National Bank of Serbia

Introductory speech at the presentation of the *Inflation Report* – August 2026

Dr Jorgovanka Tabaković, Governor

Belgrade, 19 August 2026

Ladies and gentlemen, esteemed members of the press, dear colleagues,

Welcome to the presentation of the August *Inflation Report*. Today we will present the current macroeconomic movements, our new macroeconomic projections, and the measures taken in the period since the previous *Report*. At the start of the conference, I would like to underline several key facts regarding the current macroeconomic movements and our latest projections, which I will later elaborate on in more detail.

- First, y-o-y inflation returned in June to its level before the energy shock, i.e. below the target midpoint of 3%, and was further reduced to 1.9% in July, thanks to an excellent fruit and vegetable harvest. As a result of this and the fact that significant second-round effects of the energy shock have so far failed to materialise, we expect inflation this year to be lower than what we projected in May and to remain within the target tolerance band over the entire projection horizon;
- GDP growth accelerated to 3.6% y-o-y in Q2, and as a result of better-than-expected outturns since the beginning of the year, we have slightly revised up our economic growth projection for the current year, to 3.2%;
- Despite the energy shock, the external position improved in the first half of the year compared to the same period last year, with the coverage of the goods and services imports by exports reaching a record 95%. The smaller current account deficit, which contracted by around 30% in y-o-y terms, is reflected in a lower expected deficit at the annual level, which in the new projection stands at around 4% of GDP;
- Thanks to a strong regulatory and macroprudential framework for banks and a cautious monetary policy, financial stability has been preserved, as evidenced by the new historic low of the share of NPLs in total loans, of 2% in June.

I shall now take a closer look at macroeconomic movements, our expectations and monetary policy decisions.

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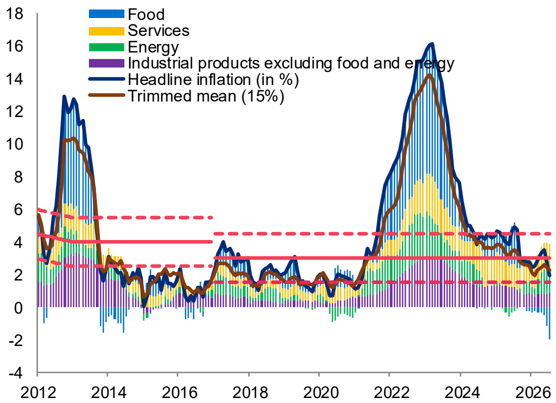
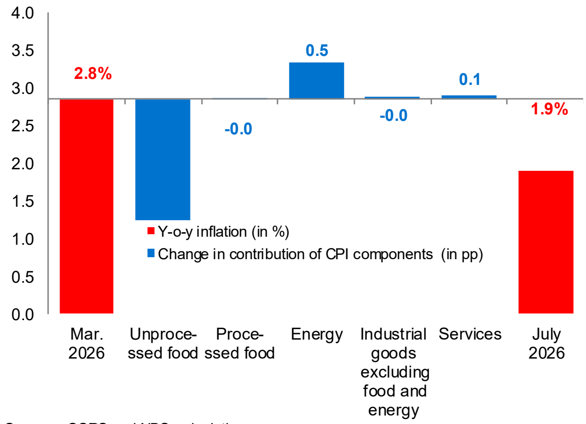
The lower inflation in recent months compared to our expectations presented in the May *Inflation Report* was mostly influenced by a y-o-y decline in food prices that was sharper than expected, measuring 6.1% in July. **The slowdown in headline inflation to 1.9% y-o-y in July** was predominantly the result of lower fruit and vegetable prices, due to an exceptionally good new harvest. The prices of other food products were also lower than in the same month of the previous year, and, in line with our expectations, **even several months after the expiry of the decree capping trade margins on food and cleaning products, there were no major increases in the prices of these products**. A more detailed analysis of the movements of product prices covered by the decree is available in one of our text boxes in the August *Inflation Report*.

Chart 1 **Contribution of main CPI components to y-o-y inflation**
(in pp)



Sources: SORS and NBS calculation.

