
WORKING PAPERS

SPECIFICITIES OF FACTORS AFFECTING THE FX MARKET OF THE REPUBLIC OF SERBIA IN 2025

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Specificities of factors affecting the FX market of the Republic of Serbia in 2025

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Abstract: The past few years have witnessed three different crisis episodes which deeply affected the domestic FX market: the coronavirus pandemic of 2020, the geopolitical-energy crisis caused by the escalation of the Ukraine conflict in 2022 and, finally, the depreciation pressures of 2025 fuelled by the deepening of uncertainties related to the operation of the Serbian Oil Company NIS. While differing in their origin and working mechanisms, what these crises hold in common is that they have put to the probe the resilience of the FX market and the effectiveness of economic policies. The paper analyses the factors which affected the movements in the domestic FX market in 2025, the first year after the pandemic 2020 in which the NBS turned out the net seller of foreign currency. The paper underscores the specificities of the factors in play: a considerably lower FX supply by residents, largely prompted by the strong FX demand of natural persons late in the year, as well as high FX demand by non-residents, reaching the highest level since 2017. A particular focus is placed on the period since end-November, when a significant FX demand of natural persons was recorded, as well as on the way the NBS responded in order to help normalise movements in the FX market and maintain a relative stability of the dinar exchange rate.

Key words: FX market, FX interventions, transparency, monetary policy, exchange rate of the dinar

[JEL Code]: F31

Non-technical summary

The paper analyses movements in the FX market of the Republic of Serbia over a six-year period (2020-2026) and the NBS's role within the managed floating exchange rate regime. The managed floating exchange rate regime assumes that the exchange rate of the dinar against the euro is formed in the market, where the NBS can intervene through purchase or sale of foreign currency, to alleviate excessive short-term volatility of the exchange rate, with a view to preventing disturbances that might jeopardise price and/or financial stability.

The paper first indicates the role and importance of FX interventions as an auxiliary monetary policy instrument in conditions of high euroisation and pronounced pass-through effect from the exchange rate to inflation. It further places emphasis on transparency in carrying out and communicating FX interventions, with the comparative analysis showing that the NBS's practice is more transparent than those of the majority of central banks in the region which also intervene in the FX market to a greater or lesser extent.

The analysis of long-term trends points to a clear demarcation between the period concluding with 2016 and the one starting in 2017. While the period until 2016 was marked by the dinar's weakening against the euro and net FX sale by the NBS, as of 2017 the pressures toward the dinar's strengthening became dominant, coupled with the NBS's net FX purchase. In that context, the year 2025 marks a turning point in the buying trend, as the NBS was a net FX seller, for the first time since the pandemic 2020. In 2025, movements in the FX market were rather volatile, with three subperiods coming to the forefront, covered by a detailed analysis in the paper.

The paper places a special focus on the final quarter of 2025, i.e. the period since end-November, when a more substantial FX demand of natural persons was recorded. The NBS's response aimed at normalising the movements in the FX market and maintaining a relative stability of the dinar exchange rate is particularly analysed. The paper shows that these pressures were pronounced, but short-term and of limited volume. While households bought a substantial amount of foreign exchange and foreign cash, there was no withdrawal of deposits from the banking system. On the contrary, total savings went up, signalling the preserved household confidence in the banking system. At the same time, through a combination of FX interventions, timely communication and regulatory and operational measures aimed at unhindered functioning of the exchange market, the NBS managed to soothe psychological pressures and ensure the market's gradual return to its usual course.

Contents:

1 Introduction	52
2 FX interventions as an auxiliary monetary policy instrument.....	53
3 Specificities of working of the factors in Serbia's FX market.....	56
4 Conclusion.....	63
Literature	65

1 Introduction

The contemporary global economy is marked by frequent crisis episodes of varying intensity, whose effects, directly or indirectly, spill over to small and open economies as well. The Republic of Serbia, as an economy with pronounced external trade openness, is not exempt from these processes. The FX market, as one of the key segments of a country's financial system, represents the first channel through which external and internal shocks materialize.

The exchange rate is determined by the laws of FX supply and demand¹, with some of the basic factors impacting the exchange rate formation being a country's macroeconomic indicators, the terms of trade, the interest rate differential, expectations regarding monetary policy, the inflation rate, geopolitics, and sentiment in financial markets. When there is greater demand for a particular currency, its price increases relative to another currency, meaning that the given currency strengthens (appreciates), and vice versa. In economic theory, the foreign exchange market represents the meeting point of real and financial flows between the domestic and international economy².

