

Republic of Serbia

Government

FISCAL STRATEGY

FOR 2027 WITH PROJECTIONS FOR 2028 AND 2029



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Pursuant to Article 27v, paragraph 1, and Article 31, paragraph 1, item 1, sub-item (7) of the 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

FISCAL STRATEGY FOR 2027 WITH PROJECTIONS FOR 2028 AND 2029

I MACROECONOMIC FRAMEWORK FOR THE PERIOD 2027-2029

1. General Framework and Key Objectives and Guidelines of Economic Policy

Global instability is becoming a permanent characteristic of the international economic system, which requires resilient and credible economic policy. The Republic of Serbia is preparing the Fiscal Strategy for 2027 in conditions of increased uncertainty in the international economic and geopolitical environment. Geopolitical tensions, disruptions in global trade and energy flows, rising transportation, insurance and financing costs, as well as high volatility in international markets, show that instability is no longer a temporary disturbance but a permanent factor of the global economy. In such circumstances, the priority of economic policy is preserving the resilience of the economy and the ability of institutions to respond to external shocks.

Contemporary global shocks increasingly affect economies through energy, trade and finance. Disruptions in energy and transport flows directly affect inflation, production costs, investments and financial conditions, which is why economic policy must ensure stability and room for response in conditions of increased uncertainty. Serbia enters this period with preserved macroeconomic and financial stability despite the slowdown in growth in 2025. Following gross domestic product (hereinafter: GDP) growth of 3.7% in 2023 and 3.9% in 2024, economic growth slowed to 2.0% in 2025, primarily due to increased uncertainty and weaker domestic and external demand. Nevertheless, inflation has stabilized, unemployment has remained low, and the financial system stable. Short-term economic indicators in 2026 confirm the recovery and strength

of domestic demand and investments. According to the flash estimate of the Statistical Office of the Republic of Serbia (hereinafter: SORS), real GDP growth in the first quarter of 2026 amounted to 3.0% year-on-year. Industrial production in March increased by 6.4%, and manufacturing industry by 8.4%, while growth continued in trade, services, tourism and the ICT sector. At the same time, the stabilization of inflation and the maintenance of inflation expectations within stable frameworks indicate the importance of coordinated action of monetary and fiscal policy. Average inflation in 2025 amounted to 3.8%, while in the first four months of 2026 it slowed to 2.8%. The resilience of the domestic economy is also confirmed by developments in the labour market and the financial system: the unemployment rate in 2025 amounted to 8.7%, real wages in the first months of 2026 increased by 8.5%, the banking sector remained highly capitalized and liquid, and foreign exchange reserves provide coverage for almost seven months of imports. The investment cycle "Leap into the Future – Serbia 2027" and preparations for EXPO 2027 represent a key driver of modernization and economic growth. Investments include road and railway infrastructure, energy and utility systems, healthcare, education, digital infrastructure and urban development. The objective of this cycle is to strengthen productivity, competitiveness and long-term growth potential, and investments already represent one of the main drivers of economic activity. The green transition and new trade standards are becoming an important factor of the competitiveness and resilience of the

Serbian economy. The introduction of the *Carbon Border Adjustment Mechanism* (CBAM)¹ and rising carbon prices will mean that competitiveness will increasingly depend on energy efficiency, modernization of production and the ability of exporters to adapt to European standards.

Serbia's medium-term economic policy is based on preserving macroeconomic stability, responsible public finances, investments and energy security.

Priorities remain the control of public debt, increasing the efficiency of public investments and the continuation of institutional reforms in the process of accession to the European Union. At the same time, risk management remains important due to Serbia's exposure to energy, trade and financial shocks. The baseline macroeconomic scenario envisages an acceleration of economic growth and preservation of stability in the medium term. GDP growth of around 3.0% is expected in 2026 and an acceleration to around 4.5% in 2027, while preserving price stability and gradually reducing the share of public debt in GDP.

Fiscal policy remains focused on preserving the stability of public finances while providing room for financing development priorities.

The planned fiscal deficit of 3.0% of GDP enables the continuation of the investment cycle and financing of strategic projects, while preserving the sustainability of public debt and strengthening the management of public investments and fiscal risks. The response to external shocks must be temporary, targeted and focused on preserving development investments and stability. Capital investments with high development effects must remain a priority, alongside coordination of fiscal and monetary policy and the continuation of structural reforms.

¹ Carbon Border Adjustment Mechanism

2. Estimates of the International Economic Environment

The global economy continues to face heightened uncertainty in 2026, despite having shown remarkable resilience to a series of shocks. The latest challenge is the escalation of the military conflict in the Middle East, which has already led to significant humanitarian consequences, damage to critical infrastructure and disruptions to maritime and air traffic in the region. These effects are spilling over into the global economy primarily through rising energy and food prices, rising inflation expectations, and increased uncertainty and investor caution in financial markets. Developing economies that depend on energy and food imports are particularly exposed, as the simultaneous rise in prices and weakening currencies further worsen their external position. Global inflation will temporarily accelerate in 2026, driven by higher energy and food prices, with marked heterogeneity in movements across countries. While inflation is expected to gradually converge towards the target levels in advanced economies, inflationary pressures could persist for longer than previously expected in some countries. At the same time, inflationary pressures in emerging economies will remain more pronounced due to structural constraints. Overall, the disinflation process will be gradual and to a large extent determined by the further development of global cost pressures and the direction of monetary policy.

In parallel with geopolitical tensions, the global trading system remains in a state of transformation following recent changes in US trade policy. Although the effective tariff rate is somewhat lower than

Macroeconomic Estimates of the International Monetary Fund (IMF)

In the period preceding the escalation of the conflict in the Middle East, global economic activity trends were somewhat more favorable than previously projected. Growth in China remained relatively strong, the euro area and Japan recorded a gradual recovery, while the US economy showed marked resilience. At the same time, inflationary pressures continued to ease, although inflation in most economies remained above target levels. Global trade growth accelerated moderately, primarily

previously projected, uncertainty regarding future tariff measures remains high, particularly given the temporary nature of existing trade agreements and upcoming policy decisions. This has encouraged many countries to intensify regional integration and new trade arrangements, such as the deepening of relations between the European Union and MERCOSUR (the South Common Market). However, despite some reduction in uncertainty compared to the peak of the previous year, the global environment remains characterized by increased volatility. There are significant imbalances in economic activity across countries and regions. While the two largest economies have recorded better-than-expected results, the structure of growth remains uneven — in China, domestic demand is lagging, while US growth is accompanied by weaker employment dynamics. At the same time, medium-term growth prospects remain limited due to geo-economic fragmentation and structural weaknesses.

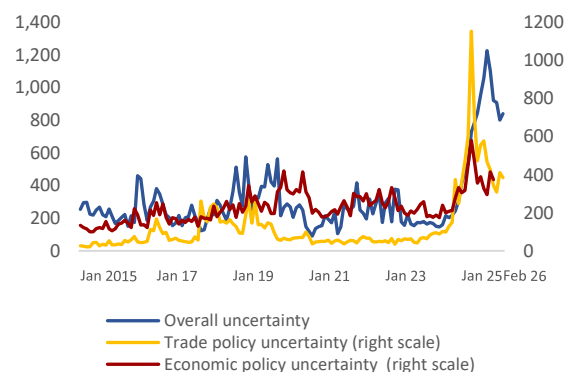
Despite significant risks and increased uncertainty, the global economy could benefit from a combination of existing fiscal stimulus and potential gains from technological advances, notably the wider application of artificial intelligence. These factors have the potential to cushion the negative effects of current shocks and create the basis for higher and more productive growth, but their full realization will require adequate policies that ensure a more equitable distribution of benefits and sustainable economic transformation.

under the influence of increased demand for products from the high-tech sector, including those related to the development of artificial intelligence. At the same time, the adjustment of global supply chains and trade flows continued with the relocation of production to some Asian economies and the gradual weakening of direct trade links between the US and China. However, the escalation of the conflict in the Middle East has led to a sharp increase in uncertainty in the global economic environment. New geopolitical tensions have increased the risks of disruptions in the supply of energy and other key raw materials, which

has been reflected in the rise in prices of primary products and increased volatility in financial markets.

Based on the above trends, the IMF's spring projections define an initial, or reference, macroeconomic scenario, which is based on the assumption of a limited duration of the conflict and a gradual stabilization of economic conditions after its end. However, given the high level of uncertainty, the initial projections are supplemented with alternative scenarios based on model estimates, which assume a longer and more intense course of the conflict with more pronounced negative effects on global economic activity. The probability of such scenarios occurring increases in the event of a prolonged conflict and related disruptions.

Overall, economic and trade uncertainty (Index)



Source: IMF, World Economic Outlook, April 2026

Table 1 International Environment – Macroeconomic Indicators

	2025	2026	2027	2028	2029
Real GDP growth¹, %					
World Total	3.4	3.1	3.2	3.2	3.2
Advanced economies	1.9	1.8	1.7	1.7	1.6
USA	2.1	2.3	2.1	2.1	1.9
Euro area	1.4	1.1	1.2	1.4	1.2
Emerging economies	4.4	3.9	4.2	4.2	4.1
China	5.0	4.4	4.0	4.0	3.7
Russia	1.0	1.1	1.1	1.0	1.0
World trade growth, %	5.1	2.8	3.8	3.2	3.1
Unemployment rate, %					
Euro area	6.3	6.2	6.1	6.0	5.9
USA	4.3	4.4	4.2	4.1	3.9
Consumer prices, period average, %					
Euro Area	2.1	2.6	2.2	2.1	2.0
Advanced economies	2.5	2.8	2.2	2.1	2.1
Emerging economies	5.2	5.5	4.6	4.1	3.9
Exchange rate, euro/dollar, end of period	1.1	1.1	-	-	-
Cereal prices, in dollars, annual change ²	-11.6	12.2	8.6	0.2	-1.2
Metal prices, annual changes ³	2.1	18.9	-0.2	-0.8	-0.8
Iron ore prices, in dollars ⁴	-6.6	-1.4	-4.1	-3.4	-4.2
Oil prices, in dollars, annual changes, %	-14.4	21.4	-7.6	-2.3	-0.4

Source: IMF, World Economic Outlook, April 2026

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.

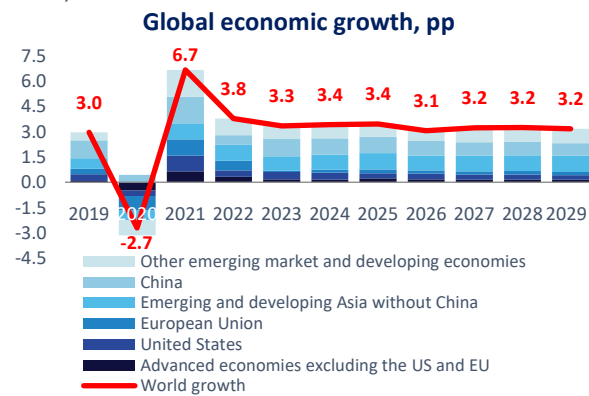
⁴ Iron ore price (of 62% iron content) for imports into China, Tian Jan port, in dollars per metric ton.

The reference scenario assumes that the conflict will be limited in time, lasting for a few more weeks, after which production and exports from the affected region are expected to gradually normalize by mid-2026. In this context, temporary pressures on primary commodity prices and a moderate tightening of global financial conditions are projected, in line with assumptions about energy price developments and

interest rates. At the same time, it is assumed that fiscal and trade policies will remain broadly unchanged over the projection horizon, while uncertainty, including geopolitical and economic factors, will remain elevated in the medium term, i.e. until 2027. According to the baseline scenario, global growth is projected to moderate to 3.1% in 2026 and 3.2% in 2027, after growth of 3.4% in 2025. Compared

to pre-conflict projections, global growth has been revised slightly downwards (by around 0.2 pp), with the effects being uneven across country groups. Negative revisions are most pronounced in low-income economies, especially net energy importers, while developed economies and net energy exporters are less affected, with some cases even recording slightly positive growth revisions.

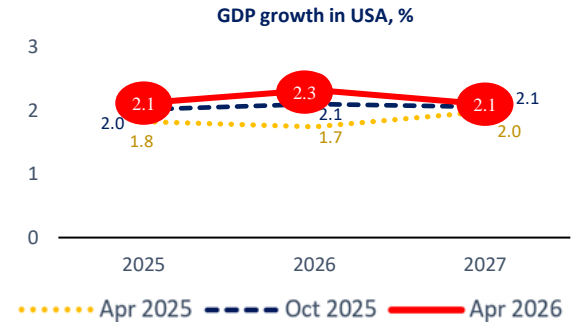
In **advanced economies**, the overall economic effects of the Middle East conflict are expected to remain limited, with a downward revision to growth projections estimated at around 0.2 pp. The negative impacts are partially mitigated by the continued resilience of economic activity in the US, as well as by more favourable growth prospects in Japan. On the other hand, more pronounced negative effects are expected in some economies that are net energy importers, primarily in the euro area and the United Kingdom (hereinafter: the UK). Accordingly, a moderate slowdown in growth in advanced economies is expected, from 1.9% in 2025 to 1.8% in 2026, or around 1.7% in the medium term.



Source: IMF, World Economic Outlook, April 2026

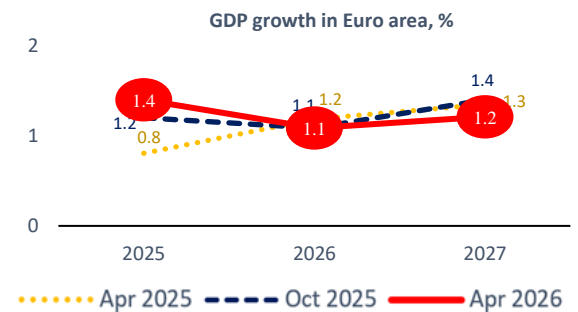
United States. Although trade restrictions will continue to weigh on economic activity, GDP is projected to grow by 2.3% in 2026, supported by fiscal policy and the lingering effects of monetary policy easing from the previous year. The downward revision of only 0.1 pp. compared to previous estimates reflects the relatively limited negative impact of the conflict in the Middle East, given the country's position as a net energy exporter. In the medium term, growth is expected to gradually slow down and stabilize at around 2.1%. This dynamics will primarily be the result of reduced labor migration, which will limit employment and disposable income growth, and thus the contribution of personal consumption to overall growth. At the same time, a

positive contribution to growth is expected from fiscal stimulus, as well as from continued strong investment activity and gains in the high-tech sector, which remains one of the key drivers of medium-term growth in the US economy.



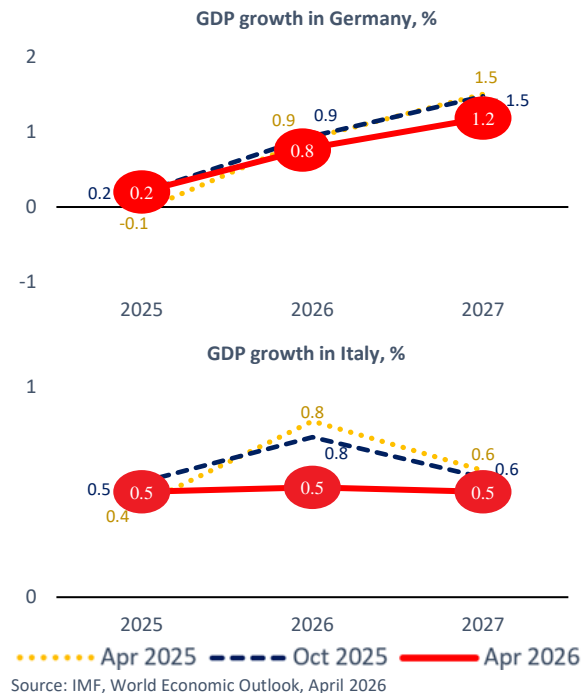
Source: IMF, World Economic Outlook, April 2026

Euro area. According to IMF estimates, economic activity in the euro area is expected to slow down from 1.4% in 2025 to 1.1% in 2026, with a slight recovery to 1.2% in 2027. Compared to the January update, the projections have been revised downwards by around 0.2 p.p. for both years, since the more favorable results at the end of 2025 did not completely neutralize the negative effects of increased geopolitical uncertainty. It is expected that the conflict in the Middle East will further intensify the already present effects of increased energy prices resulting from the conflict in Ukraine, which will continue to burden the dynamics of the processing industry. In addition, economic conditions will be affected by the real appreciation of the euro in relation to the currencies of competing economies. At the same time, the effects of the planned increase in defense spending in most euro area countries will probably be manifested gradually and will be more visible only in the medium term, bearing in mind the phased dynamics of reaching the defined goals until 2035.



Source: IMF, World Economic Outlook, April 2026

Germany and Italy. The dynamics of economic activity in Germany and Italy, as Serbia's key foreign trade partners in the euro area, indicate a certain weakening due to the negative effects of increased geopolitical uncertainty. The German economy, as the largest in the euro area, according to the latest IMF projections, will grow by 0.8% in 2026, which represents a downward revision of 0.3 pp. compared to the January and 0.1 pp. compared to the October projection. Growth constraints primarily stem from the weakness of the industrial sector, high exposure to global trade flows, as well as structural challenges in the process of energy and industrial transformation, while a positive contribution will be partially provided by increased public investments in defense and infrastructure. The Italian economy is projected to maintain growth of 0.5% in 2026 and 2027, revised downwards from previous projections. The main constraints to growth remain structural, including low productivity, unfavourable demographic trends and high levels of public debt. The overall growth dynamics in both economies, despite an expected slight recovery in 2027, remain well below the estimated long-term potential.



In emerging countries, economic growth is expected to slow to 3.9% in 2026, after which it is projected to recover to 4.2% in 2027. The economic effects of the conflict in the Middle East will be highly

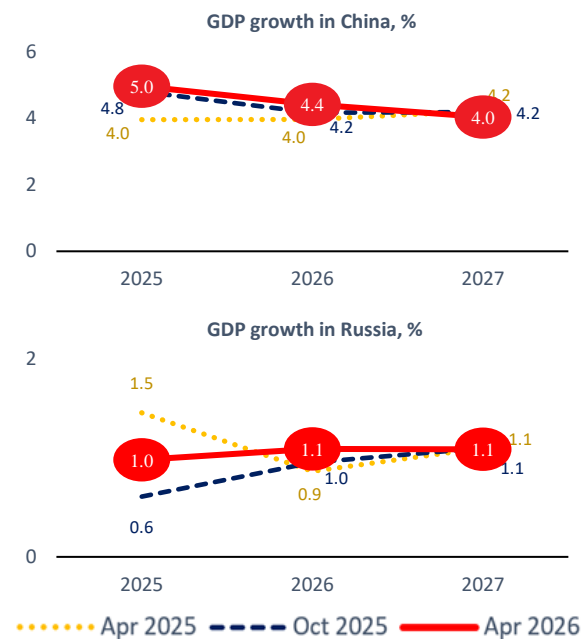
heterogeneous and will depend on the degree of external and energy dependence, geographical exposure, and the involvement of individual economies in international financial flows. Overall, these economies are more exposed to negative effects compared to developed economies, primarily through higher energy prices, weakening external demand, and potentially less favorable financing conditions. Accordingly, the growth projection for 2026 has been revised downwards by about 0.3 pp compared to pre-conflict projections.

China. Growth is projected at 4.4% in 2026, an upward revision of 0.2 pp compared to the October update and a downward revision of 0.1 pp compared to the January estimate. This projection reflects lower effective US tariffs on Chinese exports, as well as the effects of stimulus measures, which have partially cushioned the negative impact of the Middle East conflict shock. Growth is expected to slow to 4.0% in 2027, driven by increasingly pronounced structural constraints, including weaker real estate activity, adverse demographic trends, a decline in the labor factor contribution, declining returns to investment, and a gradual slowdown in productivity growth.

Russia. After economic growth of 1.0% in 2025, the economy is projected to grow by 1.1% in 2026, an upward revision of 0.3 pp compared to the January update, primarily due to more favorable energy price developments. Growth is expected to remain at the same level in 2027. Structural constraints remain pronounced, including limited access to international financing and foreign investment, the effects of sanctions, low productivity, and high reliance on public spending.

In the Middle East and Central Asia, growth is expected to slow significantly, from 3.6% in 2025 to 1.9% in 2026, before recovering to 4.6% in 2027. This dynamic reflects the region's direct exposure to the conflict, as well as the expectation of a gradual recovery in economic activity once conditions stabilize. For primary commodity exporters directly affected by the conflict, the decline in production and exports is leading to more pronounced negative growth revisions in 2026, the magnitude of which will depend on the extent of damage to energy and transport infrastructure, as well as reliance on key export routes, including the Strait of Hormuz, and the

availability of alternative transport corridors. These economies are expected to recover in 2027, based on the assumption of a gradual normalization of energy production and transport, noting that this assumption carries significant uncertainty and may be subject to revision in the event of a prolonged conflict. For Sub-Saharan Africa and Latin America, the direct effects of the conflict in the Middle East are estimated to be relatively limited, with growth expected to remain largely unchanged in 2026 and to accelerate slightly in 2027. At the same time, the effects will be heterogeneous and more pronounced in smaller economies that are more exposed to external shocks.



Source: IMF, World Economic Outlook, April 2026

Unlike the reference scenario, which assumes a short-term conflict and gradual normalization of energy production and transport by mid-2026, the alternative scenarios imply significantly more unfavorable outcomes in the event of a prolonged conflict or a slower recovery due to more permanent damage to energy infrastructure. In this context, two alternative scenarios, **adverse and extreme**, have been defined with the aim of assessing the potentially more significant negative effects on global economic activity.

The **adverse scenario** assumes a strong increase in oil prices (\$100/barrel), as well as an increase in gas and

food prices in 2026, with a more pronounced increase in energy prices in Europe and Asia, which would gradually normalize only by the end of 2027–2028. At the same time, inflation expectations are expected to increase, which would further complicate the disinflation process. In such conditions, there is increased investor caution, an increase in corporate and sovereign debt premiums, and a general tightening of financial conditions, with a monetary policy that prioritizes containing inflation over supporting economic growth. In this scenario, global growth would be 0.8 pp lower than the reference scenario in 2026, amounting to 2.5%, while in 2027 it would be 0.2 pp lower, reaching 3.0%. Inflation would be higher by about 1.5 pp in 2026 (5.4%), and by 0.4 pp in 2027 (3.9%).

The **extreme scenario** assumes a significantly stronger and more lasting shock to energy prices, including an increase in oil prices of around 100% in the second quarter of 2026, as well as a significant increase in gas and food prices, with energy prices remaining at extremely high levels in 2027, with a moderate gradual normalization. At the same time, a significant increase in inflation expectations in developed and emerging economies (with the exception of China) would further increase inflationary pressures, which, together with the growth of risk aversion in financial markets, would lead to a strong increase in corporate and sovereign debt premiums and a more pronounced tightening of financial conditions. Global growth in this scenario would be lower by 1.3 pp in 2026, bringing the world economy closer to the threshold that the IMF analyses treat as a global recession, i.e. growth below 2%. Such an outcome has only been recorded four times since 1980, including the global financial crisis and the COVID-19 pandemic. In 2027, the negative effects would persist, with global growth about 1.0 pp lower than in the baseline scenario at 2.2%. Inflation would be 190 basis points higher than in the baseline scenario in 2026, reaching 5.8%, and 260 basis points higher in 2027, reaching 6.1%.

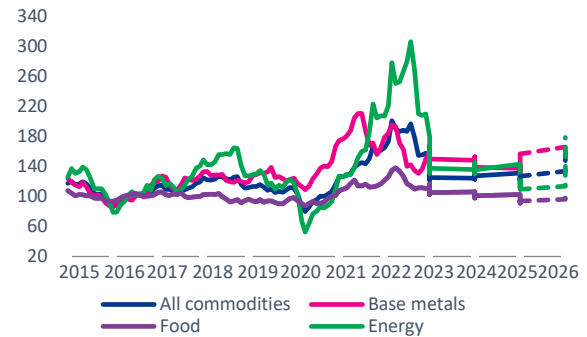
In both scenarios, the negative impact is more pronounced in emerging and developing economies than in advanced economies, reflecting greater exposure to commodity price movements, energy

supply disruptions, rising inflation expectations, and tightening financial conditions.

According to the IMF's current projections in the reference scenario, **global inflation** will temporarily deviate from the downward path and accelerate from 4.1% in 2025 to 4.4% in 2026, after which it is expected to slow down again to 3.7% in 2027. The upward revision of 0.7 pp for 2026 compared to the October estimate primarily reflects the expected higher energy and food prices, with significant differences across countries and regions. In the US, the effects of higher tariffs and the limited impact of energy prices are expected to gradually disappear, with disinflationary processes continuing in the services sector, due to a balanced labor market, which would lead to inflation approaching the 2% target during 2027. In the UK, inflation, which rose in part in 2025 due to one-off changes in administered prices, is expected to temporarily rise again to around 4%, before gradually returning to target levels by the end of 2027. This dynamics reflects the gradual fading of the effects of higher energy prices, as well as the continued weakening of the labour market, which contributes to reducing pressures on wage growth and inflation. For the euro area, headline inflation is expected to temporarily increase to 2.6% in 2026, with it remaining above the target level in 2027, while core inflation will increase more moderately, but also remain above 2% in the period until 2028. In emerging economies, a temporary halt in the disinflationary process is expected, primarily due to higher food and energy prices, as well as the existence of structural constraints on the supply side. Inflation in these economies could remain above 5% in 2026, with a more significant slowdown in 2027. The process of price stabilization will remain gradual and conditional on a further easing of global cost pressures and an adjustment in monetary policy. Compared to the October 2025 projections, price projections for almost all categories of goods have been revised significantly upwards. The conflict in the Middle East has worsened the outlook for energy and food price developments, as higher oil and gas prices increase the costs of fuel, petrochemicals and fertilizers. Energy prices are expected to increase by 19% in 2026, instead of the previously projected decline, while oil prices would increase by 21.4%, with an average price of about \$82/barrel, due to disruptions in production and transportation in the Middle East. Natural gas prices will be more severely affected than oil, due to a more technically complex

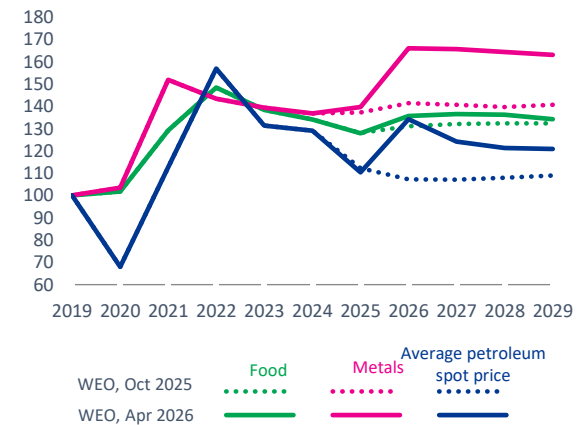
restart of production and lower levels of available reserves. Food prices would also see a larger increase compared to the October projections, due to higher energy and fertilizer prices, disruptions in transport routes and increased logistics costs. Base and precious metal prices are not expected to fall below 2025 levels.

Commodity prices, indices, 2016=100



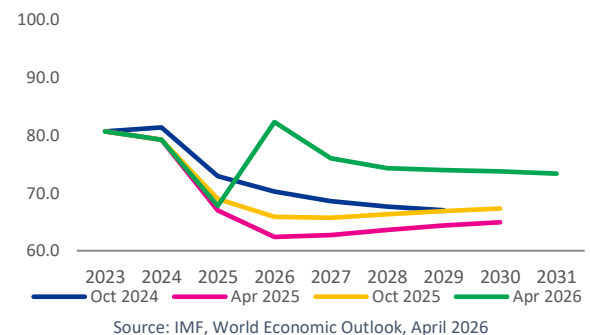
Source: IMF, World Economic Outlook, April 2026

Projection of price trends, indices, 2019=100



Source: IMF, World Economic Outlook, April 2026

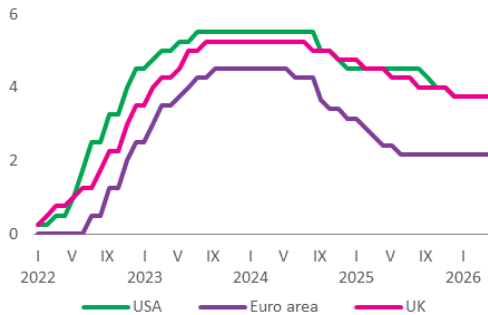
Brent Crude Oil Price Forecasts (US dollars per barrel)



Source: IMF, World Economic Outlook, April 2026

The US Federal Reserve (hereinafter: the FED) lowered its benchmark interest rate three times in 2025, which has been in the range of 3.50% to 3.75% since December. Further developments in monetary policy will be determined by inflation dynamics and developments in global financial markets.

Changes in policy rates by selected countries, %



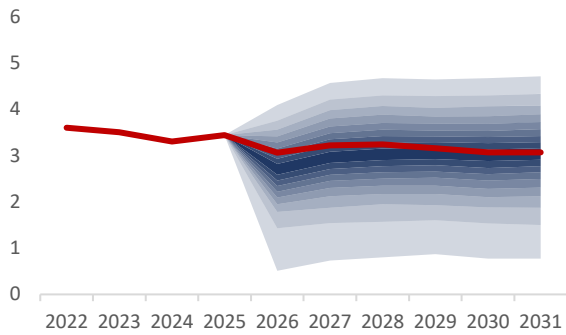
Source: Central banks of selected countries

Fiscal space remains tight in many economies, following a period of strong fiscal support and increased public spending. The conflict in the Middle East is putting additional strain on public finances, both through direct fiscal implications and through the need for support measures to mitigate the effects of disruptions in commodity markets. An additional risk is the implementation of indiscriminate fiscal packages, while higher financing costs and a slowdown in economic activity are weighing on the revenue side of the budget. Fiscal policy in advanced economies is expected to be neutral on average in 2026, with a gradual tightening in the coming years. Developing countries will also seek to gradually reduce fiscal deficits over the medium term, given limited and more expensive access to financing sources, as well as the need to preserve public debt sustainability. According to IMF projections, the public debt of the United States will increase from 124% of GDP in 2025 to 142% of GDP in 2031, while in the euro area, public debt is expected to grow from 87% to 90% of GDP over the same period.

The risks to the global economic growth projections are assessed as significantly skewed to the downside, with some risks increasing in intensity compared to the previous assessment. In this context, further escalation of the conflict in the Middle East and the spread of geopolitical tensions could further disrupt global supply chains and foreign exchange markets,

threaten food security and increase poverty, with particularly pronounced effects on energy-importing countries and economies with limited reserves. These processes could lead to increased financial instability, capital outflows and increased political instability, while increased military spending, while supporting economic activity in the short term, carries significant fiscal and macroeconomic costs in the long term. An additional risk relates to the possible overestimation of the economic potential of artificial intelligence. If the effects on productivity are less than expected, a correction in the value of the technology sector is possible, with a consequent weakening of investment and consumption, as well as the transmission of negative effects on global growth through trade and financial channels. At the same time, the strengthening of protectionist measures, trade barriers and restrictions on access to key resources can disrupt global supply chains, slow economic growth and provoke reciprocal measures among trading partners. High levels of public debt and fiscal imbalances can lead to rising borrowing costs, increased financial instability and increased risks for developing economies. In addition, weakening confidence in economic institutions, a decrease in international development assistance and the instability of financial flows can contribute to rising inflation expectations, capital outflows and a further slowdown in global economic activity. On the other hand, positive risks include faster implementation of artificial intelligence, which would significantly accelerate productivity growth and global growth. In addition, the implementation of structural reforms aimed at increasing employment, strengthening competition and stimulating innovative activity could permanently raise growth potential. At the same time, progress in trade negotiations and greater predictability of economic policies would contribute to reducing trade barriers, encouraging investment and further accelerating global economic activity.

Global GDP growth projection - with risk matrix, %



Source: IMF, World Economic Outlook, April 2026

Macroeconomic Estimates of the European Central bank (ECB) for the Euro Area

The euro area economy showed relative resilience in 2025 amid heightened global uncertainty and trade tensions, growing by 1.5%. Economic activity was supported by a gradual recovery in real income, driven by easing inflationary pressures and stable labour market developments, which allowed for continued growth in household consumption. At the same time, investment activity, despite still relatively restrictive financing conditions, showed signs of stabilisation. Such a macroeconomic environment contributed to the euro area economy entering 2026 with some positive momentum.

However, the escalation of geopolitical tensions in the Middle East in March 2026 led to a sharp increase in energy prices, primarily oil and gas, which resulted in increased volatility in energy markets and increased uncertainty about further economic developments. In such an environment, economic growth projections have been revised downwards, as higher energy costs and increased uncertainty are expected to limit private consumption growth and delay investment decisions. At the same time, inflation projections have been revised upwards, primarily due to the assumed higher level of energy prices. Higher oil and gas prices contribute directly to the increase in headline inflation, while their effects are also transmitted indirectly, through rising production costs and service prices. Core inflation remains relatively persistent, reflecting a gradual price adjustment, as well as persistent domestic price pressures. These revisions to the core macroeconomic aggregates primarily reflect updated

technical assumptions, based on market expectations as of 11 March 2026. The assumptions for the price of oil (Brent), based on futures movements, imply a relatively high price level in the short term, with values of around 90 US dollars per barrel during the second quarter of 2026, after which a gradual decrease is expected. At the full-year level, the average oil price is estimated at around 83 US dollars per barrel in 2026, with a further gradual decrease to around 78 US dollars in 2027 and 73 US dollars in 2028. The price of natural gas on the European market (TTF) has also been significantly revised upwards in the short term (to around 50 EUR per MWh in the second quarter of 2026), with an expectation of its gradual decrease in the following quarters. At the same time, technical assumptions for interest rates have been revised upwards, with short-term interest rates (EURIBOR) higher by around 0.3–0.5 pp while long-term yields have increased slightly, reflecting expectations of a slower easing of monetary policy in the face of elevated inflationary pressures.

Under the baseline scenario, real GDP growth in the euro area is projected to be 0.9% in 2026, a downward revision of 0.3 pp compared to previous projections. In 2027, economic activity is expected to accelerate to 1.3%, with this projection also revised downward by 0.1 pp, while the growth forecast for 2028 remains unchanged. The downward revision of growth in 2026 is largely due to the negative impact of higher energy prices and increased uncertainty, which is weighing on business confidence and financial conditions. These factors are being transmitted to the real sector, primarily through a slowdown in private consumption growth and the postponement of investment decisions, with some of the negative effects expected to spill over into 2027, maintaining pressures on economic activity in the medium term. Looking at the components of aggregate demand, the most significant revisions relate to household consumption and investment. Although private consumption has been revised downwards (by 0.2 percentage points in 2026 and 2027), it will remain the main driver of growth over the projection period, supported by a gradual increase in real incomes. However, its dynamics in the short term remain limited due to increased

uncertainty and higher energy costs. Investment activity is expected to slow down more markedly in 2026 and 2027, as a result of unfavourable financing conditions and increased uncertainty, leading to postponement of investment decisions. On the other hand, domestic demand will be supported by fiscal measures in some euro area countries, including increased public spending on defence and infrastructure, which will partly contribute to

strengthening economic activity and mitigating the negative effects of external shocks. Export growth is expected to remain moderate, due to continuing challenges to the competitiveness of the euro area economy and relatively weak external demand. In the medium term, the effects of the current shocks are expected to gradually fade, accompanied by the stabilisation of energy markets and a gradual recovery of economic activity.

Table 2 Macroeconomic Projections for the euro area,* %

	2025	2026	2027	2028
GDP	1.5	0.9 (-0.3)	1.3 (-0.1)	1.4 (0.0)
Personal consumption	1.6	1.0 (-0.2)	1.1 (-0.2)	1.2 (+0.1)
Government consumption	1.6	1.8 (+0.3)	1.1 (0.0)	1.3 (+0.1)
Gross fixed capital formation	3.1	1.9 (-0.3)	1.7 (-0.7)	2.1 (-0.1)
Exports	2.1	1.2 (-0.4)	2.4 (0.0)	2.8 (+0.2)
Imports	3.7	2.0 (-0.3)	2.4 (-0.3)	2.9 (+0.1)
Employment	0.7	0.5 (-0.1)	0.4 (-0.1)	0.4 (-0.1)
Unemployment rate	6.3	6.3 (+0.1)	6.3 (+0.2)	6.2 (+0.3)
Inflation, period average	2.1	2.6 (+0.7)	2.0 (+0.2)	2.1 (+0.1)
Unit labor costs	3.1	3.0 (+0.4)	2.3 (+0.3)	2.1 (0.0)
General government fiscal result, % GDP	3.1	3.4 (+0.1)	3.6 (+0.2)	3.6 (+0.2)
General government gross debt, % GDP	87.5	88.3 (+0.3)	89.0 (+0.4)	89.5 (+0.4)

* Data in brackets represent a revision compared to the previous ECB report from December 2025
Source: Macroeconomic projections of ECB experts for the euro area, March 2026

The labor market is expected to remain relatively resilient throughout the projection period. In the short term, businesses are expected to seek to maintain existing employment levels, assuming that the slowdown in economic activity is temporary. However, increased cost pressures and reduced profitability will limit the scope for such an adjustment, which will be reflected in somewhat slower employment dynamics in 2027 and 2028. Accordingly, the unemployment rate is expected to remain at approximately the same level over the projection horizon, with slight upward revisions compared to previous estimates.

According to the baseline scenario, inflation is projected to remain elevated in the short term, primarily due to rising energy prices. These factors directly contribute to the growth of overall inflation, but are also transmitted to other components through higher production and transport costs. In this context, the inflation projection for 2026 has been revised upwards to 2.6%, which represents an increase of 0.7 pp. compared to previous estimates. In the remainder of the projection horizon, a further

slowdown in inflation is expected as a result of the gradual weakening of the effects of rising energy prices, while at the same time restrictive monetary conditions contribute to the reduction of aggregate demand. However, despite the expected slowdown, inflation remains above previously projected levels, which indicates that price pressures are still present and relatively persistent.

After a slight easing in 2025, euro area fiscal policy is expected to become more expansionary in 2026, before gradually tightening in 2027 and 2028. This fiscal stance in 2026 primarily reflects an increase in public investment and fiscal transfers, driven by higher defense and infrastructure spending in Germany and other smaller countries, and partly by investments financed under the Next Generation EU (NGEU) program. In the coming years, a moderate tightening of fiscal policy is expected due to planned fiscal consolidation in several countries, including Italy, France and Spain, as well as the gradual expiration of most of the stimulus measures financed through the NGEU. Despite this, the budget deficit and the share of public debt in the euro area's GDP

are projected to continue to increase over the observed period, with both indicators revised upwards compared to the December round of projections.

During 2025, the ECB reduced the reference interest rate by 0.25 pp on four occasions, so that it has been at the level of 2.15% since June, while it lowered the interest rate on credit and deposit facilities to 2.40% and 2.00%, respectively. The ECB Governing Council will continue to monitor global developments and adjust monetary policy in the coming months to ensure that inflation returns to the target level of 2.0%.

Given the high level of uncertainty, in addition to the baseline scenario, alternative, hypothetical scenarios were considered that differ in terms of the intensity and duration of the energy price shock, its impact on the international environment and the level of global uncertainty, as well as the transmission channels through indirect and second-round effects on inflation. These scenarios reflect illustrative paths of energy price movements and their transmission to the euro area economy, while serving to highlight key uncertainties regarding the effects of the conflict. In line with standard practice, the effects are presented assuming the absence of additional monetary and fiscal policy measures beyond those already included in the baseline scenario. The **adverse scenario** implies a significantly sharper increase in energy prices, with increased uncertainty and weaker external demand, leading to more pronounced indirect and second-

round effects compared to the baseline scenario. Oil and gas prices peak at USD 119 per barrel and EUR 87 per MWh in the second quarter of 2026, after which they gradually approach the assumptions in the baseline scenario by the third quarter of 2027. Compared to the baseline scenario, inflation in this case would be higher by 0.9 pp in 2026 and 0.1 pp in 2027, but lower by 0.5 pp in 2028, due to the disinflationary effects of the rapid normalization of energy prices in that year. At the same time, economic growth would be lower in 2026–2027, but higher in 2028 compared to the baseline scenario.

The extreme scenario assumes an even stronger and longer-lasting energy price shock, greater uncertainty, and more pronounced indirect and secondary effects. Oil prices are assumed to reach USD 145 per barrel and gas prices EUR 106 per MWh in the second quarter of 2026, after which they decline more slowly and remain significantly above the baseline and adverse scenario levels throughout the projection horizon. Compared to the baseline scenario, headline inflation would be significantly and permanently higher – by 1.8 pp in 2026, 2.8 pp in 2027, and 0.7 pp in 2028. Economic growth would be lower by 0.4–0.5 pp. in the period 2026–2027, while in 2028 it would be higher by 0.5 pp. compared to the baseline scenario. The recovery in growth at the end of the projection horizon reflects the growth in income and demand due to wage growth, as a reaction to the high inflation in previous years and the significantly lower base from previous years.

Table 3 Overview of euro area economic indicators according to scenarios

		Previous (December) estimation	Baseline scenario	Adverse scenario	Extreme scenario
Real GDP growth	2025	1.4%	1.5%	1.5%	1.5%
	2026	1.2%	0.9%	0.6%	0.4%
	2027	1.4%	1.3%	1.2%	0.9%
	2028	1.4%	1.4%	1.6%	1.9%
Inflation rate	2025	2.1%	2.1%	2.1%	2.1%
	2026	1.9%	2.6%	3.5%	4.4%
	2027	1.8%	2.0%	2.1%	4.8%
	2028	2.0%	2.1%	1.6%	2.8%

Source: Macroeconomic projections of ECB experts for the euro area, March 2026

3. Current Macroeconomic Developments in the Republic of Serbia and Outlook for the Period 2027-2029

Despite the challenging international environment, macroeconomic developments in the Republic of Serbia maintain favorable dynamics. Although economic activity in 2025 slowed to 2.0%, primarily as a consequence of weaker domestic demand, more cautious investment behavior and increased global uncertainty, the latest short-term indicators suggest that the slowdown was of a temporary nature. According to the flash estimate of the Statistical Office of the Republic of Serbia, real GDP growth in the first quarter of 2026 amounted to 3.0% year-on-year, which is 0.4 percentage points better than the initial expectations of the Ministry of Finance for this period. Taking into account the more favorable starting basis, as well as the effects of the adopted economic policy measures, the Ministry of Finance maintains the GDP growth estimate for 2026 at the level of 3.0%, despite the negative impacts coming from the international environment. In 2027, an acceleration of economic growth to 4.5% is expected, supported by an increase in the real income of the population, the activation of new export capacities in the manufacturing industry, the continuation of investments in infrastructure and energy, as well as the positive effects of the organization of the EXPO 2027 exhibition. Nevertheless, this projection is 0.5 percentage points lower compared to the previous one, due to the expected materialization of part of the negative effects of the conflict in the Middle East during 2027, primarily through less favorable developments in external demand, higher production costs and a slower pace of investments.

Inflationary pressures have eased, and inflation is within the target corridor of the National Bank of Serbia. Since September 2025, year-on-year inflation has been moving around the central value of the target of 3%, and in April 2026 it amounted to 3.3%. Although a moderate acceleration of inflation is expected in the coming period, primarily due to the increase in global oil prices and the effect of the low base from the previous year, it is estimated that this pressure will be temporary. The reduction of inflationary pressures is also supported by state measures aimed at mitigating the increase in petroleum product prices, the effects of the previous cycle of monetary tightening and the preserved relative stability of the exchange rate.

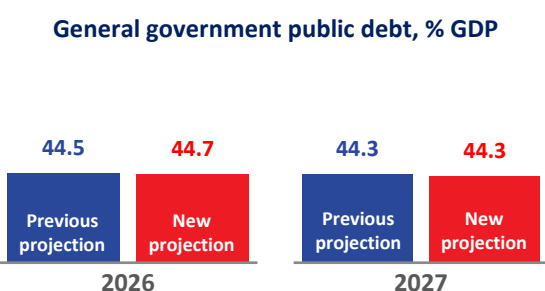
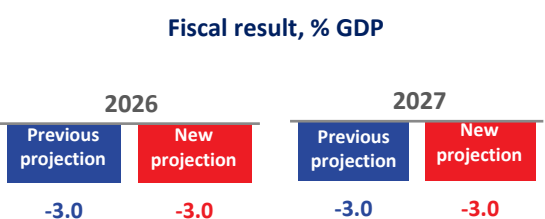
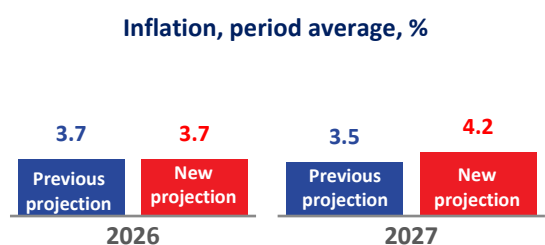
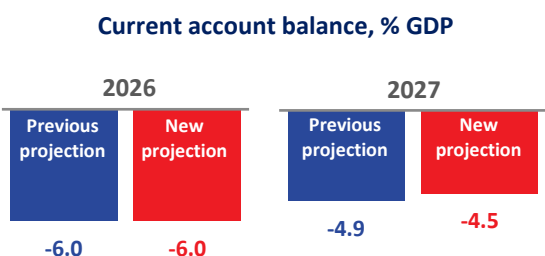
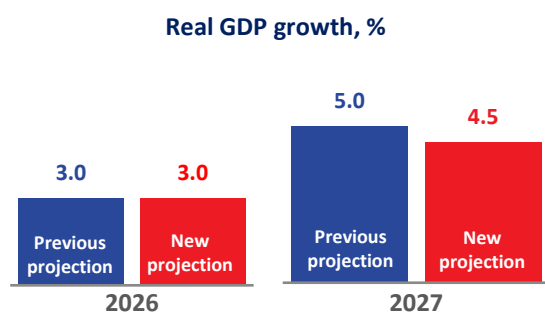
The financial system remains stable, highly capitalized and liquid, with the continuation of strong growth in lending activity and the maintenance of the share of non-performing loans at the historically lowest level of 2.1%. High levels of capital and liquidity in the banking sector represent an important pillar of financial stability under conditions of heightened global uncertainty. The growth of lending to businesses and households, supported by more favorable financing conditions and measures of the National Bank of Serbia, continues to support investment activity and economic growth.

The external position of the country is characterized by stability, with high foreign exchange reserves which amounted to EUR 28.2 billion at the end of April 2026, providing coverage of about 6.5 months of imports of goods and services. Additional security is provided by record gold reserves of 54 tonnes, which account for about one quarter of gross foreign exchange reserves.

Fiscal developments are characterized by the sustainability of public finances, with the continuation of the reduction of the share of public debt in GDP. At the same time, room has been preserved for the implementation of priority infrastructure and development investments. The objectives of fiscal policy have not been changed compared to previous fiscal strategies and remain directed toward gradual fiscal consolidation and the further reduction of the share of public debt in GDP. In that context, the planned fiscal deficit amounts to 3.0% of GDP in 2026 and 2027, and 2.5% of GDP in 2028 and 2029, while simultaneously preserving a high level of capital investments.

The economic policy of the Republic of Serbia in the coming period remains directed toward preserving macroeconomic and fiscal stability, while at the same time strengthening the country's development potential and the ability of the economy to adapt to changes in the international environment. The priorities remain stable public finances, a moderate level of public debt, preserving the state's investment capacity and the continuation of the implementation of development, infrastructure and energy projects, in order to preserve the long-term competitiveness and resilience of the domestic economy and increase its production potential.

Projection of Movements in Key Macroeconomic Aggregates



Source: MoF

Current developments in the real sector

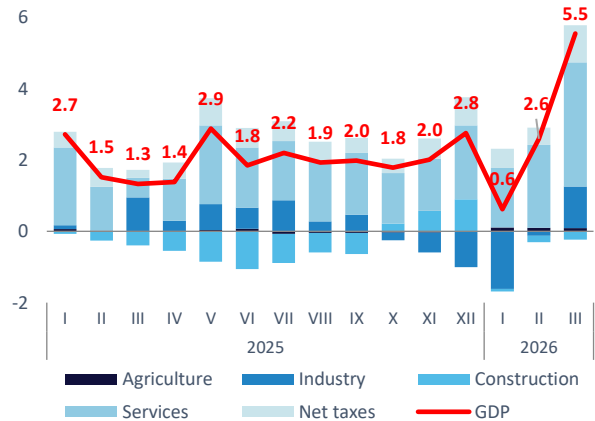
After relatively strong growth achieved in the years following the pandemic, economic activity slowed significantly during 2025, with real GDP growth of 2.0%. Such developments were the result of the combined influence of domestic and external factors. On the domestic front, socio-political tensions affected the dynamics of private consumption and investments, while additional pressure came from the international environment, due to growing geopolitical uncertainty, global economic fragmentation, trade restrictions and weaker external demand. Under such circumstances, economic growth remained positive, but was lower than initially expected.