Chart 2 **Y-o-y inflation and change in the contribution of main CPI components to y-o-y inflation**
(in %, in pp)

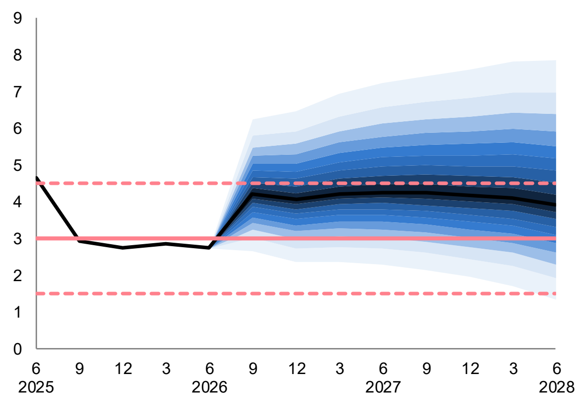


Sources: SORS and NBS calculation.

It is important to emphasize that, for the time being, a high increase in global energy prices has not had any major second-round effects on other prices through inflation expectations. This is evidenced by the fact that **medium-term inflation expectations of the financial sector have remained around the target midpoint**, and by the continued movement of y-o-y core inflation (which excludes food, energy, alcohol and cigarette prices) around the upper bound of the target tolerance band, with a slight slowdown to 4.5% in July.

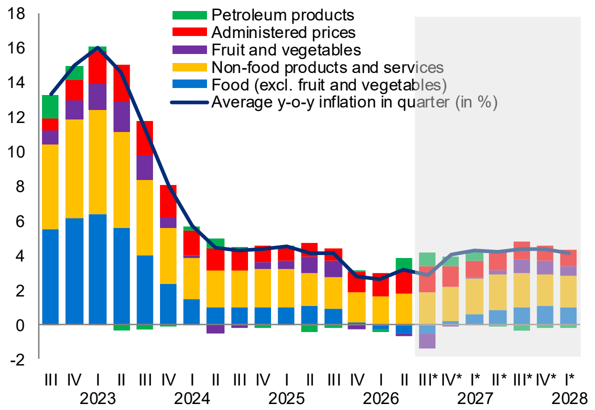
The lower inflation outturn in the year so far compared to our expectations from May also affects the lower projected **average inflation for this year, which we now estimate at 3.2%, that is, 0.4 pp lower than the previous projection**. **The average inflation projection for the next year is** also **slightly lower and stands at 4.3%**. In addition, unlike the previous central projection, when we expected that inflation could temporarily move above the upper bound of the target tolerance band at the end of this year and the beginning of the next year, **we now expect inflation to remain within the target tolerance band over the entire projection horizon**. According to our latest projection as well, the low base from September last year, resulting from the application of the decree that capped wholesale and retail trade margins at 20%, combined with higher global oil and other primary commodity prices, will drive inflation slightly above 4% as of September this year. During the next year, we expect inflation to decelerate due to the gradual weakening of cost-push pressures from the international environment, as well as the projected slowdown in real wage growth, while the effect of the low base from this year, based on the significant contraction in fruit and vegetable prices due to an excellent harvest, will act in the opposite direction. As a result of these opposing factors, y-o-y inflation should follow a stable trajectory throughout the next year, remaining slightly above 4%, only to gradually decline towards the end of the projection horizon.

Chart 3 **Inflation projection**
(y-o-y rates, in %)



Source: NBS.

Chart 4 **Contributions to y-o-y inflation by component**
(average y-o-y rates, in pp)



Source: NBS.
* NBS projections.

