Deposit and lending facilities 10
Required reserves 10
Interest rates 10
FX market operations 10
FX swaps 11
2 Inflation target achievement in H1 2026 11

III Macroeconomic environment 13

1 International environment 13
Economic activity and inflation 13
Monetary policy 16
Financial and commodity markets 17
2 International transactions 19
Balance of payments and FX reserves 19
International investment position 22
3 Financial market trends 22
Interest rates 22
Country risk premium and credit rating 25
4 Money and loans 26
Monetary aggregates M1, M2 and M3 26
Bank loans 26
5 Dinarisation indicators 29
6 Real estate market 31
7 Inflation expectations 31
8 Fiscal trends 32
9 Aggregate demand 33
10 Economic activity 34
11 Wages and employment 36

Index of charts and tables 38

Overview

Since early 2026, **the international economic environment** has been overshadowed by heightened geopolitical uncertainty, mostly on account of the **flare-up of the Middle East conflict in late February** which caused disruptions in naval transport through the Strait of Hormuz and triggered strong oscillations in global energy markets. The rise in oil and gas prices has also spilled over into other segments of the global economy, primarily through higher transport, energy and mineral fertiliser costs, as well as some supply chain disruptions. Nevertheless, despite the adverse effects of geopolitical developments, **the global economy proved more resilient than initially expected in H1**. The IMF's July projections thus place global economic growth at 3.0% in 2026, below the average growth rate of 3.5% recorded over the previous two years. The resilience of economic activity was supported by stronger domestic demand and fiscal stimulus in some countries, as well as continued investment in new technologies and artificial intelligence. At the same time, a higher share of renewable energy sources and greater energy efficiency of global production compared with the earlier period helped mitigate the effects of the energy shock. The impact of these factors was uneven, however, with energy-importing countries being more exposed to the adverse effects of rising energy prices, while countries integrated into global technology value chains benefited from stronger investment activity in the technology sector.

Following the sharp increase in global oil prices after the escalation of the Middle East conflict, the downward trend in **global inflation**, which had prevailed since early 2024, came to a halt in February this year. This is also reflected in the acceleration of the momentum of global headline inflation, which increased by 4 pp between February and April. Nevertheless, the rise in energy prices has so far not passed through to the prices of other goods and services to any significant extent, which has kept core inflation relatively stable in most countries. The divergence between movements in headline and core inflation was greater in countries that were more exposed to energy supply disruptions and less pronounced in countries where prices of petroleum products were capped. Short-term inflation expectations increased in most countries, but expectations for 2027 remained broadly unchanged, indicating that, despite heightened inflationary pressures, there has so far been no significant impact on the anchoring of inflation expectations. In July, the IMF projected global inflation at 4.7% in 2026, up from 4.1% in 2025. Accordingly, **the energy shock has temporarily halted the downward trajectory of global inflation, but its impact on inflationary pressures has so far remained relatively contained**.

The immediate adverse effects of the conflict on the global economy eased to some extent during the summer months, but the outlook remains subject to uncertainty, with developments in energy markets, geopolitical conditions and the trade policies of the world's major economies continuing to be important factors shaping economic developments in the remainder of the year. **For net energy-importing countries, including Serbia, the international environment therefore continues to pose an upside risk to inflation**, primarily through the direct and indirect effects of higher energy prices, **while any weakening of external demand, higher input prices and increased uncertainty could adversely affect economic growth**.

In the year to June, the **ECB** kept its key interest rates unchanged, emphasising that its monetary policy would remain data-dependent, with particular attention to whether inflationary pressures stemming from the energy sector would prove temporary or spill over into the broader economy through wages and services prices. Oil prices are of key importance for the euro area economy, which imports almost 60% of its energy needs. In June, in order to safeguard price stability in an environment of higher energy prices, the ECB decided to raise its three key interest rates by 25 bp, which is the first increase since 2023. The interest rates on the deposit facility, the main refinancing operations and the marginal lending facility have since stood at 2.25%, 2.40% and 2.65%, respectively. The ECB pointed out that the full implications of the energy shock for inflation are yet to be seen, which

is why it would keep a close eye on its intensity and duration and the scale of second-round effects. Unlike the ECB, the **Fed** kept its target range for the federal funds rate at 3.50%–3.75%, in the complex macroeconomic environment where inflation is somewhat elevated relative to the target, amid signs of a weakening labour market and heightened geopolitical risks. This is why the decision to leave the target range for the federal funds rate unchanged at the July meeting of the Fed was considered one of the most uncertain in the past ten years. Inflation-targeting central banks in the **CESEE region** have mostly opted for a more cautions monetary policy since the outbreak of the conflict in the Middle East.

The NBS has also pursued a cautious monetary policy stance, **keeping its key policy rate unchanged at 5.75%**, where it has stood since September 2024. The rates on the deposit and lending facilities have also remained unchanged, at 4.50% and 7.00%, respectively. Accordingly, the weighted average interest rate on reverse repo auctions stood at 4.51% in H1 this year. When making decisions at its meetings since the beginning of 2026, the Executive Board has primarily taken into account pronounced geopolitical tensions, which have been reflected in volatile developments in energy markets and could spill over into other segments of the global economy, primarily through higher container transport and mineral fertiliser costs, as well as disruptions to supply chains. Taken together, these factors could exert significant upward pressure on global inflation. Against this backdrop, economic policymakers in Serbia have coordinated their measures aimed at preserving price stability and mitigating the adverse effects of external shocks. **The government** immediately introduced measures to contain the rise in petroleum product prices in the domestic market, including a reduction in fuel excise duties and the use of domestic sources to supply the market. **The NBS** continued to pursue a cautious monetary policy stance while maintaining relative exchange rate stability. At the same time, it emphasised that it would use all instruments at its disposal if it assessed that elevated global prices were generating second-round effects on other prices through inflation expectations.

Y-o-y inflation has been within the target band (3±1.5%) since the start of the year, remaining below the target midpoint of 3% in Q1. From March onwards, inflation temporarily increased, reflecting the rise in global oil prices and its impact on petroleum product prices. At the same time, food and non-alcoholic beverage prices continued to provide a negative contribution to inflation even after the expiry of the decree capping margins on food and household chemical products. In June, y-o-y inflation again fell below the target midpoint, to 2.7%, before slowing further to 1.9% in July. The decline in inflation was driven primarily by a larger-than-expected y-o-y drop in food prices, which stood at 6.1% in July, mainly reflecting lower fruit and vegetable prices due to the exceptionally good new harvest. Prices of other food products were also lower than in the same month of the previous year. In Q1, **y-o-y core inflation** (measured by the CPI excluding food, energy, alcohol and cigarettes) averaged 4.2%, and moved around the upper bound of the target band in Q2 (4.5%), remaining at that level in July as well. Medium-term **inflation expectations** of the financial sector hovered around the target midpoint, indicating that, so far, there have been no significant second-round effects of the energy shock on other prices.

Though interest rates increased somewhat in H1 2026, credit conditions remained relatively favourable. **The interest rate on new dinar loans to households** rose by 0.4 pp, to 8.5% in June, primarily reflecting higher rates on cash loans. This increase followed the historically low interest rates on this loan category recorded at the end of 2025, under the impact of the NBS's supervisory expectations aimed at ensuring more favourable borrowing conditions for employed persons with monthly earnings of up to RSD 100,000 and pensioners. **The interest rate on new dinar corporate loans** increased by 0.9 pp, to 7.1% in June. By lending category, the increase was driven primarily by higher interest rates on working capital loans and other non-categorised loans.

Interest rates on new euro loans edged up by 0.2–0.3 pp, in line with the 30–40 bp increase in EURIBOR rates ahead of the ECB's rate hike in mid-June. The interest rate on **euro-indexed household loans** gained 0.2 pp to 4.8% in June. The interest rate on housing loans, as the dominant household loan category, remained unchanged at 4.5% in June. This was supported by subsidised loans extended under the **Youth Housing Programme**. **Interest rates on euro-indexed loans to corporates** increased by 0.3 pp, reaching 5.1% in June**. Interest rates on dinar and euro household savings** were almost unchanged in June relative to their end-2025 levels, standing at 4.9% and 3.4%, respectively.

Thanks to relatively favourable lending conditions, **lending** expanded further, providing substantial support to economic activity. Excluding the exchange

rate effect, lending to the non-monetary sector accelerated to 16.6% y-o-y in June (from 15.4% in December 2025). The growth was led by **household lending**, which posted y-o-y growth of 20.0% in June, followed by **corporate lending,** which was 11.7% higher y-o-y in June. In addition to the previously eased credit standards, relatively favourable interest rates and promotional offers by banks, the high level of household lending was also supported by measures enabling more favourable borrowing conditions for lower-income citizens. In addition, housing loan growth was supported by loans approved under the Youth Housing Programme, which accounted for around 44% of the increase in housing loans in H1 2026. Lending expansion and preserved quality of banks' assets **dragged the share of NPLs in total loans to a new all-time low of 2.0% in June.** At the same time, **the degree of dinarisation of total corporate and household receivables** reached a record-high level in late H1, measuring 40.7% in June. The **capital adequacy ratio** equalled 20.05% in June, indicating banking sector's strong capitalisation (the regulatory minimum is 8.0%) and resilience to external and domestic risks. **Household savings have been rising steadily, reaching record-high levels** – dinar savings increased to RSD 230.3 bn at end-June (including non-resident funds), while FX savings climbed to EUR 16.9 bn (including non-resident funds), reflecting confidence in the domestic financial sector and healthy sources of future lending growth.

The NBS maintained the relative stability of the dinar exchange rate against the euro in H1 2026. Amid pronounced geopolitical tensions, the NBS's interventions in the FX market were measured but timely, taking into account all factors at home and abroad. The dinar depreciated by 0.1% against the euro in nominal terms in H1 2026. Depreciation pressures on the dinar prevailed in Q1, particularly in January, largely due to the seasonal factor (energy imports). Towards late March and early April, the impact of the seasonal factor dissipated, while appreciation pressures were renewed and continued to prevail in Q2, largely propped up by FX inflows from exports and FDI. The NBS was a net seller of foreign exchange in the IFEM in Q1, selling EUR 1.22 bn, net, and a net buyer in Q2, purchasing EUR 465 mn, net. Thus, in H1 2026, the NBS sold EUR 755 mn, net, in the IFEM.

As regards the **real sector**, after the challenges faced early in the year, particularly in the petroleum products and chemical industries, more favourable developments ensued, driven primarily by the services sector and the resumption of operations at the Pančevo refinery in late January. According to SORS data, real GDP growth amounted to 3.2% y-o-y in Q1 and 3.8% in Q2, exceeding expectations. Growth was driven by the services sectors, as well as by the recovery of manufacturing, with continued positive performance in branches related to the automotive industry. Activity in mining also increased in Q2, while the implementation of projects related to the hosting of Expo, particularly the construction of transport infrastructure, resulted in a recovery and a positive contribution from the construction sector. According to SORS data, a positive impulse to GDP growth in H1 also came from agriculture, driven by higher wheat and early fruit production, as well as the expected recovery in yields of autumn crops from their exceptionally low levels recorded last year. More favourable outturns in H1 2026 led the NBS to revise its GDP growth projection for this year up by 0.2 pp in August compared with May – to 3.2%. The growth projection for 2027 remained unchanged, taking into account the continued geopolitical tensions, the ongoing conflict in the Middle East, volatile movements in global oil and other energy prices, and uncertainty regarding external demand.

Favourable labour market developments extended into H1 2026, as evidenced by a further increase in average wages and a simultaneous drop in registered unemployment to a new all-time low. **The average nominal net wage** equalled RSD 119,469 (EUR 1,018) in the first six months of the year, up by 11.5% from the same period last year (8.4% in real terms). Average wages increased slightly more in the public than in the private sector (12.4% vs. 11.0%). Median and minimum wages increased by 12.4% and 20.5% y-o-y, respectively, averaging RSD 93,161 and RSD 63,812. The total number of **formally employed persons** in H1 2026 averaged 2,36 million, down by 0.5% from the same period last year. At the same time, **registered unemployment continued the multiannual downward trend**, measuring 333,804 persons in June 2026, roughly 11 thousand less than a year earlier and the lowest level on record. According to the Labour Force Survey, which encompasses both the formal and the informal segments of the labour market, the **unemployment rate** was 1.3 pp lower in Q2 relative to the same period last year, falling to an all-time low of 7.2%.

According to preliminary data, the current account deficit measured EUR 1.4 bn in H1 2026 (3.1% of GDP), down by 25.8% y-o-y. This narrowing was due to an improvement in most balance of payments

categories, but mostly in the balance on trade in goods and services. Despite global uncertainty and weaker demand from the EU and the region, **Serbia's export sector** has so far proved resilient, reflecting diversification by product and geography and mostly export-oriented FDI. Goods **exports rose faster than imports,** and the deficit on goods trade subsided by 14.2% in y-o-y terms, to EUR 2.8 bn. **Goods exports** gained 9.2% y-o-y, rising to EUR 17.7 bn, guided by manufacturing exports which increased by 9.0% y-o-y. More than 70% of manufacturing export growth referred to exports of motor vehicles, which rose by 51.1% y-o-y thanks to increased capacities in the automotive industry. **Goods imports** went up by 5.3% y-o-y, to EUR 20.5 bn. Import growth was supported primarily by higher imports of intermediate goods, including energy products (6.6% y-o-y), and imports of consumer goods (2.2% y-o-y), while equipment imports were somewhat lower (by 0.4% y-o-y). **The surplus on foreign trade in services** gained 6.9% y-o-y, to EUR 1.3 bn, as services exports (4.9%) rose faster than imports (4.5%).

Net capital inflow of EUR 1.9 bn was recorded on the **financial account of the balance of payments** in H1 2026. The bulk of capital inflows was related to portfolio investment inflows (EUR 3.8 bn net) arising from the issuance of government and corporate securities in the international market. Part of these proceeds was immediately used for the early buyback of previously issued eurobonds and the repayment of financial loans. Inflows also came from FDI, while outflows were recorded on account of trade loans and increase in banks' balances in accounts abroad. **FDI inflow to Serbia** measured EUR 1.2 bn in H1 2026 (26.6% less than in the same period of 2025). FDIs had a favourable composition, mostly in the form of equity capital and reinvested earnings, and stayed diversified by geography and project. Taking into account resident investment abroad (which dropped by 57.6% y-o-y), net FDI inflow in H1 2026 was EUR 837.4 mn, which is 10.3% higher than in the same period a year earlier.

As a result of the above flows in the current and financial accounts, Serbia's FX reserves (according to the balance of payments methodology) increased by EUR 674.5 mn in H1 2026. **NBS gross FX reserves measured EUR 29.6 bn at end-June, which is well above reserve adequacy metrics.** FX reserves covered 165.2% of money supply M1 and 6.7 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 2026, foreign securities accounted for the highest share of FX reserves (55.3%), followed by gold (21.0%), FX balances in accounts abroad (17.8%), foreign cash (5.7%) and SDRs with the IMF (0.2%).

The consolidated government deficit measured RSD 55.8 bn in H1 2026 (around 1% of GDP), while the primary balance surplus equalled RSD 31.4 bn. Central government public debt stood at 43.3% of the projected GDP for 2026 at end-June 2026, down by 1.1 pp from end-2025. The share of public debt in GDP is expected to continue down in the medium run as well, with a persistent high share of government investment relating to projects within the "Leap into the Future – Serbia Expo 2027" programme.

The synchronisation of monetary and fiscal policies continued to support macroeconomic stability and helped maintain a favourable outlook for economic growth despite sharp uncertainties in the international environment. Going forward, the NBS will make monetary policy decisions based on a thorough analysis of key monetary and macroeconomic indicators, both at home and abroad. The priority of monetary policy remains unchanged – delivering price and financial stability in the medium run, and supporting sustainable economic and employment growth, expansion of the export potential, 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-2025, **inflation target was set at 3.0% until end-2028, 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, the energy crisis, rising protectionism and geopolitical tensions, 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 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 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

[1] The NBS Memorandum on Inflation Targets until 2028 was adopted at the meeting of the NBS Executive Board of 11 December 2025.

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 2026

The NBS Executive Board has pursued monetary policy in the year so far in accordance with the NBS Monetary Policy Programme in 2026,[2] thereby contributing to the preservation of macroeconomic and financial stability in the conditions of significant challenges from the international environment. The 2026 Monetary Policy Programme, adopted in December 2025, envisaged that, when making its decisions, the NBS would assess the nature and intensity of domestic and international inflationary factors, including the effects of climate change, and would accordingly retain the necessary monetary policy flexibility in terms of the degree of response and the instruments used, with a view to ensuring price and financial stability in the medium term, while continuing to support sustainable economic growth. The Programme also envisaged that macroprudential and microprudential policy measures would be used in a complementary and transparent manner, without diminishing the effectiveness of the main monetary policy instrument.

Conditions in the domestic and international environment warranted the continuation of a cautious approach to monetary policy decision-making. **Since the beginning of 2026, the NBS Executive Board has kept the key policy rate unchanged** at 5.75%, where it has stood since September 2024. Since then, the interest rates on the deposit and lending facilities have also remained unchanged at 4.5% and 7.0%, respectively. In deciding to keep the key policy rate unchanged, the Executive Board took into account the medium-term inflation projections, as well as the fact that the still pronounced geopolitical tensions were further heightened by the escalation of the conflict in the Middle East in late February.

The outbreak of the conflict in the Middle East in late February, together with disruptions to maritime traffic through the Strait of Hormuz, one of the key routes for global oil and gas trade, led to a **pronounced rise in global energy prices and increased volatility in energy markets**. These shocks are also spilling over to other segments of the global economy, primarily through higher costs of container shipping and mineral fertilisers, disruptions to supply chains, and a deterioration in investment and consumer confidence. At the same time, heightened uncertainty is adversely affecting international flows of goods and capital, which, even before the escalation of the latest crisis, had been under pressure from pronounced trade tensions and protectionist measures in the world's leading economies.

