Republic of Serbia

Government

REVISED FISCAL STRATEGY

FOR 2026 WITH PROJECTIONS FOR 2027 AND 2028

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Based on Article 27v Paragraph 1 and Article 31 Paragraph 1 Point 1) Subpoints. (12) and (13) of Budget System Law (”Official Gazette of the RS”, Nos. 54/09, 73/10, 101/10, 101/11, 93/12, 62/13, 63/13 – correction, 108/13, 142/14, 68/15 – other law, 103/15, 99/16, 113/17, 95/18, 31/19, 72/19, 149/20, 118/21, 118/21 – other law, 138/22, 92/23 and 94/24),

The Government adopts

REVISED FISCAL STRATEGY FOR 2026 WITH PROJECTIONS FOR 2027 AND 2028

I MACROECONOMIC FRAMEWORK FOR THE PERIOD 2026–2028

1. General Framework and Main Economic Policy Objectives and Guidelines

The global economic context in 2025 is marked by deep structural changes and pronounced uncertainty arising from increased trade and geopolitical fragmentation. The escalation of tariff measures, the restructuring of global supply chains, and the redefinition of industrial policies in leading economies have significantly affected trade flows, investment decisions, and movements in commodity and financial markets. With the introduction of the broadest range of trade restrictions in recent decades, the global environment has gained a new dimension of uncertainty. Although bilateral agreements reached in the second half of the year have partially eased tensions, the consequences of fragmentation continue to burden international trade and financing conditions, especially for developing countries. Timely adjustment by the private sector and the efficient redirection of supply chains have allowed the global trading system to maintain functionality and relative stability.

The Republic of Serbia is closely monitoring these processes and continuously analyzing the potential transmission channels of global risks to the domestic economy. Although challenges in the areas of trade, investment, and financial flows are real, the Republic of Serbia enters this period of increased uncertainty with strong defensive positions: high foreign exchange reserves, a stable and well-capitalized banking sector, a low public debt-to-GDP ratio, and adequate fiscal space. In such an environment, preserving macroeconomic stability remains the central priority of economic policy, with enhanced risk monitoring and timely adjustment of measures in line with developments in the immediate surroundings. At the same time, the increasingly pronounced global fragmentation and changes in regulatory and climate policies, including mechanisms such as the CBAM in the European Union (hereinafter: the EU), increase the need for structural adjustments that will affect the costs and competitiveness of certain sectors of the Serbian economy.

Over the past few years, the Republic of Serbia, as a small and open economy, has demonstrated exceptional resilience to a variety of challenges. Thanks to responsible fiscal and monetary policy, continuous investments, and implemented structural reforms, macroeconomic stability has been preserved, investor confidence maintained, and growth continuity ensured. Nevertheless, developments during 2025 have increased uncertainty: the rise in tariff barriers and pronounced global fragmentation, together with a simultaneous increase in domestic socio-political tensions, have had a restraining effect on investment and consumer activity. Although the main macroeconomic indicators remained stable, GDP growth in the first half of 2025 was below expectations, so the projection for the whole year was revised downward (from 3.0% to 2.3%). Inflation remained within the upper zone of the target range for most of 2025, but slowed noticeably from September (to 2.9% y/y), owing to the limitation of trade margins. For 2026, with the normalization of cost factors and a more stable agricultural season, average inflation is projected at 3.7%.

In the revised macroeconomic framework for 2026, GDP growth of 3.0% is projected, which is 1.2 percentage points lower than previous expectations, reflecting a more conservative planning approach under heightened risk conditions. The key drivers of growth remain domestic demand, growth in real income, the continuation of public and private investments, and the implementation of projects related to EXPO 2027 and the "Leap into the Future" program. The main reason for the revision is the uncertain dynamics of economic activity in certain industrial branches under conditions of pronounced global fragmentation, strengthened restrictions, and changes in energy flows. On the production side, the projection assumes moderate industrial growth (with caution in manufacturing sectors), strong growth in construction driven by the final phase of EXPO 2027 and the low base effect, as well as stable growth in services.

Ensuring energy security and accelerating the transition to sustainable energy sources are central goals of the energy strategy and the decarbonization process. The Republic of Serbia has committed to gradually increasing the share of renewable sources, strengthening energy efficiency, and reducing CO_2 emissions as key prerequisites for long-term economic and environmental resilience. The effects of CBAM and accompanying climate policies will be presented in the Fiscal Strategy for 2027, with projections up to 2029.

In the medium term, cumulative growth of 11.9% is projected for the period 2026–2028, with an average annual growth rate of 3.8%. The growth dynamics will be based on domestic demand, with a strong continuation of the investment cycle, growth in private consumption, and a gradual recovery of external demand. Acceleration to 5.0% in 2027 will result from the implementation of EXPO 2027 activities, while moderate deceleration is expected in 2028 due to the base effect. Such a growth profile indicates the stability of macroeconomic fundamentals and a balanced structure of economic activity.

Medium-term risks remain pronounced and primarily stem from global fragmentation, tightening of trade and industrial policies, geopolitical tensions, and instability in energy and food markets. Domestically, the most important challenges relate to sectoral uncertainties in energy and export-oriented industries. Economic policy addresses these challenges through maintaining fiscal discipline, measures to increase energy efficiency and security, and accelerating the implementation of infrastructure and EXPO 2027-related projects. Such a framework makes it possible to mitigate the negative effects of shocks and transmit positive external impulses more rapidly into growth.

Fiscal discipline remains the fundamental principle of the economic policy of the Republic of Serbia. A gradual reduction of the budget deficit is planned—from 3.0% of GDP during the investment cycle to 2.5% of GDP by 2028—ensuring the continuation of the declining trend in public debt, which is projected to fall to around 44% of GDP by the end of the medium-term period. At the same time, a high level of public investment will be maintained, along with improvements in transparency and efficiency in capital project management.

The continuation of the process of European integration and the deepening of cooperation remain strategic goals of the economic policy of the Republic of Serbia. The implementation of the Growth Agenda represents an important instrument for strengthening the economic connectivity of the Western Balkans with the EU single market, while the advisory arrangement with the International Monetary Fund (hereinafter: the IMF) provides additional support for the implementation of structural reforms, strengthens transparency and predictability of economic policy, and contributes to preserving the macroeconomic credibility of the Republic of Serbia in international frameworks. Combined, these processes position the Republic of Serbia as a stable and reliable partner on its European path and within regional initiatives.

2. Estimates of the International Economic Environment

Global economic developments in 2025 were highly volatile, driven by a powerful interaction of economic and political factors that reshaped the international environment. A new wave of changes in the economic policy of the United States of America (hereinafter: the US) and the restructuring of global trade relations increased uncertainty and caused fluctuations in financial markets. With the introduction of a wide range of new tariff measures, tariffs reached their highest levels in recent decades. Although countermeasures by other countries were limited, subsequent bilateral agreements with the US eased trade tensions and contributed to stabilizing expectations. Timely adjustment by the private sector and efficient reorientation of supply chains allowed the global trading system to maintain functionality and relative stability despite the changed conditions. In its October projections, the IMF slightly increased its expected global GDP growth to 3.2% in 2025 and 3.1% in 2026. The revision primarily reflects the temporary resilience and adaptability of economies, while the effects of tariff measures and increased global fragmentation will gradually become apparent in the coming years, limiting growth potential in the longer term.

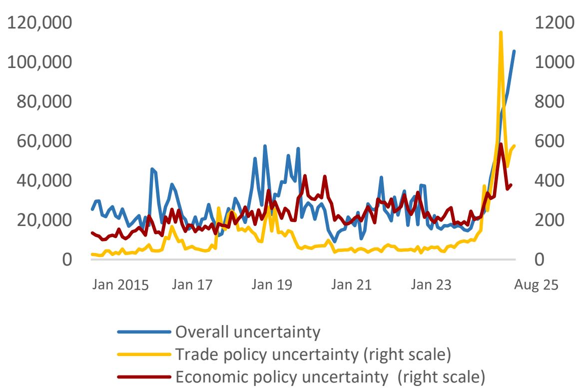
Global inflation will continue to moderate, with significant differences among the regions. According to current estimates, headline inflation will decline from 5.8% in 2024 to 4.2% in 2025 and 3.7% in 2026, with the projected path broadly unchanged from previous projections. Monetary policy divergence reflects the heterogeneity of domestic conditions — differences in inflation dynamics, the strength of economic activity, and labor market adjustments — and central banks are timing the easing of restrictive monetary policy in line with national frameworks. Fiscal policy remains relatively expansionary: primary deficits continue to exceed pre-pandemic levels, which increases pressures on the long-term sustainability of public finances and narrows the room for geopolitically motivated investment-led initiatives.

The risks to the projections remain tilted to the downside. Prolonged trade uncertainty and a potential escalation of protectionism could further dampen investment, disrupt supply chains and slow productivity growth. At the same time, rising public debt and higher financing costs increase the vulnerability of fiscal positions. Additional uncertainties arise from climate shocks and possible turbulence in the technology sector, particularly if the effects of the wider application of artificial intelligence remain below expectations. On the positive side, progress in trade agreements, the acceleration of structural reforms and technological innovation — including the widespread application of artificial intelligence — could strengthen confidence and support growth in the medium term.

Macroeconomic Estimates of the International Monetary Fund (IMF)

During 2025, the global economy operated in an extremely complex and volatile environment, in which changes in the economic and trade policies of leading countries, together with increased geopolitical tensions, affected growth, trade and investment flows. In early 2025, the US introduced a broad package of new tariff measures, raising tariffs to a multi-decade high. After initial, limited countermeasures by individual partners, a series of bilateral agreements with the US followed, which contributed to calming trade tensions and mitigating adverse effects on trade flows. After the April peak, the effective US tariff rate stabilized in the range of 10 to 20 percent for most countries - still significantly higher than in the previous period. The U.S. policy shift triggered rapid adjustments in global supply chains: the private sector rerouted trade flows, changed supply structures, and temporarily increased inventories ahead of the announced price increases. The delayed implementation of some tariffs allowed companies to slow down price adjustments, while high profit margins following pandemic inflation acted as a buffer for suppliers and importers. While the relatively weaker dollar amplified the tariff shock in the U.S., it also contributed to more favorable global financial conditions and mitigated inflationary pressures through the foreign exchange channel, giving policymakers more room to support economic activity. The combination of these factors mitigated the effects of protectionism and prevented a sharp decline in global output and trade.

Overall, economic and trade uncertainty (Index)

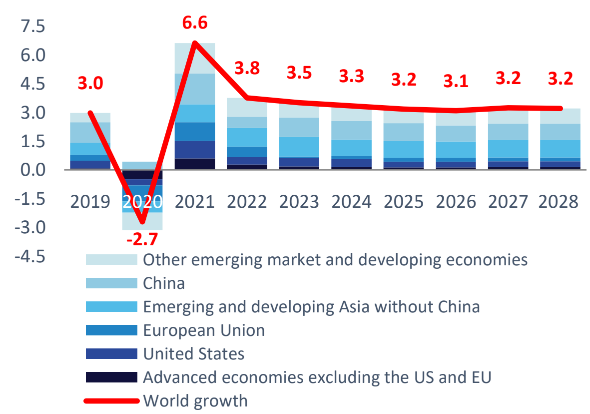


Source: IMF, World Economic Outlook, October 2025

While activity indicators have remained relatively resilient, measures that have supported growth in the short term, such as trade diversion and front-loading, are costly and unsustainable in the longer term. The unusual dynamics of net exports and stocks, stemming from the rapid growth of imports, suggest that growth momentum is increasingly reliant on temporary factors. At the same time, rising core inflation in the US and persistently above-target inflation in several other economies suggest that tariff measures are gradually being spilled over on to prices and production costs. In addition to trade disruptions, there have been significant changes in other areas of economic policy: several advanced economies have reduced development assistance and tightened immigration regimes, affecting global capital and labor flows. The sharp decline in net migration in several advanced economies poses a structural risk to potential growth and demographic sustainability.

Although global growth was revised slightly upwards in the October report, to 3.2% for 2025 and 3.1% for 2026, this revision primarily reflects the temporary resilience of economies and more favorable adjustments in the first half of 2025. The expected full effects of protectionism and increased fragmentation of international flows will manifest later, limiting medium-term growth potential through less efficient resource allocation, more expensive trade and reduced transfer of technology and knowledge. In such an environment, policymakers are faced with the task of increasing predictability and restoring confidence in the trade and financial system. According to the IMF recommendations, stabilizing the global economy implies a gradual normalization of trade relations, preserving the independence of monetary institutions, and fiscal discipline aimed at the long-term sustainability of public finances.

Global economic growth, pp



Source: IMF, World Economic Outlook, October 2025

Table 1. International Environment – Macroeconomic Indicators

	2024	2025	2026	2027	2028
Real GDP growth[1], %					
World Total	3.3	3.2	3.1	3.2	3.2
Advanced Economies	1.8	1.6	1.6	1.7	1.7
USA	2.8	2.0	2.1	2.1	2.1
Euro area	0.9	1.2	1.1	1.4	1.3
Emerging Economies	4.3	4.2	4.0	4.2	4.1
China	5.0	4.8	4.2	4.2	4.0
Russia	4.3	0.6	1.0	1.1	1.1
World trade growth, %	3.5	3.6	2.3	3.1	3.2
Unemployment rate, %					
Euro area	6.4	6.4	6.3	6.2	6.2
USA	4.0	4.2	4.1	4.0	3.9
Consumer Prices, Period Average, %					
Euro area	2.4	2.1	1.9	2.1	2.0
Advanced Economies	2.6	2.5	2.2	2.1	2.1
Emerging economies	7.9	5.3	4.7	4.2	4.1
Exchange rate, euro/dollar, end of period	1.1	1.1	1.2	-	-
Cereal prices, in dollars, annual changes[2]	-20.1	-9.1	6.5	5.7	1.8
Metal prices, annual changes[3]	-1.9	0.3	3.0	-0.4	-0.7
Iron ore prices, in dollars[4]	-7.7	-7.6	-2.4	-5.4	-6.2
Oil prices, in dollars, annual changes, %	-1.8	-12.9	-4.5	-0.2	0.9

Source: IMF, *World Economic Outlook*, October 2025.

[1] World GDP is calculated according to purchasing power parity

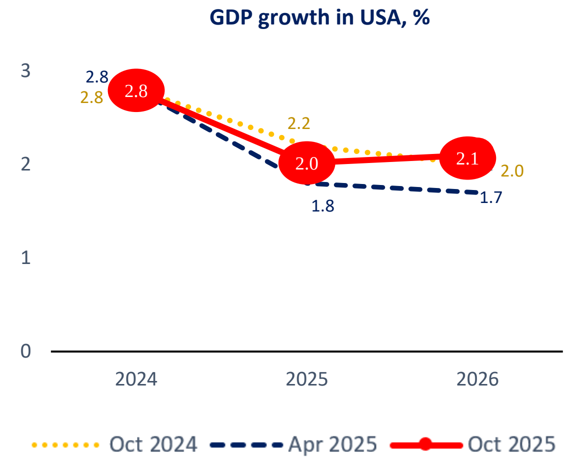
[2] The cereal price obtained as the weighted average price of wheat, corn, soya, rice and barley.

[3] The metal price obtained as the weighted average price of copper, aluminium, iron ore, tin, nickel, zinc, lead and uranium.

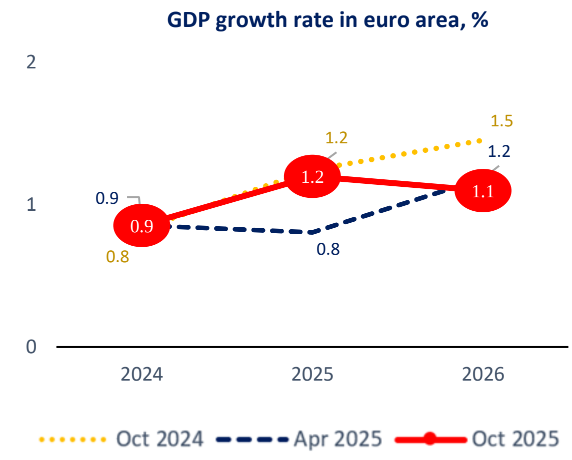
[4] Iron ore price (of 62% iron content) for imports into China, Tian Jan port, in dollars per metric ton

In advanced countries, economic activity is expected to move in line with global trends: GDP growth is expected to slow from 1.8% in 2024 to 1.6% in 2025, with stabilization at approximately the same level in 2026. Growth for 2025 has been revised slightly upwards compared to the April and July reports, reflecting greater resilience of economic activity and effective adjustments by companies to new trade conditions. However, compared to the October 2024 report, projections are still lower due to increased uncertainty, higher tariffs and weaker labor market dynamics. In 2026, a stable but relatively low growth rate (1.6%) is expected, indicating a continuation of the process of adjustment to new trade and financial conditions. At the same time, structural factors, such as limited labor force growth, low productivity and pronounced effects of trade fragmentation, will continue to act as barriers to more dynamic growth.

United States. US economic growth will slow from 2.8% in 2024 to 2.0% in 2025, with a slight stabilization at 2.1% in 2026. Although expectations have improved slightly compared to the April and July reports, thanks to partial fiscal stimulus and lower effective tariff rates following the achievement of new trade agreements, the dynamics are still slower than in the October 2024 projections. While short-term factors, such as monetary policy easing and solid domestic consumption, continue to support economic activity, structural constraints, such as slowing productivity growth, limited labor supply, trade barriers, and high public debt levels, are causing the economy to move more slowly than in previous cycles.the economy to move more slowly than in previous cycles.



Source: IMF, *World Economic Outlook*, October 2025

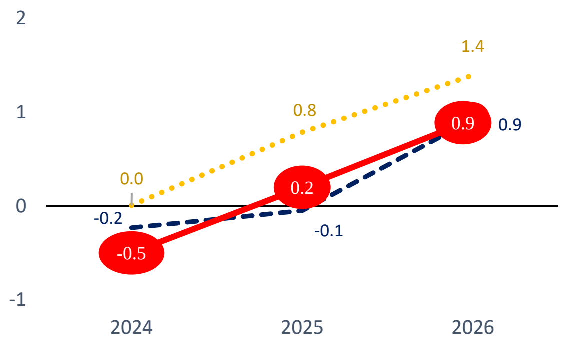


Source: IMF, *World Economic Outlook*, October 2025

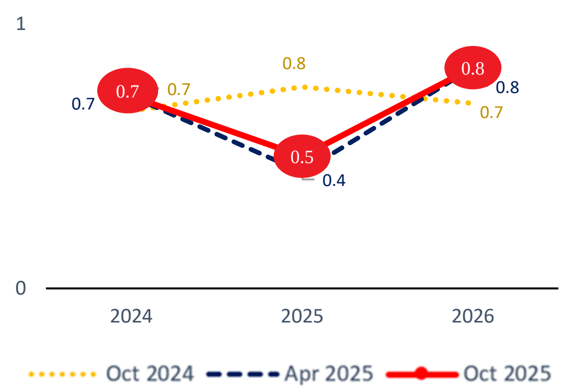
Euro area. According to the IMF, the euro area economy is expected to gradually accelerate to 1.2% in 2025, before slowing slightly to 1.1% in 2026. This pace suggests a moderate but still fragile recovery after two years of weak growth, which remains below long-term potential. The euro area recovery is driven primarily by household consumption, supported by rising real wages and falling inflation, while investment activity remains constrained by high financing costs and weak expectations in the industrial sector. At the same time, weak external demand, especially from China and some emerging economies, remains insufficiently dynamic. Compared to the previous report, the growth projection for 2025 has been revised slightly upwards due to the stabilization of energy prices and the gradual easing of financial conditions. For 2026, the moderate pace is expected to be maintained, reflecting more persistent structural weaknesses: low productivity, demographic pressures and uneven fiscal positions across member states. However, compared to the October 2024 report, the cumulative downward revision is around 0.2 pp, due to the impact of global factors. Although inflation is gradually approaching the European Central Bank's target, uncertainty regarding fiscal consolidation remains a key challenge for more sustainable growth in the coming period.

Germany and Italy. The dynamics of economic activity in Germany and Italy, our most important foreign trade partners in the euro area, are showing some signs of recovery. Germany, being the largest economy in the euro area, according to the latest IMF projections, will achieve growth of 0.2% in 2025, which represents an upward revision of 0.2 pp compared to the April and 0.1 pp compared to the July projection. The main factors that have pushed growth are fiscal expansion and investment in infrastructure and military projects, while the deep dependence of industry on global supply chains that are disrupted by growing geopolitical tensions and trade barriers will act as a limiting factor. For 2026, growth of 0.9% is expected, driven by mild fiscal expansion and a moderate recovery in industrial production. The Italian economy is expected to grow by 0.5% in 2025, while a slight acceleration to 0.8% is expected in 2026, which is practically unchanged to previous expectations. Long-term structural challenges, such as low productivity, unfavorable demographics and high public debt, remain limiting factors for faster growth. The overall growth dynamics of both economies, despite the expected slight recovery in 2026, remain well below their long-term potential.

GDP growth in Germany, %



GDP growth in Italy, %



Source: IMF, *World Economic Outlook*, October 2025

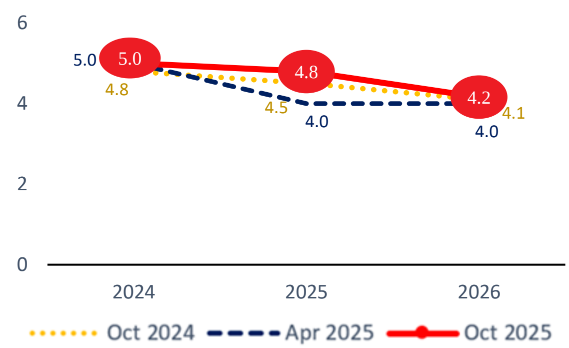
Emerging economies growth is expected to gradually slow from 4.3% in 2024 to 4.2% in 2025 and 4.0% in 2026, virtually unchanged from the previous update. However, these forecasts are still lower than the October 2024 projections by a total of 0.2 pp, reflecting higher financing costs, a slower recovery in some large economies and increased trade fragmentation, which is increasingly constraining export flows and foreign direct investment (FDI) inflows.

China. After a strong post-pandemic momentum, China's economic growth is gradually moderating. The latest projections are 4.8% in 2025 and 4.2% in 2026. The developments remain burdened by weaker external demand, challenges in the real estate sector and high local government debt, partly offset by fiscal stimulus and a recovery in industrial production. In the longer term, slowing productivity, demographic ageing and restructuring of the real estate market limit growth potential.

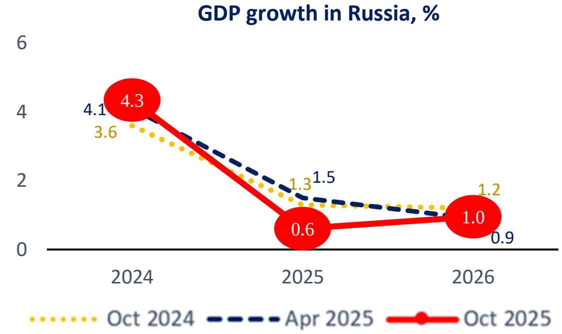
Russia. After a growth of 4.3% in 2024, the Russian economy is projected to slow to 0.6% in 2025 and 1.0% in 2026. The 2025 projection is 0.9 pp lower than in April, primarily due to the concentration of public spending in the fourth quarter of 2024 (negative base effect). Limited access to foreign investment, sanctions, low productivity, and high reliance on public spending remain key structural constraints.

In the Middle East and Central Asia, growth is expected to accelerate as disruptions to oil production and transportation gradually ease and the effects of ongoing conflicts diminish. Sub-Saharan Africa and Latin America are projected to stagnate in 2025, but with a slight upward revision compared to previous estimates due to the limited negative impact of new tariff measures. In low-income countries, GDP growth is projected to accelerate from 4.2% in 2024 to around 5.0% in 2026, driven by infrastructure investment and stabilizing macroeconomic conditions.

GDP growth in China, %



GDP growth in Russia, %



Source: IMF, *World Economic Outlook*, October 2025

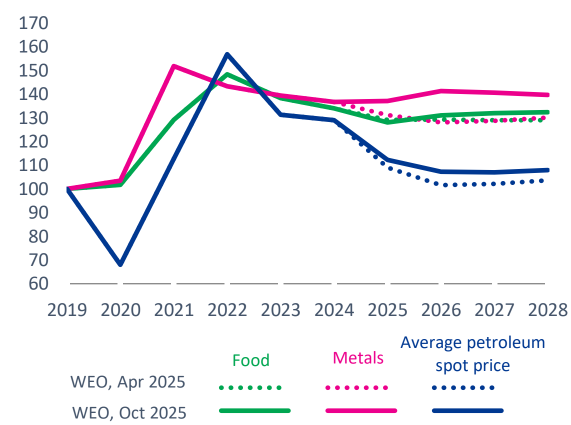
According to the IMF's current projections, **global inflation** will slow from 5.8% in 2024 to 4.2% in 2025 and 3.7% in 2026. However, while these projections are in line with previous ones, there are large differences across countries and regions. Inflation forecasts have been revised upwards in a number of economies compared to the October 2024 forecast, and among advanced economies, the most significant upward revisions are in the United States and the United Kingdom (hereinafter: the UK). In the US, inflation has been revised upwards compared to the previous forecast, as the impact of new tariff measures is increasingly absorbed through corporate profit margins and increasingly passed on to end consumers. The expected price increases will be temporary, and inflation, after a temporary increase in the second half of 2025, will gradually decline and reach the Federal Reserve's 2% target in 2027. In the UK, the projection has also been revised upwards, due to increases in administered prices and the delayed effects of rising energy costs, which are estimated to be temporary. With the stabilization of the labor market and moderate wage growth, inflation is expected to gradually converge towards the central bank's target by the end of 2026. At the same time, the disinflationary process in emerging economies is taking place much more slowly, which is associated with higher food and energy prices and structural supply constraints. Inflation in these economies is expected to remain above 5% through 2026, with price stabilization likely to be gradual and contingent on a further easing of global cost pressures and monetary policy accommodation. According to the IMF, slowing inflation in developing countries will be key to mitigating social risks and preserving real incomes, given the high share of food and energy spending in total household spending.

Oil prices are expected to continue to decline in 2025 and 2026, but at a somewhat slower pace than previously expected. After a relatively moderate decline of around 1.8% in 2024, crude oil prices will decline more significantly in 2025, by around 13%, driven by increased global supply and more moderate demand from leading economies. Oil prices are expected to decline more moderately in 2026, driven by increased global supply and a stabilisation of the energy market. At the same time, prices of other commodities will increase by 7.4% in 2025 and by 4.1% in 2026. The expected growth in primary product prices will be somewhat lower than assumed in the April report, primarily due to lower projected food and beverage prices. Prices of wheat, rice, coffee and cocoa will gradually retreat from their historical highs, at a faster pace than previously forecast, indicating a stabilization of agricultural markets. In contrast, prices of most base metals are expected to increase, driven by increased industrial demand and the energy transition, while iron prices are likely to decline due to a slowdown in construction activity in China and an increase in global supply.

Commodity prices, indices, 2016=100

Source: IMF, *World Economic Outlook*, October 2025

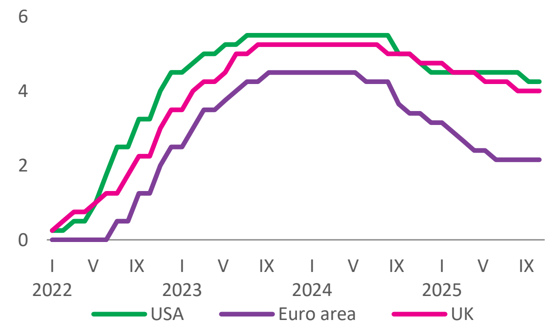
Projection of price trends, indices, 2019=100



Source: IMF, *World Economic Outlook*, October 2025

The US Federal Reserve (hereinafter: the Fed) has held the key interest rate stable at a range of 4.25% to 4.50% since December 2024, only to reduce the range by 0.25% in September, and further monetary policy measures will depend on developments in global markets and the inflation rate.

Changes in policy rates by selected countries, %



Source: Central banks of selected countries

Fiscal policy remains expansionary in most economies, despite a gradual decline in deficits following the pandemic. While primary deficits are projected to be lower in most countries in 2025 than their record levels in 2020–21, they still remain significantly above pre-pandemic levels, with the exception of Brazil and India. Stabilizing public debt-to-GDP ratios to 2024 levels will require significant fiscal consolidation in most countries, given rising financing costs and high levels of structural spending. Rising overall borrowing costs are increasingly challenging, particularly for economies with large refinancing needs, while increased reliance on short-term securities increases exposure to refinancing risk and short-term interest rate fluctuations. Advanced economies are expected to maintain a largely neutral fiscal stance in the coming period, a significant departure from the more restrictive approach envisaged in the April report. Fiscal deficits are expected to increase in 2026, primarily in the US, due to a partial extension of tax breaks and higher spending on infrastructure and defense, as well as in the euro area, where deficits will be further boosted by infrastructure and military projects in Germany. According to IMF projections, US public debt will increase from 122% of GDP in 2024 to 143% of GDP in 2030, which is about 15 pp higher than the April projection, while in the euro area public debt is expected to increase from 87% to 92% of GDP over the same period.

The risks to the global economic growth projections are assessed as predominantly negative. Prolonged uncertainty could dampen consumption and investment, while further escalation of protectionist measures, including non-tariff barriers, could dampen investment, disrupt supply chains and reduce productivity growth. Pronounced labor supply shocks, in particular due to more restrictive immigration policies, could further constrain growth, especially in economies with aging populations and skill shortages. Fiscal vulnerabilities and financial market fragility are exacerbated by rising borrowing costs and higher refinancing risks, which could intensify macrofinancial pressures. The potentially smaller effects of AI could lead to a sharp repricing of technology stocks, which would stem the investment wave in the sector and cause financial market disruptions with broader macro-financial implications. Additional risks include price spikes driven by climate shocks or geopolitical tensions. On the positive side, progress in trade negotiations could reduce tariffs and uncertainty, while renewed momentum in structural reforms and faster productivity growth driven by AI could bolster medium-term growth.

Macroeconomic Estimates of the European Central bank (ECB) for the euro area

During the first half of 2025, economic activity in the euro area was marked by pronounced fluctuations, stemming from the tightening of trade tariffs and increasing uncertainty about the future direction of global trade policy. Such developments particularly affected export-oriented industrial sectors in some euro area countries, as well as investment flows within these economies, which are strongly linked to international markets. However, although the new trade agreement between the US and the EU implies higher tariffs on euro area exports to the US, it has led to a reduction in trade policy uncertainty, which is having a positive impact on the overall economic outlook.

According to the ECB September projections, euro area economic growth in 2025 will amount to 1.2%, which is an upward revision of 0.3 pp compared to the June expectations. This revision reflects stronger domestic growth factors, primarily an increase in real household income, stable employment and accelerated investment, which have offset weaker external demand and partially mitigated the effects of unfavorable external prices and new trade restrictions. Private consumption has proven to be significantly more resilient due to higher real income and a faster decline in inflation, which has increased household purchasing power. Wage growth and labor market stability have supported consumption growth, while decreasing uncertainty has led to a moderate decline in the saving rate. Together, these factors have provided a stronger boost to domestic demand than previously projected. At the same time, investment has been revised upwards, particularly in business investment and investment in intellectual property, but also in a broader recovery in corporate investment following the easing of financial conditions. Residential investment has also improved slightly, supported by lower mortgage interest rates and rising real incomes. Public spending is somewhat higher than previously projected, mainly due to higher spending on infrastructure and defence in some Member States, notably Germany and Italy. On the other hand, external trade continues to make a limited contribution to growth, but some improvement in services exports and reduced energy imports were observed, partly offsetting the negative impact of the stronger euro and new US tariffs.

Euro area economic growth in 2026 is estimated at 1.0%, a slight downward revision compared to the June forecast (1.1%). This revision reflects the expected slowdown in economic activity after a temporarily stronger recovery in 2025, when economic activity was boosted by carry-over effects, real income growth and increased public and private investment. Domestic demand is expected to moderate in 2026, as the effects of lower inflation and real wage growth gradually wear off, while the saving rate stabilises. Investment continues to grow, but at a slower pace due to the reduced impact of Next Generation EU (NGEU) funds and the weaker dynamics of investment in the housing sector. At the same time, external demand remains weak due to the slowdown in global trade, a stronger euro and increased tariffs, which constrain the export sector. Overall, growth of 1.0% in 2026 reflects a transition to more stable but moderate economic dynamics, with domestic factors remaining the key drivers of economic activity growth, but without additional one-off incentives from the previous period.

Table 2. Macroeconomic Projections for the euro area, %

	2024	2025	2026	2027
GDP	0.8	1.2	1.0	1.3
Private consumption	1.1	1.3	1.3	1.3
Government consumption	2.3	1.6	1.1	1.1
Gross fixed capital formation	-2.1	2.1	1.7	1.8
Exports	0.7	1.3	1.1	2.5
Imports	-0.2	2.8	2.0	2.7
Employment	1.0	0.6	0.5	0.5
Unemployment rate	6.4	6.4	6.3	6.1
Inflation, period average	2.4	2.1	1.7	1.9
Unit labor costs	4.7	2.8	2.2	1.9
General government fiscal result, % GDP	-3.1	-2.9	-3.2	-3.4
General government gross debt, % GDP	87.4	88.0	89.1	89.8
Current account balance, % GDP	2.6	2.4	2.5	2.5

Source: Macroeconomic projections of ECB experts for the euro area, September 2025.

The euro area labour market remains highly resilient and stable throughout the projection horizon. Although employment is expected to grow at a somewhat slower pace than in the previous period, the total number of employed persons continues to increase, and the unemployment rate gradually declines from 6.4% in 2025 to 6.0% by the end of 2027, reaching a historical low. Wage growth peaked in 2024 and 2025, when wages largely recovered from the previous price-driven decline in real income. Nominal wage growth is projected to gradually slow in the coming years, from an average of 3.4% in 2025 to 2.7% in 2026 and 2027, still above the long-term average of 2.5%. At the same time, real wages have returned to pre-inflationary levels, but their growth is expected to continue to slightly exceed productivity growth. Unit labor cost (ULC) growth will continue to decline, driven by a combination of slower wage growth and gradual productivity gains.

Euro area inflation is gradually approaching the 2% target, with a slightly revised path compared to the previous forecast. Headline inflation is estimated at 2.1% in 2025, 1.7% in 2026 and 1.9% in 2027, reflecting weakening domestic price pressures but also an expected slight pick-up in 2027 due to the introduction of the ETS2 emissions trading scheme, which will increase energy costs. Core inflation continues to decline from 2.4% in 2025 to 1.9% in 2026 and 1.8% in 2027, driven by slowing wage growth, weakening services inflation and a stronger euro, which is pushing down import prices of industrial goods. At the same time, wage growth is gradually slowing down and unit labor cost growth is decreasing, which contributes to the alleviation of internal price pressures and the stabilization of corporate profit margins. The strengthening of the euro further reduces import prices, thereby mitigating commodity inflation during 2026, while in 2027 this effect gradually weakens.

Risks to the projection stem primarily from global uncertainty in the trade environment, driven by the further development of the US tariff regime. Additional uncertainty is posed by the potential reduction in Chinese export prices in response to these measures, which would have tangible consequences for euro area economic activity, including possible increased appreciation pressures on the euro with negative implications for the recovery. Prolonged geopolitical tensions and a possible escalation of conflicts in the Middle East and the Red Sea region could result in increased price uncertainty, particularly for energy, with pro-inflationary effects. At the same time, the duration of the war in Ukraine carries the risk of a further decline in consumer confidence, which would negatively affect private consumption, housing investment and household savings.

After a significant tightening of fiscal policy in the euro area in 2024, a slight additional tightening is expected in 2025 due to the removal of remaining anti-crisis measures from the pandemic and energy shock. A moderate relaxation is expected for 2026, primarily due to higher public investments (defense, infrastructure - especially in Germany) and stronger investment from NGEU funds in other EU countries. In contrast, some renewed tightening is projected in

2027 due to discretionary measures and a lower level of public spending after the expiration of NGEU funding. The share of euro area public debt in GDP, despite stable growth and moderate fiscal consolidation, remains on a slightly upward trajectory – from 88.0% in 2025 to 89.8% in 2027 – primarily due to persistently negative primary balances and higher interest costs.

Since the beginning of the year, the ECB has cut all three key interest rates by 0.25 percentage points on four occasions. After breaks in the sessions in July and September, the reference rate amount to 2.15%, while the rates on credit and deposit facilities are at the levels of 2.00% and 2.40%. In the coming period, the ECB will continue to calibrate monetary policy in line with global developments, with the aim of stabilizing inflation at 2.0% in the medium term.

3. Current Macroeconomic Developments in the Republic of Serbia and Outlook for the Period 2026–2028.

In the past few years, the Republic of Serbia, as a small and open economy, has demonstrated exceptional resilience to challenges of various kinds. Thanks to responsible fiscal and monetary policy, continuous investments, and implemented structural reforms, macroeconomic stability has been preserved, investor confidence maintained, and continuity in economic growth ensured.

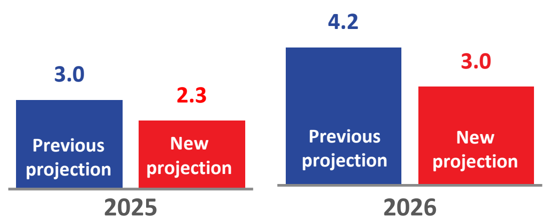
However, current developments on the global and domestic levels during 2025 have sharply increased economic uncertainty. On a global scale, the escalation of protectionist measures and processes of trade fragmentation are once again testing the resilience of small, export-oriented economies such as the Republic of Serbia. At the same time, on the domestic front, there has been a rise in socio-political tensions, which, through heightened uncertainty and a decline in economic confidence, have negatively affected investment and consumer activity. Although the main macroeconomic indicators have remained stable, GDP growth in the first half of 2025 was below expectations, leading to a downward revision of the growth projection for the entire year – from 3.0% to 2.3%. Under the influence of the growth of real disposable income of the population, as well as the accelerated implementation of infrastructure projects related to the EXPO exhibition, an acceleration of economic growth in 2026 to 3.0% is expected. This estimate is nevertheless lower than previous expectations by 1.2 p.p., as a result of a conservative approach in forecasting, given the current level of risks from the domestic and international environment, as well as additional uncertainty arising from limitations in the production volume of certain industrial sectors.

Inflation during 2025 mostly moved around the upper boundary of the target level, primarily under the influence of rising food prices caused by unfavorable weather conditions. However, since September, there has been a more noticeable slowdown in inflation, to 2.9% y-o-y, which is primarily the result of the implementation of government measures that temporarily limited trade margins. During 2026, a continued easing of inflationary pressures from the international environment is expected, due to the reduction of cost factors and the weakening of the dollar relative to the euro, which, together with a more favorable domestic agricultural season, would result in an average inflation growth of 3.7%. In the first eight months of 2025, a deficit in the state budget sector amounting to 55.8 billion dinars was recorded, which is less than planned, primarily as a consequence of lower expenditure execution. By the end of the year, an acceleration of expenditure realization is expected, so that the revised fiscal framework for 2025 foresees an unchanged level of fiscal deficit of 3% of GDP, which is also the level projected for 2026.

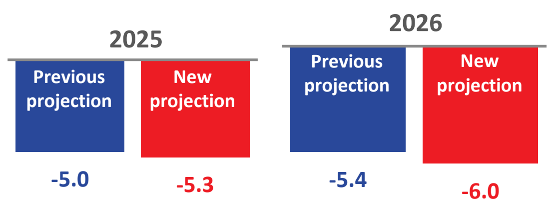
The uncertainty surrounding the projections presented in this document remains significantly higher than usual, primarily due to the nature and scope of potential shocks. The growing fragmentation of the global economic system and the possibility of intensifying bloc divisions carry the risk of a slowdown in international trade and increased volatility in global energy and financial markets, which could further affect the Republic of Serbia as a small and open economy. Internal risks arise from socio-political tensions, whose escalation could negatively impact economic expectations and the level of confidence, while their further calming would contribute to the improvement of the overall economic environment. The challenges faced by the oil industry and the production of basic metals create additional uncertainty, so their rapid resolution would have a significant positive effect on overall economic prospects. Considering the above factors, the projections presented in this document represent only one of the possible scenarios, and economic developments in the coming period could deviate significantly from the central path depending on the materialization of risks. In such an environment, the Government continues to implement measures aimed at preserving macroeconomic stability, strengthening the resilience of the economy, and mitigating the effects of external shocks, with the maintenance of the declining trend of public debt in GDP remaining the main anchor of fiscal policy.

Revision of the Trends of Key Macroeconomic Aggregates Compared to the Previous Fiscal Strategy

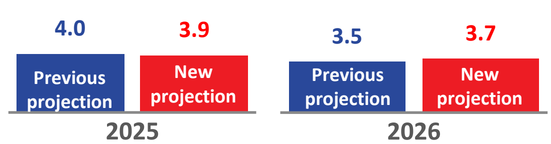
Real GDP growth, %



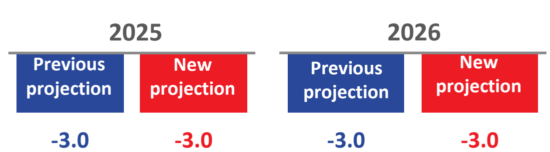
Current account balance, % GDP



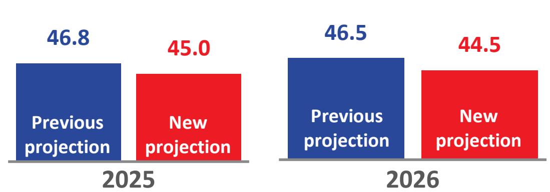
Inflation, period average, %



Fiscal result, % GDP



General government public debt, % GDP

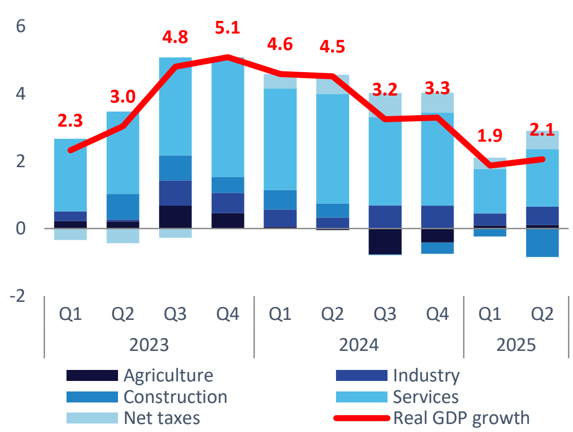


Current Trends in the Real Sector

After GDP growth of 3.9% in 2024, the beginning of 2025 was marked by a pronounced slowdown in economic activity. Real GDP growth in the first quarter amounted to 1.9%, while in the second quarter it was 2.1%. The slowdown is primarily a consequence of internal socio-political tensions and increased instability, which gradually reflected on economic trends. In addition, international factors—above all, rising geopolitical uncertainty and global economic fragmentation—further contributed to the weakening of economic flows.