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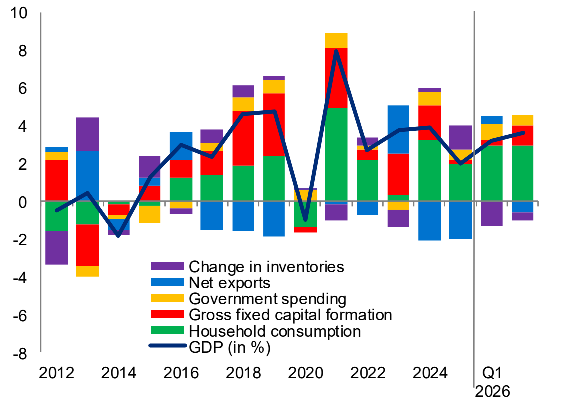
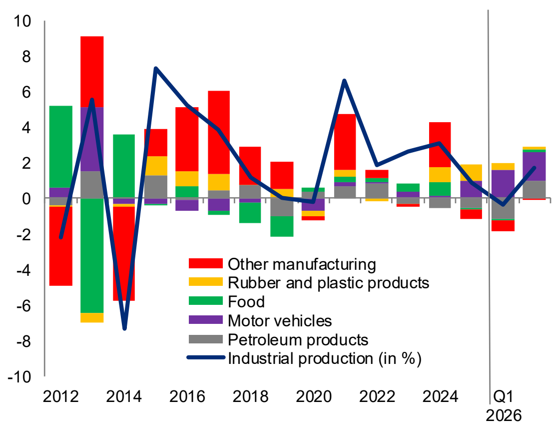
According to the preliminary estimate of the Serbian Statistical Office, **real GDP growth accelerated to 3.6% in Q2 this year**. The largest positive contribution, driven by private consumption growth, came from the services sectors and net taxes, while the acceleration in growth was also supported by a recovery in manufacturing activity, as a result of higher production in the oil and chemical industries and the continuation of positive results in sectors linked to the automotive industry. Activity growth was also recorded in mining, while energy production continued to decline, as a consequence of the application of the Carbon Border Adjustment Mechanism regulation, and partly due to reduced hydro potential. According to our estimate, the implementation of projects related to the Expo, primarily the construction of transport infrastructure, resulted in a positive contribution from construction, on the production side, and from fixed investments, on the expenditure side. Based on the data published so far by the Serbian Statistical Office on expected wheat and early fruit production, as well as due to the expected recovery in autumn crop yields from last year's extremely low levels, we project that agriculture also made a positive contribution. The final outcome of the agricultural season will still largely depend on weather conditions in the remainder of the growing season, primarily their impact on corn and industrial crop yields, particularly in view of the heatwave in late July and early August. I would note that one of our text boxes explains how we estimate wheat and corn yields based on weather conditions (precipitation and temperature).

Chart 5 **Contributions to y-o-y GDP growth rate, expenditure side**
(in pp)



Sources: SORS and NBS calculation.
Note: NBS estimate for Q2.

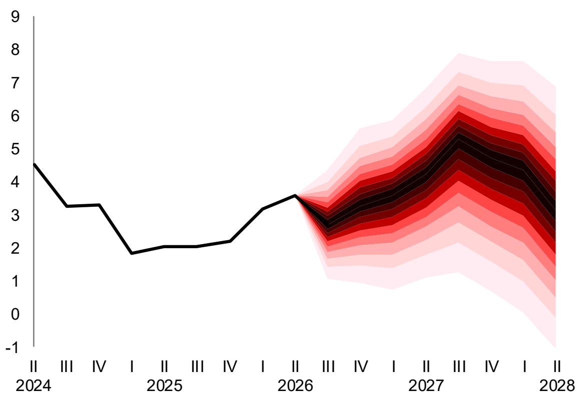
Chart 6 **Contributions to y-o-y industry growth rate**
(in pp)



Sources: SORS and NBS calculation.

