TRENDS

1. Review

Global geopolitical and economic tensions, coupled with a domestic socio-political crisis, are leaving a noticeable mark on Serbia's macroeconomic trends. As a result, the latest forecasts for Serbia's economic growth in 2025 have been revised downward from 4.2% to 3%, with roughly half of this slowdown attributable to global factors and the other half to domestic ones (political crisis, structural problems). However, it must be emphasized that all forecasts remain highly uncertain at this time. Looking ahead, the effects of global tensions on the world economy in the coming months—and even years—are difficult to assess. Of particular importance, however, could be domestic socio-political developments. Their current economic impact is manifested in delayed consumption and a slowdown in investment activity—both of which are potentially recoverable. The key issue for Serbia's future economic development, therefore, is not the short-term disruptions to economic functioning caused by protests, but how the current political crisis will be resolved. If it leads to deeper institutional changes that enhance the rule of law, reduce corruption, and liberate the economy from political influence, then a short-term and modest sacrifice of economic growth may be viewed as a worthwhile investment in the country's long-term development. Conversely, if this crisis passes without fundamental changes in governance, the negative economic consequences of such a system will likely extend far beyond 2025.

Macroeconomic trends in Q1 were marked by noticeably weaker economic performance compared to the previous year. Year-over-year GDP growth slowed to 2% in Q1, following a solid growth rate of 3.9% in 2024 (with a seasonally adjusted decline compared to the previous quarter). Inflation during the first three months of 2025 was slightly above expectations, reaching 4.5% year-over-year—before resuming a downward trend and falling to 3.8% in May. The current account deficit was not excessively large for Serbia (3.4% of comparable GDP), but this result was overshadowed by major export value revisions made by the Statistical Office of the Republic of Serbia. Such revisions again raise concerns about the reliability and quality of official statistics. Foreign direct investment (FDI) in Q1 amounted to about 2.8% of GDP, which is below its usual level. There were no significant changes in the labor market—employment remained roughly stagnant, while real wages continued to grow relatively strongly, at a rate significantly higher than productivity growth.

Economic policy faced serious challenges. In a volatile environment, the National Bank of Serbia (NBS) opted for a somewhat safer and more restrictive policy. The reference interest rate remained unchanged at 5.75% in the first half of 2025, despite slowing inflation. At the same time, the NBS responded to increased depreciation pressures with decisive interventions on the interbank foreign exchange market, keeping the dinar-to-euro exchange rate nearly unchanged. To that end, from the beginning of the year to the end of May, the NBS made net foreign currency sales of one billion euros from its foreign exchange reserves. Fiscal policy was under dual pressure. On one hand, due to a relatively strong slowdown in public revenues at the beginning of the year, and on the other hand, due to ad hoc decisions to implement a number of new measures not included in the initial budget (such as 5% salary increases for education workers in March and October, permanent increases in funding for higher education, salary increases for certain healthcare and police employees, a subsidized housing loan program for young people, and the establishment of an alimony fund). To keep the budget deficit within the planned 3% of GDP (as agreed with the IMF), unusually strong spending cuts were implemented in parallel—primarily in the procurement of goods and services, and partly in capital expenditures.

Below is a brief overview of the main macroeconomic developments in Q1, which are examined in detail in the individual sections of this QM edition. As already mentioned, Serbia's economic activity noticeably slowed in the first quarter of 2025 (see section 2. "Economic Activity"). Year-over-year GDP growth amounted to 2%, which is significantly weaker compared to 3.3% in Q4 2024 and 3.9% for the entire year of 2024. The shift in trend is clearly indicated by the seasonally adjusted GDP index, which in Q1 was 0.6% lower than in Q4 2024 – marking the first decline in seasonally adjusted GDP since mid-2022. A certain slowdown also occurred in most European countries, but it was milder than in Serbia. This suggests that domestic factors significantly contributed to Serbia's weak short-term economic results – primarily socio-political instability and certain structural weaknesses of the domestic economy that are gradually coming to light. The published results for Q1 clearly indicate that GDP growth in 2025 will not reach the Government's initial forecast of 4.2%. Our current projection is that Serbia's economic growth in 2025 could be around 3%, which aligns with the latest forecasts from both international and domestic institutions. The IMF revised its forecast for Serbia downward in April to 3.5%, and then further to 3% in June, while the European Commission forecasted a 3.2% GDP growth for Serbia in 2025 in May. Additionally, the Government itself revised its forecast downward to 3% in its most recent documents from June.

