



## Rating Action: Moody's Ratings changes Serbia's outlook to stable from positive, affirms Ba2 ratings

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27 Feb 2026

London, February 27, 2026 -- Moody's Ratings (Moody's) has today changed the outlook on the Government of Serbia to stable from positive and has affirmed the Government of Serbia's Ba2 domestic and foreign currency long-term issuer and foreign currency senior unsecured debt ratings.

Our decision to change the outlook to stable from positive reflects a significant rise in Serbia's political risks which weighs on institutional strength and poses a larger than expected headwind to growth prospects. In particular, the more volatile domestic political environment is contributing to a less predictable policy environment, with tensions likely to remain elevated. Moreover, rising geopolitical risks, evidenced by the recent imposition of US (Aa1 stable) sanctions on the national oil company Naftna Industrija Srbije (NIS), will continue to weigh on Serbia's credit profile. These elevated political tensions mean the risks to Serbia's credit profile are now balanced at a Ba2 rating. We expect real GDP growth to recover after slowing materially in 2025, but we assess medium term economic potential is now lower at around 3.5% from 4% previously.

The affirmation of the Ba2 ratings is supported by Serbia's moderate and gradually declining government debt burden which provides fiscal space that allows the country to absorb shocks. In addition, the fiscal risks from the broad state-owned enterprise (SOE) sector, while still present, have significantly diminished in recent years. Furthermore, Serbia's continued engagement with the International Monetary Fund (IMF) has supported a track-record of prudent macroeconomic policies and the build-up of external buffers which will help to preserve Serbia's macroeconomic stability in the event of shocks. These factors balance the elevated domestic political and geopolitical risks that weigh on Serbia's institutional strength and growth prospects.

Serbia's local and foreign-currency country ceilings remain unchanged at Baa1 and Baa2, respectively. The four-notch gap between the local currency country ceiling and the sovereign rating reflects somewhat predictable institutions and government actions, a moderate government footprint in the economy and financial system, elevated political risk and low external imbalances. The one-notch gap between the foreign currency and local currency country ceiling reflects moderate policy effectiveness and external indebtedness.

### RATINGS RATIONALE

#### RATIONALE FOR THE OUTLOOK CHANGE TO STABLE FROM POSITIVE

Our decision to change the outlook to stable from positive reflects a significant rise in Serbia's political risks which weighs on institutional strength and poses a larger than expected headwind to growth prospects.

The domestic political environment has become more volatile since we changed the outlook to positive in August 2024, with significant anti-corruption protests in response to the Novi Sad train station roof collapse in November 2024. While the intensity of protests has subsided in recent months, we expect domestic political tensions to remain higher than in the past, particularly around the forthcoming parliamentary elections due by end 2027 but which the authorities have indicated may be held early.

Policy unpredictability has risen amid a more volatile domestic political environment, with the European Union (EU, Aaa stable) criticizing the lack of transparency and independent scrutiny applied to recently adopted judicial amendments as a serious step backward in EU accession efforts. Furthermore, the business environment is, in our view, weakening, with the regulatory environment becoming less predictable for investors, reflected in a recent policy to cap price margins in the retail sector, which is currently being phased out. We consider policy predictability to be a Governance consideration under our ESG framework.

Serbia's geopolitical risk is also increasing which will continue to weigh on foreign investor confidence and supports the stabilization of the outlook.

In our view, the scope for Serbia to balance closer integration with western economies, especially the EU, with significant economic and financial ties with Russia and China (A1 negative) will become narrower. This is reflected in the recent imposition of US sanctions on NIS, in response to Russia's majority ownership. We expect the authorities to resolve the ownership issue and avoid a broad sustained macroeconomic disruption, reflecting an institutional capacity to manage external pressures. At the same time, Serbia's non-alignment with EU foreign policy will continue to hamper Serbia's EU accession prospects.

These elevated domestic and geopolitical risks pose a larger than expected headwind to Serbia's growth prospects. The significant protests in H1 2025 dampened domestic consumption and sentiment in Serbia, while the imposition of US sanctions in H2 2025 caused a sharp drop in Serbia's industrial production. As a result, real GDP growth slowed materially to 2% in 2025, down from 3.9% in 2024, while foreign direct investment (FDI) inflows fell sharply relative to recent record years amid a weakening in the business environment.

We expect Serbia's real GDP growth to recover to 3.3% in 2026, with a temporary spike in 2027 due to Expo 2027. However, we have lowered our estimate for Serbia's medium term growth potential to 3.5%, down from 4%, given heightened political uncertainty and a less favourable business environment. Serbia also faces rising competitiveness pressures from higher labour costs. According to the IMF, the sharp increase in wages in recent years has led to higher unit labour costs and raises concerns around competitiveness. We expect the higher wage level will only be partially offset by a shift into higher value added production. We expect FDI inflows will be lower than in recent years reflecting the fall in new investment inquiries in 2025 and remain sensitive to political tensions.