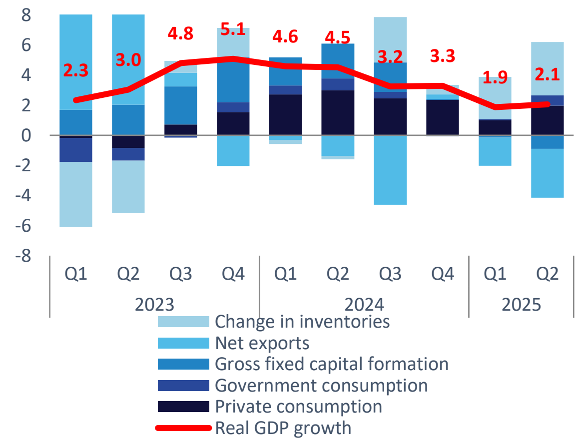
Viewed from the production side, the most pronounced negative impact of increased uncertainty was recorded in construction, the sector of the economy most sensitive to changes in the general economic climate. In the first half of 2025, this sector recorded a decline in gross value added of 11.3%, making construction the largest negative contributor to GDP growth. Despite real growth of 2.5%, the performance of the services sector was somewhat lower than expected. Although in certain segments—such as information technology, financial and professional services—a relatively solid growth continued, the effect of weaker performance in traditional service branches—tourism, trade, and transport—caused the overall contribution of the services sector to GDP growth to remain limited. Industrial production in the same period recorded growth of 2.5%, thereby demonstrating resilience under conditions of still weak external demand. With its positive result, the industry partially mitigated the negative effects on GDP growth that arose from the sharp decline in construction and below-average results in the services sector. This resilience is the result of the activation of new production capacities in a greater number of branches, primarily in the automotive and rubber industries, which ensured a stable export and production contribution despite the challenging environment. Unfavorable climatic conditions during the summer—particularly prolonged periods of high temperatures and lack of rainfall—negatively affected the yields of the most important agricultural crops, resulting in yet another below-average agricultural season.

Contributions to the real GDP growth rate, production approach, pp



Source: SORS

Contributions to the real GDP growth rate, expenditure approach, pp



Source: SORS

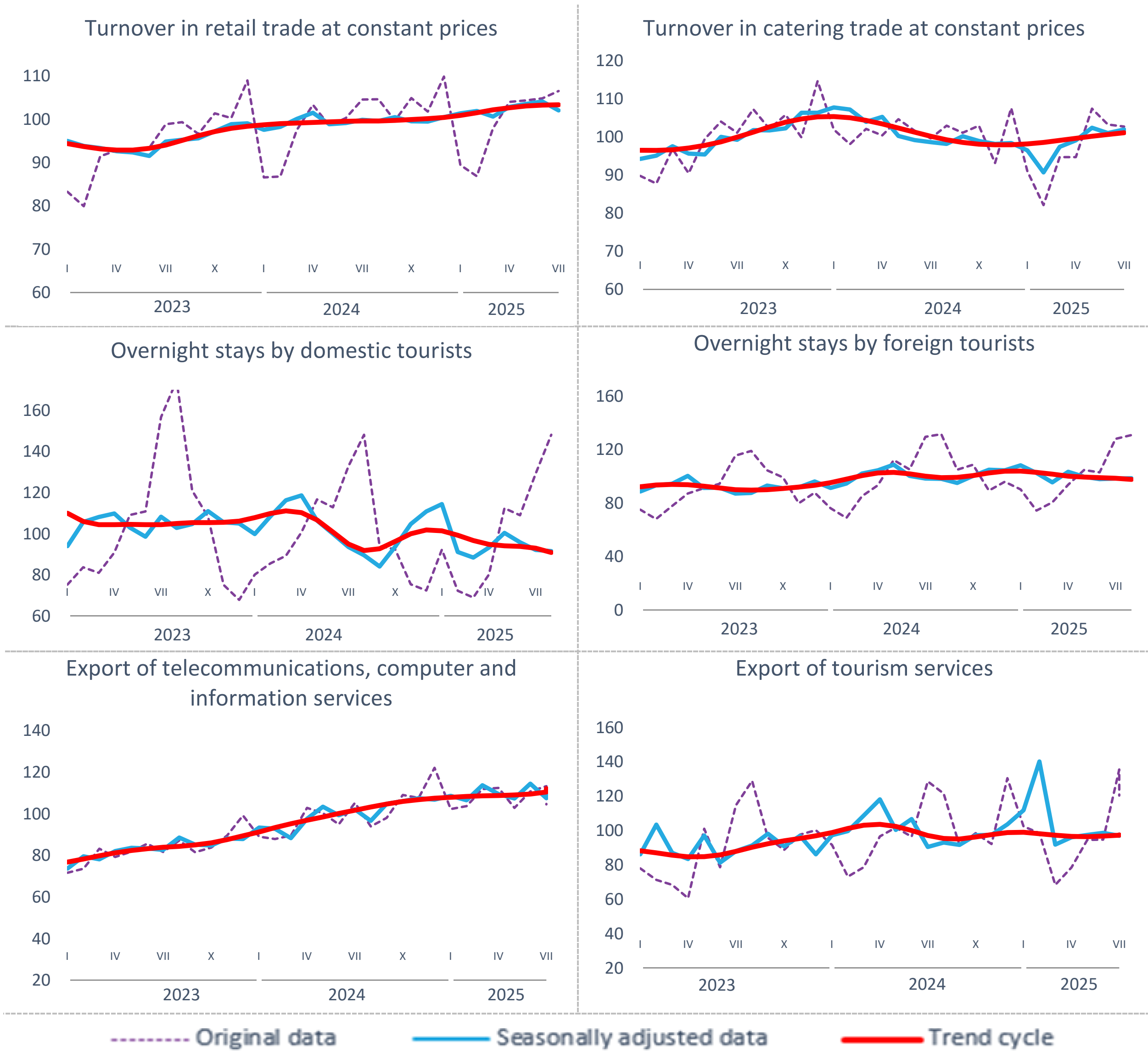
Viewed from the expenditure side, in the first half of 2025, increased uncertainty due to heightened social tensions negatively affected primarily the components of domestic demand. Although the growth of disposable income was strong, driven by an increase in real wages and pensions, this was not fully reflected in the dynamics of private consumption, whose growth amounted to 2.4% in the first half of the year. The fact that consumption growth did not follow the dynamics of disposable income indicates an increased propensity of households to save and greater caution under conditions of elevated uncertainty and concern regarding future economic developments. Investments showed weaker dynamics in the first half of 2025, recording a decline of 2.5%, which is primarily a consequence of the downturn in construction. Net exports had a negative contribution to GDP growth due to faster growth of imports compared to exports. The stronger growth of imports was determined almost equally by household demand for consumer goods and by intensified imports of inputs necessary for the needs of the economy. This process was further stimulated by increased imports of goods in anticipation of the announced introduction of tariffs at the beginning of the year and the expected price increases based on that, which also resulted in a significant increase in inventories in the first half of the year.

High-frequency indicators also point to a slowdown in economic activity during 2025, especially in the services sector and construction.

Real turnover in retail trade increased by 2.4% in the period January–August 2025, but the growth dynamics slowed compared to the previous period. The increase in turnover was recorded in all three categories of products: non-food products by 4.5%, motor fuels by 1.8%, and food products by 0.9%. However, the slower growth dynamics indicate the influence of increased uncertainty in the domestic market, which led to the postponement of household consumption and greater caution in purchases. At the same time, there was a significant slowdown in tourism activity. The number of tourist arrivals decreased by 1.9%, while the number of overnight stays was lower by 3.2% in the first eight months. The decline is primarily the result of reduced activity of domestic tourists, while a moderate increase was recorded among foreign tourists, which, however, remained below the expected level and trends from the previous period. In addition, a decline in hospitality turnover was recorded, being 2.3% lower in real terms in the first seven months. In the first eight months of 2025, foreign exchange inflow from tourism increased year-on-year by 0.6%.

The information and communication technology (ICT) sector continued its steady growth, with an increasingly prominent role in the structure of the domestic economy. In the first six months of 2025, gross value added growth of 6.9% was achieved, confirming the role of this sector as one of the key drivers of economic growth. The positive trends in the information technology sector were accompanied by an increase in export activity, which during the first eight months of 2025 reached a value of 3.0 billion euros, with a year-on-year increase of 12.9%. With such dynamics, the ICT sector reached almost one-third of total service exports, confirming the growing competitiveness of the domestic ICT industry and its importance in foreign trade exchange.

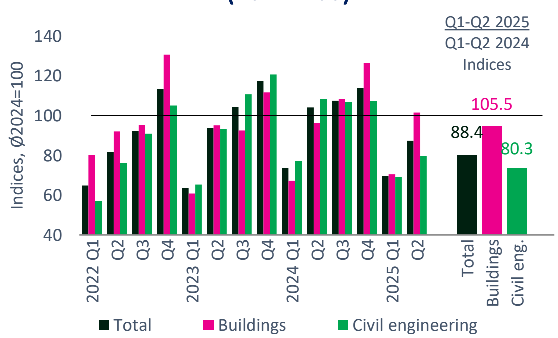
High-frequency indicators of key service industries, 2024=100



Source: Ministry of Finance

Construction activity in the first half of 2025 recorded a real decline of 11.3%, with the total value of completed works being lower by 11.6% compared to the same period of the previous year. The main negative impact originated from the decrease in activity in civil engineering, where the value of completed works fell by 19.7%, primarily as a consequence of the slowed implementation of infrastructure projects due to increased administrative oversight, the transitional phase between the completion of major projects and the launch of new ones, as well as due to the high base from the first half of 2024. On the other hand, building construction partially mitigated these negative developments, achieving a positive contribution through an increase in the value of completed works of 5.5%.

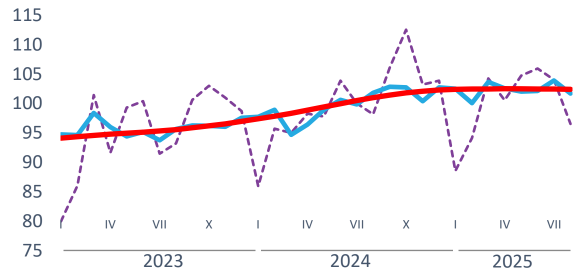
Value indices of construction works done (2024=100)



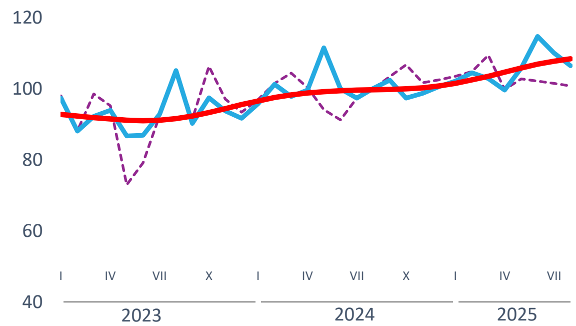
Source: SORS

Industrial production continued its positive trend during 2025, with a growth in the physical volume of production of 2.7% recorded in the first eight months. In this period, growth was driven by a higher volume of production in the manufacturing industry, which increased by 3.0%. At the same time, the mining sector achieved an increase of 5.5%, which is primarily the result of intensified coal exploitation (11.2%) and growth in the extraction of metal ores (3.3%). On the other hand, the production of electricity was lower by 0.7% in the first eight months and had a slight negative impact on the growth of total industrial production. However, it should be noted that since June 2025, electricity production has been recording positive year-on-year growth, and thanks to the commissioning of the newly constructed "B3" thermal unit at the Kostolac thermal power plant, this sector is expected to continue to make a positive contribution to total industrial production in the coming months.

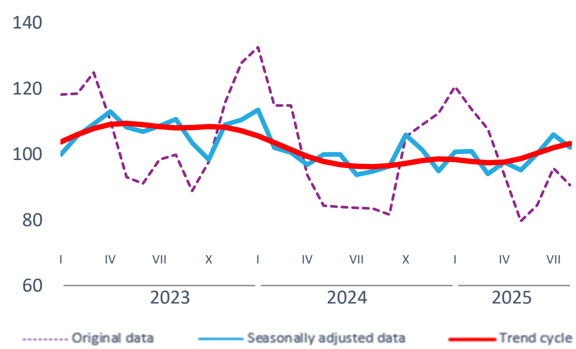
Index of physical volume of manufacturing industry, 2024=100



Index of physical volume of mining, 2024=100



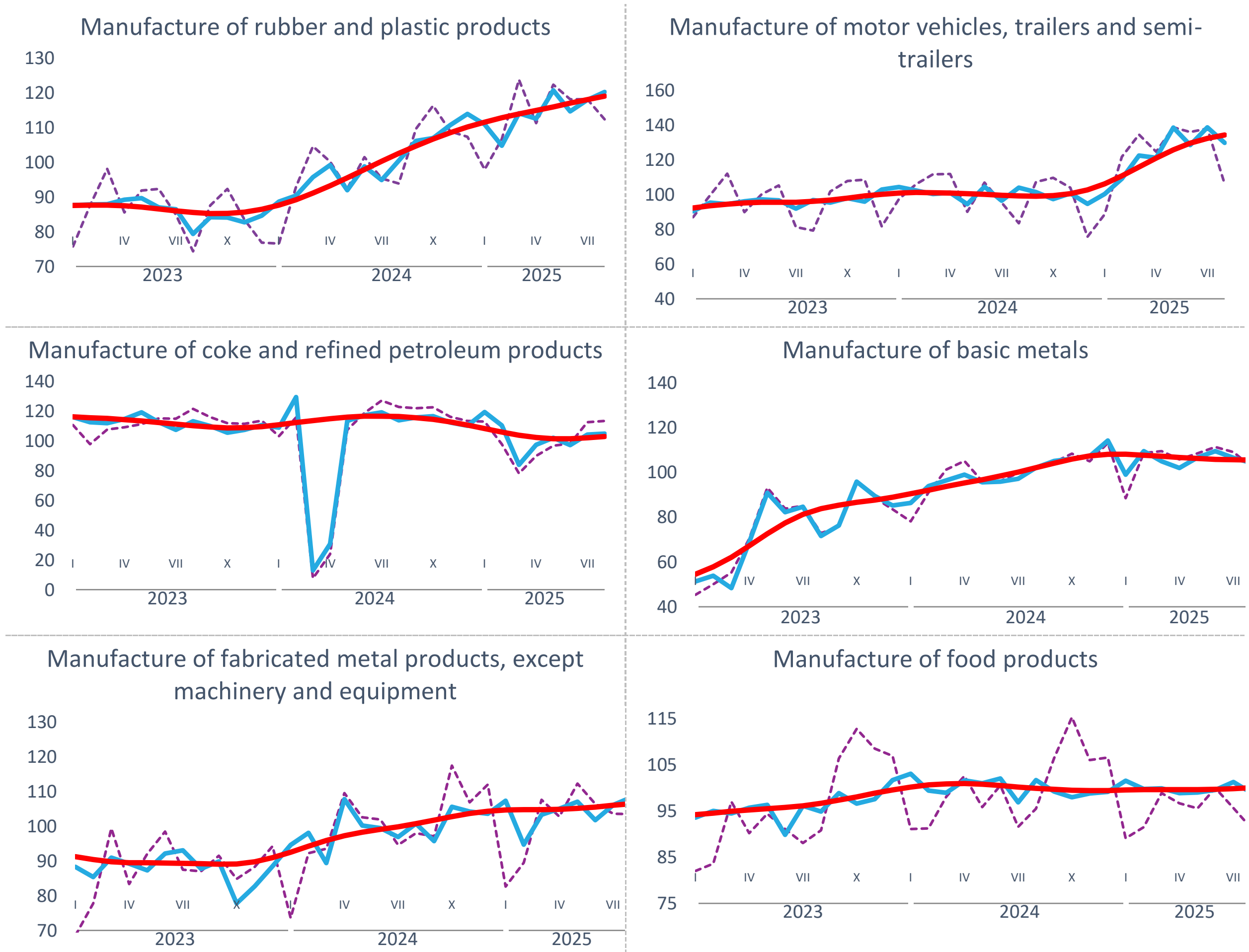
Index of physical volume of electricity, gas and steam supply, 2024=100

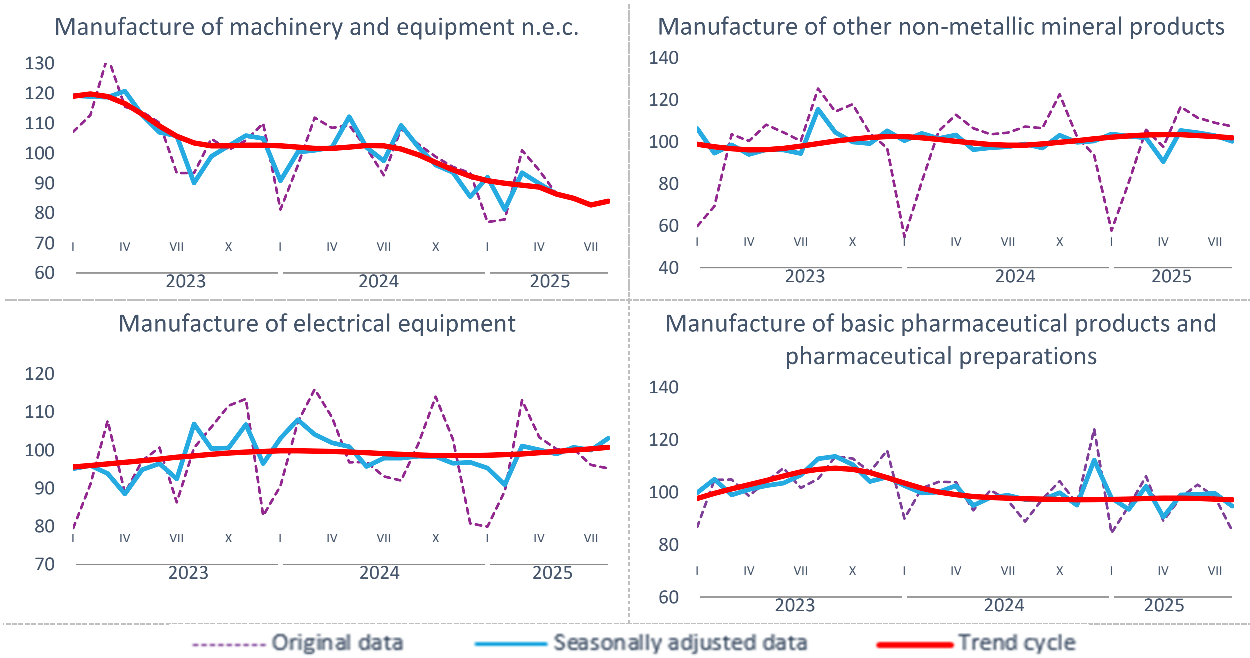


Source: Ministry of Finance

Viewed by branches of the manufacturing industry, in the first eight months a diversified growth was recorded in 13 out of 24 activities. The most significant positive contribution to the growth of the manufacturing industry in this period comes from the rubber and automotive industries, which recorded increases of 20.1% and 23.5%, respectively. The strong year-on-year growth of these two industries is primarily the result of the expansion of production capacities related to tire manufacturing at the company Linglong, and the production of a new car model at the factory in Kragujevac, with these two industries accounting for about half of the positive impact among the branches that achieved production growth. At the same time, the physical volume of the oil industry is higher by 10.3%, with its production dynamics largely influenced by the base effect due to last year's overhaul and investment works carried out on most of the processing facilities in the NIS refining complex. The upward trend in the production of basic metals has continued, with the volume of activity in this sector increasing by 9.3% in the first eight months compared to the same period of the previous year. At the same time, a positive contribution comes from the production of metal products as well as from the chemical industry, which recorded growth of 5.4% and 4.2%, respectively. On the other hand, the most significant negative contribution to the movement of the manufacturing industry in the first eight months of 2025 originated from the machinery industry, with a decrease in production of 15.0%. The production of clothing items recorded a decline of 18.7%, while the physical volume of production in the food industry and in the repair and installation of machinery and equipment fell by 1.1% and 18.7%, respectively. Other activities that recorded a smaller physical volume of production had a slight negative impact on the movement of the manufacturing industry.

Indices of physical volume of leading manufacturing industries, 2024=100

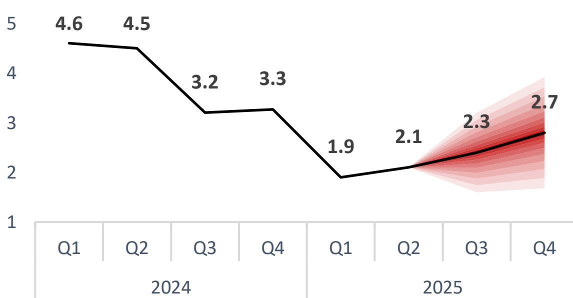




Source: Ministry of Finance

Taking into account developments in the first half of the year, as well as the dynamics of high-frequency indicators in July and August, the GDP growth projection for 2025 has been revised downward, from the previous 3.0% to 2.3%. The risk matrix at this moment is assessed as symmetrical, which means that the prospects for deviations in economic growth in the positive and negative directions are approximately equally likely.

Projection of quarterly GDP dynamics (% real growth) in 2025



Source: Ministry of Finance

Even within the revised framework, GDP growth in 2025 will be driven by domestic demand, but to a lesser extent than previously expected, while the contribution of net exports will remain negative. The most significant revision refers to investments, which have shown weaker dynamics than expected. Investment activity has been under strong pressure from both domestic and international sources of uncertainty. Internal factors, in the form of increased socio-political tensions, have limited overall investment momentum, while external risks—such as an unstable global environment, geopolitical tensions, and heightened fragmentation of international trade—have slowed the inflow of foreign direct investments. As a consequence, investment growth has been revised downward, from the initially expected 4.2% to 1.6%, which represents the main reason for the correction of GDP growth in 2025. For the other expenditure aggregates, the corrections were minimal and did not significantly affect the revision of overall GDP growth. Viewed by production sectors, the largest correction relates to construction, given that instead of the initially expected growth of 1.9%, a decline of about 5% is now projected. A more significant correction was made in agriculture, while for other sectors, the changes were minimal and did not materially affect the overall revision. The GDP deflator estimate for 2025 has not been changed compared to the previous projection and remains at the level of 4.1%, since the dynamics of deflators of individual components are in line with expectations.

Table 3. GDP, real growth rates, %

	2024	Q1 2025	Q2 2025	2025* (revised estimate)	2025* (previous estimate)
GDP	3.9	1.9	2.1	2.3	3.0
GDP deflator, %	6.3	4.8	4.2	4.1	4.1
Private consumption	5.2	1.7	3.0	2.8	3.1
Government consumption	4.0	0.5	3.7	2.6	3.7
Gross fixed capital formation	7.7	-0.8	-4.0	1.6	4.2
Exports of goods and services	5.2	8.6	4.6	4.3	4.5
Imports of goods and services	8.0	11.3	9.8	5.5	5.4
Agriculture	-7.0	2.0	3.0	2.0	6.3
Industry	4.1	2.0	3.0	2.8	2.9
Construction	4.0	-5.3	-16.1	-5.1	1.9
Services	4.5	2.1	2.9	2.8	3.1
Net taxes	4.4	2.3	3.4	2.8	2.6

Source: SORS

* Ministry of Finance

Projections of real sector trends for the period 2026–2028.

In a dynamic global environment, the Republic of Serbia continues to build a sustainable and competitive economic model relying on strategic investments, macroeconomic stability, and innovations as the main pillars of long-term development. Openness to foreign investments remains an important support for development, especially due to the transfer of knowledge and technologies, but the state is increasingly focusing on empowering domestic investors. Through tax reliefs, improved access to sources of financing, and simplification of administrative procedures, new opportunities for growth are being opened.In parallel, the new strategic cycle of industrial policy focuses on strengthening sectors with high added value, promoting technology transfer, and developing the innovation ecosystem. Policy instruments include subsidies for equipment procurement, tax incentives for research and development, as well as the expansion of the network of science and technology parks in all major cities of the Republic of Serbia. In this way, an institutional framework is being created for the accelerated structural transformation of the domestic economy.Particularly significant progress has been achieved through obtaining an investment rating, which not only reduces the costs of state borrowing but also opens additional space for the private sector's access to international capital markets.

Public investments in transport, energy, and utility infrastructure have multiple effects, as they not only directly contribute to GDP growth but also create a stimulative environment for the expansion of the private sector. The modernization of infrastructure enables more efficient integration of domestic companies into European value chains, while simultaneously improving the quality of life for citizens. The program "Leap into the Future – EXPO Serbia 2027" represents an integrated strategic framework that combines infrastructure, innovation, and the international promotion of the Republic of Serbia. Planned investments include the construction of transport and energy networks, metro systems, cultural and sports facilities, as well as educational and innovation centers.Infrastructure investments in digital highways, educational hubs, and sustainable urban systems are already creating synergy between the state and the private sector, thereby accelerating the convergence of the Republic of Serbia toward developed European economies. Modernization and digitalization will continue, reflected in the further development and application of artificial intelligence, the expansion of supercomputer systems, and the enlargement of the capacities of the State Data Center. At the same time, activities aimed at the accelerated development of the innovation ecosystem continue, through the expansion of existing science and technology parks and the construction of new ones, as well as the improvement of conditions for the establishment of research and development centers of globally recognized IT and other companies.

Special emphasis is placed on improving human capital through programs for youth employment, dual education, and support for vulnerable social groups, thereby ensuring inclusive development. The growth agenda, aligned with the strategic guidelines of the European Union, clearly sets development priorities, ranging from investments in energy, digitalization, and 5G network development, through the reform of the education system, up to strengthening the rule of law, thereby building a stable foundation for long-term economic resilience and sustainability.

Ensuring energy security and sustainable energy sources will be the primary goal of the energy strategy and the decarbonization process. The Republic of Serbia has committed to the gradual introduction of sustainable energy sources, increasing energy efficiency, and reducing carbon dioxide emissions, which is an essential prerequisite for long-term economic and environmental resilience. The introduction of the Carbon Border Adjustment Mechanism (CBAM) in the European Union from 2026 represents an important milestone in trade and climate policies, which may have significant macroeconomic effects on the Republic of Serbia. According to this mechanism, importers to the EU will be required to pay for CBAM certificates, whose value depends on the amount of CO_2 emissions generated during the production of imported goods such as cement, iron, steel, aluminum, artificial fertilizers, hydrogen, and electricity. The effects of CBAM introduction and related climate policies will be presented in the Fiscal Strategy for 2027, with projections for 2028 and 2029.

Expected medium-term developments in the real sector are based on current economic trends and prospects for the Republic of Serbia and the international environment, taking into account the adopted economic policy measures. At the same time, projections are burdened by a pronounced degree of uncertainty due to global events and increased socio-political tensions in the country, as well as high uncertainty regarding the dynamics of economic activity in certain industrial sectors that are sensitive to changes in the international business environment. Such risks may significantly affect economic expectations, the confidence of economic entities, and investment activity in the upcoming period. Therefore, the projections presented in this document represent only one of the possible scenarios, and economic developments in the next period could significantly deviate from the central path depending on the materialization of risks.

Table 4. Projection of basic macroeconomic indicators of the Republic of Serbia

	Estimate	Projection		
	2025	2026	2027	2028
GDP, billion dinars (current prices)	10,377.9	11,085.1	12,034.3	12,807.2
Real GDP growth, %	2.3	3.0	5.0	3.5
GDP deflator, %	4.1	3.7	3.4	2.9
Private consumption	2.8	4.6	3.5	3.4
Government consumption	2.6	2.9	2.0	2.4
Gross fixed capital formation	1.6	6.9	5.9	4.5
Exports of goods and services	4.3	4.7	8.4	5.6
Imports of goods and services	5.5	6.5	6.0	5.5
Current account balance, in EUR, % of GDP	-5.3	-6.0	-4.9	-5.1
Inflation, period average, %	3.9	3.7	3.5	3.0

Source: Ministry of Finance

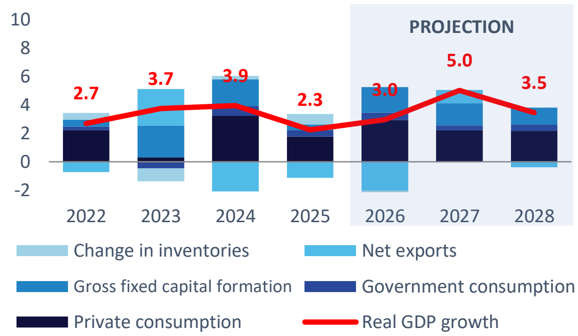
In the revised framework for 2026, GDP growth is projected at 3.0%, which is 1.2 percentage points lower compared to previous expectations. This revision reflects the application of a conservative approach in forecasting, taking into account the current level of risks from both the domestic and international environment, as well as the additional uncertainty arising from limitations in the production volume of certain industrial activities.

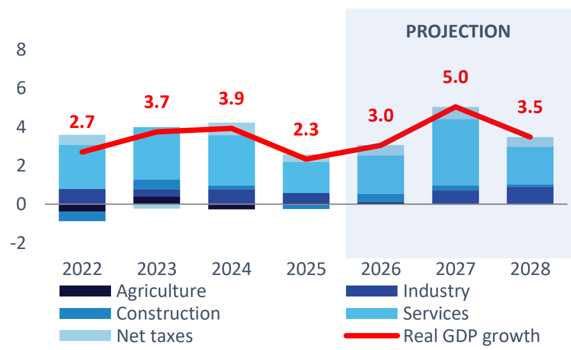
Viewed by expenditure aggregates, the reasons for the GDP growth revision in 2026 are found both on the side of domestic demand and on the side of net exports. Within domestic demand, there have been changes in the structure, whereby the revision for private consumption has been upward, while government consumption and investments have been adjusted downward compared to previous expectations. The recovery of consumer confidence, in combination with strong growth in real disposable income of the population, primarily due to increases in wages and pensions, will represent one of the key drivers of economic activity in the upcoming period. Under the influence of these factors, private consumption growth is expected to accelerate to 4.6% from the previously projected 3.9%. These positive developments will be supported by the gradual easing of temporary restrictions that slowed consumption during 2025, which arose from the sharp increase in socio-political tensions, such as precautionary savings and postponed purchases. With the gradual improvement in consumer sentiment, a revival of demand is expected, especially in the segment of durable goods and services.

A positive contribution to GDP growth in 2026 will also come from government consumption, which is expected to increase by 2.9%, which is 0.4 percentage points lower than the previous projection. The acceleration of the implementation of capital infrastructure projects, along with the preserved profitability of the domestic economy from the previous period and the expected inflow of foreign direct investment, should result in investment activity growth of 6.9% in 2026, which is still lower compared to the previously projected 8.8%. This outcome is partly a consequence of increased investor caution due to heightened uncertainty in the domestic and international environment. However, the final phase of the implementation of projects related to EXPO, including key infrastructure facilities and access roads, will continue to stimulate construction activity and will represent a significant support for the investment cycle in the coming year. Strong inventory accumulation in 2025 provided a solid starting base for 2026, when their gradual reduction is expected; accordingly, the contribution of inventories has been conservatively revised downward. At the same time, after two consecutive weaker agricultural seasons, a normalization of yields and a correction of agricultural inventories are expected in 2026, which will further shape the dynamics of short-term flows. With the recovery of domestic demand and increased procurement of strategic inputs, net exports will temporarily register a more pronounced negative contribution (-1.6 percentage points compared to the previously projected -1.1 percentage points), with this dynamic viewed as a prelude to stronger export effects later in the horizon. In this conservative scenario, somewhat slower growth of export activities is projected in the oil and metal industries, given the pronounced uncertainty in these sectors due to global fragmentation, tightening EU tariff and customs policies, and changes in global energy policy. To ensure energy stability, increased imports of energy products and the maintenance of strategic reserves can be expected, in order to secure stable domestic market supply and meet the growing needs of the economy and population.Although exports in certain branches of the manufacturing industry, as well as in the ICT sector and tourism services, will continue to record positive developments, these effects are expected to be insufficient to offset the increased import pressure, so net exports in the coming year will have a negative impact on GDP growth.

Viewed from the production side, the revision of the GDP growth projection for 2026 is primarily conditioned by a more cautious assessment of industrial production trends. Under current circumstances and with pronounced uncertainty in the international environment, moderate growth of industrial production is estimated. The adjustment mainly reflects the expected slower dynamics in certain segments of the manufacturing industry, which are affected by processes of global fragmentation and the reshaping of energy supply chains — that is, the "lifting of curtains" in energy — which conditions more moderate production and export dynamics. Assuming a gradual normalization of external trade conditions, industrial activity is expected to gradually recover later in the horizon. The services sector will remain the main driver of economic growth, with an expected increase of 3.5%, primarily as a result of strong growth in trade, transport, and tourism, as well as the continuation of favorable trends in ICT, financial, and professional-technical services. Construction will achieve growth of about 8.5% in 2026, thanks to the continuation of infrastructure project implementation, entering the final phase of construction activities related to EXPO 2027, as well as the low-base effect from 2025. For agriculture, assuming an average season, projected growth amounts to 3.1%.

Contribution to the real GDP growth rate, expenditure and production approach, pp





Source: Ministry of Finance

According to the medium-term macroeconomic projection, the cumulative growth rate in the period from 2026 to 2028 will amount to 11.9% and will be determined by domestic demand growth, with a slightly negative contribution from net exports. This source of growth is driven by both the strong continuation of the investment cycle and the growth of investment activity, as well as an increase in private household consumption due to the growth of real disposable income. With the expected recovery of external demand, the acceleration of growth to 5.0% in 2027 will be primarily the result of activities implemented within the EXPO project, whose organization will generate strong infrastructure, construction, and logistics activities during 2026, and whose full effect will be realized precisely during 2027. The hosting of the event itself will lead to a significant increase in foreign arrivals, consumption, and investment, especially in the tourism, hospitality, and services sectors. At the same time, EXPO will further promote the domestic economy, strengthen export potential, and attract foreign direct investment, thereby ensuring a strong contribution to overall GDP growth in 2027. The slowdown of economic growth in

2028 to 3.5% will largely be a consequence of the pronounced base effect, since the implementation of the international EXPO exhibition in 2027 will lead to temporary but extremely strong growth in certain segments of the economy. Given that these effects will be time-limited and predominantly concentrated in the year of the event, their impact in 2028 will gradually fade, which will lead to the return of GDP growth to a more moderate trajectory. Such a slowdown does not signal a weakening of economic fundamentals but primarily reflects a comparison with a year in which there were one-off and extremely intensive stimuli to economic activity.

On average, the Serbian economy will grow at a rate of 3.8% annually in the period from 2026 to 2028. The increase in real household consumption will follow the growth of economic activity and will average 3.8%. Stable growth of fixed investment is expected, averaging 5.8% per year. The high level of public investment will be accompanied by growth in private investment, so that at the end of the projection period the share of fixed investment in GDP is expected to reach 24.3%. With the activation of new production capacities and the recovery of external demand, the volume of foreign trade will also increase. In addition, the effect of FDI from the previous period will contribute to increased competition and affect the efficiency of domestic producers, while new sales channels will be activated and new market niches opened. Exports will grow at an average annual rate of 6.2%, which is faster than the expected annual import growth, which will average 6.0%, but due to the higher share of imports, the contribution of net exports to GDP growth will be slightly negative. Viewed from the supply side, the services sector and industry will, due to their largest share in GDP, retain the role of dominant sources of growth and will increase the created gross value added with an average annual growth of 4.2% and 3.0%, respectively. Construction will also have a significant positive contribution, with an average growth of 5.3% as a result of accelerated implementation of infrastructure projects, but also accelerated private investment. Achieving European standards and increasing competitiveness in agriculture will reduce the variability of production in this sector caused by agrometeorological conditions, but even in this macroeconomic framework, the assumption of an average agricultural season has been retained.

Macroeconomic risks

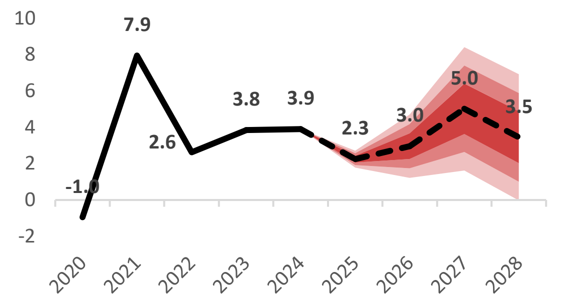
The medium-term scenario of economic activity in the Republic of Serbia is still influenced by numerous and complex risks coming from the international environment, as well as internal risks related to socio-political tensions.

The most pronounced risks from the international environment stem from unstable global economic and political relations. Although some trade agreements that mitigate the most extreme scenarios have already been reached, risks from new restrictive measures, such as new tariffs, quotas, counter-tariffs, or subsidies in strategic industries, are still present. These measures can disrupt global supply chains and weaken international trade and investment. In addition, the lack of clear coordination among the world's leading economies regarding trade policy, as well as increasingly frequent examples of selective protectionism, leave a high degree of uncertainty regarding the further development of trade relations and the possibility that the situation could further deteriorate if a new wave of restrictions and segmentation of the global market occurs. This makes forecasting and planning more difficult for both national institutions and the private sector and foreign investors. Such measures, especially when they come from leading global economies, have the potential to redirect flows of capital and goods, reduce the availability of key raw materials and components, and negatively affect the economies of export-oriented countries like the Republic of Serbia. Although peace initiatives regarding the situations in Ukraine and the Middle East are underway, risks to the global macroeconomic framework remain pronounced. Despite prospects for a gradual de-escalation, instability in these regions can still affect energy and food markets, global logistics flows, and inflationary pressures, maintaining an elevated level of uncertainty in the international economic environment. Possible spikes in energy and food prices, as well as potential disruptions in logistics flows and the labor market, could lead to increased inflationary pressures, a reduction in the real purchasing power of the population, and a negative impact on investor security. Due to the interconnectedness of global financial and commodity markets, these effects could very quickly spill over to countries like the Republic of Serbia through export channels, import prices, foreign direct investment, and other financial flows. On the other hand, a potential de-escalation of global tensions and the easing of trade barriers could have a strong positive effect on international economic flows, which would synergistically spill over to the domestic economy through growth in exports, investment, and better access to technology and capital.

Internal risks primarily stem from increased socio-political tensions. If these pressures were more pronounced, it is possible that they would be reflected to a greater extent on economic expectations, consumer and investor confidence, as well as on the willingness of economic entities to make new investments. In such a case, increased uncertainty could encourage a higher degree of caution in making economic decisions and lead to a more moderate pace of growth in consumption and investment in the short term. On the other hand, a gradual resolution of socio-political tensions could have a positive impact on economic developments through the strengthening of consumer and investor confidence and the reduction of perceived risks. Such a course of events would contribute to greater predictability of the business environment and stimulate investment activity, which would positively affect overall economic growth. A high degree of uncertainty also exists regarding the dynamics of economic activity in certain industrial sectors that are sensitive to changes in the international business environment. If the impact of these factors were stronger than currently assessed, this could negatively affect overall economic growth, while, on the other hand, a faster stabilization of business conditions would have the potential to significantly improve the medium-term prospects of economic activity.

The overall effect of external and domestic risks indicates the need for all scenarios and projections for the upcoming period to be analyzed with pronounced caution, including the regular updating of risks and the development of alternative policies that can mitigate the effects of potential external and domestic shocks.

Projection of GDP movements with risk matrix, growth rates, %



Source: Ministry of Finance

In that context, two additional scenarios have been developed, pessimistic and optimistic, which illustrate the amplitude of potential deviations from the baseline forecast. The pessimistic scenario is based on the assumption of the materialization of negative external risks, such as the implementation of tariffs at a level higher than the current one, prolonged military conflicts, and a reduction in demand in the EU. In that case, there would be weaker exports, greater inflationary pressures, a reduction in real disposable income, and a slower pace of private investments. As a consequence, the medium-term GDP growth rate in the period 2026–2028 would be 1.5 percentage points lower compared to the baseline scenario and would amount to 2.3% on average per year. The prolonged validity of sanctions related to NIS, as well as a potential failure to sign a new gas arrangement with Russia, could call into question the achievement of even the growth rate forecast in the pessimistic scenario. The optimistic scenario, on the other hand, assumes the stabilization of global relations, a reduction of trade barriers, and increased investor confidence. At the same time, a faster resolution of uncertainty regarding developments in certain industrial sectors could contribute to stronger growth of industrial production and overall economic activity, thereby improving the medium-term growth prospects compared to the baseline scenario. Within this framework, there would be stronger growth of exports and investments, as well as private consumption. The medium-term GDP growth rate in this scenario would amount to 5.3% on average per year, i.e., 1.5 percentage points higher than in the baseline scenario.

Table 5. Average growth rates (%) in the period 2026 – 2028. by scenario

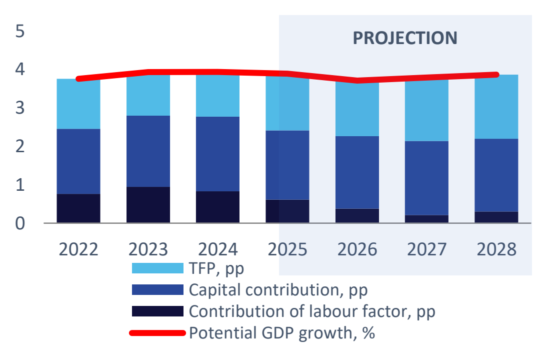
	Scenario		
	Central	Optimistic	Pessimistic
Real GDP growth	**3.8**	**5.3**	**2.3**
Private Consumption	3.8	4.3	3.0
Government Consumption	2.4	3.3	2.0
Gross Fixed Capital Formation	5.8	7.2	3.8
Export of Goods and Services	6.2	7.9	4.7
Import of Goods and Services	6.0	6.6	5.0

Source: Ministry of Finance

According to the central scenario, in the medium-term period, a continuation of stable growth of potential GDP is expected, at a rate slightly below 4.0%. The main drivers of this growth will be capital accumulation and total factor productivity (TFP), under the influence of continuous investments in infrastructure, the energy sector, digitalization, and new technologies. These processes will be further supported by the inflow of foreign direct investments, as well as investments in research, development, and innovation, which will affect better utilization of available resources and increased efficiency. The digital transformation of the economy is still recognized as a key driver of productivity growth, export diversification, and attracting quality investments, especially in the information technology sector. The continued growth of the ICT sector can give a strong stimulus to the overall economy through the accelerated spread of knowledge and the application of advanced technological solutions. Significant planned investments in energy infrastructure, particularly in the area of renewable sources, energy efficiency, and security, represent an important part of the green transition and have the potential to improve the country's energy security and create the preconditions for long-term sustainable growth. Large infrastructure projects, especially those that improve regional connectivity and logistics capacity, can significantly reduce trade costs and stimulate private investments. On the other hand, developments in the labor market will also provide a positive, although more moderate, contribution to the growth of potential GDP, mainly due to the gradual increase in labor force participation rates and moderate employment growth. However, the contribution of the labor factor in the coming years will likely be smaller than in the previous period, due to demographic trends and structural constraints in the labor market.

Structural reform processes are also key to accelerating potential growth. Priority areas include the reform of the legal framework, strengthening the rule of law, reducing administrative barriers, and improving the efficiency of public administration. Such measures are necessary to unlock the full potential of private investments and to increase competitiveness and productivity. At the same time, price and exchange rate stability of the dinar, a stable and well-capitalized banking sector, and sustainable public finances contribute to the predictability of the business environment, which is an important condition for accelerating the investment cycle on sustainable grounds. Nevertheless, challenges remain regarding institutional capacities, the efficiency of project implementation, and ensuring that investments are accompanied by complementary reforms. Addressing these issues will be essential for the long-term sustainability of growth and the economy's resilience to external shocks.