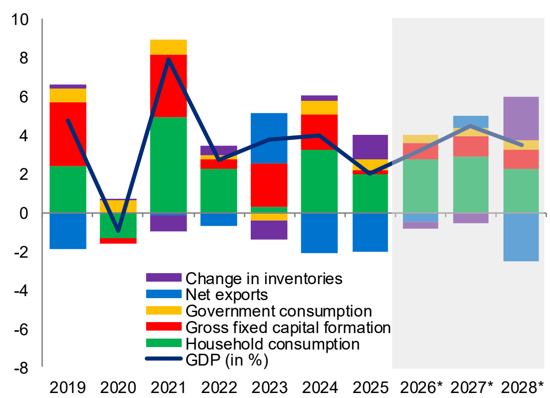
The more favourable outturn in the first half of the year compared to our expectations from May prompted **a slight upward revision of the GDP growth projection for the current year, to 3.2%**, while, given the still present geopolitical tensions, the continuation of the Middle East conflict, the volatile movements of global oil and other energy prices, and uncertainty regarding external demand, **we have kept the growth projection for 2027 at 4.5%**. The acceleration in growth compared to this year will be supported by the hosting of the specialised international exhibition Expo. In the medium term, we expect the effects of temporary factors to dissipate and economic growth to take on a more stable pace – around 3.5% per annum, which corresponds to the potential growth rate. The growth of economic activity will be driven by domestic demand, with a positive contribution from consumption and fixed investment, which 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. We also expect exports to underpin growth, as **they have already proven their resilience on multiple occasions, based on high diversification by product and geography**, even in conditions of low external demand, the crisis in the European automotive industry and a slower FDI inflow. For 2026, we project that imports will grow at a similar pace as exports, therefore we expect a smaller negative contribution from net exports to GDP growth than in the May projection. On the other hand, in 2027, net exports are expected to provide a positive contribution to GDP growth, primarily thanks to the increase in services exports related to the Expo.

Chart 7 **GDP growth projection**
(y-o-y rates, in %)



Source: NBS.

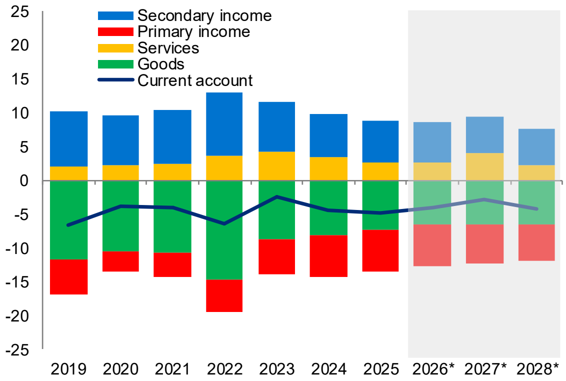
Chart 8 **Contributions to real GDP growth**
(in pp)



Sources: SORS and NBS calculation.
* NBS estimate.

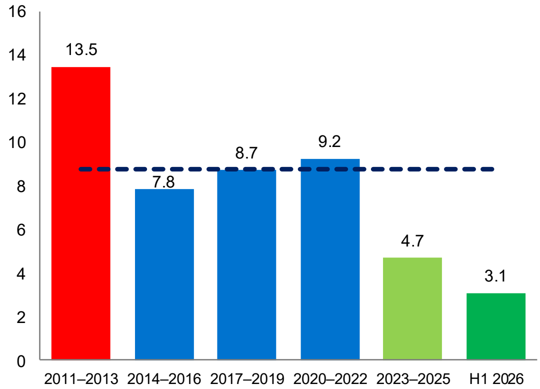
Despite the still low external demand and the effects of the global energy shock, the current account deficit in the first six months of this year was 30.5% lower than in the same period of 2025, measuring 3.1% of GDP. This was primarily facilitated by a reduction in the goods and services trade deficit, as a result of faster y-o-y growth in total exports than imports (7.9% vs. 4.9%). Export growth continues to be driven by manufacturing exports, most notably from sectors linked to the automotive industry, as well as by growth in copper ore exports, with a significant contribution from services exports as well. Details on foreign trade flows in the first half of the year, with a particular focus on the energy balance, can be found in one of our text boxes in this *Report*.

Chart 9 **Current account and FDI projection**
(in % of GDP)



Source: NBS.
* NBS projection.

Chart 10 **Share of trade deficit in GDP over the past 15 years**
(three-year averages, in %)

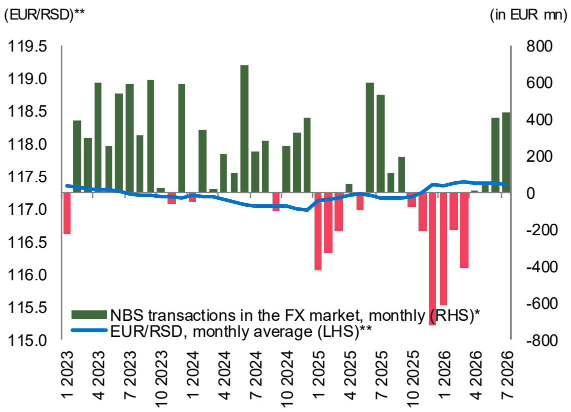


Sources: SORS and NBS estimate.

