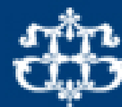

National Bank of Serbia

2024

January-June

SEMI-ANNUAL

MONETARY POLICY REPORT

2024

January–June

SEMI-ANNUAL

MONETARY POLICY REPORT

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Introductory note

The National Bank of Serbia is required to submit to the Parliament its annual and semi-annual monetary policy reports, explaining all the factors that affected the implementation of monetary policy in the period under review. The annual report must be submitted by 30 June of the following year and the semi-annual by 30 September of the year under review.[1]

Pursuant to the Statute of the National Bank of Serbia,[2] the above reports must present and analyse the monetary policy strategy, macroeconomic developments (international environment, balance of payments, the country's international investment position, movements in monetary aggregates, prices, wages and employment, and other macroeconomic movements), monetary policy defined and monetary policy implemented (defined vs. achieved monetary policy objectives, monetary policy instruments and measures applied, and other monetary policy-related issues), as well as outline the monetary policy planned.

The Semi-Annual Monetary Policy Report January–June 2024 was reviewed and adopted by the National Bank of Serbia's Executive Board on 12 September 2024.

Monetary policy reports are available on the National Bank of Serbia's website (http://www.nbs.rs).

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Vice Governor Željko Jović, PhD

Vice Governor Ana Ivković, PhD

Vice Governor Dragana Stanić, MA

Vice Governor Nikola Dragašević

[1] Law on the National Bank of Serbia, RS Official Gazette, Nos 72/2003, 55/2004, 85/2005 – other law, 44/2010, 76/2012, 106/2012, 14/2015 – CC decision and 44/2018.

[2] RS Official Gazette, Nos 12/2013, 18/2015, 72/2015 and 50/2018.

ABBREVIATIONS

bn – billion
bp – basis point
CPI – Consumer Price Index
ECB – European Central Bank
EMBI – Emerging Markets Bond Index
FAO – Food and Agriculture Organization
FDI – foreign direct investment
Fed – Federal Reserve System
GDP – Gross Domestic Product
H – half-year
IFEM – Interbank Foreign Exchange Market
IMF – International Monetary Fund
mn – million
NPL – non-performing loan
OPEC – Organization of the Petroleum Exporting Countries
pp – percentage point
Q – quarter
q-o-q – quarter-on-quarter
s-a – seasonally-adjusted
SORS – Statistical Office of the Republic of Serbia
y-o-y – year-on-year

Other generally accepted abbreviations are not cited.

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Overview

The global economy has been recovering since early 2024, even somewhat faster than expected, despite still restrictive monetary conditions. This is also true for the euro area, our key trade partner, whose GDP growth, according to relevant international institutions, will range between 0.7% and 0.9% this year, accelerating to 1.3–1.5% next year, which will have a positive impact on our exports and economic activity. Having peaked in late 2022, **global inflation declined further in 2024**, contributing to the downward trajectory of inflation in Serbia. Both supply- and demand-side factors continued to dampen global inflation. On the supply side, it is important that energy and food prices were previously lowered and that better functioning of global supply chains was ensured. On the demand side, the interest rates of leading central banks had a disinflationary effect. **Inflation in the euro area** also continued down, though at a more gradual pace than anticipated, mostly due to slightly higher than expected core inflation. Although it forecast slightly higher inflation than three months before, in June, for the first time since 2019, the **ECB** lowered its key interest rates by 25 bp, judging that the time had come to moderate the degree of monetary policy restriction. New interest rate cuts by the ECB are expected in H2 2024, with one or two cuts in the key rate still being debated, given that inflation in the services sector has not yet abated. Unlike the euro area, the **Fed** kept its fed funds rate unchanged in June and July. The **central banks of the CESEE region** pursuing the inflation targeting regime are in a cycle of monetary policy easing, but the onset and pace of easing differ, just as in the case of leading central banks.

The NBS started to ease its monetary policy in June and continued in July and September, by cutting its key policy rate by 25 bp each time, to 5.75%. The decisions were underpinned primarily by the achieved downward trajectory of inflation and its expected movement over the monetary policy horizon, subsiding global inflationary pressures, and the fact that, despite easing, monetary policy remains restrictive, also reflecting subdued inflation expectations.

Since the start of the year, **interest rates on dinar loans** continued to record a moderate decline, which began at the end of last year over the expectations of monetary policy easing by the NBS. At the same time, **the cost of euro-indexed borrowing was reduced** in the domestic market on account of lower interest rates in the euro area money market, due to ECB monetary policy easing, which should contribute to gradual growth in lending and domestic demand, without prejudice to the downward trajectory of inflation. In early June, Serbia issued t**en-year dollar bonds** worth USD 1.5 bn in the international financial market, the proceeds of which will be used for sustainable projects in Green Agenda and social responsibility fields. **Following the hedging transaction, the final costs of borrowing in euros amounted to 4.75%, which can be considered favourable financing conditions**, particularly when compared with the financing conditions of some countries in the region that have already been granted investment grade.

Excluding the exchange rate effect, **lending** to the non-monetary sector sped up to 4.7% y-o-y in June 2024. The growth was almost equally driven by lending to corporates and households, thanks to the growth in their demand amid eased dinar credit standards of banks and a more favourable cost of borrowing. A negative impact on the stock of corporate loans came from the maturing guarantee scheme loans, but was much weaker than in the previous period. Growth in corporate loans stepped up to 4.2%, and in household loans to 4.9% y-o-y. Elevated dinar lending reflected on the further **increase in the**

degree of dinarisation of receivables, to 36.1% in June. As a result of a robust regulatory framework for banks and the adopted macroprudential policy measures, synchronised with monetary policy measures, **the NPL share in total loans dropped below 3% in June this year, and fell to 2.8% in July, which is the lowest level on record. CAR** of 21.8% in June, up by 0.4 pp from end-2023, indicates high capitalisation (regulatory threshold is 8.0%) and the banking sector's resilience to external and domestic risks.

The NBS preserved the relative stability of the exchange rate of the dinar against the euro during 2024, against the background of the still heightened geopolitical challenges, carefully monitoring the factors from the domestic and international environment that impact the trends in the FX market, and responding in a timely and measured manner. After depreciation pressures were recorded at the very beginning of 2024, appreciation pressures re-emerged in the second half of January, prevailing in the following months and being the strongest in June. In order to maintain the relative stability of the exchange rate of the dinar against the euro, the NBS purchased EUR 1,330.0 mn net in the interbank FX market in H1, i.e. EUR 1,555.0 mn as at end-July. In January, it intervened by net selling foreign currency, while in all other months it intervened either predominantly or only on the FX purchase side. End-of-period, the dinar nominally strengthened by 0.1% against the euro during H1 2024. As the euro lost ground against the dollar, the dinar depreciated by 3.3% against the dollar.

In H1 2024, the current account deficit amounted to EUR 1.2 bn (3.3% of GDP). It widened compared to the same period in 2023, when it was at a record low level, equalling merely EUR 565.7 mn (1.7% of GDP). Observed by category, the increase in the deficit was influenced by the widening trade deficit and deficit on the primary income account, and by a decrease in the surplus in external services trade and the surplus on the secondary income account. At the same time, goods exports expanded by 0.4% y-o-y, to EUR 14.2 bn, and goods imports by 1.1% y-o-y, to EUR 17.7 bn. The largest contributor to export growth was manufacturing, whose exports were up by 2.4% y-o-y, followed by the exports of agricultural commodities, which, thanks to last year's good agricultural season, exceeded 50.6% y-o-y. In contrast, electricity exports fell by 64.8% y-o-y, primarily due to last year's high base, which had the greatest impact on the low growth of goods exports in the observed period. The growth of imports was mostly influenced by further investment growth, as confirmed by the imports of equipment, which were up by 15.4% y-o-y. The imports of consumer goods also picked up, by 8.7% y-o-y. On the other hand, the imports of intermediate goods decreased by 5.3% y-o-y, primarily under the impact of lower energy imports.

The level and structure of capital inflows further strengthened the country's external position. In H1, the financial account of the balance of payments recorded a net capital inflow of EUR 2.9 bn, mostly thanks to the most desirable category of capital inflow – FDI, as well as the successful issue of eurobonds in June. The FDI exceeded EUR 2.3 bn (up by 6.5% y-o-y) in H1 2024, while the net FDI amounted to EUR 2.0 bn. Four fifths of the FDI inflow were in the form of equity capital and reinvested earnings, attesting to the foreign investors' commitment to continue investing in Serbia. For the tenth year in a row, the net FDI inflow fully covered the current account deficit, with the value of this indicator amounting to 169% in H1 2024.

Thanks to these trends in the current and financial accounts, Serbia's **FX reserves reached the highest level on record (since 2000)**. In H1, gross FX reserves increased by EUR 2,597.4 mn, to EUR 27.5 bn at end-June. They covered 179.1% of money supply M1 and 7.2 months' worth of the country's imports of goods and services, which is more than twice the level prescribed by the adequacy standard. In accordance with safety and liquidity principles, the funds were invested in highly liquid securities issued by the most advanced countries in the world and international financial institutions, as well as with top-notch institutions (central banks, international institutions and foreign banks).

H1 2024 saw a consolidated government surplus of 0.8% of GDP, while the primary balance surplus was 3.1%. Central government public debt amounted to EUR 38.2 bn at end-June 2024, or 50.0% of projected GDP for 2024 (vs. 52.3% at end-2023)**.** The continuation of the downward trajectory of the share of public debt in GDP is projected in the medium term as well, despite the implementation of the "Leap into the Future – Serbia Expo 2027" programme.

The synchronisation of monetary and fiscal policies helped maintain a favourable outlook for economic growth, which since the beginning of the year was faster than initially expected. In H1, GDP growth was 4.3% y-o-y. According to the NBS estimate, the growth was driven by domestic demand, with the largest contribution provided by household consumption and gross fixed investment. Net exports lent a negative contribution to economic growth in the period observed

due to the faster growth of imports than exports, against the backdrop of the current investment cycle. On the production side, according to our estimate, the service sectors, especially trade, as well as construction and manufacturing, contributed the most to GDP growth.

As GDP growth in H1 exceeded expectations, in the new August projection, **the NBS revised up the projected economic growth rate for this year to 3.8%, from 3.5% in May**. Other relevant international institutions – the IMF and Consensus Economics – have similar growth expectations for this year. According to their estimate, the growth will be one of the highest in the CESEE region. Further acceleration of economic activity, to the 4–5% range, should take place in the next two years, supported by investment planned under the "Leap into the Future – Serbia Expo 2027" programme, subdued global inflationary pressures and more favourable financing conditions due to the easing of NBS and ECB monetary policies. Growth is likely to be led by domestic demand, with all its components providing a positive contribution. Private consumption will be propped up by the continued growth in employment and wages, primarily in the private sector, but without significant inflationary effects, as wage growth should also be the result of elevated productivity.

Favourable developments in the labour market extended in H1 2024, as evidenced by the further increase in average wages and formal employment and a simultaneous drop in registered unemployment to its lowest level on record. **Average nominal net wage** equalled RSD 96,579 (EUR 824), up by around 15% from H1 2023. The increase in **public** and **private sector** wages was of an almost equal size and widely dispersed across economic sectors. The total number of **formally employed** in H1 increased on average by 0.4% y-o-y, to around 2.37 mn people. At the same time, **registered unemployment continued the multiannual downward trend**, reaching its lowest level on record in June – 370,611, which is 31.9 thousand less than a year earlier. The unemployment rate also fell – by 1.4 pp y-o-y, to 8.2% in Q2.

As a result of NBS measures and the easing of global cost-push pressures, inflation in Serbia declined further in 2024 and returned within the 3±1.5% target band in May. It receded further in June to 3.8%, almost 10 pp lower than a year ago. Inflation slowdown since the beginning of the year was aided by all inflation components. As of February, food prices grew at a slower pace than headline inflation, and their contribution to headline inflation turned neutral in June. Owing to past monetary easing, core inflation also lost pace since early 2024, becoming equal to headline inflation in March and stabilising in Q2 at around 5% y-o-y, half the level recorded in the same period a year earlier. Under the NBS projection, inflation will move within the target tolerance band (3±1.5%) over the projection horizon and will gradually converge to the 3% target in the course of 2025. Such inflation profile will be strongly supported by the still tight monetary conditions, lower imported inflation and inflation expectations, the anticipated gradual subsiding of the real wage growth and the expected decline in global oil prices.

One-year ahead **inflation expectations** of all sectors declined until end-H1 2024, contributing to inflation slowdown and pointing to the high credibility of the NBS monetary policy. After returning within the target band early in the year, inflation expectations of the financial sector continued down, approaching in June the medium-term expectations, which stood at the target band midpoint of 3.0%.

In view of all the above, **we can conclude that Serbia's medium-term prospects have improved and remain supported by the responsible economic policy conduct, advancing of the structural reform agenda and further implementation of large infrastructure projects**. Serbia's status as a desirable investment destination was confirmed during the year by rating agencies too – *Standard & Poor's* and *Fitch*, which affirmed Serbia's rating at BB+, but raised the outlook from stable to positive, bringing Serbia to just a half a step away from investment grade.

Depending on the movement of key monetary and macroeconomic factors from the domestic and international environment, as well as the global geopolitical situation, the NBS will make monetary policy decisions on a meeting-to-meeting basis, mindful of the effects of past decisions on inflation profile going forward. The priority of monetary policy remains unchanged – delivering price and financial stability in the medium run, and supporting economic and employment growth, further expansion of the export sector, and the preservation of a favourable investment environment.

I Strategic monetary policy framework

The NBS has been implementing **a fully-fledged inflation targeting regime** since early 2009, with elements of the regime gradually introduced into practice since 2006. In December 2008, the NBS adopted the Memorandum on Inflation Targeting as a Monetary Strategy, defining formal implementation of the inflation targeting regime from 1 January 2009. The Memorandum was drafted along the lines of the Agreement on Inflation Targeting between the NBS and the Government of the Republic of Serbia, adopted at the Government session of 19 December 2008. In the best collective judgement of the NBS and the Government, this was the most appropriate monetary policy regime under the circumstances prevailing at the time.

The inflation targeting regime is pursued by a large number of central banks worldwide as a pragmatic response to the deficiencies of other monetary policy regimes. The choice of the regime was strengthened by the awareness that high rates of inflation dampen economic growth and employment and that the monetary policy focus should therefore be shifted from short-term demand management to medium-term price stability which lies at the core of inflation targeting. More of a framework than a set of rigid monetary policy rules, this regime is based on a numerical target for inflation in the medium term and a discretionary right to respond to economic shocks in the short term.

The NBS inflation target is defined in terms of the headline inflation rate (with a tolerance band) measured as the annual percentage change in the Consumer Price Index (CPI). In order to define the framework for medium-term monetary policy decision-making and to anchor and stabilise inflation expectations, inflation target is set in advance. In the case of Serbia, inflation target is set for three years ahead. As the process of nominal, real and structural convergence to the EU is ongoing, inflation target is slightly above the quantitative definition of price stability and the target inflation level in advanced countries (2.0% or 2.5%). Thus, at end-2023, **inflation target was set at 3.0% until end-2026, with the tolerance band of ±1.5 pp**.[1]

By keeping the midpoint at 3.0%, the NBS reaffirms its **determination to maintain inflation at a low level in the medium run, which is one of the key prerequisites for the preservation of business and consumer confidence**. This reflects a favourable macroeconomic performance, preserved even during the pandemic, and achieved owing to full coordination of monetary and fiscal policies. Moreover, amid changeable prospects of global growth and volatile trends in the international commodity and financial markets, by keeping the target unchanged, monetary policy contributes to a further increase in Serbia's resilience to potentially negative external influences, and thus to the preservation of a solid growth outlook for our economy.

The width of the target tolerance band was kept at ±1.5 pp, which diminishes the need for frequent monetary policy interventions and contributes to greater predictability of monetary conditions. Being a small and open economy, Serbia is exposed to developments in the international commodity and financial markets, which may cause **temporary** volatility of headline inflation. The target band leaves to the NBS broader room to work on the achievement of its second objective – financial stability, and to support the Government's economic policy, which encourages sustainable economic growth.

The inflation target is a medium-term objective, which means that inflation can deviate from the target in the short term due to exogenous shocks. The NBS will allow

[1] The NBS's Memorandum on Inflation Targets until 2026 was adopted at the meeting of the NBS Executive Board of 7 December 2023.

temporary deviations from the target if bringing inflation back to the target in the short term warrants monetary policy changes that would cause disruptions to macroeconomic processes. This also applies to sudden shocks in primary commodity prices or deviations from the planned growth in prices under direct or indirect government regulation.

The NBS strives to achieve the inflation target **by changing its key policy rate, i.e. the interest rate applied in the main open market operations**. This interest rate is the key monetary policy instrument and the decisions on its level are based on the analysis of economic circumstances, assessment of future developments and the medium-term inflation projection. Other monetary policy instruments play a supporting role – they contribute to the smooth transmission of the impact of the key policy rate on the market, as well as to the development of the financial market, without jeopardising financial system stability.

The NBS implements **a managed float exchange rate regime**. Interventions in the FX market aim to ease excessive short-term volatility of the exchange rate, safeguard price and financial stability, and maintain an adequate level of FX reserves.

To strengthen the transparency of its monetary policy and the effectiveness of communication with the public, the NBS Executive Board makes monetary policy decisions in line with the agreed schedule of meetings and regularly informs the public about the implementation of inflation targets and measures taken to achieve them. Also, monetary policy decisions and macroeconomic projections are explained in detail when presenting the *Inflation Report*.

II Monetary policy and achievement of the inflation target

1 Monetary policy since early 2024

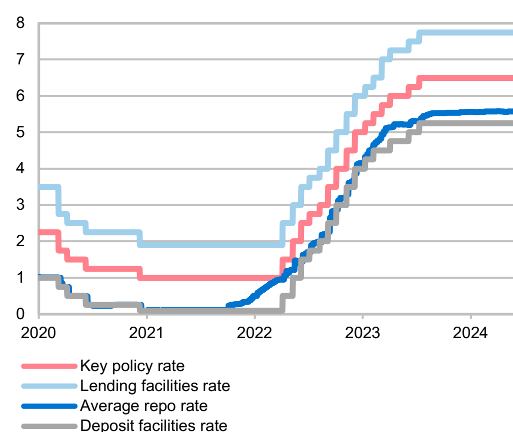
Since early 2024, monetary policy has been pursued in accordance with the **NBS Monetary Policy Programme in 2024**[2] and contributed to ensuring macroeconomic and financial stability even amid strong shocks from the international environment. The Monetary Policy Programme, adopted in December 2023, envisaged that, in the decision-making process, the NBS would assess the nature and strength of inflationary pressures and, thus maintain the necessary flexibility of monetary policy in terms of the scope of the response and use of instruments in order to ensure price and financial stability in the medium run, but also to further support sustainable economic growth. The decision-making on the level of the key policy rate was based on the **NBS projections**, which indicated that inflation would retreat to the target range of 3±1.5% by mid-year and continue to fluctuate within that range over the entire projection horizon, gradually approaching the 3% target midpoint over the next year.

From the start of 2024 until June, the NBS kept the key policy rate unchanged at 6.5%, which is the level from July 2023. The deposit and lending facility rates were kept at 5.25% and 7.75%, respectively. The Executive Board's decisions to keep the key policy rate on hold were made in consideration of the medium-term inflation projections, but also the fact that global inflationary pressures, albeit declining, were still elevated. Also, there was considerable uncertainty in terms of movements in the global prices of energy and other primary commodities.

The Executive Board carefully monitored the **declining, but still elevated imported inflation**. In the euro area, our key trade partner, headline inflation declined further. However, caution remained mandated by core inflation, which continued to move above headline inflation, the same as in the USA, primarily due to tight labour market conditions and nominal wage growth, which is why the ECB and the Fed postponed embarking on the cycle of monetary policy easing.

Among the challenges from the international environment, the Executive Board highlighted **geopolitical conflicts and the consequent risk of rising global prices of oil and other primary commodities**. The prices of most primary commodities in the global market were on the rise since early 2024, triggered by supply-side factors and recovered global industrial activity. Even though primary commodity prices are

Chart II.1.1 **Movement in the key policy rate and average repo rate**
(y-o-y rates, in %)



Source: NBS.

[2] RS Official Gazette, No 110/2023.

expected to decline negligibly in the period ahead as a result of better supply conditions, they are expected to trend considerably above the pre-pandemic level. The **global oil prices proved particularly volatile**, chiefly under the influence of geopolitical tensions in the Middle East, but also decisions of the OPEC+ countries, volatile global growth prospects, oil inventories, etc.

As for **global food prices**, the key contributing factors to their decline from record highs in 2022 were supply chains, which almost entirely normalised, followed by gas prices, which fell to much more acceptable levels, as well as the fact that the Ukrainian grain exports continued via the Black Sea corridor. Although global disinflation in this area was expected to continue, caution was mandated by the **world food price index (FAO), which, after decreasing for seven consecutive months, posted a rise in March–June 2024**. Also, caution was required on account of volatile weather conditions and new protectionist measures and trade restrictions which could drive food prices up.