In these new circumstances, for net energy-importing countries, including Serbia, **upside risks to inflation and downside risks to economic growth have increased**. Upside risks to inflation relate primarily to the direct effects of higher energy prices, but also to indirect cost-push pressures and potential second-round effects through higher inflation expectations. Downside risks to economic growth stem from reduced real purchasing power and weaker demand, as well as higher production costs, increased uncertainty and declining consumer and business confidence. In considering developments in the international environment, the Executive Board emphasised that the intensity and duration of these effects would depend largely on further geopolitical developments and movements in global energy prices, which are difficult to predict in the current circumstances and require particular caution on the part of monetary policymakers.

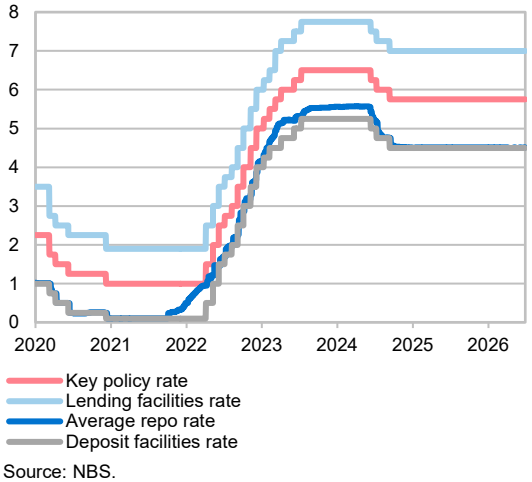
Against this background, economic policymakers in Serbia implemented coordinated measures aimed at preserving price stability and mitigating the adverse effects of external shocks. The **government** immediately introduced measures aimed at containing the rise in petroleum product prices in the domestic market – reducing fuel excise duties and supplying the market from its own sources. The **NBS** continued to pursue a cautious monetary policy while maintaining the relative stability of the exchange rate. At the same

[2] RS Official Gazette, No 112/2025.

time, it emphasised that it would respond with all available instruments if it assessed that the rise in global prices was producing second-round effects on other prices through inflation expectations.

Y-o-y inflation continued to move within the target band (3±1.5%) from the beginning of the year and remained below the 3% midpoint throughout Q1. The contribution of petroleum product prices to y-o-y inflation increased from March due to the rise in global oil prices, while food and non-alcoholic beverage prices continued to record a y-o-y decline, which stood at 1.2% in March. Y-o-y inflation has been on an upward path since March, reflecting higher petroleum product prices amid a considerable rise in global oil prices, before falling back below the target midpoint in June, to 2.7%, and slowing further to 1.9% in July. Lower-than-expected inflation was driven primarily by a larger-than-expected y-o-y decline in food prices, which amounted to 6.1% in July, predominantly reflecting lower fruit and vegetable prices owing to an exceptionally good new harvest. Prices of other food products were also lower than in the same month of the previous year, while no significant price increases were recorded even several months after the expiry of the decree capping retail margins on food products and household chemical products. Measured by the change in the CPI excluding food, energy, alcohol and cigarettes, y-o-y **core inflation** continued to hover around the upper bound of the target tolerance band and stood at 4.5% in July. The fact that financial sector medium-term **inflation expectations** remained around the target midpoint indicated that, thus far, there have been no major second-round effects of the energy shock on other prices.

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



Source: NBS.

Looking at developments in the **real sector**, the Executive Board emphasized that, after the challenges at the beginning of the year, primarily in the petroleum products and chemical industry sectors, more favourable developments are being recorded, to which the services sector contributed the most, as well as the restarting of operations at the Pančevo refinery at the end of January. There were expectations that finding a long-term sustainable solution for the unimpeded operation of NIS would further support economic growth in the remainder of the year. According to SORS data, GDP recorded real y-o-y growth of 3.2% in Q1, and 3.8% in Q2, which is higher than expected. Growth was driven by the services sectors, but also by the recovery of manufacturing, along with continued positive results in branches linked to the automotive industry. Activity growth in Q2 was also recorded in mining, while energy production continued to contract on a y-o-y basis, as a result of CBAM application, and partly due to reduced hydropower potential. The implementation of projects related to the holding of the Expo exhibition, primarily the construction of transport infrastructure, resulted in the recovery and positive contribution of construction in Q2. Based on published SORS data on the expected production of wheat and early fruit, as well as due to the expected recovery of autumn crop yields from last year's extremely low levels, it is estimated that a positive contribution also came from agriculture. However, the largest positive contribution, as a result of private consumption growth, came from the services sectors. The Executive Board noted that significant growth in credit activity towards corporate and household sectors also provided support to economic activity. The more favourable outturn in H1 influenced the revision of the GDP projection for this year to 3.2%, while, given the still present geopolitical tensions, the continuation of the conflict in the Middle East, the volatile movement of global oil and other energy prices and uncertainty regarding external demand, the NBS kept its growth projection for 2027 at 4.5%.

Despite global uncertainty and declining demand from the EU and the region, **Serbia's export sector** is showing resilience, thanks to production and geographical diversification and predominantly export-oriented FDI. Nevertheless, economic activity remains under the influence of global uncertainty caused by geopolitical tensions and volatile energy prices, which could have a negative impact on external demand, investment and consumer confidence, and capital flows.

According to the IMF's assessment,[3] the **global economic outlook** is shaped by two powerful forces acting in opposite directions: the long-lasting consequences of the energy shock caused by the conflict in the Middle East and an investment boom driven by technological development. Their overall effect differs significantly across countries, depending on their exposure to the Middle East conflict and their position in the technology value chain. Assessing that the global economy has so far withstood the energy shock better than expected, the IMF expects a V-shaped recovery: weaker growth this year compared to the forecast before the outbreak of the Middle East conflict, followed by a recovery next year.

When it comes to our most important trading partner – **the euro area**, the IMF expects growth of 0.9% this year, which reflects a significant negative spillover from Q1, primarily due to developments in Ireland, but also a weaker momentum in other economies, as well as the negative impact of higher energy prices and low consumer confidence. For Serbia, this could mean potentially weaker demand in the short term, and thus slower dynamics of exports of goods and services. At the same time, the **ECB's** monetary policy is also expected to be less accommodative than in the previous period. In June, the ECB raised its interest rate by 0.25 pp, to 2.25%, after euro area inflation reached 3.2% in May, before the release of the June figure of 2.8%. This ECB decision was accompanied by an assessment that the increase is necessary for inflation to return to the 2% target in 2027. On the other hand, the **Fed** did not change the range of its reference interest rate. The US economy is less exposed to the energy shock and, although the impact of developments in the Middle East has been reflected in higher energy prices and higher headline inflation, it is too early to assess the extent and duration of these effects.

The effects to date of the escalation of the Middle East conflict and of global oil price movements on global inflation and economic activity have been more moderate than initially expected, but uncertainty remains elevated, particularly given the domestic economy's dependence on energy price movements and global supply chains.

The NBS Executive Board will continue to carefully monitor and analyse trends in international commodity and financial markets and, on that basis, but also depending on domestic factors and inflation developments, make decisions on future monetary policy from meeting to meeting. The priority of monetary policy will continue to be ensuring price stability and preserving financial stability in the medium term, while supporting further economic growth, as well as an increase in employment and the preservation of a favourable business and investment environment.

[3] IMF, WEO, July 2026.

Open market operations

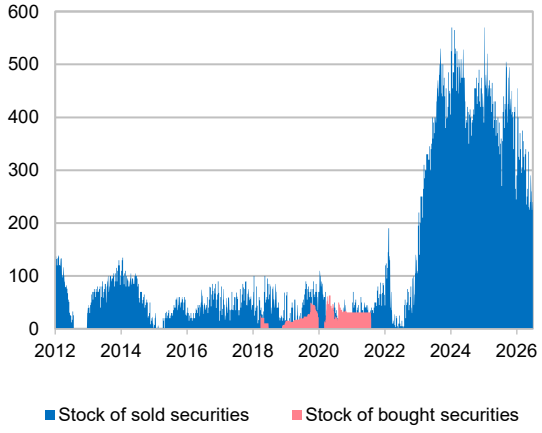
The main open market operations of the NBS in H1 2026 were **one-week reverse repo transactions** of securities sale (liquidity absorption).

The NBS implemented repo transactions using its own securities, with a buyback obligation. For repo sales, one series of treasury bills, issued in mid-July 2025 in a total amount of RSD 1,000 bn, has been used since July 2025 (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 7,630.0 bn, which was lower than in H2 2025 (RSD 10,675.0 bn).

The stock of NBS securities in banks' portfolios averaged RSD 303.8 bn in H1 2026, down by RSD 94.7 compared to H2 2025 (RSD 398.5 bn). At end-June, the stock of these securities measured RSD 240.0 bn, which is a decrease from end-2025 (RSD 290.0 bn).

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



Source: NBS.

Deposit and lending facilities

In H1 2026, banks placed overnight deposits with the NBS, which averaged RSD 153.4 bn, up by RSD 15.9 bn from H2 2025. The highest average daily stock was recorded in January (RSD 180.2 bn), and the lowest in March (RSD 126.7 bn).

In H1 2026, two banks used lending facilities in the form of intraday loan in the total amount of RSD 109.0 mn, while overnight loans were not used at all.

Required reserves

In H1 2026, the amount of calculated required reserves allocated in dinars went up by RSD 29.3 bn, reaching RSD 519.0 bn in June. This increase is chiefly a result of the growth in FX required reserves allocated in dinars (by RSD 24.3 bn), and the rise in purely dinar required reserves (by RSD 5.0 bn), thanks to the increase in household and corporate dinar deposits.

In the same period, calculated FX required reserves increased by EUR 243.7 mn, to EUR 3,487.0 mn in June. Such trends were the result of an increase in the FX base by EUR 1,950.8 mn, with the rise in household FX savings contributing the most, along with a substantial increase in international obligations and deposits of corporates.

Interest rates

Against the backdrop of global geopolitical uncertainty, the NBS Executive Board decided to keep the key policy rate unchanged at 5.75% throughout H1 2026. The key policy rate was last changed in September 2024, when it was lowered by 25 bp. The interest rates on deposit and lending facilities also remained unchanged, at 4.50% and 7.00%, respectively. Accordingly, the weighted average interest rate on reverse repo auctions in H1 2026 was 4.51%.

In H1 2026, 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%.

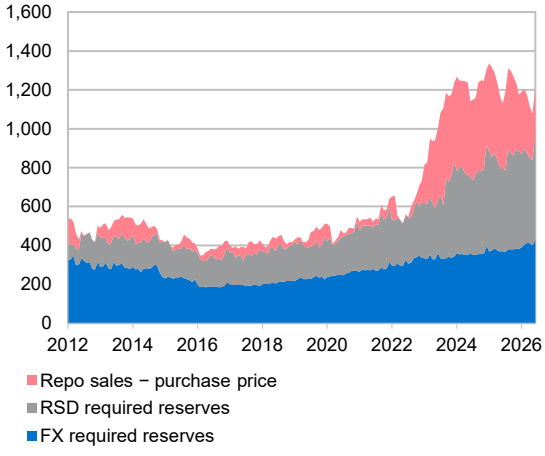
FX market operations

Under the 2026 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 volatility of the dinar against the euro and maintain price and financial stability and an adequate level of FX reserves.

In H1 2026, the dinar lost 0.1% against the euro in nominal terms, and the NBS net sold EUR 755 mn in the IFEM.

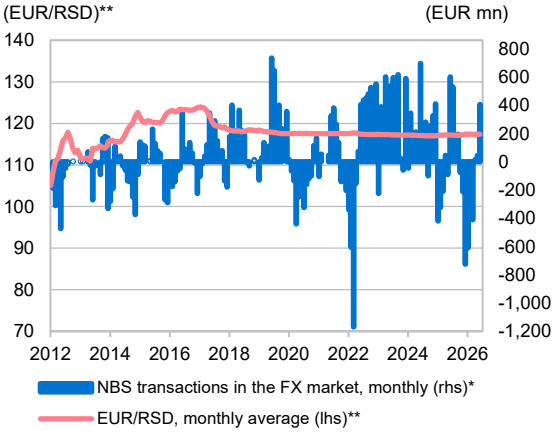
Depreciation pressures prevailed in Q1 2026, driven largely by a seasonal factor, namely increased demand for foreign currency by energy importers, as well as by other domestic companies (primarily in January). Households also contributed to demand for foreign currency, albeit to a much lesser extent than in December 2025, when a psychological factor came to the fore following heightened uncertainty surrounding

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



Source: NBS.

Chart II.2.3 **Dinar exchange rate and NBS transactions in the FX market**
(EUR/RSD)** (EUR mn)



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

NIS and the resulting increase in household demand for foreign currency.

In Q1 2026, the NBS was a net seller of EUR 1,220 mn in the IFEM. Depreciation pressures were strongest in January, when the NBS sold EUR 610 mn.

End of March and early April saw the weakening of the seasonal factor and the reignition of appreciation pressures.

In Q2 2026, appreciation pressures stemmed primarily from the supply of foreign currency by domestic companies (excluding energy importers), largely driven by foreign exchange inflows from exports and FDI. Appreciation pressures also arose from an increase in banks' net indexed assets, as well as from banks' net purchases of foreign cash.

In Q2 2026 the NBS was a net FX buyer in the IFEM, in the amount of EUR 465 mn, compensating for almost 40% of net FX sale in the first three months of 2026.

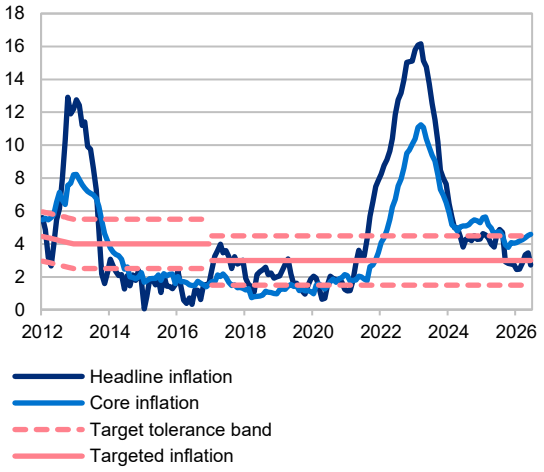
FX swaps

In H1 2026, the NBS continued to enable banks to conclude bilateral transactions of swap purchase and sale of euros. The aim of these transactions is not only to provide assistance to banks in their liquidity management, helping them overcome the problem of insufficient limits for concluding interbank transactions, but also to provide greater flexibility regarding the moment of concluding the transactions. In H1 2026, NBS bilateral swap transactions amounted to a total of EUR 2,260 mn, with the NBS swap purchasing and selling EUR 1,130 mn each.

2 Inflation target achievement in H1 2026

Since the beginning of the year, **y-o-y inflation** has averaged around the target midpoint of 3.0%, and in June it declined slightly below this level, to 2.7%, the same level as at end-2025. In H1, inflation was lower than we had expected, as a result of a greater-than-expected decline in food prices, primarily fruit and vegetables, as well as the absence of a stronger increase in the prices of processed food products following the expiry of the Decree capping trade margins. The acceleration in y-o-y inflation in the March–May period was predominantly driven by higher petroleum product prices in the domestic market, owing to a significant rise in global oil prices following the escalation of the conflict in the Middle East. In Q1, **y-o-y core inflation** (measured by CPI excluding food, energy, alcohol and cigarettes) averaged 4.2%, while in Q2 it hovered around the upper bound of the target tolerance band, measuring 4.6% in June. **Y-o-y, both headline and core inflation were lower in June this year than a year earlier.**

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



Sources: SORS and NBS calculation.

At the level of the food and non-alcoholic beverages group, prices declined by 3.7% y-o-y in June, contributing -1.2 pp to y-o-y inflation. In June, **unprocessed food prices** went down by 5.8% y-o-y (contributing -0.7 pp to inflation), primarily owing to cheaper fruit and vegetables, amid a high new crop. The 2.5% y-o-y decline in **processed food prices** (contributing -0.5 pp to inflation) was widely dispersed across categories. Most of the products in the processed food category covered by the Decree did not record a considerable price adjustment during H1, which prevented stronger inflationary pressures. In the period following the expiry of the Decree, i.e. from February to June, the cumulative increase in prices in half of the food categories (excluding fruit and vegetables) was below 1.0%, while in the remaining categories it ranged between 1.5% and 2.5%.

Energy prices followed an upward path during H1, primarily owing to the accelerated increase in **petroleum product prices** in April and May, which reflected the rise in global oil prices following the escalation of the conflict in the Middle East. Nevertheless, the increase in energy prices, which stood at 9.7% y-o-y in June (contributing 1.4 pp to inflation), would probably have been even higher had the Government of the Republic of Serbia not

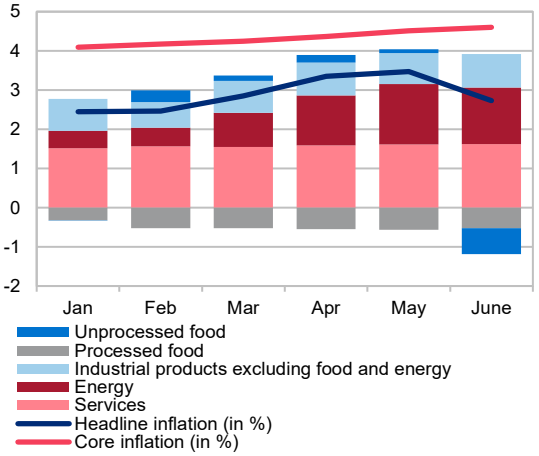
decided to temporarily reduce excise duties on diesel and unleaded petrol by 20%. There was no change in petroleum product prices in June, as the decline in global oil prices following the ceasefire in the Middle East was offset by the Government of the Republic of Serbia reducing the percentage of the previous excise duty reduction from 20% to 5% during June. Prices of other energy products on the domestic market remained stable from the beginning of the year.

Prices of industrial products (excluding food and energy) recorded y-o-y rates of increase during H1 that were significantly below the levels recorded a year earlier (averaging 2.8% compared with 4.6%). In June, these prices increased by 3.0% y-o-y (contributing 0.8 pp to inflation), largely owing to higher prices of medicines, alcoholic beverages and clothing, as well as the March adjustment of cigarette prices. Other industrial products made a minor contribution to y-o-y inflation in H1.

Service prices trended up since the beginning of the year, posting a 6.6% y-o-y rise in June (with a 1.6 pp contribution to inflation). The increase was primarily due to the adjustment of utility service prices in Q1, followed by higher rents and prices of catering, transport, financial and medical services, as well as the seasonally typical increase in the prices of tourist package arrangements in Q2. The rise in service prices during H1 accounted for around four-fifths of the increase in core inflation at the y-o-y level.

