

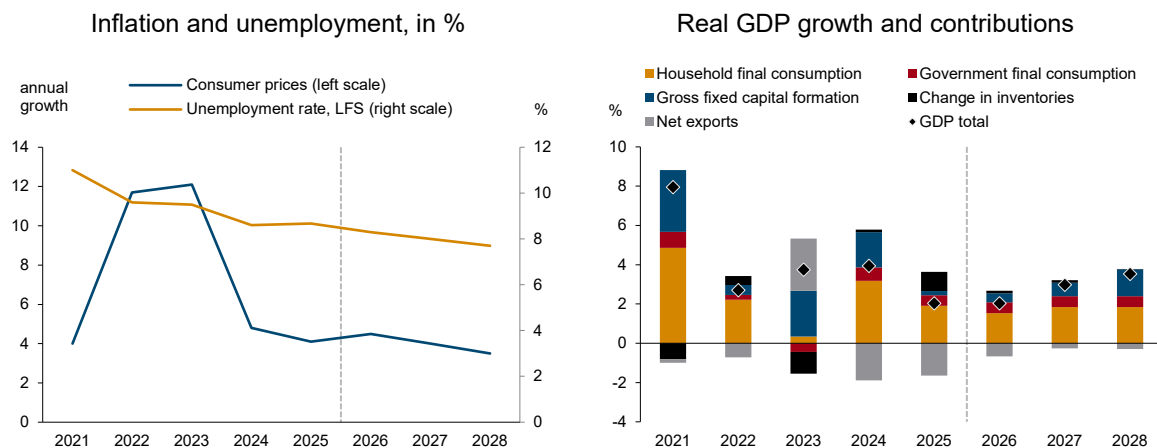


SERBIA: External shocks derail chances of recovery

BRANIMIR JOVANOVIĆ

The positive signals seen at the start of 2026 are likely to be short-lived. The new war in the Middle East is set to have an impact on the economy through higher energy prices, rising costs for business and weaker foreign direct investment. Thanks to government intervention in domestic fuel prices, the inflationary effect may be less pronounced than in some neighbouring countries, but it will still be felt. We are therefore revising our GDP growth forecast for 2026 down to 2.0% and raising our inflation forecast to 4.5%, with the risk of far worse outcomes if the war in the Middle East drags on.

Figure 3.19 / Serbia: Main macroeconomic indicators



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

Serbia's economy ended 2025 weakly, as expected, but the start of 2026 has brought some more positive signals. GDP grew by 2.2% in Q4 2025, in line with both the previous three quarters and our earlier projections. Early indicators for 2026 suggest that the year started slightly better. Industrial production did fall in January and February, by 5% year on year, but that figure needs to be interpreted with caution. The main reason was the temporary closure of NIS, the national oil company, which was co-owned by Russia's Gazpromneft, following US sanctions linked to Russia. Since the issue has already been resolved (by transferring ownership to the Hungarian MOL), the drag on industrial production should ease in the coming months. Excluding this factor, the industrial picture is rosier than the headline figure would suggest. In particular, the automotive industry is continuing to expand strongly, with output rising by more than 50% in the first two months of the year, driven mainly by the Fiat factory in Kragujevac, which has started producing electric vehicles.

Household demand remains relatively solid. Retail trade grew by around 5% in real terms in January and February, close to the levels seen in the second half of 2025. This is being supported by continued strong real wage growth, which reached around 8% in January. Real wage growth is likely to weaken in the coming months as inflation rises again, but it should remain firmly in positive territory.

Despite the wage growth, other labour-market indicators are sending less-encouraging signals. In Q4 2025, the number of employed persons declined by around 2% year on year, with emigration accounting for almost half of that decline. The unemployment rate also edged up, to 8.9%. This suggests that the economic slowdown is beginning to show up in the labour market, even if the wage dynamics remain strong for now.

Public investment is starting the year on a good footing and is likely to remain the main domestic support to growth in 2026. Infrastructure spending in January was roughly three times the level seen in the same period last year. This reflects the continued infrastructure push and preparations related to EXPO, but also follows several years of already strong public investment. In that sense, even if public infrastructure spending again supports growth in 2026, it will not be enough to offset the other negative influences on GDP growth.