Observed from the production side, the most significant negative contribution to GDP growth during 2025 came from construction. As a sector that is particularly sensitive to changes in the overall economic climate and investment dynamics, construction recorded a decline of 5.5% in 2025. Service activities continued to grow, but more slowly than expected, with an increase of 2.7%. Weaker results in tourism, trade and transport limited the overall contribution of service activities to GDP growth, despite solid developments in IT, financial and professional services. On the other hand, industry demonstrated relative resilience during most of the year thanks to the activation of new production capacities, primarily in the automotive and rubber industries. However, at the end of 2025 industrial production was exposed to additional pressures due to sanctions imposed on NIS, which negatively affected the production of the petroleum and chemical industries. These factors contributed to weaker industrial results in the fourth quarter, which limited the growth of industrial production at the level of the whole of 2025 to 1.1%. Unfavorable climatic conditions during the summer negatively affected the yields of the most important agricultural crops, which resulted in another below-average agricultural season. Observed by expenditure aggregates, increased uncertainty in 2025 was reflected most strongly in the components of domestic demand. Although the growth of disposable income remained strong, private consumption recorded moderate growth of 3.1%. Such developments indicate that income growth was not

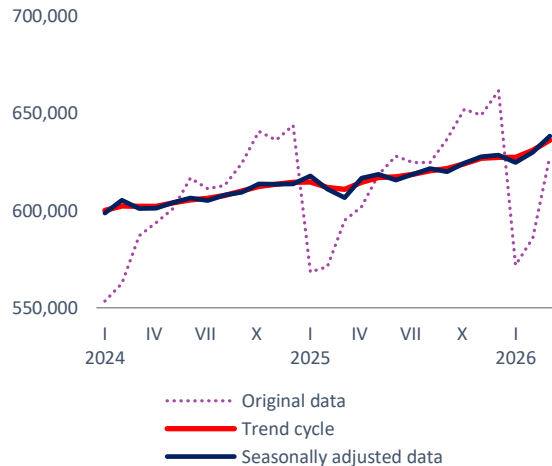
fully translated into consumption, but that part of the additional income was directed toward savings, due to greater household caution and concerns regarding future economic developments. Investments had weaker dynamics than expected and recorded almost stagnant developments, primarily due to the decline in construction activity and the postponement of part of investment decisions. Net exports recorded a negative contribution to GDP growth in 2025 due to faster growth of import activity than export activity. Although exports recorded solid growth of 5.6%, primarily thanks to the activation of new export-oriented capacities, imports increased by 8.0%. The stronger dynamics of imports were determined by the almost equal contribution of imports of inputs and equipment necessary for the needs of the economy and household demand for consumer goods. Faster growth of imports was additionally encouraged by increased imports of goods under conditions of uncertainty regarding tariff policy and the expected increase in import prices. In such an environment, companies sought to secure the necessary production inputs in advance and mitigate potential cost pressures, which also contributed to a significant increase in inventories, particularly in the first half of the year.

The beginning of 2026 is characterized by a gradual acceleration of economic activity, whereby after somewhat weaker developments in January and moderate improvement in February, strong acceleration in March significantly improved the overall picture of economic developments in the first quarter. This is also indicated by the dynamics of the Serbian Economic Activity Indicator (IPAS), which the Ministry of Finance uses to assess the monthly dynamics of economic activity. According to this indicator, in March 2026 total economic activity achieved year-on-year growth of 5.5%, to which the growth of the services sector of 6.1% contributed the most, primarily due to the increase in retail trade turnover of 14.0% and tourism activity of 10.1%, as well as strong growth of total industrial production of 6.4% driven by an increase in manufacturing industry of 8.4%.

Indicator of Serbia's Economic Activity (IPAS) by Sectors (Contributions to Growth, p.p.)



Indicator of Serbia's Economic Activity (IPAS), RSD million, chained volume measures

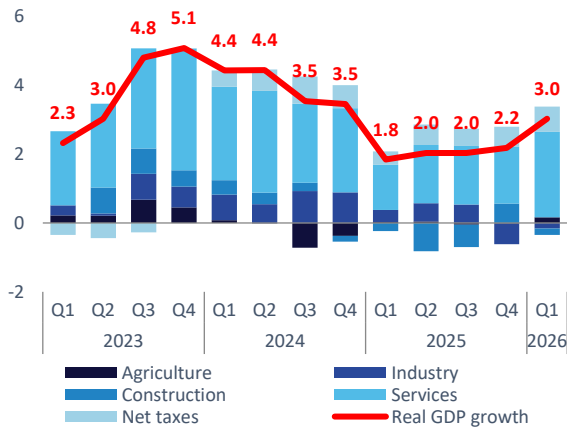


Source: MoF

Such developments in economic activity were also confirmed by the flash estimate of the SORS, according to which GDP growth in the first quarter of 2026 amounted to 3.0%, which is 0.4 percentage points higher than the initial projection of the Ministry of Finance for this period, which implied a GDP growth path of 3.0% at the level of the whole of 2026. The achieved growth was primarily driven by service activities, which in the first quarter, according to the estimate of the Ministry of Finance, recorded an increase of 4.3%. Such developments are the result of the acceleration of activity in trade, transport and tourism, but also of the continuation of stable growth in other service activities, primarily in ICT, financial and professional-technical services. On the other hand, the contribution of industry was slightly

negative, since the favorable developments achieved in March did not fully compensate for the weaker results from January and February. A negative contribution to GDP growth was also recorded in the construction sector, which is primarily a consequence of the dynamics of the execution of works. Bearing in mind that an intensification of infrastructure activities is expected in the coming period, especially in connection with projects whose completion is planned in preparation for EXPO 2027, it is expected that the value of executed works will grow as the projects approach the final phase, given that final works are, as a rule, the largest in value. The contribution of agriculture in the first quarter of 2026, under the assumption of an average season, was slightly positive.

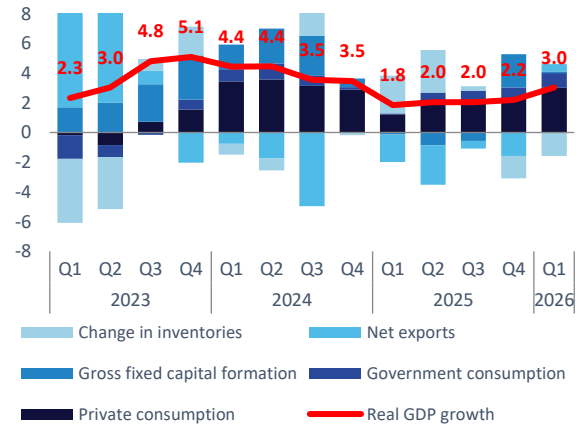
Contribution to the real GDP growth rate, production approach, pp



Source: SORS

From the expenditure side, GDP growth in the first quarter of 2026 was primarily driven by domestic demand, with a slightly positive contribution from net exports. According to the estimate of the Ministry of Finance, private consumption was 4.8% higher in real terms year-on-year, as a result of higher disposable income, a moderate recovery of consumer confidence, as well as a lower base from the same period of the previous year. Investments recorded a slightly positive contribution to GDP growth, primarily due to higher investment in equipment, while lower investment in construction structures acted in the opposite direction. Net exports also made a positive contribution to GDP growth, given that real exports of goods and services increased by 3.5%, while imports recorded a more moderate growth of 1.8%.

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

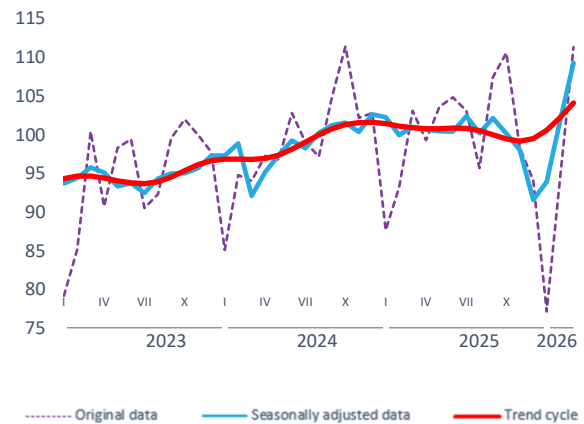


Source: SORS

High-frequency indicators also point to a gradual acceleration of economic activity at the beginning of 2026.

After a decline in industrial production in the first two months of 2026 of 4.7%, which was primarily the result of reduced activity in the petroleum and chemical industries following the introduction of sanctions on NIS, as well as a lower volume of coal exploitation and electricity production, a strong recovery of industrial activity was recorded in March, with year-on-year growth of 6.4%. The key driver of the recovery was manufacturing industry, which achieved year-on-year growth of 8.4% in March.

Index of physical volume of manufacturing industry, 2025=100



Source: MoF

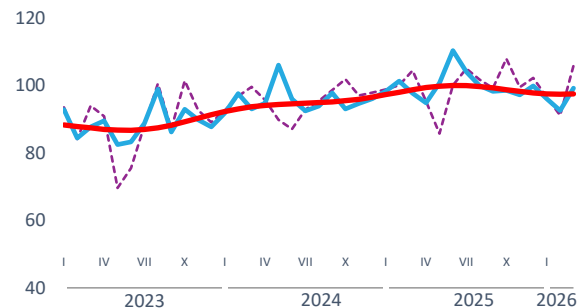
The largest contribution to this growth came from the re-establishment of production at the oil refinery in

Pančevo, which led to a strong increase in the production of petroleum products of 38.7%. Given the connection of the petroleum industry with part of the chemical complex, the recovery of refinery production was also reflected in the chemical industry, which recorded growth of 32.1% in March. In this way, part of the negative effects that in previous months had come from the energy-chemical complex was mitigated by the strong recovery in March. In addition to the petroleum and chemical industries, more favorable developments in March were also recorded in a larger number of other manufacturing industries, indicating that the recovery was not exclusively the result of the normalization of production in one sector. The food and pharmaceutical industries stand out in particular, having achieved year-on-year growth of 3.7% and 19.6%, while significant growth was also recorded in the production of tobacco products of 12.7%. These developments indicate a gradual strengthening of production activity in industries that have a significant share in the structure of manufacturing industry and relatively stable domestic and export demand. Additional support for the growth of manufacturing industry was provided by the continuation of strong activity in the automotive industry, which recorded growth of 52.7% in March, primarily as a result of a higher volume of production at the automobile factory in Kragujevac. This growth is particularly significant given the high interconnectedness of the automotive industry with other parts of the production chain, including the production of components, rubber, plastics and metal products. Viewed overall, year-on-year growth in March was achieved in 16 out of 24 manufacturing industries, indicating a gradual broadening of the recovery after the weaker start of the year. Nevertheless, despite the strong acceleration in March, the positive developments in that month were not sufficient to fully compensate for the decline from January and February. Therefore, at the level of the first quarter of 2026, the physical volume of manufacturing industry was still slightly lower, by 0.4% year-on-year. Additionally, throughout the entire first quarter, a negative contribution to developments in manufacturing industry also came from the production of basic metals, which, due to the constraints faced by this industry, recorded a

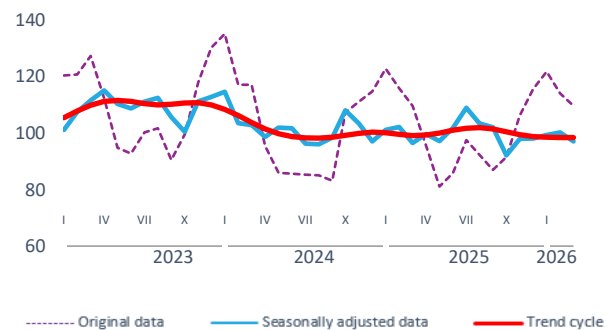
year-on-year decline of 7.7%. These challenges could be further intensified in the coming period, bearing in mind the agreement reached in the EU on tightening the conditions for steel imports from non-EU countries. The new measures should enter into force on 1 July of the current year, when the existing safeguard mechanism for steel expires, which had already restricted imports through a system of quotas and tariffs on imports exceeding the defined quotas. According to the new regulatory framework, the annual quota for duty-free steel imports into the EU will be reduced by 47% compared to the previous level, while imports not covered by this quota will be subject to a tariff of 50%, which is twice as high as under the existing regime.

During the first quarter of 2026, a negative contribution to total industrial production also came from mining, which recorded a decline of 3.2%, primarily due to reduced coal exploitation of 11.2%. Similar developments were recorded in electricity production, which in the same period was lower by 0.9%.

Index of physical volume of mining, 2025=100

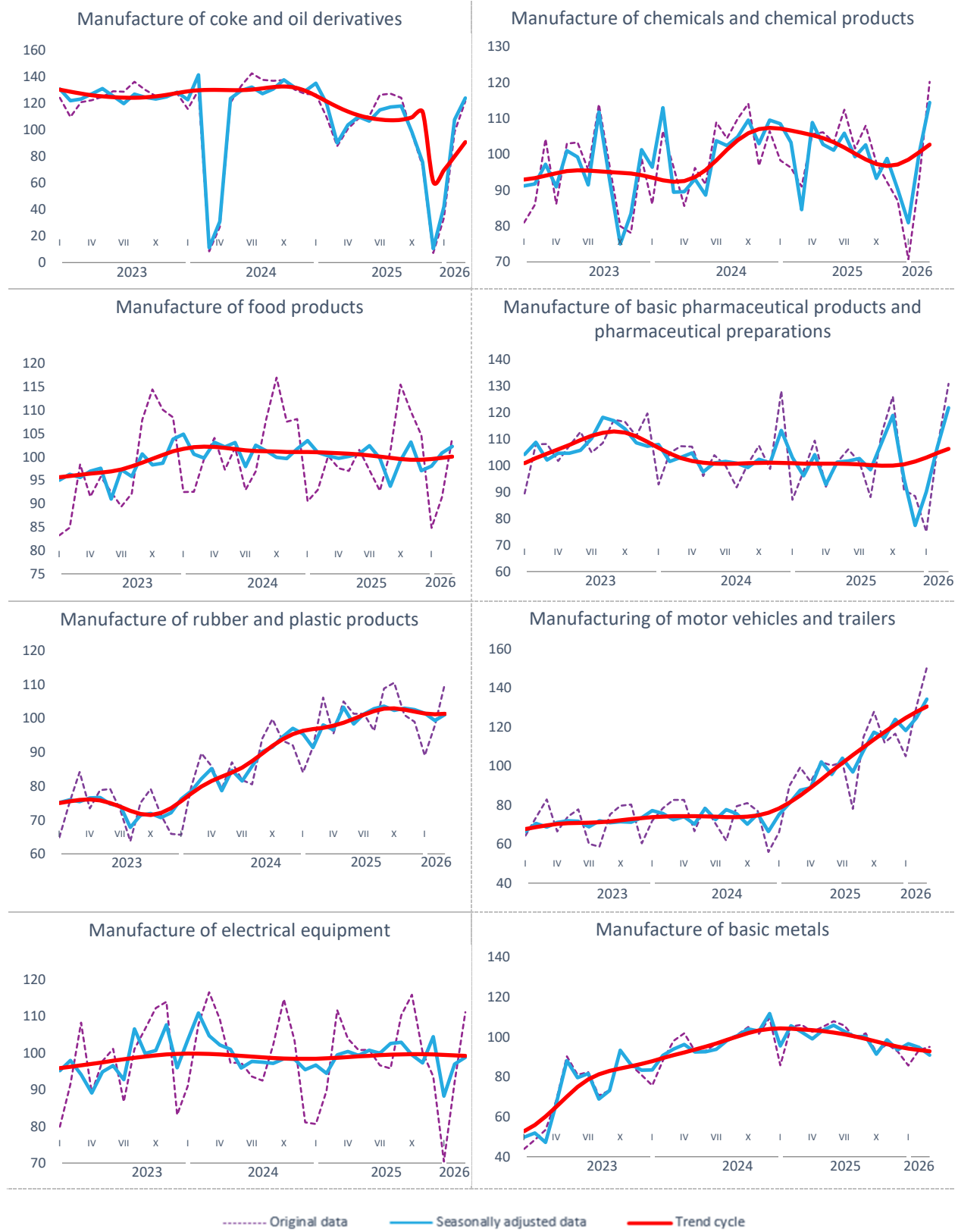


Index of physical volume of electricity, gas and steam supply, 2025=100



Source: MoF

Major Indices of the Physical Volume of Manufacturing Industry, 2025=100



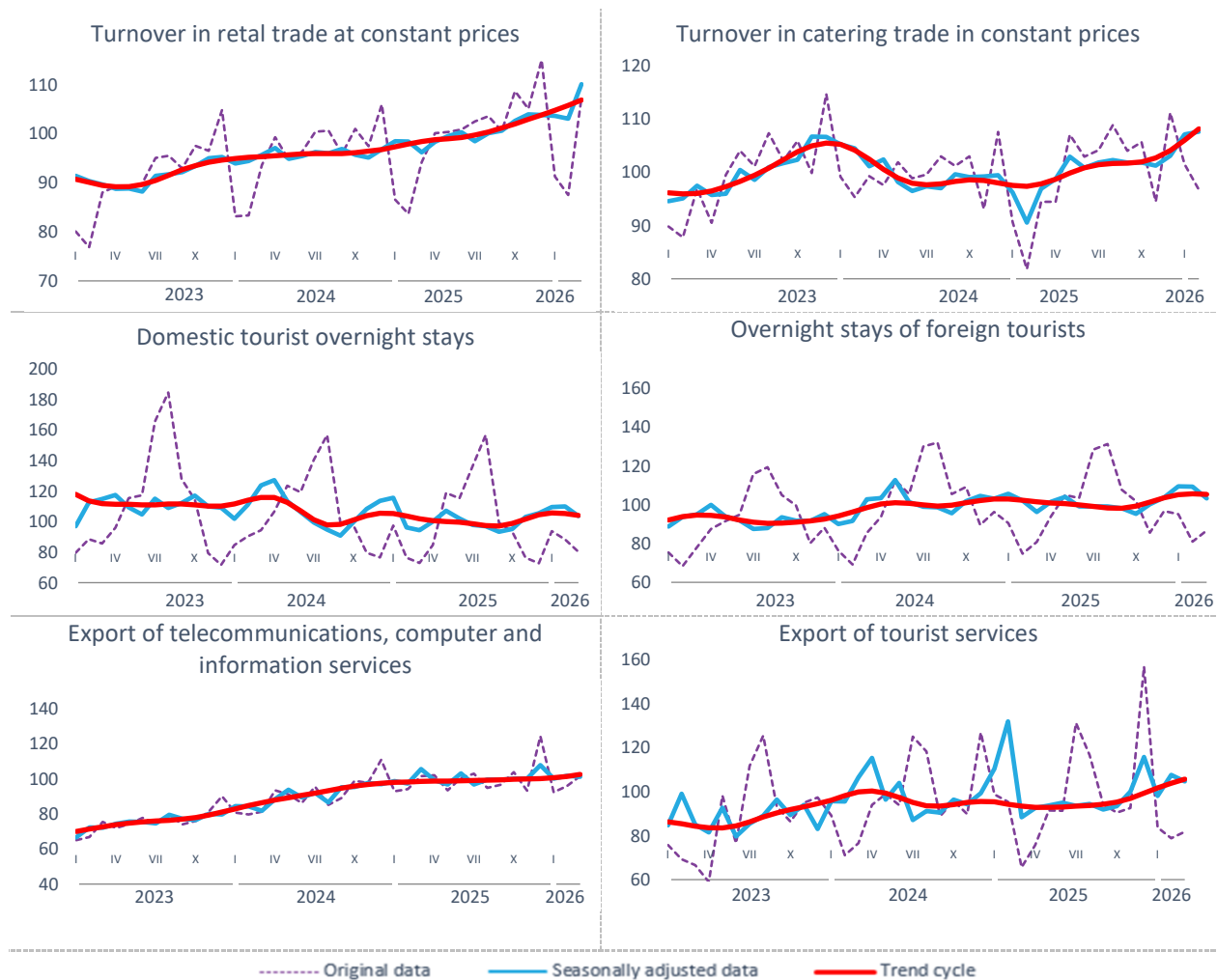
Source: Ministry of Finance

The growth of the disposable income of the population, along with the slowdown in inflation, contributed to the strengthening of purchasing power and the acceleration of retail trade activity, which resulted in growth of real turnover of 8.3% in the first three months of 2026, with particularly strong acceleration in March, when growth amounted to 14.0%. The increase in turnover in the first quarter of 2026 was recorded in all three product categories – for motor fuels by 10.4%, non-food products by 9.0% and food products by 6.9%. At the same time, there was an acceleration of tourism activity, with growth in the number of tourist arrivals of 7.8% and the number of overnight stays of 6.5%. In addition, real growth in turnover in hospitality was recorded, whereby in the first two months of 2026 it was higher by 15.0%. The high growth rates in these

activities partly reflect the effect of the low base from the same period of the previous year, but are also the result of the actual acceleration of activity due to the strengthening of domestic demand.

In addition to the growth of activity in trade, tourism and hospitality, developments in the services sector were also supported by stable activity in the information and communication technologies sector. The ICT sector retained a significant role in the structure of the domestic economy and the export of services, with exports of this sector amounting to EUR 1.1 billion in the first quarter of 2026, with a slight year-on-year increase of 0.4%. With a share of almost one third in total exports of services, the ICT sector remains an important segment of the economy and a significant factor in foreign trade activity.

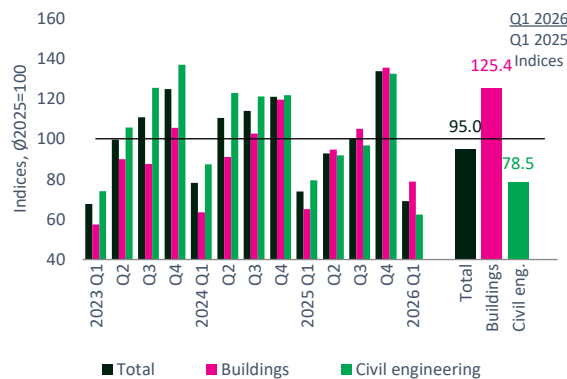
High-frequency indicators of the most significant service activities, 2025=100



Source: Ministry of Finance

Construction activity at the beginning of 2026 is characterized by a lower value of executed works by 5.0% compared to the same period of the previous year. The main negative impact came from the reduction of activity in civil engineering, where the value of executed works declined by 21.5%, primarily as a consequence of the dynamics of the execution of works. On the other hand, building construction mitigated these negative developments in overall construction activity in the first quarter of 2026, making a positive contribution through an increase in the value of executed works of 25.4%. At the same time, the growth in the number of issued building permits of 8.9%, along with strong growth in the planned value of works of 47.3%, represents an important signal that construction activity could accelerate in the coming period. These expectations are additionally supported by the announced intensification of infrastructure activities, primarily within projects related to preparations for EXPO 2027. Bearing in mind that, in large infrastructure projects, a significant part of the value of works is realized in the later phases of construction, it is expected that the approaching deadlines for their completion will contribute to the recovery of civil engineering and the growth of the total value of executed works in construction.

Value indices of construction works done (2025=100)

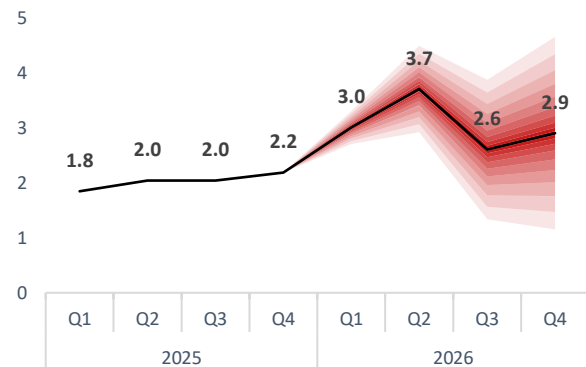


Source: SORS

Taking into account the developments achieved in the first quarter of 2026, the dynamics of high-frequency indicators, as well as all relevant risks from the domestic and international environment, including the effects of heightened geopolitical tensions in the Middle East, developments in energy prices, global

trade flows and the growth prospects of the main foreign trade partners, the Ministry of Finance at this moment maintains the projection of real GDP growth for 2026 at the level of 3.0%, with a slightly revised growth structure. Such an assessment is based on the fact that the more favorable developments in economic activity in the first quarter, particularly the stronger recovery of industry, trade and service activities in March, compensated for part of the negative risks that have meanwhile intensified from the international environment. At the same time, the effects of external shocks on the domestic economy have so far remained limited, to which the timely reaction of the Government also contributed, aimed at mitigating pressures on energy prices, preserving the stability of supply, as well as calming inflation expectations. At this moment, we assess the risk matrix for the realization of this projection as symmetrical, which means that the prospects for deviations of economic growth in the positive and negative directions are approximately equally likely. In other words, although risks from the international environment are more pronounced than in the previous period, better results in the first quarter of 2026, together with the so far limited effects of external factors on the domestic economy, do not indicate a need for a downward revision of the growth projection at this moment.

Projection of the dynamics of quarterly GDP (% y-o-y) required to achieve the annual estimate of economic growth of 3.0% in 2026



Source: Ministry of Finance

Viewed by expenditure aggregates, GDP growth in 2026 will continue to be entirely determined by domestic demand. The increase in disposable income of the population, primarily as a result of real growth in wages and pensions, will support private consumption growth of 4.1%. Nevertheless, this projection is 0.5 percentage points lower compared to previous expectations, given that heightened geopolitical uncertainty due to the conflict in the Middle East is partially slowing the recovery of consumer confidence. Investment activity will also grow at a slower pace compared to previous expectations. This revision was influenced primarily by increased investor caution, in conditions of geopolitical tensions in the Middle East and their potential impact on energy prices, production costs and financing conditions. In such circumstances, part of investment plans could be postponed or implemented at a more gradual pace, which is why a more moderate investment growth of 4.9% is expected. In conditions of increased trade protectionism, possible disruptions in global supply chains and a slower growth dynamic of the economies of key foreign trade partners, exports and imports are expected to grow at a more moderate pace, at rates of 4.3% and 5.1%, respectively. Nevertheless, the correction of exports is smaller compared to the correction of imports, given that the negative effects of weaker external demand are partially mitigated by the preserved competitiveness of domestic exports and the continuation of activity in sectors that have relatively more resilient foreign demand. In contrast, imports have been revised downwards to a greater extent, in line with more moderate domestic demand dynamics, especially investment and private consumption, which have a high import content.

Viewed from the production side in 2026, an increase in created GVA is expected in all economic sectors.

The service sector will continue to maintain its role as the dominant driver of economic growth, with an expected increase of 3.0%, which represents a slight downward revision compared to previous expectations. Such a correction reflects somewhat more cautious estimates of developments in activities that are most dependent on consumer confidence and disposable income, given that heightened geopolitical uncertainty due to the conflict in the Middle East may affect more cautious household behavior and a more moderate dynamics of service consumption. On the other hand, industrial production has been slightly revised upwards, due to good export results, a rapid recovery in the petroleum and chemical industries, as well as the effect of a lower base from the end of the previous year. Despite a weaker start of the year, construction will record growth of 5.3% in 2026, primarily due to the expected acceleration of the implementation of infrastructure works and projects related to the EXPO exhibition, whose effects will be largely materialized in the continuation of the year. For agriculture, under the assumption of production at the level of the multi-year average, growth of 4.7% is expected compared to the previous, drought year.

The GDP deflator for 2026 has been slightly revised downwards, from 3.7% to 3.4%, primarily due to the revision of assumptions regarding terms of trade. Although the inflation projection has not been changed, given more favorable price developments since the beginning of the year and Government measures that mitigated the pass-through of the energy price shock to domestic consumer prices, the new projection expects that import prices, due to the increase in energy prices, will grow faster than export prices, which will lead to a deterioration in the terms of trade and affect a somewhat lower GDP deflator.

Table 4 GDP, real growth rates, %

	2025	Q1 2026*	2026* (initial estimate)	2026* (revised estimate)
GDP	2.0	3.0	3.0	3.0
GDP deflator, %	4.5	4.7	3.7	3.4
Private consumption	3.1	4.8	4.6	4.1
Government consumption	3.1	4.9	2.9	2.1
Gross fixed capital formation	0.8	1.7	6.9	4.9
Exports of goods and services	5.6	3.5	4.7	4.3
Imports of goods and services	8.0	1.8	6.5	5.1
Agriculture	-0.1	4.7	3.1	4.7
Industry	1.1	-0.8	0.4	2.0
Construction	-5.5	-5.3	8.5	5.3
Services	2.7	4.3	3.5	3.0
Net taxes	3.5	4.7	3.5	3.6

Source: SORS

* Ministry of Finance

Projection of real sector developments for the period 2027–2029

In a dynamic global environment, Serbia continues to build a sustainable and competitive economic model relying on strategic investments, macroeconomic stability and innovation as the main pillars of long-term development. Openness to foreign investments remains an important pillar of development, especially due to the transfer of knowledge and technologies, but the state is increasingly directing attention toward strengthening 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 with this, the new strategic cycle of industrial policy focuses on strengthening sectors with high added value, encouraging 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 Serbia. In this way, an institutional framework is being created for accelerated structural transformation of the domestic economy. Particularly significant progress has been achieved by obtaining investment-grade status, which not only reduces the borrowing costs of the state, but also opens additional space for the access of the private sector to international capital markets.

Public investments in transport, energy and communal infrastructure have multiple effects, given that they not only directly contribute to GDP growth, but also create a stimulative environment for the expansion of the private sector. Modernization of infrastructure enables more efficient integration of domestic companies into European value chains, while simultaneously improving the quality of life of citizens. The program “Leap into the Future – EXPO Serbia 2027” represents an integrated strategic framework that unifies infrastructure, innovation and international promotion 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 create synergy between the state and the private sector, thereby accelerating the convergence of Serbia toward developed European economies. Modernization and digitalization will continue, which will be reflected in the further development and application of artificial intelligence and the expansion of supercomputer systems, as well as the expansion of the capacities of the State Data Center. At the same time, activities continue aimed at the accelerated development of the innovation ecosystem through the expansion of existing science and technology parks and the construction of new ones, as well as improving conditions for the establishment of research and development centers of well-known global IT and

other companies. Special emphasis is placed on the improvement of human capital through youth employment programs, 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, from investments in energy, digitalization and the development of the 5G network, through reform of the education system, all the way to strengthening the rule of law, thereby building a stable foundation for long-term resilience and sustainability of the economy.

Ensuring energy security and increasing the share of renewable energy sources is the primary objective of the energy strategy and the decarbonization process. Serbia has committed to the gradual introduction of sustainable energy sources, increasing energy efficiency and reducing carbon dioxide emissions, which is an essential precondition for economic and environmental resilience in the long term. The start of the application of the Carbon Border Adjustment Mechanism (CBAM) in the European Union from 2026 represents a significant step in the further alignment of EU trade and climate policy, with macroeconomic implications for Serbia. Within this mechanism, importers in the EU will be obliged to pay CBAM certificates, the value of which depends on the amount

of CO₂ emissions generated during the production of imported goods, primarily cement, iron and steel, aluminum, fertilizers, hydrogen and electricity. Bearing in mind the high interconnectedness of Serbian exports with the EU market, the application of CBAM affects the increase in business costs of energy-intensive sectors and the price competitiveness of part of domestic production.²

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

Table 5 Projection of basic macroeconomic indicators of the Republic of Serbia

	Estimate	Projection		
	2026	2027	2028	2029
GDP, billion dinars (current prices)	11,065.3	12,021.9	12,840.5	13,707.2
Real GDP growth, %	3.0	4.5	3.5	3.7
GDP deflator, %	3.4	4.0	3.2	2.9
Private consumption	4.1	3.7	3.4	3.1
Government consumption	2.1	2.2	2.8	2.2
Gross fixed capital formation	4.9	4.5	6.6	6.8
Exports of goods and services	4.3	7.1	4.0	5.6
Imports of goods and services	5.1	4.8	4.9	5.3
Current account balance, % of GDP	-6.0	-4.5	-5.2	-5.1
Inflation, period average, %	3.7	4.2	3.4	3.0

Source: Ministry of Finance

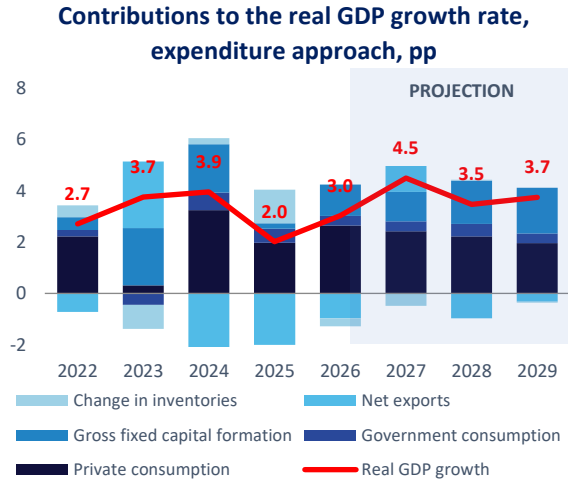
² The preliminary assessment of the potential effects of the application of this mechanism on the economy of Serbia is presented in Annex 5.

In 2027, an acceleration of economic growth to 4.5% is expected, with support from the increase in real income of the population, the activation of new export capacities in the manufacturing industry, the continuation of investments in infrastructure and energy, as well as the positive effects of the organization of the EXPO 2027 exhibition. Nevertheless, this projection is 0.5 percentage points lower compared to the previous one, due to the expected materialization of part of the negative effects of the conflict in the Middle East during 2027, primarily through less favorable developments in external demand, higher production costs and a slower pace of investments.

Viewed by expenditure aggregates, growth will continue to be determined by domestic demand, with a significant positive contribution from net exports primarily on the basis of growth in exports of services related to the organization of the EXPO 2027 exhibition. Private consumption will continue in 2027 to make a significant positive contribution to GDP growth, primarily on the basis of further growth in disposable income of the population. It is expected that growth in wages, pensions and other incomes, along with preserved stability in the labor market, will support the strengthening of purchasing power and the continuation of household consumption growth at a rate of 3.7%. An additional stimulus to private consumption will arise from the organization of the EXPO 2027 exhibition, primarily through increased consumption of domestic visitors and higher demand for services in trade, hospitality, transport and other service activities. A slightly positive contribution to GDP growth in 2027 will also come from government consumption, for which an increase of 2.2% is expected. At the same time, investment activity will provide a stable positive contribution to GDP growth, due to the start of a new investment cycle, the continuation of investments in infrastructure and energy, as well as the expansion and modernization of production capacities. A positive contribution of net exports in 2027 is expected primarily on the basis of faster export growth than import growth, given that export growth of 7.1% is projected, while import growth is expected at the level of 4.8%. The faster export dynamics will be largely determined by the strong increase in exports of services related to the organization of the EXPO 2027 exhibition. After in the

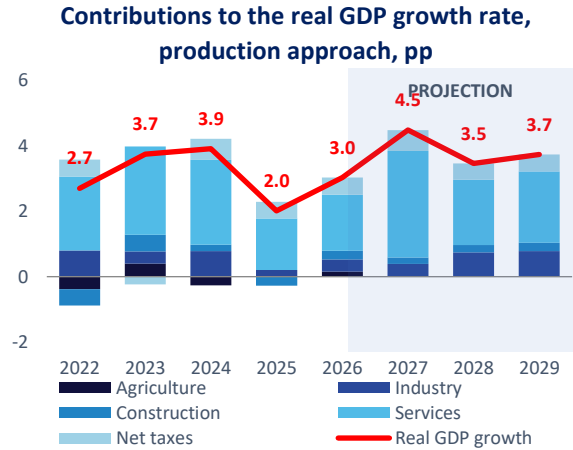
previous period the implementation of projects was accompanied by higher imports of equipment, materials and investment goods, in 2027 it is expected that the effects of EXPO 2027 will be more strongly reflected through service revenues. Increased inflow of foreign visitors, participants, companies and accompanying delegations will stimulate growth in revenues from tourism, hospitality, transport, trade, business and other services, which will contribute to the growth of service exports and improve the contribution of net exports to economic growth.

The broader significance of the organization of the EXPO 2027 exhibition is reflected in the fact that the effects of this project will go beyond the immediate growth of service exports and tourist consumption. In order to provide a comprehensive assessment of its impact on economic activity in 2027, an estimate of total effects was carried out using input-output tables, which allow that, in addition to the direct impact of increased demand, effects transmitted through domestic inter-sectoral linkages to the rest of the economy are also considered. This approach covers direct, indirect and induced effects, thereby providing a more complete picture of the total contribution of EXPO 2027 to GDP growth. Direct effects on GDP growth, estimated at around 0.6 percentage points, relate to the immediate increase in activity in sectors that will be most exposed to demand growth during the duration of the exhibition, primarily in tourism and hospitality as well as other service activities. Indirect effects, also estimated at around 0.6 percentage points, arise from increased demand of these sectors for domestic inputs, i.e. from the activation of supplier chains and related activities. Induced effects, estimated at around 0.3 percentage points, arise as a result of income growth of employees and profits of companies in sectors covered by direct and indirect effects, which will additionally be reflected in private consumption growth. Based on such an estimate, the total effect of EXPO 2027 on GDP growth in 2027 amounts to around 1.5 percentage points. This indicates that this project will have a significant macroeconomic impact, not only through the increase in service exports and the positive contribution of net exports, but also through the strengthening of domestic demand, activation of domestic production and service capacities, and the spread of positive effects across a larger number of sectors of the economy.



Source: Ministry of Finance

Viewed from the production side, in 2027 an increase in gross value added is expected in all economic sectors. The service sector will retain the role of the main driver of economic activity growth, with an expected increase of 5.6%, whereby growth is expected to be broadly based and achieved in most service activities. Particularly strong developments are expected in trade, transport, tourism and hospitality, under the influence of increased demand related to the organization of the EXPO 2027 exhibition, along with the continuation of positive results in the ICT sector and professional, scientific and technical services. Industrial production will continue to grow in 2027, with an expected increase of 2.1%, primarily due to the activation of new production capacities in the manufacturing industry, as well as the gradual recovery of external demand. Additional support to industrial growth will be provided by the preserved stability of production in the energy sector. Construction should record growth of 4.1% in 2027, to which the continuation of the implementation of infrastructure projects, the start of a new investment cycle, as well as stable activity in the area of residential construction will contribute. For the agricultural sector, under the assumption of average agro-meteorological conditions, a neutral contribution to GDP growth is projected.



Source: Ministry of Finance

According to the medium-term macroeconomic projection, the cumulative growth rate in the period from 2027 to 2029 will amount to 12.1% and will be predominantly determined by the growth of domestic demand, while the contribution of net exports, viewed cumulatively, will be almost neutral. Growth of domestic demand will be supported by a strong continuation of the investment cycle and an increase in investment activity, as well as growth in private household consumption due to the increase in real disposable income. On the other hand, net exports will in 2027 give a pronounced positive contribution to growth, primarily as a result of one-off effects of the EXPO 2027 exhibition, through increased external demand and exports of services. However, in the following years, after the weakening of these effects, along with the expected growth of imports of equipment, raw materials and consumer goods, the contribution of net exports will be negative, which is why its overall effect on growth in the period 2027–2029 will remain approximately neutral. After the acceleration of economic activity in 2027 of 4.5%, during 2028 slower GDP growth of 3.5% will be largely the result of a pronounced base effect, given that the realization of the international EXPO exhibition in 2027 will lead to a 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 will gradually fade in 2028, which will lead to a return of the GDP growth rate to a more moderate path. Such a slowdown does not represent a signal of weakening economic fundamentals, but rather primarily a reflection of comparison with a year in which one-off

and extremely intense stimuli to economic activity were present. On average, the Serbian economy will grow in the period from 2027 to 2029 at a rate of 3.9%. The increase in real household consumption will follow economic activity growth and will average 3.4%. A stable growth of fixed investments is expected, which will average 6.0% per year. A high level of public investment will be accompanied by growth in private investments as well, so that at the end of the projection period a share of fixed investments in GDP of about 24% is expected. With the activation of new production capacities and the recovery of external demand, the volume of foreign trade exchange will also increase. In addition, the realization of foreign direct investments (hereinafter FDI) from the previous period will contribute to increased competition and affect the efficiency of domestic producers, while on the other hand new sales channels will be activated and new market niches opened. Exports will on average grow annually at a rate of 5.6%, which is faster than the expected annual growth of imports, which will average 5.0%. Viewed on the supply side, the service sector and industry will, following their largest share in GDP, retain the role of dominant sources of growth and increase created GVA with average annual growth of 4.3% and 3.4%, respectively. A significant positive contribution will also come from construction, which will on average record growth of 4.6% as a result of the acceleration of the implementation of infrastructure projects, but also the acceleration of private investments. Achieving European standards and increasing competitiveness in agriculture will reduce the variability of production in this sector caused by agro-meteorological conditions, but even in this macroeconomic framework the assumption of an average agricultural season is maintained.

For the period 2027–2029, the GDP deflator has been slightly changed compared to the previous macroeconomic framework, primarily due to the inclusion of new assumptions of somewhat higher inflation in the medium term, as a consequence of the expected pass-through of higher energy prices and increased uncertainty on the international market. At the same time, during this period a gradual improvement in the terms of trade is expected, as the effects of the initial increase in import energy prices gradually fade.

Macroeconomic risks

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

The most pronounced risk at this moment originates from the deteriorated geopolitical situation in the Middle East, which has already led to increased uncertainty in global energy markets and increased sensitivity of oil prices to new news and possible supply disruptions. Although in the baseline scenario it is expected that the effects of these disruptions will remain limited and will not lead to a more permanent disruption of global supply flows, the risk of further escalation of the conflict is still present. Bearing in mind that key transport and energy routes in the region are already under pressure, especially the Strait of Hormuz as a strategically important route for global oil transport, further escalation of the conflict could lead to additional growth in oil prices, increased transport costs and stronger inflationary pressures. Such developments could be transmitted to the economy of Serbia primarily through the channel of imported energy prices, production costs, inflation expectations and the real purchasing power of the population. Higher prices of oil and other energy sources could increase business costs, limit the disposable income of households and affect the postponement of part of investment decisions. Due to the interconnectedness of global financial and commodity markets, prolonged instability could also be reflected in financial flows, risk premiums and the sentiment of foreign investors.

In addition to the Middle East, an important source of uncertainty remains the war in Ukraine. Although peace initiatives and diplomatic efforts are ongoing, risks to the global macroeconomic framework are still pronounced. A potential deterioration of the situation could again affect energy and food markets, global logistics flows and inflationary pressures, which would maintain a heightened level of uncertainty in the international economic environment.

In addition to geopolitical factors, an important source of uncertainty also remains global trade tensions, which in the previous period have additionally intensified the fragmentation of international trade. Although certain agreements have in the meantime

mitigated part of the most extreme tariff scenarios, the trade policy of leading economies is still unstable, with the possibility of introducing new tariffs, countermeasures, export restrictions, subsidies and non-tariff barriers in strategic sectors. Such an environment increases uncertainty for companies and investors, as it makes it more difficult to plan production, procurement and placement on foreign markets. If a new wave of protectionist measures and further segmentation of the global market were to occur, the consequences could be reflected in weaker international trade, higher import costs, the redirection of supply chains and reduced availability of certain raw materials, components and technologies. For export-oriented and small open economies, such as Serbia, such a development would represent a risk through lower external demand, a slowdown of investment flows and a potential increase in import prices.

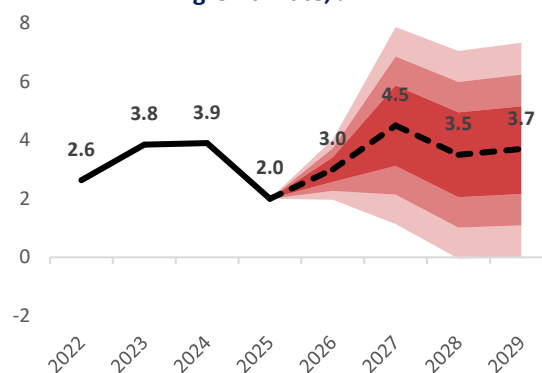
On the other hand, potential de-escalation of geopolitical tensions, stabilization of energy markets and easing of trade barriers could have a positive effect on international economic flows. This would also have a favorable impact on the domestic economy, through export growth, strengthening of investment activity, lower inflationary pressures and more favorable access to technology and capital.

Internal risks primarily arise from increased socio-political tensions. If these pressures were more pronounced, it is possible that they would be reflected to a greater extent in economic expectations, consumer and investor confidence, as well as in the willingness of economic agents for 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 consumption and investment growth in the short term. On the other hand, a gradual resolution of socio-political tensions could have a positive impact on economic developments, through strengthening consumer and investor confidence and reducing risk perception. Such a development would contribute to greater predictability of the business environment and the stimulation of investment activity, which would have a positive effect on overall economic growth. A high degree of uncertainty also exists regarding the dynamics of economic activity in certain branches of industry that are sensitive to changes in the

international business environment. If the impact of these factors were stronger than currently estimated, this could have a negative effect on overall economic growth, while on the other hand, faster stabilization of business conditions would have the potential to significantly improve the medium-term outlook of economic activity.

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

GDP trend projection with risk matrix, growth rate, %



Source: Ministry of Finance

Taking into account the still high uncertainty in the international environment, as well as the presence of numerous risks that could negatively affect the movement of energy prices, external demand and domestic macroeconomic flows, an alternative scenario of economic activity developments of the Republic of Serbia has also been prepared. This scenario presents possible effects in the case of a more pronounced materialization of negative risks compared to the assumptions incorporated in the baseline scenario. First of all, it starts from the assumption of a more pronounced and longer-lasting increase in the prices of oil and other energy sources, due to prolonged geopolitical tensions and disruptions in key transport routes. In addition, the scenario includes weakening of investor and consumer confidence, tightening of financing conditions, as well as weaker external demand, primarily from the European Union as Serbia's main trading partner. In such circumstances, negative risks would materialize relating to the increase in import prices, stronger

inflationary pressures, slowdown of private consumption, postponement of part of investment decisions and weaker contribution of net exports. In contrast to the baseline scenario, in which the effects of these risks are limited and partially mitigated by economic policy measures, the alternative scenario assumes their more pronounced and simultaneous impact on domestic economic activity. Consequently, GDP growth would be lower compared to the baseline scenario during the period of the strongest materialization of the shock, i.e. during 2026 and 2027, primarily due to a weaker contribution of domestic demand, lower investment growth and less favorable developments in foreign trade exchange. The exception is 2029, in which growth could be slightly higher compared to the baseline scenario, as a consequence of the gradual fading of the effects of the previously materialized shock and partial recovery of economic activity after a period of slower growth.

Table 6 Structure of GDP growth in the adverse scenario in the period 2026–2029, %

	2026	2027	2028	2029
Real GDP growth	2.7	3.7	3.4	4.0
Private Consumption	3.7	2.9	3.0	3.5
Government Consumption	2.1	1.9	2.7	2.8
Gross Fixed Capital Formation	3.1	3.4	6.1	7.2
Export of Goods and Services	3.8	5.2	3.9	5.5
Import of Goods and Services	4.5	3.3	4.2	5.7

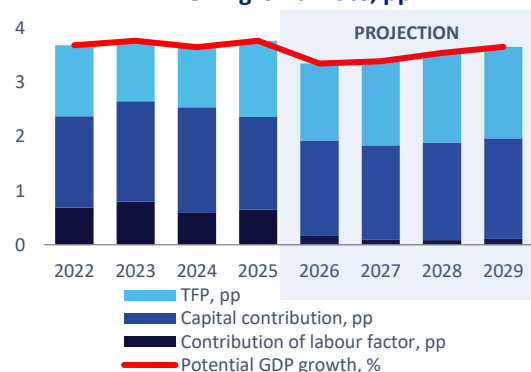
Source: Ministry of Finance

According to the central scenario, in the medium term a continuation of stable growth of potential GDP is expected, at a rate of slightly above 3.5%. 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 additionally supported by inflows of FDI, as well as investments in research, development and innovation, which will affect better utilization of available resources and increasing efficiency. The digital transformation of the economy continues to be recognized as a key driver of productivity growth, export diversification and attraction of high-quality investments, especially in the information technology sector. The continuation of ICT sector growth can provide a strong stimulus to the overall economy

through the accelerated expansion of knowledge and application of advanced technological solutions. Significant planned investments in energy infrastructure, especially in the area of renewable energy sources and energy efficiency, represent an important part of the green transition and have the potential to improve the energy security of the country and create preconditions for long-term sustainable growth. Large infrastructure projects, especially those that improve regional connectivity and logistical capacity, can significantly reduce trade costs and stimulate private investment. On the other hand, labor market developments will also provide a positive, although more moderate, contribution to potential GDP growth, mainly due to a gradual increase in the labor force participation rate and moderate employment growth. However, the contribution of labor factors in the coming years will likely be smaller than in the previous period, due to demographic trends and structural constraints of the labor market.