Contributions of the factors of production to the potential GDP growth rate, pp



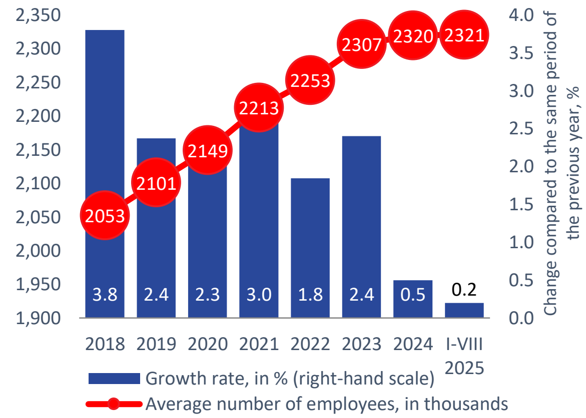
Source: Ministry of Finance

Labor market

The labor market in the Republic of Serbia continues with positive trends during 2025, maintaining stability and resilience under conditions of moderate slowing of economic activity. Employment continues to grow, although at a slower pace than in the previous period. At the same time, wages continue to increase both in the private and public sectors, stimulated by the increase of the minimum wage, more intense competition in the labor market, and the implementation of tax relief measures from the previous period, which contributed to maintaining purchasing power and improving the living standards of employees. Structural improvements in the labor market are also reflected in the reduction of the number of people outside the labor force and the long-term unemployed, as well as in the growth of formal employment.

According to data from the Central Registry of Compulsory Social Insurance (CROSO), in the period January–August 2025, the average number of employees was higher by 0.2% compared to the same period of the previous year. The pace of employment growth has slowed, primarily due to a decrease in the number of employees in the manufacturing industry, which is a consequence of lower activity in traditional labor-intensive sectors, especially in the clothing and leather industry, as well as in the production of electrical equipment. On the other hand, certain sectors, such as administrative and ICT services, as well as real estate operations, continued to positively contribute to employment growth, compensating for the negative effects of the reduction in manufacturing employment. In the private sector, an increase of 0.4% (7.6 thousand persons) was recorded, while in the public sector the number of employees decreased by 0.4% (-2.4 thousand persons). According to data from the National Employment Service, in the period January–August, the number of persons actively seeking employment decreased year-on-year by 7.4% and amounted to 350.6 thousand persons.

Movement of formal employment

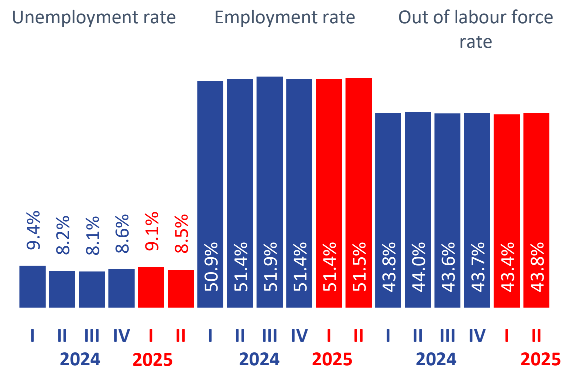


Source: CROSO

In the period January–August, the average net salary amounted to 107,217 dinars and was realistically higher by 6.1% compared to the same period of the previous year. The growth of salaries was largely determined by the real growth of salaries in the private sector, which amounted to 6.2% and was driven primarily by the increase of salaries in the manufacturing industry and trade. At the same time, a real increase of salaries in the public sector of 6.1% was also recorded. The favorable dynamics of salaries were also contributed to by the implementation of the salary tax relief policy from the previous period, accompanied by an increase in the minimum wage, which in 2025 was increased twice: in January by 13.7%, amounting to 308.00 dinars per working hour, and in October by 9.4% to 337.00 dinars, with the aim of improving the living standards of persons with the lowest incomes. Such salary movements also positively affected the ratio of the average salary to the average consumer basket, which increased from 93.9%, as it was in the period January–June 2024, to 100.0% in the same period in 2025.

According to ARS data, in the first quarter of 2025, positive developments were recorded in the labor market. Compared to the same quarter of the previous year, the employment rate increased from 50.9% to 51.4%, while the unemployment rate decreased from 9.4% to 9.1%, and the population outside the labor force decreased from 43.8% to 43.4%. Positive trends continued in the second quarter, with the employment rate increasing by 0.1 percentage points to 51.5%, while the unemployment rate increased by 0.3 percentage points to 8.5%. At the same time, the informal employment rate decreased by 0.4 percentage points to 11.4%, while the youth unemployment rate increased by 2.6 percentage points to 22.8%. The informal employment rate outside agriculture amounted to 6.1%, which is higher by 0.2 percentage points compared to the second quarter of 2024, while in agriculture it amounted to 50.4%, which is lower by 1.3 percentage points. Structural improvements in the labor market in this period are reflected primarily in the reduction of the long-term unemployment rate by 0.1 percentage points to 3.7%, as well as the population outside the labor force, which decreased by 0.2 percentage points to 43.8%.

Movement of key labor market indicators



Source: SORS

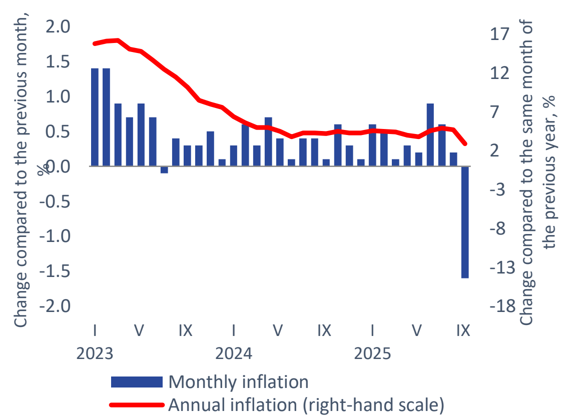
In the upcoming period, the labor market is expected to continue with favorable developments, in line with the expected growth of economic activity and a stable macroeconomic environment. Public policy makers continue to improve measures aimed at strengthening the quality of the workforce and investing in human capital, which contributes to easier employment and the development of sectors with higher added value. Particularly notable is the growth of employment in innovation- and knowledge-based areas, which confirms the structural strengthening of the economy. Activities aimed at encouraging formal employment are expected to continue, thereby further improving working conditions and creating more stable sources of budget revenues. In the medium term, the continuation of the positive effects of active employment policy measures, retraining programs, and support for social entrepreneurship is expected, which will enable greater availability of jobs for socially vulnerable groups and contribute to inclusive economic growth. Accordingly, in the medium term, a gradual reduction of unemployment is projected, along with the continuation of real wage growth. In the private sector, stable growth is expected in line with market trends, while wages in the public sector will continue to be aligned with fiscal rules, ensuring long-term sustainability.

Monetary movements

Despite the challenging global environment and the existing geopolitical and economic risks, monetary developments during the previous period were characterized by stability and predictability. Inflation was successfully reduced and stabilized within the target corridor, and the reference interest rate was maintained at a level that supports price control while preserving financial stability. Foreign exchange reserves were kept at a high and stable level, indicating maintained external liquidity and the resilience of the financial system to potential external shocks. Good macroeconomic indicators and expectations contributed to the retention of confidence in financial markets, which was also confirmed by the assignment of an investment credit rating.

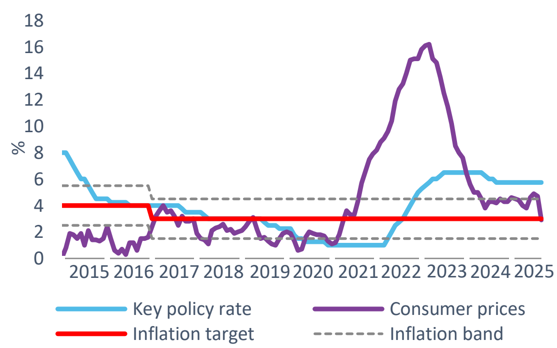
During 2025, inflation in the Republic of Serbia showed a variable trajectory. Until May, it recorded a decline and fell to a level of 3.8%, after which a temporary increase followed in June and July, primarily due to the rise in food prices influenced by unfavorable weather conditions. In August, inflation amounted to 4.7%, but in September there was a sharp slowdown to 2.9%, which represents the lowest level since April 2021. This decline is the result of the implementation of the Regulation on special conditions for the conduct of trade for certain types of goods, which led to a significant slowdown in the growth of food and non-alcoholic beverage prices, from 7.8% in August to 1.7% in September. Core inflation also continued its downward trend and in September amounted to 3.9%, with a moderate slowdown in the growth of prices of products and services within the core component. All these changes indicate the effects of targeted economic policy measures and price stabilization under complex market conditions. In the upcoming period, the implementation of systemic measures is planned, which through an appropriate legal framework will further improve market regulation and prevent the occurrence of unfair trading practices, with the aim of maintaining price stability and protecting consumers.

Monthly and year-on year inflation, %



Source: SORS and NBS

Inflation and key policy rate, %



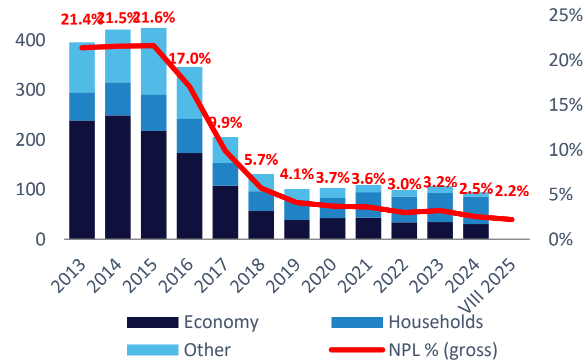
Source: SORS and NBS

After three reductions of the reference interest rate during 2024, totaling 0.75 percentage points, the National Bank of Serbia (NBS) did not change the reference interest rate during 2025. It was last reduced in September 2024 and has since been maintained at a level of 5.75%, while interest rates on deposit and loan facilities remained unchanged – 4.5% and 7.0%, respectively. Despite the easing of inflationary pressures, it is necessary to continue with a cautious and carefully calibrated approach to monetary policy, taking into account geopolitical tensions, energy price volatility, and developments in global commodity markets.

In order to calm inflation and mitigate the negative social and economic effects of rising world food and energy prices, the Government has undertaken a series of administrative price control measures. The most significant among them is the recently adopted Regulation on special conditions for the conduct of trade for certain types of goods, which limited wholesale and retail trade margins to 20% for six months. This regulation represents the first direct intervention in the price structure of the retail chain, aiming to alleviate distributive pressures and prevent uncontrolled increases in the prices of basic foodstuffs at the final market level. The Regulation is an important instrument for protecting citizens' purchasing power, as well as stabilizing inflationary expectations, since it covers a wide range of products that form the basis of the consumer basket. In addition to this measure, the Regulation on the mandatory production and circulation of bread from "T-500" flour, which is in force until November 24, defines its maximum retail price and the required production volume. The Regulation on limiting fuel prices prescribes the method of calculating the maximum prices of Eurodiesel and Euro Premium BMB 95 at retail, with fuel prices for farmers being specially subsidized. The goal of these measures is to reduce inflationary pressures, maintain market stability, and ensure regular supply.

Credit activity continues to show strong growth, with year-on-year growth reaching 11.6% in August 2025, representing a further acceleration compared to previous months. Loans to households accelerated growth to 15.0%, while loans to enterprises increased by 8.4%. This positive trend in credit activity is supported by more favorable financing conditions and the easing of monetary policy. Both businesses and households have access to loans under significantly more favorable conditions, reflected in the growth of demand for financing investment, liquidity, and consumption. A particular contribution to the growth of household loans comes from programs providing favorable loans for citizens whose regular monthly income does not exceed 100,000 dinars, as well as "Housing Loans for Young People," which allow access to financing under eased conditions. At the same time, in the business sector, there is noticeable growth in investment loans as well as loans for working capital, indicating a revival of production and export activities. The maintained credit dynamics represent an important channel of support for economic activity, with stable interest rates and relatively favorable borrowing conditions. The stability of the banking sector has been preserved and further strengthened, and the share of problematic loans decreased to 2.2% in August 2025.

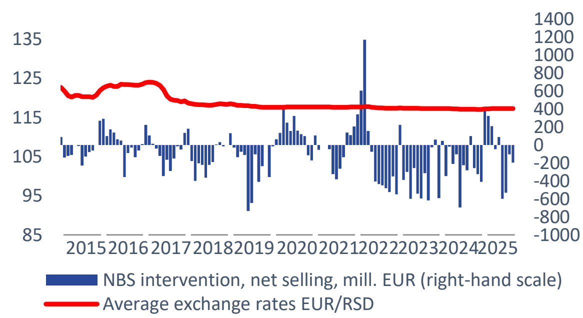
Non-performing loans, billion RSD



Source: NBS

During 2025, the dinar maintained relative stability against the euro, despite variable pressures on the foreign exchange market. The beginning of the year was marked by depreciation pressures, primarily due to seasonally increased demand for foreign currency by energy importers, but in later months, appreciation trends prevailed. Overall, over nine months, the dinar slightly weakened against the euro by 0.2%, while the National Bank of Serbia, from the beginning of the year until the end of September, intervened with net foreign exchange purchases to maintain exchange rate stability in a total amount of 430 million euros.

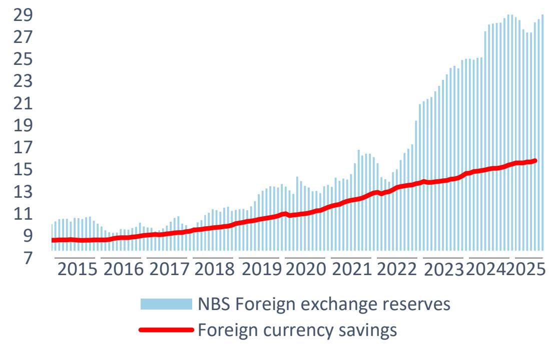
Exchange rate and NBS interventions on the foreign exchange market



Source: NBS

During the year, foreign exchange reserves again reached record levels and at the end of September amounted to 29.1 billion euros. Such a level provides high coverage of imports of goods and services (6.8 months) and the money supply M1 (162.3%), which confirms their adequacy and role in maintaining financial stability. A significant part of the reserves also consists of gold, the quantity of which has more than tripled compared to the previous decade, which further contributes to the system's resilience to external shocks.

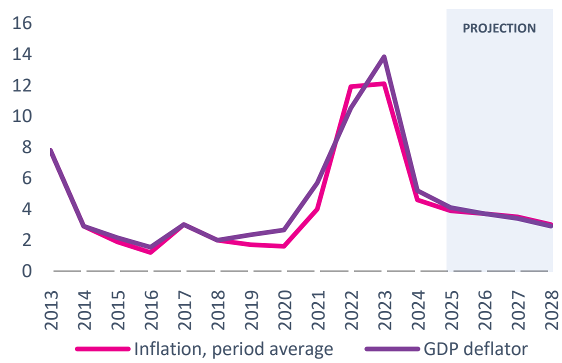
Foreign exchange reserves and foreign currency savings, billion euros



Source: NBS

Inflation is expected to continue relatively stable movement around the central value of the target until the end of 2025. Such a trend will be influenced by the effects of the regulation on the temporary limitation of margins, the effects of the tightening of monetary policy so far, the reduction of world energy prices, and lower imported inflation. During 2026, inflation is expected to stabilize within the targeted range of the National Bank of Serbia (3% ±1.5 pp), with a projected average rate of 3.7%. The projection is based on the combined effect of weakening external cost pressures and more favorable domestic factors. On the external side, the decline of cost factors that affected price growth is expected to continue. On the domestic side, a more favorable agricultural season is expected, which increases the supply of basic food products and further slows the growth of food prices — the component with the largest share in the consumer basket. The continuation of a cautious monetary policy will contribute to the gradual reduction of core inflation, with anchored inflation expectations. Additionally, the temporary measure limiting trade margins has a disinflationary effect in the food and beverage segment, encouraging competition and transparency and reducing the space for the pass-through of costs to other categories. In such a macroeconomic environment, inflation is expected to move within the target range with balanced projection risks. Accordingly, Serbia enters 2026 with a clearly defined path of price stabilization and inflation close to the central value of the target, which represents a prerequisite for maintaining confidence, macroeconomic stability, and the continuation of real living standard growth. In the medium term, stable inflation movement is expected to continue with a gradual approach to the central value of the target. Projection risks remain symmetrical and are primarily associated with global movements in the prices of primary products and geopolitical tensions.

Inflation projection, %



Source: Ministry of Finance

External sector

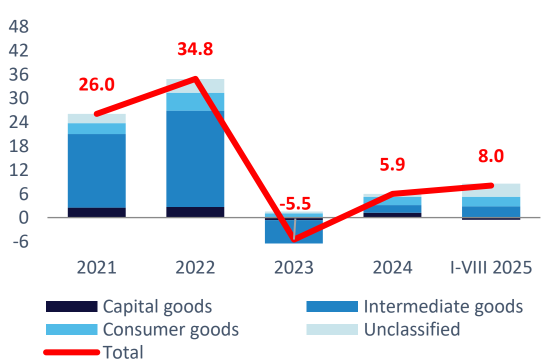
Following growth achieved in the previous year, positive trends in foreign trade continued in 2025, with an acceleration of both exports and imports, while exports maintained a slightly higher growth rate than imports. In the first eight months of 2025, total foreign trade increased by 8.3%, reaching EUR 49.3 billion. During this period, exports amounted to EUR 21.8 billion — an 8.6% increase compared to the same period of the previous year. The continued export growth during 2025, despite adverse global developments and the slowdown in the economies of most trading partners, points to the strong resilience of Serbia's export sector. This resilience stems from its diversification — both geographically, reducing dependence on individual economies, and by industry, with growth in several manufacturing branches. The favourable export structure is the result of years of investment and modernisation of production capacities, driven by foreign direct investment (FDI) inflows and a supportive business environment.

Exports of the manufacturing industry — the main driver of overall export growth — increased by EUR 1.6 billion or 9.4%, with gains recorded in 19 out of 23 sectors. Despite still-weak external demand, the sustained good performance of the manufacturing industry reflects primarily the activation of new export-oriented capacities following strong FDI inflows in recent years, largely directed toward tradable sectors. The largest contributions to export growth came from the automotive, rubber, and food industries, as well as from base metals and metal products. The automotive industry recorded 18.1% growth in 2025, with a trade surplus increase of 31.5% to EUR 1.1 billion. Notably, in February 2025, production in Serbia gained significant momentum as Stellantis launched serial production of a new model in Kragujevac, restoring large-scale car production after a prolonged hiatus. In the first nine months of 2025, Stellantis ranked as Serbia's third-largest exporter, with exports of EUR 521.3 million, confirming the renewed role of the automotive industry as a key pillar of national exports. Meanwhile, mining exports rose by 8.9%, driven almost entirely by higher exports of metal ores, while electricity exports increased by 36.0%.

Agricultural exports, however, fell by 14.6% in the first eight months of 2025, due to an unfavourable agricultural season both in the previous and the current year, marked by prolonged droughts and reduced exportable surpluses.

In January–August 2025, imports reached EUR 27.5 billion — up 8.0% year-on-year. By economic category, the rise in goods imports was determined by higher imports of intermediate goods (up 5.2%) and consumer goods (up 12.0%, (or EUR 720.7 million and EUR 621.8 million respectively), while equipment imports declined by 4.0% (down EUR 133.6 million), contributing negatively.

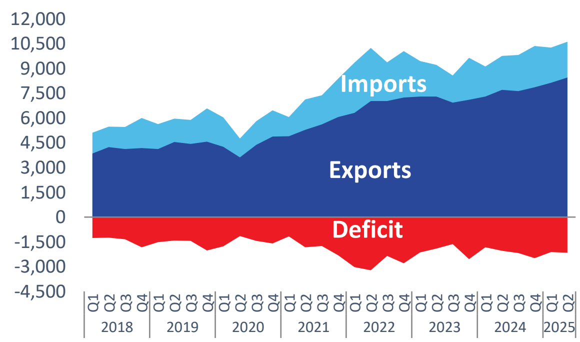
Imports structure by economic destination, pp



Source: SORS

These trade dynamics resulted in a foreign-trade deficit increase of EUR 324.3 million in the first eight months of 2025, reaching a total of EUR 5.8 billion, of which around EUR 2.2 billion relates to the energy-trade deficit. At the same time, export coverage of imports improved to 79.1% in the first eight months of 2025, compared to 78.7% in the same period of the previous year.

Goods trade, mil. EUR



Source: SORS

The European Union remained Serbia's most important trading partner, accounting for 62.2% of total exports and 54.7% of total imports. The majority of exports (38.6%) were directed to five markets — Germany, Bosnia and Herzegovina, Italy, China, and Hungary. Imports from China, Germany, Italy, Turkey, and Hungary accounted for 42.7% of total imports. Serbia recorded a trade surplus with Montenegro, Bosnia and Herzegovina, North Macedonia, Bulgaria, Slovakia, the Czech Republic, Romania, Germany, Sweden, the United Kingdom, Croatia, and to a lesser extent, Moldova. The surplus with these countries amounted to EUR 3.2 billion. The largest trade deficits were recorded with China, Turkey, Kazakhstan, Italy, and Russia.

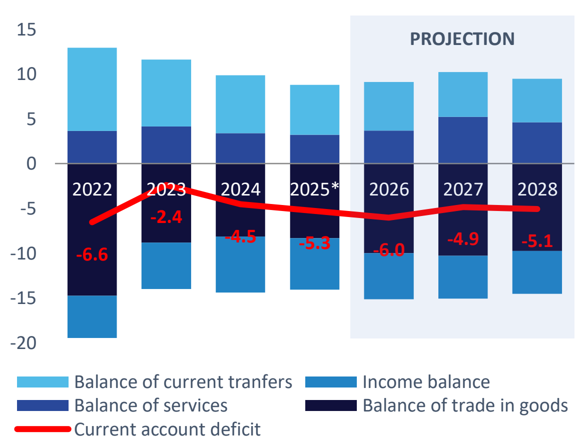
On the current account of the balance of payments, a deficit of EUR 2.7 billion was recorded in the first eight months of 2025, EUR 629.6 million higher than in the same period of the previous year. The widening deficit mainly reflects a higher goods-and-services trade gap and a reduced secondary-income surplus, partially offset by a smaller primary-income deficit. The goods-and-services account showed a deficit of EUR 3.1 billion, up EUR 483.4 million year-on-year. This increase was largely due to a lower services surplus — EUR 1.3 billion (down EUR 323.9 million) — and a higher goods deficit of EUR 4.5 billion (up EUR 159.5 million). The expansion of the goods deficit was mainly driven by a shift in agricultural trade from surplus to deficit, a larger deficit in pharmaceutical products, and a smaller surplus in electrical equipment trade. These negative effects were partly offset by surpluses in the metal and automotive industries. Positive net services exports continued, mainly due to growth in ICT services, whose net inflows increased by 14.8% to EUR 2.3 billion. A significant net inflow was also recorded in other business services, amounting to EUR 830.5 million. The primary-income deficit narrowed by EUR 89.6 million (3.0%), while the secondary-income surplus fell by 6.5% to EUR 3.4 billion. Workers' net remittances from abroad declined by 6.4% to EUR 2.4 billion.

Total FDI inflows in the first eight months of 2025 fell by 40.5% to EUR 2.1 billion, while net FDI inflows decreased by 53.9% to EUR 1.5 billion. The largest share of FDI inflows was in the form of equity and reinvested earnings (94.9%), confirming the commitment of foreign investors to continue investing in Serbia. By sector, the largest FDI inflows in the first half of the year were in manufacturing (EUR 370.3 million), traditionally the leading FDI recipient, followed by professional, R&D and technical activities (EUR 293.6 million), construction (EUR 242.4 million), and wholesale and retail trade (EUR 224.7 million). In addition to sectoral diversity, FDI is also geographically diversified. Viewed by geographical origin, the majority of FDI (85%) comes from the European continent. Inflows from the EU totalled EUR 1.1 billion (68.6% of total FDI). In the same period, a net portfolio-investment outflow of EUR 708.9 million was recorded.

Serbia's external position in 2025 remained resilient to international financial shocks. By end-June, the ratio of foreign-exchange reserves to short-term debt temporarily decreased relative to end-2024, but strong reserve growth in the second half of the year — by EUR 1.6 billion — strengthened external liquidity and improved this indicator's trajectory. The external-debt-to-GDP ratio fell by 1.3 percentage points, from 58.6% in 2024 to 57.3% by mid-2025, with the share of short-term debt unchanged. By end-June, the external-debt-to-exports ratio stood at 105.0%, down 5.0 pp from the previous year, well below the World Bank's 220% sustainability threshold. Gross foreign-exchange reserves of the National Bank of Serbia reached EUR 29.1 billion at end-September, exceeding all adequacy benchmarks.

The overall current-account deficit for 2025 is projected at EUR 4.7 billion, or 5.3% of GDP, mainly due to a wider goods deficit and a smaller services surplus. Despite sluggish external demand, exports have remained resilient, while import growth has been driven almost equally by stronger household demand for consumer goods and higher imports of production inputs. Even though export growth is expected to accelerate in 2026 and the medium term, heightened geopolitical tensions and potentially higher global energy prices — combined with persistent uncertainty over tariff policies and broader protectionist measures that raise trade barriers and intensify global fragmentation — could temporarily constrain export performance and widen the trade and current-account deficits. In the baseline macroeconomic scenario, a somewhat slower pace of export activity is assumed in energy- and input-intensive segments of manufacturing industry, which are sensitive to global fragmentation, the EU's tariff policy, and changes in global energy dynamics. To preserve energy stability, increased energy imports and maintenance of strategic reserves are expected to ensure reliable supply and meet the needs of the economy and households. Although exports in certain processing industries, as well as ICT and tourism services, are expected to maintain positive trends, these factors may not fully offset rising import pressures; thus, the current-account deficit is projected to rise to about 6.0% of GDP in 2026.

Current account structure, % of GDP

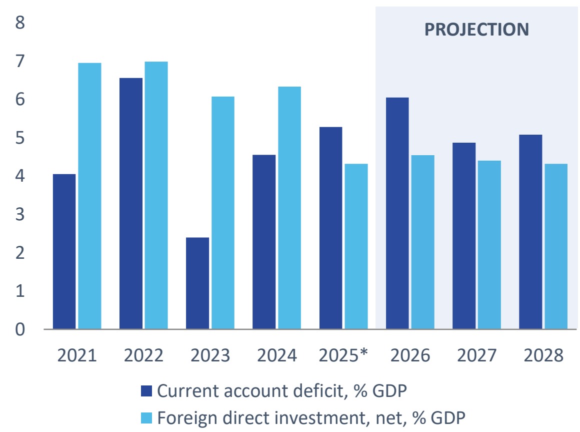


Source: Ministry of Finance, NBS, SORS
* Ministry of Finance estimate

With accelerated investment dynamics in the medium term, goods imports are projected to grow faster than exports on average, temporarily widening the trade deficit from 8.3% of GDP in 2025 to 9.7% in 2028. However, sustained positive developments in services will remain a key buffer: over the next three years, the services surplus is expected to average around EUR 4.6 billion. Stable inflows from current transfers — averaging 5.1% of GDP annually, with remittances as the dominant component — together with favourable net factor income, will have a mildly positive net effect, partly offsetting the goods-trade deficit. Based on this, the current-account deficit ratio is expected to temporarily rise to around 6.0% of GDP in 2026, then decline to about 4.9% in 2027 thanks to a significant rise in services exports during the EXPO 2027 exhibition year and an expected improvement in goods trade. In 2028, the current-account deficit is projected at around 5.1% of GDP.

Within the financial account, FDI inflows are expected to remain stable (averaging about 4.5% of GDP annually), continuing to be the main source of current-account-deficit financing. The sustained positive investment outlook and ongoing diversification of FDI toward tradable sectors will support export growth and further strengthen both external and internal macroeconomic balance.

Current account deficit and FDI, % of GDP



Source: NBS and Ministry of Finance
* Ministry of Finance estimate

II FISCAL FRAMEWORK FOR THE PERIOD 2026–2028

1. Medium-Term Fiscal Policy Objectives

The revised Fiscal Strategy for the period 2026–2028 is based on preserving stability and gradually reducing the share of public debt, while maintaining room for investments that enhance potential growth. The medium-term deficit remains moderately expansionary to support the investment cycle and preparations for EXPO 2027, with a consolidated deficit of 3% of GDP by 2027 and 2.5% of GDP in 2028. This trajectory aligns with a further decline in the share of public debt from around 45% of GDP in 2025 to approximately 44% of GDP in 2028, supported by a low primary deficit (around 0.7% of GDP) and maintained credibility of fiscal rules. Fiscal sustainability indicators show no short-term risks, while the positive primary stabilization gap confirms a stable downward debt trajectory.

On the expenditure side, priority remains on investments with the highest multipliers — in transport, energy, digital, and green transition — with strict control of current spending. The public sector wage policy remains constrained within the fiscal rule framework, while pensions are adjusted according to the established formula, ensuring predictability and long-term sustainability of the pension system. Subsidies, temporarily increased due to support for agriculture and energy, are gradually returning to around 2% of GDP, while capital expenditures remain stable at a high level (about 6.4% of GDP on average annually).

On the revenue side, policy is directed toward reducing labor taxation, broadening the tax base, and improving collection through digitalization and modernization of the Tax Administration. VAT revenues are stabilizing after a short-term decline, excise duties follow standard indexation, while non-tax revenues normalize after one-off inflows such as those from 5G licenses.

Fiscal risks are mitigated through conservative budgeting, maintaining fiscal reserves, and active debt management. The main risks include deepening global fragmentation, trade barriers, energy price volatility, and climate policies. The fiscal policy response is based on sustainable public finances and the acceleration of structural reforms to preserve stability and investment credibility.

Overall, the medium-term fiscal framework combines stability and development: controlled deficits, a declining debt-to-GDP ratio, high capital investments, and a predictable social policy enable the maintenance of macro-fiscal stability, support average annual growth of around 3.8%, and preserve room for response in case of external shocks — positioning the country as a stable, resilient, and development-oriented economy.

2. Current Fiscal Developments and Outlook for 2025

The fiscal framework for 2025 was designed cautiously, taking into account ongoing uncertainty both domestically and internationally. This approach ensured that the budget retained adequate space for interventions in the event of unfavorable developments. Macroeconomic projections anticipated a moderate acceleration of economic activity compared to 2024, as well as a continued gradual decline in inflation, which was expected, among other factors, to stimulate growth in real personal consumption.

Measures adopted at the end of 2024 significantly influenced the 2025 budget plan. Pensions were adjusted by 10.9% in accordance with the statutory formula. To preserve the real purchasing power of the population, the minimum hourly wage was increased by 13.7%, public sector wages by 8%, and the non-taxable portion of income by 13.7%. This set of measures was expected to strengthen personal consumption and, indirectly, boost consumption-based tax revenues. An increase in labor taxation revenues was also anticipated, since, despite a lower tax burden, employment and wages in the private sector were expected to rise. Substantially increased public investment funds were directed toward further infrastructure improvements, expected to expand the foundation for future economic growth.

Apart from the increase in the non-taxable income threshold, no major changes in tax policy were planned for 2025. Following the temporary reduction of excise duties during 2022 and 2023, the excise policy returned to regular parameters in 2024, and standard excise adjustments were implemented at the beginning of 2025. Although these adjustments partially offset the erosion of the real value of excises, their level remains about 13% lower than it would have been under regular indexation during the previous period. It is estimated that the absence of indexation in 2022 and 2023 resulted in the loss of over RSD 100 billion in revenues (around 1.3% of GDP). In 2024, a refund mechanism for a portion of excise duties on motor fuels used in agriculture was introduced and continues in 2025.

Amid heightened uncertainty, some of the risks anticipated when drafting the 2025 fiscal framework materialized primarily on the side of economic growth. Pronounced socio-political tensions at the end of 2024 and in the first months of 2025 raised the perceived risk among businesses and households, which, through increased precaution, led to deferred consumption. Accordingly, in the first half of 2025, realized real GDP growth was noticeably below expectations due to weaker activity in trade, transport, and tourism, as well as a decline in the value of completed construction works. Although real wages and pensions — and therefore disposable income — recorded solid growth thanks to favorable labor market trends, the dynamics of private consumption remained noticeably more moderate. This divergence is most reliably explained by increased precautionary savings and delayed purchases amid heightened economic and social uncertainty, which indirectly constrained short-term aggregate demand growth.

These developments primarily affected value-added tax (VAT) revenues. The shortfall relative to the plan was evident as early as the last quarter of 2024, and the same trend continued throughout 2025. Apart from VAT, other tax revenues were achieved at or above planned levels, both at the end of 2024 and during 2025. Accordingly, the 2025 tax revenue projection was revised to reduce VAT and customs revenue estimates, while estimates for other tax categories were adjusted upward to varying degrees. Unlike previous revisions, this time excise revenue was also revised upward, due to a more objective assessment of collection dynamics compared to the previous year. The realized profitability of companies in 2024, as well as collection performance during the first part of 2025, led to only a minimal adjustment in corporate income tax revenue projections.

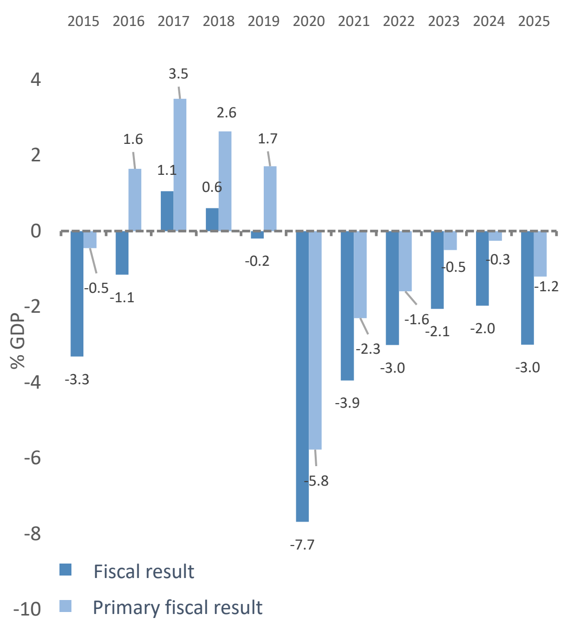
The revised estimate also includes extraordinary non-tax revenues realized in the previous period, as well as those expected by the end of the current year. Despite weaker VAT and customs revenue performance, total public revenues were minimally revised upward, reflecting prudence amid still unstable domestic and uncertain international economic conditions.

On the expenditure side, the projection incorporates changes in public sector wage policy, primarily in education and healthcare, while, on the other hand, some spending categories were revised downward based on the observed pace of budget execution.

The revised fiscal framework for 2025 foresees an unchanged fiscal deficit of RSD 314 billion, or 3% of GDP. The share of public debt in GDP is projected at 45% by year-end.

An analysis of the structural fiscal result shows that about 0.6% of GDP in 2025 relates to one-off and temporary effects on both the revenue and expenditure sides of the budget, further confirming the temporary nature of deviations from long-term fiscal paths.

General government fiscal result for the period 2015-2025, % of GDP



Source: Ministry of Finance

Table 6. General government revenues, expenditures and fiscal result in 2025, in RSD bln

	Budget 2025*	Estimate May 2025	Estimate October 2025	Diff new estimate/budget	% diff	2025 new estimate % GDP
PUBLIC REVENUES	4,233.4	4,227.3	4,244.2	10.7	0.3	40.9
Current revenues	4,195.1	4,189.0	4,205.9	10.7	0.3	40.5
Tax revenues	3,750.0	3,745.8	3,750.6	0.6	0.0	36.1
Personal income tax	427.0	436.8	434.3	7.3	1.7	4.2
Corporate income tax	287.4	285.4	288.8	1.3	0.5	2.8
VAT	1,056.0	1,018.0	1,002.0	-54.0	-5.1	9.7
Excises	420.0	426.0	435.3	15.3	3.6	4.2
Customs	95.3	95.3	93.4	-1.9	-2.0	0.9
Other tax revenues	119.7	119.7	124.7	5.0	4.2	1.2
Contributions	1,344.6	1,364.6	1,372.2	27.6	2.1	13.2
Non-tax revenues	445.1	443.2	455.2	10.1	2.3	4.4
Grants	38.3	38.3	38.3	0.0	0.0	0.4
PUBLIC EXPENDITURE	4,547.4	4,541.3	4,558.1	10.7	0.2	43.9
Current expenditures	3,743.6	3,745.8	3,771.4	27.8	0.7	36.3
Expenditures for employees	1,006.3	1,023.3	1,030.0	23.7	2.4	9.9
Purchase of goods and services	801.3	787.3	773.4	-27.9	-3.5	7.5
Repayment of interest	222.7	222.6	197.8	-24.9	-11.2	1.9
Subsidies	245.6	240.7	245.4	-0.2	-0.1	2.4
Social assistance and transfers	1,345.7	1,350.5	1,390.4	44.8	3.3	13.4
Of which: pensions	*1,042.0*	*1,042.0*	*1,044.9*	*2.9*	*0.3*	*10.1*
Other current expenditures	122.0	121.4	134.4	12.4	10.1	1.3
Capital expenditures	758.1	745.7	739.8	-18.3	-2.4	7.1
Net lending	23.6	27.7	24.8	1.2	5.0	0.2
Activated guarantees	22.1	22.1	22.1	0.0	0.0	0.2
Fiscal result	-314.0	-314.0	-314.0	0.0		-3.0
Fiscal result , % GDP*	-3.0	-3.0	-3.0	0.0		

Source: Ministry of Finance
* The original budget for 2025 has been adjusted for the purposes of comparability with the new estimate for the current year, by including amounts resulting from the expanded scope of the general government sector, which pertains to the inclusion and reporting of own resources (revenues and expenditures) of extrabudgetary users (public agencies and institutes). The total amount of these funds is 32.3 billion dinars on both the revenue and expenditure sides.

In line with fiscal developments observed so far in the year, the projection of total general government revenues for 2025 has been increased by RSD 10.7 billion, representing a 0.3% rise compared to the previously adopted fiscal framework. Although the overall amount has been adjusted only slightly, significant changes have been made in the revenue structure.

Taxes on income, including social security contributions, have been revised upward, as have excises, while the largest negative deviation was recorded in VAT revenues — representing both the most significant absolute and relative downward correction among all revenue categories.

Non-tax revenues have been increased compared to the previous projection, mainly due to changes in the timing and expectations regarding certain extraordinary non-tax inflows.

The key factors influencing the revision of the revenue levels and structure include:

• realization of revenues at the end of 2024 (base effect) and during the period January–September 2025;

• slower growth of private consumption compared to expectations;

• more favorable developments in the labor market;

• changes in the level and structure of extraordinary non-tax revenues.

The projection of personal income tax revenues has been increased by RSD 7.3 billion compared to the plan, and revenues from social security contributions have been raised by RSD 27.6 billion. These estimates result from more favorable wage and employment dynamics than initially assumed. The original projections were based on more conservative assumptions, particularly regarding average wage growth in the first months of 2025, which exceeded expectations. The revision also takes into account the estimated effects of reduced labor taxation applied in 2025. The main factors contributing to the upward revision of wage tax and social contribution projections are a positive base effect and favorable labor market trends observed so far during the year. Higher social contribution collection was also supported by government payments related to tax relief measures for employment. Other revenues within the personal income tax category (such as taxes on dividends, capital income, rental income, and the annual income tax) have also been revised upward, primarily due to base effects and slightly better-than-expected performance in the first months of the current year.

Corporate income tax revenues have been slightly increased despite significant refunds made to certain companies due to overpayments from the previous year. As final data on corporate profitability were not available at the time the budget was drafted, the revenue plan for corporate income tax was conservative. Payments based on the final tax assessment were made mid-year, and based on these, as well as initial payments of new advance installments, a slight upward revision was made for this tax category.

The most significant downward adjustment in absolute terms relates to VAT revenues, revised down by RSD 54 billion, or 5.1% compared to the originally planned amount. The main reasons for this correction are weaker VAT collection in the last quarter of 2024 and the continuation of this trend throughout 2025. Unlike in previous years, when certain specific factors — such as "panic buying," increased non-resident consumption, and other one-off effects — drove private consumption growth above income growth, an opposite trend is now evident. Consumption is lagging behind income growth, indicating heightened household caution and deferred spending amid increased uncertainty. Supporting this interpretation are data on the strong increase in household deposits (both transaction and term) in commercial banks. This suggests postponed, rather than permanently reduced, consumption, with the potential for part of the accumulated savings to spill over into demand once uncertainty subsides. At the same time, limits on retail margins may temporarily reduce nominal turnover but help preserve purchasing power, support disinflation, and thereby create a stronger foundation for sustainable real consumption growth and more stable medium-term VAT revenues. It is expected that these developments will gradually stabilize and reverse in the coming period, while fiscal credibility and predictability remain preserved despite persistent uncertainty in the environment.

Customs revenues were revised downward by RSD 1.9 billion compared to the amount planned in the budget. Although they largely mirror movements in import-based VAT, changes in the structure of imports (by type of goods and geographic origin) over the past three years have resulted in somewhat higher elasticity of customs revenues relative to the import base.

The projection of excise revenues has been revised upward by RSD 15.3 billion compared to the original 2025 fiscal framework. Of this, the estimate for excises on petroleum derivatives was increased by RSD 9 billion, and for tobacco products by RSD 6 billion. The projection of revenues from other excisable goods (electricity, alcohol, coffee) was slightly adjusted upward.

The growth in revenues from petroleum excises is primarily attributed to better collection toward the end of 2024. Part of this improvement stems from lower-than-planned implementation of excise refunds to agricultural producers. For 2025, it is projected that refunds will remain below the initially planned level, with aggregate consumption remaining within expected ranges.

In the area of tobacco excises, the upward revision of RSD 6 billion is mainly driven by higher-than-expected collections in the last quarter of 2024. When the 2025 budget was drafted, it was based on the assumption of a continued downward trend in tobacco consumption. Data for the first half of the year confirm that consumption is still declining, but at a slower pace than originally projected. Consequently, the upward revision of this tax revenue mostly reflects a base effect from the end of the previous year rather than a structural shift in consumption.

Following a period in which excise policy served as an instrument to mitigate inflationary pressures, regular indexation in line with the applicable regulatory framework has resumed since 2024.

Other tax revenues form a highly heterogeneous category, with property tax — a key source of revenue for local governments — accounting for the dominant share. Property tax revenues contributed the most to the positive revision of this group, increasing by RSD 5 billion.

The projection of non-tax revenues for 2025 has been raised by RSD 10.1 billion compared to the original plan. The planned payment from 5G license fees has been divided into two equal parts, to be realized in 2025 and 2026. Estimates of other non-tax revenues have been updated in line with current realization trends. Non-tax revenue projections at the local government level have been revised downward, consistent with observed collection performance.

Regular non-tax revenues include various types of fees, charges (including road tolls), fines, revenues of government bodies and organizations, and other stable sources with established collection dynamics throughout the year, subject to normal seasonal fluctuations. The upward revision in this segment mainly results from higher revenues from interest on term deposits of budget funds and fees for the use of public goods.

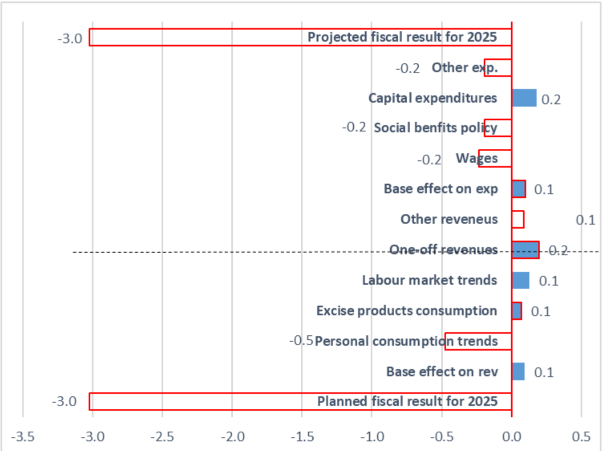
Extraordinary non-tax revenues, on the other hand, include profit transfers from public enterprises and agencies, budget dividends, revenues from the Deposit Insurance Agency's receivable recoveries, premiums from government securities issuance, and other one-off revenues.

