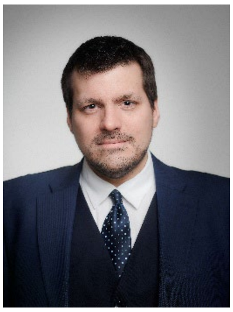
Focus of the month



SANCTIONS, ENERGY AND GEOPOLITICAL BALANCING: SERBIA BETWEEN RUSSIA AND THE WEST

by Bernd Christoph Ströhm, wiiw Senior Research Associate

Since 2008, following the acquisition by Russia's Gazprom Neft of a majority stake in NIS, the Serbian business has evolved from being just the national oil company into a strategically significant asset. The US sanctions imposed in 2025 against the company, however, forced a realignment of Serbia's energy policy, with NIS ownership being transferred to Hungary's MOL. Although the loss of a strategic energy asset reduces Russia's leverage over Serbia, the cooperative manner of Russia's approach in handling the takeover suggests that close political relations between Moscow and Belgrade are here to stay.

When one observes the multifaceted relations between Russia and Serbia, it becomes clear that they have been influenced by energy, geopolitics and strategic ambiguity. Close energy ties, in particular, shaped this bilateral relationship and were further consolidated when Serbia's national oil company and operator of the country's only refinery, Naftna Industrija Srbije (NIS) was sold to Russia's Gazprom Neft in 2008. Since then, NIS has functioned not only as a commercial enterprise, but also as a structural channel for Russian influence in Serbia. The arrangement from 2008 indeed embedded long-term dependencies in Serbia's energy system, while giving Moscow leverage that extended beyond classical market logic. NIS itself has considerable standing within Serbia, contributing 5% to Serbia's GDP, while employing around 13,000 people. It also produces 70% of Serbia's diesel and 85% of its petrol at the NIS Pančevo refinery.

The strategic origins of Russian control over NIS

If we look back at the 2008 privatisation of NIS, it occurred during a moment of acute geopolitical realignment for Serbia, driven by the aftermath of Kosovo's declaration of independence the same year. It is no surprise that Belgrade should have sought strategic support from Moscow over the Kosovo issue, while for its part Russia was aiming to gain a strategic foothold in the Western Balkans through energy assets. The stars aligned perfectly – Serbia wanted to sell and Russia wanted to buy. The outcome was that Gazprom Neft purchased a 51% stake in NIS for EUR 400m. The agreement also included a EUR 550m investment commitment to modernise the NIS Pančevo refinery.

That the Serbian government was more than willing to sell a majority stake to Gazprom Neft is evident when the circumstances of the sale are investigated more closely. The sale went ahead without an international tender even being announced. The price tag of EUR 400m that Serbia set for the majority stake was also very generous, given that international consultants had valued the company at EUR 2.2bn. It can be argued that Serbia indeed chose Gazprom as a strategic decision, in view of Russia's support for Serbia over Kosovo.

Gazprom Neft raised its stake further, to 56.15%, in 2011, giving Russian state-controlled entities decisive control over NIS. The company became economically critical to Serbia, accounting for a substantial share of the country's state revenue through taxes and excise duties, which in turn allowed Russia to anchor itself economically in Serbia, while reinforcing its diplomatic alignment with the country.

For Serbia, the benefits of Russia's involvement in NIS were clear cut – the arrangement enabled access first to investment to the tune of EUR 550m, second to refinery modernisation and third to a relatively stable fuel supply. The arrangement also noticeably reduced the pressure on Serbia to integrate fully with EU energy governance structures. Nevertheless, over time it became clear that Russia's ownership of NIS created far-reaching exposure to geopolitical risks that manifested themselves after Russia's annexation of Crimea in 2014 and then – even more so – following Russia's military invasion of Ukraine in February 2022.

