National Bank of Serbia

August 2026

INFLATION REPORT

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 August *Inflation Report* was considered and adopted by the NBS Executive Board at its meeting of 13 August 2026.

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
CBAM – Carbon Border Adjustment Mechanism
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 31 July.

Contents

I Overview

According to the IMF, global economic growth since the start of the year turned out to be stronger than anticipated in April. Part of this can be explained by an increase in renewable energy production and the fact that many economies are now more energy efficient. Robust domestic demand and fiscal support in some countries are a contributing factor as well.

Leading international financial institutions, the IMF and the World Bank, assessed in their latest reports that, **in the year to date, the global economy has shown greater resilience to the consequences of the Middle East conflict than had been expected**. According to their assessment, the negative shock caused by the outbreak of the conflict was mitigated by the effects of the positive technology shock, resulting from advances in the application of AI tools. The net effects differ across countries depending on their position in technological value chains on the one hand, and their exposure to conflict zones, on the other. In July, the IMF projected global growth of 3.0% in 2026 and 3.4% in 2027, which is similar to the April projections, but still below the outturns of the past two years (3.5%). It was assessed that the **risks to the July projection are less pronounced than in the April projection, but that they remain skewed to the downside**, mainly due to the possible continuation of the Middle East conflict, which would cause prolonged volatility in commodity markets and price increases, renewed supply disruptions and tighter global financial conditions.

Elevated global energy prices drove global inflation up, though for the time being there is little evidence of the de-anchoring of inflation expectations.

Due to the global energy shock, as of March the **downward trend of global inflation** has been temporarily **halted**. In July, the IMF raised its global inflation projection for 2026 by 0.3 pp from April to 4.7%, noting that inflation will be dominantly driven by higher energy and food prices. At the same time, the projection for 2027 was revised up by 0.2 pp to 3.9%. Even so, halts in energy supply and the rising global prices of oil and gas have still not passed through onto the prices of other products and services to a greater extent, therefore core inflation remained relatively stable at a global level. Inflation expectations increased to a certain extent, though there are no indications of their de-anchoring. In light of the higher projected inflation, **central banks took a cautious approach**, with the ECB embarking on a cycle of monetary policy tightening in June, while markets expect the Fed to soon follow suit.

Developments in international commodity and financial markets remain volatile and are driven primarily by developments in the Middle East.

The movement of **global energy prices in recent months was primarily determined by developments in the Middle East**. After remaining at an elevated level for most of Q2 due to supply disruptions, the global oil price fell sharply from mid-June onwards, after the signing of a Memorandum of Understanding between the US and Iran and returned to the pre-conflict level. However, the renewed escalation of the conflict prompted a rise in the oil price, which reached a level of around USD 97 per barrel by the end of July. Under the assumption of a de-escalation of geopolitical tensions and a gradual normalisation of global supply, according to assessments by relevant institutions, the oil price should continue to follow a downward trajectory in the period ahead. **Yields on securities of the most**

advanced countries and the exchange rates of the world's major currencies also recorded divergent movements in previous months, primarily under the influence of developments in the Middle East and expectations regarding future moves by leading central banks. Despite expectations of monetary policy tightening by leading central banks, global financial conditions for the private sector have eased compared to the April level, and can still be considered relatively favourable.

The scale and duration of the Middle East conflict, as well as the time needed for the normalisation of flows, require the NBS to take a cautious approach to monetary policy.

On the domestic market, interest rates on dinar and euro-indexed loans to corporates and households recorded a slight increase during Q2, with **banks' credit activity remaining strong**. The y-o-y growth in lending to corporates and households stood at 16.6% in June, driven by working capital and investment loans for corporates, and cash and housing loans for households. Thanks to more pronounced borrowing in dinars, the degree of dinarisation of corporate and household receivables reached in June its highest level to date (40.7%). The share of NPLs in total loans, which recorded a minimum of 2.0% in June, indicates that, despite increased lending, the corporate and household sectors have no difficulties in repaying their loans. Since April, **appreciation pressures have prevailed in the domestic FX market**, and the NBS net purchased EUR 900 mn in this period up until the end of July, reducing the amount of net sales since the beginning of the year to EUR 320 mn. Together with successful eurobond issues in the international market, this boosted FX reserves to EUR 30.5 bn at end-July. FX reserves are significantly above adequacy criteria (covering around seven months' worth of goods and services imports) and represent an important pillar of defence against external risks.

Responsible fiscal policy and accumulated fiscal reserves allow the state to take on a part of the burden of the energy crisis without major repercussions to public finance.

According to our estimate, fiscal policy will be moderately expansionary in character during this year (measured by the share of the cyclically adjusted primary balance of the general government relative to 2025). Nevertheless, we do not expect significant inflationary effects, bearing in mind that the announced stimulus measures aimed at consumption have a one-off effect, while the reduction in the excise tax on petroleum products was taken precisely so as to prevent larger second-round inflationary effects. In H1, **the share of the fiscal deficit in GDP stood at around 1% (with a primary surplus share of 0.6%)**. Compared to the same period in 2025, public revenues in the first six months increased in real terms by 8.6%, primarily driven by revenue growth from wages and VAT as a result of private consumption growth, followed by non-tax revenues and profit tax, based on higher corporate profitability in 2025 (up by 11% compared to 2024). By contrast, as expected, revenues from the excise tax on petroleum products declined, as a result of the measures taken to mitigate the global energy shock. Public expenditures recorded growth of 10.1% in real terms, to which higher public sector wage and pension expenditures contributed almost equally. Contributing to this growth to a somewhat lesser extent, with a similar effect, were capital expenditures, outlays for goods and services, as well as other current expenditures and subsidies. At the end of June, **the share of general government public debt in projected GDP for the current year stood at 44.1%**, remaining below the Maastricht criterion threshold.

The current account deficit as a share of GDP stood at 3.1% in the first half of this year. Therefore, for the year as a whole, the deficit will be lower than projected in May and, according to our new estimate, will amount to around 4% of GDP.

Despite the still weak external demand and the effects of the global energy shock, the current account deficit in the first six months of the year was 30.5% lower than in the same period of 2025, amounting to EUR 1.4 bn. This was supported by a reduction in the deficit in trade in goods and services to 3.1% of GDP, as a result of the faster y-o-y growth in exports (7.9%) than in imports of goods and services (4.9%), as well as an increase in the secondary income surplus. Export growth continues to be driven by the manufacturing industry, primarily by industries linked to the automotive sector, as well as by the increase in copper ore exports, with services exports also making a significant contribution. Given the developments in the first half of the year, **the current account deficit for the year as a whole will be lower than projected in May and, according to our new projection, will amount to around 4% of GDP**. The major portion of the capital inflows to the balance of payments financial account, which amounted to EUR 1.9 bn in the first six months, was related to portfolio investment inflows arising from the issuance of government and corporate securities in the international market. Part of these proceeds was immediately used for the early buyback of previously issued eurobonds and the early repayment of financial loans. There was also an inflow of EUR 1.2 bn from FDI, while the net inflow on this basis amounted to EUR 840 mn.

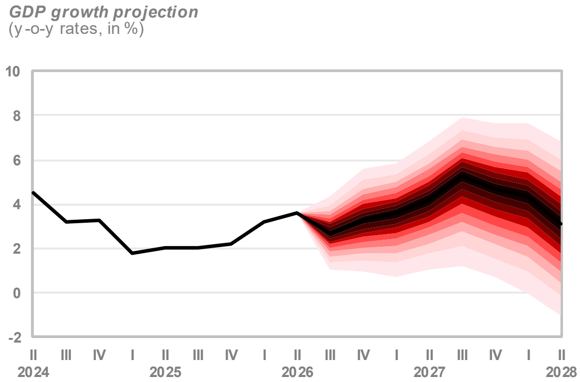
According to the initial SORS estimate, real GDP growth in Serbia accelerated to 3.6% in Q2 this year and was driven, in our estimate, by increased activity in the services sectors and agriculture, as well as by a recovery in manufacturing and construction.

Manufacturing activity recovered during Q2, driven by increased production in the petroleum and chemical industries, as well as the continued positive performance of industries linked to the automotive sector. Activity also increased in mining, while energy production continued to decline y-o-y, as a result of the implementation of the CBAM and, in part, reduced hydropower potential. According to our assessment, the implementation of projects related to the hosting of the Expo, primarily the construction of transport infrastructure, resulted in a positive contribution from construction activity. Based on the SORS data on expected wheat and early fruit production published so far, as well as in view of the anticipated recovery in the yields of autumn crops from last year's exceptionally low levels, we project that agriculture also made a positive contribution. Nevertheless, the largest positive contribution came from the services sectors and net taxes, driven by growth in private consumption.

We have slightly revised upward our GDP growth projection for 2026 – from 3.0% in May to 3.2% in the new projection – while keeping our projection for 2027 unchanged at 4.5%, taking into account the persisting risks arising from geopolitical tensions

The more favourable performance in H1 compared with our May expectations prompted a **slight upward revision of our GDP growth projection for this year, to 3.2%**. However, given the continued geopolitical tensions, the ongoing conflict in the Middle East, volatile movements in global oil and other energy prices, and uncertainty

and the energy shock, which could have an adverse effect on investment and consumer confidence.



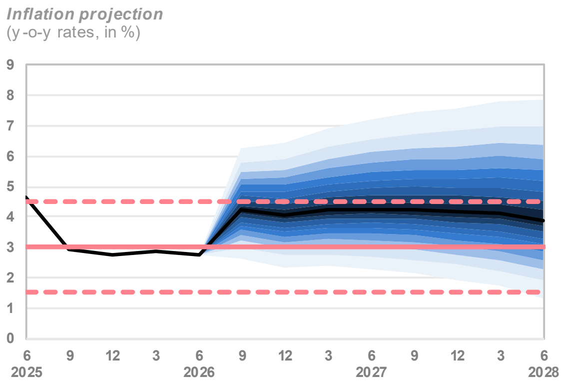
regarding external demand, we have **kept our growth projection for 2027 at 4.5%**. The hosting of the specialised international Expo exhibition will contribute to the acceleration of growth compared to this year. Over the medium term, we expect the effects of temporary factors to dissipate and economic growth to settle into a more stable pace – around 3.5% per year, which corresponds to its potential growth rate. Economic activity will be driven by domestic demand, with both consumption and fixed investment making positive contributions. These will be supported by growth in disposable income and the continued implementation of infrastructure projects under the "Leap into the Future – Serbia Expo 2027" programme. For 2026, we now project that exports and imports will grow at a similar pace, therefore we expect a smaller negative contribution from net exports to GDP growth than in our May projection. On the other hand, in 2027, we expect net exports to make a positive contribution to GDP growth, primarily owing to an increase in exports of services related to the Expo.

Y-o-y inflation outturns in June and July were below the levels projected in May.

After trending upward since March due to higher petroleum product prices following a significant increase in global oil prices, **y-o-y inflation fell below the target midpoint again in June**, standing at 2.7%, before slowing further to 1.9% in July. Compared with our projections in the May *Report*, inflation was lower than anticipated primarily due to the larger-than-expected y-o-y decline in food prices, which stood at 6.1% in July, predominantly under the impact of lower fruit and vegetable prices resulting from an exceptionally good new harvest. Prices of other food products were also lower than in the same month of the previous year, while even several months after the expiry of the decree caping retail trade margins on food and household cleaning products, no significant increase in prices was recorded. Measured by the CPI excluding food, energy, alcohol, and tobacco, y-o-y core inflation continued to hover around the upper bound of the target tolerance band, measuring 4.5% in July. The movement of medium-term inflation **expectations of the financial sector around the target midpoint** indicates that, for now, there are no significant second-round effects of the energy shock on other prices.

According to our new central projection, y-o-y inflation will continue to move within the target band until the end of the projection horizon, i.e. over the next two years. From September, however, it is expected to run slightly above 4%, partly due to the low base effect from the previous year following the implementation of the decree, and partly due to the effects of rising global prices of energy and other primary commodities. Inflation is expected to remain at that level throughout 2027.

The lower-than-expected inflation recorded in the year to date compared with our expectations is also reflected in a **lower projected average inflation rate for this year, which, according to our current estimate, stands at 3.2%**. Nevertheless, according to our new projection, inflation could rise to a level slightly above 4% from September this year, due to higher global prices of oil and other primary commodities, combined with the low base effect from September last year following the implementation of the decree that capped wholesale and retail trade margins at 20%. The gradual easing of cost-push pressures from the international environment, as well as the projected slowdown in real wage growth and its increasingly closer alignment with productivity growth will work towards lower inflation in 2027. Working in the opposite direction will be the low base effect from this



year stemming from the significant decline in fruit and vegetable prices due to an exceptionally good harvest. As a result of these opposing factors, y-o-y inflation is expected to remain stable throughout the next year and stay slightly above 4%, before gradually declining toward the end of the projection horizon.

The NBS will continue to pursue a cautious monetary policy, taking into account movements of all key economic indicators in the domestic and international environment.

Since the previous *Report*, **the NBS Executive Board has kept the key policy rate unchanged at 5.75%**. In making its decisions, the Executive Board took into account the fact that geopolitical tensions remain elevated and that their impact is reflected in volatile movements in international commodity markets. A renewed escalation of the conflict in the Middle East could significantly increase global inflation, not only due to higher global oil prices but also through its impact on other segments of the global economy, primarily higher container shipping and fertiliser costs, disruptions to supply chains, and a deterioration in investment and consumer confidence. All of this, in the Executive Board's assessment, calls for a cautious approach to monetary policy.

II Monetary policy since the May *Report*

In the period since the May Report, the NBS Executive Board has kept the key policy rate unchanged at 5.75%. In making its decisions, the Executive Board considered that geopolitical tensions remain pronounced and reflected in volatile developments in the international commodity markets, as well as that a renewed escalation of the Middle East conflict could significantly push up global inflation, not only through higher global oil prices but also through its impact on other segments of the global economy, primarily by increasing container shipping and mineral fertiliser costs, disrupting supply chains, and weakening investment and consumer confidence. The Executive Board, therefore, assessed that all these factors call for a cautious monetary policy approach.

Rationale for the June and July decisions

In deciding to keep the **key policy rate unchanged at 5.75%** during June and July, the Executive Board primarily took into account the current and expected inflation movements in the period ahead, as well as risks from the international environment that could affect its future path.

Ahead of the June meeting of the Executive Board, the Middle East conflict was escalating, while the closure of the Strait of Hormuz to most vessels raised concerns that the energy crisis could trigger a renewed surge in global inflation. In addition to global oil prices contributing to higher petroleum product prices, indirect effects could also arise through higher business costs and elevated inflation expectations. On the other hand, this reduces households' disposable income, increases uncertainty and weakens economic activity, which further complicates monetary policy decision-making. Despite the surge in global oil prices, at the time of deciding on the key policy rate in June, the data indicated that, for the time being, primary inflationary effects continue to prevail in Serbia, while second-round effects remained limited.

In the second half of June, tensions in the Middle East eased following the ceasefire reached during negotiations aimed at ending the conflict, and the global oil price declined to a level close to that recorded before the escalation of the conflict (to around USD 70 per barrel). Nevertheless, one should bear in mind that the situation in the Middle East remains unstable, as illustrated by the increase in the global oil price to USD 78 per barrel ahead of the July meeting of the Executive Board, and that it continues to represent one of the key sources of global uncertainty. A renewed escalation could significantly push up global inflation, not only through higher global oil price but also through its impact on other segments of the global economy, primarily by increasing container shipping and mineral fertiliser costs, disrupting supply chains, and weakening investment and consumer confidence. At the same time, heightened uncertainty has had an adverse effect on international flows of goods and capital, which had already been under pressure even prior to the escalation of the latest crisis due to pronounced trade tensions and protectionist measures in leading global economies. For net energy importers, Serbia included, **risks to inflation remain tilted to the upside**, while **risks to economic growth remain tilted to the downside**, calling for a cautious monetary policy approach.

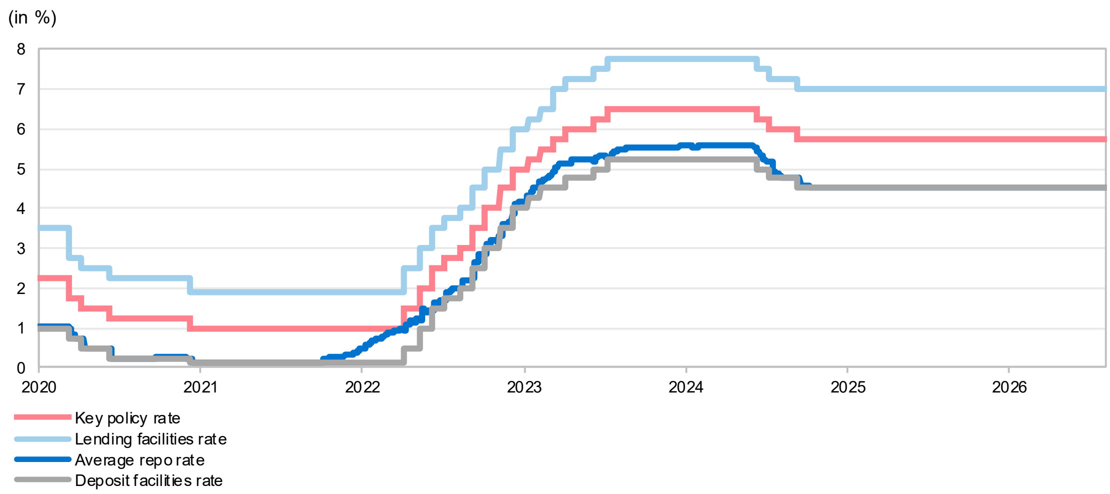
As regards **domestic inflation**, it continued to move within the target tolerance band (3±1.5%), while, in line with the Executive Board's expectations, it stood above the target midpoint in April and May, reaching 3.3% and 3.5% y-o-y, respectively, largely on account of higher global oil prices and, consequently, higher domestic petroleum product prices during that period. The increase in petroleum product prices resulting from the rise in global oil prices was mitigated by the measures adopted by the Government of the Republic of Serbia – the reduction in fuel excise duties and the supply of the domestic market from strategic reserves. The NBS continued to pursue a cautious monetary policy, while maintaining relative stability of the exchange rate and reiterating its readiness to use all available instruments if necessary. Taken together, these factors limited the second-round effects of the spillover from higher global oil prices and thereby prevented a sharper increase in inflation. As regards other prices, it should be noted that food prices have been declining on a y-o-y basis since November 2025 and that, even several months after the expiry of the decree capping trade margins, there have been no major price adjustments in respect of the products covered by the decree. Given the favourable agricultural season so far and the fruit and vegetable harvest, the Executive Board judged that the prices of unprocessed food could continue to exert a disinflationary effect on inflation in the coming months. Core inflation remained relatively stable, hovering around the upper bound of the target tolerance band for headline inflation.

In keeping the key policy rate unchanged, the Executive Board took into account that, according to the then latest available medium-term May projection, inflation should decelerate by September and then move around the upper bound of the target tolerance band, because of the low base effect from September last year associated with the implementation of the decree capping wholesale and retail trade margins to 20%. Due to the increase in global oil and other primary commodity prices following the outbreak of the Middle East conflict, as well as higher imported inflation, the Executive Board expected that inflation could temporarily exceed the upper bound of the target tolerance band at the end of this year or the beginning of the next. Assuming that the energy shock proves temporary and that the global oil price stands at around USD 80 per barrel or lower at the end of this year and throughout next year, inflation should decelerate and return relatively quickly to within the target band (by mid-2027), staying there until the end of the projection horizon. In the Executive Board's assessment, inflation's deceleration next year will also be supported by the expected gradual weakening of cost-push pressures from the international environment and the anticipated slowdown in real wage growth.

Developments in the real sector since the start of the year have been more favourable than expected. According to SORS data, real GDP growth in Q1 measured 3.2% y-o-y, up by 0.2 pp from both the preliminary estimate and the Executive Board's assumption in the May *Inflation Report*. Growth was driven by the services sectors, while agriculture also made a positive contribution. Real sector indicators for April and May exhibited favourable movements, with manufacturing recovering (following a weaker start to the year due to operational difficulties at NIS) and relatively strong growth in retail trade turnover and tourism. Despite global uncertainty and weaker demand from the EU and the region, Serbia's export sector proved resilient, owing to its production and geographical diversification and predominantly export-oriented FDI. Relatively favourable weather conditions and the good condition of crops provided grounds for expecting agricultural yields to surpass both last year's results and the multi-year average. So far this year, GDP growth has been supported by both domestic demand and net exports. Additional positive effects on economic activity are expected from the hosting of the Expo. The Executive Board noted that economic activity is also being supported by the significant growth in lending to corporates and households, which stood at 16.4% y-o-y in May. Nevertheless, economic activity remains affected by global uncertainty stemming from geopolitical tensions and volatile energy prices, which may dampen investment and consumer confidence, as well as capital flows.

According to the IMF,[1] the global economic outlook is being shaped by two powerful forces operating in opposite directions: the prolonged effects of the energy shock caused by the Middle East conflict and the investment boom driven by technological progress. Their overall impact differs considerably across countries, depending on their exposure to the Middle East conflict and their position in the technological value chain. Assessing that the global economy has so far weathered the energy shock better than expected, the IMF projects global

Chart II.0.1 **Key policy rate and average repo rate**



Source: NBS.

[1] IMF, WEO, July 2026.

economic growth at 3.0% in 2026 and 3.4% in 2027, i.e. it expects a V-shaped recovery, with weaker growth this year relative to the forecast made before the outbreak of the Middle East conflict, followed by a recovery next year. The IMF projections are based on the assumption that the reopening of the Strait of Hormuz will begin in mid-July, that more severe shortages will be avoided through a further drawdown of inventories, and that conditions will largely return to their pre-conflict state by March 2027.

As regards Serbia's key trade partner – the **euro area** – the IMF projects growth of 0.9% in 2026 and 1.2% in 2027, with the 2026 forecast revised downward by 0.2 pp relative to the April WEO. This reflects a significant negative carry-over effect from Q1, primarily due to developments in Ireland, but also weaker momentum in other economies, as well as the adverse impact of higher energy prices and weak consumer confidence. For Serbia, this could imply potentially weaker demand in the short term and, consequently, slower growth in goods and services exports. At the same time, the ECB's monetary policy is also expected to be less accommodative than in the previous period. In June, the **ECB** increased its policy rate by 0.25 pp, to 2.25%, after **euro area inflation** reached 3.2% in May and ahead of the release of the June reading of 2.8%. The ECB adopted this decision on the assessment that the increase was necessary in order to return inflation to the 2% target in 2027.

On the other hand, the **Fed** kept its federal funds rate range unchanged and, given that the global oil price has returned to a level close to that recorded before the escalation of the Middle East conflict, market participants do not expect any change in the next FOMC meeting either. Public attention has been drawn to the actions of the new Fed Chair, who announced a reduced role for forward guidance, with the forward-looking monetary policy language for the near term already removed from the statement following the June FOMC meeting. This could lead market participants to rely more heavily on their own assessments of the Fed's future moves.

Rationale for the August decision

When deciding on the key policy rate in August, the Executive Board had in mind that y-o-y inflation returned to the level recorded before the energy shock, i.e. below the target midpoint of 3% in June, and declined further to 1.9% in July. Inflation outturn in recent months was lower than expected, primarily due to the generous fruit and vegetable harvest, which was reflected in their prices. Having in mind that there have been no major second-round effects of the energy shock on domestic inflation so far, the Executive Board expects inflation this year to be lower than projected in May and that, after the expected temporary increase to around 4% in September due to the low base effect from the previous year following the implementation of the decree capping retail trade margins, it would continue to move within the target band throughout the projection period. Against this backdrop, the Executive Board assessed that the current monetary policy stance is adequate and therefore kept the key policy rate unchanged.

At the same time, the Executive Board continues to closely monitor developments in the international environment, particularly those relating to the Middle East conflict and global oil prices. Although the effects of these factors on global inflation and economic activity have so far been less extensive than originally feared, uncertainty remains elevated, particularly given the exposure of the domestic economy to movements in energy prices and global supply chains.

The NBS continues to monitor and analyse developments in the international commodity and financial markets. Monetary policy decisions will be made on a meeting-to-meeting basis, based on these developments, as well as on domestic factors and inflation movements. The priority of monetary policy will remain to ensure price and financial stability in the medium term, while supporting economic growth, employment and a favourable business and investment environment.

III Inflation movements

Having trended upward from March to May on the back of higher petroleum product prices, driven by a marked increase in global oil prices, y-o-y inflation fell back below the target midpoint in June, at 2.7%. The lower y-o-y inflation outturn than anticipated by the May Report reflects primarily a stronger-than-expected decline in food prices that measured 3.7% y-o-y in June, chiefly amid lower fruit and vegetable prices as a result of a good new harvest. The prices of other food products also dropped in June, in y-o-y terms, while the prices of products previously covered by the government decree remained below their August levels throughout Q2, i.e. below their pre-decree levels.

Medium-term inflation expectations of the financial sector remained anchored around the target midpoint of 3%, confirming the preserved credibility of the NBS's monetary policy.

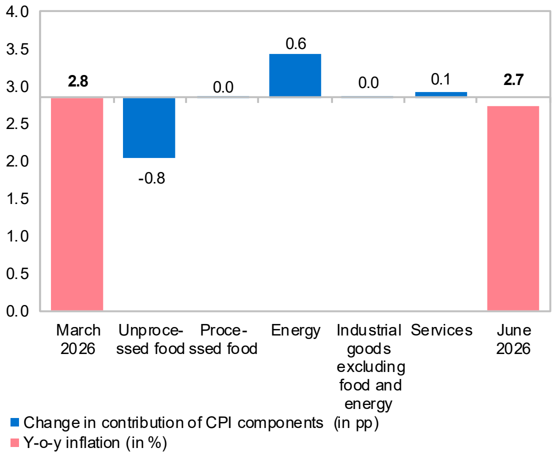
Inflation movements in Q2

Having accelerated to 3.3% and 3.5% y-o-y in April and May, respectively, due to higher petroleum product prices, **y-o-y inflation slowed to 2.7% in June.** The June slowdown in inflation was driven primarily by the continued y-o-y decline in food prices, notably fruit and vegetables, as well as lower prices of processed food products.

Compared to March, the contribution of **unprocessed food prices to y-o-y inflation** declined by 0.8 pp in June, reflecting the y-o-y decrease in prices of fresh fruit (9.8%) and fresh meat (3.3%), the global price of which also dropped in June, while the y-o-y decline in fresh vegetable prices (8.2%) remained broadly unchanged from March. The contribution of **energy prices,** higher by 0.6 pp, worked in the opposite direction, and it was driven mainly by faster growth in petroleum product prices during April and May, fuelled by the increase in global oil prices amid the Middle East conflict. The contribution of **services prices** to y-o-y inflation went slightly up, by 0.1 pp, while the contribution of **processed food and industrial product prices (excluding food and energy)** stayed almost unchanged from March.

Measured by the CPI excluding food, energy, alcohol and cigarettes, **y-o-y core inflation** hovered around the upper bound of the target tolerance band throughout Q2 and stood at 4.6% in June. As in Q1, around four-fifths of the y-o-y core inflation in June was accounted for by the services prices, which increased by 6.6% y-o-y, while the prices of products included in core inflation recorded a mild acceleration in y-o-y growth, to 2.3%. **The trimmed mean** (obtained by excluding 15% of products and services from the consumer basket with the largest price changes in both directions) remained below headline inflation throughout Q2 and measured 2.4% y-o-y in June.

Chart III.0.1 **Y-o-y inflation and change in the contribution of main CPI components to y-o-y inflation**
(in %, in pp)



Sources: SORS and NBS calculations.

Table III.0.1 **Growth and contributions of CPI components to consumer price growth in Q2 2026**

	Weights	Quarterly		Y-o-y in June	
		Growth rates (in %)	Contributions (in pp)	Growth rates (in %)	Contributions (in pp)
Consumer prices (CPI)	**100.0**	**1.3**	**1.3**	**2.7**	**2.7**
Unprocessed food	10.8	0.3	0.0	-5.8	-0.7
Processed food	20.9	0.6	0.1	-2.5	-0.5
Industrial products excluding food and energy	28.3	1.2	0.3	3.0	0.8
Energy	15.5	2.4	0.4	9.7	1.4
Services	24.6	1.8	0.4	6.6	1.6
CPI excl. energy, food, alcohol and cigarettes	**45.8**	**1.6**	**0.7**	**4.6**	**2.1**
Administered prices	**18.2**	**0.3**	**0.1**	**7.3**	**1.3**

Sources: SORS and NBS calculations.

On a quarterly basis, **consumer prices increased by 1.3% in Q2** (the same as in Q1), undershooting the expectations from the May *Report* (by 0.6 pp), mainly as a result of lower fruit and vegetable prices. The 1.1% increase in **fruit prices** in Q2 was the lowest since CPI-based inflation measurement began, while **vegetable prices**, instead of recording their usual seasonal increase in Q2, declined by 0.1% owing to the drop in June. Overall, **unprocessed food prices** increased only marginally in Q2, by 0.3%. At the same time, **processed food prices** went up by 0.6%, resulting in a 0.5% increase **in prices within the food and non-alcoholic beverages category** in Q2 (contributing 0.2 pp to inflation). The prices of wheat products, processed meat products and non-alcoholic beverages increased in Q2, but this was partly offset by lower confectionery prices, reflecting a decline in global sugar prices in June. At the same time, the prices of most processed food products previously covered by the government decree remained broadly unchanged throughout Q2.[2]

Energy prices increased by 2.4% in Q2 (contributing 0.4 pp to inflation), reflecting the 6.1% increase in petroleum product prices recorded in April and May amid rising global oil prices. Petroleum product prices stayed unchanged in June, as the decline in global oil prices was offset by a reduction in the excise duty from 20% to 5% in June. The prices of other energy products remained stable in Q2.

The prices of industrial products, excluding food and energy, rose by 1.2% in Q2 (contributing 0.3 pp to inflation), led mainly by the seasonal increase in clothing and footwear prices (3.2%), and, to a lesser extent, by the higher prices of household cleaning products and medicines, while the contribution of other industrial products to inflation was negligible.

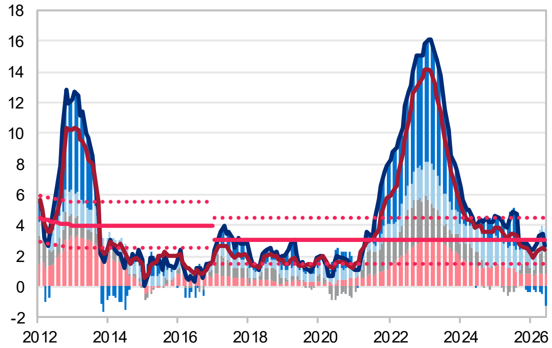
Services prices rose by 1.8% in Q2 (contributing 0.4 pp to inflation), primarily reflecting the seasonally typical increase in package holiday prices (27.4%), and, to a lesser extent, higher prices of residential rents, utility, transport and catering services. Higher services prices, together with higher prices of certain industrial products, resulted in a 1.6% growth in **core inflation** in Q2 (contributing 0.7 pp to inflation), in line with our expectations stated in the May *Report*.

Administered prices edged up by 0.3% in Q2 (contributing 0.1 pp to inflation), reflecting higher prices of utility services and medicines. On a y-o-y basis, administered price growth slowed to 7.3% in June, from 7.8% in March.

Producer and import prices in Q2

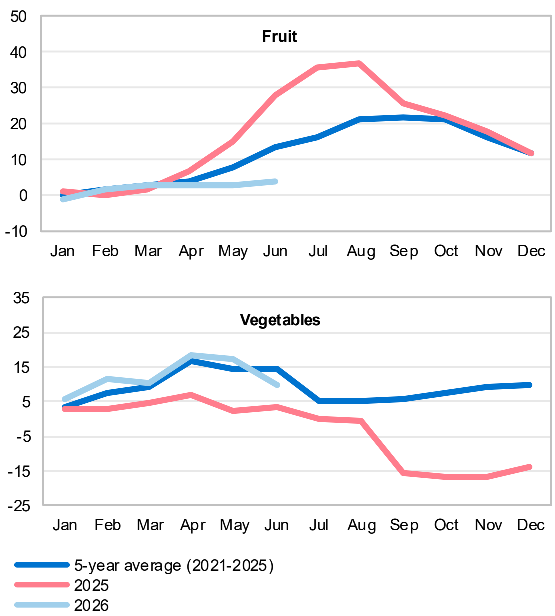
The growth in producer prices of industrial products for the domestic market and the prices of construction

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



Sources: SORS and NBS calculations.

Chart III.0.3 **Cumulative growth in fruit and vegetable prices**
(monthly, in %)



Sources: SORS and NBS calculations.

[2] For more details on the movement of the prices of products covered by the government decree, see text box 1, p.18.

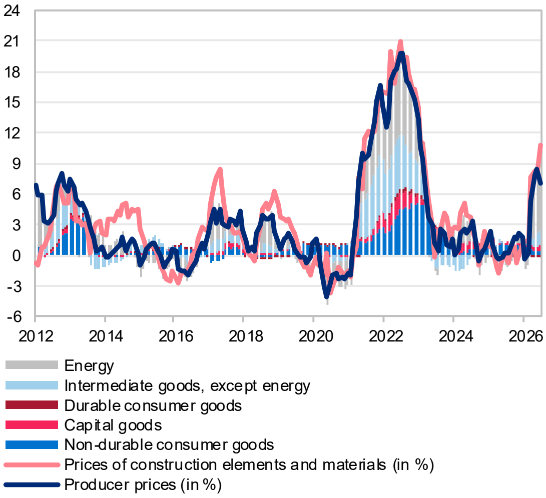
elements and materials eased in Q2 relative to Q1, while on a y-o-y basis, their growth accelerated because of the base effect.