In the context of continuous efforts to improve the quality and transparency of public finance statistics, 2025 saw further expansion of the general government statistical coverage by including all primary schools, with all sources of financing, in the reporting system. This process builds upon previous phases that incorporated healthcare institutions and secondary schools, as well as a number of extra-budgetary users (public agencies, scientific institutes, etc.), completed in 2024.

Such gradual expansion, consistent with international statistical standards, not only increases the volume of data monitored within the general government sector but also enables a more accurate allocation of expenditures by relevant economic classifications. As a result, certain categories of expenditures are now recorded under the exact economic positions where they were realized, contributing to greater transparency and accuracy in the presentation of public spending.

Although it was planned to include higher education institutions in reporting during 2025, the implementation of this phase has been postponed. Accordingly, the amounts of planned revenues and expenditures were adjusted in both directions — excluded from both the original plan and the revised framework — to ensure comparability. This reduction does not represent a deviation from the plan or a shortfall in execution, but rather a timing adjustment in the coverage expansion. On the revenue side, these corrections relate solely to lower projected non-tax revenues, while on the expenditure side, the largest portion corresponds to employee-related expenses in the mentioned institutions, with the remainder related to categories such as current expenditures and the procurement of goods and services.

Contribution of factors to the adjustment of fiscal result relative to the plan for 2025, in % GDP



In the revised fiscal framework for 2025, the projection of total general government expenditures has been increased by RSD 10.7 billion compared to the original plan, accompanied by significant structural adjustments. A notable increase was recorded in the category of employee compensation, while the estimated amounts for capital expenditures and expenditures for goods and services were reduced. The revision on the expenditure side primarily reflects a more realistic assessment of the pace and certainty of implementation of individual programs and projects by the end of the current year.

Expenditures for employees in 2025 were increased by RSD 23.7 billion compared to the original plan. This revision includes the effects of extraordinary wage increases in the education sector, implemented in two stages — in March and October — as well as in the healthcare sector in October 2025. The projection also includes total employee expenditures financed from other funding sources of primary schools, amounting to RSD 7.2 billion[1]. On the other hand, the postponement of including other funding sources for higher education institutions led to a reduction in both the original plan and the revised projection for this category by RSD 10.2 billion.

Expenditures for goods and services were revised downward by RSD 27.9 billion. The reduction mainly refers to expenditures from the national (Republic) budget, where, based on observed execution trends, the estimated realization by year-end was lowered. The postponement of including other funding sources for higher education institutions resulted in an additional reduction of RSD 18.4 billion in the projection.

Expenditures for social protection have been significantly increased in this fiscal framework. This increase primarily results from higher execution levels during 2024, as well as from the observed implementation of social protection measures so far in 2025.

Capital expenditures, according to the new estimate, were reduced by RSD 18.3 billion compared to the initial plan. This reduction is mainly due to changes in the implementation dynamics of certain infrastructure projects compared to initial planning assumptions. Despite these adjustments, capital expenditures in 2025 are expected to reach 7.1% of GDP, continuing the policy of maintaining a high level of investment in public infrastructure. Additionally, the postponement of including funds from other financing sources for higher and tertiary education resulted in a further reduction of RSD 3.6 billion in the projection of capital expenditures.

[1] Other sources of financing refer to all sources of financing, except source 01 – general revenues and receipts of the budget

Table 7. General government revenues, expenditures and fiscal result, January-August 2024 and 2025, in RSD bln

	I–VIII 2024	I–VIII 2025	I-VIII 2025/2024 % growth/decline	2025 plan/2024 growth rate, in %
PUBLIC REVENUES	2,571.2	2,719.6	5.8	7.7
Current revenues	2,559.6	2,710.7	5.9	7.3
Tax revenues	2,311.9	2,471.5	6.9	7.2
Personal income tax	261.5	286.3	9.5	7.8
Corporate income tax	224.3	211.3	-5.8	-2.8
VAT	626.1	647.3	3.4	5.3
Excises	279.5	291.3	4.2	4.9
Customs	57.4	60.4	5.3	4.5
Other tax revenues	77.6	87.0	12.2	7.5
Contributions	785.4	887.7	13.0	12.0
Non-tax revenues	247.7	239.2	-3.4	7.8
Grants	11.6	8.8	-24.0	80.3
PUBLIC EXPENDITURES	2,544.0	2,775.4	9.1	10.3
Current expenditures	2,184.8	2,399.5	9.8	11.6
Expenditures for employees	600.5	664.6	10.7	13.5
Purchase of goods and services	409.8	444.9	8.6	14.4
Repayment of interest	121.6	123.1	1.3	9.6
Subsidies	144.0	161.2	11.9	3.7
Social assistance and transfers	827.4	918.8	11.0	10.3
Of which: pensions	616.6	696.9	13.0	12.4
Other current expenditures	81.5	87.0	6.7	13.3
Capital expenditures	331.8	342.0	3.1	5.0
Net lending	9.7	16.1	67.2	18.5
Activated guarantees	17.7	17.7	0.1	-21.0
Fiscal result	27.2	-55.8	-305.2	

Source: Ministry of Finance

The state of arrears (delays of over 60 days)* of budget beneficiaries and mandatory social insurance organisations as of the last day of September 2025 amounted to RSD 18.4 billion. Budget beneficiaries and the public enterprise "Putevi Srbije" generated payment arrears of RSD 17.2 billion, while the arrears of mandatory social insurance organisations amounted to RSD 1.2 billion.

Table 8. Payment arrears of budget beneficiaries and mandatory social security insurance institution

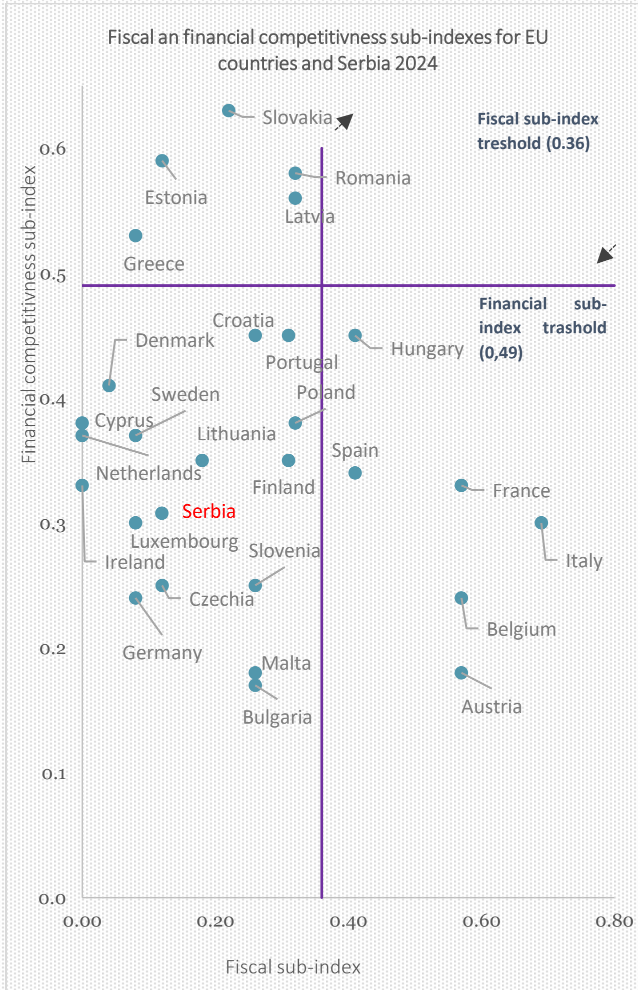
	31.12.2024.	**30.9.2025.**
Budget beneficiaries and PE "Putevi Srbije"	9.4	17.2
Mandatory social security insurance institutions	1.2	1.2
TOTAL	10.6	18.4

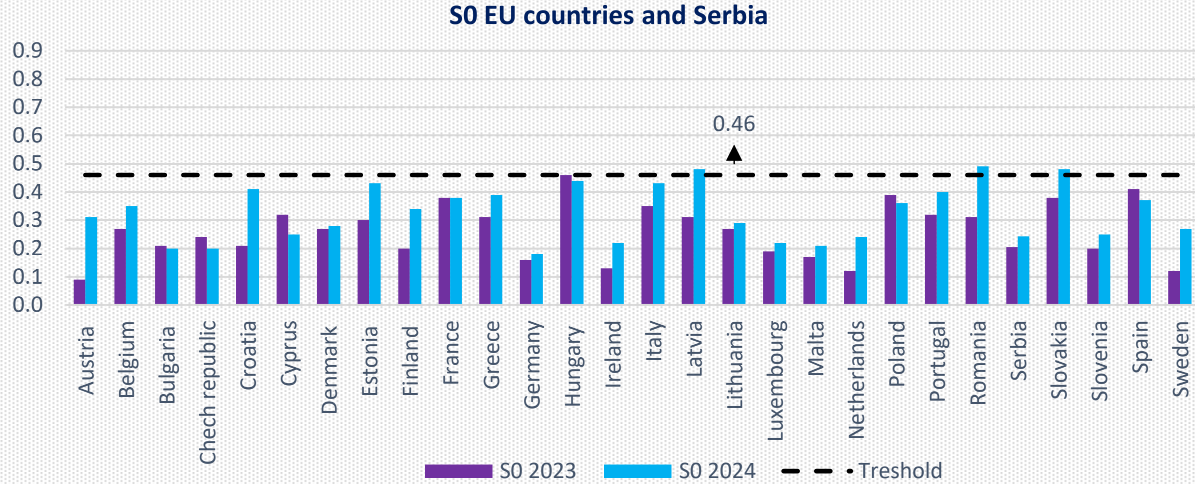
Source: Ministry of Finance; * In accordance with the definition used for IMF program monitoring.

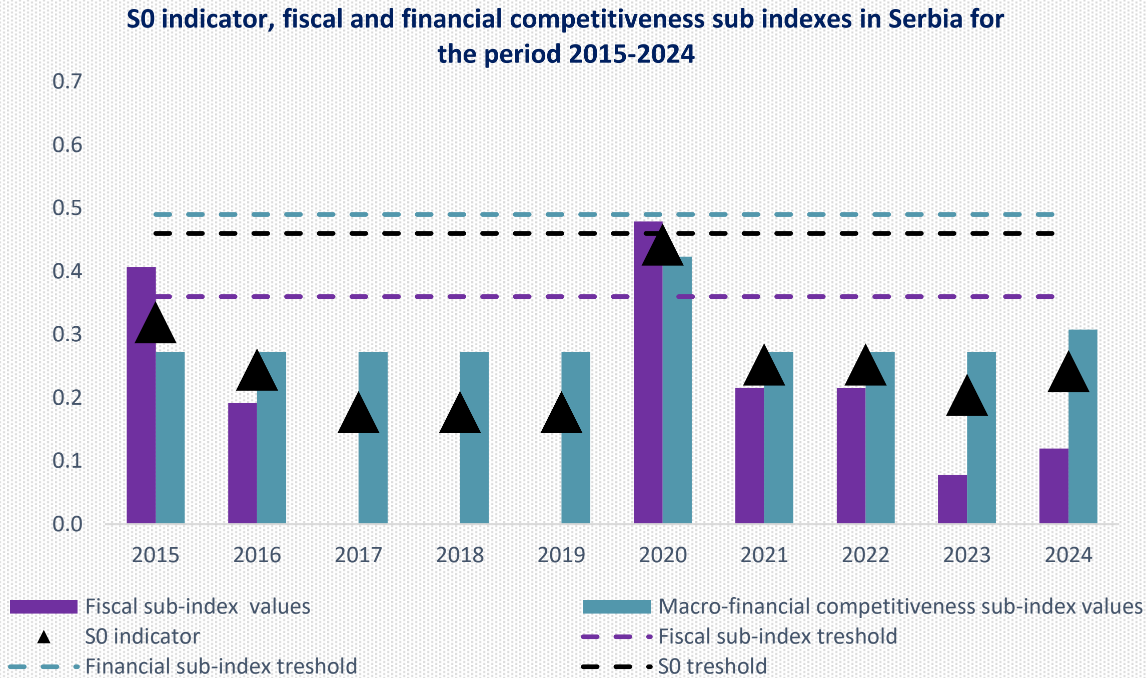
S0 indicator of short-term fiscal sustainability

The European Commission has designed the composite S0 indicator to assess short-term fiscal sustainability, aiming to anticipate fiscal stress in the following year by identifying potential short-term risks in the current year. If the value of the S0 indicator exceeds the defined threshold, the country is considered to be at short-term risk of fiscal stress. In addition to the overall indicator value, the values of sub-indices and their components are also examined in order to pinpoint the sources of risk. The S0 composite indicator consists of two sub-indices, each encompassing a range of fiscal and macro-financial sustainability variables. Values of these sub-indices below the defined threshold indicate the absence of short-term fiscal risk.

In 2024, the values of the fiscal (0.12) and financial (0.31) sub-indices remained within their defined thresholds, as did the value of the overall S0 indicator for the Republic of Serbia (0.24), which generally indicates that there is no risk of macroeconomic instability in the upcoming medium-term period. The successfully maintained macroeconomic and fiscal stability established in the previous period has provided room for swift and significant measures to support fiscal and monetary policy.







The calculation of the S0 indicator for the Republic of Serbia was conducted by the Ministry of Finance and is based on the European Commission's methodology.

Based on the European Commission's data for EU countries for 2023 and the Ministry of Finance's calculation for the Republic of Serbia, we conclude that most of the observed countries, including Serbia, were not exposed to short-term fiscal stress risk, as the S0 value does not exceed the defined threshold anywhere.

3. Fiscal Projections for the Period 2026–2028

The main objectives of fiscal policy in the medium-term period are directed toward preserving fiscal stability and further reducing the share of public debt in GDP, while at the same time ensuring sufficient space for priority public investments and measures that support potential growth. The projections of fiscal aggregates for the period 2026–2028 are based on macroeconomic assumptions and growth outlooks, the planned tax policy – which envisages further alignment with the EU acquis – as well as on fiscal and structural measures, including improvements in operations and corporate governance in large state-owned enterprises.

The medium-term fiscal framework is aligned with the investment cycle of the "Leap into the Future" program and the activities related to EXPO 2027. The investment-intensive phase implies a moderately expansionary but controlled fiscal position: the consolidated deficit is planned at the level of 3% of GDP through 2027, with a reduction to 2.5% of GDP in 2028. The planned deficit trajectory supports the declining path of public debt – from an estimated 45% of GDP in 2025 to around 44.1% in 2028, which is consistent with preserving fiscal credibility and resilience to shocks. At the same time, the primary deficit is maintained at a low level (around 0.7% of GDP by the end of the period), so that the cost of debt servicing remains sustainable under conditions of volatile global financial circumstances.

Table 9. Fiscal aggregates in the period 2024–2028, % of GDP

Description	Execution	Estimate	Projection		
	2024	2025	2026	2027	2028
Public revenues	40.4	40.9	40.9	40.1	40.0
Public expenditures	42.4	43.9	43.9	43.1	42.5
Consolidated fiscal result	-2.0	-3.0	-3.0	-3.0	-2.5
Primary consolidated result	-0.3	-1.2	-1.2	-1.2	-0.7
General government debt	46.9	45.0	44.5	44.3	44.1
Real GDP growth rate	3.9%	2.3%	3.0%	5.0%	3.5%

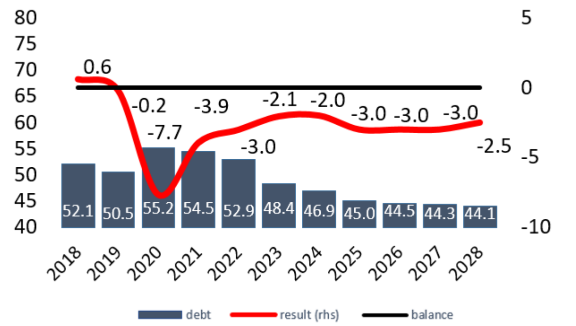
Source: Ministry of Finance

On the expenditure side, the priority remains capital investments with clear multiplicative effects – transport and energy infrastructure, digitalization, the green transition, and projects related to EXPO 2027 – along with strengthened discipline in current spending. The reform of public investment management aims to increase efficiency and transparency, in order to support productivity and long-term growth.

On the revenue side, fiscal policy is directed toward the further gradual reduction of the tax burden on labor and the broadening of the tax base through improved collection and the fight against the gray economy. The modernization of the tax administration continues (e-invoices, e-fiscalization, risk-based controls, etc.) as well as alignment with EU regulations. The revenue projection for 2026–2028 was prepared on the basis of:

- projections of key macroeconomic indicators (GDP and demand components, inflation, exchange rate, trade, employment and wages);
- current and planned changes in tax policy and
- the effects of fiscal and structural measures in the coming period

General government fiscal result and public debt, % GDP



A special priority is the management of risks arising from global fragmentation, more restrictive trade regimes, and climate policies. In this context, fiscal policy envisages protective mechanisms: conservative revenue budgeting under conditions of pronounced uncertainty, fiscal reserves in the event of shocks, as well as the strengthening of active debt management. These instruments reduce the sensitivity of the budget to external shocks and preserve space for countercyclical action should risks escalate.

The restructuring and professionalization of the management of state-owned enterprises are key to reducing quasi-fiscal risks and increasing the efficiency of public services. Business plans based on measurable performance, more transparent financial reporting, and the introduction of market principles are directed toward better management of the investment cycle.

Fiscal rules and medium-term fiscal planning remain the cornerstone of credibility. Controlled deficits (3% of GDP through 2027, 2.5% in 2028), a stable ratio of revenues and expenditures, along with declining public debt, provide a balance between supporting growth and preserving stability, in line with the best international practices.

Table 10. Total revenues and grants in the period 2024–2028, % of GDP

Description	Execution	Estimate	Projection		
	2024	2025	2026	2027	2028
PUBLIC REVENUES	40.4	40.9	40.9	40.1	40.0
Current revenues	40.2	40.5	40.6	39.8	39.7
Tax revenues	35.9	36.1	36.5	36.1	36.1
Personal income tax	4.1	4.2	4.2	4.2	4.3
Corporate income tax	3.0	2.8	2.7	2.6	2.6
VAT	9.8	9.7	9.8	9.7	9.7
Excises	4.3	4.2	4.1	3.9	3.7
Customs	0.9	0.9	0.9	0.9	0.9
Other tax revenues	1.2	1.2	1.2	1.1	1.1
Social contributions	12.6	13.2	13.6	13.7	13.9
Non-tax revenues	4.3	4.4	4.1	3.7	3.6
Grants	0.2	0.4	0.3	0.3	0.3

Source: Ministry of Finance

The economic environment, both external and internal, during 2025 and the estimates for 2026 are characterized by pronounced uncertainty and heightened risks. In addition to general macroeconomic trends, specific issues at the level of individual enterprises or industries may also affect economic activity and fiscal aggregates. Uncertainty regarding the supply of energy sources and restrictions on steel exports to the European Union market represent potential sources of shocks for the economy. Given these unpredictable circumstances, fiscal projections in the medium term have been formulated conservatively, thereby ensuring sufficient maneuvering space for economic policy action in the event of risk materialization.

Public revenues – structure, dynamics, and determinants. The declining trend of total public revenues, observed as a share of GDP, represents an expected consequence of the projected structure of medium-term growth of the Serbian economy, in which sectors with lower fiscal multipliers dominate. The revenue projection is based on the assumption of maintaining the existing level of collection.

Personal income taxes. The prevailing form of personal income tax in the Republic of Serbia is the tax on wages, and therefore the movements of the wage bill and employment are key factors determining its dynamics. It is expected that after 2027 the share of the tax on wages in GDP will slightly increase, as a result of rising employment and real wages, with the impact of changes in the non-taxable threshold. In 2026, an increase of the non-taxable threshold by 20.4% is planned, in order to further reduce the tax burden on labor. The effect of this measure is estimated to reduce revenues by 24.5 billion dinars, of which 17 billion relates to the tax on wages, and 7.5 billion to contributions for compulsory social insurance, due to the reduction of the tax base.

Other forms of personal income tax – such as the tax on dividends, tax on interest income, and the annual personal income tax – are expected to grow at a moderate pace, in line with general trends in economic activity. The combination of the dynamics of the tax on wages and other forms of personal income tax indicates a stable share of these revenues in GDP throughout the entire period, with a slight increase after 2027.

Social security contributions. The movement of the share of contributions in GDP follows the path of the tax on wages, as it is based on the same assumptions regarding the growth of wages and employment. However, the increase of the non-taxable threshold has a smaller impact on contributions than on the tax on wages. In line with the expected growth of the wage bill, contributions will also record a slight increase in their share of GDP in the coming period.

Corporate income tax. Revenues from corporate income tax in the period 2026–2028 are projected in accordance with the projection of key macroeconomic indicators, and primarily with the dynamics of economic growth, which determines the profitability of the corporate sector. The revenue estimate on this basis carries a certain degree of uncertainty due to the possibility of using tax credits, refunds, and differences between the accounting and tax balance sheets. It is expected that by 2028 collection will stabilize in line with GDP growth.

Value Added Tax (VAT). The main determinant of VAT movements is domestic demand driven by the disposable income of the population. Disposable income depends on the movements of wages, pensions, social transfers, remittances, and bank lending activity to households. Risks to the achievement of the VAT projection arise from possible fluctuations in wage growth in the private sector, consumption dynamics, and the efficiency of combating the gray economy. Although VAT collection in the current year was below expectations, partly due to increased household savings, a recovery and stabilization of collection is expected in the coming period, with a slight increase in the share of GDP in 2026.

The increase in collection efficiency will be encouraged by the continued modernization of the tax administration – through the digitalization of processes, integration of records, and improvement of risk analysis. The effects of combating the gray economy are not explicitly included in the medium-term revenue projections, but they represent a positive risk for fiscal performance.

Excises. The projection of excise revenue is based on the current excise policy and the projected consumption of excise goods. In the coming years, no increase in the consumption of petroleum derivatives is expected, while a further decline of the tobacco products market is envisaged. Revenues from excises on alcohol, coffee, and electricity move in line with the existing consumption structure, and starting from 2026 an excise tax will be introduced on compressed gas used to power motor vehicles. Overall, a slight downward trend in excise revenues is expected, given that inflation, as the main factor of the nominal growth of excises, will grow more slowly than nominal GDP.

Customs and other tax revenues. Revenues from customs stabilize at around 0.9% of GDP, in line with the expected trend of imports.

Other tax revenues, including property tax, which accounts for approximately 70% of this category, are expected to maintain a stable share in GDP. Nominal revenue growth on this basis may occur due to the expansion of the tax base (better coverage of real estate), which is not included in the basic fiscal scenario and represents a positive potential revenue. Other local taxes (on the use, holding, and carrying of goods) are projected in line with inflationary trends, given that inflation is incorporated into most of these forms of taxation.

Non-tax revenues and donations. The projected level of non-tax revenues in the coming period reflects the impact of collection of extraordinary and one-off revenues, including revenues from the auction of 5G licenses. In 2025 and 2026, revenue from the auction of 5G technology licenses is expected. In addition, in 2026 the introduction of revenues from other sources of financing for higher and tertiary education institutions into the reporting system is planned, which further mitigates the reduction of extraordinary revenues compared to this year. After this period, the share of non-tax revenues in GDP will gradually decrease and will amount to around 3.6% of GDP in 2028.

Extraordinary non-tax revenues – such as profit transfers from public enterprises and agencies, dividends, revenues from collected claims of AOD, bond issuance premiums etc. – remain inherently uncertain, both in terms of amount and timing of collection. Regular non-tax revenues (fees, charges, fines, etc.) are indexed to realized inflation or the growth of the tax base, which ensures their nominal stability.

In parallel with the approach to European Union membership, the volume of available funds from IPA and IPARD funds increases, representing the dominant source of revenue from donations. The projections also include funds from EU sectoral budget support. Revenues from donations are fiscally neutral, as they are recorded in the same amount on the expenditure side.

Expenditures, wages, and the social component. Responsible fiscal policy, in combination with stable macroeconomic performance in the previous period, has enabled the gradual relaxation of wage and pension policy and a significant increase in capital investments as a key component of growth. Special attention has been given to improving the efficiency of the execution of state capital expenditures. The social component of the budget has been enhanced through better targeting of social assistance programs and increased allocations for health and education. Wages and pensions, which together account for more than 45% of total expenditures of the general government sector, remain subject to careful monitoring, as their stabilization is crucial for the sustainability of public finances in the medium term.

Table 11. Total expenditure in the period 2024–2028, % of GDP

Description	Execution	Estimate	Projection		
	2024	2025	2026	2027	2028
PUBLIC EXPENDITURE	42.4	43.9	43.9	43.1	42.5
Current expenditure	34.7	36.3	37.0	36.4	36.1
Expenditures for employees	9.3	9.9	10.2	10.2	10.2
Purchase of goods and services	6.9	7.5	7.6	7.5	7.4
Interest payments	1.9	1.9	1.9	1.9	1.9
Subsidies	2.4	2.4	2.2	2.1	2.1
Social assistance and transfers	12.9	13.4	13.9	13.7	13.4
of which: pensions	*9.5*	*10.1*	*10.6*	*10.5*	*10.2*
Other current expenditures	1.2	1.3	1.2	1.1	1.1
Capital expenditures	7.2	7.1	6.7	6.4	6.1
Net lending	0.2	0.2	0.1	0.1	0.1
Activated guarantees	0.3	0.2	0.2	0.2	0.2

Source: Ministry of Finance

The fiscal space foreseen for wage growth in the coming period will increase moderately and in a controlled manner, with consistent monitoring of their share in GDP. The planned increase in 2025 is primarily a result of the expansion of the coverage of the general government sector and the rise of wages in education and health during the year, with the aim of implementing wage improvements within the framework of public finance sustainability and while preserving key fiscal indicators.

The legal framework is defined by Article 27e of the Budget System Law, which limits expenditures for employees in the general government sector to 10% of GDP. Wage adjustments in all institutions (entities) of the general government sector are conditioned by this limit, which is adjusted upward in the case of coverage expansion (inclusion of new entities) and downward in the case of its reduction (exclusion of entities)[2]. Thus, in 2023, due to the inclusion of funds from other sources of financing for healthcare institutions and secondary schools, with an estimated level of employee expenditures of 0.2% of GDP, the maximum limit was increased to 10.2% of GDP. During 2024, coverage was further expanded to include a number of extra-budgetary users (public agencies, institutes, and other entities), so that, given the wage level in these institutions of around 0.2% of GDP, the limit was raised to 10.4% of GDP. The inclusion of revenues and expenditures from other sources of financing for primary schools into the fiscal framework in 2025 raises the limit to 10.5% of GDP, while for 2026 the inclusion of other sources of financing for higher and tertiary education institutions is planned, which would increase the limit for employee expenditures to 10.6% of GDP.

The inclusion of expenditures from other sources of financing for indirect beneficiaries also affected spending on goods and services. It is estimated that the effect of including new entities increased the level of this category by around 0.2% of GDP in 2025, while further inclusion of indirect beneficiaries in 2026 projects an effect of 0.15% of GDP. Nevertheless, in the medium term, a gradual decrease in the share of expenditures on goods and services in GDP is expected, in line with rationalization measures and the improvement of public spending efficiency.

Social assistance and transfers to the population represent the largest expenditure category of the state budget, with pensions being the largest individual item and a key determinant of the trajectory of total expenditures for transfers and social protection (as a share of GDP). The application of the pension adjustment formula is determined by their share in GDP, in accordance with the special fiscal rule established in the Budget System Law: in 2024, pensions were indexed to wage growth; in 2025, the Swiss formula was applied; in 2026, pensions will be adjusted in line with the growth of the average wage (12.2%); and in 2027, adjustment according to the Swiss formula is planned. Other forms of social benefits and transfers to the population will be adjusted in accordance with the prescribed indexation, current and planned policy changes, as well as the projected number of beneficiaries.

In 2024 and 2025, a temporary increase in subsidies as a share of GDP is recorded, driven by increased allocations for agriculture, energy, and transport infrastructure. For the upcoming medium-term period, a slight decrease in subsidies is projected, so that their share of GDP at the end of 2028 would amount to 2.1%. In parallel, other current expenditures – which include grants to associations, political parties, religious and sports organizations, as well as fines and compensation for damages – are expected to gradually decrease as a share of GDP, in line with expenditure prioritization policy.

Despite challenges posed by the pandemic and the energy crisis, the efficiency of public investment execution has been significantly improved in recent years. In the medium term, further growth in public infrastructure investment is planned, driven by the decision to host the international EXPO 2027 in Belgrade and the implementation of the “Leap into the Future – Serbia 2027” program. The largest investment cycle will be directed toward road, railway, communal, and water infrastructure, while, in addition to transport projects, funds are also provided for capital investments in health, energy, environmental protection, education, culture, defense, and other priority areas of the

[2] New entities may be included in or excluded from the scope of the general government sector in accordance with the statistical criteria and international standards that define them

state. Although the trajectory of capital expenditures as a share of GDP is downward, high levels of investment are planned in absolute terms, with an emphasis on quality and timely execution.

The strategic orientation of fiscal policy in the medium term includes an increase in infrastructure investments at all levels of government. At the local level, priority is given to projects in water supply and sewage networks, waste management, and the improvement of local road infrastructure, thereby promoting more balanced regional development and enhancing the quality of life of the population. Within the medium-term fiscal framework, local governments – considered collectively – are expected to maintain an approximately balanced budget until the end of 2028, which is in line with trends in previous years when they achieved an overall surplus, primarily due to debt reduction dynamics. At the same time, it is emphasized that individual municipalities and cities may report a deficit in accordance with their own fiscal position, while respecting applicable fiscal rules.

The level of net lending and repayments on guaranteed debt is planned at a stable and low level throughout the entire period, totaling around 0.3% of GDP per year. This approach contributes to reducing refinancing risks and strengthens the stability of public finances, while leaving room for priority development-oriented expenditures.

Comparison with the Previous Programme

The medium-term fiscal framework essentially maintains continuity with that established in the Fiscal Strategy for the period 2026–2028. In relation to GDP, the projected levels of total revenues and expenditures have been adjusted upward, partly due to better performance in the current year and partly due to a downward revision of GDP. The targeted deficit levels remain unchanged, at 3% of GDP up to 2027, while for 2028 a further reduction of the fiscal deficit is projected, with a planned return to the limits established by the fiscal rule from 2029. The current level of public debt is significantly lower than expected, and in the coming period it is projected to fall below 45% of GDP, which allows for greater fiscal space and higher flexibility of fiscal policy than under conditions of high public debt.

Table 12. Comparison of the fiscal indicators of the two programmes, in % of GDP

	2024	2025	2026	2027	2028
Fiscal Strategy for 2026 – 2028					
Revenues	40.9	40.9	40.4	40.1	39.9
Expenditures	42.9	43.9	43.4	43.1	42.4
Fiscal result	-2.0	-3.0	-3.0	-3.0	-2.5
General Government debt	47.5	46.8	46.5	46.3	46.2
Revised Fiscal Strategy for 2026 – 2028					
Revenues	40.4	40.9	40.9	40.1	40.0
Expenditures	42.4	43.9	43.9	43.1	42.5
Fiscal result	-2.0	-3.0	-3.0	-3.0	-2.5
General Government debt	46.9	45.0	44.5	44.3	44.1
Difference					
Revenues	-0.5	0.0	0.5	0.0	0.1
Expenditures	-0.5	0.0	0.5	0.0	0.1
Fiscal result	0.0	0.0	0.0	0.0	0.0
General Government debt	-0.6	-1.8	-2.0	-2.0	-2.1

The response of the Republic of Serbia's tax policy to the implementation of the CBAM mechanism from 2026

From 1 January 2026, the European Union will fully implement the Carbon Border Adjustment Mechanism (CBAM), which represents one of the central instruments of the European Green Deal. The objective of CBAM is to prevent "carbon leakage" — the relocation of production to countries with lower environmental standards — and to ensure equal carbon pricing for products from the EU and those imported. Under this mechanism, EU importers will be required to purchase so-called CBAM certificates, the value of which corresponds to the amount of CO_2 emissions generated during the production of imported goods such as cement, iron, steel, aluminum, synthetic fertilizers, hydrogen, and electricity. The value of the certificates is based on the carbon price within the European Emissions Trading System (EU ETS), thereby effectively extending the application of European climate policy beyond the EU's borders.

From 1 January 2026, the Republic of Serbia will introduce a greenhouse gas (GHG) emissions tax as the central instrument of climate and fiscal policy. This measure represents a direct tax response to the implementation of the EU Carbon Border Adjustment Mechanism (CBAM), which from the same year will apply to imports of carbon-intensive products such as cement, iron, steel, aluminum, synthetic fertilizers, and electricity.

The aim of the law is to reduce GHG emissions by introducing the "polluter pays" principle and creating a financial incentive for the transition to low-carbon technologies. At the same time, this tax aims to preserve the competitiveness of domestic industry in the European Union market. By establishing a national mechanism for determining the carbon price, the Republic of Serbia ensures that this tax is recognized as an equivalent instrument to CBAM. The tax applies to carbon dioxide (CO_2), nitrous oxide (N_2O), and perfluorocarbons (PFCs) emissions arising from activities with the largest share in total national emissions. Revenues collected from this tax are directed to the budget of the Republic of Serbia and are used to finance the green transition — the development of renewable energy sources, energy efficiency, industrial decarbonization, and a just energy transition.

In addition to this law, the adoption of the Law on the Tax on Imports of Carbon-Intensive Products is planned, which aims to establish a symmetrical mechanism relative to the EU CBAM. This law introduces a fiscal measure ensuring that, upon import of products with a high carbon footprint into Serbia, a tax adjustment is applied according to the amount of emissions generated during production in the country of origin. In this way, "carbon leakage" is prevented, and domestic production subject to the domestic GHG emissions tax is protected. The law also aims to encourage importers to switch to environmentally friendlier suppliers and technologies, as well as to create a level playing field for domestic and foreign products in the Serbian market.

By adopting the Law on Greenhouse Gas Emissions Tax and the Law on the Tax on Imports of Carbon-Intensive Products, the state establishes a dual system of fiscal protection: a domestic carbon price that encourages emission reductions and a border tax that ensures fair market competition. Through these measures, the Republic of Serbia aligns with European climate policies (Chapter 27, European Green Deal, Paris Agreement) and gradually approaches the EU Emissions Trading System (EU ETS). Although, in the short term, the tax will increase production costs for a large number of energy-intensive economic entities, in the medium and long term it promotes technological improvement, energy efficiency, and access to European green economy funds. In conclusion, Serbia's tax policy on CBAM responds preventively by introducing a domestic GHG emissions tax, simultaneously enhancing environmental responsibility, strengthening fiscal sustainability, and ensuring a level playing field for domestic industry under the new European trade rules. Currently, both draft laws are in the public consultation process. Their effects are not yet included in the medium-term macroeconomic and fiscal framework, but they will be analyzed and incorporated into the Fiscal Strategy for 2027 with projections for 2028 and 2029, when full implementation and assessment of their impact on revenues, the economy, and public finances are expected.

Structural Measures to Improve the Stability and Sustainability of Public Finances

Macroeconomic Stability and Acceleration of Structural Reforms

The Republic of Serbia concluded a new arrangement with the IMF – a non-financial Policy Coordination Instrument (PCI) – on 9 December 2024, with a duration of three years. The agreed program aims to preserve macroeconomic and financial stability, continue the implementation of public investments while maintaining fiscal discipline and further reducing public debt, and promote inclusive and sustainable growth in the medium term through the implementation of an ambitious program of structural reforms. Special emphasis has been placed on further strengthening the resilience of the energy sector and creating conditions for significant investments in this area.

Upon approving the three-year Policy Coordination Instrument, the IMF praised the successfully implemented measures under the previous Stand-By Arrangement, which contributed to achieving excellent macroeconomic results in the Republic of Serbia. It was assessed that responsible fiscal policy, sustainable monetary stability, and significant progress in implementing key reforms are indicators of the Republic of Serbia's strong commitment to sustainable economic development. Despite challenging circumstances, the fiscal deficit and public debt were reduced, while inflation was returned within the permitted deviation from the NBS target. At the same time, strong economic growth, labor market stability, and record levels of foreign exchange reserves were recorded. The financial position of the state energy sector was significantly strengthened, while reforms in public investment management and state-owned enterprises achieved substantial progress. Moreover, the financial system was assessed as stable, which, together with the achieved economic results, contributed to the Republic of Serbia receiving an investment-grade credit rating from S&P Global Ratings for the first time in October 2024.

Fiscal rules were amended by the Law on Amendments and Supplements to the Budget System Law in December 2022. The deficit-to-public-debt limitation component has been postponed until 2029, and in the meantime, the targets set by the Fiscal Strategy will be applied. This adjustment is necessary due to the new investment cycle in the upcoming medium-term period (the "Leap into the Future – Serbia 2027" program), which foresees significant new investments in transport infrastructure, energy, agriculture, healthcare, education, culture, environmental protection, regional development, security, etc. The program implements comprehensive state modernization and raises citizens' living standards, thus contributing to GDP growth.

The medium-term plan foresees that state sector deficits will amount to 3% of GDP annually during the 2025–2027 period, and 2.5% of GDP in 2028, ensuring that public debt remains on a downward trajectory (from 45% of GDP at the end of this year to approximately 44% of GDP at the end of 2028) and well below the 60% of GDP limit (including restitution obligations) established by fiscal rules. Special fiscal rules regulating the growth of wages in the state sector and pensions have been in force since 2023, and, in line with these rules, wage and pension increases have been planned in the budget for 2026.

Given that fiscal rules pertain to the state sector, it was necessary to regulate the procedure and timeline for including new entities in the scope of the state sector, in accordance with the special sectoral classification methodology established by the Statistical Office of the Republic of Serbia (RZS), in accordance with the agreement between RZS, the NBS, and the Ministry of Finance. Furthermore, fiscal rules for local government continue to apply in the same manner as defined in 2010, when fiscal rules were first introduced in the Republic of Serbia.

Long-term sustainability of public finances

A comprehensive actuarial analysis of the pension system in the Republic of Serbia is currently underway, with its publication planned for the upcoming period. The analysis will assess the long-term financial sustainability of the system and its ability to ensure an adequate standard of living for pensioners, while simultaneously managing the fiscal pressures arising from population aging. Various macroeconomic and demographic scenarios will be considered. In parallel, a pension model is being developed that can be updated with new data in order to evaluate the impact of economic and demographic changes, as well as changes in system parameters, on the actuarial outlook of the pension system.

Human Resource Management in the Public Sector

In the upcoming period, reforms in employment, personnel management, and the wage system in the public sector are expected to continue. The goal of fiscal policy in the medium term is to maintain expenditure on employees at a sustainable level, while ensuring an adequate staff structure to provide higher quality public services. The existing employment system, managed by the Government Commission for Approval of New Hiring and Additional Work Engagement for public fund beneficiaries, will continue to operate during the transition period, until the new system becomes fully operational. At the end of 2020, amendments to the Budget System Law were adopted to allow institutions, during the transitional period (until the end of 2026), to hire new employees up to 70% of those leaving the institution or retiring, with the Commission's approval required if the number of new hires exceeds 70%. This measure aims to ensure greater flexibility in hiring at the institutional level, in accordance with their staffing needs. The central information system for public sector payroll, "Iskra," currently covers all direct budget users, institutions in culture, judiciary, labor and social protection, and education (excluding higher education institutions), health institutions, and local government units with indirect users (preschools, cultural, sports, and social protection institutions). The system enables better planning, execution, and control of employee payroll expenditures, greater transparency, and improved human resource management in the face of increasing competition from the private sector. Competition from the private sector, with its more attractive salaries, can lead to significant staff outflow if these reforms are not implemented. At this stage, employees in the defense, security, and internal affairs sectors, as well as institutions of higher and tertiary education, remain outside the system.

Based on this system, a report has been prepared providing data on the number of employees and salary ranges, which will assist in guiding future public sector employment policies. The report includes information on the occupancy of classified positions, salary amounts by pay grade, by specific job types, functions (public administration, education, healthcare, etc.), as well as other statistically relevant data (median, maximum, and minimum salaries, salaries by percentiles, historical data series), all of which can support reforms in this area.

Energy reform and the green transition

The crisis in Ukraine, through its negative impact on the energy market, has particularly highlighted the challenges and issues facing Serbia's energy sector. Additional challenges arise from the tightening of sanctions against the Russian Federation, which significantly jeopardize the supply of energy resources to the Serbian market. The identified problems can only be addressed through comprehensive reforms and diversification of energy supply, which are essential for ensuring energy security as well as fiscal and external sustainability.

Priority is given to restructuring large state-owned energy companies to increase their efficiency and reduce budgetary support and fiscal risks arising from their operations. The phased increase in energy prices (gas and electricity) was a necessary measure to offset the high procurement costs caused by exogenous factors. Since May 1 of last year, lower electricity prices have been provided to commercial customers by approximately 20%, in line with regional electricity price trends.

The methodology has been revised to protect consumers from sudden price shocks in the electricity market while combining price levels for regulated and unregulated sectors so that overall revenues can cover total costs, including funds needed for investments in new generation capacities. Ensuring affordable energy for households remains a priority. The implementation of block tariffs continues to provide lower electricity prices for consumption below a certain threshold. Considering the real increase in disposable income and the stability of regulated energy prices in the past period, support is planned for approximately 75,000 most vulnerable households.

The implementation of the EPS restructuring plan continues, which includes improvements in management, organizational structure, auditing processes, internal controls, and compliance with regulations. The plan also contains financial projections based on assumptions regarding adjustments of regulated tariffs. Acceleration of the implementation of this restructuring plan is planned. In accordance with the principle of transparency, EPS JSC and PE „Srbijagas“ will publish their financial plans. Furthermore, instead of 20, data on the 50 largest debtors to these two companies will be published on a monthly basis.

To improve the financial position of PE „Elektrodistribucija Srbije“ (EDS), an analysis of network usage fees paid by EDS, as well as fees paid by EDS and EMS to EPS for network losses, was completed in May 2025. The Integrated National Energy and Climate Plan of Serbia for the period up to 2030, with projections up to 2050, was adopted in July last year, marking a new stage in the development of Serbia's energy sector, aimed at greater supply security, increased share of clean energy sources, and enhanced environmental protection. The Integrated National Energy and Climate Plan is a key strategic document defining strategic objectives and the timeline for their implementation in the energy transition process. Policies and measures for achieving the objectives of this plan are grouped into five key dimensions: decarbonization, energy efficiency, energy security, internal energy market, and research, innovation, and competitiveness.

At the end of November 2024, the Energy Development Strategy of the Republic of Serbia until 2040, with projections until 2050, was adopted. The program for implementing the Energy Development Strategy until 2040, with projections until 2050, is in the process of public consultation and is expected to be adopted by the end of 2025. Serbia's energy sector is facing fundamental structural changes driven by both global and national circumstances, including economic, technological, and environmental changes, as well as internationally and nationally adopted development goals.