Administered prices, which are set directly or indirectly by the government, increased by 7.3% y-o-y in June (contributing 1.3 pp to inflation), primarily owing to the adjustment of prices of utility services, cigarettes and electricity for households from October last year.

Chart II.3.2 **Contributions of CPI components to y-o-y inflation in H1 2026**



Sources: SORS and NBS calculation.

III Macroeconomic environment

1 International environment

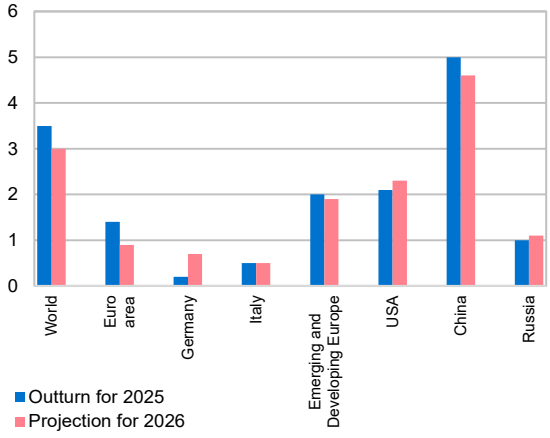
Economic activity and inflation

During H1 2026, the global economy showed greater resilience to the consequences of the Middle East conflict than initially expected. The IMF estimated that the global economy recorded quarterly growth of 3.0% in Q1 (annualised), partly as a result of countries' increased resilience to disrupted oil supply, due to the higher share of renewable energy sources in global production and a reduction in the number of countries developing energy-intensive sectors. Economic growth in Q1 was higher than expected thanks to the fiscal stimulus and strong domestic demand in certain countries. The effects of the negative energy shock were mitigated by the effects of the positive technology shock, which is partly owed to the development and application of AI tools. At the same time, net effects differ across countries depending on the degree of their integration into global technology value chains on the one hand, and their exposure to conflict zones, on the other. **In July, the IMF projected global economic growth of 3.0% in 2026**, which is below the outturns of the past two years (3.5%).

The downward trend in **global inflation**, dominant since the beginning of 2024, was halted in February this year on account of a significant increase in world oil prices following the escalation of the Middle East conflict. This is also evidenced by the so-called momentum of headline global inflation, which increased by 4.0 pp from February to April. At the same time, core inflation remained stable in most countries, as the increase in energy prices was not transmitted to a greater extent to the prices of other goods and services. The gap between headline and core inflation is more pronounced in countries more exposed to energy supply disruptions, and less pronounced in countries that have capped petroleum product prices. Although inflation expectations for 2026 rose in most countries, while those for 2027 did not change significantly, there are still no indications that they are becoming unanchored. **In July, the IMF projected global inflation at 4.7% in 2026** (compared to the outturn of 4.1% in 2025).

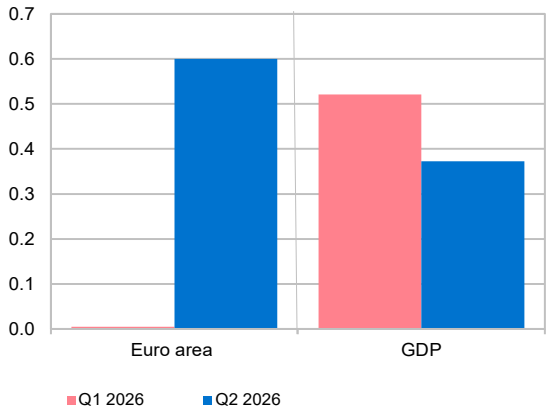
When data for Ireland are excluded (due to the impact of specific factors), the **euro area economy** recorded modest growth in Q1, while, when data for all countries are taken into account, it stagnated (0.6% growth y-o-y). In Q1, total consumption increased,

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



Source: IMF WEO Update (July 2026).

Chart III.1.2 **Real GDP growth in the euro area and the USA during H1 2026**
(s-a, in %)



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

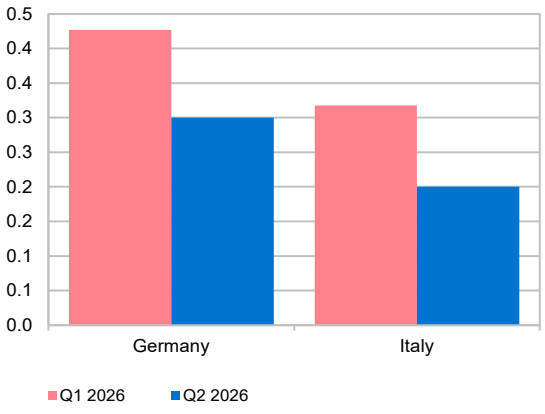
while total investment and net exports declined. Manufacturing activity proved relatively resilient to the negative effects of the Middle East conflict, as companies had accumulated inventories in advance. Serbia's main trading partners within the euro area, **Germany** and **Italy**, recorded s-a GDP growth rates of 0.4% and 0.3% in Q1, respectively (0.5% and 0.9% on a y-o-y basis), driven by a recovery in net exports. According to Eurostat preliminary estimates, the euro area economy recorded quarterly growth of 0.6% s-a in Q2, while the German and Italian economies grew by 0.3% and 0.2% s-a each. The unemployment rate in the euro area continued to hover around its minimum, and in June stood at 6.3%. **In June, the ECB projected euro area GDP growth of 0.8% in 2026** (compared to 1.4% in 2025).

After an upward trajectory from February to May due to elevated energy prices following the escalation of the Middle East conflict, **headline inflation in the euro area** slowed to 2.8% y-o-y in June. This was predominantly influenced by slower y-o-y energy price growth, where the base effect also played out, as well as by a slowdown in y-o-y food price growth. **Euro area core inflation** stood at 2.4% y-o-y in June, which is also its average level for H1, driven primarily by services price growth, and to a lesser extent by industrial goods prices (excluding food and energy). **In June, the ECB projected average annual inflation in the euro area at 3.0% for 2026** (compared to the outturn of 2.1% in 2025), while average core inflation was projected at 2.5%. Measured as the change in the HICP on a y-o-y basis, **inflation in Germany** declined to 2.4% in June, due to slower energy price growth, while **inflation in Italy** slowed in June, for the first time since January this year, to 3.1%, owing to slower growth in unprocessed food and certain services prices.

Economic growth in **Central and Southeast Europe**[4] stood at 0.4% s-a in Q1 or 2.1% y-o-y. The achieved growth was the result of increased total consumption and investment, while a decline in net exports acted in the opposite direction. In most countries of the region, GDP growth was recorded in Q1, with the exception of Croatia and Romania, whose economies stagnated. According to available Eurostat data, economic growth in the region accelerated to 0.6% s-a in Q2, driven predominantly by an increase in fixed investment and, to a lesser extent, by higher consumption and a recovery in net exports, while a decline in inventories worked in the opposite direction. Consensus Economics analysts concur with the World Bank's assessment that economic activity across the region, which was also supported by EU funds, will nevertheless slow by the end of 2026, primarily owing to the spillover of the adverse effects of the conflict in the Middle East to the manufacturing sector through weaker demand from the euro area, the region's main foreign trade partner. In July, Consensus Economics projected GDP growth in the Southeastern European country group at 1.2% in 2026 (vs. 1.7% in 2025), while for the Central European country group, growth of 2.7% was projected (the same as in the previous year).

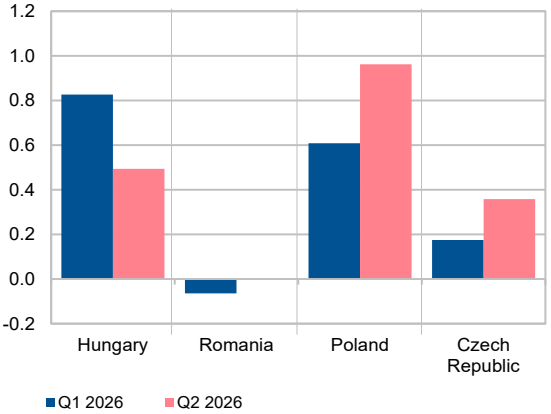
In all Central and Southeast European countries (with a monetary framework similar to Serbia's),

Chart III.1.3 **Real GDP growth in Germany and Italy in H1 2026**



Source: Eurostat.

Chart III.1.4 **Real GDP growth in CESEE countries in H1 2026**



Source: Eurostat.

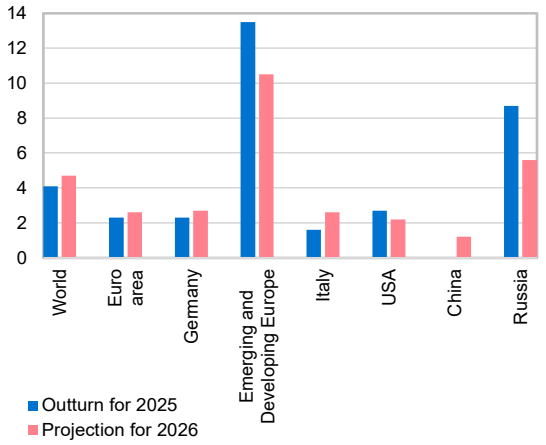
[4] The Central and Southeast European region includes Romania, Hungary, the Czech Republic, Slovenia, Bulgaria, Croatia, Slovakia and Poland.

y-o-y inflation initially accelerated in March, predominantly due to the increase in energy prices following the outbreak of the Middle East conflict. After rising in April, y-o-y inflation in the **Czech Republic**, **Hungary** and **Poland** slowed by the end of Q2, while in **Romania**, although decelerating in June, it remained above the March level. The slowdown in y-o-y inflation in June, to 1.5% in the Czech Republic and 1.7% in Hungary, was driven by lower food prices and slower y-o-y growth in petroleum product prices compared to March. Y-o-y inflation in Poland in June stood at the target level of 2.5%, while in Romania it amounted to 10.4%. Due to the prolonged consequences of the Middle East conflict and the expected negative effects of drought in much of the European continent on the supply and prices of agricultural products, in July Consensus Economics analysts projected average annual inflation in the Southeast European country group at 6.4% in 2026 (vs. the outturn of 5.7% in 2025), while in the Central European country group it was projected at 2.8% in the current year (vs. the outturn of 3.5% in 2025).

At the level of the **Western Balkan region**, y-o-y GDP growth was recorded in Q1, and, according to the World Bank's assessment, it was uneven across countries. The realised growth was predominantly driven by growth in total consumption, while a decline in net exports acted in the opposite direction. In June, the World Bank projected economic growth at the regional level of 2.9% in 2026 (following 2.6% in 2025), taking into account the negative effects of geopolitical tensions and the slowdown in economic activity in the euro area, which is affecting weaker external demand, particularly for manufacturing products. Although it was assessed that inflation since the beginning of the year had been the lowest in the Central European countries and the Western Balkan region, the countries of this region are exposed to heightened cost-push pressures due to the Middle East conflict, particularly those that rely more heavily on imports of artificial fertilisers and other production inputs. In July, Consensus Economics analysts revised their inflation projections for 2026 upwards for the countries of the region, except for Albania.

The US economy recorded growth of 0.5% s-a in Q1 (2.1% annualised), which was the result of growth in investment and consumption, while net exports declined. According to preliminary data from the US Bureau of Economic Analysis, US GDP rose by 0.4% s-a in Q2 (1.5% annualised), thanks to an increase in domestic demand, while net exports continued to decline. The US unemployment rate retreated to 4.2% in June, its lowest level in the past year. In June, the **Fed** projected US GDP growth of 2.2% in 2026 (following 2.1% in 2025), while the unemployment rate was projected at 4.3% (compared to 4.2% in 2025).

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



Source: IMF WEO (July and April 2026).

Measured by the change in the CPI, **headline inflation in the US** initially accelerated in March, to 3.3% y-o-y, due to higher fuel prices following the US involvement in the conflict with Iran, which was also influenced by the low base from the previous year. After a further increase in April and May, inflation slowed in June, to 3.5% y-o-y, on account of slower energy price growth following the temporary ceasefire in the Middle East. In June, food inflation also slowed, while lower industrial goods and services prices determined the slowdown in core inflation in the US, to 2.6% y-o-y in June. In June, the **Fed** assessed that inflation in the US should continue to slow during H2, driven by the expected decline in retail petrol prices, while core inflation should remain at a similar level as in H1. Two inflation measures that the Fed also monitors – the personal consumption expenditures price index, total and excluding food and energy – were projected for 2026 at 3.6% and 3.3%, respectively (compared to 2.9% and 3.0% in 2025).

The Chinese economy recorded growth of 1.3% s-a in Q1 (i.e. 5.0% y-o-y), as a result of growth in government investment in infrastructure projects and high-tech production, as well as increased exports. However, domestic demand remained weak, which,

together with weak private sector investment and a prolonged decline in activity in the real estate sector, contributed to slower GDP growth of China in Q2, of 0.9% s-a (4.3% y-o-y). In July, the IMF projected economic growth of 4.6% in 2026 (following 5.0% in 2025).

Monetary policy

Since the beginning of 2026, central banks' monetary policy decisions have been largely influenced by geopolitical uncertainty, further intensified by the escalation of the Middle East conflict in late February. This factor has become a key determinant of monetary policy, given that it triggered **a sharp rise in energy prices and fundamentally altered the economic outlook**. Short-term inflation risks have increased, while at the same time economic growth has been undermined by higher energy costs and declining real incomes.

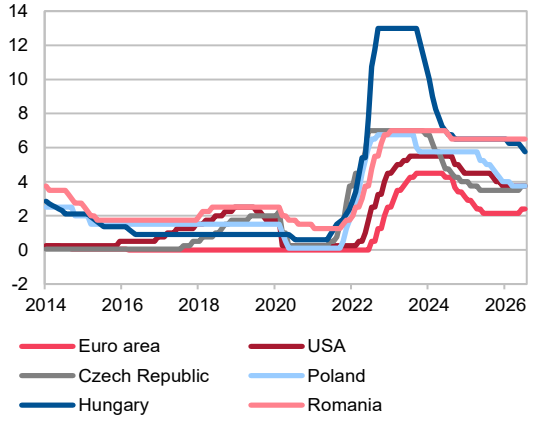
From the beginning of the year until June, the **ECB** did not change its interest rates. Thus, the rates on the deposit facility, the main refinancing operations and the marginal lending facility stood at 2.00%, 2.15% and 2.40%, respectively, since June 2025. The ECB emphasized that monetary policy depends exclusively on incoming data and, above all, on whether inflationary pressures from the energy sector remain temporary or spill over into the broader economy through wages and services prices. The price of oil is of key importance for the euro area economy, which imports nearly 60% of its energy needs. The energy shock significantly affected short-term inflation expectations in the euro area, while long-term inflation expectations were relatively stable, reflecting confidence in the ECB's monetary policy.

Emphasizing its commitment to bringing inflation back to the medium-term target of 2%, the ECB raised its three key interest rates by 25 bps in June, marking the first increase since 2023. The interest rates on the deposit facility, the main refinancing operations and the marginal lending facility have since stood at 2.25%, 2.40% and 2.65%, respectively. The decision to raise interest rates in June was taken primarily in response to rising energy prices and persistent inflationary pressures caused by the US-Iran conflict and disruptions in oil deliveries through the Strait of Hormuz. The ECB assessed that the war in the Middle East is further intensifying inflationary pressures and that the rate hike is justified under all projection scenarios considered for the euro area.

The situation in the Middle East began to stabilise in mid-June, which led to a significant improvement in expectations regarding inflation and economic activity. However, the exchange of strikes between the US and Iran in July once again put oil prices in the spotlight and highlighted the elevated uncertainty regarding the durability of the ceasefire in the Middle East. Keeping its key interest rates unchanged at its July meeting, the ECB assessed that the outlook for energy prices is currently close to the baseline scenario from its latest June projection and significantly above the levels recorded before the outbreak of the Middle East conflict. It stressed that the full inflationary effects of the energy shock have yet to materialise, and that it will therefore carefully monitor its intensity and duration, as well as its indirect and second-round effects.

Unlike the ECB, the **Fed** kept its target range for the federal funds rate at 3.50%–3.75%, in a complex macroeconomic environment in which inflation is moving above target, alongside simultaneous signs of labour market weakening and heightened geopolitical risks. The Fed noted that it had cut its federal funds rate by 0.75 pp last year over the period from September to December, bringing it closer to the estimated neutral level. This normalisation of monetary policy was intended to help stabilise the labour market, while inflation would continue to decline towards the 2% target. However, although the US economy is less exposed to the energy shock, the impact of developments in the Middle East has been reflected in higher energy prices and higher headline inflation, although it is too early to assess the extent and duration of these effects. In addition, fiscal policy, including higher defence spending and

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



Sources: Central banks of selected countries.

potential transfers to households, could stimulate demand, intensify inflationary pressures and call for a more restrictive Fed monetary policy. Market expectations that Fed monetary policy will become more restrictive were reinforced by statements from the new Fed Chairman, Kevin Warsh, who underlined his full commitment to preserving price stability, stressing that he would not tolerate persistently elevated inflation. He underscored that the inflationary wave that has marked the past five years will be successfully brought to an end if an adequate monetary policy continues to be pursued. At the same time, he assessed that the US economy continues to demonstrate resilience, with sound economic growth and moderate growth in household spending. The decision to keep the federal funds rate target range unchanged at the Fed's July meeting is considered one of the most uncertain in the past ten years and was passed by a vote of nine to three, while three FOMC members voted for a 25 bp increase.