In times of crisis, disruptions in the global environment are most often transmitted through several main channels. In most cases, these channels operate simultaneously. The first is the **financial** channel, which includes capital movements, changes in risk premiums, and investor behaviour under conditions of increased uncertainty. During crisis periods, there is a marked increase in risk aversion and a flight of capital toward safer assets, which creates depreciation pressure on the domestic currency in small economies. The second channel is the **foreign trade channel**, through which changes in global demand, energy and commodity prices, as well as supply chain disruptions, are directly reflected in export and import flows. A deterioration in terms of trade, and consequently in the foreign trade balance – especially when import prices are rising – increases the demand for foreign currency and creates depreciation pressures. The third channel relates to the **expectations of economic agents**. The foreign exchange market is highly sensitive to risk perception and the credibility of economic policy. Regarding this channel, previous experiences of economic agents – especially of households – have a significant influence, and under such conditions, the impact of psychological factors on their behaviour becomes evident. If there is trust in institutions and the central bank is considered a credible institution, the negative effects of a crisis can be mitigated.

The past few years have been marked by three different crisis episodes with a pronounced impact on the domestic foreign exchange market: the coronavirus pandemic in 2020, the geopolitical-energy crisis triggered by the escalation of the conflict in Ukraine in 2022, and, finally, the depreciation pressures of 2025 fuelled by the heightened uncertainty regarding the

¹ This applies to regimes of floating (fluctuating) or managed floating exchange rates, given that in pegged exchange rate regimes the value of the currency is primarily determined by the decision of the monetary authority (administratively), rather than by the free operation of market supply and demand forces.

² Paul R. Krugman, Maurice Obstfeld, and Marc J. Melitz (2012), "International Economics: Theory & Policy"-9th ed, chapter 14, Addison-Wesley/Pearson.

operations of the NIS company. Although these crises differ in origin and mechanism of impact, their common denominator is that they have tested the resilience of the FX market and the effectiveness of economic policies.

The previous year, 2025, was in many ways exceptional when it comes to movements in the domestic FX market, and the factors influencing these movements (mostly on the **FX demand side**) reached the highest levels observed in the past few years. In 2025, **FX demand exceeded the supply by EUR 405 mn**, which resulted in the NBS being a **net seller of foreign currency** at the annual level **for the first time since the pandemic year of 2020**, in the amount of **EUR 580 mn**. Since 2017, the NBS has faced largely appreciation pressures, i.e. pressures towards the strengthening of the domestic currency against the euro, and over the past nine years, only during two – 2020 and 2025 – did the NBS achieve a net sale of foreign currency, while in the other seven years it was a net buyer of foreign currency for dinars. **Over the nine years, net FX purchases amounted to EUR 11.3 bn.**

This paper aims to explain the NBS's role in the domestic FX market, i.e. FX interventions and their purpose within the NBS's monetary framework and to analyse the specificities of working of the factors in the FX market in prior period, with a special emphasis on depreciation pressures in 2025. The main thesis of the paper is that the intensity and nature of the spillover effects of global crises on the FX market of the Republic of Serbia depend on the structure of external connectedness, the nature of the global shock, and the degree of pre-established macroeconomic stability.

2 FX interventions as an auxiliary monetary policy instrument

According to surveys on central bank FX interventions regularly conducted by the Bank for International Settlements (BIS), although central banks cite different motives for intervening in the FX market, a common feature is the clear distinction between the ultimate and intermediate objectives of interventions. The ultimate goal of interventions is most often the preservation of price and financial stability, while intermediate objectives, such as mitigating excessive exchange rate volatility, are used as an operational mechanism to achieve the ultimate goals.

This understanding of the role of FX interventions is fully applicable to Serbia, where, **due to the pronounced pass-through effect of the exchange rate on inflation and the relatively high degree of euroization, exchange rate stability is an important element in maintaining macroeconomic stability.** In this context, the NBS's interventions in the FX market do not represent an alternative to the inflation-targeting regime, but rather a complementary instrument aimed at limiting short-term exchange rate fluctuations and preventing unwanted second-round effects on inflation expectations, price and financial stability.

BIS survey results show that FX interventions are most often a response to undesirable conditions in the financial system, such as sudden changes in risk aversion, declines in liquidity, and deteriorating market sentiment – factors that are also relevant for the domestic FX market. Under such circumstances, the goal of interventions is not to maintain a specific

exchange rate level, but to prevent excessive volatility that could undermine the effectiveness of the monetary policy transmission mechanism.

Reducing excessive exchange rate volatility has proven to be an optimal intermediate objective for achieving the ultimate goal of price stability in conditions similar to those present in Serbia. Increased exchange rate volatility can influence the pricing policies of economic agents, raise import-driven inflation, and weaken the monetary policy transmission mechanism. In this sense, the practice of the NBS aligns with contemporary theoretical and empirical findings, which recognize foreign exchange interventions as a legitimate and effective supplementary instrument within an inflation-targeting regime in developing countries.

2.1 Compatibility of FX interventions with the inflation targeting regime

The global financial crisis (2007/08) highlighted that developing countries are particularly exposed to volatile capital flows and external shocks that do not necessarily originate in the domestic economy. Sudden exchange rate changes in these economies carry significantly greater risks than in developed countries, primarily due to limited protection of the economy against foreign exchange risk and greater exposure to this type of risk in balance sheets, which can turn a domestic currency depreciation into a serious financial and macroeconomic problem. For this reason, central banks of developing countries attach great importance to exchange rate stability, in addition to maintaining price stability.