Given the outturns in the first half of the year, **the current account deficit at the annual level will be lower than projected in May and, according to our new projection, will amount to around 4% of GDP**, with a further reduction expected in the next year as a result of increased export of tourist services.

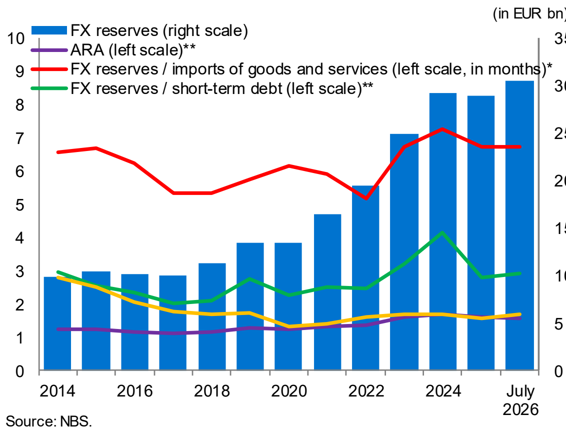
From Q2 onward, appreciation pressures prevailed in the domestic FX market, driven by inflows from exports and FDIs. From April until the end of July, the NBS net purchased EUR 900 mn, reducing the net sales amount since the beginning of the year to EUR 320 mn. Together with successful eurobond issuances in the international market, this contributed to an increase in FX reserves to EUR 30.5 bn at end-July. FX reserves are well above the adequacy criteria (covering around seven months of the imports of goods and services) and represent an important pillar of defence against external risks.

Chart 11 **RSD/EUR exchange rate and FX interventions**



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

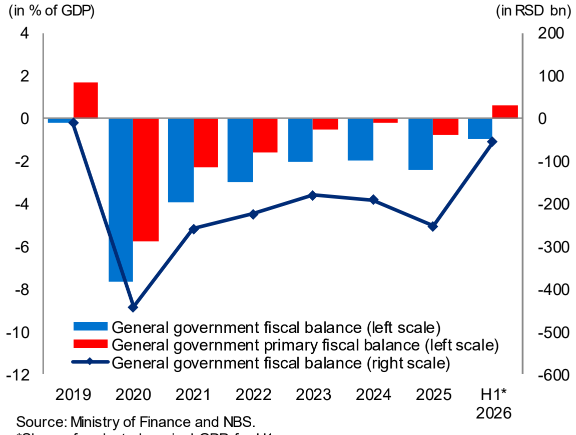
Chart 12 **FX reserves and relevant adequacy indicators**



Source: NBS.
* June 2026. ** March 2026.

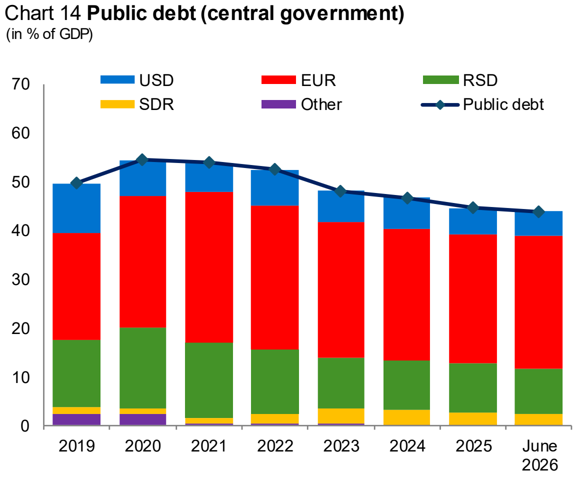
Prudent fiscal policy and fiscal reserves built up in the previous period enabled the state to bear a part of the burden of the energy crisis, without major repercussions for public finances. In the first half of the year, **the fiscal deficit amounted to around 1% of GDP, while the primary surplus stood at 0.6%.** At end-June, general government public debt as a share of projected GDP for this year stood at 44.1%, and was below the threshold set by the Maastricht criteria. In our assessment, fiscal policy will have a moderately expansionary character this year. Nevertheless, we do not expect any major inflationary effects on this account, given that the announced stimuli aimed at boosting consumption will have a one-off effect, while the reduction in excise duties on petroleum products was introduced precisely to prevent stronger second-round inflationary effects.