On a quarterly level, **producer prices of industrial products for the domestic market** increased by 1.2% in Q2, while in y-o-y terms, their growth accelerated to 7.0% in June (from 5.3% in March). The largest positive contribution (4.7 pp) came from energy producer prices, whose growth stepped up reflecting both last year's low base and a considerable increase in global oil prices. A positive contribution (1.5 pp) to the y-o-y growth in industrial producer prices in June also stemmed from the prices of intermediate goods (base metals, chemical products and metal products), and, to a lesser extent, also from the prices of capital goods (0.6 pp), notably motor vehicles, and the producer prices of non-durable consumer goods (0.4 pp), mainly food products. Nevertheless, the y-o-y contribution of the producer prices of food was lower in June than in March, partly as a consequence of the high last year's base. In contrast, a mildly negative contribution came from the producer prices of durable consumer goods (0.1 pp).

On a quarterly level, the **prices of construction elements and materials** rose by 4.0% in Q2, while on a y-o-y basis their growth accelerated to 10.8% in June (from 7.6% in March), partly reflecting the low last year's base.

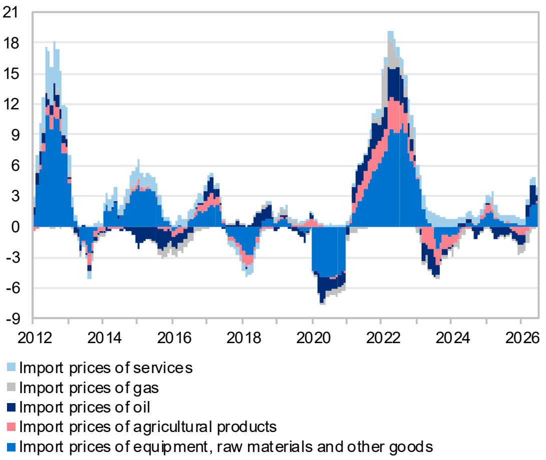
Import prices expressed in dinars[3] **increased** by 0.5% q-o-q in Q2, while their y-o-y growth accelerated to 3.8% in June (from 1.3% in March), with all observed components making a positive contribution. The highest combined contribution, amounting to 3.0 pp, came from the prices of imported equipment, intermediate goods and other imported goods (approximated by German export prices), as well as from the prices of imported services (approximated by euro area core inflation). A positive contribution was also provided by the global price of oil expressed in dinars (0.6 pp). Imported gas prices and global prices of primary agricultural commodities each made a marginal contribution of 0.1 pp to the y-o-y import price growth in June.

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 calculations.
* Industrial producer prices for the domestic market.

Chart III.0.5 **Contributions of selected components to the y-o-y dynamics of import prices in dinars**
(end-of-period, in pp)



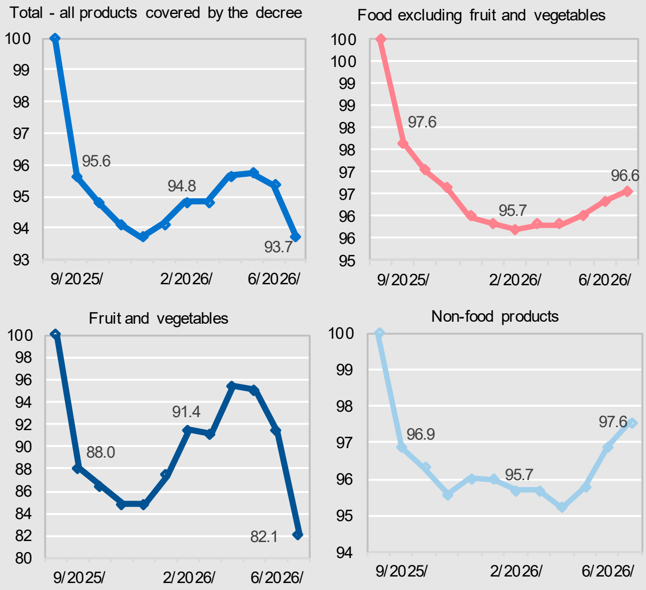
Sources: Destatis, FAO, Bloomberg, Eurostat, SORS and NBS calculations.

[3] Preliminary data. Base year: 2010. Import prices are approximated by the weighted average of several components: the Brent crude oil price index, imported natural gas prices, global food prices (FAO Food Price Index), euro area core inflation consumer prices, and German export prices, Germany being one of Serbia's most important trading partners. The fixed component weights are calculated on the basis of the value of imports of goods and services in 2025.

Text box 1: Price movements of products covered by the margin cap decree

In this text box, we analyse the price movements of products covered by the decree capping wholesale and retail trade margins. Several months have elapsed since the decree ceased to apply, allowing for a more accurate assessment of the extent to which prices have adjusted and whether this has strengthened inflationary pressures. Given that certain provisions of the decree were amended during its implementation between September and February this year, particularly those relating to invoiced prices, and that fruit and vegetable prices are subject to seasonal factors, we carried out a more detailed analysis of the prices of industrial-food products and household cleaning products.

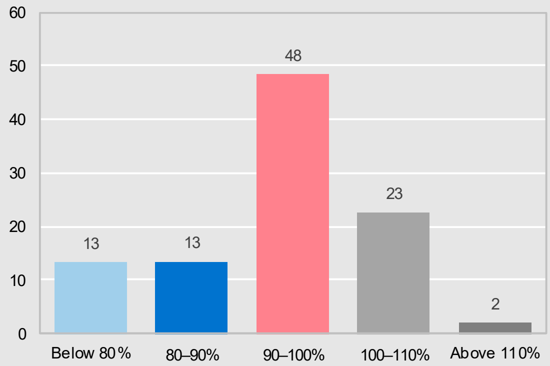
Chart O.1.1 **Price indices by group of products covered by the decree**
(Aug 2025 = 100)



Sources: SORS and NBS calculations.

The analysis has shown that, as at end-July, the prices of around 75% of the products covered by the decree did not return to the levels recorded before its introduction (Chart O.1.1). Cumulatively, the prices of these products declined by 5.2% during the period in which the decree was in force and by a further 1.1% over the previous five months. Excluding fruit and vegetables, the prices of other food products declined somewhat less – by 4.3% during the application of the decree, while going up by 1.0% over the previous five months (Table 0.1.1). This indicates that **the expiry of the decree did not trigger any significant price adjustments for these products and, consequently, did not fuel stronger inflationary pressures**. **A common feature across almost all product categories, both food and non-food, is that their prices recorded a cumulative decline over the entire observation period from August 2025 to July 2026**. The decline amounted to 10% for cereals and pasta, around 9.0% for confectionery products, fresh meat and other food products, and 2.4% for non-food products. By contrast, cumulative price growth between August last year and July this year was recorded for bread, owing to the increase in bread prices in February, and, to a much lesser extent, for non-alcoholic beverages.

Chart O.1.2 **Comparison of price levels in July 2026 and August 2025**
(share of products covered by the decree, in %)



Sources: SORS and NBS calculations.

These developments in the prices of products covered by the decree were also reflected in their y-o-y dynamics. **From March, when the decree expired, to July, the y-o-y decline in industrial-food product prices more than doubled** (-2.7% vs. -1.2%), increasing the negative contribution of these prices to headline y-o-y inflation from 0.3 pp in March to 0.7 pp in July. On the other hand, the y-o-y decline in the prices of household cleaning and personal care products moderated to 2.2% in July (3.5% in March). Although prices in this category increased somewhat more between March and July than food prices (2.0%), they nevertheless remained significantly below their August 2025 levels.

The risks of margins returning to their pre-decree levels have been substantially mitigated by the adoption of a new package of trade-related legislation, which entered into force in early May. Its objective is to improve market regulation and prevent unfair trading practices. **The greatest impact is expected from the new Law on Trading Practices for Certain Types of Products,[1] which is aligned with EU legislation and whose implementation is intended to prevent the abuse of the bargaining power of retail chains and ensure fairer trading conditions for producers, particularly in the agri-food sector**. In the meantime, the Commission for Protection of Competition, responsible for enforcing this Law, adopted the Guidelines governing in more detail unfair trading practices,[2] including a list of 14 practices blacklisted under the law. In the March issue of the *NBS Working Papers Bulletin*[3], one of our papers econometrically demonstrated the existence of an unequal market position between food producers and retailers within the

[1] RS Official Gazette, No 35/2026.
[2] RS Official Gazette, No 57/2026, https://kzk.gov.rs/komisija-usvojila-uputstvo-kojim-se-b (Serbian only).
[3] https://www.nbs.rs/export/sites/NBS_site/documents-eng/publikacije/wp_bulletin/wp_bulletin_03_26.pdf.

domestic food supply chain. In addition to the Law on Trading Practices, which has direct effects, indirect effects are also expected from amendments to the Law on Trade[4] and the Law on Consumer Protection,[5] adopted with the aim of strengthening competition among retailers, increasing the transparency of their operations and improving consumer information. These objectives should also be supported by the statutory obligation to publish price lists in real time, as well as by clearer regulation of promotional sales through a more precise definition of the "previous price", i.e. the price applied before a discount.

In general, these legislative measures should contribute to fostering fairer relationships within the food and non-food supply chains, improving business practices and strengthening consumer protection, thereby indirectly supporting the preservation of overall domestic price stability.

Table O.1.1 **Changes in prices by group of products covered by the decree** (August 2025 – July 2026)

Product group	Change while the decree was in force, Aug '25 → Feb '26	Change since the repeal of the decree, March '26 → July '26	Cumulative change, Aug '25 → July '26
Total – all products covered by the decree	**-5.2%**	**-1.1%**	**-6.3%**
Total excluding fruit and vegetables	**-4.3%**	**+1.0%**	**-3.3%**
Food excluding fruit and vegetables	**-4.3%**	**+0.9%**	**-3.4%**
Dairy products	-2.0%	+0.7%	-1.3%
Fresh meat	-8.7%	+0.1%	-8.6%
Non-alcoholic beverages	-0.9%	+1.4%	0.5%
Bread and flour	1.2%	+1.8%	3.0%
Processed meat	-4.9%	+1.7%	-3.3%
Other food products	-10.8%	+1.8%	-9.1%
Sugar and chocolate	-6.8%	-2.4%	-9.0%
Oils and fats	-2.4%	+0.9%	-1.6%
Pasta and cereals	-12.7%	+2.8%	-10.3%
Fish	-4.2%	+3.3%	-1.0%
Eggs	2.4%	-4.1%	-1.7%
Non-food products	**-4.3%**	**+2.0%**	**-2.4%**
Household equipment	-3.7%	+1.5%	-2.2%
Other	-4.9%	+2.3%	-2.7%
Fruit and vegetables	**-8.6%**	**-10.2%**	**-17.9%**
Vegetables	-3.0%	-13.5%	-16.1%
Fruit	-16.8%	-4.0%	-20.1%

Sources: SORS and NBS calculations.

[4] RS Official Gazette, No 35/2026.
[5] RS Official Gazette, No 35/2026.

Inflation expectations

Recent movement of inflation expectations suggests that the increase in global oil prices has so far not generated any significant second-round effects on other prices. Moreover, inflation expectations of the financial and household sectors declined, reflecting the partial easing of tensions in the Middle East.

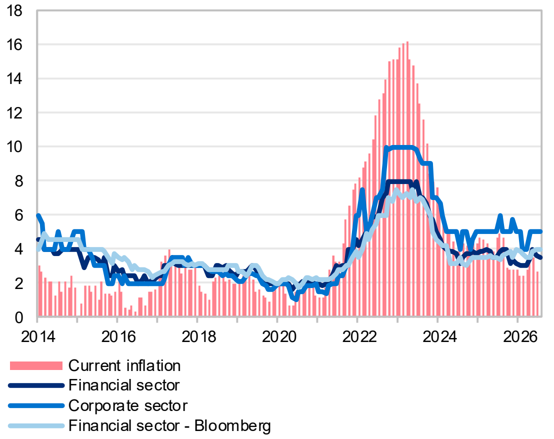
According to the July survey conducted by **Ninamedia, one-year ahead inflation expectations of the financial sector** remained within the NBS's target tolerance band, **declining** to 3.6% in **June** and 3.5% in **July**, from 4.0% in May. The responses of all financial institutions are within the NBS's target tolerance band. According to the **Bloomberg** June and July surveys, one-year ahead inflation expectations of the financial sector equalled 4.0%.

One-year ahead inflation expectations of corporates stood at 5.0% in July, unchanged since April. Over the next three and twelve months, the majority of respondents (76.3% and 66.4%, respectively) expect input prices in production to remain unchanged. As many as 71.5% of respondents also expect prices of finished goods and services to remain unchanged over the next three months, while over the next twelve months, the majority (53.3%) expect them to rise. According to the survey conducted as part of the Economic Sentiment Indicator (ESI) monitoring, the net percentage of industrial enterprises expecting an increase in the prices of their products in the next three months declined to 16.4 pp in June, from 20 pp in May.

One-year ahead inflation expectations of households dropped in June and July to 10%, the lowest level since June 2024. The decline in short-term inflation expectations was likely driven by lower food prices and global oil prices. According to the qualitative survey results, households expect inflation in the next twelve months to be lower than in the previous twelve months. This is indicated by the expected inflation index, which stood at 21.2 points in July 2026, below the perceived inflation index (42.6 points).

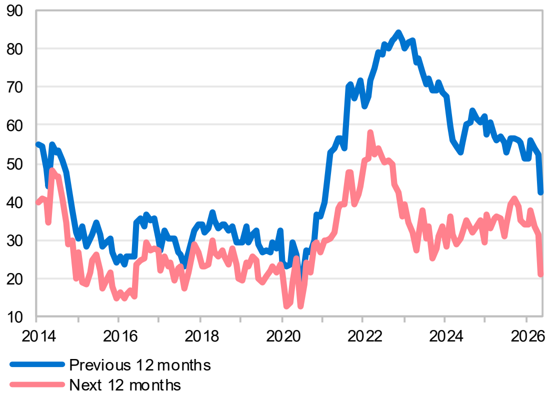
Medium-term inflation expectations of the financial sector remained anchored within the NBS's target tolerance band and stood at 3.0% for both two and three years ahead in July, continuing to range between 3.0% and 3.5% since January 2024. **Medium-term inflation expectations of the corporate sector for both two and three years** have stood at 5.0% since April. **Household inflation expectations** remain higher than those of other sectors, though dropping, too and equalling 10.0% for both the two-year and three-year horizons since May.

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



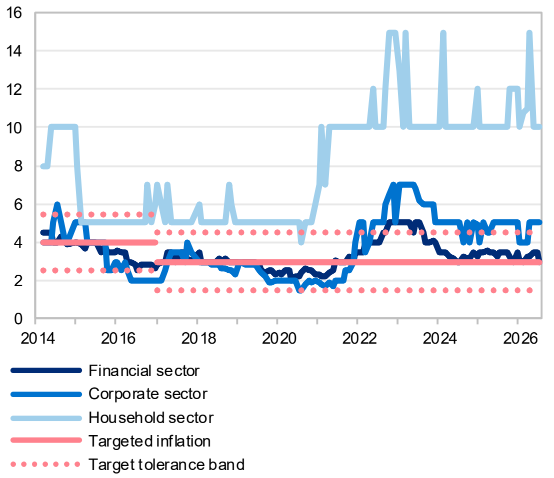
Sources: Gallup/Ipsos/Ninamedia, Bloomberg and NBS.

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.

IV Inflation determinants

1 Financial market trends

Demand for dinar government securities increased significantly in June, with non-residents accounting for a high share of both primary and secondary market trading. The yield at which the 5Y government securities were sold in the primary market stood at 5.00%, up by 41 bp from the previous auction held in May. At the same time, average yields in the secondary market increased slightly, with the rise being more pronounced for securities with shorter remaining maturities.

Interest rates on dinar and euro-indexed loans to corporates and households increased slightly in Q2, while bank lending activity remained robust. The average interest rate on euro-indexed housing loans to households remained unchanged at 4.5%.

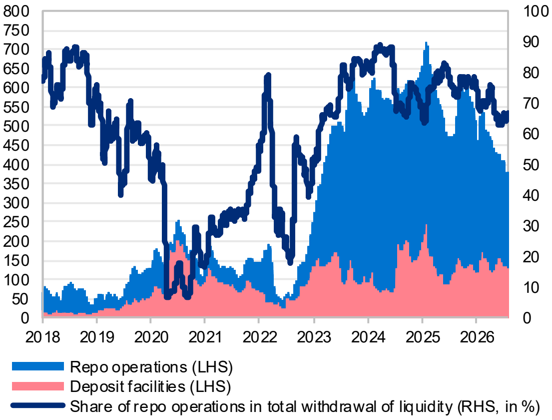
Interest rates

At its meetings held in Q2 2026, the NBS Executive Board kept the **key policy rate and the rates on lending and deposit facilities** unchanged, at 5.75%, 7.00% and 4.50% respectively, contributing to minimal fluctuations in interbank money market rates.

The **overnight interbank money market** rate, BEONIA, moved around 4.50%, or slightly below, throughout Q2 2026. BELIBOR rates also recorded minimal fluctuations, ranging from 4.51% for the shortest maturity to 4.75% for the six-month maturity. The withdrawal of excess dinar liquidity through main open market operations declined, as reflected in the average daily stock of repo-sold securities, which decreased by RSD 82.7 bn from March, to RSD 252.8 bn in June. At the same time, the average daily stock of excess deposits increased slightly, by around RSD 16 bn, to RSD 142.6 bn. This can be attributed to the restrictive monetary effect of the government, reflected in the increase in government deposits with the NBS. At the same time, banks maintained robust lending activity to households and corporates.

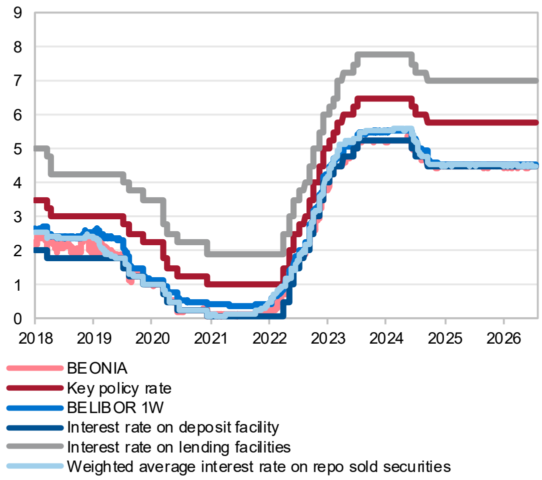
Two auctions of 5Y **dinar government securities** were held in the **primary market** in Q2 2026. At the first auction in May, the amount sold fell short of the planned volume, with RSD 2.2 bn sold against the planned RSD 10.0 bn, at a yield of 4.59%. At the reopening in June, the demand increased significantly, with government securities sold in the nominal amount of RSD 27.6 bn, almost three times the planned amount, bringing the entire issue of RSD 135 bn to full subscription. At the same time, the yield increased by 41 bp from the May auction, to 5.00%. The June auction also saw substantial participation by non-residents, who purchased RSD 15 bn of these securities and subsequently remained net buyers in the secondary market. As no previously issued government securities matured during the period, the

Chart IV.1.1 **NBS operations - liquidity withdrawal**
(30-day moving averages, in RSD bn) (in %)



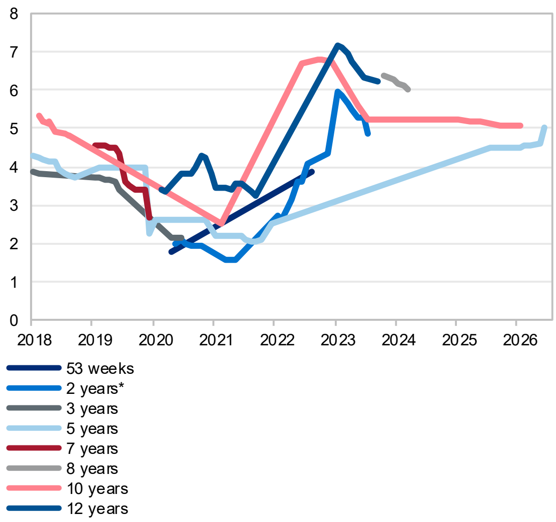
Source: NBS.

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.

outstanding stock of dinar government securities increased to RSD 815.2 bn at end-June.

On the settlement date of the June auction of 5Y **dinar securities** (with a remaining maturity of four years), substantial turnover in the **secondary market** was recorded, amounting to RSD 63.8 bn. A part of these transactions pertained to net purchases by non-residents, as indicated by the increase of around RSD 12 bn in their holdings of dinar government bonds on the settlement date. Total turnover in the secondary market for dinar government securities amounted to RSD 89.7 bn in Q2 2026, up by RSD 50.9 bn from Q1. The average yield on 5Y securities (with a remaining maturity of four years) in the secondary market converged to the yield achieved at the primary auction (5.00%), representing an increase of 66 bp compared with the average yield at which these securities were traded in March. Yields also increased for government securities of other remaining maturities, with the rise being more pronounced at the short and medium segments of the yield curve. Weighted average yields on bonds with remaining maturities of up to two years and around five years increased by 25 bp and 32 bp, to 4.78% and 5.13%, respectively, while yields on bonds with remaining maturities of around six and around nine years rose by 12 bp and 11 bp, to 5.24% and 5.37%, respectively.

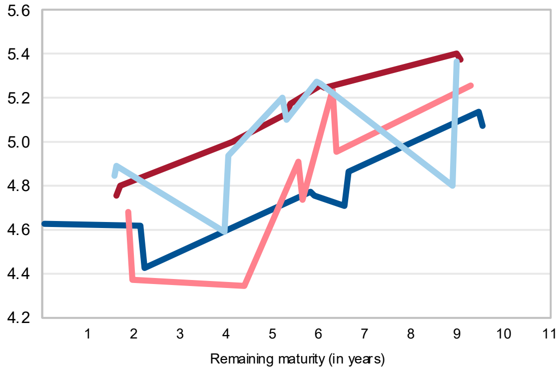
No auctions of **euro-denominated government securities** were held in Q2 2026. However, following the maturity of previously issued 10Y bonds in the amount of EUR 120 mn, the stock of euro-denominated securities declined to EUR 1,726.9 mn at end-June.

On 28 April 2026, the Republic of Serbia issued a triple-tranche eurobond in the international financial market for the first time, raising around EUR 3 bn equivalent, while investor demand exceeded EUR 8 bn. The issue comprised 5Y, 10Y and 12Y bonds, at euro-denominated coupon rates of 4.25%, 4.66% and 4.875%, respectively. The 10Y eurobond was issued in US dollars, while the other two tranches were issued in euros. The 12Y eurobond was issued as a green bond. The transaction was settled in May.

The interest rate on dinar loans to corporates went up by 0.4 pp in Q2 2026, reaching 7.1% in June, driven by a 1.1 pp rise in the interest rate on other non-categorised loans, to 7.3%, and, to a lesser extent, by 0.2 pp increases in the rates on investment and working capital loans, to 8.9% and 6.8%, respectively. **The interest rate on new dinar loans to households** rose by 0.2 pp, to 8.5% in June, reflecting a slight increase in the interest rate on cash loans, by 0.1 pp, to 8.4%.

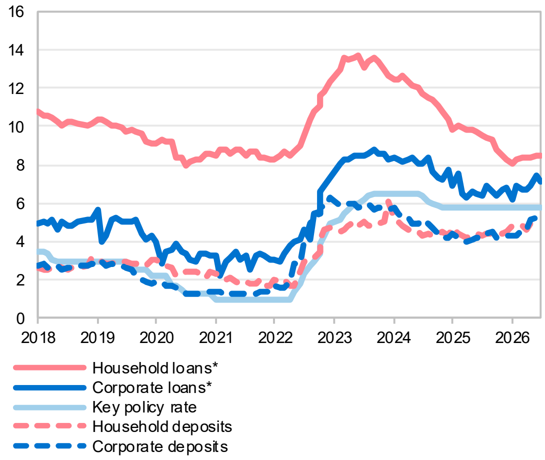
Interest rates on **new euro loans to corporates increased** by 0.3 pp in Q2 2026, reaching 5.1% in June, in line with the 20–30 bp increase in EURIBOR rates ahead of the ECB's rate hike in mid-June. Looking at the loan structure, the growth was led by a 0.5 pp rise in the

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.

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

	Dinar			Euro and euro-indexed		
	2025	2026		2025	2026	
	Q4	Q1	Q2	Q4	Q1	Q2
Total household loans*	8.1	8.3	8.5	4.6	4.7	4.8
Cash loans	8.2	8.3	8.4	3.4	3.2	3.5
Housing loans	10.0	11.8	11.7	4.5	4.5	4.5
Consumer loans	2.0	3.3	3.1	5.5	5.3	5.4
Other loans	8.7	9.7	9.7	5.7	6.1	6.4
Total corporate loans*	6.2	6.7	7.1	4.8	4.8	5.1
Working capital loans	6.1	6.6	6.8	4.5	4.6	5.1
Investment loans	7.2	8.8	8.9	5.1	5.1	5.2
Other loans	6.1	6.2	7.3	5.1	4.7	5.2
Import loans	-	-	-	3.9	3.7	4.3

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.

interest rate on working capital loans, to 5.1%. An almost identical growth dynamics of the interest rate on other non-categorised loans also contributed, though to a lesser extent. Interest rates on **euro loans to households edged up by 0.1 pp, to 4.8%**, reflecting a 0.3 pp increase in the interest rate on other non-categorised loans, to 6.4%, while the interest rate on housing loans, the most widely used type of euro-indexed household loans, remained unchanged at 4.5%.

Interest rates on **current account overdrafts and credit card debt**[4] declined in June by 0.1 pp and 0.3 pp, to 17.0% and 14.4%, respectively. Relative to end-2024, interest rates on these most expensive forms of borrowing declined considerably, by 10.8 pp and 8.0 pp, respectively, following the introduction of interest rate caps under the Law on the Protection of Financial Service Consumers.

The interest rate on household dinar savings increased by 0.3 pp in Q2 2026, to 4.9% in June, while **the interest rate on euro savings** inched up by 0.1 pp, to 3.4%.

Risk premium

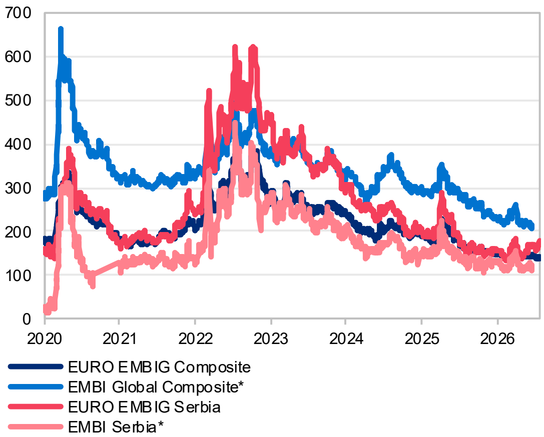
The global risk premium predominantly followed a downward path in Q2, mainly influenced by lower global uncertainty amid easing geopolitical tensions in the Middle East, while the ECB's tightening of monetary conditions limited its further decline. **EMBI Composite** stood at 218 bp in late June, 43 bp lower than at end-March. At the same time, EMBI Serbia declined by 35 bp, to 123 bp at end-June, remaining significantly below the composite measure of emerging market risk.

EURO EMBIG Composite dropped by 21 bp in Q2, to 145 bp at end-June. Over the same period, **EURO EMBIG Serbia** declined by 16 bp, to 167 bp at end-June. In July, EURO EMBIG Composite decline further, by 6 bp, to 139 bp at the month's end, while Serbia's risk premium edged up by 4 bp, to 171 bp. Looking at the region, risk premia declined in all countries observed during Q2, with the most pronounced decreases recorded in Hungary (by 48 bp, to 110 bp) and Romania (by 43 bp, to 254 bp).

In July, Fitch affirmed Serbia's credit rating at BB+, with a positive outlook for obtaining investment grade. The agency stated that this decision was based on an adequate economic policy mix, primarily a strong commitment to maintaining exchange rate stability, responsible fiscal management, high FX reserves, as well as higher GDP per capita compared to rating peers. The positive outlook is further supported by the expected investment-driven acceleration of economic growth, the stabilisation of public debt at low levels and the

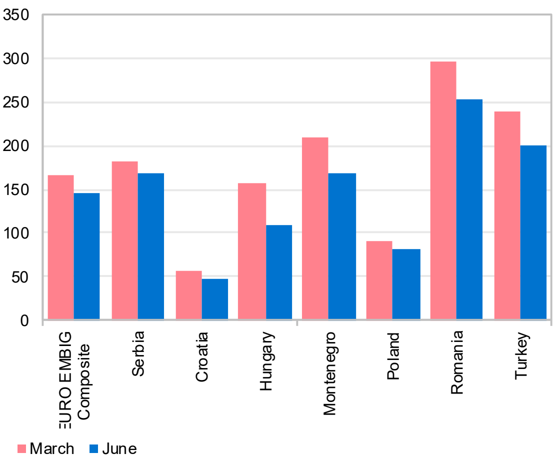
[4] According to the interest rate statistics methodology, the interest rates on revolving loans, current account overdrafts and credit card debt are not included in the calculation of the average interest rate on household loans.

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



Source: J.P. Morgan.
*The latest available data as at 24 June 2026.

Chart IV.1.7 **EURO EMBIG for countries in the region**
(end-of-month, in bp)



Source: J.P. Morgan.

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

	2021	2022	2024		2026
S&P	BB+ /positive[7]	BB+ /stable[4]	BB+ /positive[3]	**BBB- /stable[6]**	
Fitch			BB+ /positive[5]		
Moody's	Ba2 /stable[2]		Ba2 /positive[5]		Ba2 /stable[1]

Source: NBS.
[1] February, [2] March, [3] April, [4] June, [5] August, [6] October, [7] December.
Note: There was no change in rating/outlook in 2023 and 2025.

demonstrated resilience of the domestic economy to external shocks.

Foreign capital inflow

In Q2, the bulk of capital inflows to the balance of payments financial account pertained to portfolio investment inflows from the issuance of government and corporate securities in the international market, a part of which was immediately used for the early buyback of some previously issued eurobonds and repayment of financial loans. Inflows also came from FDI and a decrease in domestic banks' funds in accounts abroad, while outflows were recorded on account of trade loans.

FDI inflow to Serbia amounted to EUR 843.5 mn in Q2 (3.5% of GDP), which, amid heightened global uncertainty, was 12% lower than in the same period a year earlier. Taking into account residents' investments abroad (which were 54% lower y-o-y), net FDI inflow in Q2 (EUR 633.9 mn) was 26% higher than in the same period of the year before. In H1, FDI inflow exceeded EUR 1.2 bn and related mostly to reinvested earnings and equity capital.

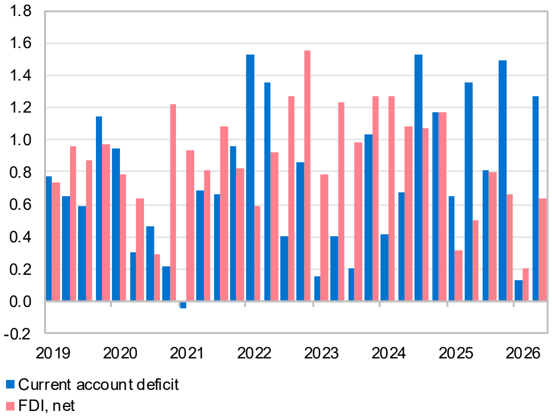
Thanks to successful issuance of government and corporate debt securities in the international market, a net capital inflow of EUR 3.9 bn was recorded on account of **portfolio investment** in Q2.

In late April, the Republic of Serbia issued a triple-tranche eurobond (two eurobonds denominated in euros and one in US dollars)[5] worth in total the equivalent of around EUR 3 bn, with the proceeds from the issuance of 5Y securities (EUR 1 bn) immediately used for the early buyback of a portion of the eurobonds maturing in 2027. In May, corporate bonds were also issued in an equivalent amount of close to EUR 1.95 bn, with the proceeds used primarily for the repayment of previously taken financial loans. Consequently, a net outflow of somewhat more than EUR 1.6 bn was recorded on account of **financial loans** in Q2, attributable almost entirely to a reduction in corporate loan liabilities. The government also reduced its external loan liabilities and paid in June the second instalment of the principal under the **IMF** stand-by arrangement (EUR 116.5 mn). On the other hand, banks were the only sector to increase their borrowing abroad.

An outflow of EUR 55.3 mn was recorded on account of **trade loans and advances**. At the same time, domestic banks reduced their funds in accounts abroad, which, together with a slight decrease in funds held by non-residents in accounts with domestic banks, resulted in an inflow of EUR 163.0 mn on account of **currency and deposits**.

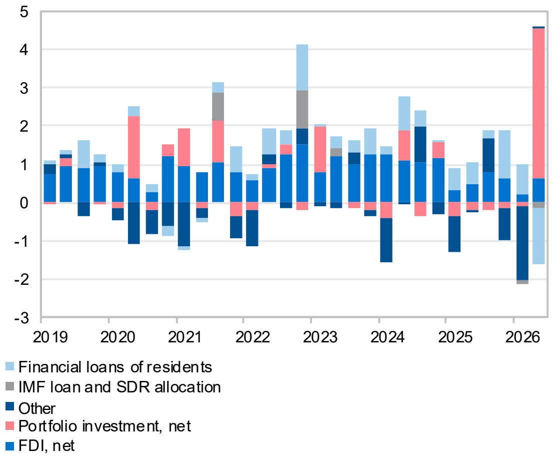
[5] To hedge against FX risk, a hedging transaction was executed immediately after the auction, i.e. the liability arising from the issuance of US dollar eurobonds was converted into a euro liability.

Chart IV.1.8 **Current account deficit and net FDI inflow**
(in EUR bn, quarterly data)



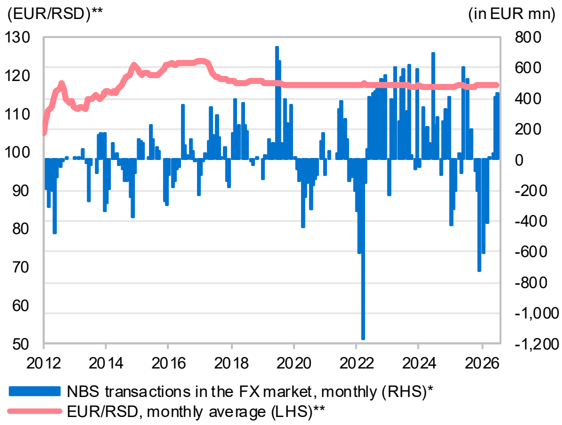
Source: NBS.
Note: Preliminary data for Q2 2026.