After a temporary spike in January to 4.6%, year-over-year inflation dropped to 3.8% by May – its lowest level in nearly four years (see section 5, "Prices and the Exchange Rate"). The deceleration in inflation was initially the result of falling oil prices on the global market, but in recent months, there has also been a more significant slowdown in core inflation (which excludes energy, food, alcohol, and tobacco prices). Until February 2025, core inflation remained persistently high at around 5.5% – and had not slowed significantly, even when headline inflation was easing. However, it also began to slow from March onward, declining to 4.6% in May, which we associate with a weakening of domestic demand. According to the latest projections from the National Bank of Serbia (NBS), inflation is expected to fall to around 3.1% by the end of the year, while average inflation in 2025 could be around 3.7%. Nevertheless, risks of renewed inflationary acceleration have not been completely eliminated – primarily due to the recent escalation of conflict in the Middle East, which has already caused a fresh spike in oil prices. Iran's recent announcement that it will close the Strait of Hormuz to traffic could (if implemented) have a massive impact on global oil prices, as over 15% of the world's oil consumption passes through this strait, making it the most important oil transit area in the world.

External economic developments were marked by a major revision of data for 2024 and the first three months of 2025 conducted by the Statistical Office of the Republic of Serbia (RZS) (see section 4, "Balance of Payments and Foreign Trade"). Exports in 2024 were increased by €1.3 billion as a result of these revisions, and by €760 million in the first three months of 2025. This significantly altered the key indicators of Serbia's foreign trade and balance of payments. The current account deficit for 2024 now stands at 4.7% of GDP according to the new data, instead of the previously reported 6.3%. An even more drastic correction was made for Q1 2025, where the current account deficit was reduced from 7% to just 3.4% of comparable GDP. Such changes raise numerous questions about the reliability of the data published by the RZS. Therefore, we believe it is necessary for these changes to be explained in detail, rather than simply stating that they result from changes in the coverage of transactions in free zones. Among other things, it is necessary to answer numerous technical questions, such as – why did the change in coverage not affect imports at all, but only exports? Perhaps even more importantly, all the consequences of this massive revision for the national accounts and balance of payments statistics need to be presented clearly and transparently. Net exports are a key expenditure component of GDP, and their revision must lead to adjustments in other areas to maintain consistency in national accounts statistics. Similarly, a significant reduction in the trade deficit must be accompanied by corresponding adjustments in other balance of payments items – otherwise, it would result in major changes to foreign exchange reserves. We believe that only with detailed and transparent explanations can the official data on Serbia's most important macroeconomic aggregates retain both domestic and international credibility.

When it comes to the economic interpretation of the new foreign trade data, it can be said that they have significantly reduced Serbia's external imbalance, but numerous balance of payments challenges remain—particularly on the side of capital inflows. The current account deficit in Q1 amounted to €685 million (3.4% of GDP) according to the new data, which is not excessively high by Serbia's standards, but is still 1.4 percentage points higher compared to the same period of the previous year. Moreover, the current account deficit in Q1 was no longer covered by FDI inflows, which had been the usual case in previous years. Specifically, FDI in Q1 was unusually low, amounting to €565 million (2.8% of GDP), which is about 50% less than in the same period of the previous year. The most important reason for this decline is the comparison with a high base in the previous year when FDI was exceptionally strong, but an additional part of the slowdown is likely the result of domestic factors (political uncertainty, reduced attractiveness of Serbia due to a sharp rise in labor costs) as well as external factors (sluggish economic growth in the eurozone)—which led foreign investors to postpone or cancel their investments.

In the labor market during Q1, there were no significant changes compared to previous quarters (see Section 3. “Labour Market”). The total number of employed persons, both according to survey data (LFS) and administrative data (registered employment), recorded only a minimal increase compared to the same period of the previous year (between 0 and 0.5%). However, due to the shrinking working-age population, even with such employment trends, there was a slight decrease in the unemployment rate, which stood at 9.1% in Q1 (compared to 9.4% in Q1 2024). The average wage in Q1 amounted to 106,000 dinars (€908), indicating that the trend of relatively strong wage growth continued (although somewhat slower than during 2024). The year-over-year real wage growth of 6.4% in Q1 was significantly faster than the simultaneous productivity growth, which was below 2%. Such a multiple increase in wages relative to productivity—an ongoing trend in Serbia for some time—is partly due to the growing shortage of skilled labor, which has become increasingly pronounced in recent years. Although relatively fast wage growth appears favorable from the perspective of employees, it generates inflationary pressures and increases unit labor costs, thereby reducing the price competitiveness of the economy. At the end of 2024 and beginning of 2025, signs emerged that sectors with low value added could not keep pace with current wage growth, which is also reflected in the withdrawal or announced withdrawal of some foreign investors from low-productivity sectors (Benetton, Draexlmaier, and others).