Although inflation targeting has been adopted as the dominant monetary regime due to its ability to anchor inflation expectations, the literature raises questions about its compatibility with FX interventions (e.g. Ito 2007; Ostry etc. 2019; Adler, Chang and Wang 2020). The classical approach assumes that the key policy rate should respond exclusively to deviations of inflation from the target, even in situations where such a policy may lead to excessive exchange rate fluctuations and negative effects on financial stability. The resulting view is that inflation targeting is not compatible with FX interventions, because a single instrument cannot achieve multiple objectives simultaneously. However, **under conditions of limited financial integration, high euroization, and increased sensitivity to capital flows, FX interventions represent an important supplementary monetary policy instrument in developing and emerging countries.** By combining the key policy rate with FX market interventions, central banks in developing and emerging countries can more effectively achieve their primary objective: maintaining low and stable inflation.³

The experiences of the global financial crisis have further encouraged the adoption of an approach that involves using a broader set of instruments to maintain macro-financial stability. Although excessive central bank activity in the FX market entails certain costs, contemporary practice and theory indicate that relying on a single instrument is not an adequate response in conditions of complex and interconnected risks.

³ D. Hofman, M. Chamon, P. Deb, T. Harjes. U. Rawat and I. Yamamoto (2020), „*Intervention Under Inflation Targeting - When Could It Make Sense?*“, IMF Working Paper 20/09.

2.2 NBS's interventions in the FX market

Interventions in the FX market represent an **auxiliary instrument** in the implementation of the NBS's monetary policy. Considering the long-standing experience of businesses and households with high inflation (including the hyperinflation at the end of the 20th century), as well as numerous devaluations of the dinar exchange rate, Serbia remains a highly euroized country, characterized by a high level of euro-indexed loans⁴, predominant euro savings and *de facto* expression of prices of some goods in euros (real estate market, automobile market and markets of other products with relatively high prices⁵).

Given the still high level of Serbian economy's euroisation, the exchange rate stability bears high importance for the preservation of general financial stability in Serbia. The NBS thus monitors and analyses movements in the domestic and international financial markets, and in order to alleviate short-term fluctuations in the dinar exchange rate, intervenes in both directions, as needed – both on the sale and demand side, depending on FX supply and demand in the domestic FX market. Additionally, daily volumes of NBS interventions depend on intensity and nature of pressures on the dinar's exchange rate against the euro, with the main goal to buffer (reduce daily volatility) and an additional to maintain an adequate level of FX reserves.

2.3 Transparency regarding the publishing of data related to FX market interventions

The transparency in conducting and communicating monetary policy is one of the key elements of central banks' credibility and an important channel impacting the shaping of expectations of economic agents⁶. In the context of the FX market, **a clear and regular communication about interventions can contribute toward reducing the information asymmetry, alleviating uncertainties and preventing panic reactions**, especially in periods of heightened market turbulence⁷. In this way, transparency acts as a complementary instrument to the very conduct of FX interventions, amplifying their effectiveness and signalling role.

The NBS applies a relatively high degree of transparency regarding the disclosure of data on FX interventions. Within regular monthly releases on the stock and flow of FX reserves and activities in the interbank FX market, in mid-month the NBS publishes data on FX net purchase or net sale during the previous month and cumulative amounts since the start of the

⁴ Currency (euro) indexed loans that are approved and repaid in dinars, but the amount of borrower's liabilities and receivables of the creditor bank are expressed in a foreign currency (euro).

⁵ The applicable Trade Law of the Republic of Serbia stipulates that prices on the domestic market are expressed in dinars, with narrowly defined exceptions (certain tourist services, vehicle trade, and specific cases provided for by special regulations).

⁶ A.S. Blinder, M. Ehrmann, M. Fratzscher, J. de Haan, and D. Jansen (2008), „*Central Bank Communication and Monetary Policy: A Survey of Theory and Evidence.*”, ECB Working Paper Series No. 898.

⁷ P. Chiu (2003), „*Transparency versus constructive ambiguity in foreign exchange intervention*“, BIS Working Paper No. 144.

year. The continuous publishing of monthly data enables market participants to timely grasp the general direction and intensity of central bank activities in the FX market, whereby information asymmetry between monetary authorities and all participants in the FX market is reduced.

A comparative analysis of the practices of central banks in Central, Eastern, and Southeastern Europe indicates that the **degree of transparency regarding FX interventions is limited in most cases**⁸. The Czech central bank is an exception, as it publishes monthly data on spot foreign exchange market transactions with a time lag of just over one month. On the other hand, the central banks of Hungary, Poland, and Romania do not have a practice of publishing data on FX interventions. In some cases, such as in Poland, the public is informed on the day of the intervention only about its direction, without quantitative data, while some central banks, like the National Bank of Romania, do not release any information about interventions at all, not even with a time lag. A moderately more transparent approach is applied by the Bank of Albania, which publishes data on interventions on a quarterly basis, but with a lag of one quarter.