Chart IV.1.9 **Structure of the financial account**
(in EUR bn, quarterly data)



Source: NBS.
Note: Preliminary data for Q2 2026.

Chart IV.1.10 **Dinar exchange rate and NBS transactions in the FX market**



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

Trends in the FX market and exchange rate

In Q2, the dinar remained relatively stable against the euro, supported by the NBS's interventions in the IFEM. End-of-period, the value of the dinar against the euro was almost unchanged in Q2, while, due to the weakening of the euro against the US dollar in the international market, the dinar weakened against the US dollar by 0.7%.

Unlike in the previous two quarters, in Q2, FX supply exceeded the demand, with the difference being particularly pronounced in June, resulting in stronger appreciation pressures. Appreciation pressures in Q2 were driven primarily by the FX supply of domestic companies (excluding energy importers), largely owing to FX inflows from exports and FDI. Appreciation pressures were also supported by an increase in banks' FX-indexed assets, as well as banks' net purchases of foreign cash.

In order to maintain the relative stability of the dinar exchange rate against the euro, the NBS intervened in the IFEM in Q2 by net purchasing EUR 465.0 mn, with almost 90% of this amount relating to net purchases in June. In July, the NBS also intervened predominantly on the purchasing side (with net purchases of EUR 435.0 mn), bringing the amount of net FX sales in the IFEM since the beginning of the year through July down to EUR 320.0 mn.

NBS interventions in the IFEM, alongside inflows from the sale of government eurobonds in the international market, contributed to an increase in FX reserves, which amounted to EUR 30.5 bn at end-July. This level of FX reserves was well above the standards used to assess their adequacy – covering around seven months' worth of goods and services imports and 168% of money supply M1.

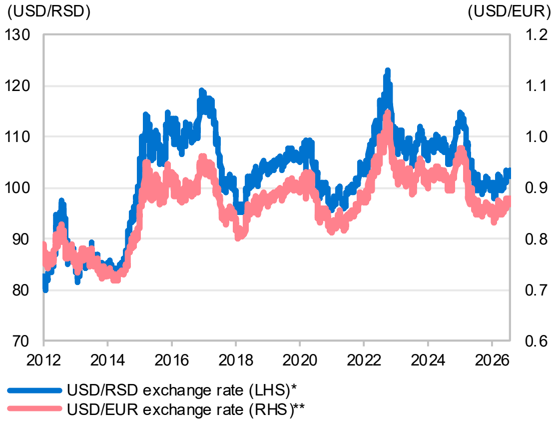
The currencies of inflation-targeting countries in the region recorded divergent movements against the euro in Q2. The Hungarian forint (8.7%) and the Czech koruna (1.1%) strengthened, while the Polish zloty (0.2%) and Romanian leu (2.8%) weakened.

2 Money and loans

The growth in household dinar and FX savings accelerated in Q2, with resident household dinar savings reaching RSD 227.5 bn at end-June (11% of total savings).

Lending activity continued to record strong y-o-y growth in Q2, although the y-o-y rise in domestic loans eased slightly from March to 16.6% in June. At the same time, the share of NPLs in total loans declined to a new low of 2.0%, while stronger borrowing in dinars pushed the dinarisation of corporate and household receivables up, to 40.7% in June.

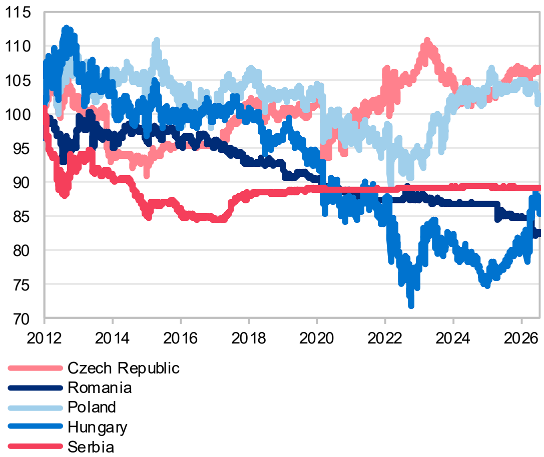
Chart IV.1.11 **Movements in USD/RSD and USD/EUR exchange rates**



Source: NBS.

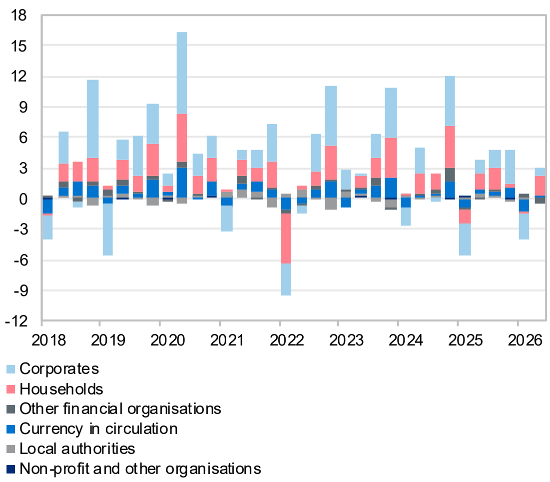
* USD 1 in RSD.
** USD 1 in EUR.

Chart IV.1.12 **Exchange rates of selected national currencies against the euro***
(daily data, 31 December 2011 = 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.

Money

The broadest monetary aggregate, M3, comprising, in addition to dinar money, FX deposits of non-monetary sectors, posted stronger growth in Q2 (2.21%), driven by faster growth in household demand deposits, currency in circulation, as well as a marked increase in corporate time dinar deposits.

By category, **demand dinar deposits** increased by RSD 30.1 bn in Q2, driven almost entirely by a RSD 40.8 bn rise in household current account balances. By contrast, corporate deposits declined by RSD 14.5 bn, equally across the energy sector and the real estate and other services sectors.

Time and savings dinar deposits went up by RSD 38.2 bn, prompted by a substantial rise in corporate time deposits (RSD 36.1 bn), primarily in manufacturing and construction sectors, followed by trade and services sectors. The increase in time deposits reflected a shift of funds from demand deposits. Household (resident) savings also made a positive contribution (around RSD 14 bn), reaching a new record high of RSD 227.5 bn[6] at end-June. By contrast, time dinar deposits of other financial organisations declined by RSD 12.7 bn.

FX deposits of non-monetary sectors increased by EUR 0.4 bn in Q2, led primarily by the rise in resident household FX savings, which reached a new record high of EUR 16.1 bn, with a smaller contribution from the growth in FX deposits of other financial organisations.

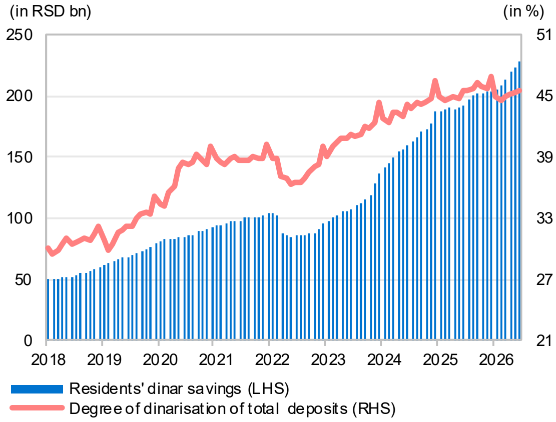
The degree of dinarisation of corporate and household deposits increased by 0.5 pp in Q2, reaching 45.5% in June, reflecting relatively stronger growth in household transaction account balances and dinar savings than in FX savings, with a somewhat smaller contribution from the increase in corporate time dinar deposits.

The y-o-y growth in **broad money (M3)** accelerated from end-2025 (6.56% in December) to 9.04% in June, exhibiting relatively stable dynamics throughout Q2. The growth was driven mainly by dinar time deposits and FX deposits of corporates and households, which stepped up y-o-y. By contrast, a rise in the most liquid monetary aggregate (M1) slowed down amid weaker growth in currency in circulation and corporate transaction deposits.

Loans

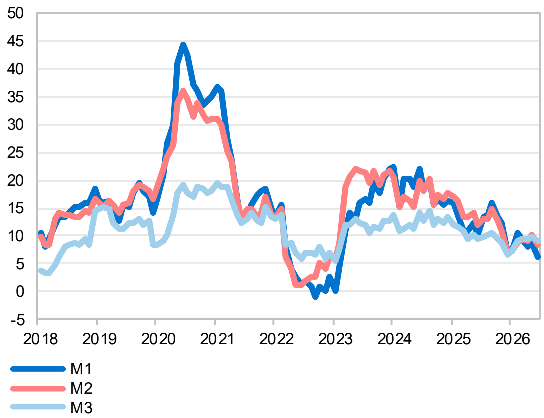
Total domestic loans to the non-monetary sector continued to record relatively strong y-o-y growth in Q2, amounting to 16.6% in June excluding the exchange rate effect.[7] The growth was led by **household lending**,

Chart IV.2.2 **Residents' dinar savings and degree of dinarisation of total deposits**



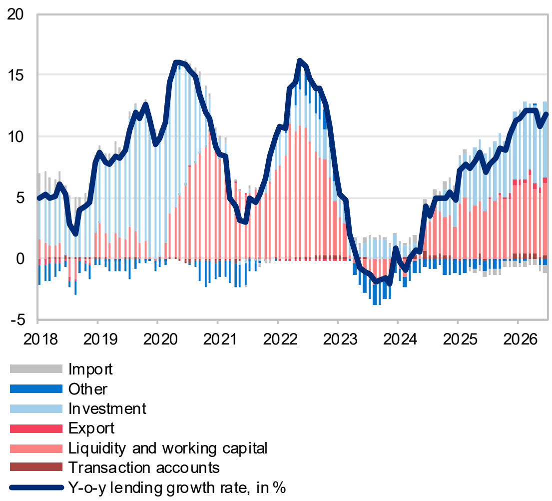
Source: NBS.

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.

[6] Including non-resident funds, dinar savings amounted to around RSD 230.3 bn at end-June, while FX savings stood at EUR 16.9 bn.

[7] Calculated using the new programme exchange rate as at 30 September 2024.

which slowed down to 20.0%, followed by **corporate lending**, which was 11.7% higher in June than a year ago.

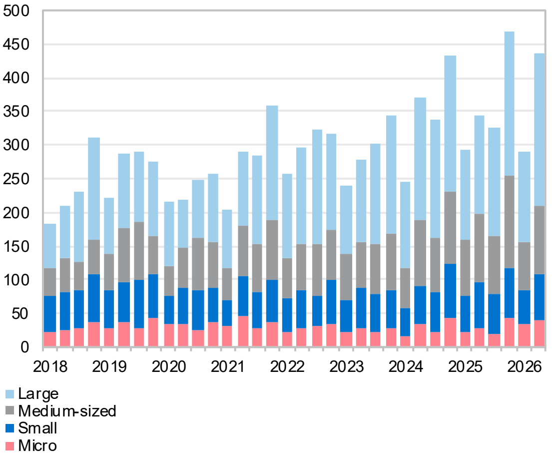
Thanks to the strong loan disbursement in June, **corporate loans** increased by RSD 67.5 bn in Q2. The rise pertained entirely to corporate borrowing (RSD 89.8 bn) and was driven almost equally by liquidity and working capital loans (RSD 39.9 bn) and investment loans (RSD 38.4 bn). Export loans also increased, while corporate liabilities under other non-categorised loans, import loans and current account overdrafts declined. As a result, the share of liquidity and working capital loans in total corporate loans increased by 0.4 pp in Q2, to 48.3% in June, while their y-o-y growth slowed to 12.5%. At the same time, the share of investment loans went up by 0.5 pp, to 43.2%, and their y-o-y growth accelerated to 14.6%.

By economic activity, in Q2 borrowing increased the most among companies operating in real estate, construction and trade, while a decline in borrowing was recorded only in the transport and energy sectors. Almost two-thirds of the increase in Q2 related to loans to micro, small and medium-sized enterprises, raising their share in total corporate loans to 60.7% in June, while their y-o-y growth accelerated to 12.6%. Owing to stronger growth in dinar than in FX-indexed loans, the degree of **dinarisation of corporate lending** continued to increase, reaching 24.2% in June (vs. 22.8% in March).

The volume of newly approved corporate loans amounted to RSD 436.4 bn in Q2, up by 27.2% from the same period of 2025. This increase was driven mainly by higher disbursement of investment loans and liquidity and working capital loans, which accounted for 28% and 58% of newly approved loans, respectively, being the most dominant loan categories. At the same time, three-fifths of investment loans and just under a half of liquidity and working capital loans were extended to micro, small and medium-sized enterprises.

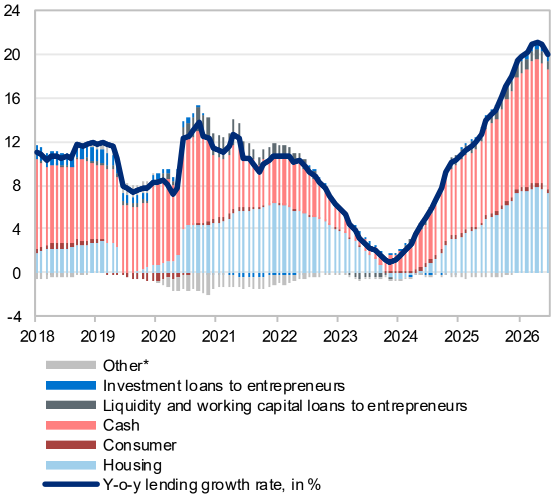
Household loans increased by RSD 95.0 bn in Q2, spurred by the rising cash (RSD 51.2 bn) and housing loans (RSD 30.5 bn). Household borrowing also increased through consumer loans, credit cards and current account overdrafts. In addition to the earlier credit standards easing, relatively favourable interest rates and banks' promotional offers, the strong volume of household lending was also supported by measures enabling more favourable borrowing conditions for lower-income households. Furthermore, the growth in housing loans was supported by loans extended under the Youth Housing Programme, which accounted for slightly more than 40% of the increase in housing loans in Q2. Strong disbursement of cash loans increased their share in total household loans by 0.3 pp in Q2, to 48.0% in June, while the share of housing loans, the second largest loan category, declined by the same amount, to 37.8%. At the same time, owing to the high base effect, the y-o-y growth in cash and housing loans slowed to 23.2% and

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



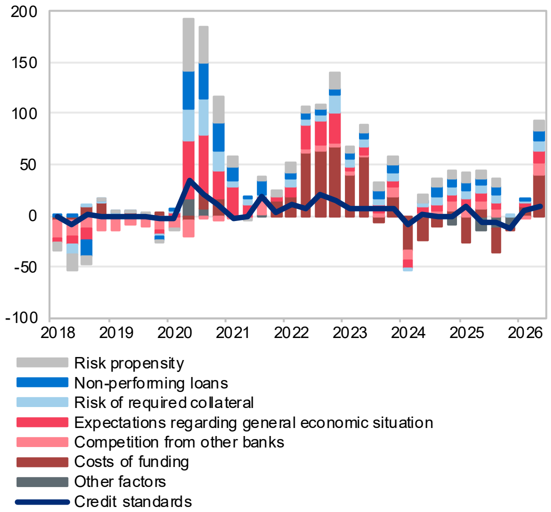
Source: NBS.

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



Source: NBS.

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.

19.0%, respectively, in June. Households continued to borrow predominantly in dinars, raising the degree of **dinarisation of household receivables** to the record high 56.9% in June (from 56.5% in March).

The volume of newly approved household loans amounted to RSD 311.2 bn in Q2, up by 15.0% from the same period of 2025, driven mainly by the stronger disbursement of new cash and housing loans.

The results of the NBS July Bank Lending Survey indicate that banks tightened their credit standards in Q2 for all types of corporate loans and for enterprises of all sizes. According to banks, the tightening was driven by higher costs of funding, competition among banks, risk perception and risk propensity. At the same time, credit standards for household loans remained unchanged. Banks assessed that corporate demand for both dinar and FX-indexed loans increased in Q2, reflecting equally strong demand for working capital and investment loans. Household demand increased in Q2 for consumer loans, dinar cash loans, refinancing loans and FX-indexed housing loans. In banks' view, this was due to purchases of durable consumer goods, refinancing needs, residential property purchases and higher wages.

The gross **NPL ratio** declined to a new record low of 2.0% in June. In Q2, the NPL ratio for the household sector[8] declined by 0.1 pp, to 2.6% in June, while the ratio for the corporate sector remained unchanged at 1.4%.[9] NPL coverage remained high, as allowances for impairment of total loans measured 110.9% of total NPLs in June, while allowances for impairment of NPLs stood at 61.7% of total NPLs.

The capital adequacy ratio equalled 20.05% at end-Q2, indicating the banking sector's strong capitalisation (the regulatory minimum is 8.0%) and resilience to external and domestic risks.

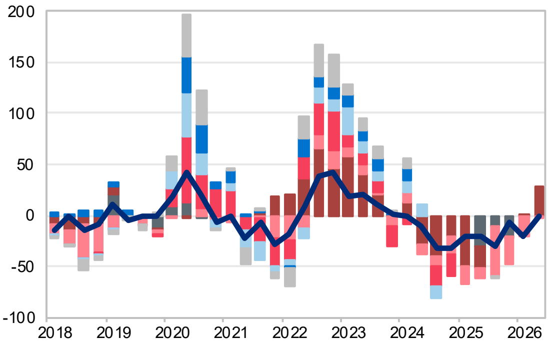
3 Aggregate demand

According to the SORS estimate, GDP growth amounted to 3.6% y-o-y in Q2, and was driven, in our estimate, by domestic demand, with a positive contribution coming from both consumption and fixed investment. On the other hand, a negative contribution stemmed from net exports as real imports of goods and services rose faster than exports.

Domestic demand

According to our estimate, **household consumption** continued to grow at a steady pace, with its y-o-y growth decelerating slightly to 4.5% in Q2 and providing 3.0 pp to GDP growth. Further growth in private consumption is indicated by retail trade data, which recorded a 5.4% y-o-y growth in Q2, as well as by a 7.5% y-o-y increase

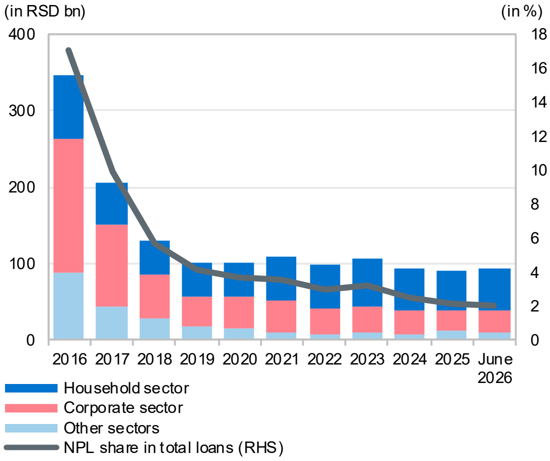
Chart IV.2.8 **Change in household credit standards and contributing factors**
(in net %)



Source: NBS.

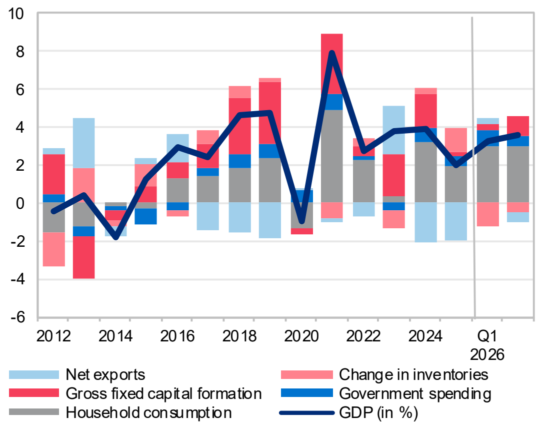
Note: Growth indicates the tightening and decline indicates the easing of credit standards.

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



Source: NBS.

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



Sources: SORS and NBS calculations.

Note: NBS estimate за Q2 2026.

[8] Includes natural persons, entrepreneurs and private households.

[9] Includes companies and public enterprises. If only companies are considered, the share of NPLs in total loans declined to 1.5% in June (from 1.6% in March).

in turnover in catering in April. Tourism data also show that in Q2 the number of domestic tourist arrivals and overnight stays increased by 7.9% and 3.3% y-o-y, respectively. The increase in private consumption is also indicated by higher imports of consumer goods, which rose by 5.6% y-o-y in Q2.

Looking at the sources of personal consumption, as in the previous period, the wage bill, as its main source, continued to record almost double-digit nominal y-o-y growth (9.8% in April–May), while real wage bill growth stood at 6.1% y-o-y. At the same time, in Q2, pensions grew by 12.2% in nominal and 8.7% in real terms. Still favourable borrowing terms, resulting from the past NBS and ECB monetary policy easing, and since September 2025 also the supervisory measures aimed at ensuring more favourable borrowing terms for lower-income population groups, provided additional support to household consumption through the rise in loans intended for consumption whose y-o-y growth accelerated to a double-digit level. The inflow of remittances in Q2 amounted to EUR 1.5 bn, up by 13.9% from the same period last year.

In our estimate, **government consumption** edged up by 3.0% y-o-y in Q2, continuing to positively contribute to GDP growth (0.5 pp), driven by the higher expenditure for public sector employees and the procurement of goods and services. As a result, **total consumption** increased by 4.2% y-o-y in Q2.

We estimate that **total fixed investment** increased by 4.8% y-o-y, with a 1.1 pp contribution to GDP growth in Q2. The continued growth in investment activity is indicated by the y-o-y increase in the value of construction works performed (9.7%), the number of construction permits issued in April–May (4.5%), capital goods production (9.5%), production of machinery and equipment (13.6%) production of construction materials (2.5%), and imports of construction materials (3.5%).

As for the sources of investment financing, we estimate that the bulk of private investments was financed from own sources thanks to high corporate profitability recorded in previous years. Also, Q2 saw an FDI inflow of EUR 843.5 mn, while investment loans recorded a y-o-y rise of 15.0%. On the other hand, government capital expenditures declined in Q2 by 17.9% y-o-y in nominal terms (around 10% in real terms).

Lower inventories of industrial products are estimated to have provided a negative contribution to GDP growth in Q2 (-0.4 pp).

Net external demand

We estimate that the **real growth in goods and services exports** measured 3.0% y-o-y in Q2, preserving the positive dynamics despite persistently weak external demand, while the **real rise in imports** amounted to

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

	2025		2026	
	Q3	Q4	Q1	Q2
Household consumption	**3.5**	**3.7**	**4.9**	**4,5***
Indicators				
Retail trade turnover	3.2	8.0	8.8	5.4
Catering turnover	4.4	2.5	11.6	7,5***
Number of domestic tourists	0.1	-0.2	8.2	7.9
Number of domestic tourist overnight stays	-1.0	-4.5	6.3	3.3
Consumer goods imports (BEC classification), nominal	9.5	2.2	-1.7	5.6
Sources				
Total wage bill, nominal	11.5	12.0	11.0	9,8**
Remittances inflow, nominal	25.9	26.2	22.4	13.9
Stock of loans intended for consumption, nominal	18.2	21.0	22.5	22.8

Sources: SORS and NBS calculations.
* NBS estimate.
** April-May. ***April.

Table IV.3.2 **Investment indicators**

	2025		2026	
	Q3	Q4	Q1	Q2
Real y-o-y growth rates (in %)				
Total investment (national accounts)	-2.2	8.9	1.4	4,8*
Construction (national accounts)	-12.2	10.6	-5.1	9.0
Government investment, nominal	-11.0	-0.5	68.6	-17.9
Number of issued construction permits	-0.8	1.0	8.9	4,5**
Production of construction material	2.2	-3.2	-6.2	2.5
Value of works performed	-11.9	6.6	-9.7	9.7
Equipment imports, nominal	5.1	15.6	2.1	-3.5
Production of domestic machinery and equipment	-13.8	0.6	4.8	13.6

Sources: SORS and NBS calculations.
* NBS estimate.
** April-May.

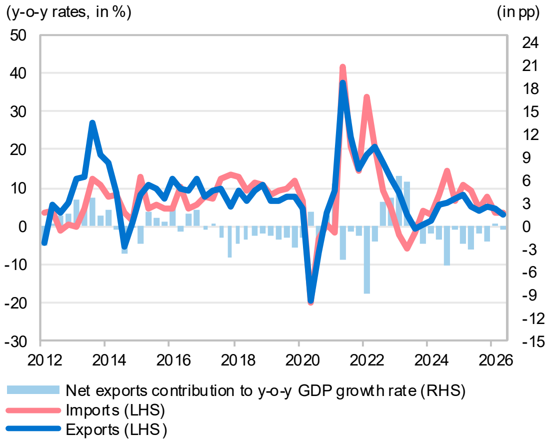
3.4% y-o-y, which resulted in a negative **net exports'** contribution to GDP growth (-0.6 pp).

Goods exports in euro terms increased by 9.1% y-o-y in Q2, led chiefly by **manufacturing** exports (8.8% y-o-y), where growth was recorded in 13 out of 23 branches, with the largest contribution stemming from branches linked with the automotive industry. The exports of motor vehicles stood out in particular, reflecting stronger investments in the automotive industry and the acceleration of serial production of electric automobiles. The export of base metals, automobile tyres, chemical products and electrical equipment also increased. At the same time, **mining** exports expanded by 30.3% y-o-y, largely as a result of the higher global copper price. On the other hand, last year's drought weighed down on inventories and exports of **agricultural products** in Q2 (-8.8% y-o-y). **Electricity** exports also declined (-45.0% y-o-y), partly on account of the CBAM which started to apply fully for electricity.

Commodity imports in euro terms grew at a slower pace than exports, at the rate of 8.3% y-o-y in Q2. Import growth was driven by higher demand for intermediate goods, primarily energy products, as well as by increased imports of consumer goods. On the other hand, a slight decline in equipment imports was recorded in Q2.

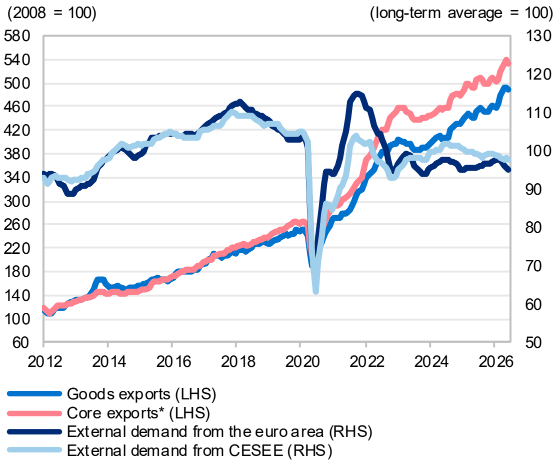
Foreign trade in services maintained the positive dynamics in Q2, recording a surplus of EUR 703 mn. Both export and import of services recorded growth in y-o-y terms. Services exports picked up in Q2 by 10.9% y-o-y, with growth recorded across all service categories, and ICT and business services giving the largest contribution. Services imports increased by 6.8% y-o-y, with the largest part of the increase relating to tourism and transport services.

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



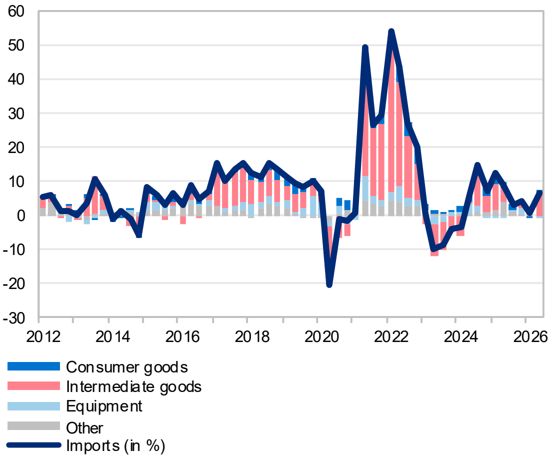
Sources: SORS and NBS calculations.
Note: NBS estimate for Q2 2026.

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 calculations.

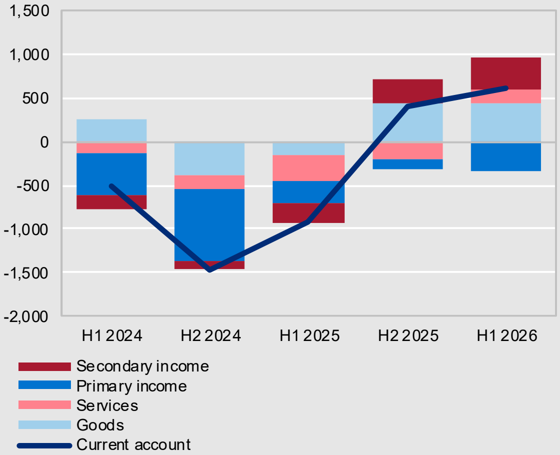
Text box 2: Improved developments in the current account of the balance of payments

Current account developments in the first six months of the year turned out more favourable than anticipated, with the current account deficit amounting to EUR 1.4 bn, which is 30% lower than in the same period of the previous year. This outturn gains particular importance in light of the fact that it was achieved amid an escalation of the Middle East conflict and a substantial increase in global energy prices. The y-o-y improvement in the current account deficit began in Q2 2025 (Chart O.2.1), driven by a more favourable balance of trade in goods and the secondary income balance. In H1 2026, this positive trend continued in both accounts, while the reduction in the current account deficit was also supported by a renewed increase in the surplus on the services account. The only deterioration was recorded in the primary income balance, where the deficit was higher than in the same period of the previous year due to higher dividend outflows. This was expected given the rising profitability of the corporate sector, which amounted to RSD 957.5 bn in 2025, representing a y-o-y increase of 10.9%.

The largest contribution to the reduction in the current account deficit came from the balance of trade in goods and services, owing to **export growth of 7.9% y-o-y**, broadly maintaining the pace recorded in the previous year, while imports grew **at a lower rate of 4.9% y-o-y**. This resulted in **an increase in the export-to-import coverage ratio for goods and services, which reached a record average of around 95% since the beginning of the year**. The reduction in the trade deficit can be attributed to both structural factors, reflecting an improvement that has been evident in previous years as a result of investment and expanded export capacity, and specific factors that contributed to a further reduction in the deficit this year.

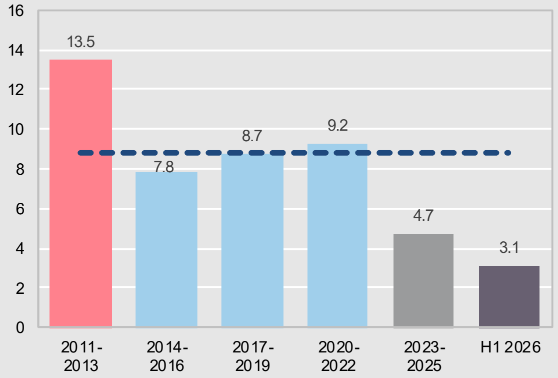
The historically high trade deficit, whose share of GDP had long remained in double digits, was one of the sources of vulnerability of the domestic economy, as it increased the risk to the sustainability of the external position (Chart O.2.2). Stabilisation began in 2014, when the current account deficit declined to an average of around 8.0% of GDP per year. Initially, this was supported by fiscal consolidation, which reduced imports, while attracting an increasing volume of FDIs laid the foundations for growth in goods exports and its greater geographical and product diversification. Following the pandemic, the trade deficit continued to average around 8–9% of GDP, although it should be noted that this average also reflects the adverse impact of the energy shock in 2022. **From 2023 onwards, the effect of significantly expanded export capacities became increasingly evident, which, together with continued growth in services exports, resulted in a substantial decline in the trade deficit to an average of 4.7% of GDP over the 2023–2025 period**, while in H1 2026 its share fell further, to 3.1% of GDP. The positive change in the structure of exports and the strengthening of domestic capacities is also evidenced by the fact that **export growth was achieved amid weaker external demand in Europe and was driven not only by higher prices, but also by real growth in exports throughout the period**. The improvement in the trade deficit-to-GDP ratio is

Chart O.2.1 **Y-o-y change in the value of CAD and its components**
(in EUR mn)



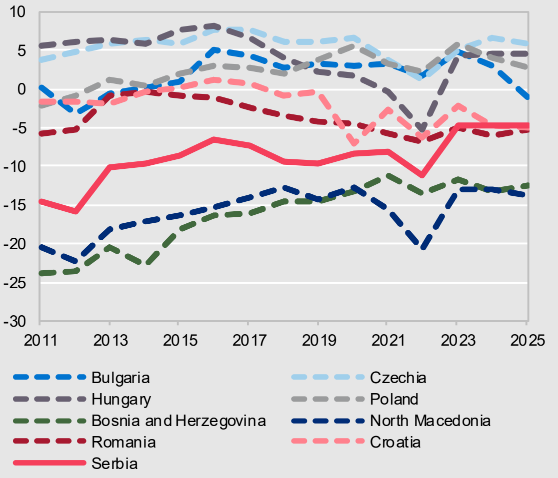
Source: NBS.

Chart O.2.2 **Share of trade deficit in GDP over the past 15 years**
(three-year averages, in %)



Sources: SORS and NBS estimate.

