National Bank of Serbia

May 2025

INFLATION REPORT

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Introductory note

The Agreement on Inflation Targeting between the Government of the Republic of Serbia and the National Bank of Serbia, effective as of 1 January 2009, marks a formal switch of the National Bank of Serbia to inflation targeting as a monetary policy regime. The main principles and operation of the new regime are defined by the Memorandum on Inflation Targeting as a Monetary Strategy.

Since one of the underlying principles of inflation targeting is strengthening the transparency of monetary policy and improving the efficiency of communication with the public, the National Bank of Serbia prepares and publishes quarterly *Inflation Reports* as its main communication tool. The *Inflation Report* provides key economic facts and figures that shape the Executive Board's decisions and underpin activities of the National Bank of Serbia.

The *Inflation Report* aims to cover information on the current and expected inflation movements and to provide an analysis of underlying macroeconomic developments. It also seeks to explain the reasoning behind the Executive Board's decisions and to provide an assessment of monetary policy effectiveness during the previous quarter. Also integral to this *Report* are the inflation projection for eight quarters ahead, assumptions on which the projection is based and an analysis of key risks to achieving the target.

The information contained in this *Report* will help raise public understanding of monetary policy implemented by the central bank and awareness of its commitment to achieving the inflation target. It will also play a role in containing inflation expectations, as well as in achieving and maintaining price stability, which is the main statutory task of the National Bank of Serbia.

The May *Inflation Report* was considered and adopted by the NBS Executive Board at its meeting of 9 May 2025.

Earlier issues of the *Inflation Report* are available on the National Bank of Serbia's website (http://www.nbs.rs).

Executive Board of the National Bank of Serbia:

Jorgovanka Tabaković, Governor

Željko Jović, Vice Governor

Ana Ivković, Vice Governor

Dragana Stanić, Vice Governor

Nikola Dragašević, Vice Governor

ABBREVIATIONS

bp – basis point
CPI – Consumer Price Index
EBRD – European Bank for Reconstruction and Development
ECB – European Central Bank
EIB – European Investment Bank
EMBI – Emerging Markets Bond Index
EU – European Union
FAO – UN Food and Agriculture Organization
FDI – foreign direct investment
Fed – Federal Reserve System
FOMC – Federal Open Market Committee
GDP – gross domestic product
GVA – gross value added
H – half-year
IFEM – Interbank Foreign Exchange Market
IMF – International Monetary Fund
LHS – left hand scale
mn – million
NAVA – non-agricultural value added
NPL – non-performing loan
OFO – other financial organisation
OPEC – Organization of the Petroleum Exporting Countries
pp – percentage point
Q – quarter
q-o-q – quarter-on-quarter
RHS – right hand scale
RMCP – real marginal cost of processed food production
s-a – seasonally-adjusted
SDR – Special Drawing Right
SORS – Statistical Office of the Republic of Serbia
y-o-y – year-on-year

Other generally accepted abbreviations are not cited.

Macroeconomic projections presented in the Report were concluded on 30 April.

Contents

I Overview

Since the previous Report, global growth prospects have been revised significantly downward, reflecting heightened uncertainty due to escalating trade tensions among the world's leading economies.

Leading international financial institutions note that **global growth prospects** have deteriorated considerably following shifts in the economic policies of major economies, particularly the US, which has raised import tariffs to levels unseen in the past century, prompting retaliatory measures from other countries. According to the IMF's April projection, global economic growth this year is expected at 2.8%, 0.5 pp below the January projection. Growth expectations for 2026 have also been revised down, by 0.3 pp to 3.0%, placing both years significantly below the multi-year average of 3.7%. The IMF's April projection assumes full implementation of the tariffs announced by the US administration on 2 April against countries with which the US runs trade deficits, as well as countermeasures by the affected economies – though tariff enforcement has been delayed by 90 days for most countries, except China. The largest downward growth revisions concern the US and China. Projections of euro area growth for this year and next have been lowered by 0.2 pp each compared to January, to 0.8% and 1.2%, respectively. Growth projections were revised down for Germany and Italy – Serbia's key euro area trading partners – while upward adjustments were made for economies dominated by services, particularly tourism.

Under the influence of higher tariffs, global inflation will decelerate somewhat more slowly than anticipated in the previous projection.

According to the same estimate, **global inflation** will decline at a somewhat slower pace than expected in the previous projection – from 5.7% last year to 4.3% this year and 3.6% in 2026, with advanced economies returning to target ranges faster than emerging and developing ones. The upward revision compared to January expectations reflects tariff effects, though they will depend on whether tariffs are temporary or permanent, the extent to which companies will adjust profit margins to higher import costs, and whether goods imports are invoiced in US dollars or local currencies. The tariff-imposing economies will face mainly supply-side shocks due to higher unit labour costs and reduced productivity, while targeted economies will experience demand-side shocks due to lower external demand, generating disinflationary pressures.

Since the previous Report, uncertainty in global commodity and financial markets has increased significantly, while weaker US growth prospects, due to trade policy tightening, have contributed to dollar's depreciation against the euro and other major currencies.

Announced tariff hikes have heightened **uncertainty in international commodity and financial markets**, increasing the volatility of stock exchange indices and worsening the investment sentiment and global financial conditions. Due to the weakening outlook for economic growth, in early April there was a decline in yields on US Treasury bonds, followed by a partial revision, as they became less attractive as a safe-haven instrument. This simultaneously led to a further increase in the global price of gold. Meanwhile, the dollar weakened against the euro amid announcements of increased defence and infrastructure investments in key European economies, notably Germany, and reduced US growth expectations – even though the ECB continued its monetary easing in April, noting that inflation is slowing as expected, while downside risks to growth persist.

Amid heightened global uncertainty, the NBS Executive Board has kept the key policy rate unchanged at 5.75%.

In deciding to keep **the key policy rate** unchanged, the NBS Executive Board emphasised that despite inflation moving within the target band, a cautious monetary policy stance remains necessary due to pronounced uncertainty in global commodity and financial markets and rising protectionism, which could disrupt global supply chains. The weighted average rate at one-week reverse repo auctions flatlined at around 4.50%, resulting in minimal fluctuations in interbank money market rates since the beginning of the year.

More favourable borrowing conditions have further boosted lending activity, which reached double-digit y-o-y growth in March.

Interest rates on the most common dinar loans to the private sector – working capital loans to corporates and cash loans to households – continued to decline in Q1. The ECB's further monetary easing also reduced euro-denominated borrowing costs, with housing loan rates adhering to the 5% cap defined for this year by the amendments to the Law on the Protection of Financial Service Consumers. Similarly, interest rates on credit card debt and current account overdrafts declined. More favourable borrowing costs, coupled with an easing of credit standards for households, contributed to the continued acceleration of **lending to the non-monetary sector**, to 10% y-o-y in March. Compared to end-2024, an acceleration in credit growth was recorded both in the corporate (to 7.4%) and household sector (to 11.6%). Lending growth, coupled with a reduction in the NPL stock, contributed to a decline in the NPL ratio, which touched a new low of 2.3% in March.

Despite an expected rise in the fiscal deficit this year, the public debt-to-GDP ratio is projected to remain on a downward trajectory.

Fiscal trends in Q1 2025 were marked by a general government deficit of RSD 28.6 bn and primary surplus of RSD 24.2 bn. In real terms, total revenues are slightly higher than in the same period last year, influenced by increased tax revenues – particularly from personal income tax and VAT – while non-tax revenues and corporate profit taxes declined. Expenditures rose by

1.3% in real terms, driven by higher outlays for pensions and public sector wages. At the end of March this year, the central government debt-to-GDP ratio stood at 44.3%. The Revised Fiscal Strategy for 2025 with Projections for 2026 and 2027 envisages a step-up of government investment as part of the "Expo 2027" programme, based on which fiscal policy this year is expected to have a mildly expansionary character. Still, according to our estimate, this should not disrupt the declining trajectory of the public debt-to-GDP ratio, which has been one of the most favourable in the Central and Southeast European region in recent years on a comparative basis.

The y-o-y widening of the current account deficit in Q1 this year was driven by a larger goods trade deficit and, in part, lower remittances inflows, while a higher services trade surplus and a smaller primary income deficit worked in the opposite direction.

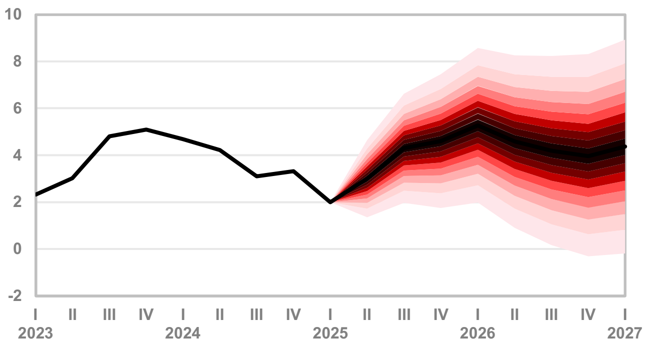
The **current account deficit** continued to widen in Q1 this year on a y-o-y basis, reaching EUR 1.4 bn. This was primarily due to faster growth in goods imports (14.5%) than exports (2.9%), while the opposite effect came from a higher services trade surplus. Within goods exports, weak external demand and challenges in the European automobile industry led to near-stagnation in manufacturing exports, though March saw a pickup due to past investment in export capacity. Goods import growth was mainly driven by intermediate goods, with a smaller contribution from consumer goods. FDI inflows amounted to EUR 704 mn, half the level recorded in the same period of 2024. This was partly due to above-average one-off inflows last year, reduced global investment confidence, and delays in some investments caused by protests and blockades in Serbia. Alongside seasonal increases in energy imports at the start of the year, these factors contributed to the strengthening of depreciation pressures, prompting the NBS to act as a net seller of EUR 955 mn in Q1 to preserve relative dinar-euro exchange rate stability. Despite the reduction, the country's FX reserves (EUR 28.5 bn at end-March) remain well above adequacy criteria and continue to serve as an important buffer against external risks.

Reflecting factors at home and abroad, GDP rose by 2.0% in real terms in Q1 2025, less than we expected in our previous projection.

According to the SORS estimate, **GDP rose** by 2.0% in Q1 2025. Growth was below our expectations stated in the February projection, both in the production and the service sectors, reflecting the still subdued external demand, issues in the European automobile industry and the globally heightened risk aversion amid mounting uncertainty with regard to the trade policies of leading world economies and their effects on global growth. At home, investment and personal consumption rose less than expected due to protests and blockades. A positive impulse came from manufacturing, thanks to the start of serial production of electric vehicles in Stellantis in Kragujevac and accelerated production of car tyres in Zrenjanin, but production and exports fell in other sectors associated with the automobile cluster. Growth continued in the mining sector as well, while the energy sector failed to recover fully despite the improved hydropotential and the opening of new capacities. Overall, industry contributed 0.4 pp to GDP growth. According to our estimate, the service sectors provided an aggregate contribution of 1.6 pp to GDP growth. The contribution of construction was negative because of the high base, but also because some investments were deferred.

Under our new projection, GDP growth will measure around 3.5% this year and be in the range of 4–5% in 2026 and 2027, but closer to the upper bound of the projected range in 2027 due to the hosting of "Expo".

GDP growth projection
(y-o-y rates, in %)



At 3.5%, our new **GDP projection** for this year is lower than in February due to weaker than anticipated growth in the first quarter. Activity is, however, expected to accelerate in the remainder of the year. Growth momentum in the coming quarters should be supported by the positive effects of supply-side factors, i.e. rising production in the automobile industry and increased capacities in energy, as well as the implementation of infrastructure projects planned under the "Leap into the Future – Serbia Expo 2027" programme. At the annual level, all service and production sectors will give a positive contribution to GDP growth, assuming an average agricultural season this year after the last year's drought. In terms of sources of growth, expectations for 2026 and 2027 are similar, although in 2027, we expect the contribution of the service sector to expand due to the hosting of "Expo". From the expenditure side, GDP growth will be guided by domestic demand, but less than we expected in February, with private consumption growth propped up by higher disposable income and positive trends in the labour market, and fixed investment growth supported by increased corporate profitability in recent years, continued FDI inflows to equity capital, planned government capital expenditures for projects in road, energy and utility infrastructure, and improved lending conditions amid the initiated monetary easing. Exports are also expected to provide a positive contribution this year reflecting the start of serial production in the automobile industry and new capacities in the energy sector, and, as of next year, also the anticipated acceleration of growth in our main trade partners. Nevertheless, imports will rise faster than exports this year and the next due to the planned investment and domestic consumption growth, resulting in a negative contribution of net exports. For this reason, we expect that the **share of the current account deficit in GDP** will stay at around 6% this year and the next, and that it will be largely covered by net FDI inflows projected at around 4.5% of GDP. In 2027, as services exports expand, the share of the current account deficit should decrease to around 4% of GDP and be fully covered by net FDI inflows.

Y-o-y inflation in Serbia moved around the upper bound of the target tolerance band in Q1, measuring 4.4% in March.

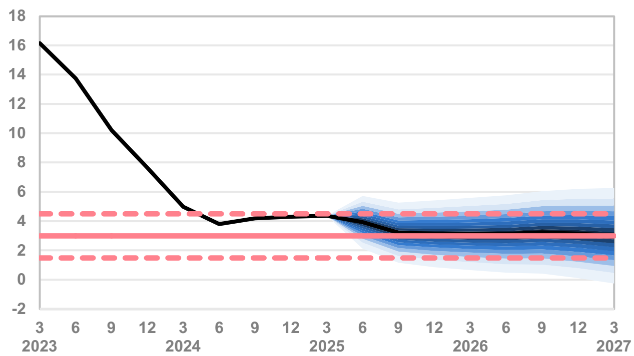
Consistent with our expectations from the previous *Report*, **y-o-y inflation** moved around the upper bound of the target tolerance band in Q1, measuring 4.4% in

March. Relative to end-2024, the contribution of food prices increased by 0.3 pp, reflecting the stubbornly high global prices of coffee and cocoa. Prices of energy and services each contributed 0.1 pp less to inflation in March. Core inflation slowed to 5.1% in March, its lowest level since July 2024, as the last year's increase in the prices of mobile telephony services dropped out of the y-o-y calculation. The **trimmed mean** measure of inflation (which excludes 15% of products and services whose prices recorded the largest change in either direction from the consumer basket) was 3.7% y-o-y in March, and the so-called **momentum indicator for inflation**[1] dropped to 3.8%, also signalling an easing of inflationary pressures. Besides, one year-ahead **inflation expectations of the financial sector** stayed within the target band, while expectations for two and three years ahead have been around the target midpoint for quite some time, reflecting the preserved credibility of the NBS's monetary policy.

Under our new central projection, **y-o-y inflation** is expected to slow in the remainder of the year, approach target midpoint in late 2025, and stay around this level until the end of the projection horizon. Inflation's slowdown will be underpinned by the still tight monetary conditions, anticipated lower global energy prices and reduced imported inflation, onset of a new agricultural season assuming that it is average, and the projected movement in real wages in line with productivity growth. The new inflation projection is lower than in February, especially for this year, as petroleum product prices declined reflecting the drop in the global prices of oil and the euro's strengthening against the dollar, while external and domestic demand increased less than anticipated. Higher processed food prices worked in the opposite direction in the short term, mostly on account of elevated raw material prices in the global market early in the year.

Under our new projection, inflation should stay within the target tolerance band (3±1.5%) throughout the projection horizon (over the next two years) and be on a downward path in 2025.

Inflation projection
(y-o-y rates, in %)



According to leading global financial institutions, the international environment is marked by trade policy uncertainties unprecedented in recent history, making it really difficult to make projections. **The risks to global growth** in the medium term are tilted to the downside, due primarily to the possibly stronger than expected effect of new protectionist measures and prolonged uncertainty on that account, as well as to heightened uncertainty in financial markets which would strain investment and consumption. Downside risks to domestic economic growth on this account prevail, but the impact on inflation is more difficult to gauge, as some of these factors have an inflationary and others a disinflationary effect. The

The NBS will continue to pursue a cautious monetary policy, on a meeting-to-meeting basis, taking into account movements in all key economic indicators at home and abroad, and making sure that price stability is preserved in the medium term.

[1] Obtained based on annualised quarterly moving averages of seasonally-adjusted inflation rates.

risks to the inflation and GDP projections also stem from the speed of domestic demand growth and the outcome of the domestic and global agricultural season, and they are equally pronounced in both directions. The NBS will continue to monitor and analyse trends in the domestic and international markets and make monetary policy decisions on a meeting-to-meeting basis depending on the pace of inflation's slowdown. Delivering price and financial stability in the medium term will remain the monetary policy priority, including support to further economic growth and development, continued rise in employment and preservation of a favourable investment environment.

II Monetary policy since the February *Report*

Since the previous Report, the NBS Executive Board has kept the key policy rate unchanged at 5.75%. In making the decisions to keep the rate at its current level, the Executive Board primarily took into account that, despite inflation moving within the target tolerance band, it is still necessary to pursue a cautious monetary policy. This is because domestic inflation is largely influenced by developments in global commodity and financial markets, which are currently marked by elevated volatility due to geopolitical tensions, the effects of rising protectionism, and uncertainty surrounding the trade policies of the world's leading economies going forward.

In the period since the previous *Inflation Report*, **the NBS Executive Board kept the key policy rate unchanged at 5.75%**. The rate has been at this level since September 2024, when it was cut for the third time in the current monetary policy easing cycle, following the reductions in June and July. The rates on deposit and credit facilities were also kept unchanged (4.50% and 7.00%, respectively), while the weighted average repo rate flatlined at around 4.5%. The monetary policy easing by the NBS continues to feed through into a decline in interest rates on dinar loans to corporates, as well as on the most common types of dinar loans to households – cash loans, which indicates the effectiveness of the monetary policy transmission mechanism.

Conditions in the domestic and international environment in the period since the previous *Report* called for a continued cautious approach in monetary policy making. Developments in the international environment were marked by the **strengthening of protectionism and concerns that inflation could rise concurrently with a slowdown in global economic growth**. In such a volatile global environment, it was particularly difficult to draw reliable conclusions about future developments, especially as the final structure of tariffs remains unknown, as well as when and for how long the tariffs will be in effect. The NBS Executive Board carefully considered all available information and data, analysed inflation trends and monetary transmission, and made monetary policy decisions with a view to keeping inflation within the target tolerance band and bringing it closer to the target midpoint over the monetary policy horizon, as well as supporting economic growth.

Rationale for March and April decisions

The basis for the Executive Board's decisions in March and April was the **February medium-term inflation projection**, which anticipated that inflation would move around the upper bound of the target tolerance band early this year, then gradually decelerate and approach the target midpoint by year end, hovering around that level until the end of the projection horizon. This trajectory is expected to be supported by the still restrictive effects of monetary policy, the onset of the new agricultural season, assuming it is average, and the expected decline in petroleum product prices, in line with futures. Lower imported inflation and the expected slowdown in real wage growth will also contribute to the decline in domestic inflation, which should additionally aid the deceleration of core inflation and its convergence to headline inflation.

Actual inflation data for Q1 were fully aligned with the Executive Board's expectations. In March, headline inflation stood at 4.4% y-o-y, and core inflation (CPI excluding food, energy, alcohol and cigarettes) also started to decelerate, arriving at 5.1% y-o-y. When deciding on monetary policy in March and April, the Executive Board took into account that one-year ahead financial sector **inflation expectations**, according to the latest available surveys by Ninamedia (for March) and Bloomberg (for April), continued to move within the target band, which confirms the adequacy of the NBS monetary policy stance. Financial sector expectations for two and three years ahead stood at 3.6% and 3.5%, respectively, in March. At the same time, short-term inflation expectations of the corporate sector remained at 5.0%, the level at which they were for most of 2024, while medium-term expectations of this sector were within the target band.

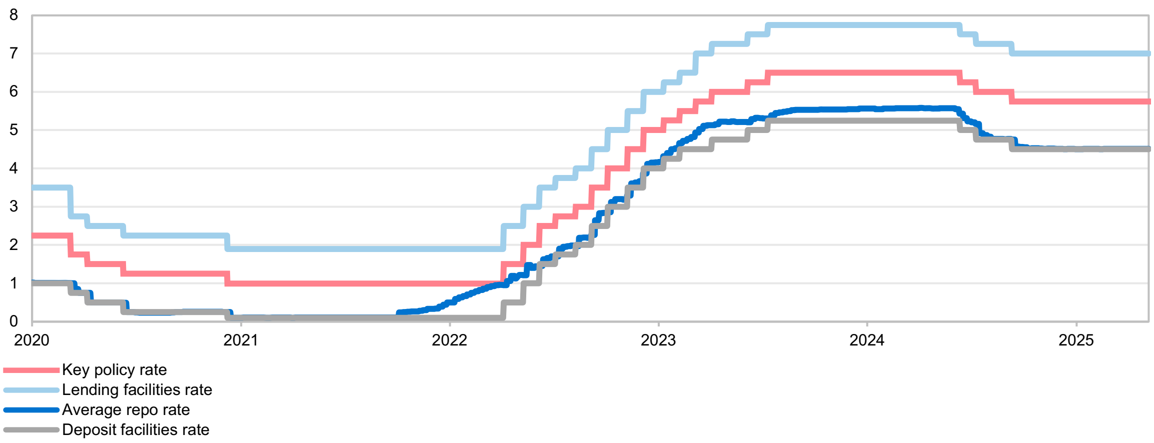
When assessing developments in the **real sector**, the Executive Board took into account that after last year's GDP growth of 3.9%, one of the highest in Europe, activity in the manufacturing and services sectors slowed in the first months of this year. Observed jointly for January and February, manufacturing output stagnated, while the growth in trade and tourism turnover slowed, especially in February. The rise in global protectionism, the introduction of new tariffs, and problems in the European automobile industry, along with blockades and protests in the domestic market – which to some extent are delaying investment and consumption – pose a risk to Serbia's economic growth. Nevertheless, the Executive Board underlined its expectation that economic activity will accelerate in the remainder of the year, driven primarily by supply-side factors – most notably, the planned ramp-up of production of electric vehicles and car tyres, the activation of new capacities in the energy sector, and the implementation of infrastructure projects under the "Serbia – Expo 2027" programme, which will generate direct and indirect positive effects for our economy. Economic growth is also supported by around 10% growth in lending to corporates and households, which is a result of the previous monetary policy easing by the NBS and the ECB.

In making monetary policy decisions, the Executive Board paid particular attention to international developments, emphasising the need for a continued cautious monetary policy stance, given above all the **uncertainty surrounding protectionist measures, global market fragmentation and geopolitical risks**. On the one hand, the introduction of high tariffs and unpredictable trade policies weigh on global growth prospects and lead to lower prices of primary commodities, especially oil. On the other hand, they increase the risk of supply chain disruptions and price hikes for goods directly affected by tariffs, which could contribute to a rise in global inflation.

In the **euro area** – our key trading partner – following slightly higher inflation rates over the winter, the ECB's March projections suggest that inflation will decline moderately in the coming months. Average inflation in the euro area is expected at 2.3% for this year (under the assumption of unchanged EU trade policy), a slight upward revision from December due to higher food prices and the base effect for energy prices. As the base effect fades, inflation is expected to decline to 1.9% and 2.0% in the next two years. ECB analysts estimate that if the US imposes a 25% tariff on imports from the euro area, combined with a weaker euro (due to lower US demand for European goods), this could raise euro area inflation in the short run. However, this effect would diminish in the medium term, due to weaker economic activity which would reduce inflationary pressures. In line with this, the NBS Executive Board expects further moderate slowing in the growth of prices of imported goods and services, but does not rule out the possibility of temporary accelerations.

As expected, the **ECB** continued its monetary policy easing in March, cutting its key interest rates for the sixth time in the ongoing cycle of monetary policy easing, which began in June last year, and assessed its policy as

Chart II.0.1 **Key policy rate and average repo rate**
(in %)



Source: NBS.

now “significantly less restrictive”. The deposit facility rate was cut to 2.50%, the main refinancing operations rate to 2.65%, and the marginal lending facility rate to 2.90%. The NBS Executive Board took into account that the gradual decline in euro-indexed borrowing costs in the domestic market – due to lower money market rates in the euro area amid the ECB’s policy easing – together with the earlier reduction of the key policy rate by the NBS, contributes to further growth in lending and domestic demand, and hence to GDP growth, but without generating significant inflationary pressures. Market participants expected the ECB to continue easing its monetary policy at the next two meetings in April and June, and that a third rate cut of the key rates could follow later in the year, which would further improve euro-denominated borrowing conditions in Serbia. ECB officials have emphasised that further reductions are possible, but also that the key interest rates have already been significantly lowered. They also highlighted the uncertainty of future decisions, given that tariffs and reciprocal measures could fuel inflation, especially in the short term, while similar effects may arise from higher government spending and other fiscal measures.

Changes in US trade policy necessitated increased caution in the **Fed’s** conduct of monetary policy. Following its January meeting, the Fed again left the target range for the federal funds rate unchanged at 4.25–4.50% in March, noting that uncertainty over the economic outlook had increased. The projected rate cuts remained unchanged from December – i.e. two rate cuts of 25 bp each are expected in 2025 (half the figure projected in September 2024). However, since the beginning of April, there has been notable volatility in financial markets, following the announcement of new US tariffs and a further escalation of trade tensions. Fed officials assessed that tariffs would lead to higher inflation and slower growth, but that it was still unclear what the appropriate monetary policy response would be. Tariffs are most likely to cause a temporary inflation increase, with the possibility that these effects may persist longer, potentially slowing the pace of the Fed’s monetary policy easing. On the other hand, a decline in purchasing power and demand would slow economic activity, complicating the conduct of monetary policy under the Fed’s dual mandate. In any case, the Fed is more cautious and will not reduce the policy rate range before June this year, until it sees whether tariffs will only temporarily affect prices or will result in higher inflation in the long run. Although short- and medium-term inflation expectations have risen, the 5-year TIPS breakeven rate declined immediately after the new tariffs were announced, suggesting that investors expect inflation to decelerate following a temporary spike, due to lower demand stemming from reduced consumer purchasing power.

When considering **external demand**, the NBS Executive Board took into account expectations that both advanced and emerging economies will grow at a slower pace, not only due to fundamental challenges but also amid heightened uncertainty from rising protectionism. While a pickup in growth is expected, economic growth in the euro area will remain subdued, especially in Germany, where stagnation is expected this year. Growth in Germany is projected to accelerate from 2026, driven by fiscal expansion, with government spending on defence and infrastructure expected to raise GDP by more than 2 pp on average over the next ten years. Conversely, economic activity in the US is affected by tariff policy uncertainty, which is weighing on business sentiment, consumption and investment decisions, and thus on expectations of slower growth going forward. Due to significantly higher tariffs on exports to the US, many relevant institutions have also revised down their growth forecasts for China for this and the next year. Consequently, global economic growth will be slower than previously expected, which will limit the increase in external demand for our exports. Nevertheless, the expected acceleration of growth in Germany, our most important trading partner, should have a positive impact on Serbia’s growth starting next year.

Caution in the conduct of monetary policy remains necessary also due to the unpredictability of macroeconomic developments in the international environment, which could **impact global prices of energy and other primary commodities**. In Q1 this year, the global oil price averaged USD 75.7 per barrel, but declined in April amid expectations of subdued oil demand, particularly from China. Nevertheless, uncertainty regarding future movements in oil prices remains elevated. Monetary policy caution is also warranted with respect to **global food prices**. The Executive Board took into account that the prices of certain food commodities on global exchanges (such as cocoa and coffee), which recently reached record highs, as well as last year’s weaker domestic agricultural season, will continue to exert upward pressure on food prices for some time. The situation is expected to stabilise with the onset of the new agricultural season, though caution will still be needed, as volatile weather conditions, protectionist measures and trade restrictions could again drive food prices up.

Rationale for May decision

At the May meeting, the Executive Board did not change the key policy rate, emphasising that though inflation retreated significantly and is moving within target bounds, a cautious momentary policy should still be pursued, amid uncertainty surrounding the effect of new tariffs and trade policies of leading global economies. Estimates prevail that, in such circumstances, global inflation will probably recede at a slightly slower-than-expected pace, while economic growth will be subdued due to disruptions in trade flows, production chains and weakness in key drivers of growth such as foreign trade, investment and consumption. Though the anticipated slower global growth triggered a decline in world prices of primary commodities, primarily of crude oil, caution is needed as higher production costs in the conditions of increased tariffs could produce inflationary effects. The Executive Board also took into account market participants' expectations that the ECB will probably continue to ease its monetary policy, resulting in more favourable terms of euro-indexed borrowing at home.

The NBS will continue to monitor and analyse trends in the international commodity and financial markets and, based on this and an assessment of domestic developments and the pace of inflation's slowdown, make monetary policy decisions on a meeting-to-meeting basis. The priority of monetary policy will remain to ensure price and financial stability in the medium term, while supporting further economic growth, employment and a favourable business and investment environment.

III Inflation movements

Consistent with our expectations, y-o-y inflation moved around the upper bound of the target tolerance band in Q1, reaching 4.4% in March. Relative to end-2024, the contribution of food prices to inflation increased under the impact of unfavourable global and local weather conditions. This was for the most part offset by lower energy prices, primarily those of petroleum products, and a slowdown in core inflation, which came at 5.1% y-o-y in March.

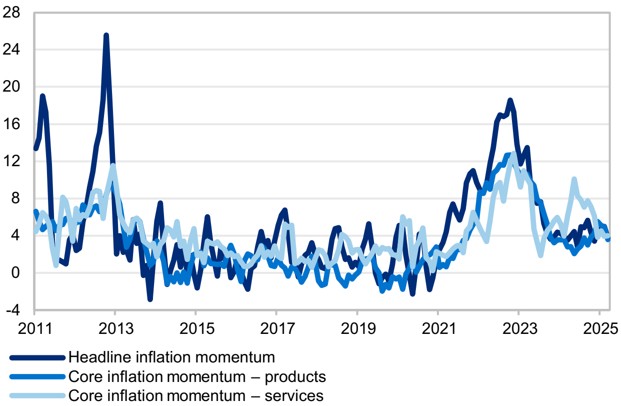
Both short- and medium-term inflation expectations of the financial sector continued to move within the target tolerance band (3±1.5%), confirming that the credibility of the NBS's monetary policy has been preserved.

Inflation movements in Q1

In accordance with our projection from the February *Report*, **y-o-y inflation** moved around the upper bound of the target tolerance band in Q1, **reaching 4.4% in March**. Relative to December, March saw a 0.3 pp increase in the contribution of food prices to the y-o-y inflation, while the contribution of the prices of energy and services decreased by 0.1 pp each. The easing of cost-push pressures is also indicated by the **inflation momentum**,[2] which decreased from a range of 4.7–5.0% during the December–February period to 3.8% in March.

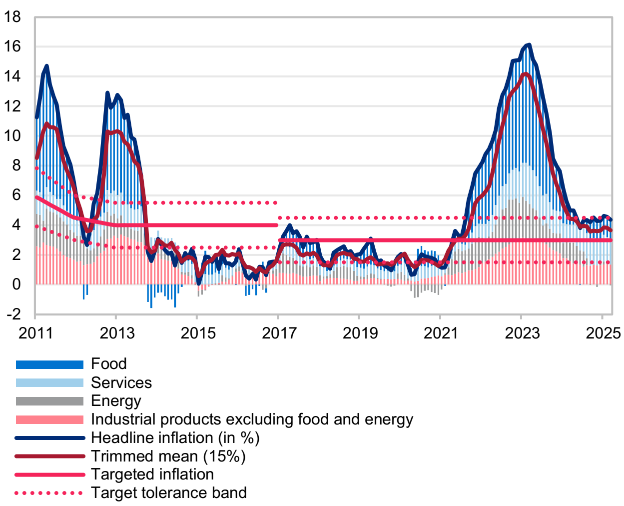
The dropout of last year's mobile telephony service price increases from the y-o-y calculation slowed **core inflation** down to 5.1% y-o-y in March, its lowest level since July 2024. Around two-thirds of the growth in core inflation in March is attributable to the services inflation, whose y-o-y growth softened to 6.3%. Similar to headline inflation, the momentum for core inflation also slowed from 4.5–4.7% in the December–February period to 3.9% in March, staying relatively stable for services at around 4% and abating for products to 3.6%. **The trimmed mean** rate of core inflation (calculated upon exclusion of 15% of products and services from the consumer basket whose prices recorded major changes in both directions) continued moving below 4.0% in Q1, reaching 3.7% in March, which is equivalent to its average value in the past three quarters.

Chart III.0.1 **Inflation momentum dynamics in Serbia**
(annualised q-o-q rates, in %)



Sources: SORS and NBS calculation.

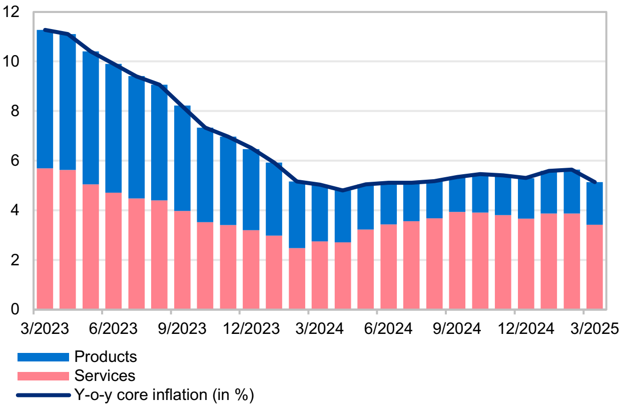
Chart III.0.2 **Contribution of main CPI components to y-o-y inflation**
(in pp)



Sources: SORS and NBS calculation.

[2] **Inflation momentum** reflects the pace of consumer price growth over shorter time intervals (months or quarters), assuming an identical pace of growth throughout the year. Inflation momentum is based on annualised quarterly moving averages of s-a monthly inflation rates.

Chart III.0.3 **Contribution of components to y-o-y core inflation**
(in pp)



Sources: SORS and NBS calculation.

Table III.0.1 **Growth and contributions of CPI components to consumer price growth in Q1 2025**

	Weights	Quarterly		Y-o-y March	
		Growth rates (in %)	Contributions (in pp)	Growth rates (in %)	Contributions (in pp)
Consumer prices (CPI)	**100.0**	**1.2**	**1.2**	**4.4**	**4.4**
Unprocessed food	10.7	1.2	0.1	2.6	0.3
Processed food	20.8	1.8	0.4	5.9	1.2
Industrial products excluding food and energy	28.2	0.8	0.2	4.7	1.3
Energy	15.7	0.7	0.1	-0.4	-0.1
Services	24.6	1.3	0.3	6.4	1.6
CPI excluding energy, food, alcohol and cigarettes	**45.7**	**0.8**	**0.4**	**5.1**	**2.4**
Administered prices	**18.3**	**1.4**	**0.3**	**4.3**	**0.8**

Sources: SORS and NBS calculation.

At quarterly level, **consumer prices went up by 1.2% in Q1**, slightly less than set out in the February *Report*, mainly because of a slower than expected pace of growth in petroleum product and vegetable prices.

The largest contribution (0.5 pp) to the Q1 inflation came from the **prices of food and non-alcoholic beverages**, which increased by 1.6% at the level of the entire group. This growth is predominantly due to the 1.8% rise in **processed food prices** in Q1 (contributing 0.4 pp to inflation), driven mainly by the higher prices of non-alcoholic beverages and confectionery products, which are still affected by the elevated global prices of coffee and cocoa. The **prices of unprocessed food** also increased in Q1 – by 1.2%, adding 0.1 pp to inflation, mainly due to higher prices of fresh vegetables (5.5%) and fresh fruit (2.0%). However, this price increase was somewhat mitigated by the prices of vegetables and fruit in February which were unexpectedly low for the season. The prices of fresh meat in the domestic market declined by 2.9% in Q1, reflecting entirely the decrease in pork prices in January and February, which was also recorded in the global market.

Energy prices went up by 0.7% in Q1 (with a 0.1 pp contribution to inflation) entirely as a consequence of the 1.5% hike in petroleum product prices in the domestic market in January and February. In March, for the first time in the past six months, the prices of petroleum products decreased amid lower crude oil prices in the global market. The prices of firewood increased slightly in Q1, which is typical for this time of the year, while household electricity prices remained unchanged.

