Rating Action Commentary

Fitch Affirms Serbia at 'BB+'; Outlook Positive

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Fitch Ratings - Frankfurt am Main - 23 Jan 2026: Fitch Ratings has affirmed Serbia's Long-Term Foreign-Currency (LTFC) Issuer Default Rating (IDR) at 'BB+' with a Positive Outlook. A full list of rating actions is at the end of this rating action commentary.

Serbia's ratings are supported by a sound policy mix, including prudent fiscal management, strengthened international reserves and high GDP per capita compared with 'BB' peers. Set against these factors are a high share of foreign-currency-denominated public debt, reflecting significant reliance on external funding, high banking sector euroisation and large current account deficits (CAD).

The Positive Outlook reflects the prospect of higher investment-led economic growth, continued government debt reduction and a strengthened external position. However, external and domestic political uncertainties pose downside risks as seen in slower economic growth and pressures on foreign-exchange (FX) reserves in 2025.

Key Rating Drivers

Growth Slowdown, Gradual Improvement: Real GDP growth of 2% in 2025 was significantly weaker than projected, reflecting lower FDI inflows, high global and domestic political uncertainty and sanctions on oil company, NIS. Fitch projects real GDP growth will gradually pick up to 4.2% by 2027 through further implementation of projects under the 'Leap into the Future 2027' plan, recovering private sector investment, and robust household spending. Public capex will remain high at about 6.5% of GDP in 2026-2027. Downside risks to growth persist due to geopolitical and domestic political uncertainty.

Domestic Political Uncertainty Eased: Student-led protests have continued across Serbia since the infrastructure accident in Novi Sad in November 2024, but largely eased over 2H25. Presidential elections are due in spring 2027 and parliamentary elections by end-2027, but recent statements by President Vucic suggest that elections could take place earlier. The government remains committed to a prudent macroeconomic and fiscal policy mix, but domestic political considerations and the electoral cycle could lead to additional fiscal easing.

Geopolitical Risks in Energy Sector: The government has finalised the agreement to sell the Russian majority stake in oil company NIS to the Hungarian MOL Group, after the US Treasury imposed sanctions in October 2025. The sale remains subject to approval by the US Treasury, which is expected before end-March 2026. The temporary gas supply agreement with Russia has been extended until end-1Q26, following the expiry of the previous long-term contract in May 2025. Near-term energy supply risks are mitigated by sizable reserves, amid ongoing efforts to diversify gas imports. Nonetheless, these highlight the vulnerability of Serbia's energy sector to regional geopolitical tensions.

Moderate Fiscal Deficits: Fitch estimates the fiscal deficit widened to 2.6% of GDP in 2025, below the peer median and government target. We expect the fiscal deficit to widen to 3% in 2026-2027, in line with the 'BB' median, as we anticipate some pre-election fiscal easing but broad commitment to obeying the 3% deficit limit.

Public Debt to Stabilise: Fitch estimates general government debt/GDP continued to fall to 44.6% in 2025, well below the 'BB' and 'BBB' medians. This is lower than projected at our July review and reflects a stronger drawdown of central government deposits (estimated at 7.1% of GDP at end-2025). Fitch expects public debt/GDP will stabilise at a lower level in 2026-2027, reflecting stable nominal GDP growth and wider primary deficits averaging 1.2% of GDP.

The government is heavily reliant on external financing, which represents about 70% of the debt stock and explains the high 77% share of foreign-currency debt, mainly the euro. Currency risk is largely mitigated by a credible, stabilised exchange rate with the euro.

Wider CAD, Lower FDI Inflows: Fitch expects the CAD will widen to 5.4% of GDP in 2026, reflecting an investment-led rise in imports, before narrowing in 2027 as Expo 2027 boosts tourism inflows. We estimate net FDI fell below 3% of GDP in 2025 from an average of 6.1% in the prior decade, reflecting the finalisation of large mining projects and increased uncertainty and expect a partial recovery in 2026-2027.