Chart 13 **Fiscal and primary balance of the general government budget**



Source: Ministry of Finance and NBS.
*Share of projected nominal GDP for H1.

Chart 14 **Public debt (central government)**



Source: Public Debt Administration.

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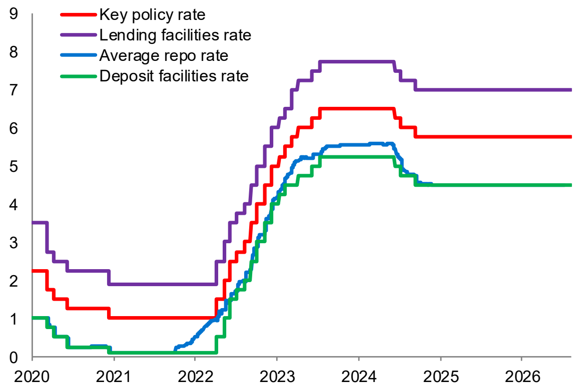
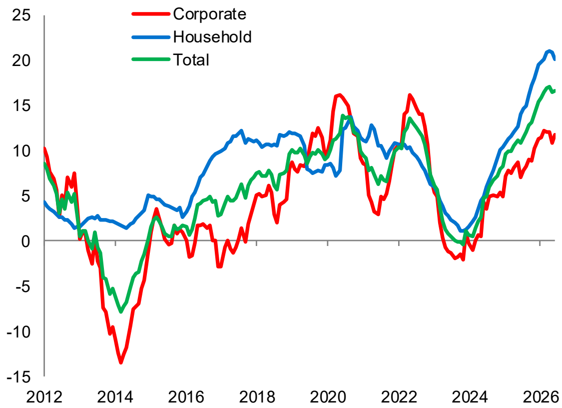
The scale and duration of the conflict in the Middle East, as well as the time required for trade flows to normalise, call for a cautious approach to the conduct of monetary policy by the NBS. Since the previous *Report*, we have kept the key policy rate unchanged at 5.75%. In making our decisions, we took into account that geopolitical tensions continue to send waves of volatility through international commodity markets. A reignition of the conflict in the Middle East could lead to a significant upswing in global inflation, not only due to higher global prices of oil and other primary commodities, but also due to its impact on other segments of the global economy, primarily through higher container shipping costs, disruptions to supply chains, and a deterioration in investment and consumer confidence. In the assessment of the NBS Executive Board, all of this calls for a cautious approach to the conduct of monetary policy.

Chart 15 **Key policy rate and average repo rate**
(in %)



Source: NBS.

Chart 16 **Corporate and household lending**
(y-o-y growth rates, in %, at constant exchange rate, 30 September 2024)



Source: NBS.

Interest rates on dinar-denominated and euro-indexed loans to corporates and households recorded a slight increase in Q2, but may still be considered favourable and conducive to continued growth in banks' lending activity. Y-o-y growth in corporate and household loans stood at 16.6% in June, driven by working capital and investment loans for corporates, and cash and housing loans for households. At the same time, owing to stronger borrowing in dinars, the degree of dinarisation of corporate and household receivables reached its highest level to date of 40.7% in June. The share of non-performing loans in total loans, which reached a record low of 2.0% in June, indicates that despite the increased volume of lending, corporates and households are experiencing no difficulties in servicing their loans.