Industrial product prices (excluding food and energy) provided half the previous quarter's contribution to inflation (0.2 pp), recording a growth rate of 0.8%. This increase was driven primarily by the February adjustment of cigarette prices (2.5%) and the rise in prices of alcoholic beverages (2.6%), while a seasonally typical decline in clothing and footwear prices (1.0%) worked in the opposite direction.

Service prices increased by 1.3% in Q1 (contributing 0.3 pp to inflation), chiefly due to the adjustment of prices of utility (6.3%) and internet services (2.3%). In contrast, the prices of tourist package arrangements fell by 10.4% in Q1, consistent with their seasonal decline in February and March. The increase in service prices – reflecting higher labour costs and greater real disposable household income – dictated the 0.8% growth in **core inflation** in Q1 (with a 0.4 pp contribution to inflation), which was nonetheless lower than in the previous quarter (1.3%).

Administered prices climbed by 1.4% in Q1, adding 0.3 pp to inflation, on the back of the said upward revisions of cigarette and utility service prices. Y-o-y administered price growth measured 4.3% in March and was slightly higher than in December (4.2%).

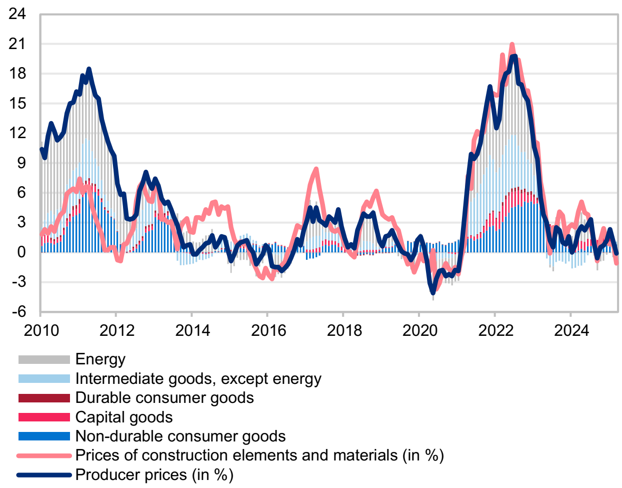
Producer and import prices in Q1

Since the previous *Report*, **cost-push pressures in the industry and construction have further eased**, as evidenced by the y-o-y dynamics of industrial producer prices in the domestic market and the prices of construction elements and materials.

Y-o-y, **industrial producer prices in the domestic market** slightly declined in March, by 0.1% compared to a 1.2% increase in December, primarily due to the y-o-y drop in energy production prices, especially the prices of petroleum products, also influenced by the high last year's base. The base effect was also evident in the prices of capital goods, which in March recorded a y-o-y decline for the first time since February 2021, mainly because of lower prices in motor vehicle manufacturing. On the other hand, in March, the prices of intermediate goods increased y-o-y, particularly the prices of metal, rubber and plastic products, as well as the prices of non-durable consumer goods, especially in the production of food and beverages. The **prices of construction elements and materials** recorded a 1.1% y-o-y decline in March, and a 0.9% decrease in Q1 overall, providing further assurance as to the easing of cost-push pressures.

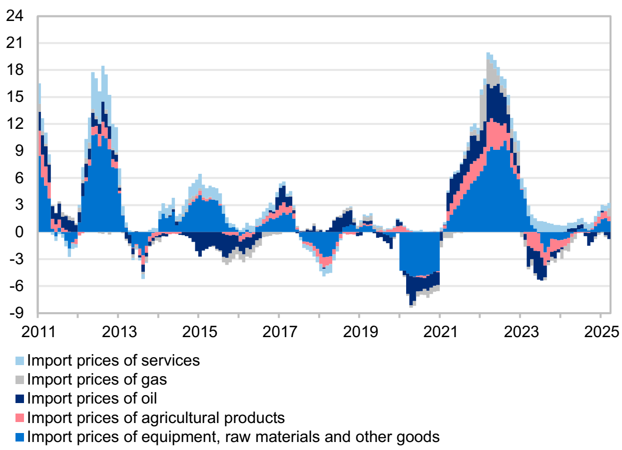
Imported inflation led to a slight increase in price pressures in Q1. On a quarterly basis, **import prices expressed in dinars**[3] rose by 0.4% in Q1, while stepping up their y-o-y growth to 2.5%, led chiefly by the higher prices of equipment, intermediate goods and other imported goods (approximated by Germany's export prices). A positive y-o-y contribution to imported inflation in Q1 also came from the prices of imported gas, imported services (approximated by core inflation in the euro area), and global prices of primary agricultural commodities, while a negative contribution came from lower global oil prices.

Chart III.0.4 **Contribution by destination groups of consumption to y-o-y producer price dynamics***
(end-of-period, in pp)



Sources: SORS and NBS calculation.
* Industrial producer prices for the domestic market.

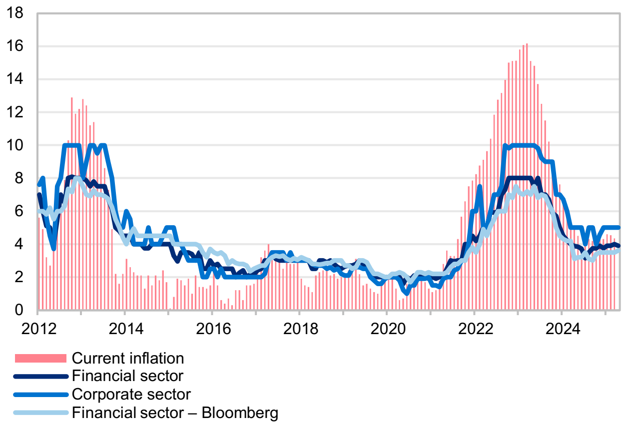
Chart III.0.5 **Contribution of selected components to y-o-y growth rate of import prices in RSD**
(end-of-period, in pp)



Sources: Destatis, FAO, Bloomberg, Eurostat, SORS and NBS calculation.

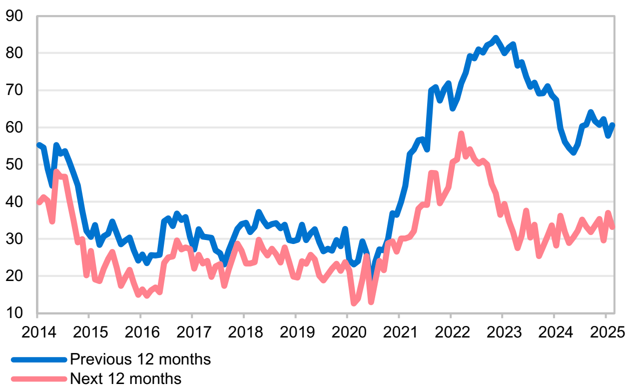
[3] Preliminary data. The base year is 2010. The weighted average of several components is used as an indicator of import prices: the global Brent oil prices, imported gas price, food prices in the global market (FAO index), consumer prices within euro area core inflation, and export prices of Germany, one of Serbia's key trade partners. The fixed weights of the components are calculated according to the value of imported goods and services in 2024.

Chart III.0.6 **Current inflation and one-year ahead inflation expectations**
(y-o-y rates, in %)



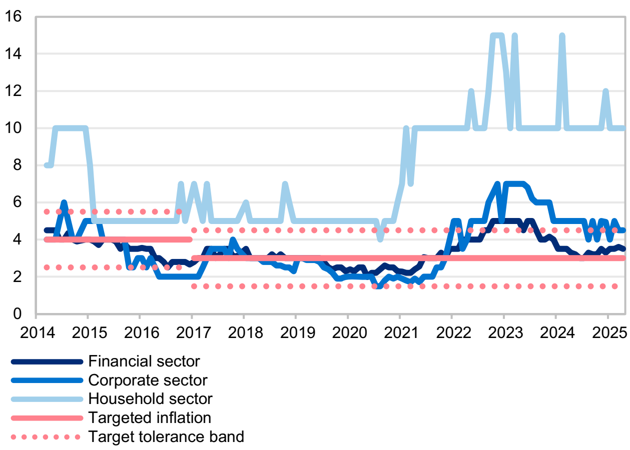
Sources: Gallup/Ipsos/Ninamedia, Bloomberg and NBS.

Chart III.0.7 **Household perceived and expected inflation**
(in index points)



Sources: Gallup/Ipsos/Ninamedia and NBS.

Chart III.0.8 **Two-year ahead inflation expectations**
(y-o-y rates, in %)



Sources: Gallup/Ipsos/Ninamedia and NBS.

Inflation expectations

Short-term inflation expectations of the financial sector continued to move within the NBS target band, where they have been since January 2024, while medium-term expectations have been within the band for quite some time already. According to the results of the April survey conducted by Ninamedia, **one-year ahead inflation expectations of the financial sector** decreased to 3.9%, from 4.0% in March. Notably, the responses of almost all financial institutions participating in the survey were within the NBS target band. According to the **Bloomberg** survey, inflation expectations of this sector for one year ahead were at a slightly lower level, measuring 3.6%.

One-year ahead inflation expectations of the corporate sector in April stayed at 5.0%, for the fifth consecutive month. Since the beginning of the year, the share of corporates expecting a rise in input prices in the next three months (27.3% of respondents) decreased, as did the share of those expecting a rise in the prices of final products (29.2% of respondents). Most respondents believe that input prices (70.4% of respondents) and the prices of final products and services (70.8% of respondents) will stay unchanged in this period.

Short-term household inflation expectations stayed unchanged at 15.0%. Still, according to the results of the qualitative survey,[4] in April the index of perceived inflation measured 60.6 points and of expected 33.2 points, indicating that households expect lower inflation in the coming 12 months than in the previous year.

Medium-term inflation expectations of the financial sector are lower than short-term and stood in April at 3.5% for **two years ahead** and 3.3% for **three years ahead**. **Two-year ahead inflation expectations of the corporate sector decreased to** 4.5% and those of the **household sector** to 10.0%.

[4] For more details on the qualitative expectations of households see the *February 2016 Inflation Report* – Text box 2, p.15

IV Inflation determinants

1 Financial market trends

Interest rates on the most prominent categories of dinar loans extended to the private sector – working capital loans to corporates and cash loans to households – continued down in Q1. Further accommodation of the ECB's monetary policy also reflected on the lower price of borrowing in euros, with interest rates on housing loans adhering to this year's 5% cap imposed via amendments to the Law on the Protection of Financial Service Consumers. Interest rates on natural persons' credit card debt and current account overdrafts were also reduced on the same grounds.

Interest rates

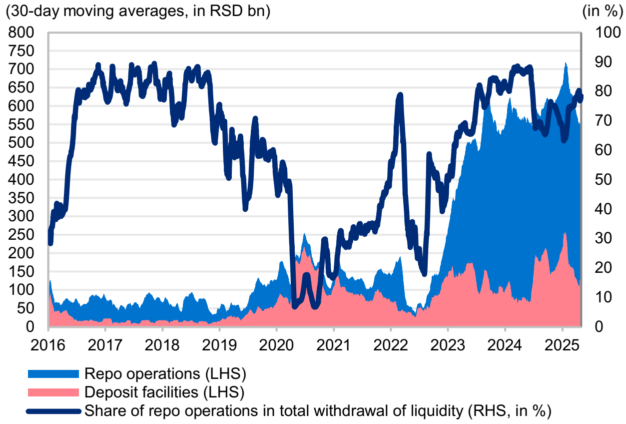
At its meetings in Q1 2025, the NBS Executive Board kept **the key policy rate and interest rates on lending and deposit facilities** at 5.75%, 7.00% and 4.50%, respectively, which also contributed to minimal interest rate oscillations in the money market.

BEONIA, the interest rate in the **overnight interbank money market**, stayed almost unchanged in Q1, measuring 4.47% at end-March. This was also the case with BELIBOR rates, which continued to move within the range from 4.50% for the shortest, to 4.74% for the six-month maturity. In conditions of ample excess dinar liquidity, the trading volume in the money market remained relatively low in Q1 as well, which is evidenced also by the absence of trading in the overnight segment during almost half of business days.

In January 2025, the **primary market of dinar government securities** saw the first auction after the award of investment grade rating to Serbia. The government issued 10.5Y dinar bonds, posting the record sale – nearly four times the planned amount, in nominal value of RSD 111.3 bn, while the demand reached as much as RSD 158 bn, making this auction the most successful to date. Coupon and effective rates equalised at 5.25%. These securities were also in high demand by foreign investors in the secondary market. Since the

Chart IV.1.1 **NBS operations – liquidity withdrawal**

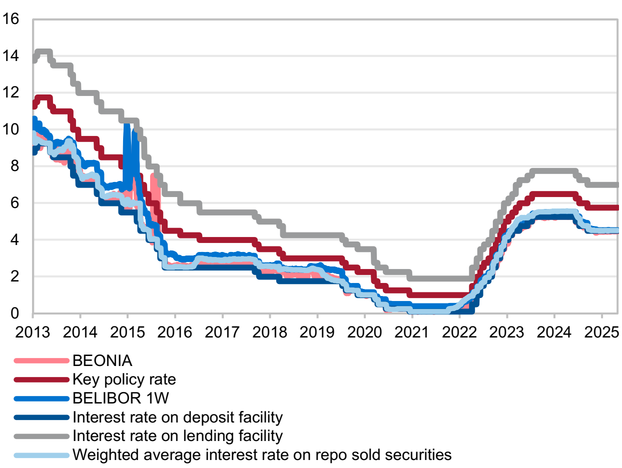
(30-day moving averages, in RSD bn)



Source: NBS.

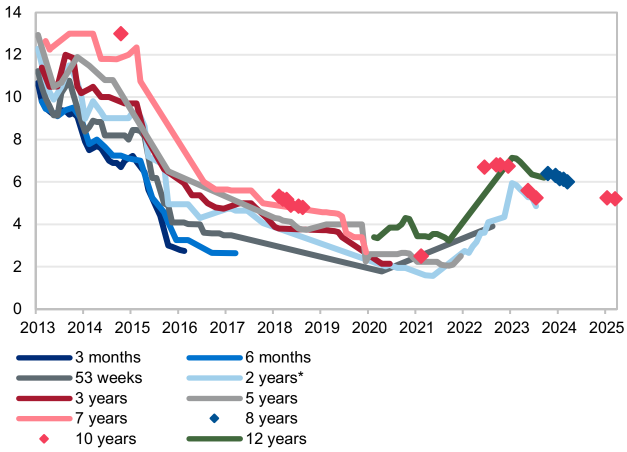
Chart IV.1.2 **Interest rate movements**

(daily data, p.a., in %)



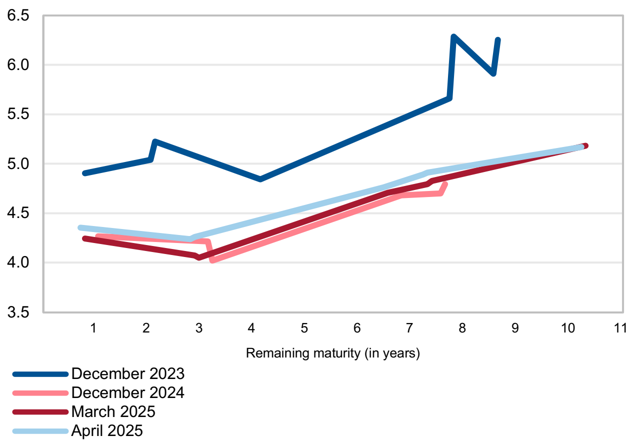
Sources: Thomson Reuters and NBS.

Chart IV.1.3 **Interest rates in the primary market of dinar government securities**
(p.a., in %)



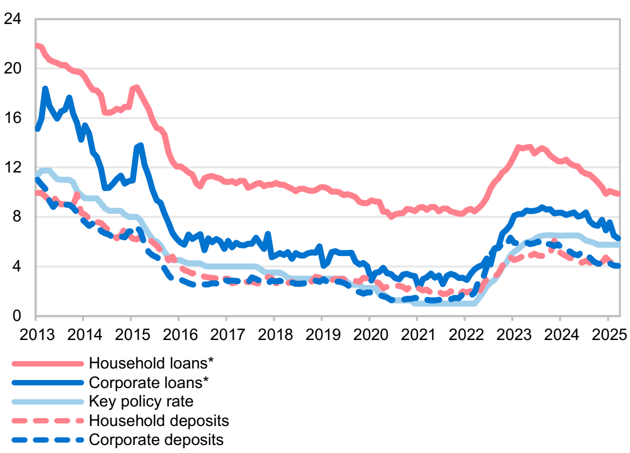
Source: Ministry of Finance.
* Excluding coupon securities with the rate linked to the NBS key policy rate.

Chart IV.1.4 **Yield curve in the secondary government securities market**
(average values, p.a., in %)



Source: Central Securities Depository and Clearing House.

Chart IV.1.5 **Interest rates on new dinar loans and deposits**
(weighted average values, p.a., in %)



Source: NBS.
* Excluding revolving loans, current account overdrafts and credit card debt.

planned RSD 120 bn issue was almost fully sold out already in the first auction, the Public Debt Administration issued additional RSD 60 bn in February, whereby the full size of the issue of 10.5Y dinar securities increased to RSD 180 bn. At auction reopening in March, additional RSD 25.2 bn nominal worth of securities were sold (demand equalled RSD 33.1 bn), with the yield rate going slightly down to 5.20%.

Since earlier issued 2Y dinar securities worth RSD 100 bn fell due, the stock of dinar securities portfolio increased by RSD 36.5 bn, to RSD 893.1 bn at end-March.

As for **government euro securities**, there were no new auctions in Q1 2025, but earlier issued bonds nominally worth EUR 42.1 mn fell due, so the stock of the euro securities portfolio contracted to EUR 1,506.3 mn at end-March.

In Q1, the turnover in the **secondary market of dinar securities** rose by 21% relative to Q4 2024, coming at RSD 94.1 bn. Weighted average yields remained almost unchanged, consistent with the movement of interest rates in the money market, ranging from 4.25% for the remaining up-to-1Y maturity, to 5.18% for the newly issued bonds with the remaining up-to-10.5Y maturity.

The effects of the NBS's past monetary policy easing continued to reflect on the **decline in the interest rate on dinar corporate loans** in Q1 2025, by 0.6 pp to 6.3% in March, as well as the rate on the largest category of dinar household loans – cash loans, while the total **interest rate on new dinar household loans** remained broadly unchanged, measuring 9.9% in March.[5]

A decrease in the **weighted average interest rate on dinar corporate loans** reflects a drop in the interest rate on working capital loans, by 0.9 pp to 6.0% (this category accounting for around 75% of dinar corporate lending), and a mild decline in the interest rate on other non-categorised loans, by 0.1 pp to 6.9%. Within the composition of **dinar household lending** by category, the interest rate on cash loans (holding the dominant 89% share) edged down by 0.3 pp, to 9.9%, its lowest level since June 2022. This rate fall was offset by the rise in the average interest rate on other non-categorised loans, by 1.8 pp to 10.0%. This loan category dominates the remaining dinar lending to households and is mainly absorbed by entrepreneurs and farmers.

[5] In December 2024, the NBS adopted the Decision on Temporary Interest Rate Cap, extending the 5% cap on the nominal interest rate on housing loans until the end of 2025 and applying the cap on other types of loans as well –14.08% for dinar loans, and/or 6.98% for FX loans, by 31 May 2025, after which new caps will be set, based on the movement of the weighted average interest rate over the previous six months. See Text box 1, p. 18.

A continued decline in the ECB's reference rate pushed the **interest rate on euro corporate loans** down by 0.3 pp in Q1, to 5.3% in March. Interest rate decline was recorded across all lending categories, but the major contribution came from working capital and investment loans whose rates dropped by 0.2 pp each, to 5.2% and 5.5%, respectively, these two categories accounting for around 90% of euro lending to corporates. The **interest rate on euro household loans** also edged down, by 0.1 pp, to 5.4% in March, driven mainly by the drop in the interest rate on other non-categorised loans, by 2.1 pp to 6.6%, and also on consumer loans, by 0.4 pp to 5.8%. The interest rate on housing loans was kept almost unchanged, at 5.0%, in line with the NBS's decision and subsequently also the Law on the Protection of Financial Service Consumers, temporarily capping the interest rates.

Table IV.1.1 **Interest rates on new loans – by type and currency**
(in %)

	Dinar			Euro and euro-indexed		
	2023	2024	2025	2023	2024	2025
	Q4	Q4	Q1	Q4	Q4	Q1
Total household loans*	12.5	9.9	9.9	6.3	5.5	5.4
Cash loans	13.2	10.2	9.9	3.3	2.4	3.6
Housing loans	12.9	10.6	10.3	5.0	4.9	5.0
Consumer loans	3.0	2.5	2.9	6.5	6.2	5.8
Other loans	10.5	8.2	10.0	9.8	8.7	6.6
Total corporate loans*	8.3	6.9	6.3	7.1	5.6	5.3
Working capital loans	8.3	6.9	6.0	7.0	5.4	5.2
Investment loans	9.4	6.9	7.0	7.3	5.7	5.5
Other loans	8.3	7.0	6.9	7.3	5.8	5.4
Import loans	-	-	-	6.5	5.6	4.8

Source: NBS.
Note: Data relate to average values on the last day of the month in the quarter observed.
* Excluding revolving loans, current account overdrafts and credit card debt.

Text box 1: The effects of the NBS's decision on rate caps and the Law on the Protection of Financial Service Consumers on interest rates and lending to natural persons

The latest cycle of monetary policy tightening by the ECB drove up interest rates in the euro area money market. At home, this pushed up interest rates on euro-indexed loans. To relieve users of housing loans from the burden of the sudden increase in the cost of loan repayment, pre-empt NPLs and preserve financial stability, in September 2023 the NBS decided to cap interest rates on these loans until end-2024. A new Law on the Protection of Financial Service Consumers[1] (Law) was enacted to systemically regulate the capping of interest rates on housing loans, as well as on other credit products, in order to protect the interests of financial service consumers and preserve and reinforce financial system stability. This text box takes a detailed look at the caps introduced by this Law and the effects so far on interest rates on loans to natural persons and on lending activity.

For the sake of reminder, over a short time span – from June 2022 until September 2023 – the ECB raised its key rates by 4.5 pp, driving up interest rates in the euro area money market. After being negative for a long time, 3M and 6M EURIBOR stepped up their growth from June 2022 – in May 2022, before the start of the ECB's monetary policy tightening, they measured -0.39% and -0.14%, respectively, only to reach 2.06% and 2.56%, respectively, at end-2022, and 3.88% and 4.03%, respectively, in September 2023. As housing loans in the domestic market are almost entirely euro-denominated and the rates on these loans are most often indexed to 3M and 6M EURIBOR (around 80% of loans at the time the caps were introduced), interest rates on new loans increased quickly, from 2.8% in May 2022 to 6.7% in August 2023. Existing housing loan instalments swelled (the interest rates on these loans rose from 2.9% in May 2022 to 6.4% in August 2023).

In order to relieve users of housing loans from the burden of rising interest rates, in September 2023 the NBS decided[2] to cap interest rates on new housing loans at 5% (5.03% for fixed-rate loans, whereas for variable-rate loans the bank's margin was not to exceed 1.1%). The interest rate on existing variable-rate loans was then capped at 4.08%. Existing loan instalments were estimated to have decreased by 10% to 25% due to the above cap, supporting a rise in the disposable income of households.

When this measure ended in December 2024, the NBS adopted the Decision on Temporary Interest Rate Cap on Loan Agreements Concluded with Natural Person Consumers,[3] to ensure that the interest rate caps prescribed in the proposed new Law on the Protection of Financial Service Consumers are applied until this Law comes into effect. The Decision extended the 5% cap on interest rates on existing variable-rate housing loans and on new variable- and fixed-rate housing loans, both dinar- and euro-denominated ones, until end-2025. The effective interest rate was also capped (in line with the Decision, it was not to exceed the statutory default interest rate decreased by 4.5 pp). In addition to the nominal rate, the effective rate includes all loan-related costs (e.g. cost of real estate insurance, cost of certifying the lien statement, mortgage entry fee, cost of real estate valuation). The capping of the effective interest rate prevents banks from charging additional fees in order to circumvent caps on the nominal rate. After the caps were introduced, the interest rate on new euro-denominated housing loans stayed at around 5% until March 2025 (the latest available data), while the rate on existing loans moved at around 4.5% from September 2023 until end-2024, and at around 5% in Q1 2025 (with rates on new and existing loans equalising at 5%). If we take into consideration that 3M and 6M EURIBOR measured 2.70% and 2.61% early this year, and the housing loan margin was 3 pp on average, the interest rates on existing variable-rate housing loans would have automatically risen from 4.08% to around 5.6–5.7% if not for the new cap valid beyond 2024.

The December 2024 decision also capped interest rates on cash and consumer loans. The maximum nominal rate on dinar loans was set at 14.75%, and the effective interest rate – at 15.75%. These caps are higher than the current market rates and mostly have the function of protecting against excessive interest rates. **This is reflected in the fact that the**

[1] RS Official Gazette, No 19/2025.

[2] Decision on Temporary Measures for Banks Relating to Natural Persons' Housing Loans, RS Official Gazette, No 78/2023.

[3] RS Official Gazette, No 102/2024.

average nominal rate on the most common, dinar cash loans is around 10% (10.2% in December 2024, 9.9% in March 2025), which is well below the cap. Also, the effective interest rate on credit cards was capped at 17.75%, and that on authorised and unauthorised overdrafts – at 19.75%. This is an important step in preventing excessive interest rates, since the interest rate on this, costliest type of lending decreased by around 30% relative to the level previously charged by banks (and the interest rate on these loans is the least dependent on the key policy rate). **The average interest rate on dinar credit card debt thus decreased from 22.9% in December 2024 to 15.9% in January and February 2025 and 15.8% in March, while the rate on current account overdraft slid from 29.1% in December 2024 to 19.4% in January 2025, and further down to 18.6% in February and 18.5% in March.** The caps on current account overdrafts and credit cards will apply to existing contracts, i.e. even before their renewal. Together with the capping of the effective interest rate on new contracts, this will ensure additional security for consumers.

The Decision on capping interest rates was temporary and valid until the adoption of the new Law. The new Law entered into force in mid-March this year, and the provisions on interest rate caps, as one of the key novelties introduced by the Law, took immediate effect. In accordance with the Law, the NBS adopted a methodology[4] for calculating the interest rates on which the interest rate caps are based. On its website, the NBS published an overview of applicable caps on nominal and effective interest rates on loans to natural persons. The caps on housing loan interest rates for this year remained unchanged from the decision from December 2024. The Law sets forth that, in the transitional period (during 2026 and 2027), the interest rate on variable-rate housing loans will not be higher than the weighted average interest rate on existing variable-rate loans, increased by one-fifth of that rate (for fixed-rate loans, the average interest rate on new fixed-rate loans is increased). From 2028 onwards, the above increase will equal one-fourth of the average rate. In comparative terms, this is the narrowest corridor of housing loan rate caps, since, e.g. in Croatia and France which also apply caps on interest rates on housing loans, the increase equals one third of the average rate. In the NBS's view, in this way the caps do not compromise the functioning of market mechanisms, while at the same time allowing for a gradual adjustment to market rates, subject to the prescribed limitations.

Table O.1.1 **Nominal interest rate caps**

Duration	Type of loan	Basis for calculation	Increase
2025 – onwards	Other variable-rate loan categories	weighted average interest rate on existing loans	+1/4
2025	Housing loans	5.00%	
2026 – 2027	Variable-rate housing loans	weighted average rate on existing variable-rate loans	+1/5
	Fixed-rate housing loans	weighted average rate on new fixed-rate loans	+1/5
2028 – onwards	Variable-rate housing loans	weighted average rate on existing variable-rate loans	+1/4
	Fixed-rate housing loans	weighted average rate on new fixed-rate loans	+1/4

Source: NBS.

For cash and consumer loans, caps defined within the "other loans" category are applied, and the maximum interest rate is determined as the weighted average interest rate on existing loans, increased by one-quarter of that rate. Data on the level of nominal interest rate caps for loans to natural persons will be published twice a year (on 1 June – based on March data and on 1 December – based on September data), while data on effective interest rate caps will be published after each change to the key rates of the NBS and the ECB. When concluding a credit agreement, banks will be required to apply the caps referred to in this Article within 15 days from the date of disclosure of weighted average rates. By way of exception, when first determining the interest rate cap, data on the average interest rate on existing loans for this purpose from January 2025 will be used, and this cap will be valid until end-May. According to these data, the maximum nominal rate on other loans was set at 14.08%.

In addition to interest rate caps for all credit products, the Law also introduced a special, lower statutory default interest rate on overdue liabilities of consumers – natural persons under contracts regulated by this Law (and the Law on Payment Services), which is 2 pp lower than the general statutory default interest rate prescribed by the Law on

[4] https://www.nbs.rs/export/sites/NBS_site/documents-eng/propisi/propisi-kpb/metodologija_ks_e.pdf

Default Interest Rate and equals the sum of the key policy rate of the National Bank of Serbia, or of other central banks for their currencies, and 6 pp. In addition, this rate would be used to cap the effective interest rate on new loans.

The Law defines the caps on the effective interest rate according to the following methodology:

1. for housing loans to natural persons – the special default interest rate defined in the Law decreased by 2.5 pp;
2. for other loans to natural persons – the special default interest rate defined in the Law increased by 4 pp;
3. for credit card debt – the special default interest rate defined in the Law increased by 6 pp;
4. for current account overdraft – the special default interest rate defined in the Law increased by 8 pp.

It is important to note that interest rate caps refer to natural persons only, but data in interest rate statistics on the household sector also include entrepreneurs, farmers and non-profit institutions to which the cap does not apply. It is therefore possible that the average interest rates on some categories of household loans published as part of official interest rate statistics of banks exceed the level defined by the cap. The difference may also be present in the case of housing loans, as the cap refers to mortgage-backed housing loans only and does not include housing loans for energy efficiency which are not mortgage-backed.

The caps referring to the "other loans" category apply to these loans which are recorded as housing loans in interest rate statistics.

Table O.1.2 **Current nominal interest rate caps***

	Housing loans (variable and fixed rate)		Other loans (variable rate)	
	RSD	EUR	RSD	EUR
Weighted average nominal interest rate as at 31 January 2025	4.99%	4.93%	11.26%	5.58%
Nominal interest rate cap	5.00%	5.00%	14.08%	6.98%

* Interest rate caps apply until 31 May 2025.

Source: NBS.

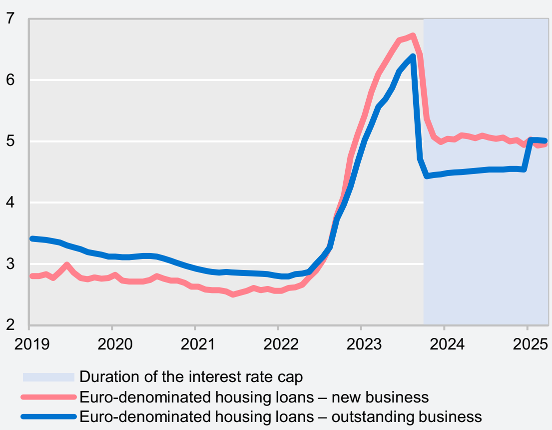
Table O.1.3 **Current effective interest rate caps**

	Credit card debt		Current account overdraft	Housing loans		Other loans	
	RSD	EUR		RSD	EUR	RSD	EUR
Default interest in accordance with the Law	11.75%	8.40%	11.75%	11.75%	8.40%	11.75%	8.40%
Effective interest rate cap at the time of concluding the agreement	17.75%	14.40%	19.75%	9.25%	5.90%	15.75%	12.40%

Source: NBS.

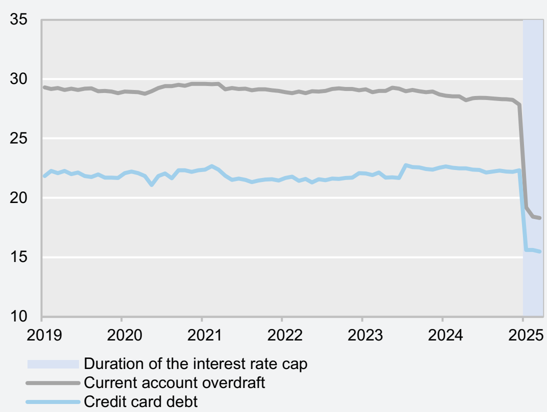
The effects of the interest rate caps on lending and financial stability can best be illustrated on the example of housing loans, where interest rate caps were first introduced. After rising at double-digit rates in the 2020-2022 period, these loans began to slow in y-o-y terms during 2023. The capping of interest rates helped reduce instalments of existing loans and made new loans more accessible. At the same time, it prevented a potential increase in NPLs, as reflected in

Chart O.1.1 **Interest rates on housing loans**
(weighted average values, p.a., in %)



Source: NBS.

Chart O.1.2 **Interest rates on credit cards and current account overdraft**
(weighted average values, p.a., in %)

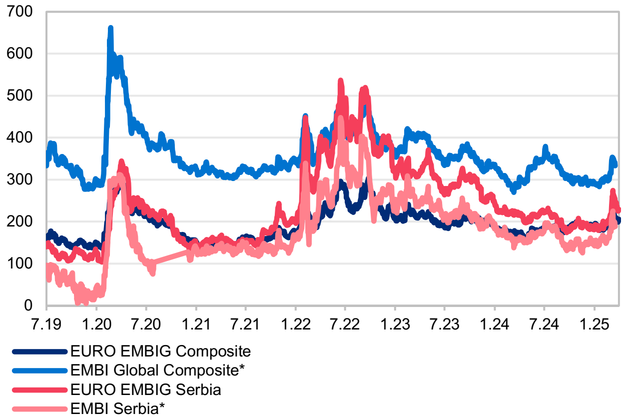


Source: NBS.

the stable share of NPLs in total housing loans. At the time of the first decision on interest rate caps, this share was 1.7%, but it declined gradually over the coming months to 1.3% in March 2025. The share of fixed-rate housing loans also increased (from around 18% in October 2023 to 37% in March 2025). Together with the easing of credit standards in H2 2024 and Q1 2025, interest rate caps on housing loans helped the recovery in housing loans which rose by close to 8% in 2024 (RSD 45.2 bn) and accelerated to 9.6% y-o-y in March 2025.

The NBS remains committed to maintaining its main objectives and keeping a close eye on the situation in the financial sector. As so far, it will take all necessary actions to protect financial service consumers and preserve households' living standards, indirectly contributing to the preservation of financial sector stability. So far, the objectives defined by the proposed Law have been achieved, including: 1) to prevent banks from charging excessive interest rates; 2) in the event of a sudden surge in interest rates, as was the case in 2022/2023, to slow this increase for consumers, giving them more time to adapt to a new rate; 3) to encourage greater approval of fixed-rate housing loans (banks should be encouraged to approve more fixed-rate loans and consumers should have concrete benefits from the fact that the rate will stay unchanged during repayment).

Chart IV.1.6 **Risk premium indicator**
(daily data, in bp)



Source: J.P. Morgan.
* After 17 April 2025, JP Morgan stopped publishing data on the dollar risk premium.

Risk premium

Global risk premium mainly trended upward in Q1 2025, primarily reflecting market participants' concerns that global lifting of tariffs and trade barriers could generate new inflationary pressures. These concerns also upheld the expectations that interest rates of leading central banks, first of all the Fed, would remain elevated for longer than earlier expected, and fuelled the demand for safe assets, additionally spurring risk premium growth. **EMBI Composite** equalled 318 bp at end-March, up by 21 bp from end-December. Serbia's dollar risk premium gained 34 bp in Q1, reaching 181 bp at end-March, but continued to trend considerably below EMBI Composite.

EURO EMBIG Composite rose less sharply, by 4 bp in Q1 and by 10 bp in April to 206 bp at the end the of the month, mainly owing to continued monetary accommodation by the ECB. Serbia's EURO EMBIG added 23 bp in Q1 and 12 bp in April, reaching 229 bp at the month end.

In January, **Fitch** affirmed Serbia's positive outlook for obtaining investment grade, while keeping the BB+ credit rating. The decision to maintain a positive outlook was supported by an adequate economic policy mix, strong outlook for investment-led economic growth, continued downward trajectory of public debt to GDP ratio, strengthening of the country's external position and high FX reserves, as well as a sound monetary policy conduct in the period of heightened inflationary pressures.