The legal foundations for US sanctions against NIS

In tracing the 'legal roots' of the US sanctions regime that would eventually reshape the NIS ownership structure, it is necessary to go back to 2017. That was the year in which US President Trump enacted the Countering America's Adversaries Through Sanctions Act (CAATSA), which aimed at substantially expanding US authority to target Russian energy companies and any foreign entities that are significantly owned or controlled by them. Of course, it was not only Russia that the sanctions act targeted: it also included North Korea and Iran – and certain elements of CAATSA even allow sanctions against third parties engaging in transactions with those countries. While initially applied selectively, the legislation created long-term uncertainty for Russian overseas assets.

In view of the CAATSA regulations, NIS very quickly fell into a category of companies that were commercially viable, yet structurally exposed. Owing to the fact that Gazprom Neft was a major sanctioned Russian oil producer, its majority-owned subsidiaries became subject to the risk of sanctions, even when they were operating outside Russia. Despite this risk, the legal framework allowing sanctions to be imposed against NIS remained dormant for several years. It became operationally significant in January 2025 – still under the Biden administration – when the US authorities began intensifying enforcement against the Russian energy sector.

NIS sanctions enforcement and their potential economic effects

In January 2025, the US Treasury's Office of Foreign Assets Control (OFAC) formally declared NIS to be subject to the US sanctions regime. Nevertheless, the enforcement of sanctions was repeatedly postponed by the US through 'temporary licences'. The full sanctions regime did not come into force until October 2025, whereupon the operational effects were felt almost immediately in various ways, including through the imposition of restrictions on international banking transactions and the suspension of card payments at NIS petrol stations.

Closure of the NIS company would have had a major effect on the Serbian economy. NIS contributes between 7% and 13% of budget revenue, with OFAC sanctions likely to push fuel prices sharply higher, elevating transport costs and fuelling broader inflation. Prior to sanctions NIS was contributing over EUR 2bn annually to the state budget through taxes, excise duties and fees, making its uninterrupted functioning macroeconomically significant. The aftermath of the imposition of the US sanctions regime was indeed directly noticeable at the Pančevo NIS refinery, which had to cease operations in December 2025 (it was only able to resume operations because it obtained a temporary licence from OFAC).

The importance for Serbia of the continued operation of NIS is clear: it ensures fuel availability, protects employment and preserves fiscal revenue streams. In general, the effects of the US sanctions regime against NIS can be summed up in three major points:

1. **Refinery shutdown**: After October 2025 international partners began refusing to cooperate with NIS, and Croatia's pipeline operator JANAF halted crude oil deliveries for 100 days at the end of 2025, bringing the Pančevo refinery to the brink of shutdown.
2. **Security of supply**: Serbia covers approximately 80% of its petrol and diesel needs, as well as some 90% of its kerosene requirements through NIS. A prolonged disruption would threaten the fuel supply for transport logistics and for the national airline, Air Serbia.
3. **Inflationary pressure:** Sanctions-induced fuel shortages would push domestic fuel prices sharply higher. Elevated transport and logistics costs would quickly pass through to food, manufactured goods and services, accelerating inflation economy-wide.

The Serbian government considered expropriating the Russian majority shareholder Gazprom Neft. In response, Russia threatened to cut off gas supplies to Serbia, while also delaying the conclusion of a new long-term gas supply contract (the previous ten-year supply contract expired in May 2025). In light of those developments, the US sanctions transformed NIS from being a stable pillar of Serbia's energy system into a vulnerability, whose resolution required structural change, rather than temporary exemptions.

The strategic turn toward Hungary's MOL Group

Against this backdrop, Serbia commenced negotiations in late 2025 with a view to transferring the majority stake owned by Gazprom Neft to Hungary's MOL Group. In January 2026, MOL signed a binding agreement to acquire 56.15% of NIS, giving it a controlling interest in the company, while Gazprom Neft's stake was to be reduced to just under 45%.

The US Treasury extended a special licence until May 2026, permitting negotiations to proceed. This signalled conditional acceptance of the transaction as a means of removing sanctioned Russian ownership. The move to transfer the NIS majority stake to MOL can be regarded as a strategic decision by the Serbian government, as it aligns NIS with a regional EU-based energy company that already operates major refineries in Hungary and Slovakia. The transition itself is thus institutionally compatible with European energy markets.