For the acceleration of potential growth, structural reform processes are also key. Priority areas include 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 investment and increase competitiveness and productivity. At the same time, monetary policy, together with further improvements in the financial system and a more favorable regulatory environment, will additionally support the investment cycle. Nevertheless, challenges remain regarding institutional capacities, project implementation efficiency and ensuring that investments are accompanied by complementary reforms. Their resolution will be of essential importance for the long-term sustainability of growth and the resilience of the economy to external shocks.

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



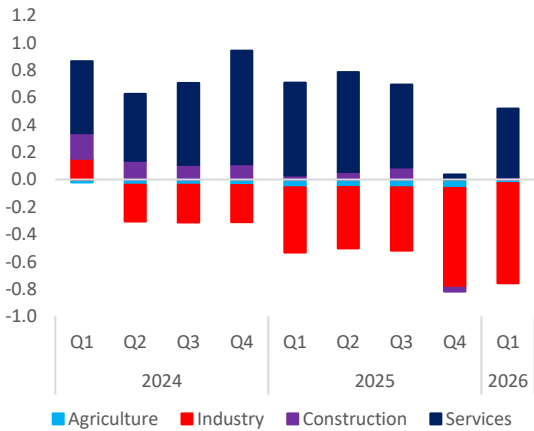
Source: Ministry of Finance

Labour market

The labour market remained relatively stable during 2025, maintaining a low unemployment rate and continued real wage growth. Although economic activity slowed during the year in certain sectors, labour market conditions remained favourable, while at the beginning of 2026 more visible signs of sectoral adjustment emerged in certain labour-intensive industries. The long-term unemployment rate remained at a low level of 3.4%, alongside a continued decline in the share of informal employment, indicating a gradual improvement in the quality of employment and greater inclusion of the labour force in formal economic flows. At the same time, the gradual reallocation of labour towards more productive activities continued, with employment growth being more pronounced in the information and communication sector and professional services, while hiring slowed in certain branches of the manufacturing industry. These developments indicate that employment growth is increasingly relying on activities with higher productivity and greater value added. Wages continued to grow due to the still pronounced demand for labour, labour productivity growth, and the increase in the minimum wage, which had a positive effect on households' disposable income and private consumption. Nevertheless, wage growth in certain sectors continues to exceed labour productivity growth, which may pose a challenge to the price competitiveness of part of the economy in the medium term.

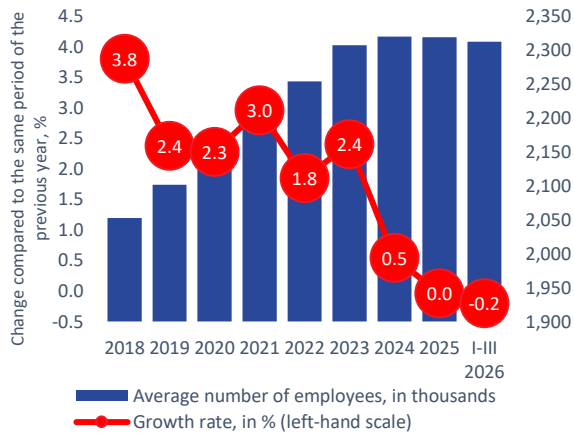
Nevertheless, despite the favourable overall picture, the beginning of 2026 indicates somewhat more pronounced differences in employment developments across certain sectors. According to data from the Central Registry of Mandatory Social Insurance (CROSO), in the period January–March 2026, the average number of employed persons amounted to 2,312 thousand and was lower by 0.2% compared to the same period of the previous year. The decline in employment was primarily driven by a lower level of activity in certain labour-intensive branches of the manufacturing industry, particularly in the clothing and leather industries, as well as in the manufacture of electrical equipment and metal products. A lower number of employed persons was also recorded in trade. On the other hand, employment growth in service activities partially mitigated the negative developments in the manufacturing industry. The largest positive contribution came from the information and communication sector, administrative and professional services, as well as accommodation and food service activities and health care and social work activities, indicating a gradual change in the structure of the domestic labour market. These developments also point to gradual changes in the structure of labour demand, which resulted in greater engagement of foreign labour. The private sector as a whole recorded a decline in employment of 0.3% (4.4 thousand persons), while in the public sector the number of employed persons decreased by 0.2% (1.1 thousand persons). According to data from the National Employment Service, in the period January–April 2026, the number of persons actively seeking employment decreased year-on-year by 3.6% and amounted to 344.5 thousand persons. These developments indicate that, despite the slight decline in employment, there has not been a significant deterioration in overall labour market conditions, but rather that this is primarily a sectoral reallocation of labour.

Contributions of Main Sectors to Year-on-Year Employment Growth, %



Source: CROSO, Ministry of Finance calculations

Registered Employment Developments



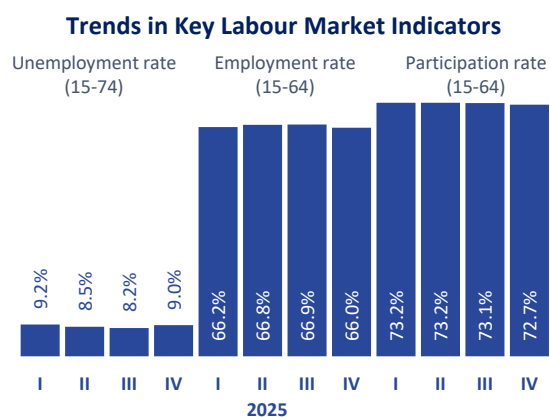
Source: CROSO

In the period January–February 2026, the average net wage amounted to 117,276 dinars and was higher by 11.2% in nominal terms and by 8.5% in real terms compared to the same period of the previous year. Wage growth was largely determined by wage growth in the private sector, which amounted to 7.9% in real terms (nominal growth of 10.6%) and was driven primarily by wage increases in the manufacturing industry and trade. At the same time, a real increase in wages in the public sector of 10.0% was also recorded (nominal growth of 12.7%). The largest impact on wage growth in the public sector came from wage increases

in education and health care. The favourable dynamics were also supported by the effects of the tax relief policy, as well as by the decision of the Government of Serbia to increase the minimum wage to 371.00 dinars per hour as of January 2026. The growth of real wages had a positive effect on households’ disposable income and private consumption, which remained one of the more significant pillars of economic growth.

According to the Labour Force Survey data, the labour market showed signs of moderate slowing during 2025, accompanied by certain changes in the structure of employment and unemployment. In 2025, the employment rate (population aged 15 and over) decreased to 51.2%, from 51.4% in 2024, while for the population aged 15 to 64³ it increased by 0.2 p.p. to 66.5%, with a slowdown in the dynamics of employment growth compared to previous years. At the same time, a slight increase in the unemployment rate (aged 15 and over) was recorded, from 8.6% to 8.7%, while an identical movement in the unemployment rate was also recorded for the population aged 15 to 74. The activity rate (15–64) amounted to 73.0% and was higher by 0.3 p.p. compared to the previous year. Although the main labour market indicators remained relatively favourable compared to previous years, these developments indicate a weakening of employment growth dynamics compared to the earlier period of stronger dynamics. Although the share of the long-term unemployed in total unemployment is gradually decreasing, challenges regarding the matching of labour supply and demand are still present, especially in conditions of gradual changes in the structure of labour demand. The youth unemployment rate increased by 0.4 p.p. in 2025, to 23.4%. At the same time, the youth activity rate decreased from 32.4% to 31.6%. These developments indicate that young people continue to represent a more vulnerable category in the labour market, particularly in conditions of slowing employment growth. On the other hand, the informal employment rate decreased by 0.6 p.p. to 11.4%, indicating a strengthening of formal labour market flows.

³ The internationally comparable methodology applies to the employment rate and the activity rate for the population aged 15 to 64 years, while for the unemployment rate it applies to the population aged 15 to 74 years.



Source: SORS

In the coming period, a gradual stabilisation of labour market developments is expected, in line with the expected movement of economic activity and the macroeconomic environment. It is expected that further growth in economic and investment activity will contribute to strengthening labour demand, primarily in service activities and sectors related to investment. Public policy makers will continue implementing measures aimed at strengthening the quality of the labour force and investing in human capital, which contributes to easier employment and the development of more productive activities. Particular attention will be focused on further improving the education system, including the development of dual education and retraining programmes, strengthening the employability of young people and supporting categories of the population that face greater difficulties in finding employment. It is expected that activities aimed at encouraging formal employment will continue, thereby further improving conditions in the labour market. At the same time, active labour market policy measures will also be directed towards sectors undergoing adjustment, particularly labour-intensive branches of the manufacturing industry. In the medium term, the aforementioned measures are expected to contribute to greater employability and more sustainable productivity growth. Further labour market developments will depend to a significant extent on the dynamics of external demand, investment activity and the ability of the economy to provide a sufficient supply of qualified labour. In line with the expected macroeconomic developments, a gradual reduction in unemployment, continued real wage growth and further strengthening of the formal

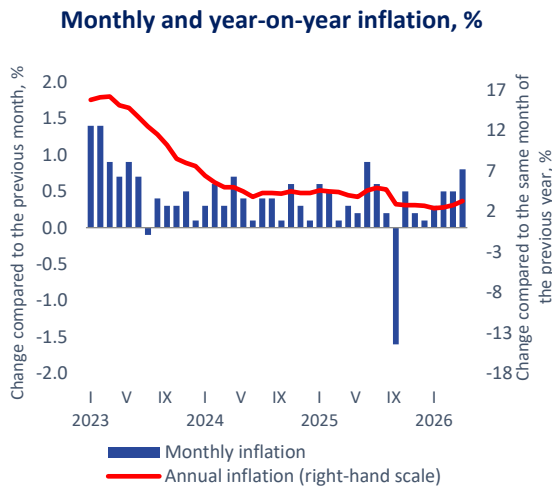
segment of the labour market are projected in the medium term. In the private sector, stable wage growth is expected in line with market developments, while wages in the public sector will continue to be aligned with fiscal rules, thereby preserving macroeconomic stability and creating conditions for sustainable growth in living standards. From a medium-term perspective, labour market developments will depend primarily on productivity growth and the ability of the economy to adapt the structure of the labour force to the needs of more technologically intensive and productive activities.

Monetary Developments

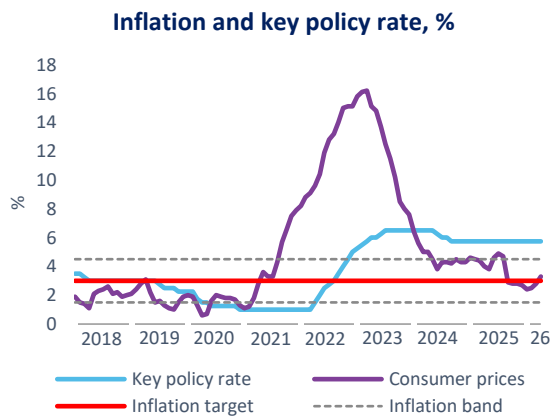
During 2026, monetary developments were to a significant extent determined by heightened uncertainty in the international environment, primarily due to the escalation of geopolitical tensions and the increase in energy prices, but relative macroeconomic and financial stability was preserved, as well as inflation remaining within the NBS target corridor. Under conditions of heightened uncertainty in the international environment, the leading central banks maintained a relatively restrictive monetary policy stance, with a gradual easing of monetary conditions in certain economies. Domestic monetary developments during 2026 were significantly influenced by external risks, primarily movements in energy prices, geopolitical tensions and continued restrictive financing conditions in the international financial market.

Inflation continued its gradual slowdown during 2025, despite certain short-term fluctuations, primarily under the influence of the implementation of administrative measures limiting margins, as well as the weakening of imported cost pressures and the effects of the previous tightening of monetary policy. According to the latest available data, year-on-year inflation amounted to 3.3% in April 2026, thereby continuing to move within the NBS target corridor. In the first quarter of 2026, inflation moved below the central target value, while during April it accelerated, primarily due to the increase in global oil prices and the resulting increase in petroleum product prices on the domestic market. Core inflation amounted to 4.4%, with its movement being largely determined by the still relatively high growth in service prices. At the same time, the increase in energy prices recorded so

far has not had any significant secondary effects on inflation expectations, which continued to move within the boundaries of the target corridor.



Source: SORS and NBS



Source: SORS and NBS

When making monetary policy decisions, the NBS also maintained a cautious approach during 2026, bearing in mind the risks present in the international environment, primarily geopolitical tensions, rising energy prices and uncertainty in global financial and commodity markets. At the same time, the previous easing of monetary policy contributed to a gradual improvement in financing conditions and growth in lending activity. At the beginning of 2026, the NBS did not change the key policy rate, which remained at the level of 5.75%, while the deposit and lending facility rates remained at the levels of 4.5% and 7.0%, respectively. Maintaining restrictive monetary conditions was aimed at preserving price and financial stability, while gradually steering inflation towards the central target value. At the same time,

the coordination of monetary and fiscal policy continued with the aim of preserving macroeconomic stability and mitigating external risks.

During 2025, several auctions were conducted on the primary market of dinar-denominated government securities, with stable investor demand and more favourable borrowing conditions. During the first quarter of 2026, reopenings of issues of dinar-denominated government bonds continued, thereby providing additional financing on the domestic capital market. At the same time, the inclusion of certain dinar-denominated government securities in international bond indices contributed to greater visibility of the domestic financial market among international investors and to the further development of the domestic capital market. The confirmation of the credit rating by international rating agencies additionally contributed to maintaining investor confidence and the stability of financing conditions.

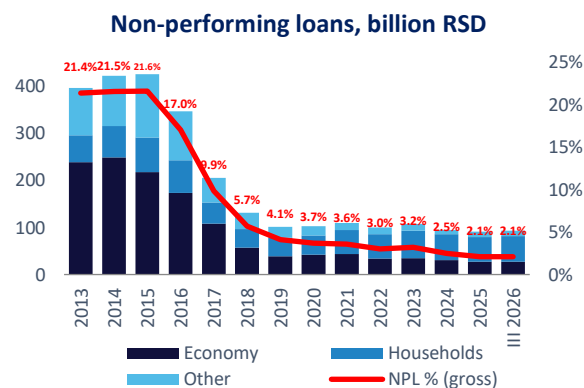
With the aim of mitigating price pressures and preserving the orderly functioning of the market, the implementation of measures aimed at maintaining the stability of the energy market and the supply of essential products continued. These measures contributed to mitigating short-term inflationary pressures, particularly in the food and energy segments. The limitation of margins in wholesale and retail trade was applied as a temporary measure until the end of February 2026. In April, the Law on Trading Practices for Certain Types of Products was adopted. The main objective of the implementation of this law is to establish fair, transparent and predictable business relations in the supply chain of agricultural and food products, as well as products of strategic importance for market supply, through the prevention, detection and sanctioning of unfair trading practices. This legislative framework was further completed through the simultaneous adoption of amendments and supplements to the Law on Trade.

Through amendments to the regulatory framework in the area of financial consumer protection, interest rates on loans to individuals were capped, thereby creating conditions for greater predictability of household financing costs. In addition, measures

supporting housing lending and access to financing for certain categories of the population continued.

Credit activity continued to grow at a relatively dynamic pace during 2026 as well. Year-on-year growth in loans to the non-monetary sector amounted to 16.8% in March 2026, with loans to households increasing by 20.9% and loans to corporates by 12.9%. The growth in credit activity was supported by the gradual easing of financing conditions, growth in real wages and the gradual strengthening of investment activity. In particular, the growth of cash loans and housing loans to households continued, while in the corporate sector the growth of investment loans and liquidity loans was more significant. At the same time, the stability of the banking sector was preserved, while the share of non-performing loans continued to move at a low level and amounted to 2.1% in March 2026.

During the first quarter of 2026, there was a slight increase in interest rates on newly approved dinar loans, with the interest rate on loans to the corporate sector increasing by 0.5 p.p., to 6.7% in March, primarily due to the increase in interest rates on working capital loans. At the same time, the interest rate on new dinar loans to households increased by 0.2 p.p., to 8.3%, after these rates had been reduced to a relatively low level at the end of 2025 under the influence of NBS measures aimed at more favourable lending to citizens with lower incomes. Indicators of liquidity and capital adequacy of the banking sector remained significantly above the prescribed regulatory minimums.

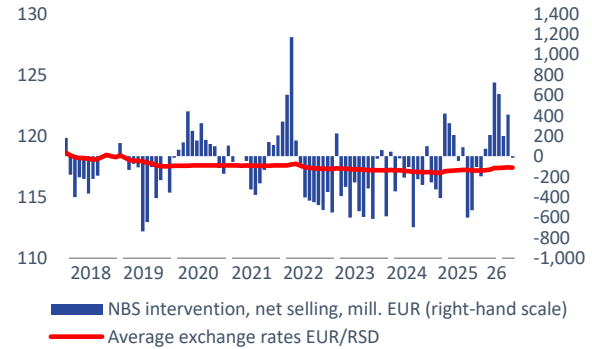


Source: NBS

During the first three months, depreciation pressures were present in the foreign exchange market, primarily due to the effect of seasonally increased

demand for foreign exchange by energy importers. The effect of the seasonal factor weakened from the end of March. From the beginning of the year through April, the NBS intervened in the foreign exchange market through net sales of foreign exchange amounting to EUR 1,205 million, while the dinar depreciated nominally against the euro by 0.1%.

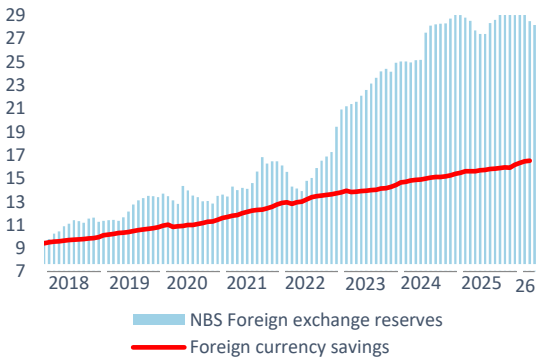
Exchange rate and NBS interventions in the foreign exchange market



Source: NBS

Foreign exchange reserves remained at a high level and amounted to EUR 28.2 billion in April 2026, providing import coverage of goods and services at the level of 6.5 months, as well as adequate coverage of the M1 money supply of 159.7%. The high level of foreign exchange reserves contributes to the resilience of the domestic financial system to external shocks and the preservation of the relative stability of the foreign exchange market. The relatively stable external position of the country additionally contributed to preserving the resilience of the domestic economy to external risks. At the same time, the growth of foreign currency and dinar savings of households continued, indicating preserved confidence in the domestic financial system and the stability of macroeconomic policies. A significant part of foreign exchange reserves also relates to monetary gold (54.0 tonnes, or EUR 6.9 billion), the increased share of which further contributes to resilience to external risks.

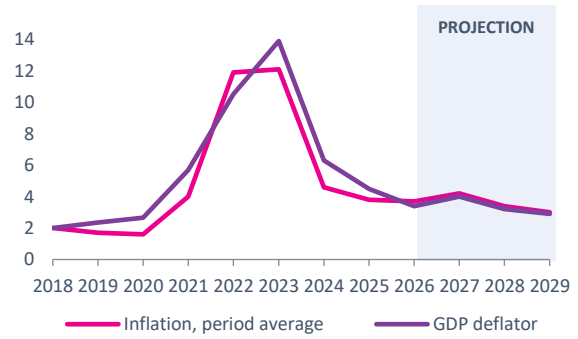
Foreign exchange reserves and foreign currency savings, EUR billion



Source: NBS

Given the heightened geopolitical risks and the unpredictable movement of energy prices on the global market, more pronounced short-term fluctuations in inflation are possible, primarily due to the effects of energy and primary commodity prices. According to the current projections, average inflation in 2026 is expected to amount to 3.7%, while remaining within the target range during most of the year. At the end of 2026 and the beginning of 2027, inflation is expected to move temporarily somewhat above the upper bound of the target range, primarily due to the effects of rising global energy prices and the low base from the previous year. Inflation is expected to gradually slow during 2027, which should be supported by the restrictive monetary policy stance, the easing of external cost pressures and the stabilisation of developments in the food and energy markets. Stable inflation, preserved financial stability and the gradual easing of financing conditions are expected to continue supporting economic activity and investment. The risks to the projection remain primarily related to geopolitical tensions, movements in energy prices, uncertainty in global financial and commodity markets, as well as potential changes in the monetary policies of the leading central banks. In the medium term, the preservation of macroeconomic and financial stability is expected, along with the stable functioning of the financial system and the continuation of moderate growth in credit activity. In the coming period, inflation is expected to continue moving relatively steadily in line with medium-term macroeconomic projections, alongside a gradual easing of cost pressures from the international environment.

Inflation projection, %



Source: Ministry of Finance

External sector

Foreign trade in goods during 2025 maintained a positive dynamic, with continued growth in the total volume of exchange and a somewhat more pronounced growth of exports compared to imports. Such developments indicate preserved competitiveness of the export sector and a stable position of the domestic economy in foreign markets, while import growth was in line with domestic demand developments and the needs of economic activity. The total volume of foreign trade exchange in 2025 increased by 7.7% and amounted to 74.9 billion euros, with goods exports reaching 33.1 billion euros, with growth of 8.4%, while imports amounted to 41.9 billion euros and were higher by 7.2% compared to the previous year.

In the first quarter of 2026, the volume of foreign trade exchange increased by 3.3% year-on-year and reached 19.0 billion euros. In the same period, goods exports amounted to 8.7 billion euros, which represents growth of 7.1% compared to the first quarter of the previous year. The achieved export growth, in conditions of slowing global growth and weakened external demand of main trading partners, as well as increased uncertainty in the international environment, indicates a relatively high degree of resilience of the domestic export sector. This resilience is primarily the result of a diversified export structure, both by geographical markets and by production segments, which reduces exposure to specific regional and sectoral shocks. The favorable export structure also reflects the effects of continuous investments and technological modernization of production capacities in the previous period, largely supported by inflows of

foreign direct investment and improvement of the business environment. At the same time, risks from the external environment remain pronounced, especially in the context of current geopolitical tensions and conflicts in the Middle East, which may affect international trade flows and energy prices.

Exports of the manufacturing industry, as the key driver of goods export growth, increased by 639.8 million euros, or 9.1% year-on-year, with growth recorded in 13 out of a total of 23 divisions. The growth of manufacturing industry exports in the first quarter of 2026 was mostly contributed by the automotive industry, followed by the production of basic metals, as well as the machinery, rubber and metal industries.

Reestablishment of automobile production in Kragujevac and impact on export performance

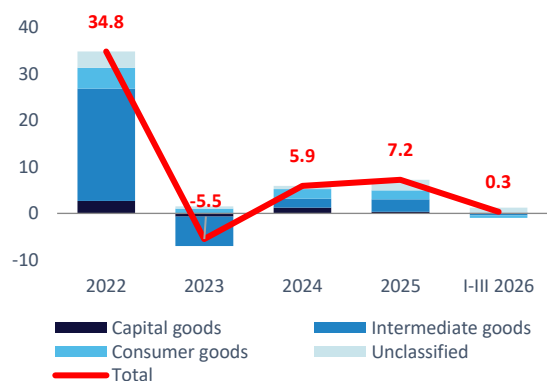
The reestablishment of serial production in the factory of the Stellantis company in Kragujevac represents one of the key positive impulses for domestic industrial production and goods exports. Since mid-February 2025, serial production and export of the new Fiat Grande Panda car model has begun in Kragujevac, thereby strengthening once again the role of the automotive industry as one of the main pillars of the export-oriented part of Serbia's manufacturing industry. Additional strengthening of production capacities was achieved by launching production of the Citroën C3 model, thereby expanding production capacities and improving the export potential of the factory in Kragujevac.

The significance of the recovery of production in the factory in Kragujevac is also confirmed by export data, which in the entire year 2025 amounted to slightly over 1 billion euros, indicating the reestablishment of strong export dynamics after the launch of new production lines. In the first four months of 2026, exports already reached 767.5 million euros, reflecting further intensification of production activity and continued export growth. In line with continued production growth and gradual stabilization of production processes, it is expected that total exports in 2026 will reach a level of around 2–2.5 billion euros, whereby the automotive industry would once again become one of the most important drivers of Serbia's export growth.

At the same time, mining exports recorded growth of 25.4%, almost entirely driven by increased exports of metal ores, which indicates continued favorable developments in the raw materials export segment and stable foreign demand for metal ores. On the other hand, agricultural exports decreased by 20.0% year-on-year, as a consequence of unfavorable agrometeorological conditions in the previous season, characterized by prolonged drought periods and reduced yields, which led to a lower volume of available stocks for export and a weakening of export supply in this sector. At the same time, electricity exports recorded a significant decline of 48.4% (132.1 million euros), which is related to reduced competitiveness of electricity exports after the start of application of the Carbon Border Adjustment Mechanism (CBAM) in the European Union from the beginning of 2026. Considering the high share of electricity production from coal in the domestic energy mix, the introduction of additional costs when exporting to the EU market affected the reduction of cross-border electricity trade and export activity.

Goods imports in the first three months of 2026 recorded growth of 0.3% and amounted to 10.3 billion euros. The slower dynamics of imports in the first quarter of 2026 largely reflect the effect of a high base from the same period of the previous year, when imports were temporarily increased due to heightened needs of the economy for raw materials, as well as due to accelerated imports ahead of announced changes in trade policies and expected price developments. Observed by economic use, import growth was driven by an increase in imports of equipment of 1.5% (17.1 million euros), while the overall dynamics were limited by a decline in imports of consumer goods of 2.4% (53.1 million euros) and intermediate goods of 0.7% (42.7 million euros).

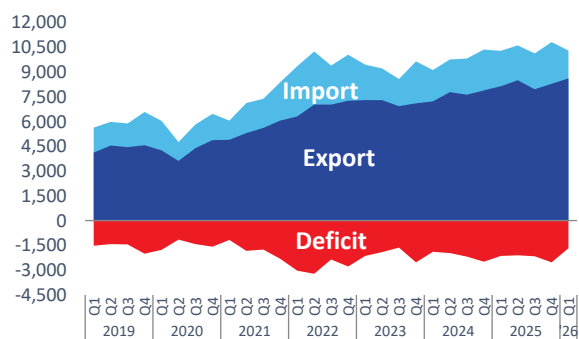
Imports structure by economic destination, pp



Source: SORS

Such developments in foreign trade led to a reduction in the goods foreign trade deficit in the first quarter of 2026 by 546.6 million euros, to a level of 1.6 billion euros. At the same time, about three-fifths of the total deficit still relates to the exchange of energy products, which indicates its structural conditionality. At the same time, an improvement in import coverage by exports was recorded, which in the first three months of 2026 reached 84.5%, compared to 79.1% in the same period of the previous year.

Merchandise trade, mil. EUR



Source: SORS

The most important foreign trade partners during the first three months of 2026 were the countries of the European Union, which accounted for 63.2% of total exports and 55.9% of total imports. The largest part of total exports (40.5%) was directed to five key markets: Germany, Italy, China, Bosnia and Herzegovina and Hungary. On the other hand, imports from China, Germany, Italy, Turkey and Hungary accounted for 43.7% of total imports in the observed period. A foreign trade surplus was achieved in trade with Montenegro, Bosnia and Herzegovina, North Macedonia, the Czech Republic, Germany, Italy, Bulgaria, Slovakia, Sweden, Croatia, the United Kingdom, Ukraine, Greece, as well as to a

lesser extent with Moldova, whereby the total surplus with these countries amounted to 1.3 billion euros. In contrast, the largest deficit was recorded in trade with China, Turkey, Russia, Poland and Romania.

Balance of payments developments during 2025 were marked by a moderate increase in the current account deficit of the balance of payments to 4.9% of GDP (4.3 billion euros) from 4.5% of GDP in 2024. Such developments were primarily the result of an increase in the deficit on the primary income account, as well as an increase in the deficit in trade in goods and services with abroad, while the growth of the secondary income surplus partially mitigated negative developments in the current account. On the goods and services account, a deficit of 4.2 billion euros was recorded, which represented an increase of 214.4 million euros year-on-year. The goods trade deficit decreased by 282.6 million euros and amounted to 6.5 billion euros, which was contributed by the growth of manufacturing exports, especially automotive, rubber, food, machinery and pharmaceutical industries. Despite the slowdown in global growth, weakened external demand and increased geopolitical and trade tensions, the realized developments indicated a relatively high degree of resilience of the domestic export sector. At the same time, a decrease in the surplus in trade in services was recorded, which amounted to 2.3 billion euros and was lower by 497.0 million euros compared to the previous year, primarily due to the deterioration of the balance in the tourism and transport sectors. Despite the reduction in the surplus in total trade in services, positive net exports of services still largely resulted from the high surplus in ICT services trade, which in 2025 increased by 9.2% year-on-year and amounted to 3.5 billion euros, while its exports reached a value of 4.5 billion euros. The continued growth of ICT services exports confirmed the preserved competitiveness of this sector and its increasingly significant contribution to the external position of the country. On the other hand, the primary income deficit increased by 354.9 million euros, or by 6.8%, which primarily reflected the increase in profit and interest payments abroad due to the increased accumulated stock of foreign direct investment and external financing from the previous period. At the same time, the secondary income surplus was higher by 1.0% year-on-year and

amounted to 5.4 billion euros, to which stable inflows of remittances from abroad continued to contribute the most.

In the first quarter of 2026, the current account deficit was reduced by almost three quarters and amounted to 179.3 million euros. The improvement in the current account balance was the result, above all, of a significant improvement in the balance of trade in goods and services and a slightly higher secondary income surplus, while the increase in the primary income deficit acted in the opposite direction. The deficit in goods and services decreased by 45.2% and amounted to 509.0 million euros. The negative balance of goods trade decreased by 307.2 million euros and amounted to 1.3 billion euros, while the surplus in services increased by 113.1 million euros and reached 778.2 million euros. Positive net exports of services in the observed period were mostly achieved on the basis of the ICT sector, which recorded a net inflow of 814.2 million euros. In addition, a significant net inflow was achieved on the basis of other business services, which amounted to 406.0 million euros. The secondary income surplus increased by 13.4% and amounted to 1.3 billion euros, with the key contribution still coming from net inflows on the basis of remittances from abroad, which in the first quarter amounted to 913.2 million euros. On the other hand, the primary income deficit increased by 11.7% and amounted to 967.4 million euros.

Total inflow of foreign direct investment in 2025 amounted to 3.5 billion euros, which represents a decrease of 33.5% compared to the previous year, while net FDI inflow amounted to 2.3 billion euros and was lower by 50.5% year-on-year. The decrease in investment inflows to a certain extent reflects less favorable conditions in the international environment and more pronounced investor caution at the global level, in conditions of increased geopolitical tensions, rising uncertainty in international trade and strengthening protectionist policies, including the introduction of new tariffs by the USA. Similar developments were recorded in the wider Western Balkans region, where total FDI inflow in 2025 decreased by 24.8%, while net inflow fell by 41.5%. A somewhat more pronounced decline in FDI inflows in Serbia compared to the regional average was also conditioned by the high base from the previous year,

when inflows in Serbia grew above the Western Balkans average, as well as by increased uncertainty in the domestic environment and a more cautious approach by investors in conditions of occasionally more pronounced socio-political tensions. Despite lower inflows compared to the record level from 2024, net FDI inflow remained at a relatively high level and continued to represent a significant source of financing of the current account deficit, contributing to the preservation of the stability of the country's external position. The largest part of FDI inflows related to equity capital and reinvested earnings (69.4%), which indicates the continued presence and long-term orientation of foreign investors in the domestic market, despite more pronounced uncertainty in the international environment.

In terms of activities, the largest inflow of foreign direct investments in the past year was realized in the manufacturing industry, the sector that traditionally attracts the largest share of FDI, in the amount of 770.2 million euros. A significant inflow was also recorded in mining (697.4 million euros), followed by professional, scientific, innovation and technical activities (643.4 million euros), as well as in construction (556.4 million euros) and trade (472.4 million euros). In addition to production diversification, FDI are also geographically diversified. Observed by geographic origin, the largest share of FDI inflows (87.0%) originates from the European continent. The total inflow of investments from the European Union in 2025 amounted to 2.5 billion euros, i.e. 72.2% of total FDI inflows. On the other hand, observed by countries of capital origin, the largest inflow of foreign direct investments comes from the Netherlands, the United Kingdom, Singapore, Germany and Finland, which together account for slightly more than three fifths of total FDI inflows. It should be taken into account that significant investments also come from the Netherlands due to the fact that certain foreign investors, because of tax incentives, carry out their investments through subsidiaries in this country, even though the headquarters of the parent company is in another country. The net FDI inflow in the first three months of 2026 amounted to 192.4 million euros, while the total inflow on the basis of FDI amounted to 369.3 million euros. The inflow entirely

referred to reinvested earnings and equity capital, with FDI maintaining geographic and project distribution. At the same time, a net outflow of portfolio investments was recorded in the amount of 76.3 million euros, due to a more pronounced reduction in non-residents' investments in domestic securities compared to the reduction in residents' investments (primarily banks) in foreign securities. In addition, non-residents purchased domestic securities on the primary market, but the amount of those investments was lower than the amount of matured securities in their possession and net sales of securities on the secondary market.

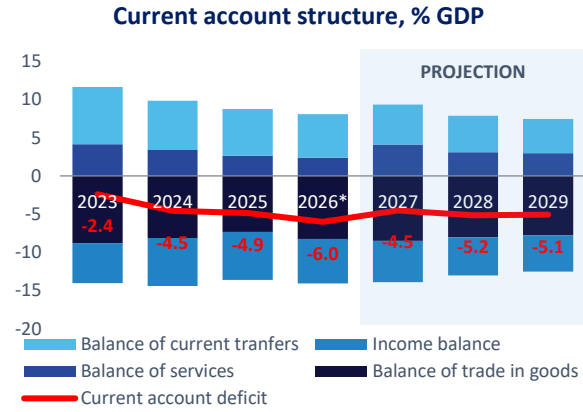
Issuance of eurobonds on the international financial market

On April 28, 2026, the Republic of Serbia successfully carried out an issuance of eurobonds on the international financial market in three tranches and two currencies, in a total countervalue of about 3 billion euros. Two eurobonds in euros were issued, with maturities of five and twelve years, in amounts of 1.0 billion euros and 900 million euros, as well as a ten-year eurobond denominated in US dollars in the amount of 1.25 billion dollars. The funds raised by the issuance of the five-year eurobond were used for the early buyback of part of the eurobonds maturing in 2027. The twelve-year eurobond was implemented as a "green" bond, and the funds raised are intended for financing and refinancing projects aimed at sustainable economic growth. After the issuance of the dollar eurobond, a hedging transaction was carried out through a currency swap, whereby obligations on the basis of dollar borrowing were converted into euro exposure, thereby reducing currency risk and total financing costs.

The external position of Serbia during 2025 maintained resilience to financial shocks from the international environment, under conditions of increased global uncertainty, while key external indicators remained at favorable levels. A moderate deterioration of the ratio of foreign exchange reserves and short-term external debt was recorded compared to the end of 2024, due to a slight decrease in foreign exchange reserves and growth of short-term borrowing. The share of external debt in GDP was slightly reduced, from 58.6% in 2024 to 57.6% in 2025. In contrast, the share of short-term debt in GDP increased by 2.2 p.p., from 8.5% to 10.7%, while the

ratio of external debt and exports of goods and services decreased by 2.9 p.p. Despite the above-mentioned developments, the level of external debt relative to exports of goods and services remains significantly below internationally accepted sustainability thresholds, which indicates a favorable long-term position. At the end of 2025, this ratio amounted to 107.1%, which is significantly below the World Bank criterion of 220%, and represents a clear indicator of the sustainability of external debt servicing. Gross foreign exchange reserves of the National Bank of Serbia in the first four months of the current year decreased by 852.0 million euros and at the end of April amounted to 28.2 billion euros, which still represents a level above the reference values of all standard indicators of reserve adequacy.

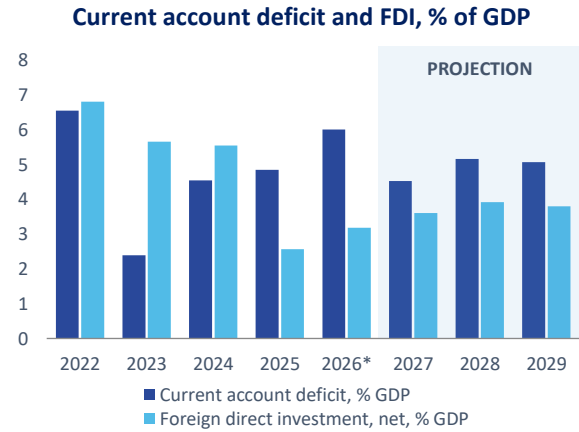
It is expected that the current account deficit in 2026 will amount to 5.7 billion euros, i.e. 6.0% of GDP. In the following year, its temporary reduction to 4.5% of GDP is projected, primarily due to the holding of the international exhibition EXPO 2027, which should contribute to increased inflow of foreign tourists and growth of services exports, especially in the sectors of tourism, hospitality and transport. After that, in 2028, a moderate increase of the current account deficit to 5.2% of GDP is expected, due to the gradual fading of temporary positive effects related to the EXPO exhibition. At the same time, in the medium term, a gradual recovery of external demand and stabilization of conditions in international trade is expected, which should support further growth of goods exports. Inflow on the basis of current transfers is projected at an average of about 4.8% of GDP annually in the period 2027–2029, with remittances from abroad retaining their role as its most significant component. On the other hand, the net effect of current transfers and primary income will be slightly negative, primarily due to increased outflows on the basis of profit and interest payments abroad, as well as a decrease in net inflows of current transfers. Although this component in the previous period to a greater extent had a positive contribution to the external position, its gradual weakening reflects the growth of the total accumulated position on the basis of foreign direct investment and the increased share of servicing external financing within the balance of payments, which is a common phenomenon in economies that record continuous inflows of investment and growth of production activity.



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

In the structure of the financial account, in the coming period as well, inflows of foreign direct investments will dominate, which are projected at about 3.8% of GDP annually. These inflows will continue to represent one of the most stable forms of external financing, given their long-term nature and relatively lower sensitivity to short-term fluctuations in international financial markets.

At the same time, FDI will remain the main source of financing of the current account deficit, thereby contributing to the preservation of external balance and the stability of the balance of payments.



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

II FISCAL FRAMEWORK FOR THE PERIOD 2027–2029

1. Medium-term Fiscal Policy Objectives

The Fiscal Strategy for the period 2027–2029 is based on preserving macro-fiscal stability and gradually reducing the share of public debt, while at the same time preserving space for investments that contribute to strengthening the economy's potential growth. The medium-term fiscal path remains moderately supportive, primarily to support the investment cycle and preparations for EXPO 2027, with a planned general government deficit of 3% of GDP by 2027 and 2.5% of GDP in 2028 and 2029. In the context of a more complex international environment and heightened global uncertainty, primarily due to geopolitical tensions and their impact on global financial and commodity flows, the implementation of this path will require additional flexibility and careful management of public finances. Nevertheless, even under such circumstances, a continued gradual reduction in the share of public debt is expected, which should fall below 44% of GDP by 2029.

The application of the fiscal deficit rule, in agreement with the IMF, has been postponed until 2029 in order to preserve the necessary fiscal flexibility in the context of heightened global uncertainty and significant investment needs. At the same time, given that the general government debt is below the threshold of 45% of GDP, the planned deficit levels, even without the formal application of the rule, remain fully aligned with its limits. Under the current fiscal rule, the maximum allowable deficit amounts to 3% of GDP if the level of general government debt is below the aforementioned threshold, meaning that the projected deficits of 2.5% of GDP in 2028 and 2029 are significantly below the prescribed maximum. The fiscal path thus established provides additional fiscal space for a potential response to unforeseen circumstances, including external macroeconomic and energy shocks, while at the same time preserving the credibility of fiscal policy and the medium-term sustainability of public finances.

On the expenditure side, priority continues to be given to investments with the greatest development effects in transport and energy infrastructure, the digital and green transition, alongside responsible management of current expenditure. At the same time, developments in the global energy market may necessitate additional fiscal flexibility, including temporary measures aimed at mitigating the effects of rising energy prices on households and businesses. The public sector wage policy is guided by the prescribed fiscal rule, while pensions are indexed in accordance with the established formula, thereby ensuring predictability and the long-term stability of the pension system. Subsidies are planned with a tendency toward a gradual reduction to a level of around 2% of GDP, with the possibility of temporary adjustments in the event of increased pressures in the energy sector. At the same time, capital expenditure remains stable at a high level, averaging around 6.3% of GDP annually.

On the revenue side, the policy remains focused on further reducing the tax burden on labour, broadening the tax base, and improving revenue collection through the digitalisation and modernisation of the operations of the Tax Administration and Customs Administration. Although inflationary developments may, in the short term, support nominal growth in tax revenues, developments in the international environment and the slowdown of economic activity among certain foreign trade partners may affect exports, investments, and the medium-term dynamics of budget revenues. Excise policy is based on regular indexation, with the possibility of temporary adjustments in the event of more pronounced price disruptions in the energy products market.

Management and mitigation of fiscal risks continues through the application of a conservative approach to budget planning, maintaining an adequate level of

fiscal reserves, and active public debt management. At the same time, the international environment continues to be characterised by heightened uncertainty and pronounced volatility, primarily with regard to movements in energy prices, global interest rates, and the dynamics of external demand. In such circumstances, fiscal policy must maintain a sufficient degree of flexibility and the ability to respond in a timely manner to potential shocks, while at the same time preserving the credibility of the fiscal framework and continuing the implementation of structural reforms.

Overall, the medium-term fiscal framework continues to provide a balance between preserving macro-fiscal stability and supporting further economic development, even under conditions of a more complex and uncertain global environment. Controlled deficit levels, a gradual reduction in the share of public debt in GDP, a high level of capital investment, and the predictability of social policy remain key pillars of macro-fiscal stability. The preservation of the planned public finance path in the coming period will depend on the resilience of the domestic economy, the ability to adjust economic policy in a timely manner, and the maintenance of a favourable investment and development environment.

2. Fiscal Developments in 2025

At the end of 2025, a fiscal deficit of 252.8 billion dinars, or 2.4% of GDP, was recorded at the general government level. The primary fiscal deficit amounted to 0.8% of GDP. The spring projection revised upwards revenues from social security contributions, personal income tax, and excise duties, as well as expenditures for employees and social benefits, while simultaneously reducing VAT revenues and expenditures for goods and services and capital expenditures. The autumn projection revised upwards non-tax revenues, contributions, excise duties, and corporate income tax, as well as social benefits, other current expenditures, and employee compensation, while VAT revenues were further revised downwards and planned expenditures for interest, the purchase of goods and services, and capital expenditures were reduced. The revised Fiscal Strategy projected a deficit of 3% of GDP (314 billion dinars), the same as in the original budget and the spring Fiscal Strategy. General government debt stood at 44.7% of GDP at the end of 2025, which is 2.2 percentage points lower compared to the end of 2024 (46.9% of GDP).

A number of factors influenced changes in the structure of both revenues and expenditures of the general government sector, as well as their nominal amounts. Revenue performance was positively affected by: a base effect (better-than-expected performance at the end of 2024), more favourable labour market developments, changes in the level and structure of extraordinary non-tax revenues, etc. Slower growth of private consumption compared to expectations had a negative impact on VAT revenues. Changes in the structure of expenditures compared to the original plan were mainly driven by lower capital expenditures, which followed the implementation dynamics of certain capital projects, and lower expenditures for goods and services, alongside higher expenditures for employees and social benefits.

General government revenues were higher by 20 billion dinars (0.2% of GDP) compared to the amount planned in the original budget. Compared to 2024, a nominal increase of 7.9% was recorded. The largest positive deviation from the original plan was recorded

in social security contributions, personal income tax, and excise duties. VAT revenues and grants were collected in amounts lower than those planned in the budget. Social contributions and personal income tax together exceeded the plan by 0.6% of GDP, mainly due to more favourable developments in wages and employment compared to initial assumptions. Corporate income tax was realised at a level approximately 0.1% of GDP higher than planned, primarily because at the time of budget preparation final data on corporate profitability were not available, so these revenues were planned conservatively. Excise revenues exceeded the plan by 0.2% of GDP, mainly due to higher revenues from excise duties on petroleum products and tobacco. Non-tax revenues were higher by 0.1% of GDP compared to the plan, mostly due to increased interest income on term deposits and revenues from fees for the use of public goods. VAT revenues were lower than originally planned by 0.6% of GDP. The main reasons for this deviation relate to weaker-than-expected VAT revenues in the last quarter of 2024, as well as the continuation of this trend during 2025. Private consumption growth during the observed period did not fully follow the dynamics of real growth in disposable income of the population. During 2025, trends were the opposite: consumption lagged behind income, indicating increased household caution and the postponement of consumption in conditions of heightened uncertainty.

General government expenditures were executed in an amount lower by 41.2 billion dinars (0.4% of GDP) compared to the original plan. The nominal increase compared to the previous year amounts to 9%. The largest positive deviation from the plan was recorded in social benefits, employee compensation, and subsidies, while the largest negative deviation was recorded in expenditures for goods and services and capital expenditures. Social protection expenditures exceeded the plan by approximately 0.4% of GDP, which is primarily a consequence of higher execution during 2024, and this trend continued in 2025. Employee compensation exceeded the plan by around 0.2% of GDP due to an extraordinary increase in wages in the education sector, implemented in two rounds — in March and October — as well as in the

health sector in October 2025. Employee compensation in 2025 amounted to 9.9% of GDP. Special fiscal rules in force since January 2023 limit the share of public sector wages in GDP and define pension indexation rules depending on their share in GDP. Expenditures for goods and services were lower than planned by around 0.5% of GDP, mostly in the republican budget. The execution of public investment in 2025 amounted to 6.9% of GDP and was lower than the original plan by 0.4% of GDP, which was caused by a different implementation dynamics of certain infrastructure projects compared to the initially planned schedule.

3. Current fiscal developments and outlook for 2026

The fiscal framework for 2026 has been designed prudently, taking into account the continued uncertainty in both the domestic and international environment. This approach has ensured sufficient budgetary space for intervention should adverse developments materialize. An additional downside risk stemmed from the implementation of operational sanctions against NIS, which resulted in the complete suspension of refinery operations at the end of the previous year and during the first months of 2026. Nevertheless, macroeconomic projections anticipated a moderate acceleration of economic activity compared to 2025, supported, among other factors, by stronger real growth in private consumption following somewhat weaker dynamics in the preceding year. Although real pension benefits, wages, and disposable household income recorded solid growth during the previous year, supported by favorable labor market developments, the pace of private consumption growth remained moderate. This outcome can primarily be attributed to heightened household caution and the postponement of spending amid increased economic and social uncertainty.

Measures adopted at the end of 2025 had a significant impact on the 2026 budget plan. Pensions were adjusted by 12.2% in line with the statutory indexation formula. To preserve the real purchasing power of citizens, the minimum hourly wage was increased on two occasions, resulting in a cumulative rise of 20.4%, while the tax-exempt threshold for wages was increased by the same percentage. Consequently, the tax wedge on the projected average net wage in 2026 is expected to amount to 59.7%. This package of measures, together with further wage growth in the public sector, is expected to strengthen private consumption and indirectly support higher consumption-based tax revenues. In addition, revenues from labor taxation are projected to increase, as real wage growth in the private sector is expected to continue despite the lower tax burden. Significant resources have also been allocated to public investment aimed at further improving infrastructure, which, alongside preserving a

favorable environment for private investment, is expected to broaden the foundations for sustained economic growth.

Apart from the increase in the tax-exempt wage threshold and the regular adjustment of excise duties, no major changes in tax policy were planned for 2026. Following the temporary reduction of the excise burden during 2022 and 2023, excise policy was normalized in 2024, while regular statutory indexation of excise duties was implemented at the beginning of 2025. Although these adjustments partially compensated for the erosion of the real value of excise duties, their level remains approximately 13% below the level that would have been reached under uninterrupted indexation throughout the previous period. During 2024, a refund mechanism for a portion of excise duties on motor fuel used in agriculture was introduced and has continued in 2025, while refund amounts for fuel used for transport purposes were increased during 2025. At the same time, amendments to the relevant regulations further clarified the conditions for exercising these rights, with the aim of reducing the scope for misuse of such tax relief measures.

The beginning of 2026 was characterized by a gradual acceleration of economic activity. Following somewhat weaker developments in January and moderate improvement in February, strong growth in March significantly improved the overall picture of economic performance in the first quarter. According to preliminary estimates, real GDP growth reached 3.0% during this period. From the production side, growth was primarily driven by the services sector, while on the expenditure side the key contribution came from the expansion of private consumption. Consumption growth reflected higher disposable income and a moderate recovery in consumer confidence. At the same time, real export growth exceeded import growth by a solid margin, resulting in a positive contribution of net exports to overall economic growth.