Table IV.1.2 **Credit rating**
(change of rating and outlook)

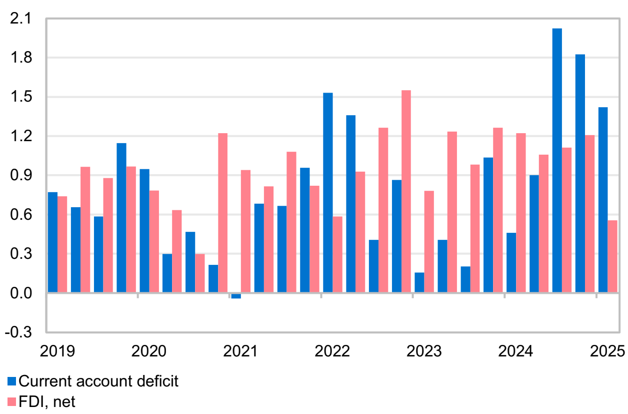
	2020	2021	2022	2024	
S&P	BB+ /stable[3]	BB+ /positive[7]	BB+ /stable[4]	BB+ /positive[2]	**BBB- /stable[6]**
Fitch				BB+ /positive[5]	
Moody's		Ba2 /stable[1]		Ba2/positive[5]	

Source: NBS.
[1] March, [2] April, [3] May, [4] June, [5] August, [6] October, [7] December.
Note: There was no change in rating/outlook in 2023.

Foreign capital inflow

Financial loans and FDIs made up the bulk of capital inflows to Serbia in Q1, while the outflow was generated through higher balances in domestic banks' accounts abroad, portfolio investments and trade loans.

Chart IV.1.7 **Current account deficit and net FDI inflow**
(in EUR bn)



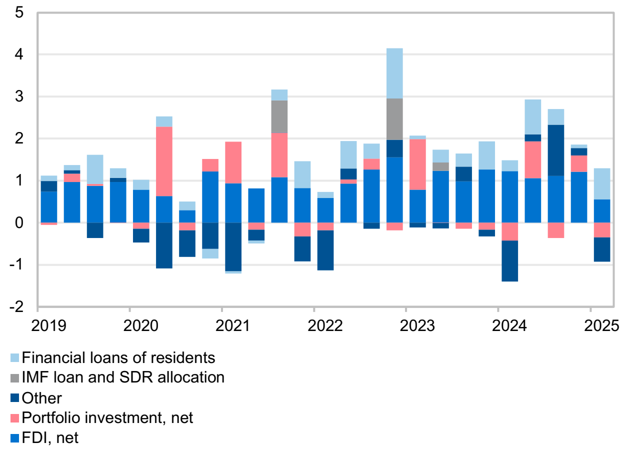
Source: NBS.
Note: Preliminary data for Q1 2025.

FDI inflow in Q1 2025 equalled EUR 704.3 mn, a decline compared to Q1 2024 which saw an above-average inflow for that part of the year. However, this year's Q1 inflow was lower also when compared to the relevant average figures in the last few years. Taking into account residents' investments abroad, net inflow came at EUR 555.7 mn. FDI composition remained favourable – 87% of FDI inflow was in the form of equity capital and reinvested earnings, while FDI remained diversified by project and geography.

Net capital outflow of EUR 348.1 mn was registered under **portfolio investment** in Q1. The greatest contribution came from residents, which stepped up their investment into foreign securities. On the other hand, despite selling securities in the secondary market, non-residents turned out net buyers in Q1, mostly thanks to investment in dinar government securities in January.

An inflow of EUR 736.0 mn came from **financial loans** in Q1. More than half of that inflow referred to enterprise borrowing, and the rest were loans approved to banks and the government. At the same time, domestic banks increased their assets in accounts abroad which, together with reduced non-resident assets with domestic banks, led to a EUR 469.3 mn outflow of currency and deposits in Q1. **Trade loans and advances** also generated an outflow, of EUR 138.5 mn, due to the settlement of liabilities related to goods and services imports in the prior period.

Chart IV.1.8 **Structure of the financial account**
(in EUR bn)



Source: NBS.
Note: Preliminary data for Q1 2025.

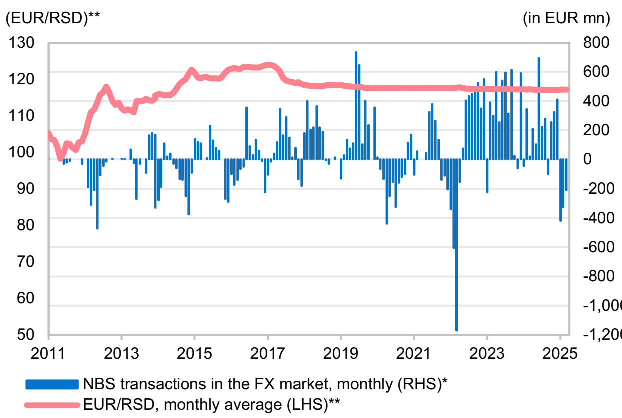
Trends in the FX market and exchange rate

In Q1, the dinar nominally weakened against the euro by 0.2% end-of-period. At the same time, due to the euro's strengthening against the dollar in the international market, the dinar nominally strengthened against the dollar in Q1 by 3.9%.

The depreciation pressures on the dinar prevailed throughout Q1, with gradual weakening. The main cause of these pressures was a seasonal hike in FX demand, mostly by domestic companies in the energy sector. In addition, FX supply by other residents, excluding energy companies, contracted in y-o-y terms, in part due to the lower FX supply from FDI. As a result of these movements, residents turned out net FX buyers in Q1. Factors on the FX demand side included the net sale of foreign cash by banks, net FX sale to non-residents and shortening of banks' FX position through payment card transactions, and on the FX supply side, an increase in net FX-indexed bank assets[6].

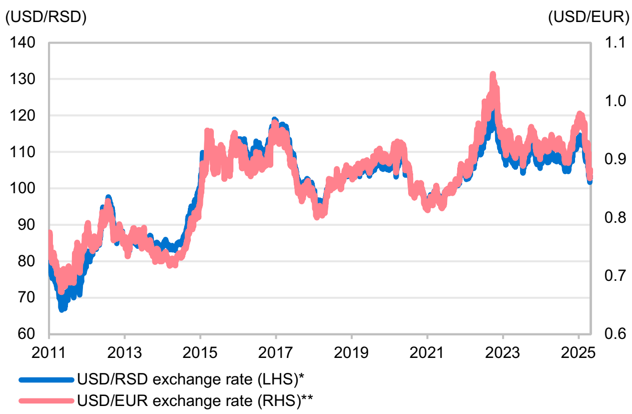
To maintain the relative stability of the EUR/RSD exchange rate, the NBS intervened in the IFEM by selling EUR 955.0 mn net in Q1, the volume of interventions dwindling month after month. In January, the NBS intervened only on the sale side (EUR 420.0 mn), while in the following two months it also occasionally purchased foreign currency. Though standing below the record high from end-2024, at the level of EUR 28.5 bn, FX reserves by far exceed the adequacy standards – covering around seven months of goods and services imports or 177% of money supply M1.

Chart IV.1.9 **Dinar exchange rate and NBS transactions in the FX market**



Source: NBS.
* + net purchase; - net sale.
** EUR 1 in RSD.

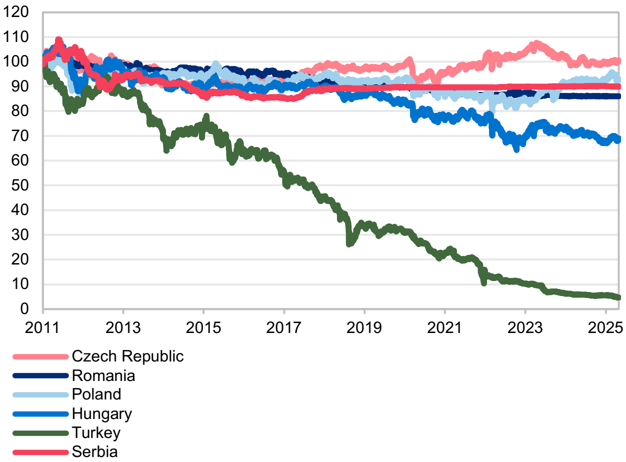
Chart IV.1.10 **Movements in USD/RSD and USD/EUR exchange rates**



Source: NBS.
* USD 1 in RSD.
** USD 1 in EUR.

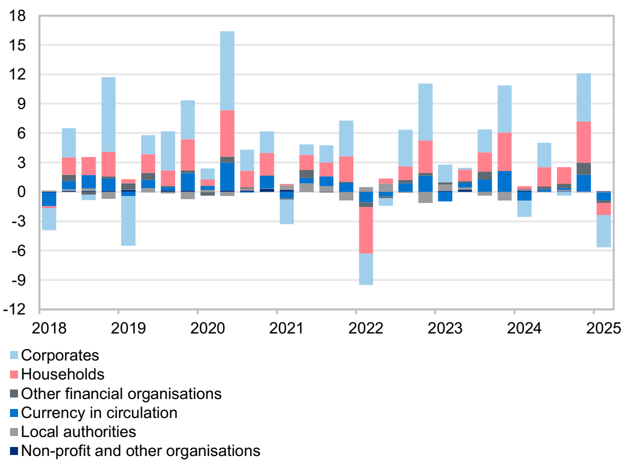
[6] Aiming to balance their long open FX positions and reduce exposure to FX risk, banks sell foreign currency, which works toward the strengthening of the dinar.

Chart IV.1.11 **Exchange rates of selected national currencies against the euro***
(daily data, 31 December 2010 = 100)



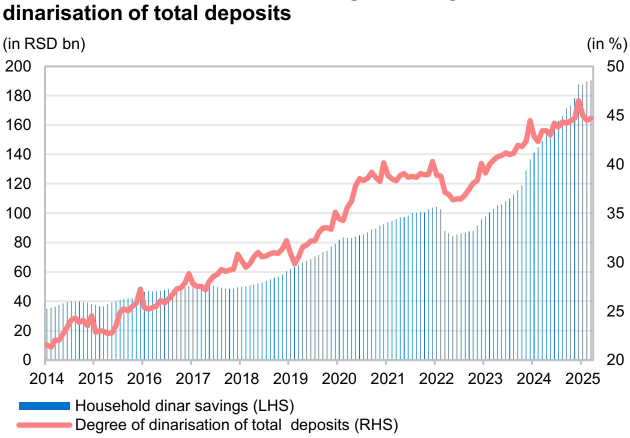
Sources: NBS and websites of central banks.
* Growth indicates appreciation.

Chart IV.2.1 **Contributions to quarterly growth in M2, by sector**
(in pp)



Source: NBS.

Chart IV.2.2 **Dinar household savings and degree of dinarisation of total deposits**



Source: NBS.

In April, appreciation pressures prevailed and the NBS bought EUR 45.0 mn net in the IFEM.

The currencies of regional inflation targeters displayed divergent movements against the euro in Q1. Gaining ground against the euro were the Polish zloty (2.1%), the Hungarian forint (2.0%) and the Czech koruna (0.9%), while the Romanian leu lost 0.1%. At the same time, the Turkish lira weakened by 10.1%, despite the central bank's record interventions in the FX market.

2 Money and loans

Total money supply M3 slowed down its y-o-y growth in Q1 2025, mostly due to the contraction in corporate demand deposits in Q1, sharper than usual for the season. Although dinar savings rose at a slower pace than in previous quarters, they reached RSD 190.3 bn at end-March.

More favourable cost of borrowing, along with the softening of household credit standards, worked toward further acceleration of lending to the non-monetary sector, to 10% y-o-y in March. NPL share in total loans dropped to a new minimum in March (2.3%).

Money

The broadest monetary aggregate M3, which in addition to dinar money includes FX deposits of non-monetary sectors, declined in Q1 2025 by 2.1% compared to end-2024, driven mostly by a reduction in corporate demand deposits.

By individual category, dinar **demand deposits** contracted considerably in Q1 2025 (by RSD 125.9 bn), after a seasonal increase in late 2024. Contraction was the most pronounced in corporate transaction deposits, by RSD 78.4 bn (mostly of construction and services sectors), as well as household current accounts, by RSD 36.6 bn, with a moderate decrease recorded in other sectors. **Dinar time deposits** lost RSD 3.8 bn, led by a decrease in corporate deposits of RSD 9.9 bn (mostly of services and industry sectors). Conversely, household savings increased by RSD 2.7 bn (to RSD 190.3 bn at end-March) , while deposits of local self-government and other sectors increased by RSD 1.6 bn and RSD 1.8 bn, respectively.

FX deposits of non-monetary sectors went up by EUR 330.3 mn in Q1, mostly reflecting growth of household

[7] Including non-residents' assets, dinar savings stood at RSD193.3 bn at end-March and FX savings at EUR 15.4 bn.

FX savings, by EUR 292.8 mn (to the new high of EUR 14.6 bn), as well as of FX deposits of other sectors, by EUR 87.3 mn, while corporate deposits edged down by EUR 49.6 mn.

The degree of dinarisation of corporate and household deposits declined in Q1 2025, by 1.8 pp to 44.7% in March, largely reflecting a drop in dinar transaction deposits of corporates and households, typical for the beginning of the year, and a further rise in household FX savings.

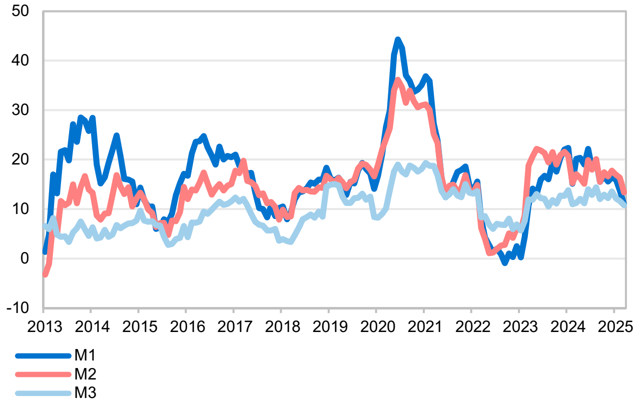
Y-o-y, money supply M3 slowed down its growth in Q1 2025 relative to Q4 2024, measuring 10.8% in March, mostly swayed by a sharper than seasonal decrease in corporate demand deposits in Q1. The excess money ratio, which measures the deviation of the real money supply M3 from the estimated demand,[8] remained negative, indicating that M3 was below the inflationary level.

Loans

In Q1 2025, **total domestic loans to the non-monetary sector** sped up further y-o-y, to 10.0% in March, excluding the exchange rate effect.[9] As before, this growth was led by **household lending**, which accelerated to 11.6% y-o-y, and **corporate lending**, which climbed by 7.4% y-o-y in March.

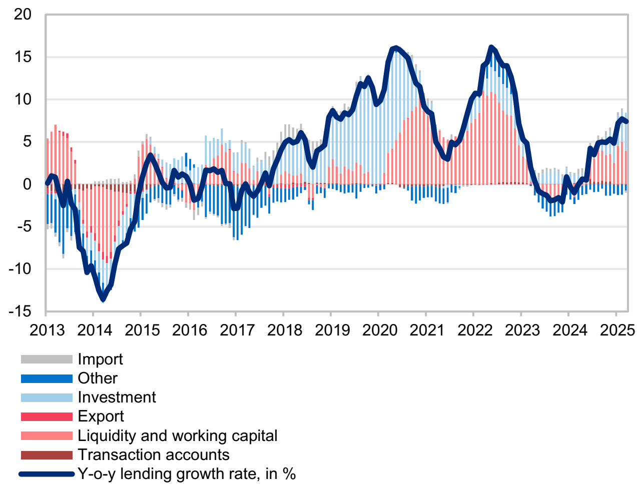
Corporate loans added RSD 13.0 bn in Q1, owing to the rise in public enterprise borrowing, while loans to companies shrank. Corporates mostly relied on liquidity and working capital loans, which generated nearly 80% of the increase in Q1. Borrowing under current account overdrafts, other non-categorised loans and investment loans also went up, while liabilities under import loans decreased. As a result of such trends, the share of liquidity and working capital loans in total corporate loans gained 0.2 pp in Q1, coming at 47.3% in March, their y-o-y growth speeding up to 8.4%. At the same time, the share of investment loans contracted by 0.3 pp to 42.5%, while their y-o-y growth continued to accelerate, measuring 10.9% in March. Sector-wise, companies in the energy sector increased their borrowing the most, followed by those in transport, trade and real estate, while the manufacturing companies scaled down their borrowing markedly. The share of loans approved to the segment of micro, small and medium-sized enterprises in total corporate loans increased by 0.1 pp in Q1, to 60.9% in

Chart IV.2.3 **Monetary aggregate movements**
(nominal y-o-y rates, in %)



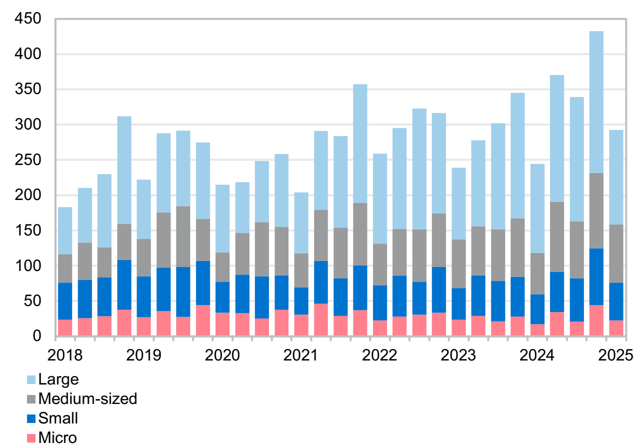
Source: NBS.

Chart IV.2.4 **Contributions to y-o-y corporate lending growth**
(in pp, excluding the exchange rate effect)



Source: NBS.

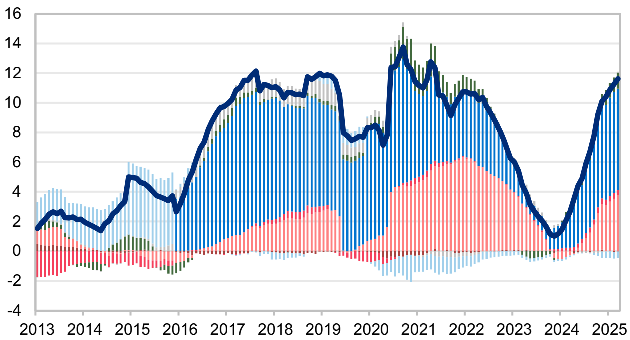
Chart IV.2.5 **Structure of new corporate loans, by enterprise size**
(in RSD bn)



Source: NBS.

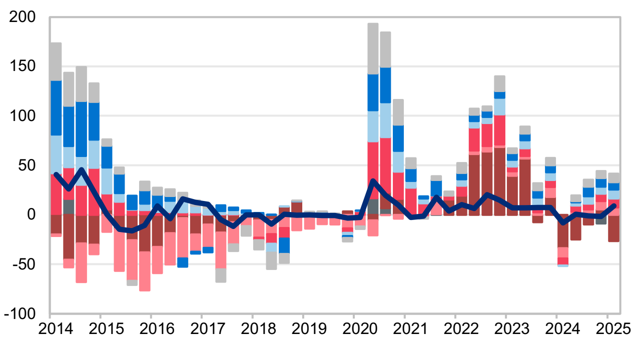
[8] The money demand equation was estimated on the basis of a regression equation, with real GDP and three-month BELIBOR as explanatory variables.
[9] Calculated using the new programme exchange rate as at 30 September 2024.

Chart IV.2.6 **Contributions to y-o-y household lending growth**
(in pp, excluding the exchange rate effect)



Source: NBS.
* Until December 2015, the contribution of cash loans is shown within the contribution of other loans.
** Loans extended to entrepreneurs.

Chart IV.2.7 **Change in corporate credit standards and contributing factors**
(in net %)



Source: NBS.
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

March and their y-o-y growth sped up to 11.5%, as borrowing to this segment outpaced the borrowing of large enterprises.

Dinar lending to corporates stepped up in Q1, while FX-indexed lending decreased, boosting the **dinarisation of corporate receivables** by 0.3 pp to 21.2% in March. Dinarisation growth was underpinned by the Decision on Capital Adequacy of Banks which prescribes that as of 2025, when calculating capital adequacy ratio, banks shall reduce their capital if the share of FX and FX-indexed loans in total loans to the non-financial and non-governmental sector approved after 1 July 2023 exceeds a certain threshold (71% in 2025).[10]

The volume of new corporate loans in Q1 amounted to RSD 292.4 bn, up by 19.7% compared to the same period of 2024. Liquidity and working capital loans remained dominant, accounting for 62% of new corporate loans and rising by almost 20% y-o-y, with more than half of these loans being approved to large enterprises. Investment loans made up 26% of new loans, and 78% of this loan category was absorbed by micro, small and medium-sized enterprises.

Household loans gained RSD 41.5 bn in Q1, driven by the rise in cash and housing loans. Apart from that, household borrowing under current account overdrafts and consumer loans also went up, while debt under other non-categorised loans decreased. Household loan growth was supported by softened credit standards, lower interest rates and wage and employment growth. Cash loans made up somewhat more than half of the increase in household loans, which pushed their share in total household loans up by 0.2 pp in Q1, to 46.5% in March. The share of the next largest category, housing loans (38.3%), dropped slightly relative to end-2024, though these loans rose by 9.6% in y-o-y terms. Households continued to predominantly borrow in dinars, which contributed to a further slight growth in **dinarisation of household receivables**, to 55.5% in March (from 55.4% at end-2024).

The NBS extended the 5% cap on housing loan interest rates to 2025 as well. Interest rate caps are also imposed on cash and consumer loans, credit card debt and current account overdrafts. The cap was initially regulated by the NBS's decision and subsequently by the new Law on the Protection of Financial Service Consumers, which came into effect in mid-March.[11]

[10] It is prescribed that the treshold will decrease further, to 64% in 2026, 57% in 2027, and 50% thereafter.
[11] For more details about the interest rate caps, see Text box 1, p. 18.

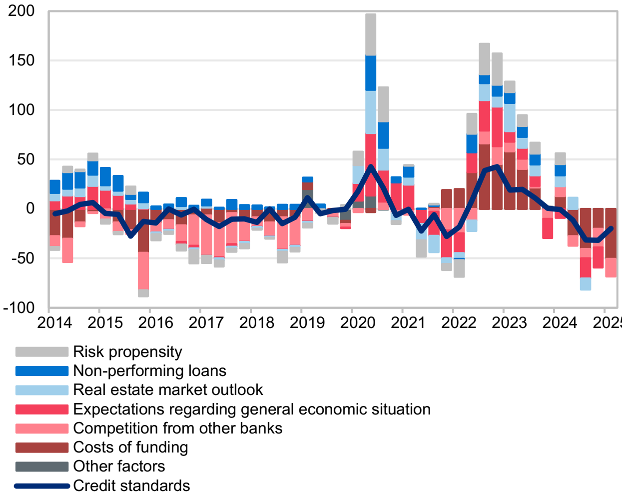
The volume of new household loans in Q1 amounted to RSD 216.3 bn, up by 37.1% y-o-y. The main contributors were cash loans, which accounted for 70% of new household loans. The next largest category were housing loans, which made up 16% of new household loans.

The results of the NBS bank lending survey carried out in April show that banks tightened corporate credit standards in Q1, while further loosening household credit standards for dinar cash loans, refinancing loans and FX-indexed housing loans. The easing of household credit standards was prompted by lower cost of financing, thanks to the past monetary policy easing by the NBS and ECB, as well as the effect of competition. In the corporate segment, standard easing was aided by lower cost of funding, while heightened risk perception, which reflected also on lower risk propensity, and subdued competition in the banking sector, worked in the opposite direction. In banks' view, the contraction of corporate loan demand in Q1 mostly referred to long-term loans, while in terms of company size, it was determined by the lower demand of large enterprises. Contrary to the corporate sector, household demand expanded further, specifically, for dinar cash loans and refinancing loans, as well as FX-indexed housing loans. Banks judge that demand growth was driven by the need to refinance existing loans, as well as by wage growth and the purchase of durable consumer goods. Some banks also recognised the NBS's decision on capping interest rates as one of the demand drivers. In Q2, they expect to see further standard easing and expansion of both corporate and household loan demand.

Gross NPL ratio dropped further in Q1 (by 0.2 pp), to a new minimum of 2.3% in March. Relative to December 2024, gross NPL ratios of corporate[12] and household[13] sectors dropped by 0.2 pp each, to 1.6% and 3.2%, respectively in March. NPL coverage remained high as allowances for impairment of total loans measured 116.1% of NPLs and allowances for impairment of NPLs – 61.6% of NPLs.

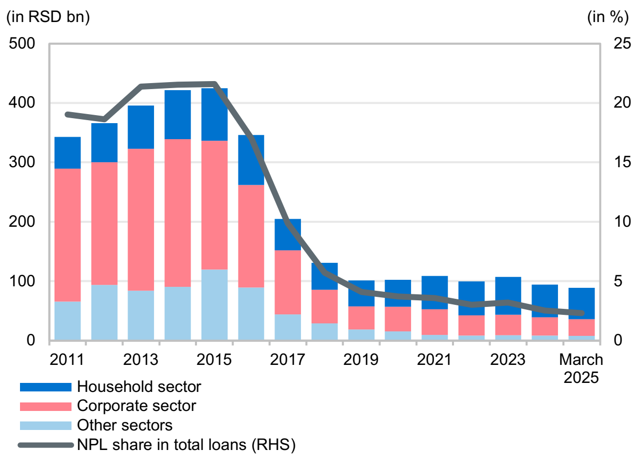
Capital adequacy ratio equalled 20.95% at end-Q1, indicating high capitalisation (regulatory minimum – 8.0%) and resilience of the banking sector to external and domestic risks.

Chart IV.2.8 **Change in household credit standards and contributing factors**
(in net %)



Source: NBS.
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

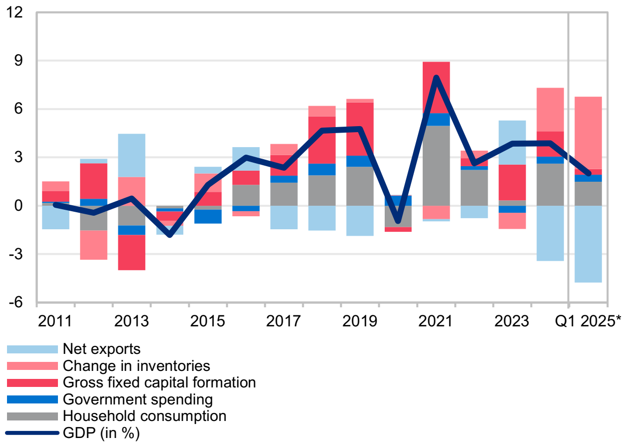
Chart IV.2.9 **NPL level and share in total loans, gross principle**



Source: NBS.

[12] Includes companies and public enterprises. Looking at companies only, the share of NPLs in total loans also edged down by 0.2 pp, to 1.8% in March.
[13] Includes natural persons, entrepreneurs and private households.

Chart IV.3.1 **Contributions to y-o-y GDP growth rate, expenditure side**
(in pp)



Sources: SORS and NBS calculation.
Note: NBS estimate for Q1 2025.

3 Aggregate demand

According to the SORS flash estimate, economic growth in Q1 came at 2.0% y-o-y, which is lower than our February expectations. As in previous quarters, we estimate that economic growth was driven by domestic demand, though less so than expected in February. Net exports provided a negative contribution to economic growth in Q1 as imports rose faster than exports amid the current investment cycle and increased personal consumption thanks to higher disposable income.

Domestic demand

Household consumption, in our estimate, has been gradually slowing down in recent quarters, increasing 2.4% y-o-y in Q1 and providing a 1.4 pp contribution to GDP growth. Further private consumption growth is indicated by the retail trade turnover, which edged up by 0.7% y-o-y in Q1, as well as catering turnover, which increased by 1.2% y-o-y in January. The increase in household consumption is also indicated by the 16.2% y-o-y increase in consumer goods imports in Q1, underpinned by the rise in disposable household income. On the other hand, the number of arrivals and overnight stays of domestic tourists declined in Q1 by 3.7% and 8.4% y-o-y, respectively.

Table IV.3.1 **Movement in key indicators and sources of household consumption**
(real y-o-y growth rates, in %)

	2024			2025
	Q2	Q3	Q4	Q1
Household consumption	**4.7**	**3.9**	**3.8**	**2.4** *
Indicators				
Retail trade	8.5	4.8	1.9	0.7
Catering turnover	3.6	-2.3	-5.3	1.2 ***
Number of domestic tourists	4.6	-11.8	1.9	-3.7
Number of overnight stays of domestic tourists	6.3	-17.1	-4.3	-8.4
Consumer goods import (BEC classification), nominal	10.8	13.4	9.8	16.2
Sources				
Total wage bill, nominal	15.4	14.6	13.6	11.4 **
Net remittances inflow, nominal	4.1	-16.5	4.6	-16.0
Stock of loans intended for consumption, nominal	7.7	10.3	13.1	14.7

Sources: SORS and NBS calculation.
* NBS estimate.
** January–February.
*** January.

Looking at the sources of personal consumption, household consumption growth in Q1, as in the previous period, was led by the wage bill (the main source), which continued to record double-digit nominal y-o-y growth (11.4% in January–February), while thanks to a deceleration in inflation, the real wage bill increased in the same period by 6.4% y-o-y. At the same time, pensions grew in Q1 by 10.8% in nominal and 6.2% y-o-y in real terms. Favourable borrowing conditions owing to the past monetary policy easing by the NBS and ECB provided additional support to household consumption, as evidenced by an increase in loans intended for consumption, which continued at double-digit y-o-y rates (14.7% in Q1). On the other hand, household remittances dropped by 16.0% y-o-y in Q1, which can be associated with the economic slowdown in Europe, where the highest inflow of remittances to our country comes from.

In our estimate, **government consumption** went up by 2.5% y-o-y in Q1, continuing to positively contribute to GDP growth (0.4 pp), driven by the higher expenditure for public sector employees and the procurement of goods and services. As a result of these movements, **total consumption** increased by 2.5% y-o-y in Q1.

Though slower, **private investment** maintained the positive dynamics in Q1, growing by 0.4% y-o-y, in our estimate. A mild rise in private investment is indicated by the volume of production of construction materials, which expanded by 1.9% y-o-y in Q1.

As for the sources of investment financing, we estimate that the bulk of private investments was financed from own sources owing to corporate profitability recorded in previous years. Also, Q1 saw an FDI inflow of EUR 704.3 mn, while investment loans recorded a y-o-y rise of 10.5%.

Continued implementation of significant government-financed infrastructure projects supported the growth in **government investment**, though, in our estimate, that growth slowed down to 5.0% y-o-y in Q1. Accordingly, **total fixed investment** is estimated to have increased 1.5% y-o-y, adding 0.3 pp to GDP growth in Q1.

We estimate that the **increase in inventories of industrial products** provided a positive contribution to GDP growth in Q1 (4.5 pp).

Net external demand

Serbia's goods and services exports preserved similar dynamics in Q1 as in late 2024, recording 3.0% real y-o-y growth, in our estimate. As **imports** went up by 10.0% y-o-y in real terms, the contribution of **net exports** to GDP growth stayed negative in Q1 as well (-4.8 pp). A faster rise in imports than in exports was expected given the current investment cycle and higher disposable household income. One should bear in mind, though, that goods exports are influenced by the still weak external demand and problems in the car industry in Europe[14].

Goods exports in euro terms went up by 2.9% y-o-y in Q1. Export growth was driven by the export of electricity that soared by 56% in Q1, reflecting the launch of a new B3 facility in the Kostolac power plant and to a smaller degree – the base effect due to the reduced hydropower potential last year. A y-o-y increase in exports was recorded in mining (7.7%), but also in manufacturing (0.3%) despite dampened exports of car industry-related sectors due to the problems faced by Europe in this market segment thanks to the production and geographical dispersion of export supply and past investments. On the other hand, last year's drought reflected in lower inventories and declining exports of agriculture in Q1 (2.2% y-o-y).

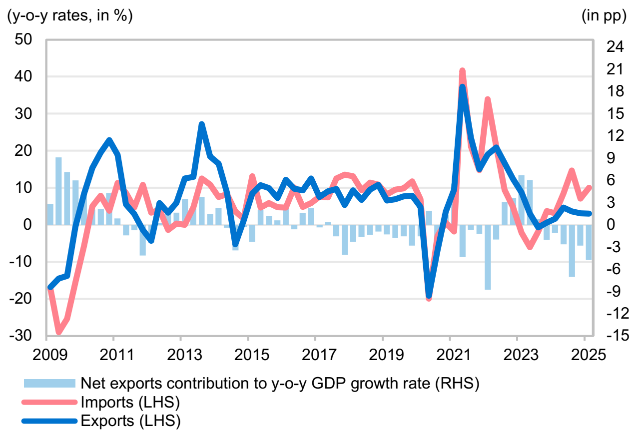
[14] See Text box 2, p. 32.

Table IV.3.2 **Investment indicators**

	2024			2025
	Q2	Q3	Q4	Q1
Real y-o-y growth rates (in %)				
Fixed investment (national accounts)	9.2	9.1	1.2	1.5 *
Construction (national accounts)	6.4	1.2	-5.5	-5.0 *
Government investment	14.8	17.7	19.4	5.0 *
Number of issued construction permits	8.4	-6.8	-5.7	-2.0 **
Production of construction material	3.1	-6.6	-0.1	1.9
Value of works performed	11.1	4.5	-1.9	-5.6
Equipment imports, nominal	24.7	12.7	-3.3	-2.1
Production of domestic machinery and equipment	-5.9	4.0	-11.3	-11.4

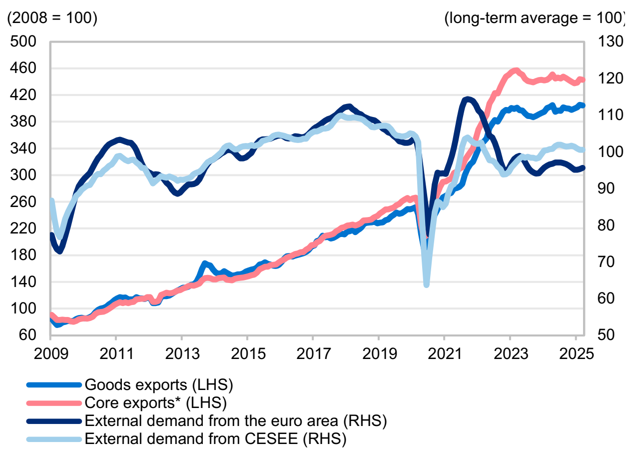
Sources: SORS and NBS calculation.
* NBS estimate.
** January–February.

Chart IV.3.2 **Exports and imports of goods and services**
(in previous-year constant prices, ref. 2021)



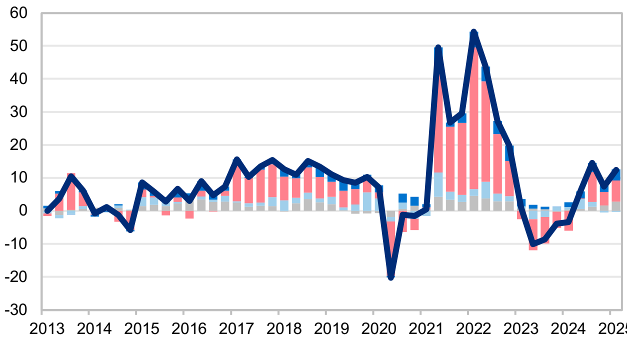
Sources: SORS and NBS calculation.
Note: NBS estimate for Q1 2025.

Chart IV.3.3 **Movement in external demand indicators for Serbian exports**
(3M moving average, s-a)



Sources: European Commission, SORS and NBS.
* Core exports are total exports excluding the export of agricultural products, base metals, motor vehicles, petroleum products and electricity.

Chart IV.3.4 **Movement of key import components**
(contributions to y-o-y growth, in pp)



Sources: SORS and NBS calculation.

A rise in manufacturing exports was recorded in 14 out of 23 branches in Q1, with the largest contribution coming from base metals and metal products, followed by food industry and chemical products. On the other hand, the sharpest decline was recorded in the export of branches related to the car cluster.

Goods imports in euros expanded by 14.5% y-o-y in Q1. According to BEC classification, import growth mainly reflected higher import of intermediate goods, consumer goods, and other equipment.