In May 2025, the Government adopted Amendments and Supplements to the Basic Principles of the Energy Infrastructure Development Plan and Energy Efficiency Measures for the period up to 2028, with projections up to 2030. For projects exceeding EUR 20 million in value, key information is included, such as expected returns, contributions to the green transition, potential financing sources, and other relevant project characteristics. The increase in gas prices during 2022 and 2023 contributed to stabilizing the financial situation of PE „Srbijagas“. The company recorded a positive financial result in 2024. At the beginning of the 2024/25 heating season, PE „Srbijagas“ implemented a new pricing system for the unregulated market. This reform included the introduction of new contract types and an increase in the company's margin to support future investment needs.

As part of the restructuring process, the certification of PE „Transportgas Serbia“ as an independent gas transmission system operator was successfully completed, formally separating it from PE „Srbijagas“. The completion of this process represents an important step toward full compliance with obligations under European energy regulations. A reduction of gas prices for industry by approximately 15% has been in effect since May 1 of last year. In May 2025, the existing gas supply contract with Gazprom Neft was extended, with a new agreement expected to be concluded in the coming period, although further cooperation is conditioned by geopolitical factors.

Meanwhile, investments are being made in key energy infrastructure, including new gas, oil, and electricity interconnections with neighboring countries. The Oil Industry of Serbia (NIS), a company of significant macroeconomic importance, has been under U.S. sanctions since October 8 of this year due to factors beyond the direct control of the state. Modalities are being sought to overcome the resulting crisis and mitigate the consequences of the sanctions. The Ministry of Mining and Energy, in cooperation with relevant institutions, is analyzing the possible effects of the sanctions and taking measures to mitigate impacts on supply, fiscal revenues, and economic activity.

The implementation of the green growth agenda continues as support for sustainable development. In preparation for the application of the CBAM (EU Carbon Border Adjustment Mechanism), the Republic of Serbia will adopt the relevant legislative acts—the Law on Greenhouse Gas Emissions Tax and the Law on the Taxation of Carbon-Intensive Imported Products. The Integrated National Energy and Climate Plan has been adopted, defining targets in emissions reduction, renewable energy sources, and energy efficiency. The continuation of incentives for private investments in renewable energy sources is planned. It should be noted that in 2025, the second auctions were held, which, together with the first auctions, bring a total of 1.2 GW of new private investments. In this regard, EPS JSC has entered a strong cycle of green investments with its 1.2 GW portfolio.

Management of State Ownership and Restructuring of State-Owned Enterprises

The Government, with the support of the European Bank for Reconstruction and Development (hereinafter: EBRD), adopted the Strategy for State Ownership and Management of Economic Entities Owned by the Republic of Serbia for the period 2021–2027 as a single act providing a strategic vision and guidance regarding the objectives of ownership management, financial and public policy goals, as well as principles of corporate governance and oversight in accordance with international standards and best practices. In April last year, an Action Plan for the implementation of this strategy was adopted. The Law on the Management of Companies Owned by the Republic of Serbia entered into force in September 2023 and began to be applied in September 2024. The Government remains committed to limiting the issuance of state guarantees. No new guarantees are planned for liquidity support to public enterprises, nor for companies that were under the jurisdiction of the Privatization Agency. The issuance of guarantees will be limited to project loans from multilateral institutions that are in line with investment and reform priorities.

For companies that constitute strategic companies from the portfolio of the former Privatization Agency, solutions are pursued either through privatization tenders or through bankruptcy. The budget provides sufficient funds to support the Public Enterprise Coal Mine “Resavica” in a transparent manner, ensuring that further accumulation of payment arrears to EPS a.d. does not occur, while the company faces the challenge of finding solutions for economically unsustainable mines that are nearing the depletion of remaining coal reserves, as well as planning the rationalization of production and operations in parts of the system where analysis shows economic viability, with an indication of potential privatization of certain parts. If privatization is not acceptable, the company will be managed in accordance with the new Law on the Management of Companies Owned by the Republic of Serbia.

Public Financial Management

Improving public finance management is necessary not only to support fiscal stabilization measures and structural reforms, but also as a process that enhances the quality of public administration and ensures an attractive environment for investors. During the preparation of this document, the Public Finance Management Reform Program for the period 2026–2030 is being finalized, with adoption expected by the end of this year. The process of strengthening the significance of the medium-term budget framework continues, in line with the Action Plan for Improving the Medium-Term Budget Framework, adopted in September 2023. The aim is to make medium-term budgeting more effective and binding, as well as to increase budget transparency. Medium-term limits set during the previous budget cycle are of great importance for the budget process, serving as a starting point in discussions with line ministries, while the ministries themselves are increasingly familiar with this budgeting approach, improving the quality of their assessments and projections, and consequently, the overall budget process. In May 2025, a methodology for preparing baseline budget scenarios was adopted, developed with technical assistance from the IMF, and applied in the 2026 budget cycle. It is expected that the assessment of fiscal space will become increasingly reliable as budget users gain experience with the new processes and the quality of data improves. Following recent testing, data exchange between the system for collecting budget users’ financial plans and the analytical planning and reporting platform has been enabled. Starting with the 2026 budget, the inclusion of a reconciliation table is planned to provide a clearer presentation of changes within budgetary frameworks. The concept of green budgeting is being introduced. In the 2025 budget cycle, a new methodology for marking “green” expenditures, adopted in 2024, was applied for the first time, and the first “green budget” was published. The next steps include integrating the “green annex” into the SPIRI system, applying green labeling in local government budgets, and providing additional training for budget users to more accurately identify projects considered relevant to climate objectives.

The System for Preparation, Execution, Accounting, and Reporting – SPIRI is an information system that uniquely supports all activities of the Ministry of Finance and the Treasury Administration related to the budget of the Republic of Serbia, thereby simplifying the workflow for users and enabling more efficient management of the public finance system. The system includes all direct budget users, as well as indirect users from the Ministry of Culture, the Ministry of Labor, Employment, Veteran, and Social Affairs, and the Administration for the Execution of Criminal Sanctions, as well as indirect users from the Ministry of Sports, the Ministry of Economy, the Ministry of Internal Affairs, and the Ministry of Education, who were not part of the previous system (ISIB), which SPIRI replaced at the beginning of 2023. Starting this year, the system covers all indirect users except for university institutions, local governments with indirect users, and the Autonomous Province of Vojvodina. This expansion required extensive training for future users, and additional support will be needed during the implementation period. Thanks to these improvements, the quality of public finance reporting throughout the year will be significantly enhanced, the quality of data will improve due to the expanded coverage, budget process transparency will increase, and adherence to the budget calendar will be strengthened. From 2026 onwards, budget users will be required to submit planned contractual expenditures to the Ministry of Finance for approval in advance, enabling the assessment of available funds before assuming financial obligations. Intensive work will continue on improving the register of multi-year obligations, including data on capital projects.

With technical support from the IMF, an analysis of tax expenditures is being conducted, and the first report on this topic is planned to be completed and published in 2026. In February 2025, a Fiscal Transparency Evaluation (FTE) was conducted in cooperation with the IMF. Based on the results, consultations with the IMF will continue to enhance the transparency of fiscal data. This includes publishing additional information on financial relations between the state and public enterprises, fiscal data at the municipal level, public-private partnerships (PPPs), fees for the exploitation of mineral resources, and subsidies to state-owned enterprises. Next year, a revision of the Law on Public-Private Partnerships and Concessions is expected, ensuring that all PPPs at the local level with a value exceeding €50 million must obtain approval from the Ministry of Finance. Starting from the 2026 Budget Law, Annexes 2 and 3 (Reports on the Execution of the Budget of the Republic of Serbia) will be expanded to include data on revenues, expenditures, and financing for the previous two years.

With the aim of improving the public investment management system, and particularly considering the development plan “Leap into the Future 2027,” which includes capital projects in the areas of transport infrastructure, EXPO 2027, and the construction of utility infrastructure, with a total value of approximately €14.6 billion, the Ministry of Finance continued in 2025 to implement the established legal framework to enable the execution of the project cycle. The existing legal framework has continued to provide the conditions for the proper selection of capital projects, ensuring that only ready capital projects are included in the budget projection, thereby achieving adequate planning and more efficient use of budgetary funds. In accordance with the Regulation on Capital Projects, the Ministry of Finance adopted five bylaws during the previous period, which further regulate the application of its provisions and significantly facilitate the implementation of the project cycle for all stakeholders. The Regulation provides criteria for the categorization and classification of capital projects, taking into account the estimated costs for their implementation, the source of financing, and the level of government responsible for executing the capital project. Its aim is to ensure that all capital projects that may have significant implications at the national, provincial, or local level are proposed, evaluated, selected, and monitored in a uniform manner. To establish a comprehensive and unified system for managing public investments, the Regulation on Capital Projects also prescribes the obligation to register and monitor capital projects of particular importance for the Republic of Serbia, as well as projects implemented through public-private partnerships or concessions.

Furthermore, the provisions of the Regulation on Capital Projects define that the Commission for Capital Investments and the Sub-Commission are working bodies established by the Government. Accordingly, the Government adopted the Decision on the Establishment of the Commission for Capital Investments, as well as the Decision on the Establishment of the Sub-Commission for Capital Investments. Subsequently, on 8 February 2024, a joint inaugural session of the Commission for Capital Investments and the Sub-Commission was held. At the inaugural session, the Rules of Procedure of the Commission for Capital Investments were adopted, regulating its mode of operation and decision-making, as well as the mode of operation and decision-making of the Sub-Commission, thereby creating the necessary precondition for the smooth functioning of these working bodies. In addition, at the inaugural session, a unified list of project ideas was adopted, which will be proposed for financing from the funds of the Western Balkans Investment Framework.

During 2024, the Commission for Capital Investments and the Sub-Commission carried out activities in accordance with their established competencies, holding regular and extraordinary sessions to review and adopt the proposed lists of capital projects.

In January 2025, the second extraordinary session of the Commission for Capital Investments and the Sub-Commission was held, during which, in addition to reviewing and adopting the Draft List of Projects in Preparation, a Decision was also adopted on the indicative ranking of capital projects planned for submission for financing under the Reform and Growth Instrument through the Western Balkans Investment Framework 2024–2027.

Subsequently, the fourth regular session of the Commission for Capital Investments was held on 11 September 2025, during which the Draft List of Project Ideas, the Draft List of Projects in Preparation, and the Draft List of Prepared Projects were adopted, as well as decisions were made regarding projects proposed for adjustment.

In accordance with the conclusions of the Strategic Political Dialogue on Public Administration Reform held in October 2024 with the European Commission, the Ministry of Finance committed to adopt, by December 2026, following prior consultation with the European Commission, a Policy Document and the accompanying time-bound Action Plan for the Improvement of Public Investment Management, and to have, by the end of December 2027, also following prior consultation with the European Commission and in line with the best international standards, an adopted enhanced legal framework for public investment management, establishing a unified, comprehensive, and transparent mechanism for prioritizing all public investments, regardless of type or source of financing.

During 2025, the Policy Document in the area of public investment management was prepared, in line with the obligations undertaken under the Strategic Political Dialogue. A public consultation process was conducted for this document in accordance with the Law on the Planning System, after which the document was submitted to the European Commission. In the upcoming period, the Ministry of Finance will, in consultation with the European Commission, work on preparing the accompanying Action Plan, so that both documents can be proposed for adoption by the Government within the established deadlines. The Capital Projects Sector of the Ministry of Finance presented to the members of the Capital Investment Commission the prepared Concept of Policies (Foundations for the preparation of roadmaps in the field of public investments), as well as the draft report on the public consultations conducted for this document. These activities laid the groundwork for the development of the Action Plan, i.e., the Roadmap in the field of public investments. In parallel with the work on improving the legal framework, efforts were made to upgrade the Centralized Public Investment Projects Database (Public Investment Management Information System

– hereinafter: PIMIS), which has been adapted to the new legal framework. An information system was created to enable comprehensive and transparent implementation of the project cycle defined by the Regulation on Capital Projects. The establishment and operationalization of PIMIS has achieved: improvement in the speed and efficiency of business processes in the area of monitoring capital projects, simplified access and approval procedures, and minimization of errors in data entry and the input of project documentation at all stages of the project cycle.

Reforms in the area of public procurement are also a very important field, given the significant importance and value of public investments. The current Public Procurement Law, prepared with the support of the EU, is aligned with EU acquis and aims to improve competitiveness and transparency in procurement procedures. In this regard, the Public Procurement Administration will continue to monitor and report annually on all public procurements, including, in the upcoming period, those exempted from the regular public procurement regime under this law, specifying the basis on which such exemptions were made. Going forward, it is necessary to ensure continuous alignment of the entire public procurement framework with EU acquis. It is also necessary to ensure that all procurement transactions in the public sector are conducted through the e-Procurement Portal, while striving to create conditions for increasing the number of bids per procedure. With this in mind, work is being carried out to improve the functionality of the Public Procurement Portal to facilitate the implementation of the provisions of the Public Procurement Law. Additionally, training is being conducted for public procurement officials, as well as for police officers regarding the monitoring of public procurements and the most common irregularities in this area.

The new Action Plan for the Transformation of the Tax Administration for the period 2021–2025 is being successfully implemented. Adopted in May 2021, it defines strategic directions and timelines for activities necessary to create a modern tax administration, which, through the use of contemporary electronic processes, will provide better and more comprehensive services to taxpayers, improve revenue control and collection, and promote the fight against the shadow economy, alongside the reform and modernization of inspection oversight. The reform of the Tax Administration continues with the implementation of IMF recommendations and with the support of the World Bank. In May 2022, a new fiscalization model (e-fiscalization) was introduced, under which the first round of audits was conducted. The new system contributed to a reduction in discrepancies among taxpayers and a lower number of negative audit opinions. The electronic invoice system (e-invoicing) was the next step, implemented at the beginning of 2023. Procurement of a new commercial software system within the Tax Administration modernization project, conducted with the support of the World Bank, has been completed, and implementation is expected to begin soon. The system's operation will be supported by a new human resources management information system, expected to be introduced by the end of 2025, as well as document and archive management systems. Continuous monitoring and analysis of the VAT gap and the corporate income tax gap are ongoing, with current work focusing on identifying data shortcomings and adjusting analytical tools. The Tax Administration publishes lists of the largest tax debtors, i.e., notices of tax debt amounts for taxpayers whose debts exceed 20 million dinars, and will continue this practice at least once a year. The adoption of the Law on Determining the Origin of Assets and Special Tax, along with the establishment of a dedicated organizational unit within the Tax Administration, has created conditions for cross-analysis of individuals' assets and income, with the first audit cases completed last year. Strengthening of this organizational unit will continue. Addressing staffing issues within the Tax Administration remains an urgent and important task. The Tax Administration faces staff attrition due to retirements and the need to prepare personnel for the new IT system. Efforts are underway to increase the number of employees, including public recruitment campaigns and significantly larger hiring quotas for 2025, along with more initiated recruitment processes. In addition, recruitment procedures and related challenges are being analyzed, with the announcement of the forthcoming Human Resources Plan for 2025–2028.

Improving the quality and transparency of public finance statistics is being carried out through the enhancement of comprehensive, timely, and automated data exchange between the competent institutions—the Statistical Office of the Republic of Serbia, the National Bank of Serbia, and the Ministry of Finance—in accordance with the Agreement on Cooperation in the Field of National Accounts Statistics of the General Government Sector and Related Statistics. In April 2018, the Statistical Office of the Republic of Serbia published a list of institutions that constitute the general government sector, as well as other sectors, in accordance with the European System of National and Regional Accounts (ESA 2010), the System of National Accounts (SNA 2008), and the Government Deficit and Debt Manual, prepared in cooperation with the National Bank of Serbia and the Ministry of Finance. Since mid-2021, the Public Debt Administration has been publishing quarterly Maastricht debt data, prepared by the National Bank of Serbia in accordance with ESA 2010. A project is underway in cooperation with the IMF aimed at building, within the Treasury as the central information system and comprehensive database, a system that will enable the collection and consolidation of data for the general government sector both according to the national methodology and the GFSM 2014 methodology, including monthly public debt reporting, through the gradual inclusion of institutions in its coverage. As of this year, the system covers all indirect budget users, except for universities, and in the upcoming period, the inclusion of all relevant extra-budgetary users and public enterprises belonging to the general government sector is expected. This will be accompanied by monthly reporting and projections based on the new coverage and will also influence the further alignment of limits defined by fiscal rules through amendments to the Budget System Law. Since May 2009, the Republic of Serbia has been a member of the International Monetary Fund's General Data Dissemination System (GDDS), and since 2015, a member of the Enhanced General Data Dissemination System (e-GDDS), which replaced and succeeded the GDDS. The e-GDDS represents a structured system aimed at improving the quality and dissemination of data in the fields of economic, financial, and sociodemographic statistics of IMF member countries. In cooperation with the Statistical Office of the Republic of Serbia, the National Bank of Serbia, the Ministry of Finance, and the Belgrade Stock Exchange, a National Summary Data Page (NSDP) for the Republic of Serbia has been prepared within the e-GDDS framework, which has been published on the website of the Statistical Office. The page uses the standardized Statistical Data and Metadata Exchange (SDMX) system, serving as a single medium for publishing the main macroeconomic and financial data of the Republic of Serbia. Last year, the Statistical Office of the Republic of Serbia carried out a major (benchmark) revision of the national accounts, during which, among other improvements, methodological enhancements accumulated since 2019 in the field of macroeconomic statistics and national accounts were implemented. The Statistical Office and the National Bank of Serbia are jointly working on compiling financial and non-financial accounts of the general government sector in accordance with GFSM 2014, with the aim of starting data submission to the IMF and Eurostat in 2026. Given the progress achieved regarding national accounts and the quality of fiscal statistics, consideration will be given to applying for the Special Data Dissemination Standard (SDDS).

4. Fiscal Risks

Subject and meaning of the term

Fiscal risks represent the exposure of public finances to certain circumstances that may cause deviations from the projected fiscal framework. Deviations may occur in revenues, expenditures, the fiscal result, as well as in the assets and liabilities of the state, compared to what was planned and expected. The Government cannot influence external risks, such as natural disasters or global financial crises, but it is possible to define exit strategies that would mitigate their effects (maintaining stability in good times so that fiscal policy has room for an adequate response in times of recession or crisis, insurance against natural disasters, etc.). Internal risks, on the other hand, and their materialization, are the result of activities within the public sector; therefore, the probability of their realization can be influenced by government decisions and policies.

Identifying the most significant fiscal risks that may affect public finances in the medium term is the starting point for better fiscal risk management. For certain fiscal risks, there are detailed data, and it is easy to identify whether and with what probability they will affect fiscal aggregates in the medium term. For others, however, there are no sufficiently detailed data, but even their identification raises awareness of the possibility that, in the coming period, they may lead to deviations from the planned fiscal framework.

The Ministry of Finance plays a leading role in managing fiscal risks. As the key institution for medium-term macroeconomic and fiscal planning, formulation, and budget management, the Ministry of Finance must also play a leading role in establishing the institutional and legal framework and building the capacities necessary for fiscal risk management. Until November 2024, fiscal risk monitoring within the Ministry of Finance was carried out by the Fiscal Risk Monitoring Department, and since November 2024, fiscal risk monitoring has been conducted by the Budget Sector, within which the Fiscal Risk Monitoring Department was established. Within this Department, two divisions were formed: the Division for Monitoring Fiscal Risks for the Budget of the Republic of Serbia and the Division for Monitoring Fiscal Risks and Financing of Local Self-Governments. The Department was established with the aim of strengthening the legal framework and methodological basis, building capacities, and developing technical tools and models necessary for monitoring and assessing fiscal risks. The intention is that the results of these activities will be the identification and assessment of risks and the proposal of exit strategies, as support to the Government in preserving the stability of public finances, which is the key goal of fiscal policy and one of the main prerequisites for more dynamic economic growth.

In order to implement the aforementioned fiscal risk monitoring process, in October 2021, the Unified Methodology was adopted, prepared with the assistance of the World Bank, which includes four basic methodologies:

1. Methodology for Monitoring Fiscal Risks Arising from the Operations of State-Owned Enterprises;
2. Methodology for Monitoring Fiscal Risks to the Budget of the Republic of Serbia Arising from the Competences of Local Self-Government Units;
3. Methodology for Monitoring Fiscal Risks Arising from Court Proceedings;
4. Methodology for Monitoring Fiscal Risks Arising as a Consequence of Natural Disasters.

Main Fiscal Risks for 2024–2025

During the autumn of 2021, disruptions occurred in the global energy market. The crisis in the energy sector only followed the already existing crisis caused by the COVID-19 pandemic. Due to increased demand driven by post-pandemic economic recovery and supply problems — that is, insufficient supply and inadequate reserves — natural gas prices reached historical highs. This spurred demand for other energy sources, whose prices also rose sharply. High prices of other energy sources, combined in Europe with reduced wind power generation and high CO_2

emission allowance prices, led to electricity prices also reaching historical highs.

It has been demonstrated repeatedly that an increase in the price of one of the main energy sources, such as oil or gas, leads to an increase in other market prices. This was further influenced by the situation and crisis in Ukraine, which brought to the forefront the issue of energy security and Europe's dependence on Russian fossil fuels. This sequence of events caused electricity and natural gas prices worldwide to rise significantly above normal levels. The energy crisis inevitably spilled over into Serbia, with energy companies — primarily "Elektroprivreda Srbije" JSC (EPS) and the public enterprise "Srbijagas" — being the most affected.

Due to the high electricity prices that endangered the operations of business entities in the Republic of Serbia, as well as the energy entities engaged in electricity transmission and distribution activities (in connection with electricity procurement for losses), it was recommended that "Elektroprivreda Srbije" JSC supply those entities at prices lower than market prices, thereby exposing EPS to financial risk, as the risk of price increases was fully transferred to "Elektroprivreda Srbije" JSC.

At the end of 2024, "Elektroprivreda Srbije" JSC achieved a net profit of RSD 24.4 billion. In 2024, the company realized significant investments in the energy sector, with the newly constructed B3 unit at the "Kostolac" thermal power plant beginning operation, thereby increasing the total production capacity and providing additional security for the electric power sector of the Republic of Serbia. Also, in the previous year, the desulphurization plant at TENT A was completed and put into operation, contributing to the reduction of sulfur dioxide emissions and compliance with European and domestic environmental standards. During 2025, all construction works on the desulphurization plant at TENT B were completed.

In the first half of 2025, the construction of the solar power plant "Petka," with a capacity of 9.75 MW, was completed, while the construction of the first EPS wind farm in Kostolac, with a capacity of 66 MW, entered its final phase. Thus, by the end of 2025, "Elektroprivreda Srbije" JSC will increase its production capacity by an additional 76 MW of green energy.

The Council of the Energy Agency of the Republic of Serbia approved the decision on the electricity price for guaranteed supply, effective from October 1, 2025. The average electricity price for customers entitled to guaranteed supply at regulated prices (households and small customers) is higher than the existing average price by 6.6%, due to the increase in the price of access to the transmission and distribution system. It was also approved to lower the boundary between the red and blue zones from 1,600 kWh to 1,200 kWh.

In 2024, "Elektroprivreda Srbije" JSC adopted a Transformation Plan defining changes in organizational structure and improvements in operational and financial processes. Although positive developments have been made, the main challenge for the coming period is to continue the initiated reforms and to implement the energy transition, which will enable a gradual shift toward increasing energy production from renewable sources. This will undoubtedly require financial consolidation and significant investment spending.

Another important enterprise in the electricity sector, playing a crucial role in ensuring energy stability, is "Elektrodistribucija Srbije" LLC (EDS), which has been operating independently since 2021 (previously part of EPS JSC until 2021). In 2024, EDS's basic revenues from network charges were not sufficient to ensure sustainable operations. Operating income was not enough to cover the current level of operating expenses, due to cost-side inflation and unchanged tariffs for access to and use of the distribution system. EDS ended 2024 with a net loss of RSD 6.9 billion. The Council of the Energy Agency of the Republic of Serbia approved the decisions on the access price for the transmission system and the access price for the electricity distribution system, effective from October 1, 2025. The total increase in the approved transmission price in 2025, compared to the approved price as of October 1, 2021, amounts to 10%, while the total increase in the approved electricity distribution price, compared to the price approved as of October 1, 2021, calculated on the 2025 balance sheet, amounts to 16%.

Despite facing numerous challenges in the previous period, a positive aspect of EDS's operations is significant investment spending. During 2024, the "Distribution Network Reconstruction" project was completed, which replaced over 34,000 wooden poles with concrete ones, as part of the modernization of the low-voltage network. In 2025, EDS began the second phase of large-scale low-voltage network reconstruction, investing RSD 6.2 billion in the installation of new concrete poles and self-supporting cable bundles. The plan is to refurbish a total of 2,200 kilometers of the low-voltage network and install 33,000 concrete poles by spring 2026.

Within the "Smart Meter" project, about 600,000 smart meters have been installed so far, with EDS providing an additional 150,000 smart meters from its own funds. Starting in October 2025, the replacement of 200,000 smart meters will begin, financed by an EBRD loan and an EU grant. EDS's plan is to have 950,000 smart meters installed on the network by the end of 2026. The "Medium-Voltage Distribution Network Automation" project, implemented in cooperation with Schneider Electric, is also ongoing. These investment projects will address one of the main structural problems of EDS, significantly improving distribution networks and reducing network losses. The Republic of Serbia has recognized the challenges faced by this company, and for 2025, continued support is planned in the form of state guarantees totaling up to RSD 18.2 billion.

Regarding the public enterprise "Srbijagas," unfavorable market trends in 2021 and 2022 and the financial position of natural gas distributors led the Republic of Serbia to participate in financing the purchase of reserve gas quantities, as well as co-financing regular procurements. Through a proactive operational approach since 2022, additional gas storage capacities in Hungary were secured, from which stored quantities were periodically withdrawn during the 2023/2024 winter season, while the remaining quantities provided additional supply security during the 2024/2025 winter season. The last gas selling price adjustment was made at the end of 2023. In 2024, activities continued on the construction of gas pipelines in the territory of the Republic of Serbia and the creation of conditions for supply route diversification, adequate gas infrastructure, and future secure supply of natural gas to consumers. During 2025, "Srbijagas" continued to implement its policy of energy security and reliable natural gas supply to consumers, consistently operating within its public service mandate. Particular focus was placed on implementing investment activities, especially strategic infrastructure projects, which form the basis for further development of the gas sector, contribute to strengthening the country's energy stability, and represent an important factor for the sustainable economic growth of the Republic of Serbia. Further investments in gas infrastructure are expected in the coming period.

The railway sector remains one of the priority areas of public investment, given its strategic importance for transport connectivity, economic development, and energy efficiency. In 2025, investments continue in the modernization of railway infrastructure, procurement of new rolling stock, and digitalization of railway systems, supported by international financial sources and national budget funds. Planned projects, such as the continuation of Corridor X modernization and the construction of high-speed railways toward regional centers, aim to increase capacity, safety, and attractiveness of rail transport, contributing to cost reduction and lower greenhouse gas emissions in line with the green transition. At the same time, it is necessary to carefully manage the fiscal risks arising from the scale of borrowing for large railway projects and high subsidies, especially amid challenges brought by the global economic crisis.

The public enterprise "Roads of Serbia" represents one of the most important public companies in the field of road infrastructure maintenance and development in the Republic of Serbia, whose role is to ensure high-quality, safe, and sustainable roads, which directly impact the country's economic development as well as regional and international connectivity. The increase in energy and construction material prices in the previous period affected maintenance and construction costs of road infrastructure, further burdening the company's financial resources. "Roads of Serbia" generates most of its revenue from toll collection, which represents a reliable source of financing for its regular activities. Given the scope of ongoing maintenance and investment projects, it is sometimes necessary to secure additional funds from the budget of the

Republic of Serbia, in the form of subsidies or transfers, to efficiently implement planned activities and maintain financial stability. With the planned toll increase, higher budget inflows, and expenditure rationalization measures in 2025, liquidity improvement and strengthening of the company's financial position are expected. In this regard, "Roads of Serbia" will continue implementing road safety and modernization projects.

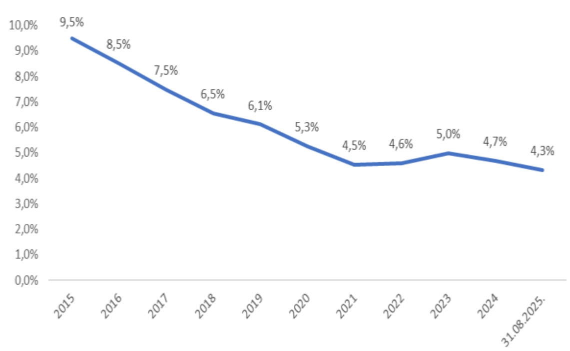
In addition to "Roads of Serbia," an important role in the development of road infrastructure is also played by the company "Corridors of Serbia" LLC, whose operations are partially financially supported by state funds, ensuring continuity in the implementation of infrastructure projects and supporting business stability.

Fiscal Risk Analysis

State Guarantees

State-issued guarantees affect the level of public debt, but also the level of the deficit, in cases where the state assumes loan repayment on behalf of the original debtor. According to the definition provided by the Law on Public Debt[3], issued guarantees are considered part of indirect liabilities and are included in the total amount of public debt. As of August 31, 2025, the total public debt of the general government sector amounted to RSD 4,516.8 billion, representing 43.5% of GDP[4], of which direct liabilities accounted for RSD 4,285.3 billion (41.3% of GDP), indirect liabilities RSD 195.5 billion (1.9% of GDP), and other non-guaranteed debt of the general government sector RSD 36.0 billion (0.3% of GDP).

Share of indirect debt in general government debt (in %)



The restrictions imposed on the issuance of new guarantees over the past ten years have produced results, as the share of indirect liabilities in total public debt has been decreasing year after year. Indirect liabilities (guarantees issued by the Republic of Serbia) accounted for 9.5% of the general government debt at the end of 2015, while at the end of 2024 they represented 4.7% of the general government debt. As of August 31, 2025, indirect liabilities accounted for 4.3% of the general government debt.

When analyzing the structure of guaranteed debt by beneficiaries, it can be observed that in 2024 and 2025, "Elektroprivreda Srbije" JSC assumed the leading role. In 2022 and 2023, the largest share of guaranteed debt was held by the public enterprise "Srbijagas." The share of "Elektroprivreda Srbije" JSC in total indirect liabilities amounts to 35.1% (RSD 68.7 billion), while the public enterprise "Srbijagas" accounts for 28.4% (RSD 55.5 billion), and the public enterprise "Roads of Serbia" for 9.3% (RSD 18.2 billion).

[3] Law on Public Debt ('Official Gazette of the Republic of Serbia', Nos. 61/05, 107/09, 78/11, 68/15, 95/18, 91/19 and 149/20)

[4] The estimated GDP for 2025 is 10,377.9 billion dinars (Ministry of Finance)

Table 13. Guaranteed debt status by users, billion dinars

User	2021	2022	2023	2024	31.08.2025
"Elektroprivreda Srbije" JSC	42.7	40.6	58.5	81.9	68.7
"Srbijagas" PE	27.7	55.1	79.1	58.0	55.5
Railway Enterprises (Total)	31.7	31.2	26.3	25.6	22.0
" Roads of Serbia " PE	30.0	26.5	23.0	20.5	18.2
Local Government Units (Cities and Municipalities)	21.1	19.2	17.3	15.4	14.4
Others	9.2	8.8	8.6	13.0	16.8
Total:	**162.5**	**181.4**	**212.8**	**214.4**	**195.5**

Source: Ministry of Finance

The level of guaranteed debt among railway companies (“Serbian Railways” JSC, “Infrastructure of Serbian Railways” JSC, “Srbija Voz” JSC, and “Srbija Kargo” JSC) has fluctuated significantly from 2020 to the present day. In 2020 and 2021, “Serbian Railways” JSC held the leading position in terms of the level of guaranteed debt, while since 2022, that position has been assumed by the railway company “Srbija Voz” JSC, due to the EBRD loan intended for the procurement of rolling stock and the reconstruction and modernization of regional depots.

When observing the level of debt secured by state guarantees by creditors, as of August 31, 2025, the highest exposure was toward commercial banks (domestic and foreign debt) in the amount of RSD 79.1 billion, or 40.5% of total indirect liabilities, and toward the European Bank for Reconstruction and Development (EBRD) in the amount of RSD 47.9 billion (24.5%). This is followed by liabilities to the European Investment Bank (EIB) amounting to RSD 38.4 billion (19.7%), the German Development Bank amounting to RSD 21.4 billion (11.0%), and the Japan International Cooperation Agency amounting to RSD 6.3 billion (3.2%).

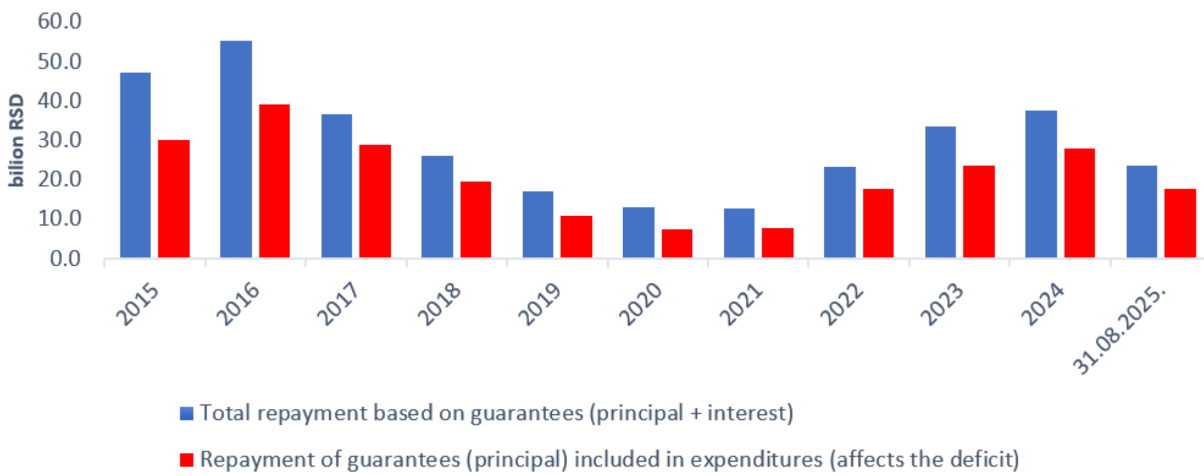
Table 14: Guaranteed debt status by creditors, billion dinars

Creditors	2021	2022	2023	2024	31.08.2025
Business banks' loans	30.8	58.2	82.8	78.3	79.1
European Bank for Reconstruction and Development (EBRD)	40.1	39.4	54.6	60.1	47.9
European Investment Bank (EIB)	59.7	53.5	47.9	42.5	38.4
German Development Bank	7.9	9.3	10.5	21.8	21.4
Japan International Cooperation Agency (JICA)	16.0	17.1	13.7	8.8	6.3
Others	8.0	4.0	3.3	2.8	2.3
Total	**162.5**	**181.4**	**212.8**	**214.4**	**195.5**

Source: Ministry of Finance

Principal amounts of guaranteed loans serviced from the Budget of the Republic of Serbia in 2024 amounted to RSD 30.4 billion (RSD 27.2 billion in 2023), of which RSD 27.9 billion affects the deficit. Accounting methodology, up until 2014, did not include repayments under guarantees as expenditures. Since 2014, a portion of these expenditures has been included in budget expenditures. Regardless of the budgetary and accounting presentation, the debt repaid by the state on behalf of the main debtor increases total borrowing needs.

Total repayment under guarantees serviced from the Budget of the Republic of Serbia, RSD billion



Indirect debt, as well as the inclusion of a portion of repayments under guarantees in budget expenditures and the resulting increase in the deficit, has raised awareness of growing fiscal risks arising from issued guarantees. Therefore, measures have been taken to limit the issuance of new guarantees. According to the amendments to the Law on Public Debt, Article 16, paragraph 3, the Republic of Serbia may issue guarantees only if the loan funds for which the guarantee is issued are used to finance the debtor's capital investments. The Republic of Serbia may not issue guarantees if the loan funds for which the guarantee is issued are used to finance the debtor's current operations or liquidity needs. Amendments to the Law on the Development Fund of the Republic of Serbia have further prohibited the issuance of counter-guarantees for guarantees issued by the Development Fund of the Republic of Serbia.

In addition to the restrictions on issuing state guarantees, the key step in reducing and mitigating fiscal risks arising from this source lies in the reform of state-owned enterprises—the beneficiaries of guarantees—so that they become capable of repaying their loans. A number of enterprises that are among the largest beneficiaries of guarantees are currently undergoing restructuring processes, or implementing restructuring plans prepared in cooperation with international financial institutions.

According to the Law on the Budget of the Republic of Serbia for 2025, Article 3A, the issuance of guarantees is planned up to a maximum amount of RSD 365 billion. Article 41 of the same Law allows the total volume of issued guarantees to be increased, for the purpose of maintaining and strengthening financial stability, or for preventing or eliminating the consequences of extraordinary circumstances that may endanger human life and health or cause large-scale damage, by up to RSD 20 billion, upon the proposal of the ministry responsible for finance.

Table 15. Plan for the issuance of guarantees in 2025, RSD billion

Users	Number of projects	Domestic and foreign commercial banks	European Investment Bank	European Bank for Reconstruction and Development	EUROFIMA	KfW	AFD	Total by Enterprises
"Elektroprivreda Srbije"JSC	5	265.3		7.9		3.5		276.7
"Srbijagas" PE	2	31.9						31.9
"Elektrodistribucija Srbije" LLC	2	6.4	11.7					18.2
,,Transnafta" JSC	1	17.6						17.6
"Srbijavoz" JSC	2			4.9	10.6			15.5
"Elektromreža Srbije" JSC	2					4.1	1.4	5.5
Total by Banks	**14**	**321.3**	**11.7**	**12.8**	**10.6**	**7.6**	**1.4**	**365.4**

Source: Budget law of the Republic of Serbia for 2025.

Out of the total planned guarantees for 2025, the Law stipulates that “Elektroprivreda Srbije” JSC shall be provided with guarantees in the amount of up to RSD 276.7 billion (75.7% of total planned guarantees) to support five investment projects, the most significant of which are: Construction of self-balancing solar power plants with a capacity of 1 GW and battery energy storage systems (RSD 222.8 billion), HPP Upper Drina – HPP Buk Bijela (RSD 29.3 billion), and Construction of renewable energy sources and revitalization of hydroelectric power plants (RSD 13.2 billion), among others.

The public enterprise “Srbijagas” plans to continue capital investments in the distribution network in 2025, with guarantees planned for capital investments for the development of the distribution network, including metering stations, as well as the rehabilitation of the gas pipeline system and strengthening of transport and storage capacities of the gas network in the Republic of Serbia, as well as for the Serbia–North Macedonia gas pipeline, in the total amount of RSD 31.9 billion (8.7% of total planned guarantees).

“Elektrodistribucija Srbije” LLC plans significant capital investments in 2025, with guarantees of up to RSD 18.2 billion (5.0% of total planned guarantees) envisaged by the Law for the projects *Improvement of DSO Reliability at EEO* (RSD 11.7 billion) and *Improvement of the Distribution Network* (RSD 6.4 billion).

Structural reforms of state-owned enterprises, enabling them to compete in the market and achieve financial sustainability on the one hand, and limited and targeted issuance of new guarantees on the other, will contribute to reducing fiscal risks arising from this source and to maintaining expenditures within the planned, i.e. projected, framework over the coming medium-term period.

State-owned enterprises (SOEs)

The operations of state-owned enterprises represent a significant source of fiscal risks, both on the side of budget revenues and expenditures. State-owned enterprises face numerous challenges in their operations, ranging from the collection of receivables to the regular settlement of obligations to creditors, the state, and employees, among others. The state, as their founder and sole owner, is responsible for their operations and serves as their primary support in cases of illiquidity.

There are several channels through which fiscal risks related to the operations of state-owned enterprises may materialize. The largest, but not the only, risk is state guarantees provided for the loans of state-owned enterprises. The sustainability, efficiency, and profitability of state-owned enterprises affect budget revenues, specifically the amount of profit they contribute to the budget. The quality of products and services provided by state-owned enterprises influences the efficiency and profitability of the private sector and, ultimately, the level of taxes paid to the budget.

The Budget Sector – Department for Monitoring Fiscal Risks monitors the operations of 36 strategic enterprises that are majority-owned by the Republic of Serbia and represent a significant segment of the Serbian economy. At the end of 2024, these enterprises employed approximately 66,000 people.

The operations of state-owned enterprises are regulated by the Law on Management of Companies Owned by the Republic of Serbia, as well as by subsector-specific laws that define particular areas, including the Law on Energy, the Law on Companies, and others.

Table 16. Overview of the largest enterprises by total revenue at the end of 2024, billion dinars

Public Enterprises	Sector	Number of employees	Total revenue	Total expenses	Net result
"Elektroprivreda Srbije" JSC	Energy	19,203	458.3	426.5	24.4
"Srbijagas" PE	Energy	919	190.8	176.5	8.4
"Elektrodistribucija Srbije" LLC	Energy	8,552	108.7	116.4	-6.9
"Putevi Srbije" PE	Construction	2,221	60.3	71.7	-11.4
"Elektromreža Srbije" JSC	Energy	1,461	43.1	38.8	3.5
"Pošta Srbije" PE	Transport and Storage	14,032	36.4	34.0	2.1
"Jugoimport-SDPR" PE	Wholesale and Retail Trade	357	23.4	22.2	0.4
"Serbian Railways Infrastructure" JSC	Transport and Storage	5,705	19.5	24.0	-4.7
"Srbija Kargo" JSC	Transport and Storage	2,050	11.6	14.3	-2.7
"Srbijasume" PE	Agriculture, Forestry, Fishing	3,061	11.1	10.9	0.2
Other 26 enterprises	Other	8,422	44.5	46.8	-2.4

Source: Financial reports for 2024. (APR)

State-owned enterprises monitored by the Budget Sector – Department for Monitoring Fiscal Risks operate in various sectors. By number, the largest share of state-owned enterprises operates in the tourism sector (primarily due to national parks) and in transport (railway companies). When considering total revenues as well as the number of employees, it can be concluded that state-owned enterprises in the energy sector play the leading role. In 2024, enterprises from this sector accounted for 80.6% of the total revenues generated by all 36 state-owned enterprises.

Performance of state-owned enterprises

The total assets of state-owned enterprises at the end of 2024 amounted to RSD 3,652 billion, consisting mainly of fixed assets, which accounted for 87.4%, as most state-owned enterprises operate in capital-intensive industries. Total liabilities include loans, obligations to suppliers, and other liabilities, and they increased significantly between 2021 and 2022, in line with the emergence of energy shocks on the market. Loan liabilities at the end of 2024 accounted for 37.1% of total enterprise liabilities, and 36.8% at the end of the second quarter of 2025.

Table 17. Key financial indicators of state-owned enterprises, RSD billion

Description	2022	2023	2024	Q2 2025
Total assets	3,454	3,587	3,652	3,646
Fixed assets	2,936	3,074	3,194	3,231
Current assets	513	507	456	412
Total equity	1,896	2,048	2,056	2,076
Total liabilities	1,559	1,539	1,597	1,570
Loan obligations	650	596	592	578

Source: Financial reports (APR) and quarterly report for 2025.

The total net result determined in the second quarter of 2025 is a profit of RSD 18.9 billion. The result for the current year has been adjusted for depreciation costs of the public enterprise "Roads of Serbia," as the enterprise records these costs only at the end of the year in their full amount for the given year.