Viewed in this context, it can be concluded that **the NBS's practice** regarding the regular and clear publication of data on FX interventions **is more transparent compared to most central banks in the region**, which, to a lesser or greater extent, intervene in the foreign exchange market. The NBS's approach contributes to strengthening the credibility of monetary policy, stabilizing expectations, and reducing the risk of excessive and unwarranted market reactions, especially under conditions of heightened uncertainty. Transparency proved to be a particularly important mechanism during 2025, as timely communication about the activities of the NBS and the set of measures and instruments aimed at the FX market directly contributed to easing psychological pressures and stabilizing movements in the domestic FX market.

3 Specificities of working of the factors in Serbia's FX market

In order to understand the specificities of working of individual factors in Serbia's FX market, it is useful to clearly distinguish between two periods, from 2010 to 2016, and from 2017 onwards, which essentially differ both by dominant macroeconomic movements and the nature of pressures on the dinar exchange rate and the NBS's role in the FX market. In analysing the long-term movements of the dinar exchange rate against the euro, it is important to consider the period from 2010 until the end of 2016, which was characterized by the recovery from the global financial crisis, the outbreak of the sovereign debt crisis in the euro area, and the implementation of fiscal consolidation. This period was marked by the dinar's depreciation against the euro and throughout most of it, the NBS was a net FX seller in the FX

⁸ The analysis was conducted by the author, based on a systematic search and qualitative review of the official online presentations of central banks of the countries observed (available press releases, reports, and statistics related to FX interventions).

market. In the given period, the dinar depreciated against the euro by 22.3% (from RSD 95.89 to RSD 123.47 for 1 euro), and the NBS net sold EUR 4.8 bn in the FX market (Table 1).

Table 1 The exchange rate of the dinar against the euro, the nominal change in the exchange rate and NBS's interventions in the period 2010-2016

Year	Exchange rate	Nominal change in the dinar's value against the euro	NBS interventions in the FX market*
2009	95.8888		
2010	105.4982	-9.1%	-2,333
2011	104.6409	0.8%	-45
2012	113.7183	-8.0%	-1,343
2013	114.6421	-0.8%	180
2014	120.9583	-5.2%	-1,620
2015	121.6261	-0.5%	520
2016	123.4723	-1.5%	-160
Total		-22.3%	-4,802

* in EUR mn (+ purchase / - sale); net amount.
Source: NBS.

Fiscal consolidation carried out from 2014 to 2017 resulted in a fiscal balance and significant improvement in macroeconomic indicators. Following an average fiscal deficit of around 5% of GDP in the period 2010–2015, Serbia achieved an almost balanced fiscal outcome between 2016 and 2019, with an average surplus of 0.1% of GDP. At the same time, alongside accelerated economic growth (an average growth rate of 3.6%, compared with 0.9% in 2010–2015), the share of public debt in GDP was significantly reduced – from around 70% in 2015 to 51.9% in 2019.

Fiscal discipline was maintained in the subsequent period, with the exception of the pandemic years 2020 and 2021, so that the fiscal deficit up to 2025 did not deviate significantly from the Maastricht criterion, while the share of public debt in GDP continued to decline, reaching 43.4% in November 2025. In parallel, foreign trade imbalances also narrowed, with the current account deficit falling from almost 11% of GDP in 2012 to below 3% of GDP in 2016, partly aided by the depreciation of the dinar exchange rate. Although external imbalances widened again from 2017 onwards, the current account deficit was fully covered by FDI inflows, which recorded continuous growth since 2012 and reached a record-high level in 2024 (EUR 4.6 bn net, or EUR 5.2 bn gross). These processes marked a **key turning point, whereafter the fundamental characteristics of the factors affecting the FX market**, as well as the role of the exchange rate in the overall macroeconomic framework, changed. Alongside the improvement in macroeconomic indicators and bolstered financial stability, the NBS maintained low and stable inflation during this time (except for the period of the global inflationary shock associated with rising energy prices and the escalation of the Ukraine conflict), largely supported by a relatively stable dinar exchange rate.