Nonetheless, the conditions in the domestic and international environment in which monetary policy was conducted in Serbia, as well as in most other countries, increasingly **encouraged talks about when monetary policy easing should begin and to what extent and at what pace it should be carried out**. Such decisions require careful consideration of all available information and data, analysis of inflation trends and monetary transmission, so that monetary easing would not come too early and threaten the sustainability of inflation's downward path and convergence to the target. In time, most central banks predicted with increasing certainty that inflation in their countries would retreat within the target tolerance band in H2 2024 or H1 2025. It seemed reasonable to expect, therefore, a further slowdown in the prices of imported goods and services. Past monetary policy tightening in Serbia has passed through to interest rates in the markets of money, loans and savings, leading to lower inflation expectations of the financial and corporate sectors, which signals the efficiency of the monetary policy transmission mechanism. Amid a slowdown in imported inflation and persistently subdued external demand, this contributed to establishing the downward trajectory of inflation at home and also motivated the Executive Board's decision to embark on monetary policy easing in June.

In June, the NBS Executive Board began, and in July and September continued with monetary policy accommodation by trimming the key policy rate by 25 bp each, to 5.75%. Concurrently, the deposit and lending facility rates were trimmed to 4.50% and 7.00%, respectively. In making decisions to lower the key policy rate, the Executive Board took into account that, despite the easing, monetary policy remains restrictive, reflecting also lower inflation expectations.

In accordance with the Executive Board's announcements, **y-o-y inflation in Serbia retreated within the target tolerance band (3±1.5%) in May** and measured 4.5%, only to slow down further to 3.8% in June. Inflation decline resulted primarily from the prices of food and petroleum products. Core inflation (CPI excluding food, energy, alcohol and cigarettes) measured 5.1% y-o-y in June, hovering around that level for the last few months as a result of the faster growth in the prices of services, on the one hand, and slower growth in the prices of products, on the other, typical also for other countries.

In its monetary policy making, the Executive Board was particularly mindful of the **factors from the international environment, notably imported inflation, which is expected to decline also in the period ahead**, albeit more gradually, **as well as of external demand**, which is slowly trending upward. A steady decline in inflation, judging by all indicators, will lead central banks in both developed and emerging economies to adopt **a more cautious approach to monetary policy easing** compared to what was expected earlier this year. In the **euro area**, our key trade partner, inflation declined from 2.6% in May to 2.5% in June, but core inflation (2.9% y-o-y) and rising prices of services (4.1% y-o-y), which are carefully monitored, are still stable and significantly above their historical average due to labour cost growth. In the remainder of the year, some volatility in headline inflation is expected in the euro area due to the base effects from energy prices. The ECB's projection from June anticipates inflation decline from 5.4% in 2023 to 2.5% in 2024, and 2.2% in 2025. This is 0.2 pp higher than projected three months earlier, for both years, largely due to somewhat higher than expected core inflation.

Despite expecting slightly higher inflation than three months ago, in June the **ECB** lowered its key interest rates by 25 bp for the first time since 2019, assessing that it was time to ease the restrictiveness of its monetary policy. The ECB President, Christine Lagarde, pointed out that the reduction in key interest rates does not imply consecutive cuts in the future. Thereafter, in the July meeting, the ECB key interest rates were kept unchanged. The NBS Executive Board considered that the expected gradual decrease in the price of euro-indexed loans at home, based on lower euro area money market rates due to the ECB's monetary policy easing, along with the

reduction of the NBS key policy rate, should provide impetus to gradual lending and domestic demand growth, which will not jeopardise the declining inflation trajectory.

Unlike the euro area, the **Fed** kept its federal funds rate unchanged in June and July. **Central banks of inflation targeting countries in the CESEE region** are also in the monetary accommodation cycle, though the beginning and the pace of relaxation differ by country, just as with leading central banks.

Considering **external demand**, the NBS Executive Board was aware of the fact that both developing and emerging economies were expected to grow at a slower pace in the period 2024–2026 than in the pre-pandemic decade. GDP growth in the euro area was better than expected early in the year, driven by trade and rising household consumption, prompting the ECB to revise up its growth forecast for this year by 0.3 pp to 0.9%, and downgrade the next year's forecast by 0.1 pp to 1.4%. Gradual global economic growth, particularly euro area growth, will prop up external demand for our exports.

In its monetary policy making, the Executive Board took into account that this year as well FDI inflow **outstripped the current account deficit by multiple times, sustaining further appreciation pressures and the record increase in FX reserves**. In June, for the first time, the Republic of Serbia issued sustainability bonds worth USD 1.5 bn in the international financial market. To maintain the relative stability of the dinar exchange rate against the euro, in H1 the NBS intervened in the FX market by buying EUR 1,330.0 mn net, thus driving FX reserves up to the new highest level and further strengthening the economy's resilience to external risks.

Speaking of potential shocks from the international environment, **geopolitical tensions** have mandated caution for some time already. The Executive Board had in mind that uncertainty surrounding the movement of **global prices of primary commodities** remains pronounced, particularly prices of oil and gas, with potential escalation of the Middle East conflict, longer transport routes and higher logistics costs posing the main risk. Global economic growth, which is still below trend, is expected to gradually accelerate in the coming period, reflecting on global prices of primary commodities. Furthermore, growth remains stronger in the US compared to most other advanced economies. At the same time, China's growth outlook is forecast at somewhat lower levels compared to the previous period, despite a number of measures to strengthen its economy.

On the domestic front, the Executive Board had in mind that **inflation expectations** continued on the downward path, which points to the credibility of the NBS monetary policy. One-year ahead inflation expectations of the financial sector retreated within the target band early this year, only to decline further thereafter, while their expectations for two years ahead declined to 3.0% in Q2 (from 3.5% in March). Thus, medium-term inflation expectations of the financial sector for two and three years ahead stand at the NBS target midpoint. Lower inflation expectations support lower inflation and a higher real interest rate, i.e. restrictive monetary conditions even without changes in the key policy rate.

The Executive Board carefully considered available data on the **real sector**, where most indicators continued recording positive trends. Service sector and construction indicators, as well as a faster than anticipated recovery in production following the overhaul in Pančevo refinery, suggested that GDP growth in Q2 could be higher than projected by the NBS, which indeed turned out to be the case. In view of the stronger than anticipated growth in H1, it was becoming increasingly evident that the annual GDP growth rate would go up, which is why the NBS revised up its GDP growth projection to 3.8% in 2024. An additional pick-up to the range of 4–5% is expected to unfold over the next two years, owing to the investment cycle supported by the "Leap into the Future – Serbia Expo 2027" programme.

As the main risks to inflation and other economic developments still emanate from the international environment, the NBS will continue to monitor and analyse trends in the international commodity and financial markets and make future monetary policy decisions based on that and the analysis of trends at home and the pace of domestic inflation's slowdown, on a meeting-by-meeting basis. Going forward, delivering price and financial stability in the medium term will remain the monetary policy priority, along with supporting continued growth and development of our economy, a further rise in employment and preservation of the living standard.

2 Monetary policy instruments

The main monetary policy instrument of the NBS is the key policy rate, i.e. the interest rate on the main open market operations. The role of the key policy rate is supported by the corridor of interest rates on deposit and lending facilities and by other open market operations. In addition to the key policy rate, the NBS uses other

instruments of monetary regulation, notably reserve requirements and operations in the FX market.

Open market operations

The main open market operations of the NBS in H1 2024 were one-week reverse repo transactions of securities sale (liquidity absorption).

The NBS implemented repo transactions using its own securities. For the needs of repo sale, one series of T-bills was issued in mid-August 2023, in the total nominal value of RSD 1,000.0 bn. The issuance of a larger volume of T-bills than in previous years (RSD 500.0 bn) is a result of the need to provide a sufficient amount of market material for smooth conduct of repo transactions in an environment of pronounced excess dinar liquidity in the banking system. The increase in excess dinar liquidity was mostly facilitated by the NBS's FX net purchase interventions in the IFEM amid appreciation pressures on the dinar.

In H1 2024, 26 repo sale auctions were organised. Auctions were held once a week, applying the variable multiple interest rate model. Total securities sale amounted to RSD 12,562.8 bn, which was somewhat higher than in H2 2023 (RSD 11,592.9 bn).

The stock of NBS securities in banks' portfolios averaged RSD 483.2 bn in H1 2024, up by RSD 38.5 bn from H2 2023. At end-June, the stock of these securities measured RSD 390.0 bn, which is a decrease from end-2023 (RSD 405.0 bn).

Deposit and lending facilities

In H1 2024, banks placed overnight deposits within the NBS, which averaged RSD 93.9 bn, down by RSD 16.5 bn from H2 2023.

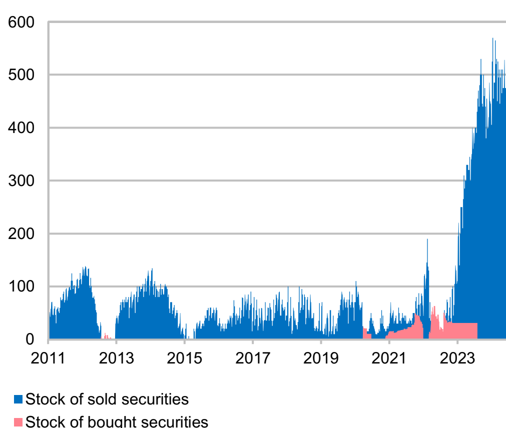
In H1 2024, four banks used lending facilities as intraday loan in the total amount of RSD 21.9 bn, while overnight loans were not used at all.

Required reserves

In H1 2024, the amount of calculated required reserves allocated in dinars went up by RSD 17.0 bn, reaching RSD 426.6 bn in June. This increase is chiefly a result of the growth in purely dinar required reserves (by RSD 9.1 bn), thanks to the increase in dinar deposits of households and corporates, and, to a lesser extent, the rise in FX required reserves allocated in dinars (RSD 7.9 bn).

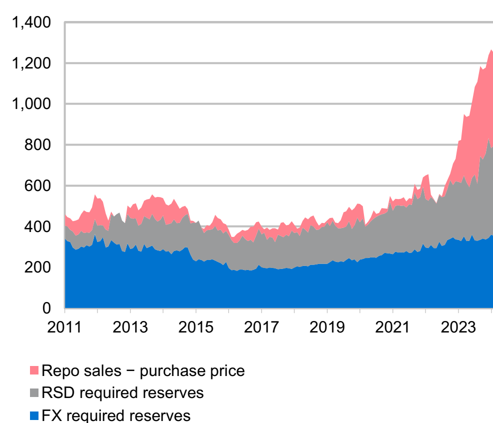
Calculated FX required reserve increased by EUR 92.4 mn in H1 2024, to EUR 2,955.0 mn in June. This was driven by the EUR 811.1 mn increase in FX base (primarily owing to the rise in FX savings and FX deposits of corporates).

Chart II.2.1 **Stock of repo sold/bought NBS securities**
(RSD bn)

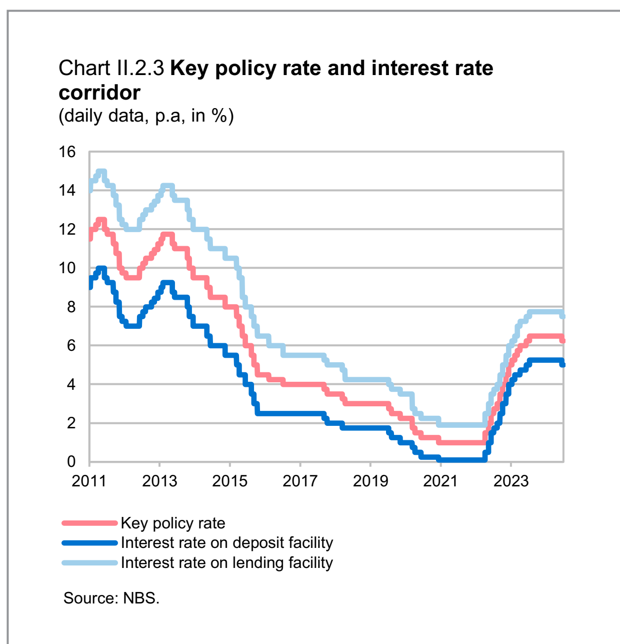


Source: NBS.

Chart II.2.2 **Volume of sterilisation by monetary policy instruments**
(RSD bn)



Source: NBS.



Interest rates

At end-H1 2024, in its June meeting, the NBS Executive Board decided to lower the key policy rate by 25 bp, to 6.25%, after keeping it on hold for almost one year (since July 2023). The Board's decision was motivated by the continuous downward trajectory of inflation at home and its retreat within the target band in May 2024, as well as by the projected movement of inflation and other macroeconomic indicators from the domestic and international environment going forward.

In the July meeting, the key policy rate was lowered by additional 25 bp, to 6.00%. Concurrently, the deposit and lending facility rates were trimmed to 4.75% and 7.25%, respectively.

In 2024, the interest rate at which the NBS calculates and pays interest on the average daily balance of allocated dinar required reserves was kept at 0.75%.

FX market operations

Under the 2024 Monetary Policy Programme, the NBS continued implementing the managed float exchange rate regime, with the possibility to intervene in the FX market with a view to easing excessive short-term volatility of the dinar against the euro and maintain price and financial stability and an adequate level of FX reserves.

In H1 2024, the dinar gained 0.1% against the euro in nominal terms. In the first half of January, depreciation pressures prevailed, mostly due to the seasonally elevated FX demand of domestic companies – energy importers, as well as a reduction in net indexed bank assets. Only in January, the NBS net sold EUR 45.0 mn in the IFEM, while in all other months of H1 it net bought foreign currency amid stronger appreciation pressures.

Appreciation pressures prevailed in H1 chiefly on the back of FX supply of residents, mostly on account of FDI inflow, and exports as well. From the second half of January until end-June 2024, FX supply-side factors included chiefly banks' high foreign cash purchases from authorised exchange dealers and natural persons, the lengthening of the FX position of banks on account of the use of foreign (non-resident) payment cards, and the increase in net indexed bank assets. In monthly terms, in H1 the strongest appreciation pressures were recorded in June, almost entirely generated by FX supply of residents, which were on some days amplified by the increase in net indexed bank assets. In June, the NBS net bought EUR 695.0 mn in the IFEM.

In H1, the NBS net bought foreign currency in the IFEM in the amount of EUR 1,330.0 mn. Concluding with July, the net purchase amounted to EUR 1,555.0 mn.

FX swaps

In H1 2024, banks were still able to conclude bilateral transactions of swap purchase and sale of FX (euros) with the NBS. By introducing bilateral swap transactions, the NBS sought to provide not only assistance to banks in their liquidity management, helping them overcome the problem of insufficient limits for concluding interbank transactions, but also greater flexibility regarding the moment of concluding transactions and their maturity.

In H1 2024, NBS bilateral swap transactions amounted to EUR 1,552.0 mn (swap purchase and sale worth EUR 761.0 mn each).

3 Achievement of inflation target since early 2024

Y-o-y inflation continued on a downward path since the beginning of the year, retreating within the target band in May, only to fall further to 3.8% in June, which is almost 10 pp lower than a year ago. The trimmed mean measure of inflation, which excludes 15% of products and services whose prices recorded the largest changes in both

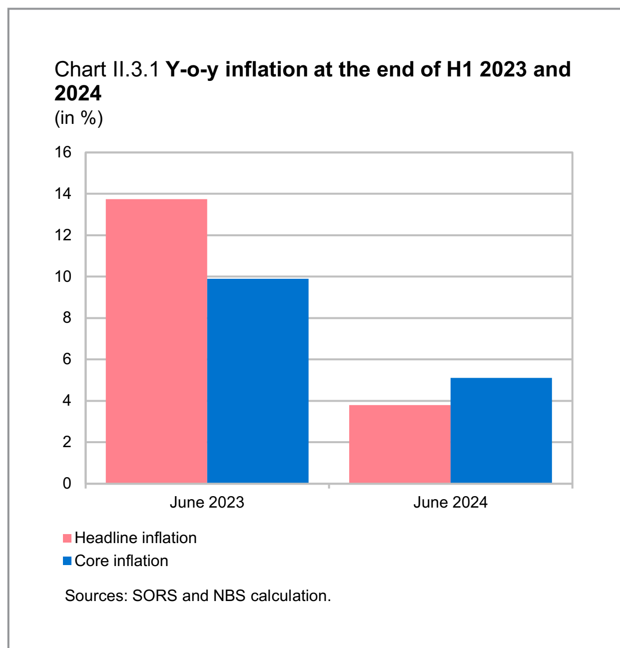


Chart II.3.1 **Y-o-y inflation at the end of H1 2023 and 2024**
(in %)

Sources: SORS and NBS calculation.

directions from the consumer basket, stood at a similar level as headline inflation, having fallen to 3.9% y-o-y in June. In addition, **core inflation** slowed down since early 2024 due to past monetary tightening, coming to the headline inflation level in March, and stabilised in Q2 at around 5% y-o-y, half the level recorded in the same period the year before.

Inflation slowed down in H1, mostly reflecting a much slower y-o-y rise in the **prices of food and non-alcoholic beverages**, which even recorded a 0.1% y-o-y fall in June. This was entirely due to the lower **prices of unprocessed food** (7.4% y-o-y, with a negative 0.9 pp contribution to inflation), on account of the sharp drop in fresh vegetable prices (21.3% y-o-y) amid elevated supply and the high last year's base. **Processed food prices** slowed down their y-o-y growth, to 3.9% in June (with a 0.8 pp contribution to inflation), primarily thanks to a slower y-o-y rise in the prices of processed meat and non-alcoholic beverages. The described price dynamics resulted in **a neutral contribution of the group of food and non-alcoholic beverages to y-o-y inflation gave in June**.

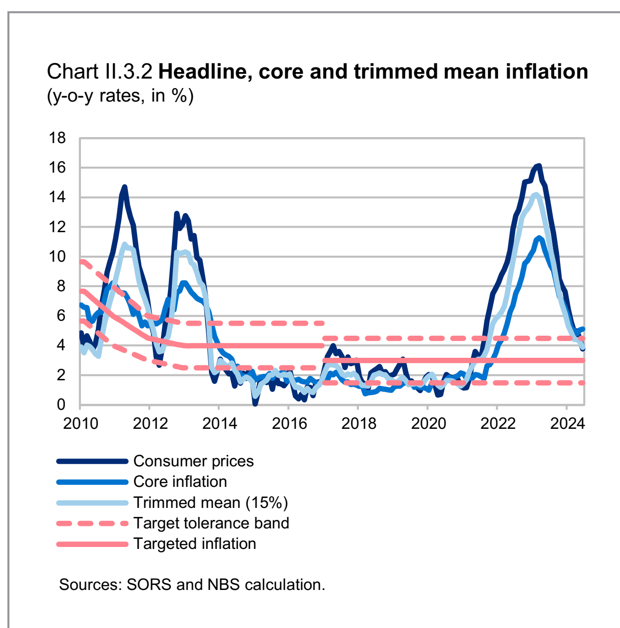


Chart II.3.2 **Headline, core and trimmed mean inflation**
(y-o-y rates, in %)

Sources: SORS and NBS calculation.

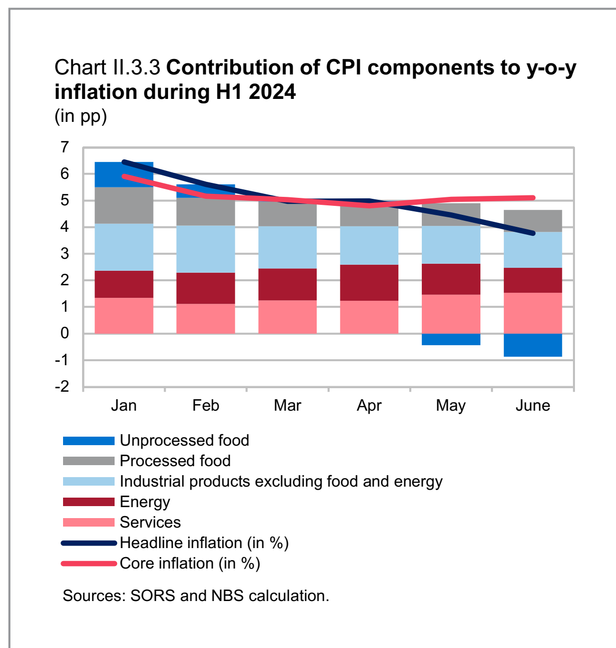


Chart II.3.3 **Contribution of CPI components to y-o-y inflation during H1 2024**
(in pp)

Sources: SORS and NBS calculation.

Energy prices picked up their y-o-y growth until April, mostly driven by the higher prices of electricity and petroleum products. However, until end-H1, energy prices lost pace y-o-y, to 6.2% in June (0.9 pp contribution to inflation), notably owing to the drop-out of the May 2023 electricity price hike from the calculation. Electricity price recorded twice lower y-o-y growth rate in May and June (7.3%) than in the previous part of H1. The prices of gas for households also decelerated y-o-y in H1, to 9.4% in June, while the prices of solid fuels decreased y-o-y (5.5%) due to lower prices of firewood.

The **prices of industrial products (excluding food and energy)** slowed down their y-o-y growth gradually, to 4.8% in June (with 1.4 pp contribution to inflation), more than half the level from a year earlier. This was mostly driven by the slower y-o-y rise in the prices of alcoholic beverages, clothes and footwear and furniture, and to a lesser extent, medical and pharmaceutical products, vehicles and spare parts. Conversely, the prices of cigarettes accelerated their y-o-y growth since May due to excise hikes.