We have already mentioned that monetary policy has been marked by increased caution for some time. This is evident in the National Bank of Serbia’s (NBS) decision to delay lowering the reference interest rate from 5.75%, despite the deceleration of inflation, as well as in its decisive interventions on the interbank foreign exchange market to maintain the stability of the dinar (see Section 7. “Monetary Trends and Policy”). In previous issues of QM, we have repeatedly criticized the NBS’s policy of maintaining a fixed exchange rate for the dinar at all costs—even during rare moments of depreciation pressure. Namely, long-term real appreciation of the dinar, which is not based on fundamental strengthening of the economy, harms the country’s price competitiveness. However, under the current circumstances—with still relatively high inflation and pronounced domestic and external uncertainties—this policy of exchange rate control through strong market interventions seems more justified than usual. Credit activity continued to grow in Q1, with the corporate sector reducing its debt to domestic banks but increasing borrowing through cross-border loans. The share of non-performing loans in total placements continued to decline in Q1, reaching a new historical low of 3.29%.

Fiscal trends at the beginning of 2025 remained under control despite a noticeable slowdown in public revenues (see Section 6. “Fiscal Trends and Policy”). The Government implemented serious austerity measures, including multiple reductions in budget allocations to public beneficiaries since the start of the year. The fiscal deficit recorded in the first four months of 2025 amounted to RSD 62.9 billion, which is around RSD 40 billion more than in the same period of the previous year. However, it should be noted that in April 2025, a payment of around RSD 50 billion was made for the procurement of Rafale fighter jets, whereas in 2024 this payment was executed at the end of the year. Therefore, the comparable fiscal deficit in the first four months of 2025 was actually somewhat lower than in the same period of 2024. This further confirms the Government’s commitment to maintaining the initially planned fiscal deficit of 3% of GDP in 2025—despite somewhat weaker public revenue collection and the introduction of new economic policy measures that increase expenditures (e.g., public sector wage increases, subsidized loans for young people, and the establishment of the alimony fund). This fiscal policy stance was reaffirmed during the latest consultations with the IMF mission in early June. The general government public debt at the end of April amounted to EUR 38.9 billion, which is approximately 46.5% of comparable GDP. As a result, Serbia’s public debt-to-GDP ratio has fallen below the average of Central and Eastern European countries.