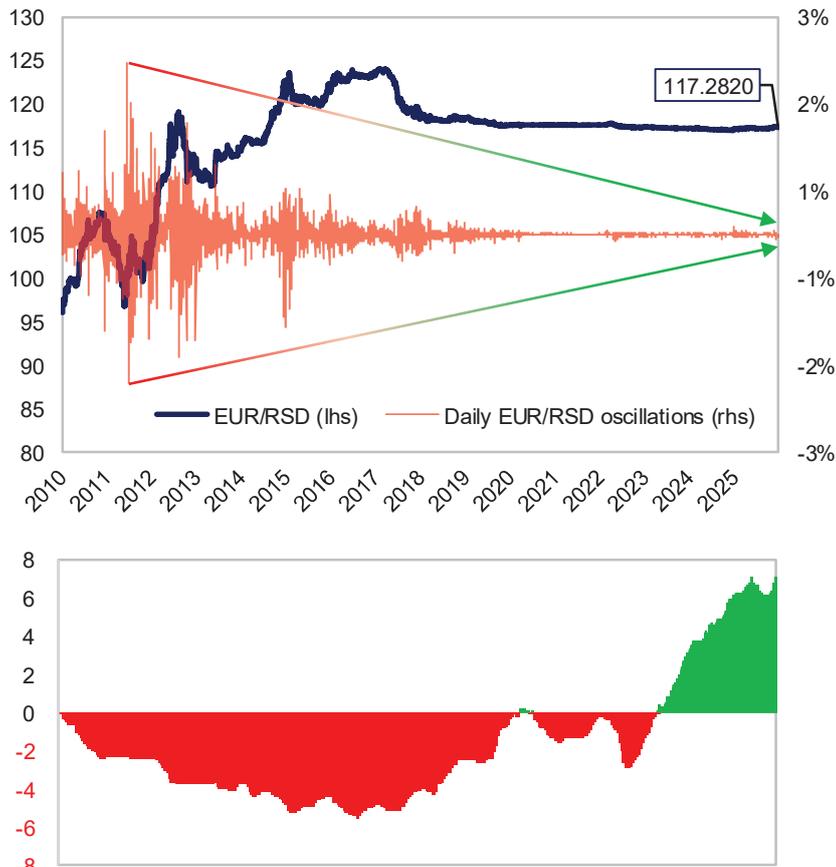
Since 2017, the NBS has mostly faced appreciation pressures, i.e. the dinar has been gaining ground against the euro. Over the past nine years, the NBS carried out net FX sales only in 2020 and 2025, while in the other seven years it was a net buyer of FX for dinars. **During these nine years, net FX purchases amounted to EUR 11.3 bn, with the dinar appreciating by 5.3% against the euro (Table 2).**

Table 2 Dinar-euro exchange rate, nominal exchange rate changes, and NBS interventions in the period 2017–2025

Year	Exchange rate	Nominal change in the dinar's value against the euro	NBS interventions in the FX market*
2017	118,4727	4.2%	725
2018	118,1946	0.2%	1,580
2019	117,5928	0.5%	2,695
2020	117,5802	0.0%	-1,450
2021	117,5821	0.0%	645
2022	117,3224	0.2%	1,000
2023	117,1737	0.1%	3,940
2024	117,0149	0.1%	2,725
2025	117,2820	-0.2%	-580
Total		5.3%	11,280

* In EUR mn (+ purchase / - sale); net amount.
Source: NBS.

Chart 1 Movements of the dinar-euro exchange rate and daily exchange rate fluctuations (upper panel) and cumulative amount of NBS FX interventions (in EUR bn; lower panel)



Sources: NBS, author's calculations.

An additional argument for clear differentiation between these two periods is the **performance of the dinar exchange rate in terms of volatility**. While the period from 2010 to 2016 was characterised by increased daily volatility and gradual depreciation, from 2017 onwards there has been a marked reduction in short-term fluctuations, alongside persistent appreciation pressures on the dinar (Chart 1). It is important to note that the past five years were marked by three distinct crisis episodes, each having a significant impact on the domestic FX market: the Covid-19 pandemic in 2020, the geopolitical and energy crisis triggered by the Ukraine war in 2022, and, finally, 2025, which was marked by depreciation pressures amid deepened uncertainty regarding the future operations of NIS, following the sanctions imposed on the company by the US administration.

3.1 Factors influencing the dinar exchange rate in 2025

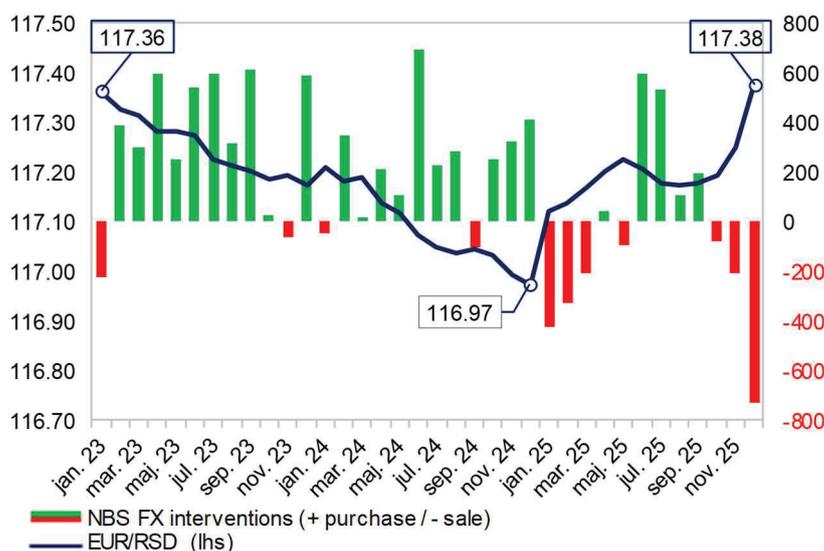
The year 2025 was, in many respects, specific in regard to developments in the domestic FX market, and the factors influencing these developments – largely affecting the **FX demand** side – reached their highest levels in recent years. In 2025, **FX demand exceeded supply by EUR 405 mn**, resulting in the **NBS being a net FX seller for the first time since the pandemic year 2020**, at an annual level of **EUR 580 mn**.