Foreign trade in services maintained positive dynamics in Q1, recording a EUR 749 mn surplus, with exports (9.8% y-o-y) outpacing imports (8.6% y-o-y). Export growth received the strongest impetus from ICT services, tourism and transport, and import growth from tourist and transport services.

Faster growth in goods imports than in exports reflected on a mild decrease in the coverage of goods imports with exports in Q1, measuring 76.1% in March[15] and 87.6% including services, down by 2.0 pp and 1.6 pp, respectively, from end-2024.

Table IV.4.1 **Contributions to y-o-y GDP growth**
(in pp)

	2024				2025
	Q1	Q2	Q3	Q4	Q1*
GDP (in %, y-o-y)	**4.6**	**4.4**	**3.3**	**3.3**	**2.0**
Agriculture	-0.3	-0.3	-0.5	-0.4	0.2
Industry	0.6	0.3	0.7	0.7	0.4
Construction	0.5	0.3	0.1	-0.3	-0.3
Services	2.8	3.1	2.6	2.7	1.6
Net taxes	0.5	0.6	0.7	0.6	0.3

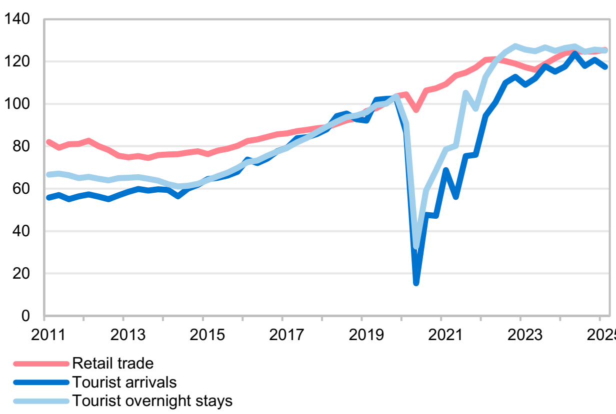
Sources: SORS and NBS calculation.
* NBS estimate.

4 Economic activity

According to the SORS flash estimate, economic growth measured 2.0% y-o-y in Q1, lower than expected in the February Report. As in previous quarters, in our estimate, activity growth was driven by services, and industry but less so than expected in February, while the contribution of construction was negative.

We estimate that **services**, collectively, experienced a slowdown in Q1 from a quarter earlier, to 3.0% y-o-y, contributing 1.6 pp to economic growth. This is indicated primarily by trade data, as the real retail trade turnover went up by 0.7% y-o-y in Q1 and catering turnover by 1.2% in January. At the same time, the ICT sector growth is indicated by the 19.3% y-o-y rise in the exports of this group of services. On the other hand, the total number of tourist arrivals and overnight stays went down in Q1 by 0.2% and 1.6% y-o-y, respectively.

Chart IV.4.1 **Service sector indicators**
(s-a, 2019 = 100)



Sources: SORS and NBS calculation.

Industrial production is estimated to have grown by 2.1% y-o-y in Q1, contributing 0.4 pp to GDP, driven by manufacturing and mining, while the production of electricity dropped by 5.7% y-o-y, partly as a consequence of the high last year's base. Positive

[15] Measured by the 12-month moving average.

developments in the mining sector continued into Q1 and the volume of production increased by 4.9% y-o-y, owing to the accelerated coal and metal ore exploitation.

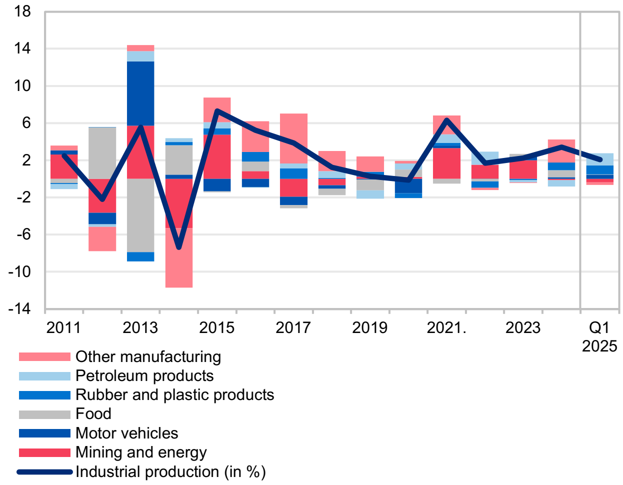
The volume of production in **manufacturing** kept rising for the seventh quarter in a row – by 3.7% y-o-y in Q1. The production growth was recorded in 11 out of 24 branches, with the greatest positive contribution coming from coke and petroleum products, followed by rubber and plastic as well as metal products. On the other hand, the greatest negative contribution originated from the decline in the production of other transport equipment, machinery and clothing.

The volume of activity in **construction** is estimated to have contracted by 5.0% y-o-y in Q1, providing a negative 0.3 pp contribution to GDP. This is primarily indicated by value of executed works as it decreased by 5.6% y-o-y in Q1, and the number of issued construction permits, which dropped by 2.0% y-o-y in the January–February period. On the other hand, Q1 saw a rise in the volume of production of construction materials by 1.9%, while the activity in "other mining", relating mainly to the exploitation of construction materials, declined by 1.5% y-o-y.

We estimate that owing to the consumption growth and better collection of tax revenues, **net taxes rose** by 2.4% y-o-y in Q1, contributing 0.3 pp to GDP growth.

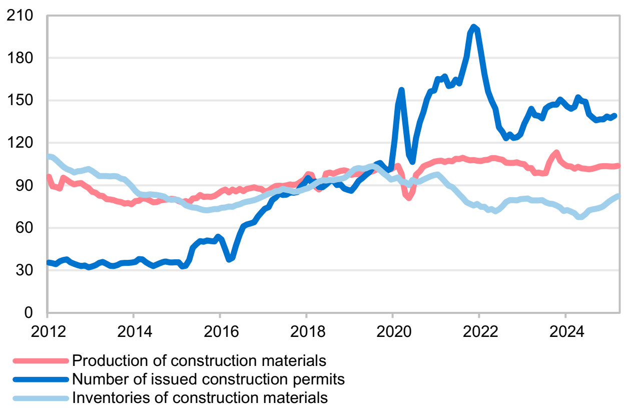
Assuming an average **agricultural season** this year, agricultural production is estimated to have grown 6.5% in Q1, providing a 0.2 pp contribution to GDP growth.

Chart IV.4.2 **Contributions to y-o-y industry growth rate**
(in pp)



Sources: SORS and NBS calculation.

Chart IV.4.3 **Construction activity indicators**
(quarterly averages s-a, 2019 = 100)



Sources: SORS and NBS calculation.

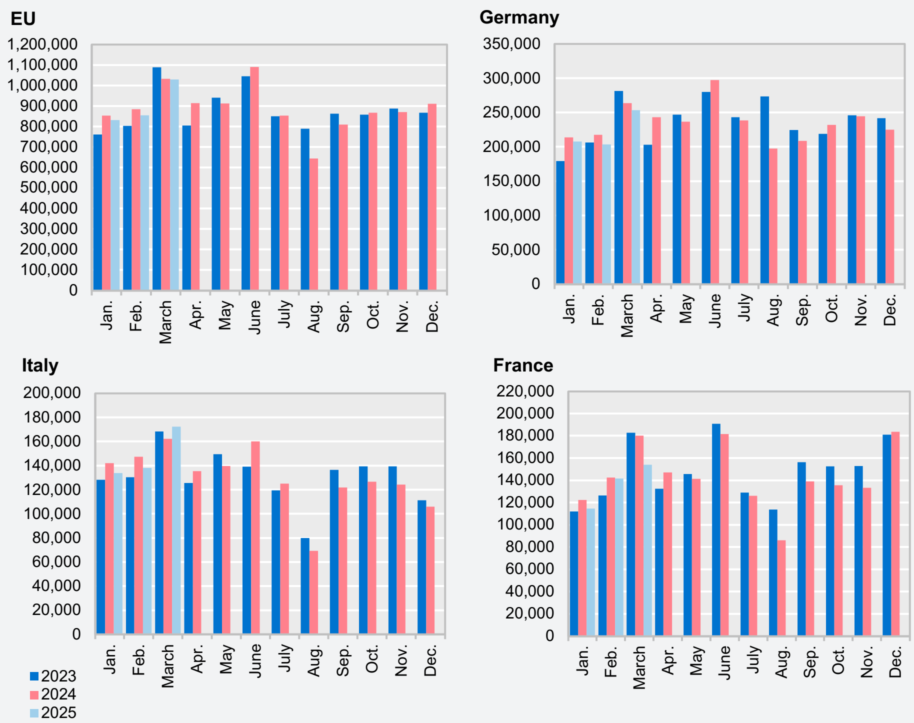
Text box 2: Challenges in the European automobile industry and implications for Serbia

The automobile industry is a cornerstone of the EU economy, accounting for approximately 6% of total employment and around 8% of manufacturing value-added. However, recent trends indicate a concerning decline in production and competitiveness, particularly in Germany, France and Italy – countries responsible for 45% of EU car production and over 70% of the sector's value-added. While a part of this downturn can be attributed to the pandemic and subsequent supply chain disruptions, output in these economies has yet to recover to pre-pandemic levels. By 2023, production in Germany and Italy remained approximately 20% below 2018 levels, while France saw a contraction of as much as around 46%.

Several structural factors have contributed to reduced vehicle production in these markets, including diminished competitiveness and the gradual global transition to electric vehicles (EVs). The declining competitiveness of western European manufacturers is largely linked to rising energy costs following the energy crisis, exacerbated by the onset of the conflict in Ukraine, as well as relatively high labour costs. This has prompted the relocation of automobile production to lower-cost regions (Central and Southeast Europe, North Africa and Latin America). Additionally, some production for the US market has shifted to the United States.

Another critical factor is the push towards climate neutrality and the gradual shift to electric and hybrid vehicle production, where major European manufacturers lag behind their US and Asian counterparts, particularly China. One channel through which this dynamic operates is the evolving Chinese automobile market, which is increasingly pivoting towards EVs and was previously a key export destination for European internal combustion engine vehicles. Moreover, China's competitive advantage across the entire EV production and chain (from mining critical raw materials like lithium to subsidies for domestic EV purchases) has intensified competition for European automakers even within their home markets, forcing them to scale back production in response. This challenge has been further compounded by the establishment of Asian manufacturing plants in Central Europe, which has eroded the competitive position of German, French and Italian producers.

Chart O.2.1 **Number of new registered passenger vehicles in the EU and selected countries by month in 2023–2025**



Source: ACEA.

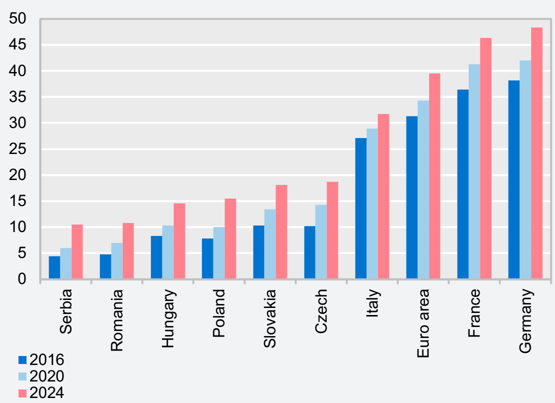
The problems and slowdown in Europe's automobile sector are also evident on the demand side, as reflected in European Automobile Manufacturers' Association (ACEA) data on new passenger car registrations. Across the EU, registrations saw modest growth of 0.8% in 2024, reaching 10.6 mn vehicles. However, Germany, Italy and France recorded negative trends, with declines of 1.0%, 0.5% and 3.2%, respectively. Monthly data further highlight weakening demand for new cars, particularly evident from mid-2024, when visible growth deceleration was recorded in most months, with the number of new registered passenger vehicles declining y-o-y – a trend that persisted into early 2025.

Issues in the European automobile industry have also affected Serbia's automobile exports, which, thanks to substantial FDI inflows into this sector and the integration of companies operating in Serbia into European production chains, accounted for approximately 12% of total goods exports on average in previous years. For the sake of reminder, between 2012 and 2024, Serbia attracted EUR 5.1 bn in FDI into its automobile cluster (production of motor vehicles, rubber and plastic products, batteries and other electrical equipment). This resulted in a fourfold increase in automobile cluster exports over previous years – from EUR 900 mn in 2012 to EUR 3.6 bn in 2023 – before declining to EUR 3.4 bn in 2024. Of this, motor vehicles accounted for around 30% on average, while electrical wiring, tyres and other components made up approximately 70% of total automobile cluster exports between 2012 and 2024.

According to SORS data, in 2024, automobile cluster exports fell by around 5% but still accounted for nearly 12% of Serbia's total goods exports. Within the cluster, passenger car and electrical wiring exports declined, while exports of automobile tyres and batteries increased. Similar tendencies continued into Q1 2025. Since mid-February, serial production and exports of a new EV model (Fiat Grande Panda) have commenced at the Stellantis plant in Kragujevac. Y-o-y growth in motor vehicle production in February and March combined stood at 15.5%, while growth since the beginning of the year has been 18.1%. Our estimates suggest that for every 10,000 vehicles produced and sold, the impact on GDP should be around 0.1 pp, assuming an average vehicle price of EUR 25,000 and domestic component content of around 30%. Hence, the contribution to GDP this year could be expected at 0.4–0.5 pp, assuming production of between 40,000 and 50,000 vehicles, depending on demand. Furthermore, an earlier launch of hybrid Grande Panda production has been announced, along with the potential production of the Citroën C3 model at this plant, indicating sustained European demand for vehicles manufactured in Serbia. At the end of last year, serial production of automobile tyres also began at the Linglong factory in Zrenjanin, with production intensification expected this year. This should also contribute positively to automobile cluster exports (as seen in Q1 data this year) as well as to GDP.

Despite the challenges facing Europe's automobile industry, it should be borne in mind that FDI inflows into the automobile cluster have continued this year, alongside a significant diversification of the investment base in this sector. Now, alongside European companies, there is growing participation from Asian companies, particularly from China, Japan and South Korea. In addition to maintained macroeconomic stability and a favourable investment environment, this is also supported by still relatively low labour costs compared to neighbouring countries with established automobile industry traditions. According to Eurostat data, hourly labour costs in Serbia's manufacturing sector stood at EUR 10.5 in 2024, among the lowest in Europe. By comparison, these costs were around EUR 15 in Hungary and Poland, and approximately EUR 18 in the Czech Republic and Slovakia (Chart 0.2.2).

Chart O.2.2 **Labour costs in manufacturing**
(in EUR per hour)



Source: Eurostat.

Therefore, while challenges in Europe's automobile industry and new tariffs on vehicles and automobile parts (which the US raised to 25%) may weigh on Serbia's automobile exports, supply-side factors – production of new EV models and increased tyre manufacturing – will work in the opposite direction. This should contribute to an acceleration in export and GDP growth in the remainder of the year compared to the beginning of the year.

5 Labour market developments

At y-o-y level, Q1 saw a slowdown in wage growth, a stagnation in formal employment, and a reduction in registered unemployment.

Wages

In January and February, the average nominal net wage amounted to RSD 105,499 (EUR 901), its y-o-y growth decelerating to 11.1%, from 13.2% in Q4. The average real net wage growth also slowed down y-o-y, from 8.3% in Q4 to 6.2% in January–February. At the same time, the median net wage amounted to RSD 81,882, up by 11.6% from the same period last year. The minimum cost of labour also went up in January, by 13.7% y-o-y, to RSD 308 per hour excluding taxes and contributions. The following data also speak in favour of improved living standard: in January 2025, both the average and the minimum consumer basket were entirely covered by the average and minimum wage, this being the first timefor the minimum consumer basket since we have available data.

The rise in the average nominal net wages was somewhat faster in **the private** (11.5%) than **in the public sector** (10.2%). The double-digit growth was recorded in most **economic branches**. The most pronounced y-o-y increase was recorded in recreation, manufacturing and administrative and auxiliary services, ranging between 13.4% and 15.6%.

In the January–February period, the **nominal net wage bill**, as the main source of consumer demand, increased by 11.4% y-o-y on account of a continued rise in wages and formal employment.

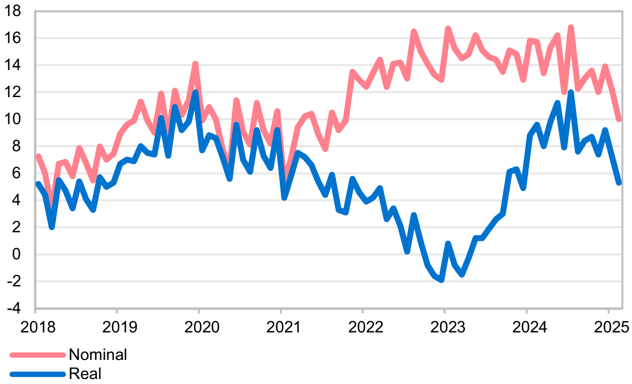
According to preliminary data, **overall economic productivity** went up by 2.0% y-o-y in Q1 as a result of a faster rise in economic activity against the backdrop of stagnating employment.

Employment

According to SORS data, **total formal employment** in Q1 averaged around 2.36 mn, almost unchanged from the same period last year (after the 0.5% growth in Q4). Employment with entrepreneurs kept rising, employment with legal entities remained broadly unchanged, while the number of registered farmers stayed on a downward path.

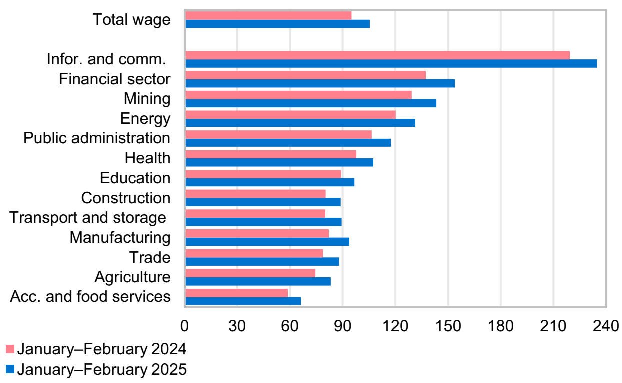
Private sector formal employment growth was preserved, though it was slower than last year (y-o-y rise of 0.1%, i.e. around 2 thousand people). Hence, in Q1,

Chart IV.5.1 **Y-o-y growth rates of average net wage**
(in %)



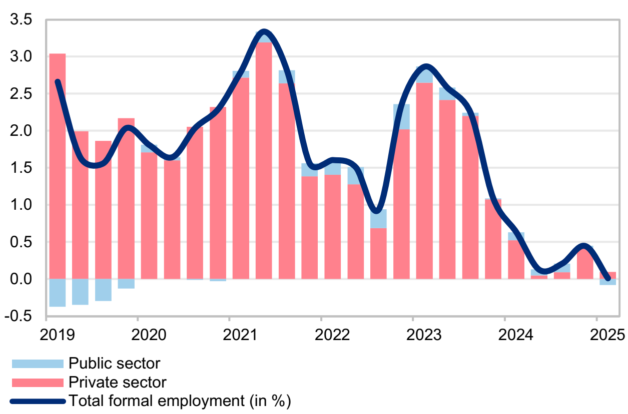
Source: SORS.

Chart IV.5.2 **Nominal net wage by economic sector**
(in RSD thousand)



Source: SORS.

Chart IV.5.3 **Structure of y-o-y growth in total formal employment**
(in pp, quarterly average)

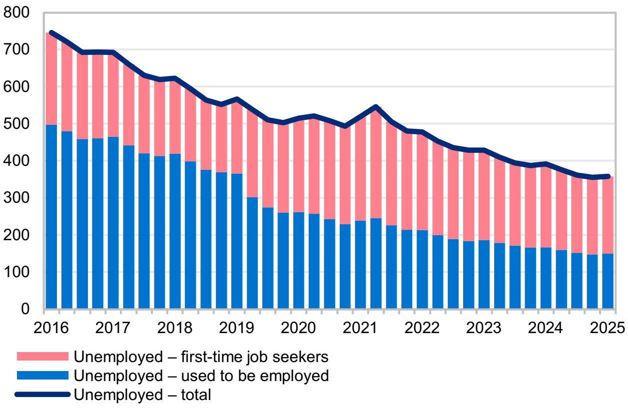


Sources: SORS and NBS calculation.

average employment stood at around 1.75 mn people. **Public sector formal employment** declined to a similar extent (by 0.3% y-o-y, i.e. around 2 thousand people). Observing dominantly private sector activities in Q1, registered employment rose the most in administrative and auxiliary services, ICT services and catering, while decreasing the most in manufacturing and professional, scientific, innovation and technical services. On the other hand, public sector employment decline was driven by the fall in public administration employment.

According to the National Employment Service, **registered unemployment** went up traditionally at the beginning of the year, to 358,987 at end-March, but still remained lower by around 29 thousand than in the same period last year.

Chart IV.5.4 **Movement of registered unemployment**
(in thousand persons, quarterly average)



Source: National Employment Service.

V Projection

In view of the first-quarter outturns which were below our February expectations, developments abroad (especially issues in the European automobile industry, rising protectionism worldwide and heightened global uncertainties), and the blockades and protests at home which have led to some deferral of investment and consumption, we have revised down our GDP growth projection for 2025 from 4.5% to 3.5%. We expect economic activity to step up in the remainder of the year thanks primarily to supply-side factors, notably the planned acceleration of production of electric vehicles and car tyres, activation of new capacities in the energy sector and the implementation of infrastructure projects planned as part of the "Leap into the Future – Serbia Expo 2027" programme. We still expect growth to be in the range of 4.0–5.0% in 2026 and 2027, but closer to the upper bound of the range in 2027 due to the hosting of "Expo 2027".

Under our new projection, y-o-y inflation should move within the target band (3±1.5%) throughout the projection horizon, and be on a downward path in the remainder of the year. Such inflation movements will mostly reflect the still tight monetary conditions, anticipated lower global energy prices and subdued imported inflation, onset of a new agricultural season which is assumed to be average, and the projected movement in real wages in line with productivity growth. The new projection for this year is slightly lower than in February, mostly reflecting the decrease in petroleum product prices as a result of a lower global oil price and the euro's strengthening against the dollar, as well as weaker than anticipated growth in external and domestic demand. On the other hand, higher processed food prices have had a somewhat stronger effect on inflation than in the previous projection in the short term, mostly because of elevated raw material prices in the global market early in the year.

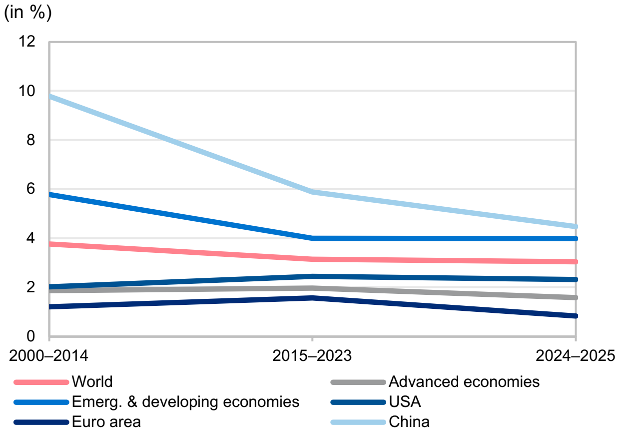
We estimate that the risks to global growth are tilted to the downside, due primarily to the possibly stronger than expected effect of escalation of trade tensions and prolonged uncertainty on that account, as well as to heightened uncertainty in financial markets which could strain investment and consumption. Downside risks to domestic economic growth on this account prevail, but the impact on inflation is more difficult to gauge, as some of these factors have an inflationary and others a disinflationary effect. The risks to the inflation and GDP projections also stem from the speed of domestic demand growth and the outcome of the domestic and global agricultural season, and they are equally pronounced in both directions.

External assumptions

Economic activity

Global economic growth, which stabilised at around 3% over the past several years, is currently characterised by a **high degree of uncertainty as to prospects for this and the following year**. Aware of the direct effects of new customs tariffs and their indirect effects due to the fact that the majority of countries are well-integrated in global value chains, and that market participants' confidence has greatly deteriorated, **in April the IMF made significant downward revisions to the January growth projection for the global economy for this and the following year** – by 0.5 pp, to 2.8% in 2025, and by 0.3 pp, to 3.0% in 2026. Economic growth projections for the advanced countries group have been trimmed down likewise, to

Chart V.0.1 **Economic activity**
(in %)



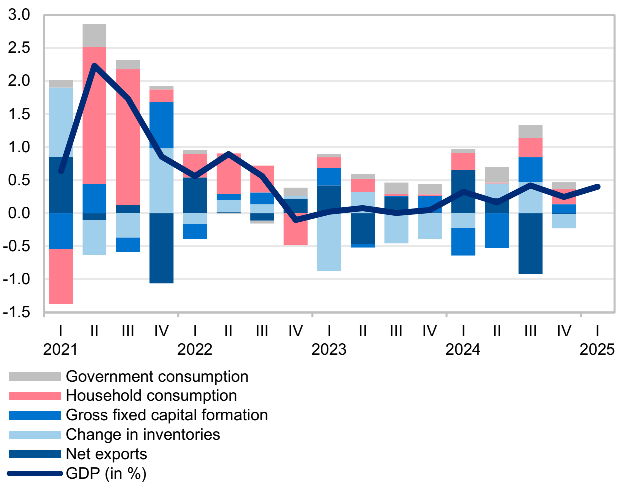
Source: IMF WEO (April 2025).

Table V.0.1 **Real GDP growth projections**
(in %)

	2025		2026	
	April projection	Deviation from January	April projection	Deviation from January
World	2.8	-0.5	3.0	-0.3
Advanced economies	1.4	-0.5	1.5	-0.3
Euro area	0.8	-0.2	1.2	-0.2
USA	1.8	-0.9	1.7	-0.4
Emerging and developing economies	3.7	-0.5	3.9	-0.4
Russia	1.5	0.1	0.9	-0.3
China	4.0	-0.6	4.0	-0.5

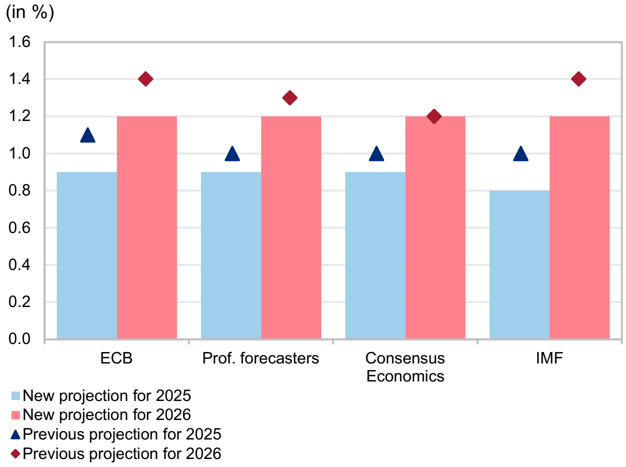
Source: IMF WEO (April 2025).

Chart V.0.2 **Contribution of components to the real GDP growth rate in the euro area**
(s-a, quarterly, in pp)



Source: Eurostat.

Chart V.0.3 **Euro area GDP growth projection for 2025 and 2026**
(in %)



Sources: ECB (December 2024 and March 2025), Consensus Economics (January and April 2025) and IMF WEO (January and April 2025).

1.4% in 2025 and 1.5% in 2026, while for the emerging and developing countries growth has been forecast at 2.1% for each year, which is 0.1 pp and 0.3 pp lower than in January. **Risks to the April projection of global growth are dominantly skewed to the downside**, primarily due to pronounced volatility in financial markets and further escalation of trade tensions. The IMF estimated that the short-term impact of new tariffs will vary by country depending on the degree of openness and the established trade relations, structure of industry, possibilities for diversification of exports and the response of economic policies, such as comprehensive fiscal stimuli in the euro area and China neutralising a portion of the negative effects of the tariffs.

In Q4 2024, **euro area economic activity** edged up 0.2% s-a (1.2% y-o-y), thanks to increased household consumption, as well as higher government consumption and fixed investments. In contrast, goods inventories contracted, while the contribution of net exports to growth was neutral. Activity in the euro area's services sector was on the rise in Q4, while in industry it continued to contract amid subdued external competitiveness and demand. Looking at our key trade partners in the euro area, economic activity in **Italy** rose mildly in Q4, by 0.2% s-a, while in **Germany** it retreated by as much due to a decline in net exports. Still, the leading PMI index for Germany and the euro area during Q1 entered into the territory that suggests mild economic expansion as a result of the services sector's resilience and the nascent recovery of the production sector. Eurostat came out with a preliminary estimate of economic growth in Q1 of 0.4% in the euro area, 0.2% in Germany, and 0.3% in Italy, in s-a terms.

In view of rising global uncertainty and protectionism, reflecting negatively on European countries' exports and dampened investments, **in March the ECB lowered its December projection of euro area GDP growth in 2025 and 2026** – by 0.2 pp each, to 0.9% and 1.2%, respectively. Risks to the March projection remained tilted to the downside, notably due to the possible escalation of trade and geopolitical tensions. The ECB estimated that pace of the euro area's economic recovery will slow somewhat, however, the recovery will still be supported by higher disposable income and more favourable financing conditions, as well as the preserved labour market, as attested to by the record low unemployment rate of 6.2% in March. The **ECB's baseline scenario from March did not include the effects of the US tariffs against the EU**, but merely indirect effects of the US–China tariffs. Professional forecasters estimated that the lower economic growth on account of tariffs would be offset by the fiscal impulse and investments of European economies in defence and infrastructure, with the euro area's 2025 and 2026 GDP growth projected at 0.9% and 1.2%, respectively. ECB President Christine Lagarde stressed that the euro area's economy has become more resilient to exogenous shocks, as confirmed by GDP growth in Q1, but that economic prospects going forward are accompanied by pronounced uncertainty, especially in the domain of export limitations.

In April, **leading Consensus Economics analysts** slightly lowered their January projection of the euro area's GDP growth in 2025, by 0.1 pp to 0.9%, while the projection for 2026 remained unchanged at 1.2%. They underlined that the EU's economic policy makers must strike a balance between downside risks arising from the negative effects of reciprocal USA–EU tariffs and upside risks on account of the adopted package of fiscal incentives in Germany. Assuming a neutral net effect of these risks, in April the Consensus Economics did not change its projections from March, when these risks were not incorporated. In April, the IMF projected GDP growth in the euro area of 0.8% in 2025 and 1.2% in 2026, each of them 0.2 pp lower than January expectations. Projections have been revised down for Germany and Italy (each by 0.3 pp for this year), while for countries where the services sector is dominant, notably tourism, they were revised up.

Economic activity in the **region of Central and Southeast Europe** rose in Q4 2024 by 1.0% s-a (i.e. 2.5% y-o-y), largely as a result of significant government consumption and elevated goods inventories, and less due to stepped-up household consumption. Declining fixed investments worked in the opposite direction, while net exports stagnated. Geographically, economic growth in Q4 was broadly diversified by country, with the highest s-a GDP growth rates recorded in Croatia (1.5%) and Poland (1.4%). After economic activity declined in Q3 in Hungary and Romania, Q4 saw an upturn, of 0.6% each, s-a. Still, Eurostat's preliminary data indicate that Hungary's GDP did retreat in Q1 (by 0.2% s-a). Considering the fragmentation of global trade, which intensified after the US imposed tariffs on this region in April, thus prompting uncertainty, in April **leading Consensus Economics analysts** lowered their January GDP growth forecasts for 2025 – in the group of Southeast European countries by 0.3 pp, to 2.5%, and in Central European countries by 0.2 pp, to 2.6%. For both groups of countries, the projected GDP growth in 2026 was mildly lowered in April relative to January – each by 0.1 pp, to 2.9%. The key risk to these projections is the

Table V.0.2 **Consensus Economics projections of real GDP growth in countries of the region**
(in %)

	2025		2026	
	April projection	Deviation from January	April projection	Deviation from January
Poland	3.3	-0.1	3.2	-0.1
Czech Republic	1.9	-0.3	2.2	-0.4
Hungary	1.8	-0.4	3.2	-0.2
Romania	1.9	-0.4	2.6	-0.3
Slovakia	1.8	-0.2	2.2	-0.2
Slovenia	2.2	0.0	2.3	-0.1
Croatia	3.0	0.0	2.7	-0.1
Bulgaria	2.8	0.1	2.8	0.1
Albania	3.7	0.0	3.7	-0.1
Bosnia and Herzegovina	2.7	0.0	3.1	0.0
North Macedonia	3.0	-0.1	3.2	0.0
Montenegro	4.5	0.7	3.5	0.1

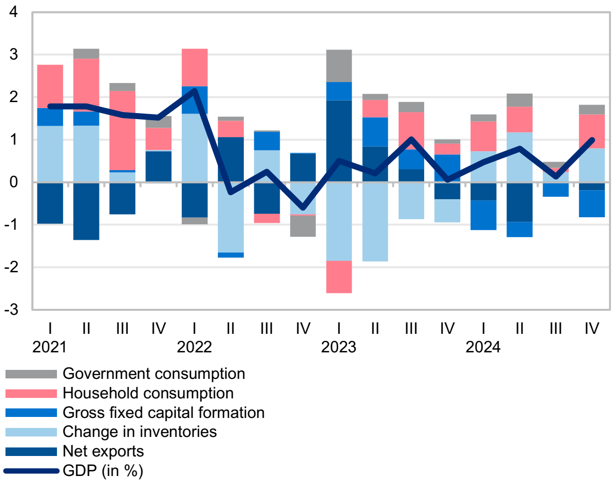
Source: Consensus Economics (January and April 2025).

Table V.0.3 **IMF's projections of real GDP growth in countries of the region**
(in %)

	2025		2026	
	April projection	Deviation from October	April projection	Deviation from October
Poland	3.2	-0.3	3.1	-0.3
Czech Republic	1.6	-0.7	1.8	-0.5
Hungary	1.4	-1.5	2.6	-0.4
Romania	1.6	-1.7	2.8	-0.9
Slovakia	1.3	-0.6	1.7	-0.6
Slovenia	1.8	-0.8	2.4	-0.1
Croatia	3.1	0.2	2.7	0.0
Bulgaria	2.5	0.0	2.7	-0.1
Albania	3.8	0.4	3.5	0.0
Bosnia and Herzegovina	2.8	-0.2	3.0	0.0
North Macedonia	3.2	-0.4	3.2	-0.6
Montenegro	3.2	-0.5	3.2	0.2

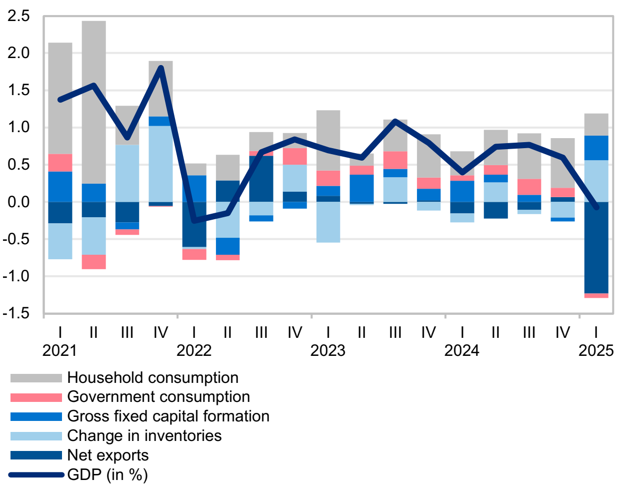
Source: IMF WEO (April 2025 and October 2024).

Chart V.0.4 **Contribution of components to the real GDP growth rate in the CESEE region***
(s-a, quarterly, in pp)



Source: Eurostat.
* Including Bulgaria, Czech Republic, Croatia, Hungary, Poland, Romania, Slovenia and Slovakia.

Chart V.0.5 **Contribution of components to the real GDP growth rate in the USA**
(s-a, quarterly, in pp)



Sources: U.S. BEA and NBS calculation.

anticipated fall in external demand from Germany and other euro area countries provided that tariffs are indeed implemented after a 90-day delay, with the effects on economic activity not uniform by country or by sector.[16] **In April, the World Bank and the IMF made significant downward revisions of their GDP growth projections for countries in the region of Central and Southeast Europe**, citing as the key reason the elevated global uncertainty amid a turn in the trade policy pursuit by leading world economies – the US, China and the euro area. In April, the World Bank projected GDP growth in the **Western Balkan region** at 3.2% in 2025 and 3.5% in 2026, or 0.5 pp and 0.4 pp lower than in January, noting that the main obstacles to faster economic growth are subdued production activity in the euro area, the key trade partner to countries in the region, as well as reduced fiscal support and political uncertainty in some countries.