Chart O.2.3 **Share of trade deficit in GDP, comparison across CEE countries**
(in %)

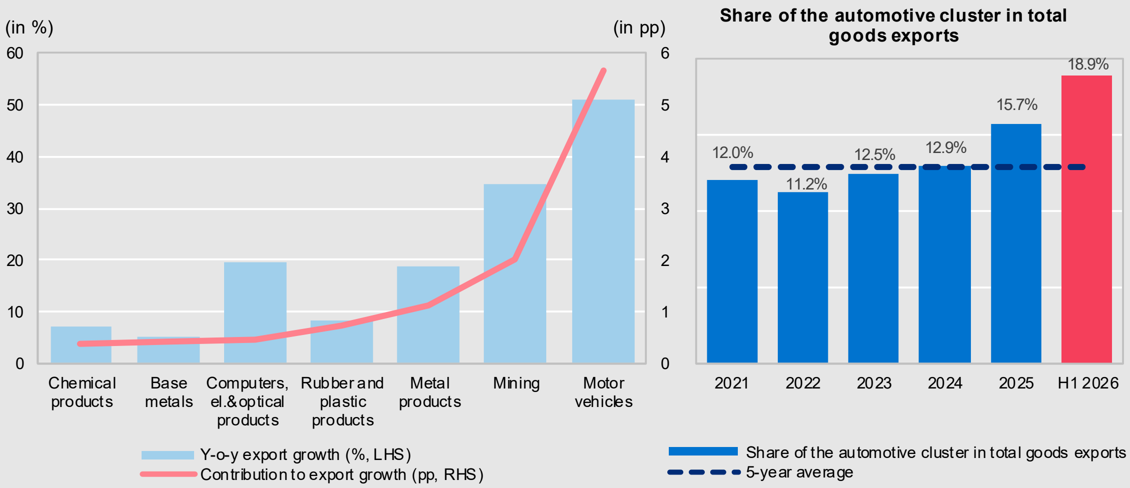


Source: Eurostat.

also evident from a comparative perspective (Chart O.2.3), as this indicator has moved significantly closer to the levels recorded in the Central and Eastern European EU member states, and in some cases has reached them in full, such as in Romania and Croatia.

As regards the factors that particularly contributed to the growth of goods exports in the first half of this year, one of them was the increase in the export capacity of Stellantis, which produces the Fiat Grande Panda and, partly, the Citroën C3 models. As a result, motor vehicle exports recorded significant growth of 51.1% relative to H1 2025, when production had only just commenced. These developments contributed to motor vehicle exports accounting for nearly three-quarters of total export growth and, more broadly, to an increase in the share of the automotive cluster in total goods exports to close to 20% (Chart O.2.4). Another important factor was the high export growth rate in the mining sector (34.7%), although this increase was largely driven by an almost 40% y-o-y rise in the global price of copper.

Chart O.2.4 **Export growth determinants in H1 2026**

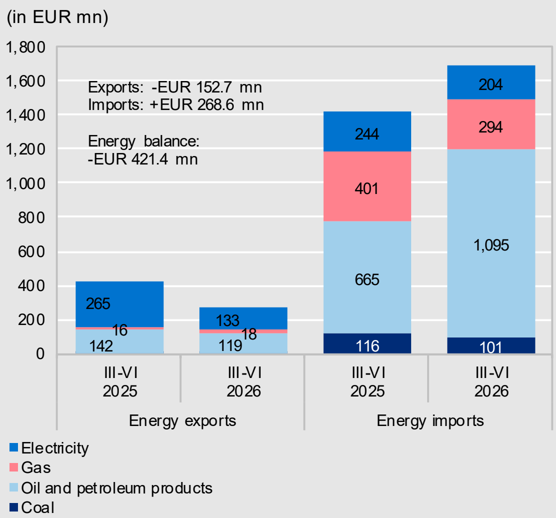


Sources: SORS and NBS calculations.

Goods exports of the manufacturing industry as a whole grew by 9.0% y-o-y in H1 this year, with exports in 15 out of 23 manufacturing subsectors exceeding their levels in the same period of 2025. After motor vehicles, the largest positive contributions to export growth came from metal products (1.1 pp), rubber and plastic products (0.7 pp), followed by computers and electronic products, base metals and chemicals (0.4 pp each). On the other hand, export growth is being constrained by the entry into force of the CBAM and announcements of the introduction of quotas on steel imports; however, for the time being, we do not expect these measures to have any major adverse effect on net exports.

Goods exports have shown considerable resilience, but goods imports also made a similar contribution to the downward revision of the current account deficit projection. The y-o-y growth in goods imports slowed down substantially, from 10.1% in H1 2025 to 5.1% in H1 2026, which is somewhat surprising given the escalation of the Middle East conflict and the sharp increase in global energy prices, Serbia being a net energy importer. Overall, the energy balance deficit amounted to **EUR 2 bn in the first six months, representing an increase of EUR 252.4 mn** compared with the same period of 2025. The largest negative contribution to the energy balance came from increased net imports of crude oil and petroleum products. In the case of crude oil, it should be emphasised that the higher import value was entirely attributable to higher prices, which increased by an average of 29.5% y-o-y, while total import volumes were lower due to the absence of crude oil supplies to NIS via the JANAF pipeline in January. In the case of petroleum products, the increase in import value was to a somewhat greater extent accounted for (57%) by higher import volumes, reflecting increased imports of petroleum products in the first months of the year, as the refinery output was lower. The remainder of the increase was attributable to higher prices, which rose by an average of 17.0% y-o-y. On the

Chart O.2.5 **Energy balance and its components after the escalation of the Middle East conflict**



Sources: SORS and NBS calculations.

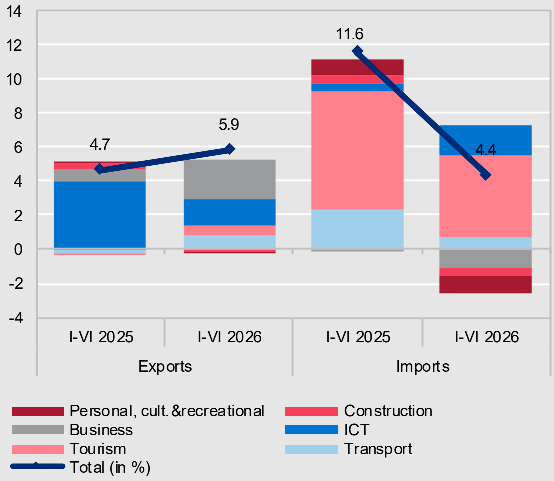
other hand, although gas import volumes were broadly unchanged, the average import price was 28.3% lower than in the same period of the previous year. As a result, the net effect on the energy balance was positive. It should be noted, however, that the lower import price reflects the high base in Q1 2025, meaning that this effect will gradually weaken over the remainder of the year.

If we consider only the period from March onwards, following the escalation of the conflict in the Middle East, the energy balance deficit is seen to have been higher (Chart O.2.5), driven by an increase in energy imports of nearly EUR 270 mn, with a particularly pronounced increase in the import value of crude oil and petroleum products (EUR 454.1 mn) compared with the same period of the previous year, while exports were more than EUR 150 mn lower. In the remainder of the year, we expect a further moderate widening of the energy balance deficit, as the impact of lower oil and gas prices in January and February gradually wanes and imports of crude oil for refinery operations increase in volume terms. The slower growth of imports was also partly attributable to somewhat lower imports of capital goods (-0.9% y-o-y), as well as softer growth in imports of consumer goods (1.9% y-o-y). It should be noted, however, that the softening of growth in consumer goods imports was partly due to the base effect from H1 2025.

Imports of services increased by 4.4% y-o-y in H1 this year, also indicating a slowdown in growth, given that the y-o-y growth rate in H1 2025 stood at 11.6% (Chart O.2.6). The slowdown can be put down to a smaller positive contribution from transport services, as well as negative contributions from business, construction and personal services, while travel services (4.9 pp) and ICT services (1.8 pp) worked in the opposite direction. On the other hand, services exports grew somewhat faster than in the same period of the previous year (5.9% compared with 4.7%), with the largest contributions to the y-o-y services export growth this year coming from business services (2.3 pp), ICT services (1.5 pp) and transport services (0.8 pp), as well as the recovery in travel services (0.6 pp).

Chart O.2.6 **Y-o-y growth rate of services exports and imports and contributions to growth by service type**

(in pp)



Sources: SORS and NBS calculations.

In H2, we expect goods exports to continue growing at a similar rate, supported by strong growth in the automotive industry. Although external demand in Europe remains subdued, this does not apply to the electric vehicle segment, which recorded a 40.5% y-o-y increase in the number of registered vehicles in the first half of the year. There have also been announcements that the Kragujevac plant could reach full capacity utilisation, operating around the clock, seven days a week. As regards goods imports, we expect growth to stabilise at levels closer to those recorded in previous years, as a result of stronger imports of intermediate goods for production and export purposes, as well as accelerated investment spending following the launch of major infrastructure projects, such as the construction of the Belgrade metro and an underground tunnel. Consumer goods imports should also step up, given the increase in household disposable income. Services imports are expected to go up in H2, owing to higher expenditure on travel services, while transport services imports are expected to make a recovery.

The favourable outturns in H1 led to a downward revision of the projected trade deficit by EUR 1.8 bn for the year as a whole. The revision was guided primarily by the goods trade balance, for which goods exports are now projected to be higher owing to higher export prices as well as expanded export capacity in the automotive sector, while goods imports are projected to be lower, reflecting lower-than-expected import volumes of energy products. A significant contribution to the reduction in the projected trade deficit came also from services imports. Despite the expected recovery in the remainder of the year, services imports are unlikely to record double-digit growth rates, as was the case in previous years. We therefore expect the trade deficit to amount to around 4% of GDP this year, while it is expected to decline further next year, driven by higher services exports related to the hosting of the Expo.

4 Economic activity

GDP growth is estimated to have accelerated to 3.6% y-o-y in Q2, supported by industrial production, owing to the recovery of manufacturing and mining, as well as by construction and agriculture, while services sectors remained the drivers of economic growth despite slight softening relative to Q1.

We estimate that **services sectors**, taken together, increased by 3.8% y-o-y in Q2, contributing 2.2 pp to GDP growth. This is corroborated primarily by data on trade and tourism, given the y-o-y increase in retail trade turnover and in the number of tourist arrivals and overnight stays in Q2. At the same time, activity also expanded in the ICT sector, as indicated by the further growth in exports of this group of services, despite the high base from the previous year.

Industrial production is estimated to have risen 1.7% y-o-y in Q2, adding 0.2 pp to GDP growth. The increase in industrial activity was largely a result of the recovery in **manufacturing**, where the volume of production went up by 3.3% y-o-y. Output strengthened in 13 out of a total of 24 branches of manufacturing, with particularly strong growth posted in the production of motor vehicles (43.3% y-o-y), which may be attributed to the acceleration of a serial production of electric vehicles in Kragujevac. Thanks to the resumed operations of the NIS refinery, the production of coke and petroleum products went up by 18.4% y-o-y, exerting a positive impact on the chemical industry. Following a decline in Q1, **mining** recorded a recovery, its volume of production increasing by 2.2% y-o-y in Q2, primarily due to stronger exploitation of coal and metal ores. On the other hand, **electricity** production dropped by 8.8% y-o-y, partly due to adjustments to the implementation of the CBAM, and partly due to lower hydropower potential.

According to our estimate, **construction** recorded y-o-y growth of 9.0% in Q2, providing a positive contribution of 0.4 pp to economic activity. This is primarily indicated by data on the y-o-y increase in the value of completed construction works (9.7%), the number of construction permits issued in April–May (4.5%), the production of construction materials (2.5%), and the imports of construction materials (3.5%).

Net taxes went up by 4.0% y-o-y in Q2, in our estimate, contributing 0.6 pp to GDP growth, as a result of higher consumption and improved tax revenue collection.

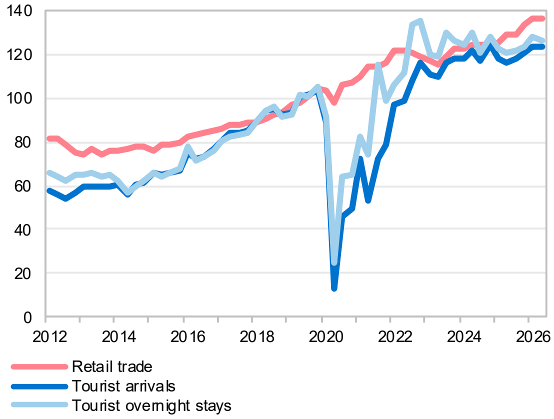
Agricultural production in Q2 is estimated to have increased by around 8% y-o-y, adding 0.3 pp to GDP growth. This estimate is based on more favourable data on the expected production of wheat and early fruit, as well as on the assumption that, owing to the low last year's base, corn and soybean yields will be higher and will offset the reduction in sown areas. Nevertheless, the

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

	2025			2026	
	Q2	Q3	Q4	Q1	Q2*
GDP (in %, y-o-y)	**2.0**	**2.0**	**2.2**	**3.2**	**3.6**
Agriculture	0.0	0.0	0.0	0.3	0.3
Industry	0.5	0.5	-0.6	-0.1	0.2
Construction	-0.8	-0.6	0.5	-0.2	0.4
Services	1.6	1.7	1.6	2.5	2.2
Net taxes	0.6	0.5	0.6	0.8	0.6

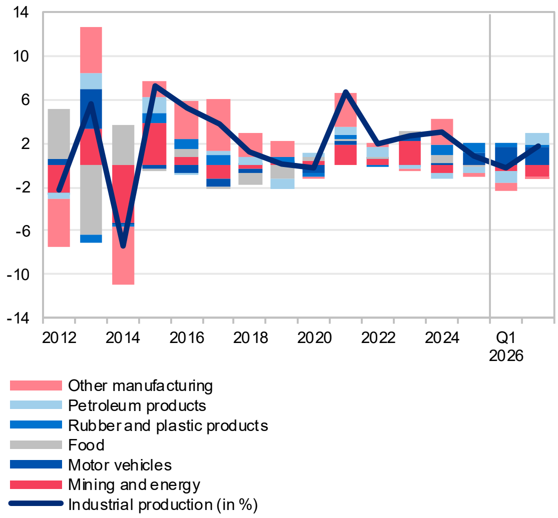
Sources: SORS and NBS calculations.
* NBS estimate.

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



Sources: SORS and NBS calculations.

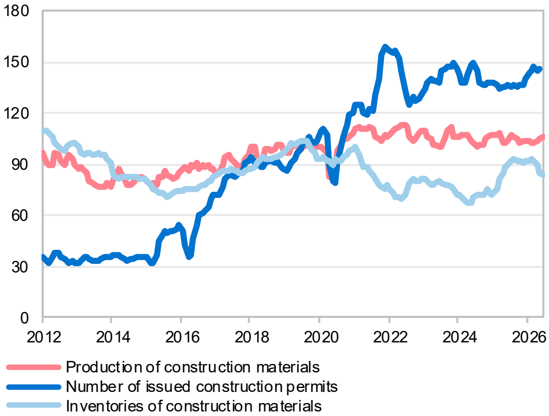
Chart IV.4.2 **Contributions to y-o-y industry growth rate**
(in pp)



Sources: SORS and NBS calculations.

final outcome of the season will largely depend on weather conditions during the summer and their impact on the yields of corn and industrial crops.

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



Sources: SORS and NBS calculations.

Text box 3: Agrometeorological indicators in forecasting field-crop yields

Given the importance of weather conditions for agricultural yields, when assessing the performance of an agricultural season, the NBS uses a range of agrometeorological indicators relevant to plant growth during the year, which are published by the Republic Hydrometeorological Service of Serbia (RHSS) for 29 locations across Serbia. These include various indicators of air temperature, precipitation, soil temperature, soil moisture, snow-cover depth, sunshine duration and the evaporation of water from the soil and plants (evapotranspiration).

Table O.3.1 **Agrometeorological indicators for Vojvodina in May–July***
(previous and current year)

	Jul-26	Jul-25	Jun-26	Jun-25	May-26	May-25
Average temperature	24.7	23.9	23.2	22.9	18.5	15.5
Accumulated temperature >10℃ since the beginning of the year	1,218.2	1,182.6	776.4	765.3	380.0	372.2
Maximum temperature	36.3	39.0	39.6	38.1	32.6	29.4
Minimum temperature	10.0	11.8	9.5	7.9	- 0.1	2.6
Number of days with temperature >30℃	16.5	18.0	15.6	17.1		
Sunshine duration (h)	322.2	292.9	308.2	399.8	317.6	273.5
Precipitation (mm)	26.1	48.2	55.5	4.2	42.8	8.3
Number of days with precipitation	5.2	7.1	7.8	1.1	5.8	11.8
Potential evapotranspiration	193.1	189.9	194.4	230.2	167.5	133.1
Soil moisture reserves to a depth of 1m (mm)	1.4	12.4	1.4	2.0	2.5	43.9
SPI-1 30-day Standardised Precipitation Index	-1.2	-0.2	-0.6	-4.6	-0.3	0.5
SPI-2 60-day Standardised Precipitation Index	-1.2	-2.0	-0.7	-1.3	-1.5	0.3
Z-index of drought/moisture – short-term	-2.9	-1.8	-2.2	-5.3	-2.3	0.6
PDSI Drought Severity Index – long-term	-3.9	-3.6	-3.3	-3.4	-2.6	-0.8

* The maximum and minimum values shown in the table represent the averages of the maximum/minimum values for eight locations in Vojvodina (Palić, Kikinda, Sombor, Zrenjanin, Novi Sad, Vršac, Banatski Karlovac and Sremska Mitrovica).

Sources: RHSS and NBS calculations.

Table O.3.2 **Drought/moisture index scale**

	Extreme drought	Severe drought	Moderate drought	Normal	Moderately wet	Very wet	Extremely wet
SPI	≤ -1.7	-1.6 to -1.3	-1.2 to -0.93	-0.92 to 0.93	0.94 to 1.3	1.4 to 1.6	≥ 1.7
Palmer Z	< -2.75	-2.74 to -2.0	-1.99 to -1.25	-1.24 to 0.99	1.0 to 2.49	2.5 to 3.49	> 3.5
Palmer PDSI	< -4.0	-3.9 to -3.0	-2.9 to -2.0	-1.9 to 1.9	2.0 to 2.9	3.0 to 3.9	> 4.0

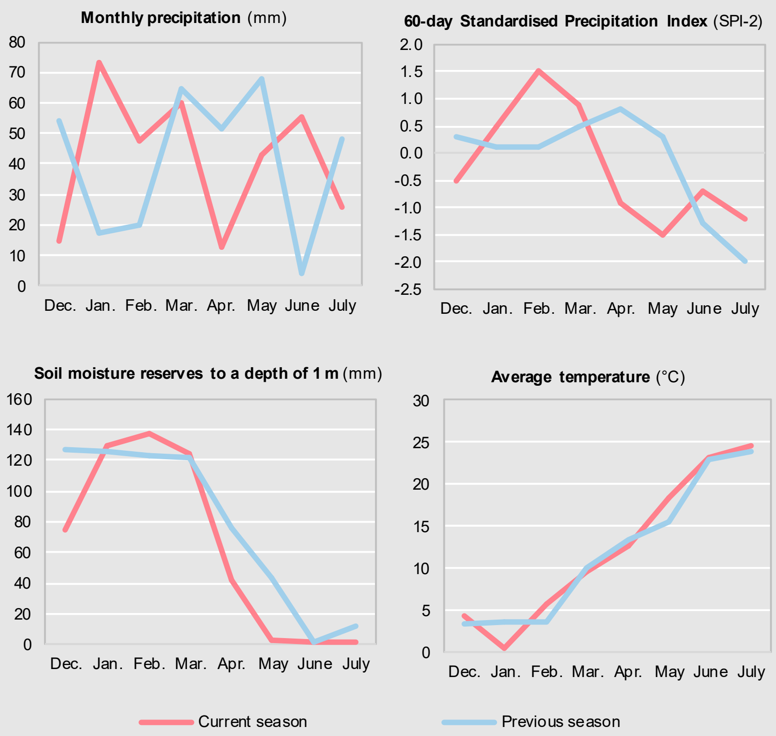
Source: RHSS.

In our analyses, we place particular emphasis on wheat and corn, the two most widely grown crops in Serbia (calculated as a five-year average, they account for 11% and 17% of total agricultural production, respectively). As they are grown predominantly in Vojvodina, we observe the average values of agrometeorological indicators for eight locations in this part of Serbia.

Conditions for wheat growth in the 2026 agricultural season have been generally favourable. Exceptionally cold weather in January represented a potential risk, but the deep snow cover protected the wheat during the coldest days at the beginning of the year. In the first seven months of this year, total precipitation was slightly higher than in the same period last year, though its distribution differed considerably: precipitation was more abundant in the first two months of the year, lower in April and May, higher again in June and lower once more in July. There were several dry spells lasting a number of weeks in April and May, but they were not sufficiently prolonged to jeopardise the crop. Combined with relatively moderate temperatures, this created favourable conditions for wheat growth. Although, according to preliminary SORS estimates, this year's yield per hectare (5.9 t/ha) was slightly lower than last year's (6.1 t/ha), it was nevertheless the second-highest yield on record. Moreover, given the larger area under cultivation than in 2025, total production this year is expected to increase by 4.5%.

As regards corn, compared with last year – which was very poor for this crop, mainly due to a prolonged dry spell in June – agrometeorological conditions so far this season appear somewhat more favourable. This primarily reflects the considerably greater amount of precipitation in June, when rainfall is most important for this crop. Nevertheless, although it is almost certain that corn output will increase this year owing to the low base, the severe heatwave and absence of precipitation in the first half of August could substantially moderate that increase.

Chart O.3.1 **Movement of agrometeorological indicators**



Sources: RHSS and NBS calculations.

Yield forecasting based on an agrometeorological model

One of the forecasting tools we have recently introduced is an estimated model linking weather conditions (precipitation and temperature) to wheat and corn yields. Given that weather data are available at a daily, and therefore also monthly, frequency, while crop yields are available only at an annual frequency, we opted for a MIDAS model. This model makes it possible to estimate relationships between variables observed at different frequencies, thereby preserving the information contained in each monthly observation, which could otherwise be lost through averaging or aggregation to an annual level.

In our case, we specifically estimate the effect of the y-o-y difference in average monthly temperatures ($\Delta_{12}T$) and monthly precipitation totals ($\Delta_{12}P$) on the growth rate of annual field-crop yields per hectare – corn (c) and wheat (w). As corn is harvested in late September and/or early October, the regression includes weather conditions up to September, while in the case of wheat it includes conditions up to June, when harvesting begins.

To estimate the coefficients on the regressors, the MIDAS family of models uses a parametric restriction function that links series observed at different frequencies, thereby reducing the number of parameters to be estimated. This function, which determines the weight assigned to each regressor in estimating the dependent variable, may take different forms. We used the PDL Almon method with a third-degree polynomial:

$$c_y = \alpha + \beta Cgap_{y-1} + \sum_{\tau=0}^{11} \Delta_{12} T_{y,\tau}^{m} (\theta_0 + \theta_1\tau + \theta_2\tau^2 + \theta_3\tau^3) + \sum_{\tau=0}^{11} \Delta_{12} P_{y,\tau}^{m} (\gamma_0 + \gamma_1\tau + \gamma_2\tau^2 + \gamma_3\tau^3) + \varepsilon_y,$$

where the regression includes temperature and precipitation data for a maximum of 12 months preceding the harvest ($\tau = 0$ to $\tau = 11$), which the model retains or excludes depending on the relevant criteria.

The previous year's base effect is also included as a regressor in the corn-yield equation through the corn yield gap ($Cgap$), i.e. the deviation of the previous year's corn yield from its medium-term trend. The rationale is that, if the previous year's yield was high, i.e. above trend (a high base), this reduces the potential for growth in the current year, and vice versa.

In addition to the yield gap, the wheat equation also includes the previous year's yield growth rate:

$$w_y = \alpha + \mu w_{y-1} + \beta Wgap_{y-1} + \sum_{\tau=0}^{11} \Delta_{12} T_{y,\tau}^{m} (\theta_0 + \theta_1\tau + \theta_2\tau^2 + \theta_3\tau^3) + \sum_{\tau=0}^{11} \Delta_{12} P_{y,\tau}^{m} (\gamma_0 + \gamma_1\tau + \gamma_2\tau^2 + \gamma_3\tau^3) + \varepsilon_y.$$

The model was estimated over the 1990–2025 period. As measures of temperature and precipitation for Serbia, we used daily averages for Belgrade, Novi Sad and Niš (the only long-run data available).

The estimated monthly model shows that temperatures from December of the previous year to June of the current year (when harvesting generally takes place) are relevant for wheat yields. During spring (particularly in June and May), moderate temperatures are favourable, while in the first four months of the year temperatures above the seasonal average are beneficial. As regards precipitation, the model indicates that lower rainfall in May and June and higher rainfall in March are preferable. Although the negative effect of precipitation in May is not consistent with what is known about the wheat-growth process (the grain-filling stage), it may be explained by the adverse effects of excessive rainfall on wheat lodging and the incidence of plant diseases.

Figure O.3.1 Estimated impact of temperature (TEMP) and precipitation (PAD) on wheat yield (left) and corn yield (right)

MES\D12_TEMP(-6)	Lag	Coefficient	Distribution
June	0	-2.710990	
May	1	-0.888879	
April	2	0.334518	
March	3	0.959203	
February	4	0.985175	
January	5	0.412433	
December	6	-0.759021	

MES\D12_PAD(-6)	Lag	Coefficient	Distribution
June	0	-2.019296	
May	1	-1.244060	
April	2	0.806463	
March	3	4.132275	

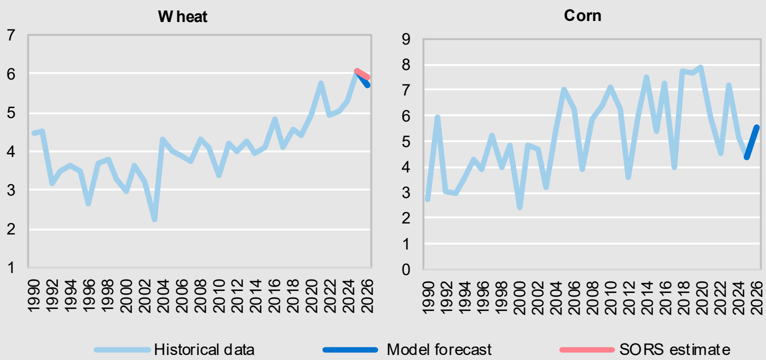
MES\D12_TEMP(-3)	Lag	Coefficient	Distribution
September	0	1.336350	
August	1	-0.845809	
June	2	-2.331777	
July	3	-3.121553	
May	4	-3.215138	
April	5	-2.612532	
March	6	-1.313734	
February	7	0.681255	

MES\D12_PAD(-3)	Lag	Coefficient	Distribution
September	0	-0.446674	
August	1	2.943270	
July	2	4.347816	
June	3	3.766965	
May	4	1.200716	
April	5	-3.350929	

In the case of corn, the model indicates that temperatures are relevant over a period of as many as eight months, from February to September, while the effect of precipitation is significant from April to September. Temperatures below the seasonal norm are preferable during spring and summer, while higher temperatures are favourable in September, before harvesting, and in February. As regards precipitation, lower rainfall is beneficial in September, ahead of harvesting, and in April, during the sowing period, while greater rainfall is favourable in the remaining months, particularly during summer.

A final weather-based forecast can be produced only after the end of the season, once all the required data are available. When preparing a forecast before the end of the season, we use the weather forecast for the following month and, thereafter, five-year daily averages for temperature and precipitation until the end of the season.

Chart O.3.2 **Wheat and corn yields**
(t/ha)



Sources: SORS and NBS calculations.

Our final model estimate of wheat yield, prepared in early July, was 5.7 t/ha (down by 6% y-o-y). This was somewhat lower than the SORS estimate of 5.9 t/ha published on 1 July and based on the situation as at 23 May. In the case of corn, our model estimate is based on actual data up to 1 August, forecast weather conditions up to 1 September and five-year averages through the end of September. Under these assumptions, corn yield in 2026 could amount to around 5.6 t/ha. Although this would represent strong growth of 26.8% relative to the previous year, it should be borne in mind that this is a consequence of an exceptionally low base and that such a yield would still remain below multi-year averages.

Given that, according to SORS data, total wheat output, as well as the output of early fruit crops (raspberries, sour cherries) is higher than last year, and that, according to our estimate, corn yield per hectare is also higher than last year (despite a 3.8% reduction in the area under cultivation), it is highly likely that this year's agricultural production will exceed the assumption of 3% annual growth used in our May projection. In our new estimate, we therefore expect agricultural production to grow by around 7%, making a positive contribution of approximately 0.3 pp to GDP.

5 Labour market developments

In y-o-y terms, the wage growth slowed down and formal employment declined slightly in Q2, while registered unemployment fell to its lowest level on record.

Wages

In April–May, the average nominal net wage amounted to RSD 120,102 (EUR 1,023), with its y-o-y growth decelerating to 10.7% (7.0% in real terms). Wage growth was somewhat faster in the public than in the private sector (11.8% compared with 10.2%). At the same time, the median net wage went up by 11.6% y-o-y, reaching RSD 93,931. The improvement in living standards is also reflected in the increase in the coverage of the average consumer basket by the average wage and the coverage of the minimum consumer basket by the minimum wage, which stood in the first four months of this year at 109.1% and 113.0%, respectively – their highest levels on record.

Average wages continued up in April and May, in y-o-y terms, across all **economic sectors**, with double-digit growth recorded in more than half of the sectors. The strongest growth was posted in education (19.6%), catering (13.1%) and health (13.0%).

Total nominal **net wage bill**, as the main source of consumer demand, rose by 9.8% y-o-y in April and May, entirely reflecting the wage growth.

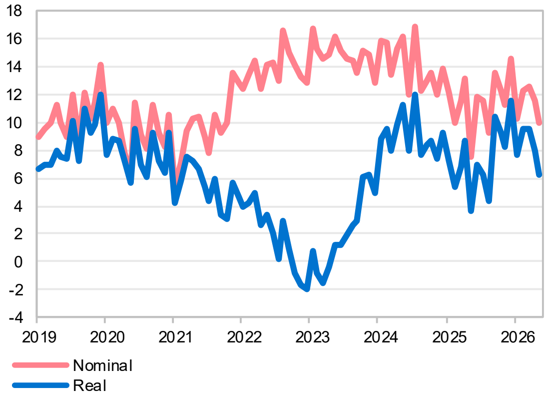
According to preliminary data, **overall economic productivity** went up by 4.2% y-o-y in Q2, as economic activity increased against the background of slightly lower employment.

Employment

SORS data indicate that **the total formal employment** averaged 2.36 mn in Q2, down by around 14,000 from a year ago, with the y-o-y decline accelerating to 0.6% (from 0.4% in Q1). During Q2, the number of employees working for entrepreneurs increased, while the number of registered farmers and employees of legal entities declined.

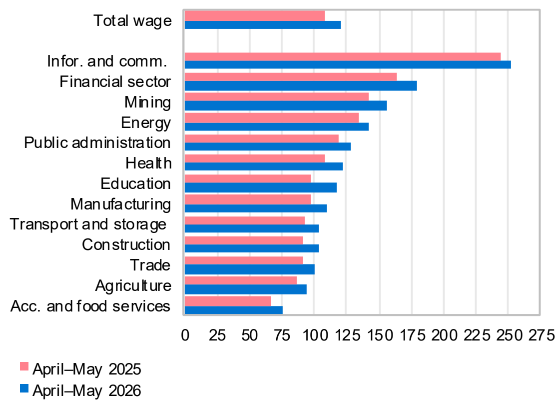
Private sector formal employment averaged 1.74 mn in Q2, dropping by 0.8% y-o-y (following a 0.5% drop in Q1). **Formal employment in the public sector** decreased by 0.1% y-o-y (following a 0.2% decline in Q1), entirely due to a decrease in the number of employees in public administration, while employment in health and education increased. Looking at predominantly private sector activities, registered employment increased the most in administrative and support services, as well as professional, scientific, innovation and technical services, while the largest declines were recorded in manufacturing and trade.

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



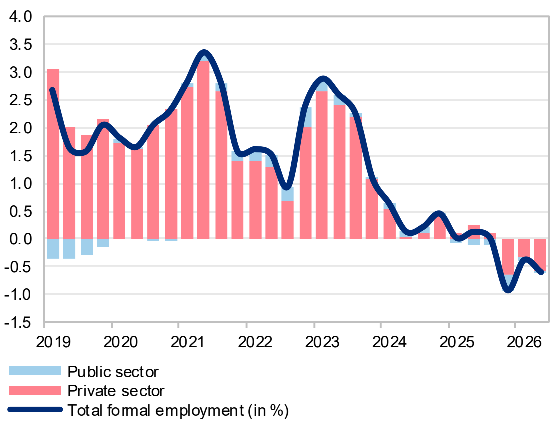
Source: SORS.

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)

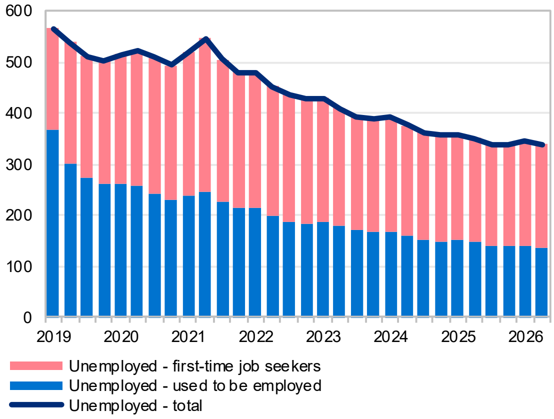


Sources: SORS and NBS calculations.

Following the seasonally usual increase in Q1, **registered unemployment**, according to the records of the National Employment Service, was on a downward trajectory until June, when it stood at 333,804, its lowest level on record and down by nearly 11,000 from the same period a year earlier.

The **Labour Force Survey** data, which cover both the formal and informal labour market segments, point to a mild decline in the main labour market activity and employment indicators in Q1 compared with the same period a year earlier. The participation rate of the working-age population (15–64 years) stood at 72.9%, while the activity rate of the population aged 15+ measured 55.7%, declining by 0.3 pp and 0.9 pp y-o-y, respectively. At the same time, the employment rate dropped by 0.7 pp, to 50.7%, while the unemployment rate declined by 0.2 pp, to 8.9%.

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



Source: National Employment Service.