During this period, two developments in the domestic and international energy and economic environment

stood out due to their significant but opposing effects. At the end of January, operational sanctions imposed on NIS were suspended following the initiation of negotiations regarding changes in the company's ownership structure, creating the conditions necessary for the resumption of petroleum product production. Beyond its immediate economic significance, this development also had important implications for the country's energy security and supply stability. In contrast, an armed conflict erupted in the Middle East at the end of February, leading to a sharp increase in crude oil prices of more than 50%, accompanied by significant supply disruptions. The consequences of this shock extend beyond energy price movements alone, as it has further intensified global economic uncertainty, heightened inflationary risks, and increased concerns regarding the stability of international energy supply chains.

The aforementioned developments had a significant impact on macroeconomic and fiscal trends in the first quarter; however, their importance is not confined to that period alone. They are expected to materially influence the economic outlook through the end of 2026. Accordingly, the revisions to the fiscal framework presented in this document are primarily driven by these factors, as well as by the need for prudent planning in an environment of heightened uncertainty.

In order to mitigate the excessive increase in retail prices of petroleum products, the government responded at the end of the first quarter by reducing excise duties on fuel products by between 20% and 25%. The 20% reduction in excise duties remains in effect, while its duration cannot be reliably projected at this stage, given the uncertainty surrounding the persistence of disruptions in international energy markets, as well as the need to preserve the planned fiscal outcome. At the same time, a portion of strategic fuel reserves was released to the market in order to ensure uninterrupted supply and limit additional pressures on the domestic market.

Most revenue categories recorded solid growth in the first quarter and exceeded the expected collection dynamics, with the exception of customs revenues and, as anticipated, excise revenues from petroleum products. Slower-than-expected import growth

resulted in weaker collection of import-related duties, including import VAT, while overall VAT revenues performed moderately above expectations, in line with trends in private consumption. Personal income taxes and social security contributions increased broadly in line with expectations for the period, while corporate income tax revenues significantly exceeded planned levels. Within non-tax revenues, regular revenue streams in this category also recorded solid growth.

Despite these favorable developments, the revenue side of the fiscal framework for 2026 has been revised slightly downward by RSD 5.7 billion. The revision was guided by the principle of prudence; therefore, estimates were reduced for revenue categories where lower realization is considered likely, while projections for categories currently outperforming expectations were maintained at their originally planned levels. Particular attention should be drawn to the revision of social security contribution revenues, whose estimate has been increased. This increase reflects contribution payments made from the Republic budget in respect of granted tax incentives. Since the same amount is recorded on the expenditure side, the operation is fiscally neutral.

On the other hand, the estimate of non-tax revenues has been revised upward, as these revenues tend to be less sensitive to short-term macroeconomic developments, and the risk of a significant downward deviation in their collection is therefore assessed as limited. Compared with the previous projection, non-tax revenues have also increased as a result of changes in the timing and expected collection of certain extraordinary non-tax revenues.

During the next revision of the revenue side of the fiscal framework, conditions may emerge for upward revisions of certain revenue categories, given that a longer implementation period will then be available for assessment, together with a more reliable evaluation of the sustainability of current trends. At the same time, it will be possible to assess more accurately the need for the continued application of measures in the area of excise policy.

On the expenditure side, apart from the aforementioned payments related to tax incentives, the overall level of expenditures has likewise been

revised slightly downward by RSD 5.7 billion, accompanied by certain changes in expenditure composition, primarily aimed at preserving the planned fiscal outcome. The adjustment was made mainly on the capital expenditure side, taking into account that certain obligations had already been settled in advance at the end of the previous year.

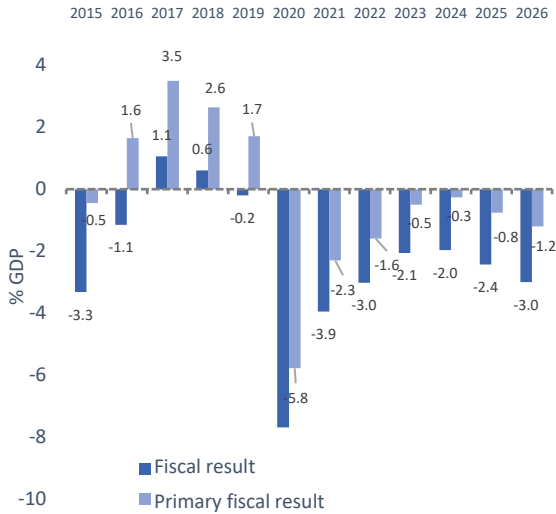
The revised fiscal framework for 2026 envisages an unchanged fiscal deficit of RSD 337 billion, equivalent to 3% of GDP. Public debt is projected to reach 44.7% of GDP by year-end. An analysis of the structural fiscal balance indicates that approximately 1% of GDP in 2026 relates to one-off and temporary effects on both the revenue and expenditure sides of the budget, further confirming the transitory nature of deviations from long-term fiscal trajectories.

Table 7 Revenues, expenditures and fiscal balance of the General Government Sector in 2026 (RSD billion)

	Budget 2025*	Estimate May 2025	Estimate October 2025	% diff	2025 new estimate % GDP
PUBLIC REVENUES	4,534.5	4,528.8	-5.7	-0.1	40.9
Current revenues	4,500.7	4,495.0	-5.7	-0.1	40.6
Tax revenues	4,041.3	4,031.0	-10.4	-0.3	36.4
Personal income tax	465.0	465.0	0.0	0.0	4.2
Corporate income tax	299.0	299.0	0.0	0.0	2.7
VAT	1,084.0	1,084.0	0.0	0.0	9.8
Excises	453.3	431.3	-22.0	-4.9	3.9
Customs	99.9	95.5	-4.4	-4.4	0.9
Other tax revenues	130.8	130.8	0.0	0.0	1.2
Contributions	1,509.4	1,525.4	16.0	1.1	13.8
Non-tax revenues	459.4	464.1	4.7	1.0	4.2
Grants	33.8	33.8	0.0	0.0	0.3
PUBLIC EXPENDITURE	4,871.4	4,865.8	-5.7	-0.1	44.0
Current expenditures	4,098.9	4,112.8	13.9	0.3	37.2
Expenditures for employees	1,128.5	1,128.5	0.0	0.0	10.2
Purchase of goods and services	846.2	846.2	0.0	0.0	7.6
Repayment of interest	215.0	214.6	-0.4	-0.2	1.9
Subsidies	242.8	242.8	0.0	0.0	2.2
Social assistance and transfers	1,537.9	1,539.9	2.0	0.1	13.9
Of which: pensions	1,172.7	1,172.7	0.0	0.0	10.6
Other current expenditures	128.5	140.8	12.3	9.5	1.3
Capital expenditures	737.4	717.9	-19.5	-2.6	6.5
Net lending	11.5	11.5	0.0	0.0	0.1
Activated guarantees	23.7	23.7	0.0	0.0	0.2
Fiscal result	-337.0	-337.0	0.0		-3.0
Fiscal result , % GDP*	-3.0	-3.0	0.0		

Source: Ministry of Finance

Fiscal Balance of the General Government Sector, 2015-2026 (% of GDP)



Source: Ministry of Finance

The factors underlying the revision of the level and composition of revenues include:

- revenue outturn at the end of 2025 (base effect), as well as collection trends during the January–March period, and April 2026 in the case of budget revenues;
- changes in the excise duty policy applicable to petroleum products;
- a lower volume of imports than previously anticipated;
- changes in the level and composition of regular and extraordinary non-tax revenues.

Although stronger-than-expected revenue collection at the end of the previous year is typically reflected, at least in part, in higher projections for the current year, this approach was applied in the present revision only to excise revenues from tobacco products. Collection trends for this revenue category were assessed as sufficiently reliable to warrant an upward revision, whereas for other revenue categories the favorable collection performance recorded at the end of the previous year was not incorporated into higher projections for the current year. This approach is consistent with the principle of prudence and the heightened uncertainty regarding the sustainability of recent positive developments.

Projections for revenues from wage taxes and mandatory social security contributions have generally been maintained at their originally planned

levels, as developments in wages and employment to date do not indicate a need for significant adjustment. Collection of these revenues during the first quarter was broadly in line with expectations, supported by relatively stable labour market conditions. The positive base effect, reflected in stronger-than-expected execution at the end of 2025, was most pronounced within this group of revenues. Nevertheless, given the increased uncertainty surrounding future labour market developments, the original projection has been retained at this stage.

An exception relates to pension insurance contributions, for which the revenue estimate has been increased to reflect contribution payments made from the Republic budget in respect of granted tax incentives. As the same amount is recorded on the expenditure side, this adjustment has no impact on the planned fiscal balance. Other revenues within the personal income tax category, including taxes on dividends, capital income, rental income, and the annual personal income tax, have not been revised, as they have generally evolved in line with expectations. In addition, the largest share of annual personal income tax revenues is typically collected toward the end of the second quarter.

At this stage, the estimate of corporate income tax revenues has not been revised, despite collection in the first quarter exceeding the expected trajectory. For this revenue category, substantial revisions are usually undertaken only after data on the overall profitability of the economy in the previous year become available and after final corporate income tax settlements have been completed. Accordingly, any revision of these revenues will be considered at a later stage, when a more reliable basis for reassessment becomes available.

The estimate of value-added tax (VAT) revenues remains unchanged relative to the original plan. Developments in private consumption during the first quarter point to a solid recovery compared with the preceding period. Although collection performance to date suggests the possibility of a more favorable outturn, the original projection has been maintained. This approach reflects the need for positive trends to be confirmed over a longer period, given that VAT revenue performance during the remainder of the year will depend primarily on developments in overall

household consumption, as well as on the degree of uncertainty that may influence consumer preferences and spending behaviour.

Customs revenues have been revised downward due to weaker-than-expected import developments during the first quarter. As this revenue category is directly linked to the volume and structure of imports, the outturn recorded thus far indicated the need for a downward adjustment.

The estimate of excise revenues has been adjusted in line with collection trends to date and the effects of measures implemented in the area of excise policy. The largest negative impact relates to excise duties on petroleum products, reflecting the application of reduced excise rates aimed at mitigating increases in retail fuel prices. As the duration of this measure depends on developments in international oil markets and assessments of its fiscal implications, revenues from this source remain one of the more significant sources of uncertainty for the remainder of the year. Conversely, excise revenues from tobacco products have been revised upward, taking into account collection performance to date and the significant positive base effect, both of which were assessed as providing a sufficiently stable basis for a higher projection.

The estimate of non-tax revenues has been increased relative to the original plan. Unlike most tax revenues, this category is less directly affected by short-term macroeconomic developments.

Regular non-tax revenues include various types of fees and charges, including road toll revenues, monetary fines, revenues generated by public authorities and institutions, as well as other revenues characterized by stable inflows and well-established collection patterns throughout the year, subject only to normal seasonal fluctuations. The upward revision in this segment is largely attributable to higher revenues from charges for the use of public goods and increased own-source revenues of indirect budget beneficiaries.

Extraordinary non-tax revenues, on the other hand, comprise profit transfers from public enterprises and agencies, budget dividend income, revenues arising from the collection of claims managed by the Deposit

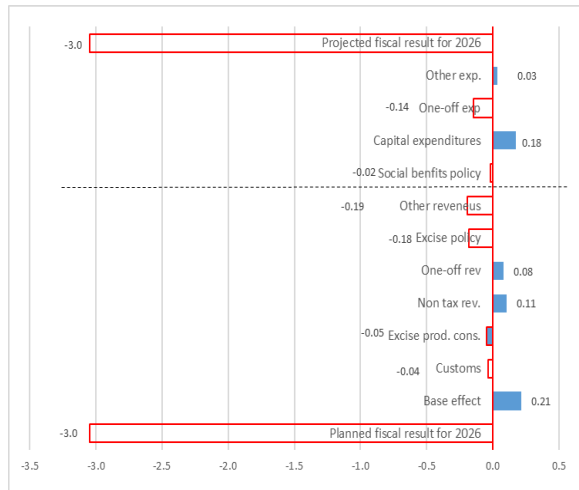
Insurance Agency, premiums from the issuance of securities, and other extraordinary revenues. Within this category, the estimate of interest income has been revised downward based on the current pace of collection.

As part of ongoing efforts to enhance the quality and transparency of public finance statistics, the statistical coverage of the general government sector was further expanded during 2026 through the inclusion of higher education institutions in the reporting system, encompassing all sources of financing. This step represents a continuation of a process that had previously incorporated healthcare institutions, primary and secondary schools, as well as certain extra-budgetary entities, including public agencies, research institutes, and related institutions.

This gradual expansion of statistical coverage, in line with international statistical standards, provides a more comprehensive view of financial flows within the general government sector and enables more accurate recording of revenues and expenditures according to the appropriate economic classifications. As a result, specific categories of public expenditure are recorded under the budget positions where they are actually incurred, contributing to a more accurate and transparent presentation of fiscal statistics.

Although the inclusion of higher education institutions had originally been planned for 2025, implementation was postponed until 2026, when the process was successfully completed. This has further improved the coverage of the general government sector and provided a stronger basis for monitoring and analysing public finances.

Contribution of Individual Factors to the Revision of the Fiscal Balance relative to the 2026. Plan (% of GDP)



Under the revised fiscal framework for 2026, projected total general government expenditure has been reduced by RSD 5.7 billion relative to the original plan, with more significant adjustments limited to a small number of expenditure categories. The revision of the expenditure side was undertaken with the objective of maintaining the planned fiscal outcome within the originally established parameters, while at the same time preserving sufficient fiscal space for potential intervention measures in the event of a deterioration in energy market conditions or in other areas that could jeopardize security of supply, business conditions, or household living standards. Although expenditure execution to date, as well as outturns at the end of the previous year, indicate that there may be scope for reducing estimates in certain expenditure categories, such adjustments have not been made at this stage as a precautionary measure.

Social protection expenditure has been increased by RSD 2 billion compared with the original plan. This increase reflects the raising of the eligibility threshold for child allowance benefits, as well as the planned adoption of regulations governing the status of foster parents, which constitutes a new social policy measure.

Other current expenditure has been revised upward more substantially, with the largest share of the increase being technical in nature and fiscally neutral. Specifically, this relates to transfers from the Republic budget to the Republic Pension and Disability Insurance Fund in respect of social security contributions associated with granted tax incentives, which are recorded within this expenditure category. The increase on this basis amounts to RSD 16 billion. At the same time, expenditure at other levels of government has been reduced by RSD 3.7 billion, as expenditure execution to date provides a clearer indication that actual spending is likely to fall below the originally planned level.

According to the revised estimate, capital expenditure has been reduced by RSD 19.5 billion compared with the original plan. This reduction is primarily attributable to the early settlement of obligations related to military equipment procurement, amounting to RSD 18 billion, which were executed during 2025. A smaller portion of the reduction reflects a lower projected level of expenditure execution at other levels of government. Despite these adjustments, capital expenditure is expected to reach 6.5% of GDP in 2026, thereby maintaining a high level of investment in public infrastructure.

Table 8 Revenues, Expenditures and Fiscal Balance of the General Government Sector, January–March 2025 and 2026 (RSD billion)

	I–III 2025	I–III 2026	I–III 2026/2025 % growth/decline	2026 plan/2025 growth rate, in %
PUBLIC REVENUES	921.9	1,045.9	13.5	6.5
Current revenues	918.5	1,040.1	13.2	6.0
Tax revenues	838.8	940.7	12.1	6.6
Personal income tax	94.0	102.8	9.4	4.9
Corporate income tax	46.8	61.9	32.4	1.8
VAT	234.6	254.7	8.6	8.6
Excises	104.0	105.2	1.1	-1.5
Customs	22.1	22.5	2.0	1.9
Other tax revenues	29.4	32.8	11.5	2.6
Contributions	308.0	360.7	17.1	9.9
Non-tax revenues	79.7	99.4	24.8	1.8
Grants	3.3	5.8	74.7	127.9
PUBLIC EXPENDITURES	950.5	1,158.8	21.9	8.0
Current expenditures	845.7	992.0	17.3	9.9
Expenditures for employees	243.2	281.8	15.9	9.6
Purchase of goods and services	144.0	171.0	18.7	12.9
Repayment of interest	56.3	48.0	-14.8	13.6
Subsidies	33.6	58.2	73.2	-6.7
Social assistance and transfers	341.3	385.2	12.9	11.1
Of which: pensions	261.3	294.9	12.9	12.2
Other current expenditures	27.2	47.8	75.5	10.0
Capital expenditures	92.3	155.7	68.6	0.3
Net lending	5.4	6.0	12.1	-53.0
Activated guarantees	7.1	5.1	-28.4	1.9
Fiscal result	-28.6	-112.9		

Source: Ministry of Finance

As of the last day of March 2026, outstanding arrears (payments overdue by more than 60 days)* of budget beneficiaries and mandatory social insurance organizations amounted to RSD 18 billion.

Budget beneficiaries and the “Roads of Serbia” LLC generated arrears amounting to RSD 16.8 billion, while arrears of mandatory social insurance organizations totaled RSD 1.2 billion.

Table 9 Stock of Arrears of Budget Beneficiaries and Mandatory Social Insurance Organizations (MSIOs)

	31.12.2025	31.3.2026
Budget beneficiaries and LLC "Putevi Srbije"	17.0	16.8
Mandatory social security insurance institutions	1.2	1.2
TOTAL	18.2	18.0

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

4. Fiscal Projections for the Period 2027-2029

The main objectives of fiscal policy in the medium term are focused on preserving macroeconomic and fiscal stability, supporting economic growth, strengthening the resilience of the domestic economy, and maintaining public debt on a declining and sustainable path. Projections of fiscal aggregates for the period 2027–2029 are based on the medium-term macroeconomic framework, planned tax policy measures, further harmonisation with the acquis and directives of the European Union, as well as the effects of fiscal and structural reforms, including improvements in the efficiency and operations of large public and state-owned enterprises.

The medium-term fiscal framework will be characterised by the continued implementation of the development plan “Leap into the Future – Serbia 2027”, including the investment cycle associated with the hosting of the EXPO 2027 specialised exhibition. In this context, fiscal policy over the coming period will have a more pronounced development and investment-oriented component, primarily through high levels of capital investment in infrastructure, transport, energy, healthcare, education, environmental protection, and digitalisation, with expected positive effects on economic activity, productivity, and long-term potential growth.

Table 10 Fiscal Aggregates, 2025–2029 (% of GDP)

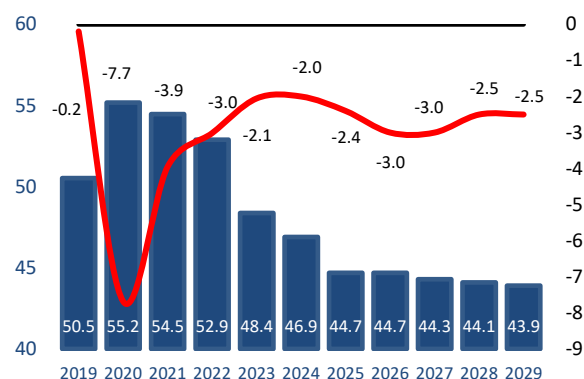
Description	Execution	Estimate	Projections		
	2025	2026	2027	2028	2029
Public revenues	40.9	40.9	40.2	39.9	39.7
Public expenditures	43.4	43.9	43.2	42.4	42.2
Consolidated fiscal result	-2.4	-3.0	-3.0	-2.5	-2.5
Primary consolidated result	-0.8	-1.2	-1.2	-0.7	-0.7
General government debt	44.7	44.7	44.3	44.1	43.9
Real GDP growth rate	2.0%	3.0%	4.5%	3.5%	3.7%

Source: Ministry of Finance

At the same time, fiscal policy remains focused on preserving the medium-term sustainability of public finances and maintaining strict control over public debt. The consolidated fiscal deficit is planned at 3% of GDP in 2026 and 2027, and at 2.5% of GDP in 2028 and 2029. The planned deficit path is consistent with the applicable fiscal rules, given that general government debt remains stable below the level of 45% of GDP. At the same time, the planned deficit in the outer years of the projection period remains below the threshold set by the fiscal rule, thereby providing additional fiscal space and a buffer against potential risks and unforeseen developments arising from both the international and domestic environment.

In addition to the deficit level, the dynamics of public debt over the coming period will be significantly influenced by financing conditions on international financial markets, movements in global interest rates, geopolitical tensions, and uncertainties regarding economic growth among Serbia’s main trading partners. In this context, public debt management will continue to be based on the principles of prudence, diversification of funding sources, a favourable currency and maturity structure of debt, and the limitation of refinancing and interest rate risks.

General government fiscal result and public debt, % GDP



The fiscal impulse in the coming period will be primarily directed towards the implementation of priority public investment projects, alongside further improvements in the public investment management system in order to ensure higher impacts on economic growth, productivity, and the long-term competitiveness of the economy. A high level of capital expenditure remains compatible with a gradual reduction in the share of

public debt in GDP, supported by sustained economic growth, stable public revenues, and a controlled level of the fiscal deficit.

On the revenue side, priorities will continue to include a gradual reduction in the tax burden on labour, strengthening the efficiency of tax administration, curbing the informal economy, and combating tax evasion. At the same time, tax policy will remain oriented towards continued harmonisation with European Union standards and directives, while preserving the competitiveness of the economy and the stability of budget revenues.

Projections of public revenues for the period 2027–2029 are based on:

- projections of key macroeconomic indicators, including GDP and its components, inflation, exchange rate, foreign trade flows, employment, and wages;
- applicable and planned changes in tax policy; and
- estimated effects of fiscal and structural measures over the medium term.

Table 11 Total Revenues and Grants, 2025–2029 (% of GDP)

Description	Execution	Estimate	Projections		
	2025	2026	2027	2028	2029
PUBLIC REVENUES	40.9	40.9	40.2	39.9	39.7
Current revenues	40.8	40.6	39.9	39.6	39.4
Tax revenues	36.4	36.4	36.1	36.0	35.9
Personal income tax	4.3	4.2	4.3	4.3	4.3
Corporate income tax	2.8	2.7	2.6	2.6	2.5
VAT	9.6	9.8	9.7	9.6	9.6
Excises	4.2	3.9	3.9	3.8	3.6
Customs	0.9	0.9	0.8	0.8	0.8
Other tax revenues	1.2	1.2	1.1	1.1	1.1
Social contributions	13.4	13.8	13.7	13.8	13.9
Non-tax revenues	4.4	4.2	3.8	3.7	3.5
Grants	0.1	0.3	0.3	0.3	0.3

Source: Ministry of Finance

The economic environment, both external and domestic, remains characterized by an elevated degree of uncertainty and a range of risks. In addition to macroeconomic developments, economic activity and fiscal aggregates may also be significantly affected by sector-specific and structural factors, including uncertainties regarding the supply of oil and natural gas, export conditions for certain industrial

products on the European Union market, as well as changes in the regulatory and logistical framework governing transport and foreign trade operations.

A particular challenge in the coming period will be the gradual implementation of the Carbon Border Adjustment Mechanism (CBAM), which may affect the cost competitiveness and export performance of

certain export-oriented sectors, primarily in metallurgy, cement production, and energy-intensive industries.⁴ At the same time, additional risks relate to the tightening of administrative and transport procedures at border crossings with European Union Member States, which may lead to higher transport costs, longer waiting times for goods, and disruptions in regional and European supply chains.

These factors may have pronounced direct and indirect effects on domestic economic activity, foreign trade flows, and certain fiscal revenues. In light of such an environment, fiscal projections are prepared on conservative assumptions, with a greater emphasis on potential downside risks and less favourable developments in the international environment. Revenues from carbon taxation are not included in the projections presented in this document.

The slightly declining trend in total public revenues over the projection period, measured as a share of GDP, is consistent with the projected structure of medium-term economic growth. The projection of tax revenues is based on the assumption of maintaining the current level of tax collection efficiency and continuing efforts to strengthen the effectiveness of the tax system.

The most important component of personal income tax is the tax on wages; therefore, movements in the wage bill and employment are key determinants of its dynamics. Given the projections of these components, a slight increase in the share of wage tax in GDP is expected. Other forms of personal income tax, including taxes on dividends, interest income, and the annual personal income tax, are expected to broadly follow the overall dynamics of economic activity. Taken together, a relatively stable share of total personal income tax in GDP is expected throughout the projection period.

In 2026, the non-taxable threshold was increased by 20.4% as part of the policy of gradually reducing the tax burden on labour. The estimated fiscal effect of this measure amounts to RSD 24.5 billion, of which RSD 17 billion relates to lower wage tax revenues, while the remaining RSD 7.5 billion relates to lower social security contributions. This significant increase

in the non-taxable threshold temporarily reduced personal income tax revenues in 2026, after which a gradual stabilisation at a somewhat higher level is expected in the medium term.

The trajectory of social security contributions as a share of GDP follows a similar pattern to wage taxation, given that identical assumptions regarding wages and employment were applied in the projections. Due to the expected faster growth of the wage bill relative to nominal GDP, a gradual increase in the share of social security contributions in GDP is projected. At the same time, the high level of contribution collection in the current year is partly the result of one-off effects related to tax incentive payments, while the impact of the increased non-taxable threshold on contribution revenues is significantly smaller than in the case of wage tax.

Corporate income tax revenues over the 2027–2029 period will primarily depend on economic growth dynamics and corporate profitability. The projection of these revenues remains relatively uncertain, due both to macroeconomic factors and to the possibility of the use of tax credits and refunds, as well as differences between accounting and tax balances. Over the medium term, a broadly stable level of corporate income tax collection is expected in line with nominal GDP growth.

The main determinant of value-added tax (VAT) revenues is domestic demand, primarily through developments in household disposable income. Disposable income, as the most important consumption driver, depends on wages, pensions, social transfers, and other income sources, including remittances from abroad, as well as on the dynamics of bank lending to households. Risks to the VAT projection, in addition to uncertainties in the international economic environment, also relate to wage developments in the private sector, overall economic activity, the level of the informal economy, and the effectiveness of measures aimed at its reduction.

In 2025, VAT collection was slightly below projections despite favourable developments in household disposable income, while in 2026 collection has moderately exceeded expectations.]

⁴ The preliminary assessment of the effects of the implementation of this mechanism on the economy is presented in Annex 5.

Potential positive effects of informal economy reduction are not explicitly incorporated into the medium-term revenue projections. Room for further improvements in this area is expected through continued strengthening of institutional capacity and modernisation of tax administration.

The projection of excise revenues is based on current excise policy and projected consumption of excisable goods. For prudence reasons, no significant increase in petroleum product consumption is assumed in the coming period. For tobacco products, a gradual decline in market size is assumed, in line with observed trends.

Excise revenues on alcoholic beverages, coffee, and electricity are projected in line with the existing consumption structure and current excise policy. At the same time, as of 2026, an excise duty on compressed natural gas used as motor fuel has been introduced.

The slightly declining share of excise revenues in GDP over the medium term is a result of the fact that inflation, as one of the key drivers of excise burden growth, is expected to grow more slowly than nominal GDP under conditions of projected real economic growth. An exception is 2027, when excise revenues are expected to remain at the 2026 level as a share of GDP, due to the temporarily reduced excise burden on petroleum products.

Customs revenues are expected to stabilise at around 0.8% of GDP over the medium term and are projected in line with expected import dynamics, exchange rate movements, and domestic consumption.

Within other tax revenues, the most significant component is property tax, accounting for approximately 70% of this category. Nominal growth of this revenue is expected primarily due to the expansion of the tax base. A potential increase in collection efficiency through broader coverage of taxable real estate is not explicitly included in the medium-term projections and represents a positive risk to revenue outturn.

In addition to property tax, other tax revenues include taxes on the use, possession, and carrying of goods, as well as other forms of local taxes. Their projection is primarily based on expected inflation

dynamics, given that an inflation component is embedded in a significant share of these taxes.

The high level of non-tax revenues in 2025 is primarily the result of extraordinary inflows. In 2026, a lower level of these revenues is expected, while no significant one-off inflows are anticipated in subsequent years. As a result, the share of non-tax revenues in GDP is expected to gradually decline, reaching approximately 3.5% of GDP by 2029.

Extraordinary non-tax revenues are, by their nature, mostly one-off and relatively uncertain in terms of both size and timing. The largest share of these revenues relates to extraordinary profit transfers from public enterprises and agencies, dividends, revenues from the collection of claims by the Deposit Insurance Agency, issuance premiums, and other similar receipts.

In 2025 and 2026, a significant extraordinary inflow was generated through the auction of 5G network licences, amounting to approximately RSD 18 billion annually.

Regular non-tax revenues include various fees, charges, fines, revenues of public authorities and institutions, and other revenues collected on a continuous basis throughout the year. The majority of these revenues are indexed to inflation from the previous year or follow the movement of their underlying base, which means that their projections are largely adjusted in line with expected inflation.

As part of the process of Serbia's accession to the European Union, available funds from IPA and IPARD programmes are increasing and constitute the largest share of grant revenues. Projected grant inflows also include EU sectoral budget support. Grant revenues do not affect the fiscal balance, as they are matched by corresponding expenditures financed from the same sources.

Responsible fiscal policy, combined with favourable macroeconomic developments in the previous period, has created space for a gradual relaxation of wage and pension policies, as well as for a significant increase in capital investment, which represents one of the key drivers of economic growth and development. At the same time, particular attention has been devoted to improving the efficiency of planning and implementation of public capital

investments. The social component of the budget has been strengthened through better targeting of social protection programmes and increased allocations to the health and education sectors.

Wages and pensions together account for more than 45% of total general government expenditure,

making their sustainable and controlled trajectory of key importance for preserving fiscal stability and long-term public finance sustainability.

Table 12 Total Expenditures, 2025–2029 (% of GDP)

Description	Execution	Estimate	Projection		
	2025	2026	2027	2028	2029
PUBLIC EXPENDITURE	43.4	43.9	43.2	42.4	42.2
Current expenditure	36.0	37.1	36.6	36.1	35.9
Expenditures for employees	9.9	10.2	10.2	10.2	10.2
Purchase of goods and services	7.2	7.6	7.5	7.4	7.3
Interest payments	1.8	1.9	1.9	1.8	1.8
Subsidies	2.5	2.2	2.1	2.0	2.0
Social assistance and transfers	13.3	13.9	13.8	13.6	13.5
<i>of which: pensions</i>	<i>10.1</i>	<i>10.6</i>	<i>10.5</i>	<i>10.3</i>	<i>10.3</i>
Other current expenditures	1.2	1.3	1.1	1.0	1.0
Capital expenditures	6.9	6.5	6.4	6.1	6.1
Net lending	0.2	0.1	0.1	0.1	0.1
Activated guarantees	0.2	0.2	0.2	0.2	0.2

Source: Ministry of Finance

The fiscal space for wage growth in the medium term will increase moderately and in a controlled manner, while maintaining the sustainability of the share of compensation of employees in GDP. The increase in these expenditures in 2026 is primarily a result of the expanded coverage of the general government sector, as well as the previously implemented wage increases in the education and healthcare sectors during 2025.

Article 27e of the Budget System Law prescribes a ceiling on compensation of employees at the general government level of 10% of GDP. Wage adjustments in institutions included in the general government sector are constrained by this share of expenditure in GDP. At the same time, the prescribed limit is adjusted upward in the event of an expansion of general government coverage, i.e. the inclusion of new entities, and downward in the event of their exclusion.⁵

Given that in 2023 the general government framework was expanded to include own-source

revenues and expenditures of healthcare institutions and secondary schools, with the estimated level of compensation of employees under this adjustment amounting to around 0.2% of GDP, the maximum ceiling on compensation of employees was revised upward to 10.2% of GDP.

During 2024, the coverage of the general government sector was further expanded through the inclusion of certain extra-budgetary beneficiaries, including public agencies, institutes, and other entities, resulting in an increase of the wage expenditure ceiling to 10.4% of GDP, as wage expenditures in these institutions amount to approximately 0.2% of GDP. The inclusion of own-source revenues and expenditures of primary schools in the general government perimeter in 2025 further increased the ceiling to 10.5% of GDP. At the same time, in 2026, higher education institutions were also included in the fiscal framework, raising the compensation of employees ceiling to 10.6% of GDP.

⁵ New entities may be included in or excluded from the general government sector coverage in accordance with the statistical criteria and international standards governing their classification.

The inclusion of expenditures financed from own-source revenues of indirect budget beneficiaries also affected the increase in spending on goods and services. It is estimated that the inclusion of new entities increased this expenditure category by around 0.2% of GDP in 2025, while the additional effect of incorporating the remaining indirect beneficiaries in 2026 is estimated at around 0.1% of GDP. Over the medium term, a gradual decline in the share of goods and services expenditure in GDP is expected.

Social assistance and transfers to households represent the largest expenditure category of the general government sector. The most significant single item within this category is pensions, which also constitute the largest individual expenditure item in the overall budget. Pension dynamics largely determine the overall trajectory of social protection and household transfer expenditures as a share of GDP.

In 2024, pensions were indexed in line with wage growth, while in 2025 the so-called Swiss indexation formula was applied. In 2026, pension indexation is projected to follow average wage growth of 12.2%, while in 2027 further indexation under the Swiss formula is expected. Other forms of social benefits and transfers will, over the medium term, follow established indexation mechanisms, planned policy changes in the area of social protection, and projected beneficiary numbers.

During 2024 and 2025, a temporary increase in subsidies was recorded as a share of GDP, primarily due to higher allocations to agriculture, energy, and transport infrastructure. Over the medium term, a gradual reduction is projected, with subsidies expected to reach approximately 2% of GDP by the end of 2029.

The category of other current expenditure includes various outlays such as grants to associations, political parties, religious and sports organisations, fines, compensation payments, and other expenses. The elevated level of this expenditure category in 2026 is primarily the result of a significant one-off payment related to tax incentives, while a mild downward trajectory is expected in the subsequent period.

Despite challenges arising from the pandemic and the energy crisis, the efficiency of public investment implementation has significantly improved in recent years. Over the medium term, a further increase in public infrastructure investment is envisaged, driven by the hosting of the EXPO 2027 international exhibition in Belgrade and the implementation of the “Leap into the Future – Serbia 2027” programme.

The largest investment cycle will be directed towards the development of road, rail, utility, and water infrastructure, while, in addition to transport projects, significant funding will also be allocated to capital investments in healthcare, energy, environmental protection, education, culture, defence, and other priority areas. After 2027, a lower but stable level of capital expenditure is expected.

The strategic orientation of fiscal policy in the medium term remains focused on further increasing infrastructure investment at all levels of government. At the local level, priority will be given to projects related to water supply and sewage networks, waste management, and the improvement of local road infrastructure, thereby contributing to more balanced regional development and improved living standards.

Within the medium-term fiscal framework, local self-government units are expected to collectively maintain a broadly balanced budget through to 2029. In previous years, local governments have generally recorded a consolidated surplus, primarily due to debt reduction processes and a relatively low level of capital expenditure in certain periods. At the same time, individual municipalities and cities may record deficits in line with their own fiscal positions, in compliance with applicable fiscal rules.

The level of budget lending and repayments under guaranteed debt is projected to remain low and stable throughout the projection period at around 0.3% of GDP.

Comparison with the previous programme

The medium-term fiscal framework maintains a high degree of continuity with the framework set out in the Revised Fiscal Strategy for the period 2026–2028. Changes in projected revenues, expenditures, fiscal deficit, and public debt in individual years are limited in scope and primarily reflect updated

macroeconomic assumptions, changes in the international environment, the dynamics of investment project implementation, and the effects of specific economic policy measures.

In line with the agreed framework under the arrangement with the International Monetary Fund, the temporary suspension of the fiscal deficit rule expires in 2029. At the same time, projected deficit levels throughout the medium-term period remain fully consistent with the applicable fiscal rule, given that general government debt remains stable below the threshold of 45% of GDP, while the maximum permitted deficit is defined at 3% of GDP.

Furthermore, projected deficits in 2028 and 2029 are significantly below the prescribed limit, thereby providing additional fiscal space and a buffer for responding to adverse macroeconomic developments, external shocks, or increased uncertainty in the international environment. This approach simultaneously supports the preservation of a declining public debt trajectory, strengthens the resilience of public finances, and maintains medium-term fiscal sustainability, while continuing to support investment and economic growth.

Table 13 Comparison of Fiscal Indicators under Two Programmes (% of GDP)

	2025	2026	2027	2028	2029
Fiscal Strategy for 2026 – 2028					
Revenues	40.9	40.9	40.1	40.0	-
Expenditures	43.9	43.9	43.1	42.5	-
Fiscal result	-3.0	-3.0	-3.0	-2.5	-
General Government debt	45.0	44.5	44.3	44.1	-
Revised Fiscal Strategy for 2027 – 2029					
Revenues	40.9	40.9	40.2	39.9	39.7
Expenditures	43.4	43.9	43.2	42.4	42.2
Fiscal result	-2.4	-3.0	-3.0	-2.5	-2.5
General Government debt	44.7	44.7	44.3	44.1	43.9
Difference					
Revenues	0.0	0.0	0.1	-0.1	-
Expenditures	-0.5	0.0	0.1	-0.1	-
Fiscal result	0.6	0.0	0.0	0.0	-
General Government debt	-0.3	0.2	0.0	0.0	-

Alternative Fiscal Scenario for the Period 2026–2029

The alternative macroeconomic scenario is based on the assumption of a slower pace of economic growth compared to the baseline scenario, with GDP growth rates in the period 2027–2029 projected at 3.7%, 3.4%, and 4.0%, respectively. Less favourable macroeconomic developments would also affect fiscal trends, primarily through weaker growth in budget revenues and a slower decline in the public debt-to-GDP ratio. The dynamics of the fiscal deficit and public debt of the general government sector under this scenario are presented in the accompanying chart.

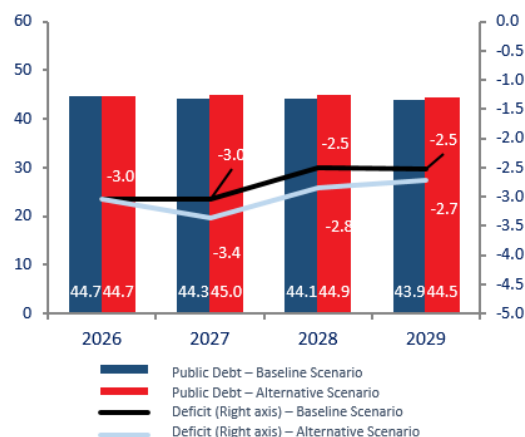
Slower economic activity would have a negative impact on the performance of fiscal aggregates, primarily on

the revenue side of the budget. The most pronounced effects would be observed in revenues from personal income tax and social security contributions, as well as in consumption taxes, due to weaker growth in household consumption and labour market activity.

Under such circumstances, both the budget deficit and public debt would be higher compared to the baseline scenario. According to simulation results, by the end of the projection period the public debt-to-GDP ratio would be approximately at the level recorded in 2025, thereby slowing the planned downward trajectory of public debt. The underlying assumption of this scenario is that wage and pension policies remain unchanged relative to the baseline. However, given the need to preserve medium-term fiscal objectives and comply

with fiscal rules, in conditions of slower economic growth it would be necessary to adjust economic policy—either on the revenue or expenditure side—in order to bring the fiscal balance back within the limits prescribed by fiscal rules.

Baseline and Alternative Fiscal Scenarios for the Period 2026–2029



Structural measures for improving the stability and sustainability of public finances

Macroeconomic stability and acceleration of structural reforms

The Republic of Serbia signed a new arrangement with the IMF on 9 December 2024 – the **Policy Coordination Instrument (PCI)**, a non-financing arrangement, with a duration of three years. The agreed programme aims to preserve macroeconomic and financial stability, continue the implementation of public investments while maintaining fiscal discipline and further reducing the share of public debt in GDP, as well as to foster inclusive and sustainable medium-term growth through the implementation of an ambitious structural reform programme. Particular emphasis is placed on strengthening the resilience of the energy sector and creating conditions for the realisation of significant investments in this area. In this context, the Republic of Serbia expresses its commitment to completing the third review under the PCI arrangement, thereby confirming continuity in the implementation of the agreed programme and reform agenda.

When taking the decision to approve the three-year Policy Coordination Instrument, the IMF positively assessed the successful implementation of measures

under the previous Stand-By Arrangement, which contributed to the achievement of exceptional macroeconomic results of the Republic of Serbia. It was assessed that responsible fiscal policy, maintained monetary stability, and significant progress in implementing key structural reforms represent evidence of the strong commitment of the Republic of Serbia to sustainable economic development. Despite challenging global and domestic circumstances, the fiscal deficit and public debt were reduced, while inflation was brought back within the bounds of the allowed deviation from the target range of the National Bank of Serbia. At the same time, economic growth was achieved, labour market stability was preserved, and record levels of foreign exchange reserves were reached. The financial position of the state energy sector was significantly strengthened, while visible progress in reforms was made in the area of public investment management and public enterprises. The financial system was also assessed as stable, which, together with the achieved economic results, contributed to the Republic of Serbia receiving an investment credit rating for the first time in October 2024 from S&P Global Ratings.

Fiscal rules were amended by the Law on Amendments to the Budget System Law in December 2022. The targeted fiscal deficits set out in this document are in line with the defined fiscal rules. This is particularly important to emphasize due to the ongoing implementation of the investment cycle (the programme “Leap into the Future – Serbia 2027”), which includes significant new investments in transport infrastructure, energy, agriculture, healthcare, education, culture, environmental protection, regional development, security, etc. The programme implements a comprehensive modernisation of the state and increases the living standards of citizens, thereby contributing to GDP growth. The medium-term plan foresees that general government deficits will amount to 3% of GDP annually in the period 2026–2027, and 2.5% of GDP in the period 2028–2029, which ensures that the general government debt remains on a downward path (from 44.7% of GDP projected at the end of this year to around 43.9% of GDP at the end of 2029) and well below the 60% of GDP threshold (including restitution obligations) defined by the fiscal rule. Special fiscal rules governing wage growth in the public sector and

pensions have been in force since 2023, and accordingly, increases in wages and pensions in the medium term are planned in line with these rules. Given that fiscal rules apply to the general government sector, it was necessary to regulate the procedure and dynamics of including new entities within the scope of the general government, in accordance with a special sector classification methodology established by the Statistical Office of the Republic of Serbia, pursuant to an agreement between the Statistical Office, the National Bank of Serbia, and the Ministry of Finance. Furthermore, fiscal rules for local governments continue to be applied 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** has been completed and published. The analysis shows that the existing pension indexation rule ensures the long-term sustainability of the system up to 2070, with pension expenditures projected at around 10% of GDP. The results of the analysis indicate that Serbia, like most European countries, will face a pronounced process of demographic ageing in the coming period, reflected in a decline in the working-age population and an increase in the share of the elderly population. Such demographic trends lead to a deterioration in the ratio between the number of insured persons and pensioners. Nevertheless, the existing institutional framework, in particular the application of the extended Swiss formula with an embedded automatic stabiliser, ensures the long-term financial sustainability of the pension system. Projections indicate that pension expenditures in the medium and long term will remain stable at around 10% of GDP, while contributions will continue to cover the dominant share of total system expenditures. At the same time, a moderate decline in the ratio between average pensions and average wages is expected, but with continued real growth in pensions throughout the entire projection period. In the medium term, pressures for further reductions in the pension-to-wage ratio will be limited due to expected favourable labour market developments, more favourable migration trends, and the fact that the generation of

the so-called “baby boom” period has largely already entered the retirement process.

In the coming period, it is planned to expand the analysis to include an assessment of long-term healthcare financing needs. The new Budget System Law, which is currently being drafted, provides that the Ministry of Finance and the Fiscal Council shall prepare and publish long-term studies on the sustainability of the pension system, as well as on the impact of the pension system on the long-term sustainability of public finances, every five years.

Human resource management in the public sector

In the coming period, continued reforms are expected in the area of employment, human resources management, and the wage system in the general government sector. The medium-term fiscal policy objective is to keep employee compensation expenditures at a sustainable level, with an adequate staffing structure, in order to ensure higher quality of public services. The existing employment system, managed by the Government Commission for granting approval for new employment and additional engagement of public funds beneficiaries, will continue to function in a transitional period, i.e. until the new system becomes fully operational. At the end of 2020, amendments to the Budget System Law were adopted to enable, during the transitional period (until the end of 2026), institutions to hire new staff up to 70% of those who leave the institution or retire, while Commission approval is required if the number of new hires exceeds 70%. The purpose of this measure is to ensure greater flexibility in hiring at the level of individual institutions, in line with their staffing needs. **The phased implementation of the central electronic register of employees and salaries in the public sector – ISKRA** – is in an advanced stage and contributes to strengthening the planning, execution, and oversight of employee-related expenditures. The system currently covers direct and indirect budget beneficiaries of the Republic, including the judiciary, culture sector, social protection, education (excluding higher education), healthcare, as well as local self-government units, including preschool institutions and cultural and social protection institutions. Remaining segments of the public sector, including employees in the Ministry

of Defence, the Ministry of Interior, the Security Information Agency, and the higher education system, will be included in the system by 2029.

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

Energy reform and green transition

The Republic of Serbia is implementing comprehensive measures aimed at strengthening the resilience and sustainability of the energy sector in conditions of increased global instability in the energy markets. External factors, including geopolitical disruptions and changes in global supply chains, further highlight the importance of diversifying energy sources, strengthening energy security, and improving fiscal and external sustainability. A key priority remains the continuation of structural reforms in the energy sector, including improvements in efficiency, corporate governance, and the financial sustainability of public energy companies, while reducing fiscal risks and limiting reliance on budget support. Within the social dimension of energy policy, targeted measures for protecting energy-vulnerable consumers continue to be implemented, thereby ensuring the social acceptability of the energy transition.

Public energy enterprises and risk management. The implementation of restructuring programmes for key public energy companies continues, with the aim of improving operational efficiency, corporate governance, internal controls, and financial planning. Special focus is placed on strengthening transparency in operations and improving regular financial reporting. Measures are being taken to further strengthen the functionality of governing and supervisory bodies in public enterprises, including improvements in the regulatory framework

governing the work and remuneration of management bodies, in order to enhance corporate governance and accountability. The regular publication of financial reports of key energy companies, including Elektroprivreda Srbije a.d. and JP "Srbijagas", continues, further enhancing sector transparency.

Unpaid receivables and financial discipline. Elektroprivreda Srbije a.d. and JP "Srbijagas" continue regular monthly reporting on the largest debtors, both in terms of the total level of receivables and their dynamics. Unpaid receivables represent a significant risk to the financial stability of the energy sector, which is why additional measures to improve collection are being considered, including analytical support and expert assistance in identifying systemic causes.

Investments in the energy sector. The priority remains the selection and implementation of the most economically efficient and financially sustainable investment projects in the areas of generation, transmission, and distribution of energy, in order to preserve the long-term stability of public enterprises and limit fiscal risks. At the same time, efforts continue to improve conditions for private investment in the energy sector, including projects in the field of renewable energy sources, with a focus on simplifying administrative procedures for permitting.

Energy supply and diversification. The Republic of Serbia remains committed to ensuring a stable and reliable supply of energy products, based on existing contractual arrangements, storage capacities, diversification of supply sources, and strengthening regional infrastructure connectivity through the development of gas, oil, and electricity interconnections. The Republic of Serbia is undertaking activities aimed at addressing issues related to sanctions imposed on Naftna Industrija Srbije (NIS). The continuous operation of the refinery in Pančevo is of key importance for the macroeconomic stability of the country. The Republic of Serbia is monitoring ongoing negotiations between existing NIS shareholders and potential investors. In the event that these processes do not result in an appropriate solution, necessary institutional and legal measures will be considered to ensure the continuity of energy supply and market stability.

Strategic framework and green transition. Key strategic documents have been adopted defining the long-term development of the energy sector, based on an integrated approach to decarbonisation, energy efficiency, security of supply, market development, and innovation. These documents provide the basis for an accelerated energy transition, an increased share of clean energy sources, and overall improvements in energy and environmental sustainability. Serbia expects that the European Union will provide additional financial support in a spirit of solidarity for the gradual decarbonisation of the Republic of Serbia, in line with the Paris Agreement, its status under the Stabilisation and Association Agreement, and the Energy Community Treaty.

Preparation for CBAM and the tax framework for decarbonisation. In order to prepare for the implementation of the European Union Carbon Border Adjustment Mechanism (CBAM), the Law on the Tax on Greenhouse Gas Emissions and the Law on the Tax on Imports of Carbon-Intensive Products have been adopted. This framework introduces a domestic carbon tax, as well as an import tax in the amount of 4 euros per ton of emissions above the technological minimum, with application starting on 1 January 2026 and collection beginning in 2027. In order to encourage investment in emissions reduction, companies in the electricity generation sector are granted a tax credit of up to 20% of the value of eligible investments, with a cap of up to 80% of the carbon tax liability, which may be used to reduce tax obligations. Taxpayers under the emissions tax may also benefit from incentives granted from the budget of the Republic of Serbia for financing climate and energy transformation.