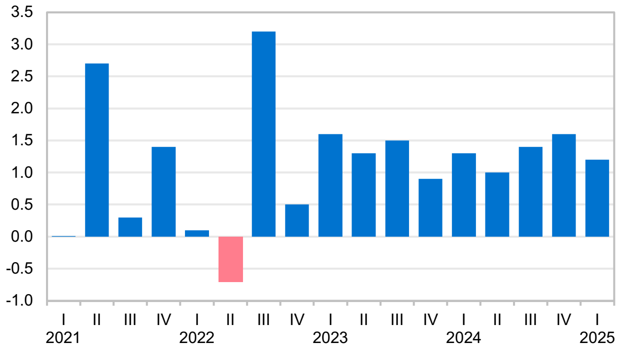
In Q4, the **US** economic growth rose 0.6% s-a (i.e. 2.4% annualised), mostly as a result of stepped-up household consumption, and to a lesser extent of higher government consumption and net exports. A decline in total investments acted in the opposite direction. By sector, the recorded GDP growth in Q4 is attributed to the rising activity in the real estate sector, scientific and technical services, and health and social protection. However, March saw the first significant share of American businessmen expressing concern over the introduced tariffs,[17] notably in relation to rising production costs. Therefore, the leading PMI Manufacturing for the US dropped to the territory indicating a contraction in production activity. In April, the US Bureau of Economic Analysis estimated the fall in US GDP of close to 0.1% s-a in Q1 (0.3% annualised), recorded for the first time in almost three years, which is dominantly a result of strong import growth prior to tariff introduction. Against the backdrop of elevated uncertainty, especially in terms of the scope, duration and potential effects of restrictive trade measures, in **March the Fed lowered its December projection of US economic growth in 2025 and 2026** – by 0.4 pp, to 1.7%, and by 0.2 pp, to 1.8%, respectively. Risks to the projection are assessed as skewed to the downside amid aggregate demand weakening more than initially anticipated. The US market turned out to be relatively resilient as the unemployment rate in Q1 stabilised at around 4.1%.

In Q1 the **Chinese economy** recorded growth of 1.2% s-a (i.e. 5.4% y-o-y, the same as in Q4 2024), mainly driven by the expanding industrial production and the preserved

[16] For more details see Text box 4, p. 56.
[17] According to a survey of American purchasing managers, conducted by the ISM.

activity in the services sector. Q1 also saw an uptick in Chinese companies' export activity to stave off the negative effects of the announced and later introduced US tariffs that considerably undermine China's economic prospects due to the effect on lowering external demand in the coming period. Therefore in March, the Chinese authorities adopted a package of fiscal and monetary stimuli aimed at encouraging primarily domestic demand. In April, the IMF slashed China's 2025 GDP growth projection from January – by 0.6 pp, to 4.0%, the same as projected for 2026.

Chart V.0.6 **China's GDP growth dynamics**
(s-a, quarterly, in %)

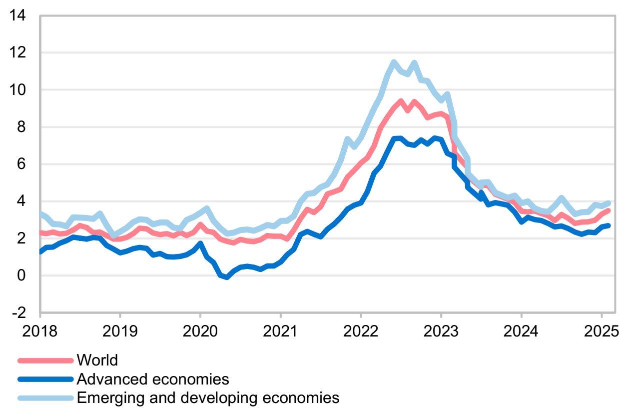


Source: National Bureau of Statistics of China.

Inflation

According to the IMF's projection in the April WEO report, global inflation will decline at a slightly slower pace than expected in January, reaching 4.3% in 2025 and 3.6% in 2026 (compared to 4.2% and 3.5% in the January projection). Although global inflation prospects have improved over the past period, they have still not returned to pre-pandemic levels due to heightened global uncertainty, primarily concerning the direct and indirect effects of tariffs in different countries. For the group of advanced economies, in April the IMF revised its January inflation projection upwards for 2025 by 0.4 pp, to 2.5%, while for the group of emerging and developing economies, it was slightly revised down, by 0.1 pp, to 5.5%. **The IMF still expects inflation in advanced economies to return within the target tolerance band sooner than in emerging and developing economies**.

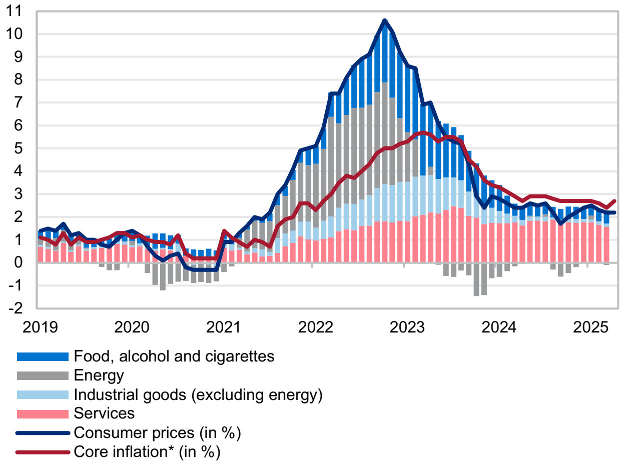
Chart V.0.7 **Headline inflation dynamics**
(in %)



Source: IMF WEO (April 2025).
Note: Data are aggregated on a sample of 57 economies that account for 78% of the world GDP.

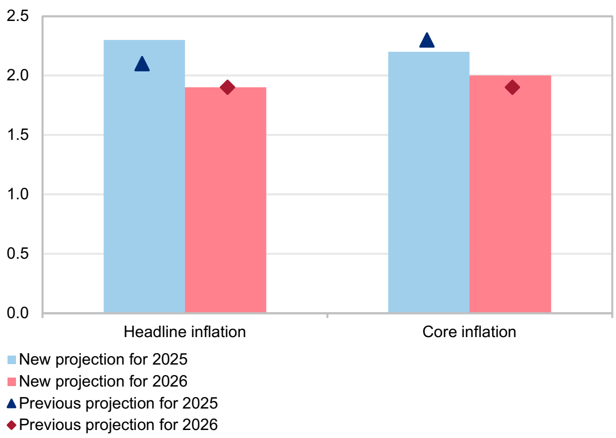
After rising in January, **y-o-y inflation in the euro area** lost breath in the remainder of Q1, reaching 2.2% in March, primarily due to the y-o-y fall in energy prices – the first one on record since last November. **Core inflation in the euro area** also slowed in Q1, to 2.4% y-o-y in March, its lowest level since October 2021, on account of slower growth in services prices, while the prices of industrial products upheld a similar dynamics as in the previous quarter. Having slowed temporarily in January, y-o-y growth in food inflation picked up in the remainder of Q1 owing to the hike in unprocessed food prices. Measured by the change in the HCPI, **y-o-y inflation in Germany** decelerated in Q1, to 2.3% in March, largely due to a decline in y-o-y energy prices, while **y-o-y inflation in Italy** picked up to 1.9% in March, dominantly due to the higher prices of energy, which are not administered. Eurostat's preliminary estimate indicates that y-o-y inflation in April equalled 2.2% in the euro area, 2.1% in Germany and 2.0% in Italy.

Chart V.0.8 **Contributions of HICP components to y-o-y inflation in the euro area**
(in pp)



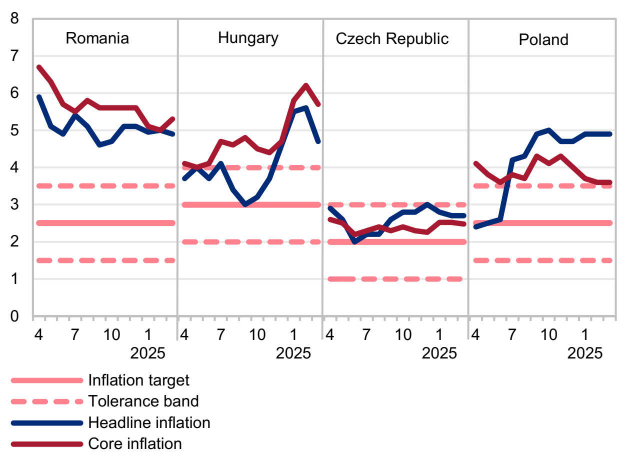
Sources: Eurostat and NBS calculation.
* HICP excluding energy, food, alcohol and cigarettes.

Chart V.0.9 **Projections of headline and core inflation in the euro area**
(in %)



Source: ECB (March 2025 and December 2024).

Chart V.0.10 **Y-o-y inflation in selected CESEE countries in the previous year (until March 2025)**
(y-o-y rates, in %)



Sources: Central banks of selected countries.

Relative to December, **in March the ECB revised up its euro area inflation projection for 2025** – by 0.2 pp, to 2.3%, assuming an increase in the prices of oil and electricity, where the low base effect is played out. The 1.9% projection for 2026 was not changed, while for 2027 it was slightly trimmed – by 0.1 pp to 2.0%. In March, the ECB projected a gradual deceleration of core inflation in the euro area, first to 2.2% in 2025, and then to 2.0% in 2026 and 1.9% in 2027, notably due to slower growth in service prices. Although wages in certain economic sectors are adjusting to previously elevated inflation with a significant lag, their growth is nevertheless slowing, and European companies are managing to absorb part of the increased labour costs through lower operating profits. The ECB noted that most inflation indicators for the euro area point to stabilisation around the medium-term target level of below but close to 2% – a level also reflected in market participants' long-term inflation expectations. In the March inflation projection for the euro area, upside risks still prevail, stemming from potential escalations in trade and geopolitical tensions, rising food prices due to climate change, and increased defence and infrastructure spending by European countries. Downside risks, on the other hand, include a potential decline in euro area exports due to new tariffs, as well as the ECB's still restrictive monetary policy.

In the countries of Central and Southeast Europe, y-o-y inflation slowed in Q1, primarily due to lower energy prices. **Inflation in Romania** fell to 4.9% y-o-y in March, a level around which it has fluctuated since May of last year. **Poland's inflation** also remained at a similar y-o-y level throughout Q1, where electricity price caps have been extended until September this year. **In Hungary, inflation** decelerated to 4.7% y-o-y in March, driven not only by lower energy prices, but also by slower y-o-y growth in service and processed food prices. **In the Czech Republic**, inflation in Q1 continued to move within the target tolerance band, slowing to 2.7% y-o-y in March – a level broadly consistent with its trend since September 2024. Given that escalating trade tensions between the US and the EU are also affecting the region, in April the Consensus Economics revised up its January projection for average annual inflation in 2025 by 0.5 pp to 4.1% for the group of Southeast European countries, and by 0.1 pp to 3.8% for the group of Central European countries. For 2026, inflation is projected at 3.2% and 3.0%, respectively – an upward revision of 0.2 pp and 0.1 pp compared to January.

In the **Western Balkan region y-o-y inflation displayed diverging movements during Q1**. In Bosnia and Herzegovina y-o-y inflation climbed to 3.5% in March, dominantly on the back of food price hikes. The higher prices of food resulted in **Montenegro's** y-o-y inflation of 2.6% in March trending above the December level. In **North Macedonia** y-o-y inflation slowed to 2.7% in March on account of slower y-o-y growth in food and beverage prices, while in **Albania** – after slowing down in January and February – it returned to 2.1% in March, the same as in December.

Measured as the change in CPI, **headline inflation in the US** rose in January, only to slow down in the remainder of Q1, measuring 2.4% y-o-y in March. Relative to December, March saw a more intensive y-o-y fall in the prices of petroleum products and gas, where the base effect plays out, while the fall in industrial product prices, notably used vehicles, also continued during Q1. Coupled with a further slowdown in service price growth, notably shelter and transport, this drove core inflation down to 2.8% y-o-y in March, its lowest level in four years. Personal consumption expenditures index (total and excluding food and energy), as the inflation measure regularly monitored by the Fed, also slowed during Q1, recording y-o-y growth rates of 2.3% and 2.6%, respectively, in March. The March projection of these inflation measures in 2025 was revised up relative to December, by 0.2 pp and 0.3 pp, to 2.7% and 2.8%, respectively, mostly due to uncertainty in terms of the US trade policy pursuit. For the following two years, the Fed forecast a decline in inflation, first to 2.2% in 2026, and then to the target level of 2.0% in 2027. Risks to the March projection remained tilted to the upside considering that core inflation turned out to be steady, while restrictive trade measures could lead to inflation pressures being greater than anticipated.

Monetary policy

In the period since the previous *Report*, central banks' monetary policy decisions differed depending on the specific factors and the estimates of the effects of the escalation of protectionist measures and uncertain trade policies by leading economies.

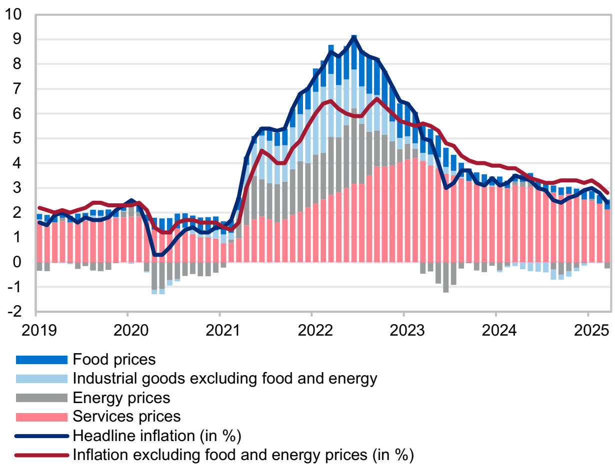
As expected, the **ECB** continued with monetary policy accommodation, trimming the rates by 25 bp each in March and April, hence the rates on deposit facility, main refinancing operations and credit facilities equal 2.25%, 2.40% and 2.65%, respectively. When making the decision to continue trimming its interest rates, the ECB underlined that the disinflation process is well on track and that as expected, headline and core inflation were lowered in March. Also, inflation in the services sector significantly retreated over the past months. Wage growth is slowing, while the impact of the still elevated wage growth on inflation is partly absorbed by lower corporate

Table V.0.4 **Inflation projections across CESEE countries**
(in %)

	2025		2026	
	April projection	Deviation from January	April projection	Deviation from January
Poland	4.2	-0.1	3.3	0.1
Czech Republic	2.4	0.1	2.2	0.1
Hungary	4.8	1.0	3.7	0.4
Romania	4.8	0.4	3.7	0.2
Slovakia	4.1	-0.3	3.0	-0.5
Slovenia	2.3	0.1	2.1	0.0
Croatia	3.2	0.2	2.5	0.1
Bulgaria	3.6	1.1	2.7	0.3
Albania	2.5	-0.1	2.7	0.1
Bosnia and Herzegovina	2.2	0.2	2.0	0.1
North Macedonia	3.2	0.0	2.4	0.0
Montenegro	3.4	-0.1	2.9	-0.1

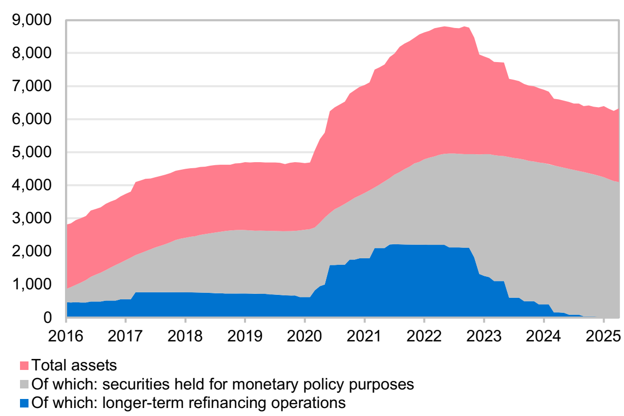
Source: Consensus Economics (January and April 2025).

Chart V.0.11 **Contributions of CPI components to y-o-y inflation in the USA**
(in pp)



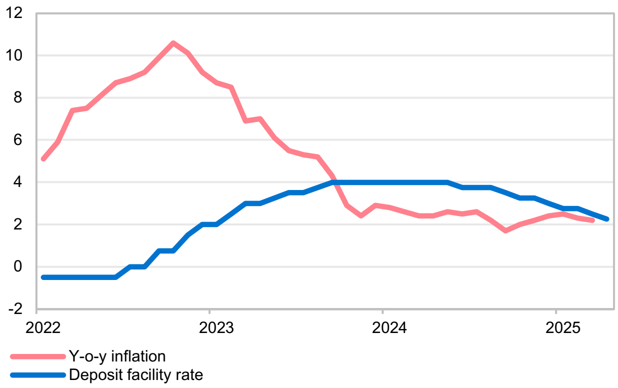
Sources: U.S. Bureau of Labor Statistics and NBS calculation.

Chart V.0.12 **Consolidated Eurosystem balance sheet**
(end-of-month, in EUR bn)



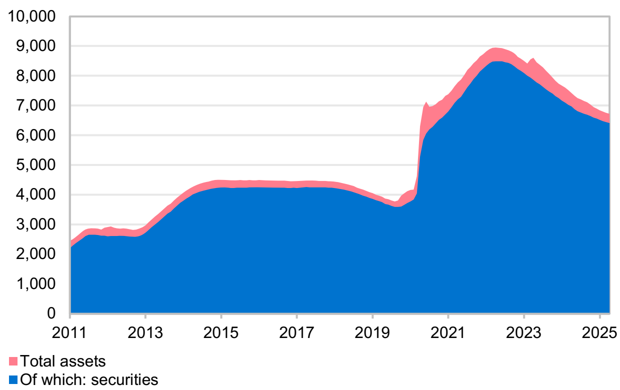
Source: ECB.

Chart V.0.13 **Deposit facility rate and inflation in the euro area**
(in %)



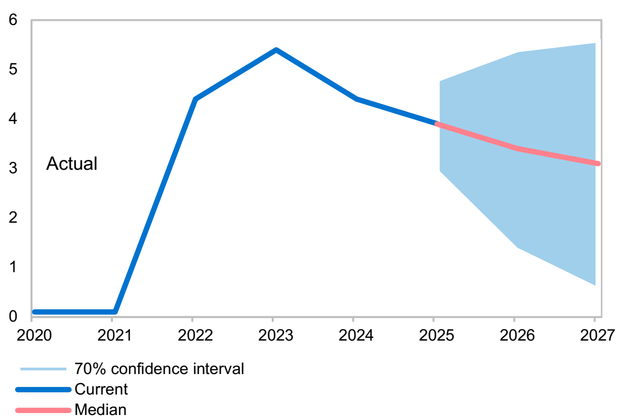
Sources: ECB and Eurostat.

Chart V.0.14 **Fed's total assets**
(monthly average, in USD bn)



Source: Fed.

Chart V.0.15 **Uncertainty and risks to the projection of the Fed funds rate**
(in %)



Source: Fed, Summary of Economic Projections (March 2025).

profit. As for the real sector, the rising trade tensions are undermining the euro area's economic growth prospects and will likely lead to a deterioration of financial conditions, which will in turn act as an additional drag on the euro area's growth outlook. The ECB stressed that going forward, it will make monetary policy decisions based on estimates of inflation growth prospects in light of the incoming economic and financial data, inflation dynamics and the strength of the monetary policy transmission, while not committing to any specific trajectory of the main refinancing operations rate. Analysts estimated that the ECB continued with policy rate cuts primarily in order to help the euro area overcome the difficulties caused by the US tariffs, and that lower inflation will benefit from several factors, notably the euro appreciating vis-à-vis the dollar, the anticipated lower oil price and the expected lower prices of Chinese products in the European market. Accordingly, analysts anticipate a further decrease in the ECB's rates before the end of the year, noting that they are already close to the neutral zone, and perhaps even in it.

Unlike the ECB, in March the **Fed** kept its federal funds rate unchanged, in the 4.25–4.50% range. Such decision was no surprise given the estimates that the elevated US import tariffs will drive inflation up and employment down, though there is also significant uncertainty as to the strength and persistence of those effects. Inflation is trending above the 2% target and short-term inflation expectations are elevated, notably because of the tariffs, whereas long-term inflation expectations are consistent with the 2% target. Though the Fed's inflation projections have been revised up only slightly, most FOMC members believe that risks to inflation are skewed to the upside, and risks to employment to the downside. They stressed that their monetary policy decisions are guided by a dual mandate, and that the new administration is in the process of implementing significant changes in four areas: trade, immigration policy, fiscal policy, and regulation. The net effect of changes in these four areas is still uncertain, and is crucial for the economy and the trajectory of the federal funds rate. The Fed believes they are well positioned and need not be in a hurry to change the monetary policy. They can afford to wait for new data and have a clearer view of prospects and risks. As in December, FOMC members expect the federal funds target range to be narrowed on two more instances (by a total of 50 bp), which is half the decrease from last year's September projection.

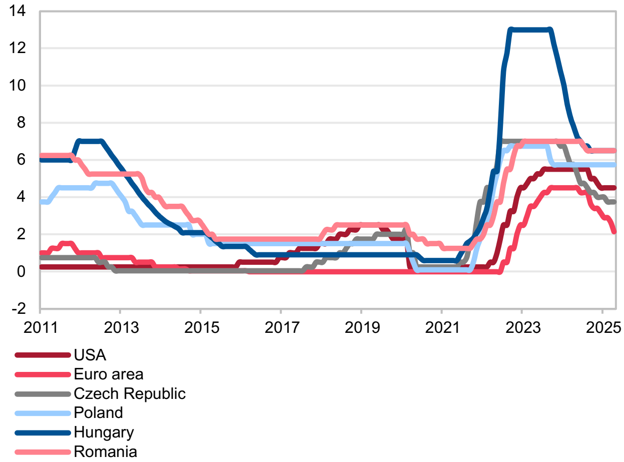
The inflation targeting central banks in the **Central and Southeast European region** pursued their monetary policies with caution. After the February cut by 25 bp to 3.75%, all seven members of the **central bank of the Czech Republic's** Executive Board voted to keep the policy rate on hold, which market participants had expected. It was noted that inflation would be slightly above the 2% target during 2025, and will come down to the target in 2026. However, it was estimated that inflationary risks are still present and mandate the continuation of a mildly restrictive monetary policy. The **central bank of Poland** did not change the policy rate, which has equalled 5.75% since October 2023. However, in the past period the Polish central bank hinted that the policy rate might be trimmed in upcoming meetings, which is a turn relative to previous statements that the rate would most likely remain unchanged throughout 2025. The **central bank of Hungary** also kept its policy rate unchanged, having trimmed it to 6.5% last September. Market participants do not anticipate a decision on further policy rate cuts to be made sooner than around the end of the year bearing in mind the higher prices of food and services which are pushing inflation significantly beyond the central bank target. The **central bank of Romania** also held its policy rate on hold at 6.5%, where it has stood since August 2024. The bank noted that the main reasons behind such decision were uncertainty regarding the movement of energy and food prices, global trade policies and the need for fiscal consolidation.

Financial and commodity markets

Yields on ten-year government bonds of advanced European countries edged up during Q1 2025, on average by 34 bp, mostly triggered by expectations of a pick-up in German economy following the announced plan on a significant increase in government consumption and stepped-up investments within the European system of collective defence. In contrast, **yields on ten-year US Treasuries** recorded a fall by 36 bp to 4.20% in Q1 amid market participants' concern over a potential slack in the US economy in response to the introduction of US tariffs. Accordingly, **the euro and the majority of leading currencies strengthened vis-à-vis the dollar** in the international financial market.

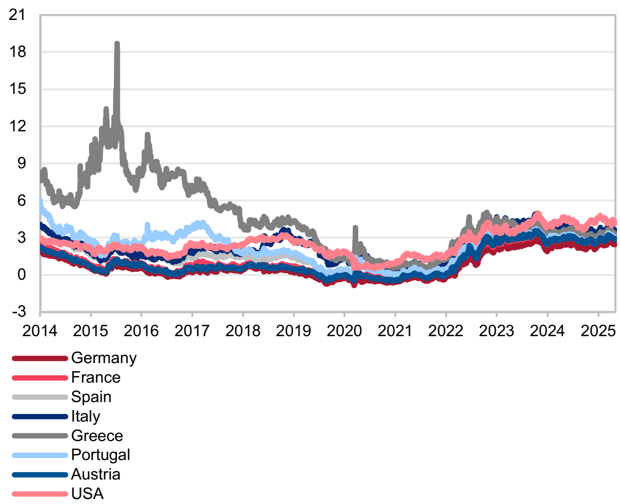
The announced set of new US tariffs considerably shook financial markets, as seen by the rise of the **implicit measure of financial market volatility (VIX)** during Q1 2025. Namely, after China responded by introducing countermeasures to US tariffs on 4 April, VIX reached its maximum level in five years (52.3 on 8 April, compared to 17.4 at end-2024). China's announced reciprocal measures led to an abrupt sale of shares, whereby on 4 April the S&P500 recorded the biggest daily drop since 2020 (5.97%). Simultaneously, we saw a record high three-day growth of yields on ten-year US Treasuries since 2001, which on 9 April reached 4.51%. Amid

Chart V.0.16 **Policy rates across selected countries**
(p.a., in %)



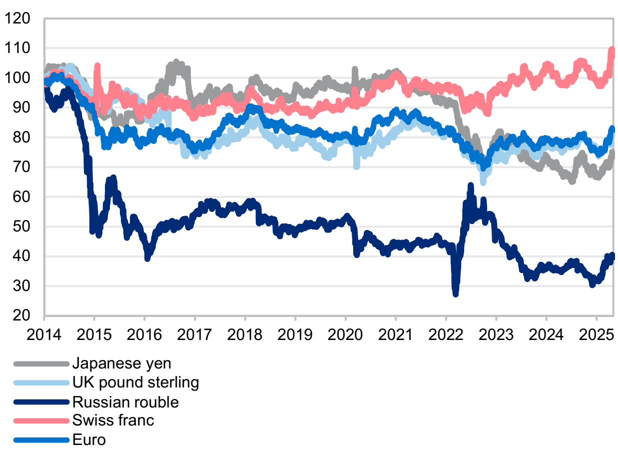
Sources: Central banks of selected countries.

Chart V.0.17 **Yields on ten-year bonds of euro area countries**
(daily data, in %)



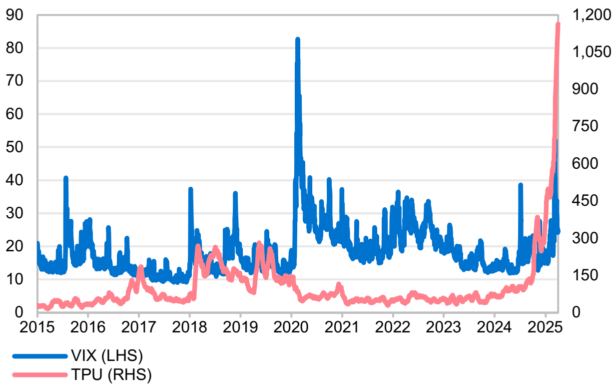
Source: Bloomberg.

Chart V.0.18 **Exchange rates of selected national currencies against the dollar***
(daily data, 31 December 2013 = 100)



Source: IMF.
* Growth indicates appreciation.

Chart V.0.19 **Measures of volatility and uncertainty in the international financial market***



Sources: Bloomberg, Caldara et. al. (2022).

* VIX (Chicago Board Options Exchange Market Volatility Index) is a measure of implicit volatility of a S&P 500 stock option; TPU – Trade Policy Uncertainty Index) is the index of trade policy uncertainty.

elevated concerns, investors redirected financial funds toward safer assets: gold and other safe haven currencies, such as the Japanese yen and the Swiss franc. Market players' uncertainty as to how the trade war will unfold is also reflected in the increase of the Trade Policy Uncertainty Index (TPU),[18] which counts the frequency of joint occurrences of the phrases "trade policy" and "uncertainty" across major newspapers. In April, it soared to record high levels, the highest since in the time series which extends back to 2015. Such spike resulted in a deterioration of global financial conditions.

After turmoil in US financial markets, a 90-day pause on the implementation of tariffs was introduced, resulting in momentary stabilisation of markets and a fall in the yield on ten-year US Treasuries by around 20 bp. Even so, uncertainty persists as to the further course of trade war measures, as well as their potential consequences in the form of accelerated inflation and slower economic activity. This hampers the assessment of the dynamics of leading central banks' monetary policies going forward.

The **global price of gold** continued up during Q1, equalling USD 3,115 per ounce at end-March, up by 19.4% from end-2024 and also its highest level on record since comparable data are available. The price of gold rose on the back of stepped-up demand for safe assets amid rising protectionism and geopolitical tensions globally, the falling value of the dollar and increased gold purchases by the central bank of China. Under the impact of these factors, the price of gold rose further in April, to around USD 3,300 per ounce at the end of the month.

Chart V.0.20 **Assumption for Brent oil prices**
(USD/barrel)

Source: Bloomberg.

After a mild increase at the start of the year due to depleted US inventories and a new package of sanctions aimed at the Russian energy sector, the **global Brent oil price trended dominantly down until end-Q1**, measuring around USD 76 per barrel. The global oil price continued to retreat in April, equalling around USD 63 per barrel mid-month, its lowest level in four years. This decrease was primarily driven by expectations of a global slowdown due to the escalated trade tensions, nascent peace talks between the USA and Russia about ending the conflict in Ukraine, stepped-up supply from non- OPEC+ countries, as well as the decision by OPEC+ on a gradual increase in output as of April. According to relevant institutions, the oil supply will exceed demand in the coming period, which is why the US Energy Information Administration expects the price to retreat to around USD

[18] Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo, "The Economic Effects of Trade Policy Uncertainty," revised in November 2019, Journal of Monetary Economics, upcoming.

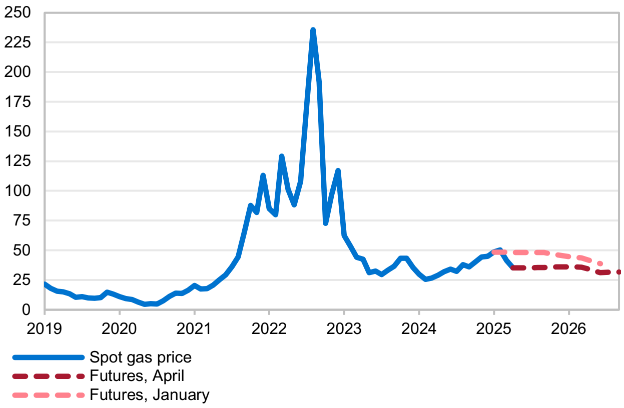
64 and USD 60 per barrel at end-2025 and 2026, respectively. The Consensus Economics also expect the oil price to decline in 2025 and to drop to around USD 68 per barrel by end-year, whereafter it would trend at a similar level during 2026. According to our projection, which is based on market futures, the oil price will trend down until end-year, measuring around USD 64 per barrel in December on average, thereafter trending at a similar level during 2026 as well.

The benchmark price of natural gas for Europe (Dutch TTF hub) continued up in January and February amid stepped-up demand due to cold weather, low level of inventories and subdued supply from Russia after the termination of the agreement on Russian gas transit through Ukraine at end-2024. Since then, the price of gas retreated in March and April, as usual for the season, with supply contracting due to warmer weather. In Q1 the gas price averaged EUR 47 per MWH (equivalent to around USD 535 per 1,000 cubic metres),[19] i.e. 8.8% higher than in Q4, while in April it dropped to around EUR 35 per MWh on average. Based on market futures, we expect the natural gas price to remain broadly unchanged until the end of the year, averaging around EUR 36 per MWh in December, and then retreating slightly during 2026, ending the year at around EUR 33 per MWh. The Consensus Economics also expects the natural gas price to go up, measuring around EUR 40 and EUR 35 per MWh at end-2025 and end-2026, respectively.

The benchmark price of electricity for Europe (German stock exchange) mirrored the dynamics of the natural gas price, averaging around EUR 120 per MWh in Q1, up by 8.1% from Q4, while in April it retreated to around EUR 76 per MWh on average. The price of electricity in the Hungarian stock exchange trended along a similar path, albeit around EUR 10 per MWh higher than in the German stock exchange. According to market futures, the price of electricity will trend down in the coming period, equalling around EUR 70 per MWh at end-June, thereafter rising to around EUR 92 per MWh at end-December, as usual for the season. Similar movements are expected in 2026 as well.

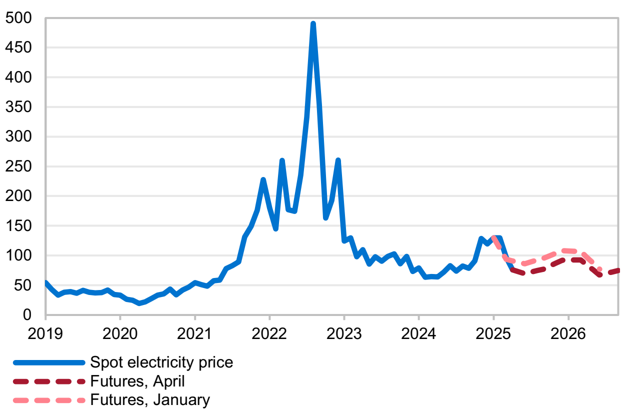
With the increased supply of leading world producers, notably China and Indonesia, as well as elevated inventories, the **thermal coal price** continued down in Q1. The fall extended in April, when it averaged around USD 100 per tonne, or 24.0% lower than in December.

Chart V.0.21 **European price of natural gas**
(EUR/MWh)



Source: Refinitiv.

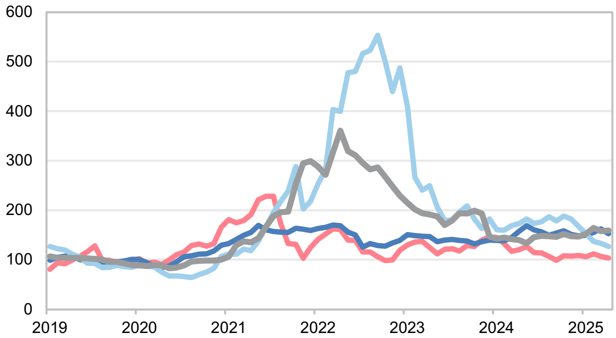
Chart V.0.22 **European price of electricity**
(EUR/MWh)



Source: Refinitiv.

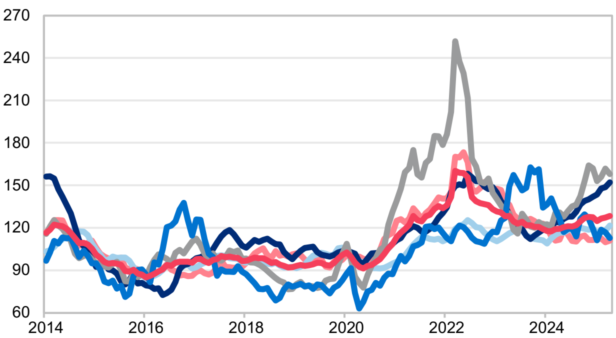
[19] The price expressed in dollars per 1,000 cubic metres of gas was calculated based on the production price of gas expressed in -EUR/MWh, the EUR/USD exchange rate and an appropriate coefficient (10.55 MWh ≡ 1,000 m³).

Chart V.0.23 **Selected commodity prices in the global market**
(index, 2019 = 100)



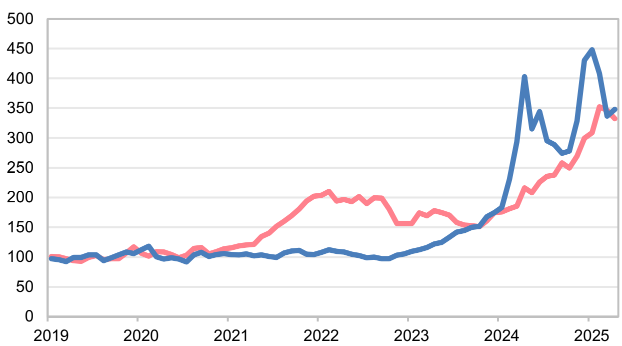
Source: Commodity Prices, World Bank.