The **prices of services** trended up in H1, posting a 6.4% y-o-y rise in June (with a 1.6 pp contribution to inflation), still lower than in the same period last year. Higher prices of services were led primarily by the higher prices of tourist packages in H1, mobile telephony, catering and utility services, and since April, also higher prices of rent. On the other hand, y-o-y growth in the prices of medical services and cable subscription slackened.

Administered prices, which are under direct or indirect government regulation, grew by 7–8% y-o-y in the course of H1. In June, their growth came at 6.9%, adding 1.2 pp to inflation. The said increase reflects the hike in the prices of cigarettes and utility services, as well as adjustments in electricity prices from November last year.

III Macroeconomic environment

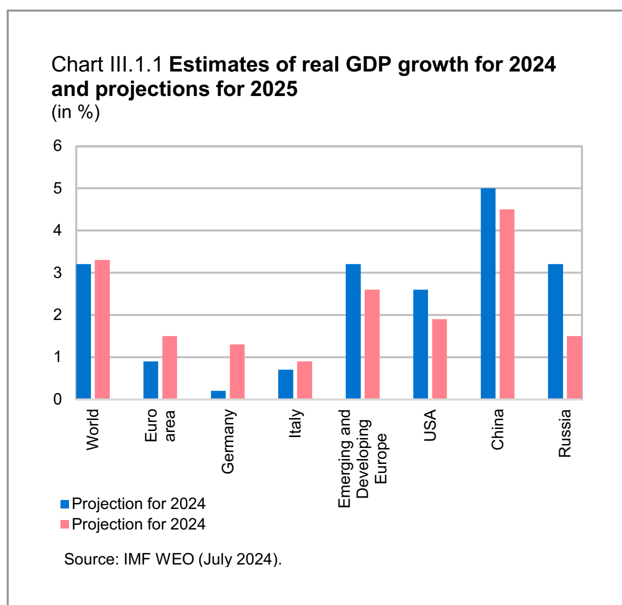
1 International environment

Economic activity and inflation

According to estimates of leading international financial institutions, the **global economy has turned out to be resilient** to the consequences of the polycrisis in the prior period, endorsed by increased spending and accumulated savings, as well as a strong labour market. Economic growth in Q1 was higher than anticipated in a number of countries, including China and the euro area, where the net exports recovered significantly. In contrast, after an extended period of expansion the US economy temporarily lost breath in Q1 amid dampened consumption and exports, the latter accelerating again in Q2. In July, the IMF said that to an extent, such movements have narrowed the economic activity gap between countries, hence it kept the April **global growth projection of 3.2% in 2024 and 3.3% in 2025**. The risks over the July projection horizon are estimated as balanced, with the note as to increased near-term risks pertaining to the persistent inflation in the services sector and the associated opening of the wage-price spiral, escalation of trade tensions, and the possibility of keeping interest rates elevated over an extended period.

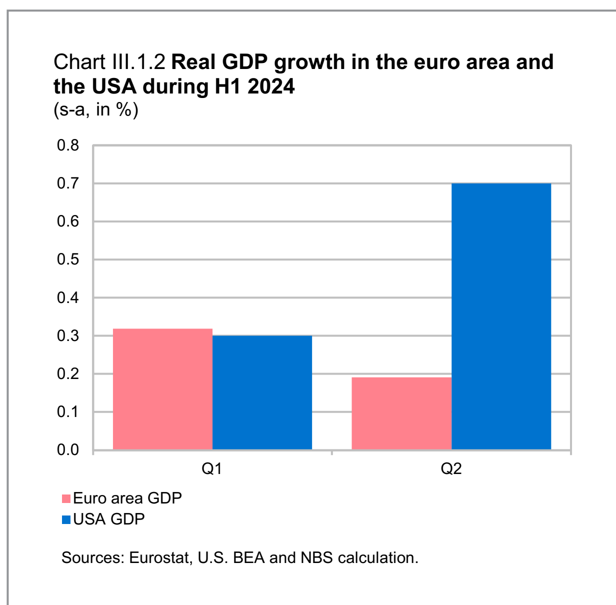
The downward trajectory of global inflation, which continued into early 2024 as well, slowed during Q2 amid persistent cost-push pressures in the services sector, which were somewhat mitigated in the industry sector. **In July the IMF kept its April inflation projection for 2024 at 5.9%**, while the projection for 2025 was mildly trimmed, by 0.1 pp, to 4.4%. In the majority of advanced countries, inflation is still trending above the target tolerance band and is expected to return within the bounds in 2025, supported by the weakening pressures

Chart III.1.1 **Estimates of real GDP growth for 2024 and projections for 2025**
(in %)



Source: IMF WEO (July 2024).

Chart III.1.2 **Real GDP growth in the euro area and the USA during H1 2024**
(s-a, in %)



Sources: Eurostat, U.S. BEA and NBS calculation.

from the labour market and the projected decline in global energy prices.

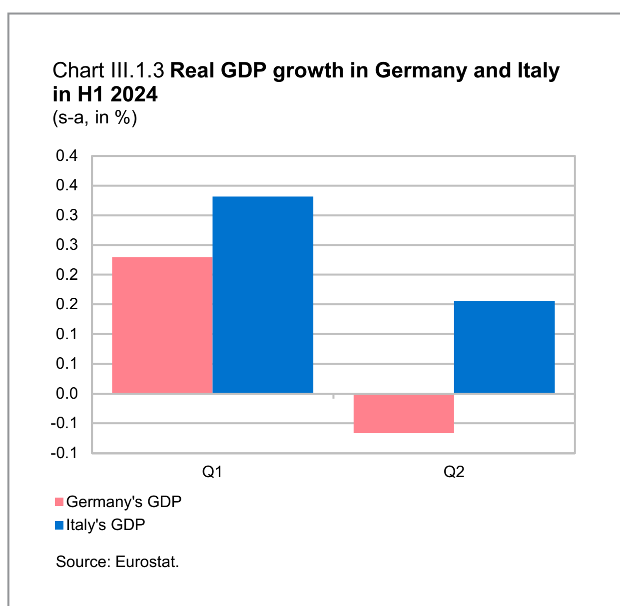
After a longer standstill, in Q1 the **euro area economy** recorded growth of 0.3% s-a, almost entirely attributable to increased net exports. The total consumption rose slightly in Q1, while investments in fixed assets and inventories declined. Concurrently, the **economies of Germany and Italy**, our key foreign trade partners in the euro area, posted s-a growth of 0.2% and 0.3%, respectively. The dynamics of leading short-term indices for the euro area, PMI and ESI, suggested continued economic growth in Q2, on a parallel note with growth in real disposable income and more favourable trade terms. According to Eurostat, in Q2 euro area GDP rose 0.2% s-a, rising by the same level in Italy as well, and edging down by 0.1% in Germany under the impact of a fall in fixed investments.

The euro area labour market supported economic activity considering growth in employment and activity rates, while the unemployment rate in H1 moved close to its lowest level since the establishment of the euro area (6.5% in June). The unemployment rate in the euro area was projected at 6.6% in 2024 and in view of the better performance than expected, in June the ECB revised up its March euro area GDP growth projection for 2024 by 0.3 pp, to 0.9%. The projection for 2025 was slightly revised down, by 0.1 pp, to 1.4%, remaining unchanged for 2026 (1.6%).

Headline inflation in the euro area slowed during Q1, to 2.4% y-o-y in March, based on the significantly slower growth in food prices, whereas energy price growth receded more slowly in y-o-y terms. Then, during Q2, energy prices rose moderately in y-o-y terms under the impact of higher global prices of energy and the low base effect from the corresponding period the year before, which was reflected as somewhat higher inflation rate, measuring 2.5% y-o-y in June. **Core inflation in the euro area** in June came at the same y-o-y level as in March (2.9%), considering that growth in services prices picked up slightly in Q2, while growth of industrial product prices slowed. Measured by y-o-y changes in the HICP, in June **inflation in Germany** was somewhat higher than in March (2.5% compared to 2.3%), while **inflation in Italy** retreated to 0.9% in June (from 1.2% in March). In June the **ECB** estimated that accelerated wage growth will exert pressure on inflation in the euro area, projected at 2.5% in 2024 and at 2.2% in 2025, i.e. each up by 0.2 pp from March projections.

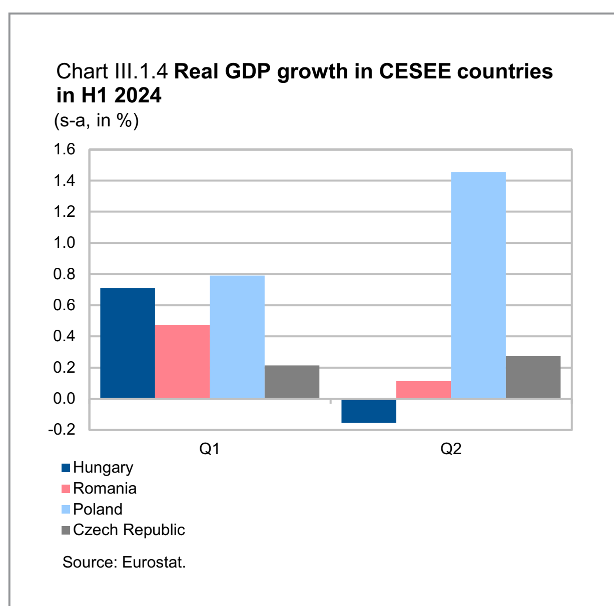
In the CESEE region[3] Q1 saw economic growth of 0.6% s-a, dictated by increased consumption, notably of households, as well as higher goods inventories, whereas the decrease in fixed investments worked in the opposite direction. The achieved economic growth in Q1 was broadly geographically diversified, with the exception of Slovenia, where economic activity stagnated. In Q2, GDP growth continued in almost all countries of the region, the most pronounced being in Poland, while Hungary was the

Chart III.1.3 **Real GDP growth in Germany and Italy in H1 2024**
(s-a, in %)



Source: Eurostat.

Chart III.1.4 **Real GDP growth in CESEE countries in H1 2024**
(s-a, in %)



Source: Eurostat.

[3] The region includes Romania, Hungary, the Czech Republic, Slovenia, Bulgaria, Croatia, Slovakia and Poland.

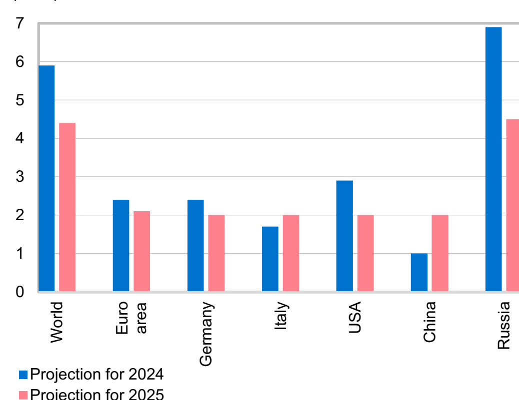
only one to record a fall in GDP. Consensus Economics' analysts believe that at the level of the region, final consumption will remain a key driver of economic growth, projected at 2.9% in 2024 in Southeast European countries and at 2.4% in Central European countries, while for 2025 the forecast rates are 3.4% and 3.3%, respectively.

In CESEE region countries pursuing inflation targeting, inflation lost pace during Q1 as a result of slower food inflation. In **Romania**, inflation trended down during Q2, measuring 4.9% y-o-y in June. In the **Czech Republic** inflation rose in April, only to return to the target 2.0% in June, while in **Hungary** it picked up in April and May, measuring 3.7% at end-Q2, slightly above the end-Q1 level. In **Poland** inflation trended up during Q2, reaching 2.6% in June, with growth expected to continue until Q1 2025 under the impact of elevated energy prices. In July, Consensus Economics projected the average inflation rate of 4.4% in 2024 in Southeast European countries and of 3.4% in Central European countries, i.e. lower than the April forecast, while for 2025 the projected rates of average inflation are 3.3% and 3.5%, respectively.

After an extended period of better than expected performance, the **US economy** slowed to 0.3% s-a in Q1, as a result of stepped-up fixed investments and final consumption, while net exports and goods inventories were on the decline. In June, the **Fed** stated that during Q2 economic growth continued at a sound pace driven by increased consumption and a strong labour market. According to a preliminary estimate of the US Bureau of Economic Analysis, in Q2 the US GDP rose 0.7% s-a. During H1, the labour force supply and demand gap narrowed, as attested to by growth in the unemployment rate of 3.8% in March to 4.1% in June. The Fed's June projections remained unchanged relative to March – GDP growth was forecast at 2.1% in 2024 and 2.0% in 2025, while the unemployment rate was projected at 4.0% in 2024.

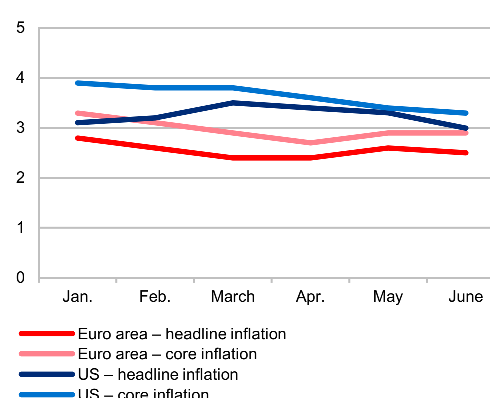
Measured by the change in the CPI, **US headline inflation** trended up during Q1, measuring 3.5% y-o-y in March, mostly under the impact of elevated energy prices. As of April, it turned downward thanks to the accelerated fall of industrial product prices and the significantly lower rate of energy price growth in June, coming down to 3.0% at end-H1, its lowest level in a year. Measured by the change in the CPI, excluding food and energy, **US core inflation** slowed throughout the entire H1, measuring 3.3% in June, its lowest level in three years. This was facilitated by the mentioned fall in finished product prices, as well as the slower y-o-y growth in services prices as of March. **Personal consumption expenditures index** (total and excluding food and energy prices) recorded similar y-o-y dynamics during H1 as the CPI, with y-o-y growth of 2.5% and 2.6%, respectively, in June. The stated inflation measures were projected by the **Fed** in June to an average of 2.7% in 2024 and 2.3% in 2025. These are slightly higher levels than in March, and inflation is not expected to return to the target level before 2026.

Chart III.1.5 **Average inflation projections in 2024 and 2025**
(in %)



Source: IMF WEO (July and April 2024).

Chart III.1.6 **Euro area HICP inflation and US CPI inflation in H1 2024**
(y-o-y rates, in %)



Sources: Eurostat and Bureau of Labor Statistics.

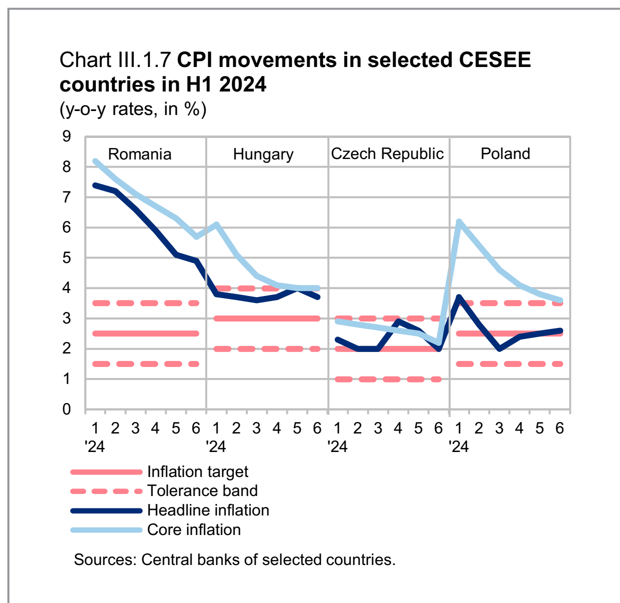


Chart III.1.7 **CPI movements in selected CESEE countries in H1 2024**
(y-o-y rates, in %)

Sources: Central banks of selected countries.

The **Russian economy** rose by 5.4% y-o-y in Q1, notably on the back of industrial activity growth. In July, the IMF kept the April projection of Russia's GDP growth at 3.2% in 2024, while the projection for 2025 was trimmed by 0.3 pp, to 1.5%. In Q1, the **Chinese economy** grew by 5.3% y-o-y amid increased government consumption and continued fiscal incentives. In July, the IMF revised its April projection of China's GDP in 2024 up by 0.4 pp, to 5.0%, raising the projection for 2025 by as much, to 4.5%.

Monetary policy

Since ending the cycle of main interest rate hikes in September 2023, the **ECB** kept its key rates unchanged until the meeting in June 2024, stressing that inflation is slowing down, but inflationary pressures at home still give cause for worry. This primarily pertained to elevated cost-push pressures from the labour market, which kept inflation in the services sector relatively high, while concurrently, since the beginning of the year, the ECB continued downsizing its balance sheet as planned, at a moderate rate. It continued downsizing the portfolio of securities purchased within the **Asset Purchase Programme (APP)**, as the ECB is no longer reinvesting the principal payments from maturing securities. As for the **Pandemic Emergency Purchase Programme (PEPP)**, the ECB fully reinvested the principal payments from securities maturing during H1 this year in order to gradually reduce the portfolio during H2 and discontinue reinvesting entirely by end-2024. Additionally, the ECB regularly monitored the impact of the return of funds to banks, borrowed under the **targeted long-term refinancing operations (TLTROs)**, on monetary conditions.

The ECB's decision to embark on monetary policy accommodation in June 2024 by trimming the rates by 25 bp each, to 3.75% on the deposit facility rate, 4.25% on main refinancing operations rate and 4.50% on lending facility rate, was made primarily in view of the weakening of cost-push pressures and inflation slowing down, which was greatly facilitated by the previously tightened monetary policy and the subsequently tightened financial conditions. At the conference following the June meeting, the ECB President Christine Lagarde stressed that the cuts in key interest rates do not mean that the rates will undergo further consecutive cuts and in the July meeting, the key interest rates were kept unchanged. The ECB said it would ensure that interest rates remain restrictive for as long as necessary for inflation to return to the target in a sustainable manner and in the medium term. Despite the progress achieved, it was noted that cost-push pressures in the local labour market remain strong, keeping inflation in the services sector relatively high, which mandates caution in monetary policy conduct. Accordingly, market participants expect new cuts in September and December, but possibly only at the end of the year, as inflation in the services sector has still not retreated.

Unlike the ECB, the **Fed kept the federal funds rate unchanged (5.25–5.50%) in June**, which means they have not been touched since July 2023. It also proceeded with the downsizing of its balance sheet assets. In the observed period, the Fed underlined that the sound economic growth in the USA continued, employment numbers remained strong and the unemployment rate low, while inflation was moderated, though it remains elevated. **The federal funds rate was kept on hold in the July meeting**, but the report stated that progress was made in terms of reaching the inflation target, which market participants interpreted as an announcement of future federal funds rate cuts. The Fed will continue monitoring economic data and stands ready to adjust its monetary policy stance accordingly in the event of risks that might interfere with the achievement of their objectives.

As the first among leading central banks to trim its policy rate in March, the **Swiss National Bank** cut its rate again in June, by 25 bp to 1.25%. This move had been anticipated by market participants, given the appreciation of the Swiss franc and the relatively low inflation (according to central bank projection of 1.3% in 2024 and 1.1% in 2025, provided that the policy rate remains 1.25%). After the first raise since 2007, to 0–0.1% in March, whereby it left the negative territory, the **Bank of Japan's** policy rate was lifted again in July, to around 0.25%. The **Bank of England** did not change its 5.25%

policy rate since August 2023, noting that it would monitor how long the policy rate should be kept at the present level to achieve the inflation target.

Of the inflation targeting central banks in the **CESEE region, the central bank of Hungary** trimmed its policy rate the most in H1 2024, by a total of 375 bp, and then again in July by 25 bp, to 6.75%. Since monetary accommodation began last October, the pace of monetary policy easing slowed gradually and is expected to continue in the same fashion going forward considering the statements by the central bank officials that there is very little room for policy rate cuts in the remainder of the year. The **central bank of the Czech Republic** conducted significant monetary accommodation during H1, by a total of 200 bp, with an additional cut in the policy rate to 4.5% in early August. The central bank underlined the slowdown of inflation and subdued economic activity as the main reasons behind such decisions. Considering the risks to inflation movements amid price growth in the services sector, the Czech central bank's governor highlighted that the pace of monetary policy accommodation will probably be reined in at upcoming meetings, as well as that there is a possibility, depending on data, to make a pause in the cycle of policy rate cuts. The **central bank of Romania** also trimmed its policy rate in July – the first cut since January 2021 – by 25 bp to 6.75%. The central bank's inflation projection is lower than last year's, hence in the period ahead further cuts can be expected. Still, uncertainty as to the character of the fiscal policy, dynamics of public sector wages and effects of the new pension law mandate caution. After last October's cut to 5.75%, the **central bank of Poland** kept its policy rate on hold, in line with expectations. Though inflation is trending within the bounds of the target tolerance band, the central bank is anticipating a pick-up in price growth in H2, triggered by the strong labour market, and dismisses the possibility of further policy cuts this year.

Financial and commodity markets

Yields on ten-year government bonds of advanced European countries rose in H1, on average by around 54 bp, with yields on ten-year US Treasuries rising by 52 bp. The movement in yields in Q1 was relatively more volatile amid elevated uncertainty of market participants as to the start of leading central banks' monetary policy accommodation. Still, significant resilience of the US economy in Q2 and upward revisions of euro area inflation projections fortified market participants' expectations as to the slower intensity of the ECB and Fed's future rate cuts.