V Projection

Taking into account that domestic economic activity in H1 outperformed our May expectations, we have raised our projection for GDP growth in 2026 from 3.0% to 3.2%. Given the continued geopolitical tensions, the ongoing conflict in the Middle East, volatile movements in global oil and other energy prices, and uncertainty regarding external demand, we have kept our growth projection for 2027 at 4.5%. Over the medium term, we expect the effects of temporary factors to fade and economic growth to settle into a more stable pace – around its potential level of approximately 3.5% per year. Economic activity will be driven by domestic demand, with both consumption and fixed investment making positive contributions. These will be supported by growth in disposable income and the continued implementation of infrastructure projects under the "Leap into the Future – Serbia Expo 2027" programme. Given developments in the year to date, lower-than-expected imports and stable export performance, we now project that exports and imports will grow at a similar rate in 2026. As a result, we expect a smaller negative contribution from net exports to GDP growth. On the other hand, in 2027, we expect net exports to make a positive contribution to GDP growth, primarily thanks to an increase in exports of services related to the hosting of the Expo.

According to our new baseline projection, y-o-y inflation will continue to move within the target band until the end of the projection horizon, i.e. over the next two years. From September, however, it is expected to run slightly above 4%, partly due to the low base effect from the previous year following the implementation of the decree, and partly due to the rising global prices of energy and other primary commodities. The gradual easing of cost-push pressures from the international environment, as well as the projected slowdown in real wage growth and its increasingly closer alignment with productivity growth will work towards lower inflation in 2027. Working in the opposite direction will be the low base effect from this year stemming from the significant decline in fruit and vegetable prices due to an exceptionally good harvest. As a result of these opposing factors, y-o-y inflation is expected to remain stable throughout the following year and stay slightly above 4%, before gradually declining toward the end of the projection horizon. The additional strengthening of demand expected in 2027 as a result of the hosting of the Expo should not generate pressures that would cause inflation to move away from the target band.

As before, the greatest risk to our inflation and GDP projections stems from heightened geopolitical tensions and their effects on global economic growth and inflation. Another significant risk to the projections is the new agricultural season, both globally and domestically.

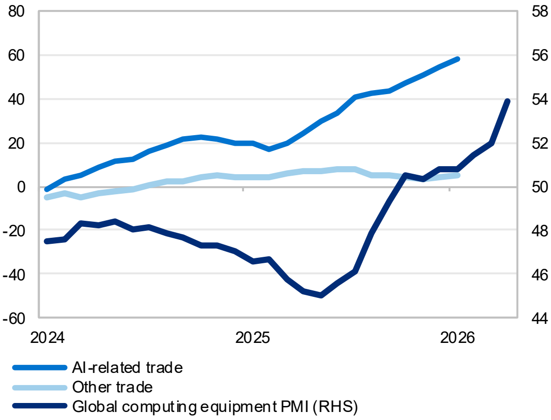
External assumptions

Economic activity

Leading international financial institutions – the World Bank and the IMF – estimated in their latest reports that so far in 2026, the global economy has shown greater resilience to the consequences of the Middle East conflict than anticipated, which was also facilitated by the accelerated global technological cycle, thanks to the development and implementation of artificial intelligence tools. The net effects differ across countries, depending on the country's position in the technological value chains, on the one hand, and its exposure to conflict zones, on the other. **In July, the IMF projected global growth at 3.0% in 2026 and 3.4% in 2027**, similarly as in April, though still below the figures from the previous two years (3.5%). **Risks to the July projection are estimated as more balanced than in the April forecast, though still skewed to the downside**, mostly because of the possible continuation of the Middle East conflict, which would trigger prolonged volatility in the

Chart V.0.1 **Global AI-related trade and computing equipment development***

(average, in %)



Source: World Bank, Global Economic Prospects (June 2026).
* Trade is measured as the five-month average of y-o-y changes in global imports (nominal). PMI values above 50 suggest expansion and those below - contraction.

commodity markets and price hikes, renewed halts in supply chains and stricter financial conditions globally.

Excluding the data for Ireland,[10] the **euro area economic activity** recorded mild quarterly growth in Q1. However, when data for all countries are considered, the euro area economy did stagnate in Q1 due to the reduction in overall investments and net exports, while total consumption increased (0.5% GDP growth y-o-y). The ECB noted that activity in the euro area's manufacturing industry turned out to be relatively resilient to the consequences of the Middle East conflict, as companies had stocked up on inventories out of precaution. In **Germany** and **Italy**, our key trade partners in the euro area, GDP rose by 0.4% and 0.3% s-a, respectively, in Q1, driven by a strong rebound in external demand. Early economic activity indicators for the euro area and its leading economies, the PMI and ESI, stood at a higher level in Q2 than in Q1. According to Eurostat's preliminary data, the euro area's GDP growth measured 0.4% s-a in Q2, and in Germany and Italy it was estimated at 0.2% each.

Considering the pronounced impact of the Middle East conflict on global prices of primary commodities, real disposable income and market confidence, in June the **ECB** trimmed its March projection of euro area economic growth for 2026 and 2027, by 0.1 pp each, to 0.8% and 1.2%, respectively, while the forecast for 2028 was raised by 0.1 pp to 1.5%. Over the projection horizon, the ECB expects growth in domestic demand on account of the recovery of real income, triggered by the falling energy prices, stepped-up government expenditure on infrastructure and defence, and a resilient labour market, as attested to by the preserved low unemployment rate of 6.3% in June. A positive contribution is also expected from larger investments in AI and energy transition. Due to elevated volatility in global markets, in June the ECB estimated that risks to the euro area GDP projection in the baseline scenario are still skewed to the downside. In addition to the baseline scenario, **the ECB also compiled three alternative ones in June**, which differ in three main aspects – the scope of the energy shock, the degree of uncertainty and intensity of the energy shock pass-through to other prices. For 2026 and 2027, the ECB's adverse scenario projected slightly lower GDP growth in the euro area (0.7% and 0.9%), and the severe scenario significantly lower economic growth (0.5% and 0.4%) than the baseline scenario. Unlike the March round of projections, in June the ECB came out with a favourable (milder) scenario as well, where GDP growth for 2026 is the same as in the baseline scenario, but it is somewhat higher in 2027 and 2028 (1.4% and 1.6%).

According to the July assessments of Consensus Economics' analysts, the euro area results in the previous

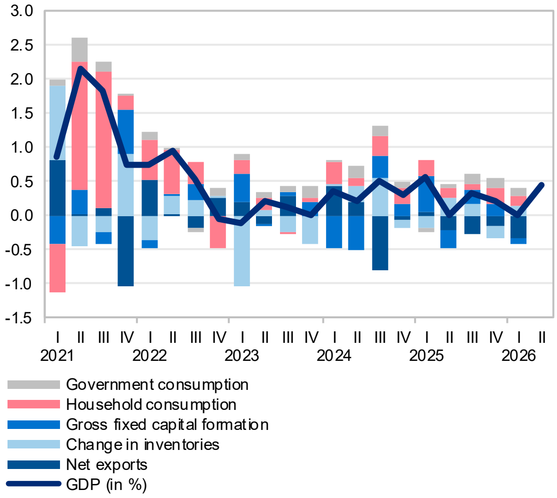
[10] For an extended period, Ireland's GDP figures have not fully captured real economic activity because of the substantial share of large multinational companies, whose tax and accounting practices are highly volatile.

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

	2026		2027	
	July	Deviation from April	July	Deviation from April
World	3.0	-0.1	3.4	0.2
Advanced economies	1.7	-0.1	1.8	0.1
Euro area	0.9	-0.2	1.2	0.0
USA	2.3	0.0	2.2	0.1
Emerging and developing economies	3.8	-0.1	4.5	0.3
Russia	1.1	0.0	1.1	0.0
China	4.6	0.2	4.1	0.1

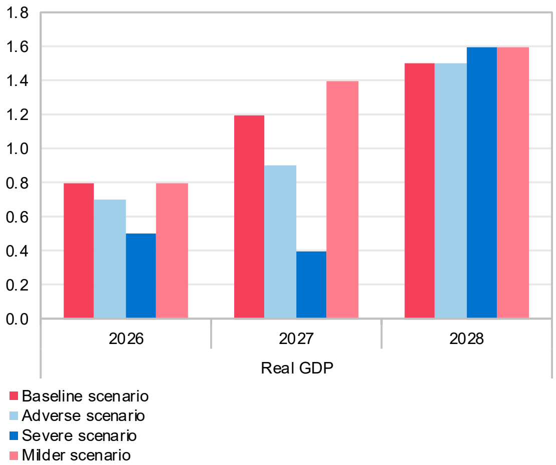
Source: IMF WEO (July 2026).

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 **GDP projections in the euro area in three scenarios**
(in %)



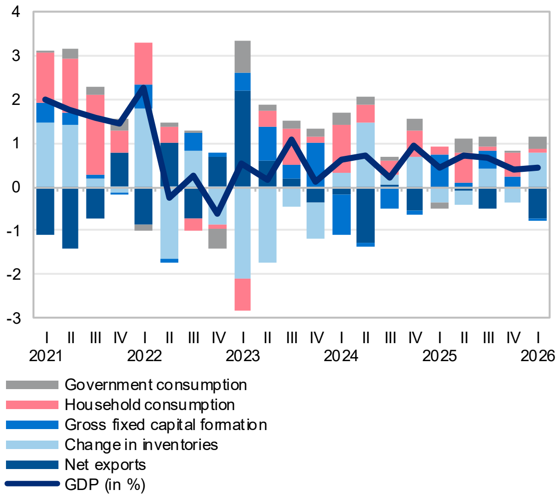
Source: ECB (June 2026).

part of the year have turned out to be more optimistic than anticipated as turnover increased in retail trade and other services, backed by the new tourist season in Mediterranean countries. However, the continuation of the Middle East conflict is reflecting negatively on activity in euro area countries, notably due to hampered oil supply. In July the April projection of the euro area's GDP growth was trimmed by 0.4 pp to 0.5% in 2026, and by 0.1 pp to 1.2% in 2027.

In **Central and Southeastern Europe**, GDP growth in Q1 rose 0.4% s-a (2.1% y-o-y), driven by the increase in overall consumption and investments, while the fall in net exports worked in the opposite direction. GDP rose in the majority of countries in the region in Q1, while the Croatian and Romanian economies stagnated. Consensus Economics' analysts estimated that economic activity in the region, propped by EU funds in the prior period, will slow in the remained of the year, mostly due to the negative effects of the Middle East conflict. The July projection of GDP growth in Southeast European countries for 2026 was revised down from April, by 0.4 pp, to 1.2%, while the forecast for the following year was unchanged (2.6%). July economic growth projections for countries in the Central Europe group were identical to the April ones, 2.7% each for this and the following year. In June, the World Bank estimated that the anticipated slowdown in economic activity in the euro area will constrict manufacturing exports in Central Europe, which is why the previous GDP growth projections were trimmed by 0.4 pp, to 2.3% in 2026, and by 0.3 pp to 2.4% in 2027. For the **Western Balkan region**, in June the World Bank forecast economic growth of 2.9% in 2026 and 3.2% in 2027, which is 0.2 pp and 0.1 pp, respectively, lower than in the previous projections.

In Q1, the **US economy** posted growth of 0.5% s-a (2.1% annualised), based on increased investments and consumption, while the fall in net exports acted in the opposite direction. Based on the movements of early economic activity indicators for the US, in June the **Fed** estimated that sound economic growth continued in Q2, driven by the rising consumption and investments in AI development. Preliminary data of the US Bureau of Economic Analysis, which were later published, indicated that in Q2 the US economy recorded growth of 0.4% s-a (1.5% annualised). Even so, the Fed's June projection of economic growth for 2026 is 0.2 pp lower than the March forecast, measuring 2.2%, while the 2.3% projection for 2027 was not changed, with the note that risks to the projection still remain tilted to the downside amid uncertainty surrounding the consequences of the Middle East conflict and the economic effects of AI investments. The unemployment rate edged down to 4.2% in June, its lowest level in the past year. In June, the Fed slightly trimmed its projected level for 2026 relative to March, by 0.1 pp to 4.3%, with the same level forecast for 2027 as well.

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



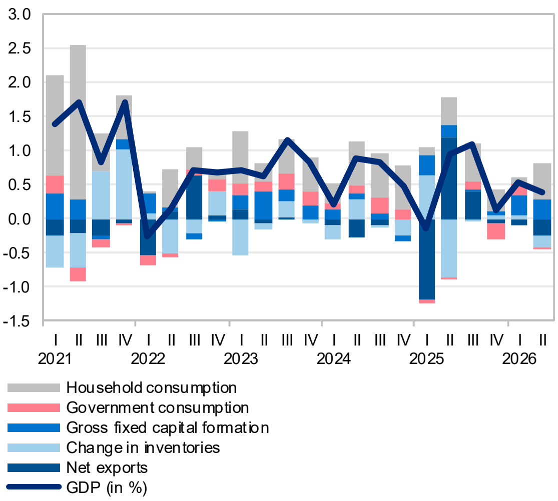
Source: Eurostat.
* Including Bulgaria, Czech Republic, Croatia, Hungary, Poland, Romania, Slovenia and Slovakia.

Table V.0.2 **Real GDP growth projections across CESEE countries**
(in %)

	2026		2027	
	July	Deviation from April	July	Deviation from April
Poland	3.5	0.0	3.0	-0.1
Czech Rep.	2.1	-0.2	2.4	-0.1
Hungary	1.7	0.0	2.5	0.0
Romania	0.0	-0.5	2.2	-0.1
Albania	0.8	-0.2	1.6	-0.2
Bosnia and Herzegovina	2.0	0.0	2.1	0.0
North Macedonia	2.4	-0.2	2.4	-0.1
Montenegro	2.6	0.1	2.6	-0.1

Source: Consensus Economics (July and April 2026).

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 calculations.

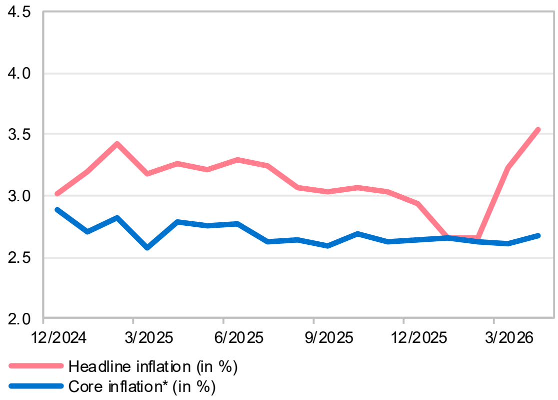
According to the IMF's assessment, the **Chinese economy** recorded higher growth than expected in Q1 (1.3% s-a, i.e. 5.0% y-o-y), driven by accelerated government investment in infrastructure and high-tech production, as well as increased exports, while domestic demand remained low. Together with weak private investment and the prolonged decline in activity in the real estate sector, this contributed to slower economic growth in Q2, of 0.9% s-a (4.3% y-o-y), which is the lowest quarterly growth in the past two years. In July, the IMF raised its GDP growth projection for China in 2026 by 0.2 pp to 4.6%, while for 2027 it projected growth of 4.1%. Still, the projections are below the average outcome of 5.0% in 2024 and 2025, as higher world oil prices, increased uncertainty and structural problems in the Chinese economy are weighing on economic growth.

Inflation

Due to the global energy shock, the downward trend in **global inflation** was halted, with inflation recording a y-o-y increase in May for the third consecutive month. This is also evidenced by the so-called global headline inflation momentum,[11] which increased by 4.0 pp between February and April, while core inflation remained stable in most countries. The divergence between headline and core inflation arose as a consequence of disruptions in energy supply and a significant increase in energy prices, which, for the time being, has not been transmitted to a greater extent to the prices of other goods and services. At the same time, the gap between headline and core inflation is more pronounced in countries more exposed to supply disruptions, and less pronounced in countries whose governments have capped petroleum product prices. Elevated energy prices and higher current inflation have contributed to a rise in inflation expectations for 2026 in most countries, while expectations for 2027 did not change significantly. In its July projection, the IMF revised its global inflation forecast for 2026 upwards to 4.7% (an increase of 0.3 pp compared to the April projection), with the assessment that inflation will be driven predominantly by elevated energy and food prices, while raising its projection for 2027 by 0.2 pp, to 3.9%.

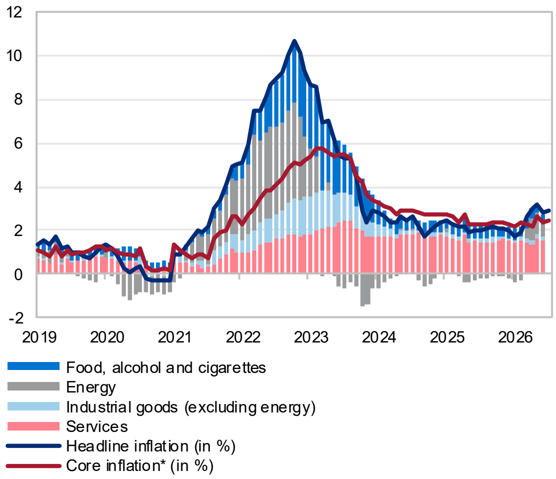
After accelerating from February to May due to elevated energy prices, **y-o-y inflation in the euro area** slowed to 2.8% in June, primarily on account of slower y-o-y energy price growth (from around 11% in April and May to below 9% in June), which was also influenced by the low base from the previous year. Compared to March, food prices also slowed their y-o-y growth in June, to 1.6%, while **core inflation** edged up to 2.4% y-o-y driven by somewhat faster growth in industrial product prices (excluding food and energy). Measured as the change in the HICP, **inflation in Germany** declined to 2.4% y-o-y in June, due to slower energy price growth, while

Chart V.0.6 **Global headline and core inflation***
(in %)



Source: World Bank, Global Economic Prospects (June 2026).
*Inflation - median for 136 countries, with the last data relating to April 2026.

Chart V.0.7 **Contributions of HICP components to y-o-y inflation in the euro area**
(in pp)



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

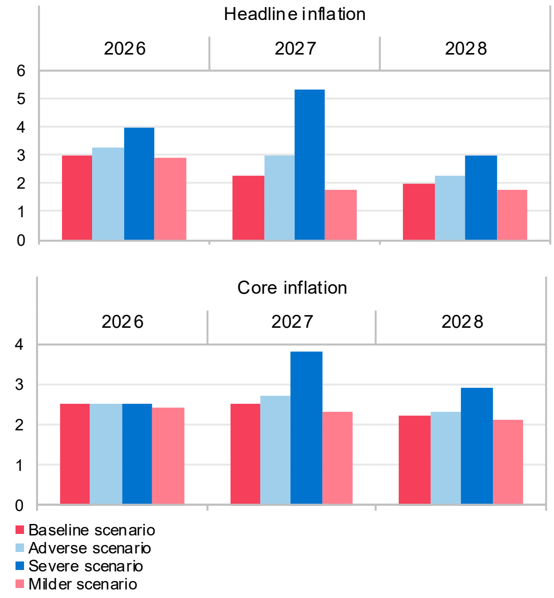
[11] The inflation momentum is calculated on the basis of three-month moving averages of seasonally adjusted monthly inflation rates, annualised.

inflation in Italy, for the first time since January, slowed to 3.1% y-o-y in June, owing to slower growth in the prices of unprocessed food and certain services. According to Eurostat's preliminary data, y-o-y inflation in the euro area in July stood at 2.9%, the same level as in Italy, while in Germany it rose to 2.8%, under the influence of higher energy prices, following the removal of tax breaks on petroleum products.

Due to elevated energy prices, which could feed through to higher food, industrial product and services prices, **the ECB raised its March projections for headline inflation in the euro area for 2026 and 2027 in June** – by 0.4 pp and 0.3 pp, to 3.0% and 2.3%, respectively, while the projection for 2028 was slightly lowered, by 0.1 pp to 2.0%. In June, average core inflation in the euro area was projected at 2.5% in both this year and the next, which is 0.2 pp and 0.3 pp, respectively, above the March projections, while for 2028 it was edged up by 0.1 pp, to 2.8%. Although these projections, under the baseline scenario, were made under the assumption that energy prices would decline relatively quickly from their current levels in the period ahead, the ECB assessed that risks to the projection remain tilted to the upside. Under the adverse scenario, it was assumed that energy prices would rise for a prolonged and more intense period than in the baseline scenario, which resulted in higher projected inflation over the entire projection horizon – 3.3% in 2026, 3.0% in 2027 and 2.3% in 2028. Even under the severe scenario, inflation was projected to be higher over the entire period than in the baseline scenario (4.0% in 2026, 5.3% in 2027 and 3.0% in 2028), assuming a stronger and more persistent energy shock. On the other hand, under the milder scenario, the ECB assumed that oil prices would normalise more quickly than in the baseline scenario, which would result in a faster slowdown in inflation, to 2.9% in 2026 and below the 2.0% target level in 2027 and 2028.

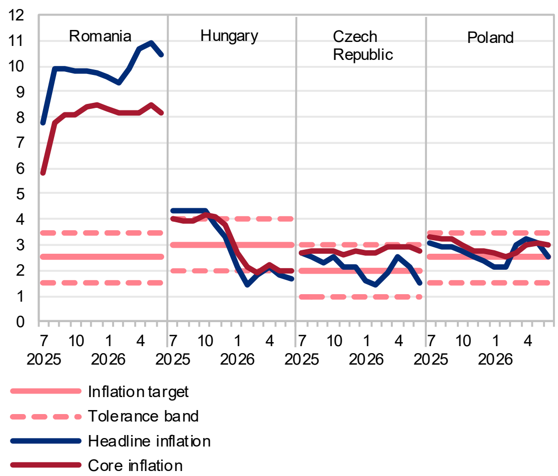
In **Central and Southeast European countries, y-o-y inflation in the Czech Republic, Poland** and **Hungary**, after rising in April due to higher energy prices, slowed in the remainder of Q2, while in **Romania**, although decelerating in June, it remained above the March level. Specifically, y-o-y inflation in the Czech Republic slowed to 1.5% in June, and in Hungary to 1.7%, while in Poland it fell to the target level of 2.5%, largely thanks to lower food prices and slower growth in petroleum product prices. The same CPI components contributed to the slowdown in y-o-y inflation in Romania, to 10.4% in June. Taking into account the prolonged consequences of the Middle East conflict on energy and other prices, as well as the potential negative effects of drought in much of Europe on agricultural product prices, Consensus Economics' analysts revised their inflation projections upwards in July for almost all countries in the region. Exceptions are the Czech Republic, which has recorded a y-o-y decline in food prices since March, and Hungary, whose government capped petrol and diesel prices back in March. In the group of Central European countries, the

Chart V.0.8 **Inflation projections in the euro area in three scenarios**
(in %)



Source: ECB (June 2026).

Chart V.0.9 **Y-o-y inflation in selected CESEE countries in the previous year (until June 2026)**
(y-o-y rates, in %)



Sources: Central banks of selected countries.

July inflation projection was lowered by 0.2 pp compared to April, to 2.8% in 2026, while the figure for 2027 remained unchanged (2.9%). In the group of Southeast European countries, the July inflation projection for this year and the next was raised by 0.7 pp compared to April, to 6.4% in 2026, and by 0.3 pp, to 3.7% in 2027.

The dynamics of y-o-y inflation in the **Western Balkan countries** during Q2 were predominantly influenced by higher energy prices, due to the conflict in the Middle East. After accelerating in April in all countries of the region, y-o-y inflation in **North Macedonia** and **Bosnia and Herzegovina** slowed by the end of Q2 to 3.4% and 4.2%, respectively. By contrast, y-o-y inflation in **Albania** followed an upward trajectory throughout Q2, reaching 3.2% in June, while in **Montenegro** it rose to 3.6% in June. Although the World Bank assessed in June that inflation since the beginning of the year had been the lowest in the Central European and Western Balkan countries, it pointed out that the countries of this region are exposed to heightened cost-push pressures due to the Middle East conflict, particularly those countries that rely more heavily on import of artificial fertilisers and other inputs.

After accelerating in April and May, **headline inflation in the US** (measured by the change in the CPI) slowed to 3.5% y-o-y in June. This was largely driven by a slowdown in y-o-y energy price growth, following a temporary ceasefire in the Middle East, as well as the low base from the previous year. In June, food inflation also slowed, as did y-o-y growth in rents and clothing and footwear prices, which fed through to lower industrial product prices. Together with somewhat slower y-o-y growth in services prices, this was reflected in the slowdown of **core inflation** in the US, to 2.6% y-o-y in June. The **Fed** estimated in June that inflation in the US would slow further in H2, driven by an expected decline in retail petrol prices, while core inflation should remain at a similar level as in H1. Bearing in mind the currently higher energy prices, which are feeding through to the prices of other goods and services, as well as the effects of AI on consumer prices, in June the Fed raised its March projections for the growth of the personal consumption expenditures price index (total and excluding food and energy) for 2026, to 3.6% and 3.3%, respectively. For 2027, lower growth of the aforementioned inflation measures is projected than in the current year, with their return to the target level during 2028, and with the assessment that the risks to the June inflation projection still remain skewed to the upside.

Monetary policy

Emphasizing its commitment to bringing inflation back to the medium-term target of 2%, the **ECB** raised its three key interest rates by 25 bps in June, marking the first increase since 2023. The interest rates on the deposit facility, the main refinancing operations and the marginal

Table V.0.3 **Inflation projections across CESEE countries**
(in %)

	2026		2027	
	July	Deviation from April	July	Deviation from April
Poland	3.0	0.0	2.9	0.0
Czech Rep.	2.1	-0.3	2.5	0.0
Hungary	2.4	-1.0	3.2	-0.5
Romania	8.1	0.6	4.1	0.4
Albania	2.9	0.0	2.9	0.0
Bosnia and Herzegovina	5.3	1.6	3.2	0.7
North Macedonia	4.6	0.7	3.9	0.8
Montenegro	3.7	0.3	3.2	0.4

Source: Consensus Economics (July and April 2026).

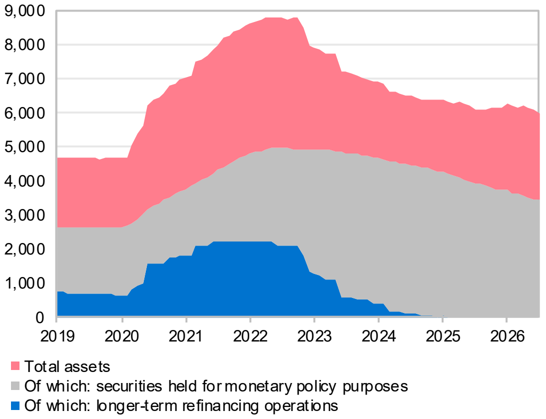
lending facility now stand at 2.25%, 2.40% and 2.65%, respectively. The decision to raise interest rates in June was taken in response to rising energy prices and persistent inflationary pressures caused by the US-Iran conflict and disruptions in oil deliveries through the Strait of Hormuz. The ECB assessed that the war in the Middle East is further intensifying inflationary pressures and that the rate hike is justified under all scenarios considered for the euro area. At the same time, in June the ECB revised its headline and core inflation forecasts upwards, while the growth projections were somewhat lower than three months earlier.

The situation in the Middle East began to stabilise in mid-June, which led to a significant improvement in expectations regarding inflation and economic activity. However, in July, the military exchanges between the US and Iran once again put oil prices in the spotlight and highlighted the elevated uncertainty regarding the length of the ceasefire in the Middle East. Keeping its key interest rates unchanged at the July meeting, the ECB assessed that the outlook for energy prices is currently close to the baseline scenario from its latest June projection and significantly above the levels recorded before the outbreak of the Middle East conflict. It stressed that the full inflationary effects of the energy shock have yet to materialise, and that it will therefore carefully monitor its intensity and duration, as well as the indirect and second-round effects.

The movement of the ECB's interest rates in the period ahead will crucially depend on whether the inflationary pressures emanating from the energy sector remain temporary or spill over into the broader economy through wages and services prices. The price of oil is of key importance for the euro area economy, which imports nearly 60% of its energy needs, therefore changes in the oil price can influence shifts in market participants' expectations regarding the path of ECB interest rates. Market participants continue to expect two more 25 bp interest rate hikes by the ECB by next spring, which would bring the ECB's deposit facility rate to 2.75%.

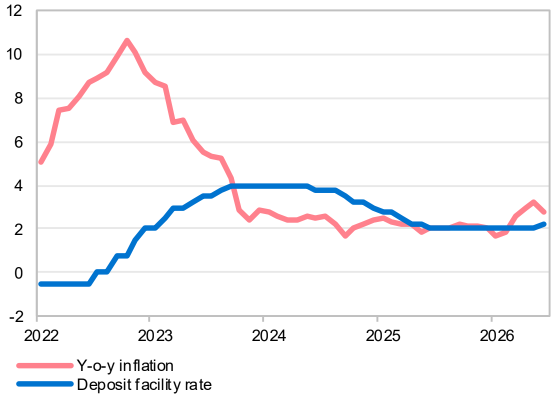
Unlike the ECB, the **Fed** kept its target range for the federal funds rate at 3.50%–3.75%, noting that inflation is somewhat elevated relative to the 2% target, partly due to supply-side shocks that have led to price increases in certain sectors, including energy. However, although the US economy is less exposed to the energy shock, fiscal policy, including higher defence spending and potential transfers to households, could stimulate demand, intensify inflationary pressures and warrant a more restrictive Fed monetary policy. Market expectations that the Fed's monetary policy will become more restrictive were reinforced by statements from the new Fed Chairman, Kevin Warsh. He emphasized his full commitment to preserving price stability, stressing that he would not tolerate persistently elevated inflation. He underscored that the inflationary wave that has marked the past five years will be successfully brought to an end

Chart V.0.10 **Consolidated Eurosystem balance sheet**
(end-of-month, in EUR bn)



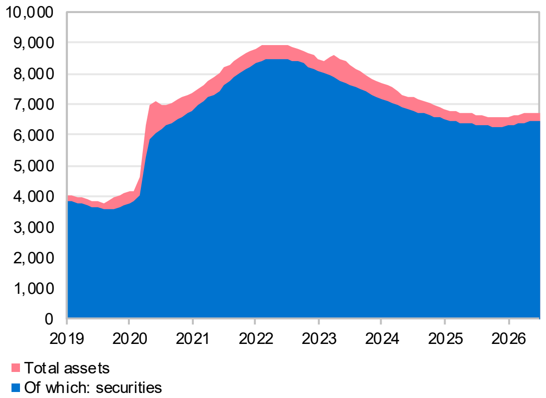
Source: ECB.

Chart V.0.11 **Deposit facility rate and inflation in the euro area**
(in %)



Sources: ECB and Eurostat.

Chart V.0.12 **Fed's total assets**
(monthly average, in USD bn)



Source: Fed.

if monetary policy remains appropriately steered. At the same time, he assessed that the US economy continues to demonstrate resilience, with solid economic growth and moderate growth in household spending.

The Fed's latest projections from June point to somewhat slower economic growth and higher expected inflation rates, primarily in the current year, compared to the March projections. Expectations are also higher with regard to the federal funds rate range – the median projection of FOMC members was raised in June to 3.8% for the end of this year (up from 3.4% in March) and to 3.6% for the end of next year (up from 3.1% in March).

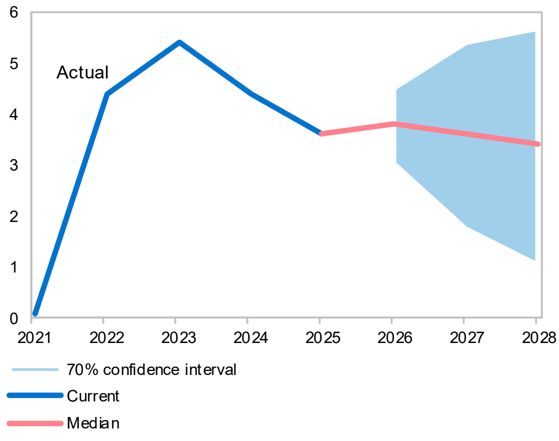
The decision to keep the federal funds rate target range unchanged at the Fed's July meeting is considered one of the most uncertain in the past ten years and was passed by a vote of nine to three, while three FOMC members voted for a 25 bp increase. Following the July meeting, the Fed Chairman pointed to higher nominal and real bond yields, which could be interpreted as a signal that the market has already contributed to a tightening of financial conditions.

As for the **inflation targeting central banks in the region**, the central banks of Poland and Romania kept their policy rates unchanged, while the Czech central bank raised its policy rate and the Hungarian central bank cut it. In line with market expectations, the **central bank of Poland** kept its policy rate at 3.75%, unchanged since March this year and its lowest level since 2022. Inflation is currently at the target midpoint (2.5% in June), but is expected to be somewhat higher in the period ahead. The Governor indicated that he could vote for another rate cut in September, while other Council members are more cautious when it comes to further monetary policy easing. The **Romanian central bank** also kept its policy rate unchanged at 6.5%, as expected, given the still relatively high inflation (10.4% in June). The **Czech central bank** decided to raise its policy rate, to 3.75% in June, marking the first rate increase since 2022. The decision to increase the rate was driven not only by the consequences of the Middle East conflict, but primarily by domestic factors, including money supply growth, significant wage growth and an increase in the fiscal deficit. Unlike other European central banks that are holding or tightening the degree of monetary policy restrictiveness, the **Hungarian central bank** continued with its gradual easing of monetary conditions, cutting its policy rate in June and July by 25 bps each time, to 5.75%, in response to falling inflation, emphasizing that this was a small cycle of monetary easing over the summer.

Financial and commodity markets

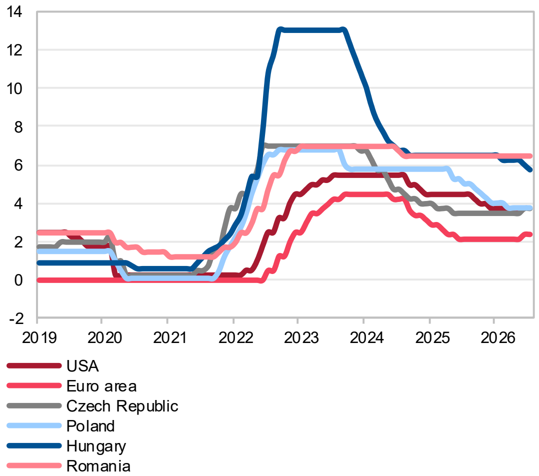
Yields on ten-year government bonds of advanced European countries and the US recorded divergent movements during Q2 2026, largely determined by developments in the Middle East, namely the alternating

Chart V.0.13 **Uncertainty and risks to the projection of the Fed funds rate**
(in %)



Source: Fed, Summary of Economic Projections (June 2026).