Chart V.0.24 **World Food Price Index**
(in nominal terms, 2014−2016 = 100)



Source: UN FAO.

Chart V.0.25 **Coffee and cocoa prices in the global market**
(index, 2019 = 100)



Source: Refinitiv.

This is also its lowest level in four years. The Consensus Economics expects moderate growth in thermal coal price by the end of the year, after which it will decline in 2026, ending the year 2.3% lower than at end-2025.

Movements in **global mineral fertilizer prices** in Q1 was mainly dictated by the price of natural gas, therefore they also edged down in March after rising in January and February. Even so, global prices of mineral fertilizers were 7.3% higher in March relative to December, mostly reflecting the hike in the price of potassium-chloride (15.0%) and urea (12.1%).

The global prices of most metals and minerals trended up in Q1, dominantly reflecting the increased demand of market participants in anticipation of the price hike due to the announced tariffs on these products. In contrast, the prices of most metals and minerals decreased in April amid concerns that demand would slow in the coming period due to the increased tariffs and trade barriers at a global level. The Consensus Economics expects a moderate fall in metal prices going forward, with the index of global prices of basic metals[20] 1.2% lower at end-December than at end-2024, and by almost the same in 2026.

The global food prices, measured by the FAO index, contracted in January, only to turn back up for the remainder of Q1. Thus, in March they were almost unchanged from December, whereas in y-o-y terms they were 6.8% higher. During Q1 sugar prices decreased (2.0%), as did the prices of cereals (1.5%) and meat (1.4%). Conversely, March saw dairy products 4.8% higher than in December, while the prices of vegetable oils were largely unchanged. Food prices continued up in April, and the FAO index was 1.0% higher than in April. In addition, the **global price of coffee** trended up until mid-February, when it reached its record high, thereafter turning dominantly down until end-Q1. Even so, the composite indicator price of coffee, published by the International Coffee Organisation, was 12.5% higher at end-March than at end-December. The **price of cocoa** trended dominantly down in Q1 and was 27.4% lower at end-March than at end-December. Concerns about adverse weather conditions in leading producing countries influenced the growth of coffee and cocoa prices in April, hence that at the end of the month the composite indicator price of coffee was 6.2% higher than at end-March, while the price of cocoa increased by 8.1% in the same period.

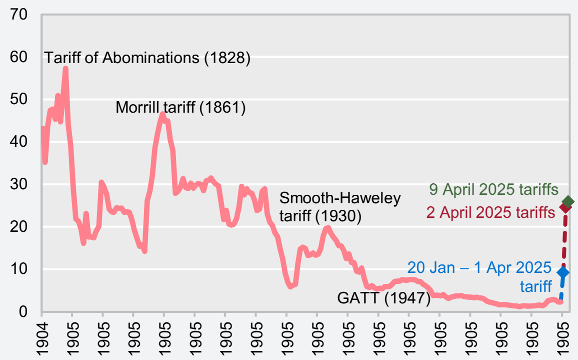
[20] This index has been calculated by The Economist, and the shares of individual metals reflect their respective shares in world metal trade: iron ore (49.3%), copper (21.7%), aluminium (14.8%), silver (6.4%), zinc (3.4%), nickel (2.9%), and lead (1.5%).

Adverse weather in key production regions in both the Northern and Southern hemisphere reflected on **growth in the global prices of primary agricultural commodities (wheat, corn, soybean)** during January and February. In contrast, the prices retreated in March and April, notably due to elevated uncertainty over rising protectionism on a global level, as well as global growth prospects in view of these developments. Based on market futures, we assume that the global prices of primary agricultural commodities will continue trending slightly up in the coming period, measuring 3.0% higher at end-2025 relative to end-2024 and 4.1% higher at end-2026 relative to end-2025.

Text box 3: Central and Southeast Europe's resilience to the introduction of new tariffs and other protectionist measures

Beyond the already present geopolitical tensions, trade tensions have intensified significantly over recent months, particularly after the current US administration announced new tariff rates at the beginning of April targeting economic regions and countries with which the US runs a trade deficit. However, the implementation of the new tariffs has been delayed for 90 days for almost all countries (except China) due to strong negative reactions in international financial markets – primarily seen in a global sell-off of assets and capital market losses (on a par with those recorded during the 2008 global financial crisis, but lower than at the onset of the coronavirus pandemic), heightened volatility in global stock exchanges, and a decline in the value of the dollar. Meanwhile, **a universal tariff rate of 10% on imports from all countries remains in force, while for China, the initial rate of 34% has been raised to 115% and is being applied without delay, to which China responded with the tariff of 146%. This demonstrates that the drastic trade measures are predominantly introduced between the US and China as key competitors in the global market**.

Chart O.3.1 **US tariff rates on all imports**
(in %)



Source: IMF WEO, April 2025.

Taking into account the different tariff rates applied to various categories of goods, the structure of imports, as well as tariff exemptions, the average effective tariff rate of 25% is obtained, which was imposed by the US on total world imports in mid-April. The 90-day delay is intended to allow countries subject to restrictive trade measures to negotiate new terms of trade with the US and potentially avoid higher tariffs after the deadline. Despite the delay, US import tariffs were increased at the beginning of April to levels not seen since the 1930s, when the last global trade war was waged. Their increase has triggered counter-reactions from many affected countries, further fuelling global trade tensions.

Economists agree that tariffs, quotas, and prolonged protectionist measures of this scale will negatively impact macroeconomic trends both in the countries they target and in those imposing them. According to the IMF's April World Economic Outlook (WEO), **countries introducing tariffs face a negative supply-side shock**, increasing unit labour costs and reducing productivity, while **countries subject to tariffs experience a negative demand-side shock**, as external demand and competitiveness decline, creating disinflationary pressures. **In both cases, uncertainty regarding trade increases**, as businesses and households respond by delaying investments and consumption. This effect may be exacerbated by tighter financial conditions and heightened exchange rate volatility. Tariffs are essentially a tax on consumers, and the biggest concern is that they will slow economic growth by disrupting trade flows, supply chains, creating uncertainty in consumption and investment decisions, and ultimately leading to structural imbalances in the global economy. It is evident that different countries and regions will be affected differently by the imposed tariffs, either directly or indirectly. Moreover, protectionist measures will redirect trade flows not only across regions and countries but also across economic sectors – some may be flooded with cheap imports, while others may face product shortages.

The question arises as to how the new protectionist measures will affect the Central and Southeast European region, including Serbia. Economic theory suggests that imposing tariffs on other countries' exports typically reduces total exports, which – along with investments – are a key factor for sustainable economic growth, particularly in smaller developed economies and most emerging and developing countries. Still, leading analysts from the ING, ERSTE Group, OMFIF, and other relevant organisations agree that **the direct effects of the newly introduced tariffs on the overall economic activity of the region of Central and Southeast Europe are limited**, given the modest goods export of countries in the region to the US, measured as a share of their GDP. According to Eurostat data for 2024, goods export from Slovakia, Hungary, and the Czech Republic to the US market accounted for 2–4% of GDP, while Slovenia, Poland, and Bulgaria recorded only 1–1.5%. Meanwhile, Balkan countries' goods export to the US made up less than 1.0% of GDP (Chart O.3.2). These figures indicate that **exposure of Balkan countries to the direct negative effects of the tariffs is also limited**, even though the US imposed the highest reciprocal tariffs on Serbia (37%), Bosnia and Herzegovina (35%), and North Macedonia (33%).

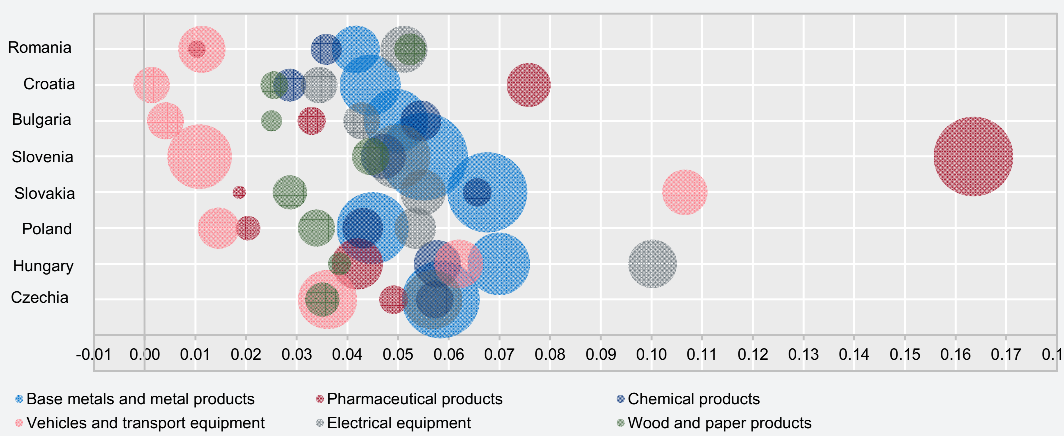
Chart O.3.2 **Impact of US tariffs on the export of Central and Southeast European countries to the US**
(in %)

Sources: Eurostat and NBS calculation.

Although the region's direct trade exposure to the US is relatively limited, **there is indirect exposure via economic activity in the euro area, particularly Germany**, with which countries in the region maintain strong trade and financial ties. Given the export orientation of Central and Southeast European countries towards Germany and the rest of the euro area, the new 20% tariffs imposed by the US on all goods originating from the EU could have indirect negative effects on macroeconomic trends in the region. This primarily relates to **a potential weakening of demand from the euro area, especially Germany, for regional products due to their increased cost in the US market**, which could reduce total goods export and, consequently, overall economic activity.

Beside the region's overall exposure to the US external demand, **it is also important to examine its sectoral structure**, particularly focusing on metallurgy, automotive, electronics, pharmaceuticals, chemicals, and timber industries, for which an additional 25% tariff has been imposed on US imports.[1] Available OECD data allow for an assessment of exposure of certain sectors by examining the share of value-added in industrial products destined for final demand in the US relative to the total value-added exports of the corresponding industrial sector. According to this criterion, **the lowest exposure is seen in the industrial sectors of Romania, Bulgaria, and Poland**, where the share of

Chart O.3.3 **Value-added exports across industrial sectors in US final demand**
(share in value-added by industrial sector, in %)



Note: The data is available up to the year 2020. The size of the circle reflects the share of the value-added of each individual industrial sector in the gross value-added of the entire industry.
Sources: OECD's TiVA database and NBS calculation.

[1] Meanwhile, categories of products that are of key importance to the US industry have been exempted, such as certain pharmaceutical products, semiconductors, energy products, and certain minerals, while mobile phones and laptops, as well as other electronic devices, have subsequently been added to this group of products.

value-added in products for the US market is below or around 5%. Meanwhile, the Czech Republic, Hungary, Slovakia, Slovenia, and Croatia show slightly higher exposure in base metals and metal products (5–6%) and chemical products (6–7%), as seen in Chart O.3.3. **The highest sectoral exposure to the US is recorded in Hungary's electrical equipment industry (10%), Slovakia's motor vehicle and transport equipment industry (11%), as well as the pharmaceutical industry in Croatia (nearly 8%) and Slovenia (around 16%). Generally, most industrial sectors in the region have relatively low to moderate dependence on final demand from the US, largely due to geographically diversified export structures.** This further suggests that potential trade restrictions and subsequent declines in external demand would not significantly impact industrial production or overall economic activity in the region, except for a few sectors – such as electrical equipment, vehicles, and pharmaceuticals – which are more export-oriented towards the US.

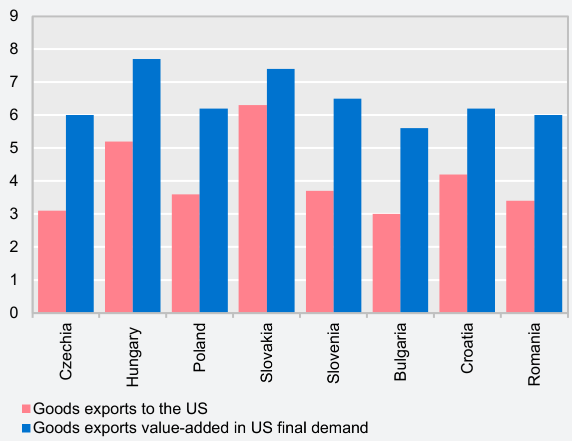
Certainly, the indirect effect on regional countries due to rising US tariffs is greater than the direct goods export from this region to the US market. **Through integration into European and global supply chains – such as Slovakia's production of automobile components, which Germany then exports to the US – these countries indirectly contribute to US final consumption.** However, even when assessing this indirect impact (measured by value-added exports across industrial sectors), it is evident that the contribution of regional exports to meeting US final demand accounts for only 6–8% of total goods export from the region (Chart O.3.4), which remains relatively modest. Based on the preceding analysis, it can be concluded that the direct exposure of Central and Southeast Europe via goods export to the US market is relatively limited, while indirect exposure through Germany and other euro area countries is low to moderate – except for a few industrial sectors more closely tied to the US market.

The current trade shock triggered by the new tariffs is unlikely to generate a more pronounced negative impact on macroeconomic trends within this region through the export channel – at least not to the extent expected in other regions of the world. As for other transmission channels, potential effects could arise via:

– **imported inflation**, as tariffs on imports could primarily increase the prices of imported goods and inputs, as well as domestic products with a high share of imported components. However, it should be noted that such cost-push pressures would likely be temporary in nature;

– **perceived inflation and consumer confidence**, since if consumers anticipate price increases – even in the absence of actual price rises – current consumption may decline while precautionary savings increase, potentially weakening economic growth;

Chart O.3.4 **Value-added of Central and Southeast European countries' goods exports to the US market**
(share in total goods exports by country, in %)



Note: The indicators refer to the year 2020, which marks the end of the available data series.
Sources: OECD's TiVA database and NBS calculation.

– **FDI**, as prolonged tariffs could pose a significant barrier to new investments, leading to the withdrawal of foreign investors from the region and the relocation of production capacities to the US or less affected countries;

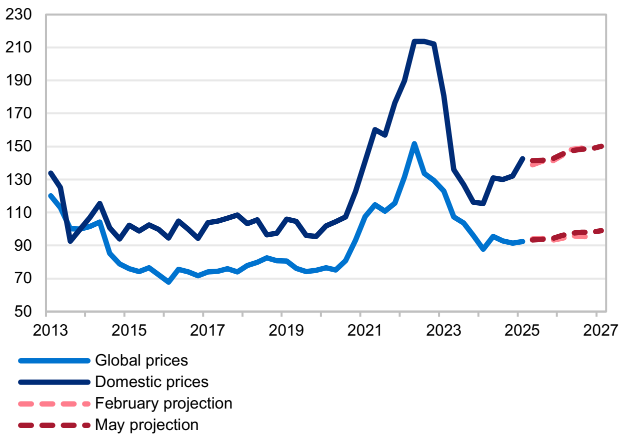
– **Chinese investment**, as a significant retreat of European investment from the region could be offset by increased investments from Chinese firms. While this might provide a short-term boost to economic growth, it could heighten geopolitical and trade tensions between the EU and China in the medium term, negatively affecting the economic standing of countries in the region.

Thus, although the primary effects of US–EU trade tensions on the region arise from the export channel, close attention must also be paid to inflation expectations, consumer confidence, investment flows, and the geopolitical consequences of alternative financing sources for these countries. **These secondary channels could have hidden but lasting effects on the region's economic dynamics, particularly in the medium term. Additionally, the Central and Southeast European region is indirectly exposed to global financial conditions, particularly financing conditions**

in the euro area, which could tighten amid rising uncertainty. However, such tightening would likely be milder than in other parts of the world, partly due to the ongoing easing of the ECB's monetary policy. Overall, **the region's resilience to tariffs and other protectionist measures is neither uniform nor equally pronounced across all regional peers and industrial sectors**. While it is difficult to reliably quantify the long-term impact of restrictive trade measures on economic growth in the region, it would be erroneous to underestimate the secondary effects and risks arising from such measures. In this context, in her address to the European Parliament in March,[2] ECB President Christine Lagarde estimated that the unilateral imposition of US tariffs could reduce euro area GDP growth by 0.3 pp in the first year, whereas reciprocal EU measures could lead to a GDP decline of up to 0.5 pp, thus undoubtedly negatively affecting economic growth across all Central and Southeast European countries.

[2] https://www.ecb.europa.eu/press/key/date/2025/html/ecb.sp250320~6c2889bbd3.en.html.

Chart V.0.26 **Assumption for prices of primary agricultural commodities***
(Q4 2013 = 100)



Sources: Novi Sad Commodity Exchange, CBOT, Euronext and NBS calculation.
* Measured by the composite index of wheat, corn and soybean prices.

Internal assumptions

Our assumptions from the previous *Inflation Report* did not change much with regard to **primary agricultural commodities**. Their prices are expected to rise moderately – between 2.7% and 3.3% – in the domestic market in 2025 and the next two years (Q4 to Q4), and to increase modestly in the global market as well. In the absence of data at the start of the year, we assume this year's agricultural season to be at the level of the multiyear average, which means that this year's output will be around 8% higher than last year, when it was weaker due to high temperatures and drought. As a result, agriculture should provide a positive impulse to GDP, containing major growth in the prices of primary agricultural commodities through robust supply. The effects of equipment modernisation and broader application of agrotechnical measures, thanks also to higher government subsidies to agriculture, ought to support mild growth in agricultural output in 2026 as well and lessen its exposure to the impact of adverse climate factors.

After rising by 4.2% in 2024, **administered prices** will continue to **increase** moderately, by slightly over 5% this year and the next, mainly on account of the increase in the prices of cigarettes and utilities.

As for the factors influencing domestic consumption, we expect wages to remain a key source of consumer demand, mainly reflecting further wage growth in the public and private sector, rise in the minimum labour cost (13.7% in 2025) and the projected continued employment growth. Still, we expect wage-growth pressures to recede amid lower inflation. For this reason, we assume real wage growth to be slower during the projection horizon and come at around 5.5% in 2025 and 3% in 2026, after measuring 9% last year. The projected private sector wage growth in line with growth in GDP and employment, i.e. productivity, and expenditures for public sector employment which will remain below the fiscal rules limit, will not generate major inflationary pressures.

Remittances, which we project to be higher (around EUR 4.6 bn net) than last year (EUR 4.5 bn net), will also support growth in consumer demand. The easing of credit standards, and lower interest rates on both dinar and euro-denominated loans thanks to the NBS's and ECB's monetary policy easing, have already resulted in greater disposable income for consumption. We expect lending to rise further in the coming period.

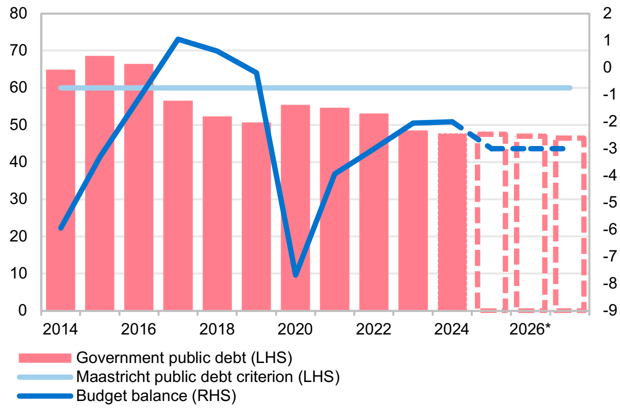
With regard to the US sanctions on NIS because it is mainly Russian-owned, in our baseline scenarios for the inflation and GDP projections we assumed that the sanctions would be delayed until a final solution is reached. This has been confirmed by the additional deferral by two more months, i.e. until 27 June. Also, we took into account that Serbia has sufficient oil and petroleum product reserves to last three months, and they could be used to overcome potential difficulties with crude oil imports and processing.

As for fiscal results, the government fiscal deficit measured RSD 28.6 bn in Q1 2025 (-1.2% of GDP), while the primary balance surplus was RSD 24.2 bn (1.0% of GDP).

Fiscal revenue gained 0.3% y-o-y in real terms in Q1 2025, guided by higher revenue from personal income tax and VAT. **Fiscal expenditure** rose 1.3% in real terms, mostly driven by increased public sector wages and pensions.

Consistent with the **medium-term fiscal framework** set out in the Revised Fiscal Strategy for 2025 with Projections for 2026 and 2027, the mildly expansionary fiscal policy is expected to continue, propped up by further investment in infrastructure as part of the "Leap into the Future – Serbia Expo 2027" programme, but without disrupting the stable downward path of the public debt-to-GDP ratio. The share of government public debt in GDP was 44.3% in March 2025. The stock of public debt increased in nominal terms relative to end-2024, mostly due to the record sales of 10.5Y dinar bonds in the January auction and additional sales at the auction reopening in March. The reduction of dollar debt due to the dollar's weakening and the maturing of previously issued dinar and euro securities worked in the opposite direction.

Chart V.0.27 **Budget balance and government public debt**
(in % of GDP)



Source: Ministry of Finance.
* Projection from the Revised Fiscal Strategy for 2025 with Projections for 2026 and 2027.

Text box 4: Serbia's Maastricht debt: theoretical framework, dynamics and structure

In this text box we analysed Serbia's Maastricht debt, i.e. the general government debt under the Maastricht criteria. The aim is to present the Maastricht debt, draw a comparison with the public debt according to our national methodology and analyse its dynamics and structure, while comparing it to selected countries of Central, Eastern and Southeastern Europe (CESEE).

Definition of the Maastricht debt and comparison with the debt according to the national methodology

The Maastricht debt is the nominal value of the consolidated gross debt of the general government on a given date, i.e. it encompasses the total liabilities to domestic and foreign creditors, while excluding mutual liabilities and claims between institutional units classified within the general government sector.

There are several differences between debt under the national definition (published by the Public Debt Administration in its monthly and quarterly reports) and Maastricht debt (Table O.4.1). These concern the scope of financial instruments, the scope of institutional sectors, debt consolidation, and the scope of government-guaranteed loans. Additionally, there is a difference in the calculation of the debt-to-GDP ratio, as the Maastricht debt uses the sum of GDP achieved over the previous four quarters, whereas the national definition uses GDP achieved or projected in the calendar year.

Table O.4.1 **Methodological differences between Maastricht debt and debt under national methodology**

	Maastricht debt	Debt under national methodology
Scope of financial instruments	Securities, borrowings and deposits	Securities and borrowings
Scope of institutional sectors	All institutional units belonging to the sector of central government, local self-government and social insurance funds	Central government, local self-government and other government sector
Scope of government-guaranteed loans	Yes, if the guarantor settles the liability three times in a row	All government-guaranteed loans
Consolidation	Yes	No
GDP for comparison	The sum of GDP in the past four quarters	GDP in the calendar year, GDP in previous years and GDP projected for the current year

Sources: European regulations, Law on Public Debt of the Republic of Serbia, Budget System Law of the Republic of Serbia.

Under the Maastricht convergence criterion, which relates to fiscal and monetary standards within the EU, the general government debt should not exceed 60% of GDP. This is one of the five criteria that EU member states must meet to join the European Monetary Union (EMU) and maintain thereafter to retain investor confidence, fiscal discipline, and long-term economic stability. Serbia's Maastricht debt-to-GDP ratio over the past eight years has followed a declining trajectory, almost without exception, remaining below the 60% threshold even during the pandemic years, the energy crisis and the outbreak of the conflict in Ukraine (2020–2022).

Dynamics and structure of Serbia's Maastricht debt in 2012–2024

Following the 2008 global financial crisis, Serbia's previously relatively stable public debt began rising sharply due to declining economic activity, reduced budget revenues, and the government's intervention to mitigate the effects of the crisis. Between 2008 and 2012, Serbia's debt (under Maastricht methodology) increased by over 80% – both in absolute terms (from EUR 9.1 bn to EUR 16.9 bn) and as a percentage of GDP (from 26.6% to 48.3%). The currency structure of the debt also shifted: the share of euro-denominated debt decreased significantly, while dinar- and dollar-denominated debt rose. Notably, dinar debt grew substantially, reaching nearly 20% by the end of 2012.

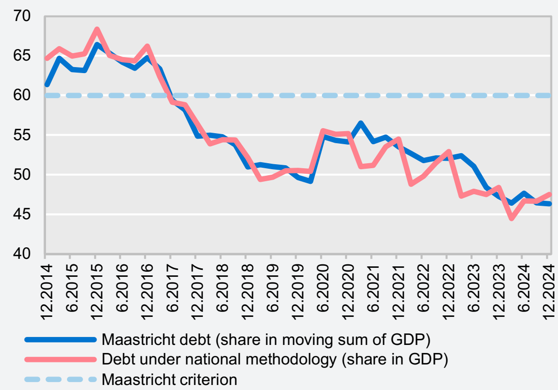
Over the next three years, debt continued to rise alongside deepening fiscal deficits. By the end of 2015, it reached a record EUR 24.5 bn, or 66.4% of GDP, exceeding the Maastricht threshold of 60% (Chart O.4.2).

Faced with growing risks to public debt sustainability, the Serbian government launched an ambitious three-year fiscal consolidation programme around end-2014. Its primary goal was deficit reduction through fiscal austerity measures (public sector wage and pension cuts, tax increases, etc.) and structural reforms, particularly in public administration and state-owned enterprises. By 2015, the first year of implementation, the deficit had already narrowed significantly, and 2016 saw the first primary surplus since 2005. This allowed the debt-to-GDP ratio to decline despite a modest increase in absolute debt. The trend continued in 2017, when debt fell below the 60% threshold. With budget surpluses and improved tax collection, debt was reduced to under 50% of GDP by 2019, while interest expenses declined substantially. This period of stabilisation not only averted a debt crisis, but also bolstered broader macroeconomic stability: average interest rate on debt fell, financing costs decreased, and the economy recorded steady growth. Between 2016 and 2019, nearly all factors influencing the debt ratio contributed to its reduction, with the primary fiscal balance effect playing a key role (Chart O.4.3).

A new shock to public finances came with the COVID-19 pandemic in early 2020, prompting the government to implement extensive fiscal support measures for households and businesses. This led to higher public spending and a budget deficit of around 7.7% of GDP in 2020, pushing the debt-to-GDP ratio back up to 54.1%. Still, a strong economic recovery followed in 2021 – real GDP grew by nearly 8%, with even higher nominal growth. As a result, despite an increase in nominal debt, its share in GDP edged down to 53.5%. Thus, a debt spiral akin to the post-2008 period was avoided, and public finances entered a new phase of cautious management aimed at exiting the crisis without undermining fiscal stability.

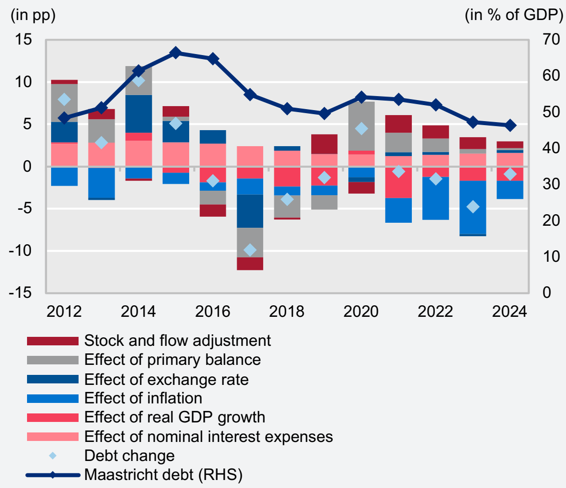
In autumn 2021, the global energy crisis emerged, posing severe challenges to Serbia's energy sector in 2022, and leading to a fourfold increase in budget lending, within which assistance to the energy sector was recorded and a fiscal deficit of 3% of GDP. Nevertheless, robust nominal GDP growth helped reduce the debt ratio

Chart O.4.1 **Maastricht debt and debt under national methodology, 2014–2024**
(in %, share in GDP)



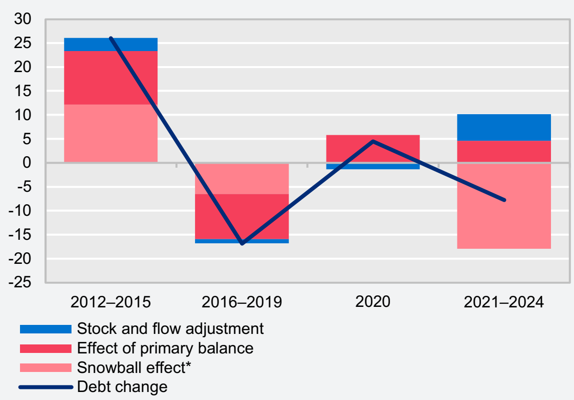
Sources: Public Debt Administration and NBS.

Chart O.4.2 **Factor decomposition of the change in debt ratio, 2012–2024**



Source: NBS.

Chart O.4.3 **Decomposition of the change in Maastricht debt**
(in pp of GDP)



Source: NBS.
* Snowball effect is the sum of interest expense, real GDP growth, inflation and exhange rate effects.

to 52% of GDP. In 2023, higher-than-expected tax revenues and lower energy subsidy expenditures brought the deficit to levels lower than planned, to 2% of GDP. Together with GDP growth, this further lowered the debt ratio to 47.3%. In 2024, the fiscal deficit stood at 2% of GDP, significantly below the revised Fiscal Strategy's target (2.7% of GDP). This way the debt-to-GDP ratio was further reduced to 46.3%.

Regarding currency composition, the most significant shift in the 2014–2024 period was that between the euro- and dollar-denominated debt. Namely, the share of the euro debt rose from 42.2% in 2014 to 57.7% by end-2024, while the dollar debt fell similarly (from 30.9% to 13.8%). The share of the dinar debt grew steadily until 2020, exceeding 30%, before declining gradually – due to eurobond issuance and rising euro debt – to 21.8% by end-2024. In terms of creditor residency, Serbia's external debt (owed to foreign creditors) remained relatively stable at around two-thirds of total debt between 2014 and 2024. Domestic debt as a share of GDP declined post-2020, while borrowing from non-residents saw a mild uptick. By instrument, Serbia's Maastricht debt at end-2024 was primarily composed of securities issuance (around 50.5% of total debt), followed by loans (around 49.1%). The third element of the Maastricht debt consisted of government treasury deposits (around 0.4%).

Comparison of Serbia's Maastricht debt with selected CESEE countries

Compared to selected CESEE countries (Table O.4.2), Serbia's Maastricht debt-to-GDP ratio is among the lowest and exhibits one of the most favourable trends. In 2014, Serbia's debt-to-GDP ratio was higher than that of Bulgaria, Poland, Romania, Slovakia, and the Czech Republic, but lower than Hungary, Slovenia, Croatia, and the EU average. A decade later (Q3 2024), only Bulgaria (24.6%) and the Czech Republic (43.6%) recorded lower debt-to-GDP ratios than Serbia, though the Czech Republic's debt has risen continuously since 2019.

Table O.4.2 **Maastricht debt of Serbia and selected CESEE countries**
(in %, share in GDP, balance at year end)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Serbia	61.4	66.4	64.7	54.8	51.0	49.6	54.1	53.5	52.0	47.3	46.3
Bulgaria	27.0	25.9	29.1	25.1	22.1	20.1	24.4	23.8	22.5	22.9	24.1
Hungary	76.5	75.7	74.6	72.0	68.8	65.0	78.7	76.2	73.8	73.4	73.5
Poland	51.1	51.1	54.1	50.4	48.2	45.2	56.6	53.0	48.8	49.7	55.6
Romania	39.1	37.7	37.8	35.3	34.4	35.0	46.6	48.3	47.9	48.9	54.8
Slovakia	53.4	51.6	52.1	51.4	49.3	48.0	58.4	60.2	57.7	56.1	59.7
Slovenia	81.1	83.4	79.4	74.9	71.0	66.0	80.2	74.8	72.7	68.4	67.0
Croatia	83.2	82.8	79.3	76.2	72.8	70.9	86.5	78.2	68.5	61.8	57.6
Czechia	41.5	39.5	36.2	33.8	31.7	29.6	36.9	40.7	42.5	42.4	43.6
EU	86.9	85.0	84.0	81.5	79.5	77.4	89.5	86.7	82.5	80.8	81.0

Source: Eurostat.
* Intensity of the red/blue colour reflects the extent to which the debt is higher/lower than 60% of GDP.

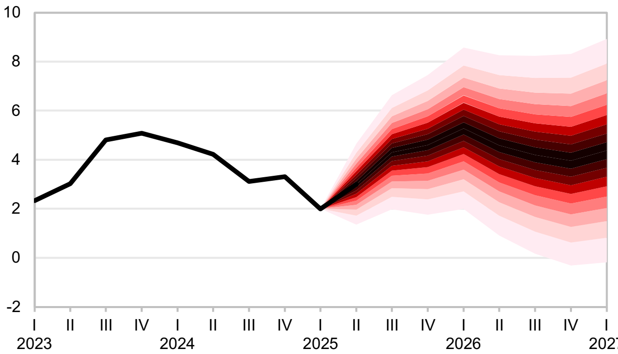
The successful reduction in Serbia's debt-to-GDP ratio reflects consistent fiscal policy and stable macroeconomic management in prior years, leading to healthier public finances and sustained economic growth which Serbia recorded in the past period, with the exception of the pandemic year of 2020. In most peer countries, debt surged sharply in 2020 due to high budget deficits from governments' stimuli aimed at supporting economic activity through various fiscal support measures for businesses and households. In contrast, Serbia's well-timed coordination of fiscal and monetary policy preserved economic activity without the need for similarly drastic borrowing. Namely, in 2020, the average debt-to-GDP ratio of the selected CESEE countries in Table O.4.2 rose by 11.2 pp, while Serbia's increased by 4.5 pp. In the coming years, Serbia's debt ratio continued to improve more favourably than in most regional peers. Thanks to the responsible and sustainable fiscal policy implemented over the past several years, Serbia has achieved significant structural improvements in public debt across nearly all segments: enhanced currency and interest rate composition, substantially extended maturities, reduced borrowing costs, lower government-guaranteed public debt, and more balanced debt distribution, while maintaining adequate liquidity levels at all times.

GDP projection

Under our May projection, **Serbia's real GDP growth will measure 3.5% this year**. In view of the lower-than-anticipated growth in Q1, issues in the European automobile industry, and rising protectionism worldwide spurring uncertainty and investors' risk aversion, the new GDP growth projection for 2025 is 1.0 pp lower than in February. Economic activity growth is still estimated in the range of 4.0%–5.0% in 2026 and 2027, but probably closer to the upper bound of the range in 2027 due to the hosting of "Expo 2027". Domestic demand will be the key generator of economic activity growth in 2025 and beyond, but its positive contribution will be somewhat weaker than in the previous projection. Within domestic demand, the strongest positive impulse is expected to come from household consumption, followed by gross fixed investment. Private and government investment will also give a positive contribution, aided by the implementation of projects planned under the "Expo 2027" programme and other infrastructure projects. The acceleration of Serbia's economic growth over the medium term, driven by investment and productivity growth, should also contribute to potential output growth and speed up Serbia's real convergence to the EU. At the same time, as investment and personal consumption are expected to accelerate, imports will rise faster than exports in 2025 and 2026, resulting in a negative contribution of net exports which will, however, decrease from year to year. In 2027, the contribution of net exports is expected to turn positive thanks to rising exports, especially of tourism and business services, due to the hosting of "Expo 2027".