The beginning of 2025 was marked by heightened challenges for the Serbian economy. In January 2025, the US Office of Foreign Assets Control (OFAC) of the Department of the Treasury added NIS to its sanctions list as part of measures targeting the Russian company Gazpromneft and the Russian Federation. The sanctions did not take immediate effect but were postponed several times, until early October 2025, when OFAC declined to extend the licence for NIS operations, resulting in the full application of sanctions on the company due to its majority Russian ownership.

In this environment, 2025 saw a turning point in FX market developments. The new circumstances reversed the trend present since 2017, during which the NBS predominantly purchased FX in the domestic market to prevent excessive strengthening of the dinar. **In 2023 and 2024 alone, the NBS net purchased EUR 6.7 bn**, with the **amounts bought in these two years being the first and second largest ever recorded**. The main drivers of these developments were improved macroeconomic indicators and favourable balance-of-payments trends, particularly record FDI inflows, but also inflows from exports, remittances, and tourism. These factors, combined with the country's increased resilience to shocks, contributed to Serbia receiving an investment-grade credit rating from Standard & Poor's in October 2024, which was also recognised by other rating agencies and international institutions.

Following such developments during 2023 and 2024, **the NBS was a net FX seller in 2025 for the first time since the pandemic year 2020, at EUR 580 mn, while the dinar nominally weakened by 0.2% against the euro**. Regarding the factors affecting the domestic FX market and the dinar exchange rate in 2025, three sub-periods can be identified:

Chart 2 **Movements of the dinar-euro exchange rate and NBS FX interventions in 2023–2025** (monthly average EUR/RSD exchange rate and net amount of NBS interventions for the given month)



Source: NBS.

- **January–May 2025:**

Expected seasonal⁹ depreciation pressures due to increased energy imports were intensified by the **news of the introduction of sanctions on NIS early in the year**, along with additional growth in FX demand to replenish energy stocks. During this period, FX supply from other domestic companies was lower, partly due to a reduced FDI inflow amid the NIS situation, heightened global trade and geopolitical tensions, and weaker investment sentiment because of the domestic socio-political situation in the country. **Elevated FX demand** was also noted from **households** and non-residents (foreign banks and other financial institutions, companies).

All these factors acted in concert, reinforcing depreciation pressures, while the NBS played a more active role in the FX market, intervening with net sales of EUR 1 bn during the first five months.

- **June – end-September 2025:**

This period was characterised by **appreciation pressures on the dinar**, although uncertainty regarding the final outcome of the NIS sanctions continued to influence the behaviour of economic agents. Appreciation pressures arose primarily from **stepped-up euro-indexed lending to businesses and households**, aided considerably by subsidised housing loans for young people, as well as greater FX supply from domestic companies, with reduced FX demand from energy-importing companies also playing a role. **By mid-July, in just a month and a half, the NBS offset the net FX sales from the first five months and moved**

⁹ In general, the first and fourth quarters of each year have a seasonal character due to the heating season and the increased FX need for energy imports. The fourth quarter is also characterised by the payment of dividends/profits by foreign-owned banks and companies.

into net purchases. During this four-month period, the NBS net purchased EUR 1.43 bn, including banks' foreign cash from natural persons and authorised exchange dealers.

- **Q4 2025:**

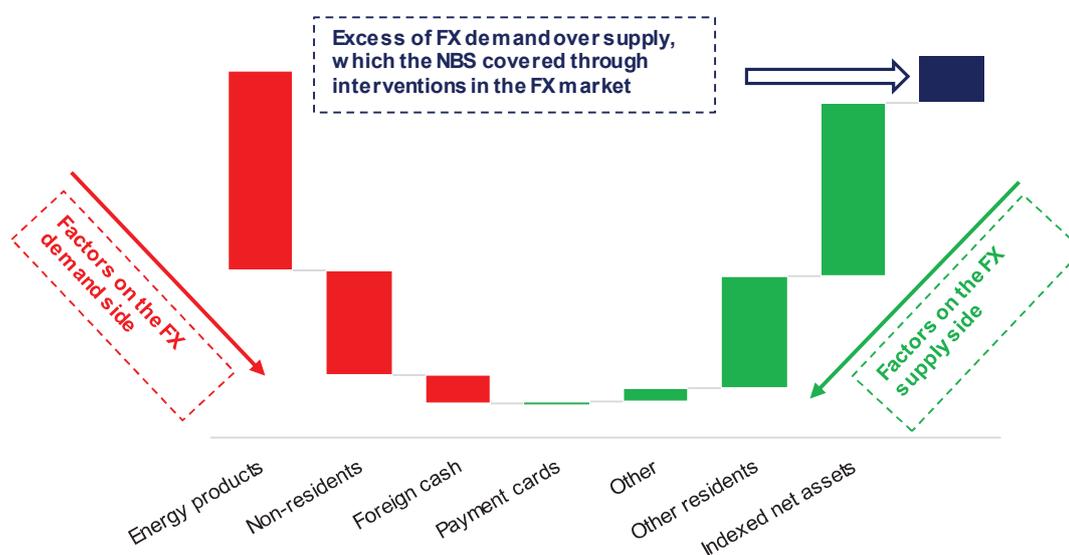
Following OFAC's refusal to extend NIS's licence after 8 October, sanctions formally took effect, triggering a new wave of pressures on the FX market, mainly through the expectations channel and psychological factors, which increased household FX demand. Seasonal factors also contributed – the heating season onset, increased energy imports, and dividend payments by foreign-owned banks and companies. Throughout the last quarter, all market factors, except for continued strong euro-indexed lending to corporates and households, acted on the demand side.