Chart V.0.14 **Policy rates across selected countries**
(p.a., in %)



Sources: Central banks of selected countries.

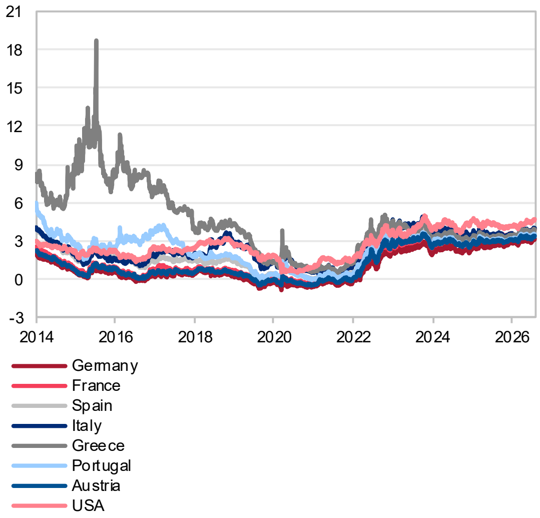
escalation and de-escalation of the conflict. In advanced European countries, yields at the end of Q2 were lower than at the end of Q1 2026 by 20 bp on average, while yields on ten-year US Treasuries increased by 15 bp. The ceasefire reached in early April and its extension until the end of the month were reflected in an initial decline in yields, after which the breakdown of the ceasefire prompted a rise in yields, due to market participants' concerns over the prolongation of price pressures in the energy market. A pronounced decline in yields on bonds of advanced European countries followed the US-Iran agreement on the reopening of the Strait of Hormuz in mid-June, which significantly dampened market participants' expectations of further oil price and inflation increases. This also affected financial market expectations that further monetary policy tightening by the ECB, following the rate hike in June, is less likely, given the reduced risk of price pressures from the energy market. By contrast, the increase in yields on ten-year US Treasuries at the end of Q2, compared to the end of Q1, was driven by favourable macroeconomic indicators of the US economy and expectations that the Fed could raise interest rates by the end of the year.

Most leading world currencies weakened against the dollar at end-Q2 compared to end-Q1, with divergent movements during the quarter. The euro initially strengthened against the dollar in April, due to reduced demand for the dollar as a safe-haven asset amid the de-escalation of the conflict. The subsequent breakdowns of the ceasefire had the opposite effect. In the second half of June, the euro weakened significantly, given that the agreement on the reopening of the Strait of Hormuz reduced the expectations of further monetary policy tightening by the ECB, while at the same time the Fed signalled the possibility of raising interest rates, supported by favourable US economic performance.

The **world gold price** followed a downward trajectory during Q2 and into July, primarily under the influence of the Middle East conflict, which has resulted in strong inflationary pressures globally, prompting the ECB to raise interest rates at its June meeting, while market participants also expect a tightening of the Fed's monetary policy. In addition, the strengthening of the US dollar and rising global government bond yields contributed to the decline in the gold price. In quarterly terms, the average gold price in Q2 stood at around USD 4,500 per fine ounce, which is 7.5% lower than in Q1, but still 18.3% higher than in the same period last year. In July, the gold price declined further, to an average of around USD 4,070 per fine ounce.

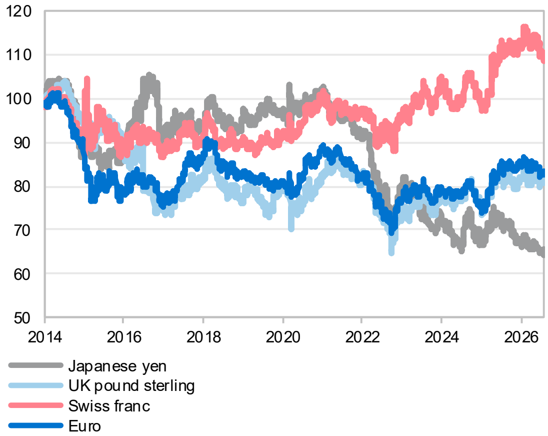
The movement of the **global Brent crude oil price** in recent months was primarily determined by developments in the Middle East. After remaining at an elevated level for most of Q2 due to supply disruptions, the oil price fell sharply from mid-June onwards, following the signing of a Memorandum of Understanding between the US and Iran, therefore by

Chart V.0.15 **Yields on ten-year bonds of euro area countries and the USA**
(daily data, in %)



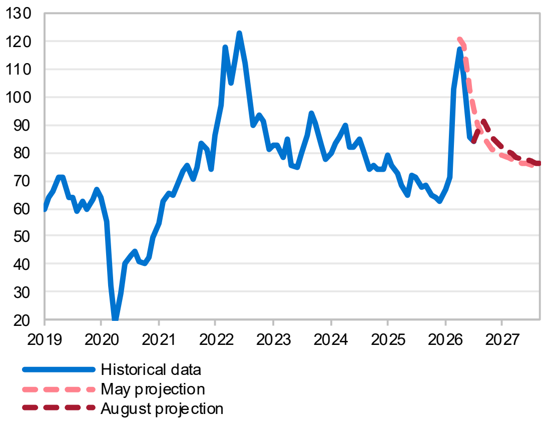
Source: Bloomberg.

Chart V.0.16 **Exchange rates of selected national currencies against the dollar***
(daily data, 31 December 2013 = 100)



Source: IMF.
* Growth indicates appreciation.

Chart V.0.17 **Assumption for Brent oil prices**
(USD/barrel)



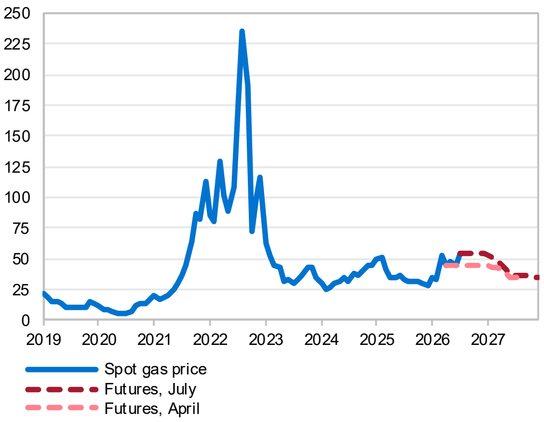
Source: Refinitiv.

early July it fell to around USD 70 per barrel, returning to the same level as before the outbreak of the conflict. However, the renewed escalation of the conflict was reflected in a rise in the oil price, which reached around USD 97 per barrel by the end of July. According to assessments by relevant institutions, the oil price is expected to strike a downward trajectory in the period ahead, under the assumption of a de-escalation of geopolitical tensions and a gradual normalisation of global oil supply. Consensus Economics expects the oil price to decline to around USD 80 per barrel by end-2026, and then to around USD 72 per barrel by end-2027. The US Energy Information Administration estimated that the decline in the oil price in the period ahead will be somewhat more pronounced, namely, it should amount to around USD 69 and USD 61 per barrel at the end of 2026 and 2027, respectively. According to our projection, which is based on market futures, the oil price will stand at around USD 83 per barrel at the end of 2026, and will then decline to around USD 75 per barrel by the end of 2027.

Although **Mediterranean petroleum product prices** usually move in line with the dynamics of the world oil price, since the outbreak of the Middle East conflict there has been a certain divergence in their movements, which was pronounced the most in June and July. In the context of a sharp decline in the world oil price following the temporary easing of geopolitical tensions, Mediterranean petroleum product prices contracted to a significantly lesser extent, primarily under the influence of lower supply caused by damaged production capacities in the Middle East and export restrictions from Russia, amid seasonally typical demand increases. The average price of diesel in Q2 stood at around USD 1,187 per tonne, while the average price of petrol equalled around USD 1,086 per tonne. Compared to Q1, this is higher by 35.3% and 36.2%, respectively.

The **benchmark price of natural gas for Europe (Dutch TTF hub)** recorded volatile movements during Q2, ranging between EUR 39 and EUR 53 per MWh. Upward pressures on the price came from increased uncertainty regarding supply, the need to replenish stocks, and increased electricity consumption during the June heatwave. Acting in the opposite direction were the seasonally typical lower demand following the end of the heating season, as well as the temporary easing of tensions in the Middle East. In July, the natural gas price increased, reaching around EUR 60 per MWh by the end of the month, following the renewed escalation of the Middle East conflict. According to market futures, the gas price is expected to follow a downward trajectory in the period ahead, measuring around EUR 54 per MWh in December and then likely declining to around EUR 35 per MWh by end-2027. Consensus Economics expects the natural gas price to stand at around EUR 51 per MWh at the end of 2026, declining thereafter to around EUR 37 per MWh by the end of 2027.

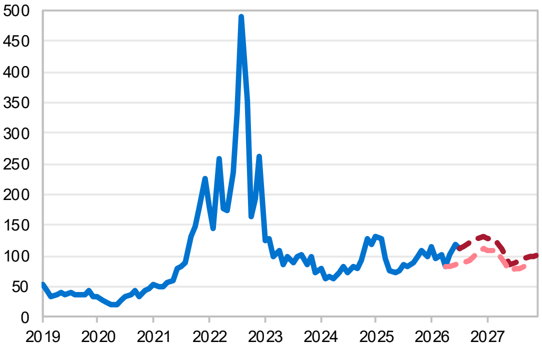
Chart V.0.18 **European price of natural gas**
(EUR/MWh)



Source: Refinitiv.

After declining in April, under the impact of lower demand and record high output from solar power plants, the **benchmark electricity price for Europe** (German exchange) followed an upward trajectory for the remainder of Q2, due to reduced wind power generation and strong demand in June driven by the heatwave. Observed at the quarterly level, the average electricity price on the German exchange in Q2 stood at around EUR 100 per MWh, which is 4.9% lower than in Q1, but 37.3% higher y-o-y. The electricity price on the Hungarian exchange followed a similar trend but at a higher level, averaging around EUR 120 per MWh in Q2. In July, electricity prices on the German and Hungarian exchanges declined, to around EUR 110 and EUR 130 per MWh, respectively. According to market futures, the electricity price on the German exchange is expected to move at a similar level in the period ahead, with certain seasonal fluctuations.

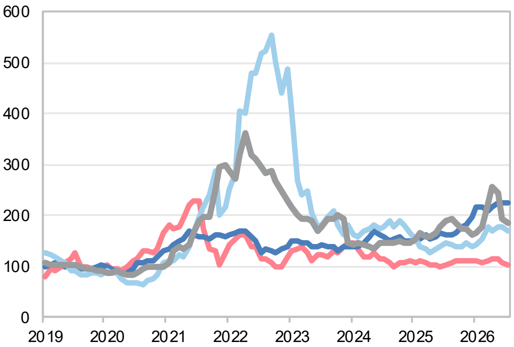
Chart V.0.19 **European price of electricity**
(EUR/MWh)



Source: Refinitiv.

Reduced availability and higher prices of alternative energy sources in electricity generation, as well as uncertainty regarding exports from Indonesia, one of the leading exporters, contributed to higher demand for **thermal coal**, the price of which averaged around USD 140 per tonne in June, almost unchanged compared to March, while in y-o-y terms it was higher by 27.1%. During July, the coal price declined to around USD 132 per tonne, primarily due to higher output in India. Consensus Economics expects the coal price to contract slightly in the period ahead, retreating to around USD 124 per tonne by the end of 2027.

Chart V.0.20 **Selected commodity prices in the global market**
(index, 2019 = 100)



Source: Commodity Prices, World Bank.

After continuing their upward trajectory in April, under the influence of the closure of the Strait of Hormuz, **mineral fertiliser prices** recorded a sharp decline by end-Q2, following the temporary ceasefire in the Middle East. The movement of mineral fertiliser prices was largely determined by the price of **urea**, which in June averaged around USD 453 per tonne, i.e. 37.6% lower than in March, but 7.8% higher y-o-y. Moreover, the decline in the urea price continued into July, when it averaged around USD 400 per tonne.

The **prices of most metals and minerals** continued to move on an upward trajectory in April and May, under the influence of supply disruptions caused by the Middle East conflict, after which they declined in June and July, as geopolitical tensions eased and the US dollar strengthened. Nevertheless, the prices of certain metals reached their highest levels on record during Q2 – the **price of aluminium** measured around USD 3,666 per tonne in May, while the **price of copper** reached a historic high of around USD 13,552 per tonne in June, supported by strong demand associated with the development of AI. Going forward, Consensus Economics expects a slight decline in metal prices. Even so, the world base metals price index[12] will be 13.0% higher at end-2026 than at end-2025, while at the end of 2027 it will be 4.4% lower than at the end of 2026.

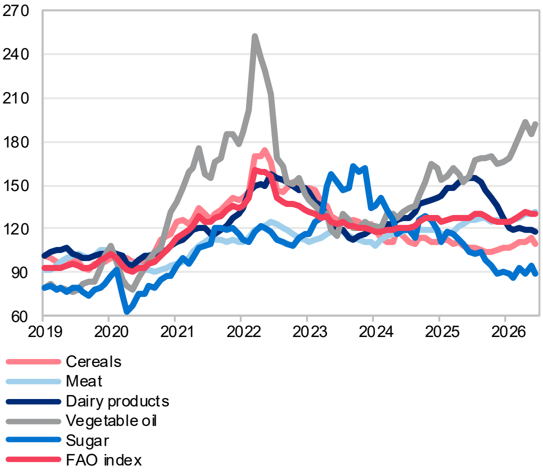
After increasing in April, **world food prices, measured by the FAO index**, declined by the end of Q2, but were still 1.3% higher in June than in March, while in y-o-y terms they were 1.7% higher. The price increase compared to March was driven by higher vegetable oil and meat prices, while lower sugar and dairy product prices acted in the opposite direction. The **world coffee price** declined during Q2 due to improved prospects for global supply, only to turn back up in July, measuring 11.0% higher than in the same period a year ago. By contrast, the **cocoa price** followed an upward trajectory during Q2 and into July under the influence of limited supply and concerns over production in West Africa, while in y-o-y terms, it was 26.3% lower in July due to last year's high base.

World prices of primary agricultural commodities (wheat, corn and soybean) during Q2 and July followed a predominantly upward trajectory, reflecting heightened geopolitical tensions and the heatwave in Western Europe. According to our projection, which is based on market futures, primary agricultural commodity prices are expected to continue their upward trajectory in the period ahead and stand 26.3% higher at end-2026 than at end-2025, declining thereafter by 1.3% during 2027.

Internal assumptions

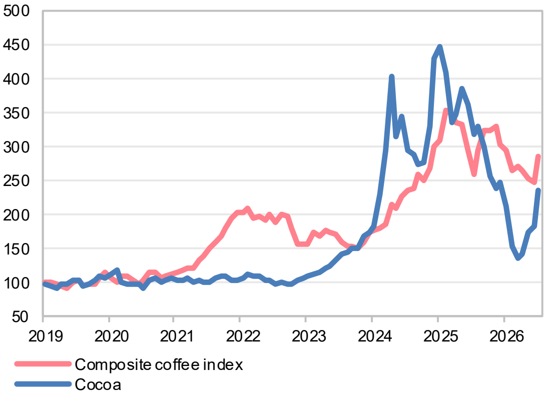
Unlike **primary agricultural commodity prices** in the international market, which recorded a y-o-y increase of 8.5% in Q2 2026, the prices of these products **on the domestic market** stagnated. However, due to the increase in energy costs and other inputs in agricultural production, we expect primary agricultural commodity prices on the domestic market to rise during Q4, i.e. to mirror the movement of their world counterparts. Thereafter, over the next two years, we expect primary agricultural commodity prices on the domestic market to show relatively stable movements, in line with prices for these products in the international market. As for the **domestic agricultural season**, our projection assumes that it will be better than the previous two, which were below average. Based on the data published so far by the SORS on expected wheat and early fruit production, as well as data on sown areas of autumn crops, we estimate that agricultural production in 2026 will increase by around 7%, which is higher than the May projection of 3%. This estimate relies to a significant extent on the assumption of a recovery in corn and soybean yields from last year's extremely low levels, which should more than compensate for the negative effect of reduced sown areas. Excellent yields were achieved in wheat, fruit and

Chart V.0.21 **World Food Price Index**
(in nominal terms, 2014−2016 = 100)



Source: UN FAO.

Chart V.0.22 **Coffee and cocoa prices in the global market**
(index, 2019 = 100)



Source: Refinitiv.

[12] 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%).

vegetables, with fruit and vegetable yields already reflected in lower domestic prices for these products since June and likely to have a disinflationary effect in the coming months as well. However, the final outcome of the agricultural season will still depend to a large extent on weather conditions during the remainder of the growing season, primarily their impact on corn and industrial crop yields. The heatwave in late July and early August could have repercussions primarily for corn. On the other hand, sunflower is expected to achieve record yields this year in some parts of Serbia. Although climate factors will continue to represent one of the key challenges for agricultural production in the period ahead, the implementation of the long-term strategy for climate change adaptation is expected to gradually mitigate their negative effects and support production growth.

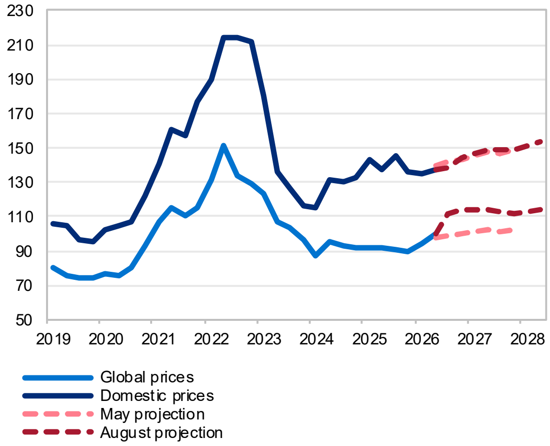
Having measured 7.0% in 2025, we assume, as in the previous projection, that **administered price growth** will slow to 5.7% in the current year due to slightly lower growth of these prices than expected at the start of the current year. We assume that the dynamics of administered price growth this year will primarily be determined by increases in the prices of utilities, electricity and cigarettes. Over the next two years, we expect administered price growth to moderate further to around 5.1%.

As for the factors influencing **domestic consumption**, we expect **wages** to remain a key source of consumer demand. Still, labour market pressures are expected to weaken over the projection horizon and real wage growth to slow and move more closely in line with productivity growth. Specifically, we assume that, after measuring 7% last year, average real wage growth in the private sector will slow to around 6.5% this year and then to 4.3% next year.

Consumer demand growth will also be supported by rising **pensions** in the period ahead, whose share in GDP should continue to move in line with fiscal rules, as well as by **remittances from abroad**, which we project at over EUR 5 bn in both this and next year. The rise in income disposable for consumption will also be underpinned by the expected continued **growth in household lending**, reflecting more favourable borrowing conditions and eased credit standards.

As in the previous projection, we assume that NIS will continue to operate and supply the market with petroleum products without major disruptions to the production process. This assumption is based on the fact that negotiations are underway with the Hungarian energy company MOL regarding the acquisition of the Russian stake in NIS, and that the US Office of Foreign Assets Control (OFAC) has extended the deadline for completing this transaction by 28 August this year.

Chart V.0.23 **Assumption for prices of primary agricultural commodities***
(Q4 2013 = 100)



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

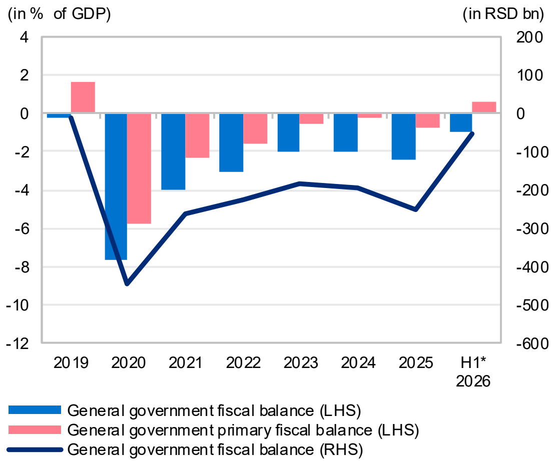
The production of base metals could face challenges in the period ahead following the **entry into force of the new EU regulatory framework for steel imports** as of 1 July 2026. The new measures imply significantly reduced tariff-free import quotas, while the tariff on imports outside the quota has been increased to 50% (double the rate under the previous regime), along with stricter rules on monitoring the origin of steel along the production chain. These measures aim to protect the European steel industry from the effects of global overcapacity in the steel sector. On the other hand, the 35% US tariffs on goods from Serbia have been eliminated and currently stand at 0%, which should have a positive effect on exports (it is expected that at some point tariffs will be set at a level of 10–12%).

Since the beginning of the current year, the **CBAM** has entered into force, and its implementation could affect production and export costs in certain industrial sectors covered by this regulation (iron and steel, aluminium, cement, fertilisers, hydrogen and electricity). The share of these industrial products in total goods export to the EU in 2025 stood at 11.3%, with iron and steel having the largest share (around 5%), followed by electricity and aluminium (around 3% each). As a result, price competitiveness in these sectors could decline to a certain extent as of next year, although electricity production is already adjusting to the introduction of this levy, resulting in a decline in electricity exports. In response to the CBAM introduction, Serbia adopted the Law on the Greenhouse Gas Emission Tax, which stipulates the taxing of carbon dioxide emissions in the above industrial sectors, thereby fulfilling the preconditions for reducing domestic producers' costs through tariff reductions, and thus mitigating the negative effects on exports. In addition, revenues collected under this tax remain in Serbia's budget, providing greater support to domestic demand.

In January–June 2026, the government fiscal deficit amounted to RSD 55.8 bn (c. 1% of GDP), while the primary government surplus equalled RSD 31.4 bn.

Public revenue in the first six months of 2026 increased by 8.6% in real y-o-y terms, primarily driven by revenue growth from wages (income tax and social security contributions), due to continued real wage growth, to which public sector wage and minimum wage increases contributed. Wage growth, along with a certain contribution from increased household lending, was reflected in continued growth in private consumption, and consequently in VAT revenues. A somewhat smaller contribution came from increased non-tax revenues and inflows from profit tax, based on higher corporate profitability in 2025 (up by 11% compared to 2024). By contrast, the reduction in excise duties on petroleum products was reflected in a decline in tax revenues, although this measure is of a short-term nature. **Public expenditure** recorded growth of 10.1%, in real terms, due to increases in public sector wages and pensions, as

Chart V.0.24 **General government fiscal and primary fiscal balance**



Sources: Ministry of Finance and NBS.

* Share in projected nominal GDP for H1.

well as a broadening of the coverage of wage expenditure in the government sector.[13] Capital expenditures, spending on goods and services, as well as other current expenditures and subsidies, contributed to the growth to a somewhat lesser extent, with a similar effect.

The share of general government debt in GDP stood at 44.1% in June 2026, down by 0.6 pp compared to end-2025.

According to our estimate, following an approximately neutral **fiscal impulse**[14] in 2025, fiscal policy in the current year will be moderately expansionary in character, but we do not expect significant inflationary effects on this account, bearing in mind that the announced stimulus measures aimed at consumption (payouts to pensioners and adult citizens from the state-administered investment fund) have a one-off effect, and that the measures relating to excise tax reductions were precisely taken to prevent larger second-round inflationary effects. Thereafter, in 2027 and 2028, the fiscal impulse will move into negative territory, facilitated by the gradual downward trajectory of the deficit-to-GDP ratio, in order to align with the fiscal rule.

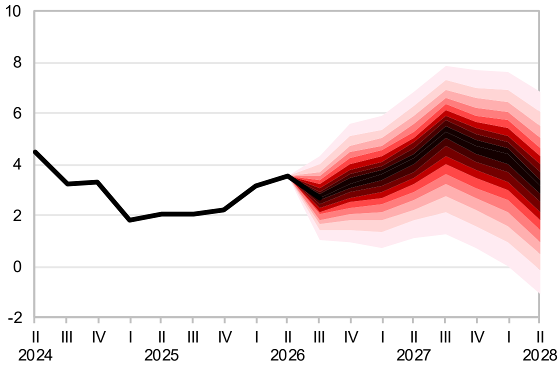
Provided that the energy crisis does not deepen significantly, we do not expect the fiscal deficit in the current and following year to exceed planned levels, with the projected deficits for 2028 and 2029 leaving room for response in conditions of heightened uncertainty in the international environment, without undermining the downward trajectory of public debt.

GDP projection

As economic activity in H1 turned out more favourable than anticipated, we have revised up our GDP growth projection for 2026 from 3.0% to 3.2%, while the projection for 2027 remains unchanged at 4.5%. Over the medium term, we expect stable economic growth of around 3.5% p.a., in line with its potential rate.

Domestic demand will remain the key driver of economic growth in the period ahead. Within domestic demand, household consumption is expected to provide the largest positive contribution, with government consumption also being a positive contributor. Gross fixed capital formation will also support GDP growth, underpinned by the implementation of infrastructure projects planned under the "Leap into the Future – Serbia Expo 2027" programme. Given more favourable foreign

Chart V.0.25 **GDP growth projection**
(y-o-y rates, in %)



Source: NBS.

[13] As of 1 January 2026, the revenues and expenditures of higher and tertiary education institutions have been included in the general government budget, which has raised the ceiling on wage expenditure in the general government budget to 10.6% of GDP.

[14] The fiscal impulse is measured as the change in the cyclically adjusted primary balance of the general government relative to the previous period (in percentage points of potential GDP), with a positive value indicating an expansionary effect of fiscal policy.

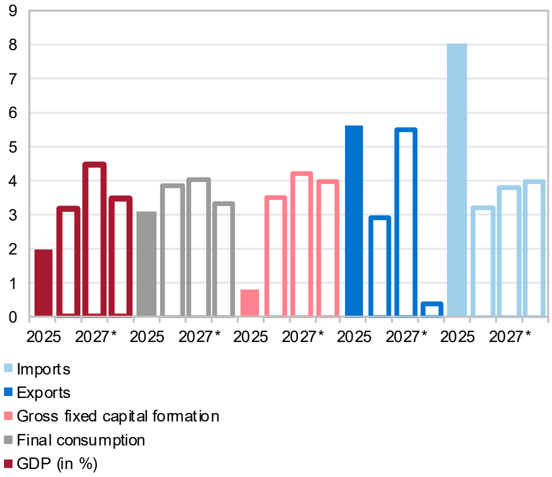
trade developments in the year to date, primarily the steady growth in goods and services exports and more moderate import dynamics, we now expect real exports and imports to grow at a similar pace in 2026. As a result, the negative contribution of net exports to GDP growth will be mild and smaller than in the previous projection. By contrast, net exports are expected to make a positive contribution in 2027, primarily owing to the acceleration of exports of tourism and business services associated with the specialised Expo exhibition.

Looking at individual components, **private consumption**, accounting for the largest share of GDP, is anticipated to be the main driver of economic growth according to the August projection. Its contribution is projected at 2.7 pp in 2026, 2.9 pp in 2027 and 2.3 pp in 2028. Compared with the previous projection, this contribution has been revised slightly upwards for all three years. Personal consumption growth will continue to be supported by an increase in the main sources of consumption – wages, pensions, remittances and loans intended for consumption – although its pace will be partly moderated by rising global inflationary pressures amid higher energy prices.

Government consumption will continue to make a positive contribution to GDP growth, averaging around 0.4 pp in the current year and in the following two years according to the August projection, unchanged from the previous projection. The government consumption growth projection takes into account planned expenditure on wages, as well as higher expenditure on goods and services, primarily Expo-related. At the same time, we assume that, owing to the reduction in excise duties on petroleum products this year, expenditure on the purchase of goods and services will be somewhat lower than envisaged in the previous projection.

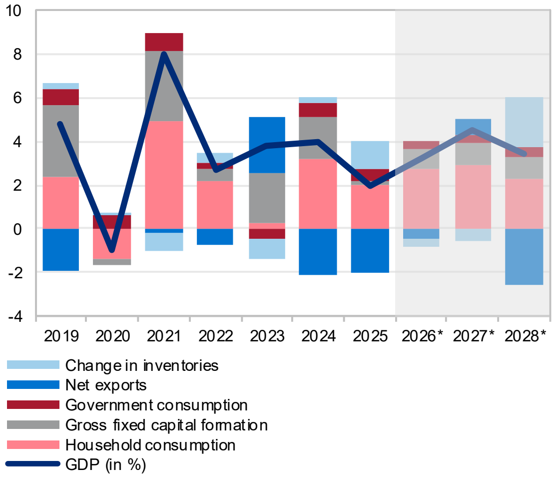
Following the slowdown in the previous year, total **fixed investments** are expected to grow by around 3.5% in 2026 and add 0.9 pp to GDP growth, broadly in line with the May projection. The projected contribution to growth in 2027 has been revised slightly downwards, to 1.0 pp, while for 2028 it remains unchanged from the previous projection, also at 1.0 pp. These revisions primarily reflect changes in the implementation dynamics and somewhat lower planned expenditure on investment and infrastructure projects, including projects under the "Leap into the Future – Serbia Expo 2027" programme. Overall, the medium-term outlook for investment activity remains broadly unchanged. Its growth should continue to be supported by the sustained profitability of the domestic economy, continued FDI inflows, relatively favourable financing conditions, the expected expansion of lending activity and the implementation of planned infrastructure projects. On the other hand, elevated global uncertainty, geopolitical tensions, energy price movements and weaker external demand continue to pose risks to the projection.

Chart V.0.26 **Real growth in GDP and its components, expenditure side**
(in %)



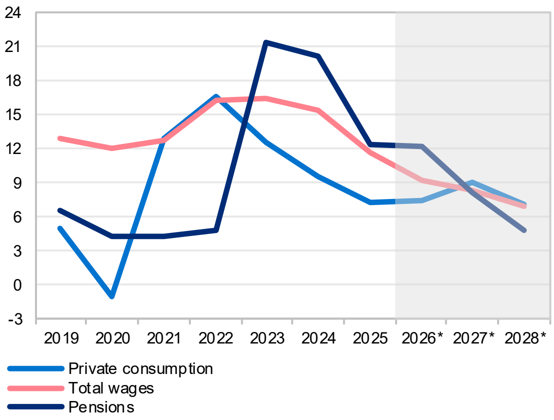
Sources: SORS and NBS.
* NBS estimate and projections.

Chart V.0.27 **Contributions to real GDP growth**
(in pp)



Sources: SORS and NBS.
* NBS estimate.

Chart V.0.28 **Rate of growth in private consumption and its sources**
(nominal y-o-y rates, in %)



Sources: SORS and NBS calculations.
* NBS estimate.

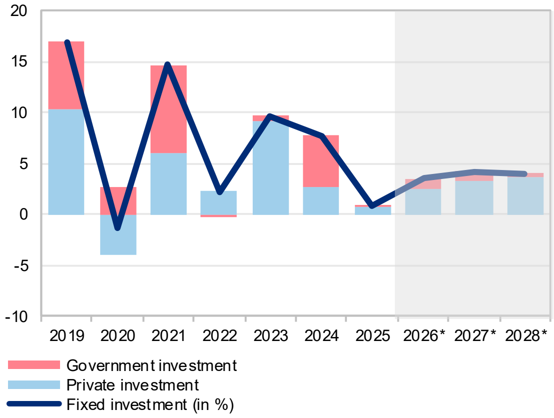
The August projection assumes a decline in **inventories** in 2026 and 2027, primarily reflecting the drawdown of inventories accumulated in the previous period, including energy inventories, followed by a recovery in 2028.

The new projection assumes continued growth in **goods and services exports** in 2026, despite persistently elevated global uncertainty, geopolitical tensions and the potential adverse effects of the Middle East conflict on energy prices, international trade flows and economic growth in Serbia's key trading partners. In view of more favourable outturns in the year to date, we have revised the export growth projection upwards, supported by the resilience and diversification of the domestic export sector, increased production and export capacities in the automotive industry and related sectors, and stronger mining and services exports. This will also be supported by the lifting of the 35% US tariffs on goods from Serbia (currently at 0%, until they are eventually set at 10–12%). At the same time, in light of lower-than-expected outturns, the import growth projection has been revised downwards, also reflecting lower energy imports than assumed in the May projection. We therefore now expect real exports and imports of goods and services to grow at a similar pace in 2026, implying a more favourable contribution of net exports to GDP growth than envisaged in the previous projection, i.e. only a modest negative contribution (-0.5 pp). These developments also suggest that, assuming there is no renewed escalation of the Middle East conflict, the current account deficit in 2026 could be considerably lower than projected in May. In 2027, we expect net exports to make a positive contribution of 0.7 pp, primarily reflecting faster growth in services exports, particularly tourism and business services, supported by the expected influx of foreign visitors for the international specialised Expo exhibition.

On the production side, we continue to expect GDP growth in the current year and the following two years to be driven primarily by **service sectors**, with their projected contribution remaining almost unchanged from May. The contribution of service activities is expected to amount to around 2.1 pp in 2026 and rise to around 3.2 pp in 2027, partly reflecting the effects of the specialised Expo exhibition. In 2028, the contribution of service activities is expected to return to around 2.2 pp. At the same time, growth in consumption and service-sector activity will support tax revenue collection, with **net taxes** therefore projected to continue making a positive contribution to GDP growth, averaging around 0.6 pp p.a.

The August projection also envisages growth in **production sectors**, whose combined contribution to GDP growth is projected at 0.7 pp in 2026, 0.6 pp in 2027 and 0.7 pp in 2028. Overall, the GDP growth projection from the production side has not changed significantly compared with May, although certain revisions have been made to the composition of contributions by individual sectors. For the current year, the projection for

Chart V.0.29 **Fixed investment**
(y-o-y growth, in pp)



Sources: SORS and NBS calculations.
* NBS estimate.