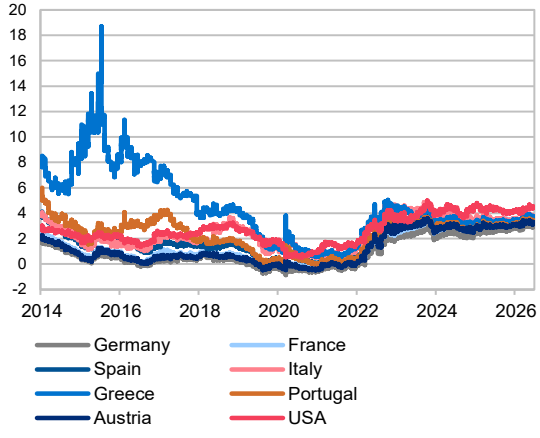
As for the **inflation targeting central banks in the region**, following the policy rate cuts by the central banks of Poland and Hungary, which were implemented on the basis of economic data in the run-up to or at the onset of the Middle East conflict, a period of more cautious monetary policy followed. Thus, the **Polish** central bank cut its policy rate by 25 bp in March, to 3.75%, its lowest level since 2022. Thereafter, it kept the rate unchanged, due to higher fuel prices and expected higher inflation in the period ahead. As previously signalled, the **Hungarian** central bank cut its policy rate in February, but left it unchanged in March, April and May, as the disruption in the global energy market changed expectations regarding inflation in the period ahead. Thereafter, unlike other European central banks that have maintained or increased the degree of monetary policy restrictiveness, the Hungarian central bank continued with its gradual easing of monetary conditions, cutting its policy rate in June and July, each time by 25 bp, to 5.75%, taking into account the decline in inflation. The **Czech** central bank kept its policy rate unchanged until June, at 3.50% since May last year, emphasizing that the uncertain inflation forecasts in the new circumstances require openness to various monetary policy options. It decided to hike its policy rate in June, by 25 bp to 3.75%, marking the first increase since 2022. The decision to increase the rate was taken not only in view of the consequences of the Middle East conflict, but primarily of domestic factors, including money supply growth, significant wage growth and an increase in the fiscal deficit. In line with expectations, due to relatively high inflation, the central bank of **Romania** kept its policy rate unchanged at 6.50%, where it has stood since August 2024.

Financial and commodity markets

Yields on ten-year government bonds of advanced European countries were slightly higher at end-H1 2026 than at end-2025, by 6 bp on average, but they recorded pronounced fluctuations during the half-year, determined to a large extent by developments in the Middle East. At the beginning of the year, yields were on a downward trajectory, due to inflation in the euro area moving close to or below the target. The outbreak of the conflict in late February triggered their rise, which more than offset the previous decline. Concerns over the effects of price pressures from the energy market were reflected in increased market participants' expectations of monetary policy tightening by the ECB. The agreement between the US and Iran on the reopening of the Strait of Hormuz in mid-June reduced expectations of further tightening, which led to a pronounced decline in yields by the end of the half-year, to a level only slightly higher than at the end of 2025. **Yields on ten-year US Treasuries** increased significantly over the same period, by 30 bp. In their case as well, a decline in yields was recorded until the outbreak of the conflict in late February, driven by inflation data that were more favourable than expected. Yields rose in the remainder of the period, initially due to expectations that price pressures from the energy market would delay monetary policy easing by the Fed, and, following the agreement, also due to

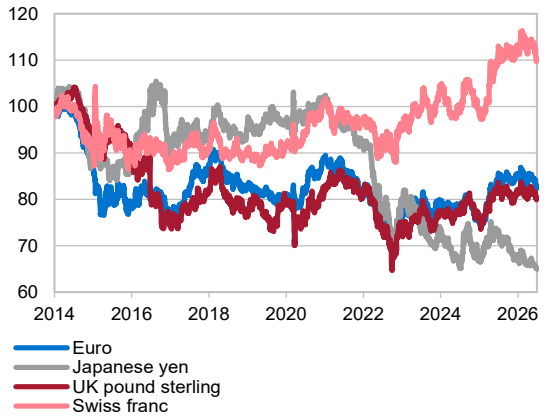
Chart III.1.7 **Yields on ten-year bonds of euro area countries and the USA**

(daily data, in %)



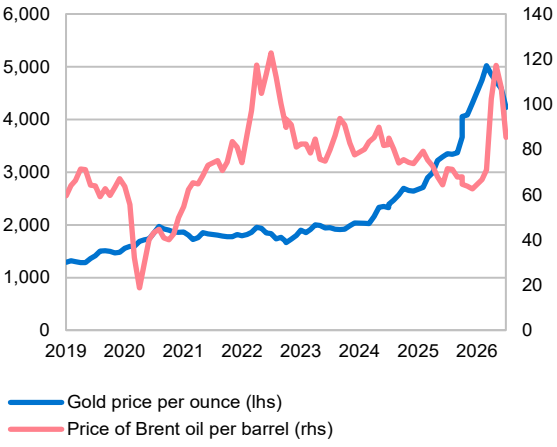
Source: Bloomberg.

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.

Chart III.1.9 **World gold and oil price movements**
(month-average, in USD)



Source: Refiniitiv.

more favourable macroeconomic indicators of the US economy and expectations that the Fed could raise interest rates by the end of the year.

A similar dynamic was recorded in the **exchange rates of major world currencies against the dollar**. The euro strengthened against the dollar in January and February, reaching its highest levels in the past four years amid expectations that, in the context of more favourable inflation developments, monetary policy easing by the Fed would be more pronounced than by the ECB, coupled with positive expectations regarding the economic outlook for the euro area. The outbreak of the conflict resulted in a significant weakening of the euro, as concerns over the impact of rising energy prices on the euro area's economic activity outweighed expectations of inflationary effects and monetary policy tightening by the ECB. Increased demand for the dollar as a safe-haven asset also contributed to the weakening of the euro. Following the agreement in mid-June, the euro continued to depreciate, this time due to anticipated interest rate movements, as the agreement reduced expectations of further monetary policy tightening by the ECB. At the end of H1 2026, the euro weakened against the dollar compared to end-2025.

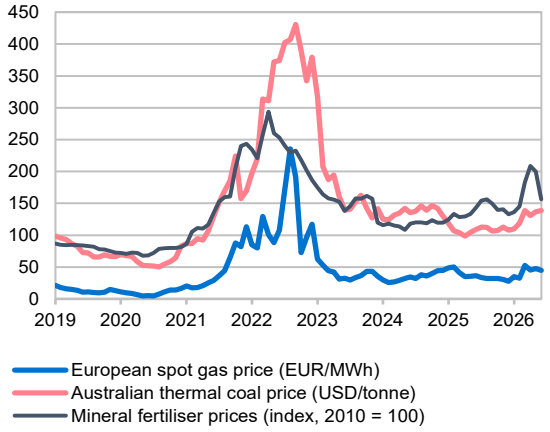
The **world gold price** continued to follow an upward trajectory at the beginning of 2026, due to increased demand for safe-haven assets and stepped-up purchases by central banks, averaging around USD 5,020 per fine ounce in February, its highest level since comparable data have been available. By contrast, expectations that elevated inflationary pressures due to the Middle East conflict would lead to a tightening of monetary conditions by major central banks, as well as the strengthening of the US dollar and rising global government bond yields, drove the price of gold down, to around USD 4,230 per fine ounce on average by June, though it was still 22.5% higher in y-o-y terms.

Following moderate growth at the beginning of the year, the **Brent oil price** rose sharply in March and April as the direct conflict between Iran and the US broke out and, related to this, the Strait of Hormuz was closed, through which around one-fifth of global oil supply passes. By contrast, temporary declines in the oil price were reflected in an easing of tensions and the conclusion of a temporary ceasefire, but despite this, the oil price in June averaged around USD 85 per barrel, which is 19.3% higher than in the same period last year.

The benchmark price of natural gas for Europe (Dutch TTF hub) recorded a seasonally typical increase in January and February, after which it was further increased until the end of H1, due to heightened uncertainty and energy supply disruptions, therefore in June it averaged around EUR 45 per MWh, which is 43.1% higher than a year earlier. **The electricity price on the German exchange** followed a similar dynamic, and in addition to geopolitical uncertainty, it was also influenced by volatility in renewable energy production – which in June averaged around EUR 120 per MWh, representing a y-o-y increase of 61.0%.

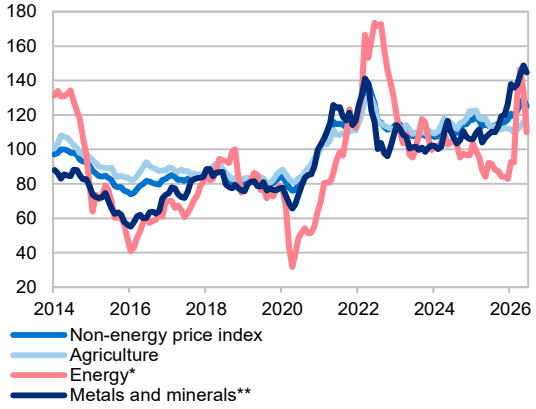
Under the influence of increased demand from Asian countries due to the reduced availability of other energy sources, as well as uncertainty regarding exports from Indonesia, one of the leading exporters, **the price of Australian thermal coal** followed an

Chart III.1.10 **Movement in prices of natural gas, thermal coal and mineral fertilisers**
(month-average)



Sources: Refinitiv and World Bank.

Chart III.1.11 **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.

upward trajectory in H1. It averaged around USD 140 per tonne in June, which is 27.1% higher compared to the same period last year.

The intensification of geopolitical tensions in the Middle East was also reflected in a sharp rise in **mineral fertiliser prices**, due to reduced availability; however, they declined in May and June following the stabilisation of the market situation and the easing of supply uncertainty. Even so, mineral fertiliser prices in June were 9.2% higher y-o-y.

World prices of most metals and minerals dominantly followed an upward trajectory during H1, under the influence of supply disruptions caused by the Middle East conflict, while the strengthening of the US dollar acted in the opposite direction. In addition, the **copper price**, supported by strong demand associated with the development of AI, reached its highest level in June since comparable data have been available – around USD 13,550 per tonne, which is 37.8% higher than in the same period last year.

Food prices on the world market, measured by the FAO Food Price Index, followed an upward trajectory from the beginning of the year, after which they declined slightly in May and June, but were still 1.7% higher y-o-y at end-H1. The y-o-y price increase was driven by higher vegetable oil, meat and cereal prices, while lower dairy product and sugar prices acted in the opposite direction. At the same time, the **coffee price** followed a downward trajectory, measuring 15.6% lower y-o-y in June, while the **cocoa price**, after a sharp decline in Q1, increased during Q2, but was still 49.4% lower in June in y-o-y terms.

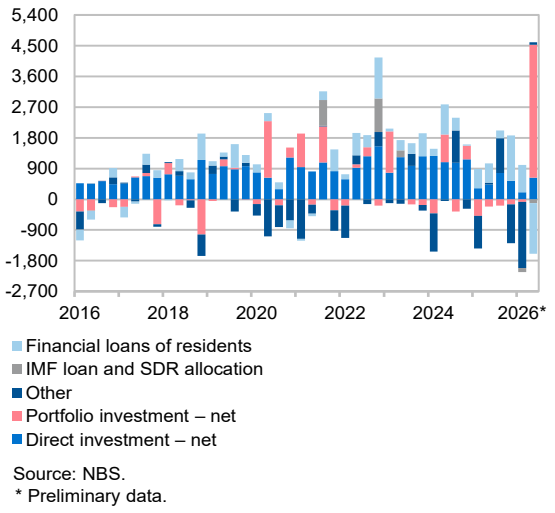
2 International transactions

Balance of payments and FX reserves

According to preliminary data, the **current account deficit** measured EUR 1.4 bn in H1 2026 (3.1% of GDP), having contracted 25.8% relative to H1 2025. This is a result of an improvement in the majority of current account categories, mostly the goods and services trade balance.

With exports rising faster than imports, the goods trade deficit was reduced by 14.2% y-o-y in H1 and amounted to EUR 2.8 bn. **Goods exports** increased by 9.2% y-o-y, to EUR 17.7 bn, driven by manufacturing exports, which increased by 9.0% y-o-y despite low external demand. Over 70% of the growth in manufacturing exports was attributed to the export of motor vehicles, which, thanks to increased capacity in the automotive industry, rose by 51.1% y-o-y. Export growth was recorded in 14 more branches (out of a total of 23) of manufacturing, with notable contributions coming from the export of metal products, rubber and plastic products, computers and electrical products, chemical products and basic metals. Export figures also rose thanks to mining exports, which increased by 41.0% y-o-y in H1, with this increase largely attributable to the rise in the world copper price. On the other hand, last year's drought affected lower inventories and a decline in agricultural exports (down 13.8% y-o-y). Electricity exports also declined (by 47.1% y-o-y), which can be linked to reduced competitiveness when exporting to the EU due to the entry into force of the Carbon Border Adjustment Mechanism (CBAM). **Goods**

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



Source: NBS.
* Preliminary data.

imports increased by 5.3% y-o-y, to EUR 20.5 billion, under the influence of increased import of intermediate goods (up 6.6% y-o-y), which includes energy products, as well as higher import of consumer goods (up 2.2% y-o-y), while the import of capital goods was slightly lower (down 0.4% y-o-y).

Given that Serbia is a net importer of energy, the significant increase in global energy prices, due to the escalation of the Middle East conflict, as well as the imposition of sanctions on NIS due to its majority Russian ownership, were reflected in the movement of the energy balance. **The energy balance deficit** increased by 19.0% y-o-y in H1, to EUR 2.1 bn, under the influence of higher net imports of oil and petroleum products. In the case of oil, the higher import value is exclusively a consequence of higher prices (which rose by an average of around 29% y-o-y), while imported volumes were lower because there was no supply of crude oil to NIS from JANAF during January. In the case of petroleum products, more than half (57%) of the higher import value is explained by larger imported volumes, which is a consequence of higher import of derivatives in the early months of 2026, when refinery production was lower, while the remainder of the increase relates to higher prices (which rose by an average of 17% y-o-y). On the other hand, although the volume of gas imports was somewhat higher, the import price was lower (down by an average of around 28% y-o-y), therefore in value terms, the net effect of gas imports on the energy balance was positive.

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

	H1 2025	H1 2026
I CURRENT ACCOUNT	-1,928.9	-1,431.5
1. Goods	-3,215.5	-2,758.8
1.1. Credit	16,257.0	17,749.7
1.2. Debit	-19,472.5	-20,508.5
2. Services	1,219.4	1,303.5
2.1. Credit	7,198.6	7,550.3
2.2. Debit	-5,979.2	-6,246.9
3.Goods and services	-1,996.0	-1,455.3
3.1. Credit	23,455.6	25,300.0
3.2. Debit	-25,451.7	-26,755.3
4. Primary income	-2,397.5	-2,805.6
5. Secondary income	2,464.6	2,829.4
II CAPITAL ACCOUNT	146.6	31.1
III FINANCIAL ACCOUNT (excluding reserve assets)	284.2	1,877.6
1. Direct investment, net	759.3	837.4
2. Portfolio investment, net	-691.0	3,825.0
3. Financial derivates, net	14.7	-40.5
4. Other investment, net	201.1	-2,744.4
4.1. Trade credit and advances, net	-568.5	-1,365.4
4.2. Financial loans, net	1,128.4	-914.7
4.3.Currency and deposits, net	-389.9	-450.0
4.4. Other, net	31.1	-14.3
IV Reserve assets	-1,699.2	674.5
V NET ERRORS AND OMISSIONS	-201.0	197.4
VI OVERALL BALANCE	-1,699.2	674.5

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

The surplus on international trade in services increased by 6.9% y-o-y, to EUR 1.3 bn, due to faster growth in services exports (4.9% y-o-y) than in services imports (4.5% y-o-y). The increase in exports to nearly EUR 7.6 bn is mostly due to higher exports of business and ICT services, while exports of other types of services also recorded growth. Services imports increased to EUR 6.2 bn, to which the import of tourism and ICT services contributed the most, while the import of business and other services was lower than in H1 2025.

The deficit on the primary income account increased by 17.0% y-o-y, to EUR 2.8 bn, primarily due to higher expenditure on account of FDI (dividends), which is expected in conditions of growing corporate profitability. Expenditure in respect of interest on financial loans also increased, while expenditure on employee wages was lower than in H1 2025.

The surplus on the secondary income account increased in H1 by 14.8% y-o-y, to EUR 2.8 bn, primarily thanks to higher net inflows of remittances

from abroad (up by 20.1% y-o-y), which reached EUR 2.4 bn. Higher net inflows on account of official government aid also contributed to surplus growth, while other transfers from abroad were lower than in the same period last year.

The net capital inflow on the **financial account of the balance of payments** in H1 amounted to EUR 1.9 bn.[5] The largest part of the capital inflow in H1 related to portfolio investment inflows from the issuance of government and corporate securities on the international market, part of which was immediately used for the early buyback of a portion of previously issued eurobonds and the repayment of financial loans. Inflows were also recorded from FDI, while outflows were recorded on account of trade credits and an increase in banks' funds held in accounts abroad.

In conditions of heightened global uncertainty, **the FDI inflow to Serbia**, according to preliminary data, amounted to EUR 1.2 bn in H1, and was 26.6% lower than in the same period last year. The FDI inflow had a favourable structure and mostly related to reinvested earnings and equity capital, with retained geographical and project diversification. The largest share of investments was directed into manufacturing, trade, construction and energy. Taking into account resident investments abroad (which were 57.6% lower y-o-y), the net FDI inflow in H1 amounted to EUR 837.4 mn, which is 10.3% higher than in the same period last year.

Thanks to successful issues of government and corporate debt securities on the international market, a net capital inflow of EUR 3.8 bn was recorded on account of **portfolio investment** in H1. At the end of April, Serbia issued three tranches of eurobonds (two in euros and one in US dollars)[6] with a total equivalent value of around EUR 3 bn, whereby the funds obtained from the five-year bond issue (EUR 1 bn) were immediately used for the early buyback of a portion of eurobonds maturing in 2027. In May, corporate bonds were also issued in the equivalent value of approximately EUR 1.95 bn, with the proceeds primarily used to repay previously taken financial loans. On the other hand, residents (primarily banks) invested in foreign securities, but this did not significantly reduce the net inflow from portfolio investment.

On account of **other investments**, an outflow of EUR 2.7 bn was recorded in H1. Of that, a net outflow of EUR 914.7 mn was recorded on account of **financial loans**, driven by corporate debt repayment (EUR 1.3 bn) following the corporate bond issuance. In addition, government borrowing was reduced, with two principal instalments of the stand-by arrangement with the IMF (EUR 231.9 mn) also repaid during H1. On the other hand, banks increased their credit liabilities towards foreign creditors. At the same time, domestic banks increased their funds held in accounts abroad, which exceeded the growth of funds in accounts of non-residents with domestic banks and contributed to an outflow of EUR 450.0 mn being recorded on account of **cash and deposits** in H1. An outflow of EUR 1.4 bn was also recorded on account of **trade loans and advances**.