While not our baseline, a prolonged disruption to oil supply, a sharp further rise in domestic political tensions or new populist policies which raise doubts about the authorities commitment to a market based economy could pose risks to our growth forecasts.

Finally, the EU accession process has stalled amid political tensions and a weak commitment to governance reform, with the accession process providing less of a support for Serbia's institutional landscape than we previously assessed. More limited public support for EU membership in Serbia compared to other accession candidates in the region will provide, in our view, a weaker incentive to tackle challenging governance reforms. As a result, Serbia is falling behind less-developed regional peers such as Albania (Ba3 stable) and Montenegro (Ba3 stable) on the EU accession path, which will provide a stronger anchor for institutional reforms in these countries.

#### RATIONALE FOR THE AFFIRMATION OF THE Ba2 RATINGS

The affirmation reflects our view that Serbia's strong fiscal position continues to provide a material support to the Ba2 ratings, while continued engagement with the IMF helps to preserve external buffers and the resilience of Serbia's economy to shocks. These strengths help to balance Serbia's weak governance and elevated political risks.

A demonstrated commitment by the authorities to maintaining a prudent fiscal stance has created fiscal space that allows the country to absorb shocks. The fiscal risks from the broad SOE sector, while still present, have significantly diminished in recent years, as IMF-supported reforms help to address weaknesses in the energy sector. At the same time, the large share of foreign currency government debt poses a fiscal risk in the event of a sharp and sustained currency depreciation.

We expect Serbia's continued strong compliance with the IMF's Policy Co-ordination Instrument will help to anchor fiscal policy through the higher investment spending related to Expo 2027. As a result, we expect Serbia's general government debt to continue to gradually decline to just below 45% of GDP in 2026-27, down from around 48% in 2023-24, while debt affordability will remain favourable relative to peers.

The affirmation also reflects our view that Serbia's relatively dynamic manufacturing sector will continue to attract sizeable FDI inflows, albeit lower than in recent years. Furthermore, Serbia's continued engagement with the IMF has supported prudent macroeconomic policies and the build-up of external buffers which will help to preserve Serbia's macroeconomic stability in the event of shocks.

## ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) CONSIDERATIONS

Serbia's CIS-3 ESG Credit Impact Score indicates that ESG considerations have a limited impact on the current credit rating with potential for greater negative impact over time. The score reflects moderate exposure to environmental and social risks as well as weak governance strength. That said, a track record of fiscal prudence has afforded fiscal space to absorb shocks which provides some resilience to environmental and social risks.

GDP per capita (PPP basis, US\$): 31,001 (2024) (also known as Per Capita Income)

Real GDP growth (% change): 3.9% (2024) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 4.3% (2024)

Gen. Gov. Financial Balance/GDP: -2% (2024) (also known as Fiscal Balance)

Current Account Balance/GDP: -4.6% (2024) (also known as External Balance)

External debt/GDP: 57% (2024)

Economic resiliency: baa3

Default history: At least one default event (on bonds and/or loans) has been recorded since 1983.

On 24 February 2026, a rating committee was called to discuss the rating of Serbia, Government of. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength, have not materially changed. The issuer's institutions and governance strength, have materially decreased. The issuer's fiscal or financial strength, including its debt profile, has materially increased. The issuer has become increasingly susceptible to event risks.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The rating could be upgraded if we assess that the potential impact of geopolitical and domestic political risks on Serbia's credit profile, and in particular on its growth prospects and institutional profile, is improving. Such an assessment would also likely conclude that the EU and IMF provide a stronger than expected anchor for reforms. A stronger commitment to institutional reform, including as part of the EU accession process, which reduces the risk of reform backsliding, would also be positive for the rating. A continued focus on budget prudence alongside solid medium term economic prospects would be prerequisites for a positive rating action.

The rating could be downgraded if we assess that Serbia's institutions have markedly weakened beyond current observations, including evidence of material reform backsliding. A significant deterioration in Serbia's economic strength, possibly due to a further rise in domestic political instability or geopolitical tensions, would also be credit negative. While unlikely, evidence that fiscal strength will deteriorate significantly due to a less-prudent fiscal stance, materialisation of contingent liabilities, or significant exchange rate depreciation would also be negative.

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Sovereigns published in November 2022 and available at <https://ratings.moodys.com/rmc-documents/395819>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

Serbia's "baa3" economic strength score is set three notches below the initial score of "a3" to reflect Serbia's higher labour costs and weak business environment which weigh on competitiveness, the large state influence over the economy which hinders market competition and Serbia's susceptibility to adverse weather events. The "baa2" fiscal strength score is set one notch below the initial score of "baa1" to capture contingent liability risks from financially weak state-owned enterprises. This leads to a final scorecard-indicated outcome of Ba1-Ba3, which is below the initial scorecard-indicated outcome of Baa3-Ba2. The rating is within the final scorecard-indicated outcome.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [https://ratings.moodys.com/documents/PBC\\_1462204](https://ratings.moodys.com/documents/PBC_1462204).

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