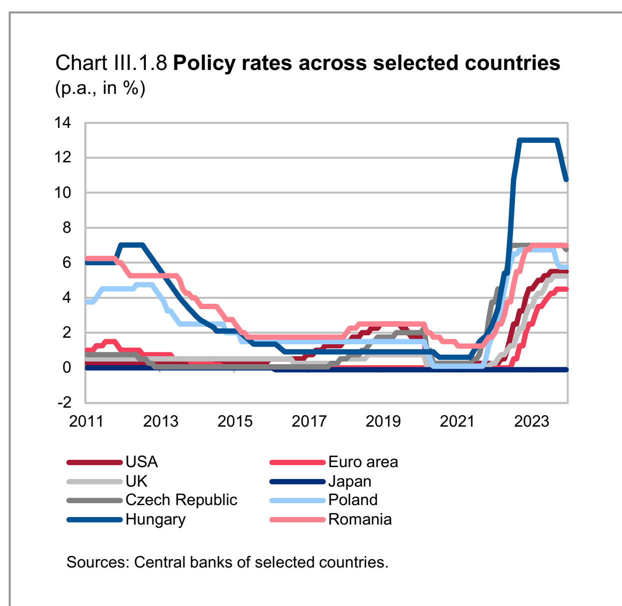


Chart III.1.8 **Policy rates across selected countries**
(p.a., in %)

Sources: Central banks of selected countries.

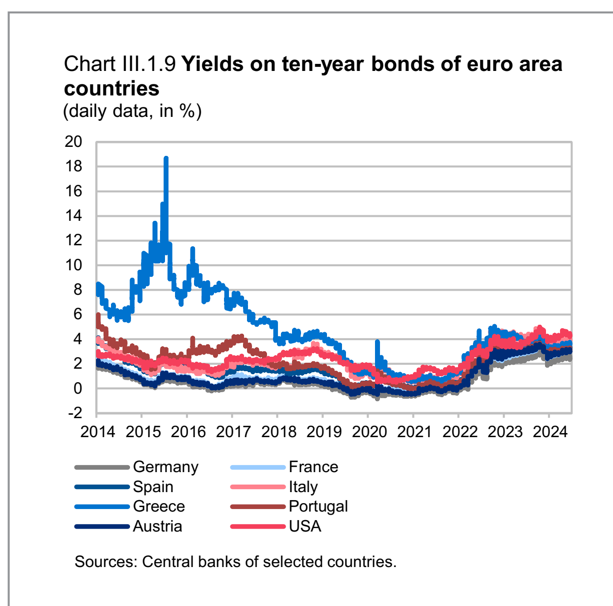


Chart III.1.9 **Yields on ten-year bonds of euro area countries**
(daily data, in %)

Sources: Central banks of selected countries.

During H1, the dollar gained vis-à-vis the euro and the majority of other leading currencies in the international financial market, which can be associated with better performances of the US economy whose labour market has shown high resilience compared to the more moderate economic rebound in the euro area. Uncertainty as to developments surrounding the French elections also contributed to the weakening of the euro at the end of the period.

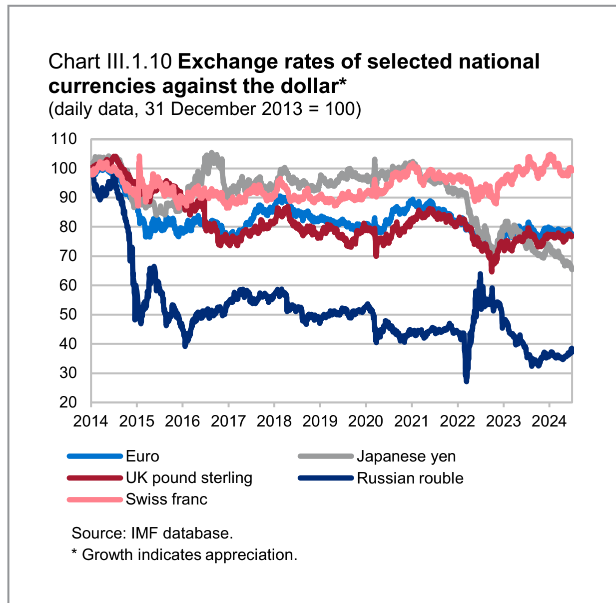


Chart III.1.10 **Exchange rates of selected national currencies against the dollar***
(daily data, 31 December 2013 = 100)

Source: IMF database.
* Growth indicates appreciation.

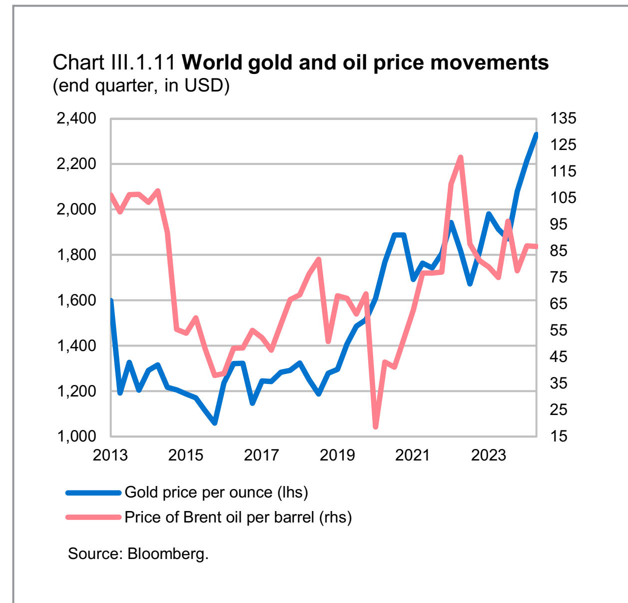


Chart III.1.11 **World gold and oil price movements**
(end quarter, in USD)

Source: Bloomberg.

The global price of gold moved dominantly up during H1, equalling around USD 2,330 per ounce at end-June, up by 12.1% from end-2023. The rising price of gold primarily reflected the amplified demand for gold amid exacerbated geopolitical tensions and news that in 2024 central banks will continue buying gold to diversify their FX reserves and lower the level of credit risk.

Due to elevated geopolitical risks over tensions in the Middle East, forecasts of OPEC and the International Energy Agency as to oil demand growth in 2024 and 2025, as well as OPEC's decision to cap oil production at the start of the year, later extended until end-Q2, the **global oil price** trended up until mid-April when it measured around USD 93 per barrel. Afterwards, the oil price edged down to around USD 76 per barrel in early June on account of the OPEC+ announcement of the gradual phasing out of the voluntary production cap as of October, defused geopolitical tensions and expectations that the Fed could keep interest rates high for a longer period than what was forecast earlier. By end-June, the Brent oil price went up again due to depleted inventories in the USA and a fall in oil and gas export from Norway caused by the damaged pipeline, measuring around USD 87 per barrel, up by 11.7% from end-2023.

The benchmark price of natural gas for Europe (Dutch TTF hub) trended down in January and February due to warmer weather than usual for the season and the high filling levels at storage facilities. Thereafter, until end-H1, the natural gas price climbed, equalling around EUR 34 per MWh (equivalent to around USD 390 per 1,000 cubic metres)[4] at end-June, which is 6.3% higher than at end-2023. The factors underpinning the natural gas price growth included elevated geopolitical uncertainty, increased demand for liquid gas in Asia, and the seasonal maintenance of refineries and the unexpected disruptions of the Norway terminal.

After edging down slightly during Q1 amid China's stepped-up production and subdued imports, **thermal**

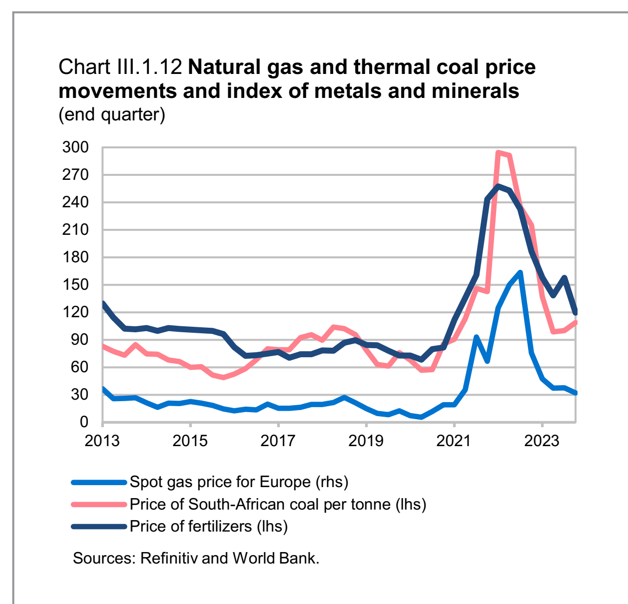
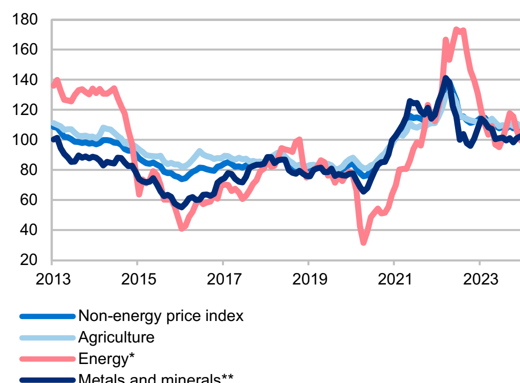


Chart III.1.12 **Natural gas and thermal coal price movements and index of metals and minerals**
(end quarter)

Sources: Refinitiv and World Bank.

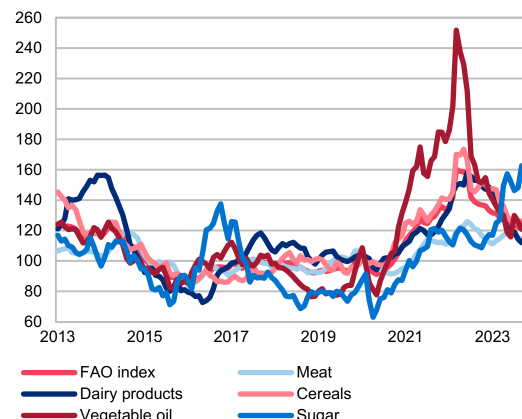
[4] The price expressed in dollars per 1,000 cubic metres of gas was calculated based on the production price of gas expressed in MWh, the EUR/USD exchange rate and an appropriate coefficient (10.55 MWh ≡ 1,000 m³).

Chart III.1.13 **World primary commodity price index**
(2010 = 100)



Source: World Bank
* Crude oil, natural gas and coal.
** Copper, aluminium, iron ore, lead, nickel, zinc and tin.

Chart III.1.14 **World food price index**
(in nominal terms, 2014−2016 = 100)



Source: FAO, UN.

coal price remained largely unchanged during Q2, measuring around USD 105 per tonne in June, 3.2% below the figure from end-2023. At the same time, despite higher prices of natural gas, which is one of the key inputs in production, the **global prices of mineral fertilizers** trended mostly down during H1, dropping 1.0% in June relative to end-2023.

After contracting in January and February due to dampened industrial activity in China, the **prices of most metals and minerals** trended up for the following three months amid rosier prospects as to global industrial recovery, falling inventories at the London Stock Exchange, the EU and USA's stricter sanctions on the import of metals from Russia, and fears of copper shortage in the coming period. The prices of metals and minerals retreated again in June, but were still 8.0% above the level from end-2023.

The global food prices, measured by the FAO index, struck a downward trajectory in January and February, only to turn back up by end-H1 and in June stand 1.1% above the level from end-2023, while in y-o-y terms they were 2.1% lower. Relative to end-2023, growth was determined by the higher prices of vegetable oils (7.8%), dairy (7.6%) and meat (4.7%), while the lower prices of sugar (11.1%) and **cereals** (6.2%) worked in the opposite direction. The lower prices of cereals, of which Serbia is a net exporter, reflected the subdued activity at the start of the year due to New Year holidays, strong competition from the Black Sea region and South America, and adverse weather conditions in April and May.

2 International transactions

Balance of payments and FX reserves

According to preliminary data, the **current account deficit** measured EUR 1.2 bn in H1 2024 (3.3% of GDP), having increased from H1 2023 when it was at a record low of only EUR 565.7 mn (1.7% of GDP). This was to be expected as investments gathered momentum, with goods and services exports going up by 4.0% y-o-y in H1 2024 and imports by 4.8% y-o-y, consistent with our annual estimate for this year.

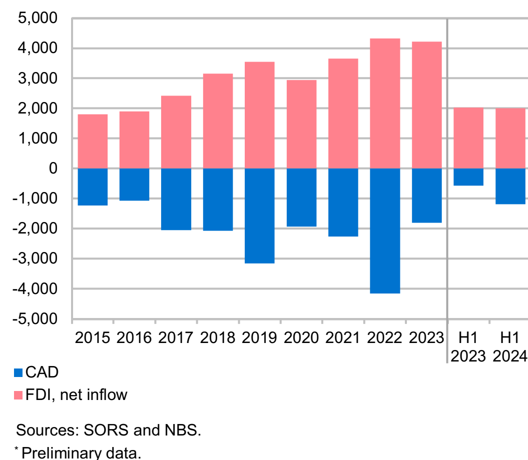
In H1, the deficit on trade in goods was EUR 3.4 bn, up by 4.1% y-o-y. **Goods exports** rose by 0.4% y-o-y to EUR 14.2 bn, and **goods imports** by 1.1% y-o-y to EUR 17.7 bn. Export growth was propped up mostly by manufacturing, whose exports gained 2.4% y-o-y, as well as by the exports of agricultural products which expanded by 50.6% y-o-y thanks to a good agricultural season last year. Manufacturing exports were supported primarily by the export of base metals, other means of transport, and computers and other electronic devices, while the largest negative contribution came from the export of other machinery and equipment, chemical products, and rubber and plastic products. Mining exports also increased in H1 (7.8% y-o-y). Conversely, electricity exports contracted by 64.8% y-o-y, mostly on account of a high base from last year. This was the key reason why goods exports posted low growth in H1. Goods imports were mostly driven by the continued rise investment. Equipment imports thus went up by 15.4% y-o-y and the import of

Table III.2.1 **Serbia's balance of payments**
(EUR mn)

	H1 2023	H1 2024
I CURRENT ACCOUNT	-565.7	-1,185.7
1 Goods	-3,278.7	-3,414.8
1.1 Credit	14,190.2	14,250.6
1.2 Debit	-17,468.9	-17,665.4
2 Services	1,571.6	1,465.7
2.1 Credit	6,070.7	6,828.3
2.2 Debit	-4,499.2	-5,362.6
3 Goods and services	-1,707.2	-1,949.1
3.1 Credit	20,260.9	21,079.0
3.2 Debit	-21,968.1	-23,028.0
4 Primary income	-1,710.6	-1,875.2
5 Secondary income	2,852.1	2,638.5
II CAPITAL ACCOUNT	-14.8	38.3
III FINANCIAL ACCOUNT (excluding reserve assets)	3,572.4	2,899.5
1 Direct investment, net	2,026.2	2,008.6
2 Portfolio investment, net	1,237.6	453.0
3 Financial derivates, net	34.9	31.7
4 Other investment, net	273.7	406.2
4.1 Trade credit and advances, net	-629.9	300.0
4.2 Financial loans, net	562.1	1,094.2
4.3 Currency and deposits, net	339.2	-1,003.4
4.4 Other, net	2.3	15.5
IV Reserve assets	3,129.9	1,976.4
V NET ERRORS AND OMISSIONS	137.9	224.4
VI OVERALL BALANCE	3,129.9	1,976.4

Source: NBS.
Note: Preliminary data.
1) BPM6 methodology, except sign convention.

Chart III.2.1 **FDI/CAD coverage***
(EUR mn)



Sources: SORS and NBS.
* Preliminary data.

consumer goods by 8.7% y-o-y. On the other hand, intermediate goods imports declined by 5.3% y-o-y, mostly reflecting lower energy imports (by EUR 751.1 mn relative to H1 2023, according to the SITC classification). Imports of all energy products declined, but most notably of electricity and gas.

The current account deficit also widened on account of foreign trade in services. The **surplus on services** shrank by 6.7% y-o-y to EUR 1.5 bn, as services imports rose faster (by 19.2% y-o-y) than services exports (12.5% y-o-y). Services exports exceeded EUR 6.8 bn and were guided by the rise in ICT, business and tourism services, while the export of transport services dipped slightly. Services imports climbed to EUR 5.4 bn, with all types of services providing a positive impulse, including primarily tourism and business services.

The primary income deficit increased by 9.6% y-o-y to EUR 1.9 bn, mainly due to higher expenditures on account of FDI income. This was expected given the continuous inflow and rising stock of FDIs in Serbia, which also entails higher outlays for dividend payments. Expenditures on account of interest paid on financial loans and portfolio investments increased as well, reflecting the past tightening of global financial conditions amid more restrictive monetary policies of central banks.

The secondary income surplus contracted in H1 by 7.5 % y-o-y, to EUR 2.6 bn, as a consequence of the net outflow in respect of official Government assistance (EUR 23.6 mn); in the same period last year, net inflow was recorded on this account (EUR 211.9 mn). Other transfers from abroad (EUR 319.8 mn) were also lower in y-o-y terms. Net inflow of foreign remittances (EUR 2.3 bn) was somewhat higher (1.9%) y-o-y.

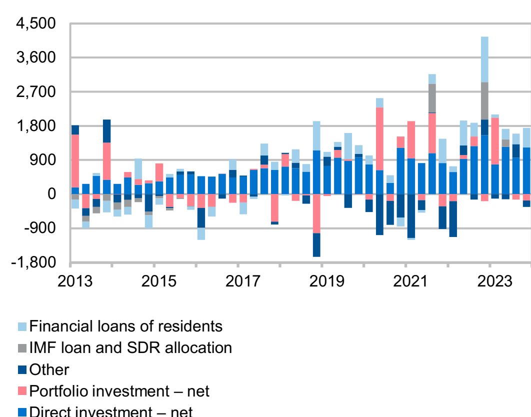
Net capital inflow to the **balance of payments financial account** measured EUR 2.9 bn[5] in H1, chiefly thanks to FDI inflow and a successful eurobond issue in June.

According to preliminary data, **FDI inflow to Serbia** exceeded EUR 2.3 bn in H1 (up by 6.5% from H1 2023), and net FDI inflow was EUR 2.0 bn. Four-fifths of FDI inflow was in the form of equity capital and reinvested earnings, confirming foreign investors' commitment to continued investment in Serbia. As in the period years, FDIs remained geographically and project-diversified and mostly directed to construction, mining, information and communication, and manufacturing. For the tenth year in a row, the current account deficit was fully covered by net FDI, and the value of this ratio in H1 was 169%.

In early June, the Republic of Serbia successfully issued 10-year sustainable bonds worth USD 1.5 bn in the

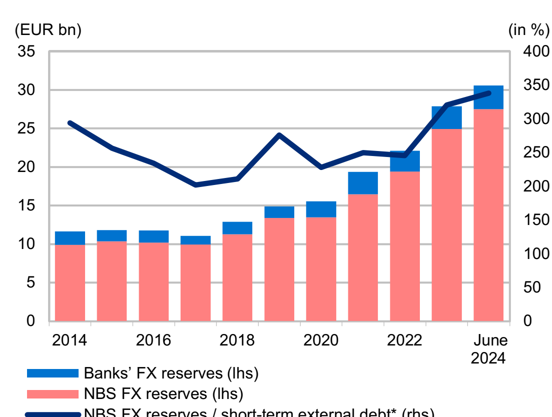
[5] Excluding changes in FX reserves.

Chart III.2.2 **Structure of the financial account***
(EUR mn)



Source: NBS.
* Preliminary data.

Chart III.2.3 **FX reserves and coverage of short-term external debt**



Source: NBS.
* Short-term debt by remaining maturity.

international market. The proceeds will be used for sustainable Green Agenda projects and socially responsible activities. In H1, residents ramped up their investment in securities in foreign markets. Other outflows came from trading in the domestic secondary market, maturing of government securities and payments relating to depreciation bonds sold through private placement in the international market in 2022. As a result, net capital inflow of EUR 453.0 mn was recorded on account of **portfolio investment** in H1.

Other investment provided an inflow of EUR 406.2 mn in H1. Of this, a net inflow of almost EUR 1.1 bn came from **financial loans**, the bulk of which related to corporate and government borrowing. Banks reduced their foreign credit obligations. Domestic banks also increased their balances on accounts abroad which, together with the decrease in the balances on non-residents' accounts with domestic banks, resulted in an outflow of EUR 1.0 bn under **currency and deposits**. Inflow of EUR 300.0 mn was recorded under **trade loans and advances**.

As a consequence of the above trends in the current and financial account, **Serbia's FX reserves** (according to the balance of payments methodology)[6] gained EUR 1,976.4 mn in H1.

In H1, **gross FX reserves of the NBS gained EUR 2,597.4 mn** to EUR 27,506.5 mn on 30 June 2024, their highest level on record (since 2000). This level of FX reserves covered 179.1% of money supply (M1) and 7.3 months' worth of the country's imports of goods and services, more than twice the level prescribed by the relevant adequacy standard. Net FX reserves also reached their highest level on record and measured EUR 23,270.4 mn, up by EUR 2,485.2 mn from end-2023.