Emergency preparedness plans. The energy reserve system ensures a high level of energy security, with further plans to strengthen it in line with available capacities and market conditions. Existing levels of oil and gas reserves ensure continuity of supply in the short term, with further activities aimed at increasing the system's resilience to potential disruptions.

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 State Ownership and Management Strategy for Companies Owned by the Republic of Serbia for the period 2021–2027 as a single act providing a strategic vision and guidance regarding ownership management objectives, financial and public policy objectives, as well as principles of corporate governance and oversight in line with international standards and best practice. In April 2024, 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** and carefully managing contingent liabilities. No new guarantees are planned for liquidity support to public enterprises, nor for enterprises that were formerly under the jurisdiction of the Privatisation Agency. The Government will not provide public support to projects that do not meet the conditions for issuing state guarantees, which could be interpreted as implicit state guarantees. Guarantees will continue to be issued exclusively for project loans from domestic and international banks, as well as multilateral financial institutions, which support the investment and reform agenda of the Republic of Serbia.

For companies that are part of the strategic portfolio of former Privatisation Agency enterprises, solutions are to be found either through privatisation tenders or through bankruptcy proceedings. Sufficient funds have been provided in the budget to support PEU "Resavica" in a transparent manner, and it has been ensured that there will be no further accumulation of arrears in payments to Elektroprivreda Srbije a.d. in the future, while the company itself faces the challenge of finding solutions for economically unsustainable mines with depleted remaining coal reserves, as well as a plan for rationalisation of production and operations in parts of the system where analysis shows they can be economically viable, with the possibility of privatising some of its parts. If privatisation is not feasible, 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 financial management is necessary not only as support for fiscal stabilisation measures and structural reforms, but also as a process that enhances the quality of public administration and ensures an attractive environment for investors.

The Public Financial Management Reform Programme for the period 2026–2030 has been adopted, together with the accompanying Action Plan for the period 2026–2028. The Programme is based on the findings of the World Bank PEFA assessment, as well as the SIGMA assessment conducted in 2024.

The Action Plan for improving the medium-term budget framework (MTBF) for the period 2023–2025 has been implemented. In line with this plan, in May 2025 a methodology for determining the baseline budget scenario was adopted and applied in the budget cycle for 2026 in order to assess fiscal space in the years covered by the medium-term budget framework. In the coming period, further improvements of the methodology will continue in order to enable budget users to more consistently distinguish between baseline expenditures and new policy measures. Starting from the 2026 budget, a reconciliation table is being prepared to provide a clearer presentation of changes in budget 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 a “green budget” was published for the first time. Next steps include the integration of a “green annex” into the SPIRI system, the application of green tagging in the budgets of local self-government units, as well as additional training of budget users to more precisely identify projects considered relevant to climate objectives. Based on the recommendations from the IMF Fiscal Transparency Evaluation (FTE) from February 2025, the presentation of the medium-term budget framework in the budget documentation has been improved to include realised revenues, expenditures, and financing for the previous two years, as well as projections for the next two years.

The System for Preparation, Execution, Accounting and Reporting – SPIRI is an information system that uniformly supports all activities of the Ministry of

Finance and the Treasury Administration related to the budget of the Republic of Serbia, thereby simplifying the way users operate and enabling a more efficient approach to managing the public finance system. Since 2026, budget execution for all indirect budget beneficiaries has been carried out through the SPIRI system, and a register of assumed obligations has been established which will be regularly updated, including data on capital projects. In the coming period, possibilities will be analysed for strengthening the system of prior approval before the assumption of obligations, including linking assumed obligations with verified invoices through unique approval identification numbers, as well as improving reporting that would enable an integrated overview of assumed obligations, due obligations, and payment arrears, thereby supporting timely monitoring and reducing the risk of arrears accumulation.

In the area of **tax expenditures**, the Republic of Serbia uses IMF technical assistance, and during 2026 it is planned to complete and publish the first tax expenditure report, by the end of July 2026. The report will serve as a basis for future activities aimed at rationalising tax expenditures. Also, within the planned amendments to the Budget System Law, it is envisaged that the tax expenditure report will become a regular annual publication.

It is also planned to establish regular quarterly publication of fiscal data of local self-government units by municipality, annual data on fees for the exploitation of mineral resources, and annual key project and financial data on public–private partnership projects.

Amendments to the Budget System Law have further clarified certain provisions related to the budget reserve. The budget portal for electronic citizen participation in the budget process became operational in the second half of 2025.

In order to strengthen fiscal oversight and fiscal risk management, the adoption of amendments to the Law on Public–Private Partnerships is planned, which will prescribe the obligation that all public sector entities, in order to initiate PPP projects with a value exceeding 50 million euros, must first obtain approval from the Ministry of Finance.

In order to improve the **public investment management system**, and having in particular in mind the development plan “Leap into the Future 2027”, which includes capital projects in the area of transport infrastructure, EXPO 2027, and the construction of utility infrastructure, in the total amount of around 14.6 billion euros, the Ministry of Finance continued during 2025 the implementation of the established legal framework with the aim of ensuring continuity in the implementation of the project cycle and improving effective and efficient management of public funds. The existing legal framework continues to provide prerequisites for the proper selection of capital projects, thereby enabling only ready-to-implement capital projects to be included in the budget projection, which contributes to better planning and more efficient use of budget resources. In accordance with the Decree on Capital Projects, the Ministry of Finance has in the previous period adopted five bylaws further regulating its implementation, which has significantly facilitated the implementation of the project cycle for all participants. The said decree defines criteria for the classification and categorisation of capital projects, taking into account estimated implementation costs, sources of financing, and the level of government implementing the project, with the aim that all capital projects that may have significant fiscal implications at the republican, provincial, or local level are uniformly proposed, assessed, selected, and monitored. In order to establish a comprehensive and unified public investment management system, the Decree also prescribes the obligation to record and monitor capital projects of special importance for the Republic of Serbia, as well as projects implemented through public-private partnerships or concessions. It also establishes that the Capital Investment Commission and the Sub-Commission are working bodies of the Government of the Republic of Serbia. In this context, acts on their establishment have been adopted, as well as the Rules of Procedure of the Capital Investment Commission regulating the mode of work and decision-making of both bodies, thereby creating conditions for their smooth functioning. At the same time, a unified list of project ideas proposed for financing from the Western Balkans Investment Framework has been adopted. During 2024 and 2025, continuous work has been carried out on reviewing and adopting lists of capital projects in different

phases of the project cycle, including projects in preparation, prepared projects, and project ideas, as well as adopting decisions regarding their adjustments and indicative ranking of projects planned for financing from the Reform and Growth Instrument under the Western Balkans Investment Framework 2024–2027. A total of 22 capital projects in different stages of development have been covered. In line with the conclusions of the Strategic Policy Dialogue on Public Administration Reform from October 2024 with the European Commission, the Ministry of Finance has committed to adopt, by December 2026 and in consultation with the European Commission, a Policy Document and an accompanying time-bound Action Plan for improving public investment management, as well as to establish by the end of 2027, in accordance with best international practices, an improved legal framework ensuring a unified, comprehensive, and transparent system for prioritisation of all public investments, regardless of type and source of financing. During 2025, a Policy Document in the area of public investment management was prepared in accordance with the obligations under the Strategic Policy Dialogue. Following public consultations conducted in accordance with the Law on the Planning System, the document was submitted to the European Commission. A policy concept (initial basis for the preparation of a roadmap in the area of public investments) was also prepared, as well as a report on the conducted consultations, thereby laying the foundations for the preparation of an action plan, i.e. roadmap. At the beginning of 2026, the first version of the Roadmap in the area of public investments was prepared and submitted to the European Commission, defining concrete activities and the timeline for establishing a transparent and efficient public investment management system, as well as further improvement of the legal and institutional framework. Following comments from the European Commission, public consultations are planned, and submission of the document together with the “Initial Basis for the Preparation of the Roadmap in the Area of Public Investments” to the Government of the Republic of Serbia for adoption. Improvement of the legal framework for public investment management is defined as one of the key priorities for 2026, particularly in the area of improving the system for prioritisation of capital projects. In parallel, the

Centralised Capital Project Database (Public Investment Management Information System – PIMIS) is being upgraded and adapted to the new legal framework. The new information system enables comprehensive and transparent implementation of the project cycle defined by the Decree on Capital Projects, with improved speed and efficiency of processes, simpler access, reduced data entry errors, and full electronic submission of documentation in all phases of the project cycle.

Public procurement management reforms represent one of the key areas, given their importance and high value. The applicable Law on Public Procurement, prepared with EU support, is aligned with the EU acquis and aims to improve competitiveness and transparency in procedures. The Public Procurement Office will continue to report annually on all public procurement, including the volume of procurement exempted from the application of standard procedures in accordance with the Law on Public Procurement. In March 2026, the annual publication of data on the value of procurement conducted under special laws was initiated, in line with the format applied for other exempted procurement in the Annual Public Procurement Report. It is also necessary to ensure that all procurement transactions in the public sector are conducted via the e-Procurement portal, with efforts to create conditions for increasing the number of bids per procedure. In this regard, work is ongoing to improve the functionality of the Public Procurement Portal in order to facilitate the implementation of the provisions of the Law on Public Procurement. Training is also being conducted for public procurement officers, as well as for police officers regarding the monitoring of public procurement and the most common irregularities in this area.

The transformation of the Tax Administration is being successfully implemented, with the aim of creating a modern tax administration which, through the use of modern electronic processes, will provide better and more comprehensive services to taxpayers, as well as improved control and revenue collection, and will strengthen the fight against the grey economy, together with the reform and modernisation of inspection supervision. Addressing staffing challenges in the Tax Administration represents an urgent and macroeconomically

significant priority. The Tax Administration is facing a wave of retirements, alongside the need to align the knowledge and skills of employees and business processes with the ongoing implementation of a recently procured commercial IT system. In the coming period, the implementation of a comprehensive strategy will continue in order to overcome these challenges. Since the end of 2024, the Tax Administration has conducted nine recruitment cycles and filled 433 positions. Several selection procedures are still ongoing, and additional hiring is expected upon their completion. The Law on the Tax Procedure and Tax Administration has been amended to enable the Tax Administration to carry out controls and deliver acts to taxpayers outside their place of residence, thereby creating conditions for consolidating the operations of the Tax Administration into a smaller number of organisational units. Broader reforms in the area of public revenue management are ongoing. The Ministry of Finance continues activities on the implementation of an IT solution that will enable the Tax Administration to access aggregated data from the electronic invoicing system for the preparation of pre-filled (informative) VAT returns, starting from 2027, i.e. by the end of December 2026. The objective of this measure is to strengthen compliance with VAT regulations and increase VAT revenues. By the end of July 2026, the Tax Administration will prepare a report for the Ministry of Finance with a proposal of measures to increase the level of collection of assessed tax liabilities. The measures under consideration will include improving the risk-based control system, a stronger focus on large taxpayers with payment capacity, prioritising more recent tax periods in order to shorten the duration of audits and increase the probability of collection, as well as closer coordination between organisational units responsible for control and tax debt collection in order to ensure timely securing of assets. The Tax Administration will continue strengthening the Department for Determining the Origin of Property. By the end of September 2026, the Ministry of Finance and the Tax Administration will consider amendments to the Law on Determining the Origin of Property and the Special Tax in order to prevent disposal of assets during the appeal procedure, as well as propose to the Government regulations governing the storage and security of data of this

department. The Tax Administration continues the integration of the new IT system into its operational processes. In order to strengthen tax discipline and transparency, the Tax Administration published during 2025 a list of large tax debtors with debts exceeding 20 million dinars, which will be updated on an annual basis. Further reforms in the area of tax administration will include recommendations from the updated TADAT (Tax Administration Diagnostic Assessment Tool) assessment.

Improvement of the quality and transparency of government finance statistics is 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 Cooperation Agreement in the field of national accounts statistics of the general government sector and related statistics. In April 2018, the SORS published a list of institutions that make up 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 Finance Statistics Manual, prepared in cooperation with the NBS and the Ministry of Finance. The Public Debt Administration has been publishing quarterly data on Maastricht debt since mid-2021, prepared by the NBS in accordance with ESA 2010. A project is currently underway that will enable the collection and consolidation of data for the general government sector both according to the national methodology and according to the GFSM 2014 methodology, based on an institutional coverage list updated annually by the SORS in line with ESA 2010. This will also enable reporting and projections to be based on the same coverage and the same methodology. All of this is defined in the draft new Law on the Budget System,

for which, at the time of drafting this document, the public consultation has been completed and the draft has been submitted to the European Commission for opinion. This is particularly important given that the law is being aligned with the EU Directive (Council Directive 2011/85/EU, as amended by Council Directive (EU) 2024/1265), within the framework of Negotiation Chapter 17 – Economic and Monetary Policy. Since May 2009, the Republic of Serbia has been a participant in the IMF General Data Dissemination System (GDDS), and since 2015 in the Enhanced General Data Dissemination System (e-GDDS). The e-GDDS replaced and succeeded the GDDS and represents a structured system aimed at improving the quality and dissemination of economic, financial, and socio-demographic statistics of IMF member countries. In cooperation between the SORS, the NBS, the Ministry of Finance, and the Belgrade Stock Exchange, within the e-GDDS framework, a National Summary Data Page (NSDP) for the Republic of Serbia has been developed and published on the website of the Statistical Office of the Republic of Serbia. The page applies the Statistical Data and Metadata Exchange (SDMX) standardised system, aiming to serve as a single platform for publishing key macroeconomic and financial data of the Republic of Serbia. In 2024, the Statistical Office of the Republic of Serbia carried out a major (benchmark) revision of national accounts, during which methodological improvements accumulated after 2019 in the field of macroeconomic statistics and national accounts were implemented. The SORS and the NBS are jointly working on the compilation of 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 during this year. Given the progress achieved in national accounts and the quality of fiscal statistics, consideration will be given to applying for the Special Data Dissemination Standard (SDDS).

5. Fiscal Risks

Definition and Significance of Fiscal Risks

Fiscal risks represent the exposure of public finances to circumstances that may cause deviations from the projected fiscal framework. Such deviations may occur in revenues, expenditures, the fiscal balance, as well as in government assets and liabilities, relative to planned and expected outcomes. The Government cannot influence external risks, such as natural disasters or global financial crises; however, it is possible to define mitigation strategies that would reduce their impact (preserving stability during favorable periods in order to ensure sufficient fiscal space for an adequate fiscal policy response during recessions or crises, insurance against natural disasters, etc.). Internal risks, and their materialization, are the result of activities within the public sector, and the probability of their occurrence can be influenced through Government decisions and policies.

The identification of the most significant fiscal risks that may affect public finances over the medium term is the starting point for improving fiscal risk management. For certain fiscal risks, detailed information is available, making it possible to identify whether, and with what probability, they are likely to affect fiscal aggregates over the medium term. For others, however, sufficiently detailed information is not available. Nevertheless, their identification alone increases awareness of the possibility that they may lead to deviations from the planned fiscal framework in the period ahead.

The Ministry of Finance plays a leading role in fiscal risk management. As the key institution responsible for medium-term macroeconomic and fiscal planning, budget formulation, and budget management, the Ministry of Finance must also play a leading role in establishing the institutional and legal framework and in 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 Sector. Since November 2024, fiscal risk monitoring has been performed by the Budget Department, within which the Fiscal Risk Monitoring Division has been

established. Within this Division, two units have been established: the Unit for Monitoring Fiscal Risks Affecting the Budget of the Republic of Serbia and the Unit for Monitoring Fiscal Risks and Financing of Local Self-Governments.

The aforementioned Division was established with the objective of strengthening the legal and methodological framework, building capacities, and developing the technical tools and models necessary for monitoring and assessing fiscal risks. The intention is for these activities to result in the identification and assessment of risks and the proposal of mitigation strategies, thereby assisting the Government in preserving public finance stability, which is a key objective of fiscal policy and one of the fundamental prerequisites for stronger economic growth.

For the purpose of implementing the aforementioned fiscal risk monitoring process, a Unified Methodology, prepared with the assistance of the World Bank, was adopted in October 2021. The methodology comprises four core methodologies:

1. Methodology for Monitoring Fiscal Risks Arising from the Operations of State-Owned Enterprises;
2. Methodology for Monitoring Fiscal Risks Affecting the Budget of the Republic of Serbia Arising from the Exercise of Competencies of Local Self-Government Units;
3. Methodology for Monitoring Fiscal Risks Arising from Court Proceedings;
4. Methodology for Monitoring Fiscal Risks Arising from Natural Disasters.

Main Fiscal Risks

During 2025, the global economic environment was characterized by heightened geopolitical risks, rising protectionism, tightening trade and tariff policies, and a slowdown in global trade, which further increased uncertainty in international economic developments. As a small and open economy, the Republic of Serbia is exposed to the effects of these

developments, primarily through foreign trade flows, investment activity, and developments in international financial and energy markets. Although energy prices during 2025 were lower compared to the period of the energy crisis, significant volatility in natural gas and electricity prices remained, together with risks arising from geopolitical tensions, changes in global energy policies, and the process of trade fragmentation.

At the domestic level, economic activity slowed during 2025 and uncertainty increased, which was reflected in certain macroeconomic and fiscal indicators. Real GDP growth amounted to 2.0% in 2025, primarily due to a decline in activity in the construction sector, weaker performance in the trade, transport, and tourism sectors, as well as more moderate growth in domestic demand. Increased uncertainty led to the postponement of consumption and investment decisions, which adversely affected the performance of budget revenues, particularly value-added tax (VAT) revenues. At the same time, the current account deficit increased and foreign direct investment inflows declined, indicating increased vulnerability of the domestic economy to both external and internal risks.

A significant fiscal risk in the current period is represented by the potential effects of developments in the energy market on the operations of state-owned enterprises in the energy sector, primarily PE Srbijagas and EPS JSC (Elektroprivreda Srbije). In addition to risks associated with energy price developments and ensuring security of supply, high investment requirements in energy infrastructure and the energy transition also represent a significant challenge. Given the systemic importance of these enterprises for the functioning of the economy and the supply of energy to the population, any potential need for additional financial support could indirectly affect public finances and the level of fiscal risks over the medium term. Under such circumstances, fiscal policy remains focused on preserving public finance stability through prudent planning, maintaining an adequate level of fiscal reserves, and active public debt management.

Despite the above, EPS JSC has stabilized its operations over the past several years and, at the end of 2025, recorded an operating profit of RSD 55.7

billion (12% of total revenues) and a net profit of RSD 38.7 billion (8% of total revenues), which is significantly better than the previous year and represents the third consecutive year in which the company has recorded a positive financial result.

In 2025, the company implemented significant investments in the energy sector. Investments reached RSD 52.7 billion, of which RSD 45.0 billion was financed from the company's own resources.

Trial operation commenced at the first wind power plant of Serbia's largest energy company and at the first solar power plant, "Petka", in Kostolac. By the end of 2025, EPS had an additional 76 MW of renewable energy capacity installed at former disposal site locations. Trial operation of the flue-gas desulphurization facility at TENT A was completed, as was the construction of an equivalent facility at TENT B, which represents the largest environmental project in the energy sector in this part of Europe and contributes to reducing sulfur dioxide emissions, as well as compliance with European and domestic environmental standards. On the other hand, the start of implementation of the strategic project for the construction of 1 GW of solar power plants with battery storage was postponed until 2026 due to the scope and complexity of preparatory activities.

The Council of the Energy Agency of the Republic of Serbia approved the decision on the electricity price for guaranteed supply, which has been applied since 1 October 2025. The average electricity price for customers entitled to guaranteed supply at regulated prices (households and small customers) increased by 6.6% compared to the previous average price, due to higher transmission and distribution network access charges. The reduction of the threshold between the red and blue tariff zones from 1,600 kWh to 1,200 kWh will result in a slight increase in the average price for customers entitled to guaranteed supply, as this adjustment affects only consumers whose monthly consumption exceeds 1,200 kWh and whose share in the total number of consumers varies from month to month, ranging from 1% during the summer months to 7% during the winter months. Even after this adjustment, the electricity price for guaranteed supply in Serbia, excluding taxes and fees, remains among the lowest in Europe.

In 2025, EPS JSC continued the process of corporate transformation through the adoption of a Decarbonisation Plan and a Risk Management Policy, while continuing reforms across all organisational units.

Although the positive trend in operations has continued, the main challenge for the coming period remains the continuation of the initiated reforms, as well as the energy transition, which will enable a gradual shift towards an increasing share of energy generation from renewable sources. This will require financial consolidation and significant investment expenditures.

An important role in maintaining energy stability is also played by another enterprise operating in the electricity sector – Elektrodistribucija Srbije LLC (EDS), which has operated independently since 2021 (prior to 2021, it was part of EPS JSC). During 2025, EDS's core revenues from network charges were not sufficient to ensure sustainable operations. Operating revenues were insufficient to cover the current level of operating expenditures, reflecting cost-side inflation combined with unchanged tariffs for access to and use of the distribution system. EDS recorded a net loss of RSD 7.1 billion in 2025.

The Council of the Energy Agency of the Republic of Serbia approved decisions on transmission system access charges and electricity distribution system access charges, effective from 1 October 2025. The total increase in the approved transmission tariff in 2025 compared with the tariff approved on 1 October 2021 amounts to 10%, while the total increase in the approved electricity distribution tariff, calculated on the basis of the 2025 financial statements and compared with the tariff approved on 1 October 2021, amounts to 16%.

Following the full-year application of the increase in the distribution tariff during 2026, Elektrodistribucija Srbije is expected to achieve a positive financial result, i.e. a net profit at the end of 2026.

Although EDS has faced numerous challenges in recent years, a positive aspect of its operations is represented by significant investment activity. During 2024, a distribution network rehabilitation project was completed, under which more than 34 thousand wooden utility poles were replaced with concrete

poles as part of the low-voltage network modernization programme.

In 2025, EDS launched the second phase of the large-scale reconstruction of the low-voltage network, under which RSD 6.2 billion will be invested in the installation of new concrete poles and self-supporting cable bundles.

Under the Smart Metering Project, approximately 820,000 smart meters have been installed to date. Since October 2025, the replacement of 200,000 meters financed through an EBRD loan and an EU grant has commenced, and approximately 66 thousand meters had been installed under this phase by the end of 2025. The start of works for the replacement of approximately 400,000 meters financed through EIB resources is expected in the fourth quarter of 2026. EDS plans to have approximately one million smart meters installed across its network by the end of 2026.

Implementation is also continuing on the medium-voltage distribution network automation project carried out in cooperation with Schneider Electric. The above-mentioned investment projects will contribute to addressing one of EDS's main structural challenges, significantly improving the functioning of the distribution network and contributing to a reduction in network losses.

The Republic of Serbia has recognized the challenges faced by this enterprise and, for 2026, plans to continue support through the provision of guarantees in an amount of up to RSD 21.1 billion.

PE Srbijagas recorded a net profit of RSD 9.8 billion at the end of 2025. During 2025, as in the preceding period, full gas supply to the market was ensured, gas inventories were increased, gas storage operations in the Hungarian underground gas storage facility continued, and equipment was procured for the expansion of the Banatski Dvor underground natural gas storage facility.

In 2026, activities continued on the construction of gas pipelines across the territory of the Republic of Serbia and on creating conditions for diversification of supply routes, adequate gas infrastructure, and secure future supply of natural gas to consumers.

During 2026, PE Srbijagas continued implementing its policy of energy security and reliable natural gas supply to consumers, consistently acting within the framework of its public service obligations. Particular focus was placed on the implementation of investment activities, with emphasis on strategic infrastructure projects that provide the basis for the 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.

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 2026, investments continue in the modernization of railway infrastructure, procurement of new rolling stock, and digitalization of railway systems, supported by international financial sources as well as national budget resources.

Planned projects, such as the continuation of the modernization of Corridor X and the construction of high-speed railway lines towards regional centres, are aimed at increasing the capacity, safety, and attractiveness of rail transport, while contributing to lower costs and reduced greenhouse gas emissions in line with the green transition.

At the same time, fiscal risks arising from the scale of borrowing required for the implementation of major railway projects and from high subsidy levels need to be carefully managed, particularly in the context of challenges arising from the global economic crisis.

Roads of Serbia LLC is one of the most important state-owned enterprises responsible for the

⁶, issued guarantees are part of indirect liabilities and are included in the total public debt stock.

As of 31 March 2026, total public debt of the general government sector amounted to RSD 4,657.0 billion, representing 42.1% of GDP, of which direct liabilities amounted to RSD 4,421.4 billion (40.0% of GDP), indirect liabilities amounted to RSD 199.3 billion (1.8% of GDP), and non-guaranteed other debt of the

maintenance and development of road infrastructure in the Republic of Serbia. Its role is to ensure high-quality, safe, and sustainable roads, which directly affect the country's economic development as well as regional and international connectivity.

Economic instability has resulted in higher energy and material prices, directly increasing the costs of road maintenance and construction. The enterprise generates the largest share of its revenues from toll collection, which is insufficient to cover all of its financial obligations. For this reason, government support through subsidies is necessary. However, given that the enterprise has recorded negative financial results for a number of years, it represents a high fiscal risk to the budget of the Republic of Serbia.

An improvement in its financial position is expected through increases in toll charges, higher revenues from the budget of the Republic of Serbia, and planned expenditure reductions.

A similar situation exists in the case of Corridors of Serbia LLC, which plays a key role in the development of road infrastructure but also represents a significant source of fiscal risks due to its dependence on government funding.

Fiscal Risk Analysis

State Guarantees

Government guarantees issued by the State affect the level of public debt, as well as the fiscal deficit, in cases where the State assumes repayment of the loan in place of the original debtor. According to the definition set out in the Public Debt Law

general government sector amounted to RSD 36.3 billion (0.3% of GDP).

Restrictions on the issuance of new guarantees over the past 10 years have produced results, and the share of indirect liabilities in total public debt has declined year by year. Indirect liabilities (government guarantees issued by the Republic of Serbia) accounted for 9.5% of general government debt at the end of 2015, while at the end of 2025 they accounted for 4.4% of general government debt. As

⁶ 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).

of 31 March 2026, indirect liabilities accounted for 4.3% of general government debt.

Share of indirect debt in the government sector debt (%)



When analysing the structure of guaranteed debt by beneficiaries, it is observed that in 2025 and 2026 the leading positions were held by EPS JSC (Elektroprivreda Srbije) and PE Srbijagas.

EPS JSC accounted for 31.0% of total indirect liabilities (RSD 61.8 billion), while PE Srbijagas accounted for 30.5% (RSD 60.8 billion), and Elektrodistribucija Srbije LLC accounted for 10.3% (RSD 20.6 billion).

Table 14 Guaranteed debt status by users, billion dinars

User	2022	2023	2024	2025	31.03.2026
"Elektroprivreda Srbije" JSC	40.6	58.5	81.9	63.8	61.8
"Srbijagas" PE	55.1	79.1	58.0	64.3	60.8
Elektrodistribucija Srbije LLC	0.1	1.6	7.4	17.1	20.6
Railway Enterprises (Total)	31.2	26.3	25.6	21.2	20.2
"Putevi Srbije" LLC	26.5	23.0	20.5	18.2	17.2
Local Government Units (Cities and Municipalities)	19.2	17.3	15.4	13.7	13.5
Others	8.7	7.0	5.6	5.3	5.2
Total:	181.4	212.8	214.4	203.6	199.3

Source: Ministry of Finance

The stock of guaranteed debt in railway enterprises (Železnice Srbije JSC, Infrastruktura železnice Srbije JSC, Srbija Voz JSC, and Srbija Kargo JSC) has fluctuated significantly since 2020. In 2020 and 2021, Železnice Srbije JSC held the leading position in terms of guaranteed debt stock, while since 2022 this position has been taken over by Srbija Voz JSC, due to EBRD-financed loans intended for the procurement of rolling stock and the reconstruction and modernization of regional depots.

When observing the stock of debt covered by state guarantees by creditor as of 31 March 2026, the

largest exposure is to commercial banks (domestic and external debt) amounting to RSD 89.6 billion or 45.0% of total indirect liabilities, followed by the European Bank for Reconstruction and Development (EBRD) amounting to RSD 46.5 billion (23.3%), the European Investment Bank (EIB) amounting to RSD 36.0 billion (18.1%), the German Development Bank amounting to RSD 21.4 billion (10.7%), and the Japan International Cooperation Agency amounting to RSD 3.9 billion (2.0%).

Table 15 Guaranteed debt status by creditors, billion dinars

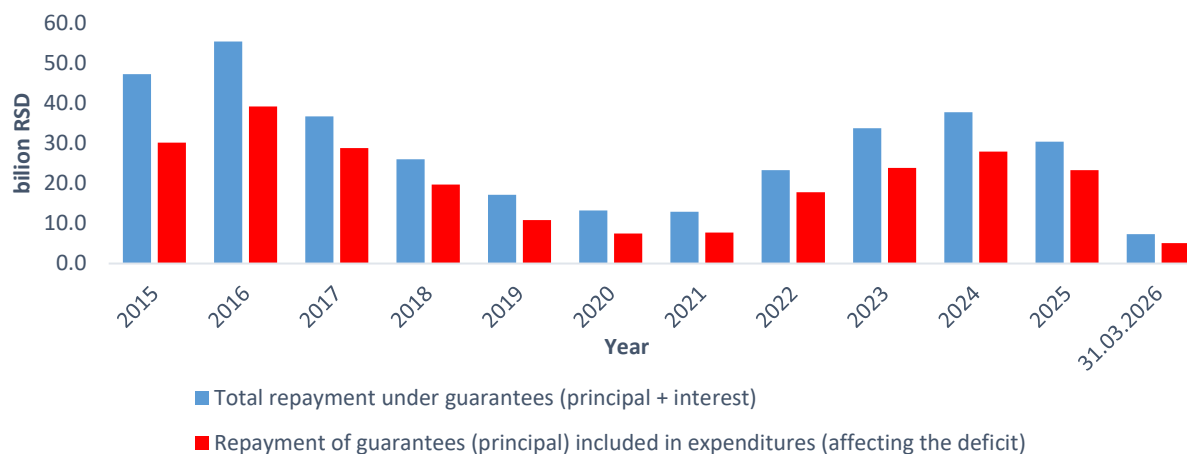
Creditors	2022	2023	2024	2025	31.03.2026
Business banks' loans	58.2	82.8	78.3	91.1	89.6
European Bank for Reconstruction and Development (EBRD)	39.4	54.6	60.1	47.5	46.5
European Investment Bank (EIB)	53.5	47.9	42.5	37.4	36.0
German Development Bank	9.3	10.5	21.8	21.3	21.4
Japan International Cooperation Agency (JICA)	17.1	13.7	8.8	3.9	3.9
Others	4.0	3.3	2.8	2.3	1.9
Total	181.4	212.8	214.4	203.6	199.3

Source: Ministry of Finance

Principal repayments under guaranteed loans serviced from the budget of the Republic of Serbia amounted to RSD 25.6 billion in 2025 (RSD 30.4 billion in 2024), of which RSD 23.3 billion affected the fiscal deficit. Until 2014, the accounting methodology did not include guarantee-related repayments in expenditures.

Since 2014, a portion of these expenditures has been included in budget expenditures. Regardless of the budgetary and accounting presentation, debt serviced by the State in place of the primary debtor increases overall borrowing requirements.

Repayment arising from guarantees settled from the budget of the Republic of Serbia, billion RSD



Indirect debt, as well as the inclusion of a portion of guarantee-related repayments in budget expenditures and the resulting increase in the deficit, have raised awareness of growing fiscal risks arising from issued guarantees. Accordingly, measures have been undertaken to restrict the issuance of new guarantees.

In addition to restrictions on the issuance of state guarantees, a key step in reducing and mitigating fiscal risks in this area is the reform of state-owned enterprises that are beneficiaries of guarantees, in order to ensure their ability to service their own debt. A number of enterprises, which are also the largest beneficiaries of guarantees, are undergoing restructuring processes, i.e. the implementation of restructuring plans developed in cooperation with international financial institutions.

Amendments to the Public Debt Law, Article 16, paragraph 3, stipulate that the Republic of Serbia may issue guarantees only if the loan proceeds covered by the guarantee are used to finance capital investments of the borrower. The Republic of Serbia may not issue guarantees if the loan proceeds covered by the guarantee are used to finance the current operations of the borrower, i.e. for liquidity purposes. Amendments to the Law on the Development Fund of the Republic of Serbia have eliminated the possibility of further issuing counter-guarantees for guarantees issued by the Development Fund of the Republic of Serbia.

The Budget Law of the Republic of Serbia for 2026, Article 3A, provides for the issuance of guarantees in an amount of up to RSD 413 billion. Article 44 of the same Law allows for an increase in the ceiling of issued guarantees, for the purpose of preserving and strengthening financial stability or preventing or mitigating the consequences of extraordinary circumstances that may endanger human life and health or cause large-scale damage, in an amount of up to RSD 20 billion, upon proposal of the ministry responsible for finance.

Table 16 Guarantee issuance plan for 2026, billion dinars

Users	Number of projects	Domestic and foreign commercial bank	European Investment Bank	European Bank for Reconstruction and Development	Total by Enterprises
"Elektroprivreda Srbije" JSC	4	292.4			292.4
"Srbijavoz" JSC	2	36.9		4.9	41.8
"Srbijagas" PE	3	39.8			39.8
"Elektro distribucija Srbije" LLC	2	9.4	11.7		21.1
„Transnafta" JSC	1	17.6			17.6
Total by Banks	12	396.1	11.7	4.9	412.8

Source: Budget law of the Republic of Serbia for 2026

Of the total planned guarantees for 2026, the Law provides for guarantees to be issued to EPS JSC in an amount of up to RSD 292.4 billion (70.8% of total planned guarantees) for the support of investment projects, the most significant of which include the Construction of 1 GW self-balancing solar power plants with battery energy storage systems (RSD 222.7 billion), a Credit Line for the support of renewable energy source (RES) projects (RSD 35.2 billion), and the Construction of wind power plants with a capacity of up to 500 MW (RSD 23.4 billion).

Srbija Voz JSC plans significant investment activities in 2026. Guarantees are envisaged in an amount of up to RSD 41.8 billion (10.1% of total planned guarantees) for the following projects: Procurement of trains for urban and suburban transport (RSD 36.9 billion) and Procurement of 12 new sleeping cars (RSD 4.9 billion).

The Law also provides for guarantees to be issued to PE Srbijagas in 2026 in an amount of up to RSD 39.8 billion, for the support of three investment projects: Strengthening of gas transmission capacity in the Republic of Serbia (RSD 17.6 billion), Serbia–North Macedonia interconnection with the construction of a new gas pipeline (RSD 19.9 billion), and the Romania–Serbia gas pipeline and interconnection (RSD 2.3 billion).

Structural reforms of state-owned enterprises, their strengthening to operate in a competitive market environment and achieve financial sustainability, on the one hand, and the limited and targeted issuance of new guarantees, on the other, will contribute to the reduction of fiscal risks in this area and to the

maintenance of expenditures within the planned, i.e. projected framework over the medium-term horizon.

State-owned enterprises (SOEs)

The operations of state-owned enterprises represent a significant source of fiscal risks, both on the revenue and expenditure sides of the budget. In their operations, state-owned enterprises face numerous challenges, ranging from the collection of receivables to the regular settlement of obligations towards creditors, the State, and employees, among others.

The State, as the founder and sole owner, is responsible for their operations and remains their most important 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, relates to government guarantees issued for loans of state-owned enterprises.

The sustainability, efficiency, and profitability of state-owned enterprises affect budget revenues, i.e. the amount of profit they transfer to the budget. The quality of goods and services provided by state-owned enterprises also affects the efficiency and profitability of the private sector and, ultimately, the level of taxes paid into the budget.

The Ministry of Finance 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. These enterprises employed approximately 64 thousand people at the end of 2025. State-owned enterprises are established as companies performing activities of general interest.

Table 17 Overview of the largest enterprises by total revenue at the end of 2025, billion dinars

Public Enterprises	Sector	Number of employees	Total revenue	Total expenses	Net result
"Elektroprivreda Srbije" JSC	Energy	18,825	479.6	430.6	38.7
"Srbijagas" PE	Energy	917	151.2	141.7	9.8
"Elektrodistribucija Srbije" LLC	Energy	8,243	118.8	126.3	-7.1
"Putevi Srbije" LLC	Construction	2,293	62.9	84.6	-22.5
"Elektromreža Srbije" JSC	Energy	1,542	43.8	41.3	2.0
"Jugoimport-SDPR" PE	Wholesale and Retail Trade	351	40.6	39.6	0.4
"Pošta Srbije" LLC	Transport and Storage	13,509	38.3	36.0	1.8
"Serbian Railways Infrastructure" JSC	Transport and Storage	5,561	19.5	23.8	-4.6
"Srbijasume" LLC	Agriculture, Forestry, Fishing	2,981	11.9	11.6	0.2
PE PEU Resavica	Mining	3,337	10.7	11.8	-1.0
Other 26 enterprises	Other	6,767	43.5	47.1	-3.6

Source: Financial reports for 2025. (SBRA)

State-owned enterprises operate across different sectors. In terms of number of entities, the largest number of state-owned enterprises operates in the environmental protection sector (primarily due to national parks) and in the transport sector (railway companies). In terms of total revenue and number of employees, it can be concluded that state-owned enterprises in the energy sector play the leading role. In 2025, enterprises in this sector accounted for 77.7% of total revenues generated by all 36 state-owned enterprises.

Financial Performance of State-Owned Enterprises

Total assets of state-owned enterprises at the end of 2025 amounted to RSD 4,010 billion, consisting mainly of fixed assets, which account for 88.0%, given that most state-owned enterprises operate in capital-

intensive industries. Total liabilities include loans, trade payables, and other obligations, and amounted to RSD 1,686 billion at the end of 2025. Credit liabilities accounted for 34.6% of total liabilities at the end of 2025, and 39.4% at the end of the first quarter of 2026.

Table 18 Main financial indicators of state-owned enterprises, in billion dinars

Description	2023	2024	2025	Q1 2026
Total assets	3,587	3,652	4,010	4,016
Fixed assets	3,074	3,194	3,530	3,549
Current assets	507	456	477	465
Total equity	2,048	2,056	2,324	2,540
Total liabilities	1,539	1,597	1,686	1,476
Loan obligations	596	592	583	581

Source: Financial reports (SBRA) and quarterly report for 2026

The total net result determined in the first quarter of 2026 was a profit of RSD 22.3 billion. The current-year result is overstated due to depreciation expenses of Roads of Serbia LLC, as the enterprise records these expenses only at year-end in the full amount for the respective year.

Table 19 Key performance indicators of state-owned enterprises as of March 31, 2026, in RSD billion

Description	2023	2024	2025	Q1 2026
Operating income	1,018.5	971.9	979.5	281.8
Operating expenses	871.0	920.8	932.8	249.2
Wages expenses*	128.1	140.0	151.5	40.5
EBIT (Operating Result)	147.4	51.7	46.7	32.6
Total revenue	1,057.4	1,007.8	1,021.0	288.9
Total expenses	924.7	982.0	994.3	260.8
Net result	113.9	10.9	14.0	22.3
Number of profitable SOEs	28	27	24	18
Number of loss-making SOEs	8	9	12	18

*Wages, wage supplements, and other personnel expenses

Source: Financial Statements (SBRA) and Quarterly Report for 2026

The net result at the end of 2025 was positive, amounting to RSD 14.0 billion, representing an improvement compared to 2024. The net result in 2023 should be considered separately from other years, given the historical profit recorded by EPS JSC in that year (RSD 112.4 billion).

When analysing quarterly financial performance indicators, it should be taken into account that a number of enterprises have a seasonal component in their operations.

Table 20 Overview of subsidy recipients (36 SOEs) and their share in the total Serbian Government budget expenditures

Year	2022	2023	2024	2025
Number of subsidy recipients (out of 36 SOEs)	25	27	27	27
Subsidies paid (billion RSD)	56.0	67.9	62.3	63.6
Total Serbian government budget expenditures (billion RSD)	1,915	2,068	2,354	2,550
% of subsidies paid / budget expenditures	2.9%	3.3%	2.6%	2.5%

Source: Ministry of Finance

The largest share of subsidies is generally used by enterprises for capital projects, while a certain number of enterprises also use them to maintain

current liquidity. The share of paid subsidies in total budget expenditures has been at approximately 3% year on year.

Table 21 Overview of the 5 largest subsidy recipients from the Serbian Government budget, in billion dinars

Companies	2022	2023	2024	2025
"Serbian Railways Infrastructure" JSC	12.8	17.0	17.3	17.9
"Putevi Srbije" LLC	22.6	25.0	13.2	17.3
PE PEU Resavica	4.8	5.5	5.5	6.4
„Srbijavoz” JSC	4.4	5.1	5.3	5.3
"Elektromreža Srbije" JSC	0.0	0.2	0.4	4.5
Other PE	11.4	15.1	20.5	12.1
Total subsidies paid:	56.0	67.9	62.3	63.6

Source: Ministry of Finance

The largest beneficiary of subsidies in 2025 was Infrastruktura železnice Srbije JSC, with subsidies primarily used for infrastructure management purposes. In 2025, subsidies paid to state-owned enterprises amounted to RSD 63.6 billion, representing a total share of 6.2% in the total revenues of the 36 state-owned enterprises, which is unchanged compared to the previous year. The five largest beneficiaries accounted for 81.0% of total subsidies paid.

In addition to Infrastruktura železnice Srbije JSC, the main beneficiaries of subsidies include Roads of Serbia LLC, which primarily uses funds for regular and extraordinary road maintenance, as well as PE Coal Mining and Processing Resavica and Srbija Voz JSC. In addition to these beneficiaries, significant funds in 2025 were also allocated to Elektro mreža Srbije JSC for the BeoGrid project and other purposes.

Table 22 State-owned companies that achieved net profit in the period 1.1–31.3.2026. in million dinars

Companies	Realised in 2023	Realised in 2024	Realised in 2025	Planned 01.01 - 31.03.2026	Realised 01.01 - 31.03.2026
"Elektroprivreda Srbije" JSC	112,446.8	24,431.1	38,683.4	10,729.5	15,112.8
PE "Srbijagas"	12,029.8	8,373.9	9,782.5	4,458.2	6,823.6
"Post of Serbia" LLC	3,174.4	2,102.3	1,836.8	(1,133.5)	1,333.4
„Skijališta Srbije“ LLC	59.6	44.5	33.1	706.6	857.6
"Elektromreža Srbije" JSC	3,024.9	3,508.3	2,025.2	594.4	843.5
PE "Jugoimport-SDPR"	601.7	445.0	410.9	105.0	730.8
„Koridori Srbije“ LLC	0.0	0.0	0.0	0.0	91.1
"State Lottery of Serbia" LLC	273.3	148.0	27.1	(30.7)	87.4
„Dipos“ LLC	193.4	226.6	185.8	28.7	54.8
„Nacionalni park Kopaonik“ LLC	10.1	12.1	1.3	0.0	44.6
“Železnice Srbije” JSC	(167.7)	(1,001.8)	(547.5)	(29.5)	24.9
"Prosvetni pregled" LLC	27.1	20.7	22.7	5.7	18.2
"National Park Đerdap" LLC	15.6	7.1	14.9	3.9	9.0
„Emisiona tehnika i veze“ LLC	48.9	42.6	54.9	(42.0)	4.8
"Nuclear Facilities" LLC	16.0	60.8	22.3	0.0	4.8
"Stara Planina" LLC	2.4	4.6	(21.3)	19.7	3.9
"National Park Tara" LLC	15.8	14.7	7.6	9.1	0.8
"National Park Fruška Gora" LLC	2.1	1.8	1.5	0.0	0.1
Total:	131,774.2	38,442.2	52,541.4	15,425.3	26,046.0

Source: Financial Reports (SBRA) and Quarterly Report for 2026

In the first quarter of the current year, 18 enterprises recorded a profit in a total amount of RSD 26.0 billion, which is higher than the planned profit of RSD 15.4 billion (45.7%). The largest contribution to the positive net result in the observed period was made by EPS JSC and PE Srbijagas, which recorded net profits of RSD 15.1 billion and RSD 6.8 billion, respectively.

Eighteen enterprises recorded a negative net result in the amount of RSD 3.8 billion, which is also higher than the planned negative net result of RSD 230.6 million. The largest contribution to the negative net result in the observed period was made by Roads of Serbia LLC and Elektrodistribucija Srbije LLC, which recorded net losses of RSD 777.8 million and RSD 770.2 million, respectively.

Table 23 State-owned companies that incurred net loss in the period 1.1–31.3.2026, in million dinars

Enterprises	Realised in 2023	Realised in 2024	Realised in 2025	Planned 01.01 - 31.03.2026	Realised 01.01 - 31.03.2026
"Putevi Srbije" LLC	(6,818.9)	(11,421.5)	(22,537.9)	2,415.9	(777.8)
"Elektro distribucija Srbije" LLC	(1,053.2)	(6,932.9)	(7,090.7)	717.5	(770.2)
„Srbijavoz” JSC	176.0	(258.9)	(1,873.8)	(1,483.1)	(571.7)
"Serbian Railways Infrastructure" JSC	(7,204.0)	(4,672.5)	(4,590.1)	(1,050.8)	(514.3)
"Srbija Kargo" JSC	(1,671.7)	(2,668.9)	(1,517.5)	(448.3)	(448.1)
PE PEU "Resavica"	(2,152.4)	(1,623.7)	(1,019.4)	0.0	(228.6)
PE "Srbijašume" LLC	725.7	173.1	157.3	(170.6)	(169.3)
"Srbijavode" LLC	16.1	23.7	39.2	(128.0)	(100.9)
"Textbook Publishing Institute" LLC	(96.8)	(323.4)	(211.6)	0.0	(74.7)
"Golubac Fortress" LLC	9.0	1.6	0.7	(18.6)	(22.1)
LLC for Shelters	(106.9)	(79.4)	(82.7)	(37.5)	(20.2)
"Transnafta" JSC	279.0	217.9	206.8	(5.9)	(19.8)
"Official Gazette of the Republic of Serbia" LLC	6.8	28.2	10.2	(18.5)	(19.0)
"Nature Park Mokra Gora" LLC	7.7	5.6	2.7	0.0	(6.7)
"Metohija" LLC	1.1	1.9	3.3	(1.7)	(3.5)
"Mreža-Most" LLC	4.3	1.7	(4.0)	0.0	(2.6)
"Uvac Reserve" LLC	3.3	2.6	(0.9)	0.1	(2.1)
"Park Palić" LLC	0.3	1.1	2.4	(1.1)	(1.2)
Total:	(17,874.7)	(27,523.7)	(38,505.9)	(230.6)	(3,752.7)

Source: Financial Reports (SBRA) and Quarterly Report for 2026

The Ministry of Finance, in cooperation with the World Bank, carried out a revision of the Altman Z-score model used for the assessment of fiscal risks of state-owned enterprises.

Table 24 Adjusted Altman Z-scores by year for 36 state-owned companies

Risk Type	2023	2024	2025
Low	23	20	16
Medium	6	10	16
High	7	6	4

Source: Ministry of Finance

Based on data from official financial statements submitted as of 31 December 2025, out of 36 state-owned enterprises, the application of this model identified that 11.2% of state-owned enterprises are high-risk, 44.4% of state-owned enterprises are assessed as having moderate risk, while the remaining state-owned enterprises (44.4%) are assessed as low-risk in terms of operations. State-owned enterprises assessed as having moderate operational risk are concentrated in the energy

sector, railway transport, and construction and technical industries.

Over annual periods, a declining trend in the number of high-risk enterprises continues, with seven high-risk enterprises identified in 2023, decreasing to six at the end of 2024, and further to four enterprises assessed as high-risk in 2025 from the perspective of fiscal risks to the national budget.

Risk quantification represents one of the main challenges in risk assessment and its financial expression. Risk quantification, based on the model, implies the identification and presentation of 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 servicing obligations of state-owned enterprises. These expenditures are commonly referred to as "expected expenditures" and represent a statistical calculation combining the probability of occurrence of an expenditure and the magnitude of annual debt obligations, as one of the most sensitive and largest expenditures that may require budgetary support.

According to the model results, the total fiscal risk, i.e. expected expenditure for 36 state-owned enterprises for 2026, is estimated at around RSD 2.3 billion. These results indicate the necessity of continuous monitoring and risk management in order to mitigate potential financial impacts on public finances, while simultaneously developing measures to strengthen the stability of these enterprises.