The above flows on the current and financial accounts resulted in **Serbia's FX reserves** (according to the balance of payments methodology)[7] going up by EUR 674.5 mn during H1.

On 30 June 2026, the NBS gross FX reserves amounted to EUR 29,608.9 mn, which is EUR 600.6 mn higher than at the end of 2025. This level of FX reserves ensured coverage of the M1 money supply of 165.2% and 6.7 months' worth of imports of goods and services, which is more than twice the standard used to determine an adequate level of import coverage by FX reserves. At the same time, net FX reserves amounted to EUR 25,056.0 mn, which was EUR 419.8 mn higher than at the end of 2025.

In accordance with the principles of safety and liquidity, the funds were placed in highly liquid securities issued by the most developed countries in the world and international financial institutions, as well as with top-tier institutions (central banks, international institutions and first-class foreign banks). In this connection, in the composition of FX reserves on 30 June 2026, foreign securities accounted for the largest share (55.3%), followed by gold (21.0%), foreign currency funds held in accounts abroad (17.8%), foreign cash (5.7%) and SDRs with the IMF (0.2%).

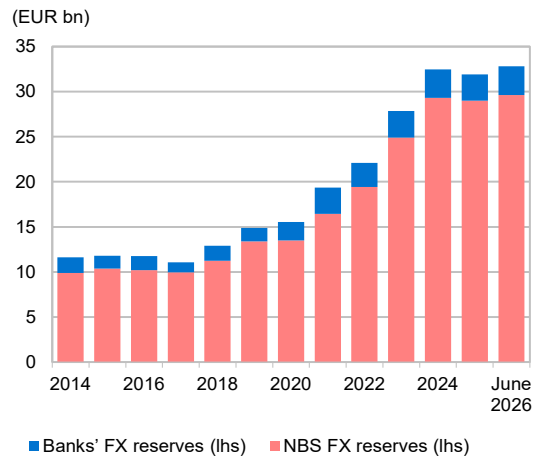
The bulk of FX inflows in H1 2026 came from the sale of the Republic of Serbia's government securities on the international and domestic financial markets, in

[5] Excluding change in FX reserves.

[6] To hedge against FX risk, a hedging transaction was executed immediately after the auction, converting the liability from the dollar eurobond issue into a euro liability.

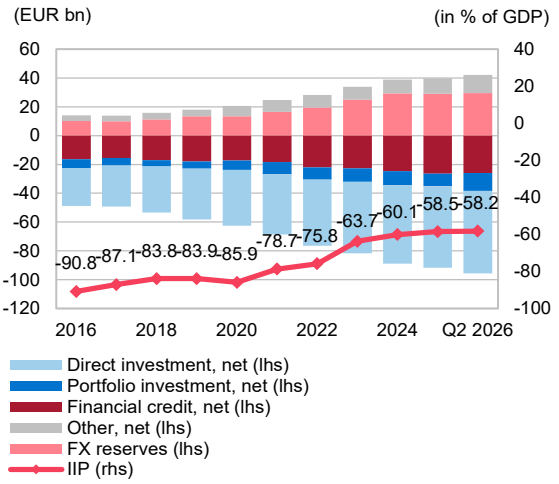
[7] Without currency changes, changes in the market value of securities or the price of gold.

Chart III.2.2 **FX reserves**



Source: NBS.

Chart III.2.3 **International investment position**



Source: NBS.

the total amount of EUR 3,109.7 mn. Larger inflows also came from banks' FX reserve requirement (EUR 540.9 mn net), the collection of interest and coupons on bonds (EUR 216.6 mn), payment transactions with Kosovo and Metohija[8] (EUR 205.2 mn), and donations (EUR 124.4 mn).

By end-June 2026, the largest outflows 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 2,485.5 mn (of which EUR 897.5 mn is the early repayment of part of the remaining debt under the eurobonds maturing in 2027). Other major outflows included net FX sales by the NBS in the IFEM[9] worth EUR 835.0 mn, as well as the maturing of Serbia's government securities issued on the domestic financial market in the amount of EUR 272.7 mn.

International investment position

Serbia's net international investment position, i.e. the difference between Serbian residents' foreign assets and liabilities, was negative and came at **EUR 53.5 bn** at end-Q2 2026, down by EUR 1.6 bn compared to end-2025. Thanks to economic activity growth in H1, **the share of the negative international investment position in estimated GDP dipped by 0.3 pp to 58.2%**.

Within foreign financial assets, which amounted to EUR 57.0 bn at end-Q2 2026, during the observed period, other investments recorded the largest increase, primarily corporate trade credits and cash and deposits abroad. FX reserves continue to account for more than half of the value of total assets (52%).

Within financial liabilities, which amounted to EUR 110.5 bn at end-Q2 2026, it is positive that **FDIs**, as the most favourable, long-term type of foreign investment, still well exceeds a half of total foreign liabilities (58.0%), while financial loans and portfolio investment made up a smaller share: 23.8% and 13.3%, respectively.

3 Financial market trends

Interest rates

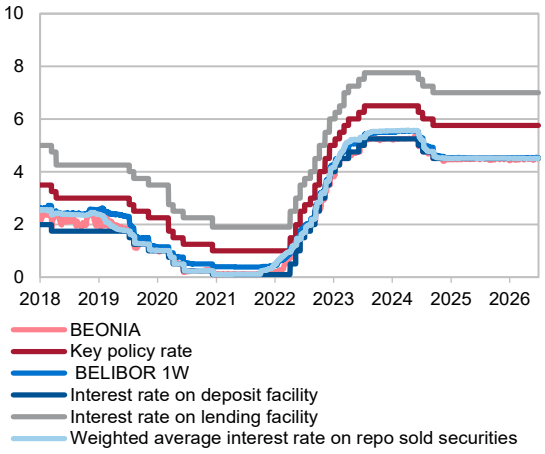
In line with the unchanged level of the NBS key policy rate, interest rates in **the interbank money market** did not record significant fluctuations during H1 2026 and, at the end of June, remained at levels similar to those at the beginning of the year. The overnight interbank interest rate, BEONIA, stood at 4.50%, while BELIBOR interest rates ranged from 4.51% for the shortest maturity to 4.75% for the six-month maturity.

In the **primary market of dinar government securities**, five reopenings of the auction for the sale of 5Y government bonds issued in July 2025 were held during H1 2026, along with the fifth reopening of the auction for the sale of 10.5Y government securities. At

[8] Law on Temporary Payment Operations in the FRY (RS Official Gazette, 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.

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



Sources: Thomson Reuters and NBS.

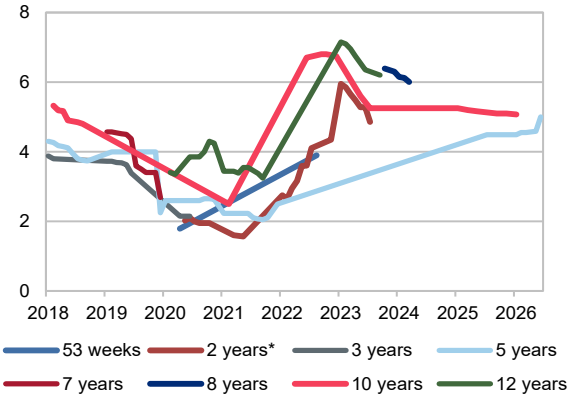
the January auction for the sale of 10.5Y government securities, the remaining planned amount of RSD 11.6 bn was sold (with demand amounting to RSD 15.4 bn) at an effective rate of 5.07%, which was 3 bp lower than at the previous reopening in November 2025. At the four auctions of 5Y bonds held between January and May, government securities were sold in a nominal amount of RSD 72.4 bn, with the effective rate increasing slightly, by 10 bp, to 4.59%. At the final auction in June, bonds were sold in a nominal amount of RSD 27.6 bn, almost three times the planned amount, bringing the total sale size under this bond series to RSD 135 bn, with the yield rate increasing by 41 bp, to 5.00%. The June auction also saw significant participation by non-residents, who purchased around RSD 15 bn and subsequently became net buyers of these securities in the secondary market. Given the simultaneous maturing of previously issued 7Y dinar securities in the amount of RSD 150 bn, the portfolio of dinar government securities declined slightly in H1 2026, amounting to RSD 815.2 bn at end-June.

During H1 2026, an auction was also held for 15Y **euro-denominated government securities**, at which the planned nominal amount of EUR 200 mn was sold (demand was higher, amounting to EUR 222.4 mn) at an effective rate of 5.00%, below the coupon rate of 5.10%. As previously issued 15Y and 10Y securities matured in the amounts of EUR 144.3 mn and EUR 120.0 mn, respectively, the outstanding stock of euro-denominated government securities portfolio decreased to EUR 1,726.9 mn at end-June.

In the secondary market of dinar government securities, turnover increased by RSD 19.2 bn in H1 2026 compared with H2 2025, reaching RSD 128.5 bn. However, almost half of total turnover was recorded on a single day, at the settlement of the June auction of 5Y bonds (with the remaining four-year maturity), when turnover in these securities amounted to RSD 63.8 bn. Part of these transactions was attributable to net purchases by non-residents, as indicated by an increase of around RSD 12 bn in their holdings of dinar-denominated bonds on the settlement date. The average yield on 5Y government securities (with the remaining four-year maturity) in the secondary market was equal to the effective rate at the June primary auction (5.00%). The weighted average yields on government securities with other remaining maturities increased along the yield curve by 30-48 bp, which can partly be attributed to a significant increase in uncertainty in international financial markets due to the war in the Middle East. In June 2026, average yields ranged from 4.78% for securities with the remaining maturity of up to two years to 5.37% for those with the remaining maturity of around nine years.

On 28 April, the Republic of Serbia carried out its first three-tranche eurobond issuance in the international financial market, comprising two euro-denominated tranches and one US dollar-denominated tranche. This was the largest-ever issuance of government bonds by the Republic of Serbia in the international financial market, with a total value of around EUR 3 bn, and the first

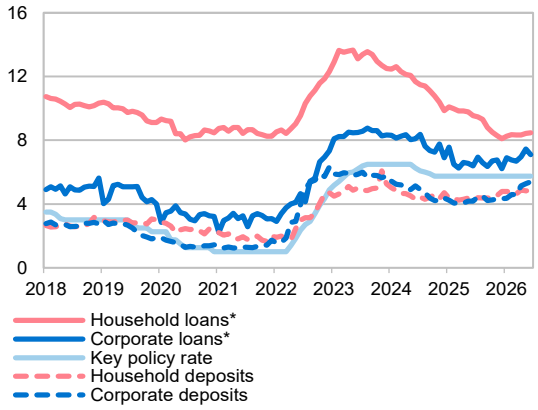
Chart III.3.2 **Interest rates in the primary market of government securities**
(p.a., in %)



Source: Ministry of Finance.

* Excluding coupon securities with the rate linked to the NBS key policy rate.

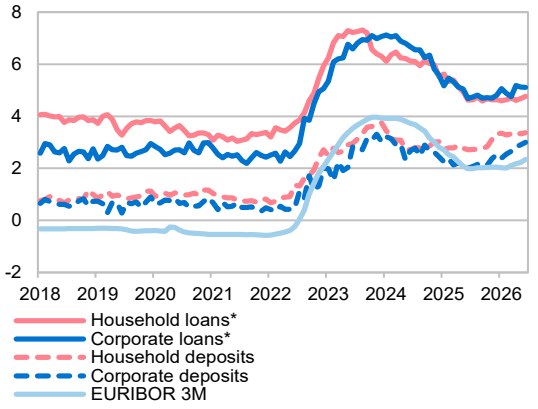
Chart III.3.3 **Interest rates on new dinar loans and deposits**
(weighted average values, p.a., in %)



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

multi-currency issuance since the escalation of the conflict in the Middle East. Two euro-denominated eurobonds, with maturities of 5Y and 12Y, were issued in amounts of EUR 1.0 bn and EUR 900 mn, respectively, at coupon rates of 4.25% and 4.875%, respectively. The 12Y eurobond is also designated as a green bond, meaning that the proceeds from its sale will be used to finance or refinance investments aimed at achieving more sustainable growth. A 10Y US dollar-denominated eurobond was issued in the amount of USD 1.25 bn. Following the issuance, the Republic of Serbia used FX hedging instruments to convert the US dollar-denominated liabilities into euros, thereby reducing the effective borrowing cost of this tranche to 4.66% in euro terms. Investor demand was significantly higher than the amount of eurobonds sold, exceeding EUR 8.0 bn.

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



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

The interest rate on new **dinar-denominated household loans** increased by 0.4 pp in H1 2026, reaching 8.5% in June, driven by an increase in the interest rate on cash loans (by 0.2 pp, to 8.4%). The increase followed a decline in interest rates for this lending category to a historical low at end-2025, prompted by the NBS's supervisory expectations regarding more favourable lending for citizens with monthly income of up to RSD 100,000. Growth was also driven by higher interest rates on other types of dinar household loans, although their share in total dinar-denominated lending is significantly lower. The interest rate on **dinar corporate loans** increased by 0.9 pp, to 7.1% in June. By lending category, the increase was largely driven by interest rates on working capital loans and other uncategorised loans, which rose by 0.7 pp and 1.2 pp, to 6.8% and 7.3%, respectively, given their dominant share in dinar lending to corporates.

During H1 2026, interest rates on new euro-denominated loans increased by 0.2-0.3 pp, in line with the 30-40 bp increase in EURIBOR rates, amid expectations of an increase in ECB interest rates that materialised in mid-June. The interest rate on **euro-indexed household loans** increased by 0.2 pp, to 4.8% in June. This was primarily driven by an increase in the interest rate on other uncategorised loans, by 0.7 pp, to 6.4%. The interest rate on the most prevalent type of euro-indexed household loans, housing loans, remained unchanged at a level below the average interest rate on euro-indexed household lending (4.5% in June). This was supported by the disbursement of subsidised loans on favourable terms under the **"Housing Loans for Youth"** programme. The interest rate on **euro-indexed corporate loans** increased by 0.3 pp during H1 2026, to 5.1% in June, driven by an increase in the interest rate on working capital loans, by 0.6 pp, to 5.1%.

Interest rates on **current account overdrafts and credit card balances**[10] decreased in June 2026 compared with end-2025, by 0.1 pp and 0.3 pp, to 17.0% and 14.4%, respectively. Compared with end-2024, interest rates on these most expensive forms of borrowing decreased significantly, by 10.8 pp and 8.0 pp, respectively, following the application of interest rate caps in accordance with the Law on the Protection of Financial Service Consumers.

[10] According to the interest rate statistics methodology, interest rates on revolving loans, current account overdrafts and credit card debt are not included in the calculation of the average interest rate on household loans.

Interest rates on dinar- and euro-denominated household savings remained almost unchanged at end-H1 2026 compared with end-2025, standing at 4.9% and 3.4%, respectively.

Country risk premium and credit rating

After rising in Q1, driven by heightened global uncertainty amid the escalation of the conflict in the Middle East, **global risk premium** predominantly followed a downward trajectory in the remainder of H1, owing to the relaxation of geopolitical tensions, while its further decline was limited by the ECB's decision to raise its key interest rates at the June meeting.

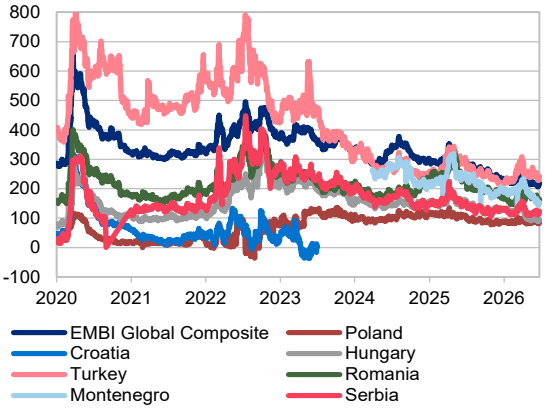
The **composite risk measure for emerging-market dollar-denominated debt, based on the EMBI Composite**, decreased by 13 bp during H1 2026, standing at 218 bp at end-June. At the same time, Serbia's risk premium based on dollar-denominated debt decreased by 8 bp, to 123 bp, and continued to remain significantly below the composite risk measure for emerging markets. The **composite risk measure for emerging-market euro-denominated debt, based on the EURO EMBIG Composite**, decreased by 3 bp during H1 2026, standing at 145 bp at end-June, while Serbia's risk premium based on euro-denominated debt increased by 8 bp, to 167 bp.

By neighbouring countries, the risk premium on euro-denominated debt increased in Turkey during H1 (by 54 bp to 201 bp at end-June), while it decreased in Hungary (by 37 bp to 110 bp at end-June), Montenegro (by 24 bp to 169 bp at end-June), and Poland (by 8 bp to 81 bp at end-June). At the same time, the risk premium on euro-denominated debt remained almost unchanged in Croatia and Romania.

In January and July 2026, Fitch Ratings maintained Serbia's sovereign credit rating at *BB+*, with a positive outlook for achieving investment-grade rating. According to the agency's assessment, the key factors underlying this decision were sound economic policies – primarily responsible management of public finances and an increase in FX reserves – as well as higher GDP per capita compared with the average for countries with the same credit rating. In addition, the positive outlook for a rating upgrade reflects the fact that economic growth will be driven by investment under the "Leap into the Future – Serbia EXPO 2027" programme, alongside a continued decline in public debt and strengthening of the external position.

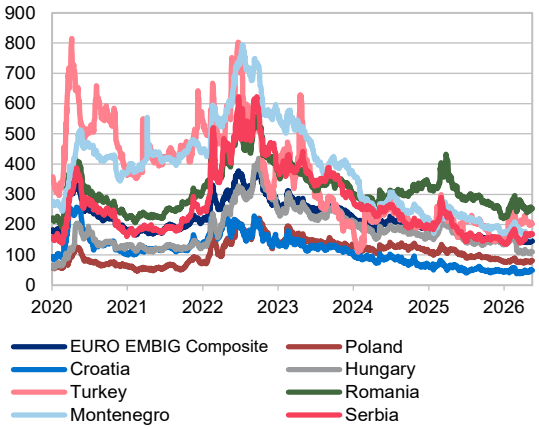
In late February, Moody's Ratings maintained Serbia's sovereign credit rating at *Ba2,* while changing the rating outlook from positive to stable. The agency stated that Serbia's credit rating is supported by a strong fiscal position and a declining public debt trajectory, as well as by a reduction in fiscal risks associated with state-owned enterprises, to which reforms in the energy sector have contributed significantly. The agency also highlighted that the arrangement with the IMF contributes to maintaining the country's overall macroeconomic stability. Although the rating outlook

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



Source: JP Morgan.
Note: The latest available data are available as at 24 June 2026.