Table V.0.4 **Planned capital projects within the "Leap into the Future – Serbia Expo 2027" programme**
(in EUR mn)

Project	By 2026	2026	2027	2028	2029	After 2029	Total value
1. Expo	769	361	76	0	0	0	1,206
2. Transport infrastructure; construction of highways, expressways, bridges, tunnels, etc.	4,190	854	557	595	419	1,120	7,734
3. Railway infrastructure; Hungarian-Serbian railway project, reconstruction and modernisation of the Belgrade-Niš railway, etc.	1,728	545	517	312	174	1,491	4,766
4. Air and water transport and hydropower; Đerdap 2, "Arilje" dam, extension of capacity of the existing ports, etc.	161	22	62	41	58	144	487
5. Utility infrastructure	467	79	118	116	118	2,496	3,394
6. Other projects; modernisation of public sector infrastructure, education, science, health, sport, etc.	884	512	304	147	61	67	1,974
TOTAL	8,199	2,373	1,633	1,210	830	5,317	19,561

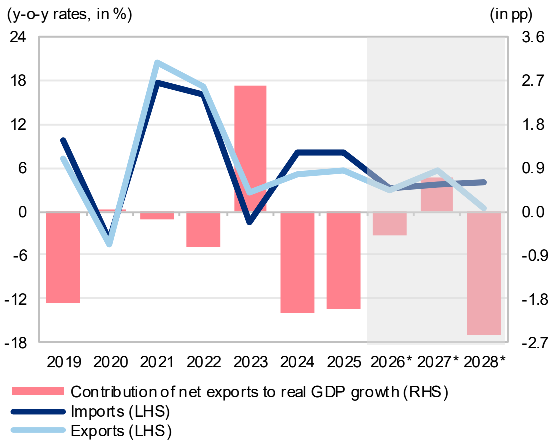
Source: Fiscal Strategy for 2027 with Projections for 2028 and 2029.

total industrial production growth has been revised slightly downwards. In the **mining sector**, taking into account outturns in the year to date, we now expect a mild decline, rather than the modest growth projected in May. At the same time, activity in the **energy sector** is projected to decline, primarily due to production adjustments following the introduction of the CBAM and unfavourable hydrological conditions, in line with developments observed so far. By contrast, the growth projection for **manufacturing** has been revised upwards, reflecting favourable results in the automotive industry, the expected further increase in electric vehicle production in Kragujevac, and the normalisation of petroleum product and chemical industry output. Manufacturing is therefore expected to continue making the largest positive contribution among the production sectors, at 0.3 pp in both 2026 and 2027 and 0.4 pp in 2028, primarily reflecting the effects of past investment. In the coming years, activity in the energy and mining sectors is also expected to recover gradually, supported by the implementation of planned structural reforms in accordance with the arrangement with the IMF and further expansion of renewable electricity generation capacities.

Following a decline of more than 5% in **construction** in 2025, the sector is expected to make a positive contribution of 0.2 pp in both 2026 and 2027 and 0.1 pp in 2028, supported by the planned implementation of infrastructure projects in transport, energy, utility and information infrastructure, as well as the implementation of the “Leap into the Future – Serbia Expo 2027” programme and continued residential construction.

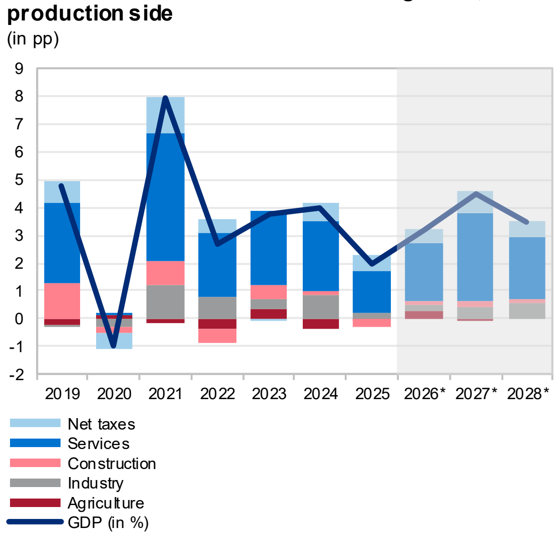
As regards **agriculture**, based on SORS data on expected wheat and early fruit production, as well as data on areas sown with autumn crops, we expect agricultural production to grow by around 7% in 2026 (vs. 3% expected in May), contributing 0.3 pp to GDP growth (instead of 0.1 pp). The expected growth also largely reflects the assumed recovery in corn and soybean yields from last year’s exceptionally low levels, which should offset the impact of reduced sown areas. Nevertheless,

Chart V.0.30 **Real export and import growth**



Sources: SORS and NBS.
* NBS estimate.

Chart V.0.31 **Contributions to real GDP growth, production side**



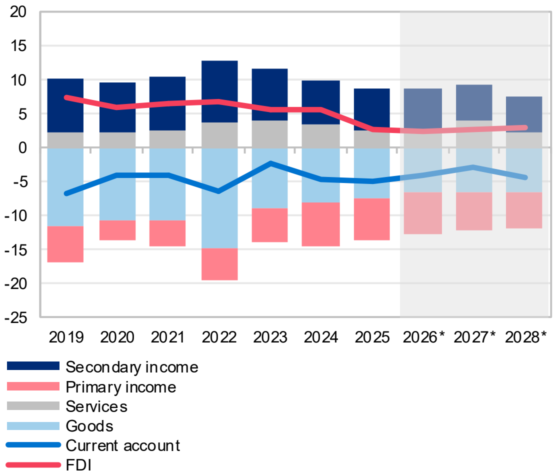
Sources: SORS and NBS.
* NBS estimate.

the final outcome of the agricultural season will depend on the effects of weather conditions on corn and industrial crop yields. In the coming years, the implementation of a long-term climate change adaptation strategy should provide additional support to growth in agricultural output.

Projection of Serbia's external position

Taking into account the performance in the first part of the year, which was more favourable than expected, the new projection envisages a lower current account deficit in the current year (4.1% of GDP) than the previous projection. The reduction in the projected current account deficit is primarily the result of more favourable developments in foreign trade, with exports growing more strongly than expected and imports growing at a more moderate pace, resulting in a smaller foreign trade deficit. At the same time, exports of services continued to grow faster than imports, further contributing to favourable developments in the current account. The projected deficit for 2027 has also been revised slightly downward and now stands at around 3% of GDP, with a further reduction expected, driven by higher exports of services associated with the hosting of the Expo, while in 2028 the deficit is expected to remain around its equilibrium level of approximately 4% of GDP. The projection still assumes continued growth in goods and services exports, supported by investment in export-oriented sectors, the activation of new capacities in the automotive industry, and a gradual recovery in external demand.

Chart V.0.32 **Current account and FDI projection**
(in % of GDP)



Source: NBS.
* NBS projection.

As for the other components of the balance of payments current account, the projection assumes that the secondary income surplus will amount to slightly below 6% of GDP and will almost entirely offset the deficit in primary income (primarily income from FDI and labour). As for **FDI inflows**, we expect them to remain highly diversified by geography and project, with the bulk of inflows continuing to be directed towards export-oriented sectors. Regarding the level of net FDI inflows, our estimate is more conservative than in the previous projection, with inflows expected to average around 3% of GDP in the coming years, given the environment of heightened global uncertainty and the ongoing transformation of European value chains, which may affect decisions regarding the scale and timing of investment projects.

Inflation projection

According to our new central projection, **y-o-y inflation is expected to remain within the target band through the end of the projection horizon, i.e. over the next two years**. From September this year, inflation will move slightly above 4%, partly due to a low base effect from the previous year resulting from the application of the decree, and partly due to the effects of higher global prices of energy and other primary commodities. Over the coming year, inflation is expected to be moderated by a gradual easing of cost-push pressures from the international environment, as well as the projected slowdown in the growth of real wages and their greater alignment with productivity growth. Working in the opposite direction will be the low base effect from this year, reflecting a significant decline in fruit and vegetable prices due to an exceptionally good harvest. As a result of these opposing factors, y-o-y inflation is expected to follow a similar, stable path throughout the coming year and remain slightly above 4%, before gradually declining toward the end of the projection horizon. Demand is also expected to strengthen further in 2027 due to the hosting of the Expo, but this should not generate pressures that would cause inflation to move away from the target band.

In line with the trajectory described above and the inflation outturn in the year to date, which has been lower than previously projected, **average inflation in 2026 is expected to stand at 3.2%** (compared with 3.6% in the May projection). **The projected inflation path thereafter is similar to that in the previous projection.**

Inflation outturn in the year to date has been lower mainly owing to **a generous fruit and vegetable harvest, which was reflected in their prices**. Following a significant decline in Q4 2025, fruit and vegetable prices remained at a low level during H1 2026 and declined further in July. Y-o-y food price dynamics continue to be affected by the **decree** under which retail trade margins were capped at 20% for six months starting in September last year. As we had anticipated, following the expiry of the decree at the end of February, there were no significant price adjustments for the products covered by the decree, and consequently, no major inflationary pressures emerged on this account.[15]

Among the key factors shaping the projected inflation path in the baseline scenario are higher global prices of oil and other primary commodities, which, combined with the low base effect from September last year resulting from the application of the decree capping retail trade margins, are expected to cause inflation to move slightly above 4% from September this year. **The global oil price** increased following the renewed escalation of the conflict in the Middle East and remained volatile in recent weeks. Taking futures prices into account, this projection assumes a somewhat higher path for the global oil price compared with the previous projection. Renewed attacks on merchant vessels and continued disruptions to maritime traffic through the Strait of Hormuz have constrained the transportation of crude oil and natural gas, which remains below usual levels, while the risk of further damage to energy infrastructure in the region remains elevated. Nevertheless, the effects passed through the main channels of transmission of the energy shock – commodity prices, inflation expectations and financial conditions – remain relatively limited, while the

Table V.0.5 **Key projection assumptions**

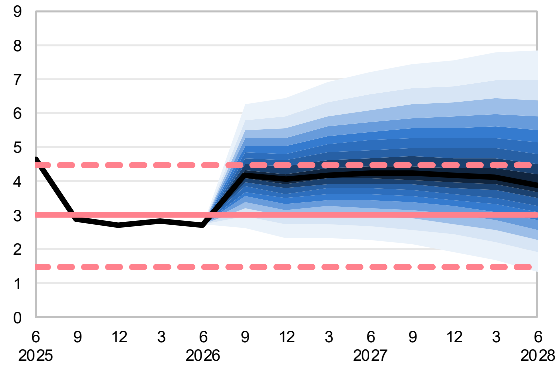
	2026		2027		2028	
External assumptions	May	Aug	May	Aug	May	Aug
Euro area GDP growth	0.9%	0.8%	1.3%	1.2%	1.5%	1.5%
Euro area inflation (average)	2.8%	2.9%	2.1%	2.3%	1.9%	1.9%
3M EURIBOR (December)	2.8%	2.8%	2.7%	2.9%	2.8%	2.9%
International prices of primary agricult. commodities (Q4 to Q4)*	10.5%	26.3%	1.6%	-1.3%	-3.0%	-0.1%
Brent oil price per barrel (end of year, USD)	80	83	74	75	72	72
Internal assumptions						
Administered prices (Dec. to Dec.)	5.7%	5.7%	5.1%	5.1%	5.0%	5.0%

* Composite index of soybean, wheat and corn prices.

Sources: ECB, Consensus Economics, Euronext, CBOT, Bloomberg and NBS.

Chart V.0.33 **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%.

[15] See text box 1, p. 18.

global economy has so far weathered the consequences better than initially anticipated. Nevertheless, caution is warranted, as the transmission of these effects is still subject to time lags, while the use of available inventories has so far mitigated the impact of reduced energy flows.

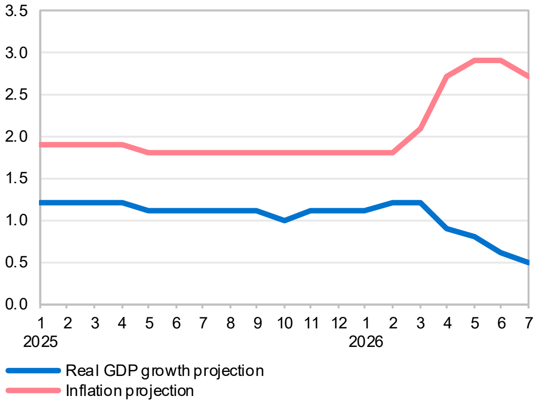
For Serbia, as a small and open economy that is highly dependent on energy imports, a higher global oil price directly affects **the prices of petroleum products in the domestic market**, while **indirect effects** are transmitted through higher transport and production costs and higher prices of other goods and services. Due to higher input costs, greater cost-push pressures arising from global prices of primary agricultural commodities can also be expected. In addition, forward-looking indicators, including the **Global Supply Chain Pressure Index**, which is at its highest level since 2022, point to the possibility of a gradual increase in cost pressures in the coming period, which could be reflected in **import price developments and cost-push pressures in the domestic economy**. There is a risk that the energy shock could lead to more persistent inflation through **second-round effects** if higher inflation expectations spill over into firms' pricing decisions or wage-setting. However, although cost-push pressures will continue to affect global inflation in the short term, we expect them to gradually ease over the projection horizon. This will gradually contain inflationary pressures from the international environment and allow domestic inflation to return to the target.

Accordingly, under the baseline scenario, we do not expect significant second-round effects of higher global oil prices on inflation over the projection horizon. Key indicators, such as inflation expectations, firms' expectations regarding the movement of their own prices, wage dynamics, and food price developments, do not point to the emergence of such effects. Inflation expectations of the financial sector over the medium term have continued to hover around the 3% target midpoint, confirming that the credibility of the NBS's monetary policy has been preserved.

The one-week BELIBOR, in real terms (calculated based on the financial sector's one-year ahead inflation expectations), stood at 0.8% in Q2 2026, slightly lower than in the previous quarter.

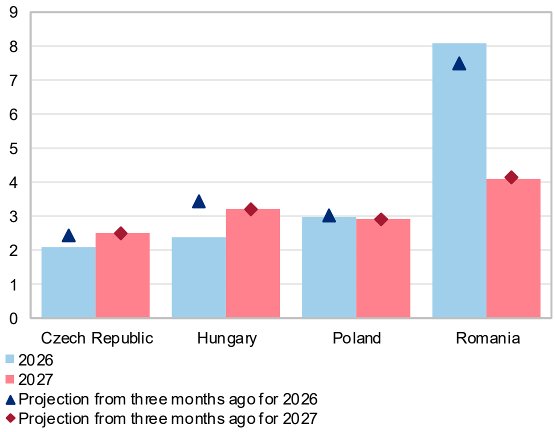
Domestic factors, primarily **wage growth, fiscal policy** and **administered prices**, are not expected to generate significant inflationary pressures. As for **aggregate demand**, we estimate that the **output gap remains slightly negative**, also reflecting the negative output gap in the euro area. We expect the negative output gap to close in Q4 of this year and subsequently remain around its neutral level until the end of the projection horizon, indicating that aggregate demand should not be any major source of inflationary pressures. At the same time, a positive contribution to the output gap estimate comes from real wage growth throughout the projection period

Chart V.0.34 **GDP and average inflation projections of the euro area for 2026**
(in %)



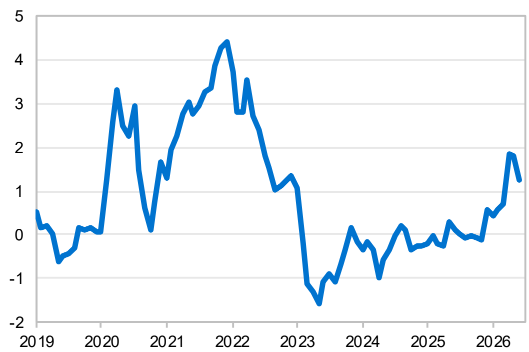
Source: Consensus Economics.

Chart V.0.35 **Projection of average inflation**
(in %)



Source: Consensus Economics.

Chart V.0.36 **Global supply-chain pressures**
(index, in standard deviations)



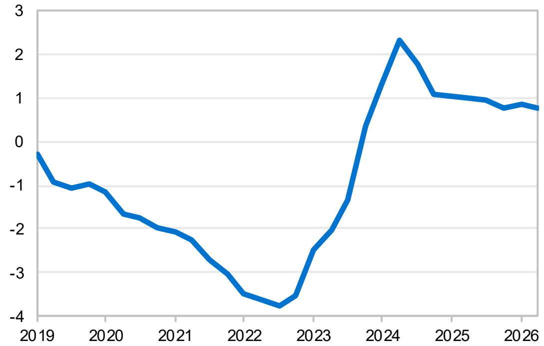
Source: Federal Reserve Bank of New York.

and, to a lesser extent, from the fiscal impulse this year, while weak external demand is working in the opposite direction. The expected real growth in wages resulting from the increase in the minimum wage will have the greatest impact on the growth of disposable income available for consumption. Although the wage gap is expected to remain positive over the entire projection horizon (due to the estimated faster growth in real wages than their long-term trend), inflationary pressures from this source are expected to weaken, as **real wage growth is expected to slow over the projection horizon and move closer to productivity growth**. Favourable lending conditions should also result in further growth in lending activity. As for **external demand**, the conflict in the Middle East and the resulting uncertainty are slowing global economic growth. Therefore, we expect external demand to remain weak in the short term, under pressure from the energy shock and global instability, with a more significant recovery expected in the medium term.

Looking at individual components, we expect the contribution of **food prices (excluding fruit and vegetables)** to y-o-y inflation to be affected by the increase in global prices of primary agricultural commodities, the indirect effects of higher petroleum product prices, and the low base effect during the period in which the decree was in force. At present, the contribution of food prices to y-o-y inflation is negative, but due to the aforementioned factors, it is expected to gradually increase and move into positive territory in Q4 of this year. Thereafter, it is expected to increase steadily and stabilise at 1 pp by the end of the projection horizon. Specifically, based on futures prices for primary agricultural commodities, we estimate that raw material costs in food production (excluding fruit and vegetables) will rise above their neutral level in the coming period, and therefore expect them to exert inflationary pressure on food prices. Food price growth will also be affected by the indirect effects of higher petroleum product prices and, to some extent, by higher labour costs. On the other hand, as in the previous projection, we do not expect margins to return to their pre-decree levels following the decree's expiry in March. This should be supported by a set of laws adopted to improve market regulation and prevent unfair trading practices, with the aim of preserving price stability and protecting consumers. Nevertheless, due to the low base effect from last year resulting from the application of the decree, food prices are expected to go up y-o-y from September.

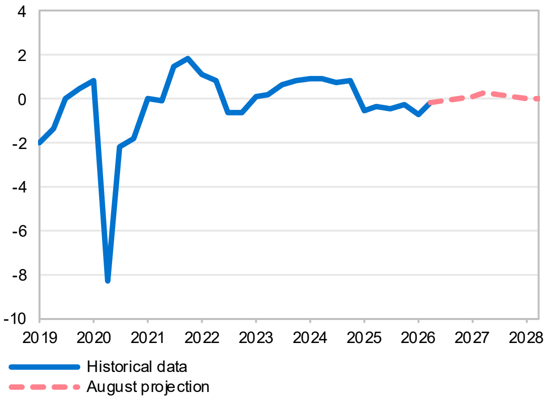
We assume that **fruit and vegetable prices**, which remained at a relatively low level during H1 of this year and declined further in July thanks to this year's exceptionally good harvest, will gradually return to their long-term trend. Accordingly, the contribution of fruit and vegetables to y-o-y inflation is expected to be strongly negative (-0.8 pp) in Q3 this year, resulting in a significant slowdown in headline inflation. It will likely move into positive territory thereafter and, due to the base effect, become strongly positive in Q3 next year (0.8 pp).

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



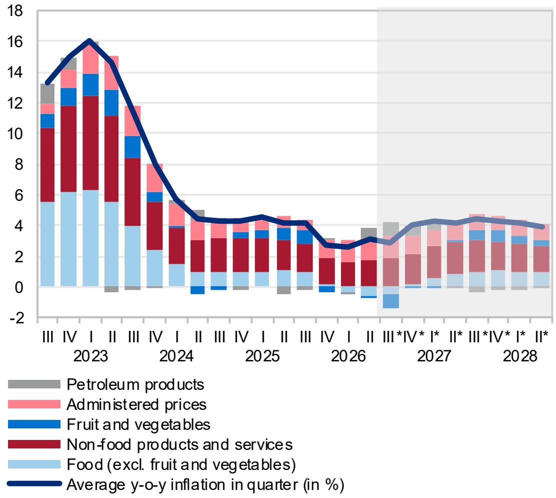
Source: NBS.
Note: The real interest rate is obtained as the difference between 1W BELIBOR and one-year ahead inflation expectations of the financial sector, according to the Bloomberg survey.

Chart V.0.38 **Output gap projection***
(in % of potential output)



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

Chart V.0.39 **Contributions to y-o-y inflation by component**
(average y-o-y rates, in pp)



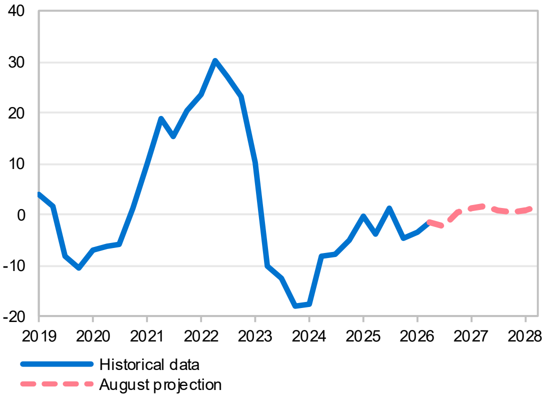
Source: NBS.
* NBS projection.

We expect the contribution of **non-food product and service** prices to inflation to gradually increase, reaching 2.1 pp in H1 of next year, after which it is expected to steadily decline and stand at 1.7 pp at the end of the projection horizon. The dynamics of non-food product and service prices depend to a large extent on the prices of numerous imported products. Therefore, the increase in this group's contribution will be driven primarily by higher imported inflation, as well as by the indirect effects of higher petroleum product prices. Although signs of more serious disruptions remain limited, it is clear that there are problems with the supply and flow of goods worldwide, as well as that international transportation costs have gone up. The positive contribution to the non-food component of inflation will also stem from the increase in the minimum wage, which is expected to affect, to some extent, the increase in costs in the services sectors, as well as disposable income available for consumption. However, no significant inflationary effects are expected on these grounds, as real wage growth is expected to slow and move more closely in line with productivity growth.

Due to reduced oil supply from the Black Sea region and higher transportation costs, stock exchange prices of petroleum products in the Mediterranean did not decline to the same extent as the global oil price during June and early July, which, together with low water levels on the Danube, also resulted in higher wholesale prices in the domestic market. Against this backdrop, we expect the contribution of **petroleum product prices to y-o-y inflation** to increase to 0.8 pp in Q3 this year, after which it is expected to gradually decline and move into negative territory in a year's time (due to the high base effect from this year), before standing slightly below zero (-0.1 pp) at the end of the projection horizon, assuming that the global oil price will also decline, in line with futures prices from Q3 this year onward. We also assume that full-scale production by NIS will be ensured and that the domestic market will be adequately supplied with petroleum products.

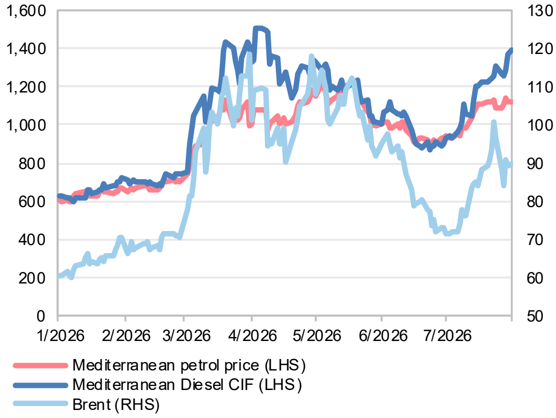
As in the previous projection, the new projection also assumes an increase in **administered prices** of 5.7% this year, while the projected increase in these prices in 2027 is 5.1%. Such a path for administered prices should result in a gradual decline in their contribution to y-o-y inflation, from 1.5 pp at the beginning of the projection horizon to 0.9 pp at its end.

Chart V.0.40 **Real marginal costs gap in food production**
(% deviation from trend)



Source: NBS.

Chart V.0.41 **Comparison of quotation prices in the Mediterranean and the global oil price**
(USD/t) (USD/barrel)

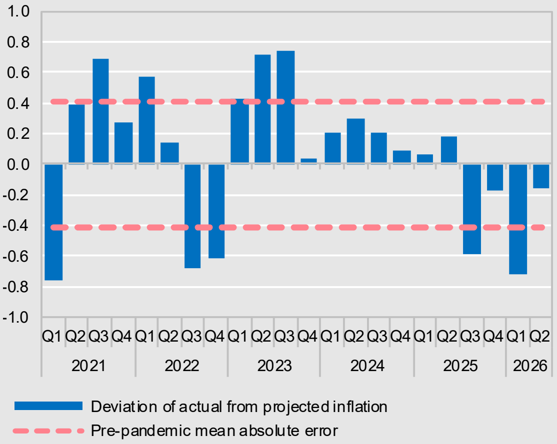


Source: Refinitiv.

Text box 4: Analysis of deviations of inflation and GDP outturns from projections for Serbia

In this text box, we analyse the deviations of one-quarter ahead inflation and GDP projections, as well as one-year ahead inflation projections, from their outturns in the post-pandemic period, i.e. from the beginning of 2021 to mid-2026. As this period was marked by a series of powerful global shocks (the energy crisis, the crisis in Ukraine, trade protectionism and the Middle East crisis), we compared the results with the pre-pandemic period (Q1 2015 – Q4 2019), which was used as the reference period. The accuracy of NBS projections was assessed using the mean absolute error (MAE), which represents the average absolute difference between actual and projected values. The ECB carried out a similar analysis for the euro area in June.[1]

Chart O.4.1 **Deviation of actual from one-quarter ahead projected inflation***
(in pp)



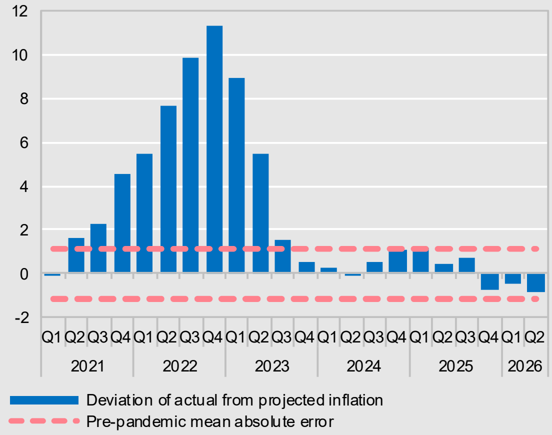
* Deviation = actual inflation for a specific quarter - projection developed one quarter earlier.
Source: NBS.

In the pre-pandemic period, the mean absolute error of the one-quarter ahead GDP projection was 1.1 pp. For inflation, the mean absolute error of the one-quarter ahead projection was 0.4 pp, while that of the one-year ahead projection was 1.1 pp. The larger deviations of one-year ahead projected inflation from actual inflation compared with one-quarter ahead projections reflect the considerably greater challenges involved in forecasting inflation over a longer horizon, during which endogenous and exogenous shocks of different directions and intensities may materialise. One example was the outbreak of the conflict in Ukraine in early 2022, which caused all projections until the end of that year to deviate significantly from the outturns. Thereafter, **the deviations of projected inflation and GDP for Serbia from their outturns gradually narrowed until the end of the observed period, i.e. Q2 2026, and predominantly remained within the range of pre-pandemic values** (Charts O.4.1, O.4.2 and O.4.3).

Inflation projections

For the one-quarter ahead inflation projection, the mean absolute error of NBS projections was 0.4 pp, with the deviations of actual from projected inflation narrowing over the past two and a half years (the ECB calculated a similar forecast error of 0.3 pp for the euro area). Exceptions were the downward deviations in Q3 2025, reflecting the adoption of the decree capping trade margins, and subsequently in Q1 2026, owing to weaker-than-expected inflationary effects following the repeal of the decree (Chart O.4.1). This means that these deviations resulted from specific factors rather than from a systematic tendency to overestimate inflation.

Chart O.4.2 **Deviation of actual from one-year ahead projected inflation***
(in pp)



* Deviation = actual inflation for a specific quarter - projection developed one quarter earlier.
Source: NBS.

The largest deviations of actual inflation from one-year ahead projections were recorded during 2022 and in early 2023, when actual inflation significantly exceeded initial expectations, primarily owing to the sharp rise in global energy and other primary commodity prices, as well as heightened global cost-push pressures. After peaking, **the deviations gradually narrowed and, from mid-2023 to mid-2026, remained within the range of pre-pandemic values** (Chart O.4.2). **This indicates that, in the absence of major external shocks, the NBS forecasts one-year ahead inflation relatively accurately**.

GDP projections

Unlike inflation projections, deviations in short-term GDP projections during the post-pandemic period were mostly on the upside, meaning that actual GDP growth exceeded our expectations in most quarters. More specifically, in only one quarter between 2021 and the end of 2024 (Q3 2022), projected real GDP growth was below the actual outturn. This pattern indicates that, **in its GDP projections over the previous years, the NBS adopted a conservative and cautious approach to assessing economic activity**.

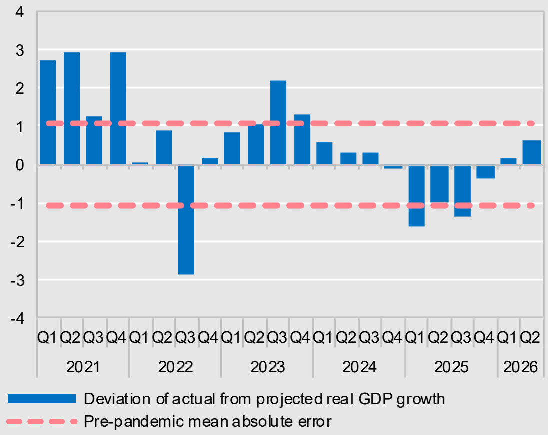
[1] See: An update on the performance of Eurosystem/ECB staff projections for growth and inflation, Eurosystem staff macroeconomic projections for the euro area, ECB, June 2026.

On the other hand, the downward deviations in GDP projections recorded during 2025 may be associated with heightened global uncertainty, the unresolved situation concerning the operations of NIS, as well as protests and blockades in the country, which adversely affected investment and consumer confidence.

Nevertheless, **over the past three quarters, GDP projections have been more aligned with the outturns** (Chart O.4.3), **despite the continued presence of the above uncertainty factors. At the same time, since the beginning of 2026, the deviations have again been positive, reflecting stronger-than-expected real GDP growth, particularly in Q2**.

The analysis of deviations of projected GDP growth and inflation in Serbia from their outturns provides an indication of the accuracy of the projections used as a basis for monetary policy decisions. **The results show that deviations in NBS projections during the observed period were largely attributable to difficult-to-predict developments in the international environment rather than to systemic weaknesses in the macroeconomic projection models**. Following a marked increase in the deviations of actual inflation and GDP from their projected values during 2022, i.e. after the outbreak of the crisis in Ukraine, the accuracy of macroeconomic projections gradually returned to levels characteristic of the pre-pandemic period, despite the prolonged effects of earlier shocks and the emergence of new ones.

Chart O.4.3 **Deviation of actual from one-quarter ahead projected GDP***
(in pp)



* Deviation = actual real GDP growth in a specific quarter - projection developed one quarter earlier.
Source: NBS.

Projections by other institutions for Serbia and comparison with the NBS's projections

In June, as part of the third review of the Policy Coordination Instrument (PCI), the **IMF** assessed that the conflict in the Middle East and the resulting higher energy prices are having a negative impact on investment confidence and disposable income available for consumption. Consequently, it projected **real GDP growth in Serbia of 2.8% in 2026, the same rate being projected by the European Commission**. Both institutions expect economic growth to accelerate in 2027, supported by continued growth in households' disposable income on the back of wage growth, as well as the hosting of the Expo, with the IMF projecting growth of 4.0% and the European Commission 3.9%. According to the **Ministry of Finance's projection, GDP growth will amount to 3.0% in 2026, accelerating to 4.5% in 2027**, which is in line with our projection for next year and close to our projection for this year. At the same time, **Consensus Economics** expects somewhat more moderate growth, of 2.7% in 2026 and 3.5% in 2027.

The IMF and the European Commission project an increase in the current account deficit to around 6% of GDP this year, driven on the import side by high energy prices and infrastructure investment, and on the export side by EU restrictions on steel imports from non-EU countries, as well as weak external demand. According to the assessments of these institutions, tourism inflows related to the specialised Expo will temporarily reduce the deficit next year – to 4.5% according to the IMF, which is also the Ministry of Finance's projection, and to 4.9% according to the European Commission. **Our projections are lower – around 4% in 2026 and 3% in 2027**, primarily due to better-than-expected outturns in the year to date, as well as increased export capacity of the economy.

According to the IMF's projection, average inflation will stand at **3.6%** in 2026 and **4.4%** in 2027, which is slightly above our August projection. According to the projections of **Consensus Economics** and the **European Commission**, average inflation will stand at **3.9%** and **4.1%** in 2026, respectively, after which it is expected to slow in 2027 to **3.8% and 3.9%**, respectively.

Table V.0.6 **Projections of macroeconomic indicators of Serbia** (in %, annual average)

		Release date	GDP	Current account deficit (share in GDP)	Inflation
NBS	2026	Aug 2026	3.2	-4.1	3.2
	2027		4.5	-2.9	4.3
IMF	2026	June 2026	2.8	-6.0	3.6
	2027		4.0	-4.5	4.4
Ministry of Finance	2026	June 2026	3.0	-6.0	3.7
	2027		4.5	-4.5	4.2
Consensus Economics	2026	July 2026	2.7		3.9
	2027		3.5		3.8
European Commission	2026	July 2026	2.8	-6.1	4.1
	2027		3.9	-4.9	3.9

Sources: IMF, Ministry of Finance, Consensus Economics and European Commission.

Risks to the projection

The greatest risks to the realisation of our new inflation and GDP projections continue to stem from the international environment. **The risks are more balanced than in May, but for next year**, due to the possibility of greater adverse effects of the energy shock than assumed, **the risks to GDP remain tilted to the downside, while those to inflation remain tilted to the upside**.