Projections for the next three years indicate that expected expenditure will amount to RSD 4.2 billion in 2027, RSD 3.6 billion in 2028, and a decrease to RSD 3.5 billion in 2029. Given that the level of expected expenditure is directly affected by annual debt obligations, any new borrowing by enterprises would lead to an increase in expected expenditure, highlighting the importance of debt control and sustainable management of financial obligations.

The Ministry of Finance will continue in the coming period to further improve analyses, data collection of qualitative information, and enhancement of the model, with the aim of making it more comprehensive and precise, in order to ensure a reliable basis for risk management and support the sustainability of public finances.

Dividend Payments

Dividend payments by state-owned enterprises and capital companies in which the State holds ownership represent part of non-tax revenues. The level of budget revenues from this source depends on the performance of these enterprises. Regular profit transfers and dividend payments constitute regular budget non-tax revenues, while payments from retained earnings are treated as one-off revenues and do not represent a permanent revenue source.

Companies founded by the Republic of Serbia or in which the Republic of Serbia holds ownership are required to transfer to the budget of the Republic of Serbia at least 50% of the proportional share of profit from the previous year's final accounts, in accordance with the law governing companies, no later than 30 November of the current budget year.

Exceptionally, with the approval of the Government, an entity is exempt from the profit transfer obligation if it decides to use profit to cover losses, increase capital, or allocate funds for investment financing.

Table 25 Share of Paid-in Profits in the Non-Tax Revenues of the Budget of the Republic of Serbia

	2022	2023	2024	2025
Total revenues of the budget of the Republic of Serbia (in billion dinars)	1,680.3	1,889.1	2,141.6	2,278.4
Non-Tax revenues of the budget of the Republic of Serbia (in billion dinars)	170.8	193.9	248.9	305.0
Paid profit of companies (in billion dinars)	1.9	4.3	1.6	0.6
<i>% share of paid profit in non-tax revenues of the budget of the Republic of Serbia</i>	<i>1.1%</i>	<i>2.2%</i>	<i>0.6%</i>	<i>0.2%</i>

Source: Ministry of Finance

State-owned enterprises paid a total of 0.6 billion dinars into the budget of the Republic of Serbia under this item in 2025.

The total profit transferred to the budget of the Republic of Serbia in 2025 accounted for 0.2% of non-tax revenue of the Republic budget (2024: 0.6%). Within the structure of payments in 2025, the dominant share relates to payments from Jugoimport of 0.2 billion dinars and the public enterprise "Srbijašume" d.o.o. of 0.1 billion dinars.

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

Table 26 Profit Payments to the Budget of the Republic of Serbia by Company for 2024 and 2025, in RSD billion

Profit-contributing entities	2024	2025
PE "Jugoimport-SDPR"	0.3	0.2
„Dipos” LLC	0.1	0.1
PE "Srbijašume" LLC	0.4	0.1
"State Lottery of Serbia"		
LLC	0.1	0.1
Other enterprises	0.7	0.1
Total:	1.6	0.6

Source: Ministry of Finance

State Financial Institutions, the Banking Sector and Deposit Insurance

Prior to the fiscal consolidation period, the Republic of Serbia incurred significant fiscal costs related to the resolution of state-owned banks. Total costs of government interventions in the banking sector during the 2012–2015 period amounted to approximately EUR 900 million. This amount was allocated to bank recapitalisation, various financial transactions in the process of merging failed banks into stronger banks, including the payment of insured and uninsured deposits (for which resources of the Deposit Insurance Fund were also used).

The Republic of Serbia currently holds direct ownership stakes in the banking sector in Banka Poštanska Štedionica a.d. Beograd (78.54%) and Srpska Banka a.d. Beograd (76.69%).

In order to consistently implement the exit strategy and reduce fiscal risks in this area, reform activities in the field of state financial institutions are continuing.

“Poštanska Štedionica” Bank (BPS)

The business strategy for the 2026–2028 period was adopted by the BPS Shareholders’ Assembly in December 2025. According to the business strategy, BPS will continue implementing activities with a focus on further improvement and development in the following areas: operations with individuals, entrepreneurs, micro, small and medium-sized legal entities, local self-government units, public enterprises founded by the Republic of Serbia or an autonomous province or local self-government unit, and companies in which the Republic of Serbia or an autonomous province or local self-government unit holds ownership; improvement of internal bank organisation, corporate governance and risk management; strengthening of IT infrastructure.

“Srpska Banka” Bank

In accordance with the Government strategy for state-owned banks, a Working Group of Experts was established in 2019 for the transformation of Srpska Banka into a specialised financial institution for providing all types of financial services and support to the defence industry of the Republic of Serbia. Activities aimed at the transformation of Srpska Banka will continue in the forthcoming period.

Financial System Reform

The reform of regulations governing the Serbian financial system was implemented in February 2015. One of the features of this reform is the transfer of responsibilities for monitoring the performance and management bodies of banks, insurance companies, and other financial institutions in which the Republic of Serbia is a shareholder, as well as the organisation and implementation of the share sale process in these institutions, from the Deposit Insurance Agency (hereinafter: DIA) to the Ministry of Finance. The reform also transposed the Bank Recovery and Resolution Directive (BRRD) into the national regulatory framework, with the bank resolution function assigned to the National Bank of Serbia (NBS). In December 2016, a set of regulations was adopted implementing Basel III standards into the

domestic regulatory framework, achieving a significant degree of alignment of national regulations with relevant EU rules in this area. During 2017, activities continued to improve banking regulations in order to further align them with EU legislation. The main objectives of these regulations are to increase the resilience of the banking sector by improving capital quality and introducing capital buffers, better monitoring and control of banks' liquidity risk exposure, further strengthening market discipline and transparency through disclosure of relevant information on banks' operations, and adapting the reporting system to new regulatory requirements.

One of the limiting factors for credit growth was the relatively high level of non-performing loans (NPLs). In August 2015, a Strategy for Resolving Non-Performing Loans was adopted, implemented through two three-year action plans, one prepared by the Government and the other by the NBS, aimed at reducing the level of NPLs. Key implementation areas included strengthening banks' capacity to resolve NPLs, improving regulations for collateral valuation, and developing the NPL market.

A new Insurance Law was adopted in 2014. Through this law, regulatory reform of the insurance sector was carried out during 2014 and 2015, this being the second most important segment of the domestic financial market. The reform created preconditions for further development of the insurance market through the implementation of modern standards adapted to domestic market needs. The new regulatory framework enabled, inter alia, positive results reflected in the growth of total insurance premiums in the Republic of Serbia and further development of the financial market. The reform also enabled improved insurance services and better protection of individuals and businesses. Amendments to the Insurance Law were adopted in 2021 regulating changes in ownership rights over social capital in insurance companies. The existing regulatory framework has created preconditions for further convergence of the insurance sector in the Republic of Serbia to the level of development of the EU insurance sector. Further significant changes in the regulatory framework are expected through full alignment with the Insurance Distribution Directive

(Directive (EU) 2016/97) and the implementation of Solvency II (Directive 2009/138/EC).

Since the adoption of the aforementioned strategy, a number of laws and by-laws have been adopted and amended, institutional capacity has been strengthened, and numerous measures have been implemented to facilitate the write-off and transfer of non-performing receivables, including: amendments to the Mortgage Law (2015), enabling non-judicial enforcement from the value of mortgaged real estate and increasing legal and economic certainty; adoption of the Law on Real Estate Valuers (entered into force in June 2017), introducing licensed valuers and mandatory valuation procedures under the Mortgage Law and Bankruptcy Law; establishment of a Professional Committee and adoption of National Standards, Code of Ethics, and professional conduct rules for licensed valuers (initially in July 2017, updated in April 2023); amendments to the Corporate Income Tax Law and Personal Income Tax Law enabling a more flexible tax treatment for loan write-offs (end-2017); amendments to the Bankruptcy Law shortening bankruptcy procedures and improving the position of secured creditors (December 2017); preparation of a study on personal insolvency for individuals and entrepreneurs; and amendments to the Civil Procedure Law.

Based on the Law on Real Estate Valuers and the relevant NBS decision, the NBS has maintained a database on real estate valuations subject to mortgage since 2015. In line with these regulations, banks and licensed valuers may access selected valuation data. In late 2018, the NBS adopted a set of by-laws in response to the increasing incidence of non-purpose consumer lending with excessively long maturities. These regulations aim to prevent the emergence of NPLs, promote prudent risk-taking, and support sustainable lending practices, without disrupting credit growth trends.

In order to further develop the capital market, during the period 2019–2021, the following laws were adopted on the proposal of the Ministry of Finance: the Law on Alternative Investment Funds (Official Gazette RS No. 73/19), the Law on Open-Ended Investment Funds with Public Offering (Official Gazette RS No. 73/19), and the Capital Market Law (Official Gazette RS No. 129/21).

In 2018, the Government adopted the Programme for Resolving Non-Performing Loans for the period 2018–2020, together with an Action Plan, as part of the IMF-supported reform programme.

The main focus of the policy document was the resolution of non-performing exposures of banks in bankruptcy and exposures managed by the Deposit Insurance Agency on behalf of the Republic of Serbia. In line with this, strategic and annual operational plans were adopted for the DIA, portfolio resolution frameworks were established, and internal capacities were developed. In June 2019, the DIA completed the sale of a pilot portfolio with a nominal value of approximately EUR 242 million. On 30 September 2019, it published a tender for the disposal of a second large portfolio with a nominal value of EUR 1.82 billion. The disposal process was completed on 19 April 2021.

As a result of the implementation of the NPL Strategy and other regulatory measures of the National Bank of Serbia, the share of non-performing loans in total bank loans has significantly decreased in recent years and remained at a low level despite external challenges. At the end of March 2026, the gross NPL ratio stood at 2.1%.

The National Bank of Serbia also implemented additional measures aimed at strengthening the resilience of the banking sector, including the application of the Decision on accounting write-off of bank on-balance-sheet assets. NPL coverage remained high: total loan loss provisions amounted to 109.2% of gross NPLs in March 2026, while provisions for NPLs amounted to 60.3% of gross NPLs. These indicators, together with other financial system stability indicators, confirm the resilience and stability of the domestic banking sector.

Deposit Insurance

Deposit insurance is a mechanism that contributes to the preservation of financial stability and ensures depositor protection. The deposit insurance system guarantees that each protected depositor is paid the full amount of deposits in each bank up to the insured limit of EUR 50,000 in the event of bank bankruptcy or liquidation. Deposit insurance is regulated by the Law on Deposit Insurance.

In October 2019, amendments to the Law on Deposit Insurance were adopted, further aligning the deposit insurance system with best international practice, EU acquis, and standards, in relation to: premium calculation methods (introducing the possibility of risk-based premium calculation), the premium base, the level of extraordinary premium, protection of depositors in merged or acquired banks, the target level of the deposit insurance fund, etc., all aimed at contributing to financial stability through incentives for risk reduction in banks' operations, strengthening public confidence in the financial system, and increasing the efficiency of the deposit insurance system.

In line with the provisions of the amended Law on Deposit Insurance, deposit insurance premiums have been calculated since the collection of the first quarter of 2020 on a revised base, i.e. on the average amount of total insured deposits up to EUR 50,000 (insured amount of deposits) in a bank in the previous quarter, instead of the average amount of total insured deposits. This change reduced banks' premium obligations by approximately 30% on average, thereby indirectly enabling higher investment activity of banks.

The Law also introduced the possibility of risk-based premium calculation. The Management Board of the Agency set 1 January 2026 as the start date for applying risk-based premium calculation for deposit insurance, using the Methodology for calculating deposit insurance premiums based on the level of risk in banks' operations. The introduction of this methodology aims to further encourage banks to adequately manage their own risks.

In the deposit insurance system, the Republic of Serbia is the ultimate guarantor of insured deposits. For the purpose of ensuring funds for deposit insurance, the Deposit Insurance Agency (DIA) collects deposit insurance premiums from banks on behalf of the Deposit Insurance Fund, manages the Fund's assets, and pays out deposits up to the insured amount in the event of bank bankruptcy or liquidation. In addition, Fund resources may be used to finance bank resolution procedures within the scope and under conditions prescribed by the law governing banks. In the event of insufficient funds in the Deposit Insurance Fund, the Republic of Serbia

ensures payment either from the budget or by issuing guarantees for DIA borrowing.

Amendments to the Law from November 2024 stipulate that the Agency shall invest dinar and foreign currency funds of the Fund in debt securities issued by the Republic of Serbia, the National Bank of Serbia, an autonomous province, or local self-government units in the Republic of Serbia, thereby removing previous restrictions on foreign currency investments. In addition, the Agency may also invest foreign currency funds in foreign securities or place them as deposits with foreign banks, in accordance with the foreign exchange reserve management policy.

The state guarantee of insured deposit payments, either directly from the budget or indirectly through guarantees for DIA borrowing, is a source of fiscal risks and potential fiscal costs. However, due to the achieved stability of the banking sector, since 2015 there has been no need to use Deposit Insurance Fund resources or state funds for the payment of insured deposits.

The reduction of fiscal risks in this area depends on the stability and sustainability of the banking system. Supervision of the banking system, prudent lending practices, and improvement of banks' asset quality are the main pillars of a stable banking system.

Banking Sector

The financial results of the banking sector of the Republic of Serbia indicate increasing profitability of banks. Profit before tax at sector level amounted to RSD 138.2 billion in 2023, which is RSD 38.5 billion (or 38.7%) higher than in the previous year, while profit before tax at sector level amounted to RSD 176.28 billion in 2024.

The banking sector of the Republic of Serbia is adequately capitalized both in terms of the achieved capital adequacy ratio and the structure of regulatory capital. At the end of 2020 and 2021, the average capital adequacy ratio at sector level was 22.42% and 20.8%, respectively. During 2022, 2023 and 2024, a high level of capitalization was maintained (20.2% at end-2022, 21.4% at end-2023, and 21.32% at end-2024).

The capital adequacy ratio at sector level at the end of Q1 2026 was 19.5%, significantly above the regulatory minimum of 8.0%, indicating a high level of capitalization and resilience of the banking sector to external and domestic risks.

Guarantee Schemes

Considering the situation arising from the declaration of a state of emergency in the Republic of Serbia, and in order to mitigate the economic and financial impacts of the COVID-19 pandemic, measures were undertaken to support the economy aimed at increasing liquidity of economic entities. One of these measures was the adoption of the Decree on Establishing a Guarantee Scheme as a Measure of Support to the Economy for Mitigating the Effects of the COVID-19 Pandemic caused by the SARS-CoV-2 virus. This decree established a national guarantee scheme. The increase in liquidity of economic entities was ensured through a mechanism of state guarantees for loans granted by banks to economic entities for financing liquidity and working capital, implemented through the conclusion of a Guarantee Agreement of the Republic of Serbia for lending to the economy to mitigate the negative effects of the COVID-19 pandemic caused by SARS-CoV-2, covering all entities registered in the Republic of Serbia, including agricultural holdings registered with the Business Registers Agency (APR) and classified as entrepreneurs, micro, small and medium-sized enterprises in accordance with accounting legislation, whose liquidity is a prerequisite for the functioning of the economy of the Republic of Serbia.

Banks were allowed to place loans up to EUR 2 billion, while the amount of EUR 1 billion, i.e. the initial maximum insured portfolio per bank, was determined according to the market share of each bank based on the National Bank of Serbia report as of 29 February 2020.

Given that approximately EUR 1.5 billion had been disbursed through commercial banks to the economy by the end of November 2020 out of the total available EUR 2 billion, and that the Decree required loan agreements to be concluded no later than 31 December 2020 and disbursed no later than 31 January 2021, the need arose to extend the deadlines for concluding and disbursing loan agreements.

The Republic of Serbia recognized the need to approve an additional EUR 500 million in support in order to maintain liquidity, increasing the total amount of funds disbursed under the first Guarantee Scheme to EUR 2.5 billion. In addition to the additional funds, the deadline for loan disbursement was extended to 31 July 2022.

Projections of fiscal gross outflows of the budget of the Republic of Serbia under the second Guarantee Scheme amount to EUR 1.5 million for 2026. Under both guarantee schemes, EUR 2.54 billion of loans have been disbursed, while EUR 70.4 million has been paid out in activated guarantees as of 30 April 2026. As of the same date, EUR 10.6 million has been collected on called guarantees under both schemes.

In order to enable young people to purchase their first residential property, the Law on Establishing a Guarantee Scheme and Subsidizing Part of the Interest as a Support Measure for Young People in Purchasing Their First Residential Property ("Official Gazette of the Republic of Serbia", No. 19/25) was adopted on 6 March 2025.

Banks were initially allowed to place loans up to EUR 400 million for a period of up to four years. Due to high demand from young people, in December 2025 the Law was amended to increase the amount to EUR 600 million. Loans may be approved no later than 1 April 2029. The Republic of Serbia subsidizes part of the total interest rate over a period of six years. Under this program, EUR 500 million had been disbursed to young people by the end of April 2026.

The Guarantee Agreement of the Republic of Serbia under the Guarantee Scheme and interest subsidy program for young people purchasing their first residential property has been signed with eight banks.

Projections of fiscal gross outflows of the budget of the Republic of Serbia under this Guarantee Scheme amount to EUR 10.15 million for 2026, EUR 11.61 million for 2027, and EUR 11.39 million for 2028.

An amendment to the Law increasing the amount from EUR 600 million to EUR 900 million is currently in parliamentary procedure.

Other financial institutions

Republic of Serbia has a direct ownership stake in Dunav Insurance joint-stock insurance company Belgrade (hereinafter: Dunav Insurance) and Dunav Re joint-stock insurance company Belgrade (hereinafter: Dunav Re), as well as in the National Corporation for Housing Loan Insurance (hereinafter: the Corporation).

Through the successful and efficient implementation of the provisions of the law adopted at the end of April 2021 – the Law on Amendments to the Law on Insurance ("Official Gazette of RS", No. 44/21), which served as the basis for the change of ownership rights over social capital in insurance companies, the direct participation of the Republic of Serbia in the capital of Dunav increased to 76.7%. Also, given that there was a smaller share of social capital in the total capital of Dunav Re, following the change of ownership rights in accordance with the said law, the Republic of Serbia acquired a direct share of approximately 4.76% in Dunav Re.

In recent years, the operations of Dunav Insurance have been stable, with continuous improvement in most indicators. A growing trend in profit year by year is evident (as well as regular dividend payments). Dunav Insurance did not experience negative effects in its operations (based on the most relevant indicators) due to the COVID-19 pandemic. The main challenge in the forthcoming period is alignment (organizational, managerial, capital, etc.) with the new regulatory standard Solvency II, which is expected for all participants in the insurance market in the Republic of Serbia.

Pursuant to the Law on the National Corporation for Housing Loan Insurance ("Official Gazette of RS", No. 55/04), the Corporation was established as a legal entity specialized in insuring receivables arising from housing loans granted by banks and other financial institutions, secured by mortgage, as well as performing other activities related to such insurance. The founder of the Corporation is the Republic of Serbia, which holds a direct 100% ownership interest in its capital (the law provides for the possibility for the Corporation to be organized as a joint-stock company, provided that the state's capital share in the total capital of the Corporation cannot be less

than 51%). The law also stipulates that the total nominal amount of the Corporation's liabilities arising from its activities may not exceed 16 times the amount of its capital, while the Government may, upon a substantiated request of the Corporation, approve an increase in the scope of such liabilities beyond 16 times the capital for a specified period.

Since its establishment, the Corporation has had a significant influence on the creation of market conditions and lending standards, which was necessary for the development of the mortgage market. This led to a reduction of risk and protection of interests of both creditors and borrowers, through lower interest rates, which resulted in increased demand for residential real estate (with a positive effect on the construction industry) and an increase in the number of housing units purchased through loans.

In the previous period, no recapitalization of the Corporation was carried out from the budget of the Republic of Serbia; instead, capital increases were made from the Corporation's realized profit. However, as capital increases did not follow the growth of insured loans, the Government, in accordance with the law, annually approved an increase in the scope of the Corporation's liabilities arising from its activities beyond 16 times the capital. This increase was gradually reduced over the years (e.g. in 2015 the Corporation's liabilities could be up to 30 times the capital, while in 2023 up to 18 times), until in 2024 the total nominal amount of the Corporation's liabilities, after a longer period, fell within the statutory limits (up to 16 times the capital), so there was no need for Government approval.

A potential risk arises from a large number of lawsuits filed by clients against banks regarding the payment of insurance premiums to the Corporation. Although the Corporation is not a defendant party, nor does the Republic of Serbia guarantee the Corporation's obligations (the Corporation guarantees its obligations up to the amount of its capital), a potentially negative outcome of these disputes may affect the possible need for certain budget expenditures. Also, due to changed market conditions, disputes have arisen with a certain number of banks (termination of contracts with the Corporation by banks), which leads to a significant

reduction in insured loans, and consequently to a reduction in the Corporation's revenues. Given the long-term nature of the potential obligations undertaken by the Corporation (insurance of receivables from housing loans granted for periods of up to 30 years), the continuation of the trend of significant reduction in insured loans may also affect the possible need for certain budget expenditures in the future.

Legal Proceedings

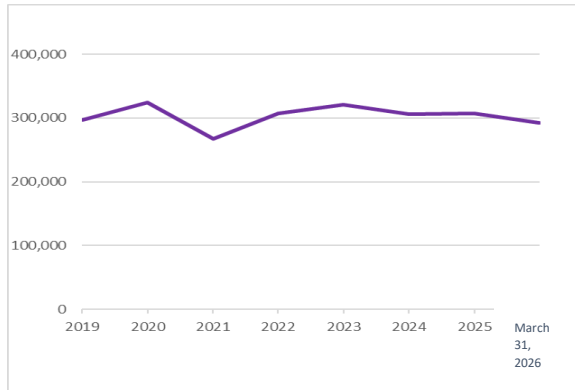
Due to a large number of court proceedings before domestic and international courts, in which the Republic of Serbia is the defendant and bears the obligation to make payments, various fiscal risks have been identified arising from the uncertainty regarding the outcomes of these cases.

On the basis of court-ordered fines and penalties (economic classification 483), as well as compensation for damages or harm caused by state authorities (economic classification 485), the Republic of Serbia paid RSD 26.8 billion from the Republic budget in 2022, RSD 25.4 billion in 2023, and RSD 24.6 billion in 2024.

As of 31 December 2025, budget execution under this heading amounted to RSD 24.2 billion. As of 31 December 2023, the number of active cases handled by the State Attorney's Office of the Republic of Serbia stood at 320,860, while at the end of 2025 the number of active cases was 307,640, indicating that the overall stock of pending litigation remains at a high level. Data for the period from 2019 to 31 March 2026 show that, despite certain fluctuations, there has been no significant and sustained reduction in the number of active court proceedings, which has continuously remained at around 300,000 cases.

Given that each active case represents a potential future obligation of the Republic of Serbia's budget in respect of principal amounts, default interest, court costs, and enforcement expenses, the persistently high number of disputes continues to represent a significant potential fiscal risk for public finances.

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

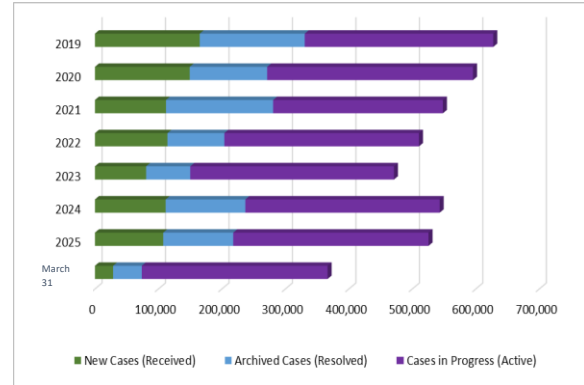
The number of cases received by the State Attorney’s Office of the Republic of Serbia shows a declining trend over the observed period, decreasing from 165,061 cases in 2019 to 107,634 cases in 2025. In the period January–March 2026, 28,662 cases were received.

At the same time, the number of archived cases amounted to 165,440 in 2019, while 110,242 cases were archived in 2025. In the January–March 2026 period, 45,111 cases were archived, indicating a continued high level of case processing within the system, noting the quarterly nature of the data.

As a result of the inflow–outflow dynamics of cases, the total number of active cases as of 31 March 2026 stood at 292,729. The share of newly received cases in the overall workload declined from 35.7% in 2019 to 25.8% in 2025, indicating a relative reduction in inflow compared to the total caseload.

From a fiscal risk perspective, these trends suggest that, despite a reduction in incoming cases and a stable level of case resolution, the substantial total volume of ongoing cases still represents a potential risk to budget expenditures due to possible accumulation of liabilities and increased pressure on system capacity in the medium term.

Trends in Litigation Cases at the State Attorney’s Office of the Republic of Serbia, 2019 – 31 March 2026



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

Article 300 of the Law on Enforcement and Security stipulates that an enforcement creditor is obliged to notify the Ministry of Finance of the intention to submit a proposal for enforcement no later than 30 days prior to filing such proposal, in cases where the Republic of Serbia, an autonomous province, a local self-government unit, or a budget beneficiary appears as the enforcement debtor. The purpose of this provision is to encourage voluntary settlement of obligations by the competent authority, thereby avoiding costs associated with forced collection. Although the share of voluntary settlement of obligations of the Republic of Serbia arising from final court judgments remains lower compared to enforcement carried out through forced collection, available results indicate the need for further system improvements and strengthening of mechanisms that would contribute to a higher degree of voluntary fulfilment of obligations in the period ahead.

In 2026, efforts to improve the system for monitoring fiscal risks arising from court proceedings continue, with the aim of identifying and assessing related risks. Particular attention is given to available databases and to improving the quality and accessibility of data contained therein, in order to support fiscal risk analysis and the quantification of these expenditures in the coming period.

Budget execution of the Republic budget in the period from 2019 to 2025, as well as the projected execution in the next three years, is consistent with the above-mentioned potential liability and its expected realisation in the long term. In line with the observed stabilisation of budget execution over the past three years, it may be expected that in the next three-year period expenditures of the Republic budget related to court proceedings, all else being equal, will range between approximately RSD 24.0 and 25.0 billion annually.

In the forthcoming period, it is necessary to establish a unified database of all court proceedings in which the Republic of Serbia, its ministries, and other public expenditure beneficiaries appear as defendants, suitable for statistical analysis and projections. This would enable not only more accurate forecasting of future expenditures, but also better identification of the causes and drivers of increasing obligations in the Republic budget arising from this source.

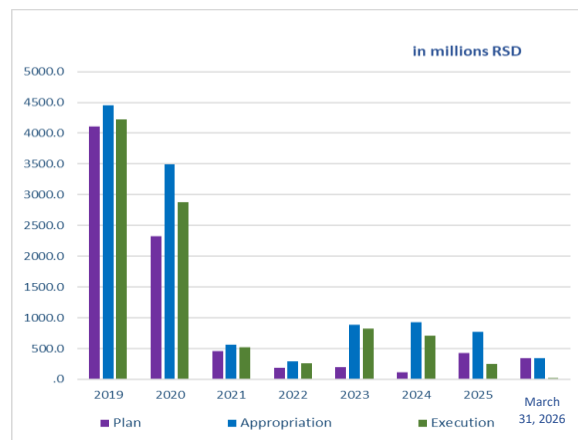
In this way, the management of these fiscal risks would be facilitated through improved budgeting of contingency reserves and would allow for preventive action in segments where future potential liabilities arising from court proceedings are generated.

Natural Disasters

The persistent risk of natural disasters and catastrophic events necessitates investments in prevention programmes in order to reduce potential fiscal costs associated with damage recovery. Prevention measures include the use of a broader range of financial instruments, such as contingency funds, contingent credit lines, and insurance of public assets.

In recent years, budget allocations of the Republic of Serbia for compensation of damages have remained relatively low, given the absence of severe weather-related events. In line with these trends, the initial budget allocation for 2026 amounts to RSD 346.5 million, while budget execution as of 31 March 2026 stands at only RSD 17.0 million.

Budget Expenditures of the Republic of Serbia Arising from Natural Disasters and Other Natural Causes



Source: Ministry of Finance, Treasury Administration, Budget Department

The increasing frequency and intensity of natural disasters and other catastrophic events, as well as the rising costs of addressing their consequences, highlight the need for continuous caution with respect to this type of fiscal risk.

The model for monitoring fiscal risks from natural disasters, which is part of the Unified Fiscal Risk Monitoring Methodology, provides a quantified assessment of the negative impact of natural disasters on a country's gross domestic product, fiscal deficit, and, consequently, public debt.

Natural disasters cause damage to productive capital and critical infrastructure, which in turn leads to a contraction in GDP and lower growth compared to what would otherwise have been achieved. This effect is typically observed in the year in which the disaster occurs. In addition, due to reduced public revenues and increased public expenditures, the shock caused by a natural disaster also leads to a higher fiscal deficit, ultimately resulting in the need for additional financing and, consequently, an increase in public debt.

The original data from the risk modelling company "Applied Research Institute Worldwide Corporation" – the so-called "AIR" model for the Republic of Serbia – were obtained empirically in 2019, which is particularly important given the widespread practice of many countries that, by analogy with similar

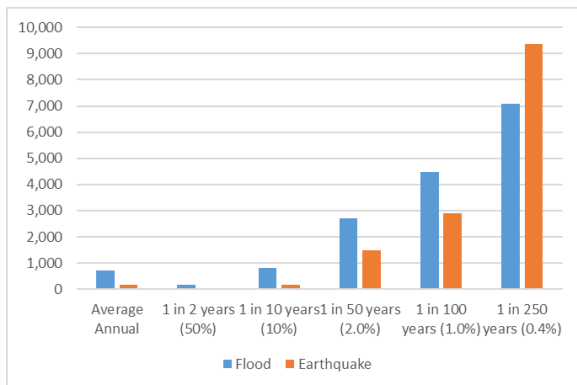
countries for which such data are available, typically use proxy data. By indexing these values for annual inflation and the growth of private and public fixed capital over the period 2019–2025, updated values have been derived and are used to estimate potential damage caused by floods and earthquakes of varying intensity.

In line with the above, estimates derived from the “AIR” model indicate that potential flood-related damages in the Republic of Serbia in 2026, depending on intensity and probability, may range from USD 166 million to USD 7.1 billion. Although earthquake risks are considered moderate, according to the same estimates, earthquake-related damages may range from USD 163 million up to as much as USD 9.4 billion, depending on the severity of a potential seismic event.

Depending on the type and intensity of a natural disaster, the expected contraction of GDP also varies, i.e. lower GDP growth is realized in the year in which the disaster occurs compared to the growth that would have been achieved had the disaster not taken place. When future expected costs are concerned, the fiscal effects of natural disasters—particularly in terms of their impact on the fiscal deficit and, consequently, on public debt—are even more pronounced, reflecting the magnitude of the expected negative impact of such shocks on macroeconomic stability, should they materialize.

Based on the model for assessing fiscal risks from natural disasters for the Republic of Serbia, it can be concluded that, in the event of an earthquake occurring in 2026, the fiscal deficit could increase by up to 2.6% of GDP per year.

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



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

Table 27 Changes in fiscal variables expressed as % of GDP for 2025, for the period 2026–2031, depending on the type of natural disasters

Expressed as % of estimated GDP for 2025		Event Probability	t (2026)	t+1 (2027)	t+2 (2028)	t+3 (2029)	t+4 (2030)	t+5 (2031)
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%	-0.4%	-0.4%	-0.3%	-0.2%	-0.1%	-0.1%
		1.00%	-0.7%	-0.8%	-0.5%	-0.4%	-0.2%	-0.2%
		0.40%	-2.3%	-2.6%	-1.7%	-1.2%	-0.7%	-0.7%
	Public debt	Annual	0.0%	-0.1%	-0.1%	-0.1%	-0.2%	-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%	-0.2%
		2.00%	-0.4%	-0.8%	-1.0%	-1.2%	-1.4%	-1.5%
		1.00%	-0.7%	-1.5%	-2.0%	-2.4%	-2.6%	-2.9%
		0.40%	-2.3%	-4.9%	-6.6%	-7.8%	-8.5%	-9.2%
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%	-0.7%	-0.8%	-0.5%	-0.3%	-0.2%	-0.2%
		1.00%	-1.1%	-1.2%	-0.8%	-0.6%	-0.3%	-0.3%
		0.40%	-1.7%	-2.0%	-1.3%	-0.9%	-0.5%	-0.5%
	Public debt	Annual	-0.2%	-0.4%	-0.5%	-0.6%	-0.6%	-0.7%
		50%	0.0%	-0.1%	-0.1%	-0.1%	-0.2%	-0.2%
		10%	-0.2%	-0.4%	-0.6%	-0.7%	-0.7%	-0.8%
		2.00%	-0.7%	-1.4%	-1.9%	-2.3%	-2.5%	-2.7%
		1.00%	-1.1%	-2.3%	-3.1%	-3.7%	-4.1%	-4.4%
		0.40%	-1.7%	-3.7%	-5.0%	-5.9%	-6.4%	-7.0%

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

In the period following the major floods of 2014 and the subsequent reconstruction cycle, these instruments have been continuously planned in line with realistic budgetary capacities and the principle of prudent fiscal management, which implies a balance between the need to allocate reserves and the constraints of overall fiscal space. In this context, the level of allocated funds reflects the need to simultaneously ensure an adequate response to potential risks and preserve the sustainability of public finances in the medium term.

The permanent budget reserve is planned annually within legally defined limits, with its level determined in accordance with overall macroeconomic developments, budget policy priorities, and the assessment of total fiscal risks, while aiming to ensure

an optimal balance between fiscal security and efficient allocation of budget resources.

Compensation for damages caused by natural disasters or other natural causes (economic classification 484) is an instrument which, in addition to its primary purpose, may also be used to provide initial financial support in post-disaster circumstances. No statutory minimum or maximum limit is prescribed for the annual planning of this budget line, which allows flexible adjustment of funds in line with risk assessment and available fiscal space.

Given that in the previous period expenditure on this item amounted to several hundred million dinars annually, in the absence of major natural disasters, budget planning is based on realistic macro-fiscal assumptions and past experience. In this context, the level of allocated funds reflects the principle of

rational public financial management, while maintaining the capacity of the budget to ensure an adequate state response in emergency circumstances within available fiscal policy instruments.

Local self-government units (hereinafter: LSGs), with their local budgets and other available resources, represent the first line of defence in the event of natural disasters on their territory, in accordance with the existing legislative framework. They have significant responsibilities in disaster risk management, maintenance of a large part of infrastructure and communal systems within their jurisdiction, and are obliged to provide assistance in recovery and damage mitigation. The elimination of financial consequences of natural disasters at the level of LSGs is regulated by several laws: the Budget System Law, the Law on Local Self-Government, the Law on Local Government Financing, and the Budget Law of the Republic of Serbia.

While reporting on damages caused by natural disasters is regular, reporting on prevention investments, preparedness plans and response measures, available resources, and their maintenance remains at an unsatisfactory level, even in those local self-government units that have been significantly affected by such events in the past.

Practical experience shows that natural disasters generate significant costs for local government budgets, most often requiring additional transfers from the Republic budget. This risk could be reduced if LSGs made more efficient use of other financing instruments, such as adequate budgeting of permanent and current budget reserves, insurance of LSG-owned assets against natural disasters and catastrophes, and similar mechanisms.

At the level of all local self-government units in the Republic of Serbia, under economic classification 484 – “Compensation for damages caused by natural disasters or other natural causes”, planned funds amounted to RSD 345.5 million in 2021, while execution reached RSD 267.3 million, corresponding to an execution rate of 77.4%. In 2022, planned funds amounted to RSD 258.2 million, with execution of RSD 189.6 million (73.5%). In 2023, RSD 381.6 million was planned and RSD 291.9 million executed (76.5%). In 2024, planned funds amounted to RSD 296.8 million, while execution reached RSD 236.4 million (79.6%).

Finally, in 2025, RSD 259.0 million was planned, with execution by local self-government units amounting to RSD 211.9 million, or 81.8%.

Planned funds were sufficient to meet needs in the observed period, with a stable execution rate of approximately 75% to 82%, although it should be noted that no significant natural disasters occurred during this period. At the same time, improvements in the planning process are evident, as reflected in the reduced deviation between planned and executed amounts. Planning of the permanent budget reserve as the primary funding source in the event of natural disasters has also improved.

In order to strengthen fiscal resilience to disasters, a set of measures and activities is required, including regular assessment and quantification of fiscal risks associated with natural disasters based on modelling approaches, and the development of financial strategies under different disaster scenarios by type and intensity. In addition, it is necessary to improve the use of existing financing instruments, namely the permanent budget reserve (contingency reserve) and compensation for damages caused by natural disasters or other natural causes (account 484). Planning contingency reserves in annual budgets at levels closer to legal limits, and planning allocations for damages closer to historical execution levels, would positively contribute to fiscal resilience and post-disaster response capacity.

Furthermore, it is important to introduce systemic incentives for disaster insurance coverage in order to reduce reliance on direct state support, as well as to establish systematic reporting by local self-government units on compliance with legal requirements related to disaster risk management and on practices of disaster risk financing.

Functioning of Local Self-Government Units

With regard to local authorities within the territory of the Republic of Serbia, the Constitution of the Republic of Serbia, Article 146, stipulates that citizens are entitled to provincial autonomy and local self-government, which they exercise either directly or through their freely elected representatives. It further provides that autonomous provinces and local self-government units shall have the status of legal entities.

In this context, local self-government units are responsible for matters that can be most effectively and efficiently exercised within their respective territories, while certain responsibilities falling within the competence of the Republic of Serbia may be delegated to them where this is assessed as expedient.

For the performance of their competences, whether original or delegated, local self-government units are financed from their own budgets, which, pursuant to Article 5 of the Law on Local Self-Government Financing, are divided into:

1. **Original revenues** – revenues whose tax rates, as well as the method and criteria for determining their amount, are established by the local self-government unit;
2. **Shared revenues** – revenues whose tax base and rate, as well as the method and criteria for determining their amount, are defined by law, while revenues generated within the territory of the local self-government unit are allocated in whole or in part to that unit;
3. **Transfers** – non-earmarked or earmarked funds allocated by the Republic of Serbia or the Autonomous Province to local self-government units on the basis of predefined criteria;
4. **Borrowing proceeds** – revenues arising from borrowing activities;
5. **Other revenues and receipts established by law.**

Given the complexity of the functions performed by local self-government units, as well as the structure of their financing, it is necessary to identify fiscal risks that may have adverse effects both on the budgets of local self-government units and on the budget of the Republic of Serbia.

For the purpose of assessing the overall situation in local self-government units, the above-mentioned data for 2023, 2024, and 2025, as well as for the period January–April 2026, have been used.

The risk assessment is based on two indicators:

1. the index of self-financing capacity of local self-government units, and
2. the payment burden index.

Index for Assessing Self-Financing Capacity

The **Self-Financing Capacity Assessment Index** is designed to indicate whether local self-government units, on the basis of the revenues they generate, are able to meet their assumed obligations, i.e. to cover their expenditures and outlays.

Table 28 Self-Financing Capacity of LSGs

Risk Level	2023	2024	2025	Jan-Apr 2026
Normal risk	83	76	73	39
Under supervision	47	56	63	79
At risk	15	13	9	27

The analysis of data on the self-financing capacity of local self-government units (LSGs) in the period 2023–2026 indicates relatively stable structural relationships, with certain shifts in the distribution of fiscal self-financing capacity.

Overall, the observed changes primarily reflect a reallocation between the categories “normal risk” and “under supervision,” while changes within the “at risk” category are more pronounced in the most recent observation period.

Given that the data for 2026 refer to the January–April period, during which the execution of revenues and expenditures is typically lower compared to annual levels, these developments should be interpreted with caution and monitored against full-year outcomes.

The available data suggest a gradual decline in the number of local self-government units classified as having a stable self-financing capacity, accompanied by an increase in the number of units whose financial operations require enhanced monitoring and supervision. At the same time, the reduction in the number of LSGs classified as “at risk” during the 2023–2025 period indicates that a subset of local governments has achieved a degree of fiscal improvement and stabilization.

Overall, the most significant movements relate to the transition of LSGs from the “normal risk” category to the “under supervision” category, highlighting the need for continuous monitoring of self-financing capacity, as well as the importance of existing Ministry of Finance mechanisms for the timely identification of potential fiscal deviations.

In order to improve financial discipline at the local level, the Ministry of Finance has taken significant steps by introducing, for the first time in the Guidelines for the Preparation of Local Government Budget Decisions for 2026, formula-based limits for planning current revenues and expenditures, as well as for wage expenditures of employees. In addition, each local self-government unit has been provided with expenditure ceilings for 2026, including limits for current revenues and personnel costs.

The Ministry of Finance also continuously monitors the execution of local budgets on a daily basis through the SPIRI and ISKRA information systems, enabling the timely detection of potential deviations and the implementation of appropriate measures to safeguard the stability and proper functioning of local public finances.

Building on this approach, further improvements to the monitoring system for the self-financing capacity index of local self-government units are planned for 2027, including additional methodological harmonization of indicators, more precise definition of risk thresholds across categories, and strengthening of the analytical framework for early identification of deviations in revenue and expenditure structures. This continues the policy direction aimed at enhancing predictability, transparency, and the long-term sustainability of local public finances.

Payment Burden Index

The Payment Burden Index aims to assess the extent to which local self-government budgets are able to meet short-term payment obligations, the degree to which assumed liabilities affect their financial sustainability, and the capacity of local self-government units to service debt and interest obligations from current revenues.

Table 29 Payment Burden of Local Self-Government Units (LSGs)

Risk Level	2023	2024	2025	Jan - Apr 2026
Normal risk	78	88	96	86
Under supervision	43	34	20	32
At risk	24	23	29	27

Data for the 2023–2025 period indicate a gradual improvement in the risk structure across a larger number of local self-government units (LSGs), primarily reflected in a continuous increase in the number of LSGs classified under the “normal risk” category.

Overall, trends in the Payment Burden Index suggest that in the previous period there has been an improvement in the liquidity position of a significant number of local self-government units, as well as a strengthening of their capacity to service existing obligations from current revenues. At the same time, the presence of certain LSGs in the “under supervision” and “at risk” categories points to the need for continued monitoring and further strengthening of local public finance management frameworks, particularly in the areas of expenditure planning, liquidity management, and borrowing practices.

Data for the first months of 2026 should be interpreted in the context of seasonal budget execution patterns, as the first quarter is typically characterized by lower revenue realization and capital expenditure execution, which may temporarily affect liquidity indicators and payment burden metrics.

In order to control local government borrowing, the Ministry of Finance has undertaken significant measures in accordance with Articles 33–37 of the Law on Public Debt in recent years.

In this regard, local self-government units seeking to borrow for financing capital projects or short-term liquidity needs are required to obtain prior approval from the Ministry of Finance before adopting a municipal assembly decision on borrowing.

When reviewing borrowing requests, the Ministry of Finance primarily assesses whether local self-government units have complied with the guidelines set out in the Instruction for the Preparation of Local Government Budget Decisions for the current year. Units that fail to comply with these guidelines are not eligible to receive approval for borrowing.

In addition, the Law on Public Debt establishes borrowing limits linked to the level of current revenues realized in the previous budget year.

Local self-government units may borrow for liquidity purposes up to 5% of their current revenues from the previous budget year. Such loans must be repaid by the end of the current budget year and cannot be refinanced or carried over into the following year.

Borrowing for capital investment projects is limited to 50% of current revenues from the previous budget year, while the total annual debt service (principal and interest) on all outstanding long-term borrowing for capital investments must not exceed 15% of total current revenues realized in the previous year.

Through the application of these legal provisions, together with continuous oversight by the Ministry of Finance, the risk of over-indebtedness of local self-government units is effectively mitigated, ensuring that they are able to function normally and perform their statutory responsibilities.

Furthermore, in November 2023, local authorities were included in the Public Debt Reporting System for Autonomous Provinces and Local Self-Government Units (SIJD), which enables monitoring of borrowing and repayment data, cash investments, and issuance and repayment of securities, as well as the submission of borrowing approval requests.

The Ministry of Finance will continue to implement monitoring, analytical, and support measures for local self-government units in the forthcoming period, with particular focus on those units identified as having elevated risks in the areas of financial performance and liquidity.

6. Cyclically Adjusted and Structural Fiscal Balance

The cyclically adjusted fiscal balance represents the fiscal balance from which the estimated impact of the economic cycle has been excluded. The underlying identity can be expressed as follows:

$$FB = CB + CAB$$

where FB is the actual fiscal balance, CB is the cyclical component of the fiscal balance, and CAB is the cyclically adjusted fiscal balance. The purpose of this procedure is to isolate the part of the fiscal balance resulting from the output gap, i.e. the difference between actual and potential levels of economic activity. The actual fiscal balance will be equal to the cyclically adjusted balance in the case where the output gap is zero, i.e. when the actual level of GDP is equal to the potential level of GDP. The structural fiscal balance is then obtained by excluding one-off effects on both the revenue and expenditure sides, thereby providing an indicator of the more permanent, i.e. structural, fiscal position.

The fiscal space created in the previous period, as well as the significantly improved structural fiscal position of the country, enabled a relaxation of fiscal policy under crisis conditions.

With the outbreak of the COVID-19 pandemic in early 2020 and the introduction of measures to protect public health, the global economy entered an unprecedented crisis. The impact on the fiscal position was reflected in a decline in budget revenues, due to the slowdown in economic activity, as well as in a significant increase in expenditures, driven by higher healthcare costs and the adoption of a comprehensive package of support measures for the economy and citizens.

Under such circumstances, standard analysis of the economic cycle, the quantification of fiscal multipliers, and the assessment of the elasticity of the fiscal balance with respect to the output gap do not provide a fully reliable assessment of the country's fiscal position. The fiscal policy response to the complex economic situation caused by the pandemic was reflected in an extensive package of support measures for the economy and the population. Without these measures, the contraction of GDP in 2020 would have been significantly more pronounced, while the recovery in 2021 would have been slower and weaker. A deeper initial contraction of the economy would likely have had adverse effects on the medium-term dynamics of recovery as well.

Table 30 The Fiscal balance and components for the calculation of the cyclically adjusted balance during the period 2005–2029, % of GDP

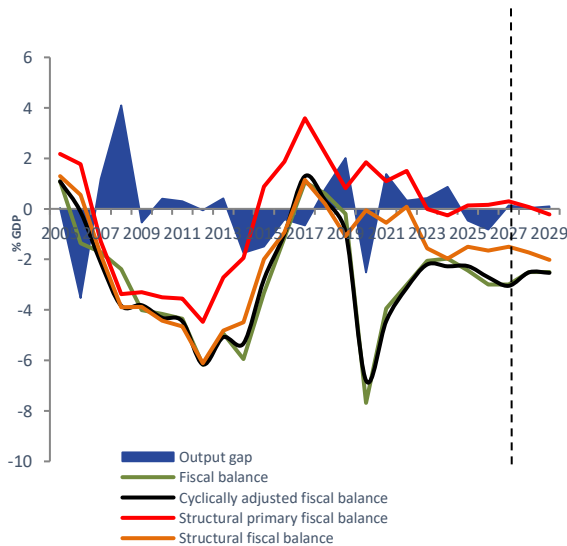
	Output gap	Fiscal balance	Primary fiscal balance	Cyclically adjusted fiscal balance	Cyclically adjusted primary fiscal balance	Structural fiscal balance	Structural primary fiscal balance	Fiscal impulse
2005	0.0	1.1	2.0	1.1	2.0	1.3	2.2	
2006	-3.5	-1.4	-0.1	-0.1	1.1	0.5	1.8	0.9
2007	1.2	-1.7	-1.2	-2.1	-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	-3.6	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	-0.5	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	-0.6	-1.6	0.0	-1.1
2024	0.9	-2.0	-0.3	-2.3	-0.6	-2.0	-0.3	-0.1
2025	-0.5	-2.4	-0.8	-2.3	-0.6	-1.5	0.1	0.1
2026	-0.8	-3.0	-1.2	-2.7	-0.9	-1.6	0.2	0.3
2027	0.1	-3.0	-1.2	-3.0	-1.2	-1.5	0.3	0.3
2028	0.0	-2.5	-0.7	-2.5	-0.7	-1.7	0.1	-0.5
2029	0.1	-2.5	-0.7	-2.5	-0.7	-2.0	-0.2	0.0

* For the period 2026–2029 the projected values are presented.

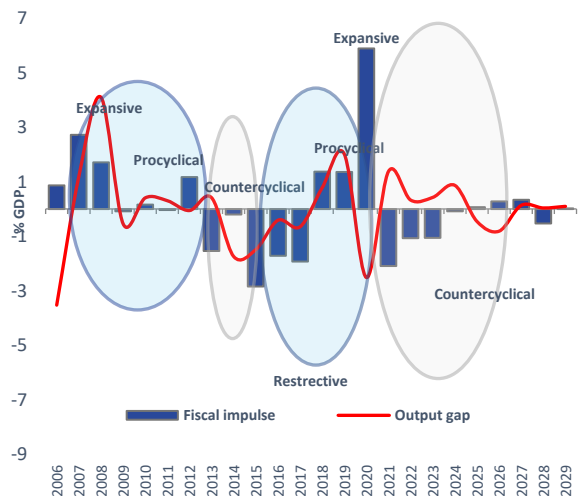
** The structural balances were obtained by excluding estimated one-time revenues and expenses. For the period from 2025 to 2028 one-time expenses include part of the capital expenditures for the EXPO 2027 exhibition as well as part of the expenses for military equipment.