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



Source: JP Morgan.

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

	2021	2022	2024		2026
S&P	BB+ /positive[7)]	BB+ /stable[4)]	BB+ /positive[3)]	**BBB- /stable[6)]**	
Fitch			BB+ /positive[5)]		
Moody's	Ba2 /stable[2)]		Ba2 /positive[5)]		Ba2 /stable[1)]

Source: NBS.
[1)] February, [2)] March, [3)] April, [4)] June, [5)] August, [6)] October, [7)] December.
Note: There was no change in rating/outlook in 2023 and 2025.

was changed from positive to stable due to heightened political and geopolitical risks, the press release notes that economic fundamentals have remained preserved, while the fiscal and financial position has been further strengthened.

4 Money and loans

Monetary aggregates M1, M2 and M3

The y-o-y growth in the **M3 money supply** accelerated at end-H1 2026 compared with end-2025 (6.56% in December), reaching 9.04% in June. The increase was predominantly driven by dinar time deposits and FX deposits of corporates and households, whose y-o-y growth accelerated. Conversely, growth in the most liquid monetary aggregate, M1, slowed due to more moderate growth in currency in circulation and corporate demand deposits.

By individual category, **demand deposits** decreased by RSD 49.3 bn in H1 2026. The decline resulted from a seasonal decrease in corporate transaction deposits, primarily in the construction, wholesale and retail trade, and services sectors. In contrast, household transaction accounts recorded an increase.

Dinar-denominated time deposits increased by RSD 45.7 bn during H1 2026, driven almost equally by an increase in corporate deposits (in the manufacturing and construction sectors) and dinar savings of households, which reached a new record high of RSD 227.5 bn in June.[11]

FX deposits increased by EUR 1.5 bn in H1 2026, with the largest part of the increase recorded in Q1. The increase was driven almost equally by FX savings of residents, which rose by EUR 0.7 bn, reaching a new record high of EUR 16.1 bn in June,[12] and FX deposits of corporates, primarily in the manufacturing sector.

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

	2025	June 2026	Changes in H1 2026
Net foreign assets	**3,153,040**	**3,242,665**	**89,625**
Bank net foreign assets	-265,514	-249,807	15,706
Net domestic assets of the banking sector	**2,348,854**	**2,403,670**	**54,816**
Net domestic loans	4,252,349	4,359,069	106,720
Net claims on government	141,926	-23,525	-165,450
Government loans	975,521	936,856	-38,665
Government deposits	-833,595	-960,381	-126,786
Loans to other resident sectors	4,110,424	4,382,593	272,170
Loans to households	1,941,975	2,110,955	168,980
Loans to the corporate sector	2,024,545	2,113,037	88,492
Loans to other financial corporations	71,213	81,688	10,475
Loans to local authorities	71,660	76,153	4,494
Loans to non-profit and other organisations	1,031	761	-270
Other net assets	-1,903,496	-1,955,399	-51,904
Money supply M3	**5,501,894**	**5,646,334**	**144,441**
Money supply M2	2,874,126	2,844,360	-29,765
Money supply M1	2,179,608	2,104,111	-75,497
Currency in circulation	430,183	404,025	-26,158
Sight deposits	1,749,424	1,700,085	-49,339
Dinar savings and term deposits	694,518	740,250	45,732
FX deposits	2,627,768	2,801,974	174,206

Source: NBS.

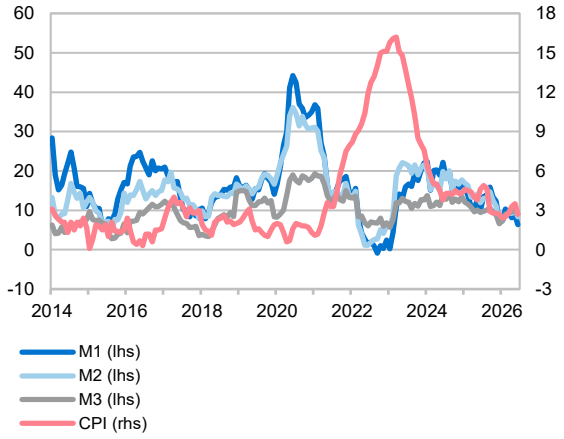
From the assets side, during H1 2026, banks' claims on non-government sectors increased, driven by higher claims on households and corporates. In contrast, lower net claims on the government had an offsetting effect, owing to a significant increase in government deposits with the NBS, as well as the government's net deleveraging vis-à-vis domestic banks following the maturity of government securities. Net claims on the rest of the world increased, supported by an increase in the NBS's FX reserves, as well as by a larger increase in banks' claims on the rest of the world in the form of currency and deposits than in their foreign borrowing.

Bank loans

Total domestic loans to the non-monetary sector recorded relatively high y-o-y growth in H1, which, after excluding the effect of exchange rate changes,[13]

[11] Money supplies include only resident assets. Including the assets of non-residets, dinar savings amounted to RSD 230.3 bn at end-June.
[12] Including non-resident assets, FX savings equalled EUR 16.9 bn.
[13] Calculated at the new programe exchange rate, as at 30 September 2024.

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



Sources: SORS and NBS.

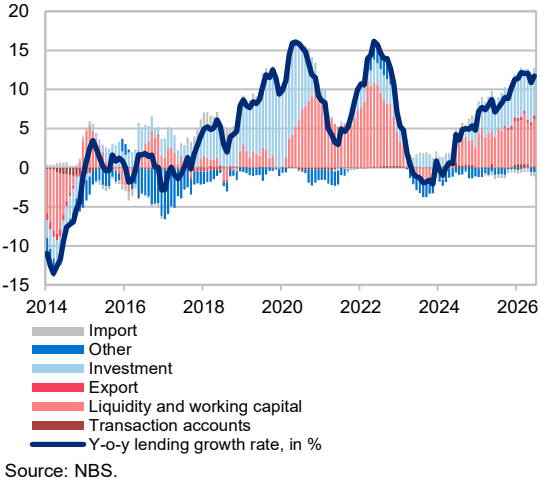
measured 16.6% in June (vs. 15.4% in December 2025). Credit activity accelerated its y-o-y growth through April, while a slight slowdown followed in the subsequent months, under the influence of a high base effect. This growth was driven by **household lending**, whose y-o-y increase measured 20.0% in June, followed by **corporate lending**, which was 11.7% higher in June than a year earlier.

Thanks to the high disbursement in June, **corporate loans** increased by RSD 94.6 bn in H1, excluding the effect of exchange rate fluctuations. Loan growth was entirely attributable to corporate borrowing (RSD 113.8 bn) and was driven by the disbursement of liquidity and working capital loans (RSD 64.4 bn) and investment loans (RSD 37.6 bn). Borrowing through current accounts also increased, while corporate liabilities under other uncategorised loans and import loans decreased. These developments resulted in an increase in the share of liquidity and working capital loans in total corporate loans by 1.0 pp during H1, to 48.3% in June, with their y-o-y growth accelerating to 12.5%, while the share of investment loans decreased by 0.2 pp, to 43.2%, with their y-o-y growth accelerating to 14.6%. By sector, during H1, the highest increase in borrowing was recorded by enterprises in construction, real estate and trade, while only enterprises in agriculture and energy sectors reduced their borrowing. More than three-fifths of the increase during H1 referred to loans extended to micro, small and medium-sized enterprises. As a result, the share of loans channelled to this segment in total corporate loans increased to 60.7% in June, and their y-o-y growth accelerated to 12.6%.

The volume of new corporate loans amounted to RSD 725.5 bn in H1, 14.2% more than in the same period of 2025. The increase was primarily driven by higher disbursement of liquidity and working capital, and investment loans, which, with the shares of 61% and 25%, respectively, were also the most prevalent among newly approved loans. At the same time, almost two-thirds of investment loans and slightly less than half of liquidity and working capital loans were directed to the micro, small and medium-sized enterprise segment.

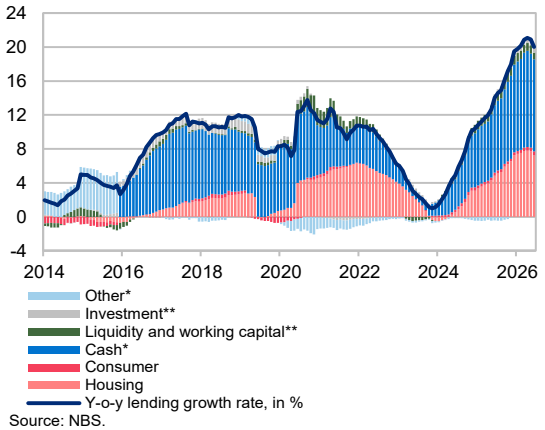
Household loans increased by RSD 167.3 bn in H1, driven by growth in cash loans (RSD 91.2 bn) and housing loans (RSD 56.3 bn). In addition, household borrowing through consumer loans and current accounts increased, while credit card liabilities decreased. Apart from previously eased credit standards, relatively favourable interest rates and banks' promotional offers, the high level of household loan disbursements was also supported by measures enabling more favourable borrowing terms for lower-income households. Further, the growth in housing loans was supported by the approval of loans under the youth housing loan programme, which accounted for around 44% of the increase in housing loans in H1. The high level of cash loan disbursements resulted in an increase of 0.6 pp in the share of these loans in total household loans during H1, to 48.0% in June, while the share of the second-largest category, housing loans, decreased by 0.4 pp, to 37.8%. Both cash and housing loans slowed their y-o-y growth in Q2, under the influence of a high base effect, coming at 23.2% and 19.0%, respectively, in June.

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



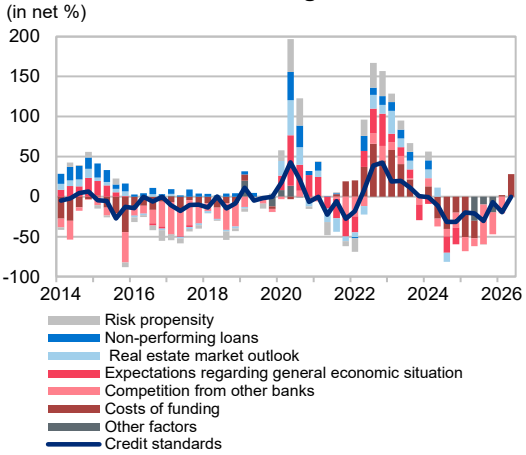
Source: NBS.

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



Source: NBS.
* Including the contribution of receivables under transaction accounts, credit cards and other non-categorised loans, and until December 2015 also the contribution of cash loans.
** Loans extended to entrepreneurs.

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



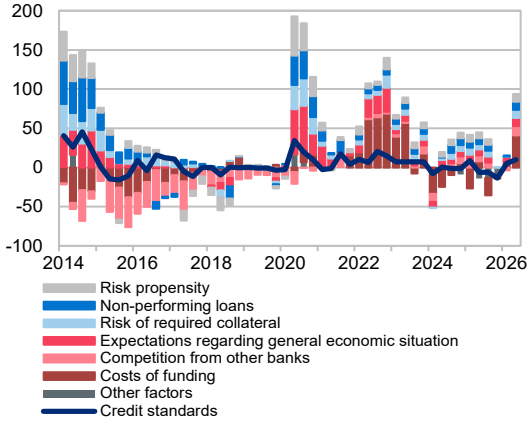
Source: NBS.
Note: Growth indicates the tightening, and decline indicates the easing of credit standards.

The volume of new household loans amounted to RSD 596.5 bn in H1, up by 22.5% y-o-y, primarily owing to a higher volume of new cash and housing loans. Cash loans were the most prevalent, accounting for 68% of new household loans, followed by housing loans, with a share of 19%.

The results of the NBS Bank Lending Survey show that banks tightened credit standards for corporates in H1, across enterprises of all sizes. According to banks' assessment, the tightening of credit standards was driven by higher funding costs for loans, inter-bank competition, risk perception and readiness to take risk. On the other hand, household credit standards remained largely unchanged, except that, under the influence of competition, banks eased standards for dinar cash and refinancing loans in Q1. Overall, banks assessed that corporate loan demand decreased in Q1. Contraction of demand was driven by lower investment financing needs, while financing of working capital worked in the opposite direction. Conversely, corporate loan demand increased in Q2, with working capital and investment financing needs contributing equally. In H1, households increased their demand for consumer loans, dinar cash and refinancing loans, as well as FX-indexed housing loans. According to banks' assessment, this was driven by the need to refinance the existing loans, real estate purchases, purchase of durable consumer goods and higher wages.

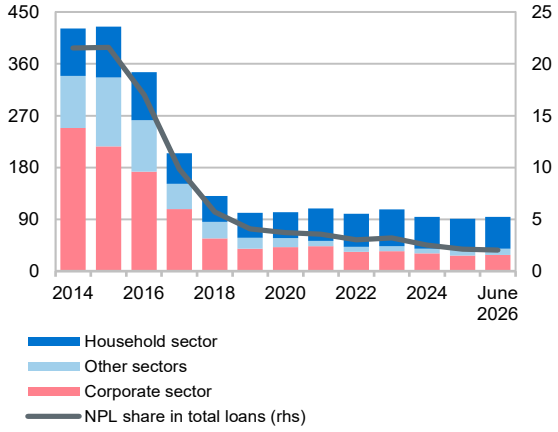
Gross **NPL ratio** dropped to its new low of 2.0% in June. Looking at H1, the NPL ratio for the household

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.4.6 **NPL share in total loans, gross principle**
(RSD bn) (in %)



Source: NBS.

sector[14] went down by 0.1 pp to 2.6% in June, while remaining unchanged for the corporate sector (1.4%)[15]. NPL coverage remained high as allowances for impairment of total loans measured 110.9% of NPLs in June and allowances for impairment of NPLs – 61.7% of NPLs.

The capital adequacy ratio at end-H1 measured 20.05%, indicating high capitalisation (regulatory minimum -8.0%) and resilience of the banking sector to external and domestic risks.

5 Dinarisation indicators

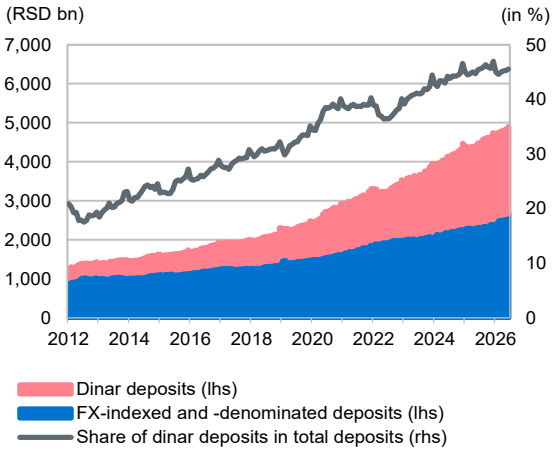
The NBS remains committed to ensuring low and stable inflation, preserving the relative stability of the exchange rate and financial system stability, as well as implementing measures and activities that contribute to strengthening confidence in the dinar and greater use of the dinar in the domestic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

As regards the measures of the NBS that contribute to greater dinarisation of the financial system, following the monetary policy easing in the previous period, the key policy rate remained unchanged in H1, which continues to enable relatively favourable borrowing in dinars, without exposure to FX risk. At the same time, it is important to note that the ECB tightened its monetary policy in June 2026, which has contributed to higher interest rates on euro-denominated loans and a narrowing of the interest rate differential between interest rates on dinar loans and euro-denominated loans, which also supports greater dinarisation of lending.

The increase in the dinarisation of lending to corporates is also supported by an NBS measure that has been in effect since the beginning of 2025, under which banks are required, when calculating capital adequacy, to reduce the capital amount if the share of certain categories of loans to the non-financial and non-governmental sector, as well as FX-denominated securities, exceeds the specified threshold (71% in 2025, 64% in 2026, 57% in 2027, and 50% thereafter). This incentivises banks to approve more dinar loans.[16]

The NBS continued to encourage banks to make greater use of dinar sources of funding through its required reserve policy as well. Namely, required reserve ratios on dinar sources are still significantly lower than those on FX sources, while the NBS continues to pay interest to banks only on allocated dinar required reserves, but not on allocated FX required reserves.

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



Source: NBS.

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

As regards the development of FX hedging instruments, the NBS continued to conclude bilateral FX swap purchase/sale transactions with banks.

The result of the NBS's measures and activities is that the degree of dinarisation, according to most relevant indicators, has been on the rise and is significantly higher compared with 2012, when the implementation of the Dinarisation Strategy began.

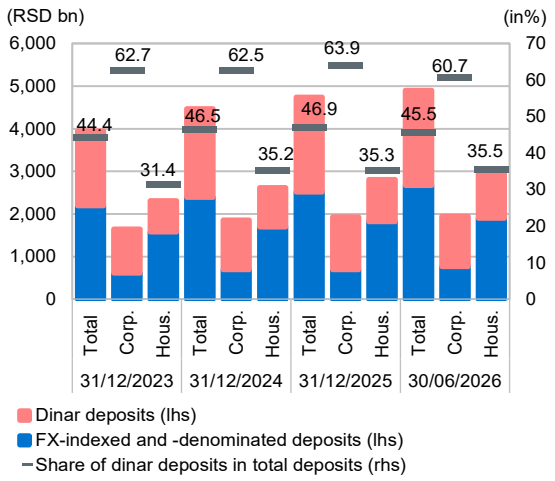
The most significant progress has been achieved in the area of deposit dinarisation of households and corporates. At end-June 2026, this indicator stood at 45.5%, slightly below the record high of 46.9% at end-2025 and unchanged from the same month of 2025, while being significantly higher than at end-2012 (by 26.2 pp).

[14] Including natural persons, entrepreneurs and private households.