Gross reserves have remained stable due to favourable valuation effects that offset outflows related to episodes of increased domestic FX demand. The rising import bill means that reserves coverage of current external payments will decline to a projected 5.8 months in 2027, still above the projected 'BB' median of 5.1 months.

Inflation to Stay Within Target: Headline inflation dropped to below 3% in September 2025, reflecting the introduction of wholesale and retail profit margin caps on essential goods. We expect a gradual withdrawal of profit margin caps from March 2026, and annual average inflation increasing to 3.9% in 2027. The National Bank of Serbia has kept rates stable at 5.75% since September 2024 and we expect it to cautiously ease with 125bp cumulative cuts by 2027.

ESG - Governance: Serbia has an ESG Relevance Score (RS) of '5' for Political Stability and Rights and for the Rule of Law, Institutional and Regulatory Quality and Control of Corruption. These scores reflect the high weight that the World Bank Governance Indicators (WBGI) have in our proprietary Sovereign Rating Model. Serbia has a medium WBGI ranking at 44th percentile reflecting a moderate level of rights for participation in the political process, moderate institutional capacity and rule of law, perception of corruption is high.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-**Macro:** Weaker economic growth or macroeconomic instability, for example, from prolonged domestic political uncertainty or geopolitical risks.

-**External Finances:** A fall in FX reserves leading to pressure on the stabilised currency regime.

-**Public Finances:** An increase in general government debt/GDP, for example, due to a structural fiscal loosening or substantial capex overruns.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

-**Macro:** Greater confidence that current domestic political instability and geopolitical risks will not derail the growth outlook or undermine macroeconomic stability.

-**Structural:** An improvement in governance, potentially incorporating steps that would smooth EU accession prospects.

Sovereign Rating Model (SRM) and Qualitative Overlay (QO)

Fitch's proprietary SRM assigns Serbia a score equivalent to a rating of 'BBB-' on the LTFC IDR scale.

Fitch's sovereign rating committee adjusted the output from the SRM to arrive at the final LTFC IDR by applying its QO, relative to SRM data and output, as follows:

- Structural: -1 notch, to reflect a high level of domestic political uncertainty, despite recent easing of social protests, and emergence of geopolitical risks.

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a LTFC IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

Debt Instruments: Key Rating Drivers

Senior Unsecured Debt Equalised: The senior unsecured long-term debt ratings are equalised with the applicable Long-Term IDR, as Fitch assumes recoveries will be 'average' when the sovereign's Long-Term IDR is 'BB-' and above. No Recovery Ratings are assigned at this rating level.

Country Ceiling

The Country Ceiling for Serbia is 'BBB-', one notch above the LTFC IDR. This reflects moderate constraints and incentives, relative to the IDR, against capital or exchange controls being imposed that would prevent or significantly impede the private sector from converting local currency into foreign currency and transferring the proceeds to non-resident creditors to service debt payments.

Fitch's Country Ceiling Model produced a starting point uplift of zero notches above the IDR. Fitch's rating committee applied a one-notch qualitative upward adjustment under the Long-Term Institutional Characteristics pillar, reflecting the importance of FDI to Serbia's open economy and the EU accession process.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Climate Vulnerability Signals

The results of our Climate.VS screener did not indicate an elevated risk for Serbia.

ESG Considerations

Serbia has an ESG Relevance Score of '5' for Political Stability and Rights as WBGI have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As Serbia has a percentile rank below 50 for the respective Governance Indicator, this has a negative impact on the credit profile.

Serbia has an ESG Relevance Score of '5' for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as WBGI have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight. As Serbia has a percentile rank below 50 for the respective Governance Indicators, this has a negative impact on the credit profile.

Serbia has an ESG Relevance Score of '4' for Human Rights and Political Freedoms as the Voice and Accountability pillar of the WBGI is relevant to the rating and a rating driver. As Serbia has a percentile rank below 50 for the respective Governance Indicator, this has a negative impact on the credit profile.

Serbia has an ESG Relevance Score of '4[+]' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Serbia, as for all sovereigns. As Serbia has a record of 20+ years without a restructuring of public debt as captured in our SRM variable, this has a positive impact on the credit profile.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.