Consistent with the principles of safety and liquidity, funds were invested in highly liquid securities issued by the world's most advanced economies and international financial institutions, and placed with prime institutions (central banks, international institutions and top-tier foreign banks). As at 30 June 2024, foreign securities accounted for the highest share of FX reserves (56.3%), followed by FX balances in accounts abroad (27.5%), gold (10.6%), foreign cash (5.3%) and SDRs with the IMF (0.3%).

The bulk of FX inflows in H1 came from the NBS's net FX purchases in the IFEM[7] in the amount of EUR 1,225.0 mn, as well as from the issue of FX securities of the Republic of Serbia at home and abroad in the net amount of EUR 1,102.4 mn. Inflows were also recorded on account of interest and coupon payments (EUR 252.3 mn) and banks' FX required reserves (EUR 245.4 mn, net). Higher inflow came from payment transactions with Kosovo and Metohija[8] in the amount of EUR 166.1 mn and from grants – EUR 98.7 mn.

The largest outflow from the NBS FX reserves referred to the settlement of the government's FX liabilities and net

[6] Excluding currency changes, changes in the market value of securities and the price of gold.

[7] In accordance with accounting rules, transactions in respect of NBS interventions in the IFEM are disclosed on the execution day and not on the trading day.

[8] Under the Law on Temporary Execution of Certain Payment Operations in the Federal Republic of Yugoslavia (FRY Official Gazette, No 9/01).

repayment of Serbia's debt to foreign creditors in the net amount of EUR 1,119.3 mn.

International investment position

Serbia's net international investment position, i.e. the difference between Serbian residents' foreign assets and liabilities, was negative and came at **EUR 50.2 bn** at end-Q1 2024, up by EUR 158.0 mn from end-2023. **Thanks to economic activity growth in Q1**, however, **the share of the negative international investment position in estimated GDP decreased by 1.4 pp to 70.5%**.

Within foreign financial assets, which amounted to EUR 46.4 bn at end-Q1 2024, **banks' currency and deposits** abroad increased the most. **As before, FX reserves made up more than a half of total assets (53.7%).**

Within financial liabilities, which amounted to EUR 96.6 bn at end-Q1 2024, it is positive that **FDIs** increased the most during the observed period. As the most favourable, long-term type of foreign investment, they still significantly exceed a half of total foreign liabilities **(58.2%)**, while **financial loans and portfolio investment** make up a smaller share of liabilities: 25.2% and 10.1%, respectively.

3 Financial market trends

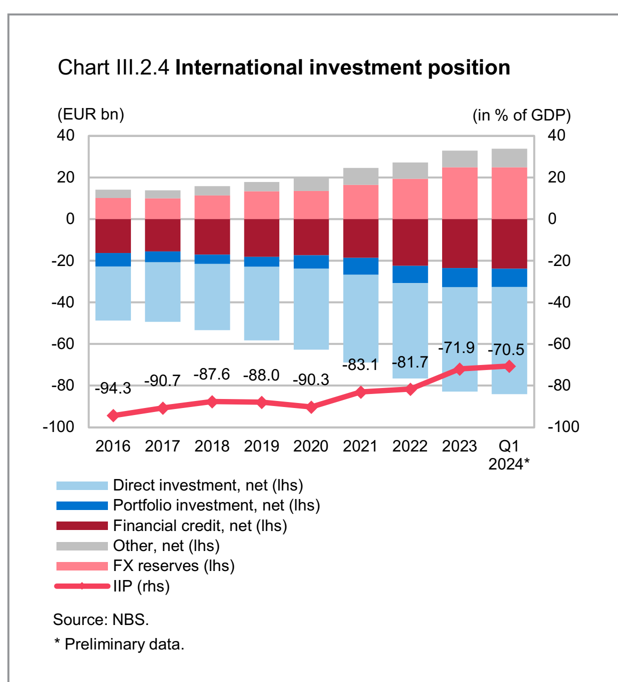
Interest rates

Starting from the first repo auction in June, the NBS adjusted its main operations strategy, reducing the supply volume relative to the estimated banks' demand for one-week auctions of repo sale of securities. Such approach resulted in a contraction of a relative amount of excess dinar liquidity which the NBS withdraws via main operations and in the lower weighted average repo rate. In line with this and trimming of the key policy rate, interest rates in the **interbank money market** declined almost to the same degree.

Interest rates in the **interbank money market** displayed minimum volatility in the first five months of 2024 and turned down in June, dropping almost equally as the key policy rate, by 23 bp on average relative to end-2023. The interest rate in the overnight interbank money market, BEONIA, edged down to 5.01%, and BELIBOR rates to a range from 5.01% for the shortest to 5.55% for the six-month maturity at the end of June.

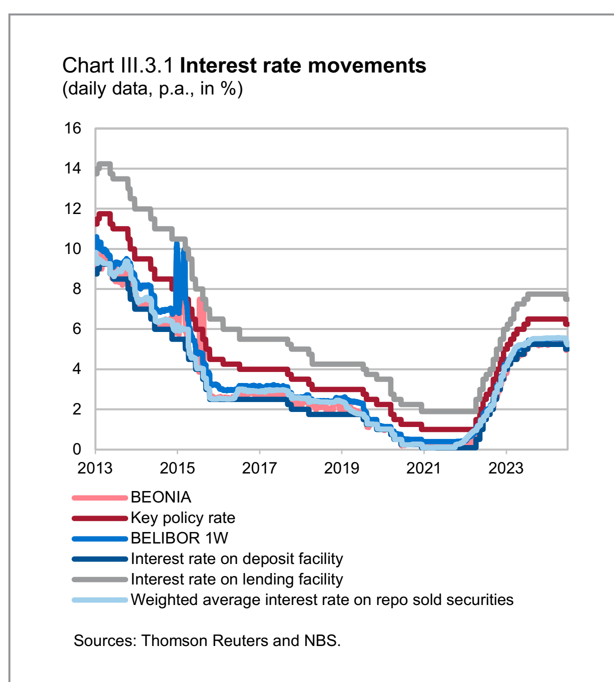
In the **primary market of dinar government securities** three auctions of 8Y government bonds were organised in H1, i.e. three more re-openings of the issue from October

Chart III.2.4 **International investment position**



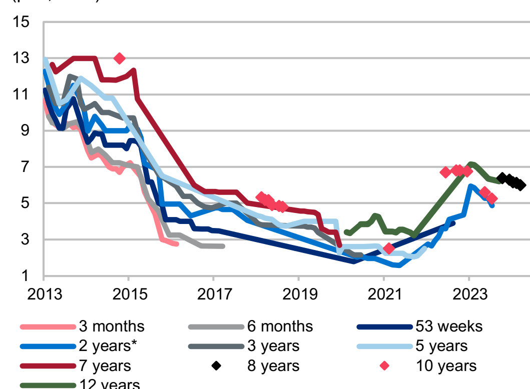
Source: NBS.
* Preliminary data.

Chart III.3.1 **Interest rate movements**
(daily data, p.a., in %)



Sources: Thomson Reuters and NBS.

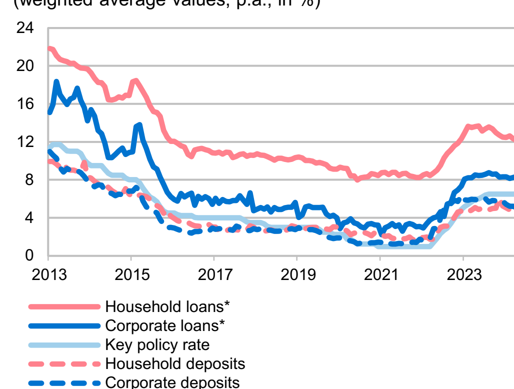
Chart III.3.2 **Interest rates in the primary market of government securities**
(p.a., in %)



Source: Ministry of Finance.

* Excluding coupon securities with the rate linked to the NBS key policy rate.

Chart III.3.3 **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.

2023, after the first re-opening in December. January and February auctions attracted high investor demand, recording securities sale worth RSD 104.7 bn, with a significant share of non-residents (around 43%). The remaining RSD 2.9 bn was sold subsequently in March auction, whereby the total volume of this issue was sold, amounting to RSD 150 bn. The yield rate at the last auction in March equalled 6.00%, which is a decrease of 30 bp from December auction, or of 39 bp relative to the initial issue in October. Given that the principal of earlier sold 2Y and 5Y securities fell due in H1, in total amount of RSD 72.4 bn, the stock of dinar securities increased by RSD 35.2 bn, to RSD 874.9 bn at end-June.

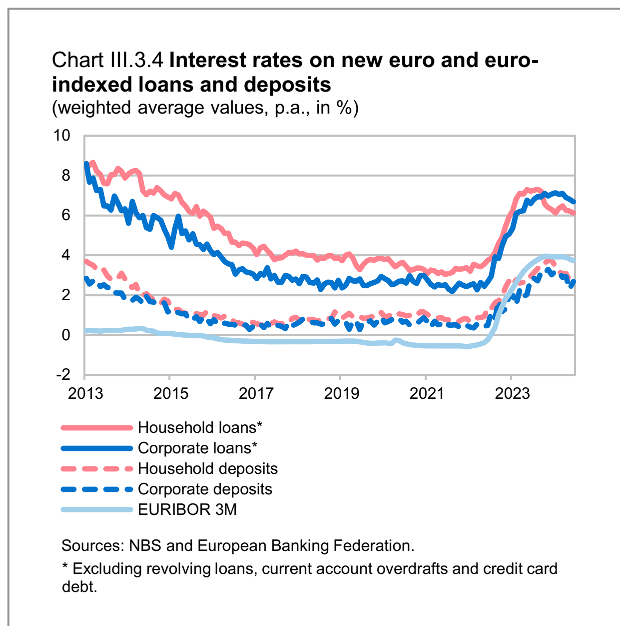
In H1, in auctions for the sale of 8Y dinar securities, non-residents bought government bonds in nominal value of RSD 45.7 bn. However, since they participated in the secondary market as net sellers and 2Y and 5Y dinar securities fell due, the stock of dinar government securities in their ownership increased by RSD 24.9 bn, to RSD 159.5 bn at end-June, accounting to almost 20% of the total portfolio of dinar government securities.

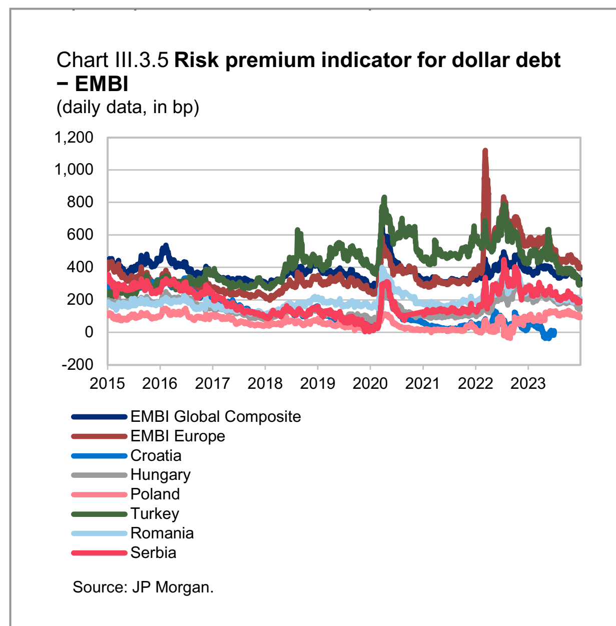
In H1, three auctions were organised for the sale of 3Y **government euro securities**, in which securities nominally worth EUR 220.8 mn were sold, with the yield rate remaining unchanged (4.00%). However, as previously issued securities worth EUR 476.4 mn matured at the same time, the stock of sold euro securities decreased by EUR 255.5 mn relative to end-2023, to EUR 1,664.0 mn at end-June.

On 5 June 2024, the Republic of Serbia successfully issued for the first time 10Y ESG dollar bonds in the international financial market. It sold securities in the total amount of USD 1.5 bn, at the coupon rate of 6.0%. In order to efficiently manage public debt, a hedging transaction was concurrently concluded, whereby the government converted these liabilities into euros, reducing the cost of borrowing to 4.750% after the transaction. This can be considered favourable terms of financing, especially when compared to those of some countries in the region which already hold investment grade rating.

In H1, the turnover in the **secondary market of dinar government securities** upped by almost 50% compared to H2 2023, reaching RSD 163.1 bn. The range of movement of weighted average yield rates in securities of all maturities declined in H1 2024, which is associated with the decline in the country risk premium, and also in the key policy rate and interest rates in the interbank money market. The average yields in June moved from 4.71% for the remaining 2Y to 5.82% for the remaining 9Y maturity.

Market participants' expectations on all the more certain loosening of monetary conditions in H1 2024 led to the cheapening of new dinar loans. The interest rate on new **dinar household loans** edged down by 0,8 pp in H1, to 11.7% in June, due to the cheapening of cash loans and other non-categorised loans – by 1.1 pp each to



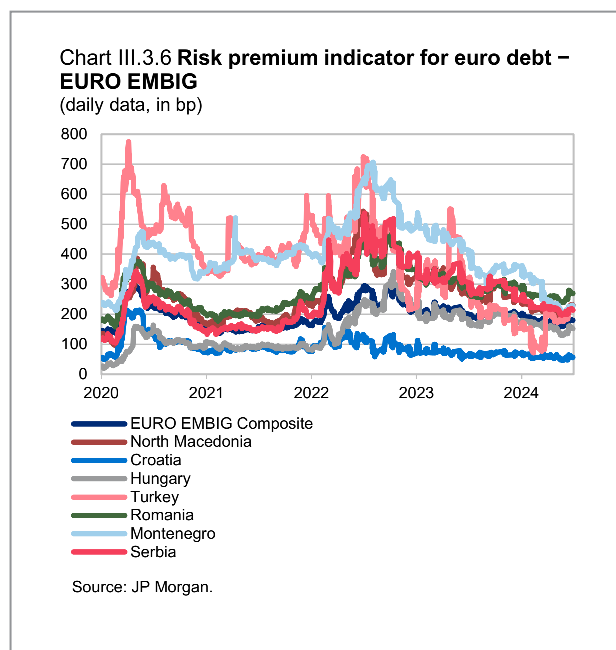


12.1% and 9.4%, respectively. The interest rate on **dinar corporate loans** lost 0.2 pp, coming to 8.1% in June, due to more than doubled share of investment loans, whose interest rate dropped considerably, by 2.2 pp to 7.2%, significantly below the interest rates of the remaining categories of dinar corporate lending. Interest rates on working capital and other non-categorised loans measured 8.2% and 8.5%, respectively.

Interest rate on **euro-indexed household loans** edged down by 0.2 pp, to 6.1% in June, consistent with the expected moderation of interest rates in the money market in the euro area. Interest rates on other non-categorised and consumer loans on average dropped by 0.5 pp each, to 9.3% and 6.1%, respectively. The interest rate on euro-indexed housing loans was kept at 5.1% based on the application of NBS's decision which temporarily capped interest rates on this category of loans for first-time home buyers, beneficiaries of variable-rate housing loans. The interest rate on **euro-indexed corporate loans** declined in H1 by 0.4 pp, to 6.7% in June, driven by a decline in rates across dominant lending categories, by around 0.5 pp in working capital loans, to 6.6%, and in investment and other non-categorised loans to 6.9%.

Country risk premium and credit rating

Global risk premium kept a predominantly downward trajectory in Q1, mainly reflecting market participants' expectations that leading economies would dodge recession, i.e. that soft landing is almost certain and that



their central banks would embark on a policy trimming cycle this summer. The global risk premium rose moderately in Q2, primarily due to market participants' expectations that the Fed would accommodate its monetary policy at a slower pace, in accordance with the announcements of its officials.

EURO EMBIG Composite dropped by 20 bp in H1, to 180 bp at end-June. At the same time, **Serbia's EURO EMBIG** lost 33 bp in H1, coming at 214 bp. In the same period, Serbia's dollar risk premium also edged down (by 20 bp to 168 bp), while continuing to move

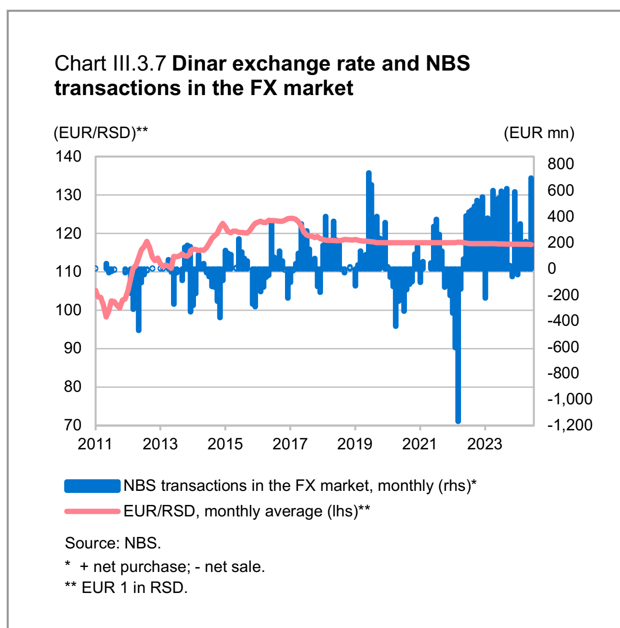


Chart III.3.7 **Dinar exchange rate and NBS transactions in the FX market**

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

below the EMBI Composite, which added 25 bp, climbing to 344 bp.

In February, Fitch affirmed Serbia's credit rating at BB+, with a stable outlook, and in August it raised the outlook to positive, just like Standard & Poor's did in April. At end-August, the third most influential world rating agency, Moody's, upgraded Serbia's credit rating outlook from stable to positive, with the Ba2 credit rating. The agencies cite as key factors behind the improvement of credit rating outlook a credible overall economic policy framework, the resilience our economy demonstrated in periods of global crises, favourable economic growth outlook, creation of buffers which can be used in cases of extreme shocks, a high and diversified FDI inflow, as well as the improvement of fiscal and external position and robust banking sector.

Table III.3.1 **Credit rating**
(change of rating and outlook)

	2019	2020	2021	2022	2024
S&P	BB+ /positive[7]	BB+ /stable[3]	BB+ /positive[7]	BB+ /stable[4]	BB+ /positive[2]
Fitch	BB+ /stable[6]				BB+ /positive[5]
Moody's	Ba3 /positive[6]		Ba2 /stable[1]		Ba2 /positive[5]

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

Trends in the FX market and exchange rate

The dinar continued its relatively stable movement against the euro in H1, rising by 0.1% at end-June relative to end-2023. At the same time, since the euro continued to lose ground against the dollar in the international market, reflecting the rising divergence between the ECB's and Fed's monetary policies, in H1 the dinar nominally depreciated against the dollar by 3.3%.

The very beginning of 2024 witnessed depreciation pressures, while appreciation pressures reemerged from the second half of January and prevailed in the following months, reaching their strongest in June. In H1, growth in FX supply was mainly spurred by residents, which thanks to continually rising exports and inflow of FDI turned out as net FX sellers even early in the year, which is quite unusual, given the rising FX demand of energy importers. Throughout the period, FX supply was on the rise also owing to the net purchase of foreign cash and FX inflow from payment card transactions. The rise in FX supply in the second half of January and early February was also driven by non-residents, who bought dinar government securities. As of March, non-residents created FX demand, which was fully covered by FX inflow on other grounds. In some months, especially January, FX demand was spurred by a decrease in FX-indexed bank assets,[9] while in June, the supply strengthened mostly on the back of an increase in FX-indexed bank assets.[10]

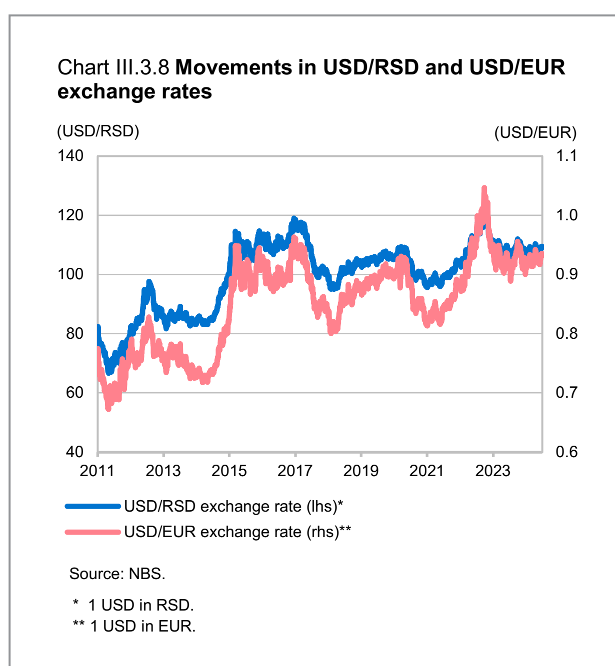


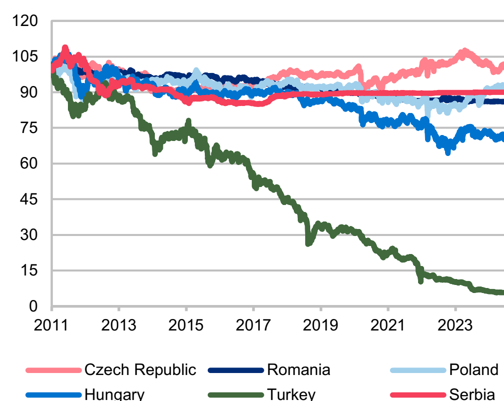
Chart III.3.8 **Movements in USD/RSD and USD/EUR exchange rates**

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

[9] Aiming to balance their short open FX positions and reduce exposure to FX risk, banks buy foreign currency, which works toward the weakening of the dinar.