[15] Including companies and public enterprises. Looking at companies only, the share of NPLs in total loans also decreased, by 0.1 pp to 1.5% in June.

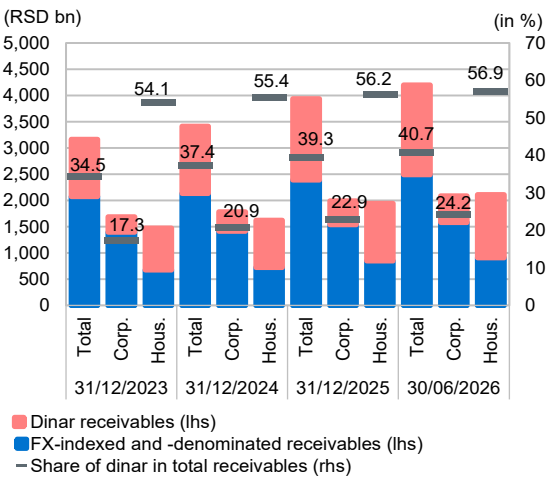
[16] Decision on Capital Adequacy of Banks (RS Official Gazette, Nos 103/2016, 103/2018, 88/2019, 67/2020, 98/2020, 137/2020, 59/2021, 67/2022, 137/2022, 48/2023, 110/2023, 102/2024, 41/2025, 70/2025, 101/2025 and 104/2025 – correction).

Chart III.5.2 **Deposits by sector**



Source: NBS.

Chart III.5.4 **Receivables by sector**

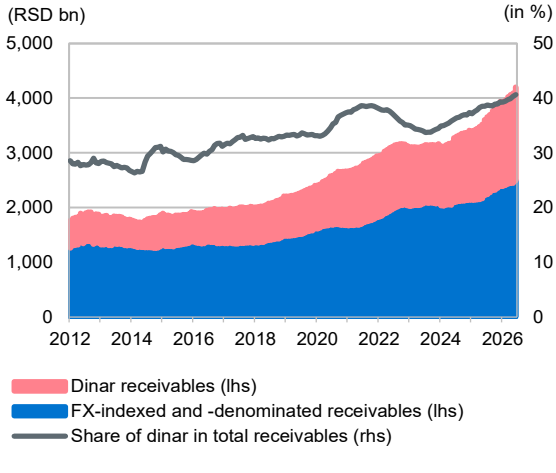


Source: NBS.

Given the importance of household deposits as a particularly significant source of funding for lending activity in the banking sector, **it is particularly notable that the degree of dinarisation of household deposits has been on a long-term upward trend**. **At end-June 2026, this indicator stood at 35.5%**, slightly below the record high of 35.6% posted in September 2025, but it has continued to trend upwards, with the increase being particularly significant compared with end-2012 (by 26.7 pp).

The continued growth in dinar savings also contributes to greater dinarisation of household deposits. Despite the prevailing geopolitical tensions, this growth accelerated significantly in H1 2026 compared with the end of the previous year, so that dinar savings continued to reach record high levels. At end-June, they amounted to RSD 230.3 bn, which was RSD 24.2 bn (11.7%) more than at end-2025 and thirteen times (i.e. RSD 212.5 bn) higher than at end-2012. FX savings also continued to rise, but at a significantly more moderate pace than dinar savings, so that the share of dinar savings in total savings has been gradually increasing and, in H1 2026, exceeded 10% for the first time (standing at 10.4% at end-June), significantly above the 1.9% recorded at end-2012.

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 60.7% at end-H1 2026, which was slightly lower than the record high posted at end-2025 (by 3.2 pp), but was still significantly higher than at end-2012 (by 17.9 pp). The decline in this indicator in H1 was associated with a decrease in companies' account balances, which was more pronounced in dinar deposits than in FX deposits.

The dinarisation of receivables from corporates and households gradually increased in the first six months of 2026, continuing the upward trend in this indicator observed since mid-2023. At end-June 2026, this indicator stood at 40.7%, which was 1.4 pp higher than at end-2025, while the increase was more pronounced compared with June 2025 (2.2 pp) and end-2012 (10.5 pp). The increase in the dinarisation of receivables was recorded both for corporates and households. For corporates, this indicator increased by 1.4 pp in H1, to 24.2%, its highest level in the past eleven years. The rise in this indicator was associated with stronger growth in dinar lending to corporates compared with the approval of FX loans.

The degree of dinarisation of household receivables continued to increase gradually, rising by 0.4 pp in

H1 to 56.9%. This reflects the continued growth in cash loans, which are generally approved in dinars, and more moderate growth in housing loans, which are most commonly extended with an FX clause.

6 Real estate market

In H1 2026, **the real estate market recorded an increase in value, turnover and prices** compared with H1 2025.

According to data from the Republic Geodetic Authority, the total number of contracts on real estate transactions in H1 2026 amounted to 61,308, which was 0.6% more than in H1 2025. The total value of turnover in the real estate market in H1 this year amounted to EUR 4.2 bn, which was 9.6% higher than in the same period of the previous year.

Housing market activity, measured by the number of purchase and sale transactions (23,377 contracts), declined by 1.5% in H1 2026, while the market value of housing transactions amounted to around EUR 2.5 bn, an increase of 11.6% y-o-y.

Data from the Republic Geodetic Authority point to a continued **increase in apartment prices**. In Q2 2026, the y-o-y growth rate of apartment prices, measured by the Apartment Price Index, stood at 5.25% for the Republic of Serbia. In Belgrade, the prices increased by 5.65% y-o-y in Q2. At the level of the Republic of Serbia as a whole, prices of old apartments increased by 5.98% y-o-y, while the prices of new apartments, i.e. purchases from investors, increased by 3.86% y-o-y.

The number of real estate properties purchased through loans increased by around 13% in H1 2026 compared with H1 2025, accounting for 33% of the number of apartments purchased. The growth in housing loans was also supported by loans granted under the government's housing loans for young people programme, which, according to our data, accounted for 44% of the increase in housing loans in H1 2026.

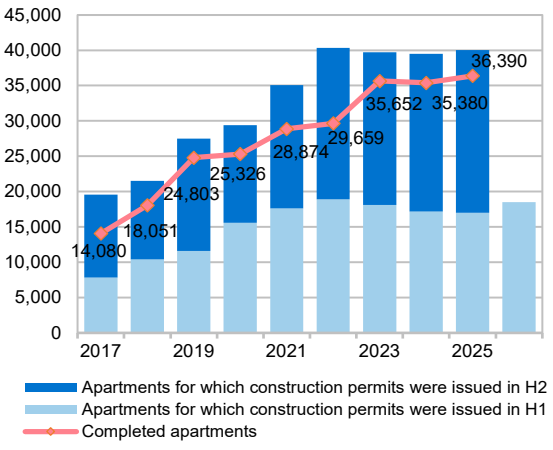
According to SORS data, the total number of issued construction permits for buildings in H1 2026 (11,016) increased by 5.2% y-o-y, while the number of permits for apartments (18,517) was 9.0% higher y-o-y. The projected value of total construction works performed also increased, amounting to RSD 345 bn for buildings, which was 40.4% higher y-o-y.

7 Inflation expectations

Short-term inflation expectations of the financial sector continued to move within the target band in 2026, for the third consecutive year, while medium-term expectations have remained within the target band for a longer period, testifying to the adequacy of the NBS's monetary policy measures.

According to the results of the Ninamedia surveys, **one-year ahead inflation expectations of the financial sector** stood at 3.0% from January to March, their lowest level since August 2021. Following the movement of y-o-y inflation, these expectations edged up to 3.6% in June, before declining to 3.5% in July. The individual responses of almost all financial institutions regarding expected inflation were within

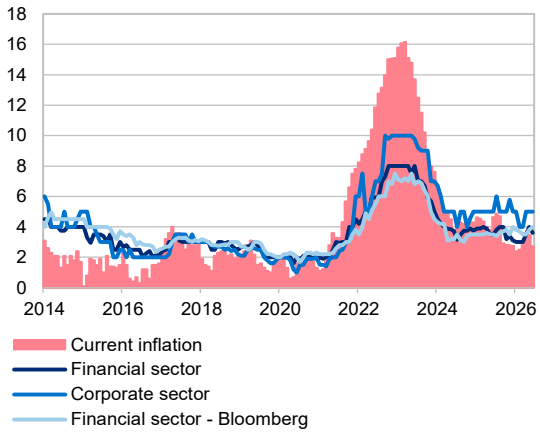
Chart III.6.1 **Number of issued construction permits and completed apartments**



Source: SORS.

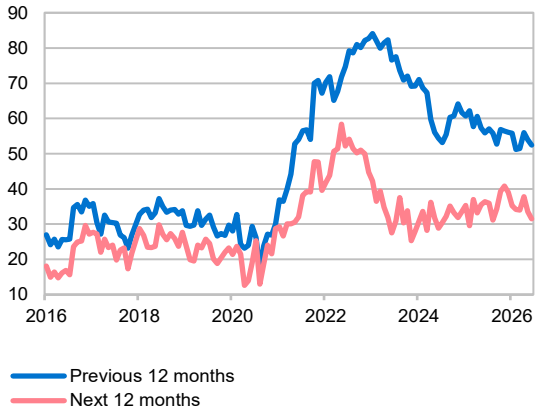
Chart III.7.1 **Current inflation and one-year ahead inflation expectations***

(y-o-y rates, in %)



Sources: Gallup/Ipsos/Ninamedia, Bloomberg and NBS.

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



Sources: Gallup/Ipsos/Ninamedia and NBS.

the NBS target tolerance band. According to the results of the **Bloomberg** survey, one-year ahead inflation expectations of the financial sector ranged between 3.5% and 4.0% in H1, averaging 3.7%.

One-year ahead inflation expectations of the corporate sector stood at 4.0% in February and March, while in the rest of H1 they measured 5.0%, remaining at this level in July. In the short term (over the next three months), the majority of respondents expected the prices of inputs and final products and services to remain unchanged, while over a one-year horizon they expected the prices of final products and services to increase.

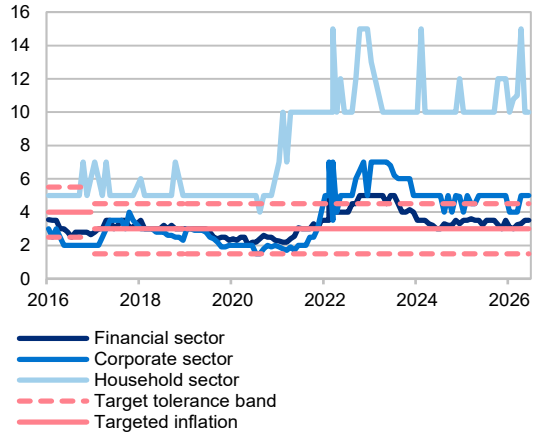
Short-term one-year ahead inflation expectations of the household sector declined in June, from 15.0% to 10.0%, their lowest level since June 2024. The decline in short-term expectations was probably influenced by lower food prices amid a bumper harvest, particularly of fruit and vegetables. According to the results of the qualitative survey, households expect inflation in the coming twelve months to be lower than the inflation estimated over the previous twelve months, as indicated by the index of expected inflation, which stood at 31.5 points in June, below the index of perceived inflation (52.5 points).

Inflation expectations of the financial sector for two and three years ahead moved within the NBS target band in H1, ranging from 3.0% to 3.5%, and were reduced to the midpoint of the target, 3% in July. **Corporate sector expectations for both periods** ranged from 4.0% to 5.0%, and have been anchored at 5.0% since April. **Household inflation expectations** for two and three years ahead stood at 10.0% in June, as they did for most of H1, and remained at this level in July.

8 Fiscal trends

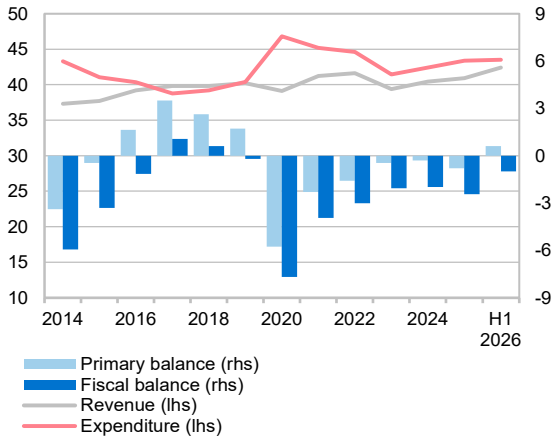
In January–June 2026, a **fiscal deficit** of RSD 55.8 bn (around 1% of GDP) was recorded while the primary balance recorded a surplus of RSD 31.4 bn. The share of central government public debt in GDP stood at 43.3% in June 2026, down by 1.1 pp from end-2025.

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



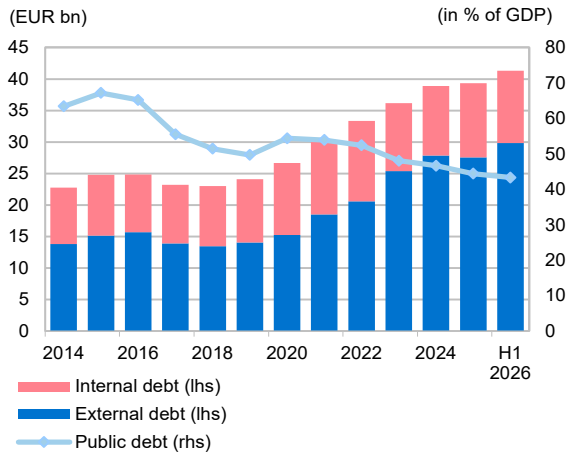
Sources: Ipsos/Ninamedia and NBS.

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



Source: Ministry of Finance.

Chart III.8.2 **Public debt***



Source: Ministry of Finance.
* Central government.

Public revenues increased by 8.6% y-o-y in real terms in the first six months of 2026, primarily driven by higher wage-related tax revenues (income tax and social contributions), owing to continued real wage growth, supported by higher public sector wages and the increase in the minimum wage. Wage growth, along with a certain contribution from increased household lending, translated into continued growth in private consumption and, consequently, VAT receipts. Higher non-tax revenues and corporate profit tax revenues, reflecting higher corporate profitability in 2025 (up by 10.9% compared with 2024) made a somewhat smaller contribution. By contrast, the reduction in excise duties on petroleum products resulted in lower tax revenues, with this measure being temporary in nature. **Public expenditures** increased by 10.1% in real terms, owing to higher public sector wages and pensions, as well as the broader coverage of wage expenditures in the general government sector. Capital expenditures, expenditures on goods and services, as well as other current expenditures and subsidies also contributed to the increase, albeit to a somewhat lesser extent and with a similar effect.

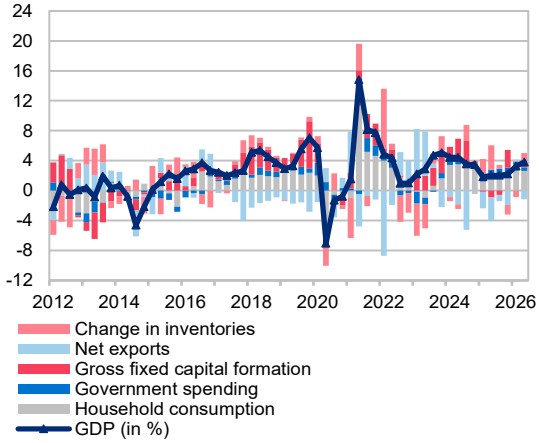
When making monetary policy decisions, the Executive Board took into account that, following an approximately neutral fiscal impulse[17] in 2025, fiscal policy in the current year would be moderately expansionary, but that no significant inflationary impact on this account is expected, given that the announced stimulus measures aimed at consumption, payments to pensioners and adult citizens from the action fund have a one-off effect, and that the measures reducing excise duties were undertaken precisely to prevent stronger second-round inflationary effects.

9 Aggregate demand

Economic growth equalled 3.5% y-o-y in H1 2026 (with GDP growth accelerating from 3.2% in Q1 to 3.8% in Q2). Growth in household disposable income, relatively favourable financing conditions and a gradual recovery in investment activity supported the domestic demand, which was the main driver of economic growth in H1. Private consumption made the largest positive contribution, while fixed investment also contributed positively to growth. By contrast, the contribution of net exports at the H1 level was negative, as the positive contribution in Q1 was reversed in Q2 due to faster real growth in imports than in exports of goods and services.

Private consumption increased by 4.4% y-o-y in H1 (providing a 2.8 pp contribution to GDP growth in H1), driven by its main source – the wage bill, which increased by 10.6% y-o-y in nominal terms in H1 (or 7.4% y-o-y in real terms). At the same time, pensions increased by 12.2% y-o-y in nominal terms in H1 (9.0% y-o-y in real terms). More favourable lending conditions, resulting from the past monetary policy easing by the NBS and the ECB, provided additional support to household consumption through growth in loans intended for consumption, which recorded double-digit y-o-y growth of 22.7% in H1.

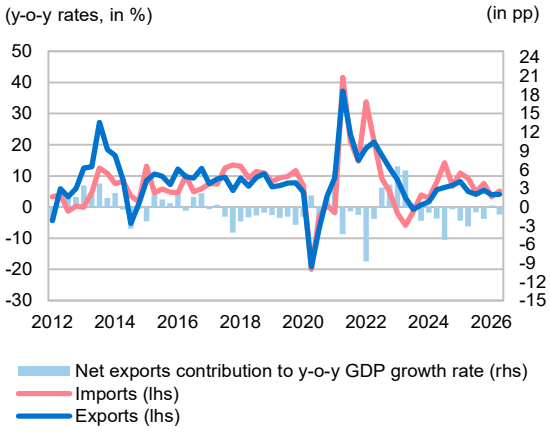
Chart III.9.1 **Contributions to y-o-y GDP growth rate − expenditure side**
(in pp)



Sources: SORS and NBS calculation.