The uncertainty is primarily related to **geopolitical tensions in the Middle East**, which represent the most significant risk to the new projection due to their potential **impact on global energy and other commodity prices, international trade and global supply chains, and commodity and financial markets**. The high level of geopolitical risk is also clearly reflected in the index used to measure it (GPR), which in March 2026 reached its highest level since March 2003 (when the war in Iraq began). Although the index declined over the following months, it remains at a relatively high level, indicating that geopolitical uncertainty remains elevated and a significant source of risk to global economic developments.

As in most other countries, the inflation outlook for Serbia continues to depend on the magnitude and duration of the shock caused by higher energy prices, as well as on the way in which higher energy prices are transmitted through the economy. A prolonged conflict exacerbates the imbalance between global energy supply and demand and makes its consequences more severe. The more oil, natural gas and petroleum product prices increase, and the longer they remain elevated, the more pronounced the direct and indirect inflationary effects will be. From a monetary policy perspective, it is particularly important whether the energy shock will spill over into broader inflationary pressures through its impact on wage- and price-setting, i.e. whether it will give rise to significant second-round effects. So far, there have been no major second-round effects, but the larger and more prolonged the energy shock, the greater the risk of such effects.

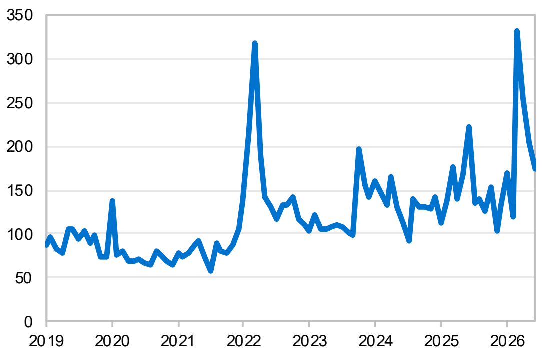
Under prolonged disruptions, the adjustment mechanism shifts to a greater extent from prices to quantities, i.e. it involves greater rationalisation of consumption, which could have more significant economic consequences. Higher prices have an inflationary effect, while rationalisation has a direct negative effect on economic growth. Sudden political decisions affect not only global commodity markets but also financial markets, with exchange rates being particularly sensitive. Monetary policy always faces greater difficulty in achieving price stability in the event of supply-side shocks, which simultaneously cause prices to rise and GDP to decline, which is why greater caution is warranted. On the other hand, the global fundamentals of the world economy remain relatively resilient, supported by fiscal stimuli. Although global oil prices have increased significantly, they have not yet risen to levels assumed by central banks and international institutions in their adverse scenarios. If the conflict is resolved soon, energy markets could normalise more rapidly, resulting in smaller negative economic effects than currently anticipated. In addition, global economic activity could receive a stronger boost from the adoption of artificial intelligence and the resulting productivity gains and increased business dynamism. In any event, the situation remains highly uncertain, with risks on this account asymmetrically tilted to the upside for inflation and to the downside for economic growth.

Table V.0.7 **Key risks to the GDP and inflation projection**

Risk	Estimate of the risk effect on GDP relative to the baseline scenario	Estimate of the risk effect on inflation relative to the baseline scenario
Geopolitical tensions and their impact, primarily on the prices of oil, gas and electricity in the global market (Serbia is a net energy importer), as well as on the prices of other products	↓	↑
Global trade tensions	↕	↕
Global agricultural season and world prices of primary agricultural commodities (Serbia is a net exporter)	↕	↕
Domestic agricultural season	↕	↕
Speed of domestic demand growth	↕	↕

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.

Chart V.0.42 **Global Geopolitical Risk Index**
(in pp)



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

The expected agreement on the acquisition of a majority stake in NIS by the Hungarian company MOL should ensure the **uninterrupted continuation of production and supply of the market with petroleum products**. Against this backdrop, as in the previous two projections this year (the February and May projections), we assess that the risk to both GDP and inflation on this account is lower than in the November 2025 projection, when the sanctions imposed by the US OFAC took effect.

Although mitigated by agreements concluded among the world's leading economies, **increased protectionism and uncertain trade policy at the global level** remain risks to the projection. Trade fragmentation could accelerate, potentially undermining production and leading to higher prices globally. The reconfiguration of trade flows and global supply chains is currently under way, while the equilibrium that has been established remains fragile and could be disrupted by additional tariffs. Such tariffs would weigh on global economic growth and, if targeted at specific sectors, could create bottlenecks and have a disproportionately large impact on prices and economic activity. In the coming years, the new EU regulatory framework (EES, CBAM, PPWR, EUDR, IAA) also represents a risk, as it could increase operating costs and reduce the competitiveness of our exports. Indirectly, it could also make it more difficult for companies operating in Serbia to integrate into EU production chains, which calls for a timely and adequate response from economic policymakers. On the other hand, progress in trade relations and new regional trade agreements could help reduce trade costs and boost trade flows. This would increase the predictability of economic policies, facilitate better investment planning, and have a positive impact on economic growth. Against this backdrop, we assess that the risks arising from protectionist measures at the global level are balanced.

Depending on the global agricultural season, and given the risks stemming from geopolitical and trade tensions on the one hand, and risks to global economic growth on the other hand, there are risks that **global prices of primary agricultural commodities** may deviate from the levels assumed in the baseline scenario.

The domestic agricultural season also represents a **risk to the inflation and GDP projections**. In the new projection, we have assumed that the season will be better than the previous two years, which were below average. Production and supply of fruit and vegetables, which are significantly better than last year, have a greater impact on inflation, while the yield of autumn crops is the main factor affecting GDP. **Agricultural production to date** supports the assumption of a better season compared with the previous two years, while the heatwave since the end of July and **unfavourable hydrological conditions during the summer** remain among the factors of uncertainty for the remainder of the season. As there is still time until the final production results are available, deviations from the projected baseline scenario in either direction are possible.

A further deterioration of hydrological conditions could also affect other sectors of the economy. In particular, it could lead to some reduction in activity in the **manufacturing industry**, as well as a larger decline in **energy** production. On the other hand, we assess the risks in the **construction sector** as tilted to the upside, given that we have taken a conservative approach to projecting the performance of this activity, leaving room for actual growth to exceed the projected level.

Risks to the realisation of the projection also relate to the **pace of growth in domestic demand**. Faster-than-expected growth in domestic demand would increase inflationary pressures, while at the same time having a positive impact on economic activity, and vice versa. The risks primarily relate to **real wage growth**, which could be either higher or lower than assumed in the new projection, affecting private consumption and imports. In addition, if global economic growth were lower than expected and the energy shock had a greater-than-assumed negative impact on disposable income available for consumption on the domestic market as well, the number of visitors to the Expo would also likely be lower than expected.

As in previous projections, a risk to the GDP projection, particularly for next year, also stems from **the number of vehicles to be produced at the Kragujevac plant**, their price, and the share of domestic value added. We estimate that every 10,000 vehicles contribute around 0.1 pp to GDP, with deviations possible in either direction, depending primarily on the demand for these vehicles in European markets.

The NBS will continue to make decisions on future monetary policy on a meeting-by-meeting basis, depending on developments in inflation and its underlying factors in the domestic and international environment. Monetary policy will continue to prioritise the ensuring of price and financial stability over the medium term, while supporting further economic growth and development, as well as employment growth and the preservation of a favourable investment environment.

Text box 5: Alternative projection scenarios

As in the previous period, the main risks to the projections stem from geopolitical developments. Unlike the previous *Report*, when global uncertainty was somewhat higher and we therefore presented the effects of two adverse alternative scenarios, **in this *Report* we have analysed the potential effects of both more favourable and less favourable geopolitical developments**. Although risks relating to the Middle East conflict persist, the more muted market reaction to new geopolitical shocks indicates that market participants assess the likelihood of more severe disruptions in energy markets to be lower than at the time of preparing the previous projection. Namely, after the temporary ceasefire reached in mid-June, the price of Brent crude oil returned to around USD 70 per barrel, i.e. pre-conflict level, within a short period of just two weeks. In addition, despite the renewed escalation of tensions in mid-July, the price of oil did not reach the levels recorded in March and April, but rose to around USD 105 per barrel.

The baseline scenario operates on the assumption of a gradual easing of geopolitical tensions, the reopening of the Strait of Hormuz and, on that basis, a decline in energy and other primary commodity prices in the global market, in line with the assumptions of the IMF and the dynamics implied by market futures. However, given that risks associated with a prolongation and further escalation of tensions remain significant, **we have developed a pessimistic alternative scenario based on the assumption that a protracted conflict would keep energy prices elevated in the period ahead, which, through higher production and transportation costs, would also feed through to the prices of other primary commodities, generating new inflationary pressures at the global level**. The possibility of such turn of events is also supported by the recent attacks by the Yemeni Houthis on oil tankers in the Red Sea, as well as disruptions to oil transportation in the Black Sea, pointing to the possibility of further disruptions to global energy supply chains.

On the other hand, we have also developed an **optimistic alternative scenario based on the assumption of a faster easing of geopolitical tensions, which would result in an earlier and more pronounced decline in energy and other primary commodity prices compared with the baseline scenario**. This scenario is also supported by the fact that the global oil market was oversupplied prior to the outbreak of the conflict, which led to a decline in the price of oil to around USD 60 per barrel at the beginning of the year. At the same time, *OPEC+* continued to gradually unwind the voluntary production cuts introduced earlier, thereby further increasing oil supply compared with the pre-conflict period.

Table O.5.1 **External assumptions of baseline and alternative scenarios**

	2025	2026	2027
Euro area inflation, y-o-y average, in % (baseline scenario)	**2.1**	**2.9**	**2.3**
Optimistic scenario		2.9	1.8
Pessimistic scenario		3.7	4.2
Euro area GDP growth, quarterly, in % (baseline scenario)	**1.5**	**0.8**	**1.2**
Optimistic scenario		0.8	1.4
Pessimistic scenario		0.6	0.7
Oil price, average, in USD/barrel (baseline scenario)	**68**	**86**	**77**
Optimistic scenario		81	69
Pessimistic scenario		105	115
Gas price, average, in EUR/1000m^3 (baseline scenario)	**371**	**515**	**442**
Optimistic scenario		453	391
Pessimistic scenario		681	786

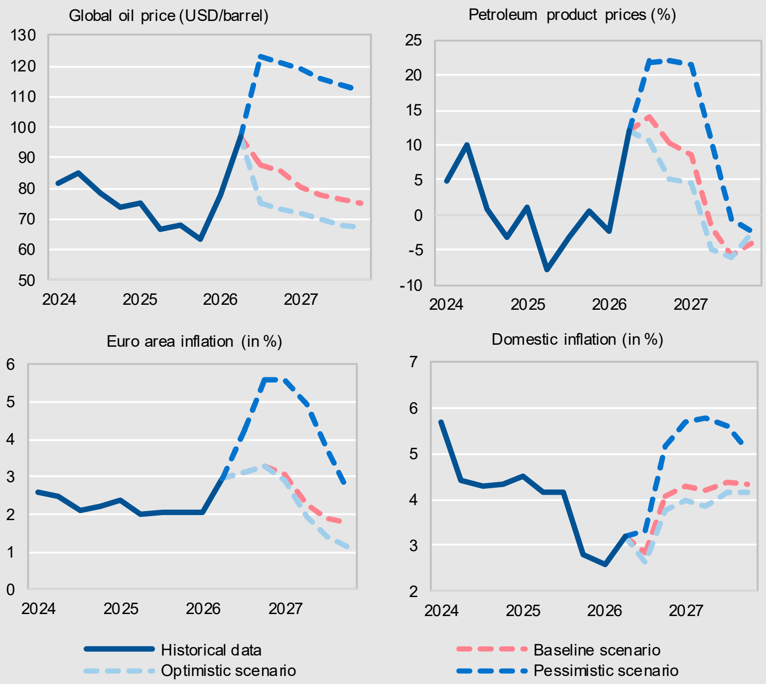
Source: NBS calculations.

<u>**Pessimistic scenario**</u>

Under the pessimistic scenario, we assumed that the conflict in the Middle East, including the blockade of the Strait of Hormuz, would last longer than under the baseline scenario, while transport through the Red Sea would also decline further. Such developments would primarily result in higher global energy prices, given the importance of these transport routes for global energy supplies. We estimate that, in this case, the price of oil would rise again to around USD 120 per barrel and remain at a similar level during Q1 2027, before gradually declining to around USD 112 per barrel by the end of the year. Higher energy prices would feed through to the prices of other primary commodities, alongside disruptions to global supply chains and higher container shipping costs. Such developments would accelerate global inflation, reinforce market participants' expectations of a new cycle of monetary policy tightening by major central banks and, consequently, exert additional pressure on global economic activity. Against this backdrop, average inflation in the euro area, our most important trade partner, would amount to 3.7% in 2026 and 4.2% in 2027, while real GDP growth would be lower than under the baseline scenario, amounting to 0.6% in the current and 0.7% in the following year. In addition, such a scenario would have an adverse effect on consumer and investment confidence, particularly in emerging market and developing economies, due to the potential redirection of capital towards advanced economies.

According to our estimates, the consequences of the pessimistic scenario for Serbia would be **average inflation 0.4 pp higher in 2026 and 1.2 pp higher in 2027 than under the baseline scenario.** The direct effect would stem from higher prices of petroleum products in the domestic market, while the indirect effect would result from higher production costs for other manufactured goods and food, as well as higher inflation in the euro area, through higher import prices. As regards the effects of this scenario on domestic GDP, **our estimates indicate that real GDP growth in 2026 and 2027 would be 0.2 pp and 0.8 pp lower, respectively, than under the baseline scenario**. Such developments would primarily reflect weaker domestic demand, i.e. slower growth in private consumption due to lower disposable income caused by higher prices, as well as weaker investment growth due to greater investor risk aversion. At the same time, amid heightened inflationary pressures, major central banks are expected to tighten monetary conditions, which, together with elevated cost-push pressures, supply chain disruptions and a higher risk premium, would weigh on global economic activity and, consequently, dampen external demand.

Chart O.6.1 **Alternative scenario assumptions and their effect on domestic inflation**



Source: NBS.

Optimistic scenario

In the optimistic scenario, we assume that geopolitical tensions would ease more rapidly than assumed in the baseline scenario, which, combined with a stronger return to market fundamentals exerting further downward pressure on prices, would result in a faster and more pronounced decline in energy prices in the period ahead. In this case, we expect the price of oil to decline to around USD 73 per barrel by the end of the year and then fall further to around USD 67 per barrel by the end of 2027. Such developments would result in lower transportation and production costs, which, together with lower global uncertainty and reduced investor risk aversion, would support the growth of global trade and economic activity. At the same time, lower inflationary pressures would ease market participants' expectations of further tightening of monetary conditions by major central banks. Under this scenario, euro area inflation would be the same as under the baseline scenario in the current year (2.9%), while in the following year it would fall below the target to 1.8%. Likewise, euro area GDP growth in the current year would be the same as under the baseline scenario (0.8%), while in 2027 it would accelerate to 1.4%.

In this case, **average inflation in Serbia in 2026 and 2027 would be 0.2 pp and 0.3 pp lower**, respectively, than under the baseline scenario, owing to lower global commodity prices and lower inflation in the euro area. At the same time, lower euro area inflation would reinforce expectations that monetary conditions would not be tightened further in the period ahead, thereby supporting economic activity in the euro area and the recovery of external demand. These developments, together with stronger domestic demand driven by higher disposable income and private consumption amid lower inflation, as well as stronger investment in an improved investment environment, would result in **domestic GDP growth being higher than in the baseline scenario by around 0.1 pp in the current and 0.3 pp in the following year**.

Table A Indicators of Serbia's external position

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Q1 2026	Q2 2026
EXTERNAL LIQUIDITY INDICATORS (in %)													
FX reserves/imports of goods and services (in months)	6.7	6.2	5.4	5.4	5.7	6.1	5.9	5.2	6.7	7.3	6.7	6.6	6.7
FX reserves/short-term debt	256.4	234.3	202.1	210.9	275.6	228.1	249.6	244.7	319.3	414.1	281.2	289.6	
FX reserves /GDP	27.9	26.7	24.4	25.2	27.8	27.5	29.4	30.6	33.1	35.2	32.7	31.6	32.2
Debt repayment/GDP	10.6	11.8	10.5	10.8	9.5	5.5	8.7	9.1	9.0	10.8	8.9	8.2	
Debt repayment/exports of goods and services	25.2	25.9	22.2	22.9	19.7	12.2	17.0	15.3	16.4	20.4	16.6	14.7	
EXTERNAL SOLVENCY INDICATORS (in %)													
External debt/GDP	70.4	69.4	62.4	59.5	58.4	62.4	64.8	65.5	58.7	58.6	57.7	57.7	
Short-term debt/GDP	10.9	11.4	12.1	11.9	10.1	12.1	11.8	12.5	10.4	8.5	11.6	10.9	
External debt/exports of goods and services	166.7	152.3	132.0	125.6	120.4	137.4	125.8	109.5	107.7	110.1	107.3	107.5	
FINANCIAL RISK EXPOSURE INDICATORS (in %)													
FX reserves/M1	250.2	207.3	176.2	168.0	174.1	130.0	138.1	158.7	166.6	168.2	156.1	161.7	165.2
FX reserves/reserve money	193.7	196.6	185.0	171.4	194.1	157.1	180.0	180.2	201.0	199.6	199.9	200.4	207.9
OPENNESS OF ECONOMY (EXPORTS + IMPORTS)/GDP	92.3	96.9	102.0	103.8	106.7	99.2	111.3	130.8	113.8	111.2	112.2	114.2	113.2
MEMORANDUM: (in EUR million)													
GDP 1)	37,220	38,165	40,828	44,711	48,105	49,024	55,931	63,513	75,205	83,258	88,674	21,845	23,832
External debt	26,220	26,469	25,490	26,594	28,117	30,600	36,266	41,621	44,173	48,771	51,176	52,034	
External debt servicing	3,960	4,508	4,285	4,849	4,592	2,710	4,886	5,801	6,735	9,032	7,900	1,796	
Central bank foreign exchange reserves	10,378	10,205	9,962	11,262	13,378	13,492	16,455	19,416	24,909	29,295	29,008	28,486	29,609
Short-term debt 2)	303	672	844	1,401	1,925	1,585	1,612	2,405	662	974	2,022	1,460	
Current account balance	-1,234	-1,075	-2,051	-2,076	-3,161	-1,929	-2,266	-4,162	-1,804	-3,788	-4,302	-129	-1,265

CREDIT RATING (change of rating and outlook)	2015	2016	2017	2018	2019	2020	2021	2022	2024	2026
	Dec	Jan/March/ June/Dec	March/Dec	Dec	Sept/Dec	May	March/Dec	June	Aug/Oct	Feb
S&P		BB- /positive	BB /stable	BB /positive	BB+ /positive	BB+ /stable	BB+ /positive	BB+ /stable	BBB- /stable	
Fitch	B+ /positive	BB-/stable	BB /stable		BB+ /stable				BB+ /positive	
Moody's		B1 /positive	Ba3 /stable		Ba3 /positive		Ba2 /stable		Ba2 /positive	Ba2 /stable

Methodological notes:

Foreign exchange reserves/imports of goods and services (in months) - ratio of end-of-period foreign exchange reserves to average monthly imports of goods and services during last 12 months.
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 creditors) to GDP during period under review.
Debt repayment/exports (in %) - ratio of debt repayment (excl. early repayment of a part of debt to London Club creditors) to exports of goods and services during period under review.
External debt/GDP (in %) – ratio of end-of-period outstanding debt to GDP.
Short-term debt/GDP (in %) – 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 Q2 2026 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.
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.
6. The Statistical Office revised data for export of goods for 2024 and Q12025.
7. The NBS revised external debt data for the period 2007-Q12025.

Table B Key macroeconomic indicators

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Q1 2026	Q2 2026
Real GDP growth (in %)[1)]	1.3	3.0	2.4	4.6	4.8	-1.0	7.9	2.7	3.7	3.9	2.0	3.2	3.6
Consumer prices (in %, relative to the same month a year earlier)[2)]	1.5	1.6	3.0	2.0	1.9	1.3	7.9	15.1	7.6	4.3	2.7	2.8	2.7
NBS foreign exchange reserves (in EUR million)	10,378	10,205	9,962	11,262	13,378	13,492	16,455	19,416	24,909	29,295	29,008	28,486	29,609
Exports (in EUR million)[3)]	15,728	17,385	19,312	21,166	23,349	22,271	28,818	38,004	41,018	44,317	47,686	12,247	13,007
- growth rate in % compared to a year earlier	8.8	10.5	11.1	9.6	10.3	-4.6	29.4	31.9	7.9	8.0	7.6	6.0	9.7
Imports (in EUR million)[3)]	18,643	19,597	22,343	25,257	27,960	26,370	33,439	45,054	44,543	48,267	51,850	12,706	13,965
- growth rate in % compared to a year earlier	3.0	5.1	14.0	13.0	10.7	-5.7	26.8	34.7	-1.1	8.4	7.4	1.8	7.9
Current account balance[3)]													
(in EUR million)	-1,234	-1,075	-2,051	-2,076	-3,161	-1,929	-2,266	-4,162	-1,804	-3,788	-4,302	-129	-1,265
as % of GDP	-3.3	-2.8	-5.0	-4.6	-6.6	-3.9	-4.1	-6.6	-2.4	-4.5	-4.9	-0.6	-5.3
Unemployment according to the Survey (in %)[6)]	18.9	16.4	14.5	13.7	11.3	9.7	11.1	9.5	9.4	8.6	8.7	8.9	
Wages (average for the period, in EUR)[7)]	367.9	374.5	394.5	419.8	466.0	510.9	560.2	637.9	733.5	838.2	934.0	1011.4	1023.1
RS budget deficit / surplus (in % of GDP)[4)]	-2.6	-0.2	0.7	0.6	0.2	-8.0	-4.4	-3.2	-2.0	-2.2	-2.6	-3.8	1.7
Consolidated fiscal result (in % of GDP)[4)]	-3.3	-1.1	1.1	0.6	-0.2	-7.7	-3.9	-3.0	-2.1	-2.0	-2.4	-4.4	2.0
RS public debt, (central government, in % of GDP)[8)]	67.2	65.2	55.5	51.4	49.7	54.4	53.9	52.4	48.0	46.7	44.4	41.8	43.8
RSD/USD exchange rate (period average)	108.85	111.29	107.50	100.28	105.28	103.03	99.49	111.86	108.41	108.20	103.79	100.34	101.01
RSD/USD exchange rate (end of period)	111.25	117.14	99.12	103.39	104.92	95.66	103.93	110.15	105.87	112.44	99.92	102.36	103.04
RSD/EUR exchange rate (period average)	120.73	123.12	121.34	118.27	117.85	117.58	117.57	117.46	117.25	117.09	117.20	117.39	117.39
RSD/EUR exchange rate (end of period)	121.63	123.47	118.47	118.19	117.59	117.58	117.58	117.32	117.17	117.01	117.28	117.42	117.37
MEMORANDUM:													
GDP (in EUR million)[5)]	37,220	38,165	40,828	44,711	48,105	49,024	55,931	63,513	75,205	83,258	88,674	21,845	23,832

1) At constant prices of previous year. Data for Q2 2026 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 Q2 2026 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 Q2 2026 is the 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.
5. The Statistical Office revised data for export of goods for 2024 and Q1 2025.

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Executive Board meetings and changes in the key policy rate

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	5.75	0
10 July	5.75	0
7 August	5.75	0
11 September	5.75	0
9 October	5.75	0
13 November	5.75	0
11 December	5.75	0

2026

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

Press releases from NBS Executive Board meetings

Press release from Executive Board meeting held on 11 June 2026

At its meeting today, the NBS Executive Board voted At its meeting today, the NBS Executive Board voted to keep the key policy rate at 5.75%. It also kept the deposit facility (4.5%) and lending facility (7.0%) rates unchanged.

In making this decision, the Executive Board primarily took into account actual and expected inflation, as well as risks from the international environment that could affect its trajectory.

Consistent with the Board's expectations, y-o-y inflation amounted to 3.3% in April. Its acceleration from 2.8% in March was almost entirely driven by the sharp rise in global oil prices and the consequent increase in domestic petroleum product prices. The rise in petroleum product prices would have been even more pronounced had the government not introduced measures such as reducing fuel excise duties and supplying the market from strategic reserves. In the Board's assessment, inflation is expected to remain within the target tolerance band until September. Thereafter, towards the end of this year and the beginning of next year, it is likely to marginally exceed the upper bound of the target band on a temporary basis, reflecting higher global prices of oil and other primary commodities, as well as the low base from September last year, when wholesale and retail trade margins were capped at 20% under a government decree. Assuming that the current energy shock is temporary, inflation should subsequently decelerate and return within the target band by mid-2027, remaining there in the remainder of the projection horizon. In the Executive Board's view, the slowdown in inflation over the coming year will also be supported by the continued restrictive monetary policy stance, the expected gradual easing of cost-push pressures from the international environment, and the anticipated moderation in real wage growth.

The conflict in the Middle East and the closure of the Strait of Hormuz for the majority of ships raised concerns that the energy crisis could push global inflation back up. The rising global price of oil represents a supply-side shock, increasing inflation directly, through higher fuel prices, and indirectly, through higher costs for corporates. On the other hand, this leads to a reduction in the household disposable income, while giving rise to uncertainty and undermining economic activity. In turn, this further complicates the monetary policy decision-making process. For the time being, data indicate that primary inflation effects are dominant in the majority of countries, and central banks are voicing readiness to respond by lifting their policy rates in the event of a major increase in inflation expectations and wages. As a large energy net importer, Europe is particularly sensitive to energy shocks. Inflation in the euro area, our key economic partner, rose to 3.2% in May (from around 2% before the conflict broke out), notably on account of the escalation of the Middle East conflict and the rising global oil prices. Uncertainty as to the macroeconomic effects of the Middle East conflict remains high, as there could be a major increase in the prices of container shipping and mineral fertilisers, as well as disruptions in value chains, investment and consumer confidence, and goods and capital flows. The final effects of the energy shock on global inflation, as well as inflation and economic activity at home, are difficult to estimate as they depend on the duration and intensity of the conflict.

According to SORS data, real y-o-y GDP growth amounted to 3.2% in Q1 2026, exceeding the flash estimate of 3.0%. In addition, available monthly indicators for April point to positive developments in industry, retail trade and tourism, which is in line with our May projection of 3% economic growth in 2026. Since the beginning of the year, GDP growth has been driven by both domestic demand and net exports, while in the period ahead additional positive effects on economic activity may be expected from investment projects under the "Leap into the Future – Serbia Expo 2027" programme, and in 2027 also from the hosting of the Expo. Economic activity is further supported by growth in lending to corporates and households, which accelerated to 17.1% y-o-y in April. Nevertheless, economic activity continues to be affected by global uncertainty stemming from geopolitical tensions and rising energy prices, which may have a negative impact on investment and consumer confidence, as well as capital flows.

In such circumstances, the NBS continues to pursue a cautious monetary policy while maintaining relative stability of the exchange rate. If assessed that the increase in global oil prices is having more pronounced second-round effects on other prices through inflation expectations, the NBS will respond using all available instruments.

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

Press release from Executive Board meeting held on 9 July 2026

At its meeting today, the NBS Executive Board voted to keep the key policy rate at 5.75%. It also kept the deposit facility (4.5%) and lending facility (7.0%) rates unchanged.

In making this decision, the Executive Board primarily took into account actual and expected inflation, as well as risks from the international environment that could affect its trajectory.

Y-o-y inflation remained within the target tolerance band (3.0±1.5%), reaching 3.5% in May, in line with the Executive Board's expectations, largely owing to the increase in global oil prices and the consequent rise in domestic petroleum product prices during that period. The increase in petroleum product prices stemming from higher global oil prices was partly mitigated by government measures, i.e. a reduction in fuel excise duties and the release of fuel from state reserves to supply the domestic market. The Board notes that food prices have recorded a y-o-y decline since November 2025, amounting to 1.5% in May 2026, and that, even three months after the expiry of the decree capping retail trade margins, there have been no significant price adjustments for the products previously covered by that measure. Given the favourable agricultural season to date and the fruit and vegetable yields, the prices of unprocessed food could exert a favourable (disinflationary) effect on inflation. Core inflation has remained relatively stable, hovering around the upper bound of the target tolerance band for headline inflation.

The Middle East conflict remains one of the principal sources of global uncertainty, although tensions eased for a time following the agreement on a ceasefire during negotiations aimed at bringing the conflict to an end. This was accompanied by a decline in global oil prices over the preceding month. Most central banks assess that the scale and duration of the conflict, as well as the time required for the normalisation of flows, call for a cautious approach to monetary policy conduct and the maintenance of its restrictive stance. The ECB raised its interest rate by 0.25 pp in June, to 2.25%, after inflation in the euro area reached 3.2% in May, and prior to the release of the June reading of 2.8%. This decision was taken with the assessment that the rate increase is necessary to bring inflation back to the 2% target in 2027. The Fed did not change the range of its federal funds rate in June. The NBS Executive Board will continue to carefully monitor geopolitical developments, movements in commodity and financial markets, the evolution of trade relations and the moves of leading central banks.

According to the May medium-term projection, inflation should slow down by September, thereafter settling around the upper bound of the target tolerance band as a consequence of the low base from September last year, resulting from the application of the decree which capped wholesale and retail margins at 20%. Due to the increase in the prices of global oil and other primary commodities following the outbreak of the Middle East conflict, as well as higher imported inflation, our projection anticipates that inflation could temporarily overshoot the upper bound of the target tolerance band by the end of this year or at the beginning of the next. Assuming that the recent energy shock was temporary and that the global oil price, which has recorded a decline over the past month, will remain around the current lower level at the end of this year and during the next, inflation should slow down and return relatively quickly within the target band (by mid-2027), and then remain within those bounds until the end of the projection horizon. The Executive Board estimates that the slowdown of inflation over the next year will also be aided by the continued restrictive monetary policy stance, the expected gradual weakening of cost-push pressures from the international environment, as well as the expected moderation in real wage growth.

Real sector developments since the beginning of the year have been more favourable than anticipated. According to SORS data, real y-o-y GDP growth reached 3.2% in Q1, 0.2 pp above both the preliminary estimate and the assumption of the NBS Executive Board presented in the May Inflation Report. Growth was driven by the services sector, while agriculture also made a positive contribution. Real sector indicators for April and May point to favourable developments, with manufacturing recovering following a weaker start to the year caused by disruptions in the operations of NIS, alongside robust growth in retail trade turnover and tourism activity. Despite heightened global uncertainty and weaker demand from the EU and the region, Serbia's export sector demonstrated resilience, supported by the diversification of its production base and export markets, as well as by predominantly export-oriented foreign direct investment. Relatively favourable weather conditions and the good state of crops provide a basis for expecting agricultural yields to outperform both last year's results and the ten-year average. The Executive Board noted that, thus far in the year, GDP growth has been supported by both domestic demand and net exports, while additional positive effects on economic activity are expected in the period ahead from the hosting of the Expo. Economic activity is also being supported by strong growth in lending to the corporate and household sectors, which amounted to 16.4% y-o-y in May. Nevertheless, economic activity remains exposed to global uncertainty stemming from heightened geopolitical tensions and volatile energy prices, which could adversely affect investor and consumer confidence, as well as capital flows.

In such circumstances, the NBS continues to pursue a cautious monetary policy while maintaining relative stability of the exchange rate. Going forward, the Executive Board will make decisions based on incoming data and their implications for inflation outlook. If assessed that the increase in global oil prices had stronger second-round effects on other prices through inflation expectations, the NBS will respond using all available instruments.

The next rate-setting meeting will take place on 13 August.

Press release from Executive Board meeting held on 13 August 2026

At its meeting today, the NBS Executive Board decided to keep the key policy rate at 5.75%, also maintaining the interest rates on deposit (4.5%) and lending facilities (7.0%) at their current levels.

In making this decision, the Executive Board primarily took into account the actual and expected inflation developments, as well as risks stemming from the international environment that could affect inflation.

Y-o-y inflation continued to move within the target band (3±1.5%), though sliding below the target midpoint of 3% in June and declining further to 1.9% in July. Inflation outturn in previous months was lower than expected, primarily due to the generous fruit and vegetable harvest, which was reflected in their prices. Having this in mind, as well as the fact that there have been no major second-round effects of the energy shock so far, the Executive Board expects inflation this year to be lower than projected in May and to remain within the 3±1.5% target band until the end of the projection horizon. Inflation is still expected to reach around 4% in September, primarily due to the low base effect from the previous year following the implementation of the decree capping retail trade margins.

Expectations regarding economic activity are also looking up, as according to the preliminary SORS estimate, real GDP growth in Q2 2026 accelerated to 3.6% y-o-y, having measured 3.2% in Q1. According to the Executive Board's assessment, the largest positive contribution came from the services sectors, as a result of private consumption growth, with the acceleration also supported by a rebound in activity in manufacturing, mining, construction and agriculture.

Although the effects of the escalation of the Middle East conflict and the rise in global oil prices on global inflation and economic activity have so far been less extensive than originally expected, uncertainty regarding further developments remains pronounced. The mitigation of the consequences on the domestic market has been supported by the use of available energy stocks and the limited pass-through effect of the energy shock, thanks to the reduction in the excise tax on petroleum products. Nevertheless, should the Middle East conflict persist or geopolitical tensions escalate further, the possibility cannot be ruled out that the effects could spill over onto production and transport costs, supply chains, capital flows and, by extension, inflation. The Executive Board emphasized that for Serbia, as a small and open economy that significantly relies on energy imports, it is necessary to continue with the careful monitoring of these risks.

The NBS continues to pursue a cautious monetary policy, while maintaining relative stability of the exchange rate. The Executive Board will make its decisions based on incoming data and their impact on inflation developments. Should it assess that the increase in global oil prices is generating more pronounced second-round effects on other prices through inflation expectations, the NBS will respond using all available instruments.

At today's meeting, the Executive Board adopted the August Inflation Report with the latest macroeconomic projections that will be presented to the public in more detail at a press conference on 19 August, along with additional explanations of monetary policy decisions.

The next rate-setting meeting will take place on 10 September.