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RATING ACTION COMMENTARY

Fitch Affirms Serbia at 'BB+'; Outlook Positive

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Fitch Ratings - Frankfurt am Main - 20 Nov 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 consistent macroeconomic policies, including a strong commitment to exchange rate stability and prudent fiscal management, strengthened international reserves and high GDP per capita relative to 'BB' peers. Set against these factors are larger current account deficits (CAD) and weaker governance than peers, and high banking sector euroization.

The Positive Outlook reflects prospects of sustained economic growth, stabilization of government debt/GDP at a low level relative to peers, and a record of resilience to external shocks. The significant political transition following the 2026 elections offers an opportunity to address governance shortcomings but raises uncertainty over policy continuity and growth momentum until the reform agenda and governability conditions become clearer. Existing fiscal and external buffers limit near-term risks.

KEY RATING DRIVERS

Government Change; Potential Governability Challenges: The Student List (SL) secured a clear parliamentary majority in the October 2026 snap elections, reducing the near-term risks of political stalemate and social unrest. The election result provides a solid mandate to pursue its anti-corruption, increased transparency and institutional independence, potentially benefitting Serbia's governance. However, the movement's decentralized structure, non-political nature and lack of prior political or administrative experience could create challenges to governability and policy implementation.

Policy Continuity Likely; Details Pending: We expect the new government will maintain a broadly unchanged economic policy framework, underpinned by a commitment to a stable exchange rate and inflation-targeting regime, and prudent fiscal management. The SL's economic program indicates greater support for domestic investment, a more progressive tax system, and higher spending on education and healthcare, but lacks details of concrete proposals. Near-term priorities include budget preparation, negotiations over a new gas supply contract and finalization of the sale of the Russian stake in oil company NIS.

Increased Pressure on Exchange Rate: Strengthened external buffers (EUR29.2 billion at end-October) provide capacity to manage increased depreciation pressures on the Serbian dinar amid the political transition, banking sector uncertainties and seasonal factors. The National Bank of Serbia's (NBS) net FX sales reached EUR1.3 billion in 10M26, compared with EUR580 million in 2025, with FX demand gradually easing since October elections. The NBS raised its key rate by 25bp to 6.0% in November, which could help ease FX pressures by supporting the attractiveness of domestic assets.

We expect reserves coverage of current external payments to remain adequate but to decline to five months in 2026 from six months in 2025 ('BB' median: 5.2 months), and further to 4.7 months in 2028, reflecting high import bill.

Solid Economic Growth: We have revised our 2026 growth forecast up to 3.5%, from 2.8% at our July review, reflecting stronger-than-expected domestic demand, which has benefited from robust disposable income and credit growth, election-related fiscal stimulus, and finalization of projects related to the Belgrade Expo 2027. We continue to project growth at 4% in 2027 when the Expo takes place, and at 3.5% in 2028. A prolonged period of policy uncertainty could weaken investor confidence and weigh on economic activity.

Moderate Fiscal Deficit: Fitch expects the new government to maintain a broadly prudent fiscal stance. We forecast the fiscal deficit to widen to 3.0% of GDP in 2026 from 2.4% in 2025, below the 'BB' median (3.3%) and target relaxed by the outgoing government (3.5%), due to pre-election social spending (1% of GDP) and higher capex. We currently expect the deficit to narrow to 2.5% by 2028, in line with the current IMF program target. The 2027 budget, once presented, should provide greater clarity on the new government's fiscal policy.

Stable Public Debt; High Cash Buffers: Fitch forecasts general government debt/GDP will stabilize at about 44% in 2026-2028, well below the 'BB' and 'BBB' medians. Serbia heavily relies 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, stabilized exchange rate with the euro, and hedging of non-euro debt obligations. Moderate fiscal deficits, strong liquidity buffers (central government deposits stood at 8% of GDP at end-2025) and a favorable maturity profile reduce near-term fiscal risks during political transition.

Lower CAD; Slower FDI Inflows: We project the CAD will narrow to 4.1% of GDP in 2026, from 4.6% in 2025, as a lower trade deficit, reflecting solid automotive exports, and higher secondary income surpluses offset pressure from higher energy prices and restocking of strategic oil reserves. We expect it to narrow further in 2027 on higher tourism receipts related to Expo 2027, before stabilizing just below 4% thereafter. We expect net FDI will be lower over the projection horizon and average 2.2% of GDP in 2026-2028.

Financial Sector Stability Preserved: The NBS revoked ALTA Bank's (3% of sector assets) operating license at end-October 2026 after a sharp deterioration in liquidity. Criminal investigations into large cash withdrawals are ongoing. After experiencing some liquidity pressures, possibly due to reputational spillovers, state-owned Banka Poštanska štedionica (9% of sector assets) requested enhanced NBS monitoring and transaction controls but remains well capitalized and liquid. Fitch does not expect broader financial stability risks or contingent liabilities to crystallize, given the sector's high capitalization, liquidity and profitability and strong asset quality.

ESG - Governance: Serbia has a medium World Bank Governance Indicators (WBGI) ranking at 41st percentile, reflecting a moderate level of rights for participation in the political process, moderate institutional capacity, uneven application of the rule of law and a high level of corruption.

RATING SENSITIVITIES

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

-Structural/Macro: Policy shifts or uncertainty that undermine 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 stabilized currency regime.

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

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

-**Macro/ Externals:** Greater confidence in policy continuity that will preserve growth momentum and support macroeconomic stability and external liquidity.

-**Structural:** An improvement in governance, potentially incorporating steps to reduce high corruption and improve voice and accountability and institutional independence.

SOVEREIGN RATING MODEL (SRM) AND QUALITATIVE OVERLAY (QO)

Fitch's proprietary SRM assigns Serbia a score equivalent to a rating of 'BB+' on the Long-Term Foreign-Currency (LTFC) IDR scale. The previous SRM assigned Serbia a score equivalent to 'BBB-'.

Fitch's sovereign rating committee did not adjust the output from the SRM score to arrive at the final LTFC IDR.

Fitch has removed the -1 notch on structural features to reflect its view that domestic political uncertainty has eased following the snap parliamentary elections, and that the current SRM score captures remaining policy uncertainty and residual geopolitical risks.

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centered 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 Equalized: The senior unsecured long-term debt ratings are equalized 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.

RATING ACTIONS

ENTITY / DEBT	RATING TYPE	RATING	RATING ACTION	PRIOR
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, v1.4.0 (1)

Macro-Prudential Indicator Model, v1.5.0 (1)

Sovereign Climate Risk Model, v1.0.0 (1)

Sovereign Rating Model, v3.14.4 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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