Table 18. Key Business Indicators of State-Owned Enterprises as of 30.06.2025, in Billion Dinars

Description	2022	2023	2024	Q2 2025
Operating income	905.2	1,018.5	971.9	478.5
Operating expenses	950.9	871.0	920.8	453.8
Wages expenses*	118.5	128.1	140.0	73.9
EBIT (Operating Result)	(45.7)	147.4	51.7	24.8
Total revenue	937.7	1,057.4	1,007.8	503.2
Total expenses	1,006.0	924.7	982.0	477.6
Net result	(68.8)	113.7	10.9	18.9
Number of profitable SOEs	**25**	**28**	**27**	**20**
Number of loss-making SOEs	**11**	**8**	**9**	**16**

*Wages, wage supplements, and other personnel expenses

Source: Financial Statements (APR) and Quarterly Report for 2025

The net result at the end of 2024 was positive, amounting to RSD 10.9 billion, representing an improvement compared to 2022, when state-owned enterprises recorded a negative net result. The net result for 2023 should be considered separately from other years, taking into account the historic profit achieved by "Elektroprivreda Srbije" JSC in that year (RSD 112.4 billion). When analyzing quarterly financial indicators, it is necessary to consider that a certain number of enterprises have a seasonal component in their operations.

Table 19. Overview of subsidy recipients (36 SOEs) and their share in total budget expenditures of the Republic of Serbia

Year	2021	2022	2023	2024
Number of subsidy recipients (out of 36 SOEs)	25	25	27	27
Subsidies paid (RSD billion)	67.2	56.0	67.9	62.3
Total budget expenditures (RSD billion)	1,751	1,915	2,068	2,354
% of subsidies paid / budget expenditures	***3.8%***	***2.9%***	***3.3%***	***2.6%***

Source: Ministry of Finance

The majority of subsidies are primarily used by enterprises for capital projects, while a certain number of enterprises also use them to maintain current liquidity. The share of subsidies paid in total budget expenditures ranges from 3% to 4% from year to year.

Table 20. Overview of the five largest subsidy recipients from the budget of the Republic of Serbia, RSD billion

Enterprises	2021	2022	2023	2024
"Infrastructure of Serbian Railways" JSC	13.8	12.8	17.0	17.3
Public Enterprise "Roads of Serbia"	29.2	22.6	25.0	13.2
"Elektrodistribucija Srbije" LLC	0.0	0.1	3.4	12.7
Public Enterprise "PEU Resavica"	8.5	4.8	5.5	5.5
"SrbijaVoz" JSC	3.8	4.4	5.1	5.3
Other SOEs	12.0	11.3	11.9	8.2
Total subsidies paid	**67.2**	**56.0**	**67.9**	**62.3**

Source: Ministry of Finance

The largest subsidy recipient during the indicated period is "Infrastructure of Serbian Railways" JSC, whose subsidies are primarily intended for infrastructure management. In 2024, subsidies paid to state-owned enterprises amounted to RSD 62.3 billion, representing a total share of 6.2% in the total revenues of the 36 state-owned enterprises, which is higher than the previous year. Subsidies paid to the five largest recipients accounted for 86.9% of total subsidies paid.

In addition to "Infrastructure of Serbian Railways" JSC, the largest subsidy recipients are Public Enterprise "Roads of Serbia," which primarily uses the funds for regular and extraordinary road maintenance, followed by Public Enterprise PEU "Resavica" and "SrbijaVoz" JSC. Furthermore, in 2024, significant funds were allocated to support "Elektrodistribucija Srbije" LLC for projects such as the replacement of metering devices, installation of smart meters, and the procurement of distribution and energy transformers, as part of efforts to strengthen energy stability and improve the state's infrastructure capacities.

Table 21. State-owned companies that achieved net profit in the period 01.01–30.06.2025. in million dinars

Companies	Realised in 2022	Realised in 2023	Realised in 2024	Planned 01.01 - 30.06.2025	Realised 01.01 - 30.06.2025
"Elektroprivreda Srbije" JSC	(72,634.5)	112,446.8	24,431.1	12,321.7	27,351.6
PE "Srbijagas"	5,488.7	12,029.8	8,373.9	7,818.5	4,832.8
PE "Post of Serbia"	2,967.4	3,174.4	2,102.3	1,356.0	2,557.7
"Elektromreža Srbije" JSC	8,145.6	3,024.9	3,508.3	491.6	1,389.9
PE „Skijališta Srbije"	242.3	59.6	44.5	377.3	457.2
PE "Jugoimport-SDPR"	392.5	601.7	445.0	361.8	204.5
"Srbijasume" PE	737.9	725.7	173.1	17.6	119.8
„Dipos" LLC	143.2	193.4	226.6	88.1	118.3
"Transnafta" JSC	344.4	279.0	217.9	19.8	68.8
PE „Nacionalni park Kopaonik"	11.1	10.1	12.1	40.6	52.0
"Železnice Srbije" JSC	(1,237.8)	(167.7)	(1,001.8)	(126.0)	49.2
"State Lottery of Serbia" LLC	292.5	273.3	148.0	24.1	42.2
PE "National Park Tara"	6.9	15.8	14.7	3.9	35.1
"Prosvetni pregled" LLC	23.9	27.1	20.7	27.4	25.3
PE "Nuclear Facilities"	15.0	16.0	60.8	0.0	23.5
PE "National Park Fruška Gora"	3.2	2.1	1.8	0.5	19.1
PE "National Park Đerdap"	13.6	15.6	7.1	5.8	16.1
PE „Emisiona tehnika i veze"	45.4	48.9	42.6	(137.9)	8.8
"Park Palić" LLC	2.2	0.3	1.1	1.9	5.3
"Metohija" LLC	1.5	1.1	1.9	3.4	0.1
Total:	**(54,995.0)**	**132,777.8**	**38,831.6**	**22,697.3**	**37,377.2**

Source: Financial Reports (SBRA) and Quarterly Report for 2025

In the second quarter of the current year, 20 enterprises recorded a profit totaling RSD 37.4 billion, which is higher than the planned profit of RSD 22.7 billion (64.7%). The largest contributions to the positive net result in the observed period came from "Elektroprivreda Srbije" JSC and Public Enterprise "Srbijagas," which achieved net profits of RSD 27.4 billion and RSD 4.8 billion, respectively.

Compared to the number of profitable enterprises at the end of the second quarter, 16 enterprises recorded a negative net result amounting to RSD 18.5 billion, which is lower than the planned net result of RSD 9.5 million. The largest contributions to the negative net result in the observed period came from Public Enterprise "Roads of Serbia" and "Elektrodistribucija Srbije" LLC, which recorded net losses of RSD 10.9 billion and RSD 4.3 billion, respectively.

Table 22. State-owned companies that incurred net loss in the period 01.01–30.06.2025. in million dinars

Companies	Realised in 2022	Realised in 2023	Realised in 2024	Planned 01.01 - 30.06.2025	Realised 01.01 - 30.06.2025
"Putevi Srbije" PE	(5,121.8)	(6,818.9)	(11,421.5)	15,021.1	(10,897.4)
"Elektrodistribucija Srbije" LLC	249.8	(1,206.0)	(6,932.9)	(2,411.8)	(4,298.8)
"Serbian Railways Infrastructure" JSC	(5,283.7)	(7,204.0)	(4,672.5)	(1,199.8)	(1,542.0)
"Srbijavoz" JSC	(344.2)	176.0	(258.9)	(468.4)	(607.0)
"Serbia Cargo" JSC	(1,432.1)	(1,671.7)	(2,668.9)	(605.8)	(504.7)
PE PEU "Resavica"	(1,621.1)	(2,152.4)	(1,623.7)	(608.9)	(311.7)
PE "Textbook Publishing Institute"	(213.6)	(96.8)	(323.4)	(169.2)	(199.0)
Public Shelter Enterprise	(112.9)	(117.3)	(79.4)	(68.9)	(40.8)
PE "Official Gazette"	8.4	6.8	28.2	17.2	(38.2)
"Corridors of Serbia" LLC	0.0	0.0	0.0	(0.0)	(18.5)
Public Water Management Enterprise "Srbijavode"	37.8	16.1	23.7	(84.9)	(15.1)
"Nature Park Mokra Gora" LLC	0.0	7.7	5.6	2.0	(5.8)
PE "Stara Planina"	3.0	2.4	4.6	8.6	(5.4)
PE "Mreža-Most"	3.4	4.3	1.7	0.0	(5.3)
"Uvac Reserve" LLC	(0.1)	3.3	2.6	0.0	(1.3)
"Golubac Fortress" LLC	(5.6)	9.0	1.6	(3.6)	(1.1)
Total:	**(13,832.7)**	**(19,041.5)**	**(27,913.1)**	**9,515.2**	**(18,492.0)**

Source: Financial Reports (SBRA) and Quarterly Report for 2025

During 2024 and 2025, the Budget Sector – Department for Fiscal Risk Monitoring, in cooperation with the World Bank, carried out a review of the Altman Z-score model used for assessing fiscal risks of state-owned enterprises.

Table 23. Results of the adjusted Altman Z-score by year for 36 state-owned enterprises

Risk Type	2022	2023	2024
Low	**23**	**23**	**20**
Medium	**4**	**6**	**10**
High	**9**	**7**	**6**

Source: Ministry of Finance

According to official financial reports as of December 31, 2024, applying this model to 36 state-owned enterprises identified that 16.7% of enterprises are high-risk, 27.8% are medium-risk, and the remaining 55.5% are low-risk in operations. State-owned enterprises with medium operational risk are primarily from the energy sector, railway transport, and construction-technical branches. Observed over annual periods, there is a continuing downward trend in high-risk enterprises, from 10 high-risk enterprises in 2021 to 6 at the end of 2024.

Risk quantification represents one of the main challenges in assessing and materially expressing risk. According to the model applied by the Budget Sector – Department for Fiscal Risk Monitoring, risk quantification involves identifying and presenting potential expenditures that may arise for individual enterprises, representing a potential threat to the budget of the Republic of Serbia, as they may lead to unplanned interventions in the repayment of obligations by state-owned enterprises. These expenditures are commonly referred to as “expected expenditures,” representing a statistical calculation that includes a combination of the probability of expenditure occurrence and the size of annual debt obligations, as some of the most sensitive and largest expenditures potentially requiring budgetary support.

According to the model results, the total fiscal risk, i.e., expected expenditure, for 36 state-owned enterprises for 2025 is estimated at approximately RSD 8.1 billion. These results indicate the necessity for continuous monitoring and risk management to mitigate potential financial consequences for public finances, while simultaneously developing measures to strengthen the stability of these enterprises.

Estimates for the next three years indicate that expected expenditures will amount to RSD 9.6 billion in 2026, RSD 7.6 billion in 2027, and are projected to decrease to RSD 3.5 billion in 2028. Considering that the size of expected expenditures is directly influenced by annual debt obligations, any new borrowing by enterprises would increase expected expenditures, highlighting the importance of debt control and sustainable management of financial obligations.

The Ministry of Finance will continue to improve analyses, collect qualitative information, and enhance the model to make it more comprehensive and accurate, providing a reliable basis for risk management and supporting the sustainability of public finances.

Profit Payments

Profit payments by state-owned enterprises and dividends from capital companies in which the state holds ownership represent a component of non-tax revenues. The budget revenue depends on the successful operation of these enterprises. Regular profit and dividend payments are considered regular non-tax budget revenue, while payments from retained earnings are treated as one-off income and do not constitute a permanent source of revenue.

Enterprises established by the Republic of Serbia, or in which the Republic of Serbia holds an ownership stake, are required to pay at least 50% of the proportional share of profit from the financial statements for the previous year to the budget of the Republic of Serbia no later than November 30 of the current budget year, in accordance with the law governing enterprises, which grants the Republic of Serbia its share as a member of the company.

Exceptionally, with the consent of the Government, an enterprise is not obliged to pay profit if it decides to cover losses, increase capital, or use the funds to finance investments.

Table 24: Share of paid profit in the total revenues of the budget of the Republic of Serbia

	2021	2022	2023	2024
Total revenues of the budget of the Republic of Serbia (in billion dinars)	1,465.4	1,680.3	1,889.1	2,141.6
Non-Tax revenues of the budget of the Republic of Serbia (in billion dinars)	156.6	170.8	193.9	248.9
Paid profit of companies (in billion dinars)	4.6	1.9	4.3	1.6
% share of paid profit in total revenues of the budget of the Republic of Serbia	*0.3%*	*0.1%*	*0.2%*	*0.1%*
% share of paid profit in non-tax revenues of the budget of the Republic of Serbia	*2.9%*	*1.1%*	*2.2%*	*0.6%*

Source: Ministry of Finance

During 2024, the 36 state-owned enterprises monitored by the Budget Sector – Department for Fiscal Risk Monitoring paid RSD 1.6 billion into the budget of the Republic of Serbia on this basis.

The total profit paid by enterprises into the budget of the Republic of Serbia in 2024 represented 0.1% of total budget revenues (2023: 0.2%), or 0.6% of non-tax budget revenues (2023: 2.2%). In the structure of payments in 2024, the dominant contributions came from Public Enterprise “Post of Serbia” with RSD 0.6 billion and Public Enterprise “Srbijašume” with RSD 0.4 billion.

Table 25: Profit payments to the RS budget by enterprises for 2023 and 2024, RSD billion

Profit Payers	2023	2024
Public Enterprise Post of Serbia	1.2	0.6
Public Enterprise Srbijashume	0.4	0.4
Jugoimport-SDPR	0.2	0.3
State Lottery of Serbia	0.1	0.1
Dipos	0.1	0.1
Other enterprises	2.3	0.1
Total	**4.3**	**1.6**

Source: Ministry of Finance

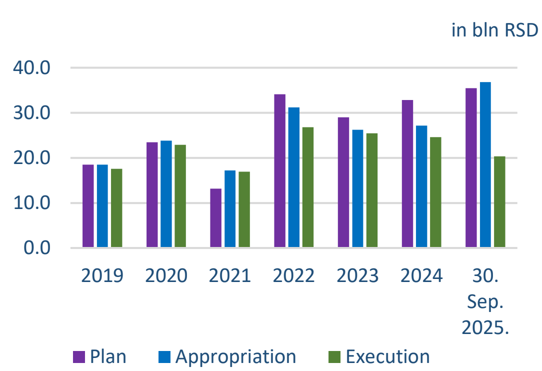
Mitigation of potential risks arising from the operations of state-owned enterprises includes a series of measures related to accountability, profitability, and transparency in the operations of these enterprises.

Court Proceedings

Due to numerous court proceedings before domestic and international courts, where the financial burden falls on the Republic of Serbia as the defendant, various fiscal risks have been identified, arising from uncertainty regarding the outcomes of these processes.

In 2022, the Republic of Serbia paid RSD 26.8 billion from the budget based on monetary fines and penalties per court rulings (economic classification 483), as well as compensation for damages caused by state authorities (economic classification 485). In 2023, these payments amounted to RSD 25.4 billion, and in 2024, they totaled RSD 24.6 billion. As of September 30, 2025, budget execution on this basis amounted to RSD 20.4 billion.

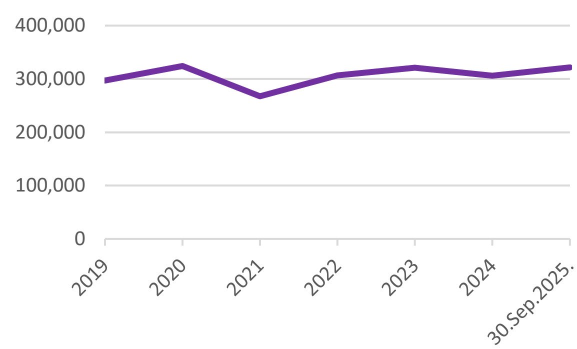
Budget Plan, Appropriations, and Execution of the Republic of Serbia by Economic Classifications 483 and 485 from 2019 to September 30, 2025



Source: Ministry of Finance, Treasury Administration, Budget Sector

According to the State Attorney's Office, on December 31, 2022, there were 306,727 active court cases. On the same date in 2023, there were 320,860 active cases, and on December 31, 2024, the number of cases in progress was 306,101. As of September 30, 2025, 321,430 court proceedings were registered with the State Attorney's Office.

Total number of active cases in the State Attorney's Office of the Republic of Serbia



Source: State Attorney's Office of the Republic of Serbia

The number of newly received cases in 2019 was 165,061, while in 2024, this number was 111,397. From January to September 2025, 79,600 new cases were received. Conversely, the number of archived cases in 2019 was 165,440, while in 2024, 125,548 cases were archived. From January to September 2025, 68,418 cases were resolved.

The number of new cases from 2019 to 2024 shows a declining trend, from 35.7% in 2019 to 25.8% of the total number of cases as of December 31, 2024.

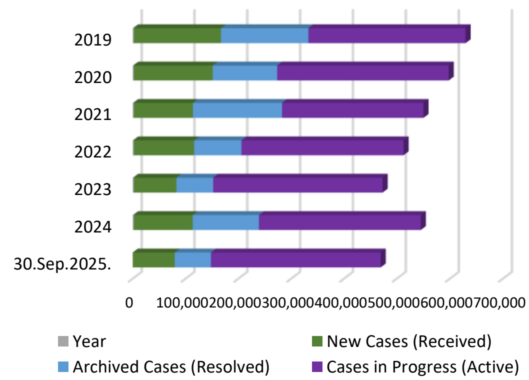
To reduce costs in so-called "budgetary" proceedings, amendments were made to the Law on Enforcement and Security in 2019 ("Official Gazette of RS," Nos. 106/15, 106/15 – authentic interpretation, 113/17 –

authentic interpretation, and 54/19), which entered into force on January 1, 2020. This law stipulates that the enforcement creditor must notify the Ministry of Finance in writing at least 30 days before submitting a proposal for enforcement if the Republic of Serbia, an autonomous province, a local government unit, or a direct or indirect budget user is the enforcement debtor.

The aim of this measure was to encourage voluntary payment of obligations by the competent authority to avoid the costs of compulsory collection. However, in practice, this measure did not achieve the expected results.

Based on the observed trend in the execution of the Republic's budget from 2019 to 2024, it is expected that in the next three years, budget expenditures based on court proceedings, according to projections derived from the constant growth rate in the observed period, will range between RSD 26.4 billion and RSD 30.2 billion, or approximately RSD 28.3 billion on average per year.

Dynamics of Court Cases in the State Attorney's Office of the Republic of Serbia



Source: State Attorney's Office of the Republic of Serbia

In 2025, efforts continue to improve the system for monitoring fiscal risks arising from court proceedings, with the aim of identifying and assessing risks. Particular attention is given to available databases and to improving the quality and accessibility of data contained therein, all for the purpose of conducting fiscal risk analysis and quantifying these expenditures in the coming period.

Natural Disasters

The constant risk of natural disasters and extreme weather events requires investment in prevention programs to reduce potential fiscal costs associated with damage remediation. Prevention includes the use of a broad spectrum of financial instruments, such as reserve funds, potential credit lines, and property insurance.

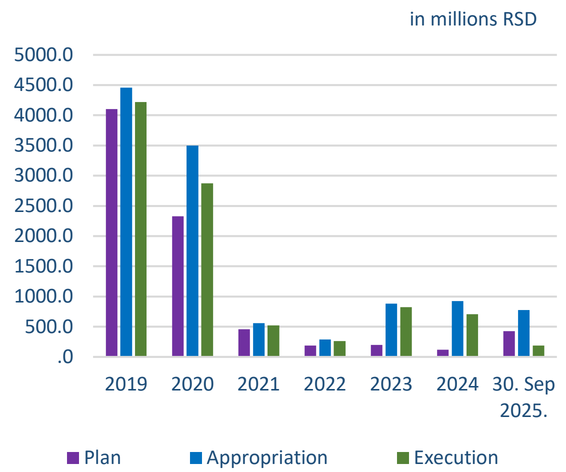
In 2014, the Republic of Serbia faced catastrophic flooding, with total estimated damages (including losses) exceeding EUR 1.7 billion. In December 2014, the Government adopted the National Program for Disaster Risk Management, implemented in cooperation with the World Bank, the United Nations, and the European Union. In line with this program, the Law on Disaster Risk Reduction and Emergency Management ("Official Gazette of RS," No. 87/18) was enacted in November 2018.

In 2022, a special working group initiated the revision of the Strategy for Disaster Risk Reduction and Emergency Management in the Republic of Serbia (2023–2030), with the objective of preparing a new Action Plan for the period 2023–2030.

In 2019, the Republic of Serbia paid RSD 4.2 billion for compensation for damages or injuries caused by natural disasters and other natural events. In 2020, RSD 2.9 billion was allocated for this purpose under economic classification 484 (excluding intervention funds for mitigating the effects of COVID-19). In 2021, expenditures for this purpose decreased to RSD 520.3 million. In 2022, allocated funds amounted to RSD 263.9 million.

In 2023, budget expenditures in this area increased to RSD 824.8 million due to extreme weather conditions and flooding in May and June 2023, as well as storm winds, hail, and rain causing unexpected damage in July 2023. For 2024, initially planned budget funds of RSD 117.3 million were increased through appropriation to RSD 923.4 million, with actual budget execution amounting to RSD 708.9 million as of December 31, 2024. For 2025, initially planned funds of RSD 428.8 million were increased through appropriation to RSD 778.8 million, while actual execution as of the third quarter of 2025 amounted to RSD 188.6 million.

Budget Expenditures of the Republic of Serbia for Natural Disasters and Other Natural Causes



Source: Ministry of Finance, Treasury Administration, Budget Sector

The increasing frequency and intensity of natural and other disasters, along with rising expenditures for damage mitigation, underscore the need for constant vigilance regarding this type of fiscal risk.

In 2021, a Unified Methodology for Monitoring Fiscal Risks in the Republic of Serbia was adopted, which includes a methodology for monitoring fiscal risks arising from natural disasters. The model for monitoring fiscal risks from natural disasters provides a quantified estimate of the negative impact of such events on the country's gross domestic product (GDP), fiscal deficit, and consequently public debt.

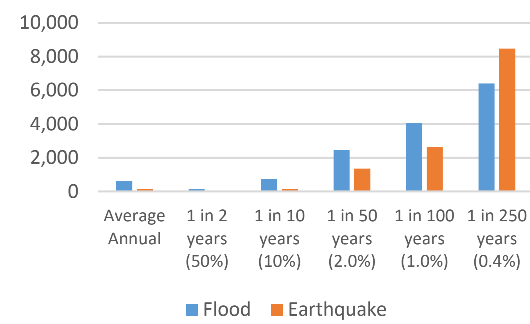
Natural disasters cause damage to productive capital and critical infrastructure, which leads to a contraction of social gross product and lower GDP growth than would have otherwise occurred. This effect is specific to the year in which the natural disaster occurs. Additionally, due to reduced public revenues and increased public expenditures, the shock caused by a natural disaster also increases the fiscal deficit, ultimately resulting in the need for additional financing, thereby increasing public debt.

At the end of 2022, in cooperation with the World Bank, a model for assessing fiscal risks from natural disasters was developed. During 2023, training and necessary updates to the model were conducted, enabling its full implementation.

Original data from the risk modeling company "Applied Research Institute Worldwide Corporation" – the so-called "AIR" model for the Republic of Serbia – were obtained empirically in 2019. This is significant considering the widespread practice in many countries of using data from other comparable countries. By indexing these values for annual inflation and growth of private and public fixed assets from 2019 to 2024, updated values were obtained for estimating potential damages from floods and earthquakes of varying intensity.

Based on the AIR model, potential damages in the Republic of Serbia in 2025 associated with floods, depending on intensity and probability, may range from USD 150 million to USD 6.4 billion. While earthquake risks are considered moderate, damages related to earthquakes may range from USD 160 million to USD 8.5 billion.

Graphical Representation of Estimated Potential Damages from Floods and Earthquakes in the Republic of Serbia (in USD millions)



Depending on the type and intensity of the natural disaster, expected GDP contraction varies, reflecting lower GDP growth in the year of the disaster compared to growth that would have occurred without the event.

Regarding future expected costs, the fiscal effects of natural disasters, in terms of impact on the fiscal deficit and consequently public debt, are even more pronounced and reflect the scale of the expected negative effects of such shocks on the country's macroeconomic stability if these disasters were to occur.

Based on the model for assessing fiscal risks from natural disasters in the Republic of Serbia, in the event of an earthquake in 2025, the fiscal deficit could increase by up to 2.4% of GDP annually, potentially increasing public debt by up to 8.6% of 2025 GDP in the years following the shock caused by a high-intensity earthquake. In the case of floods in 2025, the fiscal deficit could increase by up to 1.8% of GDP annually, potentially raising public debt by up to 6.5% of 2025 GDP in the years following a large-scale flood.

Changes in fiscal variables expressed as % of GDP for 2025, for the period 2025–2030, depending on the type of natural disasters

Expressed as % of estimated GDP for 2025		Event Probability	t (2025)	t+1 (2026)	t+2 (2027)	t+3 (2028)	t+4 (2029)	t+5 (2030)
EARTHQUAKES	Fiscal balance	Annual	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		50%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		10%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		2.00%	-0.3%	-0.4%	-0.2%	-0.2%	-0.1%	-0.1%
		1.00%	-0.7%	-0.7%	-0.5%	-0.3%	-0.2%	-0.2%
		0.40%	-2.1%	-2.4%	-1.5%	-1.1%	-0.7%	-0.7%
	Public debt	Annual	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%
		50%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		10%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%
		2.00%	-0.3%	-0.7%	-1.0%	-1.1%	-1.3%	-1.4%
		1.00%	-0.7%	-1.4%	-1.9%	-2.2%	-2.5%	-2.7%
		0.40%	-2.1%	-4.6%	-6.1%	-7.2%	-7.9%	-8.6%
FLOODS	Fiscal balance	Annual	-0.2%	-0.2%	-0.1%	-0.1%	-0.1%	-0.1%
		50%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		10%	-0.2%	-0.2%	-0.1%	-0.1%	-0.1%	-0.1%
		2.00%	-0.6%	-0.7%	-0.4%	-0.3%	-0.2%	-0.2%
		1.00%	-1.0%	-1.1%	-0.7%	-0.5%	-0.3%	-0.3%
		0.40%	-1.6%	-1.8%	-1.2%	-0.8%	-0.5%	-0.5%
	Public debt	Annual	-0.2%	-0.3%	-0.5%	-0.5%	-0.6%	-0.6%
		50%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%
		10%	-0.2%	-0.4%	-0.5%	-0.6%	-0.7%	-0.7%
		2.00%	-0.6%	-1.3%	-1.8%	-2.1%	-2.3%	-2.5%
		1.00%	-1.0%	-2.2%	-2.9%	-3.4%	-3.8%	-4.1%
		0.40%	-1.6%	-3.4%	-4.6%	-5.4%	-6.0%	-6.5%

Source: Fiscal Risk Assessment Model for Natural Disasters for the Republic of Serbia

The budget system of the Republic of Serbia provides two instruments for financing disaster risk: the permanent budget reserve – the contingency reserve (PBR), and compensation for damages or injuries caused by natural disasters or other natural events (account 484). It is notable that, following the major floods that affected the Republic of Serbia in 2014 and the period of successfully executed reconstruction, both of these instruments are not planned at sufficient levels to minimize fiscal risk, especially in the event of a natural disaster of significant intensity.

The permanent budget reserve is planned modestly from year to year, although the legally defined maximum allowable amount is significant, at 0.5% of budget revenues. Compensation for damages or injuries caused by natural disasters or other natural events (economic classifier 484) can also be used to provide initial financial support for post-disaster assistance. There is no minimum or maximum statutory limit for planning the annual amount of this compensation. However, considering the budget execution in recent years, measured in several hundred million dinars annually due to the absence of a major natural disaster, this budget item is also not planned at a level sufficient to ensure an uninterrupted government response in the event of a significant natural disaster.

Functioning of Local Governments

Regarding local authorities within the territory of the Republic of Serbia, Article 146 of the Constitution of the Republic of Serbia stipulates that citizens have the right to provincial autonomy and local self-government, which they exercise directly or through freely elected representatives, and that autonomous provinces and local self-government units have legal entity status.

In this context, local self-government units are responsible for matters that can be effectively managed within their territory, and certain issues under the jurisdiction of the Republic of Serbia may also be delegated to them if deemed appropriate.

The activities for which their authority has been established or delegated are financed by local self-government units from their own budgets, which, according to Article 5 of the Law on Financing Local Self-Government, are divided into:

1. **Own revenues** – revenues for which the rate, method, and criteria for determining the amount are set by the local self-government unit;
2. **Transferred revenues** – revenues for which the base and rate, or the method and criteria for determining the amount, are set by law, and the revenue generated within the local self-government unit is transferred fully or partially to that unit;
3. **Transfers** – non-earmarked or earmarked funds distributed by the Republic of Serbia or autonomous province based on predetermined criteria to local self-government units;
4. **Borrowings**;
5. **Other revenues and receipts** as defined by law.

Given the complexity of tasks performed by local self-government units and their financing system, it is necessary to identify fiscal risks whose materialization could negatively affect both the budgets of the local units and the budget of the Republic of Serbia.

Since the Ministry of Finance – Budget Sector, within its jurisdiction, is responsible, among other things, for: preparing instructions for the preparation of local government budget decisions, which are provided to local authorities for the current and next budget year, checking the compliance of local government budget decisions with these instructions, and granting prior consent for local government borrowing, it was decided that, starting from November 2024, the Sector will also monitor fiscal risks for local self-government units.

Based on this, the Budget Sector, in cooperation with the World Bank, conducted a revision of the model for analyzing, assessing, and monitoring fiscal risks for local self-government units from the Methodology for Monitoring Fiscal Risks in the Budget of the Republic of Serbia. The first results related to monitoring fiscal risks of local self-government units were obtained in April 2025.

Data from electronic systems (ISIB JLS AP, SPIRI, ISKRA, and SIJD) were used, covering planned and realized revenues and receipts, as well as expenditures and outlays of local self-government units, their borrowings and outstanding obligations, the number of employees in local governments, the consolidated treasury account balance, and placements with commercial banks.

To assess the overall situation in local self-government units, data for 2022, 2023, and 2024, as well as for the period January–September 2025, were used.

The risk assessment is based on two indices: 1) the self-financing capacity index of local self-government units, and 2) the payment burden index.

Self-Financing Capacity Index

The self-financing capacity index aims to indicate whether local self-government units, based on their revenues, can meet their obligations, i.e., expenses and outlays they undertake.

Table Showing the Self-Financing Capacity of LSGs

Risk Level	2022	2023	2024	Jan-Sep 2025
Normal risk	82	83	76	54
Under supervision	49	47	56	80
At risk	14	15	13	11

According to the data, out of a total of 145 local self-government units, on average up to 10% of units are at risk of being unable to meet obligations from their revenues. These are mostly smaller units with lower levels of economic development.

It was also observed in 2024 that the number of local self-government units requiring supervision by the Ministry of Finance is increasing. To improve monitoring and timely intervention, in Q4 2024, all local governments and their budget users were included in the Centralized Payroll System – ISKRA, and in January 2025, local governments were integrated into the Planning, Execution, Accounting, and Reporting System – SPIRI.

Furthermore, the 2025 instructions for preparing local government budget decisions included guidelines for realistic planning of current revenues to prevent the assumption of obligations without sufficient funds. Recent amendments to the Budget System Law introduced administrative liability for non-compliance with these guidelines by responsible persons.

For the period January–September 2025, changes in the self-financing capacity of local self-government units were observed. Compared to 2024, the number of units with normal risk decreased to 54, while units under supervision increased to 80, possibly due to temporary fluctuations in revenue collection and expenditure execution. The number of units at risk slightly decreased. Since the data covers only the first three quarters of 2025, they should be interpreted cautiously and considered in the context of the full year for a more reliable assessment.

The Ministry of Finance plans to further specify guidelines in the 2026 instructions for preparing local government budgets, particularly regarding current revenues, expenditures, and employee salary planning.

Payment Burden Index

The payment burden index indicates the extent to which local government budgets can meet payment obligations in the short term, how assumed obligations affect financial sustainability, and the capacity to service debt and interest from current revenues.

Table Showing the Payment Burden of LSGs

Risk Level	2022	2023	2024	Jan-Sep 2025
Normal risk	78	78	88	89
Under supervision	44	43	34	24
At risk	23	24	23	32

According to the obtained data regarding the payment burden of local self-government units for the period 2022–2024, it was determined that the majority of units operate under normal risk (56%), approximately 27% require supervision, while around 15% of units are at risk.

Local self-government units classified as “at risk” are most often those that, in addition to borrowing for capital project financing, have other undertaken obligations on the expenditure side that significantly burden their budgets.

Regarding the period January–September 2025, changes in the payment burden of local self-government units are observed compared to the previous period. The number of units under normal risk is 89 (88 in 2024), indicating stability in the majority of local governments regarding the regular fulfillment of obligations. At the same time, the number of units under supervision decreased from 34 to 24, which may indicate improved liquidity and more efficient management of obligations. However, the number of units at risk increased from 23 to 32, pointing to a rise in the number of local governments experiencing more pronounced difficulties in servicing their obligations. Since the data covers only the first three quarters of 2025, it should be interpreted with caution and considered in the context of the full year for a more reliable assessment of trends in the payment burden of local self-government units.

To control the borrowing of local self-government units, the Ministry of Finance, in accordance with Articles 33–37 of the Public Debt Law, has taken significant measures in previous years. Local self-government units wishing to incur debt for financing capital projects or current liquidity must obtain prior consent from the Ministry of Finance before adopting an assembly decision on borrowing. When reviewing borrowing requests, the Ministry of Finance primarily assesses whether the local self-government units have adhered to the guidelines from the Instructions for the Preparation of Local Government Budget Decisions for the current year. Units that have not complied cannot receive approval for borrowing.

In addition, the Public Debt Law establishes borrowing limits for local governments, linked to the level of current revenues achieved in the previous budget year. Local self-government units may incur debt for financing current liquidity up to 5% of the amount of current revenues achieved in the previous budget year, provided that the borrowed amount is repaid by the end of the current budget year and cannot be refinanced or carried over to the following year. Borrowing for financing capital projects is limited to 50% of the value of current revenues achieved in the previous budget year, with the condition that the principal and interest due each year on all outstanding long-term borrowings for capital investment financing cannot exceed 15% of the total current revenues of the local government budget in the previous year.

The application of these legal provisions, along with regular oversight conducted by the Ministry of Finance, prevents local self-government units from becoming over-indebted and ensures that, given the existing debt levels, they can function normally and perform tasks within their jurisdiction.

Furthermore, in November 2023, local governments were included in the Reporting System on the Public Debt of Autonomous Provinces and Local Self-Governments (SIJD), which allows for monitoring data on borrowings and loan repayments, cash placements, issuance and redemption of securities, as well as creating requests for borrowing consent.

The Ministry of Finance plans to continue working with all local self-government units, particularly those whose functioning has been classified as risky according to the above parameters.

5. Cyclically adjusted and structural fiscal balance

The cyclically adjusted fiscal balance is the fiscal balance from which the isolated impact of the economic cycle has been excluded, and the identity from which it is derived is as follows:

[5]FB = CB + CAB

The part of the fiscal balance (FB) that is not affected by cyclical fluctuations is referred to as the cyclically adjusted fiscal balance (CAB), and the purpose of this procedure is to isolate the cyclical component of the fiscal balance (CB), which results from the influence of the output gap. The actual fiscal balance will be equal to the cyclically adjusted one in the case where the output gap equals zero, i.e. when the growth rate of real GDP is equal to the potential rate. The structural fiscal balance is further calculated by eliminating one-off effects on both the revenue and expenditure sides, thereby indicating the structural (permanent) fiscal position.

The fiscal space built up over the previous period, along with the significantly improved structural fiscal position of the country, has created the conditions for a more accommodative fiscal policy response in times of crisis.

With the outbreak of the COVID-19 pandemic at the beginning of 2020 and the introduction of measures to protect public health, the global economy entered an unprecedented crisis. The impact on the fiscal position was visible through reduced budget revenues, which were a consequence of the slowdown in economic activity caused by the pandemic, and dramatically higher expenditures driven by increased healthcare costs and the adoption of a comprehensive support package for the economy and citizens. In such a situation, the usual analysis of the economic cycle, quantification of fiscal multipliers, and assessment of the fiscal balance's elasticity in relation to the output gap do not provide entirely accurate evaluations of the country's fiscal position. The fiscal policy response to the complex economic situation caused by the coronavirus pandemic in 2020 and 2021 was represented by an extensive package of support measures for the economy. In the absence of support measures for the economy and the population, the mild GDP decline in 2020 and the strong recovery in 2021 would not have occurred, while a deeper economic contraction would have led to a significantly slower recovery in the following medium-term period.

[5] A more detailed description of the applied methodology and results can be found in the Fiscal Strategy for 2013 with projections for 2014 and 2015, or via the following link. https://www.mfin.gov.rs//upload/media/jzsbpL_601ab1585ca02.pdf

Table 26. Fiscal balance and components for the calculation of the cyclically adjusted balance for the period 2005–2028, % of GDP*

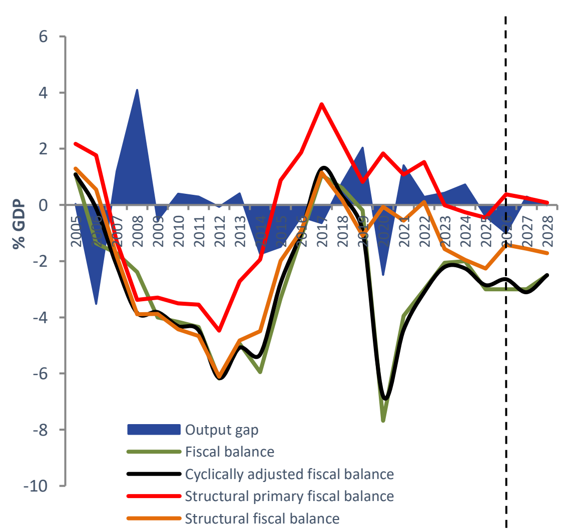
	Output gap	Fiscal balance	Primary fiscal balance	Cyclically adjusted fiscal balance	Cyclically adjusted primary fiscal balance	Structural fiscal balance	Structural primary fiscal balance	Fiscal impulse
2005	0.0	1.1	2.0	1.1	2.0	1.3	2.2	
2006	-3.5	-1.4	-0.1	-0.1	1.1	0.5	1.8	0.9
2007	1.2	-1.7	-1.2	-2.1	-1.6	-1.8	-1.3	2.7
2008	4.1	-2.4	-1.9	-3.8	-3.3	-3.9	-3.4	1.7
2009	-0.5	-4.0	-3.4	-3.8	-3.2	-3.9	-3.3	-0.1
2010	0.4	-4.2	-3.2	-4.3	-3.4	-4.4	-3.5	0.2
2011	0.3	-4.3	-3.2	-4.5	-3.3	-4.7	-3.5	0.0
2012	-0.1	-6.2	-4.5	-6.2	-4.5	-6.1	-4.5	1.2
2013	0.4	-4.9	-2.8	-5.1	-3.0	-4.8	-2.7	-1.5
2014	-1.7	-5.9	-3.4	-5.3	-2.8	-4.5	-1.9	-0.2
2015	-1.5	-3.3	-0.5	-2.8	0.1	-2.0	0.9	-2.9
2016	-0.4	-1.1	1.6	-1.0	1.8	-0.9	1.9	-1.7
2017	-0.7	1.1	3.5	1.3	3.7	1.1	3.6	-1.9
2018	0.8	0.6	2.6	0.3	2.4	0.2	2.2	1.4
2019	2.0	-0.2	1.7	-0.9	1.0	-1.1	0.8	1.4
2020	-2.5	-7.7	-5.8	-6.8	-4.9	-0.1	1.8	5.9
2021	1.4	-3.9	-2.3	-4.4	-2.8	-0.6	1.1	-2.1
2022	0.3	-3.0	-1.6	-3.1	-1.7	0.1	1.5	-1.1
2023	0.4	-2.1	-0.5	-2.2	-0.7	-1.6	0.0	-1.0
2024	0.7	-2.0	-0.3	-2.3	-0.6	-2.0	-0.3	-0.1
2025	-0.4	-3.0	-1.2	-2.9	-1.1	-2.3	-0.5	0.5
2026	-1.0	-3.0	-1.2	-2.7	-0.9	-1.4	0.4	-0.2
2027	0.3	-3.0	-1.2	-3.1	-1.3	-1.6	0.2	0.4
2028	0.0	-2.5	-0.7	-2.5	-0.7	-1.7	0.1	-0.6

*For the period 2025–2028, projected values are presented.

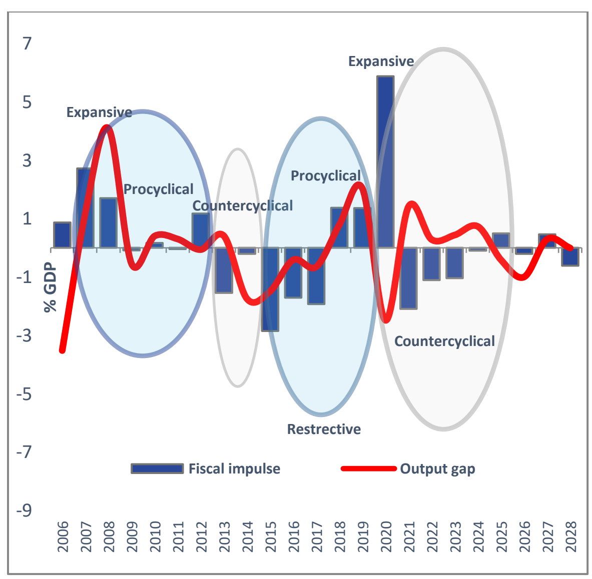
**The structural balances are derived by excluding estimated one-off revenues and expenditures. For the period 2024–2028, a portion of capital expenditures related to the EXPO 2027 exhibition, as well as part of expenditures for military equipment, have also been treated as one-off expenditures.

Source: Ministry of Finance

Output gap, Cyclically adjusted fiscal balance and Structural fiscal balance, from 2005 to 2028, % of GDP *



The character and effects of fiscal policy in the period 2006–2027, % of GDP *



*For the period 2025–2028, the projected values are shown.

The country's structural fiscal position was not adversely affected in the period between 2020 and 2022, as the fiscal policy support measures implemented for businesses and citizens were temporary in nature. In addition, the energy crisis necessitated significant government interventions to ensure energy stability in 2022. For these purposes, expenditures amounted to 2.7% of GDP. During 2022, financial assistance to the population equivalent to 0.9% of GDP was also provided. In addition to increased expenditures for energy, support to the population and the economy was also ensured through a reduction in excise duties on petroleum products.

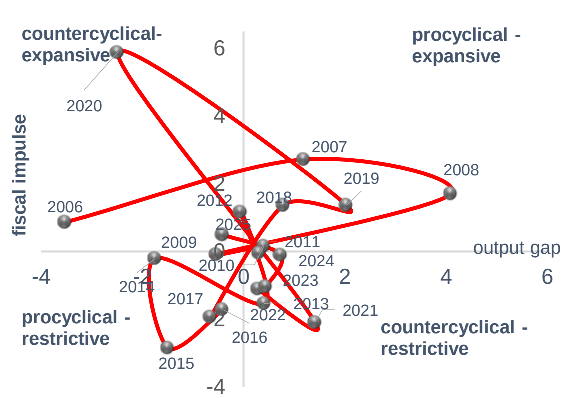
In 2023, the change in the structural fiscal position of the general government sector was partly driven by the application of the pension indexation formula in line with specific fiscal rules, as well as by extraordinary pension increases implemented in 2022 and 2023. The specific fiscal rule establishes a direct link between the pension indexation method and the share of these expenditures in GDP. This systemic solution ensures that pensioners' incomes and living standards more accurately reflect the country's economic capacity, without compromising the sustainability of public finances. The remaining slight deterioration in the structural fiscal position was also due to an increase in interest expenditures as a share of GDP, as well as to measures aimed at curbing inflationary pressures in domestic and international markets.