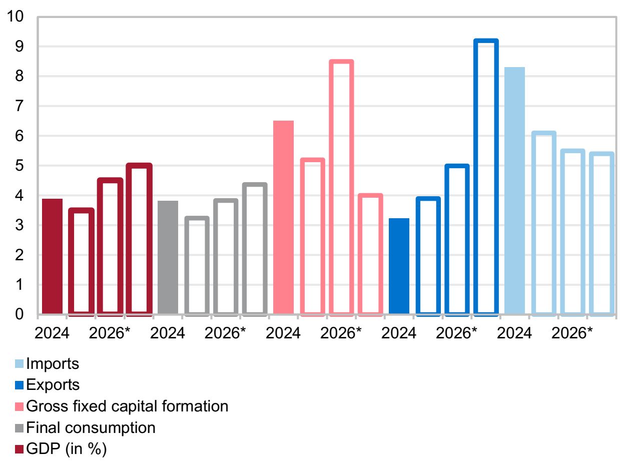
In terms of individual categories, under the May projection the strongest positive impulse of 2.2 pp is anticipated to come from **private consumption**, which also has the largest share in the GDP structure. Its contribution in the next two years is expected to rise gradually to 2.6 pp in 2026 and 3.1 pp in 2027. Household consumption growth will be supported by positive trends in the labour market, i.e. the anticipated further rise in wages and employment, as well as in pensions in line with the fiscal rules. It is important to note that we expect no major inflationary pressures from the wage growth anticipated in the medium term, as it will largely result from increased labour productivity. The projected private consumption growth rate in 2025 and beyond is, therefore, expected to move around or below the projected overall GDP growth, contributing to medium-term price stability. Also, the real disposable income will be supported by slowing inflation and more favourable lending conditions due to the effects of monetary easing

Chart V.0.28 **GDP growth projection**
(y-o-y rates, in %)



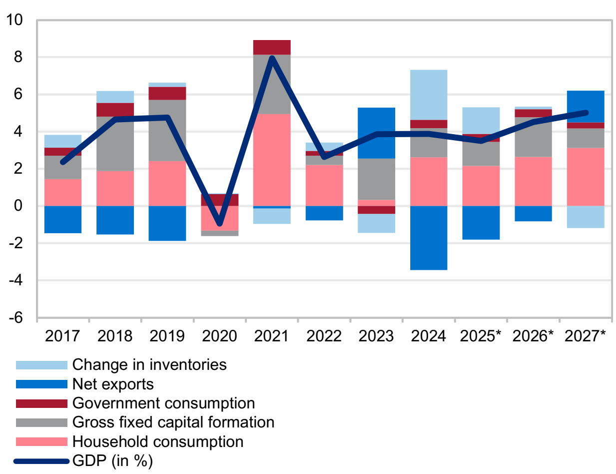
Source: NBS.

Chart V.0.29 **Real growth in GDP and its components, expenditure side**
(in %)



Sources: SORS and NBS.
* NBS estimate and projections.

Chart V.0.30 **Contributions to real GDP growth**
(in pp)

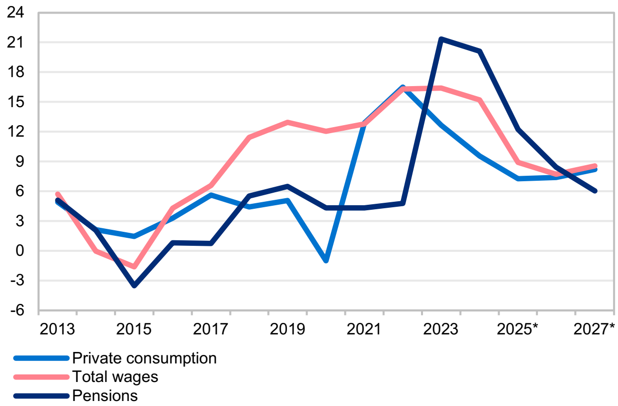


Sources: SORS and NBS.
* NBS estimate.

by the NBS and the ECB so far, as well as continued lending activity growth.

According to the May projection, **government consumption** will continue to provide a positive contribution of 0.4 pp to GDP growth this year, and its average contribution over the next two years will be the same, considering the planned wage expenditure and rising outlays for goods and services for the purpose of implementing the "Expo 2027" programme.

Chart V.0.31 **Rate of growth in private consumption and its sources**
(nominal y-o-y rates, in %)



Sources: SORS and NBS calculation.
* NBS estimate.

Private investment is expected to continue to provide a positive contribution to economic activity growth in the current (0.8 pp) and the next two years (1.6 pp and 0.7 pp). Private investment growth will be supported by the demonstrated resilience of our economy to negative external shocks in the previous period, generally reduced inflationary pressures, more favourable terms of borrowing thanks to the NBS's and ECB's monetary policy easing so far and the resulting lending activity growth. Investment growth will step up in 2026 due to the implementation of investments planned under the "Expo 2027" programme. Own capital will remain the main source of private investment financing, resulting from increased corporate profitability in the prior years. In addition, FDIs will continue to provide a robust impulse to investment.

Further **government investment** growth is expected alongside private investment growth. It will contribute 0.5 pp to overall GDP growth in 2025 and the next two years on average. This will be aided by the implementation of significant government-financed projects in transport infrastructure and energy. Thanks to the "Expo 2027" programme, we may also expect to see additional significant investment in other public infrastructure, but the share of public investment in nominal GDP will stay at around 7.3% on average, according to the Revised Fiscal Strategy for 2025 with Projections for 2026 and 2027.

The May projection also assumes a further gradual recovery of **inventories** in 2025 and 2026, given the still relatively low external demand.

A positive contribution this year is also expected to come from **exports of goods and services** thanks to the start of serial production in the automobile industry, new capacities in the energy sector and assuming unhindered continuation of production in Naftna industrija Srbije. Next year, growth will also be supported by the anticipated acceleration of economic growth in our key trade partners. Export growth will also be sustained by the effects of past investment in export-oriented sectors

Table V.0.5 **Planned capital projects within the "Leap into the Future – Serbia 2027" programme**
(in EUR mn)

Project	Until 2024	2025	2026	2027	After 2027	Total value
1. Expo	393	392	405	0	0	1,191
2. Road infrastructure; construction of highways, expressways, bridges, tunnels, etc.	4,546	1,176	1,013	559	1,747	9,041
3. Railway infrastructure; Hungarian-Serbian railway project, reconstruction and modernisation of the Belgrade-Niš railway, etc.	1,456	505	461	491	1,885	4,799
4. Air and water transport and hydropower; Đerdap 1 and 2, "Arilje" dam, construction of a new port in Belgrade, extension of capacity of the existing ports, etc.	149	80	62	103	262	656
5. Utility infrastructure	332	133	148	148	2,687	3,447
6. Other projects; modernisation of public sector infrastructure, education, science, health, sport, etc.	719	395	487	136	20	1,896
TOTAL	7,596	2,681	2,575	1,437	6,601	21,030

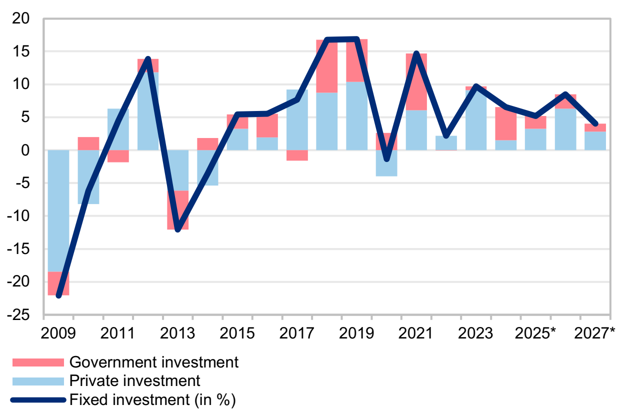
Source: Revised Fiscal Strategy for 2025 with Projections for 2026 and 2027.

and the hosting of "Expo 2027", which is why we projected export to accelerate gradually to 9% in 2027. A significant impulse to this will come from the positive trends in foreign trade in services which should continue in 2025 and beyond, backed by broad-based growth in the export of various types of services, especially ICT and business services, tourism and air transport services (despite the anticipated rise in the imports of, primarily, tourism services amid rising personal consumption). Our projection assumes the application of the tariffs announced by the US administration on 2 April to Serbia and the euro area, though they have been delayed by 90 days in the meantime and will be further negotiated. The direct effects of the tariffs would not be large, though, as Serbia's exports to the USA make up less than 2% of total exports. Indirect effects would not be avoided, however, through the impact on the euro area, as well as due to the fact that the tariffs would apply to the automobile industry where we are highly integrated in global production chains.

Taking into account the investment activities planned for the coming period and private consumption growth, we projected **imports of goods and services** to rise faster than exports in 2025 and 2026. This will result in a negative contribution of **net exports** in this year and the next, but it will diminish gradually from -1.8 pp in 2025 to -0.8 pp in 2006. This contribution is expected to turn positive in 2027 (1.7 pp), aided, among other things, by a large number of visitors to "Expo 2027" (according to our current estimate, around 3 million foreign tourists will visit our country during the three months of the exhibition).

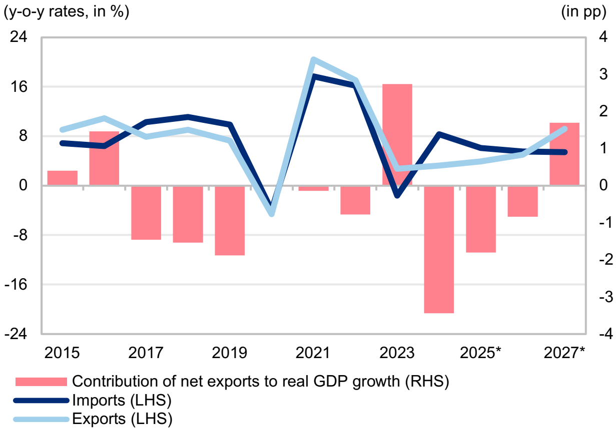
On the production side, like the previous one, the May projection also assumes that GDP growth in 2025 and beyond will continue to be guided by the **service sectors**, though to a smaller extent than we expected in February. Their contribution to overall economic activity growth

Chart V.0.32 **Fixed investment**
(y-o-y growth, in pp)



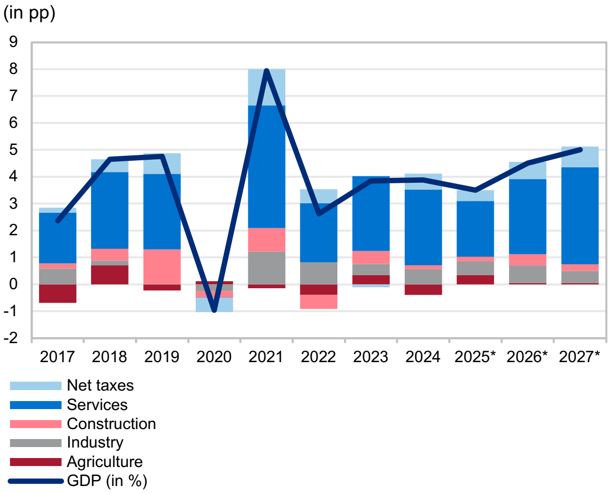
Sources: SORS and NBS calculation.
* NBS estimate.

Chart V.0.33 **Real export and import growth**



Sources: SORS and NBS.
* NBS estimate.

Chart V.0.34 **Contributions to real GDP growth, production side**



Sources: SORS and NBS.
* NBS estimate.

will rise gradually from 2.1 pp in 2025 to 3.6 pp in 2027. This will be aided by private consumption growth, supported by positive trends in the labour market, growth in wages and disposable income, and rising lending activity. The expected arrival of numerous visitors to "Expo 2027" will also positively affect activity growth in the service sectors. In line with consumption and service sector growth, which will also improve tax revenue collection, the projection assumes that **net taxes** will provide a positive contribution of around 0.6 pp per annum to GDP growth on average.

Growth in production sectors has been projected, though at a lower level than in the previous projection. Their combined contribution to GDP growth will be 1.0 pp in 2025, 1.1 pp in 2026, and then slightly decelerate to 0.7 pp in 2027. The strongest positive contribution is anticipated from **manufacturing** (0.4 pp on average in each of the years), where we expect the activation of new and expansion of existing capacities in the automobile industry with the start of production of electric vehicles in Kragujevac and car tyres in Zrenjanin. When it comes to the production of electric vehicles, we estimate that the contribution to GDP would be around 0.1 pp for every 10,000 vehicles produced, but that the total effect would depend on the actual volume of production. A positive contribution, though slightly lower than in the previous projection, ought to come from **construction** (0.2 pp this year and around 0.4 pp on average in the next two years) owing to the planned implementation of infrastructure projects in transport, energy and utility infrastructure. **Mining** is also anticipated to provide a positive impulse (0.1 pp) thanks to greater metal ore exploitation (particularly of copper) and production in the "other mining" category which includes construction material. The contribution of **energy** is expected to be mildly positive as a result of planned structural reforms, in line with the IMF arrangement, the launch of a new unit in the Kostolac thermal power plant and the opening of new renewable energy capacities.

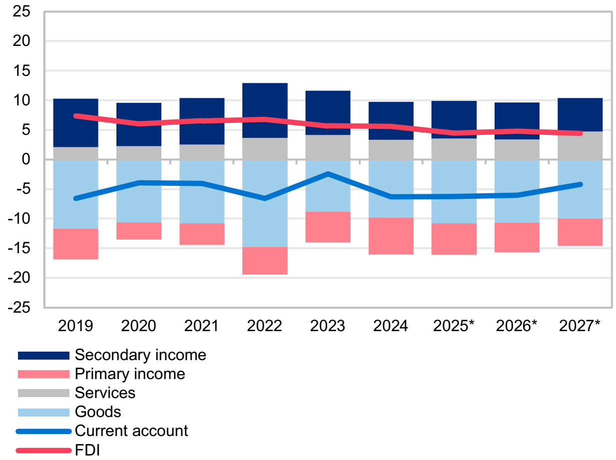
As regards **agriculture**, assuming an average agricultural season and growth of 8% in 2025, aided by the low base from the previous year when output dropped because of the drought, we assumed that agricultural production would provide a positive contribution of 0.3 pp to GDP growth in 2025. In the coming years, agricultural production will be supported by equipment modernisation and broader application of agrotechnical measures, helped by higher government subsidies to agriculture.

Projection of Serbia's external position

As exports underperformed somewhat so far in the year mostly on account of issues in the European automobile industry and the resulting subdued external demand for related products, the new current account deficit projection has been revised slightly up relative to February. Under our new projection, **the current account deficit** will measure around EUR 5.5 bn in 2025, and its share in GDP will be slightly lower than last year and close to the average equilibrium rate. The projection takes into account the expected increase in the imports of goods and services primarily on account of higher equipment imports for the purpose of investment cycle continuation, greater government expenditure for implementing the "Expo 2027" programme and rising imports of consumer goods and tourism services reflecting increased disposable income of households. Under the impact of the expected acceleration in the exports of goods and services in the coming years, propped up by past investment in export-oriented sectors and a gradual rallying of external demand, we expect the current account deficit to dip to 6% of GDP in 2026. In 2027, the year of hosting "Expo 2027," the current account deficit is expected to subside to around 4% of GDP reflecting a rise in the exports of tourism services.

As for other **current account components**, the projection assumes that the secondary income surplus will be around 6% of GDP, entirely offsetting the deficit in income from factors of production (primarily income from FDI and labour) estimated at around 5% of GDP. FDI inflows are expected to stay highly diversified by geography and project and channelled mainly to export-oriented sectors, averaging around 4.5% of GDP in our estimate.

Chart V.0.35 **Current account and FDI projection**
(in % of GDP)



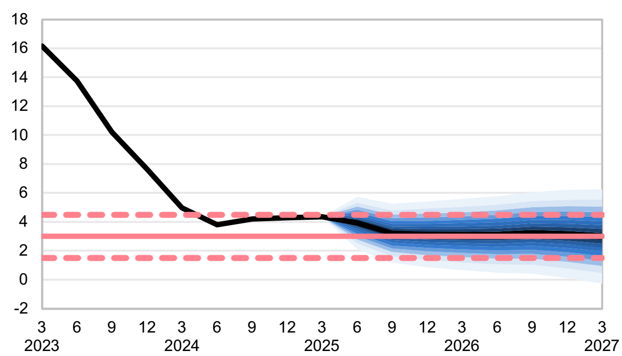
Source: NBS.
* NBS projection.

Inflation projection

Under our May central projection, we expect **y-o-y inflation to continue to move within the target band (3±1.5%) until the end of the projection horizon, i.e. over the next two years. It will be on a downward path this year, approach target midpoint in late 2025 and stay around this level in 2026**. Such inflation movements will reflect the still tight monetary conditions, anticipated lower global energy prices and subdued imported inflation, onset of a new agricultural season which we have assumed to be average, and the projected movement in real wages in line with productivity growth.

The new inflation projection for 2025 is slightly lower than in February as petroleum product prices have

Chart V.0.36 **Inflation projection**
(y-o-y rates, in %)



Source: NBS.

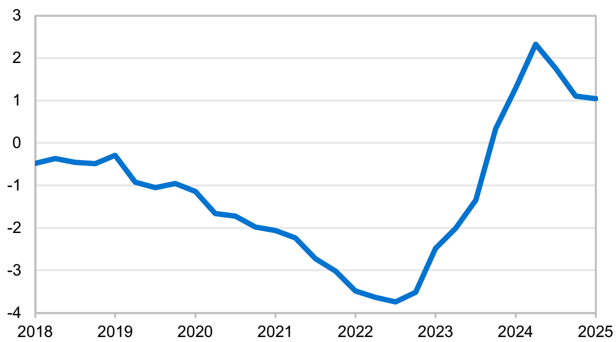
The fan chart depicts the probability of various inflation outcomes in the next eight quarters. The central projection is within the darkest central band and the probability that inflation would lie in it is 10%. Each following shade includes 10% probability, which means that outturns of inflation somewhere within the entire fan chart are expected with probability of 90%. In other words, the probability that inflation in the next eight quarters would lie somewhere outside the band in the chart is 10%.

Table V.0.6 **Key projection assumptions**

	2025		2026		2027
External assumptions	Feb	May	Feb	May	May
Euro area GDP growth	1.1%	0.8%	1.4%	1.2%	1.3%
Euro area inflation (average)	2.0%	2.1%	1.9%	1.9%	2.0%
3M EURIBOR (December)	2.1%	1.6%	2.2%	1.8%	2.1%
International prices of primary agricult. commodities (Q4 to Q4)*	1.9%	3.0%	2.1%	4.1%	-1.0%
Brent oil price per barrel (end of year, USD)	73	64	71	65	66
Internal assumptions					
Administered prices (Dec. to Dec.)	5.1%	5.5%	5.0%	5.3%	5.3%

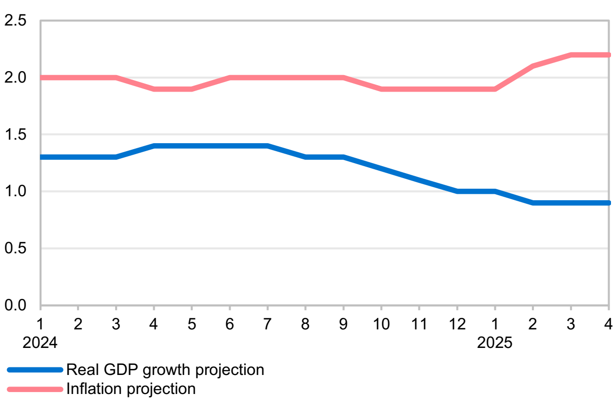
* Composite index of soybean, wheat and corn prices.
Sources: ECB, Consensus Economics, Euronext, CBOT, Bloomberg and NBS.

Chart V.0.37 **Real interest rate**
(in %)



Source: NBS.
Note: The real interest rate is obtained as the difference between 1W BELIBOR and one-year ahead inflation expectations of the financial sector, according to the Bloomberg survey.

Chart V.0.38 **GDP and inflation projections of the euro area for 2025**
(in %)



Source: Consensus Economics.

declined, reflecting the drop in the global price of oil and the euro's strengthening against the dollar, while external and domestic demand increased less than anticipated. Higher processed food prices worked in the opposite direction in the short term, mostly on account of elevated raw material prices in the global market early in the year.

In our assessment, the **NBS's monetary policy stance remains restrictive**, even if the degree of its restrictiveness has gradually diminished as the NBS trimmed its key policy rate from June 2024. By September, the key policy rate was cut by a total of 75 bp to 5.75%, which is its current level. Monetary policy easing is reflected in the **one-week BELIBOR which continued down to 1.04% in real terms in Q1 2025**. Monetary policies of most other central banks which have begun to trim their policy rates remain tight, though less than before.

The NBS Executive Board carefully calibrated its measures, aiming, first of all, to impact **inflation expectations of market agents**, i.e. to ensure their anchoring within the target band. One year-ahead expectations of the financial sector have been within the NBS target tolerance band since the start of last year, and medium-term expectations have been anchored within this band for quite some time, confirming the preserved credibility of the NBS's monetary policy. As current inflation declines, inflation expectations of other sectors are likely to subside as well.

As in the previous projections, **continued decrease in imported inflation** remains a key assumption underpinning the anticipated downward inflation trajectory in Serbia. **This decrease will, however, be slower than anticipated in the previous projection due to the expected effects of heightened trade tensions.** The decline in global inflation, and in euro area inflation, will be guided by the fall in core inflation (as consumer demand growth slackens amid the anticipated wage growth slowdown), though core inflation will remain higher than headline in most countries.

External demand continues to be weak and is expected to rise slowly due to mounting trade tensions and economic challenges in the euro area, our most important trade partner. External demand growth is anticipated to be below its historical average this year, only accelerating in the medium term. In the euro area, and particularly in Germany, short-term export and industrial output growth prospects are not optimistic, especially given the tariff policy of the new US administration. In their April report, the Bundesbank economists explain that low capacity utilisation in industry is weighing on firms' propensity to invest. Fiscal stimulus and the effects of the ECB's monetary policy easing still give ground to expectations that the euro area could start rallying gradually as of mid-2025.

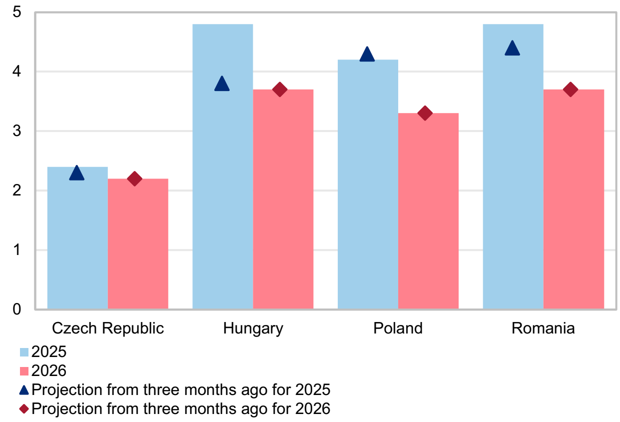
Domestic demand was propped up mainly by higher income disposable for consumption, corporate profitability, FDI inflows, and growing government capital expenditure which will provide a positive fiscal impulse in the coming period. Going forward, we expect terms of lending to improve from last year and lending activity to accelerate further. On the other hand, **real wage growth should slow during the projection horizon** as pressures on further wage growth to offset inflation will weaken as inflation subsides. In view of this, the **output gap** is estimated to have been negative in Q1 2025, but it should decrease to close to neutral level in the next quarter and stay there throughout the projection horizon.

The contribution of almost all **individual components**, especially of non-food products and services, to y-o-y inflation is expected to subside during the projection horizon.

Similarly as in the previous projections, the contribution of prices of **non-food products and services** to inflation is expected to decline by 1 pp over the projection horizon, from 2.2 pp in Q1 2025 to 1.2 pp in the last quarter of the projection (Q1 2027). The decline in non-food inflation over the medium term will be aided by several factors. The prices of this product category greatly depend on the prices of a number of imported products, primarily from the euro area. As in the prior projections, imported inflation will have a disinflationary effect during the projection horizon. Also, more anchored inflation expectations and the slowing of real wage growth will relieve pressures on domestic prices of non-food products. The index of pressures in global supply chains has been again slightly negative since October last year, so we expect no pressures on non-food inflation on this account, though there is a risk of supply chain bottlenecks due to mounting trade tensions and rising protectionism. The indicators of costs of international container transport are also low.

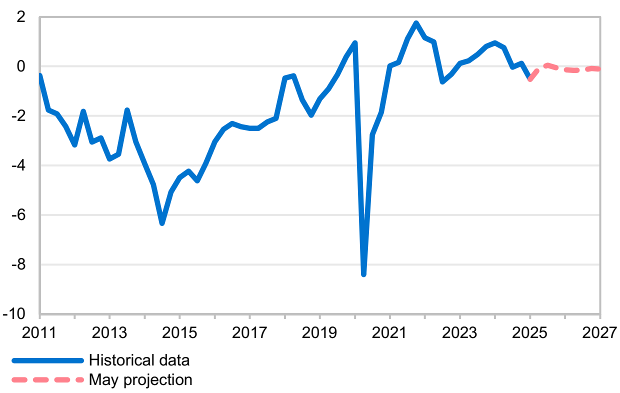
Petroleum product prices are expected to support a decline in y-o-y inflation over the next year. Their contribution should be negative, given the assumed relatively low global price of oil, according to futures in world stock exchanges, and the weakening of the US dollar. After that, based on the futures, we project a mildly positive contribution of petroleum product prices to inflation (of only 0.1 pp) until the end of the projection horizon.

Chart V.0.39 **Projection of consumer price growth**
(y-o-y rates, in %)



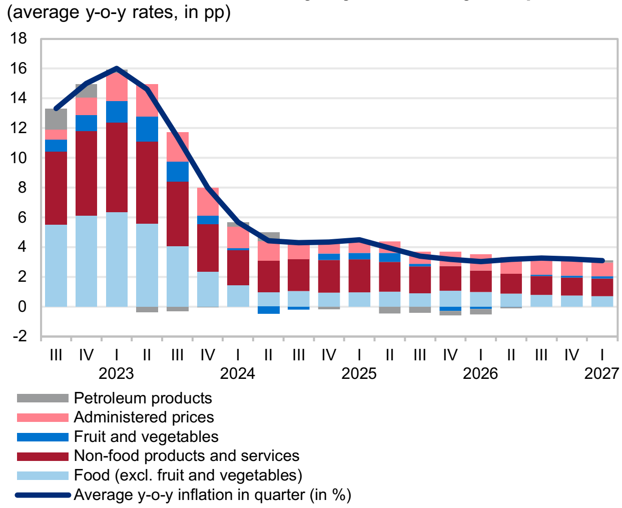
Source: Consensus Economics.

Chart V.0.40 **Output gap projection***
(in % of potential output)



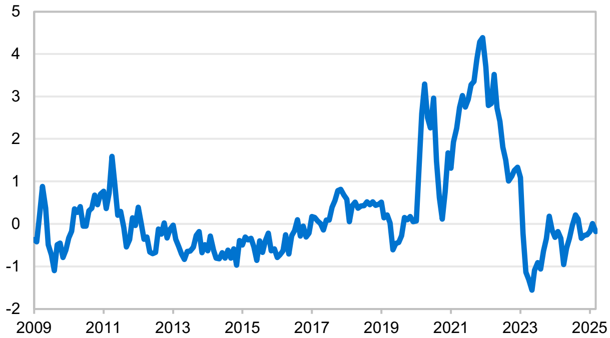
Sources: SORS and NBS.
* Output gap is estimated on the basis of GDP.

Chart V.0.41 **Contributions to y-o-y inflation by component**
(average y-o-y rates, in pp)



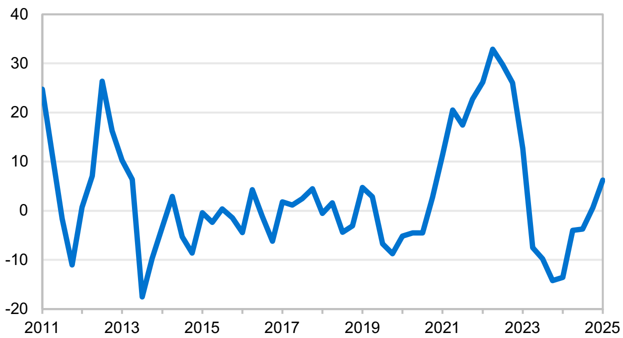
Source: NBS.

Chart V.0.42 **Global supply-chain pressures**
(index, in standard deviations)



Source: Federal Reserve Bank of New York.

Chart V.0.43 **Real marginal costs gap in food production**
(deviation in % from trend)



Source: NBS.

The contribution of **food prices (excluding fruit and vegetables)** to y-o-y inflation is expected to subside gradually from 1.0 pp at the start to 0.7 pp at the end of the projection horizon. On the one hand, the real marginal costs gap (measured by the deviation from trend of the ratio of input prices to prices of final food products) points to moderate inflationary pressures on food prices on account of raw material costs, sustained by higher prices of some stock exchange products (coffee and cocoa). This pressure will gradually wane, approaching neutral level by the end of the projection horizon. On the other hand, a more notable increase in food prices during the projection horizon will be contained by lower imported inflation and inflation expectations and by the slowing of real wage growth.

Fruit and vegetable prices still contribute a lot, 0.4–0.5 pp, to y-o-y inflation growth. As of May, however, with the onset of the new agricultural season, assuming it is average, the prices of this inflation category could start to return from their relatively high levels towards their long-term trend (corresponding to the rise in the prices of non-food products and services). Their contribution to y-o-y inflation should therefore drop notably and be negative in Q4 2025 and Q1 2026. When it turns positive again, we expect it to be just above zero (up to 0.2 pp).

Our new projection assumes no major changes with regard to **administered prices** – they will move similarly as in our previous projection. Administered price growth will probably be around 5.5% in this and around 5.3% in the next two years. Their contribution to y-o-y inflation will abate slightly from an average of 1.2 pp in 2024 to 0.9 pp in 2025 and a similar level in 2026.

Other institutions' projections for Serbia and comparison with the projections of the National Bank of Serbia

In April, **the IMF and the World Bank projected Serbia's real growth to be 3.5% in 2025**, down by 0.6 pp and 0.7 pp, respectively, relative to their projections in October and January this year. Despite this, their projections for Serbia remain among the highest in Europe. In April, **Consensus Economics** estimated **2025 growth at 3.9%**, placing 2026 growth at 4.1%. According to the latest projections, the World Bank expects Serbia's GDP growth to speed up to 3.9% in 2026 and 4.2% in 2027, while the IMF's expectations are somewhat more optimistic – 4.2% in 2026 and 4.5% in 2027.

As the investment cycle is expected to accelerate and imports of equipment and intermediate goods to go up, the **IMF projects the current account deficit to measure 5.8% of GDP in 2025**, and to stay at a similar level in 2026 and 2027. The **World Bank** was somewhat more conservative and projected a higher deficit of **7.0% in 2025**, which would then gradually decrease to 6.7% in 2026 and 6.5% in 2027.

According to April projections, **the IMF expects average inflation in Serbia to measure 4.0% in 2025**, and to drift down moderately to 3.3% in 2026 and 2027. This is slightly higher **compared to our projection which places average inflation at 3.7% in 2025** and 3.2% in 2026. **Consensus Economics projects average inflation to measure 3.8% in 2025** and to decline to 3.2% in 2026. The **World Bank's projection is slightly lower – 3.1% in 2025**, with inflation expected at target midpoint in 2026 and 2027.

Table V.0.7 **Projections of macroeconomic indicators of Serbia**
(in %)

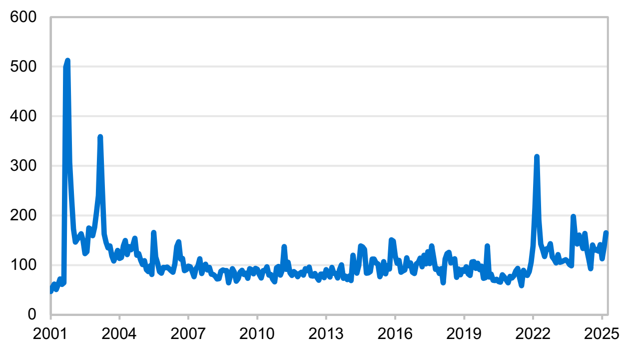
		GDP	Current account (share in GDP)	Inflation
NBS	2025	3.5	-6.2	3.7
	2026	4.5	-6.0	3.2
	2027	5.0	-4.2	3.0
IMF	2025	3.5	-5.8	4.0
	2026	4.2	-5.7	3.3
	2027	4.5	-5.6	3.3
Consensus Forecasts	2025	3.9		3.8
	2026	4.1		3.2
	2027			
World Bank	2025	3.5	-7.0	3.1
	2026	3.9	-6.7	3.0
	2027	4.2	-6.5	3.0

Sources: IMF WEO (April), Consensus Economics (April), World Bank WBRER (April).

Risks to the projection

When it comes to factors from the international environment, the risks to our new inflation and GDP projections are mostly associated with new protectionist measures, trade tensions and policies in the coming period. There is a high degree of uncertainty regarding their impact on investment and consumption, economic activity and inflation. Another risk is the speed of our external demand growth due to mounting economic difficulties in the euro area, especially in Germany. The above factors have a major impact on global prices of energy and other primary commodities, as do the lingering geopolitical tensions which are another risk to the projection. Global prices of primary agricultural commodities and other raw materials in food production also depend on the character of the global agricultural season. To an extent, the risks also refer to the resilience of core inflation globally and the duration of tight monetary policies of leading central banks. **At home, the risks** are associated with the speed of domestic demand growth and the outcome of the agricultural season, and are skewed equally in both directions. **Overall, we judge the risks to the inflation projection over the projection horizon to be symmetric, and the risks to the GDP projection to be skewed slightly to the downside**.

Chart V.0.44 **Global Geopolitical Risk Index**
(in pp)



Source: Caldara and Iacoviello (2022); Data downloaded from https://www.matteoiacoviello.com/gpr.htm.

Global protectionist measures and trade tensions are among the key risks to our inflation and GDP projections as it is uncertain how much they could affect price growth and weakening of economic activity at home. There is concern that their effect on global economy could be stronger than anticipated because they could durably weaken the key drivers of growth, such as investment and foreign trade. Trade policy uncertainties could spur greater than expected volatility in commodity and financial markets, further undermining investors' confidence, deferring investments and reducing capital flows. This could increase global market fragmentation, weaken production chains and slow productivity growth. **Downside risks to domestic economic growth on this account prevail, but the impact on inflation is more difficult to gauge**, as protectionist measures may produce both direct and indirect effects. Disruptions in global supply chains could be stronger than anticipated, resulting in higher production costs and costlier imports. These measures could cause a redirecting of trade flows not only across regions and countries, but across sectors as well, with some sectors inundated with cheap imports and others exposed to shortages, producing either disinflationary or inflationary effects. With this in mind, we judge the **risks to the inflation projection on account of global trade tensions and protectionist measures to be slightly tilted to the upside, and the risks to the GDP projection – to the downside**.

Global growth could be weaker than we assumed in our baseline scenario. In the euro area, our main economic partner, growth prospects are strained by heightened global trade barriers, uncertainty relating to trade policies, falling competitiveness, and subdued consumption and business sentiment. Though the ECB's main rates were trimmed further, the monetary policy remains restrictive and the financial conditions index indicates that these conditions are getting tighter, which could have a stronger and more durable impact on demand than we anticipated in the baseline scenario. If the global economy and, in particular, the euro area, slowed, this would affect Serbia primarily through lower external demand and reduced energy and primary commodity prices in the international market. Subdued external demand would hold back growth in domestic manufacturing and exports, but it would also have a more disinflationary effect than in the baseline scenario. The challenges faced by the German automobile industry could dent the exports of many Central and Southeast European countries, including Serbia, which are integrated in its production supply chains. On the other hand, the planned fiscal stimulus in Germany could have a stronger-than-anticipated effect, positively impacting the economic activity in the entire region. Global growth may also surprise on the upside if inflation decelerates at a faster pace, enabling central banks to ease their monetary policies sooner and faster to support economic growth. With all this in mind, we judge the **risks to the inflation and GDP projections in respect of global growth and external demand to be somewhat tilted to the downside**.