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

Chart III.3.9 **Movements in exchange rates of national currencies against the euro***
(daily data, 31 December 2010 = 100)



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

To maintain relative stability of the dinar exchange rate against the euro, the NBS net bought EUR 1.330,0 mn in the IFEM in H1. Only in January it intervened by selling foreign currency, while in all other months it acted predominantly or solely on the buying side.

Interbank trading turnover in the IFEM[11] in H1 averaged EUR 32.4 mn daily, down by EUR 0.6 mn y-o-y. The turnover peaked in April (EUR 38.0 mn on average per day).

The majority of currencies of regional inflation-targeting peers weakened against the euro in H1. End-of period, losing ground were the Romanian leu (0,1%), as well as the Czech koruna and Hungarian forint (by 1.2% and 3.1%, respectively), due to the key policy rate cuts. The Turkish lira lost the most (6.9%), despite the additional monetary policy tightening by the Turkish central bank in Q1. On the other hand, the Polish zloty was the only currency that strengthened against the euro (0.8%).

4 Money and loans

Monetary aggregates M1, M2 and M3

The broadest monetary aggregate, M3, which in addition to dinars includes FX deposits of non-monetary sectors, went up by 4.0% in H1 2024, with the FX component accounting for around two thirds of the increment.

Table III.4.1 **Monetary survey**
(RSD bn)

	2023	June 2024	Changes in H1 2024
Net foreign assets	**2,700,494**	**3,131,474**	**430,980**
Bank net foreign assets	-232,725	-103,128	129,597
Net domestic assets of the banking sector	**1,847,733**	**1,599,336**	**-248,397**
Net domestic loans	3,220,815	3,128,061	-92,753
Net claims on government	-56,107	-267,298	-211,191
Government loans	790,096	834,513	44,417
Government deposits	-846,203	-1,101,812	-255,608
Loans to other resident sectors	3,276,922	3,395,360	118,438
Loans to households	1,474,361	1,543,199	68,838
Loans to the corporate sector	1,732,911	1,772,595	39,684
Loans to other financial corporations	46,484	53,855	7,370
Loans to local authorities	22,798	25,357	2,559
Loans to non-profit and other organisations	368	355	-13
Other net assets	-1,373,082	-1,528,725	-155,644
Money supply M3	**4,548,227**	**4,730,810**	**182,583**
Money supply M2	2,280,993	2,346,565	65,572
Money supply M1	1,751,528	1,797,900	46,373
Currency in circulation	369,368	353,392	-15,976
Sight deposits	1,382,160	1,444,508	62,349
Dinar savings and term deposits	529,466	548,665	19,199
FX deposits	2,267,234	2,384,244	117,011

Source: NBS.

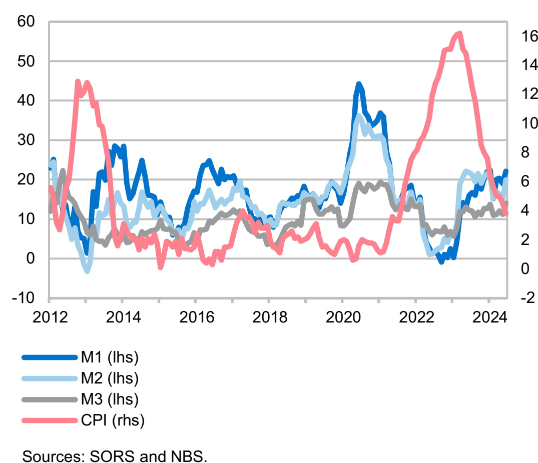
In terms of individual categories, **demand deposits** gained RSD 62.3 bn, thanks to the similar rise in corporate and household transaction deposits (RSD 29.7 bn and RSD 28.1 bn, respectively). In H1, transaction deposits of other financial organisations and non-profit and other organisations went up by RSD 2.9 bn and RSD 2.6 bn, respectively, while the deposits of local self-governments remained almost unchanged from the end of the previous year.

Time dinar deposits increased by RSD 19.2 bn in H1, led chiefly by the rise in household dinar savings (RSD 22.7 bn) and to a lesser extent, by the rise in deposits of other financial organisations and local self-governments (by RSD 7.1 bn and RSD 2.3 bn, respectively), while corporate deposits fell by RSD 10.6 bn. Household dinar savings continued to touch new record levels and measured RSD 159.2 bn at end-June.[12] The relative stability of the dinar exchange rate against the euro,

[11] Without the NBS.

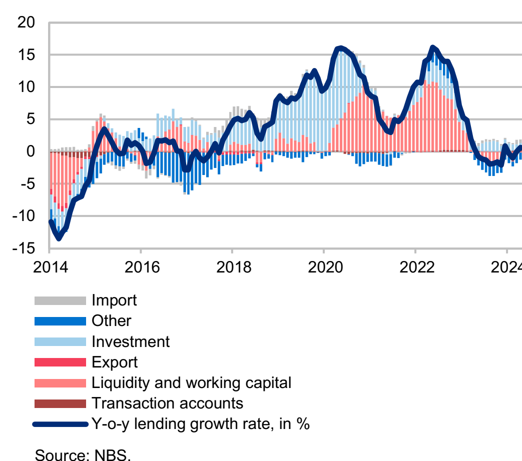
[12] Money supplies include only resident assets. Including the assets of non-residents, dinar savings amounted to RSD 161.0 bn at end-June.

Chart III.4.1 **Monetary aggregates and consumer prices**
(y-o-y rates, in %)



Sources: SORS and NBS.

Chart III.4.3 **Contributions to y-o-y corporate lending growth**
(in pp, excluding the exchange rate effect)



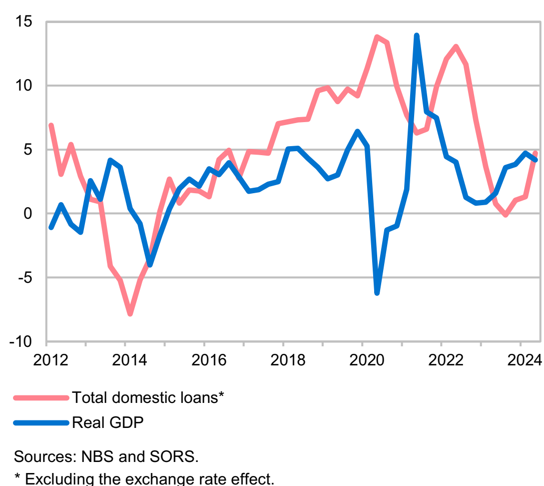
Source: NBS.

higher interest rates on dinar savings compared to FX savings, and a more favourable tax treatment have made dinar savings more profitable than FX savings, contributing to their more dynamic growth.

FX deposits rose EUR 1.0 bn in H1, mostly owing to EUR 592.2 mn increase in household FX savings (to EUR 14.0 bn in June,[13] reaching their new record level), and EUR 344.8 mn rise in corporate FX deposits, owing to high FDI inflow. To a lesser extent, FX deposits went up in H1 on account of the rise in deposits of other financial organisations (by EUR 49.3 mn) and non-profit and other organisations (by EUR 23.6 mn).

In y-o-y terms, monetary aggregates maintained a similar growth dynamic in H1 to the one from the end of the previous year, driven primarily by the increase in the most liquid dinar component, followed by the growth in the FX component. In June, the y-o-y growth in M1, M2 and M3 reached 22.2%, 19.9% and 14.0%, respectively.

Chart III.4.2 **Lending activity and GDP**
(y-o-y rates, in %)



Sources: NBS and SORS.
* Excluding the exchange rate effect.

Bank loans

In June, **total domestic loans to the non-monetary sector** accelerated their y-o-y growth to 4.7% excluding the exchange rate effect[14] (from 1.0% in December 2023), driven almost equally by corporate and household loans. **Corporate loans** accelerated to 4.2% y-o-y, and **household loans** to 4.9%. Lending still reflected higher interest rates on dinar and euro-indexed loans due to NBS's and ECB's past monetary policy tightening. Though weaker than in earlier years, a negative impact on loan stock came also from the maturing of guarantee scheme loans. Nonetheless, in H1, after a longer period of tightening, banks eased credit standards, mainly for dinar loans, which, along with rising corporate and household demand, helped boost lending activity.

Thanks to high loan disbursement in June, **corporate loans** added RSD 39.2 bn in H1. This growth refers

[13] Including non-resident assets, FX savings equalled EUR 15.0 bn at end-June.

[14] Calculated at the new programme exchange rate, as at 31 October 2022.

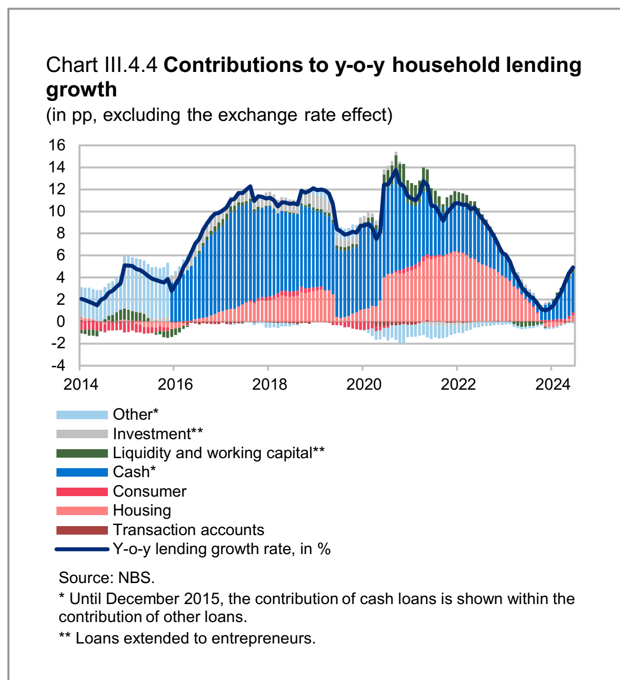


Chart III.4.4 **Contributions to y-o-y household lending growth**
(in pp, excluding the exchange rate effect)

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

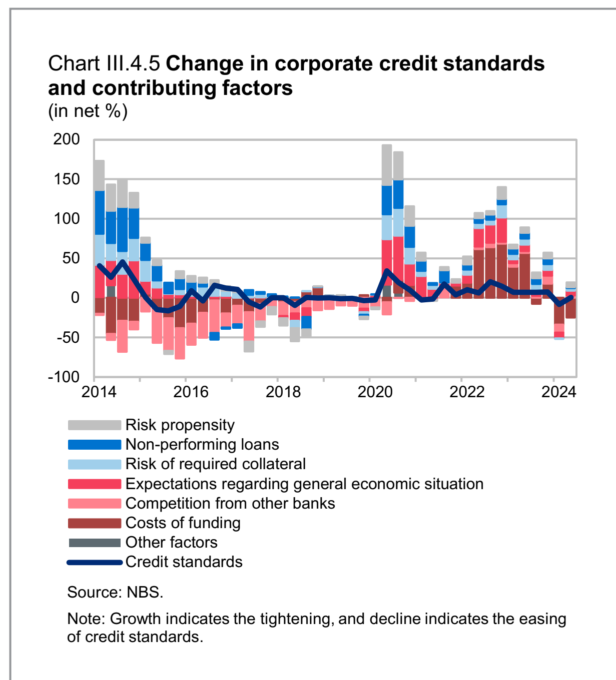


Chart III.4.5 **Change in corporate credit standards and contributing factors**
(in net %)

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

entirely to companies' borrowing (RSD 57.6 bn), while loans to public enterprises decreased. The substantial growth in dinar loans (RSD 37.4 bn) can partly be attributed to the NBS's Decision on Capital Adequacy of Banks, which sets out that starting from 2025, when calculating capital adequacy ratios, banks are required to reduce capital if the share of FX-indexed and FX loans in total loans to the non-financial and non-government sector approved this year exceeds 71%. By purpose, borrowing under liquidity and working capital loans, import loans and current account overdrafts increased, while receivables under investment and other non-categorised loans declined. As a result, the share of liquidity and working capital in total corporate loans went up by 0.6 pp in H1, to 47.4% in June, while the share of investment loans, the next largest category, decreased by 1.5 pp, to 40.3%. By sector, the borrowing of corporates from energy, trade and manufacturing went up the most, while only enterprises operating in transport and agriculture reduced their credit liabilities to banks. As bank lending was channelled to micro, small and medium-sized enterprises more than to large enterprises, the share of loans approved to this segment in total corporate loans increased by 0.2 pp from end-2023, to 59.3% in June, and their stock was higher 2.6% y-o-y.

The volume of new corporate loans in H1 amounted to RSD 461.8 bn, up by 15.7% compared to the same period of 2023. Liquidity and working capital loans accounted for the bulk of new corporate loans (64%), with slightly more than one third approved to micro, small and medium-sized enterprises. Investment loans accounted for one-fifth of new loans, and as much as 86% of them were absorbed by micro, small and medium-sized enterprises.

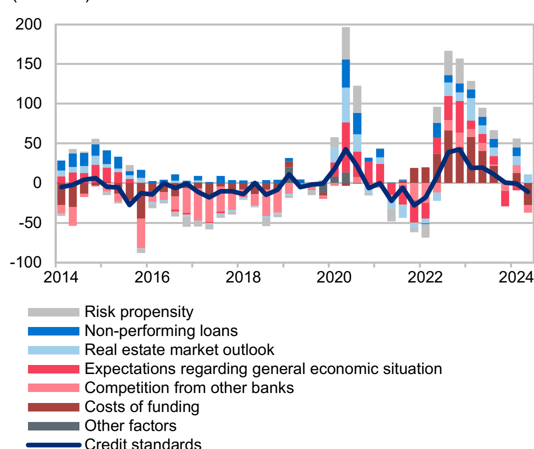
Excluding the exchange rate effect, **loans to households** rose RSD 69.2 bn in H1. The use of all types of loans expanded, with cash loans accounting for almost three-fifths of the rise, followed by housing loans. As a result, the share of cash loans in total household loans went up by 0.6 pp in H1, to 45.3%, while the share of housing loans decreased to the same extent, to 38.7% in June. As for loans granted to entrepreneurs, the stock of liquidity and working capital loans increased by RSD 6.5 bn, while investment loans went down by RSD 0.6 bn.

The volume of new household loans in H1 equalled RSD 288.9 bn, up by 38.0% y-o-y. This was driven mainly by cash loans, which accounted for almost 70% of new household loans. The next in line were housing loans, which made up 14% of new household loans (a decrease from 2022, when they accounted for over one-fifth of new household loans on average), reflecting elevated real estate prices and costs of borrowing.

The results of the NBS Bank Lending Survey[15] show that for the first time after a longer period of tightening, banks eased corporate and household credit standards in H1, mainly for dinar loans. The easing was chiefly

[15] The NBS conducts the survey since the beginning of 2014.

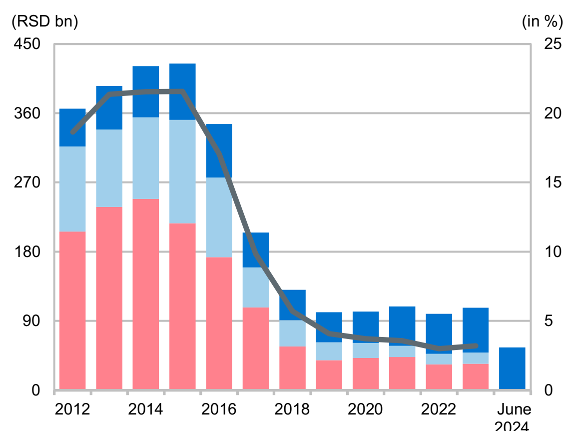
Chart III.4.6 **Change in household credit standards and contributing factors**
(in net %)



Source: NBS.

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

Chart III.4.7 **NPL share in total loans, gross principle**



Household sector
Other sectors
Corporate sector
NPL share in total loans (rhs)

Source: NBS.

motivated by less expensive sources of funding, which could also be associated with the expected reduction of the NBS's and ECB's key interest rates. Competition among banks and positive expectations in terms of the economic situation acted in the same direction. Banks assessed that, after three quarters, corporate loan demand increased in Q2, mainly for small and medium-sized enterprises. Higher demand reflects the need to finance working capital, investment and debt restructuring. Household loan demand expanded for dinar cash and refinancing loans in H1. For the first time in a year and a half, banks assessed that demand was up also for FX-indexed housing loans. In banks' view, the increase in household loan demand was motivated by the need to refinance the existing loans and purchase durable consumer goods, with a positive influence stemming from higher wages, and after quite some time, by real estate purchases in Q2.

Gross **NPL ratio** was preserved at a level close to the historical low in H1, indicating that tighter financial conditions did not have any major impact on bank asset quality. In June, gross NPL ratio fell below 3%, and in July it hit its record low of 2.8%, down by 0.4 pp from end-2023. Gross NPL ratio of the corporate sector[16] dropped by 0.3 pp to 1.8% in July, and of the household sector[17] by 0.5 pp to 3.9%.

NPL coverage remained high – allowances for impairment of total loans stood at 105.8% of NPLs in July, while allowances for impairment of NPLs reached 62.0% of NPLs.

The **capital adequacy ratio** at end-H1 2024 equalled 21.8%, up by 0.4 pp from end-2023, indicating high capitalisation (regulatory minimum – 8.0%) and resilience of the banking sector to external and domestic risks.

5 Dinarisation

The NBS remains committed to preserving low and stable inflation, relative stability of the exchange rate, as well as the stability of the financial system, implementing measures and activities contributing to the strengthening of confidence in the dinar and greater use of the dinar in the domestic financial system.

As for monetary policy measures, with the required reserve policy, the NBS kept encouraging banks to use more dinar sources of funding. The required reserve ratios on dinar sources of funding are still considerably lower than those on FX sources, and the NBS pays remuneration on required reserves in dinars only, and not in foreign currency.

As for prudential measures contributing to the reduction of the currency risk and increase in the dinarisation of the financial system, dinar government securities and dinar bonds of companies with acceptable creditworthiness,

[16] Includes companies and public enterprises. Looking at companies only, the NPL share in total loans decreased by 0.2 pp to 2.3% in June.

[17] With entrepreneurs and private households included, NPL share also declined by 0.4 pp, to 4.0% in June.

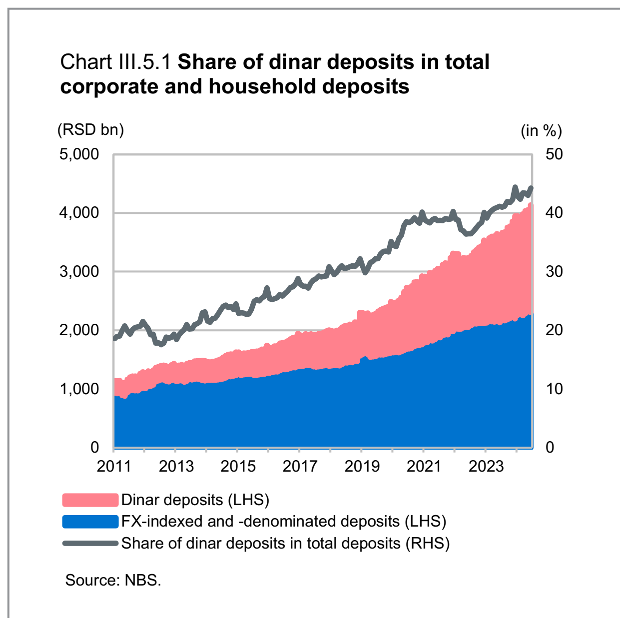


Chart III.5.1 **Share of dinar deposits in total corporate and household deposits**

Source: NBS.

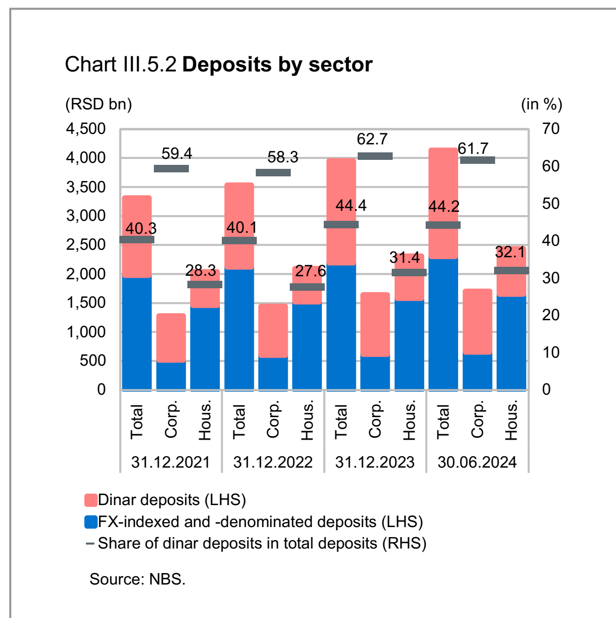


Chart III.5.2 **Deposits by sector**

Source: NBS.

unlike FX securities, are included in the list of eligible collateral for NBS monetary operations, which, in the long run, contributes to the capital market development through incentives to banks to hold dinar securities in their portfolios.

As for the development of hedging instruments, the NBS continued concluding bilateral foreign currency swap purchase and sale transactions with banks.