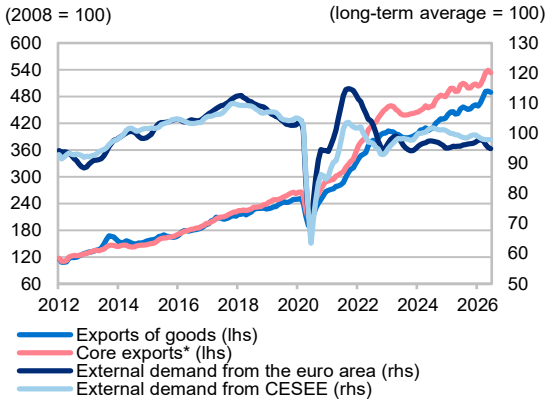
[17] The fiscal impulse is measured as the change in the cyclically adjusted primary balance of the general government sector relative to the previous period (in pp of potential GDP), with a positive value indicating an expansionary effect of fiscal policy.

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



Sources: SORS and NBS calculations.

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.

In addition, household remittances amounted to EUR 2.8 bn in H1, up by 17.7% compared with the same period of the previous year. Further growth in private consumption is indicated by retail trade turnover, which increased by 7.2% y-o-y in H1, as well as by the increase in catering turnover (8.9% y-o-y in January–May) and higher imports of consumer goods, which rose by 2.2% y-o-y, also supported by the increase in household disposable income. In addition, the number of domestic tourist arrivals increased by 8.1% in H1, while the number of overnight stays rose by 4.6% compared with the same period of the previous year.

Government consumption rose by 3.7% y-o-y in H1, thus continuing to make a positive contribution to GDP growth (0.6 pp in H1), driven by higher expenditures for employees in the public sector, as well as for purchases of goods and services. These developments resulted in total consumption increasing by 4.3% y-o-y in H1.

Total fixed investment increased by 1.8% y-o-y in H1, contributing 0.4 pp to GDP growth. The continuation of investment activity growth is indicated primarily by data on construction – the value of works performed, the number of issued construction permits and imports of construction materials. In addition, H1 saw an 11.2% y-o-y rise in the production of capital goods, as well as a 9.3% increase in the production of machinery and equipment.

As regards the sources of investment financing, we estimate that most private investment was financed from own sources, thanks to the high profitability of companies achieved in previous years (in 2025, the Serbian economy recorded a positive net financial result of RSD 957 bn, up by close to 11% from the previous year). In addition, FDI inflow amounted to EUR 1.2 bn in H1, while investment loans increased by 14.7% y-o-y. At the same time, government capital expenditures increased by 13.0% y-o-y in nominal terms in H1.

The increase in inventories of products contributed 0.2 pp to GDP growth in H1.

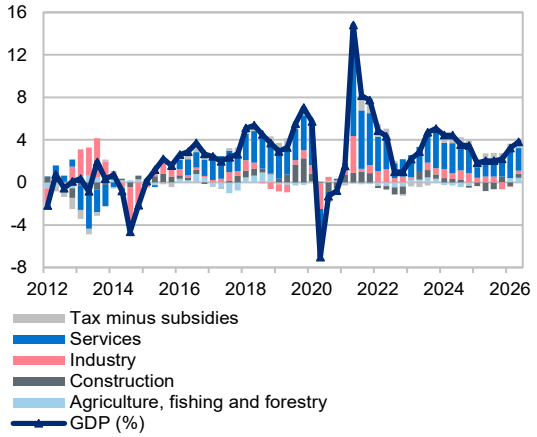
Real exports of goods and services went up by 4.0% y-o-y in H1, despite still relatively weak external demand. Export activity was supported primarily by the growth in production capacities in certain branches of manufacturing, as well as favourable developments in services exports. At the same time, **real imports of goods and services** increased by 4.3% y-o-y. As the rate of real export growth was somewhat lower than the rate of import growth, **net exports** made a negative contribution of -0.5 pp to GDP growth at the H1 level.

10 Economic activity

Economic activity went up by 3.5% y-o-y in H1. GDP growth was driven by service sectors, while, unlike in the previous period, all production sectors also made a positive contribution to GDP growth.

Growth in **service sectors**, taken together, accelerated to 4.1% y-o-y in H1 (from 3.0% in H2 2025), contributing 2.3 pp to GDP growth in H1. The rise is indicated primarily by data on trade and tourism, as real retail trade turnover increased by 7.2% y-o-y in H1, while the number of tourist arrivals and

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



Sources: SORS and NBS calculation.

overnight stays in H1 went up by 6.6% and 5.0% y-o-y, respectively. The rise in the ICT sector is also indicated by the continued increase in exports of this group of products, which grew by 5.2% y-o-y in H1, despite a high base.

The growth in **industrial production** amounted to 0.6% y-o-y in H1, driven by increased activity in **manufacturing**, where the volume of production rose by 1.8% y-o-y in H1. Production went up in 12 out of a total of 24 manufacturing branches, with particularly strong growth recorded in the production of motor vehicles, at 47.1% y-o-y, which may be associated with the acceleration of serial production of electric vehicles in Kragujevac. The recovery in production at the NIS refinery in Q2 had a positive impact on activity in the chemical industry, where the volume of production increased by 7.1% y-o-y in H1.

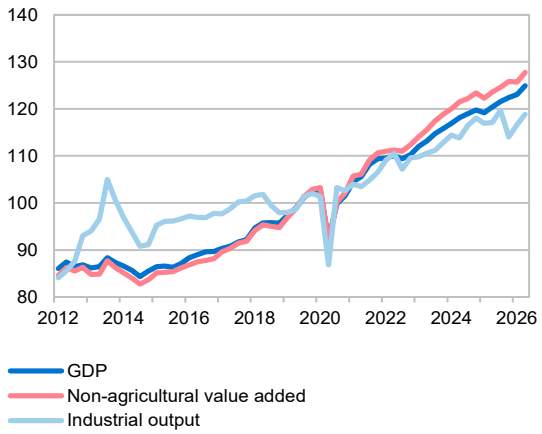
The production of machinery, electrical equipment, and rubber and plastic products also made a significant positive contribution. The largest negative contribution came from lower production of metal products and clothing. On the other hand, despite the recovery in Q2, **mining** recorded a 0.7% y-o-y decline in activity at the H1 level, owing to lower coal extraction and reduced activity in the "other mining" sector, which includes the extraction of gravel, sand and stone. In addition, **electricity** generation dropped by 4.2% y-o-y, partly due to adjustments to the implementation of the Carbon Border Adjustment Mechanism (CBAM) and partly due to the reduced hydropower potential.

Construction activity increased by 0.3% y-o-y in H1, making a negligible positive contribution to economic activity, with uneven developments during H1. Following weaker activity in Q1, as indicated by lower production of construction materials and activity in "other mining", a strong recovery followed in Q2, supported by an increase in the value of construction works performed. At the H1 level, the value of construction works performed went up by 1.1% y-o-y, the number of issued construction permits by 7.7% y-o-y, while imports of construction materials increased by 2.3% y-o-y.

Net taxes increased by 4.3% y-o-y in H1, contributing 0.7 pp to GDP growth.

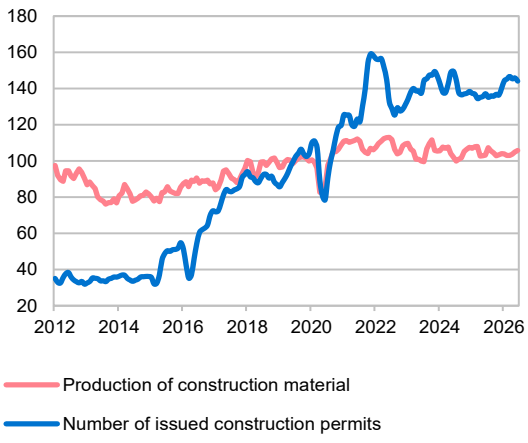
Agricultural production went up by 11.9% y-o-y in H1, contributing around 0.4 pp to GDP growth. The growth in agricultural production was supported by higher wheat and early fruit production, as well as the assumed recovery in corn and soybean yields from the

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



Sources: SORS and NBS calculations.

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



Sources: SORS and NBS calculations.

low levels recorded in the previous year, which should offset the reduction in sown areas. Nevertheless, given the relatively unfavourable weather conditions since late July and their impact on corn and industrial crop yields, the growth in agricultural production for 2026 as a whole could be somewhat lower than in H1.

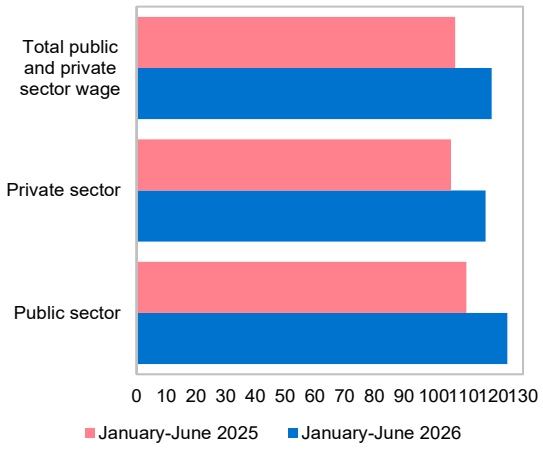
Given that domestic economic outturn in H1 was more favourable than we expected in May, in August we raised our projection of GDP growth for 2026 from 3.0% to 3.2%. Considering the still present geopolitical tensions, the continuation of the conflict in the Middle East, volatile movements in global oil and other energy prices, and uncertainty regarding external demand, we kept our GDP growth projection for 2027 unchanged at 4.5%. In the medium term, we expect the effects of temporary factors to fade and economic growth to settle at a more stable pace – around the potential level of about 3.5% p.a.

11 Wages and employment

The labour market in H1 2026 was characterised by continued real wage growth, a moderate decline in formal employment, alongside a simultaneous decrease in registered unemployment and the unemployment rate, which reached its lowest level on record.

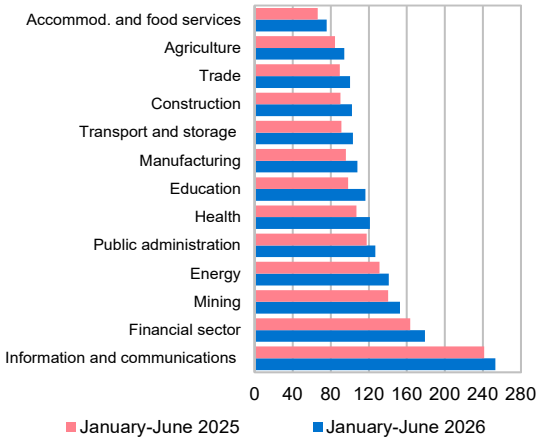
The nominal net wage averaged RSD 119,469 (EUR 1,018) in H1, which was 11.5% higher (8.4% in real terms) than in the same period last year, with private sector wages going up by 11.0% and those in the public sector by 12.4%. The median and minimum wage rose by 12.4% y-o-y and 20.5% y-o-y, respectively, averaging RSD 93,161 and RSD 63,812, respectively.

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



Source: SORS.

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



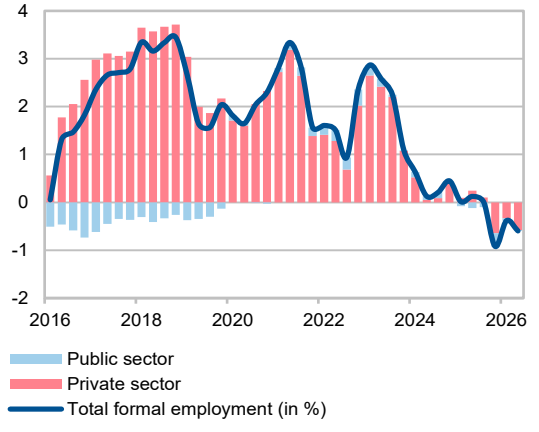
Source: SORS.

By activity, average nominal wages recorded the largest y-o-y increases in H1 in education and catering.

The total nominal net wage bill, which is the main source of consumer demand, increased by 10.6% y-o-y in H1, entirely as a result of the rise in average wages. According to the NBS estimate, **overall economic productivity** was higher by 4.0% y-o-y in H1, reflecting economic growth amid somewhat lower employment.

Total formal employment averaged around 2.36 mn persons in H1, according to data from the SORS, which was 0.5% lower than in the same period last year. Compared with H1 2025, the total formal employment was lower by around 12 thousand, with the decline in the number of employees of legal entities (around 12 thousand persons) and individual farmers (around

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



Source: SORS and NBS calculations.

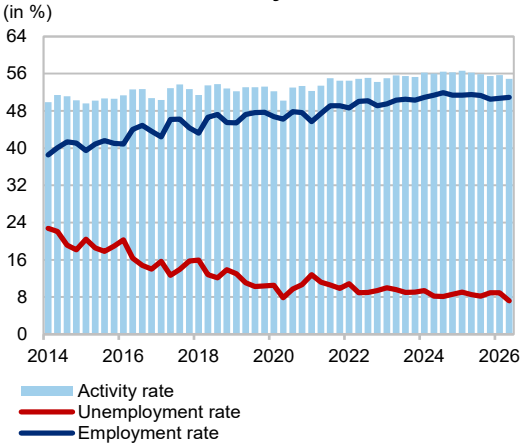
four thousand persons) partly offset by an increase in the number of employees of entrepreneurs (around four thousand persons).

Private sector formal employment averaged 1.74 mn persons in H1 2026, around 11 thousand fewer than in the same period of the previous year. Observing dominantly private sector activities, employment declined the most on average in manufacturing and trade, while the largest increase was recorded in professional, scientific, innovation and technical sectors, as well as administrative and auxiliary sectors. In contrast, **public sector formal employment** was around one thousand persons lower than in the same period of the previous year, with the decline entirely attributable to the lower number of employees in public administration, while employment increased in education and healthcare.

According to the records of the National Employment Service, **registered unemployment** stood at 333,804 persons in June, around 11 thousand fewer than a year earlier, reaching a new record low since we have statistically comparable data.

Data from the **Labour Force Survey,** which covers both the formal and informal segments of the labour market, indicate a slight decline in the main activity and employment indicators in Q2 compared with the same period of the previous year, alongside a decline in the unemployment rate to a historical low. The participation rate of the working-age population (aged 15–64) stood at 72.1%, while the activity rate (aged 15 and over) stood at 54.9%, down by 2.5 pp and 1.3 pp y-o-y, respectively. At the same time, the employment rate declined by 0.6 pp, to 50.9%. The unemployment rate dropped by 1.3 pp, to its lowest level on record of 7.2%. The number of unemployed persons in absolute terms was also at its lowest recorded level, at 220,200, representing a decrease of 46,800 persons y-o-y.

Chart III.11.4 **Labour market indicators under the Labour Force Survey***



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

Index of charts and tables

Charts

II.1.1	Movement in the key policy rate and average repo rate	8
II.2.1	Stock of repo sold/bought NBS securities	9
II.2.2	Volume of sterilisation by monetary policy instruments	10
II.2.3	Dinar exchange rate and NBS transactions in the FX market	10
II.3.1	Headline and core inflation	11
II.3.2	Contributions of CPI components to y-o-y inflation in H1 2026	12
III.1.1	Projections of real GDP in 2026 and outturns in 2025	13
III.1.2	Real GDP growth in the euro area and the USA during H1 2026	13
III.1.3	Real GDP growth in Germany and Italy in H1 2026	14
III.1.4	Real GDP growth in CESEE countries in H1 2026	14
III.1.5	Projection of average annual inflation in 2026 and outturn in 2025	15
III.1.6	Policy rates across selected countries	16
III.1.7	Yields on ten-year bonds of euro area countries and the USA	17
III.1.8	Exchange rates of selected national currencies against the dollar	18
III.1.9	World gold and oil price movements	18
III.1.10	Movement in prices of natural gas, thermal coal and mineral fertilisers	19
III.1.11	World primary commodity price index	19
III.2.1	Structure of the financial account	20
III.2.2	FX reserves	22
III.2.3	International investment position	22
III.3.1	Interest rate movements	23
III.3.2	Interest rates in the primary market of government securities	23
III.3.3	Interest rates on new dinar loans and deposits	24
III.3.4	Interest rates on new euro and euro-indexed loans and deposits	24
III.3.5	Risk premium indicator for dollar debt − EMBI	25
III.3.6	Risk premium indicator for euro debt − EURO EMBIG	25
III.4.1	Monetary aggregates and consumer prices	27
III.4.2	Contributions to y-o-y corporate lending growth	27
III.4.3	Contributions to y-o-y household lending growth	28
III.4.4	Change in corporate credit standards and contributing factors	28
III.4.5	Change in household credit standards and contributing factors	28
III.4.6	NPL share in total loans, gross principle	28
III.5.1	Share of dinar deposits in total corporate and household deposits	29
III.5.2	Deposits by sector	30
III.5.3	Share of dinar receivables in total corporate and household receivables	30
III.5.4	Receivables by sector	30
III.6.1	Number of issued construction permits and completed apartments	31
III.7.1	Current inflation and one-year ahead inflation expectations	31
III.7.2	Inflation perceived and expected by households	32
III.7.3	Two-year ahead inflation expectations	32

III.8.1 Fiscal and primary balance of general government budget 32
III.8.2 Public debt 33

III.9.1 Contributions to y-o-y GDP growth rate − expenditure side 33
III.9.2 Exports and imports of goods and services 34
III.9.3 Movement of indicators of external demand for Serbian exports 34

III.10.1 Contributions to y-o-y GDP growth rate – production side 35
III.10.2 Economic activity indicators 35
III.10.3 Construction activity indicators 35

III.11.1 Average nominal net wage 36
III.11.2 Average nominal net wage by economic sector 36
III.11.3 Composition of y-o-y growth in formal employment 36
III.11.4 Labour market indicators under the Labour Force Survey 37

Tables

III.2.1 Serbia's balance of payments 20

III.3.1 Credit rating 26

III.4.1 Monetary survey 26

CIP - Katalogizacija u publikaciji
Narodna biblioteka Srbije, Beograd

336.7

***ANNUAL Monetary Policy Report** ... /
National Bank of Serbia. - 2010- . -
Beograd (Kralja Petra 12) : National Bank of
Serbia, 2011 (Beograd : Zavod za izradu
novčanica i kovanog novca Topčider). - 30 cm

Два пута годишње. - Varijantni naslov: Semi-
annual
Monetary Policy Report. - Ima izdanje na
drugom jeziku: Godišnji izveštaj o
monetarnoj politici (Narodna banka Srbije) * =
ISSN 2217-6292
ISSN 2217-6535 = Annual Monetary Policy
Report (National Bank of Serbia)
COBISS.SR-ID 185843468