Just as in 2025, the main factor of economic dynamics will be foreign direct investment (FDI), and the prospects there are not very optimistic. FDI inflows fell by around a third in 2025, driven mainly by a collapse in Chinese investment, which appears to have stalled amid the rising global uncertainty. It is doubtful that there will be any improvement in 2026. The war in the Middle East is elevating global uncertainty to another level, making it unlikely that Serbia will see any strong recovery in foreign investment this year.

Inflation slowed to around 2.5% in January and February, but this was largely a result of the price controls introduced in autumn 2025. As these measures expired in March, price pressures are likely to re-emerge. Together with the recent increase in global oil prices in the wake of the war in Iran, this points to inflation flaring up again in the coming months.

Still, the government in Serbia has acted more quickly than has been the case in some neighbouring economies. It reduced excise duties on motor fuels and capped their prices, helping to keep the increase in domestic fuel prices below 10%, which is relatively low by regional standards. This should soften, though not prevent, the pass-through of higher global energy prices into domestic inflation.

The war in the Middle East will affect Serbia mainly through two channels. The first is higher production costs, as rising energy prices will feed into company costs, much as they did in 2022. The second is weaker investment, especially FDI, which is already under strain. The effect on consumption should be more limited than in some other countries of the region, both because of the government cap on fuel prices and because wage growth in Serbia remains comparatively strong and should continue to support household spending, even if less than before.

As for fiscal policy support, no major support measures have been announced beyond the interventions on fuel prices. The fiscal deficit is expected to be around 2% of GDP this year, broadly in line with the past three years. Monetary policy is also unlikely to provide support. The central bank has kept its key policy rate unchanged at 5.75%, and in light of the new inflationary pressures no cuts appear

to be on the horizon. If inflation proves more persistent, the possibility of renewed tightening cannot be fully ruled out.

Against this background, we are revising downward our GDP growth forecast and revising upward our inflation forecast. We now expect GDP growth of 2.0% in 2026, followed by 3.0% in 2027 and 3.5% in 2028 – 0.5-0.8 percentage points lower than in our previous projections. The main reason for the downward revision is the weaker outlook for FDI, now further worsened by the war in the Middle East. At the same time, we have raised our inflation forecast for 2026 to 4.5%, around 1 percentage point above the previous forecast, followed by 4.0% in 2027 and 3.5% in 2028. The upward revision is relatively limited, mainly because government intervention in domestic fuel prices should contain part of the inflationary impact of higher oil prices. If the pessimistic scenario materialises, things will be worse – GDP growth in 2026 would fall to 1%, while inflation would approach 7%.

Politically, the country remains in limbo, but there may finally be light at the end of the tunnel. It now seems almost certain that there will be early parliamentary elections sometime in the autumn, and the student-backed list still appears to be the favourite. At the local elections held on 29 March, the ruling SNS of President Vučić won all ten municipalities, as expected, but the margin of victory was much smaller than in previous elections. The ruling SNS won a much smaller share of the vote than before in eight of the ten municipalities – a clear sign that the tide is turning. Much will also depend on international developments, with events in Hungary being especially important. Viktor Orbán's recent defeat there may well be viewed as an indication that the political winds are changing in the region and could further weaken President Vučić's position. The local elections also offered a preview of what may follow in the coming period in another sense: they were marked by widespread tensions and frequent clashes, suggesting that the parliamentary elections could be accompanied by even more serious incidents.

Much remains unknown about the student list and what it would do if it won the elections, but some broad contours are beginning to emerge. Its programme appears likely to focus more on political than on economic issues – especially the rule of law and related questions. In economic terms, people close to the student movement often talk about a greater focus on domestic investment, rather than the current exclusive focus on foreign investment; such a shift would be no bad thing. A future government led by the student list would also likely be more pro-EU, although it would also probably try to continue the current balancing act: trying to maintain good relations with China, while not turning its back on Russia.