According to most relevant indicators, NBS measures and activities resulted in a considerably higher degree of dinarisation relative to 2012 when the implementation of the Dinarisation Strategy started.

The most significant progress was achieved in the area of dinarisation of household and corporate **deposits**. At end-June, this indicator stood at 44.2%, insignificantly lower than the record 44.4%, posted at end-2023, while considerably higher than at end-2012 (19.3%).

Given the importance of household deposits as a critical source of banking sector lending activity, it is **particularly significant that the degree of dinarisation of household deposits in H1 continued up, reaching a record high level (32.5%) at end-April**. Though at end-June this indicator was somewhat lower (32.1%), its rise compared to end-2012 (8.8%) is of paramount importance. **The continuation of extremely dynamic growth in dinar savings, particularly pronounced since November 2022**, was conducive to the growth in dinarisation of household deposits. **Dinar savings continued up in H1, posting record high levels. At end-June, dinar savings stood at RSD 161.0 bn**, which was RSD 23.1 bn (17%) more than at end-2023, and even nine times higher than at end-2012.

At end-H1 2024, corporate deposits dinarisation was somewhat lower than at end-2023 (by 1.0 pp), but still considerably higher than at end-2012 (by 17.8 pp), measuring 61.7%. The decrease in this indicator in H1 is associated with the significant placement of corporates' FX assets, while the amount of placed dinar assets also went up – though to a lower extent.

Corporate and household deposits dinarisation went up in the first six months of 2024 which interrupted the

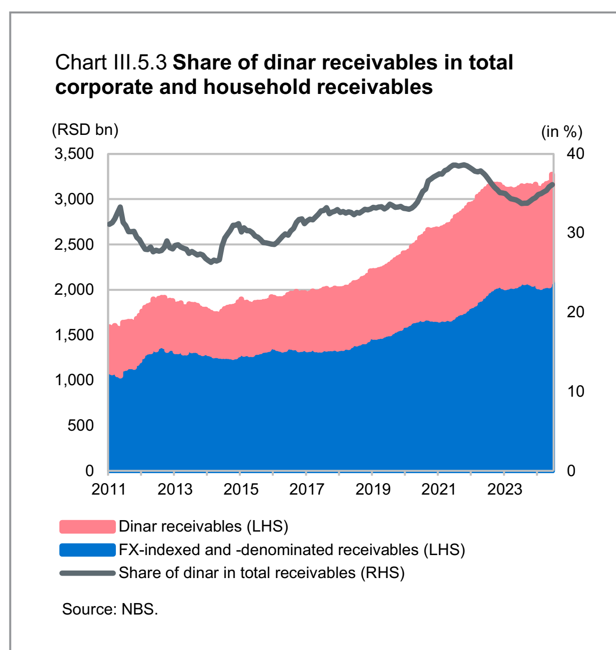


Chart III.5.3 **Share of dinar receivables in total corporate and household receivables**

Source: NBS.

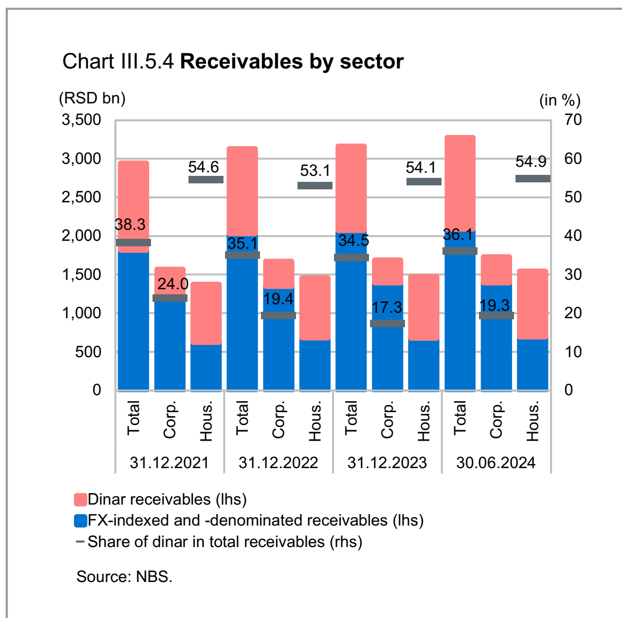


Chart III.5.4 **Receivables by sector**

Source: NBS.

decreasing trend of this indicator in place since H2 2021. This occurred with the maturing of a significant amount of dinar loans approved under guarantee schemes of the Republic of Serbia aimed at supporting corporates in the period of the coronavirus pandemic. At end-June 2024, this indicator measured 36.1%, rising by 1.6 pp from end-2023 and by 8.1 pp from end-2012.

The rise in dinarisation was recorded by both corporates and households. In H1, this indicator rose by 2.0 pp, to 19.3% for the corporate segment, as corporate dinar lending recovered. The degree of dinarisation of household deposits increased by 0.8 pp, to 54.9% led by the growth in cash loans (as a rule, approved in dinars) and the deceleration of housing loans amid higher prices in the real estate market and higher borrowing costs.

6 Real estate market

According to the Republic Geodetic Authority, in Q1 2024, the total **number of apartment purchases** dropped negligibly, by 0.4% y-o-y, while in Q2, for the first time after five consecutive quarters, a y-o-y increase of 7.5% was recorded for 11,532 executed transactions. The total value of flat turnover in Q2 stood at EUR 978 mn, up by 7.3% from Q2 2023.

The Republic Geodetic Authority data indicate a further **slowdown in the rise of apartment prices**, in place since Q3 2022. In Q2 2024, the y-o-y rate of the rise in the prices of apartments, measured by the Apartment Price Index, equalled 4.7% for the Republic of Serbia, and 4.0% for the City of Belgrade. The prices of old

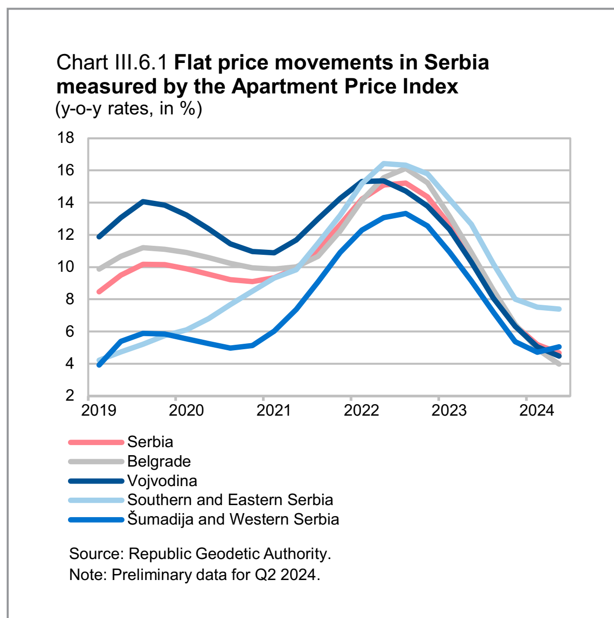


Chart III.6.1 **Flat price movements in Serbia measured by the Apartment Price Index**
(y-o-y rates, in %)

Source: Republic Geodetic Authority.
Note: Preliminary data for Q2 2024.

apartments at the level of Serbia grew by 4.4% y-o-y, and of new ones, purchased from investors, by 5.2% y-o-y. In Q1, loans were used for buying 7% of real estates. As so far, loans were largely used for buying apartments – 18% of apartments were bought in this manner, the same as in Q1 2023.

According to Eurostat data for Q1 2024, apartment prices in countries of the region also continued to increase. Bulgaria and Croatia posted the highest growth (16.0% and 9.1% y-o-y, respectively). At the level of the entire European Union, these prices increased insignificantly (1.3% y-o-y).

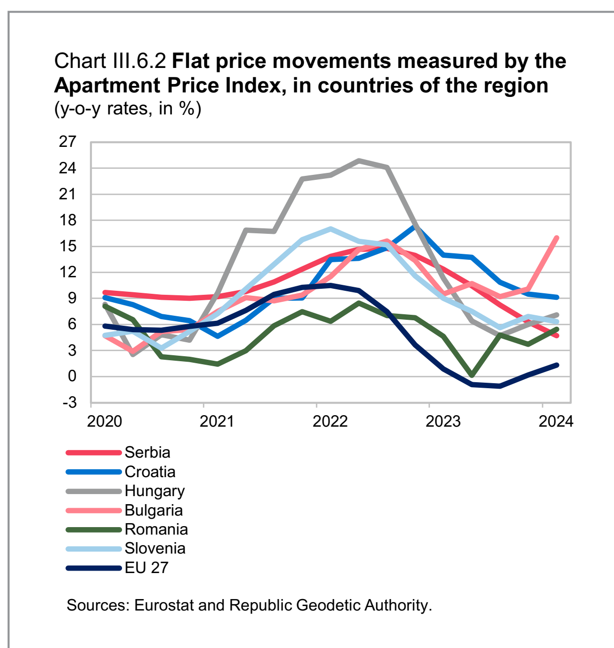


Chart III.6.2 **Flat price movements measured by the Apartment Price Index, in countries of the region**
(y-o-y rates, in %)

Sources: Eurostat and Republic Geodetic Authority.

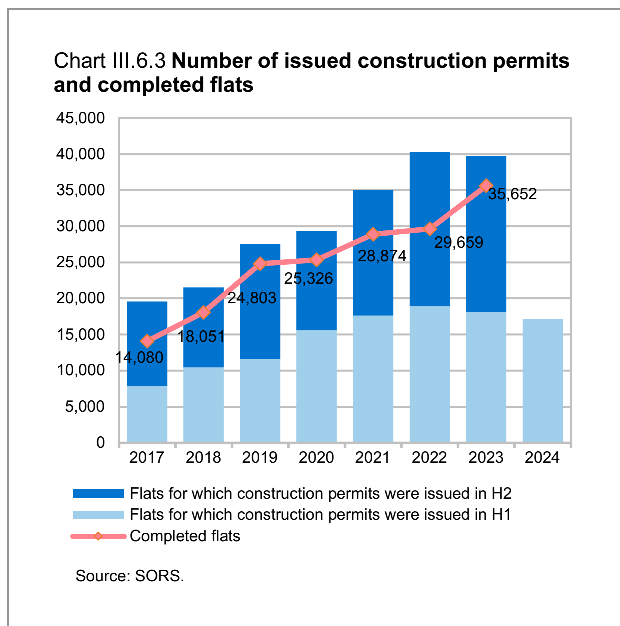


Chart III.6.3 **Number of issued construction permits and completed flats**

Source: SORS.

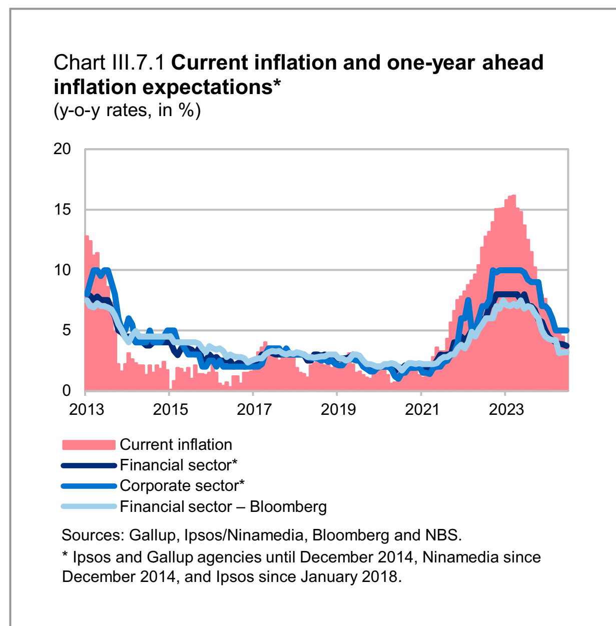


Chart III.7.1 **Current inflation and one-year ahead inflation expectations***
(y-o-y rates, in %)

Sources: Gallup, Ipsos/Ninamedia, Bloomberg and NBS.
* Ipsos and Gallup agencies until December 2014, Ninamedia since December 2014, and Ipsos since January 2018.

According to the SORS, the total number of issued construction permits for buildings increased by 5% y-o-y in H1 2024 and the number of permits for apartments declined to a similar degree (-5.2% y-o-y). In 2023, the number of finished apartments equalled 35.6 thousand, rising by around 20% from last year, which should contribute to a better match between supply and demand for apartments in the coming period.

7 Inflation expectations

One-year ahead inflation expectations of the financial sector went downwards in H1 but moved within the NBS target tolerance band. According to Ipsos, these expectations went down from 4.50% in January, to 3.73% in June, while according to Bloomberg, these expectations were somewhat lower, ranging between 4.30% in January and 3.20% in June. Short-term inflation expectations moving within the NBS target tolerance band and close to the target midpoint indicate high credibility of the monetary policy.

One-year ahead corporate inflation expectations declined to 5.0% in March, from 6.0%, and stayed at that level for the remainder of H1. The percentage of corporates anticipating a rise in the prices of inputs was almost two times lower in June (29.9%) than in January (55.4%). Corporates had similar expectations concerning the rise in the prices of their final products and services in the next three months – the percentage of respondents anticipating a rise dropped from 51.9% in January to 27.0% in June. Still, the percentage of corporates expecting a hike in the prices of their final products and services in the next twelve months increased from 46.5% to 74.5%.

Household inflation expectations are typically higher than those of other sectors. They declined to 10% in May and stayed unchanged in June. The percentage of households expecting a considerable increase in inflation in the next twelve months in H1 almost halved and now most households anticipate a moderate or slight rise in prices (68.20% of respondents). According to the qualitative survey, the index of expected inflation was lower than the index of perceived inflation, indicating that households expected that inflation would be lower in the coming 12 months than in the year before.

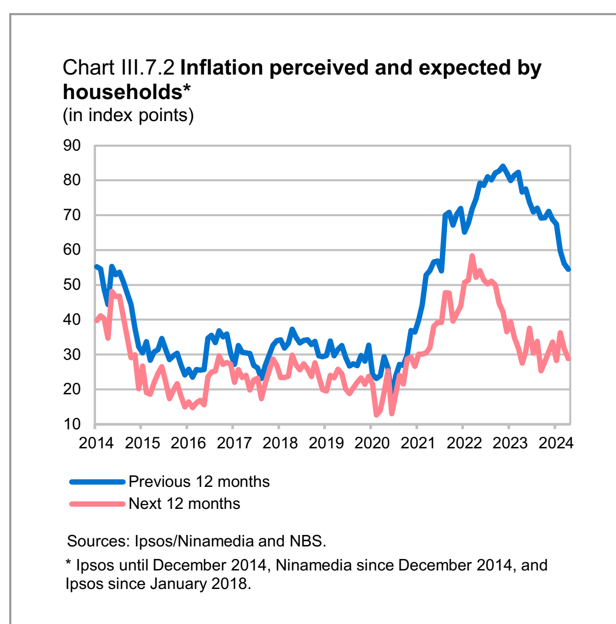
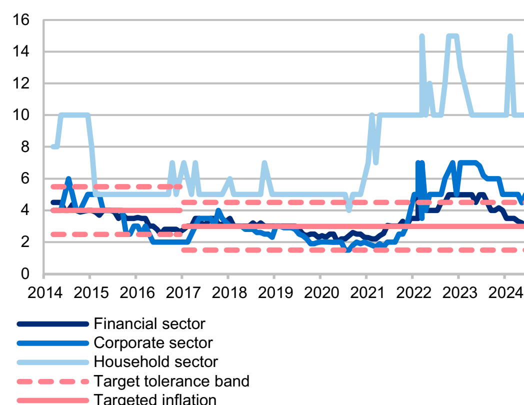


Chart III.7.2 **Inflation perceived and expected by households***
(in index points)

Sources: Ipsos/Ninamedia and NBS.
* Ipsos until December 2014, Ninamedia since December 2014, and Ipsos since January 2018.

Chart III.7.3 **Two-year ahead inflation expectations***
(y-o-y rates, in %)



Sources: Ipsos/Ninamedia and NBS.
* Ipsos until December 2014, Ninamedia since December 2014, and Ipsos since January 2018.

Two- and three-year ahead inflation expectations of the financial sector declined, moving within the NBS target tolerance band. In June, their expectations for both periods were at the target midpoint of 3.0%. **Two-year ahead corporate expectations** moved at 5.0% for the most part of H1, while **three-year ahead** expectations went down to 4.45% in June. Following a hike in February, two- and three-year ahead **household inflation expectations** returned to the level of 10.0%, where they hovered since April 2023.

According to Consensus Economics, the expectations of professional forecasters concerning average inflation in Serbia declined this year – from January 5.1% to April 4.7% staying at that level until June. These expectations for the next year fluctuated between 3.3% and 3.7%, measuring 3.5% in June.

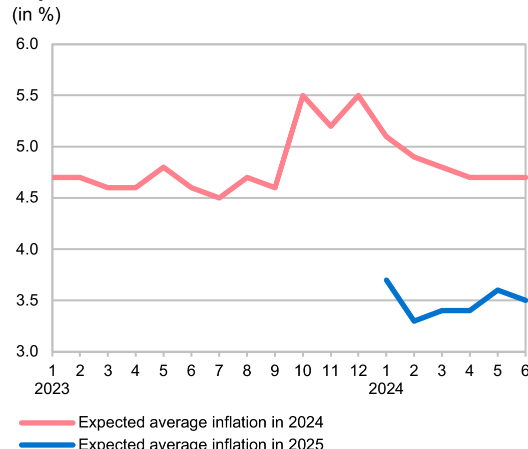
8 Fiscal trends

In H1 2024, a **general government surplus** of RSD 33.2 bn (0.8% of GDP) was posted, while the primary balance surplus stood at RSD 131.8 bn (3.1% of GDP).

Public revenues increased in H1 2024 nominally by 14.1% y-o-y (RSD 236.3 bn). The growth was driven primarily by higher income from labour, that is, social contributions categories (4.6 pp) and income tax (1.7 pp) as a result of employment growth, as well as the rise in private and public sector wages. VAT and excise tax contributions were high (4.0 pp and 2 pp, respectively) as a result of the rising domestic demand and the increase generated by excise tax was partly a result of the base effect as in the previous period excise policy was used to mitigate inflationary pressures. Corporate profit tax also provided a 0.9 pp contribution to income growth on account of higher corporate profitability in 2023 by 12.3% to RSD 972.4 bn.

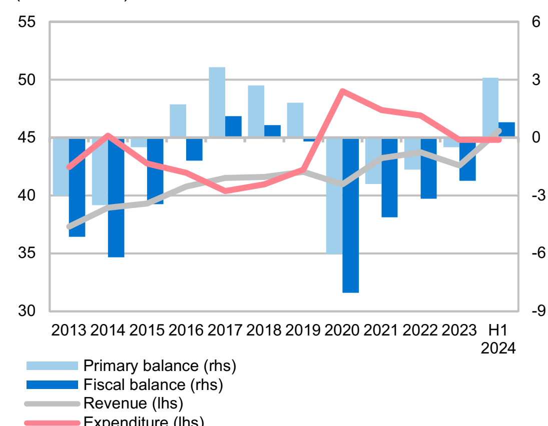
Public revenues rose nominally by 15.2% y-o-y in H1 (RSD 248.3 bn), largely on account of higher wages and pensions aimed at maintaining the living standard, but also owing to increased capital investments in the public infrastructure. A portion of the increase in expenditures was provided by the rechannelling of the unused assets intended for the energy sector. This is also testified by around 80% lower budget loans in H1 than a year earlier

Chart III.7.4 **Expected average inflation according to professional forecasters**
(in %)



Source: Consensus Economics.

Chart III.8.1 **Fiscal and primary balance of general government budget**
(in % of GDP)



Source: Ministry of Finance.

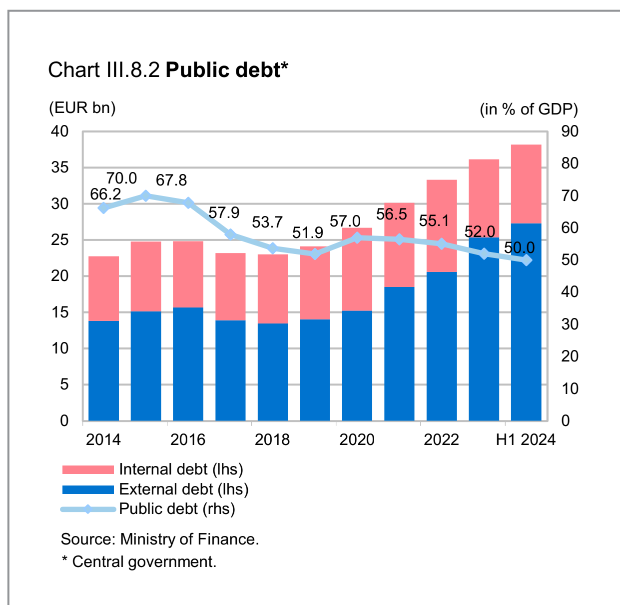


Chart III.8.2 **Public debt***

Source: Ministry of Finance.
* Central government.

when they were used to support the energy sector. The rise in total public expenditures was driven the most by social welfare and transfers (5.9 pp, of which 4.9 pp went to pensions), followed by higher expenditure for public sector employees (4.3 pp). Less so, the rise in expenditures in H1 was driven by the higher expenses of the purchases of goods and services (2.3 pp), subsidies (1.1 pp) and interests (1.0 pp). In H1, capital expenditures contributed to a rise in total public expenditures with 2.1 pp, with the planned share of this category in GDP also rising in 2024 (by 0.5 pp, to 7.3%) in line with the new investment cycle under the "Leap into the Future – Serbia Expo 2027" programme.