Source: Ministry of Finance

Output gap Cyclically adjusted fiscal balance and Structural fiscal balance from 2005–2029, % of GDP*



The character and effects of fiscal policy in the period 2006–2029, % of GDP*



* For the period 2026–2029 the projected values are shown.

The structural fiscal position of the country was not significantly deteriorated in the period from 2020 to 2022, given that the support measures for the economy and the population were of a temporary nature. In addition, the energy crisis necessitated significant state interventions aimed at ensuring energy stability in 2022. For these purposes, expenditures amounting to 2.7% of GDP were incurred. During 2022, financial assistance to the population was also disbursed in the amount of 0.9% of GDP. In addition to direct expenditures on energy and support to households and the economy, assistance was also implemented through reductions in excise duties on petroleum products.

During 2023, changes in the structural position of the general government sector were partly driven by the application of the pension indexation formula in accordance with special fiscal rules, as well as by extraordinary pension increases in 2022 and 2023. The special fiscal rule establishes a direct link between the method of pension indexation and the share of this expenditure category in GDP. This systemic solution ensures that pension income and the standard of pensioners more closely follow the country's economic capacity, without jeopardising the sustainability of public finances. The remaining mild deterioration in the structural fiscal position resulted from an increase in the share of interest expenditures in GDP, as well as measures aimed at mitigating inflationary pressures in both domestic and international markets.

The extraordinary pension increase at the end of 2023, as well as the significant increase in child allowance in 2024, had a carry-over effect on the development of the structural balance in the subsequent period as well. In the period from 2023 to 2025, the increase in interest expenditures also contributed to a certain extent to the widening of the structural deficit.

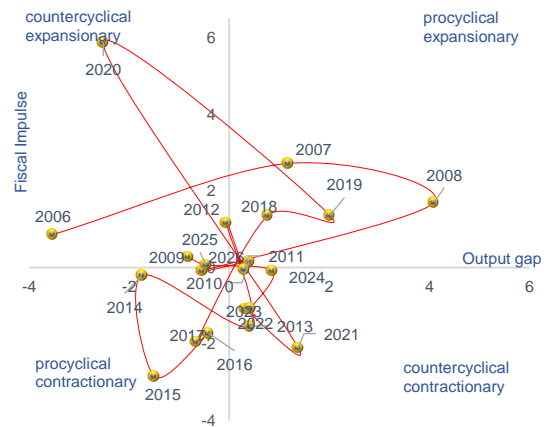
Fiscal impulse, defined as the difference between two consecutive cyclically adjusted (primary) balances, indicates that fiscal policy in 2020 was distinctly expansionary and countercyclical, aimed at mitigating the negative economic cycle. Due to the somewhat smaller scale of the economic support package in 2021, fiscal policy became more restrictive than in the previous year, while countercyclical in nature. For the

period 2022–2023, fiscal policy is assessed as mildly restrictive, despite significant expenditures aimed at mitigating the energy crisis. This is partly a consequence of the increase in interest expenditures, which are excluded from the calculation of the primary balance.

In the period 2025–2026, the fiscal stance, observed through changes in the output gap and the dynamics of the cyclically adjusted primary balance, is assessed as mildly expansionary and countercyclical, given the presence of a negative output gap. In 2027, fiscal policy remains expansionary, although the planned overall fiscal balance is unchanged compared to 2026. This is because, unlike the previous year, a positive output gap is projected in 2027, meaning that after excluding the effects of the economic cycle, the cyclically adjusted deficit increases. This period is characterised by the implementation of the investment cycle related to the EXPO 2027 event, as well as other infrastructure projects that may contribute to strengthening the economy's productive capacity and generate positive multiplier effects.

Following the completion of this investment cycle, in 2028 the fiscal impulse becomes more restrictive, in line with the planned reduction of both the overall and primary deficit. In this way, after a temporary development and investment-driven expansion, fiscal policy is gradually redirected towards preserving the sustainability of public finances and returning to a more neutral medium-term fiscal stance.

The character and effects of fiscal policy in the period 2006–2026, % of GDP



7. Simulation of the Public Debt Trajectory

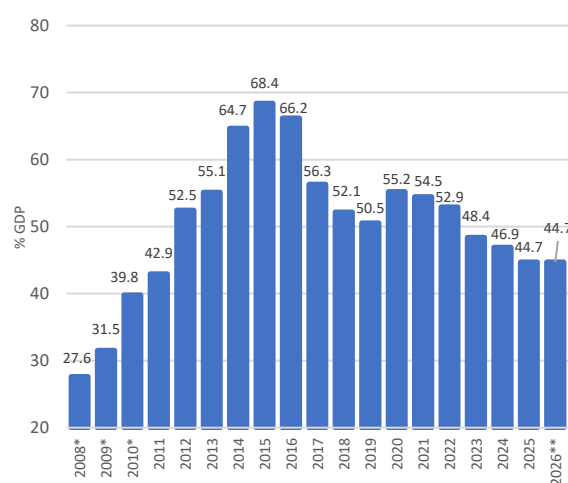
This section presents a concise retrospective overview of public debt developments in the period 2008–2026, as well as projections for the subsequent three-year period up to 2029, in line with the established medium-term fiscal framework. It also includes a simulation of alternative public debt trajectories over a longer horizon, from 2030 to 2036.

Historical overview (2008–2026)

The period from 2008 to 2014 was characterised by a continuous increase in the fiscal deficit, which, in 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 prioritisation of fiscal consolidation measures. Although initial steps towards fiscal consolidation were taken at the end of 2012 and during 2013, their effects were limited. The reduction in the primary deficit during that period was not sufficient to halt the increase in the public debt-to-GDP ratio.

A particular challenge was the rise in the informal economy following increases in tax rates, which reduced the effectiveness 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 2008–2026, % of GDP



* Approximation of the local debt

** Estimate for the year 2026

The results of the implementation of the more comprehensive fiscal consolidation package adopted at the end of 2014 became visible already in 2015, when the pace of public debt growth slowed, and in 2016 a reversal occurred, marking 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 stabilisation, and already in 2017, with a primary surplus of 3.5% of GDP, the public debt-to-GDP ratio decreased by around 10 percentage points to 56.3%. The downward trend continued in 2018 (52.1% of GDP), while fiscal relaxation in 2019 was carefully calibrated so as not to jeopardise the declining trajectory of public debt, as confirmed by the realised primary surplus of 1.7% of GDP.

The period from 2020 onwards was marked by the outbreak of the global health and economic crisis caused by the COVID-19 pandemic. Significant increases in fiscal expenditure, aimed at preserving lives and economic activity, led to a widening of the fiscal deficit (7.7% of GDP overall, of which 5.8% was a primary deficit), as well as to a reversal of the downward trend in public debt. Nevertheless, thanks to the previously implemented consolidation and stable access to international financial markets, the Republic of Serbia was able to ensure uninterrupted financing of the deficit and debt repayment. Despite the pronounced fiscal deficit during the health crisis, the general government debt-to-GDP ratio recorded a slight decrease in 2021, from 55.2% in 2020 to 54.5%, indicating the preservation of relative stability in public finances under heightened challenges.

The energy crisis during 2022 and 2023, accompanied by inflationary pressures, required a balanced approach combining fiscal support with expenditure control. Despite these challenges, primary deficits in this period remained moderate (1.6% of GDP in 2022, 0.5% in 2023, and 0.3% in 2024), enabling continued reduction in the debt-to-GDP ratio. In 2025, a primary deficit of 0.8% of GDP was recorded, while public debt declined below 45% of GDP (44.7% of GDP). For 2026, public debt is projected to remain at the level recorded in the previous year.

In line with the medium-term fiscal framework, in the period 2027–2029 a continuation of the downward public debt trajectory is expected, supported by carefully calibrated fiscal policy and moderate primary fiscal deficits. The achievement of a mildly but consistently positive primary stabilisation gap in each of these years will ensure that the public debt-to-GDP ratio continues to decline gradually.

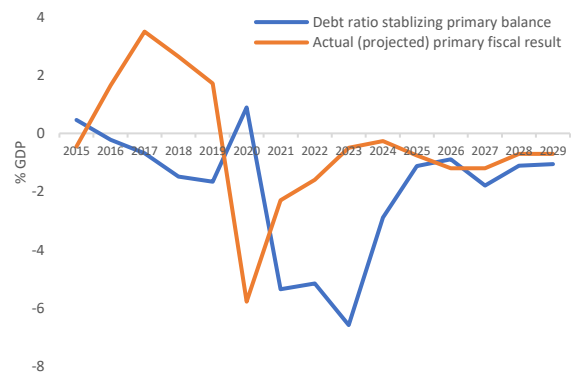
Analysis of the Primary Stabilisation Gap

The primary stabilisation gap represents the difference between the realised primary balance and the balance required to stabilise the 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 pronounced reduction in public debt was also achieved. A reverse trend was observed in 2020, during the pandemic period; however, from 2021 onwards the indicator returned to positive territory. In the period 2021–2024, the primary stabilisation gap again remained positive, creating conditions for a gradual reduction in the public debt-to-GDP ratio. In line with the fiscal framework presented in this document, moderately positive values of this indicator are projected for the upcoming medium-term period (2026–2029), supporting a continued sustainable debt trajectory.

Debt Dynamics Simulation (2030–2036)

With a view to strengthening medium- and long-term planning, simulations of public debt dynamics have been prepared under different scenarios for the period 2030–2036. These include a baseline scenario (based on assumptions of stable economic growth, a conservative fiscal policy, and moderate interest rates), as well as alternative scenarios incorporating shocks to GDP growth, 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 2026 to 2029 are provided.

Source: Ministry of Finance

The baseline public debt scenario presented in this document is based on maintaining the fiscal deficit at 3% of GDP in the period 2026–2027, followed by a gradual reduction to 2.5% of GDP in 2028 and 2029. Under such a deficit path, a continued downward trajectory of public debt is expected, with its share in GDP projected at 43.9% at the end of 2029.

For the period 2030–2036, a simulation of three different scenarios (a baseline and two alternative scenarios) of public debt dynamics has been conducted, assuming that in each case the government responds appropriately by adjusting the level of the fiscal deficit. Two of the three scenarios incorporate 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 in the period 2026–2029 is planned in accordance with the framework set out in this document. From 2030 onwards, the deficit is planned to be maintained at a level not exceeding 2.5% of GDP, although the applicable fiscal rules allow for higher deficits provided that the public debt remains below the threshold of 45% of GDP. This approach, together with other favourable assumptions, enables a continuous reduction in the debt ratio, projected at 43.1% of GDP in 2036;

- The average real GDP growth rate is projected at 3.7% in the long run, representing a growth level that enables the preservation of a favourable public debt dynamics even under conditions of a moderately expansionary fiscal policy;
- Inflation is expected to stabilise and remain at an average level of 3% over 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, a higher share of investment and exports, and the absence of significant changes in tax policy. At the same time, capital expenditure is maintained at a relatively high level in support of economic growth;
- After 2029, no new net increase in state guarantees is expected, thereby limiting potential liabilities arising from this source;
- No privatisation revenues are projected. Should they nevertheless materialise, they would further reduce borrowing needs and accelerate the reduction of public debt.

The management and sustainability of public debt will be further supported by:

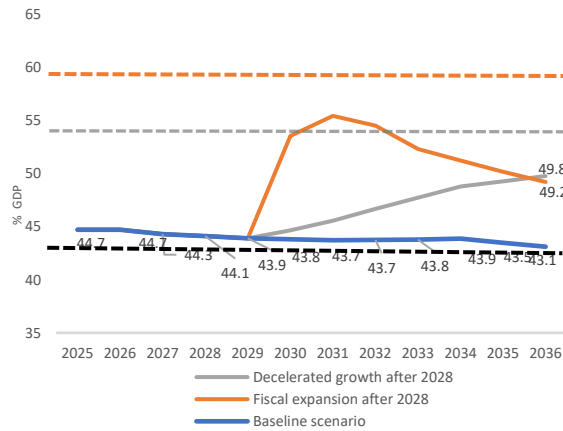
- limiting the contracting of new project loans in cases where previously approved loans have not been effectively utilised;
- repurchasing a portion of expensive debt using funds from more favourable loans or privatisation proceeds, where feasible;
- identifying and improving the management of fiscal risks.

Table 31 The simulation of the total debt level in the baseline scenario until 2036, % of GDP

Baseline scenario	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Revenues	40.9	40.9	40.2	39.9	39.7	39.5	39.3	39.1	38.9	38.7	38.5	38.3
Expenditures	43.4	43.9	43.2	42.4	42.2	42.0	41.8	41.6	41.4	41.2	40.5	40.3
Decline in expenditure share		0.5	-0.7	-0.8	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.7	-0.2
Fiscal balance	-2.4	-3.0	-3.0	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.0	-2.0
Primary fiscal balance	-0.8	-1.2	-1.2	-0.7	-0.7	-0.6	-0.6	-0.6	-0.6	-0.6	-0.1	-0.1
Public debt % of GDP	44.7	44.7	44.3	44.1	43.9	43.8	43.7	43.7	43.8	43.9	43.5	43.1
Real GDP growth %	2.0	3.0	4.5	3.5	3.7	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 2029” and “Fiscal Shock after 2029”

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

The “**slower growth after 2029**” scenario assumes an average real GDP growth rate of 1.2% over the observed period, while maintaining the same level of fiscal deficit as in the baseline scenario. Under this scenario, public debt would record a moderate and continuous increase, reaching 49.8% of GDP by the end of 2035. Although the assumed fiscal deficit path prevents excessive debt accumulation, slower growth requires greater adjustment on the expenditure side of the budget. This implies the need to adjust the priorities and structure of public spending in order to preserve fiscal stability.

Although this scenario does not involve the materialisation of a strong one-off shock, it points to the long-term unsustainability of low economic growth rates from the perspective of the country’s economic and social development. Despite public debt remaining under control, weak economic growth limits the scope for structural reforms and investment.

The “**fiscal shock after 2029**” scenario considers a situation in which a significant extraordinary event occurs—whether natural, health-related, or economic—which simultaneously has a negative

impact on the real sector and fiscal indicators. In response to the emerging crisis, the state is forced to intervene through increased expenditure or temporary fiscal relief measures, leading to a deterioration of the budget position.

At the same time, the adverse impact on the real sector leads to a decline in GDP or a slowdown in its growth, accompanied by a corresponding reduction in budget revenues. The combined effect of these factors results in a sharp increase in the fiscal deficit and public debt. In the specific simulation, the deficit reaches 9% of GDP, with a real GDP contraction of 3.5%, resulting in a rise in public debt to 53.5% of GDP.

Although a rapid fiscal adjustment would be technically possible in order to achieve swift stabilisation, such an approach would generate adverse social and economic consequences. Therefore, gradual adjustment over the following two years is recommended. In 2031, a deficit of 3% of GDP is planned under the assumption of zero real growth, leading to a further slight increase in debt to above 55%. In 2032, with a planned minimal deficit of 0.5% of GDP, stabilisation and a reversal of the debt trajectory occur. In subsequent years, with the expected economic recovery and real growth of 3%, the debt ratio remains consistently below 55% of GDP, enabling a renewed relaxation of fiscal policy.

The presented simulations indicate possible directions for fiscal policy under different macroeconomic conditions and confirm that the baseline scenario defined in this fiscal framework is realistic, operational, and implementable. At the same time, they demonstrate that such a scenario fulfils its primary purpose—ensuring the long-term sustainability of the fiscal position, the stability of public finances, and resilience to potential shocks.

III PUBLIC DEBT MANAGEMENT STRATEGY FOR THE PERIOD 2027–2029

Pursuant to the Public Debt Law, which constitutes the legal basis for the borrowing of the Republic of Serbia, public debt comprises all direct liabilities of the Republic arising from borrowing activities, 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 both domestic and foreign currencies for the purposes of financing the budget deficit, covering current liquidity shortfalls, refinancing outstanding debt, financing investment projects, and fulfilling obligations arising from issued guarantees. The provisions of the Public Debt Law 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 associated costs.

The formulation of the Public Debt Management Strategy is based on a quantitative approach, identifying potential constraints through macroeconomic indicators, cost and risk analysis, and an assessment of market conditions affecting public debt management. For the purposes of the analysis, financing instruments available in both the domestic and international financial markets were taken into consideration. The Public Debt Management Strategy is founded on principles that emphasize the need for a transparent and predictable borrowing process, while supporting the continuous development of the government securities market and maintaining an acceptable level of exposure to financial risks.

Developments in both the international and domestic financial markets, the successful implementation of fiscal consolidation measures, and strong coordination between fiscal and monetary policies led to a significant decline in borrowing costs on 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, interest rates increased significantly as a result of external factors, a trend that continued throughout 2023. This trend reversed during 2024 and 2025, when interest rates gradually declined.

The Fiscal Strategy envisages a reduction in the general government debt-to-GDP ratio to 43.9% by the end of 2029. In line with the public debt management guidelines defined by the World Bank and the IMF, the Public Debt Management Strategy incorporates stress-scenario analyses to assess 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 extending the average maturity of dinar-denominated government securities and reducing the financing costs associated with this form of borrowing, thereby lowering 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 end-2012 to 5.42% at end-March 2026.

The Public Debt Management Strategy sets out the key measures for the continued development of the domestic market for dinar-denominated government securities. The further development of this market is expected to contribute to an increase in domestic debt and its share in total public debt, while reducing the exposure of public debt to foreign exchange risk. This, in turn, is expected to have a positive impact on the credit rating of the Republic of Serbia.

Following the successful implementation of fiscal consolidation measures, the upward trajectory of public debt was reversed in 2016, leading to a decline in the public debt-to-GDP ratio. Specifically, public debt at the central government level decreased from 67.2% of GDP at end-2015 to 65.2% of GDP at end-2016. During 2017, the ratio declined significantly further to 55.5% of GDP. This trend continued in 2018, when the public debt-to-GDP ratio fell to 51.4%, and in 2019, when it decreased to 49.7% of GDP. In order to mitigate the impact of the crisis caused by the COVID-19 pandemic, additional financing was required to support the economy and citizens, resulting in an increase in the public debt-to-GDP ratio to 54.4% at end-2020. During 2021, the ratio recorded a slight decline, reaching 53.9% of GDP at year-end. The positive trend continued in

subsequent years, with the ratio declining to 52.4% at end-2022, 48.0% at end-2023, 46.7% at end-2024, and 44.4% at end-2025. As of end-March 2026, the public debt-to-GDP ratio stood at 41.8%.

As a result of enhanced control over the issuance of guarantees during the past decade, guaranteed public debt has been significantly reduced, declining from EUR 2.8 billion at end-2013 to EUR 1.7 billion at end-March 2026. Over the same period, its share in GDP decreased from 7.6% to only 1.8%.

The positive fiscal performance achieved by the Republic of Serbia has also been reflected in the country's credit rating developments in recent years. Owing to the responsible macroeconomic policies consistently pursued over a prolonged period, Serbia obtained an investment-grade credit rating for the first time. On 4 October 2024, the credit rating agency S&P Global Ratings upgraded the sovereign credit rating of the Republic of Serbia to investment grade, assigning a BBB- rating with a stable outlook, which was reaffirmed in its latest report of 16 March 2026. In its most recent report dated 23 January 2026, Fitch Ratings affirmed Serbia's credit rating at BB+ with a positive outlook. Likewise, Moody's Ratings confirmed Serbia's sovereign credit rating at Ba2 with a stable outlook in its latest report of 2 March 2026. The attainment of investment-grade status is expected to contribute significantly to a further reduction in the Republic of Serbia's financing costs. It is anticipated that the investor base will broaden, as certain investors have previously refrained from investing in Serbian government bonds due to internal investment policies prohibiting investments in non-investment-grade countries or due to exposure limits applicable to such markets. This is expected to support lower borrowing costs in both the domestic and international financial markets, reflecting the reduced risk profile of instruments issued by the Republic of Serbia. Lower borrowing costs are expected to generate budgetary savings while simultaneously reducing the overall risk profile of the public debt portfolio.

During 2020, the Republic of Serbia issued Eurobonds on two occasions in order to finance the package of support measures for the economy and citizens aimed at mitigating the impact of the COVID-19 pandemic crisis, as well as to refinance and prepay

previously issued high-cost Eurobonds. The first Eurobond issuance took place on 15 May 2020, denominated in euros, at the most challenging stage of the first wave of the pandemic, in a total amount of EUR 2.0 billion. The bond carried a coupon rate of 3.125% and matures in 2027. The second Eurobond issuance was completed on 1 December 2020, in a total amount of USD 1.2 billion, with maturity in 2030. The coupon rate amounted to 2.125%, while the effective interest rates in euro terms, following the execution of hedging transactions, currently stand at 1.263% and 1.236%, respectively. The return to the U.S. dollar-denominated bond market through a new issuance denominated in U.S. dollars enabled Serbia to maintain its presence in the Emerging Markets Bond Index (EMBI), thereby ensuring its visibility in the U.S. capital market as well as across the broader international investment landscape. The proceeds from the December 2020 Eurobond issuance were used to prepay USD 900 million of the Eurobonds issued in 2011, out of a total outstanding amount of USD 1.6 billion that was scheduled to mature in September 2021. The repurchased bonds had originally been issued with a coupon rate as high as 7.25%, resulting in significant interest cost savings for the Republic of Serbia.

In order to reduce financing costs and extend the maturity profile of its debt, the Republic of Serbia successfully took advantage of the still favorable conditions in the international financial markets on 3 March 2021 and, for the first time, issued twelve-year euro-denominated Eurobonds in the amount of EUR 1.0 billion at a coupon rate of 1.65%. On 23 September 2021, the Republic of Serbia further diversified its funding sources 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 rate ever achieved by the Republic of Serbia in the international financial market. Serbia thus joined a select group of European countries that have issued Green Eurobonds in the international financial markets exclusively for financing environmentally sustainable projects. At the same time, alongside the Green Eurobond issuance, the Republic of Serbia issued a fifteen-year Eurobond—the longest maturity ever achieved by the country—amounting to EUR 750 million and carrying

an annual coupon rate of 2.05%, thereby further extending the maturity profile of public debt.

In January 2023, the Republic of Serbia issued Eurobonds with five-year and ten-year maturities in a total amount of USD 1.75 billion (USD 750 million with a five-year maturity and USD 1.0 billion with a ten-year maturity). The five-year Eurobond was issued with a coupon rate of 6.25%, while the ten-year Eurobond was issued with a coupon rate of 6.50%. On 12 June 2024, the Republic of Serbia successfully completed the issuance of Sustainable (ESG – Environmental, Social and Governance) U.S. dollar-denominated Eurobonds in the international financial market. The ten-year bond was issued in a total amount of USD 1.5 billion and carried a coupon rate of 6.00%.

In May 2026, the Republic of Serbia issued Eurobonds in three tranches. The first tranche, amounting to EUR 1.0 billion, was issued with a five-year maturity and a coupon rate of 4.25% and was used for the early redemption of bonds maturing in 2027. The second tranche, amounting to EUR 900 million, was issued with a twelve-year maturity and a coupon rate of 4.875%. This tranche was issued as a Green Bond, with the proceeds earmarked exclusively for the financing of environmentally sustainable projects, including the modernization of railway infrastructure, the procurement of rolling stock, the Belgrade Metro project, and other eligible green investments. The third tranche, amounting to USD 1.25 billion and carrying a ten-year maturity, was issued with a coupon rate of 5.50%. As part of its active public debt management policy, the Republic of Serbia immediately executed a financial hedging transaction, converting the U.S. dollar-denominated liability into euro-denominated debt with an effective coupon rate of 4.66%.

In addition to the most recent hedging transaction described above, the Republic of Serbia has undertaken similar transactions in previous years in order to minimize the risks arising from the volatility of the U.S. dollar exchange rate against the Serbian dinar. In December 2020, Serbia executed its first hedging transaction involving the use of financial derivatives for protection against foreign exchange and interest rate risks, in accordance with international ISDA (International Swaps and

Derivatives Association) standards. Specifically, a cross-currency swap transaction was implemented, converting the liabilities arising from the U.S. dollar-denominated bond issuance into euro-denominated liabilities at a significantly lower effective interest rate. As a result, obligations related to the USD 1.2 billion bond issuance are now serviced in euros at coupon rates of 1.263% and 1.236% on the converted nominal amount of EUR 1.016 billion. The transaction capitalized on the favorable EUR/USD exchange rate prevailing at the time, as well as on the divergence between U.S. dollar and euro interest rates in the international capital markets, thereby securing highly favorable financing terms while optimizing the currency composition of public debt and reducing exposure to foreign exchange risk.

In January 2021, the Republic of Serbia executed a second swap transaction, through which the liability arising from the Debt Rescheduling Agreement between the Republic of Serbia and the Kuwait Investment Authority was converted from U.S. dollars into euros at a significantly lower interest rate. Obligations under the rescheduled loan, originally contracted in U.S. dollars at an interest rate of 1.5%, are now serviced in euros at interest rates of 0.513% and 0.590%. In March 2021, a new swap transaction was concluded, converting into euros a loan from the Export-Import Bank of China that had been contracted in 2018 in Chinese yuan for the construction of the Belgrade Bypass on the E70/E75 motorway. The loan, which carried a fixed annual interest rate of 2.50% in Chinese yuan, was converted into euro-denominated obligations at a fixed interest rate of 0.09%. On 24 November 2021, a fourth swap transaction was executed, converting into euros the liabilities arising from a loan extended by the Abu Dhabi Fund for Development in 2016. The loan had originally been denominated in UAE dirhams, with payments made in U.S. dollars. The debt obligations under this loan, which carried a fixed annual interest rate of 2.25%, were converted into euro-denominated obligations at an annual interest rate of 0.96%. In 2023, hedging transactions were executed immediately following the issuance of Eurobonds, whereby the liabilities arising from the U.S. dollar-denominated Eurobond issuance were converted into euro-denominated liabilities. Following the completion of the cross-currency swaps, the variable

interest rate on the five-year bond was set at six-month EURIBOR plus 2.908%, while the rates applicable to the ten-year bond were established at six-month EURIBOR plus 3.473%, six-month EURIBOR plus 3.286%, and six-month EURIBOR plus 3.450%, respectively. In June 2024, simultaneously with the issuance of a ten-year U.S. dollar-denominated Sustainable (ESG – Environmental, Social and Governance) Eurobond carrying a coupon rate of 6.0%, a swap transaction was concluded under which the U.S. dollar-denominated liabilities were converted into euro-denominated obligations at a fixed interest rate of 4.754%.

During 2020, the Republic of Serbia continued the issuance of benchmark bonds in the domestic market. Benchmark bonds with maturities of 5.5 and 12.5 years were issued in a nominal amount of RSD 100 billion each, with their outstanding volumes subsequently increased to RSD 150 billion during 2021. On 30 June 2021, Serbia's dinar-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 represented a significant step forward in enhancing the liquidity of the secondary market for government securities and attracting new international investment funds, thereby increasing competition and contributing to a further reduction in borrowing costs. In March 2024, the Republic of Serbia's eight-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 31 March 2025, a new dinar-denominated benchmark bond maturing on 27 July 2035 (RSMFRSD34101) was included in the J.P. Morgan Government Bond Index–Emerging Markets (GBI-EM) Global Diversified Index. Furthermore, on 27 February 2026, the Republic of Serbia's five-year benchmark bond, issued in 2025 with a nominal value of RSD 135 billion, was added to the J.P. Morgan GBI-EM Index, further strengthening the presence of Serbian government securities in key international emerging market bond indices.

In October 2021, Clearstream, an international central securities depository (ICSD) providing clearing and settlement services, opened a securities account with the domestic central securities depository and, through an intermediary authorized to operate in the local market, enabled foreign investors to settle

Serbian dinar-denominated government bonds through its international settlement infrastructure.

Foreign exchange risk was reduced over the previous years, although this indicator deteriorated somewhat in recent years due to specific market circumstances and the need for more intensive use of international financial markets in order to minimize borrowing costs. The share of public debt denominated in domestic currency in total central government public debt amounted to only 2.6% at end-2008 and increased to 30.5% by end-2020. However, following a greater reliance on external borrowing due to more favorable financing conditions, this share declined to 21.1% at end-March 2026. The increase in dinar-denominated debt over previous years was primarily driven by the issuance of dinar-denominated government securities in the domestic market. During 2019 and 2020, the Republic of Serbia carried out the early redemption of high-cost U.S. dollar-denominated Eurobonds issued in 2011 and 2013, while the U.S. dollar-denominated bond issued in 2013 was repaid at maturity in February 2020. In December 2020, the first hedging transaction was executed, under which a U.S. dollar-denominated Eurobond issuance was immediately converted into euro-denominated debt. In January 2021, an additional hedging transaction was concluded, converting U.S. dollar-denominated liabilities into euro-denominated obligations. Further hedging transactions were carried out in January 2023 and June 2024, whereby newly issued U.S. dollar-denominated Eurobonds were immediately converted into euro-denominated liabilities. As a result of these transactions, the share of U.S. dollar-denominated debt in total public debt declined significantly, from 33.9% at end-2016 to 12.1% at end-March 2026.

Borrowing costs have also been significantly reduced over recent years. Interest expenditure as a share of GDP (at the central government level) declined from 2.8% in 2015 to 1.8% in 2025, reflecting the improved cost efficiency of public debt financing and management.

At end-March 2026, the total outstanding public debt of the general government sector amounted to RSD 4,657.0 billion, equivalent to 42.1% of GDP of this amount, RSD 4,421.4 billion related to direct

obligations, RSD 199.3 billion to indirect obligations (government guarantees), while RSD 36.3 billion represented non-guaranteed debt of local government units.

Share of General Government Public Debt in GDP (%)

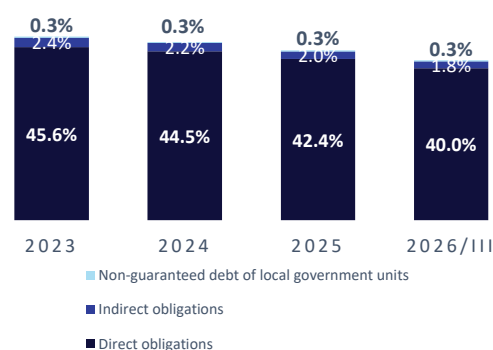


Table 32 General Government Public Debt of the Republic of Serbia, End-2023 – 31 March 2026

	2023	2024	2025	2026/III
Public debt of the general government (in billion RSD)	4,266.6	4,576.5	4,648.7	4,657.0
Public debt of the general government (in million EUR)	36,412.3	39,110.7	39,636.8	39,660.0
Public debt of the general government (in million USD)	40,301.1	40,702.5	46,525.7	45,493.9

In recent years, there has been a pronounced increase in public debt of the central government level denominated in euros, driven by favorable borrowing conditions on the international financial market which enabled multiple issuances of eurobonds denominated in euros and US dollars, with proceeds subsequently converted into euros immediately after each transaction. In addition, a portion of debt denominated in US dollars, Chinese yuan, and UAE dirhams has been converted into euros in order to reduce currency risk, given the significantly lower volatility of the euro–dinar exchange rate compared to the aforementioned currencies. It is expected that, due to new eurobond issuances planned for May 2026, this debt will further increase.

dollar-denominated debt in order to minimize currency risk, as well as the timing chosen for executing swap transactions. As a result of the concluded swap arrangements, and with the aim of further reducing currency risk, debt denominated in other currencies has also been significantly reduced.

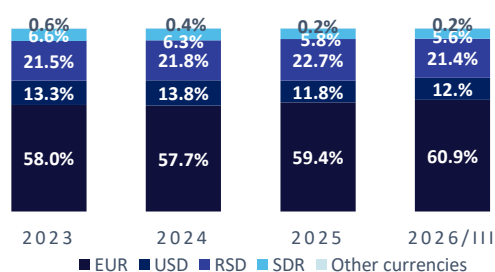
During 2024 and 2025, public debt denominated in dinars increased, followed by a slight decline in the first three months of 2026 due to repayments made at the beginning of the year. However, a moderate increase is still expected by the end of the year. Frequent fluctuations in the US dollar–dinar exchange rate fully justify the decision to significantly reduce

Table 33 Central government public debt by original currencies in the period end-2023–31 March 2026, in millions

	2023	2024	2025	2026/III
EUR	20,857.5	22,387.8	23,420.8	24,002.6
USD	5,364.6	5,607.1	5,485.2	5,447.2
RSD	917,800.7	991,640.9	1,039,156.8	974,135.1
CHF	9.7	0.0	0.0	0.0
SDR	1,988.6	1,973.1	1,966.4	1,867.8
Other currencies (in RSD)	22,793.5	17,784.7	11,089.7	10,876.4

As of 31 March 2026, the largest share of the public debt of the general government sector of the Republic of Serbia is denominated in euros, accounting for 60.9%. This is followed by the dinar with 21.4% and the US dollar with 12.0%. The remaining portion of the debt is denominated in Special Drawing Rights at 5.6% and in other currencies at 0.2%. Due to the continuous development of the domestic securities market and the gradual increase in the volume of domestic currency issuances, the share of debt denominated in local currency increased in previous years from 16.4% at the end of 2011 to 30.4% at the end of 2020. However, this trend reversed thereafter, reflecting higher financing needs and changing market conditions.

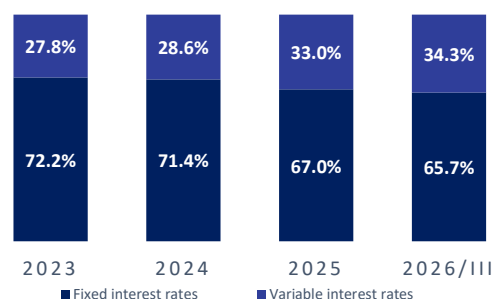
Currency structure of the public debt of the general government sector in the period from 2023 to 31 March 2026.



As of 31 March 2026, the largest portion of the public debt of the general government sector of the Republic of Serbia is carried at a fixed interest rate, accounting for 65.7% of total public debt, while 34.3% is linked to variable interest rates. Among variable-rate obligations, EURIBOR is the most represented benchmark, with a share of 71.9%, followed by the Special Drawing Rights (SDR)-linked variable rate at

16.2% and Belibor at 11.7%, while debt linked to other interest rate arrangements accounts for 0.1%.

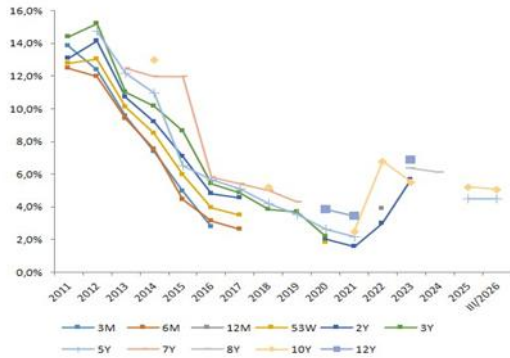
Structure of interest rates on public debt of the general government in the period from 2023 to 31 March 2026, %



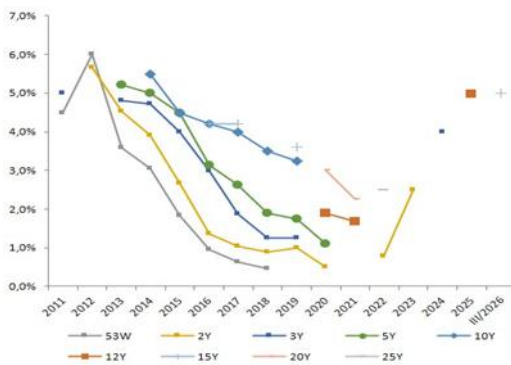
Between 2014 and 2021, there was a significant decline in borrowing costs, most notably for government securities issued on the domestic market. This decline was driven by the development of the government bond market, an improvement in the country's credit rating, i.e. a reduction in the risk premium, low inflation, and a reduction in the National Bank of Serbia's policy interest rate. The weighted average interest rate on public debt decreased from 5.70% at the end of 2014 to 2.53% at the end of 2021. A more pronounced decline was observed in dinar-denominated government securities, where the average weighted coupon rate fell from 10.68% at the end of 2014 to 5.42% at the end of March 2026. During 2022 and 2023, high inflation led to the most intense increase in global interest rates in this century, which was partially reflected in higher borrowing costs for the Republic of Serbia. In 2024, market conditions stabilized, leading to a decline in interest rates, a trend that continued into 2025. At the beginning of 2026, interest rates

rose again due to the crisis in the Middle East. At the end of March 2026, the weighted average interest rate on total public debt stood at 3.51%.

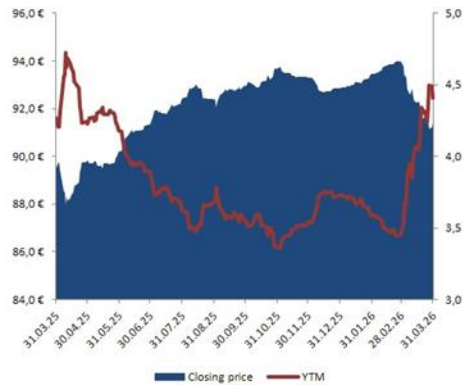
Overview of average executive interest rates on dinar-denominated government securities in the period 2011–31 March 2026



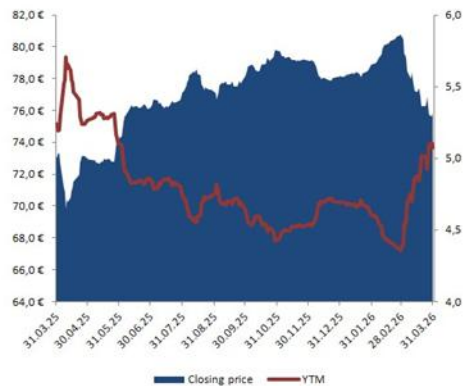
Overview of average executive interest rates on euro-denominated government securities in the period 2011–31 March 2026



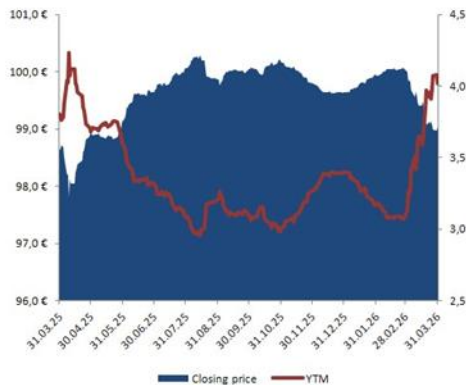
Overview of price and yield trends on the Eurobond Serbia (EB 2029 / 1,500%)



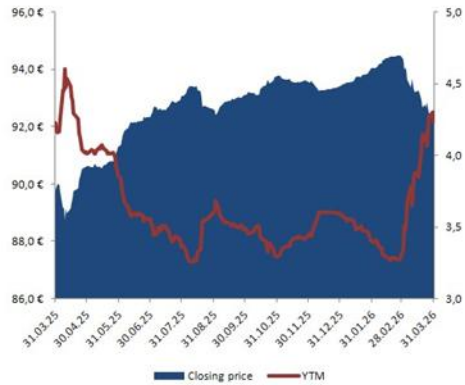
Overview of price and yield trends on the Eurobond Serbia (EB 2036 / 2,050%)



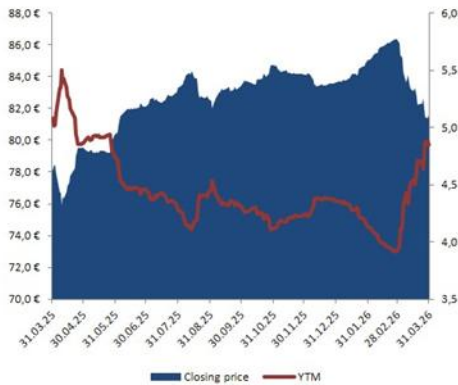
Overview of price and yield trends on the Eurobond Serbia (EB 2027 / 3.125%)



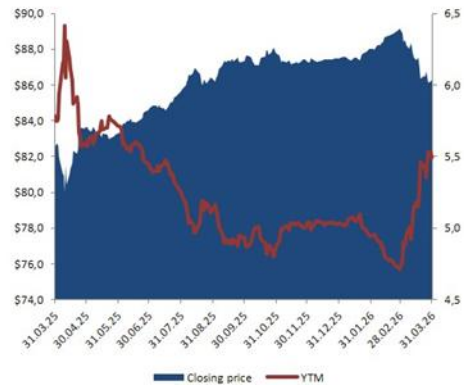
Overview of price and yield trends on the Eurobond Serbia (2028 / 1,000%)



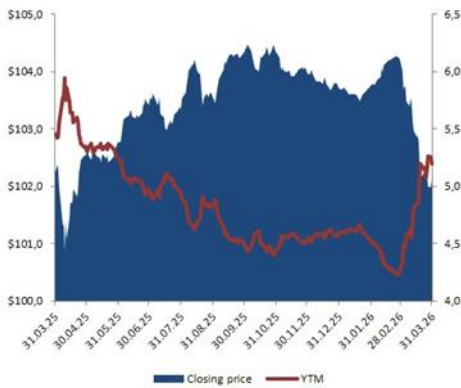
Overview of price and yield trends on the Eurobond Serbia (EB 2033 / 1,650%)



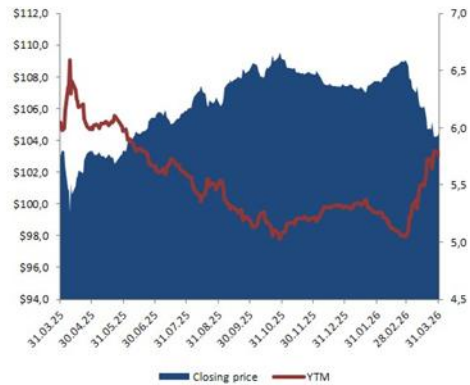
Overview of price and yield trends on the Eurobond Serbia (EB 2030 / 2,125%)



Overview of price and yield trends on the Eurobond Serbia (EB 2028 / 6,250%)



Overview of price and yield trends on the Eurobond Serbia (EB 2033 / 6,500%)



Overview of price and yield trends on the Eurobond Serbia (EB 2034 / 6,000%)

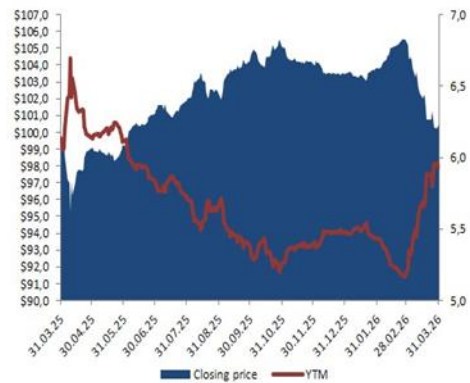


Table 34 Projections of interest and principal repayments until 2029 (billion RSD)

	2026 p	2027 p	2028 p	2029 p
Principal*	816.7	856.0	822.7	766.5
Interest	211.8	226.3	231.9	250.2
Total	1,028.5	1,082.3	1,054.6	1,016.7
As a share of public debt as of 31 March 2026	22.3%	23.4%	22.8%	22.0%

* including funds for buy-back operations

Table 35 Projections of interest and principal repayments until 2029 (% of GDP)

	2026 p	2027 p	2028 p	2029 p
Principal	7.4%	7.1%	6.4%	5.6%
Interest	1.9%	1.9%	1.8%	1.8%
Total	9.3%	9.0%	8.2%	7.4%

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

Projection of the public debt of the general government sector in the period 2026–2029.

Taking into account the projected primary budget balance of the Republic of Serbia for the period 2026–2029, including the volume of disbursements of credit funds for project financing by budget beneficiaries, as well as the effects of exchange rate movements of the dinar against the euro and the US dollar, under the baseline macroeconomic scenario the central government debt is expected to stand at 43.4% of GDP at the end of 2029.

Table 36 Baseline projection of the public debt of the general government sector until 2029

	2026 p	2027 p	2028 p	2029 p
Public debt (central government), billion RSD	4,906.2	5,270.2	5,594.8	5,945.2
Central government debt, % of GDP	44.3%	43.8%	43.6%	43.4%
Non-guaranteed debt of local government units*, % of GDP	0.4%	0.5%	0.5%	0.5%
General government debt, % of GDP	44.7%	44.3%	44.1%	43.9%

* and other government subsectors

At the end of 2026, the share of public debt of the general government sector in GDP is expected to reach 44.7%. In the following years, a gradual decline in the ratio is projected, which under the baseline scenario should amount to 44.3% at the end of 2027, 44.1% at the end of 2028, and 43.9% at the end of 2029. During this period, the implementation of major infrastructure projects is expected, financed predominantly through project loans, with a higher intensity of execution compared to the previous period. This represents a clear example of coordination between fiscal and development objectives. Fiscal sustainability and a gradual reduction in the debt-to-

GDP ratio are being maintained, while new borrowing is simultaneously used to improve infrastructure conditions that contribute to GDP growth, higher living standards, and increased investment. Non-guaranteed debt of local government units and other government subsectors is expected to remain relatively stable in the coming period, at a level between 0.4% and 0.5% of GDP.

Principles of public debt management

According to the Public Debt Law, the primary objective of borrowing by the Republic of Serbia and public debt management is to secure funds for the

regular financing of budgetary needs under the most favorable conditions and borrowing 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) To ensure financing of the fiscal deficit and the regular servicing of public debt obligations of the Republic of Serbia;
- 2) To define an acceptable level of risk, which should be determined through the targeted structure of the debt portfolio in terms of currency composition, interest rate structure, maturity profile, and debt instrument structure;
- 3) To continue the development of the government securities market issued on both domestic and international markets, which would contribute to reducing borrowing costs in the medium and long term;
- 4) To ensure transparency and predictability of the borrowing process.

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

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

The objective in the long term is for financing to be conducted 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 greater flexibility in the choice of financing sources and faster access to funding on the international market.

Borrowing in foreign currency, such as US dollars, entails exchange rate risk due to fluctuations in the euro–US dollar exchange rate; therefore, hedging instruments will be used to mitigate this risk.

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

Financial risks and measures for managing financial risks

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

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

1. refinancing risk
 - increasing the share of medium- and long-term financial instruments denominated in dinars on the domestic financial market;
 - ensuring an even distribution of public debt obligations on an annual basis over the long-term horizon;
 - extending the average maturity of debt issued in securities;
2. exchange rate risk
 - efforts to reduce the share of foreign currency-denominated debt while taking into account the costs of new borrowing (costs of debt de-dollarization/dinarization);
 - use of financial derivatives to limit the effects of fluctuations in reference exchange rates;

- ensuring that external debt is predominantly denominated in euros, with US dollar borrowing used only when financing in the international market is cheaper, accompanied by the use of financial derivatives to limit risk;
3. market risk (interest rate risk, inflation risk)
- efforts to extend the average maturity of domestic dinar-denominated debt;
 - ensuring that interest rate risk on external debt does not jeopardize the long-term objective of minimizing public debt costs;
4. liquidity risk
- maintaining a permanent level of cash balances in the accounts of the Republic of Serbia sufficient to ensure uninterrupted financing of obligations for a minimum period of four months, as well as to absorb potential shortfalls in borrowing inflows compared to the plan;
 - appropriate management of idle cash resources in the accounts of the Republic of Serbia in line with asset-liability management principles and available investment opportunities;
5. credit and operational risks
- conducting derivative transactions only with financial institutions that have a high credit rating;
 - using financial instruments that limit credit risk;
 - issuing guarantees and approving new borrowing for local government units only when an adequate analysis indicates a relatively low probability of guarantee activation or of local government insolvency in the medium term;
 - introducing appropriate internal controls in all business activities within the Public Debt Administration and enhancing staff expertise;
6. risks related to the distribution of debt servicing costs
- adequate annual borrowing planning and even distribution of obligations across future years and within the fiscal year in order to avoid the risk of high concentration of refinancing obligations;
 - avoiding the concentration of public debt obligations on a monthly basis that could not be absorbed by available cash balances in the accounts of the Republic of Serbia.

Analyses used in the preparation of the Public Debt Management Strategy

A quantitative approach to cost and risk analysis affecting public debt management was used in formulating the Public Debt Management Strategy.

Taking into account the macroeconomic environment and market conditions, alternative sources of financing are considered in a comparative framework.

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

Foreign currency-denominated sources of financing:

- 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;
- Loans denominated in dinars for financing major domestic projects.