Table 3.19 / Serbia: Selected economic indicators

	2022	2023	2024	2025	2026	2027	2028
					Forecast		
Population, th. pers., mid-year	6,664	6,623	6,587	6,543	6,503	6,463	6,413
Gross domestic product, RSD bn, nom.	7,460	8,818	9,748	10,393	11,082	11,869	12,718
annual change in % (real)	2.7	3.7	3.9	2.0	2.0	3.0	3.5
GDP/capita (EUR at PPP)	16,140	18,600	20,590	21,730			
Consumption of households, RSD bn, nom.	4,822	5,436	5,954	6,389			
annual change in % (real)	3.5	0.5	5.2	3.1	2.5	3.0	3.0
Gross fixed capital form., RSD bn, nom.	1,784	2,061	2,320	2,374			
annual change in % (real)	2.2	9.7	7.7	0.8	2.0	3.0	6.0
Gross industrial production							
annual change in % (real)	1.9	2.6	3.2	0.8	3.0	2.5	3.0
Gross agricultural production							
annual change in % (real)	-8.9	6.4	-6.6	0.0			
Construction output							
annual change in % (real)	-8.2	7.9	3.3	-5.2			
Employed persons, LFS, th, average	2,819	2,842	2,898	2,870	2,880	2,910	2,950
annual change in %	2.3	0.8	2.0	-1.0	0.5	1.0	1.5
Unemployed persons, LFS, th, average	296	296	272	273	261	253	246
Unemployment rate, LFS, in %, average	9.6	9.5	8.6	8.7	8.3	8.0	7.7
Average monthly gross wages, RSD	103,316	118,599	135,403	151,086	165,780	179,310	193,010
annual change in % (real, gross)	1.7	2.4	9.0	7.5	5.0	4.0	4.0
Average monthly net wages, RSD	74,933	86,007	98,143	109,462	120,110	129,910	139,840
annual change in % (real, net)	1.7	2.4	8.9	7.4	5.0	4.0	4.0
Consumer prices, % p.a.	11.7	12.1	4.8	4.1	4.5	4.0	3.5
Producer prices in industry, % p.a.	14.9	3.3	0.7	1.2	4.0	3.5	3.0
General governm. budget, nat. def., % of GDP							
Revenues	41.6	39.4	40.4	40.9	40.5	40.5	40.5
Expenditures	44.6	41.4	42.4	43.4	42.5	43.5	42.5
Deficit (-) / surplus (+)	-3.0	-2.1	-2.0	-2.4	-2.0	-3.0	-2.0
General gov. gross debt, nat. def., % of GDP	52.9	48.4	46.9	44.7	46.0	48.0	48.0
Stock of loans of non-fin. private sector, % p.a.	6.5	1.0	7.9	15.4			
Non-performing loans (NPL), in %, eop	3.0	3.2	2.5	2.1			
Central bank policy rate, % p.a., eop	5.00	6.50	5.75	5.75	5.3	4.8	4.3
Current account, EUR m	-4,162	-1,804	-3,788	-4,302	-4,900	-5,120	-5,150
Current account, % of GDP	-6.6	-2.4	-4.5	-4.9	-5.2	-5.0	-4.7
Exports of goods, BOP, EUR m	26,928	27,932	29,859	32,457	34,730	37,160	39,390
annual change in %	28.1	3.7	6.9	8.7	7.0	7.0	6.0
Imports of goods, BOP, EUR m	36,292	34,560	36,628	38,944	41,860	44,370	47,030
annual change in %	34.2	-4.8	6.0	6.3	7.5	6.0	6.0
Exports of services, BOP, EUR m	11,076	13,086	14,459	15,229	16,220	17,190	18,220
annual change in %	42.0	18.2	10.5	5.3	6.5	6.0	6.0
Imports of services, BOP, EUR m	8,761	9,982	11,639	12,906	13,490	14,100	14,730
annual change in %	36.9	13.9	16.6	10.9	4.5	4.5	4.5
FDI liabilities, EUR m	4,433	4,564	5,231	3,477	4,000		
FDI assets, EUR m	104	303	628	1,199	1,000		
Gross reserves of CB, excl. gold, EUR m	17,311	22,516	25,411	22,813			
Gross external debt, EUR m	41,621	44,173	48,772	51,091	56,630	61,880	67,510
Gross external debt, % of GDP	65.5	58.7	58.6	57.6	60.0	61.0	62.0
Average exchange rate RSD/EUR	117.46	117.25	117.09	117.20	117.4	117.0	116.8

Source: wiiw Databases incorporating national statistics. Forecasts by wiiw.