

RATING ACTION COMMENTARY

Fitch Affirms Serbia at 'BB+'; Outlook Positive

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Fitch Ratings - Frankfurt am Main - 10 Jul 2026: Fitch Ratings has affirmed Serbia's Long-Term Issuer Default Ratings (IDRs) 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 consistent macroeconomic policy mix, including a strong commitment to exchange rate stability and prudent fiscal management, strengthened international reserves and high GDP per capita compared with 'BB' peers. Set against these factors are large current account deficits (CAD), significant reliance on external funding and high banking sector euroisation.

The Positive Outlook reflects the prospect of higher investment-led economic growth after a recent slowdown, stabilisation of government debt at a lower level, and a record of resilience to external shocks. However, increased political uncertainty, including that related to potential early elections, may result in renewed social protests, posing downside risks to economic growth and FX reserves.

KEY RATING DRIVERS

Gradual Growth Improvement: Real GDP growth accelerated in 1Q26, on favourable base effects, stronger private and public consumption, and higher automotive exports. Growth should remain broadly stable as project completion under the 'Leap into the Future 2027' plan and wage and pension increases offset lingering domestic political uncertainty, weaker external demand and the effect of the EU Carbon Border Adjustment Mechanism on some sectors' competitiveness. Fitch projects real GDP growth will pick up to 4.0% in 2027, driven by one-offs related to the Belgrade Expo 2027, from 2.8% in 2026.

Favourable Medium-term Outlook: Since 2024, Serbia's economy has slowed but shown resilience to external shocks, including US tariffs, the Middle East conflict and weak growth among key trading partners, lower FDI inflows and domestic political

uncertainty. We project growth will stabilise at about 3.5% beyond 2027, supporting our forecast of an almost 50% increase in GDP per capita in US dollar terms between 2024 and 2028. However, rising labour costs, including a doubling of the minimum wage since 2020, stagnating labour participation and adverse demographics pose downside risks to the medium-term outlook.

Political Uncertainty; Early Elections: Statements by President Vucic suggest early elections are likely by end-2026, although the timing and type of vote (presidential, parliamentary or both) remain unclear. Recent municipal election results point to the potential for a tight national vote, amid continued high political polarisation. Student-led protests eased over 2H25, but social tensions could rise again around the vote. There is limited visibility of potential candidates and the policy platform of the student-led movement. The sale of the Russian stake in oil company NIS to Hungary's MOL group still requires approval from the US and Russia.

Moderate Pre-Election Fiscal Easing: Fitch expects fiscal policy will remain prudent, despite the electoral cycle, and projects a general government deficit within the 3% of GDP IMF target in 2026, after 2.4% in 2025. The government announced a package worth 0.6% of GDP, including one-off support for vulnerable groups and pensioners. Stronger revenue performance, particularly higher corporate income tax, VAT and non-tax proceeds, should offset the cost. The general government deficit was 1.0% in 5M26, lower than planned.

Moderate Fiscal Deficits: We project the fiscal deficit will narrow to 2.5% of GDP by 2028, in line with the IMF's programme target, due to a moderate reduction in capex to about 6.0% from an average 6.5% in 2026-2027. The new 'Serbia 2035 Development Strategy' points to continued high investment, although details remain limited. In Fitch's view, the risk of contingent liabilities is low, but fiscal governance challenges include accumulation of arrears at some state-owned enterprises (SOE), financial pressures among municipalities, and the ongoing restructuring of energy SOEs.

Public Debt to Stabilise: Fitch forecasts general government debt/GDP will stabilise at about 44% in 2026-2028, after a 2.2pp decline to 44.7% in 2025, well below the 'BB' and 'BBB' medians. The government is heavily reliant on external financing, which represents about 70% of the debt stock and explains the high almost 80% share of foreign-currency debt, mainly euro-denominated. Currency risk is largely mitigated by a credible, stabilised exchange rate with the euro, and hedging of non-euro debt obligations.

Lower CAD: The CAD reached EUR0.4 billion in 4M26, 0.4% of projected 2026 GDP and well below EUR1.3 billion in 4M25, due to a lower trade deficit, reflecting solid

automotive exports, and higher services and secondary income surpluses. As a result, we project the CAD will narrow to 4.5% of GDP in 2026, from 4.9% in 2025, despite pressure from higher energy prices and restocking of strategic oil reserves. We expect the deficit to narrow further in 2027 on higher tourism receipts related to Expo 2027, before stabilising at about 4.5% of GDP thereafter.

Improved External Position: We expect net FDI will average 2.7% of GDP in 2026-2028, with recently announced Chinese projects and a gradual shift towards higher value-added sectors providing an upside. FX reserves rose year-to-date as a EUR3 billion triple tranche international bond issuance in May 2026 helped offset unfavourable gold valuation effects and higher domestic FX demand. We expect reserves coverage of current external payments to decline to 5.3 months in 2028 from 5.9 months in 2025, reflecting a high import bill, but remain above the projected 'BB' median of 4.5 months.

ESG - Governance: 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

-Structural/Macro: Intensification of political uncertainty that undermines economic growth, public and external finances or macroeconomic stability would lead to a revision of the Outlook to Stable.

-External Finances: A fall in FX reserves that undermines the credibility of 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/ Externals: Greater confidence that domestic political uncertainty will not derail the growth outlook, undermine macroeconomic stability or lead to pressure on FX reserves.

-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 Long-Term Foreign-Currency (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 and residual geopolitical risks, that could negatively impact growth and investor confidence and pressure external buffers.

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 World Bank Governance Indicators 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 World Bank Governance Indicators 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 World Bank Governance Indicators 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.

RATING ACTIONS

ENTITY / DEBT ⚡	RATING TYPE ⚡	RATING ⚡	RATING ACTION ⚡	PRIOR ⚡
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Serbia	LT IDR	BB+ Rating Outlook Positive	Affirmed	BB+ Rating Outlook Positive
	ST IDR	B	Affirmed	B
	LC LT IDR	BB+ Rating Outlook Positive	Affirmed	BB+ Rating Outlook Positive
	LC ST IDR	B	Affirmed	B
	Country Ceiling	BBB-	Affirmed	BBB-
senior unsecured	LT	BB+	Affirmed	BB+
Senior Unsecured- Local currency	LT	BB+	Affirmed	BB+

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Country Ceiling Criteria \(pub. 24 Jul 2023\)](#)

[Sovereign Rating Criteria \(pub. 27 Apr 2026\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

[Country Ceiling Model, v2.0.3 \(1\)](#)

[Debt Dynamics Model, v1.3.3 \(1\)](#)

[Macro-Prudential Indicator Model, v1.5.0 \(1\)](#)

[Sovereign Climate Risk Model, v1.0.0 \(1\)](#)

[Sovereign Rating Model, v3.14.4 \(1\)](#)

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