The extraordinary pension increase at the end of 2023, as well as the significant rise in parental allowance in 2024, had a carry-over effect on the movement of the structural balance in the following period. However, this fiscal framework defines the path and the upper limit of the structural fiscal balance, with the primary objective of ensuring a sustainable level and a declining trajectory of public debt. In the period from 2023 to 2025, the increase in interest expenditures also contributes, to some extent, to the higher level of the structural deficit. Thereafter, with the gradual decline in the share of interest payments in GDP, fiscal space is created for an increase in other productive categories of expenditure.

As the fiscal impulse is defined as the difference between two consecutive cyclically adjusted (primary) balances, fiscal policy in 2020 is assessed as being strongly expansionary and counter-cyclical, aimed at mitigating the negative economic cycle. Due to the somewhat smaller scale of the economic support package in 2021, fiscal policy was more restrictive compared to the previous year, though it remained counter-cyclical in character. For the period 2022–2023, fiscal policy is assessed as mildly restrictive, despite significant allocations aimed at mitigating the effects of the energy crisis. This was partly the result of higher interest expenditures, which are excluded from the calculation of the primary balance.

In the period 2025–2027, in line with the planned fiscal framework, the fiscal stance will be determined by the movement of the output gap and the dynamics of the primary balance. In 2026, due to a wider (negative) output gap and the maintenance of the primary balance at the same level, fiscal policy is assessed as mildly restrictive relative to a neutral stance. Conversely, in 2027, fiscal policy is expected to become moderately expansionary, primarily as a result of the completion of the strong investment cycle related to the EXPO 2027 event and other major infrastructure projects, which—alongside their immediate project-related impact—generate positive multiplier effects on potential growth. Following the completion of this investment cycle, in 2028, the fiscal impulse is expected to turn restrictive, in line with the planned reduction of the overall and primary fiscal balances. This adjustment is aimed at preserving the sustainability of public finances and ensuring a gradual return to a neutral medium-term fiscal stance.

The character and effects of fiscal policy in the period 2006–2025, % of GDP



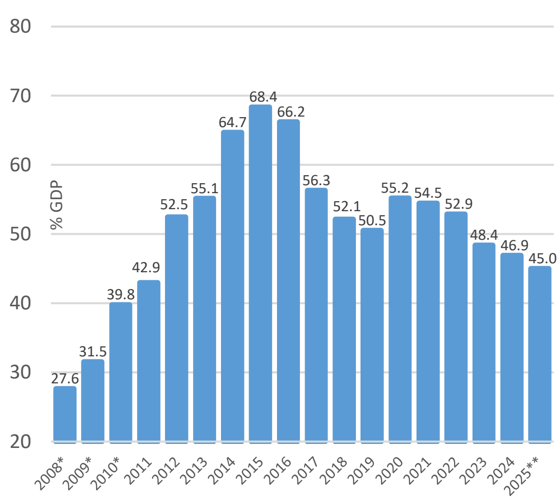
6. Simulation of the Public Debt Trajectory

This section presents a concise overview of public debt trends in the period from 2008 to 2025, as well as projections for the following three-year period, up to 2028, in line with the established medium-term fiscal framework. Thereafter, a simulation of alternative public debt scenarios over a longer period, from 2029 to 2035, is also provided.

Historical overview (2008–2025)

The period from 2008 to 2014 was marked by a continuous increase in the fiscal deficit, which, coupled with the absence of stricter budgetary control, led to a sharp rise in public debt. The share of public debt in GDP more than doubled, prompting the adoption of fiscal consolidation measures as a key priority. Although initial steps toward fiscal consolidation were undertaken at the end of 2012 and during 2013, their effects were limited. The reduction of the primary deficit during that period was insufficient to halt the growth of the public debt-to-GDP ratio. An additional challenge was the expansion of the informal economy following an increase in tax rates, which reduced the impact of revenue-side measures, while high interest expenditures and certain one-off costs further burdened the budget.

The public debt of the general government sector in the period from 2008 to 2025, % of GDP



*approximation of the local debt
**estimate for the year 2025

The results of the comprehensive fiscal consolidation package adopted at the end of 2014 became evident as early as 2015, when the pace of public debt growth slowed, followed by a reversal in 2016 and the beginning of a decline in the public debt-to-GDP ratio. The first primary surplus of 1.6% of GDP in 2016 laid the foundation for fiscal stabilization, and already in 2017, with a primary surplus of 3.5% of GDP, the share of public debt in GDP decreased by around 10 percentage points, to 56.3%. The downward trend continued in 2018 (52.1% of GDP), while the fiscal relaxation in 2019 was carefully calibrated so as not to endanger the declining debt trajectory – as confirmed by the achieved primary surplus of 1.7% of GDP.

The period starting in 2020 was marked by the outbreak of the global health and economic crisis caused by the COVID-19 pandemic. Significant increases in fiscal spending to protect lives and economic activity led to a rise in the fiscal deficit (7.7% of GDP in total, of which 5.8% was the primary deficit), as well as to a reversal of the declining debt trend. However, thanks to the previously implemented fiscal consolidation and stable access to international financial markets, the Republic of Serbia was able to smoothly secure financing for the deficit and debt repayments. Despite the pronounced fiscal deficit during the health crisis, the general government debt-to-GDP ratio slightly declined in 2021—from 55.2% in 2020 to 54.5% of GDP—indicating the preservation of relative fiscal stability amid heightened challenges.

The energy crisis during 2022 and 2023, accompanied by inflationary pressures, required a balanced approach—a combination of fiscal support and expenditure control. Despite the challenges, primary deficits during this period remained moderate (1.6% of GDP in 2022, 0.5% in 2023, and 0.3% in 2024), enabling the continued reduction of the debt-to-GDP ratio. For 2025, a primary deficit of 1.2% of GDP is projected, with public debt expected to decline to around 45% of GDP.

In line with the medium-term fiscal framework, the period 2026–2028 is expected to see a continued downward trend in public debt, supported by a carefully calibrated fiscal policy and moderate primary fiscal deficits. The achievement of a mild but consistently positive primary stabilization gap in each of these years will ensure a gradual further reduction in the public debt-to-GDP ratio.

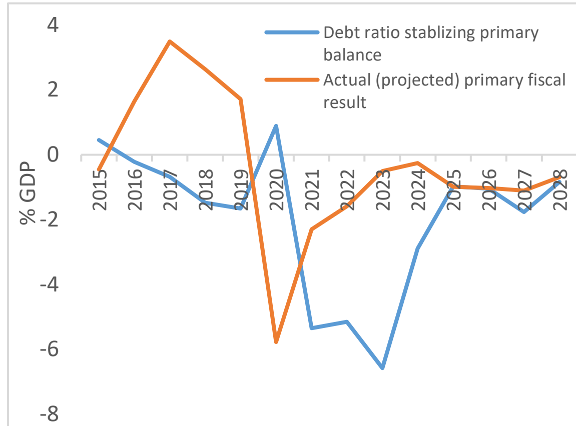
Analysis of the primary stabilization gap

The primary stabilization gap represents the difference between the achieved primary balance and the balance required to stabilize the public debt-to-GDP ratio. Since 2016, this indicator has been positive in most years, confirming the long-term sustainability of public finances. The largest positive gap was recorded in 2017 and 2018, when the most significant debt reduction was achieved. The opposite trend was observed in 2020, during the pandemic, but the indicator returned to positive territory as early as 2021. During the 2021–2024 period, the primary stabilization gap once again remained positive, creating the conditions for a gradual decline in the public debt-to-GDP ratio. In accordance with the fiscal framework presented in this document, moderately positive values of this indicator are projected for the next medium-term period (2025–2028), which will support the continued sustainable trajectory of public debt.

Debt dynamics simulation (2029–2035)

To strengthen medium- and long-term fiscal planning, simulations of public debt dynamics have been prepared for different scenarios covering the period 2029–2035. These include a baseline scenario (based on assumptions of stable economic growth, conservative fiscal policy, and moderate interest rate) as well as alternative scenarios incorporating GDP growth shocks, exchange rate fluctuations, and unexpected fiscal costs.

The primary result that stabilizes the participation of debt in GDP and the achieved/projected result*, % of GDP



*The projected values for the period from 2025 to 2027 are provided.
Source: Ministry of Finance

The baseline public debt scenario outlined in this document is based on maintaining the fiscal deficit at around 3% of GDP during the period 2025–2027, followed by a gradual reduction to 2.5% of GDP in 2028. Under this deficit trajectory, the downward trend in public debt is expected to continue, with the debt-to-GDP ratio projected at 44.1% by the end of 2028.

For the period 2029–2035, three alternative public debt scenarios have been simulated, assuming that the government would appropriately respond in each case by adjusting the level of the fiscal deficit. Two of the three scenarios envisage the effects of external fiscal or macroeconomic shocks, along with corresponding fiscal policy adjustment measures.

The key assumptions underpinning the baseline scenario are as follows:

- The fiscal deficit for the period 2025–2028 is planned in line with the framework set out in this document. Starting from 2029, the deficit is planned to be reduced to a level not exceeding 2% of GDP, even though the current fiscal rules allow for higher deficits if public debt remains below the 45% of GDP threshold. This approach, combined with other favorable assumptions, enables the continued reduction of the debt-to-GDP ratio, which is projected to reach 41.2% by 2035;

- The average real GDP growth rate is projected at 3.7% in the long term, representing a level of growth that enables the maintenance of a desirable public debt trajectory even under a moderately expansionary fiscal policy;
- Inflation is expected to stabilize and remain at an average level of around 3% in the long term, contributing to the predictability of the macroeconomic environment and financing costs;
- Fiscal revenue growth is projected to be slightly slower than nominal GDP growth, due to the expected change in the structure of the economy—greater participation of investments and exports—as well as the absence of major tax policy changes. At the same time, capital expenditure will remain at a relatively high level to support economic growth;
- No new net increase in government guarantees is expected after 2028, thereby limiting potential contingent liabilities;
- No privatization revenues are envisaged. However, if such revenues are realized, they would further reduce the need for borrowing and accelerate the decline of public debt.

Public debt management and sustainability will be further ensured through:

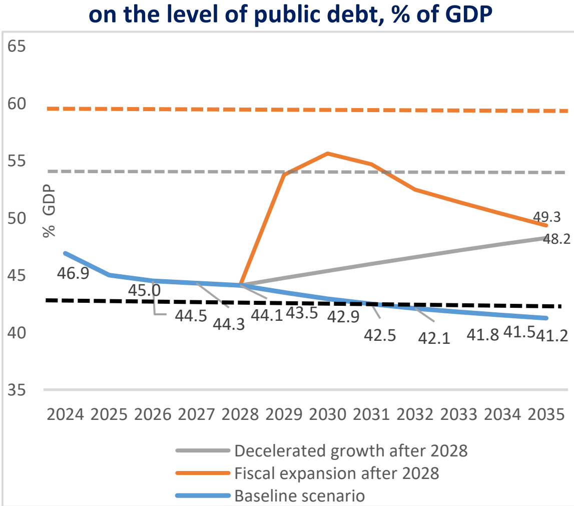
- Limiting the conclusion of new project loans in cases where previously approved loans have not been efficiently utilized;
- Repurchasing of the more expensive debt using proceeds from more favorable loans or privatization revenues, where possible;
- Identifying and improving the management of fiscal risks.

Table 27. The simulation of the total debt level in the baseline scenario until 2035, as a percentage of GDP

Baseline scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Revenues	40.4	40.9	41.1	40.3	40.1	39.9	39.7	39.5	39.3	39.1	38.9	38.7
Expenditures	42.4	43.9	44.1	43.3	42.6	41.9	41.7	41.5	41.3	41.1	40.9	40.7
Decline in expenditure share		1.5	0.2	-0.8	-0.7	-0.7	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Fiscal balance	-2.0	-3.0	-3.0	-3.0	-2.5	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
Primary fiscal balance	-0.3	-1.2	-1.2	-1.2	-0.7	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Public debt as a percentage of GDP	46.9	45.0	44.5	44.3	44.1	43.5	42.9	42.5	42.1	41.8	41.5	41.2
Real GDP growth, %	3.9	2.3	3.0	5.0	3.5	4.0	4.0	3.7	3.7	3.5	3.5	3.5

Source: Ministry of Finance

Comparison of different scenarios and their impact on the level of public debt, % of GDP



Alternative Scenarios: "Slower Growth after 2028" and "Fiscal Shock after 2028"

In addition to the baseline scenario, two alternative public debt scenarios have been analyzed for the period after 2028, with the aim of assessing potential fiscal implications under different macroeconomic and fiscal conditions.

The **"Slower Growth after 2028"** scenario is based on the assumption of an average real GDP growth rate of 0.8% during the observed period, while maintaining the same fiscal deficit path as in the baseline scenario. Under this scenario, public debt would record moderate and continuous growth, reaching 48.2% of GDP by the end of 2035. Although the projected deficit trajectory prevents excessive debt accumulation, slower growth necessitates deeper adjustment on the expenditure side of the budget. This implies the need to reprioritize and adjust the structure of public spending to preserve fiscal stability.

Although this scenario does not involve the materialization of a strong one-off shock, it highlights the long-term unsustainability of low economic growth rates for the country's overall economic and social development. Despite the fact that the level of public debt remains under control, weak economic growth limits the space for structural reforms and investment.

The **"Fiscal Shock after 2028"** scenario considers a situation in which a significant extraordinary event—whether natural, health-related, or economic—materializes, exerting simultaneous negative effects on the real sector and fiscal indicators. As a response to the crisis, the government is compelled to intervene through increased spending or temporary fiscal relief measures, leading to a deterioration in the budget position.

At the same time, the negative impact on the real sector results in lower or stagnant GDP, accompanied by a decline in fiscal revenues. The combined effect of these factors leads to a sharp increase in the fiscal deficit and public debt. In the specific simulation, the deficit reaches 9% of GDP, alongside a 3.5% real GDP contraction, resulting in public debt rising to 53.7% of GDP.

Although a rapid fiscal adjustment could technically stabilize the situation, such an approach would entail adverse social and economic consequences. Therefore, a gradual adjustment over the following two years is recommended as an appropriate policy response. In 2030, a deficit of 3% of GDP is projected, with no real growth assumed, leading to a slight further increase in public debt to above 55% of GDP. By 2031, with a planned minimal deficit of 0.5% of GDP, debt dynamics are expected to stabilize and reverse. In subsequent years, with the anticipated economic recovery and real GDP growth of around 3%, the debt-to-GDP ratio would remain consistently below 55%, enabling renewed fiscal space and easing of fiscal policy.

The presented simulations indicate potential directions for fiscal policy under different macroeconomic conditions. At the same time, they confirm that the baseline scenario defined in this fiscal framework is realistic and implementable, ensuring the long-term stability of public finances and resilience to shocks.

These simulations also demonstrate possible courses of fiscal policy action across various scenarios. At the same time, they confirm that the baseline scenario set out in this fiscal framework is operational and implementable, and that it fulfills its purpose—ensuring the long-term sustainability of the country's fiscal position.

III PUBLIC DEBT MANAGEMENT STRATEGY FOR THE PERIOD 2026–2028

According to the Law on Public Debt, which serves as the legal basis for the borrowing of the Republic of Serbia, public debt comprises all direct liabilities of the Republic arising from borrowing, as well as guarantees issued by the Republic for the borrowing of public enterprises, local government units, and other legal entities. The Republic may borrow in domestic and foreign currency for the purpose of financing the budget deficit, current liquidity deficit, refinancing of outstanding debt, financing of investment projects, as well as for the fulfillment of obligations arising from issued guarantees. The provisions of the Law on Public Debt stipulate that public debt represents an unconditional and irrevocable obligation of the Republic of Serbia with respect to the repayment of principal, interest, and all related costs.

A quantitative approach was used in formulating the Public Debt Management Strategy, identifying possible constraints through macroeconomic indicators, cost and risk analysis, and market conditions that affect public debt management. For the purpose of the analysis, financing instruments available on the domestic and international financial markets were utilized. The Public Debt Management Strategy is based on principles that define the need for a transparent and predictable borrowing process, along with the continuous development of the government securities market and an acceptable level of exposure to financial risks.

The situation on the international and domestic financial markets, along with the successful implementation of fiscal consolidation measures and good coordination between fiscal and monetary policy, led to a significant decline in borrowing costs for dinar- and euro-denominated government securities during the period from 2012 to 2021, as well as to a reduction in the risk premium on Serbian government securities. However, at the beginning of 2022, a significant increase in interest rates occurred as a result of external factors, a trend that continued into 2023, before reversing during 2024 and 2025, when a gradual decline in interest rates took place.

The Fiscal Strategy envisions a reduction of the general government public debt to 44.1% of GDP by the end of 2028. In line with the public debt management guidelines defined by the World Bank and the IMF, the Public Debt Management Strategy includes a stress scenario analysis assessing the impact of exchange rate fluctuations of the domestic currency against the currencies in which the public debt of the Republic of Serbia is denominated.

Over the past ten years, significant progress has been made in increasing the average maturity of dinar-denominated government securities and reducing the cost of financing through this type of borrowing, thereby decreasing exposure to refinancing risk. It is important to note that during this period, the average weighted coupon rate on dinar-denominated government securities declined from 13.68% at the end of 2012 to 5.34% at the end of August 2025.

The Public Debt Management Strategy defines the key measures for the continued development of the dinar-denominated government securities market. The further development of this market is expected to lead to an increase in domestic debt and its share in total public debt, as well as to a reduction in the public debt's exposure to foreign exchange risk, which will have a positive impact on improving the credit rating of the Republic of Serbia.

Following the successful implementation of fiscal consolidation measures in 2016, the previously rising trajectory of public debt was reversed, and the share of public debt in GDP began to decline—from 67.2% of GDP at the central government level at the end of 2015 to 65.2% at the end of 2016. During 2017, a significant decrease was recorded, with the public debt share falling to 55.5% of GDP. This downward trend continued in 2018, when the share of public debt declined to 51.4% of GDP, as well as in 2019, when it further decreased to 49.7% of GDP. In order to mitigate the effects of the crisis caused by the COVID-19 pandemic, it became necessary to finance support measures for the economy and citizens, which resulted in an increase of the public debt-to-GDP ratio to 54.4% at the end of 2020.

During 2021, a slight decrease in this indicator was recorded, with the share of public debt in GDP amounting to 53.9% at the end of the year. The positive trend continued in the following years, with the debt-to-GDP ratio standing at 52.4% at the end of 2022, 48.0% at the end of 2023, and 46.7% at the end of 2024. As of the end of August 2025, the share of public debt in GDP amounted to 43.2%.

As a result of strengthened control over the issuance of guarantees during the past ten years, the guaranteed public debt has been significantly reduced—from EUR 2.8 billion at the end of 2013 to EUR 1.7 billion at the end of August 2025—while its share in GDP declined over the same period from 7.6% to only 1.9%.

The positive fiscal results achieved by the Republic of Serbia have been reflected in the country's credit rating over recent years. Thanks to the responsible macroeconomic policy continuously implemented by the Republic of Serbia, the country obtained an investment-grade rating for the first time. On October 4, 2024, Standard & Poor's upgraded Serbia's credit rating to investment grade, at BBB- with a stable outlook. Fitch Ratings, in its latest report dated July 25, 2025, confirmed Serbia's rating at BB+ with a positive outlook for further improvement, while Moody's, in its report of August 30, 2024, confirmed the rating at Ba2 and revised the outlook from stable to positive. Achieving an investment-grade rating is expected to significantly reduce Serbia's borrowing costs by expanding the investor base, as some investors previously refrained from investing in Serbian government bonds due to policies limiting investment to countries with investment-grade ratings. This development will lower borrowing costs in both domestic and international markets, reflecting the reduced risk of the instruments issued by the Republic of Serbia. Lower borrowing costs will result in budgetary savings while simultaneously reducing the risk profile of the public debt portfolio.

In 2020, the Republic of Serbia issued eurobonds on two occasions to finance a package of support measures for the economy and citizens, aiming to mitigate the impact of the COVID-19 pandemic and to redeem earlier high-cost eurobonds ahead of maturity. The first eurobond issuance took place on May 15, 2020, denominated in euros, at the most critical moment during the first wave of the pandemic, totaling EUR 2.0 billion with a coupon rate of 3.125% and maturity in 2027. The second issuance occurred on December 1, 2020, totaling USD 1.2 billion with maturity in 2030, a coupon rate of 2.125%, and a final euro interest rate of 1.066% and 1.236% following a hedging transaction. Returning to the U.S. dollar bond market with this new dollar-denominated issuance allowed Serbia to remain included in the Emerging Markets Bond Index (EMBI), ensuring visibility in the U.S. capital market and on the broader international investment map. Proceeds from the December 2020 issuance were used to redeem USD 900 million of eurobonds issued in 2011, out of a total of USD 1.6 billion maturing in September 2021, which had been issued at a high coupon rate of 7.25%.

To reduce borrowing costs and extend debt maturity, on March 3, 2021, the Republic of Serbia successfully took advantage of still favorable conditions on the international financial market and, for the first time, issued twelve-year eurobonds denominated in euros, totaling EUR 1.0 billion with a coupon rate of 1.65%. On September 23, 2021, Serbia further expanded its financing options for investments by entering the international green bond market. A green eurobond was issued in the amount of EUR 1.0 billion, with a seven-year maturity and a coupon rate of 1.00%, the lowest achieved so far on the international market. This positioned Serbia among the few European countries that have issued green eurobonds on the international market exclusively to finance environmentally sustainable projects. Simultaneously, alongside the green eurobond issuance, a fifteen-year eurobond—the longest maturity to date—was issued in the amount of EUR 750 million with an annual coupon rate of 2.05%, further increasing the average maturity of the public debt.

In January 2023, eurobonds with maturities of five and ten years were issued, totaling USD 1.75 billion (USD 750 million for the five-year bond and USD 1 billion for the ten-year bond). The five-year eurobond was issued with a coupon rate of 6.25%, while the ten-year eurobond carried a coupon rate of 6.50%. On June 12, 2024, the Republic of Serbia successfully issued ten-year sustainable (ESG – Environmental, Social, and Governance) eurobonds denominated in

U.S. dollars on the international financial market, totaling USD 1.5 billion with a coupon rate of 6.00%.

Following best international practices in active public debt management, the Republic of Serbia executed its first hedging transaction in December 2020, using financial derivatives to protect against foreign exchange and interest rate risk in accordance with ISDA (International Swaps and Derivatives Association) standards. A cross-currency swap converted obligations from a U.S. dollar-denominated bond issuance of USD 1.2 billion into euros at a significantly lower final interest rate, resulting in euro-denominated payments at coupon rates of 1.066% and 1.236% on a nominal value of EUR 1.016 billion. This transaction leveraged favorable EUR/USD exchange rates and interest rate differentials between dollar and euro markets, achieving optimal borrowing costs, currency structure optimization, and mitigation of exchange rate risk. In January 2021, a second swap converted obligations under a debt rescheduling agreement with the Kuwait Investment Authority from U.S. dollars to euros at lower rates, with the rescheduled loan originally contracted at 1.5% in dollars being serviced in euros at 0.393% and 0.520%. In March 2021, a loan from the Export-Import Bank of China for the Belgrade bypass project, originally contracted in Chinese yuan at a fixed rate of 2.50%, was converted into euros at 0.09%. On November 24, 2021, a fourth swap converted obligations under a 2016 loan from the Abu Dhabi Development Fund, initially contracted in dirhams and payable in U.S. dollars at 2.25%, into euros at a fixed rate of 0.96%. In 2023, immediately following the issuance of dollar-denominated eurobonds, hedging transactions converted their obligations into euros, setting variable rates for the five-year bond at six-month EURIBOR + 2.908%, and for the ten-year bond at six-month EURIBOR + 3.073%, 3.286%, and 3.323%. Finally, in June 2024, alongside the issuance of a ten-year dollar-denominated sustainable (ESG – Environmental, Social, and Governance) eurobond at 6%, a swap transaction converted the dollar obligations into euros at a fixed interest rate of 4.754%.

In 2020, the issuance of "benchmark" government bonds continued on the domestic market. Bonds with maturities of 5, 5.5, and 12.5 years were issued in RSD with a nominal value of RSD 100 billion each, later increased to RSD 150 billion each in 2021. On June 30, 2021, Serbia's RSD-denominated benchmark bonds with maturities of 7, 10, and 12.5 years were included in the J.P. Morgan GBI-EM Index. Inclusion in this index marked significant progress in strengthening the liquidity of the secondary government securities market and attracted new international investment funds, which is expected to increase competition and further reduce borrowing costs. In March 2024, an 8-year benchmark bond issued in 2023 with a nominal value of RSD 150 billion was also included in the J.P. Morgan GBI-EM Index. On March 31, 2025, a new RSD benchmark bond maturing on July 27, 2035 (RSMFRSD34101) was included in the J.P. Morgan GBI-EM Global Diversified Index of emerging market government bonds.

In October 2021, Clearstream, the international central securities depository (ICSD) responsible for clearing and settlement, opened a securities account in the domestic registry and, through an intermediary—an authorized participant in the local market—enabled foreign investors to settle Serbian dinar-denominated government bonds.

Currency risk has been reduced over recent years, although it worsened somewhat over the last three years due to specific market conditions and the need for more intensive use of the international financial market to minimize borrowing costs. The share of public debt in domestic currency in total central government debt was only 2.6% at the end of 2008, rising to 30.5% by the end of 2020. Subsequently, due to increased borrowing on international markets under more favorable conditions, this share fell to 21.7% by the end of 2023, with a slight improvement to 21.8% in 2024 and reaching 22.2% at the end of August 2025. The growth of dinar-denominated debt in recent years has been primarily driven by the issuance of RSD government securities on the domestic market. In 2019 and 2020, early redemptions were made of high-cost eurobonds issued in 2011 and 2013 in U.S. dollars, as well as the regular repayment in February 2020 of the 2013 dollar-denominated bond. In December 2020, the first hedging transaction was executed, immediately converting a newly issued U.S. dollar eurobond into euros. Another hedging transaction followed in January 2021, converting dollar obligations into euros, with further hedging transactions executed in

January 2023 and June 2024 for dollar-denominated eurobond issuances, immediately converted into euros. Thanks to all these transactions, the share of dolar-currency debt in total public debt decreased from 33.9% at the end of 2016 to 12.5% at the end of August 2025.

Borrowing costs have also been significantly reduced in recent years. The share of interest costs in GDP decreased from 2.8% at the central government level in 2015 to 1.8% in 2024.

At the end of August 2025, the total public debt of the general government sector amounted to RSD 4,516.8 billion, or 43.5% of GDP. Of this, direct obligations accounted for RSD 4,285.3 billion, indirect obligations for RSD 195.5 billion, and RSD 36.0 billion represented non-guaranteed debt of local government units.

Share of general government public debt in GDP, %

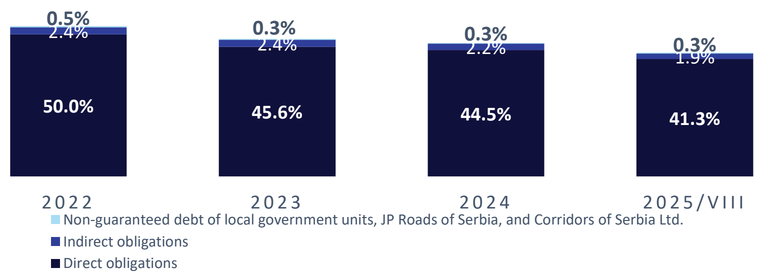


Table 28. Public Debt of the General Government Sector of the Republic of Serbia, End of 2022 – 31 August 2025

	2022	2023	2024	2025/VIII
Public debt of the general government (in RSD billion)	3,945.8	4,266.6	4,576.5	4,516.8
Public debt of the general government (in EUR million)	33,632.2	36,412.3	39,110.7	38,547.7
Public debt of the general government (in USD million)	35,821.6	40,301.1	40,702.5	44,973.6

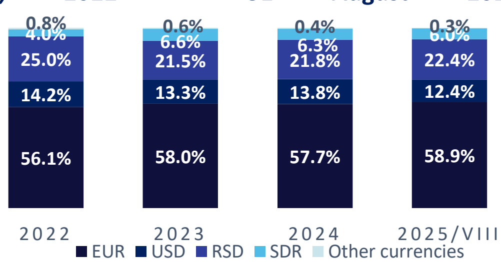
Over the past four years, there has been a noticeable increase in central government debt denominated in euros. Due to favorable borrowing conditions on international markets, eurobonds denominated in euros and U.S. dollars were issued on multiple occasions and immediately converted into euros. In addition, part of the debt in U.S. dollars, Chinese yuan, and UAE dirhams was converted into euros, taking advantage of the significantly lower volatility of the euro against the dinar compared to these currencies, in order to reduce currency risk. During 2022 and 2023, debt in Special Drawing Rights (SDRs) increased as a result of borrowing from the IMF under favorable conditions. In 2022 and 2023, a decline in dinar-denominated debt was observed due to the regular repayment of maturing government bonds, while during 2024 and the first eight months of 2025, dinar debt increased. Frequent fluctuations of the U.S. dollar against the dinar fully justify the decision to minimize dollar-denominated debt, thereby reducing currency risk, and indicate that the timing of swap transactions was appropriate. As a result of these swap transactions, and also with the goal of minimizing currency risk, debt in other currencies was significantly reduced.

Table 29. Central Government Debt by Original Currencies, End of 2022 – 31 August 2025, in Millions

	2022	2023	2024	2025/VIII
EUR	18,585.2	20,857.5	22,387.8	22,540.0
USD	5,076.7	5,364.6	5,607.1	5,561.4
RSD	983,500.7	917,800.7	991,640.9	996,753.4
CHF	27.2	9.7	0.0	0.0
Special Drawing Rights (SDRs)	1,064.9	1,988.6	1,973.1	1,966.4
Other currencies (in RSD)	27,375.6	22,793.5	17,784.7	13,933.1

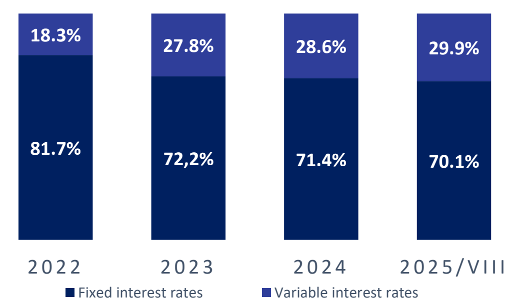
As of 31 August 2025, the largest portion of the public debt of the general government sector of the Republic of Serbia is denominated in euros, accounting for 58.9%. This is followed by the dinar at 22.4% and the U.S. dollar at 12.4%. The remainder of the debt is denominated in Special Drawing Rights (SDRs) at 6.0% and other currencies at 0.3%. Thanks to the continuous development of the domestic securities market and the gradual increase in the volume of issuances in the domestic currency, the share of domestic-currency debt grew in previous years from 16.4% at the end of 2011 to 30.4% at the end of 2020, but subsequently declined due to somewhat higher financing needs and changed market conditions.

Currency Structure of the General Government Debt, 2022 – 31 August 2025



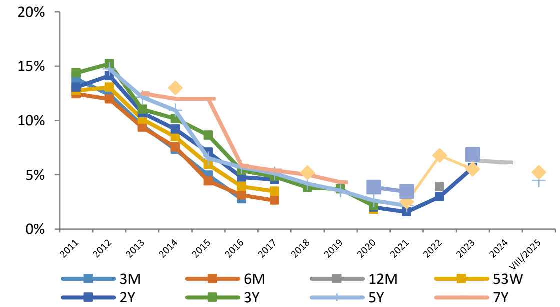
As of 31 August 2025, the largest portion of the public debt of the general government sector of the Republic of Serbia is at a fixed interest rate, accounting for 70.1%, while debt with a variable interest rate represents 29.9% of total public debt. Among variable interest rates, EURIBOR is the most represented at 68.1%, followed by the variable rate for Special Drawing Rights (SDRs) at 20.0% and Belibor at 11.7%, while obligations with other interest rates account for 0.2%.

Interest Rate Structure of the General Government Debt, 2021 – 30 April 2025, %

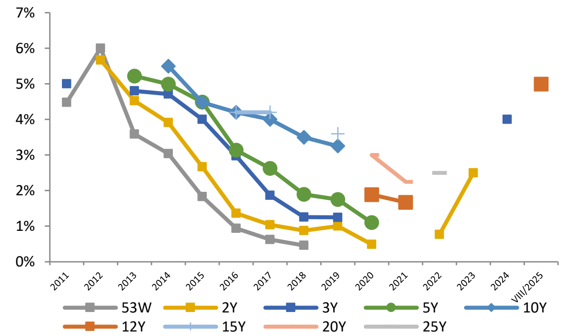


Between 2014 and 2021, borrowing costs decreased significantly, with the most pronounced decline observed for government securities issued on the domestic market. This reduction was driven by the development of the government bond capital market, the country's rising credit rating (i.e., reduced risk premium), low inflation, and a decrease in the NBS reference interest rate. The average weighted interest rate on public debt fell from 5.70% at the end of 2014 to 2.53% at the end of 2021. An even more pronounced decline was observed for dinar-denominated government securities, where the average weighted coupon rate decreased from 10.68% at the end of 2014 to 5.34% at the end of August 2025. During 2022 and 2023, high inflation led to the sharpest increase in interest rates on the international financial market in this century, which partially affected Serbia's borrowing costs. In 2024, market conditions stabilized and interest rates declined, a trend that continued into 2025. At the end of August 2025, the average weighted interest rate on total public debt stood at 3.54%.

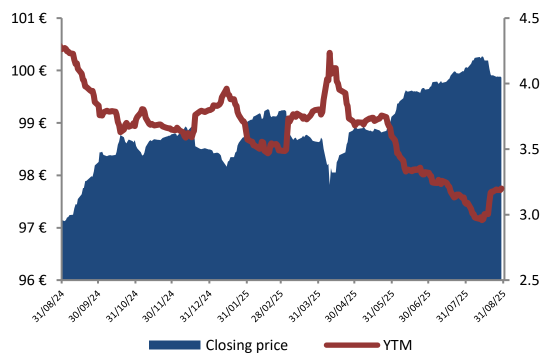
Overview of Average Effective Interest Rates on Dinar-Denominated Government Securities, 2011 – 31 August 2025



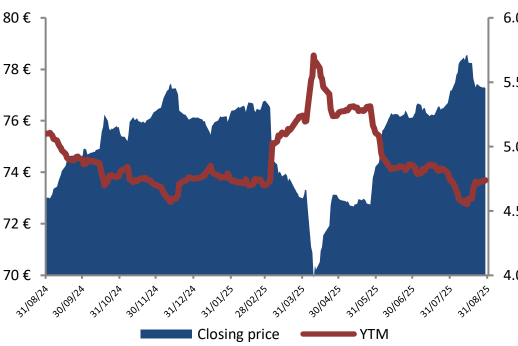
Overview of Average Effective Interest Rates on Euro-Denominated Government Securities, 2011 – 31 August 2025



Overview of Price and Yield Movements for Serbia Eurobond (EB 2027 / 3.125%)

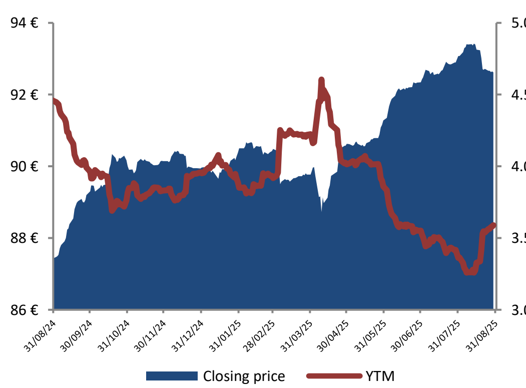


Overview of Price and Yield trends for Serbia Eurobond (EB 2036 / 2.050%)

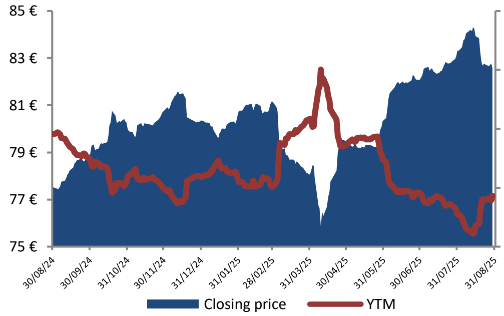


Overview of Price and Yield Movements for Serbia Eurobond (EB 2029 / 1.500%)

Overview of Price and Yield Movements for Serbia Eurobond (EB 2028 / 1.000%)

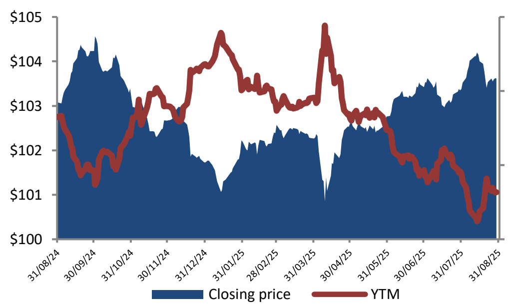


Overview of Price and Yield Movements for Serbia Eurobond (EB 2033 / 1.650%)

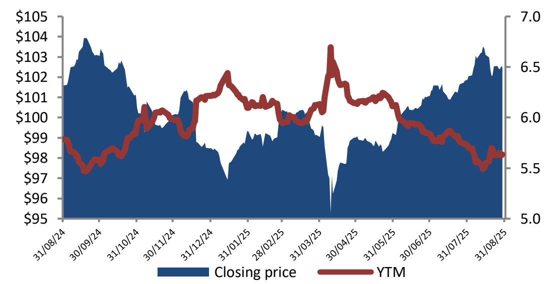


Overview of Price and Yield Movements for Serbia Eurobond (EB 2033 / 6.500%)

Overview of Price and Yield Movements for Serbia Eurobond (EB 2028 / 6.250%)



Overview of Price and Yield Movements for Serbia Eurobond (EB 2034 / 6.000%)



Overview of Price and Yield Movements for Serbia Eurobond (EB 2030 / 2.125%)

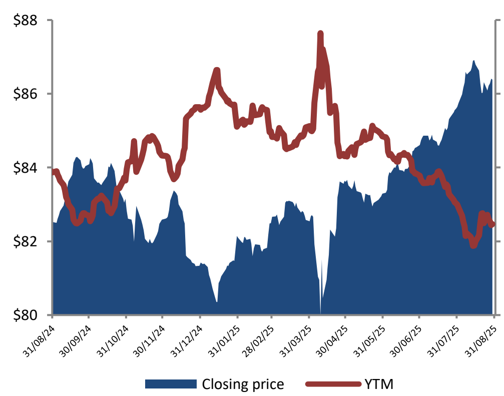


Table 30. Projections of Interest and Principal Repayments until 2028 (RSD billion)

	2025 p	2026 p	2027 p	2028 p
Principal*	445.0	746.4	705.0	802.0
Interest	195.2	211.8	226.5	247.2
Total	640.2	958.3	931.5	1,049.2
As a share of public debt as of 31 August 2025	14.3%	21.4%	20.8%	23.4%

* Including funds for buy-back operations

Table 31. Projections of Interest and Principal Repayments until 2028 (% of GDP)

	2025 p	2026 p	2027 p	2028 p
Principal	4.3%	6.7%	5.9%	6.3%
Interest	1.9%	1.9%	1.9%	1.9%
Total	6.2%	8.6%	7.7%	8.2%

The planned amounts for interest and principal repayments at the central government level also include funds for buy-back operations, i.e., early debt repayment to replace more expensive debt with cheaper debt, as well as insurance premiums on export credits.

Projection of General Government Debt, 2025–2028

Considering the projected primary budget balance of the Republic of Serbia for the period 2025–2028, including the volume of loan drawdowns for project financing by budget users, as well as the effects of changes in the exchange rate of the dinar against the euro and the U.S. dollar, under the baseline macroeconomic scenario, the central government debt is expected to reach 43.6% of GDP by the end of 2028.

Table 32. Baseline Projection of General Government Sector until 2028

	2025 p	2026 p	2027 p	2028 p
Public debt (central government), RSD billion	4,627.9	4,872.9	5,265.9	5,583.9
Central government debt, % of GDP	44.6%	44.0%	43.8%	43.6%
Non-guaranteed debt of local government units, % of GDP*	0.4%	0.5%	0.5%	0.5%
General government debt, % of GDP	45.0%	44.5%	44.3%	44.1%

* and the rest of the general government

By the end of 2025, the general government sector debt is expected to reach 45.0% of GDP. In the following years, a gradual decline in the ratio is projected under the baseline scenario, reaching 44.5% by the end of 2026, 44.3% by the end of 2027, and 44.1% by the end of 2028. During this period, major infrastructure projects are expected to be implemented, primarily financed through project loans, with more intensive execution compared to the previous period. This illustrates clear coordination between fiscal and development objectives. Attention is given to the sustainability of public debt and its gradual decline as a share of GDP, while new borrowing is used to improve infrastructure conditions, thereby promoting GDP growth, living standards, and new investments. The non-guaranteed debt of local government units and the rest of the general government sector is expected to remain relatively stable at 0.4%–0.5% of GDP in the coming period.

Principles of Public Debt Management

According to the Public Debt Law, the primary objective of borrowing by the Republic of Serbia and managing public debt is to ensure the availability of funds for the regular servicing of budgetary needs under the most favorable conditions and financing costs, while maintaining an acceptable level of risk. Based on this, the Public Debt Management Strategy of the Republic of Serbia defines the following general objectives and principles:

1) Ensure financing of the fiscal deficit and the regular servicing of obligations arising from the public debt of the Republic of Serbia;

2) Define an acceptable level of risk, determined in the context of the targeted debt portfolio structure in terms of currency composition, interest rate structure, maturity profile, and debt composition by instruments;

3) Continue developing the government securities market both domestically and internationally, which would help reduce borrowing costs in the medium and long term;

4) Ensure transparency and predictability in the borrowing process.

The Public Debt Management Strategy is consistent with the overall medium-term macroeconomic and fiscal framework.

The public debt management strategy for the upcoming medium-term period is based on financing the budget deficit and principal repayments of the Republic of Serbia through the issuance of government securities on domestic and international capital markets, ensuring the regular servicing of obligations. Flexibility will be reflected in the choice of market for borrowing, the currency of issuance, and the financing instruments. The selection of the financing structure will take into account the current state and trends in the development of domestic and international financial markets (interest rate levels, risk premiums, yield curves, exchange rates of reference currencies) as well as an acceptable level of exposure to financial risks.

The objective in the upcoming long-term period is to conduct financing primarily through the issuance of dinar-denominated securities on the domestic market. A portion of financing may also be secured on the international financial market in the medium term. The establishment of the GMTN program in 2020 has enabled flexibility in the choice of financing and faster access to financing on the international market.

Borrowing in foreign currency, such as in US dollars, entails foreign exchange risk due to fluctuations in the euro–US dollar exchange rate; for this reason, hedging options will be utilized.

Public debt management policy must take into account the long-term perspective; however, decisions on financing budget expenditures are made on an annual basis. The decision on annual borrowing is adopted within the framework of the Budget Law for a given fiscal year. Depending on changes in key fiscal aggregates, adjustments to the borrowing plan may be made during the fiscal year.