Central government public debt came at EUR 38.2 bn at end-June 2024, or 50.0% of GDP projected for 2024, down by 2.0 pp from end-2023, reflecting higher projected nominal GDP in 2024. As for the public debt currency composition, the euro share of debt increased by 0.7 pp from end-2023, to 58.4%, while the dinar debt decreased slightly, by 0.3 pp (to 21.4%), as did the share of debt in SDR, by 0.4 pp, to 6.4% at end-June. The dollar debt stayed unchanged (13.4%).

The Fiscal Strategy for 2025 with Projections for 2026 and 2027 defines a **medium-term fiscal framework**, envisaging the intensification of public investment in infrastructure (primarily road and rail) within the "Leap into the Future – Serbia Expo 2027" programme, whose total estimated value equals almost EUR 18 bn. The new fiscal programme will increase the share of **capital government expenditures** to the range of 7.3–7.5% of GDP in 2025 and 2026, from 6.6–6.8% set in the Revised Fiscal Strategy for 2024 with Projections for 2025 and 2026. In this regard, **general government deficit** projections will be at 2.2% of GDP this year and at 2.5% in 2025, going slightly down thereafter, to 2.3% of GDP in 2026 and 2027. **Still, the projected deficits will not jeopardise the downward trajectory of public debt**, which should decline to around 50% of GDP in the coming period.

9 Aggregate demand

Economic growth continued at a faster pace than expected, equalling 4.3% y-o-y in H1 2024 (4.6% y-o-y in Q1 and 4.0% y-o-y in Q2). Domestic demand is estimated to have been driving economic growth in H1, with the strongest contributions coming from household consumption and gross fixed investments. On the other hand, net exports provided a negative contribution to economic growth in H1, as imports rose faster than exports amid the ongoing investment cycle.

Private consumption rose by 4.6% y-o-y in H1 (providing 3.2 pp to GDP growth in H1), driven by its main source – the wage bill, which rose nominally by 15.7% in H1, while the real wage bill growth reached 10.2% y-o-y owing to the further slowdown in inflation. At the same time, household consumption in H1 was also supported by loans intended for consumption, which have gradually gathered y-o-y pace since last year, coming to 5.8% in H1, and pensions growth, of around 21% y-o-y in H1. Household remittances also posted a y-o-y increase, measuring 1.9% in H1. Private consumption growth is indicated by the retail trade turnover, which picked up, to 7.7% y-o-y in H1, and catering turnover, going up by

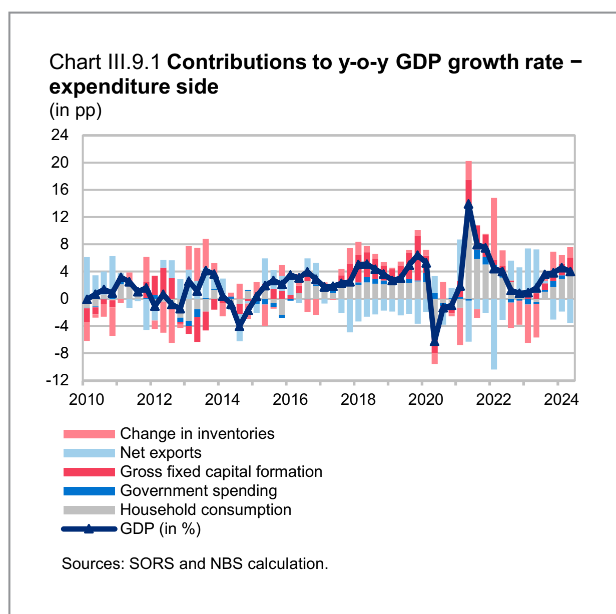
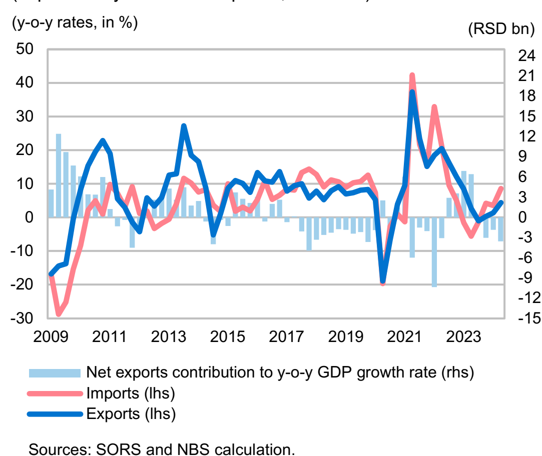


Chart III.9.1 **Contributions to y-o-y GDP growth rate – expenditure side**

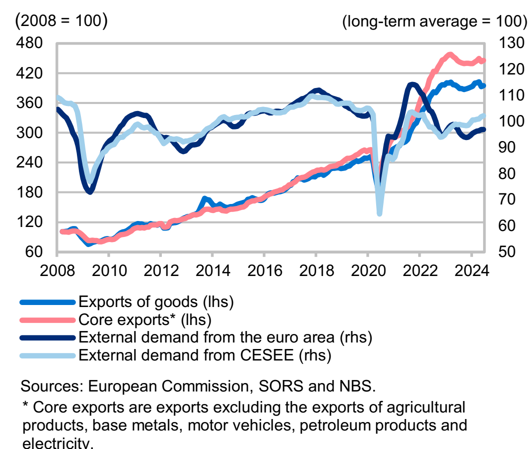
Sources: SORS and NBS calculation.

Chart III.9.2 **Exports and imports of goods and services**
(in previous-year constant prices, ref. 2010)



Sources: SORS and NBS calculation.

Chart III.9.3 **Movement of indicators of external demand for Serbian exports**
(3M moving average, s-a)



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

11.5% y-o-y in the first five months of the year. Concurrently, the number of arrivals and overnight stays of domestic tourists went up, by 5.8% and 6.3% y-o-y, respectively. The import of consumer goods also rose, by 8.7% y-o-y in H1.

Government consumption also went up in H1 (4.0% y-o-y), led by higher expenditures for public sector employees and procurement of goods and services. Accordingly, total domestic consumption increased by 4.5% y-o-y in H1 with a positive 3.8 pp contribution to economic activity.

Private investment kept the positive dynamics and, according to our estimate, rose by 8.7% y-o-y in H1. As for the sources of investment funding, the major part of private investment is estimated to have been financed from corporate profitability in the past years (according to preliminary data of the Business Registers Agency, net corporate profit in 2023 equalled RSD 972 bn and was higher by 12.3% y-o-y). Also, FDI inflow went up by 6.5% y-o-y in H1 and investment loans by 2.0% y-o-y. Private investment growth is suggested mainly by the data on construction, which, in our estimate, expanded by almost 10.0% y-o-y in H1. Speaking in favour of this is the rise in the number of issued construction permits in H1 by 2.8% y-o-y, and higher production of construction material, by 3.3% y-o-y. At the same time, the import of equipment recorded robust growth, by 15.4% relative to the same period last year.

Government investments increased by 6.5% y-o-y in H1, which is associated primarily with the implementation of significant infrastructure projects, and **we estimate that total fixed investments** went up by 7.8% y-o-y, with a 1.8 pp contribution to economic growth.

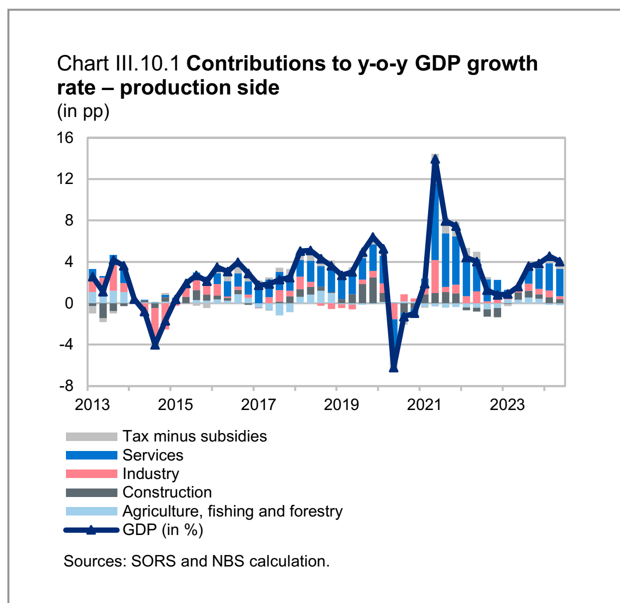
The rise in inventories in H1 is estimated to have positively contributed to GDP growth (1.6 pp), largely reflecting the low last year's base.

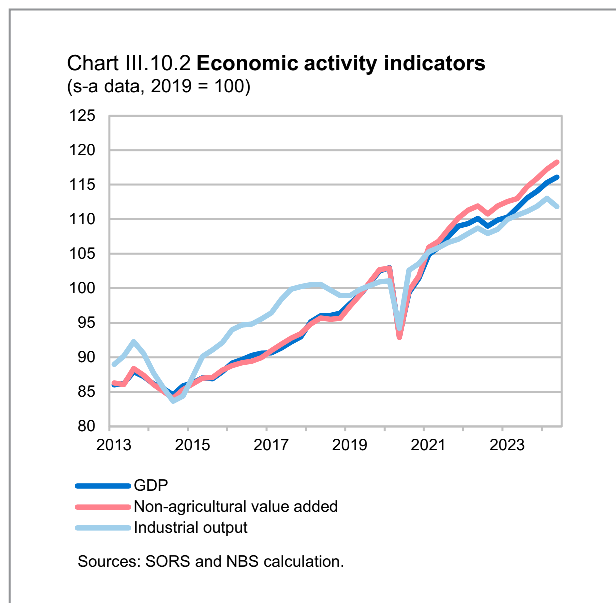
In H1, Serbia's **real exports** sped up to 2.9% y-o-y. As the **real import** growth accelerated as well (to 6.0% y-o-y), **net exports** remained a negative contributor to GDP growth in H1 (-2.7 pp), consistent with our expectations, having in mind the acceleration of domestic demand, primarily investment.

10 Economic activity

Economic growth in H1 measured 4.3% y-o-y and was driven by the accelerated services rise which collectively contributed 2.6 pp to GDP growth, of which 50% stemmed from trade. Construction also recorded accelerated growth, which contributed 0.5 pp to GDP growth in H1 with a positive contribution stemming also from industrial production (0.5 pp) on account of favourable trends in mining and manufacturing.

Collective growth in services is estimated to have continued to pick up, to 5.0% in H1 (rising from 3.2% in H2 2023 and from 0.9% in H1 2023), contributing the most to accelerated economic growth. This is indicated primarily by trade data, as the real retail trade turnover went up by 7.7% y-o-y in H1. Catering also picked up, its real turnover rising by 11.5% y-o-y in the January–May period. At the same time, the total number of tourist





arrivals increased by 10.2% y-o-y and of overnight stays by 7.8% y-o-y in H1.

Positive trends in the **construction** sector last year continued into H1 when the activity rose by almost 10% y-o-y, according to our estimate. This estimate is based on the higher production in the "other mining" category (16.8% in H1), which largely covers the exploitation of construction materials, and the rise in the production of construction materials (3.3% in H1). The number of issued construction permits rose by 2.8% y-o-y in H1 and the value of executed works by 13.4% y-o-y. The import of equipment increased by 15.4% y-o-y in H1 and of construction materials by 9.9% y-o-y.

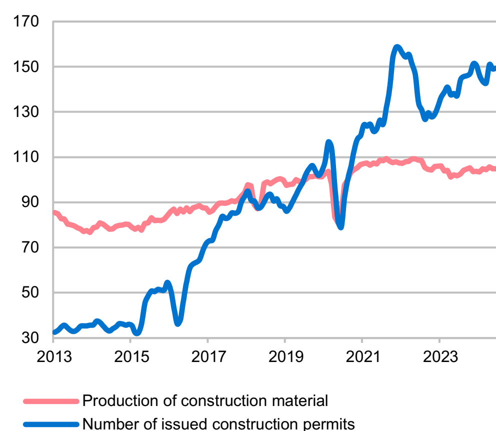
Industrial production growth is estimated at 2.1% y-o-y in H1, driven by mining and manufacturing, while the production of electricity dropped at y-o-y level, partly as a consequence of the high last year's base. Production in the mining sector increased by 10.6% y-o-y in H1, primarily owing to the intensified exploitation of metal ore and production in the "other mining" category (which mainly includes construction materials, such as gravel, sand, etc.).

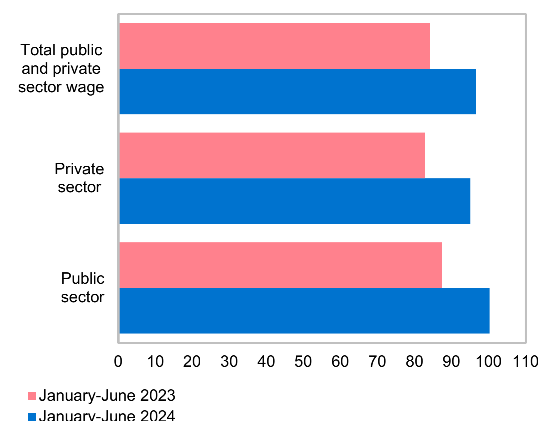
Positive trends in manufacturing from H2 2023 extended into H1 2024, with the production growing by 2.8% y-o-y despite the still relatively modest external demand. The growth in the volume of production was registered in 13 out of 24 branches of manufacturing. The greatest positive contribution came from the production of computers, metal products and food industry. On the other hand, the production of petroleum products decreased the most in y-o-y terms owing to the overhaul of the oil refinery in Pančevo. Still, the fact that as of May, the production of petroleum products almost returned to the average level of production from 2023 is owing to the fact that the overhaul is finished and full normalisation of production can be expected in the remainder of the year.

The weather in the year so far and the available data of the SORS about lower expected production of wheat and some sorts of fruit indicate that this year's agricultural season will probably be worse than the last year's. In this regard, we estimate that **agricultural production** went slightly down, by 3.9% **in H1**.

We estimate that owing to the consumption growth and better collection of tax revenues, **net taxes** rose by 3.5% y-o-y, contributing 0.6 pp to the GDP growth.

According to our August projection, the GDP growth rate will measure 3.8% this year, which is an upward revision of the previous projection. An additional pick-up in economic activity, to the range of 4–5%, is expected to unfold over the next two years, facilitated by the realisation of investments planned as part of the "Leap into the Future – Serbia Expo 2027" programme. The growth will be driven by domestic demand. Private consumption will be propped by the continued employment and wage growth, notably in the private sector. This will produce no major inflationary effects given that wage growth will be driven by elevated productivity. Private investments growth is expected on account of high FDI inflow, increased corporate profitability over the previous years and preserved investment trust, as well as lower global inflationary pressures and more favourable financing conditions. Investment growth will be supported by the realisation of projects in road, energy and utility infrastructure. Owing





to the expected acceleration of investment and personal consumption, we project that imports will rise faster than exports, which will result in a negative contribution of net exports.

11 Wages and employment

In H1 2024, favourable trends in the domestic labour market continued, as testified by the further increase in average wages and formal employment coupled with the reduction in registered unemployment to the new low.

Nominal net wage averaged RSD 96,579 (EUR 824) in H1, up by around 15% y-o-y and **public and private sector wages** increased to almost the same degree. Median and minimum wages rose by 15.6% and 17.8% y-o-y, respectively, averaging RSD 74,225 and RSD 46,973 respectively.

By sector, in H1 2023, average nominal wages increased the most in manufacturing (16.3%), followed by catering, and transport and storage (15.9% and 15.6%, respectively). At the same time, the double-digit y-o-y growth in average wages was recorded in almost every economic activity, with the exception of professional, scientific, innovation and technical services (9.3%). The average nominal wages also rose in public sector-dominated sectors – education (18.1%), public administration (13.8%), and health (13.6%).

Total nominal net wage bill, which is the main source of consumer demand, recorded 15.7% y-o-y increase in H1 on account of the rise in average wages and formal employment. According to NBS estimate, **overall economic productivity** rose by 4.1% y-o-y in H1, driven by economic activity growing faster than employment.

In H1, **total formal employment** increased by 0.4% y-o-y on average, reaching the level of around 2.37 mn persons in June, according to SORS data obtained from the Central Registry of Mandatory Social Insurance and the Statistical Business Register. In June, formal employment rose by around 12 thousand persons y-o-y, driven dominantly by employment with legal entities (by around 11 thousand), followed by entrepreneurs and their employees (by around six thousand), while the fall in the number of individual farmers (by around four thousand) worked in the opposite direction.

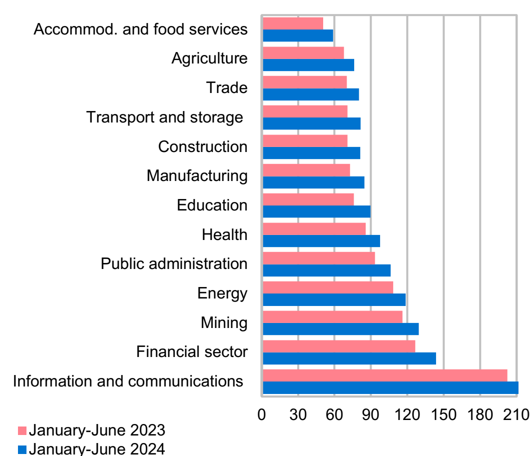
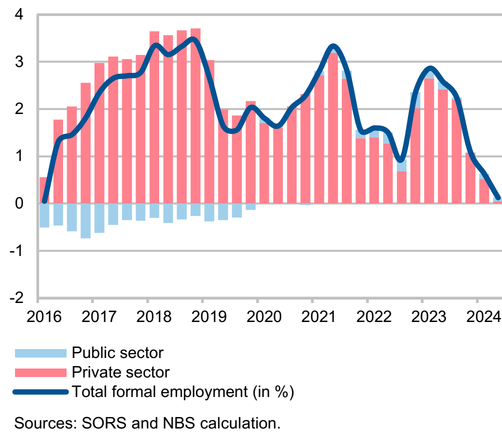
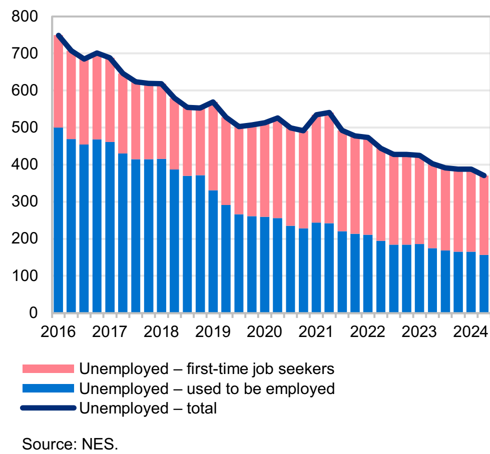


Chart III.11.3 **Composition of y-o-y growth in formal employment**
(in pp, quarterly average)



Sources: SORS and NBS calculation.

Chart III.11.4 **Registered unemployment**
(in thousand of persons, end-of-quarter)



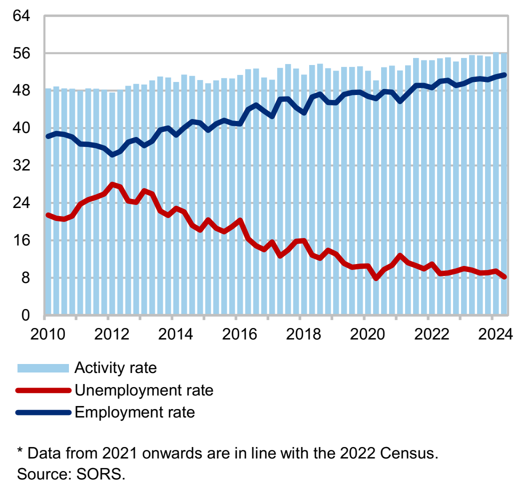
Source: NES.

As in the previous period, the bulk of new jobs were created in the **private sector** in H1 and private sector formal employment averaged 1.75 mn persons in H1, up by around 7 thousand y-o-y. Observing dominantly private sector activities, registered employment rose the most in professional, scientific, innovation and technical services, ICT services and construction in H1, while it decreased the most in administrative and auxiliary services, as well as trade. **Public sector employment** also rose by around two thousand persons y-o-y in H1.

According to the NES, **registered unemployment** dropped in H1, to 370,611 persons in June, down by 31.9 thousand from a year earlier, which is its lowest level on record.

According to the available data from the revised **Labour Force Surve**y covering both formal and informal labour market segments, the activity rate stood at 56.0% in Q2 2024 and the participation rate (working age population activity rate) at 72.5%, up by 0.5 pp and 0.4 pp, respectively, from a year earlier. The employment rate increased to 51.4% in Q2 (1.1 pp y-o-y growth) and the unemployment rate dropped to 8.2% (1.4 pp y-o-y decline) which is its lowest level according to the revised data in line with the 2022 Census and an additional confirmation of continued favourable labour market trends.

Chart III.11.5 **Labour market indicators under the Labour Force Survey***
(in %)



* Data from 2021 onwards are in line with the 2022 Census.
Source: SORS.

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