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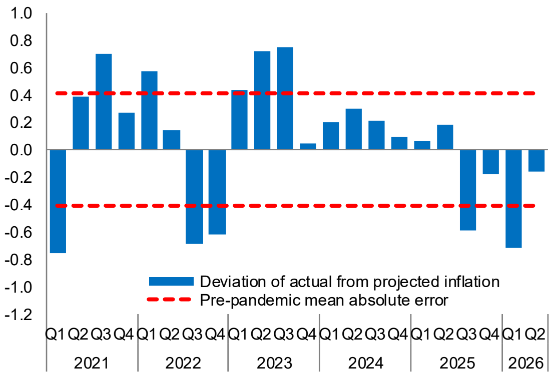
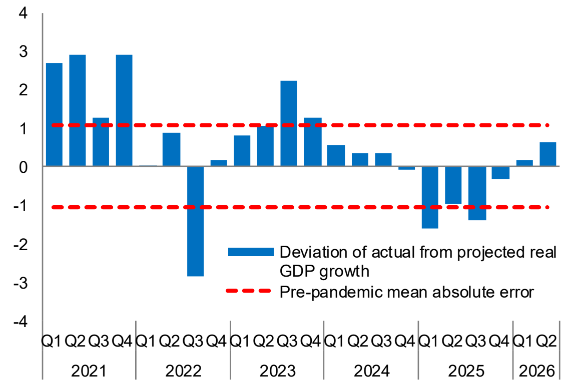
Before concluding, I would like to emphasize that the projections for economic activity and inflation that we have just presented are based on the assumption that geopolitical tensions will ease in the period ahead. This should also result in lower primary commodity prices in the period ahead, and a consequent strengthening of consumer and investment confidence. As in most other countries, the outlook for inflation and GDP in Serbia remains highly dependent on the magnitude and duration of the shock induced by the rising energy prices, as well as on the manner of their transmission through the economy. A prolonged conflict exacerbates the imbalance between global supply and demand for energy, and makes its consequences more severe. The longer global prices of energy and primary agricultural commodities remain elevated, the more pronounced the direct and indirect effects on inflation will be, as will the adverse effects on investment and consumption. Accordingly, we have developed alternative projection scenarios, which we presented in one of the text boxes. However, unlike in the previous *Report*, when global uncertainty was somewhat higher and we therefore presented the effects of two adverse alternative scenarios, in this *Report* we analysed the potential effects of more favourable and less favourable geopolitical developments.

Chart 17 **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.

Chart 18 **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.

In one of the text boxes, we also took a closer look at the deviations of our one-quarter ahead projections for inflation and GDP, as well as our one-year ahead inflation projections, from the actual outcomes in the post-pandemic period, as this period was marked by a series of strong global shocks. The results of the analysis showed that the NBS's projections of inflation and economic activity are reliable in periods without major economic shocks and provide an adequate basis for monetary policy decision-making.

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Ladies and gentlemen, dear colleagues,

Allow me, at the end of this address, to put things into a broader context, because in economics – as in life – it is important to see the bigger picture. If we look back over the past 14 years, during which I have been at the NBS's helm, and particularly over the past six years, it is clear that this has been a period unlike anything the world has experienced in a long time – from the pandemic, through the global energy crisis, protectionism, trade fragmentation and the largest inflationary wave in several decades, to geopolitical tensions, the strategic reshaping of the world, and the technological revolution in the form of artificial intelligence. As a small and open economy, Serbia could not remain isolated from these global developments. On the contrary, it was directly exposed to all these global upheavals and shocks originating from the international environment. In such circumstances, we pursued a monetary policy that simultaneously safeguarded price and financial stability, supported economic growth, and protected the living standards of citizens. The results we have achieved over the past 14 years demonstrate that consistency, responsibility and timely action deliver results even in times of the greatest global challenges.

From a country with double-digit and volatile inflation, we have become a country where inflation expectations are anchored, and inflation has been stabilised within the target band. Thanks to macroeconomic stability and rising wages, the living standards of citizens have improved significantly. Exchange rate stability has been preserved, FX and gold reserves have increased, significantly more favourable financing conditions have been secured for corporates and households, and loans have become accessible to lower-income segments of the population. In the meantime, Serbia has also obtained investment-grade credit rating, the strongest confirmation of international investors’ confidence in our economy.

But none of these results came about on their own – they were achieved through our responsibility and consistency, proactive approach, and the building up of reserves during times of stability, so as to preserve stability in times of crisis.

The stability preserved in an era of global instability is the best guarantee that we will continue to maintain price and financial stability in the future as the foundation for further economic growth, higher living standards, and a secure future for all citizens of Serbia.

In the continuation of the conference, colleagues from the Economic Research and Statistics Department will present our projections in greater detail, after which we will be open to your questions.