From the last ten days of November, despite NBS assurances and press releases that the NIS situation would not jeopardise financial stability, households purchased FX and foreign cash from banks in large volumes, driven by panic, significantly increasing FX demand in exchange offices and deepening depreciation pressures. **From end-November to year-end, natural persons purchased over EUR 660 mn net. The NBS responded with a combination of market, regulatory, and operational measures and instruments to ensure smooth FX market functioning.** Interventions via FX sales in the interbank FX market, aimed at maintaining relative stability of the dinar exchange rate against the euro, were complemented by measures ensuring smooth functioning of the channel of supplying the market with foreign cash, and other measures aimed at protecting the citizens' interests and safeguarding financial stability: amendments to the regulations defining the conditions and manner of performing exchange operations, which facilitated the supply of foreign cash to authorised exchange offices by banks, and the abolishing of commission for exchange transactions. **During Q4 2025, the NBS intervened** in the FX market with **net sales amounting to EUR 1.01 bn**, thereby returning to a net seller position cumulatively from the start of the year. **From mid-December until the end of the year, as a result of these measures, household demand for FX and foreign cash significantly decreased, gradually returning to normal flows.**

Movements in the FX market in 2025 (Chart 3) were characterised by an imbalance between FX demand and supply factors, with certain traditional sources of supply weakened, while sources of demand were stronger than in previous years. In terms of individual factors affecting the domestic FX market, despite the largest annual growth in indexed bank assets (EUR 2.1 bn) ever recorded – a specific factor on the FX supply side – other key factors generated a depreciation effect, contributing to strong FX demand. For the first time, foreign cash, which banks traditionally net purchase from authorised exchange dealers and natural persons, acted on the side of increased demand in 2025 – banks net sold foreign cash amounting to EUR 356.4 mn. **Residents** (domestic legal and natural persons) were **net FX buyers** (EUR 1,088.7 mn) in 2025, following two years of net FX sales, while **non-residents** (foreign persons) remained **traditionally** on the **FX demand side**, now with net purchases of EUR 1,273 mn – **the highest amount since 2017.**

Among residents, the customary net FX purchase by the largest energy importers (EUR 2,453.2 mn) did not differ significantly from the amount in 2024 (EUR 2,524.1 mn), but the **net FX sale by other residents** (EUR 1,364.8 mn) was **as much as 65% lower (by EUR 2.5 bn) than in 2024.** This was largely due to **strong end-of-year FX demand by natural persons.** For both groups (residents and non-residents), the payout of 2024 profits to foreign owners also contributed to increased FX demand, while non-residents purchasing FX to exit from dinar-denominated bonds or to hedge their dinar investments further added to demand.

Chart 3 Factors determining movements in the domestic FX market in 2025



Source: NBS.

It is important to emphasise that, although 2025 saw pronounced pressures on the dinar exchange rate due to increased household FX and foreign cash demand, these **pressures were not accompanied by deposit withdrawals from the banking system**. On the contrary, during the year there was significant growth in both dinar and FX savings, indicating that the majority of purchased FX and foreign cash remained deposited in banks. This dynamic confirms citizens' preserved confidence in the banking system and suggests that depreciation pressures did not have the character of a systemic crisis, but were primarily driven by factors of uncertainty and expectations and were of a short-term character.

3.2 Similarities and differences compared with 2020 and 2022

Although 2020, 2022, and 2025 were marked by significant pressures on the Serbian FX market, the nature of the shocks that triggered these pressures, as well as the channels through which they spilled over, were different. These differences reflect both changes in the international environment and the gradual evolution of the domestic macroeconomic framework, financial stability, and the behaviour of economic agents. At the same time, certain common features can be observed across all three episodes.