Future market interest rates and scenario analysis

After selecting an appropriate structure of financing sources (selected and comparative financing strategies), a cost and risk analysis is carried out based on the baseline (most probable) scenario. This is followed by stress testing under additional scenarios—shocks—in order to obtain an overview of the cost implications of the considered strategies.

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

After defining the baseline scenario, additional shock scenarios were selected for stress testing purposes:

- a 15% depreciation of the dinar against all currencies in 2028. In this scenario, the euro–US dollar exchange rate remains stable, while only the dinar depreciates against both currencies;
- an increase in domestic and international market interest rates by 2 percentage points;
- an increase in international market interest rates of up to 3 percentage points, and in domestic market interest rates of up to 4 percentage points;
- a combined shock involving a 15% depreciation of the dinar against the US dollar in 2028 and an increase in interest rates by 2 percentage points

Alternative borrowing strategies for the period 2027–2029

Based on the World Bank Medium-Term Debt Strategy Model (MTDS), the following alternative borrowing strategies were analyzed:

Baseline strategy (S1): This strategy covers total budget financing needs through a combination of foreign- and domestic-currency funding sources, with a slightly higher share of foreign currency. Foreign currency budget financing sources mainly consist of proceeds from eurobond issuances on international financial markets with maturities of ten, twelve, and fifteen years, as well as policy/program loans from various creditors. Domestic currency budget financing sources consist of proceeds from the issuance of government securities on the domestic financial market (with a dominant share of ten-year government bonds, but also planned issuances with maturities of twelve, seven, five, and four years). Project financing, as in previous years, is largely provided through foreign currency-denominated credit arrangements, although an increasing share of domestic currency-denominated loans from domestic creditors is also becoming evident. Strategy S2: Compared to S1, the entire financing requirement is met through the issuance of eurobonds denominated in US dollars, with maturities of ten and fifteen years. Strategy S3: Compared to S1, the entire financing requirement is met through the issuance of eurobonds denominated in euros, with maturities of

ten and fifteen years. Additional dinarization strategy (S4): This strategy is fully based on the issuance of dinar-denominated securities with a maturity of twelve years

Comparison of alternative strategies

For comparing alternative borrowing strategies, two cost measures were applied: the public debt-to-GDP ratio and nominal interest payments as a percentage of GDP. The first measure is an indicator of stock, while the second is an indicator of flow. For comparison purposes, attention is focused on the results of the analyzed strategies at the end of 2029.

Based on the graphical representation, the costs associated with each of the considered strategies are clearly observed. The cost of alternative strategies under the baseline macroeconomic scenario is shown on the vertical axis of the cost diagram, while the horizontal axis presents the potential cost of each borrowing strategy, i.e. the outcome of the stress test.

Under the baseline macroeconomic scenario at the end of 2029, measured by the debt-to-GDP ratio, strategies S2 and S4 exhibit the highest costs, while strategies S1 and S3 are positioned at a somewhat lower cost level. On the other hand, the greatest risk to the debt-to-GDP ratio in the event of deviations from the baseline macroeconomic scenario arises from exchange rate movements. From the perspective of the impact of exchange rate shocks on the debt-to-GDP ratio, strategy S4 performs best, as it is fully financed in domestic currency. In contrast, strategies S2 and S3 are more exposed to exchange rate risk, as financing is entirely based on foreign currency sources. Strategy S1 has a more favorable risk profile compared to S2 and S3, as it combines financing in both domestic and foreign currencies, thereby partially mitigating exchange rate exposure.

From the perspective of interest payments as a share of GDP, the most expensive strategies are S4 (issuance of dinar-denominated bonds) and S2 (issuance of eurobonds in US dollars), followed by strategy S3 (issuance of eurobonds in euros), while strategy S1 is the most favorable. The results of the stress test indicate that the largest risk to the interest-to-GDP ratio, in the event of a deviation from the baseline scenario, stems from an interest rate shock, which is more pronounced on the domestic than on

the international market. As a result, strategy S4 exhibits the highest risk in terms of changes in the interest-to-GDP ratio. This is followed by strategies S2 and S3, which rely on market-based instruments that are also exposed to international interest rate shocks. In contrast, strategy S1 shows a more moderate risk profile, as this risk is mitigated by the presence of concessional instruments with fixed interest rates.

Debt-to-GDP ratio at the end of 2029



Interest-to-GDP ratio at the end of 2029

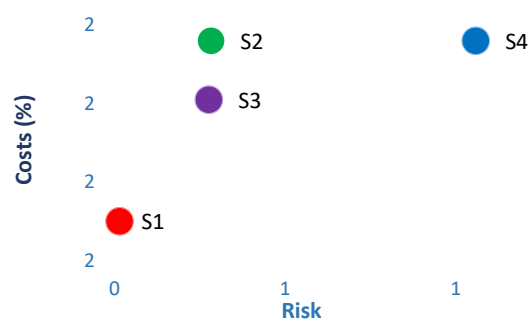


Table 37 Public debt-to-GDP ratio at the end of 2029

Scenarios	S1	S2	S3	S4
Baseline scenario	43.4	43.6	43.5	43.6
Exchange rate shock (15% all currencies)	46.9	47.4	47.3	46.1
Interest rate shock (Scenario 1)	43.7	44.0	43.9	44.0
Interest rate shock (Scenario 2)	44.0	44.2	44.2	44.5
Combined shock (15% USD and Interest rate shock 1)	44.1	45.7	44.4	44.4
Maximum risk	3.49	3.86	3.85	2.58

Table 38 Interest payments-to-GDP ratio at the end of 2029

Scenarios	S1	S2	S3	S4
Baseline scenario	1.8	1.9	1.9	1.9
Exchange rate shock (15% all currencies)	1.9	2.0	2.0	1.9
Interest rate shock (Scenario 1)	2.1	2.2	2.2	2.2
Interest rate shock (Scenario 2)	2.2	2.4	2.4	2.6
Combined shock (15% USD and Interest rate shock 1)	2.1	2.3	2.2	2.2
Maximum risk	0.40	0.46	0.46	0.61

The following table presents the evolution of the key public debt parameters under all four considered strategies, reflecting the above-mentioned characteristics of each strategy.

Table 39 Risk indicators for alternative strategies at the end of 2029

		S1	S2	S3	S4
Nominal debt (% of GDP)		43.4	43.6	43.5	43.6
Applied interest rate (%)		4.47	4.74	4.66	4.74
Refinancing risk	ATM ⁷ external portfolio (in years)	8.2	9.5	9.5	7.2
	ATM domestic portfolio (in years)	5.1	3.3	3.3	7.7
	ATM total portfolio (in years)	7.3	8.7	8.7	7.5
Interest rate risk	ATR ⁸ (in years)	5.0	7.2	7.3	6.1
	Refixing (% of total debt)	33.8	22.5	22.5	22.5
	Fixed-rate debt (% of total debt)	72.3	83.5	83.5	83.5
Exchange rate risk	Foreign currency-denominated debt (% of total debt)	71.8	86.6	86.6	39.5

Stress test analysis

Based on the projected macroeconomic framework, and in the absence of the impact of potential risks, central government debt is expected to reach 43.4% of GDP at the end of 2029.

The main factors contributing to 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.

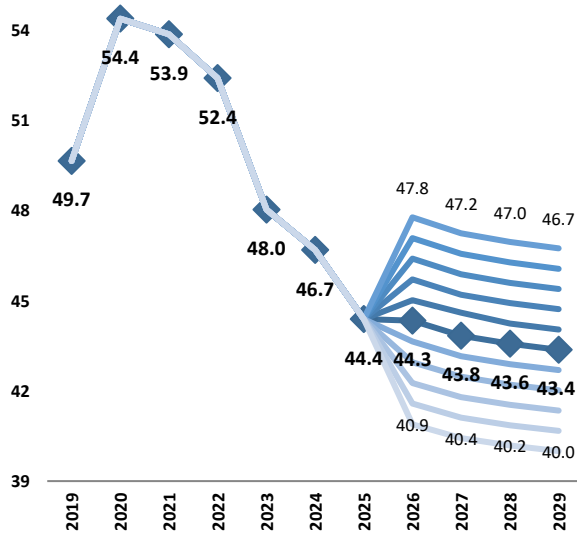
Table 40 Contributions of key macroeconomic variables to changes in the public debt (central government)–GDP ratio, %

	2024	2025	2026 p	2027 p	2028 p	2029 p
Central government debt/GDP	46.7	44.4	44.3	43.8	43.6	43.4
Change compared to the previous year (% of GDP)	-1.3	-2.3	-0.1	-0.5	-0.3	-0.2
Contribution of primary fiscal balance	0.4	0.8	1.1	1.2	0.7	0.7
Contribution of interest payments	1.8	1.8	1.9	1.9	1.8	1.8
Contribution of nominal GDP growth	-4.6	-2.9	-2.7	-3.5	-2.8	-2.8
Contribution of other factors	1.1	-2.0	-0.4	0.0	0.0	0.0

⁷ ATM (Average Time to Maturity)

⁸ ATR (Average Time to Refixing)

Impact of exchange rate movements of the dinar against the currency basket of the central government debt portfolio on changes in the public debt-to-GDP ratio



The chart illustrates the sensitivity of the central government public debt-to-GDP ratio to changes in the dinar exchange rate against the currency basket underlying the debt portfolio. Alongside the baseline projection, alternative scenarios are presented, assuming appreciation and depreciation of the dinar within a range of $\pm 10\%$ relative to the currency basket. Under these scenarios, the public debt-to-GDP ratio in 2029 is projected to range from 40.0% to 46.7%, while the baseline scenario projects a ratio of 43.4%.

In addition to the quantified factors presented above, the main risks to the implementation of the Strategy include the stability of the macroeconomic environment in the Republic of Serbia, the need for additional borrowing to address liabilities at other levels of government, within the public sector and the financial sector of the Republic of Serbia, as well as the potential calling of government guarantees.

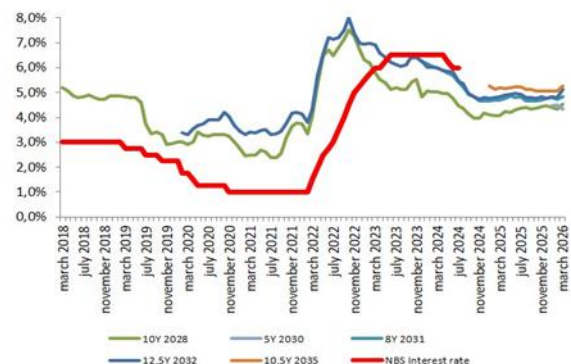
It should also be emphasized that a reduction in the public debt-to-GDP ratio is supported by prudent control over the issuance of guarantees and by further strengthening the process of prioritizing investment projects financed through credit facilities provided by multilateral and bilateral creditors.

Long-Term Strategic Framework for the Management of Public Debt

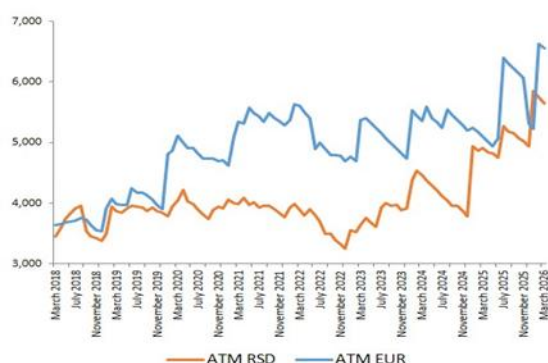
The primary strategic objectives to be pursued over the long term, in order to minimize the risks of increasing indebtedness and public debt servicing costs, are as follows:

- to maintain the share of dinar-denominated debt at no less than 30% of total public debt over the medium term;
- to maintain the share of euro-denominated debt at no less than 65% of foreign-currency public debt, including future borrowings and related transactions;
- to keep the share of debt with variable interest rates within the range of $25\% \pm 5\%$ over the medium term;
- to maintain the Average Time to Refixing (ATR) at a minimum of 5.0 years, in line with the above-mentioned objective of gradually reducing the share of variable-rate debt;
- to ensure that the Weighted Average Interest Rate (WAIR) on domestic-currency public debt does not exceed 6.0%;
- to limit the share of short-term debt (with an original maturity of up to one year) to no more than 20% of total public debt;
- to maintain the Average Time to Maturity (ATM) of domestic debt at no less than five years over the medium term;
- to maintain the Average Time to Maturity (ATM) of external debt at 8.0 ± 0.5 years over the same time horizon.

Movement of yields to maturity of dinar-denominated benchmark issues included in the GBI-EM Global Diversified Index on secondary trading



Average time to maturity (ATM) of government securities issued on the domestic financial market in the period March 31, 2018 - March 31, 2026



Measures for the Development of the Dinar-Denominated Government Securities Market in the Period 2026–2029

The government securities market, over the period from 2012 to March 2026, has been characterized by the successful achievement of the established strategic objectives, primarily with regard 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 predominated until 2010, to medium- and long-term financing instruments, accompanied by a continuous reduction in borrowing costs, has contributed to mitigating refinancing risk, one of the key risks in the public debt management process. At end-2013, long-term dinar-denominated instruments with an original maturity of three years or more accounted for 38.3% of the outstanding stock of dinar-denominated government securities. By end-March 2026, this share had increased to 100.0%.

Transparency in operations and reporting, as well as a continued presence in the international capital market, contribute to improved investor awareness and, consequently, greater interest among non-resident investors in debt instruments, particularly long-term dinar-denominated government securities, thereby supporting the expansion of a stable investor base. Following the successful issuance of benchmark securities in 2014 and 2015, the same practice continued in 2016. In February and July 2016, benchmark three-year and seven-year bonds were issued, each with a total issuance size of RSD 110.0

billion. In April 2017, a benchmark three-year bond with an issuance size of RSD 110.0 billion was issued. In January and February 2018, benchmark five-year and ten-year bonds were issued, each with a total issuance size of RSD 110.0 billion. In January 2019, benchmark three-year and seven-year bonds were issued in amounts of RSD 100.0 billion and RSD 150.0 billion, respectively. In January and February 2020, five-and-a-half-year and twelve-and-a-half-year bonds with semi-annual coupon payments were issued for the first time. Amendments to the Decree on General Terms and Conditions for the Issuance and Sale of Government Securities on the Primary Market (Official Gazette of the Republic of Serbia, Nos. 100/14, 78/17, 66/18, 78/18 and 140/20) enabled the reopening and increase of previously issued bond lines. Accordingly, in 2021 the issuance size of the five-and-a-half-year bonds (originally issued on 28 January 2020) and the twelve-and-a-half-year bonds (originally issued on 18 February 2020) was increased by RSD 50 billion each, while the issuance size of the ten-year bonds (originally issued on 6 February 2018) was increased by RSD 10 billion. During 2022, the issuance size of the ten-year bond series (originally issued on 6 February 2018) was further increased by RSD 25 billion.

These issuances significantly increased the volume of secondary market trading in these instruments, which also contributed to a decline in achieved yields at the reopening auctions of the respective bond issues. As of end-March 2026, non-resident investors held 12.9% of outstanding dinar-denominated government securities. On 30 June 2021, three benchmark dinar-denominated government bonds were included in the J.P. Morgan Government Bond Index – Emerging Markets (GBI-EM Global Diversified Index), with maturity dates of 11 January 2026 (RSMFRSD89592), 8 February 2028 (RSMFRSD55940), and 20 August 2032 (RSMFRSD86176). On 5 March 2024, a benchmark dinar-denominated government bond maturing on 26 October 2031 (RSMFRSD58761) was added to the J.P. Morgan Government Bond Index – Emerging Markets (GBI-EM Global Diversified Index). On 31 March 2025, a new benchmark dinar-denominated government bond maturing on 27 July 2035 (RSMFRSD34101) was included in the J.P. Morgan Government Bond Index – Emerging Markets (GBI-EM Global Diversified Index). On 27 February 2026, a new benchmark dinar-denominated

government bond maturing on 30 July 2030 (RSMFRSD91606) was included in the J.P. Morgan Government Bond Index – Emerging Markets (GBI-EM Global Diversified Index).

In 2023, two-year dinar-denominated government bonds were issued. The issuance size of the ten-year dinar-denominated bond was increased by RSD 18.4 billion, while the issuance size of the twelve-and-a-half-year bond was increased by RSD 50 billion. In October 2023, a new eight-year benchmark dinar-denominated bond was issued, with a total issuance size of RSD 110 billion. Among euro-denominated securities, two-year bonds were issued.

In 2024, the issuance size of the eight-year dinar-denominated bond (originally issued on 24 October 2023) was increased by RSD 40 billion. Among euro-denominated government securities, three-year bonds were issued.

In January 2025, a new ten-and-a-half-year benchmark dinar-denominated government bond was issued, with a total issuance size of RSD 120 billion. In February, the issuance size of this bond series (originally issued on 23 January 2025) was increased by RSD 60 billion. In July 2025, the Republic of Serbia issued five-year dinar-denominated bonds with a total issuance size of RSD 35 billion. Among euro-denominated government securities, twelve-year bonds were issued with a total issuance size of EUR 450 million.

In 2026, the issuance size of the five-year bond (originally issued on 28 July 2025) was increased by an additional RSD 100 billion, and the reopening of this bond series continued throughout the year. Concurrently, reopening auctions of the remaining issuance volume of the 10.5-year bond series were also conducted during 2026. During the period covered by this Strategy, further improvements in the efficiency of the primary market are expected through access to the I-link platform, a government securities settlement mechanism which, over the longer term, contributes directly to lower borrowing costs and reduced refinancing risk. The introduction of a government securities issuance framework in the domestic financial market with the option of settlement through the platform of 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. As the secondary market continues to develop, the concept of market-based pricing and valuation of government securities is expected to become firmly established over time. The introduction of benchmark bond issues has already had a positive impact on the volume and continuity of secondary market trading, while also improving market efficiency in the issuance and sale of government securities on the primary market. The key factors influencing the yield curve of government securities include the fiscal balance, expected inflation rate, and exchange rate developments. A separate group of factors comprises macroeconomic trends and expectations, as well as developments in international financial markets, which are reflected in the country's risk premium.

At end-2012, the average maturity of dinar-denominated government securities amounted to 394 days (1.1 years), increasing to 469 days (1.3 years) at end-2013, 645 days (1.8 years) at end-2014, 749 days (2.1 years) at end-2015, 789 days (2.2 years) at end-2016, 864 days (2.4 years) at end-2017, 1,188 days (3.3 years) at end-2018, 1,403 days (3.8 years) at end-2019, 1,429 days (3.9 years) at end-2020, 1,377 days (3.8 years) at end-2021, 1,220 days (3.3 years) at end-2022, 1,427 days (3.9 years) at end-2023, 1,382 days (3.8 years) at end-2024, 1,800 days (4.9 years) at end-2025, and 2,063 days (5.7 years) at end-March 2026.

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

- The inclusion of Republic of Serbia government bonds in the J.P. Morgan Government Bond Index – Emerging Markets (GBI-EM Global Diversified Index) is expected to significantly broaden the investor base and further stimulate secondary market trading, thereby contributing to lower borrowing costs through the issuance of dinar-denominated government securities;
- In order to establish a broader investor base and foster the development of the secondary market for securities issued in the domestic market, equal tax treatment for domestic and foreign investors was introduced at end-2011. Going

forward, efforts will continue to focus on removing any remaining obstacles to the free movement of capital;

- Activities have been undertaken to enable the settlement of government securities through international market infrastructure. Amendments to the Public Debt Law adopted in December 2019 made it possible for the clearing and settlement of government securities issued in the domestic market to be performed not only by the Central Securities Depository and Clearing House, but also by other foreign legal entities providing clearing and settlement services;

During 2023 and 2024, intensive efforts were undertaken to align the legal and regulatory framework and the IT infrastructure required for the establishment of an international i-Link between the Central Securities Depository and Clearing House and Euroclear Bank. These activities continued throughout 2025 and 2026 with the objective of enabling the settlement of benchmark government bonds through Euroclear as a post-trade service provider. The main benefits of joining the Euroclear system include broadening the investor base through easier access to domestic securities for foreign investors, which, in turn, reduces transaction costs by streamlining the securities acquisition chain. This contributes to lower yields on government securities and, consequently, lower borrowing costs for the issuer. In addition, the expansion of the investor base is expected to enhance the liquidity of the secondary market for government securities.

IV FINAL PROVISIONS

An integral part of this revised Fiscal Strategy is Addendum 1 – Projection of basic macroeconomic indicators, Addendum 2 – Fiscal framework of the general government in 2027, Addendum 3 – Total Revenues, Expenditures and Financial Result for the Period 2025–2029 in RSD billion, Addendum 4 – Overview of Investment Projects in the Republic Budget (Expenditures for Non-financial Assets over 20 million euros), and Addendum 5 - Preliminary Assessment of the Impact of the CBAM Regulation on the Republic of Serbia, which were printed 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 website of the Government and the Ministry of Finance.

05 No: 400-5421/2026-1
Belgrade, June 4, 2026

GOVERNMENT

PRIME MINISTER

Prof. Dr Djuro Macut

Addendum 1 – Projection of basic macroeconomic indicators

	2026	2027	2028	2029
Real growth rate of the GDP. %	3.0	4.5	3.5	3.7
GDP at current market prices (in billion dinars)	11,065.3	12,021.9	12,840.5	13,707.2
Growth sources: percentage change at constant prices				
Private consumption	4.1	3.7	3.4	3.1
Government consumption	2.1	2.2	2.8	2.2
Gross fixed capital formation	4.9	4.5	6.6	6.8
Export of goods and services	4.3	7.1	4.0	5.6
Import of goods and services	5.1	4.8	4.9	5.3
Contribution to the GDP growth. percentage points				
Domestic demand	3.9	3.5	4.4	4.1
Private consumption	2.6	2.4	2.2	2.0
Government consumption	0.4	0.4	0.5	0.4
Gross fixed capital formation	1.2	1.1	1.7	1.8
Change in inventories	-0.3	-0.5	0.0	0.0
Net export of goods and services	-1.0	1.0	-1.0	-0.3
Growth of the GVA by sectors and net taxes. %				
Agriculture	4.7	0.0	0.0	0.0
Industry	2.0	2.1	3.9	4.1
Construction	5.3	4.1	4.5	5.1
Services	3.0	5.6	3.4	3.7
Net taxes	3.6	4.4	3.4	3.6
Contribution to the GDP growth. percentage points				
Agriculture	0.2	0.0	0.0	0.0
Industry	0.4	0.4	0.7	0.8
Construction	0.3	0.2	0.2	0.3
Services	1.7	3.3	2.0	2.2
Net taxes	0.5	0.6	0.5	0.5
Prices trends. %				
GDP deflator	3.4	4.0	3.2	2.9
Consumer prices (annual average)	3.7	4.2	3.4	3.0
Developments in the external sector.% of GDP				
Current account balance	-6.0	-4.5	-5.2	-5.1
Fiscal indicators. % of GDP				
General government fiscal result	-3.0	-3.0	-2.5	-2.5
Consolidated revenue	40.9	40.2	39.9	39.7
Consolidated expenditure	43.9	43.2	42.4	42.2
Gross debt of the general government	44.7	44.3	44.1	43.9

Addendum 2 - Fiscal framework of the general government in 2027

	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	4,829.7	2,487.7	565.8	518.7	47.1	86.0	1,690.2	1,140.1	508.7	35.7	5.6
Current revenue	4,795.1	2,455.7	563.8	516.7	47.1	86.0	1,689.5	1,140.1	508.6	35.2	5.6
Tax revenue	4,340.0	2,202.4	489.7	448.7	41.0		1,647.9	1,140.2	468.2	34.1	5.4
Income tax	511.9	164.5	347.4	331.1	16.3						
Contributions	1,647.9						1,647.9	1,140.2	468.2	34.1	5.4
Profit tax	312.9	288.2	24.7		24.7						
VAT	1,161.5	1,161.5									
Excise duties	468.7	468.7									
Customs duties	101.6	101.6									
Other tax revenues	135.4	17.8	117.6	117.6							
Non-tax revenue	455.1	253.3	74.1	68.0	6.1	86.0	41.7		40.4	1.0	0.3
Donations	34.7	32.0	2.0	2.0			0.7		0.2	0.5	0.0
Public expenditure	5,195.7	2,369.9	596.6	547.8	48.8	122.2	2,107.0	1,342.0	723.3	30.8	10.8
Current expenditure	4,395.4	1,715.0	490.2	446.8	43.4	107.2	2,082.9	1,341.3	701.7	30.4	9.4
Personnel costs	1,058.9	612.6	114.7	109.3	5.4	23.2	308.4	5.5	300.2	2.7	
Contributions borne by the employer	162.7	97.2	15.8	15.1	0.7	4.1	45.5	0.9	44.1	0.6	
Purchase of goods and services	901.0	277.0	219.7	214.6	5.1	73.4	330.8	6.1	315.2	2.6	6.9
Repayment of interest	228.7	226.3	2.3	2.0	0.3	0.1					
Subsidies	253.7	203.8	49.9	33.9	16.0						
Social assistance and transfers	1,660.9	228.4	38.3	37.5	0.7		1,394.3	1,327.3	40.3	24.3	2.4
of which pensions	1,267.2						1,267.2	1,267.2			
Other current expenditure	129.6	69.8	49.5	34.3	15.1	6.5	3.9	1.5	2.0	0.3	0.1
Capital expenses	766.3	620.8	106.4	101.1	5.4	14.9	24.1	0.7	21.6	0.4	1.4
Net budgeting loans	12.0	12.0									
Activated guarantees	22.1	22.1									
Fiscal result excl. transfers	-366.0	117.8	-30.8	-29.1	-1.7	-36.2	-416.9	-201.9	-214.6	4.8	-5.2
Transfers from other levels of government	738.6	45.0	93.1	77.5	15.6	36.2	564.4	333.7	224.5	0.9	5.2
Budget of the Republic of Serbia	528.8		84.7	69.1	15.6	36.2	408.0	319.6	87.1	0.9	0.3
Towns and municipalities	48.4	45.0					3.4		3.4		
Autonomous Province of Vojvodina	13.9		8.4	8.4			5.5		5.5		
Pension and Disability Insurance Fund	131.8						131.8		126.9		4.9
Health Insurance Fund	10.0						10.0	10.0			
National Employment Service	5.8						5.8	4.1	1.7		
Social Insurance Fund for Military Personnel											
Other levels											
Transfers to other levels of government	738.6	528.8	62.3	48.4	13.9		147.5	131.8	10.0	5.8	
Budget of the Republic of Serbia	45.0		45.0	45.0							
Towns and municipalities	77.5	69.1	8.4		8.4						
Autonomous Province of Vojvodina	15.6	15.6									
Pension and Disability Insurance Fund	333.7	319.6					14.1		10.0	4.1	
Health Insurance Fund	224.5	87.1	8.9	3.4	5.5		128.6	126.9		1.7	
National Employment Service	0.9	0.9									
Social Insurance Fund for Military Personnel	5.2	0.3					4.9	4.9			
Other levels	36.2	36.2									
Net transfers to other levels of government		-483.8	30.8	29.1	1.7	36.2	416.9	201.9	214.6	-4.8	5.2
Fiscal result	-366.0	-366.0	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 2027 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.

Addendum 3 - Total Revenues, Expenditures and Fiscal Result for the Period 2025–2029 in RSD billion

	2025	2026	2027	2028	2029
Public Revenues (1 + 2)	4,253.4	4,528.8	4,829.7	5,125.7	5,438.8
1. Current Revenues (1.1 + 1.2)	4,238.6	4,495.1	4,795.1	5,089.1	5,402.2
1.1 Tax Revenues (1.1.1 + ... + 1.1.7)	3,782.7	4,031.0	4,340.0	4,618.8	4,917.9
1.1.1 Personal Income Tax	443.4	465.0	511.9	550.2	589.8
1.1.2 Corporate Income Tax	293.5	299.0	312.9	332.0	348.6
1.1.3 Value Added Tax (VAT)	998.2	1,084.0	1,161.5	1,231.8	1,315.1
1.1.4 Excise	437.9	431.3	468.7	483.3	498.9
1.1.5 Customs	93.7	95.5	101.6	108.1	115.2
1.1.6 Other Tax Revenues	127.5	130.8	135.4	140.1	144.6
1.1.7 Mandatory Social Security Contributions	1,388.5	1,525.4	1,647.9	1,773.2	1,905.6
1.2 Non-Tax Revenues	455.9	464.1	455.1	470.3	484.2
2. Grants	14.8	33.8	34.7	36.7	36.7
Public Expenditures (1 + 2 + 3 + 4)	4,506.2	4,865.9	5,195.7	5,447.7	5,783.8
1. Current Expenditures (1.1 + ... + 1.6)	3,743.2	4,112.8	4,395.4	4,633.4	4,918.3
1.1 Expenditures for employees	1,029.8	1,128.5	1,221.5	1,309.8	1,396.6
1.2 Purchase of Goods and Services	749.7	846.2	901.0	949.6	1,006.6
1.3 Interest payment	189.0	214.6	228.7	234.3	252.6
1.4 Subsidies	260.3	242.8	253.7	262.1	278.7
1.5 Social Assistance and Other Transfers to Households	1,386.4	1,539.9	1,660.9	1,744.0	1,847.4
of which: Pensions	1,044.8	1,172.7	1,267.2	1,327.4	1,406.8
1.6 Other Current Expenditures	127.9	140.8	129.6	133.6	136.3
2. Capital Expenditures	715.4	717.9	766.3	779.8	830.4
3. Net lending	24.4	11.5	12.0	12.5	13.0
4. Activated Guarantees	23.3	23.7	22.1	22.1	22.1
Consolidated Fiscal Result	-252.8	-337.0	-366.0	-322.0	-345.0

Addendum 4 - Overview of Investment Projects in the Republic Budget (Expenditures for Non-financial Assets over 20 million euros)

No	Project Code	Project Name	Capital Project Cost up to 2026	Estimated cost in 2026	Estimated cost in 2027	Estimated cost in 2028	Estimated cost in 2029	Estimated Total Project Value
1	5001	Procurement of equipment, construction of a hangar and ancillary facilities	8,702,157,621	76,472,000	560,000	60,000	0	8,779,249,621
2	5073	Construction of the National Football Stadium	29,878,719,769	21,200,000,000	16,400,000,000	7,480,493,324	0	74,959,213,093
3	5081	EXPO Belgrade 2027	90,731,558,467	42,577,000,000	8,940,997,414	0	0	142,249,555,881
4	5086	Tunnel from Karađorđeva Street to Dunavska Padina	0	5,000,000,000	5,000,000,000	10,000,000,000	10,000,000,000	30,000,000,000
5	5088	Linear Infrastructure and Heat Source	31,173,947,596	25,722,654,429	2,650,000,000	0	0	59,546,602,026
6	5090	Construction of the New Building of the Natural History Museum	0	2,891,000,000	3,717,000,000	1,652,000,000	1,652,000,000	10,819,000,000
7	5008	Expressway of the I-b class Novi Sad–Ruma	61,414,332,114	14,960,000,000	15,500,000,000	14,372,177,284	0	106,246,509,398
8	5015	Project of the Hungarian–Serbian railway	135,837,148,700	11,773,858,000	7,863,608,375	0	0	155,474,615,075
9	5027	Reconstruction of the railway line Niš–Dimitrovgrad	10,895,382,753	10,870,000,000	16,972,262,567	8,000,000,000	0	46,737,645,320
10	5035	Construction of the E-761 highway, section: Pojate–Preljina	221,568,339,114	28,500,000,000	1,972,019,546	0	0	252,040,358,660
11	5042	Salvage of the sunken German fleet from World War II	1,147,854,390	640,000,000	1,184,740,609	1,134,361,000	0	4,106,955,999
12	5045	Construction of the road Ruma–Šabac–Loznica	103,727,189,033	5,250,000,000	3,706,950,000	3,000,000,000	0	115,684,139,033
13	5046	Implementation of railway infrastructure projects	16,578,106,040	2,750,385,371	185,695,000	0	0	19,514,186,411
14	5050	Construction of the Niš–Merdare motorway, section: Niš–Pločnik	2,990,857,757	1,300,000,000	4,657,450,000	10,300,000,000	18,061,692,243	37,310,000,000
15	5054	Improvement of conditions for ship passage at the Tisa dam near Novi Bečej	76,530,366	137,300,000	1,118,800,000	1,560,400,000	3,001,000,000	9,599,325,000
16	5056	Expansion of the capacity of the Sremska Mitrovica Port	28,325,507	0	930,800,000	2,000,000	1,003,000,000	6,626,400,000
17	5057	Expansion of the capacity of the Bogojevo Port	231,374,860	400,000,000	2,197,798,000	1,401,000,000	1,274,033,000	7,896,476,900

Fiscal Strategy for 2027 with Projections for 2028 and 2029

No	Project Code	Project Name	Capital Project Cost up to 2026	Estimated cost in 2026	Estimated cost in 2027	Estimated cost in 2028	Estimated cost in 2029	Estimated Total Project Value
18	5058	Expansion of the capacity of the Prahovo Port	2,303,223,259	1,300,000,000	1,500,000,000	301,776,742	0	5,405,000,001
19	5062	Construction of the motorway, section: Belgrade – Zrenjanin	14,864,212,006	10,200,000,000	10,260,648,000	12,345,000,000	13,000,000,000	187,600,000,000
20	5064	Construction of a new bridge over the Sava River in Belgrade	7,153,638,019	4,820,000,000	2,471,300,000	0	0	14,444,938,019
21	5067	Construction of a bridge - bypass around Novi Sad with access roads	11,133,690,064	7,600,000,000	5,132,700,000	5,122,000,000	0	28,988,390,064
22	5069	Project for the construction of bypasses and tunnels	7,195,130,318	3,200,000,000	3,041,600,000	5,350,831,000	4,582,570,001	23,370,131,319
23	5070	Project for the Construction of Utility (Sewerage) Infrastructure and Municipal Solid Waste Management Infrastructure in the Republic of Serbia	54,137,408,980	8,000,000,000	10,000,000,000	9,800,000,000	10,000,000,000	367,895,069,040
24	5071	Project for Wastewater Collection and Treatment in the Central Sewerage System of the City of Belgrade	1,011,740,879	1,300,000,000	3,900,000,000	3,900,000,000	3,900,000,000	32,604,000,000
25	5072	Construction of the Belgrade Metro (Line 1 - Phases 1 and 2)	18,125,402,063	20,661,805,000	17,846,025,000	7,257,500,061	8,959,267,876	72,850,000,000
26	5074	Construction of the northern bypass around Kragujevac	16,157,642,521	9,313,000,000	8,901,000,000	5,828,357,479	0	40,200,000,000
27	5076	E-75 Expressway, Požarevac – Golubac Interchange	48,192,174,306	10,051,000,000	3,256,825,694	0	0	61,500,000,000
28	5077	Construction of a crew training center for ship crews	93,275,464	10,000,000	444,980,000	444,980,000	1,201,000,000	5,195,350,000
29	5078	Modernization of the railway sector in Serbia	659,052,443	1,245,239,000	5,760,000,000	4,371,708,557	0	12,036,000,000
30	5082	Construction of the railway line between Zemun Polje and the National Stadium	21,788,121,169	17,004,185,000	8,235,241,495	127,440,000	0	47,154,987,664
31	5084	Reconstruction and modernization of the railway section Belgrade – Niš	0	1,000,000	4,096,000,000	17,015,000,000	11,601,338,000	208,618,748,882
32	5085	Construction of a pedestrian and bicycle bridge on the piers of the old bridge in Novi Sad	626,703,419	500,000,000	4,752,500,000	120,796,581	0	6,000,000,000

Fiscal Strategy for 2027 with Projections for 2028 and 2029

No	Project Code	Project Name	Capital Project Cost up to 2026	Estimated cost in 2026	Estimated cost in 2027	Estimated cost in 2028	Estimated cost in 2029	Estimated Total Project Value
33	5091	Construction of a Bridge with Access Roads over the Danube River near Bačka Palanka	0	600,000,000	1,800,000,000	3,836,000,000	3,836,000,000	15,254,065,733
34	5003	Dam with accumulation "ARILJE" profile "SVRAČKOVO", Arilje	7,644,200,091	701,209,000	1,523,330,000	1,523,330,000	1,523,330,000	19,111,000,000
35	5002	Construction of educational-scientific centers	0	129,340,000	139,340,000	260,724,000	260,724,000	4,751,304,000
36	5001	Reconstruction of the University Clinical Center of Serbia, Belgrade	14,498,070,460	1,105,000,000	0	0	2,124,000,000	17,727,070,460
37	5003	Procurement of equipment for the University Clinical Center of Vojvodina, Novi Sad	5,353,272,793	354,000,000	0	0	300,000,000	6,007,272,793
38	5007	Reconstruction, Rehabilitation and Adaptation of the Belgrade Main Railway Station Building and Its Conversion into the Historical Museum of Serbia	495,605,915	1,151,000,000	1,473,000,000	0	0	3,119,605,915
39	5004	Construction and development of tourist infrastructure and substructure in the Danube region	2,879,889,947	500,103,000	300,000,000	0	0	3,679,992,947
40	5004	Establishment of a Data Center for registers "Backup" center, and "Disaster Recovery"	2,007,673,548	430,000,000	842,000,000	500,001,157	0	3,779,674,705
41	5006	Construction of a Data Center in Kragujevac	12,029,206,585	2,730,000,000	1,250,000,000	2,262,000,000	1,630,629,215	19,901,835,800
42	5014	Unified Information Communication Network of the e-Government	2,739,816,335	850,000,000	750,000,000	596,000,000	0	4,935,816,335
43	5019	Innovation District Kragujevac	1,362,964,000	2,200,000,000	2,000,000,000	2,891,165,000	0	8,454,129,000
TOTAL:			967,433,938,672	280,005,550,800	192,675,171,700	142,757,102,185	97,910,584,335	2,308,174,615,095

Addendum 5 - Preliminary Assessment of the Effects of the Carbon Border Adjustment Mechanism (CBAM) on the Republic of Serbia

Summary

The analysis presented below is intended to provide an initial, indicative assessment of the potential effects of the Carbon Border Adjustment Mechanism (CBAM) on the economy of the Republic of Serbia. The findings are based on currently available data on trade flows for 2025, the applicable version of the European Union regulatory framework, and a limited set of working assumptions. Accordingly, all estimates presented herein should be interpreted as preliminary and subject to substantial revision, both as a result of potential amendments to the regulatory framework and the availability of more accurate and comprehensive data.

According to the available data, **more than 12% of the Republic of Serbia's exports to the European Union**, corresponding to **over 8% of total exports**, fall within the scope of the CBAM. More than **3,500 companies** operating in Serbia are directly or indirectly linked to CBAM-covered sectors, which collectively account for approximately **4.5% of total employment**. Of these, around 1,000 companies exported to the European Union in 2025 and are therefore potentially **directly exposed to CBAM-related obligations**. However, the actual degree of exposure will depend on the production structure of individual companies and their capacity to optimize emissions reporting and calculation methodologies.

From a methodological perspective, the analysis assumes that **the level of exports recorded in 2025 remains unchanged throughout the projection period**. This simplifying assumption may result in deviations from future actual trade flows. It is particularly important to note that there are indications that certain trade flows have already declined as a consequence of regulatory uncertainty, especially in the electricity sector, suggesting that the actual impact may be lower than projected.

For the purposes of this analysis, the CBAM certificate price has been set at the level recorded in the first quarter of 2026, amounting to **EUR 75.36 per tonne of CO₂ equivalent (CO₂e)**. Nevertheless, given that the CBAM certificate price is directly linked to developments in the EU Emissions Trading System (EU ETS), considerable uncertainty remains regarding its future trajectory. In particular, there is a risk of price increases associated with the gradual phase-out of free allowances during the forthcoming regulatory period.

An additional source of uncertainty arises from the application of default emission values, which, in a significant number of cases, **exceed the actual emissions levels of domestic producers**. This implies that the verification of actual emissions could result in lower CBAM liabilities; however, it would also entail additional administrative and compliance costs. It should furthermore be noted that the CBAM framework provides for the gradual increase of these default values across most covered sectors.

The results of the analysis indicate that the most pronounced effects are expected in **the electricity and iron and steel sectors**, while in relative terms, a significant burden may also arise in the **cement sector**, although the overall impact is likely to remain limited due to its lower export orientation. Given the aforementioned uncertainties, the findings should be regarded as indicative rather than as a precise estimate of future financial obligations.

In quantitative terms, under the baseline scenario, which does not take into account any domestic carbon pricing mechanism, the overall impact of the CBAM is estimated at approximately **EUR 140 million in 2026, gradually increasing to around EUR 161 million by 2029**. Under an alternative scenario assuming the full recognition by the European Union of a domestic carbon price, **the impact would be lower**, ranging from approximately **EUR 127 million to EUR 148 million** over the same period.

These scenarios are based on the assumption that the European Union fully recognizes the carbon price paid in Serbia. As such treatment of third countries has not yet been formally confirmed, the actual effects may differ significantly from those presented in this analysis.

Additional potential mitigation of the effects may result from possible amendments to the CBAM Regulation in the electricity sector, including the consideration of the national energy mix. However, such amendments have not yet been adopted, which further contributes to regulatory uncertainty.

Competitiveness Implications

The CBAM mechanism is expected to result in an effective increase in the price of Serbian products on the European Union market. The extent of this increase varies across sectors and individual products and depends on several factors, including the level of embedded emissions, the ability to verify those emissions, and future developments in the price of emission allowances. In certain cases, preliminary estimates indicate that the CBAM liability could account for **more than 50% of a product's value**, although the actual effect in practice is likely to be lower.

The highest relative impact is expected in **the cement and electricity sectors**, as well as in **the iron and steel industry**. In the electricity sector, a key specific feature is the absence of free emission allowances, resulting in the immediate and full application of the regulatory burden from the outset of implementation.

Impact on the Average Product Price by Industry								
Industry	2026		2027		2028		2029	
	Price Growth	Range %	Price Growth	Range %	Price Growth	Range %	Price Growth	Range %
Aluminum	1.47%	9.3%	1.63%	10.2%	1.80%	11.1%	1.83%	11.1%
Iron & Steel	6.94%	15.9%	8.55%	19.3%	10.38%	23.0%	11.45%	25.1%
Fertilizers	4.82%	11.1%	4.99%	11.3%	5.33%	11.7%	6.19%	12.5%
Electric Energy	46.86%	66.91%	46.86%	66.91%	46.86%	66.91%	46.86%	66.91%
Cement	48.64%	81.3%	57.14%	95.5%	66.55%	111.2%	71.04%	118.8%
Hydrogen	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Implications for Production Costs and GDP

There is a realistic possibility that buyers in the European Union will seek **to pass the cost of CBAM onto Serbian producers**, either through downward pressure on prices or through contractual arrangements. In addition, the requirement to verify embedded emissions introduces new operational and administrative costs, including the engagement of accredited verifiers.

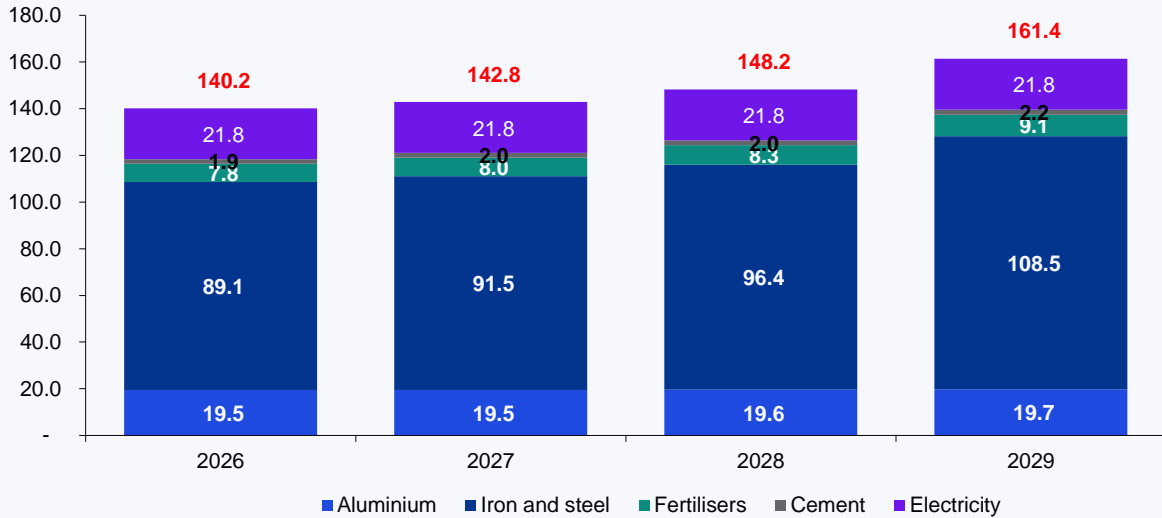
Indirect effects may also include a **potential increase in electricity prices**, although the magnitude of this impact is currently difficult to assess with a sufficient degree of certainty.

The direct impact of CBAM obligations in 2026 is estimated at approximately **0.16% of GDP**. However, this estimate does not capture the broader macroeconomic consequences, which may materialize through reduced exports, lower investment, or the relocation of production activities, and could potentially be significantly greater than the directly measurable effects.

Scenario Analysis

The effects of the CBAM Regulation have been analysed through multiple scenarios reflecting different combinations of key uncertainties—primarily with regard to the regulatory treatment of national measures, the trajectory of carbon pricing, and the application of specific rules in individual sectors, particularly in the electricity sector. All scenarios are based on a common set of methodological assumptions, including an unchanged level of exports compared to 2025, the application of default emission values, and a fixed CO₂ price of **EUR 75.36/tCO₂e**, and should therefore be interpreted as indicative.

In the baseline scenario, which does not assume the existence or recognition of a national carbon pricing mechanism, the projected impact of the CBAM Regulation amounts to **approximately EUR 140 million in 2026 and gradually increases to around EUR 161 million in 2029**. The overall upward trend is driven by the gradual phase-out of free emission allowances in the EU, as well as the increase in default emission values across most industrial sectors. In terms of structure, **the iron and steel sector accounts for the largest absolute contribution to the total impact**, while the electricity sector exhibits a relatively stable effect over time, given that the full regulatory impact is present from the outset of implementation.



The alternative scenario assumes that the European Union fully recognises the carbon price paid in the Republic of Serbia through a national mechanism. Under the stated assumptions, the conducted analysis, the results of which are presented in the accompanying chart, indicates that the domestic emissions tax could potentially contribute to a reduction of the CBAM liability by **approximately EUR 12 million per year, which indicatively corresponds to a range of 8% to 9.2% of the total liability**, depending on the year under consideration. In the electricity sector, an effect of approximately EUR 20.7 million represents an estimate under the current regulatory scope (excluding the effects on transit). In the event of the adoption of proposed amendments, primarily relating to the consideration of the national energy mix, the effect could be reduced to **approximately EUR 14.5 million, corresponding to a decrease of around 30%**.



Initial Estimate of Carbon Tax Revenue in the Republic of Serbia

As of 1 January 2026, the Republic of Serbia has introduced **two mutually complementary legislative instruments** in the area of carbon pricing. The first, **the Law on the Tax on Greenhouse Gas Emissions**, is aimed at **taxing the largest emitters in industries** that are **also covered by the European Union CBAM mechanism**. The second, **the Law on the Tax on Carbon-Intensive Imports**, is designed to **address embedded emissions** in selected products **imported** into the territory of the Republic of Serbia, in order to ensure a level playing field between domestic and imported products.

Together, these two mechanisms represent an **initial step** towards the establishment of **an internally consistent carbon pricing system aligned with the European Union** approach. **The estimate of revenues** from the greenhouse gas emissions tax is primarily **based on data on expected emission levels** reported by obligated entities when submitting permit applications, as well as on the application of relevant mechanisms for reducing the tax base, including the use of benchmark values based on best available technologies.

It should be emphasised that these **parameters are subject to change**, both as a result of variations in production levels and the implementation of investments and measures aimed at reducing emissions. An additional source of uncertainty arises from the application of tax credits, particularly in the electricity sector, where they may significantly affect the actual amount of the liability. Accordingly, at **the current tax rate of EUR 4/tCO_{2e}**, it is **indicatively estimated that revenues** in 2026 could **range broadly** from **approximately EUR 30 million to EUR 132 million**. **Revenues from the tax on carbon-intensive imports** are estimated at **approximately EUR 11 to EUR 13 million**, with the final amount depending on import structure and developments in trade flows. On a **cumulative basis**, **total revenues from both tax instruments** in 2026 could range from **approximately EUR 41 million to EUR 145 million**.

This range reflects a **certain degree of uncertainty** inherent both in the future behaviour of obligated entities and market participants, as well as in the effective implementation of specific elements of the tax framework. Accordingly, the stated figures should be regarded as indicative and conditional, given that actual fiscal effects will depend on multiple factors that will only fully materialise after the initial implementation period of the legislation.