Though inflation has receded much across countries, many challenges remain, most notably **a more persistent core inflation**. Product prices have mostly levelled off at a relatively low level, but growth in the prices of services remains above historical levels in most countries. For this reason, the reduction of services inflation and the calibration of monetary policy measures to achieve this represent a challenge. A key issue is still the pace of future wage growth and to what extent companies will shift higher wage costs onto consumers. Rising protectionist measures could also have an inflationary effect. **Renewed inflation growth would affect the pace of monetary policy easing by central banks**, which could have a

Table V.0.8 **Key risks to the GDP and inflation projection**

Risk	Possible channels of influence	Estimate of the risk effect on GDP relative to the baseline scenario	Estimate of the risk effect on inflation relative to the baseline scenario
Protectionist measures and trade tensions at global level	Global protectionist measures and trade tensions could have a major negative impact on economic growth, mainly due to rising uncertainty in commodity and financial markets and the negative effects on the growth of our main economic partners. The final effect on inflation is difficult to gauge as there are numerous channels of impact with opposite effects, but it would most probably be inflationary.	↓	↑
Prospects for global growth, notably for growth of our main trade partners	Slower economic growth globally, and particularly in the euro area, would result in subdued demand for our exports and reduced demand-side pressures on inflation.	↓	↓
A more persistent core inflation, primarily in the euro area, and monetary policies of leading central banks	– Higher/lower global inflation, notably in the euro area, leads to higher/lower imported inflation, which increases/decreases production costs. – Greater and/or faster than expected monetary policy tightening by leading central banks results in greater investor risk aversion and decreased capital flows to emerging economies, and vice versa.	↕	↕
Geopolitical tensions and their impact on the global prices of oil, gas and electricity (Serbia is a net energy importer), but also of other products	Intensification of geopolitical tensions and conflicts would drive up global energy prices. Production costs would go up, reducing funds for investment and possibly generating second-round effects on inflation, which could partly be offset by lower demand for these products. A lessening of geopolitical tensions would work in the opposite direction.	↕	↕
US administration's sanctions on NIS due to majority Russian ownership	If sanctions on NIS are imposed, the negative implications would be more pronounced in the short term, involving primarily reduced production and exports of petroleum products, and higher prices.	↓	↑
Global prices of primary agricultural commodities (Serbia is a net exporter)	Depending on the global agricultural season, prices of primary agricultural commodities could go up/down, inflating/deflating production costs and reducing/increasing income available for investment. The effects on GDP would most probably be neutralised by higher/lower exports, as Serbia is a net exporter of primary agricultural commodities.	↕	↕
Pace of domestic demand growth	Higher/lower disposable income on account of faster/slower than expected wage and employment growth due to higher/lower export demand and/or higher/lower FDI inflow would result in faster/slower domestic demand growth and stronger/weaker inflationary pressures. Accelerated activity growth in construction amid faster implementation of infrastructure projects by the government, investments planned in the lead-up to hosting "Expo 2027", as well as private investment in the conditions of receding inflationary pressures, would drive up domestic demand, GDP and inflation.	↕	↕
Agricultural season	A poorer than assumed agricultural season results in diminished supply of agricultural products and inflationary pressures, and vice versa – a better than assumed agricultural season leads to a higher supply of agricultural products and may produce disinflationary pressures.	↕	↕

Note: ↑ means a more inflationary effect relative to the baseline scenario, ↓ lower economic growth, ↑ higher economic growth, ↓ a more disinflationary effect, and ↕ that the risks to the projection are symmetric relative to the baseline scenario.

negative effect on public finances and financial stability. If leading central banks, and the ECB in particular, deferred their monetary policy easing, this would result in lower income disposable for consumption and investments at home, while the maintained relative stability of the dinar exchange rate would significantly allay inflationary pressures from a possibly reduced inflow of portfolio investments. On the other hand, global inflation may slow down faster due to stronger effects of past restrictive monetary policies or quicker deceleration of real wage growth, which is why central banks may start lowering their key rates sooner than expected and global financial conditions could improve. For this reason, **we judge the risks to the inflation and GDP projections on account of global inflation to be symmetric**.

The **geopolitical risk** is still a major risk to our inflation and GDP projections. This refers primarily to the Middle East and Ukraine conflicts, which have triggered volatility in global primary commodity prices, and limited trade and investment among countries. On the one hand, the escalation of geopolitical tensions would strain supply and drive up global prices of oil and other primary commodities. It is always more difficult for monetary policy to achieve price stability in case of supply-side shocks which push prices up and drag GDP down at the same time, so greater caution is warranted. On the other hand, peace proposals and the possibility of peace negotiations in the Middle East and between Russia and Ukraine give rise to hopes that the geopolitical situation could greatly improve, even in the short term. For this reason, **we judge the risks to the inflation and GDP projections on account of geopolitical tensions to be symmetric**.

When it comes to geopolitical tensions, another risk to the inflation and GDP projections are the **sanctions imposed by the US administration on NIS** because it is mainly Russian-owned. In our baseline scenario, we assumed that these sanctions would again be deferred until a final agreement is reached, and this has been confirmed by an additional deferral by two more months (until 27 June). If the sanctions are imposed, however, the negative implications would be more pronounced in the short term, involving reduced production and export of petroleum products, and higher prices. This could lead to higher costs for companies and lower disposable income of households. Serbia has sufficient oil and petroleum product reserves to last three months, and they could be used to overcome difficulties in case of potential problems with imports of crude oil and its processing until a final agreement is reached. **We judge the risks to the GDP projection on account of US sanctions on NIS**

to be titled slightly to the downside, and to the inflation projection – to the upside.

Depending on the global agricultural season, and considering the risks from geopolitical and trade tensions on the one hand and the risks for global economic growth on the other, we judge the **risks of departure of global primary agricultural commodity prices in either direction to be symmetric**.

At home, the risks to the projection are associated with the **speed of growth in domestic demand**, especially investment demand. On the one hand, lower than anticipated income from export demand could reflect negatively on the labour market, i.e. result in slower than expected employment and wage growth, with negative implications for domestic demand. Also protests and blockades at home could weigh on investment growth and personal consumption. On the other hand, **Serbia's capacity to attract FDI** could turn out to be greater than anticipated, especially in view of the country's investment-grade rating, which would lead to further growth in wages and employment. Faster than expected performance of government-financed **infrastructure projects** would work in the same direction, as would private investments, particularly those planned under the "Expo 2027" programme. Also, faster than anticipated domestic demand growth would add to inflationary pressures and vice versa. With this in mind, we judge the **risks to the GDP and inflation projection on account of domestic demand to be symmetric**.

Another risk to the GDP projection, particularly for the next year, is associated with **how many electric vehicles will be produced in the Kragujevac plant**, and what their cost and the share of domestic value added will be. Our estimates are that the contribution to GDP will be around 0.1 pp for every 10,000 vehicles. Departures are possible in both directions and will depend on the demand for these vehicles, particularly in European countries.

The agricultural season also poses a **risk to the inflation and GDP projections**. We have assumed it to be at the level of its multiyear average both in 2025 and in 2026. The effect of weather on the supply and prices of fruits and vegetables is important for inflation, and its impact on autumn crops for GDP. We assess that there is equal probability that the season would be above- and below-average in both projection years, hence we judge the **risks to inflation and GDP to be symmetric**. Still, we estimate that higher investment in agriculture and, in particular, agrotechnical measures would make the outcome of the agricultural season less dependent on climate factors.

The NBS will continue to follow and analyse developments in the international commodity and financial markets and **make monetary policy decisions on a meeting-to-meeting basis** depending on the results of analysis of developments at home and the pace of inflation's slowdown. Delivering price stability and preserving financial stability in the medium term will remain the monetary policy priority, as this contributes to further economic growth, a continued rise in employment and the preservation of a favourable investment environment.

Text box 5: Alternative projection scenarios

Currently, the greatest risks to inflation and GDP projections relate to the strengthening of protectionism on a global level and the nature of the upcoming agricultural season both globally and at home. In this text box, we present two alternative scenarios that take into account the materialisation of these risks. Specifically, while the baseline scenario assumes that the announced tariffs toward Serbia and the EU will be implemented after a 90-day period, the first alternative scenario assumes that the tariffs will not come into force after the lapse of that period. This applies to the US tariffs announced against most of its trading partners with which, according to US data, it has a trade deficit in goods, as well as the reciprocal measures those countries might impose on the US. The second alternative scenario varies assumptions regarding the movement of global prices of primary agricultural commodities, depending on the nature of the global agricultural season, as well as the prices of fresh fruits and vegetables in the domestic market, depending on the outcome of the agricultural season at home.

Scenario assuming the weakening of global trade protectionism

The world's leading financial institutions currently view the rise of protectionism and the trade policy uncertainty as the greatest risks to global economic growth, while recent actions and the announced tariffs have already significantly increased volatility in international financial and commodity markets.

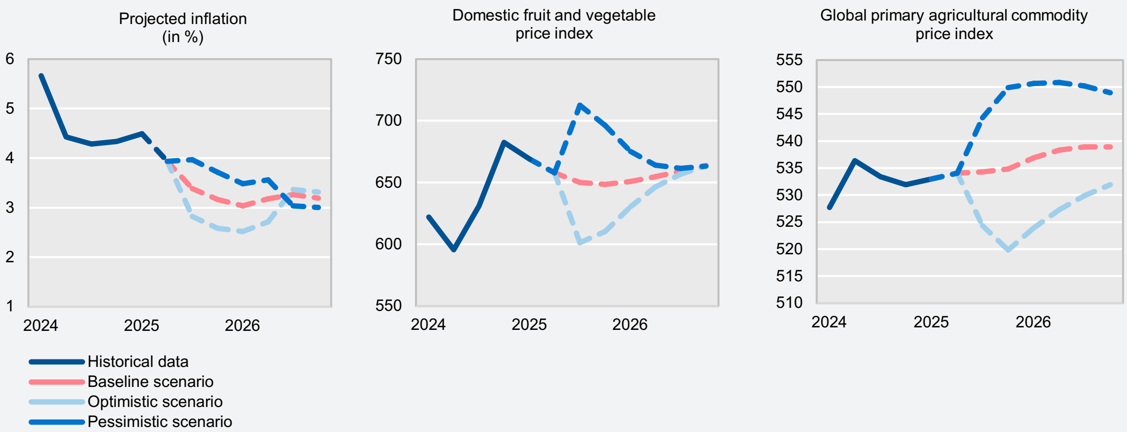
If the announced tariffs are implemented, global GDP growth, according to IMF estimates, would slow to around 2.8% this year due to multiple factors. This slowdown would primarily affect the United States and China, and to a lesser extent the euro area, where the services sector dominates. Increased global uncertainty would lead to postponed investments and consumption, thereby reducing aggregate demand. In addition, tighter financial conditions caused by heightened uncertainty in international financial markets would further contribute to the slowdown in global economic activity. Countries imposing tariffs would also face negative supply-side shocks and likely disruptions in global supply chains. As for the impact of higher tariffs on global inflation, the effects would depend on the dominant channels of influence. The inflationary effects of higher tariffs arise from several factors, including the direct increase in prices of goods affected by the tariffs, potential disruptions in supply chains, rising inflation perception due to heightened uncertainty, and elevated inflation expectations. On the other hand, deflationary effects would result from a fall in aggregate demand and primary commodity prices, which typically occurs during periods of slower economic activity.

In the alternative scenario, we assumed that it could happen that the tariffs are not implemented even after 90 days, i.e. after the deferral period ends. We assumed that in that case GDP growth in the euro area, which is our most important trading partner, would be 0.2 pp higher in both 2025 and 2026 compared to the baseline scenario. This is based on the assessments of the ECB and professional forecasters published by the ECB, which generally estimate that the implementation of tariffs would reduce euro area GDP by 0.2 pp. At the same time, inflation in the euro area would be 0.1 pp lower in both this year and the next than in the baseline scenario. **Average inflation in Serbia in 2025 would be 0.1 pp lower than in the baseline scenario, while in 2026 it would be at the same level as in the baseline.** The lower domestic inflation in this scenario would be underpinned by reduced imported inflation and abating uncertainty in international financial markets – resulting also in a lower risk premium and a fall in inflation expectations, while higher aggregate demand would work in the opposite direction. The effects of this scenario on GDP growth would be somewhat more pronounced, with growth being 0.2 pp higher in both 2025 and 2026 compared to the baseline. In addition to reduced uncertainty, which would boost investment and consumption, a positive impact on economic growth would also come from higher exports driven by stronger external demand.

Scenario with different assumptions on the nature of the upcoming agricultural season

In the baseline scenario, we assumed that the agricultural season – both globally and at home – will be average, with global prices of primary agricultural commodities increasing moderately in the remainder of the year. As a result, by the end of 2025, these prices would be 3.0% higher than at the end of 2024, and the prices of fruits and vegetables in the domestic market would increase by the same margin in Q3 2025 relative to Q3 2024. However, the movement of global agricultural commodity prices still largely depends on weather conditions. This is evidenced by the record-high prices of coffee and cocoa in global markets during 2024, a consequence of unfavourable weather conditions in Brazil and Africa. Given that this led to higher prices of coffee and confectionery products, and that drought conditions significantly raised vegetable prices in the domestic market, we have developed both an optimistic and a pessimistic scenario for the 2025 agricultural season.

Chart O.5.1 **Different assumptions on agricultural season and their effect on domestic inflation**

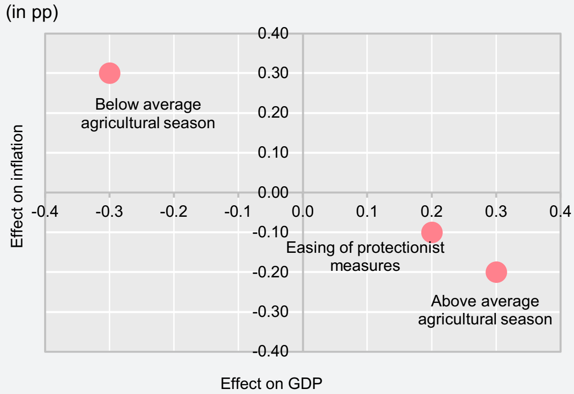


Source: NBS.

In the optimistic scenario, we assumed that the agricultural season would be above average, which implies lower global primary agricultural commodity prices than in the baseline. By the end of 2025, these prices would be approximately 12% lower than at the end of 2024. Given that prices of primary agricultural commodities in the domestic market follow the dynamics of their global counterparts, cereal prices in the domestic market would experience a similar trend. Additionally, we assumed that a favourable agricultural season in Serbia would primarily reflect in lower prices of fresh fruits and vegetables, which would be about 5% lower in Q3 2025 compared to the same period a year earlier. **The consequences of this scenario would be 0.2 pp lower average inflation in 2025 compared to the baseline scenario**, due to lower production costs for processed food, as well as lower prices of unprocessed food due to higher supply, and **0.3 pp higher GDP growth than in the baseline**, supported also by higher net exports, given that Serbia is a net exporter of cereals.

In contrast, **in the pessimistic scenario, we assumed that the agricultural season would be below average**. In this case, global primary agricultural commodity prices would be significantly higher than in the baseline scenario, and by the end of the year, they would exceed the end-2024 level by about 18%. At the same time, due to unfavourable agrometeorological conditions in Serbia, the prices of fresh fruits and vegetables in Q3 would be around 13% higher than in the same period of the previous year. **The consequences of this scenario would be reflected in 0.3 pp higher average inflation in 2025 compared to the baseline scenario, as well as 0.3 pp lower GDP growth**, due to the assumed stagnation of domestic agricultural production.

Chart O.5.2 **Effects of different assumptions of alternative scenarios on average inflation and GDP in 2025**
(in pp)



Source: NBS.

Table A
Indicators of Serbia's external position

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Q1 2025
EXTERNAL LIQUIDITY INDICATORS (in %)																
FX reserves/imports of goods and services (in months)	8.4	8.8	7.7	7.6	6.6	6.7	6.2	5.4	5.4	5.7	6.1	5.9	5.2	6.7	7.3	6.9
FX reserves/short-term debt	191.2	299.9	237.3	268.6	294.0	256.4	234.0	202.1	210.9	275.6	228.1	249.6	244.7	316.1	480.1	
FX reserves /GDP	30.5	32.7	31.1	29.5	26.8	27.9	26.7	24.4	25.2	27.8	27.5	29.4	30.6	33.1	35.6	34.2
Debt repayment/GDP	10.9	11.3	11.8	12.1	12.8	10.6	11.8	10.5	10.8	9.5	5.5	8.7	9.1	9.0	10.9	
Debt repayment/exports of goods and services	37.5	37.3	36.0	33.0	32.7	25.2	25.9	22.2	22.9	19.7	12.2	17.0	15.3	16.4	20.9	
EXTERNAL SOLVENCY INDICATORS (in %)																
External debt/GDP	71.6	65.4	73.1	67.5	69.4	70.5	69.4	62.5	59.6	58.7	62.8	65.2	66.0	60.4	60.5	
Short-term debt/GDP	15.9	10.9	13.1	11.0	9.1	10.9	11.4	12.1	11.9	10.1	12.1	11.8	12.5	10.5	7.4	
External debt/exports of goods and services	247.1	216.5	223.6	184.0	177.7	166.8	152.4	132.2	126.0	121.0	138.2	126.6	110.2	110.7	115.9	
FINANCIAL RISK EXPOSURE INDICATORS (in %)																
FX reserves/M1	416.6	429.6	402.1	330.4	278.1	250.2	207.3	176.2	168.0	174.1	130.0	138.1	158.7	166.6	168.2	176.8
FX reserves/reserve money	196.4	207.6	197.9	199.9	196.6	193.7	196.6	185.0	171.4	194.1	157.1	180.0	180.2	201.0	199.6	218.7
OPENNESS OF ECONOMY (EXPORTS + IMPORTS)/GDP	72.3	75.0	81.1	83.5	87.9	92.3	96.9	102.0	103.8	106.7	99.2	111.3	130.8	113.8	110.9	118.0
MEMORANDUM: (in EUR million)																
GDP[1)]	32,841	36,865	35,074	37,978	37,014	37,220	38,165	40,828	44,711	48,105	49,024	55,931	63,501	75,204	82,319	19,819
External debt	23,509	24,123	25,645	25,644	25,679	26,234	26,494	25,526	26,662	28,254	30,787	36,488	41,895	45,391	49,811	
External debt servicing	3,564	4,154	4,130	4,595	4,728	3,960	4,508	4,285	4,849	4,592	2,710	4,886	5,801	6,735	8,983	
Central bank foreign exchange reserves	10,002	12,058	10,915	11,189	9,907	10,378	10,205	9,962	11,262	13,378	13,492	16,455	19,416	24,909	29,295	28,527
Short-term debt[2)]	1,758	612	455	196	99	303	672	844	1,401	1,925	1,585	1,612	2,405	742	962	
Current account balance	-2,037	-3,656	-3,671	-2,098	-1,985	-1,234	-1,075	-2,051	-2,076	-3,161	-1,929	-2,266	-4,162	-1,804	-5,208	-1,422

CREDIT RATING (change of rating and outlook)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2024
	Nov	March	Aug	July	Jan	Dec	Jan/March/ June/Dec	March/Dec	Dec	Sept/Dec	May	March/Dec	June	Aug/Oct
S&P		BB /stable	BB- /negative				BB-/positive	BB /stable	BB /positive	BB+ /positive	BB+ /stable	BB+ /positive	BB+ /stable	BBB- /stable
Fitch	BB- /stable		BB- /negative		B+ /stable	B+ /positive	BB-/stable	BB /stable		BB+ /stable				BB+ /positive
Moody's				B1 /stable			B1 /positive	Ba3 /stable		Ba3 /positive		Ba2 /stable		Ba2 positive

Methodological notes:

Foreign exchange reserves/imports of goods and services (in months) − ratio of end-of-period foreign exchange reserves to
Foreign exchange reserves/short-term debt (in %) − ratio of foreign exchange reserves to stock of short-term debt at remaining maturity at end-of-period.
Foreign exchange reserves/GDP (in %) − ratio of end-of-period foreign exchange reserves to GDP.
Debt repayment/GDP (in %) − ratio of debt repayment (excl. early repayment of a part of debt to London Club
Debt repayment/exports (in %) − ratio of debt repayment (excl. early repayment of a part of debt to London Club
External debt/GDP (in %) − ratio of end-of-period outstanding debt to GDP.
Short-term debt/GDP − ratio of end-of-period short-term debt at remaining maturity to GDP.
External debt/exports (in %) − ratio of end-of-period outstanding debt to annual value of exports of goods and services.
Foreign exchange reserves/M1 (in %) − ratio of foreign exchange reserves to money supply at end-of-period.
(Exports + imports)/GDP (in %) − ratio of value of exports and imports of goods and services to GDP during period under review.

1) According to ESA 2010. Data for Q4 2024 is NBS estimate.

2) At original maturity.

Notes:

1. SORS revised GDP data for the period 1995-2023, which led to a change in the share of macroeconomic indicators in GDP. Q1 2025 data is NBS estimate.
2. Data are subject to corrections in line with the official data sources.
3. Starting from 2007 data on exports and imports of goods and services are shown in accordance with BPM6. Data for 2005 and 2006 are shown according to previous methodology.
4. Starting from 2007 the general trade system of registration of exports and imports of goods is applied. This is a broader concept and includes all goods entering/exiting country's economic territory, apart from goods in transit. Data for 2005 and 2006 are disseminated using the special trade system.
5. External debt servicing does not include advance debt repayments.

Table B
Key macroeconomic indicators

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Q1 2025
Real GDP growth (in %)[1]	1.6	0.1	-0.4	0.5	-1.8	1.3	3.0	2.4	4.6	4.8	-1.0	7.9	2.6	3.8	3.9	2.0
Consumer prices (in %, relative to the same month a year earlier)[2]	10.3	7.0	12.2	2.2	1.7	1.5	1.6	3.0	2.0	1.9	1.3	7.9	15.1	7.6	4.3	4.4
NBS foreign exchange reserves (in EUR million)	10,002	12,058	10,915	11,189	9,907	10,378	10,205	9,962	11,262	13,378	13,492	16,455	19,416	24,909	29,295	28,527
Exports (in EUR million)[3]	9,515	11,145	11,469	13,937	14,451	15,728	17,385	19,312	21,166	23,349	22,271	28,818	38,004	41,018	42,969	10,804
- growth rate in % compared to a year earlier	18.3	17.1	2.9	21.5	3.7	8.8	10.5	11.1	9.6	10.3	-4.6	29.4	31.9	7.9	4.8	5.1
Imports (in EUR million)[3]	14,244	16,487	16,992	17,782	18,096	18,643	19,597	22,343	25,257	27,960	26,370	33,439	45,054	44,543	48,304	12,589
- growth rate in % compared to a year earlier	8.7	15.7	3.1	4.7	1.8	3.0	5.1	14.0	13.0	10.7	-5.7	26.8	34.7	-1.1	8.4	13.1
Current account balance[3]																
(in EUR million)	-2,037	-3,656	-3,671	-2,098	-1,985	-1,234	-1,075	-2,051	-2,076	-3,161	-1,929	-2,266	-4,162	-1,804	-5,208	-1,422
as % of GDP	-6.2	-9.9	-10.5	-5.5	-5.4	-3.3	-2.8	-5.0	-4.6	-6.6	-3.9	-4.1	-6.6	-2.4	-6.3	-7.2
Unemployment according to the Survey (in %)[6]		24.9	25.9	24.0	20.6	18.9	16.4	14.5	13.7	11.3	9.7	11.1	9.5	9.4	8.6	
Wages (average for the period, in EUR)[7]	331.8	372.5	366.1	388.5	379.8	367.9	374.5	394.5	419.8	466.0	510.9	560.2	637.9	733.5	838.2	900.7
RS budget deficit / surplus (in % of GDP)[4]	-3.0	-3.6	-5.4	-4.7	-5.7	-2.6	-0.2	0.7	0.6	0.2	-8.0	-4.4	-3.2	-2.0	-2.2	-1.2
Consolidated fiscal result (in % of GDP)[4]	-4.2	-4.3	-6.2	-4.9	-5.9	-3.3	-1.1	1.1	0.6	-0.2	-7.7	-3.9	-3.0	-2.1	-2.0	-1.2
RS public debt, (central government, in % of GDP)[8]	37.9	41.2	50.8	53.7	63.4	67.2	65.2	55.5	51.4	49.7	54.4	53.9	52.4	48.0	47.2	44.3
RSD/USD exchange rate (period average)	77.91	73.34	88.12	85.17	88.54	108.85	111.29	107.50	100.28	105.28	103.03	99.49	111.86	108.41	108.20	111.31
RSD/USD exchange rate (end of period)	79.28	80.87	86.18	83.13	99.46	111.25	117.14	99.12	103.39	104.92	95.66	103.93	110.15	105.87	112.44	108.18
RSD/EUR exchange rate (period average)	103.04	101.95	113.13	113.14	117.31	120.73	123.12	121.34	118.27	117.85	117.58	117.57	117.46	117.25	117.09	117.14
RSD/EUR exchange rate (end of period)	105.50	104.64	113.72	114.64	120.96	121.63	123.47	118.47	118.19	117.59	117.58	117.58	117.32	117.17	117.01	117.21
MEMORANDUM:																
GDP (in EUR million)[5]	32,841	36,865	35,074	37,978	37,014	37,220	38,165	40,828	44,711	48,105	49,024	55,931	63,501	75,204	82,319	19,819

1) At constant prices of previous year. Data for Q1 2025 is SORS flash estimate.

2) Retail prices until 2006.

3) Starting from 2007 data on balance of payments (current account, exports and imports of goods and services) are shown in accordance with BPM6. Data for 2005 and 2006 are shown according to the previous methodology. Due to the break in the series for 2007, exports and imports growth rates are not shown. Starting 2007 the general trade system of registration of exports and imports is applied. This is a broader concept and includes all goods entering/exiting country's economic territory, apart from goods in transit. Data for 2005 and 2006 are disseminated using the special trade system.

4) Includes below-the-line items (payment of called guarantees, bank recapitalisations and debt takeover) in line with IMF methodology, as of 2008 on RS budget level and as of 2005 on consolidated level.

5) According to ESA 2010. Data for Q1 2025 is NBS estimate.

6) Revised data from 2011 (two revisions were carried out - a revision due to the improvement of the methodology and a post-census revision).

7) Until 2018, wages are shown according to the old methodology. Since 2018, wages are shown according to the new methodology and data are based on Tax Administration evidence. For conversion of wages from RSD to EUR, we used the average of the period RSD/EUR exchange rate. Data for Q1 2025 is average of two months.

8) Data on the share of public debt in GDP were downloaded from the website of the Ministry of Finance.

Notes:

1. SORS revised GDP data for the period 1995-2023, which led to a change in the share of macroeconomic indicators in GDP.
2. Data are subject to corrections in line with official data sources.
3. Source for the data on unemployment: Labour Force Survey, Statistical Office.
4. Source for public debt: MoF.

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Executive Board meetings and changes in the key policy rate

2024

Date	Key policy rate (p.a, in %)	Change (in basis points)
11 January	6.50	0
8 February	6.50	0
7 March	6.50	0
11 April	6.50	0
10 May	6.50	0
13 June	6.25	-25
11 July	6.00	-25
8 August	6.00	0
12 September	5.75	-25
10 October	5.75	0
7 November	5.75	0
12 December	5.75	0

2025

Date	Key policy rate (p.a, in %)	Change (in basis points)
10 January	5.75	0
13 February	5.75	0
13 March	5.75	0
10 April	5.75	0
9 May	5.75	0
12 June		
10 July		
7 August		
11 September		
9 October		
13 November		
11 December		

Press releases from NBS Executive Board meetings

Press release from Executive Board meeting held on 13 March 2025

At its meeting today, the NBS Executive Board voted to keep the key policy rate at 5.75%, as well as the rates on deposit and lending facilities – at 4.5% and 7.0%, respectively.

In making the decision, the Board highlighted that the key policy rate was trimmed on three occasions in 2024, by 25 bp each time, and has stood at 5.75% since September, with the effects of these cuts expected to play out in the coming period as well. As stated by the Board, despite a significant decline in inflation and its stabilisation, it is necessary to continue to exercise a cautious monetary policy stance, given the ongoing geopolitical tensions, growing protectionism, and trade policy uncertainty globally. Caution is also needed in light of the uncertainties concerning the global prices of energy and other primary commodities, as well as the prices of some food raw materials, particularly coffee and cocoa, which have recently touched their record highs on global exchanges.

Since the beginning of the year inflation has been trending around the upper bound of the target tolerance band, its dynamic dictated by the higher prices of petroleum products, hikes in the prices of some food products – vegetables, coffee and confectionery – as well as the prices of utility services. Even so, y-o-y growth in food prices continued to hover below headline inflation, measuring 4.3% in February. The Executive Board was aware that according to the NBS's February central projection, after moving close to the upper bound of the tolerance band early in the year, inflation should gradually slow down as of Q2 and come close to the midpoint by the year's end. This is also the level around which inflation will hover until the end of the projection horizon. Such inflation movements will be facilitated by the still tight monetary policy conditions, lower imported inflation, anticipated slowdown in real wage growth, anticipated fall in petroleum product prices in line with futures and lower fruit and vegetable prices, assuming an average agricultural season this year.

SORS confirmed the previously issued estimate of real GDP growth in Q4 2024 of 3.3% y-o-y and revised up the previous two quarters, meaning that growth for the whole of 2024 equalled 3.9%. According to the NBS's projection, this year's GDP growth will measure around 4.5% driven by domestic demand, notably personal consumption and fixed investment. At the same time, private consumption growth will be based on higher disposable income and positive trends in the labour market, and investment growth on increased corporate profitability, the expected continuation of high FDI inflows, planned government capital expenditure and, in particular, the implementation of infrastructure projects as part of the Serbia Expo 2027 programme. Investment growth should also be propped up by more favourable financial conditions thanks to past monetary policy easing by the NBS and the ECB. At this point, it is difficult to gauge the extent to which rising protectionism worldwide and the introduction of new tariffs will affect economic activity at home, and there is also the risk that blockades and protests could lead to the deferral of some investments and consumption. Real sector indicators for January show that there were no major delays in the production sector so far, especially in the industrial production, and that activity continued up in the service sectors, but FDI inflows have slowed somewhat in the year to date.

The NBS Executive Board will continue to follow closely and analyse trends in the domestic and international markets and make monetary policy decisions on a meeting-to-meeting basis depending on the assessment of incoming data, the outlook for inflation and its key factors, and the effects of past monetary policy measures. In making its decisions, the Board will remain mindful of the preservation of financial stability and favourable growth prospects.

The next rate-setting meeting where economic developments will be considered is scheduled for 10 April 2025.

Press release from Executive Board meeting held on 10 April 2025

At its meeting today, the NBS Executive Board voted to keep the key policy rate on hold, at 5.75%. It did not change the deposit (4.5%) and lending facility (7.0%) rates either.

When making the decision, the Board noted that though inflation retreated significantly during 2023, and then stabilised as of mid-2024, a cautious monetary policy should still be pursued given that inflation at home is largely dependent on developments in global commodity and financial markets that still give rise to concerns sparked by uncertainty. On the one hand, the introduction of high tariffs and the uncertainty of trade policy going forward are dampening global growth prospects and driving down the prices of primary commodities, notably oil. On the other hand, they increase the risks of a halt in global supply chains and a rise in global inflation. The Board also took into account the monetary policy accommodation by the ECB in the prior period, which should reflect on more favourable conditions of euro-indexed borrowing in Serbia. Uncertainty as to the impact of US tariffs on euro area economy will affect the ECB's decision on further monetary policy easing. Based on current announcements, the Fed will most likely be more cautious and refrain from trimming its rate for some time yet. The prices of some food inputs in the global exchanges (cocoa and coffee) that recently reached their maximum levels, as well as a weaker agricultural season at home last year, will continue to impact food prices for some time, whereas with the arrival of the new agricultural season the situation should stabilise.

Since the start of the year, inflation has been consistent with our expectations, moving around the upper bound of the target tolerance band in the first two months. Under the NBS's projection, inflation will stay at a similar level in the coming months, i.e. until mid-year. It is expected to slow in the second half of the year, gradually approaching the target midpoint of 3% where it is anticipated to stay until the end of the projection horizon. Such inflation movements should be supported by the still tight monetary policy effects, onset of the new agricultural season, assuming it is average, and the anticipated decline in petroleum product prices in line with the futures. The decrease in domestic inflation will also be underpinned by lower imported inflation and the expected slowing of real wage growth. As a result, core inflation should slow to around 5% already from March and approach headline inflation.

Considering developments in the real sector, the Executive Board concluded that activity in the production and service sectors has slowed somewhat in the initial months of the year, after last year's GDP growth of 3.9% which was among the highest in Europe. In January and February taken together, activity in manufacturing stagnated, while growth in trade and tourism turnover slowed, especially in February. Rising protectionism worldwide, new tariffs and issues in the European automobile industry, together with blockades and protests in the domestic market which have led to some deferral of investment and consumption, represent a risk to Serbia's economic growth. However, the Executive Board expects that economic activity will gather pace in the second half of the year, driven primarily by supply-side factors, and most of all by the planned acceleration of electric car and tire production, the activation of new capacities in the energy sector, as well as the implementation of infrastructure projects within the Serbia Expo 2027 programme, which will exert both direct and indirect positive effects on our economy. Support to economic growth also comes from the around 10% increase in lending to corporates and households, as a result of past monetary policy easing by the NBS and ECB.

The NBS Executive Board will continue to follow closely trends in the domestic and international markets and make monetary policy decisions on a meeting-to-meeting basis depending on the assessment of incoming data, the outlook for inflation and its key factors, and the effects of past monetary policy measures. In making its decisions, the Board will remain mindful of the preservation of financial stability and favourable growth prospects.

The next rate-setting meeting will take place on 9 May.

Press release from Executive Board meeting held on 9 May 2025

At its meeting today, the NBS Executive Board voted to keep the key policy rate on hold, at 5.75%. It did not change the deposit (4.5%) and lending facility (7.0%) rates either.

When making the decision, the Board noted that, though inflation retreated significantly and is moving within target bounds, a cautious momentary policy should still be pursued. Inflation at home greatly depends on developments in global commodity and financial markets which are currently highly volatile amid uncertainty related to trade policies of leading global economies. Estimates prevail that, in such circumstances, global inflation will probably recede at a slightly slower-than-expected pace, while economic growth will be subdued due to disruptions in trade flows, production chains and weakness in key drivers of growth such as foreign trade, investment and consumption. Though the anticipated slower global growth triggered a decline in world prices of primary commodities, primarily of crude oil, caution is needed as higher production costs in the conditions of increased tariffs could produce inflationary effects. The Executive Board also took into account market participants' expectations that the ECB will probably continue to ease its monetary policy, resulting in more favourable terms of euro-indexed borrowing at home. According to recent announcements, the Fed can be expected to be more cautious in its monetary policy easing, as it will most likely face heightened inflationary pressures due to tariffs, which could affect capital flows to emerging economies. In addition, the prices of some food inputs in the global exchanges (cocoa and coffee) that recently reached their maximum levels, as well as a weaker agricultural season at home last year, will continue to impact food prices for some time, whereas with the arrival of the new agricultural season the situation should stabilise.

Consistent with the NBS's expectations, inflation moved around the upper bound of the target tolerance band in Q1 2025, measuring 4.4% in March. Relative to end-2024, prices of energy and services each contributed 0.1 pp less to inflation in March, while the contribution of food prices increased by 0.3 pp, mostly reflecting the stubbornly high global prices of cocoa and coffee. Core inflation declined to 5.1% in March, its lowest level since July 2024, signalling a gradual easing of cost-push pressures. The Executive Board expects inflation to continue to move within the target tolerance band, slow from mid-year and approach the 3% midpoint by the end of the year. This will be supported by the still restrictive effects of monetary policy, the onset of the new agricultural season – assuming it will be average – as well as the expected low prices of petroleum products in accordance with futures. The reduction in inflation at home will also be underpinned by lower imported inflation and the anticipated movement of real wages in line with productivity growth, which should contribute to a further slowdown in core inflation and its convergence with headline inflation.

As regards real sector developments, according to the SORS flash estimate, GDP grew by 2.0% in real terms in Q1 2025. Lower-than-expected growth, as assessed by the Executive Board, is recorded in both the production and services sectors and is a consequence of still weak external demand, issues in the European automobile industry, and elevated risk aversion globally, as well as blockades and protests that have dented consumption and investment in the domestic market. Still, the Executive Board expects an acceleration of economic activity later in the year, supported primarily by supply-side factors, notably the planned step-up of production in the automobile industry, the activation of new capacities in the energy sector, and the implementation of infrastructure projects under the "Expo 2027" programme. Economic growth is also supported by close to 10% growth in lending to the corporate and household sectors, which reflects past monetary easing by the NBS and the ECB.

The NBS will continue to follow and analyse developments in the domestic and international markets and make monetary policy decisions on a meeting-to-meeting basis depending on the incoming data, the outlook for inflation and its key factors, and the assessment of the effects of adopted monetary policy decisions. In making its decisions, the Board will remain mindful of the preservation of financial stability and a favourable growth outlook.

At today's meeting, the Executive Board adopted the May *Inflation Report* with the latest macroeconomic projections that will be presented to the public in more detail at the press conference on 14 May, along with additional explanations of monetary policy decisions.

The next rate-setting meeting where economic developments will be considered is scheduled for 12 June.

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