The Covid-19 pandemic in 2020 was a global, symmetrical, and highly exogenous shock, which in a short period led to a sharp decline in economic activity, disruptions in global supply chains, and increased uncertainty in financial markets. Investor behaviour was dominated by a "flight to safety" phenomenon, resulting in heightened depreciation pressures on the currencies of emerging economies, including the dinar. By contrast, the 2022 crisis episode, triggered by the war in Ukraine, had a pronounced geopolitical and energy-related character. This shock was not symmetrical at a global level but disproportionately affected central and eastern European countries more, including Serbia, due to their energy dependence and geographical proximity to the conflict. The transmission channels included rising energy prices, accelerating inflation, and a significant increase in uncertainty, which in the first months after the outbreak of the war led to marked depreciation pressures and panic behaviour among the population – similar to the behaviour observed in Serbia in late 2025. Unlike the

previous two episodes, events in 2025 were primarily specific to the domestic economy and related to heightened uncertainty regarding the future operations of NIS following the imposition of sanctions. Depreciation pressures in this period mainly arose through the channel of expectations and the behaviour of residents, particularly households. A common feature across all three years was panic behaviour of citizens, driven primarily by psychological factors, which led to increased FX demand.

After the outbreak of the war in Ukraine at end-February 2022, household demand for foreign cash reached a historic monthly peak, generating extremely strong short-term pressure on both the FX and exchange markets. At certain points, temporary shortages of foreign cash occurred in exchange offices, primarily due to logistical constraints in supply, including the geographic dispersion of bank and exchange office branch networks and the complexity of importing cash from abroad. The NBS responded promptly and decisively, enabling banks to convert FX holdings into foreign cash under more favourable conditions, while clearly communicating that both FX liquidity and the level of FX reserves were more than adequate.

By contrast, although there was also increased household FX demand at the end of 2025, the intensity of pressures was significantly lower. However, in the initial phase of this period, the channel of supply to exchange offices was not fully operational, so for a brief period in December, some authorised exchange offices faced difficulties in obtaining foreign cash. These challenges were quickly resolved through amendments to regulations by which the NBS further facilitated the supply to exchange offices by banks, while also abolishing fees for exchange operations – all aimed at protecting the interests of citizens. Furthermore, **unlike in 2022, when deposit outflows from the banking sector were observed in the first months of the crisis, at the end of 2025 there were no deposit withdrawals** (overall household savings increased), indicating a **higher level of confidence in the banking system**.

Despite these pressures, the dinar exchange rate against the euro remained relatively unchanged across all three years, indicating the **effectiveness of NBS interventions in the FX market**. A particularly indicative example is from 2022, when, despite strong depreciation pressures in the first months following the outbreak of the war in Ukraine and net sales of EUR 2.3 bn during the first four months of 2022, the second half of the year saw a shift towards appreciation pressures and a gradual return to normal market flows. In this way, the NBS offset the FX sold during the first four months of the year, ending the year 2022 as a net FX buyer of EUR 1 bn.

4 Conclusion

An analysis of developments in the Serbian FX market over the past fifteen years points to a significant change in the nature of pressures on the dinar exchange rate, as well as an evolution of the NBS's role in maintaining macroeconomic and financial stability. While the period up to 2016 was marked by structural imbalances, pronounced depreciation pressures, and the role of the NBS as a net FX seller, after 2017 a more stable macroeconomic framework was established, bringing a shift in the impact of factors on the FX market. Improvements in the fiscal position, a reduction in public debt, economic growth, and continuous FDI inflows enabled the emergence of more durable appreciation pressures on the dinar, with NBS generally acting as a net FX buyer, preventing excessive strengthening of the dinar while accumulating FX reserves. At the same time, the reduction in short-term exchange rate volatility contributed to the stabilisation of inflation expectations and thereby strengthened the credibility of monetary policy.

The crisis episodes in 2020, 2022, and 2025 represented an important test of the resilience of this system. While 2020 and 2022 were predominantly under the sway of by global and regional factors – the pandemic and the geopolitical-energy crisis – the depreciation pressures in 2025 were primarily the result of specific domestic uncertainty and the influence of the expectations channel. A common feature across all three crisis episodes was heightened, partly panic-driven, behaviour of households and increased FX demand. However, 2025 stands out for the intensity of this behaviour, reflected in the fact that, for the first time since comparable data exist, banks were net sellers of foreign cash on an annual basis. At the same time, the absence of deposit withdrawals and the growth of total (dinar and FX) savings indicate that these pressures did not have the character of a systemic crisis, but were predominantly driven by uncertainty and psychological factors. It is particularly noteworthy that, despite these pressures, the dinar exchange rate against the euro remained relatively stable throughout all three crisis periods. This fact highlights the effectiveness of the NBS FX interventions and their role in cushioning short-term shocks.

Developments during 2025, which posed challenges to the domestic economy due to simultaneous pressures from the international environment and internal factors, clearly demonstrated both the resilience of the domestic FX market and the effectiveness of economic policy conduct amid heightened uncertainty. Thanks to timely and well-calibrated interventions in the FX market, as well as a combination of regulatory and operational measures, the NBS succeeded in preserving the relative stability of the dinar exchange rate against the euro and mitigating pronounced depreciation pressures. This once again confirmed the importance of the exchange rate as a key pillar of financial stability under conditions of increased uncertainty, and, by extension, its significance for overall macroeconomic stability and economic growth. NBS FX interventions have proven to be an effective and flexible instrument within the inflation-targeting regime, whose role lies in mitigating excessive short-term volatility and preserving financial stability, rather than in maintaining a specific level of the exchange rate.

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