Serbia: Selected Macroeconomic Indicators, 2020–2025

	2020	2021	2022	2023	2024	2023				2024				2025
						Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Economic Growth														
GDP (in billions of dinars)	5764.1	6576.0	7458.8	8817.8	9,638.5	2020.4	2185.2	2212.5	2399.6	2214.1	2402.2	2413.3	2609.0	2366.9
GDP	-1.0	7.9	2.6	3.8	3.9	2.3	3.0	4.8	5.1	4.6	4.5	3.2	3.3	2.0
Non-agricultural GVA	-0.7	8.7	3.2	4.7	4.6	2.9	4.0	5.8	5.9	5.5	5.3	3.8	3.8	1.7
Industrial production	-0.1	6.6	1.9	2.6	3.2	3.4	0.7	4.1	2.7	3.7	1.8	3.6	4.0	2.1
Manufacturing	-0.7	6.2	1.4	1.0	4.7	-0.3	-1.1	2.5	2.8	4.1	3.1	6.7	5.6	3.7
Average net wage (per month, in dinars)[2)]	60,057	65,864	74,914	86,007		83,208	85,190	84,985	90,597	95,625	97,529	96,866	102,530	106,337
Registered Employment (in millions)	2,216	2,274	2,310	2,361		2,350	2,364	2,361	2,368	2,365	2,367	2,366	2,378	2,365
Fiscal data														
Public Revenues	-2.6	15.5	1.4	-0.2	8.4	-2.7	-2.4	-3.4	6.7	7.7	9.5	10.2	6.5	0.3
Public Expenditures	16.0	5.8	-0.8	-2.0	8.0	-10.0	-3.0	7.8	-2.0	6.5	12.8	7.0	6.6	1.3
Overall fiscal balance (GFS definition)[3)]	-442.8	-259.4	221.2	-181.1	-191.9	-24.9	69.9	-29.3	-196.9	-18.0	-51.2	-4.1	-220.9	-28.9
Balance of Payments														
Imports of goods[4)]	-21,280	-19,038	-36,266	-34,534	-36,601	-8,852	-8,629	-8,009	-9,070	-8,506	-9,146	-9,209	-9,737	-9,765
Exports of goods[4)]	16,079	14,992	26,913	27,930	28,520	7,088	7,101	6,759	6,983	7,075	7,547	7,453	7,743	7,961
Current account5[)]	-1,929	-1,354	-4,139	-1,810	-5,208	-158	-407	-202	-1,037	-381	-653	-1,590	-1,275	-685
in % GDP[5)]	*-4.1*	*-4.4*	*-6.9*	*-2.6*	*-6.3*	*-0.9*	*-2.2*	*-1.1*	*-5.0*	-2.0	-3.2	-7.7	-5.7	-3.4
Capital account[5)]	2,079	1,058	3,783	1,331	4,387	96	334	87	1,042	228	391	1,465	1,159	943
Foreign direct investments	2,938	2,836	4,306	4,220	4,600	781	1,235	982	1,264	1,223	1,058	1,111	1,208	565
NBS gross reserves (increase +)	270	3,185	2,919	5,104	2,834	1,863	1,267	1,414	560	-320	2,296	549	309	-1,135
Monetary data														
NBS net own reserves[6)]	1,127,942	1,331,164	1,519,385	2,112,077	2,413,061	1,647,986	1,798,929	2,014,802	2,112,077	2,150,031	2,249,052	2,351,966	2,413,061	2,424,504
NBS net own reserves[6)], in mn of euros	9,593	11,321	12,952	18,025	20,629	14,048	15,340	17,191	18,025	18,346	19,211	20,094	20,629	20,692
Credit to the non-government sector	2,760,481	3,027,481	3,242,781	3,277,448	3,563,691	3,223,115	3,237,867	3,261,136	3,277,448	3,264,755	3,395,360	3,480,200	3,563,691	3,593,945
FX deposits of households	1,301,580	1,448,165	1,505,254	1,570,372	1,678,861	1,512,241	1,516,148	1,537,632	1,570,372	1,611,126	-1,638,037	1,652,795	1,678,861	1,716,323
M2 (y-o-y, real growth, in %)	16.6	5.1	-7.1	4.6	8.7	-3.7	-1.5	1.2	4.6	5.8	9.6	7.4	8.7	6.1
Credit to the non-government sector (y-o-y, real growth, in %)	9.7	7.0	-6.9	-6.2	4.2	-10.8	-11.5	-9.4	-6.2	-3.6	0.9	2.3	4.2	5.5
Credit to the non-government sector, in % GDP	48.8	49.9		39.4	38.9	42.8	41.6	40.5	39.4	38.3	38.9	39.0	38.9	35.8
Prices and the Exchange Rate														
Consumer Prices Index[7)]	1.5	3.6	12.5	12.1		16.0	14.6	11.4	8.0	5.7	4.4	4.3	4.4	4.5
Real exchange rate dinar/euro (average 2005=100)[8)]	84.4	83.5	80.5	75.3		76.2	75.5	75.0	74.5	73.9	74.0	73.5	72.9	72.4
Nominal exchange rate dinar/euro[8)]	117.6	117.6	117.5	117.5		117.3	117.3	117.2	117.2	117.2	117.1	117.0	117.0	117.1

Source: FREN.

1) Unless indicated otherwise.

2) Data for 2008 represent adjusted figures based on a wider sample for calculating the average wage. Thus, the nominal wages for 2008 are comparable with nominal wages for 2009 and 2010, but are not comparable with previous years.

3) We monitor the overall fiscal result (overall fiscal balance according to GFS 2001) – Consolidated surplus/deficit adjusted for "budgetary lending" (lending minus repayment according to the old GFS).

4) The Statistical Office of the Republic of Serbia has changed its methodology for calculating foreign trade. As from 01/01/2010, in line with recommendations from the UN Statistics Department,

Serbia started applying the general system of trade, which is a broader concept that the previous one, in order to better adjust to criteria given in the Balance of Payments and the System of National Accounts. A more detailed explanation is given in *QM* no. 20, Section 4, "Balance of Payments and Foreign Trade".

5) The National Bank of Serbia changed its methodology for compiling the balance of payments in Q1 2008. This change in methodology has led to a lower current account deficit, and to a smaller capital account balance. A more detailed explanation is given in *QM* no. 12, Section 6, "Balance of Payments and Foreign Trade".

6) The NBS net own reserves represent the difference between the NBS net foreign currency reserves and the sum of foreign currency deposits of commercial banks and of the foreign currency deposits of the government. More detailed explanations are given in the Section Monetary Trends and Policy.

7) Data for 2004, 2005 and 2006 are based on the Retail Prices Index. SORS has transferred to the calculation of the Consumer Price Index from 2007.

8) The calculation is based on 12-m averages for annual data, and the quarterly averages for quarterly data.