At the time of writing, the transaction has not yet been finalised, but information in the public domain confirms that NIS is in the process of moving out of Russian majority control. Russia's willingness to cede control of Serbia's NIS and to participate in the negotiations also indicates a managed exit, rather than a forced divestment.

The transfer of NIS ownership to the Hungarian MOL company will likely stabilise Serbia's energy outlook. With sanctions pressure eased through the ownership change, financial transactions are expected to normalise gradually, allowing NIS to regain access to international credit, insurance and logistics. For NIS itself, integration into MOL's regional refining network is likely to support operational continuity, as MOL is publicly committed to maintaining production at the NIS Pančevo refinery.

Serbia between Russia and the EU: Policy lessons and market implications

The loss of majority ownership in NIS can be seen as a structural shift in Russia–Serbia relations. Russian influence is expected to become less embedded in fixed assets and more dependent on diplomacy, historical ties and political cooperation. This will reduce Moscow's ability to exert leverage through energy supply disruptions or corporate governance mechanisms. However, the cooperative manner in which the divestment is unfolding suggests that Russia is indeed prioritising the preservation of long-term political relations with Serbia. By consenting to an orderly exit, Russia is directly avoiding an escalation that could further alienate Serbia or push it closer to Western alignment.

When viewed from a European policy perspective, the NIS case reveals several broader lessons. First, it clearly demonstrates that Western sanctions can indeed be effective instruments of exerting geoeconomic influence, but only when those sanctions are applied with a certain degree of flexibility and sequencing. In the case of Serbia, the repeated use of temporary licences and an actual willingness to accommodate a structured, negotiated ownership transfer were vital in avoiding economic disruption, while still achieving the strategic objective of removing the NIS company from Russian control.

Second, the case of Serbia and NIS underscores one vital fact: that ownership of critical energy infrastructure remains a decisive arena of geopolitical competition in the EU's direct neighbourhood. The transfer of Serbia's key refining asset from a Russian to an EU-based owner represents a clear strategic gain for the EU. This decision, supported by the Serbian government, also strengthens regional energy security and regulatory alignment.

Finally, faced with a genuine constraint that forced a choice, Serbia remained pragmatic and opted for alignment with the EU, rather than with Russia. That said, Serbia's decision should not be overinterpreted: the country remains a rather reluctant and pragmatic partner that seeks close ties with non-EU actors, not an enthusiastic EU accession frontrunner.

For businesses operating in Serbia, the implications of the transfer of NIS to MOL have a largely stabilising character. Most immediately, the risk of sanctions in this critical sector will be effectively removed if the transfer of ownership is successful. This in turn will reduce uncertainty for firms with direct exposure to the Serbian market and for those companies dependent on local energy supply and financial intermediation. More broadly, the case suggests that opportunities may arise to acquire

Russian-owned assets at discounted valuations – both in Serbia and elsewhere in the Western Balkan region – as the pressure of sanctions mounts and compliance costs reshape ownership structures.

At the same time, companies should not expect Serbia to immediately converge smoothly or quietly with EU norms. Political signalling will very likely remain rather noisy and policy communication inconsistent, particularly compared with some other Western Balkan countries. Nevertheless, the NIS episode sends a clear signal about the direction of Serbia's long-term economic, financial and energy integration. For investors, this provides a firmer basis for long-term strategic planning, even if short-term volatility remains a structural feature of the operating environment within Serbia.

Taken together, the evidence suggests that Serbia will very likely retain close relations with Russia, while simultaneously embedding its most critical energy asset in a framework compatible with Western sanctions policy and regional energy security. Serbia is thus likely to maintain a dual posture: cooperative with EU and US regulatory frameworks where necessary, while continuing political alignment with Russia on selected international issues. The NIS case itself illustrates how Serbia is navigating geopolitical competition by selectively adjusting structural dependencies without actually altering its declared policy of military and foreign-policy neutrality.