Financial Risks and Measures for Financial Risk Management

The impact of financial and fiscal risks may lead to a higher growth of public debt than projected under the baseline scenario. The risks that are present and may result in increased indebtedness and higher public debt servicing costs include: refinancing risk, foreign exchange risk, market risk (interest rate risk, inflation risk), liquidity risk, credit and operational risks, as well as risks related to the distribution of servicing costs (debt structure, concentration of liabilities).

In order to reduce exposure to financial risks, the following measures need to be implemented:

1. Refinancing risk

- Increase the share of medium- and long-term financial instruments denominated in dinars on the domestic financial market;
- Evenly distribute public debt obligations on an annual basis over the upcoming long-term period;
- Extend the average maturity of debt issued through securities.

2. Foreign exchange risk

- Strive to reduce the share of debt denominated in foreign currency while taking into account the cost of new debt (costs of dinarization of debt);
- Use financial derivatives to limit the effects of exchange rate fluctuations of reference currencies;
- Ensure that external debt is primarily in euros, and US dollar-denominated debt is used only if financing on the international market in dollars is cheaper, with the use of financial derivatives to limit risk.

3. Market risk (interest rate risk, inflation risk)

- Strive to extend the average maturity of domestic debt in dinars;
- Ensure that interest rate risk on external debt does not compromise the long-term objective of minimizing public debt costs.

4. Liquidity risk

- Permanently maintain the level of cash in the accounts of the Republic of Serbia at a level that allows uninterrupted financing of obligations for at least four months and sufficient to absorb potential shortfalls in borrowing compared to the plan;
- Adequately manage free cash balances in the accounts of the Republic of Serbia in accordance with asset-liability management principles and available options.

5. Credit and operational risks

- Conduct transactions with financial derivatives only with financial institutions with a high credit rating
- Use financial instruments that limit credit risk;
- Provide guarantees and approve new debt to local government units only if there is an adequate analysis indicating a relatively low probability that the guarantee will be realized or that the local government unit will become insolvent in the medium term;
- Introduce adequate controls in all business activities of the Public Debt Administration and enhance staff knowledge.

6. Risks related to the distribution of servicing costs

- Adequately plan borrowing on an annual basis and distribute obligations evenly over the following years and throughout the fiscal year to avoid the risk of high concentration of refinancing obligations;
- Avoid concentration of public debt obligations on a monthly basis that could not be covered by free cash balances in the accounts of the Republic of Serbia.

Analyses Used in the Preparation of the Public Debt Management Strategy

A quantitative approach was used in the analysis of costs and risks affecting public debt management for the formulation of the Public Debt Management Strategy.

Taking into account the macroeconomic environment and market conditions, alternative sources of financing are considered comparatively.

For the purpose of the analysis, instruments available on the domestic and international financial markets were used.

Sources of Financing Denominated in Foreign Currency:

- Loans from foreign governments, international financial institutions, commercial banks, and other creditors – presented as concessional instruments denominated in euros or US dollars, with fixed or variable interest rates;
- Treasury bills and government bonds issued on the domestic or international financial market, denominated in euros;
- Eurobonds – issued in euros or US dollars on the international financial market.

Sources of Financing in Domestic Currency:

- Treasury bills and government bonds issued on the domestic financial market, denominated in dinars;
- Credit arrangements denominated in dinars for financing significant domestic projects.

Future Market Interest Rates and Scenario Analysis

After selecting the appropriate composition of financing sources (both chosen and comparative financing strategies), an analysis of costs and risks is conducted based on the baseline (most likely) scenario, followed by stress testing for additional types of scenarios—shocks—to obtain an overview of the cost implications of the strategies under consideration.

The baseline scenario is based on the most likely market conditions for three groups of market variables: the exchange rate, international market interest rates, and domestic market interest rates.

After defining the baseline scenario, additional types of scenarios—shocks—were selected for stress testing purposes:

- Depreciation of the dinar by 15% against all currencies in 2027. In this scenario, the euro–US dollar exchange rate would remain stable, while only the dinar would depreciate against both currencies;
- Increase in interest rates on the domestic and international markets by 2 percentage points (pp);
- Increase in international market interest rates by up to 3 pp and domestic market interest rates by up to 4 pp;
- Combined shock involving a 15% depreciation of the dinar against the US dollar in 2027 and an increase in interest rates by 2 pp.

Alternative Borrowing Strategies for the 2026–2028

Based on the World Bank's Medium Term Debt Strategy Model (MTDS), the analyzed alternative borrowing strategies are:

Baseline Strategy (S1): represents a strategy that covers total budget financing needs with an approximately balanced combination of foreign and domestic currency financing sources. Sources of budget financing in foreign currency primarily consist of proceeds from the sale of eurobonds on the international financial market with maturities of twelve, fifteen, and twenty years, as well as program loans from various creditors. Sources of budget financing in domestic currency consist of proceeds from the issuance of government bonds on the domestic financial market (with a dominant share of ten-year bonds, but maturities of twelve, seven, five, and four years are also planned). Project financing, as in previous years, is largely provided through foreign currency-denominated credit arrangements, but the share of domestic currency credit arrangements from domestic creditors is also becoming more visible. Strategy (S2): compared to Strategy S1, total financing needs are met through the issuance of US dollar-denominated eurobonds with maturities of twelve and fifteen years. Strategy (S3): compared to Strategy S1, total financing needs are met through the issuance of euro-denominated eurobonds with maturities of twelve and fifteen years. Additional Dinarization Strategy (S4): represents a strategy that bases total financing on the issuance of dinar-denominated securities with maturities of ten and seven years.

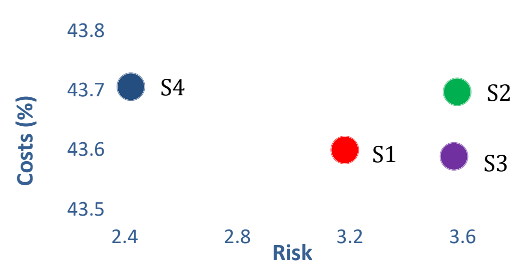
Comparison of Alternative Strategies

Two cost measures are applied for the comparison of alternative borrowing strategies: the public debt-to-GDP ratio and nominal interest as a percentage of GDP. The first ratio is a stock indicator, while the second is a flow indicator. For comparison purposes, attention is focused on the results of the considered strategies at the end of 2028.

Based on the charts, the costs associated with each of the considered strategies are clearly visible. The cost of alternative strategies under the baseline macroeconomic scenario is shown on the vertical axis of the cost chart, while the horizontal axis indicates the potential cost of a given borrowing strategy (the result of stress testing).

Under the baseline macroeconomic scenario at the end of 2028, measured by the debt-to-GDP ratio, the highest costs are associated with Strategies S2 and S4, while Strategies S1 and S3 exhibit slightly lower cost levels. On the other hand, the greatest risk to the debt-to-GDP ratio, if the baseline macroeconomic scenario is deviated from, arises from exchange rate fluctuations. From the perspective of the impact of exchange rate shocks on the debt-to-GDP ratio, Strategy S4 holds the most favorable position, as total financing is in dinars, whereas Strategies S2 and S3 have higher exposure to exchange rate risk because financing is entirely based on foreign currency sources. Strategy S1 has a more favorable position regarding exchange rate risk compared to Strategies S2 and S3, as it combines financing in both domestic and foreign currency.

Debt-to-GDP Ratio at the End of 2028



From the perspective of interest payments as a share of GDP, the most costly strategies are S4 (issuance of dinar-denominated bonds) and S2 (issuance of US dollar-denominated eurobonds), followed by Strategy S1 (which combines instruments denominated in euros, dinars, or dollars, with fixed or variable rates), while Strategy S3 is the most favorable (as it is based on euro-denominated eurobonds with fixed rates). Stress test results indicate that the greatest risk to changes in the interest-to-GDP ratio, if the baseline scenario changes, arises from interest rate shocks, which are higher in the domestic market than in the international market. As a result, Strategy S4 faces the highest risk of changes in the interest-to-GDP ratio. This is followed by Strategies S2 and S3, which consist of market instruments also exposed to interest rate shocks on the international market, while for S1 this risk is mitigated due to the presence of concessional instruments with fixed rates.

Interest-to-GDP Ratio at the End of 2028

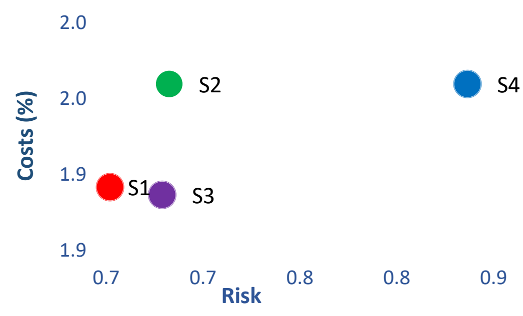


Table 33. Public Debt-to-GDP Ratio at the End of 2028

Scenarios	S1	S2	S3	S4
Baseline Scenario	**43.6**	**43.7**	**43.6**	**43.7**
Exchange Rate Shock (15% against all currencies)	**46.8**	**47.3**	**47.2**	**46.1**
Interest Rate Shock (Scenario 1)	**44.3**	**44.5**	**44.4**	**44.5**
Interest Rate Shock (Scenario 2)	**44.8**	**44.9**	**44.8**	**45.1**
Combined Shock (15% USD depreciation and Interest Rate Shock 1)	**44.8**	**46.1**	**44.8**	**44.9**
Maximum Risk	**3.18**	**3.58**	**3.57**	**2.42**

Table 34. Interest Payments-to-GDP Ratio at the End of 2028

Scenarios	S1	S2	S3	S4
Baseline Scenario	**1.9**	**2.0**	**1.9**	**2.0**
Exchange Rate Shock (15% against all currencies)	**1.9**	**2.0**	**1.9**	**2.0**
Interest Rate Shock (Scenario 1)	**2.3**	**2.4**	**2.3**	**2.4**
Interest Rate Shock (Scenario 2)	**2.6**	**2.7**	**2.6**	**2.8**
Combined Shock (15% USD depreciation and Interest Rate Shock 1)	**2.3**	**2.5**	**2.3**	**2.4**
Maximum Risk	**0.68**	**0.71**	**0.71**	**0.87**

The table below illustrates the evolution of key public debt indicators across all four analyzed strategies, thereby reflecting the above-mentioned features of each strategy.

Table 35. Risk Indicators for Alternative Strategies at the End of 2028

		S1	S2	S3	S4
Nominal Debt (% of GDP)		**43.6**	**43.7**	**43.6**	**43.7**
Applied Interest Rate (%)		**4,6**	**4.8**	**4.6**	**4.8**
Refinancing Risk	ATM[6] external portfolio (in years)	**9.6**	**10.4**	**10.5**	**7.8**
	ATM domestic portfolio (in years)	**5.7**	**4.5**	**4.5**	**6.8**
	ATM total portfolio (in years)	**8.4**	**9.6**	**9.6**	**7.1**
Interest Rate Risk	ATR[7] (in years)	**5.6**	**8.0**	**8.0**	**5.6**
	Refixing (% of total debt)	**31.1**	**19.1**	**19.2**	**19.1**
	Fixed-rate debt (% of total debt)	**73.8**	**85.7**	**85.7**	**85.7**
Foreign Exchange Risk	Foreign currency debt (% of total debt)	**69.0**	**85.5**	**85.5**	**36.9**

Stress-Test Analysis

Based on the planned macroeconomic framework, and in the absence of potential risk impacts, central government public debt is expected to reach 43.6% of GDP by the end of 2028.

The main factors affecting the stabilization of the public debt-to-GDP ratio are GDP growth, a positive primary balance, and the exchange rate of the dinar against foreign currencies.

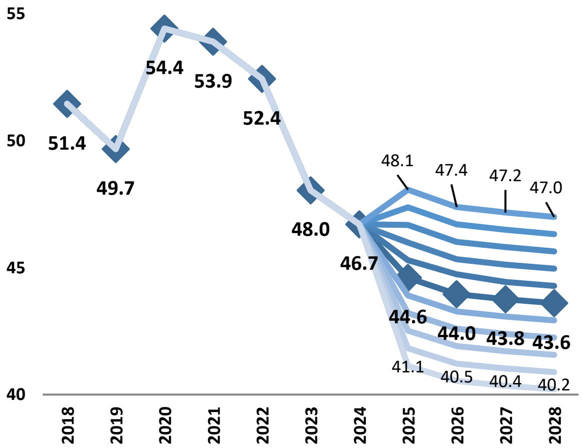
Table 36. Contributions of Key Macroeconomic Variables to Changes in the Public Debt (Central Government)–GDP Ratio, in %

	2023	2024	2025 p	2026 p	2027 p	2028 p
Central Government Debt/GDP	48.0	46.7	44.6	44.0	43.8	43.6
Change Compared to the Previous Year (% of GDP)	-4.4	-1.3	-2.1	-0.6	-0.2	-0.2
Contribution of Primary Fiscal Balance	0.3	0.4	1.1	1.1	1.2	0.6
Contribution of Interest Payments	1.7	1.8	1.9	1.9	1.9	1.9
Contribution of Nominal GDP Growth	-8.1	-4.6	-2.8	-2.8	-3.5	-2.6
Contribution of Other Factors	1.7	1.1	-2.3	-0.8	0.2	0.0

6 ATM (*Average Time to Maturity*)

7 ATR (*Average Time to Refixing*)

Impact of Changes in the Dinar Exchange Rate Against the Currency Basket of the Central Government Public Debt Portfolio on the Change in the Public Debt–GDP Ratio



The chart shows the movement of the central government public debt-to-GDP ratio depending on changes in the dinar exchange rate against a specific currency basket. The baseline projection is presented along with alternative scenarios reflecting appreciation or depreciation of the dinar within a range from 10% appreciation to 10% depreciation against the currency basket. Applying these scenarios, the debt-to-GDP ratio for 2028 would range between 40.2% and 47%, while under the baseline scenario it is projected at 43.6%.

The main risks to the implementation of the Strategy, in addition to the above-quantified factors, include the stability of the macroeconomic situation in the Republic of Serbia, the need for additional borrowing to settle debts at other levels of government, in the public sector, and in the financial sector of the Republic of Serbia, as well as the activation of provided guarantees.

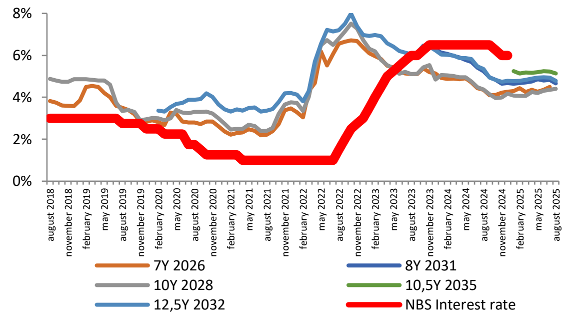
It is important to note that the reduction of public debt relative to GDP is also supported by adequate control over the issuance of guarantees and the improvement of the project prioritization process for investment projects financed through credit lines from multilateral and bilateral creditors.

Long-Term Strategic Framework for the Management of Public Debt

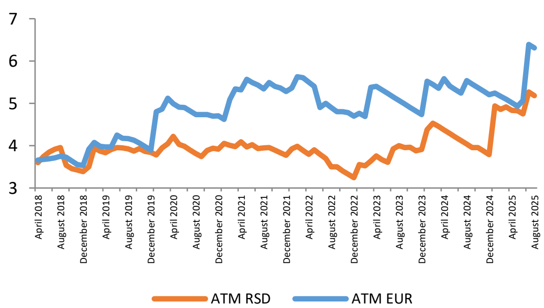
The main strategic objectives to be pursued in the upcoming long-term period, in order to minimize the risks of increased indebtedness and public debt servicing costs, are:

- The share of dinar-denominated debt should amount to at least 30% of total public debt in the medium term;
- The share of euro-denominated debt in public debt should account for at least 65% of foreign currency debt, including future borrowings and transactions;
- The share of debt with variable interest rates should be maintained within the range of 25% ± 5% in the medium term;
- The average time to interest rate reset (ATR) should be maintained at a minimum of 5.0 years, in line with the above measure of gradually reducing the share of debt with variable interest rates;
- The weighted average interest rate (WAIR) on domestic public debt should not exceed 6.00%;
- The share of short-term debt (maturing within one year) should not exceed 20% of total public debt;
- The average time to maturity (ATM) of domestic debt should be maintained at a minimum of five years in the medium term;
- The average time to maturity (ATM) of external debt should be maintained at 8.0 ± 0.5 years over the same time horizon.

Movement of Yields to Maturity of Dinar "Benchmark" Issuances Included in the GBI-EM Global Diversified Index on the Secondary Market



Average Time to Maturity (ATM) of Government Securities Issued on the Domestic Financial Market for the Period August 31, 2018 – August 31, 2025



Measures to Improve the Dinar-Denominated Securities Market in the 2025–2028 Period

The government securities market, in the period from 2012 to August 2025, is characterized by the achievement of established strategic objectives, primarily with respect to financing instruments, as well as the development and maintenance of a stable and diversified investor base. The transition from short-term financing sources, which were prevalent until 2010, to medium- and long-term financing instruments, together with a consistent reduction in borrowing costs, contributes to the mitigation of refinancing risk, one of the primary risks in public debt management. At the end of 2013, the share of long-term dinar instruments with an original maturity of three years or more accounted for 38.3% of the dinar-denominated securities stock, while by the end of August 2025, this share reached 100.0%.

Transparency in operations and reporting, as well as a presence in the international capital market, affect market information and, consequently, the interest of non-residents to invest capital in debt instruments, primarily in long-term government dinar securities, thereby fostering the growth of a stable investor base. Following the successful execution of "benchmark" issuances in 2014 and 2015, the same practice continued in 2016. In February and July 2016, three-year and seven-year "benchmark" bonds were issued, each with a volume of 110.0 billion dinars. In April 2017, a three-year "benchmark" bond was issued with a volume of 110.0 billion dinars. In January and February 2018, five-year and ten-year "benchmark" bonds were issued, each with a volume of 110.0 billion dinars. In January 2019, three-year and seven-year "benchmark" bonds were issued with volumes of 100.0 billion and 150.0 billion dinars, respectively. In January and February 2020, five-and-a-half-year and twelve-and-a-half-year bonds with semi-annual coupons were issued for the first time. Amendments to the Regulation on General Conditions for the Issuance and Sale of Government Securities on the Primary Market ("Official Gazette of the RS", Nos. 100/14, 78/17, 66/18, 78/18, and 140/20) enabled an increase in the volume of previously issued bonds. Thus, in 2021, the issuance volume of the five-and-a-half-year bonds (initially issued on January 28, 2020) and the twelve-and-a-half-year bonds (initially issued on February 18, 2020) was increased by 50 billion dinars each, while the ten-year bonds (initially issued on February 6, 2018) were increased by 10 billion dinars. During 2022, the issuance volume of the ten-year bonds (initially issued on February 6, 2018) was further increased by 25 billion dinars.

These issuances significantly increased the volume of secondary market trading of these instruments, which also contributed to a decline in the effective yields on reopenings of the aforementioned issuances. The share of foreign investors in dinar-denominated securities amounted to 14.6% at the end of August 2025.

On June 30, 2021, three dinar benchmark bonds were included in the J.P. Morgan Government Bond Index for Emerging Markets (GBI-EM Global Diversified Index), with maturity dates of January 11, 2026 (RSMFRSD89592), February 8, 2028 (RSMFRSD55940), and August 20, 2032 (RSMFRSD86176). On March 5, 2024, a dinar benchmark bond with a maturity date of October 26, 2031 (RSMFRSD58761) was included in the J.P. Morgan GBI-EM Global Diversified Index. On March 31, 2025, a new dinar benchmark bond with a maturity date of July 27, 2035 (RSMFRSD34101) was included in the same index.

In 2023, two-year dinar bonds were issued. The issuance volume of ten-year dinar bonds was increased by 18.4 billion dinars, and that of twelve-and-a-half-year bonds by 50 billion dinars. In October 2023, a new eight-year dinar bond was issued with a volume of 110 billion dinars. Among euro-denominated securities, two-year bonds were issued.

In 2024, the issuance volume of the eight-year bond (initially issued on October 24, 2023) was increased by 40 billion dinars. Among euro-denominated securities, three-year bonds were issued.

In January 2025, a new ten-year dinar bond was issued with a volume of 120 billion dinars. The issuance volume of the ten-and-a-half-year bond (initially issued on January 23, 2025) was increased by 60 billion dinars in February. Among euro-denominated securities, twelve-year bonds were issued.

During the period covered by this Strategy, an improvement in the efficiency of the primary market is expected through access to the I-link platform, as a mechanism for the settlement of government securities, which directly contributes, in the longer term, to the reduction of borrowing costs and refinancing risk. The introduction of a system for the sale of government securities on the domestic financial market, with the possibility of settlement via a platform operated by a foreign legal entity providing clearing and settlement services, will provide a solid foundation for enhancing the market efficiency of the secondary government securities market. Over time, the development of the secondary market will establish the concept of market efficiency in the valuation of government securities. The introduction of "benchmark" bond issuances has had a positive effect on the volume and continuity of secondary market trading, as well as on improving market efficiency in the primary market sales process.

The key factors influencing the yield curve of government securities include the fiscal outcome, the expected inflation rate, and the exchange rate. A separate group of factors comprises macroeconomic trends and expectations, as well as changes in the international financial market, which are reflected in the country risk premium.

At the end of 2012, the average maturity of dinar-denominated securities was 394 days (1.1 years); at the end of 2013, 469 days (1.3 years); at the end of 2014, 645 days (1.8 years); at the end of 2015, 749 days (2.1 years); at the end of 2016, 789 days (2.2 years); at the end of 2017, 864 days (2.4 years); at the end of 2018, 1,188 days (3.3 years); at the end of 2019, 1,403 days (3.8 years); at the end of 2020, 1,429 days (3.9 years); at the end of 2021, 1,377 days (3.8 years); at the end of 2022, 1,220 days (3.3 years); at the end of 2023, 1,427 days (3.9 years); at the end of 2024, 1,382 days (3.8 years); and at the end of August 2025, 1,892 days (5.2 years).

The development of the domestic government securities market by the Republic of Serbia has been supported by the following measures:

- The bonds of the Republic of Serbia have been included in the J.P. Morgan Global Government Bond Index for Emerging Markets in Local Currency (GBI-EM Global Diversified Index), which is expected to significantly increase the investor base and further promote secondary market trading, thereby contributing to lower borrowing costs through the issuance of dinar-denominated government securities.
- To create the largest possible investor base and develop the secondary market for securities

issued on the domestic market, equal tax treatment for domestic and foreign investors was introduced at the end of 2011, and efforts will continue to remove any remaining barriers to the free flow of capital.

- Measures have been taken to enable the settlement of government securities on the foreign market. Amendments to the Public Debt Law in December 2019 allowed clearing and settlement of government securities issued on the domestic market to be conducted, in addition to the Central Registry, by another foreign legal entity performing clearing and settlement operations.

During 2023 and 2024, active work was carried out to align legal regulations and IT infrastructure for the establishment of an international link (i-Link) between the Central Registry, the securities depository and clearing system, and Euroclear Bank. This work continued in 2025 to enable the settlement of government benchmark bonds through Euroclear post-trade transaction providers. The main advantages of joining the Euroclear system include broadening the investor base by facilitating access to domestic securities for foreign investors, which further reduces costs through a shorter chain of securities purchase participants, thereby lowering yields on securities and the issuer’s borrowing costs. Additionally, secondary market liquidity is increased through the expansion of the investor base.

IV FINAL PROVISIONS

An integral part of this revised Fiscal Strategy is Annex 1 – Projection of basic macroeconomic indicators, Annex 2 – Fiscal Framework of the General Government in 2026, Annex 3 b ud– Total Revenues, Expenditures, and Result for the period 2024–2028, in billion dinars, and Annex 4 – Overview of Investment Projects in the Republic Budget (expenditures for non-financial assets exceeding 20 million euros), which are printed together with this Fiscal Strategy.

This revised Fiscal Strategy shall be submitted to the National Assembly Committee in charge of the finances, the budget of the Republic of Serbia and the control of public fund spending, and the Ministry of Finance.

This revised Fiscal Strategy shall be published in the "Official Gazette of the Republic of Serbia" and on the websites of the Government and the Ministry of Finance.

05 No:
In Belgrade, November 2025

G O V E R N M E N T

FIRST DEPUTY PRIME MINISTER

Siniša Mali

Annex 1 – Projection of basic macroeconomic indicators

	2025	2026	2027	2028
Real growth rate of the GDP, %	2.3	3.0	5.0	3.5
GDP at current market prices (in billion dinars)	10,377.9	11,085.1	12,034.3	12,807.2
Growth sources: percentage change at constant prices				
Private consumption	2.8	4.6	3.5	3.4
Government consumption	2.6	2.9	2.0	2.4
Gross fixed capital formation	1.6	6.9	5.9	4.5
Export of goods and services	4.3	4.7	8.4	5.6
Import of goods and services	5.5	6.5	6.0	5.5
Contribution to the GDP growth, percentage points				
Domestic demand	3.4	4.6	4.1	3.8
Private consumption	1.8	2.9	2.2	2.2
Government consumption	0.5	0.5	0.3	0.4
Gross fixed capital formation	0.4	1.7	1.5	1.2
Change in inventories	0.7	-0.5	0.0	0.0
Net export of goods and services	-1.1	-1.6	1.0	-0.4
Growth of the GVA by sectors and net taxes, %				
Agriculture	2.0	3.1	0.0	0.0
Industry	2.8	0.4	3.9	4.7
Construction	-5.1	8.5	4.9	2.6
Services	2.8	3.5	5.9	3.4
Net taxes	2.8	3.5	4.3	3.4
Contribution to the GDP growth, percentage points				
Agriculture	0.1	0.1	0.0	0.0
Industry	0.5	0.1	0.7	0.9
Construction	-0.3	0.4	0.2	0.1
Services	1.6	2.0	3.4	2.0
Net taxes	0.4	0.5	0.6	0.5
Prices trends, %				
GDP deflator	4.1	3.7	3.4	2.9
Consumer prices (annual average)	3.9	3.7	3.5	3.0
Developments in the external sector,% of GDP				
Current account balance	-5.3	-6.0	-4.9	-5.1
Fiscal indicators, % of GDP				
General government fiscal result	-3.0	-3.0	-3.0	-2.5
Consolidated revenue	40.9	40.9	40.1	40.0
Consolidated expenditure	43.9	43.9	43.1	42.5
Gross debt of the general government	45.0	44.5	44.3	44.1

Annex 2 – Fiscal framework of the general government in 2026

	General government	Budget of the Republic of Serbia	Local self-government units	Towns and municipalities	Autonomous Province of Vojvodina	PE Roads of Serbia and Corridors of Serbia LLC	Mandatory social security insurance	Pension and Disability Insurance Fund	Health Insurance Fund	National Employment Service	Social Insurance Fund for Military Personell
	1=2+3+6+7	2	3=4+5	4	5	6	7=8+9+10+11	8	9	10	11
Public revenue	**4,534.5**	**2,374.7**	**526.1**	**481.5**	**44.6**	**83.5**	**1,550.2**	**1,044.3**	**468.2**	**32.5**	**5.2**
Current revenue	4,500.7	2,343.3	524.1	479.5	44.6	83.5	1,549.8	1,044.3	468.0	32.3	5.2
Tax revenue	4,041.3	2,080.0	452.0	413.3	38.7		1,509.4	1,044.3	428.8	31.3	5.0
Income tax	465.0	150.5	314.5	299.8	14.7						
Contributions	1,509.4						1,509.4	1,044.3	428.8	31.3	5.0
Profit tax	299.0	275.0	24.0		24.0						
VAT	1,084.0	1,084.0									
Excise duties	453.3	453.3									
Customs duties	99.9	99.9									
Other tax revenues	130.8	17.3	113.5	113.5							
Non-tax revenue	459.4	263.3	72.1	66.2	5.9	83.5	40.4		39.2	1.0	0.3
Donations	33.8	31.4	2.0	2.0			0.4		0.2	0.2	0.0
Public expenditure	**4,871.4**	**2,238.8**	**559.8**	**514.7**	**45.1**	**119.7**	**1,953.1**	**1,243.9**	**671.3**	**27.9**	**10.1**
Current expenditure	4,098.9	1,601.2	462.3	421.4	41.0	104.6	1,930.8	1,241.7	651.7	27.5	9.9
Personnel costs	978.1	566.1	106.0	101.0	5.0	21.4	284.6	5.0	277.0	2.5	
Contributions borne by the employer	150.3	89.9	14.6	14.0	0.6	3.8	42.1	0.8	40.7	0.5	
Purchase of goods and services	846.2	258.9	203.9	199.5	4.4	72.9	310.6	5.9	294.8	2.5	7.4
Repayment of interest	215.0	212.2	2.7	2.4	0.3	0.1					
Subsidies	242.8	194.8	48.1	32.7	15.4						
Social assistance and transfers	1,537.9	212.2	36.0	35.4	0.7		1,289.7	1,228.4	37.2	21.7	2.4
of which pensions	1,172.7						1,172.7	1,172.7			
Other current expenditure	128.5	67.2	51.0	36.5	14.5	6.5	3.9	1.5	2.0	0.3	0.1
Capital expenses	737.4	602.4	97.5	93.4	4.2	15.1	22.4	2.2	19.6	0.4	0.1
Net budgeting loans	11.5	11.5									
Activated guarantees	23.7	23.7									
Fiscal balance excluding transfers	**-337.0**	**135.9**	**-33.8**	**-33.2**	**-0.5**	**-36.2**	**-403.0**	**-199.6**	**-203.1**	**4.5**	**-4.8**
Transfers from other levels of government	**707.3**	**40.0**	**91.0**	**76.6**	**14.4**	**36.2**	**540.2**	**321.5**	**213.1**	**0.7**	**4.8**
Budget of the Republic of Serbia	512.9		82.6	68.2	14.4	36.2	394.1	307.8	85.2	0.7	0.3
Towns and municipalities	43.4	40.0					3.4		3.4		
Autonomous Province of Vojvodina	13.9		8.4	8.4			5.5		5.5		
Pension and Disability Insurance Fund	122.0						122.0		117.4		4.5
Health Insurance Fund	10.0						10.0	10.0			
National Employment Service	5.3						5.3	3.8	1.5		
Social Insurance Fund for Military Personnel											
Other levels											
Transfers to other levels of government	**707.3**	**512.9**	**57.3**	**43.4**	**13.9**		**137.2**	**122.0**	**10.0**	**5.3**	
Budget of the Republic of Serbia	40.0		40.0	40.0							
Towns and municipalities	76.6	68.2	8.4		8.4						
Autonomous Province of Vojvodina	14.4	14.4									
Pension and Disability Insurance Fund	321.5	307.8					13.7		10.0	3.8	
Health Insurance Fund	213.1	85.2	8.9	3.4	5.5		119.0	117.4		1.5	
National Employment Service	0.7	0.7									
Social Insurance Fund for Military Personnel	4.8	0.3					4.5	4.5			
Other levels	36.2	36.2									
Фискални резултат	**-337.0**	**-337.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

The table shows framework amount of revenue and expenditure in 2026, which is based more on the statistical methodology of public finance accounts than on accounting. In view of the fact that there could be changes to the amount and structure of certain categories, these amounts are not legally binding.

Annex 3 – Total revenues, expenditures, and result for the period 2024–2028, in billion dinars

	2024	2025	2026	2027	2028
Public revenues (1 + 2)	3,941.0	4,244.3	4,534.5	4,826.7	5,120.4
1. Current revenues (1.1 + 1.2)	3,919.7	4,206.0	4,500.7	4,792.0	5,083.8
1.1 Tax revenues (1.1.1 + ... + 1.1.7)	3,497.4	3,750.8	4,041.3	4,343.6	4,622.9
1.1.1 Personal income tax	403.0	434.3	465.0	507.5	545.7
1.1.2 Corporate income tax	297.1	288.8	299.0	312.9	328.6
1.1.3 Value added tax (VAT)	951.8	1,002.0	1,084.0	1,165.6	1,243.9
1.1.4 Excises	415.1	435.3	453.3	465.3	478.1
1.1.5 Customs duties	89.4	93.5	99.9	105.5	110.2
1.1.6 Other tax revenues	116.0	124.7	130.8	135.0	139.1
1.1.7 Contributions for mandatory social insurance	1,225.0	1,372.2	1,509.4	1,651.7	1,777.3
1.2 Non-tax revenues	422.3	455.2	459.4	448.4	460.9
2. Donations	21.2	38.3	33.8	34.7	36.7
Public expenditures (1 + 2 + 3 + 4)	4,132.8	4,558.2	4,871.4	5,192.6	5,442.4
1. Current expenditures (1.1 + ... + 1.6)	3,379.3	3,771.4	4,098.9	4,385.7	4,624.0
1.1 Expenditures for employees	907.2	1,030.0	1,128.5	1,221.5	1,309.8
1.2 Purchase of goods and services	676.1	773.4	846.2	898.0	944.5
1.3 Interest payments	180.5	197.8	215.0	228.9	249.6
1.4 Subsidies	236.7	245.4	242.8	253.7	264.7
1.5 Social assistance and other transfers to the population	1,260.2	1,390.4	1,537.9	1,650.9	1,719.1
of which pensions	*929.6*	*1,044.9*	*1,172.7*	*1,260.3*	*1,306.8*
1.6 Other current expenditures	118.6	134.4	128.5	132.6	136.3
2. Capital expenditures	704.6	739.8	737.4	773.0	784.1
3. Net lending	20.9	24.8	11.5	11.9	12.3
4. Activated guarantees	27.9	22.1	23.7	22.1	22.1
Consolidated fiscal result	-191.9	-313.9	-337.0	-366.0	-322.0

Annex 4 – Overview of Investment Projects in the Republic Budget (expenditures for Non-financial Assets over 20 million euros), in RSD

No	Project Code	Project Name	Capital Project Cost up to 2025	Estimated cost in 2025	Estimated cost in 2026	Estimated cost in 2027	Estimated cost in 2028	Estimated Total Project Value
1	5001	Procurement of equipment, construction of a hangar and ancillary facilities	2,852,269,436	5,469,803,378	30,560,000	0	0	**8,352,632,814**
2	5073	Construction of the National Football Stadium	27,359,213,093	2,800,000,000	21,200,000,000	16,400,000,000	7,200,000,000	**74,959,213,093**
3	5088	Linear infrastructure	21,036,515,302	20,167,716,278	18,600,000,000	2,650,000,000	0	**62,454,231,580**
4	5081	EXPO Belgrade 2027	47,040,272,159	38,232,283,722	42,577,000,000	14,400,000,000	0	**142,249,555,881**
5	5086	Tunnel from Karađorđeva Street to Dunavska Padina	0	6,000,000,000	5,000,000,000	5,000,000,000	10,000,000,000	**26,000,000,000**
6	5008	Expressway Novi Sad–Ruma	44,846,509,398	29,400,000,000	16,500,000,000	15,500,000,000	0	**106,246,509,398**
7	5015	Project of the Hungarian–Serbian railway	130,944,069,643	9,754,687,432	14,775,858,000	0	0	**155,474,615,075**
8	5019	Construction of the Belgrade bypass on the E-70/E-75 highway, section: Bridge over the Sava River near Ostružnica–Bubanj Potok (sectors 4, 5, and 6)	43,939,813,915	785,611,545	1,000,000	0	0	**44,726,425,460**
9	5027	Reconstruction of the railway line Niš–Dimitrovgrad	4,603,127,991	13,000,000,000	10,870,000,000	10,213,323,000	3,839,366,000	**46,737,645,320**
10	5034	Construction of the E-763 highway, section: Preljina–Požega	56,476,138,798	13,751,591,721	4,200,000,000	0	0	**74,427,730,519**
11	5035	Construction of the E-761 highway, section: Pojate–Preljina	180,544,401,297	35,645,957,364	28,500,000,000	7,350,000,000	0	**252,040,358,661**
12	5042	Salvage of the sunken German fleet from World War II	919,312,536	527,400,000	640,000,000	620,000,000	1,073,013,000	**4,106,955,999**
13	5043	Construction of the E-761 highway Belgrade–Sarajevo	34,601,087,019	9,398,912,981	4,000,000,000	0	0	**48,000,000,000**
14	5045	Construction of the highway/expressway Ruma–Šabac–Loznica	89,565,112,050	19,170,000,000	5,250,000,000	3,900,000,000	5,000,000,000	**122,885,112,050**
15	5046	Implementation of railway infrastructure projects	11,396,535,367	4,041,521,043	3,304,000,000	772,130,000	0	**19,514,186,411**
16	5050	Construction of the Niš-Merdare motorway, section: Niš-Pločnik	2,808,996,355	200,000,000	1,300,000,000	4,900,000,000	8,300,000,000	**37,310,000,000**

No	Project Code	Project Name	Capital Project Cost up to 2025	Estimated cost in 2025	Estimated cost in 2026	Estimated cost in 2027	Estimated cost in 2028	Estimated Total Project Value
17	5054	Improvement of conditions for ship passage at the Tisa dam near Novi Bečej	76,487,776	21,000,000	137,300,000	118,800,000	59,400,000	**9,599,325,000**
18	5056	Expansion of the capacity of the Sremska Mitrovica Port	27,137,507	0	0	2,947,200,000	1,688,857,000	**6,626,400,000**
19	5057	Expansion of the capacity of the Bogojevo Port	230,373,220	400,000,000	432,000,000	2,197,798,000	1,601,500,000	**7,896,476,900**
20	5058	Expansion of the capacity of the Prahovo Port	856,368,146	1,200,000,000	1,300,000,000	1,000,000,000	500,000,000	**5,405,000,000**
21	5059	Adaptation of the ship lock at the HEPS "Đerdap 2"	3,639,709,454	1,258,175,640	55,000,000	0	0	**4,952,885,094**
22	5061	Reconstruction and expansion of the Horgoš border crossing	2,489,209,751	356,590,249	200,000,000	0	0	**3,045,800,000**
23	5062	Construction of the motorway, section: Belgrade – Zrenjanin	0	12,013,000,000	12,000,000,000	10,795,000,000	16,346,000,000	**187,600,000,000**
24	5064	Construction of a new bridge over the Sava River in Belgrade	3,962,667,573	617,332,427	4,820,000,000	2,600,000,000	0	**12,000,000,000**
25	5066	Construction of an expressway, section: Iverak-Lajkovac	21,821,128,074	8,241,818,921	2,600,000,000	0	0	**32,662,946,996**
26	5067	Construction of a new bridge and bypass around Novi Sad with access roads	4,514,198,853	5,630,801,147	7,600,000,000	5,400,000,000	1,600,000,000	**24,745,000,000**
27	5069	Project for the construction of bypasses and tunnels	5,570,131,319	2,554,000,000	3,200,000,000	3,200,000,000	5,350,831,000	**23,370,131,319**
28	5070	Project for the construction of utility (sewage) infrastructure and infrastructure for municipal solid waste disposal in the Republic of Serbia	39,502,204,651	11,267,123,763	8,000,000,000	6,000,000,000	4,000,000,000	**367,895,069,040**
29	5071	Project for the collection and treatment of wastewater for the Central Sewerage System of the City of Belgrade	846,095,280	5,000,000,000	2,000,000,000	2,000,000,000	2,000,000,000	**32,604,000,000**
30	5072	Construction of the Belgrade Metro (Line 1 - Phases 1 and 2)	12,130,658,443	6,452,356,000	20,661,805,000	27,846,025,000	18,257,561,000	**72,850,000,000**
31	5074	Construction of the northern bypass around Kragujevac	5,559,509,191	10,000,000,000	9,400,000,000	9,000,000,000	3,800,000,000	**40,200,000,000**

No	Project Code	Project Name	Capital Project Cost up to 2025	Estimated cost in 2025	Estimated cost in 2026	Estimated cost in 2027	Estimated cost in 2028	Estimated Total Project Value
32	5076	E-75 Expressway, Požarevac – Golubac Interchange	35,709,853,455	11,739,146,545	10,051,000,000	4,000,000,000	0	**61,500,000,000**
33	5077	Construction of a crew training center for ship crews	55,503,664	50,000,000	10,000,000	1,543,980,000	1,610,000,000	**5,195,350,000**
34	5078	Modernization of the railway sector in Serbia	404,018,018	3,186,742,982	1,245,239,000	7,200,000,000	0	**12,036,000,000**
35	5048	Construction of the E-763 highway, section: New Belgrade – Surčin	10,061,069,170	1,052,347,438	800,000,000	0	0	**11,913,416,608**
36	5082	Construction of the railway line between Zemun Polje and the National Stadium	11,768,461,559	10,013,369,105	17,004,185,000	8,242,072,000	126,900,000	**47,154,987,664**
37	5084	Reconstruction and modernization of the railway section Belgrade – Niš	0	0	1,000,000	4,096,000,000	17,015,000,000	**208,618,748,882**
38	5085	Construction of a pedestrian and bicycle bridge on the piers of the old bridge in Novi Sad	0	500,000,000	500,000,000	5,000,000,000	0	**6,000,000,000**
39	5001	Construction of an irrigation system – Phase 1	9,620,176,502	458,108,498	57,715,000	0	0	**10,136,000,000**
40	5003	Dam with accumulation "ARILJE" profile "SVRAČKOVO", Arilje	6,505,486,755	701,209,000	701,209,000	1,523,330,000	1,523,330,000	**19,111,000,000**
41	5003	Procurement of equipment for collection and recycling	1,848,694,304	230,000,000	500,000,000	600,000,000	600,000,000	**3,778,694,304**
42	5002	Construction of educational-scientific centers	0	3,701,224,000	139,340,000	455,370,000	455,370,000	**4,751,304,000**
43	5001	Reconstruction of the University Clinical Center of Serbia, Belgrade	14,359,133,063	500,000,000	1,155,000,000	325,000,000	1,100,000,000	**17,439,133,063**
44	5003	Procurement of equipment for the University Clinical Center of Vojvodina, Novi Sad	3,697,511,435	1,548,488,565	354,000,000	0	0	**5,600,000,000**
45	5001	Construction of a reservoir in the oil product storage in Smederevo	2,884,999,646	16,170,000	250,000	0	0	**2,901,419,646**
46	5008	Construction of the new building of the Natural History Museum	0	0	2,891,000,000	3,717,000,000	1,652,000,000	**10,819,000,000**
47	5004	Construction and development of tourist infrastructure and substructure in the Danube region	2,284,696,256	250,000,000	150,103,000	1,421,896,000	347,072,000	**4,453,767,256**

No	Project Code	Project Name	Capital Project Cost up to 2025	Estimated cost in 2025	Estimated cost in 2026	Estimated cost in 2027	Estimated cost in 2028	Estimated Total Project Value
48	5007	Construction of the border crossing Sremska Rača	800,000,000	2,500,000,000	2,500,000,000	1,000,000,000	1,000,000,000	**8,157,965,600**
49	5004	Establishment of a Data Center for registers, "Backup" center, and "Disaster Recovery"	1,847,674,705	160,000,000	430,000,000	842,000,000	500,000,000	**3,779,674,705**
50	5006	Construction of a Data Center in Kragujevac	10,529,835,800	1,130,000,000	2,730,000,000	2,250,000,000	3,262,000,000	**19,901,835,800**
51	5014	Unified Information Communication Network of the e-Government	2,239,816,335	500,000,000	850,000,000	750,000,000	596,000,000	**4,935,816,335**
52	5019	Innovation District Kragujevac	528,670,000	700,000,000	2,200,000,000	2,000,000,000	3,025,459,000	**8,454,129,000**
		TOTAL:	**915,304,854,264**	**312,294,489,745**	**293,424,564,000**	**199,776,924,000**	**123,429,659,000**	**2,533,576,449,472**